

# ‘Inflation & yields not a concern when growth rising’

*As long as growth is rising, one doesn't need to worry about inflation and yields, said Hiren Ved, director, CEO and CIO, Alchemy Capital Management. In an interview with Urvashi Valecha and Malini Bhupta, he says India is at the cusp of a phenomenal growth story, which will be longer and higher than the one during 2003-07. Excerpts:*

**Bond markets tend to be ahead of equity markets. So, what are bond markets signalling that are making equity investors skittish?**

History shows that bond and equity markets should behave differently. The ultra-low interest rate regime in the world changed that. As interest rates keep falling, bonds do well, as do the equity markets. We did a little study and looked at five instances in the past where yields have gone up in India, which usually is in sync with yields globally, but the Nifty has also gone up. What is important is that when there's inflation, is there growth too, or is it slowing? Of the five instances, growth was tapering off during two occasions. During those two instances, Nifty corrected. In other instances, there was a positive correlation between Nifty and rates. As long as growth is rising, you don't need to worry about inflation and yields. In the current context, whether it is the US or India, we don't have a situation where inflation is rising but growth is not. In fact, consensus esti-



mates see the US growth at 5-6%. The pre-pandemic US 10-year Treasury yields were at 1.9%, which fell to 0.5% in August 2020. If everything is coming back to pre-pandemic levels why should yields not go back to the same levels? Yields are adjusting to the new normal.

**How do you see the stimulus-driven markets behaving in the context of earnings?**

I know we have been waiting for earnings to come, but in my opinion, as far as economic growth is concerned, I feel we are in 2002-03. In the last few years, we have had back-to-back shocks – from demonetisation to GST to IL&FS and DHFL – to the financial system. The government put the IBC in place to weed out zombie companies. During the pandemic, we have had manufacturing and labour reforms. The economy has been

administered many shocks and we are coming out of it. Very rarely do you see both monetary and fiscal policy in favour of growth. The only panacea is to get growth back. There was no immediate transmission of lower rates but it has happened finally and it has helped revive housing demand. We are at the cusp of a phenomenal growth story, which will be longer and higher than what we saw over 2003-07.

**What about earnings upgrades in FY21?**

The way the corporate sector has behaved during the pandemic gives me hope on earnings. Who would have thought that earnings will be upgraded in FY21. Initially, people said it is because of the cost-cutting and some of these costs will come back. Also, raw material costs will go up. But efficient companies have unlocked gains during the pandemic and started thinking in a fundamentally different way. Some of the tech companies are already talking about not returning parts of their workforce to the office ever again. Some of the cost savings will continue after Covid-19 too, and therefore, the next productivity cycle will give earnings growth a massive bump.

**There has been a flurry of IPOs lined up in the markets, would you suggest investors to look for opportunities in the same?**

There is a fair amount of euphoria in the IPO

market today. This usually happens in the first phase of the bull market. In the IPO, there is no backreference – one sees a couple of IPOs doing well, and so investors get incentivised to; then apply and make quick money. Also, they have the liquidity because they have sold mutual funds and they have booked profits. A lot of the money goes into IPOs during the first bullish phase. I would recommend that investors should look at IPOs as a trading opportunity. One should study the company, look at valuations and then decide on participation.

**At a time when mutual funds are seeing outflows, Alchemy has applied for a licence for an AMC business. What was the idea behind it?**

I think it's a joke that the total equity assets for all mutual funds put together is like ₹10-11 lakh crore and the total market capitalisation of the country \$2.7 trillion. It's a fraction of the total market capitalisation and the total amount of savings coming to equity markets is just 4%. India is a high savings country, we have a 28% to 30% savings rate which is \$900 billion of savings every year and only 3-4% is coming to the equity markets. The opportunity is so large for financial savings to come into the equity markets that there is a lot of space for existing mutual funds to grow and many new to come in.