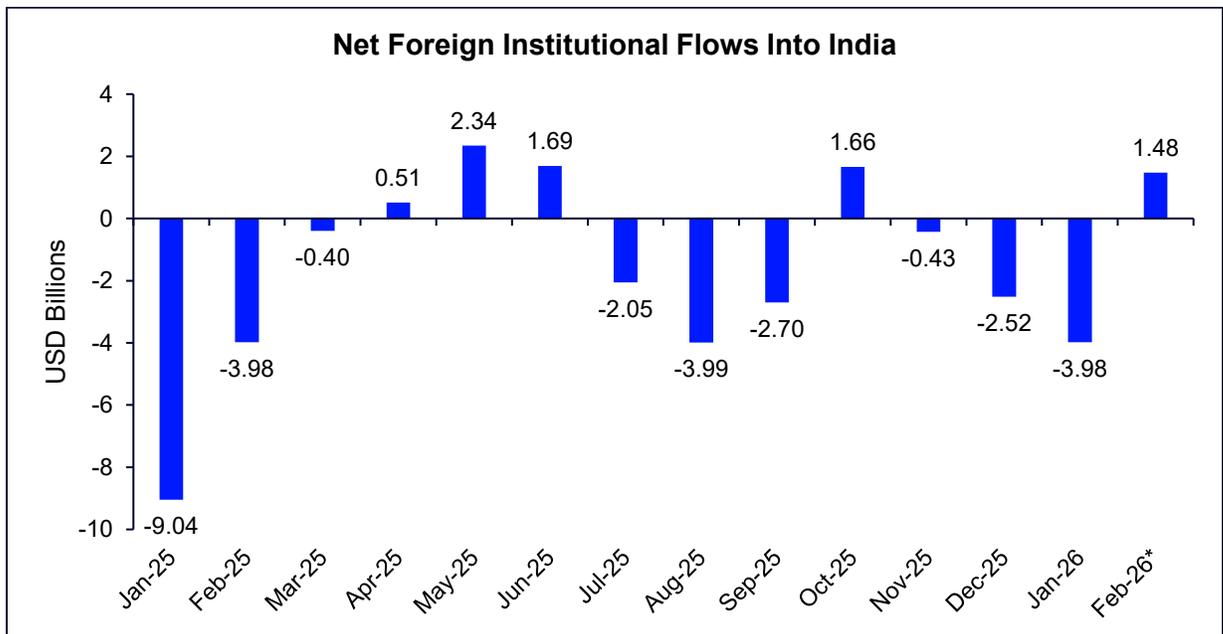


COMMENTARY
February 19, 2026

Mind on the Market

Chart of the Week



Source: NSDL. Data as of February 17, 2026.

In our [September 2025 Mind on the Market](#), we highlighted India as one of the most heavily tariffed major U.S. trade partners. The India–US trade deal in early February, which reduced tariffs from 50% to 18%, marks a clear shift away from that stance. The announcement lifted investor sentiment, with MSCI India rising 4%¹ on the day, its strongest single-day gain in five years, while foreign institutional inflows rebounded to about \$1.48 billion in February to date.

Contact

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¹ Source: FactSet. Total returns in USD.

Weekly Highlights

New Tariff Rate on India
(Versus Previous 50%)

18%

Foreign Institutional Net
Inflow into Indian Equity
Market in February

\$1.48B

MSCI India IT Sector CY
2025 EPS Growth

7%

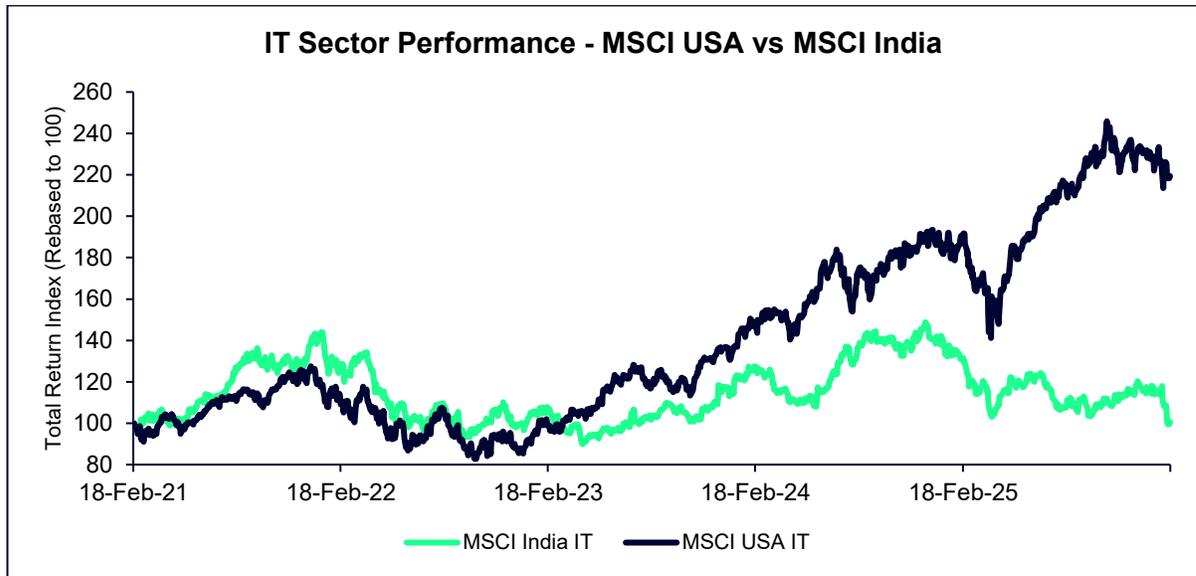
Source: NSDL, as of February 17, 2026
in USD.

