

INVESTMENT PERSPECTIVE

FEBRUARY 2026

Indian equity markets declined in January 2026, with the Nifty 50 dropping 3%, the Nifty MidSmall Cap 400 falling 4%, and the Nifty Small Cap 250 declining 5.5%. Sector performance was mixed: the Nifty Realty Index plunged over 10%, while the Nifty FMCG and Nifty Consumer Durable indices fell 7.65% and 6% respectively. In contrast, the Nifty PSU Bank and Nifty Metal indices bucked the trend, gaining 5.7% and 5.9% respectively. Our stance from the second half of last year holds true—the market remains in a cyclical correction. However, encouragingly, this downturn appears to be nearing completion.

Geopolitical Catalysts and Capital Flows

Late January and early February brought significant trade agreement announcements. Following heavy outflows in late 2025, these developments are poised to trigger fundamental reallocation of global emerging market capital toward India. Indian markets have underperformed global counterparts over the past 15 months—initially due to elevated valuations and cyclical earnings weakness, then compounded by punitive US tariffs. The recent trade deal eliminates the key geopolitical overhang that had deterred Foreign Portfolio Investors, providing the stability businesses need for confident long-term capital deployment and freeing Indian manufacturing from geopolitical constraints. The EU trade agreement offers positive implications across multiple Indian sectors, particularly labour-intensive industries like leather, footwear, and apparel. Meanwhile, the India-US deal delivers substantial competitive advantages to our engineering, textile, and pharmaceutical sectors.

Investment Outlook

Beyond immediate beneficiaries, we expect multi-year valuation expansion across engineering, auto components, textiles, and jewellery sectors. Companies pursuing technology partnerships with US firms—especially in electronics and data centers—should see improved prospects. These trade agreements will likely drive substantial FPI inflows benefiting a wide range of quality Indian companies.

With "tariff uncertainty" replaced by a clearer "growth trajectory," investors should take a more constructive approach and increase allocations to high-quality Indian businesses. Nevertheless, some caution is appropriate in mid- and small-cap segments where valuations haven't yet reached compelling levels.

India's Strategic Positioning

India is undergoing rapid transformation, though following a distinct path from the historical "China Model." While the policy target is 25% GDP contribution from manufacturing, the actual figure stands around 17%. Rather than competing on low-cost, high-volume production across all sectors, India has adopted a "Calibrated Hub" strategy built on three foundations: Strategic Market Access (US & EU partnerships), participation in High-Value Global Value Chains, and Insulation from Geopolitical Risk.

We project FY27 Nifty EPS of 1,250, reflecting 16% growth. While Banking and Consumer sectors have experienced margin pressures from interest rate dynamics and input cost inflation, a strategic recovery is emerging. We now consider our 16% estimate conservative, with meaningful upside potential as large-cap margins stabilize.



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