“This Decade Belongs to India” - Jenny Johnson, President and CEO, Franklin Templeton

March 31, 2024

Dear Investor,

India will be holding a seven-phase general election from April 19 to June 4. With more than 945 million voters eligible to cast their ballot. This election makes the largest democratic exercise in the world. There will be more than a million polling stations in operation staffed by 15 million poll workers, according to the election commission. And this amidst a heat wave that weather forecasters have forewarned us off. While it may be the holiday season, and a good time to hit the hill stations, choose your hard, exercise your civic duty and vote for people who matter.

In its tenure, the government has delivered tangible improvements. It has increased the number of social welfare programs and used the country’s impressive public digital infrastructure to deliver direct transfers of benefits, with less discretion in the selection of beneficiaries. There are more than 300 programs, ranging from INR 830 cooking gas cylinder to an INR 1.60 lac house. They have reached nearly 95 crores people and accounted for INR 22.41 lac crores in government spending since 2017. Investors appreciated the reduction of the corporate tax rate, the privatization of national carrier Air India, and the raised ceiling for foreign investment in insurance and defense.

Most investors expect the government to continue pushing the “Make in India” agenda, which would attract foreign direct investment (FDI). They hope for enactment of the new labor law and infrastructure improvements because these are key requirements to attract FDI. Filling the vacant judgeships in the high courts and the subordinate courts would also be viewed as positive. The introduction in 2017 of the Goods & Services Tax (GST) was revolutionary at the time, but it still doesn’t cover all sectors like electricity, oil, gas, etc. By and large, investors would like to see the multiple GST rates reduced to one.

We at Franklin Templeton are long-term investors but an assessment of the impact that past elections have had on India’s equity markets, seems to indicate to us that investing before elections can be tactically advantageous. The Indian stock market, as measured by the S&P CNX Nifty Index, has offered positive returns after elections, as seen in 2004 (16.1%), 2009 (38.7%) and 2014 (14.7%) over the one-year period following the election result date.

Global Markets Update:

The global investment landscape continues to evolve and become more challenging with rising uncertainties. Developments like artificial intelligence (AI), green energy and new opportunities in Asia continue to shape the global investment landscape.

In a recent report, portfolio managers from the Templeton Global Equity Institutional Team shared their insights about global equity markets and the opportunities they see in the year 2024. A few highlights of the report are:

- Japan remains an under-owned equity market globally, trading at a 14% P/E discount to the global market.
- Together the 'Magnificent Seven' companies have a larger global index weight than the seven largest markets in Europe and Asia Pacific.
- China faces headwinds of unfavourable demographics, greater regulatory oversight and weak domestic consumption.
- Green energy transition will take time and may require subsidies or low-cost funding in the form of low interest rates to be profitable.
- The conventional wisdom that GDP growth immediately translates into stock market performance may not hold true.

Click here to read the full report.

India Markets Update:

We recently had Rajasa K, VP and Portfolio Manager, Emerging Markets Equity - India, Franklin Templeton, connect with our investors on sailing through volatile tides. She spoke about global and Indian markets besides her outlook and views on corporate earnings. The conversation also veers towards our hybrid fund strategies where she manages the equity component. You can click here to watch her share valuable perspectives on the current investment landscape.

Hope you find these insights useful.

As always, you can directly write to me at avisatwalekar@franklintempleton.com with any feedback and questions. I value your questions, and feedback and look forward to the opportunity of continuing to meet your investment needs.

Sincerely,

Avinash Satwalekar
President, Franklin Templeton Asset Management (India) Pvt. Ltd.

Disclaimer:

Source: "India has over 94.50 crore voters as on Jan 1: Government." Economic Times, February 2, 2023. The Lok Sabha is the lower house of India's bicameral Parliament. "When does Welfare Win Votes in India." Carnegie Endowment for International Peace. January 25, 2024. The National Family Health Survey.