CIO View Special

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Marketing material

India: Delivering on many promises

India's structural strengths – demography and democracy – are well known. Business-friendly politics, a thriving service sector and geopolitics add to the positive picture.

Decades ago, India's stock market ceased to be a hidden pearl. It has performed three times better than the Asia-Pacific Region[1] since 2003 and has even outperformed the almighty S&P 500 by 20% since May 2020. Can this continue? The structural strengths of the world's most populous democracy are well known – take the young population and the fact that English is widely spoken. Since the 1990s it has also become an increasingly integrated and liberal market economy and has grown steadily by 6-7% over the past 20 years.[2] We expect similar growth rates in 2024, driven by a competitive manufacturing sector and its growing service sector. Tech-related service exports increased by USD 60bn to USD 300bn in 2022. Its IT-services workforce is expected to double to 11mn by 2031.[3] India is also pushing its green transition, spurring investment in new sectors such as green hydrogen, electric vehicles and solar panels.

India compares favorably to China

India's fundamental advantages are best shown in contrast to China: 1) Its workforce is expected to keep growing and peak in 2040, while China's peaked already in 2015. 2) Its big companies have received far less public support and have been exposed to more competition[4], which suggests they have become fitter. 3) The country's catch-up potential is substantial: India's income per capita is USD 2.5k vs China's USD 12.7k. 4) Geopolitics: India is profiting from the growing dispute between China and the West.[5] On the other hand, China clearly leads when it comes to the speed of economic and business decision-making and implementation. Its infrastructure is more advanced and it enjoys dominance in certain sectors. However, India's listed companies have clearly outperformed their Chinese peers over the past.[6]

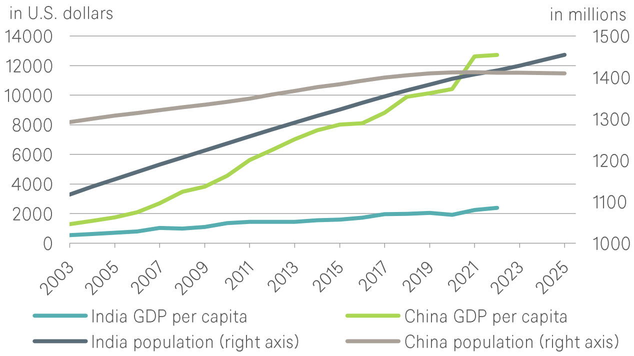
National elections in 2024 could be a critical event

An important catalyst for India's recent success has been Narendra Modi, Prime Minister since 2014. He has sped up the abolition of many formal and informal barriers to internal trade, for example by introducing the national goods-and-services tax.[7] His policy of balancing economic reforms with various social-welfare schemes is also considered a success. The upcoming elections in spring 2024 are therefore important for investors. They are likely to prefer that Modi, who is popular at present domestically, remains in power. That should increase the chances that the digitalization drive, which promises faster and higher productivity growth in various sectors, continues. But there is also a mid-term risk that political checks and balances are weakened if one party, and one leader remain in power for more than a decade.

Not cheap, but there is long-term value

India's appeal comes at a price. The MSCI India Index has gained roughly 8% this year, outperforming Pan-Asia to which it now trades with a valuation premium of 50%[8], compared to an average of 40% over the past ten years.[9] Nonetheless, in our view, India continues to be worth considering. As we have pointed out, it has some fundamental strengths, and we also believe that international interest – and flows – to India will increase. The bond market is opening up further and India is seeking more foreign direct investment. India's "next big thing" story does not look like a short-lived fashion.

India: income catch-up potential and population growth



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 11/17/23, 2023 to 2025 figures are based on IMF estimates

DWS does not intend to promote a particular outcome to the India election due to take place in the month of April and May 2024. Readers should, of course, vote in the election as they personally see fit. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Source: DWS Investment GmbH.

Footnotes

[1] Source: Bloomberg Finance L.P., 11/15/23. (MSCI India vs MSCI Asia Pacific, currency adjusted from 1/1/02 until 11/15/23 and MSCI India vs S&P 500, currency adjusted from 5/1/20 until 11/15/23.)
[2] Source: Bloomberg Finance L.P., as of 11/15/23.
[3] Source: Nasscom.in
[4] India equity: An unsung long-term performance story, October 2022.
[5] Not least seen geopolitically as it is part of the QUAD group, a strategic security dialogue between the U.S., Japan, India and Australia.
[6] Source: Bloomberg Finance L.P. as of 11/15/23: Earnings-per-share (EPS) growth 2017-2023 MSCI India: 70%. MSCI China: -14%.
[7] The Economist: Narendra Modi is widening India's fierce regional divides, September 13, 2023.
[8] Source: Bloomberg Finance L.P. as of 11/15/23, based on next the twelve months Price/Earnings ratios
[9] Source: Bloomberg Finance L.P., as of 11/15/23.

Glossary

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.
The MSCI AC Asia Pacific Index captures large-and mid-cap companies across 5 Developed Markets countries (Australia, Hong Kong, Japan, New Zealand and Singapore) and 8 Emerging Markets countries (China, India, Indonesia, South-Korea, Malaysia, the Philippines, Taiwan and Thailand) in the Asia Pacific region. With 1,545 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
The MSCI China Index captures large- and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings.
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 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.
The S&P 500 is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.
A valuation premium is the excess a buyer is willing to pay for one asset relative to other assets.

Important information – EMEA, APAC & LATAM

as of 11/15/23; 098707_1 (11/2023)

Important information – North America

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