Fixed Income Navigator

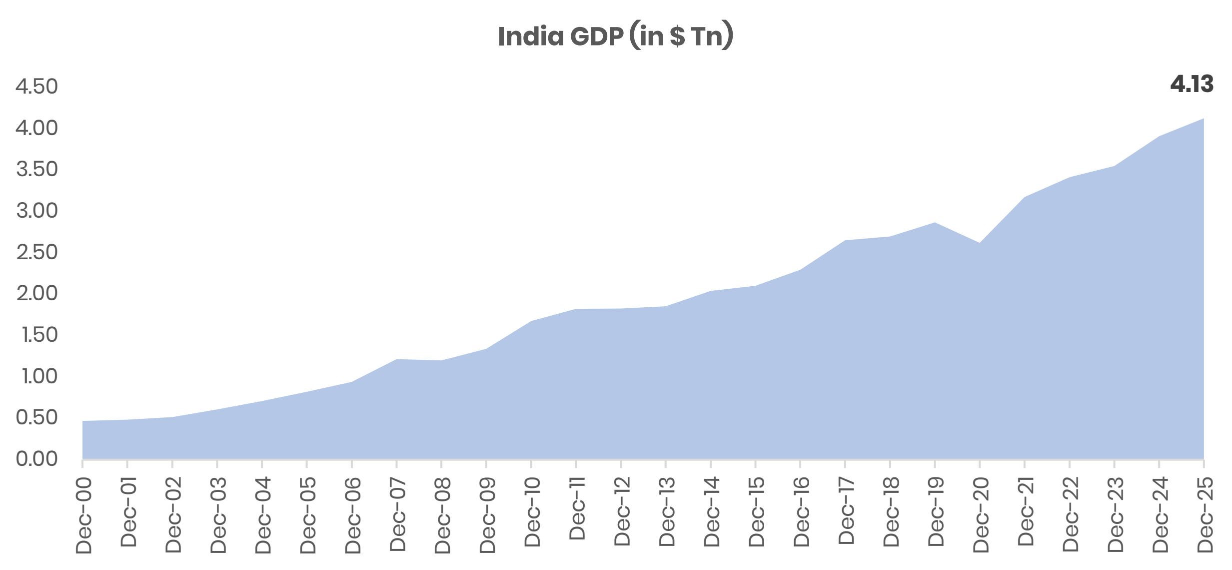
A Monthly Dose of Insights

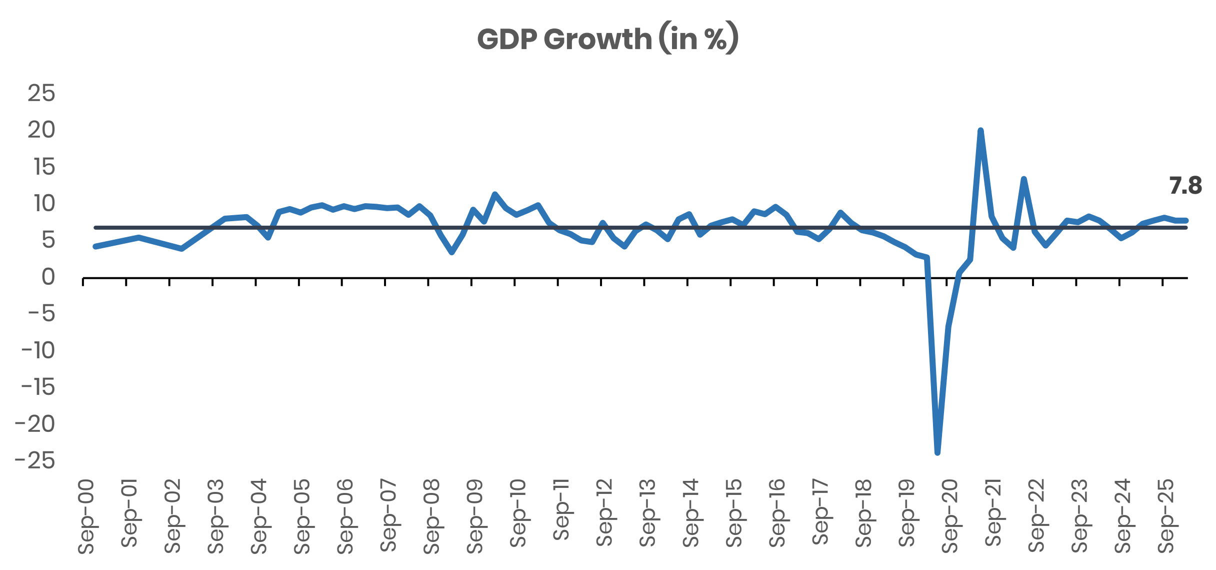
July 2026

