Mutual Fund Median Returns – Category-wise Performance

Category	Median of Simple Annualised % as on 31st August 2026						Median of CAGR % as on 31st August 2026		
	14 Day	1 Month	2 Month	3 Months	6 Months	1 Year	2 Year	3 Year	5 Year
Overnight funds	4.92	4.94	5.01	5.05	5.09	5.22	5.66	6.00	5.60
Liquid funds	5.98	6.27	6.12	6.68	6.67	6.34	6.62	6.85	6.20
Money Market funds	5.57	6.91	6.27	8.50	6.59	6.30	7.01	7.05	6.28
Ultra Short Duration funds	4.87	6.19	5.81	7.56	6.39	6.02	6.61	6.71	6.04
Ultra Short to Short Term Fund	2.18	4.83	4.89	7.70	5.79	5.73	6.66	6.80	6.05
Floater funds	-3.12	3.19	3.60	8.21	5.67	6.06	7.04	7.30	6.39
Short Duration funds	-6.35	1.26	2.31	8.12	4.79	5.05	6.54	6.79	5.73
Medium Duration funds	-8.70	2.37	2.44	9.34	5.28	6.01	6.98	7.20	6.10
Medium to Long Duration funds	-16.92	-1.00	-0.59	8.76	4.07	4.76	5.20	6.07	5.18
Long Duration funds	-35.06	-4.20	-6.01	9.18	2.15	3.90	3.37	5.76	5.43
Dynamic bond funds	-15.06	-0.04	-0.01	7.91	3.58	4.41	5.27	6.32	5.25
Corporate bond funds	-7.89	1.04	1.86	8.38	4.52	5.14	6.60	6.98	5.87
Credit Risk funds	-3.00	5.01	5.23	8.96	7.18	7.12	8.21	8.04	7.23
Banking & PSU funds	-7.57	0.89	1.55	8.38	4.60	5.04	6.41	6.74	5.84
Gilt funds	-21.97	-2.23	-2.94	9.23	3.05	4.35	4.62	6.07	5.09
Arbitrage funds	8.24	4.63	5.86	7.34	5.66	5.83	6.18	6.61	5.93
Debt Plus Arbitrage FOFs	-1.75	2.67	3.86	8.18	5.29	5.55	6.53	7.46	6.09

- **August split the debt fund universe cleanly by duration.** Overnight, liquid, money market and ultra-short categories delivered steady annualised returns through the month, while every long-duration category — gilt, long duration, medium-to-long and dynamic bond — posted negative one-month and fortnightly numbers. The damage was concentrated in the final two weeks, and it reached further down the curve than the long end alone: even corporate bond and banking & PSU funds were negative over the fortnight.

- **Credit Risk funds led every window of six months and longer**, and Debt Plus Arbitrage FoFs held second place over three years. Both say what the corporate bond curve is saying: the market is paying for spread and credit, not for duration. Money market and ultra-short funds — sitting exactly where the FCNR(B) liquidity surplus landed — were the other consistent performers, and over six months and one year liquid funds beat long duration funds outright by a wide margin

- **The long-end drawdown was about rates, not credit or liquidity.** It reflected the specific inputs of late August — the MPC holding without OMO or CRR support, an inflation projection that peaks in the third quarter, elevated crude on a still-restricted Strait of Hormuz, hawkish Jackson Hole commentary lifting US Treasury yields, and a first-quarter GDP print well ahead of the RBI's own estimate. None of these has reversed.

- **For portfolios, the case for staying short and accrual-led is stronger than it was a month ago.** The money market and short-duration bucket is where the liquidity surplus is actually being felt; credit and arbitrage strategies are being compensated for the risk they carry; and gilt and long duration funds are taking duration risk the curve is not currently paying for. Duration should be added on a policy or oil trigger, not on the level of yields.