Source: FactSet, EPS (recurrent
earnings) in local currency using annual
data.

Indian IT at an Inflection Point: Adapting to the Age of AI

Progress on global trade negotiations supported broader sentiment in Indian equity markets in recent weeks. However, that positive backdrop was overwhelmed by the launch of advanced AI tools on Anthropic's Claude platform, which triggered a sharp sell-off across global software and services stocks. The resulting risk-off move spilled into India, with the IT sector declining 8.3% in USD terms during the week ended February 13, 2026.

The sell-off came at a time when Indian IT was already under pressure. Over the past five years, the U.S. IT sector, buoyed by the AI wave, has delivered cumulative returns of 119% in USD terms. By contrast, the MSCI India Information Technology Index has generated a cumulative return of just 0.7% over the same period, highlighting a prolonged and material divergence in performance.



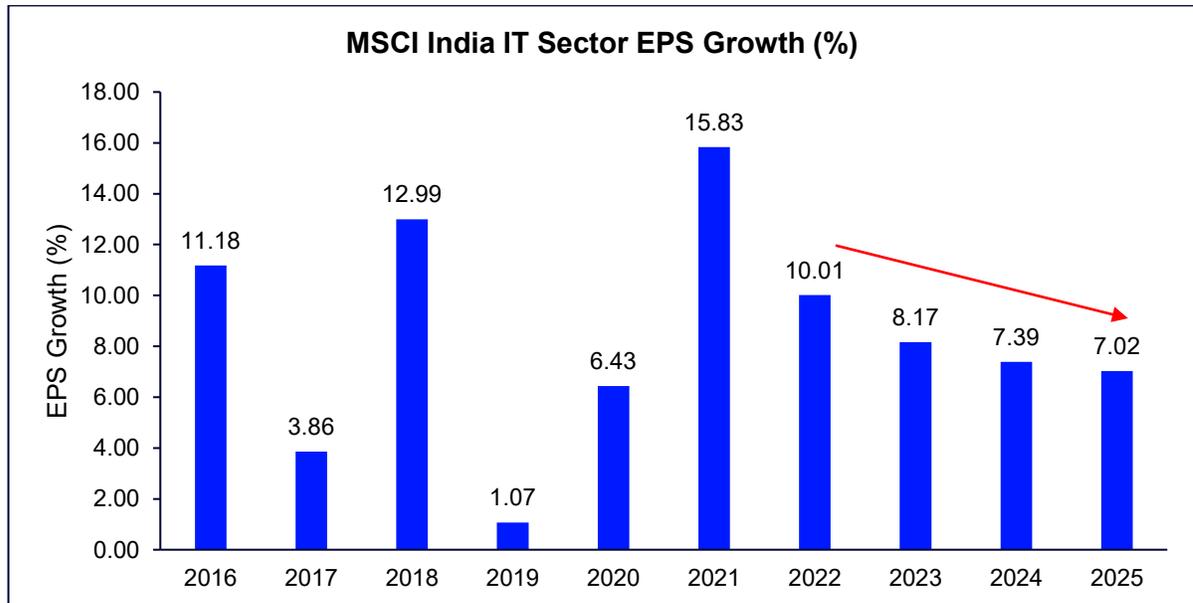
Source: FactSet. Data as of February 17, 2026. Total return index in USD.

Sector composition goes a long way in explaining this gap. U.S. technology exposure is heavily skewed toward AI platforms and infrastructure-semiconductors, hyperscalers, and software companies with direct and scalable monetization pathways from AI adoption. Indian technology exposure, by contrast, remains dominated by IT services and outsourcing models.

In this context, AI is increasingly perceived as a deflationary force rather than a near-term revenue catalyst, reducing billable hours, compressing pricing, and accelerating productivity gains. As generative AI reshapes delivery economics, the industry is transitioning from traditional headcount-based, time-and-materials-based models toward outcome-based, AI-enabled frameworks, where clients pay for measurable business outcomes rather than incremental manpower.

These structural headwinds are clearly reflected in operating fundamentals. Following the post-pandemic surge, earnings growth has steadily decelerated. Operating margins fell to 15.73% as of December 2025, below the long term average of 19.48%, reflecting the combined impact of elevated wage costs from the 2021–2022 hiring cycle, and slowing top-line growth amid tighter client IT budgets. Revenue growth for CY25 stood at just 7%, significantly below the long-term average of 17%. Valuations have adjusted accordingly: the Indian IT sector now trades at approximately 19.1x forward earnings, representing a 20% discount to its long term average².

² Long-term averages are calculated using data from December 2006 through December 2024.



Source: FactSet. EPS recurrent earnings in local currency.

Looking ahead, AI adoption is likely to remain a near-term earnings and margin headwind, driven by pricing pressure and cautious client spending. That said, AI also creates opportunities for higher-value work across data engineering, model deployment, platform integration, and regulatory compliance.

Indian IT services firms play a central role in the global technology ecosystem as system integrators, leveraging deep client relationships and decades of experience modernizing complex legacy systems. While the current AI transition may prove more disruptive than prior technology shifts, the sector has demonstrated agility through its successful navigation of cloud adoption and digital transformation. Alongside sustained investment in AI-enabled delivery models and workforce upskilling, this supports a case for cautious optimism. Over time, continued capital expenditure by hyperscalers and large technology platforms should begin to flow through to downstream services demand, laying the groundwork for a more durable recovery.

Source: FactSet, NSDL, State Street Investment Management. Past performance is not a reliable indicator of future performance.

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* This figure is presented as of December 31, 2025 and includes ETF AUM of \$1,950.80 billion USD of which approximately \$173.02 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities.

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Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

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Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.