S Naren, CIO Equity, ICICI Prudential, says that the market is volatile and will continue to be volatile, but it is a stock picker's market. The downward movement of crude prices eliminates market's current account and fiscal deficit concern. This sharp fall in crude price has changed economic dynamics of the Indian market.

Current trend shows that some of the defensive consumption sectors are falling and domestic cyclical sectors are rallying which is a reflection of what people believe might happen this month.

Below is the edited transcript of his interview to CNBC-TV18.

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Q: **Do you concur with Morgan Stanley view that valuations are attractive and this is a best time to buy stocks despite a possibility of further downside?**

A: The market is volatile and will continue to be volatile, but it is a stock picker'smarket. The downward movement of crude prices eliminates market's current account and fiscal deficit concern. This sharp fall in crude price has changed economic dynamics of the Indian market.

Q: **How do you think the market will move this month with upcoming RBI policy and news from Europe? Will the market be range bound till the second week of June and then apossible upside?**

A: From asset allocation point of view things are clear. We our advising that investors should keep their equity allocation constant by investing money as crude prices fall. From last five years many people were not investing in equities. With correction in crude oil and improving fundamental economics, there is a case to put money in equity. Further fall in crude price will be more positive factor. Reduction in crude price, hike in diesel price and interest rate cut will help to form a positive structural market, if that happens then in this situation the cost of capital, fiscal deficit and current account deficit comes down which creates good infrastructure cycle and is extremely good for the equity market. Current trend shows that some of the defensive consumption sectors are falling and domestic cyclical sectors are rallying which is a reflection of what people believe might happen this month.

Q**: How do you see the market by the end of this year?**

A: One thing is clear that market will be volatile. It is difficult to predict the future as to what will happen in Greece, Spain or position of QE in the US. Except defensive sectors market appears under valued. We are comfortable from valuation standpoint. The biggest problem India is suffering is from the combination of both fiscal and current account deficit. A further dip in crude prices will benefit both fiscal and current account deficit and make India an attractive investment destination.

Q**: What will be the direction of RBI movement in June and through 2012?**

A: To have good return on equities one needs to have a combination of many factors like, hike in diesel price and cut in interest rates which will help to create a virtuous cycle for equities. By reducing interest rate one cannot have a secular rally in the market.

Equity market is a very complex market. Global factor too, influence the Indian market. If one is able to get the current account and fiscal in check by an increase in diesel price then the reduction in cost of capital will be very, very positive for equities coupled with the announcements on project execution which again can happen.

Equity markets are driven by not just by interest rates but combination of factors. The fact that market can go up by only reducing interest rates has been proved false in April May and that will again happen. Hike in diesel price will make investment in equity market much safer than it was three months back. One should look at equities to maintain equity allocation.

Q: **You said that defensive consumption stories maybe on the backburner and cyclicals are seeing more preference. Would you lap up some banks and autos which are rate sensitive?**

A: We are betting on exports as it does not require big change in government policies from portfolio positioning point of view. If there is a diesel price hike we need to look at domestic cyclicals and infrastructure in a more positive way than what where we are positioned at this point of time. Domestic defensive sectors are overvalued in a situation where economy is doing very well whereas the domestic infrastructure and cyclical names look cheap at this point of time. Diesel price hike would be a good indicator of whether to go into the cyclical infrastructure space or not.

Q: **Would you buy auto sales on further dips or stay away?**

A: The auto sector is looking more attractive and we are looking to buy some stocks on further dip. For a secular market rally, domestic infrastructure cycle looks more relevant than domestic consumption cycle and it has played out over the last four years. But, in last one year the domestic consumption cycle has continued and the domestic infrastructure cycle hasn't played off. We are more positioned on export cycle rather than infrastructure cycle as the later provides more upside but with much higher risk.

Q: **What is your view on Bharti Airtel?**

A: The best time to invest is when there is blood on the street and we have been seeing that this sector is in really bad shape due to regulation hurdles for quite some time. As this product is being consumed by more than 50% of Indians, I don't think one can go wrong on this sector. It is a good bet from three-five year investment point of view.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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