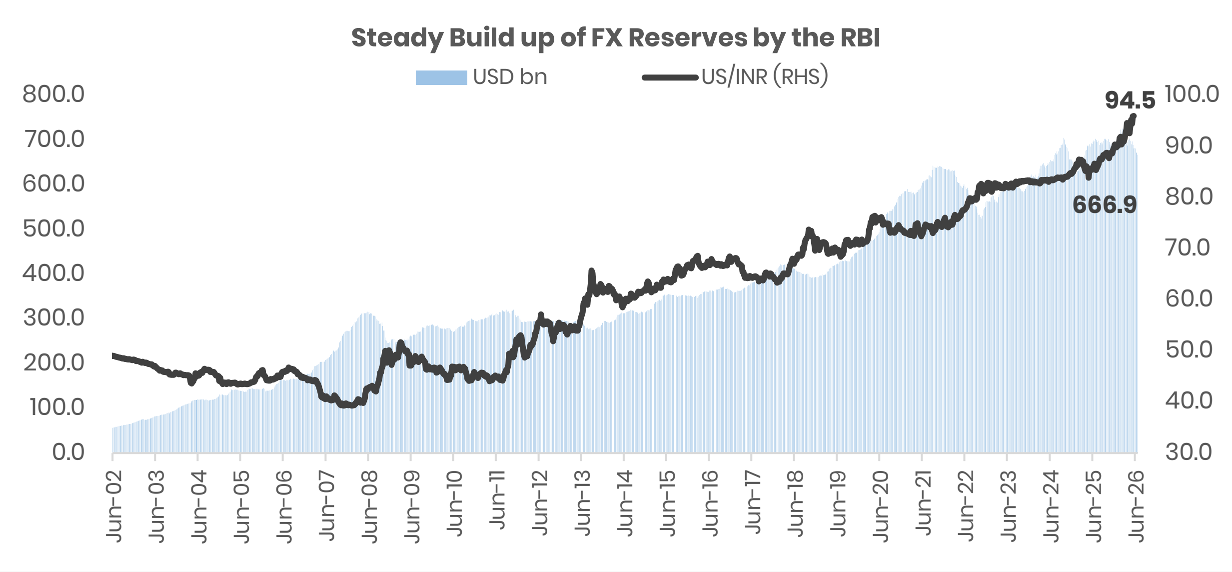
MACRO ECONOMIC INDICATORS

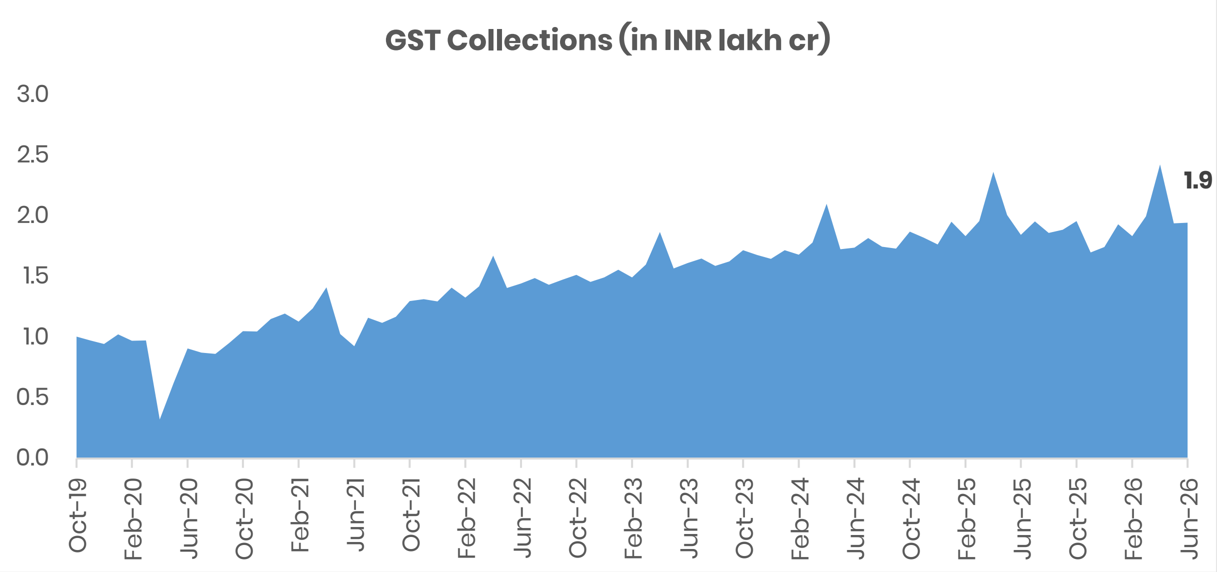
India slips to 6th Spot in the World Economy

