3rd February, 2025

Dear Investor,

The year 2025 started on nervous note due to two major incidents. Induction of Trump as President of United States and the Indian budget of 2025-26. The markets fluctuated wildly and corrected 12-14% from the top of September 2024.

Trump factor at work

After three straight meetings when the US Federal Reserve (Fed) cut rates by a cumulative one percentage point since September, it decided to take a breather. Rates were unchanged in what was the first Fed meet in 2025 and also the first under the new political regime since President Donald Trump assumed office. The change in stance can be viewed as a wait-and-watch decision when a new government takes charge and announces policies. The confidence that inflation was progressing along the glide path to the targeted 2 percent turned into cautiousness as the Fed took a more hawkish assessment of inflation that it “remains somewhat elevated”. What changed in just a month? Trump’s sweeping remarks since he assumed office have been a spanner in the works. There is no debating that Trump’s statements indicating an era of high tariffs, tax cuts, tight immigration laws and mass deportations could change the contours of international trade and perhaps fuel higher prices. Besides, it is too early to assess the impact of such policies and likely retaliatory measures by other countries on global trade and inflation. Another major impact has been the strengthening of dollar against all emerging countries. President Trump's recent imposition of tariffs on Canada 25%, Mexico 25%, and China 10% has sent shockwaves through global markets.

what Trump tariffs mean for the Indian economy. India has been increasingly viewed as an alternative manufacturing hub to China, a trend that may accelerate with these new tariffs. This 'China plus one’ strategy could see more production shifting to India, presenting a significant opportunity for the country's manufacturing sector. India’s textiles and electronics industry is also expected to gain from the tariffs.

Balanced Union Budget

The Union Budget for FY2025-26 was presented against the backdrop of slowing economic growth and rising demands for tax relief, particularly from the middle class, in view of decelerating urban consumption. This was particularly challenging in view of conflicting objective of continuing fiscal consolidation. In this context, the budget successfully balances the imperative of providing relief to taxpayers while maintaining fiscal discipline. In the budget government has provided strong emphasis on the four key drivers of growth—Agriculture, Micro, Small and Medium Enterprises (MSMEs), Investments, and Exports—is a welcome step. This focus is likely to revitalize these crucial sectors and stimulate overall economic expansion.

A major highlight of the budget is the announcement of a new, simplified income tax bill, aimed at making tax laws clearer. Government reiterated that going forward debt-to-GDP ratio will act as a fiscal anchor in its medium-term fiscal policy. This approach not only aligns with global best practices but also offers government the flexibility to implement counter-cyclical fiscal policies while ensuring a declining debt-to-GDP trajectory over time. The budget also reaffirmed the government's commitment to capital expenditure, ensuring that states have the financial means to invest in infrastructure through continued provision of long-term, interest-free loans. Additionally, significant steps have been taken to enhance the ease of doing business, including the establishment of a High-Level Committee for Regulatory Reforms. Overall, the FY26 budget strikes a pragmatic balance between immediate economic support and long-term fiscal sustainability, positioning India on a steady path toward growth and resilience.

Future Outlook

Despite global economic uncertainty, India's growth trajectory remains resilient and stands out in an environment of subdued global expansion. India's structural growth story remains intact, supported by a – steady improvement in rural consumption, robust HH capex (real estate), strong external sector with comfortable forex reserves. Additionally, banks and corporate balance sheets remain healthy, despite some localized weaknesses, further strengthening the foundation for sustained growth. Policy and political stability continue to provide confidence, reinforcing a favourable economic environment.

The current budget builds upon past policy initiatives and adopts a countercyclical approach. By providing targeted tax relief, it aims to address the cyclical slowdown in urban consumption, thereby supporting overall economic growth. Long-term growth drivers such as increasing affluence, low penetration, and strong demographics continue to provide structural tailwinds. However, key risks—including global economic uncertainty, rising capital costs, and geopolitical tensions—may contribute to market volatility.

Overall, the long-term growth prospects for India remain encouraging. Investors with a long-term perspective and the ability to tolerate short-term volatility may benefit from maintaining a disciplined and systematic approach to investing.

Valuations

Again we repeat, that the market is currently experiencing a pause – evidenced by a ~14% dip in the Nifty index from its all-time high. However we remain optimistic that the select Indian equities will deliver a healthy long-term compounding given the strength of corporate India's balance sheet and prospects of secular profitable growth. Given the sustained growth in economy with some hiccups, good macro outlook, fiscal consolidation, and continuity of policy making we continue to think that valuations should sustain. Identifying and investing in good quality businesses at reasonable valuation with long-term philosophy are the core of our approach which we continue to do with discipline.

Thank you.

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

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