

## India – a poorly kept secret

India's demographic advantages are well known. The government's capex offensive, expanding exports and the bond market's opening are now also generating momentum for stock markets.

### IN A NUTSHELL



**Björn Jesch**  
Global Chief  
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- India has become an investor favorite in 2023 while China's popularity has sunk.
- We expect the current government to retain power in the upcoming elections, meaning that the reform and investment programs are likely to continue. We are also counting on ongoing momentum in service exports.
- India's equities are not cheap, but we expect growing investor interest from abroad, not least because of the opening of the bond market, which could also help the currency to stabilize further.

### **India has always combined great potential with big challenges. The challenges are being tackled more actively, making the country attractive from a strategic point of view**

Investors can view India with skepticism: a still inadequate education system, high youth unemployment, a low employment rate for women, stagnating real incomes in rural areas, infrastructure that works only to a limited extent, a ruling party that critics accuse of increasing authoritarianism and worsening air pollution. Despite all this, investors are paying a premium of over 70% compared to the valuation of other stock markets in the region.

But those who have stayed away from the market have missed out on a 160% gain in the stock market (Sensex, in U.S. dollar terms) over the past ten years. We believe the country – across various asset classes – continues to offer potential. The reason is that India's known strengths are being enhanced by current developments. It is a huge country with an almost ideal population-age structure from the investor point of view and high catch-up potential. An energetic government is driving forward reforms and investment and India is increasingly integrating into global trade, particularly through growing service exports and further opening of the bond market. It is obvious that the road ahead will be volatile and rocky in both markets and the economy. However, we believe that India will attract further foreign investor funds. And it is no bad thing that the Indian market has a below-average correlation with developed ones.

## Investors love the Indian story, both in absolute and relative terms



Sources: LSEG data and analytics, DWS Investment GmbH as of 2/6/24

# 1 / A land full of opportunities and contradictions

## 1.1. Sometimes politics can make the economic difference

### Modi's election a catalyst for long overdue reforms

India has been seen as a beacon of hope for some years now. Its population has doubled between 1965 and today, the economy has grown by an average of almost seven percent per annum in real terms over the past 30 years, and the country is developing into an increasingly integrated and liberal market economy. However, in many respects, India's promise has not yet been fulfilled, and its over-sized, cumbersome bureaucracy and poor transport infrastructure are the most visible signs of this.

Prime Minister Narendra Modi, who has been in office since 2014, is seen as an important catalyst for India's recent successes. He has accelerated the removal of numerous (in)formal barriers to domestic trade, for example by introducing the national goods and services tax (GST)<sup>1</sup>. He has also successfully combined economic reforms with social programs. Based on most market commentaries, we believe that investors are likely to prefer Modi in the elections in spring 2024, who is popular with a big part of the population, to remain in office, not least because of the high growth the country is experiencing. The digitalization push, which promises higher productivity growth in various sectors, is likely to continue. However, in the medium term, there is a risk that the concentration of power in one person (and one party) for more than a decade will weaken institutional controls. In this respect, a Modi election victory shouldn't be too overwhelming, so that fruitful political competition can continue to provide the necessary checks and balances for functioning democracies. According to the methodology of the V-Dem Institute, India under Modi's leadership has lost 0.2 points<sup>2</sup> on a democracy scale ranging from 0 to 1 – though at 0.4 the figure is exactly at the average global level and well above most other emerging countries.

### Economic outlook in a nutshell

We expect economic growth of 6.5% for the fiscal year starting in April, following an estimated 6.8% last year, and believe India has a potential real gross-domestic-product (GDP) growth rate of 6.3% in the medium term. Inflation is likely to have peaked in 2023 but, as a major net importer, India is heavily dependent on global commodity prices – though it is currently benefiting from cheap Russian imports. We do not expect the central bank to cut interest rates in the first half of this year.

<sup>1</sup> The Economist, Narendra Modi is widening India's fierce regional divides, As of September 2023

<sup>2</sup> V-Dem Institute, As of March 2023

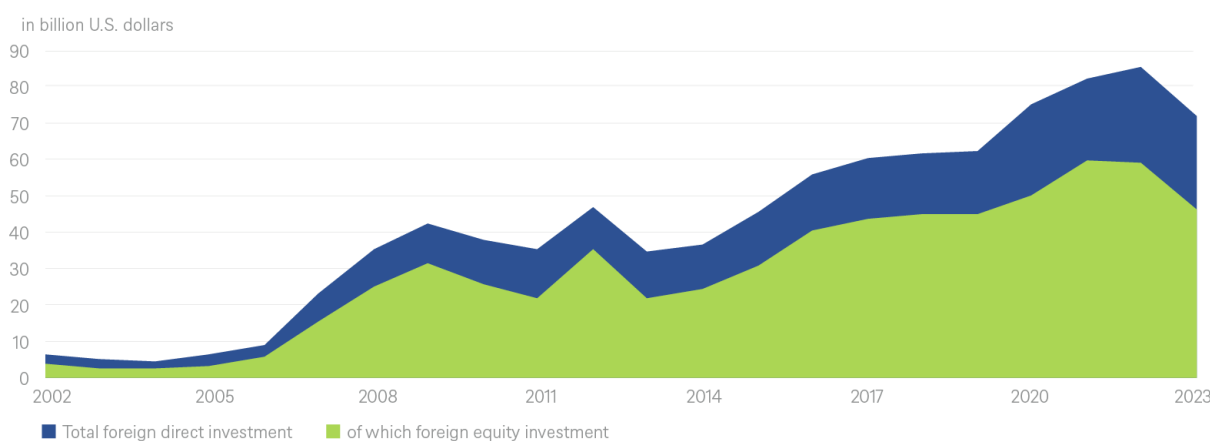
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The trade deficit and government debt (around 80% of GDP) are declining slightly, which is why we expect depreciation of the rupee against the dollar and euro to slow.

