Rajiv Shastri
Director and CEO
NJ Asset Management Private Limited

"Factor investing has emerged as a leading approach internationally"

What's your outlook on the domestic equity markets over the short to medium term?

From a long-term perspective, the Indian economy is in an era of high nominal growth rates and the Indian equity market will necessarily reflect this reality. Sometimes, for short periods of time, factors emerge which can cause the markets to deviate from this long-term trend. These factors typically follow vibrant markets and may or may not be accompanied with some economic challenges. As things stand, we are going through one such phase in which predominantly international factors are giving the markets a reason to pause and introspect.

What are your thoughts about factor investing and how are you implementing this in your investment strategy?

Factor investing has emerged as a leading approach internationally over the last decade or so. It has existed in one form or another since the sixties but materialised as a credible alternative to traditional discretionary active investing only once adequate computing power became available to analyse the vast amounts of data that has been accumulating. It has attracted attention and funds after the global financial crisis as investors sought a disciplined and unbiased approach to investing that retained the ability to outperform the market.

In India, the NJ Group has led developments in this direction since 2010 when we started offering our rule-based portfolio management services. As things stand, we offer 10 discretionary PMS investment approaches which follow our proprietary factor investment methodologies. We launched our first MF scheme, NJ Balanced Advantage Fund, in October 2021, which garnered more than ₹5,200 crore in collections and also uses our proprietary multi-factor approach to invest.

In your view, what are the pertinent risks facing equity markets in FY23?

At the moment, there are international factors driving economic outcomes. After the lingering supply disruptions caused by the pandemic, the war in Ukraine and sanctions on Russia have added fuel to the raging inflationary fire. Leading nations are being forced to make choices that would have been unpalatable a few months ago. India has remained relatively untouched, but not completely. The spill-over effects of high oil and food prices have hurt us as well while the impact has been somewhat muted. Also, even though manufacturers are facing much higher costs as reflected in the Wholesale Price Index, consumer price inflation has remained relatively lower. However, this situation implies that corporate profits will be squeezed between rising input prices and relatively stable output prices. This will be reflected in the equity markets in the short term.

What's your outlook on Indian debt markets and yield curve post the Reserve Bank of India's recent 50 basis point hike in policy rates?

Though policy rates have been raised twice and there is the possibility of further hikes, we believe that medium to long term government securities' yields have peaked. We don't expect them to increase much further from this point onwards and believe that this is a good time for investors to extend duration. With the 10-year government securities' yield at 7.4 per cent or thereabouts, there is a possibility to generate real return without taking any credit risk.

How should a retail investor approach mutual funds in the current scenario?

Retail investors with a reasonable long-time horizon need not deviate from their investment plan at all. As long as one's investment plan is realistic and based on a pragmatic assessment of potential risk, there is no significant benefit to be gained from moving away from it. If, however, the risk assessment reflects the optimism of the recent bull market, then there may be some adjustments needed. The importance of having a consistent risk profile regardless of market conditions cannot be emphasised enough. Investors typically overestimate their risk appetite in a bull market and underestimate it in a bear market. This tendency, also known as greed and fear, is easily avoided if one works with a trusted partner such as a mutual fund distributor through ups and downs.