Infinity
by Nuvama Private

Executive Summary of the 91st Global Investment Advisory Committee (GIAC) Meeting

3rd April 2025

Current stance

The committee has decided to maintain a cautious stance in the current market environment, reflecting mounting global uncertainties. The international equity allocation, which previously had a 5% weightage, completely towards US markets, has now been reduced to zero, with the exposure moved to cash as a temporary safeguard. This is in response to aggressive new tariffs imposed by the US, which are expected to be both inflationary and contractionary in nature. The committee believes these actions could significantly dampen global growth and add to geopolitical tensions. While Indian equities remain relatively resilient, aided by prior anticipation of global risks, the broader outlook remains volatile in the short term.

Gold allocations remain steady at 4-7%, with members agreeing that while the asset remains a strategic hedge against volatility and dollar depreciation, it currently appears overbought from a technical standpoint. A tactical review of gold exposure is planned in the coming weeks. Exposure to REITs and InVITs continues to be under consideration, given their potential to offer diversification and steady income amidst heightened equity volatility. A broader reassessment of asset allocations and market sentiment is scheduled over the next fortnight.

Key variables to monitor:

- US tariffs & global trade dynamics: New US tariffs are considered more severe than previously anticipated, potentially triggering retaliatory measures and leading to a realignment of global trade blocs.
- Inflation and US monetary policy: The inflationary impact of tariffs may pressure the Fed into rate cuts sooner than expected. The committee will track US 10-year yields and rate expectations closely.
- US equity markets: The committee anticipates further near-term weakness in the S&P 500 and Dow, with a 10% correction likely. Any major drop could compel the Fed to intervene with easing measures.
- Emerging market flows: With expectations of capital outflows from the US and dollar weakening, emerging markets, particularly India, could see increased inflows—albeit with a lag.
- Global growth outlook: Reports point to a sharp slowdown in global growth during Q2 and Q3.
- Currency and commodity movements: The US dollar's trajectory and gold/silver price movements will continue to be key hedges. Caution remains around silver due to its high volatility.
- India's external linkages: With over 50% of revenue for Indian corporates linked to global demand, external slowdown could still impact domestic earnings.
- Alternative assets: The potential of REITs and InVITs as lower-volatility income generators is being further evaluated.

What's changed since our last meeting:

US

US President Donald Trump has introduced a comprehensive set of import tariffs aimed at addressing trade imbalances and safeguarding American jobs and manufacturing. Effective April 5, a baseline 10% tariff will apply to all imports, impacting countries such as the UK, Singapore, Brazil, Australia, and others. However, around 60 nations deemed to have unfair trade practices—such as high tariffs on US goods or restrictive non-tariff barriers—will face steeper, country-specific tariffs starting April 9. These include China (54%), Vietnam (46%), Cambodia (49%), and the EU (20%), among others. Notably, Canada and Mexico are exempt from the new 10% tariff, as earlier measures already imposed a 25% rate due to prior concerns over border and drug issues. Additionally, a 25% duty on all foreign-made automobiles has been implemented immediately. While these measures are positioned as a strategy to strengthen the US economy, they could strain international trade relationships and raise consumer prices domestically.

US- India

US has imposed a 26% "reciprocal" tariff on all Indian merchandise exports, citing trade barriers against American goods in India. Though positioned as retaliation, the move reflects a broader shift from multilateralism to assertive bilateralism. India, which exports around USD 81 billion worth of goods to the US annually, now faces an estimated USD 8–10 billion economic impact over six months. While sectors like pharmaceuticals—accounting for 30% of India's pharma exports—are exempt due to strategic dependencies, electronics and gems and jewellery face higher exposure.

However, India may gain in textiles and footwear, thanks to a more favourable tariff rate than regional competitors. Despite the immediate disruption, India's relatively low export-to-GDP ratio and domestic demand orientation offer resilience. Moreover, ongoing trade talks with the US, combined with India's growing role as a manufacturing alternative to China, provide room for strategic gains. The challenge lies in quickly translating these advantages into actionable reforms, capacity expansion, and negotiated concessions. The tariff, while punitive, also opens a window for India to reposition itself in a more fragmented global trade order driven by bilateral dynamics.

Viewpoints

The committee holds a decidedly cautious stance given the escalation in trade tensions, the unpredictability of US policy direction, and the resulting ripple effects on global markets. The newly introduced US tariffs are seen as harsher than expected, significantly increasing the cost of goods for American consumers while sowing uncertainty in global trade. The committee views these tariffs as both inflationary and recessionary—an unusual and dangerous combination. The broad-based nature of these tariffs suggests a long-drawn negotiation phase globally, with countries likely to retaliate and potentially reorganise supply chains away from the US.

In this context, the US equity markets are expected to face near-term headwinds, with the committee projecting a 10% downside in the S&P 500. While such a correction would typically be negative, it may force the US Federal Reserve to accelerate rate cuts—one of the outcomes likely being targeted by Trump's strategy. However, until such policy responses materialise, the committee sees limited upside in the US market, prompting the decision to exit the 5% US allocation and move to cash for at least the next month.

India, in contrast, stands out as relatively better positioned. Many of the risks from global trade tensions had already been priced into Indian equities. Additionally, the Indian pharma sector's exemption from certain tariff measures is seen as a tailwind, though pressure continues in IT and metals. While India is likely to benefit from capital rotation out of the US in the medium term, members acknowledged that this will happen with a time lag.

Further, concerns were raised about the broader global slowdown expected in Q2 and Q3, particularly with major institutions forecasting significant deceleration in growth. Given that a substantial portion of India's corporate revenues are globally linked, even India may not be fully insulated. In light of this, the committee advocates staying put with existing domestic equity allocations without adding to positions at this juncture.

Gold remains a favoured hedge, particularly with the dollar expected to weaken. However, the asset appears technically overbought, and no additional allocations are being considered for now. Similarly, while silver may offer upside, its volatility makes it less attractive in the current environment.
On the alternative asset front, the committee is actively evaluating Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InVITs) as strategic diversifiers. These instruments are expected to offer income stability with lower market correlation, making them suitable additions in volatile conditions.

The committee believes that while India and other emerging markets could emerge as long-term winners in a post-tariff world, the near term remains fraught with risk. The group will adopt a 'wait-and-watch' approach through April and reassess allocations in the next meeting, to be held during the fortnight, based on evolving macro and geopolitical indicators.

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