

MONTHLY OUTLOOK FEBRUARY 2026

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Monthly Outlook February'26

"In a world where geopolitical borders are shifting like sand, the only true hedge is the cold, hard reality of energy security and a prepared portfolio."

— Anonymous market analyst

Advocators Of Peace Push the World Into a New Brutal War

The world has witnessed several geopolitical events over the past few years, but the ongoing conflict between the United States and Israel on one side and Iran on the other could prove to be one of the most consequential for the global economy. The conflict involves a large number of countries, either directly or indirectly, and has elevated uncertainty about future geopolitical alignments to unprecedented levels.

While earlier generations experienced world wars firsthand, the current global environment is witnessing tensions that resemble a possible "mini world war," with almost every country being affected either directly or indirectly.

For some time, the U.S. President had been speaking about the need for peace in various regional conflicts, including the Israel–Gaza and Ukraine–Russia wars. However, the decision to join Israel in the conflict against Iran has raised serious questions about the credibility of those earlier public positions. An earlier episode involving the capture of the Venezuelan President and the installation of a new regime with access to the country's vast natural resources—particularly oil—had already shocked the world. The events that have unfolded in Iran over the past week have further stunned much of the international community, with the apparent exception of decision-makers within the U.S. administration.

In the run-up to the war, several developments in the region had already raised concerns. Iran was facing growing domestic unrest amid high inflation and a sharply weakening currency. At the same time, U.S.–Iran nuclear negotiations had stalled, the United States had increased its military presence in the Middle East, and Israel had repeatedly warned that Iran's nuclear and missile capabilities posed an imminent threat.

The immediate trigger for the U.S. attack was Iran's alleged refusal to agree to limits on its nuclear programme, despite negotiations that had been ongoing for some time. The latest round of talks in Geneva had reportedly shown progress, according to mediators and Iranian officials. Nevertheless, on 28 February 2026, the United States and Israel launched coordinated air and missile strikes on multiple Iranian cities, including Tehran and Isfahan, targeting nuclear and military infrastructure. The stated objectives were to disable Iran's nuclear programme, weaken its missile capabilities, and exert pressure for political change in Tehran.

More dramatically, precision strikes hit a leadership compound in Tehran, reportedly killing Supreme Leader Ayatollah Ali Khamenei and several senior officials. The operation was widely described as a “decapitation strike” aimed at destabilizing the Iranian regime by eliminating its top leadership.

Unlike the attacks on Iran last summer, Tehran responded almost immediately. Within four hours, it launched retaliatory missile and drone strikes against Israel, U.S. military bases in Bahrain, Kuwait, and Qatar, and civilian infrastructure across parts of the Gulf, suggesting that contingency plans had already been prepared. Iran also threatened shipping through the Strait of Hormuz, a vital artery for global oil exports, raising fears of a broader regional conflict.

Iran is believed to retain substantial military capability, including roughly 2,500 missiles, a large drone fleet, and a network of regional proxy groups, indicating that the conflict may not end quickly. Uncertainty has increased further as other Gulf countries affected by Iranian strikes weigh their response. Some producers, including Saudi Arabia and Qatar, have curtailed energy exports to prioritize domestic needs, adding to global supply concerns.

U.S. President Donald Trump has indicated that the war could last four to five weeks or longer. If the conflict drags on, the world could face significant economic disruption, particularly through energy markets, with potentially severe consequences for several regional economies.

Oil On The Boil

One of the most immediate economic consequences of the US–Iran war has been the sharp impact on oil markets, both in terms of supply disruption and a rapid rise in prices. While it took a few days after the start of the conflict for the effects to fully reach the markets, once they did, the impact was severe.

