



INVESTMENT NOTE

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IS IT INDIA'S TURN?



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The Indian subcontinent sits on its own tectonic plate. Around 100 million years ago, it broke free from the Gondwana super continent and moved north, ultimately crashing into the Eurasian landmass with such force that it created the world's tallest mountain range, the Himalayas. The Indian plate continues to push north at a rate of 5 cm per year, the fastest moving of the tectonic plates. Today, modern India is also crashing into the world economy with force.

This leads to a number of questions, one of which is whether this will happen fast enough to take the mantle from China as global growth engine in the years ahead. After all, China's dramatic rise over the past three decades reshaped the global economy in ways large and small. But its growth rate has slowed down substantially as it faces both cyclical headwinds and structural challenges. Cyclically, China's economy seems to be treading water. Consumers are cautious, the property sector remains under pressure and sizable government stimulus is still lacking. Low inflation is

a sign of this. China's core inflation declined to only 0.3% year-on-year in August. Another sign of weak domestic demand is the lack of growth in imports even though export growth continues to hold up. The recent weakness in the oil price can also partly be explained by demand expectations not being met.

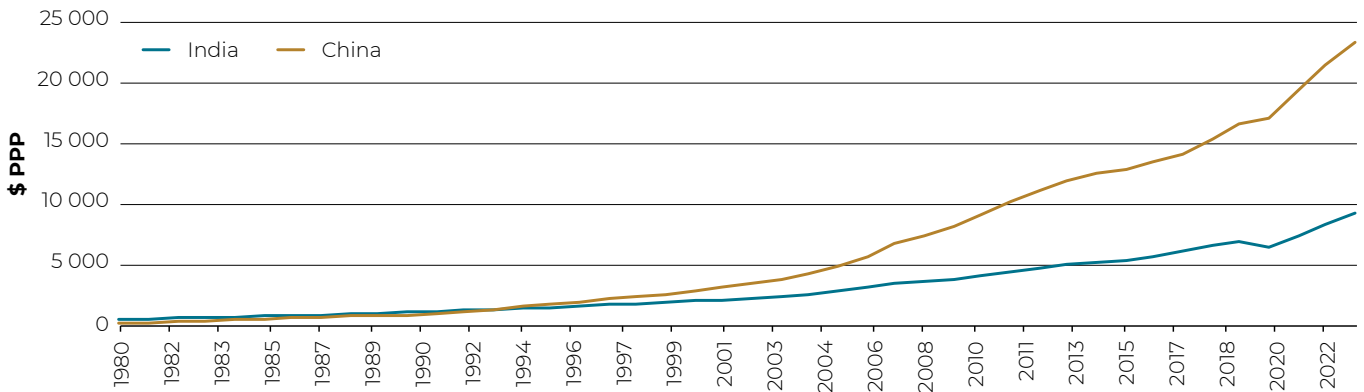
On the structural side, unlike India's relatively young and growing population – already the largest in the world – China is shrinking. It is also increasingly clear that much of China's rapid growth, over the past decade in particular, was fuelled by unsustainable borrowing. As income growth slows, some will struggle to service this debt.

The International Monetary Fund forecasts that Chinese growth will downshift to around 3% over the next five years. Even this might be optimistic.

The short answer to the question posed above is not yet. India is still poor and its per capita income is where China was around 15 years ago. Chart 1 actually flatters India because it is adjusted for the cost of living, which is very low there.



CHART 1: CHINA AND INDIA REAL INCOME PER HEAD IN PURCHASING POWER PARITY DOLLARS



Source: International Monetary Fund

But this will change over time. India's share of global GDP has already tripled since 1991, and with the IMF projecting growth rates of 6% to 7% over the next five years, its share of the global economy should rise to 5% by 2029, by which point it will be the third largest economy behind the US and China, but still well behind the other two giants in terms of size. However, around the turn of the decade, it should become the biggest contributor to global growth, since it will be growing much faster than the US and China.

