

INSTITUTIONAL EQUITY RESEARCH

Page | 1 | PHILLIPCAPITAL INDIA RESEARCH

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US Elections and India

Neutral to long-term positive for India

INDIA | STRATEGY/MACRO | THEMATIC

24 October 2024

The U.S. presidential election in 2024 is seeing an intense contest between Kamala Harris and Donald Trump. As the world's leading global superpower, these elections will have a significant impact: A Kamala Harris win will largely be considered a continuation of the current regime while Trump's win will bring lasting changes in international relations, trade, inflation, and other economic trends. As per exit polls, swing states are showing only a marginal gap between the two candidates, implying a very close race.

Policy differences:

?

Economy and taxes: Democrats aim to reduce food costs, aid homebuyers, raise corporate taxes, and maintain the Fed's independence, while Republicans promise lower corporate taxes and focus on inflation reduction. Trump also promises to replace the current Chair of the Fed with someone more supportive of his agenda, and could replace the current Chair.

?

Trade and China: Both parties agree on restricting trade with China, which benefits India as a preferred partner for both countries (in the long-term). However, Trump has been strongly advocating aggressive import tariffs across the board, and, importantly, from China, which would negatively impact trade relationships and lead to rise of new blocs.

?

Energy and defence: The Democratic platform emphasizes clean energy initiatives, while Republicans favor fossil fuel incentives and aim to roll back green energy benefits. Both parties aim to expand defence spending, while Harris is pro-Ukraine; Trump is pro-Israel.

?

Immigration and on-shoring ? Both support tight rules for immigrants and on-shoring efforts to increase domestic production.

Likely sectoral impact in India:

?

IT: Prima facie, impact seems harsher if Trump wins, given his anti-immigration stance. However, Indian IT firms can de-risk this challenge by hiring more locals in onsite markets, relying on subcontractors, and opening more centres.

?

Automobiles: Under Trump, demand for EV components from Indian suppliers (Sona BLW, SAMIL, etc.) will rise in the short-term, but this could push for adoption of hybrid vehicles, cushioning the overall impact in the medium-term. Increased defence spending will boost Class 8 trucks ? benefiting Bharat Forge, RK Forging.

?

Energy: While both candidates want to lower the cost of energy, Harris supports renewables and Trump favors fossil fuels. If Trump gets elected, US crude oil and natural gas production will rise, dampening prices. Lower crude oil prices benefit exporters and consumers. Higher gas output would open up avenues for incremental long-term gas contracts for India.

?

Defence: Both Harris and Trump are expected to focus on the Indo-Pacific region, where India's role as a counterweight is vital. Harris is expected to maintain the Biden administration's emphasis on deeper defence cooperation, while Trump

may be more transactional, centred on arms sales and strategic gains. Also, Trump's tough stance on China's strategic interests in countering China, potentially accelerating defence partnerships.

?

Commodities and metals: Trump's focus on infra spending like creating a border wall, protection of domestic EV goals, will help mining companies to boost metals demand. Also, commodity prices had rallied at the Trump regime. Trump's focus on fossil fuel will result in higher capex in oil & gas sector, a positive for metals and

?

Pharmaceuticals: Lowering of healthcare and drugs cost is the common focus for both parties. Rising competition doesn't bode well for Indian generics, but the trend of exports volumes to the US should remain intact.

?

Higher import tariff from China: Will be a positive for Indian textiles, auto components, consumer electronics. It will be positive for India as companies look for alternative investment destinations.

Historical macro and equity performance in respective regimes: Adjusting for crisis periods, macro parameters are in a targeted range under both party regimes. Similarly, US and Indian equities have rallied during both Trump and Biden. Harris' win will be neutral/mean continuity for the economy, equities, and other asset classes. Trump would be positive on EMs, equities, and currency due to de-globalisation. Amongst EMs, we expect relatively positive impact on India.

Political impact on India: India should gain from the US' continued anti-China stance, regardless of who wins. Increased exports to the US. Harris could work towards further strengthening the strategic and geopolitical ties, given the Quad and G20. India could hope for greater collaboration on defence, clean energy, and trade. Trump's protectionist approach will challenge Indian exports demand in the US market, but significantly higher tariffs for China should be a positive for India's competitiveness. Trump's softer approach towards Russia is a positive for India's broader interests.

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STRATEGY/MACRO THEMATIC

US elections and impact on India

Harris vs. Trump ? quite different in their policy preferences

US elections always grab the spotlight due to the sheer size of its economy and geopolitical power that the country possess. As the 4-year term for the current democratic president comes to an end, elections have been announced. The incumbent president, Joe Biden, a member of the Democratic Party, initially ran for re-elections and became the party's presumptive nominee, facing little opposition. However, Biden's performance in the June 2024 presidential debate intensified concerns about his ability to continue, and led to calls within his party for him to leave the race.

Mr Biden withdrew on 21st July and endorsed Vice President Ms Kamala Harris, who became the party's nominee on August 5. Ms Harris selected Mr Tim Walz, the governor of Minnesota, as her running mate. On the Republican side, Mr Donald Trump was nominated along with his running mate, JD Vance, Ohio senator. Mr Trump has recently seen many legal hurdles and also faced two assassination attempts in July and September.

