Dear Patron,

Welcome to this month's edition of our market commentary, where we reflect on key developments shaping global and domestic market conditions.

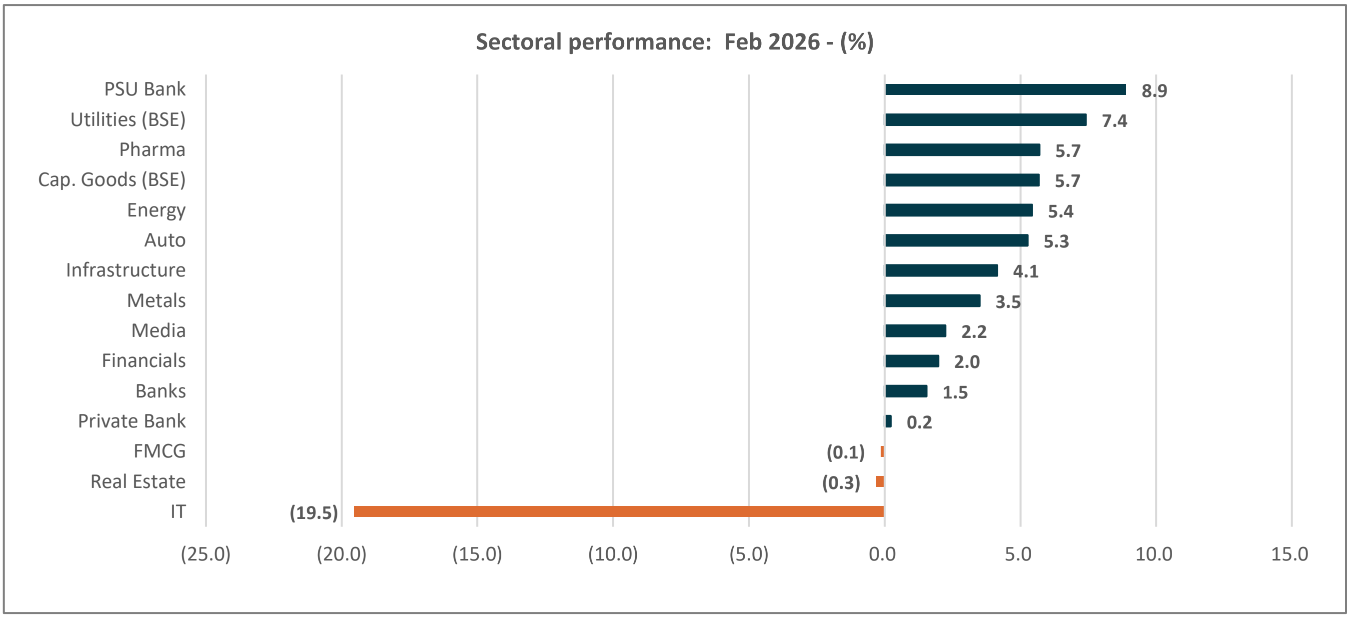
Global equity markets delivered mixed returns through February, with momentum moderating after a strong start to the year. Developed markets (DM) were largely rangebound, with MSCI DM up ~1% in February in USD terms, as gains in Europe and Asia were partially offset by consolidation in US equities.

Emerging markets (EM) continued to outperform on a relative basis, with MSCI EM up ~15% YTD, supported by improving sentiment across select Asian markets, including South Korea, Thailand, Taiwan, Japan and Philippines. After the correction in January, MSCI India gained ~2% during the month, but still down by 3% YTD.

On the domestic front, performance across the key BSE indices were uneven. BSE 100 was flat, while mid and small-cap indices advanced by 1.4% and 0.6%, respectively. The geopolitical escalation stemming from the Middle East war needs to be closely monitored as it could create near-term headwinds for the markets and capital flows.

Performance of Benchmark Indices	Feb-26	CY25
BSE500	0.4	6.4
BSE100	(0.3)	9.1
BSE Midcap 150	1.4	2.9
BSE Small cap 250	0.6	(5.9)

Source: Bloomberg, Note: Performance in INR terms



Source: Bloomberg, Elara Securities Research

Global Market Update

The S&P 500 and Nasdaq declined 1.4% and 2.7%, respectively in USD terms, in February, reflecting concentrated weakness in technology-heavy segments. US equities have lagged Asia and EM, with MSCI EM up 15% YTD versus just 1% for the S&P 500 in USD terms, driven largely by strength in Korean and Taiwanese semiconductor names. Policy signals in the US added to volatility. Even as the US court struck down emergency trade levies, the administration imposed a 10% blanket tariff and quickly raised it to 15% - reintroducing trade uncertainty and supply-chain risks into corporate outlooks.

