Market

Investors investing with long-term view in uncertain times will be suitably rewarded, says Devang Kakkad of Equirus

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- Kakkad said that investors investing in these uncertain times with a long-term time horizon will certainly be suitably rewarded.
- He added that it is an opportune time for investors to evaluate increasing their equity exposure.
- Given the sharp moderation in Q1 numbers, visible lack of momentum in Q2, earnings revival will take few more quarters, he further explained.

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Investors investing in uncertain times with a long-term time horizon will certainly be suitably rewarded, Devang Kakkad, head of Research at Equirus Wealth Management, told CNBCTV18.com in an interview.

Kakkad has 10 years of experience in wealth management and investment banking. Previously, he worked with Citibank as the head of Citigold Wealth Management. He executed G3 currency bond transactions during his stint with JPMorgan.

Kakkad holds a degree in Business Management and is an alumnus of Indian School of Business, Hyderabad.

Kakkad expects the market to be in the bearish mood in short-term, driven predominantly by weak investor sentiment and weakness in high-frequency activity indicators. "We expect equity market volatility to continue until a sense of revival is visible domestically or reversal of investor sentiment globally," he said.

In the interview, he also shared an advice for investors to be followed in the period of uncertainty and volatility.

Edited excerpts:

Do you think midcap and small-caps are a good investment at this moment? Do you have any preferred names in the broader markets?

It is an opportune time for investors to evaluate increasing their equity exposure if the current equity allocation is less than the desired exposure. We suggest retail investors adopt a staggered approach (say spread over the next 6 months) towards increasing their equity exposure. With reference to pockets of opportunity, given the steep correction in mid and small caps over the last 18 months, investors with a long-term view could also evaluate quality midcap and smallcap funds as well.

The markets have been in a bearish mood for some time now. Do you believe it will continue to remain in a bit of a limbo and for how long?

Markets may continue to be in the bearish mood in short-term driven pre-dominantly by weak investor sentiment and weakness in high-frequency activity indicators. There is a visible slowdown in consumption indicators (2-wheelers and car sales), FMCG products or consumer durable products. We expect equity market volatility to continue until a sense of revival is visible domestically or reversal of investor sentiment globally.

In this uncertain market scenario, what is your advice to the investors?

Both global and domestic environment is going through a phase of uncertainty and volatility. That said, such times provide the best investment opportunity. Current challenges are surely concerning but not unsurmountable. Growth compulsion shall drive the government to undertake further reforms measures. Also, after significant correction, investors could evaluate adding good quality midcaps and smallcaps funds to their portfolio. Investors investing in these uncertain times with a long-term time horizon will certainly be suitably rewarded.

Do you believe that part of the asset allocation should be towards precious metals in times like gold or silver?

Precious metals such as gold or silver have always been viewed as a safe asset class and are chased by investors in times of uncertainty/market turmoil. The recent surge in prices is more driven by events in the global markets rather than demand/supply or any domestic triggers. Events such as the escalation of the trade war between US and China, inverted yield curves in many economies and concerns around the possibility of an economic recession have led to increased attention towards “safe haven” asset class.

From an asset allocation perspective, it always helps to invest in the uncorrelated asset class and hence works as a good hedge/protection in one’s portfolio. One could consider holding 5-10 percent allocation in this asset class from a diversification point of view.

The market sentiment remains weak despite the government's announcements and the GDP growth and manufacturing is at a multi-year low. What is your reading of the situation?

India’s gross domestic product (GDP) growth decelerated to a seven-year low of 5 percent in the April-June quarter of 2019-20 compared to 5.8 percent growth in the previous quarter and 8 percent in the same quarter of the previous fiscal. Granular analysis of GDP data suggests India’s economic slowdown is deeper and more broad-based than expected. The slowdown had been across all segment of demand. Consumption growth, at 3.1 percent, was at a record low. Gross Fixed Capital Formation (GFCF) growth was only 4 percent, much lower than the 2018 trend of +11 percent and exports demand nearly halved to 5.7 percent. Particularly concerning has been the slowdown in private consumption. That said, there are efforts being taken by the government and central bank through monetary and fiscal routes to bolster the economy.

Do you believe companies will see an earnings revival in Q2 and why?

Earnings revival may take longer than initially expected, Q2 earnings revival seems a little optimistic. Given the sharp moderation in Q1 numbers, visible lack of momentum in Q2 and limited efficacy of policy actions thus far in initiating a quick growth, earnings revival will take few more quarters, with more concrete signs of recovery coming through in next financial year.

The economic slowdown has handicapped most of the sectors. When do you see the situation improving?

The economic slowdown has indeed been sharper and more widespread than expected. Growth is facing both structural and cyclical issues. Structurally, the weakness in the household job and income prospects and lack of competitive advantage in a host of export-oriented sectors are affecting growth. Cyclically, global growth and challenges in the NBFC sector are at play. We expect India's real GDP growth to show some recovery from next financial year onwards helped by the favourable base, lagged impact of monetary policy easing and expectation of growth supportive policy intervention by government.

What is your model portfolio in these turbulent times?

We do not follow a model portfolio approach. Our team curates tailor-made client portfolio basis their risk profile and financial goals. Given the turbulent times, in order to insulate an investor's portfolio, diversification is of utmost importance. Investors should endeavour to construct a long-term portfolio with a combination of multiple asset classes and product diversity for each asset class. The weightage allocation for each asset class could be a function of your risk appetite, time horizon, and long-term financial goals.

Disclaimer*: The interview was done before the announcement of corporate tax cut by Finance Minister Nirmala Sitharaman on Friday*

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