GLOBAL & INDIAN MARKET RETURNS: SINCE GLOBAL FINANCIAL CRISIS (GFC) (2007-2017)

2018

INR Returns across US, EU, UK, JP since GFC

The typical Indian Investor believes that the Indian markets deliver the highest returns. The Scientific Investor understands that beliefs should develop from facts. The facts show that the Global markets delivered higher returns as compared to the Indian markets over the last 10 years. ***Indian investors should consider investing globally.***

Global & Indian market Returns: Since Global financial crisis (GFC) (2007-2017)

INR RETURNS ACROSS US, EU, UK, JP SINCE GFC

GLOBAL FINANCIAL CRISIS 2007-2009

The Global Financial Crisis triggered by the sub-prime mortgage bubble in the US, followed by the collapse of several heritage banks in the US. Given the interlinked nature of the modern financial system, the contagion spread across the various financial institutions in the US and then spread to European, and even Asian, financial institutions. Thus the financial crisis spread globally and then impacted the global capital markets leading to severe, once-in-a-lifetime kind of crashes of 30% to 70%. In typical George Soros' "theory of reflexivity" manner it further impacted the actual economy and several large economies faced a severe recession, termed the Great Recession. This impacted the revenues and profits of the companies and lead to serious unemployment.

The global governments and central banks went on massive financial management drive spending Trillions of dollars to prevent the crisis from turning into a disaster. Whatever the criticism of the actions taken by the central banks and governments at that time, it can be said that a severe disaster like the Great Depression of the 1930s was prevented.

At that time the view was that the global economy, especially the Developed Markets, were impacted severely in a negative manner, but the Indian economy was safe. However, the Indian capital markets too went through a severe crash. The Indian economy was supposed to be virtually immune from the global impact.

It has been nearly 10 years from the beginning of the crisis. Let us see how an investor would have fared if they had invested in the Indian stock market or any of the Global stock markets of the Developed Markets. Since the Indian Investor spends in Rupee terms, it is relevant for the Indian investor to see and compare the investment returns in Rupee terms too.

In this report we have a look at the INR returns of 4 global stock markets and compare it to the Indian markets.

THE OMNISCIENTIST GOES TO WORK...

The OmniScientist never accepts opinions or beliefs as facts. Further, the OmniScientist starts from the basics and raw data and tries to build the edifice of knowledge.

While the returns from various global markets are easily available, they are typically calculated in native currencies, i.e. USD, Euro, GBP Yen etc.; effectively answering the question for native investors, i.e home country investors. For an Indian Investor returns in native currencies—foreign currencies for the Indian Investor—are not meaningful; they do not convey meaningful and usable information.

For an Indian Investor, the relevant question is: Over the last 10-years, post the GFC ***what are the Rupee returns to Indian Investors from investing in Global Equity Markets?***

That is the question we attempt to answer in this report.

We decided to focus on the four, major global developed markets, i.e. US, EU, UK, and Japan. We selected the following major indexes[1] as representative of the four markets respectively, viz., S&P 500 for US, STOXX Europe 600 for EU, FTSE 100 for UK, and Nikkei 225 for Japan.

