Rupee, Rates & Returns:
Understanding India vs US Market Cycles

Growthfiniti

We are often puzzled as investors, should we restrict ourselves to Indian equities, or also invest in US equities? Likewise, should an NRI invest in Indian equities, considering that rupee depreciation could erode returns when converting back to foreign currency? Let's try to demystify this entire subject.

Phase	Period	Yield Difference (Average)*	Rupee Depreciation (CAGR %)	Nifty 500 Performance (INR)	S&P 500 Performance (INR)
Phase 1	1-Jan-2003 to 05-Nov-2010	3.07	-1.13%	29.73%	5.21%
Phase 2	5-Nov-2010 to 23-Mar-2020	5.43	5.43%	3.16%	15.47%
Phase 3	23-Mar-2020 to 20-Nov-2025	3.71	2.68%	28.11%	26.27%
Full Period	1-Jan-2003 to 20-Nov-2025	*India 10 Year G-Sec Yield minus US 10 Year Treasury Yield		17.73%	14.35%

Phase 1 (2003—2010) marked a golden period for Indian equities. With a smaller yield difference of 3.07% and even a slight rupee appreciation, the Nifty 500 delivered a stellar CAGR of 29.73%, dramatically outperforming the S&P 500, which grew only 5.21% annually.

- India drastically outperformed the US markets.
- The rupee appreciated, giving foreign investors a currency tailwind.
- This period represents the perfect storm for Indian equities: growth + currency + sentiment

Phase 2 (2010—March 2022) was defined by significant currency pressure, with the rupee depreciating by 5.43% during the period. Because of the wider yield differential of 5.43%, Indian equities struggled, and the Nifty 500 delivered a modest 3.16% CAGR. In contrast, the S&P 500 compounded at 15.47% CAGR through a decade-long bull run,

- Rupee depreciated massively (~5.2%).
- Domestic equities underperformed the US market
- Meanwhile, US equities compounded strongly for about the decade-long bull run

Phase 3 (Post-Covid: March 2020 to November 2025) saw strong market performance globally. With a yield differential of 3.71%, minimal rupee depreciation of around 2.68%, the Nifty 500 delivered an impressive 28.11% CAGR, while the S&P 500 performed slightly lower with 26.27% CAGR.

- Both India and US delivered exceptionally strong CAGR.
- Rupee stayed broadly stable.
- Indian Market Slightly Outperformed

Data Source: Morningstar Direct and Internal Analysis of Growthfiniti Wealth. Data as on November 2025. For understanding purpose only. Past performance may or may not be sustained in future and is not a guarantee of any future returns. Refer subsequent pages for more details and important disclaimers.

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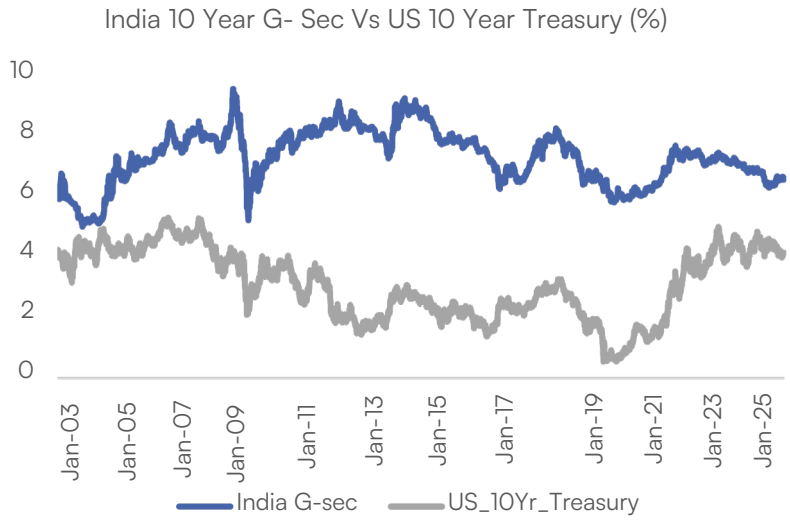
Why the Rupee Depreciates or Appreciates Against the Dollar

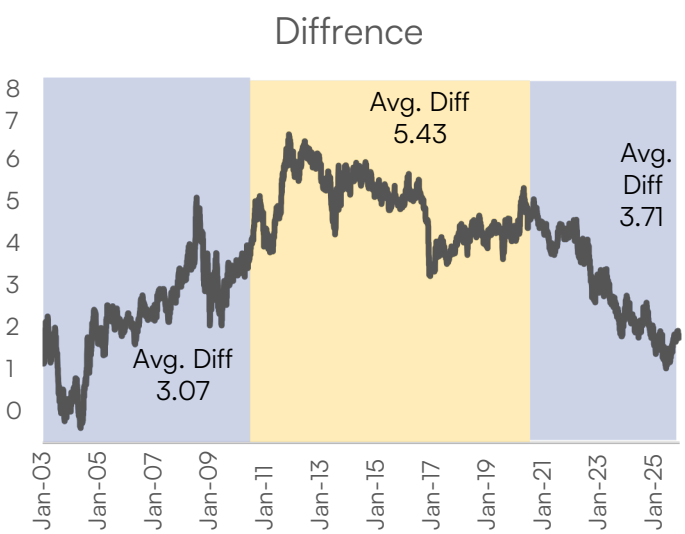
Over the last 20 plus years, the rupee has depreciated against the US dollar at an average pace of about 3% per year. At times, this depreciation has been faster, while at other times it has been slower. For brief periods, the rupee has even appreciated, but the long-term trend remains one of steady depreciation. The primary factors driving this phenomenon are:

