ET THE ECONOMIC TIMES

Jul 08, 2022, 01:04 PM IST

Time to be back in market; here's where you can put your money now: Devina Mehra

Synopsis

"FMCG, after a very long period of underperformance, is looking better. We are most overweight on capital goods, industrial machinery. As we still have the rupee depreciation theme, we are partially overweight on parts of textiles, chemicals and are somewhat overweight on IT services. We have increased our weight in auto four-wheeler space."

"My outperformance bet on India is not contingent upon whether the FII flows come or not. That is not the direction of the market. The first time the FII flows came in was the only nine year period in Indian stock market history that we saw zero returns. So, keep that aside."

Besides, agri commodities, which were fuelling a lot of inflation globally, have also seen a great deal of moderation: Cotton is down 35-40% from the peak, wheat is down 40% and palm oil has also cracked big time, Mehra said, adding that the only part of the commodity basket which still remain up are oil and gas but that has also come off its high.

Now we are in a phase where the markets have come down a lot and the danger is in missing out on a big up move. Our analysis showed that in 40 years, if we missed out on 10 big up move days, we give up two-thirds of the returns. If we miss out on 30 up move days and 90% of returns are gone - just 30 days in 40 years," says Devina Mehra, Chairperson & MD, **First Global.**

You have been harping on the fact that the rupee depreciation remains a clear and present danger and that sure is playing out.

Yes it is. I have been saying since Diwali last year that this is the risk for 2022; I mean risk as well as opportunity for some but that was quite clear even before the commodity big rally or the Russia-Ukraine conflict. Of course, of late, RBI has made some efforts and so we have seen a slight moderation but that overall trend will continue for some more time.

What is your advice for equity investors? Crude oil price fall has been a clear advantage for the Indian equity markets but we did not see that much euphoria play out although now we are seeing a solid catch up. Do we also need to see other moving parts change for the overall market sentiment to turn?

As you mentioned, for commodity prices, this has been quite an interesting time because they say that a week is a long time in politics but this time, a fortnight has been a long time in economics.

Two or three weeks ago, if you would have asked everybody in this business what would you like to see, that would have been the moderation of inflation and that has happened at least from the commodity end, which is where this whole thing started in the first place.

From the beginning of the year, all industrial and precious metals price moves are negative or near negative. Agri commodities which were fuelling a lot of inflation around the world including in India, have seen a great deal of moderation. Cotton is down 35-40% from the peak, wheat is down 40% though that does not directly impact India.

Also, palm oil has cracked big time and that helps prices of edible oils and a lot of other agri commodities, barring soy and corn, which still remained high. But they are also coming down quite rapidly. So the only part of the commodity basket which still remained up was oil and gas but that has also come off its high.

Our guess is that crude might well remain range-bound rather than coming down or going up very sharply, but it does not look as if it will come down a lot more. But whatever has come down, that helps India besides the fact that India may not always be buying at that quoted crude price level. Food prices coming down will help, palm oil and certain other things coming down will help FMCG companies which use that as an input.

So overall commodity prices going down is good news for India, but these are all excuses that are used as triggers. It also depends on where the market otherwise wants to go and as I have been saying, India will be an outperformer this year and that also has been playing out. We still think India is one of the better markets to be in and the risk in the market right now probably is in not being in the market – whether in India or globally, especially the US.

Now we are in a phase where the markets have come down a lot and the danger is in missing out on a big up move. Our analysis showed that in 40 years, if we missed out on 10 big up move days, we give up two-thirds of the returns. We miss out on 30 up move days and 90% of returns are gone – just with 30 days in 40 years.

So that 15% compounding that you are looking for from equity just disappears if you miss out a few good days.

Plus those few good days normally come after a big correction and that is something in terms of broad things to keep in mind. Now is the time to be back in the markets.

The agri commodity cool off is tactically good news for consumer stocks because FMCG stocks, even non-movers like ITC (NSE -0.66%), have been doing well for the last six months. Would you say there is a bit of a catch here?

No, that is definitely going to help FMCG in two ways. One, of course, is that as the prices for some of the other components in the consumer basket come down, there is more room for FMCG purchases. What was happening in the previous few months was that people were postponing not just consumer durable purchases but even things like shampoos and all that. That was showing up in the declining volumes for FMCG.

So FMCG, after a very long period of underperformance, which has lasted over a year-and-a- half, now is looking better. We do have some FMCG names now in our portfolio including ITC. In fact, that was the first one to come back into our portfolios some weeks and months back and that has played out well for us.

