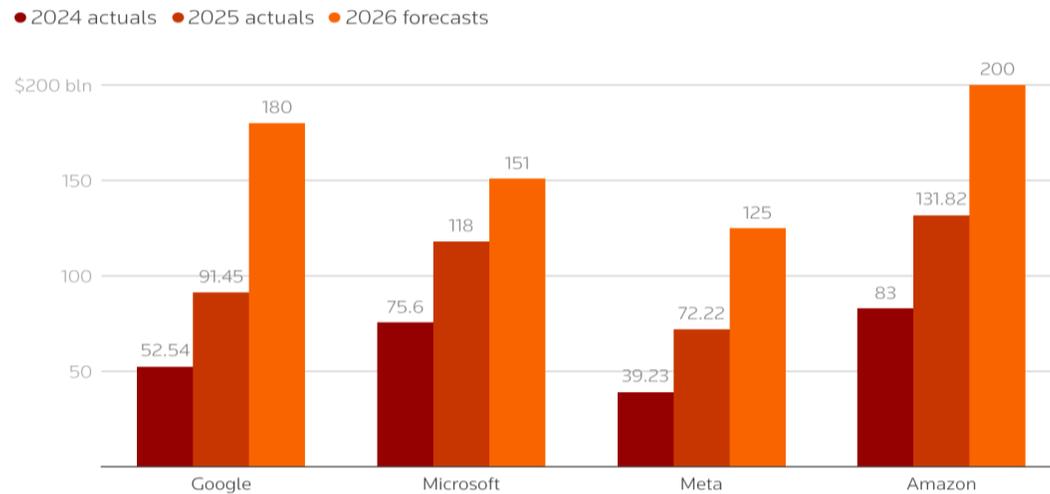


ECONOMY AND MARKETS

March 2026

Artificial intelligence drives global investment cycle

Tech giants collectively expected to spend at ~US\$650bn on AI in 2026



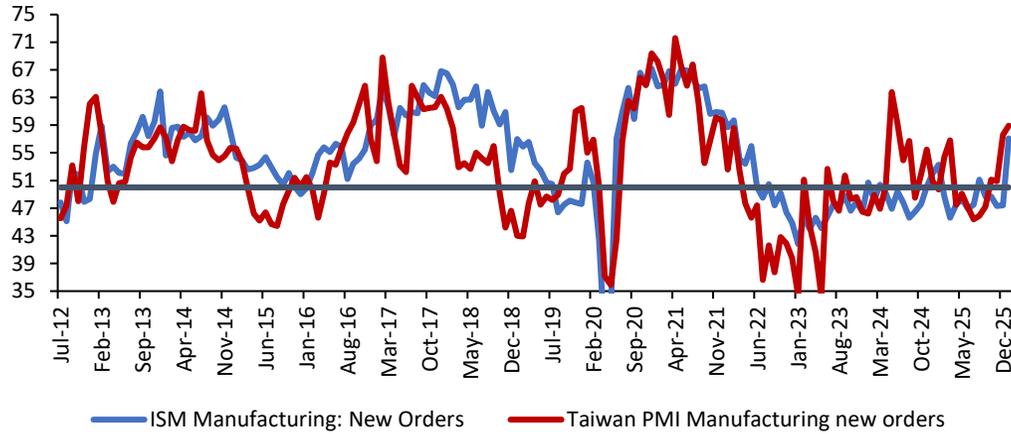
Note: Microsoft figures for 2026 are analyst estimates.

Source: Company statements, VA estimates. | Deborah Sophia, Harshita Mary Varghese

- AI related capital expenditure remains one of the most resilient components of global investment.
- These outlays are not only supporting growth within the technology sector but also spilling over into adjacent industries—data centres, semiconductors, utilities, industrial automation, and logistics—creating a broader uplift across the real economy.
- For now, this investment cycle is strong enough to keep overall growth momentum intact and is even contributing to a modest revival in global manufacturing sentiment, particularly in export-oriented economies. Consumer confidence in EM economies ex of China is on the mend.

AI investments spill over: PMI recovery, stronger global exports

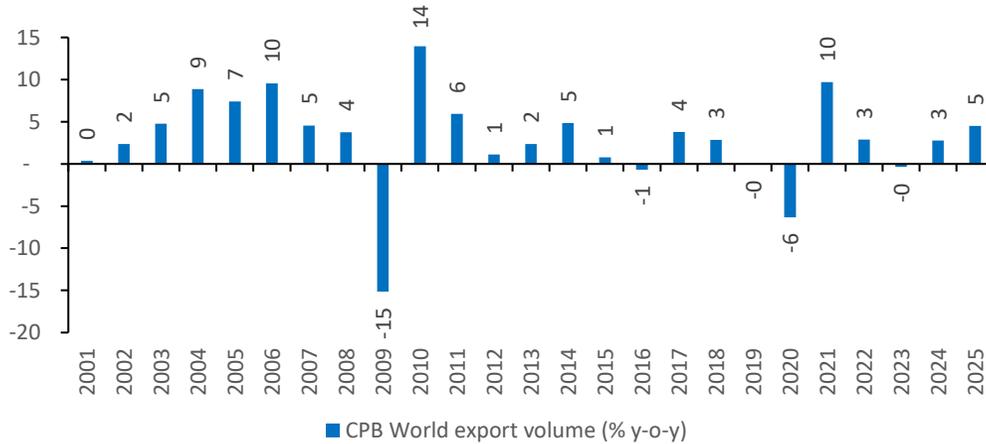
AI led capex revives global manufacturing



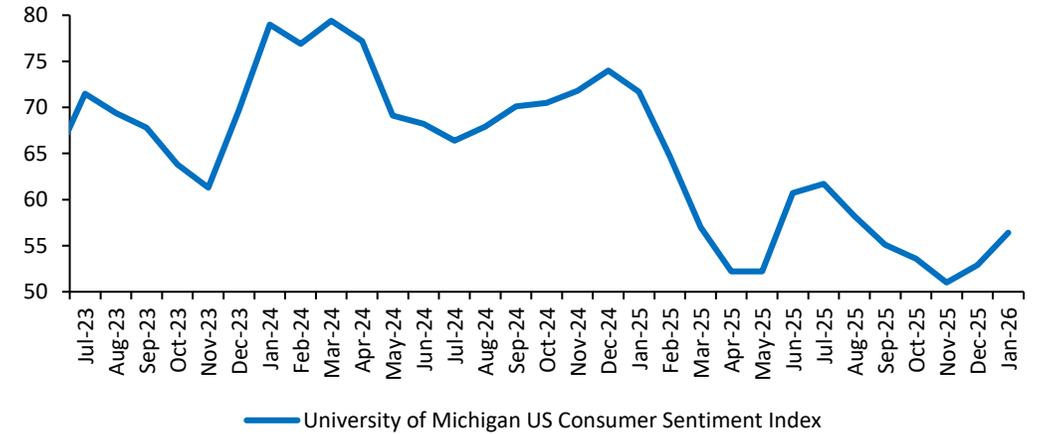
2026 growth expectation sees upward revision for most economies

Bloomberg Real GDP expectation (% y-o-y)	For the year 2025 as on:			For 2026 as on:	
	Jan-25	Apr-25	Dec-25	Dec-25	Feb-26
US	2.1	1.4	2.0	2.0	2.4
Eurozone	1.0	0.8	1.4	1.1	1.2
UK	1.4	0.9	1.4	1.1	1.1
Canada	1.8	1.2	1.2	1.2	1.2
China	4.5	4.2	4.9	4.5	4.6
India*	6.7	6.5	7.3	7.2	7.5
South Korea	1.8	1.3	1.0	2.0	2.0
Indonesia	5.0	5.0	5.0	5.0	5.03
Taiwan	2.8	2.8	7.0	3.6	4.6
Thailand	3.0	2.5	2.1	1.8	1.8
Malaysia	4.7	4.6	4.7	4.3	4.5
Philippines	6.0	5.9	4.9	5.3	5.0
South Africa	1.7	1.5	1.3	1.6	1.6
Brazil	2.0	1.9	2.2	1.7	1.8
Mexico	1.2	0.2	0.5	1.3	1.4

Global exports show a healthy growth in volumes



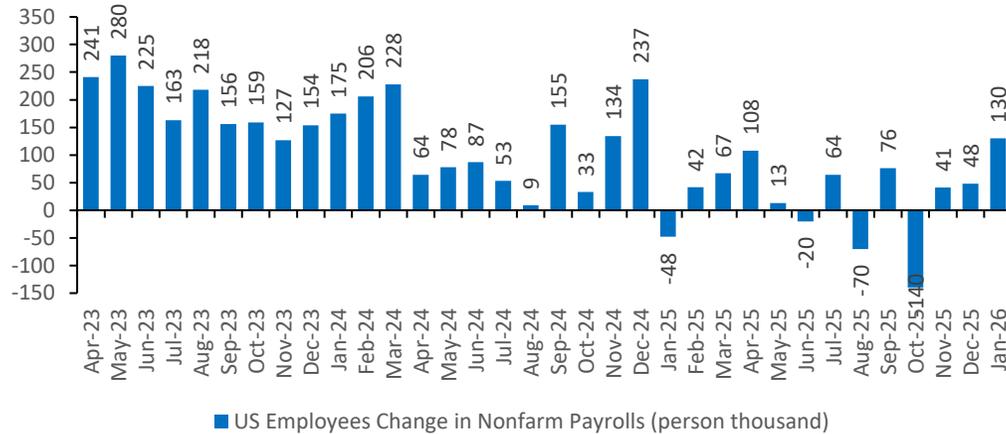
Downward trend in US consumer sentiment gets arrested



Source: Bloomberg, CPB trade monitor, CEIC, SBIFM Research; NB: *India data on financial year basis

US job markets holds for now despite AI concerns

US Nonfarm payroll addition was better than expectation in January; 130k jobs added in Jan 2026 in nonfarm payroll



...though, wage growth moderates and...



...hiring intentions plateaus



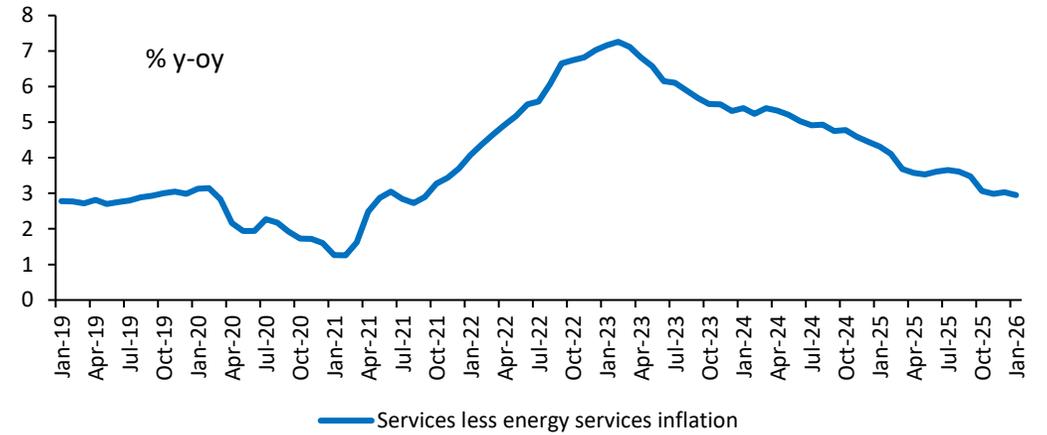
- Labour market dynamics are sending mixed signals.
- Fears around AI-related displacement have contributed to some cooling at the margins, especially in the tech and services sectors.
- Yet, the broader US labour market continues to exhibit pockets of tightness, preventing a decisive shift toward weakness.
- This duality—productivity enhancing AI investments alongside labour substitution concerns—is shaping a complex employment narrative.

Despite growth recovery, US inflation expectations contained for now

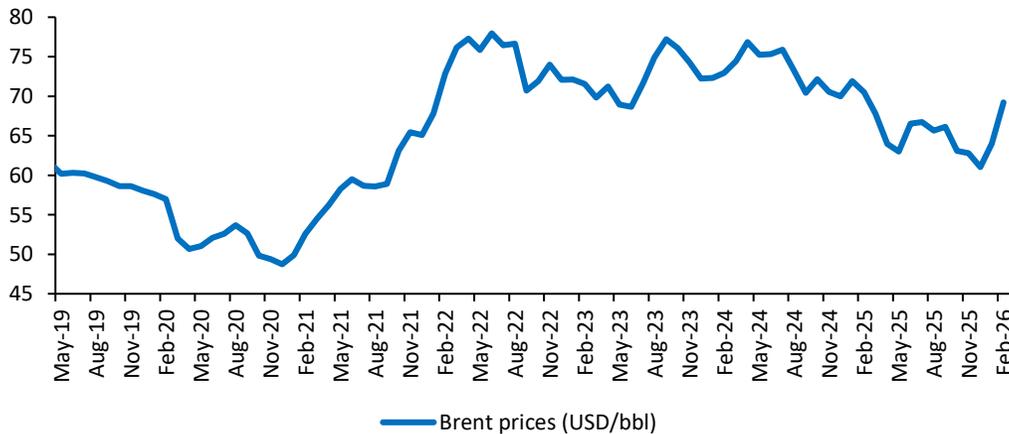
Despite improving growth prospects, inflation expectations remain contained for now



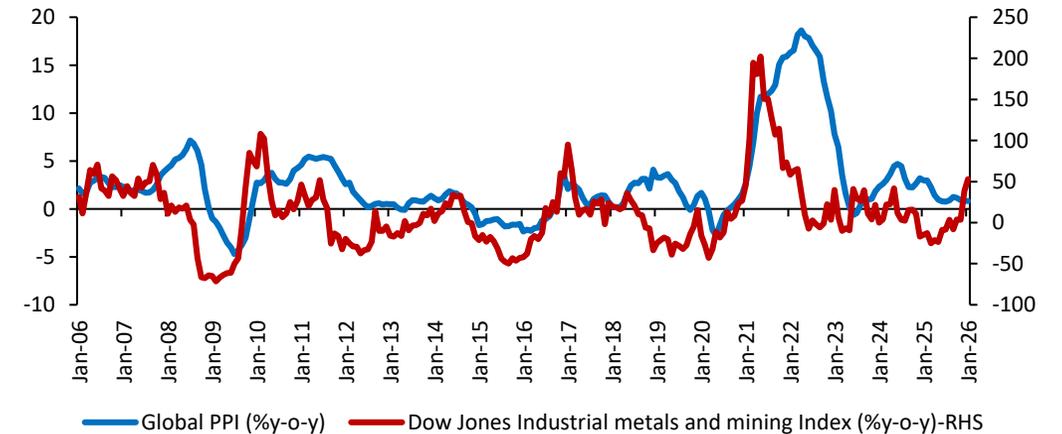
Easing services inflation amidst moderating wage growth helps



Energy prices has seen some uptick in 2026; still manageable



We watch out for rising metals prices, could feed into PPI inflation and hence retail inflation

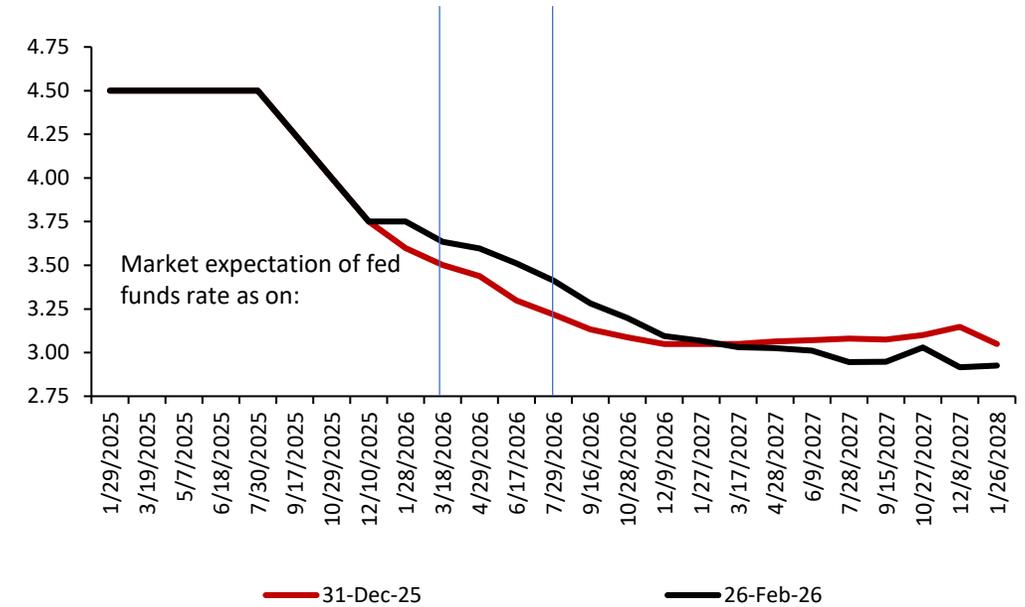


With improving growth, monetary easing prospects gets dimmer

Rising divergence in global monetary policy cycles: Australia ends its two years easing cycle

Annual Policy Rate (in %)	2023	2024	2025	Jan-26	Feb-26
US	5.50	4.50	3.75	3.75	3.75
Eurozone	4.50	3.15	2.15	2.15	2.15
UK	5.25	4.75	3.75	3.75	3.75
Japan	-0.10	0.25	0.75	0.75	0.75
China	4.35	4.35	4.35	4.35	4.35
Australia	4.35	4.35	3.60	3.60	3.85
South Korea	3.50	3.00	2.50	2.50	2.50
Taiwan	1.88	2.00	2.00	2.00	2.00
Thailand	2.50	2.25	1.25	1.25	1.00
Hong Kong	5.75	4.75	4.00	4.00	4.00
Norway	4.50	4.50	4.00	4.00	4.00
Poland	5.75	5.75	4.00	4.00	4.00
South Africa	8.25	7.75	6.75	6.75	6.75
Brazil	11.75	12.25	15.00	15.00	15.00
Argentina	80.00	38.00	33.00	29.00	20.00
Colombia	13.00	9.50	9.25	10.25	10.25
Chile	8.25	5.00	4.50	4.50	4.50

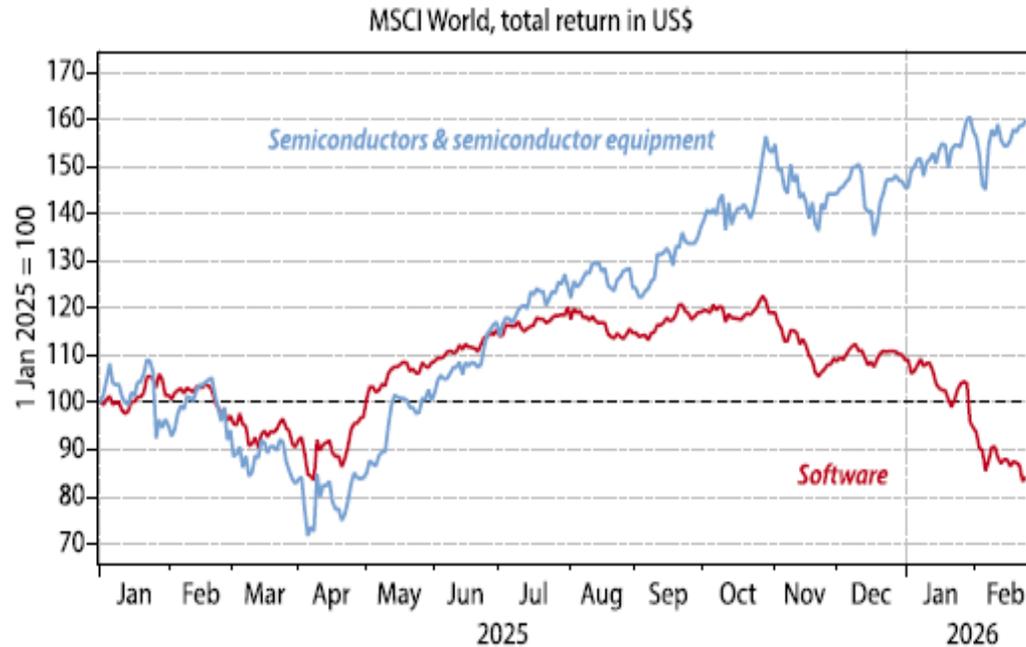
US Fed rate cuts gets pushed out (now first cut fully priced in for July 2026 vs. March 2026 previously)



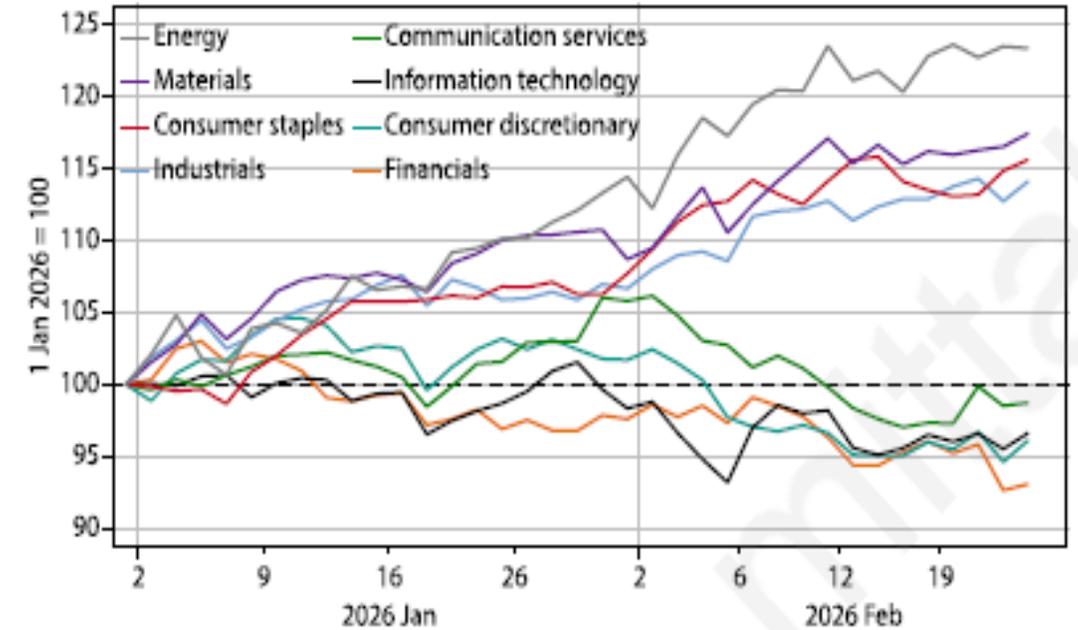
- On the policy front, the global monetary cycle is becoming increasingly desynchronized. The RBA was among the first major central banks to pivot away from its tightening stance, whereas Japan—after decades of ultra-loose policy—continues to normalize rates gradually.
- In contrast, expectations of a Fed rate cut have been repeatedly pushed out into the second half of the year as US activity indicators, particularly consumption and business investment tied to AI, remain resilient.

AI reshapes the global equity market leadership

US semiconductors soar to fresh highs, whereas software names endure steep corrections



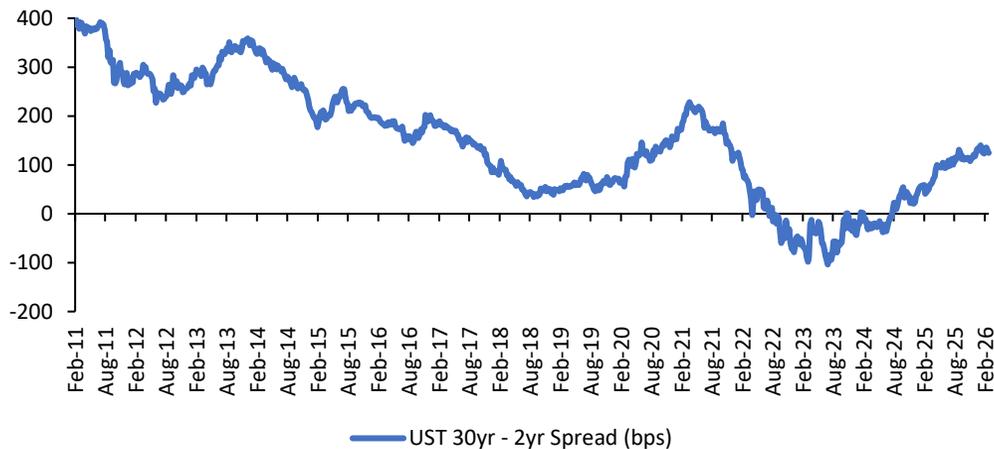
In 2026, digital assets have sold off while industrials, staples, energy and materials (old economy sectors) fare better



- While there is legitimate debate about whether AI driven investment could culminate in a bubble with recessionary consequences, the current phase is clearly contributing positively to global activity. It is lifting manufacturing demand, supporting capex cycles, and improving growth prospects in several emerging market economies that are deeply integrated into global supply chains.

