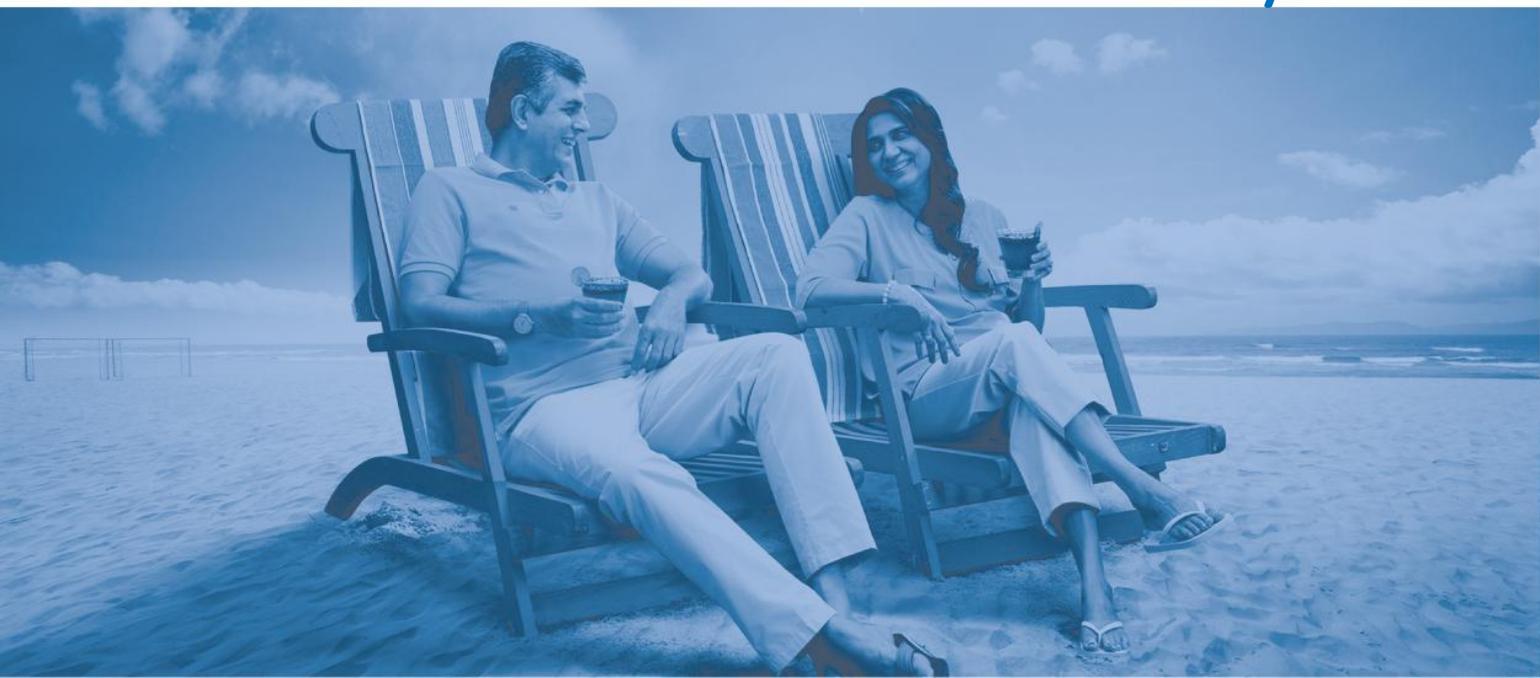




CIO Connect: Market Insights including Key Highlights of Union Budget FY 2026-27

February 2026



Global Macro

Domestic Macro

Flows

Valuations

Market Outlook

Global Macro Update

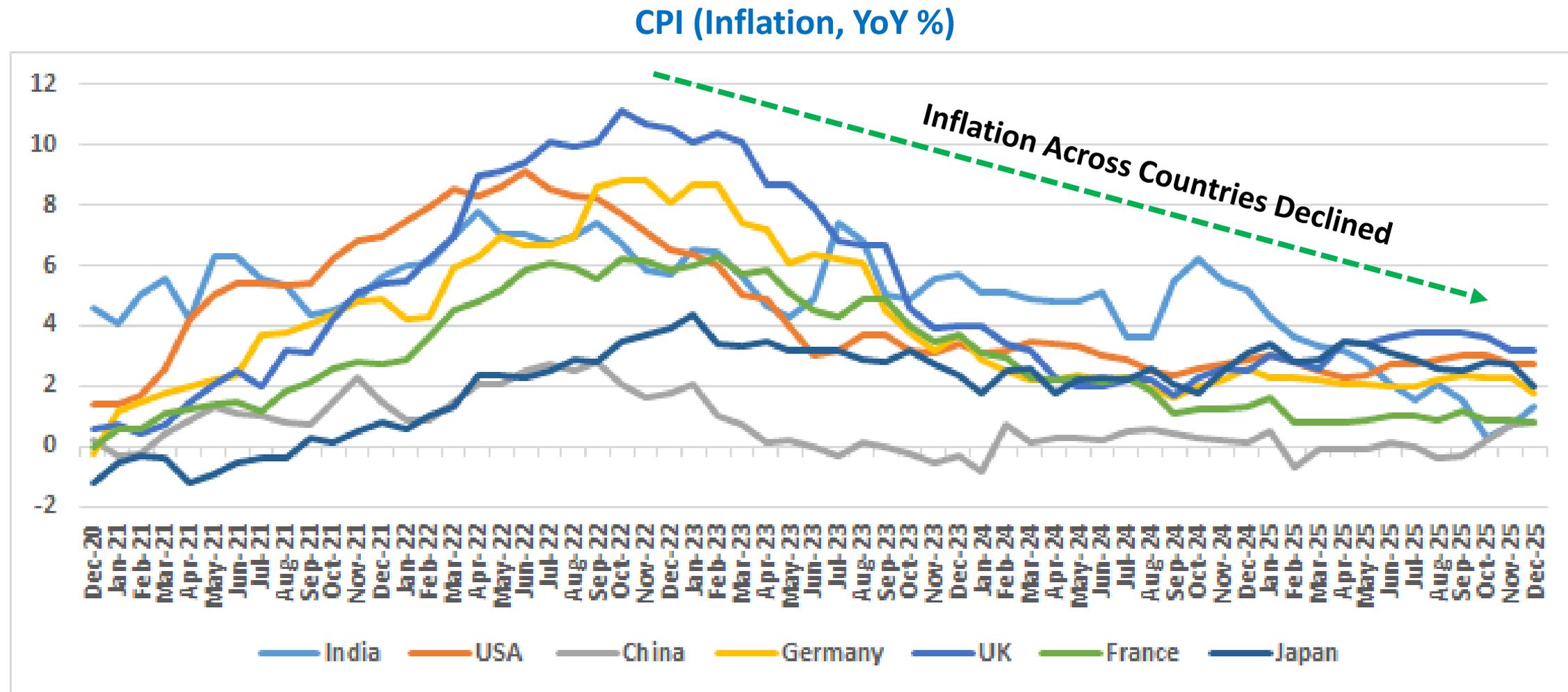
Growth outlook steady for now, but new concerns emerging (AI, Job less growth...)

Real GDP growth projections for 2025, 2026 and 2027 (YoY%)

	Year over Year			
	2024	Estimate 2025	Projections	
			2026	2027
World Output	3.3	3.3	3.3	3.2
Advanced Economies	1.8	1.7	1.8	1.7
United States	2.8	2.1	2.4	2.0
Euro Area 3/ Germany	0.9	1.4	1.3	1.4
France	-0.5	0.2	1.1	1.5
Italy	1.1	0.8	1.0	1.2
Spain	0.7	0.5	0.7	0.7
Japan	3.5	2.9	2.3	1.9
United Kingdom	-0.2	1.1	0.7	0.6
Canada	1.1	1.4	1.3	1.5
Other Advanced Economies 4/	2.0	1.6	1.6	1.9
Emerging Market and Developing Economies	2.3	1.8	2.0	2.1
Emerging and Developing Asia	4.3	4.4	4.2	4.1
Emerging and Developing Asia	5.3	5.4	5.0	4.8
China	5.0	5.0	4.5	4.0
India 5/	6.5	7.3	6.4	6.4
Emerging and Developing Europe	3.5	2.0	2.3	2.4
Russia	4.3	0.6	0.8	1.0
Latin America and the Caribbean	2.4	2.4	2.2	2.7
Brazil	3.4	2.5	1.6	2.3
Mexico	1.4	0.6	1.5	2.1
Middle East and Central Asia	2.7	3.7	3.9	4.0
Saudi Arabia	2.6	4.3	4.5	3.6
Sub-Saharan Africa	4.1	4.4	4.6	4.6
Nigeria	4.1	4.2	4.4	4.1
South Africa	0.5	1.3	1.4	1.5

- Global growth is anticipated to remain stable. **In 2025 & 2026, the global growth is expected at 3.3% while the forecast for 2027 is unchanged at 3.2%.**
- Growth in advanced economies is projected to be **1.8% in 2026 and 1.7% in 2027**. In the United States, the economy is projected at 2.1%, 2.4% % 2% in CY25, CY26 & CY27, respectively.
- China's is expected to register 5%, 4.5% & 4% in CY25, CY26 & CY27, respectively.
- **India is projected to remain the fastest growing economy among peers 7.3%, 6.4% & 6.4% real GDP growth is anticipated in FY26, FY27 & FY28, respectively.**

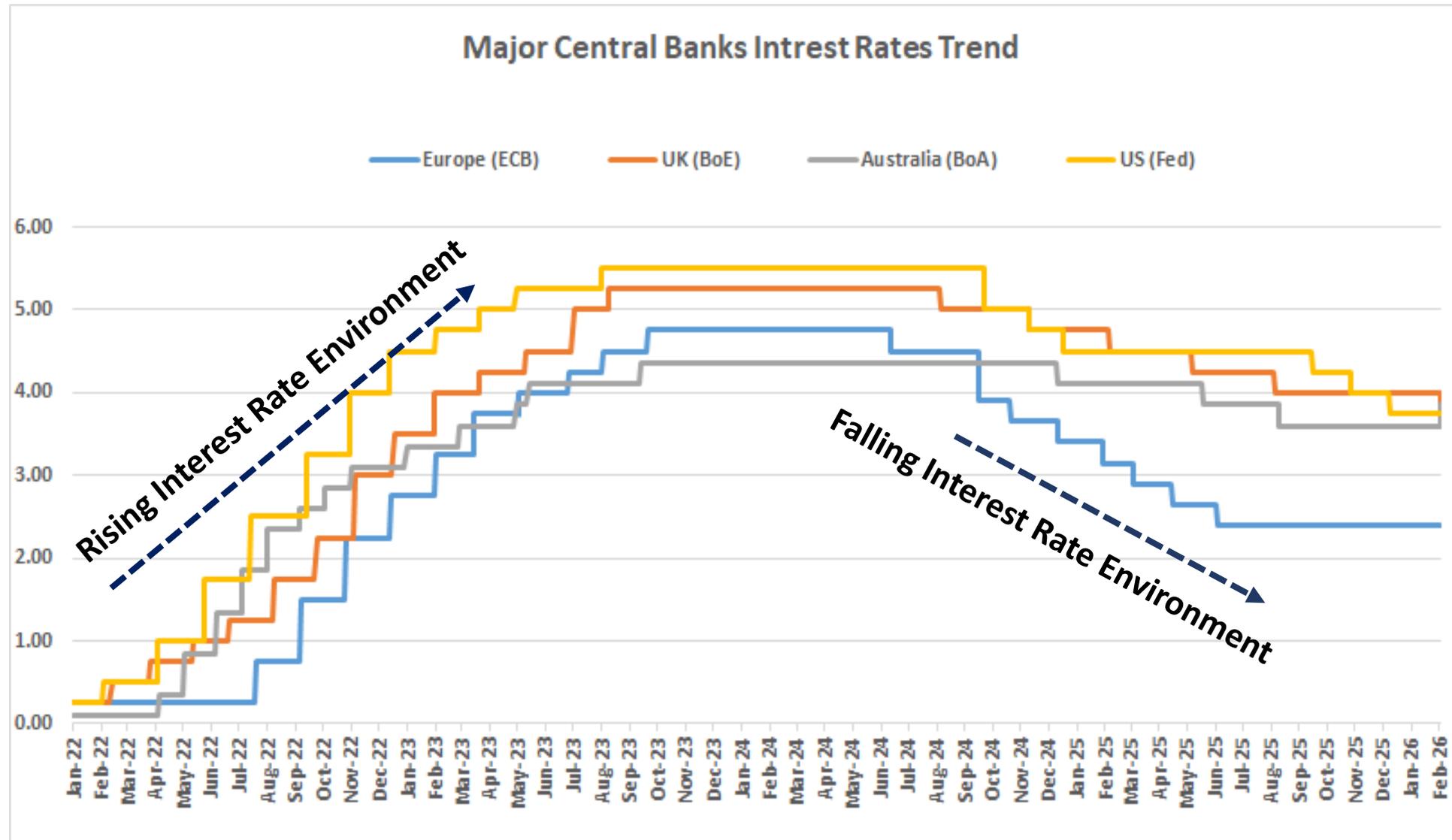
Global Inflation Eases, Stays Firm in the U.S.



Source: Bloomberg

- **Divergent Inflation:** Global inflation is easing, but the U.S. remains an outlier with persistent, above-target inflation driven by wages and tariffs.

