GDP is weak, but the R and markets look healthy

Even in December, fund managers were probably right in calling India one of the Fragile Five. But given the sharp contraction in the country's current account deficit, which came in at just 0.9% of GDP in Q3FY14, and the smart rebound in the rupee over the past couple of months, the economy doesn't seem so fragile anymore. True, there are virtually no signs of a recovery just yet—GDP growth in Q3FY14 was an anaemic 4.7% yoy, demand for credit remains poor in the midst of the busy season and auto sales continue to be dull. But there's no doubt the government, with some help from Reserve Bank of India, has done a good job of controlling CAD. Indeed, India weathered the emerging markets sell-off in late-January—triggered by the devaluation of the Argentinian peso—better than most peers as it did the recent crisis in Ukraine.

Which is why after piling on to short-term debt paper—they have bought close to $5 billion worth of it so far in 2014—foreign institutional investors (FIIs) now seem to be focussing on equities. In what was their sixteenth straight buying session, on Thursday, FIIs have bought stocks worth more than $1 billion after having shunned the market in throughout January and most of February. Together with some interest from local funds, the purchases have driven up the market to new highs—21,513.87 for the Sensex and 6,401.15 for the Nifty. To be sure, markets worldwide aren't doing too badly now that they have shrugged off any jitters over the Fed's taper—last Thursday, the S&P 500 closed at a record high, so the Indian market is to a large extent riding the global sentiment. In fact, fund flows into India so far in 2014 haven't been very large at close to $800 million this year even though the market isn't expensive—markets like Indonesia and Taiwan have got more. But the pace of FII purchases is picking up even at a time when corporate earnings are subdued because in many other ways India is now better off than its peers. The vastly improved CAD and currency apart, fund managers are betting the next government will be a stable coalition that will push economic reform and kickstart growth. Coincidentally, all members of the Fragile Five go to the polls this year but for the moment it looks like FII's believe the outcome in India will be the most rewarding.