How important is an election result to a stock market investor?

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Whenever the general elections to the Lok Sabha approaches, there are usually predictions about how the political fortunes would change, and more relevant from an investment point of view, what impact it would have on the stock market's movement.

We have compiled the performance of India's stock market index (the BSE Sensitive Index) during the tenures of various governments that have ruled this country in the (nearly) past 4 decades. In the past 39-odd years, the Index has returned a CAGR of 16.2% (not counting the dividends). The performance of the stock market during the various political dispensations makes for very interesting reading:

Movement of India's stock market under various political dispensations

Government - headed by	Start	End	Tenure	Market returns %
Janata Party - Mr. Morarji Desai	Apr-79	Jul-79	4 months (*)	15.86%
Janata Party - Mr. Charan Singh	Jul-79	Jun-80	1 year	5.43%
Congress - Mrs. Indira Gandhi	Jul-80	Oct-84	4 years 3 months	20.28%
Congress - Mr. Rajiv Gandhi	Nov-84	Nov-89	5 years	20.82%
Janata Dal - Mr. V.P. Singh	Dec-89	Nov-90	11 months	73.43%
Janata Dal - Mr. Chandrashekar	Nov-90	Jun-91	8 months	6.15%
Congress - Mr. P.V. Narasimha Rao	Jun-91	May-96	4 years 11 months	24.46%
NDA - Mr. Atal Bihari Vajpayee	May-96	May-96	13 days	2.30%
United Front - Mr. H.D. Deve Gowda	Jun-96	Apr-97	11 months	3.10%
United Front - Mr. I.K. Gujral	Apr-97	Mar-98	10 months	1.30%
NDA - Mr. Atal Bihari Vajpayee	Mar-98	May-04	6 years 2 months	3.31%
UPA - Dr. Manmohan Singh	May-04	May-14	10 years	17.66%
NDA- Mr. Narendra Modi	May-14	Till date	4 years 2 months	10.68%

Notes : (1) Market returns calculated as CAGR returns by the BSE Sensitive Index during the respective periods
(*) (2) The BSE Sensitive Index was instituted from April 1979. Therefore the 4 month period of the Janata party denotes the time when the Index was in vogue. The Janata government took over in March 1977.

Salient Points

1. The best performance of the stock market came during the Janata Dal rule of Mr. VP Singh between Dec 1989 and Nov 1990, when there was a supposedly "socialist" Finance Minister. The index returned a whopping 73.43% during the 11 month period.

2. A huge majority does not automatically translate into better stock market performance. Mr. Rajiv Gandhi's government (where the ruling party had a 3/4th majority) saw returns of 20.82%, compared to a 24.46% returns between 1991 and 1996, when the ruling party had a "minority" status of 45% and was dependent on coalition support.

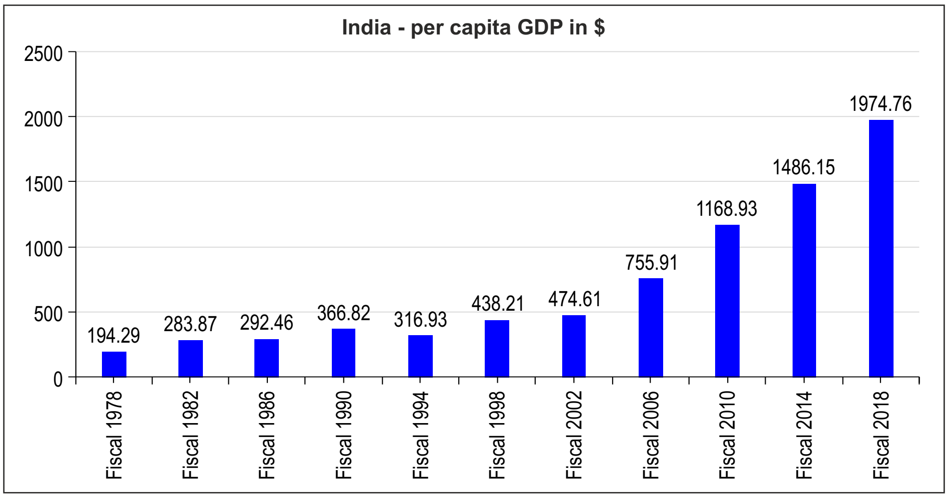
3. The biggest bull markets can be obtained under governments that depend upon support of the "Left" parties, who are supposedly anti-market forces.

There is definitely no correlation between political ideologies and the stock market's returns. Therefore, as investors, the better thing for us to do is to take a look at the big picture, and not miss the woods for the trees. Let's try and do that and satisfy ourselves about the fundamentals of our country .

India – growth in per capita GDP (in US $)

Sometime in the last decade, India transited from being a “Low income country” to a “Lower Middle income country”. It is anticipated that over the next decade, the classification would change again to one of “Upper Middle Income country”. It will be quite a while, though, before India is classified as a “High Income country”.

