"One important law of financial logic –- if you lend money for longer, you should see a higher return –- has been broken. The time value of money has essentially disappeared."
Marcus Ashworth, Bloomberg columnist covering European markets

Negative-yielding debt was about $13 trillion in June 2019 and now makes up around 25% of global debt. In Germany, 85% of the government bond market is under water. That means investors effectively pay the German government 0.2% for the privilege of buying its benchmark bonds; the government keeps 2 euros for every 1,000 euros borrowed over a period of 10 years.[1]

Essentially this means that Europe is becoming or has already had ten years of being in Japanese type zombie situation where money printing is not producing wage inflation in spite of rise in employment. Central Banks have struggled to produce growth and willing to go into negative territory and "do what it takes". The question is how many more tools they do have left in their arsenal and what are the implications for equity markets.

Interest rates are to asset prices what gravity is to the apple. When there are low interest rates, there is a very low gravitational pull on asset prices
Warren Buffett

The idea is to push more investors out of bonds into riskier asset classes. While equity investors will be willing to accept lower returns on riskier assets, at the same time there is enough demand even for negative yielding debt because of geopolitical trade war tensions and Brexit. Make what you may of this but its true that finance is really the study of how humans behave with money decisions than the study of money itself. Most long-term investors in this market are scarred by what they have seen in 2008 and are willing to accept negative returns but don't want to see a rerun of 2008. Fed is hyper responsive to equity market levels because that is what investors and politicians are focused on. Until a new set of risk-taking investors get into the market or market's take control of pricing risk appropriately this is going to continue. Gold in INR terms has hit an all time high. And could that be the canary in the mine for equity markets?

[1] The Black Hole Engulfing the World's Bond Markets

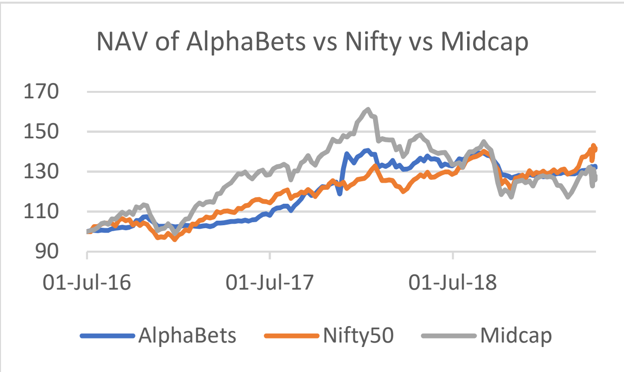
Implications for India

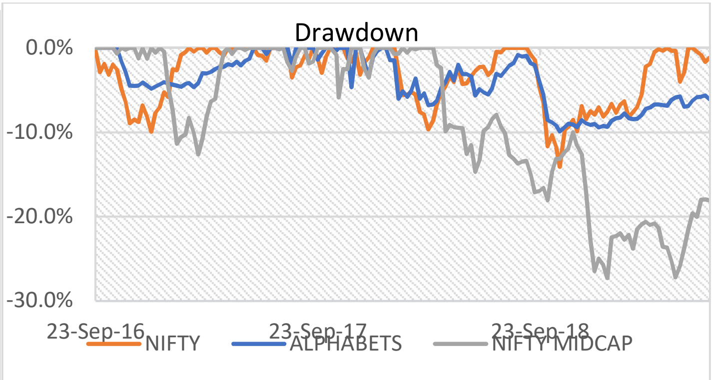
This could turn out to be a blessing in disguise for India as govt yields have plummeted in the last two months by almost 10%. This gives RBI headroom to cut interest rates and lowers government's cost of borrowing. Capex related sectors could be beneficiaries if benefits of lower rates are transmitted appropriately.

Performance update

	Return[2]	Max Drawdown
AlphaBets	10.2% p.a.	9.4%
Nifty 50	12.1% p.a.	14.1%
Nifty Midcap	8.4% p.a.	27.3%

Table alongside and charts below show the NAV growth and maximum drawdown in AlphaBets. We continue to trail the Nifty50 slightly and beat the Midcap index in upside returns. In terms of downside risk, we continue to do better than both indices. We are overweight cash as has been our position since mid-caps started moving down last year. We will buy very cautiously in this market.





The future is always uncertain, but what is certain that earnings across the board are not showing strong growth and that is evident in the price of these businesses once we leave out the top 10 performing companies which have consistent growth but mask the pain that the rest of the market is feeling. Mid and Small cap indices are once again moving towards their lows last quarter. To add to that the NBFC imbroglio continues to have its impact. However, if lower interest rates bring in foreign flows, robust MF inflows continue and renewed government expenditure have their effect, we could see a renewal of animal spirits in the Indian economy. The budget, however, did nothing to signal that the government has got the message of a slowing economy. Instead they tightened further, by raising taxes and increasing prices of petrol and diesel.

Rarely do the leaders of the previous bull run, repeat their performance in the next bull run. We believe, newer sectors and companies will be the leaders if we see a new uptrend led by low interest rates and revival in consumption demand/capex related sectors. However, we try not to predict and keep following our process which has served us well over the years.

Anish Teli and QED Capital team
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[2] Annualised return for portfolio post fees and expenses since inception i.e. July 2016 to June 2019