

# OPPORTUNITIES IN INDIA FOR INVESTORS FOLLOWING RECENT MARKET OUTPERFORMANCE

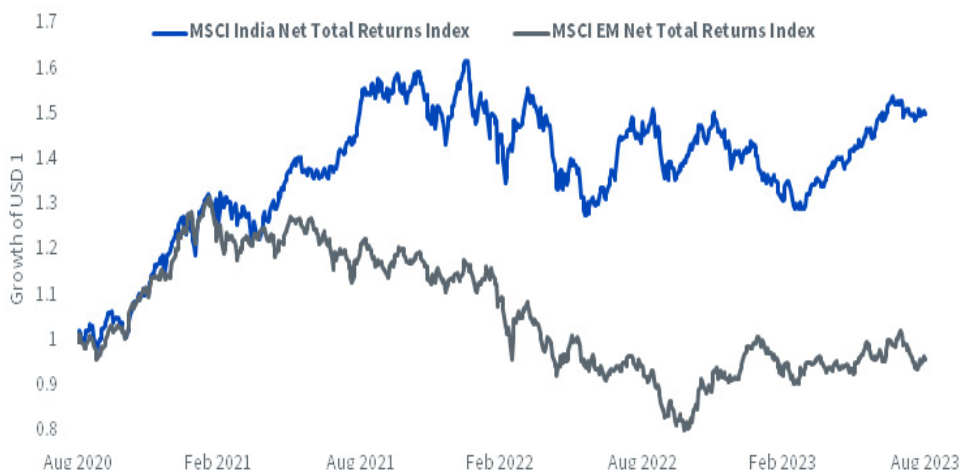
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09/18/2023

India recently posted [GDP](#) growth of **7.8% YoY** as of the end of June 2023, at a time when most of the world's major economies were grappling with avoiding [recession](#) and controlling [inflation](#). [Our house view remains](#) that India is at the cusp of an economic boom with strong macro tailwinds for years or even decades to come.

While India resembles China from 30 years ago in having a large working-age population, low but growing GDP per capita and an infrastructure and manufacturing boom, there are also some striking differences. India's democratic form of government as opposed to China's one-party communist regime, India's "soft power diplomacy" vs. China's growing territorial disputes and India's relatively free market approach in contrast to China's state control are a few examples. We expect these factors to help India sustain growth and continue to attract outside investments.

The Indian stock market reflects this sentiment. Over the past three years, India (proxied by the [MSCI India Index](#)) has outperformed the broader [EM](#) market (proxied by the [MSCI EM Index](#)) by a massive **54.37%**, with an annualized performance of **14.54%** in USD as of August 31, 2023.

One knock on India is that prices reflect this enthusiasm, and it carries one of the highest [valuation](#) multiples within the emerging markets universe. This is where WisdomTree's valuation-sensitive rebalancing discipline can help access India at more reasonable valuations.



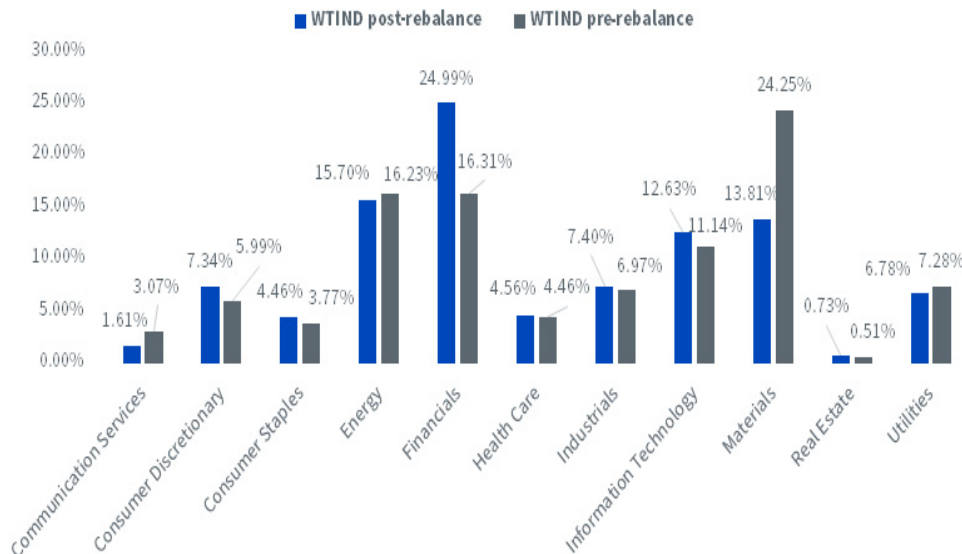
Sources: WisdomTree, Bloomberg, 8/31/20–8/31/23. You cannot directly invest in an Index. Past performance is not indicative of future returns.

## WisdomTree India Earnings Index Rebalance

The [WisdomTree India Earnings Index \(WTIND\)](#) targets exposure to profitable companies in the fast-growing Indian equity market.

