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World won't shake off tariff tantrums soon: First Global's Devina Mehra

Mehra says that they remain overweight on Europe, China, and to an extent, India in their global funds, and have also increased their allocation to fixed income.

Puneet Wadhwa | **May 4, 2025**

Global financial markets have clawed back from their April lows. **Devina Mehra**, founder, chairperson and managing director at First Global, tells *Puneet Wadhwa* in a telephonic interview that they remain overweight on Europe, China, and to an extent, India in their global funds, and have also increased their allocation to fixed income. Edited excerpts:

Have the markets fully shaken off Trump's tariff tantrums, or should investors sell in May and go away?

The world will take a long time to get over tariff tantrums. It's not even clear what exact concessions he (Donald Trump) is looking for. Plus, contradictory statements — like high tariffs on China would mean empty supermarket shelves, disrupted supply lines and high prices for American consumers — only add to the uncertainty.

The developments are already testing the 12-year outperformance of US equities. European markets have been doing far better. Germany is up 12 per cent, Spain 16 per cent, and Italy 10 per cent for the year, as against a 9 per cent decline in the S&P 500.

We remain overweight on Europe, China and, to an extent, India in our global funds, and have also increased our fixed-income allocation. The impact on India may be muted, as we are not major exporters. I do not see a big risk to a largecap-oriented, steady portfolio in India.

What about the India-Pakistan geopolitical tensions?

That's impossible to say, as it's unknown what kind of action, if any, will be taken. However, if we're concerned only with the narrow area of markets, past experience shows that even if something does happen at the border, it may not have a lasting impact.

Will the US dollar be the biggest casualty of the tariff tantrums, no longer treated as a safe-haven currency?

Trump has taken a sledgehammer not just to multilateral institutions but also to the soft power of the US: the trust in institutions and the rule of law, the freedoms, and the academic and research structure that attracted literally the best and brightest. There is bound to be some permanent damage to the US dollar's position as the default reserve currency and the most widely used trade currency in the world. The bond markets currently appear to be pricing in more rate cuts than are likely to happen, in my view.

Is there any silver lining for the global financial markets?

India certainly has an opportunity to increase its exports, and I hope — unlike the pre-pandemic opportunity — this one is not frittered away. In any case, even at the peak of the tariff announcements, the tariffs on India were lower than those on most of its competitors. Whether desirable or not, there will also be an increase in global defence spending, as even North Atlantic Treaty Organization partners can no longer rely on the US to come to their aid. This opens up business opportunities.

Will developed markets outperform their emerging market (EM) peers in 2025-26 (FY26)?

Europe is now diverging from the US, so all developed markets may not be in the same bucket. Within EMs, we are positive on China, where we are substantially overweight. We are also somewhat overweight on India. China, of course, has been a strange outlier where the market made a high in 2007 and has not exceeded that, even though gross domestic product has grown sixfold since.

How should investors go about picking stocks in India if the US were to slip into a recession?

I do not see a widespread impact of a US slowdown on the Indian economy or market. The only sector with direct exposure is information technology (IT) services, as pharmaceuticals are not a discretionary spend. Past data shows that in the case of a recession, over time, the share of Indian IT companies actually increases.

What does this mean for foreign flows into the Indian stock market?

I do not track foreign flows closely, simply because long-term data does not show that when foreign portfolio investors buy, the market goes up, or vice versa. That has never been the case.

What are the key themes/sectors that investors should look at in FY26?

Currently, our portfolio management services is overweight on healthcare and pharmaceuticals and automotive components — themes we've liked for over a year. The area where several stocks have been added this calendar year is fast-moving consumer goods. We've also added back some capital goods and industrial machinery stocks after their price corrections and added banks and financials, though we remain underweight.

THE DOLLAR'S DIMINISHING DOMINION

* Trump's sledgehammer weakens US trust in institutions and the rule of law

* US dollar's dominance as a reserve and trade currency is at risk

* Bond markets overestimate future rate cuts