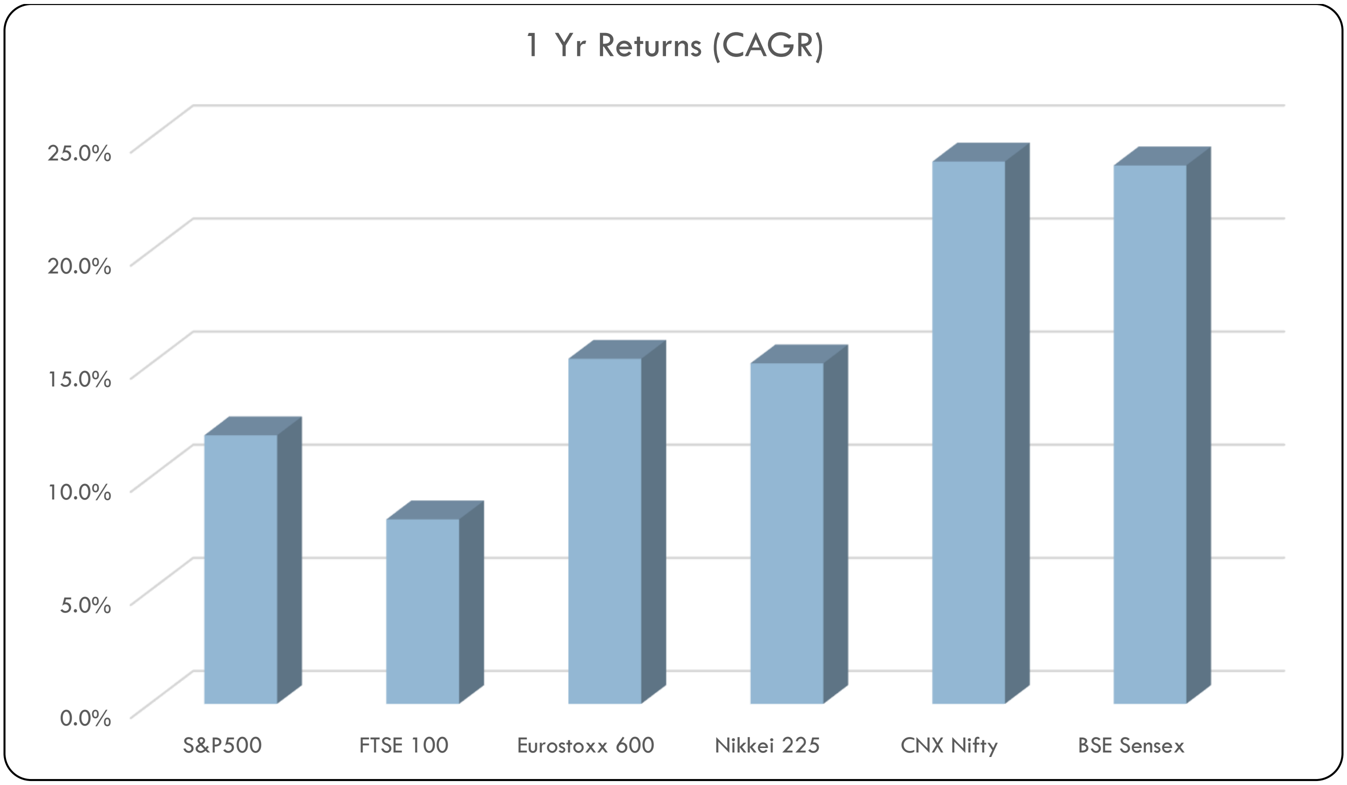
The comparison indexes for the Indian stock markets were chosen as Sensex and Nifty, the two most popular indexes representing the Indian markets.

The USD (US Dollars) version was use for all the non-Indian indexes. These were then converted to INR using the USD-INR data from Reuters.

[1] It might bother some purists, so clarification on grammar: Indexes and Indices are both acceptable forms as plurals for Index.

Last 1-year Rupee Returns of Global & Indian Markets

Let us start with the most recent 1-year rupee[2] returns for the Global and Indian strategies. As typically expected, both the Indian indexes, Sensex and Nifty are ahead of the global ones. However, the surprising thing is that even the global index returns are not something small. These indexes have provided returns in the range of 15% for Europe and Japan and nearly 12% for US, while even UK has delivered 8%.

