



FOOD FOR THOUGHT  
- 2020 vs 2008

MARCH 2020



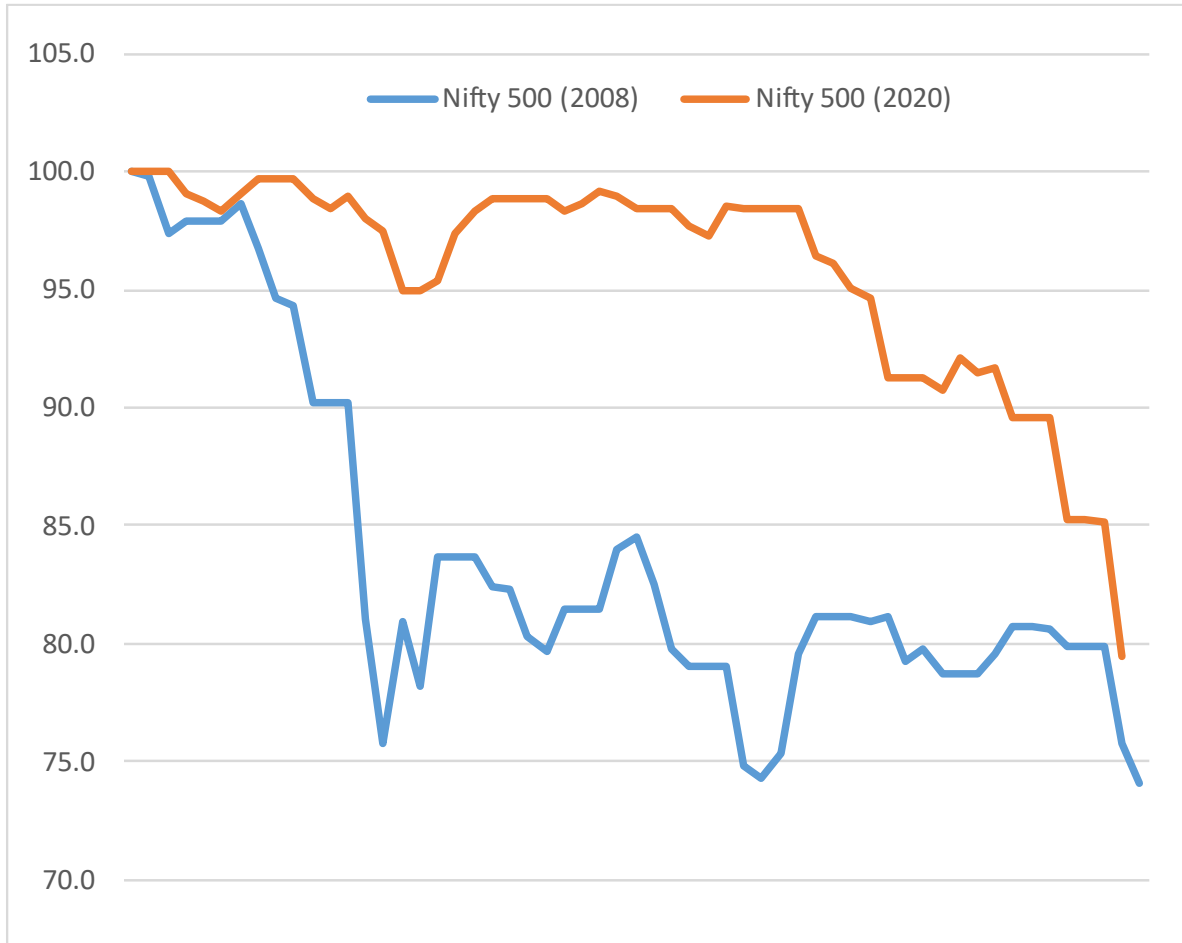
- Recent market correction appears uncannily similar to the fall experienced in Jan 2008 onwards.
- The primary reason appears to be the synchronized and extreme global risk aversion due to the spread of Covid-19 disease.
- Safe haven assets like US Treasury bonds or German Bunds are trading at record low yields, while global equity markets have slumped.
- A deeper analysis of Indian market reveals no tell-tale signs of a market froth. On the contrary, bottom up valuations are in attractive zone.
- During the 5 Year Bull phase of 2003-2008, Nifty 500 Index delivered 48% CAGR returns. Compared to that, during the 2015-2020 Bull phase, the same index delivered just 8% CAGR returns.