motilal oswal
Wealth Management



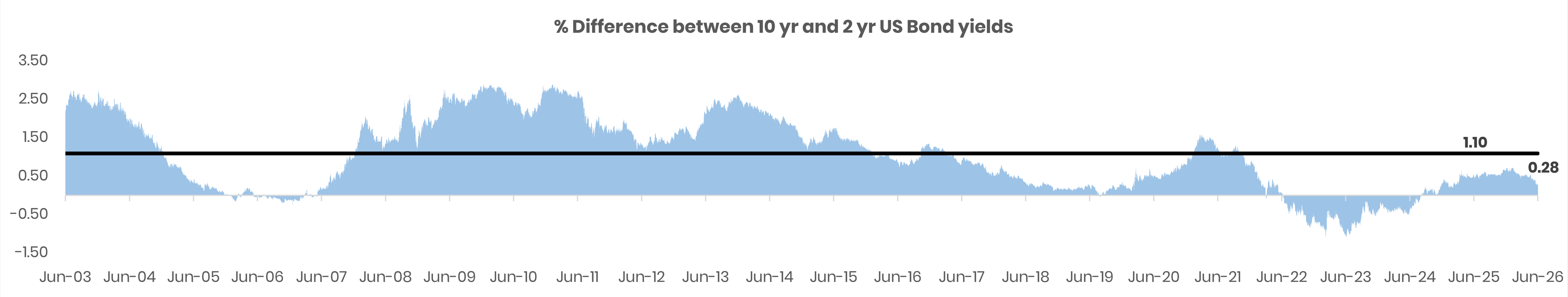


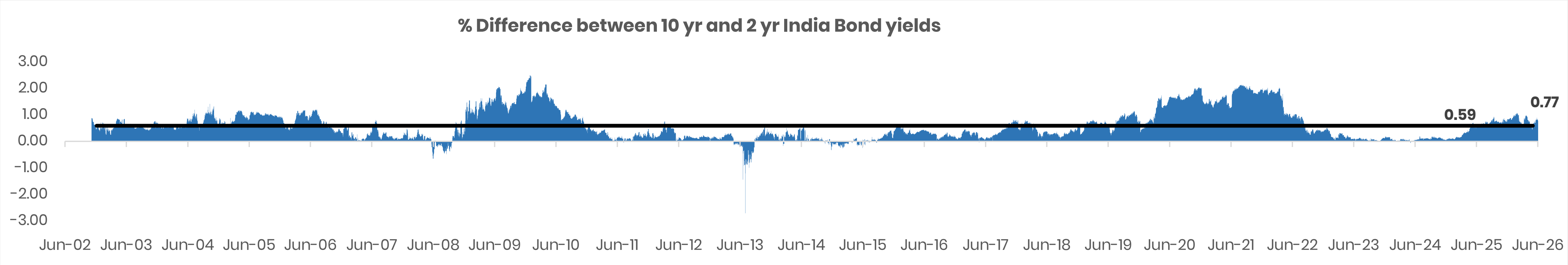




Source: US Spread – Investing.com, India Spread- Bloomberg, LTA – Long Term Average , IMF and World Bank data

India bond yield spread is rising gradually

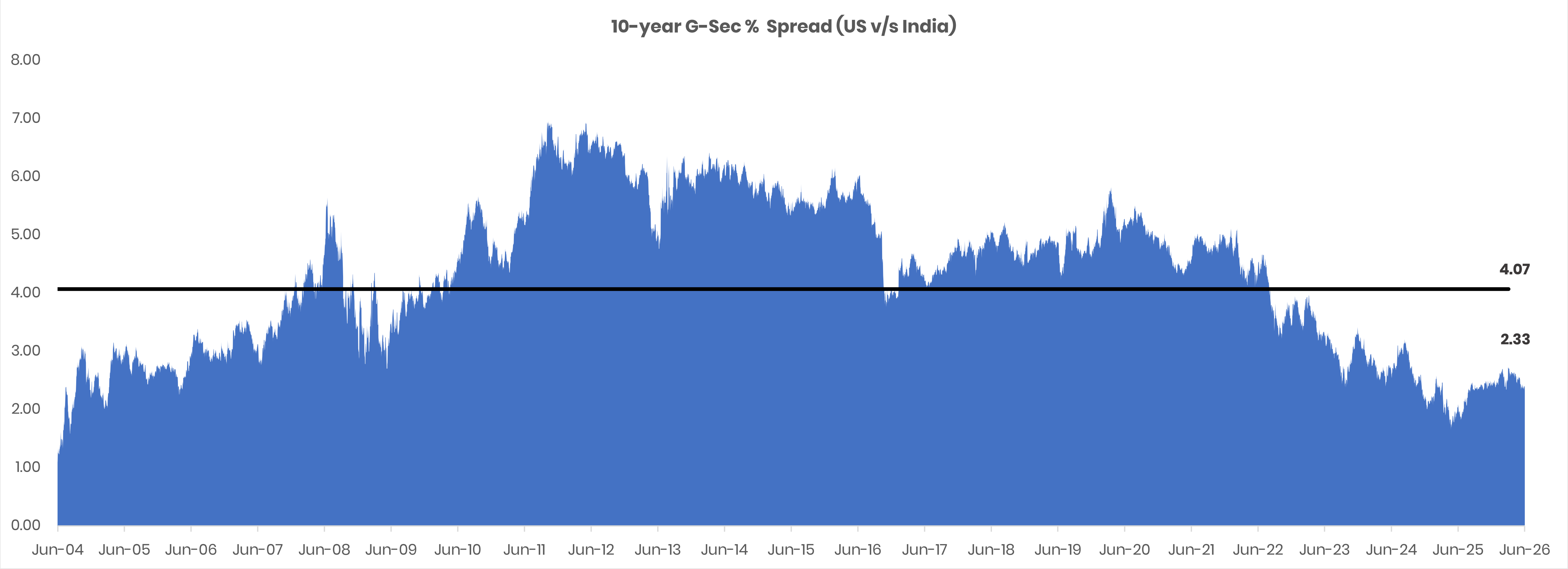




- US yield spread has cooled down to 0.28% (after rising till 0.71% in January) as Fed rate cuts and guidance have kept long-term yields relatively stable.
- India's 10-year to 2-year G-sec yield spread has rose to 0.77% (after cooling till 0.53% in May) primarily due to a sharp fall in 2 year yields.

Source: US Spread – Investing.com, India Spread- Bloomberg, LTA – Long Term Average

