



UTI Mutual Fund

UTI Asset Management Company Limited

MARKET INSIGHT – An Overview on the Fixed Income Market



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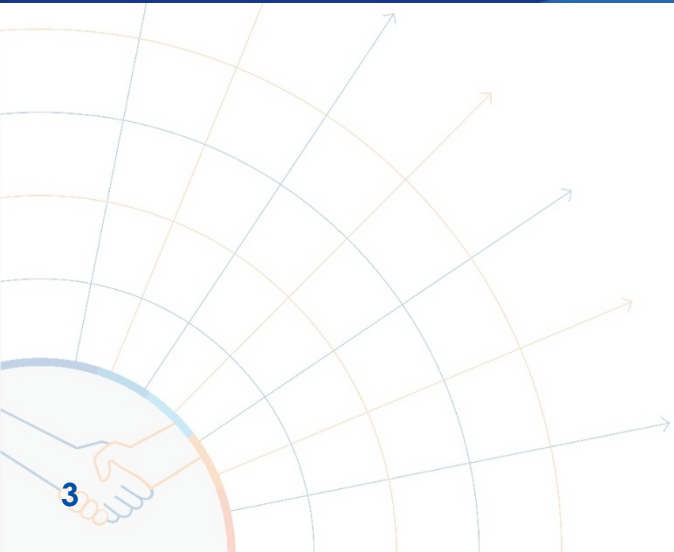
November 2022