Resilient growth data sets the stage for steeper yield curve

US 30yr-2yr curve continue to steepen



- Persistent commodity strength and resilient economic data could lead markets to price in bear-steepening risks.
- Rising term premiums may push long-end yields higher even without further central-bank tightening—arguing for reduced global duration exposure.
- The current backdrop continues to favour equities, especially AI-linked themes, industrials, and selective EM growth opportunities, along with targeted commodity exposure.
- Global long-duration fixed-income looks less attractive given the asymmetric risk of higher yields ahead.

US Supreme Court strike down of IEEPA tariffs adds to the layer of uncertainty

Nation wide announced tariff rate before and after US Supreme Court ruling

Country	Announced tariff rates (%)		
	Before SCOTUS	Section 122 @ 15%	Change (pp)
China	31	26	-5
Vietnam	20	15	-5
Cambodia	19	15	-4
Indonesia	19	15	-4
Malaysia	19	15	-4
Philippines	19	15	-4
Thailand	19	15	-4
India	18	15	-3
Japan	15	15	0
South Korea	15	15	0
Taiwan	15	15	0
Australia	10	15	5
Singapore	10	15	5

Note: For China, the 31% tariff rate before SCOTUS refers to the summation of the 10% baseline reciprocal tariff, the 10% fentanyl tariff, and the 11% tariff imposed before Trump 2.0. The announced tariff rate after Section 122 tariff imposition is computed by adding the 11% tariff imposed before Trump 2.0 to the 15% Section 122 tariff.
Source: Global Trade Alert, The White House and Nomura Global Economics.

Nation wide effective tariff rates: before and after Supreme Court ruling

Country	Effective tariff rates (%)		
	Before SCOTUS	Section 122 @ 15%	Change (pp)
China	33.9	27.7	-6.2
Cambodia	29.4	25.8	-3.6
Indonesia	23.5	20.3	-3.1
Vietnam	21.6	18.8	-2.8
India	18.8	16.7	-2.2
Thailand	19.4	17.3	-2.0
Philippines	15.9	14.1	-1.8
Malaysia	11.6	9.9	-1.7
Taiwan	13.6	13.3	-0.2
Japan	14.9	15.4	0.4
South Korea	12.8	13.4	0.6
Singapore	6.7	7.9	1.1
Australia	7.0	8.9	1.9

Note: For China, estimates are from our China economics team. The effective tariff rate estimate after Section 122 tariff imposition takes into account Section 122 exemptions and Section 232 sectoral tariffs, but does not take into account changes in de minimis rules. For India and Taiwan, we use Global Trade Alert data as our base, but assume post-trade deal tariff rates of 18% and 15% respectively in calculating effective tariff rates before SCOTUS. For other economies, we use Global Trade Alert estimates.
Source: Global Trade Alert, The White House and Nomura Global Economics.

- Positive India–US trade deal news faded quickly after the US Supreme Court struck down IEEPA-based differentiated tariffs, creating even more uncertainty instead of clarity. US administration is doubling down, signalling continued use of alternative tools—meaning trade policy unpredictability will likely persist.
- President Trump plans to use Section 122 of the 1974 Trade Act to impose a broad 15% tariff as a replacement for IEEPA.
- These tariffs won't stack on top of existing Section 232 and 301 tariffs, and several carve-outs (e.g., coffee, USMCA goods, computers, smartphones) may remain, keeping average tariff levels similar to pre-SCOTUS outcomes.
- Section 122 has its own legal risks, cannot target specific countries, and expires after 150 days unless renewed—implying continued legal battles and prolonged uncertainty.

Global Asset Class Performance: Commodity and EM equities are the outperformer

Precious metals is the best performing asset class Year-to-date: EM equity follows

% change		2024	2025	M-o-M	YTD
Equity	FTSE All World Index (Global Equity)	553	669	1.6	4.6
	MSCI Developed Market Equity	3,708	4,430	0.8	3.1
	S&P 500	5,882	6,846	-0.4	0.9
	NASDAQ	19,311	23,242	-2.5	-1.6
	RUSSELL 2000	2,230	2,482	2.4	7.9
	MSCI Emerging Market Equity	1,075	1,404	6.0	15.3
	MSCI India	2,844	3,075	1.4	-1.5
	India NIFTY (local ccy return)	23,645	26,130	-0.6	-3.6
	BSE MidCap (local ccy return)	46,445	46,954	2.1	-1.8
	BSE Small Cap (local ccy return)	55,181	51,525	1.4	-5.0
Commodity	CRB Commodity Index	537	540	0.7	2.0
	CRB Food Index	529	475	-0.2	-1.9
	Dow Jones Precious Metals Index	252	641	20.7	34.1
	Dow Jones Industrial metals and mining Index	438	607	6.1	19.6
	Brent	75	61	1.9	18.4
	Gold	2,625	4,319	5.7	19.8
Fixed Income	Barclays Global aggregate Index	463	501	0.9	1.9
	Barclays EM USD Aggregate Total Return Index	1,248	1,387	1.2	1.6
	Nifty 10 yr Benchmark G-Sec	2,446	2,614	0.5	0.4
Dollar	DXI index	108	98	0.8	-0.6

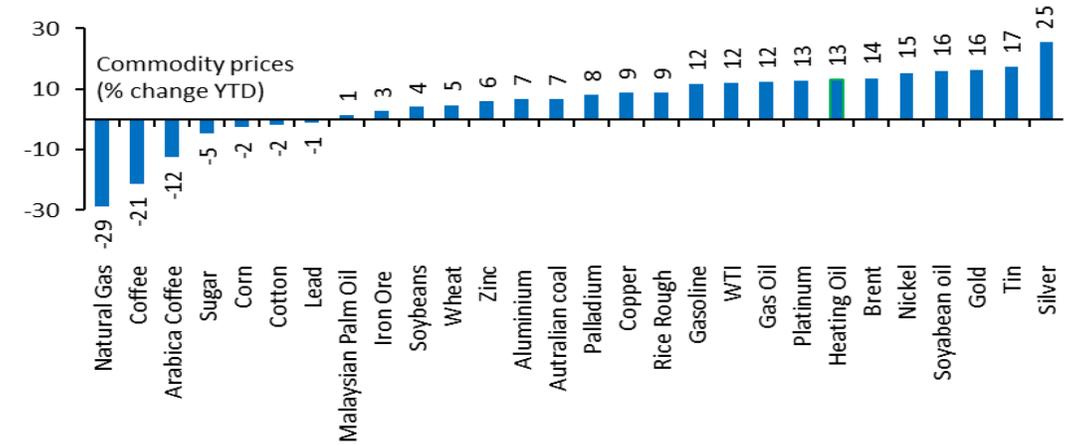
- Year-to-date 2026 has witnessed a strong performance in commodities. Precious metals delivered the strongest returns followed by industrial metals and then Brent.
- Energy prices are on the rise due to escalated tensions in Iran.
- Emerging market equities deliver stronger returns than developed market.
- The US dollar, and global food prices have been among the few key asset classes posting negative returns year-to-date.
- In India, equities exhibit volatility with NIFTY declining by 3.6% year-to-date.
- Year-to-date, global equities and global fixed income have significantly outperformed Indian markets.

Commodity prices trends: Broad based rise in commodity prices

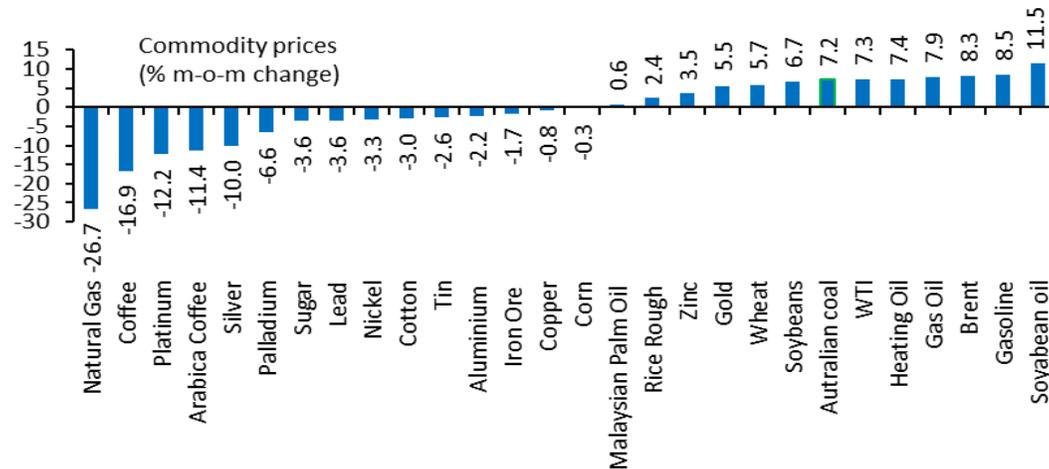
Commodities rise in 2026; YTD Bloomberg commodity index has risen by 10%



Year-to-date, precious metals and industrial metals have been the best performing commodity basket



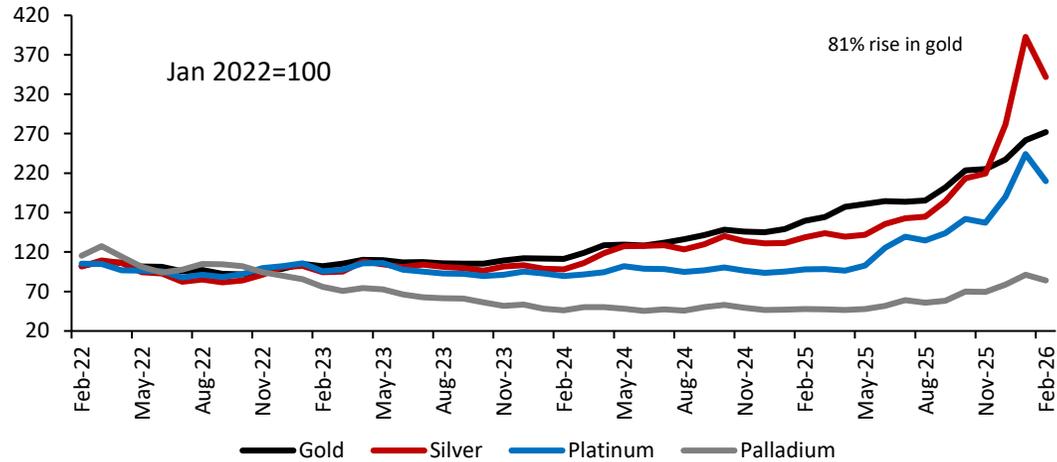
Energy and select agri commodities drive higher commodity prices m-o-m; Metals see some moderation from Jan 2026 highs



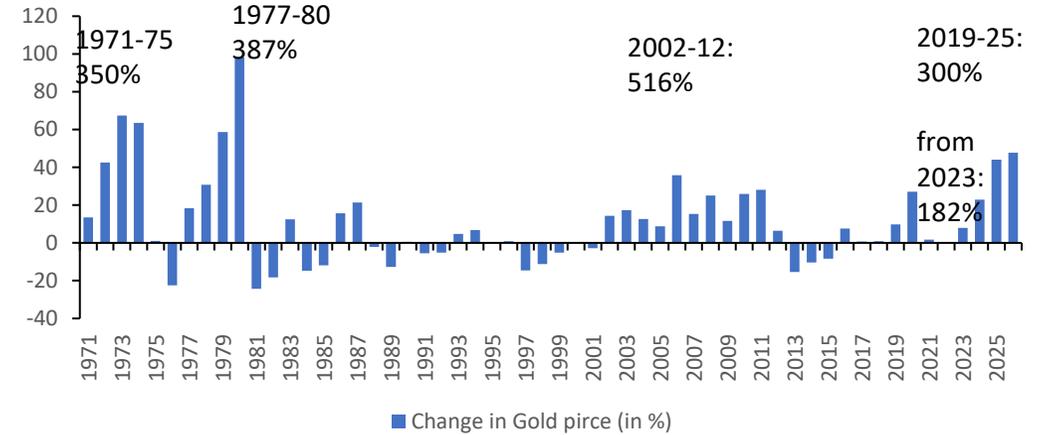
- Commodities prices rose in 2026 till February on account of energy prices, precious metals and industrial metal prices rising.
- Precious metals continue to gain in 2026.
- Global fiscal stimulus continuity and easing in trade tensions help commodity prices stay supported even as tariff related uncertainty persist.

Gold and Silver touches new highs in 2026

Silver has outperformed gold by almost 70 % pt cumulatively since 2023



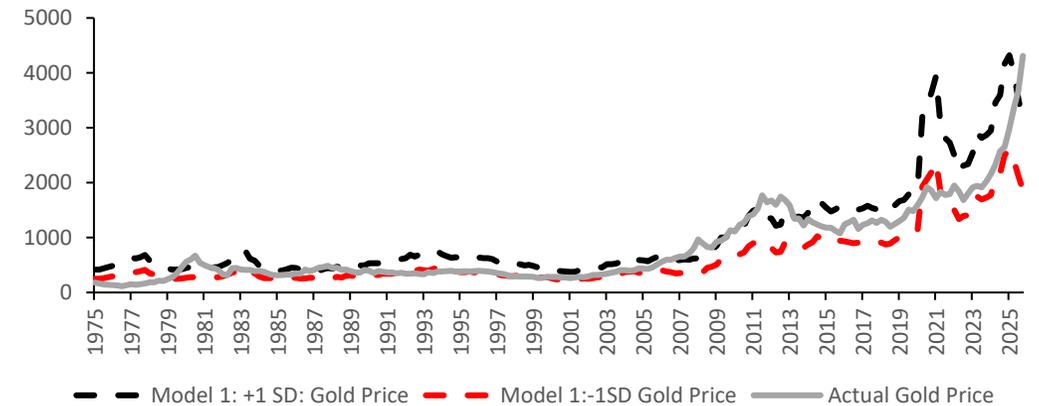
The Three Historical Gold Cycles- 1971–80 (12x), 2002–12 (6x), 2019–Present (4x)



2025 Market Dynamics: ETF Demand Surges as Central Bank Buying Moderates

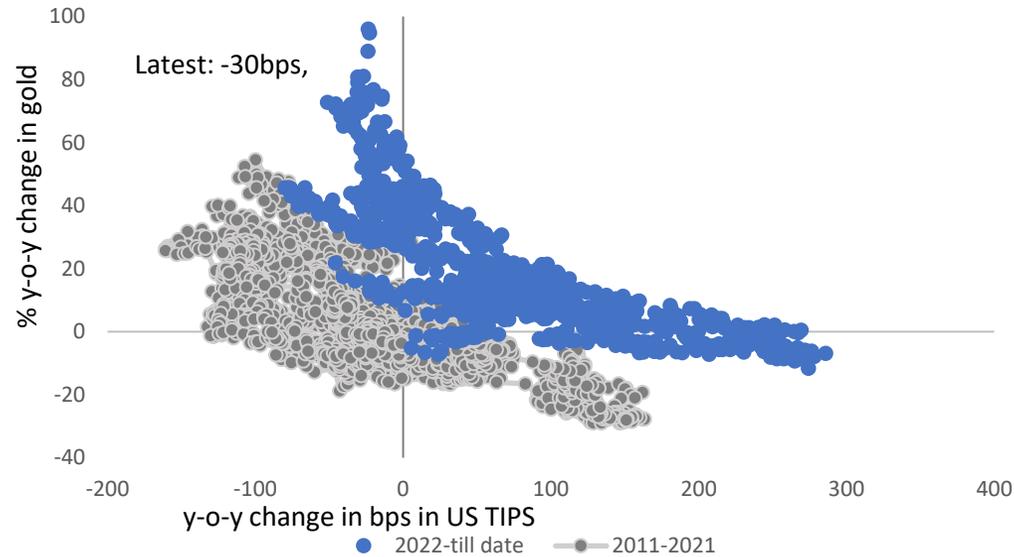
Tonnes	2019	2020	2021	2022	2023	2024	2025
Supply							
Mine production	3,607	3,484	3,579	3,646	3,641	3,650	3,672
Net producer hedging	6	-37	-5	-7	69	-54	-74
Recycled gold	1,276	1,293	1,136	1,136	1,234	1,365	1,404
Total supply	4,889	4,741	4,710	4,775	4,944	4,962	5,002
Demand							
Jewellery fabrication	2,162	1,332	2,252	2,208	2,208	2,027	1,638
Technology	333	309	337	315	305	326	323
Investment	1,282	1,805	1,007	1,126	952	1,185	2,175
Total bar and coin	878	913	1,195	1,235	1,195	1,188	1,374
ETFs & similar products	404	893	-189	-109	-243	-3	801
Central banks & other inst.	605	255	450	1,080	1,051	1,092	863
Gold demand	4,382	3,701	4,046	4,729	4,516	4,631	4,999
OTC and other	507	1,040	663	46	428	331	3
Total demand	4,889	4,741	4,710	4,775	4,944	4,962	5,002

Valuation model to arrive at fair value of gold based on monetary and fiscal policy in US shows that gold price valuation is stretched



Valuation appears stretched: Precious metals could be more volatile in 2026

Gold and Real yield relation – asymmetric since Russia Ukraine



Gold to Silver ratio now at neutral: With Silver at US\$ 77 per ounce and gold near US\$ 5000 per ounce



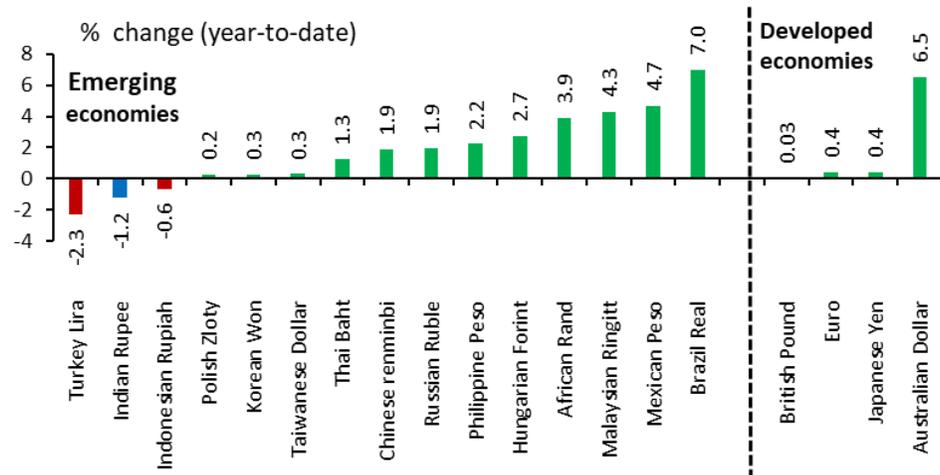
- Historically, gold moved inversely with US real yields. A 100-basis point move in TIPS produced roughly 14% movement in gold. Since 2022, this relationship has broken. Gold has risen even without major declines in real yields. It now requires a much larger rise in real yields to cause gold correction. This asymmetry suggests non-fundamental forces are dominating.
- Silver was undervalued relative to gold in 2004, justifying diversification. Today, the ratio is near long-term averages — no extreme valuation advantage.
- The probability of corrections has increased on account of stretched valuation and rising volatility. However, timing is impossible. Just as in the dot-com bubble — even after rational investors exited in 1999, markets doubled before collapsing. The structural geopolitical shift toward reserve diversification may continue. But valuation signals suggest future returns may be far more moderate than past years.

Dollar stays sideways, softening bias remains for 2026

Dollar sees a strong start in 2025, weakens in Q2 and then stabilizes July onwards



Weakness in DXY YTD drives appreciation across Asian currencies



- If there is a theme across EM underpinning the strong performance, it is the dollar weakness.
- For the very near future, USD weakness from Trump's trade policy uncertainty may be limited by several factors, including near-term US macro resilience, hawkish Fed signals and US-Iran risks.
- From the medium-term perspective, with global growth shaping well, USD may remain soft through large part of 2026. Chinese officials appear to be getting more open for RMB appreciation.
- While market's baseline view is for the Fed to cut rates twice more this year. But persistently strong growth in the US means that if inflation does not start to show a downtrend in the next couple of months, those rate cuts will come into question, and with them, the outlook for the dollar.
- Talking about USD INR, FII trends appear to be bottoming out in India, particularly after the trade deal. A large part of Jan 2026 outflows has been reversed.
- However, in addition to the risk of the Trump administration attempting to increase tariff rates in the future, we expect any improvement in India's capital flow backdrop to be met by the RBI's accumulation of USD (in part to reduce its large, short FX forward book).

INDIA ECONOMIC ACTIVITY

India's Q3 FY26 real growth moderates ; but nominal improves

Statement 6A: Growth Rates (%) for Quarterly GDP Estimates along with Expenditure Components at Constant Prices

Sector	Percentage Change Over Previous Year										
	2023-24				2024-25				2025-26		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Primary Sector	4.0	2.3	1.4	3.0	3.6	4.6	6.4	4.6	4.2	2.8	1.7
1.1 Agriculture, Livestock, Forestry & Fishing	4.5	2.3	1.4	2.7	2.6	4.1	5.8	3.8	4.2	2.3	1.4
1.2. Mining & Quarrying	-0.3	2.7	1.5	5.3	11.9	8.3	13.1	12.9	4.5	6.1	4.7
2. Secondary Sector	9.0	17.2	12.7	7.8	9.1	4.8	8.4	9.8	7.4	10.9	10.1
2.1. Manufacturing	9.3	20.4	15.2	7.0	9.4	4.9	10.8	11.8	10.6	13.2	13.3
2.2. Electricity, Gas, Water Supply & Other Utility Services	5.6	14.4	12.6	10.3	9.2	-0.2	0.6	2.1	-1.9	3.9	1.5
2.3. Construction	9.7	12.7	8.7	8.7	8.7	6.1	6.4	8.0	5.4	8.7	6.6
3. Tertiary Sector	6.8	5.1	6.5	9.6	8.5	8.1	8.2	6.8	7.8	9.3	9.5
3.1 Trade, Hotels, Transport, Communication & Services related to Broadcasting, Storage	10.6	9.7	8.8	11.3	6.9	6.6	6.7	6.3	9.4	10.4	11.0
3.2 Financial, Real Estate, Ownership of dwelling, IT & Professional Services	5.1	3.2	4.8	8.6	10.3	10.0	11.1	8.8	8.8	9.9	11.2
3.3 Public Administration, Defence & Other Services	5.9	4.2	7.3	9.7	6.9	6.0	4.4	3.2	4.3	6.9	4.5
GVA at Basic Prices	6.7	7.9	6.7	7.6	7.6	6.5	7.8	7.1	7.0	8.6	7.8
Net Taxes	5.1	5.3	10.9	6.8	6.0	7.1	2.7	5.5	4.3	6.0	7.7
GDP	6.6	7.6	7.1	7.5	7.5	6.6	7.4	7.0	6.7	8.4	7.8
Expenditure Components											
1. Private Final Consumption Expenditure (PFCE)	6.4	5.3	5.4	6.0	6.1	5.6	6.0	5.6	9.2	8.0	8.7
2. Government Final Consumption Expenditure (GFCE)	-0.1	-0.9	0.9	2.5	7.5	7.0	7.6	3.6	5.8	6.6	4.7
3. Gross Fixed Capital Formation (GFCF)	8.0	8.8	6.2	6.1	6.5	6.6	6.3	6.2	4.9	8.4	7.8
4. Changes in Stocks (CIS)	113.5	201.3	131.0	68.9	18.3	-1.5	-1.1	-5.8	4.6	12.8	17.2
5. Valuables	-27.8	-30.8	8.5	41.0	-26.7	49.4	14.5	-32.9	-28.9	-28.4	-2.8
6. Exports	-2.5	-2.0	0.9	6.4	7.3	3.1	10.5	5.4	6.6	10.2	5.6
7. Imports	4.3	1.9	0.1	-9.7	8.3	4.6	2.9	5.5	7.4	5.9	8.6
8. Discrepancies	0.4	0.9	1.8	-1.4	1.8	1.2	1.2	0.5	1.7	1.2	1.7
GDP	6.6	7.6	7.1	7.5	7.5	6.6	7.4	7.0	6.7	8.4	7.8

Key highlights from new GDP series

- MOSPI released a new GDP series (base 2022–23) with major methodological upgrades, including expanded deflators and double deflation for manufacturing.
- As per the new series, India's Real GDP grew 7.8% in Q3 FY26, moderating from Q2 (8.4%) but slightly above expectations;
- Q3 FY26 growth was consumption-driven, supported by GST cuts and stronger household balance sheets; investment and exports softened. On the supply side, manufacturing and private services led growth; public services slowed. Manufacturing real growth boosted by lower deflators.
- Second Advance estimate has also been released. It revises FY26 growth expectations upward by 20bps to 7.4%.
- Nominal GDP growth improved to 8.9% in Q3 FY26 vs. 8.5% in Q2 and 8.4% in Q1 FY26.
- Second Advance estimate pegs FY26 full year nominal growth at 8.6% (60bps up from First estimate). However, this points towards a moderation from 9.7% growth in FY25. This moderation is largely agri-led. Non-agri sectors show strong nominal momentum.
- New series lowers India's private consumption share to ~56% (vs. 61%) due to revised PFCE methodology and improved data coverage. This share gets almost equally taken up by government revenue spending, gross capital formation and lowering of net imports.
- For now, we continue to find Nominal GDP to be a more reliable cyclical indicator.
- The size of the economy is 3-4% smaller in the new series, likely led by better data on the informal sector, which had been particularly weak during/after the pandemic period. While the size of the economy was initially estimated to be INR 160tn in FY26 (in the older series), it's been revised down an estimate of INR 145 tn now.
- Lower nominal GDP levels push up fiscal ratios; central government debt rises to ~58% of GDP, making medium-term consolidation more challenging.
- RBI's policy stance likely unchanged; demand remains resilient, consistent with subdued core inflation and improving industrial orders.
- Looking ahead to FY27, real GDP growth is expected to moderate a tad to 7.3-7.4%, while nominal GDP could rise above 11% amidst normalising agricultural prices and rising WPI inflation. The breadth of the recovery will depend critically on the pace of credit expansion, the trajectory of exports following tariff adjustments, the monsoon pattern, food inflation developments, and the balance between public and private investment.

