Capital League
PRIVATE WEALTH MANAGEMENT

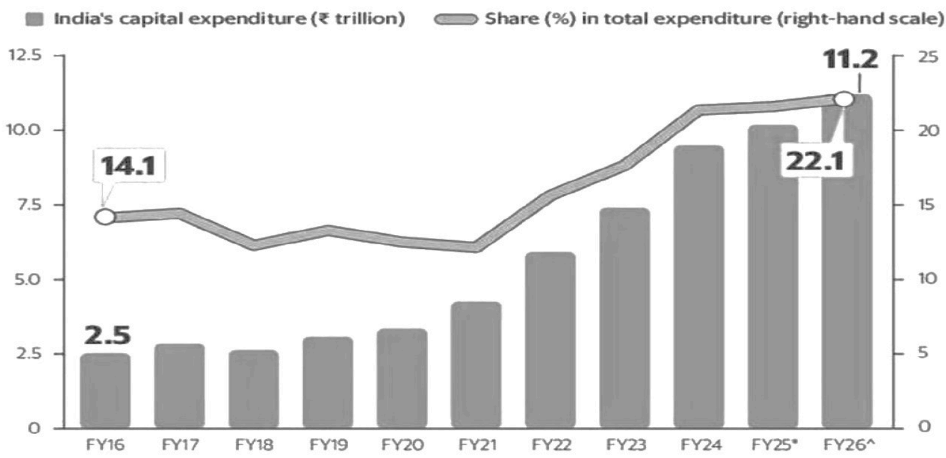
OUTLOOK

February 2026

Indian Economy

The Union Budget 2026 Highlights

- The Budget announced reform-oriented measures with a stronger focus on quality expenditure and selective tax tweaks.
- Maintaining the fiscal consolidation path, the fiscal deficit is pegged at 4.3% of GDP for FY27(4.4% in FY26).
- The government remains committed to reducing central debt-to-GDP to around 50% by FY31, from 56.1% in FY26.
- Capital expenditure is estimated at 3.1% of GDP with growth for FY27BE at 11.5% over FY26RE whereas the revenue expenditure as % of GDP continues to decline.
- Effective capital expenditure growth at 22% over FY26RE with focus on Roads, Railways, Defence, Waterways and new City Economic Regions (CERs) in Tier II/III cities.



Source: Budget Documents, CMIE

- Emphasis has been given on technology-driven growth, with increasing policy attention on Digital Infrastructure, Data Ecosystems, and Artificial Intelligence. In a big move, a tax holiday until 2047 has been announced for foreign companies providing global cloud services using data centres located in India.
- Allocation towards Rural/Agricultural sectors have been increased - VBGRAMG and MGNREGS, Rural Housing, Drinking Water, support to High Value Crops (almonds, walnut, coconut, sandalwood, cocoa, cashew etc.), Fisheries and Animal Husbandry.
- No changes in income tax slabs provides for continuity.
- Higher STT on futures (0.05%) & options (0.15%) have been proposed to disincentivise retail attraction for futures and option.
- Capital gains on Sovereign Gold Bonds exempted only when bought from the primary market and held till maturity of the bond.

- Buyback taxation now in line with Capital Gain tax of individual which is a welcome relief.

Trade Agreements

- India and EU have announced a free trade agreement where India will eliminate or reduce tariffs on 96.6% of EU exports, while the EU will do the same for 99.5% of Indian goods by trade value. Significant tariff reductions in Chemicals, Machinery, and Pharmaceuticals will accelerate the integration of Indian firms into European value chains, while regulatory alignment in Electronics and Automobiles lowers barriers to higher-value manufacturing.
- US-India Trade deal has also been announced with the 25% reciprocal tariff on India reduced to 18%, while removing the additional 25% which was imposed for purchase of Russian oil. Under the agreement, the tariffs on imports of several agricultural and intermediate products from US will be phased out over a period of up to 10 years.

