Chief Investment Office

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ASIAN Tiger 2.0 - India

A Growth Story for Troubled Times

Global markets are at a crossroads, rattled by trade wars, geopolitics, and policy uncertainty. As investors scramble for diversified opportunities, one story stands out amid the noise—India.

Despite short-term concerns, India's structural strengths position it as a standout long-term growth story. In this edition of our ASIAN Tiger 2.0 thought leadership series, we unpack why India is capturing investor attention and what you need to know to navigate this dynamic and often misunderstood market.

From the CIO Desk

India's journey to where it is today

India's economy has been steadily evolving from agrarian to industrial and service-driven. The contribution of agriculture to an economy declines as a country industrialises, and India is no exception. In the 1980s, agriculture accounted for over one-third of the economy and employed two-thirds of its workforce.

Today, the services sector contributes more than half of the country's economic output, on par with China. This services boom was initially fuelled by growth in trade and hospitality from the 1970s to the 2000s, but has since transitioned to professional services, particularly in business, finance, and real estate.

As more Indians enter the secondary and tertiary sectors, the nation's per capita income has grown significantly, especially over the last decade. Between 2014 and 2024, GDP per capita rose over 70% from USD1,560 to USD2,711. Using consumer durable ownership as a proxy for improving living standards, vehicle ownership has increased five-fold in India since the 1990s, while TV ownership has surged from 12% to 67%.

<u>Bottom-line:</u> Rising income in India and a structural shift towards a service economy signal a broadening middle class and growing domestic demand – drivers for long-term growth.

Long-term outperformance driven by structural advantages

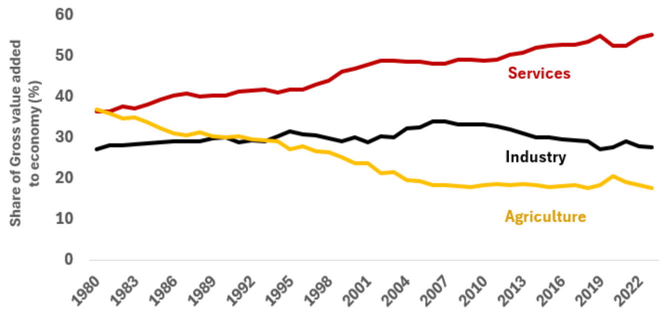
Although India's transformation from an agrarian economy into an economic powerhouse has hit a pothole, investing in India today offers an exciting exposure into the long-term structural changes at a time when short-term concerns are clouding the investment thesis.

Since 1995, India's key Nifty Fifty index compounded at an annual average growth rate of 12.1% pa, outperforming the S&P 500 (10.8% pa) and MSCI emerging markets (5.3% pa).

While India's growth story shares similarities with China, its structural advantages are quite different. Among these structural positives are:

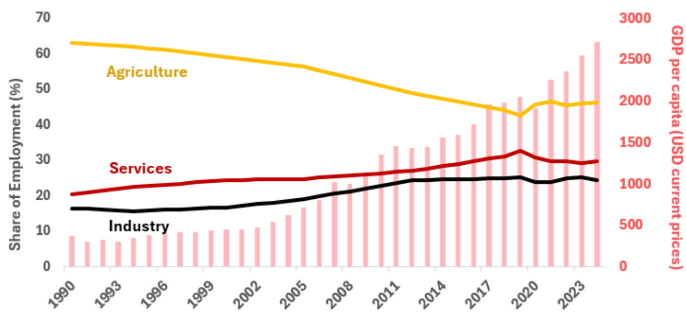
1. Continued **population growth**, conferring an expanding working population until 2050, and a doubling in the middle class.
2. The Indian market's **low correlation to other markets** which offers a great opportunity to diversify, especially in a year of possible diverse outcomes and volatility.
3. India benefits from companies pursuing **a China+1 relocation strategy**, which is accelerating under Trump 2.0.

Services make up more than half of India's economy today



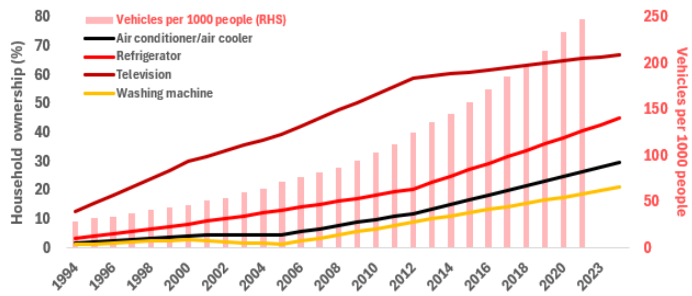
Source: National Statistical Office, CIMB Chief Investment Office

Shifts in employment towards services and industry is accompanied by increase in income