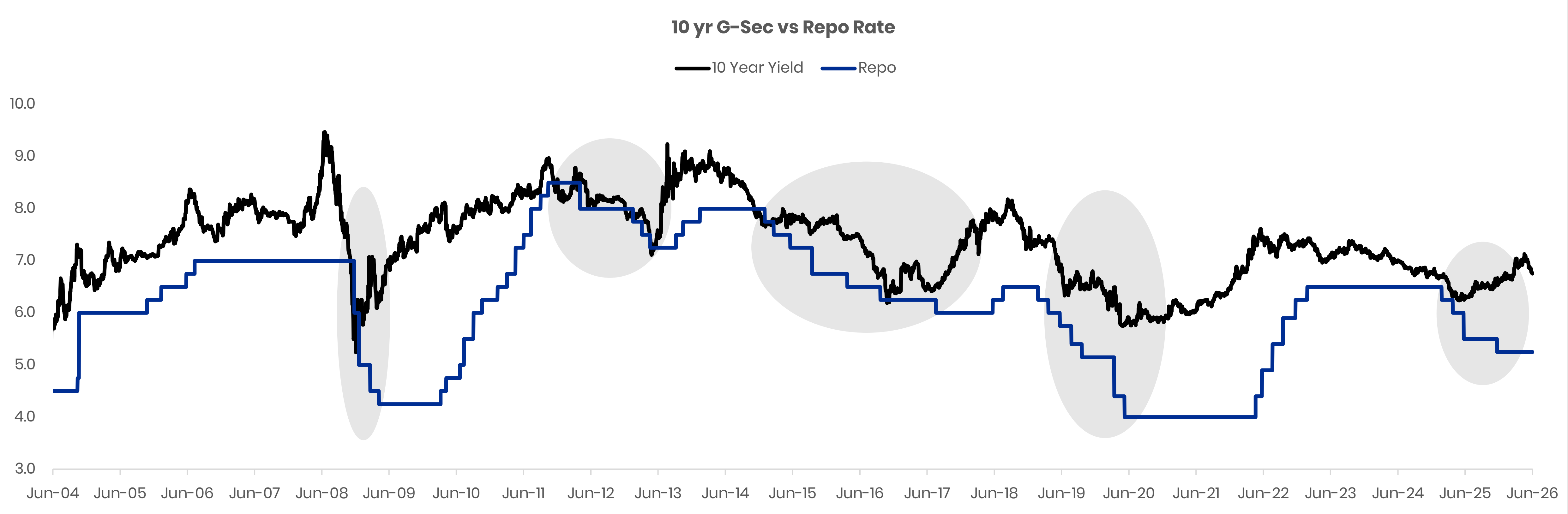
10-year US-India spread is still below its long term average



- The spread between India's and the US 10-year bond yields has been on a rise since the last 4 quarters, primarily due to a sharp rise in Indian yields