Meanwhile, large US technology companies are materially stepping up Artificial Intelligence (AI)-linked capital expenditure. Based on recent guidance, aggregate capex across Amazon, Alphabet, Microsoft, Meta, Tesla and Apple could exceed USD 600 billion annually, versus roughly USD 400 billion in 2025. A significant portion is directed toward data centres, GPUs and AI infrastructure. This sharp rise in capital intensity has shifted investor focus towards revenue conversion and return metrics.

Market reaction has become increasingly selective: companies demonstrating visible AI-driven revenue impact have outperformed, while others have seen multiple compression despite stable earnings estimates. The debate is no longer about AI adoption, but about whether incremental capex can translate into proportionate earnings growth. Global central banks largely maintained a pause, reflecting a cautious and data-driven approach amid lingering uncertainty. The European Central Bank (ECB) kept its deposit rate at 2%, with inflation easing to 1.7%, below its 2% target. Policymakers reiterated a meeting-by-meeting stance, while acknowledging that currency strength could weigh on price pressures.

The Bank of England (BoE) held rates at 3.75% in a narrowly split vote, underscoring internal divergence as inflation remains above target. India's Reserve Bank of India (RBI) unanimously retained the repo rate at 5.25%, supported by soft inflation at 2.75% YoY and steady growth momentum.

Domestic Update

Indian equities traded in a volatile but contained range in February, oscillating between trade-led optimism and global risk aversion. Positioning had lightened after the January correction, allowing markets to respond positively to incremental policy triggers. However, conviction remained shallow as global narratives continued to influence flows.

The combination of landmark Free Trade Agreements (FTAs) and the reduction in tariffs on India's exports to the US – to 18% from 50% - alongside higher-than-expected trade concessions, sets the stage for a structural inflection for growth and markets. As India becomes more competitive versus key peers in the US market, the external risk premium is compressing, improving foreign investor appetite.

Immediate implementation of the India–US deal implies a ~40 bps lift to FY27E nominal GDP, with a combined ~60–65bps medium-term boost as EU and US agreements scale from CY27. Direct sectoral beneficiaries include Textiles, Generic Pharma, Auto Components, Gems & Jewellery, Chemicals, Aviation, Gas and Logistics.

Volatility resurfaced, triggered by global AI disruption concerns. The ~20% correction in the IT index appears largely driven by global multiple compression rather than earnings downgrades. AI adoption is likely to be phased rather than abrupt. The key monitorable remains the pace of adaptation by Indian IT services. Notably, recent quarterly updates indicate early stabilization in large deal wins.

On the macro front, January CPI inflation printed at 2.75% YoY under the new CPI series (Base: 2024=100). While granular data remains limited, two early takeaways stand out: core inflation appears more subdued under the new series, while food inflation is higher due to revised basket constituents. We expect FY26E CPI to average 2.1% and FY27E at 4.5–4.7%. Amid steady growth and a liquidity focus, we expect the RBI Monetary Policy Committee (MPC) to remain on an extended pause.

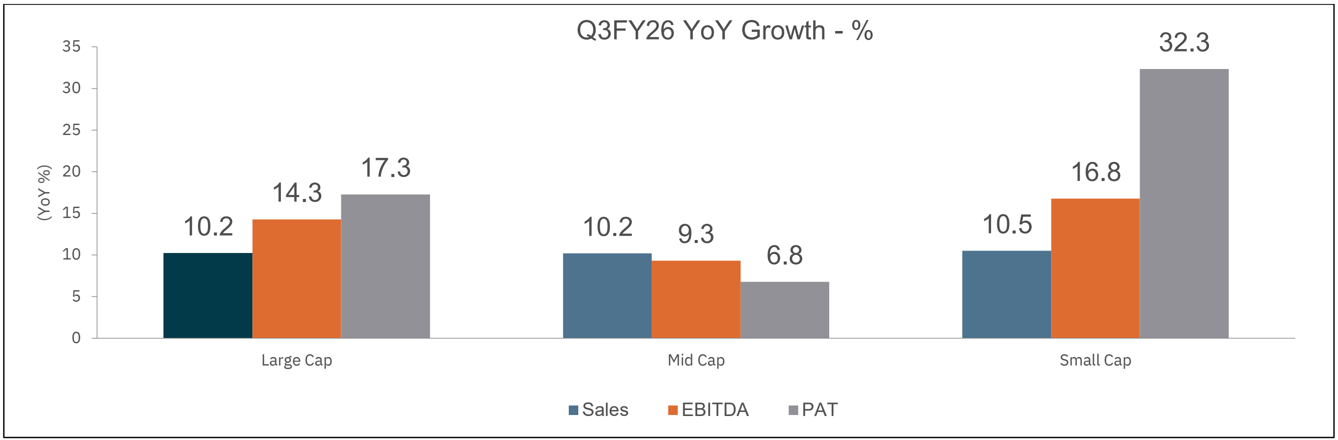
India's Q3FY26 GDP growth came in at 7.8% YoY versus 7.4% in Q3FY25, marking the first release under the revised FY23 base year. Despite methodological changes including double deflation, headline growth remains broadly comparable to the earlier series, with some upside bias in manufacturing. The Second Advance Estimate raised FY26E growth to 7.6% from 7.1%, reinforcing resilience in the domestic growth trajectory.

