Outlook
May 9, 2023

Falling Crude Oil Price Is Boon For Many Sectors, Says First Global's Devina Mehra

As crude prices fall nearly 35 per cent from the peak, it can help reduce inflation and the current account deficit, contributing to the country's growth, says Devina Mehra

Outlook Money
Updated: 09 May 2023 8:15 am

Sectors like capital goods, banking, pharmaceuticals, automobile, and information technology (IT) could do well in the current condition, although no specific sector or asset class can perform well forever, says Devina Mehra, chairperson of First Global, an asset management company.

India's headline inflation is down, but the core inflation is still high, excluding fuel and food. So, there are growth concerns, a possible reason why RBI decided to stop the rate hike, says Mehra, who is also the managing director and founder of First Global. "In nine months till date, the manufacturing has shown near-zero growth or around 0.4 per cent," she says.

As crude prices fall nearly 35 per cent from the peak, it can help reduce inflation and the current account deficit, contributing to the country's growth, says Mehra. It will help not only the oil industries but also a whole lot of industries, such as fast moving consumer goods (FMCG), chemicals, textiles, paints, tyres, and cement. The companies in these sectors can take calls on whether to improve their margins or boost demand, she adds.

Sectors In Focus

Commenting on her preferred sectors, she says the capital goods stocks have gone up 2-3 times. She is also positive for pharma, auto components, and IT services. However, there is no such sector that can perform all the time, says Mehra. Citing an example of the FMCG sector, which did well in 2020, she states, "If you go by data, these so-called steady companies do not perform for long periods. From 1999 to 2010, Hindustan Unilever did nothing much on the business side, not just the stock side. Bata gave zero returns for 15 years, and so has Nestle. So, all these companies have a long period of nonperformance."

So, when she planned to go back into the FMCG category, the first company she bought was ITC. According to her, "Many of those are not really sector calls, so for example, among our top performers would be ITC and Raymond, but neither was a sector call." Chemicals companies were in the limelight because some of their stock prices went up. "It was like a bonanza, but for whom it was an input, their margins went for a toss, so that is what you have to look at." She explains that of the 4,200 companies listed 10 years ago, only 17 saw growth every year.

Are Thematic Funds Answer To Sector Investing?

According to Mehra, thematic funds are good for fund houses to build their asset under management (AUM) but not necessarily for retail investors.

"The track record shows that thematic funds, be it Nasdaq ETF, a pharma or an IT fund, always come toward the peak of that cycle. During the peak of the cycle, the retail investor has this fear of missing out (FOMO) feeling, and they enter into an investment. But 2022 was a disaster. So, when the Nasdaq was down 40 per cent, investors panicked and asked should I get out now," says Mehra.

Asset Allocation Is The Key

According to her, asset allocation is important for returns. "First, you have to get your asset allocation right, second, you have to know what your current asset allocation is" which unfortunately only a few people know, says Mehra. Moreover, the best investors or fund managers can go wrong often, but admitting the mistake is important to avoid repeating.

It requires research and knowledge to select a good stock. So, retail investors should have risk management parameters and discipline to stop losses in the stock market. Another factor to note is the companies' lifecycle. Mehra says in the 1960s, the average age of a company on S&P was about 50 years but by 2015, it came down to 18, and it could be even lower now.

Mehra believes the market is changing faster than in earlier decades. In the early 2000s, global companies like IBM, Dell, Motorola, and Cisco were some of the largest tech names, but although they still exist, these are not what come to mind now when one thinks of US tech or global tech. "In India, the change is not as fast yet, but compared to its earlier times, companies' lifecycle is reducing here, as well. It suggests that now it is difficult for a company to reign for a long time and more difficult for investors to depend on any company," she adds.