Since most US states are strongly affiliated with one party due to their demographics, they rarely face competition. Therefore, swing states ? those with a negligible difference in their vote share ? are those that have a significant influence on the outcome. In 2020 elections, seven states were won by a margin of three percentage point (pp) or less. These states are Arizona (11 electors), Georgia (16), Michigan (15), Nevada (6), North Carolina (16), Pennsylvania (19) and Wisconsin (10).

Elections in 2024 are currently seeing fierce competition. The New York Times' exit polls average indicates only a 1pp lead in the national average for Ms Kamala Harris. All the above-mentioned swing states will also see tight competition, as the polls indicate similar vote share or just 1% difference among both candidates. With just about two weeks to the polls, such tight competition indicates that the next US president could be from either party and will be known only after 5th November.

Election process ? a brief

US elections will be held across the country on 5th November, where voters will cast their vote for their choice of President and running mate. In each of the 48 states and District of Columbia, the leading choice gets all the electoral votes for that state. Maine and Nebraska assign their electors using a proportional system. For a president to be selected, the candidate needs the vote of at least 270 electors out of 538 members. Results are mostly known on the same evening as the election unless counting extends in any of the states.

Electoral votes by state

State

Number of votes

State

Number of votes

Alabama

9

Montana

4

Alaska

3

Nebraska

5

Arizona

11

Nevada

6

Arkansas

6

New Hampshire

4

California

54

New Jersey

14

Colorado

10

New Mexico

5

Connecticut

7

New York

28

Delaware

3

North Carolina

16

District of Columbia*

3

North Dakota

3

Florida

30

Ohio

17

Georgia

16

Oklahoma

7

Hawaii

4

Oregon

8

Idaho

4

Pennsylvania

19

Illinois

19

Rhode Island

4

Indiana

11

South Carolina

9

Iowa

6

South Dakota

3

Kansas

6

Tennessee

11

Page | 3 | PHILLIPCAPITAL INDIA RESEARCH

STRATEGY/MACRO THEMATIC

Kentucky

8

Texas

40

Louisiana

8

Utah

6

Maine

4

Vermont

3

Maryland

10

Virginia

13

Massachusetts

11

Washington

12

Michigan

15

West Virginia

4

Minnesota

10

Wisconsin

10

Mississippi

6

Wyoming

3

Missouri

10

Source: PhillipCapital India Research

*Although not a state, the District of Columbia is allotted electors.

Policy Comparison: Democratic and Republican party

Inflation and economy

Democratic Party

Republican Party

?

Reduce food costs by restricting
price increases on groceries.

?

Promise to deliver lower interest
rates.

?

Aid first-time homebuyers with
incentives.

?

Deporting undocumented
immigrants to ease pressure on
housing.

?

Maintain Fed's traditional political
independence and likely to keep
Jerome Powell as Chair

?

Considering to challenge Fed's
political independence; favour easy
money policies and low interest
rates. May replace Fed chair.

Taxes

Democratic Party

Republican Party

?

Raise top corporate tax rate to 28%
from 21%.

?

Reduce corporate tax rate to 20%
from 21%; 15% for companies
manufacturing their products in the
US.

?

Increase corporate alternative
minimum tax to 21% from 15%.

?

Permanently extend quicker capital
expenditure depreciation rules
enacted in the 2017 Tax Cuts and
Jobs Act.

?

Increase tax on stock buybacks to 4%
from 1%.

?

Increase deduction for new business

start-ups to US\$ 50,000.

?

Permanently extend tax rates
established in the Tax Cuts and Jobs
Act to all individuals except those
earning more than US\$ 400,000.

?

Permanently extend tax rates
established in the Tax Cuts and Jobs
Act.

?

Permanently extend expanded
Affordable Care Act (ACA) health
insurance tax subsidies.

?

Allow expanded Affordable Care Act
(ACA) health insurance tax subsidies
to lapse.

?

Eliminate income taxes on tips for
individuals making less than US\$
75,000.

?

Eliminate income taxes on tips,
overtime pay and Social Security
benefits.

?

Reduce estate and gift tax

exemptions to pre-2018 levels.

?

Reinstate deduction for local and

state income taxes.

?

Decrease standard deductions to pre-

2018 levels.

?

Make auto loan interest tax-

deductible.

Democrats focus ? food costs and

homebuyer aid; Republicans ? low

interest rates and immigration

Democrats ? higher corporate taxes,

increased credits for families;

Republicans ? lower corporate taxes,

extended deductions, and tax benefits

for homebuyers and families

Page | 4 | PHILLIPCAPITAL INDIA RESEARCH

STRATEGY/MACRO THEMATIC

?

Raise child tax credit to \$6,000 for

families with children less than a year old.

?

Expand child tax credit to US\$ 5,000.

?

Impose a wealth tax of 25% on incomes higher than US\$ 100mn.

?

Raise top capital gains tax rate to 33% from 22.4% on incomes exceeding US\$ 1mn (28% on long-term capital gains and net investment income tax of 5%).

?

Provide US\$ 25,000 tax credit for first-time homebuyers over four years.

?

Provide new federal funding to spur housing construction.

Trade and China

Democratic Party

Republican Party

?

Target tariffs at industry/

geopolitical rivals, including Chinese
technology products.

?

