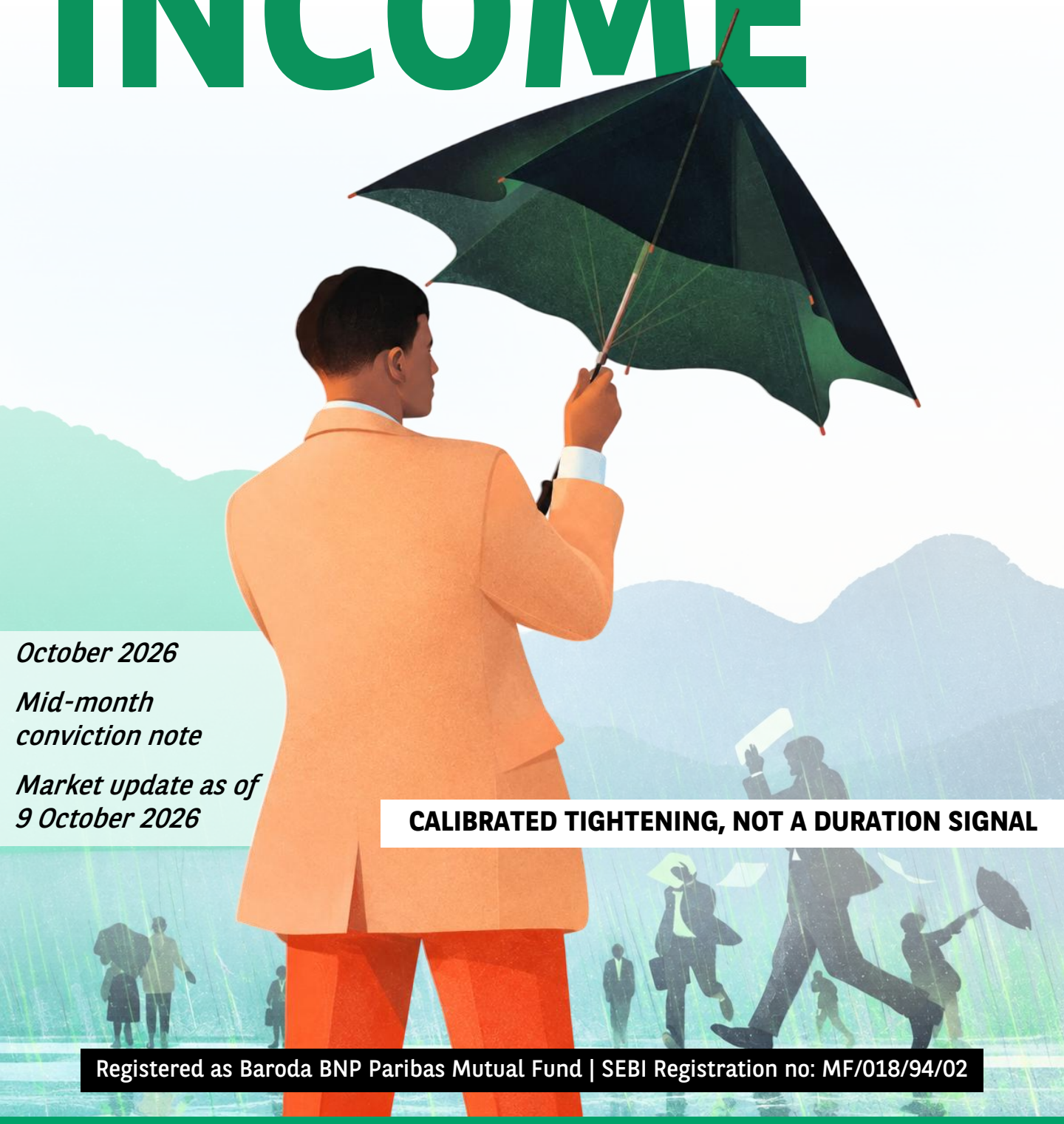
Baroda BNP PARIBAS MUTUAL FUND

FIXED INCOME



October 2026

Mid-month conviction note

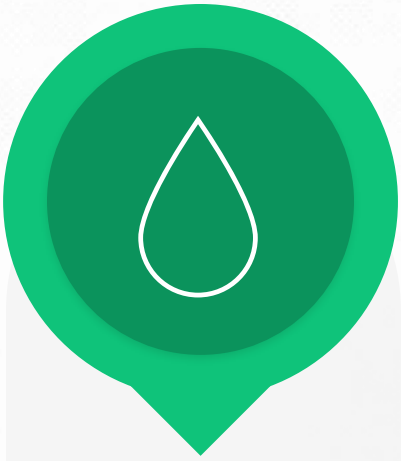
Market update as of 9 October 2026

CALIBRATED TIGHTENING, NOT A DURATION SIGNAL

Registered as Baroda BNP Paribas Mutual Fund | SEBI Registration no: MF/018/94/02

Baroda BNP PARIBAS MUTUAL FUND

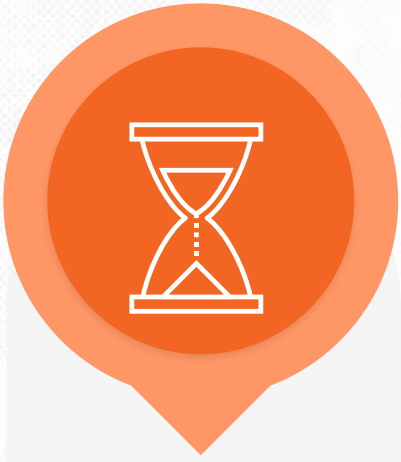
THE BOTTOM LINE



LIQUIDITY

RBI is shifting from rate action to calibrated, durable absorption

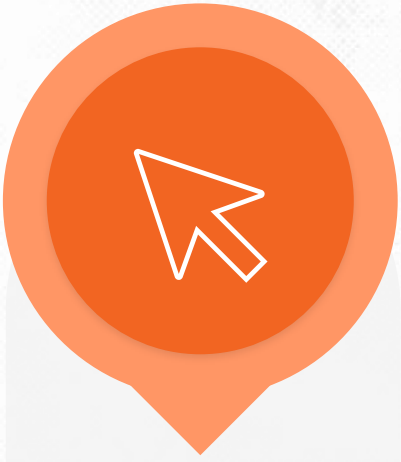
2



DURATION

Remain cautious; avoid chasing the sell-off.