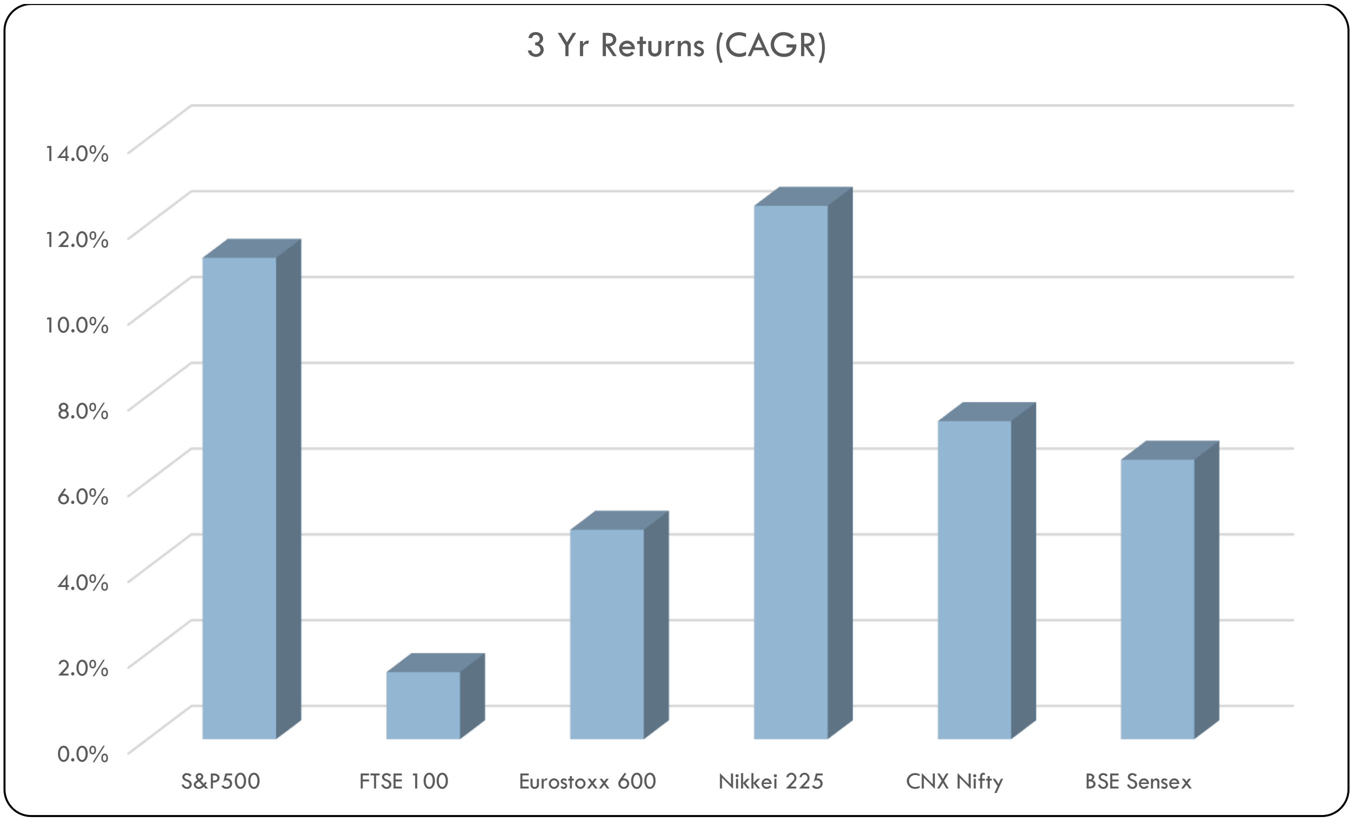


Despite lagging the Indian returns for this year, taking exposure to much larger global companies through the developed markets global listed equities can deliver equity-like returns to Indian investors in Rupee-terms.

[2] The Rupee returns are going to be different from the native currency returns. For example, S&P 500 USD returns for last 1 year is nearly 18% while S&P 500 INR returns are 11.9%. Because of this the returns might not match with what is typically displayed in other data sources as the S&P 500 returns.

