Choice

VOLTE-FACE

TRUMP'S VOLTE-FACE: India first among equals within EMs but not out of woods

We evaluate Trump Tariffs announced on April 02 and subsequent volte face on April 09 to assess India investment case. Our base case is eventual settling of tariff rates for all countries excluding China in the range of 10-25% . There is now increasing likelihood of US-China negotiating tariff terms; thus, not putting 80% of global goods trade (as per WTO) at risk. With Trump's spanner in the investing wheel not out of the way but getting more pointed on China, we believe it is long-term Advantage India amongst the EMs; provided we drive well.

What has happened?

Owing to rising global tensions, frantic US bond yield movement and market volatility, US President Donald Trump announced a 90-day pause on new tariffs above 10% for most countries (includes India). This followed a series of tariff hikes in late 2024 and early 2025, including steep duties on imports from Canada, Mexico, and over 100 nations. While the pause aimed to calm markets and open negotiations, tariffs on Chinese goods were simultaneously raised to 125%, deepening US - China trade tensions. Markets have rallied on the news, but uncertainty remains as selective tariff enforcement continues to pose risks to global trade and economic stability.

India macro data is improving and RBI actions are encouraging

India's manufacturing PMI rose to 58.1 in March 2025, the highest in eight months, driven by strong new orders and production momentum. GST collections also remained robust at INR 1.96 lakh crore, marking a 9.9% year-on-year rise and the second-highest monthly tally since April 2024. On the monetary front, the RBI has infused INR 2.4 lakh crore through OMOs and USD 15 Bn via forex swaps since January to ease liquidity. It also conducted an INR 50,000 crore VRR auction to ease the short-term liquidity strain. These steps aim to maintain a surplus of INR 2 Trn for effective policy transmission.

On April 9, the central bank cut the repo rate by 25 bps to 6%, lowered the FY26 GDP forecast from 6.7% to 6.5% and shifted its policy stance to "accommodative," indicating a readiness to further support economic growth amid rising global uncertainties. Amongst this swift market developments, and despite stubborn volatility expected during Trump's Presidency, we believe that India enjoys strong investment metrics amongst the EMs and should attract strong flows in near future. India government proactiveness can catalyze Trump-induced domestic reforms for greater geo-economic prominence.

We believe that with Trigger Event of April 2 Tariff announcement and subsequent TRUMP VOLTE-FACE, the India markets are at lower end of market bottom and despite the PAUSE and associated negotiations; markets should stabilize and start looking UP. Weakening global macro, substantial miss on impending earnings, hardened China stance and associated dumping and Trump tantrums are the monitorable risks; which have been already put under microscope in the last 1 week.

Post global trigger event; subsequent returns can be chunky

Crisis	Trigger Event	Market Bottom Date	Index Level	1-Year Return
Asian Financial Crisis (1997-98)	Currency collapse in East Asia	28 Oct,1998	Sensex ~2,741	63%
Dot-Com Bubble (2000-2003)	Tech bubble burst	25 Apr, 2003	Nifty ~920	83%
Global Financial Crisis (2008)	Lehman collapse, subprime crisis	09 Mar, 2009	Nifty ~2,540	**104%**
European Debt Crisis (2011)	Eurozone debt fears	20 Dec, 2011	Nifty ~4,555	27%
Taper Tantrum (2013)	US Fed tapering announcement	28 Aug, 2013	Nifty ~5,285	43%
COVID-19 Crash (2020)	Global pandemic	23 Mar, 2020	Nifty ~7,511	**71%**
Russia-Ukraine War (2022)	War + inflation	17 Jun, 2022	Nifty ~15,183	19%

Source: Trading View

We believe that among the EMs, India enjoys the best investment metrics. It can be a key beneficiary of the emboldened China plus One strategy. With a 'free political calendar' and leadership with business & trade acumen, India can successfully negotiate FTAs and navigate the global challenges. Valuations have become comforting (still not undemanding) at index levels, and domestic and non-US exports are obvious sector plays.