1



CARRY

Prefer selective front/intermediate carry with disciplined credit & liquidity selection

3

Baroda BNP PARIBAS MUTUAL FUND

The rate cycle has turned—and the RBI is signalling that the first hike may not be the last. With inflation risks still tilted higher, a softer rupee and oil-price uncertainty, the case for extending duration has weakened. Globally, sovereign financing needs continue to absorb capital, while large AI infrastructure funding adds to competition; geopolitical risk and energy-market volatility keep term premia elevated.
We prefer carry with selectivity, while preserving room to add duration only when risk-reward improves.

The policy hike was expected; the message is that tightening may not be over



Prashant Pimple

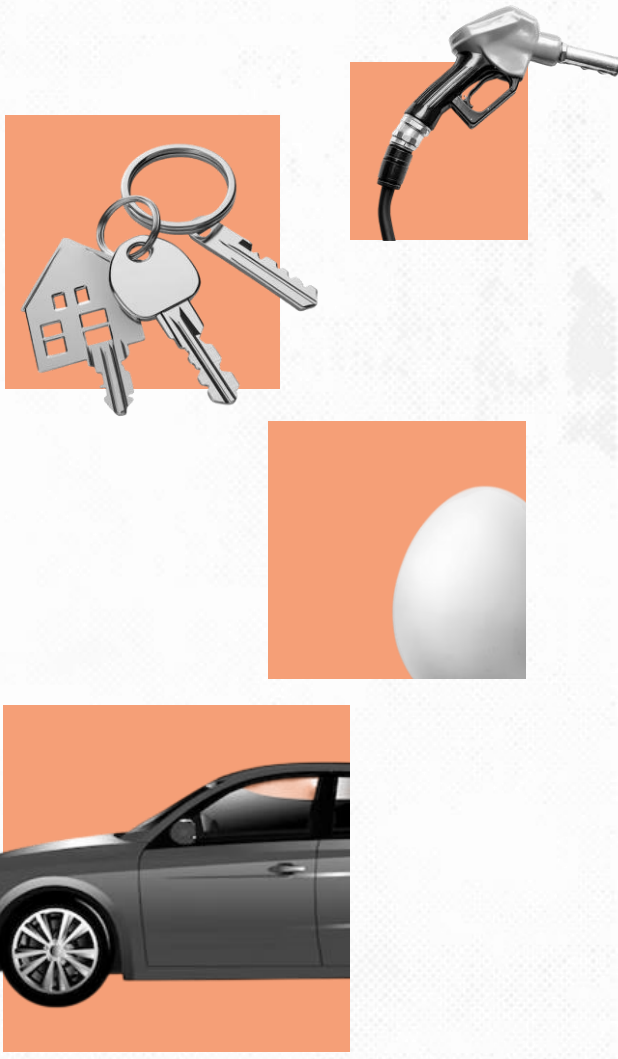
Chief Investment Officer - Fixed Income

1. MACRO

THE POLICY CYCLE HAS TURNED

The hike was the signal; the stance is the message.

The Monetary Policy Committee delivered 25-bps hike raising repo rate to 5.50% as expected by the market, but the more consequential signal was the shift in stance from Neutral to Calibrated Tightening by a 4–2 majority. This marks a clear tightening bias. With growth resilient and inflation risks skewed to the upside, a further 50 bps of cumulative hikes by April 2027 is a plausible scenario, although the timing and extent will remain data-dependent and guided by incoming inflation, currency and growth data. The RBI also revised its FY27 GDP growth forecast to 7.1% from 6.7% and its FY27 CPI inflation forecast to 5.2% from 5.1%



Food-price persistence, monsoon-related supply risks, elevated crude and rupee weakness remain key upside risks to inflation. A sustained moderation in these pressures could temper the need for further action; renewed pressure would strengthen the case for additional hikes. The market should therefore not treat the October move as a one-off event or assume that the policy rate has reached its terminal level. **The RBI's post-policy use of longer-tenor VRRRs VRRRs (Variable Rate Reverse Repo), followed by the ₹25,000 crore OMO (Open Market Operation) sale announcement, is consistent with the liquidity-normalisation path flagged in our earlier policy and factsheet commentary.**

2. GLOBAL RATES

THE DURATION HURDLE REMAINS HIGH

Global yields remain under pressure as capital for building out massive AI infrastructure is competing with capital for sovereign financing needs leading to crowding out effect. Geopolitical conflict and energy-market uncertainty add another layer of risk through inflation expectations and risk premia. The US 10-year Treasury yield touched 5.342% on 01-10-2026, its highest level since early 2002, surpassing the previous peak recorded in 2007. For Indian fixed income, this leaves limited room to rely on a global duration rally as the catalyst for a sustained decline in domestic long-end yields.