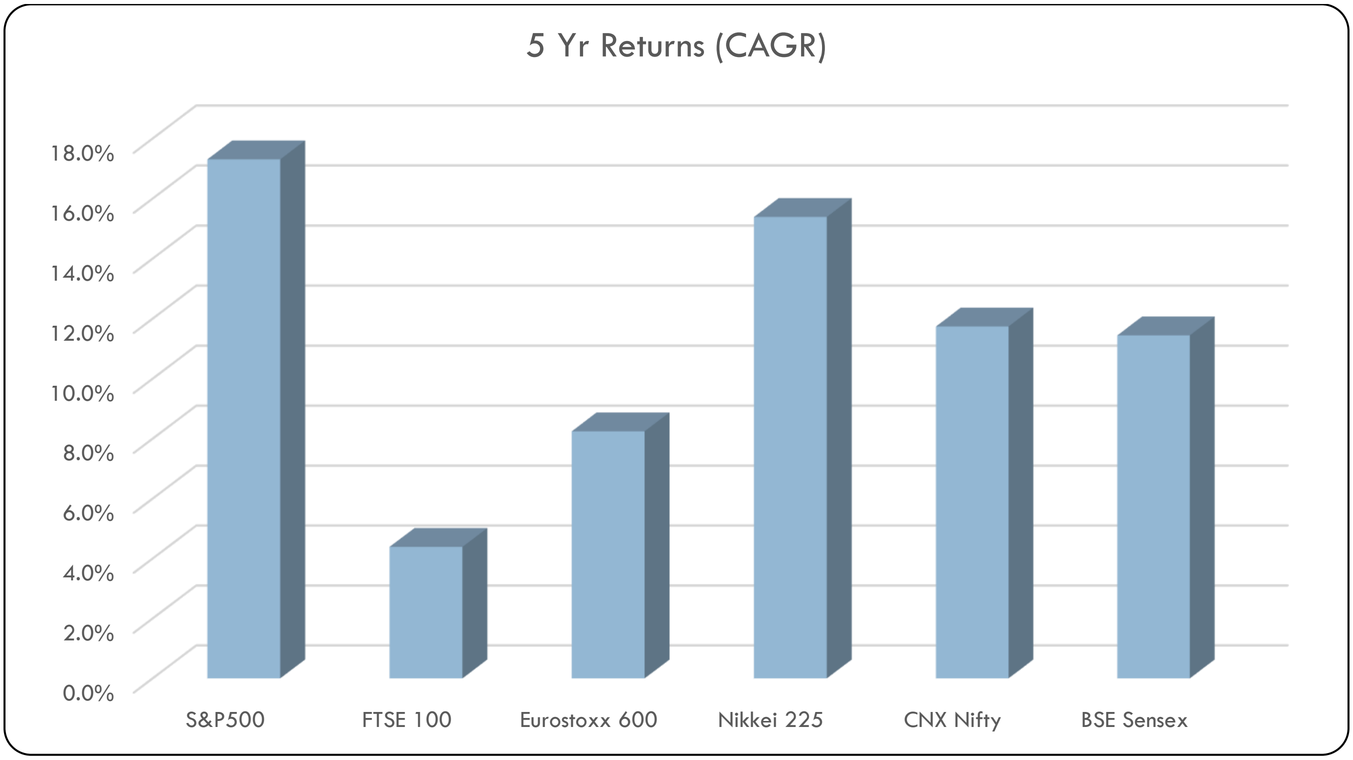
Last 3-year Rupee Returns of Global & Indian Markets

Looking at the last 3-year Rupee returns shows a completely different picture. Now the Indian indexes are significantly lagging the Global markets. US and Japan have delivered returns in the 11 to 12% range while the Indian markets, UK markets and European markets have low single digit returns.



