



## Post the lockdown

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CEO

Dear Investor,

I hope that you and your family members are safe and continue to remain safe in the current pandemic. In my earlier communications I have consciously stayed away from commenting on the economy and other macro factors as under normal circumstances, markets go through cycles and what helps investors are the decisions around asset allocations, financial plans and discipline to stick to them through the cycles. However what we are witnessing today is not a normal cycle but a dislocation to the global economy at an unprecedented level. Probably the word unprecedented is not enough to capture the extent of shock and disruption. As the economies world over gradually open up, the big question for investors and money managers alike is how much time will it take for economies to recover, what is going to change permanently for the businesses, society and economies as a result of the pandemic? Who will be the winners and the losers? To find the probable answers various investment professionals from PGIM across the geographies took a multi prong approach of analyzing the economies through a lens of likely change in consumer behavior, management of supply chain, perception of space and safety, position of weightless firms and finally, the nature and extent of government intervention. In this communication I intend to share a brief summary of a recent white paper from PGIM titled "After the great lockdown". You can read the full paper [www.pgimindiamf.com/after-the-great-lockdown](http://www.pgimindiamf.com/after-the-great-lockdown).

PGIM's base-case for the economic recovery is a gradual recovery, more like a Nike-swoosh-shape. We expect the global economy to bottom out over the next couple of months, with levels of economic activity and GDP returning to late-2019 levels sometime in 2021. Improvements in testing and treatment for COVID-19 could pave the way for a V-shaped scenario, but should consumers show a reluctance to spend or, more worrisome, should we experience a significant global "second wave" of the virus a W-shaped recovery is the more likely scenario.

Over the last few years customers have been demanding individualized products & services. A trend that is unlikely to change post the lock down. Granularity of offerings is possible only by leveraging technology, data, intellectual property. Even before the lockdown, the companies that effectively leveraged these to redefine the industries they operated in were seen gaining market share and size. Emphasis on leveraging technology will see further acceleration. Thus the weightless firms will continue to rise is our belief. That said, some of the dramatic developments within the shared economy – ridesharing, as just one example – may slow in the near term and consumers may gravitate towards longer-term relationships with service providers in their immediate locality.

The other debate is regarding the future of office as a concept. Experts at PGIM opine that offices are here to stay as they fulfill an intrinsic social need as well. Office designs may undergo a transition. Some companies may permanently shift part of the workforce to work from home but the area occupied per employee will also see a rise. The other silver lining for reality could come from demand for warehouses and logistics space by e-com. The e-com companies have warehouses/cold storages beyond the city limits for cost advantage. To fulfill the last mile demand, we could see modern warehouses coming up closer to consumer localities. There are fair chances that individuals may shift residences from crowded localities to relatively spread out suburban localities, leading to rise in rentals in localities with open spaces. All this will redefine how the dynamics of where we choose to live, work and play.

Individuals and businesses saw supply chains getting disrupted bringing up the issue of fragilities of such chains. Globalization has led to corporations procuring supply of goods and services from geographies offering cost advantages. The whole trend of concentrating on low cost/scale efficiencies led to significant concentration of supplies being sourced from locations like China. This crisis brought to the fore fragilities of supply chain. Low visibility on the financial strength of tier I and tier II suppliers was also in focus. Post the lockdown, we may see companies diversify sourcing away from say China to multiple geographies. The other tool of inventory management i.e "just in time" may give way to a "Just in Case" approach meaning companies, at the least for critical components, will prefer maintaining higher inventory to guard against disruptions. There will be trade-offs between flexibility versus efficiency, cost versus criticality and potentially other trade off's too. We will have to wait and watch on the valuation given for greater downside protection.

The increase in government intervention in business is inevitable. Majority of the governments will give a push to bring some production back to their shores, definitely for essential services. This could create challenges to globalisation, but the global integration driven by transportation, communication and migration will not get reversed. For the world to integrate further, Globalisation 2.0 will have to bridge the gap between the needs of society, commercial realities and risks involved. Considering all these factors the cost of doing business is likely to rise.

In an environment of many variables, emerging markets will have to keep their debt levels under control to sustain the interest of the global investors. Selective markets with low dependence on global economies will be the opportunities worth looking at. For India as an economy, slow growth and pandemic are the dark clouds but with silver linings like high forex reserves, enough food storage with FCI, low oil prices, probability of good monsoon. Bharat is likely to fare better than India. So my request to you will be to keep some liquidity, but not miss the opportunity offered by the markets, if your asset allocation permits. Human ingenuity will help us tide over this crisis as well. Stay safe.

Happy investing

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