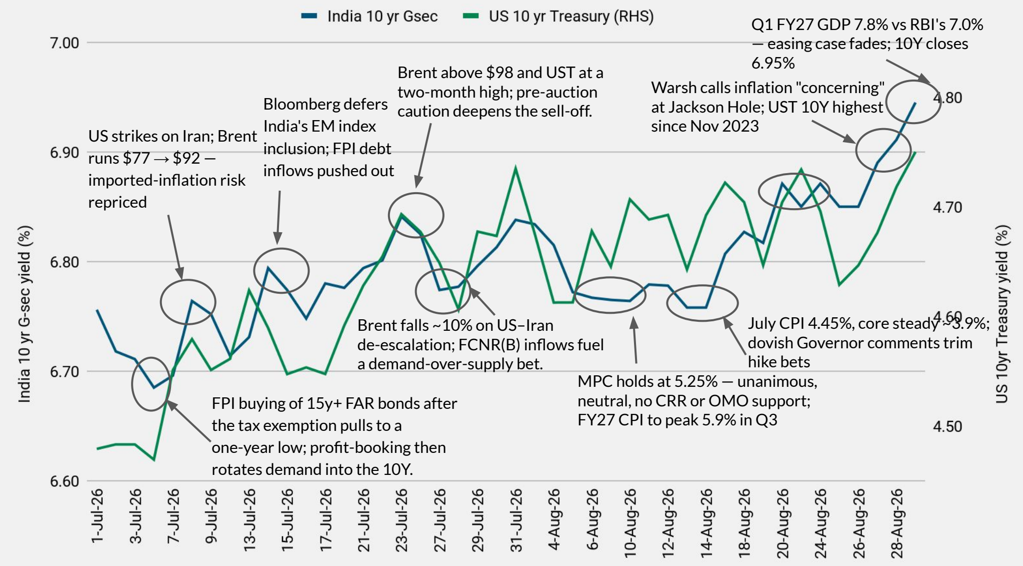
***Overall**, August was a month in which the front end of the debt fund complex worked and the long end did not — and the divergence was driven by a liquidity surplus that is swap-linked rather than structural. With the FCNR(B) window now closed, the August CPI print due mid-September, **the second-half borrowing calendar expected late in the month and the MPC decision on 7 October, the near-term calendar offers triggers in both directions.** Until those clear, low- to medium-duration and accrual strategies remain the better risk-adjusted place to sit, with duration added selectively rather than pre-emptively.*

Monthly Debt Market Snapshot – August 2026

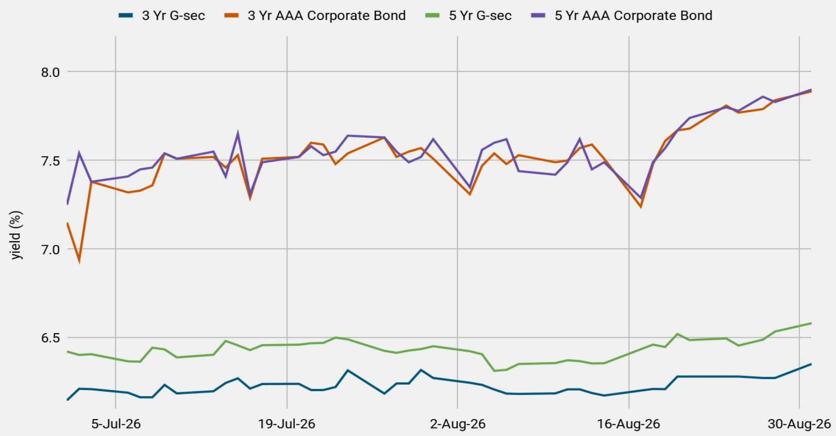
Key indicators	31-Jul-26	31-Aug-26	change
5 Yr GOI Bond	6.45%	6.58%	▲ 13 bps
10 Yr GOI Bond	6.84%	6.95%	▲ 11 bps
10 Yr US Treasury	4.73%	4.75%	▲ 2 bps
Call Rate	5.37%	5.18%	▼ 19 bps
T-Repo	5.26%	4.96%	▼ 30 bps
91 Day T-Bill	5.32%	5.27%	▼ 5 bps
3 M CD	6.77%	6.39%	▼ 38 bps
3 M CP	7.30%	7.03%	▼ 27 bps
USD/INR	95.37	95.45	▲ 0.08

