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Global Markets Amidst Geopolitical Risks and Deglobalization in the AI Era

What it means for India and the World

Ajay Bagga | WIRC, ICAI, Nagpur | Oct 24th, 2026



The Pax Americana (1945-2025) is Over

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Agenda: Five Core Pillars

01. Global Shift

Sticky inflation & high rates, $ 365 trillion global debt levels

02. Deglobalization

Trust being repriced in trade.

Just-in-Time to Just-in-Case

03. Geopolitics

War reaching balance sheets, **Energy security is National security** as oil supplies weaponised

04. AI Acceleration

The $800B capex engine, **AI itself an asset class** bigger than most national stock markets

05. India Outlook

Macro resilience but two years of markets underperformance

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Global Growth Baseline

3.1%

IMF Global Growth Forecast for 2026

Growth remains steady but vulnerable to inflationary and energy shocks globally.

Global Inflation Trend

4.7%

Global Headline Inflation in 2026

Easing to 4.1% in 2027, making rate cuts slow and monetary policy constrained. Financial conditions tightening.

US Growth Momentum

2.3%

US GDP Growth Forecast (2026 & 2027)

US economic resilience due to the AI capex will keep global interest rates elevated for longer.

The Global Macro Triad

Energy Shock

Hormuz friction keeping oil near/above $100

Yield Challenge

US Treasuries at 2-decade high rates

AI Capex

Unprecedented tech investment cushion while broader economy may be slowing

The Changed Global Regime

- Efficiency is no longer the sole priority; resilience rules supply chains.
- Near-zero interest rates are history; higher cost of capital is permanent.
- Cross-border capital flows are shifting toward lower-risk jurisdictions.
- Currency volatility demands active hedging rather than passive tolerance.

US Treasury Yield Impact

2-Decade High Yields

High Benchmark Yields

When risk-free US assets pay high returns, all emerging market assets are re-rated.
Not EMs of the 1990s, much stronger , but that can change very fast as we are seeing in Indonesia.

Capital Outflow Pressures

- High US yields pull foreign portfolio capital out of emerging markets.
- Indian banking sector faces higher deposit funding costs.
- Bank margins feel pressure from elevated global interest rates.
- Treasury operations must assume prolonged higher borrowing costs.

Redefining Global Trade

“Deglobalization is a misnomer. Trade isn't disappearing — trust is being repriced across borders.”

— Part 2: Trade & Policy Analysis



Shifting Global Supply Chains Chains

1. Deglobalisation
2. Friend-Shoring
3. China+1 Strategy
4. Near-Shoring and Re-Shoring

Just-in-Time to Just-in-Case

Dual Sourcing

Mitigating single-source reliance

Regional Hubs

Moving production near key markets

Inventory Buffers

Holding higher working capital stock

Impact on Financial Statements

- Higher working capital requirements reduce overall Return on Equity.
- Inventory valuation methods require closer audit scrutiny.
- Supplier concentration risks become core going-concern considerations.
- Margin pressure increases due to supply chain redundancy costs.

US-India Tariff Timeline

Aug 2025

US tariff on Indian goods hits 50%

Feb 2026

Trade deal imminent, cuts tariffs to 18%

Late 2026

Fresh 10% duty on ~55% of Indian exports

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Tariff Volatility Impact

55%

Indian Exports Subject to Duties

Policy unpredictability is now a permanent operational expense for exporters.

Geopolitical Trade Chokepoints

- Strait of Hormuz carries roughly 20% of global oil & LNG supply.
- Red Sea naval disruptions add freight and transit duration stress.
- Sanctions, tariffs, and technology exports are instruments of statecraft.
- Freight insurance and war-risk premiums elevate import costs. ($ 1 to $ 35+)

China-Plus-One: India's Setup

Scale & Size

Large domestic market & talent supply

Infrastructure

Expanding logistics networks & power capacity

Policy Support

PLI schemes driving manufacturing growth

Realizing Manufacturing Potential

- Capital follows execution reliability, not just policy slogans.
- Ease of doing business must improve at district and state levels.
- Logistics costs relative to GDP need further structural reduction.
- Power availability, labour reforms and land acquisition remain critical execution hurdles.

Action Plan for CAs & Clients

Scenario Planning

Build multi-tariff models for pricing

Debt Covenants

Stress-test export client cash flows

Trade Compliance

Audit rules of origin and supply chains

Audit & Financial Disclosures

- Enhance qualitative geopolitical risk notes in financial reports.
- Evaluate asset impairment risks for import-dependent sectors.
- Review foreign currency sensitivity analysis disclosures.
- Assess supplier viability under extended trade disruption.

