



**Investment Perspectives**

March 2025

# Tapping into India's transformation

We launch our India capital market assumptions – a reflection of the long-term opportunity we see unfolding in the country thanks to a favorable confluence of mega forces shaping its economic outlook.

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# Summary

- Mega forces are reshaping India's economy, driving structural shifts that present both opportunities and challenges. A young and expanding workforce, rapid digitization, and resilience in a fragmented geopolitical landscape bolster India's long-term growth prospects. We believe these forces support a case for above-benchmark allocations to Indian equities in strategic portfolios with a five-year or longer horizon.
- India's GDP is projected to grow at 6.5% in 2025, well above global and emerging market averages, according to the IMF. We expect structural drivers like demographics and rising productivity to support India's long-term economic outperformance.
- India's working-age population is set to grow by over 140 million in the next 20 years, while many major economies face declines, according to the United Nations population projections. This demographic dividend provides a foundation for sustained growth, setting India apart globally. Yet unlocking this potential will likely depend on higher female workforce participation and policies that boost skills and job creation, in our view.
- We are launching Indian rupee-denominated capital market assumptions (CMAs) to help strategic asset allocations better capture India's long-term potential, reflecting our view that Indian assets deserve a larger role in global, long-term portfolios.
- India's structural strengths, in our view, outweigh near-term softness from weak sentiment and U.S. trade uncertainty. Focusing too narrowly on cyclical trends — like slower near-term growth — risks missing the broader structural story and the opportunities it presents, in our view
- Recent signs of moderating growth and easing inflation have prompted the Reserve Bank of India to cut interest rates, with further cuts expected to steepen the yield curve. We see Indian government bonds as having attractive income potential, given the higher yields on offer relative to several global peers. Their upcoming inclusion in the JPMorgan GBI-EM index is poised to increase foreign demand, we believe, further supporting this asset class within diversified portfolios.
- The MSCI India equity index has lagged broad developed and emerging market indexes since hitting a record high in September 2024, weighed down by slowing growth, valuation concerns and uncertainty over U.S. policy. MSCI India trades at 21.5 times forward earnings, above historical averages, according to LSEG data. We believe robust corporate earnings and lower interest rates can sustain current valuations. India's exports to the U.S. account for less than 5% of its GDP, limiting its exposure to potential U.S. tariffs compared to more vulnerable economies.
- With strong structural drivers in place in our view, we see an opportunity for global investors to increase allocations to large-cap Indian equities directly — rather than through broad indices — to above-benchmark levels.

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# Taking a structural, not cyclical, view

In our 2025 Global Outlook, we outlined how the world is undergoing an economic transformation. This is not a typical business cycle, but a period shaped by powerful mega forces. We see these forces driving structural shifts in India, creating crosscurrents that investors will need to navigate. These include its demographic advantage, with a young and expanding workforce fueling sustained growth; rapid digitization transforming financial transactions; and its resilience in adapting to a fragmented geopolitical landscape. This favorable confluence of mega forces, in our view, is brightening India's long-term economic outlook. We think this positions India as a market that warrants a bigger role in long-term portfolios than current weights in benchmark indexes suggest.

India stands out as one of the fastest-growing major economies globally. The International Monetary Fund projects GDP growth of 6.5% in 2025 — well above global and emerging market averages. We expect this economic outperformance to persist, driven by structural strengths such as favorable demographics and rising productivity. This broader structural story presents opportunities, in our view. This perspective underpins our decision to launch Indian rupee-denominated capital market assumptions (CMAs), reflecting our view that Indian assets deserve a larger role in global, long-term, strategic portfolios than typically seen.

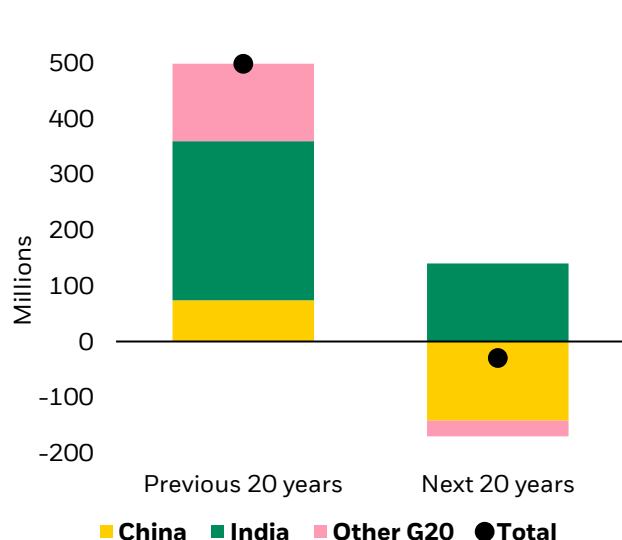
India's demographic edge is a cornerstone of our upbeat long-term outlook. A young and expanding workforce is set to sustain consumption growth and drive productivity gains over the coming decades. The chart on the left below illustrates the stark contrast in demographics between India's demographic trajectory and other major economies. This demographic dividend, combined with AI-driven productivity gains, could amplify India's economic potential, in our view. Unlike many developed economies and China — where AI may boost output but within a shrinking workforce — India's expanding labor pool stands to benefit from both forces at once. Rising urbanization and improving financial inclusion further strengthen India's structural investment case, we believe. Yet realizing this full potential will require greater female participation in the labor force, alongside policies that enhance skill development and job creation.

