ICICI PRUDENTIAL ASSET MANAGEMENT COMPANY LIMITED

MARKET OUTLOOK

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MONTH GONE BY: VIEW ON ECONOMY & MARKETS

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In Feb’26, the Indian equity markets clocked their third consecutive month of decline, with the Nifty 50 index down by 0.56%. Increasing geopolitical tensions in the Middle East and the ongoing worries about AI led disruptions, overshadowed the positive trends in corporate earnings and developments on the trade deals between India and the European Union and the establishment of an interim trade framework with the US.

Mid and Smallcap indices bucked the trend with the Nifty Midcap 150 and Nifty Smallcap 250 indices up by 1.66% and 0.75% respectively.

During the month, BSE Power Index, BSE Consumer Durables and BSE Healthcare sectors rose by 9.0%, 7.0% and 6.2% respectively. Among the top laggards, the BSE IT and BSE Realty declined by -18.7%, -0.6% respectively and BSE FMCG recorded a minor gain of 0.01%.

BSE Indices	1M	3M	6M	1Y
Power Index	9.0%	5.4%	9.0%	20.9%
Consumer Durables	7.0%	-4.3%	-2.4%	11.8%
Healthcare	6.2%	-2.2%	0.7%	14.9%
Capital Goods	5.7%	1.8%	7.7%	27.5%
Oil & Gas	5.3%	4.9%	15.9%	31.1%
Auto	4.9%	0.8%	11.2%	35.7%
Metal	4.1%	18.5%	33.0%	44.4%
Energy	3.0%	2.1%	12.2%	24.2%
Bankex	1.6%	1.8%	13.5%	24.2%
Telecommunication	0.02%	-2.9%	7.1%	20.4%
FMCG	0.01%	-8.2%	-9.1%	1.9%
Realty	-0.6%	-13.5%	-10.3%	-2.0%
IT	-18.7%	-18.0%	-13.6%	-18.9%
BSE 500	0.4%	-3.2%	2.9%	16.1%

BSE index data – www.bseindia.com as on February 28, 2026 | FMCG – Fast Moving Consumer Goods

Foreign Portfolio Investors (FPI) purchased USD 2bn of Indian equities in the secondary market until 26th Feb 2026, while Domestic Institutional Investors (DIIs) acquired USD 4.2bn until 27th Feb 2026. The Indian rupee (INR) also appreciated against the US dollar by 1.1% (Rs.91 per USD) during the month. India’s Manufacturing PMI rose to a four month high of 56.9 in Feb’26 on the back of improving domestic demand, although export growth cooled down.

On the policy front, in the Feb’26 meeting, RBI kept the policy repo rate unchanged at 5.25% and continued to be on a neutral stance.

Source – Kotak Monthly Wrap – Feb’26, Motilal Oswal – India Strategy Feb’26, Reuters, On the geopolitical scale, the market focus may now shift from Artificial Intelligence (AI) worries to oil supply disruptions. The tensions in the Middle East could influence oil prices. Iran, possessing the world's sixth-largest oil reserves and ranking as the tenth-largest producer, plays a significant role in this dynamic. The Strait of Hormuz is critical in facilitating oil and product flows and liquefied natural gas (LNG). This vital passage faces the potential risk of sustained disruptions.

For India, any sharp spike in oil prices may have implications on the current account deficit, fiscal deficit and inflation.

India's GDP Growth Continues to Stay Robust

Quarterly real GDP growth in Q3FY26 was recorded at 7.8% YoY. Growth was driven by strong performance in industry at 9.5%, led by manufacturing at 13.3%, and services at 9.5%, particularly financial, real estate & professional services and trade-related segments, while agriculture lagged at 1.4%.

PFCE grew faster than overall GDP as the benefits of GST rationalisation kicked in, particularly reflecting in indicators such as vehicle sales. PFCE remains the largest component of the GDP. GFCF maintained its pace in Q3FY26 despite lower construction Gross Value Added(GVA). In Q3FY26, GFCF attained the second highest level in the last 9 quarters. Capital expenditure for 10MFY26 period was at 76.9% of FY26RE, which is better than the attainment during the same period in last fiscal.