Q3FY26 Earnings Scorecard

The topline growth has returned to double-digit across market-cap segments, signalling a tangible improvement in the demand environment. During the quarter, companies took one-off impact of labour code enactment, with impact of ~7% on an average on a company's earnings. Adjusting for that one-off, operating leverage turns positive. Sales, EBITDA and PAT growth stands at 10%, 14% and 17% YoY, respectively. Earnings were driven by cyclicals: Metals (+44% YoY), Auto (+33%), Energy (+30%), Infrastructure (+27%) and Financials (+21%).

In contrast, Private Banks (+3%), IT Services (+9%), Healthcare (+6%) and Utilities (flat) lagged. In Q3, it was clear that growth acceleration was volume-led. For instance, Auto volumes rose ~20% in PVs and CVs and 17% in 2Ws. Bank credit growth strengthened to 13.4% YoY, and FMCG volumes improved to 6.7%.

- **Large-caps reasserted earnings leadership:** PAT of large-caps grew ~17% YoY in Q3FY26, contributing ₹390 billion to incremental profits versus ₹245 billion in the prior quarter.
- **Mid-cap print was weak:** Mid-caps' sales/EBITDA/PAT grew 10%/9%/7% YoY.
- **Small-caps surprised on profit momentum:** Sales/EBITDA/PAT of small-caps rose 11%/17%/33% YoY. The sharp profit growth reflects improving operating leverage, helped by favorable sector mix and base effects.