High frequency data heatmap

Bank credit, and consumption-oriented data holds up (corporate wage, auto sales, tractor sales, consumer sentiment)

%y-o-y		FY24	FY25	1HFY26	Oct-25	Nov-25	Dec-25	Jan-26
Overall Macro Indicators	GST collections (Rs. Billion)	11.7	9.4	9.8	4.6	-4.0	1.3	2.0
	Bank Credit (Rs. Tn)	19.2	13.4	9.9	12.5	11.5	14.5	14.5
	Petroleum Consumption (000 MT)	5.0	2.1	1.3	-1.5	0.6	5.1	2.9
	Electricity generation (bn KWh)	7.1	5.2	1.0	-6.9	-1.5	6.3	5.0
Logistics and Movements of Goods	Air Traffic: Passengers handled (mn passengers)	15.0	9.5	2.6	4.7	7.0	-2.8	na
	Air Traffic: Cargo handled ('000 tonnes)	7.0	10.5	4.7	-2.5	15.6	9.5	na
	Rail freight (mn tonnes)	5.2	1.7	3.2	2.3	4.2	3.2	na
	National Electronic Toll Collection (mn numbers)	10.9	11.7	15.6	17.5	17.3	na	na
	Total E-way bills (mn numbers)	16.1	17.3	21.8	8.2	27.6	23.5	15.8
	HSD Consumption (000 MT)	4.3	2.0	2.9	-0.3	4.8	5.2	na
	Total Port traffic (mn tonnes)	7.6	3.4	4.3	3.0	12.3	8.0	3.1
Consumer	Digital Payments (Value INR tn)	36.9	26.3	15.1	10.1	16.6	15.9	na
	Card Payments: Value: Credit Cards (Rs. Tn)	27.8	15.2	16.2	6.2	11.5	8.9	na
	Nauki Job Speak Index (Jul 2008=1000)	-9.4	1.4	6.6	-9.3	23.5	13.2	3.4
	MGNREGA (work demanded by persons)**	0.3	-7.7	-8.5	-35.7	-32.0	-28.6	na
	Rural Wage (Rs./ day)	6.3	5.8	12.8	18.4	18.1	17.9	na
	Domestic Passenger vehicle sales ('000 units)	25.7	1.9	-1.5	17.2	18.7	26.8	12.6
	Domestic two-wheeler sales ('000 units)	13.4	9.1	0.7	2.1	21.2	39.4	26.2
	Domestic Tractor sales ('000 units)	-8.3	8.4	18.8	14.8	30.1	37.1	43.0
	Urban consumer sentiment index*	96.7	104.3	109.3	109.0	113.5	112.8	114.2
	Rural consumer sentiment index*	102.4	112.9	117.1	118.1	117.5	121.5	119.9
	IIP: Consumer durables (2011-12=100)	3.6	8.0	4.8	-1.3	11.2	12.3	na
IIP: Consumer non- durables (2011-12=100)	4.1	-1.5	-1.8	-5.2	8.0	8.3	na	

Strong data to weaker data →

Source: CMIE, SBIFM Research; NB: * these are index numbers and not y-o-y growth; ** Negative numbers represented by green and positive numbers in red

India's growth trajectory remains positive (2/2)

Steel and cement consumptions at healthy levels. Earnings commentary suggest improving orders for industrial companies

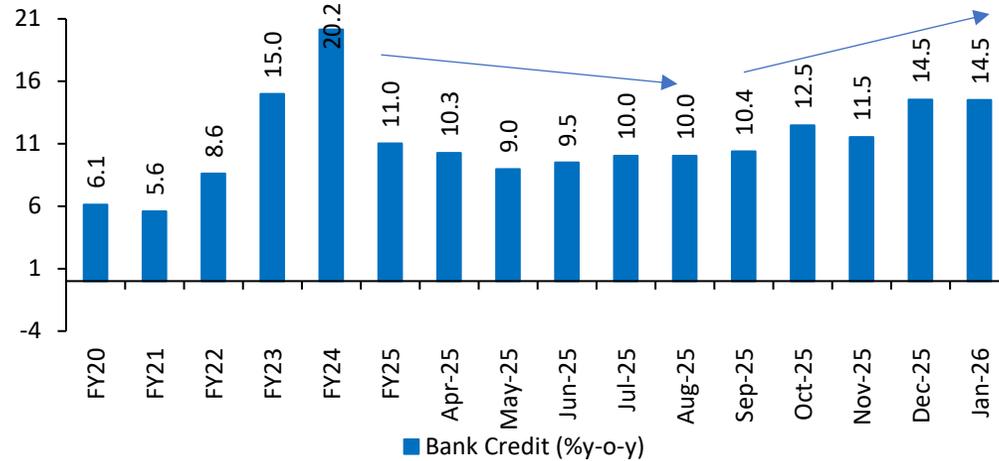
%y-o-y		FY24	FY25	1HFY26	Oct-25	Nov-25	Dec-25	Jan-26
Business	Manufacturing PMI*	57.2	57.4	58.4	59.2	56.6	55.0	55.4
	Services PMI*	60.3	59.2	60.4	58.9	59.8	58.0	58.5
	Coal (mn tonnes)	11.8	5.1	-0.8	-8.5	2.1	3.6	3.1
	Fertilizers(mn tonnes)	3.7	2.9	-0.4	7.4	5.6	4.1	3.7
	Steel(mn tonnes)	12.5	6.9	10.7	5.9	6.7	10.1	9.9
	Cement(mn tonnes)	8.9	6.3	7.7	5.2	14.6	13.7	10.7
	Import of Capital Goods (US\$ mn)	7.6	8.7	15.9	14.5	15.3	26.9	na
Government	Centre Revex ex Interest Payment (Rs. Tn)	-3.7	2.3	-3.1	-17.3	18.8	-5.5	na
	Centre Capital expenditure (Rs. Tn)	28.8	10.9	40.0	-28.3	-13.8	-24.5	na
	State Revex ex interest payment (Rs. Tn)	8.3	10.7	8.0	-16.2	38.7	3.5	na
	State Capex (Rs. Tn)	27.2	6.7	10.3	1.2	28.0	45.2	na
	Tax collection (Rs. Tn)	12.7	9.2	4.4	12.2	-0.9	29.0	na
Trade	Exports of Goods (US\$ bn)	-3.1	0.1	2.7	-12.5	19.0	1.8	0.6
	Imports of Goods (US\$ bn)	-5.3	6.2	4.8	17.0	-1.9	8.7	19.2
	Non oil and non gold imports (US\$ bn)	-3.8	5.2	8.4	7.4	15.3	11.3	2.3
	Exports of Services (US\$ bn)	4.8	13.6	9.4	2.2	6.7	13.0	26.3
Prices	CPI (2024=100)	na	na	na	0.3	0.7	1.3	2.8
	WPI (2011-12=100)	-0.7	2.3	0.2	-1.0	-0.1	0.8	1.8

Strong data to weaker data →

Source: CMIE, SBIFM Research; NB: * these are index numbers and not y-o-y growth; ** Negative numbers represented by green and positive numbers in red

Growth support #1: Easy monetary and regulatory conditions lead to private credit revival

Bank credit growth is improving



Aggregate credit disbursement grew even after accounting for substitution away market borrowings

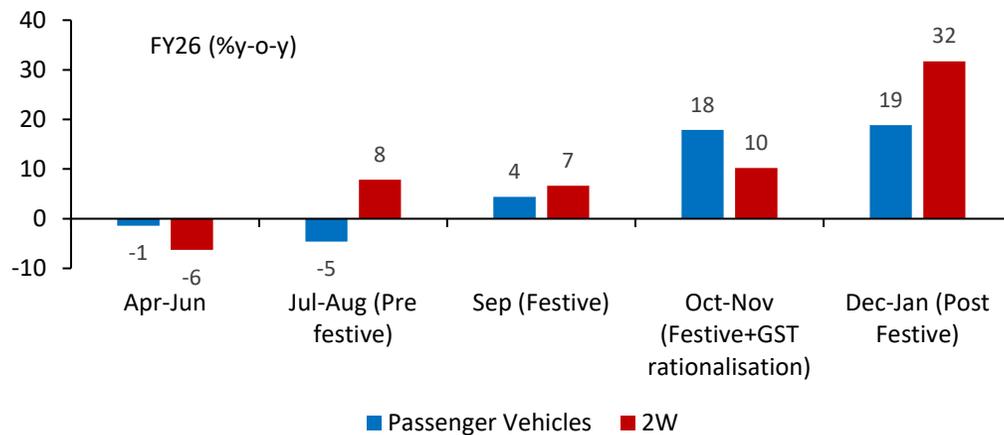
% y-o-y	Bank Credit	Corporate Bonds	Commercial Papers (CPs)	Bank Credit+Corp Bonds+CPs
Jun-24	17.4	10.0	-2.5	15.2
Sep-24	13.0	13.5	-3.6	12.8
Dec-24	11.2	13.6	19.7	11.8
Mar-25	11.0	13.4	14.0	11.6
Jun-25	9.5	15.5	18.4	11.0
Sep-25	10.4	13.7	22.8	11.3
Dec-25	14.5	11.3	3.5	13.6

Broad-based pick-up in bank lending

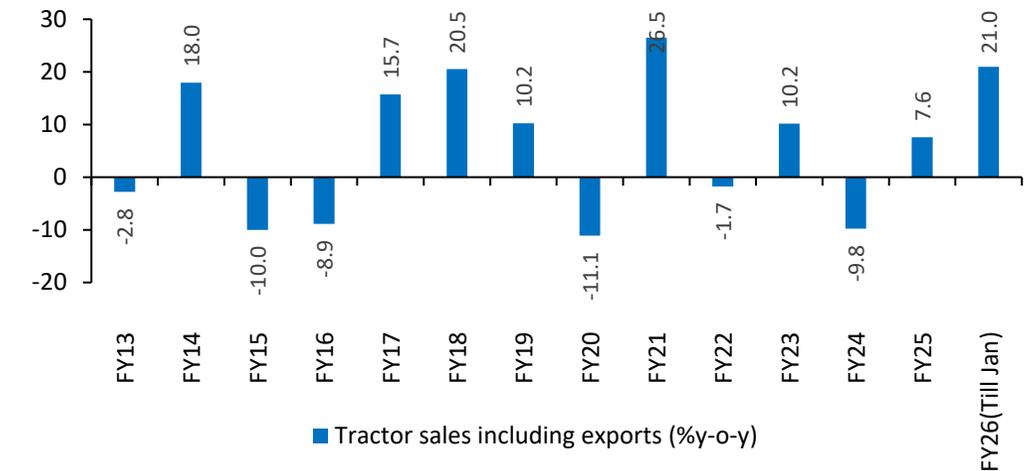
% CAGR	May'25	Dec-25	% pt change
Bank Credit	9.0	14.5	5.5
Non-Food Credit	8.8	14.4	5.6
Agriculture and allied activities	7.5	12.1	4.6
Industry	4.8	14.5	9.7
Micro & small	13.7	32.3	18.6
Medium	16.8	21.4	4.6
Large	1.0	8.6	7.6
Services	8.7	13.9	5.2
Personal Loans	11.1	14.7	3.6
Consumer durables	-3.9	-6.0	-2.1
Housing (Including PSL)	9.0	11.1	2.1
Advances against fixed deposits	15.5	15.8	0.3
Advances to individuals against share, bonds, etc.	1.6	4.1	2.5
Credit card outstanding	8.5	1.0	-7.5
Education	14.1	14.8	0.7
Vehicle loans	5.9	16.5	10.6
Loans against gold jewellery	115.3	121.8	6.5
Other personal loans	9.0	11.7	2.7

#2: GST rate rationalisation benefitted auto sales; tractor and commercial vehicle sales also recover

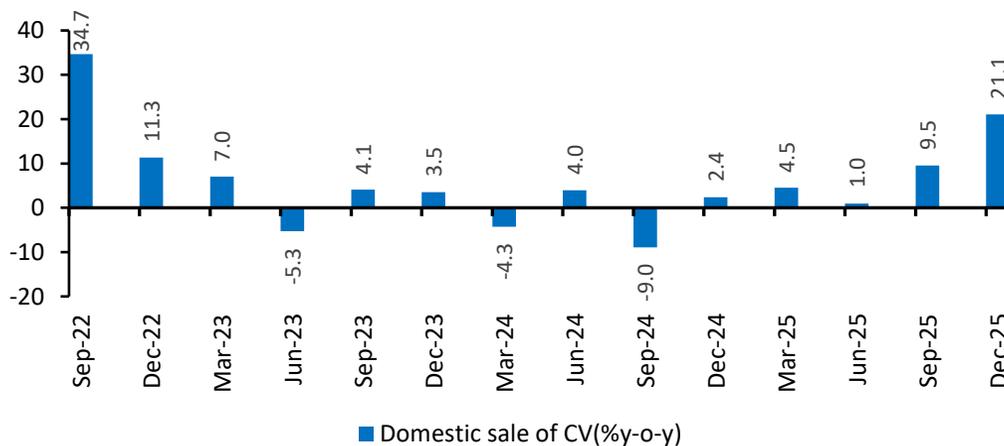
Domestic passenger vehicle and two-wheeler sales see a sharp rise



Tractors sales also see a meaningful recovery



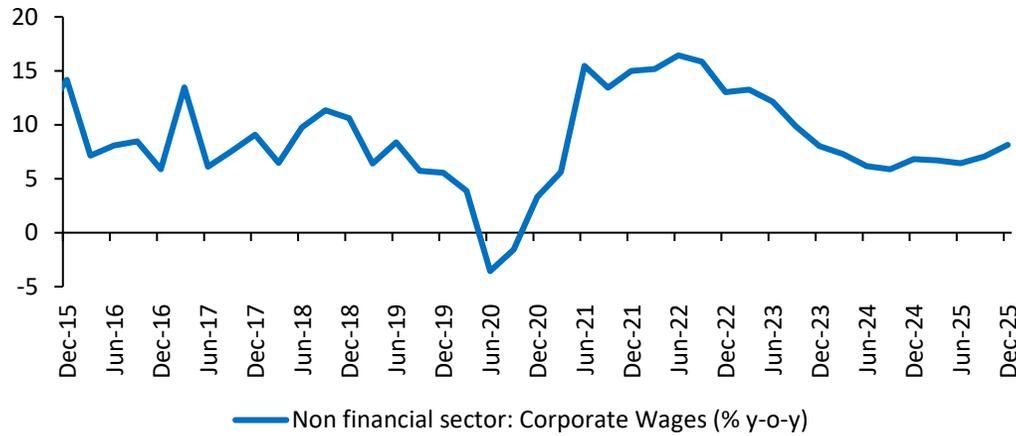
Commercial Vehicle sales see strong growth in the December 2025 quarter



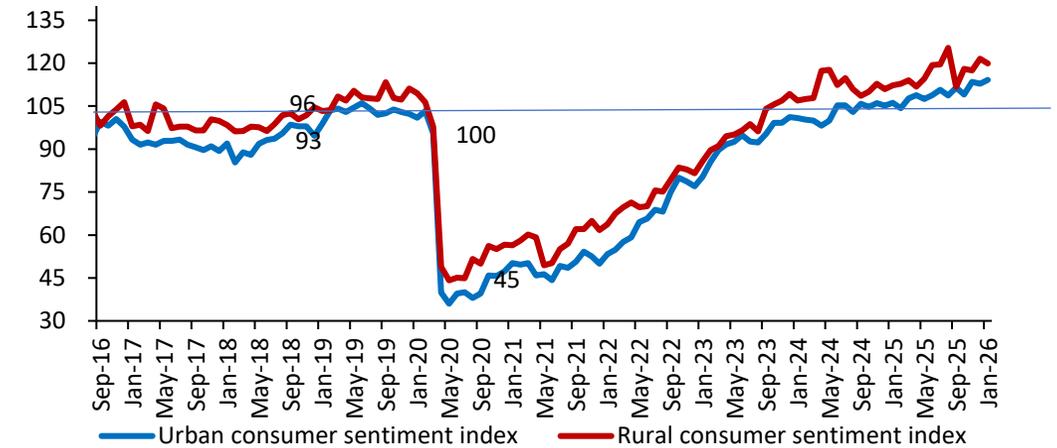
- GST rate rationalisation has supported consumer discretionary demand, with autos being a key beneficiary.
- Commercial vehicle and tractor sales have also seen a meaningful recovery.
- Lower inflation, improved affordability following GST cuts, and easing interest rates are collectively supporting both rural and urban consumption.

#3: Boost to consumption with lower inflation, improved affordability and easing interest rates

Corporate wage growth sees a marginal improvement in December quarter



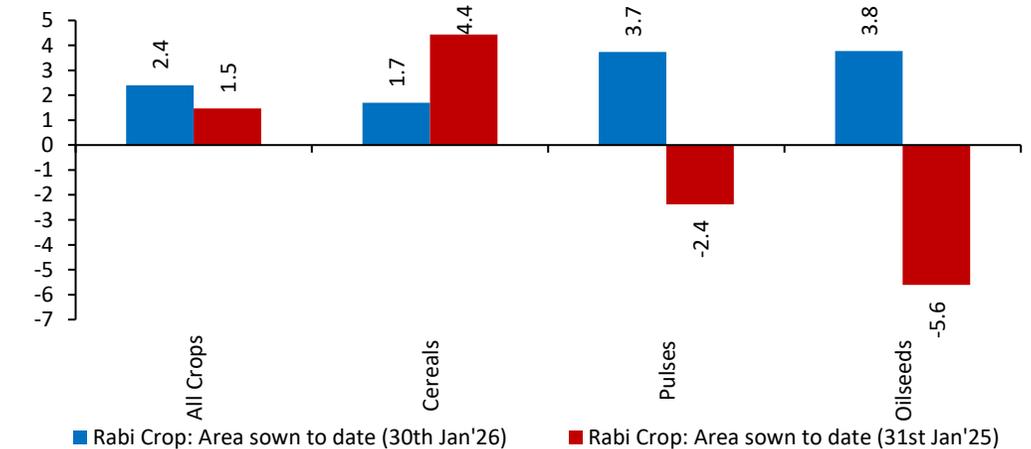
Consumer sentiment is improving



Personal loan growth momentum rises



Bumper winter crop outlook for Rural India: Rabi crop sowing is 2.4% higher y-o-y

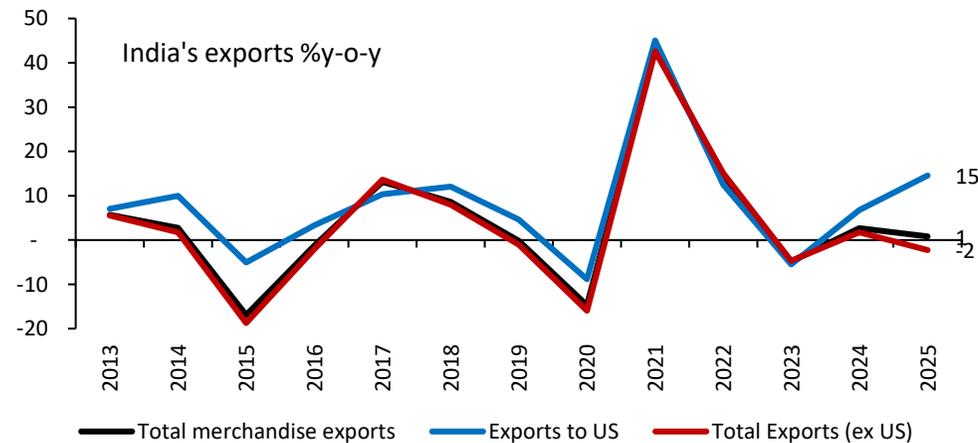


#4: Export sector will see a level playing field on tariffs

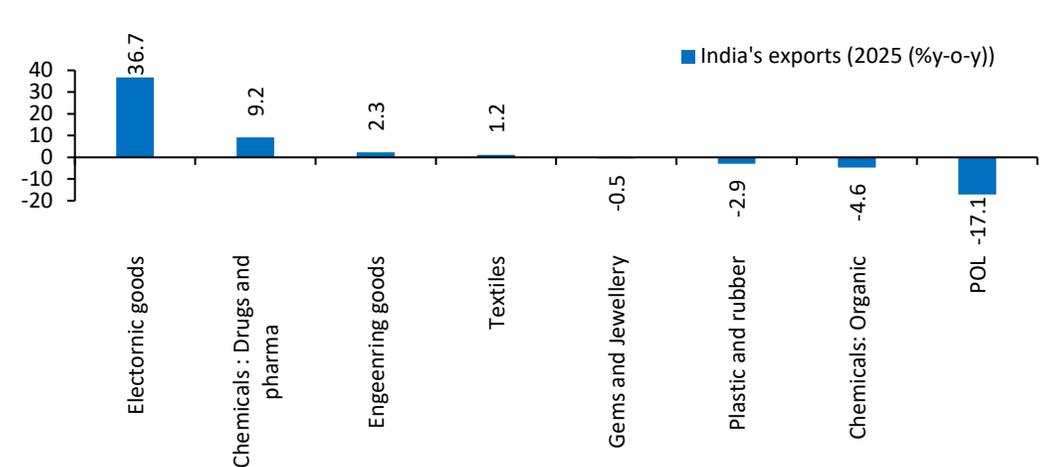
India's export growth significantly underperformed its emerging market peers in 2025

Exports (2025 % y-o-y)	
Taiwan	34.8
Vietnam	16.7
Philippines	15.2
Malaysia	13.7
Thailand	12.9
Mexico	7.6
Indonesia	6.1
Hungary	6.0
Bangladesh	5.8
South Africa	5.8
China	5.5
South Korea	3.8
Brazil	3.3
Colombia	1.3
India	0.6

India's exports to the US did not decline in 2025 with strong electronic exports and largely because exporters absorbed tariff-related costs



Electronic sectors maintained healthy growth despite tariff uncertainty; Textiles, gems and jewellery could see a recovery now

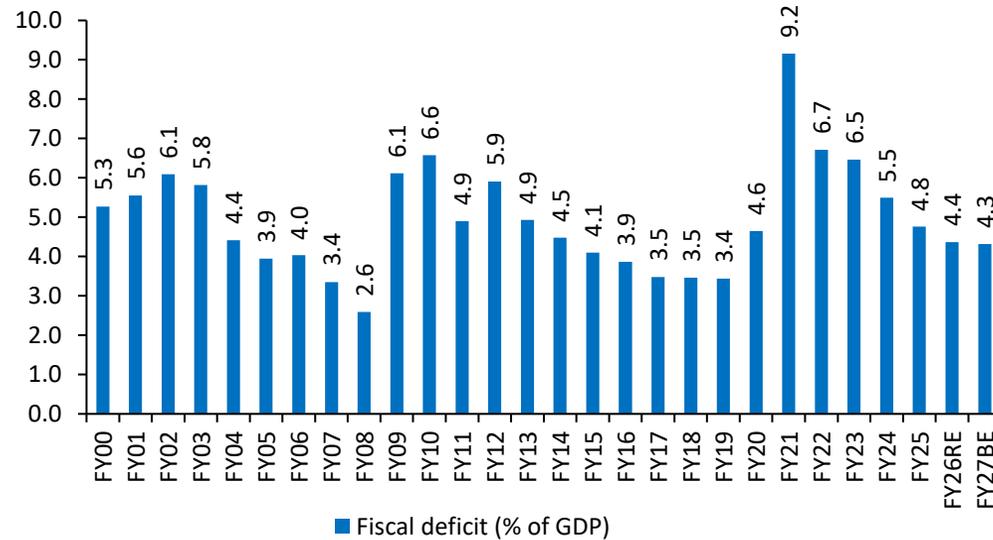


NB: These segments represent ~80% of India's total merchandise exports

- Exports sector- previously a laggard, is not weighed down by tariff related uncertainties going forward.
- Recent tariff developments—beginning with the India–US trade deal and followed by the US Supreme Court striking down country-specific tariffs—have helped restore a level playing field.
- We see scope for recovery in segments such as textiles and gems & jewellery, which were adversely impacted in recent months.
- Notably, India's exports to the US did not decline in 2025 largely because exporters absorbed tariff-related costs. The recent tariff reductions should ease margin pressures.
- Therefore, the trade deal is likely to benefit corporate profitability with some positivity into topline as well, while also removing policy uncertainty and allowing companies to refocus on growth and expansion plans.

