

CAN INDIA CONTINUE ITS STRONG 2023 PERFORMANCE?

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India faced global headwinds in 2023 of high global [inflation](#), rising [interest rates](#) and unstable geopolitics and shined as one of the best-performing markets globally. The Sensex and Nifty, two widely followed benchmarks for the Indian markets, grew 19.57% and 21.11%, respectively, in USD terms.

India’s economy displayed strong local retail demand, moderate inflation, stable interest rates and healthy foreign exchange reserves. India also enjoyed relatively healthy relations with most major economies of the world and cautiously navigated the geopolitical conflicts.

As we look ahead in 2024, we remain confident in [our outlook for India](#) as a long-term story, one that could last for years if not decades to come. National elections are due to be held around May 2024. Current prime minister Narendra Modi is seeking a historic third term, and we see it as highly likely the ruling party, BJP, will win with a full majority like the previous two times.

India has benefited from Modi’s pro-business and pro-growth policies, and a stable political environment further boosts prospects to realize rapid growth. We analyzed the performance of BSE Sensex, one of the widely followed benchmarks of the Indian stock market, pre and post elections.

Lok Sabha (National Elections) Results	Prime Minister	1 Year before Election Results	1 Year after Election Results	Combined 2-Year Returns
October 6, 1999	Atal Bihari Vajpayee	56.68%	-16.16%	31.36%
May 13, 2004	Manmohan Singh	92.72%	27.63%	145.97%
May 17, 2009*	Manmohan Singh	-38.17%	27.73%	-21.02%
May 16, 2014	Narendra Modi	10.17%	6.27%	17.08%
May 23, 2019**	Narendra Modi	13.23%	-26.73%	-17.04%
Average		26.93%	3.75%	31.27%

Sources: WisdomTree, Bloomberg. Performance is based on total returns of the BSE Sensex Index (USD). Performance is historical and does not guarantee future results. You cannot invest directly in an index.*The one year before election performance includes the GFC crash of 2008. **The one year after election performance includes the crash of 2020 due to COVID-19.

On an average, the Indian markets displayed positive performance delivering over 31% returns over the year leading up to, combined with the year after election results. This is despite the global financial crisis of 2008, and the COVID-19 drawdown negatively impacting the performance leading to 2009 elections, and after the 2019 elections respectively. We expect this trend to continue with the likely return of the incumbent government.

Of course, should Modi surprisingly lose, some of the recent gains might reverse. That seems highly unlikely, given the state of opposition, as multiple political parties, including some with completely unaligned agendas, have joined hands to prevent a third

Modi term. This was evident over the five recent elections in which the BJP won by a huge majority in three of the largest states with the highest proportion of Lok Sabha (national election) constituencies.

Other important factors that investors might want to keep an eye out for during the year:

1. **Rate cuts:** The [Fed's](#) pace and timing on [rate cuts](#) will impact global markets, and India is no exception. The quicker and higher the cuts, the more capital expected to be diverted toward equities, and with a strong momentum from the previous year, India might be one of the top picks in the [emerging markets](#).

2. **Crude oil prices:** The Indian economy heavily depends on the import of crude oil. The higher the crude oil prices, the more stress on India's foreign current accounts. Drops in crude oil could help India's economy grow faster and allow more room for spending on growth and infrastructure. India is also simultaneously working to reduce dependency on crude oil by diversifying into ethanol. Over the last few years, ethanol production has increased manifold, and there is a growing push to increase the usage of ethanol-blended fuel to power vehicles. This could potentially save the country much-needed cash and help direct it to fuel economic growth and reduce fiscal deficits.

3. **China decoupling:** India has emerged as one of the most credible contenders to help diversify manufacturing out of China. Some examples: Apple established a considerable footprint and plans to scale up operations multi-fold, significant investments and subsidies were introduced to attract semiconductor companies from Taiwan, and there are also suggestions Tesla is looking to enter India with a US\$2 billion investment in a manufacturing facility based in the state of Gujrat.

One of the most iconic policies of the current government over the last decade has been "Make in India." The government will be pushing hard to attract more companies to set up manufacturing plants in India and leverage the success of "Make in India" among voters

4. **Geopolitical instability:** India has been relatively less impacted by geopolitical conflicts around the globe. India maintained its neutral stance and successfully managed to stand firm despite pressure from the west by importing discounted oil from Russia to ensure its energy security while at the same time pitching itself as a closer ally to the U.S. to counter the growing China threat.