- August was a steepening month rather than a sell-off month. Gilt yields at the five- and ten-year points drifted higher, while the entire money-market complex — call, TREPS, certificates of deposit and commercial paper — rallied hard. The spread of the ten-year over overnight rates widened materially. **The two ends of the curve were responding to entirely different forces, and the gap between them is the story of the month.**
- The front-end rally has a single cause. Banks mobilised a substantial pool through the FCNR(B) swap window during August, and the rupee legs lifted banking-system surplus to its highest since mid-April, with TREPS printing below the standing deposit facility floor. The long end faced the opposite set of inputs — the MPC held rates in early August with no CRR or OMO support, headline inflation is projected to peak in the third quarter, Brent stayed elevated on a still-restricted Strait of Hormuz, Warsh's Jackson Hole remarks lifted US Treasury yields to multi-year highs, and first-quarter GDP comfortably beat the RBI's own estimate. Absent OMO purchases, the ten-year should stay range-bound in September; a CRR hike to sterilise the FCNR(B) build-up is the risk the other way

Key Events Influencing India 10-yr Government Bond Yields - August 2026

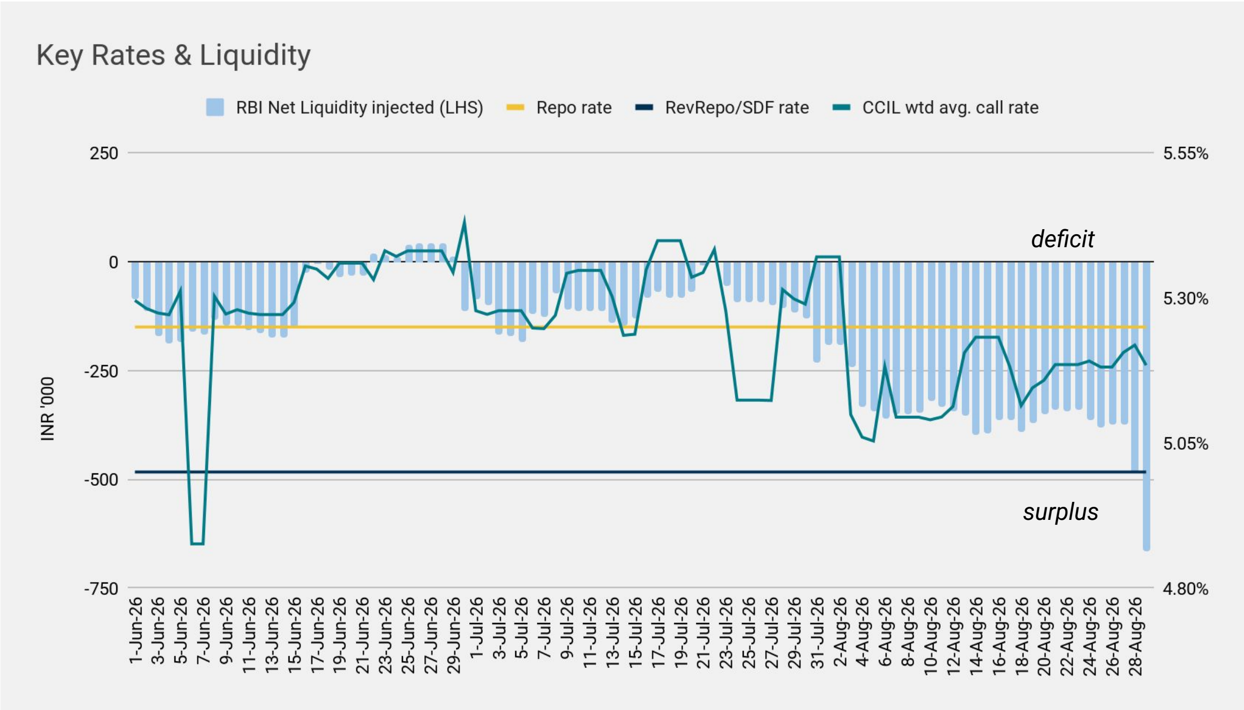


Corporate Bond Yields move in-line with G-sec Yields Edge Higher – August 2026

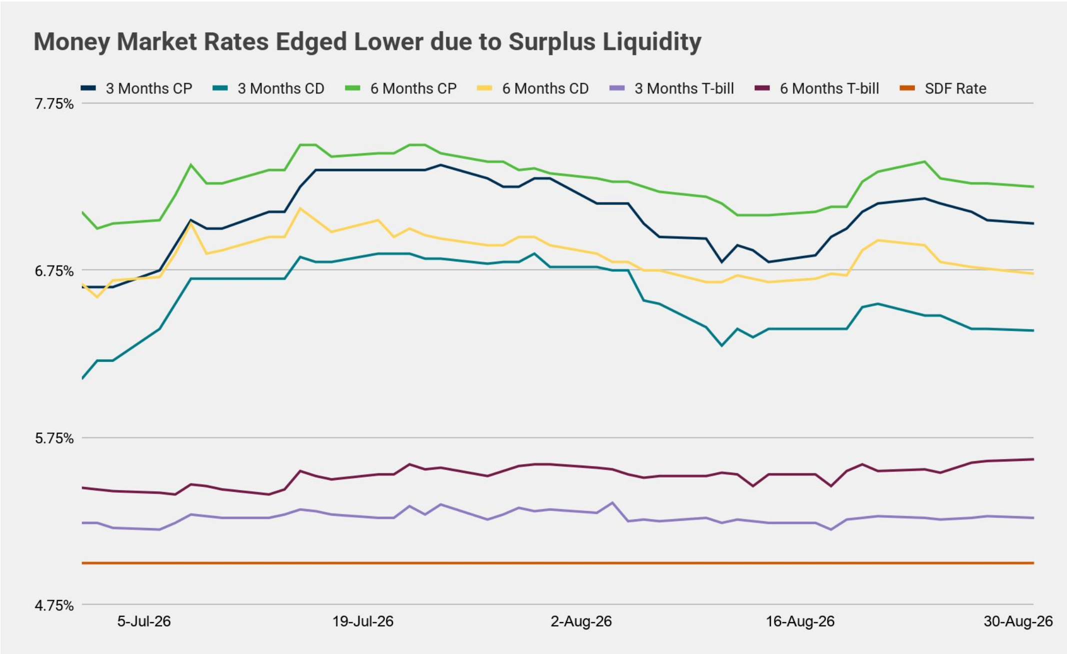


- **Corporate bonds took no benefit from the liquidity build-up beyond the money-market segment.** Three- and five-year AAA yields moved almost identically through July and August, easing in the second half of July before retracing higher into month-end, while gilts at the same points drifted up only gradually. **Spreads over G-secs therefore widened rather than compressed — the FCNR(B) cash landed in sub-one-year paper and did not travel out the curve.**
- The flat three-to-five-year AAA curve is the signal worth acting on: investors are being paid for credit, not for duration. Bank credit continues to outpace deposit growth by a wide margin, so issuers are still competing hard for term money, and that funding pressure — not the gilt curve — is setting corporate yields. It leaves two workable places to sit: sub-one-year paper, where the liquidity surplus is actually landing, and three-to-five-year AAA, where the spread compensates. The equivalent gilt segment is the one to avoid, carrying duration risk without spread. **Add duration only on a clear policy or oil trigger.**

