WHAT DOES INDIA'S RATE CUT MEAN FOR INDIAN STOCKS?

Luciano Siracusano — Chief Investment Strategist
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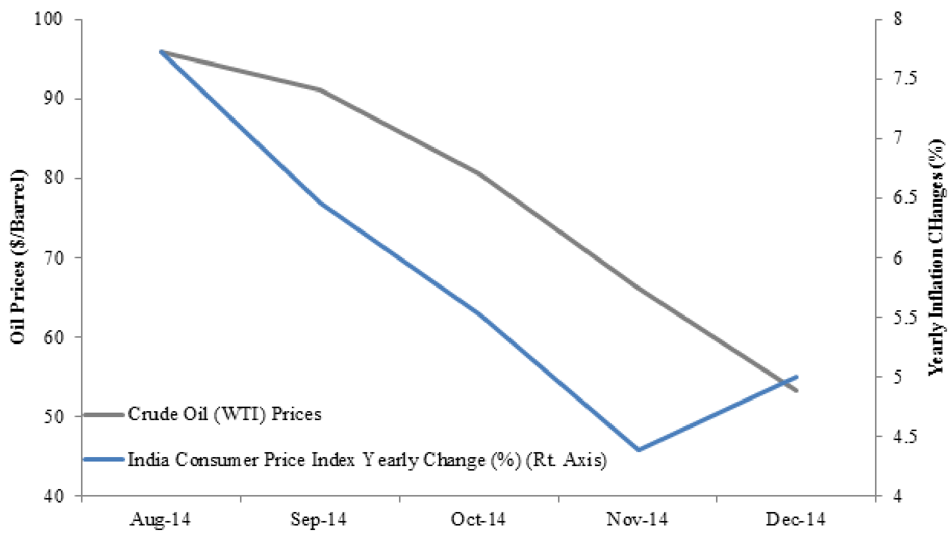
After advancing 29% in 2014, India's Sensex jumped 3% last Thursday, following an unexpected interest rate cut by the Indian central bank. On a day when the broader MSCI Emerging Markets Index was more or less flat, the Sensex gained 729 points, closing at 28,075—its best daily gain since Prime Minister Narendra Modi was elected in May 2014. In a move that surprised many, India's central bank chief and former IMF chief economist, Raghuram Rajan, cut the repo rate 25 basis points (bps), from 8% to 7.75%. The rate cut, announced about a month ahead of India's next budget, is a strong acknowledgement that inflation is being tamed in India. Entering 2014, inflation had turned the corner but was still a cause for concern; the rate of inflation was 9.87% for 2013. Consumer price inflation moderated to 5.00% over the past year.[1] With interest rates remaining elevated, India's real interest rate is now above 3%, ranking it among the highest of the major emerging market economies. Higher interest rates over the past year have helped keep a lid on inflation in India, while also helping stabilize the Indian currency, the rupee. The rupee was relatively resilient in 2014 and has strengthened in recent weeks, despite the dollar's potency relative to other foreign currencies. One reason for the decline of inflationary pressures in India is the declining price of oil. Plummeting global oil prices have been a windfall for oil-importing economies like India. Seventy percent of the oil used in India is imported, and oil makes up about 37% of the country's total imports. About 67% of India's trade deficit reflects crude oil purchases, so the Indian economy is uniquely positioned to benefit from lower crude oil prices. It's no coincidence that the 50% drop in the price of oil since July 2014 has coincided with a decline in the rate of inflation in India. **Figure 1: Falling Oil Prices & Declining Inflation in India**



