

MARKET REVIEW

January - 2026

Macroeconomic Update

Growth in US continues to hold up well as suggested by strong readings in both manufacturing and services PMI. Labour markets in US, though weak, seem to have stabilised. Wage growth continues to be strong, and this is reflected in strong retail sales. Growth in EU too continues to hold up well as reflected by strengthening services activity and a gradual rebound in manufacturing. On the other hand, growth in China continues to be weak as domestic consumption demand continues to be dragged down by weak property markets.

Inflation in US and EU remained contained and in line with expectations. On the other hand, China's consumer prices rose to 34-month high, but producer prices remained in deflationary zone. Fed kept the policy rates unchanged in its latest meeting and is expected to keep status quo on rates in the coming months. ECB too is expected to be on a pause on rates throughout 2026.

Government stuck to fiscal consolidation path: The Government stuck to fiscal deficit target for FY26 despite large shortfall in tax revenue through a mix of reduced expenditure and higher non-tax revenue. For FY27, the Government adhered to fiscal consolidation path by targeting fiscal deficit of 4.3% of GDP (vs 4.4% of GDP in FY26) and reiterated its commitment to bring down Central Government debt to GDP to 50% (+/-1%) by FY31. Government has assumed tax revenue growth of 8% YoY in FY27 - compared to a nominal GDP growth assumption of 10% - which appears realistic. However, gross borrowing target of Rs. 17.2 trillion was higher than market expectations.

INR trillion	FY25 Actual	FY26RE	FY27BE	FY26RE over FY25 Actual	FY27BE over FY26RE
Gross tax collection	38.0	40.8	44.0	7.4%	8.0%
Total Direct Tax	22.2	24.2	27.0	9.0%	11.4%
Corporate Tax	9.9	11.1	12.3	12.4%	11.0%
Personal Income Tax	12.4	13.1	14.7	6.2%	11.7%
Total Indirect Tax	15.6	16.4	16.8	5.2%	2.3%
GST	10.3	10.5	10.2	1.9%	-2.6%
Less: Share of States & others	13.0	14.0	15.4	8.2%	9.6%
Net Tax collection	25.0	26.7	28.7	7.0%	7.2%
Non-Tax Revenue	5.4	6.7	6.7	24.4%	-0.2%
Total Revenue Receipts	30.4	33.4	35.3	10.1%	5.7%
Capital Receipts	0.4	0.6	1.2	53.1%	84.9%
Divestments	0.2	0.3	0.8	96.7%	136.4%
Total Receipts	30.8	34.1	36.5	10.7%	7.2%
Revenue Expenditures	36.0	38.7	41.3	7.4%	6.6%
Capital Expenditures	10.5	11.0	12.2	4.2%	11.5%
Total Expenditures	46.5	49.6	53.5	6.7%	7.7%
Gross Fiscal Deficit	15.7	15.6	17.0	-1.0%	8.8%
Fiscal Deficit as % of GDP	4.8%	4.4%	4.3%		

Source: Union Budget documents. Note: RE refers to revised estimates, BE refers to Budget Estimates

Macroeconomic Update (contd...)

Indian economic activity remained upbeat in Jan: The high frequency indicators for January suggest that growth continues to hold up well. The effect of tax cuts on demand is clearly visible especially on vehicle registrations which continue to post strong growth for fourth month in a row (GST cuts became effective on 22nd September 2025). Power demand too continues to hold up and GST collections seems to have stabilised.

Indicators	Units	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Retail registration - Auto [®]									
2W	YoY, %	5.2	-6.1	2.7	7.3	52.6	-2.6	10.2	20.6
PV		5.9	1.9	4.3	10.2	15.0	22.6	28.4	6.0
MHCV		4.4	0.8	10.7	-1.3	-1.2	22.6	28.2	14.7
LCV		7.0	2.9	8.3	2.3	27.4	21.0	25.7	5.1
Tractors		8.3	10.7	29.8	2.4	13.8	56.1	15.0	22.6
Gross GST Collection		6.2	7.5	6.5	9.5	4.6	0.7	6.1	6.2
Average E-Way bill generated		19.3	25.8	22.4	21.0	8.2	27.6	23.5	15.8
Power demand		-1.5	2.1	4.3	3.2	-6.0	-0.8	6.1	3.9
Digital Spending (UPI + IMPS)		16.5	18.2	16.8	17.4	13.1	19.7	18.2	18.7
Railway Freight Tonnage		1.4	1.8	5.5	11.8	4.6	6.9	4.9	2.7
Manufacturing PMI [^]		Index	58.4	59.1	59.3	57.7	59.2	56.6	55.0
Services PMI [^]	Index	60.4	60.5	62.9	60.9	58.9	59.8	58.0	58.5
Unemployment *	%	7.7	7.8	6.4	8.6	7.5	6.5	6.9	6.9