### Foreign policy also works in favor of India

India did not ally itself to any camp after the Russian invasion of Ukraine and secured Russian raw materials, particularly oil, on good terms, showing how self-confidently India is playing its geopolitical cards. Despite this, India's ties to the West are likely to predominate, as demonstrated by the fact that it is a member of the Quadrilateral Security Dialogue (Quad) with the U.S., Australia and Japan.

### Foreign direct investments have increased significantly over the years



Sources: Haver Analytics, DWS Investment GmbH as of 2/9/24  
India's fiscal year 2023 ends March 2023, thus it covers three fourth of the calendar year 2022

One indication of the growing confidence of foreign investors and companies in the country is the sharp rise in foreign direct investment (FDI) since 2000. Private equity firms in particular have significantly increased their involvement in India (and other Association of Southeast Asian Nations (ASEAN) countries), while they have scaled back in China. However, recent declines, which coincided with a U-turn by a contract manufacturer in the summer of 2023, abandoning its plans to invest USD 20 billion in India<sup>3</sup>, show that this development is not necessarily a one-way street. It remains to be seen to what extent the decline has to do with the still high bureaucratic hurdles, interest-rate environment or other concerns.

## 1.2. India's economic fundamentals – broad enough basis for strong growth?

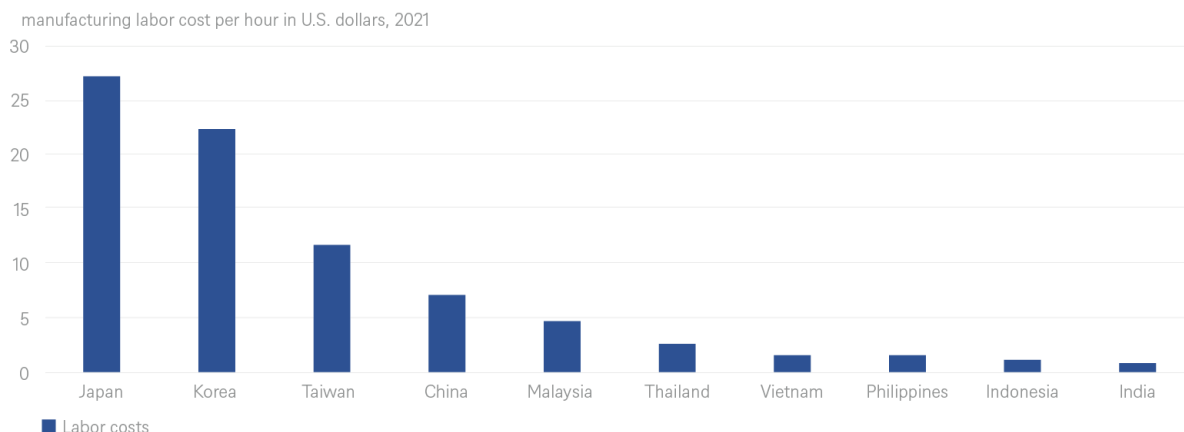
### Demography – a double tailwind

India's fundamental advantages to China are often pointed out. The most obvious is India's more attractive age structure. With an average age of just under 30, India's population is around ten years younger than China's. Accordingly, India's working population is not expected to peak until 2040, whereas this already happened in China in 2015 (see third chart below). India also has greater catch-up potential, as its per-capita income is USD 2,500 compared to USD 12,700 in China. This is also reflected in a significant competitive advantage when it comes to labor costs, as the chart below shows. The downside of these figures from the perspective of foreign exporters is, of course, the significantly lower purchasing power of Indian consumers.

<sup>3</sup> Foreign Policy Magazine, Why Did Foxconn Pull Out of Its India Deal?, As of July 2023

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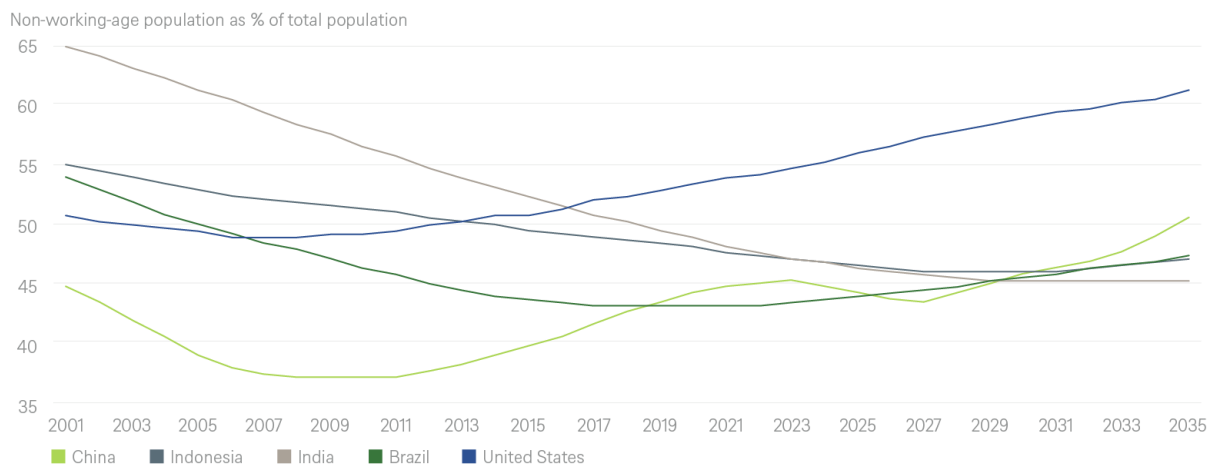
### India's labor-cost advantage