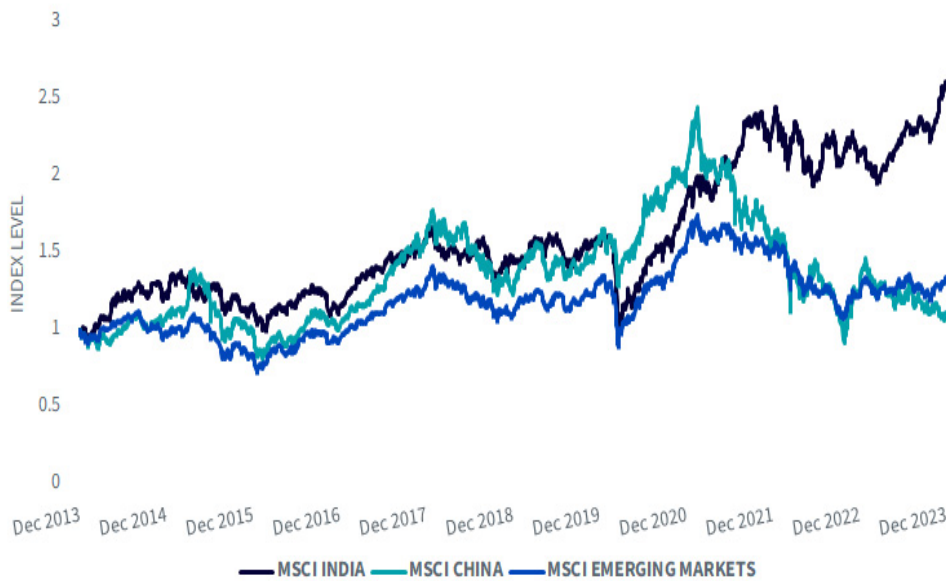
5. **Retail flows:** In recent years, India witnessed increasing participation of retail investors in the stock market. There are 80 million unique investors in the Indian stock markets that invest through the NSE. Moreover, the size of mutual fund AUM is currently around 24% compared to 11% a decade ago. The strong retail presence helps add stability to the Indian markets in the event of global instability and foreign institutional investor (FII) outflows.

Conclusion

As we have highlighted time and again, we believe that India is a multi-decade story, and we are in the very early stages of it. This is not to say that investors should expect a smooth ride. As with all major equity markets, the ride might be bumpy but could come with significant upside potential for investors over the long term.

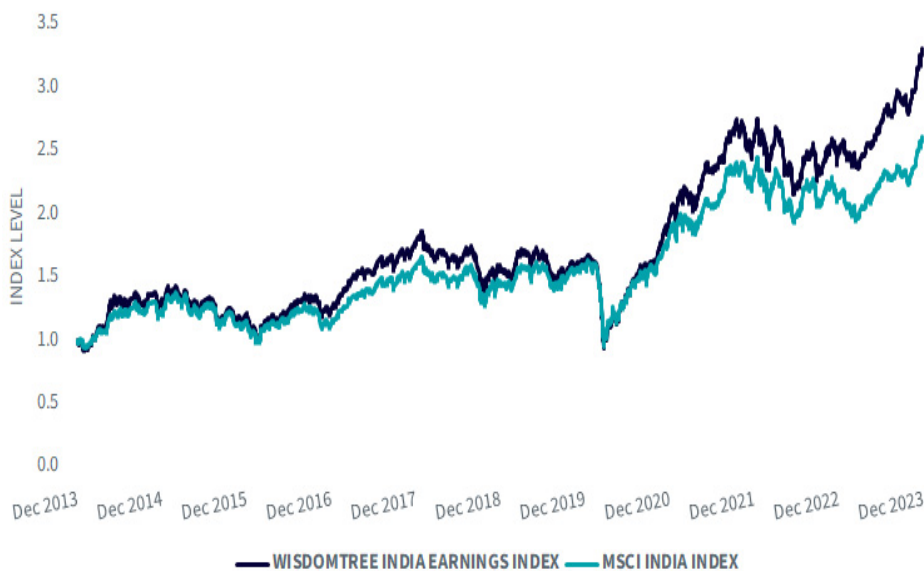
[MSCI India](#) outperformed [MSCI EM](#) and [MSCI China](#) by significant margins over the last 10 years, and we expect the trend to continue. The question then arises, if India could be accessed in a better way, could that help avoid valuation traps and deliver better performance than the [market cap-weighted](#) index? We believe that the [WisdomTree India Earnings Fund \(EPI\)](#), with its broad market and earnings weighting approach, does just that and has a proven track record as one of the earliest India funds (read more [here](#)).

MSCI India vs. MSCI China & MSCI EM



Sources: WisdomTree, FactSet, from 12/31/13 to 12/31/23. Past performance is not indicative of future results. You cannot directly invest in an Index.

WisdomTree India Earnings Index vs. MSCI India Index



Sources: WisdomTree, FactSet, from 12/31/13 to 12/31/23. Past performance is not indicative of future results. You cannot directly invest in an Index.

For the WisdomTree India Earnings Fund’s most recent month-end and standardized performance, click [here](#).

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DEFINITIONS

Inflation: Characterized by rising price levels.

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

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Rate Cut: A decision by a central bank to reduce its main interest rate, usually to influence rates charged by other financial institution.

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

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.

MSCI China Index: A free float-adjusted, market capitalization-weighted equity index designed to measure the performance of the Chinese equity market.

Market capitalization-weighting: $\text{Market cap} = \text{share prices} \times \text{number of shares outstanding}$. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

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.