Besides FMCG where else do you see leadership emerge in this kind of an inflationary environment in India?

The sector that we are most overweight on is capital goods, industrial machinery. As we still have the rupee depreciation theme, we are partially overweight on parts of textiles, parts of chemicals and we still remain somewhat overweight on IT services.

That has been something I have spoken about several times. Those would be the broad themes barring some telecom and a few other odd things, but in terms of sectors and the other big change other than FMCG coming back, has been in the auto, especially the four-wheeler space. We have increased our weight there.

I understand you have remained fairly circumspect or underweight in banks. Walk us through the rationale. Does nothing appeal even within the large cap financials?

We do have holdings in banks. We do make a choice in banks and particularly the PSU banks right now have been looking somewhat good. But we are nowhere close to the index weight still. We are always a little careful because of the prospect of negative surprises in this sector because this is a highly leveraged sector where you do not really know on a granular basis what they have done, where the skeletons are. The skeletons do stumble out once in a while. That is the part we are careful about but we have holdings in some of the large banks.

In the banking space are you now incrementally positive because fintech has started to get cautious, they are losing new capital if they need to gain market share and credit growth overall from RBI data is picking up so do you think all these things are positive for the traditional banking names?

For the fintechs also, often the money was coming from the banks or at least that was one model where they were the originators and the lenders were still the banks. So that may or may not change things that much and I do not think that was necessarily the only constraint that the banks were facing.

The interest rates going up again normally is good from the point of view of repricing assets first and what you lend gets re-priced first before the deposits but it hits you on the bond book.

But I think RBI will once again come up with something so that they do not have to take a complete hit on the bond book which is the way it usually has happened in the past. So, we are a little more positive. If we look at last year or the year before, we barely had any banks; we had a very negligible weightage especially compared to the fact that the index has such a high weightage. But now, we are at a much higher weightage than we used to be but we are not overweight, we do not intend to be overweight.

In terms of India versus rest of the world, most of the strategists are pointing out to one thing that India remains one of the great stories over the next five years and if you are a long term investor, you should buy. So, what is that correction level or Nifty level that you would look at before you start to allocate more to India?

The next five years belong to India. I have been hearing for the last 30 years since I have been in the markets. This story you can give at any point in time. But as I have said earlier also, this year India is going to be an outperformer. That is our bet and that comes out of the fact that before 2021, for a number of years, India was an underperformer. If you look at the global rankings, India used to be number 20, number 24. 2021 was the first year after a very long time that it was part of the top 10 at number six. Our outperformance trend still continues. As I said, India is one of the handful of countries that we still like as an outperformer when we look at the global stance.

The other part which you were saying is whether it is time to get back to the market. Yes, you should get back to the market whether you are looking at global allocations or you are an India investor looking to allocate from other assets back into equities.

Is there merit in worrying about the US recessionary environment right now? If the US is heading into recession, would that challenge India's outperformance or would you say in that case, the flows would definitely find their way into EMs where India would be a big beneficiary?

My outperformance bet is not contingent upon whether the flows come or not. That does not determine the direction of the market. The first time the FII flows came in was the only nine year period in Indian stock market history that we saw zero returns. So, keep that aside.

As far as the US recession is concerned, the probability of a hard landing has been increasing. The inflation moderation has come on the other side, with concerns on growth, which is why I say be careful what you wish for. You wished for lower inflation but that has come with all these other add ons. So this is a part that you need to be careful about. This does not directly impact India. There might be a recession but again even in the US, it is already priced in.

NASDAQ has been about the worst performing index in the whole world this year. It does not just depend on how the economic situation is. It also depends on how much has been priced into the markets. The flip side of having slowdowns coming faster and larger than what has been anticipated will be that the central bank, particularly the Fed, would put brakes on the rate tightening earlier than anticipated.

Already the markets are pricing that in. The final terminal rate for the Fed will not be as high as it was so earlier anticipated to be. So there are many moving parts to watch even on commodities or what happens to global growth, China lockdown or reopening all that has an impact. China has suddenly now announced a stimulus package which again changes or may change the demand dynamics for many commodities and that might have an impact on global inflation.

So, this is a time when many many variables around the world have to be watched; currencies have to be watched and the Fed is more hawkish than the European Central Bank. The Euro is almost at a 20-year low against the dollar.

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