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From a stealth mode, India is getting into a genuine bear market: Shankar Sharma

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As an anchor I love to frame questions but today I will keep it open for you.
We thought we have seen it all. When 2008 happened, as a student of the market, I was telling somebody that in a lot of ways, the adult in me is dying every day but the child in me is loving every single second of this because this is really an unprecedented move in the markets and unprecedented situation globally. So, I am an optimist in the sense that I see a lot of learnings from this and we will come out of this as investment managers a lot smarter, a lot stronger.

To say that one saw a cut like this coming, obviously nobody could see that but to say that a significant downward move was imminent was not difficult. The reason is the virus. It is a huge reason but even without the reason, globally and particularly in India, we were not looking good at all and usually markets find a reason to cling on to justify a certain move whether up or down and the virus has come at an opportune time. But even prior to that, India was in a stealth bear market for two years. Just a handful of stocks was keeping things up and those things cannot last forever, those things end and they end badly. That is exactly what has happened.

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If you are feeling like a kid in the candy store, what is the kid looking at buying?
We are pretty systematic. We have a process. We are seeing things that we liked five days back, are down another 10 odd percent today, maybe 15%. And again, there is no way to find a bottom. But on the other hand, I do not think you should be looking at all points in time to be a buyer.

We have never subscribed to that basic overall motherhood statement that we hear because in 2009 March, when markets made a bottom, I could not bring myself to change my mindset and missed the first part of the rally which was a very strong one. The stocks rallied 40-50% up to June. So I bought them in June. But ten years later, did it matter if I bought it in March or in June? No it did not. The fact of the matter is I was better off buying in June than I in March because I was buying with a big strong momentum behind me. This time too, you will see a lot of sharp rallies and those are typical bear market situations when sharp corrections happen which kind of try and tell us that the bear market is over. I do not think we are there yet.

We would see some rallies from the bottom. I thought today is not going to be another 10% down close day. It might be somewhere 3-4% minus kind of thing. So there are stocks to buy but definitely not to buy it all. There is still unfolding drama on this whole virus thing and I do not think we should just say it is just another virus. It is not just another virus.

As you are saying, right now this is a developing situation. Be smart, but do not be oversmart. The consumer stocks are looking a little bit baffling. There is not much of a deceleration there in comparison to the rest of the market. What is your takeaway from some of these consumption names and how are you looking at the basket as a whole?
This consumption space has been the favourite theme for anybody and everybody in the last year at least. 2019 was their year, and these stocks typically have been classified as defensives. They do not fall as much as the markets do. In general, broad bull markets, they tend to underperform but as I said, India has not been in a broad bull market. It has been in a pretty narrow bull market, centred around precisely these stocks.

In a situation like this, people will go to the equivalent of US treasuries in India. Now what is the equivalent of US treasuries in India in the stock market is the FMCG sector. It is not surprising. We have seen this kind of thing play out many times. Would I say that they are all buys? We have always seen them trade at 60 times earnings for the last 25 years. I do not think that is going to change. But let us wait out and see the situation develop and as I said, there is no point in burning up all your powder at this precise moment. At 10-20% higher with some positive data points, you are much safer.

A followup question is that consumers will see a slowdown because of demand related challenges. These are expensive stocks. If the flow of money has to come back, why would it come in a sector where valuations are stretched and slowdown could knock off two-three quarters of earnings?
I agree with you. I am not saying that it does not necessarily have to be this set of stocks which did well in 2019 to repeat their performance in 2020. Usually, the market will push you towards a particular trade and then it will change direction. US tech was a similar trade and Indian consumers is a similar trade. It will keep pushing you till you succumb and you then go all in and you buy and then the market will turn from there.

It could well be that 2020 does not belong to them because that is the consensus trade. It is an overcrowded trade. Everybody is in it. It could well be that the market has changed. Remember one more thing is that the consumption story is not getting hit just because of the virus. India was already struggling prior to that. We were already at a 20-year low in terms of GDP growth. This has come at a terrible time overall, but the situation was bad. On top of that, when you have a consumption hit like this, the earnings that people are pencilling in at 20% compounding for all these companies till the horizon ends, is a bit out of reach right now.

