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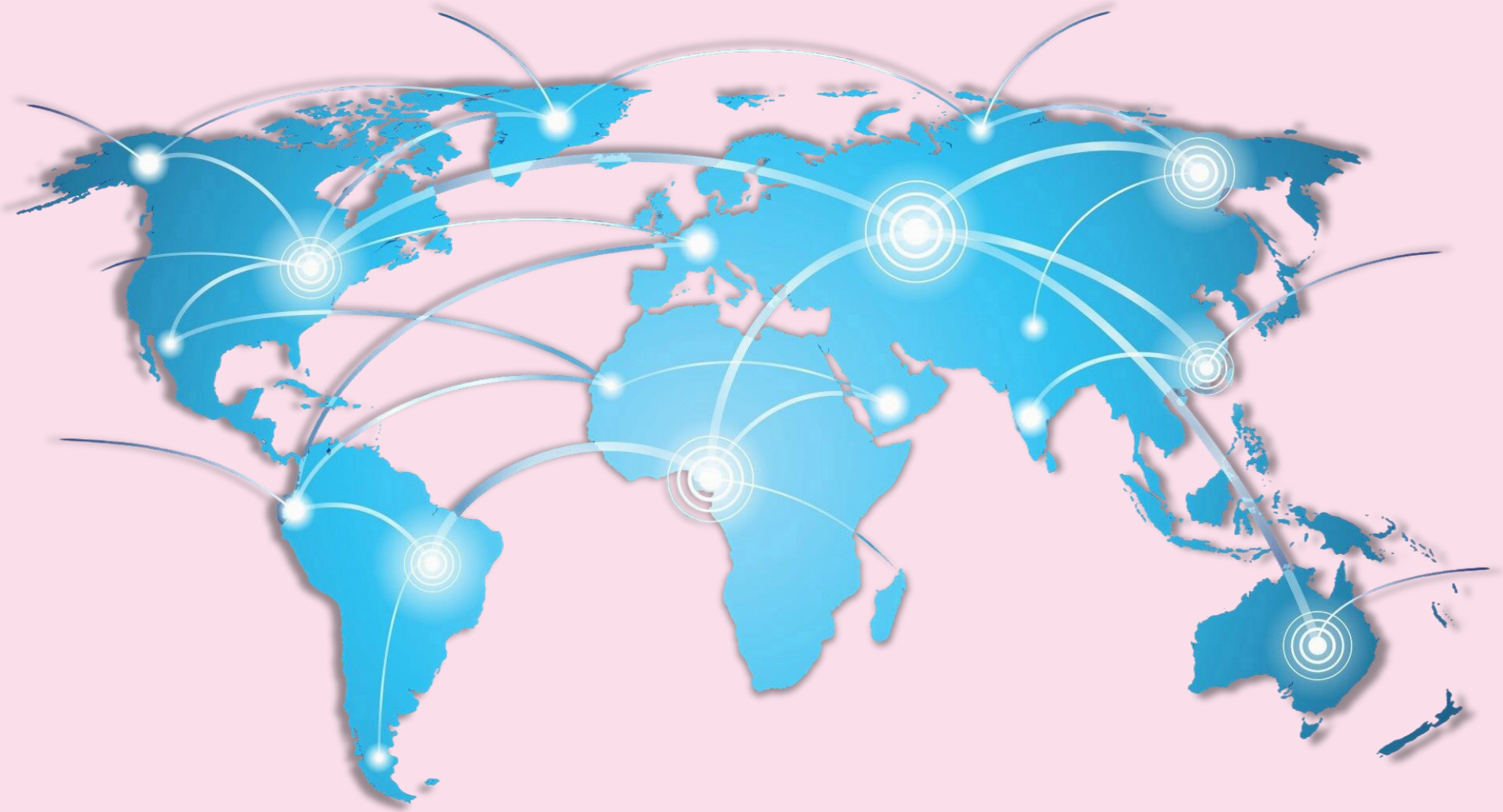

Understanding the Impact of Trump Tariffs

AXIS SECURITIES

Trump Tariffs: What Could Be The Impact on Our Market?

