4th August, 2025

Dear Investor,

Market sentiment got weak in July 2025 with the announcement of unilateral 25% US tariffs unexpectedly in the midst of the talks. The benchmark was down 1% at 24768 and expected to consolidate with various geopolitical issues and protectionist policies of the developed nations. The only positive thing is the lower oil prices which would help the growth. However India unlike the other Asian economies is more domestic oriented and depends less on exports which is a cushion.

Trump Tantrums

After weeks of silence on trade with India, Donald Trump has unilaterally made a surprise announcement of 25 % US tariffs on Indian goods . The new rate will be accompanied by an additional as yet unspecified 'penalty' on India for its decision to continue buying Russian military equipment and energy. The tariffs will be effective from 15th August 2025.

India's goods exports to the US economy account for only 2-3% of India's GDP and again 65% of which are outside the tariffs like software and pharmaceuticals. "If the 25% US tariffs persist, a modest downward revision of 20–30 basis points cannot be ruled out. Some loss in exports to the US could be offset by redirecting exports to other nations.

Trade diversification positive

With India-UK FTA deal in place, government's strategic priority would be towards trade diversification especially with South East Asia, Australia, Africa and Europe. This is highly positive with much better unconditional deal and should more than offset the US deal and bring about growth and employment. There are several smaller countries which are looking at India for their economic support and growth.

Focus on domestic internals

India is all we know is largely a domestic driven economy and with great aspirations and population with large markets. While definitely we want to take this forward to produce for the world which would help India to the next level of growth and prosperity which is was we are aiming. While the tariff issue is a major short-term concern, equity markets tend to be forward-looking and may gradually shift focus toward domestic fundamentals and broader global trends. Tariff-related headlines will remain important, but market participants are likely to weigh them alongside key variables such as:

• Progress on India–US trade negotiations
• RBI's monetary policy stance
• Key macro indicators: GDP, inflation, IIP
• Rural demand dynamics amid strong monsoons
• Domestic and FII flows
• Corporate earnings growth and festive season sales momentum

Investors should stay alert to global geopolitical shifts and trade disruptions, which could reintroduce volatility in the near term.

Additionally, the onset of the festive season good monsoon should support consumption demand, especially in rural sectors. RBI has delivered a bumper rate cut and liquidity boost that in turn will boost credit offtake. This should facilitate higher private capital investment and improved production all round. As a broad-based and durable consumption recovery is increasingly critical for a revival in the private capex cycle.

RBI and Macro factors

The central bank is expected to cut the interest rate in the next meet after it has delivered a bumper rate cut and liquidity boost that in turn will boost credit offtake. Last month RBI cut the repo by 50 basis points and the CRR by 100 points. Simply put, given the current heightened uncertainties in trade and geopolitics, the big rate cut is meant to counter that by boosting the domestic economy. RBI also made certain that there would be abundant liquidity by his 100-basis point cut in the cash reserve ratio. That would ensure swift transmission of the rate cuts by the banking sector, boosting growth. RBI has also guided for lower inflation and GDP growth of 6.7% for 2025-26.

Future Outlook

Indian equity market should be resilient going forward and to digest all negative news from tariffs/wars and an earnings slowdown. The benchmark indices - Nifty 50 and BSE Sensex -- are in a happy state, swinging within a small range. Th earnings has been much better than expected while the markets have corrected reasonably well 2/3 % recently. Also, an early beginning to the festive season should revive sales growth for India Inc. Importantly, India has reined in inflation, which along with the benefits of a sharp 100 basis points (bps) interest rate cut (so far in CY2025), should turn the wheel of economic activity as rate transmission kick-in. Long-term growth drivers such as domestic demand, low penetration, and strong demographics continue to provide structural tailwinds.

Outlook and Valuations

Post the recent correction, the valuations getting to reasonable levels, Investors should take a long-term perspective. With massive sizable manufacturing opportunity there should be no looking back for India and we become attractive destination for the world now already becoming the third largest economy. We firmly believe that India will overcome in this crisis as well and come out stronger.

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

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