

How Devina Mehra turned overweight from being underweight in banks

Synopsis

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I am going to shift gears and talk about the reversal part which you have alluded to and we both know that in the market there is nothing which goes one way and cycles are always at play. When we started 2022, financials were at the bottom of the barrel and IT was at the top. In 2023, the reverse has happened. What are the chances that a reverse could happen again by the time we wrap up 2023?

In terms of financials, I normally do not like banks, having been a banker myself. I know that negative surprises can come out of nowhere and especially as an outsider, you can never know where those negative surprises would come from.

So from the time we started PMS in early 2020, we had had very low weight in banks which worked out beautifully. That was a risk because that is the highest weight in the index.

In 2020 banking was the only sector index in the negative. In 2021, banking was not in the negative but the market went up 22% and the [Bank Nifty](#) went up 11%, only half as much as the market and by the middle of 2022 we changed our stance.

So from having very low weightage in banks we ended up overweight on banks because of price action. The banks have come out of a very long period of underperformance and when that trend changes, it lasts for a while. We would still continue that stance though, as I said, fundamentally it is very difficult for me to be comfortable with banks.

Also the other thing is that fundamentally things have changed for banks. For one, the NPA cycle is largely behind them, credit is growing well and as interest rates go up, it has a positive impact on margins because while loans get repriced immediately, deposits get repriced slowly as they come for rollover. That side also appears okay for now. So for now we are positive on banks though not on IT right now but then we relook at everything every quarter. So, I do not know whether later in the year, things will change.

Last year, metals had a boom and bust cycle. In currencies, the dollar went up for the first nine months and did not do so well in the last quarter. From a one-year perspective, it is difficult because things change and that is why we relook at everything from scratch every quarter.

Other than banks where else do you have overweight positions and where are you underweight right now?

The biggest overweight continues to be capital goods and industrial machinery where we have been overweight since October 2021, about 15 months now. That continues to be our biggest overweight and that has been a big winner. Also, there have been [stocks](#) which have gone up two, three, four times and so there has been a big move there.

Again it came out of a very long period of underperformance from 2008-2009. So there was a 12-13-year period of severe underperformance as well as the fundamentals not doing well, but during that time, the companies became more efficient and cut costs. Then the cycle began to turn and they could capitalise on the good times. So that continues to be overweight but now it has been a reasonable time. I do not know again whether it will last a whole year or not but for now, that is our most overweight position.

Other overweight sectors have really come from a bottom up stock picking. There might be textiles, a few chemicals, some auto components stocks but those are not necessarily sectoral calls because in many of those industries, one has to really look at what is happening at the individual stock level because dynamics can even be contradictory, like in chemicals.