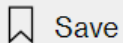


Wall Street Snubs China for India in a Historic Markets Shift

Investors are paying close attention to the contrasting trajectories of two of Asia's greatest powers.

By [Srinivasan Sivabalan](#), [Chiranjivi Chakraborty](#), and [Subhadip Sircar](#)

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A momentous shift is under way in global markets as investors pull billions of dollars from China's sputtering economy, two decades after betting on the country as the world's biggest growth story.

Much of that cash is now heading for India, with Wall Street giants like [Goldman Sachs Group Inc.](#) and Morgan Stanley endorsing the South Asian nation as the prime investment destination for the next decade.

That momentum is triggering a gold rush. The \$62 billion hedge fund [Marshall Wace](#) has positioned India as its biggest net long bet after the US in its flagship hedge fund. An arm of Zurich-based Vontobel Holding AG has made the country its top emerging-market holding and Janus Henderson Group Plc is exploring fund-house acquisitions. Even [Japan's](#) traditionally conservative retail investors are embracing India and paring exposure to China.

Investors are paying close attention to the contrasting trajectories

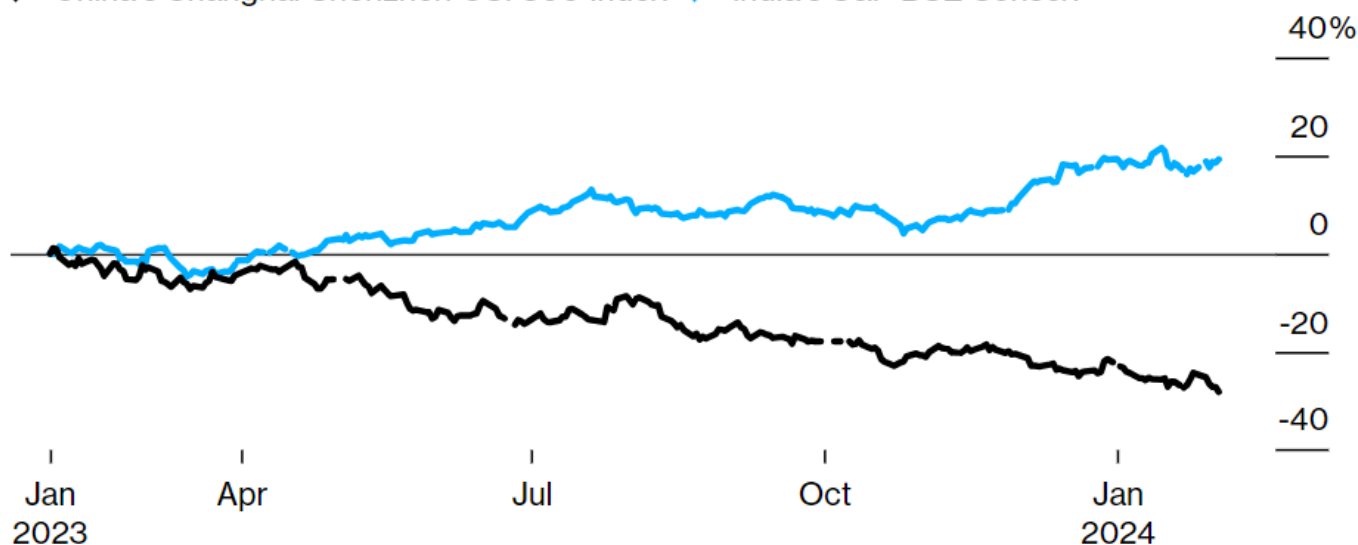
of two of Asia's greatest powers. India, the world's fastest-growing major economy, has vastly expanded infrastructure under Prime Minister Narendra Modi in his bid to lure global capital and supply lines away from Beijing. China, on the other hand, is grappling with chronic economic woes and a widening rift with the Western-led order.

“People are interested in India for several reasons – one is simply it’s not China,” said Vikas Pershad, Asian equities portfolio manager at M&G Investments in Singapore. “There’s a genuine long-term growth story here.”

Asian Giants Diverge

Indian stocks leave their Chinese peers far behind

✍ China's Shanghai Shenzhen CSI 300 Index ✍ India's S&P BSE Sensex



Source: Bloomberg

Note: Normalized as of Jan. 31, 2023

While the bullish sentiment about India isn't new, investors are more likely now to see a market that resembles the China of times past: a vast, dynamic economy that's opening up to global money in novel ways. Nobody expects a smooth ride. The country's population is still largely poor, stock markets are expensive and bond markets insular. But most are making the crossover anyway, calculating that the risks of betting against India are greater.

History shows that India's economic growth and the value of its stock market are closely linked. If the nation continues to expand at 7%, the market size can be expected to grow on average by at least that rate. Over the past two decades, gross domestic product and market capitalization rose in tandem from \$500 billion to \$3.5 trillion.

