

# 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. With the U.S. being a global superpower, these elections will have a significant impact: A Kamala Harris win will largely be considered as continuity of the current regime while Trump's win will bring lasting changes in international relations, trade, inflation, and country-specific growth trends. As per exit polls, swing states are showing only a marginal gap between the two candidates, implying either could win.

## Policy differences:

- **Economy and taxes:** Democrats aim to reduce food costs, aid homebuyers, raise corporate taxes, and maintain the Federal Reserve's independence, while Republicans promise lower corporate taxes and focus on inflation reduction. Trump also seeks to challenge the Fed's independence, 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 the US and other countries (in the long-term). However, Trump has been strongly advocating aggressive import tariffs across countries, and more 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 favour oil and gas drilling incentives and aim to roll back green energy benefits. Both parties aim to expand defence spending, while democrats are supportive of Ukraine; Trump is pro-Israel.
- **Immigration and on-shoring** – Both support tight rules for immigrants and on-shoring efforts to increase domestic industrial production.

## Likely sectoral impact in India:

- **IT:** Prima facie, impact seems harsher if Trump wins, given his anti-immigration stance. However, Indian IT companies have tried to de-risk this challenge by hiring more locals in onsite markets, relying on subcontractors, and opening more near-shore delivery centres.
- **Automobiles:** Under Trump, demand for EV components from Indian suppliers (Sona BLW, SAMIL, etc.) will be impacted in the short-term, but this could push for adoption of hybrid vehicles, cushioning the overall impact in the medium-term. Infra and manufacturing 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 favours fossil fuel. If Trump gets elected, US crude oil and natural gas production will rise, dampening prices. Lower crude oil prices bode well for Indian refiners and consumers. Higher gas output would open up avenues for incremental long-term gas contracts for Indian gas utilities.
- **Defence:** 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.
- **Commodities and metals:** Trump's focus on infra spending like creating a border wall, protection of domestic industries, and ditching EV goals, will help mining companies to boost metals demand. Also, commodity prices had rallied at the time of the previous Trump regime. Trump's focus on fossil fuel will result in higher capex in oil & gas sector, a positive for metals and pipes companies.
- **Pharmaceuticals:** Lowering of healthcare and drugs cost is the common focus for both parties. Rising competition and lower prices 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. FDI flows should 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 remained closer to Fed's targeted range under both party regimes. Similarly, US and Indian equities have rallied during both Trump and Biden regimes. We believe Harris' win will be neutral/mean continuity for the economy, equities, and other asset classes. Trump would have a reasonable impact on EMs, equities, and currency due to de-globalisation. Amongst EMs, we expect relatively positive impact for India in the long-run.

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

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## 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 geo-political 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 21<sup>st</sup> 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 5<sup>th</sup> 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

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
<ul style="list-style-type: none"> <li>Reduce food costs by restricting price increases on groceries.</li> <li>Aid first-time homebuyers with incentives.</li> <li>Maintain Fed's traditional political independence and likely to keep Jerome Powell as Chair</li> </ul>	<ul style="list-style-type: none"> <li>Promise to deliver lower interest rates.</li> <li>Deporting undocumented immigrants to ease pressure on housing.</li> <li>Considering to challenge Fed's political independence; favour easy money policies and low interest rates. May replace Fed chair.</li> </ul>

*Democrats focus – food costs and homebuyer aid; Republicans – low interest rates and immigration*

### Taxes

Democratic Party	Republican Party
<ul style="list-style-type: none"> <li>Raise top corporate tax rate to 28% from 21%.</li> <li>Increase corporate alternative minimum tax to 21% from 15%.</li> <li>Increase tax on stock buybacks to 4% from 1%.</li> <li>Increase deduction for new business start-ups to US\$ 50,000.</li> <li>Permanently extend tax rates established in the Tax Cuts and Jobs Act to all individuals except those earning more than US\$ 400,000.</li> <li>Permanently extend expanded Affordable Care Act (ACA) health insurance tax subsidies.</li> <li>Eliminate income taxes on tips for individuals making less than US\$ 75,000.</li> <li>Reduce estate and gift tax exemptions to pre-2018 levels.</li> <li>Decrease standard deductions to pre-2018 levels.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce corporate tax rate to 20% from 21%; 15% for companies manufacturing their products in the US.</li> <li>Permanently extend quicker capital expenditure depreciation rules enacted in the 2017 Tax Cuts and Jobs Act.</li> <li>Permanently extend tax rates established in the Tax Cuts and Jobs Act.</li> <li>Allow expanded Affordable Care Act (ACA) health insurance tax subsidies to lapse.</li> <li>Eliminate income taxes on tips, overtime pay and Social Security benefits.</li> <li>Reinstate deduction for local and state income taxes.</li> <li>Make auto loan interest tax-deductible.</li> </ul>

