India and the Trade Deal: A Catalyst, but Not the Story

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Christopher Gannatti, CFA
Global Head of Research

Samuel Rines
Macro Strategist, Model Portfolios

Ayush Babel
Director, Quantitative Research

Key Takeaways

- The U.S.–India trade agreement, with a proposed reciprocal tariff rate near 18%, has helped lift near-term sentiment and reduce uncertainty, but it acts more as validation of India's existing growth trajectory than as a standalone catalyst for Indian equities.
- Despite recent volatility and periods of underperformance versus the MSCI Emerging Markets Index, domestic policy support, record local investor participation and improving bank balance sheets suggest India's equity story is increasingly driven by internal compounding rather than external trade dependence.
- For investors, comparing earnings-weighted exposure through the WisdomTree India Earnings Fund (EPI) with market-cap exposure via iShares MSCI India ETF (INDA) highlights how India may be shifting from a tactical trade-deal reaction to a more durable, conviction-based allocation.

The announcement of a U.S.–India trade agreement has quickly re-entered global market conversations, and with good reason. For investors who have watched India oscillate between optimism and frustration over the past year, the announcement feels like a release of pressure. Tariff uncertainty is easing, geopolitical alignment is becoming clearer, and markets have responded accordingly.

But trade deals rarely deliver their value all at once. For India, the real significance lies not in the immediate headlines, but in what this agreement represents: a key step along a longer path toward policy clarity, strategic relevance and durable economic growth.

Why the Trade Deal Matters, And Why It's Not Enough on Its Own

Reports suggest the U.S. and India have agreed to move toward a reciprocal tariff rate of roughly 18%, a sharp improvement from the punitive levels briefly imposed in 2025 and one that places India favorably relative to other Asian emerging markets. The U.S. is India's largest trading partner, accounting for close

to 20% of goods exports, and the removal of trade-related uncertainty has immediate implications for business confidence and external demand.1

Markets tend to like clarity. But investors who approach this moment expecting a single trade agreement to transform India's outlook overnight are likely to be disappointed. India's opportunity set has never hinged on one export channel or bilateral relationship. Its strength, and its complexity, come from scale, domestic demand and the gradual compounding of reforms.

Seen through that lens, the trade deal is best understood as confirmation, not creation.

The Context: India Had Already Been Resetting

The timing matters. Indian equities entered this moment after a period of adjustment. Global risk aversion, currency pressure and trade frictions weighed on performance, and foreign portfolio investors reduced exposure. Yet that selling pressure was largely absorbed by domestic investors, with participation in systematic investment plans reaching record highs.2

Crucially, many of the policy supports investors typically wait for were already in place. Income tax reductions and Goods & Services Tax (GST) relief were implemented well ahead of the most recent budget cycle,3 supporting household balance sheets and consumption before trade headlines improved. Volatility did not derail the underlying economic trajectory, but it tested investor patience.

This backdrop helps explain why the trade deal resonated so quickly. It arrived not as a rescue, but as validation.

From Uncertainty to Execution

Looking ahead, the more durable drivers of India's growth story remain domestic, and increasingly visible.

- **Policy continuity** is one. While India's most recent election produced a coalition government rather than a single-party majority, the broader economic agenda remains intact. Infrastructure investment, manufacturing incentives and fiscal discipline continue to anchor policy. For markets, this kind of predictability often matters more than political optics.4
- **Capital expenditure** is another. India's push into infrastructure, defense manufacturing, data centers and semiconductors has moved beyond ambition into execution. Subsidies, tax incentives and targeted investments are reshaping industrial capacity. Defense exports, once negligible, are now meaningful, and manufacturing is expanding across autos, electronics and pharmaceuticals.5
- **The domestic financial system** plays a central role in this transition. Over the past decade, India's banking sector has strengthened materially. Non-performing assets have stabilized, balance sheets have improved and both state-owned and private banks are financing growth more effectively. Financials occupy a large share of India's equity market not because of sector favoritism, but because that is where profits and capital formation increasingly reside.6

Trade Helps—but India Isn't Export-Dependent

One reason the trade deal should be interpreted carefully is that India is not an export-led economy in the traditional emerging-market sense. Domestic consumption, services and investment drive growth.7 This makes trade agreements accretive rather than existential.

It also affects currency dynamics. The Indian rupee remains sensitive to oil prices and precious-metal imports, particularly gold and silver. However, improved trade clarity, sustained growth and a stable capital account provide counterweights. A modestly stronger currency need not undermine India's economic engine in the way it might elsewhere.

Moving Beyond the Old Narratives

For many global investors, India is still framed through narrow stereotypes: outsourcing, call centers or low-cost IT services. Those segments are evolving, and in some cases shrinking, as artificial intelligence reshapes global labor markets.8 Yet the broader picture is more nuanced.

