Newton Investment Management’s global emerging markets portfolio manager, Rob Marshall-Lee has been bullish on India for over five years but still believes it has additional room to run.

The removal of high denomination bank notes from circulation in India saw the equity market hit a soft patch, which the Asian and emerging equities team at Newton Investment Management, a BNY Mellon company, used as an opportunity to increase positions.

Demonetization was introduced in November 2016 by Prime Minister Narendra Modi to discourage the purchase of large goods via the “black” economy.

Following the event, there was a small blip in the Indian equity market and some underlying economic data but it has since been accelerating back to trend, says Marshall-Lee.

“The clamp down on the black market seems to have had far less impact than many commentators would have had you believe, not least for the formal part of the economy. This is where most listed companies are most exposed.”

COMING UP

He says the structural growth potential of India is supported by demographics (a large and growing working age population), low household credit penetration and Prime Minister Modi’s economic reforms.

“They continue to impress but he is playing the long game, which is boring for the short-term speculator. We like what we see and view it as promising for unleashing strong underlying growth potential. This would allow well-positioned companies to grow future returns for a sustained period.”

Marshall-Lee believes short-term market weakness can be used to top up positions in emerging markets.

LOOKING FOR VALUE

He says: “The previous government was inept in our view, and got caught up in bureaucracy, whereas the Modi government is clear of vision. They are driven people with a long-term game plan.

“In our view, there are some excellent companies in India. Superficially it is on a slightly higher price-to-earnings ratio compared with some other emerging markets but we feel it deserves to be much higher because it appears to have the engine for growth to satisfy those future earnings projections.”
We believe emerging market strategies should be tilted towards consumer discretionary companies in India—ranging from jewelry, pizza, shampoo, tobacco and cars to packaged foods.

“As China has moved away from a commodity boom towards a consumer-driven economy it has become a more varied market. There is a still lot of fear around China and we are not invested in it on the basis of its GDP growth prospects,” explains Marshall-Lee.

On the heels of a trip to China where he visited five cities and met with local business people, consumers and government officials, he expects asset construction to decline in China over time and is steering clear of state-owned enterprises. This is based on their level of indebtedness and lack of consideration for minority shareholders. “The consumer economy is relatively ungeared,” he adds.

“So while we are wary of some capital misallocation (though not all is bad) and we are relatively bearish about the outlook for Chinese GDP growth, we remain happy to invest in specific industries and companies where we see sustained growth prospects. We term these “new China” areas such as Internet, healthcare, education and electric vehicles. Stocks in these areas have been some of our consistently strongest performers in recent years,” concludes Marshall-Lee.