## SUMMARY CONTINUE...

- Even the Midcap Index delivered lower returns (7% CAGR) than the broader index (8% CAGR) during 2015-2020 period.
- We have seen deep short term shocks in our economy twice in the last 5 years. First in 2016 in the form of Demonetisation and second in 2017 when nationwide Goods and Services Tax was rolled out. Our economy was able to grow out of both these events.
- We cannot forecast when will we get back to normal conditions as regards to the Covid-19 disease. However, when normalcy returns, our economy should be able to growth back as has happened during the previous episodes of economic events.

# 2020 v/s 2008 – Only One Similarity: Ferocity of the Fall

## First 55 days of the fall from market peak

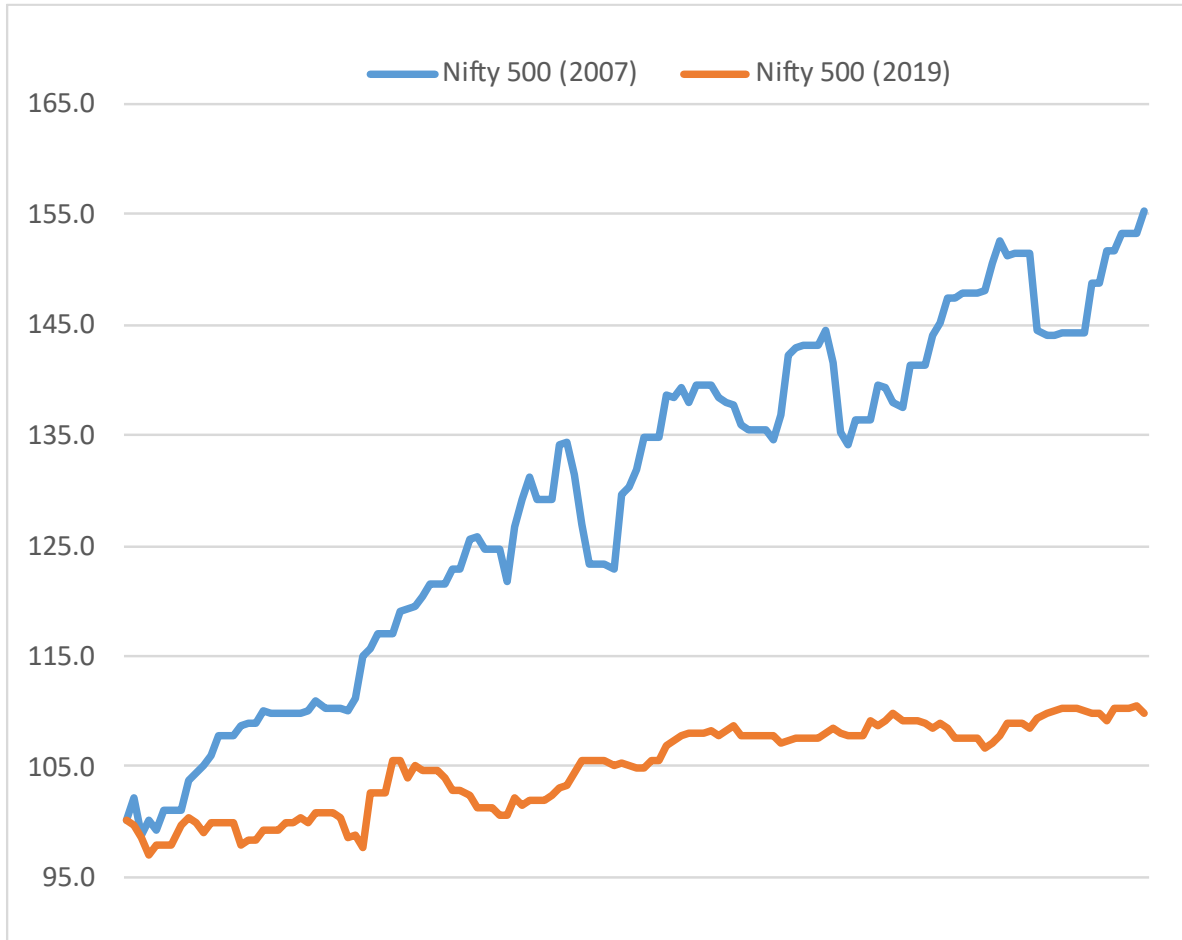


- Markets started falling in January of 2008 and in January 2020.
- The fall in Index in 2020 is uncannily similar to 2008.
- Nifty 500 Index has fallen by 21% in first 55 days of fall from peak in 2020, compared to 24% in 2008.

Past Performance may or may not be sustained in future. The graph is only to explain the market condition and should not be taken as an indication of future returns. Source: Bloomberg, Union Asset Management Company Pvt. Ltd. Internal Research; Data as on 12<sup>th</sup> March, 2020

