THE HINDU Business Line

'We expect equities to outperform gold in coming year'

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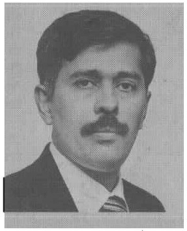
The market has belied the hopes of investors by falling significantly since last year's muhurat trading session. But, how will this year be? Should one consider gold-ETF in place of stocks for this muhurat trade? Mr D. Kannan, Managing Director, Kotak Securities, answered our queries. Excerpts form the interview:

Though the Sensex made a strong close on Muhurat day last Diwali, it has put up a disappointing performance since then. What drove the correction in the market?

Last Diwali, the markets were optimistic about the domestic growth story and the consequent earnings performance. The global scenario was also expected to remain benign. There were expectations of a further quantitative easing by the Fed Reserve in the US. However, things didn't pan out as expected in the year that followed. The European crises and doubts about the stability of the Euro-zone have raised concerns about global growth. Data from the US has also not been strong. In India, corruption allegations against leaders have had an impact on the overall decision-making process and the consistently high inflation and interest rates have been a dampener.

How will the Muhurat session be this year? Are there any specific sectors on which you have a bullish outlook on a one-year time horizon?

The markets have moved up in the past few trading sessions on expectations of some concrete action being taken on the Euro-zone front. An early resolution to Europe's crisis may improve overall sentiment. Domestically, the expectations of the quarterly results are muted and any out-performance on the same may keep sentiment positive. A peaking of interest rates in India will improve the overall investment sentiment and lead to better markets. We prefer to take a bottom-up approach and are positive on select stocks in sectors such as banking, IT, capital goods, infrastructure, media and logistics.



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— Mr D. Kannan, Managing Director, Kotak Securities

Gold has witnessed a 36 per cent price rally since last Diwali. Do you still think retail investors can buy the commodity at the current price?

Gold in rupee terms has benefited both from the strength in gold prices on the international exchange and the rupee's sharp depreciation against the US dollar. The outlook for gold is still bullish as uncertainty about the global economy is likely to boost demand for the metal. However, the Indian rupee is not likely to depreciate as much. Overall, gold is likely to give a positive return over the next one year, but we believe buying should be considered in a range of Rs 26,000-26,500/10 gram level.

Will you recommend gold-ETFs over equities for this year's Muhurat trade?

With global leaders working on averting a sovereign default in developed economies, we expect the risk appetite to increase. This may push more money into global equities and emerging markets versus gold. So, while it is difficult to gauge short-term movements at this point, we expect equities to outperform over the next one year. Investments in gold can be made concurrently to diversify the investment portfolio.

You sound perfectly bullish about equities; can we expect corporates to give a better performance in the coming year?

I believe that reforms and investment spending are prerequisites for the domestic growth rate to improve and supply-side constraints to moderate. As supply-side issues get addressed, inflationary expectations (and then inflation) will be contained. This will result in lower interest rates. Earnings growth will also improve once investments increase and inflation/ interest rates moderate. We remain positive on the structural growth story of India in the medium-to-long term. We see India outperforming most other economies in terms of growth over the next few years.

Consumer sectors, especially the automobile manufacturers, are seeing a slowdown in demand. When do you see consumer sentiments improving?

High interest rates and the high base of last year have impacted growth rates in consumption-led sectors such as automobiles. As commodity prices moderate due to the expected slower global growth, interest rates may peak and start moderating over the medium-term. This will give impetus to the demand in these sectors.