FIRST LIGHT

07 April 2025

RESEARCH

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Assessing the impact of US reciprocal tariffs

IT SERVICES | Q4FY25 PREVIEW

Deceleration in FY26 likely

SUMMARY

INDIA ECONOMICS: RETURNS ON ASSETS

Global markets were roiled with volatility especially in the last 6-months amidst uncertainty pertaining to tariffs and threat of global trade war looming. Indian markets were also susceptible to this ambiguity and the same was witnessed across different asset classes. The study takes a close look on how returns on various assets fared in the year gone by. For the purpose of analysis, we have looked at how returns have moved across different assets during the year with average of March 2025 being compared over average of March 2024 for indices and prices.

Click here **for the full report.**

INDIA ECONOMICS: US TARIFFS

US President has long advocated an America First policy, which involves boosting domestic production and reducing the dependence on imports. During the first few weeks of his second Presidency, Donald Trump focused his attention on Canada and Mexico, two of USA’s key trading partners, announcing sector specific tariffs. At the same time, President Trump also spoke about high tariffs imposed by other countries including India and China, vowing to correct the tariff imbalance through reciprocal tariffs. The said announcements were expected to be made on 3 Apr 2025, a day President Trump announced as a “Liberation Day” in the history of the US.

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IT SERVICES: Q4FY25 PREVIEW

- The -14.4pps lag of Nifty IT versus Nifty during 4QFY25 likely negates the FY26 acceleration thesis. Deceleration/No growth risks are rising
- We do not think those fears are fully factored in both earnings and PE multiples and hence continue to remain underweight
- Tariffs including retaliatory ones and fiscal repair in the US may lead to EPS cuts even in FY27, where the street still expects a sharp recovery

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RETURNS ON ASSETS

04 April 2025

Performance of asset classes in FY25

Jahnavi Prabhakar
Economist

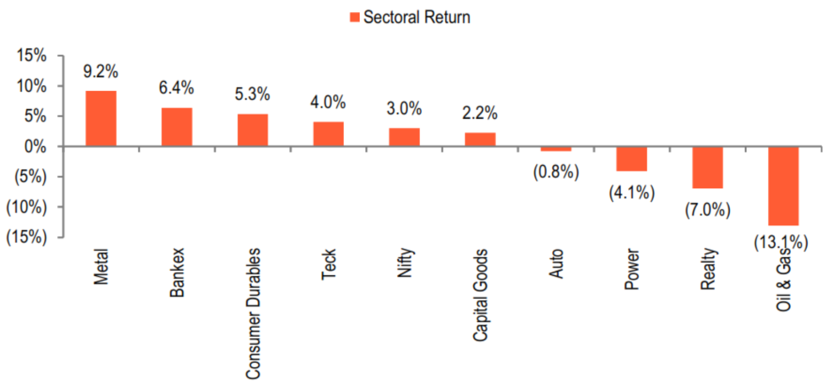
Global markets were roiled with volatility especially in the last 6-months amidst uncertainty pertaining to tariffs and threat of global trade war looming. Indian markets were also susceptible to this ambiguity and the same was witnessed across different asset classes. The study takes a close look on how returns on various assets fared in the year gone by. For the purpose of analysis, we have looked at how returns have moved across different assets during the year with average of March 2025 being compared over average of March 2024 for indices and prices.

In case of fixed income assets like deposits and government paper, the yield or interest rate as of March 2024 would be the return for any investment/savings made.

Both gold and silver have given exemplary return this year at 33% and 33.5% respectively. The 10Y benchmark yield was 6.7% for FY2 assuming the security was bought in March 2024 and held till the end of the financial year. RBI housing price index which is used as a proxy indicator for real estate, has recorded 3.1% growth for the same period. The average WATDR stood at 7% for FY25. INR had depreciated by 4.1% amidst strengthening of dollar war. Nifty had registered a 3% return this year.

Certain sectors have outperformed including banking, metal, consumer durables, technology and capital goods. On the other hand, sectors such as auto, power and oil & gas relatively under performed for the same period. The average WATDR stood at 7% for FY25. INR had depreciated by 4.1% amidst strengthening of dollar war. Nifty had registered a 3% return this year. Certain sectors have outperformed including banking, metal, consumer durables, technology and capital goods.

