

Markets Reset — Momentum Builds



Markets Reset, Momentum Builds: India Navigates Volatility with Quiet Strength

January'26 unfolded like a month of cross-currents, where India's steady stride met a world in flux. It began with a long-awaited breakthrough, the India EU trade agreement finally placing India on a stronger global stage and opening the doors to high-value exports and advanced technology imports. Just as the ink dried on that optimism, the Union Budget reaffirmed India's growth intent with a powerful capex push, disciplined fiscal math and a clear commitment to building future-ready industries across semiconductors, biopharma and electronics.

Beyond the policy, markets told a different story. Commodity prices behaved like a roller coaster, gold and silver shooting to dizzying highs before collapsing mirroring the mood of global investors. The US, powered by its strongest GDP print in nearly two years and a hawkish new Fed Chair nominee, sent the dollar surging and emerging market currencies wobbling. India felt the tremors: the rupee hit new lows, FPIs pulled out sharply, and equities slipped across large, mid and small caps.

Yet beneath the noise, India's fundamentals held firm. GST collections were strong, industrial output surged, inflation stayed remarkably low and corporate earnings once adjusted for one-off impacts showed resilience. In a volatile world, India's story remains one of quiet strength and long-term promise.

Source: Internal Research

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- **Landmark Europe deal:** India-EU Free Trade Agreement has finally been agreed upon, which is structurally positive for several large sectors of the Indian economy. On the export side, India stands to benefit through improved market access for **engineering goods, auto components, pharmaceuticals, chemicals, textiles and IT services**, helping diversify exports and move up the value chain. On the import front, lower duties on **capital goods, high-end machinery, clean-energy equipment, high end automobiles, European spirits and specialised intermediates** have been agreed. The final ratification could take 9-12 months, but this agreement could finally place India on a high pedestal ahead of negotiations for the US trade deal.

- **Indian Budget:** India's Union Budget 2026-27 focused on sustaining growth through higher public investment, with capital expenditure raised to ₹12.2 lakh crore and a strong emphasis on infrastructure, connectivity, and urban development. Fiscal discipline has been maintained, with the fiscal deficit projected at around 4.3% of GDP, reinforcing the government's commitment to consolidation. Manufacturing and strategic sectors receive a major push through initiatives such as Semiconductor Mission 2.0, Biopharma SHAKTI, electronics, and rare-earth corridors to strengthen domestic supply chains and self-reliance. On the taxation front, there is no change in personal income-tax slabs, but the new Income Tax Act from April 1, 2026, aims to simplify compliance and reduce disputes. STT rates for F&O has been increased and the cigarette excise duty revision has been notified. Overall, the Budget balances growth, reform momentum, and macroeconomic stability while supporting long-term competitiveness.
- **Commodity markets saw heightened volatility** marked by sharp rallies followed by swift corrections. Gold rose nearly ~30% intra-month to record highs before correcting ~10-15% from the peak. Silver exhibited extreme swings, surging over ~60% during the month and then correcting ~25-30% from its highs, reflecting speculative excess and its dual monetary-industrial character. Copper prices rallied ~20-25% intra-month on supply disruptions and electrification-linked demand, before retracing ~8-12% as inventories improved and positioning cooled. Crude oil traded in a wide ~10-15% range, with geopolitical risk-driven spikes offset by expectations of surplus supply and OPEC+ production discipline, keeping prices broadly range-bound.
- **Strong US GDP growth for Q3:** The US economy grew at an **annualised rate of 4.4% in Q3 2025**, revised slightly higher from the advance estimate and marking the strongest quarterly growth in nearly two years. Growth was driven by **resilient consumer spending, a rebound in exports, and higher government spending**, while imports declined. The Atlanta Fed's GDPNow model estimates **Q4 2025 real GDP growth at ~4.2%**, indicating continued but moderating momentum into year-end.

