

DEBT

BONDS

Debt Outlook



Global Debt Outlook

USA

10Y yield:

Yields increased from 4.002 to 4.119

Inflation:

Inflation (PCE Index) stood at 2.7%, well above the Fed's target of 2%

Fed stance:

Cautious and data dependent, balancing between inflation uptick and weak job market data

China

10Y yield:

1.83, decreased from 1.86 in the previous month

Inflation:

Inflation numbers stood at 0.7% year on year

PBOC stance:

Accommodative

Japan

10Y yield:

2.077 (as on 30th Dec), increased from 1.807 in previous month

Inflation:

2.9%, decreased from 3.0% in October

BOJ stance:

Paused hikes, cautiously adjusting bond purchases

Eurozone (Germany)

10Y yield:

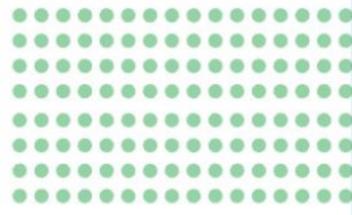
2.82, increased from 2.69 in previous month

Inflation:

2.1%, slight uptick from the long term target of 2%

ECB stance:

Decisions to be based on further data dependent changes

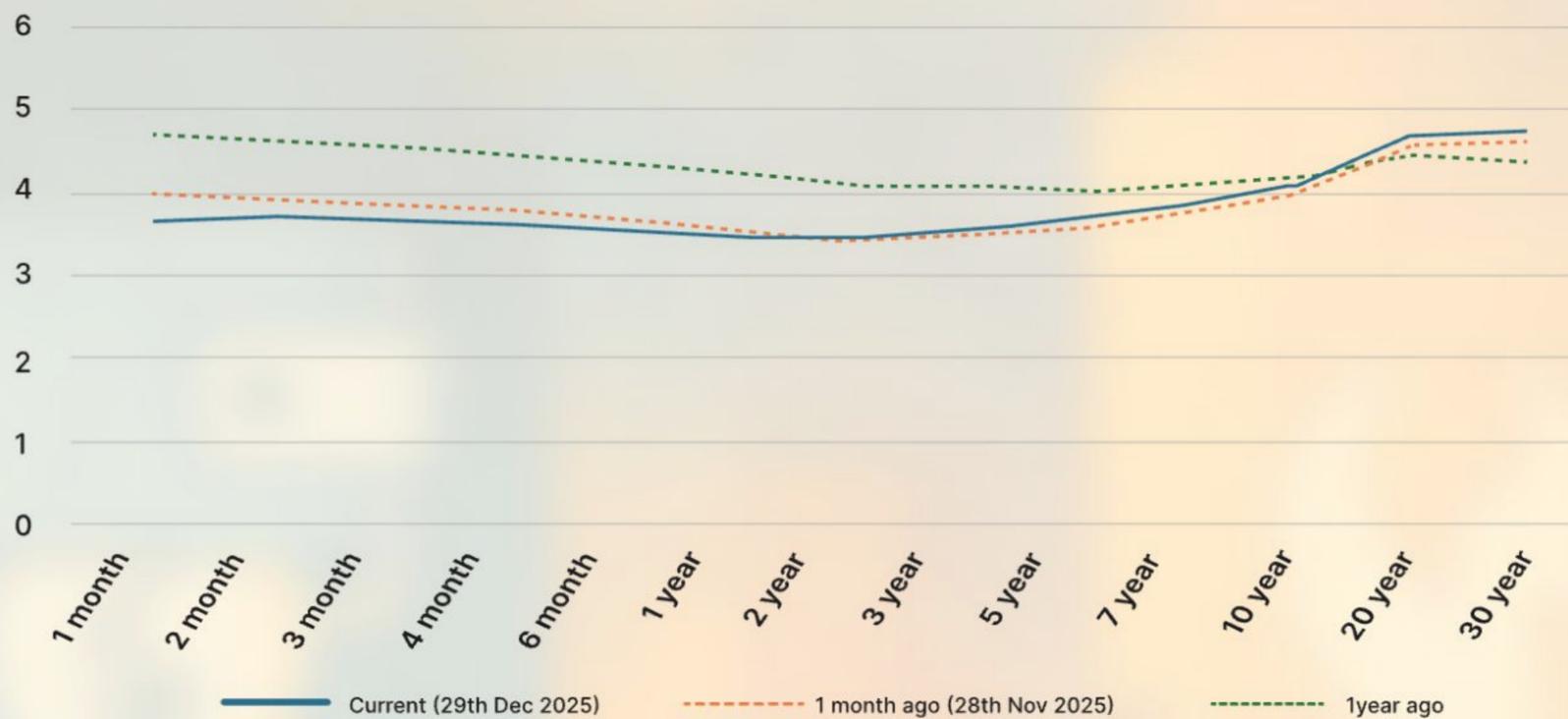


Global Debt Outlook

Short-term yields

