I-CAN FINANCIAL SOLUTIONS

I-CAN COMMUNIQUÉ

MAY 2020

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MONTHLY NEWSLETTER – MAY 2020

Sensex : Up 14.4% Nifty : Up 14.7%	
Best performing sector: Pharma (30%)	Worst performing sector: PSU Bank (0.1%)
Best performing Global index: MerVal (34%)	Worst performing Global index: Madrid General (2%)
Indian Rupee: 0.7%	Gold (International): 7%

As the Covid-19 virus crisis worsens across the world the governments and central banks took a lot of measures to contain the downside risks. Stimulus and relief packages, funding for vaccine research and supportive monetary policies were announced in different parts of the world. As of 10th May the virus has infected more than 41 lakh people in the world and more than 62,000 in India. The United States has the highest number of cases – 13 lakh plus, followed by Spain, Italy and the United Kingdom.

India has been appreciated for enforcing one of the strongest lockdowns at an early stage. The Stringency Index created by the University of Oxford gave a score of a perfect 100 to India since March 22 – one of the best in the world. Other countries to get this high score are Israel, Mauritius, New Zealand and South Africa. The government extended the lockdown in India till 3 May. Some services and sectors were opened from 20 April – financial sector, social sector, MNREGA works, public utilities, loading/unloading of goods/cargo, online teaching, supply of essential goods etc.

The headline stock indices in India showed a strong recovery from the lows of March. Both Sensex and Nifty were up by more than 14% in April. BSE Mid Cap and BSE Small Cap indices were up by 14% and 16% respectively. The 10-year government bond yield went down by 2 basis points to 6.12%. The trend of massive selling by foreign institutional investors (FIIs) continued as they pulled out Rs 6,883.6 crore from equities and Rs. 12,551.7 crore from bonds last month.

The growth forecasts for India were revised further downwards. According to the Confederation of Indian Industry (CII) Indian GDP is likely to grow at 0.9 to 1.5% in FY21. In a report released by SBI the outlook is that GDP growth could be 1.1% in FY21. The International Monetary Fund (IMF) reduced the India growth projection to 1.9% from 5.8% for FY21. World Bank expects the economy to grow at 1.5-2.8% in the current financial year. The Dun & Bradstreet Composite Business Optimism Index stood at 49.4% for the April-June quarter, a record low and worse than during the 2009 financial crisis.

The Manufacturing Purchasing Managers' Index (PMI) touched a record-low of 27.4 in April from 51.8 in March because of the lockdown. The Services PMI touched an all-time low of 5.4 in April, from 49.3 in March. A figure of above 50 indicates expansion, while a sub-50 print signals contraction.

Retail inflation in India softened in the month of March at 5.91% compared to 6.58% in February. This was mainly driven by easing of vegetable prices. Wholesale inflation also fell in the month of March, registering a growth of 1% in March compared to 2.26% in February.
Fiscal deficit touched 5.07% of GDP in February. It might be difficult for the government to meet its revised fiscal deficit target of 3.8% of GDP for FY20.

The Reserve Bank of India (RBI) announced an additional Rs 50,000 crore targeted long term repo operation in order to maintain liquidity. It reduced the reverse repo rate from 4% to 3.75%. This was aimed at making it less attractive for banks to park their funds with RBI.

On 23rd April, Franklin Templeton India Mutual Fund wound down six of its debt mutual fund schemes because of lack of liquidity and high yields in certain corporate debt segments. This led to a sense of panic among investors. Franklin Templeton said that as and when they are able to sell their debt papers at reasonable prices they will make payouts to the existing investors. In response to this situation, RBI announced a Rs 50,000 crore special liquidity facility for mutual funds under which banks can avail of 90-days funds from the repo window and use it to exclusively to lend to mutual funds. This gave a re-assurance to the investors.

There is some optimism after the India Meteorological Department (IMD) predicted a normal monsoon, with a possibility of above normal rain in August and September. Another ray of hope for India emerges from the fact that many global manufacturers have initiated talks with Indian firms in order to explore possibilities of shifting a portion of their supply chains out of China.

