

# Risks in developed markets going to improve 1 year-plus outlook for India

## WEEKLY INTERVIEW

Lalit Nambiar, vice-president and head of research at UTI Mutual Fund, says gold will continue to shine, given the uncertainty in global equities, although, commodity and oil prices could moderate going ahead. Excerpts from an interview with Prasanna Deshpande:

■ **How do you view the present equity market scenario after an over 1,400 points fall in the past one week?**

We were cautious earlier and from a tactical perspective, and will remain so in the short term for the next couple of months. In the medium term, say between three months and a year, we would be looking closely at Reserve Bank of India (RBI) action to understand if we are close to a pause or a reversal in the interest rate cycle and, accordingly, look at lower beta interest-rate sensitives. However, the one-year-plus outlook for India and other emerging markets may have improved with risk increasing in the developed markets. For India, especially, the long-term outlook is positive, if commodities, especially oil, remains subdued and valuations on this horizon enter attractive territory.

■ **Do you think, concerns in the US and some of the European nations have subsided or will the world markets see more downward pressure going ahead?**

No, we think there are still pressures on the developed markets, especially in the European Union.

■ **Where do you think the market is headed over the next six months?**

This is very difficult to predict because global events have taken centre stage. But, if I have to hazard a guess, I would have a nega-



tive bias, but as I said, the longer-term perspective for India is attractive.

■ **How will global commodities perform, given the slowdown concerns in the west and the US?**

Unless, there is significant quantitative easing in the west, we should see hard commodities remain subdued. Precious metals will be a play on market volatility

and barring short-term corrections, I would remain invested partly in gold, given prevailing uncertainty in the global markets.

■ **How will corporate earnings performance be in the July-September quarter?**

Corporate earnings growth may decelerate, as global growth takes a backseat, which may lead to some earnings downgrades.

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Lalit Nambiar

*Vice-president, fund manager & head of research, UTI Mutual Fund*

■ **Which sectors are you are bullish on and vice-versa?**

Although, some stocks in fast-moving consumer goods (FMCG) and pharma sectors have turned expensive after the recent surge, there are still some stocks in this space that can be accumulated. We are underweight on banking and oil and gas, and significantly underweight on the infrastructure sector in the diversified schemes.

■ **Will the primary market see some revival in a falling market?**

Fund-raising through initial public offerings (IPOs) will not be easy because market sentiment is negative. We have seen follow-on public offers (FPOs) of ONGC and SAIL get postponed because of weak market sentiment. Companies and lead bankers are still pricing issues at expensive valuations, which will keep retail investors away from the primary market.

■ **Are you expecting more rate hikes from the central bank?**

We feel, RBI could hike interest rates a maximum of another 25 basis points for the present financial year because inflation continues to remain a major issue for the government. However, a major global blowout may soften this hike to a pause.

■ **Will the US government come out with QE3?**

I don't think it will happen in the near term, given that they have just raised their debt ceiling with great difficulty and have promised borrowing cuts in the future. Also, inflation expectations in the US are higher than at the time of QE2. But, if there are no signs of recovery, they will have to ultimately do it. All eyes will be on the US Fed chairman's speech on August 26 in Jackson Hole.