



Geopolitical tensions flare up, Domestic Growth Solid

- *The US-Iran war has resulted in a sharp spike in crude oil prices which touched ~USD84/bbl (on 4th March) from ~USD70/bbl at end of February. A USD10/bbl rise in crude prices raises the CAD-to-GDP ratio by 0.4ppts over a 12M period.*
- *The US Supreme Court struck down (on 20-Feb) President Trump's reciprocal tariffs that were imposed for use in national emergencies. Trump reacted adversely to the 6-3 decision, denouncing the judges who ruled against him.*
- *The new GDP series with FY23 base year pegs nominal GDP at INR345tn, ~3% lower than the old base-year estimate. The new series increases the fiscal deficit-to-GDP ratio by 0.1ppts. High frequency indicators point to healthy economic momentum*

KEY
TAKEAWAY



India Macro Update - Tracking Key Macro Factors



Brent Crude

Crude oil prices fell ~2.6% MoM in February amid rising US crude inventories. The US-Iran war has resulted in a sharp spike in crude oil prices which touched ~USD84/bbl (on 4th March) from ~USD70/bbl at end of February.



Currency

The INR appreciated ~1.1% MoM vs the USD in February (DXY rose by 0.64%) as sentiment turned positive following the interim trade deal with the US. Escalating geopolitical tensions and rise in crude oil prices have triggered risk-off sentiment, adding to depreciation pressure on the INR.



Commodities

Precious metals saw profit-booking in February, with the more volatile Silver witnessing much sharper fall amid a stronger dollar, weaker industrial demand and CME margin hikes.



Manufacturing & Services PMI

The HSBC India Manufacturing PMI rose to 56.9 in Feb'26 vs 55.4 in Jan'26 amid a rise in new orders and strong domestic demand. The HSBC India Services PMI came in lower at 58.1 in Feb'26 vs 58.5 in Jan'26 amid a slowdown in new order growth.



GST Collections

Gross GST collections rose 8.1% YoY in February 2026 to ₹1.83tn, while net collections increased 7.9% to ₹1.61tn, supported by steady domestic demand and a strong surge in import-related revenues.



Bank Deposit & Credit Growth

Bank deposits rose 11.2% YoY, while credit growth rose by 13.6% in the fortnight ending 15th Feb 26 with lending momentum supported by resilient retail and MSME segments.



Auto Sales

February saw record sales growing 25.62% YoY on the back of continued positive sentiment post GST 2.0, strong rural demand & healthy retail alignment.

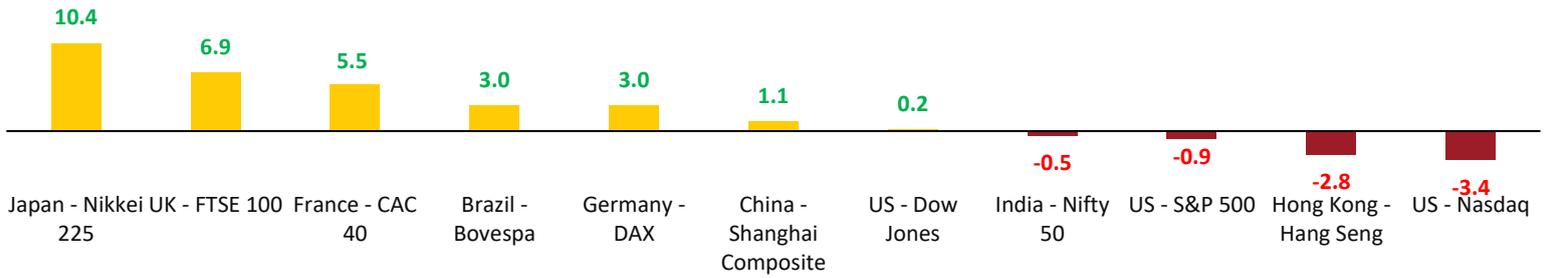
Outlook – (Source - IDFC FIRST Bank Economics Research, As On 27th February 2026)

- The second advanced estimate for FY26 GDP growth was revised to 7.6%. Nominal GDP growth in FY26 estimated at 8.6% v/s 9.7% in FY25. FY27 GDP growth estimate is retained at 7.5%.
- FY27 inflation on new base year series is estimated at 4.1% (vs 4.5% on old series). H1FY27 CPI inflation is tracking at 4.0%.
- The strong growth recovery reinforces expectations that RBI will stay on a prolonged pause.
- Currency - Escalating geopolitical tensions and rise in crude oil prices has triggered risk-off sentiment. Till these tensions persist, USDINR is expected to range between 91 to 93 range.