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

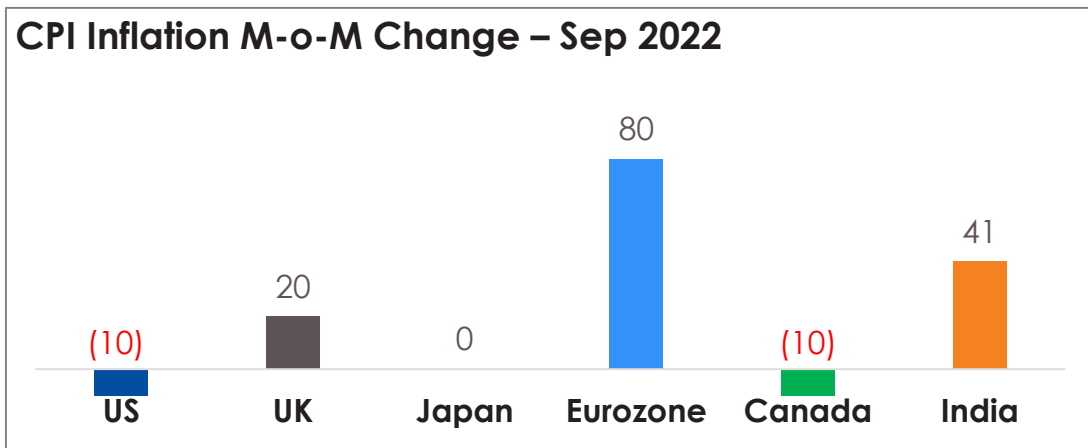
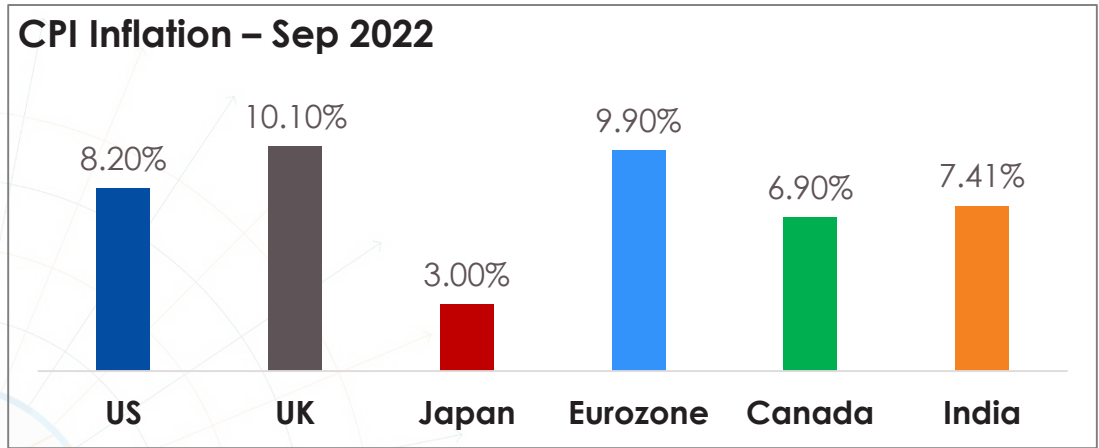
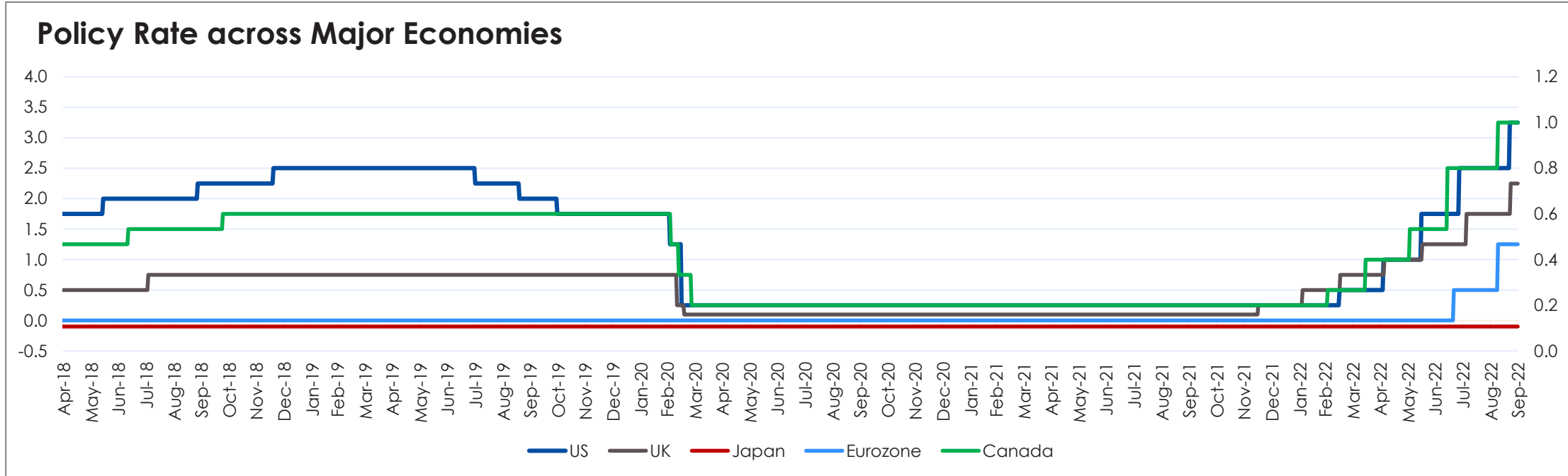
Highlights: Factors driving market

