Don't retreat to home turf due to US market correction, experts advise

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Benefits like low correlation, currency hedge, and access to unique businesses remain intact

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The US market's poorer performance YTD could lead many Indian investors to conclude that it is better to stick to one's home turf. The Nifty 50 has declined 9.1 per cent year-to-date (YTD). While painful, the hit is much lower than what key indices in the United States (US) have suffered. The S&P 500 is down 21.6 per cent. The NASDAQ-100 has fared even worse, declining 30.8 per cent. The US market's poorer performance YTD could lead many Indian investors to conclude that it is better to stick to one's home turf. Experts warn against doing so.

Avoid recency bias

Longer-term portfolio allocation decisions, experts say, should not be arrived at based on short-term data. "Don't let recency bias creep into your investment portfolio decisions. India's out-performance in the recent past offers no guarantee that this trend will continue in the future as well," says Vishal Dhawan, founder and chief executive officer (CEO), Plan Ahead Wealth Advisors. According to him, having a globally diversified portfolio is essential so that you can participate in different geographies that may be attractive at different points on the basis of earnings growth estimates and valuations. In fact, experts view the recent correction as an opportunity to add to holdings in those markets, rather than exit them. "The recent correction has brought valuations in many parts of the globe in line with, or below, long-term averages," says Dhawan.

Adds S Sridharan, founder and principal officer, Wealth Ladder Direct: "This correction provides Indian investors a huge opportunity to invest in markets like the US in a staggered manner."

Reap the diversification benefit

Many of the benefits of global diversification remain intact. Over the long term, investing in a developed market like the US makes Indian investors' portfolios less volatile because of the lower correlation with these markets. Investing internationally also protects Indian investors against the risk arising from the rupee's tendency to weaken against hard currencies, such as the US dollar. Investing overseas also gives investors access to businesses not available on the domestic stock exchanges, such as global technology, clean energy, search engines, social media platforms, e-commerce, etc that offer potential for massive growth.

Build domestic portfolio first

Build a diversified domestic portfolio first and then venture overseas. International holdings should have at least a 10-15 per cent weight in your equity portfolio initially.

ETF option still open

Foreign investment through the mutual fund route has come to a halt since January 2022 as the aggregate limit of $7 billion has been breached. However, there is a separate limit of $1 billion for investing in foreign exchange-traded funds (ETFs). You can still invest via this route. ETF options like NASDAQ 100, US Total Stock Market, S&P 500 Top 50, and so on are still available for investment. In the current environment, it will be safer to go with more diversified indexes.

HNIs may take direct route

Another option is to take the direct route, wherein you go through a broker or a platform available in India that enables you to invest in foreign stocks, ETFs, and mutual funds. “This route offers investors a much greater variety of investment options,” says Sitashwa Srivastava, co-founder and co-CEO, Stockal.

Investors taking this option must learn about all the costs involved, and the tax-related compliance obligations that arise. According to experts, this option is justified only for investors who can put in large amounts annually.Going with low-cost ETFs may be better, especially for new entrants into foreign markets. “Picking the right stocks will require a lot of due diligence from the investor. The investor must have the skill and the time to do this. ETFs, which are well diversified, are a better option for most retail investors,” says Sridharan.

Indian market has outperformed US market **YTD**							
Returns (%)							
Index	1-month	3-month	YTD	1-year	3-year	5-year	10-year
FTSE 100 (UK)	-2.5	0.8	-2.0	0.9	-0.5	-0.5	2.8
Nikkei 225 (Japan)	-0.4	3.9	-8.6	-10.6	7.6	5.8	11.9
Hang Seng (Hong Kong)	7.0	15.7	-9.0	-25.6	-7.7	-3.6	1.0
Nifty 50 (India)	-0.1	-5.3	-9.1	-0.6	10.1	10.5	11.9
Shanghai (SSE) Composite	7.2	7.9	-9.2	-7.1	4.7	1.1	3.7
MSCI Emerging Markets	1.3	-0.9	-17.4	-26.1	0.1	0.3	1.0
S&P 500 (US)	-7.2	-12.4	-21.6	-12.0	9.0	9.0	10.8
MSCI World	-6.5	-11.9	-21.8	-16.3	5.8	5.7	7.7
NASDAQ-100 (US)	-8.3	-16.4	-30.8	-23.1	11.6	11.9	14.2
Note: Returns above one year are compound annualized							
Source: Bloomberg							
Compiled by BS Research Bureau							

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