Central Banks' action may diverge going ahead

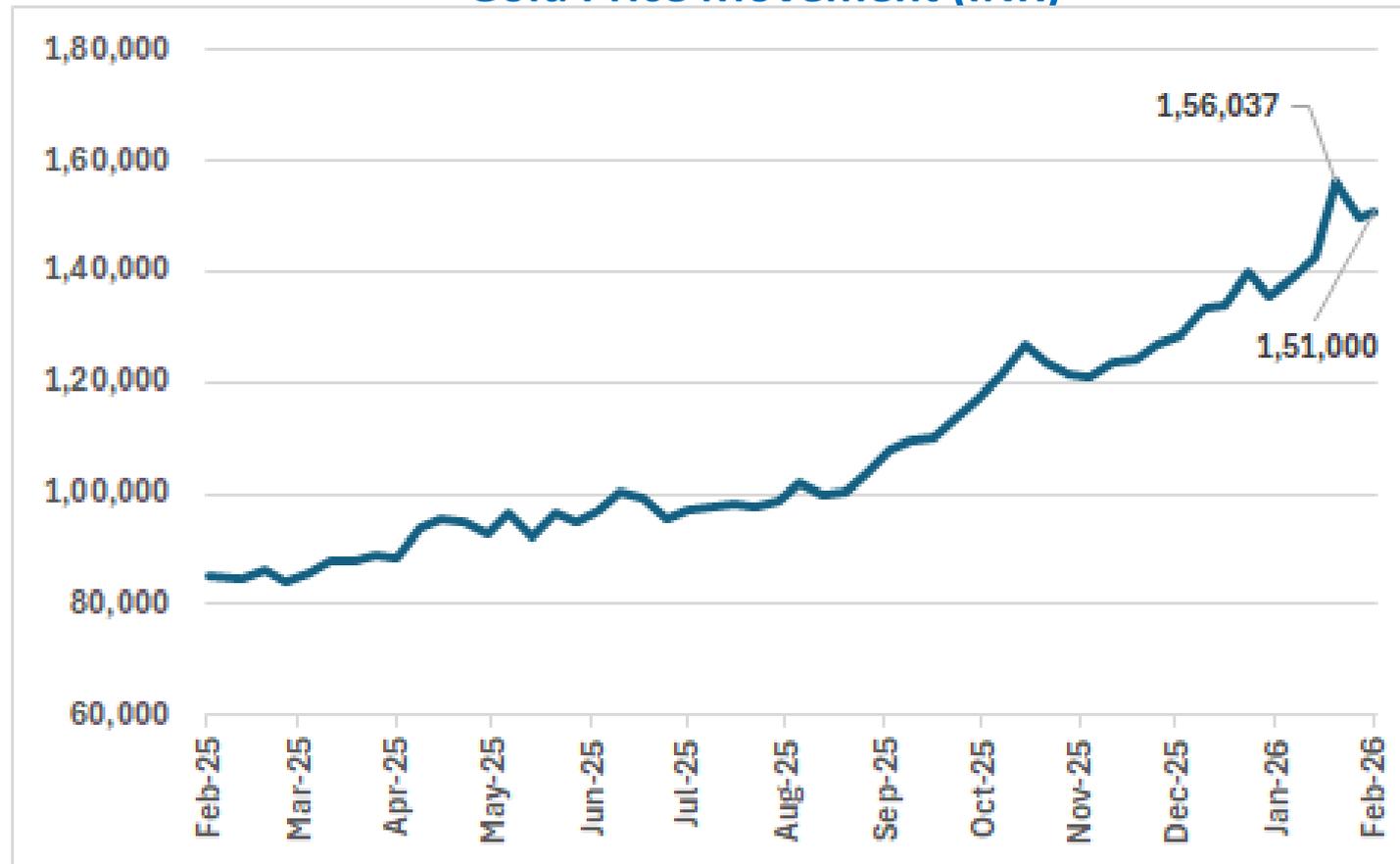


Source: Bloomberg

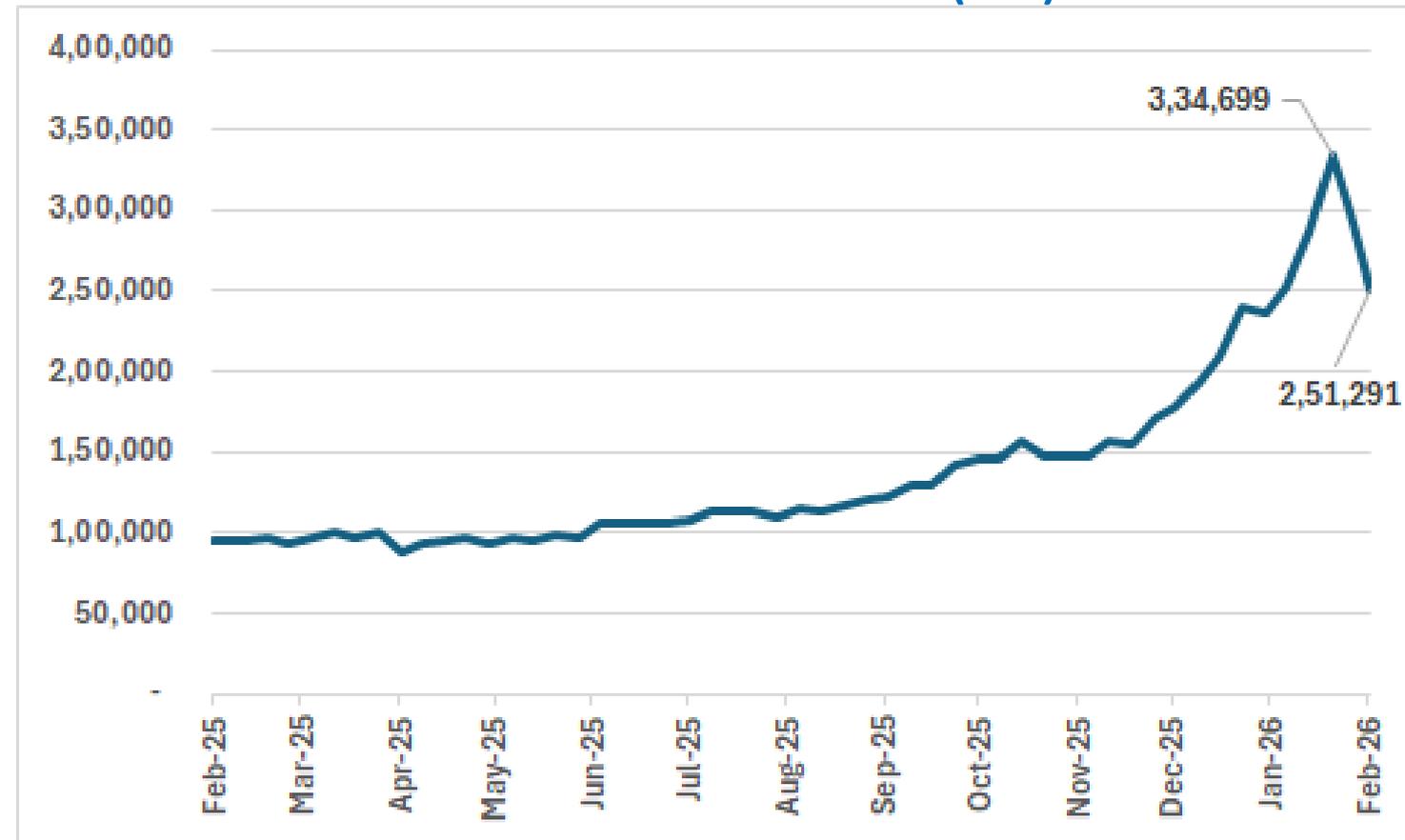
- In the last fortnight, Bank of England, cut rate by 25 bps while BOA (Bank of Australia) hiked 25 bps.
- The US Fed rate remained to 3.50-3.75%, cumulatively 175 bps cut since Sep'24).
- While most of the other central banks globally are signalling caution, awaiting clearer signs of economic slowdown or disinflation before further rate action.

Increased Volatility Across Asset Class (1/2)

Gold Price Movement (INR)



Silver Price Movement (INR)



Source: Bloomberg, As on 5 Feb 2026

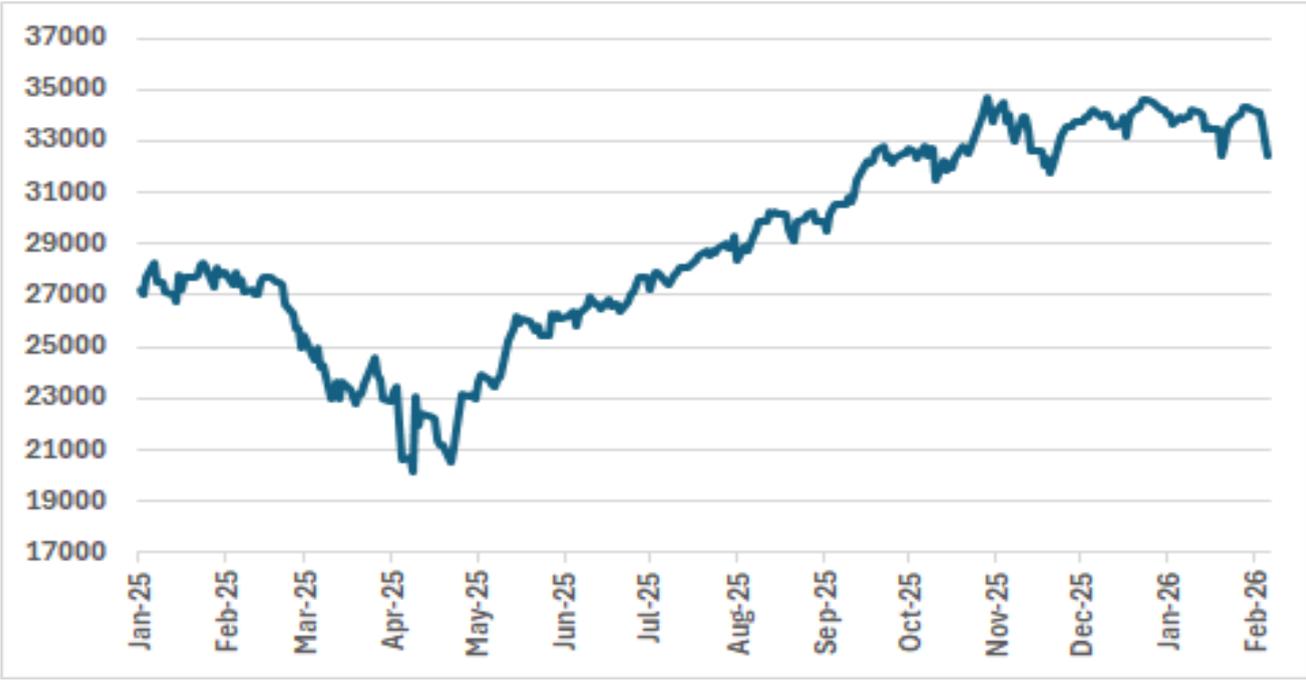
- Both gold and silver are demonstrating significant strength, driven by a convergence of continued global uncertainties, persistent safe-haven demand, and a softer U.S. dollar.
- In 5 Year, Silver prices surged ~3X while Gold prices are up ~2X.
- On a 1 Year basis, FYTD-26, silver delivered a strong return of 164% while gold surged by 78% .

Increased Volatility Across Asset Class (2/2)

Bitcoin Price Movement (USD)



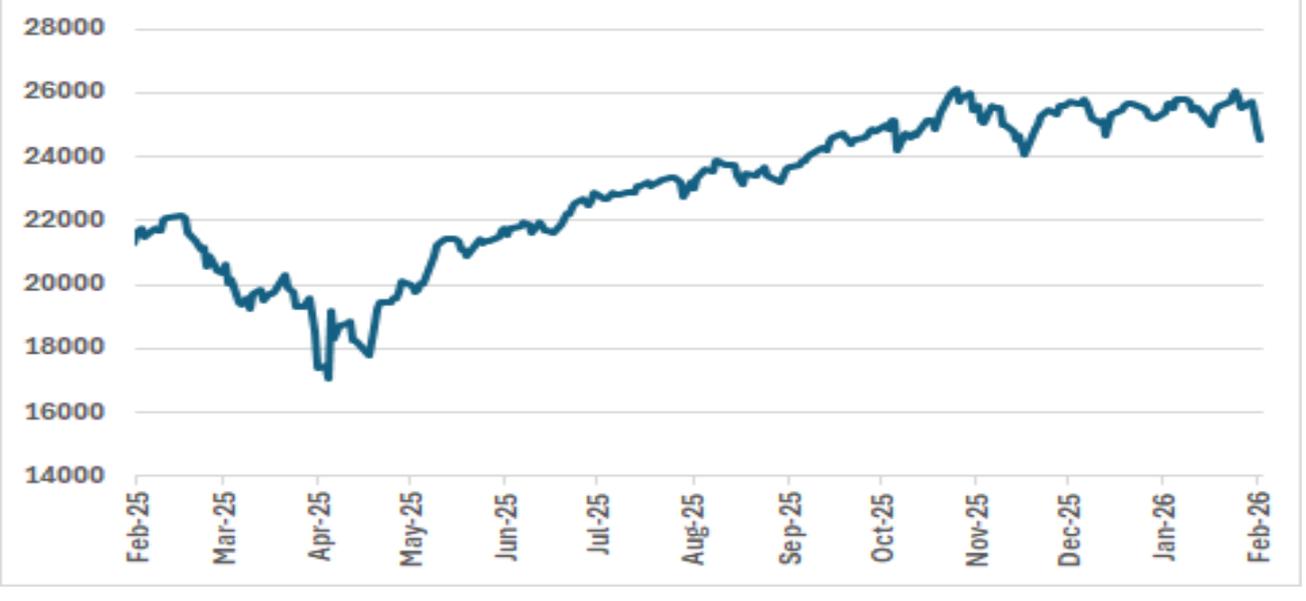
Mag 7 Price Movement (USD)



Chicago Board Options Exchange (CBOE) Volatility Index (VIX)

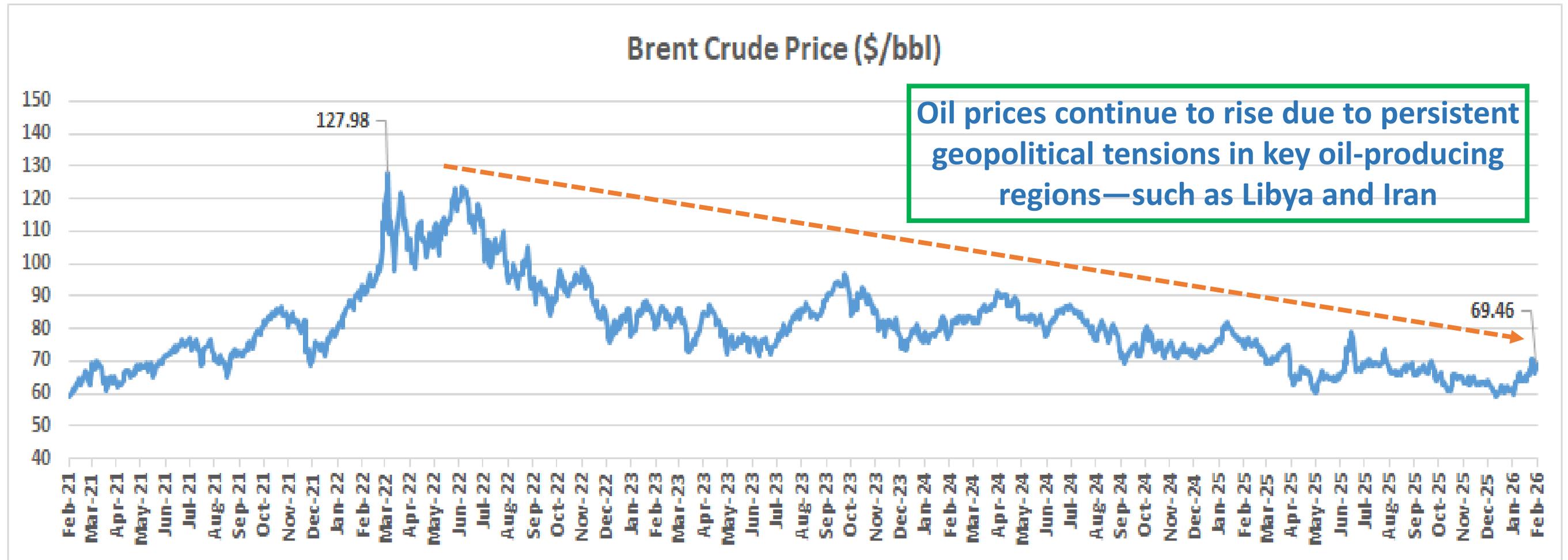


Nasdaq Price Movement (USD)



Source: Bloomberg, As on 6 Feb 2026

Crude Oil Prices Remained Subdued



Source: Bloomberg | As on 5 Feb 2026

- Continued uncertainty in global trade and expectations of slower growth have led to a moderation in crude oil prices.
- Sustained lower crude oil prices provide an impetus to the disinflation trend as ~85 -90% of India's crude consumption occurs through imports.

Big Tech's Exponential AI Capex Surge (2023–2026)

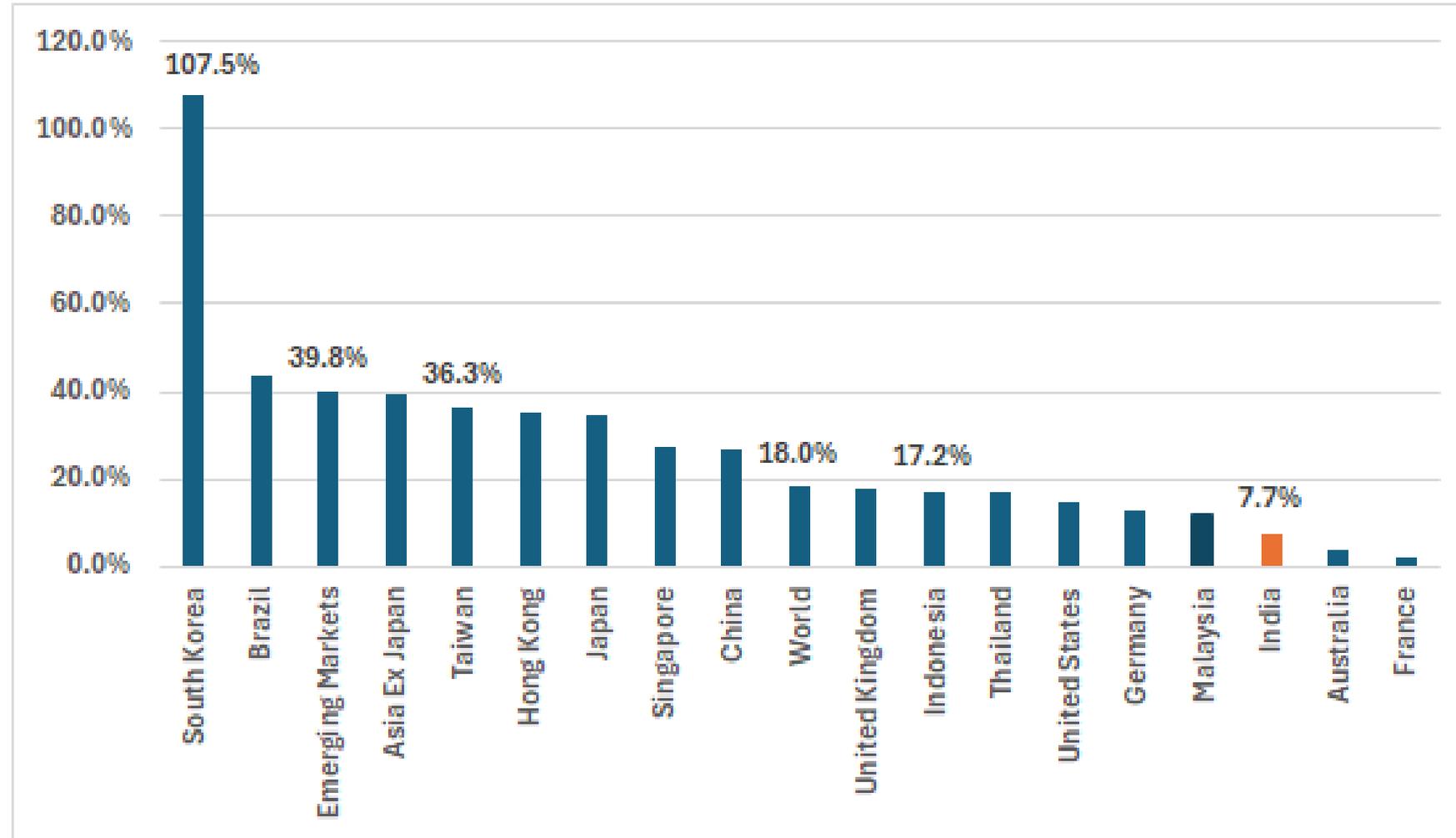
Company	2023	2024	2025 (Est/Actual)	2026 Forecast
Amazon	\$53	\$75	\$131	\$200
Alphabet	\$32	\$52.5	\$91	\$175–\$185
Meta	\$27	\$37.3	\$72.2	\$115–\$135
Microsoft	\$28.1	\$44.5	\$64.6	\$120
Apple	\$11	\$9.4	\$12.7	N/A

Source: Respective Companies Filings

- Big Tech companies have significantly ramped up their AI investments in recent years.
- The scale of these investments are so large that it even dwarfs the total annual government capex budget in India.
- Amazon AI spend in CY26 = \$200bn, India Capex budget for FY27 = INR 12.2 tn (~USD135bn).

Equities Have Done Well Globally in Last 12 Months, India Underperformed

1 Year Performance (Local Currency) of Major Global Equity Markets



Source: Bloomberg, As on 30 Jan 2026

- **Global Equity Outperformance:** Major global equity markets have delivered robust returns over the last 12 months, with some continued outperformance attributed to optimism surrounding Artificial Intelligence (AI).
- Significant diversion in returns as South Korea delivered over 107% where as India delivered 7%.
- In contrast to the global trend, Indian equity markets have relatively underperformed during this same period.