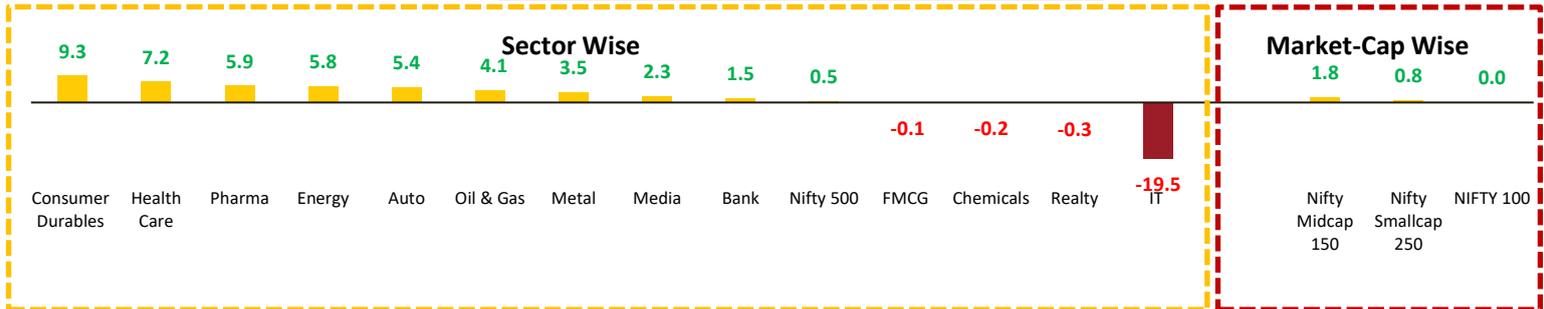


Equity Market Update

Global Indices Performance (%) - February 2026



Domestic Indices Performance (%) - February 2026



Performance shown above is based on total returns for respective sectoral indices of the NSE. Data as on 27th February 2026, Source: ACE MF



- **Frontline Indices** – Indian equities ended February on a feeble note, weighed down by uncertainty over the tariff landscape following the US Supreme Court ruling Trump’s tariffs as illegal and concerns over a potential flare-up of tensions between US and Iran. Small caps have underperformed in recent months amid concerns over rich valuations and lack luster earnings.
- **Consumer Durables** – The sector outperformed in February 2026 driven by improving demand and robust Q3 earnings. The income tax and GST cuts announced last year are expected to support demand for durables.



- **IT** – IT sector witnessed its worst monthly performance since September 2008 on concerns that faster adaptation of artificial intelligence could erode their earnings. Improving earnings outlook and easing trade tensions (India-US interim deal, India-EU deal) provided little support amid the sell-off.



Equity Outlook –

We try to understand equity markets based on following three important pillars:

Valuations

Neutral

- Nifty’s 12-month forward PE is at 19.22x vs current PE of 21.76x. Nifty Midcap 150’s 12-month forward PE is at 26.55x vs current PE of 32.01x, Nifty Smallcap 250’s 12-month forward PE is at 24.38x vs current PE of 25.63x (As on 2nd March 2025).

- **From a Valuation perspective – Large caps look most attractive, followed by small caps & then midcaps.**

Earnings

Neutral

- Despite the near-term challenges and uncertain macro environment, the medium-to-long term growth outlook for India seems intact, which should support earnings growth.

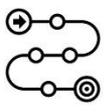
- **Nifty 50 earnings growth[^] is expected to clock close to ~6-7% growth (consensus expectations) in FY26, and ~15-17% CAGR over FY26-28.**

