MARKET insight FIXED INCOME

UTI Mutual Fund

Market Insight – Fixed Income

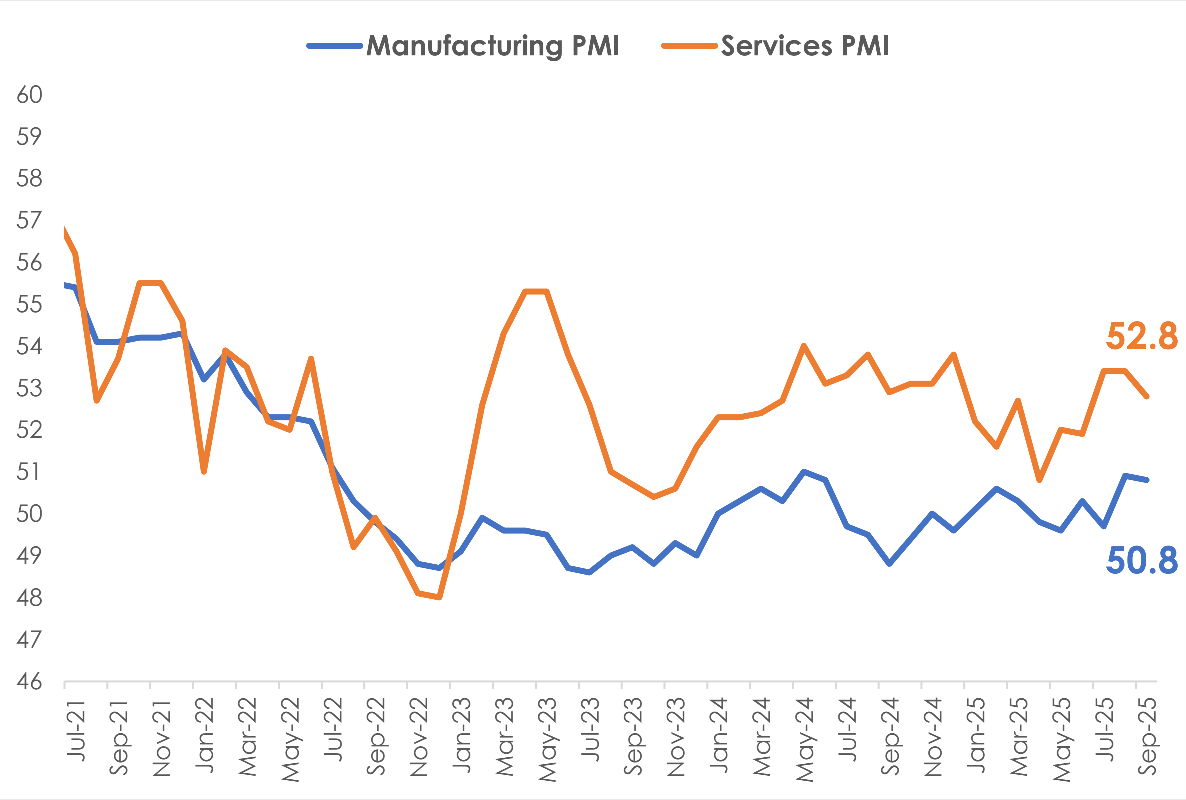
An Overview and Outlook on the Fixed Income Market

