

DAILY VOICE | Govt should take steps to make Indian bonds part of global bond market: Sampath Reddy of Bajaj Allianz Life

For the year FY22, we believe earnings are likely to grow by 20%-30% for the Nifty companies with most of the growth being front-ended due to the base effect, says Reddy of Bajaj Allianz Life.

KSHITIJ ANAND | DECEMBER 30, 2020 / 08:07 AM IST



Sampath Reddy, Chief Investment Officer, Bajaj Allianz Life, who manages an AUM of about Rs 60,000 crore, believes that the government could take steps to facilitate Indian bonds to get included among major global bond indices.

We believe "Growth" will continue to be the driving force for Indian markets over the long term, he said in an interview with Moneycontrol's Kshitij Anand.

Here are edited excerpts from that interview:

Q) The year 2020 which most of us thought could go down as a black year for equity markets has in fact turning out to be a year of new trends, fresh record highs, and a whole new meaning to life. What is your outlook for 2021?

A) We see FY 2021-22 to be a year of normalization in economic growth and corporate earnings. On a low base of FY 2020-21, numbers might look optically high, but it would be prudent to look at them over a 2-3 year CAGR basis to understand the underlying trajectory.

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Ceteris paribus, we feel valuations have largely achieved optimization, and any material market movement from hereon would be determined by changes in earnings estimates, earnings rollovers, and/or any material changes in the cost of capital.

Q) In one word if you have to define the year 2020 what would that be and why?

A) Black Swan. Because, Firstly, such a large scale pandemic bringing economies across the globe to a halt was unprecedented; and on top of such an economic backdrop, markets doing well and giving healthy positive returns of about 12 percent in CY20, was also a pleasant outcome, which many wouldn't have expected.

Q) What is your outlook on earnings for the year 2021?

A) For the year FY21, earnings are likely to grow about a couple of percentage points or worse flat, over FY20, due to significant cost-cutting measures taken by large corporates.

For the year FY22, we believe earnings are likely to grow by 20%-30% for the Nifty companies with most of the growth being front-ended due to the base effect.

Q) The big event which will be in focus is Budget 2021. What are your expectations from the event? FM promised it to be a vibrant Budget and a lot of policies to support the economy have already been rolled out. So, what could cheer markets?

A) We have been seeing that the Budget has incrementally become less significant for the markets from the indirect taxes point of view, post-GST implementation. The indirect tax decision making has been largely shifted to the GST council, which has been meeting frequently to make requisite changes.

However, the budget sets the path for policy and reform road map, which is very crucial for the overall economic development. While Indian equities are a significant part of global indices, our bonds are not yet part of the global basket.

We believe that the government could take steps on that front so that Indian bonds get included among major global bond indices.

Q) What is the feedback that you are getting from FIIs/HNIs for India?

A) We have seen a deluge of inflows from FIIs over the last couple of months. We understand it to be a consequence of the sustained low cost of capital globally, along with positive steps on reforms taken by India expectedly to stimulate growth in the coming years.

Q) Any new trends in terms of sectors which you are seeing that could last for the next couple of years?

A) We are hearing a lot of positive comments from the leadership in the IT sector. If it pans out as they expect, then we are in for a multi-year market leadership from the sector.

Q) Your key learnings from the year 2020? And what would you advise investors to follow in the coming year?

A) Black swan events are not that rare, as one would think. Hence, investors would be well advised to always have a diversified approach to asset allocation, and avoid timing the market.

Q) Value or beta – what would be more popular in 2021 and why?

A) We believe "Growth" will continue to be the driving force for Indian markets over the long term. Global capital will continue to be attracted to Emerging markets for the growth opportunities they offer, and India being one of the faster-growing emerging markets, should attract its share of inflows.

Q) What would you prefer large-caps or mid, and small-caps in the year 2021?

A) We find attractive opportunities across the spectrum of market caps, and we will continue to invest in ideas across market caps, for the long term benefit of our policyholders.

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