INTERVIEW: S KRISHNA KUMAR

HEAD, EQUITY, SUNDARAM MUTUAL FUND

Tightening of liquidity conditions globally could affect our markets

Despite bouts of volatility, equities are likely to come back into reckoning this year, believes **S Krishna Kumar**, *head, equity, Sundaram MF. On the other hand, physical asset classes, such as gold and real estate, may fall out of favour, he says. In an interview with* **Ashley Coutinho,** *Kumar feels the withdrawal of QE measures across developed countries could negatively impact our market.*

What is your outlook for the equity market in the year ahead?

The economy is set to bottom out in terms of growth. The government has clearly placed emphasis on the growth agenda and has pushed through many long-pending reforms in the last six months. The major procedural bottlenecks and approval processes are being streamlined, though it is still work in progress. With renewed focus on fiscal consolidation, the government has sent a strong message to the RBI to support growth by monetary easing. The recovery in investment cycle could happen over the next 6-12 months and increased financial savings should help the economy to come back to a 7% growth trajectory. So, while we do expect equity markets to factor in this growth outlook and return around 15% next fiscal, the impending general elections in May 2014 or sooner, could bring in more volatility.

Have earnings downgrades bottomed out?

Although earnings downgrades seemed to have bottomed out post the December 2012 results season, the recent weakness in consumption trends across cars, two-wheelers, trucks, FMCG and travel point to a weaker Q4 earnings profile. However, the oncoming earnings season in April should provide clarity on the same.

What are the key triggers for the market going forward?

The economy is expected to come out of a slow growth phase. The business confidence has been dented and, so, also the balance sheets of various corporates. So, reforms are key to bring up business confidence, investor interest

and accelerate capital flows. Any setback to the government's reform agenda and easing monetary stance would hurt markets.

The current account deficit has been one of the key issues that investors and economists are worried about. A very favourable foreign trade policy to address CAD through higher exports is expected shortly. Also, the corporates and investors have been spooked by the sharp swings in the currency seen last year. So, a falling CAD and a stable currency should provide a favourable bias to the equity markets. Good monsoons should be watched keenly now.

What are the global cues to watch out for?

Globally, tightening of liquidity conditions could affect our markets. Indian equities have benefitted by the huge liquidity that has sloshed through the system post the global financial crisis. CY12 has been a particularly good year for our equity market which has seen a disproportionate share of Asian emerging market flows. The withdrawal of QE (quantitative easing) across the developed countries is something we need to keep an eye on. Any escalation of the euro-zone crisis is another factor that could temporarily jolt markets.

Which sectors are you betting on?

We are positive on rate-sensitive sectors such as industrials, infra, consumer discretionary and financials on a 1-2 year perspective. In the near term, sectors such as pharma, media, software and FMCG may still outperform. We remain bearish on metals.

What would be your advice to investors at this point in time?

Physical asset classes like gold and real estate, which have been outperforming in the past, may not sustain going forward. We believe that equities would come back into the reckoning in the current year.

As we see that there could be bouts of volatility in the Indian markets due to local and global factors, one may use the next six months to get invested. Invest systematically into a combination of funds in large-cap and mid-cap categories, while also putting away some portion towards thematic funds like entertainment and infrastructure.