

Geopolitical turmoil once again

February, 2026



- ◆ Indian equity indices saw a minor cut in February '26, with BSE Sensex and NSE Nifty down 1.2% / 0.5%, respectively driven largely by a sharp correction in the IT sector.
- ◆ Broader market ended slightly positive with NSE Midcap index up 1.8% and BSE Smallcap index up 0.5% for the month.
- ◆ Power was the best performing sector for the month. Most other sectors – Healthcare, Capital Goods, Oil & Gas, Autos, Metals and Banks were positive and significantly outperformed the Nifty. FMCG was flat and Realty was slightly down. IT sector was, however, down sharply by 19% for the month driven by concerns on potential impact of AI.



Domestic Indices	Last Close	1 Month (Change)	CYTD 25 (Change)
BSE Sensex TR	127646	-1.2%	-4.6%
Nifty 50 TR	37944	-0.5%	-3.5%
BSE 200 TR	14865	0.5%	-2.6%
BSE 500 TR	46821	0.5%	-2.9%
NSE Midcap TR	27830	1.8%	-1.8%
BSE Smallcap TR	60465	0.5%	-5.8%
NSE Large & Midcap 250 TR	21363	0.9%	-2.3%
BSE India Infrastructure Index TR	866	4.8%	2.6%
MSCI India USD	1014	1.3%	-3.9%
MSCI India INR	2991	0.2%	-2.7%
INR - USD	91.0	-1.1%	1.2%
Crude Oil	72	2.5%	19.1%

Global Market Update

Global markets delivered a positive return for the month. MSCI World index rose 0.6% in Feb while US (S&P 500) was down 0.9%. MSCI Europe rose 3.1% and MSCI Japan rose 8.6%. MSCI EM was up 5.4% although MSCI China was down 5.8%. Crude oil rose 2.5% in February.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 25 (Change)
MSCI World	4,557	0.6%	2.9%
Dow Jones	48,978	0.2%	1.9%
S&P 500	6,879	-0.9%	0.5%
MSCI EM	1,611	5.4%	14.7%
MSCI Europe	2,846	3.1%	7.7%
MSCI UK	1,747	4.7%	10.1%
MSCI Japan	5,555	8.6%	15.7%
MSCI China	81	-5.8%	-1.4%
MSCI Brazil	1,994	3.8%	21.1%



- ◆ FII turned investors in Indian equities in February, buying stocks worth US\$1.7 bn while DIIs invested US\$4.6 bn completely driven by Insurance. Domestic MFs were only marginally positive.
- ◆ RBI maintained the repo rate at 5.25% post the monetary policy meeting in February.
- ◆ The government has introduced a new CPI series. Weightage of food has reduced in the new series. India CPI in Jan stood at 2.7% (YoY). Core inflation (i.e. inflation ex petrol and diesel) was 3.4% (YoY) in January.
- ◆ Industrial production growth (IIP) softened to 4.8% (YoY) in January from a strong 7.8% (YoY).
- ◆ Gross GST revenue collection was Rs 1.83 tn in Feb'26, up 8.1% (YoY). Growth has also been impacted by the rationalization of GST rates from 22nd Sep 2025.
- ◆ New GDP series – Government announced a strong 7.8%yoy real GDP growth for Q3FY26 vs 8.4% (YoY) in Q2FY26 under the new series. There has been a significant revision of GDP data for previous years as the methodology has been made more robust as well as the base year has been changed to 2022-23 from 2011-12 under the old series.

Valuations

Nifty consensus EPS estimate for CY26/27 were largely unchanged in Feb'26 as per Bloomberg. Nifty now trades on 19.5x 1-year forward PE. This is now in-line with its 5-year average and a ~10% premium to its 10-year average.

Macro View

The recent conflict in the Middle East has the potential to add significant macro-economic uncertainty if not resolved quickly. Excluding the same, we are sanguine on India's macro-economic outlook. Recent announcement of potential trade deals with EU and US should help support private capex driven by improved medium term tariff certainty and export competitiveness. We believe interest rate cuts by the RBI, the GST rate cut, and income tax rate cut announced by the Union government should significantly help boost private sector consumption and support private capex. In 2026 budget, the government has maintained its commitment towards higher infra spending. Overall, India's economic growth momentum remains strong with 7.8%yoy GDP growth in Q3FY26.

Outlook

We believe India's growth remains quite resilient despite the global macro-economic challenges. Interest rate and liquidity cycle are supportive of a pick-up in growth going forward. We expect India's investment cycle to be on a medium-term uptrend supported by government investment in infrastructure, support to manufacturing and pickup in private investments. We expect higher private investments in renewable energy and related supply chain, localization of higher-end technology components, and India becoming a more meaningful part of global supply chains to support faster growth. Nifty valuations are modestly above 10-year average. We remain constructive on Indian equities supported by the more robust medium term growth outlook.

Key Drivers For Future

On the headwinds, we have

Weak global growth is likely to remain a headwind on demand going forward.

Global policy uncertainty: Risk of tariffs, general policy uncertainty, mercantilist policies of certain countries and geo-political conflicts.

Global commodity prices: Benign global prices of crude oil and fertilizers have been a positive for India from inflation, fiscal deficit and corporate margins perspective in FY24-25. However, a sustained sharp increase in these commodities would be a headwind for India.

Other factors / risks: Sharp slowdown in government capex.

We see the following positives for the Indian market:

Recovery in private capex: Industry capacity utilization based on RBI survey data is at a reasonably high level and indicates potential for increase in private capex going forward. Also, continued expansion of the Production Linked Incentive (PLI) scheme is likely to further increase private investments in targeted sectors. We also expect higher private capex in renewable energy.

Trade deals: Potential trade deals with EU and US would be a tailwind for Indian manufacturing over the medium term and should encourage private sector investments.

Note: Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD returns for global indices. Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

Source: Bloomberg, MOSL & HSBC MF estimates as on February 28, 2026 end or as latest available.

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