THE GLOBAL TURMOIL
Impacts on the Domestic Market

The tide appears to be turning for the markets, with experts anticipating a strong rebound and minimal risk of further deep corrections. This optimism is driven by robust GDP growth, controlled inflation, resilient corporate earnings, and attractive valuations post recent market pullbacks. While Foreign Institutional Investors (FIIs) have been net sellers, their return is widely expected, adding fresh liquidity, while domestic investors continue to display unwavering confidence.

Historically, such corrections have often served as the springboard for the next leg of the bull market rally. Some of the expert opinions advocating the above view are mentioned here:

- Riddham Desai affirms, *"India's economic momentum remains intact, and markets will reflect that soon."*
- Raamdeo Agrawal echoes this sentiment, declaring, *"The worst of the correction is over; happy days are back. Long-term investors should stay optimistic."*
- Madhusudan Kela emphasizes that *"FII selling won't last forever; their return will drive the next rally."*
- Manishi Raychaudhuri further highlights India's resilience against global shocks, stating, *"India is less vulnerable to global tensions than its Asian peers due to its largely domestic-driven economy."*

Experts' opinions have managed to lift sentiment and benchmarks (5% in the last few days) without any meaningful changes at the macro level. Recently, **Mr. S. Naren** (CIO- ICICI Prudential AMC) and now even the **Finance Ministry** have highlighted that **geopolitical tensions and trade policy uncertainties** will pose considerable risks to the Indian economy and markets.

The current rally is built on fragile ground—high valuations, global economic slowdown, geopolitical risks, and FII outflows all point to an unsustainable uptrend. While many experts argue that the worst is over, we caution investors that the real turbulence is yet to come.

Are Markets Set For Steady Growth Or A Freefall?

Global Factors

US Debt Crisis: A Global Shock is Coming

- The U.S. national debt has crossed $36.2 trillion, with annual interest payments exceeding $1 trillion (quarterly interest repayment surged to 3.1% of GDP).
- Persistently high interest rates are pushing the U.S. economy toward a debt spiral, which could impact global liquidity.

A US financial crisis could trigger panic selling in emerging markets like India.

The Trump Tariff Threat – Trade Wars to Return?

- The U.S. has already imposed tariffs on Canada, Mexico, and China, with retaliatory measures in place.

- Now, Trump plans to impose "reciprocal tariffs" on India from April 2025, targeting trade barriers.

Protectionism over efficiency: A trade war could disrupt global supply chains and slow economic growth.

Supply Chain Disruptions

- The ongoing wars and tensions are fluctuating, leading to intensified instability in the Middle East and disrupting global supply chains, particularly in energy and shipping.

Risks of Technological Disruptions & Biological Wars

- The global economy faces significant risks from the shift of traditional warfare to the cyber and biological threats.
- Cyber attacks targeting critical infrastructure, financial systems, and sensitive data have the potential to cripple economies.
- Biological weapon could also be used to create panic, further destabilizing digital systems, leading to an interconnected crisis.

Domestic Factors

Global Blowdown & Cracks in India's Growth Story

- OECD projects global GDP to slow to 3.1% in 2025 and 3.0% in 2026.
- India's GDP growth is set to moderate to 6.8% in FY25, down from 7.2% in FY24.
- Export-driven sectors like IT, manufacturing, and pharmaceuticals are already facing headwinds from weak global demand.

A slowing economy combined with inflated market valuations is a dangerous mix.

FII Outflows: Liquidity is Drying Up

- FIIs have pulled $29 billion from Indian equities since October 2024, triggering heightened market volatility.
- While domestic investors have been buyers, they alone cannot support the market if foreign outflows persist.

Greenshoots of Social Uneasiness

- The widening divisions along geographic, cultural, and linguistic lines or amongst religions are creating an atmosphere of instability and uncertainty.
- This could deter investment, disrupt supply chains, and hinder commerce and trade.

Major Macro Indicators – Soft Q4

- Lack of Power demand, Diesel and Petroleum consumption, auto sales, urban employment at 8.4% (vs 7.7% in rural), rising demand under Mahatma Gandhi NREGA scheme, slow personal loan shows economic revival is still far away.

Failure of Earnings Revival – The Biggest Risk

- Corporate earnings growth has remained weak, with many companies facing margin pressures due to high input costs and sluggish demand.
- In Q3 FY24, NIFTY 50 companies reported just 5% YoY earnings growth, below expectations.
- If this trend continues in Q4 FY24 and beyond, it will stretch market valuations further, increasing the risk of corrections.

Overheated Valuations: The Warning Signs are Flashing

- The NIFTY Midcap 150 trades at 36.6x P/E, far above its 5-year average of 27.8.
- The NIFTY Small-cap 250 index trades at 29.2x, exceeding its 3-year average of 24.6.
- NIFTY 50's P/E remains at 21.0x, still above historical levels.

While optimism runs high, the data tells a different story. This market is **entering a dangerous phase,** where investors risk being caught at the peak just before the plunge.

How To Protect Yourself?

In times of uncertainty, **a disciplined asset allocation strategy** is essential to safeguard wealth.

- We recommend maintaining **conservative asset allocation** as capital protection is utmost priority.
- It is still **good time to reduce equity exposure.** In case of reduction in equity holdings, market will provide **opportunity to invest at lower levels.**
- Consider allocation in real assets including commodities and bullion, with higher allocation to silver over gold.
- We expect silver to outperform gold because of industrial utilization along with undervalued in term of gold. (being on the lower end of a gold-silver price ratio).
- Multi asset investment policy will be beneficial for conservative investors.
- SIPs are effective tools to achieve long term wealth creation. This should not be tinkered.

The market isn't defying gravity—it's just at the top of the bungee cord. When reality sets in, the fall could be fast and brutal. The only question is — ARE YOU PREPARED?

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