

India-US Trade Deal

05th February 2026

On 2nd February, 2026, just before midnight, the US President Donald Trump announced a trade deal between the USA and India, with the **USA dropping tariffs on India to 18% from the previous 50%**. This announcement which, to most, came as a surprise, in on the headline – positive for India **if thoroughly true**. The past week has seen India sign its largest FTA yet and come to reasonable terms (and come ahead according to us) with the largest economy in the world. We believe this trade deal could be beneficial for India, **although the fine print needs to be analysed thoroughly to paint a total picture**.



It was an Honor to speak with Prime Minister Modi, of India, this morning. He is one of my greatest friends and, a Powerful and Respected Leader of his Country. We spoke about many things, including Trade, and ending the War with Russia and Ukraine. He agreed to stop buying Russian Oil, and to buy much more from the United States and, potentially, Venezuela. This will help END THE WAR in Ukraine, which is taking place right now, with thousands of people dying each and every week! Out of friendship and respect for Prime Minister Modi and, as per his request, effective immediately, we agreed to a Trade Deal between the United States and India, whereby the United States will charge a reduced Reciprocal Tariff, lowering it from 25% to 18%. They will likewise move forward to reduce their Tariffs and Non Tariff Barriers against the United States, to ZERO. The Prime Minister also committed to **“BUY AMERICAN.”** at a much higher level, in addition to **over \$500 BILLION DOLLARS** of U.S. Energy, Technology, Agricultural, Coal, and many other products. Our amazing relationship with India will be even stronger going forward. Prime Minister Modi and I are two people that GET THINGS DONE, something that cannot be said for most. Thank you for your attention to this matter!



Timeframe?

The details of the announcement are however unclear at this point, as the American President mentioned India committed to Buy > USD 500 Bn of US Goods, **but failed to mention the timeframe of the same** (India’s imports from US total ~376.5 Bn from 2013 to 2024). This big of a “promised” purchase sounds far-fetched, and quite possibly can be a hyperbole.



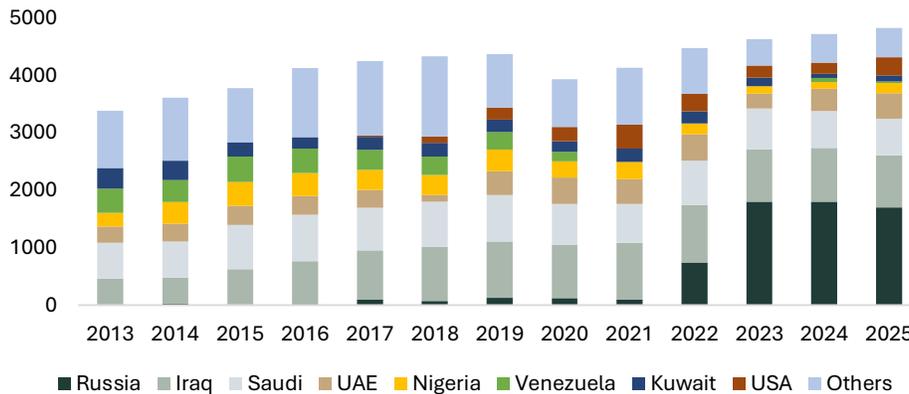
Source: JM Financial; FY2026 data is until Nov’25



However, the behaviour between the 2 democracies has surely changed towards being more positive, with the External Affairs Minister meeting with US Secretary of State Marco Rubio and US Treasury Secretary Scott Bessent to discuss bilateral cooperation on critical minerals exploration. This being said, the **recent revision of the US-South Korea FTA** illustrates the risk of just going on words said by leaders. **Despite South Korea and the European Union being directly allied nations, they have faced difficulties in finalizing and maintaining deals with the US.** Given this case and the reputation of the US president, the deal has to be evaluated and taken into consideration with a **pinch of salt**.

What’s also interesting is that the announcement highlighted India to **stop purchasing Russian oil**, which, on face value is difficult to believe as Russia has become India’s top supplier of Oil. Adding to this, the Indian Government hasn’t confirmed/denied to stop buying Russian Oil. According to Reuters Industry sources, if there is a shift away from Russian oil, **it will be gradual rather than abrupt**.

India's Oil Import ('000 Barrels/day)



Source: Bloomberg

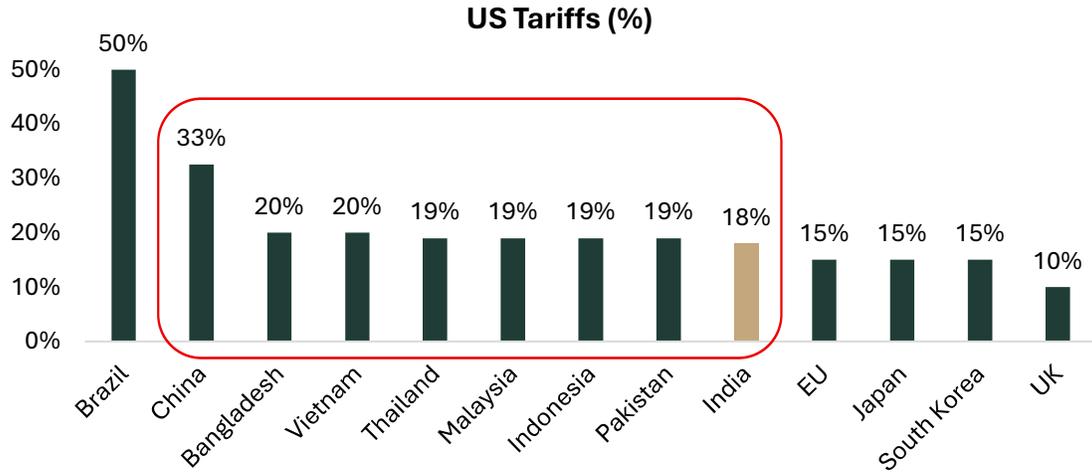
It would be prudent for India to keep all sources of Crude active, which, contrary to popular opinion, includes Russia, we believe India will still purchase Russian oil, although it may be in lesser quantities. Purchase of Venezuelan oil wouldn’t be a surprise to India as well, because India has been a buyer pre-2020.

