

Macro Vs Micro- Unknowable Vs Knowable

*Concentrate on what is known and knowable
and use the right asset allocation to account for
unknowable*

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The world economy is currently going through a roller coaster ride. Economists and share market traders/ investors are all struggling with the question of asset allocation, diversification, and timing of investments amidst the ambiguity around Interest rates, Inflation, liquidity etc. The Macro environment is very complex and ever changing, hence we need to understand the quantum of importance to be given to the Macro numbers before we rest on it an investment decision.

When you dig into the thoughts of the greatest of investors- like that of Warren Buffet, Howard Marks, Charlie Manger, one thing common is that they do not read much into the macro numbers and concentrate more on evaluation of business assets and Profitability before Investing. They understand that macro Environment is Unknowable and hence investing time in understanding the unknowable may be fruitless.

For a piece of information to be desirable, it has to satisfy two criteria: it has to be important, and it has to be knowable

– Warren Buffett

While we operate under the umbrella of a macro environment, causes and effects of such factors are difficult to ignore. We had no idea of Covid-19 and it damaged the world's GDP by a big number in a short span. During 2020, Global GDP reached 84.54 trillion U.S. dollars in 2020 – meaning a 3.4 % drop in economic growth resulting in over two trillion U.S. dollars of lost economic output. Some of the business models went scrap while newer models took the center stage.

The Russia Ukraine war has had another big impact on the world's economy hampering growth and giving birth to high Inflation across economies leading to many country risks of recession/ defaults. Companies across the world including India struggled with margin protection and Balance sheet woes in terms of Working capital issues or even fresh Capex decisions.

Changes in Macros impact Micros of a company. We need to concentrate on the changes brought by the macros and keep evaluating our Investment decision on a micro basis. Macros impact the overall environment, the market size, the market type, and even some fundamental numbers like margins, capital allocations decisions etc in a company. Hence, the impact of a macro decision relevant to your investment decision has to be evaluated.

Consider this, India is benefiting from plant relocations from China due to its already established base in pharmaceuticals, chemicals and engineering, sectors that continue to be the focus of U.S - China trade tensions. The Production Linked incentive Schemes launched by the government of India is expected to increase total industrial production by over US\$520 billion. Additionally, the government is also working on reducing compliance burden, improving the ease of doing business, creating multi-modal infrastructure to reduce logistics costs, and constructing district-level export hubs.

The schemes have received Interest from 900 companies and about 500 have got approvals so far for one scheme or the other. This change in the macro environment will change the course of PL and BS of many companies in India. Success of this scheme in Electronic manufacturing can already be seen in some companies. For eg, we have seen an electronic outsourcing manufacturing company revenues growing from Rs 1200 Cr in 2015 to Rs 10600Cr revenues in 2022. Fixed Assets grew from Rs 97 Cr in FY15 to 1003 Cr in FY22.

Change in scope and ambit of Anti Dumping duties, export-import policies, tax structure with other countries, or even drought, flood etc in different parts of the world may change economics of the company you have invested in. Macros play an important role in shaping the company's future. However, on a day to day basis, this may not impact the PL / BS of a company. Also, many changes in macros are unpredictable but they do have a bearing on our investible universe. The point is, we should concentrate on what is known and knowable and not on unknowable.

As rightly said,

It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so

– Mark Twain

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