#5: 2026 Union budget focuses on infrastructure spend and incentivizing private capex

Centre's pace of fiscal consolidation is moderating



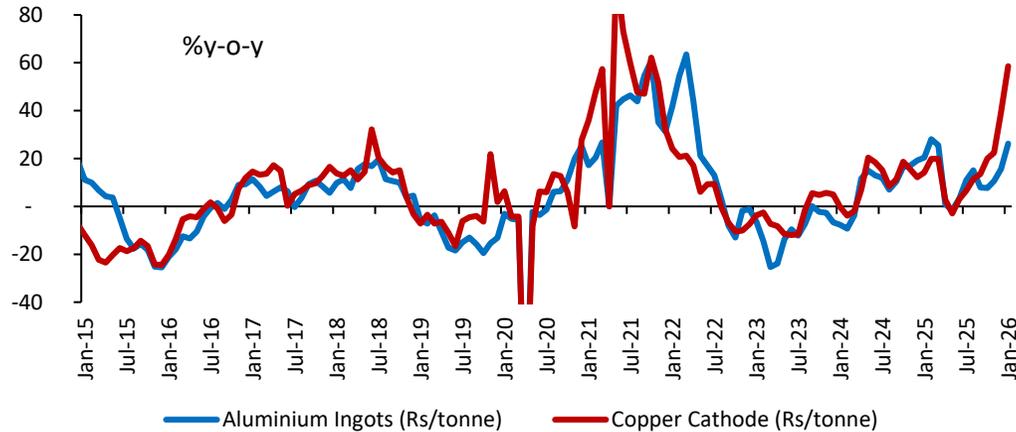
Infrastructure oriented spend budgeted to rise 18% in FY27

	Rs. Billion				% y-o-y	
	FY25	FY26BE	FY26RE	FY27BE	FY26RE	FY27BE
Power	777	865	864	1,021	11	18
Renewable Energy	459	540	571	667	24	17
Atomic Energy	256	269	256	256	0	-0
Petroleum and Natural Gas	1,693	1,390	1,314	1,341	-22	2
Roads	3,032	2,912	2,831	3,132	-7	11
Railways	2,690	2,650	2,650	2,928	-1	11
Airports	52	43	47	47	-8	0
Ports	91	89	151	139	66	-8
Metro	247	312	275	287	11	5
Urban Rejuvenation Mission	76	100	75	80	-2	7
Housing	381	746	400	735	5	84
Water and sanitation	386	909	357	887	-7	148
Defence	1,706	1,924	1,974	2,310	16	17
Ports, Shipping and Waterways	2	4	2	24	32	1,073
Centre Infrastructure Spending	11,854	12,753	11,773	13,864	-1	18
Rural Oriented Infra	830	1,572	735	1,563	-11	113
Urban Development Spending	445	694	488	626	10	28
Energy related Infra	3,185	2,860	3,005	3,284	-6	9
Transport Infra	3,081	3,094	3,125	3,426	1	10
Budgetary Support for Infra Spend	8,508	9,643	8,591	10,361	1	21
EBR for Infra Spend	3,346	2,911	3,182	3,503	-5	10
Central Infra Spending + State Capex loan	13,511	14,459	13,462	15,977	-0.4	19

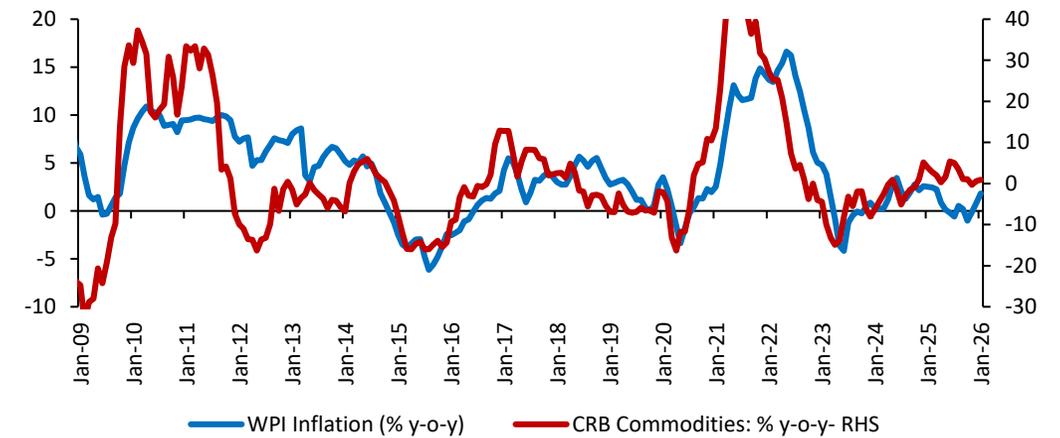
- The Union Budget 2026 reflects only a modest fiscal consolidation alongside an improvement in expenditure quality.
- Looking beyond the headline capital expenditure (capex) figure provides a clearer picture of the government's infrastructure push. After adjusting for various factors, effective infrastructure spending by the Centre has risen by 18%, reversing the modest contraction seen last year.
- In addition to direct capex, Production-Linked Incentive (PLI) schemes remain a significant indirect driver of private investment, with subsidy disbursements estimated to reach Rs 200 billion in FY26.
- The government has also incentivised investments in data centres through tax holidays, launched an R&D fund to catalyse innovation-led capex, and introduced other measures to stimulate private investment in strategic sectors.
- Recent corporate earnings commentary reinforces the view that the domestic capex cycle is gaining traction. Demand remains broad-based, particularly across power transmission & distribution, defence, hydrocarbons, metals, utilities, cement, and refineries, while emerging sectors such as semiconductors, AI, and data centres are opening up incremental opportunities.

#6: Reflationary cycle is supportive for growth-oriented companies

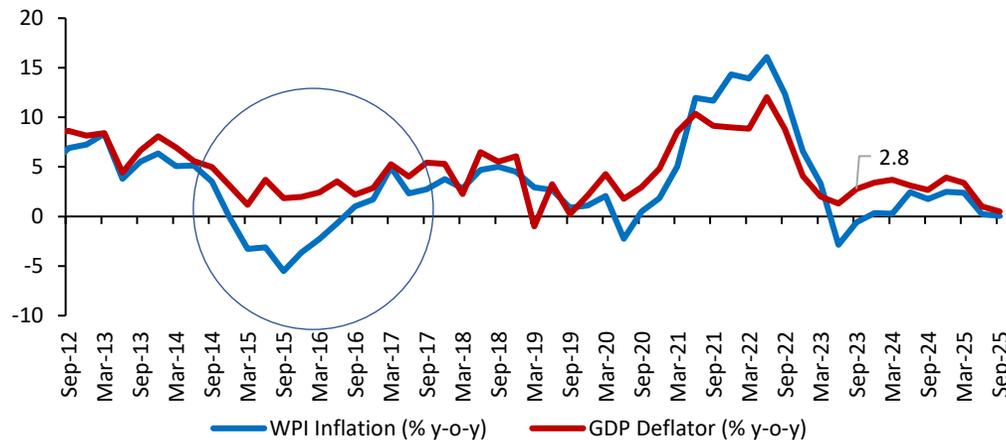
Domestic metal prices see a sharp rise



Rise in global commodity prices puts upward pressure on WPI; Could lead to better pricing power for corporates



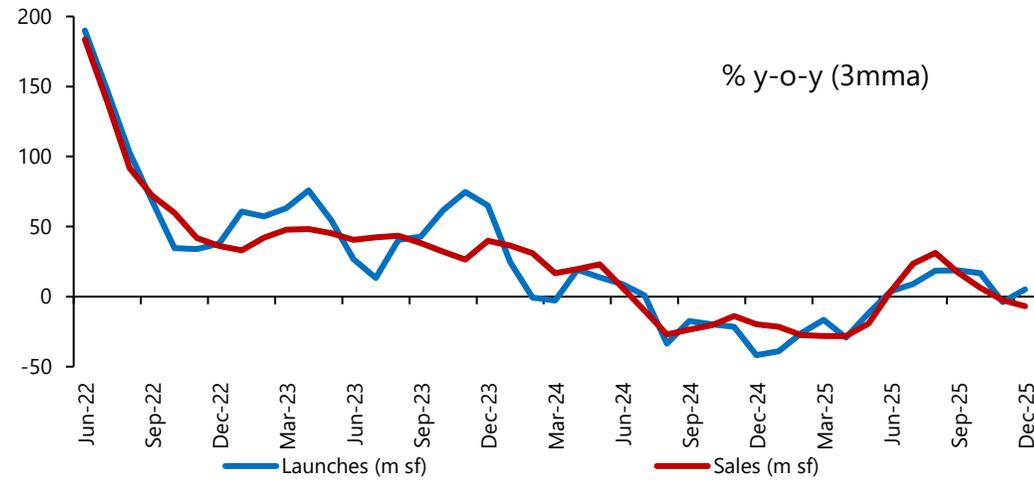
Rising WPI would result in a rise in the GDP deflator; Hence Nominal GDP growth should fare better



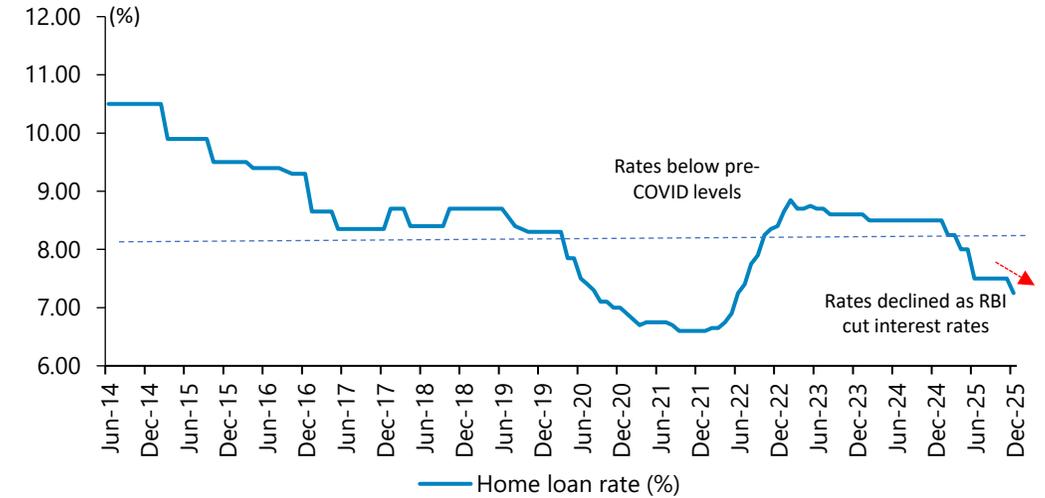
- Rising commodity prices are likely to support commodity producers, particularly in metals and oil & gas.
- There may also be a gradual return of pricing power across select sectors.

Real estate momentum underwhelms expectations

Real Estate launches and sales growth is underwhelming till September 2025; sees some improvement though



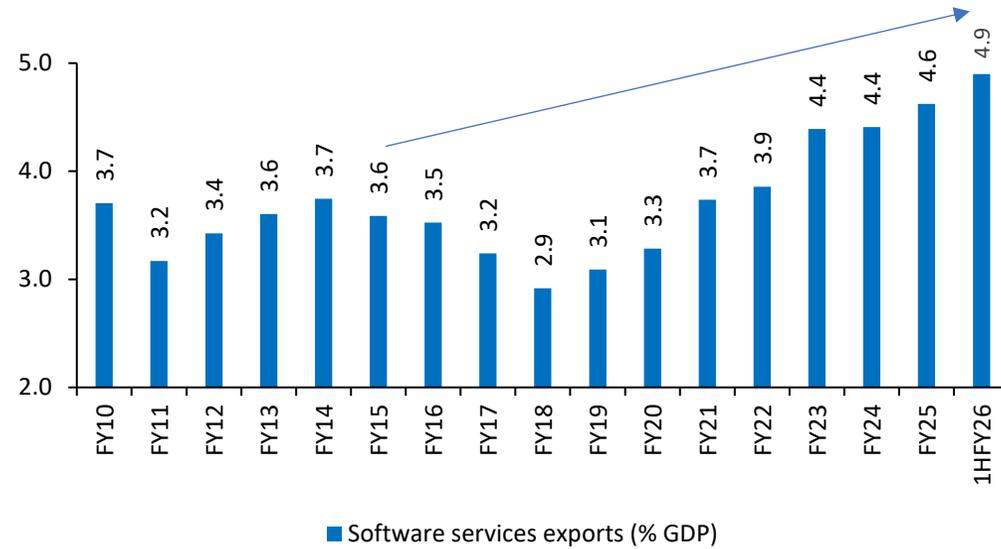
Fall in home loan rates improves affordability, developers still positive on outlook



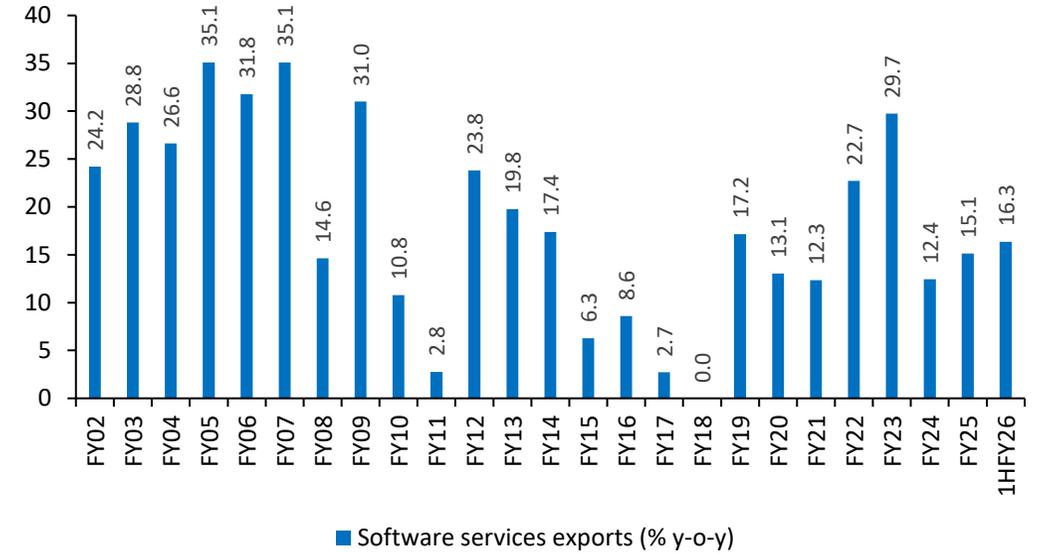
- Real estate activity in 2025 has been weak in residential but strong in the commercial space. Commercial space appear supported by GCC with launches and sales healthy in Bangalore, Hyderabad and Chennai. On the other hand, the commercial space in Pune had been a tad disappointing.
- Unsold inventory remains and has risen from 13 months to 16 months capping the price hikes.
- Real estate momentum continues to disappoint expectations. Booking volumes have softened, largely due to a lack of meaningful project launches, and average realisations have declined. While developers remain optimistic about the outlook, this optimism has yet to translate into measurable performance.

Software exports are crucial for India's external balances - could AI disruptions threaten this strength?

Rising software exports helped offset India's trade deficit



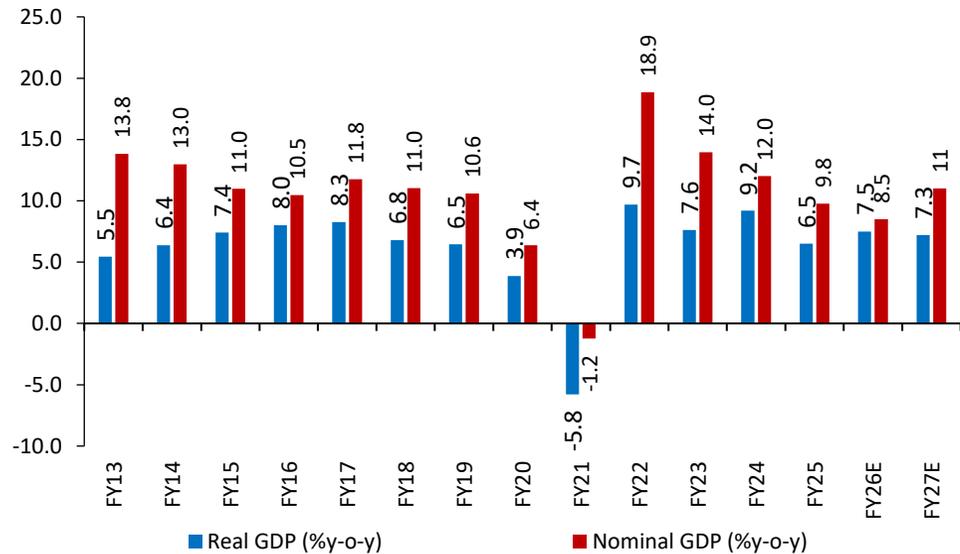
Software services exports continuously delivered positive y-o-y growth since 2000s



- The recent volatility in the global IT and technology services space due to AI developments could pose risks to India's services exports, which had remained resilient post-COVID, supported in part by strong growth in Global Capability Centres (GCCs) in India.

Positive outlook on FY27 growth backed by policy thrust and credit revival

India's growth expected at 7.3-7.4% y-o-y in FY27; Nominal growth is expected to improve significantly to +11%

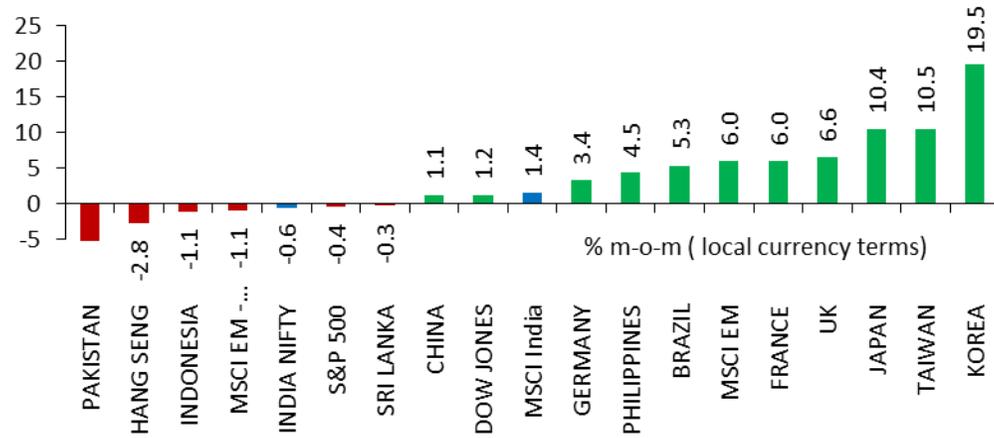


- Several factors are driving growth recovery in India:
 - Monetary and regulatory easing is now translating into stronger private credit growth
 - GST rate rationalisation has supported consumer discretionary demand
 - Exports, previously a laggard, are no longer weighed down by tariff
 - The Union Budget 2026 reflects only a modest fiscal consolidation alongside an improvement in expenditure quality
 - Rising commodity prices are likely to support commodity producers, particularly in metals and oil & gas.
- That said, certain areas remain weak. Real estate momentum continues to disappoint expectations. Additionally, the recent volatility in the global IT and technology services space due to AI developments could pose risks to India's services exports
- In summary, our confidence in the Indian economy has strengthened following last year's policy adjustments, the recent Union Budget, and the trade developments. While pockets of weakness persist, the balance of risks appears more favourable, with improving credit growth, consumption recovery, supportive fiscal policy, and easing external uncertainties underpinning the outlook for FY27.

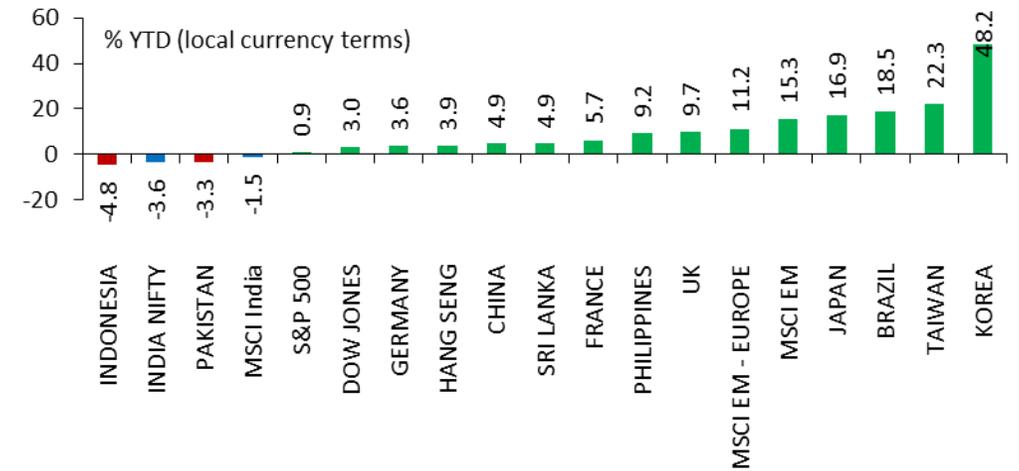
EQUITY MARKET

Global equity market snapshot: February 2026

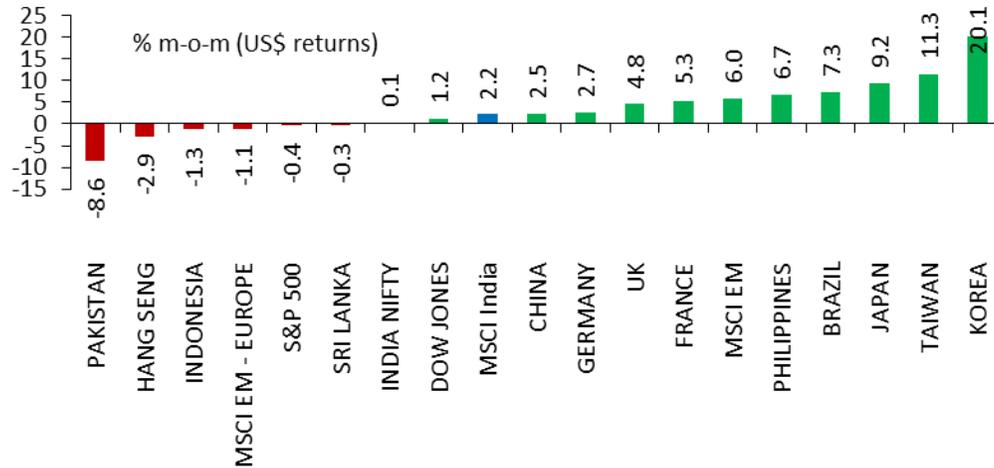
Performance in February 2026 (local currency returns)



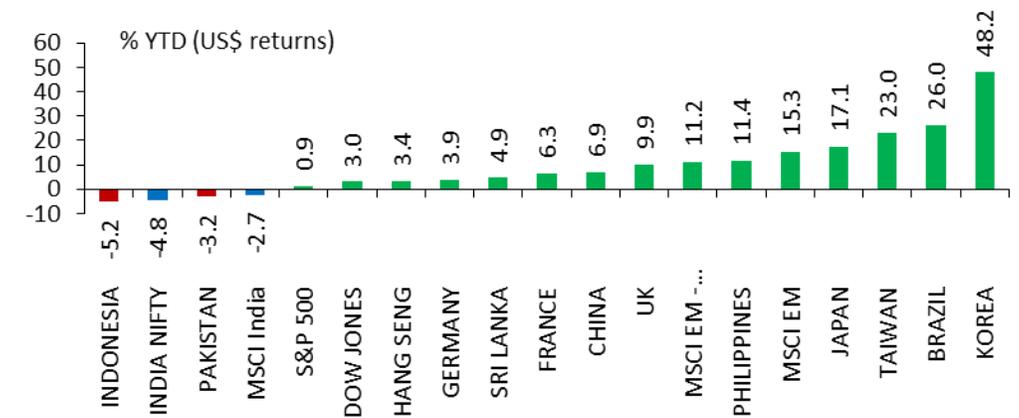
YTD performance (local currency returns)



Performance in February 2026 (US\$ returns)

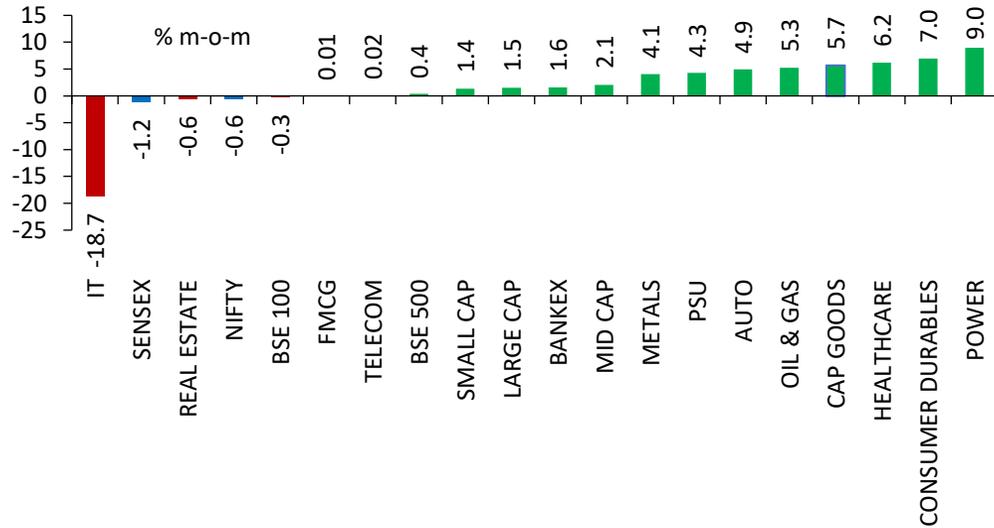


YTD performance (US\$ returns)

