

Anticipating FII Impact: Potential Catalysts for India's Stock Market in 2024



In 2024, a rise in foreign institutional investors' (FIIs) interest is anticipated for the Indian stock market. This shift is attributed to the US central bank's announcement of three rate cuts throughout the year and signaling an unusually assertive cycle of interest rate hikes, unprecedented in decades. Furthermore, the decline in US bond yields and the weakening of the US dollar have prompted investors to redirect their attention towards emerging markets such as India.

Over the last ten years, India's representation in the MSCI Emerging Market Index has doubled, reaching almost 14%^[i], and it is poised to expand even more. This growth is attributed to diminishing interest in Chinese stocks, as China's stagnant returns have weighed down the index's overall performance in the past decade. Analysts suggest that China's remarkably low risk appetite and a prevailing market indifference are extending to impact the economic outlook. Consequently, foreign portfolio allocations have been realigning towards Asian markets like Japan, Taiwan, South Korea, and India.

FIIS INVESTMENTS

Analysts predict an upswing in the holdings of large private sector banks by foreign institutional investors (FIIs). Banks and financial institutions are becoming preferred choices for global investors seeking to capitalize on India's growth trajectory. The improvement in the quality of assets has resulted in stronger bank and corporate balance sheets, fostering increased confidence among investors.

The Indian government's emphasis on capital expenditure to jumpstart the growth cycle has propelled India's GDP growth to 7.6% in the September quarter. Most economists anticipate India's GDP growth to hover around the 7% mark in FY24. The current account deficit is projected to be approximately 1.3% of the GDP, and despite challenges in many Western markets, exports have exhibited resilience. With foreign exchange reserves standing at \$623 billion, reaching a 22-month high, the overall macro-outlook is considered stable[iii].

INDIAN ECONOMY

India's GDP for the second quarter of the fiscal year 2024 surpassed expectations, showcasing remarkable growth at 7.6%[iii], significantly exceeding the RBI's earlier forecast of 6.5%. This surprising success, propelled by impressive high-frequency indicators such as rising GST collections, an increasing Index of Industrial Production (IIP), and a stabilizing Consumer Price Index (CPI), presents a positive outlook for the country's economic prospects in the short and medium term.

CONSUMER MARKET

India, being the fastest-growing global economy and having the largest young population worldwide, is a sought-after market for consumers. Foreign investors are especially interested in high-growth local companies that have solid governance and appealing valuations.

LARGE-CAP

Apart from the usual favorites such as banks, autos, and utilities, investors are showing a growing interest in sectors that provide a combination of stability and growth. Companies demonstrating steady advancements, strong Return on Equity (ROE), and reasonable valuations are gaining prominence, particularly within large-cap segments.

POLITICAL STABILITY

In addition to appealing valuations and robust economic performance, a recent comprehensive win by the BJP, the political party that is leading the current government at the Center, in crucial states has added to the appeal for foreign investors eyeing India. They believe that this victory sets the stage for political stability and removes the apprehensions linked to elections that had previously restrained their involvement.

VALUATION

In comparison to their pricier counterparts in emerging markets, Indian stocks present enticing valuations, acting as a magnet for investors seeking value. The added appeal of a depreciating rupee allows foreign buyers to acquire more shares for their investment. Coupled with the likelihood of a slowdown in interest rate hikes, stocks in India are poised to overshadow fixed-income assets, underscoring the country's increasingly compelling investment proposition.

LOOKING AHEAD:


Despite the encouraging current trend of capital inflows, it's essential to acknowledge the inherent volatility of Foreign Institutional Investor (FII) flows, which are susceptible to fluctuations driven by global events and uncertainties. However, the prevailing optimism expressed by FIIs implies a continued positive sentiment toward Indian markets in the near term, suggesting a favorable outlook for investment activities.

We would love to hear from you

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Notes

[i] <https://www.forbesindia.com/article/take-one-big-story-of-the-day/will-fiis-push-indian-markets-up-this-year-the-stage-looks-set-for-a-grand-show/90811/1>

[ii] <https://www.forbesindia.com/article/take-one-big-story-of-the-day/will-fiis-push-indian-markets-up-this-year-the-stage-looks-set-for-a-grand-show/90811/1>

[iii] <https://www.livemint.com/market/stock-market-news/why-fiis-are-pumping-money-in-indian-stock-market-explained-with-5-reasons-11701919844279.html>