October 2025

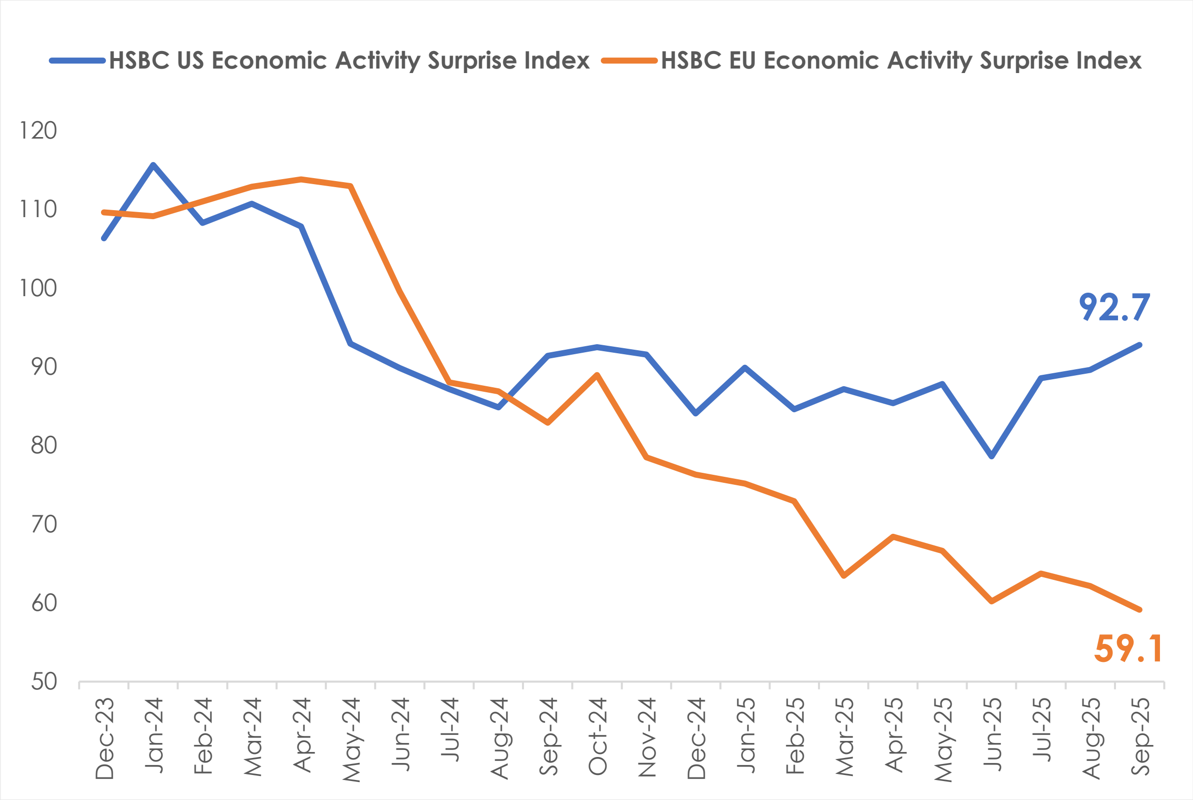
Global Trends

Economic activity remains in expansionary territory

JPMorgan Global PMI



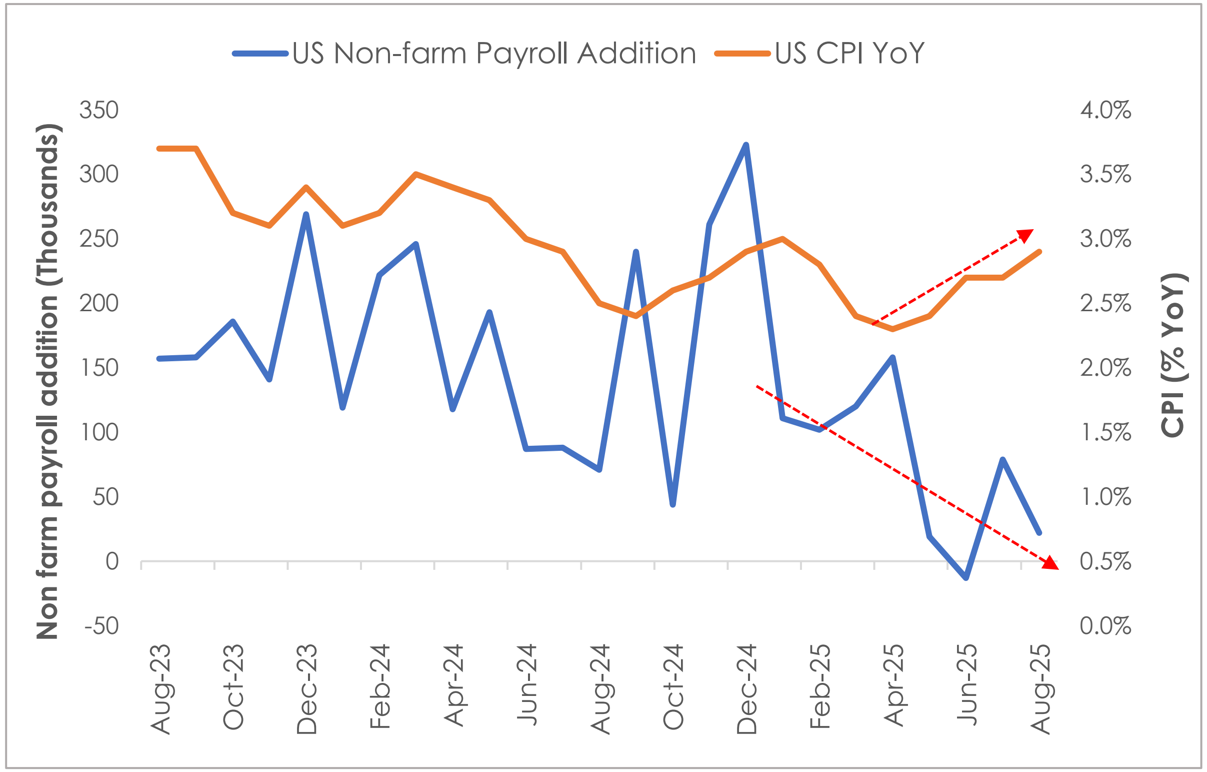
HSBC Economic activity index

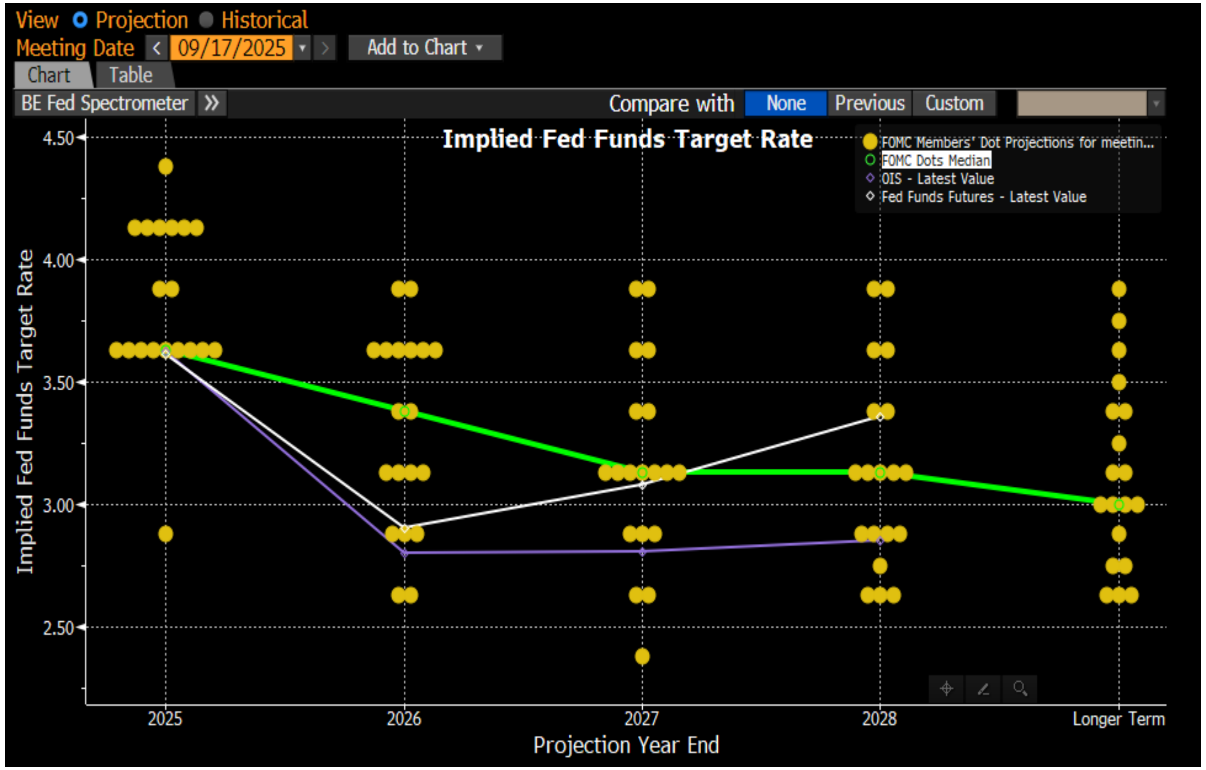


- Global services remains resilient and remains near its healthy average of the last few years. Manufacturing new export orders PMI has improved from its spring lows and is scaling upwards
- Price component of PMIs - both in the manufacturing and the service sector will remain a key monitorable to assess the pass through of tariffs

Source : Bloomberg

FED Pivot on Labour Market; while uncertainty on future path prevails





- The US FOMC lowered its policy rate by 25 bps, setting the fed funds rate at 4.00% to 4.25%. The rate cut was seemingly influenced by the recent weakness in job additions although inflation remains sticky above Fed's 2% goal
- The Dot Plot, which shows future rate projection of each member of the FOMC, indicates two more rate cuts (25bps each) in 2025 and one cut in 2026
- Future policy path looks highly uncertain due to tricky inflation-employment trade-off, evolving trade and immigration policies and dispersion of views among the FOMC members

 Source : Bloomberg

US Government Shut Down to have limited impact

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- The U.S. government went into shut down on October 1 resulting in temporary suspension of some of the US government services
- About 40% of the federal workforce - about 750,000 people - are expected to be put on unpaid leave (link). Impact on the labour market should be limited as many furloughed federal employees receive back pay
- However, in case of layoffs (as threatened by the president), there would be significant negative impact on consumer spending
- The shut down is estimated to reduce the annualised GDP by 0.1% each week due to reduced government spending
- In absence of key economic data releases amid shut down, the Fed might rely on private sector data as proxies of employment and inflation

US Government Shutdowns in last 50 years

Fiscal Year	Final Date of Budget Authority	Full Day(s) of Gap	Date Gap Terminated
1977	Thursday, 09/30/76	10	Monday, 10/11/76
1978	Friday, 09/30/77	12	Thursday, 10/13/77
	Monday, 10/31/77	8	Wednesday, 11/09/77
	Wednesday, 11/13/77	8	Friday, 12/09/77
1979	Saturday, 09/30/78	17	Wednesday, 10/18/78
1980	Sunday, 09/30/79	11	Friday, 10/12/1979
1982	Friday, 11/20/81	2	Monday, 11/23/81
1983	Thursday,09/30/82	1	Saturday, 10/23/81
	Friday, 12/17/82	3	Tuesday, 12/21/82
1984	Thursday, 11/10/83	3	Monday, 11/14/83
1985	Sunday, 09/30/84	2	Wednesday, 10/03/84
	Wednesday, 10/03/84	1	Friday, 10/05/84
1987	Thursday, 10/16/86	1	Saturday, 10/18/86
1988	Friday, 12/18/87	1	Sunday. 12/20/87
1991	Friday, 10/05/80	3	Tuesday, 10/09/90
1996	Monday, 11/13/95	5	Sunday, 11/19/95
	Friday, 12/15/95	21	Saturday, 01/06/96
2014	Monday, 09/30/13	16	Thursday, 10/17/13
2018	Friday, 01/19/18	2	Monday, 1/22/18
2019	Friday, 12/21/18	34	Friday, 1/25/19

