

US Elections & Their Implications for India

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The much-awaited US Presidential elections have concluded with Donald Trump elected as the 47th president of the United States for a second term. Election-induced uncertainties regarding the outcome will take a pause here, given the decisive and clear mandate. The change in leadership in the largest economy is anticipated to have major implications not only for the United States but also the global economy at large, potentially impacting the geopolitical landscape as well.

This transition is positive for India in many ways, though there are areas that potentially do not augur well as we envisage at this juncture. Indian markets have responded positively, with mainstream indices rising by more than 1% each. The NIFTY midcap 100 experienced a positive move of more than 2% as the day ended.

The end of the US electoral narrative shifts the focus back to fundamentals for Indian equities, which are currently marred by FPI outflows and lackluster earnings outcomes. India VIX may witness some cushioning as a larger level of stability begins to emerge. This could result in a reversal of FPI flows to some extent as we progress. However, the sustainability and intensity of FPI flow will need to be assessed in conjunction with evolving policy narratives and templates in the US under the new Trump administration.

Under the Trump administration, we expect inflation to persist, accompanied by steeper trade tariffs, looser fiscal policy aided by major tax cuts, and deregulation. These factors are likely to lead to higher long-term U.S. Treasury yields, a stronger USD, continued momentum in crypto assets, an upbeat equity market driven by pro-business policies, and elevated gold prices in anticipation of higher inflation.

A protectionism-led policy template could bode well for US growth, resulting in the US outperforming the rest of the world.

India and the US share deep economic and strategic interests that are unlikely to be compromised. Data from the Centre for Monitoring Indian Economy (CMIE) shows that India's exports to the US have almost doubled over the past decade, reaching \$77.53 billion, highlighting robust trade relations between the two countries.

However, we expect the Trump administration to pursue his "America First" approach, emphasizing nationalism and protectionism. His electoral manifesto includes proposals for a 10% tariff on all products imported into the United States and a 60% tariff on all imports from China, maintaining the status quo on export bans, capital controls, etc.

This may lead to India's trade surplus with the U.S. coming under scrutiny, with subsequent impacts on the overall trade balance, currency, and equities (if nothing else, sentiments will have a role to play). With a US-centric policy tilt to ensure favorable trade dynamics, sectors like IT, pharmaceuticals, and textiles, which have a significant share of US market exports, may be impacted.

Nevertheless, we believe any frictions on trade and immigration under the Trump presidency will be offset by the gains accruing to India from ongoing supply chain shifts, as de-risking from China gathers momentum. India will need to reassess its trade strategies while also exploring potential opportunities. India's export competitiveness may witness increased momentum in sectors like chemicals, auto parts, and solar products due to expected higher tariffs on Chinese goods.

The tenacity of Chinese growth will need to be closely monitored during this phase. We also might witness a downward trajectory in energy prices given Trump's orientation towards fossil fuels.

Donald Trump's return as US President is also widely anticipated to prompt a rethink in the country's stance on conflicts between Russia and Ukraine and Israel and Palestine. Geopolitical tensions may ease, but the Trump's position on China could cause another conflict. Additionally, Trump's softer stance towards Russia could align with India's interests, given its ties with Moscow.

On a broader level, geopolitical-led distortions in markets may start witnessing relative stability. Any decisive path towards resolution is likely to improve supply chain dynamics, thus being beneficial in many aspects.

Earlier restrictions by the Trump administration and its stance on immigration are still fresh in our memory. As the JM Financial report suggests, two-thirds of US resources in the IT services sector were on H-1B/L-1 visas in FY17, with an increase in rejection rates. Indian IT companies have responded by increasing local US hiring and employing green card holders.

A crucial aspect requiring caution is fiscal position-led distortions. This could lead to a sharp rise in yields, particularly at the longer end, with a steepening bias over the medium term. We may witness a stronger global USD regime, weakness in Brent crude prices, and global base metal prices reflecting weak Chinese growth, alongside a further rally in gold prices.

With expected US growth on a strong footing, there could be a delay in rate cuts by the Fed, thus making the task difficult for the RBI as well. A stronger USD is likely to impact emerging market currency baskets (especially those led by imports), but India has managed this aspect quite well given its macroeconomic cushion. On the other hand, any free hand or ballooning of fiscal equations in the US is likely to meet political resistance, given the increase in the debt-to-GDP ratio, cost of servicing interest, and limitations around continued currency printing amidst the de-dollarization narrative.

To conclude, this is likely to be an evolving scenario that presents risks and is likely to bring about a fresh set of opportunities too. At present, it is advisable to maintain a measured approach while exercising assertive caution.

The path ahead is indeed interesting!

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