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Overweight on IT, pharma, auto components; have added some FMCG stocks: Devina Mehra

Synopsis
Devina Mehra, Founder of First Global, highlights that the market's recent fall coincided with FII withdrawals, but over time, FIIs' actions don't always dictate market movements. She emphasizes the nearing end of US outperformance, and First Global's overweight on IT, pharma, auto components, with selective additions in FMCG and chemical stocks, indicating emerging opportunities outside US equities.

Devina Mehra, Founder & CMD, First Global, says this time it has been coincidental that the FIIs have pulled out money and the markets have fallen. But over a period of time, data show that the unsaid assumption that if FIIs come in, the market goes up; FIIs pull out, and the market goes down, does not hold any more. In any case, the end of the US outperformance US is coming closer.

Mehra also says that they are overweight on IT, pharma, and auto components and have selectively added some FMCG and chemical stocks.

I am taking a look at your portfolio and two names are standing out to me. ITC and AkzoNobel are looking interesting right now among your top 10 holdings. Is this how you would prefer to play the consumption space going ahead also because we are hearing positive commentary coming in from pure play FMCG players? Do you believe recovery is underway and is good enough now for you to revisit? Do you believe that when the recovery in consumption does come through, FMCG players will lead from the front or will it be broader consumption names like paints, retail, footwear, fashion?

Devina Mehra: First of all, suddenly there has been a lot of hand wringing on consumption, in the last four-five months when the market started correcting. But I had been talking about it a lot longer simply because the consumption actually slowed down in ‘23-24. The ‘23-24 private consumption number in the GDP was at a 21-year low. It was around 4%. This year, it is expected to be 7.5% or so. So, there was never really a slowdown this year to start with.

On the margin, what is also helping is that now food inflation is coming under control. While the year-on-year increase in edible oil is still high, most of the other components like the cereals and the vegetables are easing and on the margin and that helps the FMCG players. We are overweight IT, pharma, auto components. And in the last couple of rebalances, we have added selectively some FMCG names. I am not sure whether we will be overweight yet or not, but we have definitely added because our systems have started to like those a bit more.

We are still not particularly happy with the paints or for that matter, realty which may well have a reflexive relationship with the markets and when markets were buoyant, people had money to buy these luxury homes. So, we have added FMCG names. We have also selectively added some chemicals. While we may still be underweight, we have added some banks. But we look at everything from base zero every quarter. This is not anything like a two-year call or anything. But yes, on the margin now, we will see better results from FMCG.

No one knows what is going to really happen with Trump and what he is going to say about tariffs and how much and to which country. But assuming the tariffs are coming, that is not going to be good for US growth. At a time like that, one can already see some shake-offs come in in the US equities. What happens to India equities in that case or do you think the FPI, FII money will find its way to markets like China and India?

Devina Mehra: In the US, already inflation is high, consumer confidence has dropped. When you have all this uncertainty every day at a different announcement, it shakes up the confidence. Payroll numbers have disappointed a bit and are not so good anymore. No one likes uncertainty, not the citizens, not the markets.

The US has been a big outperformer overall barring one or two years in between for 10-12 years and emerging markets have really underperformed over this period. We always had this on our anvil and at some point, that trade will change and the US will start to underperform. We thought it was still some way away, but all the shenanigans by Trump make us feel that maybe that time is closer.

Europe, for example, has been doing very well relatively of late and maybe now money will look for places outside the US, which means other developed markets as well as the developing markets. I am not ever a fan of saying that this is where FIIs will come or when they will come and that is going to be the market driver because data does not show that.

Yes, this time it has been coincidental that the FIIs have pulled out money and the markets have fallen. But over a period of time, that unsaid assumption that FIIs come in, the market will go up; FIIs pull out, the market will go down, does not hold if you look at the data. But in any case, maybe the ending of the period of outperformance of the US is coming closer.