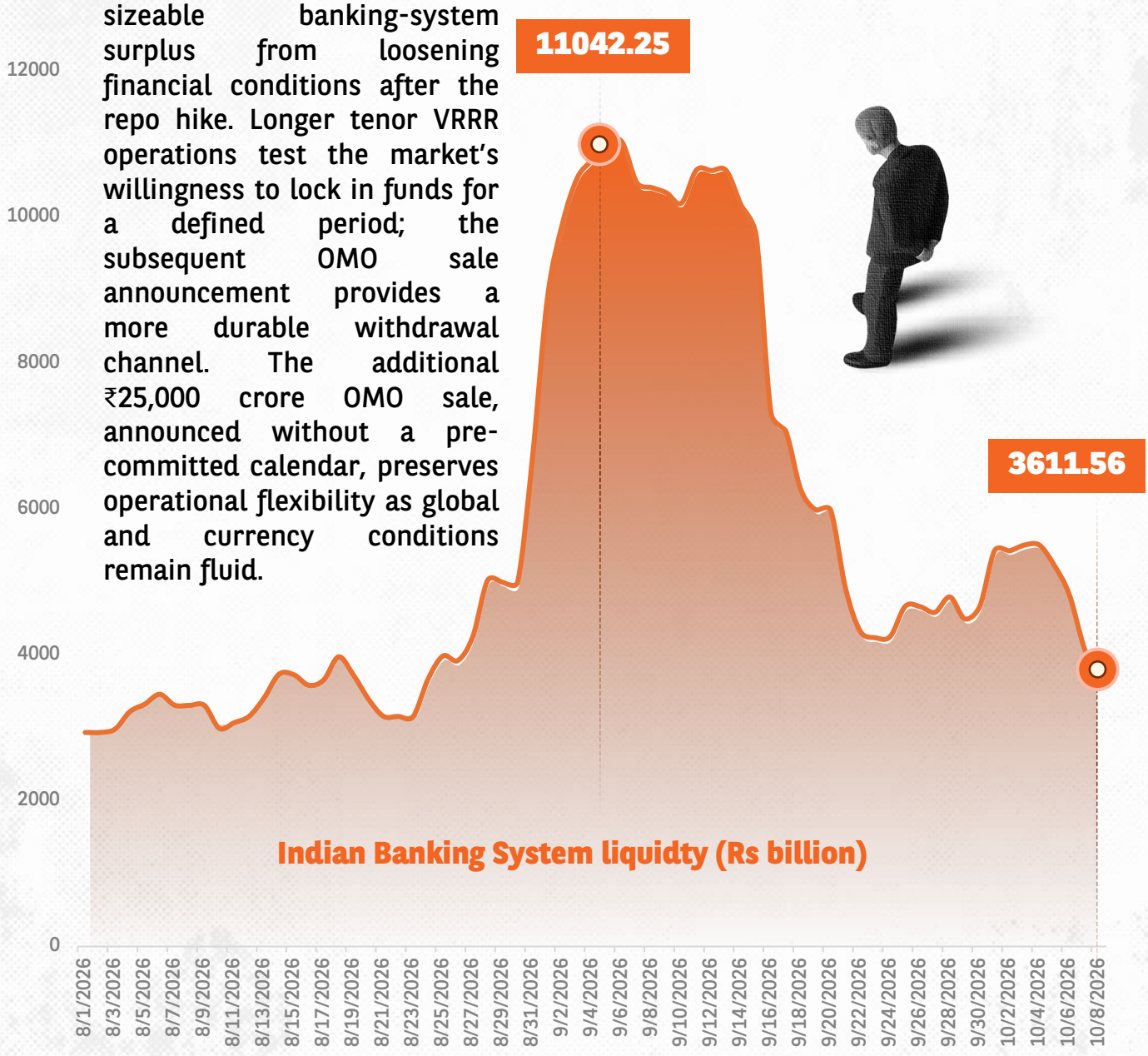
Against this backdrop, the domestic policy shift adds to, not offsets, the global headwind. We continue to favour patience over outright duration extension. Higher yields improve prospective carry and entry levels, but do not by themselves establish that the risk-reward has turned decisively positive.

Source: Bloomberg. Data range: 09-10-2025 to 09-10-2026.

3. LIQUIDITY

FROM POLICY SIGNAL TO OPERATIONAL ABSORPTION

The RBI's post-policy actions are consistent with a deliberate effort to prevent the sizeable banking-system surplus from loosening financial conditions after the repo hike. Longer tenor VRRR operations test the market's willingness to lock in funds for a defined period; the subsequent OMO sale announcement provides a more durable withdrawal channel. The additional ₹25,000 crore OMO sale, announced without a pre-committed calendar, preserves operational flexibility as global and currency conditions remain fluid.

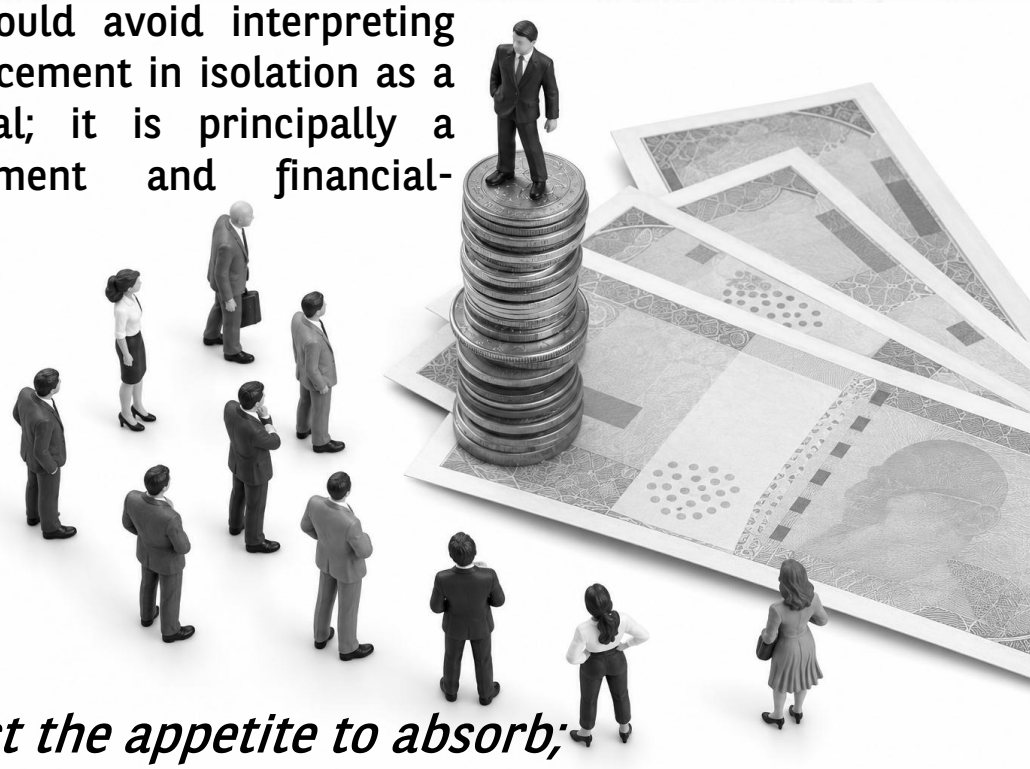


Source: Bloomberg. Data range: 09-10-2025 to 09-10-2026.

