

ETMarkets Smart Talk: Why financial could turn out to be a dark horse of FY25: Satish Ramanathan

By Kshitij Anand, ETMarkets.com • Last Updated: Apr 03, 2024, 09:06:00 AM IST



Synopsis

Satish Ramanathan highlights challenges for Indian equity markets in FY'25, including domestic elections, monsoons, food inflation, US elections. Crude oil, inflation, and central banks' actions pose additional risks. Market corrections offer investment opportunities amidst turbulent valuations. Ramanathan says: "The recent correction in the mid and smallcap stocks was primarily on account of a sharp rise in valuations and not due to a deterioration in fundamentals."



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*"Financials continue to trade at valuations below their historic average and could be a **dark horse**, as also pharma and chemicals," says **Satish Ramanathan**, CIO - Equity, **JM Financial Asset Management**.*

*In an interview with ETMarkets, Ramanathan said: "In FY'25, Indian **equity markets** will have three walls of worry to cross- Domestic elections, Monsoons, and food inflation, and finally US elections and outcome on trade relations,". Edited excerpts:*

We have closed FY24 with double-digit gains. How do you see markets in FY25?

Satish Ramanathan: The returns in FY'24 have front-ended some of the returns of FY'25 and valuations are currently above the 10-year average across several sectors.

The expectation that growth will be above average needs to play out in FY'25, and in that sense, it will be a wait-and-watch year, with volatility exaggerated, as valuations leave no room for error.

Strong inflows into equity mutual fund schemes supported by increased retail participation helped to overcome FPI selling in FY'24.

How should one place themselves in the small & midcap space in FY'25?

Satish Ramanathan: The recent correction in the mid and small caps was primarily on account of a sharp rise in valuations and not due to a deterioration in fundamentals.

In that sense, corrections such as the recent one offer a good opportunity to build/increase allocation to this segment of the market.

Any sectors that could turn out to be the dark horse in the next 12 months?

Satish Ramanathan: In light of the sharp runup in FY'24, there have been very few sectors that have been left out. **Financials** continue to trade at valuations below their historic average and could be a dark horse, as also pharma and chemicals.

Election will start in April – are there any sectors that have done well post the event.

Satish Ramanathan: Post-elections there is a general euphoria in markets which then quickly dies down as the government gets to decision making.

The general expectation of the incumbent government continuing, will imply more of the same with a thrust on development and capital expenditure in areas such as railways and renewable energy.

Crude oil has been inching higher so far in 2024. Do you see the trend as a worry for Indian markets in FY25?

Satish Ramanathan: Crude oil price volatility will continue to remain India's Achilles heel. However, with abundant supplies of natural gas expected to come on stream globally in FY'25, price impact of crude may be lower for India.

India's transportation and logistics could be impacted by higher fuel prices, as also inflation. This could hamper consumer demand, which has already seen a slowdown in growth expectations.

Japan ends a 17-year run of negative interest rates and the US Fed kept rates status-quo – what does the central bank's rate action tell us about future rate trajectory?

Satish Ramanathan: Central Banks have been cautious of a runaway growth impacting inflation. Higher interest rates, in general, adversely impacts flows into equity markets and carry trades.

This has led to FPI selling in India, as higher interest rates reduce the need to use Emerging Markets to enhance returns.

While higher interest rates have curbed economic activity in some areas, it has also created shortages and limited capacity creation in some sectors, globally entrenching inflation.

Central banks will need to monitor the economic situation closely and keep a flexible approach to interest rates to ensure growth and inflationary pressures are balanced out.

It is reasonable to expect US rates to remain where they are and may have a downward bias towards the later part of the year.

What is the biggest risk that you see for markets in FY'25 that could derail the bull party?

Satish Ramanathan: In FY'25, Indian equity markets will have three walls of worry to cross- Domestic elections, Monsoons and food inflation and finally US elections and the outcome on trade relations.

Apart from this, there are geopolitical issues cropping up. A sharp increase in inflation is the key risk that we are monitoring in FY'25.

Note: Mutual Fund investments are subject to market risks, read all scheme related documents carefully.