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Thoughts of the CEO

"India in a Multipolar Economic Order emerges as a Middle-Power Economy"

The global economic system is undergoing one of the most profound structural transformations since the end of the Cold War. For three decades, the world operated under the assumption that globalization, characterized by integrated supply chains, liberalized trade, and relatively stable geopolitical relations, would continue to deepen. That assumption is now being fundamentally challenged.

Today's global landscape is defined by geo-economic fragmentation and the rise of strategic competition between major powers. Trade, technology, finance, and industrial policy are increasingly shaped not just by economic efficiency, but by national security considerations. Export controls on advanced technologies, supply-chain diversification initiatives, and the expansion of industrial policy across advanced economies all signal a transition toward a more fragmented and multipolar global system.

At the same time, this transition is creating a new geopolitical category: the rise of middle powers. These countries, economically significant but not dominant, are becoming critical actors in the global system. Their strategic autonomy, demographic advantages, and economic growth potential allow them to navigate between competing geopolitical blocs while attracting capital, investment, and supply-chain relocation.

India is emerging as one of the most important middle powers in this evolving order.

Over the next decade, India's economic and geopolitical positioning could be strengthened by several structural forces. First, demographic dynamics remain a powerful tailwind. India has one of the youngest and fastest-growing labor forces among major economies, at a time when aging populations are constraining growth in China, Europe, and Japan. Second, the ongoing reconfiguration of global supply chains is creating opportunities for countries that can offer scale, stability, and strategic neutrality. India's expanding manufacturing sector, infrastructure investments, and policy initiatives aimed at industrial development are increasingly aligned with this shift.

Third, India's geopolitical strategy emphasizes strategic autonomy rather than alignment with any single bloc. This approach allows India to maintain strong economic relationships with both Western economies and emerging markets while strengthening its position as a key partner in the Indo-Pacific region.

For investors, these structural dynamics have important implications.

In a more fragmented global economy, capital will increasingly flow toward markets that combine growth potential, political stability, and strategic relevance. India appears well positioned across all three dimensions. Structural growth drivers, including infrastructure investment, digitalization, and manufacturing expansion, support a long-term growth outlook that remains stronger than most major economies.

Within this context, we believe investors should consider increasing strategic exposure to economies that are positioned to benefit from supply-chain diversification and geopolitical realignment. India stands out in this regard, not only because of its growth potential, but also because of its evolving role as a central node in the emerging global economic architecture.

Looking ahead, the intersection of geo-economic fragmentation and the rise of middle powers will likely shape investment opportunities over the next decade. Understanding these structural shifts, and positioning portfolios accordingly, will be essential for long-term investors.

Yours sincerely,

Fabrice d'Erm

India: Geo-economic fragmentation and the rise of the middle powers

This edition examines geo-economic fragmentation and the rise of middle powers, highlighting India's growing strategic importance. As supply chains realign and capital flows adjust, India's demographics, economic scale, and geopolitical positioning increasingly place it at the center of the emerging multipolar global economy.

The End of the Hyper-Globalisation Era

The period from the early 1990s through the mid-2010s is often described as the era of hyper-globalization. During these decades, global trade expanded rapidly, multinational supply chains became deeply integrated, and capital flowed increasingly freely across borders.

Several factors drove this process. The end of the Cold War reduced geopolitical tensions, allowing countries to focus on economic integration. China's entry into the World Trade Organization in 2001 accelerated global manufacturing integration. Advances in technology and logistics reduced transportation and communication costs, enabling companies to operate complex global production networks.

For multinational corporations, the dominant strategy during this period was efficiency. Production was located wherever costs were lowest, regardless of geopolitical considerations and consumers benefitted from more competitive prices, globally. However, this model has gradually begun to change.

The global financial crisis of 2008 exposed vulnerabilities in the international financial system and led to a period of slower global trade growth. More recently, geopolitical tensions, the COVID-19 pandemic, and technological competition between major powers have accelerated a shift away from hyper-globalization.

Supply chains that were once optimized for efficiency are now being redesigned to prioritize resilience and security. Governments are increasingly intervening in strategic industries, particularly in sectors such as semiconductors, energy, defense, and advanced technologies.

Export controls, investment restrictions, and industrial subsidies have become more common policy tools. Trade policy is increasingly shaped by geopolitical considerations rather than purely economic ones.