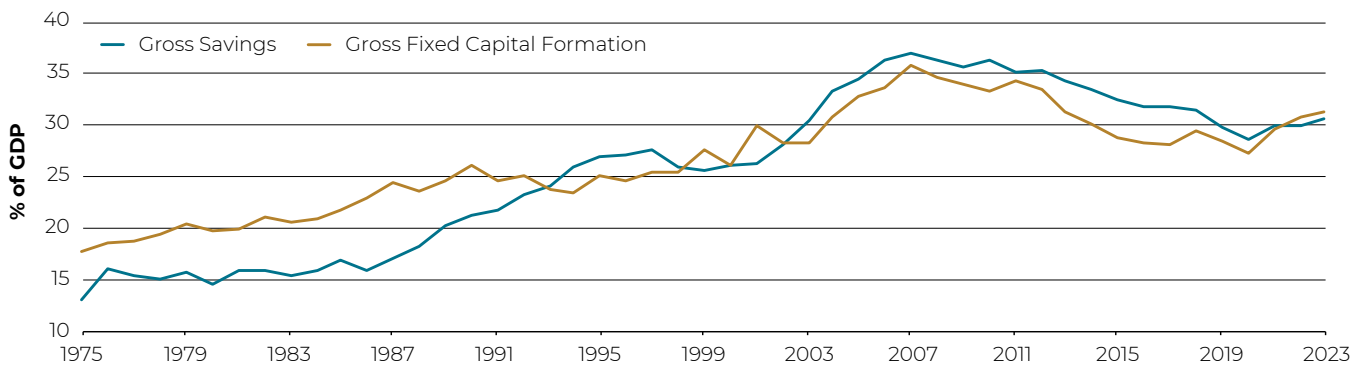
The long answer is that India's impact will be very different, since it follows a different growth model. China has sustained an investment rate in excess of 40% of GDP for many years. No other country in modern times has invested as much for as long. This resulted in its cities transforming seemingly overnight into glittering forests of skyscrapers, connected by modern infrastructure. Given that it is responsible for the lion's share of global investment spending, no wonder it consumes around half the world's commodities.

MORE INVESTMENT NEEDED

However, while this high investment rate made sense when it was relatively underdeveloped, it doesn't make sense now. There is excess investment that cannot earn an economic return in infrastructure, real estate and factories. For instance, a train connecting two cities for the first time can greatly enhance activity and productivity. Adding a second, faster train between the same cities will probably

only deliver a marginal improvement and not necessarily enough to justify the investment. Similarly, there are millions of empty apartments and many factories running below full capacity. And yet, China's investment rate has not slowed much and the much-vaunted shift to more consumption spending remains elusive.

CHART 2: INDIA'S INVESTMENT AND SAVINGS RATE



Source: LSEG Datastream

In India, ongoing investment can generate a high economic return, since there is still a great need to expand India's infrastructure, upgrade its productive capacity and house the urban population. Despite its many massive cities, it is one of the least urbanised developing countries. Only around 36% of the population is urbanised, compared to 58% in Indonesia, 64% in China and 68% in South Africa. The urban population will swell in the years ahead, which has historically been supportive of productivity growth and higher incomes.

Already, a massive infrastructure drive is underway across India, supported by the government's budget but also through successful public private partnerships (PPPs) and concession models. Large domestic and foreign companies are involved in all elements of building and running India's infrastructure, including airports, ports, rail and roads. This is something South Africa must learn from.

India's investment rate is lower than China's, but is high enough to support the current economic pace for several years and is mostly funded by domestic savings, making it more sustainable.

However, it seems unlikely that India will ever be as voracious in its appetite for raw materials as China was. China remains

a manufacturing powerhouse, which is also a resource-intensive business. The Indian government is supporting the manufacturing sector through a number of policies under the 'Make in India' banner, but the manufacturing sector remains relatively small compared to other sectors. Like South Africa, it struggles to create enough job opportunities for its young population. Rapid economic growth has not translated into equally strong employment growth, partly because of the sheer number of young people that enter the labor force every year at around 20 million. Whereas China managed to employ many millions in manufacturing jobs, that same opportunity is not necessarily available for India precisely because China remains dominant as the world's factory. Nonetheless, as Chinese wage costs rise, its working age population shrinks, and its policymakers increasingly focus on high-tech manufacturing, the scope is opening up for India and others (neighbouring Bangladesh has become a big player in the clothing industry, for instance). Western firms are also increasingly looking to diversify their supply chains from overreliance on China (sometimes called a China-plus-one approach), and India is trying hard to be a beneficiary of this trend.

