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Private Bankers

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India's Rising Star. In a world where capital flows are increasingly constrained India looks attractive.

We are witnessing the inception of a new investment cycle, driven by the public sector, and we anticipate a ripple effect in the private sector.

In a world that is alarmingly deficient in promising growth narratives, India shines as a luminous beacon. While the debate in Europe and the United States revolves around the possibility of a cyclical downturn or recession, and even in China concerns persist regarding the government's ability to stimulate the economy, we have been enlightening our clients with a positive set of growth figures and an exceptionally robust growth story in India. Amidst the prevailing global gloom, we made the choice to include India in our discretionary mandates, buoyed by the recent growth statistics we have witnessed, affirming our decision to retain India within our portfolios. In the quarter ending in March, the Indian economy expanded at an impressive year-on-year rate of 6.1%, surpassing consensus expectations by a full percentage point. For the full fiscal year (India follows the fiscal year system, ending in March), India achieved a real GDP growth of 7.2%, consistent with pre-pandemic average levels. The primary catalyst for this growth cycle has been investment, which is highly encouraging when assessing the sustainability of this expansion. India's investment share of GDP has risen sharply and currently stands at 34%, the highest it has been in nearly a decade. The public sector has spearheaded this intense focus on infrastructure investment, and its efforts are expected to stimulate private sector investment. While this synergy has yet to fully materialize, there are promising indications, such as an upturn in bank lending and nascent signs of increased consumption, that allow us to conclude that the current upswing in growth is not merely transient but heralds the advent of a structural upturn in the economy.

Other encouraging signs.

Consumption constitutes approximately 60% of the GDP, although in this recent quarter, its share has declined due to the prominent role played by investment in the GDP, as well as underlying weaknesses in the labor market, which still bears the scars of lockdowns and is yet to make a full recovery. What has emerged is a two-tiered economy, with the affluent segments of society making a commendable recovery while the lower echelons continue to grapple with stagnant wage growth and bleak income prospects. Nevertheless, certain indicators, such as auto sales, provide glimmers of hope and serve as reliable markers of broader consumption trends in India. Passenger vehicle sales, catering primarily to the wealthier demographic, have shown steady growth over the past two years, reaching pre-pandemic highs of 3.55 million units on a rolling 12-month basis. Moreover, two-wheeled vehicle sales, which primarily cater to the lower ranks of society, have experienced a significant surge in the past year, increasing from 13.75 million units in March to 16.4 million units on a rolling 12-month basis at present, although still below the pre-pandemic level of 21 million units sold in a year. In addition to these positive trends, it is worth highlighting the substantial reduction in inflation, which now paves the way for the central bank to initiate policy easing. This, in turn, should provide further impetus for the economic recovery to gain momentum, particularly as we approach an upcoming election, in which the government intends to maintain its focus on infrastructure and investment spending.

India has been seeking funding and trade arrangements with the world. How to characterize these external factors?

India is not a very trade-dependent economy, unlike Taiwan or South Korea, where exports as a percentage of GDP are considerably higher than they are in India (whose exports range between 20% and 25% of GDP). Having said that, India's exports have certainly taken a big hit over the last year. However, the fact that India has sort of kept up this infrastructure spending means that India's imports have not really diminished. All said, India's trade deficit has not translated into major macroeconomic stresses, and one of the big reasons for that is that India’s services exports have actually been holding up extremely well. Consequently, India's current account deficit-to-GDP ratio hasn’t really exceeded 2.5% of GDP for more than a quarter in the last year. In fact, in the last two quarters, it has has been narrowing to about 2% of GDP, partly driven by lower commodity prices. Juxtaposing this with the fact that India's FX reserves are currently hovering at about US$600 billion, the RBI has more than enough room to ward off any external risk-off developments. The Indian growth story remains on a fairly positive track, irrespective of what happens in the external environment over the next year.

The equity market in India held firm. What kind of hurdle is there for Indian stocks?

The key stumbling block for Indian equities is the valuation premium applied to Indian equities. However, we have to concede that in a world where capital flows are increasingly constrained by geopolitical considerations, India looks particularly attractive to Western investors, who are starved of growth opportunities at home and are also under pressure to de-risk or at least minimize their exposure to China. And India, given the breadth of its market, stands out above the rest of the EM universe. To that extent, we think the outlook for the Indian equity market remains considerably upbeat.

Market outlook & recommendation

The main pitfall for Indian equities lies in the valuation premium applied by investors. However, India, in a world where capital flows are increasingly constrained by geopolitical considerations, is particularly attractive to Western investors, lacking growth opportunities in their regions and under pressure to reduce risk or, at the very least, minimize their exposure to China. India, given the breadth of its market, stands out from the rest of the emerging market universe. Based on what has been said, we are convinced that the outlook for the Indian stock market continues to invite optimism.

We continue to recommend staying exposed to the Indian equity market with a long-term investment horizon.