Fixed Income Outlook

September 2026

ICICI Prudential Mutual Fund Registration No.: MF/003/93/6

Introduction

Currently, the Indian economy is experiencing an expansionary phase, which is evidenced by the recent high-flying GDP growth figures, high bank credit growth, and rising inflation levels.

The shift in the economic landscape is reflected on the bond markets, too. The result is high yields and improved prospects for both accruals and duration play in fixed income.

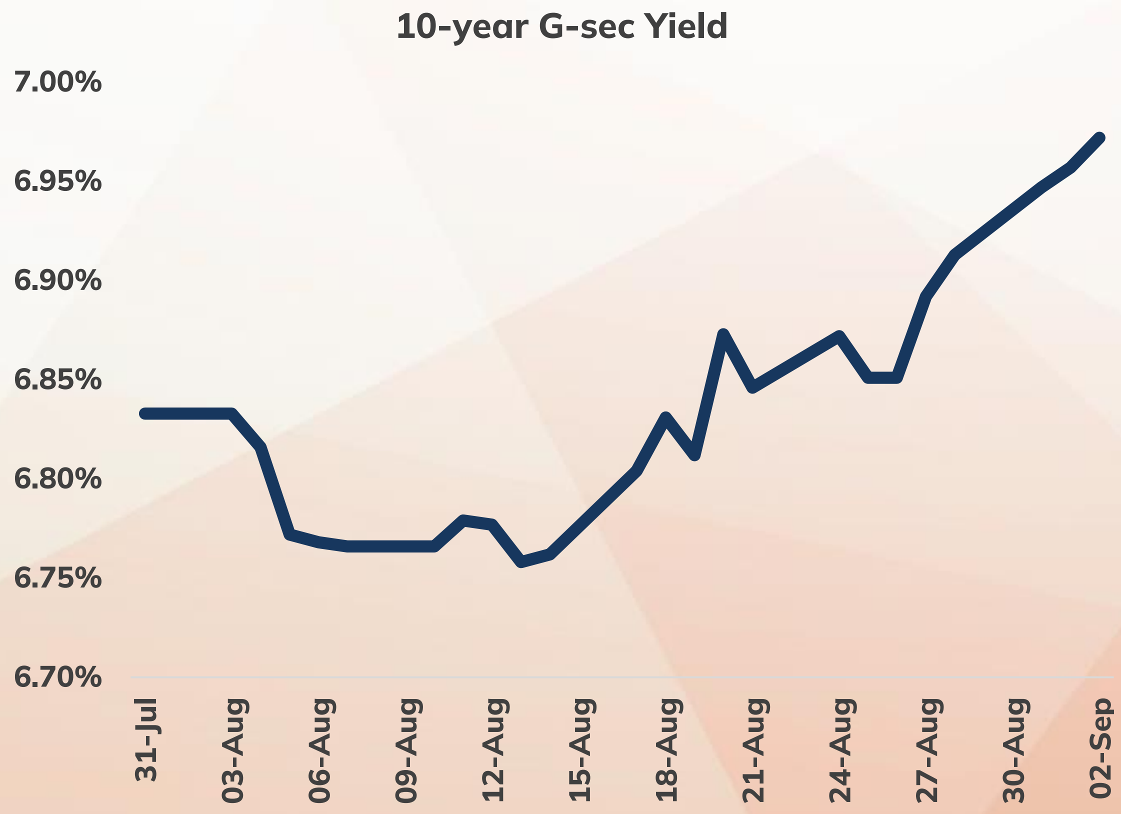
But, challenges remain. External risks such as the war between US and Iran continue to impact crude oil prices; higher US yields have led to higher risk premiums globally; the deferral of bond inclusion has tapered FPI's interest in G-secs.

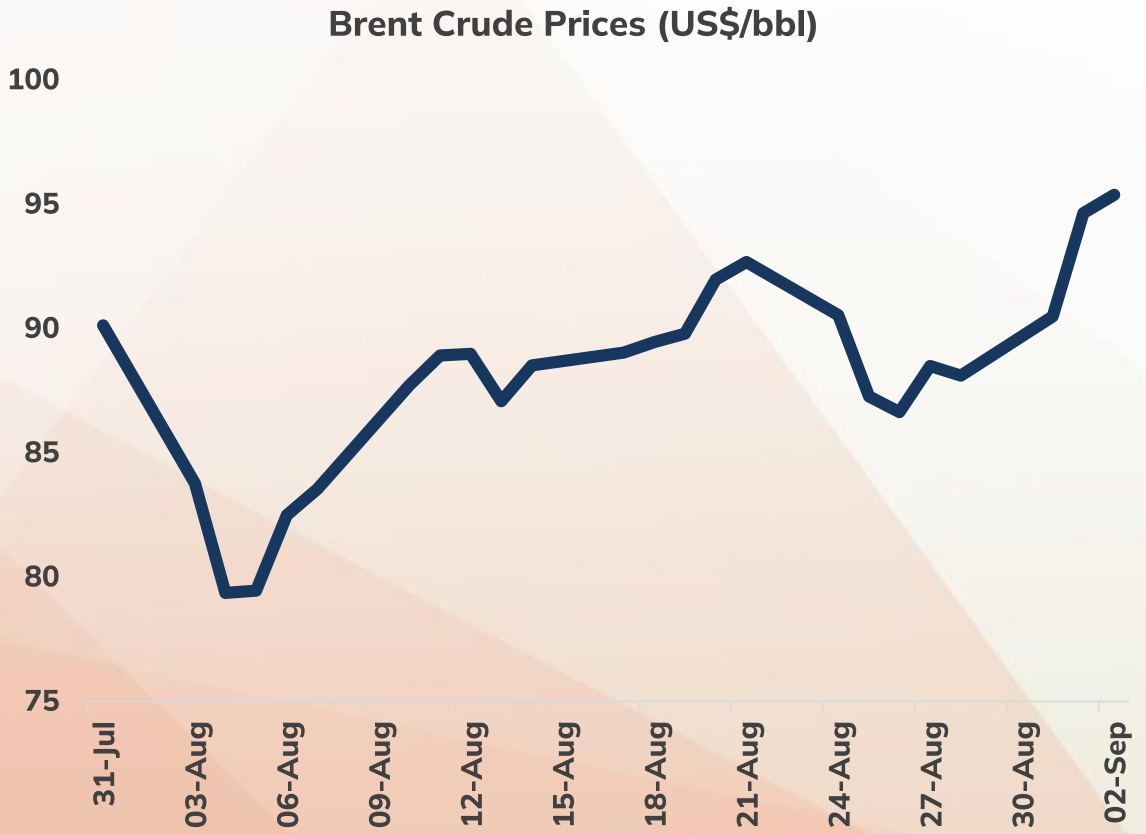
How does one benefit from high yields while taking a cautious stance against the risks ahead? Let us find out!