*Democrats – higher corporate taxes, increased credits for families; Republicans – lower corporate taxes, extended deductions, and tax benefits for homebuyers and families*

- 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
<ul style="list-style-type: none"> <li>• Target tariffs at industry/geopolitical rivals, including Chinese technology products.</li> <li>• Increase investment restrictions in key Chinese sectors tied to national security.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement a 60% tariff on goods from China.</li> <li>• Increase investment restrictions on key Chinese sectors tied to national security</li> <li>• Increase restrictions on semiconductor exports to China.</li> <li>• Revoke China's most favoured nation trade status.</li> <li>• Phase out imports of essential Chinese goods</li> <li>• Implement 10-20% across-the-board tariffs.</li> <li>• Reinstitute tariffs on European Union (EU) steel and aluminium</li> <li>• Consider removing the U.S. from the World Trade Organization</li> <li>• Pass the "Trump Reciprocal Trade Act" to ensure that whatever the tariffs for a foreign country is, US place the same tariff.</li> </ul>

## Healthcare

Democratic Party	Republican Party
<ul style="list-style-type: none"> <li>• Reduce drug prices.</li> <li>• Expand the US\$ 2,000 cap on out-of-pocket Medicare prescription costs to all Americans.</li> <li>• Expand the number of drugs subject to new Medicare price negotiations.</li> <li>• Extend Medicare inflation cap to private-sector drugs</li> <li>• Work with state entities to cancel US\$ 7bn in medical debt for 3mn qualifying Americans.</li> <li>• Broaden Medicare benefits cover home health care.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce drug prices</li> <li>• Accelerate efforts to privatize Medicare and reduce payments to hospitals for outpatient care.</li> <li>• Reduce Medicare Advantage payments to insurers.</li> <li>• Reduce Medicaid spending and implement work requirements.</li> </ul>

*Democrats – expand Medicare benefits, reduce drug costs;  
Republicans –privatize Medicare, cut spending*

## Energy/Clean Energy

Democratic Party	Republican Party
<ul style="list-style-type: none"> <li>Extend electrical vehicle incentives to commercial transportation</li> <li>Expand carbon capture credits.</li> </ul>	<ul style="list-style-type: none"> <li>Offer tax incentives for oil and gas drilling.</li> <li>Expand carbon capture credits.</li> <li>Eliminate the US\$ 7,500 electric vehicle tax credit</li> <li>Attempt to roll back green energy tax incentives in the 2022 Inflation Reduction Act (IRA).</li> <li>Reduce/roll back fuel efficiency requirements.</li> </ul>

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

## Defence/Foreign Aid

Democratic Party	Republican Party
<ul style="list-style-type: none"> <li>Increase spending on national defence</li> <li>Maintain financial/arms support of Ukraine.</li> <li>Push for cease-fire in Israel/Hamas war.</li> <li>Reiterate full support of NATO.</li> </ul>	<ul style="list-style-type: none"> <li>Increase spending on national defence.</li> <li>Reduce or eliminate financial/arms support of Ukraine.</li> <li>Emphasize US support of Israel.</li> <li>Pressure NATO members to spend at least 2% of their GDP on defence.</li> </ul>

## Technology

Democratic Party	Republican Party
<ul style="list-style-type: none"> <li>Provide additional subsidies/incentives for U.S. semiconductor suppliers and domestic production.</li> <li>Maintain U.S. engagement in Organization for Economic Cooperation and Development (OECD) global tax discussions, keeping current suspension of digital services taxes in place.</li> </ul>	<ul style="list-style-type: none"> <li>Apply pressure on social media companies about free speech, antitrust and national security concerns.</li> <li>Seek to exit the Organization for Economic Co-operation and Development (OECD) tax discussions, threatening re-imposition of suspended digital services taxes.</li> </ul>

