

INDIA REMAINS A COMPELLING INVESTMENT CASE AMID THE CURRENT STORM

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02/24/2023

Indian equities have started the year on weak footing (up 0.26%¹) compared to global equities (up 7.22%).²

There is no denying that the allegations by Hindenburg regarding the Adani Group have soured sentiment. But India continues to have strong [macroeconomic fundamentals](#), an enabling policy environment and buffers to deal with ongoing challenges.

Let's take a look.

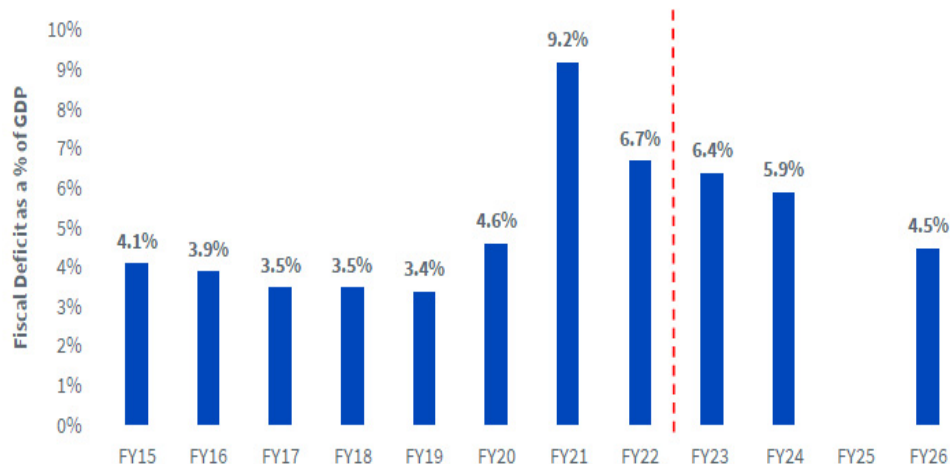
Budget's Capex Boost Offers Strong Growth Impetus

An element of India's rapid recovery has been a concerted, tight [fiscal policy](#), with the finance ministry focused on protecting the budget deficit.

At the start of February, the government delivered a balanced budget, treading the fine line between fiscal consolidation and growth.

Despite the consolidation, robust tax collection trends and a structural cut in subsidies (in the food and fertilizer subsidy bill) are likely to continue to drive robust capex. A 30% surge in capital spending, to \$120 billion, should encourage investment and capacity building ahead of the 2024 elections.³

The Indian Government Continued Its Fiscal Consolidation



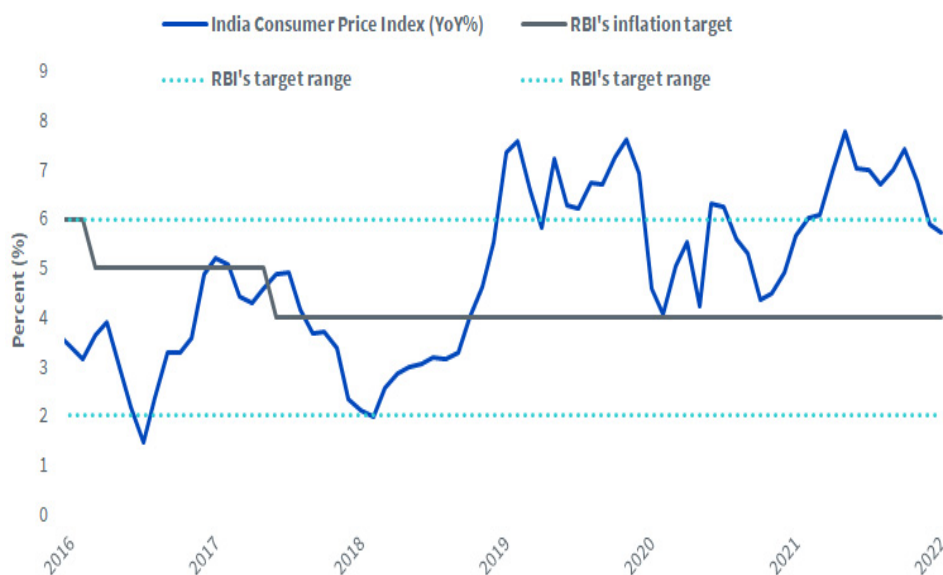
Sources: Indian Ministry of Finance, WisdomTree, as of 2/10/23.

