For Your Perusal

Highlighting Interesting Investment Research

Fed Pivot Will Favour Emerging Market India as an Investment Destination.

The macroeconomic environment will likely favour emerging markets as the Fed pivots, and expected rate cuts in the US would likely weaken the US dollar. Countries such as India make a compelling investment case with long-term mega forces like a vast youthful population, a burgeoning middle class, and the rewiring of its supply chains through significant economic reforms and sectoral developments. Investors seeking to diversify their portfolios and capitalise on high-growth opportunities should consider geographic diversification in India.

Economic Growth:

India's economy has been one of the fastest growing in the world. Over the past two decades, the country has experienced an average GDP growth rate of around 6-7% per year. The International Monetary Fund (IMF) forecasts India's GDP to grow at approximately 6.8% in 2024 and 6.5% in 2025. If India can maintain this pace of growth, it is expected that the economy will double in size by 2030 and will be the third-largest economy in the world by then. This sustained economic growth is primarily due to the country's robust domestic consumption, a vibrant private sector, and progressive government policies aimed at liberalisation and globalisation.

Demographics:

One of India's most significant advantages is its demographic profile. With a population exceeding 1.3 billion, India recently became the most populous country in the world. It also has a young and dynamic workforce, with approximately 65% of the population under the age of 35 and about half of that segment below the age of 25, offering a vast pool of labour, innovation, and consumption capability.

Strong Consumer Market:

India's rapidly expanding middle class is another cornerstone of its investment potential. Goldman Sachs forecasts a sizeable jump in consumer spending, with 100 million people in the country expected to become affluent by 2027, up from 60 million. With increasing disposable incomes, urbanisation, and changing consumer preferences, there is a surge in demand across various sectors, such as retail, real estate, and consumer goods. The retail industry, in particular, is thriving, fuelled by a boom in e-commerce, with major global players like Amazon and Walmart having already made significant investments in India's retail market, underscoring its potential.

Urbanisation and Infrastructure Development:

Urbanisation in India is also occurring rapidly, leading to the development of new cities and the modernisation of existing ones. The Indian government has launched several ambitious projects to improve urban infrastructure, transportation networks, and logistics. These initiatives are expected to create numerous investment opportunities in the construction, real estate, and transportation sectors.

Government Policies and Reforms:

The Indian government has undertaken numerous policy measures to enhance the business environment and attract foreign direct investment (FDI). For example, the "Make in India" initiative, which aims to transform India into a global manufacturing hub, has already led to Apple shifting some of its production to India. Tesla plans to set up a manufacturing plant soon. Such measures have helped enhance India's ease of business and made the investment climate more favourable.

Technological Advancements:

India’s growing tech industry is another pillar of its investment appeal. The country has a thriving information technology sector and globally recognised tech hubs and companies, contributing significantly to employment and GDP. Moreover, India's growing focus on digitalisation has revolutionised its digital infrastructure and opened new avenues for investment in technology and innovation. The country has numerous tech giants, innovative startups, talented engineers and IT professionals.

Risk Factors:

While India presents numerous investment opportunities, investors should be aware of inherent risks. The Indian Rupee (INR) has a history of high volatility, which can negatively impact investment returns. Other risks include regulatory and policy uncertainty due to frequent changes and bureaucratic hurdles. Additionally, infrastructure and logistics bottlenecks, such as inadequate transportation networks and power shortages, can impact business operations and increase costs. Political uncertainty, geopolitical tensions, and security challenges introduce further risks for investors in the Indian market.

Investment Opportunity:

Even though the Indian stock market is the world’s fourth biggest, it is too complicated for individual investors to invest directly in Indian stocks. They must register with the country’s financial market regulator and adhere to its disclosure requirements. Consequently, global investment platforms do not offer individual investors the ability to execute directly in Indian stocks. Generally, only institutional investors that manage foreign funds invest directly in Indian stocks as they have the resources to satisfy the regulatory requirements.

There are two solutions, however:

- Investing via depository receipts of Indian stocks listed on a foreign stock exchange or;
- Investing via an exchange-traded fund (ETF).

Depositary receipts are negotiable certificates issued by a depositary bank representing a specified number of shares—usually one share—of a foreign company's stock. The depository receipt trades on a non-Indian stock exchange as any domestic share would. Numerous depository receipts reference Indian shares that trade on foreign stock exchanges, representing some of the larger stocks. For instance, Infosys, one of the world's biggest IT consulting and software services businesses, trades as a depository receipt on the New York Stock Exchange. We understand that, in time, Indian businesses will be able to list directly on foreign stock exchanges without utilising a depository receipt program, which will be an exciting development. This will improve the liquidity, pricing and quality of Indian investment opportunities.

For most individual investors, the simplest way to obtain broad exposure to Indian stocks is to invest in an Indian-focused exchange-traded fund (ETF) that is traded on a foreign stock exchange. However, many Indian ETFs can be considerably smaller and less liquid than what investors are accustomed to. Due to this, pricing will be volatile, and fees will be higher. We highlight some of the available ETFs.

- iShares MSCI India ETF (INDA - US): tracks the performance of the MSCI India Index, and is the largest Indian equity ETF.
- Wisdom Tree India Earnings Fund (EPI-US): gain broad exposure to the most prominent Indian companies.
- Columbia India Consumer (INCO-US): invests in fast-growing Indian consumer companies.
- Global X India Active ETF (NDIA—Australia): This active ETF invests in India based on a bottom-up and structural tailwind perspective.
- Simplify Tara India Opportunities ETF (TARA—US), an active ETF focused on outperforming the MSCI India Index.

The Indian growth story is well known, and this is arguably priced into Indian stocks, with the Nifty 50 Index trading on an average forward Price/Earnings multiple of 21.4x.

This valuation rating will not present a hurdle so long as India's economic growth continues along the current trajectory, in which case investors will be rewarded.

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