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Macro Review & Fixed Income Market Outlook - December 2025

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

Global Economy Update:

Macro Backdrop:

- Global activity remains moderate but uneven. The IMF's October 2025 World Economic Outlook notes that world growth is projected at ~3.2% in 2025 and ~3.1% in 2026, reflecting continued resilience in services in several emerging markets, while manufacturing and exports in advanced economies remained weak.
- The macro picture is therefore one of continued expansion but with significant downside risks.

Purchasing Managers' Index (PMI):

United States:

- The S&P Global US Manufacturing PMI registered 52.2 in November 2025, slightly above the preliminary estimate of 51.9 but down from October's final reading of 52.5.

Eurozone:

- The HCOB (Hamburg Commercial Bank) Eurozone Manufacturing PMI was revised down to 49.6 in November 2025 from a preliminary of 49.7, the lowest in five months and compared to 50 in October. The reading showed that the Eurozone's manufacturing sector worsened amid signs of renewed demand-side weakness.

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

- The tariff shock that began in August 2025 persisted through Q2 and Q3 and continued to shape global trade flows and corporate planning. Many firms that front-loaded inventories earlier in 2025 are now running down those buffers; as inventories deplete, tariff pass-through into goods prices has accelerated in some regions, adding upside risk to goods inflation.
- Legal and diplomatic developments in late November and early December have been material for outlook and market expectations. The U.S. Supreme Court heard arguments in November concerning the executive's use of emergency powers to impose broad tariffs, and that legal process remains unresolved. A court decision could materially change the legal basis for some tariff measures and therefore alter the trade policy landscape.
- Separately, there have been bilateral adjustments (for example, recent U.S. and Korea adjustments to tariff rates) that illustrate that some tariffs are being renegotiated or tailored on a country-by-country basis. These legal and diplomatic dynamics are key near-term sources of policy and market uncertainty.

Monetary Policy:

U.S. Federal Reserve:

- The FOMC (Federal Open Market Committee) lowered its target range for the federal funds rate by 25 basis points on 29 October 2025, to 3.75-4.00%, marking the start of a cautious easing cycle and emphasizing data dependence going forward.

European Central Bank (ECB) and other majors:

- The ECB and other major central banks have remained cautious and data dependent; some have continued gradual easing where inflation dynamics permit, while others have preferred to pause until the pass-through effects from tariffs and supply shocks are clearer.

Inflation Trends:

Global:

- Headline inflation eased in October 2025 across most AEs (Advanced Economies) and EMDEs (Emerging Market and Developing Economies). However, it remains elevated in AEs amidst persistent services inflation.
- In the Euro area, headline inflation eased slightly in October 2025 and continued to hover around the ECB's target. Inflation in the UK eased for the first time in five months.
- Among major EMDEs, inflation in Brazil declined to its lowest level since January 2025 while it continued to moderate in Russia.
- Deflationary pressures in China eased with inflation turning positive reversing a two-month decline

Macro Backdrop:

- India's growth momentum remained strong through H1 and into Q2 of FY26, and the latest official print showed Q2 (Jul–Sep 2025) real GDP growth of 8.2% year-on-year, a sign of robust domestic demand and investment activity.
- The RBI's published outlook in recent communications revised FY26 growth to ~6.8%, though given the stronger Q2 outturn some officials and analysts are discussing an upward revision. Overall, India continues to be one of the fastest-growing major economies in 2025.

Purchasing Managers' Index (PMI):

- The HSBC India Manufacturing PMI eased to 56.6 in November 2025, revised down from initial estimates of 57.4 and October's 59.2. This marks the slowest improvement in operating conditions since February, though the sector remained above its long-run average of 54.2.

Trade and Tariffs:

Tariff shock and legal developments:

- The U.S. tariff program introduced in August 2025 continued to exert pressure on Indian exports and order books through September-November.
- The unresolved U.S. Supreme Court litigation over the executive's tariff authority adds a binary legal risk: a decision that restricts executive authority could open the door to tariff rollbacks or refunds, while a decision upholding authority would prolong uncertainty and likely maintain some tariffs.