The result is not necessarily the end of globalization, but rather its transformation. Instead of a single integrated global economy, the world is evolving toward a system characterized by partially overlapping economic blocs.

The Rise of Geo-Economic Blocs

Geo-economic competition has become a defining feature of the global economy.

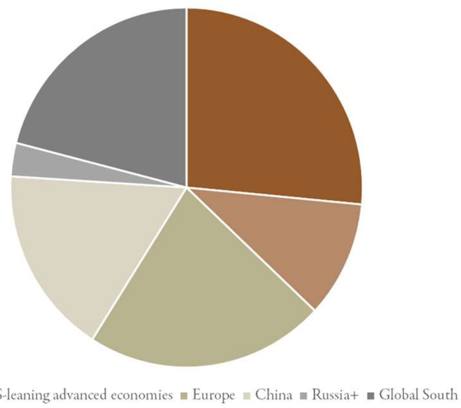
The United States and its allies have implemented a range of policies aimed at strengthening domestic industries and reducing strategic dependence on geopolitical rivals. Industrial policies such as semiconductor subsidies, technology export controls, and supply-chain security initiatives are increasingly common.

China, meanwhile, has pursued its own strategy focused on technological self-sufficiency and expanding its economic influence through initiatives such as infrastructure investment and regional trade agreements.

These developments suggest the emergence of multiple geo-economic blocs.

One bloc is centered around the United States and its network of advanced-economy allies. Another is influenced by China's economic ecosystem, particularly across parts of Asia, Africa, and the developing world. Additional regional alliances are forming around trade agreements and infrastructure partnerships.

Chart 1: The World Split into Four Roughly Economically Equal Blocs (% of Nominal GDP)



Source: Deutsche Bank

For multinational corporations and investors, this evolving landscape introduces both risks and opportunities. Firms must increasingly consider geopolitical alignment when making investment decisions, while governments are encouraging domestic production in strategic sectors.

Supply-chain diversification has become a central theme of corporate strategy over the past years. Companies are exploring alternatives to highly concentrated production networks, particularly those heavily dependent on a single country.

In this environment, countries capable of providing large markets, skilled labor, and political stability are likely to attract increased investment.

The Role of Middle Powers in the Multipolar World

As the global system becomes more multipolar, middle powers are gaining influence.

Middle powers are typically defined as countries with significant economic capacity, regional influence, and diplomatic flexibility, but without the global dominance of superpowers. Examples include India, Indonesia, Brazil, Turkey, and Saudi Arabia.

These countries often pursue strategies of strategic autonomy, maintaining relationships with multiple geopolitical partners, often on a bilateral basis, while avoiding full alignment with any single bloc.

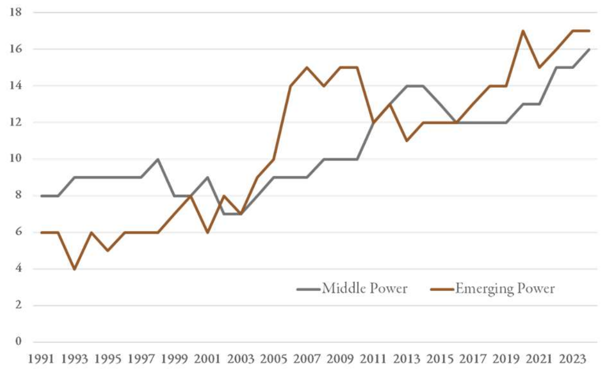
In a fragmented global system, middle powers can play several important roles.

- First, they can serve as alternative hubs for manufacturing and supply-chain diversification. As companies seek to reduce dependence on a limited number of production locations, middle powers with large labor forces and expanding infrastructure become attractive destinations for investment.
- Second, middle powers can act as diplomatic intermediaries between major powers. Their ability to engage with multiple geopolitical actors can enhance their strategic importance.
- Third, these countries often represent some of the fastest-growing consumer markets in the global economy, creating opportunities for multinational companies seeking long-term growth.

India stands out among middle powers because of its scale and structural economic potential. With a population exceeding 1.4 billion and a rapidly expanding economy. Growing at ~~6~~-7 per cent annually, India combines the demographic characteristics of a developing economy with the geopolitical relevance of a major regional power.