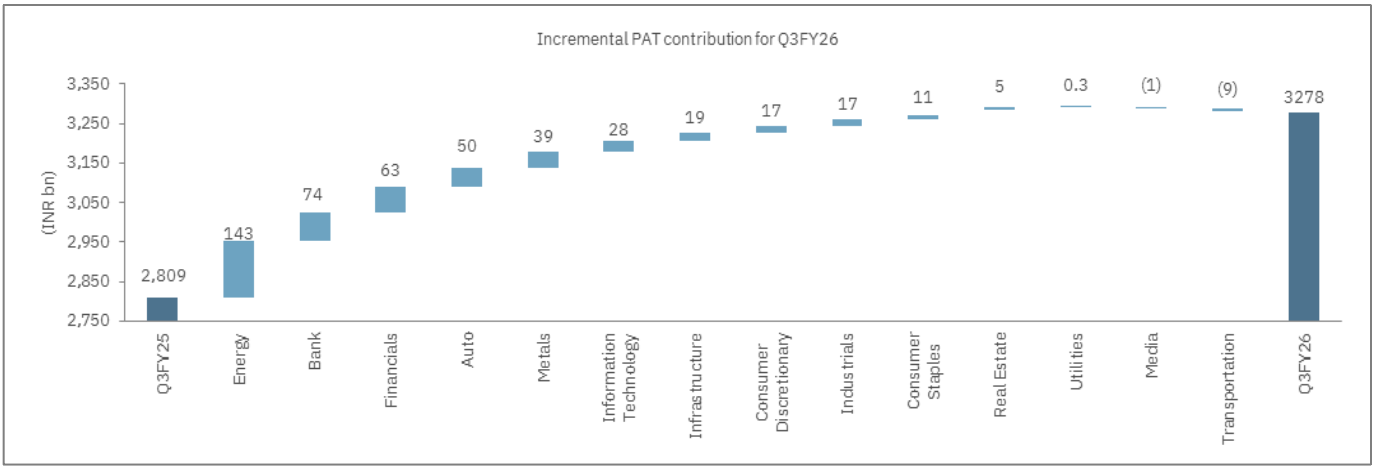


Source: Bloomberg, Company, Elara Securities Research

Note here that, at ASK Investment Managers, we are firmly tilted towards large caps. Their relative valuation comfort, earnings stability and stronger fundamental visibility position them well in the current volatile environment. Largecaps are currently trading closer to their long-term valuations, whereas the small and midcap segment continues to look relatively expensive. Similarly, we also believe a few select pockets in micro caps space are attractive right now. But given their illiquidity and higher risk, investors need to have 5 to 7 years horizon for investing in microcaps.

In our opinion, margins have not peaked, reinforcing our view that the earnings cycle is still in expansion mode. With real GDP tracking above 7% and inflation stabilising toward 4-4.5% into FY27E, the macro set-up supports a strong pick up in top line growth. We continue to expect 15%+ Nifty EPS compounding into FY27E, with the next phase of the rally driven by broadening of earnings growth, and positive operating leverage.

Energy, Banks, Financials and Autos combined add ₹330 billion, accounting for 70% of total contribution



Source: Company Data, Elara Securities Research. For the Q3 Earnings Scorecard, we have considered Elara coverage with 300 stocks under coverage with 75 large cap stocks, 75 mid cap stocks and 140 small cap stocks.

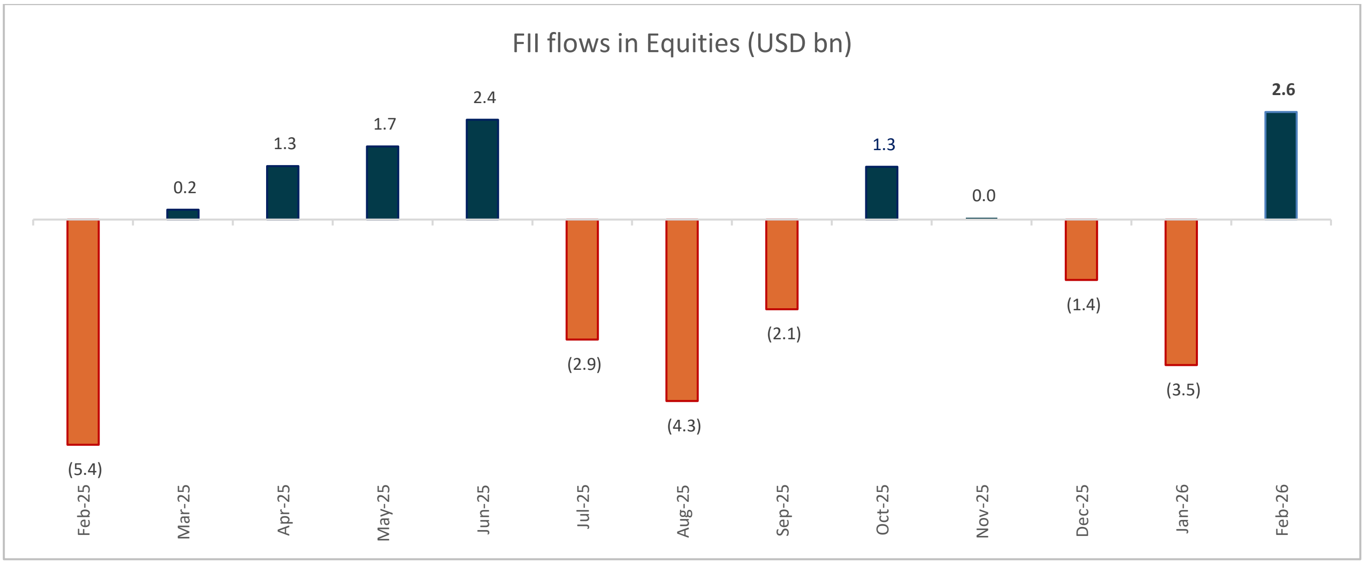
FIIs Turn Net Buyers in Feb 26

February 2026 saw FII flows turn convincingly positive, with net inflows of USD 2.6 billion, the strongest monthly print in over a year. The breadth was equally notable, with foreign investors net buyers on almost every trading day through the month.