Sources: Euromonitor, World Bank, ILO, UNIDO, DWS Investment GmbH as of 11/1/23

A fertile, young population is one thing. From an economic point of view, however, it becomes even more attractive when the birth rate is falling, as is the case in India (from 2003 to 2021 alone, it fell from 3.3 to 2 births per woman<sup>4</sup>). This has a positive effect on the dependency ratio, which expresses how many old people and children the working population has to finance. In developed countries, but also in many developing countries, the dependency ratio has been rising for some time now while it is expected to decline in India for at least another decade. Among the major economies, only Indonesia can match this.

### India's favorable dependency ratio



Sources: World Bank, United Nations Population Division's World Population Prospects: 2022 Revision, DWS Investment GmbH as of 12/20/24

### Weak points: unemployment and education

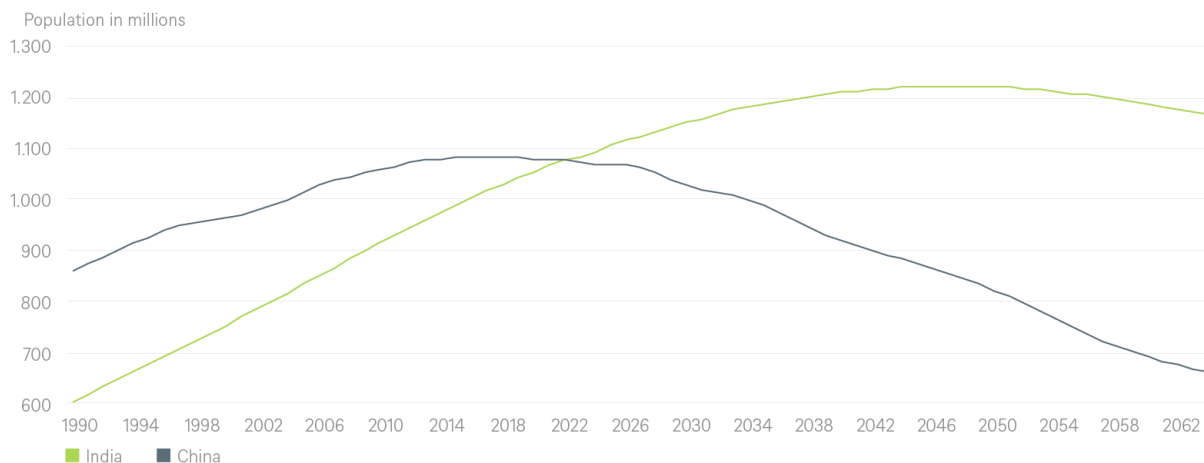
However, not everything is rosy in the Indian labor market. Youth unemployment is stubbornly high, having risen from 14% to 22% over the past 20 years, according to the World Bank, mainly because workers are low-skilled, though the trend has stabilized since 2019. The other flaw is the participation rate of women in the labor market which, according to the World Bank, is only 23.5%, compared to the global average of around 40%, 45% in China, and 70% in Vietnam (although these

<sup>4</sup> World Bank estimates based on the age distribution from United Nations Population Division's World Population Prospects: 2022 Revision

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discrepancies also raise questions about the accuracy of the survey regarding the informal sector). Accordingly, India still needs to make progress in order to exploit its potential advantage over China in terms of the working-age population of 15-64 years.

### India's positive demographics: still rising working population (Age 15-64)



Sources: UN department of social & economic affairs, DWS Investment GmbH as of 11/1/23

### Little progress in education...

The education system is another weak point and a huge brake on India's economic development. According to studies by the non-government-organization Pratham, just 43 percent of 10 to 11-year-olds can read and understand texts intended for 7 to 8-year-olds<sup>5</sup>. In general, schools suffer from outdated curricula and content. According to the Global Competitiveness Report<sup>6</sup> compiled by the World Economic Forum<sup>6</sup>, pupils in both secondary and tertiary education are inadequately prepared for later professional requirements. Ultimately, the productivity of the entire economy suffers as a result. In the manufacturing sector, value added per employee has therefore developed very modestly compared to China. The situation is more positive when it comes to higher education. India has world-renowned universities, particularly for engineering, IT and management. This is also reflected in the large number of Indian graduates at top addresses in Silicon Valley.

