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Never put much faith in FII flows; remain overweight India in global portfolios: Devina Mehra

Synopsis
Devina Mehra discusses the underperformance of banks in recent years, attributing it to negative surprises and credit risks. She advises caution when investing in banks and mentions being skewed towards public sector banks. She also highlights the importance of assessing credit quality in banks.

Devina Mehra, Chairperson, MD & Founder, First Global, says "elections are there but the probabilities are only one way. But I would also like to say that often, we play it up in our minds much more. Like 2004, exactly 20 years ago, there was a big upset - everybody expected NDA to come back, and instead, the UPA, as it became, later came in, and the market crashed on the day. But then, within a few weeks, it was forgotten. That year was one of the better years in the history of the Sensex. So that is how it goes. I do not think that is ultimately the big determinant."

How do you believe India is currently positioned, given that we have been moving from strength to strength and without support from the foreign institutional investors. What is the road ahead looking like with big events like the elections lined up?

Devina Mehra: As I have said often on your show, I am not one to track FII flows and therefore I never had any belief that FII flows would determine the markets, even when the mutual funds were not that big in India or almost did not exist. So that apart, my view has actually not changed, I think from the last time I was on your channel.

We do not see any risk of a big crash, I do not see that, mainly because there was a whole decade where we underperformed from 2000 to 2020, both in global terms as well as relative to our own history. So we compounded only 8.8% in that decade instead of that 15-16% we expect. Even this decade has not been a great one, mainly because of the pandemic and all those related news. So, we are not above the trend line.

The risk of a crash comes when you are far above the trend line. I am talking about the largecap mainstream indices and that risk is low. Of course, there might be for some weeks, sideways move or correction and that sort of thing. At the moment, our portfolios are hedged partly because we just want to be on the safe side. But we are not in cash, because if you are in cash, you miss out on the up move. So we do not want to take that risk, because the probability is still high that you would have.

In our global portfolios, we are overweight in India. So clearly, our view on India is positive. Where you need to be more careful is things like small caps, micro caps, IPOs - basically the high risk end of the market. And also within the mainstream industries also choose carefully, for example, you know, banking is a sector we do not currently like, and so on. So one has to choose the companies and sectors. But otherwise, I do not see any great risk on a longer term basis.

Elections are there but the probabilities are only one way. But I would also like to say that often, we play it up in our minds much more. Like 2004, exactly 20 years ago, there was a big upset, everybody expected NDA to come back, and instead, the UPA, as it became, later came in, and the market crashed on the day. But then, within a few weeks, it was forgotten. That year was one of the better years in the history of the Sensex. So that is how it goes. I do not think that is ultimately the big determinant.

What do you think is leading to the underperformance by banks?

Devina Mehra: In the last four years - we are just about finishing four years of our PMS as we started in February 2020 - in 2020, 2021, 2022, 2023 actually banks have underperformed in three of those four years.

Only in 2022, they outperformed and that coincidentally or otherwise was the only one year where we were marketweight to overweight banks. So if you look at 2020, that was the only sector, major sector in the negative. In 2021, the market went up 22%, Bank Nifty went up only 11%. 2022 was the only year, as I said, where it has outperformed. 2023, we are again back to going up only half as much as the market. So the outperformance of my banks is actually the news when it happens, because it happens far more rarely….

We missed you there at the end of your point. Would you want to complete that?

Devina Mehra: In three out of four years, banks have underperformed. 2022 was a particular sweet spot because the NPA cycle was behind us, credit was growing well. And when interest rates are going up, bank margins go up, at least at the first round. So that was a particular sweet spot. Now we are, going just by what RBI itself is saying, that there are risks on the credit side. And that is really my issue with banks - normally that negative surprises come in much more often than positive surprises.

Sitting outside, there is no way you can assess what the credit quality of a bank is. So you have to be super careful. We are quite underweight banks. And within that, we are skewed more towards the PSUs than the private sector. So that is broadly what we have right now.

You said the trend line is one thing that you are watching closely. What is above the trend line and has completely left the trend line out of the park right now is that all the PSUs, whether it is power financiers, bank, railways, defence do not care what the trend line was. What do you do with those stocks?

Devina Mehra: So be careful. But on the other hand, also remember that the PSU index crossed its 2008 high only in 2023. All the people who were talking about PSUs for years on end, it took 15 long years to come back. So the cycle always changes. In a market something that goes up, comes down. We say it is a giant wheel. So you have to see what moves next. Hence just because it has moved a lot in the last few months does not necessarily mean that it is dangerous. But you have to look at each individual stock and what the moving parts are and what the expectations are. So now you cannot just buy it as a pack.