India's structural strengths outweigh near-term softness from weak domestic sentiment and uncertainty over U.S. trade policy, in our view. A narrow focus on cyclical trends — such as slowing growth — risks missing the bigger picture and the opportunities it creates. Market weakness keeps us neutral on Indian equities in the next six to 12 months, but the long-term case remains compelling. Signs of moderating growth and easing inflation have prompted the Reserve Bank of India to act. The central bank recently cut its key interest rate for the first time in nearly five years, lowering the repo rate from 6.5% to 6.25% to help counter slowing growth. We expect further rate cuts over the next five years, set to steepen the currently flat yield curve as short-term rates decline. See chart on the right below.

Unlike markets such as the U.S., where we see long-duration bonds facing repricing risks from higher for longer interest rates, we believe Indian government bonds are less exposed to such risks, with yields at the long end of the curve more appropriately priced in our view. We see India's government bonds as a compelling source of income, offering higher yields than major global markets. The upcoming inclusion of Indian government bonds in the JPMorgan GBI-EM index is poised to boost foreign demand for India debt, in our view, providing further support for this asset class and reinforcing its role in diversified portfolios.

## Bucking the trend

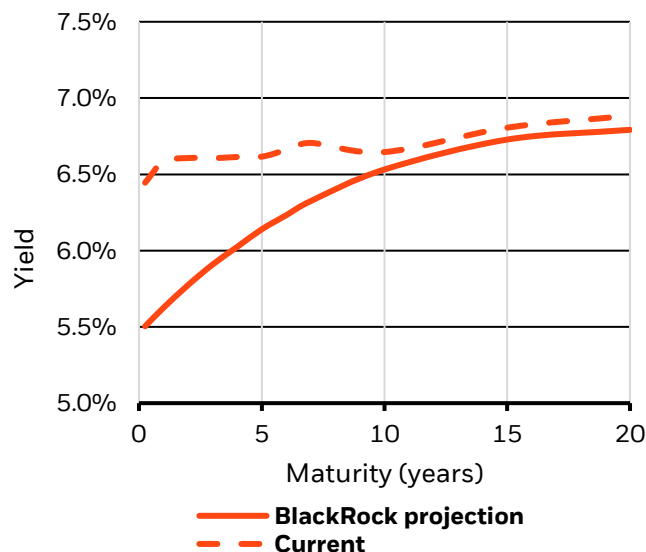
Change in working-age populations, past vs. forecast



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, United Nations, with data from Haver, March 2024. Notes: The chart shows the past change in working-age population (15-64 years old), and the UN's forecast change over the next 20 years.

## Steeper curve ahead

India yield curve, BlackRock five-year estimate vs current



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from Bloomberg, February 2025. Note: the chart shows our estimate of what India's government bond yield curve will look like in five years' time based on our assumptions of government bond yields vs its current shape.

# Above-benchmark allocations to India

India's long-term outlook is bright, driven by structural changes. Yet Indian equities have lagged broader emerging and global markets in recent months, weighed down by slowing growth, valuation concerns and uncertainty over U.S. policy. The MSCI India index is down 18% in U.S. dollar terms since hitting a record high in September 2024, according to LSEG Datastream data as of February 20, 2025. The MSCI AC World is up 4.2% since while the MSCI Emerging Markets indexes is down about 2.2%.

Concerns over India's high valuations often focus on traditional metrics like the price-to-earnings (P/E) ratio. MSCI India trades at about 21.5 times forward earnings, above historical averages, according to LSEG data. Traditional valuation metrics for Indian equities, like price-to-earnings (P/E) or price-to-book (P/B) ratios, reflect India's long-term growth potential, in our view. Over the past 15 years, Indian equity valuations have steadily risen, settling at progressively higher levels. We see this trend as a reflection of structural forces, often overlooked when focusing solely on cyclical trends, at play. While such metrics run above long-term averages, we expect robust economic growth to underpin corporate earnings over the medium-to-long term. Policy interest rates, likely settling around 5% (down from the current 6.25%), should help sustain these valuations, in our view. Our preferred valuation metric — the equity risk premium (ERP) — incorporates earnings growth expectations and interest rate projections. With an ERP estimate of 4.8% aligning with historical averages, we believe valuations are less stretched than traditional metrics suggest.