Geopolitical Reality

“A conflict thousands of miles away reaches your balance sheet through oil prices, currency shifts, and interest rates.”

— Part 3: Geopolitical Shocks

Middle East Escalation Timeline

Feb 2026

Geopolitical military strikes escalate

Mar 2026

Foreign selling spikes; Rupee tests 92/$

Oct 2026

Brent crude crosses $100 benchmark

Three Transmission Channels

1. Crude Oil

Drives import bill, inflation, & input costs

2. US Dollar

Strengthens dollar, driving Rupee depreciation

3. Risk Appetite

Triggers global FII sell-off in EMs

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Oil Market Pressure

$100+

Brent Crude Price Benchmark in late 2026

Directly expands India's current account deficit and structural inflation.

India's Oil Import Dependence

#3

Global Ranking in Oil Consumption

India imports over 85% of its crude oil requirements, making it highly sensitive to price shocks.

Impact of Higher Oil Prices

- Elevates wholesale and retail inflation across food and logistics.
- Widens the trade deficit and exerts downward pressure on the Rupee.
- Squeezes profit margins of manufacturing and transportation sectors.
- Reduces government fiscal flexibility by expanding subsidy liabilities.

Currency Depreciation

Peak ~96.7

INR per USD Exchange Rate (Oct 2026)

Driven primarily by capital account outflows and elevated crude import demand.

Managing Currency Risk (Ind AS 21)

- Avoid speculative exchange rate forecasting; adopt structured policy hedging.
- Re-evaluate foreign currency exposure and unhedged debt obligations.
- Review Ind AS 21 accounting treatment for foreign exchange differences.
- Assess mark-to-market derivative losses on corporate balance sheets.

Record FPI Outflows

$32.5B

YTD Foreign Outflows from Indian Equities

Record foreign portfolio selling driven by global risk aversion, AI plays and high US yields.

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March Outflow Spike

₹39,417Cr

FPI Outflow in First Half of March 2026

Demonstrates the extreme velocity of capital flights during conflict spikes.

Domestic Liquidity Buffer

- Domestic Mutual Funds and SIP inflows cushion aggressive foreign selling.
- Retail investor financialization provides structural market stability.
- Prevents systemic market crashes during heavy FPI liquidation cycles.
- Changes the market power balance from foreign to domestic capital.

Geopolitical Scenarios

Scenario A: Resolution

Hormuz reopens -> Crude drops -> Rupee gains -> RBI pauses

Scenario B: Standoff

Oil >$100 -> Sticky inflation -> Rate hikes -> Margin squeeze

Corporate Client Advice

- Discard single-scenario budgeting; run Dual-Scenario models.
- Secure flexible credit lines before liquidity conditions tighten further.
- Implement dynamic pricing mechanisms linked to raw material indices.
- Focus on working capital optimization and inventory monetization.