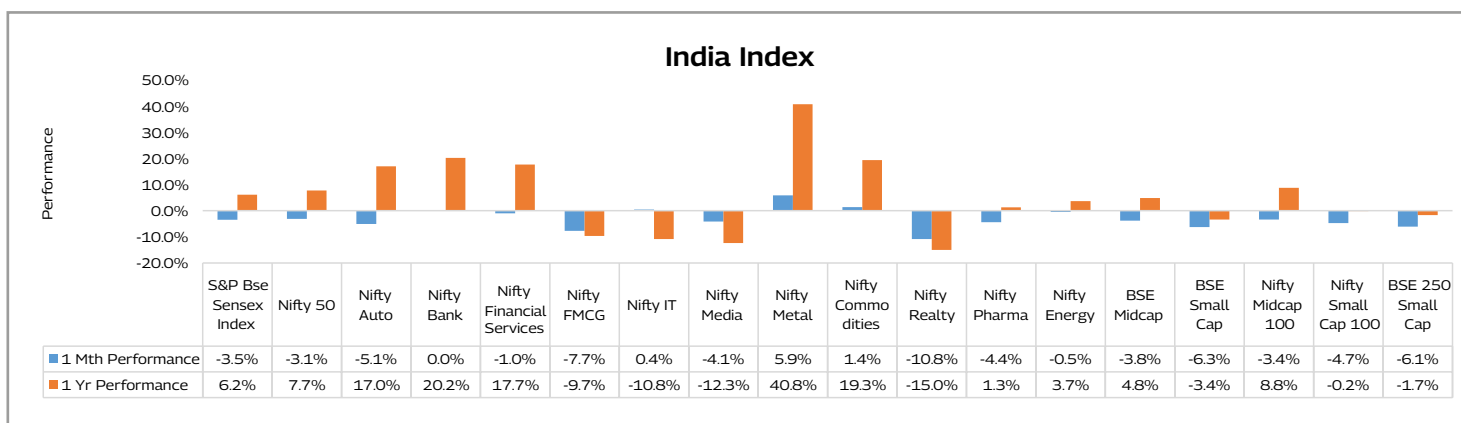
Source: Bloomberg

WHO MOVED MARKETS

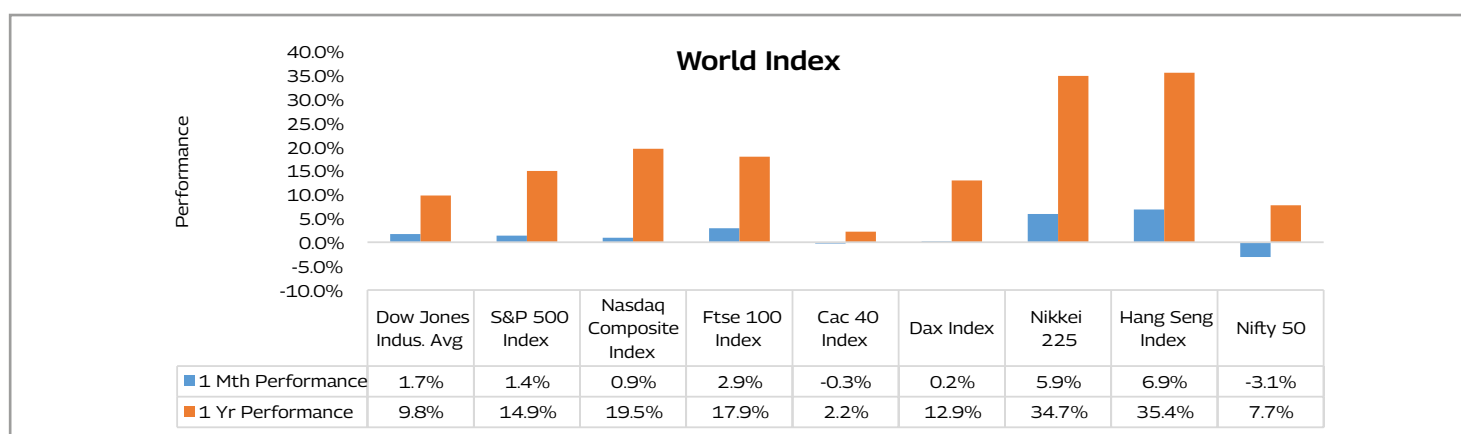
- FPIs sold 3.5bn\$ in the month of January and the selling seems to be more led by long only then ETF flows.

Source: Bloomberg

MOVERS & SHAKERS



Source: Bloomberg; Data as of January 2026; Performance - Absolute returns. *Past performance may or may not be sustained in future.*



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PERFORMANCE SNAPSHOT OF SECTORAL INDICES - MONTH ON MONTH

Indices	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Nifty 50	-0.6	5.9	6.3	3.5	1.7	3.1	-2.9	-1.4	0.8	4.5	1.9	-0.3	-3.1
Nifty Midcap 100	-6.1	-10.8	7.8	4.7	6.1	4.0	-3.9	-2.9	1.4	5.8	2.0	-0.9	-3.4
Nifty Small Cap 100	-9.9	-13.1	9.5	2.2	8.7	6.7	-5.8	-4.1	1.9	4.7	-3.0	-0.6	-4.7

Note - Green highlighted cells represent highest returns amongst the 3 indices provided above; Orange highlighted cells represent lowest returns amongst the 3 indices for the respective month end periods. Performance - Absolute returns. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. **Past performance may or may not be sustained in future.** Data during the period of January 2025 to January 2026.