Implement a 60% tariff on goods
from China.

?

Increase investment restrictions in
key Chinese sectors tied to national
security.

?

Increase investment restrictions on
key Chinese sectors tied to national
security

?

Increase restrictions on
semiconductor exports to China.

?

Revoke China's most favoured nation
trade status.

?

Phase out imports of essential

Chinese goods

?

Implement 10-20% across-the-board
tariffs.

?

Reinstitute tariffs on European Union
(EU) steel and aluminium

?

Consider removing the U.S. from the
World Trade Organization

?

Pass the ?Trump Reciprocal Trade
Act? to ensure that whatever the
tariffs for a foreign country is, US
place the same tariff.

Healthcare

Democratic Party

Republican Party

?

Reduce drug prices.

?

Reduce drug prices

?

Expand the US\$ 2,000 cap on out-of-pocket Medicare prescription costs to all Americans.

?

Accelerate efforts to privatize Medicare and reduce payments to hospitals for outpatient care.

?

Expand the number of drugs subject to new Medicare price negotiations.

?

Reduce Medicare Advantage payments to insurers.

?

Extend Medicare inflation cap to private-sector drugs

?

Reduce Medicaid spending and implement work requirements.

?

Work with state entities to cancel US\$ 7bn in medical debt for 3mn qualifying Americans.

?

Broaden Medicare benefits cover

home health care.

Democrats ? expand Medicare

benefits, reduce drug costs;

Republicans ?privatize Medicare, cut

spending

Page | 5 | PHILLIPCAPITAL INDIA RESEARCH

STRATEGY/MACRO THEMATIC

Energy/Clean Energy

Democratic Party

Republican Party

?

Extend electrical vehicle incentives to

commercial transportation

?

Offer tax incentives for oil and gas

drilling.

?

Expand carbon capture credits.

?

Expand carbon capture credits.

?

Eliminate the US\$ 7,500 electric

vehicle tax credit

?

Attempt to roll back green energy tax

incentives in the 2022 Inflation

Reduction Act (IRA).

?

Reduce/roll back fuel efficiency

requirements.

Defence/Foreign Aid

Democratic Party

Republican Party

?

Increase spending on national

defence

?

Increase spending on national

defence.

?

Maintain financial/arms support of

Ukraine.

?

Reduce or eliminate financial/arms

support of Ukraine.

?

Push for cease-fire in Israel/Hamas

war.

?

Emphasize US support of Israel.

?

Reiterate full support of NATO.

?

Pressure NATO members to spend at

least 2% of their GDP on defence.

Technology

Democratic Party

Republican Party

?

Provide additional

subsidies/incentives for U.S.

semiconductor suppliers and

domestic production.

?

Apply pressure on social media

companies about free speech,

antitrust and national security

concerns.

?

Maintain U.S. engagement in

Organization for Economic

Cooperation and Development

(OECD) global tax discussions,
keeping current suspension of digital
services taxes in place.

?

Seek to exit the Organization for
Economic Co-operation and
Development (OECD) tax discussions,
threatening re-imposition of
suspended digital services taxes.

Industrials

Democratic Party

Republican Party

?

Provide additional tax
incentives/subsidies for on-shoring
efforts to increase domestic industrial
production and secure supply chains.

?

Support on-shoring efforts to increase
domestic industrial production.

?

Support tax credits sending US\$
100bn to U.S. manufacturers

?

Reduce spending on projects for
public transit and pollution control.

Democrats ? promote clean energy,
electric vehicles; Republicans ? tax
incentives for fossil fuels, rolling back
green initiatives

Democrats ? tax incentives for on-
shoring; Republicans ? support on-
shoring, reducing public spending

Page | 6 | PHILLIPCAPITAL INDIA RESEARCH

STRATEGY/MACRO THEMATIC

Immigration

Democratic Party

Republican Party

?

Implement enhanced border
enforcement on asylum seekers.

?

Increase deportation of

undocumented individuals.

?

Support bipartisan border security

bill that includes funding for

additional border agents and

technology to intercept drugs like

fentanyl.

?

Implement substantially more

restrictive immigration rules,

including avenues for legal work and

student visas.

?

Restore funding for the wall on the

U.S./Mexico border.

Other

Democratic Party

Republican Party

?

Raise the federal minimum wage to

US\$ 15/hour from US\$7.25

?

Reduce/roll back actions on

consumer fees and other Consumer

Financial Protection Bureau

activities.

?

Expand student debt relief.

?

Challenge pending Basel III bank regulations.

?

Ban ?price-gouging? in the grocery industry.

?

Cut regulations substantially across the board.

?

Expand antitrust initiatives/enforcement.

?

Categorize more civil workers as political appointees rather than employees.

?

Reduce barriers and long approval times for mergers/acquisitions.

?

Eliminate regulations targeting energy-inefficient appliances and

products.

?

Eliminate U.S. Department of
Education.

