HSBC

Asset Management

India bonds included in major emerging market indices

Inflows of USD20+ billion expected

22 September 2023

Key takeaways

- On 21 September 2023, JPMorgan announced that it would be including 23 India government bonds with a total notional value of USD 330 billion in its emerging market indices, including EMBI, GBI-EM and CEMBI series
- The inclusion will occur over a period of 10 months from 28 June 2024 through to 31 March 2025 and could likely bring USD 20-22 billion of inflows into the India bond market
- The index weighting of India bonds is expected to reach a maximum weight of 10% in GBI-EM Global Diversified Index
- Following this announcement, we could see a further rally in INR fixed income assets. We see an increasing likelihood of a potential upside for the INR in the coming months, amidst the expectation of broad USD softness and the Reserve Bank of India’s ample FX reserves
- India government bonds can provide global bond portfolios with important diversification benefits given their low correlation of only 0.10 with global government bonds
- India government bonds have meaningfully outperformed both emerging market and global government bonds in the last 5-year and 10-year periods

Source: Bloomberg, JPMorgan, HSBC Asset Management, 21 September 2023.

India bonds’ inclusion in JPMorgan emerging market indices

What is happening?

- On 21 September 2023, JPMorgan announced that it would be including India government bonds in its emerging market indices, including EMBI, GBI-EM and CEMBI series
- The inclusion will occur over a period of 10 months from 28 June 2024 through to 31 March 2025, at the inclusion rate of about 1% weight per month

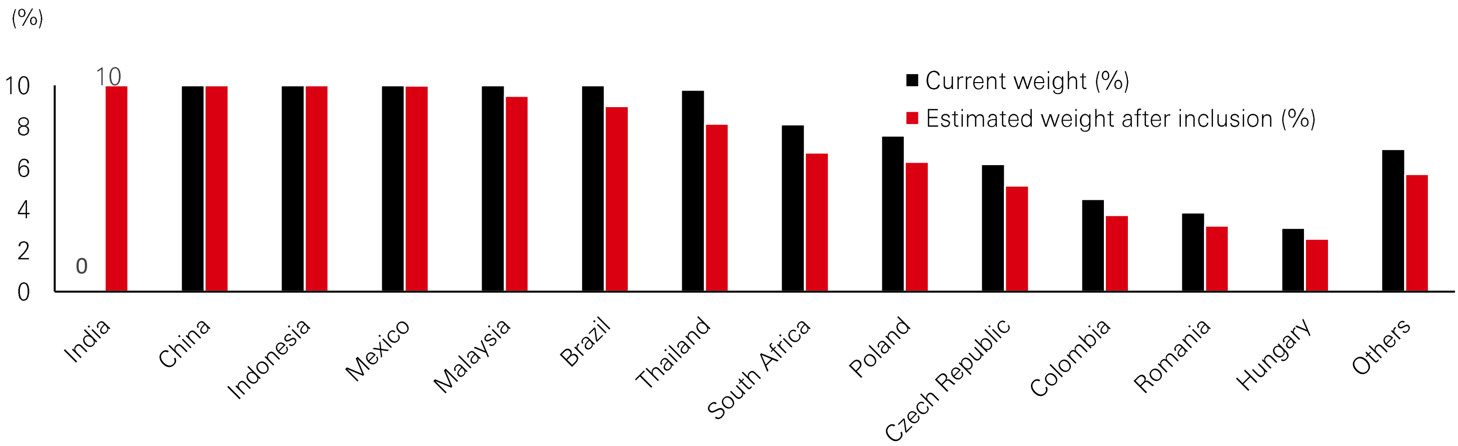
What will change?

- The index weighting of India bonds is expected to reach a maximum weight of 10% in GBI-EM Global Diversified Index, 8.7% in the GBI-EM Global Index and 14.59% in the GBI-EM Global Diversified IG 15% Cap Index. Other indices will also see changes (see Figure 2)
- Some markets within the emerging market indices will see a reduction in index weight (see Figure 1)

What is eligible to be added?

- Starting on 28 June 2024, 23 Indian government bonds, worth a total notional value of USD 330 billion, will be eligible for index inclusion
- On 28 June 2024, FAR-designated[1] Indian government bonds with a maturity date after 31 December 2026 would be assessed for index eligibility, while new eligible FAR-designated Indian government bonds issued during the inclusion period would also be included

Fig. 1: GBI-EM Global Diversified Index – weight projections after the end of India bond inclusion

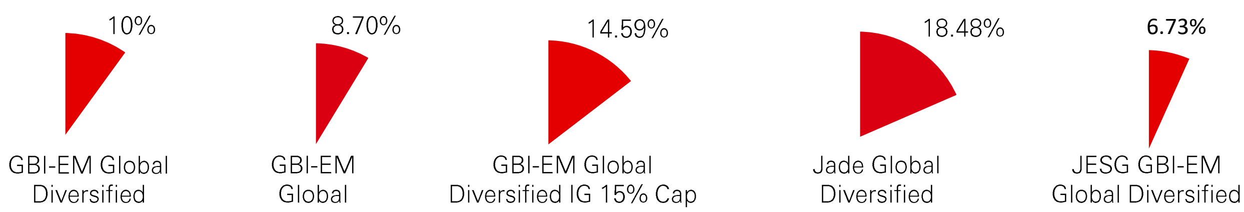


Difference in market value between current weight and estimated weight after inclusion

