

ETMarkets Fund Manager Talk-Investor confidence likely to get tested over next few months: Karan Doshi, LIC MF

Synopsis

The equity market has been on a strong rally for the past few months. This was primarily due to lower recessionary fear in the US and Europe, liquidity and robust macroeconomic data (easing inflation and strong GDP growth projections).

MUMBAI - Ebbing recessionary fears in the US and Europe and encouraging domestic [growth](#) indicators contributed to the rally in Indian equities in the recent months.

But whether or not the market is overheating is a question difficult to answer at the current moment. When asked about it to [Karan Doshi](#) of LIC Mutual Fund, he said, "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 few months."

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However, the [fund manager](#) remains positive on the long-term growth story of India and believes it's a great phase of accumulation for [investors](#). *Edited excerpts from an interview with ETMarkets:*

After the 4 months of rally, do you think the [equity market](#) is overheating or you see more legs to this rally?

The equity market has been on a strong rally for the past few months. This was primarily due to lower recessionary fear in the US and Europe, liquidity and robust macroeconomic data (easing inflation and strong GDP growth projections).

Ultimately, whether or not the equity market is overheating is a matter of opinion.

However, 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 few months.

Having said this, given the longer-term growth story of India and reasonable valuations, the current phase of the market is a great phase of accumulation for the investors.

The broader market has outperformed benchmarks by a wide margin. Do you see this outperformance continuing?

Since April, Nifty Midcap and Smallcap indices are up 20% and 24%, respectively, compared to 12% return in Nifty. The ongoing positive momentum would continue supported by strong domestic growth, resilient earnings growth expectations and robust fund inflows.

Although valuation comfort is relatively lower, most of the growth-focused themes are part of the small-cap and mid-cap segment. Rather than looking at the overall benchmark, one needs to take a call on individual sectors and stocks.

Within midcap and smallcaps, some of the sectors and stocks are attractively priced, have good growth visibility and may have potential to do well irrespective of the underlying benchmark.

For 3 straight months, the MF industry has seen highest inflows in smallcap funds. Do you see this trend continuing?

While it is difficult to comment on the trend, the surge in inflows into small-cap funds is led by a few factors, including improving macroeconomic conditions and increasing retail investments. While investing into this category, investors should be aware of the risks involved. They should also have a long-term investment horizon and be prepared to ride out the volatility.

Which stocks/sectors within the midcap and smallcap segments are you bullish on?

We are bullish on manufacturing and consumption theme-based sectors, particularly banking, financial services, capital goods, auto, chemicals etc.

With markets at new highs, what kind of asset allocation will you recommend to investors in the run-up to general elections?

When it comes to long-term investing, timing the market may not be a good strategy. Retail investors should not focus on short-term movements in the market, rather they should focus on wealth creation through long term investing.

Investors should be well diversified across market caps, so they may consider either multicap or flexicap funds as these funds have a good mix of stocks across market capitalization. Some investors may stick to the largecap or large and midcap or hybrid categories.

Any major downside risks you foresee for Indian markets for the rest of 2023?

We don't foresee any major risks to earnings growth except for a few factors like weak global macroeconomic conditions, higher interest rates or some incremental event which could hamper earnings growth.

The Indian economy is at an inflection point that marks the start of a new virtuous growth cycle.

We believe that in the medium to long run, the confluence of demographics, productivity and globalization will be structurally supportive of a higher growth rate.

To avoid major downside, invest in companies with a good corporate governance, healthy balance

sheet, strong growth potential over the next 3-5 years and valuations at reasonable levels.

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