Source: Bloomberg Data as of January 2026

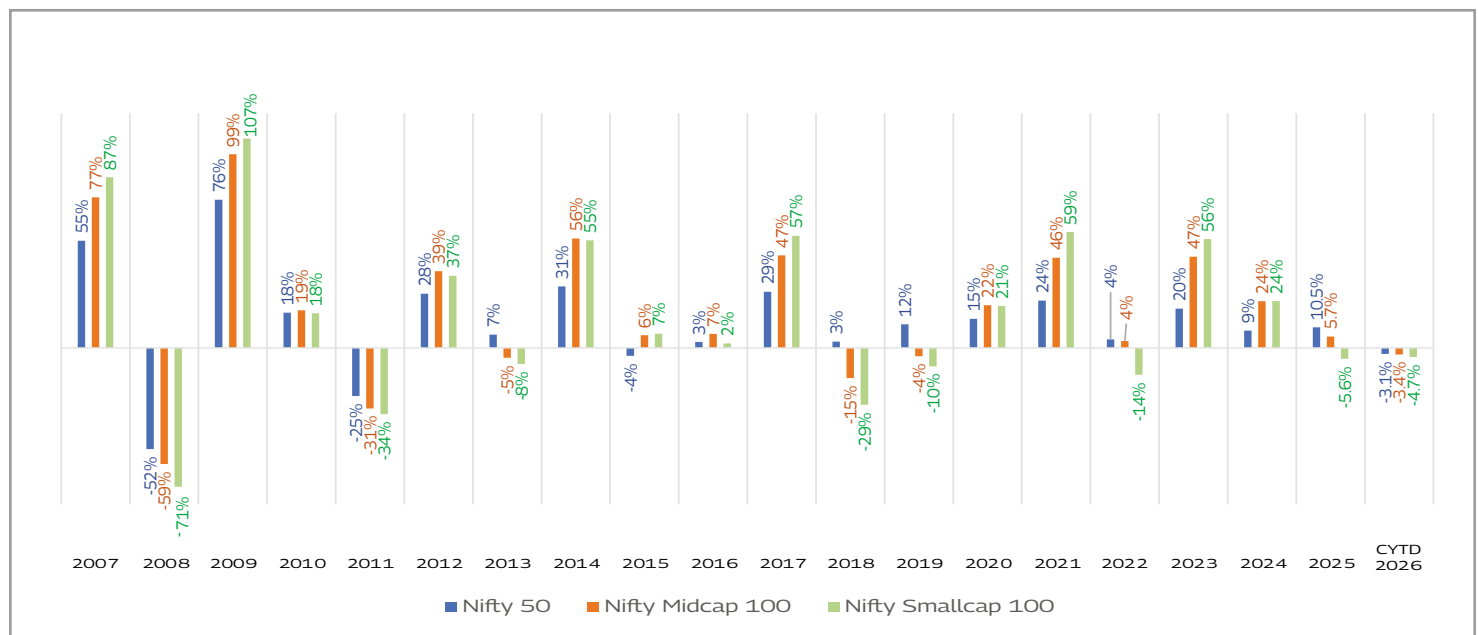
Indices	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Nifty Auto	0.1	-10.4	3.9	4.8	4.6	2.3	-0.9	5.5	6.3	1.0	3.6	1.5	-5.1
Nifty Bank	-2.5	-2.5	6.7	6.8	1.2	2.8	-2.4	-4.1	1.8	5.7	3.4	-0.3	0.0
Nifty Financial Services	-1.2	-0.8	8.9	4.1	1.5	2.5	-1.9	-4.1	1.8	4.3	2.8	-1.0	-1.0
Nifty FMCG	-0.2	-10.6	5.7	5.3	-2.1	-0.7	1.7	0.6	-2.5	2.7	-1.1	-0.2	-7.7
Nifty IT	-1.6	-12.5	-1.2	-3.0	4.3	4.4	-9.4	-0.3	-4.3	6.1	4.7	1.3	0.4
Nifty Metal	-2.9	-2.1	10.6	-5.6	7.1	3.7	-2.6	-1.4	9.6	5.7	-3.0	8.5	5.9
Nifty Realty	-12.4	-13.4	6.7	4.1	7.2	3.9	-7.5	-4.6	-0.4	9.2	-4.7	-2.8	-10.8
Nifty Pharma	-8.4	-7.6	6.7	3.0	-1.5	2.8	3.3	-4.2	-1.6	3.4	3.7	-1.2	-4.4
Nifty Energy	-3.7	-11.4	11.8	2.0	4.8	1.9	-4.0	-4.2	4.0	3.6	-2.0	-0.6	-0.5