At the front end, yields softened following the Fed's December rate cut; however, the decline was moderated by Chair Powell's neutral stance on further easing, with policy guidance emphasising that subsequent decisions will remain data dependent. Persistently firm inflation, reflected in the recent 2.8% PCE print, alongside a gradual softening in labour market conditions, has kept front-end yields anchored.

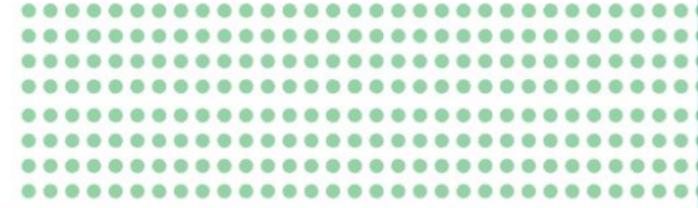
Yield Curve - USA
(as on 29th Dec 2025)



Source- U.S. Department of Treasury

Long-term yields

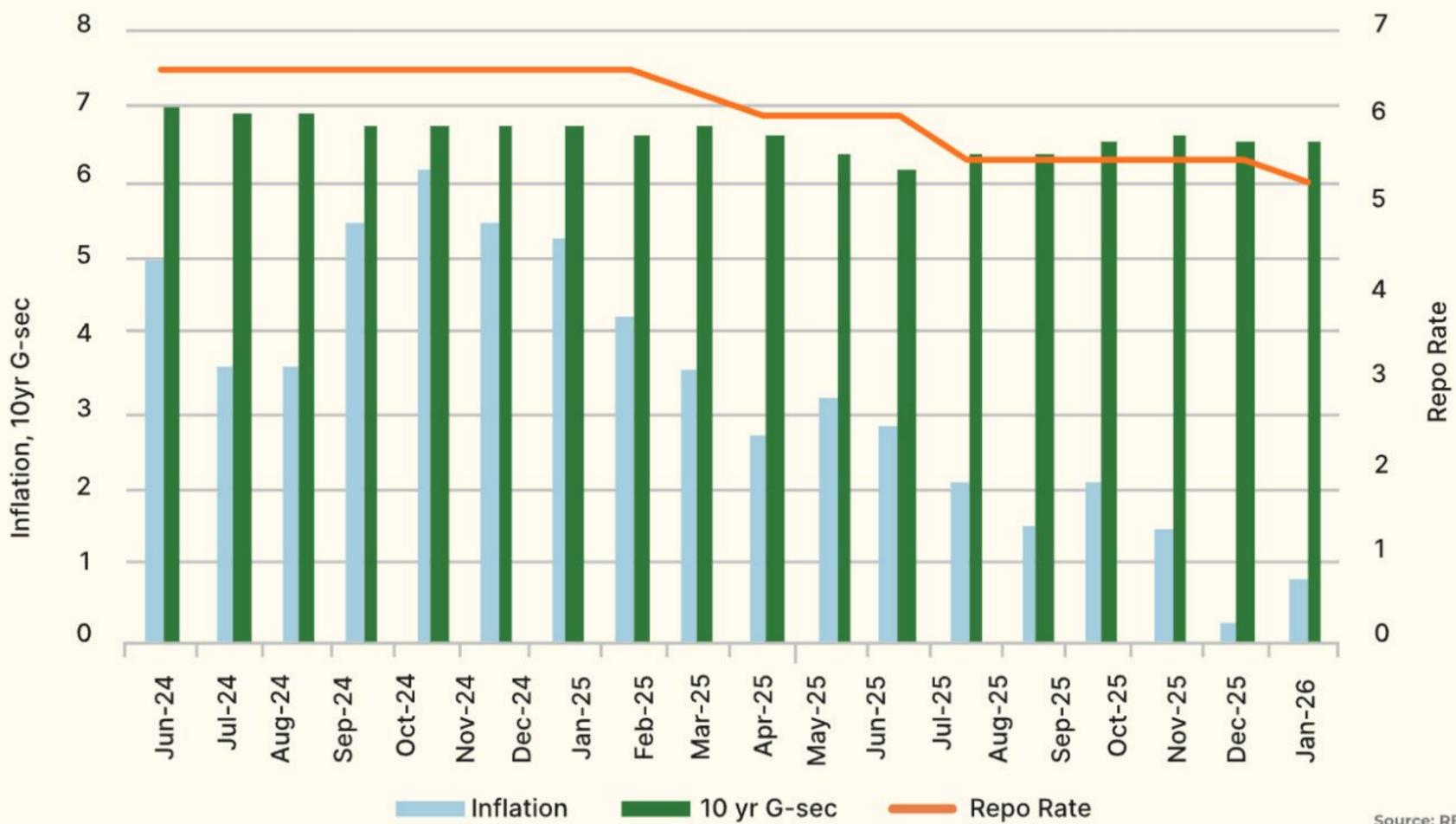
At the long end of the curve, yields have remained elevated, underpinned by **strong growth data, rising term premia, and ongoing fiscal and market uncertainties**. The U.S. economy expanded at a robust 4.3% annualised pace in Q3, supported by solid consumer spending, underscoring persistent economic momentum despite headwinds. Markets remain reluctant to price in further easing until clearer signals emerge, with long-end yields anchored by **strong growth, inflation concerns, and uncertainty around elevated government debt levels**.