Last 5-year Rupee Returns of Global & Indian Markets

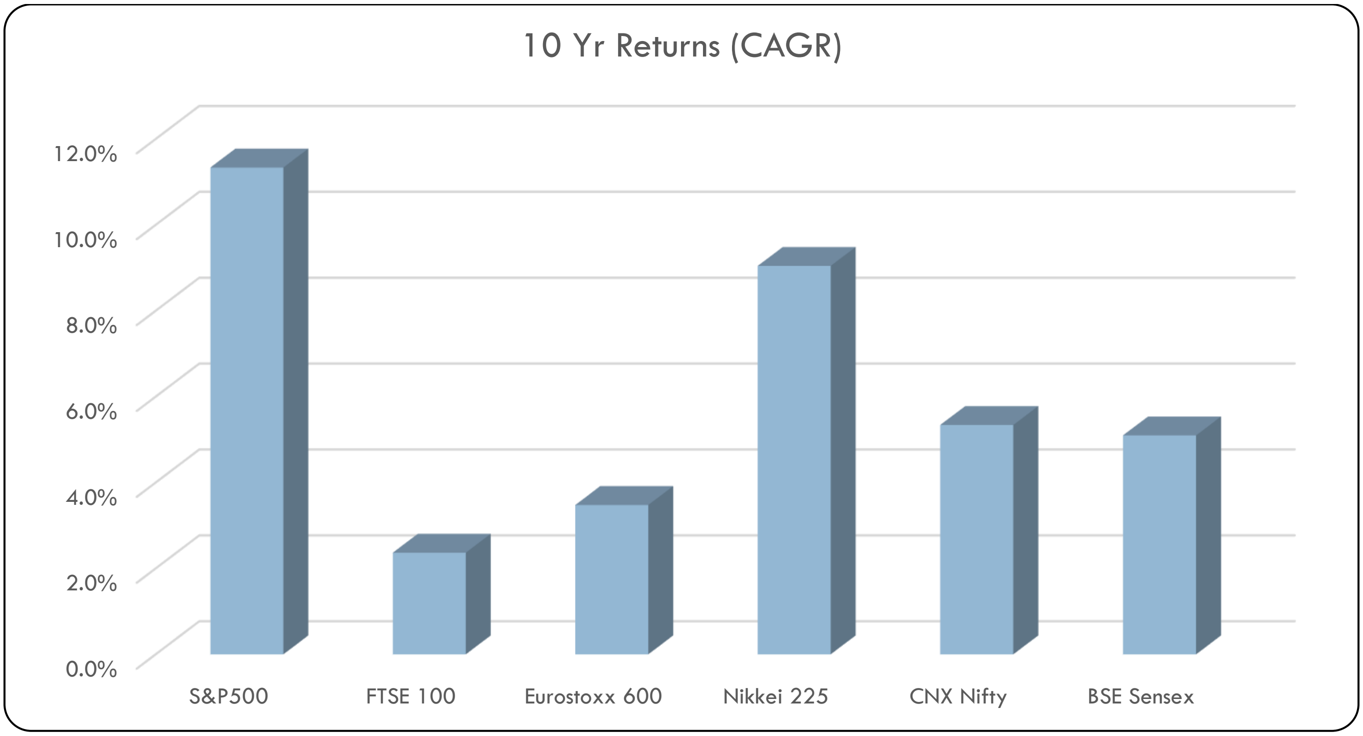
For the last 5-year period, while the Indian markets delivered equity-like returns of 11% compounded, the US markets delivered a 17% return and the Japanese markets 15%. Europe too delivered 8%. UK was the lowest with less than 5%.



Now we can start seeing that not only in any given short period, but the Global markets can outperform the Indian markets over the longer-term as well.

Last 10-year Rupee Returns of Global & Indian Markets

A look at the 10-year Rupee returns shows that again the global markets have outperformed the Indian markets. The US market has led with a 11% compounded return over the period, while the Japanese markets have delivered 9%. In contrast, the Indian markets have delivered meagre returns of 5%.



