

**3<sup>rd</sup> FEBRUARY 2025**

January 2026 proved a defining month for Indian and US capital markets, blending resilience with caution amid central bank steadfastness and evolving trade dynamics. Nifty 50 dipped 3.1% despite robust Q3 FY26 GDP growth estimates at 7.4%, buoyed by Domestic Institutional Investor (DII) inflows countering Foreign Institutional Investor (FII) sales, while the landmark EU-India trade deal promised tariff reductions on key exports, injecting optimism into autos and machinery sectors.

US markets advanced steadily, with S&P 500 gaining 1.3%, propelled by health care and industrials amid President Trump's tariff signals and Fed policy signals. The recent Federal Reserve's January 28-29, 2026 FOMC meeting outcome held the federal funds rate steady at 3.75%, with Chair Powell emphasizing data dependent patience amid sticky core Personal Consumption Expenditure(PCE) near 2.8%, downplaying aggressive cuts despite cumulative 125 bps easing in CY2025; dot plot revisions projected only two 25 bps cuts for 2026, tempering yield declines and supporting a steepening curve. Commodities flared with gold/silver surges on safe-haven bids and dollar stabilization post-2025 declines, oil at 4-month highs, while USD/INR hit record weakness near 92 amid rupee pressures.

**EQUITIES:**

**INDIA:** Nifty 50 declined in January 2026 by 3.1% and ended the month at 25,320. Metals (+5.9%) outperformed while IT (+0.4%), Banks (+0.05%) and Infrastructure (-0.5%) remained relatively flat. Contrarily, Realty (-10.8%), FMCG (-7.7%), Consumer Durables (-6.4%), FMCG (-5.1%) and Auto (-5.1%) underperformed. Within Nifty 50, 31 companies have released their Q3 results, with 12 posting growth, 14 showing negative growth, and 5 reporting neutral performance.

Midcaps and Smallcaps continued their underperformance with Midcap 150 and Smallcap 100 declining by 3.9% and 4.7% respectively. FIIs recorded net outflows of ₹31,393 Cr in January 2026. However, DIIs continued to provide support with net inflows of ₹36,647 Cr for the month, resulting in cumulative net inflows of ₹5,254 Cr. Exiting FIIs have also further sped up depreciation of the rupee bringing the USD/INR rate to ₹91.69 by the end of the month, leading to muted returns in dollar terms.

INDICES	CURRENT	10 YR MEDIAN	AVERAGE (SI)	COMMENT
NIFTY 50 (PE)	22.0	23.4	21.0	FAIRLY VALUED
NIFTY 50 (PB)	3.4	3.6	3.6	UNDERVALUED
NIFTY 50 (DIVIDEND YIELD)	1.3	1.3	1.4	OVERVALUED
NIFTY MIDCAP 150 (PE)	31.8	33.9	31.1	FAIRLY VALUED
MIDCAP 150 (PB)	4.4	3.4	3.0	OVERVALUED
MIDCAP 150 (DIVIDEND YIELD)	0.8	0.9	1.2	OVERVALUED
SMALLCAP 100 (PE)	30.0	32.9	43.7	UNDERVALUED
SMALLCAP 100 (PB)	3.7	3.4	3.0	OVERVALUED
SMALLCAP 100 (DIVIDEND YIELD)	0.8	0.9	1.1	OVERVALUED
S&P 500 (PE)	29.3	25.2	20.3	OVERVALUED

Data as on 31<sup>st</sup> January 2026

As of January 31<sup>st</sup>, 2026, Nifty 50 traded at a PE ratio of 22.0x, above its all-time average of 21x but still below its 10-year median of 23.4x; Nifty Midcap 150 traded at a PE of 31.8x, slightly exceeding its all-time average of 31.1x although below its 10-year median of 33.9x. Nifty Smallcap 100 is trading at a PE of 30x, significantly below its lifetime average of 43.7x.

**U.S.:** US equities posted a muted January 2026, with the S&P 500 down 1.3%, while Nasdaq 100 and Dow Jones gaining 1.2% and 1.7% respectively. Hawkish repricing followed Trump's nomination of Kevin Warsh as Fed Chair, lifting 10-year Treasury yields from 4.1% to over 4.2% mid-month on anticipation for fewer rate cuts. Strong retail sales data underscored economic resilience, while core PCE inflation ticked up to 2.8% from 2.7%, tempering easing expectations amid stretched valuations with Nasdaq 100 currently trading at 35.11x PE compared to the 10-year average of 28.3x and S&P 500 trades at 29.5x PE compared to 10-year average of 25.2x

## FIXED INCOME:

BOND YIELD	CURRENT	10 YR AVERAGE	AVERAGE (SI)	COMMENT
1 YEAR	5.70%	5.99%	6.60%	OVERVALUED
2 YEAR	5.87%	6.21%	6.80%	OVERVALUED
3 YEAR	6.14%	6.40%	7.00%	OVERVALUED
4 YEAR	6.22%	6.58%	7.10%	OVERVALUED
5 YEAR	6.38%	6.66%	7.20%	OVERVALUED
6 YEAR	6.58%	6.82%	7.30%	OVERVALUED
7 YEAR	6.62%	6.90%	7.40%	OVERVALUED
8 YEAR	6.75%	6.97%	7.50%	OVERVALUED
9 YEAR	6.70%	6.96%	7.50%	OVERVALUED
10 YEAR	6.70%	6.87%	7.40%	OVERVALUED

Data as on 31<sup>st</sup> January 2026

**INDIA:** The Indian bond market saw the yield curve flat as 10-year yield traded at 6.70% up from 6.59%. With inflation and estimated GDP numbers out, we await cues from the upcoming MPC meeting on the direction of fiscal or monetary measures to improve nominal GDP growth.