Source – Congressional Research Service

Rally in Commodity prices – Food prices moderate

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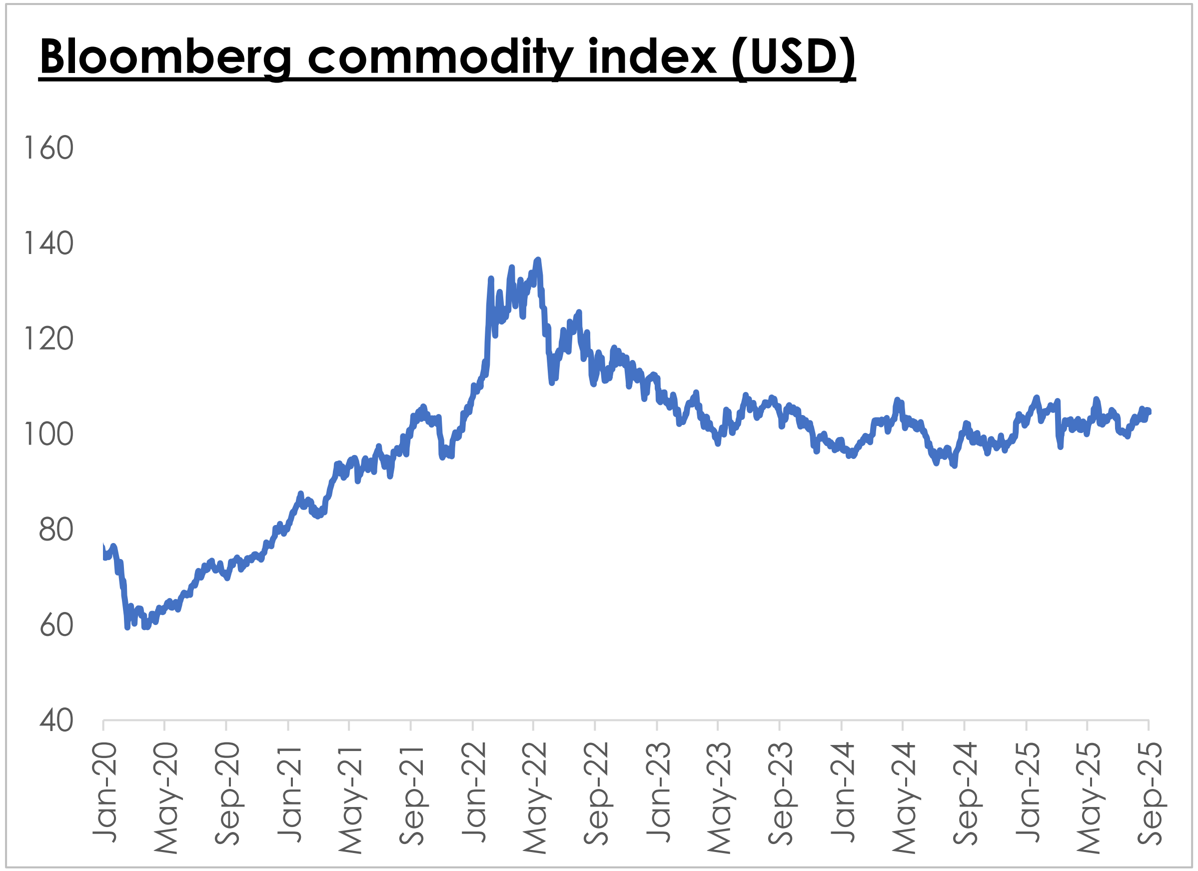
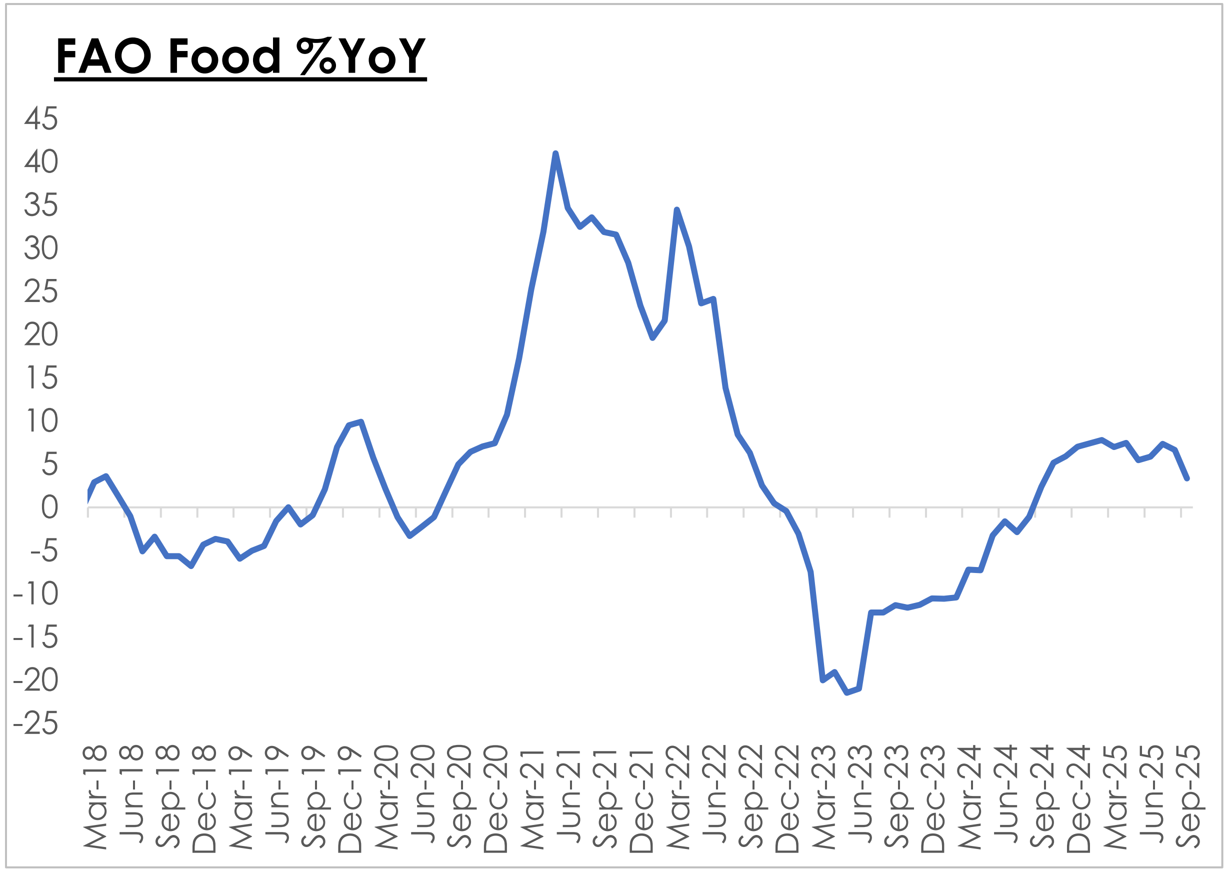




- Commodities rallied driven by precious metals on expectations of initiation of US rate cutting cycle and. Base metals also appreciated with signs of stabilization in Chinese real estate
- Global food prices moderated in September on weaker cereal and diary prices