The Month Gone By

Yields Rise due to Higher Crude Oil Prices

India's benchmark 10-year G-sec yield rose by another 12 basis points, settling at 6.95% on Aug 31, 2026, amid inflation jitters due to the sustained high prices of crude oil.



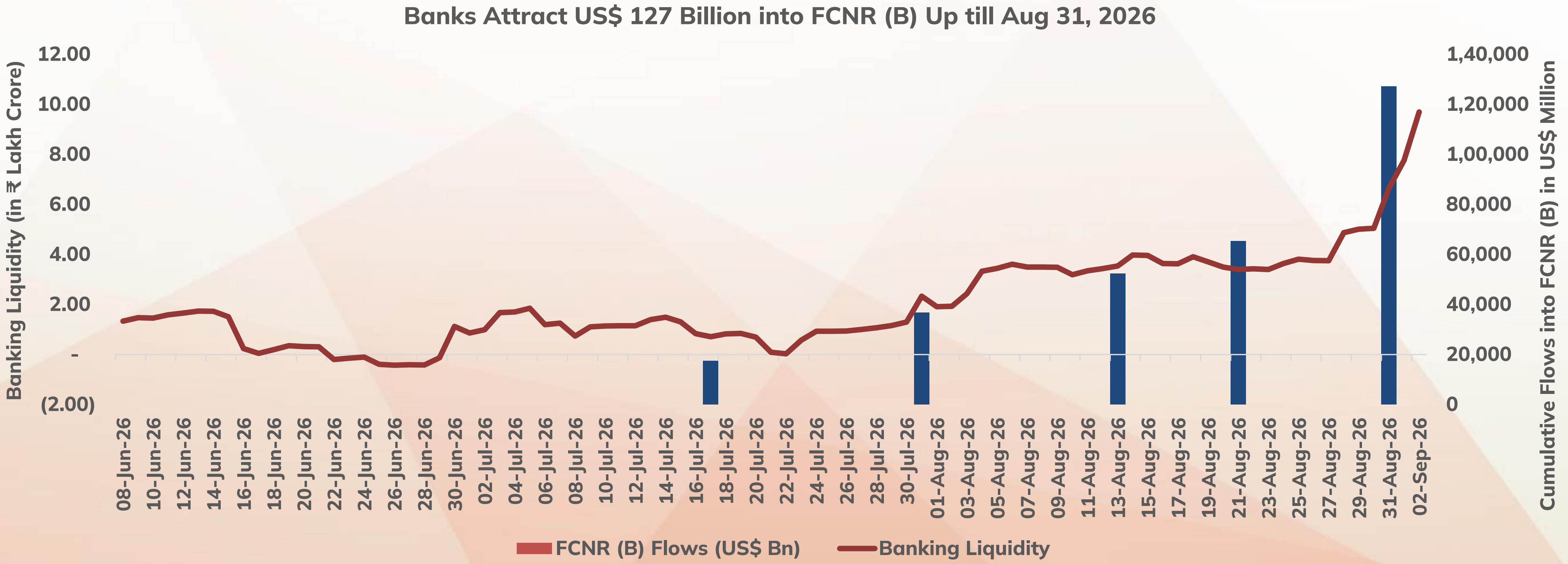


Source: Refinitiv. Data as on Aug 5, 2026.

The Month Gone By

Banks Rake in US$ 127 Billion in FCNR (B) Sop Window

The RBI had announced a special USD-INR swap facility covering the full hedging costs on fresh 3-5 year FCNR (b) deposits. The sop window, originally planned to be open till Sep 30, 2026, was closed a month earlier, by Aug 31, 2026. However, banks succeeded in attractive larger-than-expected flows through the facility. The result was also visible in higher bank surplus liquidity, which touched ₹10 lakh crore in early Sep 2026.

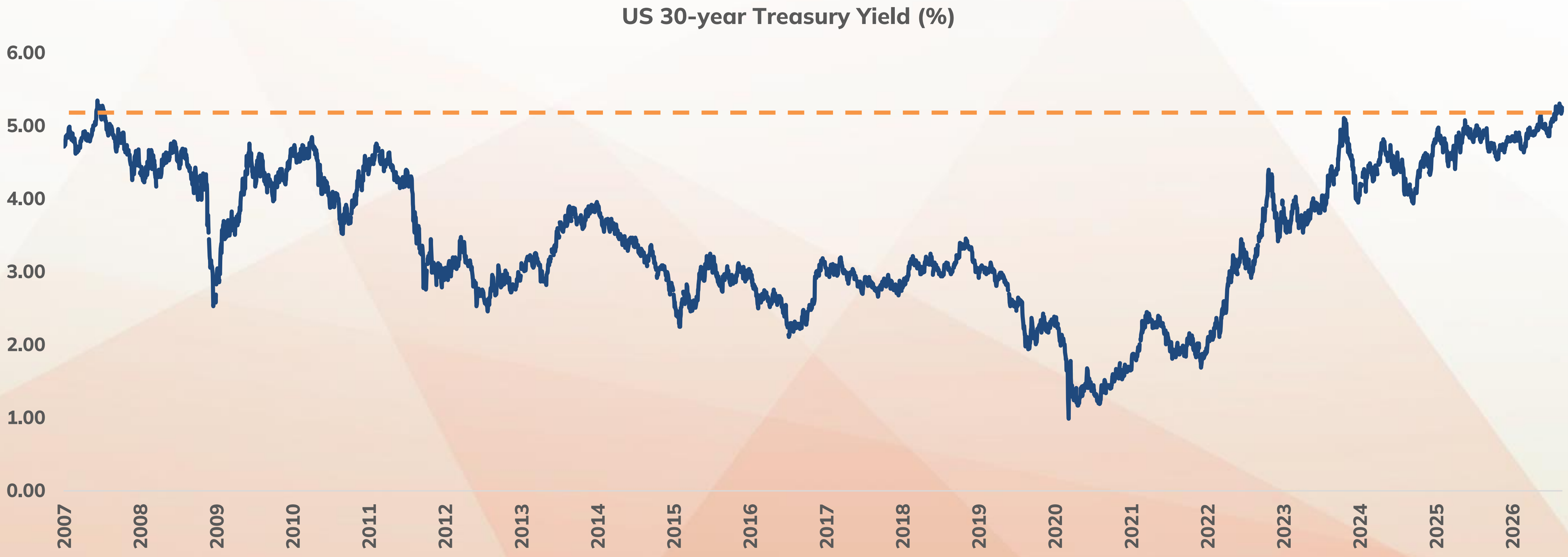


Source: Refinitiv. Data as on Aug 31, 2026.

The Month Gone By

Investors Sell-off US 30Y Bond Amid Fiscal Concerns

The US Treasury 30-year yield touched 19-year high of 5.33% on Aug 18, 2026, as investors sold off long-dated bonds due to US Fed hawkish tone amid inflation jitters, concerns over US fiscal credibility. Some correction was observed after US Treasury department announced a bond buyback program.



