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AN OVERVIEW OF MUTUAL FUND PERFORMANCE POST COVID-19 OUTBREAK WITH REFERENCE TO INDIAN ECONOMY

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ABSTRACT

The outbreak of COVID-19 pandemic adversely affected the world population and the economies. Apart from the health concerns, drastic changes happened in all the sectors of the economies which made the economic recovery more sluggish. The growth forecasts of the Indian economy have been modified by the rating agencies against the backdrop of the pandemic. In the aforesaid scenario, this paper attempts to throw some light over the prevalent trend in the mutual fund performance. Mutual funds pool the savings of public and institutions and systematically invest in productive financial instruments in the financial market. The paper aims to provide an idea about the few major factors that affect the mutual fund performance in the recent times. Mutual funds are relied on by Indian population as a means of generating favourable returns over the long run. However, the COVID-19 has badly affected the inflows and capital infusion in the financial market that made the investors rethink about the investment in mutual funds and other financial instruments.

Key Words: Digitization, Assets Under Management (AUM) , Net Asset Value (NAV), Funds, Sectors

INTRODUCTION

The performance of mutual fund industry is driven by a medley of factors encompassing both internal and external factors of business environment. Currently, the COVID-19 and the repercussions have defeated the growth forecasts of the economies. Mutual fund industry is one of the significant industries in the financial market that has been unfavourably affected by the consequences of the pandemic. However, all the economies are in the path of recovery and the investor expectations about the performance of financial market and mutual funds are expected to reinstate the preference for mutual funds as an attractive investment alternative in the long run. Assets Under Management (AUM) is one of the important factors that signify the performance of mutual funds. The fund managers are entrusted with the responsibility of managing funds that are pooled from general public and institutions. The AUM is the market value of the aggregate investments that is managed by the mutual fund at a particular point of time which involves return and capital for disposal. Net Asset Value (NAV) is another indicator that shapes the growth of mutual fund market. The NAV is the unit price at which the funds are traded in the market at a particular point of time. Equity funds, debt funds, hybrid fund which is a combination of debt and equity, Systematic Investment Plan (SIP) and many other schemes are offered by the mutual fund industry tailored to meet the needs of investors. The mutual funds invest the funds collected in diversified sectors of the economy so as to mitigate the risks and ensure reasonable return. While few sectors witnessed growth during the pandemic period, most of the sectors of the economy experienced downfall. Digitization is the major trend that drove most of the sectors to growth during the crisis period.

RESEARCH METHODOLOGY

Regarding the source of data, this article has been prepared by taking data from secondary sources of various websites, online journal and newspapers. The theoretical framework provides the summarized findings of the study.

THEORETICAL FRAMEWORK

The social disruption and the drastic changes that occurred in the normal lives of citizens adversely affected the growth of mutual fund industry. Change in workplace as many companies shifted to work from home mode is another trend that positively influenced the productivity of some of the companies while negatively influenced some other companies. The sluggish growth rate is the indicator of the impact of pandemic on the mutual fund sector. The mutual fund managers are expected to consider the changing preferences of investors on account of the crisis situation. The managers are anticipated to possess a long term perspective of the mutual fund sector and need to make necessary changes in the growth forecast on the basis of proper planning. Moreover, the diminishing growth rate can be attributed to tighter or reduced profit margins, constant profit margins with no growth, high pressure or stress on fees and more consolidations that arose following the pandemic. Other factors such as decreased Total Expense Ratio (TER), shift of market to passive funds and low revenue generated from most of the mutual fund assets pose challenges to the mutual fund managers. Assets Under Management witnessed slow growth and therefore the managers cannot rely on the AUM and the fees generated to maintain the position in the mutual fund industry. Mangers are expected to remain competitive and identify the opportunities and threats that might arise in future. One such opportunity that harnessed to enhance the growth of the industry is the increasing investor demand for ESG (Environmental Social and Governance) Funds. The employment in the mutual fund industry has fallen over the crisis period. The increased automation, employment of digital labour, cost trimming measures, higher reliance on third party service providers and outsourcing, and more fund consolidations against the backdrop of the COVID-19 are the factors responsible for the low employment in the mutual fund industry.

Despite a host of negative factors that restrain the growth of the industry, mutual fund remains the most favoured and attractive investment alternative as per the survey reports of few research studies. More than half of the respondents of a particular survey carried out by a research firm invested in mutual funds post-pandemic which is a good indicator of the favourable returns provided by the mutual funds. The mutual fund market stands to benefit from the rupee cost averaging that ensures reasonable return in the long run. Research studies reveal that the SIP investors who continued the investment post-pandemic gained good returns. However, many investors stopped contributing to monthly SIP and withdrew funds from mutual funds subsequent to the stock market crash in March 2020 after the lockdown announcement. The major drivers that resulted in the withdrawal of mutual funds are the panic among the investors following the sharp decline in the investment value, and cash requirements as many people turned jobless due to the pandemic. However, the economy witnessed slow growth in all sectors even before the COVID-19 which can be attributed to other national and global factors. Fast recovery of the economy cannot be expected as the pandemic may have long term impact and consequences in future. Moreover, the rating agencies reduced the growth forecasts of Indian economy predicted earlier following the second wave of COVID-19. The impact of the market risk due to COVID-19 on the mutual fund sector depends on the sector's speed of recovery. The improved FDI inflows in the ICT (Information and Communication Technology) sector, digitization, implementation of more reforms for faster recovery and the investment by the risk-bearing younger population are anticipated to accelerate the recovery. Nevertheless, the investors are required to adopt measures such as revision of the portfolio and allocation of funds on the basis of the periodical review. The investors can gain by staying invested and streamlining the portfolio as the mutual funds deliver positive returns by the means of rupee cost averaging and compounding. India is predicted to the most resilient economy in the South Asia and therefore investment in mutual funds during the downturn is actually a good investment opportunity.

Many studies reveal that the SIP has remained consistent in the pandemic period, while the equity oriented schemes had fund outflows. The overall mutual fund returns is positive throughout the crisis period. The credit risk funds that are prone to risk could be managed with open ended structure. Moreover, the fund managers are able to generate positive alpha over the benchmark index by utilising the market inefficiencies that arose in the pandemic period.

The governments can take proactive measures such as implementing regulations, issuing guidelines and presenting a budget that covers risk management measures for all the strategic sectors of the economy. The fund managers are expected to adopt fair practices by educating investors about the mutual fund schemes and thereby building investor confidence. The formalities and complexities involved in mutual fund transactions are to be simplified and transparency should be ensured that encourage the investors to stay invested. The debt schemes that are preferred by a majority of investors can be made more liquid which will ensure stabilized inflows in debt schemes.

The digital push or digitization in the financial services sector considerably reduced the transaction cost. Moreover, more investors could be easily reached through e-portals. A comparative analysis of the pre-lockdown and post-lockdown growth of mutual fund sector by a research firm revealed that the healthcare sector and the pharmaceutical sector are the least affected sectors after the lockdown announcement. The industries that experienced downfall regained the positions after the relaxation of lockdown. The major sectors that are adversely affected are automobile sector, energy sector and technology sector among others. However, the existing situation may not last long. The investors may adapt to the new normal and revise the strategies and portfolio according to the changing environment. The stimulus package by government is expected to accelerate the pace of economic recovery which along with risk management measures by fund managers might bring back investor confidence in mutual funds that has not diminished significantly compared to other investment opportunities.

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