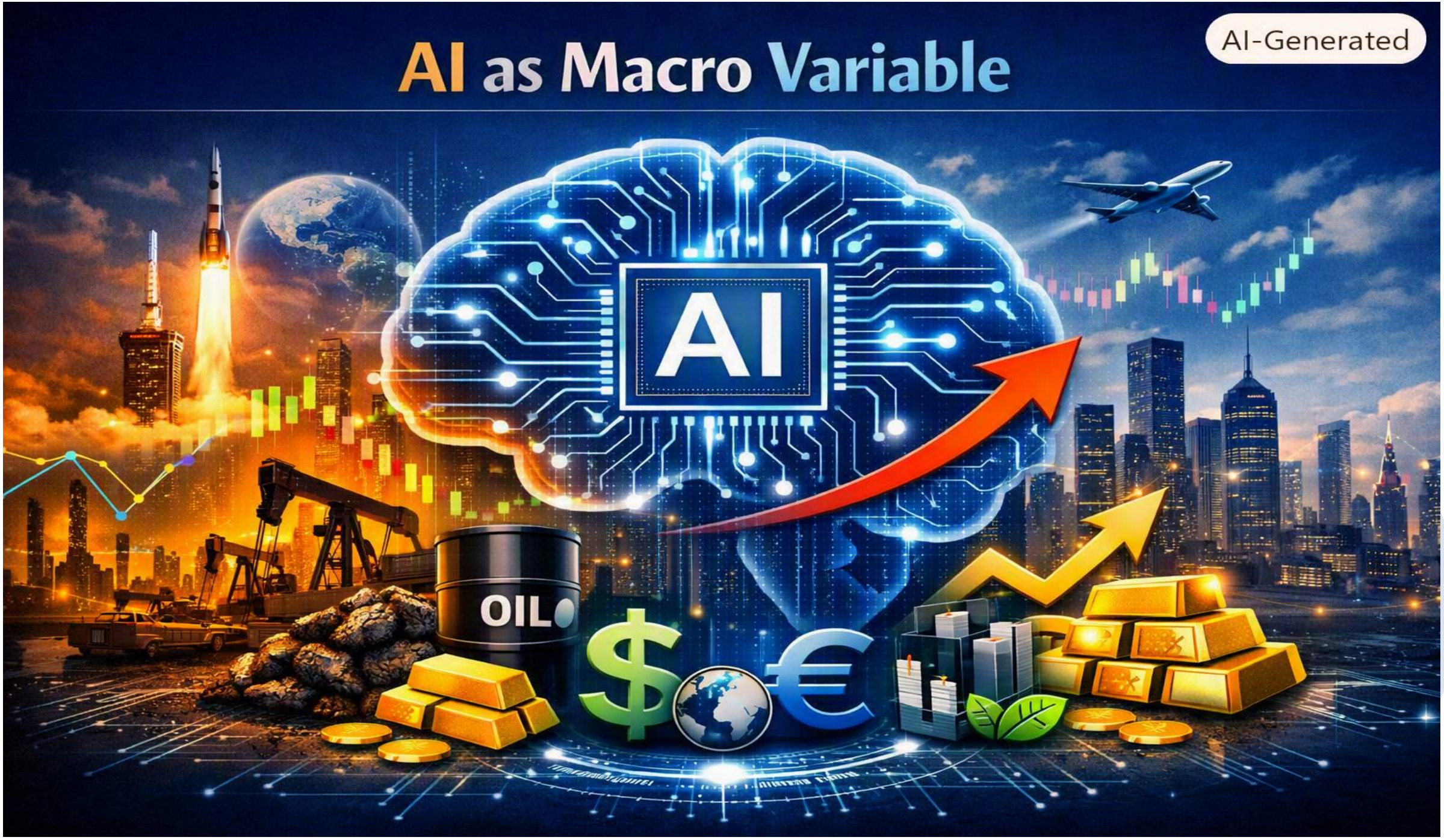
Summary: Geopolitics & Finance

- Macro risks now directly influence micro corporate earnings.
- Auditors must verify the sensitivity assumptions used by management.
- Treasury management transitions from cost-center to core risk shield.
- Geopolitical literacy is now mandatory for financial leadership.

The AI Macro Engine

“AI is no longer just an IT narrative — it is the single largest capital expenditure boom in a generation.”

— Part 4: AI Engine


AI as Macro Variable
AI-Generated
AI
OIL

Technology & AI: The New Battleground

- Chip controls as statecraft
- AI compute = strategic resource
- Data localization spreading globally
- Tech alliances: Dividing the world

THE SHIFT

Compute = Power

Access to advanced chips and AI infrastructure is now a matter of national strategy, not just commerce

Hyperscaler Capex

$800B

Expected 2026 Capex of Big 4 US Tech

Massive capital expenditure dedicated to AI datacenters, chips, and energy grids.

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Infrastructure Focus

~75%

Share of Hyperscaler Capex for AI

The vast majority of tech capital is concentrated in hardware and data capacity.

Capex vs Cash Flow

92%

2026 Capex as % of Operating Cash Flow

Compared to 41% in 2023, signaling extreme capital intensity in AI tech.

The Question of Return on Investment

- Massive capex requirements require heavy corporate debt issuance.
- Monetization timelines lag far behind infrastructure deployment.
- Tech sector shifting from asset-light high-margin to capital-intensive.
- Investors debating whether AI economics mirror internet or telecom booms.

Semiconductor Demand

$298.5B

Global Semiconductor Sales (Q1 2026)

Record demand driven almost entirely by advanced AI processing chips.

Datacenter Build Costs

$11.3M

Average Datacenter Cost per Megawatt

Up 47% since 2020 due to supply chain bottlenecks and power constraints.

