

# Bright days ahead for India, EM equities



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One of the most enduring features of the Indian stock market participants is that all of them completely ignore everything about financial markets elsewhere in the world. The refrain one hears non-stop is how the Indian stock market has been booming, how this heralds a new era for equity investing in India.

Now for some facts: In calendar year 2020, India ranked number 20 in a list of 45 markets in terms of returns, delivering 12 per cent. Vietnam delivered 80 per cent and several markets delivered double India's returns in 2020, including slow growing Japan.

It was a similar story in 2019. India delivered 9 per cent in 2019, while Russia delivered 48 per cent, Brazil around 30 per cent, US around 35 per cent, and most European markets delivered around 25-30 per cent.

The fact remains that India has been a very disappointing equity market for the past several years, delivering below fixed-deposit returns for at least five years.

This has been reflected in the large-scale redemptions seen in mutual funds.

But things now appear better for emerging markets (EMs) overall, within which, India will also benefit.

Given the poor equity returns in the past six years, there is now good headroom created for double-digit returns from Indian equities in 2021 and possibly even 2022.

The performance of Indian equities will mirror a larger trend of EMs doing better than developed markets. This would be a reversal of a 10-year relative bear market for EMs.

The US today runs a combined budget deficit and current account deficit of around 20 per cent of GDP—a number unheard of.

The pressure point for such deficits will be the US dollar: That will give way. As it has already in 2020, with most EM currencies appreciating markedly against the US dollar.

On a local basis, growth in FY22 in India will look good, simply because FY21 was a collapse. This comparatively better growth will push markets higher, aided by ultra-low interest rates and a weakening US dollar.

Overall, the outlook for Indian and EM equities looks very bright for this year and beyond.