3. LIQUIDITY

FROM POLICY SIGNAL TO OPERATIONAL ABSORPTION

This sequence is directionally consistent with the risk identified in our earlier policy note and start-of-month factsheet: if VRRR absorption is not sufficiently durable, the RBI can supplement it with outright sales. The measures should support transmission toward the new policy-rate corridor, while keeping front-end funding conditions and market liquidity important drivers of near-term volatility. We would avoid interpreting the OMO announcement in isolation as a fresh rate signal; it is principally a liquidity-management and financial-conditions signal.



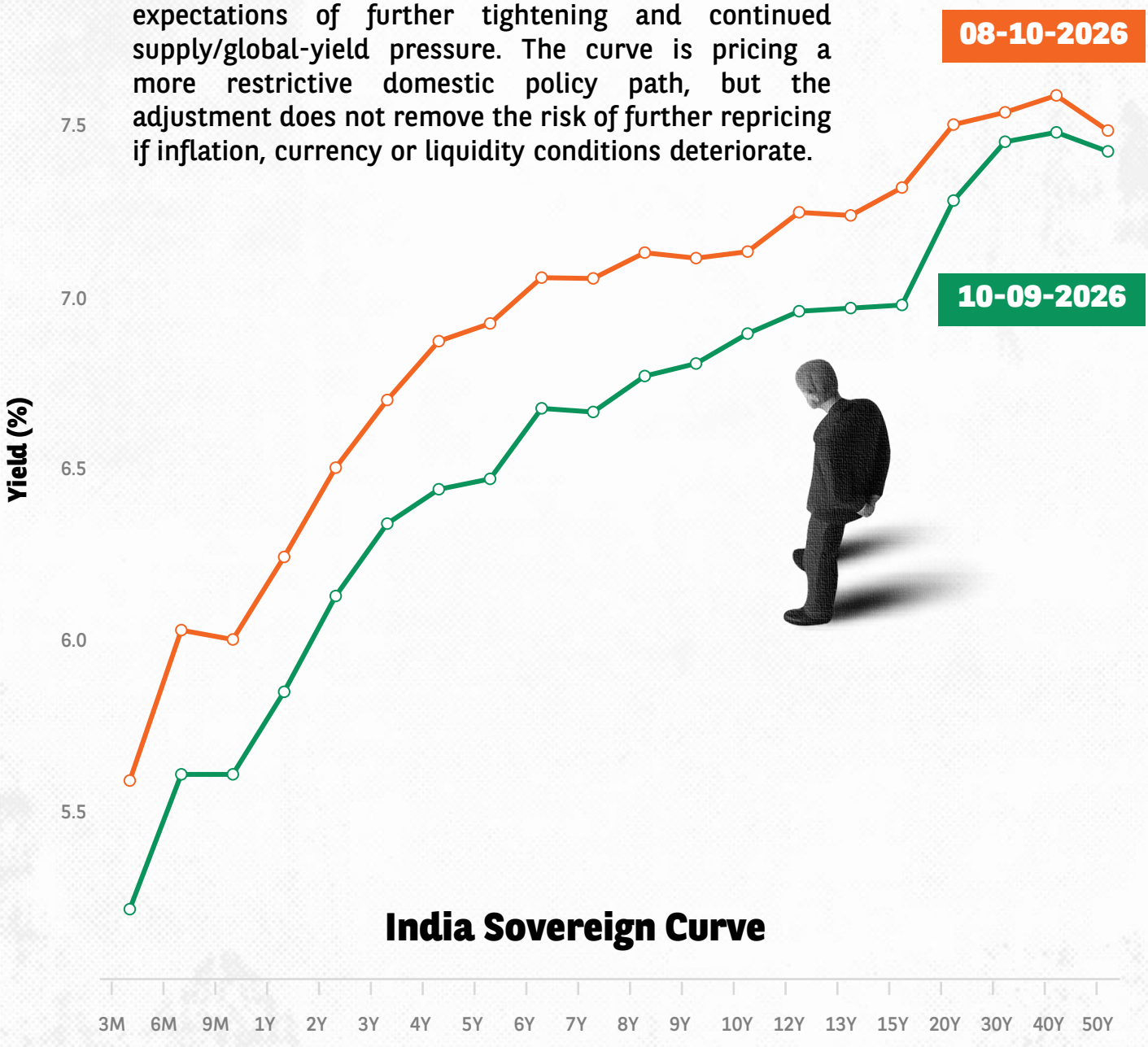
VRRRs test the appetite to absorb; OMO sales make the withdrawal more durable

Source: Bloomberg. Data range: 09-10-2025 to 09-10-2026.

4. RATES

HIGHER YIELDS, BUT NOT YET A GREEN LIGHT

The sovereign curve has repriced materially since last month. Yields have moved higher across the sampled tenors as of 08-10-2026, reflecting the policy-rate reset, expectations of further tightening and continued supply/global-yield pressure. The curve is pricing a more restrictive domestic policy path, but the adjustment does not remove the risk of further repricing if inflation, currency or liquidity conditions deteriorate.