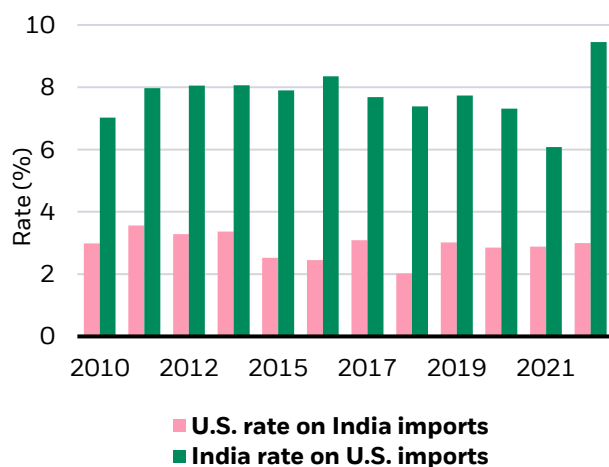
Indian equities are not immune to global risk-off sentiment. We see trade protectionism emerging as a key risk under the new U.S. administration. For India, however, the impact of potential U.S. tariffs looks relatively contained — goods exports to the U.S. make up less than 5% of its GDP, according to World Bank data. This suggests India is far less exposed to direct trade disruptions than economies more dependent on U.S. demand. Even if the U.S. were to impose a 10% bilateral tariff across various countries, we estimate the impact on India's GDP would be minimal — measured in tenths of a percentage point and far smaller than the hit North American trading partners would take.

That said, India could face disproportionate pressure due to the wide tariff gap between the two nations. India imposes higher tariffs on U.S. imports than the U.S. does on Indian goods, as shown on the chart on the left below. This imbalance has historically resulted in U.S. businesses paying more in tariffs to India than vice versa, making India a potential target for policy retaliation. India has room to take a more constructive approach, we think. For instance, lowering import tariffs on U.S. goods could ease tensions and improve trade reciprocity. Even if retaliatory tariffs were imposed, we believe the economic impact would remain limited. Sectors with the highest tariff gap — such as food products and agricultural goods — represent a negligible share of India's GDP (0.05%-0.08%), based on our analysis of World Bank trade data. India's minimal direct exposure to tariff-sensitive sectors, combined with its strong domestic growth drivers, reinforces our positive long-term outlook for Indian equities.

Our bottom line: We see an appealing risk-reward for global investors with a long-term view to increase allocations to large-cap Indian equities directly — rather than through broad global indices — to above-benchmark levels, as shown in the chart to the right.

## Eyeing tariff risks

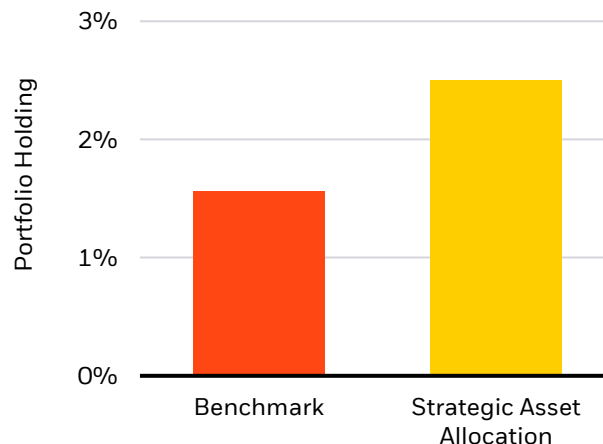
Effectively applied weighted average tariff, U.S. vs India



Source: BlackRock Investment Institute with data from World Bank, December 2024. Note: the chart shows the effectively applied weighted average tariffs rates imposed by India and the U.S. on goods imports from each other. Data is from the World Integrated Trade Solution (WITS) database developed by the World Bank — in collaboration with the United Nations Conference on Trade and Development (UNCTAD) and in consultation with organizations such as International Trade Center, United Nations Statistical Division (UNSD) and the World Trade Organization (WTO). The effectively applied weighted average is the average of effectively applied rates weighted by the product import shares corresponding to each partner country. For full details see: <https://wits.worldbank.org/Default.aspx?lang=en>

## Going direct

Hypothetical strategic allocations to India equities



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise — or even estimate — of future performance. Indexes are unmanaged. An investor cannot directly purchase any index. Source: BlackRock Investment Institute, December 2024. Notes: The chart shows our hypothetical strategic asset allocation to Indian equities as a percentage of the overall portfolio with a long-term investment horizon of 10-years. The 'Benchmark' column shows the allocation when Indian equities are held through the MSCI ACWI IMI in global 60/40 portfolio while the 'Strategic Asset Allocation' column shows the allocation when an explicit position in Indian equities is permitted.

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