



# MARKET REVIEW

## February - 2026

### Macroeconomic Update

The ongoing conflict in West Asia poses fresh challenges for World Economy as energy supply chain gets disrupted. So far, growth in US continues to hold up well as suggested by strong readings in both manufacturing and services PMI for February. Labour markets in US, though remain weak as evidenced by low non-farm payroll additions and inch up in unemployment rate. Although the dominant services sector saw a slight underperformance, manufacturing in the EU continued to hold up well. 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, CPI inflation in China undershot market expectations due to sharp decline in food prices. While ECB kept its policy rates unchanged in Feb'26, all eyes would be on US Fed's Mar'26 meeting, the first one post the US Supreme Court ruling against Trump's tariffs.

#### New revamped GDP series:

The Government released the new GDP series with 2022-23 as base year (from 2011-12 earlier). The Government not only changed the base year but also incorporated significant methodological changes in the new series to make GDP measurement more robust and reflective of changes which has taken place in the past decade. The new GDP series confirms continued growth momentum. Q3FY26 real growth came in at a strong 7.8% YoY (as against growth of 8.4% in Q2). Full year FY26 GDP growth is estimated at 7.6% (from 7.4% in old series) implying a growth rate of 7.6% in Q4. GDP growth in Q3 was driven by strong growth in private consumption and investment demand. On supply side, both Manufacturing and Services sector posted strong growth.

Quarter ended (YoY, %)	Sep-25	Dec-25	Quarter ended YoY, (%)	Sep-25	Dec-25
<b>GDP</b>	8.4	7.8	<b>GVA</b>	8.6	7.8
Private Consumption	8.0	8.7	Agriculture, Forestry and Fishing	2.3	1.4
Government Consumption	6.6	4.7	Industry	10.6	9.7
Gross Capital formation	6.8	7.7	Manufacturing	13.2	13.3
Gross Fixed Capital Formation	8.4	7.8	Construction	8.7	6.6
			Services	9.3	9.5
Exports	10.2	5.6	Trade, Hotels, Transport, etc.	10.4	11.0
Imports	5.9	8.6	PADO	6.9	4.5

**High frequency indicators point towards continued growth momentum:** The high frequency indicators for February 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 fifth month in a row. Power demand too continues to hold up well while GST collections has also picked up and is being sustained.

## Macroeconomic Update (contd...)

Indicators	Units	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
Retail registration - Auto <sup>®</sup>									
2W	YoY, %	-6.1	2.7	7.3	52.6	-2.6	10.3	21.2	25.1
PV		1.9	4.3	10.2	15.0	22.7	28.8	8.9	25.3
MHCV		0.7	10.7	-1.3	-1.2	22.6	28.1	15.1	36.1
LCV		2.9	8.3	2.3	27.4	21.1	25.8	5.8	31.4
Tractors		10.7	29.8	2.4	13.8	56.1	15.0	22.7	36.5
Gross GST Collection		7.5	6.5	9.5	4.6	0.7	6.1	6.2	8.1
Average E-Way bill generated		25.8	22.4	21.0	8.2	27.6	23.5	15.8	18.8
Power demand		2.1	4.3	3.2	-6.0	-0.8	6.1	3.9	4.9
Digital Spending (UPI + IMPS)		18.2	16.8	17.4	13.1	19.7	18.2	18.7	20.6
Railway Freight Tonnage		1.8	5.5	11.8	4.6	6.9	4.9	2.7	3.7
Manufacturing PMI <sup>^</sup>		Index	59.1	59.3	57.7	59.2	56.6	55.0	55.4
Services PMI <sup>^</sup>	Index	60.5	62.9	60.9	58.9	59.8	58.0	58.5	58.1
Unemployment *	%	7.8	6.4	8.6	7.5	6.5	6.9	6.9	6.7

Source: [www.gstn.org.in](http://www.gstn.org.in), [www.icegate.gov.in](http://www.icegate.gov.in), CMIE, PIB, RBI, [www.vaahan.parivahan.gov.in](http://www.vaahan.parivahan.gov.in), [www.posoco.in](http://www.posoco.in)

<sup>^</sup>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. However, recent geo-political developments and resultant supply chain disruptions could hamper growth in the near term.

**Government finances in comfortable position:** Gross tax revenue growth remained healthy in January led by pick-up in corporate taxes and Year to Date (YTD) tax growth now is higher than budgeted. Government has kept a lid on expenditure with YTD expenditure growth now running lower than budgeted. While capex growth has started moderating post front loading in the first half of the fiscal, revenue expenditure is up just 1.3% YoY in 10MFY26.