Indian Equity Market Outperforms In the Long-term

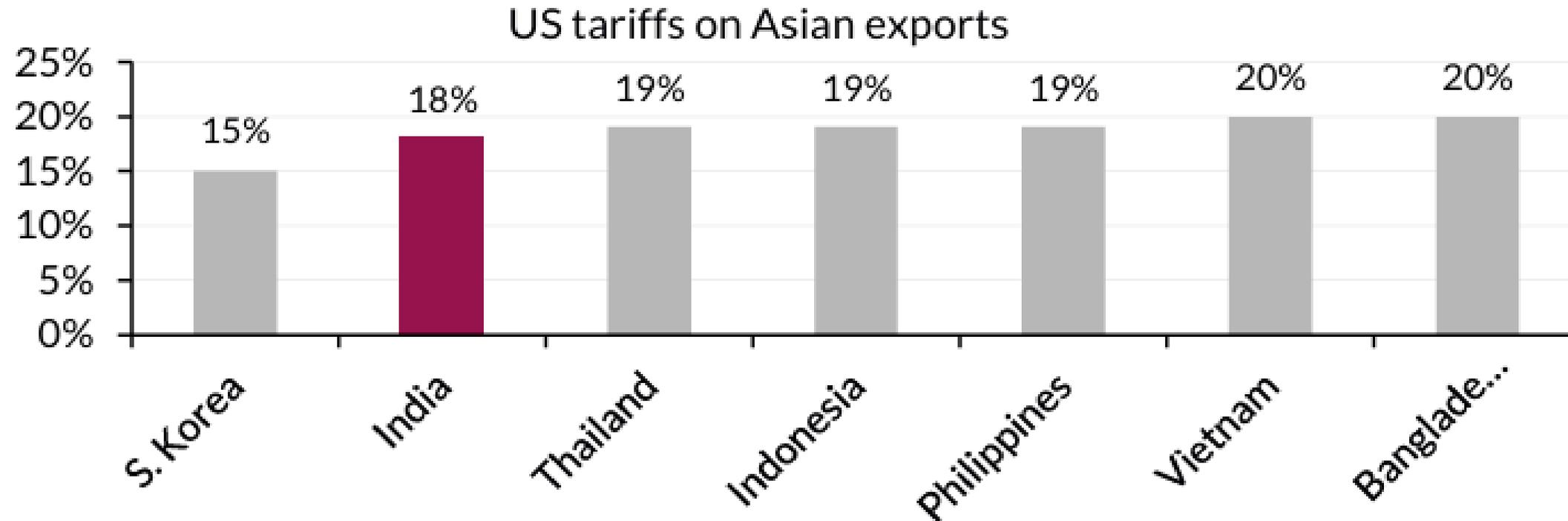
Performance as on 30th Jan 2026								
Index Name	Country / Region	1 Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	15 Yrs.
TSEC TAIEX	Taiwan	36.3%	33.9%	28.1%	16.2%	18.2%	14.8%	8.7%
Nikkei 225 Average	Japan	34.7%	21.2%	25.0%	14.0%	14.4%	11.8%	11.6%
S&P 500	United States	14.9%	19.7%	19.4%	13.3%	14.4%	13.6%	11.9%
Nifty 50	India	7.7%	8.0%	12.8%	13.2%	12.9%	12.8%	10.7%
FSE DAX TR	Germany	12.9%	20.5%	17.5%	12.8%	11.9%	9.6%	8.6%
KOSPI	South Korea	107.5%	44.6%	29.2%	11.9%	13.1%	10.6%	6.4%
MSCI World	World	18.0%	18.8%	17.6%	11.2%	12.1%	11.2%	8.6%
FTSE/SGX STI	Singapore	27.2%	24.7%	13.4%	11.1%	6.3%	6.4%	2.9%
FTSE 100	United Kingdom	17.9%	15.8%	9.6%	9.8%	5.6%	5.3%	3.8%
BOVESPA TR	Brazil	43.8%	19.1%	16.9%	9.5%	9.3%	16.2%	6.9%
FTSE SET All Share	Thailand	17.0%	14.9%	9.0%	8.6%	5.4%	5.1%	4.0%
CAC 40	France	2.2%	3.0%	4.7%	8.5%	7.2%	6.3%	4.8%
JSX Composite	Indonesia	17.2%	7.5%	6.8%	7.3%	3.5%	6.1%	6.1%
S&P/ASX 200	Australia	3.9%	7.5%	5.9%	6.1%	6.1%	5.9%	4.2%
Shanghai Composite	China	26.7%	21.5%	8.1%	3.4%	6.9%	4.2%	2.6%
MSCI EM	Emerging Markets	39.8%	25.1%	14.0%	2.8%	5.5%	7.5%	2.1%
MSCI AC Asia Ex Japan	Asia Ex Japan	39.5%	27.6%	13.8%	2.4%	6.4%	7.9%	3.8%
FTSE Bursa Malaysia KLCI	Malaysia	11.8%	7.3%	5.4%	2.1%	0.5%	0.4%	0.9%
Hang Seng	Hong Kong	35.4%	33.0%	7.8%	-0.6%	-0.3%	3.4%	1.0%

Source : Bloomberg. Returns are in local currency of index, and returns greater than 1 year are CAGR Date Sorted on the basis of 5 Yrs. return in descending order

- Over the long-term Indian equity market has been among the top performing major markets, globally.
- **While India's long-term returns remain strong, the Nifty 50 has delivered the relatively weak 1-3 year performance among peers, highlighting near-term challenges.**
- Over 5, 7, 10, and 15-year basis, the Indian equity market has consistently delivered double-digit returns, ranking among the top 5 global equity markets.

Domestic Macro Update

A deal with the US removes India's tariff disadvantage vs. Asia



Source: White House; Axis Bank Research

- India's new tariff agreement with the US removes its earlier disadvantage versus peers — tariff rates drop from 50% to 18%, placing India at the lower end of the global range.
- While full details are awaited, India is unlikely to have made major concessions in agriculture.
- The new tariff reduction particularly benefits sectors that were impacted earlier, including gems & jewellery, leather, plastics, ceramics, and auto components.

India Has Significant Trade Surplus with US

Top 10 items exported by India to the US

No.	Description	2024 (US \$bn)
1	Electrical Machinery and Equipment	14.1
2	Pharmaceutical Products	12.5
3	Precious Metals, Pearls, Precious or Semiprecious Stones	11.6
4	Nuclear Reactors, Boilers, Machinery and Mechanical Appliances	6.8
5	Articles of Apparel and Clothing Accessories (knitted + not knitted)	4.7
6	Organic Chemicals	3.5
7	Mineral Fuels, Mineral Oils and Products of Their Distillation	3.0
8	Made-Up Textile Articles, Worn Clothing	2.9
9	Vehicles	2.7
10	Articles of Iron or Steel	2.6
	Total exports by India to the US	87.4

Source: US International Trade Commission, Jefferies

India's monthly exports to US monthly trend



Source: Ministry of Commerce & Industrv. Jefferies

- India's total exports to the US were US\$87bn in 2024 while total imports from the US were at US \$42bn. India's goods trade surplus has nearly doubled (\$24 to \$46) in past 4 yrs.
- The US administration is claiming that India has agreed to purchase US goods worth USD500bn over the next five years. This may alter the trade balance between India & US to some extent.
- Energy (Oil & Gas) and Aircrafts can be the key items that India may purchase from US companies.
- India's exports to US flat YoY during Sep-Dec'25 (post imposition of 50% tariffs)

India's exports to EU, March fiscal year-ends (US\$ mn)

	FY2024	FY2025	Wtd avg. tariff (FY2025, %)
Beverages, refreshments, and intoxicant	1,440	1,852	3.2
Cereals	280	322	12.9
Chemicals	6,194	6,275	3.8
Electronics	7,967	11,250	0.7
Energy	19,196	15,014	0.4
Fertilizers	3	2	1.3
Fruits and vegetables	772	752	11.2
Furniture	602	638	1.5
Gems and stones	3,397	2,969	0.6
Leather and footwear	2,878	2,949	6.1
Machinery	5,240	5,036	2.2
Meat, fish, eggs and dairy	903	1,008	10.5
Metals	8,365	6,551	1.5
Oils, fats and extracts	1,113	1,260	3.3
Pharmaceuticals	2,879	2,952	0.0
Plastic	1,048	1,126	5.9
Rubber	1,237	1,303	3.6
Textiles	6,698	7,307	10.1
Transport	2,895	3,958	3.6
Others	2,819	3,330	2.3
Total	75,925	75,854	2.9

Notes:

(a) For brevity multiple, HS codes have been aggregated across categories.

Source: Ministry of Commerce, Kotak Institutional Equities

- India–EU FTA concluded on 27 Jan 2026, expected to take effect over next few months.
- 0% tariffs on India’s labour-intensive exports immediately; phased reductions over 3–5 years for marine, processed foods, and defence goods. Select agri-products receive preferential rates; agriculture & dairy fully excluded from concessions.
- EU gains phased access in machinery, automobiles, spirits, beverages, increasing competition in India.
- India’s FY2025 exports to EU were **US\$76 bn**; **28%** labour-intensive—key beneficiaries: textiles, seafood, leather, plastics, gems & jewellery.
- Tariff cuts help offset medium-term US tariff uncertainty by diversifying export markets toward the EU.
- India’s FY2025 imports from EU were **US\$61 bn**, dominated by electronics, machinery, aircraft, auto parts; tariff cuts likely to intensify domestic competition but aid importers.
- **Overall impact will be limited in the near term, with benefits materializing once the FTA becomes operational in CY2027/FY2028.**

Sectoral impact of tariff reduction on EU imports

Product	Current tariffs	Future tariffs
Plastics	Up to 16.5%	0% for almost all products
Chemicals	Up to 22%	0% for almost all products
Motor vehicles	110%	10% (quota of 250k)
Pharmaceuticals	11%	0% for almost all products
Wine	150%	20% (premium range); 30% (medium range)
Spirits	Up to 150%	40%

- India's reduction of import tariff on EU exports to induce some domestic competition while aiding importers through lower tariffs

Source: Kotak Institutional Equities

- The budget is structured around a "Three Kartavyas" (Duties) philosophy designed to drive comprehensive national development:
 - 1. Accelerate and Sustain Growth:** Enhancing productivity and building resilience against global dynamics.
 - 2. Fulfilling Aspirations:** Building citizens' capacity through education, skilling, and healthcare.
 - 3. Inclusive Participation:** Ensuring resources reach every family and region
- The FY27 Union Budget continued to play a balancing act between need to support growth and the imperative of maintaining fiscal prudence amid global uncertainties.
- By combining a sustained push in capital expenditure with adherence to a disciplined fiscal trajectory, the government seeks to reinforce macroeconomic stability while accelerating growth in infrastructure and manufacturing.

- **Defence**

- Total defence allocation up ~5% to ~₹6 lakh crore.
- Modernisation capex up 17.6% (₹2.19 lakh crore).
- Major spends: ₹63,733 crore for aircraft & aero engines; ₹25,023 crore for naval capacity.

- **Taxation & Compliance**

- No change in personal income tax slabs.
- Income Tax Act, 2025 simplifies structure (sections reduced 819 → 536).
- TCS on overseas remittances cut to 2%.
- Buybacks taxed as Capital Gains; one-time disclosure window for small taxpayers & NRIs.

- **Capital Markets**

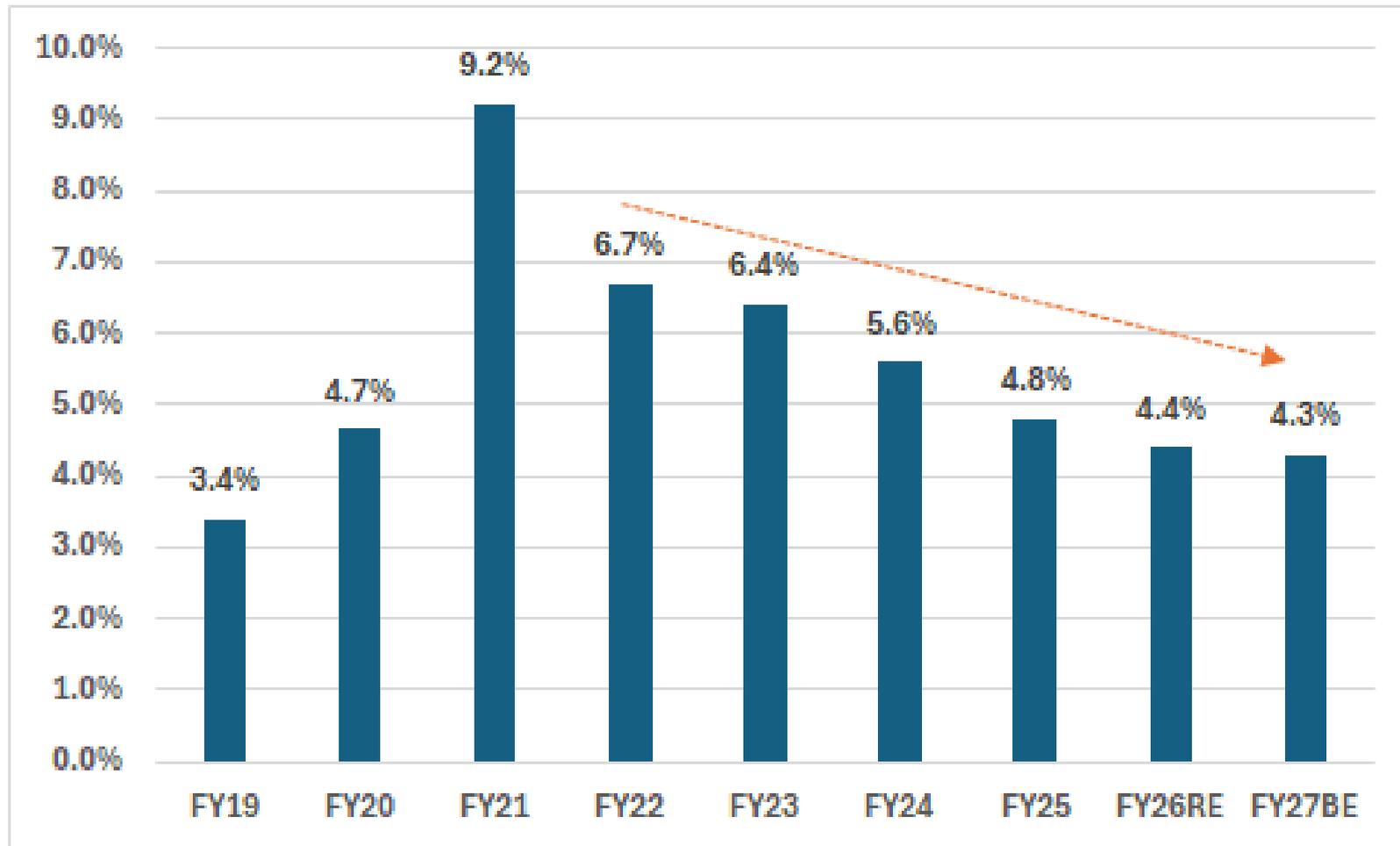
- STT increased on Futures (0.05%) and Options (0.15% premium).
- Foreign investor limits doubled: individual PROI/NRI limit 5% → 10%; company cap to 24%.
- MAT reduced to 14%, becomes a final tax (no credit post Apr 2026).

Summary

- The Budget's measures may not significantly impact any sectors in the near term.
- It represents a deliberate shift from short-term populism to long-term nation-building.
- A 4.3% fiscal deficit target for FY27 and continued focus on capital expenditure anchor macro stability.
- The budget provides a predictable and stable environment for investors.
- Revenue and expenditure assumptions appear modest and credible.
- Reinforces India's position as a resilient and steadily growing global economy.
- **Overall assessment:** positive from a medium- to long-term perspective.

Union Budget FY 2026 27 : Fiscal Consolidation Continues

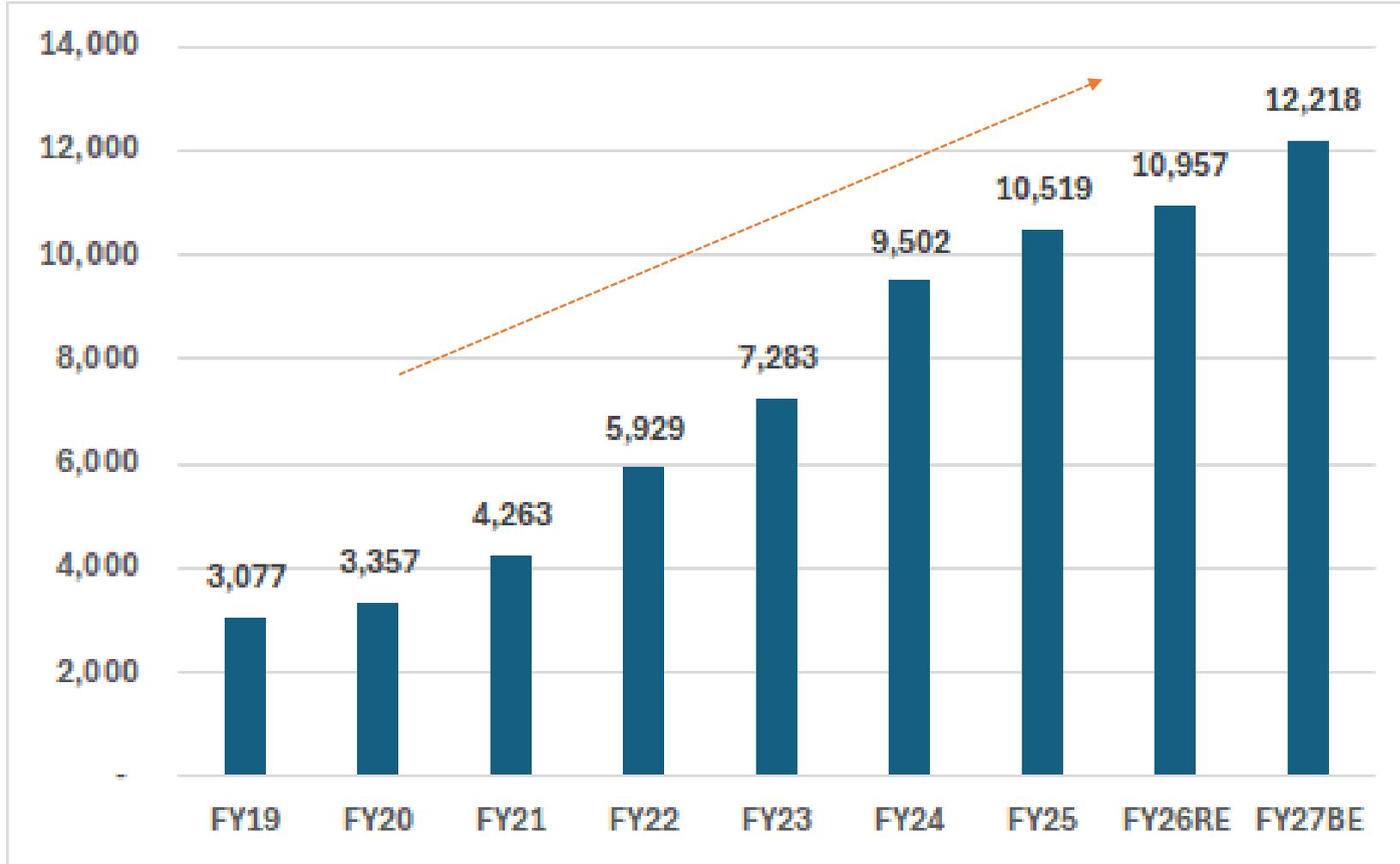
Central Gov. Fiscal Deficit Trend (% of GDP)



- Fiscal deficit targeted at **4.3%** of GDP for FY27, improving from 4.4% in FY26RE.
- Government aiming to reduce total debt to **50%** of GDP by FY31; expected to decline to 55.6% this year from 56.1% last year.
- **Gross Market Borrowing:** ₹17.2 lakh crore while Net Market Borrowing at ₹11.7 lakh crore.
- **Total expenditure:** projected at ₹53.5 lakh crore, up 7.7% from FY26RE.
- **Net tax receipts:** estimated at ₹28.7 lakh crore, up from ₹26.7 lakh crore.
- Net tax growth (7.2%) considered credible as it is below the projected 10% nominal GDP growth for FY27.
- India's fiscal path remains disciplined, signalling reduced sovereign risk, stronger macro stability, and a predictable borrowing programme, which supports investor confidence and long-term capital allocation.

