ETMarkets Smart Talk: Reshma Banda on 4 factors that can derail the bull run in Indian market in next 12 months

Synopsis
"The long-term India growth story remains intact and from a macro perspective India remains better positioned as one of the fastest growing major economies over the coming years. However, returns in the immediate term could be moderate as the valuations of the India markets enjoy a significant premium to other emerging markets."

"With Indian markets being relatively insulated from global uncertainty, the domestic markets are trading at relatively higher valuations as compared to its EM peers," says Reshma Banda, Head-Equity & Executive VP, Bajaj Allianz Life Insurance.

In an interview with ETMarkets, Banda, said: "The long-term India growth story remains intact and from a macro perspective India remains better positioned as one of the fastest growing major economies over the coming years" Edited excerpts:

Where do you see markets headed in Samvat 2079?
India has delivered flat returns and has been among the best performing markets this year, despite the global correction in equities.

A stable macroeconomic environment, manageable levels of inflation, strong corporate earnings growth and consistent domestic inflows in the markets have contributed to this superior performance.

With the significant outperformance of India, its weight in the MSCI Emerging Market index has seen a jump and now stands at the second highest country weight at ~15% in the index.

However, global concerns of a deceleration in growth, combined with elevated levels of global inflation, rising interest rates and geo-political uncertainties persist.

With Indian markets being relatively insulated among the global uncertainty, the domestic markets are trading at relatively higher valuations as compared to its EM peers.

The long-term India growth story remains intact and from a macro perspective India remains better positioned as one of the fastest growing major economies over the coming years.

However, returns in the immediate term could be moderate as the valuations of the India markets enjoy a significant premium to other emerging markets.

Any big factors which the Street must watch out for in Samvat 2079 that could derail bull run?
Here are few factors that could derail the bull run -

a)Global Recession:
One of the main concerns is the global growth slowdown and a likely recession in the developed markets of the US, UK etc.

Even though India is a domestic focused economy, a global growth slowdown or hard landing would have an impact on the Indian economy though it would be much lower than other export-oriented economies.

b)Global Inflation:
We are also tracking the global inflation trajectory closely, as elevated levels for prolonged periods could lead to central banks across the world becoming aggressive on monetary tightening.

This could result in a potential scenario of interest rates remaining higher for a longer period to cool down inflation, with growth focus being on the back burner.

c)Dollar Strength:
The US dollar could continue to strengthen in this scenario and result in further EM outflows in the short term.

d)Geo-political Uncertainty
Another factor is the geo-political uncertainty and its impact on industrial commodities and crude oil price.

India is a large oil importer and any significant rise in oil prices can impact our external position and put additional pressure on the currency.

Which sectors are likely to remain in limelight in 2079 and why?
We are optimistic on the prospects of the lending financial entities with credit growth picking-up in the economy and credit costs declining.

Sectors exposed to domestic growth like industrials & capital goods are also expected to fare well, with the infrastructure push from the government.

Further, with the capacity utilization picking-up, a revival in the private capex cycle in India seems to be on the anvil.

The initial indicators, from the festive season suggests that domestic consumption has been quite robust across different segments of the economy.

With the defensive sectors of IT and Pharma underperforming over the last year, their valuation is also approaching attractive levels on a selective basis.

What is your view on the IPO market for Samvat 2079?
The IPO market has been relatively subdued this year, on the back of a more lacklustre equity market and constant volatility.

In the last year, the market was helped by new-age companies coming in with IPOs at elevated valuations and we saw some bumper listings.

However, the significant correction in these companies have dwindled the risk appetite and quietened the primary market activity this year. As market buoyancy picks up, we could see the IPO market reviving again in India.

The rupee seems to head south almost on a daily basis compared to the USD. Where do you see the currency headed in Samvat 2079?
Despite the rupee hitting a record low against the dollar, the depreciation in the rupee this year has been much less than several other emerging market currencies. The strengthening dollar and the dollar index touching a two-decade high has been a key feature over the year.

In the short term, we may see some more pressure on the rupee, with the widening trade deficit and limited ability of the central bank to intervene in the currency markets.

But the currency is better positioned compared to other EMs due to stronger macro fundamentals of the Indian economy and reasonable forex reserves.

Q) Amid falling rupee, where do you see Gold headed in Samvat 2079? Should it be part of one's portfolio?

A) Gold has been an underperformer over the past year or so. Despite the falling rupee, the significant appreciation in the US dollar has been a drag on international gold price, causing it to underperform.

Also, gold as an asset class has this time not really worked out well as a hedge against inflation, as it is traditionally expected to.

Investors can consider some partial allocation in gold in their portfolio, especially if the projected global growth slowdown becomes more pronounced.

What would be your one portfolio advice you would like to share with readers?
We recommend investors to regularly invest in equities over the long term to help in wealth creation and assist in beating inflation.

All investors should invest at regular intervals as per their individual goals/wealth plans, to help build a corpus over a period of time, and not look at timing the markets.

Remaining invested for the long term would be a definite way for investors/policyholders to meet their long-term goals.

The other advice for investors is not to get too carried away by "flavour of the season" themes and focus more on fundamentals of companies.

We have seen that some of the new-age tech IPOs of last year, which were offered at elevated valuations and saw strong investor subscription--have seen a significant correction this year.

Investors should stick with time tested core investment principles and invest for the long term.

Your view on earnings – do you see earnings improving in Samvat 2079?
We expect Nifty EPS growth of around 15% in FY23, which is quite stable. This is on the back of a robust ~38% earnings growth in FY22, which was a significant positive earnings surprise and helped the Indian equity markets to outperform.

The correction in commodity prices is also expected to ease the margin pressure on earnings to some extent.

On the corporate earnings front, India has seen relatively low earnings downgrades compared to other emerging market peers, so far.

However, a more pronounced or protracted global economic slowdown could lead to some earnings downgrade in India as well, albeit relatively moderate.

The long-term India growth story remains intact and all the best for Samvat 2079 in meeting your life goals.