Democrats ? Enhanced border

security, asylum processes;

Republicans ? stricter immigration

rules, increased deportations

Democrats ? higher wages, student

debt, consumer protection;

Republicans ? deregulation, reducing

government intervention in markets

Page | 7 | PHILLIPCAPITAL INDIA RESEARCH

STRATEGY/MACRO THEMATIC

Implications on India

India and the US share certain common interests, which have contributed to their recent closeness. Whatever the election outcome, the economic and strategic relationship between the two countries will not be compromised much. In case of Trump win, the extent of trade restrictions across EMs (plans laid out for China but unknown for other exporting countries), will be critical to gauge trade impact and formation of new trade blocs. On an immediate basis, higher tariffs on Indian exports would be a negative, however, disproportionately higher tariffs on China, should keep Indian exports competitive. Thus, in the long-term, US? anti-China stance should benefit India.

Common advantage for India: Anti-China stance

?

Irrespective of who wins, India will benefit from the US? continued trade restrictions on China. This means that the US would need to promote some

emerging economies such as India as its preferred import partner. Hence, India can enhance its overall exports levels. Mr Trump's actions against China will be more severe and faster.

If Ms Kamala Harris wins:

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Should continue most of the trade policies that were seen during Biden's tenure.

Indian exports to the US had flourished in the last four years. Thus, exports to US will be a major bonus point for India if Democrats win.

?

Likely to support policies that make it easier for high skilled immigrants to work in the US. This will be a positive for the IT sector.

?

Geopolitical implications: Ms Harris has herself not indicated clearly her stance on geopolitics in Asia. However, it should be a continuation of the stance taken by Mr Biden. He has maintained good relationship with India and PM Modi and improved engagements with India in the quad and G20. Under Harris, India could find a long-standing partnership.

If Mr Donald Trump wins:

?

Trump has currently put out a more protectionist agenda with tighter trade restrictions. This may likely be aimed at preventing Chinese firms from re-routing goods to the US via other countries. But a broader set of tariffs of 10-20% for all imports will put a question mark on India's price competitiveness in the US.

Notably, Trump has called India 'a tariff king'.

?

Trump could also act against India's artificial weakening of the rupee to gain trade advantage.

?

A stronger immigration stance will work against Indians, particularly H-1B visa applications.

?

Geopolitical implications: US considers India a strategic partnership to counter China with common interests on defence, security, clean energy etc. Thus, India should continue to be a key partner for the US. Trump's softer stance on Russia would be an added benefit.

Harris wins ? expect continued trade policies, support for skilled immigrants, and increased US-India geopolitical partnerships

Trump wins ? expect protectionist trade policies, stricter immigration, and continued US-India strategic partnerships

US macros and markets during different regimes

GDP Growth: During the George W Bush's (Republican) presidency (2001-08), US GDP growth remained healthy with growth picking up from Q1 2003 and averaging at 3.7% in 2004-05. Growth softened thereafter as US witnessed the great recession during the last year of his tenure. During the next Republican term, with Donald Trump at the helm during 2017-20, quarterly growth averaged at near 2.6%. Last year of his term saw recession induced the initial hit of Covid.

Comparing the growth during the Democrats, both Obama and Biden came into power soon after a recession hit. They were tasked with growth, building back the economy. During the Obama administration (2009-16), the US saw modest 2.3% average quarterly growth, while Biden delivered 2.4% average growth from 2022-24.

Unemployment rate: During the Bush presidency, unemployment rate averaged at 5.2% till end-2007, which then shot up due to the great recession to 7.3% as of December 2008. Obama's presidency saw unemployment rate easing from peak 10% in October 2009 to 4.7% during the end of his tenure. Employment situation improved even during the Trump's presidency to as low as 3.5% in February 2020 after which covid-induced recession shot up the unemployment rate to as high as 15% in April 2020. Unemployment rate then quickly eased to 6.7% by the end of his tenure. Biden's initial months of presidency saw unemployment rate cooling to as low as 3.4% in April 2023, which then saw some pressure, and is currently at 4.1% as on September 2024.

US real GDP growth (YoY, %)

Source: Bloomberg, PhillipCapital India Research

US unemployment rate (%)

Source: Bloomberg, PhillipCapital India Research

Inflation: Price rise can induce people to think about their choice for President, as they directly feel the pinch in their everyday life. Price pressures were volatile during the Bush administration, ranging from lows of 1.1% in January 2002 to highs of 5.6% in July 2008. As inflationary pressures were consistently above target from April 2004, Fed rates were also raised to as high as 5.3% in the first half of 2007. After recessionary indications, rates were cut to as low as 0%. During Obama’s two terms in office, inflation did see some spikes, but remained below 4% and averaged at 1.4%. As a result, Fed kept rates near zero almost throughout his tenure, except the slight increase in 2016 when inflation picked up pace slowly.

During Trump’s tenure, inflation was largely near target except some spike in 2018 and Fed funds rate were gradually raised to near 2.5% as of April 2019. Rates were then lowered with cooling inflation. Both inflation and fed rate hit the floor as covid hit. During Biden’s tenure, inflation spiked to as high as 9.1% in June 2022 due to pent up demand and the Russia-Ukraine war, which led the Fed to hike rates continuously from March 2022 to July 2023. Rates were kept at elevated levels until August 2024 and then the first cut came recently in September 2024.