It is now the world's most populous country and one of the few large economies where the working-age population is still growing, creating a powerful long-term labor and consumption base. At the same time, India's economic size, already among the largest globally in purchasing power terms, gives it increasing influence in global trade, technology partnerships, and capital markets. Unlike many other emerging economies, India also possesses deep domestic demand (based on a growing middle-class), a large services sector integrated into global value chains, and a highly digitized economy. These factors allow India to participate in the global economy not only as a manufacturing alternative but also as a major consumer market and innovation hub.

Chart 2: Number of Middle and Emerging Power Countries (1991-2024)



Source: IEP (Institute for Economics & Peace)

As geopolitical competition encourages supply-chain diversification and strategic partnerships, India's scale, market depth, and institutional stability position it as one of the few middle powers capable of shaping, not merely adapting to, the emerging multipolar economic order.

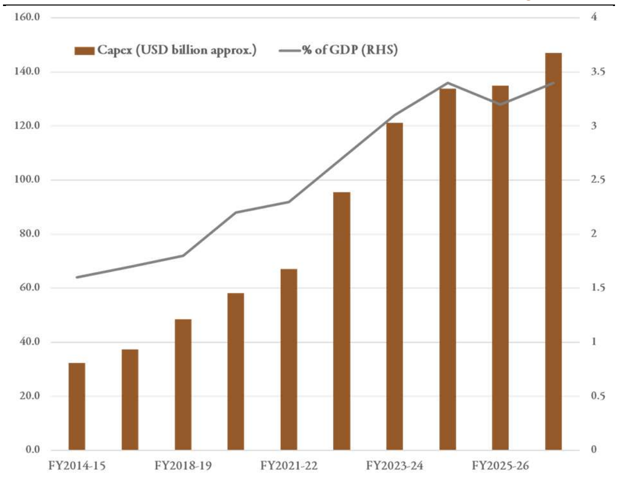
Why India Is Uniquely Positioned

Several structural factors position India as a central middle power in the emerging multipolar order.

As said, demographics are among the most significant. India's working-age population continues to grow at a time when many major economies are experiencing demographic decline. This demographic advantage supports long-term economic expansion by providing both labor supply and consumer demand. On top of that, the dependency ratio is one of the lowest in the world at 36 per cent (2024, United Nations). The latter has numerous positive implications: i) growing household savings; ii) banks have larger capital pools; iii) governments spend less on dependency-related welfare and divert capital to more productive investments; iv) it accelerates the migration from rural areas to cities and subsequently shifts activities from agriculture to services.

Infrastructure development has also accelerated in recent years. Investments in transportation networks, logistics corridors, and digital infrastructure are improving the efficiency of the domestic economy and supporting industrial expansion. In the case of India, infrastructure investment is widely understood to have a strong multiplier effect, meaning that each unit of capital deployed generates a disproportionately larger impact on overall economic output. As a rule of thumb, USD 1 invested in infrastructure in India can produce roughly USD 1.5 to 3 or more in GDP over the medium to long term.

Chart 3: India Government Infrastructure Spending



Source: India Union Budget

Government initiatives aimed at strengthening manufacturing capacity are another important factor. Policies designed to attract foreign investment and support domestic production have contributed to the growth of sectors such as electronics, pharmaceuticals, and renewable energy.

India's digital transformation is also noteworthy. The rapid adoption of digital payments, online services, and technology platforms has created a large and dynamic digital economy.

India's foreign policy has increasingly been characterised by a strategy of **strategic autonomy**, whereby it deliberately avoids formal alignment with any single geopolitical bloc while cultivating parallel economic and diplomatic ties across competing power centres. This positioning allows India to hedge against geopolitical uncertainty and maximise bargaining power in international economic relations. In the context of intensifying great-power rivalry, particularly between the United States and China, strategic autonomy enables India to engage selectively in security partnerships (such as the Quad, a strategic partnership among the US, Australia, Japan and India) while maintaining economic cooperation with a broader range of states.

This balancing strategy has important economic implications. By presenting itself as a relatively neutral and stable partner, India becomes an attractive location for firms seeking to diversify supply chains away from geopolitically sensitive hubs. As geopolitical alignment increasingly shapes trade, investment, and technology flows, India's ability to maintain workable relations with multiple blocs enhances its credibility as a long-term manufacturing, technology, and investment destination.

However, trade-offs are sometime embedded in strategic autonomy and will require India to manage tensions between economic pragmatism, geopolitical relationships and reputational costs in the international system. India has recently signalled some responsiveness to Western pressure by agreeing to reduce Russian oil purchases, illustrating the ongoing balancing act inherent in its strategy of strategic autonomy.