Source: US G-sec – Investing.com, India G-sec - Bloomberg

10-year G-Sec yield has seen a sharp rise

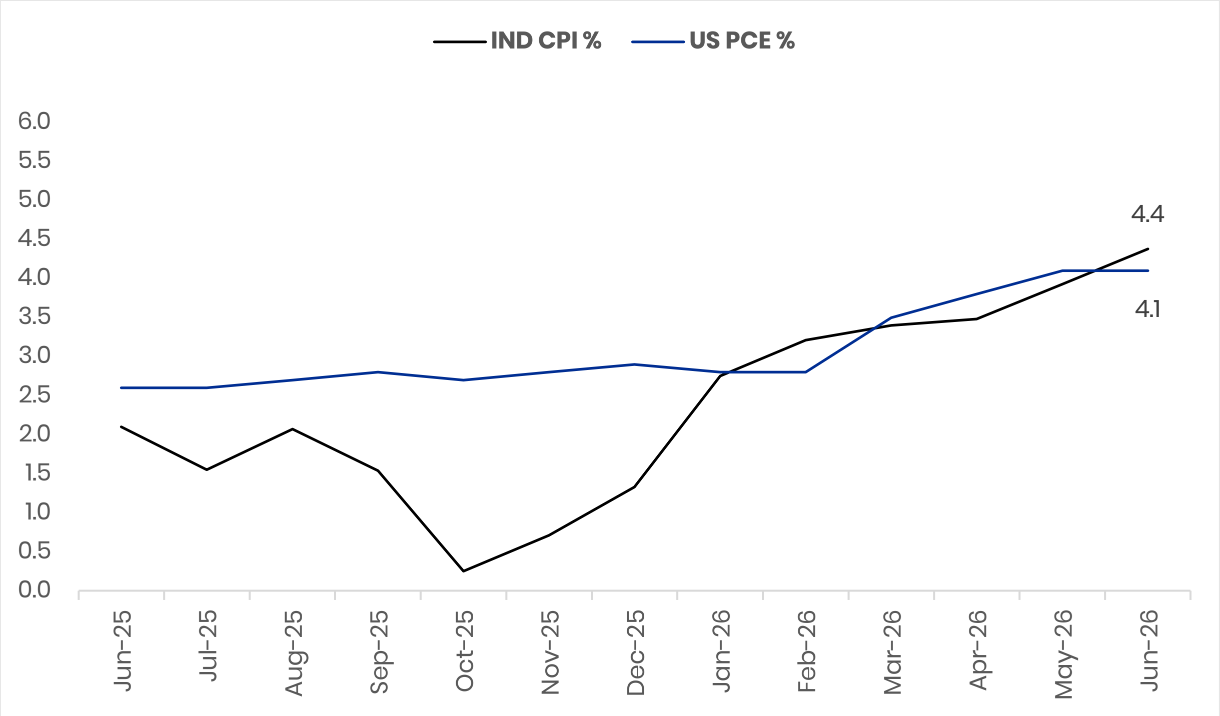


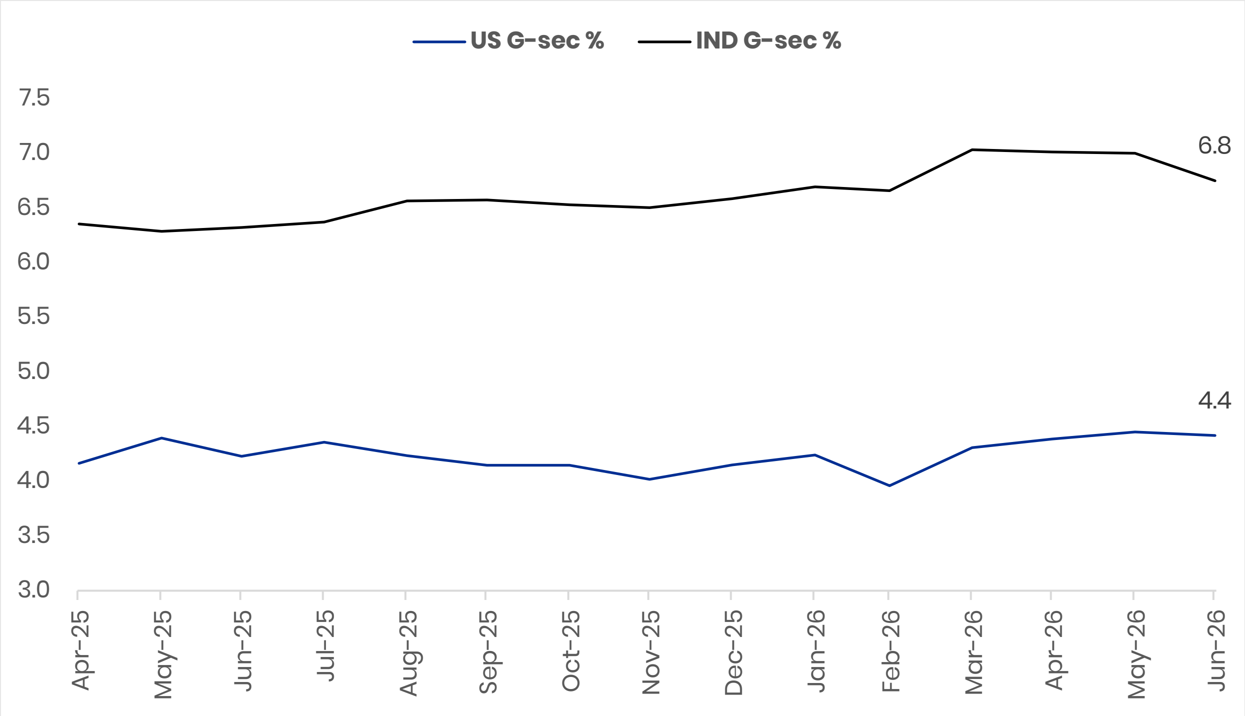
Past instances of the yield declining before a rate cut

Period	Yield Decline Start	First Rate Cut
2008-2009	Jul-08	Oct-08
2011-2013	Nov-11	Apr-12
2014-2017	Apr-14	Jan-15
2018-2020	Sep-18	Feb-19
2025-?	Jun-22	Feb-25

Source: India Spread- Bloomberg, RBI

India’s Inflation Rises but Remains Within RBI’s Target Range





Inflation: India’s retail inflation increased up to 4.38% in June, compared to 3.93% in May. Higher prices for food, along with elevated energy costs partly driven by geopolitical tensions in West Asia, continued to exert pressure on inflation. The current level has breached the RBI's tolerance band of 2%-4%.

Yield: India has seen its yields in a range of 6.7% to 7.0% primary due to the risk of rising inflation and weakening rupee whereas the US yields has been fairly stable over the past 12 months.

Recent Happening: In the June meeting, Reserve Bank of India (RBI) kept the interest rate unchanged to 5.25%. The MPC also maintained its neutral stance.

Source : US CPI Is tracked by UC PCE (Personal Consumption Expenditures)

Focus on fiscal consolidation

India's Finance Minister Nirmala Sitharaman made history as she presents a record ninth consecutive Budget on 1st Feb'26. The Budget adopts a distinctive "Yuva Shakti" framework, reaffirming the Government's Sankalp to support the poor, underprivileged, and disadvantaged through a defined three-pillar approach.

However, the focus on fiscal consolidation remained intact, with the FY27 fiscal deficit target pegged at 4.3% of GDP, lower than the glide path target of 4.5%, which is positive for debt sustainability.

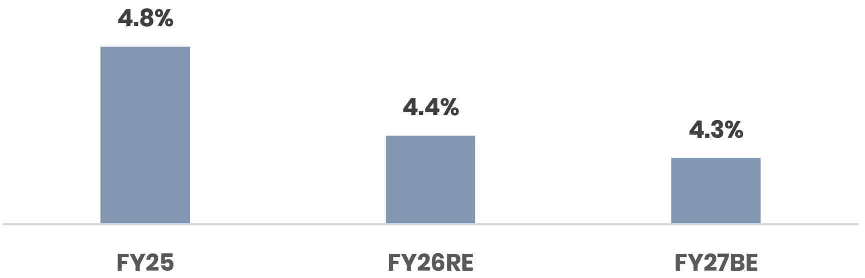
The Finance Minister announced that, the central government is budgeted to reduce to 55.6% in FY27 with **a target to attain a debt-to-GDP ratio of about 50 ± 1% by FY31**.

While the government reduced its total receipt estimates to INR 34.1 tn in FY26RE from INR 35.0 tn in FY26BE (reduction of INR 901 bn), the expenditure target was reduced to INR 49.6 tn in FY26RE from INR 50.7 tn in FY26BE (reduction of INR 1005 bn).

Growth is expected to be supported by higher public capex, infrastructure expansion in Tier-2/3 cities, incentives for data centres, and capital support for SMEs and micro enterprises.