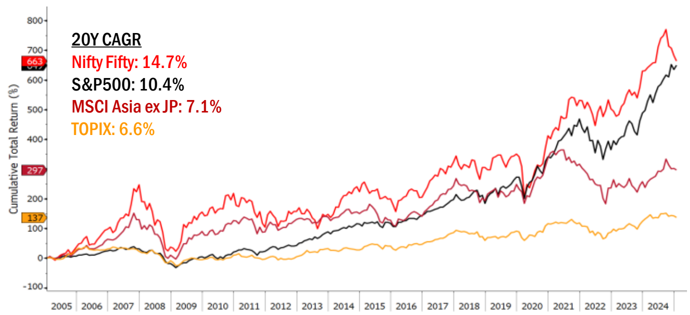
Source: National Statistical Office, Bloomberg, CIMB Chief Investment Office

Steady growth in vehicle and household asset ownership reflects strong consumer spending



Source: National Statistical Office, CIMB Chief Investment Office

India's key index has historically outperformed the S&P500



Source: Bloomberg, CIMB Chief Investment Office

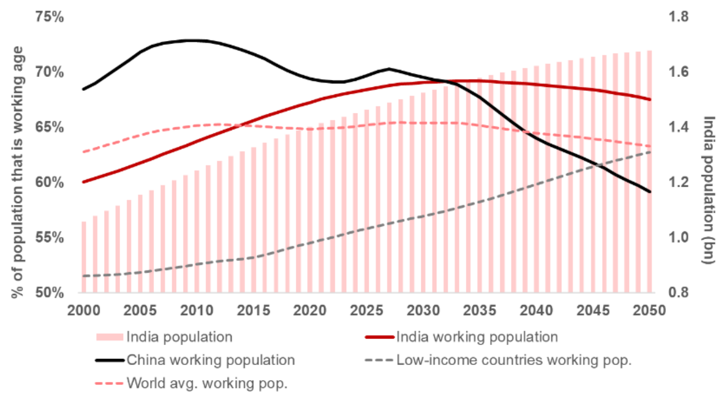
1. The demographic dividend

India became the most populous country in the world in 2023, surpassing China. Its age distribution confers an economic tailwind because its share of population that is of working age will continue to expand and stay above 65% until 2050, well above global averages. This provides a **stable base of labour supply** and reduces the upward pressure on wage growth.

According to Indian think tank PRICE, India's population is projected to grow to 1.66bn in 2047 (from 1.4bn currently) and simultaneously witness an unprecedented 135% growth in the middle class to over 1bn, representing 61% of India's population (from 31% currently). This presents substantial growth opportunities for consumer goods, consumer durables, housing, and financial services sectors.

Bottom-line: India's upward demographic trend will ensure a steady labour supply for the foreseeable future, while a growing middle class offers significant growth opportunities in key sectors of the economy.

India's working population to stay above global averages



Source: United Nations (2024), CIMB Chief Investment Office

India's middle class will more than double in the next 20 years

Millions	2021	2031	2047
Poor and destitute	928	647	209
Middle class	432	715	1015
Elite	56	169	437
As % of population	**2021**	**2031**	**2047**
Poor and destitute	66%	42%	13%
Middle class	31%	47%	61%
Elite	4%	11%	26%

Annual household income: **Poor** = <INR500k (USD5,770); **Middle class** = INR 500k-3m (USD5,770-34,650); **Elite** = >INR 3m (USD34,650).

Source: People Research on India's Consumer Economy (2023)

2. Diversification for a global portfolio

India's equity market displays **low correlation** with other markets (see correlation table). This low linkage to U.S. markets and Asia ex-Japan is helpful as many investors are heavily invested in these markets.

One reason for this low correlation is that India's economy is mostly **domestically driven.** Indian output, even for manufacturing, has not been primarily for exports. It is only the 17th largest exporter in the world (USD476bn exports in 2023), with exports making up only 22% of GDP.

This domestic orientation makes India's market less susceptible to upheavals in global trade, unlike ASEAN countries such as Vietnam, Malaysia, and Thailand whose economies are more exposed to swings in external demand. Indian exports to the U.S. also represent a mere 2% of its GDP as of 2024. As a result, India is likely to show greater economic resilience during periods of global trade disruptions.

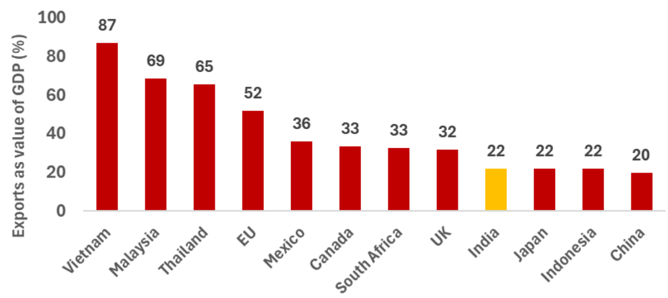
Bottom-line: In a time of increased volatility and uncertainty in global markets, investing in India's domestically driven economy offers an excellent opportunity to diversify your portfolio exposure into a resilient market.