Global firms continue to expand higher-value operations in India, domestic companies are moving up the manufacturing and technology stack, and sectors such as defense, autos, pharmaceuticals and financial services are becoming increasingly relevant to both domestic and international markets.

India's equity market composition reflects this diversification more than is often assumed.

A Step on a Longer Path

Ultimately, the U.S.–India trade agreement is important precisely because it is *not* the whole story. It removes a layer of uncertainty, reinforces India's strategic relevance and supports a growth trajectory that was already in motion.

For investors, the takeaway is straightforward: India's long-term case does not rest on a single deal, election or quarter of performance. It rests on compounding, including that of policy, capital and participation.

The trade deal didn't change that path. It simply made the direction clearer.

Gauging How India's Equities have been Responding

Macroeconomic narratives matter, but ultimately they must be tested in markets. India's evolving economic structure, driven by domestic demand, policy continuity and rising capital formation, shows up not just in growth forecasts, but in **how equities perform and how that performance is distributed across strategies**. To ground the discussion, it is useful to look at India through three complementary equity lenses:

- **WisdomTree India Earnings Fund (EPI):** A rules-based strategy that tracks the total returns of an Index9 that weights Indian equities by earnings rather than market capitalization, offering a view into how profitability and domestic economic strength translate into equity exposure. It also represents an avenue to potentially lower price-to-earnings ratio valuations.

- **iShares MSCI India ETF (INDA):** A market-cap-weighted approach tracking the total return performance, after fees and expenses, of the MSCI India Index, reflecting how global capital allocates across India's largest, liquid companies.
- **MSCI Emerging Markets Index:** A broader benchmark providing context for how Indian equities have performed relative to the wider emerging-market opportunity set.

Together, these perspectives help distinguish **India-specific dynamics** from broader emerging-market trends, and clarify where recent performance is cyclical versus structural.

In Figure 1a, we can note what has been characterized as a reaction to initial ‘trade-deal' announcements within the February 3, 2026 performance, and that this is following some near-term underperformance of India's equities relative to that of the broader MSCI Emerging Markets Index. We think it's important to try to account for both the short, medium and long-term trends for a better overall understanding of how a more volatile market, like India, may be doing.