### ...but public capex is sky rocketing

If all goes according to plan, India's government will have invested 3.3% of its GDP in the current financial year (ending March) – compared to an average of 2.1% over the past 15 years<sup>7</sup> or so. Absolute spending has risen by an impressive 30% per year over the past three years. These high figures are probably also a reason why the central bank is in no hurry to cut interest rates and is pressing ahead with opening up the bond market to foreigners. The main focus of spending is on the construction of ports, railroads and highways. Bloomberg Intelligence<sup>8</sup> estimates that every dollar spent on infrastructure has a twofold multiplier effect on GDP and potentially a quadruple effect in the long term. For the fiscal year starting in April, the government wants to increase capital spending (capex) by "only" 11%. This might help ease concerns about economic overheating.

<sup>5</sup> The Economist, Ten charts reveal Narendra Modi's actual record in office, as of 26th January 2024

<sup>6</sup> Global Competitiveness Report 2020, as of December 2020

<sup>7</sup> Bloomberg Intelligence as of 16th January 2024

<sup>8</sup> Bloomberg Intelligence as of 16th January 2024

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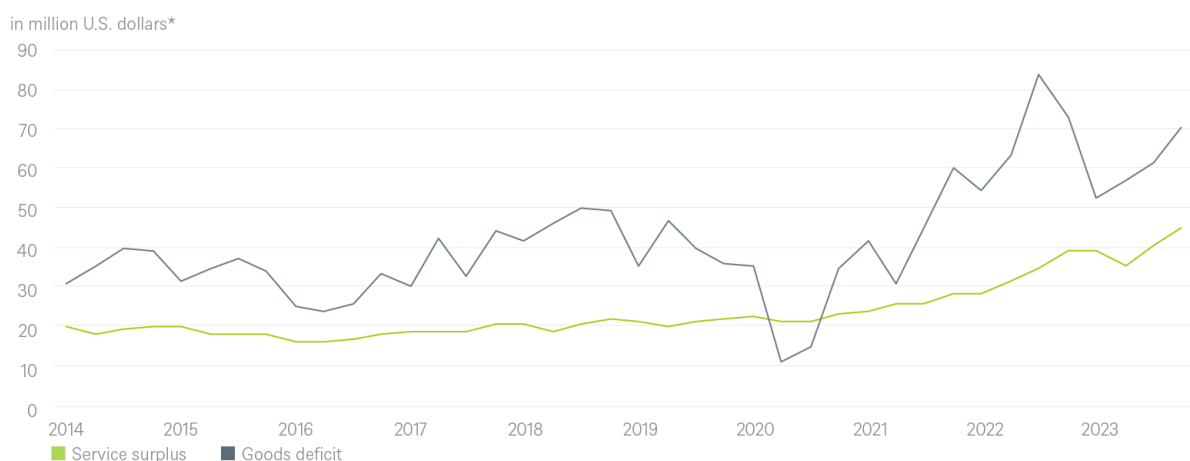
### 1.3. Services are overtaking goods

#### Reforms in the goods sector are not really progressing

The IT services sector is an Indian success story, but the state also wants to promote manufacturing industry given that almost half the workforce is still employed in agriculture. Among its strategic initiatives are the "Make in India" program and the Productivity Linked Incentive (PLI) scheme. Nevertheless, the share of manufacturing in GDP in the third quarter of 2023 was just over 15%, lower than in 2014 (when the "Make in India" program was introduced) and 10 percentage points below the target of 25% for 2022. Further structural support measures are therefore needed to drive manufacturing forward; it should also be a beneficiary of broader government efforts to improve infrastructure. According to figures from the Centre for Monitoring Indian Economy, spending on the rail and road transport network has increased from less than 0.5% of GDP in 2015 to 1.6% recently.<sup>9</sup>

The trade deficit in goods also reflects the fact that India hardly participates in Global Value Chains (GVC). Around 70% of global trade is channeled through these chains, which encompass a wide range of products, from electronics and machinery to pharmaceuticals and clothing – essentially the sectors that the PLI program aims to promote. In addition, India is also driving forward the green (energy) transition and promoting investment in sectors such as green hydrogen, electric vehicles and solar cells. The government expects that India's market share in global trade will double to 4.5% by 2031 compared to 2021. India's real success story lies in service exports, particularly in the high-tech sector. They now almost compensate for the rising trade deficit in goods, as the chart shows.

#### Services gain almost compensating for goods deficit



\*balance of payments, quarterly

Sources: Reserve Bank of India, DWS Investment GmbH as of 9/1/23

#### Goods leapfrogged by services

The next wave of globalization is likely to be in services rather than goods, as services are becoming increasingly tradable. While China has made the most of the era of goods globalization, we expect India to ride the services wave. In 2022, India's services exports rose by USD 60 billion to USD 300 billion – an increase almost equal to the country's entire trade deficit in 2019. The "computer software and services" and "business process outsourcing" segments grew by 12.2% to USD 193 billion.

So-called Global Capability Centers (GCC), set up by multinational companies, particularly from the U.S., are largely responsible for the sharp rise in service exports. They have expanded from simple call, IT and back-office services to research and development, including analytics, robotic process automation, machine learning and cloud computing. It is estimated that 40% of the world's GCCs are located in India, and they employ 1.7 million people. The number of employees in the IT

<sup>9</sup> The Economist, Ten charts reveal Narendra Modi's actual record in office, as of 26th January 2024

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sector could double to 11 million by 2031.<sup>10</sup> India's connection to the global economy via services is so strong today that it compensates for the lack of a significant presence in goods trade.

