



# US RECIPROCAL TARIFFS - UPDATE

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## Current State of Markets

The Trump administration's decision to impose significantly higher than expected Reciprocal Tariffs on imports from all major countries has sent shockwaves through Global financial markets. Global equity markets including Indian markets witnessed a sharp decline since then.

## Performance of Major Global Equity Markets

| Index            | Country/Region | MTD (%) | CYTD (%) | CY 2024 (%) |
|------------------|----------------|---------|----------|-------------|
| NIFTY 50         | India          | -5.05   | -6.24    | 8.82        |
| NASDAQ Composite | USA            | -14.04  | -23.71   | 29.83       |
| S&P 500          | USA            | -13.32  | -17.81   | 23.95       |
| CSI 300          | China          | -7.79   | -8.71    | 14.85       |
| Hang Seng        | Hong Kong      | -14.60  | -0.52    | 17.07       |
| Nikkei 225       | Japan          | -13.42  | -22.05   | 20.19       |
| Stoxx600         | Europe         | -11.92  | -6.96    | 5.82        |

Notes: i) MTD is from 1 April to 7 April 2025 and CYTD from 1 Jan to 7 April, 2025.

ii) The USA and Europe market data (Nasdaq, S&P 500, and Stoxx 600) was taken at 7:14 PM IST

## Performance of Key Sectoral Indices (India)

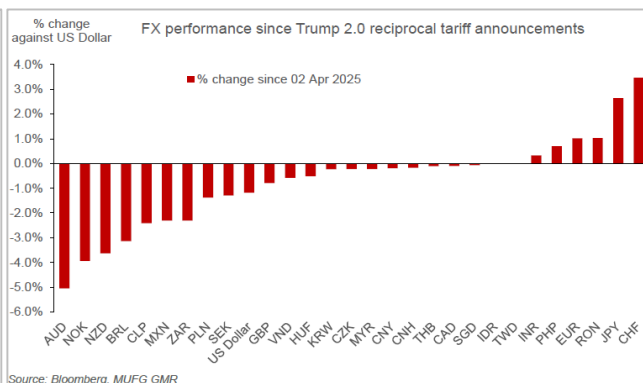
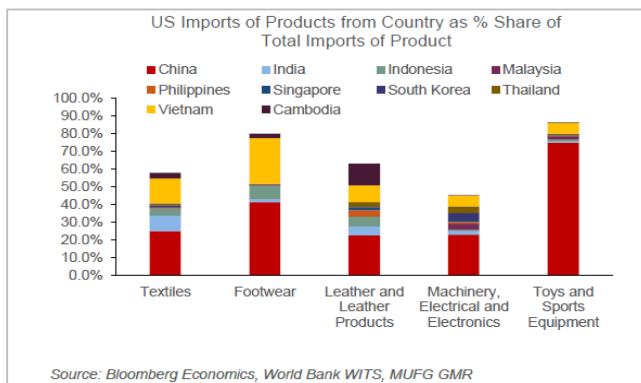
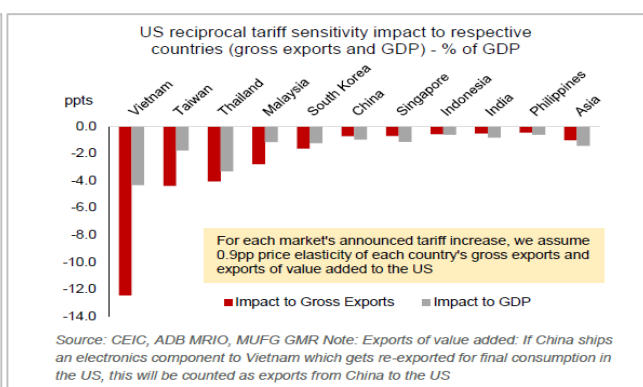
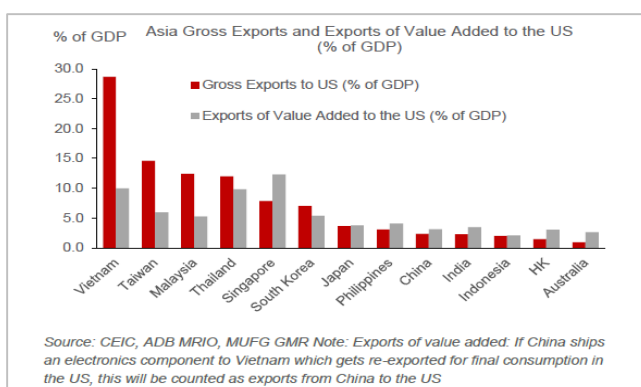
| Index                    | MTD (%) | CYTD (%) |
|--------------------------|---------|----------|
| Nifty Auto               | -6.43   | -13.22   |
| BSE Capital Goods        | -9.38   | -16.06   |
| Nifty Consumer Durables  | -4.23   | -18.55   |
| Nifty Financial Services | -3.81   | 1.68     |
| Nifty FMCG               | -0.70   | -6.40    |
| Nifty Healthcare         | -4.48   | -12.83   |
| Nifty IT                 | -10.31  | -24.54   |
| Nifty Metal              | -12.97  | -9.26    |
| Nifty OIL & Gas          | -6.10   | -8.21    |
| Nifty Realty             | -8.92   | -26.20   |
| BSE Utilities            | -2.05   | -5.69    |
| BSE BANKEX               | -3.37   | -1.07    |

