

Navigating the Headwinds: The Impact of Tariffs on India's Economy

By Crescent MFD

In an interconnected global economy, trade policies in one part of the world can create ripples that are felt everywhere. The recent imposition of tariffs by major trading partners has sent shockwaves through the global financial landscape, and India, with its growing role in international trade, is no exception. At Crescent MFD, we believe it is crucial for investors to understand the potential impact of these tariffs on India's economy and, by extension, on their portfolios.

The immediate reaction to the tariff announcement in India has been one of heightened volatility. Indian stock indices, such as the Sensex and Nifty 50, experienced sharp dips, and the Indian Rupee weakened against the dollar. This "knee-jerk" reaction reflects investor anxiety about a potential global trade war and its implications for India's export-driven sectors. Companies with significant export exposure in sectors like automobiles, steel, textiles, and pharmaceuticals were particularly hit as markets began to price in the risk of reduced competitiveness.

However, a closer look reveals a more nuanced picture. While the direct impact of the tariffs is a cause for concern, it is not the entire story. Government sources and some economists have suggested that the overall adverse impact on India's GDP may be limited. Projections from various sources indicate a potential GDP loss of less than 0.5%, with some experts even suggesting it could be less than 0.2% in a "worst-case scenario."

The resilience of India's domestic economy is a key factor here. Unlike many export-dependent economies, India's growth is primarily driven by strong domestic consumption and robust government spending on infrastructure. This inward-looking strength provides a buffer against external shocks. While certain export-oriented sectors may face headwinds, domestic-focused firms in areas like banking, consumer goods, and infrastructure could see opportunities to thrive.

The government's response will also play a crucial role in mitigating the impact. India has been engaging in diplomatic efforts to negotiate sector-specific relief and "tariff phase-outs." Simultaneously, the government may deploy countermeasures to support affected industries, such as rolling out new export incentives, bolstering funding for MSMEs (Micro, Small, and Medium Enterprises), or expanding the Production-Linked Incentive (PLI) scheme.

For investors, this complex environment necessitates a strategic and diversified approach. Here are a few key considerations:

- * **Sector Rotation:** Fund managers are already looking to rotate out of heavily tariff-impact hit sectors and reallocate capital to those with strong domestic demand and limited exposure to global trade tensions.

- * **Diversification:** The tariffs underscore the importance of geographical diversification. A portfolio too heavily concentrated in one market or one sector is more vulnerable to such policy shifts.

* **Focus on Fundamentals:** In times of market volatility, focusing on companies with strong fundamentals, healthy balance sheets, and proven business models becomes even more critical. These companies are better positioned to weather the storm and emerge stronger.

* **Long-Term Perspective:** While short-term market reactions can be alarming, a long-term perspective is essential. India's fundamental growth story, driven by its young population and

expanding middle class, remains intact.

Impact on India's Economy

The following tables summarize the expected impact of recent tariffs, particularly those imposed by the U.S., on India's economy.

Macroeconomic Impact on India

Economic Indicator	Estimated Impact	Source
GDP Growth	Reduction of 0.2% to 0.3%	Bank of Baroda, Barclays
Exports to the U.S.	Could fall by up to 30%	Global Trade Research Initiative (GTRI)
Trade Competitiveness	India is at a disadvantage compared to competitors like Vietnam, Bangladesh, and Turkey, which have lower tariff rates.	Economic Times, Vairam and Ravi
Bilateral Trade Deficit	The U.S. will likely push for India to reduce its approximately \$40 billion trade surplus.	Economic Times

Sectoral Impact on India's Exports to the U.S.

Sector	Export Value to U.S. (approx.)	Expected Impact
Gems and Jewellery	\$10 billion	Severely impacted due to new tariffs; could disrupt supply chains and inflate costs.
Textiles and Apparel	>\$11 billion	Labor-intensive sector at high risk of losing its cost advantage.

Sector	Export Value to U.S. (approx.)	Expected Impact
Shrimp Exports	\$2 billion	Facing significant challenges, potentially losing market share.
Pharmaceuticals	~\$9 billion	Tariffs will inflate costs, but some finished drugs and drug inputs may be exempt.
Engineering Goods	Significant	Expected to "bear the brunt" of the tariffs.
Electronics	~\$10 billion	Facing increased costs and competitiveness challenges.
MSMEs	Significant	30-40% of export-oriented micro, small, and medium enterprises will face margin pressure and may find it harder to secure bank lending.

