FINGINE Report

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The last month of the previous financial year saw Indian equities rebound strongly after an unprecedented decline over five consecutive months from October to February. The sharp recovery seen in March was despite the nervousness linked to the upcoming tariff-related announcements early in April that have subsequently created a situation of heightened volatility in the markets and uncertainty in the outlook for businesses globally.

	1 Mth	3 Mths	6 Mths	12 Mths
Nifty 50	6.3%	(0.5)%	(8.9)%	5.3%
NSE Midcap 100	7.8%	(9.7)%	(14.1)%	7.5%
NSE Smallcap 100	9.5%	(14.2)%	(16.1)%	5.4%
NSE Microcap 250	6.2%	(17.4)%	(19.6)%	9.1%

The While the Nifty 50, comprising large cap companies, recovered the ground previously lost during January and February to close almost flat during Q4, other indices representing medium, small and micro stocks closed significantly lower. Over the last 12 months, Indian equity indices have delivered returns in single digit percentages but overall, FY25 was a year of two distinct halves. While the period from April to September saw a high level of investor exuberance leading to stretched valuations, the second half of the year has seen more pessimism with foreign investors selling $ 4 billion per month in Indian equities on an average.

Moving into the new financial year, the current situation has drawn parallels with market shocks previously created by the global financial crisis in 2008 and the worldwide lockdowns in 2020. For almost 50 years, the United States has outsourced manufacturing to lower cost countries. This has allowed it to keep inflation low while fuelling consumer demand, which accounts for 70% of GDP in the country. Several economies, across continents, are majorly reliant on their industrial output being sold to the U.S. As a result, the U.S. runs a growing budget deficit that has driven the country's federal debt-to-GDP ratio to an unsustainable level of 124%, which further continues to rise steadily. In the past, despite low interest rates, this deficit has been financed by investors, in-turn supported by the U.S. dollar's status as the global reserve currency.

Now, with the imposition of tariffs, apart from the widespread disruption in the global trade ecosystem, the U.S. itself may face heightened inflation, uncertain interest rate trends, challenges in expanding domestic manufacturing and potential impact on economic growth.

The extreme levels of market volatility caused by these developments are currently creating turmoil among investors. However, within the Indian framework, it would be good to re-visit the situation from a domestic perspective. India's macroeconomic position indicates a stable balance of payments, controlled inflation, potential easing of interest rates and expectations of steady economic growth. Last year, the economy was impacted by several factors, including slower government spending linked to the general elections and subdued consumer demand due to high inflation. With these challenges easing, growth prospects in the current year look more optimistic.

Within the context of the tariff imposition, India is likely to be less impacted than some other countries. Going forward, considering the potentially higher earnings growth on last year's low base, the outlook for the Indian market outlook remains positive. Consumer demand and government capital expenditure are expected to improve next year, in addition to other sectors that are dependent on the country's internal economy. The current juncture could therefore be used selectively as a potential opportunity from a longer-term perspective by investors.

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