

# Consumers good bets in a rate-hike regime, says Sampath Reddy of Bajaj Allianz Life Insurance

mintgenie | Nishant Kumar

Updated: 29 Jul 2022, 08:05 AM IST

TL;DR.

Sampath Reddy says we will see the full impact of the rising interest rates play out over the next few months.



Sampath Reddy believes that India's overall macro position is relatively better than in the past with a higher forex reserves buffer to cover external trade.

*India is still better placed than most economies with a higher forex reserves buffer to cover external trade. In an interview with MintGenie, **Sampath Reddy**, Chief Investment Officer, **Bajaj Allianz Life Insurance** says India's dependency on global growth is restricted to a few export-oriented sectors and the direct impact on our growth should be limited.*

## Edited excerpts:

**The global growth outlook is gloomy which could have an impact on India also. How do you expect to see the Indian macro situation in the next six months?**

The global macro environment has changed rapidly in the last few months with most central banks aggressively hiking interest rates and withdrawing liquidity.

This has stoked fears of a potential recession in the US and other parts of the developed economies over the next few quarters.

India's dependency on global growth is restricted to a few export-oriented sectors (like IT, pharma etc.) and as such, the direct impact on our growth should be limited.

Though there have been some concerns on the macro front due to the rising trade and current account deficits in recent months, we believe that India's overall macro position is relatively better than in the past with a higher forex reserves buffer to cover external trade.

**Some analysts say it could be a lost year for the market and the Nifty could end in either the red or flat this year. What is your view on the market?**

We ourselves expect fairly modest returns from equities in the near term given the current valuations and earnings growth outlook.

Market multiples have corrected from their highs seen last year, however, they still remain elevated from a historical perspective.

Upward revision in earnings was one of the key drivers of market performance post-Covid.

In the last few months, we have seen a reversal in this trend with Nifty's FY23 earnings already cut by 6-8% due to varied reasons.

We will also see the full impact of the rising interest rates play out over the next few months. Against this backdrop, it is difficult to envisage equities delivering high returns in the near term.

**Auto stocks are defying the odds. What is boosting auto stocks? Should one invest in auto stocks at this point?**

The auto sector is coming out of a rough patch in terms of volumes, as it was severely impacted by Covid along with rural and economic slowdown; we are still down from peak volumes in certain segments like commercial vehicles and two-wheelers.

Growth and earnings expectations from the sector are modest, however, some signs of economic recovery, along with moderating commodity prices augur well for the earnings of the companies in the sector.

Overall, we expect auto companies to deliver strong earnings CAGR over the next two-three years, however, valuations are still on the higher side and are substantially capturing this earnings uptick.

**What sectors may lead the next phase of a rally? Are we going to see the IT sector underperforming?**

The outlook for large, diversified private banks is quite positive with a recovery in credit growth, stable to positive margins and a very benign credit cycle.

Most of the banks are adequately capitalized and are trading at much cheaper valuations compared to pre-Covid levels.

Similarly, companies in the Industrial space should do well with an expected pick up in capex spending by the private sector.

Companies in the healthcare/pharmaceuticals sector have also seen reasonable correction in the recent past and are now trading at attractive multiples.

The IT Sector has underperformed significantly in the last few months and the fears of a global/US recession are most prominently visible here.

Despite the correction, valuation multiples are still much higher than the trough multiples seen a few years back.

**How should one invest in a rate hike and higher inflation regime? What should be an ideal strategy?**

We believe the bond markets have already priced in most of the rake hikes by the central banks and the interest rates would likely peak out soon in the current cycle. In such a scenario, we prefer companies with low leverage, healthy cash position and pricing power.

Most companies in the consumer space in India typically demonstrate these traits and can be a good investment proposition in such an environment.

**Disclaimer:** *The views and recommendations made above are those of the analyst and not of MintGenie.*