Source: Budget Documents. A= Actual, BE=Budgeted Estimate, RE = Revised Estimate

Capital Expenditure (Capex), Rs.in Billion

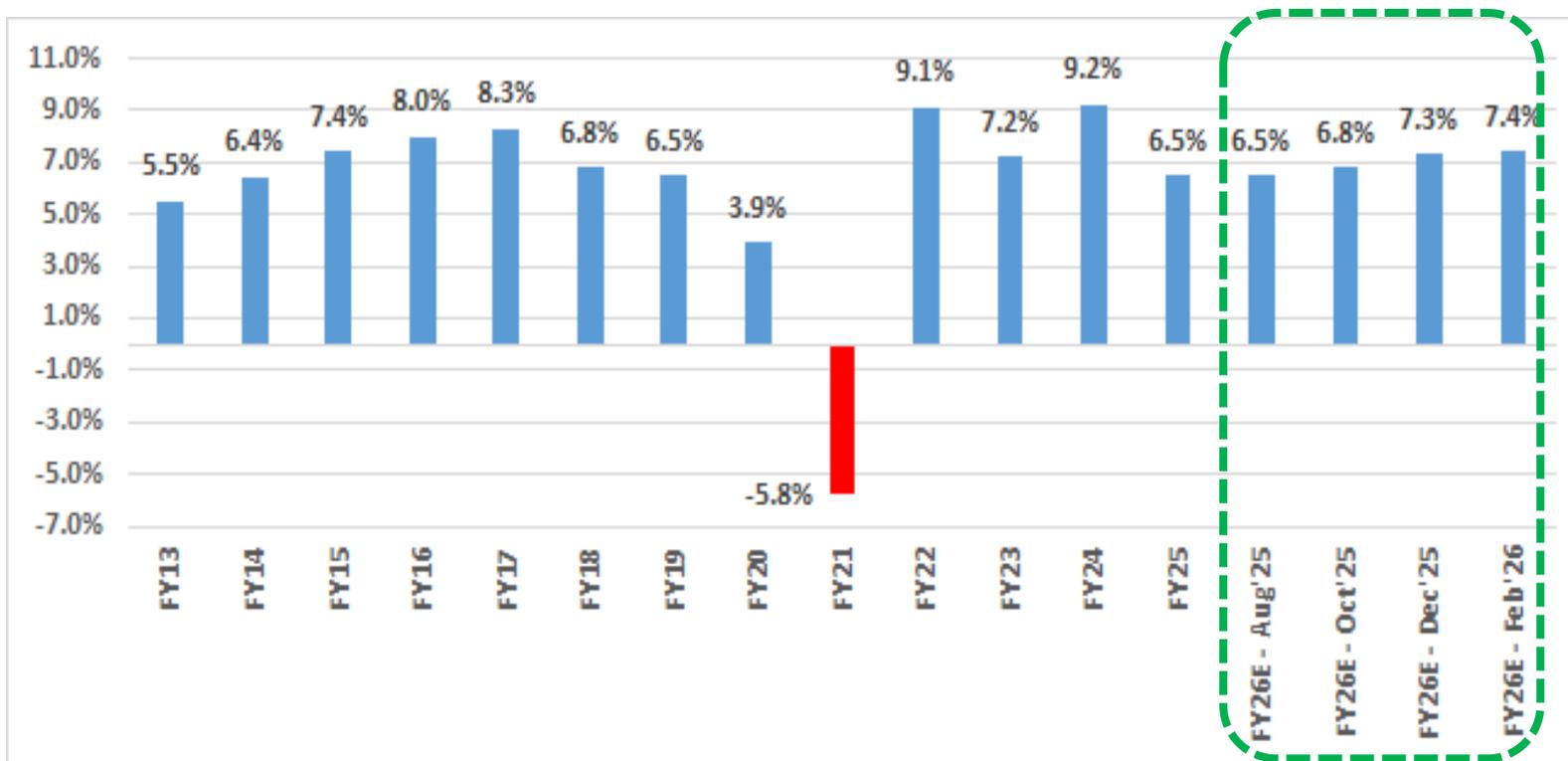


Source: Budget Documents. A= Actual, BE=Budgeted Estimate, RE = Revised Estimate

- Public capex for FY27 raised to a record ₹12.22 lakh crore, an 11.5% increase over last year.
- Railways get ₹2.8 lakh crore (up 10% YoY) to fund seven new high-speed rail corridors.
- Roads & Highways allocated ₹2.9 lakh crore.
- New mechanisms introduced to attract private capital:
 - ✓ Infrastructure Risk Guarantee Fund
 - ✓ Dedicated REITs for recycling CPSE assets
- The government’s capex strategy signals sustained infrastructure momentum, reducing execution risk and creating long-term visibility for construction, logistics, and materials sectors—key for institutional investors evaluating India’s growth durability.

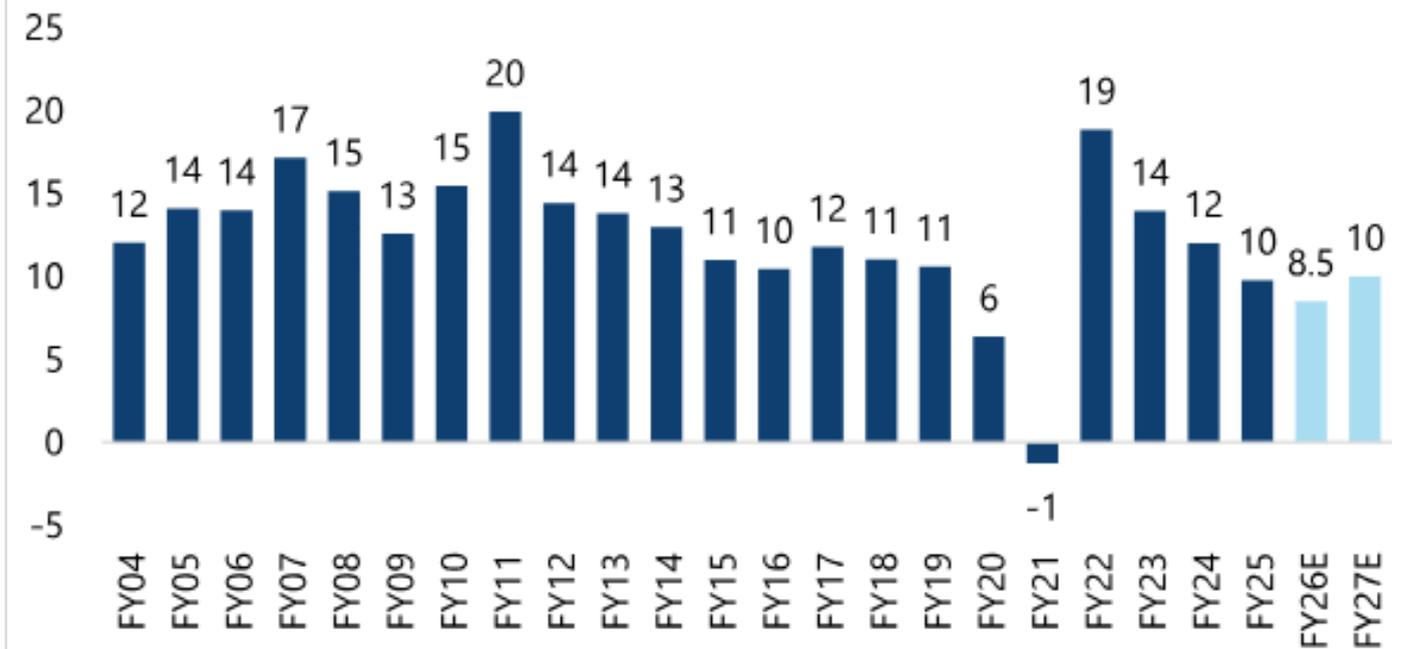
RBI Upgrades India's FY26 Growth Forecast to 7.4%

India Fiscal Year-Wise Real GDP Growth (% YoY)



(%, YoY)

India Nominal GDP growth

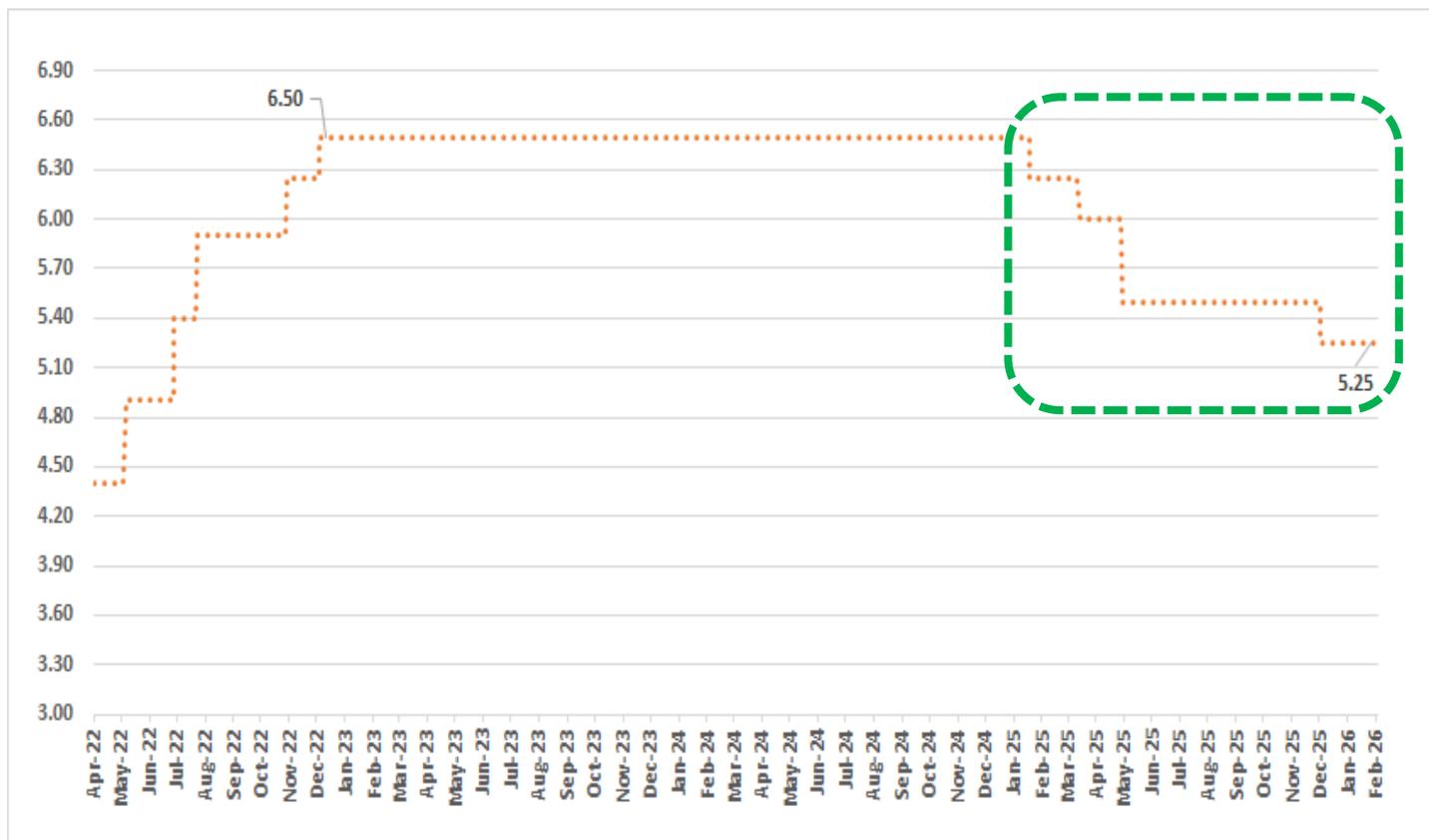


Source: RBI, MoSPI, Jefferies

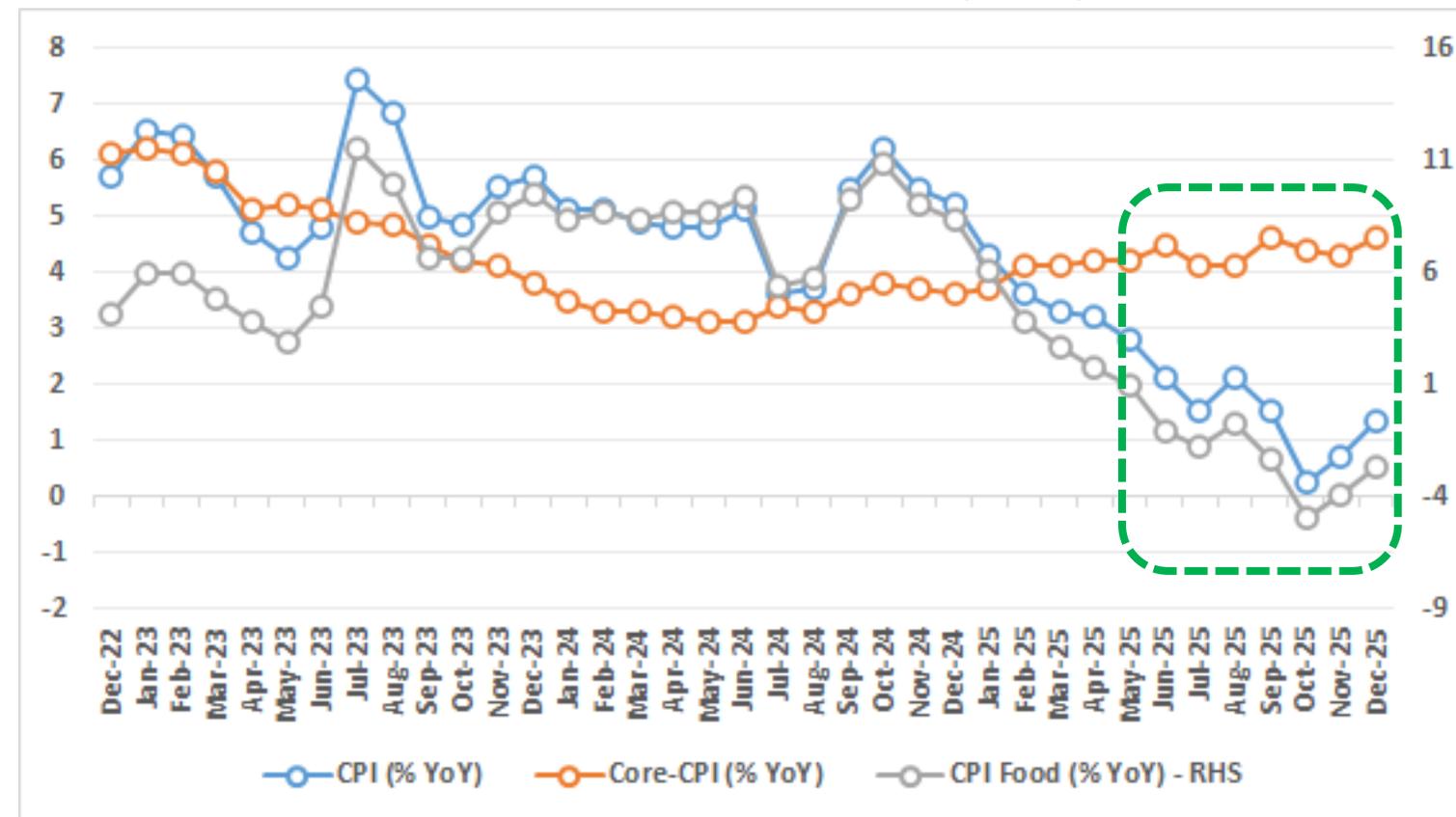
- The RBI has consistently raised its FY26 GDP growth forecast, **starting from 6.5% in April, lifting it to 6.8% in Oct'25, and further upgrading it to 7.3% in the Dec'25 Monetary Policy meeting**, now it is projected at **7.4%**, reflecting confidence in robust domestic activity.
- India's nominal GDP is projected to grow by 8.5% in FY26E, the lowest in the past two decades, this has negative implications for corporate earnings.
- The central bank highlighted that while domestic factors are supportive, global uncertainties—especially trade tensions and slower external demand—continue to pose risks to the growth outlook.

