**Flash note**
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**Alex Fusté**
@AlexfusteAlex
alex.fuste@andbank.com

# Unstoppable the Indian market (Equity & bonds). Must continue in 2021.

**India is well placed to be among the world's faster-growing emerging economies in 2021 and India enjoys positive net foreign inflows**

- New registrations are pushing the official number of foreign portfolio investors at record highs. As a result, Indian stocks scaled record highs in the first two weeks of January (The Sensex is about to surpass the 50.000 mark).
- Local benchmarks remain up 25% in US dollar terms since the start of November, but foreign investors' appetite for Indian assets does not yet look sated.
- India's economy has rebounded from last summer's slump, and although the trend may slow, the twin impulses of fiscal and monetary stimulus (fiscal tools remain at full capacity today after the prudence applied in these months),will continue to lend support to the bull market for months to come.
- Covid case numbers have fallen and stabilized, enabling companies to resume business more quickly than expected.
- Mobility indexes are approaching 90% of normal, PMIs have recorded five straight months of growth, and the consumer rebound has continued beyond the autumn festive period.
- A record goods and services tax haul in December is evidence of a broad-based cyclical recovery.
- That means GDP growth in the fiscal year to March 31 will come in at around -8% (less dire than the previous forecast of -11%).
- All the aforementioned leaves India well placed to be among the world's faster-growing emerging economies in 2021, turbocharged by a bullish combination of base effects and policy stimulus.
- We expect 2021 GDP growth somewhere between 7% and 10% in the 2021-22 fiscal year, and this will push the economy back towards its pre-pandemic size

**Outlook for the Equity market: Fiscal & Monetary outlook augurs well for the stock market.**

- The Government is in a better position to help the economy. The government's fiscal response to the crisis has so far been timid, with actual support amounting to less than 2% of GDP. Higher tax receipts mean the government is in a better position, finally, to implement some fiscal stimulus. The finance minister has hinted that her next budget, due to be released on February 1, will not focus on keeping the deficit in check.

- Inflation eased considerably, giving space for monetary impulse as well. CPI inflation eased to 4.6% in December, from 6.9% in November, falling back into the RBI's target band of 2-6%. Given that it has vowed to support the economy once inflation is in hand, the RBI may resume its easing cycle after its monetary policy committee meeting.
- So, the bullish policy outlook augurs well for the stock market and foreign investors have piled in since November, buoyed by excess global liquidity, low interest rates, a strengthening rupee and a higher weighting for Indian stocks in MSCI's indexes. Alongside China, India enjoyed positive net foreign inflows in 2020, with new registrations pushing the official number of foreign portfolio investors over the 10,000 mark.

**What's behind the rally? What about the risks? Understanding the Indian Equity market**

- Enthusiasm can be credited partly by the weighting of "Covid winners" in India. The top-performing stock in 2020 was Divi's Laboratories, which makes the active pharmaceutical ingredients used in vaccines and it is also benefiting from India's deteriorating relationship with China, expanding capacity as India seeks to cut its reliance on Chinese suppliers.
- Other sectors are also performing strongly, including auto stocks, as pent-up demand has fueled a sales rebound, with passenger vehicle registrations surging 24% in December YoY. Kia, Honda and Tata Motors all plan to ramp up production this year.
- Risks: As in the rest of global equity markets, we warn of a growing disconnect between the real economy and financial markets, and the risks from stretched valuations. Price-to-book multiples—a more helpful measure than P/E ratios, given the extreme nature of this cycle—are trading at around three times, which poses a risk if sentiment is eroded by a new and uncontrolled wave of Covid. The good news is that India is better placed than most other emerging markets to ride out such a Covid as it began one of the world's most ambitious vaccination programs. It has pre-ordered 1.6bn vaccine doses, including 500mn of the Oxford-AstraZeneca vaccine, and aims to inoculate one-fifth of its population by August. India's young population means it can probably recover at a lower immunization level than many developed economies.