Our Views

Covid Wave-2: Will the Capital Markets gasp for O2!

With the unexpected wave-2 of the pandemic, there has been a general fear of uncertainty and the unknown. One such unpredictable in these times, and as always, is the capital markets. Could there be a repeat of March 2020 when our markets went down by 37%. Is it a reason to worry? While I totally understand the looming gloomy shadow of many unknowns, I do see quite a few positives – definitely, there are more things known in this wave compared to wave-1. Also, wave-2 is not necessarily comparable to wave-1.

Firstly, wave-2 is primarily just an Indian phenomenon. Reflecting on the wave 1 situation, it was overwhelming because of its suddenness and it being a global outbreak – countries after countries were getting impacted. As a result, the global markets were in a turmoil and India also had its fair share of it. This time, so far, it is only an Indian situation and there is no significant new wave in any other country. The global markets are trading well so far.

Secondly, in the first wave, several bold measures to boost economic activity and hasten economic recovery were introduced and implemented, globally as well as in India. Globally, significant liquidity has been pumped-in and the same remains in the system today. Also, the government subventions granted by various countries, including India, has helped people tide over the financial stress and continues to have its impact in these times. Further, consumers around the world have stockpiled an extra USD 5.4tn of savings since the pandemic began, and are becoming increasingly confident about the economic outlook, paving the way for a strong rebound in spending as businesses reopen.

Thirdly, this time around, the regulators and the policy makers are not caught by an unprecedented situation. They have been there last year, tried various measures, and tasted success. They are alert and active – ready to move swiftly wherever corrective action may be required.

Finally, despite the rapid growth of the virus and the worsening situation, we do not expect a severe lockdown like last year. The governments, at both state and central level, are cognizant of the economic cost of a complete shutdown and would take calculated measures to ensure economic activity continues.

Of course, some words of caution are required. One must be mindful that:

- if the current crisis continues unabated and becomes truly unmanageable, we can expect a stricter lockdown like last year. This would certainly be detrimental for the economy and economic recovery. Today, the high virus-impacted areas like Maharashtra, Gujarat, Delhi, and Karnataka are also high economic growth propellers of the country. These areas going into a lockdown can potentially cripple the economy.
- even if the government does not impose a stringent lockdown, excessive fear of the virus spread itself can force people into a self-imposed lockdown kind of situation, again impacting the economy. People, being extremely careful and fearful, may not return to work soon – we are just coming out of a major downturn, and this can elongate the recovery period.
- as our government had significantly loosened the purse string last year, availability of resources to take care of future eventualities will be limited. The government deficit may also expand as tax and non-tax revenue collection may not be on target and there will be limited headroom for government to manage the expenditure. This could lead to an upward tick on interest rates, impacting the market.
- the current market levels have built-in a significant economic turnaround and good corporate performance which may not be a reality. In such a situation, a downward revision of estimates could correct the market.

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A simple two-fold solution can do the magic. First, ensuring that pandemic safety protocol is followed by every Indian. Unfortunately, once the lockdown was lifted in India, we totally let our guard down between Diwali to Holi. To beat the current renewed crisis, lock down is not a permanent solution, protocol is. Lockdown was a temporary measure to get breathing time to break the virus chain and to put our house in order. Secondly, the government finances should be managed with prudence and rigor. Any slippage in government deficit may adversely impact the markets.

In summary, what fuels a quick rebound hope for the market is the fact that the current crisis is India-specific and not global, and that the economy is sufficiently primed. Along with this, like last time, our regulators are very active and agile to manage any situation. During wave-1 we did not lose even one minute of market operation and am confident that so be the case this time also.

In the short term, markets may see volatility but overall may not gasp for O2 and should remain in good health!

https://economictimes.indiatimes.com/markets/stocks/news/why-india-market-may-not-gasp-for-o2-because-of-covid-wave-2/articleshow/82181119.cms

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