According to revised estimates for FY26, the Government has indicated that it will adhere to the fiscal deficit target of 4.4% of GDP. This will be achieved through a combination of expenditure cut (largely revenue expenditure) and higher non-tax revenue. In the light of nominal GDP for FY26 being lower than in the old series, the fiscal deficit for FY26 now works out to be 4.5% for FY26 (as denominator is lower).

**Current account deficit (CAD) remains benign:** Q3FY26 CAD was recorded at 1.3% of GDP compared to 1.5% of GDP in Q2FY26 as trade deficit in Q3 was lower compared to Q2. However, Capital account in Q3FY26 was in deficit of USD 10 billion (or 1% of GDP) compared to a surplus of USD 2 billion in Q2FY26. However, capital account deficit in Q3FY26 was lower than Q3FY25.

Going forward, current account is likely to face headwinds from ongoing conflict in the West Asia but is likely to remain within manageable levels due to higher services exports.

INR bn	10MFY25	10MFY26	YoY growth (%)
Gross tax revenue	29,844	32,418	8.6
Direct Tax Collections	16,641	18,191	9.3
Indirect Tax Collections	12,695	13,747	8.3
Less: Share of states & others	10,808	11,476	6.2
Net Tax collections	19,036	20,942	10.0
Non-tax revenues	4,676	5,573	19.2
Total revenue receipts	23,712	26,515	11.8
Total Capital receipts	292	571	95.5
<b>Total Receipts</b>	<b>24,004</b>	<b>27,087</b>	<b>12.8</b>
Total Revenue Expenditure	28,126	28,478	1.3
Total Capital Expenditure	7,574	8,423	11.2
<b>Total Expenditure</b>	<b>35,700</b>	<b>36,901</b>	<b>3.4</b>
<b>Fiscal Deficit</b>	<b>11,695</b>	<b>9,814</b>	<b>-16.1</b>
<b>Fiscal deficit (% of RE)</b>	<b>74.5%</b>	<b>63.0%</b>	
<b>Fiscal deficit (% of GDP)</b>	<b>3.7%</b>	<b>2.8%</b>	

Source: CMIE

India's external situation (USD billion)	Q3FY25	Q3FY26	Change
<b>Trade surplus/(deficit)</b>	<b>79.3</b>	<b>93.6</b>	<b>14.3</b>
Net oil Imports	35.7	31.4	-4.3
Net gold Imports	17.5	26.8	9.3
NONG net imports	26.1	35.4	9.3
<b>Invisibles surplus/(deficit)</b>	<b>68.0</b>	<b>80.4</b>	<b>12.5</b>
<b>Current Account Deficit (CAD)</b>	<b>11.3</b>	<b>13.2</b>	<b>1.9</b>
<b>As % of GDP</b>	<b>1.1%</b>	<b>1.3%</b>	<b>0.2%</b>
<b>Capital Account surplus/(deficit)</b>	<b>-26.6</b>	<b>-10.0</b>	<b>16.6</b>
FDI	-2.8	-3.7	-0.8
FPI	-11.4	-0.2	11.2
Loans	9.1	13.3	4.3
Banking Capital	-9.8	0.7	10.5
Others	-11.7	-20.2	-8.5
<b>BoP overall balance</b>	<b>-37.7</b>	<b>-24.4</b>	<b>13.3</b>

Source: RBI

## Macroeconomic Update (contd...)

**CPI inflation picks up in January on expected lines:** The Government revised the base year for CPI series to 2023:24 (from 2011:12 earlier) to better reflect changes in consumption structure over the last decade. The new series has reduced weights for food items while that of core items have seen an increase. According to the new series, CPI inflation in January picked up to 2.8% YoY (compared to 1.3% YoY in Dec according to old series) driven by pick-up in food inflation which was on expected lines.

YoY, %	Dec-25*	Jan-26	Change in %
CPI	1.3	2.8	1.5
Food & beverages	-1.8	2.1	3.9
Fuel and Light	2.0	0.4	-1.6
Housing	2.9	2.0	-0.9
Transportation	0.8	0.0	-0.8
Core-Core CPI <sup>®</sup>	2.9	2.1	-0.8

Source: CMIE; @-CPI excluding Food, Fuel & light, Petrol, Diesel, Gold and Silver.  
\*As per old series (2011-12)

**Trade deficit widens on higher gold imports:** Trade deficit in January widened significantly due to higher gold and silver imports. Going forward, trade deficit is likely to be under pressure if the ongoing conflict in the West Asia gets elongated. However, healthy growth in services exports is likely to keep CAD within manageable limits.