## Industrials

Democratic Party	Republican Party
<ul style="list-style-type: none"> <li>Provide additional tax incentives/subsidies for on-shoring efforts to increase domestic industrial production and secure supply chains.</li> <li>Support tax credits sending US\$ 100bn to U.S. manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>Support on-shoring efforts to increase domestic industrial production.</li> <li>Reduce spending on projects for public transit and pollution control.</li> </ul>

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

## Immigration

Democratic Party	Republican Party
<ul style="list-style-type: none"> <li>Implement enhanced border enforcement on asylum seekers.</li> <li>Support bipartisan border security bill that includes funding for additional border agents and technology to intercept drugs like fentanyl.</li> </ul>	<ul style="list-style-type: none"> <li>Increase deportation of undocumented individuals.</li> <li>Implement substantially more restrictive immigration rules, including avenues for legal work and student visas.</li> <li>Restore funding for the wall on the U.S./Mexico border.</li> </ul>

**Democrats – Enhanced border security, asylum processes;**  
**Republicans – stricter immigration rules, increased deportations**

## Other

Democratic Party	Republican Party
<ul style="list-style-type: none"> <li>Raise the federal minimum wage to US\$ 15/hour from US\$7.25</li> <li>Expand student debt relief.</li> <li>Ban “price-gouging” in the grocery industry.</li> <li>Expand antitrust initiatives/enforcement.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce/roll back actions on consumer fees and other Consumer Financial Protection Bureau activities.</li> <li>Challenge pending Basel III bank regulations.</li> <li>Cut regulations substantially across the board.</li> <li>Categorize more civil workers as political appointees rather than employees.</li> <li>Reduce barriers and long approval times for mergers/acquisitions.</li> <li>Eliminate regulations targeting energy-inefficient appliances and products.</li> <li>Eliminate U.S. Department of Education.</li> </ul>

**Democrats – higher wages, student debt, consumer protection;**  
**Republicans – deregulation, reducing government intervention in markets**

## 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:

- 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.

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

### 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.

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



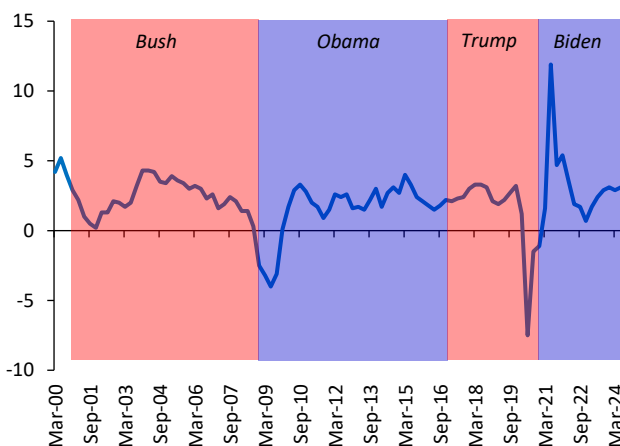
## US macros and markets during different regimes

**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.

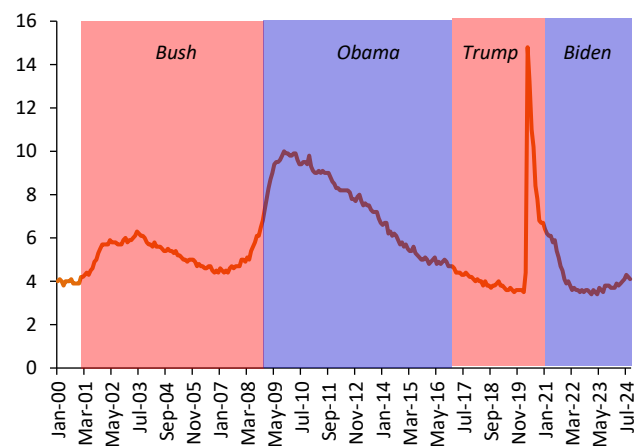
**Unemployment rate:** During the Bush presidency, unemployment rate averaged at 5.2% till end-2007, which then shot up due to the great recession to 7.3% as of December 2008. Obama's presidency saw unemployment rate easing from peak 10% in October 2009 to 4.7% during the end of his tenure. Employment 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.