CPI continued to be below the lower band of RBI's target,

Repo Rate Trend (in %)



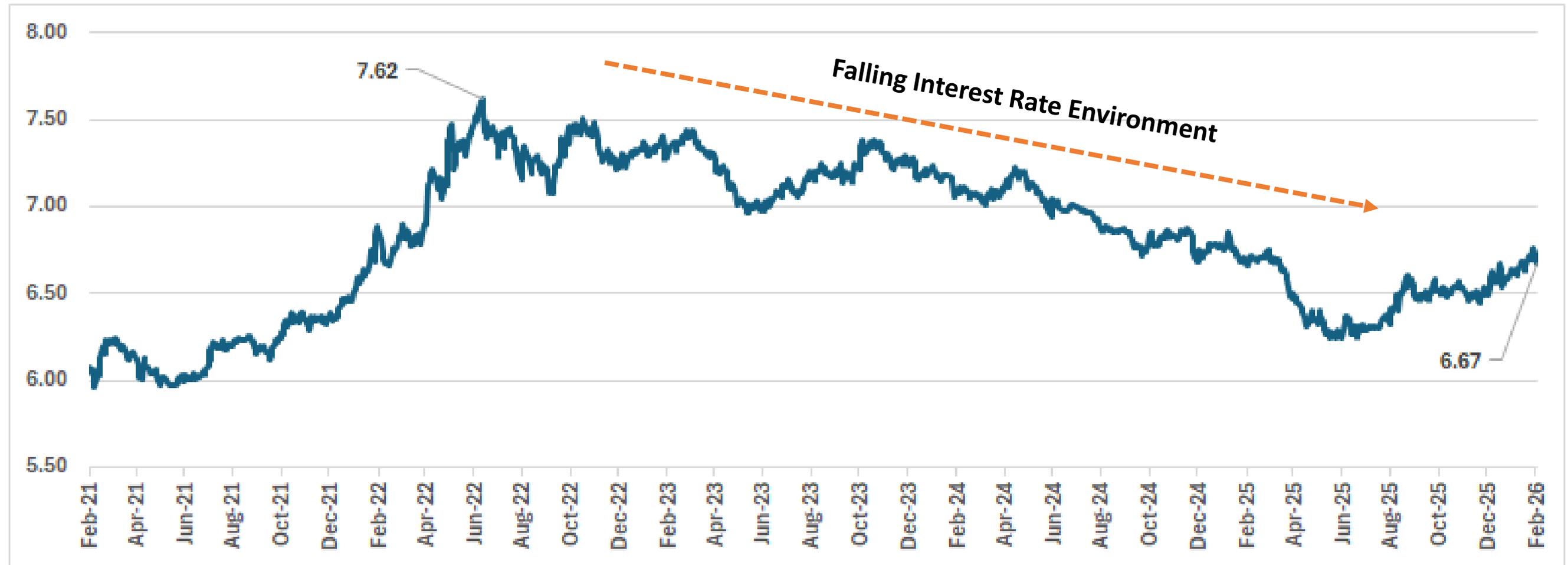
Inflation Trend YoY (in %)



Source: Bloomberg, MOSPI, RBI

- Repo rate unchanged at 5.25%. All members unanimously voted to keep the policy repo rate unchanged and stance was maintained at “neutral”.
- We believe the RBI has reached end of the rate cut cycle and expect the RBI to remain on an extended pause through CY2026. RBI's forward guidance was neutral as they remain watchful of the evolving growth inflation dynamics while awaiting the new CPI and GDP series later in February.
- CPI inflation reading came in at 1.33% in Dec'25 compared to 5.2% in Dec'24, on YoY basis. For the 4th month in a row, CPI is running below 2%. This is led by food driven deflation at -2.7% in Dec'25.

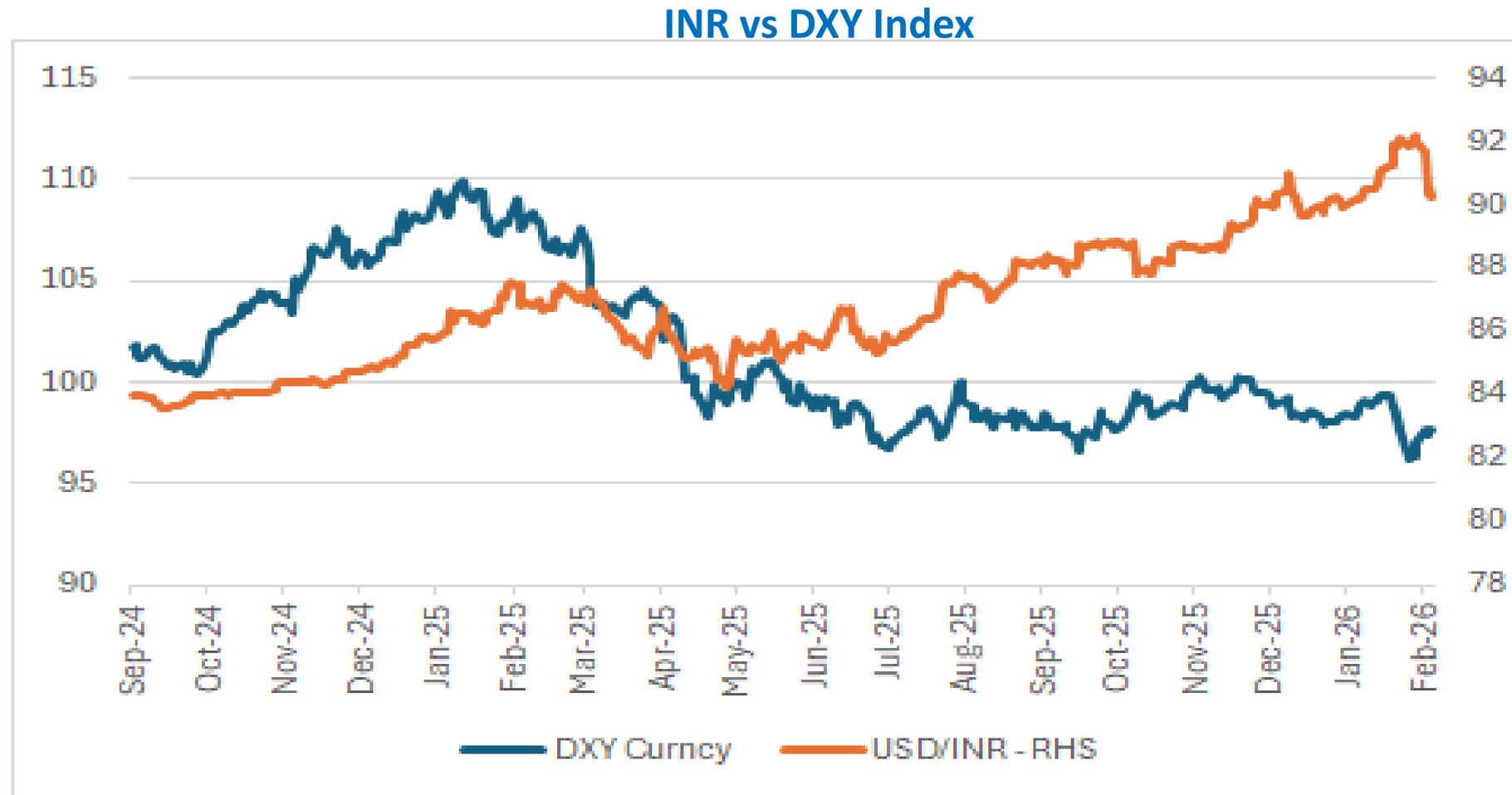
10 Year G-Sec Reversed Recent Gains



Source: Bloomberg I As on 5 Feb 2026

- India's 10Y yield rose during the month and traded in the range of 6.58–6.72%, closed at 6.70%. The overall curve has steepened on account of rate cuts and rupee depreciation and thus spread between the 10Y vs longer end has widened.
- The longer end has also underperformed on account of unfavourable demand/supply mismatch and hence, overall longer end has hardened by 35 bps.

INR depreciation halted post the US-India deal

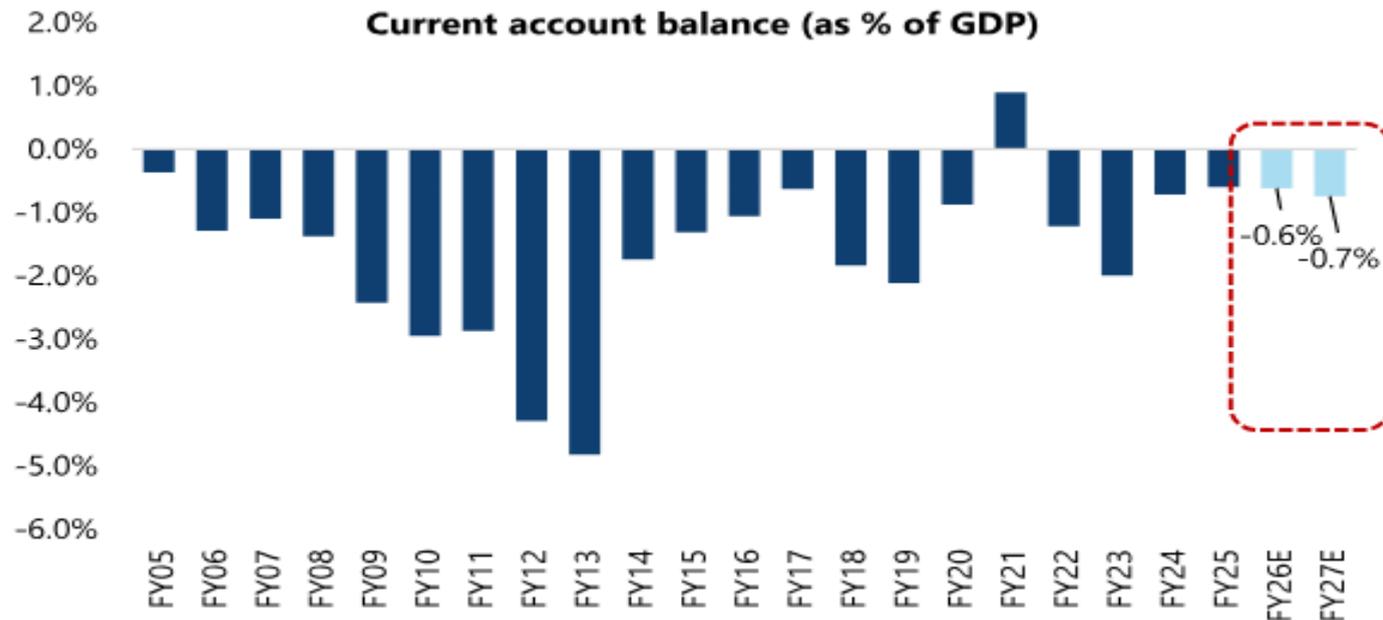


Source: Bloomberg | As on 5 Feb 2026

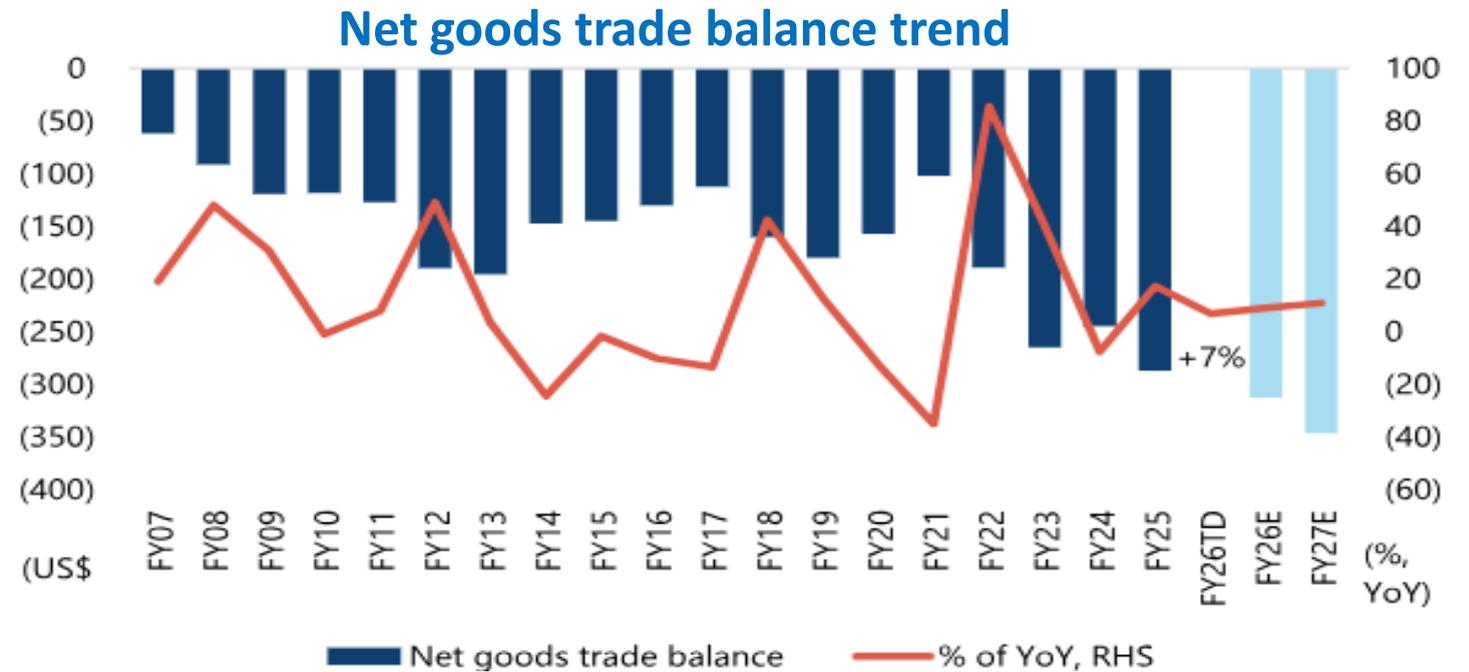
- The INR has depreciated against the USD by 3% this year, in the backdrop of an already weak USD (DXY below 100).
- US trade deal could help stabilise capital flows and ease pressure on the rupee, reducing one of the external risks flagged by policymakers in recent months.

Dollar Index (DXY) is a weighted measure of the U.S. dollar's value relative to a basket of major foreign currencies, reflecting its overall strength or weakness.

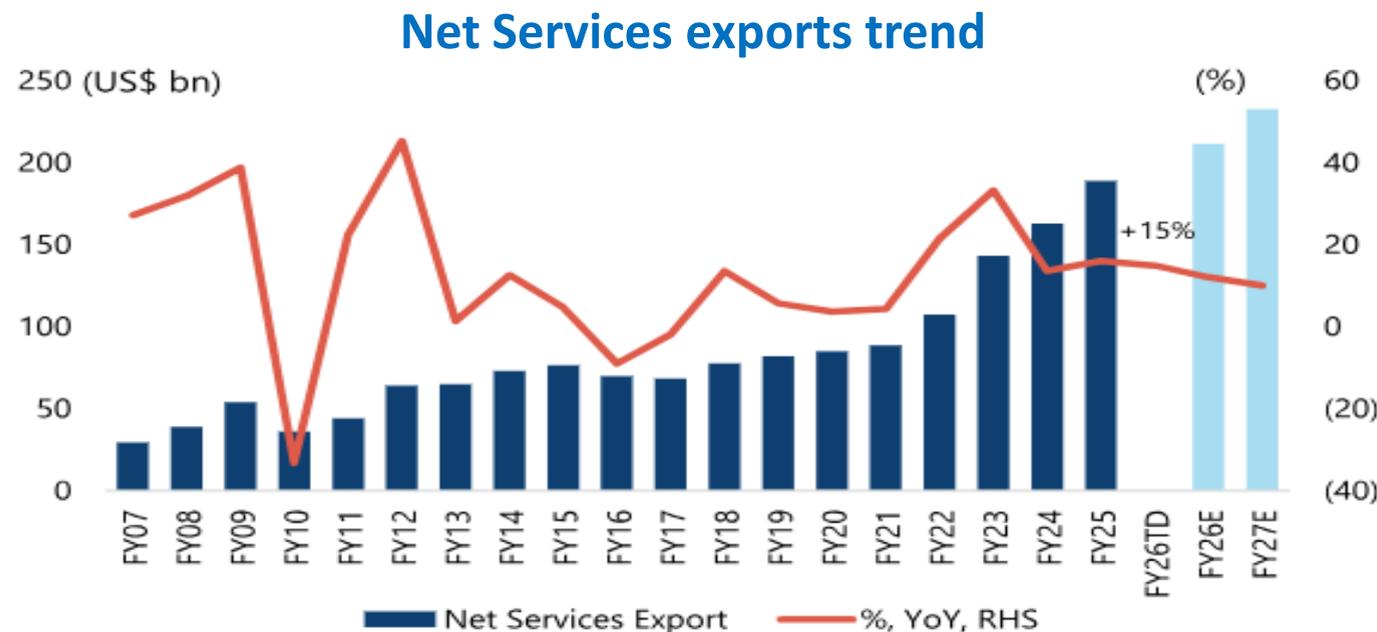
Current account deficit (CAD) expected to remain low



The current account deficit is near a 20-year low and is expected to remain contained at around 0.6–0.7% of GDP