Physical Bottlenecks in AI

Power Grid

Electricity supply lags datacenter demand

Memory Chips

High-Bandwidth Memory (HBM) shortages

Cooling Systems

Liquid cooling requirements for dense servers

India's GCC Strength

2,100+

Global Capability Centres in India

Employing 2.36 million skilled professionals and generating ~$100B revenue.

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India Datacenter Market

$45.7B

Projected Market Size by 2033

India is rapidly becoming a global powerhouse for datacenter hosting and AI services.

AI in Accounting Profession

- 100% transaction auditing replaces historical audit sampling.
- Automated first drafts for compliance, tax filings, and reporting.
- Shift from transactional processing to strategic financial judgment.
- New audit focus on AI model governance, data security, and validation.

The CA Moat

“AI can process a billion transactions in seconds, but it cannot sign an audit report. Accountability remains human.”

— Ajay Bagga | Capital Markets Conference

India Macro Position

“India stands out as a beacon of relative economic stability amidst global turmoil.”

— Part 5: Indian Economy & Markets

IMF GDP Projection

7.0%

India Growth Forecast for FY2026

Upgraded from 6.4% in July, making India the fastest-growing major economy.

RBI GDP Baseline

7.1%

RBI Real GDP Growth Estimate (FY27)

Driven by domestic consumption, services strength, and public infrastructure capex.

Key Drivers of Indian Growth

- Robust domestic consumption cushions against weak global trade.
- Sustained government capital expenditure on roads, rail, and energy.
- Clean corporate and bank balance sheets following NPA resolution.
- Digital Public Infrastructure expanding formal economy and tax base.

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RBI Repo Rate Hike

5.50%

Repo Rate after 25 bps Hike (Oct 2026)

First rate hike since 2023 as RBI adopts 'calibrated tightening' to control inflation.

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Decoding RBI Policy Shift

- Unanimous MPC vote signals preemptive action against headline inflation.
- Aims to anchor inflation expectations amid global crude oil volatility.
- Signals the end of the easy-money cycle for Indian corporate borrowers.
- Ensures macro stability and protects currency against sharp capital flight.

Headline Inflation

5.54 %

Consumer Price Index (CPI) Sep 2026

Driven up primarily by food and energy cost pressures.

WPI at 11.39% is worrisome as that flowthrough has to still happen

Food Inflation Pressure

7.74%

Food Inflation Rate (Sep 2026)

Supply disruptions and climate factors keep food prices elevated.

RBI Inflation Projection

5.2%

RBI Projected CPI Inflation for FY27

Expected to stay around ~5.8% over the next three quarters before moderating.

Impact of Rate Hike on Business

Borrowing Costs

Floating-rate corporate loans see interest rate increases

Working Capital

Higher short-term funding costs require tighter cash management

Consumer Credit

Slight moderation in retail loan growth and consumer spending

Fiscal Deficit & Public Debt

- Government remains committed to fiscal consolidation targets.
- Tax collection resilience supported by GST compliance and formalization.
- Public capex prioritized over non-essential revenue expenditure.
- Sovereign bond inclusion in global indices provides steady debt demand.

Banking Sector Health

- Gross NPAs across scheduled commercial banks at multi-year lows.
- Capital Adequacy Ratios (CRAR) comfortably above regulatory requirements.
- Bank balance sheets fully provisioned to absorb macro volatility.
- Credit growth remains strong across retail, MSME, and services.

External Sector Stability

- Foreign Exchange Reserves provide comfortable import cover buffer.
- Current Account Deficit (CAD) manageable despite elevated oil prices.
- Services exports (IT & GCCs) partially offset merchandise trade deficit.
- Remittances from Indian diaspora continue to show steady growth.

India's Structural Pillars

Demographics

Young workforce driving production & consumption

Digitalization

UPI & GST transforming economic efficiency

Manufacturing

PLI schemes attracting global supply chain shifts

Nifty Level Trajectory

~23,000

Nifty Index Benchmark (Mid-Oct 2026)

Down roughly 9% from ~25,300 level in October 2025 despite 7% GDP growth.
Negative returns over 2 years

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Understanding Equity Divergence

Rich Valuations

Multiples needed time to consolidate

FPI Liquidation

$32.5B foreign selling pressed prices

Earnings Lag

Corporate margin squeeze delayed upgrades

Sectoral Divergence in Equities

- IT sector rebounding on GCC expansion and global digital spend.
- Banking stocks undergoing valuation consolidation despite strong fundamentals.
- Consumer goods facing short-term urban demand slowdown, looming rural demand slowdown
- Capital goods and defense supported by long-term order books.