Aniket Shah, global head of environment, social and governance practice at Jefferies Group LLC., said a recent investor call about India was one of the firm's best-attended.

"People are really trying to figure out what's going on in India," he said.

Follow the Money

Capital flows reflect the enthusiasm. In the US exchange-traded fund market, the main fund buying Indian stocks received record inflows in the final quarter of 2023, while the four largest China funds combined saw outflows of almost \$800 million. Active bond funds have put 50 cents to work in India for every dollar they pulled from China since 2022, according to EPFR data.

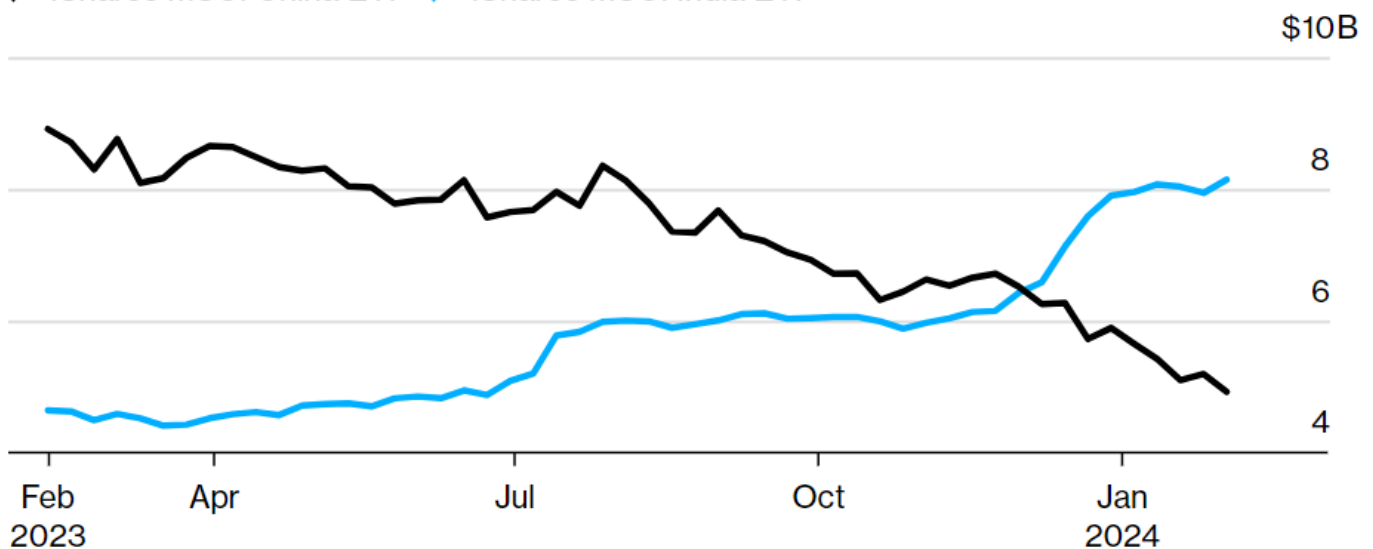
In mid-January, India briefly overtook Hong Kong to become the world's fourth-largest equity market. To some investors, the South Asian nation will only rise higher. Morgan Stanley predicts India's stock market will become the third-largest by 2030. Its weight in the MSCI Inc.'s benchmark for developing-market equities is at an all-time high of 18%, even as China's share has shrunk to its lowest on record at 24.8%.

“In terms of index weights, China would be lower and India bigger,” said Mark Matthews, the Singapore-based head of Asia research at Bank Julius Baer, which launched its first-ever India fund last year. “That’s the direction.”