During its most recent annual rebalance, to be implemented after the market close on September 15, the Index added an 8.5% weight allocation to Financials and reduced exposure to the Materials sector by more than 10%. The lower weight of Materials is due to the lower realized earnings in the sector, which could be attributed to the drop in commodity prices over the previous year when [commodity](#) prices were extraordinarily high due to the Russia-Ukraine war.

## Sector Allocation



Source: WisdomTree, as of 9/15/23. You cannot directly invest in an index. Past performance is not indicative of future returns.

Note that HDFC Bank, one of India's largest private sector banks, was the biggest addition, with a 7% weight allocation and a change in eligibility due to more capacity for foreign investors to buy the stock.

Digging further into the Materials sector, Tata Steel Ltd., WTIND's largest current holding, saw its weight cut by nearly 80% in line with the decrease in its earnings.

From a fundamental perspective, quality metrics improved, with [ROA](#) increasing from 3.22% to 3.32% and [ROE](#) from 13.49% to 16.21%. The rebalancing also led to a slight increase in the percentage of [large cap](#) stocks while maintaining the Index's broad-based exposure.

	P/E	Div. Yield	ROA	ROE	Large Cap	Mid Cap	Small Cap
WTIND post rebalance	14.6x	2.10%	3.30%	16.20%	68.50%	20.70%	10.80%
WTIND pre rebalance	14.5x	2.40%	3.20%	13.50%	63.80%	25.40%	10.80%

Source: WisdomTree, as of 15 Sep 2023. You cannot directly invest in an index. Past performance is not indicative of future returns.

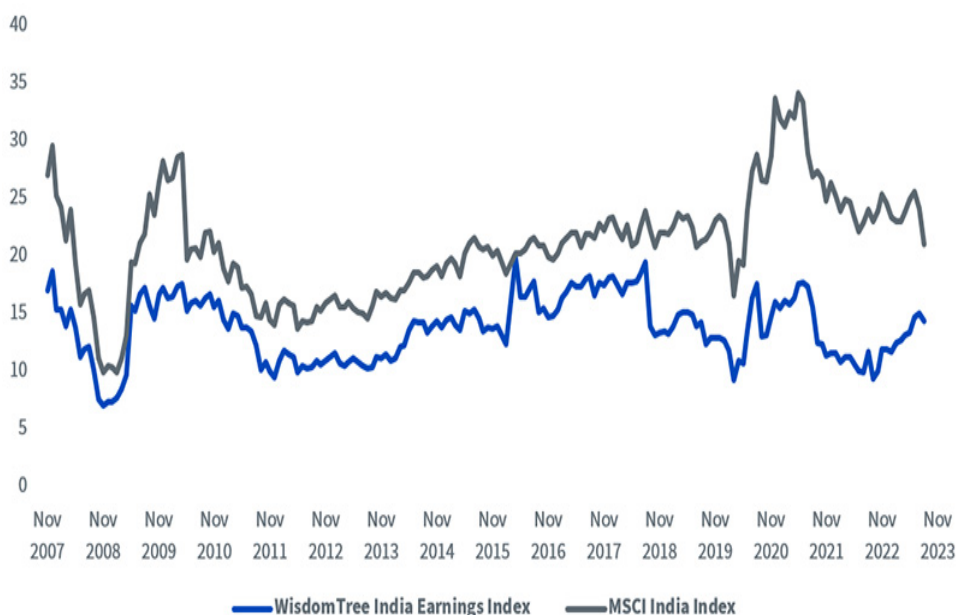
Indian equities are often deemed expensive. However, by weighting by earnings instead of market capitalization, the WisdomTree India Earnings Index achieves valuations that are consistently cheaper than the MSCI India Index on both [price-to-book](#) and [price-to-earnings](#) metrics.

## Price-to-Book Ratio



Sources: WisdomTree, FactSet, 11/29/02–8/31/23. You cannot directly invest in an index. Past performance is not indicative of future returns.

