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'Equity returns are in a phase of normalisation'

It has been a nervy start to the new financial year for the markets. **RAHUL SINGH**, chief investment officer (CIO) for equities at Tata Mutual Fund (MF), tells **Puneet Wadhwa** in an email interview that first-time investors should avoid chasing performance, focus on asset allocation, and stick to core diversified equity categories. Edited excerpts:

How can investors Trump-proof their portfolios?

Equities have performed well since the pandemic, supported by improving macros and earnings recovery. However, with the spectre of a global slowdown and a rising risk-on US dollar, the situation has become more complex. Investors should adopt a multi-asset approach (including commodities) and include debt. While in the Indian context, equities are somewhat insulated from tariff wars, a more balanced approach is required.

Do you think the valuation excesses have been removed across market segments in India? Which segments still appear overvalued?

Largecaps are reasonably valued, with the Nifty 50 trading at a 19x forward price-to-earnings ratio. Midcaps are still trading at a meaningful premium, while the smallcap premium has become slightly more palatable. There has also been a decent correction in the



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thematic sectors that performed well between March 2023 and September 2024, such as power, defence, manufacturing, capital goods, and real estate. The market is shifting from a thematic approach to a more bottom-up, stock-specific strategy.

What's your investment strategy now?

Our investment strategy remains consistent: growth at a reasonable price, which requires valuation discipline. The banking and financial sectors are reasonably priced, and their fundamentals have crossed an inflexion point, aided by easier liquidity, growth support, and regulatory easing by the Reserve Bank to encourage retail lending. The global uncertainty surrounding tariff barriers and the potential economic slowdown improves the outlook for domestically focused businesses in India, particularly those benefiting from lower input/commodity prices.

Over the long term, healthcare remains a sector that is underpenetrated in India, with structural growth drivers.

Do you plan to make any sectoral shifts in your portfolios/strategy in the next few months?

The evolving global scenario, particularly the unwinding of global supply chains and the tariff war, is likely to usher in a period of economic slowdown and uncertainty. Domestic-centric, landlocked businesses — such as healthcare, cement, consumer staples, and domestic pharmaceuticals — are expected to benefit.

A global slowdown (especially in China) is negative for commodity and input prices, which is a positive for the profit margins of Indian corporates. Hence, businesses driven by domestic demand and benefiting from lower input prices could be in a sweet spot.

Flows into equity MF schemes are thinning, and the number of demat accounts is rising at a slower pace. How challenging will it be to bring retail investors back?

Equity returns are going through a normalisation phase after strong returns in 2023-24. India's valuation premium to emerging markets, which had reached 80 per cent, is now closer

to 50-55 per cent.

How should a first-time investor approach the markets now?

First-time investors should avoid chasing performance, focus on asset allocation, and stick to core diversified equity categories, such as largecap,

flexicap, and large and midcap funds. They should avoid excessive exposure to thematic investments.

What's your take on the 2024-25 January-March (Q4) quarter earnings?

We do not expect Q4 earnings to show a marked recovery, and the results are likely to be mixed. We expect growth recovery over the next one or two quarters, assisted by lower interest rates, easier liquidity conditions, retail credit growth, increased government spending, and, crucially, personal income tax cuts.

Which funds are best suited right now?

Since the thematic phase is over, investors should stick to core, diversified equity categories. In the hybrid category, balanced advantage and multi-asset funds could be attractive. With the nervousness around the US dollar, commodities — particularly gold — are expected to remain a key asset class in the medium term.

THE FIRST-TIME INVESTOR'S HANDBOOK

■ **Don't chase past performance:** Yesterday's winners may not lead tomorrow

■ **Prioritise asset allocation:** Spread risk across equity, debt, and other assets

■ **Stick to core diversified categories:** Focus on largecap, flexicap, and large and midcap funds

■ **Steer clear of excessive thematic exposure:** Avoid concentrated, trend-driven bets

