Budget 2023: ‘Defense, railways & infrastructure including affordable housing are sectors to watch’: Yogesh Patil

Yogesh Patil, Chief Investment Officer - Equity, LIC Mutual Fund

Yogesh Patil, Chief Investment Officer - Equity - LIC Mutual Fund, claims that historically, investing during a crisis when equity markets have had a correction has generally turned out to be a lucrative strategy. In an interview with MintGenie, he said investors should continue to put money into the stock market, preferably through a systematic investment plan (SIP).

Further, he also spoke about small-cap and large-cap indices, upcoming budget, and sectors to watch out in the near-term.

Edited Excerpts:

1. How should new investors approach the markets in 2023 given the uncertainty brought on by ongoing global risks?

Firstly, uncertainty brought on by ongoing global risks are well-known and reasonably baked in the current valuations. Secondly, many of these risks like inflation, rising interest rates, energy crisis due to Ukraine-Russia are receding, which would be a positive factor for the market. Lastly and most importantly, history has proven that investing through a crisis when equity markets have gone through a correction has mostly proven a lucrative strategy and hence investors should continue to allocate money to equity markets, albeit, through systematic investment plan (SIP) route preferably.

2. What is in store for the small-cap and mid-cap indices in 2023?

As a rule of thumb, in an uncertain, risk-averse, liquidity starved environment small and mid-cap indices underperform the large cap index. So, the relative performance of small and mid-cap indices in the short term would entirely be dependent upon how these things play out on these counts. Midcap space continue to see steady flows from domestic investors and hence the performance has been better compared to small-cap space. However, from a 3 to 5 year perspective, small-cap indices may do equally well, if not better, since the entry point today is far more attractive at 18.5x trailing twelve month earnings compared to 21.5x for Nifty50 and 25.6x for Nifty Midcap150 index.

3. What are the sectors to watch out this upcoming budget?

Defense, railways and infrastructure including affordable housing would be key sectors to watch out for as a direct beneficiary of increased allocation in the upcoming budget. Capital goods and consumer staples could be another sectors to watch out for which could be indirect beneficiary of government incentivised capex programs and any positive relief to common man on personal income tax front. Rural as a theme could also pick up if there be increased thrust on improving rural income through direct schemes or indirectly through channelising of rural infrastructure spend.

4. So far railway stocks have delivered returns over 100% on anticipation of budget

announcements, would you believe the rally will continue?

It is true that stocks related to railways have significantly ran up ahead of the budget and hence there could be moderation in price performance post budget. However, the government initiatives on transforming of Indian railways would require multi-year investment and provides both visibility as well as long growth run-way for railways stocks and hence from a longer term perspective, this appears to be a promising sector.

5. Do you see the government extending the production-related incentive programmes to more sectors in order to increase private sector capital expenditure (capex)?

Yes

6. What trading approach would you suggest to novice investors before the budget?

You may remain invested in equities through systematic investment plans (SIPs).

7. Any advice for new investors in 2023?

The current market valuation with Nifty50 trading at 21.5x trailing twelve months earnings is not very cheap and hence market could remain very volatile. My view would be to take advantage of such volatility than being fearful. Have a right time horizon of at-least 3 to 5 years to earn desired return from the markets. To allow magic of compounding to work for it would require even long period of 8-10 years.

How to make long-term investment more rewarding

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