

Overview:

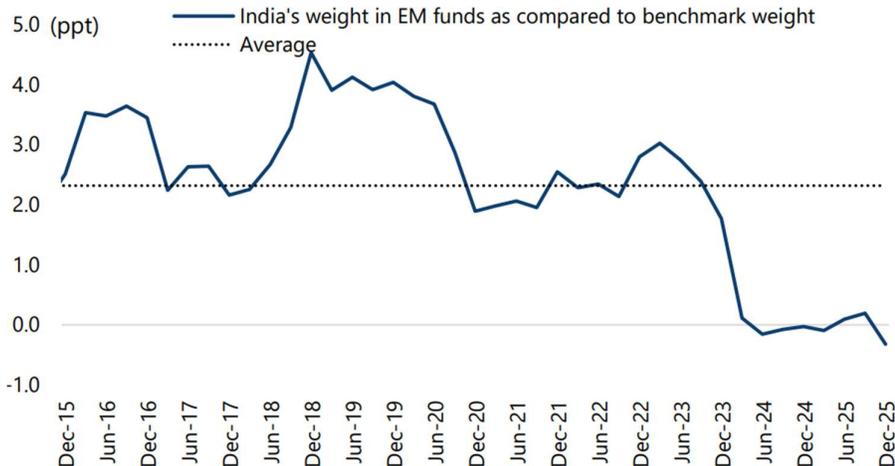
For the month ended January 2026, the Nifty 50 index was down by 3.10% over the previous month. The Nifty Midcap 100 index fell by 3.39%, while the Nifty Smallcap 100 index declined by 4.71%. Largecaps relatively outperformed midcaps and smallcaps during the month. Within sectors, metals, banks, financial services, technology services, banks outperformed the Nifty 50, while consumer goods, realty, consumer durables, healthcare, pharma, media, and oil & gas underperformed the benchmark.

Sr. No.	Index Name	Jan-26
		M-o-M Change
1	NIFTY 50	-3.10%
2	NIFTY Midcap 100	-3.39%
3	NIFTY Smallcap 100	-4.71%
4	NIFTY Auto	-5.11%
5	NIFTY Bank	0.05%
6	NIFTY Financial Services	-1.02%
7	NIFTY FMCG	-7.68%
8	NIFTY IT	0.40%
9	NIFTY Media	-4.12%
10	NIFTY Metal	5.91%
11	NIFTY Pharma	-4.44%
12	NIFTY Private Bank	-0.58%
13	NIFTY PSU Bank	5.70%
14	NIFTY Realty	-10.81%
15	NIFTY Consumer Durables	-6.44%
16	NIFTY Oil & Gas	-3.59%
17	NIFTY Healthcare Index	-5.10%

Source: National Stock Exchange of India

Foreign funds (FIIs /FPIs) were net sellers in January 2026 at USD3.98bn and domestic institutions were net buyers at USD7.53bn. Domestic participation in equity markets remained strong during FY2026, helping offset persistent foreign outflows. Till January FY2026, domestic institutional investors have invested USD75.84bn, reflecting rising confidence among Indian households in capital markets. This structural shift is evident in household savings trends, with the share of equities and mutual funds in financial savings increasing from around 2% in FY2012 to over 15% in FY2025, while their share in total household financial assets rose from 15.7% in 2019 to 23% in 2025. Monthly SIP inflows have grown nearly seven-fold, from about INR40bn in FY2017 to over INR280bn in FY2026, supported by an expanding investor base of nearly 59mn individuals. This strong and consistent domestic participation has made Indian equity markets more resilient and structurally less dependent on foreign capital flows.

