THE BIG PICTURE

BAJAJ MUTUAL FUND

FOMC (JULY 2026) :

FED HOLDS RATES, BUT BOND MARKETS SIGNAL UNEASE

30th July 2026

KEY TAKEAWAYS OF THE MEETING

- **Rates on Hold, Inflation in Focus**
  The US Federal Reserve kept the federal funds rate unchanged at 3.50%–3.75%, balancing resilient economic growth and a stable labor market against inflation that remains above its 2% target.
- **Growing dissent**
  The decision was passed by a 9–3 vote, with three members preferring a 25-bps rate hike, signaling a growing hawkish tilt within the FOMC.
- **Markets to Set the Course**
  The committee continued to step away from forward guidance, welcoming the rise in real and nominal Treasury yields as a sign that markets and tighter financial conditions are responding directly to incoming data.
- **Rate hikes remain on the table**
  Markets nevertheless continue to expect further tightening, pricing in a 65% probability of a rate hike in September and an 86% probability by December.

FED'S DECISION STEEPENS THE US YIELD CURVE

The Fed's inflation concern, without immediate action or clear guidance, triggered a sharp yield-curve steepening. The 2-year yield fell as near-term hike expectations eased, while 10 and 30-year yields rose on longer-term inflation and policy uncertainty, with the 30-year yield crossing 5.20% for the first time since 2007. This rise at the long end could reinforce the recent increase in mortgage rates—the average 30-year fixed rate has already climbed from 6.43% to 6.58% in July—further tightening housing conditions even without a policy-rate hike.

WHAT THIS MEANS FOR US?

On the domestic front, supportive liquidity, improving foreign flows, ongoing debt-market reforms and growing optimism around India's potential inclusion in the Bloomberg Global Aggregate Bond Index are creating an increasingly positive ecosystem for Indian fixed income. While global volatility and elevated US yields remain key risks, they are also creating pockets of mispricing that can be capitalized on through a nimble investment approach. The RBI is widely expected to keep the repo rate unchanged at 5.25% next week as it assesses inflation, crude oil and global rate movements. Overall, the short-to-medium segment appears relatively better placed, offering reasonable carry and greater insulation from global shocks than the long end.

Source: The Federal Open Market Committee (FOMC) held on 30th July 2026, FedWatch Tool, Bloomberg.