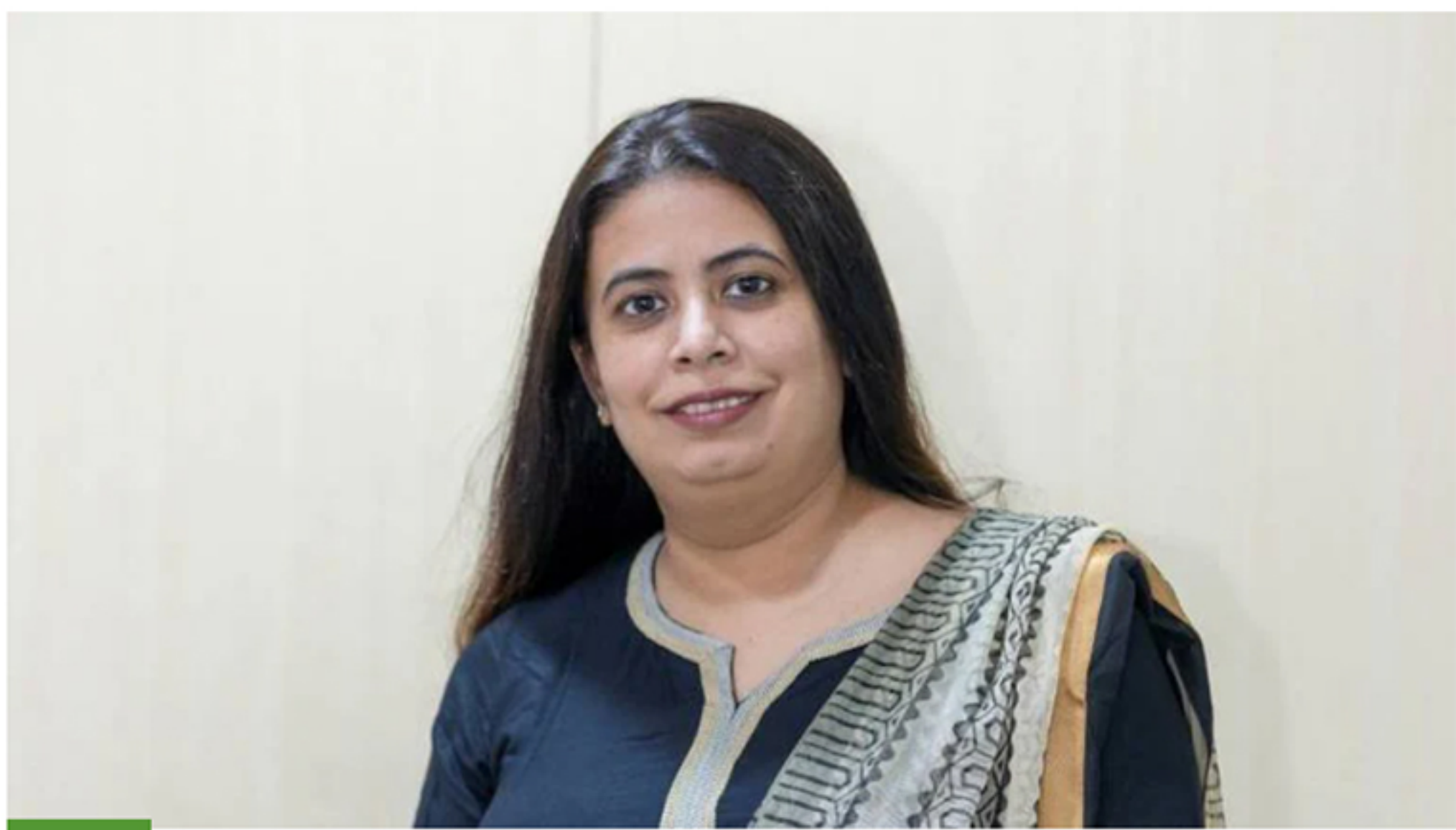


MC Interview | Expect this large sector to show greater participation in market: Reshma Banda of Bajaj Allianz Life Insurance

Focus on long term investing and be prepared for a short term that would be plagued by volatility. Any downtick in the market should be utilised as an opportunity to increase equity allocation in the portfolio, said Reshma Banda, Head-Equity & Executive Vice President, Investments at Bajaj Allianz Life Insurance.