This could be beneficial for the industrial, cement, banking and consumer sectors. On the flipside, the insurance sector likely faces headwinds with the removal of tax exemptions on annual premiums above ₹500,000. The budget projected India's real [GDP](#) to grow at 6.9% in fiscal year 2023, compared to 8.7% in fiscal year 2022.

The [inflation](#) situation is expected to improve significantly in the next fiscal year, with headline inflation expected to fall from 6.5% in 2022/23 to 5.3%.

The [monetary policy committee \(MPC\)](#) of the Reserve Bank of India (RBI) raised the policy rate for the sixth consecutive time on February 8, taking the policy rate to 6.5%. We expect this [rate hike](#) to be the last in the current [monetary tightening](#) cycle. A key factor in the RBI's inflation forecasts is an expected moderation of the crude oil price from \$100 to \$95. Both are higher than current energy prices.

Inflation Is within the RBI's Target Range



Sources: Bloomberg, WisdomTree, as of 12/31/22.

The past tighter [monetary cycle](#) is likely to add to borrowing costs and restrain domestic growth. But at the same time it should lower vulnerabilities, such as high inflation. The past year has reminded us that India's domestic growth has been far more resilient than broader global growth.

Earnings Weighted India: Emerging Market Value without Sacrificing Growth and Quality

India was recently in the headlines as its richest person—Gautam Adani and his affiliated conglomerate—was accused of accounting fraud.

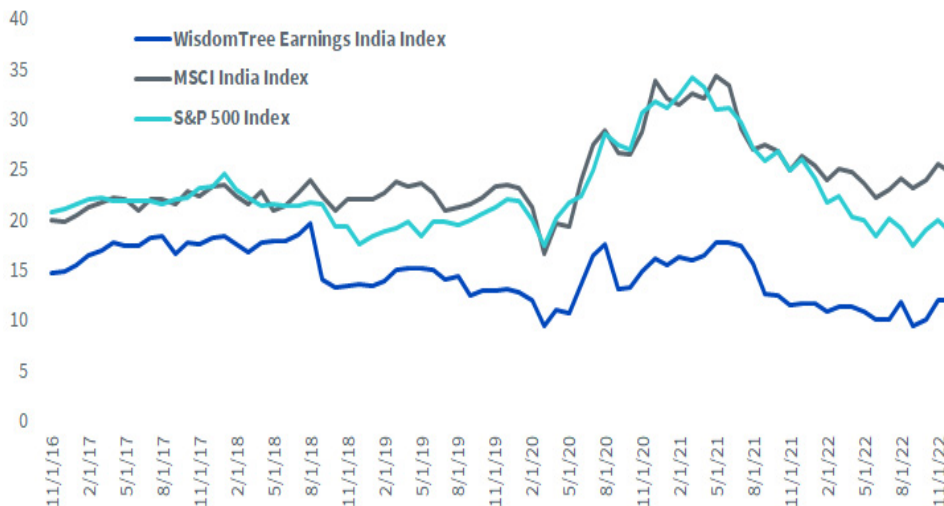
While this continues to play out in capital markets, it's important to remember that under the current geopolitical background of US-China economic competition, India is generally a benefactor. In the near term, India will continue its high-growth trajectory, benefiting from its relative cost advantage and younger demographics.

One company's accounting demise, as people familiar with China's Luckin Coffee saga know, seldom changes an overall investment case for a country, where ultimately economic and political fundamentals are main factors.

In the near term, when global growth is muted, investors will favor companies that consistently generate high earnings growth at reasonable valuations. Indian stocks are generally not cheap. Earnings weighting of Indian companies could offer investors significant valuation discounts without sacrificing [growth](#) and [quality](#).

Contrary to other [emerging market \(EM\)](#) countries with [discounted valuations](#), Indian equity [price-to-earnings historical ratios](#) were close to the [S&P 500](#). However, when using earnings weighting instead of [market cap weighting](#), the valuation discount is significant, at about 50%. In the case of Adani-affiliated companies, the [WisdomTree India Earnings Index](#) had a less than 1% exposure, while the standard [MSCI India index](#) had about 5% exposure.

