Bonding With Bonds

A Macro Konnect Edition

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Long-End Yields Up — Risk Signal or Value Zone ?

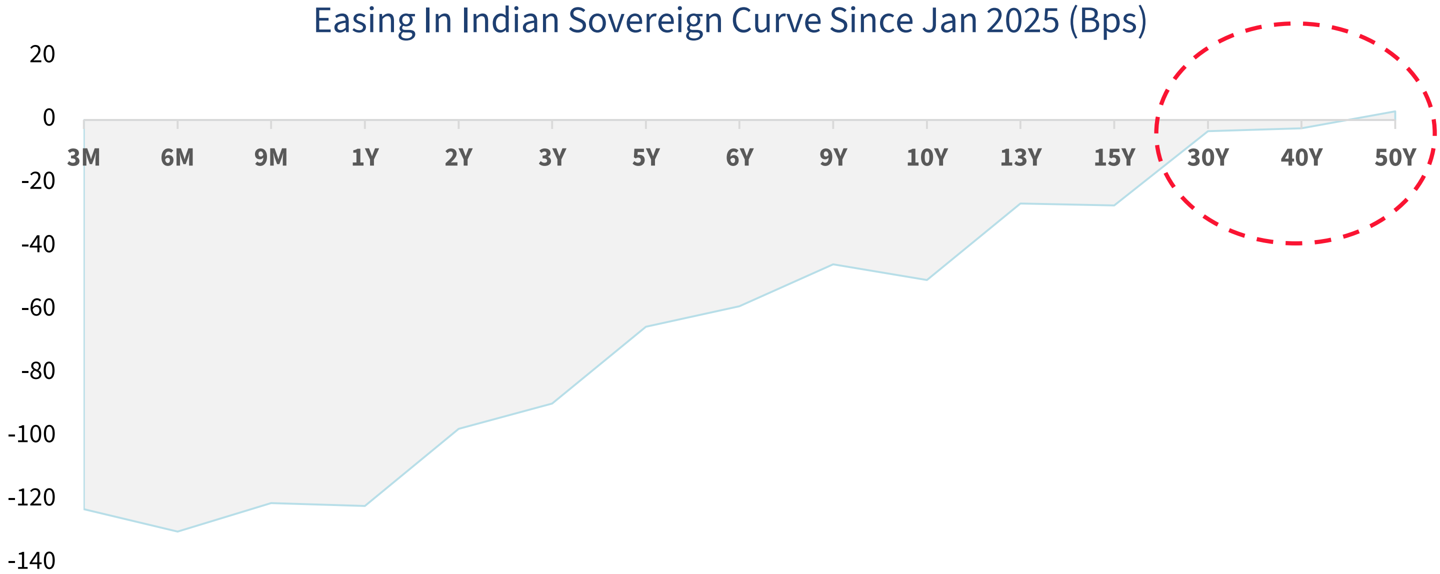
Over the last few months, Indian bond yields have rallied significantly, particularly in the short to medium end of the curve. Since the beginning of calendar year 2025, short term rates for CDs/CPs/T-bills have eased by 100~150 bps, and 1 – 5 year G-secs have eased by 60~120 bps. However, the 30 years + segment has remained largely flat. During this period, we have seen a 100 bps repo rate cut by the RBI, and liquidity has shifted to a significant surplus. The performance of long-term G-secs has shown a notable divergence verses shorter end, despite the strength of underlying domestic fundamentals.

India's Macro Setup Remains Constructive:

- Inflation: Headline CPI is expected to average at **3.8% for FY26.**
- GDP growth : Projected at **6.5% for FY26**, supported by stable domestic demand.
- Fiscal deficit: Estimated at **4.4% for FY26**, with credible consolidation.
- FX Reserves: Stand strong at **$699 billion**, anchoring INR stability with a manageable 1–2% depreciation.

Despite these supportive metrics, the long end of the curve has seen limited movement. Since early June, the longer tenors of the G-sec bonds have edged higher. This is driven not by fiscal stress, but by near-term supply-demand imbalances.

Easing In Indian Sovereign Curve Since Jan 2025 (Bps)