Contd..

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Among the EMs, India enjoys the best investment metrics

Indicator	India	China	Brazil	Indonesia	South Africa
Real GDP (USD Trn)	~3.6	~17.8	~2.2	~1.4	~0.380
Real GDP Growth (2024- 2025E)	**~6.5%**	~4.5%	~2.2%	**~5.1%**	~1.5%
Real GDP Growth 2026	**~6.5%**	~4.1%	~2.3%	**~5.1%**	~1.5%
Inflation (CPI, Latest)	~3.6%	~-0.7%	~5.1%	~1.0%	~3.2%
Current Account Balance (% of GDP)	-1.4%	2.2%	-2.6%	-0.7%	-0.6%
Forex Reserves (USD Bn)	~665.4	~3,230	~335.7	~154.5	~67.5
Fiscal Deficit (% of GDP)	~-4.9%	~-4.8%	~-5.8%	~-2.3%	~-4.4%
Debt-to-GDP Ratio (%)	~81.6%	~83.4%	~84.7%	**~39.2%**	~72.2%
Exports (in USD Bn)	~778.2	~3,580	~339.7	**~299.0**	~154.0
Export as % of GDP	**~21.6%**	**~20.1%**	**~15.4%**	**~21.4%**	**~40.5%**
5 Year Currency Dep (% vs USD)	-13.6%	-3.8%	-16.3%	-6.4%	-8.3%
Political Stability	**Stable**	Stable	Volatile	Stable	Moderate
Ease of Doing Business Rank	High (Ranked 63 globally)	Mid (Ranked 31, improving)	NA (Ranked 124 in 2019)	NA (Ranked 73 in 2019)	NA (Ranked 84 in 2019)
FDI Inflows (In USD Bn)	~62.5	~163.3	~65.9	~21.5	~3.4
Digital & Tech Penetration	**High**	High	Moderate	Growing	Moderate
Manufacturing Push (PLI Schemes)	**Strong**	Existing base	Weak	Growing	Limited
Export Momentum	Improving	Strong	Stagnant	Moderate	Weak
Reform Momentum	Moderate	Slowing	Mixed	Moderate	Low

Source: IMF, Trading View, CEIC Data, PIB, World Bank, IBEF.
Notes:
1. GDP, Inflation, and Forex Reserves data is as of the current period.
2. Current Account Balance (% of GDP), Fiscal Deficit (% of GDP), Debt to GDP Ratio, and Total Exports data is as of 2024.
3: Export as % of GDP is calculated as Exports/Real GDP of current period.

Slowing US economic growth—forecast at 1.9% CAGR through 2026 by the IMF—along with declining US 10-year Treasury yields (from a peak of 5% in October 2023 to below 4% by Q1 2025), is pushing global investors to rebalance portfolios toward higher-growth regions. The potential return of Donald Trump has already lifted the US Economic Policy Uncertainty Index by 20% since Q4 2024, raising concerns over policy unpredictability and geopolitical tensions. In contrast, India stands out among emerging markets with projected GDP growth of 6.5% in FY26 (RBI), compared to 5.1% for Indonesia, 2.3% for Brazil, and 1.5% for South Africa. India also recorded USD 33.2 Bn in net FPI inflows in FY24—its highest in three years—while countries like Brazil and South Korea saw outflows of USD 6.5 Bn and USD 4.2 Bn, respectively, over the same period (CEIC, NSDL). With stable political leadership, accelerating capex, and a burgeoning digital economy, India offers a compelling mix of growth and stability, making it a likely beneficiary of global capital rotation away from developed markets and lower-growth EMs over the next four years.

China plus One Strategy: This subsiding yet game-changing China-centric trade war can benefit India

With Trump's ire on China imports, we expect US-China trade tensions to eventually settle at lower tariff rates and for India to emerge as better placed vis-à-vis China and other ASEAN nations. The "China +1" strategy, which emerged as a global supply chain diversification tactic to reduce dependency on China, will become stronger owing to immediate economic, geopolitical, and risk management reasons.

