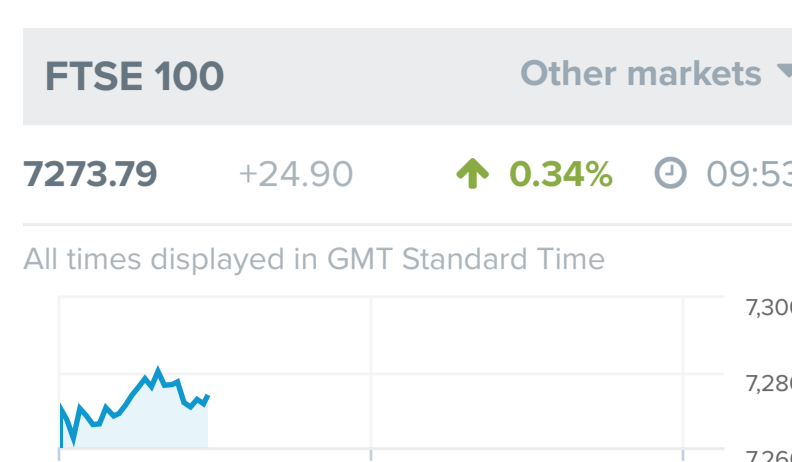


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India set to overtake size of UK stock market after Covid rally

By Jeremy Gordon / 20 Oct, 2021



The size of India's stock market is set to overtake the UK, at least according to one measure, after a [dramatic rally](#) since the country was gripped by Covid-19 in the spring.

The total market capitalisation of Indian stocks has jumped 37% this year to \$3.46tn (£2.5bn), Bloomberg has reported, according to its index tracking the combined value of companies with a primary listing in the country.

That is fast approaching the UK market, which has swelled by 9% to \$3.59tn (£2.6tn) on the same basis, though its number is much larger if you include secondary listings of companies whose shares trade in London but have their main stock market presence elsewhere.

That comes as India's economy also accelerates past Britain's, benefiting from rapid growth among smaller companies and a spate of initial public offerings (IPOs) among younger technology firms.



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'The Indian stock market has been on a full-blooded charge this year and now sits at a record high,' said Laith Khalaf, head of investment analysis at broker AJ Bell.

'The long-term potential of the Indian economy is appetising, given its vast population and relatively young workforce, and the stock market has almost certainly benefited from emerging market flows being diverted from China, following Beijing's crackdown on what it sees as disorderly capitalism.'

As the two countries prepare for talks on a trade deal, the likely milestone signals the growth potential of developing markets this century, but also reflects the London market's lacklustre recent record.

The MSCI India is up 28.7% year to date with dividends reinvested, and 69% over five years for sterling investors. Significantly, that is better than 42% for the broader MSCI Emerging Markets over the half-decade and a similar performance for rival China.

Khalaf contrasted that with the more sluggish UK market. Even after a 15% rally so far in 2021, the FTSE All-Share has still delivered just a 30% gain in the five years to 19 October.

Despite an international bias to corporate earnings – FTSE 100 companies generate about three-quarters of their revenue overseas – there are fewer stocks exposed to the faster growth in emerging markets. However, Khalaf cautioned that for all the potential of markets like India, returns were likely to remain 'very choppy indeed'.

Susannah Streeter, an analyst at stockbroker Hargreaves Lansdown, said the landmark 'isn't too surprising' in light of the IMF's most recent forecasts.

Though the pandemic hit India's labour market badly, growth is projected to come in at 9.5% for the year to the end of March 2022 as the economy snaps back and 8.5% the year after, thereby 'retaining the tag as the fastest growing economy in the world'.

'Given India's expected growth trajectory, it's clear that an increasing number of investors are optimistic about the opportunities presented particularly on India's tech scene,' she said.

'There are already half a billion smartphone users and 800 million internet users and fast-growing companies are taking advantage of the potential offered as India's digital transformation unfolds.'

The local market is in the middle of an IPO boom, led by names including 'Indian Deliveroo' Zomato, which debuted in June, valued at nearly £10bn. That pipeline of fast-growing companies continues to look healthy. Start-ups have played a major role in boosting India's economy this year, with a 55% rise in investment on last year's figures according to angel investor network JPIN Venture Catalysts.

On top of the strong performance from existing public companies, new listings serve to expand the size of the total market without necessarily affecting index performance.

Khalaf cautioned that the Bloomberg figures should perhaps be taken with a pinch of salt. The more widely used MSCI India index has a market capitalisation of about 71tn rupees, or £691bn, according to its latest September factsheet. Meanwhile, the UK at 3.7% still accounts for double India's weighting in MSCI's All Country World index, its leading gauge of worldwide markets.

Funds and trusts for India's growth

Of Indian equity funds tracked by Citywire, the [Nordea 1 – Indian Equity](#) fund is the strongest performer, with a 67% return in the three years to the end of September.

Of those with wide availability on investment platforms, the [Alquity Indian Subcontinent](#) fund comes in second with a 64.5% gain, while [Liontrust India](#), managed by Citywire A-rated [Ewan Thompson](#), has delivered 59.3%.

Of country-specific investment trusts, growth-orientated [Ashoka India Equity](#) (AIE) has dominated the going recently, with shareholders enjoying a 138% return over three years to today. The biggest, £649m [JPMorgan Indian](#) (JII), looks the weakest on that view with 41%. After struggling previously, mid-cap specialist [India Capital Growth](#) (IGC) has come alive with a 53% rise this year, driving it to 58% over three years.

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