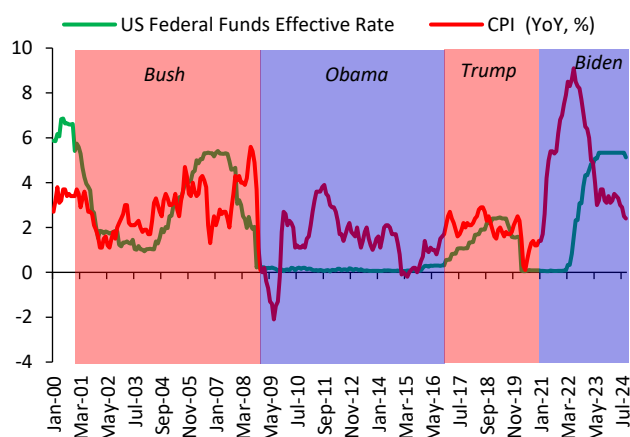
During Trump's tenure, inflation was largely near target except some spike in 2018 and Fed funds rate were gradually raised to near 2.5% as of April 2019. Rates were then lowered with cooling inflation. Both inflation and fed rate hit the floor as covid hit. During Biden's tenure, inflation spiked to 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.



**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.

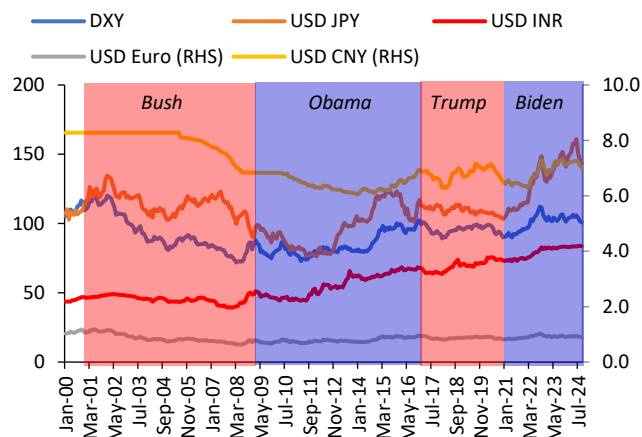
The INR has largely seen depreciation throughout the period also impacted by recessions. Highest depreciation of near 39% was during Obama's presidency and 15% during Biden's term. The INR relatively held its value with only 5-8% depreciation during both republican presidents.

### US CPI and fed funds rate (%)



Source: Bloomberg, PhillipCapital India Research

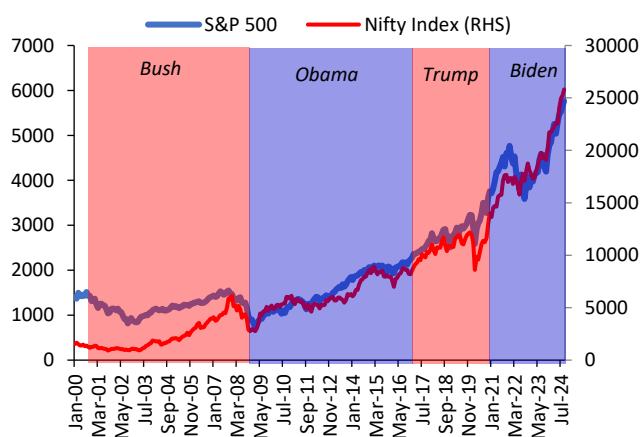
### Currency movements- DXY and other major currencies



Source: Bloomberg, PhillipCapital India Research

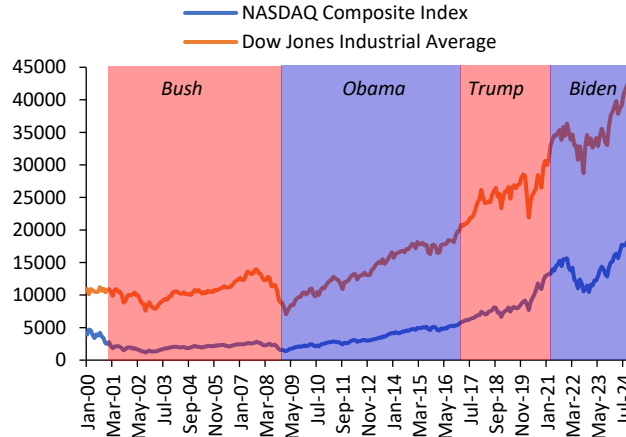
**Equity markets:** Adjusting for the recession-led dip in markets, US equity indices, S&P 500/Nasdaq/Dow Jones, saw 13%/3%/28% rise during the Bush tenure, 89%/119%/78% growth in Obama's tenure, and 65%/130%/54% growth during Trump's. Biden's current term saw 55%/39%/41% growth. The Indian market tripled 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