Note - Cells highlighted in green colour represents top 2 performers and the orange highlighted cells represent bottom 2 performers amongst the indices covered above for the respective months.

Source: Bloomberg.

Returns have been calculated on Absolute basis for respective month end periods beginning January 2025 until January 2026. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. **Past performance may or may not be sustained in future.** Data during the period of January 2025 to January 2026.

MARKET CAPITALIZATION - PERFORMANCE SNAPSHOT



Source:- MFI, 30th January 2026 | Data period: January 1, 2006, till January 2026. Returns are absolute returns (1 year) calculated as of the last business day of every calendar year end. Past performance may or may not be sustained in future.

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BOND AND MONEY MARKET

Parameters	31-Jan-26	31-Dec-25	31-Jan-25
RBI Repo Rate %	5.25	5.25	6.50
5Y AAA PSU %	7.06	7.00	7.42
1 year CD %	7.14	6.71	7.62
10Y Gsec %	6.70	6.59	6.70
CPI (%)	1.33	1.33	4.26
IIP (Year-on-year) %	7.80	7.16	5.20
US 10Y %	4.24	4.17	4.54
Dollar Rupee	91.99	89.88	86.62

Source: Bloomberg; Data as on January 31, 2026

THE FIXED INCOME GLANCE

- A month — and early February — defined by high-stakes developments: progressing India-EU trade negotiations, emerging contours of the India-US trade framework, the Union Budget's policy signals, and heightened volatility across global commodity markets. Investor sentiment oscillated through the period as shifting global risk cues and incoming macro data kept markets on edge. For fixed income, the interplay of fiscal consolidation signals, trade-related developments, and commodity price swings created a complex and interesting backdrop.
- Domestic fixed income markets witnessed a notable uptick in yields. The benchmark 10-year bond rose by 10 bps to close at 6.60%, while the credit markets saw a sharper sell-off with yields in the 1-3-year segment rising by 20-30 bps. Globally, the appointment of Kevin Warsh as the next U.S. Federal Reserve Chair firmed up the Dollar Index, while U.S. 10-year Treasury yields climbed to 4.24%.
- On the macro front, India's CPI inflation for December 2025 edged up to 1.33%, with food inflation at -2.71%. The modest rise in headline and food inflation is largely attributable to increase in personal care, vegetables, meat & fish, eggs, spices, and pulses.

Source: RBI

WHAT NEXT?

Economy Check
India Economy

- **GST collections for January came at ₹1.93 trillion, a strong growth of 6.2% YoY** despite sweeping GST cuts in September'25. Net GST collections came at ₹1.7 trillion, a 7.6% YoY increase.
- **Index of Industrial Production (IIP) grew by 7.8% year on year in December 2025**, marking the highest growth in over two years, led by broad based strength across manufacturing, mining and electricity. Manufacturing output rose 8.1% YoY,

while mining and electricity grew 6.8% and 6.3% respectively. On a use based basis, infrastructure & construction goods (+12.1%) and consumer durables (+12.3%) were key drivers, reflecting healthy investment activity and resilient consumption.

- India's Consumer Price Index (CPI) inflation stood at 1.33% year on year in December 2025, rising from 0.71% in November. The uptick was driven by a moderation in food deflation, with food inflation at -2.71% YoY, compared to -3.91% in the previous month, while core components such as housing (2.86%), education (3.32%) and health (3.43%) remained stable to easing.
- Strong expectations for an India US trade deal soon.
- Indian rupee made a new low at 92.04 against USD falling by 2% for the month.
- Fiscal deficit for Apr-Dec FY26 reached ₹8.55 trillion, ~54.5% of the full-year target 200bps lower than last year. The narrowing is due to higher revenue collections and lower expenditure.

