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Daily Voice | Early in upcycle, yet Amit Joshi of Bajaj Allianz favourably inclined to auto and realty

For auto sector, order books are huge due to pent up demand and due to supply constraints. Complete opening up of service sector and demand for personal mobility will keep the sector demand healthy.

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Amit Joshi is the Chief Investment Officer at Bajaj Allianz General Insurance.

Both auto and reality are interest rate sensitive sectors as the cost of finance plays a critical role in purchasing decision. But the demand is more a function of growth and less of interest rates. Both these sectors have just entered into their upcycle, according to Amit Joshi, Chief Investment Officer at Bajaj Allianz General Insurance.

In the course of an interaction with *Moneycontriol*, he said the order books are huge in the auto sector, thanks to the pent-up demand and supply constraints, while stable residential prices and strong salary and hiring growth in the IT/ITeS sector, especially in Tier 2/3 cities, are driving demand in the realty space. "We still are favourably inclined to these two sectors," he says. Excerpts from the interaction:

Do you expect the US Federal Reserve to go for most major rate hikes this year itself, considering the current global environment?

We have seen unconventional monetary policy tools being employed by the central banks the world over, as a response to the pandemic. Most of the objectives targeted by such tools have been met and helped the global economy withstand the impact of the pandemic. There are some side effects of unconventional monetary policy, though, which are being manifested in form of runaway inflation.

The US inflation print was at 40-year high and that forced the Fed to respond with reversal of unconventional policy tools. The inflation situation is also getting more complicated due to the war in Europe as there is a global supply shock, coupled with robust demand as the world economy picks up pace.

We believe that central banks world over will be vigilant towards the threat of Inflation and will take every possible action to control it. We should be prepared for rising interest rates and lower liquidity in the coming period. This clearly has wide-ranging portfolio implications as high inflation and resultant high interest rates ultimately is bad for most asset classes.

Do you think the RBI will keep raising rates till the inflation comes down to around 4 percent on a sustainable basis?

The surprise rate action by the RBI has brought the markets back to the reality of creeping inflation and the non-transitory nature of it. There was a consensus that the RBI is falling behind the curve but the latest policy action has confirmed that the RBI is very much awake to the developing situation and will act to maintain the Macro stability in a timely manner.

The off-cycle rate hike is a clear message that RBIs actions will be data driven with the emerging inflation and growth trajectories. At the present juncture, we are of the view that RBI may go for neutralising the pandemic period accommodation by raising repo rate and squeezing out excess liquidity in next few quarters.

The market fell nearly 10 percent in last one month amid macro issues and policy tightening by central banks to combat rising inflation. How do you approach markets now?

Caution is the key in the current macroeconomic set up. A high quality liquid portfolio will allow the investors to make course correction as the rate cycle picks up pace and investment opportunities start emerging in various assets.

Generally, markets are quick to discount the terminal rates within the first few months of an interest rate cycle and that creates opportunities for the investors. One should be ready to take these opportunities as they present themselves.

Do you expect slowdown in credit growth for banks, if there are subsequent rate hikes by RBI in coming months? Is it the time to bet on banking and financial space?

Interestingly enough, the margins of banks are positively correlated with the rate cycle as asset side of balance is repriced earlier than the liability side. Credit demand is likely to stay strong as the economy is strongly back on track and 100 – 150 basis points interest rate increase is not a deal breaker. After the initial reaction, financial space should do well in the coming months.

Do you see major impact on global growth if the sanctions keep mounting on Russia?

The outcome of the war is a big unknown in the present scenario. We see the impact of war more on inflation as against growth, given the fact that the countries involved in the war are not a significant part of the global economy but are large suppliers of energy and commodities.

Overall if war results in a much higher than anticipated inflation, it may indirectly impact growth as central banks keep raising the rates and squeeze out liquidity.

What should one do with the auto and realty segments if there are subsequent rate hikes in coming months?

Both Auto and reality sectors are interest rate sensitive sectors as financing cost plays a critical role in purchasing decision. But overall the demand is more a function of growth and less of interest rates. Both these sectors are coming out of a down cycle and we are still early in upcycle.

For auto sector, order books are huge due to pent up demand and also due to supply constraints. Complete opening up of service sector and demand for personal mobility will keep the sector demand healthy.

For real estate, bookings across the top 7 cities of India grew 10 percent QoQ, 71 percent YoY to about ~1,00,000 units in Q4FY22. Inventory months (inventory measured in terms of trailing monthly demand) has declined to 28 versus 42 last year. A ratio of less than 30 is generally considered as favourable in the sector. Stable residential prices and strong salary/hiring growth in the IT/ITeS sector especially in Tier 2/3 cities are driving demand. At this level, we still are favourably inclined in these two sectors.

What are the themes you like the most now, which have to be a part of portfolio?

Early signs of rural economy revival based on strong agriculture growth is making us positive on consumer staples and other rural linked themes. Revival in credit growth and possible margin expansion due to higher policy rates making us incrementally positive on Financials since the sector is well capitalized and asset quality issues are behind.

Technology sector is expected to grow in double digit after a 20 percent plus growth last year with possible tailwind from currency depreciation. Complete opening of service industry should help consumer discretionally sector like automobile where pent up demand is yet to be played out. We are also looking for themes across sectors having minimal impact of elevated commodity prices.