Daily Voice | Indian Economy likely to remain beacon of hope for global economic growth, says Satish Ramanathan of JM Financial

"The US Government policies are encouraging manufacturing and unemployment remains at low levels. Hence, inflation is likely to remain higher for longer in the USA versus history," Satish Ramanathan, Chief Investment Officer - Equity at JM Financial Asset Management.

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Satish Ramanathan of JM Financial

Satish Ramanathan, Chief Investment Officer - Equity at JM Financial Asset Management feels the Indian Economy is likely to remain the beacon of hope for global economic growth.

In an interview with Moneycontrol, Ramanathan said, "We expect growth momentum to continue though may be a tad lower in the first half of FY24 as compared to the second half. We see benefits of improved consumer sentiment and infrastructure push to keep the growth momentum buoyant."

On the sectoral bet front, he added, "Indian banks are in a sweet spot as regards earnings and asset quality, and this is observed across all types of banks - large private, PSU, and NBFCs as well."

Do you see a possibility of earnings recession globally (including India) led by western countries, especially after consistent rate hikes by Federal Reserve in the last year?

The earnings recession will be sectoral and not widespread. There is a return to normalcy in spending patterns post covid spike and hence the base effect is looking adverse. Inflation will benefit certain sectors and impact others and hence the outcomes will not be uniform.

Overall, however, it is fair to expect a slowdown globally. As regards India, earnings of energy and material-intensive industries were depressed due to the surge in input costs and a cooldown in these will likely benefit them to some extent.

We are not yet building in an earnings recession or a downgrade for the market and would prefer to approach it on a sector-by-sector basis.

Q: Will the Federal Reserve decide to pause in its next policy meeting in May and start hinting about interest rate cuts in the later part of the calendar year?

We can never be sure about what the Federal Reserve decides, but one thing that has emerged with this unprecedented rapid increase in interest rates is that the mark-to-market losses have been sharp which impacted the US smaller banks negatively.

Whether the US Federal Reserve decides to improve liquidity and continue the increasing interest rate trajectory will be keenly watched. The risks of collateral damage to the US economy are increasing.

The US Government policies are encouraging manufacturing and unemployment remains at low levels. Hence, inflation is likely to remain higher for longer in the USA versus history.

On the other hand, reductions in oil and gas prices and lower commodity prices have not yet been fully passed on to the end consumer which may lead to a slightly lower inflation print in the second half of this year.

Q: Are the large banks still cheap in terms of valuations, compared to other pockets of the market?

In general, Indian Banks are in a sweet spot as regards earnings and asset quality. This is observed across all types of banks - large private, PSU, and NBFCs as well. Retail and SME credit have picked up and the role of fintech is expanding.

Q: Is it time to increase exposure to auto stocks?

The auto industry is at the cusp of a technological change as regards EVs (electric vehicles) and we expect that this could throw up a completely different landscape of the auto industry, which could be disruptive. Companies ahead of the pack in capturing this opportunity may be disproportionately rewarded.

With cost structures rising globally and China +1, India's Auto sector including auto ancillaries are likely to benefit from good export opportunities. India's strength as a small car hub and scale of two-wheeler manufacturing place us in better competitive positioning in global exports.

Q: Which are the sectors or segments that can have earnings resilience in FY24?

Apart from the banking sector, we see lower raw material prices benefitting consumer durables and auto sectors as well. We also expect the FMCG sector to benefit from lower raw material prices and rural recovery.

We expect some improvement in the textile space as volume growth and lower input costs benefit the bottom line.

Q: One of the members of the Monetary Policy Committee sees downside risk to RBI's FY24 economic growth forecast. Do you expect growth to fall below 6 per cent in the current financial year?

We expect growth momentum to continue though it may be a tad lower in the first half of FY2024 as compared to the second half. We see benefits of improved consumer sentiment and infrastructure push to keep the growth momentum buoyant.

Monsoons are expected to be normal and benefit farm incomes. This could be a key variable to monitor.

Lower crude prices, and improving exports can boost India's economic growth and hence we expect India's growth to exceed 6 percent over the medium term. The Indian Economy is likely to remain the beacon of hope for global economic growth.