Source: Refinitiv. Data as on Aug 31, 2026.

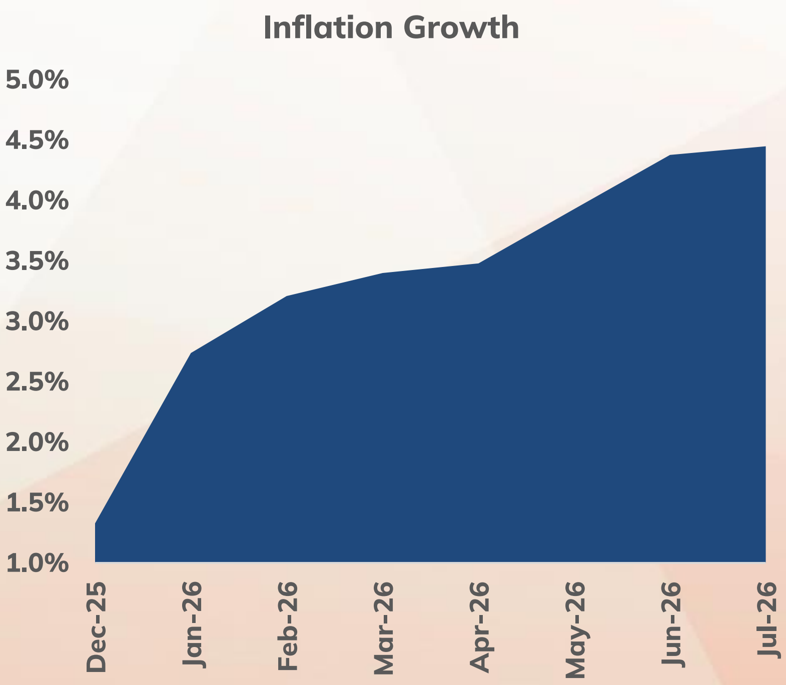
The Current Picture

Where are We in the Economic Cycle?

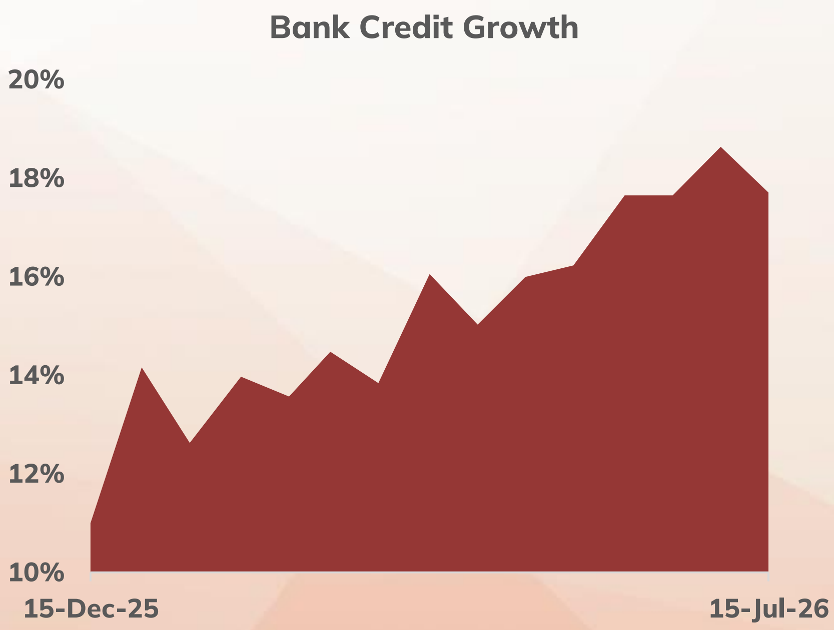
Indian Economy in Expansionary Mode

The economy is undergoing recovery and expanding, seen through the strong credit growth numbers, elevated credit risk premiums, slowly inching up inflation levels.

Hotter headline inflation; core still benign



Credit demand has improved



Risk premiums have widened

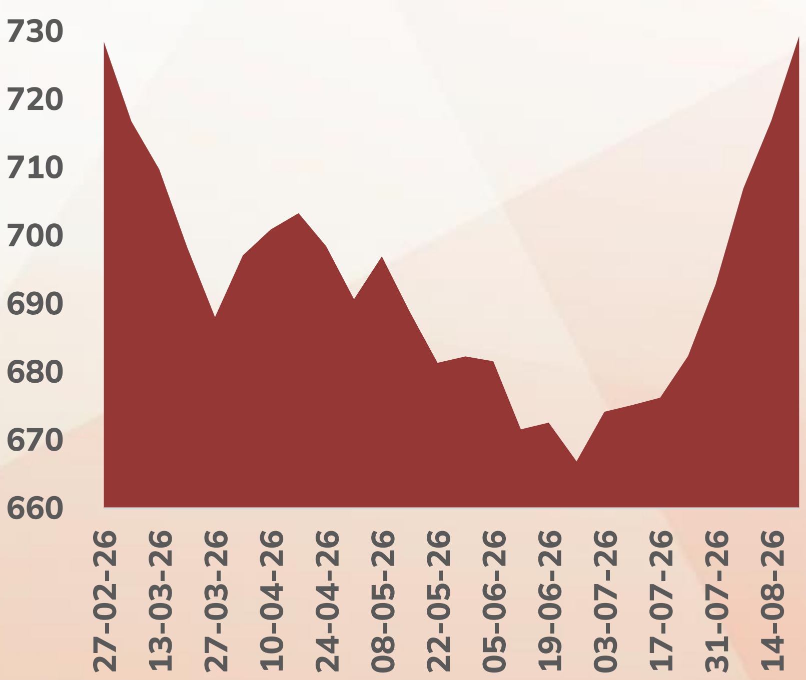
	Dec 5, 2025	Aug 31, 2026
1Y G-sec	5.51%	5.78%
5Y G-sec	6.18%	6.59%
10Y G-sec	6.52%	6.95%
1Y AAA	6.65%	7.63%
5Y AAA	6.82%	7.76%
1Y AA	7.41%	8.43%
5Y AA	7.68%	8.66%