Figure 1a: Gauging Long & Short-Time Horizon Performance

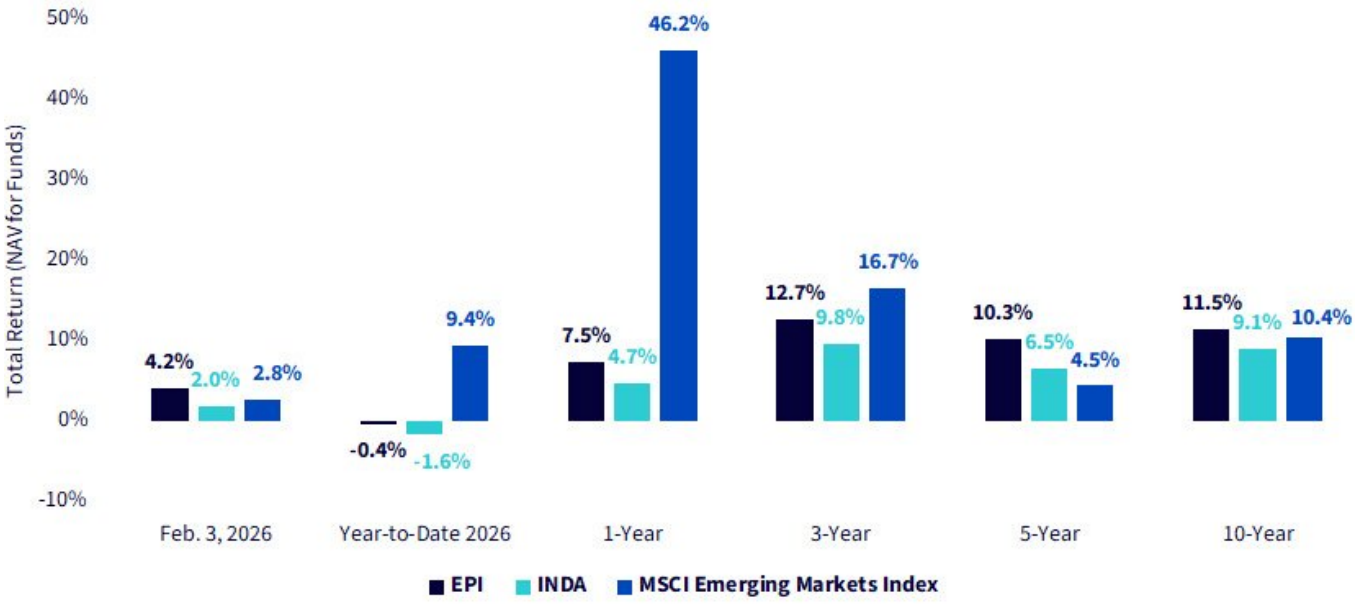


Figure 1b: Standardized Performance

Fund/Index Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
WisdomTree India Earnings Fund (NAV)	EPI	2/22/08	0.84%	1.83%	1.83%	12.64%	11.52%	10.18%	4.68%
WisdomTree India Earnings Fund (MP)	EPI	2/22/08	0.84%	2.28%	2.28%	12.62%	11.42%	10.30%	4.63%
iShares MSCI India ETF (NAV)	INDA	2/2/12	0.62%	2.47%	2.47%	9.48%	7.80%	8.17%	6.65%
iShares MSCI India ETF (MP)	INDA	2/2/12	0.62%	2.68%	2.68%	9.33%	7.65%	8.23%	6.64%
MSCI Emerging Markets Index				33.57%	33.57%	16.40%	4.20%	8.42%	N/A

Sources: Morningstar, FactSet and WisdomTree, specifically data is from the PATH Fund Comparison Tool, accessed as of February 4, 2026, but showing returns for the period ended February 3, 2026 for Figure 1a and December 31, 2025 for 1b. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.For the most recent month-end and standardized performance, click the relevant ticker:EPI,** INDA**.**

Conclusion: India's Equity Market may be Transitioning from Catalyst to Conviction

India's recent momentum is best understood not as a reaction to a single catalyst, but as the result of compounding forces moving in the same direction. Policy continuity, domestic demand and improving balance sheets created the foundation; the trade deal helped clarify the path forward. Equity performance now reflects those dynamics in different ways, depending on how investors choose to access the market. For long-term allocators, the key question is less about timing the next headline and more about recognizing when uncertainty has meaningfully declined. In that context, India increasingly looks less like a tactical emerging-market trade, and more like a durable, structurally differentiated allocation.

Figure 2: Additional Information

Fundamentals	WisdomTree India Earnings Fund	iShares MSCI India ETF
Objective	The WisdomTree India Earnings Fund seeks to track the total return performance of, before fees and expenses, the WisdomTree India Earnings Index. This Index focuses on publicly-listed, profitable companies across the market capitalization of large, mid and small caps. The strategy is also weighted by earnings, which tends to lower earnings-based valuation metrics, like the price-to-earnings ratio, relative to market capitalization-weighted approaches.	The iShares MSCI India ETF seeks to track the total return performance of, before fees and expenses, the MSCI India Index. The Index focuses on publicly-listed large and mid cap companies that meet MSCI's eligibility criteria. The strategy is weighted by float-adjusted market capitalization. It is particularly well-positioned if there is a momentum-oriented rally in India's large capitalization size segment.
Total Expense Ratio	0.84%	0.62%
Total Assets Under Management (millions)	$2,721.52	$9,394.34

Sources: WisdomTree and iShares. Assets under management as of February 3, 2026.

1 Sources: U.S. Trade Representative. (2026). *India | U.S. Trade Representative: Countries & Regions;* U.S. Trade Representative. (2025). *Fact Sheet: U.S.–India Establish Terms of Reference on Bilateral Trade;* Chaudhary, R. (2026). *U.S.-India trade deal: Phase one of bilateral trade agreement almost complete.* LiveMint.

2 Source: India Brand Equity Foundation. (2025). *Foreign Institutional Investors* (FII) and Domestic Institutional Investors (DII) equity flows in India.

3 Source: Economic Times. (2025, September 21). *Income tax exemption, combined with GST reforms, will result in savings of Rs 2.5 lakh crore* (PTI). *Economic Times*.

4 Source: Times of India. (2026, February 1). *India Inc backs Union Budget 2026 push on manufacturing, infra and competitiveness.* Times of India.

5 Source: Times of India, 2026.

6 Source: Reserve Bank of India. (2024). *Gross NPAs of banks decline to 12-year low of 2.6%: RBI report* (as reported in *The Economic Times*). *The Economic Times*.

7 Source: The Economic Times. (2025, May 31). *India's GDP growth surges to 6.5% in FY25 led by domestic consumption and government investment. The Economic Times*.

8 Source: Deloitte. (2025). *The outsourcing compass: Decoding strategies of today.*

9 Refers to the WisdomTree India Earnings Index, which weights profitable companies of India by their earnings. EPI is designed to track the total return performance of this index, after fees and expenses.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. This Fund focuses its investments in India, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging, offshore or frontier markets such as India are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. The Fund invests in the securities included in, or representative of, its Index regardless of its investment merit and the Fund does not attempt to outperform its Index. The composition of the Index is governed by an Index Committee and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.