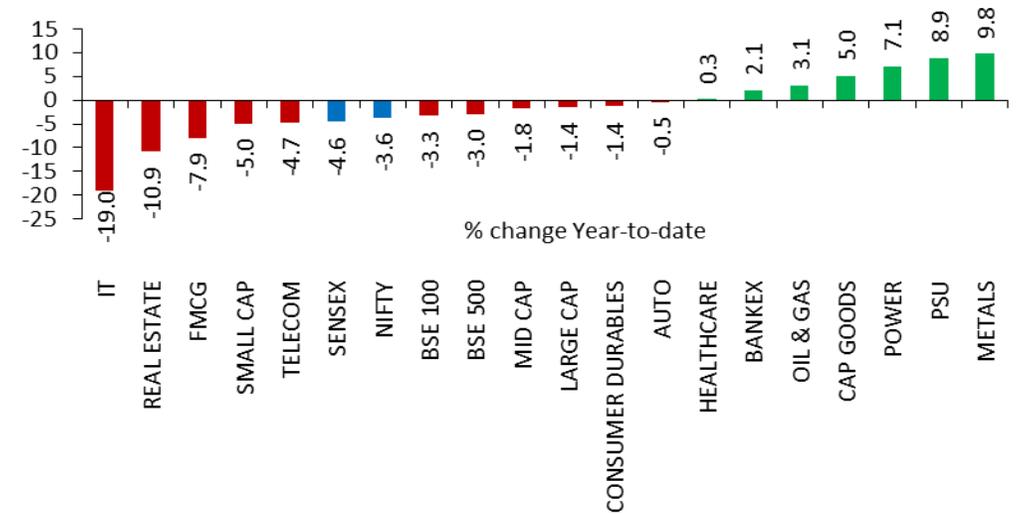


Indian equity market snapshot: February 2026

Indian equity market performance in February 2026 (local currency returns)



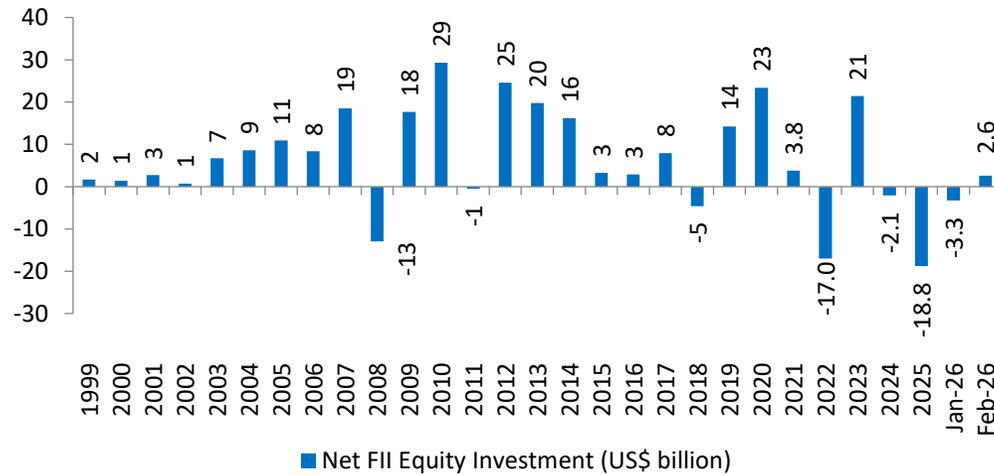
YTD performance (local currency returns)



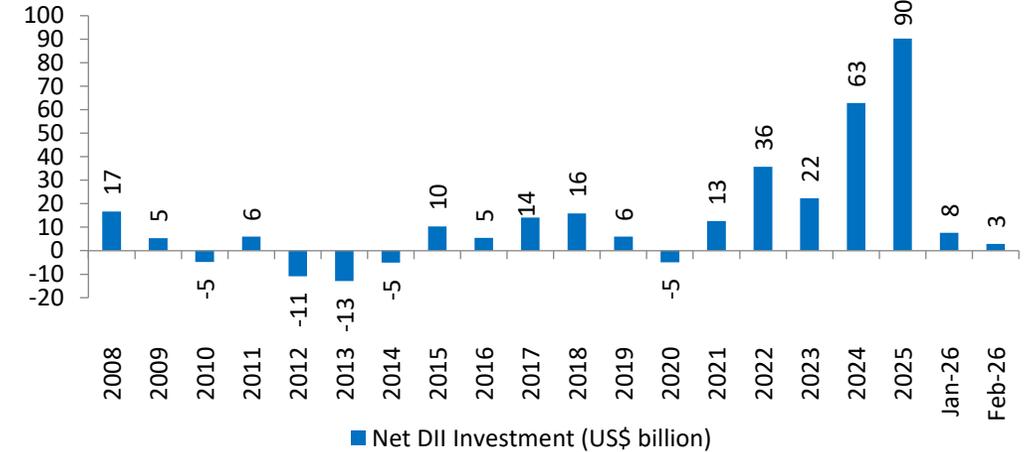
- NIFTY decreased this month marginally by 0.6% in February 2026. YTD, NIFTY has fallen by ~4%. Performance down the capitalization curve has been much worse. Small cap has fallen by 5%, while mid cap fell by 2% and large cap fell by 1.4% year-to-date respectively.
- IT and Real Estate see a fall in February m-o-m. All other sectors improve m-o-m with Power, Consumer Durables and Healthcare delivering the highest returns.
- IT, Real estate, and FMCG delivered the lowest returns YTD.

Liquidity: FIIs sold Indian equities for two years in succession; Nascent signs of turnaround in Feb

FIIs see marginal recovery in February 2026



DII's support to Indian equity market

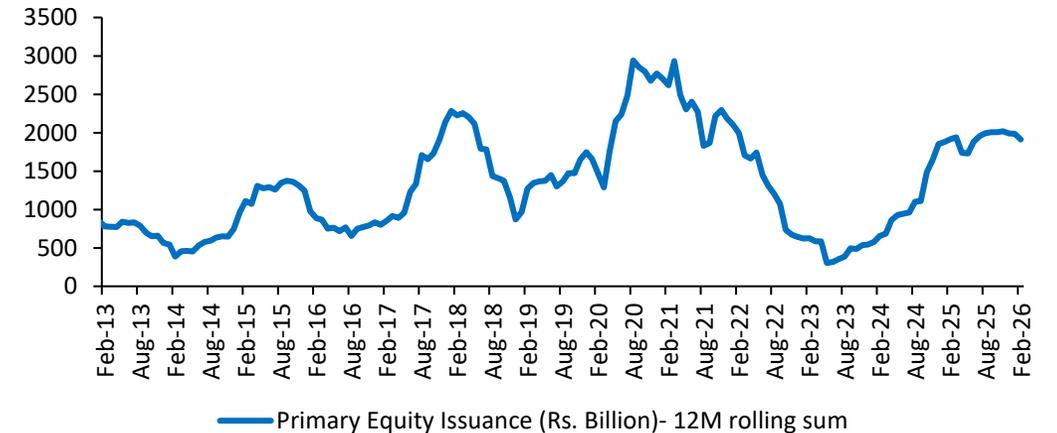


Retail participation sees a turnaround in Jan 2026

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026*
In Rs crore													
FPIs	97,056	17,806	20,566	51,253	-33,013	1,01,121	1,70,260	25,750	-1,21,439	1,71,107	427	-1,66,284	-35,962
DII's	-28,557	67,587	35,363	90,738	1,09,662	42,257	-35,663	94,846	2,75,726	1,81,482	5,27,438	7,88,184	69,221
Individuals#	-30,149	-8,243	-26,382	-37,988	-8,523	-25,280	52,897	1,42,755	88,376	5,243	1,65,810	-5,717	16,944
In US\$ bn													
FPIs	16.1	3.2	3.2	7.8	-4.4	14.4	23.0	3.8	-16.5	20.7	0.1	-18.9	-4.0
DII's	-4.8	10.4	5.2	14.0	16.0	6.0	-4.8	12.6	35.7	22.0	63.0	90.4	7.6
Individuals#	-4.9	-1.3	-3.9	-5.8	-1.4	-3.6	7.1	19.3	11.7	0.6	19.8	-0.6	1.9

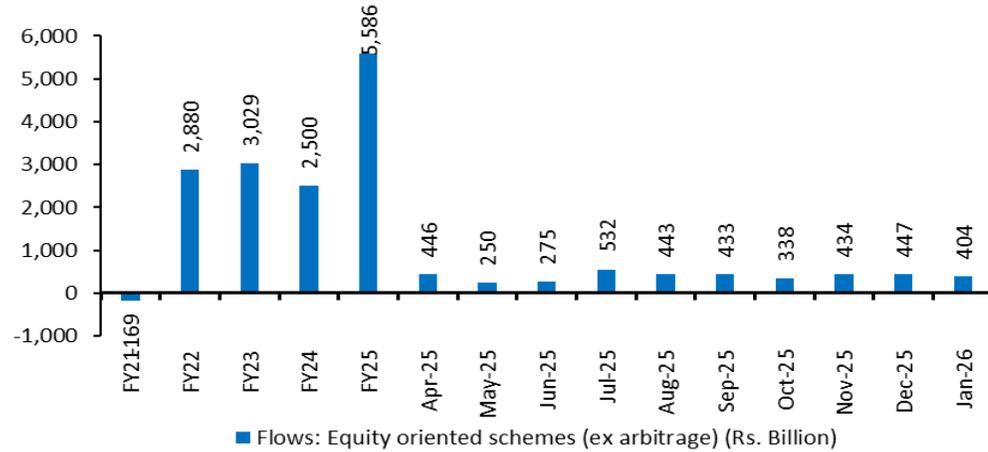
* As of Jan 31*, 2026. # Data for individuals include net flows on NSE in the secondary market only. Individuals include individual /proprietorship firms, HUF and NRI.

Primary market supply increased in 2025 when FII and retail participation was weak

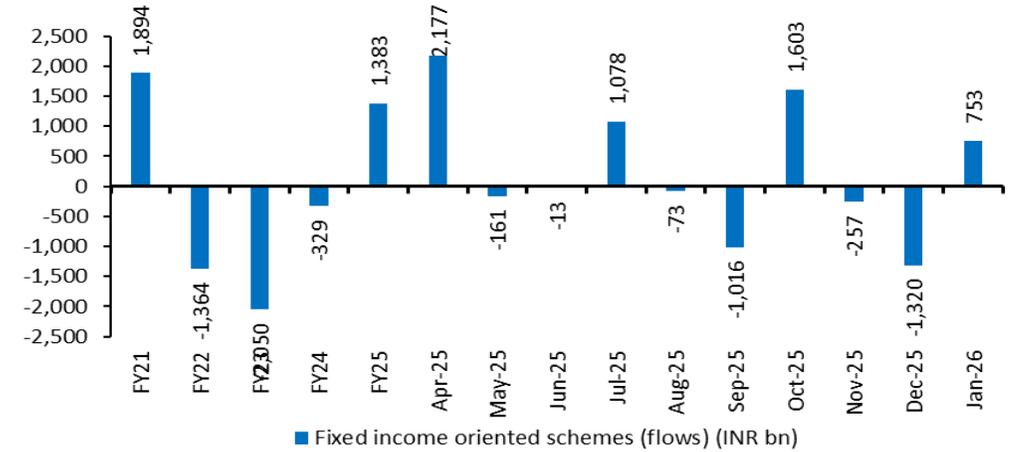


MF flows: SIP flows flat in January 2026

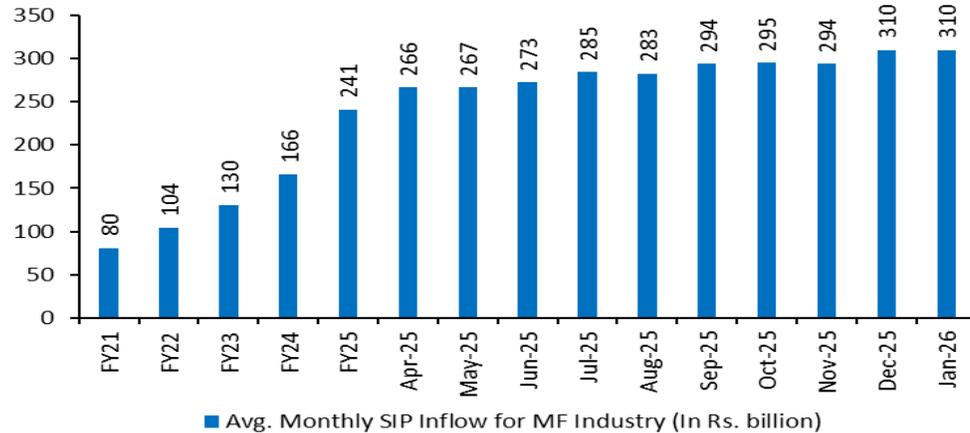
Equity inflows moderate in January 2026 compared to a month ago



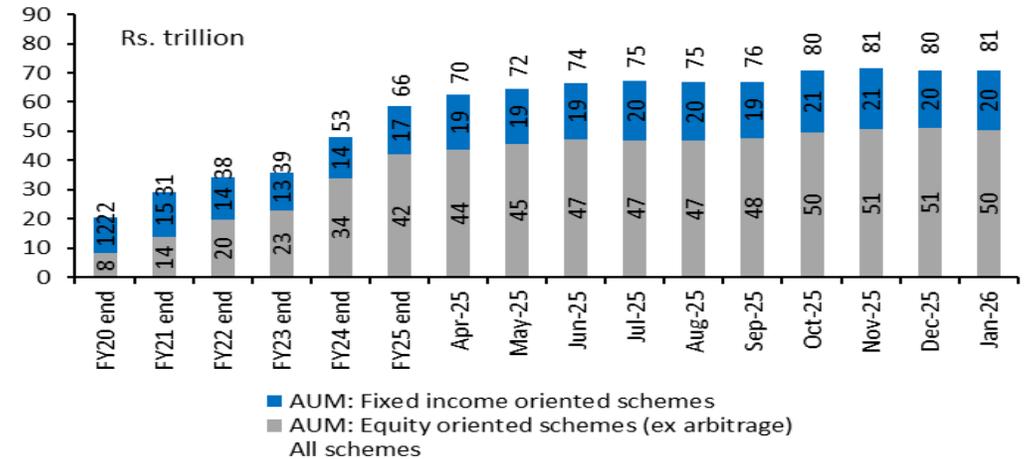
Debt inflow of INR 753bn in Jan'26 (vs. INR 26bn inflow in Q3FY26 and outflow of INR 11bn in Q2FY26)



Monthly SIP inflow flat m-o-m in January

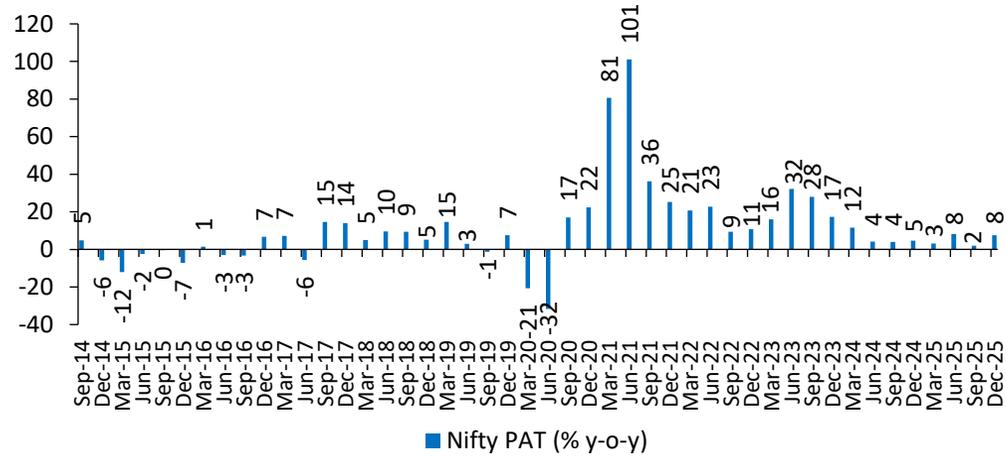


Equity and debt AUM broadly flat m-o-m

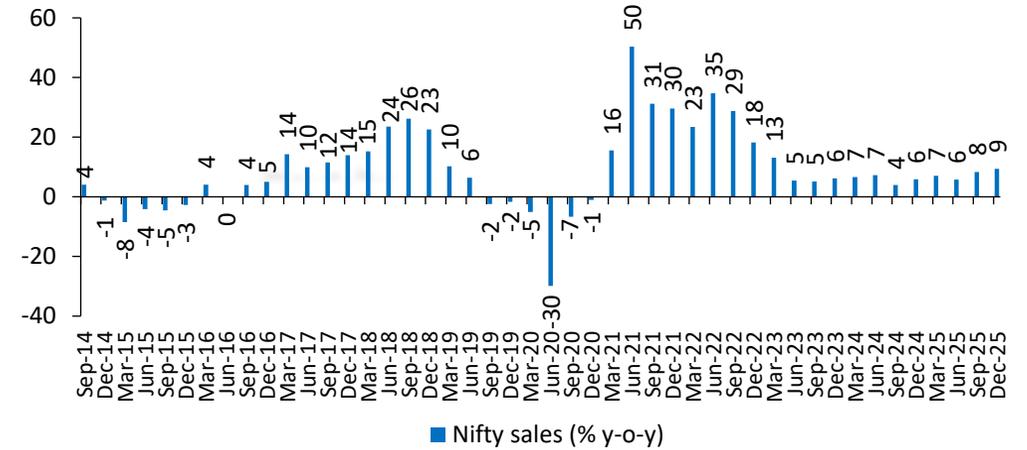


Q3 FY26 earnings: Weak PAT growth; Topline in line with expectations

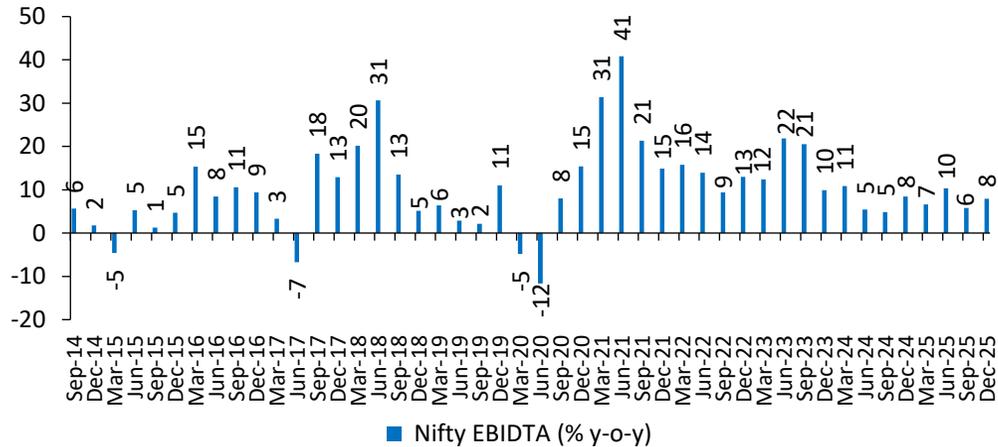
NIFTY PAT growth continues to be weak



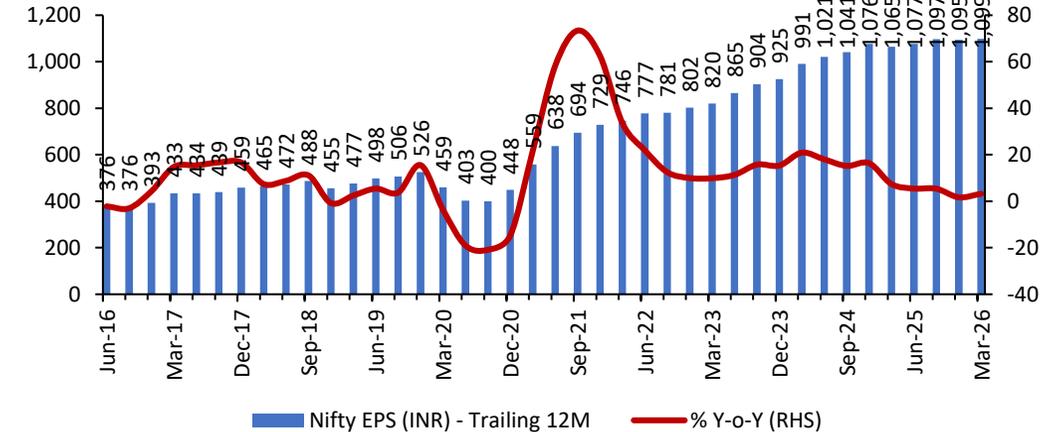
Q3 FY26 NIFTY interim sales growth in line with expectations



EBITDA growth also in line with expectations



EPS growth moderates



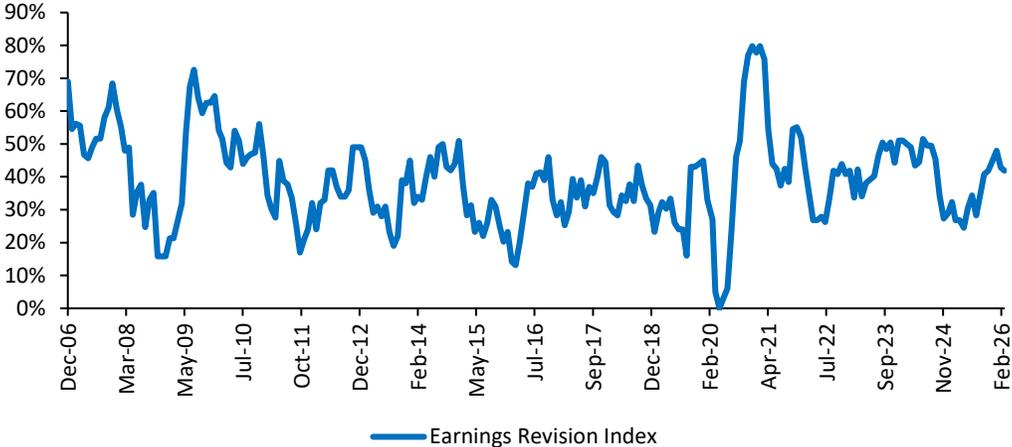
Source: MOSL, SBIFM Research; NB: Results released for 50 NIFTY companies for December 2025 quarter, historical data is for all the NIFTY 50 companies, EPS growth is adjusted for Axis bank losses for FY23

Q3 FY26 earnings' review: Broad based recovery

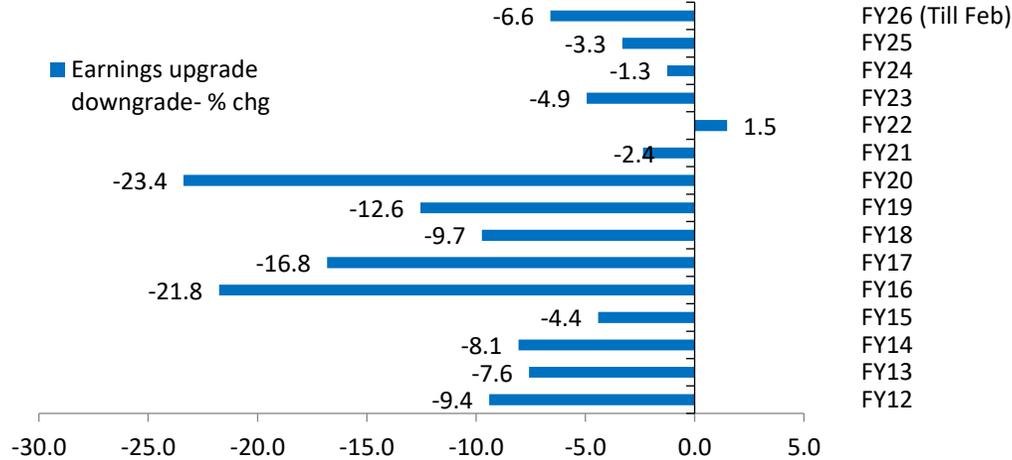
- The Q3FY26 corporate earnings scorecard saw an improvement, with an improvement in sectoral breadth of earnings growth.
- NIFTY PAT growth was 7.5% y-o-y in Q3FY26 (vs. 2% in the previous quarter). Even as Capital goods, Auto, Metals and O&G have recorded a healthy profit growth, weakness in Chemicals, Healthcare, Power, FMCG and IT put some pressure on profitability.
- FY26 NIFTY earnings growth expected ~8%. Revival in India's economic growth and hence topline is critical for the expectations to be met.
- An important trend was the disparity between mid- and small-caps versus large-caps. On a YoY basis, 51% of mid-cap companies and 47% of small-cap companies reported PAT growth above 15%. This suggests broader earnings resilience in the mid- and small-cap space.
- Key sectoral highlights –
 - Banks: NIMs improved for both private and public banks with the CRR cut this quarter. The banking sector saw an improvement in credit growth while deposit growth lagged. On the other hand, NBFCs post healthy earnings. Retail credit growth picked up. Commercial banking continues to be healthy.
 - Autos: Automobile volumes surged following the GST cut. 2W volume growth was strong for both domestic and exports. Passenger vehicles sale were also robust. Medium and High Commercial Vehicle showed strong growth.
 - Consumer: Broad based positive sentiment across all consumption verticals. Easing raw material prices aided gross margin expansion. PAT growth improved. Staples demand saw low teens topline recovery due to volume recovery.
 - Oil & Gas: Strong EBIDTA/PAT growth mainly led by OMCs. Profits were above expectations.
 - Real Estate: Real estate saw stronger inventory offloading relative to new project launches. New launches were weak. Commercial leasing continues to show strong momentum.
 - Technology: The IT Services companies saw subdued growth and margin hits from New Labour Code provisions. Overall demand commentary was muted with expectation of gradual recovery in FY27. Investments towards AI gains traction.
 - Metals: This sector benefitted from stronger volume recovery but offset by softer realisations.
 - Cement: Improved volume growth in Q3FY26. Blended realisation (average revenue per unit sold) remained flat.
 - Healthcare: Earnings were in line with expectations. Overall sales at the domestic aggregate level improved after GST implementation. US sales weighed down by US pricing pressure.