Figure 1: Returns on sectoral stock indices in the last 1-year



Source: Bloomberg, Bank of Baroda Research

US TARIFFS

04 April 2025

Assessing the impact of US reciprocal tariffs

Aditi Gupta
Economist

US President has long advocated an America First policy, which involves boosting domestic production and reducing the dependence on imports. During the first few weeks of his second Presidency, Donald Trump focused his attention on Canada and Mexico, two of USA's key trading partners, announcing sector specific tariffs. At the same time, President Trump also spoke about high tariffs imposed by other countries including India and China, vowing to correct the tariff imbalance through reciprocal tariffs. The said announcements were expected to be made on 3 Apr 2025, a day President Trump announced as a "Liberation Day" in the history of the US.

True to his words, US President announced sweeping tariffs on several of its trading partners yesterday, ending weeks of uncertainty. As per the Executive Order, the new set of tariffs are aimed at correcting USA's growing trade deficit, which is weighing on domestic manufacturing capability. New tariffs have been announced for 180 countries.

To put this in perspective, US trade deficit rose by 40% in the last 5 years to reach US$ 1.2 tn in 2024. A large part of this deficit is concentrated in the industrial goods sector, which accounted for over 95% of total US trade deficit in 2024. US major imports from other countries are majorly machinery (16%), electronics (15%), automobiles (12%), which together account for over 40% of its total imports. Apart from this, pharma products and precious stones are also important import items for the US. (Table 1)

US tariffs: What has been announced?: To correct the alleged disparity on tariff and non-tariff measures, President Trump signed an Executive Order imposing a base 10% ad valorem duty on all US imports. Apart from this, additional tariffs were announced on several countries based on the principle of reciprocity, while also accounting for the perceived impact of non-tariff measures as well as currency distortions by partner countries. The formula used was that the tariff would be 50% of the imputed rate other countries charged on US exports. The tariff was calculated based on nominal rates as well as indirect barriers including currency distortions.

The new and old tariff rates for some of USA'S major import partners are presented in Table below. It can be seen that amongst major partners, South-East Asian countries such as, Vietnam, Thailand, Taiwan and Indonesia have been penalized the most, with tariff rates ranging between 32%-46%. Tariff rate on China has been increased to 34% (on top of existing 20%), while for India, the new tariff rate has been set at 26%. Amongst advanced economies, tariff rates on Switzerland, Japan, Korea and Eurozone has been the highest ranging between 31% to 20%.

IT SERVICES | Q4FY25 Preview | 05 April 2025

Deceleration in FY26 likely

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- **We do not think those fears are fully factored in both earnings and PE multiples and hence continue to remain underweight**
- **Tariffs including retaliatory ones and fiscal repair in the US may lead to EPS cuts even in FY27, where the street still expects a sharp recovery**

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Rotation trade reversed: One factor that drove the ~22pps outperformance of Nifty IT over Nifty during 2H2024 was the rotation trade away from domestic sectors to Indian IT services as there was earnings resilience seen in the latter whereas many domestic focused companies saw earnings cuts. But the situation has reversed in the last 3 months (as we had predicted in our sector notes **Slow is the (new/old) normal** and **FY26 unlikely to be better than FY25**) with IT services companies seeing earnings downgrades while some domestic focused areas of the market like large cap lenders likely seeing earnings resilience on the back of various actions by RBI.

Possibility of flat to low single digit FY26 CC revenue growth guidance high: While consensus had moved from a 7-8% CC revenue growth in FY26 it had 3 months back, to a low to mid-single digit number a few weeks back, we believe the odds of further deceleration are real considering the uncertainty induced by the higher-than-expected reciprocal tariffs, retaliatory ones, DOGE, etc. If these tariffs are in place the uncertainty could be around for a while not only from first order impacts but also from the second order ones over the next 12-24 months, negatively impacting spending intentions.

The focus will be more on forward commentary than on 4QFY25 performance: Nature of demand (will it shift back to cost takeout), health of the deal pipeline, decision making speed, conversion from pipeline to orders and then to revenue, competitive intensity, pricing pressure, etc. will be the key points to focus on. Visibility of a 2HFY26 uptick will also be explored.

Accenture weak guidance coincides with 1HFY26 for Indian industry: Recent Accenture guidance for FY25 had hinted at a sharp deceleration from 4.5% YoY organic growth in 2QFY25 to 0.5% in 4QFY25(Aug YE). That roughly translates to an annualized revenue drop of US$2.7bn over two quarters. Accenture had not clearly called out contribution from DOGE and overall uncertainty to the projected revenue loss.

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HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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