It does seem that Indian markets can underperform the Developed Global markets for very long periods of time. A 10-year streak of underperformance vis-à-vis the Global markets is highly unexpected by most Indian investors.

OMNISCIENCE CAPITAL
SCIENCE OF ALPHA FROM SAFETY

THE OMNISCIENCE VIEW

Indian markets underperforming the Global markets for a period of 10 years is something which should make the Indian investors sit up and take notice.

The Indian investor will realize that their assumptions and beliefs about the performance of Indian markets vs. the Global markets is challenged by these facts.

Some of them might be under the impression that even though the markets didn't perform, their Indian mutual funds would have performed. But again, data from Value Research Online for the same period shows that nearly 97% of the large-cap Indian mutual fund schemes would have underperformed the S&P 500 over the last 10-year period. And, 80% of the large-cap Indian schemes would have underperformed the Nikkei 225.

Further, the idea that since the Indian economy grows faster than the global, developed market economies, the investor is better-off in the Indian markets is not borne out by these facts. Despite the Indian economy growing faster than the developed markets, the returns from the Indian markets have not been that great.

To us, at OmniScience Capital, the above results are really eye-opening, and they indicate that there is a need to not only accept the fact that the Global Developed Markets can outperform the Indian markets, even for long periods of time, but also to dig deeper and understand the long-term stock market returns for these markets.

The OmniView Conclusion

Based on the last 10-years returns in INR terms for the Global and Indian markets, the view that the Indian markets deliver superior returns as compared to global markets is not true. Indians would have been better-off investing in the global markets over this period.

While in hindsight this looks obvious, and it is non-actionable, to go back in time and invest in the global equity markets in 2007, the point being made is not that. The point to take away from this is that one should not go by preset beliefs which might not be factual but more perceptual. One should look carefully at data and study comparative returns and then take a call.

Again, investing is not a horse race and one invests in whatever asset class has been giving the highest returns. Rather, investing is also a game of asset allocation and diversification across asset classes. The purpose is that over various time-frames, including long time-frames of 3, 5 and 10 years, different asset classes could outperform. A proper asset allocation model which diversifies across asset classes yields higher returns and provides a more stable portfolio.

Indian Investors should strongly consider global developed markets exposure for their equity allocations. In our opinion, it is a different asset class given that it has a low correlation with the Indian markets and provides exposure to completely different developed market economies as well as companies that are much larger, in general, with global revenues and operations and/or are companies in sectors which are missing from the Indian capital markets.

In this report, we have not discussed the performance of the Scientific Alpha indexes over the last 10 years since the GFC. An exposure to global developed market equities via the Scientific Alpha indexes would have provided even more stability to the portfolio and has a much greater expectation of generating alpha over the Indian markets.

In a series of future research reports we will dig deeper and provide more insights into global developed markets returns for Indian investors over the long term, as well as, the historical performance of Scientific Alpha strategies in Indian and global markets.

The Scientific Investor

The first mark of the Scientific Investor is **Originality**, i.e. original investment philosophy and original investment process, which results in the identification of a SuperNormal Folio. Having the **Character** to act going against the Market View, i.e. invest in the SuperNormal Folio is the second mark of the Scientific Investor. Further, having the **Patience** to hold the SuperNormal Folio through the expected ups and downs—especially, initial downs—and over a long period of potential underperformance is the third mark of the Scientific Investor. It is likely that the value unlocking of the SuperNormal Folio can happen in 6 to 18 months. But sometimes it could take 3 years or more. The Scientific Investor does not lose patience and keeps realigning the portfolio on a regular basis without too much concern for the short-term performance (i.e. performance over less than 3 years). History of value investing and historical analysis using Scientific Alpha methodology, both prove that fortune favours **Originality, Character and Patience.**

DISCLAIMER:

Past performance is not necessarily indicative of future results.