**U.S.:** The US 10-year Treasury yield rose from 4.1% in December 2025 to 4.2% in January 2026 amid speculation of fewer rate cuts, mixed economic data, and further tariff threats fuelling inflation risk. As current Fed Chair Jerome Powell's term ends in May 2026, President Trump has nominated Kevin Warsh, historically known for his role in the 2008 crisis and hawkish tight monetary policy views sending mixed market signals amid Trump's push for lower rates and growth. Yet Warsh recently advocated rate cuts, arguing surging productivity and the AI boom enable rapid expansion without inflation risks. The outcome of Warsh's confirmation and future policy direction remains to be seen.

**COMMODITIES & CURRENCY:** WTI crude oil prices rose by +13.6% in January 2026 from \$57.42 to \$65.21 per barrel due to tariff crises and flaring geopolitical tensions. The recent weakness in the INR has been a function of many factors including demand from importers, weak foreign inflows and elevated domestic trade deficit; USD/INR reached a record low of ₹92.04 mid-month before recovering and closed the month higher from ₹89.97 to ₹91.69. Following a year of rate reductions, concerns over fiscal deficits and unpredictable US trade policy caused the Dollar Index to close January 2026 slightly lower amid modest swings, falling 1.3% from 98.24 to 96.99.



Source: Investing.com (Data as on 31<sup>st</sup> January 2026)

Gold rose 14.9% in January 2026 from ₹1,34,890/10g to ₹1,60,580/10g, creating a lifetime high of ₹1,78,850 /10g towards the end of the month amid rising geo-political tensions. Additionally, global gold prices rose 12.7% in January 2026 from \$4,315/oz to \$4,865/oz. Silver rose 46.4% this month from ₹2,39,000/kg to ₹3,50,000/kg in India, touching an all-time high of ₹4,10,000/kg on 29<sup>th</sup> January with global prices jumping 18.8% in January 2026 from \$71.29 to \$84.70. Both metals fell sharply towards the end of January 2026 after hitting record highs, triggered by aggressive profit-taking on overcrowded long positions, CME margin hikes, and hawkish Fed Chair nominee Warsh sparking risk-off unwinds. When prices started slipping, algorithmic trading systems and hedge funds triggered stop losses, accelerating the fall.



Source: Investing.com (Data as on 31<sup>st</sup> January 2026)

**ECONOMIC INDICATORS:** India CPI inflation rose from 0.71% in November 2025 to 1.3% in December 2025. Unemployment rose from 4.7% in November 2025 to 4.8% in December 2025. Net GST collection for January 2026 grew by 7.6% y-o-y over January 2025 at ₹1.7 Lakh Cr. Gross GST collection for January 2026 came out to 1.93 Lakh Cr with a 6.2% y-o-y over the previous year; gross revenue from domestic transactions saw a 4.8% y-o-y increase.

The Federal Reserve kept its key rate at 3.75% during the January 2026 FOMC meeting, staying cautious after 2025 rate cuts. Jobless claims held steady around 4.4% despite a government shutdown delaying data, while core PCE inflation rose to 2.8% from tariff effects. FOMC outlooks saw balanced risks but noted trade policy swings could slow growth or keep prices high. Market sentiment shifted to modest 50bps easing by June, reflecting Warsh's nomination amplifying hawkish repricing across the curve.

#### OUTLOOK & STRATEGY:

Indian equities are poised for steady momentum, underpinned by Budget 2026 fiscal tailwinds and robust 7.4% Q3 GDP growth. RBI MPC decisions will prove pivotal, with rate stability or modest cuts amid subdued 1.3% CPI likely to enhance sentiment and amplify EU-India trade deal benefits for autos and machinery exports. Coupled with upcoming Q3 earnings, this setup supports selective optimism in large and mid-cap leaders amid broader global trade dynamics. Elevated government borrowing plans and global uncertainties recommend allocating to shorter-duration bonds to preserve yield while maintaining liquidity, especially amid ongoing rupee depreciation pressures.

US equities face a cautiously optimistic outlook for 2026, with elevated valuations limiting upside but supported by sturdy economic growth and robust earnings expansion. With earnings growth currently below the growth in investment in AI infrastructure, valuations signal reliance on delivery rather than further expansion. Additionally, taking into account rising geopolitical concerns combined with uncertain monetary policy outlook, we recommend continuing a dollar-cost averaging approach.

Gold and silver ignited in January 2026 with dramatic surges and scaling new all-time highs fuelled by safe haven fervour amid escalating geopolitical tensions. However, both metals endured sharp corrections from all-time peaks triggered by profit-taking in overcrowded positions, algorithmic stop-loss cascades and anticipated policy signals from Warsh's nomination. The post-rally exhaustion and stabilizing macroeconomic backdrop point to range-bound volatility; we recommend prudent allocation confined to core 5-10% portfolio hedges, eyeing tactical entries on pullbacks rather than chasing highs in a landscape marked by commodity exuberance and US policy flux.

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