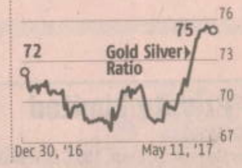
The Smart Investor

QUICK TAKE: SILVER TO OUTPERFORM GOLD



Along with the fall in base metal prices, silver prices also fell, leading to a sharp rise in the gold-silver price ratio. As safe haven buying in gold slows with abating global risks, analysts expect silver to rise faster than gold

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m, this valuation discount is on, believe analysts. This is 'ech has come at lower Ebit s) margins. The company's lower than the 25-26 per cent . Acquisitions are one reason mportantly, given the macro 'companies are running out ould drive profitability, it will d have a meaningful impact tly explains the softness in ading session. The fact that al led to a sharp rise in its net re point on the scrip, believe e infrastructure business is a ement remains positive on

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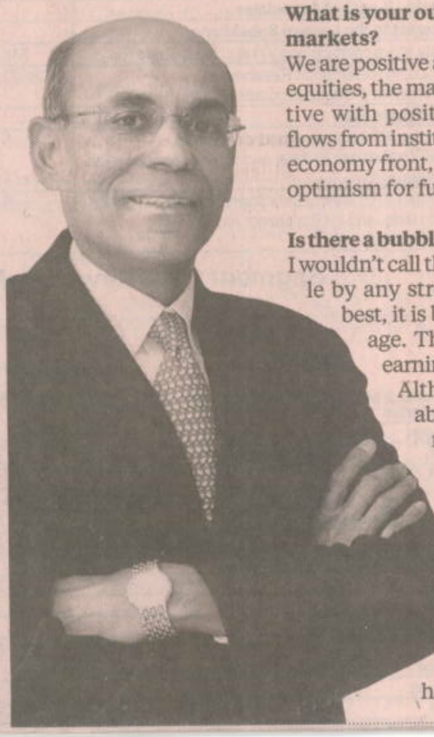
'Indian market is not a bubble'

Q&A **GLEN BAPTIST**, chief executive officer and chief investment officer of US-based Pramerica International Investments who manages $79 billion of assets, says despite the steep rise in the valuations of Indian shares, there is no bubble in the Indian markets. In an interview with **Pavan Burugula**, however, he cautions fund managers not to concentrate their portfolios with top outperformers. Edited excerpts:



What is your outlook on the Indian markets?

We are positive about Indian markets. In equities, the market remains very attractive with positive earnings and good flows from institutional investors. On the economy front, there is stability and also optimism for further improvement.

Is there a bubble in Indian equities?

I wouldn't call the Indian market a bubble by any stretch of imagination. At best, it is being valued above average. The average PE (price-to-earnings) ratios are 16-17 times. Although these are slightly above normal levels, this is not two standard deviations above the average levels and can't be called a bubble. In fact, other markets are more overvalued than India and unlike those, we are at least seeing some positive developments happening in India.

US markets have rallied since Donald Trump was elected president. What is unique about the rally in US equities?

The biggest difference from previous rallies is the breadth. Unlike in the late 1990s, when a few big stocks fuelled the rally, the current US one has been much broader, with many stocks participating. This is because of the general optimism about growth driven by expected changes in tax rates, less regulation and stimulus spending by the new administration. Whenever a market rally becomes concentrated in a few big stocks, one needs to be worried.

We are seeing a similar trend in Indian markets...

Possibly, but there might be good reasons. Cyclical sectors like infrastructure and real estate, along with some public sector undertakings, are under pressure and we might not see any immediate recovery in these sectors in the near term. On the other hand, consumer-driven sectors seem to be doing quite well. Until the cyclical sectors see recovery, investors are looking to buy consumer-driven stocks. Portfolio managers should be careful not to get heavily overweight on sectors doing very well currently because the turnaround could happen any time.

Why does a rally become confined to few stocks?

Generally, this happens in large-cap stocks and could be seen as a momentum trade. Fund managers are under constant pressure to outperform the benchmarks and hence rush into stocks that are most highly valued and leading the market.

What is your view on China?

There is no doubt about a credit bubble in China. Credit in China is at unsustainable levels now and has been growing ever since the global financial crisis. It is at a level where regulators are concerned and have been trying to limit growth. Unfortunately their financial system is stuck in a vicious cycle of needing continuous growth. Part of the reason why we saw a revival in growth worldwide in 2016 is due to resumption of the stimulus cycle in China. They had slowed it down in 2015 and it resulted in a collapse of oil prices and eventually a fall in global equities. But, on the positive side, I don't think the issue will cause a systemic problem globally.

How about other emerging markets?

They are currently benefiting from the general risk-on trade and flow of money. However, all emerging markets, except India, are facing some or the other issue. In a majority of emerging markets, the issues are political. Political uncertainty and low interest rates in Brazil is making it difficult to do business. Similarly, political uncertainties are keeping investors at bay in South Africa and Turkey. Russia is heavily dependent on oil and commodity prices for growth. Unless or until oil prices shoot up to $100 per barrel, you cannot expect Russia to grow fast.

The recent tension with North Korea and investigations into some top corporates have brought uncertainty among investors about South Korea.

I think India is the only emerging markets that offers stability on both the political and economic front.

What are the key risks for global equities?

There are three main risk factors for the markets. One is geopolitical and that's the unpredictability of the new Trump administration. It is a new risk. We hope the new administration does not take any drastic steps. The second risk is interest rate hikes by the US Federal Reserve. The Fed could go faster than expected if the Trump administration engineers a huge stimulus. The third risk is the Chinese financial system. You could see defaults spiking in Chinese markets.