-10
-5
0
5
10
15
Mar-00

Sep-01

Mar-03

Sep-04

Mar-06

Sep-07

Mar-09

Sep-10

Mar-12

Sep-13

Mar-15

Sep-16

Mar-18

Sep-19

Mar-21

Sep-22

Mar-24

Bush

Obama

Trump

Biden

0

2

4

6

8

10

12

14

16

Jan-00

Mar-01

May-02

Jul-03

Sep-04

Nov-05

Jan-07

Mar-08

May-09

Jul-10

Sep-11

Nov-12

Jan-14

Mar-15

May-16

Jul-17

Sep-18

Nov-19

Jan-21

Mar-22

May-23

Jul-24

Bush

Obama

Trump

STRATEGY/MACRO THEMATIC

Currency: DXY had largely depreciated during Bush's tenure except for a slight intermittent pick-up in currency, while Obama's tenure saw the dollar appreciating. During Trump's presidency, the DXY closed slightly weaker, while Biden's term saw dollar appreciation. During both democratic presidents' terms, appreciation was also due to safe-haven investments in the dollar after two recessionary periods.

The INR has largely seen depreciation throughout the period also impacted by recessions. Highest depreciation of near 39% was during Obama's presidency and 15% during Biden's term. The INR relatively held its value with only 5-8% depreciation during both republican presidents.

US CPI and fed funds rate (%)

Source: Bloomberg, PhillipCapital India Research

Currency movements- DXY and other major currencies

Source: Bloomberg, PhillipCapital India Research

Equity markets: Adjusting for the recession-led dip in markets, US equity indices, S&P 500/Nasdaq/Dow Jones, saw 13%/3%/28% rise during the Bush tenure, 89%/119%/78% growth in Obama's tenure, and 65%/130%/54% growth during

Trump?s. Biden?s current term saw 55%/39%/41% growth. The Indian market tripled during Bush?s term, largely due to domestic factors, saw 55% growth in Obama?s tenure, 63% growth in Trump?s tenure, and 89% during Biden?s. To conclude, equity markets have trended higher across regimes.

Equity markets- S&P 500 and NIFTY Index

Source: Bloomberg, PhillipCapital India Research

Equity markets- NASDAQ and Dow Jones Index

Source: Bloomberg, PhillipCapital India Research

-4
-2
0
2
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Jan-00
Mar-01
May-02
Jul-03

Sep-04

Nov-05

Jan-07

Mar-08

May-09

Jul-10

Sep-11

Nov-12

Jan-14

Mar-15

May-16

Jul-17

Sep-18

Nov-19

Jan-21

Mar-22

May-23

Jul-24

US Federal Funds Effective Rate

CPI (YoY, %)

Bush

Obama

Trump

Biden

0.0

2.0

4.0

6.0

8.0

10.0

0

50

100

150

200

Jan-00

Mar-01

May-02

Jul-03

Sep-04

Nov-05

Jan-07

Mar-08

May-09

Jul-10

Sep-11

Nov-12

Jan-14

Mar-15

May-16

Jul-17

Sep-18

Nov-19

Jan-21

Mar-22

May-23

Jul-24

DXY

USD JPY

USD INR

USD Euro (RHS)

USD CNY (RHS)

Bush

Obama

Trump

Biden

0

5000

10000

15000

20000

25000

30000

0

1000

2000

3000

4000

5000

6000

7000

Jan-00

Mar-01

May-02

Jul-03

Sep-04

Nov-05

Jan-07

Mar-08

May-09

Jul-10

Sep-11

Nov-12

Jan-14

Mar-15

May-16

Jul-17

Sep-18

Nov-19

Jan-21

Mar-22

May-23

Jul-24

S&P 500

Nifty Index (RHS)

Bush

Obama

Trump

Biden

0

5000

10000

15000

20000

25000

30000

35000

40000

45000

Jan-00

Mar-01

May-02

Jul-03

Sep-04

Nov-05

Jan-07

Mar-08

May-09

Jul-10

Sep-11

Nov-12

Jan-14

Mar-15

May-16

Jul-17

Sep-18

Nov-19

Jan-21

Mar-22

May-23

Jul-24

NASDAQ Composite Index

Dow Jones Industrial Average

Bush

Obama

Trump

Biden

Page | 10 | PHILLIPCAPITAL INDIA RESEARCH

STRATEGY/MACRO THEMATIC

EPS: S&P 500/Nasdaq/Dow Jones saw the highest growth during Biden's era with a CAGR of 78/82%/64% CAGR. The previous Trump presidency saw 52%/37%/25% growth. However, India's NIFTY saw healthy 77% growth during Obama's tenure, followed by 56% during Trump's presidency, and 83% with Biden in charge.

Equity EPS- S&P 500 and NIFTY Index

Source: Bloomberg, PhillipCapital India Research

Equity EPS- NASDAQ and Dow Jones Index

Source: Bloomberg, PhillipCapital India Research

Valuation: US average market valuations corrected during Obama’s tenure and shot-up during Trump’s presidency. Except Dow Jones, which saw near-stable PE even during Biden’s presidency, S&P500 and Nasdaq got expensive. NIFTY valuation have been peaking over the years, with average valuations at 15x in the Bush era, 16x in Obama’s time, 21x during Trump’s term, and 22x during Biden’s presidency.