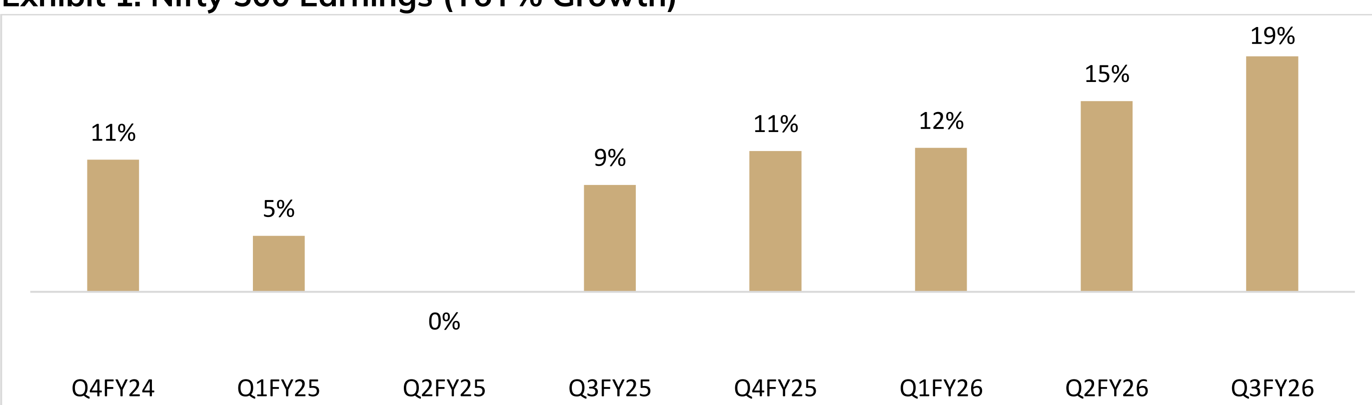
Change % YoY	Q3FY25	Q1FY26	Q2FY26	Q3FY26
GDP	7.4	6.7	8.4	7.8
Private Final Consumption expenditure (PFCE)	6.0	9.2	8.0	8.7
Government. Final Consumption expenditure. (GFCE)	7.6	5.8	6.6	4.7
Gross Fixed Capital Formation (GFCF)	6.3	4.9	8.4	7.8

Source – SBI Caps – India: Q3FY26 GDP Update

Q3FY26 Earnings reflect Robust Growth

Nifty-500 delivered strong double-digit earnings growth in Q3FY26, the highest in last eight quarters, supported by improved sectoral breadth and benefits of GST 2.0 flowing through select sectors despite continued geopolitical headwinds.

Exhibit 1: Nifty 500 Earnings (YoY% Growth)

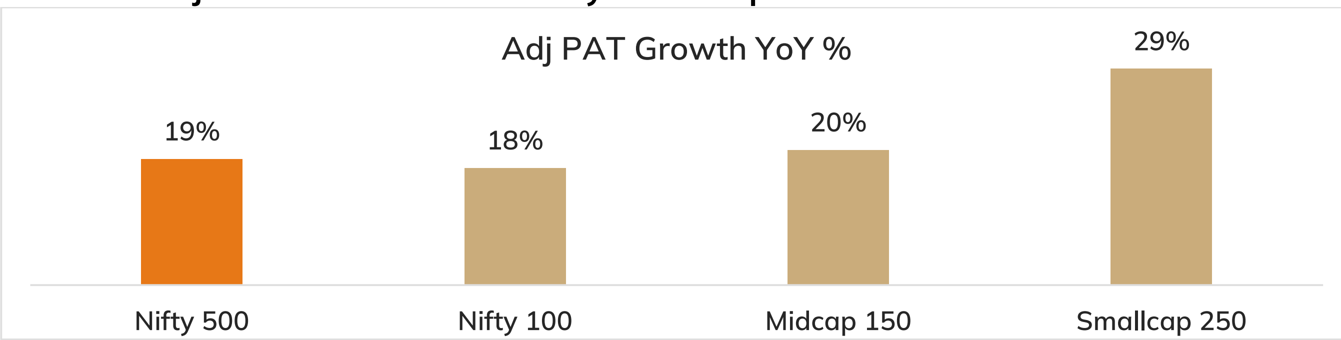


Source – Motilal Oswal – India Strategy

Source – Kotak Monthly Wrap – Feb'26, Motilal Oswal – India Strategy Feb'26, Reuters
RE – Revised Estimates
The Stock(s)/Sector(s) mentioned in this material do not constitute any recommendation of the same and the portfolios/Scheme may or may not have any future positions in these Stock(s)/Sector(s). Past performance may or may not sustain in future.

