Business Standard

Don't pull out of US funds yet

Despite recent setback, these remain the most appropriate tool for international diversification

Sanjay Kumar Singh | New Delhi May 10, 2016 Last Updated at 22:40 IST

US-focused funds seem to have lost steam in the recent past. While the three-year category average compounded annual return of these funds, which have garnered assets under management (AUM) of Rs 1,186.21 crore, is a handsome 16.09 per cent, the return over the past year has shrunk to a dismal -2.31 per cent. Financial experts, however, suggest that investors should stay invested in these funds for the long haul.

The outlook for the US equity markets has turned negative in the short-term. The primary reason for this is US Fed policy. With the US economic recovery turning out to be less robust than anticipated, the Fed has climbed down on its earlier guidance of four rate hikes and has now settled for two. The Fed is also concerned about the weak state of the global economy. Due to this change of stance, portfolio flows are now moving out of US equities and into bonds, gold and emerging markets, resulting in the current bout of underperformance.

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Indians who have invested in US funds need not lose heart, though. The US market's long-term prospects remain attractive. Says Rahul Gupta, equity analyst at Live Squawk, a London-headquartered financial markets data analytic firm: "The job market in the US has shown continuous improvement. The US is also not witnessing the kind of deflationary pressures that the euro zone and Japan are." He is optimistic about a US recovery over the long term. According to Pankaj Sharma, executive vice-president and head of business development & risk management at DSP BlackRock Investment Managers, the US has historically been a resilient economy, showing an immediate and rapid recovery after each recessionary phase, as exhibited across decades.

US funds also provide Indian investors with the benefit of diversification. The correlation between Indian and US equity markets is low, so there is a high possibility that the US markets would do well when the Indian markets are underperforming. "Such diversification helps lower the overall risk of your portfolio," says Kaustubh Belapurkar, director-manager, research, Morningstar India. The US market provides Indian investors access to scale. "When Indian investors put money in the US market, they invest in the world's largest equity market," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. They also get to buy into companies with global operations. Many US-based companies such as Google, Facebook, LinkedIn, Apple, etc have a huge user base both in India and across the globe. "By investing in US funds, you get exposure to large, well-established companies and can benefit from their global growth," says Belapurkar.

US funds, and hence stocks, also get you exposure to sectors for which there is no representation on the Indian bourses, such as defence, aeroplane manufacturing (Boeing), e-commerce (Amazon), and so on. Sharma adds that US-focused funds are a useful investment tool to create long-term assets for meeting liabilities in the US, such as children's education.

Finally, Belapurkar advises that your allocation to US funds should be a steady-state allocation. "Don't invest in these funds when the Indian markets are not doing well and stop your investments or pull out money when the local markets are buoyant." Dhawan suggests that investors who are starting out should have at least a five per cent exposure (of their overall equity portfolio) to US funds, which they might increase gradually to 10 per cent.

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