INTERNATIONAL DIVERSIFICATION

Book profits in US equity funds if overweight

Allocate 10-20% of equity portfolio to such funds despite the recent volatility

HIMALI PATEL

The US equity market experienced a sharp sell-off this week amid concerns that President Donald Trump's tariffs and the resulting trade wars could trigger a recession. Major US stock indices recorded significant losses on March 10, 2025. Both the S&P 500 and the Nasdaq Composite Index have fallen above 10 per cent from their recent highs, which means they have entered correction zone. Indian investors have significant exposure to the US market via mutual funds. Twenty-three funds in this category have total assets under management (AUM) of ₹45,685 crore.

US FUNDS: PERFORMANCE OVER THE PAST DECADE

	Returns (%)			
	1-year	3-year	5-year	10-year
Motilal Oswal Nasdaq 100 ETF*	13.6	18.8	25.4	19.7
Franklin India Feeder Fr. US Opportunity	6.43	12.9	16.7	13.8
Motilal Oswal S&P 500 Index	13.6	15.2	NA	NA
Kotak Nasdaq 100 FoF	16.7	19.1	NA	NA
ICICI Pru US Bluechip	4.7	16.4	22.4	13.3

Top 5 funds by AUM included. *Motilal Oswal also has a Nasdaq 100 FoF with AUM of ₹5,529 crore. Funds in the above list are direct-growth plans.

Source: Navigation RA

Drivers of volatility

The recent volatility stems from uncertainty over the economic impact of tariffs and trade barriers. "The possibility of a trade war and its possible consequences on the US economy have led to market fluctuations," says Trideep Bhattacharya, president and chief investment officer-equities, Edelweiss Asset Management.

Tariffs imposed on Canada, China, and Mexico have led to retaliatory measures, sparking fears of disrupted supply chains and inflation. "The fear of increase in inflation and interest rates not falling as previously projected has led to unease," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. Concerns about a potential economic slowdown have also intensified. US markets have been trading at a premium. "Investors who have made substantial profits over the past two years may now be booking gains due to the prevailing uncertainty," says Dhawan.

The launch of Deepseek has raised concerns. "The US leadership in artificial intelligence (AI) has been challenged in recent times," says Abhishek Tiwari, executive director and chief business officer, PGIM India Mutual Fund.

Sectors that bore the brunt

Technology stocks have been particularly affected. "The technology sector relies heavily on global supply chains and could be disproportionately affected by trade disruptions," says Bhattacharya.

Returns in the US market have been concentrated in a few large companies. "These technology companies are giving back some of their disproportionate gains," says Dhawan. The tech-heavy NASDAQ has seen a steeper decline than the S&P 500.

The consumer discretionary sector has also slowed sequentially.

"The slowdown could be due to temporary overhangs, such as election uncertainties, geopolitical tensions, and inflationary pressures, which may be weighing on consumer sentiment in the near term," says Tiwari.

Bhattacharya warns that consumer-related sectors may be impacted if inflation rises due to tariffs.

Raghvendra Nath, managing director, Ladderup Asset Management notes that federal workforce cuts have hit sentiment across sectors.

Volatility may persist

Experts expect the US market to remain volatile. "It is likely to remain volatile over the next 12 months as investors weigh the potential negative impact of tariffs and trade barriers against the positives of promised fiscal spending," says Bhattacharya.

Earnings growth will be crucial for determining market trajectory.

"The expectation is that companies might achieve earnings growth of 12-15 per cent in 2025. If this growth is not realised, US markets are likely to correct, as current price-to-earnings (P/E) multiples are at premium levels," says Dhawan.

A few positives

Some sectors continue to perform well. "Corporate profitability remains robust in sectors such as applied technology, consumer goods, and healthcare (especially med-tech). Consensus estimates indicate higher earnings growth for the coming year, with positive momentum in sectors like materials, energy, and industrials," says Tiwari. He adds that corporate profit as a percentage of GDP has risen while corporate debt has declined, reflecting strong financial health. Tiwari further emphasises that the US remains a hub for innovation, particularly in technology, healthcare, and consumer sectors and is advancing quickly in AI.

Rupee depreciation could provide relief

The Indian rupee's depreciation against the US dollar benefits Indian investors. "As the rupee depreciates, the value of US investments increases, which could lead to higher returns for Indian investors," says Bhattacharya. Tiwari estimates that currency depreciation adds about 3 percentage points to annual portfolio returns from US funds.

Stay internationally diversified

Investors should focus on asset allocation instead of reacting to short-term volatility. "If the allocation is between 10-20 per cent of the equity portfolio, we would not recommend reducing it further," says Dhawan. He recommends that investors enter US equities with a horizon of 10 years or more, and not be affected by short-term volatility.

India accounts for only 3 per cent of global market capitalisation. "Since nearly 97 per cent of the world's investment opportunities lie outside India, international diversification remains essential," says Tiwari.

Nath advises rebalancing if the recent rally has led to an overweight position in US equity funds.

Given the current high valuations, be cautious with fresh allocations. "Avoid lump-sum investments at this point. Fresh investments should be done via systematic investment plans (SIP) to benefit from a potential correction," says Nath.