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ETMarkets Smart Talk: India to outperform, export-oriented themes to show earnings revival: Devina Mehra

Synopsis
"Given where the market is currently, it will be prudent to start the reinvestment process or at best split it over a couple of months. In terms of risk areas, the commodity price increase in energy, as well as food, has driven up inflation and will also crowd up out some other consumption. Plus, rupee depreciation remains a clear and present danger that I have been warning about for at least six months."

ET Markets Smart Talk

"I expect India to outperform the global markets this year, continuing its outperformance of last year - which itself came after a long bout of underperformance for nearly a decade," says **Devina Mehra**, Chairperson & MD, **First Global.**

In an interview with ETMarkets, Mehra with over three decades of experience said: "One broad theme that may work this year is that of rupee depreciation. Some of the sectors that we like are IT, capital goods, energy, textiles, telecom, certain segments of chemicals." Edited excerpts:

Benchmark indices tested crucial support levels in May and then bounced back. Where do you markets headed in the near term? Which are the immediate threats that one should watch out for?

I never give index targets. Having said that, I expect global markets, especially the US, to see a sharp rally at least in the short-term given the recent fall, especially the 40-90% crash in a large number in individual stocks.

While India did not fall to that extent, it is nevertheless likely to participate in the rally.

In any case I expect India to outperform the global markets this year, continuing its outperformance of last year - which itself came after a long bout of underperformance for nearly a decade.

Of course, I do not expect an across-the-board rally the way it happened in 2021. This time the rally is likely to be more selective than was the case last year.

The other thing to remember is that you cannot hope to catch the absolute bottom in any market. Our data shows that if you were invested for the last 40 years and missed out on just the best day of the year each year, over time your returns would come down by more than 70%!

Given where the market is currently, it will be prudent to start the reinvestment process or at best split it over a couple of months.

In terms of risk areas, the commodity price increase in energy, as well as food, has driven up inflation and will also crowd up out some other consumption.

Plus, rupee depreciation remains a clear and present danger that I have been warning about for at least six months.

Inflation, the RBI's reluctance to raise rates as well as the rupee beginning to break out of a long-term range all indicate the possibility of a currency depreciation especially if RBI tries to

hold down the borrowing cost for the government.

For a central bank, low-interest rates and a strong currency are inherently contradictory objectives.

We have seen some carnage in the small & midcaps space. How should one play this space now? Can we say that the broader market is in a value zone?

We expect small and mid-cap names to also participate in the rally. However, as always, this is a risky space where detailed work into each stock investment is required.

In our portfolio schemes, we do not go beyond a 10 to 15% exposure in small caps (market cap Rs 1,000 crore to 5,000 crore).

Further caution is required at present as several industries will see a combination of demand destruction and margin pressure.

Moody's Investors Service has lowered its gross domestic product growth forecast for India to 8.8 percent for 2022 calendar year from its March estimate of 9.1 percent. Do you think this is a pre cursor to recession which is being feared by most?

It is of course unlikely to be a technical recession in the sense of a GDP contraction in the case of India but download revisions to growth rate are par for the course, as a very large portion of the citizens are hurting with pressure on their household budgets because of higher food and fuel prices.

This is on top of GST and COVID related business and job losses.

Already even the FY22 GDP growth figure has been revised downwards from 9.2% in January to 8.9% in Feb end to 8.7% now.

Even beyond food and energy, the prices of many other household goods have also gone up because of the rise in the price of crude and its derivatives, palm oil, various chemicals as well as even things like cotton.

Plus, with prices of so many essentials going up, the spending on essentials is bound to crowd out discretionary spend which may range from two-wheelers and consumer durables to even things like shampoos where purchases may be postponed or there may be downtrading.

What is your take on consumption as a theme – do you think it could take a hit amid price rise and possible fall in demand?

Consumption is unlikely to revive as a major driver at least below the premium segment. Even for the last couple of years private consumption has been very weak and has been mostly compensated by government spending.

This is something we are seeing in various industries where premium-end cars and SUVs are selling but entry-level cars and two-wheelers are not. Similarly premium real estate is doing well but not affordable housing.

Mass consumption will take a hit because of job/business losses over the last 2-3 years being compounded by inflationary pressures.

With commodity price inflation, for a whole host of industries, input prices have gone up and the companies are not able to pass on the price increases fully or if they do that it results in the demand going down.

In fact, even if the price isn't hiked for that particular product, the general inflation in the consumers' basket results in a postponement of discretionary expenditure.

Sectors that could relatively be safe bets in a rising interest rate scenario as well as a rise in inflation?

One broad theme that may work this year is that of rupee depreciation. This is something I have been talking about for the past 6 months and the big macro change I expect in 2022 is rupee depreciation.

Hence, companies that export goods or services like IT services or textiles will show improvements in earnings.

Some of the sectors that we like are IT, Capital Goods, Energy, Textiles Telecom, and certain segments of chemicals.

Several of them do have an export orientation or import substitution or international price benchmarking theme.

FIIs turned away from Indian markets but are putting money in IPOs. What are your views when will the tide reverse? What is pushing FIIs away from India and is it the story for other EMs as well?

One, from the point of view of market movements I never like to track FII flows because over the long term or even on a month-to-month basis there never has been any correlation between market movements and FII flows. That is clearly borne out by data.

Having said that, we must also understand that the moves in FII flows are generally to do with broader trends rather than India specific reasons.

After all, India is less than 3% of the world's market cap and is hardly central to the decision making by asset allocators.

Hence, the move in foreign portfolio investments is driven by other factors generally speaking. Looking at them through the Indian lens is futile.

What are you factoring in for other forthcoming quarters in terms of earnings? Looks like we could see more earnings downgrade compared to upgrades and the whole theory of earnings revival may take a hit. What are your views?

I have not been a believer in any across-the-board earning revival theory. It has been to be a very sectoral view and even within that, drill down to the company level.

For example, even within the chemical space, there are companies that have gained due to the commodity prices going up because they make those products whereas there are others that have suffered margin pressures because they use those products.

How should one position their portfolio in terms of equity and debt part? Is it tome to go slightly underweight on equities or neutral?

First of all, as in the case of the US in a rising interest rates scenario, debt or fixed income is not the right place to be in - because as interest rates rise the fixed income portfolio gets marked down.

Presently, fixed income is definitely not a safe haven the way it is when interest rates are stable or falling.

The other most important point is that in spite of all theories to the contrary people think that if equity markets have come down the risk has gone up. On the other hand, when equity markets are rising everyone likes to jump in.

The very same people want to get out and sit on the sidelines when they are falling which is totally a wrong strategy.

On the contrary, our studies have shown that if you missed out on just the one biggest day move every year for over 40 years then your returns will be lower by more than 70%.

Given where markets are now, I would advise getting back into equity if not as a single lump sum but over 2-3 months at least. That is what we are advising our clients to do.

(Disclaimer: Recommendations, suggestions, views, and opinions given by the experts are their own. These do not represent the views of Economic Times)