

INTERVIEW | MANISH GUNWANI

‘Election is an important binary event in short-term’

Markets may move higher post polls, says the CIO of Reliance Mutual Fund

ASHISH RUKHAIYAR

*The market is likely to move higher in the coming quarters unless there is an unexpected poll verdict, says **Manish Gunwani**, chief investment officer - equity investments at Reliance Mutual Fund where he manages assets worth almost ₹95,000 crore. Excerpts:*

How do you see the stock market moving as election fervour reaches a crescendo?

■ The general election is an important binary event in the short-term. What we have seen in the past is that irrespective of the election outcome, market quickly adjusts and the entire focus shifts back to fundamentals. The good news here is, business cycle has bottomed [out] in India. Market is currently at an interesting stage where expectations of a sustained up cycle has started to build-in. Unless we have some really nasty election outcome which creates medium-term uncertainties about India's outlook, the market is likely to move higher in the coming quarters.

Markets recently touched new record highs with the Sensex breaching the 39,000-mark for the first time ever. What would you attribute the rally to?

■ [The] Indian market [has been] in a very narrow range in the last one year. There are a couple of specific factors which are helping the market to possibly break on the upside. First is the global market strength. Since the December 2018 lows, MSCI World [Index] has rebounded by 19%. Emerging markets, too, have risen by around 15%. The benign global backdrop has helped Indian markets to rise. Secondly, post the escalation of India-Pakistan conflict in February 2019, market has started to increasingly anticipate the second term for the NDA government. So, increased hope of political stability along with benign global backdrop has contributed to this rally.

Foreign flows have been quite strong in the recent past and are being looked upon as one of the reasons for the recent rally...

■ Over the last few years, FII positioning in Indian equities has consistently declined. Excluding the passive inflows, India has witnessed net outflows from the active FIIs between 2015 to 2018 as they reduce India's overweight to neutral. Since the December 2018 lows, emerging markets in general have received significant inflows.

In the last three months, FIIs have infused over ₹50,000 crore in Indian equities. This is the highest three-month inflows that India has received since [the] NDA victory in 2014. Despite such large inflows in the short period, FIIs overweight on India is at a multi-year low. Unfortunately, India could not provide earnings growth leadership in the last few years and that has led to decline in FII overweight. With business cycle recovery clearly visible and the improved odds in India's favour to regain earnings growth leadership, there remains considerable scope for the FIIs to catch up in coming years. So, unless there is some major political accident or policy mistake globally, the flows towards India should be buoyant.

How do you see the mid-cap and small-cap segments performing this year?

■ After a stellar run in 2017, broader markets significantly underperformed in 2018. There were clearly some excesses in the form of elevated valuations and ownership which were apparent at the end of 2017. Most of these excesses have been corrected as mid and small cap stocks have undergone a sizeable time and price correction. Despite correction, the valuation for broader market is still not inexpensive. That said, there are select pockets looking attractive within the mid cap space now.

