ETMarkets Smart Talk: Reshma Banda prefer largecaps for 2H2022; finds utilities attractive on valuation front

Synopsis
"We believe that equity market returns in India would be moderate this year with a preference to the large-cap segment as compared to the small & midcap space. Investors should not get too deterred by market volatility in the short term and should follow an asset allocation approach (as per their individual risk profile) and continue to systematically invest in equities."

"We believe that equity market returns in India would be moderate this year with a preference to the large-cap segment as compared to the small & mid-cap space," says Reshma Banda, Head-Equity & Executive VP, Bajaj Allianz Life Insurance.

In an interview with ETMarkets, Banda who has over 20 years of investment management experience said: "Utilities sector is attractive from a valuation perspective, and we see improvement in earnings and profitability for the sector due to power deficiency/shortage as mentioned earlier," Edited excerpts:

Volatility gripped the market in the first six months of 2022 as bears took control of D-Street. What led to the price action?
Indian markets have fallen relatively less than the US markets (and especially the tech-heavy NASDAQ index) from their respective 52-week highs and have outperformed most other global markets as well.

The volatility in global markets has been caused by a sharp rise in global inflation, hawkish central banks, concerns of a global economic growth slowdown, elevated commodity prices, and rising interest rates.

The US Fed has been quite hawkish faced with the sharp rise in consumer headline inflation to a 4-decade high of 8.6% in May 2022. It increased policy rates by 75 bps in its June meeting - taking the cumulative rate hikes so far to 150 bps.

The median target rate was hiked quite sharply to 3.4% by the end of CY22, from the earlier expectation of ~2% target in the March meeting.

Growth has been downgraded globally, and the World Bank now projects global GDP growth deceleration to 2.9% in CY22 (with further downside risks) from a GDP growth of 5.7% registered in CY21.

India is expected to be among the highest growth large economies in the world over the coming year as per the World Bank and would significantly outperform the developed economies.

With global liquidity tightening and rising interest rates contributing to choppy markets globally, India has been no exception.

Though the quantum of the decline of the Indian markets has been much lower, this can be attributed to strong domestic inflows in the capital markets and the inherent nature of the economy that is more domestically focussed.

Overall, the long-term fundamentals of the economy contributing to the India growth story remains intact and the markets valuations in India have moderated from their highs and are presently trading at levels that are marginally below the long-term average.

Hence, we would recommend that investors should continue with their asset allocations and continue to invest in equities on a regular/systematic basis.

We will be completing the 6-months of 2022 and it has been a volatile journey for investors. What is your outlook for markets for the rest of the year? Will we hit 14K first and then rebound?
Within the Indian markets, the broader markets have corrected by more than 10%, with the large caps faring slightly better. With the RBI and other global central banks voicing their concern on inflation and undertaking various measures to rein it in, we are of the opinion that growth could be compromised in the process.

With deterioration in global macroeconomic data, volatility and downside in markets in the near-term cannot be ruled out.

Hence, we believe that equity market returns in India would be moderate this year with a preference to the large-cap segment as compared to the small & mid-cap space.

Sectorally, realty and IT sectors fell by more than 20% so far in 2022 – what is weighing on these sectors and will the weakness continue? Any top stocks which are worth buying?
IT stocks have seen a correction due to global growth slowdown and talks of a soft landing in the US economy or the possibility of also a recession in an adverse scenario.

Earlier, with valuations being high in the sector (relative to the long-term average), IT stocks have seen a deeper correction. The management commentary of IT majors in the recently concluded earnings season indicates stable order pipeline and manpower attrition-related issues that could result in some margin hiccups.

Despite the price and some valuation correction in IT stocks, and depreciation in the rupee, the concerns of the potential growth slowdown in the key overseas markets of IT companies are weighing on the sector.

Realty stocks have also seen a deep correction since it is an interest-rate-sensitive sector, and rising interest rates will cause some demand to slow down. Also, valuations have been relatively higher for the sector.

Power sector outperforms so far in 2022 – what led to the price action?
Power or utility sector has benefited from demand for power increasing with supply addition not keeping pace, causing some power shortages. Because of this power deficiency, capacity utilization of power companies will increase & tariffs are also rising —leading to improved earnings and profitability.

Also, some of these power companies are diversifying into renewables, which would benefit them in the future. Valuations of the sector are quite reasonable within select spaces and we are optimistic and have been increased exposure to this space.

War, inflation, Yields, rate hike, and crude oil still remain relevant evil for equity markets for the rest of 2022 – how should investors prepare their portfolio?
Investors should not get too deterred by market volatility in the short term and should follow an asset allocation approach (as per their individual risk profile) and continue to systematically invest in equities.

Intermittent volatility is an inherent feature of equities as an asset class, and with inflation being elevated, this asset class will help in providing inflation-beating returns over the long term and wealth creation for investors.

In our equity fund portfolios, we have been increasing exposure to sectors where valuations are more attractive and select consumer sectors with high growth visibility.

We like select private sector banks and expect them to benefit from a pick-up in credit growth and normalization of credit costs.

As they are trading at valuation levels that are below the long-term average, banking stocks provide an attractive investment option.

With the recent price correction in commodities, the margin pressure that was plaguing consumer staples would tend to reduce and the profitability visibility improves.

This would aid the sector which has underperformed earlier, and its defensive nature is expected to shield amidst the market volatility and some economic slowdown.

Utilities sector is attractive from a valuation perspective, and we see improvement in earnings and profitability for the sector due to power deficiency/shortage as mentioned earlier.

Do you feel that FIIs outflows could stabilise or reverse in H22022? There are talks that retail investors might not be able to keep on putting money if the economy goes into a slowdown/job loss?
FIIs have registered record equity outflows from India over the past year or so. This has been led by normalization of easy global monetary policy (causing a liquidity squeeze) and interest rate hikes in the US and other economies, which has led the US dollar to strengthen and prompted outflows from emerging markets.

With global central banks getting more hawkish and if oil prices remain elevated, we may continue to see volatility and further FII outflows remain a possibility.

Nevertheless, we believe that India remains relatively better positioned within peer emerging markets from a growth perspective and will continue to be a favoured investment destination for FIIs over the long term.

Meanwhile, DII inflows have been at a record high and helped to counter the large FII outflows—leading to limited price correction in the Indian markets so far.

Mutual fund SIP flows have also picked up considerably over the past year, from a monthly run rate of around Rs 8,000 crore to above Rs. 12,000 crore presently.

Direct retail participation (or volumes) in domestic equity markets has moderated a bit from earlier pandemic highs. We recommend investors to use the institutional route (like ULIPs, mutual funds etc.) to invest in equities.

(Disclaimer: Recommendations, suggestions, views and opinions given by the experts are their own. These do not represent the views of Economic Times)