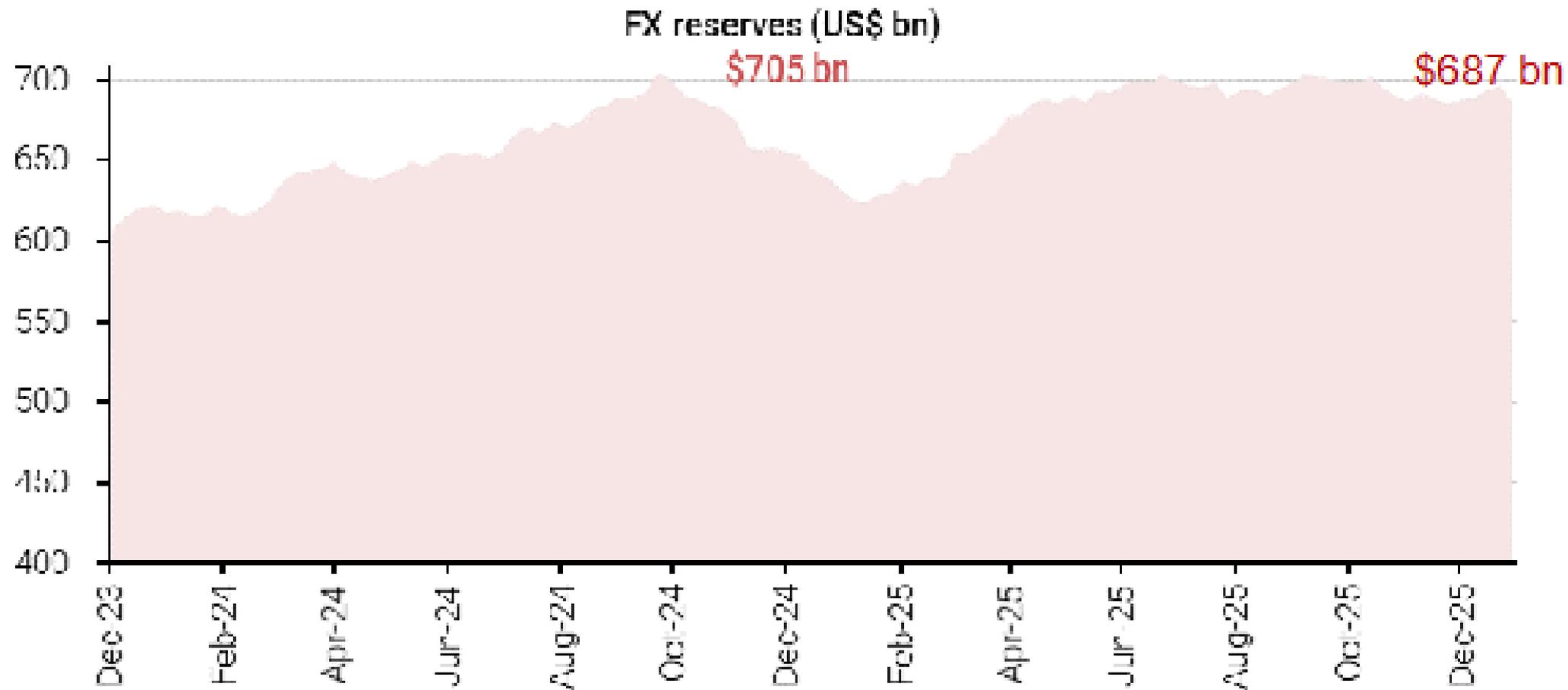
The trade deficit has not been a major concern this year supported by lower oil prices



Net services export has remained strong and continued with 15% growth in FY26 so far

Forex Reserve Level Remains High

FX reserves (US\$ bn)

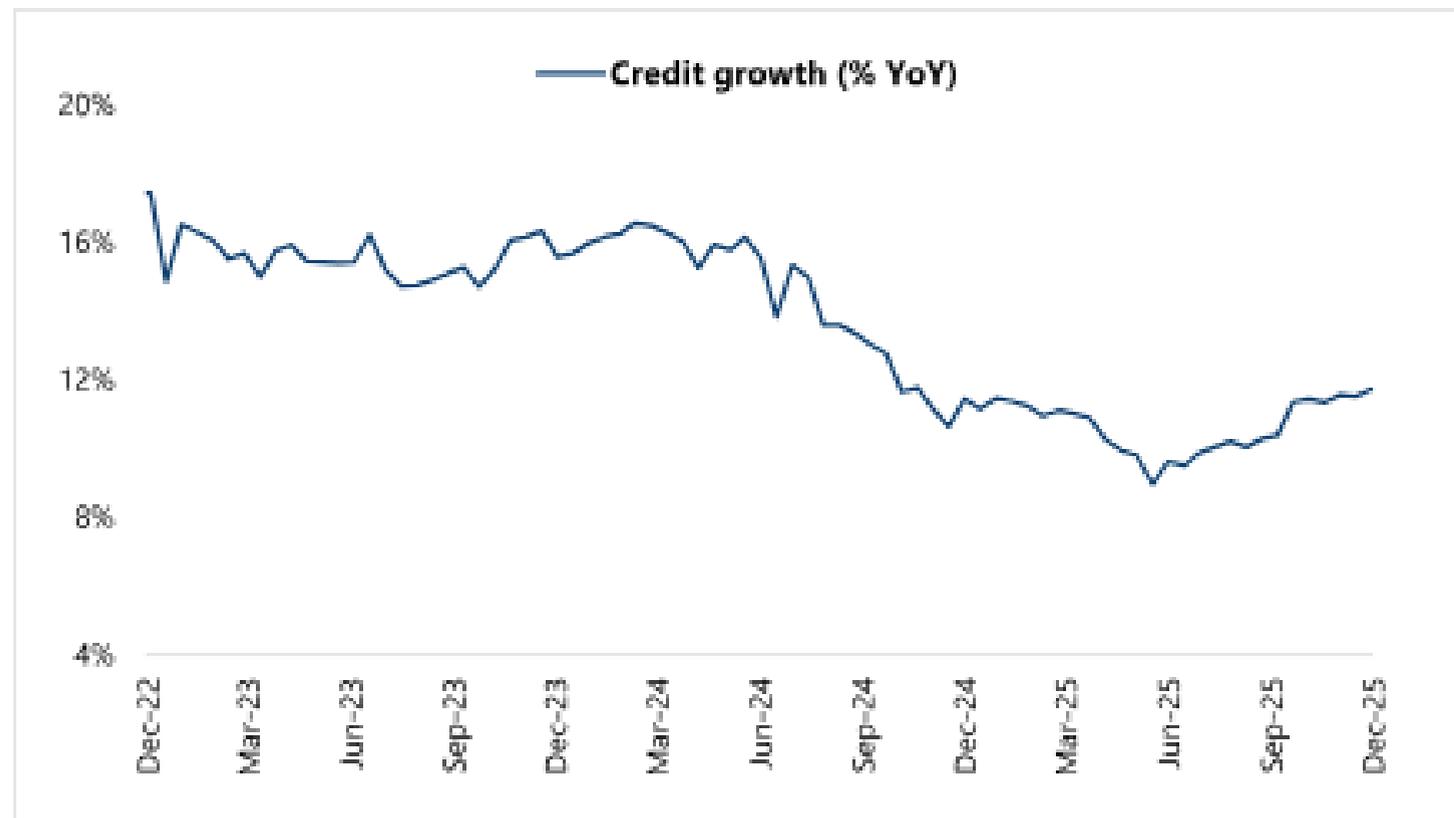


Source RBI, Kotak

- Forex reserves have remained robust despite significant currency depreciation and capital outflows. RBI forex reserves are at US\$687bn (11-mth import cover)

Credit growth accelerating gradually

Bank credit growth improves to 12% YoY



Source: RBI, Jefferies

Bank deposit growth stood at 10% YoY



Source: RBI, Jefferies

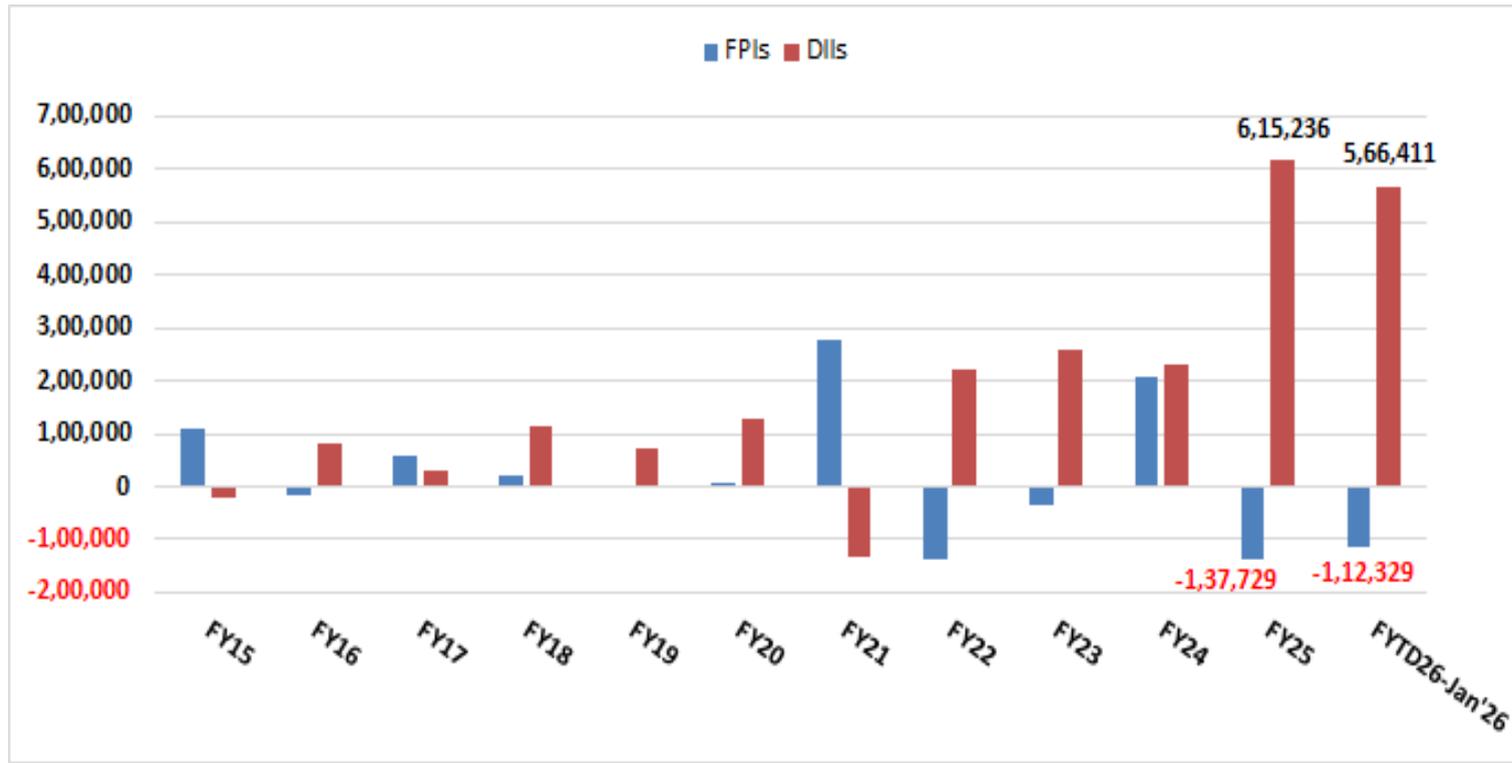
- Credit growth has shown early signs of recovery, improving to 12% over the past six months

Economic activity picks up in December

	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Manufacturing													
PMI manufacturing (sa)	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0
Industrial credit	7.2	8.0	7.1	8.2	6.6	4.8	5.9	6.0	6.5	7.3	10.0	9.6	
Petroleum products consumption (industrials)	(8.7)	(1.3)	(16.4)	(14.7)	(11.4)	(8.1)	(7.9)	(21.4)	6.8	5.8	(11.3)	(5.4)	(0.1)
IIP manufacturing	3.7	5.8	2.8	4.0	3.1	3.2	3.7	6.0	3.8	5.6	2.0	8.0	
Electricity demand	5.1	1.3	2.4	5.7	2.8	(4.8)	(2.3)	2.6	3.8	3.5	(5.8)	(0.6)	6.5
Railways freight traffic	1.7	(1.6)	(3.0)	3.0	3.6	2.7	0.9	0.0	8.5	3.9	2.3	4.2	
Steel production	5.3	5.7	7.5	8.6	5.1	8.3	11.1	13.7	12.9	14.5	7.6	11.2	2.0
Construction													
Steel consumption	7.7	9.0	10.9	13.6	6.0	8.1	9.3	7.3	10.0	8.9	2.4	6.0	3.4
IIP cement	10.3	14.3	10.7	12.2	6.3	9.7	8.2	11.6	5.4	5.0	5.2	14.5	
Core infrastructure	5.1	5.1	3.4	4.5	1.0	1.2	2.2	3.7	6.5	3.3	(0.1)	1.8	
Home loan	11.1	11.0	11.1	10.7	9.8	9.0	9.6	9.6	9.7	10.1	11.0	9.9	
Services													
PMI services (sa)	59.3	56.5	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8	58.0
Services credit	11.7	12.5	12.0	12.0	10.5	8.7	9.2	10.6	10.6	10.2	13.0	11.7	
Domestic air passenger traffic	8.2	12.0	11.6	8.8	8.4	1.9	3.0	(2.9)	(1.4)	(2.9)	2.7	6.9	
Airport cargo	8.0	7.0	(4.9)	3.8	11.5	5.0	0.2	4.4	5.5	2.5	(2.3)	15.6	
Consumption													
Total personal credit	12.0	11.8	11.7	11.7	11.9	11.1	11.7	11.9	11.8	11.7	14.0	12.8	
Other personal credit	9.2	8.7	7.9	7.5	9.0	7.8	7.6	8.1	8.1	7.8	9.9	8.9	
Average no. of daily GST e-way bills (mn)	3.6	3.8	4.0	4.0	4.0	4.0	4.0	4.3	4.2	4.4	4.1	4.3	4.5
GST collections	12.3	9.1	9.9	12.6	16.4	6.2	7.5	6.5	9.1	4.6	3.6	6.1	
Passenger vehicle sales	10.0	1.6	1.9	3.6	3.9	(0.8)	(7.4)	(0.2)	(8.8)	4.4	17.2	18.7	26.8
Non-oil imports	6.8	20.5	(9.0)	10.4	17.6	10.6	(1.6)	9.6	(13.6)	25.7	32.8	1.1	9.6
Fuel consumption (retail)	6.9	5.0	0.1	2.6	4.9	5.4	4.3	4.0	3.4	7.0	2.8	4.8	6.7
FASTag (INR bn)	66.4	66.1	66.0	68.0	68.0	70.9	67.9	66.7	66.7	64.2	66.9	70.5	73.9
Labor market													
Naukri job index	8.7	3.9	4.0	(1.5)	8.9	0.3	10.5	6.8	3.4	10.1	(9.3)	23.5	13.2
All India unemployment rate (%)	7.8	7.9	8.4	7.7	7.7	6.9	7.5	6.8	6.3	6.4	7.5	6.5	6.9
- Rural	7.4	7.7	8.8	7.2	7.5	6.1	7.5	6.4	6.3	5.2	7.6	6.2	7.0
- Urban	8.4	8.4	7.8	7.6	8.1	8.4	7.6	7.5	6.4	8.6	7.4	7.0	6.8
Rural													
Two wheeler sales	(8.8)	2.1	(9.0)	11.4	(16.7)	2.2	(3.4)	8.7	7.1	6.7	2.1	21.2	39.4
Tractor sales	14.0	11.4	35.9	25.4	7.7	9.1	10.5	8.0	28.3	45.4	14.8	30.1	37.1
Employment demanded under MNREGA (sa, mn)	27.1	27.8	27.0	24.7	24.3	24.8	23.4	21.2	21.2	19.6	19.0	20.3	19.1
Fertilizer sales	10.7	7.4	3.5	(39.8)	(48.3)	(20.1)	11.8		37.7	(0.3)			

