



Market Watch

India: a reduced mandate

Summary

India's voters delivered a significantly reduced mandate for the ruling Bharatiya Janata Party (BJP)-led alliance at the latest general elections. While the National Democratic Alliance (NDA) has won a majority for the third straight term, with 292 out of the total 543 seats, the BJP won 240 seats, falling short of the 272-majority mark.

India's Nifty stock index plunged 6% on Tuesday following the weaker-than-expected mandate, which was in sharp contrast to the exit polls which indicated significant gains for the BJP. Investors are likely concerned BJP's increased dependency on coalition partners would reduce its ability to push through tougher reforms.

While markets are likely to remain volatile in the near-term as incumbent Prime Minister Narendra Modi assembles a coalition cabinet, we believe the medium-term outlook for Indian assets remains strong, given robust outlook for economic and corporate earnings growth.

Background

The latest electoral verdict is the weakest for the ruling BJP-led alliance since it came into power a decade ago. In the outgoing term, the NDA had a record 353 seats, with the BJP alone commanding a majority for the past two terms, which gave the party the political mandate to push through wide-ranging reforms.

Over the last decade, India has implemented multiple reforms focused on bringing efficiency in governance, rationalizing tax structure, providing incentive schemes to boost domestic manufacturing and a significant step up in government capex.

The government's continuity, led by Prime Minister Modi, is likely to allay market concerns over policy reversals. The depleted mandate could even nudge the new government to prioritize policies directed towards boosting consumption and supporting the rural economy, supporting growth.

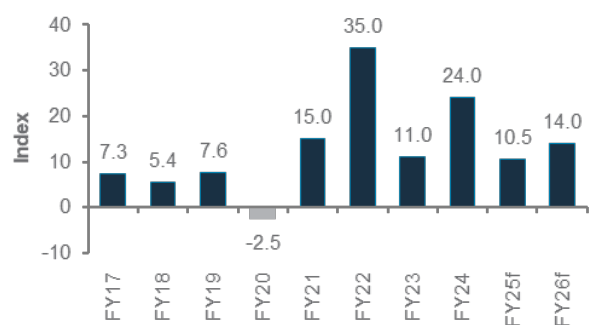
Indian stocks fell sharply on Tuesday following a weaker-than-expected electoral mandate for the ruling alliance

India's benchmark Nifty stock index



Political and policy continuity is likely to support India's strong corporate earnings growth

Annual EPS growth for Nifty index; FY25 and FY26 are forecasts for the next two financial years



Source: Bloomberg, Standard Chartered

What does this mean for investors?

While Indian equities are likely to remain volatile in the near-term, amid uncertainty around the government formation and stretched valuation premiums, the medium-term prospects remain supported by strong positive drivers, including 1) robust economic growth momentum, 2) resilient corporate earnings cycle and 3) robust domestic investor inflows amid improving financialisation of savings and systematic investment plans.

Within equities, we maintain our OW on large-cap equities given a higher margin of safety in terms of earnings and valuations and stronger balance sheets to cushion the impact of tighter financial conditions

Indian bond yields have jumped sharply, with the 10-year Indian government bond yield rising 9bps on Tuesday to 7.04%. We see this as an attractive opportunity for investors to lock in still-attractive yields, especially in medium-and-long maturity bonds, given the outlook for interest rate cuts, improving demand for onshore bonds from June following India's inclusion in global bond index and lower government borrowing amid the government sticking to the fiscal consolidation path and robust tax collections.

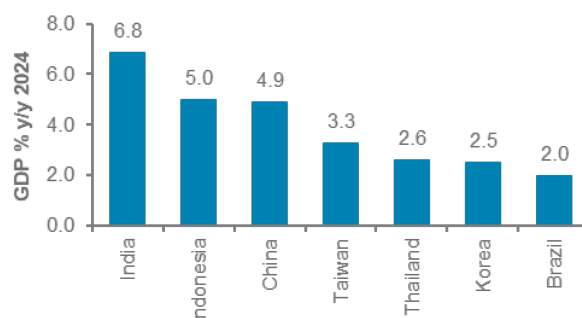
The Indian rupee (INR) was relatively stable after the election results. The INR has been among the least volatile Emerging Market currencies over the past year. We expect the currency stability to continue amid political and policy continuity. A stable INR is likely to provide further support for INR government bonds over the medium term.

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India has delivered the strongest GDP growth among major economies in recent years

Consensus estimates of GDP growth in key Emerging Markets in 2024



Source: Bloomberg, Standard Chartered

Indian government bond yields are attractive, in our view

India's 10-year government bond yield



Source: Bloomberg, Standard Chartered

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