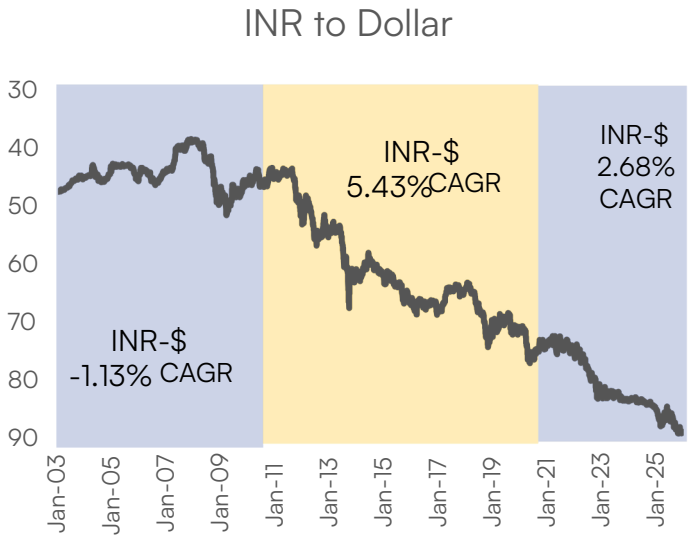
- Inflation and Interest Rate Differentials between India and the US
- Other factors includes India's current account balance, government debt and fiscal discipline, the country's growth and productivity strength, and steady long-term foreign investment



This differential broadly explains the average 3% annual depreciation of the rupee over long term , but;

- When the yield differential is higher, the rupee tends to depreciate at higher rate
- When the yield differential is lower, the rupee tends to depreciate at lower rate





Equity Markets and Rupee Depreciation The relationship between exchange-rate movements and stock-market performance is not straightforward, but there is a meaningful link.

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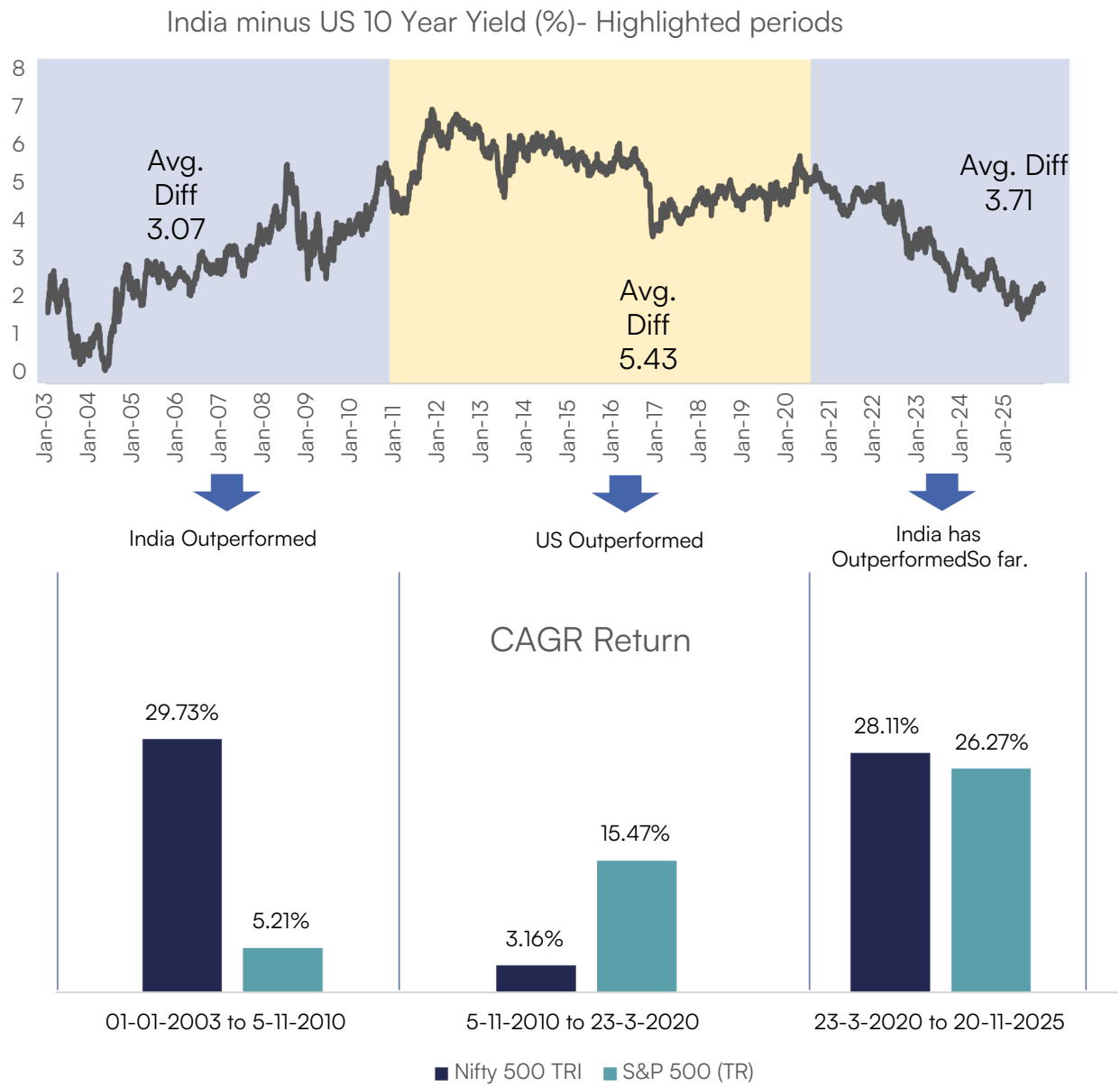
When the rupee depreciates sharply:

- This often reflects higher domestic bond yields, which in turn signal stress in the economy inflation, weak growth, or fiscal pressures). In such periods, equity market performance is generally poor. Thus, both equities and the currency move unfavourably, creating a **double burden for NRIs** who invest in India; lower equity returns compounded by higher currency losses.

When the rupee depreciates slowly or even appreciates:

- This typically coincides with healthier economic conditions. Bond yields are more stable, the economy is in better shape, and equity markets tend to perform well. In such scenarios, investors benefit both from stronger equity returns and relatively stable currency performance.



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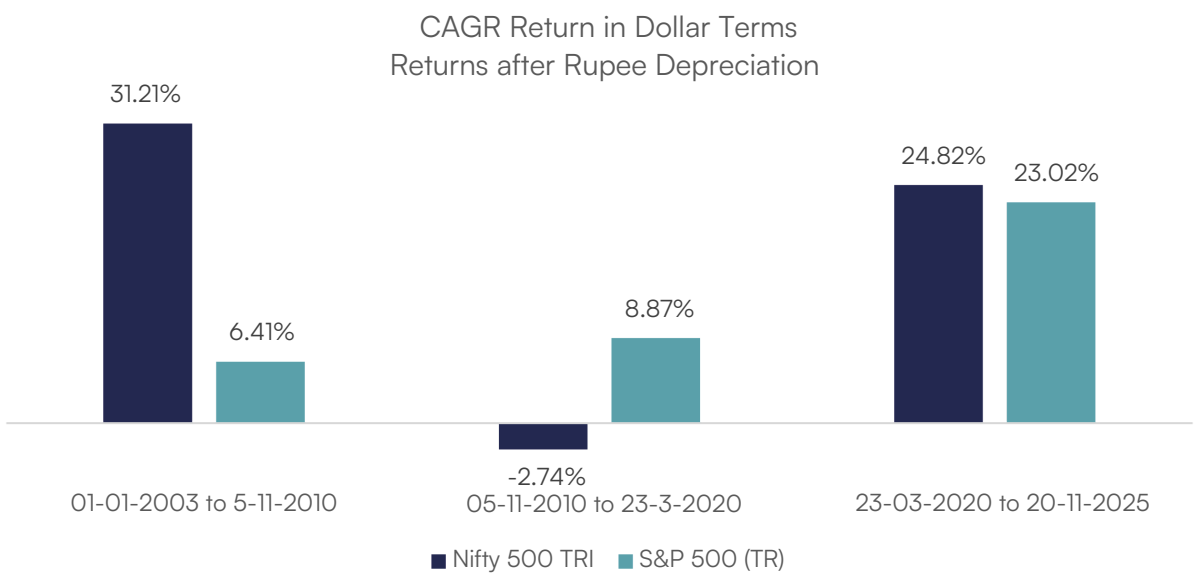

Present and Way Forward :

At present, the yield differential is significantly lower compared to the previous phase. India is maintaining strong GDP growth in the range of 7—8%, with inflation under control, a contained fiscal deficit, a manageable current account deficit, and very healthy forex reserves.

In contrast, the US is grappling with a high debt-to-GDP ratio, elevated inflation, and slowing growth. Broadly speaking, the Fed is focused on navigating its economic challenges, while the RBI is prioritizing long-term, sustainable growth. Taken together, these conditions suggest a higher probability of continued outperformance by Indian markets and a lower likelihood of rupee depreciation at higher rate, similar to the dynamics seen in Phase 1.