Earnings revisions marginally fell in February

Earnings Upgrades to downgrades ratio marginally fell in February



Financial Year to Date, EPS projection sees marginal downgrade

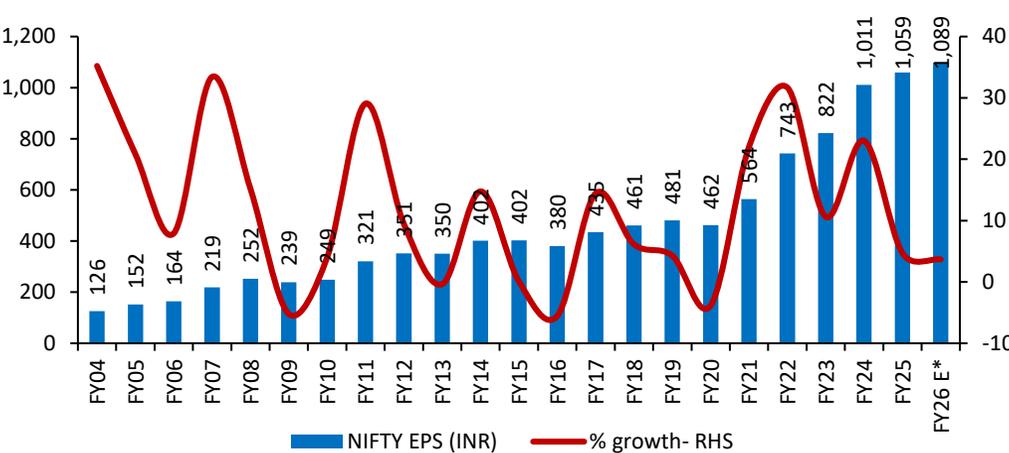


- Earnings revisions for FY26 have fallen with Industrials, Consumer Discretionary, Healthcare, Materials, Financials seeing downward revisions. IT & Energy got upward revisions.
- Consensus expects 12.6% EPS growth CAGR for the Nifty over FY25-FY28.

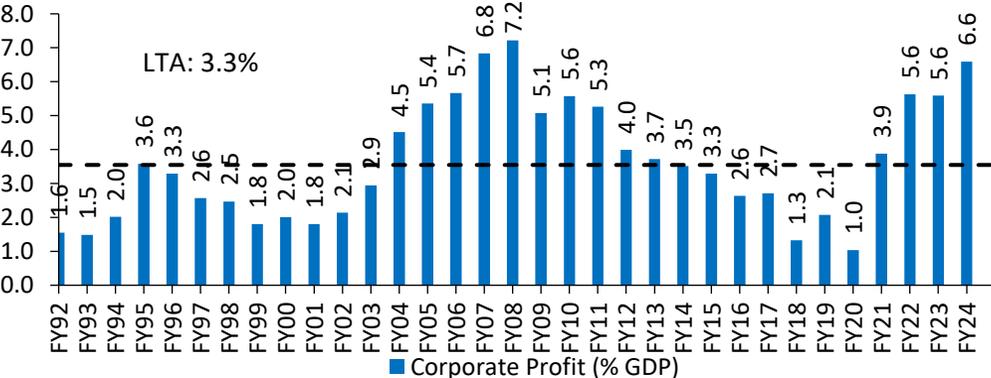
Source: Bloomberg, FactSet, SBIFM Research; NB: *data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all BSE 100 constituents as of the current month-end & 3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

Earnings projections ~9% in FY26

Earnings expected to recover in FY26



Earnings have recovered from ultra-lows of FY17-FY20



FY92-FY24 data is based on a sample of ~30,000 listed unlisted companies in CMIE (includes both financial and non financial companies)

Sectoral breakup of NIFTY earnings outlook

	No. of Cos.	EPS Change								FY25-28 (CAGR)
		FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28	
Nifty		20.0%	35.7%	5.9%	29.5%	1.0%	5.9%	17.2%	15.1%	12.6%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	6.1%	30.7%	31.3%	16.1%	25.8%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	10.8%	37.4%	10.1%	7.5%	17.6%
Industrials	5	22.9%	-30.1%	-0.9%	-0.9%	27.6%	0.7%	27.2%	17.7%	14.7%
Financials	11	13.8%	27.3%	23.1%	53.0%	-4.6%	3.5%	16.0%	16.8%	11.9%
Consumer Staples	4	-5.0%	-3.9%	5.6%	32.6%	14.1%	17.3%	2.5%	10.1%	9.8%
Energy	3	56.9%	11.4%	8.1%	33.6%	-6.7%	11.1%	8.6%	9.4%	9.7%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	-9.9%	-25.7%	43.8%	22.3%	9.3%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	20.1%	1.2%	8.9%	7.8%	5.9%
Health Care	5	5.9%	51.7%	23.6%	2.5%	24.4%	-12.8%	7.8%	19.7%	4.0%
Communication Services	1		NA*		-6.1%	67.9%	18.9%	44.4%	26.3%	29.4%

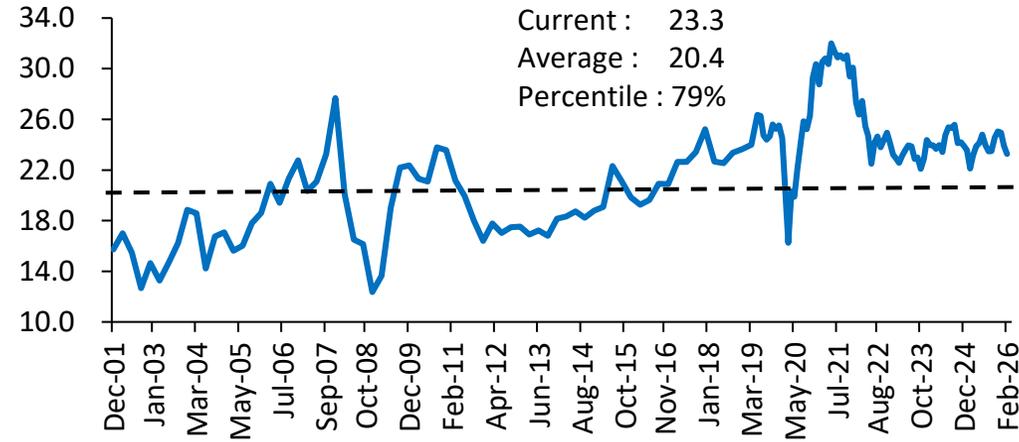
- Consensus expects 12.6% EPS growth CAGR for the Nifty over FY25-FY28.
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.



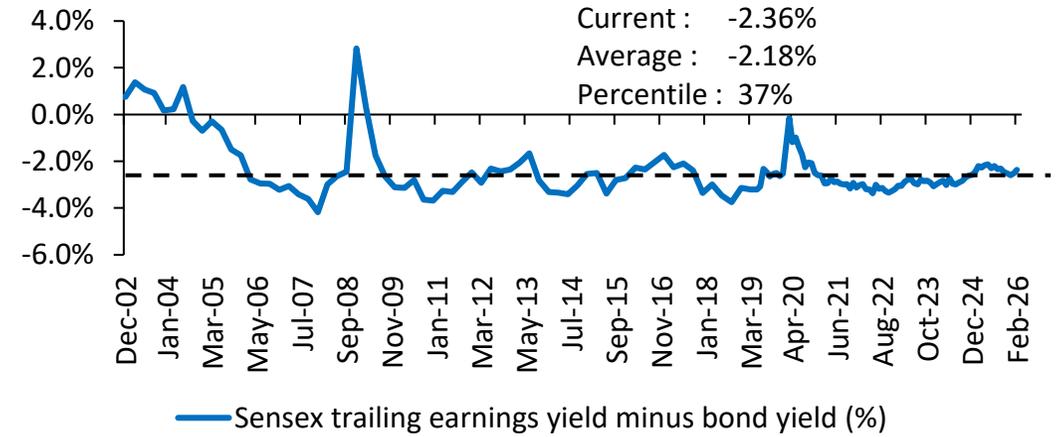
Source: CMIE Economic Outlook, Bloomberg, SBIFM Research; *FY25 and FY26 earnings estimates are SBIMF. ** EPS change is unadjusted to externalities, : ***data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all BSE 100 constituents as of the current month-end & 3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

Equity valuations corrected marginally but remain moderately expensive in absolute terms

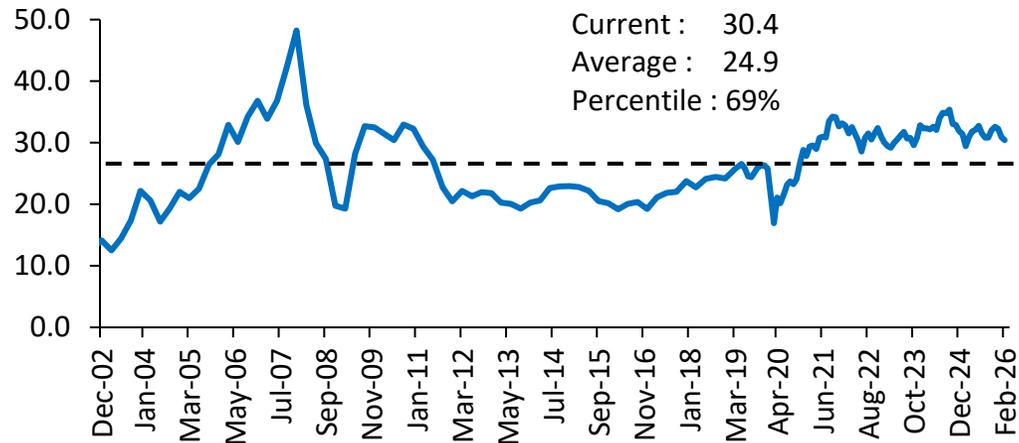
Sensex trailing PE ratio stood at 23.3 in Feb'26 vs. 23.9 in Jan'26



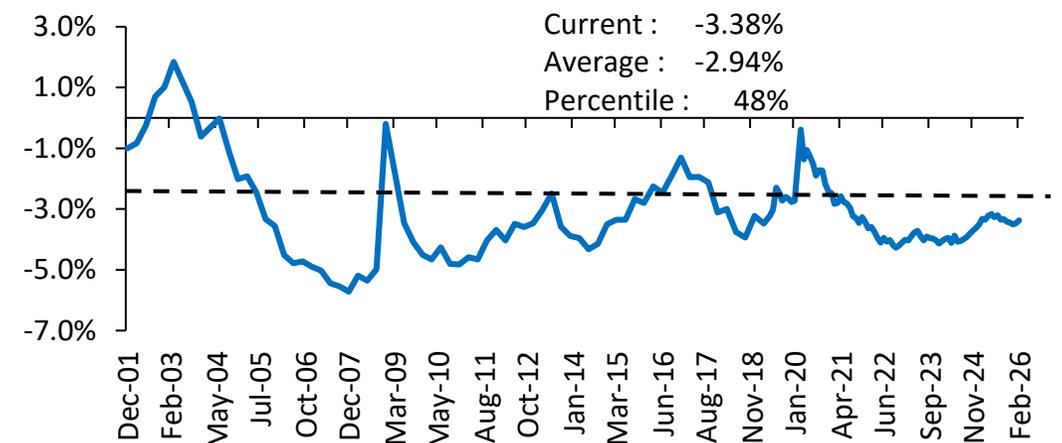
Earnings yield to bond yield spread has corrected



Shiller PE ratio stood at 30.4 in Feb'26 vs. 31.0 in Jan'26

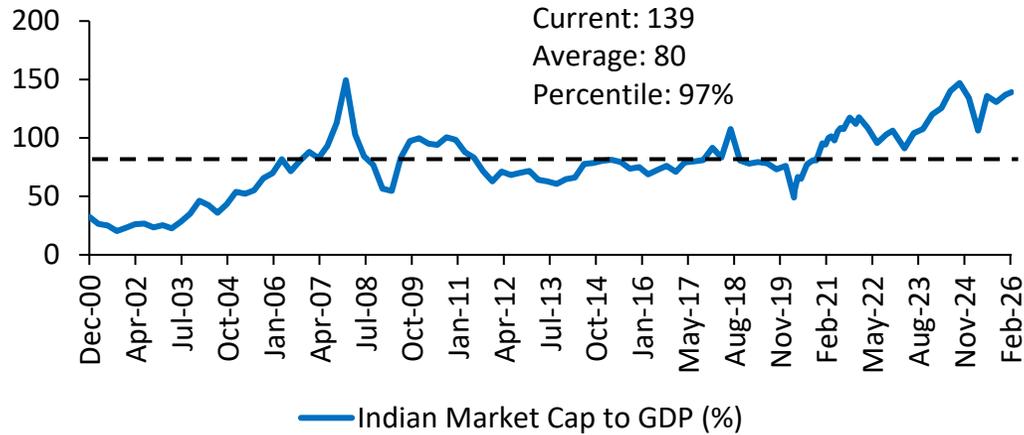


Shiller earnings yield to bond yield spread has corrected

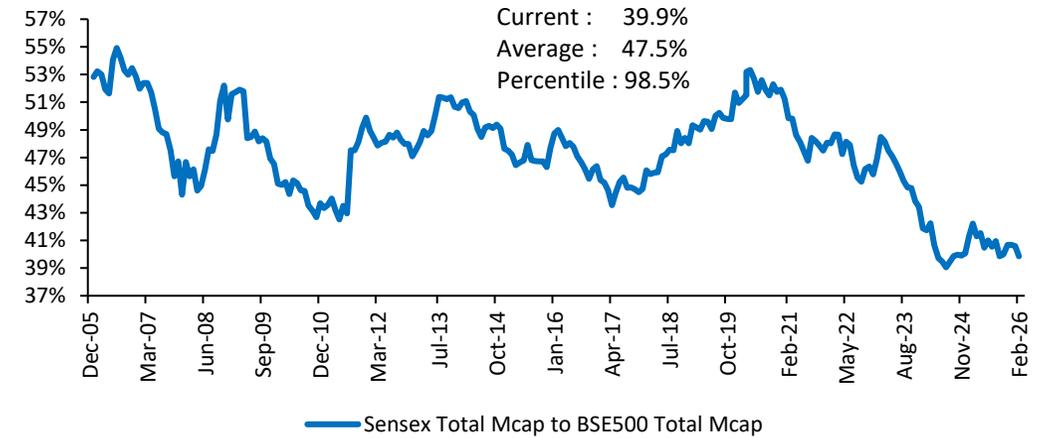


Polarization remains low, remains favorable towards large caps

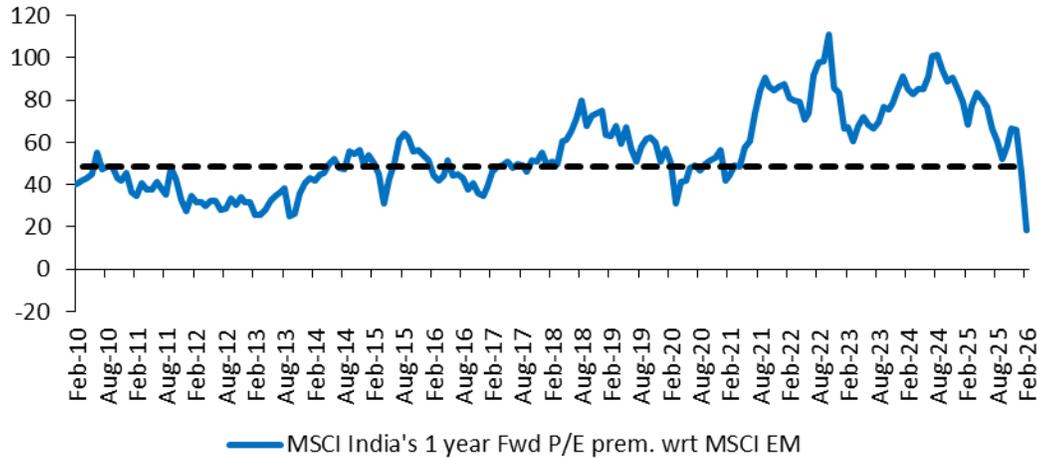
Market capitalization/GDP expensive vs. history at 97th percentile reading



Mid caps and small caps: Market polarization remains favourable towards large caps



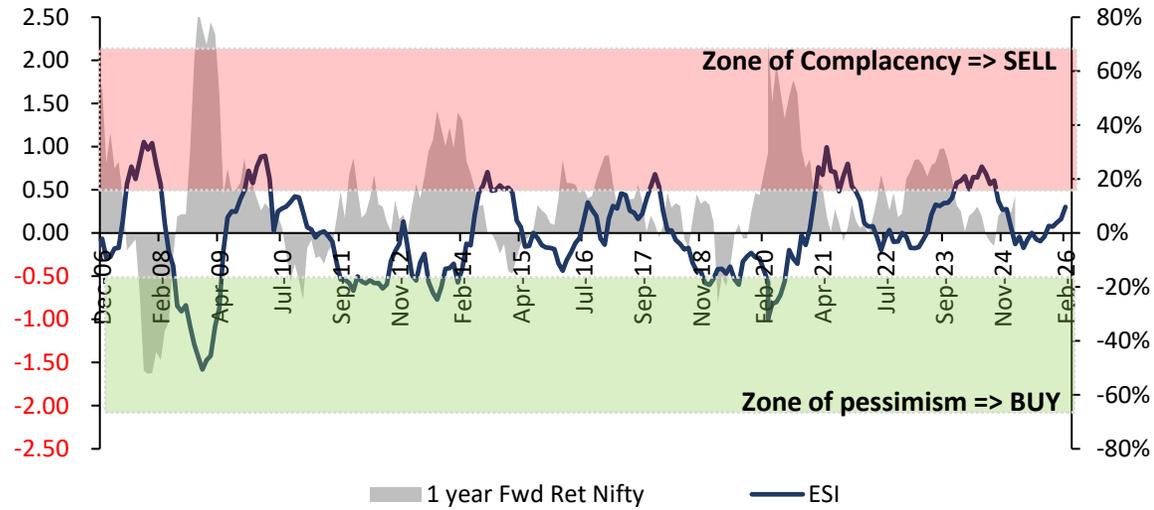
Premium relative to EM has moderated sharply in February 2026



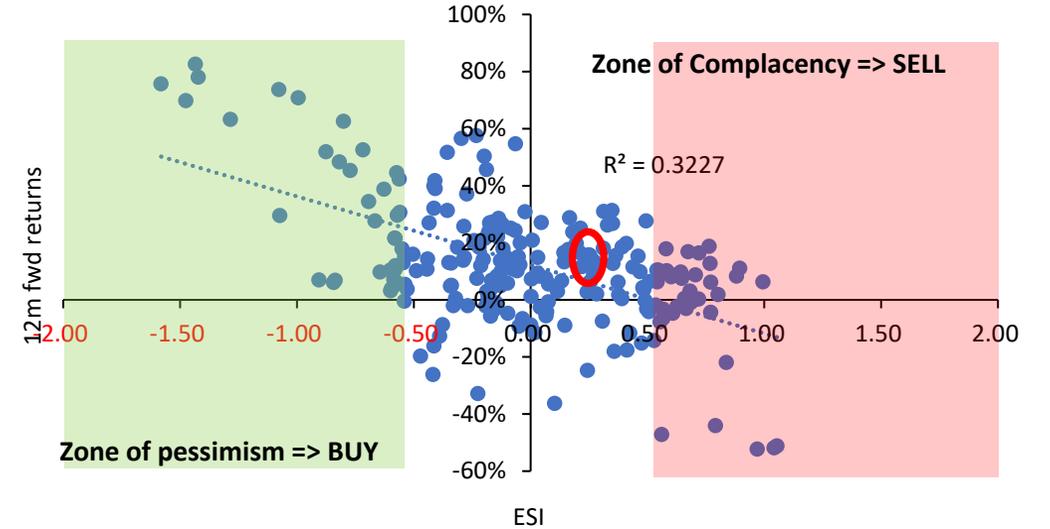
- Market polarization remains low. Broader markets have outperformed the frontline large cap indexes in the previous month.
- The ratio is low, suggesting the risk-reward is more towards large caps now.

Equity market sentiment moving up

Equity sentiment remains above zero & moves up



Equity sentiment remains above zero



- The sentiment measure works as a contrarian indicator. The action from the past few months suggests optimism has corrected significantly.

Equity Outlook: Focus on large caps, bottom-up stock selection, and sectors resilient to margin pressure

- Indian equities entered 2026 with elevated volatility. Markets fell in January (Nifty -3.1%, Sensex -3.5%) and remained largely flat in February, with a marginal Nifty decrease of 0.6% y-o-y.
- There have been multiple positive developments. The India US trade deal and then SCOTUS striking down the validity of IEEPA tariffs has created a level playing field for India in terms of tariffs. Union budget 2026 had focussed on infrastructure capex and incentivized capex via multiple schemes such as Maritime Vision scheme, RDI fund, PLI scheme, EMS scheme, tax holidays for data centre and so forth. These schemes are focused on incentivizing capex in strategic sectors.
- Post the trade deal, FPI trends show nascent signs of bottoming out. That said, India still underperforms other EM nations in terms of the quantum of FPI flows.
- India's valuation premium relative to other EMs is now back to historical averages, improving entry points. With EM interest returning, India may see stronger allocations.
- A durable market recovery, however, hinges on earnings. Revisions have stabilised, signalling potential bottoming out. Trade deals could lift medium term earnings by improving visibility and reviving expansion plans. Budget measures—higher infra and manufacturing spend, earlier tax/GST cuts, the upcoming pay commission, and the lagged impact of monetary easing—should also support earnings ahead. We are positive on India's nominal growth and consequently the profit outlook in FY27. In that regards, we need to watch out for rising commodity costs.
- Overall, we expect positive but moderate equity returns, with a preference for large caps, which currently offer more attractive valuations versus the broader market.