Source: www.gstn.org.in, www.icegate.gov.in, CMIE, PIB, RBI, www.vaahan.parivahan.gov.in, www.posoco.in

[^]Number >50 reflects expansions and number <50 reflects contraction compared to previous month. @ - figures are preliminary data and are subject to revision. * based on CMIE survey

Going forward, demand is likely to remain healthy on the back of tax cuts, lagged effect of monetary easing and key trade deals especially that with US and EU. Also, prospects of a good rabi harvest and low inflation are likely to keep rural demand buoyant.

Tax revenue growth picks up in December: Tax revenue growth picked up significantly in December led by GST collections. GST collections were higher due to higher-than-expected jump in IGST collections most probably due to withholding of refunds to states. On the spending side, the Government has shown restraint. While capex growth has started moderating post front loading in the first half of the fiscal, revenue expenditure is up just 1.8% YoY in 9MFY26.

INR bn	9MFY25	9MFY26	YoY growth (%)
Gross tax revenue	27,504	29,843	8.5
Direct Tax Collections	15,787	17,055	8.0
Indirect Tax collections	11,257	12,359	9.8
Less: Share of states & others	9,074	10,450	15.2
Net Tax collections	18,431	19,393	5.2
Non-Tax revenues	4,477	5,399	20.6
Total revenue receipts	22,907	24,791	8.2
Total Capital receipts	273	460	68.7
Total Receipts	23,180	22,252	8.9
Total Revenue Expenditure	25,468	25,931	1.8
Total Capital Expenditure	6,853	7,879	15.0
Total Expenditure	32,321	33,810	4.6
Fiscal Deficit	9,141	8,558	-6.4
Fiscal deficit (% of RE)	58.2%	53.9%	
Fiscal deficit (% of GDP)	2.8%	2.4%	

Source: CMIE

According to revised estimates for FY26, the Government has indicated that it will adhere to the fiscal deficit target of 4.4% of GDP despite shortfall in tax revenue. This will be achieved through a combination of expenditure cut (largely revenue expenditure) and higher non-tax revenue.

Macroeconomic Update (contd...)

Retail inflation remains benign: Headline CPI inflation rose marginally in December as deflation in food prices was lower compared to November. CPI inflation is likely to rise from hereon but will likely remain contained and close to RBI's target. It is worth noting that Ministry of Statistics and Program Implementation (MoSPI) will come up with new CPI series (base year 2023-24) from this month onwards which will rejig the weights of the CPI components. The weight of food items is set to decrease in the new series while that of non-food items will go up.

Trade deficit remains steady: Trade deficit in December was marginally higher than November but has fallen significantly since the high recorded in October. Going forward, trade deficit is likely to remain rangebound and healthy growth in services exports is likely to keep Current Account Deficit (CAD) within manageable levels. Trade dynamics will also get a boost from key trade deals announced recently.

Commodity prices: Crude prices climbed 16% in January due to escalating US-Iran tensions. Metals related to new-age sectors like AI and renewables continue to rise while prices of steel remain subdued.

YoY, %	Nov-25	Dec-25	Change in %
CPI	0.7	1.3	0.6
Food & beverages	-2.8	-1.8	0.9
Fuel and Light	2.3	2.0	-0.3
Housing	3.0	2.9	-0.1
Transportation & communication	0.9	0.8	-0.1
Core-Core CPI [®]	2.7	2.9	0.2

Source: CMIE; @-CPI excluding Food, Fuel & light, Petrol, Diesel, Gold and Silver

Amount in USD billion	Nov-25	Dec-25	Change
Trade (Deficit) / Surplus	24.5	25.0	0.5
Net Oil Imports	10.2	10.0	-0.2
Net Gold Imports*	4.3	4.3	0.0
NONG net imports [^]	10.1	10.7	0.6

