

## Rally in beaten-down stocks globally shows the world is interconnected

### Synopsis

The crowded long trades in the beloved 'Stay-at-Home' tech stocks, the comfort-giving pharma stocks, and other stocks that have made some of us look good, tanked.

Feedback



In investing, what gives maximum pleasure one day, gives maximum pain on another day.

By Shankar Sharma & Devina Mehra

November 9 was a **day investors** won't forget in a hurry; especially the successful ones this year. Because that's the day when everything changed.

What worked beautifully in investment portfolios – basically **growth investing** – through **Calendar 2020**, suddenly stopped working.

### RELATED COMPANIES

NSE BSE

**Pfizer Ltd.**  
5147.00 ↑ 86.50 (1.71%)

What were disasters (investment-wise) through the year suddenly became star performers. What was positive news for the real world was almost doomsday for most asset managers!

The crowded long trades in the beloved 'Stay-at-Home' **tech stocks**, the comfort-giving pharma stocks, and other stocks that have made some of us look good, tanked.

In India, even before the **Pfizer** **NSE 1.71%** vaccine announcement, right from the start of October, the trade had started to shift away from the 'comfort' bets to the beaten-down ones.

And what could be more beaten-down than banks, leveraged financials, airlines, hotels and such sectors, which the virus singled out for special treatment!

In India, more than 100% of the 12-13% bounce in Nifty since October was accounted for by one single sector: banking. Yes, more than 100%! Everything else, in aggregate, contributed a negative 1.3 per cent.

But what's even more interesting is this: the same phenomenon was noticed across the world even before the news of the Pfizer vaccine hit the ticker.

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Let's take a look at what the best performing sectors across the world were in the past 30 days.

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Global Industries - Gainers (MCap Weighted USD Returns)					
Industry	Oct - 16th Nov 2020	1M	3M	6M	YTD
Oil & Gas Equipment & Services	25.30	21.90	2.23	28.09	-35.29
Regional Banks	20.86	13.23	13.94	38.80	-9.00
Hotels, Resorts & Cruise Lines	20.77	22.51	20.39	50.55	-30.83
Oil & Gas Exploration & Production	20.72	16.03	-4.46	10.81	-34.65
Airport Services	20.59	20.68	17.22	37.01	-12.43
Airlines	18.42	17.64	18.39	45.70	-27.60
Diversified Banks	15.48	10.58	8.35	22.57	-13.99
Oil & Gas Drilling	10.65	8.42	-11.05	-3.40	-51.71

Data Source: Bloomberg

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Global Industries - Losers (MCap Weighted USD Returns)					
Industry	Oct - 16th Nov 2020	1M	3M	6M	YTD
Health Care Technology	2.13%	-4.42%	7.10%	24.58%	73.02%
Systems Software	1.59%	-2.03%	4.62%	18.58%	34.12%
Internet & Direct Marketing Retail	0.95%	-2.96%	6.05%	36.43%	55.58%
Application Software	-0.72%	-5.40%	8.47%	31.57%	35.14%
Internet Services & Infrastructure	-4.94%	-9.40%	-0.35%	18.76%	80.87%
Interactive Home Entertainment	-6.35%	-4.74%	-4.03%	15.68%	31.71%

Data Source: Bloomberg

- The above two tables refer to market-cap-weighted dollar returns of global sectors (from 110 countries) with a minimum market-cap of \$500 million. It is evident from the data that sectors that were hammered due to the Covid-19 pandemic-related shutdowns, such as energy, airlines, hotels/restaurants/resorts & banks (down 30-50% on average) led the rally over the past 30 days.
- At the opposite end of the seesaw, technology, software and online retail i.e. star performers (up 30-80% YTD) were the biggest losers.
- We observe that among all the countries, Europe had taken the huge beating lately amid the emergence of a second wave of Covid and lockdowns being announced left, right and centre. Hence, who would benefit the most from a Covid vaccine? Yes, you guessed it right, European laggards i.e.