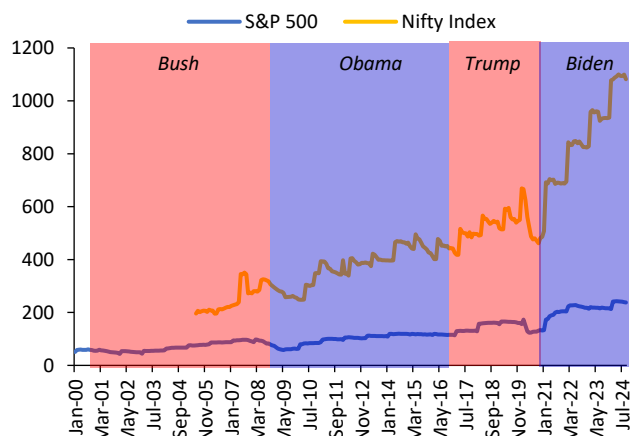
### Equity markets- NASDAQ and Dow Jones Index



Source: Bloomberg, PhillipCapital India Research

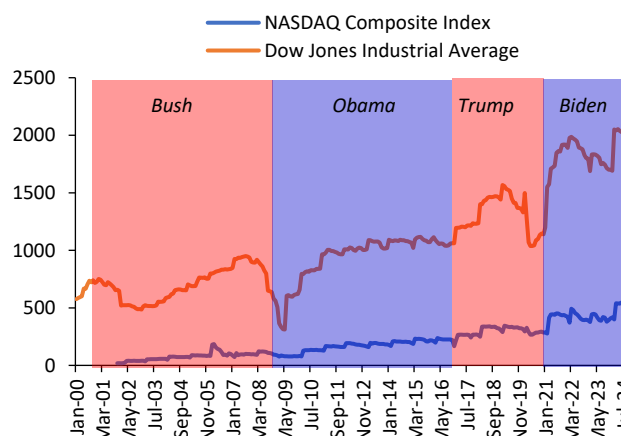
**EPS:** S&P 500/Nasdaq/Dow Jones saw the highest growth during Biden's era with a CAGR of 78/82%/64% CAGR. The previous Trump presidency saw 52%/37%/25% growth. However, India's NIFTY saw healthy 77% growth during Obama's tenure, followed by 56% during Trump's presidency, and 83% with Biden in charge.