The primary trigger was the India-US trade agreement, which brought reciprocal tariffs down sharply and removed the single biggest overhang on India's macro story. This was on top of the India-EU free trade agreement which happened in Jan’26. As of now, India’s trade competitiveness has meaningfully improved, with effective tariff rates now below several key EM peers. Thus, the risk premium that had kept foreign capital at bay through much of 2025 began to unwind quickly.

The key question is follow-through. February’s inflows recover only a small part of the outflows since early 2024. For the move to sustain, we need three things: a clearer earnings upgrade cycle, a stable INR, and progress from tariff resets toward a broader bilateral trade agreement.

USD 2.6 bn net inflows by FIIs, highest in last 12 months



Source: Bloomberg, Elara Securities Research

Commodities Review

	CY25 (%)	6M (%)	3M (%)	1M (%)
Gold	64.6	50.2	22.2	5.8
Silver	148.0	125.9	58.8	5.3

Source: Bloomberg

Precious metals retained a firm undertone in February despite mid-month volatility. Following a strong three-month rally, gold (+22%) and silver (+59%) saw profit-taking, yet both closed the month higher, up ~5–6%. The price action suggests consolidation rather than trend reversal, with the structural bid remaining intact.

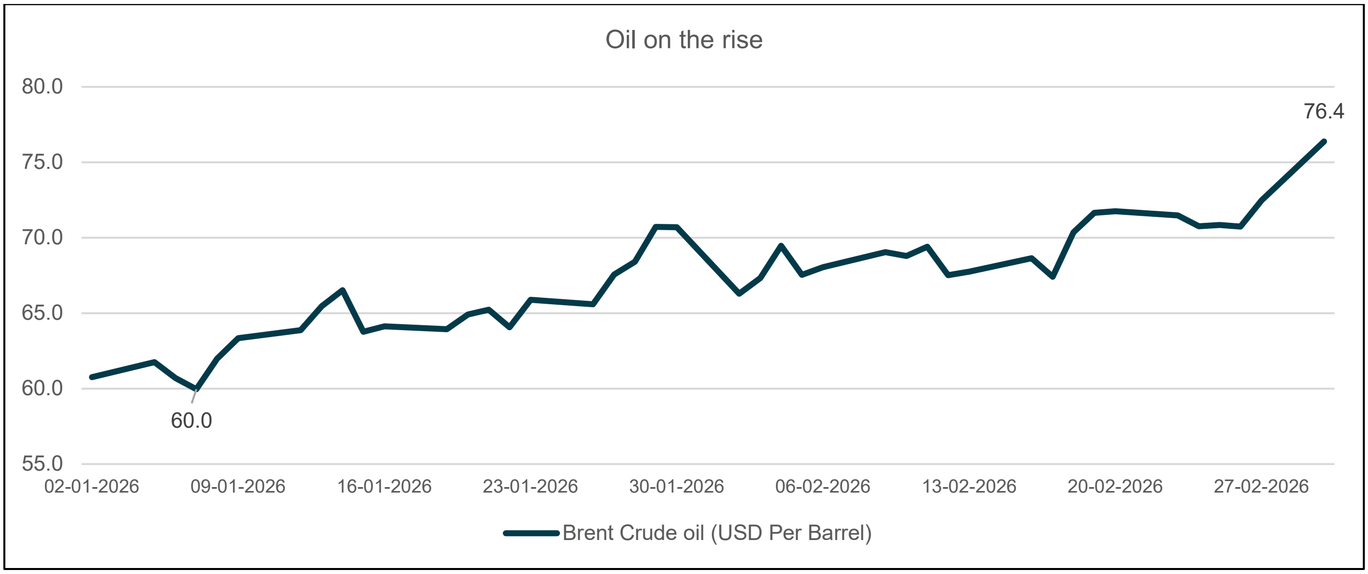
Gold, currently around USD 5,179/oz, continues to draw support from softer US inflation data and renewed expectations of policy easing. Central bank purchases remain a steady anchor, with global official sector buying exceeding 1,000 tonnes for the third consecutive year. A weaker US dollar and persistent geopolitical risks further reinforce allocation demand.

Silver has outperformed meaningfully, delivering a CY25 return of ~148% versus gold's ~65%. Beyond safe-haven flows, tightening supply and rising industrial demand are key drivers. Applications linked to electrification, grid expansion and AI-driven infrastructure continue to outpace mine supply growth.

We believe that commodities, especially gold, can be a safe haven amid rising uncertainty. However, investors must use this volatility to incrementally increase exposure to equities with a long-term horizon.

