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[ETMarkets Smart Talk: We are finding value in financials, auto, IT & consumer staples: Amit Joshi](#)

Synopsis

"Inflation affects different asset classes in different ways. Generally fixed income returns would be impacted more as compared to equities where inflation-linked sectors will do better. The key is to maintain a well-diversified portfolio across all asset classes. However, the real return expectations should be moderated during high inflation scenarios. The portfolio should be aligned to commodity producing sectors which are expected to do better than commodity user sectors".



"We still find value in growth-oriented sectors and companies. With strong credit growth revival, we are getting incrementally positive on Financials

since the sector is well capitalized and asset quality issues are behind," says Amit Joshi , Chief Investment Officer, Bajaj Allianz General Insurance.

In an interview with ETMarkets, Joshi said: "Investor portfolios should be aligned to Commodity producing sectors which are expected to do better than commodity user sectors."

After a strong March we have seen a volatile April. Benchmark indices slipped below crucial support levels. What is worrying the Street and what is the way ahead?

After a year of strong returns (19% in FY22), market participants are worried about a possible downward revision in the GDP growth rate, the relentless rise in commodity prices, possible disruption due to rate hikes by the US Fed, and withdrawal of excess global liquidity and overall impact on earnings growth because of these factors.

India is better positioned to handle this scenario because of strong macro fundamentals like healthy Government revenue, Healthy Forex reserves, and growth still looking better on a relative basis.

Unlike other economies, during Covid times, India stopped short of outsized fiscal and monetary largesse and steps were restricted to providing ample liquidity at affordable rates

This would help India to wade through this rising rate cycle much better relative to its peers.

We see a back-to-back double-digit falls in Netflix shares. Is there a learning lesson for India Inc. here? What are your views?

It's a classic case of extrapolating pandemic-led growth for the long-term and valuations getting stretched. As the economies open up, some of the outsized pandemic-driven gains might reverse for such companies and markets are likely to look for other growth opportunities. However, for companies with robust business models, growth would normalize and this would lead to valuation getting reset to sustainable levels of growth.

For India too, we are in the process of adjustments to the valuation of similar companies. Companies should also reevaluate their expansion plans which were planned based on Covid time demand projections.

Inflation seems to be the biggest risk that the equity market faces not just in India but across the globe. How can investors make an inflation-proof portfolio?

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FII exodus is a bit worrying, especially for the 7th month in a row (cash segment of India equity markets). Are global portfolio managers adjusting their portfolios? What seems to be causing the panic.

India has been one the best performing market in the last few years and is now trading at a premium to global markets as well as emerging markets (EMs).

FII selling in the last few months can be taken as regular profit booking and readjustment of the portfolio. On the economic front, commodity inflation has always been a worry for high trade deficit countries like India and high inflation across the globe creates issues for growth in India.

There has been some shift of institutional money to commodity producer economies. However, we don't see any reason to panic given the strong Macro fundamentals of the Indian economy.

Whenever there is a reversal in commodity prices, India will among the first to gain from it.

Now that we are talking about FII's – we also have a famous adage “sell in May and go away”. By the looks of it, we might see another month of selling at least in the cash market of India equity markets. What are your views?

Market would be driven by the ongoing quarterly earnings season, incremental developments on geopolitics and commodity prices rather than a particular calendar month. So, a fundamental driven investing approach should be followed at all the times.

Where are you finding value in this market?

We still find values in growth-oriented sectors and companies. With strong credit growth revival, we are getting incrementally positive on Financials since the sector is well capitalized and asset quality issues are behind.

The expected revival in the rural economy is making us positive on consumer staples. We are also positive on Consumer Discretionary sectors like Auto which is coming out of the severe impact of input price inflation.

Complete opening up of services sectors like Information Technology should also help the sector. Besides this, we are trying to find opportunities across sectors where growth opportunities are more visible and there is less impact of elevated commodity prices on gross margins.

What is your view on IT sector? We have seen some selling pressure in top IT names

IT sector companies score much higher on strong current cash flows, history of high dividends and buybacks and corporate governance.

The sector is still expected to grow in double-digit after a 20% plus growth last year. Present Salary level adjustment happening in the sector also underscores the high demand and strong deal pipeline.

After the recent 15-20% correction in the sector, the valuations are in line with future growth expectations. However, we will be selective here as now the high growth phase of the whole sector is behind us.

Amid the increasing interest rate environment, rise in commodity prices -- do you think small & midcaps could be under stress in FY23? What should be the strategy of investors?

Large caps in the listed corporate sector have seen a quick and strong recovery from the effects of Covid as well as market share gain. Similar was the case for leaders across sectors in the mid and small universe. But, now with the economy, especially services sectors are in the process of completely opening up, mid and small cap companies are expected to bounce back sharply, so there should not be any extra stress for these stocks.

This is also being reflected in Mid and Small-cap indices outperforming the large caps recently. Investors can look favorably towards these segments.