

MONTHLY UPDATE

JANUARY 2026



Market Outlook

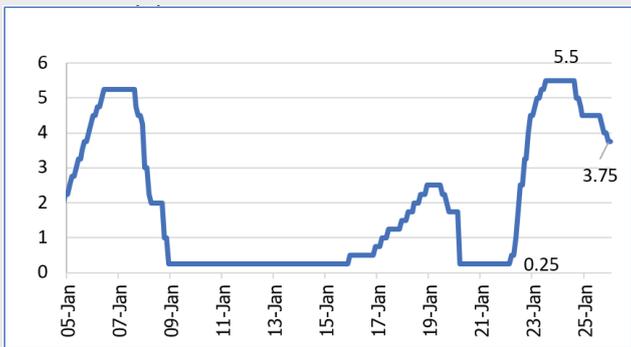
HDFC Life – Monthly Update (February 2026)



Global Macro Review

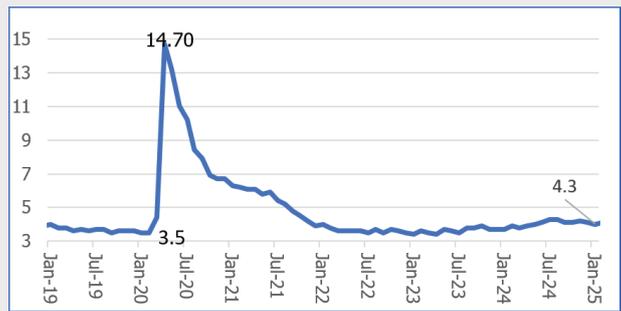
US Fund Rate (%)

US CPI (%)



■ The FOMC maintained status quo keeping the policy rate unchanged at 3.50%-3.75% along expected lines. The policy statement showed that stability in the labour market, robust growth and elevated inflation were the key reasons for maintaining status quo. The central bank maintained that future actions would remain data-dependent and that officials will look at both sides of the mandate in setting policy rate decisions. Markets expect the focus will now shift to prospective leadership changes given that Powell's term as Fed Chair is set to end in May 2026.

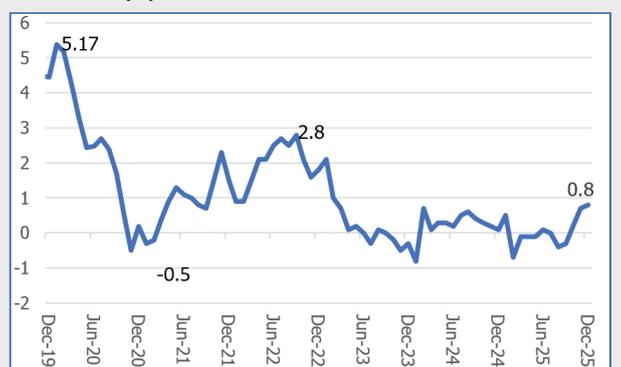
US Unemployment Rate (%)



■ The US non-farm payrolls rose by 130k in January, stronger than median expectation, while unemployment rate fell to 4.30% from 4.38% in December. A substantial share of job growth was in health care and social assistance, which rose by 124k jobs. This will further support recent Fed's assessment that labor market has stabilized and makes March cut less likely.

China CPI (%)

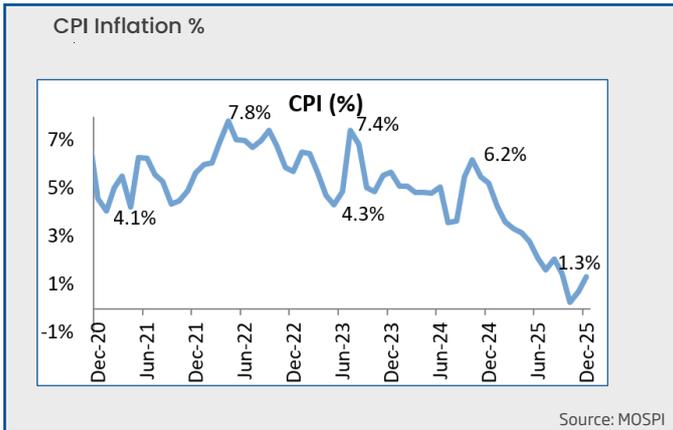
China CPI (%)



■ China's CPI reading came at 0.8% in Dec vs 0.7% in Nov, with food prices being most important contributor to the pickup. However core CPI was unchanged at 1.2% YoY with service inflation moderating further reflecting weak demand. The Q4 GDP came in at 4.5% YoY vs 4.8% in Q32025.