What has happened so far

The Strait of Hormuz, through which nearly 20% of global oil supply passes, has effectively seen shipping halt. The strait carries exports from Saudi Arabia, Iraq, Kuwait, the UAE, Qatar, and Iran to global markets. Although it has not been officially closed, shipping has largely stopped due to military threats and attacks. Iran’s Islamic Revolutionary Guard Corps (IRGC) announced that ships should not pass through the strait and warned that vessels attempting transit could be attacked. As a result, most shipping companies and tanker owners have stopped using the route. At the same time, insurance companies have withdrawn coverage for vessels operating in the region. Even President Donald Trump’s directive for the U.S. government to offer insurance and potentially provide protection to vessels has not yet restored confidence.

Export stoppage

While only a few countries have officially announced a permanent halt to oil exports, several producers have either halted shipments, suspended production, or warned that exports may stop due to the near collapse of shipping through the Strait of Hormuz. These include Iran, Qatar, Saudi Arabia, and Iraq, with others potentially following. Iraq has already reported shutting down nearly 75% of its production due to a lack of storage capacity. Oil production cannot continue if it cannot be transported or stored, further intensifying supply disruptions.

Impact on oil prices

Global crude prices have surged sharply as supply disruptions intensified amid the widening conflict in the Middle East. Brent crude has climbed above USD 105–110 per barrel, after briefly spiking close to USD 118–119, the highest level since 2022. Meanwhile, WTI crude has moved above USD 100 per barrel, with intraday peaks also approaching the USD 115–118 range as markets reacted to severe supply risks.

The surge in prices has been driven by the near halt in shipping through the Strait of Hormuz, attacks on oil infrastructure in the Gulf region, and a rapidly rising geopolitical risk premium in energy markets. Analysts warn that crude prices could remain above USD 100 per barrel if disruptions persist, while a prolonged shutdown of Gulf exports could push prices towards USD 120 or even higher in extreme scenarios.

Supply Shock in Natural Gas

A supply shock has also emerged in the global natural gas market, compounding challenges for the global economy. The most significant development is the halt in LNG production in Qatar, the world's largest LNG exporter with around 20% of global supply. Production was suspended after Iranian drone strikes and escalating regional instability forced QatarEnergy to halt LNG operations and declare force majeure on deliveries.

Gas prices in UK have surged by as much as 100% as buyers scramble to secure alternative cargoes. Asia is the most exposed region because more than 80% of Qatar's LNG exports typically go to Asian buyers. Countries such as India, Japan, South Korea, and China are now competing aggressively for spot cargoes. Europe is also bidding higher to secure supplies, further pushing up prices.

If the conflict continues for an extended period, buyers may increasingly source supplies from other exporting countries, which could keep prices elevated. However, if the conflict ends sooner, prices may retreat quickly.

The disruption in supply and the sharp rise in both crude oil and natural gas prices are expected to cause short-term disruptions to economic activity in importing countries. For other economies, the impact is likely to be inflationary. The longer the conflict persists, the greater the risk to broader consumption, as a larger share of economic resources would need to be allocated toward energy needs.

India: Middle East War Trumps Tariff Gains

For quite some time, India had been dealing with the challenges arising from the 50% tariff imposed by the United States and its impact on the export sector. Relief came after the U.S. and India reached an interim agreement that reduced the overall tariff from 50% to 18%. However, the recovery in the Rupee and the stock market remained limited both in magnitude and duration. Rupee gains were curtailed as PSU banks bought heavily from the low-90 levels to meet various government payment requirements, later joined by general importer demand. Meanwhile, equities continued to trade within a familiar range with a negative bias, as investors remained concerned about relatively high valuations.

The sudden outbreak of war in the Middle East has posed a more severe challenge to the economy, primarily through higher oil prices and the possibility of supply shortages ahead. The sharp rise in oil prices by more than 25% in a short period—has negative implications for both the current account balance and inflation. At the same time, India's limited oil storage capacity means that any disruption in exports from the Middle East could significantly affect economic activity. In addition, LNG supplies from Qatar are under threat of being halted, which could impact industries dependent on energy supplies particularly fertilizer companies thereby indirectly affecting the agricultural sector.

Although Russia has assured India of meeting potential crude supply shortages, these supplies will now come at the currently elevated price levels. According to reports, buyers are now offering premiums to secure Russian crude, in contrast to the sizeable discounts that were previously available.

