

Stock markets

News: India becomes 5th largest Market cap country



Weekly Learnings 22 / 2023

India became the fifth largest market-cap country a few weeks ago. I looked at the numbers of the Top 5 stock exchanges - USA, China, Japan, Hong Kong and India with Aditi Varma and Ritik Dua for learnings. The presentation with the five-country data is attached below. The key points are:

1. The USA and India market cap grew at 8% and 9% CAGR between 2018 and 2023. There are outliers and underperformers. Japan and HK are negative.
2. Another way to look at the market cap is the Market cap to GDP ratio. Hong Kong is extreme since you have more listings there, USA is a clear leader on this ratio, Japan looks good, but its GDP is down post the pandemic and Japan has been around \$5 trillion for 28 years now. Japan's GDP in 1995 was \$5.33 trillion and today it is \$4.4 Trillion!! China has an underdeveloped market cap in relation to its GDP. That's because of a lack of confidence in the transparency and the financial institution framework. India with its digital framework is building a stronger institutional framework and will gain in the coming years.
3. The top 5 stocks in each country make interesting and different reading. The top 5 stocks in the USA are all technology companies and then it is a mix and match in the other 4 countries. Banks surprisingly figure in the top 5 in some countries and experts agree that it's unsustainable when digital disrupts the banking industry. China has a profit mandate before a company can IPO and hence most technology stocks are listed outside China, since technology is about potential and not past delivered profits.
4. Economist Arthur Okun enunciated the misery index, which is a sum of the inflation rate and unemployment rate. America has a challenge with inflation. Jobs are a priority for all countries. If inflation is high, can interest rates be far behind? America's interest rates are at 5% plus which was unthinkable a few years ago.
5. The top 5 stocks have about a 20% contribution to the overall market cap in the USA, India, and Hong Kong. China is low at 7%.

6. The top 3 industry sectors vary by country, it is about 55% in USA, India and Japan. However, the top 5 industry weight % is similar in 4 of the 5 countries at 75 % of the total market cap, except Hong Kong.
7. The balance between institutional and retail value holding in China is not ideal, USA and India are far better. We saw many Indians investing in the stock market during the pandemic to offset the loss in salary. The total number of retail investors in China is 212 million, India has 116 million Demat accounts (there is some duplication here as some individuals hold multiple accounts) and about 150 million people invest in stock in the USA. India and China have headroom for growth in their retail investor base.
8. With a bit of a tailwind, India could be the No. 3 stock market in the world by 2030.



Top 5 stock exchanges in the world + no of companies on each stock exchange

Country	Stock Exchanges	No of companies*	Market Cap (As on May 30, 2018)	Market Cap (As on May 30, 2023)	5-year CAGR
USA	New York Stock Exchange and NASDAQ	6,100	30	45	8%
China	Shanghai Stock Exchange and Shenzhen Stock Exchange	5,415	8	10	6%
Japan	Tokyo Stock Exchange and Nagoya Stock Exchange	4,150	6	6	-2%
Hong Kong	Hong Kong Stock Exchange	2,493	6	5	-2%
India	NSE and BSE	6819	2	3	9%

*Approximate numbers
Source: Bloomberg, S&P CapIQ

Top five listed companies across exchanges



USA	USD trillion
Apple	2.78
Microsoft	2.46
Alphabet	1.57
Amazon	1.25
Nvidia	0.99
Total	9.05
% of total M Cap	20%



Japan	USD trillion
Toyota	0.19
Keyence	0.12
Sony	0.12
NTT	0.10
Mitsubishi UFJ Financial	0.08
Total	0.60
% of total M Cap	10%



India	USD trillion
Reliance	0.20
TCS	0.15
HDFC Bank	0.11
ICICI Bank	0.08
HUL	0.07
Total	0.61
% of total M Cap	18%



Hong Kong	USD trillion
Tencent Holdings	0.38
ICBC	0.23
PetroChina	0.19
China Mobile Ltd	0.18
Agricultural Bank of China	0.17
Total	1.15
% of total M Cap	22%



China	USD trillion
Kweichow Moutai	0.30
Contemporary Amperex	0.14
China Merchants Bank	0.12
Wuliangye Yibin Co	0.09
China Yangtze Power Co	0.08
Total	0.72
% of total M Cap	7%

Source: Bloomberg, S&P CapIQ

Retail and institutional holdings across markets

Retail and Institution holding as of May 30, 2023 (% of total)		
Country	Institutional	Retail
USA	70%	4%
China	15%	12%
Japan	38%	4%
Hong Kong	15%	7%
India	28%	9%

Source: S&P CapIQ

Top sectors across markets in 2023

MSCI Weights				
Index	Sector	Weight in 2023	Weight of top 3 sectors	Weight of top 5 sectors
Japan	Industrials	22.7%	54.7%	75.40%
	Consumer Discretionary	18.4%		
	IT	13.6%		
	Financials	11.3%		
	Healthcare	9.5%		
USA	IT	29.1%	53.8%	72.3%
	Healthcare	14.3%		
	Consumer Discretionary	10.4%		
	Financials	10.1%		
	Communication Services	8.3%		
India	Financials	26.3%	52.6%	72.5%
	IT	13.9%		
	Energy	12.4%		
	Consumer Discretionary	10.0%		
	Consumer Staples	10.0%		
China	Consumer Discretionary	27.6%	63.7%	75.9%
	Consumer Staples	19.2%		
	Financials	16.9%		
	Healthcare	6.2%		
	IT	6.0%		
Hong Kong	Financials	48.4%	82.8%	96.5%
	Real Estate	21.5%		
	Industrials	12.9%		
	Utilities	8.0%		
	Consumer Discretionary	5.7%		

Source: MSCI Country Indices Apr'23

In summary today

Variable	USA	India	China	Japan	HK
2018GDP \$ Trillion	20.5	2.7	13.8	5	0.36
2023 GDP \$ Trillion	26.2	3.7	19.4	4.4	0.38
2023 Mkt cap \$ Trillion	45	3	10	6	5
Mkt Cap/GDP ratio 2023	1.71	0.81	0.51	1.36	13.15
Current Inflation %	4.9	4.7	0.1	3.4	2.1
Current Unemployment %	3.7	8.1	4.7	2.6	3
Misery index(Infl+Unemp)	8.6	12.8	4.8	6	5.1
Interest rates %	5-5.25	6.5	3.65	(0.1)	2.1

Shiv

www.shivshivakumar.com

05 June 2023