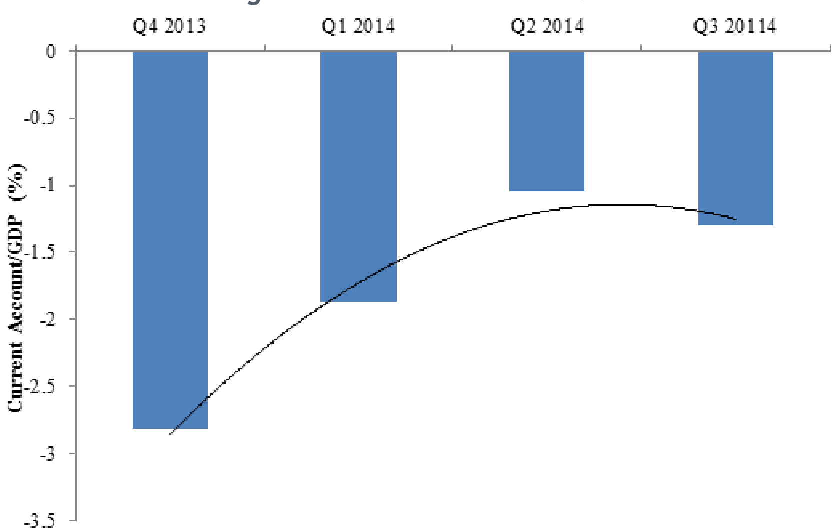
Past performance is not indicative of future results. You cannot invest directly in an index.

Effect of Cuts in the Indian Repo Rate on the Indian Equity Markets Since the peak of the financial crisis, the Reserve Bank of India (RBI) has broadly engaged twice, in consecutive rate-cut cycles. Phase 1 started in October 2008 and lasted through May 2009, while Phase 2 started in April 2012 and ended in May 2013. The one-year total returns for the WisdomTree India Earnings Index after each rate cut cycle were robust, advancing 24.5% and 23.3% respectively, as shown in figure 2 and the following tables. **Figure 2: WisdomTree India Earnings Index Total Returns vs. Rate Cuts in India**

Consequtive Repo Rate Cut Cycles			
Phases	**Time Period Engaged**	**Rate Starting Level**	**Rate Ending Level**
Phase 1	Oct. 2008 - May 2009	9.00%	4.75%
Phase 2	April 2012 - May 2013	8.50%	7.25%

WT Earnings India Index One Year Total Returns Following Rate Cuts		
Phases	**Time Length** *(One Year Following Rate Cut Cycle)*	**Total Returns**
Phase 1	May 2009 - May 2010	24.45%
Phase 2	May 2013 - May 2014	23.27%

Source: Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index. *For standardized performance of the WisdomTree India Earnings Index, click here*. Lower oil prices are also helping to contain India's current account deficit, one of the factors that has historically impacted the value of the Indian currency. Over the last several quarters, India's current account deficit as a percentage of gross domestic product (GDP) has been cut nearly in half. **Figure 3: India's Current Account as Percentage of GDP**



Past performance is not indicative of future results. If India has embarked on a multimonth period of interest rate cuts, such accommodative monetary policy could be a bullish catalyst for the Indian economy and the Indian equity market. The stage is now set for Finance Minister Arun Jaitley to present a reform-friendly budget next month. Should the new Indian government be able to propose and enact new pro-growth economic policies, look to see more interest in—and money flowing into—Indian stocks. **Unless otherwise noted, data source is Bloomberg, as of**

1/15/2014. [1]Source: Bloomberg, as of Q4 2014.

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DEFINITIONS

Sensex : An abbreviation of the Bombay Exchange Sensitive Index (Sensex) – the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE. Initially compiled in 1986, the Sensex is the oldest stock index in India.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

Basis point : 1/100th of 1 percent.

Repo rates : Repo rate is the rate at which the central bank of a country lends money to commercial banks in the event of any shortfall of funds.

Inflation : Characterized by rising price levels.

WisdomTree India Earnings Index : A fundamentally weighted Index that measures the performance of companies incorporated and traded in India that are profitable and that are eligible to be purchased by foreign investors. Companies are weighted in the Index based on their earnings in their fiscal year prior to the Index measurement date, adjusted for a factor that takes into account shares available to foreign investors.

Current account deficit : Situation where a country has a greater level of imports than exports.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Bullish : a position that benefits when asset prices rise.