India	China	Indonesia	Mexico	Malaysia	Brazil	Thailand	South Africa	Poland	Czech Republic	Colombia	Romania	Hungary	Others
+10.0	0.0	0.0	-0.01	-0.51	-1.00	-1.65	-1.36	-1.28	-1.04	-0.78	-0.64	-0.52	-1.22

Source: JPMorgan, 21 September 2023

Fig. 2: Weight projections of JPMorgan emerging market indices after the end of India bond inclusion



Source: JPMorgan, 21 September 2023

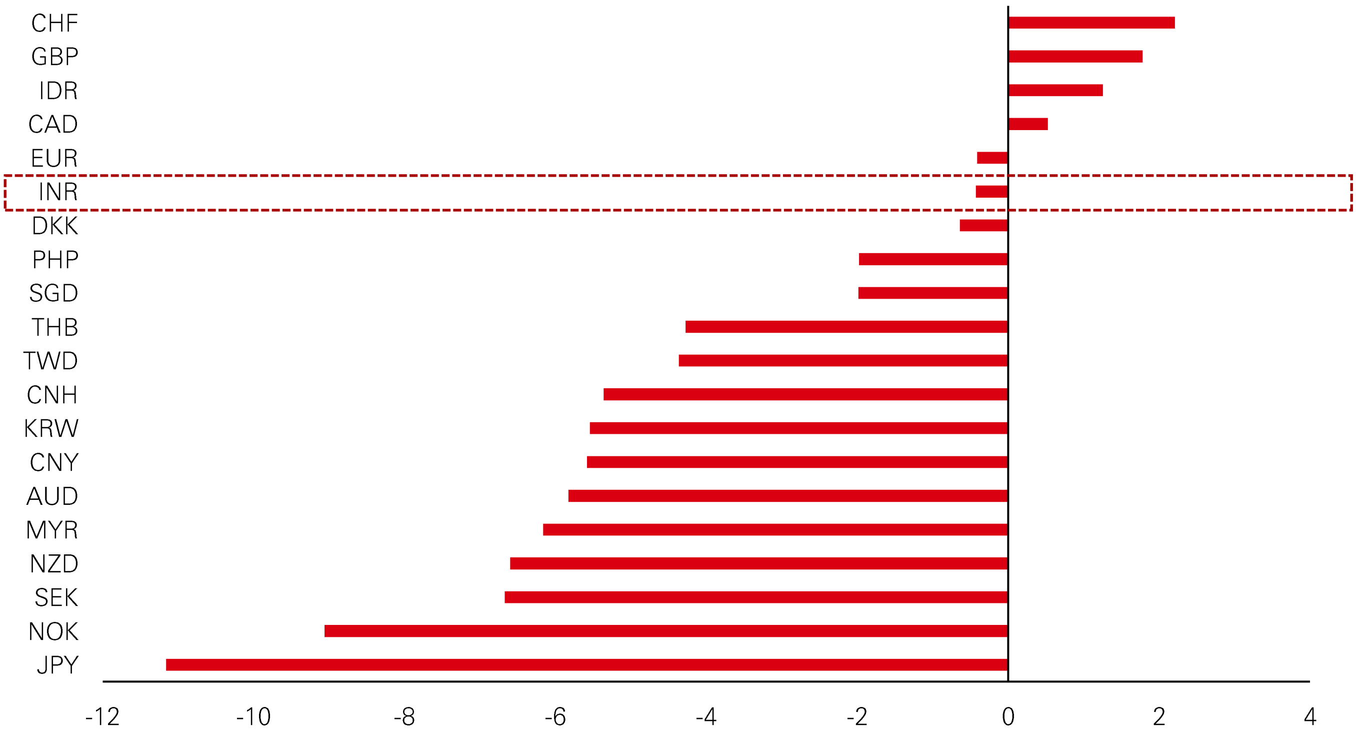
Note 1: FAR refers to Fully Accessible Route, introduced in 2020, whereby Foreign Portfolio Investor (FPI) limits are not imposed on certain government securities
Source: HSBC Asset Management, JPMorgan, 21 September 2023.