FIXED INCOME MARKET

Global Bond Market Snapshot: Global bond yields fell in February 2026

All developed market and majority of emerging markets' 10yr government bond yields moderated m-o-m in February 2026

10 Year Gsec Yield (% mth end)	2024 end	2025 end	Jan-26	Feb-26	m-o-m change (in bps)	FYTD change (in bps)
Developed market						
US	4.57	4.17	4.24	3.99	-25	-22
Germany	2.37	2.86	2.84	2.68	-16	-5
Italy	3.52	3.55	3.46	3.30	-15	-56
Japan	1.10	2.07	2.25	2.12	-13	63
Spain	3.06	3.29	3.21	3.10	-12	-28
Switzerland	0.33	0.32	0.23	0.23	-1	-35
UK	4.57	4.48	4.52	4.26	-26	-42
Emerging Market						
Brazil	15.16	13.74	13.59	13.51	-8	-157
China	1.68	1.86	1.81	1.81	0	-1
India	6.76	6.59	6.70	6.69	-1	10
Indonesia	6.97	6.05	6.32	6.41	9	-58
South Korea	2.87	3.39	3.61	3.47	-14	71
Malaysia	3.81	3.51	3.50	3.50	0	-27
Phillippines	6.82	6.00	5.95	5.90	-5	-26
Taiwan	1.61	1.35	1.42	1.42	0	-22
Thailand	2.25	1.64	2.00	1.79	-21	-26
Turkey	29.04	28.96	29.50	30.09	59	-349
Mexico	10.44	9.12	8.88	8.66	-22	-70
Poland	5.89	5.17	5.09	4.94	-15	-79
South Africa	10.33	8.20	8.05	8.09	5	-254
Colombia	11.86	12.62	12.39	13.55	116	129
Hungary	6.55	6.79	6.53	6.42	-11	-79

Indian rates market see upward pressure in yields YTD- particularly in money market segment

Interest rates in India have been rising across segment YTD; This rise is visible in money market rates, shorter tenor government securities (G-sec) yields, and corporate bond yields

Rates (%)		2024 end	2025-end	Jan-26	Feb-26	m-o-m (in bps)	FYTD change (in bps)
Overnight	Repo rate	6.50	5.25	5.25	5.25	-	100
	TREPS	6.75	5.25	4.67	4.80	13	138
	Overnight MIBOR Rate	7.15	5.67	5.53	5.17	-36	203
Money Market	1 Yr T-Bill	6.69	5.54	5.74	5.60	-14	87
	3M T-Bill	6.55	5.26	5.50	5.32	-18	120
	3M CD Yield	7.28	5.88	7.18	6.86	-32	35
	12M CD Yield	7.60	6.56	6.98	6.78	-20	38
	3M CP Yield	7.37	6.22	6.62	6.70	8	43
	12M CP Yield	7.78	6.83	7.17	7.06	-12	35
Government bonds	3 year GSec	6.72	6.07	6.02	5.88	-14	55
	5 year GSec	6.72	6.31	6.41	6.31	-10	14
	10 year GSec	6.79	6.59	6.70	6.69	-1	-11
	30 year Gsec	7.01	7.27	7.36	7.36	-	-45
	10 year SDL	7.15	7.30	7.49	7.44	-5	-40
	30 year SDL	7.14	7.56	7.57	7.66	9	-60
Corporate	3Yr AAA Corp bond	7.58	7.00	7.19	7.13	-5	28
	5Yr AAA Corp bond	7.46	7.10	7.22	7.25	3	9
	10Yr AAA Corp bond	7.24	7.30	7.40	7.46	6	-25
	1 Yr IRS	6.51	5.45	5.56	5.49	-7	55
	2 Yr IRS	6.27	5.55	5.70	5.63	-7	22
	5 Yr IRS	6.20	5.92	6.16	6.02	-15	-11
	INR/USD	85.61	89.88	91.99	90.98	1.1^	-6.4^
	Crude oil Indian Basket**	73.34	62.20	63.08	68.88	9.2^	-4.7^

- Yield curve has steepened across fixed income assets.
- Rupee appreciated by ~1% m-o-m.
- Oil prices rose to 68.9\$/bbl (vs. 63 last month).

Source: Bloomberg, PPAC, RBI, CEIC, SBIMF Research; NB: *Corporate bond rate is for AAA rated bonds, **Crude oil price is average \$/barrel for the month and INR, remaining data are % month end, ^INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation

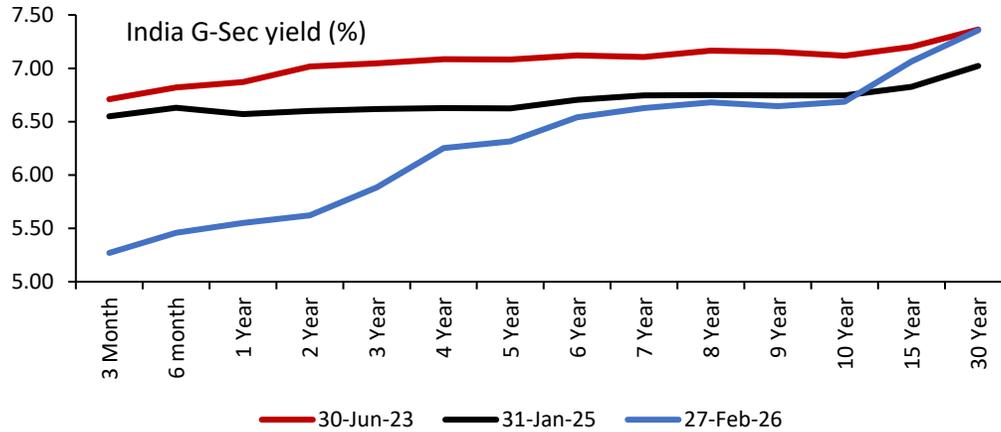
Indian G-sec yields curve steepened significantly

G-Sec yields rallied during Jan-May 2025, but worsened there since post the June 2025 policy (impact of a tight demand supply and weaker rupee)

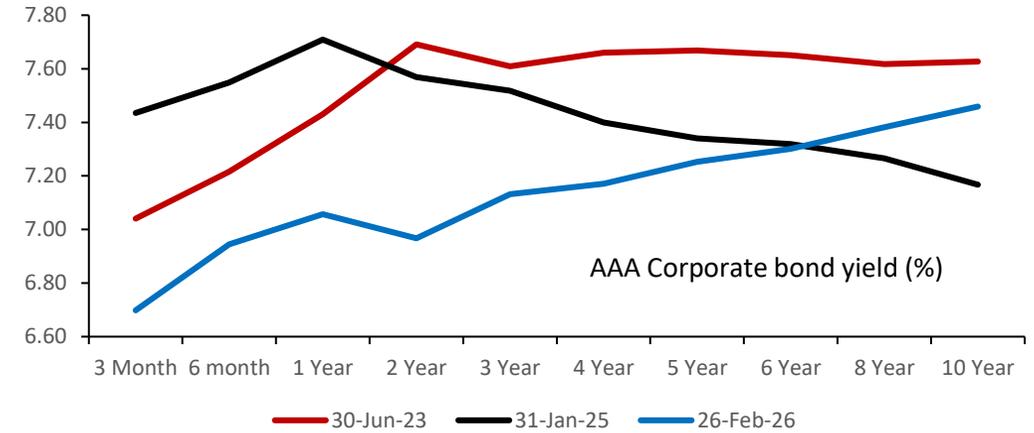
Yield (%)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
28-Feb-25	6.47	6.55	6.53	6.58	6.54	6.63	6.64	6.72	6.74	6.80	6.79	6.79	6.91	7.13
31-Mar-25	6.34	6.49	6.44	6.42	6.44	6.44	6.45	6.50	6.49	6.61	6.62	6.58	6.69	6.90
30-Apr-25	5.89	5.92	5.90	6.02	6.05	6.08	6.09	6.15	6.16	6.35	6.37	6.36	6.45	6.78
31-May-25	5.60	5.61	5.60	5.71	5.74	5.88	5.88	6.01	6.06	6.26	6.31	6.29	6.42	6.83
30-Jun-25	5.37	5.50	5.52	5.79	5.87	5.99	6.10	6.23	6.33	6.40	6.39	6.32	6.67	7.05
31-Jul-25	5.39	5.50	5.56	5.71	5.87	5.99	6.07	6.21	6.30	6.43	6.42	6.37	6.70	7.04
31-Aug-25	5.48	5.58	5.59	5.83	6.09	6.28	6.29	6.51	6.55	6.68	6.66	6.57	6.98	7.30
30-Sep-25	5.40	5.51	5.56	5.77	5.93	6.14	6.20	6.42	6.45	6.65	6.64	6.58	6.88	7.20
31-Oct-25	5.44	5.58	5.58	5.80	6.02	6.12	6.18	6.44	6.43	6.59	6.58	6.47	6.89	7.22
30-Nov-25	5.34	5.50	5.51	5.78	5.94	6.13	6.23	6.48	6.47	6.56	6.59	6.51	6.94	7.31
31-Dec-25	5.27	5.37	5.52	5.76	6.07	6.32	6.31	6.52	6.63	6.65	6.64	6.59	6.99	7.27
31-Jan-26	5.42	5.63	5.71	5.82	6.02	6.25	6.41	6.61	6.72	6.74	6.73	6.70	7.09	7.36
27-Feb-26	5.27	5.46	5.55	5.62	5.88	6.25	6.31	6.54	6.63	6.68	6.65	6.69	7.06	7.36
m-o-m change (in bps)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
28-Feb-25	-8	-8	-4	-3	-8	0	2	2	-1	5	4	4	8	11
31-Mar-25	-13	-6	-9	-16	-11	-19	-19	-22	-25	-20	-17	-20	-21	-23
30-Apr-25	-45	-57	-54	-40	-39	-36	-37	-35	-33	-26	-25	-23	-24	-12
31-May-25	-29	-31	-30	-31	-31	-20	-21	-14	-10	-9	-6	-7	-3	5
30-Jun-25	-23	-11	-8	9	13	12	22	21	27	14	8	4	25	23
31-Jul-25	2	0	4	-9	0	-0.6	-2.8	-2	-3.4	4	3.0	5	2	-1
31-Aug-25	9	8	3	12	22	29	22	31	25	25	24	19	28	25
30-Sep-25	-8	-7	-3	-6	-16	-14	-9	-9	-10	-3	-1	1	-10	-10
31-Oct-25	4	7	2	3	8	-2	-2	2	-3	-6	-6	-11	2	3
30-Nov-25	-10	-8	-7	-2	-7	1	5	3	4	-2	1	4	4	9
31-Dec-25	-7	-13	1	-3	13	19	8	4	16	9	6	8	5	-4
31-Jan-26	15	26	19	6	-5	-7	11	9	9	9	9	11	10	9
27-Feb-26	-15	-17	-16	-20	-14	0	-10	-7	-9	-6	-9	-1	-3	0
Change FYTD (in bps)	-107	-103	-89	-80	-55	-19	-14	4	13	7	3	10	37	45

Simultaneous expansion of private and government credit creates tight demand-supply dynamic

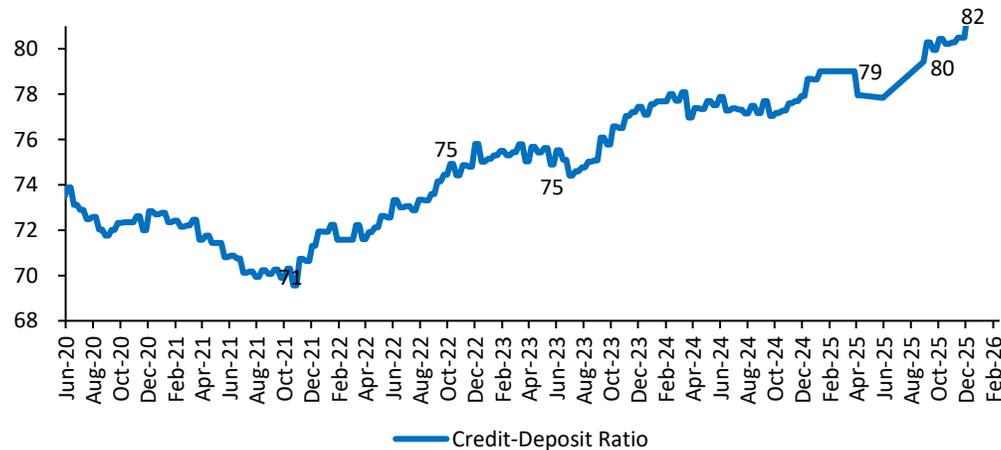
Visible steepening in G-sec yield curve in the last year



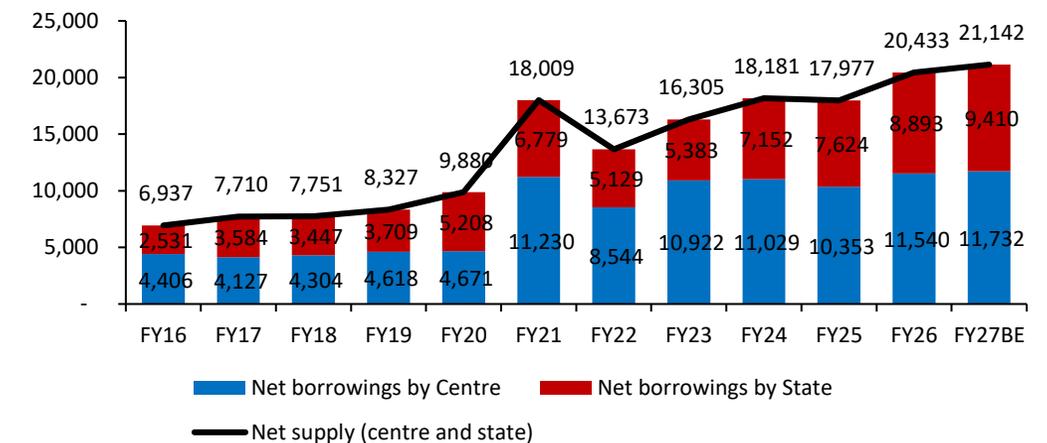
Similarly corporate bond yield curve steepens with rising private sector credit



Bank credit growth has been outpacing deposit growth, pushing up the system-wide credit-deposit (CD) ratio to elevated levels

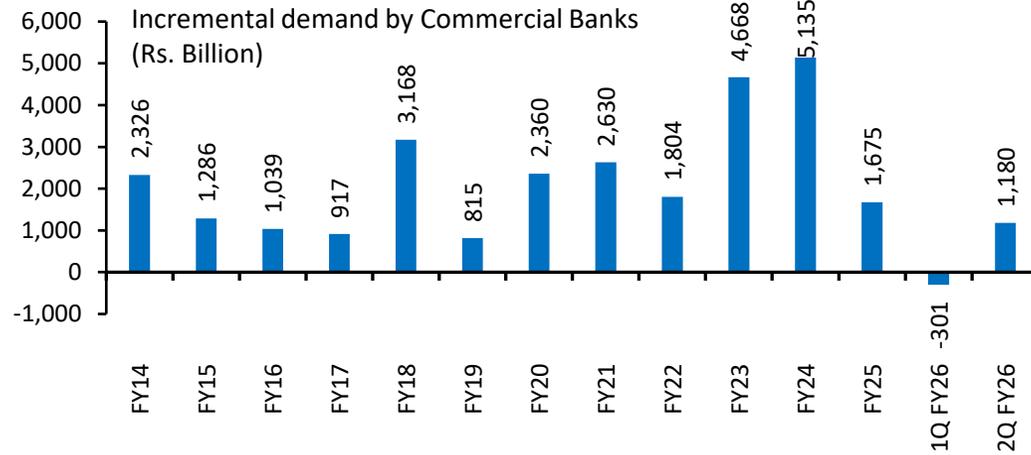


Rise in Government borrowing; Overall net government (Centre + State) issuances rise by ~14% y-o-y in FY26

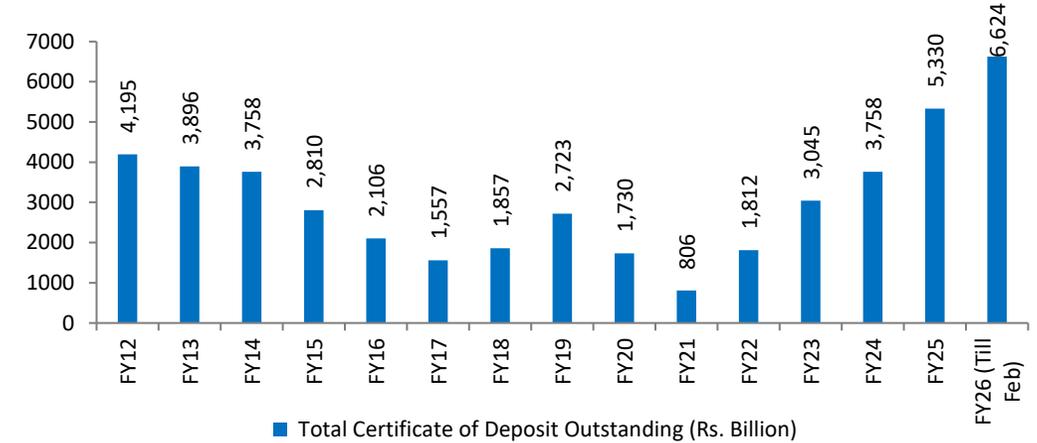


Reduced bank participation in SLR securities and increased CD issuances drive up CD spreads

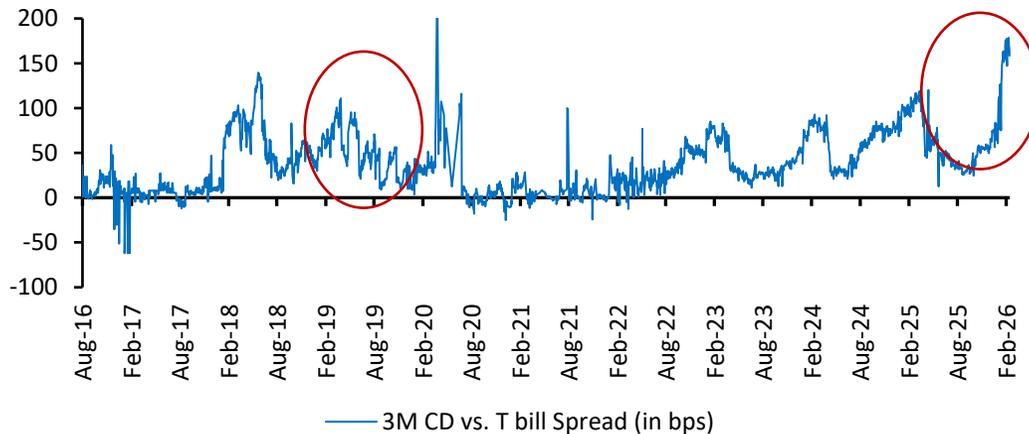
Banks participation in SLR securities decline as incremental funds are directed towards loan growth



Certificate of Deposits (CD) issuances rise



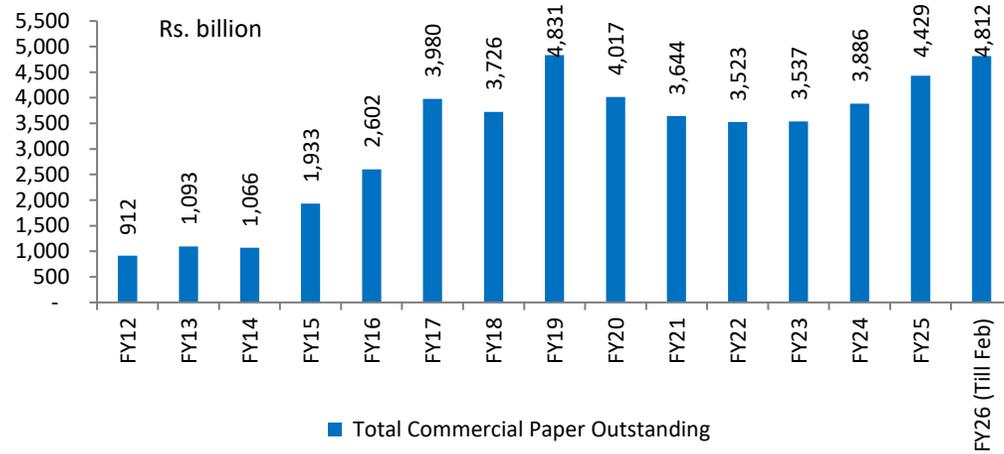
3-month CD spreads have widened to ~170bps against T-bill by end January 2026



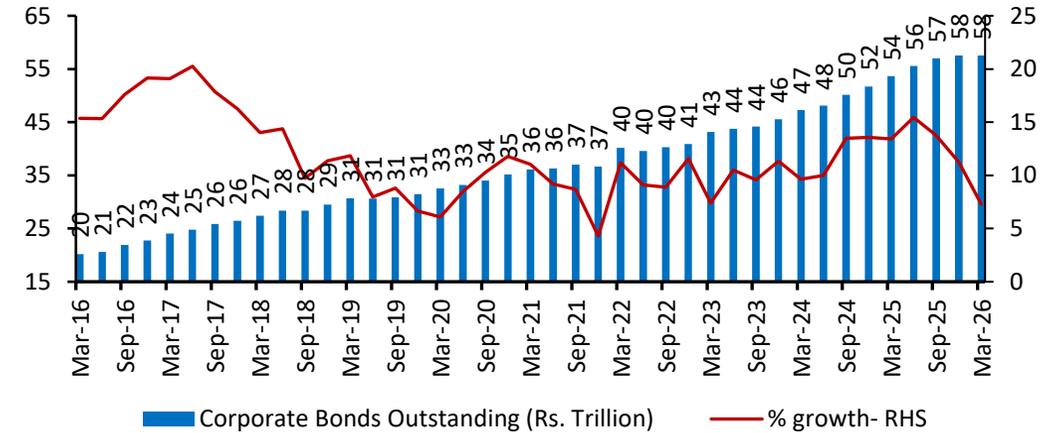
- When CD ratios rise, banks have limited incremental balance sheet flexibility. This results in reduced banks' participation in SLR securities as incremental funds are directed toward loan growth rather than investments in government securities.
- Banks are forced to mobilize funds more aggressively through certificate of deposit (CD) issuances and bulk deposits.
- The increased reliance on bulk deposits has had second-order effects.
- Bulk deposits pull liquidity away from liquid mutual fund schemes, which are traditionally among the largest buyers of short-term securities. As flows into liquid funds reduce, demand for short-term instruments weakens, amplifying upward pressure on yields.
- CD spreads, in fact, have widened sharply and are currently even higher than levels seen during the IL&FS crisis period.
- This indicates tight liquidity conditions and elevated funding stress in the short-term market.

CPs and Corporate bond issuances are tepid due to attractive bank loan rates vs. market rates

Commercial Papers (CP) issuances are muted; Rise by only ~3% y-o-y (vs. 18.4%)



Corporate bond issuances moderate; Outstanding credit disbursed via Corporate Bond (NCDs) moderated from 15.5% y-o-y growth to 11.3%



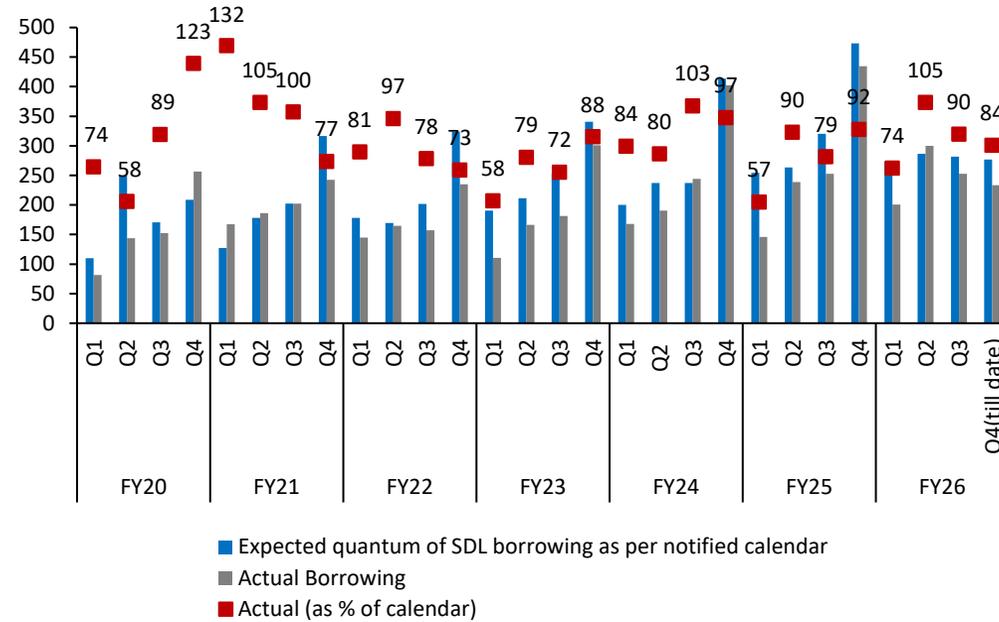
The aggregate total credit disbursed via the combined channels of Bank, NCDs and CPs- pick-up is more modest from 11% to 13.6%

% y-o-y	Bank Credit	Corporate Debt	CP	Bank Credit+Corp Bonds+CPs
Jun-24	17.4	10.0	-2.5	15.2
Sep-24	13.0	13.5	-3.6	12.8
Dec-24	11.2	13.6	19.7	11.8
Mar-25	11.0	13.4	14.0	11.6
Jun-25	9.5	15.5	18.4	11.0
Sep-25	10.4	13.7	22.8	11.3
Dec-25	14.5	11.3	3.5	13.6

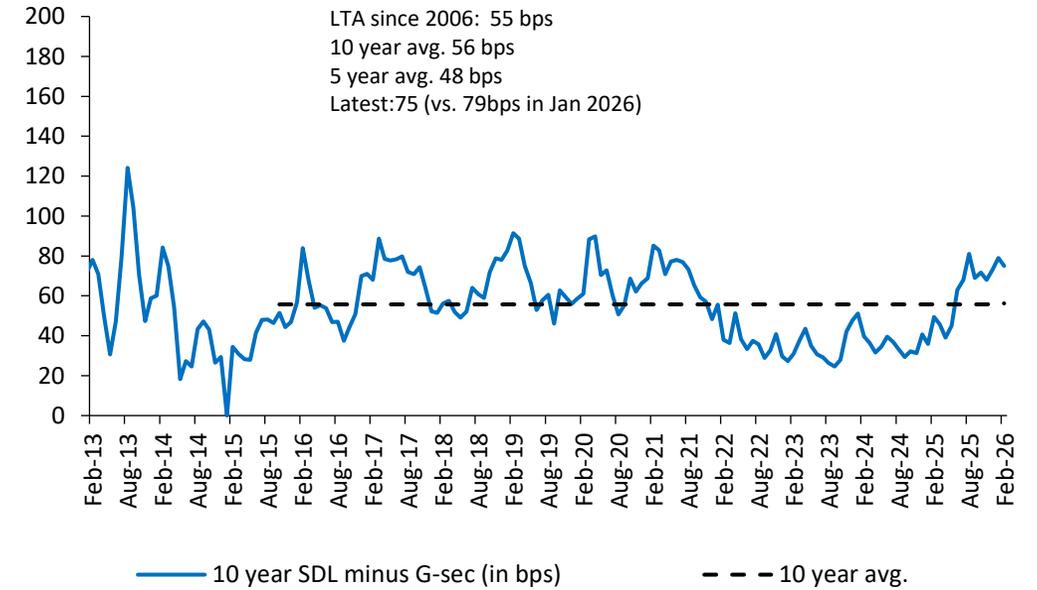
- In contrast, CP and corporate bond issuances have been tepid as banks loan rate are more attractive than the market rates.
- Consequently, while Bank credit jumped from 9.5% y-o-y during Jun'2025 to 14.5% by Dec'2025, Outstanding credit disbursed via Corporate Bond (NCDs) moderated from 15.5% growth to 11.3%.
- Short-term credit disbursed via Commercial papers moderated from 18.4% growth to 3.5%.
- Resultantly, if we aggregate total credit disbursed via the combined channels of Bank, NCDs and CPs, we find that credit growth pick-up is more modest from 11% to 13.6%.