President Donald Trump and the White House revealed a list of U.S. “reciprocal tariff” rates that more than 180 countries and territories are set to face. A 10% baseline tax will be applied to all imports, while countries with significant trade surplus with the US will face higher tariffs.

Higher tariffs have been announced for certain countries. These stand as follows: India 26%, China 34%, EU 20%, South Korea 25%, Vietnam 46%, Taiwan 32%, and Japan 24%. For China, the effective tariff rate now stands at 54%, comprising the 34% announced yesterday and the 20% announced earlier.

We believe there is limited direct impact on India as higher tariffs have also been imposed on other competing countries. In the near term, select sectors may face challenges in terms of volume, margins, and growth. Over the next few weeks, it will be crucial to monitor any retaliatory tariffs by other countries and developments in country-level bilateral agreements.

What could be the impact of this event on our market?

- As the tariffs imposed on other countries are higher than market expectations, global market volatility is expected to rise. Additionally, these tariffs are inflationary in nature, posing a challenge for the US FED in its upcoming policy decisions. The evolution of the ecosystem needs to be closely monitored over the next few weeks. These developments are negative for global growth, and disruptions in the global supply chain could escalate recessionary risks in the US market going forward.
- Given the significant weightage of the US in the global economy and equity markets, these developments are likely to heighten volatility in the near term, impacting investor sentiment globally. **We recommend increasing cash positions by up to 10% in the short term and utilising any market dips in a phased manner to build positions in high-quality companies with strong earnings visibility, maintaining an investment horizon of 12-18 months.**
- Furthermore, the Pharmaceutical sector is exempt from the current tariff announcements. Consequently, the Pharma sector could see a breather rally in the coming days.
- **The domestic economy looks attractive at the current juncture:** A series of domestic events indicates better days ahead in FY26 compared to FY25. These events are 1) A 50bps CRR cut by the RBI in Dec’24, 2) Consumption boost in the Union Budget, 3) A 25bps Rate cut by the RBI in Feb’25 MPC, and 4) Improved liquidity measures by the RBI. These events indicate better days ahead in FY26, with improved credit growth and overall consumption improvements.
- **Macroeconomic developments remain watchful:** In the near term, macroeconomic risks such as trade policy uncertainty, the risk of a global market slowdown due to reciprocal tariffs, and recessionary concerns will continue to challenge market direction. Going forward, we expect market positioning in India to be divided between domestic-facing and export-facing sectors. **At this juncture, the risk-reward balance appears to favor domestic-facing sectors due to minimal impact from reciprocal tariffs, while export-oriented sectors will remain in a wait-and-watch mode, contingent on further developments and their impact.**
- We continue to hold our view, as presented in the latest report, **"Top Picks - April 2025"** (click here). We believe that Largecap stocks, ‘Quality’ stocks, Monopolies, Market Leaders in their respective domains, and Domestically-focused sectors and stocks may outperform the market in the near term.
- Against this backdrop: 1) We continue to like and overweight Largecap private banks, Telecom, Consumption, Hospitals, and Interest-rate proxie, 2) Following the recent price correction and based on the growth visibility in the domestic market for FY26, we prefer certain Capex-oriented plays that look attractive at the current levels, 3) We continue with our ‘downgrade’ stance on the IT sector based on the expectations of slowdown in overall IT spending in the US market as well as a probable delay in discretionary spending, which may pose a downgrade risk in upcoming quarters. These downgrade risks could pose a challenge to the valuation of the IT sector in the near term. With overnight development of Trump tariffs, the chances of downgrades have further increased. Hence, we recommend reducing positions in the IT sector.
- We believe the impact on Top Picks recommendations is very limited, where we continue to focus on Largecap private banks, Telecom, Consumption, Hospitals, and Interest-rate proxies. Any incremental volatility could be a buying opportunity in the Top Picks stocks.

Our Top Picks: ***HDFC Bank, ICICI Bank, Dalmia Bharat Ltd, State Bank of India, Lupin, Trent Ltd, Hero Motocorp, Max Healthcare, Indian Hotels, Kalpataru Projects, APL Apollo Tubes, Varun Beverages, Bharti Airtel, Prestige Estates, Cholamandalam Invest and Finance***

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