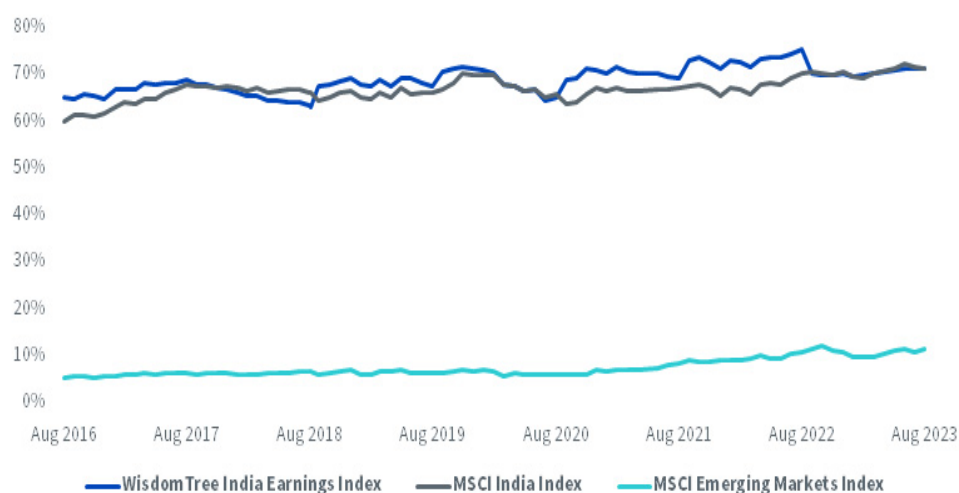
### Price-to-Earnings Ratio



Sources: WisdomTree, FactSet, 11/29/07–8/31/23. You cannot directly invest in an index. Past performance is not indicative of future returns.

Notably, the revenue exposure of the MSCI Emerging Markets Index to India has doubled over the last seven years as of August 2023, from 6% to 12%, establishing the significance of Indian markets in the broader emerging markets. The WisdomTree India Earnings Index has maintained slightly higher exposure to the growing domestic market versus the MSCI India Index. Post rebalance, the revenue exposure will equal 72.25%, slightly edging the MSCI India Index's exposure of 71.6% to the domestic market as of August 31, 2023.

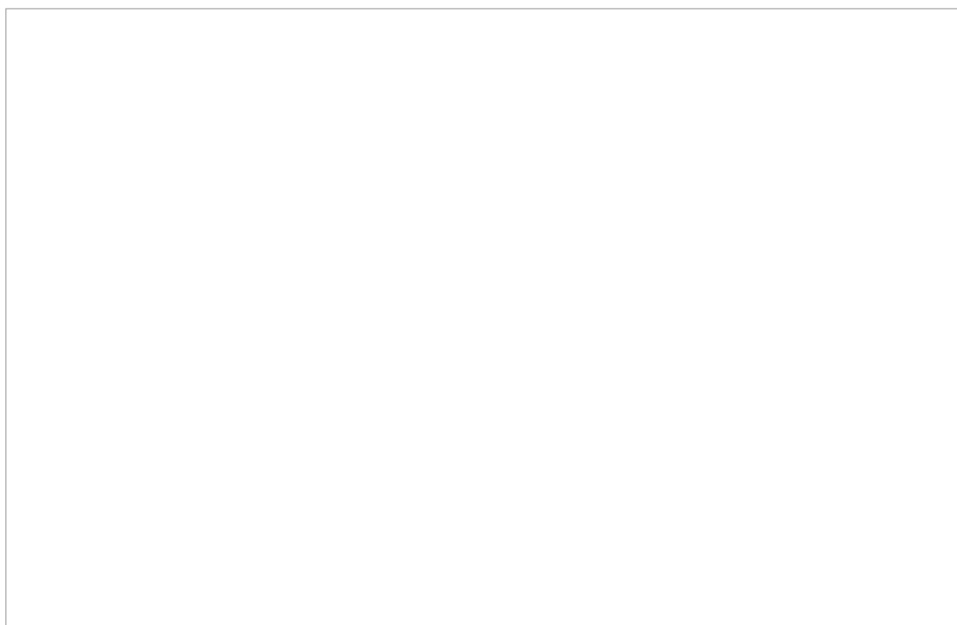
### Revenue Exposure to Indian Domestic Market



Sources: WisdomTree, FactSet, 8/31/16–8/31/23. You cannot directly invest in an index. Past performance is not indicative of future returns.

## Conclusion

Given the expensive nature of Indian equities over their EM counterparts, the WisdomTree India Earnings Index targets higher profitability at a discount by weighting constituents using earnings and, at the same time, avoiding value traps by filtering out securities with price-to-earnings ratios of less than 2x. This approach has translated well into performance, with the [WisdomTree India Earnings Fund](#) gaining **67%** while delivering an annualized outperformance of **4.08%** over the [MSCI India Net Total Returns Index](#) in the last three years ending August 2023.



***The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance click [here](#).***

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You cannot invest directly in an index.

## DEFINITIONS

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

**Recession** : two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

**Inflation** : Characterized by rising price levels.

**MSCI India Index** : A market capitalization-weighted index designed to measure the performance of the Indian equity market.

**Emerging market** : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

**MSCI Emerging Market Index** : The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Commodity** : A raw material or primary agricultural product that can be bought and sold.

**Return on assets (ROA)** : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

**Return on Equity (ROE)** : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

**Large-Capitalization (Large-Cap)** : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

**Price-to-book ratio** : Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**Price-to-earnings (P/E) ratio** : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**MSCI India Net Total Returns Index** : The MSCI India Net Total Return Index is designed to measure the performance of the large and mid-cap segments of the Indian market, covering about 85% of the free float-adjusted market capitalisation in India.