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India is world's best growth story: Wood

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India is the best growth story in the world, and especially in Asia, said Christopher Wood, global head of equity strategy at Jefferies, during the *Business Standard* BFSI Summit 2023.

However, global investors have barely invested in Indian equities, he said.

Even emerging market (EM) investors, according to him, are moderately 'overweight' on India.

"Investors should be structurally invested here as tactically the markets have done well. Midcaps, obviously, are expensive, and India will be vulnerable to a Wall Street-correlated correction caused by higher bond yields," Wood cautioned.

Wood said the key thing the market regulator in India can do is to make it easier for foreign investors to invest here. "Most EMs are easier to invest for foreign investors than India," Wood said.

Indian stock markets, Wood believes, could see 25 per cent correction in 2024, if the Narendra Modi-led Bharatiya Janata Party (BJP) does not return to power in a working majority after the general elections scheduled for 2024. This, he said, is the biggest risk for the Indian stock markets as things stand. As a strategy, he suggests that investors should stay put for now, and 'buy the dips'.

Though he believes that India is the best domestic equity story among EMs, which has been accentuated by the problems in China, he would not take a leveraged trade on India before the general elections.

"If there is a repeat of what happened with the surprise election in 2004, then I would expect a 25 per cent correction, if not more. But the markets would bounce back sharply due to the momentum. The risk exists for a big correction to occur if this government doesn't come back. While chances are less, the risks still remain," Wood said.

He expects the production-linked incentive (PLI) schemes to see renewed momentum if the current government is voted back to power in 2024. And, this would attract manufacturing investment into India, he added.

"Large corporations, including the likes of Apple, have to hedge against production in China. India is the next big domestic demand story for the next 25-30 years. So, it needs to be just 70–80 per cent as good as the likes of Vietnam, Thailand and Malaysia to get manufacturing business. For this, the government needs to be re-elected and there has to be policy continuity," Wood said.

Bond markets a worry

The big development from a stock market perspective across the globe in the last three months is the sharp rise in bond yields in the US, he said.

"The consensus is that the US rates will be higher for longer, or are supply-related constraints behind the recent sell-off. Investors are worrying about the rising fiscal deficit in the US, which is a spot of bother in case the bond yields remain high. Private equity (PE) and private credit spaces, especially in the US, need to be watched. The credit risks are now rising," he said.

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From a macro view, the markets are not factoring in an escalation in the war, Wood said. This can be seen from the bare movement in oil prices.

"I think the markets are assuming that the conflict won't escalate into a broader West Asia war. Oil prices have barely risen; so clearly, any likely escalation has not been priced in," he said.

Enter the dragon

Meanwhile China, Wood said, is looking like Japan this year, where growth is slowing down. The key question, however, is whether this is a permanent turn or will China bounce back.

"My view is that China's growth will return. But I expect its growth to be around 3 per cent over the next 10 years against India's 6-7 per cent growth rate. India will be the next big global opportunity for investors," he said.

Despite this, Wood cautioned that foreign money was not flowing in as much as it should. This was due to cumbersome processes for foreign institutional investors (FIIs). A lot of money that was invested in China, according to him, has the potential to come to India.

"This year, however, more global money has gone to Japan. All global funds are now looking to India but the issue is one has to apply for FII status. The Indian markets will repeat the boom cycle we saw during 2002-2009. It will be driven by the housing boom, followed by private capex. The Indian property market has entered its third year of upturn after seven long years of downturn. There are no signs of any downturn for now," Wood added.

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