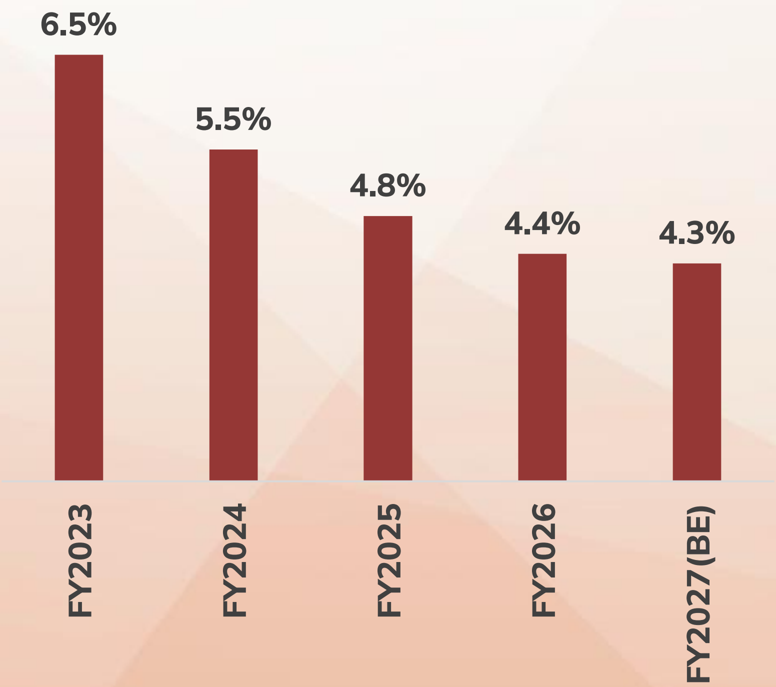
Source: RBI; MoSPI, CRISIL. Data available as on Aug 31, 2026.

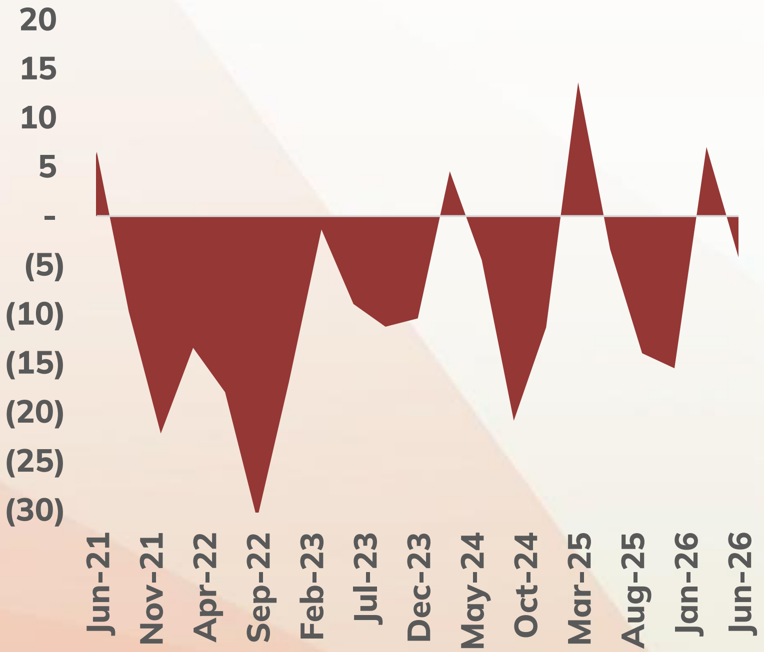
Economic Cycle
Sound Macros

Alongside a strong recovery, the fundamentals of the economy are also sound. The RBI has managed to amass its expended forex reserves back to all-time highs. The fiscal deficit is under control and the current account deficit is also narrowing.

RBI Forex Reserves (US$ Bn)	Fiscal Deficit	Current Account Deficit (US$ Bn)







Source: RBI. Data available as on Aug 31, 2026. FY – Financial Year.

Looking Ahead

Base Case Scenario

Economic growth momentum continues

Oil and energy prices stabilise

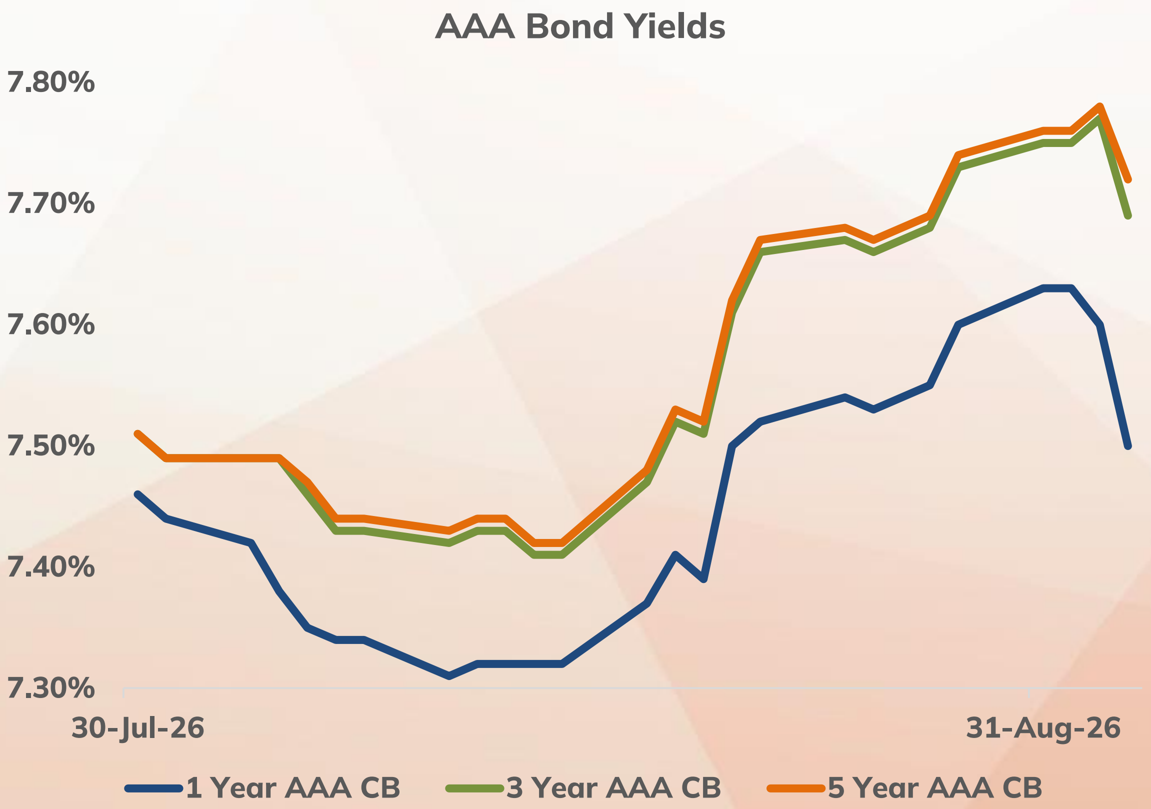
Inflation ticks higher slowly as growth picks

No risk of war or other external shock

RBI lifts policy rate to neutral level by late FY27 or early FY28

Looking Ahead
Market Pricing

Bond markets are starting to price in rate hikes. This is observed from the rise in corporate bond yields, suggesting wider risk premiums. On the G-sec end, too, the long-bond yields have inched up higher.



Source: CRISIL; Refinitiv.

