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# Equities may offer 12-14% CAGR for next 3-5 years, says Bajaj Allianz Life CIO

#### In spite of the current valuations and pandemic situation in the economy, I believe

Synopsis

equity returns for next 3 to 5 years should be in the range of about 12-14per cent



April and May will be recouped in the subsequent months of the RELATED

#### Recovery plays that may disappoint investors

for 2 years?

lockdown.

months of the year.

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metal stocks may not end so soon SBI or HDFC Bank: Which

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are likely to see moderation of return in the coming years, believes Sampath Raddy, chief investment officer of Bajaj Allianz Life Insurance. If all things fall in place, investors should expect equities to give 12-14 per cent annualised return, which will be little over India's expected nominal GDP, projects the market veteran who manages nearly Rs 70,000 crore in assets. Edited excerpts from an exclusive interview with ETMarkets.com

MUMBAI: After nearly doubling from the multi-

year lows hit in March 2020, Indian equity market

With the recovery being hamstrung by the second COVID-19 wave how has the macro

Various high-frequency indicators are pointing to some slowdown in economic activity as a result of partial lockdown being implemented in various states. However, we believe that slowdown is unlikely to be of the same magnitude, or the sharp contraction in economic growth that we have

economic outlook changed?

India GDP growth forecast for FY22 from 11-13 per cent earlier to 9-10 per cent now. This is still a developing situation and we need to see how long the lockdown lasts, but some early signs of moderation in new case additions in recent days give some hope that we may be approaching the peak of the second Covid wave soon. I do not see much of a risk to the earnings estimate of FY22 as of now, the

With the lockdown in various states, various agencies have downgraded their

seen in Q1 FY21--when the entire country was under a very stringent

What are the threats beyond COVID-19 that could hamper the bull market in equities? Beyond Covid, another factor that needs to be tracked is the policy stance of

impact of lockdown in April and May will be recouped in the subsequent

### dovish in their stance and given impetus to the ongoing economic recovery, and we expect that to continue in the near term. However, once we have

major global central banks. Till now they have been quite accommodative and

reached the desired growth rate or if inflationary pressures start building up on a persistent basis (excluding base effects), then we may see some guidance or action from the major central banks regarding rolling back of some of the massive monetary stimulus that they have provided to deal with the Covid pandemic slowdown. In that event, we may see some volatility in global markets including India as liquidity has been supporting this rally. Do you fear that the second wave could really set us back from a longer term point of view with respect to how and when India gets out of this pandemic?

#### has been more severe for India, due to which there is a possibility that our recovery may be a bit weaker than initially anticipated. From a long-term perspective, we do not see this pandemic altering strong growth prospects for

Most of the developed countries have been reacting very well and in fact, in

quite a few countries vaccination is underway in a big way. The second wave

India. We will continue to do well and Indian equities, Indian GDP has a lot more potential to grow faster than some of these developed countries. What can the policymakers do to minimise the economic impact of the second wave? **RBI** has recently announced some liquidity measures and some restructuring measures for individuals and MSMEs to help with the second wave; and we

#### although the space for any large fiscal stimulus is limited due to the significant slippage already seen last fiscal year and a fairly large fiscal deficit

We may also see some measures from central and state governments,

budgeted for this fiscal too.

of providing cash handouts?

after recent corrections?

FMCG, healthcare and diagnostics.

could see some more targeted measures from the central bank going forward.

The government can also step-up its COVID vaccination drive to deal with the second wave and be better prepared if a third wave happens. This may help to prevent any extended and stringent lockdowns in the future. Do you think the second wave has probably tilted the balance more towards direct intervention from the fiscal side in the economy in terms

I do not think that this is on the table right now at central government level.

That said, some of the state governments are taking steps to ensure that basic

needs of people are met. Some of the state governments are actually

implementing targeted benefit schemes especially for the needy and poor who have been suffering a lot because of lack of work. Large-scale direct benefits from the Centre are not likely, I think. Most of the efforts of the Central government are targeted at vaccination and spending more on the overall infrastructure for reviving the economy. What are the major investment themes that are emerging in the market

#### For the IT sector, new deal acquisition momentum remains strong, with most of the companies winning large IT outsourcing contracts. Further to this, strict

controls have provided a jump in margins post-COVID (some of which is likely

The key sectors that we like and have overweight exposure on are IT services,

to be retained), and the global economic recovery is also helping the sector to do well.

The FMCG sector continues to deliver steady growth and is less affected by

banks, and even though they may witness some short-term volatility if the

pace of economic recovery moderates; their long-term fundamentals remain

volatility in economic activity. We are also positive on well capitalized private

intact. Large private banks have seen lower than expected NPAs and credit costs during the first wave of Covid and are better prepared to handle any risks to the economic recovery. How are you looking at the metal space especially after the breathtaking rally in the past nine months? There has been a positive momentum in the cyclical sectors and value sectors

as well. We like this segment as we believe the earning momentum is turning

positive for metal companies. In spite of strong up move recently, most of the

replacement value. So the valuations are still attractive. A few more quarters of

healthy steel and aluminium prices, would help most of the metal companies

companies in this space are trading at significant discounts to their

#### to clear the entire debt on the balance sheet. It's only been about six months since the commodity prices have rallied. If you see the aluminium or steel sectors, there has not been much of a new capacity addition in the recent past and on top of this China is actually scaling back some of the inefficient and

demand-supply balance and that could mean that these prices could continue

polluting capacities. All of these things are pointing towards very healthy

to stay elevated. I think the metal prices will be firm this fiscal year hence we believe the metal stocks to do well this year. From longer-term perspective, maybe 5 to 10 years, are there spaces in this market that really excite you? I think for the next three to five years some of the old economy stocks or engineering & manufacturing sector would also come back on a growth path and will do well. In fact, the commodities have already started doing well after many years of weak performance, cement has also been performing quite well. Even the power sector along with electricity equipment makers also seem to have shed the excesses of the last cycle and are now poised for demand recovery. Share prices of Capital goods, general equipment makers have been subdued for quite some time due to lack of private sector capital spending growth. I think from the next three to five year perspective one could pick a

## few stocks from the general manufacturing, power, metals and engineering

How are you reading the dynamics in the bond market and what can we

expect to happen going forward over the next 6 to 12 months? So there are two things which are putting pressure on the bond markets in India. One, a very high fiscal deficit and subsequent higher borrowing. Second, the rise in global bond yields, mainly US, which has led to overall yields on Indian bonds less attractive to FIIs. My sense is that RBI will continue to be supportive in terms of its monetary policy and would ensure the yields remain low in India at about current levels through various tools like the bond purchase program, OMO etc for the near term. In spite of higher government borrowing programmes and the spike in the bond yields in the US, we may not see yields going up in a major way in India, for about a few months as the

### economy needs the support of high liquidity and low rates. Given that we are now entering a more matured bull market, what would be your advice on how to approach the investment space and what are the

things that you are looking for?

Equity market performance is never going to be linear in terms of returns. Last one year returns have been very good as corporates have managed the impact of the pandemic with many cost control measures. In spite of the current valuations and pandemic situation in the economy, I believe equity returns for next 3 to 5 years should be in the range of about 12-14per cent annually.