Sectoral impact:

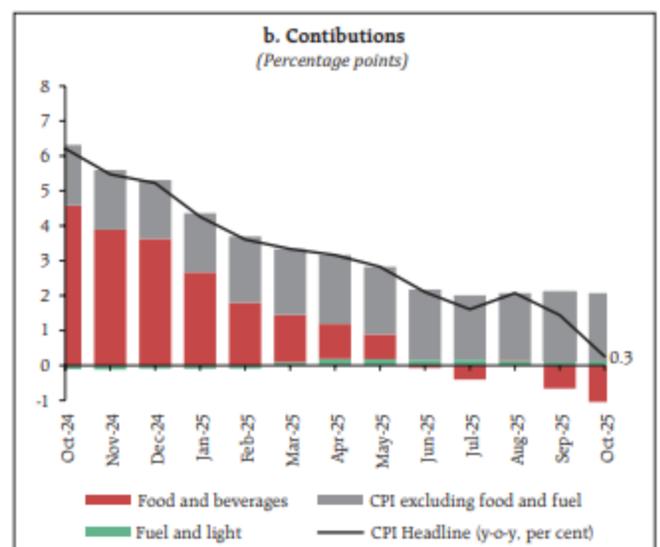
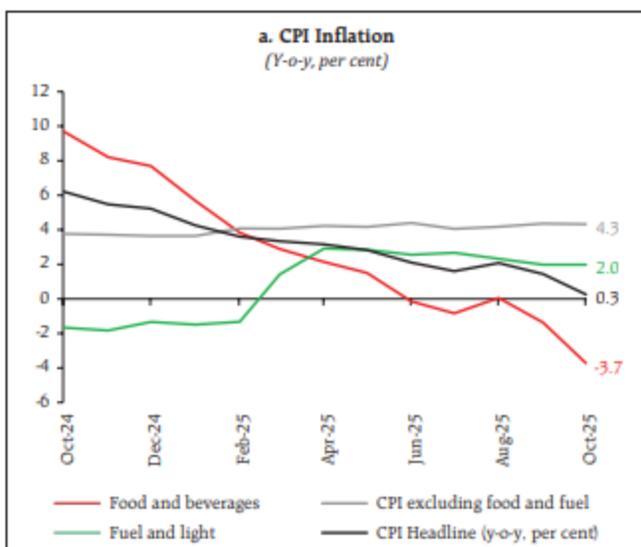
- Textiles and garments, gems & jewellery, footwear, furniture, certain chemicals and parts of seafood (shrimp) have been identified as the most affected categories.
- Empirical reporting and industry bodies indicate order cancellations, price renegotiations and efforts to re-route exports to alternative markets, causing cash-flow stress for smaller suppliers.

Inflation Trends:

Domestic:

- Headline CPI inflation moderated to 0.3 per cent in October 2025 from 1.4 per cent in September, marking the lowest year-on-year rate since June 2017.
- The fall in inflation was driven by the deepening of deflation in food prices and impact of the GST rate cut on goods and services prices, amid large favorable base effects.

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 in October 2025 policy but remained cautious on further guidance as US federal government shutdown has led to delay in key economic data.
- US 10Y trended lower to around 4% as December FED policy rate cut expectations rose.
- Indian 10Y yields traded in a narrow range of 6.45%-6.55%, as US India trade deal remains in limbo and RBI maintaining cautious stance.
- RBI bought government bonds directly on Gsec trading platform due to liquidity deficit induced by festival season.
- INR depreciated sharply in November 2025 on higher trade deficit and delay in completion of US India trade deal.
- Corporate bonds moved in tandem with sovereign yields remaining range bound during November 2025.

Outlook:

- US FED cut rates, but forward easing remains under cloud on uncertainty on US tariffs and shutdown impact.
- Market expects US to cut rates in December policy on weaker growth numbers.
- RBI Governor pointed that limited room for easing was there in upcoming policy meet. However, with 8.2% growth rate for 2QFY2026 (8% GDP growth for 1HFY2026), RBI MPC may adopt wait and watch approach.
- GST rate cuts have added to consumer spending, helping sharp rise in GDP growth.
- FII flows remained marginally positive in November 2025 as shallow and sideways markets dissuaded buyers.
- RBI may remain in pause mode in December MPC meeting, as growth for 1HFY2026 has been strong. Though inflation is low, RBI projections see inflation crossing 4% by start of next fiscal.
- RBI policy outcome likely to drive direction for market. A continued pause may lead to gradual upward movement in yields.
- Liquidity remains ample as RBI provided funds through direct purchase of G-Secs, as well as daily Liquidity Adjustment Facility (LAF) operations.
- 10Y Yield may trade in range of 6.45%-6.60% in near term.

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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