- In India, broader economic activity has remained resilient on back of robust domestic demand with re-opening of contact-intensive sectors
- India's policy action in the near term driven by global rates/currency outlook
- Expectation of moderation in domestic inflation momentum in FY24
- Global spot inflation still high due to elevated commodity prices & tight labour market
- Near-term labor market strength may persist, but global growth momentum is decelerating
- Central banks are determined to anchor inflationary expectations, which increase the risk of early recessions and inadvertent policy accidents
- It is not just the level of change but significant spike in volatility which increases the probability of market stress

Global Trends



Monetary Policy Tightening in Major Economies



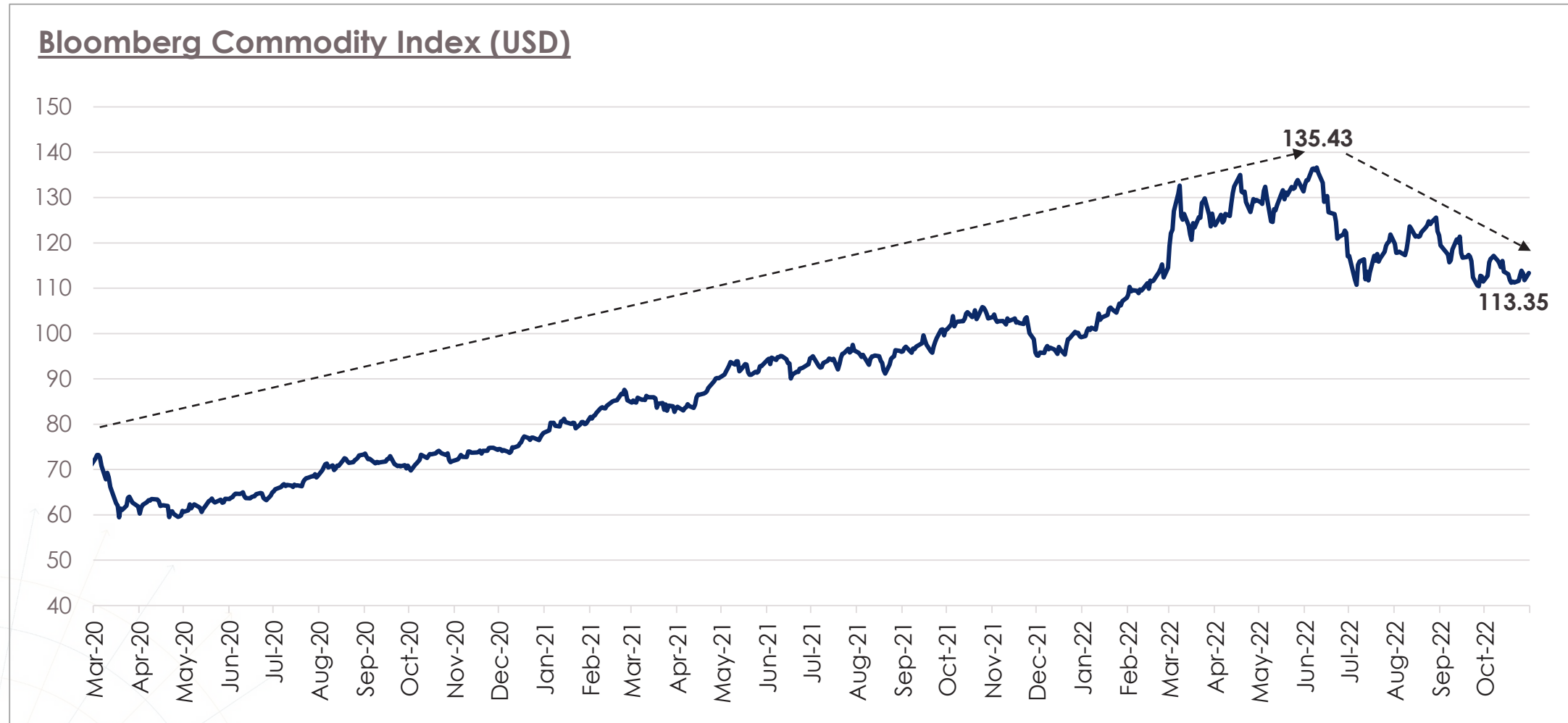
4 Source: Bloomberg, Data as on October 31, 2022

