

Thanks for trying out Immersive Reader. Share your feedback with us.  



# LIC MF equity head on why IT & logistics stocks could prove to be inflation proof

Synopsis

**"Historically, rising inflation leads to lower consumption. It affects most of the sectors in terms of revenues and margins. Metal companies and the energy sector may do better in the short run. IT, logistics and consumer sectors may be less affected. Also, market leaders with strong brand and customer stickiness may be less affected during this inflationary phase as they may be able to pass on the rise in input cost to its clients."**



ETMarkets.com

***Yogesh Patil**, who heads the equity investments at the mutual fund arm of **Life Insurance Corporation (LIC MF)**, is a firm believer in India story though, in the short run, he believes rising inflation will hit consumption in the country. So how should one prepare for such a scenario? Find answers here. Edited excerpts:*

**What is your take on the market right now? Where do you see it moving in the short and medium term?**

India is one of the fastest growing economies in the world with the highest proportion of millennials. We believe formalisation, consolidation, digitisation, urbanisation, Make in India (China +1 Policy ) and certain structural changes are here to stay and will continue to support India's growth story in the long term.

The **Indian economy** is at an inflection point that marks the start of a new virtuous growth cycle. Within consumption, while rural consumption has remained resilient, urban consumption is gradually picking up pace. We believe that in the medium to long run, the confluence of demographics, productivity and globalisation will be supportive of a higher growth rate. We continue to remain bullish on domestic consumption and export-driven businesses in the medium to long term.

**What could be two biggest risks and two biggest drivers for the market in the near future?**

Markets are typically a function of fundamentals and incremental flows coming into the system.

Major triggers are the pick up in domestic demand, quantum of capital expenditure and continuous improvement in the macroeconomic environment post the Covid disruption. Currently, geopolitical tension and high inflation are two big risks in the market.

**What are the three sectors that you believe can make money from investors in the medium term?**

We remain positive on domestic consumption, private banks, IT, chemical and export oriented companies.

**In the last few months, small and midcap stocks have underperformed. It reminds us of 2018-19. Will the trend continue or we can see another leg of rally in them?**

We have seen the small and mid-caps outperforming largecaps in the last few months but such outperformance in mid and smallcap stocks is always a stock specific case. We as a fund house largely focus only on Industry leaders, where risk reward is favorable.

**Inflation is raising its head and consensus is it is set to be higher than RBI tolerance level for a while. What are the sectors that will be insulated from it and may do better even in such a scenario?**

The WPI stayed in double digits for the last financial year and CPI was 6.01 per cent in February 22, just above the RBI comfort zone. The rise in inflation can be attributed to the rise in prices of mineral oil, metals, chemical products, and food articles. The US Fed has increased its fed rate by 0.25 per cent in Mar-22 and will gradually increase it in the coming future. This may have an impact on our interest rates, inflation, and currency as well.

Historically, it's seen that rising inflation leads to lower consumption. It affects the majority of sectors in terms of revenues and margins. Metal companies and the energy sector may do better in the short run. IT, logistics and consumer sectors may be less affected. Also, market leaders with strong brand and customer stickiness may be less affected during this inflationary phase as they may be able to pass on the rise in input cost to its clients.