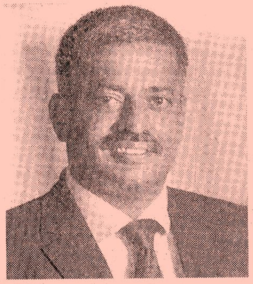
Business Standard



Fri, 23 Mar-18; BS - The Smart Investor - Delhi; Size : 221 sq.cm.;
Circulation:108165; Page : 1

# 'Global crude prices crucial'

Healthy double-digit growth in corporate earnings will aid markets to sustain high valuations, **B GOPKUMAR**, executive director and CEO, Reliance Securities, told **Ashley Coutinho**. He said investors should watch out for rising bond yields in the US and global crude oil prices. Edited excerpts:



Q&A

**What is your outlook for the market for the year ahead?**

Despite a recent correction in the markets, the Nifty is still up by over 11 per cent in this financial year. We expect similar kind of returns from equity markets in the next year too but with increased volatility due to large political events. While the risk of higher yield may persist, we believe healthy double-digit growth in corporate earnings will aid markets to sustain high valuations. We do not find any solid reason for domestic savings to divert to other investment avenues and therefore, a benign domestic flow to equities is likely to support equity markets.

**What is your view on mid- and small-caps as investment bets?**

While mid- and small-caps witnessed a sharper correction in the last two months due to high valuation premium to large-caps, we maintain our constructive stance on these spaces. We believe that there are a number of companies in the mid- and small-cap basket offering robust growth visibility. Investors need to do a thorough analysis about the growth prospects, profitability and corporate governance of the companies before investing. We still advise our clients to remain invested in quality mid-caps stocks.

**What are the global cues to watch out for?**

Hardening of the Fed rates and movement of global crude oil prices need to be monitored. The Fed guidance can impact the flow of global liquidity to emerging markets and a rise in Brent price beyond $70 may hamper both fiscal and current deficit. Besides, the recent increase in trade protectionism measures by the US is likely to be a risk for global equities, especially if the move is followed by the European Union and other nations.

**What are your expectations from the upcoming earnings season?**

Earnings recovery was quite robust in the third quarter of FY18. It appears that transitory effects of reforms like demonetisation and the goods and services tax are waning. Hence, we expect earnings growth to remain healthy. While we are yet to come out with our FY18 preview note for the fourth quarter, we expect earnings growth to be stronger.

**Which sectors are you betting on?**

Given the government's thrust on reviving rural economy, along with a visible traction in these spaces, we continue to believe that fast-moving consumer goods, automobiles, construction, and building materials are likely to do well in the coming fiscal year. Banks are likely to remain under pressure due to rising yields, the RBI's measures towards bad loan reporting standards and negative news flow in public sector banks (PSBs). We also believe that weakness in banking is a good opportunity for long-term investors to buy into quality, retail private sector banks.

**What is your view on PSBs?**

PSBs are likely to face issues in earnings due to higher yields, higher reported bad loans and negative news flow on operational risks. We are of the view that well-run large PSBs will offer a better bargain after this dust settles down. Therefore, investors should watch cautiously on this space before making an investing decision.