Amount in USD billion	Dec-25	Jan-26	Change
Trade Deficit / (Surplus)	25.1	34.7	9.6
Net Oil Imports	10.0	9.6	-0.4
Net Gold Imports*	4.3	13.0	8.6
NONG net imports <sup>^</sup>	10.7	12.1	1.4

**Commodity prices:** Crude oil prices have been rising in recent months due to tensions in the West Asia. It rose 2.5% YoY in February after increasing 16% YoY in January. Industrial metal prices remain subdued over concerns related to weak demand, especially in China.

	Market price (USD)*	Feb-26 <sup>^</sup>	FY26YTD (%) <sup>^</sup>
Brent Crude (per barrel)	72	2.5	-1.0
Gold (per ounce)	5,279	7.9	84.7
Steel (per tonne)	473	0.3	0.7
Zinc (per tonne)	3,299	-2.8	19.4
Copper (per tonne)	13,440	0.5	43.5
Aluminium (per tonne)	3,128	0.3	19.3
Lead (per tonne)	1,928	-1.5	-2.7

Source: \*Market prices as on February 28, 2026, <sup>^</sup>YoY change

### Summary and Conclusion:

Global economy faces heightened uncertainty due to flare up in geo-political tensions in west Asia. If the conflict gets elongated, it can have profound implications for the global economy as energy supply chains get disrupted. Growth in the US has held up well and prospects too remain bright on the back of continued investments in AI/tech and supportive fiscal policy. However, labour markets in US are exhibiting signs of weakness. 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 the 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 to 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. However, the recent flare up in geo-political tensions in west Asia poses risk to India's growth and inflation as India's dependence on the region remains high not just through trade but also remittances.

## Debt Market Update

10-year Government bond yield in India fell by 4bps during the month ending at 6.66% and 10-year AAA corporate bond yields rose by 1bp. This led to spread between 10-year AAA and 10-year G-sec widening by 5bps. Key events which influenced yields during the month RBI's monetary policy announcement, Government of India announcing switch of securities and US Supreme court ruling that tariffs imposed by US President under International Emergency Economic Powers Act (IEEPA) are illegal. The table below gives a summary view of the movement of key rates and liquidity:

	Jan-26	Feb-26	Change (in bps)
MIBOR Overnight Rate (%)	5.53	5.17	-0.36
3M Gsec yield (%)	5.50	5.30	-0.20
10Yr Benchmark G-Sec Yield <sup>^</sup> (%)	6.70	6.66	-0.04
AAA 10Year Corporate Bond Yields <sup>^</sup> & (%)	7.39	7.40	0.01
AAA 10Y Corporate bond spread against 10Y benchmark <sup>@</sup> (bps)	69	74	5
Average net liquidity absorbed/infused by RBI* (INR billion)	618	2,464	

<sup>^</sup>-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 ~INR2.5 trillion in February 2026 compared to ~INR618 billion in January 2026.

In the debt market, FPIs ended the month with net buying of USD 1.4 billion in February 2026 (January 2026 net buy: USD 0.8 billion).

### Outlook

#### Fixed income market outlook

The conflict in West Asia if elongated will have adverse implications for India's inflation and external sector dynamics. India's dependence on the region through trade and remittances remains very high and could push up India's inflation and worsen its Current Account balance thereby having adverse implication for INR.

The RBI's decision to keep the policy rate and stance unchanged in its latest Monetary Policy 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, Government has recently conducted multiple G-sec switch auctions to smoothen its redemption profile, ease FY27 repayment pressures, and reduce gross issuances. 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. 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

#### Key risks to the favourable outlook:

- West Asia conflict gets elongated which could put pressure on inflation and CAD
- Weather related uncertainty leads to rise in food prices
- Growth surprises on the upside especially after trade deals with US and EU, leading to higher inflation

## Debt Market Update (contd...)

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. 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. Elevated term premium especially between >30 and 10 year segment provide a tactical investment opportunity. Investors can look at this opportunity within their risk profile. Key risk to above view emanates from a prolonged war in West Asia, disrupting supply chain especially that of energy.

## Equity Market Update

The month of February witnessed decline for Nifty 50/Sensex by 0.6%/1.2% respectively. However, small and mid-caps ended the month with marginal gain. IT, FMCG and Banks underperformed while Power, Healthcare and Capital goods outperformed during the month.

