

In 'Action-filled' New Year, Get Asset Allocation Right

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As we step into the second year of this decade with lots of expectations, let us take pride in the resilience shown, with the public, policymakers and governments coming together to fight the pandemic led challenges. In a quick recap of 2021, we saw a phenomenal run in the stock market, companies achieved high valuation and could raise significant capital from the primary market on the back of rising risk appetite.

While equity markets have bounced back, the economic recovery has not been on similar lines. We have seen a continued delay in robust economic growth and on the contrary, we have witnessed a rise in commodity prices in general, leading to inflationary pressure.

Emerging markets including India have witnessed net FII outflows during 2021. India has also seen close to ₹70,000 crore of outflows, but it was netted off by the increased retail and domestic institutional participation

in the equity market, in addition to the supportive government and central bank policy framework.

We have also seen a gradual pick-up in GST collections. In fact, month on month numbers are showing an upward trend.

New schemes such as PLI to encourage manufacturing in India got stitched during the year to kick start these activities sooner than later. The infrastructure sector witnessed renewed focus through government spending, benefiting many other allied sectors. We have seen a shift in consciousness with a focus on ESG to bring in sustainability for the long term. The utilities sector like power has also witnessed a significant revival. Many companies have seen improvement in balance sheets due to business recovery, leading to improvements in corporate profitability.

Most companies have reduced the dependency on debt in funding their growth. This is a significant fundamental improvement in the Indian corporate balance sheets, therefore, improving the return ratios to



shareholders.

Moving into the new year, the positive developments of 2021 should play a bigger role in the years to come and result in better years ahead. Despite the fear of new Covid variants and their effects, it appears economic recovery will be faster, and we can expect a reversal to normalcy in the year 2022.

Severely affected sectors such as tourism and hospitality have started witnessing a pickup and should improve significantly in the year ahead. A sustained low-interest-rate regime and the overall change in reduced demand for credit have made the banking industry continue to offer lower interest rates for real estate and home loan borrowers, creating stimulus for higher consumer demand.

We are seeing signs of increased demand for housing, which will address the high inventory problem being faced by the real estate sector for quite some time. Therefore, sectors related to housing and construction will benefit. We have seen an increase in higher employment opportunities due to churning and revival of delayed projects.

Lastly, global service and goods demand is expected to show an uptick on the back of domestic issues within China.

All these aspects put together, will see an improvement in economic activities which should further boost stock market performance and pro-

vide a conducive environment for IPOs and divestment, including the Life Insurance Corporation of India — the country's largest IPO — and of other PSUs. This will enable the government to raise funds and unlock the value of their investments.

These actions, combined with continuous improvement of GST and tax collection should lead to fiscal improvement. Corporate earnings are also likely to grow over the next three years.

On interest rates, the central bank has begun the unwinding process through open market operations which will not sustain for long given that there is huge liquidity in the system while demand for money is less.

In the year ahead, macro indicators such as rising inflation, current account deficit and currency volatility will have a huge influence on policymakers' thinking and decisions. Due to the relatively poor credit demand, it is unlikely the interest rate will see a significant rise. However, a calibrated move on the policy will start to come thro-

ugh in the current financial year.

If the policy rates are increased, it will have a marginal impact on sovereign bonds, but it also appears less likely to affect bond spreads.

To conclude, with the increased momentum, I expect 2022 to be an action-filled year with various state elections, improved economic activities, intermittent volatility and a path towards normalcy.

Against this backdrop, as an investor, the key strategy remains asset allocation. Asset allocation funds such as multi-asset category, balanced advantage and flexi-cap funds address this need of the investor. I also believe increased spending in information technology and digital space has become a structural part of the system. Hence digital-oriented funds, too, could remain one of the focused funds for the long term. In the fixed income space, one can look at staying invested in schemes with a 1-2 year kind of duration over long-duration funds.

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