



STRATEGY UPDATE • AUGUST 2025

Navigating Tariff Volatility with a Focus on Structural Growth

KEY TAKEAWAYS

- We maintain an equity overweight, with a tilt towards Europe, Emerging Markets (especially India), and high-conviction themes such as industrials and defence.
- Tariff-related volatility should be seen as an opportunity to add quality names at more attractive prices.
- Fed rate cuts later this year and tax cuts from 2026 are likely to extend liquidity support and sustain equity momentum.
- India remains a core overweight in EM, with long-term structural drivers intact despite recent volatility, and improved entry points after valuation corrections.
- Pullbacks are best used to rebalance into high-quality cyclicals and gold for hedging.

MARKET REVIEW

July extended the positive tone that began in Q2, with global equities broadly higher but with notable differences in regional performance. US and Emerging Markets outpaced Europe, supported by **robust earnings** reports, upbeat guidance, and continued enthusiasm for structural growth stories in India and select Asian markets. The Nasdaq and S&P 500 stayed near record levels, powered by **large-cap technology**, while EM gained on attractive valuations and improving domestic backdrops. Europe lagged slightly, despite stable macro data and a clearer disinflation trend, as investors rotated into markets perceived to have more immediate earnings momentum.

Corporate earnings releases for Q2 have so far reinforced the resilience of listed companies, with over **80% of US firms beating expectations**, a statistic that is historically associated with above-average forward returns. Beyond technology, earnings strength has broadened into **industrials**, healthcare, and select consumer sectors, suggesting that **the equity rally is being supported by a wider base than in previous quarters**. In Europe, while earnings beats have

been more modest, forward guidance has generally improved, particularly in export-oriented sectors benefiting from currency fluctuations and stable global demand.

Currency markets added another layer of complexity. The USD weakened modestly in the latter half of July, offering a short-lived tailwind to non-US assets, but recovered in early August. At this stage, it is premature to call this a sustained downtrend, although the medium-term backdrop of looser US monetary policy and fiscal expansion remains a potential headwind for the dollar. The tug-of-war between interest rate expectations and short-term safe-haven flows means we may see further oscillations rather than a clear directional trend in the near term. For diversified portfolios, this underlines the value of **balancing USD exposure with allocations to currencies benefiting from domestic growth momentum or commodity support**.

TARIFFS & GEOPOLITICS

Market sentiment was tested at the turn of the month, when the US administration unveiled a **new round of tariffs**. These measures sparked a brief sell-off in risk assets as investors weighed potential supply chain disruptions, higher input costs, and implications for global trade flows. While the pullback was short-lived, it underscored how policy announcements can trigger **swift volatility in an otherwise constructive market environment**. Historically, tariff shocks have tended to produce more sectoral than market-wide dislocations, with global industrial supply chains, autos, and semiconductors often the most sensitive. This time, the swift recovery suggests that **investors remain willing to “look through” such policy noise** when broader earnings and liquidity trends remain supportive. However, the risk is that a cumulative build-up of trade frictions could act as a tax on global growth, something that requires ongoing monitoring.

Geopolitically, the **NATO summit** reinforced multi-year commitments to **defense spending**, further supporting our conviction in the industrials and defense theme. European defense names in particular have been well-bid, reflecting both policy clarity and robust order books. In the US, aerospace and defense also remain supported by sustained government contracts and export demand. This is one of the few themes where visibility is high and global alignment is evident. We also note that industrials more broadly are positioned to benefit from reshoring trends, infrastructure upgrades, and green transition initiatives, all of which are policy-backed in multiple regions. These structural drivers suggest that the theme is not just cyclical but a multi-year allocation anchor.

PORTFOLIO POSITIONING

From an asset allocation standpoint, we maintain a **constructive stance on equities**, with an overweight to Europe and Emerging Markets within a globally diversified portfolio. Within EM, India remains a core overweight not only for its compelling structural growth story – fueled by demographics, infrastructure development, and domestic consumption – but also because recent market corrections have made valuations more attractive. While near-term headwinds from tariffs, uneven earnings in certain sectors, and foreign capital outflows warrant tactical caution, the strategic case remains intact. Long-term investors are likely to benefit from sustained GDP growth in the 6–7% range, deepening capital markets, and a policy framework that continues to attract both domestic and international investment. In Europe, industrials and defense are key overweight sectors, complemented by selective exposure to high-quality cyclicals positioned to benefit from a stabilizing growth environment.

MACRO OUTLOOK

The macro backdrop remains favorable. Inflation is trending toward central bank targets, with no signs of the post-pandemic overshoot returning. The Fed is expected to begin **cutting rates** later this year, and a more market-friendly leadership is anticipated in 2026. Trump’s proposed

tax cuts from 2026 would add further liquidity to the system, amplifying the pro-growth policy mix. On the monetary side, a potential easing cycle starting in September could historically add double-digit percentage gains to equity benchmarks over the following 12–18 months. While not guaranteed, the combination of **lower rates and fiscal expansion** represents one of the more supportive macro configurations in recent cycles.

FIXED INCOME & OUTLOOK

Fixed income remains underweight, as the risk-reward profile remains more compelling in equities. We continue to hold high-quality short-duration bonds for liquidity purposes, while avoiding long-duration exposure until yields move more decisively lower. Commodities, especially gold, remain a useful hedge against geopolitical and currency volatility. We also continue to see a role for selective infrastructure and renewable energy assets within listed markets, both as diversifiers and as beneficiaries of long-term capital expenditure cycles.

While tariffs and geopolitics will continue to inject bouts of volatility, we see the medium-term equity outlook as underpinned by a combination of easing monetary policy, fiscal stimulus prospects, and strong earnings momentum. For disciplined investors, these pullbacks offer entry points to reinforce high-conviction positions while keeping portfolios balanced across geographies, sectors, and asset classes. The focus should remain on staying invested in structural growth areas while having enough liquidity to take advantage of temporary market dislocations.

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