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Despite market turmoil, stay invested and remain diversified globally: Devina Mehra

Synopsis
Devina Mehra, Founder & CMD of First Global, predicts the possible end of the US market's 12-year outperformance, accelerated by Trump's policies. Despite potential downturns, investing remains crucial as missing top trading days can significantly impact long-term returns. India's market is portrayed as less risky, and maintaining a diversified global portfolio is recommended for investors.

Devina Mehra, Founder & CMD, First Global, says the US market outperformance, lasting around 12 years, might be ending, accelerated by Trump's actions. Economic implications include a potential shift away from the dollar as a reserve currency. Investing is recommended despite potential downturns, as missing top trading days significantly impacts long-term returns. India's market remains less risky in this scenario.

Number one thing on everyone's mind is what is Trump up to? How do you make sense of what is going to happen and how the world is going to be even three months from now?

Devina Mehra: That is very difficult to say. Long before he took office when he had just won the election in November, I had written a piece for The Economic Times saying that whoever is predicting that this will happen to the stock market and that will happen to the bond market, what are they smoking? You do not know what this guy is going to do and you are talking with confidence and second order and third order effects. And to compound Trump, you had Musk. So, if you have to compound uncertainty, that is a dream team and now you are seeing them in action. So, it is very difficult to say. We are in uncharted territory and the whole point is I do not know what problem he is trying to solve with the tariffs?

The debt?

Devina Mehra: The US economy was almost at full employment anyway, the unemployment rate has been very low. So, it is not as if people are not getting work because the manufacturing is getting done elsewhere. So, what is the problem that you will solve by putting tariffs? Also, debt is a very vague thing because if you really put brakes on the economy which is what he is doing now? Even a month ago, inflation expectations in the US had gone up to 3.5% for the medium term and I am sure it might be higher whenever the next number comes out.

So, they are doing something which is shaking up the economy with no real payoff. The only reason right now the labour numbers are not looking that great is because of Musk DOGE, where they have been firing people right, left, and centre.

Which he (Musk) may quit soon when the job is done.

Devina Mehra: Yes, and the tariffs themselves are not rational, they are just predicated on the trade deficit with the country, not the tariff barrier of the country. I was reading somewhere that Vietnam had some 5% average tariff and they have been hit with some 47% tax. So, even if they bring that 5% to zero, how is that going to change the 47%?

Look at India, India's per capita is 3% of the US. Even on a purchasing power parity, we are 10%. So, we are never going to be able to buy that many US goods. The only thing we can buy now is oil because the US is the largest producer of oil. So, if you want to balance the books with the US, that is probably the lowest hanging fruit.

The US as far as the markets are concerned, had a very long period of outperformance, about 12 years or so and for a time, I had been watching that sometime that would end, but Trump has just hastened the end of the US outperformance maybe on the economic side also. I was looking at Fareed Zakaria's podcast and he was talking about how in 1990, the European Union and US as a size of the economies were almost the same, and now the US is 80% larger. Japan used to have a per capita higher than the US, now it is much lower, even the poorest state in the US has a per capita more than that of UK and France and all that. As I said, there was no problem to solve, you are breaking something that was not broken.

But I understand that and there are many analogies there that this is like the 1920s Great Depression. We do not know whether the recession is going to stall here. Is it going to lead to a depression in the world? Very recent examples were 2008, 2020 when COVID hit. How different is it this time in terms of what the equity markets are doing?

Devina Mehra: Yes, but then look at what happened in 2020. Today I posted that people are saying the news is not going to get better, so how are the markets going to behave? I said if at the beginning of 2020, I would have told you that there would be a pandemic that has not happened in a century which will kill 7 million plus people in the world, which will mean that hotels, aviation, retail, autos will go to zero revenue for a year and many other industries will also take a big hit on their revenues, how many people would have predicted equity bull market.?

So, equity markets are not that predictable. As far as India is concerned, I do not think you are in high risk territory as far as the large steady portfolio is concerned. Small micro caps is another story that has not changed in almost three quarters now. I have been saying exactly the same thing that get into a steadier portfolio and get out of the frothy areas of the market and I do not think there, there is a huge risk because you had a whole decade of below normal returns in that 2010 to 2020 decade which was that you put in Rs 100, in 10 years and you get Rs 230 when fixed deposits would have given you Rs 200.

That has created this room for the post Covid bull run and still you are not way above the trend line or anything like that on any parameter. That is a plus for India. If you were waiting on the sidelines for the last few months waiting for a correction to invest, it is time to be invested to the extent of your equity allocation which should never be 100% again.

