

# 'If investors wait for a correction of 5-10%, they'll be waiting for long time'

Dipti Sharma | 5 min read | 23 Sep 2024, 07:15 AM IST



Anuj Kapoor, MD & CEO of Private Wealth and Alternatives at JM Financial.

## SUMMARY

▪ JM Financial's Anuj Kapoor doesn't foresee a correction larger than this unless a major global, unforeseen event occurs—something beyond anyone's control.

A major market correction is unlikely unless an unforeseen global event occurs beyond anyone's control, according to Anuj Kapoor, MD & CEO of Private Wealth and Alternatives at JM Financial.

"If investors wait for a correction beyond 5-10%, they might be left waiting for a long time," he said.

He notes that the June quarter didn't feature standout corporate performances, but expects companies to catch up, leading to sustained growth and more justified valuations. While some investors are cautious due to high valuations, many IPOs are now reasonably priced, drawing significant capital from global investors.

*Edited Excerpts:*

**What's the general sentiment you're getting from your clients, particularly family offices? Are they eager to invest in India, or are they cautious about cashing in at the moment? How do you advise them when they approach you with these concerns?**

Currently, there's a "risk-on" sentiment towards India. Globally, geopolitical tensions and uncertainties around the upcoming US elections are causing headwinds. However, India is perceived as a safe haven amidst the uncertain environment. Capital markets have been strong, with only brief lulls, and despite occasional uncertainties, there's a clear equity-focused bias. This risk-on sentiment is now driving a greater appetite for more sophisticated investment products. With the public markets performing strongly and investors seeing returns, there is a growing eagerness among major players to explore an evolved set of investment options.

**Could you elaborate on these evolved investment options?**

Evolved investment options include unlisted shares of companies nearing or a few years away from an IPO, which is a rapidly growing market. This space is divided into three main categories: early-stage companies, primarily in technology, consumer or healthcare; growth-stage investments providing capital to companies expected to launch IPO in 2-3 years; and pre-IPO investments in companies within a year or less of going public. The last bucket is seeing the highest transaction volumes due to strong investor interest. Over the past year, we have executed more than 10 transactions across these categories in the unlisted space. Each transaction involves rigorous scrutiny and due diligence to ensure the protection of our investor's interest, given the limited public information available for unlisted investments.

***In this market, there is no easy way to achieve higher returns. So, one has to look at opportunities which are relatively attractive.***

**While many fund managers are focused on equities, finding opportunities there can be challenging. You also mentioned significant potential in the unlisted space. Is it necessary to explore unlisted investments or other evolved products to achieve higher returns?**

Public equities have seen a good run over the past few years, and honestly valuations are expensive, whichever way you look at. In this market, there is no easy way to achieve higher returns. So, one has to look at opportunities which are relatively attractive. It may be within listed equity space, unlisted space or other asset classes.

Some of the opportunities which make the case are:

**High-yield fixed income:** In India, the perceived risk in high-yield credit has significantly reduced due to improved corporate credit quality, healthier balance sheets, a strong banking system, and prudent fiscal management supporting private sector borrowing. With a promising growth outlook for the Indian economy, investors should consider high-yield credit for diversification and income generation.

**PE/VC funds:** India's structural decline in interest rates, alongside falling inflation, supports both public and private equities. Sectors like consumer, tech, climate tech, and healthcare offer long-term opportunities, warranting investors to think beyond the short term, with a lot of money possibly being made in the years to come.

**There's definitely a sense of FOLO—fear of losing out—on potential gains, circulating right now. Are your clients expressing concern about not wanting to miss the right moment to cash in?**

Yes, they are definitely concerned about that. It's not just about putting money into the market, but timing your exit is equally, if not more, important. That's a critical aspect investors need to consider. In this market, there are opportunities for tactical moves—not everything has to be a long-term play. It all ties back to understanding the client's risk profile and aligning strategies accordingly.

**How does India fit into the global investment landscape? For foreign investors considering options like offshore funds, do they view other emerging markets as offering better returns? Many large investors are currently hesitant to invest in India due to high valuations and are waiting for a substantial correction, beyond just 5-10%, before committing. What's your perspective on this?**

If investors wait for a correction beyond 5-10%, they might be left waiting for a long time. We don't foresee a correction larger than this unless a major global, unforeseen event occurs—something beyond anyone's control. Looking at recent corporate results, the June quarter wasn't marked by standout performances. However, we believe companies will catch up, and growth will continue, making current valuations more justifiable. Although high valuations are deterring some investors, many IPOs are now reasonably priced, attracting significant capital from global investors.

***Arbitrage funds continue to remain attractive with higher participation in the F&O segment, continuing momentum in markets and high interest rates keeping arbitrage spreads healthy***

**You favour arbitrage funds. Do you think there are still substantial arbitrage opportunities in the current market?**

Arbitrage funds continue to remain attractive with higher participation in the F&O segment, continuing momentum in markets and high interest rates keeping arbitrage spreads healthy. While it remains to be seen whether these higher spreads will continue to exist with more and more money flowing into the category, tax efficiency still is the primary reason for investors interest. Many of our clients use arbitrage funds as a strategic move before diving into equities.

**What emerging and promising asset classes are worth exploring beyond equities, fixed income, and bullion?**

Investors can explore asset classes like art, data centres, storage (industrial, ecommerce, etc)/ warehouses, private REITs/ SME REITs and new age start-ups.

**Do high-networth individuals (HNIs) prefer mutual funds or long-only Category 3 alternate investment funds (AIFs)? And why?**

We would say it is a mix of both, in the core allocation of the portfolio it is still mutual funds (MFs) or exchange traded funds (ETFs), to manage the portfolio beta. However, for alpha generation, clients prefer CAT-III AIFs with concentrated portfolios or differentiated strategies run by boutique managers.

**Beyond retirement and legacy planning, what is the most common financial goal for HNIs?**

The first one is to create investment structures that will last beyond their lifetime and can meaningfully contribute towards philanthropic ventures or patronage of areas that are of interest to them—(e.g. art, artisans, traditional weavers etc). The second one is to invest in new age companies with not only financial contribution, but also engage in mentoring and guiding the founders through their journey to profitability.