Indian exports to the US are USD 77 Bn (12.6% YoY growth in FY24), while 20-30% of China's exports of USD 300 Bn may be at risk of alternative sourcing. The China + 1 strategy has already yielded benefits, such as:

- Apple is shifting 7% of its global iPhone production to India in 2024 and likely to 25% by 2026.
- Foxconn, Pegatron, and Wistron are investing over USD 1.5 Bn in India's electronics manufacturing zones.
- PLI (Production Linked Incentive) schemes offering USD 26 Bn in benefits across 14 sectors, fueling localization..

US Imports from China	Value	India Export Value
Electrical, electronic equipment	USD 127.1 Bn	USD 32.3 Bn
Machinery, nuclear reactors, boilers	USD 85.1 Bn	USD 29.3 Bn
Vehicles other than railway, tramway	USD 18.0 Bn	USD 20.8 Bn
Articles of iron or steel	USD 13.2 Bn	USD 9.7 Bn
Organic chemicals	USD 8.9 Bn	USD 19.8 Bn
Pharmaceutical products	USD 7.8 Bn	USD 21.3 Bn

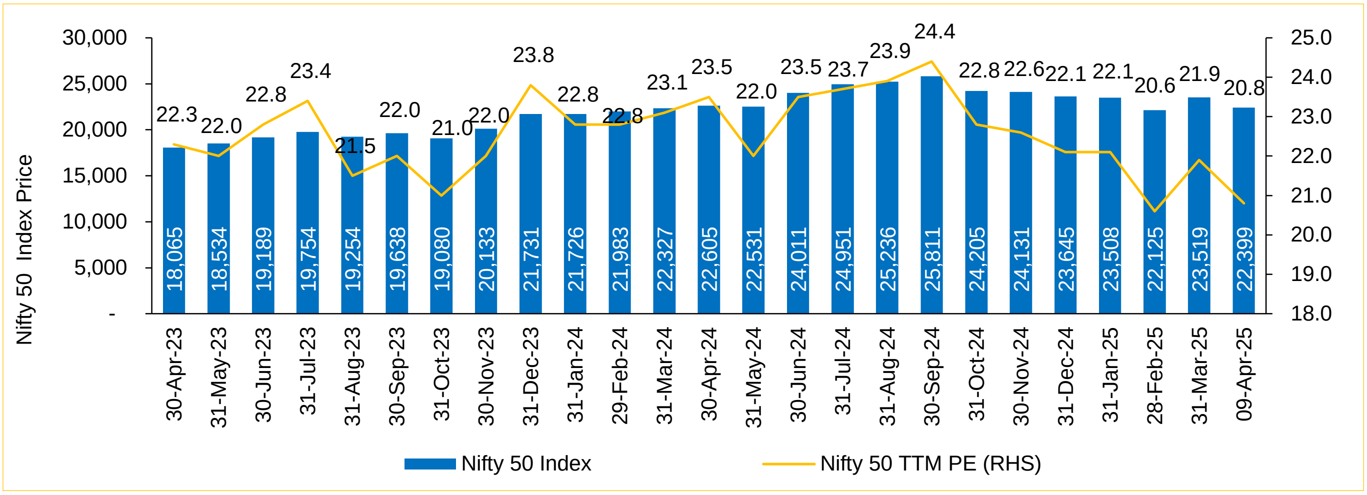
Country	Exports to US	Initial US Tariffs	Advantage	Growth Sectors
Vietnam	Over USD100 Bn annually	46%	Low labor cost, trade pacts, proximity to China	**Electronics and Textile**
India	~USD 77.5 Bn in FY24	27%	Large labor pool, government incentives (PLI), digital infrastructure	Electronics
Bangladesh	Specific data not available	37%	Competitive garment sector, low wages, trade access to US/EU	**Textile**
Mexico	Exceeded USD 500 Bn in 2024	25% (effective March 4, 2025)	Nearshoring advantage for U.S. companies, USMCA trade agreement	**Automotive and Electronics**
Indonesia	USD 23.3 Bn in 2023	32%	Abundant resources, young population, growing infrastructure	Electronics and Footwear
Thailand	USD 55.1 Bn in 2024	37%	Strong supply chain base, supportive policies	Auto parts and Machinery
Malaysia	USD 43.4 Bn in 2024	24%	Skilled workforce, developed infrastructure, electronics expertise	**Semiconductors and Electronics**
Philippines	USD 11.4 Bn in 2024	18%	English-speaking, BPO strength, growing manufacturing base	**Electronics**
Czech Republic	USD 6.78 Bn in 2024	20%	Industrialized, skilled labor, nearshoring destination	Automotive and Engineering
Brazil	USD 40.3 Bn in 2024	10%	Large domestic market, resource-rich	Agribusiness and Manufacturing
China	USD 438.9 Bn in 2024	125%	Established manufacturing powerhouse, extensive infrastructure	**Manufacturing**