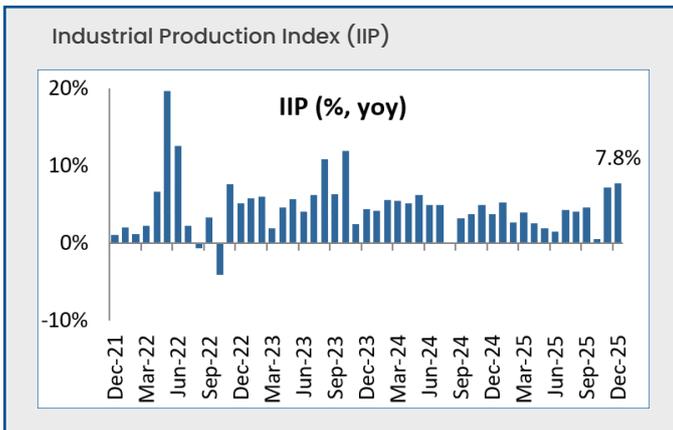
India Macro Review

CPI Inflation (%)



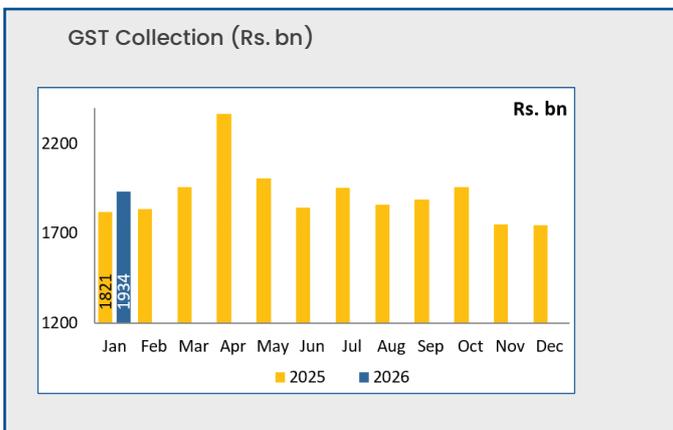
- Inflation (CPI) for Dec'25 marginally picked up to 1.3% vs. 0.7% in Nov'25 as food CPI, which constitutes 45.9% of the index, deflated 1.8% in Dec'25 from 2.8% deflation in Nov'25.
- Core CPI excluding food and fuel which constitutes 54% of CPI remained stable at 4.6% in Dec'25.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Dec'25 grew 7.8% vs. 7.2% in Nov'25 due to sharp surge in Electricity output to 6.3% growth in Dec'25 vs. 1.5% contraction in Nov'25 while Mining output grew 6.8% in Dec'25 vs. 5.8% growth in Nov'25. However, Manufacturing growth marginally slowed to 8.1% in Dec'25 vs. 8.5% growth in Nov'25.
- The increase in the Industrial production index reflects increasing momentum in production activities. However, monthly IIP numbers can be volatile and difficult to draw a trend from the same.

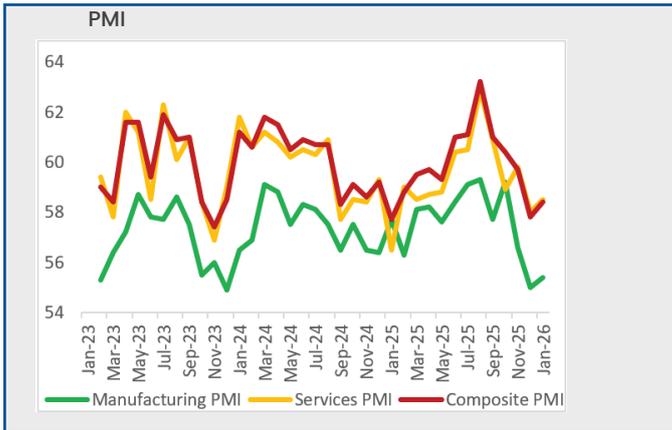
GST Collection (Rs. bn)



- GST revenues for the month of Jan'26 came to Rs. 1.9tn showing a 6.2% YoY growth vs. Rs. 1.8tn in Jan'25.
- Within GST collection, growth was led by CGST at 7.5% yoy, followed by growth in SGST and IGST by 6.4% yoy and 5.6% yoy respectively in Jan'26.