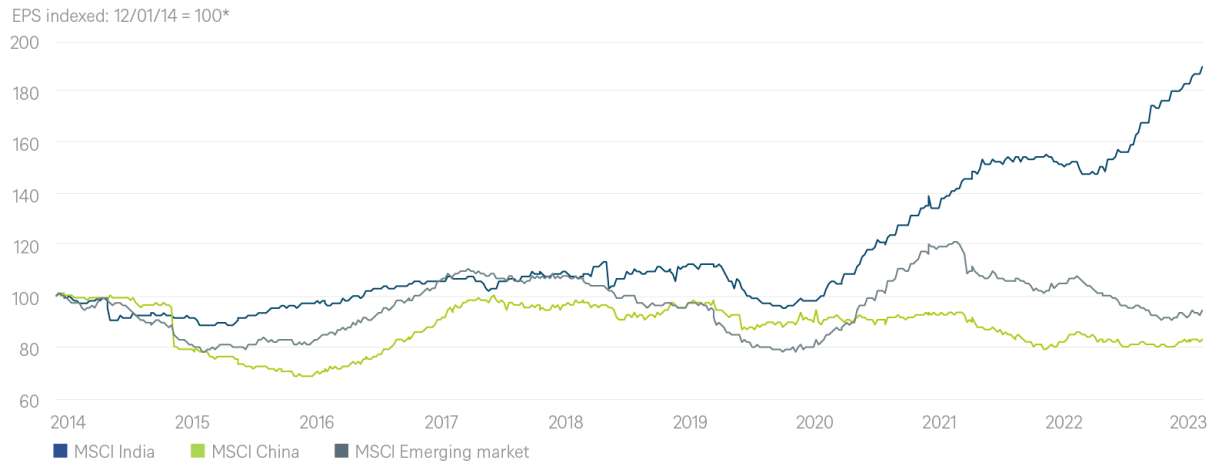
## 2 / India's capital markets are maturing

### 2.1 So far, India's booming stock market has been the place to go for foreign investors

Shares are trading near record valuations. A country with India's demographic structure and above-average growth inevitably attracts the interest of foreign investors, especially if the legal and institutional framework is right. But that alone is not enough. Equities are by far the most important investment vehicle for foreign investors and shareholders expect to see profits. In emerging markets, in particular, it can take time for economic growth to generate profits for listed companies. The chart below shows two important developments: While emerging-market earnings (earnings per share (EPS) calculated at the index level for the past twelve months) have barely budged over the past ten years, those from China have actually declined (despite a doubling in GDP over the same period). India's profits, on the other hand, have not only outperformed its peers, but they have delivered significant growth in the past three years.

The difference in performance between the two Asian giants has naturally generated a certain momentum of its own: several months of strong outflows of foreign investment funds from China to India. However, in view of China's now record-high valuation discount compared to global markets, this dynamic is likely to have peaked. The sharp divergence in the performance of the two markets has resulted in the MSCI India, with a market capitalization of USD 1.2 trillion, moving closer to that of the MSCI China, at USD 2 trillion, and far ahead of the MSCI Hong Kong, at USD 0.3 trillion.

#### India's profits have surged in the past 4 years



\* 12-months trailing Earning per share (EPS)

Sources: LSEG data and analytics, DWS Investment GmbH as of 2/12/2024

This means that India's shares are trading at an almost record-high valuation premium to other emerging markets and developed markets. At 22 the price-to-earnings (P/E) ratio<sup>11</sup> is also close to record historical levels for the country. As the chart below shows, the gap to Asia is particularly striking, but this is also a consequence of China's low valuation, which drags down the overall Asian figure. Valuation therefore does not provide any obvious reason to invest in Indian shares. However, as the major U.S. technology stocks show, valuation alone is a very poor indicator of short- to medium-term price

<sup>10</sup> Source: Nasscom, "India redefining globalization blueprint," June 2023t

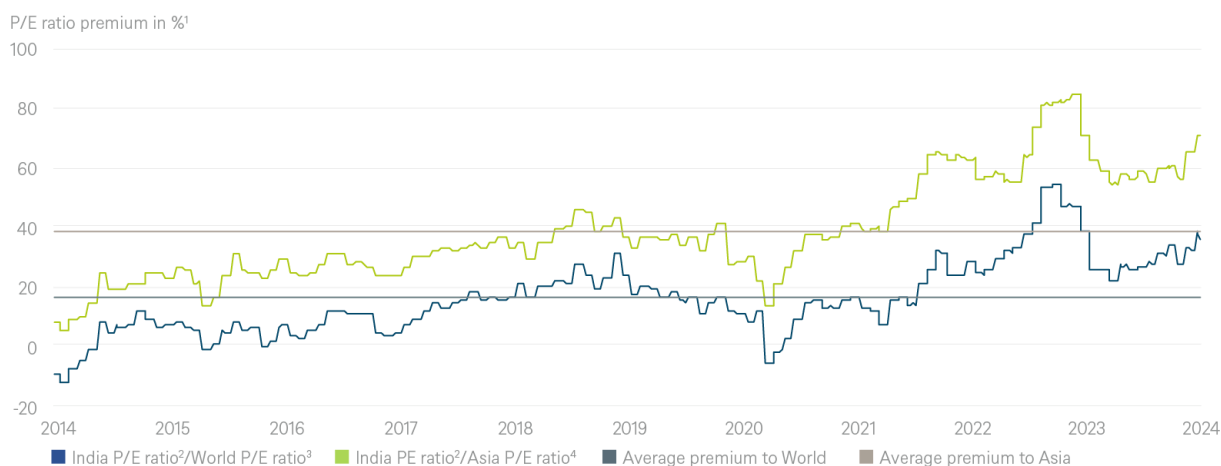
<sup>11</sup> LSEG Data & Analytics, based on earnings estimates for the previous 12 months as of 2/8/24.

