

Web Exclusive We prefer a bottom-up approach in this environment: Satish Ramanathan

SATISH RAMANATHAN, chief investment officer for Equity at JM Financial Asset Management shares his outlook for the markets and his sector preferences

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SATISH RAMANATHAN, chief investment officer for equity at JM Financial Asset Management

It has been a testing time for the [markets](#) that have swayed mostly to central bank policy decisions in the last few months. **SATISH RAMANATHAN**, chief investment officer for Equity at [JM Financial Asset Management](#), tells **Puneet Wadhwa** in an interview that if there is a dramatic change in the central bank's decision on interest rates, there could be a risk-on trade, but that looks unlikely for now. Edited excerpts:

What's your [market outlook](#) for the next Samvat?

Market valuations are about the decade average and earnings momentum is still positive. However, with central banks reducing liquidity and increasing interest rates, asset price deflation is also likely. We remain

cautious on equity [markets](#).

Is it advisable to book profit / loss and sit on cash for a while?

We prefer a bottom-up approach in this environment and are cognizant of the macro situation. We look at businesses that can offer a double digit growth in this environment and have reasonable valuations. The businesses that we invest in do not have too much leverage, as it is a rising interest rate scenario. Investors must have some liquidity to navigate this volatility and make use of opportunities that may arise from time to time.

Your overweight and underweight sectors?

India will need to keep her exports humming as its forex reserves are critical. Consequently, we have a good mix of domestic consumption-oriented businesses and companies that can export as well. That apart, we are careful when it comes to commodities due to volatility in earnings, even though they may appear to be reasonable from a valuation standpoint.

How are retail investors approaching the mid-and small-cap segments?

In the past mid-caps and small-caps used to be more volatile than large caps but that has changed due to two factors. The retail participation in mid-and small-caps have increased significantly, stabilising the price volatility to some extent. Second, mid-cap companies offer a good blend of growth and value as many under / unrepresented sectors can be bought only in the midcap space. Also, midcap companies have restructured their balance-sheets and have reduced financial volatility to a large extent. In fact, one of our studies indicates that the Beta of the midcap index over the large-cap over a three year basis is less than 1.

How do you see the flows - domestic and FII - play out over the next few months?

At higher interest rates, it is reasonable to expect some money to shift to debt products such as fixed deposits. The euphoria that equity [markets](#) saw earlier may not be present, but a good SIP book that the country has will ensure that money keeps coming in from domestic investors. There is a marked preference by the next generation towards more liquid assets, and equity as an asset class is still among the most attractive assets on a tax and inflation adjusted prices.

FII flows are a little more difficult to predict, as many countries have their internal issues and investing in an emerging market (EM) may not be the highest priority at this juncture. Consequently, markets will be supported more by domestic flows and not by FII flows. If there is a dramatic change in the central bank's decision on interest rates, then we could have a risk on trade; but that looks unlikely for now.

With nearly Rs 12,000 crore worth of IPOs lined up, do you think it will impact secondary market liquidity at a time when the markets are volatile?

I think Rs 12,000 is not the issue as markets have adequate liquidity to absorb the same. The key factor to highlight is on the quality and valuation of the issue(s). There is some apprehension in the market, but good businesses at attractive valuations will always find buyers.

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