	Market price (USD)*	Feb-26 (%) [^]	FY26YTD (%) [^]
Brent Crude (per barrel)	70.7	16.2	-5.4
Gold (per ounce)	4,894	13.3	56.7
Steel (per tonne)	471	0.8	1.4
Zinc (per tonne)	3,394	10.1	19.7
Copper (per tonne)	13,370	6.9	38.2
Aluminium (per tonne)	3,117	5.0	23.8
Lead (per tonne)	1,957	-0.3	-2.2

Source: *Market prices as on January 31, 2026, [^]YoY change

Summary and Conclusion

Global growth continues to hold up well led by the US. However, uncertainty remains high amidst geopolitical realignments and risk of flare ups. India and US reached an agreement on the trade deal where US will lower tariff from 50% to 18% though details on the same are awaited. The US President's announcement that Kevin Warsh will replace Jerome Powell as Fed chair adds another layer of uncertainty regarding Fed's policy going forward. Growth in China is following a two-speed path where domestic consumption and property markets are in a slow lane, but exports and manufacturing are holding up well.

Growth in India has held up well on the back of fiscal (income tax and GST cuts) and monetary (lowering of interest rates) stimulus. High frequency indicators have steadily improved over the last few months with rural demand continuing to hold up well and urban demand too showing signs of uptick. Inflation remains well anchored and though it's expected to rise from here on due to base effect, it's likely to remain close to RBI's target of 4%.

Looking ahead, India's growth is likely to be steady as Government continues take up reform measures. Monetary easing too will continue to boost demand this year as monetary policy works with a lag. Several trade deals, especially those with the EU and US, will also support growth going forward. Overall, medium-term outlook for the Indian economy seems optimistic, in our view.

Equity Market Update

The month of January witnessed broad based decline for Indian equity markets. While Nifty 50/Sensex declined by 3.1%/3.5% respectively, small caps witnessed a decline of 4.7%. Metals and Banks outperformed while FMCG, healthcare and Autos underperformed.

Almost all global equity markets ended the month with gain except the French markets. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	Jan-26	FY26TD
BSE Metal	5.5	26.0
BSE Bankex	0.5	12.6
BSE Information Technology	-0.3	1.4
BSE Capital Goods	-0.7	6.3
BSE Power	-1.7	-3.0
BSE Oil & Gas	-2.1	11.9
BSE Auto	-5.2	24.3
BSE Healthcare	-5.6	-0.2
BSE Fast Moving Consumer Goods	-7.9	-3.6
BSE Sensex	-3.5	6.3
NSE Nifty 50 Index	-3.1	7.7
NIFTY Midcap 100	-3.4	13.1
NIFTY Smallcap 100	-4.7	4.9

% Change	Jan-26	FY26TD
KOSPI	24.0	110.6
MSCI Emerging Markets	8.8	38.7
Hang Seng	6.9	18.5
Nikkei 225	5.9	49.7
Shanghai Composite	3.8	23.4
FTSE 100	2.9	19.1
S&P 500	1.4	23.6
NASDAQ Composite	0.9	35.6
DAX	0.2	10.7
CAC 40	-0.3	4.3

Source: Bloomberg

FII sold net equities worth USD 3.2 billion in January 2026 (December 2025 net sold: USD 2.6 billion) and have cumulatively sold equity worth USD 8.6 billion in 10MFY26 (10MFY25: USD 10.6 billion).

DII bought net equity worth USD 7.6 billion in January 2026 (December 2025: USD 8.8 billion) and have cumulatively bought USD 76.1 billion in 10MFY26 (10MFY25: USD 59.9 billion). Net flows into Mutual funds were ~INR 34,432 crore in December 2025 (November 2025: ~INR 35,375 crore & December 2024: ~INR 44,023 crore) cumulatively amounted to ~INR 300,916 crore in 9MFY26 (9MFY25: ~INR 358,162 crore).

Outlook

As on January 30, 2026, NIFTY 50 Index was trading at ~19.85x one year forward price to earnings multiple. Further, Market cap-to-GDP stood ~117% (based on CY26 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield* has narrowed recently [$*Earnings\ yield = 1 / (one\ year\ forward\ P/E)$].