Indian Debt Outlook

Over the past year, India’s 10-year G-Sec yield has moved within a narrow range and currently sits around 6.6%, reflecting declining inflation expectations . Yields have not fallen sharply despite policy easing by the RBI, as global interest rate pressures and supply dynamics have kept the long-end relatively stable.

In its December 2025 policy meeting, the RBI reduced the repo rate by 25 bps to 5.25%, citing a softer inflation outlook and resilient domestic growth, while also maintaining ample system liquidity through open market operations and other measures. Recent central bank measures to ensure durable liquidity and improve funding conditions are expected to support credit growth, with banks positioned to extend more loans as funding costs ease.

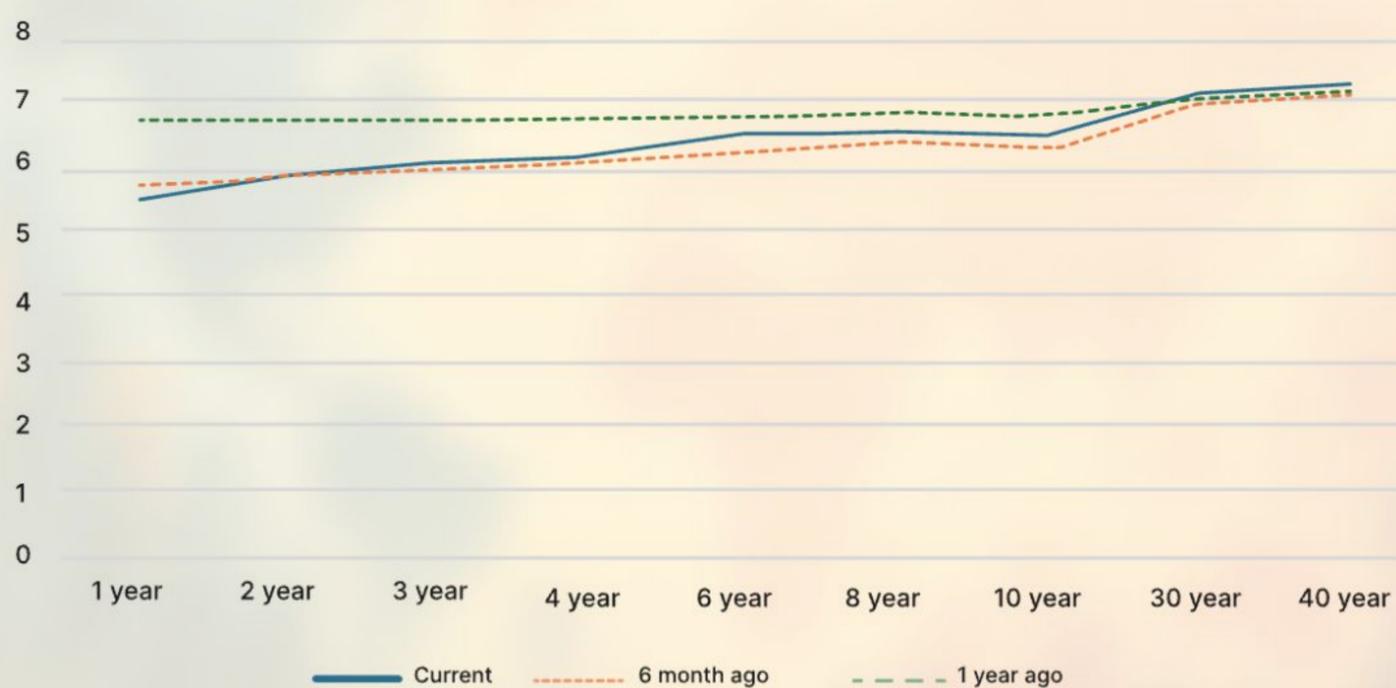


Source: RBI, Investing.com



Yield Curve - India

(as on 29th December 2025)



source: world government bonds.com

Short term yields

The short end of the yield curve remained relatively stable with a mild downward bias, supported by expectations of improved liquidity conditions. While markets largely anticipated a rate cut in December, the **RBI's decision to retain a neutral stance tempered bullish positioning at the front end**. Short-tenor yields have stayed well anchored over recent months, aided by a clear disinflation trend and contained near-term inflation expectations.

The RBI's liquidity-infusion measures, including bond purchases of around **₹1 trillion in December and the announcement of OMO purchases worth ₹500 billion, along with a \$5 billion forex swap have helped alleviate systemic liquidity tightness**. These actions are expected to keep short-term yields biased lower in the near term, provided inflation remains benign and surplus liquidity persists.

Long-term yields

