

**CANARA ROBECO**

# **Macro Review & Fixed Income Market Outlook - February 2026**

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

## Global Economy Update:

### Macro Backdrop:

- The global economy continues to expand at a moderate pace but with persistent downside risks from trade tensions, geopolitical shifts, and policy uncertainty.
- Recent institutional outlooks have highlighted slowing growth, ongoing supply shocks, and the impact of higher trade barriers on activity.

### Purchasing Managers' Index (PMI):

#### United States:

- In January 2026, S&P Global US Manufacturing PMI indicated a slight expansion with a reading of 51.9, nearly matching December's 51.8. While production grew, employment growth slowed, signaling a fragile recovery.

#### Eurozone:

- The HCOB (Hamburg Commercial Bank) Eurozone Manufacturing PMI rose to 49.5 in January 2026, up from December's 48.8, indicating a continued, albeit milder, contraction in the manufacturing sector.

### Trade & Tariffs:

- US India trade deal agreed at 18% reciprocal tariffs, bringing relief to markets
- U.S. trade barriers introduced in recent periods continue affecting export flows for multiple emerging markets, sustaining tariff-related price pressures and operational uncertainty for global manufacturers and commodity chains.
- Persistent tariff uncertainty is contributing to trade fragmentation and realignment in global supply networks, with firms reoptimizing sourcing and distribution strategies.

### Global Monetary Policy:

- Major central banks moved toward more accommodative policy settings by late 2025. The U.S. Federal Reserve (FED) initiated rate cuts late in 2025 amid cooling inflation and slower job gains.
- President Trump announced Kevin Warsh as next Chair of FED Board, replacing Jerome Powell. Warsh has previous experience in US FED as a governor from 2006-2011. He is considered a hawk, so markets were little surprised, as the US President wanted a dovish person as Chair.
- Other major central banks (European Central Bank, Bank of England) maintained cautious, data-dependent approaches due to inflation and tariff spillovers.
- The easing cycle reflects central banks navigating between supporting growth and monitoring inflation dynamics across regions.

### Global Inflation Trends:

- Inflation eased but remained at elevated levels in most AEs (Advanced Economies) due to persistent services inflation.
- In the Euro area, headline inflation eased further in December 2025, driven by a decline in energy costs, while inflation in the US remained steady.
- Inflation in the UK fell to a six-month low led by food and beverages. Japan's inflation also edged lower on low food inflation.
- Among major EMDEs (Emerging Market and Developing Economies), inflation edged up in China, driven by food prices, even as core inflation remained steady.
- In contrast, lower food and beverage prices led to easing of inflationary pressures in Brazil and in Russia, where headline inflation moderated to its lowest level since September 2023.
- Inflation in South Africa eased due to moderation in transport costs.

## Macro Backdrop:

- India’s macro fundamentals remain strong, with continued high growth compared to global peers and a Budget that emphasizes infrastructure, investor confidence, and structural reforms.
- Although fiscal consolidation is progressing, it is slower than expected, and market reactions on Budget day reflected short-term concerns around taxation and trading costs.
- External headwinds from global trade uncertainty and commodity price volatility will require ongoing policy attention.

## Purchasing Managers' Index (PMI):

- The HSBC India Manufacturing PMI in January 2026 rebounded to 55.4 from a two-year low of 55.0 in December 2025, signaling continued, albeit moderate, expansion in factory output and new orders.
- The sector remains above the 50-point threshold for growth, driven by domestic demand, while export demand has slowed and inflationary pressures remain muted.