Fig: India weight in Global EM funds vs in MSCI EM

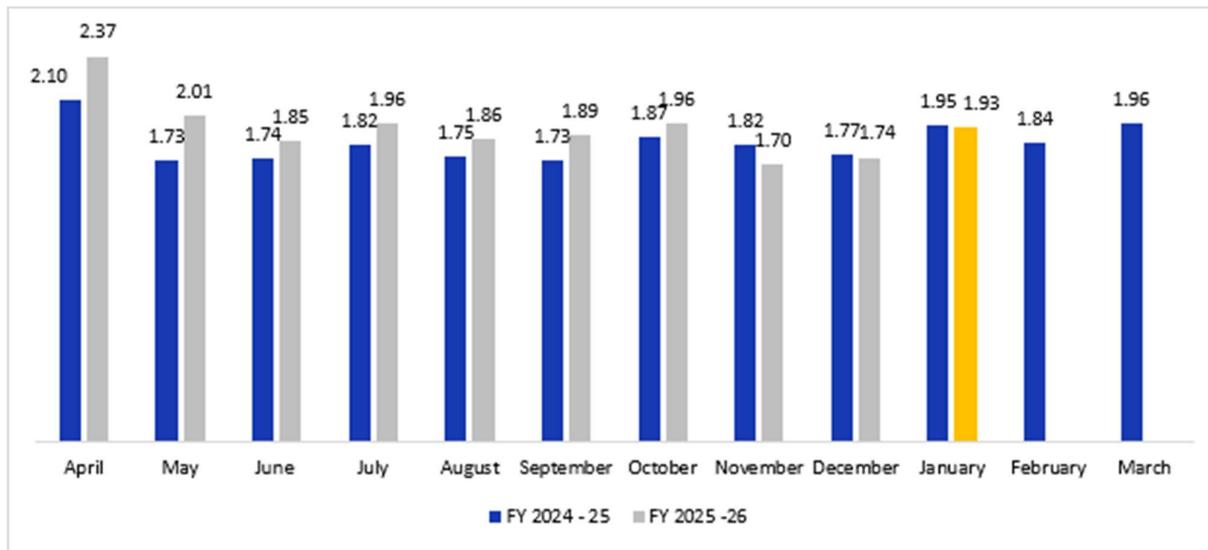


Source: Jefferies India

Foreign funds' positioning on India is quite light as foreign active funds are slightly below neutral weight on India vs. MSCI EM.

On the macroeconomic front, Goods and Services Tax (GST) revenue for January 2026 stood at INR1.93 trillion. This month's numbers show ~10% growth over the previous month, indicating steady consumption momentum. The gradual rollout of the new framework is now beginning to reflect improved activity levels, better compliance, smoother supply chains, and a pickup in overall economic transactions.

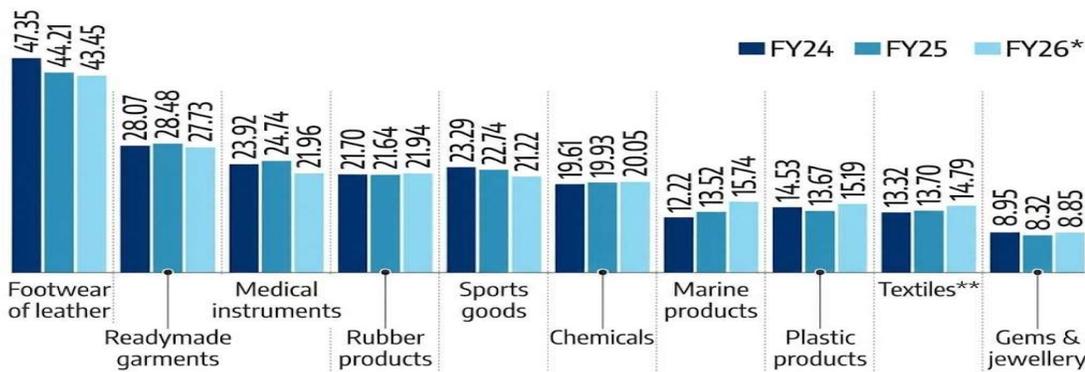
Fig: GST collections trend (in INR Trillion)



Source: EquiPoise Capital Research, GOI

India concluded a landmark strategic trade agreement referred to as the “mother of all deals”, with the European Union. The India–EU Free Trade Agreement is a structurally significant development for India’s long-term growth, especially amid rising global trade uncertainty. The deal offers preferential access to nearly 99% of India’s exports, helping diversify trade beyond the US and China while strengthening export resilience. It is particularly beneficial for labor-intensive sectors such as textiles, garments, and leather, where over 40% of leather footwear and 25% of apparel exports are EU-bound, supporting both export growth and employment generation. At the same time, lower duties on capital goods and industrial machinery from the EU are expected to improve manufacturing efficiency and aid industrial expansion. With the EU accounting for 17% of India’s exports in 2025, the agreement is likely to boost trade volumes, enhance competitiveness, attract investment, and firmly position India within global supply chains, making it one of the most impactful trade deals for India’s medium- to long-term economic growth.