Global Asset Allocations Rotate

Leading India ETF's total assets overtake China counterpart

▀ iShares MSCI China ETF ▀ iShares MSCI India ETF



Source: Bloomberg

New Investors

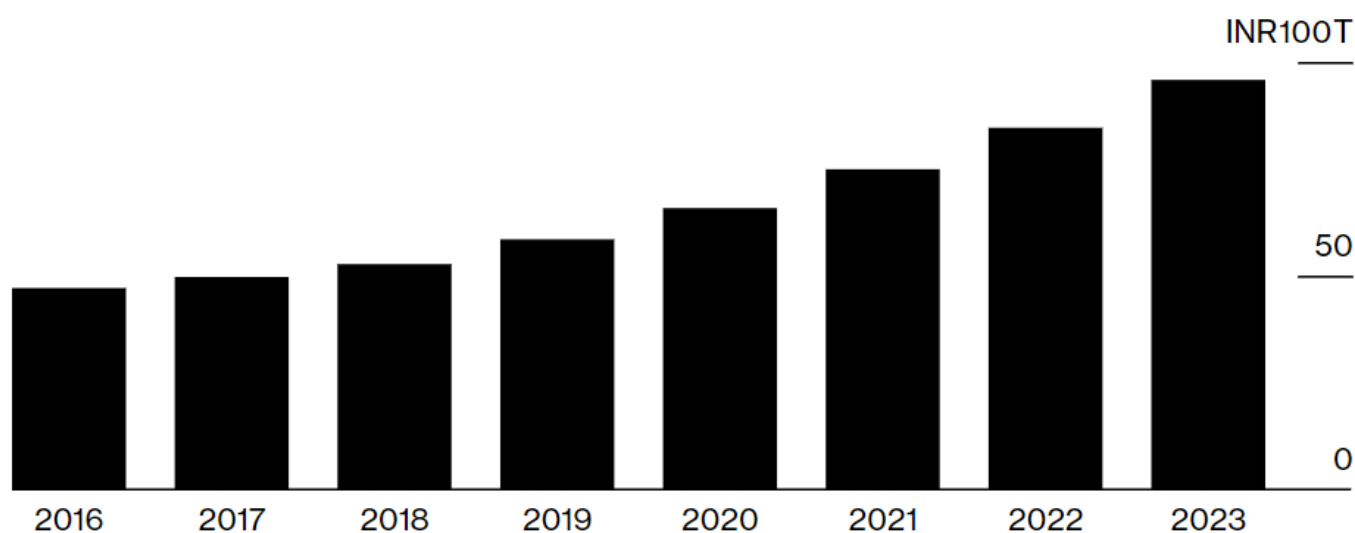
Japan's retail investors, who have traditionally favored the US, are also warming up to the country. Five of their India-focused mutual funds now feature among the top 20 by inflows. Assets at the largest – Nomura Indian Stock Fund – are at a four-year high.

Hedge funds including Marshall Wace point to India's strong growth and relative political stability as reasons to remain optimistic about consistent pockets of growth, even if the broader market still has expensive valuations.

Karma Capital, which manages money in India for institutions like Norges Bank, says US investors are especially eager to enter and learn more about the market. Rajnish Girdhar, the fund's chief executive, recalled one client responding with unusual speed to several India queries.

"We would send something Friday and before we returned Monday morning, she'd have responded, which means she was working on the weekend," he said.

India's Government Bond Market Has Doubled in 7 Years



Source: Clearing Corp of India
2023 data is Oct. end

Old Rivalry

India has capitalized on changing power dynamics with China, a decades-long rival.

If China is viewed as a threat to the Western global order, India is regarded as a potential counterweight – a country increasingly equipped to assert itself as a viable manufacturing alternative to Beijing. Nations like the US see the need to have strong business ties with India, even though they've criticized the country's tax policies. India now accounts for more than 7% of the iPhone's global output and is pouring trillions of rupees into upgrading infrastructure.

These efforts are part of Modi's plan to sell India as the world's new growth engine. The government will boost infrastructure spending by 11% to 11.1 trillion rupees (\$134 billion) in the coming fiscal year, Finance Minister Nirmala Sitharaman said last week in her interim budget speech.

“The investment cycle is picking up with public capital expenditure and infrastructure initiatives,” said Jitania Kandhari, deputy chief investment officer for solutions and multi-asset group at Morgan Stanley Investment Management.

India is also building a vast ecosystem of technologies aimed at pulling many more people into the digital marketplace. Alphabet Inc.'s Google Pay plans to work with India's mobile-based payments system – which generates billions of trades every month – to expand services beyond the country.

“For the first time, you have hundreds of millions of Indians with a bank account and access to credit,” said Ashish Chugh, a money manager at Loomis Sayles & Co. “This is bound to attract global companies to India – and with them global investors, too.”

Priced for Perfection

Some hurdles do persist. The euphoria has made Indian equities among the most expensive in the world. The popular S&P BSE Sensex Index has almost tripled from its March 2020 low, while earnings have only about doubled. The gauge trades at more than 20 times future earnings, 27% more expensive than the average for the 2010 to 2020 period.

Stretched valuations and Beijing’s recent attempts to support its markets have prompted some investors to contemplate a change in strategy. Global funds took out more than \$3.1 billion from local shares in January, the largest monthly total in a year, according to data compiled by Bloomberg.

“An enormous success is priced into India’s markets,” said Mark Williams, a fund manager at Somerset Capital Management. “But the question is how much of that is not priced in. There’s certainly a risk that Indian markets can go sideways for some years.”

Investors are bracing for a correction after eight straight years of annual gains in local shares. Modi is expected to win a third term in office during this year’s national elections, especially after his party’s sweep of recent state polls signaled existing policy will continue. But a weakened ruling party could jolt markets in the short run.