Omniscience Capital Advisors Private Limited (Omniscience Investment Advisers) is a Registered Investment Advisory firm with SEBI-registration no. INA000007623. Equity investments are subject to market risks. Please read all related documents carefully. An investor should consider the investment objectives, risks, and charges & expenses carefully before taking any investment decision. This is not an offer document. This material is intended for informational purposes only and is not an offer to sell any services or products or a solicitation to buy any securities. Any representation to the contrary is not permitted. Omniscience makes no warranties or representations, express or implied, on the products and services offered. It accepts no liability for any damages or losses, however caused, in connection with the use of, or on the reliance of its product or services. This document does not constitute an offer of services in jurisdictions where the company does not have the necessary licenses. This communication is confidential and is intended solely for the addressee. This document and any communication within it are void 30-days from the date of this presentation. It is not to be forwarded to any other person or copied without the permission of the sender. Please notify the sender in the event you have received this communication in error.

We have recommended stocks, or stocks in the mentioned sectors to clients, including having personal exposure.

ABOUT OMNISCIENCE CAPITAL

OmniScience is an all IITian global investment management firm that has developed a proprietary investment engine Scientific Alpha which is based on a Structured Value Investing framework focused on enhancing safety & designed to capitalise on market inefficiencies and capture alpha.

Scientific Alpha

Scientific Alpha is built on decades of deep research on value investing philosophy as formulated and developed by Ben Graham and Warren Buffett and the first principles of investment management. Scientific Alpha is the next stage of evolution of this philosophy focusing on alpha from safety. The resulting portfolio is what is termed a SuperNormal Portfolio or an Investment Grade Equity Portfolio (Note: Investment Grade Equity does not imply any form of capital protection.)

Global Product Suite

Our offerings are built for Global Listed Equities (USA, UK, Europe, Japan, India) and aimed at Indian & Global UNHWI, Family Offices & Institutional Clients. Through its partnerships with SEBI (India), SEC (USA), FCA (UK), FSC (Mauritius) & DIFC (Dubai)-registered custodians, OmniScience Capital offers India's only separate account investment platform for taking exposure to Scientific Alpha portfolios of Indian and Global equities.

The Team

All IITian, IIM, IVY League (Columbia Univ., New York, INSEAD/ EDHEC/EST Toulouse-France) & Alumnus of Bulge Bracket Investment Banks (Goldman Sachs, ING)

Dr. Vikas V. Gupta

CEO & Chief Investment Strategist

- Inventor of Scientific Alpha concept
- Formerly served as Professor/faculty at IIT Kharagpur & University of California, Irvine.
- B.Techfrom IIT Bombay, Masters and Doctorate, Columbia University, NY
- Regular columnist at The Street, Mint, Moneycontrol, ET

Ashwini Shami

EVP & PORTFOLIO MANAGER

- Previously worked with ArthVeda and Goldman Sachs
- B.Tech and M.Tech from IIT Bombay; MBA from IIM Lucknow and Toulouse Business School, France

Varun Sood

VP QUANTITATIVE RESEARCH

- Previously worked with ArthVeda, ING and Masan group
- B.Tech from IIT Roorkee and earned his MBA from IIM Bangalore and EDHEC School of Business, France

CONTACT INFO

Our Website

www.omnisciencecapital.com

Follow us on Social Media

Linked in

https://www.linkedin.com/company/omniscience-capital

twitter

https://twitter.com/vikasvgupta

facebook

https://www.facebook.com/OmniScienceCapital/

OMNISCIENCE CAPITAL
SCIENCE OF ALPHA FROM SAFETY

Fort Office: 3rd Floor | 67 Podar Chamber | SA Brelvi Road | Fort | Mumbai 400001

Andheri Office: 7A, | Nucleus House | Saki Vihar Road | Andheri (E) | Mumbai 400072

T: +91 22 2858 3750/51 | M: +91 989 214 0540 | M: +91 998 768 1967 |