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SIP Inflow Resilience

₹25,000Cr+

Monthly Systematic Investment Plan Inflows

Domestic retail investors systematically investing month after month regardless of news cycles.

Indian Retail Investor Shift

- Shift from traditional physical assets (gold/real estate) to financial assets.
- Democratization of equity investing across Tier-2 and Tier-3 cities.
- Demat account opening expanded dramatically over the last 5 years.
- Created domestic capital depth that reduces reliance on foreign flows.

Corporate Earnings Quality

- Operating margins under pressure from raw material and freight costs.
- Revenue growth steady, but net profit growth moderating.
- Quality balance sheets preventing corporate debt defaults.
- Capex cycle driven primarily by public sector and large corporate players.

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Valuation Perspectives

Price-to-Earnings

P/E multiples resetting closer to historical averages

Market-Cap to GDP

Consolidating back toward sustainable long-term trends

Yield Spread

Earnings yield vs Bond yield favors balanced allocation

Primary Market & IPO Trends

- IPO market activity remains active but pricing discipline is returning.
- Promoter and PE offer-for-sale (OFS) volumes absorbing retail liquidity.
- Investors favoring companies with clear profitability and cash flow paths.
- Governance and board independence facing higher scrutiny.

What This Means for Investors

The compounding thesis holds

Intact through short-term noise

Time in market beats timing it

Historically, staying invested wins

Diversification and Asset Allocation matters more

Patience + Perseverance >>> Prediction + Momentum

Discipline over choice overload

As products multiply

The Opportunity for You: Multiple Value Addition Levers

- Widening client base, Formalization , Financialisation
- Growing demand for real advice
- Tier-2/3 cities: the next frontier
- Tech as a tool, not a replacement

THE OPENING

Advice at scale

Trust, local relationships and financial literacy remain the sub-broker's durable edge

Bond Market Developments

- Indian government bond yields tracking global interest rate trends.
- Global index inclusion and tax cuts attracting long-term debt capital.
- Corporate bond market deepening, providing alternative to bank finance.
- Retail participation in government securities growing through RBI Retail Direct.

Market Takeaway

“The long-term compounding thesis for Indian equities remains intact, but the era of easy, unpriced valuation gains is over.”

— Capital Markets Analysis

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Capabilities for CAs

Macro Literacy

Translating global trends into client strategy

AI Proficiency

Utilizing advanced analytics for audit & tax

ESG Assurer

Auditing non-financial sustainability data

Evolving Audit Methodologies

- Transitioning from post-facto audit to continuous real-time monitoring.
- Incorporating automated anomaly detection algorithms into audit workflows.
- Validating machine-generated accounting entries and automated workflows.
- Enhancing emphasis on fraud risk assessment and forensic analysis.

Corporate Finance & Capital

- Helping clients adjust capital structures for high interest rate environments.
- Evaluating working capital optimization to reduce expensive short-term debt.
- Assessing M&A targets with focus on supply chain resilience.
- Advising on optimal hedging strategies for foreign currency liabilities.

Risk Management & Assurance

Cyber Risk

Assuring data integrity and digital system security

Geopolitical Risk

Stress-testing client supply chains and contracts

Regulatory Risk

Ensuring dynamic compliance across jurisdictions

Governance & Board Advisory

- Guiding boards on long-term capital allocation decisions.
- Promoting transparent corporate disclosures on geopolitical risks.
- Structuring risk committees to monitor macroeconomic developments.
- Ensuring ethical AI adoption in corporate operations.

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Strategic Takeaways

1. Economy

Strong & resilient growth background

2. Rates

Prepare clients for elevated borrowing costs

3. AI

Embrace tech; maintain human judgment

Concluding Perspective

“The next decade will be written less by what India exports than by what it stops importing: Energy, Chips, and Vulnerability.”

— Ajay Bagga | Capital Markets Conference

Key Message to the Profession

- Macro turmoil creates demand for trusted financial leadership.
- Combine analytical rigor with strategic macroeconomic insight.
- Leverage AI to elevate the quality and depth of assurance.
- Position your clients to capture India's structural growth opportunity.

