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A global reset: What it means for Indian markets and investors

The announcement of the reciprocal tariffs by the US administration has roiled markets worldwide. Equities have sold off due to concerns about the outlook for economic growth. We know from experience that lingering uncertainty can cause businesses and consumers to put their decisions regarding investments and consumption on hold.

In response to this potential growth slowdown or recession, US bonds and bonds of many other countries have strengthened. This reflects the market placing a higher probability on a growth slowdown versus the risk of sustained higher inflation due to these new tariffs. In such a scenario, monetary authorities could respond by cutting rates and this has also contributed to the widespread bond market strength.

The currency market makes for an interesting picture: while the Dollar rallied strongly versus most currencies till early this year, it has now reversed almost all of its gains. And despite its recent drop, Gold has been the best performing asset class this past year. These market movements are happening alongside a huge shift in US policy direction.

The US government is executing a dramatic change in direction in terms of geopolitics, trade and fiscal/monetary approach. The old military alliances and patterns of defence spending are being disrupted. The world has been in a unipolar era since the end of the Cold War in the late 1980s. During this period, the US has borne the disproportionate burden of global military expenditure. The US now wishes to end this pattern and ensure every country must spend more on their defence. This is accompanied by a fraying of long-standing security arrangements and military relationships.

The US has also set an explicit goal to reduce its trade deficit since their administration believes that a significant cause of the deficit is unfair trade practices by other nations. Their goal is to create more manufacturing jobs within the country while addressing supply security and national security objectives. The chosen instrument to achieve this trade rebalancing and other objectives is tariffs.

As regards fiscal and monetary policy, the stated objective is to reduce deficits and the rising debt burden on the US government. Tariffs and cost-cutting by the newly created DOGE (The Department of Government Efficiency) are ways to raise revenues and cut costs. Given the size of the debt burden and the huge impact that interest payments are having on their budget, they would also like to have an easier monetary policy setting.

Interestingly, past US administrations have been more focused on the stock market as the barometer of their success and the financial well-being of the nation. The current administration, however, has changed track with immediate priority on lower rates and the 10-year bond yield, which influences longer-term borrowing rates. This change in policy direction would also have an impact on the reserve currency status of the dollar, which is a mirror image of its large trade deficit. To be clear the US dollar is their most successful export.

Several members of the US Cabinet have raised concerns regarding the concentration of stock market wealth in the hands of a small elite. They have noted that the market does not reflect the overall financial status of the citizens. Pointing to the high debt among lower income groups, these Cabinet members feel the need to lower their debt servicing cost. According to US Treasury Secretary Scott Bessent, their priority is the main street, not Wall Street!

While the US government's approach is transactional along with talks of bilateral tariff deals, it is clear that the US wishes to boost domestic manufacturing. These are being positioned as economic goals, leading to more well-paying jobs and improved national security.

The US regime change last November is not merely a change in political power. It is a fundamental reset of their geopolitical and economic approach, which has both immediate and longer-term ramifications for the US and the rest of the world. This fundamental reset of the world brings forth both opportunities and challenges.

This is as true for India as it is for nations across the world. Germany has explicitly abandoned rules that constrain its fiscal deficit and is set to expand spending on infrastructure and defence. China, since late 2024, has pivoted its approach by promising increased fiscal support and re-engaging with the private sector. They have also embarked on the path of stimulating more domestic consumption. India, too, is adapting to this evolving global landscape.

The Indian government is attempting to tackle the tariff issue via a larger bilateral trade agreement with the US. To the extent that several competing exporters have been hit by higher tariffs there is an opportunity for India. The larger opportunity is to further deregulate, cut red tape, attract FDI and unleash animal spirits. Irrespective of the US trade agenda, cost competitiveness and market size continue to be key factors that drive investment decisions by businesses. India scores well on both these metrics.

We are blessed with attractive demographics, abundant labour and the status of being the world's fifth-largest economy. Further India's pursuit of enhanced macroeconomic stability via conservative fiscal and monetary policy enables policymakers to respond to emerging challenges with significant flexibility. The Indian corporate and banking sectors are in good financial health, perhaps the best in the past 20 years, and this provides a strong base for acceleration.

My message for investors is simple! Corrections and drawdowns are a feature of the equity market journey. Stay focused on your financial goals and stay true to your underlying asset allocation and systematic investment. Any rebalancing should be done within that framework rather than in response to volatility or fear.

Undoubtedly there is heightened uncertainty but that is now adequately reflected in the Nifty-50 valuations trading in the fair value zone. This is the exact opposite of rich valuations in the stock market that are typically accompanied by very high confidence levels among investors. Investment outcomes are determined by starting valuations and future growth. The good news for investors is that current valuations provide a good starting point for investors.

Hybrid strategies, such as the Multi Asset Allocation, Balanced Advantage, Aggressive Hybrid and Equity Savings Funds, are attractive products to consider for lumpsum investment in the current environment. These hybrids capture an attractive positioning in the fixed income market while providing a range of equity exposure in an efficient manner. We also find comfort in large cap valuations being in the fair value zone and suggest adopting a staggered investment approach in large cap-biased strategies.

While policies may change and markets may fluctuate, investors should focus on managing what is in their domain – asset allocation & investment plans. I advise making 'clarity of purpose' and 'long-term approach' your friends!



Author's profile



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