US Markets vs. Emerging Markets and Indian Markets – Longer than Long Term Cycles

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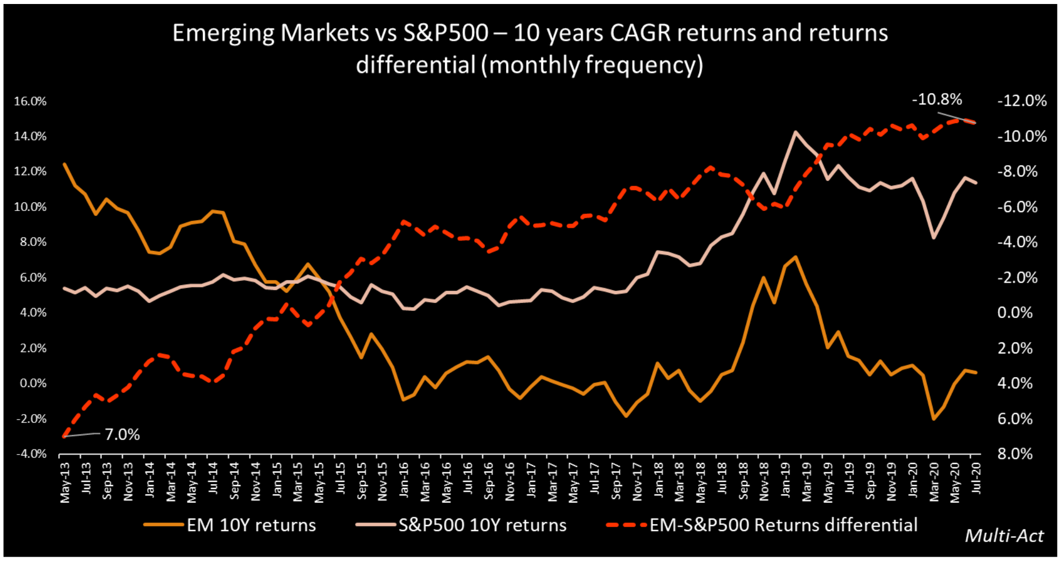
Note: All returns numbers mentioned are in US$ terms.

The trend of US equities outperforming Emerging Market equities had started in 2011. After underperforming for about 10-12 years post tech bubble burst (1999 – 2011), S&P500 *divided by* MSCI EM ratio started to rise, denoting US market outperformance.

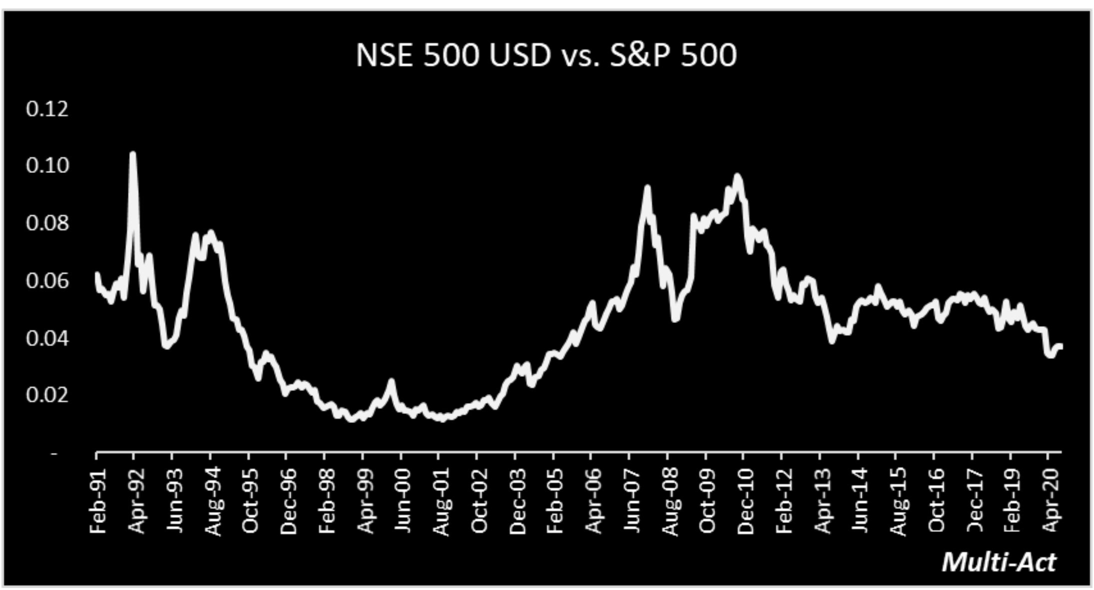
During last 10 years, S&P500 has delivered +11.5% whereas MSCI Emerging Markets has returned a mere +0.6% CAGR.