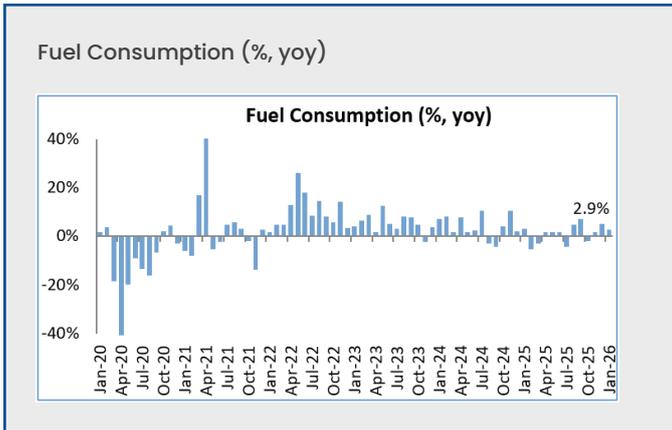
India Macro Review

PMI



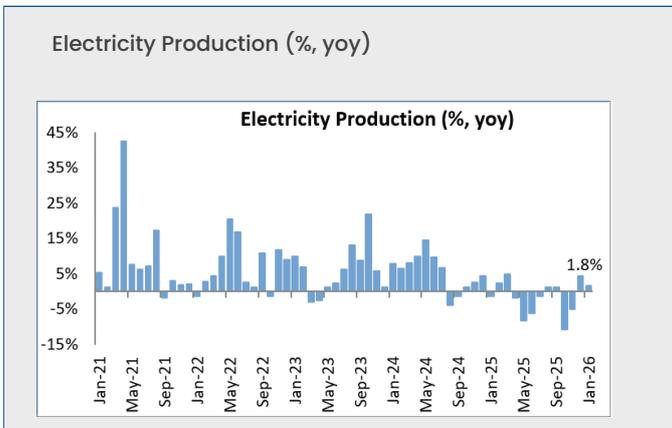
- PMI (manufacturing) inched up marginally to 55.4 in Jan'26 vs. 55 in Dec'25. PMI (Services) also witnessed marginal pickup to 58.5 in Jan'26 from 58 in Dec'25.
- Notably, PMI continuing in the expansion zone (>=50) indicates the continued strength in orders pipeline and production, despite a slowdown seen in the exports.

Fuel consumption YoY Growth (%)



- Fuel consumption grew 2.9% yoy in Jan'26 vs. 5.1% yoy jump in Dec'25. With in fuel category, diesel consumption growth slowed to 3.3% yoy in Jan'26 vs. 5.2% yoy growth in Dec'25. Consumption growth for Petrol also slowed to 6.1% in Jan'26 vs. 7.1% jump in Dec'25.

Electricity Production YoY Growth (%)

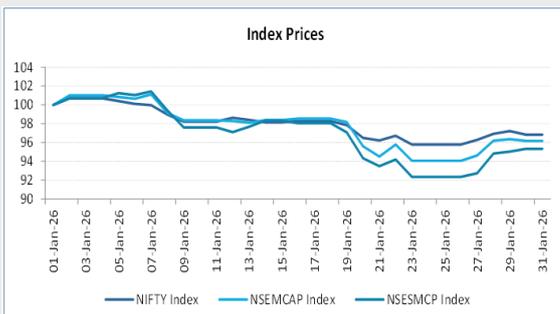


- Electricity production growth slowed to 1.8% YoY in Jan'26. This was driven by a higher base and extended winters

Equity Outlook and Positioning

Monthly Index performance

Monthly Index performance



- Equity markets were negative in Jan'26 with large cap indices outperforming midcaps and smallcaps. Nifty 50 closed the month down 3% while CNX Midcap Index gave a negative return of 4% and Small Cap was down 5%.
- Nearly all sectors ended up in red with underperformance led by Real estate (-10.3%), FMCG (-7.9%), Consumer durables (-7.8%), Pharma (-5.6%) and Auto (-5.2%). Metals (5.5%) and Banking (0.5%) were the only two sectors that ended up in the green. Other sectors that outperformed included IT (-0.3%), Capital goods (-0.7%), Power (-1.7%) and Oil & gas (-2.1%).