Risk to the Outlook

Shifting Global Monetary Policy Expectations

We believe the RBI's actions are independent of global influence. However, shifting policy expectations and its consequence on capital flows, risk premiums, currency exchange rate and macros can impact the timeline of policy normalisation.

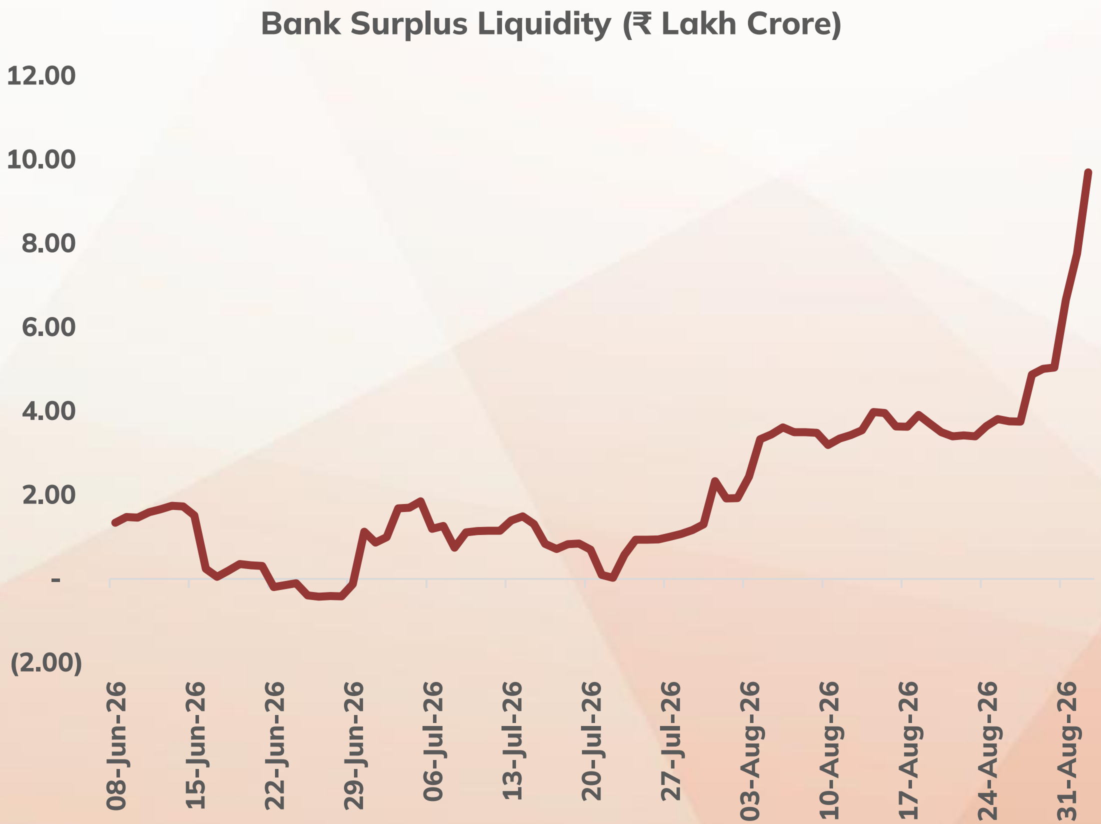
Central Bank	Month	Action
European Central Bank	June 2026	25 bps hike
Bank of Japan	June 2026	25 bps hike
Reserve Bank of Australia	Feb, Mar and May 2026	75 bps hike
Norges Bank (Norway)	May 2026	25 bps hike

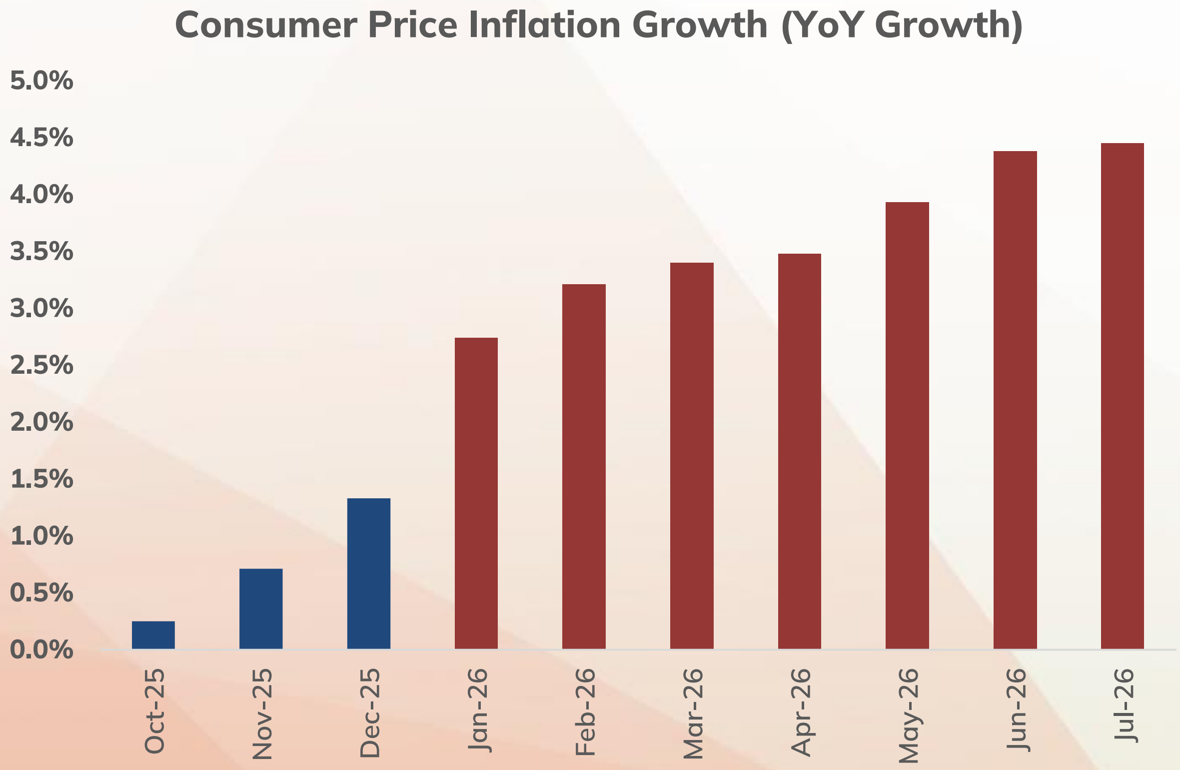
Source: central bank websites.

Risk to the Outlook

Inflationary Impact of FCNR (b) Deposit Boom

Banks now hold large surplus cash reserves due to the FCNR (b) deposit boom; the excess liquidity might likely spur a lending spree. The focus now shifts to lending quality and inflationary impact of increased credit growth.