Notes: i) MTD is from 1 April to 7 April 2025 and CYTD from 1 Jan to 7 April, 2025.

## Impact of US Tariffs on India

As per MUFG Research, India's dependence on exports to the US is relatively limited as compared with other Asian economies. Hence the direct impact of the Reciprocal tariffs announced by US on Indian Exports and GDP is estimated to be less than 1%. Further, the US depends on many Asian Markets for its import needs for several goods including Toys, Sports equipment, Textiles among others. This might imply that the sensitivity of Asia's exports (to US) to US tariff hikes could prove somewhat smaller than China's historical experience, as the ability for the US to substitute to alternative supplies is much more limited. However more severe decline in US and other economy's demand would bring larger indirect negative impact.

The impact on the INR (vs USD) has also been relatively muted since 2nd April, as the US Dollar Index has weakened.



## Key Takeaways

At this juncture, markets are still in a stage seeking more clarity. China has announced retaliatory tariffs of 34% on US imports. Responses from Europe and other major economies are awaited. The uncertainty surrounding the tariffs could weigh on both consumption and investment. Retaliation measures by major economies could raise the risk of tit-for-tat escalation and a sharper global growth slowdown. Broad consensus views indicate that the impact of US Reciprocal Tariffs, if maintained, on the US economy and consumer would be significant. Accordingly, it is viewed that the purpose of the Tariff announcements is negotiating better terms for the US with other countries and the higher level of tariffs may not be sustainable.

India's relatively solid macro-economic fundamentals, higher potential growth rate, robust corporate & bank balance sheets and domestic driven economy should help it weather the storm. At a geopolitical level, India has shown pragmatic diplomacy by attempting to foster relationships with major economies while maintaining its strategic autonomy. While the timing and specifics of trade policy changes of the new US administration remain unclear, resilient external balances, low exposure to the US in terms of product exports and geopolitical neutrality may provide India with a strong economic moat against proposed higher tariffs. The Indian government's continued push towards manufacturing along with cost effective factors of production also make India a strategic partner for "secure sourcing" of components for President Trump's "America First" policy.

## Market Outlook & Positioning

Markets are likely to be in the midst of peak uncertainty period. The earning yield of Nifty 50 vis-à-vis 10 year Government Bond Yield is at 0.8 v/s the historical average of 0.88. Nifty trailing P/E currently is at 19.27 with Price-to Book at 3.37x, whereas Nifty Midcap 150 Index is trading at a PE of 34.21, P/B of 4.7668x & Nifty Small Cap 250 is trading at a P/E of 25.50 & P/B of 3.50x.

### NSE Indices: Valuation Snapshot

| Indices             | Nifty 50 | Nifty Midcap-100 | Nifty Smallcap-100 | Nifty 500 |
|---------------------|----------|------------------|--------------------|-----------|
| Mar'25 closing      | 23,519   | 51,672           | 16,096             | 21,340    |
| YoY change (%)      | 5.3      | 7.5              | 5.4                | 5.4       |
| EPS (12m fwd)       | 1,174    | 1,721            | 719                | 1,002     |
| P/E (12m fwd)       | 20x      | 30.0             | 22.4               | 21.4      |
| P/E (10 yr average) | 20.6x    | 22.5             | 16.0               | 19.5      |
| P/B (12m fwd)       | 3.1      | 4.3              | 3.0                | 3.3       |
| P/B (10 yr average) | 2.8      | 2.7              | 2.0                | 2.8       |
| RoE (%)             | 15.0     | 13.9             | 13.2               | 14.9      |

Note: Source MOFSL. Estimates as on 31 March, 2025

The current market levels suggests Large caps are likely to remain attractive from the risk-reward perspective. Whereas, Mid-caps and Small-caps are still trading above historical valuations, though the overvaluation has reduced with the recent market correction. Hence, funds with a large-cap bias including Large cap, Multi-cap & Flexi-cap funds would be an ideal investment choice from a medium term perspective. Given the uncertainty around policy announcements, investors can look at staggering investments over the next 3 to 6 months with a 3+ year investment horizon and review the investment plan as more clarity emerges.

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