Liquidity Check And Short-term Rates Movement

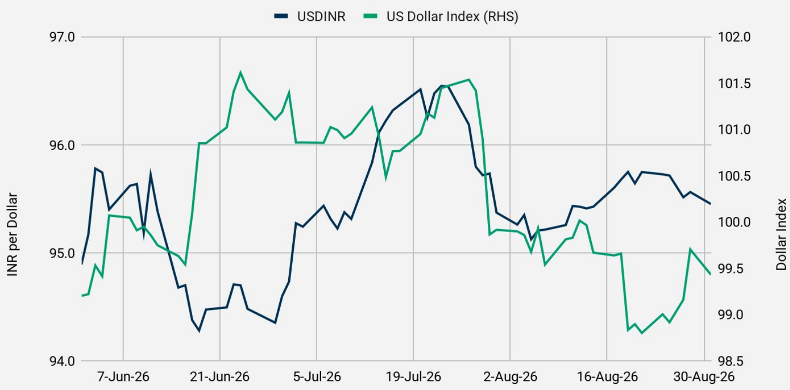


- **Surplus liquidity in the banking system deepened materially through August,** extending the build that began in the second half of July. The system moved from a broadly balanced position in late June to a sustained and widening surplus, with one of the deepest single-day surpluses of the period recorded at the very end of the month.
- **The driver was FCNR(B), not the policy rate.** Banks mobilised heavily through the swap window, and the rupee legs of those swaps injected durable liquidity the RBI had neither planned for nor immediately sterilised. Unlike a CRR-led injection, this liquidity is swap-linked and carries a maturity — a distinction that matters for how long the surplus persists.
- RBI's response was absorption rather than accommodation. The Bank ran repeated variable rate reverse repo auctions through the month, including very large notified amounts near month-end, but take-up fell well short of what was on offer. Surplus funds were concentrated among a few large banks, and participants preferred overnight tenors to term, limiting how much the operations actually drained.
- **Money market rates edged lower across the short end.** Certificate of deposit and commercial paper rates had risen into mid-July on bank funding pressure, then reversed through August as the cash glut reached them, with the three-month CD segment falling furthest. Treasury bill rates were broadly unchanged, so the spread of bank paper over sovereign compressed sharply — a direct reading of easing funding stress.

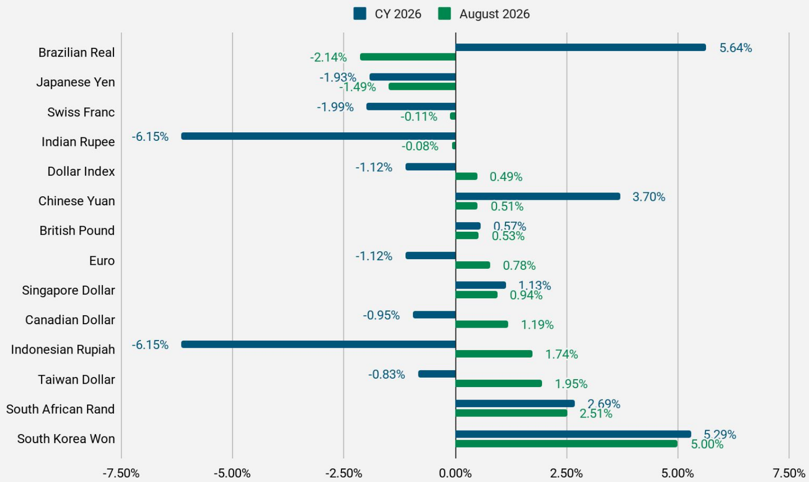


Key Market Trends

Rupee Holds Range as Dollar Index Softens – August 2026



Performance of global currencies against USD* - August 2026



Futures Price: Nymex and Brent Crude Oil

- **The Indian rupee ended August broadly flat against the US dollar**, holding within a narrow band after the sharp depreciation seen earlier in the year. The stability was hard-won rather than natural: the currency stayed exposed to a widening oil import bill, intermittent foreign portfolio outflows from both equities and debt, and US tariff pressure over India's Russian crude purchases. Against a peer group in which most emerging currencies gained ground on a softer dollar, the rupee's failure to participate is the more telling signal.
- **The Reserve Bank intervened through state-run banks in the second half of the month** — the familiar signature of official dollar supply rather than any announced action — as the pair drifted back towards its record high. The approach remained one of managing the pace of depreciation rather than defending a level. The early closure of the FCNR(B) deposit swap facility removes one of the supports that has cushioned the currency since mid-year, and its absence will be felt from here.
- **The US Dollar Index softened marginally over the month** as Federal Reserve easing expectations were priced in and out, before firming into month-end when the Chair struck a hawkish tone at Jackson Hole. The aggregate move was small but two-directional, and the late reversal is what left the rupee without the tailwind its peers enjoyed.
- **Crude prices rose through August**, reversing the sharp late-July decline that had followed hopes of a US–Iran de-escalation. Strait of Hormuz transits stayed far below pre-conflict levels for most of the month. A phased Iran–Oman framework for a temporary shipping corridor, announced late in August, offered the first credible route to normalisation — but fresh US strikes on Iranian sites at month-end were a reminder of how fragile that path remains.
- **Crude oil is the main pressure point for India.** The country imports more than eighty percent of the oil it uses, so when Brent rises, India pays out more dollars — which widens the trade gap, weakens the rupee and pushes up prices at home. That is why the RBI expects inflation to be at its highest in the October–December quarter, and why a rate cut looks unlikely for now. Unless shipping through the Strait of Hormuz returns to normal, oil will matter more than the US Federal Reserve in deciding where the rupee goes over the rest of this financial year.

