

CANARA ROBECO

Macro Review & Fixed Income Market Outlook - November 2025

- **Global Macro Review**
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- **Bond Yields & Spread Movements**
- **Fixed Income Fund Manager Outlook**

Global Economy Update:

Macro Backdrop:

- Global growth is moderating but remains positive, with the IMF's (International Monetary Fund) October 2025 update projecting global GDP (Gross Domestic Product) growth of ~3.2% in 2025 and ~3.1% in 2026.
- Growth is heterogeneous: services and domestic demand in many emerging markets remain the main support, while advanced-economy manufacturing has been weak.
- Upside pressures to prices persist from supply-side shocks and trade measures.

Purchasing Managers' Index (PMI):

United States:

- The S&P Global US Manufacturing PMI rose to 52.5 in October 2025, up from 52.0 in September and slightly above the preliminary estimate of 52.2.
- The latest reading signaled the third consecutive month of expansion in the manufacturing sector, supported by faster output growth and the strongest rise in new orders in 20 months, driven by improved market demand and success in securing new contracts.

Eurozone:

- The HCOB (Hamburg Commercial Bank) Eurozone Manufacturing PMI was confirmed at 50.0 in October 2025, up slightly from 49.8 in September, signaling a stabilization in the sector following a modest deterioration the previous month.

Trade & Tariffs – status and near-term economic impact:

- The broad U.S. tariff programme implemented in August 2025 remained an important global policy shock through September and into October.
- Revenues and enforcement have continued while affected countries and firms have pursued mitigation (renegotiation, sourcing shifts, re-routing).
- The policy shock has raised the effective tariff burden on many trade lanes and sustained uncertainty for global supply chains.

Economic implications:

- Tariffs are contributing to goods price pass-through as pre-tariff inventories deplete; this is lifting goods inflation in some economies and complicating central bank timing for rate cuts.
- Firms in export and manufacturing value chains face margin compression and planning uncertainty, which may deter capex until clarity emerges.

Monetary Policy:

U.S. Federal Reserve:

- The Fed reduced its policy range by 25 bps on 29 October 2025, to a new target range of 3.75–4.00%, signaling the start of a cautious easing cycle while emphasizing data dependence (inflation, labor market).

European Central Bank (ECB):

- The ECB continued to adopt a cautious easing bias but remained data-dependent given supply-side inflation risks. Other central banks followed tailored, cautious approaches.

Inflation Trends:

Global:

- CPI (Consumer Price Index) inflation in the US edged up to 3% in September 2025, the highest since January, from 2.9% in August and below forecasts of 3.1%.
- The euro area annual inflation rate was 2.2% in September 2025, up from 2.0% in August. A year earlier, the rate was 1.7%.
- Inflation in the UK remained steady at 3.8 per cent.
- Headline inflation in Japan rose to 2.9 per cent in September 2025 from 2.7 per cent in the previous month. However, this figure is a bit higher than the long-term average and has seen volatility, with forecasts predicting a drop to around 2.0% by early 2026. Core inflation has also been elevated, though it saw a slight decrease in August 2025.

Indian Economy Update:

Macro Backdrop:

- Amidst heightened trade uncertainties, India’s economic outlook remains resilient, aided by improved consumption, investment demand and strong macroeconomic fundamentals.
- At the same time, export headwinds from elevated trade barriers and global uncertainty have introduced clear external downside risks.

Purchasing Managers' Index (PMI):

- The HSBC India Manufacturing PMI accelerated to 59.2 in October 2025, up from 57.7 in September.
- The Services PMI dropped to 58.8 in October 2025 from 60.9 in September, the slowest expansion since May.

Trade and Tariffs:

- The U.S. tariff measures introduced in August 2025 continued to affect Indian exports.
- Tariff levies and related trade uncertainty have led to order cancellations, rerouting and price renegotiations across vulnerable categories.
- Industry reports and market commentary indicate material disruption in several labor-intensive export sectors.

Unemployment Trends:

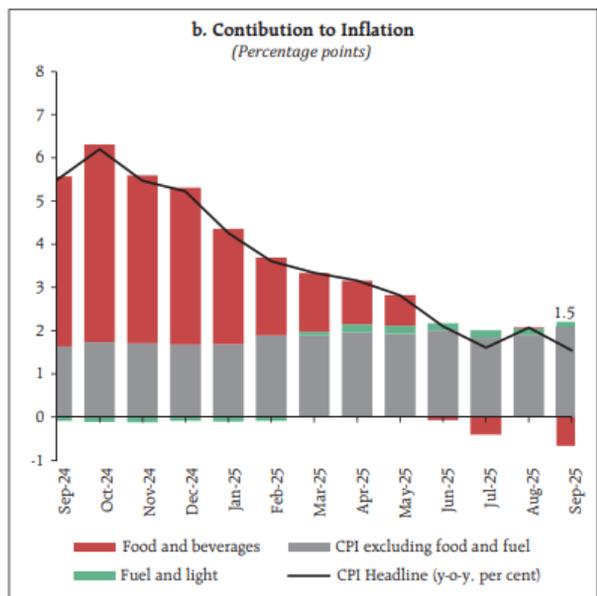
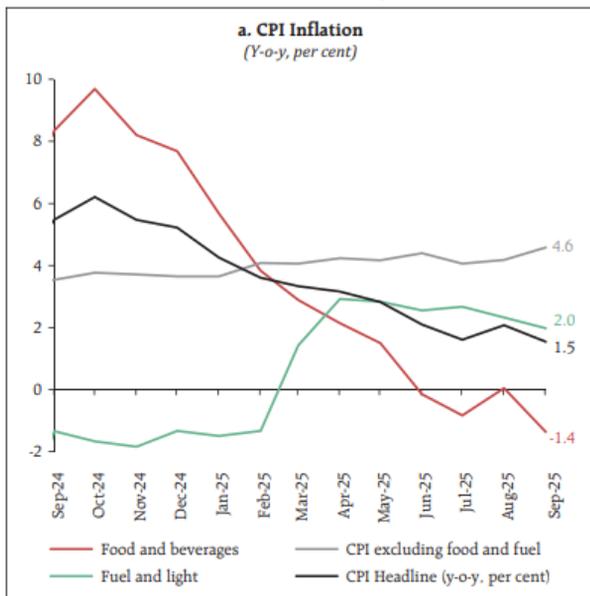
- High-frequency indicators continued to show stable labor market conditions. CMIE and official releases indicated unemployment near multi-year lows in mid-2025 (July ~6.8%), and there was no immediate broad deterioration through September though export-cluster pockets face localized stress.

Inflation Trends:

Domestic:

- Headline CPI inflation moderated sharply to 1.5 per cent in September 2025 from 2.1 per cent in August, marking the lowest year-on-year rate since June 2017.
- The decline in headline inflation was primarily due to food and beverages group moving back into deflation territory.
- Core (i.e., CPI excluding food and fuel) inflation edged up to 4.6 per cent in September from 4.2 per cent in August, driven by ‘personal care and effects’ sub-group, on account of rising gold and silver prices.
- Inflation in both rural and urban areas eased to 1.1 per cent and 2.0 per cent, respectively, in September.

Trends and Drivers of Inflation:



Sources: National Statistics Office (NSO); and RBI staff estimates.

Bond Yields & Spreads:

- US FED (Federal Reserve System) cut rates by 25bps but remained cautious on further guidance as US federal government shutdown has led to delay in key economic data in October 2025.
- US 10Y fell below 4% before the US FED policy, but yields climbed post FED Chair Powell's hawkish comments.
- Indian yields traded in a narrow range, post RBI dovish status quo. While inflation rate continues to remain low, US tariffs continue to create uncertainty for markets.
- Festive holidays added to lacklustre market conditions in October 2025, in absence of any major triggers and continued uncertainty on tariffs.
- RBI rejected bids in a recent auction to show discomfort with rising yields.
- INR appreciated against the USD in October 2025 on a likely RBI intervention, but reversed most of the fall on global uncertainties.
- Corporate bonds moved in tandem with sovereign yields remaining range bound during October 2025.

Outlook:

- US FED cut rates, but forward easing remains under cloud on uncertainty on US tariffs and shutdown impact.
- US FED is likely to remain data dependent, and decide on rate action, if any, meeting to meeting.
- While not reducing rates in October 2025 policy, the RBI Governor pointed that some room for easing may be there, on sharper than expected drop in inflation and possible slowdown in exports on US tariffs.
- Cut in GST rates led to rise in consumer spending, boding well for overall economic growth.
- FII flows remained positive in October 2025 on low inflation and increased expectations of further rate easing from the RBI MPC.
- RBI MPC may reduce rates by 25bps in December 2025, if inflation remains low and US trade deal remains inconclusive.
- Markets remained lacklustre and may trade in a narrow range, pending resolution of US tariff.
- Liquidity turned deficit on likely intervention by RBI in the forex markets to reduce volatility in INR movement. RBI resorted to daily variable rate repo (VRR) auctions to inject liquidity. RBI may resort to OMO (Open Market Operations) purchases to supply durable liquidity to the markets.

Source: RBI, MOSPI, PIB, CMIE, NSDL, S&P Global, Ministry of Commerce and Industry, Reuters, Bloomberg, Internal Research. Note: Data updated as available in the beginning of the month.

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