

# US Debt Funds Soar 12% Driven by Falling Yields, Weaker Rupee

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## US Debt Funds Outshine Indian Counterparts

US-focused debt funds have delivered an impressive average one-year return of approximately 12%, powered by falling US Treasury yields and a sharp depreciation in the Indian rupee. These funds, primarily launched by domestic asset managers around two years ago when US yields were high, invest in US bonds or international funds holding US Treasuries.

## Dual Tailwinds Boost Performance

The strong performance contrasts sharply with domestic debt schemes focused on Indian government securities, or gilt funds, which averaged only 4.5% over the same period. Funds concentrating on longer-duration debt instruments, such as the Axis US Specific Treasury Dynamic Debt Passive FoF and the DSP US Specific Debt Passive FoF, have recorded the highest gains, reaching up to 14.3%.

## Expert Insights

Shantanu Godambe, fund manager at DSP Mutual Fund, explained the dual drivers. "Moderating US yields led to mark-to-market gains, especially in longer-duration papers which constitute 80% of our portfolio. Calendar year 2025 saw US 10-year yields drop by 70-80 basis points," he stated. "Additionally, the rupee depreciated by about 5% against the US dollar, further enhancing returns."

Vishal Dhawan, founder and CEO of Plan Ahead Wealth Advisors, concurred, citing interest rate cuts by the US Federal Reserve as a catalyst for bond gains and the rupee's fall as an additional boost.

## Outlook and Investor Traction

Looking ahead, performance will likely depend on global economic shifts. "US debt yields remain elevated compared to historical norms. We anticipate some further moderation supporting returns," Godambe noted. However, he cautioned that uncertainty in the USD-INR exchange rate may persist until a US-India trade deal is finalized.

Despite the robust returns, investor interest has been subdued. The category's five schemes collectively manage only around ₹500 crore. This limited traction is partly attributed to most schemes being closed to new investments due to overseas investment limit restrictions.