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India's stock market is barometer of economic concentration: Shankar Sharma

It is not all gloom and doom. The rural economy has held up quite well and we should start appreciating it even more, says Sharma in an interview with Puneet Wadhwa

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Shankar Sharma, vice-chairman and joint managing director at First Global (Photo credit: Kamlesh Pednekar)

For Indian investors, it is time they looked at global markets and diversify as the opportunities across the world are abundant, says **SHANKAR SHARMA**, vice-chairman & joint managing director at First Global, in an interview with **Puneet Wadhwa**. Edited excerpts:

After the sharp run since March 2020 lows, do you expect the Indian markets to consolidate now?

The Indian markets, in fact, have rallied less than some global peers. India has been part of the global rally and still is much below its all-time highs. Some other markets, such as those in Taiwan, the United States, and Switzerland are way ahead. That said, there is more room for upside. I don't think India will sit out the general uptrend in global markets. The rally will be led by global factors, rather than domestic developments. While the pace of the up-move may differ as compared to global markets, directionally we will track global peers.

Do you expect the rally in the US markets to fizzle out in case the US presidential election does not see Donald Trump come back to power?

I don't think the consensus is that Trump will come back to power and that will be good for the market. In the US, there are very little policy levers that the government has for the stock markets apart from interest rates. And that will continue irrespective of who will be the president.

The US markets are built on the cocaine of low-interest rates and this will continue going ahead as well. The US government or president, unlike the emerging markets, including India, does not direct much business to companies. As long as interest rates are kept low, the bull market is a pretty well-oiled machine that keeps running, minor bumps notwithstanding.

Back home, the rally has been in the absence of earnings growth. Does that worry you?

India has been an underperformer to all global market indices for the last several years. In 2019, global markets were up on average around 30 per cent. Russia was up 48 per cent, Brazil was up 35 per cent; Spain, Portugal, Continental Europe were up anywhere between 25 per cent and 30 per cent in US dollar terms. India, on the other hand, was up just 8- 9 per cent. The year 2018 was also tepid. Since the past two years, India has been nowhere on the returns map. In the last five years, returns have been around 6 per cent (in rupee terms). From 2010, the Sensex returns have seen compound annual growth (CAGR) of around 6 per cent in rupee terms. In dollar terms, CAGR returns have been abysmal 1.5 per cent over a decade. While we keep getting excited, long-term returns from Indian equities have been below fixed deposit (FD) returns for several years now. In July/August 2019, the S&P BSE Sensex was around 32,000 levels. So, over the past year, index-level returns have been negligible. Though it is good to think that the markets have done well, but if one expands the lens a bit, returns have been less than the FD rate. And that is the core problem. India has underperformed most global peers -- both in rupee and dollar terms.

So, where does one invest then?

It is time to look at global markets and diversify. Opportunities across the world are abundant. It is not that there are no opportunities in India, but that set has shrunk over time, especially in the last four-five years given various shocks to the system. Sector after sector has experienced a massive setback over the years on the policy front. Investors need to diversify at least 30 to 50 per cent of their liquid wealth across different markets, asset classes, and instruments across the world. Don't just buy another country's exchange-traded fund (ETF) or other funds. Do this with proper guidance and advice. Global investing is complicated, but if done right, is extremely rewarding. Just as no investor should put all money into one single stock howsoever great that stock is, she/he should not have all investments only in a single country. Investors need to avoid SCCARS (single country, single currency, single asset risks)

What's your view on economic growth?

Covid-19 has just been an excuse to pin everything on. Corporate profits and the economy were hurting even before the pandemic hit us. Only a handful of companies were doing well, but most of India Inc was in a bad shape and had no growth. That's another reason why the small-cap index is still far away from its peak levels despite the recent rally. Now, only large-scale economic growth can help restore the fortunes of India Inc.

Does the rural economy have the adequate muscle to pull us out of economic contraction we are in?

It is not all gloom and doom. The rural economy has held up quite well and we should start appreciating it even more. This is the segment of the economy that helped India in 2008. Urban India is a high beta market as it is exposed directly to economic cycles. Rural India, on the other hand, has a steady pace and it does not fall dramatically like the urban segment. I hope that rural India does bring us out of this phase. That said, it will not be a quick road to recovery, but whatever the recovery is and will be, it will be driven by rural India.

Do you see polarisation getting more entrenched into the markets given the Covid-19 pandemic?

The economic growth even in pre-Covid-19 days was concentrated in the hands of a few players. There is not enough growth all around for everyone to get a share of. As regards growth, I am reminded of an Amitabh Bachchan movie where he sits around the table just before a meal, takes the maximum quantity himself, and then distributes the remaining food among his family members. That's exactly what's happening in India where growth is concentrated in the hands of a few players. Therefore, the rise of the Indian markets should not be mistaken for a proxy or a barometer for economic growth. In fact, the stock market in India is more a barometer of economic concentration.

Which sectors and stocks will benefit most from this polarisation?

We already know that. Reliance Industries has been able to demonstrate its prowess. There are some banks that will become stronger. Banks with good deposit franchises and strong balance-sheet will still be able to keep their head above the water. There will be a flight of capital from the weaker banks to the stronger ones. It will fatten the rich more. Churn in sectoral preference and even within sectors has happened over time and we have seen that in the steel, cement and aviation sectors. Weak companies have gone to the NCLT where their assets have been sold to stronger players.

In this backdrop, what should one chase now -- growth, value or momentum?

There are enough good stocks to choose from in India. One needs to be choosy and invest carefully, especially in this environment. We are in a narrow bull-market right now, which is getting narrower by the day. This has made portfolio choices very limited. The key is to focus on the stocks that have already taken out the previous highs despite this pandemic, rather than look at those names that are still muddling through, which is where most non-banking financial companies (NBFCs) and banks are right now.

Are the markets now looking beyond Covid-19 numbers and the possibility of another stringent re-lockdown?

I think what is being revealed so much everyday becomes a blind spot. I don't think the markets are focused on this now. They, in any case, have decided that India will muddle through this crisis. The nation cannot afford another lockdown even if Covid-19 cases go up substantially from hereon. The government will not impose another lockdown -- at least anything as harsh as seen earlier this year.

How far has the Covid-19 pandemic pushed the earnings growth/recovery?

It is too premature to talk about earnings growth this year. Most estimates have been proved incorrect since the past few years. We are, in fact, looking at earnings cut/downgrades, but all will depend on the extent of lockdowns/re-locking. It is advisable to stick to the safety net as regards the markets and become aggressive when things normalise.

What has been your investment strategy over the past few months?

Our India portfolio management services (PMS) schemes are the best-performing PMS schemes in India on a year-to-date (YTD) basis. Our schemes are about the only ones which are up for the year despite the markets being down YTD. The reason for this was that we avoided most of the damage of March 2020 because we anticipated a reasonable part of the crisis. And from April, we have participated fully in the big rally in India, as well as globally. In our funds, among sectors, the chemicals has been a good place to bet on. Pharma stocks have also done well and given us good returns. The fast-moving consumer goods (FMCG) sector has been patchy and we have not been too aggressive here.

And then there is Reliance Industries, which continues to be a promising story. Mid-caps have been badly bruised over the past few years; 2020 has been somewhat better for them. In March 2020, they were down at least 50 per cent from their highs made three years ago. So, the midcap index is due for a rally, which is playing out in the markets as well right now. The markets are focusing on the survivors of this pandemic and we are betting on these stocks as well.