# 2019 v/s 2007 – But no similarity in the preceding rise

## Rally seen in the last 135 days of the calendar year



- Markets saw one of its strongest rallies starting August 2007, lasting up till January 2008.
- Nifty 500 Index rose 55% in the last 135 days of 2007, compared to a 10% rise in the same period in 2019.
- This rise which preceded the ensuing fall in 2008, was very different compared to that seen in 2020.

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# 2020 v/s 2008 – Dis-similarities: Market not frothy this time

Phase	Periods		NIFTY 500	NIFTY MIDCAP	NIFTY SMALL CAP
			CAGR (%)		
Bull Phase	6-Jan-03	7-Jan-08	48%	57%	42%
	16-Jan-15	17-Jan-20	8%	7%	3%
Bear Phase	7-Jan-08	2-Mar-08	-24%	-26%	-26%
	17-Jan-20	12-Mar-20	-21%	-20%	-25%

- During the 5 Year Bull phase of 2003-2008, Nifty 500 Index delivered 48% CAGR returns.
- During the 2015-2020 Bull phase, however the same index delivered just 8% CAGR returns, highlighting no froth.
- Similarly, Midcaps delivered lower than broader index returns in 2015-2020 period, highlighting lack of euphoria.

Note: Nifty Small Cap returns during 2003-2008 Bull Phase are starting from 1<sup>st</sup> Jan 2004

