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Reevaluating the India Equity Opportunity

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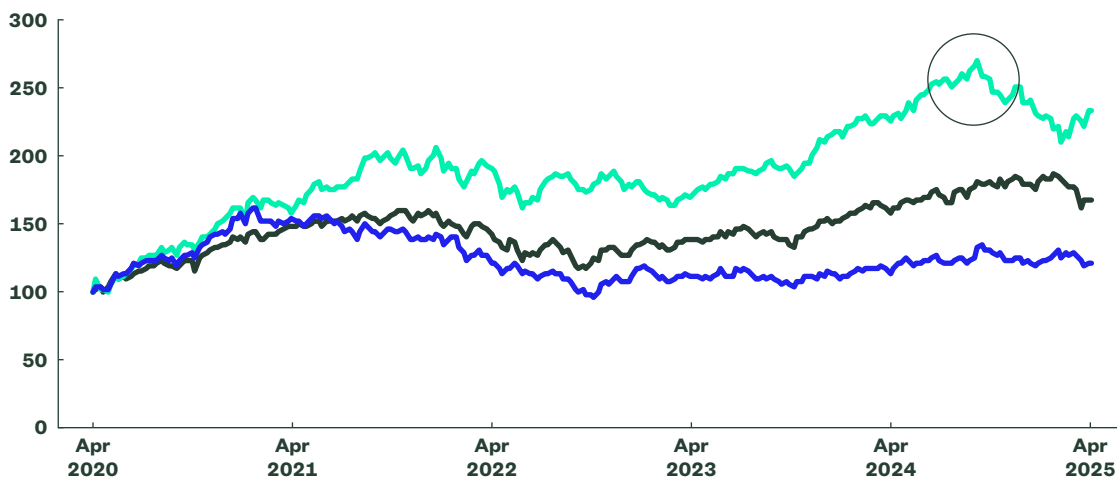
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The tumultuous start to 2025 has borne witness to heightened economic, market, and geopolitical tensions. As global financial markets process the changing landscape, we consider the challenges facing investors in Indian equities, outline why we remain constructive, and discuss where we see opportunity for the India growth story to maintain momentum.

Indian equities have been a bright spot in the emerging market (EM) universe over the last five years. Fueled by optimism related to structural reforms, and an influx of foreign investment, India outperformed the MSCI EM index by over 70% in the 2020–2025 period (Figure 1) that also saw its index weight more than double to 18%. However, a series of recent events have weighed heavily on the economy and called into question the sustainability of outperformance into the future.

Figure 1
**Indian Equity
Outperformance
(2020–2025)**

■ MSCI AC World
■ MSCI India
■ MSCI EM



Source: Bloomberg Finance L.P., MSCI as of April 21, 2025. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Navigating Economic Vulnerabilities

Vulnerabilities to the India growth story have been hiding beneath the surface. Economic growth for the fiscal year ending in March 2025 is expected to come in around 6.5%, well above other major economies. However, this still represents a significant year-over-year decline and is below government targets. Much of this slowdown has been attributable to income inequality where less than 13% of India's workforce earn enough to meet the threshold for income taxes. Indeed, Prime Minister Narendra Modi's BJP party lost its parliamentary majority in last year's general election, with less affluent voters citing concerns around inflation and unemployment, as well as a belief wealthy people were the dominant beneficiaries from economic growth. Now in his third term, Modi's most critical domestic challenge will be to increase employment prospects and prosperity amongst the poorest 50% to drive consumption growth, while also maintaining momentum in the endeavors that have fueled India's rise — financial digitization, infrastructure development, adoption of green energy, etc.

Tariffs

The announcement of President Donald Trump's Liberation Day tariffs on April 2 injected intense volatility and uncertainty into global equity markets, with few areas avoiding the carnage. For India, a tariff of 27 % on all Indian products was introduced. However, market upheaval and widespread calls for a pause prompted the Trump administration to suspend the tariffs for 90 days, with a universal tariff of 10% being applied in the interim. If fully implemented, the tariffs would undoubtedly have a negative short-term impact on specific sectors that export to the US (e.g. diamonds and gems, textiles, apparels, and electronics). Despite the inherent threat that tariffs pose to the global economy, there are indications that India could be a comparative winner in the trade wars.

While the initial tariff proposals have been paused, it is worth noting that trade with the US represents less than 3% of Indian GDP, and some of the most important exports (e.g. energy and pharmaceutical products) were not in scope — so the direct impact on India's economy should be contained. Secondly, Indian officials have previously demonstrated a capacity for negotiations over escalation in trade talks with the Trump administration. Perhaps most importantly, initial signs indicate that Indian tariffs will be significantly less than many of their Asian competitors that are more in the crosshairs of the Trump administration (Figure 2). The Indian government is thus well placed to capitalize on shifting supply chains that result from US protectionist policies and increase their manufacturing exports.

Figure 2
Potential for Relatively Better US Trade Terms

	April 2 Proposed Tariff (%)	Share of US Imports (%)
China	34	13.4
Japan	24	4.50
Vietnam	46	4.20
South Korea	25	4.00
Taiwan	32	3.60
Thailand	31	1.90
India	26	2.70

Source: White House, BBC as of April 10, 2025.

The Capital Gains Tax Issue

A notable headwind for Indian equities over the last year has been the capital gains tax increase that was announced in July 2024. This led to significant capital outflows as investors reevaluated their investment approach in India. Index managers, in particular, face challenges in balancing tax implications with the higher index turnover that is associated with emerging markets indices and thus make replicating index returns more difficult.

In the active equity management space, we believe a disciplined process that minimizes turnover and prioritizes consistency over a longer-term time horizon will be best positioned to navigate the new landscape that this tax regime presents ([An Enhanced Approach to Broad Emerging Market Equity Exposure](#)).

The Bottom Line

Global equity markets are at an inflection point with tariff concerns and geopolitical upheaval having seismic impacts on volatility. Against this backdrop, it is not altogether surprising that sentiment towards India — already facing slowing growth and consumption, and a frothy equity market — has lost momentum.

However, we continue to hold a constructive outlook for prospects, from both a macroeconomic and equity market perspective. While we acknowledge the heavy lifting that lies ahead for Indian authorities on the macro and geopolitical front, we see a pathway for India to boost export competitiveness by seizing on further supply chain migration away from China. The first signs of this would likely take the form of a balanced trade agreement with the US and a subsequent expansion of trading partners.

On the equity front, we are encouraged by earnings forecasts that are amongst the highest in EM Asia for both 2025 and 2026, as well return-on-equity ratios that reflect a positive growth trajectory (Figure 3). Recognizing that India has always traded at a premium to other emerging markets, we advocate for an active approach that prioritizes country and sector neutralization and seeks to identify stocks that with comparatively attractive valuations, strong fundamentals, and improving sentiment.

Figure 3
Indian Earning Growth Forecasts Remain Upbeat

	Earnings Growth Expectations		ROE (%)
	2025 (%)	2026 (%)	
India	16.2	14.9	14.7
China	9.0	11.8	10.8
Indonesia	0.0	6.4	13.8
South Korea	20.6	17.6	9.6
Taiwan	17.5	14.1	15.2
MSCI EM	13.2	13.0	12.1
MSCI EM Asia	13.3	13.5	11.7

Source: UBS as of April 21, 2025.

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* Pensions & Investments Research Center, as of December 31, 2023.

† This figure is presented as of March 31, 2025 and includes ETF AUM of \$1,553.58 billion USD of which approximately \$106.42 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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