

# Navigating Tariffs, Earnings & The Equity Advantage

STORMS ON THE SURFACE, STRENGTH BENEATH

## US Tariffs on India: A Hostile Surprise

The United States recently finalised 25% tariffs on Indian imports. Gems & jewellery, textiles, and electronics would take the brunt. This announcement came in an unexpectedly aggressive tone, contrary to expectations that India would receive preferential tariff terms.

**Economic Impact:** India's exports to the US are more service-heavy than goods-heavy, meaning the direct hit from tariffs may be limited. The tariffs could dent India's GDP growth by around 20 basis points. While India has signalled potential retaliatory tariffs, the hope remains that diplomatic intervention could lead to a softening of stance or revision of rates.

## Markets : Pressure from Earnings & Employment

Despite geopolitical noise, the broader market stress also reflects domestic developments:

**Weak Corporate Earnings:** Q1 results from Indian corporates have largely disappointed, hurting equities. Indian markets have seen five consecutive weeks of downward movement.

**IT Sector Concerns:** TCS announced 12,000 job cuts, sending shockwaves across the markets. Though the next big IT employer, Infosys, has committed to hiring, the uncertainty in one of India's highest-paying and largest employment sectors could delay the expected consumption uptick.

## Macro Positives Still Intact

Amidst the noise, structural strengths and liquidity indicators offer comfort:

**Rainfall Recovery:** Monsoon forecasts show improved rainfall in August and an even better September, giving hope to rural consumption and agri-based sectors.

**FII/DII Flows & IPOs:** FIIs remain net sellers, but DIIs and retail investors ( through SIPs) continue to demonstrate strong belief in Indian equities. SIP inflows for June 2025 reached ₹27,200 crore, reflecting sustained retail investor trust. The primary market is seeing healthy activity with strong IPO oversubscription and listing gains exceeding 20%, showing ample liquidity and investor appetite.

## Relative Advantage of Equities Over Debt

While Indian equities may deliver modest returns this year, the comparative advantage over fixed income remains compelling:

**Return Expectations:** Indian Equities are likely to deliver high single-digit to low double-digit returns in FY26. This may be low, considering the extraordinary returns of the last few years.

**Interest Rate Comparison:** With FD rates now reduced to around 6.5%, and potential to fall further, even at 10% equity could deliver in excess of 3.5% over debt returns .

**Factoring in taxation, the net post-tax difference widens further** with long term gains from Equities taxed at 12.5% lesser than Deposits (median tax slab at 20%).

This highlights that equities still offer superior net returns even at modest growth levels.

## Valuations: More Depth Than Index Indicates

A deeper analysis of market valuations reveals opportunities beyond headline index figures.

**Broad Market Lagging:** Though Nifty 50 and Nifty 500 are just 5–6% off highs, the majority of stocks haven't recovered:

60% of NSE 500 stocks are still down 20% or more from their 2024 highs.

In Nifty 500, 118 stocks are trading 20–30% lower than last year peaks.

**Implication:** The headline P/E (Nifty ~22x) masks significant stock-level undervaluation. Selective investing still offers good upside potential for direct stock picking.

## India: Still a Global Growth Story

India remains a key destination for global investment, driven by its strong economic fundamentals and growth prospects.

**Strong Macro Outlook:** At 6.4% GDP growth, India remains among the fastest-growing large economies. While recent global equity flows (70%) have chased US markets, US valuations are no longer attractive, and some shift back toward India and China is plausible.

**Why India Still Wins:** Favorable demographics, Rising domestic consumption, Digital and infrastructure momentum, Robust reforms and policymaking agility.

Inflation is at a 6 year low and could continue to remain low. This coupled with lower taxation and further reduction in interest rates, could boost consumption. The 8<sup>th</sup> pay commission which has been approved in the cabinet and will be implemented in Jan'26 would add to the consumption story.

## **Investor Guidance: Stay the Course**

We would like to reassure our investors that:

- Your portfolios have been constructed with asset allocation principles aligned to your risk profile.
- Current volatility or range-bound movement does not require portfolio-level action.
- We remain watchful, and if rebalancing is needed, we will advise proactively.

What You Should Know:

- Do not panic over tariffs or earnings shocks—they are already priced in.
- Market cycles are natural and healthy; volatility creates opportunities.
- Equities, even at current levels, remain structurally strong over fixed income

## **Key Takeaways**

While tariffs and earnings pressures present headwinds, underlying macroeconomic strengths and the relative advantage of equities suggest a positive long-term outlook. There is no dearth for undervalued opportunities and its important to maintain a diversified portfolio.

While the headlines are noisy—tariffs, job cuts, weak earnings—India's fundamental story remains resilient. This is a phase of consolidation, not crisis.