Source: Trading View

We expect sectors such as Electronics, Pharmaceuticals, Textiles, Engineering Goods, and Chemicals to emerge stronger, provided government and corporates proactively act on opportunities while tactically managing China dumping

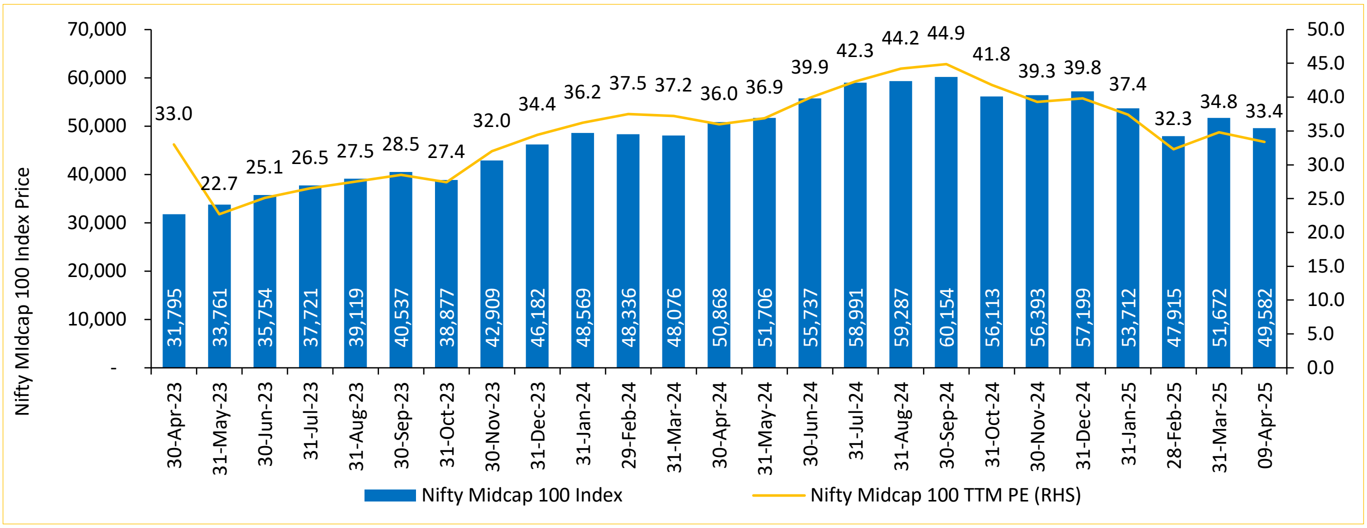
Valuations have become comforting but are still not undemanding. Domestic and non-US exports are obvious sector plays

Nifty 50 Index & TTM PE:



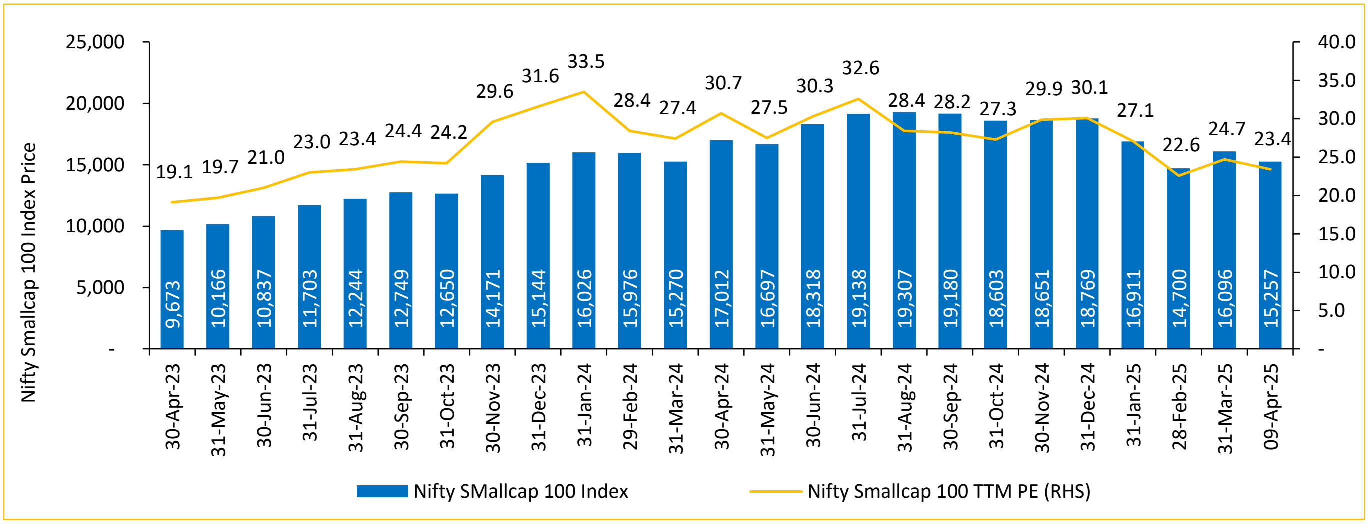
Source: Bloomberg

Nifty Midcap 100 Index & TTM PE:



Source: Bloomberg

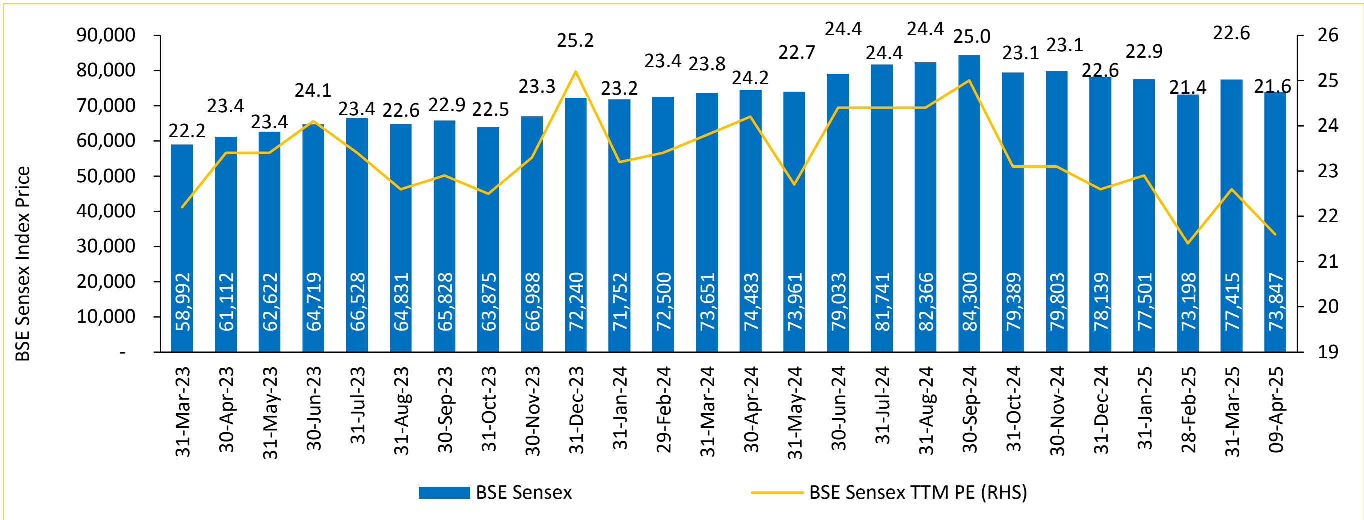
Nifty Smallcap 100 Index & TTM PE:



Source: Bloomberg

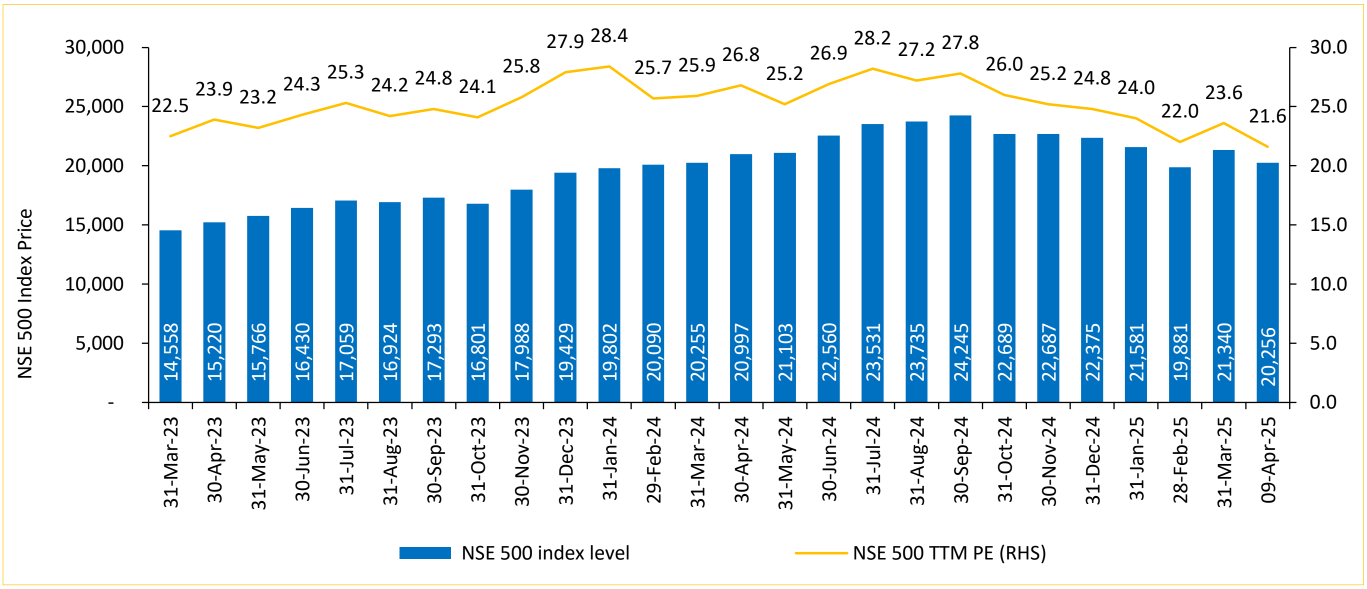
India Equity Strategy

BSE Sensex Index Level & TTM PE:



Source: Bloomberg

NSE 500 Index Level & TTM PE:



Source: Bloomberg

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be consistent over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

***Large Cap: More Than INR 20,000Cr Market Cap**
***Mid & Small Cap: Less Than INR 20,000Cr Market Cap**

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