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Ride the rebound in Indian equities

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A nascent rebound in the Nifty 50 after a 4-month slide may understandably be viewed by investors with caution. Investors might be tempted to sell into the rally and reduce their exposure given the risk of reciprocal tariffs in April. However, we would urge patience and restraint given that the latest data point to a stabilization in growth and policy remains supportive. We expect that the improving macroeconomic environment should contribute to stronger EPS growth, underpinning our continued Attractive view on Indian equities.

As the global trade war hogs the limelight, Indian equities have staged a 2.1% rebound after an almost 16% decline in the Nifty 50 over the last four months. With the VIX volatility index above 23—seen only briefly twice in the last 2 years—investors might be somewhat leery of this rally. In particular, the bounce may look similar to the 6.1% rebound in November-December and the 4% rise in January, both of which reversed in short order. With India also in scope for reciprocal tariffs after 2 April, should investors sell into the rally and cash out of their India exposure?

Although uncertainty is high and likely to keep markets volatile, investors need to step back and remember that global economic fundamentals remain robust and US policy rate cuts still expected in 2H25. We continue to view global equities as Attractive, in particular US and Asia ex-Japan equities. Within the latter, India—along with Taiwan—remains an Attractive market for us, for the following reasons.

Earnings growth a key support. We expect the decent 5% EPS growth this year to accelerate to 15-16% next year. A combination of factors account for this: More forgiving base effects, positive developments in some of the main sectors, measures to revive some of the largest companies, plus a supportive macroeconomic environment. On that note, the Indian economy is starting to show green shoots of stabilization in a few areas, laying the foundation for GDP growth to

regain ground and climb to over-6% in 4Q25 and 1Q26. We expect real GDP growth to end FY25 around 6.3% and to maintain this pace in FY26, slightly below the trend growth range of 6.5-7.0%.

Policy to remain supportive. Both fiscal and monetary policy are likely to remain supportive, even if at a milder pace. Tapering USD strength of late has given the RBI room to ease rates with less damage on the INR. The RBI cut interest rates by 25bps in February, the first cut in 5 years, and we expect another two cuts this year. Nonetheless, we still maintain that this rate-cutting cycle is likely to be a very shallow one. Meanwhile, fiscal consolidation is likely to continue, albeit at a reduced pace. The FY26 Union Budget confirmed the end of the very high growth momentum in government capex, which has reached a ceiling of around 3% of GDP, constraining its growth to the pace of nominal GDP growth. We expect this moderate policy stance to keep the USDINR fairly flat, drifting to 88 in 1Q25.

Tariff impact could be moderate. At the moment, we think that India will be able to avoid significant tariff damage by committing to buying more US energy and defense equipment to help limit the monthly trade surplus to USD 25-30bn. Also, India might possibly need to reduce its tariff barriers on the auto, select agriculture, and textile sectors.

To bolster portfolios against tariff volatility, investors might also consider adding German equities, which we suggest doing via structured strategies. We expect a growth-friendly shift in government policy to drive a broadening of the recent strong-but-narrowly-based rise in the DAX. Easing European monetary policy and bottoming European growth should also prove supportive. In response to recent developments, we have also added a thematic basket of European stocks—Six ways to invest in Europe—that are most exposed to 6 catalysts of robust performance.

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