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ETMarkets Fund Manager Talk: 2023 will be year of 'Return of Yield' as dynamics favour debt mkt: Yogesh Kalwani, InCred Wealth



risk became imminent

4 months.

fixed income investors.

remain resilient.

increasing your exposure?

of higher government spending?

only be seen after some lag.

consolidation phase in 2023, but the prospects are improving for fixed income assets, according to Yogesh Kalwani, head investments at InCred Wealth. "We believe 2023 will be the year of 'Return of Yield' (fixed income investing) as

Indian equities are likely to move through a

In view of the higher valuations,

investment dynamics have improved materially in favour of fixed income investors," Kalwani said in an interview with ETMarkets. Edited excerpts-What kind of asset allocation do you recommend investors if one assumes that India will be an underperforming market in the near term?

Given India's outperformance in the last 1-year, high <u>valuation</u> and now higher fixed income rates, we expect the Nifty 50 index to consolidate in 2023.

However, post recent correction, valuation has turned relatively attractive in some parts of the market. We believe stock picking and mid-& smallcap investing will provide better returns than index investing.

Equity investments can be done in a staggered manner over the next 3 to

Also, we believe 2023 will be the year of 'Return of Yield' (fixed income investing) as investment dynamics have improved materially in favour of

most of 2021 and 2022, and will progressively increase (even if RBI doesn't hike rates) from hereon, as inflation expectations continue to fall.

Real rates have moved in the positive territory from being negative for

Investors can now get 8-8.5% yield from high quality companies.

improve fixed income portfolio returns. For a balanced profile investor, we prefer 60% equity and 40% fixed income allocation for a 3-year investment horizon.

The \$4 billion selling by FIIs has turned India the worst performing market in the world. Do you think this change in the tide is here to

Investors should look to capture better yields offered by companies to

stay and hurt absolute returns for investors? India has outperformed most emerging markets over the last 12 months.

As of January end, MSCI EM index was down 15%, compared to Nifty index that was up about 2%.

done well due to reopening trade and improving conditions.

cheaper relative valuation, low allocations in the recent past and improving economic conditions in those markets.

Since October 2022, emerging markets like China, Taiwan and Korea have

In the short term, foreign investors will prefer other EM markets due to

Post the recent correction, Indian markets are off the recent highs and

valuations have turned reasonable with Nifty index trading near long term averages. Currently, 12-month rolling FII flows as a percentage of India's market cap

are at levels last seen in years such as 2012, 2014 and 2008-09.

MSCI India's 2-year forward EPS growth versus MSCI EM's 2-year forward EPS growth indicates Indian equities are expected to deliver a much better earnings growth.

Beyond the next 1-2 quarters, we expect India corporate earnings to

These factors could help Indian equity markets to do better. Even if the markets don't deliver a large outperformance, they might remain resilient to global headwinds.

The Budget has given greater impetus to capital spending. In view of

this, which sectors are you extremely bullish on and would look at

Budget provided thrust to capex in railways, drinking water and roads.

We prefer housing and infrastructure sectors as the capex spending continues. We believe cement, construction and building material sectors are likely to benefit from the increased allocations to government schemes.

Do you see a pick up in private sector capex in FY24 in the backdrop

The revenue growth and order intake numbers coming from major

capital goods, engineering and infrastructure companies do highlight

Private sector capex outlook is gradually improving on the back of a

capacity utilization. This will lead to companies being more confident to

reduction in leverage, improvement in corporate debt rating and

spend on production-linked incentives or PLI schemes.

that private capex is already underway. The budget increase of 37% in its capex allocation to Rs 10 trillion should aid order inflow for construction and engineering companies.

The IT and related sectors are seeing massive layoffs as global growth slowdown risks are emerging. Will this significantly change the investment behaviour towards this sector in the near-to-medium term?

Layoffs are unfortunate but it was expected as interest rates started going

unemployment rates are at all-time lows and the current layoffs effect will

The outlook on the IT sector remains constructive, but we are selective. The December quarter earnings of tier-I companies looked decent as management commentary of higher furloughs had tempered investor expectations going into the earnings season.

The deal pipeline remains healthy with a higher mix of cost take-out

up in the US and slowdown risk became imminent. However, US

deals and vendor consolidation opportunities, while some impact on discretionary spending in most-hit verticals such as retail and hi-tech continues in the short term. 1HCY23F revenue conversion remains a key monitorable considering persisting macro-economic challenges. What are your takeaways from the Q3 results announced so far? How

The results so far have been in-line with our estimates. Overall, we are seeing decent growth in earnings and some revival in margins. Some

do you expect FY24 to pan out for India Inc?

sectors which reported good results in our view are banking, technology, automobile (PV and CV), capital goods, engineering companies and select healthcare companies. There is still pain in areas like FMCG, cement, automobile two-wheelers, etc, but we feel the worst of the margin pressure is behind us. We expect low double-digit earnings growth in FY24 for Nifty companies.

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