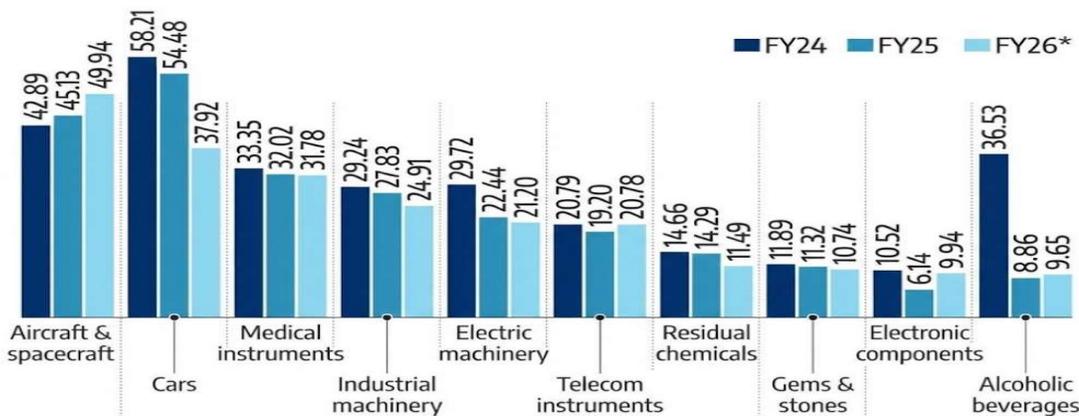
Fig: Share of EU in total exports from India product wise (in %)



*Apr–Nov; **Excludes readymade garments; Note: Only those products have been considered on which duties will be reduced after FTA

Source: Department of Commerce, Business Standard

Fig: Share of EU in total imports by India product wise (in %)



*Apr–Nov; Note: Only those products have been considered on which duties will be reduced after FTA

Source: Department of Commerce, Business Standard

There are two more major events that took place as we started writing this monthly note viz. Union Finance Budget and announcements regarding India - US trade deal.

Union Finance Budget Review 2026-27: The Building Blocks of Viksit Bharat 2047

India's Union Finance Minister presented the finance budget 2026-27 on Sunday, February 1, 2026. The Indian stock exchanges were open for trading today as Finance Minister Ms. Nirmala Sitharaman presented her ninth consecutive finance budget. The Union Budget 2026-27 focused on sustaining growth through capex expenditure while marginally easing on fiscal prudence path. The government has pegged the capex at Rs 12.2 trillion (FY27BE), implying a 11.5% YoY growth with capex to GDP ratio maintained at a healthy 3.1%. Defence allocation is up 17.6%, while allocation to roads and railways segment has grown by 8.1% and 10.3% YoY. While maintaining commitment towards fiscal prudence, the fiscal deficit was pegged at 4.3% in FY27BE vs. 4.4% in FY26RE, albeit slightly lower than market expectations of 4.2%. To encapsulate, given the sustained capex, overall capex-oriented sectors will continue to do well while broad market outlook will continue to track factors like global developments and corporate earnings.

