October 2021

MARKETS & MORE

Monthly Communiqué by PRSSB LTD

SENSEX AT 60,000. WHAT SHOULD YOU DO?

Greetings from PRSSB!

Everyone is asking this question - Sensex has reached 60,000 - What Next? So we thought that in this month's newsletter, we would try and address this issue for our Investors.

As emphasized in our August 2021 letter, we said that **Markets follow Earnings**. If the expectations of the future earnings are high, Markets will continue to remain resilient despite the stress in the economy. We continue to maintain this view. But we have some important points for you to ponder upon :

- While we continue to remain optimistic about the long term prospects of this markets, we would **urge you to remain cautious in the short to medium term.**
- There are pockets where Valuations are stretched and one should remain cautious for the Price he/she pays for growth.
- Many **companies with No Earnings are commanding HIGH valuations**. What we would advise our investors is to look for companies that have a History behind them, have navigated tough times and where Valuations are not stretched.
- We would urge you to **pay due attention to your Asset Allocation** - How much of your money is invested in Equity, Debt, Gold, Commodity and Real Estate. **Considering Equities as the only Asset class to Invest could prove fatal.** Equities are at an all time high and it makes sense to put the incremental money at work in other asset classes as well.
- Also, in **Equities too, look for pockets where Valuations are not stretched** and multiples are still reasonable for the Growth factored in the price.
- Last 17 months have seen a relentless one sided Bull market. What worries us is the flow of Investors who have joined this party and have not seen any meaningful correction. To give a statistic around this aspect :

"Since 1991, we have had 20 Years (2/3 Probability) where Sensex has corrected by more than 15% from its Peak"

So a correction is certain - The question is When? Today? In a Week? A month? Or in 5 Years? - Nobody knows. What one can do is to stick to Fundamentally strong companies in a Portfolio and allot incremental money taking into account 2 factors :

- **Asset Allocation -** Consider all Asset classes and not just Equity for the purpose of Investment.
- **Pay a "Reasonable" Price for Growth -** Do NOT "Overpay" for a Stock. Not losing money is as good as making money.

Should you worry about Taper by the Fed?

- **Reducing Bond Purchases & Raising Interest Rates are 2 Different actions by the Fed-** Most people do not differentiate between these 2 very different actions of the Fed - One pertains to cutting of the Bond Purchase Programme wherein the US Federal Reserve will gradually reduce the Bond purchase program. Fed used to purchase Bonds worth $120 Billion every month, thus infusing "Liquidity" in the market. It has indicated to reduce this $120 Billion Asset purchase program thus infusing lower Liquidity starting November this year.

The Second one pertains to Raising of Interest rates. The Current Fed Fund rate is 0.25% indicating that at present it is at a near zero levels. The Fed has indicated that once the conditions in the US Labour Market are stable it shall go ahead with gradually increasing the Fed Fund Rate (Interest Rate).

As the Interest Rates start to rise, money usually starts pulling back from Equities since the Bond yields in the US would start becoming favorable.

While the Fed is well aware of the infamous Taper Tantrum by Ben Bernanke back in 2013 and the implications it had on the Equity Markets, our belief is that this time around the Fed is much more prepared and shall indicate its intentions to the Markets well in advance.

- **The Taper History and Equity Returns -** One more aspect one must look at is the Correlation between the the periods when the Rate of Interest was hiked by Federal Reserve compared with the return by S&P 500 in the corresponding period. Data clearly suggests that there is POSITIVE Correlation between the increase in the Fed Fund Rate and the returns of the S&P 500 especially because Fed tends to increase rates only when the economy starts performing.

Hence, our belief is that Taper and Increase in the Interest Rates will not have a very significant impact on the Markets provided the Economy keeps performing good and companies continue to have strong and resilient earnings. *The below data is compiled by Sageone Investments and the source is Bloomberg.*

Federal Reserve Rate Change vs S&P 500 Returns

	Rate Change (%)	Absolute Returns (S&P 500)
1993-2000	3.2	183%
2000-2003	-5.1	-25%
2003-2007	3.9	49%
2007-2011	-4.9	-14%
2011-2019	2.1	157%
2019-2021	-2.1	40%

Source: Bloomberg

3 Important Developments of September 2021

- **China's Evergrande Crisis -** The outstanding payment of $ 300 Billion by the Chinese Real estate player is a big looming risk for the Economy. While the chances of it having a domino effect like 2008 are low, there are chances that the Chinese Economy may remain in a slowdown for a considerable period of time.

- **Global Energy Crisis -** The multi-fold increase in the prices of Natural Gas (from $4 per mmBTU to $18.5 per mmBTU has caused energy crisis in nations which are majorly dependent on Natural Gas for its energy needs. The low Coal stock and high prices, coupled with a steep rise the prices of Brent Crude is a cause of concern and can lead to a major energy crisis for the world since the incremental investments have been in the Renewable sources and they have not been able to significantly contribute towards the Energy needs of the nations like the conventional sources of energy.

- **T+1 Settlement -** SEBI is planning to bring a revolutionary change by lowering the time of settlement of trade from the earlier introduced T+2 Settlement to T+1 Settlement. SEBI has given the option to exchanges to adopt T+1 based on their readiness from year 2022. The Sebi circular states that if the stock exchange wants to opt for the T+2 settlement cycle in between, it will have to give notice one month in advance.

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