Source: Bloomberg

Global bonds rallied on Fed pivot – Asia bucked the trend

Movement in 10-year Sovereign benchmark yields

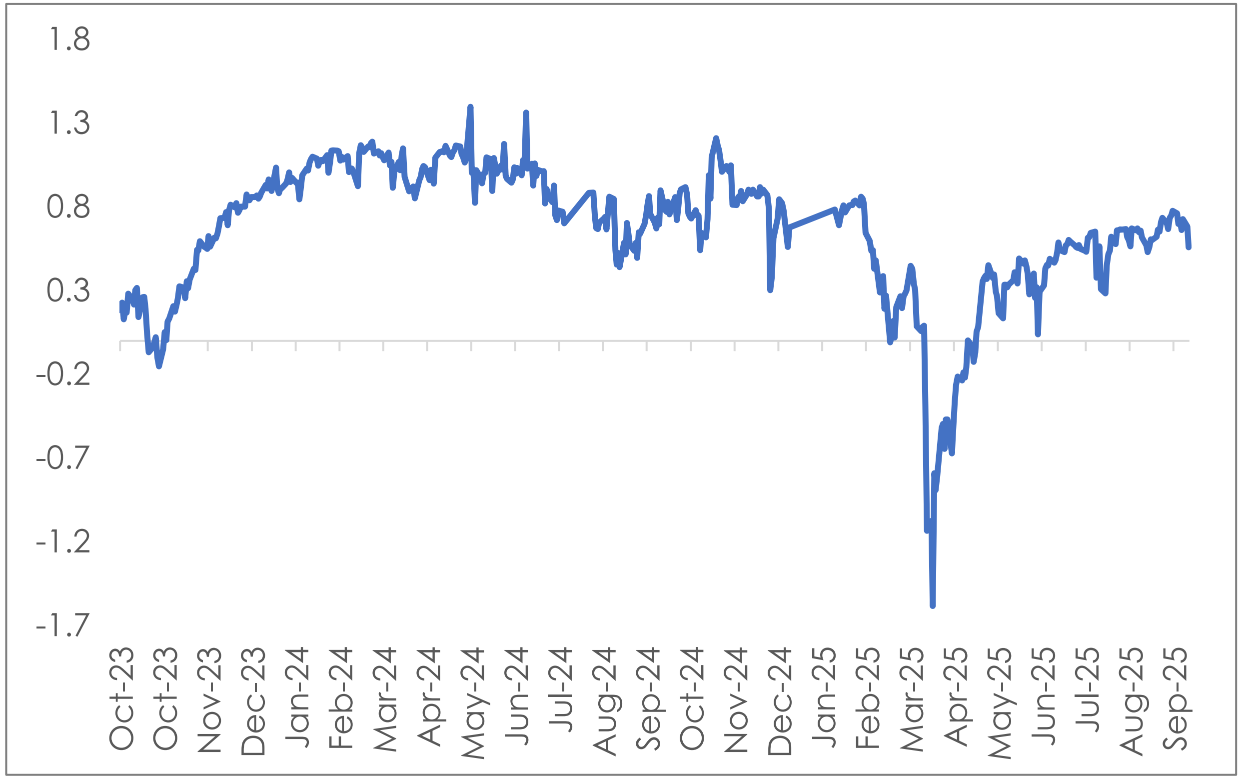
Region	Country	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Change (bps) MoM	Change (bps) YoY	Trend
US & EUROPE	US	3.78	4.28	4.17	4.57	4.54	4.21	4.21	4.16	4.40	4.23	4.37	4.23	4.15	-8	45	
	UK	4.00	4.45	4.24	4.57	4.54	4.48	4.68	4.44	4.65	4.49	4.57	4.72	4.70	-2	72	
	GERMANY	2.12	2.39	2.09	2.37	2.46	2.41	2.74	2.44	2.50	2.61	2.70	2.72	2.71	-1	60	
LATAM	BRAZIL	12.43	12.79	13.41	15.16	14.80	15.26	15.08	14.07	14.02	13.52	14.07	13.93	13.72	-21	150	
	MEXICO	9.34	10.07	10.01	10.42	10.08	9.48	9.35	9.34	9.32	9.30	9.41	8.97	8.82	-15	-38	
ASIA PACIFIC	JAPAN	0.85	0.94	1.04	1.09	1.24	1.37	1.49	1.31	1.49	1.43	1.55	1.60	1.64	5	74	
	AUSTRALIA	3.97	4.50	4.34	4.36	4.43	4.29	4.38	4.16	4.26	4.16	4.26	4.27	4.30	2	30	
	SOUTH KOREA	2.99	3.10	2.76	2.85	2.86	2.71	2.77	2.56	2.79	2.80	2.78	2.82	2.95	13	-18	
	CHINA	2.21	2.15	2.03	1.68	1.63	1.78	1.82	1.63	1.71	1.65	1.71	1.79	1.87	9	-42	
	INDONESIA	6.44	6.77	6.85	6.97	6.97	6.90	6.99	6.86	6.83	6.62	6.55	6.34	6.35	1	-9	
	SINGAPORE	2.60	2.81	2.75	2.85	2.91	2.73	2.68	2.47	2.43	2.19	2.08	1.82	1.90	8	-78	
	INDIA	6.75	6.85	6.74	6.76	6.70	6.73	6.58	6.36	6.29	6.32	6.37	6.57	6.58	**1**	**-18**	

- Rising government deficits, persistent inflation and geopolitical instability continued to lead bond sell off
- US was an exception in advanced economies due to expectations of rate cuts from the Federal reserve

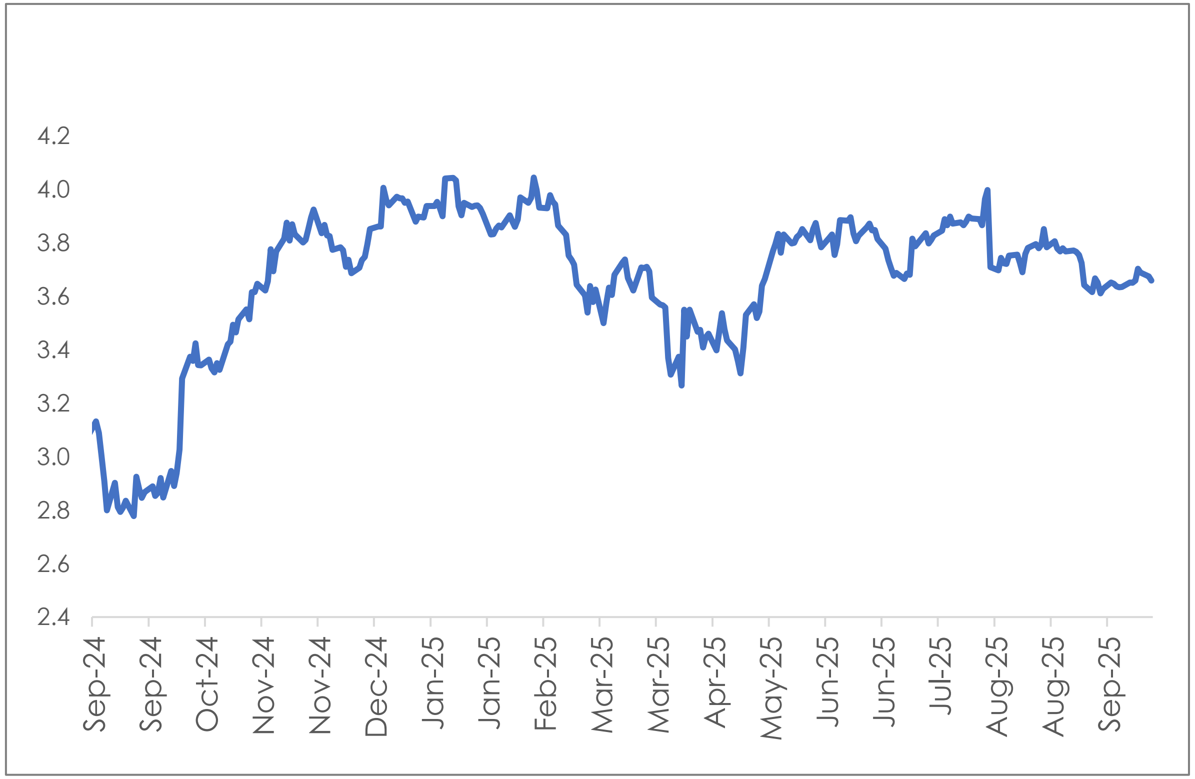
Source: Bloomberg, Data as of last trading day of respective months