Source: Cogencis. Data range: 10-09-2026 to 08-10-2026

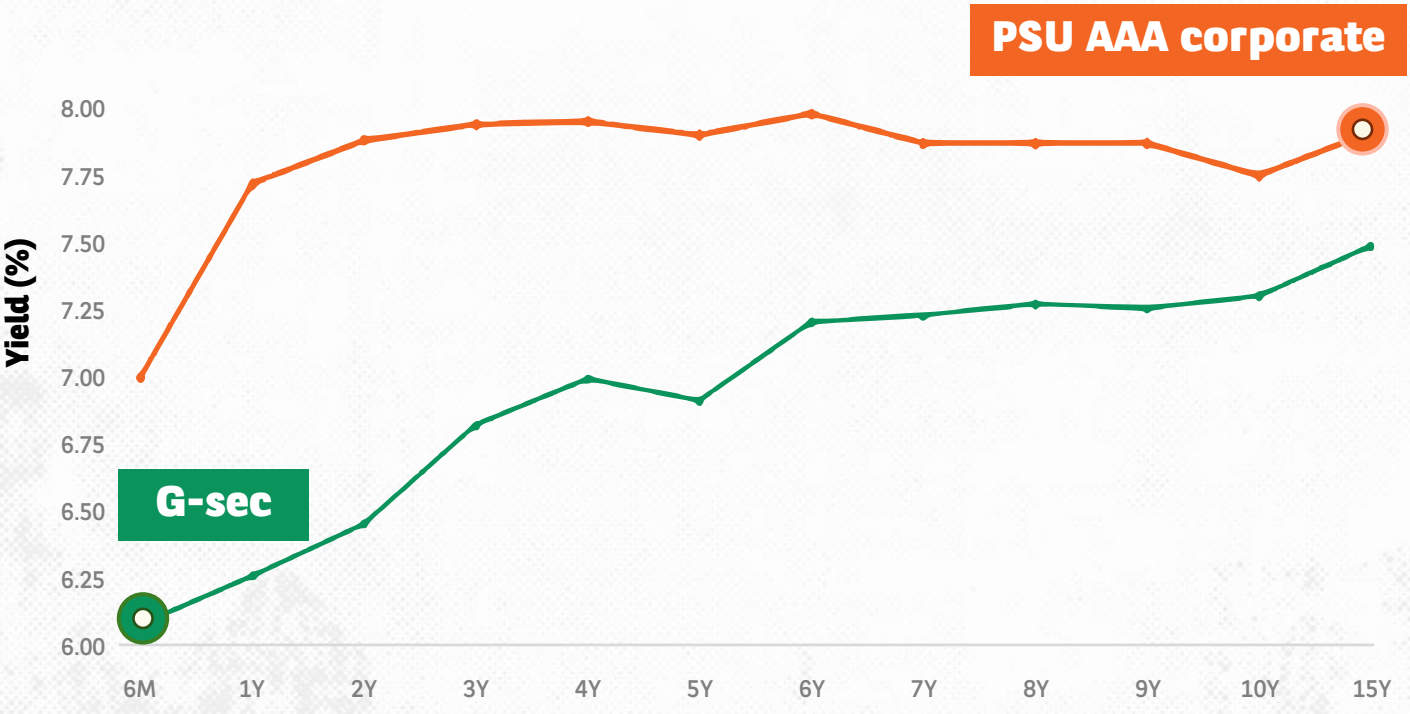
Sovereign curve observations shown at selected tenors.

Corporate bonds: 1–3Y offers attractive carry

The PSU AAA corporate curve shows the yield pickup over comparable G-sec yields across tenors, with the 1–3 year segment offering a compelling balance of carry and spread cushion without requiring a large duration extension. The table below highlights the key point: spreads remain meaningful at 1Y–3Y, particularly for investors prioritising accrual and roll-down. Selectivity on issuer quality and secondary-market liquidity remains essential.

Full yield curve | G-sec vs PSU AAA corporate

Tenor	PSU AAA yield (%)	Comparable G-sec (%)	Spread (bps)
1Y	7.72	6.26	1.46
2Y	7.88	6.45	1.43
3Y	7.94	6.82	1.12

