

Nepean Capital

Still No Signs of a Recession

Findings From My U.S. Trip (May 2-22)

Last week I returned from a three week visit to the U.S. where I met institutional investors on both coasts and spent three days in Yosemite National Park with the family.

Ironically, the trip started on a rather drab note. Weary after a long flight, I landed at JFK on Thursday, May 2nd at 10:45 pm, only to be greeted with a large serpentine queue. It moved an average of 20 steps every 40 minutes, and at this rate I estimated that I would reach my hotel in Manhattan in time for breakfast. The problem was that there were only three immigration officers for some 500+ passengers. Not good for one of the busiest airports in the world and the gateway to the U.S. for most international tourists. (The Mumbai airport, on the other hand, has some 18-20 officers and it takes no more than 5-10 minutes to clear immigration).

Thankfully, an hour into the line another lane opened, and I handed over my passport to the immigration officer. To my surprise, he asked me if I would consider moving to the U.S. given that I travel there twice a year. I said I would if the government lowers taxes. He replied wryly, *'That ain't gonna happen !'*

Over the next 20 days, I met several fund managers, family offices and asset allocators. Highlights:

1. While no one doubts India's economic growth, at 19x CY25 P/E, most investors continue to find India too expensive. Hence, it's no surprise that YTD, FPIs (foreign portfolio investors) have net sold over \$2.4 Bn. The market has remained firm with strong local flows with domestic institutional investors having invested net \$25 Bn. Retail investors seem unfazed by valuations or geo-political issues and continue to pour money into the markets, month after month. Last month, SIPs (systematic investment plans) inflows hit a record Rs.20,371 crores/\$2.45 Bn. Unlike last year when India attracted the most FPI inflows (+\$21.4 Bn) in Asia (ex-Japan), this year it's the last in the pecking order.
2. China had been trading at half the valuation of India for the past three years, but FPIs ignored it. What changed this year was that the Chinese government announced a slew of measures to stimulate the economy and FPIs returned, investing net \$12.2 Bn (Northbound). Moreover, for CY24 and CY25 both India and China have the same consensus earnings growth of 14%. YTD the HSCEI index is up 18% vs. India's NIFTY50 which is up 5.64%. Some investors I met think that the China rally seems to be more FOMO, rather than led by fundamentals.
3. There is no evidence to show that the money exiting India is necessarily going to China. The US equity markets are still offering good investment opportunities (the S&P500 +28% in the past 12 months) and hence a lot of the capital is headed back home.
4. There was much interest in the ongoing general elections and almost everyone asked if Prime Minister Modi would win a third term. I think he will; results are out next week on June 4th.
5. One of the investors asked if India has the same capital absorption capability as China does, i.e. can India take in the foreign flows that China did over the past 10 years? My answer is an emphatic Yes. India's market cap is now \$5 Tn, the fourth highest in the world (clubbing China and Hong Kong as one). Moreover, global FPIs, hedge funds and SWFs have been actively investing in India since the past 30 years. Today the mark-to-market value of their ownership (16.4% of market cap) is a staggering \$820 Bn.
6. What can cause the correction in India's equity markets? A potential general election upset, a poor monsoon and/or higher oil prices for a sustained period. The major risk is the explosive growth of retail participation in the equity derivatives market. Today, futures and options account for 99% of the daily traded volumes. A vast majority of the investors are new to the capital markets, from smaller towns and haven't ever experienced a correction.

The two things that haven't changed/improved in the U.S. from my visits last year (October and May) are the high inflation and an economy that doesn't show any signs of a slowdown. Not only were both my flights between NYC and LA packed, but a one-way economy fare costs as much as \$400+. Moreover, 4-star hotels in New York ranged from \$350-\$600 a night (inclusive of taxes, but no breakfast) and restaurants were teeming with customers. It still costs a princely \$120 for an Uber ride from Midtown Manhattan to JFK. All of this explains why the Fed is not in a hurry to cut rates.

The tourist traffic at Yosemite is so strong this season that the National Park Service (NPS) has a new rule: visitors must make a reservation to gain entry on weekends and holidays. This way they can limit the number of tourists that enter the park. The one hotel located inside the park, the Ahwanee, is charging a whopping \$1,200 a night. (We managed to get an AirBnB at a reasonable price). On our way out on a Monday morning, we saw a five-mile-long queue to enter the park.

With unemployment at a mere 3.9% (and has now remained below 4% for 27 straight months, the longest such streak since the 1960s), labor shortages abound. I found several shops and restaurants advertising for help.



Zara

Chipotle

Starbucks

Cava

The other thing that stood out was that WFH (work-from-home) is here to stay in the U.S., unlike India where most employees have been back to work (including the Nepean Capital team) since mid 2022. One of the fund managers who I met commutes to his office in Manhattan from Connecticut only twice a week. That can't be good for the commercial real estate (CRE) market in the U.S. Bloomberg dated May 23rd reports that for the first time since the GLC, investors in top rated bonds backed by CRE debt are getting hit with losses. WFH has altered not just people's lifestyles but also their attire. I found very few people donning suits with smart casual becoming the norm. When I visited the Cole Haan store on Fifth Avenue and asked for work shoes, the salesperson pointed to the below rack.



I also made my semi-annual visit to Costco, this time in Simi Valley, CA. It is more a channel check on how Indian exports are doing vs. trying out the free samples. As the U.S. looks at diversifying away from China, I found garments manufactured from a wide variety of countries: Cambodia, Vietnam, Thailand, India, Nicaragua, Guatemala, Thailand, some Made in the USA but still a lot made in China. I was disappointed at not seeing more *Made in India* garments. A cousin told me that the average spend at Costco is \$200, but our bill was double that. Among other things, we bought shelled pistachios (hard to find), pecan nuts and marked down Banana Republic tees.



On a lighter note.....

Visited The Met in New York to see the *Indian Skies* exhibit, which is on until June 9. Over the course of 60 years, British artist Howard Hodgkin formed a collection of Indian paintings and drawings that is recognized as one of the finest of its kind. A highly regarded painter and printmaker, Hodgkin collected works from the Mughal, Deccani, Rajput, and Pahari courts dating from the 16th to the 19th centuries that reflect his personal passion for Indian art. This exhibition presents over 120 of these works, many of which The Met recently acquired, alongside loans from The Howard Hodgkin Indian Collection Trust.



Penetration of Indian food is clearly growing rapidly. Besides Trader Joe's, I was pleasantly surprised to find ready-to-eat Indian packaged meals at the gift store in the *Yosemite Valley Lodge*.



(Tasty Bite Eatables Limited, who's products are pictured above, is a listed company in India that exports to the U.S and other markets. Its majority owned by Mars Inc.; market cap of \$330 Mn).

Talking of Indian food, I discovered one of the best Indian restaurants in the U.S., *Broadway Masala* (<https://www.broadwaymasala.net/>) in Redwood City, CA. Apparently, they have a new chef who moved from Delhi and hence the food is at par with some of the best Punjabi fare in India. I recommend the Chole Peshawari, the Fig & Walnut Kofta and the Paneer Tikka. (I am vegetarian but there is a wide choice of meat dishes).

Please see my previous U.S. visit notes:

Oct 2024: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://nepeancapital.com/pdf_34

May 2024: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://nepeancapital.com/pdf_22

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