

FED CUTS RATES SECOND TIME IN A ROW

The Market Reaction and Fixed Income Outlook

KEY HIGHLIGHTS OF THE MEETING

- The federal reserve delivered its second consecutive 25bps rate cut, bringing the target rate down to 3.75%–4.0%.
- Alongside the rate decision, the Fed announced an end to its Quantitative Tightening (QT) program from 1st December 2025, marking a shift in their balance sheet policy.

OUR OUTLOOK

With the rate now approaching what policymakers consider the neutral zone, further easing may be limited unless growth weakens materially.

Following the Fed's 25 bps cut, U.S. Treasury yields rose modestly as the Fed's cautious tone dampened hopes of further easing. The two-year yield climbed 11 bps to 3.6%, and the ten-year rose 9 bps to 4.07%, causing a bear-flattening in the curve. The muted price reaction showed that markets had largely priced in the move. On the domestic front, the 10-year G-Sec yield touched 6.55%, its highest level this month, tracking the rise in U.S. yields and fading expectations of continued global rate cuts.

RBI still retains scope to ease policy, supported by softening inflation and moderate growth. India's consumer inflation has recently fallen to an eight-year low, mainly due to lower food prices. However, the Fed's cautious tone and the recent firming in U.S. yields could make the RBI more patient before lowering its own rates.

For the near term, focus will remain on:

- Upcoming RBI policy meeting in December 2025
- Liquidity conditions and potential Open Market Operations (OMO) operations
- Movement in the Rupee and foreign inflows

Overall, the combination of a Fed pause and easing inflation provides a supportive backdrop for Indian fixed-income markets. Longer-duration bonds may offer select opportunities if domestic policy support continues and inflation remains contained.

Source: Federal Reserve Board, RBI, U.S. Department of the Treasury, Internal Analysis.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.