

# ETMarkets Fund Manager Talk: Sectoral funds set to grow at faster pace driven by new launches, flows: LIC MF

Synopsis

**The key initial reasons for the market correction globally since late 2021 were runaway inflation and unprecedented interest rate hikes by central banks to control the inflation. Both these factors have largely played out and equity valuations have fairly discounted the higher cost of capital today.**

*Thematic and [sectoral funds](#) have gained a lot of investor attention over the last 1 year and have seen sustained inflows and [LIC Mutual Fund](#) believes this category will do well in the near term.*

*What has changed in the recent quarters is that [investors](#) are taking bets on the sectors that they are bullish on and relying on the professional fund managers for stock selection, says [Amit Nadekar](#), senior fund manager - [equity](#), at the [fund house](#).*

*“We expect this segment to continue to grow at a faster pace driven by more fund launches and continued inflows, albeit the sectoral preference might change depending on the performance and outlook,” Nadekar told ETMarkets in an interview.*

*Edited excerpts:*

**After the smart rebound we have seen in markets since April, do you think stability is returning?**

The key initial reasons for the market correction globally since late 2021 were runaway inflation and unprecedented interest rate hikes by central banks to control the inflation. Both these factors have largely played out and equity valuations have fairly discounted the higher cost of capital today.

## Unlock Leadership Excellence with a Range of CXO Courses

Offering College	Course	Website
IIM Kozhikode	IIMK Chief Product Officer Programme	<a href="#">Visit</a>
IIM Lucknow	IIML Chief Operations Officer Programme	<a href="#">Visit</a>
Indian School of Business	ISB Chief Digital Officer	<a href="#">Visit</a>

However, the economic slowdown and impending corporate earnings downgrade cycle would probably continue to play out over the next few quarters.

The pace and quantum of this downward cycle will keep investors on their toes and, hence, it would be premature to call that stability has returned to the markets.

Given the sharp run-up from a relatively attractive valuation base, at the current level of valuations, it would be fair to say that investor confidence will get tested over the next 6-12 months.

**A section of people in the market believe that 2023 will be a year of accumulation as volatility is likely to be higher. Do you also think so?**

I agree. As discussed above, the market will continue to have a cautious approach to economic growth and earnings cycle which will lead to heightened volatility – tolerance to negative surprise would be low.

Given the longer-term growth story of Indian markets and current reasonable valuation levels, the current phase of the market is a great accumulation opportunity for the investors.

**Over the last 1 year thematic/sectoral funds have seen strong inflows. How have these funds at LIC MF performed and do you expect this category to continue to be in demand?**

At any specific time, there are certain themes which are performing well and some are lagging due to various reasons. What has changed in recent quarters is that investors are taking bets on the sectors that they are bullish on and relying on the professional fund managers for stock selection.

Thus, we expect this segment to continue to grow at a faster pace driven by more fund launches and continued inflows, albeit the sectoral preference might change depending on the performance and outlook.

**Small and midcap stocks have seen a good rally in the last couple of months. Which pockets have attracted you?**

In the recent times, largecap companies' valuations were above their historical means, while midcaps and smallcaps were available at valuations lower than their historical means, along with improving performance.

Fund flows in the midcap mutual fund schemes have also been healthy over the recent months, which is leading to increased investment in limited number of stocks (number of midcap stocks are limited to 150).

We continue to focus on midcap and smallcap companies which are continuously delivering market share gains, improved margins and working capital efficiency and superior corporate governance.

**What are your key takeaways from the March quarter earnings? Which sectors indicate there's more pain left?**

While the initial results have been a mixed bag with sectors like BFSI, consumer, and auto delivering encouraging performance, other sectors have been relatively subdued.

Some of the sectors which are linked to global economic and demand scenarios have been impacted and may continue to see more pain in the coming quarters.

**Currently, which sectors is your fund house extremely bullish on, and on which ones you're bearish?**

We are relatively bullish on BFSI, auto and industrial sectors, while we are relatively underweight on IT, healthcare, consumer staples and durables.

**What kind of investment approach will you recommend to retail investors if one assumes that interest rate hikes are nearing the peak?**

Retail investors should not focus on interest rate volatility and short-term movements in the market as these will keep evolving, rather they should focus on wealth creation through long term investing. Investors should follow disciplined approach to investing through investment in Systematic Investment Plans (SIP) as it will eventually average out their cost by investing through bullish and bearish times.

(Disclaimer: Recommendations, suggestions, views and opinions given by the experts are their own. These do not represent the views of Economic Times)