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Volatility and correction not ruled out, says CIO, PNB MetLife

PRIYA KANSARA

Mumbai, February 27

While 2017 was a spectacular year for Indian equity markets; 2018 has been almost flat after the recent correction. PNB MetLife India Insurance's Chief Investment Officer Sanjay Kumar expects markets to remain range-bound in the near term. He said volatility and further correction are not ruled out in the short term due to tightening of global liquidity. While IT stocks provide good risk-reward ratio at current levels, select consumer staples and discretionary companies still look expensive even after the recent correction. *Excerpts:*

THE BL INTERVIEW

Do you think 2018 will be the year of volatility for Indian equity markets? Why?

Indian equity markets are expected to remain range-bound in the near term, accompanied by occasional bouts of volatility, due to unfavourable global cues. Global liquidity is likely to tighten amid gradual monetary policy normalisation by central banks of developed economies. On the positive side, corporate earnings are expected to improve in 2018, which is likely to support market valuations. Thus, we remain positive on equity markets over the medium term.

Do you expect more correction?

The sharp increase in global bond yields has added to volatility across global equity markets, including India. With global liquidity expected to tighten further, we don't rule out some more correction. However, any correction would provide a good opportunity to increase exposure to good quality sectors and stocks. Moreover, improvement in corporate earnings is expected to provide downside support.

Do you think emerging or Indian markets will underperform developed markets as global economic environment improves?

Global growth is improving in a synchronised manner with emerging markets (EMs), which are gaining from revival in global trade demand. This, along with sharp increase in commodity prices, bodes well for economic growth of export-oriented EMs. However, tightening global liquidity is likely to have a bearing on FII inflows into EMs, thereby hurting their equities. We expect Indian equity market to move in tandem or outperform the broader EM pack on account of expected improvement in corporate earnings, revival in economic growth and strong domestic inflows.

Do you think mid- and small-cap stocks look attractive after the recent correction?

Even as some of these stocks look attractive, we remain selective in the mid- and small-cap segments. Our strategy remains to buy stocks with strong business model, good earnings visibility, healthy balance sheets, strong corporate governance and robust financial ratios.

What has been your investment strategy in the last six months?

We have been positive on India's consumption theme, including consumer staples and discretionary and automobiles over the last several months and continue to remain so, largely on account of revival in urban and rural consumption demand. We are also positive on retail-focussed private sector banks and select good quality infrastructure and construction stocks.

We expect Indian equity market to move in tandem or outperform the broader EM pack on account of expected improvement in corporate earnings, revival in economic growth and strong domestic inflows.

SANJAY KUMAR
CIO, PNB MetLife India Insurance Co

Which are the sectors you think offer good risk-reward ratio? Which sectors still look pricey?

In the wake of still stretched market valuations, IT sector valuations are fairly attractive, thereby providing a good risk-reward opportunity. IT stocks look good from a fundamental perspective also. Select pharmaceutical stocks, where product approvals are coming through and USFDA-related issues are in the process of getting resolved, also offer value.

On the other hand, select durable, electrical and auto stocks within the consumer discretionary space, and select consumer staples companies are still trading at expensive valuations despite the recent correction.

What is your opinion on the recent corporate performance?

December quarter corporate performance has been broadly in line with expectations. There has been a notable pick-up in volume growth, signalling improving demand momentum, accompanied with positive management commentaries about the future outlook. While there have been downgrades in specific stocks, on balance, the earnings growth trajectory remains largely intact.

Which sectors were a disappointment and which ones gave positive surprise? Why?

Sectors that dragged earnings growth last quarter include banking, pharmaceutical and telecom. On the positive side, commodity-driven sectors (metals and oil & gas) and industrials posted strong results.