EMERGING MARKETS SPOTLIGHT

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➢ However, Covid-19 data in India has worsened sharply since mid-March.

➢ We remain positive on India for our two-year investment horizon, but also remain alert to the key near-term risk that we see to that positive view.

JOHCM Global Emerging Markets Opportunities Fund

The first quarter of 2021 saw Indian equities outperform the broader MSCI EM Index for the third quarter in a row, as Indian economic data and company results remained broadly supportive. We have remained overweight India and this was a positive contributor to performance in March and in the first quarter. Rising markets are said to climb a 'wall of worry', and this note aims to provide an update on some of those concerns for India and Indian equities.

Firstly, Covid-19 data in India has worsened sharply since mid-March. Our preferred metric is the seven-day moving average of cases (and deaths) per million people, which normalizes both for reporting practices and for country size. Smoothed cases per million people bottomed at 8 in mid-February, but stood at 17 in mid-March, 45 at the end of March and has pushed towards 100 in the first few days of April.

For context, several other emerging markets have seen a serious deterioration in Covid-19 case data in the last few weeks, often at a much higher level than in India. For example, Turkish smoothed cases per million started March at 100 and have risen to around 600 in early April. This clear emergence of a new wave in India is a clear concern for investors.

The key question is whether India will need to reimpose a strict national lockdown as in mid-2020 in order to control infections. For now, the increase in cases is highly localized (the state of Maharashtra is about one-third of new cases) and local lockdowns and travel restrictions should slow the rate of growth. Even so, near-term risks are elevated and case numbers in the less-affected areas will need to be tightly monitored.

Ultimately, vaccinations will need to be the solution. India is one of the world's largest producers of vaccines, and has strong experience of rolling out national medical (and other) programs. The vaccination rate has picked up strongly in recent weeks to a current rate of over 3.5m doses/day (although on a per capita basis, this is still well below where most developed nations are at). The experience of the UK and Israel suggests that, when 50% of the population have been vaccinated, case numbers can be kept under control. Over 90m people in India have now been vaccinated, and at 100m people per month, India may be five to six months from that threshold; if the vaccination rate can pick up yet further, that timeline would be shortened.

Whilst there are reasons to be worried about Covid-19, the economy continues to deliver promising data. All forms of PMI data have been strong year-to-date (March Manufacturing PMI, for example, was 55.4), and vehicle sales have also continued the strong trend that started in October 2020. With the central bank remaining on hold and fiscal policy remaining stimulative, the policy drivers of growth remain supportive.

The drivers that have historically limited growth remain benign. Credit growth has been restrained for several years, while excess liquidity in the banking system has risen to INR 7trn. The trade deficit for February was USD 94.4m, remaining at around its lowest level in a decade, and suggesting plenty of potential for domestic demand to increase without balance of payments stress emerging. Inflation has

picked up on a weaker currency and higher commodity prices, but consensus estimates for the twelve months ahead is for CPI to reach only 4.7%, which again should not threaten the economic recovery.

It is the Covid-19 situation, then, that is the most pressing concern. We remain positive on India for our two-year investment horizon, but also remain alert to the key near-term risk that we see to that positive view.

Source for all data JOHCM/Bloomberg (unless otherwise stated).