Category	FY26RE (INR t)	FY26RE (% of GDP)	FY27BE (INR tn)	% YoY*	FY27BE (% of GDP)
Revenue					
1. Total receipts	34.1	9.5	36.5	7.2	9.3
2. Revenue receipts (a+b)	33.4	9.4	35.3	5.7	9.0
Gross taxes	40.8	11.4	44.0	8.0	11.2
a. Net taxes	26.7	7.5	28.7	7.2	7.3
Direct taxes	24.2	6.8	25.2	4.1	6.4
i. Corporation taxes	11.1	3.1	10.8	-2.6	2.7
ii. Income taxes	13.1	3.7	14.4	9.8	3.7
b. Indirect taxes	6.1	1.7	6.9	12.7	1.8
i. Goods & Services Tax (GST)	10.5	2.9	10.2	-2.6	2.6
b. Non-tax revenue	6.7	1.9	6.7	-0.2	1.7
Expenditure					
3. Total expenditure (a+b)	49.6	13.9	53.5	7.7	13.6
a. Revenue expenditure	38.7	10.8	41.3	6.6	10.5
Interest payments	12.7	3.6	14.0	10.2	3.6
Grants to States/UTs	3.1	0.9	4.9	59.9	1.3
b. Capital expenditure	11.0	3.1	12.2	11.5	3.1
Fiscal deficit (1-3)	15.6	4.4	17.0		4.3
Revenue deficit (2-a)	5.3	1.5	5.9		1.5
Nominal GDP	357.1		393.0	10.0	

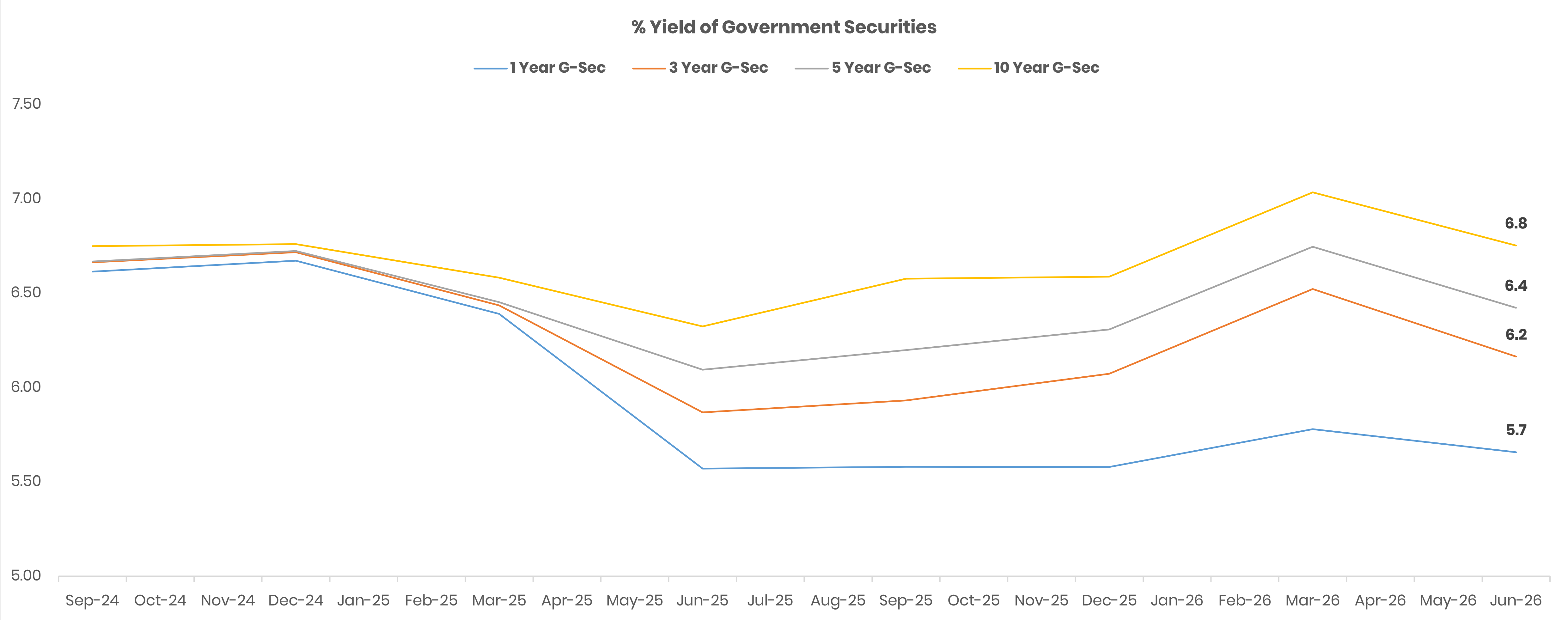
Fiscal Deficit (% of GDP)



Source : FY26 Budget Documents, MOFSL | RE – Revised Estimate, BE – Budgeted Estimate