Some Possible Scenarios

		Scenarios for FY2027		
		Scenario 1	Scenario 2	Scenario 3
		De-escalation within a month	Conflict continues for 1-3 months	Conflict continues beyond 3 months
		60%	30%	10%
	Description Probability			
Global	Oil prices	Temporary spike to \$90-95/bbl; No change to base case average of \$65/bbl	Spike to \$100/bbl; Average could shift to \$75/bbl, supply shock managed by OPEC+	Spike to \$110-120/bbl; Average could shift to \$90-100/bbl
	DXY Index	Temporary spike to 105; No change to base case average of sub-100 levels	Spike to 110	Spike to 115-120
Domestic	GDP	6.8-7.2%	6.7-7%	6-6.3%
	Average Inflation	4.10%	4.1-4.5% (OMCs can absorb the upside)	5-5.5% (w/o excise duty cuts)
	CAD/GDP	1%	1.4-1.6%	2-2.5%
	Capital flows	Worsen in March but gradually revert from 1QFY27	Continued FPI outflows (US\$10-15 bn)	Continued FPI outflows (>US\$30 bn)
	USDINR	Pressure to persist, with aggressive RBI intervention (92-93 levels)	Pressure to persist, RBI intervention, temporary spike to 95 levels	Significant pressure to persist, RBI intervention to manage sharp upside

Note: These are indicative/directional estimates given the fluidity/multi-dimensional nature of the situation
 Source: Kotak Mahindra Bank Treasury estimates

Economic Developments and Currency Trends

United States

Recent U.S. economic data present a mixed picture. ISM surveys indicate continued resilience in both the manufacturing and services sectors. However, GDP growth has slowed, primarily due to a widening trade deficit and the economic disruption caused by the government shutdown.

Inflation signals remain uneven. While the Consumer Price Index (CPI) has moderated, the Producer Price Index (PPI) remains elevated, suggesting persistent upstream price pressures. Labour market indicators have also softened. The latest employment report showed payrolls turning negative in February following a strong January reading, while the unemployment rate rose to 4.4%. Even after accounting for weather-related distortions, broader indicators suggest the labour market is beginning to weaken.

Against this backdrop, the Federal Reserve faces a complex policy challenge. Inflation remains sticky and could intensify further due to rising oil prices, while employment momentum is slowing. Financial markets now expect only one rate cut this year, compared with expectations of two earlier in the year.

The U.S. Dollar has strengthened recently, supported by safe-haven demand amid geopolitical tensions and as a correction after heavy selling since May 2025. However, unless the Dollar Index sustains a break above 100.1, the broader medium-term downtrend may resume once geopolitical tensions ease.

Europe

Economic data from Europe have remained relatively strong, including forward-looking business surveys that suggest continued resilience. However, inflation pressures have begun to re-emerge and could intensify further as energy costs rise.

The region's structural dependence on imported energy remains a significant vulnerability. As a result, the European Central Bank may face renewed pressure to tighten policy. A potential rate hike in the second half of the year cannot be ruled out.

Over the medium term, Europe could regain its appeal as a diversification destination for global investors. In such a scenario, the ECB may tolerate a stronger Euro if inflation pressures remain elevated.

United Kingdom

The U.K. economy continues to experience uneven growth, with persistent concerns around inflation and a weakening labour market. A sharp 100% surge in natural gas prices represents a significant headwind for the economy and is likely to keep inflation pressures elevated.

Given these conditions, the Bank of England is expected to remain cautious, with policy rates likely to stay unchanged in the near term.

Sterling has softened recently due to the strengthening U.S. Dollar and ongoing domestic political uncertainty. Nevertheless, relatively supportive yield differentials may continue to provide some underlying support to the currency.

Japan

Japan's recent GDP figures disappointed, highlighting ongoing growth challenges. However, inflation remains the central focus of policymakers. Although inflation eased slightly in January, price pressures remain elevated, particularly given Japan's heavy dependence on energy imports.