While India has the lowest tariffs amongst Emerging Markets, tariffs inherently have never worked, especially in the case of the US, particularly in 2 instances:

1. **The 1930s Smoot-Howley Tariff Act** –US, to protect its farmers, eventually covered over 20,000 imported goods. This tariff, instead of helping the economy, triggered a global trade war, with global trade plummeting almost 66% from 1929 to 1934. **This ended up with the US devaluing the USD against Gold.**
2. **The 1970s, where US President Nixon was in power** – Here, Nixon implemented a 10% supplemented surcharge on all imports with the goal of making Japan and Germany revalue their currencies –which didn’t happen then (happened more than a decade later). Nixon eventually had to end convertibility of dollars to gold, leading to **significant devaluation of the dollar.**

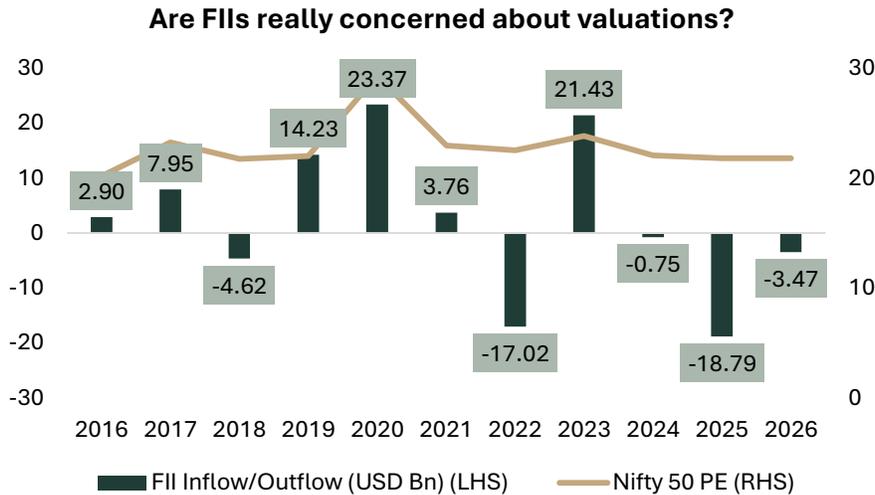


The question that arises now is whether the US has to devalue the dollar again.



Source: Axis AMC, Bloomberg

It is still uncertain whether FIIs may start buying Indian equities again – as they have been Net sellers since 2024. The graph below highlights the question whether FIIs are concerned around Indian market valuations or have found better opportunities elsewhere.



Source: Bloomberg, ACE MF

It can be argued that a weaker INR, along with relatively weaker earnings has disincentivised foreign investment – which in turn has kept Valuations expensive. This is where we re-iterate our view – **India is going to continue to remain an expensive market** due to the following reasons:

- India has the size and potential that very few offer market
- India has a diverse enough spectrum of investible themes which are both traditional and emerging



Given the previous trade history, we believe these are the sectors that are going to directly benefit from the trade deal. However, if the deal is as large as expected, it will bring many more sectors within its ambit.

Sector	% of total FY25 exports	% of total FY26 YTD* exports
Electronics & electricals	18.40%	28.40%
Diamonds and jewellery	11.50%	6.00%
Pharmaceuticals	11.30%	10.00%
Textiles	9.60%	8.60%
Chemicals	3.10%	2.90%

Source: JM Financial

Why we think India is well placed now



Source: MSCI

Date	Ratio	MSCI India	MSCI EM	Date	Ratio	MSCI India	MSCI EM
30-Jul-21	1.06	207.16	196.12	31-Jul-24	1.73	311.81	180.44
31-Oct-22	1.59	213.57	134.61	30-Jan-26	1.06	277.85	261.61
Returns		3.10%	-31.36%	Returns		-10.89%	44.98%

The above chart depicts that India has underperformed its Emerging Market peers. If we look and compare ourself back on the timeline, we were at the same ratio (1.06) on 30th July, 2021. India has then outperformed its EM peers significantly.

From 2024 onwards, India has underperformed significantly. FIIs have since sold India continuously. **We think India is at an opportune time right now, as it is trading below the ~10-year mean. With structural headwinds like trade deals and tariffs now more or less out of the way for India. India is at the cusp of a reversal, and we expect outperformance to come in soon. The year is turning out to be the year of trade deals. We strongly believe manufacturing and trade-oriented industries will be the focus of investors.**



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