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# More cautious on markets than we were a few months ago: Baer

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MUMBAI

The outflow of foreign institutional investment from emerging markets such as India shows that such markets are overvalued and developed markets could offer better returns, says Alok Sama, president and founder of Baer Capital Partners Ltd, in an interview. But he adds that developed markets, too, face concerns such as sovereign debt in Europe and high mortgage rates in the US. Edited excerpts:

**We have seen some foreign institutional investors (FIIs) selling in India, and we have seen a fairly decent run in the US markets, especially the S&P now trending towards the 1,250 mark. Is this trend of money going from emerging markets to developed economies a big worry for an India investor?**

The concern you refer to has seen a fair amount written and said about it. There is some reality and there is not just a perception that emerging markets are overvalued and that there is better value to be had in developed markets. There is certainly some truth in that. But the analysis is a lot more complex.

To me, a lot of the volatility



Volatility concerns: Alok Sama.

## INTERVIEW

in global markets is going to be driven by two major forces. One, which has been in the headlines a lot, is the whole issue with respect to sovereign debt. Particularly in continental Europe, there is a real sovereign debt crisis approaching.

You have seen across the world, including the United States, a very substantial rise in government interest rates. Some of that is related to optimism. But by and large, there is very serious concern about the sovereign debt problem in developed markets.

Concerns about those headlines, newsflows related to that

over the next few months, I think, will be a major factor that impacts risk appetite. That will impact emerging markets as well as developed markets. So that is one thing to be certainly aware of.

Europe in the near term has some compelling issues that need to be addressed. But even in the US, I do think there is a leadership crisis because you haven't seen the same type of leadership as you have seen in the UK for example, in terms of getting ahead of the curve and tackling the deficit issue. That is one major issue I would highlight as something that will continue to create volatility in markets.

The second issue is growth. You saw Jim O'Neil from Goldman Sachs make some pronouncements yesterday (Wednesday) about expectations that the US market could move up higher by 20% in the coming year, mainly based on a rosier or a more optimistic return to normal scenario in the US. I guess the jury is out on that. We remain sceptical.

Higher mortgage rates in the US which you have seen over the last month are not particularly conducive to a sustained recovery in the housing market either. That is another factor to watch.

As you see those forces play out, to a degree that will deter-

mine which way the markets go.

**There are a couple of concerns like the tightening of liquidity and the hardening of commodity prices. Do you think the Goldilocks situation that our markets were enjoying in 2010 has come to an end, or do you think the markets will take on a new high in the early months of 2011?**

In the Indian markets, over the last few months, we have moved from being almost maximum long in the 95-96% range to more the mid-eighties. We are somewhat more cautious than what we used to be. There is a possibility that markets globally continue to move higher.

It would not shock me, but it is fair to say that we are somewhat more concerned about flows into the emerging markets. What has driven Indian markets over the last year has been FII flows. You have had FII flows break new records.

For this rally to be sustained, you need to see some real evidence of Indian retail mutual funds, in particular, stepping in and participating in a major way. Absent that, I think probably a range-bound market. I am not unduly concerned about a market crash, but somewhat more cautious than we were a few months ago.

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