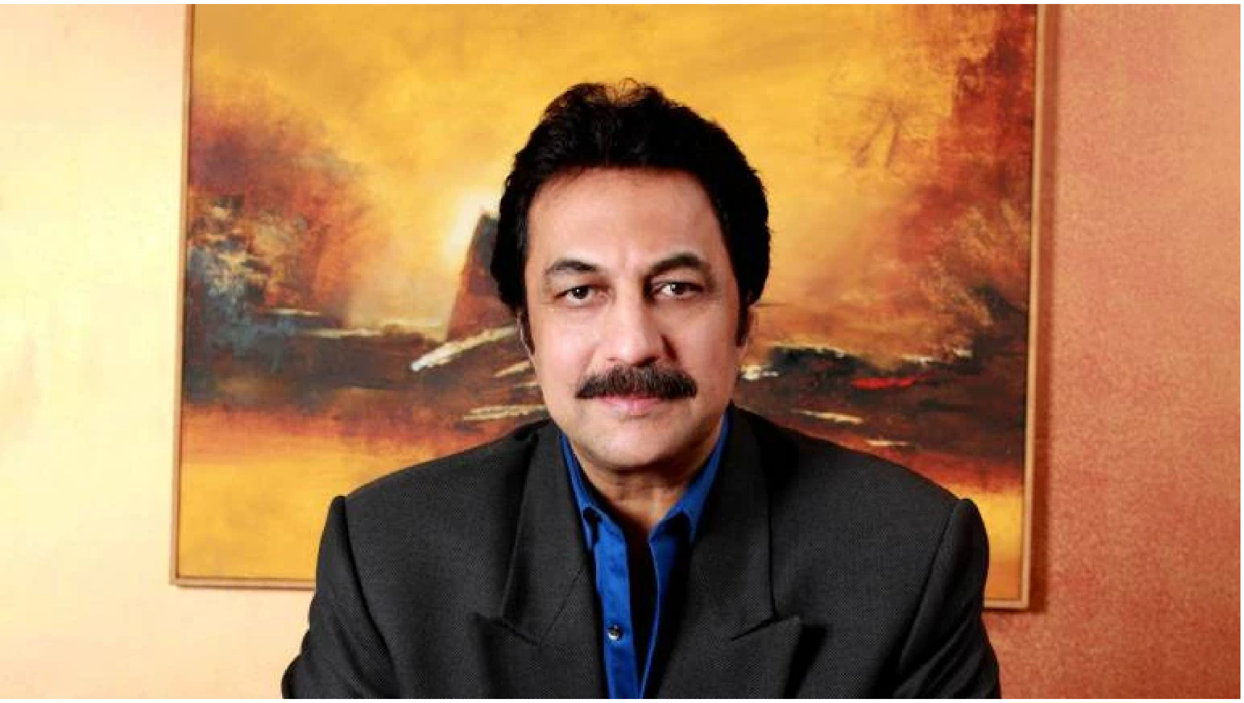
Shankar Sharma explains why is he bullish on India, global equities & commodities

Commodities have been in a bear market since the global financial crisis in 2008. They are still to recover, said Sharma.

KSHITIJ ANAND | JUNE 07, 2021 / 09:34 AM IST



Shankar Sharma, *co-founder and vice-chairman, First Global, is extremely bullish on domestic as well as global equities.*
In *an interview with Moneycontrol's Kshitij Anand, Sharma talks about his investment philosophy, commodity upcycle, pockets of opportunities and more.*

Edited excerpt:

Q) Nifty at record highs and the S&P BSE Sensex is on the verge of creating history as well. What are your views on markets?

A) I am very, very bullish on equities overall. On global equities, I think we are going to see a strong period ahead. What we saw last year was a relatively tepid year. Global markets were up around 10-30%, but India was up only around 12%

I expect numbers to be much better going forward, and the rationale is that India in the preceding period, let's say a 10-year period from 2010 to 2020, or let's say even 12 year period of 2008-2020 -- the returns were extremely low in the range of 5%-6% in rupee terms and about 1%-2% in the dollar terms.

When you go through a period of such low returns, then it is inevitable that the next similar period will give you outsized returns because returns and investing are cyclical by nature.

They are not consistent, and they cannot be. Equities will never give you a 10 percent kind of return every year. They will give you periods of low, dry returns, almost like a desert, and then when you give up, they will start to deliver those returns.

If we look at an investor who bought Sensex, let's say in January 2008 at 21,000 even today at 50,000 Sensex's return is only 6 percent compounding, which is less than any State Bank of India fixed deposit! And mind you, the fixed deposit gives you consistently year-after-year return with no volatility!

There has been disenchantment with Indian equities because of poor returns. And, that is the biggest and most bullish reason -- when people become disenchanted that is it when markets start to deliver outsized returns, and that is the phase we have now entered.