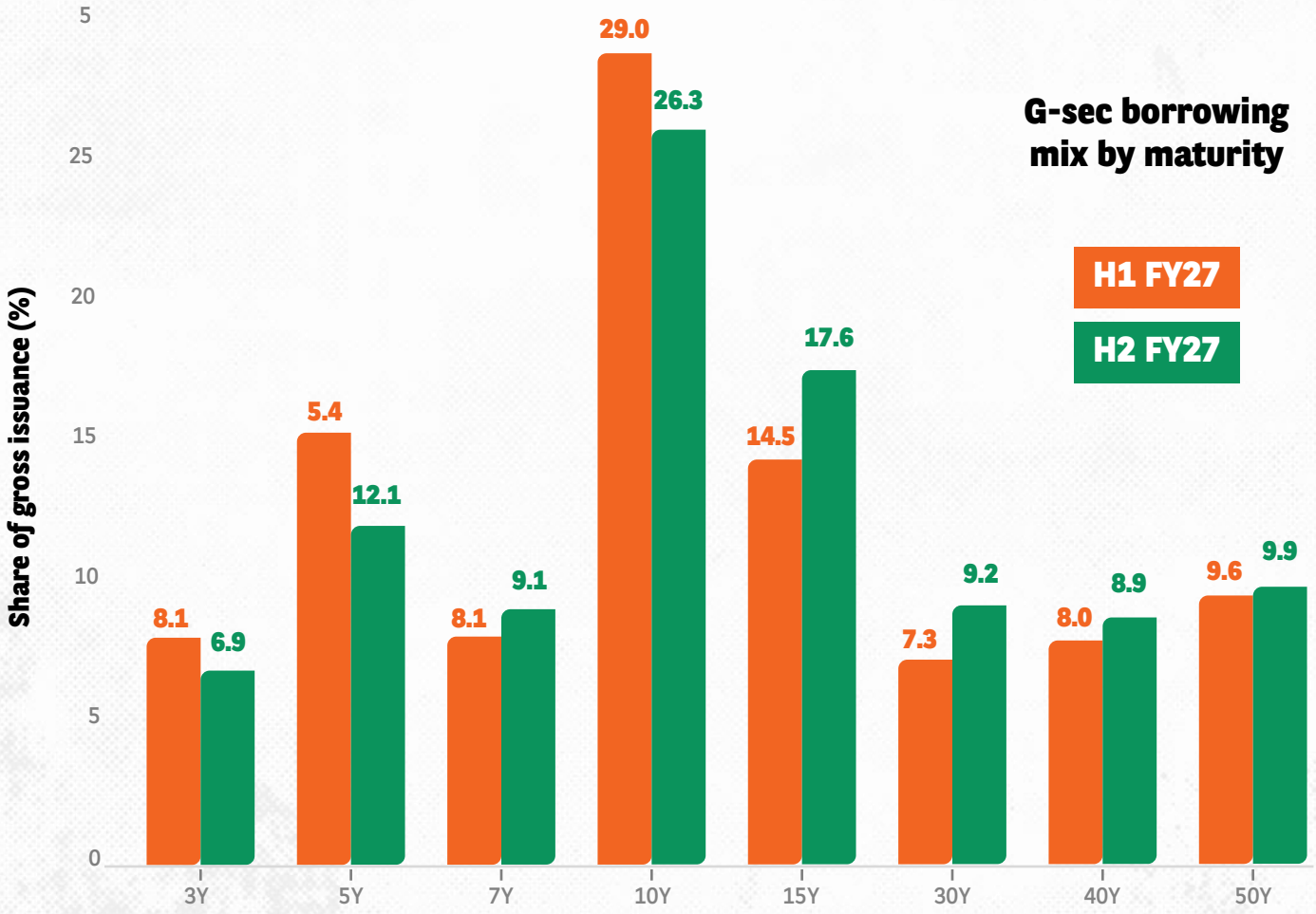


Source: Cogencis. Curve snapshot: 08-10-2026.

5. G-SEC BORROWING CALENDAR

SUPPLY REMAINS A DURATION HEADWIND

The H2 FY27 gross dated-securities borrowing programme stands at ₹7.86 lakh crore, compared with approximately ₹8.20 lakh crore in H1. The maturity mix shifts supply towards the belly and long end: the 7–15 year segment rises to 53.1% of H2 issuance from 51.6% in H1, while the 30–50 year share increases to 28.0% from 24.9%. By contrast, the 3–5 year share declines to 19.0% from 23.5%. This composition leaves supply pressure concentrated in the belly and long end, reinforcing the case for tactical rather than broad duration exposure.



Source: RBI / Ministry of Finance. Maturity shares: H1 FY27 and H2 FY27 borrowing calendars.

6. INR

DEFENCE AND LIQUIDITY ARE NOW LINKED

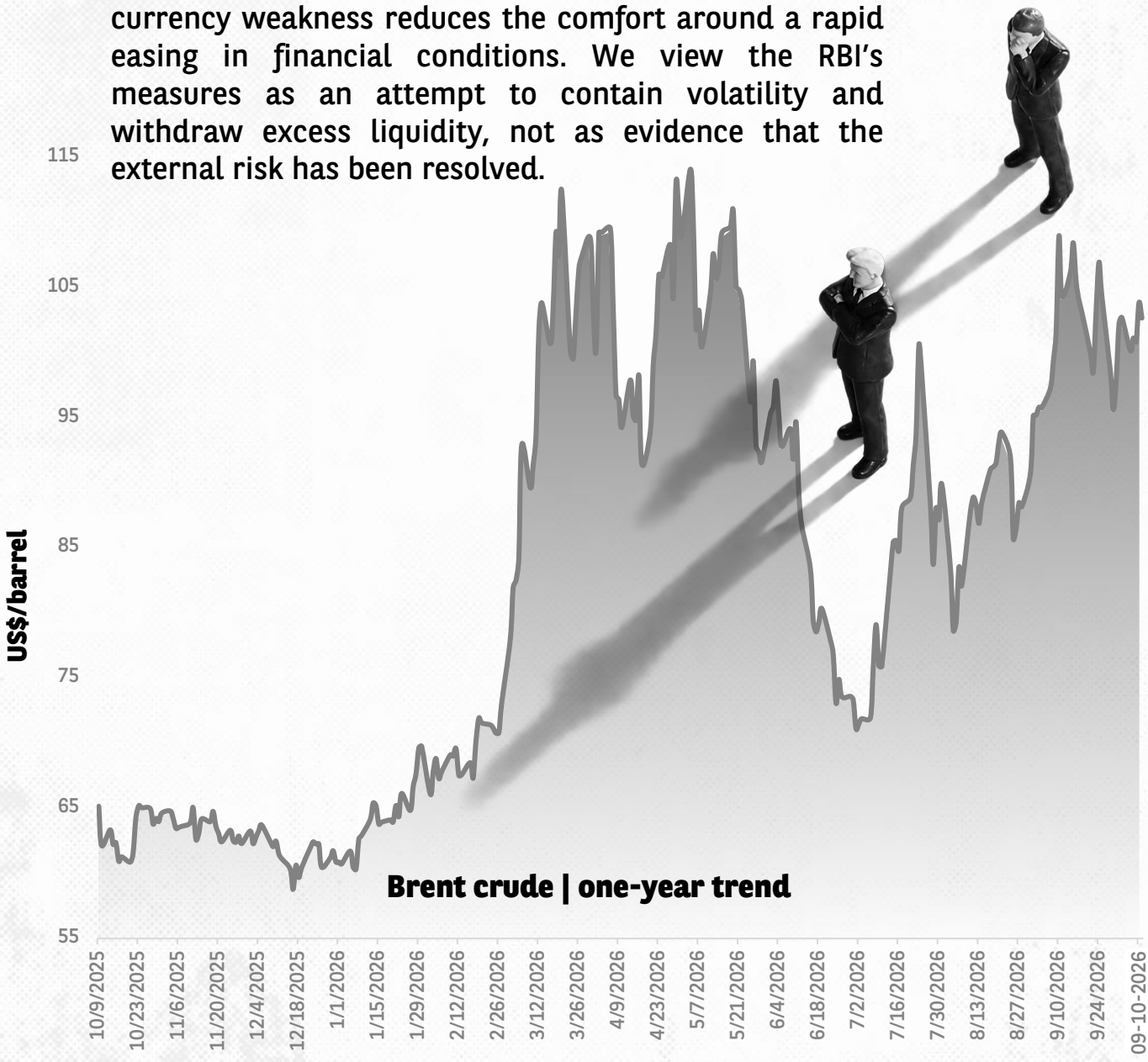
The rupee remains under pressure from the persistent external shock, elevated oil prices and global risk aversion. The RBI's October measures targeted FX intervention for oil marketing companies, tighter requirements around FX derivative positions, higher daily CRR maintenance and further OMO sales seek to moderate currency volatility while also absorbing domestic liquidity. The currency and liquidity channels are therefore increasingly connected: measures that reduce dollar demand or FX hedging can support the rupee, but may also affect forward premia and domestic funding conditions.



