

Investing is more about patience and discipline & less about timing

The Indian stock markets are in the volatile zone ahead of the budget. In an interview with FC's **Sanjay Vijayakumar**, chief investment officer of HDFC Standard Life **Prasun Gajri** says the rollback of fiscal stimulus will be beneficial to the economy in the medium term because the financial position of central and state governments will improve

■ Will roll back of stimulus have a big impact on the markets?

Stimulus rollback if at all will have a temporary impact on the equity markets. In the medium term, the rollback will be beneficial to the economy because the fiscal position of central and state governments will consolidate and debt/GDP ratios will improve. In our view, the economy is relatively strong to sustain measured hikes in indirect taxes.

■ Where are the markets headed? Will the budget decide the direction of the market?

The trend of strong macro data continued into January as well, and was acknowledged by the Reserve Bank of India (RBI), when it upped the growth estimates for the present year. Inflation readings, too, are rising sharply, although the argument points towards elevated food prices. But, clearly manufacturing inflation seems to be picking up and may push up inflation expectations.

As RBI has enunciated that it is moving from 'managing crisis' to 'managing recovery' stance, with a focus on price stability and aiming to bring inflation expectations down to 3 per cent, the apex bank will have to bite the bullet soon and hike rates to anchor inflation expectations.

On the liquidity front, the higher-than-expected CRR (cash reserve ratio) hike will suck out surplus liquidity just ahead of a traditionally tight liquidity period, and may cause a brief spike in short-term yields.



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Prasun Gajri
Chief investment officer,
HDFC Standard Life

At the longer end of the yield curve, RBI's forecast that the next year's net government borrowing will almost be equal to that of the present year's level, may add to the pressure on bond yields. Over the course of the present year, higher government borrowing was supported by RBI's liquidity measures and poor credit growth. In a rate tightening cycle and an environ-

ment of increasing commercial credit demand, as is indicated by recent data, these factors are no longer supportive. Further expectations on this front will be shaped by the Union budget at the end of February. Thus, the coming months may see an increase in bond market volatility, with a general upward movement. At the portfolio level, we will continue to main-

tain a conservative position, with a focus on generating returns from yield accruals over duration.

■ Do you think that the market has fully priced in this entire inflationary concern, monetary tightening and if indeed is there a further correction expected from here?

Monetary tightening is getting priced in and we believe that by April end, most of the tightening and inflationary concerns will be priced in the market. We expect the market to remain volatile for the next two months.

■ What are the sectors you are bullish and bearish on?

For the medium term, we are optimistic on domestic consumption and domestic investment themes in India. We like sectors such as FMCG (fast-moving consumer goods), pharma, capital goods and public sector banks. We are underweight on exports sectors and commodities.

■ What is your advice to retail investors on how to play the market before the budget?

Stay invested. Investors are advised to stay invested in the equity markets keeping in mind the long-term growth potential. India as a country is at an inflection point. With over 3,000 stocks getting traded every day, opportunities are immense for the investor and the fund manager. Investing is more about patience and discipline and less about timing.

Decide and stick to your asset alloca-

tion. While equities are expected to deliver higher returns than bonds over a longer period of time, commensurate with the higher risk, investors should stick to their decided asset allocation strategy.

For example, if your equity allocation is 50 per cent and the market rises 10 per cent, determine your review period (six months or one year) and book profits to bring your asset allocation in equity back to 50 per cent. Vice versa, if the market falls. Do remember that with the rising interest rates, debt portfolio yields too are on the rise. You also need to do this considering your own financial profile and life stage. Consult your financial consultant for assistance.

Stick to quality. Indian companies have realised, in the past few years that their target audience is now the global market and no longer only the Indian market. This is a paradigm shift from a strategy perspective. Using their strong balance sheets, domestic market leaders are able to acquire companies, enter new markets faster and roll out their cost-effective processes, employed in their existing markets. Any price correction will have lesser impact on such companies.

Diversify. The Indian market will have different themes at different points of time. It is difficult for any investor to time the market or any particular sector. Diversification, among quality players, will continue to pay off.