Source: PIB; RBI. Data is as on July 31, 2026.

Our View on Fixed Income

- Markets are pricing in higher yields in anticipation of rate hikes by the RBI. We expect the RBI to hike 75 to 100 basis points, based on market pricing. However, we believe the RBI will hold on till the end of the fiscal year to start its policy normalization.
- Positives such as the FCNR (b) deposit boom have led to a boom in liquidity conditions. We might see the positive impact of liquidity on credit risk premiums. Credit growth and lending book quality becomes a focus.
- Long-dated bond yields in G-sec and SDLs are looking attractive. We suggest investors to add some duration to the portfolios to capture the high yields.
- We continue to remain positive on accruals in 1 to 3 year corporate bond space.
- We recommend products in the floating interest rates, short term, corporate bond and banking and PSU debt category in the current scenario.

Our Key Recommendations

Our Focus Products

- ICICI Prudential Short Term Fund
- ICICI Prudential Corporate Bond Fund
- ICICI Prudential Banking and PSU Debt Fund (erstwhile ICICI Prudential Banking & PSU Debt Fund)

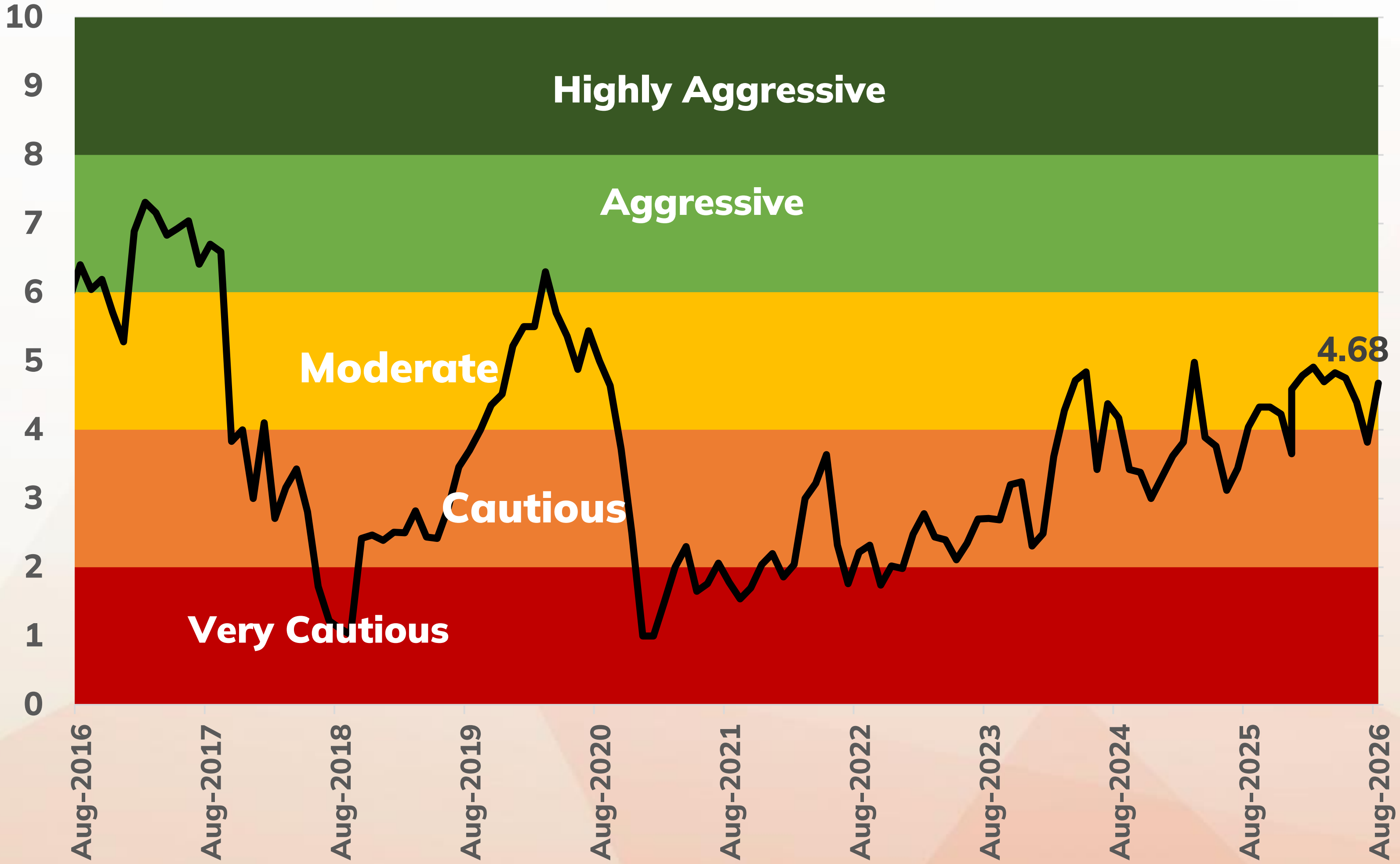
Tactical Approach

- ICICI Prudential Dynamic Term Fund (erstwhile ICICI Prudential All Seasons Bond Fund)

Suitable in Rising Interest Rates

- ICICI Prudential Floating Interest Rates Fund (erstwhile ICICI Prudential Floating Interest Fund)
- ICICI Prudential Income plus Arbitrage Omni FOF

Fixed-Income Approach
Debt Valuation Index



The index hints at moderate stance on duration. We suggest short-dated corporate bonds for the major part of the portfolio. We also recommend adding some duration to the portfolios, given the high yields.

We recommend **Accruals + Active Duration Management** in the current scenario.

Data as on Aug 31, 2026. Debt Valuation Index considers WPI, CPI, Sensex returns, Gold returns and Real estate returns over G-Sec yield, Current Account Balance, Fiscal Balance, Credit Growth and Crude Oil Movement for calculation. RBI – Reserve Bank of India. Debt Valuation Index is a proprietary model of ICICI Prudential AMC Ltd. (the AMC) used for assessing overall debt valuations. The AMC may also use this model for other facilities/features offered by the AMC and any other factor which the AMC may add/delete from time to time. SDL – State Development Loans.

Current Portfolio Positioning
Active Duration

Scheme	Average Maturity (in years)	Macaulay Duration (in years)	Modified Duration (in years)
ICICI Prudential Liquid Fund	0.11	0.11	0.10
ICICI Prudential Money Market Fund	0.43	0.42	0.40
ICICI Prudential Ultra Short Term Fund	0.50	0.43	0.39
ICICI Prudential Ultra Short to Short Term Fund (Erstwhile ICICI Prudential Savings Fund)	1.30	0.93	0.88
ICICI Prudential Floating Interest Rates Fund	2.54	1.78	1.68
ICICI Prudential Corporate Bond Fund	5.41	3.28	3.12
ICICI Prudential Credit Risk Fund	2.68	1.92	1.82
ICICI Prudential Banking and PSU Debt Fund	4.96	3.02	2.86
ICICI Prudential Short Term Fund	4.32	2.72	2.59
ICICI Prudential Medium Term Fund (Erstwhile ICICI Prudential Medium Term Bond Fund)	5.83	3.19	3.03
ICICI Prudential Dynamic Term Fund (Erstwhile ICICI Prudential All Seasons Bond Fund)	12.70	5.73	5.50

Data as on Aug 31, 2026. The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Modified Duration is the price sensitivity and the percentage change in price for a unit change in yield.

