

# Monthly Market Outlook

February 2026  
Equity & Debt Insights



## Equity Market Outlook



### Look back at the month (January 2026)

- Indian equities ended January 2026 on a cautious note as global uncertainty and sustained FII (Foreign Institutional Investor) selling weighed on sentiment. Benchmark indices corrected, with the Nifty 50 Index down 3.10%, while the Nifty Midcap 150 Index fell 3.53% and Nifty Smallcap 250 Index dropped 5.52%.
- Inflation remained supportive, with December 2025 CPI (Consumer Price Index) at 1.33% and WPI (Wholesale Price Index) at 0.83%, indicating a stable pricing environment conducive to growth as India heads into FY26.
- Heightened global uncertainty and geopolitical risks strengthened safe-haven demand, dampening risk appetite and adding pressure on equity markets amid volatility in global indices.
- DIIs (Domestic Institutional Investors) provided strong support through net buying of ₹69,220 crore, while FIIs continued their selling streak, recording net outflows of ₹35,962 crore.

### February 2026 Outlook

- Growth outlook remains resilient, with First Advance Estimates projecting 7.4% real GDP growth for FY26, supported by strong domestic demand, macro stability, and ongoing structural reforms.
- Trade visibility has improved, with India-US trade agreement lowering tariffs on Indian exports to 18%. This significantly reduces uncertainty and supports export-oriented sectors.
- The India-EU Free Trade Agreement, expected to take effect by CY2027, is set to boost India's labour-intensive exports, which made up 28% of the USD 76 billion exported to the EU in FY25.
- The Union Budget for FY27 stayed aligned with fiscal consolidation, setting the FY27BE fiscal deficit at 4.3% of GDP.
- Budget priorities remained growth-supportive, with sustained capex at ~3.1% of GDP, continued thrust on infrastructure and defence, and policy measures aimed at enhancing ease of doing business while supporting manufacturing, services (IT & data centres) and MSMEs.



## Economic Market Outlook



### Look back at the month (January 2026)

- The Reserve Bank of India (RBI) injected liquidity through INR 1.5 trillion of Open Market Operation (OMO) purchases and USD 10 billion of USD/INR buy-sell swaps amid Goods and Services Tax (GST) outflows and foreign capital withdrawals. In the third week of January 2026, the RBI further strengthened support by announcing INR 1 trillion of additional OMOs, USD 10 billion of FX swaps, and a 90-day Voluntary Retention Route (VRR) auction of INR 250 billion.
- Consumer Price Index (CPI) inflation for December 2025 was at 1.33%, above November's 0.71%, driven by softer food deflation and firmer core inflation linked to higher gold and silver prices. While food inflation remained in deflation, inflation is expected to rise gradually, mainly due to reversal in base effect.
- The Union Budget 2026 pegged FY27 (BE) gross market borrowing at INR 17 trillion, slightly above market expectations, while maintaining the capital expenditure momentum. The fiscal deficit target was set at 4.3% of GDP, reiterating commitment to fiscal consolidation and a debt-to-GDP goal of 50±1% by 2030.
- Domestic Government bond yields were volatile within 6.65–6.72%, driven by global cues including Bloomberg's postponement of India's inclusion in the Global Aggregate Index, global market developments, auction dynamics, shifting policy expectations, a larger-than-expected Q4 SDL (State Development Loans) auction calendar (~INR 5 trillion), and RBI's liquidity management actions. The 5-year Overnight Index Swap (OIS) traded between 6.08–6.17%.
- The Federal Open Market Committee (FOMC) kept the US policy rate unchanged at 3.50–3.75%, with two dissenting members favouring a 25-bps cut. The Fed maintained its data-dependent stance, while the US 10-year Treasury yield remained elevated around 4.20–4.25% through the month.

### February 2026 Outlook

- The revised CPI weights, with a lower food share and higher core weight, are expected to dampen volatility in headline CPI.
- Market is expected to remain range bound as RBI reinforces its intent of providing sufficient liquidity of durable nature.
- Monetary Policy Committee is expected to keep the policy rates unchanged, and markets would be keenly watching its liquidity infusing operations.
- Additionally, slightly higher than expected gross borrowing number for FY27 will mean that significant downside movement in Gsec yields would be limited.

Source: Bloomberg, Ministry of Statistics and Programme Implementation (MOSPI), Reserve Bank of India (RBI), LIC MF Internal Research, Union Budget 2026

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