Strategic Implications for Trade, Capital Flows and Supply Chains

The restructuring of global supply chains is likely to reshape international trade patterns over the next decade. Companies are increasingly adopting strategies such as "China-plus-one" production models, where manufacturing capacity is diversified across multiple countries. Clearly, India is emerging as a potential beneficiary of this trend.

As multinational corporations expand production in India, trade flows may increasingly shift toward South Asia and the broader Indo-Pacific region.

Capital flows may also reflect these structural changes. Global investors seeking exposure to high-growth markets and supply-chain diversification themes may allocate more capital to economies positioned to benefit from geopolitical realignment.

India's growing domestic market further enhances its attractiveness for investment. Rising incomes, urbanization, and digital adoption are contributing to expanding consumer demand across multiple sectors.

Investment Implications

For global investors, the transition toward a fragmented and multipolar global economy will likely reshape long-term asset allocation strategies.

Markets that combine strong structural growth with geopolitical relevance may attract increasing investment flows. As said, India appears well positioned in this regard due to its demographic advantages, economic reforms, and strategic role in the evolving global system.

Table 1: Global Funds Remain Underweight on India

Particulars	Total Assets (USD Bn)	Average Fund Allocation	MSCI Benchmark	Overweight/Underweight (bps)
Global ex-US Funds	345	1.4%	5.0%	-365
Emeerging Market Funds	140	14.1%	16.9%	-280
Global Funds	625	0.3%	1.8%	-145
AEJ Regional Funds	80	19.3%	19.1%	-25
Overall	1190	3.5%	5.7%	-215

Source: Goldman Sachs

Institutional investors have historically under allocated to emerging markets. A structural reason is that global portfolios tend to be heavily home-biased toward developed markets, with emerging markets receiving relatively small allocations overall.

India accounts for roughly 4% of global GDP and Indian equities represent around 3.6% of global market capitalization. Yet many global funds allocate far less than this share to Indian assets, reinforcing the underweight narrative.

In aggregate, India's allocation within active global mutual funds is close to a two-decade low, highlighting a persistent gap between India's structural growth story and the exposure held by global investors.

Looking forward, however, several factors suggest that this allocation gap could gradually narrow. India's weight in global equity benchmarks has risen steadily over the past decade and is expected to continue increasing as the economy grows and capital markets deepen. Structural drivers, such as strong long-term GDP growth projections around 6–7% annually, expanding manufacturing capacity, and a broadening corporate earnings base, strengthen the case for a larger standalone allocation within institutional portfolios.

In addition, global supply-chain diversification and the gradual shift of manufacturing investment toward India are likely to increase its prominence within global financial markets. Nonetheless, the reallocation process is likely to be gradual rather than abrupt. Some investors remain cautious due to relatively high equity valuations and the cyclicality of emerging-market flows, with many funds indicating they would increase exposure only after more attractive entry points or stronger global inflows into EM assets.

Consequently, while India appears structurally under-allocated today, the combination of rising benchmark weights, sustained growth, and deeper financial markets suggests that institutional portfolios are likely to increase exposure incrementally over the coming decade, slowly closing the gap between India's economic weight and its representation in global investment portfolios.