Financial conditions turned easier on dovish expectations of the Fed

Bloomberg US Financial Conditions Index



Market Implied Policy Rate Forecasts



- US Financial conditions remain loose on expectations of Fed easing
- Equities, Commodities & High yield credit continued to do well as optimism surrounding the global growth outlook has also picked up

Source: Bloomberg

India Trends

RBI Monetary Policy Update – A dovish pause

- The MPC voted unanimously to keep the policy repo rate unchanged at 5.5% and retained the "Neutral" monetary policy stance
- CPI inflation estimates were revised downwards from 3.1% to 2.6% in FY2026. RBI expects inflation to rise above the 4% target in 4QFY26 and edge towards 4.5% in Q1FY27
- RBI acknowledged the unfavourable base effects which will lead to higher headline inflation from Q4FY26: Return of inflation may not be hindrance for rate cuts
- Growth projections for FY2026 were raised to 6.8% reflecting confidence in the economy's medium-term outlook supported by benign inflation, public capex, and congenial financial conditions
- The Governor emphasized that "policy space for further supporting growth has opened up"

Inflation & Growth Assessment

RBI's estimates for CPI inflation across policies (%)

		Jun-25	Aug-25	Oct-25
FY26	1Q	2.9		
	2Q	3.4	2.1	1.8
	3Q	3.9	3.1	1.8
	4Q	4.4	4.4	4.0
	FY26 Avg	**3.7**	**3.1**	**2.6**
FY27	1Q		4.9	4.5

RBI's estimates for Real GDP growth across policies (%)

		Jun-25	Aug-25	Oct-25
FY26	1Q	6.5	6.5	
	2Q	6.7	6.7	7.0
	3Q	6.6	6.6	6.4
	4Q	6.3	6.3	6.2
	FY26 Avg	**6.5**	**6.5**	**6.8**
FY27	1Q		6.7	6.4

Source: RBI; A – Actual; MPC – Monetary Policy Committee

Positive regulatory actions for the Banking Sector in MPC Policy

- Providing a four years glide path until March 2031 for Banks to smoothen one-time impact of higher provisioning requirements under ECL Framework (slated to be implemented from April 2027)
- Providing capital release for Banks by lowering capital charge (risk weights) in sectors like MSMEs and residential real estate (including home loans)
- Removal of Proposed regulatory restrictions (October 2024 draft guidelines) on overlap in the businesses undertaken by a bank and its group entities – Positive for Banks with NBFC subsidiaries
- Aiding banking system credit growth by making relaxations
- Providing an enabling framework for banks to finance acquisitions by Indian Corporates
- Withdrawing earlier regulations on enhancing credit supply for large borrowers through market mechanism (introduced in 2016)
- Enhancing limits for lending against shares by Banks (from INR 2 mn to INR 10 mn)

India Trade deficit moderates – Service exports remain robust

	USD Bn				Growth YOY	
	Aug-24	Jun-25	Jul-25	Aug-25	Jul-25	Aug-25
Trade balance	**-35.6**	**-18.8**	**-27.4**	**-26.5**		
-Exports	**32.9**	**35.1**	**37.2**	**35.1**	**7.3**	**6.7**
Non-Oil exports	28.7	30.5	32.9	30.6	13.8	6.7
Oil exports	4.2	4.6	4.3	4.5	-25.1	6.7
-Imports	**68.5**	**53.9**	**64.6**	**61.6**	**8.6**	**-10.1**
Oil imports	12.1	13.8	15.6	13.3	7.5	9.3
Non oil non gold imports	47.8	38.3	45	42.9	6.2	-10.2
gold imports	8.6	1.8	4.0	5.4	54.5	-37.1
Services surplus	**13.9**	**16.2**	**16.4**	**16.6**		
Exports	**30.3**	**32.1**	**33.7**	**34.1**	**10.3**	**12.3**
Imports	**16.5**	**15.9**	**17.3**	**17.5**	**8.5**	**6.0**

- Trade deficit improved marginally as the drop in imports due to lower crude oil, capital goods and minerals offset the lower exports which had declined on account of electronic and engineering goods
- The impact of H1B visa issue will be visible mostly in FY27 and beyond. FDI trends have improved but FPI flow remains under pressure due to subdued equity inflows
- Escalation in US tariffs has increased the pace of INR depreciation and pick up in RBI's net dollar selling. RBI also reducing the size of its negative forward book by allowing near-term buy-sell swaps to mature. Forward book size has reduced to (–)US$57.85bn as of July 2025 from (-) US$84.4bn as of March 2025

Source: CEIC, IDFC FIRST Bank Economics Research

Fiscal Trend – Spending adjustments may be needed

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Monthly tax & fiscal aggregates of central government, March fiscal year ends (INR billion)

	Aug-25	Aug-24	Change % YoY	FYTD (Apr-Aug) 2026	FYTD (Apr-Aug) 2025	Change % YoY
Gross tax revenues	**2,511**	**2,485**	**1**	**13,440**	**13,327**	**0.8**
Direct taxes	**1,213**	**1,034**	**17**	**6,949**	**7,018**	**-1**
Corporation tax	307	401	-23	2,293	2,246	2.1
Income tax	857	578	48	4,410	4,523	-2.5
Other taxes	49	55	-12	246	249	-1.3
Indirect taxes	**1,294**	**1,448**	**-10.6**	**6,476**	**6,296**	**2.9**
Customs duty	225	268	-16	831	943	-11.9
Excise duty	280	272	2.8	1,119	1,040	7.6
Service tax	-0.7	0.2	-484	-24	0.3	-853
GST	790	907	-12.9	4,528	4,312	5
Net tax revenues	**1,486**	**1,586**	**-6.3**	**8,104**	**8,738**	**-7.3**
Non-tax revenues	**367**	**327**	**12.4**	**4,403**	**3,345**	**32**
Non-debt capital receipts	**22**	**25**	**-12.1**	**320**	**89**	**261**

	Aug-25	Aug-24	Change % YoY	FYTD (Apr-Aug) 2026	FYTD (Apr-Aug) 2025	Change % YoY
Total receipts	**1,875**	**1,938**	**-3.2**	**12,827**	**12,172**	**5.4**
Total expenditure	**3,172**	**3,520**	**-9.9**	**18,809**	**16,524**	**13.8**
Revenue expenditure	2,326	3,123	-26	-14.493	13,514	7.2
Capital expenditure	847	397	113	4,316	3,010	43
Fiscal deficit	**1,297**	**1,582**	**-18**	**5,982**	**4,352**	**37**

