

Executive Summary of the 90th Global Investment Advisory Committee (GIAC) Meeting

27th March 2025

Current stance

The committee has unanimously decided to maintain its slightly underweight stance on mid-cap and small-cap equities despite their recent bounce-back, with an overall neutral allocation to equities. The growth portfolio has experienced underperformance due to its higher equity and mid-cap allocation, though one-year returns remain positive. While the Nifty has been relatively flat over the last three months, the broader market has seen a downturn. Given ongoing volatility, the committee remains cautious about re-entering mid- and small-cap positions too soon. Gold allocations are steady at 4-7%, benefiting from mark-to-market (MTM) gains due to equity declines, while international exposure remains neutral with a focus on US equities. A reassessment is scheduled for the first week of April to evaluate market trends and adjust allocations accordingly.

Key variables to monitor:

- Mid-cap & small-cap trends: Although currently underperforming, there is an expectation of a reversal in April. The committee will track momentum to determine the right re-entry point.
- US monetary policy & global liquidity: The Federal Reserve's actions remain critical. Unlike previous cycles, a potential US recession may not necessarily lead to capital flight towards the dollar.
- FII flows & emerging market trends: Monitoring country-level capital flows is essential to anticipate market movements. Recent reallocations indicate shifting investor sentiment.
- Gold & safe-haven assets: Gold remains a hedge against volatility, with current allocations at 4-7%. No additional exposure to silver is planned due to its high volatility.
- European monetary policy: European central banks are cutting rates, and the region's potential role as a creditor could reshape global financial stability.
- Liquidity & market sentiment: Market conditions remain uncertain, and the committee has opted for a cautious stance. Short-term views will guide upcoming decisions.

What's changed since our last meeting:

US

Recent economic data from the US suggests steady expansion, with key business activity indicators exceeding expectations. The S&P Global Composite PMI for February rose to 51.6, up from 50.4 in January, signalling moderate growth. The services sector was a key driver, with the S&P Global Services PMI surpassing forecasts at 51, while the ISM Services PMI climbed to 53.5, reflecting resilience in the service-based economy.

However, inflationary pressures persist, as the ISM Services Prices index jumped to 62.6, exceeding projections and highlighting rising costs. Meanwhile, concerns loom over the impact of upcoming trade policies, particularly the reciprocal tariffs set to take effect on April 2. While hopes remain that these measures will be moderated, uncertainty has already impacted business sentiment. Despite these risks, labour market strength and upward revisions to Q4 2024 GDP growth indicate that the US economy remains on solid footing for now.

The US Federal Reserve maintained its benchmark interest rate at 4.25%-4.50% following its second monetary policy decision of 2025, aligning with expectations. This decision comes amid stagflation concerns exacerbated by President Trump's tariff hikes, which have intensified global trade tensions. Fed officials signalled a potential half-point rate cut by year-end, citing slowing economic growth and moderating inflation. The central bank revised its 2025 inflation projection upward while lowering its growth forecast. This marks the second consecutive pause in rate adjustments under Chair Powell, following a similar decision in January. The last rate cut occurred in December 2024.

Eurozone

The European Central Bank (ECB) has implemented its sixth rate cut in nine months, lowering its main interest rate to 2.5% from 2.75%, in an effort to support eurozone economic growth amid mounting challenges. The decision comes as the region faces threats from potential US tariffs and increased military spending plans across Europe. A sell-off in German government bonds, triggered by Germany's move to expand military and infrastructure spending, has rippled across bond markets, including the UK. The prospect of loosening Germany's fiscal rules to finance this spending has raised concerns over rising debt, leading to the sharpest sell-off in German bonds since 1997.

Despite rising borrowing costs, the ECB remains committed to its easing cycle, citing inflation moving closer to its 2% target. However, growth projections for 2025 have been lowered to 0.9%. The ECB also faces risks from possible US "reciprocal tariffs" that could further impact the eurozone economy.

China

Premier Li Qiang has stated that China is prepared for "shocks that exceed expectations" as the global economy braces for further US tariffs under President Donald Trump. Speaking at the China Development Forum in Beijing, Li emphasised the need for nations to open their markets despite rising economic fragmentation. Addressing global business leaders and Republican senator Steve Daines, he highlighted growing instability and uncertainty, urging collaboration among businesses to share resources.



China’s finance ministry announced plans to ramp up fiscal spending in 2025 with a more proactive and sustainable approach. The country faces mounting challenges due to external economic shifts, leading to pressure on maintaining a balanced budget. While China’s economic recovery supports increased fiscal revenue, weak domestic demand and price levels continue to constrain government earnings. Several key industries contributing to tax revenues are experiencing slower growth, further complicating fiscal planning.

In response to Trump’s recent tariff hikes on Chinese imports, Beijing has retaliated by imposing additional duties on US agricultural products, including chicken, wheat, soybeans, and pork. This move aims to safeguard China’s economic interests amid escalating trade tensions. China is also adjusting its fiscal policies to counter economic uncertainties, prioritising efficient spending and structural reforms.

India

India’s retail inflation, measured by the Consumer Price Index (CPI), eased to a seven-month low of 3.61% in February, staying well within the Reserve Bank of India’s (RBI) comfort zone. This decline increases the likelihood of a repo rate cut in the upcoming April Monetary Policy Committee (MPC) review to support economic growth. The All India CPI recorded a year-on-year inflation rate of 3.61% for February 2025, marking a 65-basis-point drop from January and the lowest level since July 2024. Meanwhile, food inflation, tracked by the Consumer Food Price Index (CFPI), stood at 3.75%, with rural and urban food inflation at 4.06% and 3.20%, respectively.

Both rural and urban areas saw significant reductions in inflation. Rural headline inflation fell to 3.79% from 4.59% in January, while urban inflation dropped to 3.32% from 3.87%. Economists anticipate that the RBI may implement another repo rate cut in April, given the downward inflation trend.

Viewpoints

The committee maintains a cautious approach, balancing risk mitigation with potential opportunities. While a mid-cap reversal is anticipated, the risk of continued volatility remains high, prompting a wait-and-watch strategy. Re-entering too early could expose portfolios to further downside, and the committee prefers to assess sustained momentum before making allocation shifts.

US economic policies introduce additional complexities. Unlike historical trends where US recessions attracted capital inflows, current indicators suggest that capital may exit the US instead, creating a different risk dynamic for global markets. The impact of trade tariffs and fiscal imbalances also adds uncertainty to US market stability, influencing the committee’s neutral stance on international equities.

There is a prevailing belief that China will face tariffs while India remains exempt, but the broader concern is the contractionary nature of global policies and their impact on financial stability. Economic stability often sows the seeds of future instability, making risk a global phenomenon rather than an isolated one. China’s policy stance has historically been rigid—particularly in its crackdown on property developers and leverage. However, a notable shift is underway as China pivots towards a more capitalistic approach, signalling a significant change in its economic direction. This evolving stance could have far-reaching implications for global markets and investment strategies.

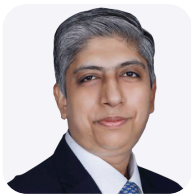
Additionally, alternative asset classes such as Real Estate Investment Trusts (REITs) are being evaluated as a means to diversify exposure beyond traditional equity and money market instruments. The committee sees REITs as a potential source of steady income and lower volatility compared to equity markets.

A strategic review is scheduled for first week of April to reassess asset allocations in light of macroeconomic developments and evolving market conditions.

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President & Head
Institutional Securities



Alok Saigal
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