Brent Crude – Oil on the boil

Brent crude stayed firm in February, rising ~12% to USD 73 per barrel as markets priced in higher geopolitical risk amid renewed tensions in the Middle East. Oil is up ~21% YTD (as on 28 Feb 2026), driven by recurring supply-risk headlines: Iran–US tensions, Red Sea shipping disruptions, and the unresolved Russia–Ukraine war. These risks do not need an actual supply cut to move prices, they lift insurance costs, tighten shipping routes, and keep traders positioned for disruption.



Source: Bloomberg, Elara Securities Research, Last data is as of February end data

Portfolio Positioning

Our portfolio allocation continues to favour domestically oriented, fundamentally strong businesses with visibility across growth, margins, and policy tailwinds. The emphasis remains on sectors that are likely to benefit from lower interest rates, steady rural demand, and infrastructure-led multiplier effects.

Financial Services

- We remain selectively constructive on large private players that continue to trade at a discount to their long-term average valuations despite demonstrating stable asset quality and earnings growth.
- Credit growth expected to remain double-digit in FY26, with an H2FY26 recovery on policy tailwinds and improving sentiment.
- From low bad loans to clean balance sheet and robust credit growth to valuation comfort – banks are witnessing multiple tailwinds.

Cement

- As industry consolidation gains ground, cement makers are focused on balancing volume growth and profitability.
- Cement prices are likely to recover sharply over the medium term as macroeconomic conditions improve.
- With recent price hikes and benign cost trends, EBITDA per tonne is expected to improve.

Defence / Infrastructure / Manufacturing

- The Make-in-India initiative and Production-Linked Incentive (PLI) schemes enabling domestic companies to compete with global players
- As per Budget documents, India's Defence spending has outpaced its neighbours since 2010. India aims to increase exports by 2.1x to ₹500 billion by FY30 from ₹236 billion in FY25.
- Favourable conditions like clean balance sheets of banks, stable government policies, and a low-interest rate environment are beneficial for companies from infra and manufacturing segments.

Discretionary consumption

Automobile and auto components

- Constructive on 2W and Select PV OEMs: Rural demand uptick and input cost relief support recovery.
- Brand Agnostic: Auto ancillaries are relatively insulated from shifts in customer brand preferences, offering more stable growth prospects across cycles.

Real Estate

- Positive outlook on the premium segment.
- Sustained demand: Continues to gain on the sustained demand at the premium end.
- Macro tailwinds: End-buyers expected to benefit from the rate cuts.

Tactical Play

IT

- **Our Approach**: Strategically increasing exposure to large cap IT companies with fundamentally strong business models and quality earnings.
- **Valuations Support**: A tactical play with robust dividend yield and valuation comfort.
- **Tailwinds**: The depreciation of the Indian rupee could give a boost to export-oriented businesses like IT.
- **Demand Visibility**: With global SaaS providers showing strong revenue pipelines and IT spending expected to accelerate in the coming years, the outlook for IT services companies – especially as AI adoption widens – is increasingly positive.
- **AI Concerns**: Enterprises are exploring AI-driven opportunities, yet the complexity of existing technology stacks ensure that widespread adoption will follow a phased, carefully orchestrated trajectory.

Themes We Like

- China+1 and global supply diversification
- Growth revival – Rural recovery and affordable consumption
- Rate Sensitive Plays – NBFC, PSU Banks, Select Private Banks, Real Estate
- Make-in-India, Digital Infrastructure, and public capex
- Defence Export and Select Manufacturing opportunities
- Transition in the energy sector

To sum up, while rising trade and geopolitical uncertainty is expected to keep markets volatile, investment case for India remains strong. The relative macro stability, improving trade competitiveness and earnings recovery put India on a strong footing. The combination of resilient economic growth, low inflation, and supportive policy settings offer a conducive backdrop for Indian equities over the medium to long run.

While commodities act as a safe haven during volatile times, we would like to reiterate that this is the right time to increase exposure to equities. We believe that the emphasis must be on a clear market-cap strategy: a decisive tilt toward large caps, where valuations are relatively attractive and earnings visibility remains strong, complemented by selective exposure to micro-caps for investors with a long-term horizon of 5–7 years, given their illiquidity and higher risk.

Ultimately, disciplined stock selection – focused on high-quality businesses and a concentrated approach – will be the key driver of outperformance as markets become increasingly selective and dispersion in returns widens.

Warm Regards,

George Heber Joseph

CIO And CEO – Equity, ASK Investment Managers

Source: Bloomberg and documents available in public domain