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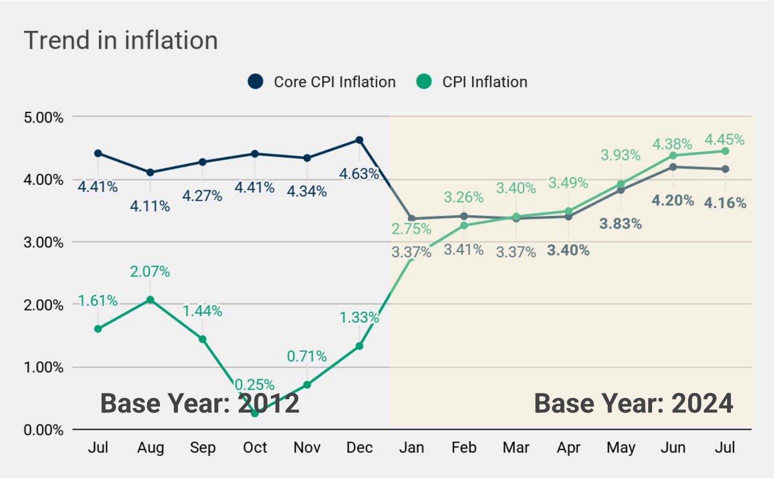
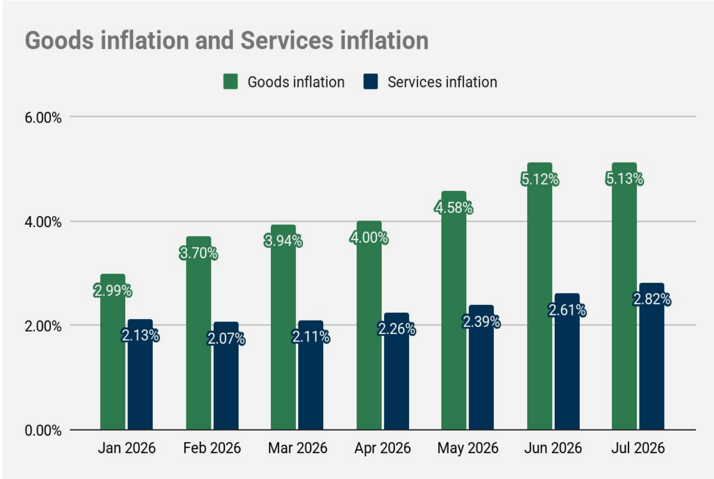
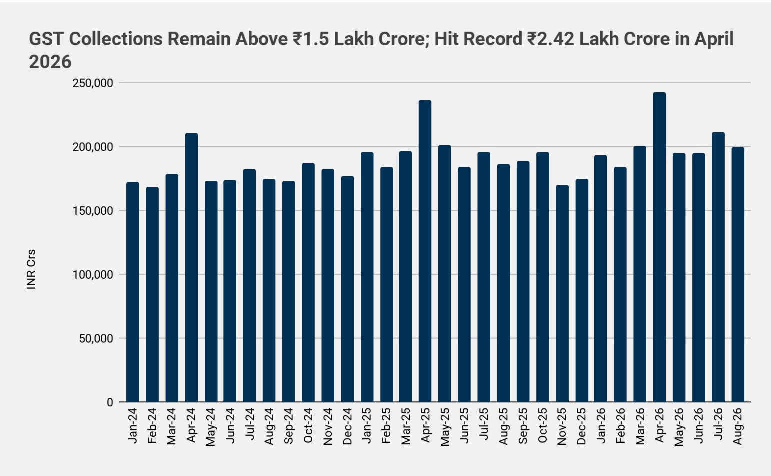
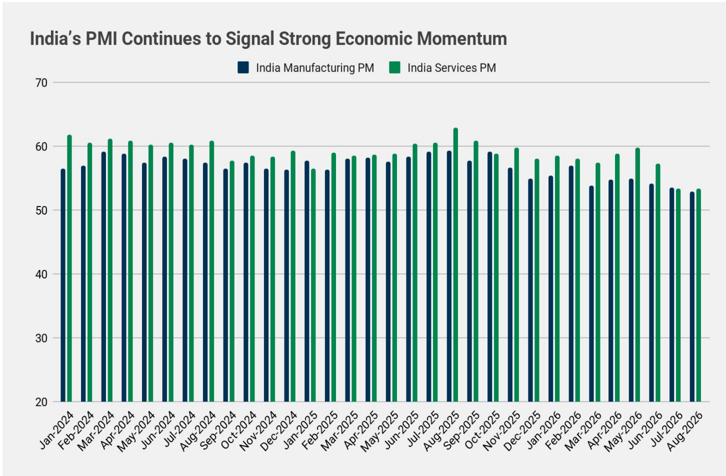
Mata Research
September, 2026