Monetary policy

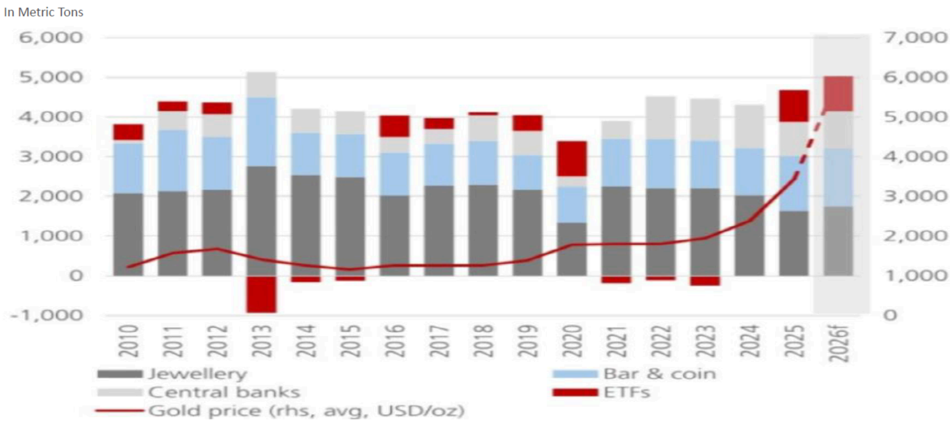
- RBI increased FY26 GDP projection to 7.4% supported by GST rationalisation and monetary easing. The FY27, Q1 and Q2 GDP projections have also been increased to 6.9% and 7% respectively. Trade pacts with EU and US bode well from external demand perspective and could provide fillip to growth going forward.
- The Monetary Policy Committee (MPC) kept the policy repo rate unchanged at 5.25% and retained the ‘neutral’ policy stance in Feb’26.

Q3 FY26 interim earnings

- Analysis of about 3000 companies shows Top line is subdued at about 8% Year on Year but profit growth has jumped to double digits approximating 11% year on year.

Global Economy

- US nominal GDP grew ahead of expectations in Oct-Dec'25 quarter. US GDP has grown by 58% in last 5 years (USD 20 Tn in 2020 to USD 31 Tn in 2025) with maximum contribution from Tech Capex, however its national debt remains elevated (USD 38 Tn currently).
- Global oil markets face increasingly sharp and frequent price shocks due to geopolitical tensions, opaque stockpiling and tightening Western sanctions. However, the International Energy Agency expects oil production to exceed demand by 3.7 million barrels per day this year at more than 3% of global consumption. Brent crude prices have remained below USD 70 per barrel which is a positive for India.
- Central Banks reduced Gold purchases in CY25 as Investment demand soared leading to spectacular rise in prices. However overall Gold demand forecasts have been raised



Source: WCG, UBS As of January 2026

Outlook

- The Budget reiterates the government's commitment to India's long-term transformation into a Viksit Bharat balancing domestic capacity building with deeper integration into global markets for trade and capital.
- Multiple announcements across strategic and frontier sectors aimed at boosting domestic manufacturing. Customs duty reductions and exemptions for key inputs are also aimed at supporting domestic manufacturing.
- The Nifty-50 Index is trading at ~20X FY27E EPS. Net profit of the Nifty-50 Index is expected to recover in healthy double-digit territory in FY27 led by BFSI, Autos, and Consumption. Valuations at an aggregate level in fair value zone & seem reasonable.

- CY26 is expected to witness (1) strong recovery in earnings in most sectors, (2) improved domestic consumption demand on the back of GST rationalisation, income tax rate cuts, low inflation and lower interest rates and (3) Improved macros in terms of higher exports, reversal in FII flows and stronger Rupee on likely conclusion of the India-US trade deal.
- However, any dislocation in US Equity Markets due to a correction in Tech stocks on account of high valuations as well as Anthropic AI led concerns will likely impact Indian Tech sector as well as overall equity markets.