

# *‘Expect moderate returns from equities this Samvat’*

After sharp outperformance of Indian equities versus global peers, growth slowdown, rising interest rates, geopolitical uncertainties, and valuations may weigh on domestic markets in Samvat 2079, says **SAMPATH REDDY**, chief investment officer at Bajaj Allianz Life Insurance, in conversation with **Nikita Vashisht**. Edited excerpts:

## **What are your return expectations from the next Samvat (year)?**

Notwithstanding correction in global equity markets, India has been among the top performing markets so far this year. It is helped by its relatively better macroeconomic situation and stable earnings growth. However, given the worries of global growth slowdown, rising interest rates, geopolitical uncertainties, and current market valuations, we expect moderate returns from Indian equities this year. Over the long term, the India growth story remains intact.

## **Which sectors/themes should be on investor radar in Samvat 2079?**

We are positive on select private banks with credit growth picking up and asset quality outlook being benign/improving. We also like sectors exposed to domestic growth, such as industrial and capital goods. From a valuation perspective, sectors like information technology (IT) and pharmaceutical (pharma) are also approaching attractive zones on a selective basis.

## **What has been on your buying/selling list over the past three months?**

Banking has been one of our preferred sectors and the recent outperformance by the sector has benefited our fund portfolios. We are also positive about the capital goods sector. Infrastructure push from the government and capacity utilisation picking up above the long-term average should help revive private capital expenditure cycle.

## **What is making foreign institutional investors (FIIs) sell Indian equities, even as they remain among the best-performing securities globally?**

With Indian equities significantly outperforming their emerging market (EM) peers, we could be seeing some profit-booking from FIIs, contributing to the outflows. However, India's weight in the MSCI Emerging Markets Index has increased substantially, from about 8 per cent to above 15 per cent over the past two years, making it the largest country weight increase in the EM basket. Outflows from EM funds globally (as a result of a stronger dollar) could also be contributing to FIIs outflows from Indian equities.

## **What are the biggest investment lessons**



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## **thus far?**

Fundamentals play an important role in the longer term. As the famous quote by Benjamin Graham goes: "In the short term, the market is a voting machine. In the long run, it is a weighing machine". Sometimes we may see some exuberance or momentum in certain segments, like we had seen during last year in some of the new-age stock initial public offerings, many of which were issued at rich/elevated valuations. One of the important lessons from such episodes is to stick with time-tested core investment principles, focus on fundamentals, and resist the temptation of giving in to the 'flavour of the season'.

## **Are there any good contra bets in this market?**

The IT sector has been a laggard during the year on expectations of a global recession and raised the growth concern for the sector. After the recent correction, valuations of IT companies are now approaching attractive levels. Similarly, the pharma sector has underperformed in recent months and lacks near-term triggers. However, valuations are attractive on a selective basis.



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