



# Duration Funds: A Tactical Opportunity

Positioning for potential appreciation in long-term Indian government bonds

# Market Context: Yield Movement FY 2025–26



## Key Trend

30-year yields climbed from 6.8% to 7.4% despite 125 bps repo rate reduction

## Current Position

Yields at highest levels in past two years, reflecting economic recovery expectations

# The Duration Challenge

7.4%

Current 30-Year Yield

Up from 6.8% in April 2025

-125

Repo Rate Cuts

Basis points cumulatively reduced

78

Spread Premium

Basis points vs 10-year benchmark

The disconnect between monetary easing and long-end yield pressure reflects unique market dynamics that have now largely played out.

# Tactical Opportunity Emerges



## Supply Reduction

Lower gross issuance expected



## Demand Recovery

Key players returning to bonds



## Valuation Cushion

Attractive spread levels



# Supply Dynamics: Bond Switch Impact



## FY27 Budget Projection

₹17.2 trillion gross issuance initially forecast



## RBI Bond Switch

₹750bn repurchase from short-end, replacement with 2040 maturities



## Revised Estimate

Gross supply reduced to ~₹16.5 trillion for FY27

This restructuring operation significantly reduces near-term maturity pressure, creating a more favorable supply-demand balance for long-duration instruments.

# Insurance: Premium Growth Rebound



## Policy Growth Surge

First-year life insurance premiums have rebounded dramatically, driven by GST reduction from 18% to 0%.

Three-month average shows 28% YoY growth, up from 8.3% in first half of 2025. Non-life premiums similarly improving, reaching 19% growth in November–December.

# Pension & Banking: Position Reversals



## Pension Funds

Equity allocation increased from 19.1% to 26.2% of AUM (March–December 2025). With regulatory shift completed, bond demand should normalise going forward.



## Bank Investment Ratios

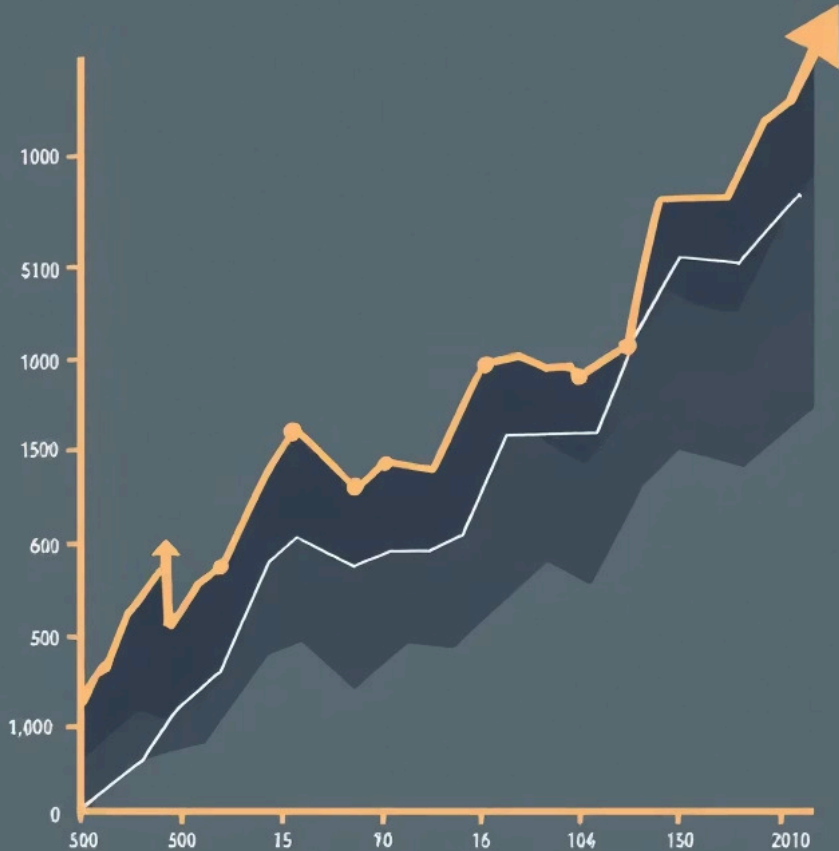
Investment to deposit ratio declined to 27.8% at January 2026, lowest in 7 years and below 10-year average of 29.6%. Even flat maintenance implies demand recovery.



## Forward Expectation

Both sectors likely to increase bond allocations as they work through rebalancing needs and regulatory positioning.

# Valuation Comfort at Long End



## Current Spread: 78 bps

Spread between 30-year IGB and 10-year benchmark yield provides cushion against further widening

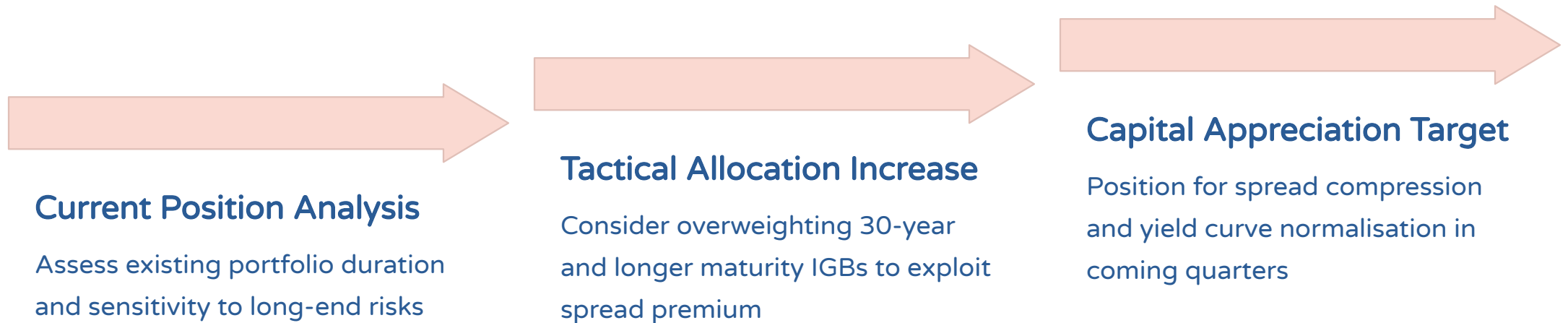
## Historical Average: 45 bps

Over 10-year period, spread averaged significantly lower, suggesting current premium compensates for duration risk

## Capital Appreciation Potential

Tighter spreads as demand concerns subside could drive price appreciation at long end

# Portfolio Strategy: Tactical Duration Extension



This tactical opportunity should be monitored for supply revisions, demand indicators, and macro policy developments. Duration extension balanced against credit quality considerations remains appropriate.

# Investment Considerations

## 1 Monitor FY27 Budget Revisions

Gross issuance figures confirm supply reduction

## 2 Track Insurance Inflows

Premium growth rates and asset allocation patterns

## 3 Vigilance on Economic Data

Growth and inflation metrics guiding policy

- ❑ **Opportunity Horizon:** Capital appreciation potential at long end bonds suggests tactical increase in portfolio allocation in this segment as market dynamics normalise.

