‘T20 phase is over for markets, entering Test phase now’

It has been a difficult phase for the markets last week because they had to negotiate a number of headwinds. **JYOTIVARDHAN JAIPURIA**, founder and managing director, Valentis Advisors, tells **Puneet Wadhwa** in an interview that on a tactical basis, his outfit has been adding to cash levels over the past quarter. This, he says, helped buy stocks cheap on days when there was panic in the markets. Edited excerpts:

How do you see the markets perform till March 2022, when the US Fed is likely to hike rates?
We have to look at the markets in the context of what we have seen over the past 22 months after the pandemic broke out. The markets have more than doubled from their lows and are up nearly 40 per cent from the pre-Covid highs. Given this rally, they can see a time and probably a price correction. The way we characterise the markets is that the “T20 phase is over and we are entering a Test Match phase”. That said, we still expect double-digit compound returns over the next few years as earnings recover.

Q&A

JYOTIVARDHAN JAIPURIA
Founder and MD, Valentis Advisors

Do you see some stability returning after the Fed hikes rates?
The near-term valuations are expensive and the monetary policy environment will be negative for the markets. The markets, which are used to the “Fed put”, may struggle a bit as the Fed hikes rates. However, historically, they are nervous at the first Fed rate hikes but tend to rally as long as the economy remains strong. It may be a similar situation this time too, with a lot of price correction taking place in the first quarter this year and the markets getting range-bound thereafter.

What’s your outlook for the mid- and small-cap segments?
From a three- to four-year view, we are still very positive on them. The reason is that these companies grow earnings faster in an economic upturn (of course, they also contract earnings faster in an economic downturn). From a valuation point of view, however, they are no longer cheap relative to large-caps. They will fall more in the near-term if the markets correct, but we would be buyers in that correction.

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Can the foreign flows come back to Indian equities later in 2022?
Foreigners have been selling in emerging markets (EMs) on the back of a likely tightening of monetary policy by the major central banks, including the Fed. However, they are still overweight on India. The reason for trimming some weight here is two-fold, apart from the general reduction in EM weight. First, India has outperformed EMs massively, leading to some rotational shift away from India. Secondly, valuations in India relative to other EM peers are demanding. India has always traded at a valuation premium to EMs. However, it is currently trading at a nearly 100 per cent premium to EM PE ratios versus historical averages of around 55 per cent.

What has been your investment strategy thus far in 2022?
We have been overweight on domestic cyclical names because this is where large money will be made over the next few years. We have, however, on a tactical basis been adding to cash levels over the past quarter. This helps us buy stocks cheap on days when there is panic in the markets. Overweight cement and capital goods are adding to our position. The other sector we are watching closely is auto, where the semiconductor shortage is likely to ease in the later part of the year. We remain underweight on consumer staples.

To what extent can the rising crude oil prices and inflation dent India Inc’s fortunes in FY23?
Some of the impact of rising commodity prices was seen in the December 2021 quarter. The impact may slowly ease in FY23 because of two factors. First, companies are slowly trying to pass on increases in commodity prices to the consumer, and this should play out over the next few quarters, thereby restoring gross margins. Secondly, there is some reduction in logistics constraints, with container availability easing and freight rates falling. This could lead to a peaking of commodity price increases. Oil is, of course, a joker in the pack in case we get any commodity price flare-up, led by geo-political tensions.

Your estimates for FY23 corporate earnings growth?
We expect a growth rate of 16 per cent in FY23 on the back of a near 30 per cent growth in FY22. We have not changed these forecasts materially and expect better earnings by the banks as the pressure of non-performing loans (NPL) eases and an improvement in the demand outlook because capex spend by the government remains strong, helping domestic cyclicals report strong numbers. A sharp jump in oil prices could be a risk, but we think even in the event of a geo-political turmoil, high oil prices would not sustain.