In Q3FY26, small cap earnings delivery was better than the broader markets with a PAT growth of 29% YoY, compared to 20% for mid-caps and 18% for large-caps. The positive performance was mainly driven by improving operating leverage, higher exposure to domestic cyclical sectors and faster earnings recovery across industrial and commodity linked businesses. In contrast, mid-caps saw relatively softer growth due to profit concentration in select stocks, while large-caps were weighted down by global facing sectors such as IT, pharma and energy. Overall, small-caps benefitted from the ongoing domestic capex cycle and improving demand conditions.

Exhibit 2: Adjusted PAT Growth in Nifty 500 Companies



Source – Motilal Oswal – India Strategy

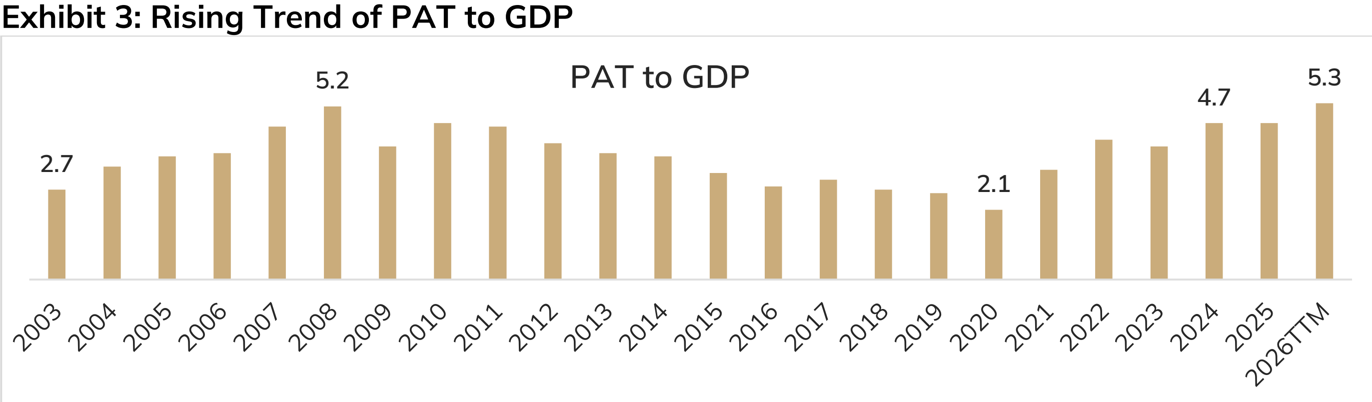
Rising trend for PAT to GDP

All listed companies' aggregate reported PAT stood at ~INR 18.5tn over the trailing 12 months, thereby resulting in the PAT/GDP ratio rising marginally to 5.3%. The rising trend of PAT to GDP in India reflects a strengthening corporate sector and improvement in economic conditions.

Capital expenditure in sectors across infrastructure, power, manufacturing has been a key contributor to the PAT to GDP over the years. A similar trend is observed in the latest earnings results (Q3FY26), which indicate robust growth in capital expenditure (capex) and manufacturing sectors. This positive trend is driven by strong order inflows in the capital goods sector and healthy volume growth across industries.

Additionally, the Union Budget for 2026–27 has placed a clear emphasis on infrastructure and defense-related capex, alongside initiatives aimed at bolstering manufacturing in critical sectors like semiconductors, electronics, rare earth products, chemicals, capital goods, and textiles.

Exhibit 3: Rising Trend of PAT to GDP



Source: I-Sec Research, Capitaline | Years mentioned above denotes Financial Year end. NSE 500 universe.

Source – Kotak Monthly Wrap – Feb'26, Motilal Oswal – India Strategy Feb'26, Reuters

Going ahead

The recent heightened geopolitical tensions in the Middle East have led to increased volatility in trade and oil prices. This region holds significant concentration of oil and gas supply and presents risk for global coal prices as overall energy stack prices increase. **Whether the upside and volatility will sustain for long, depends on the length and severity of the conflict, and the fate of the Strait of Hormuz. The situation in this region remains a key monitorable.**

The recent trade agreements with the European Union and the United States are expected to alleviate some of the risks that have emerged from the external sector, particularly those associated with global inward-looking policies focused on import substitution. On the growth front, MoSPI [1]pegged real GDP growth for FY26 at 7.6% with GVA at 7.7%. The Advance Estimates suggest continuing growth momentum, driven by domestic factors amidst a challenging external environment and the inflationary pressures also staying benign.

In the current environment, while global volatility persists, we continue to remain constructive on equities given the favourable domestic macro indicators and continue to maintain a disciplined bottom-up approach for stock selection.

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[1] Ministry of Statistics and Program Implementation