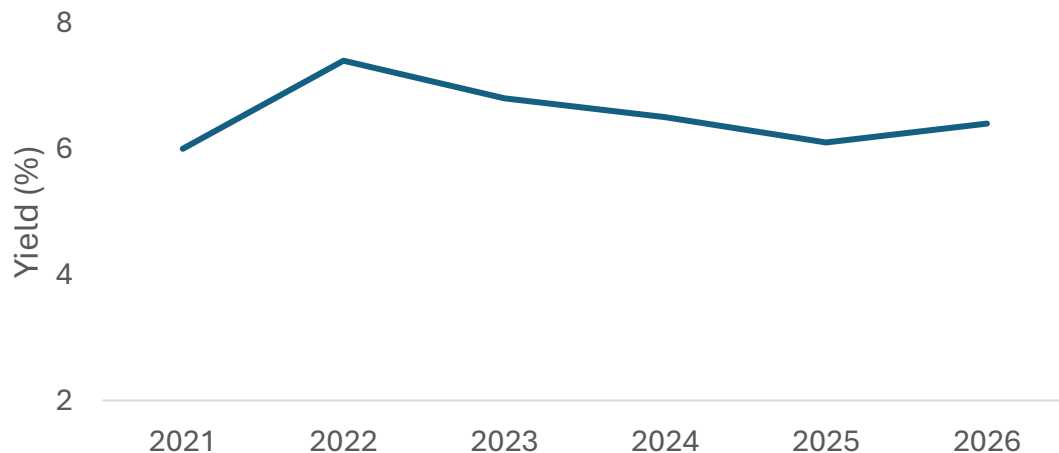


India 10-Year Government Bonds: High Real Yield Opportunity

Investment Thesis

India's 10-year government bond yields are around **6.5%**, implying a **real yield of roughly 5.3%** based on the latest headline CPI print of **1.33%**. While the RBI has delivered a **25 bps repo rate cut**, overall monetary conditions remain **highly restrictive by historical standards**. At current levels, long-end yields appear to price in an **inflation and macro risk premium that looks excessive** relative to prevailing fundamentals.

India 10Y G-Sec Yield Trend



Monetary Policy & Inflation Backdrop

Headline CPI has eased sharply to **1.33% YoY** in Dec-25, placing inflation well below the RBI's target band of **2-6%**. The recent **25 bps repo rate cut to 5.25%** reflects the RBI's assessment of easing inflationary pressures, rather than a shift toward accommodative policy.

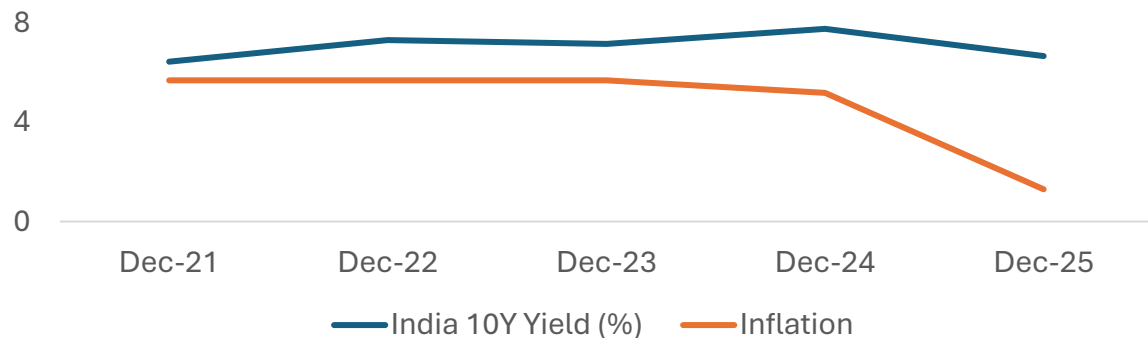
Even after the cut, **real policy rates remain elevated**, with the real repo rate close to **4%**, a level that is tight by recent historical standards. As a result, monetary conditions continue to lean against inflation, providing a buffer against potential upside risks even as underlying growth momentum remains resilient.

Against this backdrop, current long-term yields appear misaligned with prevailing inflation dynamics and policy settings supporting the case for gradual yield compression as policy normalization progresses.

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Fiscal & Bond Supply Dynamics

India's fiscal position continues to improve, with the FY26 fiscal deficit budgeted at ~4.4% of GDP, extending the post-pandemic consolidation trend. While gross government borrowing remains elevated, issuance has been well-telegraphed and largely absorbed by domestic institutions, including banks and insurance companies. Importantly, the credibility of the fiscal consolidation path has limited concerns around supply-driven yield shocks. As a result, bond market dynamics remain driven more by inflation expectations and policy normalization rather than fiscal stress.



Recommendation & Key Risks

Recommendation:

At current yield level around **6.6%**, India's 10Y government bonds look increasingly attractive from a duration perspective. Inflation has softened materially, real rates remain restrictive, and the fiscal consolidation path appears credible.

If these conditions persist, there is room for yields to ease towards the **low-6%** range over the next 6-12 months, although the path is likely to remain sensitive to key risks.

Key Risks:

- Sharp rebound in food or energy inflation leading to renewed policy tightening
- Higher-than-expected government borrowing or supply concentration at the long end
- Adverse global rate shocks, particularly from a repricing of U.S Treasury yields
- Volatility in capital flows amid global risk-off episodes