UPDATE ON YIELDS

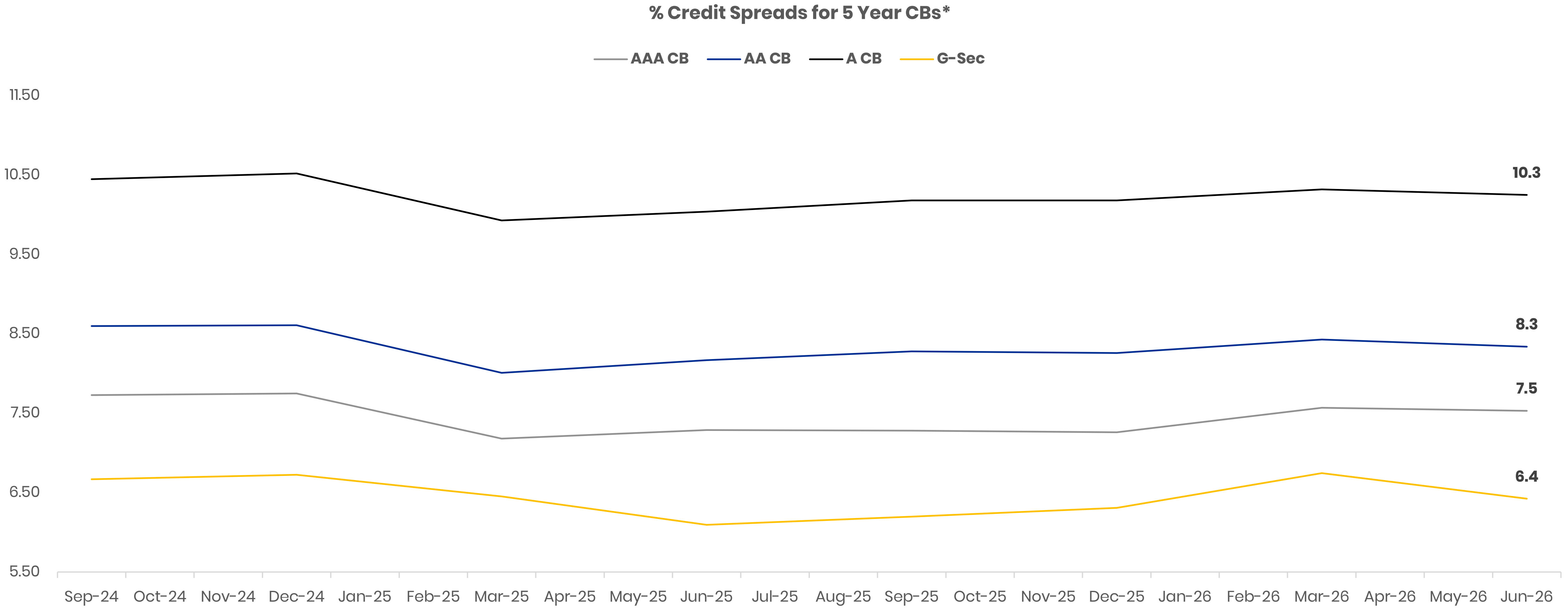
G-Secs across durations are rising



- Geopolitical tensions arising from the West Asia conflict drove 10-year G-Sec yields higher in March 2026; however, the subsequent ceasefire has reversed some of this upward pressure, with yields declining and exhibiting signs of stabilization.

Source: NSE; Bloomberg; RBI and External Sources. Data as on 30th June 2026. The above data is shown quarterly

G-Sec yield spreads increased in Mar'26 v/s CBs*



- Credit spreads between G-Secs and AAA-rated corporate bonds have widened to 1.11%, while spreads for AA-rated corporate bonds stand at 1.92%.

Source: NSE; Bloomberg; RBI and External Sources. Data as on 30th June 2026. | *CB – Corporate Bonds

House Views & Recommendations

Fixed Income Portfolio Strategy

The MPC maintained the status quo, highlighting the RBI's balancing act between rising inflation risks and moderating growth. While the macro environment is becoming increasingly challenging, the combination of elevated inflation and slowing growth makes an immediate rate hike less automatic, keeping the RBI firmly data-dependent.

Growth projections remain cautious, with real GDP expected at 6.6% in FY27, reflecting the impact of higher energy prices, global supply disruptions, and softer external demand. At the same time, the West Asia conflict has introduced meaningful upside risks to inflation, with FY27 CPI projected at 5.1% and Q3 inflation rising to 5.9%, close to the upper tolerance band.

Recent measures e.g. FCNR(B) hedging-cost support, FAR expansion, and FPI tax exemptions on government securities, should strengthen capital inflows, reduce rupee volatility, and ease pressure for an immediate policy response. However, the possibility of future rate hikes remains firmly on the table if inflation risks intensify.

Forex intervention by RBI and high credit growth led to tighter liquidity conditions and hence sharp rise in short term yields. Liquidity situation have started improving in this month. 10-Yr Gsec yield has softened by ~25-30 bps from the highs and is trading below 7%, due to fall in crude oil prices and policy measures to stabilize currency.

Accrual can be played across the credit spectrum by allocating **55% – 60% of the portfolio** to Performing Credit & Private Credit Strategies, InvITs & Select NCDs for a period of minimum 3-5 years.

Remaining of the portfolio may be invested in relatively liquid fixed income alternative solutions like Arbitrage Funds (minimum 3 months holding period), Hybrid SIF Funds (min 2 yr holding period), Conservative Equity Savings funds (minimum 3 years holding period).