I think the next year, two years, three years for Indian equities, global equity, emerging market equities, everything appears extremely optimistic.

Yes, there will be sharp corrections and it will not be a linear one-way journey for markets, but I am extremely optimistic.

Q) Your PMS scheme, India Super 50 delivered a stunning performance on FY21 basis keeping volatility low – good from an investor point of view. What are you doing differently from other PMS or MF schemes in the same category or otherwise?

A) In 2020, our PMS delivered around 37% in a very difficult, tricky year. In 2021, we are already up nearly 30%!

We started our PMSes early last year, and we immediately ran into the COVID crash within like few days! With decades of experience in dealing with situations like these, we managed to avoid most of the damage in March last year. we have seen many such situations over 30 years of investing, and we have the tools necessary to deal with these situations.

The core aspect of investing that we focus on is the avoidance of significant loss. Risk management is absolutely the God we worship.

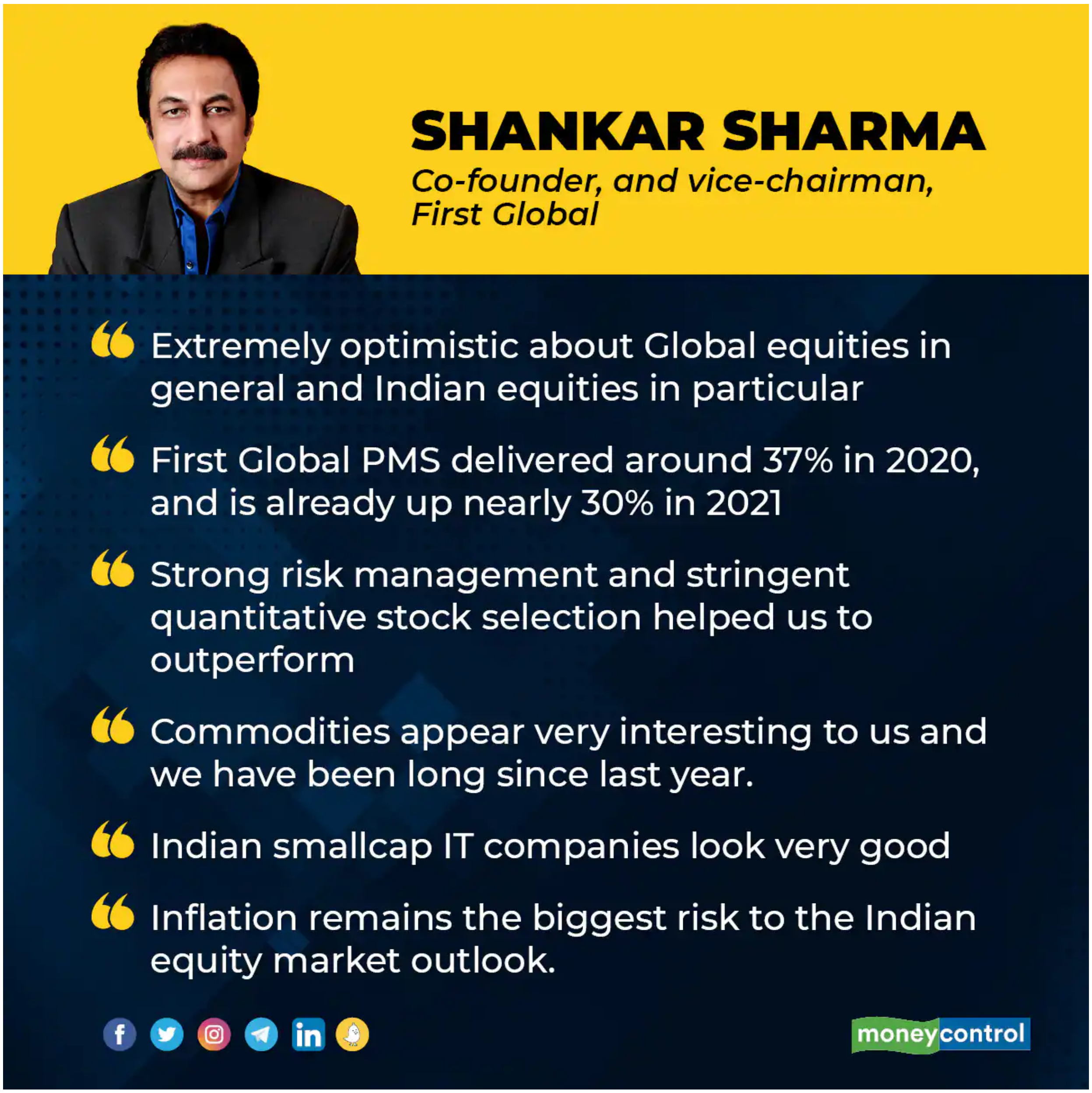
Since we avoided the big loss in March 2020 -- we automatically gained against the market. For example – the market fell by 30%, we fell by say just 5-7%.

