Pricing to remain key in corporate bond mkt this yr

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A neutral monetary policy stance, heavy government borrowing, and issuers adjusting to a higher-for-longer yield environment have set the stage for a largely stable corporate bond market in 2026.

Despite a 125-basis-point cut in the policy repo rate since February 2025, bond yields remain elevated, suggesting that pricing this year will be driven more by demand-supply dynamics, maturity preferences, and global factors than by expectations of further policy easing. With yields staying high, bank loan rates — following transmission of rate cuts — have become more attractive for borrowers rated just below AAA, who were already finding it difficult to raise funds at favourable rates in the bond market.

According to Primedatabase, corporates raised about ₹10.08 trillion from the bond market in 2025, broadly unchanged from ₹10.09 trillion in 2024. While the first half of 2025 saw healthy activity, issuance slowed in the second half due to factors that kept yields elevated, including geopolitical concerns and market oversupply.

"2025 was a tale of two halves, with hefty volumes up until June. As yields rose in the second half, issuances fell sharply. In 2026, the bond market should remain stable and accrual-driven, supported by a largely range-bound interest rate environment and healthy corporate balance sheets," said Pranav Haldea, managing director, Primedatabase.

Market participants expect AAA-rated issuers to continue dominating the corporate bond market, supported by strong balance sheets and diversified investor demand.

On the other hand, AA and lower-rated issuers may increasingly find bank loans more competitive than bond market funding, particularly amid elevated yields and selective investor appetite. Typically, bank-sourced corporate credit growth picks up when the spread between AA bond yields and external benchmark-linked lending rates narrows. This trend is expected in 2026, as the reduced borrowing-cost advantage of bonds prompts corporates to shift towards bank loans, which offer greater flexibility and quicker turnaround.

Corporate lending by banks had lagged overall credit growth after the pandemic, as companies deleveraged and increasingly turned to alternative funding sources such as capital markets and foreign borrowings. Easier access to equity markets, the absence of large private-sector capital expenditure and healthy internal accruals also supported this shift.

However, corporate credit growth has shown signs of picking up. RBI data show loan demand from industry grew 9.6 per cent year-on-year until November, compared with 8.3 per cent a year earlier. Credit to micro and small industries, as well as medium industries, continued to post double-digit growth. Among major segments, outstanding credit to infrastructure, engineering, textiles, and petroleum, coal products and nuclear fuels registered buoyant growth. According to Venkatakrishnan Srinivasan, founder and managing partner of Rockfort Fincap LLP, banks are likely to re-emerge as significant bond issuers in 2026 after being largely absent in 2025.

"With banks struggling to mobilise retail deposits amid competition from small savings schemes and attractive state development loan (SDL) yields, reliance on short-term certificates of deposit has increased. While CDs offer immediate liquidity, prolonged dependence on short-term funding could strain asset-liability management. This is likely to push banks back into the bond market at scale, adding to AAA supply during the year."

Global factors will continue to exert a strong influence on domestic corporate bonds in 2026. Uncertainty around US tariff resolutions, volatility in developed-market yields, inflation trends, rupee stability, and geopolitical risks are expected to shape investor risk appetite. A recent trend has been the withdrawal or postponement of several corporate bond issuances following rises in market yields after monetary policy announcements, despite repo rate cuts. This apparent disconnect between policy easing and bond market pricing has made issuers reluctant to lock in funding at elevated yields. Market participants said this should be viewed as a tactical pause rather than a structural retreat.

ILLUSTRATION: BINAY SINHA

Sector watch

- **Bond issuance flat in CY25:** Corporate bond sales at ₹10.08 trillion were largely unchanged from 2024 as high yields curbed second-half issuance
- **Industry credit growth improves:** Industrial credit grew 9.6% Y-o-Y until November, led by MSMEs, infrastructure, and engineering
- **AAA issuers to lead in 2026:** AAA-rated PSUs, banks and financials are expected to dominate bond markets amid strong demand