
THE CASE FOR INDIA'S MULTIPLE-YEAR BULL MARKET – PART 2

Gaurav Sinha — Associate Director, Asset Allocation and Modern Alpha
06/24/2019

I recently wrote about how [India's structural changes are setting stocks up for a multiple-year bull](#) run, covering structural changes by India's Modi government.

Part 2 will cover a second fuel for Indian equities that could translate to market gains: inflows from domestic investors.

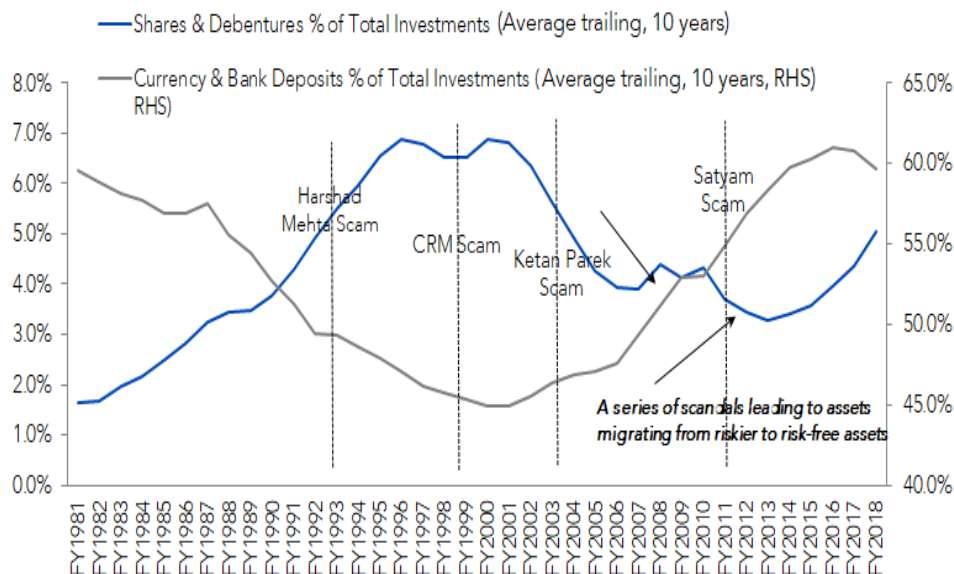
Traditionally, equity exposure has made up around 6% of Indian household [balance sheets](#). By comparison, this figure in the United States has been well above 30%.¹ This is about to change and, in my opinion, could set India up for a strategic bull run.

Great Reverse Migration from "Safer" Assets to Market Assets

India has a long stock market history. The Bombay Stock Exchange (BSE) was founded in 1875 and is the oldest stock exchange in Asia.² Trading in India is now fully electronic, and the settlement process takes about 48 hours—as fast as any developed market.

But it's been a long ride. Back in the 1990s and early 2000s, loosely regulated Indian markets were hit with multiple scandals. This led to the average Mr. & Mrs. Patel pulling out their precious savings from equities and putting them in safer instruments such as cash and bank accounts—a.k.a. the migration of Indian household assets.

Market Inefficiencies Lead to Migration of Household Assets from Securities to Cash and Bank Deposits



Sources: Morgan Stanley, World Bank, as of 03/30/2019. Past performance is not indicative of future results.

Please see [glossary](#) for definitions of terms in the chart.

Thus, while India's per capita income increased fivefold, from a mere \$247 in 1981 to \$1,380 in 2018,³ its household investment in stock did not grow in proportion to its income!

As markets matured and became more regulated, this trend is now gradually changing.

What we now see is the reverse migration of household assets from safe cash and bonds toward equities.

The factors encouraging this reverse migration includes:

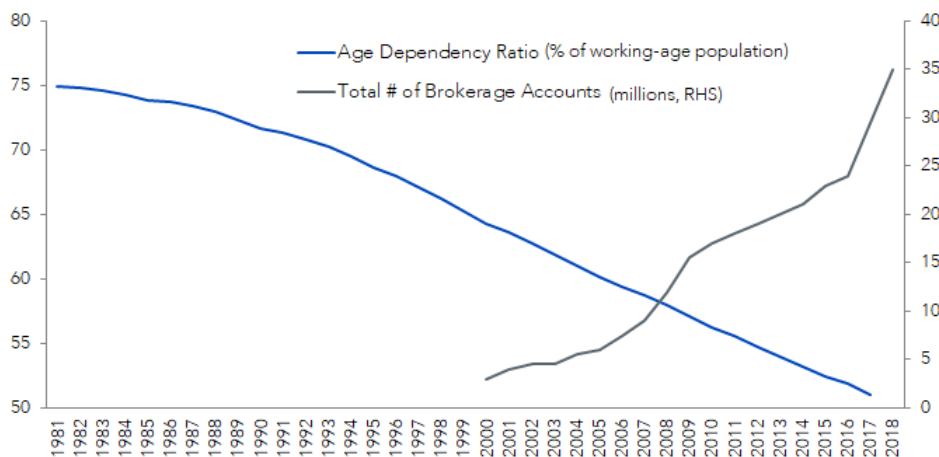
- A regulatory body, SEBI, has launched a series of stringent market regulations in the last two decades.
- A generation that has now grown up influenced by more regulated and audited markets.
- SEBI now mandates that all mutual funds spend 0.02% of their assets under management (AUM) on investor education. An equity asset base of Rupees 4,000 billion implies about Rs 800 million spent on investor education.⁴

Early Offshoots of Domestic Investment

[Demographics and consumption](#) have been [core pillars of India's economy](#). They are likely to fuel flows into stock markets, too.

Around 35 million new Indian brokerage accounts were opened in 2018⁵—a record number. The growth trend is exponential. India has one of the most attractive demographic profiles, with nearly two-thirds of the country below 35 years of age.⁶ As memories of inefficient markets fade and the risk appetite of young India increases, we expect a significant shift toward stock market investments.

Young India Now Taking More and More Interest in Investing



Sources: Morgan Stanley, World Bank, as of 03/30/2019. Past performance is not indicative of future results.

Conclusion

It is estimated that India's savings will increase fivefold over the next decade and reach over Rs 50 trillion by 2025.

Currently around 6% (or around Rs 900 billion in currency terms) of household balance sheets are in risky assets.⁷ Even if we assume there is no migration and this 6% stays flat, that implies Rs 3.08 trillion investments in market assets in the next eight to ten years.

An in-depth exposure to Indian markets could thus provide strategic growth.

The [WisdomTree India Earnings Fund \(EPI\)](#) is the first fund in the U.S. with physical access to India's market under an exchange-traded wrapper. With exposure to over 200 profitable companies, EPI is, in my opinion, one of few funds with true exposure to India's market, and now has a nearly 10-year track record.

¹Sources: Reserve Bank of India (RBI), World Bank, as of 12/31/19

²Source: Bombay Stock Exchange (BSE), as of 12/31/18

³Source: World Bank, as of 12/31/18

⁴Source: Securities and Exchange Board of India (SEBI), as of 12/30/18

⁵Source: Morgan Stanley, as of 03/31/19

⁶Source: World Bank, as of 03/31/19

⁷A risk asset is any asset that carries a degree of risk. Risk asset generally refers to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate and currencies

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. This Fund focuses its investments in India, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging, offshore or frontier markets such as India are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. As this Fund has a high concentration in some sectors, the Fund

can be adversely affected by changes in those sectors. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Bullish : a position that benefits when asset prices rise.

Balance sheet : refers to the cash and cash equivalents part of the Current Assets on a firms balance sheet and cash available for purchasing new position.