Equity EPS- S&P 500 and NIFTY Index



Source: Bloomberg, PhillipCapital India Research

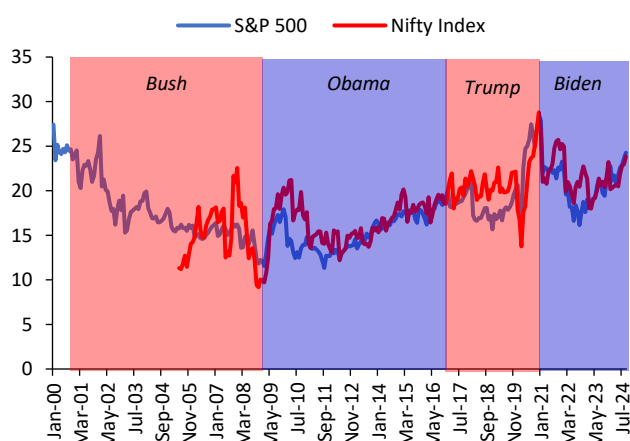
Equity EPS- NASDAQ and Dow Jones Index



Source: Bloomberg, PhillipCapital India Research

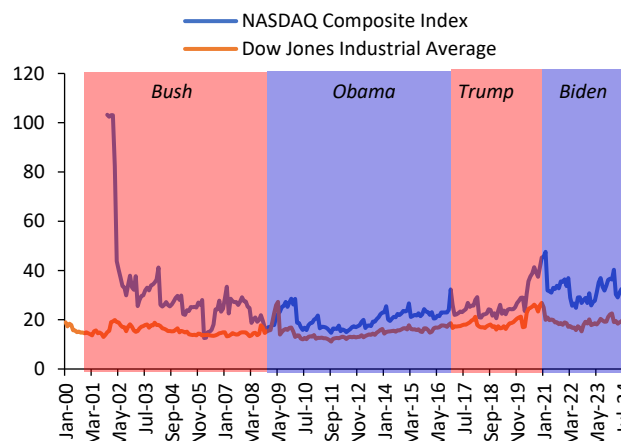
**Valuation:** US average market valuations corrected during Obama's tenure and shot-up during Trump's presidency. Except Dow Jones, which saw near-stable PE even during Biden's presidency, S&P500 and Nasdaq got expensive. NIFTY valuation have been peaking over the years, with average valuations at 15x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

## Sectoral Impact on India: From the analysts' desks

### 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

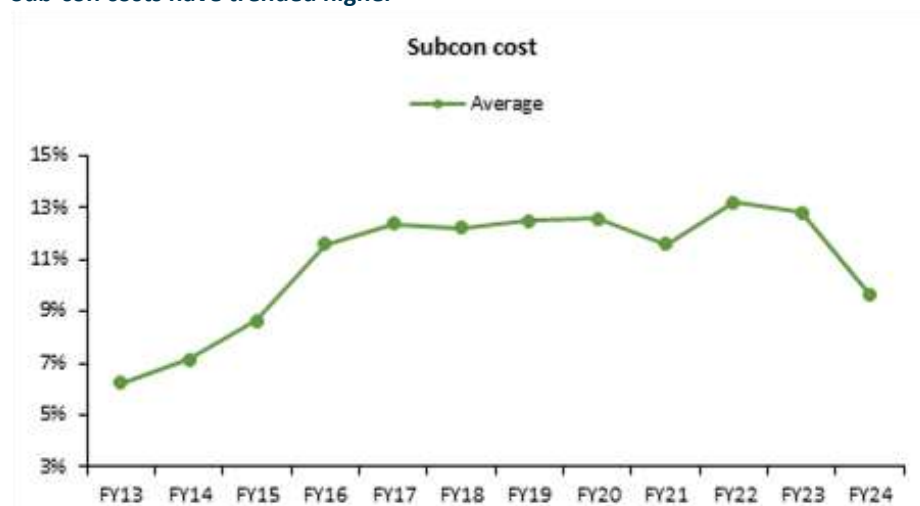
#### Total H-1B Visa approved by USCIS: Reliance on visas is declining since 2016

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 Research

**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**

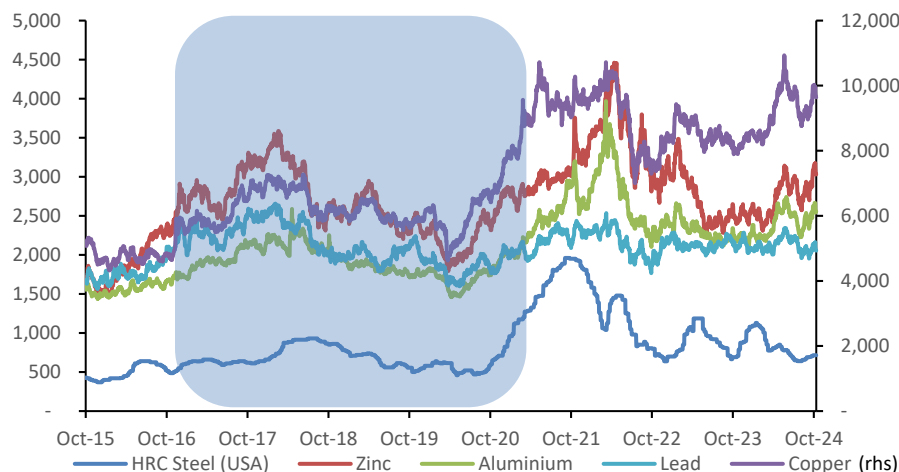
from China and Mexico to India would benefit export-facing players such as Sona BLW, SAMIL, etc.