Most global equity markets ended the month with gain except for markets in the US and Hong Kong which witnessed decline. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	Feb-26	FY26TD
BSE Power	9.0	5.7
BSE Healthcare	6.2	6.0
BSE Capital Goods	5.7	12.3
BSE Oil & Gas	5.3	17.8
BSE Auto	4.9	30.5
BSE Metal	4.1	31.1
BSE Bankex	1.6	14.4
BSE Fast Moving Consumer Goods	0.0	-3.6
BSE Information Technology	-18.7	-17.6
<b>NIFTY Midcap 100</b>	<b>1.2</b>	<b>14.4</b>
<b>NIFTY Smallcap 100</b>	<b>0.3</b>	<b>5.2</b>
<b>NSE Nifty 50 Index</b>	<b>-0.6</b>	<b>7.1</b>
<b>BSE Sensex</b>	<b>-1.2</b>	<b>5.0</b>

% Change	Feb-26	FY26TD
KOSPI	19.5	151.7
Nikkei 225	10.4	65.2
FTSE 100	6.7	27.1
CAC 40	5.6	10.1
MSCI Emerging Markets	5.4	46.2
DAX	3.0	14.1
Shanghai Composite	1.1	24.8
S&P 500	-0.9	22.6
Hang Seng	-2.8	15.2
NASDAQ Composite	-3.4	31.0

Source: Bloomberg

Foreign Institutional Investors (FIIs) bought net equities worth USD 1.7 billion in February 2026 (January 2026: Net sold USD 3.2 billion) and have cumulatively sold equity worth USD 6.9 billion in 11MFY26 (11MFY25: USD 15.9 billion).

DII's bought net equity worth USD 4.2 billion in February 2026 (January 2026: USD 7.6 billion) and have cumulatively bought USD 80.3 billion in 11MFY26 (11MFY25: USD 67.3 billion). Net flows into Mutual funds were ~INR 32,466 crore in January 2026 (December 2025: ~INR 34,432 crore & January 2025: ~INR 42,373 crore) cumulatively amounted to ~INR 333,382 crore in 10MFY26 (10MFY25: ~INR 400,536 crore).

### Outlook

As on February 27, 2026, NIFTY 50 Index was trading at ~19.85x one year forward price to earnings multiple. Further, Market cap-to-GDP stood ~136% (based on CY26 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 Index earnings yield has narrowed recently [ $\text{Earnings yield} = 1/(\text{one year forward P/E})$ ].

Chart 1

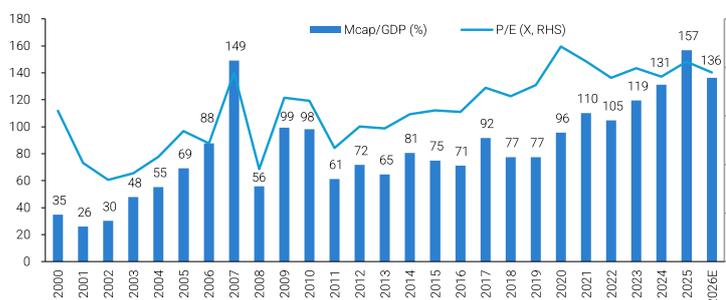
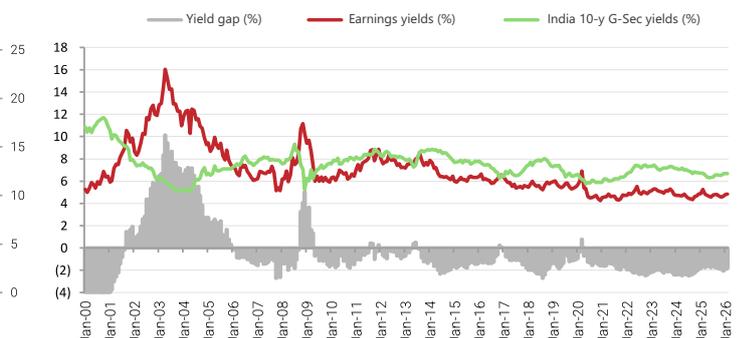


Chart 2



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

## Equity Market Update (contd...)

As of February 27, 2026, the valuations of all sectors except FMCG, Consumer discretionary, Private Banks and Tech are trading at a premium to historical average (refer to the table below for details):

	12 months forward Price To Earnings		
	27-Feb-26	LTA	Discount / Premium <sup>^</sup>
PSU banks <sup>@</sup>	1.5	1.1	40.4
Utilities	16.3	11.6	40.4
Metals	12.8	9.9	29.6
Cement	41.0	32.1	27.5
Industrials	34.9	27.6	26.4
Pharma	28.1	24.6	14.2
Energy	14.0	13.1	7.1
Automobiles	22.6	21.2	6.7
FMCG	36.4	37.2	-2.2
Consumer Discretionary	55.5	57.1	-2.8
Pvt Banks <sup>@</sup>	2.2	2.5	-14.1
Tech	17.4	21.8	-20.3

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.

<sup>^</sup>to Long term (LT) average, <sup>@</sup>-Price to Book value

Given the global uncertainties due to geo-political flare ups 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 elongated conflict in West Asia and cyclical moderation in corporate earnings.

## 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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