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Macro Review & Fixed Income Market Outlook - March 2026

- **Global Macro Review**
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Global Economy Update:

Macro Backdrop:

- The global economy continues to exhibit moderate but uneven growth momentum entering 2026. While economic activity in the United States remains resilient, growth across Europe and several advanced economies remains subdued amid lingering geopolitical uncertainties and evolving trade dynamics.
- Global financial conditions have eased compared with the tightening cycle of 2022–2024, although policy normalization remains gradual.

Purchasing Managers' Index (PMI):

United States:

- In February 2026, the S&P Global US Manufacturing PMI fell to 51.6 in February-2026 from 53.4 in the previous month, revised higher from the preliminary estimate of 51.6 but remaining below the initial market expectations of 52.6.

Eurozone:

- The HCOB (Hamburg Commercial Bank) Eurozone Manufacturing PMI was confirmed at 50.8 in February 2026, up from January's 49.5, marking the strongest improvement in operating conditions for euro area factories since June 2022.

Trade & Tariffs:

- Global trade dynamics remain a key macroeconomic theme. Recent tariff measures and rising protectionist policies, particularly involving the United States and major trading partners, have contributed to increased uncertainty in global trade flows.
- Such tariff actions are expected to increase supply chain fragmentation, exert upward pressure on prices and potentially weigh on global trade growth.
- Consequently, trade tensions remain a structural risk to global economic stability, particularly for export-oriented economies.

Global Monetary Policy:

- Global central banks have broadly shifted from aggressive tightening toward a data-dependent and gradual easing cycle. The US Federal Reserve has maintained a cautious stance amid persistent services inflation, while the European Central Bank has signaled a balanced approach between supporting growth and maintaining price stability.
- Policy authorities continue to emphasize that future rate adjustments will remain dependent on inflation trajectories, labor market conditions and financial stability considerations.

Global Inflation Trends:

- Inflation moderated across major AEs (Advanced Economies) in January 2026, while exhibiting divergent movements across major EMDEs (Emerging Market and Developing Economies).
- In the Euro area, headline inflation eased due to lower energy costs.
- In the US, inflation softened amidst easing shelter and energy prices, with core inflation declining to its lowest level in five years.
- Among major EMDEs, inflation in China moderated, after three consecutive months of increase and moved closer to the deflationary zone, mainly on account of lower food prices.
- Core inflation also eased in China after remaining broadly stable in the preceding three months.
- Inflation in South Africa and Brazil edged up due to rising food prices.
- In Russia, inflation picked up again after nine months of decline, following the increase in value added tax by the government.

Macro Backdrop:

- While the global economic environment continues to face challenges from geopolitical tensions, trade uncertainties and evolving monetary policy dynamics, India's macroeconomic fundamentals remain relatively strong.
- Supported by robust domestic demand, sustained government investment and improving manufacturing activity, the Indian economy is expected to maintain a favorable growth trajectory.
- Nevertheless, global developments including commodity price volatility, tariff-related trade disruptions and financial market conditions will continue to influence the near-term outlook.

Purchasing Managers' Index (PMI):

- The HSBC India Manufacturing PMI rose to 58.9 in February 2026 from 58.4 in the previous month, though it remained slightly below the flash estimate of 59.3. The latest reading marked the strongest expansion since November 2025, supported by a significant improvement in demand conditions.

Trade and Tariffs:

- India's external sector remains broadly stable, supported by improving services exports, strong remittance inflows and a comfortable level of foreign exchange reserves.
- Recent bilateral trade agreements and ongoing negotiations with major global partners are expected to enhance export opportunities and attract incremental foreign investments, thereby supporting India's long-term economic outlook.
- However, rising global trade protectionism and tariff actions by some advanced economies could pose risks to export growth.

Domestic Inflation Trends:

- Headline CPI (Consumer Price Index) inflation rose to 2.75% in January 2026, above market expectations of 2.4%.
- The result marked the first inflation rate within the RBI's tolerance band of 2%-4% since August of the previous year. The rate was the first measurement in India's new CPI series, which updated the weights of different goods within the index according to the Household Consumption Expenditure Survey from two fiscal years ago.
- Food inflation, which now accounts for a much smaller portion of the Indian consumer basket, surged to 2.13% from the -2.71% in the previous month, which used the old aggregators for the index.
- Meanwhile, inflation was elevated for personal care and social protection (19.02%), health (2.19%), and clothing and footwear (2.98%). In turn, transportations inflation was muted at 0.09%.
- However, risks remain from potential volatility in global commodity prices, particularly crude oil and precious metals.

Bond Yields & Spreads:

- US FED held rates in January 2026 policy meeting and is expected to continue to remain in pause mode, especially in the current volatile situation in the Middle East.
- US 10Y yields trended lower on geo-political situation, on likely haven flows in US treasuries.
- INR appreciated sharply in February 2026, on announcement of US India trade deal. However, the conflict in the Middle East has again weakened the currency.
- RBI MPC remained in pause mode in February 2026 meet. The governor noted that rates may remain low in coming 9 to 12 months due to benign rate conditions.
- Liquidity conditions remained easy on RBI's various liquidity measures including OMO (Open Market Operations) purchases and USD/INR swaps.
- Indian bond yields trended lower on benign global rates, US-India trade deal and extremely easy liquidity conditions.
- Good demand for long term bonds as well as state government securities from long term investors like insurance companies, pension and provident funds, added to easing bond yields.
- Corporate bond curve moved lower in line with government bond curve, though some pressure remained on short end due to corporate bond supply.

Outlook:

- Current geo-political situation has increased risks in all markets.
- There is no expectation of US FED rate cuts now, and any chance of rate cuts may be moved back if Middle East conflict continues for long.
- RBI MPC is likely to remain in pause mode for an extended period of time.
- RBI MPC is likely to closely watch the impact of higher crude prices on CPI inflation, in case the conflict extends for a longer period of time.
- USD/INR may see continued weakness on higher crude prices and global uncertainty.
- With rate cut cycle likely behind us, markets are likely to be driven on global cues, demand - supply side dynamics and inflation trajectory (especially post US-Iran conflict).
- RBI has injected liquidity through OMO purchases and is likely to continue to do the same, if required.
- 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 (Reserve Bank of India), MOSPI (Ministry of Statistics and Programme Implementation), PIB (Press Information Bureau), CMIE (Centre for Monitoring Indian Economy), NSDL (National Securities Depository Limited), 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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