Recommended Mutual Funds : Debt

Scheme name	Fund Manager	Inception Date	Annualised Return % 3 Months	6 Months	1 Year	3 Year	5 Year	SI	Avg Maturity (years)	Mod Duration (years)	Exp. Ratio %	Gross YTM %	Sov & AAA %	Below AAA %	Call & Cash %	Unrated %
Active Duration Funds																
ICICI Pru All Seasons Bond Fund	Manish Banthia	Jan-10	9.5	6.5	4.8	7.2	6.5	8.6	14.5	6.4	1.1	7.8	62.6	34.6	2.5	0.3
Income Plus Arbitrage (FOF)																
Axis Income Plus Arbitrage Active FOF	Devang Shah	Jan-20	7.5	6.2	5.6	7.5	6.4	6.8	-	-	0.5	-	0.0	99.8	0.2	0.0
DSP Income Plus Arbitrage Omni FoF	Kaivalya Nadkarni	Aug-14	7.4	5.6	4.9	8.4	4.9	7.0	4.1	2.4	0.8	7.7	0.0	98.0	2.0	0.0
ICICI Pru Income plus Arbitrage Omni FOF	Manish Banthia	Dec-03	7.7	6.9	6.2	9.7	9.3	8.8	-	-	0.2	-	0.0	98.0	2.0	0.0
Kotak Income Plus Arbitrage Omni FOF	Abhishek Bisen	Nov-22	6.9	6.1	5.6	7.6	-	7.6	3.0	2.0	-	7.2	0.0	99.2	0.8	0.0
Dynamic Fund																
Bandhan Dynamic Bond Fund	Suyash Choudhary	Dec-08	13.3	10.4	5.2	6.8	5.5	7.5	23.1	9.7	1.4	7.7	96.5	0.0	3.1	0.5
DSP Strategic Bond Fund	Sandeep Yadav	May-07	11.2	5.2	2.2	6.2	5.6	6.7	18.1	7.6	1.0	7.6	82.4	7.6	9.3	0.8
Arbitrage Funds																
Edelweiss Arbitrage Fund	Bhavesh Jain	Jun-14	5.8	6.0	6.0	6.9	6.1	6.2	0.5	0.5	0.9	6.6	15.0	82.7	2.4	0.0
Invesco India Arbitrage Fund	Deepak Gupta	Apr-07	5.9	6.1	6.1	6.9	6.3	6.6	0.5	0.5	0.9	6.5	9.0	13.6	77.4	0.0
Kotak Arbitrage Fund	Hiten Shah	Sep-05	5.8	6.1	6.1	7.0	6.2	6.9	0.6	0.4	-	6.8	6.3	92.6	1.1	0.0
Motilal Oswal Arbitrage Fund	Vishal Ashar	Dec-24	5.6	5.9	6.1	-	-	6.3	0.2	0.2	1.0	6.2	18.1	7.0	74.8	0.0
Equity Saving Fund																
ICICI Pru Equity Savings Fund	Dharmesh Kakkad	Dec-14	6.1	0.2	2.8	7.0	7.2	7.5	6.3	3.4	0.8	6.8	8.8	86.5	4.4	0.3
Kotak Equity Savings Fund	Devender Singhal	Oct-14	10.3	1.1	4.7	9.5	9.4	8.9	2.8	1.9	-	6.9	14.1	79.0	4.7	2.2

Data as on 15th June, 2026 | Expense Ratio = Base Expense Ratio

Exclusive Offers

Secondary Market Bond Yields

ISIN	SECURITY DESCRIPTION	MATURITY	IP DATES	RATINGS	QUANTUM	YIELD
INE0NES07303	12% KEERTANA FINSERV LTD 2028	10-08-2027 (25%) 10-11-2027 (25%) 10-02-2028 (25%) 10-05-2028 (25%)	MONTHLY	BBB+ by India Rating	MULTIPLE OF 5 LAKHS	12.65%
INE583D08081	11.65% Ugro Capital Limited 2031	15-03-2031	MONTHLY	A+ by Ind/ Positive	MULTIPLE OF 10 LAKHS	12.20%
INE09B308044	12% SLICE SMALL FINANCE BANK LTD. 2031	17-12-2031	MONTHLY	BBB+ By ACUITE	MULTIPLE OF 5 LAKHS	12.54%
INE545L07044	11.75% MANGAL CREDIT AND FINCORP LIMITED 2028	23-09-2028	MONTHLY	CRISIL BBB	MULTIPLE OF 5 LAKHS	12.40%
INE04HY07401	11.50% VEDIKA CREDIT CAPITAL LTD 2031	14-05-2031	MONTHLY	A- BY INFOMERICS (IVR)	MULTIPLE OF 5 LAKHS	12.12%
INE0JZO07057	12.95% LUCINA LAND DEVELOPMENT LTD. 2029	8% every quarter from 30-04-2027, 17% every quarter from 30-04-2028	MONTHLY	A- BY INFOMERICS (IVR)	MULTIPLE OF 5 LAKHS	11.85%
INE076I07053	11% RDC CONCRETE INDIA LTD 2028	08-06-2028 (50%) 08-12-2028 (50%)	MONTHLY	A by ACUITE	MULTIPLE OF 5 LAKHS	11.55%
INE01YL07441	10.50% EARLYSALARY SERVICES PVT. LTD. 2028	04-04-2028 (40%) 04-07-2028 (60%)	QUARTERLY	A- by CARE	MULTIPLE OF 5 LAKHS	10.80%
INE00XL07015	9.75% B.N. AGRITECH 2028	27-02-2028 (25%) 27-05-2028 (25%) 27-08-2028 (25%) 27-11-2028 (25%)	QUARTERLY	A BY ACUITE	MULTIPLE OF 5 LAKHS	10.50%
INE549K08590	10.40% MUTHOOT FINCORP LTD 2033	30-12-2033	MONTHLY	CRISIL AA	MULTIPLE OF 5 LAKHS	10.20%
INE244B07243	10.25% PATEL ENGINEERING LTD. 2027	CALL: 26-08-2027	MONTHLY	A By IVR	MULTIPLE OF 5 LAKHS	9.12% YTC
INE124D08027	10.99% INDUSIND GENERAL INSURANCE COMPANY 2035	CALL: 29-09-2030	ANNUALLY	A+ By CARE	MULTIPLE OF 10 LAKHS	9.63% YTC

**Above mentioned rates are tentative as on 15th July'26 & subject to change as per market conditions. Kindly check the availability of before closing the deal | Please refer to T&Cs | IP: Interest Payment*

Thank You!

Motilal Oswal Financial Services Limited (MOFSL)* Member of NSE, BSE, MCX, NCDEX CIN No.: L67190MH2005PLC153397

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