Equity valuation- S&P 500 and NIFTY Index

Source: Bloomberg, PhillipCapital India Research

Equity valuation- NASDAQ and Dow Jones Index

Source: Bloomberg, PhillipCapital India Research

0
200
400
600
800
1000
1200
Jan-00
Mar-01
May-02

Jul-03

Sep-04

Nov-05

Jan-07

Mar-08

May-09

Jul-10

Sep-11

Nov-12

Jan-14

Mar-15

May-16

Jul-17

Sep-18

Nov-19

Jan-21

Mar-22

May-23

Jul-24

S&P 500

Nifty Index

Bush

Obama

Trump

Biden

0

500

1000

1500

2000

2500

Jan-00

Mar-01

May-02

Jul-03

Sep-04

Nov-05

Jan-07

Mar-08

May-09

Jul-10

Sep-11

Nov-12

Jan-14

Mar-15

May-16

Jul-17

Sep-18

Nov-19

Jan-21

Mar-22

May-23

Jul-24

NASDAQ Composite Index

Dow Jones Industrial Average

Bush

Obama

Trump

Biden

0

5

10

15

20

25

30

35

Jan-00

Mar-01

May-02

Jul-03

Sep-04

Nov-05

Jan-07

Mar-08

May-09

Jul-10

Sep-11

Nov-12

Jan-14

Mar-15

May-16

Jul-17

Sep-18

Nov-19

Jan-21

Mar-22

May-23

Jul-24

S&P 500

Nifty Index

Bush

Obama

Trump

Biden

0

20

40

60

80

100

120

Jan-00

Mar-01

May-02

Jul-03

Sep-04

Nov-05

Jan-07

Mar-08

May-09

Jul-10

Sep-11

Nov-12

Jan-14

Mar-15

May-16

Jul-17

Sep-18

Nov-19

Jan-21

Mar-22

May-23

Jul-24

NASDAQ Composite Index

Dow Jones Industrial Average

Bush

Obama

Trump

Biden

IT sector ? Relatively de-risked from immigration challenge

Prima facie, the impact on Indian IT looks a tad harsh if Trump comes to power, given his anti-immigration stance. However, Indian IT companies have tried to de-risk the immigration challenge by hiring more locals in onsite markets, relying on sub-contractors, and opening more near-shore delivery centres so as to rely less on US visas.

Hiring locals: The table records the number of employees in the US, Mexico, and Canada. In our view, locals are increasingly becoming part of the permanent workforce of these companies.

Number of employees in the US, Mexico, and Canada

No of employees

US

Mexico

Canada

Total

TCS

45000

12500

5500

63000

Infosys

30938

500
8000
39438
Wipro

1600

20500
HCLT
23000
2400
2600
28000

Source: Media reports, company data, PhillipCapital India Research

Total H-1B Visa approved by USCIS: Reliance on visas is declining since 2016

Total Approved

2014
2016
2019
2024
Cognizant
16,470
22,477
13,363
3,482

TCS

10,855

12,126

7,592

5,273

Infosys

10,356

13,828

3,183

5,913

HCL Tech

2,475

3,671

2,422

1,593

Wipro

9,248

7,154

3,118

1,379

Tech Mahindra

1,205

3,203

1,912

785

Source: USCIS, PhillipCapital India Research

Using sub-contractors: These are temp staffers that are already based onsite with valid visas, which helps companies to quickly deploy subcontractors to projects, instead of sending their own employees from India, which could take longer due to the visa approval process. This approach also restricts incremental flow of workforce to the US.

Sub-con costs have trended higher

Source: Average sub con costs for TCS, Infosys, Wipro, HCL Tech, Tech Mahindra, PhillipCapital India Re

STRATEGY/MACRO THEMATIC

Delivering services from near-shore centres: Apart from delivering services from onsite and offshore centres, companies have invested in near-shore centres located in countries such as Mexico and Canada. These centres have lower costs compared to onsite locations, but they are in similar time zones, so clients are more comfortable giving more work to IT companies.

Indian IT companies continue to invest in near-shore centres

Date

Company

Country

City

Number of Seats

Remarks

5/9/2022

Mphasis

Mexico

Guadalajara

600

Plans to recruit up to 600 employees for its Guadalajara operations in the coming year

5/18/2021

Mphasis

Mexico,

Costa Rica,

Taiwan

800

Mphasis announces expansion of its footprint with creation of tech centres, bringing hundreds of jobs to Mexico, Costa Rica, and Taiwan

7/6/2023

Infosys

Canada

Ottawa

7000

Infosys? subsidiary continues to invest in Canada, providing governments with local access to top-tier talent and innovative solutions to modernize service delivery

9/26/2022

Infosys

Canada

Calgary

1000

Infosys Digital Centre Opens in Calgary with commitment to creating 1,000 new local jobs by 2024

3/18/2021

TCS

Canada

Montreal

100- 500

Expanding its presence in Montreal by opening a new IT delivery centre in the city, with plans to hire over 100 new employees immediately, and more than 500 in the next three years.

1/18/2023

Wipro

Canada

Toronto

Announced the opening of its newest Wipro-AWS Launch Pad Centre in Toronto, Canada

3/29/2016

TCS

Canada

Toronto

TCS Canada inaugurates new downtown Toronto office

Wipro

Mexico

Guadalajara

2000

Wipro's near-shore centre in Guadalajara, Mexico, is a 2,000-seat facility supporting more than 25 customers across multiple business units.