- Modest growth in gross tax receipts was driven by GST collections partly offset by weak income and corporate tax receipts
- Robust growth in 5M capex reflects Rs500bn allocation to FCI
- Tax collections could remain lower due to moderate nominal GDP. Tax collections grew by 9.5% in FY25 when nominal GDP risen by 9.7%
- Central govt could manage the fiscal slippage by adjusting spending if needed which may weigh on growth

Source: CEIC, Kotak Institutional Equities

H2 Central Govt borrowing calendar – reduction in share of longer end

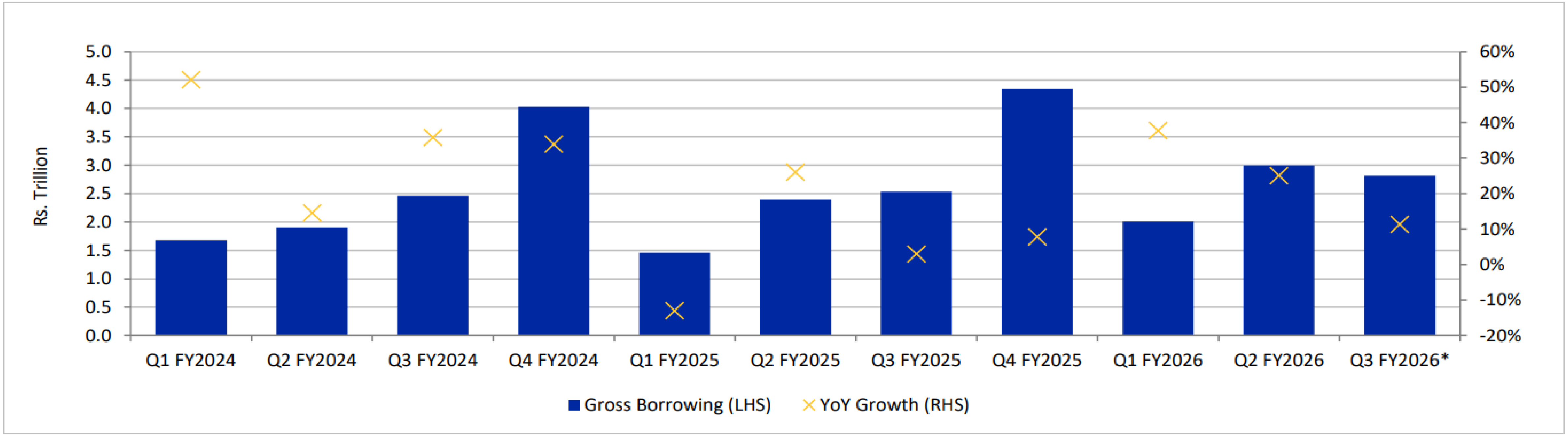
Calendar	H2FY23		H2FY24		H2FY25		H2FY26	
Maturity	INR bn	% Share	INR bn	% Share	INR bn	% Share	INR bn	% Share
1-4	360	6	400	6	350	5	447	7
5-9	1,380	23	1,350	21	1,200	18	1,449	21
10-14	2,380	40	2,500	38	1,640	25	1,923	28
15>	1,800	30	2,300	35	3,420	52	2,952	44
Total	**5,920**	**100**	**6,550**	**100**	**6,610**		**6,770**	

- Gross borrowing for FY26 is marginally lower at Rs 14.72 trillion vs B.E. Rs 14.82 trillion. The unchanged borrowing calendar is positive for the bond market amidst fiscal concerns
- Highest share of issuances will be in the 10-year segment (28.4% vs. 24.8% in H2FY25). The share of 5-year segment has increased to 13.3% (H2FY25:10.6%) while 15-year tenor has increased to 14.2% (H2FY25:13.2%)
- Within the long-end tenors, the share of the 40-year tenor (11.1% vs 15.9%) and the 30-year tenor (9.2% vs. 12.1% H2FY25) have declined substantially. The share of the 50-year tenor has declined to 9.1% (10.6% H2FY25)
- The tenor distribution could lead to a near term flattening bias in the yield curve given the increased share of short-end bonds. Long term performance would still depend on future calendar distributions and demand supply dynamics

Source: RBI & ICICI Bank research

Lower than expected Q3 SDL calendar

Quarterly SDL borrowing calendar



- Gross SDL issuances for 3QFY26 came in below expectations at ~Rs2.8 trillion, as states benefited from the advance instalment of tax devolution of ~Rs1 tn on October 1, 2025
- The net market borrowings in Q3 FY2026 are assessed at Rs. 1.8 trillion, a substantial ~24% higher than the actual net issuance of Rs. 1.5 trillion in Q3 FY2025 but sequential lower than Rs. 2.3 trillion in Q2 FY2026

Source: ICRA

Update on T-bill borrowing calendar

FY25 T-Bill calendar

in Rs. Billion	91 day		182 Days		364 Days		Total		Net supply
	Issuance	Maturity	Issuance	Maturity	Issuance	Maturity	Issuance	Maturity	
Q1	1,080	1,080	730	1,040	800	1,040	2,610	3,160	-550
Q2	880	1,080	660	1,500	660	780	2,200	3,360	-1,160
Q3	910	880	780	730	780	1,170	2,470	2,780	-310
Q4	1,680	910	1,280	660	980	1,080	3,940	2,650	1,290
Total	**4,550**	**3,950**	**3,450**	**3,930**	**3,220**	**4,070**	**11,220**	**11,950**	**-730**

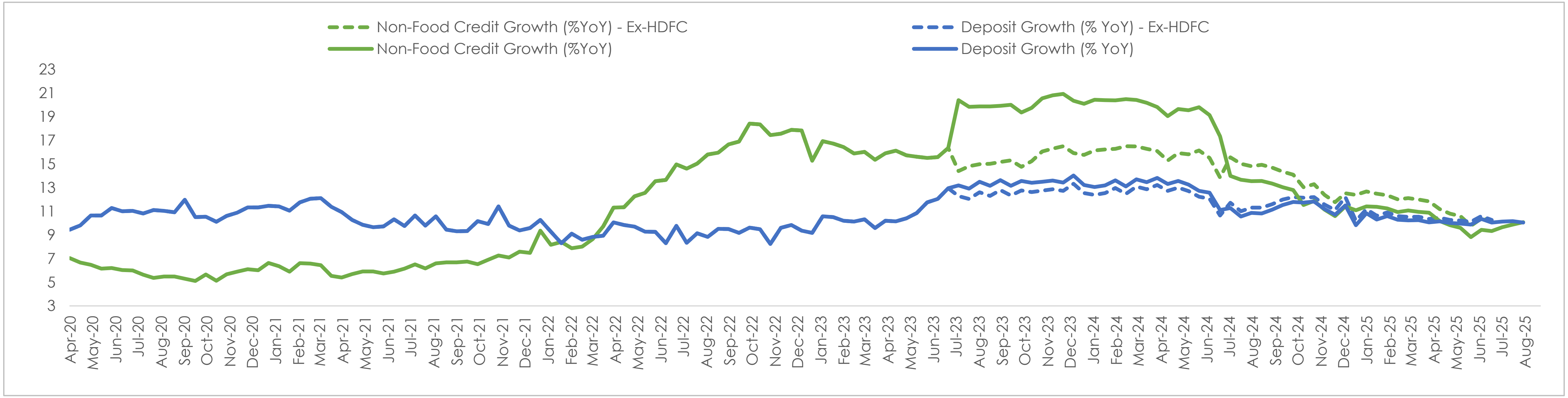
FY26TD T-Bill calendar

(in Rs Billion)	91 day		182 Days		364 Days		Total		Net supply
	Issuance	Maturity	Issuance	Maturity	Issuance	Maturity	Issuance	Maturity	
Q1	1,170	1,680	650	780	650	800	2,470	3,260	-790
Q2	1040	1,080	780	1,600	780	780	2,600	3,460	-860
Q3	910	1260	780	650	780	780	2,470	2,690	-220
Q4									
							7,540	**9,410**	**-1870**