Source: Cogencis. Data range: 09-10-2025 to 09-10-2026.

Crude remains the inflation transmission channel.

Brent remained around US$100/bbl in early October, keeping imported inflation and the current-account channel in focus. The combination of oil-price risk and currency weakness reduces the comfort around a rapid easing in financial conditions. We view the RBI's measures as an attempt to contain volatility and withdraw excess liquidity, not as evidence that the external risk has been resolved.



Brent crude | one-year trend

Source: Cogencis. Data range: 09-10-2025 to 09-10-2026.

7. OUR PLAYBOOK

PROTECT CARRY, PRESERVE OPTIONALITY

Our stance remains cautious on outright duration. The RBI's shift to Calibrated Tightening, the possibility of further data-dependent hikes, continued liquidity absorption and elevated global term premia argue against a broad duration extension. With the repo rate reset to 5.50% and the central bank actively deploying absorption tools like longer-tenor VRRRs and OMO sales, front-end transmission is accelerating. This deliberate tightening of domestic financial conditions, coupled with a structurally higher global term premium driven by massive AI infrastructure borrowing, limits the scope for any near-term domestic duration rally.

Consequently, we continue to favour patience over chasing recent market sell-offs. We prefer to retain flexibility, use dislocations selectively and let accrual do more of the work while the policy and global rates outlook settles. Tactically, our focus is anchored on deploying capital into high-quality, liquid money market instruments and selected short-to-intermediate corporate or PSU bonds. This allows us to harvest the newly reset, elevated carry across front-end yields while carefully insulating the portfolio from mark-to-market volatility and prolonged macro uncertainty.

7. OUR PLAYBOOK

PROTECT CARRY, PRESERVE OPTIONALITY

Duration strategy. For duration-oriented portfolios, we are maintaining a defensive barbell strategy, anchoring allocations at the lower end of the permitted or suitable range to counter the shift to Calibrated Tightening. On one side, we maintain a meaningful allocation to T-bills and short duration instruments to anchor the portfolio; on the other, we hold selective long G-sec exposure, including the benchmark 10-year. The front-end allocation provides vital liquidity, high-quality carry, and maximum resilience against mark to market volatility as the RBI tightens financial conditions. Conversely, the long G-sec sleeve preserves essential convexity, ensuring the portfolio is structurally positioned to participate if domestic inflation moderates or the global rates backdrop shifts favorably.

Carry strategy. Carry continues to function as our primary return engine, allowing us to actively harvest yield while keeping overall portfolio duration tightly controlled. In light of the recent curve repricing, the front and intermediate segments offer highly attractive absolute carry. Our portfolios are already using high-quality CDs, short/intermediate corporate and PSU bonds, selected non-AAA exposure, PTCs and REITs/InvITs to diversify sources of carry and income. In suitable portfolios, non-AAA exposure of around 10–15% is being used within mandate, liquidity and internal credit limits to enhance YTM. PTCs are being used selectively to improve portfolio YTM where pool quality, structure and cash-flow visibility support the risk-reward. REITs and InvITs are also being used within applicable SEBI-prescribed limits as an alternative-asset-class income strategy. The emphasis remains on disciplined issuer, structure and liquidity selection rather than adding credit risk indiscriminately.

7. OUR PLAYBOOK

PROTECT CARRY, PRESERVE OPTIONALITY

Strategy	Current stance	Positioning approach	Rationale
Duration	Cautious / lower end of range	Avoid broad extension; add tactically after better entry points	Further hikes and global term premia remain risks
Money market / carry	Constructive	Maintain selective front-end exposure; focus on liquidity and issuer quality	Capture higher accrual with lower duration sensitivity
Corporate bonds	Selective / constructive in short-intermediate tenors	Prefer high-quality PSU/bank/corporate exposures where spreads compensate for risk	Carry and roll-down without excessive duration
InvITs	Selective / active	Used within applicable SEBI-prescribed limits and portfolio liquidity parameters	Maintain diversification while managing liquidity/valuation risk
PTCs	Selective	Retain focus on pool quality, structure and cash-flow visibility	Enhance accrual only where risk is adequately compensated
Gilt / duration-oriented funds	Defensive	Preserve optionality; manage duration actively within mandate	Retain ability to add duration if inflation/global yields improve

PORTFOLIO POSITIONING

Fund Category	Curve Segment	Positioning
Overnight Fund and Liquid Fund	Overnight–3M	Maintain lower maturity, TREPS/repos expecting liquidity neutralising measures from RBI.
Money Market	1M–1Y	Overweight on 6M CDs/CPs given attractive carry in 3M-6M and upward bias on rates
Ultra Short Term and Ultra Short to Short Term	6M–1Y	Maintain Neutral duration Strategy by blending accruals overweight on 6M CD/CP given steepness within curve
Short Term	1Y–3Y	Operating at lower bound of duration bucket and blending with accruals for better risk adjusted returns
Corporate Bond	1Y–5Y	Operating at lower bound of duration bucket and blending with structured papers and INVITs for better risk adjusted returns. Running a AAA strategy
Hybrids Debt Allocation	1Y–5Y	Operating at lower bound of duration bucket and blending with accruals and INVITs for better risk adjusted returns.
Gilt Fund	Across SOV Curve	Barbell strategy with cash, Bills and long and liquid Gsecs to achieve relatively lower duration given upward bias on rates
Dynamic Term	Flexible	Currently replicating short/corporate bond fund strategy given the interest rate scenario.