Nifty50 weekly correlation with other indices, Dec 2022-24

	NIFTY 50	TOPIX	MSCI Wrld	Asia ex JP	NASDAQ	S&P500
NIFTY 50		0.306	0.435	0.363	0.365	0.395
TOPIX	0.306		0.587	0.451	0.518	0.535
MSCI World	0.435	0.587		0.736	0.892	0.974
MSCI Asia ex JP	0.363	0.451	0.736		0.639	0.664
NASDAQ	0.365	0.518	0.892	0.639		0.941
S&P500	0.395	0.535	0.974	0.664	0.941	

Source: Bloomberg (Dec 2024), CIMB Chief Investment Office

India's exports relative to GDP remain low



Source: World Bank (2023), CIMB Chief Investment Office

3. India as a China+1 beneficiary

Companies with manufacturing plants in China have sought to diversify their supply chains for incremental factory output ever since the 2018 trade war between the U.S. and China. Vietnam and India have been prime beneficiaries of this China+1 strategy, primarily due to labour availability, land, and infrastructure.

Companies such as Samsung, Micron, AMD, and Apple (via Hon Hai and Pegatron), have committed to factories in India in recent years. Foreign direct investment into India has grown steadily, benefitting employment, technology transfer and foreign reserves. This multi-year benefit is expected to accelerate as the new U.S. administration continues to hinder China from catching up in advanced manufacturing processes and devices.

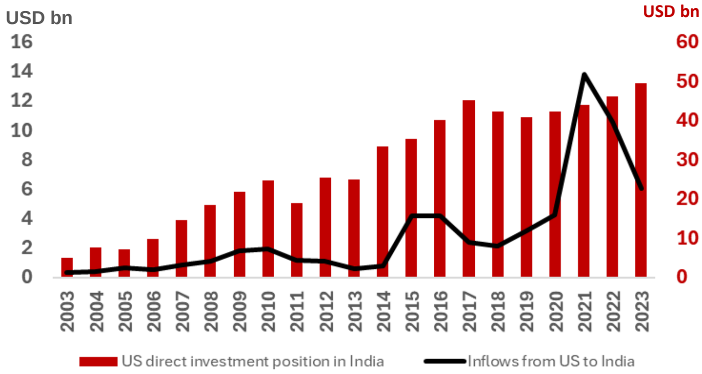
U.S. FDI inflows into India peaked in 2021 at USD13.8bn. Although it has fallen since, it remains substantially higher than pre-pandemic levels (see chart on the right). At the same time, its total share of U.S. trade has increased from 1.9% in 2017 to 2.5% in 2023. FDI slowed from 2022 due to global rising interest rates and shifting geo-political positions after the invasion of Ukraine.

Beneficiary of geo-political rivalry. India holds a strategic advantage as the U.S. actively courts it as a regional ally to counterbalance China's growing influence in South Asia. This geopolitical alignment strengthened India's position when Trump introduced 26% reciprocal tariffs on India in response to its significant trade surplus with the U.S., which stood at USD45bn in 2023.

Both countries are progressing towards a bilateral trade agreement, with the Terms of Reference having been established in April. In seeking better market access for its exports, India is offering to cut punitive tariffs on U.S. goods such as autos, while increasing purchases of U.S. LNG, petroleum products, and aircraft. The first phase of the deal is expected to be announced in July, with the rest of it to be finalised by Q4 2025.

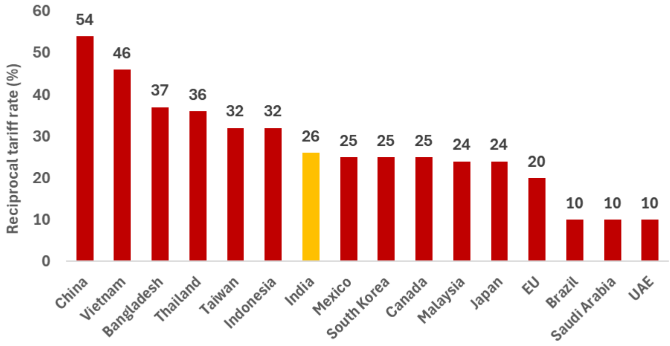
<u>Bottom-line:</u> India is emerging as a key beneficiary of shifting geopolitical dynamics as it continues to attract foreign investment and deepens trade ties with the U.S.