Current Portfolio Positioning
Focus on Accruals

Scheme	AAA & Equivalent Exposure#	AA & Equivalent and Below Exposure	YTM
ICICI Prudential Credit Risk Fund	25.2%	74.8%	8.53%
ICICI Prudential Medium Term Fund	33.6%	66.4%	8.29%
ICICI Prudential Dynamic Term Fund	62.9%	37.1%	8.03%
ICICI Prudential Short Term Fund	79.5%	20.5%	7.89%
ICICI Prudential Corporate Bond Fund	99.5%	0.5%	7.69%
ICICI Prudential Banking and PSU Debt Fund	99.1%	0.9%	7.63%
ICICI Prudential Ultra Short to Short Term Fund	85.7%	14.3%	7.37%
ICICI Prudential Ultra Short Term Fund	82.2%	17.8%	7.16%

The Yield to Maturity (YTM) mentioned is based on scheme portfolios dated Aug 31, 2026. YTM is the rate of return anticipated on a bond if held until maturity. This should not be considered as an indication of the returns that maybe generated by the scheme. The securities bought by the scheme may or may not be held till their respective maturities. Past performance may or may not be sustained in future.

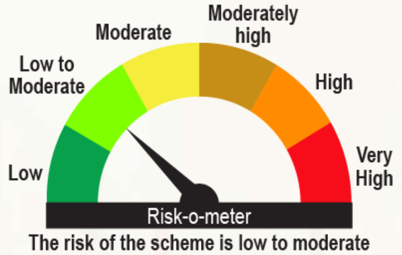
- AAA & Equivalent includes exposure to Sovereign rated securities, TREPs & Net Current Assets and A1+ securities.

Risk-o-meter

ICICI Prudential Liquid Fund
(An open ended liquid scheme. A relatively low interest rate risk and moderate credit risk.)

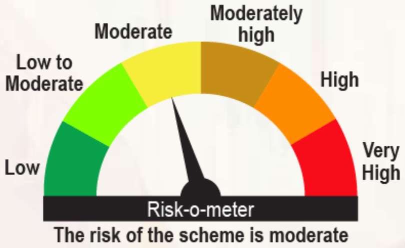
This product is suitable for investors who are seeking*:

- ❑ Short term savings solution
- ❑ A liquid fund that aims to provide reasonable returns commensurate with low risk and providing a high level of liquidity



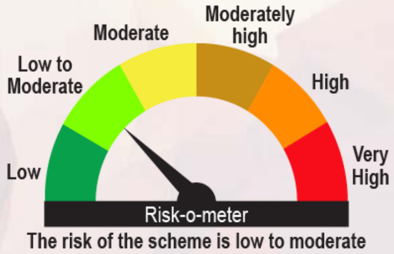
ICICI Prudential Banking and PSU Debt Fund (erstwhile ICICI Prudential Banking & PSU Debt Fund) (An open ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal bonds. A relatively high interest rate risk and moderate credit risk.) is suitable for investors who are seeking*:

- ❑ Short term savings
- ❑ An open ended debt scheme predominantly investing in debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds



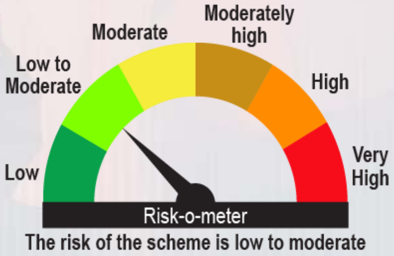
ICICI Prudential Money Market Fund (An open ended debt scheme investing in money market instruments. A relatively low interest rate risk and moderate credit risk.) is suitable for investors who are seeking*:

- ❑ Short term savings
- ❑ A money market scheme that seeks to provide reasonable returns, commensurate with low risk while providing a high level of liquidity



ICICI Prudential Ultra Short to Short Term Fund (erstwhile ICICI Prudential Savings Fund) (An open ended debt scheme investing in instruments such that the Macaulay Duration of the portfolio is between 6 months and 12 months. A relatively high interest rate risk and moderate credit risk.) is suitable for investors who are seeking*:

- ❑ Short term savings
- ❑ An open ended low duration debt scheme that aims to maximize income by investing in debt and money market instruments while maintaining optimum balance of yield, safety and liquidity.



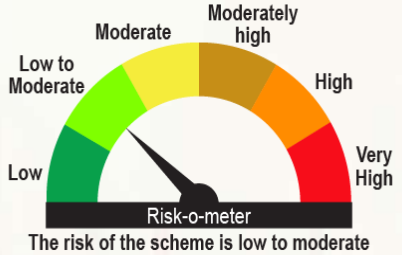
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them

Please note that the Risk-o-meter(s) specified above will be evaluated and updated on a monthly basis as per SEBI circular on Product Labeling in Mutual Fund schemes - Risk-o-meter. The above riskometers are as on Aug 31, 2026. Please refer to https://www.icicipruamc.com/media-center for more details.

Risk-o-meter

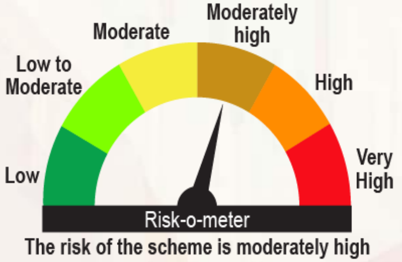
ICICI Prudential Floating Interest Rates Fund (erstwhile ICICI Prudential Floating Interest Fund) (An open ended debt scheme predominantly investing in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives). A relatively high interest rate risk and moderate credit risk.)

- ❑ Short term savings
- ❑ An open ended debt scheme predominantly investing in floating rate instruments.



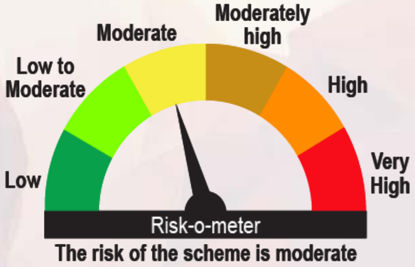
ICICI Prudential Dynamic Term Fund (erstwhile ICICI Prudential All Seasons Bond Fund) (An open ended dynamic debt scheme investing across duration. A relatively high interest rate risk and moderate credit risk.) is suitable for investors who are seeking*:

- ❑ All duration savings
- ❑ A debt scheme that invests in debt and money market instruments with a view to maximize income while maintaining optimum balance of yield, safety and liquidity.