Source: Internal Research

Markets

- Markets had a weak beginning of 2026 with Nifty down 3% for the month. Sensex also down 3.5%, Midcap index down 3.5% while small cap index declined 4.7%. Mid and small cap indices had a sharp selloff this month.
- India Q3 results seem to be a positive surprise vis a vis the moderate expectations. All private companies have reported hit due to the labor code provision distorting the profit growth. However, adjusted for this the Nifty cos profit growth so far is 6.6% yoy and mid & small cap companies reported profit growth is mid-teens so far. Domestic macro has improved post the GST cuts however, most companies have flagged rising commodity prices and adverse INR as potential margin headwind going forward.
- Global markets have been very strong in the year so far. US indices rallied 1.5% but the Asian markets of China, South Korea, Taiwan, Japan have posted strong gains in the region of 5-10% however, South Korea has been a standout performer with 26% return in the month. Global AI sentiment has been very strong and hence the rally has been unabated in the space.
- Among the Nifty sectoral indices, Nifty Commodities was the best performing with Nifty IT and Banks outperforming the month by staying flat. However, FMCG and Realty underperformed Nifty for the month.
- Domestic Flows: Active equity funds flows dipped 6% MoM to ₹28,800 Crore. Gross SIP flows in December 2025 grew strongly at ₹31000 Crores. Mid & Small-Cap inflows were steady at ₹4200Cr and ₹3800Cr respectively.

Source: Bloomberg Data as of January 2026

Outlook

- Global equity markets have rallied significantly in January on the AI theme and the focus on data centre investments and other related technologies continues to spur more interest among all investors. Commodities have also been rallying in Jan as the global de-dollarization trade along with geopolitical uncertainty having taken gold and silver to astronomical levels in the last month.
- On Friday, U.S. President Donald Trump nominated **Kevin Warsh** (former Federal Reserve Governor) as the next **Chair of the U.S. Federal Reserve**. Mr. Warsh is widely perceived as **more hawkish on inflation and financial excesses** compared with recent Fed leadership, which raised concerns that interest rates could remain **higher for longer** if inflation pressures persist. Equity markets reacted with a **risk off bias**, particularly in rate sensitive sectors such as technology, high growth stocks, and emerging markets. U.S. equities weakened, the **U.S. dollar strengthened**, and global risk assets faced pressure as investors priced in a potentially tighter policy stance and reduced liquidity support.
- From a broader perspective, while the near term reaction was negative for equities, several analysts noted that markets view the nomination as reinforcing **policy credibility and inflation discipline**, which could be supportive for long term financial stability and earnings visibility if inflation expectations remain anchored.
- In the midst of global volatility, India has announced a balanced budget with focus on capital expenditure and contained fiscal deficit. Post the meaningful underperformance of India versus the Emerging markets we believe that incrementally India is favourably placed in the global asset risk-reward metric. Also, the belief is that India-US trade deal could be a near term catalyst and help stabilize the INR and FPI outflows with potential for reversal.
- We believe that asset allocation could remain the key for investors in their journey of wealth creation. The allocation is applicable to both equity as an asset class as well as choice of market capitalization within equities. From investors

perspective, we continue to believe that as an aggregate large cap offers better value and margin of safety as compared to micro caps & small caps & mid-caps. The risk to large caps remains in further selling by FPI's as they primarily own large caps.

- Investors with near-term objectives or low risk appetite can opt to prefer Equity Hybrid Funds or multi asset allocation funds. Investors with a longer-term horizon could continue to remain invested with fresh equity allocation towards large caps.

Source: Internal Research

SUMMARISING OUR THOUGHTS



- The RBI MPC meets in early February. We expect a status quo on policy rates, but commentary on the Rupee, liquidity stance, and Open Market Operations (OMOs) shall be the key.
- With the Union Budget announcing gross market borrowing of ₹17.20 lakh crore, RBI support through OMOs may be essential for smooth execution.
- Assuming a normal year, the 10-year benchmark may drift marginally higher before turning into an attractive entry point.
- We expect spreads between State Government Securities and sovereigns to narrow and a gradual flattening between the 10-year and 30-year segments.
- After a difficult year, the Rupee may begin to outperform other major currencies versus the USD.

Source: Internal Research

From the CIO Desk...



Mr. Krishna Sanghavi
CIO - Equity



Mr. Rahul Pal
CIO - Fixed Income

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