My stance on this remains unchanged no matter how young you are, equity should never be 100% of your portfolio. But whatever is your equity allocation, now is the time to remain invested. I do not see a huge downside risk which is not to say that there could not be slightly more of a downside, but the risk-reward is now in your favour in the sense that if you are not invested, you might miss out on an up move, just as from the Covid lows, within five weeks the market was up 30%.

But the problem for us and I guess that was one of the key reasons why we fell the way we did from October all the way till Feb end was A) valuations and B) earnings were not matching up to the valuations that you were giving to those stocks. Is the earnings concern now behind us or not or is that going to be very fragmented?

Devina Mehra: It is going to be very fragmented that is why I am saying that you have to look at the market in two bits, one as the largecaps and one the small, microcaps. Those are small microcaps in a mad bull run where a lot of stocks run, some deserve it and many don't. And again people have not spent enough time in the markets. They do not know that these kinds of stocks that do well in a bull run, after the fall may not go up in the next bull run. So, remain invested, but not necessarily in the same stocks or even the same strategies.

Last year, many people took money out of largecap SIPs and put them into smallcap SIPs, those are the things you should not do and I always say the easy way to find out where there is froth is to look at where the new thematic funds are being launched, where the NFOs are coming.

We are in an uncharted territory. But can we actually chart a new course this time around given that now everyone is wondering what to do with their portfolio? Should they go ahead and buy in these dips and also look at reshuffling their portfolio? Do you think it is the right move at this point in time or should you wait for the dust to settle?

Devina Mehra: By the time the dust settles in terms of the news, usually the market has already made its move, that is the way it is. That is when I hire analysts that is one of the hardest things to get them to understand that in the market you always make decisions with imperfect information and with ambiguity. And so, yes, if you look at the pattern today, of course, some of the defensives are doing better, which is the FMCG and also HPCL because of the oil price coming down.

It is not surprising that the metals have taken a hit because while India is not a major metal exporter, if there are curbs or tariffs on metals, let us say from China, India becomes one of the possible dumping grounds, and that is what is playing out in metals. So, interesting times ahead. As of now, pharma, IT, and auto components do not look too bad to us. Of course, there can be tariffs on pharma. But ultimately, tariffs are putting India at a relative disadvantage to any US manufacturer.

But how many things does India export which can immediately be manufactured in the US? Not a whole lot. Otherwise, you have to look at relative tariffs because as macroeconomics textbooks tell you that trade is not about absolute costs and prices, it is about relative advantages and disadvantages. So, if you have a 26% tariff and everybody you are competing with has between 35% to 50%, then you are better off.

So, I do not think there is going to be a whole lot of direct fallout. But if the US economy really goes into a tailspin, that will have repercussions. On a longer-term basis, it will also have repercussions on the dollar as a reserve currency or the currency of trade. A year or two ago, I thought there was really no danger of any significant de-dollarization, but now the world will look at Swiss Franc and euro and yen and a whole lot of other things as reserve currency. In India, I do not think we are in any very dangerous territory. So, slowly one should start getting back in if one has been out because in 40-45 years if you miss out on the 10 best days of trade, you miss out on two-thirds of the returns.

Not timing the market and time in the market…

Devina Mehra: Yes. If you had invested Rs 100, you should have become, let us say, Rs 75,000. In 40 years, if you miss out the 10 best days, it will be Rs 25,000. You miss out the 30 best days, you are down to less than Rs 7,000, that is how dangerous it is. So, everybody understands the risk of being invested in the market, but there is also a risk to sitting it out. I mentioned the Covid lows. From the Covid lows in five weeks from March 23rd to April 30th in 2020, both India and the US were up between 28% and 30%. So, you do not know and the other interesting thing is all these sharp up move days come when there is fear, there is anxiety, there are people asking these questions. In a bull run, the market does not run that fast.

If someone wants to put in money tomorrow, day after, whenever, and has to construct a portfolio, say 100%, how would you divide that portfolio? Within equity, what would your recommendation be?

Devina Mehra: Your asset allocation should not change every day. That should be a broad thing which you have decided depending on your goals, your risk appetite, your time, your age, whatever, and all those things and diversification should also be. Let us not forget, that in spite of the global turmoil today, you should not just have only India, but you should have global diversification also. So, whatever is your equity allocation, it is time to be invested. If your equity allocation was 60% and right now, you are only 40% invested, if not in lump sum, but you should start putting it back in, so that you do not miss out on those 10 best days.