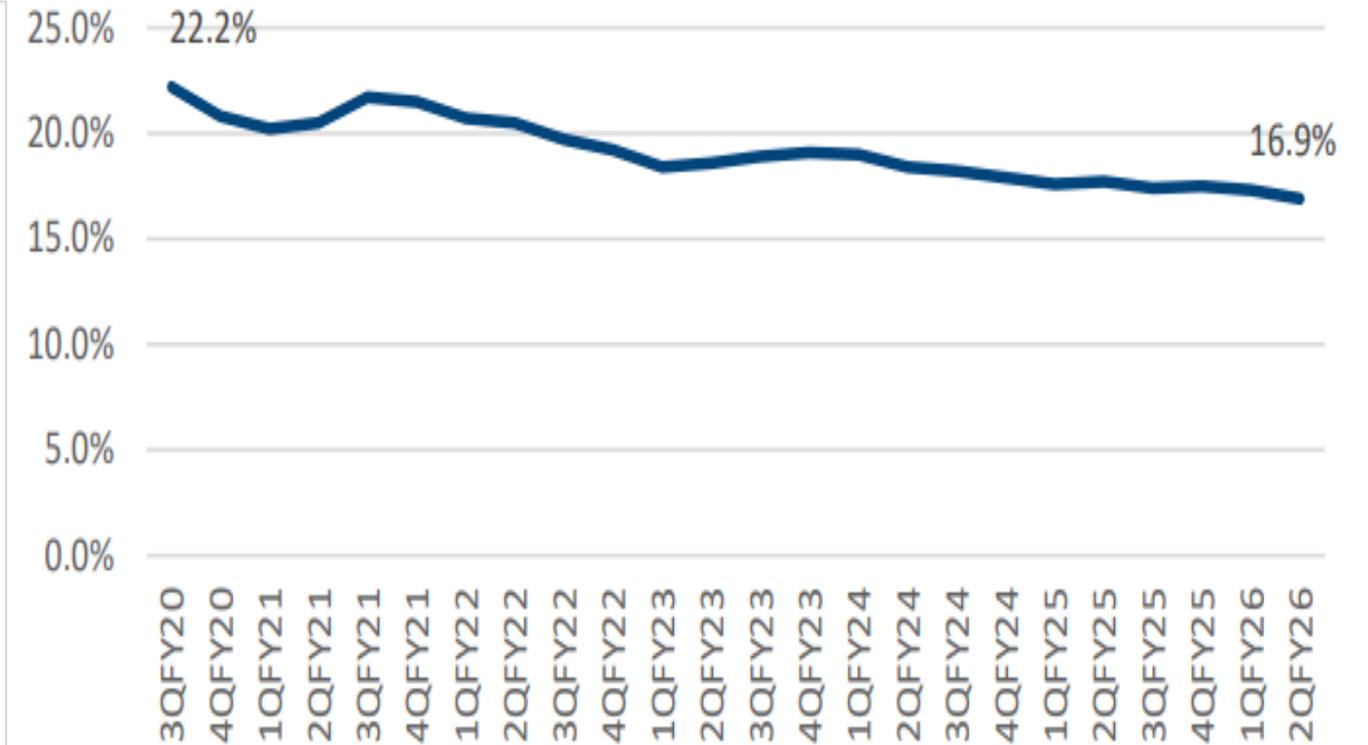
Flows

FPIs Remained Net Sellers on FYTD Basis, FPI Ownership Reduced



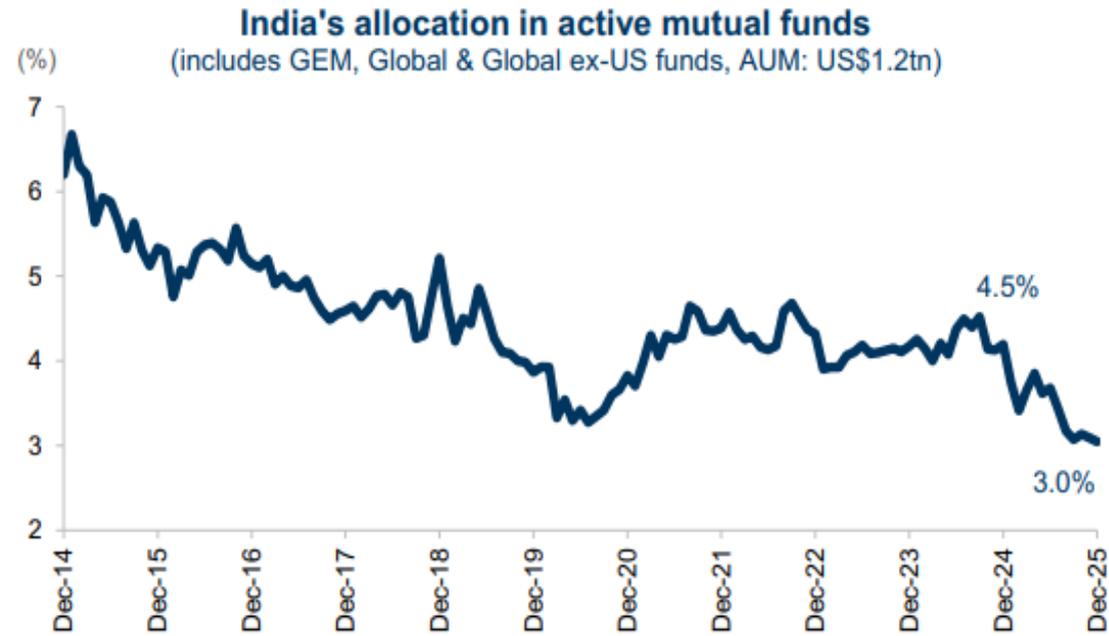
Source: NSDL, Axis Capital, NSE Market Pulse

NSE-listed universe: FPI Ownership trend by total mkt cap %



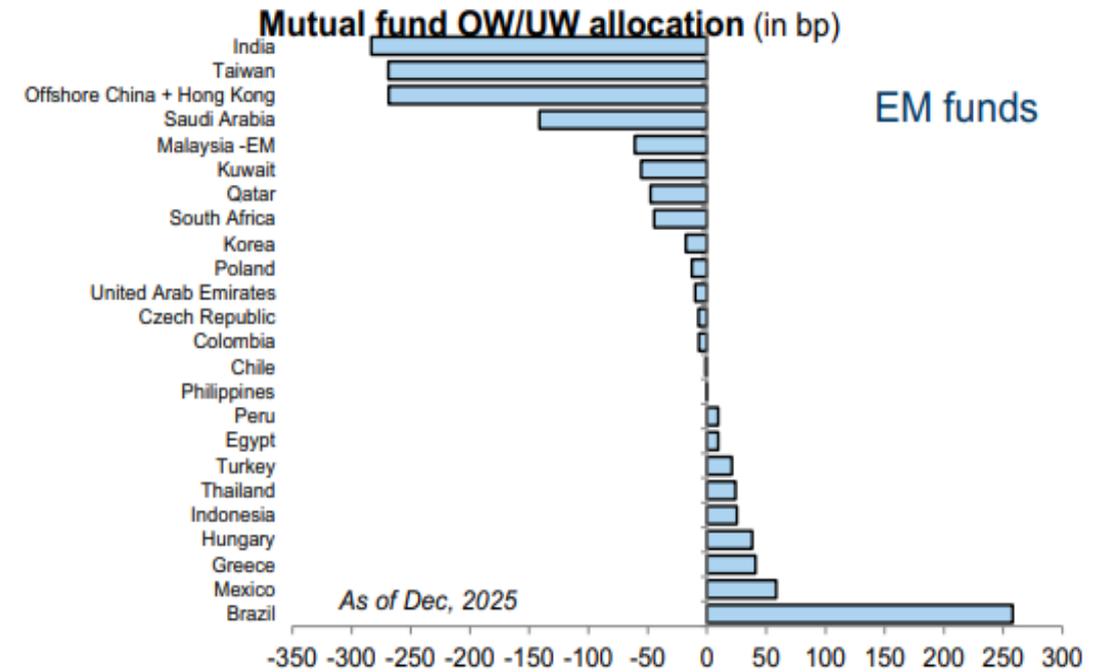
- FPIs have been net sellers so far in FYTD-26, with cumulative net outflows of over Rs. 94 thousand crore over 9 months (up to 14 Jan 2026). In contrast, DII flows have remained significantly positive, posting net inflows of Rs. 5,26,214 crore during the same period — reflecting strong domestic investor confidence.
- FPI ownership in NSE-listed companies fell to 16.9%, lowest in over 15 years

Exhibit 24: Active allocation by mutual funds globally towards India is down to a decade-low of 3%



Source: EPFR, Goldman Sachs Global Investment Research

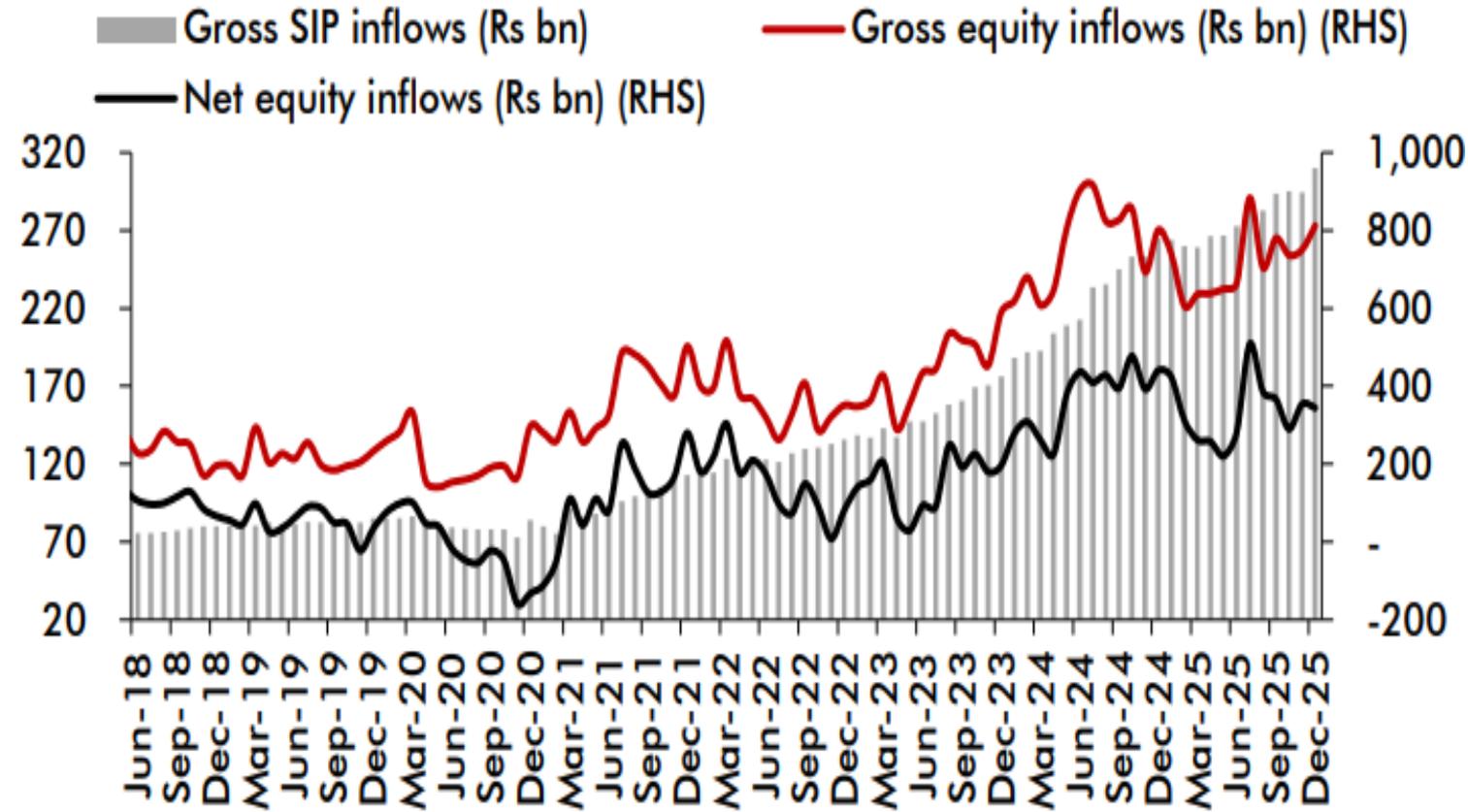
Exhibit 25: India is the most underweight market in EM funds



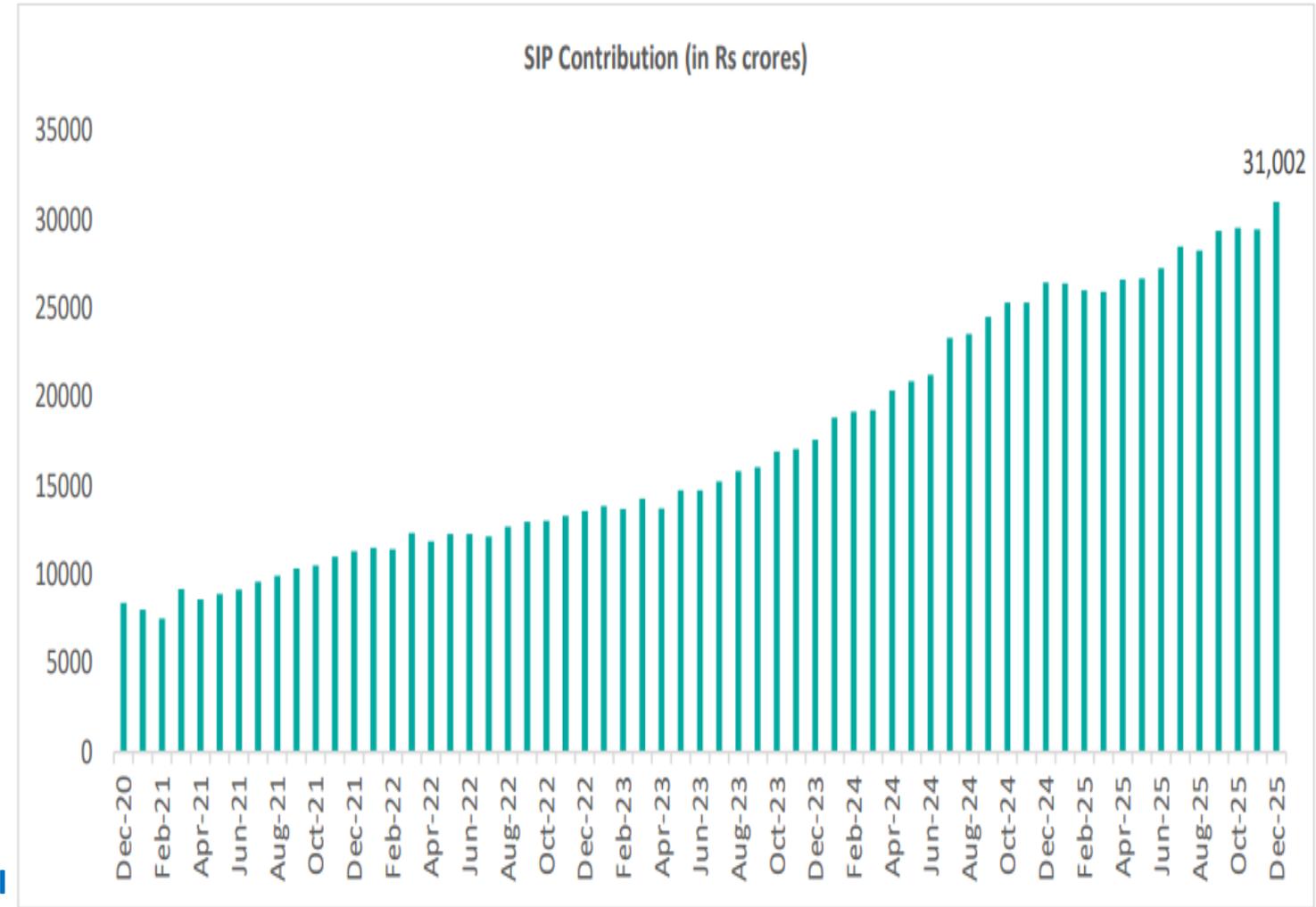
Source: EPFR, FactSet, MSCI, Goldman Sachs Global Investment Research

- Persistent FPI selling is one of the reasons contributing to India’s relatively underperformance in the last few months.
- Within Emerging market funds, India is currently the biggest underweight.
- India’s allocation in active mutual funds is currently at 10 year low levels.

Equity MFs net inflows (ex-arbitrage) (INR bn)



Monthly SIP Inflows trend (INR bn)



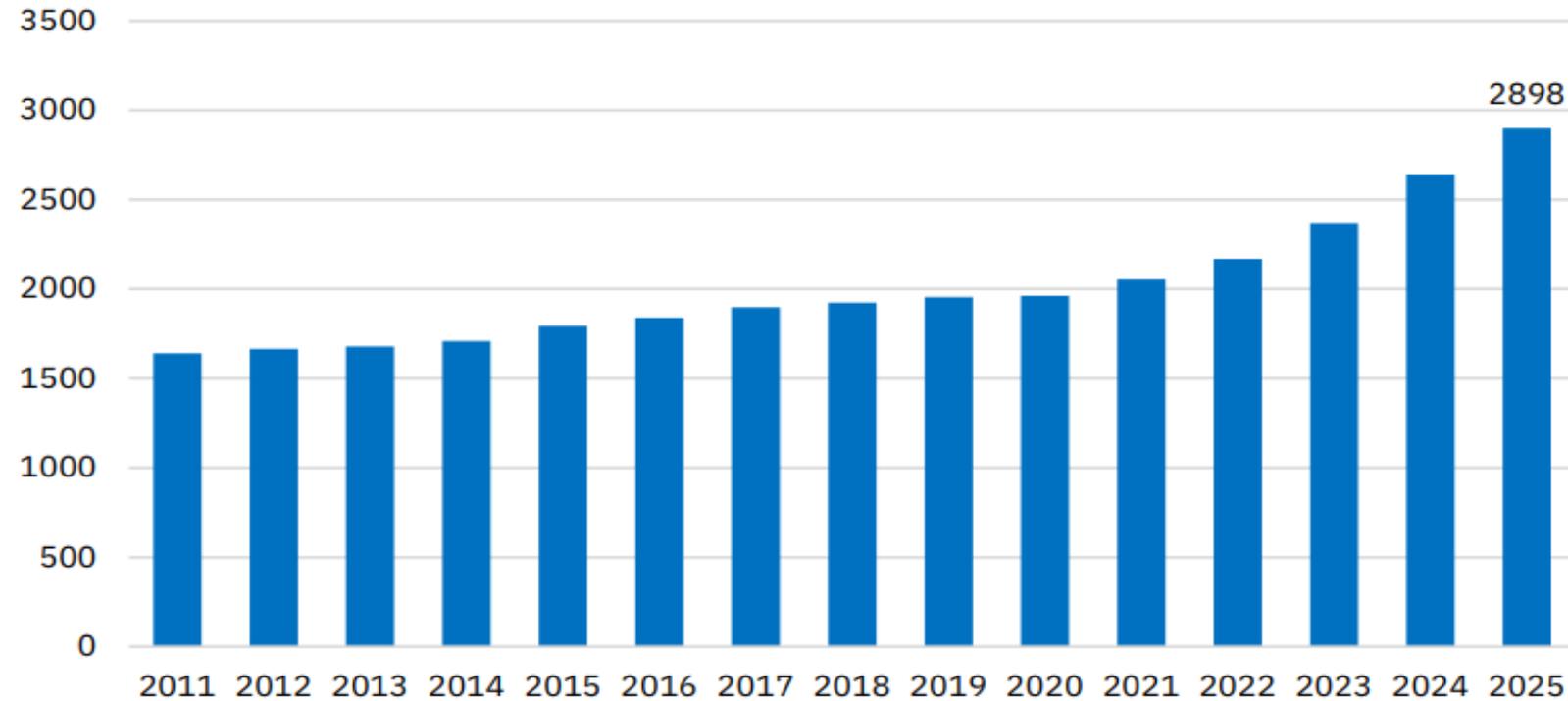
Source: AMFI, Bloomberg, Ambit Capital Research; Note: Net SIP account creation is calculated as no. of new SIPs registered minus no. of SIP accounts discontinued/tenure completed.

Source: AMFI

- In Dec-25, SIP flows hit lifetime highs at Rs310bn in Dec'25 after being flat over prior three months. Net equity inflows decreased in Dec'25 to Rs344bn vs Rs354bn last month
- **The domestic mutual fund industry's assets under management (AUM) stood at Rs 80.23 lakh crore in December 2025, up 19.9% YoY.**

Record IPO Activity and Broadened Retail Participation in 2025

Number of companies listed on NSE (Mainboard and Emerge)



Source: NSE EPR.

