News

`Change in direction of rate cycle will lead to better growth prospects for India Inc. in FY13`

Source: IRIS (20-APR-12)

``For conservative investor, volatility managed products are likely to be more appropriate,`` says **Paul Parampreet Fund Manager- Equity, Edelweiss Mutual Fund**.

In an exclusive interview with Varsha Inamdar, **Paul Parampreet** further said, ``Stocks with expensive valuations and moderate growth forecasts or earnings downgrades are to be avoided.``

1 What is the growth that you are expecting in assets of equity funds in FY13?
We expect better growth than the last few years but still below trend. The dominant asset gathering class at the beginning of a downward cycle in interest rates is short to medium term debt funds. Equity markets are likely to benefit from the rate cycle trend and that will aid in gathering assets towards the second half of the year/ later years of the cycle as growth also picks up.

2 Which sectors are you bullish/bearish on?
Interest rate sensitive sectors with growth like banking and autos are likely to be the flavor once the cuts begin. Sectors with focus on discretionary spending will start to come back in a benign rate environment. Stocks with expensive valuations and moderate growth forecasts or earnings downgrades are to be avoided.

3 What do you expect from Q4FY12 earnings season?
The expectations are quite subdued and the market has already priced it in. Any surprises on the downside from here will make it difficult for the market sentiment. It is also expecting that the change in direction of rate cycle will lead to better growth prospects for India Inc. in FY13.

4 How can investors choose between different avenues in the equity category?
This year is likely to bring back the investor interest in equities after 3/4 years of sub-par performance. Equity market index returns in the last 5 years are 7% compared to long term (decade) average of 14%. This is likely to revert to the higher going forward with some help from the RBI on the monetary front, Government on the fiscal and policy front. However, these returns are likely to be accompanied by volatility.

Among the different avenues in equity markets available post 2008, investors can look forward to quant managed funds and low volatility funds in addition to the usual large cap, mid cap, diversified and thematic funds.

Quant managed funds endeavor to provide consistent value add over the benchmark in all market conditions. Conservative investors can look to invest in low volatility products that have mushroomed post the fall in 2008. These low volatility/ volatility managed products usually provide a substantial upside participation in the equity market and try to avoid the downside using asset allocation/ hedging algorithms.

for 2012?

Global markets are at the crossroads of slow recovery vs. revisiting recession. US is likely to continue its recovery although it is likely to be a bumpy ride. Euro zone is headed into a recession and has the potential to derail global growth along with it. The debt crisis is still not over and regular corrections in the market are a reminder of that. Slowdown in China is most likely to lead to a soft landing, but the bigger event would be change of guard at the top which could lead to changes in policy and thereby growth targets.

On the domestic front, growth which has come to a grinding halt is likely to recover towards the second half of FY13 and monetary policy easing by the RBI. It can do a few notches better with support from the Government on fiscal and policy front.

6 What is your advice to investors in current market scenario?

Equity investing is for the long haul and we have had a couple of years of below par returns. It is likely that the growth environment will improve going forward on absolute (as compared to recent past) as well as relative basis (compared across the globe).

A portfolio of predominantly large cap funds with around one third allocation to high quality mid cap funds should be a good mix from 2 to 3 year perspective. For the conservative investor, volatility managed products are likely to be more appropriate.