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### 1. Banks

#### Global Banks (MCap Weighted USD Returns)

Country	Oct - 16th Nov 2020	1M	3M	6M	YTD
Ireland	52.00%	42.12%	28.96%	72.36%	-50.57%
Spain	46.24%	46.33%	25.48%	52.27%	-25.48%
United Kingdom	35.45%	32.28%	19.29%	23.15%	-34.92%
Portugal	33.55%	37.46%	-0.12%	32.98%	-44.96%
Belgium	33.30%	28.29%	11.63%	47.32%	-11.32%
South Africa	32.38%	34.68%	51.03%	83.43%	-26.24%
Mexico	28.30%	14.90%	23.78%	38.40%	-20.59%
Brazil	28.22%	23.49%	12.43%	48.21%	-41.48%
France	27.97%	24.68%	6.46%	45.40%	-26.95%
Greece	24.13%	34.88%	17.84%	54.06%	-54.81%
Thailand	24.76%	25.69%	10.27%	20.57%	-29.95%
India	23.08%	14.85%	26.25%	44.22%	-19.13%
United States	22.64%	17.07%	12.74%	38.37%	-20.76%
Australia	20.22%	11.68%	12.28%	50.33%	-6.81%
China	11.47%	3.85%	4.54%	9.32%	-4.99%
Japan	9.38%	9.70%	7.50%	15.49%	-10.33%

Data Source: Bloomberg

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- Globally, European banks led the rally, gaining 30-50 per cent, but are still down 20-40 per cent year to date! As math dictates, if you lose 50%, you need to gain 100% just to break even.

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### 2. Hotels & Restaurants

#### Global Hotels & Restaurants (MCap Weighted USD Returns)

Country	Oct - 16th Nov 2020	1M	3M	6M	YTD
Ireland	56.89%	60.57%	43.09%	63.06%	-23.11%
Spain	48.35%	56.00%	26.33%	39.18%	-27.62%
Germany	46.32%	54.41%	32.87%	73.42%	-54.38%
Sweden	32.99%	37.58%	20.51%	70.64%	-37.02%
France	30.90%	33.42%	25.45%	59.43%	-23.16%
United Kingdom	30.12%	24.49%	18.91%	52.61%	-17.87%
United States	24.63%	25.83%	24.88%	58.33%	-37.88%
Australia	15.98%	19.80%	53.65%	99.67%	-34.27%

Data Source: Bloomberg

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### 3. Airlines

#### Global Airlines (MCap Weighted USD Returns)

Country	Oct - 16th Nov 2020	1M	3M	6M	YTD
United Kingdom	71.85%	69.86%	35.92%	72.36%	-54.04%
Indonesia	54.47%	38.25%	36.68%	51.94%	-36.28%
Finland	51.59%	66.75%	28.56%	17.56%	-41.59%
France	49.98%	46.51%	13.99%	21.56%	-53.70%
Canada	31.71%	32.71%	23.08%	57.70%	-53.85%
Australia	28.24%	27.56%	44.16%	77.21%	-23.81%
New Zealand	22.74%	17.61%	33.96%	61.26%	-40.98%
United States	20.09%	17.51%	23.76%	88.90%	-35.23%
Hong Kong	19.94%	11.02%	16.46%	-16.75%	-35.73%

Data Source: Bloomberg

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- A similar trend was observed in Hotels, Restaurants and Airlines stocks; in which Europe and the UK led the way, with airline stocks still down 54 per cent year to date even after the eye-popping 72% surge in the UK from October 1.

### So what does this tell us?

Well, the first thing it teaches us is that in fund management, portfolio management, asset management, no theme is permanent.

The best portfolio management services companies can and will change their strategies, their asset allocation a bit ah of a change in trend.

In investing, what gives maximum pleasure one day, gives maximum pain on another day. The other thing we learn is that markets are connected globally, and having a global thinking and global outlook are invaluable even when doing single country investing, because one is able to view the world as a giant jigsaw puzzle with each piece fitting nicely into the rest.

Therefore, global investing cannot be divorced from local investing. Investing globally and investing locally are joined at the hip.

Investing is one single science. In order to be a complete and consumer investment management company, one needs to be able to understand every single moving part in the world.

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