India's FDI inflows now higher than pre-pandemic levels



Source: Bloomberg, CIMB Chief Investment Office

Initial reciprocal tariffs imposed by Trump



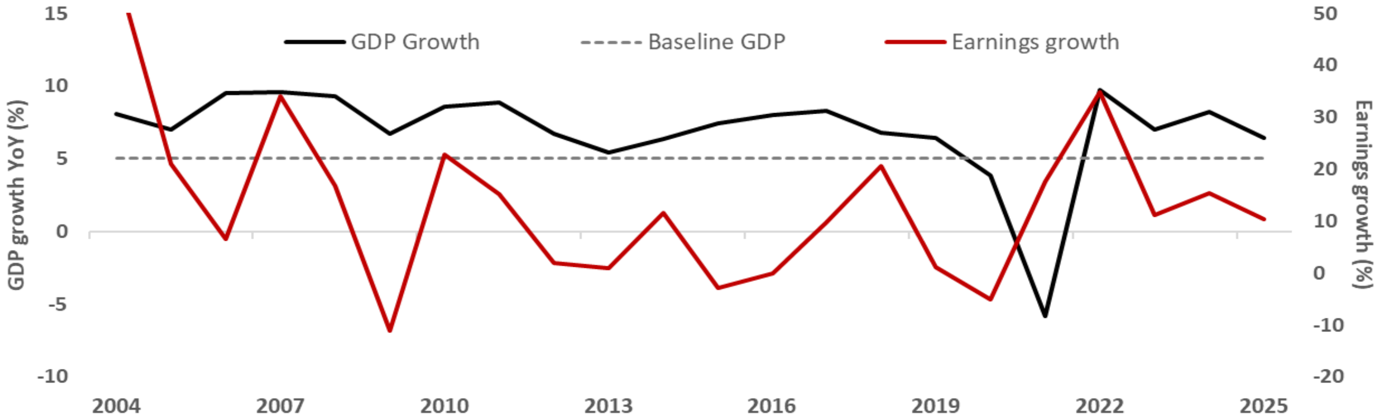
Source: U.S. White House (2 Apr 2025), CIMB Chief Investment Office

Key Risks

Domestic politics on shaky ground. After two terms in office, incumbent prime minister Narendra Modi won a third term but with a lower majority. The June 2024 election saw Modi's dominant coalition continue to rule as they commanded 54% of parliamentary seats, but his Bharatiya Janata Party (BJP) lost an absolute majority. This means the BJP is likely to be more sensitive to demands and needs of coalition members and minorities.

Rising tensions up north. In recent weeks, tensions between India and Pakistan have escalated following a terror attack in Kashmir. While retaliatory actions have been taken by both sides, historical precedents from similar incidents in 2016 and 2019 suggest a limited risk of broader escalation. We view any potential market pullbacks as buying opportunities.

Recovery not reflected in earnings yet



Source: Bloomberg, CIMB Chief Investment Office

Recent slowdown and de-rating not a cause for concern
The derating in India's equity market since its peak last September reflected the economic slowdown since mid-2024. While there are concerns that India's slowdown is structural, underlying fundamentals remain resilient, and PERs have rebounded since April. Importantly, the peaks and troughs in PERs have been +/- 1 standard deviation from mean across several cycles (see chart below) suggesting no meaningful structural de-rating.

3Q 2024 GDP disappointed at 5.6% YoY growth, as it followed 7.0% (2023) and 9.7% (2022), but soon rebounded to 6.2% in Q4 2024, driven by an acceleration in government and consumer spending. The 2024 growth slowdown was partly driven by higher inflation, tight monetary policy, and lower agricultural output blamed on poor weather. Consensus expects 6.3-6.5% YoY GDP growth in the next 3 years, similar to pre-pandemic growth.

In February 2025, the Reserve Bank of India (RBI) cut its policy rate after inflation fell to 4.3% YoY in January and further to 3.6% YoY in February, after peaking at 6.2% in October 2024. Alongside the rate cut, the RBI shifted its monetary policy stance from "neutral" to "accommodative," signaling potential for further easing in the coming months.

The prospective EPS downgrades by 7% from its mid-2024 peak can be explained by macro policy factors – interest rates causing slower consumption, and a slowdown in government spending around election time. Nevertheless, 2025 index earnings have yet to be upgraded despite a bounce in GDP, likely due to excessive trade uncertainty.

<u>Bottom-line:</u> We recommend individual investors gain exposure to the India market through mutual funds, and hold for the long-term. Temporary disappointments can arise from a large, complex developing economy but the burgeoning middle class, abundant resources and hunger for growth will come through.

Source: Bloomberg, CIMB Chief Investment Office

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