- The T-Bill issuance calendar for Q3FY26 has scheduled issuances of INR 2.47 trillion, which is equivalent to the calendar amount of last year. Out of this, share of issuances in 91-day, 182-day and 364-day segment is at ~37%, 32% and 32% respectively. Net T-bill borrowing for the quarter is estimated at (-)INR 0.2 trillion
- Balanced issuance in 182 days and 364 days reflects GOI's strong cash position

Source: UTI research

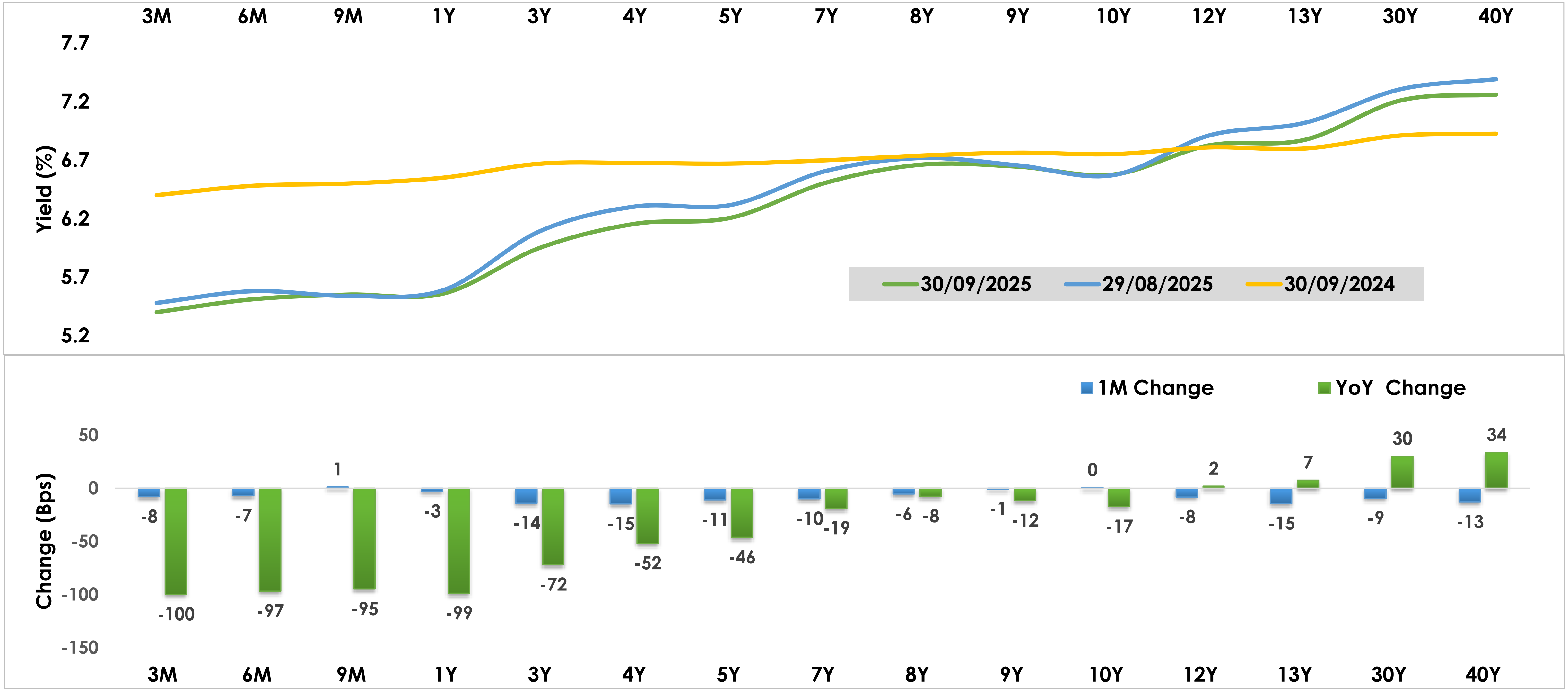
Credit growth stays muted



- Headline non-food credit growth improved marginally to 10.1% YoY as per the latest RBI data (8th Aug'25) vs 9.7% YoY on 11th Jul'25. Further, the deposit growth at 10.1% YoY as on 8th Aug'25 was in-line with credit growth. Systemic LDR is now at 79.3% vs 79.2% last fortnight.
- Segment-wise, Industries' growth remains muted despite improving to 6% YoY in Jul'25 vs 5.5% in Jun'25. Infra growth turned positive to 1.9% YoY in Jul'25 after remaining in the negative territory for three consecutive months. Agri growth improved to 7.3% YoY vs. 6.8% in Jun'25 and 15–16% YoY in Jul–Nov'24.
- Services growth improved to 10.6% YoY vs. 9% in Jun'25. NBFC credit growth remained stable at 2.6% YoY (though MoM growth was -1.7%).
- Retail growth softened to 12% YoY vs. 12.1% in Jun'25. Unsecured Personal Loans and Credit card growth continues to be subdued (below 10% YoY). Retail gold loans continued to witness strong momentum

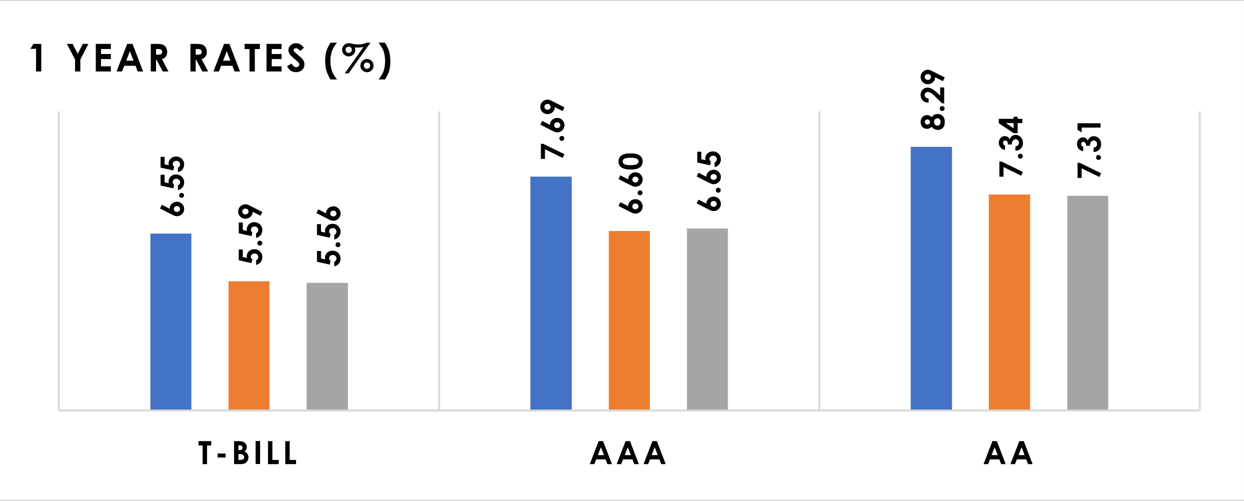
Note: The first data point is as per the latest WSS data release (8-Aug-25) by RBI. The other bullet points are as per the sectoral credit deployment data for the month of Jul'25.
Note 2: The RBI has stopped publishing the fortnightly credit and deposit data ex-HDFCL merger from July'25.

