Positive on consumption and manufacturing sectors, says Jaiprakash of LIC Mutual Fund

TL;DR.

He speaks about a slew of topics ranging from the impact of US Fed’s interest rate hike, growth potential of market indices, and why should retail investors stay invested for long

He refrains from giving a short-term outlook of the market as he says that it is no different from crystal ball gazing.

Lately there has been a lot of uncertainty in India and overseas markets, but most of the impact has already been priced in, asserts Jaiprakash Toshniwal, senior equity research analyst and fund manager of Equity LIC Mutual Fund.

In an email interaction with*MintGenie*, he also shares his views on the impact of US Fed’s interest rate hike, macro-economic sentiment, and a number of other factors.

He is optimistic about long-term growth of the Indian stock market, and says that despite markets hitting all-time highs, equity market performance is lower than the earnings growth.

Meanwhile, he refrains from giving a short-term outlook of the market as it is no different from crystal ball gazing.

Which are the sectors that are likely to do well in the near and medium-term future?

Looking at the current global and domestic macroeconomic setup, I believe that the domestic-focused sectors may do well. I am positive on the consumption and manufacturing sectors.

The recovery in the rural market, the improving demand scenario in the urban market, and policy support from the government are acting as the major tailwinds for these sectors.

Do you think there will be any significant impact of the US Fed's interest rate hike on Indian equity markets?

There would be some impact on the market, as the domestic yields may go up, which could negatively impact the market valuation. When domestic yields go up, it means that the cost of capital for businesses increases.

This makes it more expensive for businesses to borrow money, which can lead to lower investment and slower economic growth. As a result, stock prices may fall as investors become more pessimistic about the future earnings potential of businesses.

However, I believe this would be more of a transitory nature and may not impact the structural trend. On the long term, market performance may reflect the nominal GDP growth and corporate earnings, which seem to be on the upward trajectory.

There are certain global uncertainties such as technical recession in Europe and inflation in the US. What is your outlook on Indian markets amid these scenarios?

We have been going through an uncertain time period in the last three years, and these events have impacted the markets.

However, I believe that most of the impact has already been priced in. Sectors such as IT, textiles, and chemicals have seen lower sales growth because of these factors. However, we are seeing some initial signs of improvement, which may be positive for corporate earnings.

This may positively rub off on market sentiment. Overall, I believe that the Indian stock market is positioned for long-term growth. The economy is growing at a healthy pace, and corporate earnings may continue to improve.

What suggestion would you give to young retail investors based on the current market scenario?

The answer lies in history. In the last twenty years, India's nominal GDP has grown in excess of 10%, and the Nifty index has delivered a CAGR return of approximately 15% (published data, sourced from Bloomberg).

A retail investor may continue to remain invested, as we believe that nominal GDP growth is in the range of 10-11% in the medium term. However, it is important to remember that past performance is not a guarantee of future results. Investors should do their own research and consult with a financial advisor before making any investment decisions.

As benchmark indices are hitting all-time highs, what is your view on the valuation of stocks — particularly large caps?

While the markets may appear to be on the higher side, if we zoom out and see the performance of the last two years, the equity market performance is lower than the earnings growth. During this period, the market PE (one-year forward) has moderated from highs of 23x to 19x now. However, a lot of things have changed for the better.

For example, crude oil prices have fallen to $80, inflation has moderated, interest rate cycle is behind us, foreign capital flows remain strong and earnings continue to grow in double digits.

The combination of positive macro factors and strong corporate earnings growth may support the markets in the medium term. Hence, we remain constructive on the markets

What is your market outlook for the current fiscal? Do you expect the bull run to continue in the foreseeable future?

It's difficult to give an outlook on the market for the short term, as it’s no different from crystal ball gazing. However, as highlighted above, most of the factors that have impacted the market in the last two to three years are turning positive.

This may bode well for the Indian economy as well as corporate earnings. Barring any unforeseen factors, I believe the economy is on sound footing and on track to deliver nominal GDP growth of 10-11%.

If we zoom out and see the last 20 years of history, there have been a fair share of negative events, both globally and domestically. Still, the market is where it is and has created reasonable wealth for investors. We don't think the situation has materially changed to break this trend.

Investing tips

First Published: 08 Aug 2023, 09:02 AM IST