India Asset Allocation

Asset Class	Strategic Opinion	Tactical Opinion	Constituents	Most Preferred	Least Preferred	Commentary April 2026
Cash	-	=				Building dry powder to deploy on further selloffs in risk assets. High cash levels serve as a tactical buffer to preserve capital while the market searches for a bottom amidst geopolitical instability.
Fixed Income	=	+	Segments	Floating Rate Bonds	Sub Investment Grade	We focus on the 3-to-5 year duration; as the yield curve is relatively flat, this segment providing decent yields without the extreme volatility of long-dated paper. USD-denominated Indian bonds offer protection against the Rupee at record lows (~94/$). We also like selective short-tenor (12-month) high-yield bonds where credit spreads are substantial.
			Duration	3-to-5 Year Segment	Long-dated credit	
Equities	++	=	Sectors	PSU Banks Defensives (Staples, Healthcare) IT & Pharma (Exporters)	Consumer Discretionary	Tactically Underweight, even as the Nifty valuation has cooled to 17.5x forward earnings (below 10-year average). India is a "net energy loser" in the current West Asia conflict.; $100+ Crude Oil price spikes inflation and hurt corporate margins. We add to PSU Banks (SBI) that are relatively safe haven even as private financials weaken. We allocate to defensives such as Staples, Telecom & Healthcare until the war-driven volatility cools. Exporters like IT & Pharma act as natural hedges with the sharp decline in the INR. Upstream Oil and Metals (Aluminium) benefit from higher realizations and supply shocks (pushing LME prices to 4-year highs). We see long-term investor interest in defence PSUs due to the shifting global order and the accelerating "Aatmanirbhar" mandate.
			Styles	Well Diversified large caps Thematic Plays	Momentum driven strategies	
Alternatives	+	+		Growth Capital & Late Stage Pre-IPO Precious Metals and REITs	Private Credit	Within alternatives, REITs remain a steady income option, supported by high-quality office portfolios, improving occupancy in prime assets, and stable rental escalations. We also continue to like Precious Metals. Gold play a crucial hedging role, supported by central-bank buying, geopolitical uncertainty, and structurally limited supply growth. We prefer backing established PE managers with long operating histories, proven cycle-tested track records, and consistent value-creation playbooks, as they tend to demonstrate superior underwriting discipline and stronger downside protection. Large, reputable platforms are better positioned in the current environment because they have deeper sourcing networks, stronger governance standards, and the ability to support portfolio companies through volatile exit cycles.
Opinion	++		very attractive			
	+		attractive			
	=		neutral			
	-		unattractive			
	--		very unattractive			

Opinion legend: (--) very unattractive; (-) unattractive; (=) neutral; (+) attractive; (++) very attractive.

India macro data and projections *

	2022/23	2023/24	2024/25	2025/26E	2026/27E
Real GDP (percent growth) Fiscal Year	7.6	8.2	6.4	6.6	6.2
CPI (percent growth) Fiscal Year	6.7	5.4	3.4	2.8	4.0
Industrial Production (percent growth)	11.4	5.2	4.0	6.2	5.5
Interest Rates (percent) Fiscal Year	6.25	6.50	6.50	5.25	5.25
Fiscal Deficit (percent of GDP)	(6.5)	(5.6)	(4.8)	(4.4)	(4.3)
Trade Balance (percent of GDP)	(6.0)	(7.9)	(6.8)	(7.1)	(7.0)
Current Account Balance (percent of GDP)	(2.0)	(0.7)	(0.6)	(1.0)	(1.4)
Public Debt (percent of GDP)	82.0	82.7	82.7	81.1	80.7
FX reserves (USD bn)	578	646	668	709	733

Sources: IMF * Data are for Apr-Mar fiscal years

MSCI India (USD) 1Y Performance

Source: Bloomberg

Nifty50 (INR) 1Y Performance

Source: Bloomberg

Sector Performances	Index Market Cap (USD Bn)	CY 2025	March-26	% YTD	Fwd PE (x)
Nifty Realty	17.2	-16.6%	-15.2%	-25.8%	17.5
Nifty Pharma	85.4	-2.9%	-3.2%	-2.2%	26.1
Nifty IT	119.2	-12.6%	-4.0%	-23.3%	15.8
Nifty Financial Services	425.0	17.4%	-14.7%	-14.8%	12.3
Nifty Auto	111.6	23.5%	-13.7%	-15.7%	18.5
Nifty Metal	83.5	29.1%	-9.2%	-0.3%	11.9
Nifty Energy	247.2	0.4%	-4.4%	-1.3%	12.7
Nifty FMCG	99.3	-2.3%	-10.3%	-17.9%	26.4
Nifty India Consumption	312.3	8.2%	-9.0%	-15.9%	25.7
Nifty Media	3.6	-20.5%	-9.2%	-12.7%	14.1
INR/USD		-5.0%	-3.6%	-5.2%	

Source: Bloomberg

Figure of the Month

40

India has operationalised roughly 40 new airports over the past five years, reflecting one of the fastest expansions of aviation infrastructure globally. This rapid build-out is not only improving domestic connectivity, but also reinforcing India's role as a central hub in global supply chains and mobility flows, key attributes of a rising middle power in a fragmented world. Noida International Airport (Jewar), near Delhi, is being developed as one of the world's largest airports, with a planned capacity of up to ~225 million passengers annually. It reflects India's ambition to become a major global aviation and logistics hub in a multipolar economic order.

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We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

The future of banking is emerging at the intersection of profit and purpose.

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