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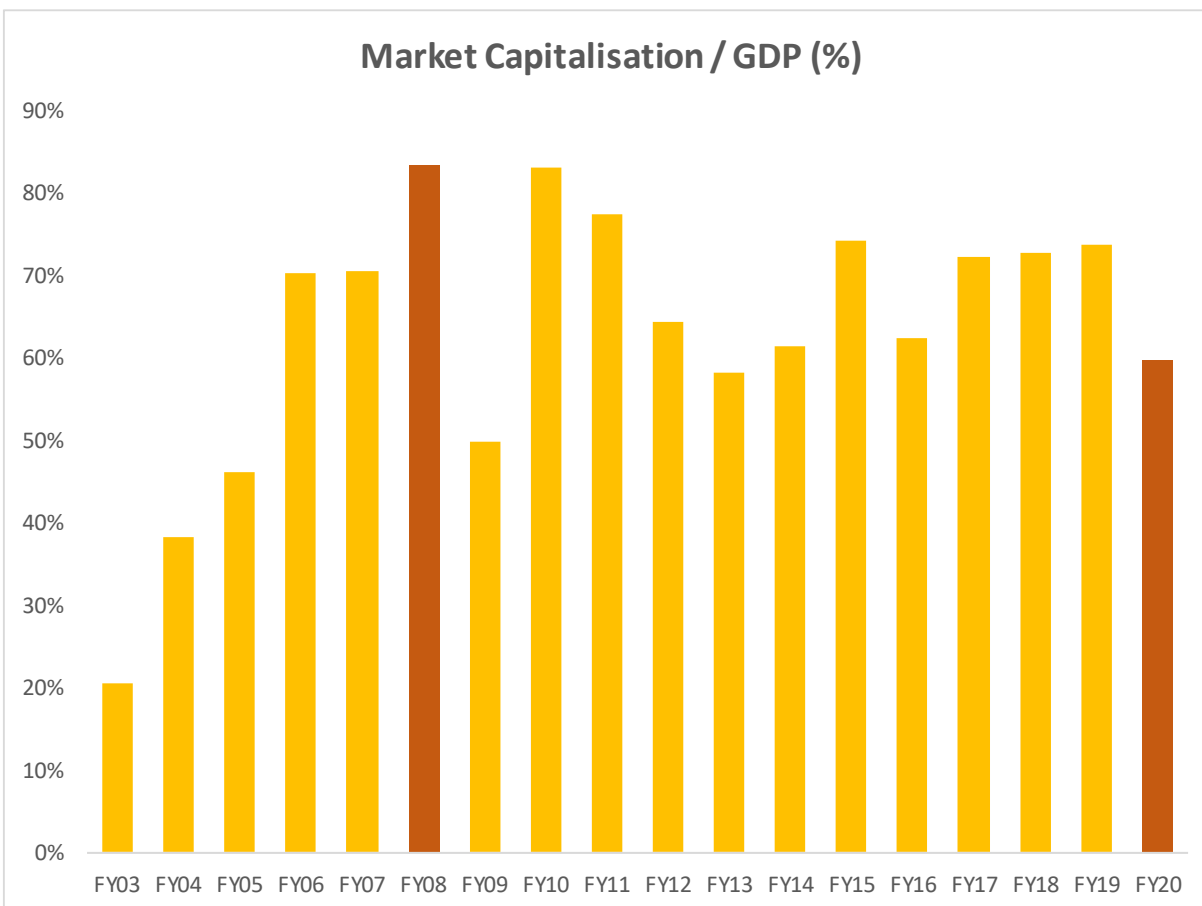
# 2020 v/s 2008 – Dis-similarities: Economy not frothy

## 5 Year Average GDP Growth (%)

1997 to 2003	2003 to 2008	2010 to 2015	2015 to 2020
Run-up to Bull Phase	Bull Phase	Run-up to Bull Phase	Bull Phase
5.8%	7.9%	7.1%	7.4%

- India's GDP growth had significantly accelerated in the Bull Phase of 2003-2008, from 5.8% in the previous block of 5 years to 7.9% during the Bull Phase.
- However, there was no such pickup in GDP growth during the Bull Phase of 2015-20, where GDP grew at 7.4% compared to 7.1% in the previous block of 5 years.