The re-election of Sanae Takaichi with a stronger political mandate has raised expectations of increased fiscal spending.

The Yen has weakened following the election, partly due to concerns about potential political influence over monetary policy. However, the Bank of Japan remains aware of Japan's deeply negative real interest rates and persistent inflation pressures, keeping expectations of a possible rate hike in April alive.

If policy tightening is delayed, the Yen could weaken toward 160, where the risk of currency intervention would increase. Conversely, a reversal of global carry trades particularly those funded in Yen against higher-yielding currencies such as the Mexican peso and South African rand could support the currency. From a technical perspective, a recovery could take the Yen toward 152, and potentially toward 150 if momentum strengthens.

China

The Chinese yuan has strengthened significantly since May 2025 and has continued to hold firm even as the U.S. Dollar has recovered.

The People's Bank of China appears comfortable with a stronger currency, possibly as part of an effort to correct earlier undervaluation and reinforce perceptions of economic stability.

After appreciating by more than 8% over the past year, the yuan may now enter a consolidation phase while markets await clearer signals regarding the broader trend in the U.S. Dollar.

MONETARY POLICIES OF CENTRAL BANKS

The sharp rise in global oil prices resulting from the Middle East conflict is forcing major central banks to reassess their monetary policy outlook, as it threatens to push inflation higher just when many were preparing to ease policy.

U.S. Federal Reserve

The Federal Reserve had been gradually moving toward rate cuts as economic growth slowed and the labour market softened. However, the surge in oil prices risks pushing headline inflation higher through increased fuel, transportation, and supply chain costs. This development is likely to make the Fed more cautious, potentially delaying or reducing the number of rate cuts, as policymakers balance weakening growth with renewed inflation risks.

European Central Bank (ECB)

Europe is particularly vulnerable due to its high dependence on imported energy. Rising oil and gas prices could quickly push inflation expectations higher again. As a result, the ECB may pause its easing cycle or signal that policy will remain restrictive for longer, prioritizing inflation control despite modest economic growth.

Bank of England (BoE)

The United Kingdom is already facing persistent inflation and significant sensitivity to energy prices. The oil price shock increases the risk of another inflation spike, suggesting that the Bank of England is likely to maintain restrictive policy for longer and postpone any potential rate cuts.

Bank of Japan (BoJ)

Japan is a major energy importer, meaning higher oil prices increase inflationary pressures. Unlike other central banks, the Bank of Japan is still in a gradual normalization phase. Energy-driven inflation could therefore strengthen the case for further rate hikes or additional policy tightening.

People's Bank of China (PBoC)

China's economic growth remains fragile, and policymakers continue to focus on supporting the economy. Although higher oil prices raise import costs and could marginally increase inflation, the PBoC is likely to prioritize growth and maintain an accommodative stance, relying on targeted stimulus rather than tightening policy.

Overall

The surge in oil prices is shifting the global monetary policy outlook toward a **“higher for longer”** interest rate environment, with central banks becoming more cautious about easing as energy-driven inflation risks re-emerge.

