

Overview:

For the month ended February 2026, the Nifty 50 index was down by 0.56% over the previous month. The Nifty Midcap 100 index gained 1.17%, while the Nifty Smallcap 100 index up by 0.30%. Midcaps relatively outperformed largecaps and smallcaps during the month. Within sectors, auto, banks, financial services, media, metals, pharma, PSU banks, consumer durables, oil & gas, and healthcare outperformed the Nifty 50, while consumer goods, technology services, and realty underperformed the benchmark.

Sr. No.	Index Name	Feb-26
		M-o-M Change
1	NIFTY 50	-0.56%
2	NIFTY Midcap 100	1.17%
3	NIFTY Smallcap 100	0.30%
4	NIFTY Auto	5.27%
5	NIFTY Bank	1.54%
6	NIFTY Financial Services	1.97%
7	NIFTY FMCG	-0.14%
8	NIFTY IT	-19.54%
9	NIFTY Media	2.23%
10	NIFTY Metal	3.49%
11	NIFTY Pharma	5.70%
12	NIFTY Private Bank	0.23%
13	NIFTY PSU Bank	8.88%
14	NIFTY Realty	-0.31%
15	NIFTY Consumer Durables	9.30%
16	NIFTY Oil & Gas	4.01%
17	NIFTY Healthcare Index	7.03%

Source: National Stock Exchange of India

The sharp decline of 19.54% in the Nifty IT index during February 2026 was primarily driven by rising concerns around structural disruption in the global IT services industry. The launch of advanced AI tools capable of performing complex business workflows without continuous human intervention triggered heavy global selling, as investors began questioning the sustainability of the traditional labor-intensive “time and material” revenue model followed by Indian IT companies. AI-driven efficiency is generally expected to reduce billable hours and weaken future revenue visibility. At the same time, macroeconomic pressures in the United States, the largest revenue market for Indian IT firms, remain unfavourable, with expectations of higher interest rates leading to cautious technology spending by clients.

Foreign funds (FIIs /FPIs) were net buyers in February 2026 at USD2.50bn and domestic institutions were net buyers at USD4.22bn. The strong foreign fund inflow during the month marked the highest monthly inflow since September 2024, when foreign investors invested USD6.89bn. The inflows were largely driven by secondary market buying. Expectations around a potential India-US trade agreement, along with healthy Q3FY2026 earnings growth, strengthened confidence in India’s growth outlook. Additionally, the conclusion of multiple Free Trade Agreements, including those with the European Union and the United Kingdom, helped improve the overall investment environment and supported positive market sentiment.

Fig: Monthly Net Foreign Investment (USD Bn)



Source: NSDL

The proposed India–US trade agreement emerged as an important development during the month, improving visibility for exports and strengthening overall market sentiment. The United States reduced tariffs on Indian goods from 50% to 18%, which is expected to support key export-oriented sectors such as textiles, pharmaceuticals, chemicals, footwear, jewelry, and seafood by improving India’s competitiveness against Asian peers. In return, India has reportedly committed to significantly increasing purchases of US products, particularly energy, defence equipment, aircraft, tech products, and coal over the next few years.

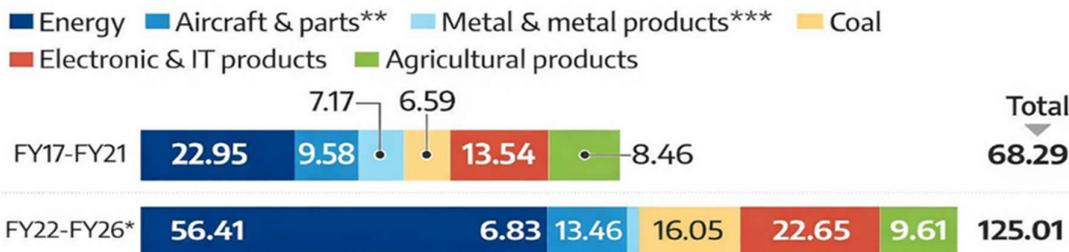
Strategically, the proposed agreement reflects a shift toward deeper economic cooperation amid evolving global trade dynamics. The deal has already boosted investor confidence, supported currency stability, and reinforced India’s position in global supply chains.