Volatility

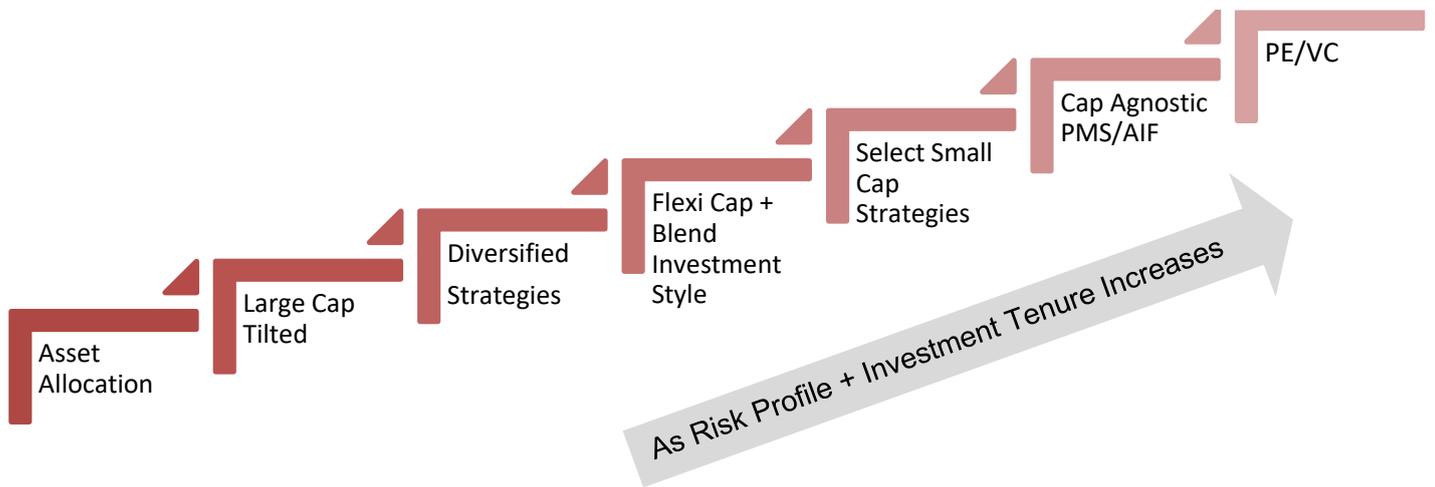
Neutral

- Nifty VIX ended at 13.70 (as on 27th February 2026) vs 13.63 (as on 30th January 2026).

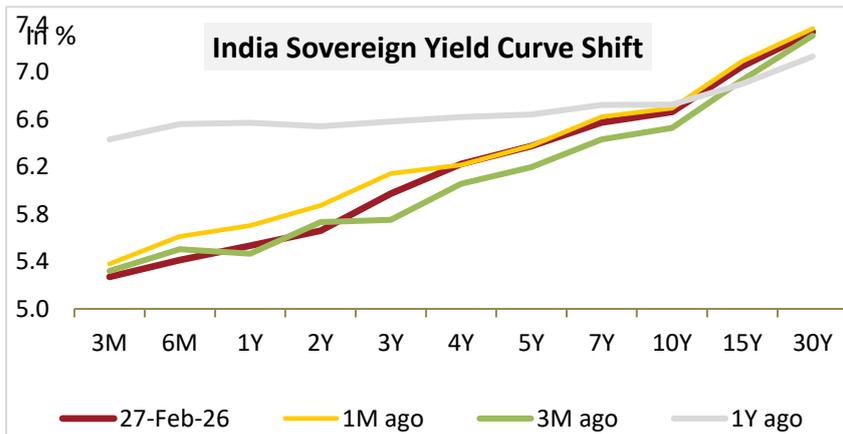
- **Domestic and global macros, geopolitics, crude oil prices and global yields to drive the volatility index going ahead.**



Equity Investment Strategy



Debt Market Update



*Data as on 27th February 2026, Source- Investing.com

Global Bond yields (%)	27-Feb-26	1M ago	1Y Ago
US 10 – Year	3.94	4.24	4.21
UK 10 – Year	4.23	4.52	4.48
Germany 10 – Year	2.64	2.84	2.41
Japan 10 - Year	2.11	2.24	1.37
India 10 – Year	6.66	6.70	6.72

- **Indian 10Y benchmark yield** inched lower by ~4bps in February. During the month, yields were weighed down by concerns over higher-than-anticipated gross borrowing for FY27 and concerns over US-Iran tensions driving crude oil prices higher. Bonds were supported by robust demand at weekly auctions and improved liquidity in banking system.
- **U.S. Treasury yields:** US 10Y yield fell by ~30 bps MoM in February as concerns over potential adverse impact of AI on the economy bolstered safe-haven demand for treasuries. Softer inflation also supported bond prices raising expectations of at least 2 cuts by the Feb in 2026.
- **Euro zone:** UK yields declined amid expectations of rate cut by BoE and optimism over reduced supply. German yields declined tracking decline in US Treasuries and decline in inflation print. The ECB kept its main refinancing rate unchanged at 2.15% for the fifth straight meeting, amid comfortable inflation and growth.
- **Japanese 10Y yield** ended lower by ~13bps MoM tracking the decline in US yields despite prospects of increased debt issuance due to rising debt financing costs.