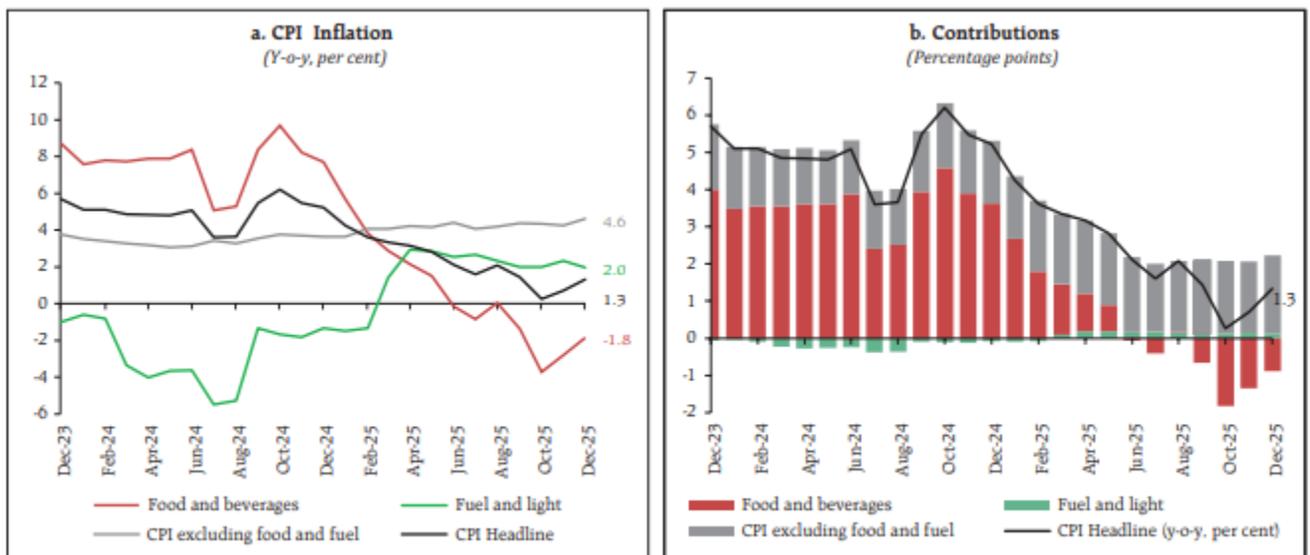
## Union Budget 2026-27 – Key Policy Directions:

- Global The Union Budget 2026–27, presented on February 1, 2026, reinforces economic continuity amid global uncertainty, with a focus on investment, fiscal discipline, and growth-enabling reforms.
- Major takeaways:
  - Infrastructure spending: Increased to ₹12.2 trillion, indicating sustained emphasis on capex for growth and employment creation.
  - Tax incentives: New measures were introduced to attract foreign capital, streamline investment norms, and enhance ease of doing business.
  - Focus on competitiveness: Reforms in customs, export windows, and sectoral incentives are expected to improve trade competitiveness over time.
  - Fiscal discipline: Despite expansionary support, the government plans a fiscal deficit of ~4.3% of GDP (Gross Domestic Product) for FY27, reflecting a slower pace of consolidation compared to earlier cycles, though still within credible bounds.

## Domestic Inflation Trends:

- Headline CPI (Consumer Price Index) inflation rose for the second consecutive month in December 2025 after reaching the lowest level in the current CPI series (2012=100) in October.
- It rose to 1.3 per cent in December 2025, driven by a lower rate of deflation in food group along with an increase in core (i.e., CPI excluding food and fuel) inflation.
- Core inflation increased to 4.6 per cent in December 2025 from 4.3 per cent in the previous month.

## Trends and Drivers of Inflation:



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

## Bond Yields & Spreads:

- US FED held rates in January 2026 policy meet, pointing to a robust economic growth and sticky inflation reason to stay on hold. US FED likely will continue to be data dependent.
- US 10Y yields trended higher on geo-politics, rising to 4.30% before settling in 4.20-4.30% range.
- INR depreciated sharply in January 2026, briefly touching INR 92/US\$, likely on higher trade deficit and delay in completion of US India trade deal, and continuing FII (Foreign Institutional Investors) outflows.
- Liquidity conditions remained tight on increased credit by banks, and likely RBI FX (Foreign Exchange) market operations on sharp depreciation of INR.
- Indian bond yields trended higher despite RBI rate hike, as increased supply of state government issuance hit sentiment.
- Corporate bonds spreads (over GSECs) move higher on tightening funding conditions and increased issuance in money market / bonds.

## Outlook:

- No expectation of US FED rate cuts now, till the new Chair takes over in June 2026.
- Markets are pricing in 2 more 25 bps rate cuts in 2026.
- RBI MPC (Monetary Policy Committee) is likely to stay on hold in February 2026 policy.
- US – India agreement should reduce pressure on INR. May lead to short term appreciation in the currency.
- Union Budget has announced INR 17.2 trillion of gross borrowings in FY2027. This may continue to pressurize markets as state government borrowings continue to increase as well.
- Further, markets are now seeing end of rate easing in near term, and hence, higher supply is likely to lead to hardening of yields.
- Markets are wary on increased supply of state government securities, with demand side also weakening from banks on increased credit demand.
- RBI continues to conduct OMO (Open Market Operations) purchases as well as infuse liquidity through USD/INR swaps and longer term VRR (Variable Repo Rate) auctions.
- Liquidity may improve going forward as INR depreciation pressure reduces. RBI may continue to add durable liquidity through various instruments.
- Market sentiment is likely to remain negative in near term on higher government borrowings and monetary policy in a pause mode. RBI may need to continue with OMO purchases to arrest any sharp increase in yields on higher borrowings.
- 10Y yield may trade in 6.65%-6.80% 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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