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India in a sweet spot and may continue to outperform: Devina Mehra

Synopsis

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“India is now in a sweet spot where I expect it to continue to outperform. It will be a selective market like it was in 2022 and the sectors may not be exactly the same but one has to keep an eye on that,” says [Devina Mehra](#), Chairperson & MD, [First Global](#)

What to your mind would be a similarity and a differentiating factor of 2023 compared to 2022?

2022 was a completely outlier year globally, though not so much in [India](#). Globally it was an extraordinarily bad year. For US bonds, it was the worst performance ever in 230 years. With both bonds and [stocks](#) going down together, it was one of the worst years ever.

There was only one depression year when both stocks and bonds fell, but then also. the bonds did not fall as much as stocks did. Globally, all asset prices were in the red and the only green mark was in commodities and within that, only energy and a few agri commodities. Even industrial metals and precious metals gave up whatever gains they had during the year.

What was the most sensible thing at the beginning of 2022? In hindsight, it would have been just better to be in dollar cash because the dollar was up 8% on an average across all currencies.

Given that it was such an extraordinarily bad year, that is unlikely to repeat. One does not just keep going down and nothing goes to zero.

Past statistics show that after a very bad year, we are likely to have a somewhat better year. India, of course, was an outperformer which I had predicted at the beginning of the year also.

India had gone into the outperformance mode in 2021 after many years of underperformance both relative to its own history as well as relative to global markets. From 2010 to 2020, Indian markets compounded only about 8.5%, much lower than the long-term average of 15 odd percent.

Also globally, out of 42 indices, India used to be in 24, 25 or 22 position. So 2021 was the first year when it moved to number 13 and that proved lucky because that was in the outperformance basket.

I was quite sure that this would continue. So this year it was number 10, down 4.7% in dollar terms, but still outperforming because global aggregates were down about 18 and odd percent, S&P was down about the same and so India outperformed by a significant margin. I expect that to continue.

The Indian market is not at extremes. Extremes reverse. In the global equity market, the top three markets this year are Turkey, Chile and Brazil, which were the bottom three last year and the top two of 2021 – Vietnam and Sri Lanka – were the bottom two this year, as was the NASDAQ.

So the wheel turns and we always extrapolate what has happened recently but India is now in a sweet spot where I expect it to continue to outperform. It will be a selective market like it was in 2022 and the sectors may not be exactly the same but one has to keep an eye on that.

Is it going to be only a relative outperformance because the rest of the world is not going to do that well or do you think India will give handsome returns both at an index level and stock specific as well? Just a month back when we were cheering about that all time high, a large part of the Street was not celebrating because on an individual portfolio basis, people did not make money?

So I said that for the full year, there were sectors that did well and sectors which did not do so well and that may continue.

This year, in the global market itself, I do not expect the kind of frankly disastrous 2022 that we had. So for India to outperform, it has to give some absolute returns as well. My base case as we speak today is that India should give positive returns. I do not see a big risk just now of at least big drawdowns in equity either in India and also in most parts of the world.

On a relative basis, the only thing which we are watching is whether the leadership will pass from the US to Emerging Markets. It has happened in the short term but we want to see whether that shows that that could be a long term trend and that is one thing which we are watching.

For India, the risk is not being in the market because the more likely scenario is that we will see the markets going up. But as I said in the beginning of 2022 also, it is not 2021 where everything went up. One has to be selective in sectors and stocks.

You have been overweight on IT since 2020. What is the stance right now? Any particular expectations from earnings this quarter?

We have not been overweight for a while now. Yes we were overweight from 2020 and we were overweight right up to 2022, which of course was not such a good thing in the first half of 2022 but thereafter, we would be somewhat below market weight.

So this was one thing where our call on the rupee turned out to be spot on. We had said that the rupee would depreciate significantly but our biggest export sector did not benefit from that. There have been two competing things there; one on the demand side, there has been some slackening though from what I hear from most managements, since many of those projects are long term projects of digital transformation of companies, clients are not really cutting back much on that.

There was another factor through much of 2022 which had to do with margins on the employee cost side which had gone up in the first few quarters. I see that pressure easing because a large part of that was coming out of the start-ups hiking salaries and taking away good people and all that. On the start-up side, a big deceleration will continue because they no longer have access to easy money. So that is a positive IT. Fundamentally, I do not see anything greatly wrong with the sector still but as I said, we might be like market weight to slightly underweight.

In the global tech space, whether it is Microsoft or Apple, Google or any other tech names are under pressure. Could there be a ruboff effect on IT?

Well it seems to have done that because frankly, for our IT services companies, the fundamentals have not been as bad as what the stock performance appears to show. So yes, it has had an impact but the point is that those what we call tech companies in the US. Microsoft, Google etc are completely different from our services companies.

For the services companies, the more relevant metric is that more and more companies are going digital or online or going away from only a physical presence. I would think the companies which are the client companies for these companies will continue on that path, enterprises will continue to invest in that because they cannot afford not to. So the whole tech space is shifting once again.