1/13/2023

TechM

Mexico

Guadalajara

Tech Mahindra establishes a Google Cloud Delivery Centre in Guadalajara,

Mexico

12/14/2023 LTIMIndtree

Mexico

Mexico City

100

Announces the inauguration of a new delivery centre in Mexico City, as part of expanding its presence in Latin America

11/2/2022

LTTS

Canada

Toronto

100+

L&T Technology Services inaugurates Engineering R&D Centre in Toronto,

Canada

Source: PhillipCapital India Research

Auto sector to have mixed impact

A victory for the Republican candidate, Mr Trump could mean an increasing focus on local manufacturing and a boost to infrastructure spending, which could revive the Class 8 truck segment and benefit Indian suppliers like Bharat Forge and RK Forgings.

Mr Trump's stance on EVs is tough, and if he were to be elected US President, we could see easing of EV demand incentives as well as subsidies given to companies to set up EV manufacturing in the US. Slowing EV sales in the US could have a short-term impact on Indian auto component players that supply components for EVs, such as Sona BLW whose 80% orderbook is for EVs, SAMIL, etc. It would also lead to US ICE manufacturers scaling back their EV manufacturing plans and postponing EV goals, which in turn would upset the production schedules given to their suppliers, including the Indian auto component makers.

However, slowdown in EVs could lead to a surge in hybrid vehicles, which would then cushion the impact on Indian auto component players. Sona BLW has mentioned that hybrids give them an opportunity to supply components for 2 powertrains, increasing revenue content per vehicle. Thus, even though the hard stance on EVs could have a short-term negative impact, in the medium term, it would augur well.

Additionally, Mr Trump's hard stance on cheaper auto imports could also see higher tariffs being imposed on auto components being produced in China, Mexico, etc.

Considering higher electronics/software now being used in vehicles, it would also bring in the national security angle, which could lead to another hard stance on Chinese made vehicles. This could open up an opportunity for Indian vehicle manufacturers to focus on exporting lower priced EVs to the US (considering Tesla too has postponed its

plan of making the US\$ 25,000 vehicle). A gradual shift of auto component supply chain
Trump's tough EV stance may hurt
Indian auto suppliers in the short-
term, but this could also boost hybrid
vehicle demand and medium-term
revenue prospects for Indian suppliers

Page | 13 | PHILLIPCAPITAL INDIA RESEARCH

STRATEGY/MACRO THEMATIC

from China and Mexico to India would benefit export-facing players such as Sona BLW, SAMIL, etc.

Trump's re-election: Potential impact on commodities markets

Metals: Trump's main policies include spending on infra, including creating a border wall, protection of domestic industries, and ditching EV goals ? which will help mining companies to boost metals demand. Also, we can see in the chart below that immediately after Trump's election in 2017, commodity prices spiked.

Energy sector: Trump's campaign has received funding from the oil and gas industry and promised to drop the EV narrative, which could boost oil and gas production and capex (+ve for metals and pipe companies).

Prices of commodities in Trump's tenure ? highlighted in blue (US\$/t)

Source: Bloomberg, PhillipCapital India Research

Indian Pharma ? Neutral impact

The US is the largest pharma market in the world and the biggest trade partner of Indian pharma with exports worth >US\$ 8.46bn in FY24. Indian pharmaceutical exports to US accounted for 33% of India?s overall pharma export and 17% of the Indian pharma industry (valued at US\$ 50bn, comprising of exports worth US\$ 26bn and domestic market of US\$ 23bn).

US account for 33% of Indian Pharma exports

Source: Ministry of Commerce, PhillipCapital India Research

Revenue contribution from US

Source: Companies data, PhillipCapital India Research



2,000

2,500

3,000

3,500

4,000

4,500

5,000

Oct-15

Oct-16

Oct-17

Oct-18

Oct-19

Oct-20

Oct-21

Oct-22

Oct-23

Oct-24

HRC Steel (USA)

Zinc

Aluminium

Lead

Copper (rhs)

-20%

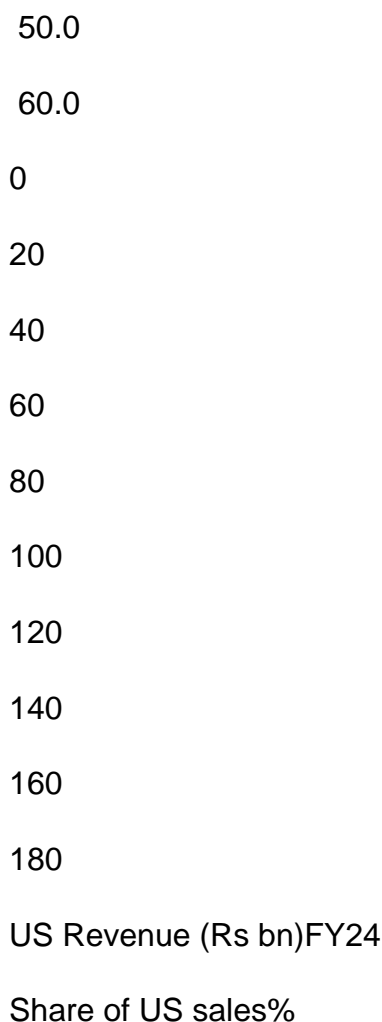
-10%

0%

10%

20%





STRATEGY/MACRO THEMATIC

Policy stance on generic drug prices and procurement are key areas to watch

Given that India is considerably dependent on the US, the country's election outcome and likely policy changes are certainly a key monitorable for Indian Pharma. Key health-related issues for the US election include prescription drug costs, women's health and reproductive health, COVID-19 and the opioid overdose epidemic, etc. While the issue of reducing healthcare/drug costs has always been a common focus of both Democrats and Republicans, their approaches could vary.

