

'Mkt rally will remain broad-based'

The stock markets have been trading sideways ahead of the meetings of the US Federal Reserve (US Fed) and the Reserve Bank of India (RBI) over the next couple of weeks. **SAMPATH REDDY**, chief investment officer, Bajaj Allianz Life Insurance, tells **Puneet Wadhwa** in an interview that he expects natural profit taking to occur with rising markets, but does not see any meaningful correction, unless there is a more aggressive taper stance by the US Fed. Edited excerpts:

What is your market outlook for the rest of 2021?

We are cautiously optimistic on markets for 2021 on surplus global liquidity and benign interest rates. Before the pandemic, the US Fed had an outstanding balance sheet size of \$4.2 trillion as of December 2019, which doubled to \$8.3 trillion. Likewise, the European Central Bank (ECB), which had a pre-pandemic balance sheet size of €4.7 trillion also saw a similar proportional increase in size to €8.2 trillion.

This liquidity is providing support to asset inflation in high-risk asset classes, including emerging equities like India. We expect natural profit taking

to happen with rising markets, but do not see any meaningful correction, unless there is a more aggressive taper stance by the US Fed.

Will the markets become more polarised in the next few months?

We are seeing the market rally becoming more broad-based, with large-caps also gaining traction, which had been missing. Nifty underperformance against Nifty Midcap Index over the past year is around 25 per cent, while for the last 3 months it is around 2 per cent, indicating large-cap participation in the recent rally. We expect this to continue, with sectors that had been left out, also participating. This will happen primarily



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because a large part of the Covid-related uncertainty is behind us, and investors are becoming more confident.

Which sectors in your opinion are likely to lead the rally hereon?

The banking sector has underperformed recently, with 6-month returns of around 2 per cent versus around 17 per cent for

Nifty500 Index. This was mainly because of the higher-than-expected non-performing assets (NPAs) in the first quarter. We expect this sector to start contributing as we believe the NPA stress will reduce.

Are you planning to pare exposure in any sectors in your portfolio?

We remain fully invested with limited cash levels of around 5 per cent to take opportunistic investments. We are watchful of broader market signals such as earnings growth momentum, valuations and liquidity parameters, and intend to be nimble in our approach to portfolio management. As the economy is reviving from lockdowns, the market rally will remain broad-based. However, we continue to like and stay overweight in some sectors like information technology (IT) and metals. There can be structural shifts in demand for IT services driven by large spending by corporate houses. The metals sector is likely to go through an opportunistic upcycle on China's pollution control induced production curbs. Global liquidity also seems to be adding to this high-risk asset inflation.

What is your stance on auto stocks?

Based on our interactions with various experts, we expect this situation to continue for six-nine months, after which better clarity is expected to emerge. Automobiles, especially two-wheeler makers, would also be facing competitive challenges from electric vehicles (EVs). Due to this, we have been cautious on this sector, and prefer ancillaries over original equipment manufacturers (OEMs).