Key highlights of Budget:

- Capex allocation growth has been maintained despite capex spending growing at a CAGR of 19.4% over FY22-FY27BE. The Government has budgeted growth at 11.5% YoY in FY27BE to Rs.12.21 trillion. The capex to GDP is healthy at 3.1% (same as FY26RE)
- Government seems to taking a divergent path on direct and indirect tax (particularly GST) with the task of revenue heavy lifting being assigned to direct taxes with 11.4% growth while GST revenue is expected to de-grow by 2.6% (recent GST rate cut to support growth). The fiscal glide path remains steadfast in FY27E with fiscal deficit to GDP ratio expected to decline to 4.3% as against 4.4% in FY26.
- Non-tax revenue which now accounts for 20% of the total revenue and is likely to witness flat growth in FY27 (19% of the total revenue). Non-tax revenue has contributed significantly in last few years backed by higher RBI dividend (18% in FY25, 15% in FY24, 12% in FY23). Government's focus now has shifted to Debt to GDP ratio which accounts for 56.1% in FY26 and is expected to glide down to 55.6% in FY27. Medium term target stands at 50%(+/-1%) for FY31
- Focus on healthcare value chain: Proposed outlay of Rs.100bn over the next 5 years to build the ecosystem for domestic production of biologics and biosimilars, To promote Medical Value Tourism in India the government has also announced Establishment of 5 Regional Medical Hubs in partnership with the private sector, It plans to add 1,00,000 AHP's over the next 5 years which will be trained in 10 disciplines, including optometry, radiology, anaesthesia, OT technology, applied psychology and behavioural health.
- The government also focused on driving FDI by proposing a tax holiday until 2047 for foreign cloud companies that deliver services to global customers using data centre infrastructure located in India. The proposal is designed to accelerate data localisation and incentivise global cloud players to build domestic capacity as well as boost domestic resellers business.
- Budget aims to make Indian manufacturing strategically indispensable and derisked in every respect from Taiwan and China (read as building capacities in semiconductors and rare earths).
- No changes in taxation - neither personal, nor corporate, nor capital gains.
- Increasing Securities Transaction Tax only on futures and options a step in the right direction.

Announcements regarding India - US trade deal

After announcing of the “mother of all deals” between India and EU, the most awaited India-US trade deal has been announced on February 2, 2026, by US President Trump. US agreed to lower the reciprocal tariff on Indian imports from 25% to 18% and completely remove the 25% punitive tariff related to Indo-Russian oil trade. This has resulted in a 32-percentage point reduction in the applicable tariff, not only making Indian exports more competitive in the US markets but also triggering a chain reaction of positive developments that could enhance the performance of Indian economy hence markets. This is a high-impact development and will have a multi-layered positive effect on the Indian economy, prevailing market sentiments, and sectors exporting to the US, which will benefit from better competitiveness.

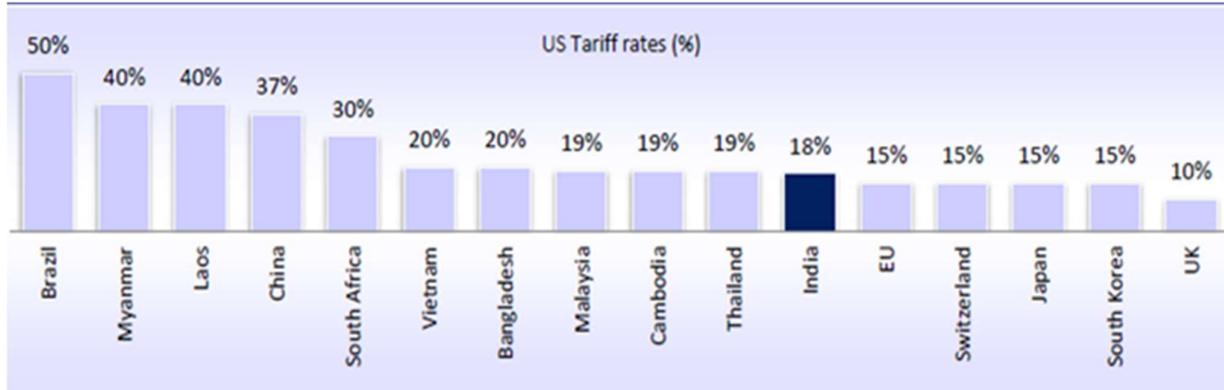
The India-US deal though had been work-in-progress abeyance for several months but compared with India EU trade agreement which took 19 years, this was extremely short relatively. As highlighted in our past monthly notes, this was a key reason for negative sentiments surrounding India in the past one year or so. With the spectre of uncertainty now being lifted, we believe that multiple positives will accrue in the form of 1) reversal of foreign outflows, 2) INR recovering its lost ground, 3) general improvement in sentiments towards Indian equities, 4) return of confidence for FDI, and 5) retracement of India’s underperformance vs. EM peers, etc.