DIGITAL LEAPS

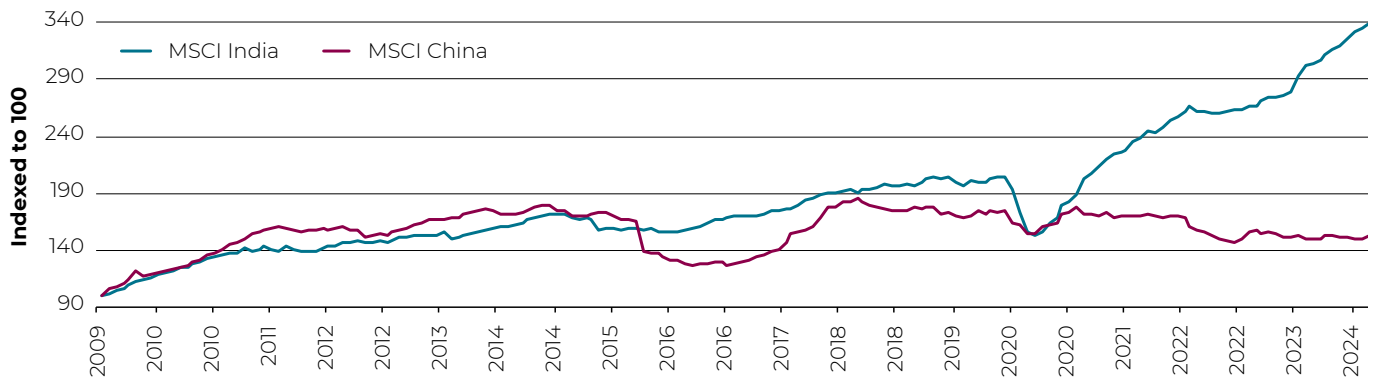
It is not just in physical infrastructure that India has made great strides. It has invested heavily in digital infrastructure, arguably leapfrog many richer countries in the process. The biometric identification system (Aadhaar) and the open-source national digital payments system (known as the Unified Payments Interface) form a platform that enables the government to make direct payments to individuals as well as simplifying the process of collecting taxes. Banks and FinTech companies can build apps on the platform, and financial inclusion has increased dramatically. All of this is supported by extremely cheap data costs and broad internet coverage.

It remains a services powerhouse. While its strength was initially in call centres and outsourced back-office processing, more recently foreign multinationals are building global capability centers (GCCs) in India, that includes consulting and product development functions. While the emergence of artificial intelligence poses a risk to call centre outsourcing, it probably creates opportunities for GCCs.

Of course, India has many problems. Despite producing half a million engineering graduates every year, skills

shortages abound in many sectors. Poverty remains widespread and inequality has grown. Climate change is a major risk to a country where half the population depends on the agricultural sector. But several game-changing reforms have been implemented in the past decade, and the emergence of a broad societal consensus that economic growth is beneficial means there is cross-party support for initiatives to upgrade infrastructure and improve the ease of doing business. This stands in contrast to the first forty to fifty years after independence when the government stifled growth, innovation and entrepreneurship.

A key strength is that India has many large conglomerates with deep roots and strong brands inside the country. These companies are at the forefront of investing in the country, but are also branching out internationally. There is also a thriving start-up ecosystem, and many innovative emerging companies. Importantly for investors, Indian companies have proven themselves to be much better at converting strong economic growth into rising profits than their Chinese counterparts.

CHART 3: FORWARD EARNINGS PER SHARE IN LOCAL CURRENCY

Source: LSEG Datastream

All of the above suggests that the projected economic growth rates of above 6% over the decade or so are achievable. Certainly, India has sustained similar growth rates in the past. But since this is now compounding off a much larger base, India will become more and more important as a player in the global economy and in global geopolitics because of its size and growing wealth. Its consumers will become more important for multinational companies, and its home-grown firms will spread globally. Its influence on the international stage will increase.

The dilemma for investors is that India's equity market already trades at an elevated valuation, even by its own standards since it usually trades at a higher price: earnings multiple compared to other emerging markets. There are also signs of exuberance and speculative activity amongst Indian retail investors, which shows up in a rapidly increasing number of day-trading accounts and massive growth in the options market. It should be noted, however, that there is also strong growth in the number of people who are making monthly contributions to mutual funds and are

more focused on saving for retirement than making a quick buck. The increasingly formalized nature of savings and investment is a long-term tailwind for the market given that equity ownership remains low by global standards.