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trends. If India's earnings growth continues to develop at an above-average rate and the government's reform efforts develop greater momentum, India should continue to trade at a premium.

With the further opening of the bond markets, discussed in the next section, the country's continued efforts to increase foreign direct investment and India's growing weight in the global economy, interest from foreign investors is likely to increase even further.

### India's shares are trading at a remarkable premium



<sup>1</sup> Price-to-earnings ratio based on next 12 months earnings estimates

<sup>2</sup> India-datastream market index- PE ratio

<sup>3</sup> World-datastream market index- PE ratio

<sup>4</sup> Asia-datastream market index- PE ratio

Sources: LSEG data and analytics, DWS Investment GmbH as of 2/6/24

Bloomberg Intelligence sees five strong trends<sup>12</sup> driving India's stocks, and small caps in particular, which have performed almost twice as well as blue chips over the past four years<sup>13</sup>: 1. the "premiumization" of consumption, which is boosting discretionary demand, 2. Government investment boosting industrial companies and railroads, 3. "Make-in-India" boosting defense stocks, 4. increasing household interest in capital markets which could boost financials, and 5. a surge in services exports. However, as we explain below, we believe some of these themes are already more than sufficiently priced into stock-market sector valuations.

### Which sectors are we looking at?

India's stock market is much more diversified than that of most other emerging markets<sup>14</sup>. Financials account for 25% of market capitalization, information technology for 13% and consumer staples for 12%. Although we remain stock pickers at heart, there is also something to be said about individual sectors.

**Financials:** Banks are typically seen as a proxy for a country's economic cycle and are therefore highly cyclical. We believe they are attractively valued given India's structural growth potential. We believe the market's concerns that net interest margins could suffer in a falling interest-rate environment and that India's banks have too many unsecured consumer loans on their books are exaggerated, even if the tailwind of recent years is now a thing of the past. However, there is more support in most other segments, such as real-estate loans or corporate loans. For the latter, the cycle is only just beginning.

<sup>12</sup> Bloomberg Intelligence, Five Trends Powering India's Equity Markets After Covid Pandemic, as of February 2024

<sup>13</sup> From March 31, 2020 to February 13, 2024, the NIFTY Smallcap 100 index gained 370 percent and the NIFTY 50 index gained 180 percent

<sup>14</sup> The three largest sectors account for 66% of market capitalization in China, 67% in Brazil and as much as 78% in Indonesia. MSCI indices in each case as of 31.01.2024

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**Real estate:** The prospect of falling interest rates means this structurally interesting sector could benefit twofold, in terms of refinancing and valuations. Stricter regulation of the supply side, even before the Covid crisis, has led to a shakeout, as smaller developers have been squeezed out of the market. We are particularly focused on the large developers now that the supply-side environment has returned to normal after three difficult years, while the need for new housing remains unabated.

**Consumer staples:** In our opinion, hopes that a growing middle class will buy more and/or higher-quality products (premiumization) are overdone in the stock market. It is true that the middle class may expand in cities but, in rural areas, the positive effect of high economic growth is only being felt by consumers to a limited extent. The strong dependence of the rural population on weather conditions (especially the monsoon), together with high food inflation, have a significant impact on real income, which currently provides little support for higher consumer spending.

**IT / outsourcing:** The absence of a recession in the U.S. is increasing demand for outsourcing services, which had been rather meager during the past 2-3 years. The former growth trend is now resuming. Shares in this sector are reasonably valued and the operating trends are promising.

**Infrastructure:** Since the lifting of all Covid restrictions, Prime Minister Modi is pushing ahead with the construction of major infrastructure projects again. However, qualified companies of critical size are rare, and we expect the existing ones to consolidate their market position even further. Against this backdrop we do not yet consider the sector too expensive, even after the price rally.

**Discretionary consumption:** Here, too, there are beneficiaries of formalization and consolidation, namely in the retail sector. We also find some individual stocks in the automotive sector interesting. Numerous new product variants, especially in the field of electric mobility, are about to enter the market. E-mobility in India has so far mainly been introduced via two-wheelers.

## 2.1 Solid central bank and bond markets opening up

### Central bank's reliability helps the rupee

India's central bank, the Reserve Bank of India (RBI), enjoys a good reputation among global investors and, as an independent institution, acts as a fairly reliable guardian of the currency. The alignment with the policy of the U.S. Federal Reserve (the Fed), which has existed for around two decades, is likely to weaken in the wake of the structural decline in current-account deficits. Monetary policy should therefore increasingly be able to focus on national developments and needs. The RBI has raised the key interest rate (the repo rate) by 250 basis points to 6.5% in this cycle (since May '22); we expect the first slight easing in the second half of 2024.