Chart 1

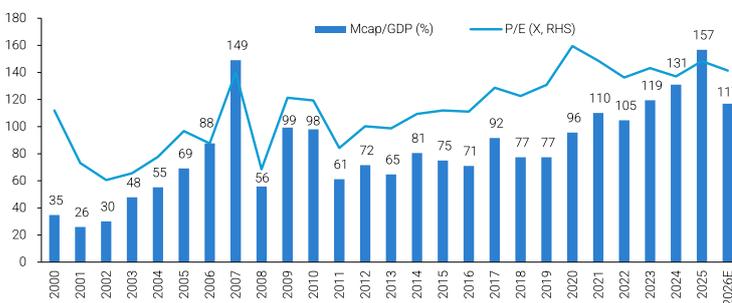
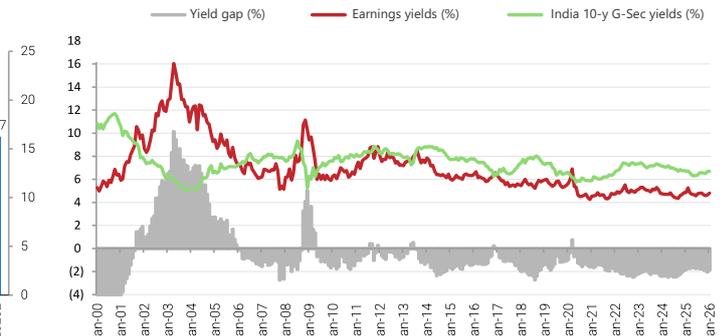


Chart 2



Source: Kotak Institutional Equities; For 2025 and 2026, the market cap as on January 31, 2026 is taken and divided by GDP estimates for CY25 and CY26

Equity Market Update (contd...)

As of January 30, 2026, the valuations of all sectors except FMCG, Consumer discretionary and Private Banks are trading at a premium to historical average (refer to the table below for details):

	12 months forward Price To Earnings		
	30-Jan-26	LTA	Discount / Premium [^]
Cement	41.3	31.1	32.6
PSU banks [@]	1.4	1.1	29.4
Utilities	14.9	11.5	29.0
Metals	12.8	10.1	26.4
Industrials	31.8	27.3	16.5
Pharma	27.1	24.4	11.3
Automobiles	22.3	20.6	8.7
Energy	13.7	12.8	6.6
Tech	21.3	21.2	0.6
FMCG	36.2	36.5	-0.8
Consumer Discretionary	54.2	55.5	-2.4
Pvt Banks [@]	2.2	2.5	-11.7

Source: Kotak Institutional Equities. Stocks are part of Kotak Institutional Equities universe.

LTA – 10 Years average. Cells in green are sectors which are trading at premium. All figures are calculated based on 12 months forward estimates.

[^]to Long term (LT) average, [@]-Price to Book value

Given the global uncertainties and aggregate valuation being higher than historical average, the importance of stock selection increases even more.

Over medium to long term, we remain optimistic on Indian equities considering key trade deals, attractive domestic growth outlook, healthy corporate profitability, and supportive pro-growth policies like income tax and GST relief to consumers and renewed reform momentum. However, near-term risks include risk of geo-political flare ups and cyclical moderation in corporate earnings.

Debt Market Update

10-year Government bond yield in India rose by 11bps during the month ending at 6.7% and 10-year AAA corporate bond yields rose by 16bps. This led to spread between 10-year AAA and 10-year G-sec widening by 5bps. Key events which influenced yields during the month are RBI OMO purchase of Government of India securities and announcement of India EU trade deal framework. The table below gives a summary view of the movement of key rates and liquidity:

	Dec-25	Jan-26	Change (in bps)
MIBOR Overnight Rate (%)	5.67	5.53	-0.14
3M Gsec yield (%)	5.26	5.50	-0.24
10Yr Benchmark G-Sec Yield [^] (%)	6.59	6.70	0.11
AAA 10Year Corporate Bond Yields ^{#, &} (%)	7.23	7.39	0.16
AAA 10Y Corporate bond spread against 10Y benchmark [@] (bps)	64	69	5
Average net liquidity absorbed/infused by RBI* (INR billion)	702	618	

[^]-bi-annual yield; [#]-annualised yield; & - Average yield of NABARD paper provided by independent valuation agencies has been taken. [@] - Spreads calculated by subtracting non-annualised Gsec yields from annualised corporate bond yields.

*Average net daily liquidity infused / absorbed through Liquidity Adjustment Facility, exports refinance, marginal standing facility and term repos/reverse repos. Source: Bloomberg, RBI

Average net liquidity surplus was ~INR618bn in January 2026 compared to ~INR702bn in December 2025.

