

India Rewind is a monthly update from DSP's Investment Desk.

It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.

January 2026 marked a weak start for Indian equities. MSCI India fell ~5% during the month, sharply underperforming MSCI EM (+11%) and MSCI DM (+3%). This was followed by a meaningful shift in the policy and macro backdrop for India, with three major developments reshaping sentiment: the conclusion of two trade deals, a fiscally balanced Union Budget, and a steady RBI MPC outcome. These, combined with early signs that the earnings downgrade cycle for Indian corporates may be nearing its end, provide greater clarity at a time when global volatility remains elevated.

Amid this volatility, India signed the India-EU FTA, a landmark pact expected to partially offset the growth drag from earlier US tariff concerns. The EU already accounts for ~18% of India's exports—on par with the US—with exports to Europe compounding at ~8% over the past decade versus ~5% overall. While the near-term impact on exports is modest (~25–30 bps uplift to nominal GDP over time), the structural benefits are more meaningful: improved export visibility, deeper services integration, greater labour mobility, and stronger balance-of-payments resilience. The deal also reinforces India's role in supply chains seeking diversification away from concentrated geographies.

This was followed by the long-pending India-US trade agreement, which reduced US tariffs on Indian goods from 50% to 18%, now among the lowest across major emerging-market peers. This materially improves India's competitiveness in labour-intensive sectors such as textiles and apparel, while removing a key geopolitical overhang that had weighed on flows, the rupee, and overall sentiment.

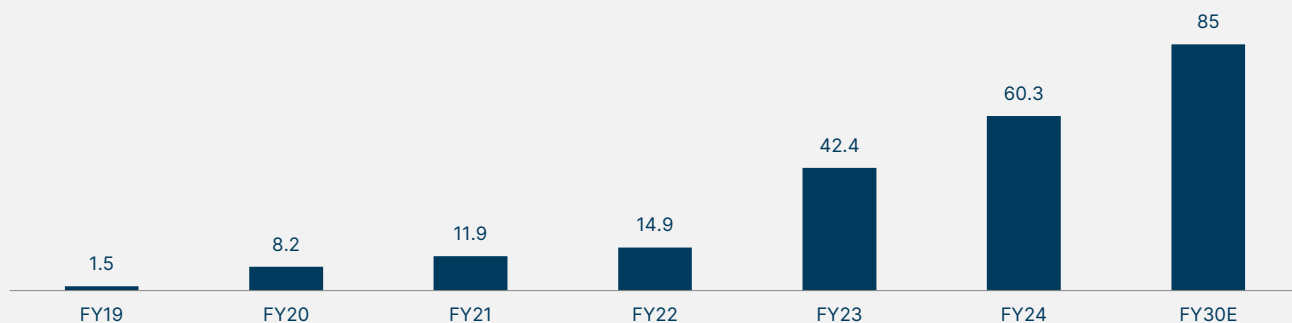
The Government's 2026 Union Budget further strengthened India's medium-term outlook. It maintained fiscal consolidation while expanding capital expenditure, continuing to prioritise infrastructure, manufacturing, and productivity enhancement. The Budget's targeted incentives for electronics, semiconductors, biotech, and energy transition complement the broader structural shift underway in India's industrial ecosystem. Meanwhile, steady support for both rural and urban consumption anchors demand stability even as the fiscal stance remains disciplined.

As near-term market performance remains influenced by global capital flows, attention is increasingly turning to the quality and durability of inflows, not just their size. India's ability to attract long-duration, non-portfolio capital is becoming central to market resilience. In this context, the data-centre capex cycle stands out as a structural theme linking global AI demand, power infrastructure, and India's long-term growth model. Gartner expects global AI spending to reach ~USD 1.5tn in 2025, while S&P Global Energy estimates that new data centres will require ~44GW of incremental power capacity by 2028 versus ~25GW expected to come online—creating a structural supply gap.

These constraints are already reshaping where AI and data-centre infrastructure can be built. India is emerging as a key beneficiary due to policy alignment, cost competitiveness, and abundant power availability. Since 2023, US hyperscalers have announced ~USD 75bn in AI and data-centre investments in India, and cumulative industry investment could reach ~USD 80bn by FY30. Power capacity is expected to scale from ~1,260MW in FY24–25 to ~4,500MW by FY30, supported by lower power costs (~8 cents/kWh vs ~18 cents/kWh in the US), lower build costs, strong renewables, and improving subsea connectivity.

Chart of the Month: India's Data Centre Capex Is Scaling Rapidly

Cumulative Data-centre Investments (in USD Billion)



Info Sources: Elara Capital, Nuvama, Morgan Stanley Research, MOFSL, Avendus Spark Research, UBS, Kotak Securities. Data as of January 2026. MXASJ – MSCI Asia Ex-Japan, FPI – Foreign Portfolio Investor, DII – Domestic Institutional Investor, RBI – Reserve Bank of India, FY – Financial Year, CY – Calendar Year; YoY is Year over Year, YTD – Year to date, EM – Emerging Markets, DM – Developed Markets, FTA – Free Trade Agreement. Past performance should not be taken as an indication or guarantee of future performance



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- [India Rewind December 2025](#)

	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Economic Activity and Employment								
GDP, USD bn	2,871	2,668	3,176	3,390	3,568	3910	4041	4228
GDP per capita, USD	2,141	1,969	2,321	2,451	2,554	2771	2840	2947
Real GDP growth, %	4.0	-6.6	8.7	7.2	8.2	6.5	7.4	6.5
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	4.8	6.2	5.5	6.7	5.4	4.6	1.9	4.0
Repo rate, % (year-end)	4.4	4.0	4.0	6.50	6.50	6.25	5.25	5.25
10-year bond yield, % (year-end)	6.1	6.2	6.8	7.3	7.1	6.5	6.5	6.6
USDINR (year-end)	75.4	73.5	75.8	82.3	83.0	85.6	92.0	94.0
Fiscal Accounts								
General government budget balance, % GDP	-7.8	-13.9	-9.5	-9.4	-8.5	-8.0	-7.6	-7.4
Balance of Payments								
Trade balance, USD bn	-158	-102	-189	-266	-243.2	-287.2	-318.0	-340.4
Exports, USD bn	320	296	429	456	440.2	441.8	440.3	457.9
Imports, USD bn	478	398	619	720	683	729	758	798
Current account balance, USD bn	-25	24	-39	-67	-25	-23	-45	-52
Foreign direct investment (net), USD bn	43.0	44.0	38.6	35	18	1	15	20
Total FX reserves, USD bn	478	577	607	578	646	668	700	685
Total external debt, % GDP	19.5	21.4	19.1	18	18.1	17.1	17.0	16.3
Credit ratings								
Moody's	Baa2	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB	BBB
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March; E – Estimates. Data as of January 2026

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