Fig: India's imports from US (in USD bn)



Source: Department of commerce, Note*: Apr-Dec of FY26

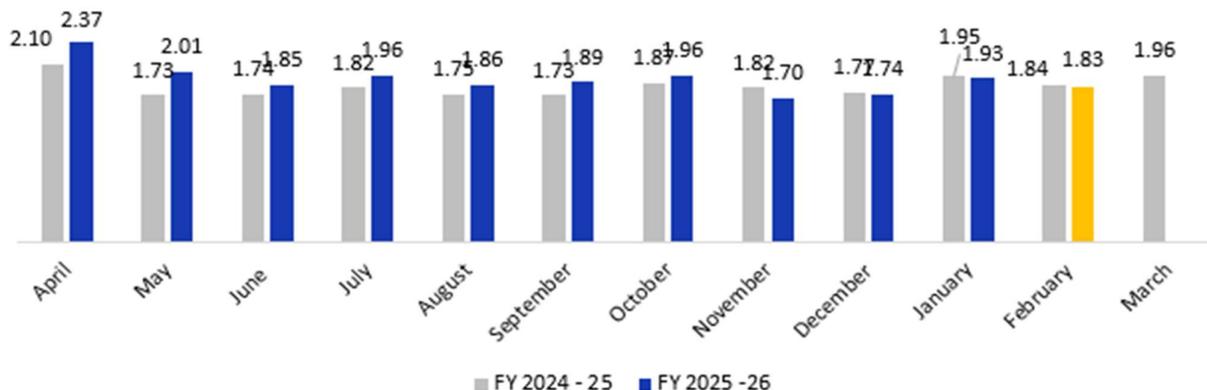
Fig: Imports of specific products from US (in USD bn)



Source: Department of commerce, CMIE, Note: *Apr-Dec; **includes spacecraft; ***includes iron and steel; only those commodities have been considered whose imports are to be increased by India in the next five years, as mentioned in the White House fact sheet.

On the macroeconomic front, Goods and Services Tax (GST) revenue for February 2026 stood at INR1.83 trillion. GST collections showed signs of recovery during the month, supported by higher import revenues and improvement in domestic sales. The increase in collections reflects a gradual pickup in consumption activity, which has helped offset the impact of earlier tax rate reductions, indicating improving economic momentum.

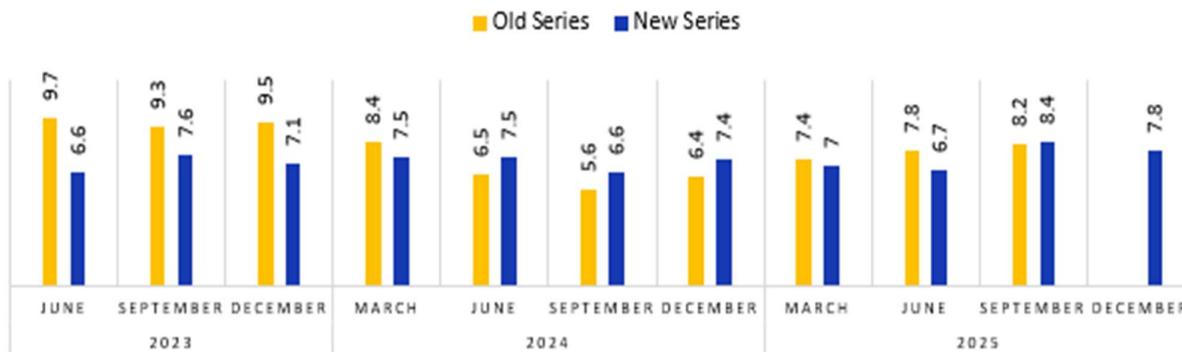
Fig: GST collections trend (in INR Trillion)



Source: EquiPoise Capital Research, GOI

India's economy is still growing strongly. The economy grew 7.8% in the December quarter, lower than the previous quarter's 8.4%, and is expected to grow around 7.6% in FY2026, which is still healthy compared to recent years. India remains the fastest-growing major economies, but it suggests growth is normalizing rather than overheating, which is positive for inflation control, policy stability, and sustainable long-term market performance.

Fig: Real GDP Growth (YoY %)



Source: India Data Hub

The Reserve Bank of India (RBI) Monetary Policy Committee decided to keep the repo rate unchanged at 5.25% while maintaining a 'Neutral' policy stance, in line with market expectations. The decision reflects the central bank's balanced approach amid stable macroeconomic conditions, moderating inflation, and steady economic growth. The RBI slightly revised FY2026 GDP growth higher to 7.4% and projected retail inflation at 2.1%, indicating comfort on both growth and price stability fronts.