Focus on drug cost reduction: In order to contain drug costs, the Biden-Harris

administration has already introduced the Inflation Reduction Act, which requires the government to negotiate prices for some Medicare-covered drugs (with the number growing over time), requires drug companies to pay rebates if prices rise faster than inflation, caps out-of-pocket drug spending, limits monthly insulin costs to US\$ 35 for Medicare beneficiaries in Part B and all Part D plans, and improves financial assistance for low-income beneficiaries, among other changes. Democrats also propose to make the following few changes: (1) Accelerate Medicare price negotiation of drugs (50 drugs per year), (2) extend US\$ 35 insulin co-pay cap and drug out-of-pocket cap to all Americans, and (3) increase competition and transparency (by cracking down on pharma companies blocking competition and abusive practices of drug middlemen).

The Biden administration has already proposed a model of 'lowering prescription drug costs for Americans' that limits the co-payment to no more than US\$ 2 for a month's supply per drug for common conditions such as high cholesterol and high blood pressure. This proposal is currently gathering feedback from the industry and could be implemented after January 2027. These initiatives could keep up the pricing pressure on basic generic drugs and would keep the US generics market commodity business.

Trump's policies had pressured Indian pharma: Trump administration was not kind either for Indian pharma, as the industry faced intense compliance measures and enhanced price competitive trends, which dragged the profitability of Indian pharma. Trump had capped the monthly insulin cost at US\$ 35/month for Medicare Part D plans and created a new pathway to allow states to import prescription drugs from Canada to enhance price competition. He had proposed to establish a 'Most Favored Nation' system of international reference prices for some Medicare-covered drugs, where US prices would be based on prices in certain other countries (which are generally lower than US rates).

Since both the parties are adopting some approach to curtail drug prices and enhance price competition, the US elections outcome is not likely to be very favourable for Indian generics, but it is not likely to be detrimental to Indian pharma exports volume trend either. Hence, we continue to remain neutral about the outcome of the US election for Indian pharma.

Positive for Oil & Gas if Trump wins

Crude oil prices, facing headwinds from weak macroeconomic growth outlook, remain tepid and range bound. If Mr Trump assumes office, we expect a significant boost to US crude oil and natural gas production, which should act as incremental dampener on price outlook. Essentially, low crude oil prices bode well for Indian refiners, with some benefits accruing to Indian consumers as well. Similarly, an increase in the US natural gas production would open up avenues for incremental long-term gas contracts for Indian gas utilities, helping to raise the share of natural gas in India's energy mix, which happens to the policy direction that Gol wants to take as well.

Republicans, led by Donald Trump, and Democrats, led by Kamala Harris, differ primarily on usage of fossil fuel or renewable energy as a primary focus of energy policy. While Mr Trump largely believes in continued usage of fossil fuels, including oil & gas to bring down the cost of energy for American consumers and industries, the democrats advocate a greater reliance on renewable energy to mitigate climate

where the two factions are more closely aligned. While US crude oil and natural gas production have continued to grow during Biden's administration and are largely anticipated to continue that trajectory, if Mr Trump assumes office again, there will be greater impetus and a more supportive policy environment for the growth of US crude oil and natural gas production.

A comparison of Republican vs Democrat views on energy source (% who favour expanding each of the following sources of energy in the US)

Source: Pew Research, PhillipCapital India Research

India-US defence partnership could accelerate

The 2024 US presidential election, with Kamala Harris and Donald Trump as candidates, could reshape US-India defence ties. Both Harris and Trump are expected to focus on the Indo-Pacific region, where India's role as a counterbalance to China is vital. Harris is expected to maintain the Biden administration's emphasis on deeper defence cooperation, while Trump's approach may be more transactional, centred on arms sales and strategic gains. Also, Trump's tough stance on China would align with India's strategic interests in countering China, potentially accelerating defence partnerships. The US bipartisan consensus on support for bilateral ties with India has come under strain due to India's abrogation of Article 370 in Kashmir and the passage of the controversial Citizenship Amendment Act. Down the line, this could impede US-India defence trade as Democrats increasingly insist on linking US arms exports to moral imperatives. However, friction could arise over India's ties with Russia, with Harris likely to adopt a tougher stance, while Trump may overlook India's defence ties with Russia. To safeguard defence partnerships, India must work with US legislators to

formalize key designations like STA-1 and Major Defence Partner, ensuring long-term stability in bilateral defence trade. On the other hand, Republicans, under the 'America First' mandate, seek to delink values from US foreign policy matters.

Page | 16 | PHILLIPCAPITAL INDIA RESEARCH

STRATEGY/MACRO THEMATIC

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Page | 17 | PHILLIPCAPITAL INDIA RESEARCH

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