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Not all early growth sectors are available in India

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Dear Investors and Partners,

In this letter, I wish to talk about the importance of global investments within overall asset allocation for Indian investors. Global investments can not only help an investor benefit from diversification, but also allow participation in investment opportunities unavailable in domestic markets. Investing in funds which thereby invest in international mutual funds is one way to go global in your portfolio.

International funds may help you gain exposure to unique or new age or futuristic business models that may not be abundantly available in India. Take for example luxury goods, healthtech, electric vehicles. While one may be able to use such services in India, one doesn't have many avenues to invest in such businesses domestically. One may also gain access to asset classes such as REITs that are not very well developed in India. REITs may perform differently than equity across economic scenarios, helping further diversify one's portfolio.

At PGIM India, we offer three international Fund of Funds (FoFs)- PGIM India Global Equity Opportunities Fund, PGIM India Emerging Markets Equity Fund and PGIM India Global Select Real Estate Securities Fund. Although on a longer term these strategies have delivered as per expectations, to be honest, in the short term these funds have witnessed negative performance this calendar year. For the two equity funds, a major part of the underperformance came from companies in businesses such as electric vehicles, e-commerce and semiconductors. On the real estate front, listed REITs have seen substantial price correction with rising interest rates.

That being said, we still remain positive on these themes, as they are structural in nature, with a long runway for growth. Electric vehicle adoption may experience growth. Similarly, e-commerce companies may be another growth area driven by growing adoption and internet penetration, especially in emerging markets. Semiconductors, being a critical underlying component of the ongoing digitization, may be a beneficiary.

Our international equity funds seek to invest in companies that are in the early stages of acceleration in their growth. Growth stocks have historically fared well during rate hike cycles. The past four Fed rate hike cycles over the last three decades indicate that growth stocks underperformed when rate hikes were initially announced and/or commenced. However, growth stocks may resume leadership once the rate hike cycle is underway and economic data softens¹. Moreover, the earnings growth for growth stocks as represented by Russell 1000 Growth index has continued to stay strong, while the valuation multiple (P/E) has compressed².

On the Real Estate part, listed REITs are likely to have overreacted to the macro-environment. As interest rates go up, highly leveraged buyers may find it difficult to finance transactions resulting in slowing real estate M&A activity. On the other hand, elevated rates may allow greater pricing power for landlords. Reflation has been historically good for real estate and REITs. A lot of companies continue to deliver strong top-line growth owing to tight occupancies and supply lagging demand.

On a similar note, in a recent conversation with my friends about OTT shows, I realised that most of us were watching varied content. Each of us were watching content of different origins such as Indian, Korean, Spanish and American with subtitles. All the technology developments in recent times have made diversification easy and are contributing to better outcomes – may it be entertainment or investing.


Hope that my two cents help you make the best of your international investment decisions.

Stay safe & happy investing.

^{1, 2} Source: Mark Baribeau, Sara Moreno, "An Upgraded Outlook for Growth Stocks," PGIM, September 2022

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