Nifty Valuation (1 year forward PE)

Nifty Valuation (1 year forward PE)



- India has recently announced conclusion of Free Trade Agreement (FTA) related talks with the US which has resulted in the US dropping the extra 25% tariffs that it had imposed for buying Russian Crude. Post the signing of the formal agreement, the 25% reciprocal tariffs too will drop to 18%, which will remove the disadvantage that India had compared to other South Asian countries. In addition, India has signed a spate of other FTAs as well, including with the EU, the UK, Australia and New Zealand, among others. These other FTAs are particularly quite favorable for India as most Indian exports to these geographies will not attract duties. While there are procedural steps that need to be taken before these FTAs become effective, but they improve the relative positioning of Indian goods exports.
- Earnings have been soft over the last several quarters because of tight fiscal and monetary conditions. However, both the RBI and the government have taken steps to address these issues, including relaxation in CD ratio norms, adjustments in risk-weights in some categories of loans, improvement in liquidity condition and rationalization of GST rates. These measures should give a fillip to growth, early signs of which are already visible in the recent data. Inflation outlook also seems to be benign now, partly aided by the GST rate rationalization.

Debt Outlook and Positioning

India 10yr Gsec chart

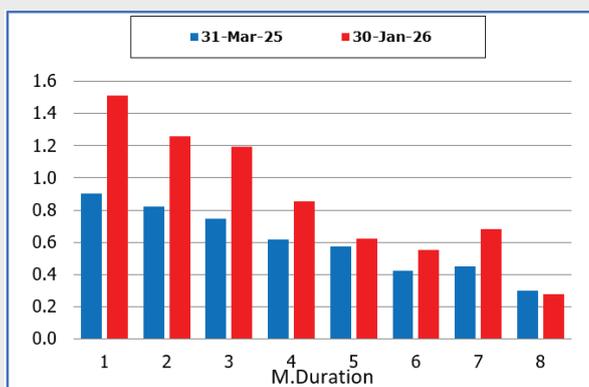
India 10yr Gsec chart



- The US 10 Yr Treasury bond yield (UST) rose from 4.17% to 4.24% in Jan and it touched intra-month high at 4.31% due to strong weekly claims data and escalation in geo-political risk, raising fiscal concerns. However, with the announcement of new Fed chair, largely seen as dovish, UST retraced back and closed at 4.24% by the end of the month.

AAA Curve movement (%)

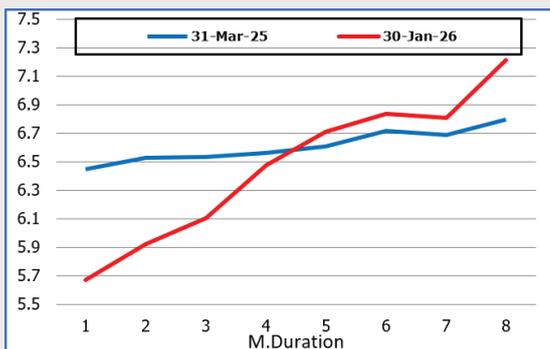
AAA Spreads



- In India, the 10yr bond yield continued to harden during the month on delay in US trade deal and concerns over FY27 gross borrowings. This was despite proactive liquidity measures (like huge OMO auction & FX swaps). 10-year G-sec yield was range-bound initially supported by modest monthly inflation print and lower oil prices. But the delay in US trade deals, pressure on currency, rise in geo-political risk and concerns regarding FY27 gross borrowing number pushed up the G-sec yields during the month. The 10 yr G-sec yield closed at 6.70% vs 6.58% for the month.
- In the latest MPC meeting, RBI kept the policy rates unchanged citing resilient economic growth and low inflation. In the policy, the RBI marginally revised inflation and growth projections upward. However, there was no announcement for liquidity, in the policy, apart from the statement that the "RBI will remain pro-active in liquidity management and ensure sufficient liquidity in the system" leading to rise in yields.

G Sec Curve Movement (%)

G Sec Curve Movement



- In early Feb, we saw budget announcements and much awaited gross borrowing numbers which came higher at INR17.2trln vs INR16.5 trln expected. The Union Budget continued to remain on fiscal consolidation mode and marginally lower fiscal deficit target at 4.3%.
- In the light of resilient growth dynamics and removal of uncertainty due to US trade announcement, the current policy rate is expected to be the terminal rate, however RBI's action and reiteration that it may ensure adequate liquidity through OMOs its expected yield curve to remain steep, having said that huge gross borrowings number for FY27 and seasonally high SDLs auction supply is likely to keep pressure on the yields in near term.



Sar utha ke jiyo!

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