Price-to-Earnings of S&P500 Value, WisdomTree Earnings India & MSCI India Indexes

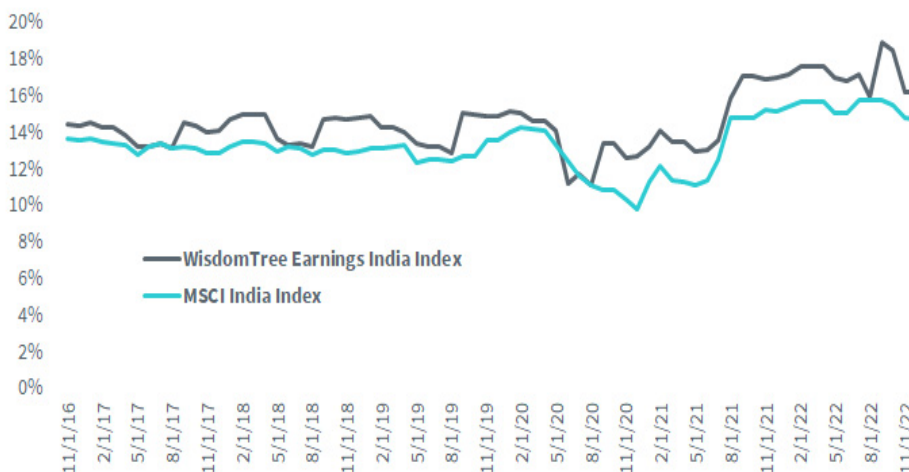


Performance data quoted above represents past performance; past performance does not guarantee future results. Index performance does not represent actual fund performance. It is not possible to invest directly in an index.

For definitions of terms in the chart above please visit the [glossary](#).

Most importantly, the earnings-weighted WisdomTree India Earnings Index has a valuation discount, without sacrificing earnings growth and quality characteristics. It also has higher a return on equity than the standard MSCI India index.

Historical Return on Equity (%)



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The earnings-weighted Indian Index also had higher earnings growth rates than the standard index over the last five years.

Index	Median Earnings Growth			Weighted Average Earnings Growth		
	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year
WisdomTree India Earnings Index	16.8%	17.4%	16.5%	23.3%	28.1%	21.6%
MSCI INDIA Index	14.8%	13.8%	15.1%	21.4%	24.5%	18.9%
S&P 500 Index	7.2%	10.6%	11.8%	27.1%	15.8%	16.0%

Sources: FactSet, WisdomTree, as of 12/31/22. Performance data quoted above represents past performance; past performance does not guarantee future results. Index performance does not represent actual fund performance. It is not possible to invest directly in an index.

In summary, part of the current correction in Indian equity is due to some mean reversion following the significant run-up of last two years, as its biggest EM counterpart, China, experienced significant negative sentiment.

¹ Bloomberg performance of Sensex Index, 12/31/22–2/10/23. It is not possible to invest directly in an index.

² Bloomberg performance of MSCI World Index, 12/31/22–2/10/23.

³ Indian Ministry of Finance.

Important Disclosure Related to this Article

Aneeka Gupta is an employee of WisdomTree UK Limited, a European subsidiary of WisdomTree Asset Management Inc.'s parent company, WisdomTree Investments, Inc.

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.

Related Funds

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You cannot invest directly in an index.

DEFINITIONS

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

Fiscal Policy : Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

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

Inflation : Characterized by rising price levels.

Monetary Policy Committee (MPC) : A committee of the Bank of England, which meets for three and a half days, eight times a year, to decide the official interest rate in the United Kingdom (the Bank of England Base Rate).

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Monetary tightening : A course of action undertaken by the Federal Reserve to constrict spending in an economy that is seen to be growing too quickly or to curb inflation when it is rising too fast.

Business cycle : The continuous lifecycle of the economy, which consists of periods of economic expansion, peaks, contractions, and troughs before.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

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.

Discount : When the price of an ETF is lower than its NAV.

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.

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.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

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

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