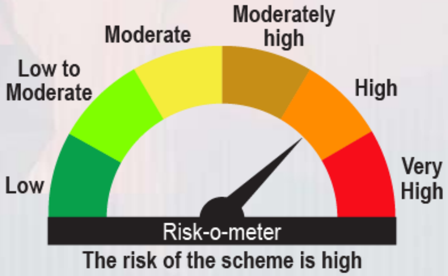
ICICI Prudential Ultra Short Term Fund (An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months and 6 months. A moderate interest rate risk and moderate credit risk.) is suitable for investors who are seeking*:

- ❑ Short term regular income
- ❑ An open ended ultra-short term debt scheme investing in a range of debt and money market instruments.



ICICI Prudential Credit Risk Fund (An open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds). A relatively high interest rate risk and relatively high credit risk.) is suitable for:

- ❑ Medium term savings.
- ❑ A debt scheme that aims to generate income through investing predominantly in AA and below rated corporate bonds while maintaining the optimum balance of yield, safety and liquidity.



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Risk-o-meter

ICICI Prudential Corporate Bond Fund
(An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and moderate credit risk.)

- ❑ Short term savings
- ❑ An open ended debt scheme predominantly investing in highest rate corporate bonds.

The risk of the scheme is moderate

ICICI Prudential Short Term Fund (An open ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 Year and 3 Years. A relatively high interest rate risk and moderate credit risk.) is suitable for investors who are seeking*:

- ❑ Short term income generation and capital appreciation solution
- ❑ A debt fund that aims to generate income by investing in a range of debt and money market instruments of various maturities.

The risk of the scheme is moderate

ICICI Prudential Medium Term Fund (erstwhile ICICI Prudential Medium Term Bond Fund) (An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 Years and 4 Years. The Macaulay duration of the portfolio is 1 Year to 4 years under anticipated adverse situation. A relatively high interest rate risk and moderate credit risk)is suitable for investors who are seeking*:

- ❑ Medium term savings
- ❑ A debt scheme that invests in debt and money market instruments with a view to maximize income while maintaining optimum balance of yield, safety and liquidity

The risk of the scheme is moderately high

ICICI Prudential Income Plus Arbitrage Omni FOF (Erstwhile ICICI Prudential Income Plus Arbitrage Active FOF)
(An open ended fund of funds scheme investing in units of domestic active and passive debt oriented and arbitrage schemes.) is suitable for investors who are seeking*:

- ❑ Medium to Short term savings
- ❑ An open ended fund of funds scheme investing in active and passive Debt oriented and arbitrage schemes.

The risk of the scheme is low to moderate

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them

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Potential Risk Class Matrix

The Potential risk class (PRC) matrix based on interest rate risk and credit risk.

ICICI Prudential Liquid Fund, ICICI Prudential Money Market Fund

Potential Risk Class			
Credit Risk→ Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)		B-I	
Moderate (Class II)			
Relatively High (Class III)			

ICICI Prudential Credit Risk Fund

Potential Risk Class			
Credit Risk→ Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)			C-III

ICICI Prudential Ultra Short Term Fund

Potential Risk Class			
Credit Risk→ Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)		B-II	
Relatively High (Class III)			

ICICI Prudential Ultra Short to Short Term Fund, ICICI Prudential Floating Interest Rates Fund, ICICI Prudential Medium Term Fund, ICICI Prudential Dynamic Term Fund, ICICI Prudential Corporate Bond Fund, ICICI Prudential Banking and PSU Debt Fund, ICICI Prudential Short Term Fund

Potential Risk Class			
Credit Risk→ Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)		B-III	

YTM Disclaimer

Scheme Name	ICICI Prudential Ultra Short to Short Term Fund	ICICI Prudential Banking and PSU Debt Fund	ICICI Prudential Corporate Bond Fund	ICICI Prudential Dynamic Term Fund	ICICI Prudential Money Market Fund	ICICI Prudential Floating Interest Rates Fund
Description	An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months and 12 months. A relatively high interest rate risk and moderate credit risk.	An open ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal bonds. A relatively high interest rate risk and moderate credit risk.	An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and moderate credit risk.	An open ended dynamic debt scheme investing across duration. A relatively high interest rate risk and moderate credit risk.	An open ended debt scheme investing in money market instruments. A relatively low interest rate risk and moderate credit risk.	(An open ended debt scheme predominantly investing in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives). A relatively high interest rate risk and moderate credit risk.)
Annualised Portfolio YTM*:	7.37%	7.63%	7.69%	8.03%	6.78%	7.54%
Macaulay Duration	0.93 Years	3.02 Years	3.28 Years	5.73 Years	0.42 Years	1.78 Years
Residual Maturity	1.30 Years	4.96 Years	5.41 Years	12.70 Years	0.43 Years	2.54 Years

As per AMFI Best Practices Guidelines Circular No. AMFI/ 35P/ MEM-COR/ 72 / 2022-23 dated December 31, 2022 on Standard format for disclosure Portfolio YTM for Debt Schemes, Yield of the instrument is disclosed on annualized basis as provided by Valuation agencies. *in case of semi annual YTM, it will be annualized.

The Yield to Maturity (YTM) mentioned is based on scheme portfolio dated Aug 31, 2026. YTM is the rate of return of a bond if held until maturity. This should not be considered as an indication of the returns that maybe generated by the scheme. The securities bought by the scheme may or may not be held till their respective maturities.

YTM Disclaimer

Scheme Name	ICICI Prudential Short Term Fund	ICICI Prudential Credit Risk Fund	ICICI Prudential Medium Term Fund	ICICI Prudential Ultra Short Term Fund	ICICI Prudential Liquid Fund
Description	An open ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 Year and 3 Years. A relatively high interest rate risk and moderate credit risk.	An open ended debt scheme predominantly investing in AA and below rated corporate bonds. A relatively high interes rate risk and relatively high credit risk	An Open Ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 Years and 4 Years The Macaulay duration of the portfolio is 1 Year to 4 years under anticipated adverse situation. A relatively high interest rate risk and moderate credit risk.	An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months and 6 months. A moderate interest rate risk and moderate credit risk	An open ended liquid scheme. A relatively low interest rate risk and moderate credit risk.
Annualised Portfolio YTM*:	7.89%	8.53%	8.29%	7.16%	6.18%
Macaulay Duration	2.72 Years	1.92 Years	3.19 Years	0.43 Years	0.11 Years
Residual Maturity	4.32 Years	2.68 Years	5.83 Years	0.50 Years	0.11 Years

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Disclaimer

The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price

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

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The Schemes have undergone certain categorization changes in accordance with the Master Circular for Mutual Funds, with effect from Aug 26, 2026. For complete details refer to the addendum on the AMC's website.