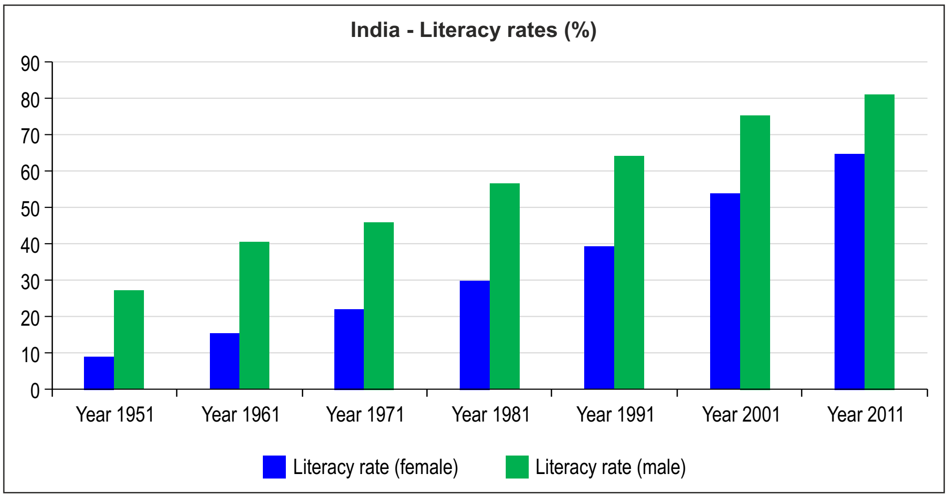
But satisfaction should be in order when one considers the road that has been travelled over the past 4 decades:



Source: CEIC data

Assuming India grows at about 7% or so in real terms, and India's population growth settles at about 1.2% (as projected by the Population Foundation of India), then the per capita real GDP should grow at about 5.7 - 5.8% per annum. This means that the next generation of Indians can be expected to be three times as rich compared to the present generation (after adjusting for inflation).

Social indicators – Literacy rates



Source: CEIC data

Here again, the intelligent thing to do would be to compare our present status to what it was some time ago. Obviously a country with the complexity like India would not improve dramatically to the levels of the "high income countries" in a short span of time.

Reforms under various political dispensations

This topic, we believe, should offer the maximum comfort to an investor in India. The conclusion anyone would come to is that India's reform program, and the direction of the economy, is in the same direction, irrespective of which political dispensation is ruling the country. Consider the following:

Janata Dal rule (1989-1990)

— Abolition of Controller of Capital Issues and setting up SEBI
— Easing up of capital goods imports
— Abid Hussain Committee on Trade policy reforms
— S Venkitaramanan and Vijay Kelkar Committee on financial sector reforms (although these were implemented by later regimes)

Congress under Mr. Narasimha Rao (1991-1996)

It was under this regime that economic reforms took a massive jump. It is mind-boggling to think of how this country has changed since the days of early 1990s:

— De-licensing of industries. All except 6 industries of strategic importance did not need licences to operate any longer
— FDI upto 51% permitted under automatic route
— Removal of MRTP restrictions on investments
— SEBI given regulatory powers
— Disinvestment process started
— Private Mutual Funds allowed
— National Stock Exchange set up
— Dematerialization of shares, rolling settlements and derivatives trading became a reality
— Private airlines, telecom operators and banks permitted
— RN Malhotra committee for insurance sector reforms recommends setting up IRDA
— Direct taxes reduced from a peak of 56% for individuals and 51.5% for corporates
— Peak customs duties slashed from a peak of 300%.

NDA rule under Mr. A B Vajpayee (1998-2004)

— Privatization drive, including VSNL, Maruti Suzuki, Modern Breads
— CERC Act allows private sector in the power industry
— Private sector permitted in management of Airports
— Massive road construction projects such as the Golden Quadrilateral and the Rural Roads program
— IRDA set up, with the intention to open the Insurance sector to the private sector.

UPA rule under Dr. Manmohan Singh (2004-2014)

Although there were some bright spots in this 10-year period, overall one had the feeling of an witnessing a period where the full potential was not realized.

— Insurance sector opening up with 24% overseas shareholding
— Infrastructure projects like the Dedicated Freight Corridor and DMIC inaugurated
— Aadhaar program introduced

This period also saw large-scale socio-economic programs like the MNREGA, the capping of fuel prices that led to big increases in subsidies. This period also saw the massive worldwide boom in commodities, and the bust post the Lehman crisis.

NDA rule under Mr. Narendra Modi

— FDI in insurance sector raised to 49%
— 51% in multibrand retail and 100% FDI in single-brand retail
— Coal mines bill passed
— Bankruptcy laws amended
— Small banks and Payment banks permitted
— 100% defence FDI through approval route
— Real Estate Sector comes under the RERA
— Diesel de-regulation
— GST
— Mandate for RBI for inflation targeting, with CPI as the target
— Soil health card for farmers

Continuity of economic policies (India's political rivals thankfully don't think very differently when it comes to economic matters)

— Disinvestment started by Congress, continued by NDA
— Insurance sector reforms mooted by original NDA, continued by UPA, and carried forward by second NDA
— Aadhaar introduced by the UPA, enhanced by the NDA

Conclusion - the building blocks for robust stock market returns are the following factors:

(a) An economy and political system that encourages private enterprise
(b) A system where the rule of law is followed
(c) An ecosystem where entrepreneurship is encouraged, and where it thrives
(d) Proper regulatory framework, both in the banking system and capital market system
(e) A promise of long-term economic growth and corporate profitability

India is a country that is blessed with all of the above. As investors, we have to focus on **WHAT** we buy, **HOW MUCH** of it we buy, and at **WHAT PRICE** we buy it. Let us not bother too much about who will win the next election.

Thankfully, it does not matter that much.

Happy investing.

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