Listings snapshot

Total companies listed	2024	2025
Total no. of IPOs	268	220
Total amount raised through IPO (Mainboard + Emerge) (Rs crore)	1,66,873	1,78,029
No. of Mainboard IPOs	90	103
No. of SME IPOs	178	117
No. of direct listing	32	36
Total no. of companies newly listed on NSE*	300	256

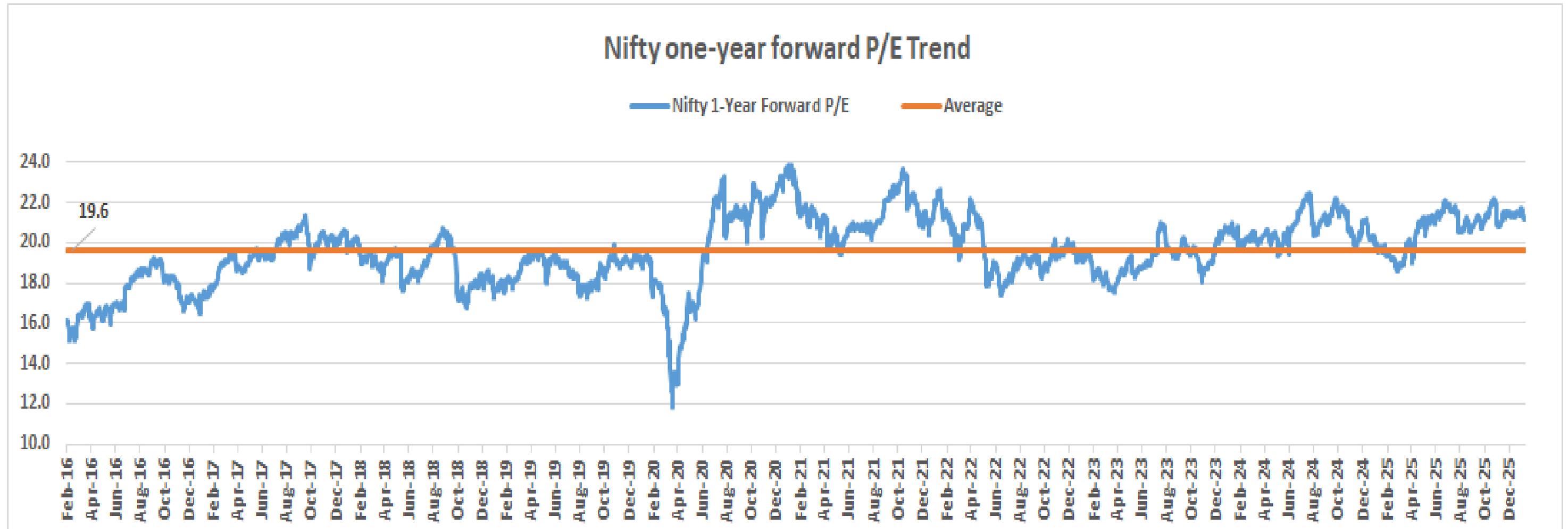
Source: NSE EPR.

* Data includes new listing through an IPOs and direct listings where companies were listed on the other exchanges and got listed on NSE without an IPO.

- The primary market saw its strongest-ever year with **103** mainboard IPOs in 2025, raising **₹1.7 lakh crore (+8% YoY)**. The average IPO size fell 6% to ₹1,672 crore, indicating a wider spread of deal sizes.
- Four IPOs exceeded **₹10,000** crore (vs. three in 2024), highlighting sustained demand for large issues. Retail participation deepened, with RII (Retail Individual Investors) allocation rising to 24% in 2025 (from 21% in 2024), up sharply from 11% in 2020 and 19% in 2021.

Valuations

Valuations Are Marginally Higher

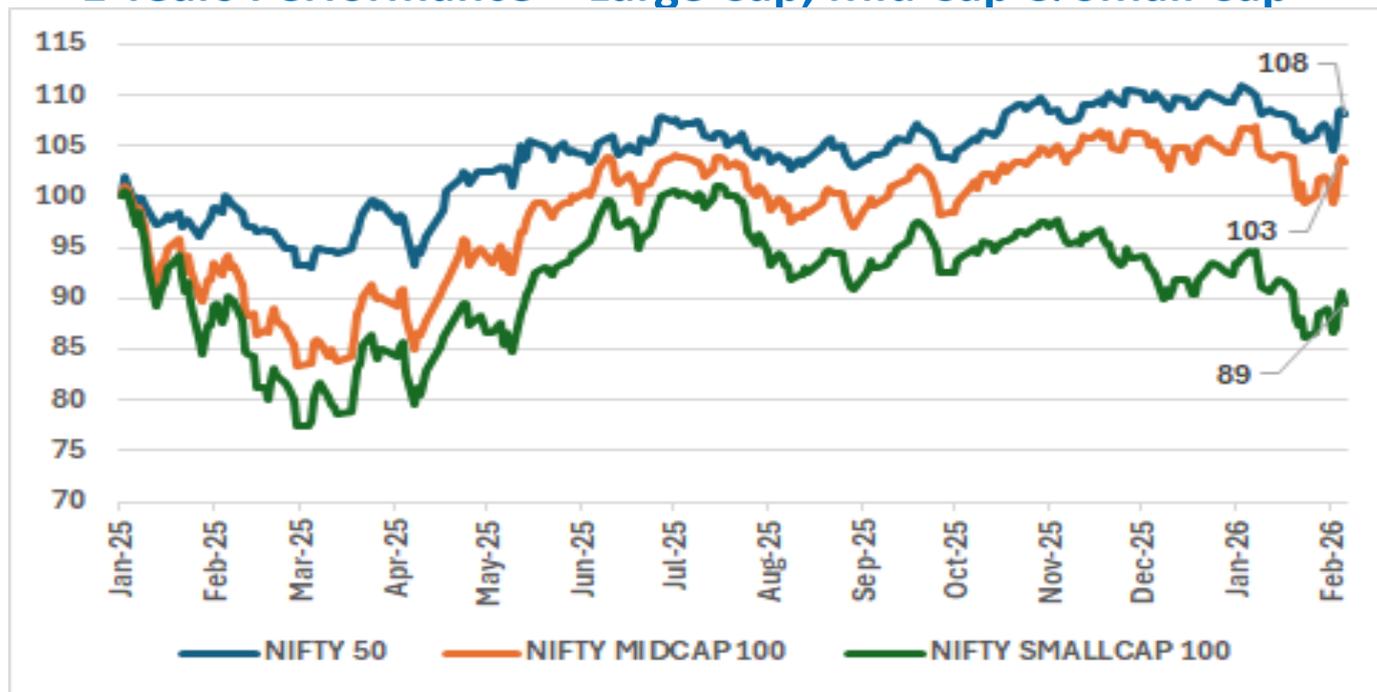


Source: Bloomberg, Bajaj Life Research, as on 5th Feb 2026

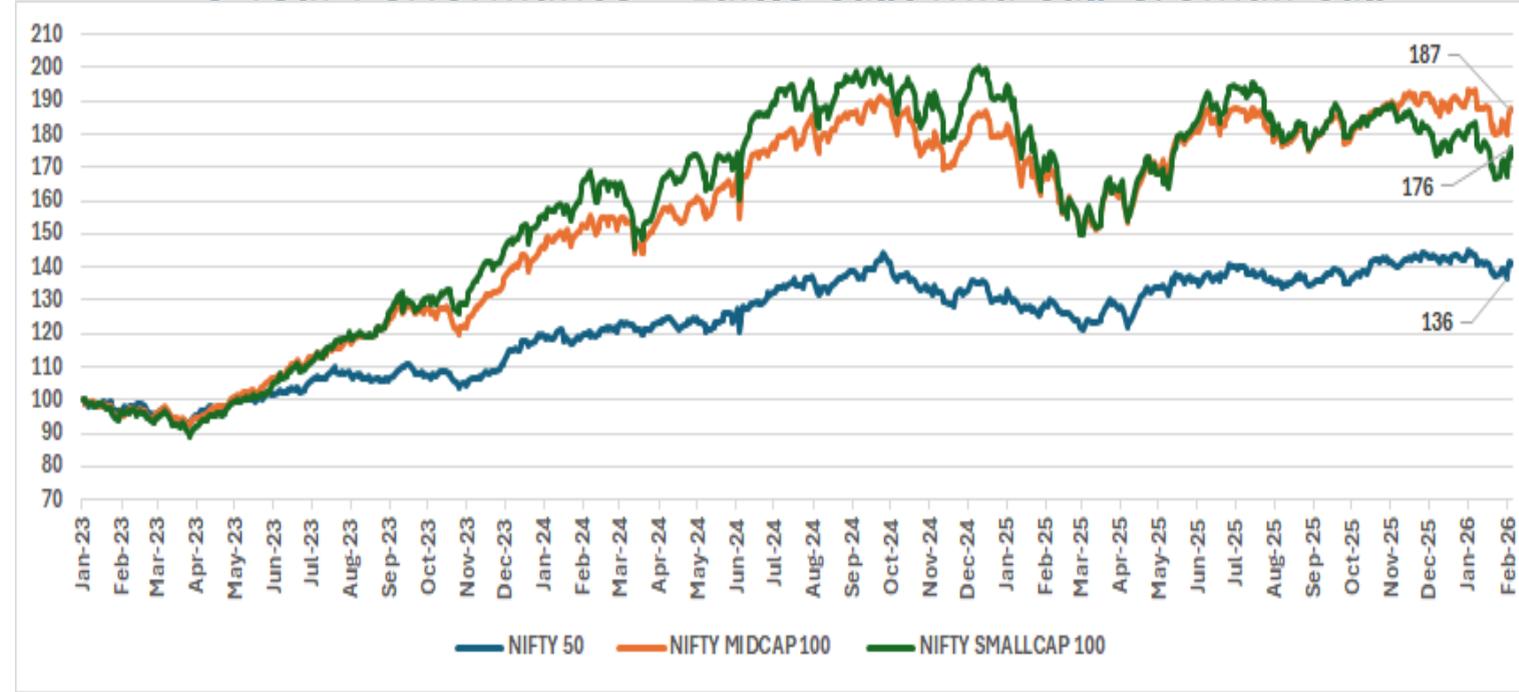
- The Nifty is trading at a 12-month forward P/E ratio of 20.6x, the valuations are marginally higher than its long term average of 19.6 x.

Mid & Small Caps Corrected Lately but Outperform Large Cap on 3 Year Basis

1 Years Performance - Large Cap, Mid Cap & Small Cap



3 Year Performance - Large Cap, Mid Cap & Small Cap



Source: Bloomberg, NSE, Bajaj Life Research, As on 5th Feb 2026

Index	P/E (Price/Earnings Per Share)
Nifty 50	22.04
Nifty Mid Cap 100	32.07
Nifty Small Cap 100	30.03

Source: NSE Factsheet as on 30-Jan-2026

- **Sustained Mid & Small Cap Outperformance:** Since January 2023 (over 3 years), Mid and Small Cap indices have significantly outperformed the Nifty 50. Mid Caps are up 87% and Small Caps 76%, compared to a 36% return for the Nifty 50.
- However, on 1 year basis, there is a significant correction noticed in Mid & Small Caps.
- Despite the recent correction, Mid and Small Cap indices continue to trade at historically high Price-to-Earnings (P/E) ratios, suggesting further room for correction.

In the long run, Markets follow earnings ...



- **Strong Correlation:** The Nifty 50 Index levels and its Earnings Per Share (EPS) have moved in close alignment over the past 15 years, indicating that market growth is fundamentally supported by corporate earnings.
- **Post-2020 Growth:** Both the index levels and EPS experienced a significant acceleration from mid-2020 onwards, with earnings more than tripling by early 2026, driving the sharp market rally.

.... But, Stock selection is critical to generate alpha

Particulars	5 Years Data*	
	NSE 100 Index	NSE 500 Index
Total no. of stocks	100	500
Stocks with negative returns	38	202
Stocks more than 10x	--	9
Stocks more than 5x	2	65
Median return of stocks	~111%	~111%
Absolute Returns*	~80%	~97%
Stocks down 20%	14	109
Stocks down 50%	4	22

Source: Bloomberg | Bajaj Life Research | * As on 12th Jan 2026

- Despite the broader markets delivering strong returns in the last 5 years (Nifty 100 = 81%, Nifty 500 = 97%) almost 40% of the Index constituents (by number) have delivered negative absolute returns during this period.
- On the other hand, **65 stocks within the Nifty 500 are up 5x during this period.**
- This highlights the importance of stock selection in generating equity alpha.

Market Outlook & View

- Equity markets corrected in January with the **Nifty50 and Midcap indices declining ~3% each** while the smallcap indices were down by ~5%.
- In terms of sectors, **PSU Banks (+6%) and Metals (+6%)** were the key outperformers while **Real Estate (-11%) and FMCG (-8%)** underperformed.
- **For the year 2025, Nifty50 delivered 10.5% returns.** Performance in the broader markets was divergent with the Midcap index up 5.7% while the Smallcap index was down 5.6%.
- **2025 marked the 10th consecutive year of positive returns for Nifty50. During this period, it has delivered ~14% CAGR returns with the best year being 2021 (+24%) and the worst 2016 (+3%).**
- The Union Budget continued the path of fiscal consolidation along with sustained investments in capital expenditure, however, the measures announced are unlikely to have meaningful impact on any sector in the near term.
- Equity markets and currency reacted positively to the reduction in US tariffs on India, however, just as the negative impact of the US tariffs was limited from an earnings perspective the upgrades to growth, earnings estimates would also be measured in our view.
- Nonetheless, the development is a sentimental positive and can potentially trigger a reversal in FPI flows that have been negative for a while now.
- There has been heightened volatility in asset prices in recent weeks, especially in metals and bullion. Global equity markets also continue to be strong, and India is again underperforming most global peers in the last three months.
- Though the development on the US-India tariff front is a positive surprise, outlook on corporate earnings revival has marginally weakened with Q3FY26 growth impacted by labor code provisions and no meaningful improvement in outlook by company managements.
- **Nifty50's current valuations at 19.9x one-year forward earnings** are at a small premium to long-term average which we believe will sustain.
- We maintain our moderately positive outlook on equities with a preference for largecaps. Continued **exuberant activity in the primary markets and further increase in global market volatility** are the key risks to our view.

- At this juncture we prefer largecaps vs small & midcaps owing to elevated valuations of the latter.
- Despite some correction in recent months, small and midcaps are still outperforming largecaps substantially on a 3-year basis.
- Higher valuations of small and midcaps are supported by significantly higher earnings growth expectations from them over the next 12-24months. Any slippage on these expectations can result in broader correction in the small and midcap space, in our opinion.

Sector preferences

- **Autos** – Distinct beneficiary of the recent GST rate cut, strong earnings' visibility over the next 12-18months.
- **Banks** – Credit growth has started to recover; asset quality continues to be benign. Most banks are well capitalized and are trading at reasonable valuations.
- **Consumer discretionary** – Consumer durable stocks have corrected sharply post the failed summer in 2025 and valuations now appear reasonably attractive.
- **Pharma** – Sector enjoys strong global competitive advantage. Valuations attractive post the recent time correction.
- **Telecom** – Strong operating environment for the incumbents allowing them to take price hikes translating in higher ARPUs.

- **Domestic Inflation: Headline Inflation is normalizing** closer to RBI mandate of 4%
- **India US Trade Tariff:** India's tariff is proposed to **reduce to 18% from 50%**, this will **support growth** in FY27
- **Banking system Liquidity:** Durable Surplus in the system is to **the tune of ~ Rs 2.50 trn**
 - RBI continues to provide liquidity by various measures **including OMO of ~Rs. 7 trln in FY26**
- **RBI MPC-**
 - RBI has cut total Repo **rate by 125 bps to 5.25%**, since Feb 25 to support growth
 - RBI projects GDP growth at 7.4% for FY26 and for FY27, **Q1 at 6.9% and Q2 at 7.0%** respectively
 - RBI projects inflation at 2.10% for FY 26, and for FY27, **Q1 at 4.0% and Q2 at 4.2%** respectively
 - With growth inflation normalizing to RBI target, we **believe RBI rate cut cycle is over**
 - RBI is expected to maintained repo rate at current level for FY27
- **Budget 2026-27-**
 - Govt continued with fiscal consolidation, fiscal deficit **projected at 4.4% for FY26 and 4.3% for FY27** respectively
 - Gross borrowing is **on higher side at Rs. 17.2 trln** on account of Rs. 5.5 trln maturities for FY27
- **Demand Supply Mismatch-**
 - Gsec yields remains elevated, in spite of rate cut & OMO purchase by RBI, on account of demand supply issues
 - Total center and state combined gross borrowing is expected to **be at Rs ~30 trln for FY27**, which will keep bond yield at elevated level
- **Rates outlook :** We expect 10-year G-Sec in the **range of 6.60% to 6.90%**.
- **Positions:** Based on the above outlook, we continue to prefer accrual strategy with 1-3 years corporate bonds
- **Key risks :** Higher inflation, global geopolitical uncertainties and fiscal policies by state government

- We currently have a moderately positive outlook on equities.
- In the long run, equities have delivered superior returns compared to other asset classes thereby resulting in substantial wealth creation.
- We expect this trend to persist even going ahead. However, we also acknowledge that ‘equities’ are an asset class with reasonably high risks which can result in intermittent periods of subpar returns.

Some of the key risks to our current equity outlook

- **Global correction** – Though Indian markets did not participate meaningfully in the recent AI-driven global rally, a deeper global correction triggered by the unwinding of the AI-trade might negatively impact Indian markets as well.
- **Sub par earnings growth** – Earnings growth for Corporate India is expected to recover sharply in FY27 and FY28 on the back of the full impact of the fiscal and monetary measures announced in recent months. A failure of this expected earnings growth recovery would have a negative impact on equity returns.
- **Elevated supply in primary markets** – Continued supply of new equity in the form of IPOs and QIP can pose a risk to secondary (listed) market performance. Similarly, sell downs by Promoters and Private Equity players are also partly absorbing the strong domestic flows prevalent in recent years and limiting upside in secondary markets.
- **Geopolitics** – Geopolitics in the Indian sub-continent remains volatile. Any negative developments on this front pose risks to Indian equity markets.

Thank you