Impact on the World Economy

The imposition of tariffs by major economies has far-reaching consequences, affecting global trade flows, consumer prices, and economic growth.

Global Macroeconomic Impact

Economic Indicator	Estimated Impact	Source
Global GDP Growth	Initial fall of 0.2 to 0.5 percentage points; potentially more in the medium term.	BBVA Research
Global Trade Flows	Could fall by 4% to 9%.	BBVA Research
Unemployment	Expected to increase in countries imposing tariffs and those affected by retaliation.	World Bank, IMF
Inflation	Tariffs lead to higher prices for imported goods, contributing to inflationary pressures.	The Budget Lab at Yale
Supply Chains	Significant disruptions as businesses are forced to find new suppliers and relocate production.	Deccan Herald

Sectoral Impact on Global Consumers and Industries (U.S. Example)

Sector (U.S.)	Short-Term Price Increase	Long-Term Price Increase
Leather Products	39%	18%
Apparel	37%	17%
Textiles	19%	10%
Food (Overall)	3.4%	2.9%
Motor Vehicles	12.3% (+\$5,900 per car)	9.5% (+\$4,600 per car)

Market downturns can be unsettling for mutual fund investors, but they also present opportunities. The key is to avoid making impulsive, fear-driven decisions and instead, stick to a well-thought-out strategy. Here are the steps mutual fund investors should take during a market downturn:

1. Stay Calm and Avoid Panic Selling

* **Don't exit in haste:** The first and most crucial step is to remain calm. Selling your mutual fund units during a market crash locks in your losses, converting a temporary decline into a permanent one.

* **Understand market cycles:** Remember that market fluctuations are normal. Historically, markets have always corrected and rebounded. Staying invested allows you to participate in the recovery and benefit from long-term growth.

2. Stick to Your Long-Term Goals

* **Revisit your financial plan:** A market downturn is a good time to review your original investment goals. If your goals (e.g., retirement, buying a home) are still years away, a short-term market dip should not alter your strategy.

* **Evaluate the fund, not just the market:** Assess the performance of your specific funds. Is the decline due to general market conditions, or are there fundamental problems with the fund's strategy or management? If the fund is still sound, it's often best to stay invested.

3. Leverage the Opportunity to Invest More

* **Continue your Systematic Investment Plans (SIPs):** One of the biggest advantages of SIPs is "rupee-cost averaging." When the market falls, the Net Asset Value (NAV) of your fund drops, and your fixed SIP amount buys more units. This lowers your average cost per unit over the long term.

* **Consider a Systematic Transfer Plan (STP):** If you have a lump sum of cash, a Systematic Transfer Plan (STP) can be a good option. This involves moving a fixed amount from a liquid or debt fund into an equity fund at regular intervals, allowing you to invest gradually and take advantage of market dips.

* **Top up your investments:** If you have surplus funds and a high-risk appetite, a market downturn can be an excellent time to make additional investments in good-quality funds. This allows you to buy more units at a lower price.

4. Rebalance and Diversify Your Portfolio

* **Review your asset allocation:** A market downturn can significantly change the percentage of different asset classes (e.g., equity, debt, gold) in your portfolio. Rebalancing involves selling some of the assets that have performed well (or have become a larger portion of your portfolio) and investing that money into those that have underperformed, bringing your portfolio back to its original allocation.

* **Consider diversification:** To mitigate risk, ensure your portfolio is diversified across different asset classes and fund categories. During a downturn, funds with a dynamic allocation framework, such as balanced advantage funds or multi-asset funds, can offer a cushion as they invest in a mix of equity, debt, and sometimes gold.

In conclusion, the new wave of tariffs presents both challenges and opportunities for India. While it introduces a layer of uncertainty and will undoubtedly affect certain sectors, India's strong domestic economy and proactive government response provide a significant cushion. At Crescent MFD, we advise investors to remain informed, disciplined, and focused on a well-diversified, long-term strategy to navigate these evolving economic currents.