# 2020 v/s 2008 – Top Down Valuation: Not frothy

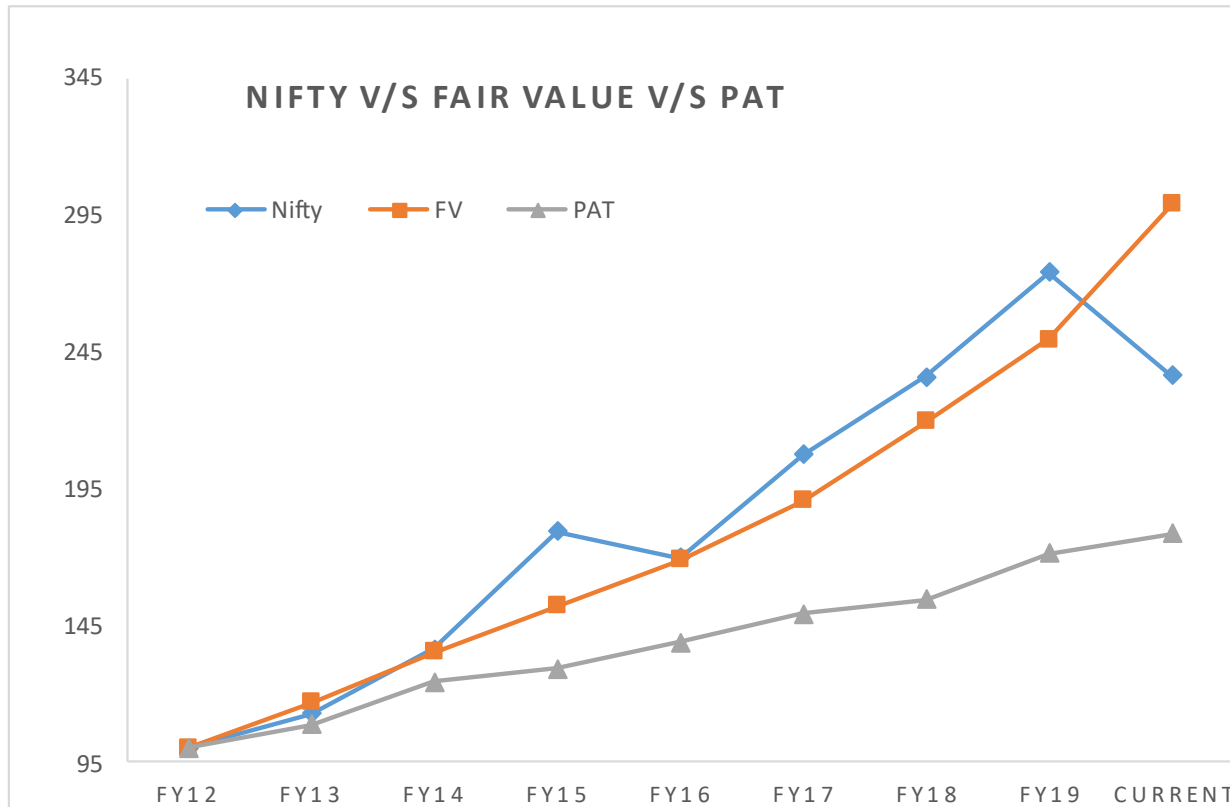


- Nifty 500 total market cap to nominal GDP ratio had increased to 83% as on 31<sup>st</sup> March 2008.
- Which since FY06 till FY20, has averaged around 70%.
- And currently is at 60%, which is the lowest level in the last 10 years.
- Hence, top down valuations do not appear frothy.

Source: Bloomberg, Union Asset Management Company Pvt. Ltd. Internal Research; Data as on 12<sup>th</sup> March, 2020



# 2020 Bottom Up Valuation: Nifty 50 Price to Value Ratio in Cheap Zone



- Nifty currently trades at a substantial discount to its Fair Value.
- Markets have not traded at such discounts since FY12.
- While there may be some downgrades to Fair Value in the near term, we expect it to be much smaller than the current discount.

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# 2020 v/s 2008 – Other Parameters: No alarm bells here as well

	Jan-08	Mar-20
<b>Commodities:</b>		
Oil (\$/b)	100.3	36.18
Copper (\$/t)	6870	5556
Steel (US\$/t)	650	465
<b>Rates:</b>		
Inflation (12m Avg)	6.4%	3.9%
India 10 Yr Bond	7.8%	6.1%
US 10 Yr Bond	3.8%	0.7%

- A look at some other signaling data also does not ring any alarm bells.
- Most commodities are at far lower levels in 2020 compared to levels seen in 2008.
- Even the interest rates and inflation remain at lower levels in 2020 compared with those in January 2008.

Though the market correction appears uncannily similar to the fall experienced in Jan 2008 onwards, the reasons for current fall are completely different.

**Hence, patient investors investing in current market conditions may be able to generate better returns compared to investing in most other asset classes in the long term period.**

## **MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**

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