Not only will the market likely respond very positively to the deal announcement in the near term, but this deal will likely also reset the base for India’s strong performance over a longer time horizon. The India-US trade relations have been strained since April 2025, which has soured the foreign funds outlook, as India was seen to have limited leverage with the US. Consequently, India has significantly underperformed its peers by ~40% over the past year, as foreign funds withdrew USD22b from the Indian equities since Jan’25. Additionally, the INR depreciated by ~6% against the USD, especially as the dollar index slid. We believe many of these adverse trends are now likely to reverse.

This one announcement has singularly swung attractiveness of India’s goods to US market appreciably from being the most tariffed imports to among the lowest tariffed ones as the composite tariff on India reduces from 50% to 18%. Among key economies, Switzerland, the EU, the UK, Japan, and South Korea will have lower tariffs compared to India. However, competition from these economies will be limited, given the different stages of the value chain these economies occupy leading to lower overlap. Importantly, most of the nations that India competes with in the US market will have higher tariffs ranging from 19% to 40%, with large emerging market exporters such as China, Vietnam, Brazil, Thailand, and South Africa – all now being levied higher tariffs than India.

The India-US trade announcement comes on top of the India-EU FTA, which was inked last week, and together they will help assuage the growing concerns over India’s geopolitical seclusion. Before these two, India had struck trade agreements with several other countries and regions, such as the UK, EFTA, Oman and NZ and underscores India’s growing importance in a world marked by bilateral/multilateral cooperation, given India’s size, growth promise, and strategic relevance.

Fig: US tariff across nations



Source: Motilal Oswal Research

Our view:

Last 10 days have been eventful (for India) and have brought much relief to the markets through 4 major positive developments.

1. India EU Free Trade Agreement
2. Economic Survey (of India) 2026
3. Viksit Bharat focused Finance Budget 2026

India US Bilateral Trade Agreement

Fig: India's trade with EU

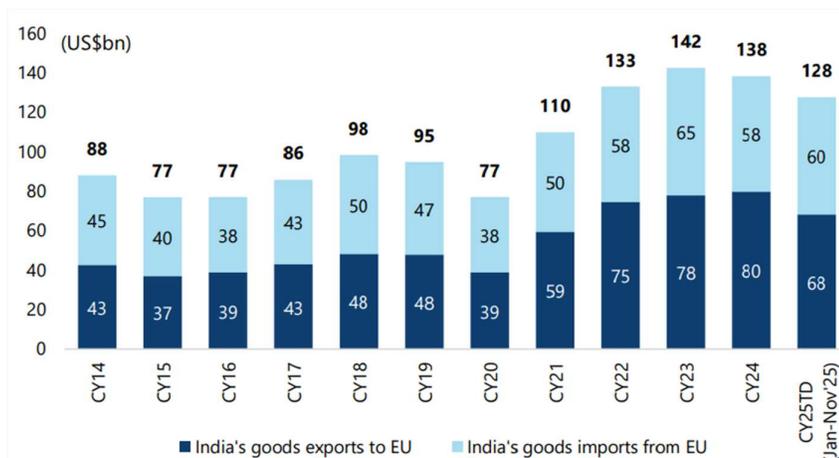
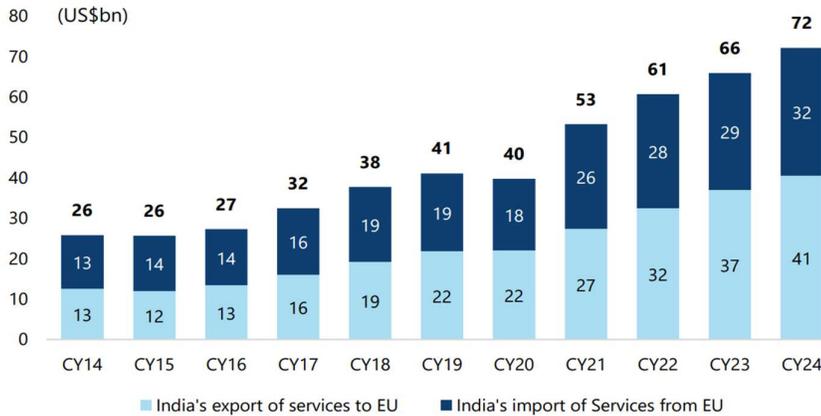