Impact of bond inclusion

- We could see a further rally in INR fixed income assets following the announcement by JPMorgan to add India government bonds into its widely tracked emerging market indices
- We have seen recent outperformance of FAR government bonds in the last couple of weeks as investors have been positioning for the inclusion announcement. Nevertheless, there should still be room for a moderate yield decline of government bonds given there is no change in the macro backdrop
- We see an increasing likelihood of a potential upside for the INR in the coming months, with the expectation of broad USD softness and the central bank's ample FX reserves, which is currently at USD 594 billion
- The INR should also have better support with the positive market sentiment arising from the index inclusion announcement
- INR internationalization should get a boost from index inclusion
- Over the longer term, we expect India bonds' yield advantage to drive larger global allocations. India's 10-year government bonds yield 7.2%, while its US and China counterparts yield 4.5% and 2.7% respectively[2]
- Despite it being a large and liquid market, India bonds have not previously been added to any major global or emerging market indices. JPMorgan's announcement marks a first. The inclusion period could likely bring USD 20-22 billion of inflows into the India bond market
- India bonds are also being considered for inclusion in other major indices, including in FTSE Emerging Markets Government Bond Index, where they are currently placed on the watch list
- We believe index inclusion is the right direction for the India bond market and yet another testament to the value the asset class brings to a global portfolio

Fig. 3: The Indian Rupee has performed decently against other G10 and Asian currencies

Spot returns (%) year-to-date



Source: Bloomberg, 21 September 2023

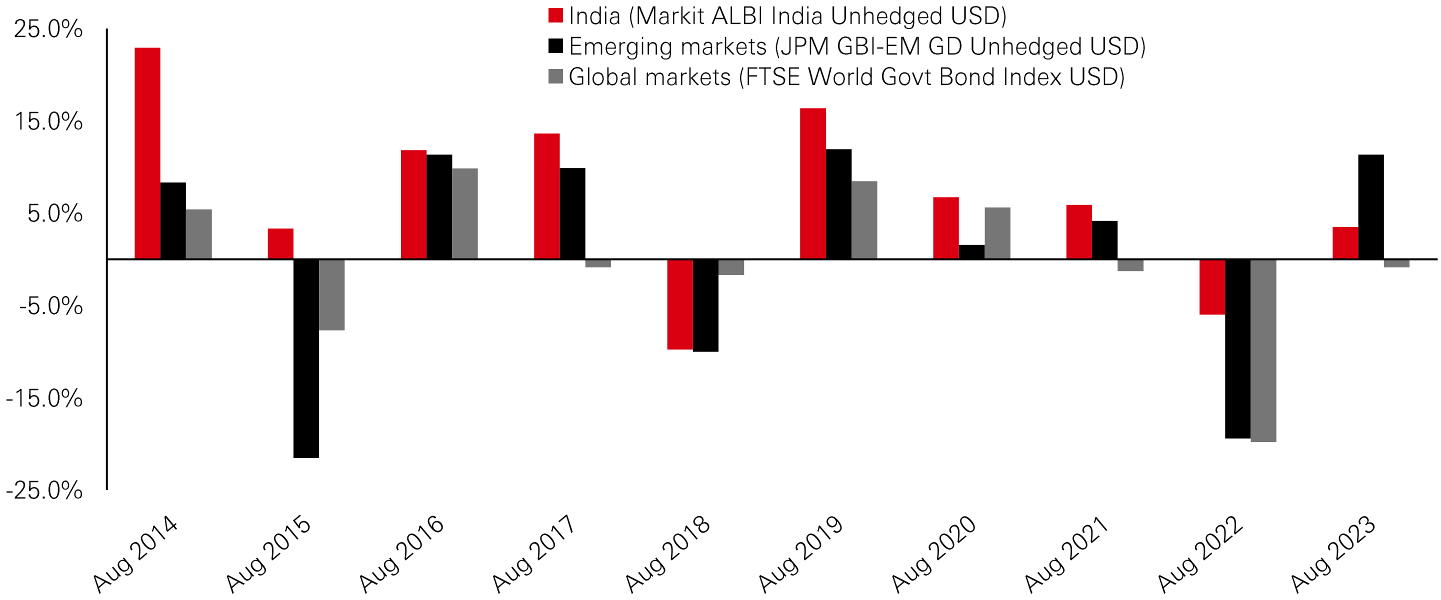
Note 2: Source is Bloomberg as of 21 September 2023.
Source: HSBC Asset Management, September 2023.

Diversification benefits of India bonds

- India government bonds, as measured by the Markit ALBI India Unhedged USD Index, have largely outperformed both emerging market government bonds (JPM GBI-EM Global Diversified Unhedged USD) as well as global government bonds (FTSE WGBI USD)
- Correlation between India bonds and global bonds over the last 5 years has been low at only 0.15 and even lower over the last 10 years at only 0.10, strengthening the case for India bonds as a diversifier for global portfolios[3]
- Correlation between India bonds and emerging market bonds over the last 10 years is 0.29[3]

Fig. 4: India government bonds have largely outperformed both emerging market and global government bonds

Performance



JPM GBI-EM GD Unhedged USD refers to JPM GBI-EM Global Diversified Unhedged USD Index. Source: Markit, JPMorgan, FTSE, 21 September 2023

Note 3: Source is Markit,, JPMorgan, FTSE, 31 August 2023
Source: HSBC Asset Management, Bloomberg, 21 September 2023.

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