India

Five years ago India had an election. There was a surprise victory for the Congress-led coalition over the BJP and the market fell 20% in a day. This marked the low and the market subsequently quadrupled over the next three and a half years. As it turned out the effect of having to accommodate some of the left-leaning coalition partners on economic policy was somewhere between immaterial and zero.

This week the election result caused a 20% move up in the market as Congress will be less beholden to minority coalition partners. Good news if you are a Congress MP looking for a plum job, but rather less obviously great news for investors. Indeed for the IT, pharmaceutical and other export orientated industries the result is an unambiguous negative as the 5% appreciation of the Rupee will decimate their earnings if this level of the currency is sustained. The bulls will tell you that reforms will now come thick and fast and that infrastructure spending will accelerate. With a federal budget deficit of 10% already (and a lot more if you include state deficits) we doubt much more is feasible. Yet the big contractors have risen 40% in a few days, and now trade on 25x earnings. Banks and other high beta domestic plays have moved in similar fashion. Again we struggle to rationalise this. The market had not been weak in expectation of a poor result prior to Monday’s bounce – it had risen 50% in the two months prior to the election.

Political rhetoric is one thing, but policy action in a globalised world tends to be determined by the realpolitik of the market which force most governments to follow a centrist agenda. Just look at ‘new’ labour in the UK, or the SDP and CDU effectively swapping places in Germany. We invest in companies, not politicians, and the Indian market is way ahead of itself. Time to make some money on the short side….