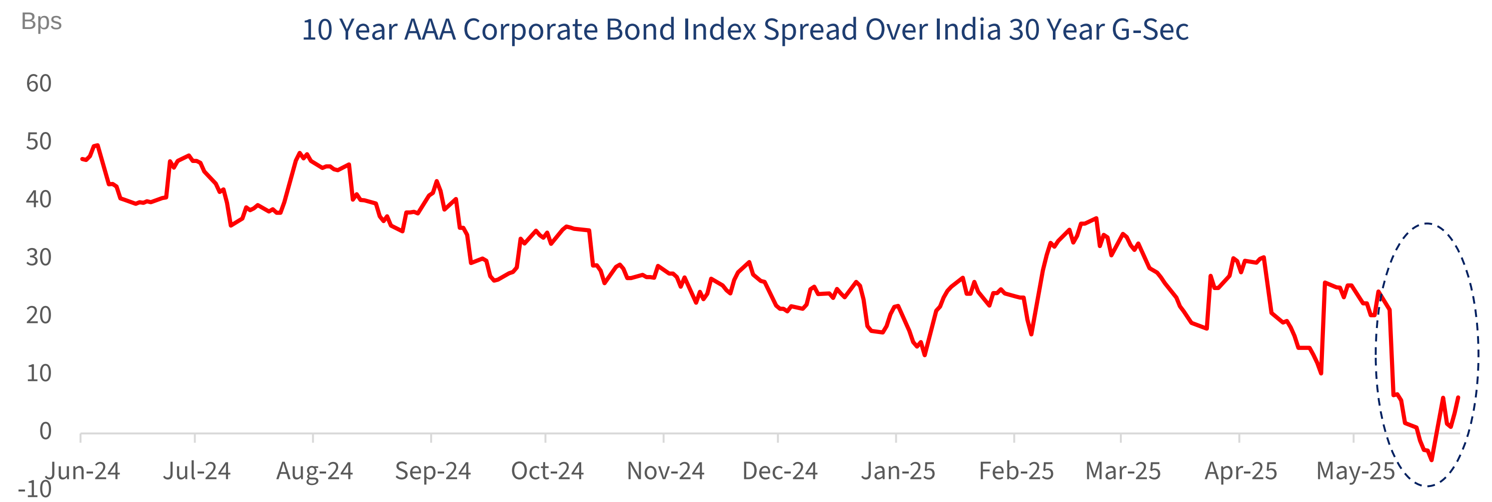


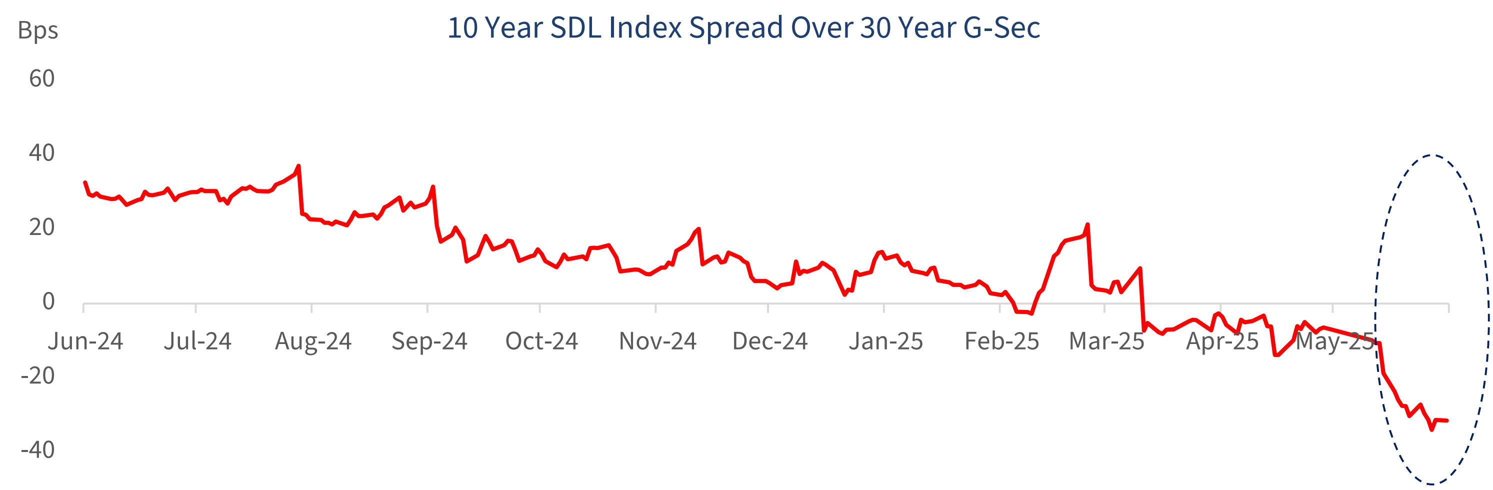
Source: Bloomberg, KMAMC Internal Research | The data in the chart above is as of June 24, 2025.
Details as per latest data available publicly.

With fiscal discipline, moderate inflation - expected below RBI mid point target, and a stable policy backdrop, such steepness may not be justified.

We see compelling value in long-duration government bonds — especially in the 30-year segments. Please refer to the charts given below for further insights.

Given Below Are Historical Spread Comparisons





The chart above highlights a rare compression in spreads between the 10-year SDL and the 10-year AAA corporate bond over the India 30-year G-sec, compared to historical trends.

In this environment, we believe the 30-year G-sec is relatively cheaper than both the 10-year SDL and the 10-year AAA corporate bond.

Given the solid macro backdrop and global appetite for emerging market debt likely to improve, these segments may offer attractive risk-adjusted returns — even without further policy easing.

Investors may consider investing in actively managed duration funds like Long Duration, Dynamic Bond and Gilt Funds to capitalize on this market mispricing.

Investors may also consider a barbell strategy- combining short-end with long-end duration to achieve desired duration as per risk appetite.

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