### 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 Trum'p tenure – highlighted in blue (US\$/t)

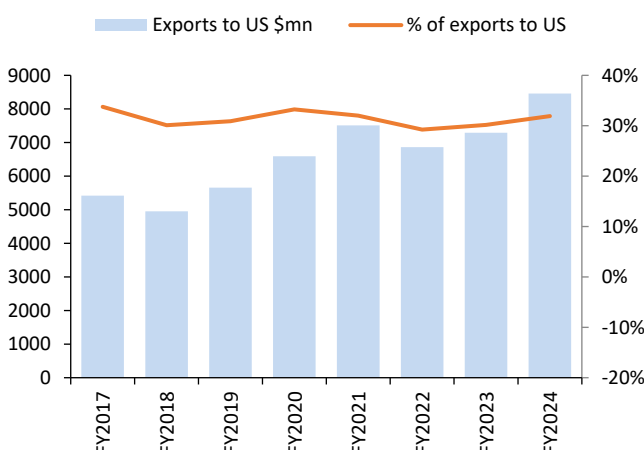


Source: Bloomberg, PhillipCapital India Research

### Indian Pharma – Neutral impact

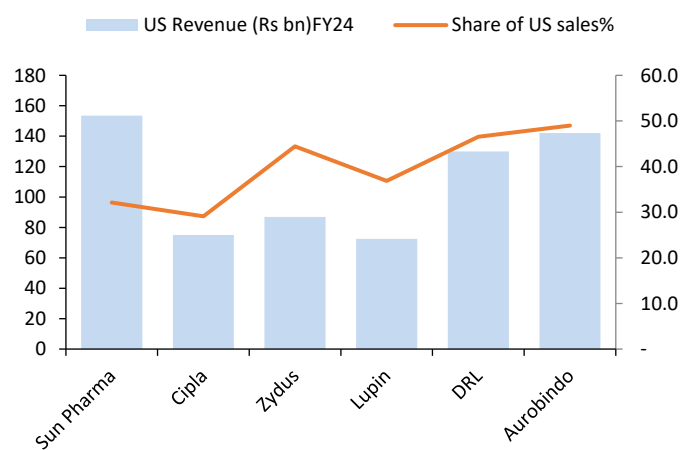
The US is the largest pharma market in the world and the biggest trade partner of Indian pharma with exports worth >US\$ 8.46bn in FY24. Indian pharmaceutical exports to US accounted for 33% of India's overall pharma export and 17% of the Indian pharma industry (valued at US\$ 50bn, comprising of exports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

### 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.

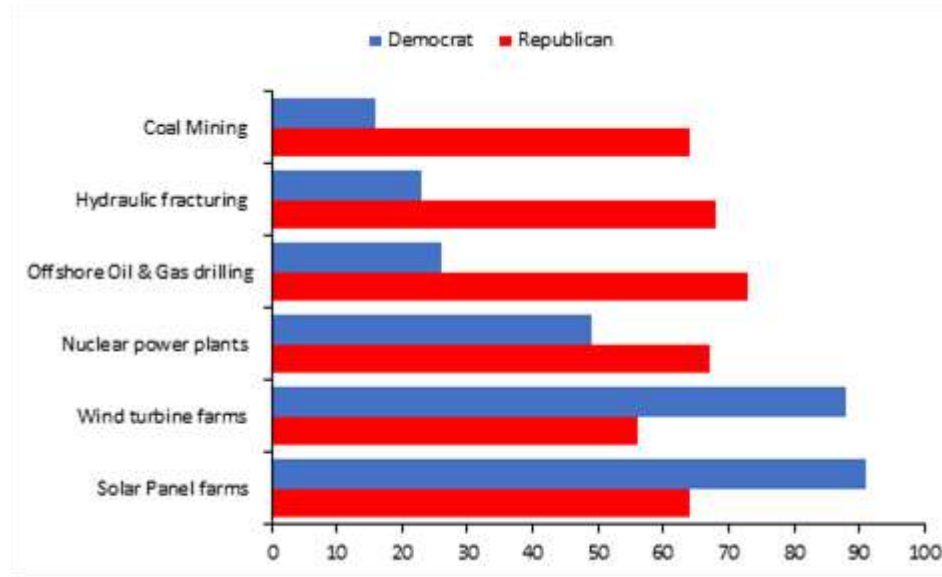
### Positive for Oil & Gas if Trump wins

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

change, while also trying to control the cost of energy. Nuclear energy is one area 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.



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