Once we avoided the big drawdown, then we try to avoid any screw-ups, remain in the game, remain relevant, participate with the market, and don't become hardwired, hardcoded that I have to buy only Britannia and Nestle and Asian Paints and HUL and ITC to make money.

(Note: The stocks mentioned are for reference and not investment advice)

At the heart of our performance lies the quantitative models that we have discussed several times. We have built these models over the past three years and with massive amounts of testing. We have written well over 1 million lines of code!

Those models, systems are invaluable in delivering high returns, but with very low risk. This can only happen because of a systematic machine learning-driven model.



Q) MPC kept the rates unchanged last week, citing persisting uncertainties on the economic front due to the COVID-19 pandemic. Do you feel that the rates will remain low throughout 2021?

A) Now, here is the dichotomy. Consumer Inflation is in double digits now. And, that is a serious problem for not just the Indian central bank, but central banks globally because it is happening in part because of rising food prices.

Along with rising food prices, commodity prices such as crude, steel, you name it, hard commodity or soft commodities – all have gone up. And for a country, which is inflation-sensitive, like India it poses significant policy challenges.

RBI is in a bit of a rock and a hard place situation. If the RBI raises rates to curb inflation, it threatens the growth of a fragile economy.

The economy which we expected would be good or show a healthy growth rate this year has now again laid back into some degree of uncertainty because of the second wave.

On the other hand, policy dictates that one should act against the rising inflation and nip it. My sense is that RBI will not raise rates at all, even if inflation goes into, let's say, in the teens -- I don't think the Reserve Bank of India is going to raise rates. That is my very crystal clear view.

Q) In terms of global markets, where is the value emerging in 2021?

A) There is plenty of value out there. Our global funds did exceedingly well last year and have continued to do well this year as well.

The performance can be partly attributed to the fact that we spotted value in commodities way back in April-May last year itself.

We bought steel, we bought copper, we bought oil plays across the world, and we bought them in India also.

We have Jindal Steel, and Tata Steel, and Hindustan Copper as well as Hindalco last year. They are commodity play and have done phenomenally well. We have had similar plays globally also.

In the last six months, we are completely away from US tech. And, if you would see, overall US tech has underperformed globally, and what has outperformed are all base metals – commodity plays.

We moved the needle away from overvalued tech stocks and moved into undervalued commodity stocks, and that has paid off very well and we continue to like all these spaces.

The entire commodity space looks very strong. But that's not something new because we bought oil at $15 in April of last year, and now it is $70/bbl. We continue to like everything around commodities.

Q) What is your call on commodities? Do you see an uptrend in commodities for a longer period of time?

A) Commodities have been in a bear market for 10-12 years, ever since the global financial crisis hit back in 2008, they have not yet recovered.

Even now you have oil which is at 60-65 as it was 15 years back. The story remains the same for nickel, aluminium, or zinc.

Q) What is your call on sectors that are likely to bear the storm if a third wave of coronavirus hits India?

A) For sure, Indian IT looks like a very good place to be in. They have benefited from COVID last year because of the reduced costs and the business is very strong. Stock like Happiest Minds in the Midcap IT space, which we own (disclosure) has done well.

We bought that just after the IPO when it didn't have a very great start. We bought it and it is nearly a five bagger now from that price in a matter of few months.

It boggles my mind that kind of returns Happiest Minds has delivered just in the last 7-8 months' time, we were lucky to buy it.

So there are many Midcap IT companies that look very good that space looks good.

Apart from IT, pharma has been a core area that looks great. Additionally, metals, commodities -- are another great space to be in.

This is not investment advice. So please don't go and buy IT or any other sector. Please do your own research. But with that caveat, we like these spaces right now.

Q) What are the big risk you foresee for the Indian markets amid the current bullrun?

A) Biggest risk is inflation. If bond yields do harden then equities obviously being on the other end of the spectrum will suffer and that's the usual seesaw.

As long as bond yields remain at around these levels, the equity market bull run remains intact. Every market situation will have risk because to say that there is no risk might not be fair.

The risk to India right now is really an inflation problem. If that somehow is contained and the bond yields don't go up, I think we are going to enjoy a very long-lasting bull market in India without any doubt.

I mean, I'm pretty clear that the risk-reward equation is extremely skewed towards rewards right now.

KSHITIJ ANAND *is the Editor Markets at Moneycontrol.*

TAGS: #Commodities #interview #Market Edge #MARKET OUTLOOK #MPC #Nifty at record high #portfolio strategy #RBI #Shankar Sharma

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