RISKS TO OUR VIEW



Risk / catalyst	Direction	Market implication
Food inflation, crude or INR pressure persists	Bearish for duration	Further hike expectations; yields and term premia remain elevated
RBI liquidity absorption exceeds expectations	Mixed to bearish	Tighter front-end conditions; potential curve volatility
Global yields remain elevated on issuance and AI capex funding	Bearish for duration	Higher global term premium limits domestic rally potential
Inflation and crude moderate; global yields stabilise	Supportive	Could create a better entry point for selective duration additions

Baroda BNP Paribas 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 scheme)

This product is suitable for investors who are seeking*:

- Capital appreciation and regular income in long term.
- Investment primarily in AA+ and above rated corporate bonds and the rest in debt and money market instruments.

Scheme Riskometer^^



Investors understand that their principal will be at Low to Moderate risk.

Benchmark (Tier 1) Riskometer^



Benchmark riskometer is at Low to Moderate risk.

^^Riskometer For Scheme: basis it's portfolio, ^Riskometer For Benchmark (CRISIL Corporate Debt A-II Index): basis it's constituents; as on September 30, 2026

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

Baroda BNP Paribas Dynamic Term Fund

(An Open ended Dynamic Debt Scheme investing across duration. A Relatively High Interest Rate Risk and Moderate Credit Risk Scheme)

This product is suitable for investors who are seeking*:

- Regular income in long term.
- Investments in debt and money market instruments .

Scheme Riskometer^^



Investors understand that their principal will be at Moderate risk.

Benchmark (Tier 1) Riskometer^



Benchmark riskometer is at Moderate risk.

^^Riskometer For Scheme: basis it's portfolio, ^Riskometer For Benchmark (CRISIL Dynamic Bond A-III Index): basis it's constituents; as on September 30, 2026

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

Baroda BNP Paribas Gilt Fund

(An open-ended debt scheme investing in government securities across maturity. A Relatively High Interest Rate Risk and Low Credit Risk)

This product is suitable for investors who are seeking*:

- Credit risk free regular Income over long term.
- Investment only in Government (both Central and State Government) Securities.

Scheme Riskometer^^



Investors understand that their principal will be at Moderate risk.

Benchmark (Tier 1) Riskometer^



Benchmark riskometer is at Moderate risk.

^^Riskometer For Scheme: basis it's portfolio, ^Riskometer For Benchmark (CRISIL Dynamic Gilt Index): basis it's constituents; as on September 30, 2026

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

Baroda BNP Paribas 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*:

- Regular income over short term with high level of liquidity.
- Investment predominantly in money market (i.e. CP/CDs) instruments.

Scheme Riskometer^^



Investors understand that their principal will be at Low to Moderate risk.

Benchmark (Tier 1) Riskometer^



Benchmark riskometer is at Low to Moderate risk.

^^Riskometer For Scheme: basis it's portfolio, ^Riskometer For Benchmark (CRISIL Liquid Debt A-I Index): basis it's constituents; as on September 30, 2026

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

Baroda BNP Paribas Money Market Fund

(An open-ended debt scheme investing in money market instruments. A Relatively Low Interest Rate Risk and Moderate Credit Risk)

This product is suitable for investors who are seeking*:

- Regular income over short term.
- Investments in money market instruments having maturity upto 1 year.

Scheme Riskometer^^



Investors understand that their principal will be at Low to Moderate risk.

Benchmark (Tier 1) Riskometer^



Benchmark riskometer is at Low to Moderate risk.

^^Riskometer For Scheme: basis it's portfolio, ^Riskometer For Benchmark (CRISIL Money Market A-I Index): basis it's constituents; as on September 30, 2026

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

Baroda BNP Paribas Overnight Fund

(An open-ended debt scheme investing in overnight securities. A Relatively Low Interest Rate Risk and Relatively Low Credit Risk)

This product is suitable for investors who are seeking*:

- Generate returns, commensurate with low risk and high level of liquidity.
- Invest in overnight securities having maturity of one business day.

Scheme Riskometer^^



Investors understand that their principal will be at Low risk.

Benchmark (Tier 1) Riskometer^



Benchmark riskometer is at Low risk.

^^Riskometer For Scheme: basis it's portfolio, ^Riskometer For Benchmark (CRISIL Liquid Overnight Index): basis it's constituents; as on September 30, 2026

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

Baroda BNP Paribas 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)

This product is suitable for investors who are seeking*:

- Regular income over short term.
- Investment predominantly in Money Market Instruments (i.e. CP/CD) and Short Term Debt Market Instruments.

Scheme Riskometer^^



Investors understand that their principal will be at Moderate risk.

Benchmark (Tier 1) Riskometer^



Benchmark riskometer is at Low to Moderate risk.

^^Riskometer For Scheme: basis it's portfolio, ^Riskometer For Benchmark (CRISIL Short Duration Debt A-II Index): basis it's constituents; as on September 30, 2026

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

^Concept of Macaulay duration:

The Macaulay Duration is a measure of a bond's sensitivity to interest rate changes. It is expressed in annual terms. It 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. Factors like a bond's price, maturity, coupon, yield to maturity among others impact the calculation of Macaulay duration.

Baroda BNP Paribas 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 relatively Moderate interest rate risk and Moderate Credit Risk)

This product is suitable for investors who are seeking*:

- Regular income with convenience of liquidity over ultra-short term.
- Investments in a basket of debt and money market instruments such that the Macaulay duration^ of the portfolio is between 3 months and 6 months.

Scheme Riskometer^^



Investors understand that their principal will be at Low to Moderate risk.

Benchmark (Tier 1) Riskometer^



Benchmark riskometer is at Low to Moderate risk.

^^Riskometer For Scheme: basis it's portfolio, ^Riskometer For Benchmark (CRISIL Ultra Short Duration Debt A-I Index): basis it's constituents; as on September 30, 2026

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

^Concept of Macaulay duration:

The Macaulay Duration is a measure of a bond's sensitivity to interest rate changes. It is expressed in annual terms. It 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. Factors like a bond's price, maturity, coupon, yield to maturity among others impact the calculation of Macaulay duration.

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