2019 Is the Perfect Year to Bet on This Emerging Market

Description

India's economy is likely to overtake its former colonial parent this year. With 7% growth next year, India's gross domestic product (GDP) will breach $3 trillion by the end of 2019, making it the fifth largest in the world. Meanwhile, Britain's GDP is expected to stay flat at $2.6 trillion.

India's expanding and diversified market is relatively more accessible than China. If you believe that the ongoing trade war between the U.S. and China will have no impact on the country, it's worth a closer look — especially this year.

The culmination of three important factors this year will inject volatility into Indian markets and could provide an entry point for keen investors.

The biggest factor is the general election scheduled for mid-2019. The ruling Bharatiya Janata Party (BJP) won an outright majority in the last election, unleashing a torrent of optimism into capital markets. India's primary index, the **Nifty 50**, is up 60% since the day the party took control.

The BJP is seen as a pro-business political party that has managed to improve the ease of doing business in the country and introduced a robust bankruptcy law that protects creditors.

This year, the party faces intense pressure from populist opponents who have already won a few key states in last year's local elections. A hung parliament or new government in 2019 could shift the course of India's economic engine.

The other two factors are the price of crude oil and the actions of the newly installed leaders of the country's central bank. Over the past five years, the Indian government has burned through two central bank governors. The first big exit of economist Raghuram Rajan was immediately followed by the government's monumental and ill-fated note ban.

The latest governor, Shaktikanta Das, was the Economic Affairs secretary of the ruling BJP administration and a vocal supporter of the note ban in 2016. Analysts and political pundits across the country now expect some big splashes from this new leadership team in the run up to the general election.

Finally, the price of oil has a direct and noticeable impact on India’s rate of inflation. India imports nearly 80% of its total annual oil consumption. According to Oxford Economics, every 10% increase in oil prices can lower the real GDP level by 0.2% over the next four quarters.

Elections, oil prices, and central bank policies are notoriously difficult to predict, which is why I won’t take a stab at it. Instead, I’d focus on the bigger picture and make a bet for the long term. The country’s GDP, capital markets, and currency have all taken a beating over 2018. Most small- and mid-cap stocks are trading at record-low valuations.

Such conditions are fertile ground for traders, long-term bulls, and contrarian investors. If you identify as any of these, I’d recommend taking a closer look at either **Fairfax India Holdings** (TSX:FIH.U) or **iShares India Index ETF** (TSX:XID). Both offer a simple and convenient way to make a diversified bet on India’s future.

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