CLOSING

Key Takeaways



A fragmenting world

India stays deliberately non-aligned — and benefits from it



A structural window

Macro stability, demographics and China+1 give India a real edge



Opportunity everywhere at once

Manufacturing, technology, energy, capital markets



A changing investor base

Domestic flows and financialization reshape who moves markets



A decade that rewards patience

Advice and discipline over timing and noise

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Q&A Session Setup

Oil & Margins

Hedging & pricing power strategies

AI & Careers

Transitioning to high-value advisory

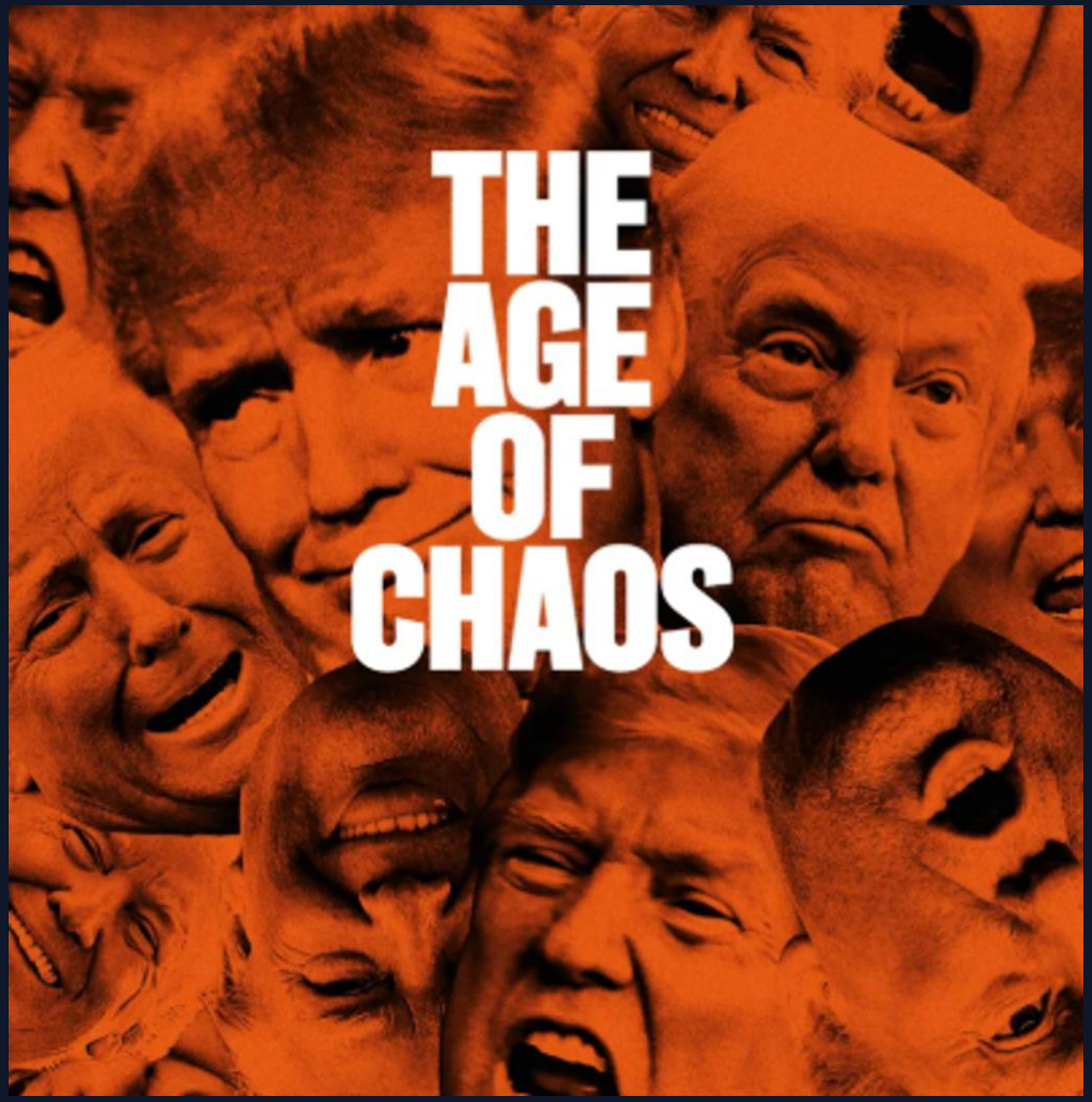
Market Valuation

Navigating equity volatility in 2026

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Questions & Discussion

Thank you for your time and engagement.
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Thank You

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