

# ETMarkets Fund Manager Talk: Why is this CIO sticking to his overweight stance on domestic stocks ahead of elections?

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*"The current movement post budget seems to be largely profit-taking as valuations have moved up significantly and growth uncertainty persists."*

*Equity market investors are already discounting the general elections, and the verdict seems to be that of a continuity of the Bharatiya Janata Party-led National Democratic Alliance's regime, believes [Mihir Vora](#), CIO, **TRUST Mutual Fund**.*

*"I expect the continuity of policy, especially on domestic [manufacturing](#) to continue, and hence, I would continue with the current stance of being overweight on the [domestic stocks](#) in consumption, manufacturing, infrastructure, real estate, defence, railways, construction etc," Vora said in an interview with ETMarkets.*

*Edited excerpts:*

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**How are you playing the current market momentum? Are there any interesting bottom-up opportunities?**

**Mihir Vora:** The last few months have made stock picking difficult since price movements are very fast on the upside. The pace of sector rotation has increased. Moreover, small surprises in results either on the upside or downside are leading to very sharp movements.

So, yes, there are interesting bottom-up opportunities still available in the market as there still are many high growth sub-segments, but it is becoming more important to be ahead of the market and not chase prices. Moreover, there is a bit of a polarisation in the markets - on one hand the cheapest 'value' stocks are moving sharply (many happen to be PSUs) and on the other hand, we have high-growth, but very expensive stocks.

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So, we need to have a firm grip on the long-term terminal growth rate expectations in most of these stocks.

### **Will it be difficult to identify multibaggers this year?**

**Mihir Vora:** The term 'multibagger' should be used in conjunction with time-frames. You would not typically expect multibaggers in a year or two. Stocks become multibaggers over a long holding period.

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So, if you keep 1-year as the timeframe, then it is always difficult to find multibaggers whether it is 2023 or 2024. But if you say 5 or 10 years, then it is no more or no less difficult to find multibaggers today compared to last year. If you hold long-enough, then the IRR difference between a 5-bagger and 10-bagger is not that large.

### **What is the tone and mood of your clients suggesting about the upcoming general elections? In the run-up to the big event, how should investors go about their stock-selection strategy?**

**Mihir Vora:** I think the market is already discounting the elections and the verdict seems to be that there will be a continuity of regime. So, there might be a little bit of buildup before the elections but I do not see any major movements before or after the elections since the consensus is quite strong.

I expect the continuity of policy, especially on domestic

manufacturing to continue, and hence, I would continue with the current stance of being overweight on the domestic stocks in consumption, manufacturing, infrastructure, real estate, defence, railways, construction etc.

**Which are the underlying domestic themes that you're extremely bullish on and believe will do well in the longer term?**

**Mihir Vora:** India is expected to be the fastest growing large economy in the world for the next few years and flows to the [stock market](#) are expected to continue.

The themes we believe in for the next few years are manufacturing, renewables, digitization, infrastructure, urbanization, premium consumption, financialization of savings and the rise of equity savings cult.

**Do you see frontline sectors such as BFSI and IT taking the lead in 2024 after their underperformance in 2023?**

**Mihir Vora:** BFSI continues to be a long-term bet on the growth story of India. Given the clean balance sheets and good availability of capital, I see the segment outperforming the market, even more so after the recent underperformance.

I am still a bit skeptical about the 'recovery' theme in IT. I expect the US and European economies to slow down. I would like to see a sustained uptick in the order book of the large IT companies to take a positive stance on the largecap names.

Having said that, there are opportunities in some of the mid-cap IT companies which are benefitting due to specific sectors or skill sets that they possess. These can continue to grow faster than the industry and hence there is scope for stock picking within the sector.

**How do you expect FII and DII inflows to pan out in the near term? Which are the factors that will influence the same?**

**Mihir Vora:** Given our demographics and government determination to increase local manufacturing, India is now perceived as the safest bet on growth.

In contrast with the global situation, growth expectations for India remain stable, and we are likely to be the fastest-growing large economy in the world in 2024.

This year has seen excellent growth in corporate earnings, and downward-trending global interest rates, moderating global growth and stable domestic growth are a good Goldilocks situation for India.

All in all, the India story is intact, and we approach 2024 with continued optimism and excitement.

Moreover, with China becoming a no-go zone for many funds, India, Brazil and Indonesia are the only emerging markets of any size. Within these, India offers a far more open, liquid and sustainable growth story.

With India's inclusion in the global bond indices, we should see FPI money into fixed income too, apart from equities.

**From a valuation standpoint, how are you reading the Indian market?**

**Mihir Vora:** Valuations for large-cap stocks are still not in the overvalued or bubble zone, especially considering the growth in earnings expected for the next couple of years.

There is still scope for upside in the next few quarters barring some unexpected and sharp downturn in the global economy.

Valuations for mid-caps and small-caps are at highs and the margin of safety has reduced. So, we need to be more selective in picking stocks. I would recommend limiting exposure to thematic or sectoral funds when markets are trading at the higher range of valuation bands.

**Given the slew of events lined up on both the domestic and global fronts this year, what would your [asset allocation](#) strategy be?**

**Mihir Vora:** While equities remain good for the long-term and the 'wealth creation' corpus should remain committed to equities, this year looks good for fixed income too.

The proportion of equity holding depends on one's unique situation. However, once you have decided your asset-allocation after due analysis, you should continue with the same in the pre-decided proportions.

The year 2024 is likely to see most central banks cutting rates as the war on inflation appears to be on its last leg. Yields have already started easing in recent months as growth is expected to slow down in most developed economies.

The US Fed is expected to lead and this is likely to be followed by other central banks. In India, growth has been resilient and inflation (especially core inflation) has been easing, resulting in a Goldilocks situation for Indian debt markets.

RBI is expected to start on its rate cut cycle in the second half of

2024. This combined with additional flows due to global index inclusion could make 2024 to be one of the best years for debt markets.

I am bullish on real estate too as we have seen a long period of time-correction in both commercial as well as residential real estate.

A key risk is any geopolitical crisis like the one we are seeing in the Gulf which could lead to supply side issues and be inflationary. This could impact both growth and inflation expectations and create volatility.

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