10Y Sovereign Yield Movement in Key Economies

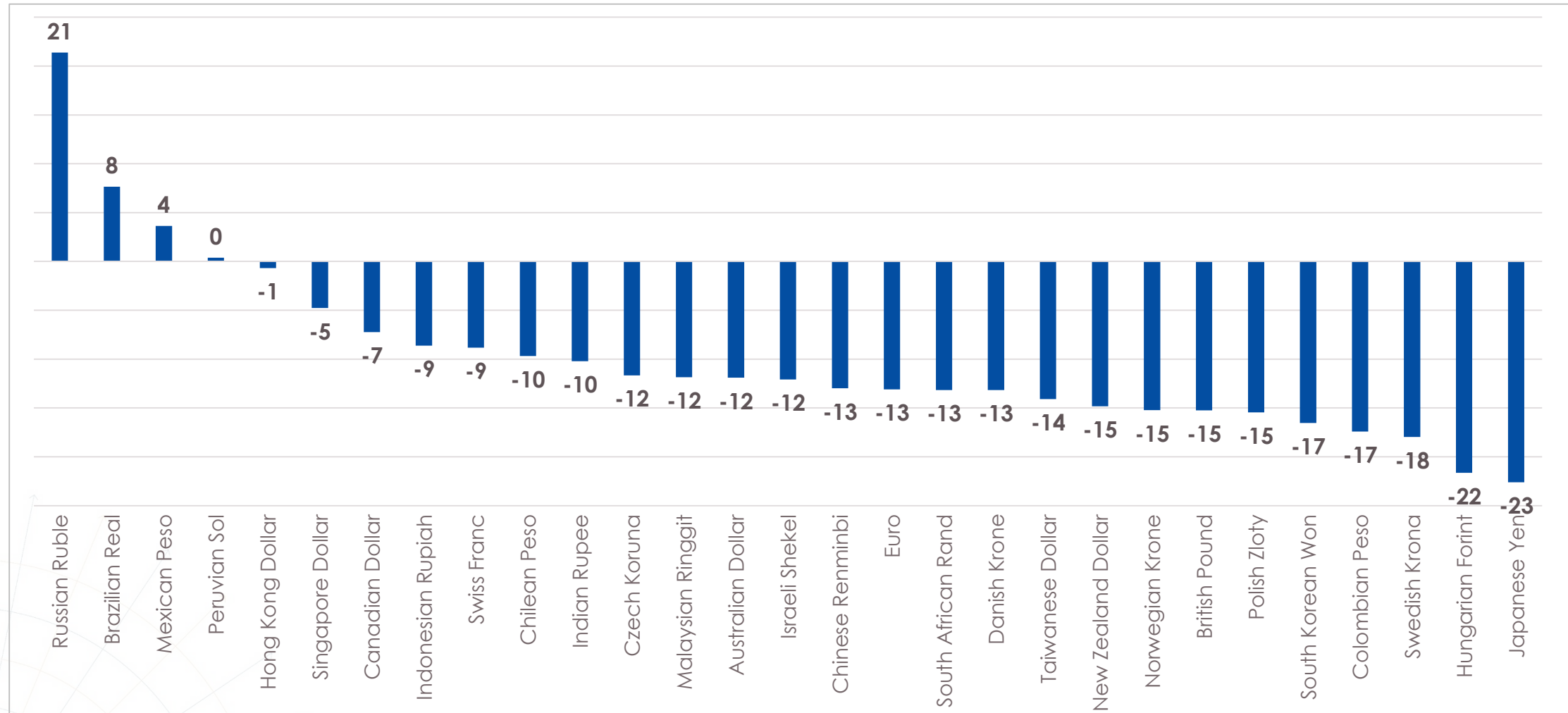
Region	Currency	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	1M Change (Bps)	FYTD Change (Bps)	Trend
WEST	US	2.34	2.93	2.84	3.01	2.65	3.10	3.83	4.05	22	171	
	UK	1.61	1.91	2.10	2.23	1.86	2.70	4.09	3.52	-58	191	
	GERMANY	0.55	0.94	1.12	1.34	0.82	1.51	2.11	2.14	3	159	
LATAM	BRAZIL	11.61	12.29	12.56	13.07	12.99	12.29	12.02	11.87	-14	26	
	MEXICO	8.25	9.09	8.63	9.03	8.56	9.08	9.65	9.83	18	158	
ASIA PACIFIC	JAPAN	0.21	0.22	0.24	0.23	0.18	0.22	0.24	0.24	0	3	
	AUSTRALIA	2.84	3.13	3.35	3.66	3.06	3.60	3.89	3.76	-13	92	
	SOUTH KOREA	2.96	3.21	3.33	3.64	3.19	3.64	4.28	4.24	-4	129	
	CHINA	2.79	2.84	2.80	2.82	2.77	2.64	2.75	2.65	-10	-14	
	INDONESIA	6.73	6.97	7.03	7.20	7.11	7.10	7.35	7.51	16	78	
	SINGAPORE	2.33	2.52	2.70	2.97	2.64	2.98	3.47	3.41	-6	108	

- Majority of the economies across the world saw an uptick in yields on the back of rising inflation and hikes by the central banks in FYTD22

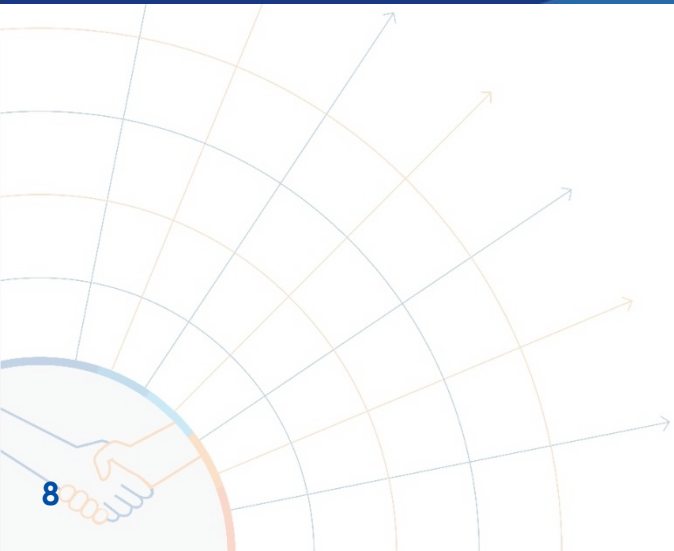
Commodity Index remained flat broadly in Oct'2022 vs Sep'22



