

Business Line

Stock rally puts Indian market ahead of developed world

Fund flows helped by revival in 'risk appetite'

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The recent surge in stock prices has pushed the Sensex into positive territory for 2009, helping it race ahead of the developed markets for the first time since the market meltdown began last year.

The Sensex now boasts a year-to-date gain of 4.2 per cent, while the US bellwether (Dow Jones Industrial Average) has lost 11.4 per cent.

India is also among the better performing global markets this year.

EMERGING MARKETS LEAD

This is in stark contrast to 2008, when the Sensex (down 52 per cent) was among the worst performing stock indices, losing more value than either the Dow Jones (34.6 per cent decline) or the MSCI World index (42 per cent decline).

Good performance from Indian stocks in 2009 mirrors the buoyancy across emerging markets, even as stocks in the developed markets have crumbled to new lows.

China, Taiwan, South Korea and Brazil, in fact, sport strong double-digit returns so far this year.

So what has triggered this comeback for emerging mar-

Ahead of the game	
	(in %)
	Year-to-date Returns
Dow Jones Industrial	(11.4)
DJ Euro Stoxx	(13.4)
Nikkei 225	(2.6)
FTSE 100	(12.1)
Shanghai Composite	30.4
Taiwan Taiex	17.4
South Korean KOSPI	10.1
Brazil Bovespa	11.6
MSCI World	(10.3)
MSCI Emerging Mkt	4.3
BSE Sensex	4.2

Returns from Dec 31, 08 to Mar 27, 09.

kets? Market players cite reasons ranging from the commodity price rally (which helped Brazil and Russia) to a revival in global risk appetite and a weak US dollar, to explain it.

A weakening dollar, which has stemmed the depreciation in some Asian currencies this year, has helped prop up returns from some of these markets for foreign investors.

Last week, global fund tracker EPFR flagged off a revival in global 'risk appetite', as investors pulled \$42 billion out of the safe US money market funds, to increase exposure to riskier

balanced and equity funds.

RISK APPETITE BACK?

"Emerging market equity funds have been the more resilient - in flow and performance terms - since the beginning of the year, in part because investors still think their fiscal profiles look a lot better than those of most developed markets," Mr Brad Durham, Managing Director of EPFR, recently noted.

The domestic stock market rally too has been aided by consistent FII buying over the past two weeks, with net FII purchases of about Rs 2,500 crore since March 9.

Is this a sign that foreign investors are reviving their interest in Indian stock markets, after their heavy withdrawals last year?

"Some of the global portfolio managers who manage India-focused funds have indicated their change in stance towards Indian markets. The risk-reward payoff seems to be moving in favour of a gradual hike in allocation to equities in India", says Mr. Kunj Bansal, Senior Vice-President, Portfolio Management, Kotak Securities. However, he cautions that event risks such as general elections and the fluid geopolitical situation in Pakistan should be

kept in mind while formulating a view on India.

Mr Krishnamurthy Vijayan, Executive Chairman, JP Morgan Asset Management, feels that these trends would need to sustain for a longer period to conclude this; but explains "My own experience is that investors are not lacking in confidence in India *per se*. Those investors who are in don't want to exit or book their loss at this juncture because they do believe in the fundamentals of the economy.

"Those who are not in are not making the move because they want it to get cheaper. As for us, we didn't see any major redemptions in March, though we do manage FII funds. Though we didn't see money coming in, we didn't see it go out either."

However, asset managers are confident that once fund flows into equities pick up globally, India will be a big beneficiary.

"We are optimistic that as investment capital returns to global equities, given India's strong domestic story, growth rates, demographics and high savings rate it will attract a larger share of capital inflows", says Mr Abhay Bhalerao, Director at investment bank- Equirus Capital.