

“Inflation is elevated, but we are still relatively better off”

Inflation has peaked. Bond yields have already softened, while crude and commodity prices are cooling down. This is encouraging news, Gopikrishna Shenoy tells **Sanket Dhanorkar**.



Gopikrishna Shenoy
CIO, SBI Life Insurance Company

How do you perceive the market rebound amid concerns over inflation and recession?

India is in a sweet spot. The way we have handled covid is completely different from the model other nations followed. The US and Europe splashed a lot of money to ensure economic growth. We have put in money in select pockets and not spent to the same extent. That is perhaps why we are not facing the kind of liquidity-fueled inflationary situation that others are. Yet we have managed to come out of this phase successfully. Indian inflation is elevated, but still relatively better off. The interest rate differential between 10 year India Gsec versus US has contracted. Even the rupee depreciation has been orderly. An overseas investor should find it comfortable investing in India.

Any headwinds moving forward?

Yes. The US has said higher interest rates will remain for a long period of time. This will be

painful. Growth across the globe is likely to remain muted. At the same time, things are moving very fast. Investors will have to be sector and stock specific in coming months.

Which sectors are most appealing?

We are actively exploring the discretionary consumption space. We are seeing healthy demand for utility and commercial vehicles as economic activity picks up. We are also seeing Make in India as a concept catching up in terms of good order flows for industrial companies. This is led by both global companies wanting to set up outsourcing hub as well as domestic manufacturing sector looking at mechanising itself. Apparel manufacturing and retailing companies are also reporting good numbers coming out of covid. For banks, clean up of balance sheet has happened. While corporate credit demand has been muted, retail credit demand is robust. With a healthy retail loan book, select banks are likely to do well. We also have overweight positions in telecom companies, where APRU has moved up and the government has extended its support. We are slightly underweight in IT and pharma, which are facing global headwinds.

How are you playing opportunities in value and mid cap segments?

When this year began, investors were veering towards value and consensus emerged that this strategy will find its place. Frankly, we were not positioned as much in this pocket at that time. But we did move into the value segment in the April-June quarter. Particularly we picked some of the consumer staples names which were underperforming for some time as also some power utilities. Yet, the story in India remains growth-heavy. So our portfolio remains tilted towards growth companies.

We are limiting our mid cap exposure to 10-15%. We will not go beyond that. The portfolio remains large cap heavy. We took a hit in mid caps when regulatory exposure limits for multi cap funds came in and the market corrected itself. But calibrated exposure in mid cap segment remains.

Why has the equity exposure in your linked plans hiked over the past two years?

Our equity exposures going up is a result of markets and subscriptions. Our subscriptions in the schemes have moved up in equities as this gave better returns. More than this the markets have also moved.

What are the reasons for the under-performance in your equity plans over past two years?

After the covid-led selloff in March 2020, the markets were quite volatile. The index fell 37% in one month. When seeing that much value erosion, it was very important to take informed decisions due to uncertainty. Market gave a sharp rebound the very next month and then continued soaring upward. With excessive money being pumped into the global market, it found its way into beaten down assets. Sector preference changed fast.

Nearly 97% of your fixed income investments is now AAA or sovereign paper. Has covid made you reassess credit exposure?

With in debt, our exposure to safer assets has increased not because of covid but in the wake of default in large NBFCs. These episodes moderated the risk taking appetite. But this is not just for our portfolios. This risk-off sentiment is also visible in the bond yields. The spread of AAA-rated bonds versus a government security of matching tenure has sharply contracted. The risk appetite of the entire market went down. Investors started chasing more high grade bonds. The market started pricing AAA paper at a premium than what it was pre-NBFC crisis.

What are your expectations on interest rates?

Globally, central bankers' eyes are focused more on taming inflation. India is currently seeing 7% inflation while US is facing 9% inflation. Their focus will not change till inflation is reined in sustainably. 7% cannot be brought down to 4% (the target inflation rate) in a short time. Our sense is that inflation has peaked out. Indian bond yields have already softened to 7.2%. We have already seen cooling down in crude and commodity prices. This is encouraging for inflation to come off. Our sense is yields will remain range-bound between 7.2%-7.6%.

What are good segments to explore in the bond market now?

Hardening interest rates is a good scenario for insurance companies. We can lock our funds at a better yield. This portion gives us more value. The space that interests us remains government securities, SDLs and well-rated corporates that issue long dated bonds.



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