Economic Data

Feb-25						
	U.S.A	EUROPE	U.K.	JAPAN	CHINA	INDIA
Particulars	current vs. prev	current vs. prev.				
GDP YOY	2.2% vs. 2.3%	1.2% vs. 1.4%	1.0% vs. 1.2%	0.1% vs. 0.6%	4.5% vs. 4.8%	8.2% vs. 7.8%
GDP QOQ	1.4% vs. 4.4%	0.2% vs. 0.3%	0.1% vs. 0.1%	0.1% vs. -0.7%	1.2% vs. 1.1%	2% vs. 1.8%
Ind. Prod YOY	2.3% vs. 1.3%	-0.9% vs. 1.3%	2.3% vs. 0.4%	2.2% vs. -0.1%	5.2% vs. 4.8%	4.8% vs. 8.0%
PMI MFG	51.6 vs. 53.4	50.8 vs. 49.5	51.6 vs. 50.6	53 vs. 51.5	52.1 vs. 50.3	56.9 vs. 55.4
PMI SERV	56.1 vs. 53.8	51.7 vs. 51.8	54.3 vs. 51.4	53.8 vs. 53.7	56.7 vs. 52.3	58.1 vs 58.5
Jobless Rate	4.4% vs. 4.3%	5.2% vs. 5.1%	5.1% vs. 5.1%	2.7% vs. 2.6%	5.1% vs. 5.1%	5.0% vs. 4.8%
Inflation						
Headline	2.4% vs. 2.7%	1.9% vs. 1.7%	3.0% vs. 3.4%	1.5% vs. 2.1%	1.3% vs. 0.2%	2.75% vs. 1.33%
Core	2.5% vs. 2.6%	2.4% vs. 2.2%	3.1% vs. 3.2%	2% vs. 2.4%	1.8% vs. 0.8%	3.4% vs. 4.21%
Consumer Confidence	56.6 vs. 56.4	-11.7 vs. -11.7	-19 vs. -16	40.0 vs. 37.9	89.5 vs. 90.3	98.1 vs 98.4
Leading Eco. Index	97.6 vs. 97.9	99.1 vs. 99.1	101.22 vs 101.14	112.4 vs. 110.3	144.9 vs. 145.3	101.9 vs 101.68
POLICY RATE	3.50% - 3.75%	2.15%	3.75%	0.75%	3%	5.25%

Growth momentum across major developed economies appears to be moderating, with the U.S. economy still expanding but at a slower pace, suggesting activity is normalizing after a strong previous phase. In Europe, economic growth remains subdued, reflecting weak industrial activity and fragile demand conditions. However, the Eurozone labour market has been a notable bright spot, with unemployment remaining historically low and even declining to around 6.1%, a record low for the region, indicating strong labour market resilience despite slow economic growth. Meanwhile, Japan continues to show very modest growth, highlighting persistent structural challenges and weaker domestic demand. In the U.S., the labour market is beginning to show early signs of cooling, with unemployment edging slightly higher after a prolonged period of tight conditions, suggesting the economy may be gradually moving toward a more balanced growth phase.

Bond Yields

Bond Market Updates (in %)					
COUNTRY	2 Y Yield		10 Y Yield		
	Feb-26	Jan-26	Feb-26	Jan-26	Last Year
U.S.A.	3.38	3.52	3.95	4.24	4.20
GERMANY	2.00	2.06	2.64	2.85	2.38
U.K.	3.54	3.73	4.31	4.53	4.48
JAPAN	1.22	1.24	2.11	2.25	1.37
INDIA	5.57	5.85	6.70	6.66	6.72
CHINA	1.31	1.38	1.83	1.80	1.78

Global bond yields are surging as markets react to the escalating conflict in the Middle East, which has pushed oil prices above \$115 per barrel and stoked fresh inflation fears. In the U.S., the 10-year Treasury yield has climbed back to 4.15% following a period of volatility, while the German 10-year Bund can hit a 2011 high near 3.02% as investors price in a potentially more restrictive European Central Bank. Japan's 10-year yield is also feeling the heat, rising to a three-week high of 2.22% due to the country's high sensitivity to energy costs and a shift toward monetary normalization. This synchronized rise across global benchmarks reflects a "guns and butter" dilemma for investors, balancing geopolitical shocks against the risk of a prolonged period of higher-for-longer interest rates.