In the debt market, FPIs ended the month with net buying of USD 0.8 billion in January 2026 (December 2025 net sold: USD 1.3 billion).

Outlook

Fixed income market outlook

The Union budget for FY27 was presented in the backdrop of rising Government bond yields especially at the longer end. While FY27BE's fiscal deficit target was largely in line with market expectations, the gross borrowing numbers projected were higher than expectations. This is due to the Government estimating lower financing from small savings funds.

The RBI's decision to keep the policy rate and stance unchanged in its latest Monetary Policy Review review was on expected lines. Though RBI has indicated that it will remain data dependent from hereon, the upgrade in forecast for both inflation and growth suggests that the RBI is likely to go on a long pause.

On the positive side the Government stuck to fiscal targets in FY26 despite a shortfall in tax revenue. Going forward, the finance minister reiterated commitment to the fiscal consolidation path with the aim of bringing down debt/GDP to 50% (+/-1%) by FY31. This gives Government flexibility to follow counter cyclical fiscal policy while remaining on a declining debt to GDP path. However, it is to be noted that the pace of fiscal consolidation from hereon will be slow compared to previous years. Furthermore, in its latest monetary policy review RBI reiterated that it will '*remain proactive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy and to facilitate monetary policy transmission*'.

Outlook: In our view, medium term outlook on Indian fixed income market remains favourable, considering:

- Benign inflation outlook likely to persist and average near RBI's target of 4% in H1FY27
- Liquidity is likely to be in ample surplus in the coming few months in view of constant assurance by RBI governor to maintain sufficient surplus to meet the real economy needs
- A trade deal with US likely to improve sentiments and lead to higher capital inflows
- Higher than budgeted flows from small savings schemes can lead to lower borrowing calendar than expected

Debt Market Update (contd...)

Key risks to the favourable outlook:

- Weather related uncertainty leads to rise in food prices
- Growth surprises on the upside especially after trade deals with US and EU
- Flare up in geopolitical tensions leads to rise in commodity prices

Overall, in our view, yields on the shorter end are likely to have a downward bias as RBI ensures sufficient liquidity, inflation remains close to target and Government expenditure at the end of the fiscal year augments liquidity. However, yields on the longer end is likely to remain under pressure due to large supply and muted demand from long term players. Also, the recent liquidity-driven repricing has resulted in short to medium term CD / bond yields trading at attractive spreads over the policy repo rate/Gsec. Hence, the investment in short duration fund category of schemes appears to be a good investment opportunity. If the investment horizon is between 3 to 12 months, then one can consider Money Market, Low duration and /or Floating Rate Debt fund. However, if one has investment horizon of more than 12 months, one can also consider Short Term Debt, Banking and PSU debt and /or Corporate Bond category of fund.

Glossary

AE	Advanced Economies
BoE	Bank of England
BoJ	Bank of Japan
BoP	Balance of Payment
bps	Basis points
CAGR	Compound Annual Growth Rate
CMIE	Centre for Monitoring Indian Economy
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CV	Commercial Vehicle
DIIs	Domestic Institutional Investors
EA	Euro Area
ECB	European Central Bank
FOMC	Federal Open Market Committee
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
GFCE	Government Final Consumption Expenditure
GST	Goods and Services Tax
GVA	Gross Value Added
IMD	India Meteorological Department
INR	Indian Rupee
IMF	International Monetary Fund
IMPS	Immediate Payment System
JGB	Japanese Government Bonds
LCV	Light Commercial Vehicle
Mbpd	Million Barrels Per Day

MHCV	Medium and Heavy Commercial Vehicle
MIBOR	Mumbai Interbank Offered Rate
M-o-M	Month on Month
MPC	Monetary Policy Committee
MSP	Minimum Support Prices
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NFP	Non-Farm Payroll
NONG	Non-Oil Non-Gold
NSO	National Statistical Organization
OMO	Open Market Operation
PIB	Press Information Bureau
PLI	Production Linked Incentive
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PSU	Public Sector Undertaking
PV	Passenger Vehicle
RBI	Reserve bank of India
RE	Revised Estimates
RRR	Reserve Ratio Requirement (for banks in China)
SLR	Statutory Liquidity Ratio
UPI	United Payments Interface
US	United States of America
USD	United States Dollar
UST	US Treasuries
YoY	Year on Year

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