Debt Outlook –

We try to understand debt markets based on the following three important pillars:

Interest Rate
Neutral

- While CPI inflation prints for FY26 and FY27 indicate space to ease rates, from a real rates perspective the space to ease policy rates is limited. Also, monetary policy settings remain growth supportive. RBI is expected to be on a prolonged pause in FY27.
- 10-Yr G-sec yield is expected to range between 6.55% to 6.75% in the near term. Upward pressure on yields reflects higher supply in FY27 (G-sec plus SDLs) and tepid demand. A key support to G-secs would be from on-screen purchases by RBI.

Liquidity
Neutral

- RBI is using a combination of spot and NDF intervention, to limit the drain on domestic liquidity from FX intervention. Any liquidity drain from RBI dollar selling is likely to be sterilized via OMO purchases (on-screen).
- Core liquidity surplus remains elevated at INR5.3tn as of 20th February 2026, and would stay elevated at INR4tn by March 2026-end. The estimate assumes that liquidity drain from FX intervention is neutralized via on-screen OMO purchase. Liquidity could temporarily dip into deficit post advance tax and GST payment for a few days in March 2026.

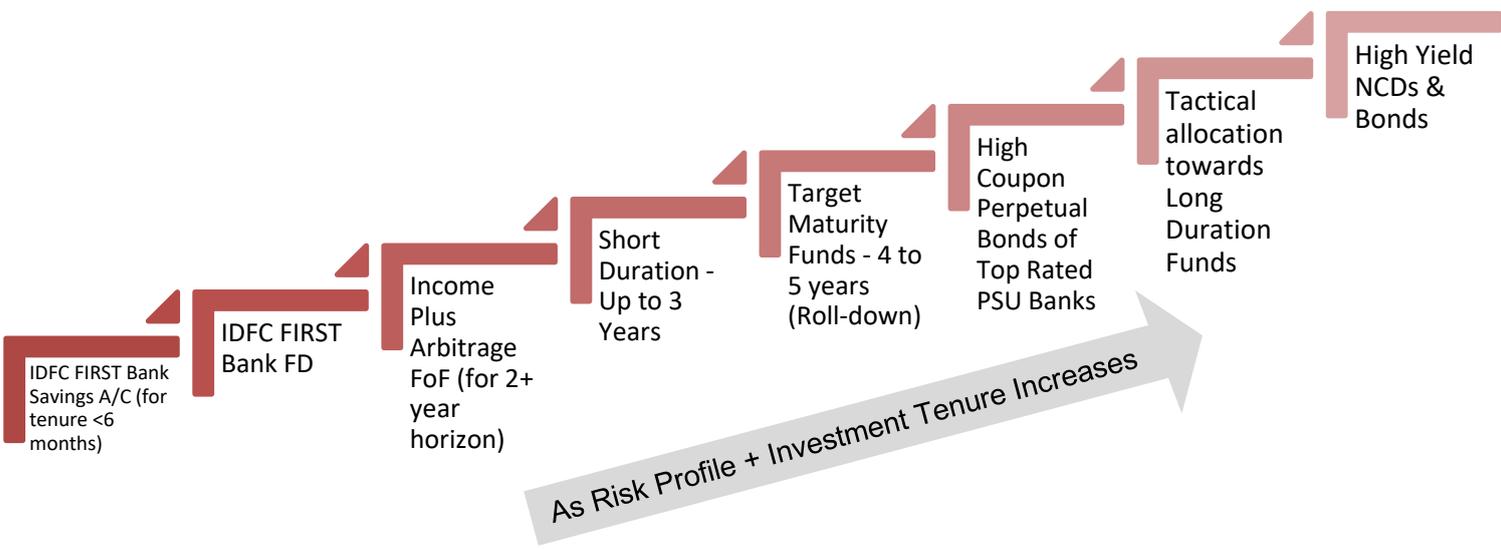
Credit Risk
Neutral

- Spreads on offer versus additional risk taken are modest – risk-reward doesn't favour taking credit risk via low rated category as a whole. However, selective buying can be rewarding.
- Markets are illiquid in low rated segment, look at company specific opportunity.

(Source - IDFC FIRST Bank Economics Research, As On 27th February 2026)



Debt Investment Strategy



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