For outsiders, it is best to think of India as a 20-year growth story, as China was at the turn of the century. The overall market is expensive but there are individual companies that can grow into their valuations. Either way, no-one can afford not to at least have India on their radar screens.

A final thought. Back in the time of Gondwana, India and Africa were attached in a single continent. But long after the split, India reconnected with the East Coast of Africa through trade and migration. These historic links mean South Africa should benefit from India's rise, but nothing is automatic. It is a giant market South African policymakers and businesses should tap into. South African investors are traditionally weary of considering exposure to other emerging markets, but it is becoming very difficult for them to ignore India.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	3 635.0	3.30%	-0.71%	14.70%	22.93%
United States	S&P 500	US\$	5 626.0	4.03%	-0.39%	17.95%	25.95%
Europe	MSCI Europe	US\$	2 182.0	1.54%	-1.67%	8.02%	16.93%
Britain	FTSE 100	US\$	10 858.0	1.10%	-1.26%	10.28%	15.51%
Germany	DAX	US\$	1 789.0	2.00%	-0.67%	10.68%	20.80%
Japan	Nikkei 225	US\$	259.8	1.52%	-1.76%	9.47%	17.13%
Emerging Markets	MSCI Emerging Markets	US\$	1 082.0	0.65%	-1.64%	5.66%	10.97%
Brazil	MSCI Brazil	US\$	1 509.0	1.41%	0.33%	-16.17%	-5.98%
China	MSCI China	US\$	54.9	-0.49%	-2.95%	-0.96%	-6.83%
India	MSCI India	US\$	1 129.5	1.99%	0.48%	22.50%	34.94%
South Africa	MSCI South Africa	US\$	455.0	1.11%	-1.94%	9.64%	19.11%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	81 979.0	0.75%	-2.11%	6.61%	11.84%
All Share	All Share (Total Return)	Rand	14 843.0	1.11%	-1.69%	9.53%	16.05%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	36 395.4	1.17%	-1.60%	9.69%	17.06%
TOP 40/Large Caps	Top 40	Rand	13 327.0	1.09%	-2.03%	8.26%	13.59%
Mid Caps	Mid Cap	Rand	23 980.0	1.66%	-1.32%	10.07%	23.04%
Small Companies	Small Cap	Rand	39 908.0	0.58%	0.32%	22.19%	33.13%
Resources	Resource 20	Rand	4 736.3	4.02%	-2.10%	-2.58%	0.70%
Industrials	Industrial 25	Rand	24 152.0	0.02%	-2.74%	8.78%	12.11%
Financials	Financial 15	Rand	15 527.0	0.98%	-0.49%	20.26%	30.96%
Listed Property	SA Listed Property	Rand	2 405.2	2.11%	4.25%	29.03%	47.46%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government S&P Overall (USD Unhedged)		US\$	79.2	0.46%	1.87%	1.02%	6.40%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 078.8	0.59%	2.09%	14.72%	22.19%
Government Bonds	BESA GOVI	Rand	1 062.1	0.59%	2.07%	14.58%	22.03%
Inflation Linked Bonds	BESA CILI	Rand	373.7	0.17%	0.77%	7.01%	13.74%
Cash	STEFI Composite	Rand	580.8	0.16%	0.31%	5.97%	8.55%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	71.6	0.77%	-7.00%	-7.00%	-22.16%
Gold	Gold Spot	US\$	2 578.0	3.66%	3.00%	24.96%	34.83%
Platinum	Platinum Spot	US\$	942.0	2.39%	1.73%	-4.56%	4.78%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	17.76	0.51%	0.38%	3.05%	6.09%
ZAR/Pound	ZAR/GBP	Rand	23.29	0.64%	0.47%	0.04%	0.90%
ZAR/Euro	ZAR/EUR	Rand	19.67	0.59%	0.08%	2.68%	2.62%
Dollar/Euro	USD/EUR	US\$	1.11	0.00%	-0.45%	-0.54%	-3.60%
Dollar/Pound	USD/GBP	US\$	1.31	0.02%	-0.18%	-3.23%	-4.75%
Dollar/Yen	USD/JPY	US\$	0.01	-0.99%	-3.65%	-0.14%	-4.51%

Source: I-Net, figures as at 13 September 2024

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WEALTH

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