10-year CAGR differential has thus increased to -11% from +7% during 2013.

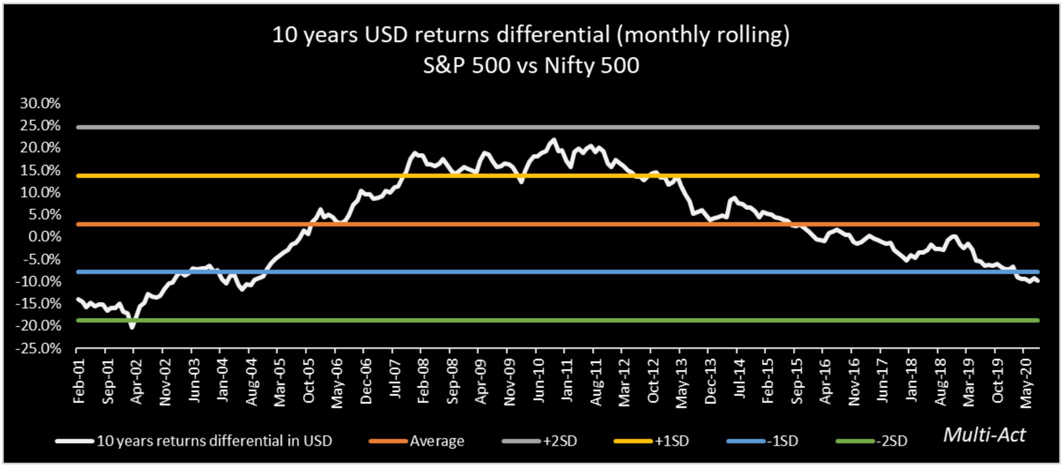


Something similar is evident with Indian markets as well. We can see US$ returns differential between Nifty 500 and S&P 500 in below chart.

While not yet at historical bottoms of "Tech Boom" period, we now certainly have seen a prolonged period of NSE 500 underperformance in US$ terms.



10-years US$ returns differential between S&P500 and Nifty500 is also probably nearing its cyclical lows.



These are some very long-term regimes, that need time to turn. But once reversed, they can have a major implication on any long-term portfolio.

Avenues are opening for Indians to invest abroad. There are brokers who have started to provide facilities to invest online, there are feeder funds in India that helps invest in funds domiciled outside India and there are Indian funds that invest outside India.

Indians are also increasingly looking to allocate capital globally, probably looking at "long term returns" and returns differentials of last 10 years.

It is thus important to be aware of such regime shifts while constructing and maintaining portfolios for longer haul to avoid getting caught on the wrong end of the cycle.

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Risk factors
General risk factors

a. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved.
b. As with any investment in securities, value of the Client's Portfolio can go up or down depending on the factors and forces affecting the capital market.
c. The investments made are subject to external risks such as war, natural calamities, and policy changes of local / international markets which affect stock markets.
d. The Portfolio Manager has renewed SEBI PMS registration effective November 24, 2017 and has commenced its portfolio management activities with effect from January 2011. However, the Portfolio Manager has more than 10 years of experience in managing its own funds invested in the domestic market.