The long end of the yield curve has remained under upward pressure, driven largely by **supply-side concerns**. Elevated fiscal borrowing particularly by state governments has raised fears of **bond issuance outpacing demand**, with states set to raise around **₹354.5 billion through bond sales**. This supply overhang has weighed on the long end of the yield curve and constrained the transmission of anticipated rate cuts to longer maturities. In addition, **stronger macroeconomic signals**, including resilient growth momentum, have reinforced yield resilience at the long end, keeping term premia elevated despite a broadly disinflationary backdrop.

Debt In-house View

In India, the long end of the yield curve has remained elevated, supported by an optimistic growth outlook, lingering inflation concerns, and substantial fiscal borrowing particularly by state governments. In December, the RBI purchased approximately ₹1 trillion worth of government bonds and conducted a US\$5 billion currency swap to inject liquidity.

While these liquidity infusions were significant, they were partially offset by foreign exchange interventions and bond redemptions during the month. As a result, the market has witnessed a seesaw between supply-side pressures from elevated bond issuance and RBI-led liquidity injections, with each alternately dominating yield dynamics at the long end.

Globally, front-end U.S. Treasury yields have drifted lower following the Federal Reserve's rate cut in December, aided by signs of cooling in the labour market. In contrast, long-end U.S. yields remain elevated amid firm GDP growth, persistent inflation pressures, and elevated fiscal borrowing.

Given these evolving policy dynamics, a prudent approach is to focus on selective opportunities in the short- to medium-end of the yield curve, including targeted credit calls, while remaining cautious on long-dated exposures. In this context, exposure to standalone NCDs and Credit AIFs appears attractive from a pure debt investment perspective