### Central bank rates in U.S. and India and exchange rate



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 2/6/23

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Over the past two decades the Indian rupee has steadily depreciated against the dollar, reflecting, in particular, the country's higher inflation rate and weaker trade balance compared to many developed countries. However, the extent of the depreciation and the fact it has taken place gradually means it does not pose a major challenge for companies in terms of predictability. We also expect the pace of devaluation to slow due to falling inflation differentials and lower current-account deficits, which are primarily the result of structurally rising service revenues.

### Inflation hasn't hit the target level yet

Compared to many industrialized countries, the rise in inflation, as a result of the covid pandemic and wars, was not so remarkable, especially by Indian standards. Although inflation is trending down again, it is still some way off the 4% target set by the RBI. The core rate fell to 3.9% in January, but headline inflation remained above the 5% mark. In India, food accounts for almost half the average household's consumer spending. Even though the importance of the monsoon in India has diminished over the years, it can still have a strong impact on food inflation. Its impact on growth, however, is now very limited.

### India's inflation is not there yet, but on its way



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 2/13/23

### Structure of India's debt makes it less susceptible to external shocks

India's public-debt-to-GDP ratio remains high, at 82% in the current financial year (FY), but it has fallen from 89% in FY 2021 and the IMF expects it to fall to 80% by 2028.<sup>15</sup> Currently India still has the third highest public debt ratio among the major emerging markets (after Brazil and China), but the debt is largely domestically financed, with a significant portion held by local banks and the central bank, reducing the risks at times of stress. India's nominal GDP needs to grow by 10% annually to stabilize public debt at current levels, which is a realistic assumption in our view. India's foreign exchange reserves rose sharply by mid-2023 and the central bank used that cushion to mitigate currency depreciation. Since then, foreign exchange reserves have recovered again.

### The bond market is going global

JP Morgan's announcement in September 2023 that it would include India's local-currency government bonds in its flagship bond market index, GBI-EM Global Diversified, has attracted a lot of attention among investors. For India it means there could be a total capital inflow of 30-40 billion dollars, from index-oriented and other foreign investors,<sup>16</sup> some of which may already have flown in. Twenty-three government bonds with a nominal value equal to 330 billion dollars, easy for foreign investors

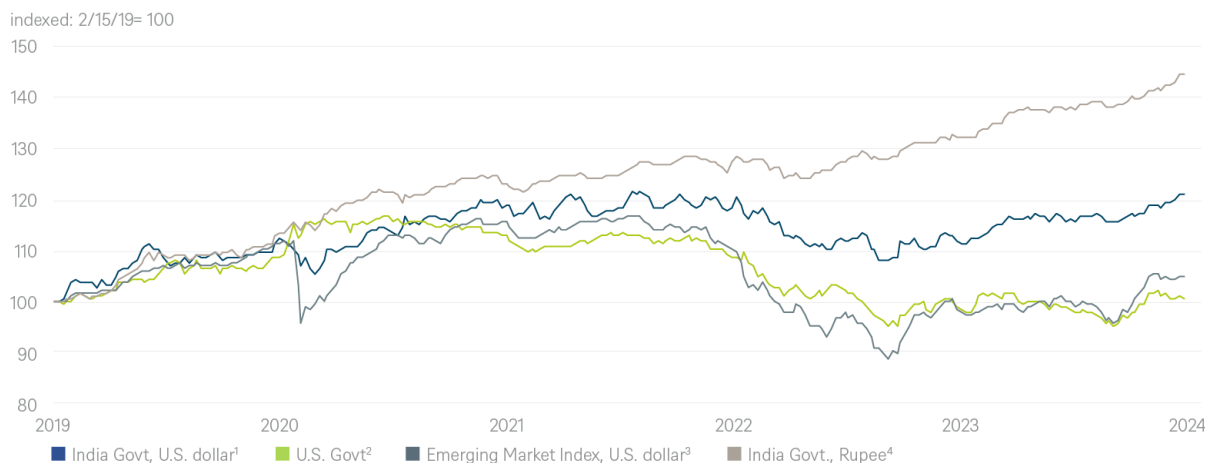
<sup>15</sup> Source: IMF, Country News India, accessed on 2/16/24

<sup>16</sup> See for example Société Générale Cross Asset Research: "Asia Cross Asset Focus", as of 10/3/23

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to acquire under the FAR (Fully Accessible Route)<sup>17</sup> program, are eligible for inclusion in the index. This will take place from June 2024, with an increase in the weighting of Indian bonds by 1% of the index per month until India's weighting reaches the upper limit of 10% by the end of March 2025. The foreign-owned share of bonds which are eligible for inclusion in the index currently stands at 2.8% but is expected to rise to up to 10% after inclusion. This has already given the corresponding bonds quite a boost over the past six months, as the chart below shows. In January, Indian government bonds had their best month in five years, with foreign inflows likely to have been a factor.

**Whether in hard or in local currency, Indian bonds have performed pretty well lately**



\*JPM India Govt Fully Accessible Route (FAR) total return, in U.S. dollar  
 \*\* Bloomberg US Treasury Index, total return, in U.S. dollar  
 \*\*\* Bloomberg EM Aggregate Index, total return, in U.S. dollar  
 \*\*\*\* Bloomberg India Index, total return, in Indian Rupee  
 Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 2/6/23

Barclays describes the Indian bond market as one of the largest and most liquid in Asia and among emerging markets<sup>18</sup>. The market has a volume of around USD 2.5 trillion, of which around half is made up of government bonds and the other half divided roughly equally between local authorities and corporate bonds. The overall market has almost doubled since 2017.<sup>19</sup> According to Barclays, foreign investors are likely to have accounted for around 30 billion dollars in this market prior to JP Morgan's announcement, including 7-8 billion dollars in government bonds<sup>14</sup>.

