

FOMC keeps Policy Rates Unchanged

KEY HIGHLIGHTS OF THE MEETING

- The Fed held rates at 3.5%-3.75% with a 10-2 vote, setting a high bar for further rate cuts in the near term.
- Inflation remains above target but is increasingly seen as tariff-driven rather than demand-led, allowing scope for limited easing later in 2026 if these pressures fade.
- With growth holding up and labor market risks moderating, the Fed has room to stay patient and data-dependent, while markets focus more on the broader policy signals and the upcoming Fed leadership transition than on near-term rate moves.

DEBT OUTLOOK

US Treasury yields moved marginally higher across the curve following the meeting, but the reaction remained orderly. This suggests that the pause was well priced in, and markets are not reassessing the broader rate cycle aggressively. However, recent moves in global Foreign Exchange (FX) and bond markets have been shaped less by monetary policy and more by developments around the US Dollar. Conflicting messages from US authorities have unsettled currency markets: while the Treasury has reiterated a strong-Dollar stance, political rhetoric has appeared increasingly comfortable with a weaker currency, which markets have interpreted as a willingness to tolerate Dollar depreciation to support export competitiveness. This uncertainty has been compounded by concerns around fiscal sustainability, heavy treasury issuance and global central banks gradually diversifying reserves away from US treasuries towards gold. Together, these factors have weakened the Dollar even as long-term global yields remain under pressure from supply and fiscal dynamics.

For India, this backdrop limits the risk of a sharp global rates shock but remains challenging from a currency perspective. While initial Dollar weakness offered some relief, the Rupee has been unable to sustain gains and has moved back towards weaker levels, reflecting subdued FX inflows and a likely balance of payments deficit extending into FY26. Consequently, despite a supportive domestic environment of strong growth and moderating inflation, Indian long-end yields have stayed elevated due to heavy bond supply, global spillovers and continued currency pressure.

In this setting, RBI's approach is expected to remain cautious, focusing on liquidity management and smoothing volatility rather than aggressive policy easing. For investors, this points to a range-bound bond market, where returns are likely to be driven primarily by carry and roll-down.

Source: RBI, reuters, mint, U.S. Department of the Treasury, Bloomberg.

Data as on 29th January 2026.

FOMC is the Federal Open Market Committee.

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