20 THE SMART INVESTOR

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'One should expect the markets to remain volatile'

US-based Pramerica International Investments had ₹22,900 crore of assets under management (AUM) in India, as of last month. Despite economists lowering the global growth forecast for FY17, **GLEN BAPTIST**, its chief executive and chief investment officer, tells **Puneet Wadhwa** that India looks relatively good compared to some other markets and should be able to attract foreign flows in both the fixed income and equity segments. Edited excerpts:

Q&A

GLEN BAPTIST
CEO and CIO, Pramerica International Investments

What is your view on the global equity markets for the remaining half of 2016 (CY16)?
We remain cautious. There is a lot of global uncertainty but there are times when markets rise despite this. As of now, the fundamentals don't seem all that strong. Most economists have revised growth downward. That apart, the Brexit event (Britain voting to leave the European Union) will play out over the next two years. So, all this is not positive for global growth.

The good news is that we have global central banks that remain accommodative because of the negative/muted global growth outlook. But, that doesn't give us optimism in terms of fundamentals. So, it is quite possible that the markets rise, but the fundamentals do not suggest this will be dramatic. We will see growth in earnings and that should push markets higher. But, in the near term, the markets will remain volatile and range-bound.

What is your view on an interest rate increase by the US Federal Reserve ?
The Fed certainly wants to raise rates. However, they are also sensitive to the global environment and are being cautious. It is possible that they might not increase rates this year, depending on how global growth plays out. If we see a couple of good job numbers in the US and there are no other extraneous events, they could very well raise rates before CY16 ends.

Do developed markets look better as compared to emerging markets (EMs) from a 12-24 month perspective?
EMs have had a tough time since the past couple of years and the time has come for them to do a bit better. India, however, has done well in that time frame, relative to other markets. We think things are stabilising, especially given the commodity and oil prices around the world. Many EMs continue to focus on structural reforms. The pace is not necessarily fast but the trend is positive. So, a combination of under-performing markets in earlier years, a continued reform trend and a cycle where earnings could improve, given the cyclical factors like commodities, etc, could see EMs fare better.

What's your view on fund flows across regions?
A lot of this has to do with the US Fed. Notwithstanding the fundamentals, what we have seen is that as interest rates in DMs (developed markets) rise, the flows come out from EMs. While the fundamentals are likely to improve over the next couple of years, the current environment is very much liquidity driven. So, as uncertainties rise or fall, we'll see flows come in or go out.

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How is India vis-a-vis other EMs?
I think India stacks up quite well. There is a positive growth momentum, we have seen deleveraging of corporations and infrastructure spending that is leading to an improvement in the infrastructure cycle. If the monsoon remains good, it will help the economy. That apart, we don't have a debt overhang that China has — of course, there is some but not across every sector. So, I think India looks relatively good as compared to some of the other markets.

This should see India attract foreign flows relative to some of the others, on both the fixed income and the equities side. Monetary and fiscal policies have been good since the past several years. So long as that continues, India will continue to attract flows, which should be good for its markets.

What is your best and worst case scenario for the Indian markets?
Well, it is a volatile market. However, in a strong scenario, we could see a 10-30 per cent rise – if corporate profits recover, commodity prices remain relatively stable, the monsoon is good and there is no confusion in the government in terms of fiscal and monetary policies.

On the negative side, one could see the US Fed raise rates a couple of times if inflation picks up. If, at the same time, there are other global shocks or confusion in Indian fiscal and monetary policies, we could see a flight of capital from India. In this worst case scenario, which I don't expect, we could see the markets drop 20-30 per cent. In any event, one should expect the markets to remain volatile.

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