Fig: India services export and import with EU



After around 19 years of intense negotiations India and EU FTA has been finalized. The EU is India's largest goods trading partner and the finalization of negotiations of the Free Trade Agreement (FTA) is a major step in India's ongoing global supply chain integration. With tariffs set to drop to zero in labor intensive sectors such as textiles, footwear, gems and jewelry likely by 2027 - India's competitiveness is expected to jump. India's manufacturing push over the last few years, with an eye on global supply chain integration, spurred a trade deal revival. Major deals of the last few years include with Australia and UAE in 2022; EFTA, Oman, UK and New Zealand (2025) and now the EU.

The Economic Survey can be considered as a sneak peek into the mind of the policy makers or atleast gives you the drift. Economic Survey is annually presented ahead of the Union Finance Budget and is usually considered as a precursor to the Government's policy direction. 2026 survey highlights India's medium-term GDP growth outlook to be 7-8%. In the context of rising global uncertainties, it calls for moving from mere indigenisation to strategic indispensation. It acknowledges the importance of services but states strengthening manufacturing is more important. It pinpoints current account deficit as the root cause of high cost of capital and further states that it acts as a "tax on growth" and key for currency stability. The survey hints at a support for India's debt markets including taxation measures and lowering Government ownership in the public sector from 51% to 26% through amendments to effective ownership rules in Companies Act. Economic Survey 2026 exudes brilliant eloquence through emphasis on deep and sustained deregulation, entrepreneurial state, replacing inspection-based control with trust-based control, swadeshi or indigenization to strategic resilience to strategic indispensability, manufacturing a strategic imperative and need for goods-based exports for durable external and currency stability.

India's Union Finance Minister presented the finance budget 2026-27 on Sunday, February 1, 2026. Union Budget 2026-27 had an unequivocal focus on manufacturing in key areas such as biopharma, semiconductors, electronics, rare earth products, chemicals, capital goods and textiles, among others. The key positive from the budget is the continuation of the Government focus on capital expenditure. Support to data centre through a 20-year tax holiday for global cloud companies and support to electronics component manufacturing should attract

FDI. Another positive is the disciplining of derivatives market through higher STT to curb any excess before it becomes a systemic issue. Clearly the focus of the budget is “Developed India 2047.”

After a long wait, India and US agreed on a trade deal. Tariffs on India's exports into the US go down from 50% to 18%. Tariffs on US exports into India go down to 0% (we read in media that most agri products are not included). This represents a major boost for investor sentiment. Key beneficiaries should be garments, shrimp exports, auto ancillaries, solar equipment manufacturers, chemicals, and textiles for they were the worst hit by +50% tariff. With this deal announcement, we believe that the market will now begin to accord importance to the improving trajectory of corporate earnings growth, which has shown successive improvement over the quarters with an improving earnings revision trend.

Fig: India's trade surplus with US has almost doubled in last 4 years



With the signing of India EU FTA, Union Finance Budget and particularly announcements related India US BTA, we believe major headwind to the market sentiment just got cleared. The sectors and companies directly affected by the excessive and punitive tariff should offer visibility. With this, we believe, market will soon refocus on earnings and valuations. Markets while have been known to commit excesses in the short term but they reward stability and earnings visibility in the long term.

India's strong economy (India GDP growth of 8.2%), stability, record low inflation, strong foreign exchange reserves, resilient domestic fund flows and earnings growth will be key drivers of market. We maintain that India's long term growth story, within a world filled with disruptions, is intact and presents an excellent opportunity for long term investors.

Ashish A. Wakankar

Founder and Chief Investment Officer

EquiPoise Capital Management Private Limited

February 05, 2026.

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