“The way the state election results have panned out it looks like we should have continuity in the government. But you never say never,” said Peeyush Mittal, portfolio manager at Matthews International Capital Management LLC.

Modi’s social agenda, which his critics say favors the nation’s Hindu majority, also threatens stability in a country that has more than 200 million religious minorities. Turning India’s potential into an economic reality that benefits all citizens is a tough ask, especially in a multilingual democracy with vast cultural differences between states.

“India still has a long way to go,” said Charles Robertson, head of macro strategy at FIM Partners Ltd. “Potential peak growth is still under what China did achieve.”

The Big Picture

Even with those risks, India fans say they’re investing for the long term. With a still-low per capita income, the country is setting the stage for multi-year expansion and new market opportunities, they say.

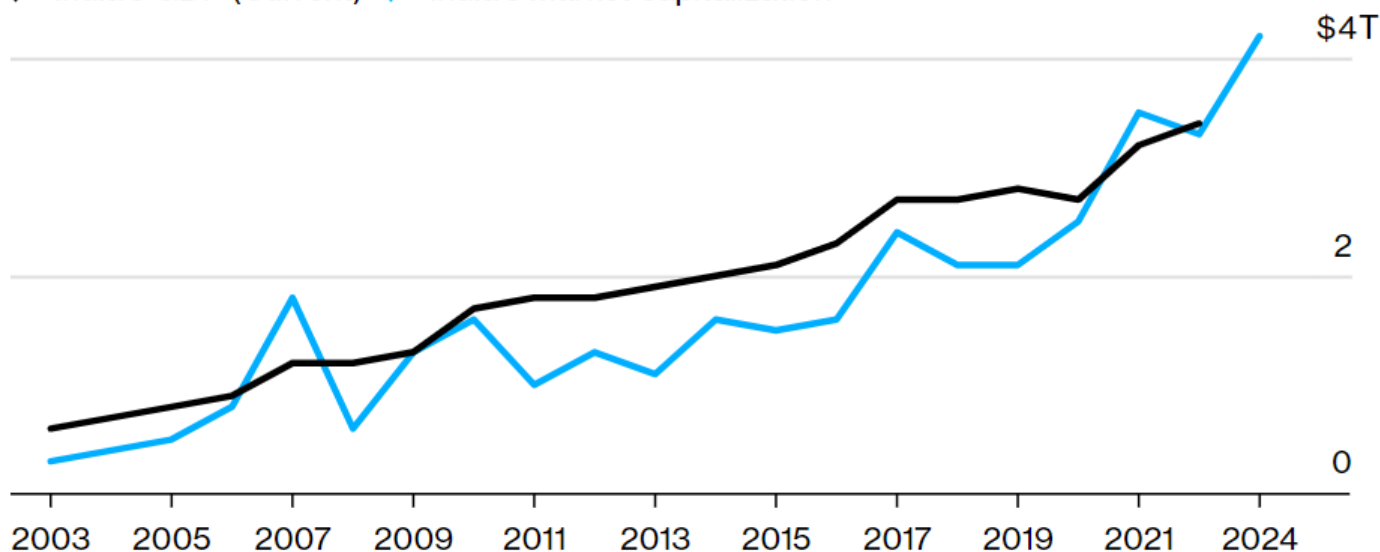
“There is always the possibility of scandals, social polarization and political noise,” said Aninda Mitra, head of Asia macro and investment strategy at BNY Mellon Investment Management.

“Despite all this, if you believe the economy is poised to grow to about \$8 trillion-plus by this time in the next decade, the volatility is worth it.”

Equities Get Growth Benefit

India's market capitalization closely tracks its GDP

India's GDP (Current) India's market capitalization



Source: World Bank, Bloomberg

India's once-insular financial markets will continue to open up. With foreign ownership just above 2%, the nation's \$1.2 trillion sovereign-bond market is being added to JPMorgan Chase & Co's global debt index from June. The move may lure as much as \$100 billion of inflows in the coming years, according to HSBC Asset Management.

India is also stepping up efforts to globalize the rupee, albeit at a more modest scale than China's yuan expansion. Still, the potential is there when combined with the government's development of GIFT City – a free market pilot project in western India that aspires to become a global financial hub unhampered by rules and taxes. It's a prospect with echoes of Shenzhen's opening up in 1980 as a special economic zone.

Confidence in India stems from the long-term impact of such initiatives, not necessarily from the near-term outlook on the nation's stocks and bonds, according to Gaurav Narain, a money manager who advises India Capital Growth Fund.

“There is no longer a need for a ‘sell the India story’ pitch from us,” he said. “It’s a ‘buy into India’ from people who are aware of the positive changes.”

– *With assistance from Ishika Mookerjee, Dinesh Nair, Nishant Kumar, Preeti Singh, Yasutaka Tamura, and Hideyuki Sano*