SDL supply rises; FYTD26 SDL gross issuances are 23% higher y-o-y

SDL issuances elevated; At 88% of their indicated calendar amount in FYTD 26



Yet, SDL spreads contained



- Interestingly, while SDL supply has also risen significantly, spreads on these instruments have remained relatively contained because markets had already anticipated the supply increase.

Inflation outlook signals for status quo on policy rates

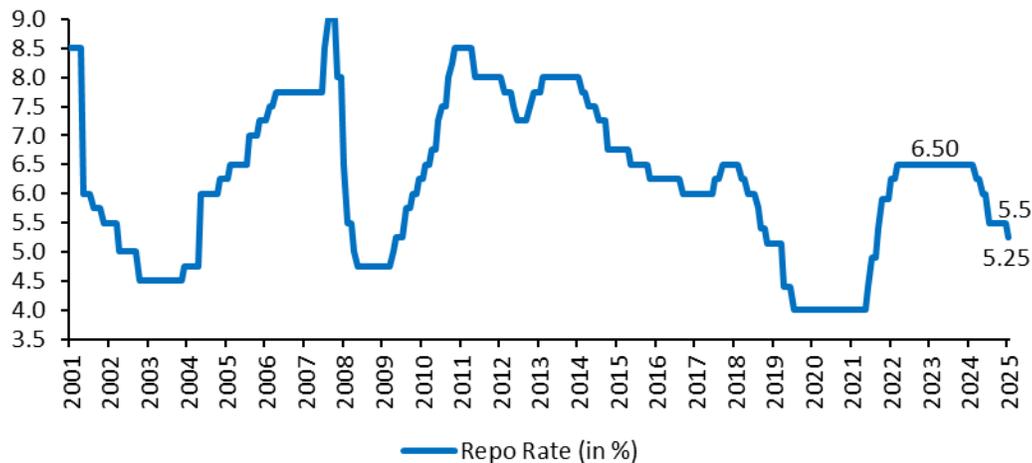
CPI trajectory shows gradual upward movement; January headline CPI at 2.75% y-o-y (vs. 1.3% in December 2025)

% y-o-y	Old Wt	New Wt	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
CPI	100.0	100.0	2.1	1.6	2.1	1.4	0.3	0.7	1.3	2.75
CPI: Food& Beverages	45.9	36.8	-0.2	-0.8	0.0	-1.4	-3.7	-2.8	-1.8	2.1
CPI: Pan, tobacco and intoxicants	2.4	3.0	2.4	2.4	2.5	2.7	2.9	3.0	3.0	2.9
CPI: Clothing and Footwear	6.5	6.4	2.6	2.5	2.3	2.3	1.7	1.5	1.4	3.0
CPI: Housing	10.1	12.1	3.2	3.2	3.1	3.0	3.0	3.0	2.9	2.1
CPI: Fuel and Light	6.8	5.4	2.6	2.7	2.3	2.0	2.0	2.3	2.0	0.4
CPI: Household goods and services	3.8	4.5	2.6	2.6	2.5	2.4	2.3	2.0	1.9	1.5
CPI: Health	5.9	6.1	4.4	4.6	4.4	4.4	3.8	3.6	3.4	2.2
CPI: Transport and communication	8.6	12.4	3.9	2.1	1.9	1.8	0.9	0.9	0.8	0.1
CPI: Recreation and amusement	1.7	1.5	2.5	2.4	2.2	2.0	1.5	1.3	1.2	2.9
CPI: Education	4.5	3.3	4.4	4.1	3.6	3.4	3.5	3.4	3.3	3.4
CPI: Personal care and effects	3.9	5.0	14.8	15.1	16.7	19.4	23.9	24.1	28.1	19.0

- With the new CPI series, which included changes in sub-sectoral weights and composition, the broader directional trend remains one of gradual firming. Inflation appears likely to inch up further over the coming quarters. As a result, the case for further monetary easing in 2026 appears weak, and a status quo on policy rates seems more probable.

Monetary policy likely headed for a long pause– liquidity actions at the fore

Repo rate cut by 125bps cumulatively since February 2025 policy to 5.25% now



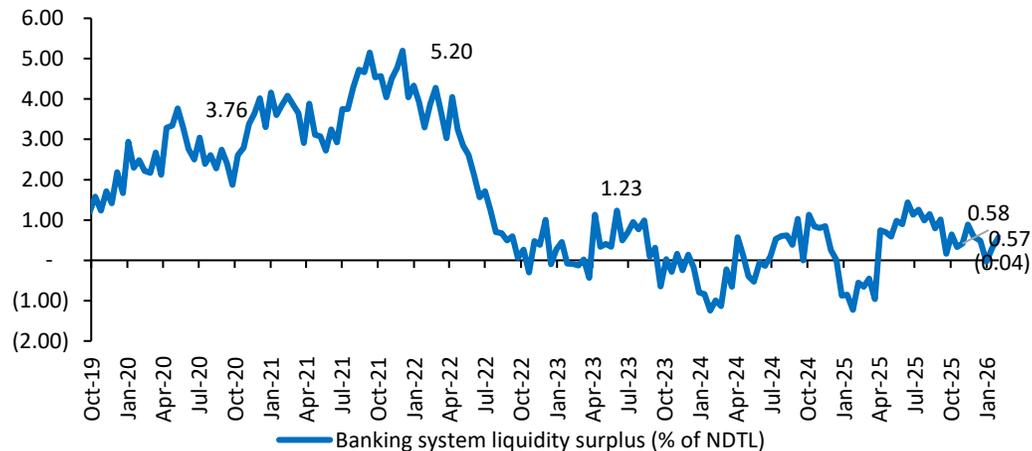
- The Monetary Policy Committee kept the repo rate unchanged at 5.25% at its latest meeting in February 2026. The stance remains at neutral.
- The CPI trajectory shows a gradual upward movement. Even after the release of the new CPI series, which included changes in sub-sectoral weights and composition, the broader directional trend remains one of gradual firming. Inflation appears likely to inch up further over the coming quarters. As a result, the case for further monetary easing in 2026 appears weak, and a status quo on policy rates seems more probable.
- We continue to think that liquidity tools and actions will remain a centre stage of RBI's monetary policy in 2026.
- Between Dec 2024 till Feb 2026, RBI has provided massive liquidity support through CRR reduction, OMO and FX swaps. However, much of this injected liquidity has already been absorbed by system requirements such as Currency leakage and dollar capital outflow.
- Thus, when measured as a percentage of NDTL, banking system liquidity remains modest.
- Looking ahead, elevated currency in circulation (CIC) expansion, during March and PAril are likely to create additional liquidity tightness. Although some of these pressures ease in May with RBI dividend, liquidity support from the RBI may still be required for the next couple of months.

Banking system liquidity is tight due to FX outflows despite massive liquidity infusion

RBI provided massive liquidity support since December 2024

Liquidity management measures by RBI since Dec-24 (INR tn)	Announced	Done till 31st Jan'26	Remaining
Repo rate cut by 125bps cumulatively			
Reduction in risk weights to lending towards SME & MFI			
Easing in earlier proposed stringent LCR Norms			
Relaxation of priority sector lending norms			
CRR cut by 150bps (50bps in Dec'24 & 100bps from Sep-Nov'25)	3.7	3.7	0.0
OMO purchases	9.5	9.0	0.5
Buy sell swaps	4.4	3.5	0.9
Total	17.7	16.3	1.4

Even as a % of NDTL, banking system liquidity remained below 1% during this period



Durable liquidity remains low despite RBI liquidity measures due to increased intervention in FX market

Changes in contributors to liquidity (1st Dec'24-31st Jan'26)	INR (tn)
Net Fx Intervention spot till Nov adjusted for FX swaps*	-7.2
Net Fx Intervention estimate Dec- Jan 31 adjusted for FX swaps*	-2.1
CIC led liquidity impact	-4.5
CRR Net Addition due to NDTL	-1.1
RBI Reduction in Rupee Securities	1.3
Total	-14.9

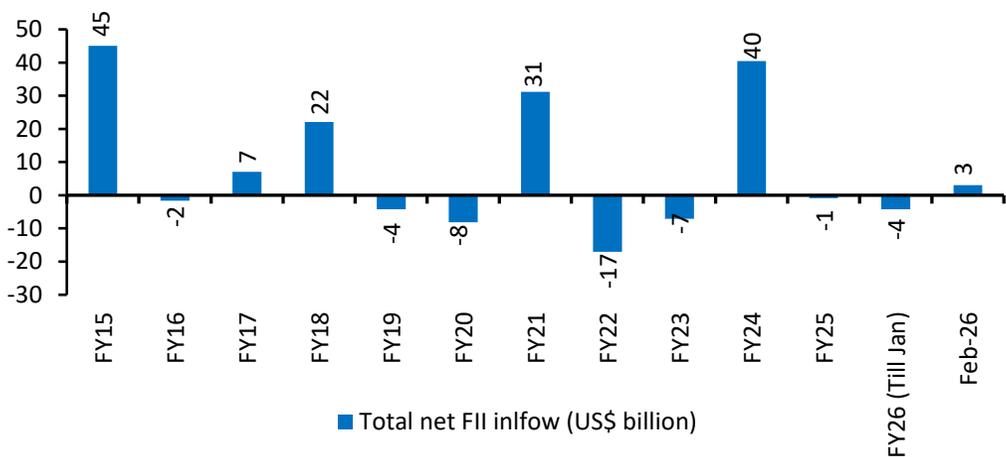
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External sector: Balance of Payment (BoP) dynamics may provide some relief to liquidity

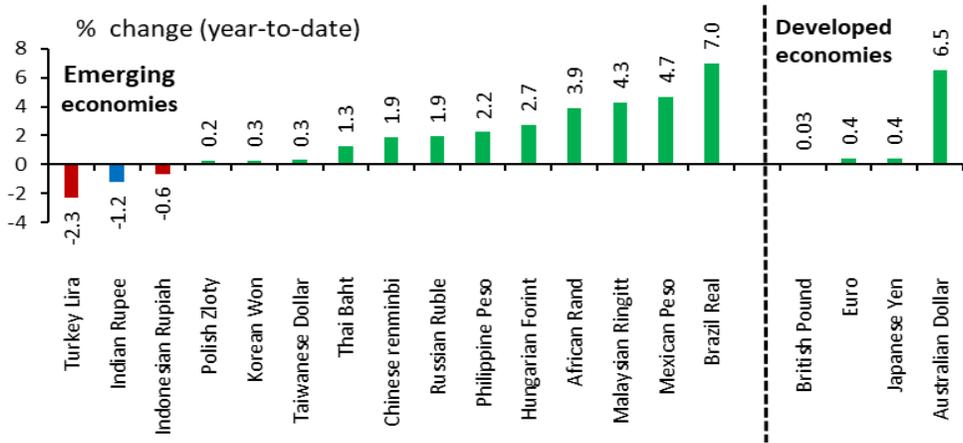
A potential BOP surplus could ease external pressures and provide some support to domestic liquidity conditions

Balance of Payment (US\$ bn)	FY21	FY22	FY23	FY24	FY25	FY26E
CURRENT ACCOUNT						
Exports (RBI)	296	429	456	441	442	453
% y-o-y	-7.5	44.8	6.3	-3.2	0.1	2.5
Imports (RBI)	398	619	721	686	729	781
% y-o-y	-16.6	55.3	16.6	-4.9	6.2	7.1
1. Trade Balance (RBI)	-102	-189	-265	-245	-287	-328
% GDP	-3.8	-6.0	-7.9	-6.7	-7.3	-8.0
2. Services Balance	89	108	143	163	189	225
% GDP	3.3	3.4	4.3	4.5	4.8	5.5
3. Primary Income	-36	-37	-46	-50	-48	-50
4. Secondary Income (Transfers)	74	81	101	106	124	138
A. Current A/c Balance (1+2+3+4)	24	-39	-67	-26	-23	-14
% GDP	0.9	-1.2	-2.0	-0.7	-0.6	-0.3
CAPITAL ACCOUNT						
5. FDI (Net)	43.8	38.9	28.0	10.1	1.0	7.7
6. FPI (Net)	36.1	-16.8	-5.2	44.1	3.6	-1.1
7. Loans	6.8	33.8	8.3	1.6	29.3	16.9
8. Banking Capital	-21.1	6.7	21.0	40.5	-9.8	9.3
B. Capital Account Balance (5+6+7+8+9+10)	63	88	59	87	17	33
% GDP	2.4	2.8	1.8	2.4	0.4	0.8
D. Overall Balance (A+B+C)	87	48	-9	64	-5	19
% GDP	3.3	1.5	-0.3	1.8	-0.1	0.5

FII flows see a turnaround on easing tariff concerns and earnings uptick



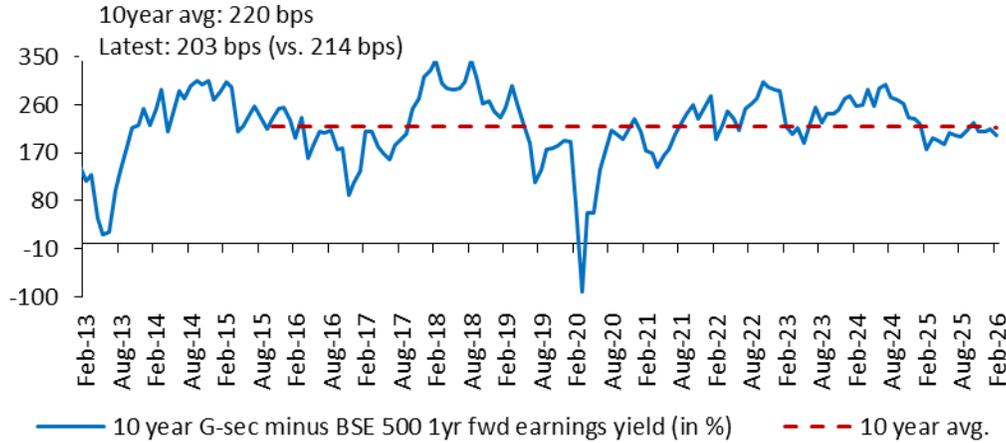
The recent arrest in rupee depreciation also reflects this stabilization in capital flows and sentiment



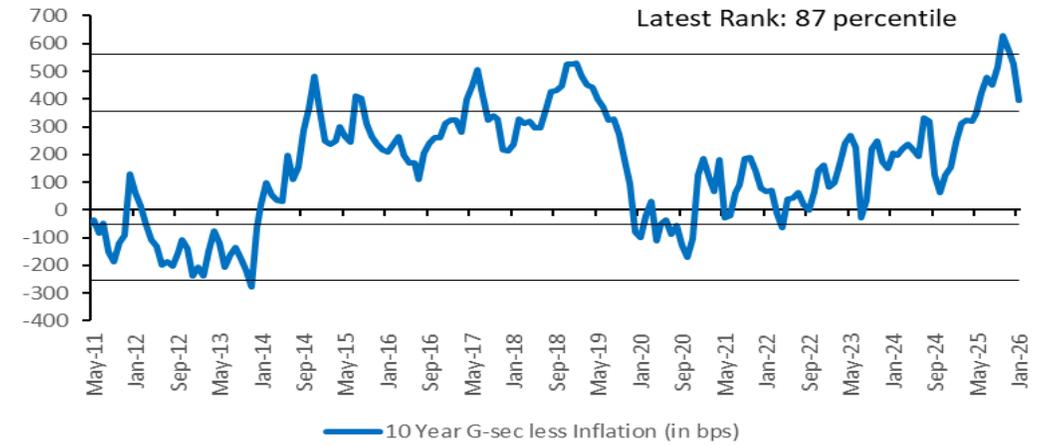
Source: CMIE Economic Outlook, Bloomberg, SBIFM Research

Indian G-sec valuations: neutral

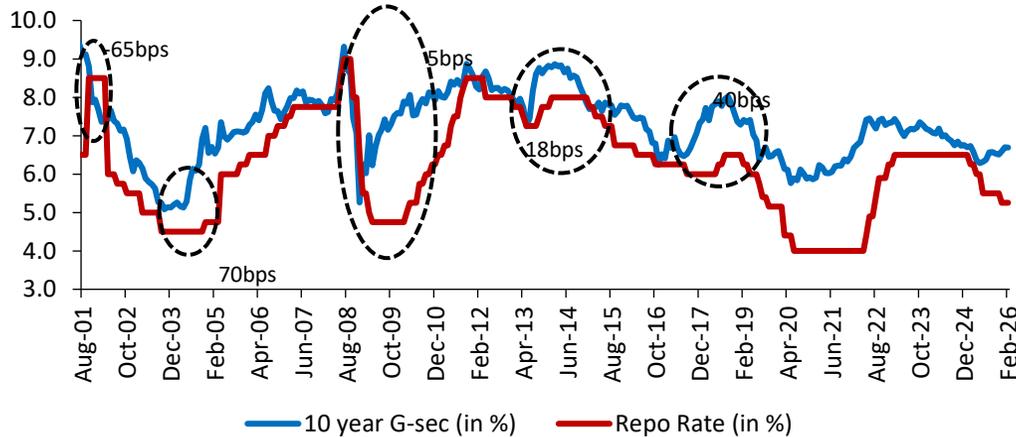
G-sec spread vs. equity turns neutral



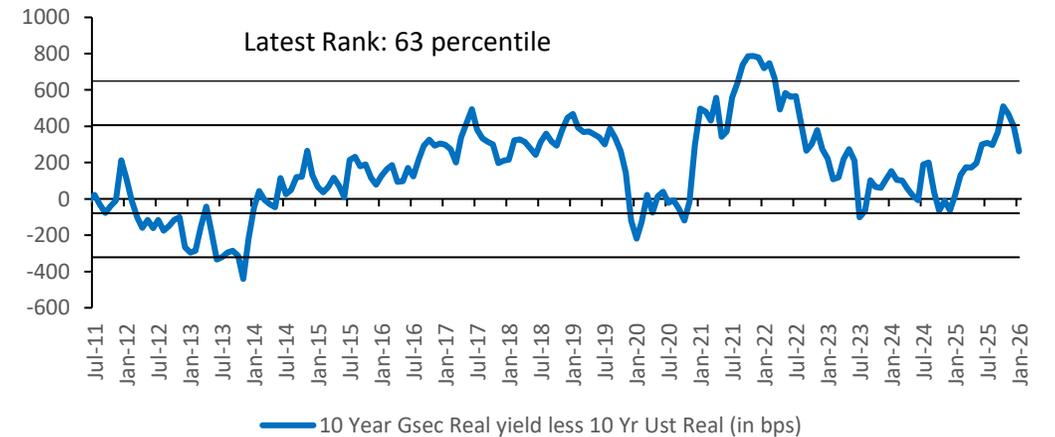
Real rate turns positive



G-sec spread can stay compressed in the period of monetary easing



India vs. US yield adjusted for inflation in line with long term trend



FII are net buyers of Indian government bonds in January and February 2026

India witnessed Debt inflows in 2025 and beginning 2026

EM FII Debt inflow US\$ million	2024	2025	Jan-26	Feb-26
South Korea	43,139	87,632	4,906	8,099
Mexico	2,090	(5,147)	1,731	2,195
India	16,832	7,472	787	1,218
Thailand	(1,092)	2,346	1,429	127
Indonesia	2,258	189	9	(200)
South Africa	(6,307)	(5,269)	506	(360)
Poland	23,948	23,737	-	-
Bulgaria	2,462	5,535	-	-
Malaysia	274	4,899	970	-
Brazil	(17,387)	(1,099)	7,061	-
Philippines	3,461	2,397	-	-
Czech Republic	14	7	-	-
Russia	-	-	-	-
Ukraine	(548)	(122)	-	-
China	57,660	(81,349)	-	-

FII flows in EM bonds are muted despite healthy inflation adjusted returns; as risk premium vs. DM bonds is largely erased

Real rates	10 Year Gsec Yield (% mth end, Jan'26)	CPI Inflation Dec'25	Real Rate (%, 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Dec 2025	10 year G-sec yield adjusted for 12m fwd premium (in %)- Dec 2025
Russia	16.0	6.0	10.0	0.0	16.0
Brazil	13.6	4.4	9.2	5.7	7.9
Colombia	13.4	5.4	8.0	12.6	-0.2
Mexico	8.8	3.8	5.0	7.2	1.7
South Africa	8.0	3.5	4.5	6.3	1.7
Hungary	6.5	2.1	4.4	5.7	0.8
India	6.7	2.8	3.9	2.6	4.1
Philippines	5.9	2.0	3.9	4.9	1.0
Indonesia	6.4	3.6	2.8	5.0	1.3
Poland	5.0	2.2	2.8	3.6	1.5
Thailand	1.9	-0.7	2.5	1.6	0.4
Malaysia	3.5	1.6	1.9	3.1	0.4
China	1.8	0.2	1.6	1.6	0.2
South Korea	3.6	2.0	1.6	2.4	1.2
Taiwan	1.4	0.7	0.7	1.4	0.0
Turkey	30.1	30.7	-0.5	34.2	-4.7

Source: CEIC, Bloomberg, RBI, SBIMF Research; NB: Data for December flows unavailable for China, Czech Republic, Philippines, Brazil, Malaysia, Bulgaria and Poland

Debt Outlook: Prioritize accrual over directional duration bets

- Interest rates in India have risen across segments—money markets, G secs, and corporate bonds—with a notable steepening of the yield curve. This is driven by the simultaneous expansion of private sector credit and government borrowing, creating a tight demand–supply backdrop for fixed income.
- Banking system dynamics are central to this. Elevated Credit–Deposit ratios have limited SLR purchases and pushed banks toward higher CD issuance. Reliance on bulk deposits has added second order pressures, elevating yields. CD spreads have widened sharply and now exceed levels seen during the IL&FS period, reflecting tight liquidity and elevated short term funding stress.
- In contrast, CP and corporate bond issuances have been tepid as banks loan rate are more attractive than the market rates.
- Interestingly, while SDL supply has also risen significantly, spreads on these instruments have remained relatively contained because markets had already anticipated the supply increase.
- Turning to inflation and monetary policy, the CPI trajectory shows a gradual upward movement. While the new CPI series, changes in weights and composition, the broader direction is upward. As a result, the case for further monetary easing in 2026 appears weak, and a status quo on policy rates seems more probable.
- Liquidity tools will remain central to RBI's policy approach in 2026. Between Dec 2024 and Feb 2026, the RBI infused significant liquidity through CRR cuts, OMOs, and FX swaps, but much of this has been absorbed by currency leakage and dollar capital outflows. As a share of NDTL, system liquidity remains modest. Elevated CIC leakage in March–April is likely to tighten liquidity further, even though some relief may come in May from the RBI dividend; Hence overall, liquidity support may still be needed in the near term.
- From an external sector perspective, balance of payments (BOP) dynamics may provide some relief. Earlier adverse sentiment driven by tariff concerns has largely subsided. The recent arrest in rupee depreciation also reflects this stabilization in capital flows and sentiment.
- However, from G-sec perspective, the fundamental case remains cautious. Monetary easing appears largely done, supply–demand conditions remain tight, and valuation attractiveness is receding based on three-month forward inflation expectations.
- Globally, while markets are pricing in the possibility of rate cuts in the US, expectations are shifting toward the second half of the year rather than the first half. Therefore, the immediate global environment does not provide any material support to the fixed income space.
- In summary, the current narrative is characterized by tight supply–demand conditions in domestic bonds, elevated CD ratios, substitution between bank credit and bond markets, gradually firming inflation, likely policy rate stability, ongoing but absorbed liquidity support, and improving external dynamics that may offer marginal relief. However, with valuations no longer compelling and global easing expectations pushed out, the case for aggressive duration positioning appears limited at this stage.

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