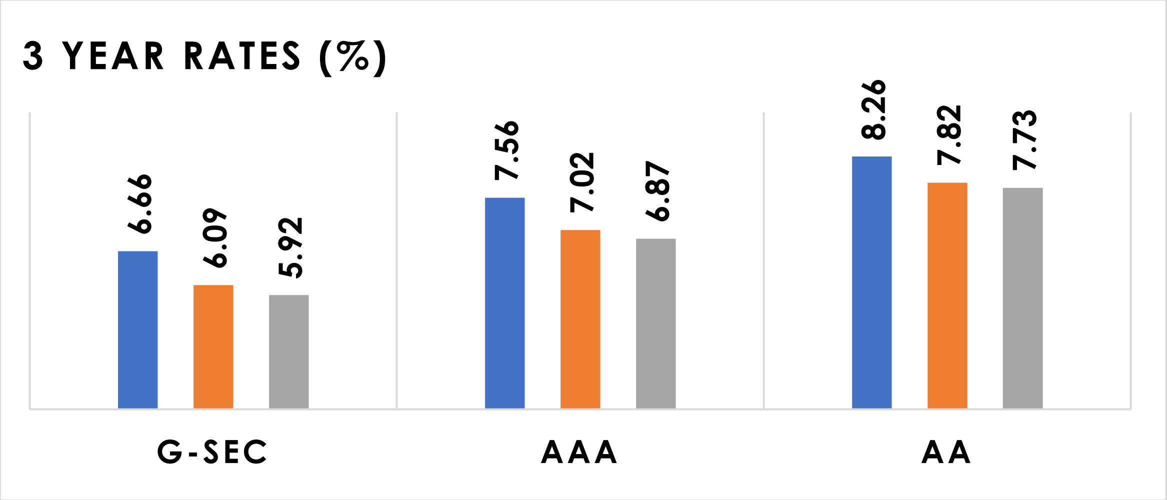
India Sovereign Curve – Outperformance of longer end

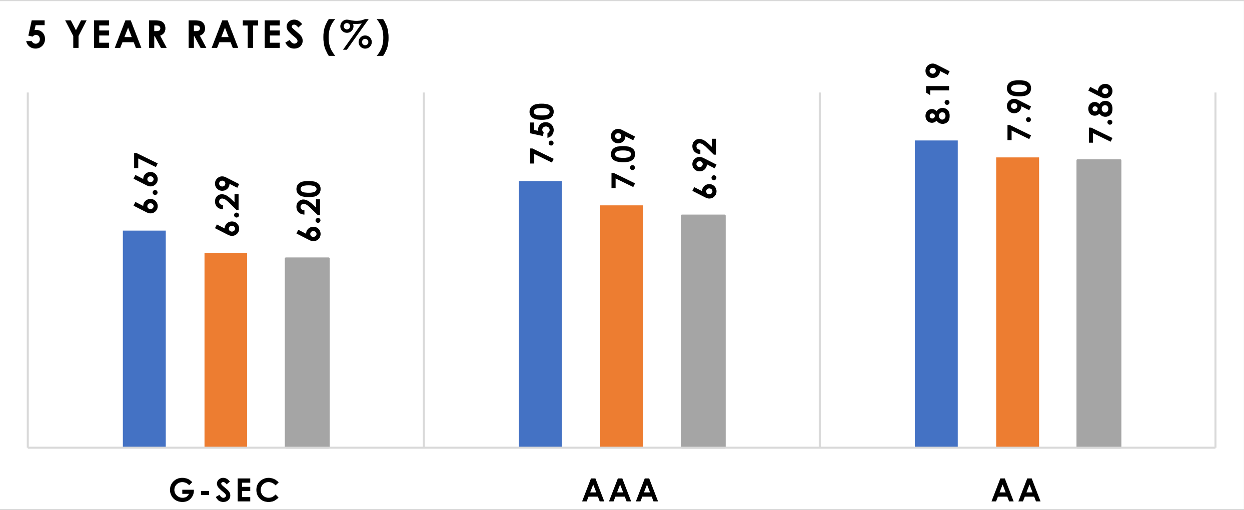


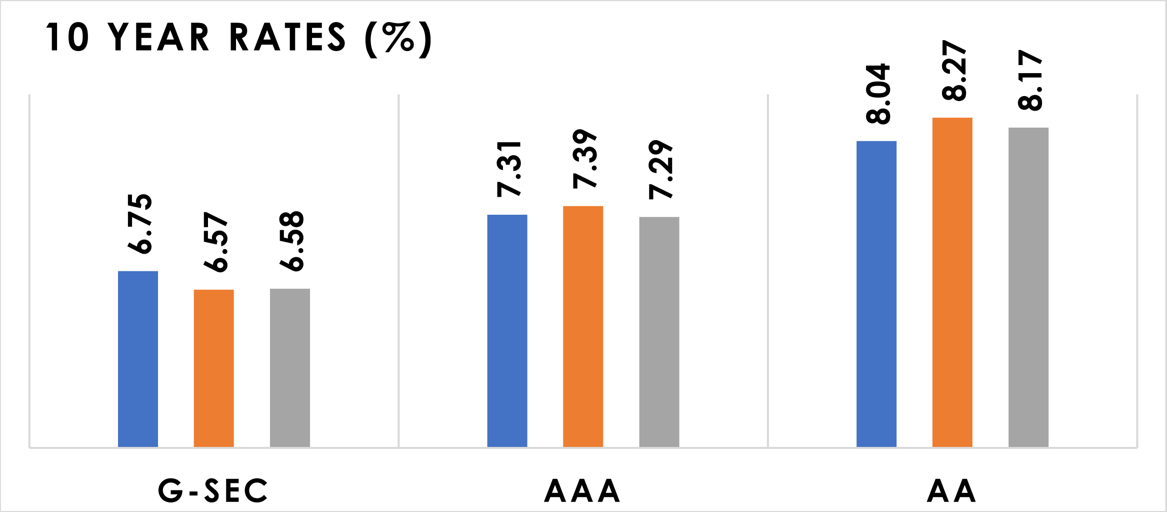
Source: Bloomberg

Curve movement and Credit spread trends









Sep-24 Aug-25 Sep-25

Source: Bloomberg, Data as on last business day of the respective months

Outlook – Growth will dictate policy space for easing

- The growth inflation dynamics have turned meaningfully favourable for interest rates
- Inflation continues to remain low while growth momentum is incrementally moderating due to tariff related uncertainties
- The bond market now has a stronger visibility of low rates for an extended period. Easy liquidity, moderate credit growth and the predictable forward guidance of "lower for longer rates" bode well for short to medium end of the yield curve
- The steep yield curve provides attractive accrual as well as roll down opportunities in the short to medium end. Potential rate cuts could provide incremental capital gains
- We prefer
  - **Moderate duration exposure**, in the **2–5 year segment** to benefit from roll-down and steepness
  - **Selective credit exposure** to well-managed NBFCs and corporate issuers; supported by benign funding costs and system-level liquidity.
  - **Cautious stance on long duration** as the terminal rate repricing is now largely in the price; incremental gains appear limited barring growth/inflation shock
- Investors looking at a 6–12-month investment horizon can consider **money market or low- duration strategies**
- Investors with more than a 12-month investment horizon can consider moderate duration products like **short-term/corporate bond funds**
- Investor with investment horizon beyond 2 years can consider **Income plus arbitrage funds** for tax efficient returns

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