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Reshma Banda, Head-Equity & Executive Vice President, Investments at Bajaj Allianz Life Insurance feels with the strong uptick in the markets, valuations are no longer cheap and any change in the short term would be a function of the liquidity situation. "Hence, we could expect an increase in volatility as we head towards the penultimate month of 2021."

On banking, Banda - who has been in the field of investment management for over 20 years - said, "the sector has been one of the laggards in the equity market rally so far, with tepid growth and poor asset quality being the main causes. With an uptick in the economy, an acceleration in growth would not be far away and we could expect this large sector to show greater participation in the market."

Q: The market has run up a lot in the last six months, especially after consolidation due to the COVID-19 secondwave. What are key reasons for the rally? Do you expect the run up to continue till December?

Strong growth in corporate profits and continuing liquidity support from central banks across the world have been the main driver of the equity markets over the last couple of quarters. The second wave of the pandemic that hit India in May 2021 was much more severe in terms of case counts and mortality data as compared to the earlier wave. But, the domestic healthcare infrastructure support was more prepared this time round and hence the impact on the economy was much lower.

With the rollout of the vaccination drive across the country and a large proportion of the population being already vaccinated, in the event of a third wave the economic impact is expected to be even lower than the previous two waves. With the strong uptick in the markets, valuations are no longer cheap and any change in the short term would be a function of the liquidity situation. Hence, we could expect an increase in volatility as we head towards the penultimate month of 2021.

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Reshma Banda

HEAD-EQUITY & EXECUTIVE VICE PRESIDENT, INVESTMENTS|BAJAJ ALLIANZ LIFE INSURANCE

Q: The Midcap and Smallcap indices gained 50 percent and 66 percent respectively in the current year 2021 so far. How should investors approach midcap and smallcap segments?

At the onset of the pandemic, the midcap and small cap stocks were the most impacted and saw steep

corrections. The recovery in these segments has also been equally rapid and these stocks have significantly outperformed their peers in the large cap space. With midcap and smallcap valuations now trading at a significantly higher valuation than the large cap indices, the risk reward is no longer in their favour.

Q: Given the significant run up in the equity market, should investors rejig the portfolio now? What are the asset classes investors should have in portfolio now and within equity, what should be allocation to largecap, midcap, smallcap etc?

Investors should view their investments in the equity markets from their individual goal perspective. By their very nature, this segment is going to be inherently volatile with sharp up moves and declines. Retail investors should follow a calibrated approach and regularly invest in the markets so as to benefit from the longer term growth and compounding. Another benefit would be the troughs and peaks of the markets would tend to neutralise one another by following a calibrated method. Asset class exposure can be determined by the risk profile and the timelines towards meeting the goals of the individual.

Q: What should be investors approach now given the current equity market scenario?

Focus on long term investing and be prepared for a short term that would be plagued by volatility. Any downtick in the market should be utilised as an opportunity to increase equity allocation in the portfolio.

Q: What are the sectors looking attractive for investment now and why?

Sectors where there is visibility in the improvement in profitability and stable balance sheets would be preferred. Since the onset of the pandemic, newer patterns of consumer behaviour and access to newer technology has been driving growth in nascent business areas. These newer business models are challenging the older corporates and a visible transformation is being seen in the economy, which is providing newer investment opportunities. Banking has been one of the laggards in the equity market rally so far, with tepid growth and poor asset quality being the main causes. With an uptick in the economy, an acceleration in growth would not be far away and we could expect this large sector to show greater participation in the market.

Q: Do you strongly believe that we are in a multi-year bull run and multi-year growth story? Can you elaborate?

India enjoys the benefits of a young working age population and would continue to reap the benefits of the demographic pyramid for the coming couple of decades. With supportive policy making support, access to technology and capital availability, we would expect the country to grow at one of the fastest growth rates in the world.

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