Equities

Indices	Feb-26	Jan-26	Abs Change	% Change	All time high
Dow Jones	48859	48,829	30	0.06%	50,512.00
S&P 500	6,878	6,939	-61	-0.88%	7,002.28
Nasdaq	24,960	25,552	-592	-2.32%	26,182.00
German DAX	25,284	24,534	750	3.06%	25,405.00
UK FTSE	10,876	10,224	652	6.38%	10,938.00
China Composite	4,157	4,118	39	0.95%	4,149.00
Japan Nikkie	58,604	53,323	5,281	9.90%	62,596.00
India Nifty 50	25,178	25,352	-174	-0.69%	26,372.20

The global equity landscape is being dictated by an unprecedented energy shock, as Brent crude's historic intraday swing near \$120 per barrel triggers a sharp divergence in regional trade resilience. The United States maintains a structural advantage as a net energy exporter, allowing its markets

to absorb inflationary pressure through a rotation into "safe-haven" defense and upstream energy sectors. Conversely, Japan and India are facing a severe terms-of-trade deterioration; the Nikkei 225's 5.2% plunge reflects the vulnerability of an import-dependent industrial base, while India's Nifty 50 battles a record-low Rupee and a widening current account deficit. Ultimately, this scenario has shifted the global investment thesis from "AI-driven growth" to geopolitical risk mitigation, favoring nations with domestic energy security over those exposed to the now-blocked Strait of Hormuz.

Currencies

Currency	Feb-26	Jan-26	Abs Change	% Change
USD Index	97.646	97.147	0.50	0.51%
EURUSD	1.1815	1.1848	(0.00)	-0.28%
GBPUSD	1.3486	1.3682	(0.02)	-1.43%
USDJPY	156.06	154.75	1.31	0.85%
USDCNH	6.86	6.9573	(0.10)	-1.40%
USDINR	91.02	91.641	(0.62)	-0.68%

Global currency markets remained volatile amid heightened geopolitical tensions and the sharp rise in crude oil prices, which supported safe-haven demand for the U.S. Dollar. The USD index strengthened modestly during the period, while major currencies such as the Euro and pound weakened slightly against the Dollar. In Asia, currencies faced greater pressure, with the Chinese yuan (CNH) softening as slower domestic growth and accommodative policy expectations weighed on sentiment. The Indian Rupee also depreciated against the Dollar, reflecting higher crude oil prices, rising import costs and risk-off capital flows, although Central Bank intervention helped limit sharper losses. Overall, emerging market currencies remain vulnerable to continued Dollar strength and energy-driven inflation risks.

Technicals

USDINR CMP ₹ 92.30

The Rupee had been supported near ₹91.00 through consistent RBI intervention, but the escalation in the war pushed the Dollar to a fresh high of around ₹92.30 against the Rupee. Although such breakouts usually lead to further gains in USDINR, the RBI stepped in again and pushed the pair back toward ₹91.50, where importer demand re-emerged. Continued strength in oil prices could place additional pressure on the Rupee and test the RBI's resolve to contain further depreciation. Technically, a sustained move above ₹92.45, particularly if oil prices remain elevated, could push USDINR toward ₹93–₹93.20. However, if geopolitical tensions ease and oil prices retreat, the Rupee could strengthen back toward ₹91.10, aided by typical March-end corporate inflows.



GOLD: International Spot: XAUUSD: CMP: \$5075

Gold prices are currently lacking momentum and continue to hover near the psychological USD 5,000 level, which has emerged as a strong support zone. This level also coincides with the 50% retracement of the sharp USD 1,000 decline seen in January, reinforcing its technical significance. For now, price action suggests consolidation rather than a clear directional move. Market participants appear to be waiting for fresh macro triggers such as central bank signals, geopolitical developments, or shifts in the Dollar and bond yields. In the near term, gold is likely to remain range-bound, with USD 5,000 acting as key support and USD 5,200 as the immediate resistance zone. A decisive break on either side could determine the next directional move, but until then, sideways trading within this band remains the most probable scenario.



GOLD: MCX Gold (April): CMP: ₹ 1,59,950

Gold prices in the domestic market have remained largely range-bound, with no clear directional momentum visible in recent sessions. Prices are currently approaching the lower end of the trading band, where ₹1,58,000 is seen as a strong support zone and is expected to hold unless a significant catalyst emerges in the global markets. On the upside, resistance is likely to be seen near ₹1,66,000, keeping the broader range of ₹1,58,000–₹1,66,000 intact in the near term. Until a breakout occurs on either side, prices may continue to trade within this band.



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