

India's safest bonds just had a rough year. Howard Marks explains why

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Maxim: *Risk is highest when everyone thinks it is low.* — Howard Marks

When an investment feels safe, people pay up and stop checking. That is exactly when the risk climbs, as buyers of America's AAA mortgage bonds and India's long-dated government bonds both found out.

The most dangerous moment for an investment is when nobody believes it can hurt them.

Government of India bonds cannot default in rupees. That certainty made them easy to love through 2025, as the Reserve Bank cut rates and bond prices rose. In December 2025 the ten-year government bond yielded about 6.52%. By early October 2026, with oil prices surging and global yields climbing, it was near 7.21%, a rise of about 70 basis points, [Outlook Money noted](#). On 7 October the RBI raised the repo rate from 5.25% to 5.50%, its first increase since February 2023, and the ten-year yield settled at 7.24%, the highest since December 2023, [GoldenPi reported](#).

When yields rise, bond prices fall, and long-dated bonds fall most. Even before the hike, gilt funds had delivered an average one-year return of about minus 1%, and long-duration funds about minus 2.7%, according to Value Research data cited by [Business Standard](#) in May 2026.

Picture an investor who, in late 2025, moved a maturing fixed deposit into a long-duration gilt fund, expecting more rate cuts and a little extra gain. The fund held the safest borrower in the country. What it did not hold was any protection against the price of that safety changing. The default risk was zero. The risk she was actually taking had never been discussed.

The perversity of risk

Howard Marks, co-founder of Oaktree Capital, has spent decades writing memos to clients about this trap. In "Risk Revisited Again" in June 2015, he put it in one line: "The riskiest thing in the world is the widespread belief that there's no risk." Risk, he argued, is low when people are cautious and high when they are not; and "as an asset appreciates, causing people to think more highly of it, it becomes riskier," according to the [memo](#).

The mechanism is human, not mysterious. When something has worked for years, buyers stop demanding a reward for the danger in it. They pay higher prices, accept thinner yields, borrow more against it and ask fewer questions. Each of those steps feels reasonable, and together they remove the cushion that would absorb a shock. In Marks's words, after several years of a benign environment, a risky investment can easily pass for safe.

The opposite is also true. When everyone is frightened, prices already assume the worst, and the same asset carries less risk. That is why the feeling of safety is such a poor guide. It is usually strongest at precisely the wrong moment.

When AAA was the warning

The clearest case is the American mortgage boom. Between 2000 and 2007, Moody's rated nearly 45,000 mortgage-related securities triple-A, at a time when only six private US companies held that rating by early 2010. In 2006 alone it stamped 30 mortgage securities AAA every working day, and 83% of those rated AAA that year were eventually downgraded, the US [Financial Crisis Inquiry Commission](#) found. The rating that made buyers feel safest was handed out most freely at the peak.

India has its own version. In early February 2019, CARE and Brickwork cut Dewan Housing Finance's long-term ratings from AAA to AA+, [PTI reported](#). Four months later, on 5 June, Crisil cut its commercial paper to default after DHFL delayed payments on debentures due the day before, [Business Standard reported](#). Investors who had held its paper as near-riskless discovered how fast near-riskless can travel.

Researchers have found the same pattern across a century. Studying 20 developed countries from 1920 to 2012, Matthew Baron and Wei Xiong found that rapid bank credit expansion predicted higher crash risk and lower returns for bank shares, and pointed to "overoptimism and neglect of crash risk" by investors during the boom, according to their [NBER paper](#). The boom felt safe because it was booming.

Reading the risk thermometer

No indicator rings a bell at the top. But a few signs suggest that safety has become a crowd belief rather than a fact.

The first is thin compensation. When the extra yield on riskier bonds shrinks, buyers are being paid little for the danger. US high-yield bonds offered barely 2.6 percentage points over Treasuries in late August 2026, close to their lows of recent years; by mid-October that spread had widened to about 3.2 points, according to [FRED data](#). The second is the story you hear. "It's government-backed", "rates can only fall" and "it's AAA" are often true descriptions of an asset and poor descriptions of its risk. The third is borrowing: when people use leverage to own something, they have decided it cannot fall far.

For your own money, the test is personal. Ask what you are actually exposed to, not what you are told you are safe from. A gilt fund is safe from default and fully exposed to interest rates. A highly rated corporate bond is safe until the rating is reviewed. A popular stock is safe until the story changes.

If you do one thing: For anything you hold because it feels safe, write down what would make it fall 10%. If the answer is something ordinary, a rise in rates, one bad quarter, a single downgrade, then it is not safe in the sense you meant, and its size in your portfolio should reflect that.

Fear is not the enemy

The investor who moved her deposit into a gilt fund did nothing reckless. She bought the safest borrower in India. Her mistake, if it was one, was believing that safety from default meant safety from loss, at the very moment when the market had stopped charging for the difference.

Marks's lesson is not to be afraid of everything. It is to notice when nobody is afraid of something. Caution is cheapest, and most valuable, when nobody else wants it. The next time an investment is described as one you cannot lose on, treat that phrase as the risk.

Sources

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