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Probability of a market crash is still low; be cautious on smallcap side: Devina Mehra

Synopsis
Devina Mehra says: "We want to track the FII flows is because we think it determines the direction of the market. But if you actually look at data over years, over months, whatever cut you want to take, the FII flows have very little correlation with the market movement, in fact, none at all. I mean, this was the case even when the domestic mutual fund and the domestic retail investor community was not that large."

Devina Mehra, Founder & CMD, **First Global**, says "FII flows have very little correlation with the market movement, in fact, none at all. This was the case even when the domestic mutual fund and the domestic retail investor community was not that large. Even then it did not have a correlation. I mean, the biggest proof of that is that FII money started to come in around 1994. And obviously, this was a new source of money, billions of dollars coming in. And 1994-2003 is the only nine-year period in Indian market's history which showed zero displacement."

It looks like the Christmas rally is on and here to stay.

Devina Mehra: Yes. I have been quite positive on the market, generally speaking, at least on the largecap front for a while now. As I have spoken before, enough room was created with a huge underperformance through the whole decade of 2010 to 2020, when instead of compounding 15%-16% as we expect the market to do, it compounded a little more than 8.5%. We are still not above the trend line. So the probability of a crash is still low. The part to be cautious on is the smallcap side.

You tracked global macro indicators pretty closely. I saw the way the dollar index has cracked below the 102 mark. At the same time, if we look at the data which is being thrown up by our research team, India is the biggest recipient of FII flows this year among all key emerging markets. If this trend of dollar index crack continues, can this flow into India accelerate?

Devina Mehra: The reason why we want to track the FII flows is because we think it determines the direction of the market. But if you actually look at data over years, over months, whatever cut you want to take, the FII flows have very little correlation with the market movement, in fact, none at all.

I mean, this was the case even when the domestic mutual fund and the domestic retail investor community was not that large. Even then it did not have a correlation. The biggest proof of that is that FII money started to come in around 1994. And obviously, this was a new source of money, billions of dollars coming in. And 1994 to 2003 is the only nine year period in the Sensex history or the Indian markets history which showed zero displacement, the markets went up and down, but there was no net displacement. There was zero return over nine years.

This is not something that I track very closely or at all from the market point of view. The only reason why I look at FII flows is from the balance of payment side, but not really this. I do not think you should spend a lot of time really speculating on that. As of now, of course, the US has managed what can be called a soft landing because there has been no recession and broadly inflation is within control.

One segment which has not really responded that much is what they call non-housing services because the labour market has remained strong. But basically, this whole picture in the US has turned out better than what one could have expected a year to a year and a half ago.

What do you make of the way macro data is coming in the US? The Q3 GDP was weaker than estimated. Is it making a case of a rate cut in the US by mid-year stronger and will India follow?

Devina Mehra: Yes, in the US, the case is becoming stronger, definitely. Also the last statement from the Fed was more dovish than what I expected it to be because they said that we do not want to overcorrect to remain tighter longer than is needed and put further brakes on the economy, which is very different from what they have been saying up until now that inflation remains number one priority and we will do what it takes and we want the economy to slow down.

While I was never in the camp that said we would see a rate cut in 2023, if you go back a year-year and a half, there was a lot of expectation that the second half of 2023 itself would see rate cuts. And I was never in that camp because inflation takes time to come down. But definitely you will see a rate cut in 2024, exactly when - mid-year is not a very not a bad estimate, but one will have to see how the data pans out.