> **“2020 does not belong to consumer stocks because that is the consensus trade. It is an overcrowded trade.”**
>
> -Shankar Sharma

The bull market has become a bear market, not only in India, but globally. When markets go under bear market, they could remain in the bear market for months, years or even decades. How does one react to that?
That is a very valid point and which is what I have tweeted also. This is a bear market. Let nobody tell you otherwise. Like I said, India was already in a stealth bear market. 2019 was a blowout year for all asset classes across the world except India. In India, the absolute return was 8-9% in Nifty terms while even Turkey in dollar terms gave you 11-12%. Europe was 25-30%. US was 35%. So, India set out the entire party in 2019. 2018 was obviously a terrible year for India when the whole smallcap meltdown happened.

In two years, India has done precisely nothing and therefore it was already in a bear market. Now this is getting into a genuine bear market and bears of this kind do not end in a month. Forget 1987, that was a technical crash because of programme trading and an aberration. Otherwise, if you go back and see the 1997-98 Asian crisis, that took roughly 2, 2.5 years to wind down. Dotcom crisis started in 2000, ended by 2003. The great financial crisis started in late 2007 at least in the US, in India started first month of 2008 and ended by March-April of 2009 which was like 15 months later and despite all policy measure. The Fed kept cutting rates in the Asian crisis, in the dotcom crisis, even in the GFC and yet markets did not react or did not respond.

So I completely agree that to just call a bottom at the moment in two months of the bear market, might be a bit of an aggressive stance and if you have money in this market at the bottom of the market, you are much better than somebody who is fully invested.

What could go wrong? Right now, what we are debating is that the bull would say look China is getting sorted out, so there is hope. The bears would say Italy is growing and so we do not know. What do you think will be the circuit breaker moment and what will be the big green light for financial markets?
Again, anybody who says that China is sorted out is believing China. That is the other thing where there is a big question mark. It might be getting sorted out optically, but we have to see what happens in reality because this is an incubation kind of virus. You really do not know whether it is all done and the factor of infection is several times. We still do not know what is the level and the US numbers are vastly under-reported.

In New York city, no adequate testing is available. I mean these developed countries are scrambling around to get infrastructure in place to even find out how many people are infected. Seattle is like a lockdown city. The effect of these things is not going to get over in one month. The effect of these things will linger on, people will be scared to go to malls. People will be scared to take flight. People will be scared to go to a restaurant and eat. Those things are not just a one-month phenomenon. It is not like a terrorist attack that happened, people were in a shock for a month and then life goes back to normal.

Here you are talking about at least two-three-four-five months of fear factor, assuming things are contained. If things are still spiralling out of control, who knows? I do not want to classify this is a normal routine over valuation bear market or a normal routine financial crisis kind of bear market which happened in 2000 and 2008. These had very clear solutions. Here you do not even have a vaccine which will be available for two years. This is an extraordinary situation and for the first time it has not been caused by anything to do with stock markets. It is coming from outside of the stock markets. So we do not have a model to deal with the situation like this. None of us have seen anything like this.

But if I were to get a little bit more micro and talk in particular about the private banks, the way the situation is unfolding in Yes Bank, it seems evident that the lion's share is going to private sector banks. Would you be nibbling into private sector banks?
I do not think any bank is a no-brainer because it is an animal that can turn any day for the worse and no business except banking runs, permanent, daily, even hourly liquidity and solvency risks. It is a business you need to be extremely careful about. People have chosen the safety of an HDFC Bank, etc, which I think is a sensible stand.

IndusInd was a storied bank and then it has been struggling at least the last couple of years. RBL again was a storied bank as was YES Bank itself. There are better places in this market. There is no point in going and buying leveraged businesses right now.

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