Reforms

- Prime Minister Narendra Modi outlined key priorities for the country based on learnings from the pandemic – know-how for reduction in carbon footprint, finding low-cost scalable health solutions and so on. He urged industries to adopt new business models and work culture.
- India began work on forming a continuity plan to start exports once the country is out of the lockdown situations. The plan includes reduction in import dependence especially from China. The commerce and industry ministry plans to set up groups which will work on strategies for sectors where China has vacated space and countries are looking at alternatives for suppliers.
- In the wake of data inadequacy challenges being faced by the government due to the lockdown, India sought help from multilateral agencies such as the International Monetary Fund (IMF) and World Bank to understand practices followed elsewhere to calculate economic indicators like industrial production, inflation, growth etc.
- SEBI is likely to make stricter the investment rules for China and other neughbouring countries. The government removed all neighbouring countries from the automatic FDI route. Earlier this was applicable only to Pakistan and Bangladesh.
- President Ram Nath Kovind, Vice-President Venkaiah Naidu, Prime Minister Narendra Modi, Union ministers, members of Parliament, and state governors will take a 30% pay cut in 2020-21 to contribute to the Consolidated Fund of India (CFI) to help fight Covid-19.
- Insurance Regulatory and Development Authority of India (IRDAI) said that the standard health insurance policy Arogya Sanjeevani for all 29 general/health

insurance companies will now cover hospitalization under Covid-19.

- SEBI permitted mutual funds to revise the cut-off timings for equity and debt schemes from 3 pm to 1 pm and for liquid/overnight schemes to 12:30 pm from 1:30 pm.
- The government approved a Rs 15,000 crore package to build health infrastructure till March 2024.
- RBI eased the liquidity coverage ratio requirement of scheduled commercial banks from 100% to 80%.

Tips for Better Financial Health during Covid crisis

Taking care of your physical health is extremely important during these challenging times. At the same time it is also important to take care of your financial health. The following investment hygiene factors should be looked into:

a. <u>Reduce expenditure:</u> If the Covid crisis is likely to cause loss of income or uncertainty around timing of income flows, then it is prudent to make an expense priority list. Unnecessary or luxury expenses should be minimized. Many of the expenses such as traveling expenses would have already got reduced because of the lockdown. Frugal habits during this period of strain can help in compensating for any loss of income or underperforming investments.

b. <u>Portfolio & Goal Review:</u> Get a qualified financial advisor to check review your asset allocation and mutual fund/stock selection. The advisor should check for adequate diversification and appropriate category selection as per the financial goals. It is also important to stay away from risky debt mutual fund schemes.

c. <u>Think long term:</u> Do not get over-obsessed with short-term movements in the financial markets. The best way to assess your investments is in terms of long term financial goals, risk appetite and affordability. Regular investing and patience goes a long way.

d. <u>Debt Management:</u> Opt for the 3-month moratorium facility only as the last resort. Recently the interest rates on loans have come down. It could come down further. During the low interest rate regime if it is feasible it might make sense to repay the same EMI and get your loan tenure shortened. Do not let debts mount up in this period.

e. Continue SIPs: Unless the situation is extreme and it is difficult to manage important expense it is advisable to continue with SIPs during the weak stock market phase. SIPs of the same amount will help you accumulate a higher number of units during bear phases. When markets eventually recover one could make high returns on these investments.

f. Re-evaluate insurance cover: Get a financial advisor to review if your life and health are adequately insured. If not, get the cover enhanced to the suggested amount as soon as possible.

g. Emergency corpus: If there is a possibility of income reduction in the coming months it will be a good idea to have an emergency fund equal to 6-12 months of your monthly expenses.

Did you know?

The longest street in the world is Yonge street in Toronto, Canada measuring 1,896 km

Cartoon of the Month

"I've already forgotten most of the stuff I learned in college. Can I just pay for the parts I still remember?"

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4) Aadhaar card updation can now be done at Common Service Centres: Click here
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