Could India continue to drive returns for Emerging Market investors in 2024?

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India shined as one of the best performing markets globally in 2023 despite high global inflation, rising interest rates, and unstable geopolitics. The Sensex and Nifty, two widely followed benchmarks for the Indian markets, grew 19.57% and 21.11% respectively in US Dollar (USD) terms[1].

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 that India, driven by a host of macroeconomic factors, is a long-term story and 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 it is highly likely that the ruling party, Bharatiya Janata Party (BJP), will once again win with a full majority.

India benefits from Modi's pro-business and pro-growth policies and a stable political environment further boosts prospects to realise rapid growth. We analysed 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
6 Oct 1999	Atal Bihari Vajpayee	56.68%	-16.16%	31.36%
13 May 2004	Manmohan Singh	92.72%	27.63%	145.97%
17 May 2009*	Manmohan Singh	-38.17%	27.73%	-21.02%
16 May 2014	Narendra Modi	10.17%	6.27%	17.08%
23 May 2019**	Narendra Modi	13.23%	-26.73%	-17.04%
Average		26.93%	3.75%	31.27%

*Source: WisdomTree, Bloomberg. Performance is based on total returns of S&P Sensex Index is USD. *The one year before elections performance includes the Global Financial Crisis crash of 2008. **The one*

year after elections performance includes the crash of 2020 due to COVID-19. Historical performance is not an indication of future performance, and any investments may go down in value. The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment.

On average, the Indian markets displayed positive performance, delivering over 31% returns over the year leading up to elections, 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 lose, some of the recent gains might reverse. However, 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 huge majority in three of the largest states with a high proportion of the Lok Sabha (national election) constituencies.

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

1. **Rate cuts** – The Federal Reserve's pace and timing on rate cuts will impact global markets and India is no different. The quicker and higher the cuts, the more the capital expected to be diverted towards 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 the 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 simultaneously also working to reduce dependency on crude oil by diversifying into ethanol. Over the last few years, ethanol production has increased manifold and there is rising pressure 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. For example, 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 that Tesla is looking to enter India with a USD 2 billion investment into 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 pitched itself as a closer ally to the US to counter the growing China threat.

5. **Retail flows** – In the 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.[2] Moreover, the size of mutual fund AUM is around 24% currently compared to 11% a decade ago. The strong retail presence helps add stability to the Indian markets in events of global instability and Foreign Institutional Investor (FII) outflows.

Conclusion

We strongly believe that India is a multi-decade story, and we are in very early stages of it. India has made tremendous progress in privatising corruption and debt-ridden state-owned companies, with disinvestments fetching USD 50 billion for the government over the last 10 years, out of which close to USD 40 billion was realised from sales of minority stakes, while close to USD 10 billion was realised from strategic transactions in 10 CPSEs – with the most notable being Air India[3]. This has helped in making companies more accountable to investors and more accessible via the stock market.

[1] Source: WisdomTree, Bloomberg.

[2] Source: According to recent comments from CEO of National Stock Exchange (NSE)

[3] See: Disinvestment fetches over Rs 4.20 lakh cr in 10 years but target to be missed again in FY24, December 2023

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