**India's government bonds compared to some international peers**

	United States	India	China	Italy	Brazil
Nominal 10y rate*	4.2	7.1	2.4	3.9	10.8
Latest CPI y/y	3.4	5.4	-0.8	0.8	4.5
Real 10y rate*	0.8	1.7	3.2	3.1	6.3
Rating (Moody's)	Aaa	Baa3	A1	Baa	Ba2

\* 10y local government bonds  
 Source: Bloomberg Finance L.P., DWS GmbH, as of 2/13/24

<sup>17</sup> In 2020, the Reserve Bank, in consultation with the Government of India, introduced a separate channel, called the 'Fully Accessible Route' (FAR), to enable non-residents to invest in specified Government of India dated securities.

<sup>18</sup> India: Local Markets Guide, Barclays Research, as of January 2024

<sup>19</sup> Source: Bloomberg Finance L.P. as of 2/16/24

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Growing demand from foreign investors reduces bond yields and thus the refinancing costs for the state and companies. Lower capital costs also relieve pressure on the highly valued equity market due to the lower discount rate on future profits and the fact that bonds become less attractive as an alternative investment.

The downside could be higher volatility in the bond market, as it may attract not only long-term but also speculative investors who enter and exit the market more quickly. It remains to be seen how the RBI will deal with this.

Overall, however, a bond market that is opening up to global investors should ultimately have a positive impact on all asset classes in India.

### 3 / Summary: No way around India

For a long time, India's development into an industrial and service nation has been rather incremental, but in recent years the steps have become bigger and bigger. The foundation has been laid by important reforms by the current government, as well as a pronounced investment offensive, especially to strengthen infrastructure. This should help India make better use of the potential offered by its demographic advantage.

There are other supportive developments: strong growth in services exports, which is also keeping India's trade deficit in check and giving the central bank and government more room to maneuver; the opening of the bond market and the inclusion of government bonds in major indices, which should further boost foreign investor interest; growing skepticism in the West about relying solely on China for some products; and finally, the growth of the technology sector, which is being driven by artificial intelligence (AI) and from which India is benefiting as a well-integrated technology services provider. And because India's large catch-up potential – per capita income is one-fifth of China's – should allow it to generate economic momentum regardless of global economic conditions, there are also attractive diversification benefits for investors in our view.

For investors looking to participate in Indian capital markets, the perfect entry point may be hard to find, but medium- to long-term-oriented investors should be able to benefit from India's above-average growth in our view.

## Glossary

The [Association of Southeast Asian Nations \(ASEAN\)](#) is a political and economic organization of 10 countries located in Southeast Asia.

One [basis point](#) equals 1/100 of a percentage point.

The [BSE Sensex](#), Sensex for short, is a market-capitalization-weighted index of India's 30 most important listed companies.

[Capital expenditure \(Capex\)](#) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

[Correlation](#) is a measure of how closely two variables move together over time.

The [current account](#) includes trade in goods and services, a net-factor-income balance (e.g. earnings on foreign investments and cash transfers from individuals working abroad) and transfers (e.g. foreign aid). It is a part of the balance of payments.

[Earnings per share \(EPS\)](#) is calculated as a company's net income minus dividends of preferred stock, all divided by the total number of shares outstanding.

[Emerging markets \(EM\)](#) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

[Foreign direct investment \(FDI\)](#) aims at establishing or having control of an enterprise in a foreign country, unlike indirect investment in a sector through financial instruments.

The [gross domestic product \(GDP\)](#) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

The [Indian rupee](#) is the official currency of the Republic of India.

[Inflation](#) is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

J.P. Morgan ESG GBI-EM Global Diversified (JESG GBI-EM) tracks the performance of bonds issued by emerging market governments and denominated in the local currency of the issuer.

[Monetary policy](#) focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

The [MSCI China Index](#) captures large- and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings.

[MSCI Hong Kong Index](#) is designed to measure the performance of the large and mid cap segments of the Hong Kong market. With 33 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the Hong Kong equity universe.

The [MSCI India Index](#) is designed to measure the performance of the large-and mid-cap segments of the Indian market. With 122 constituents, the index covers approximately 85% of the Indian equity universe.

The [net interest margin](#) of a financial institution is the difference between the average interest rate paid and the average interest rate received by the institution.

In economics, a [nominal](#) value is not adjusted for inflation; a real value is.

The [price-to-earnings \(P/E\) ratio](#) compares a company's current share price to its earnings per share.

[Quad](#) is a diplomatic group comprising Australia, India, Japan and the United States.

In economics, a [real](#) value is adjusted for inflation.

A [repurchase agreement \(repo\)](#) is a form of short-term borrowing, whereby a dealer commits to repurchase the security shortly after it is sold. The dealer pays the repo interest as remuneration.

The [Reserve Bank of India \(RBI\)](#) is the central bank of India.

[Volatility](#) is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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as of 2/16/24; 099845\_1 (02/2024)