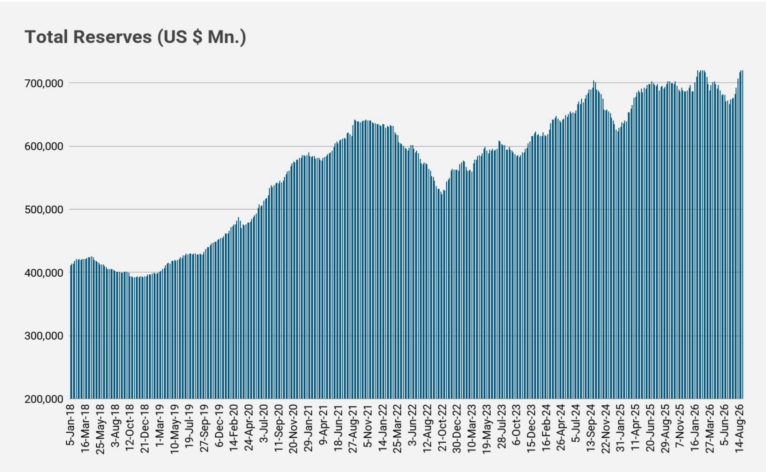
India's Growth Outpaces Forecasts: Inflation Turns, Momentum Cools











- India's foreign exchange reserves rose for a ninth consecutive week to a record **$740.8 billion** in the week ended 28 August 2026, up roughly $11.5 billion on the week and clear of the previous peak set in late February.
- Foreign currency assets crossed **$600 billion** and gold rose to **$116.4 billion**, with SDRs and the IMF position little changed — recovering the entire February-to-May fall.
- **The gain is policy-driven rather than earned.** The RBI's FCNR(B) deposit swap window — opened in June and closed ahead of schedule in August — drew heavy non-resident deposit inflows that were swapped into rupees, the same flow behind the banking system's liquidity surplus. This is a borrowed cushion carrying a maturity, not trade-surplus accumulation.

- ***Through August the Indian economy delivered strong headline numbers with softer detail underneath.*** *GDP grew* ***7.8%*** *in the April–June quarter, comfortably ahead of the RBI's own 7.0% forecast and the fastest in five quarters, industrial output held firm on manufacturing and electricity, and GST collections grew in double digits on a gross basis.* ***But net GST growth was far slower as refunds surged****, import-linked GST sharply outpaced domestic collections, manufacturing* ***PMI slipped to a five-year low,*** *and new business intake in services ran at one of its weakest rates in more than four years. Growth is being delivered; forward orders are thinning.*
- *On prices, the composition matters more than the level.* ***Headline CPI has climbed steadily through the year, but the rise is almost entirely in goods — food and fuel*** *— while services inflation has stayed low and core has remained contained. That is the signature of a supply shock rather than demand overheating, which is why the* ***RBI has held rates while projecting a third-quarter peak.*** *It also means the inflation path is set by crude and the Strait of Hormuz rather than by domestic demand, and a rate cut stays off the table until that peak is passed.* ***Near term, three dates decide the path: the August CPI print in mid-September, the H2 FY27 borrowing calendar expected in the last week of September, and the MPC decision on 7 October — with progress on the Hormuz shipping corridor the wildcard that could reset the entire inflation trajectory.***

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