

A brief Indian economic update

The Alquity Indian Subcontinent Fund has been performing well since its inception in 2014 by focusing on the domestic economic trends prevalent in India. All economies move in cycles and India is no exception – since the rather brief but rapid downturn through 2018 into 2019, and despite the COVID-19 emergency throughout 2020 and into this year, India has actually done surprisingly well.

We have been (bravely?) promoting the idea of a renewed Indian economy for a number of reasons in the last year, regular readers will know our base case well. If you add in the continued impetus of a strongly reformist and pro-growth government that has been steady in its course, and the ability of India to benefit from changing global trade relationships in the region, you have a very strong case for India to be a dedicated position in the portfolio. We have an overweight to India in the Future World (EM) and Asian funds and an underweight to China accordingly.

Earnings season

Last week, we met remotely with almost 30 Indian corporates across a variety of sectors in order to reassess our investment thesis for the following 12 months. The economic outlook in fact is more positive than we expected, with most corporates expecting a very strong growth in the upcoming festival season. This reaffirms our pro-cyclical positioning in beneficiaries of economic growth (private sector banks such as ICICI Bank and HDFC Bank) and particularly rural growth (Hero Motor, Escorts Machinery). An increasingly favourable outlook for investment (with Modi highlighting his \$1.4trn spending package in his Independence Day speech yesterday) is supportive for our positions in the cement sector, and we are focusing our research effort on further potential beneficiaries.

Of course, this view presumes that there is no deterioration in the covid situation and continued reasonable rainfall during the rest of the monsoon season. The latest monsoon data remains encouraging, despite a recent lull in the rains, with the majority of India receiving adequate precipitation once again. Sowing is 2% lower than last year, but this still represents a multi-year high versus prior years. Gujarat has suffered from the highest water deficit so far this year, but benefits from high levels of irrigation. Hence, the expected rural tailwind appears on track at this point.

Indian inflation positively surprised on the downside, declining from 6.3% in June to 5.6% in July which was a 3 month low. This further supports the Reserve Bank of India's accommodative monetary policy stance.

Inflows into Indian domestic equity mutual funds reached an all-time record high of \$5bn in July 2021, and Zomato's IPO was 38x oversubscribed in the same month. The stock market is clearly benefiting from continued domestic interest, given the increasing economic momentum. We expect this to be supplemented in the medium term by greater foreign interest as well, given the market volatility in China in recent weeks.

We remain well-positioned in all our funds to take advantage of these trends.

	1 month	3 Month	6 Month	YTD	1 yr
Alquity Indian SC (net)	2.70	18.58	28.06	28.21	71.82
MSCI India index	0.86	8.84	16.05	13.34	42.87
Indian Univ Cap Median	2.79	11.20	17.16	15.73	49.99
Alquity Ranking	< median	TopQile	TopQile	TopQile	TopQile
Alquity Percentile	51.1	1.5	6.6	2.6	2.6

Source: Alquity, Bloomberg, as of 31st of July 2021. Alquity performance data refers to USD Y class.