Fig: RBI Repo Rate Cycle



Source: RBI

India hosted Global AI Summit in New Delhi in February 2026. It represents an important step toward strengthening India's position in the global artificial intelligence ecosystem. By bringing together policymakers, technology companies, researchers, and global institutions, the summit focuses on balancing innovation with regulation while creating a clear long-term roadmap for AI development. India already enjoys a strong advantage in AI talent and a supportive operating environment, but the discussions highlight the need to improve digital infrastructure and computing capacity, which remain key limitations compared to global leaders like the US and China.

Fig: Top 10 countries ranked by AI capacity at international level

	Talent	Infra	Operating environment	Research	Development	Overall
United States	1	1	2	1	1	1
China	9	2	21	2	2	2
Singapore	6	3	48	3	3	3
United Kingdom	4	17	4	4	16	4
France	10	14	19	6	4	5
South Korea	13	6	35	13	3	6
Germany	3	13	8	8	11	7
Canada	8	18	16	9	10	8
Israel	7	26	65	7	6	9
India	2	68	3	14	13	10

Source: Tortoise Global AI Index

The outcomes of the India AI Summit clearly reflect India’s emerging role in the global AI investment and technology capex cycle, which is currently witnessing an unprecedented expansion led by companies such as OpenAI, Amazon, Nvidia, SoftBank, Alphabet, Microsoft, Meta Platforms, and xAI. Massive global commitments, ranging from OpenAI’s USD110bn funding round to Microsoft’s USD50bn emerging market AI expansion and Meta’s long-term energy-backed compute investments, demonstrate that AI development is shifting from software innovation toward large-scale infrastructure creation, including data centers, chips, energy systems, and cloud capacity. Global technology leaders now view India not merely as a talent hub but as a strategic AI infrastructure destination. This aligns strongly with the Union Budget’s push toward data centre investments, digital infrastructure incentives, and AI ecosystem funding, positioning India to benefit from the ongoing global AI capex super cycle through higher technology investments, increased cloud and semiconductor ecosystem development, energy infrastructure expansion, and long-term digital economy growth.

Our view:

While the developments related to trade agreements between India and Canada, India and EU, India and US, and the Union Finance Budget 2026 have set the Indian economy for the next leg of major growth, the Israel-US and Iran war has created fresh challenges for global markets including India.

We were witnessing initial signs of turnaround in Indian market, including foreign funds returning to India beginning in February 2026. Foreign funds buying appeared to be in the classical AI hedge sectors related to the old economy - largely from cyclical and capital-intensive sectors such as industrials, financials, commodities and power amongst others, which have shown robust growth trends in Q3 earnings and are likely poised for incremental upgrades ahead.

When things seemed set for Indian equities market revival, the coordinated US-Israel strikes on Iran marked the onset of fresh headwinds. There appears a sharp escalation in Middle East tensions, shifting the situation from limited hostilities to active military exchange after Iran retaliated with missile and drone attacks on US bases and also on other countries in the Middle East. This has increased the risk of further escalation and raises the

likelihood of disruption to the Strait of Hormuz, through which nearly 20% of global oil flows and over 40% of India's crude imports transit. While media reports indicate disruption to shipping activity in the Strait, confirmation of a complete and sustained closure remains unclear, making the probability and duration of supply interruption the key variable for markets. Brent has already moved to a high of ~USD84/bbl, and scenario analysis suggests that Hormuz disruption may well push prices higher.

For India, the impact is direct, every USD1 rise in crude increases the annual import bill by ~USD 2bn, putting pressure on the trade balance. Crude remains the key macro variable for Indian equities under the current escalation scenario. Prolonged tensions may increase logistics and marine insurance costs, disrupt Gulf shipping routes, impact exports and pressure the trade balance. INR faces near-term pressure, with potential RBI intervention through foreign exchange reserves. The transmission channel is clear, higher crude increases inflation risk; higher inflation pushes bond yields up; rising yields compress equity multiples.

Indian market can be expected to witness elevated volatility amid global risk-off sentiment. We continue to monitor war news flow, sustainability of Brent above USD 80/bbl and any disruption to Hormuz shipping, with crude emerging as the primary macro variable for Indian equities. India's petroleum ministry has stated that India's oil reserves are adequate enough to last for next 25 days.

We believe that India's long term growth story, within a world filled with chaos, egos and wars, is intact and presents an excellent opportunity for long term investors. We are cautious in the short to medium term given the unfolding and ongoing geopolitical crisis in various parts of the world but remain optimistic on India in the long term.

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March 05, 2026.

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