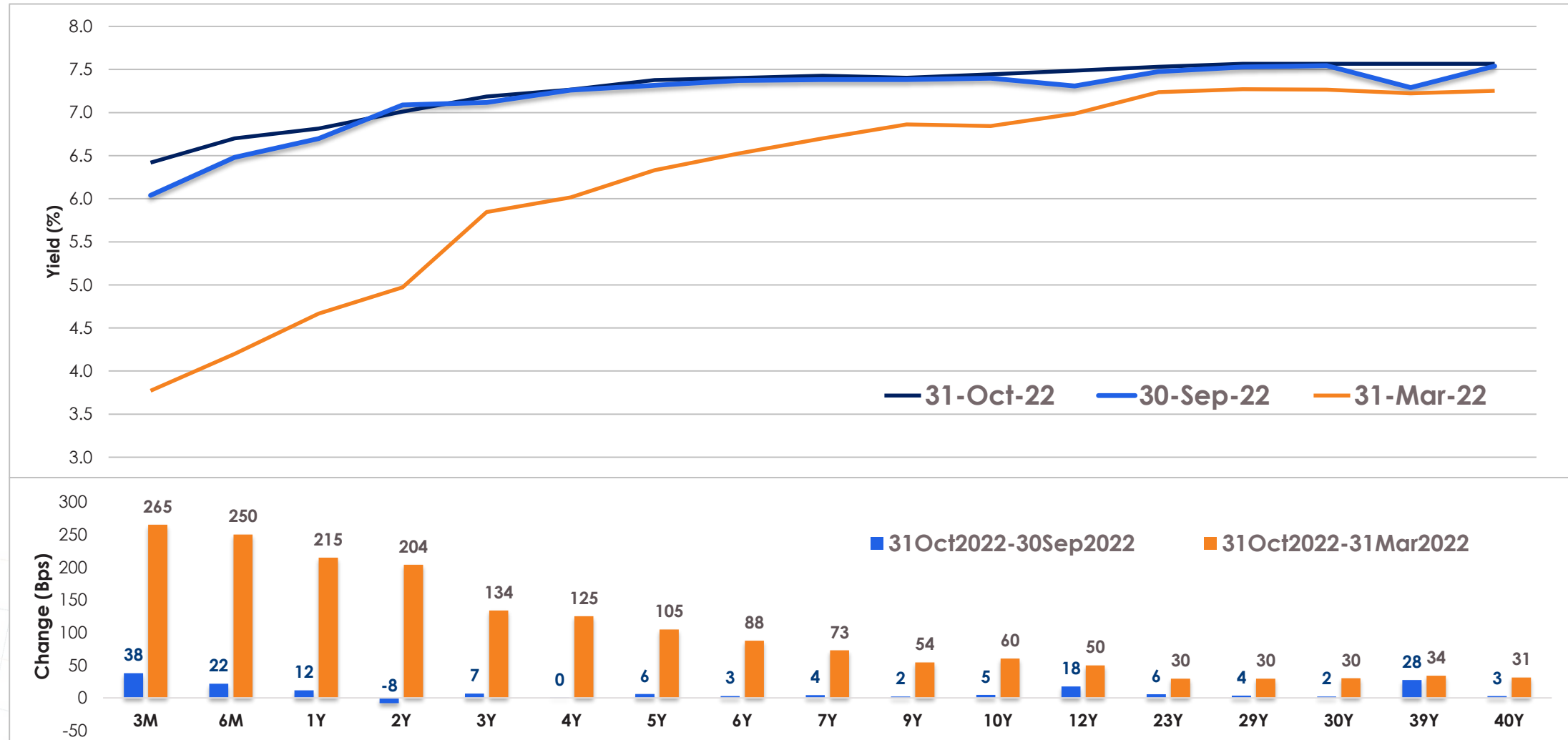
Currency Performance against USD (%CYTD)



India Trends



India Sovereign Curve – Yields curve has flattened

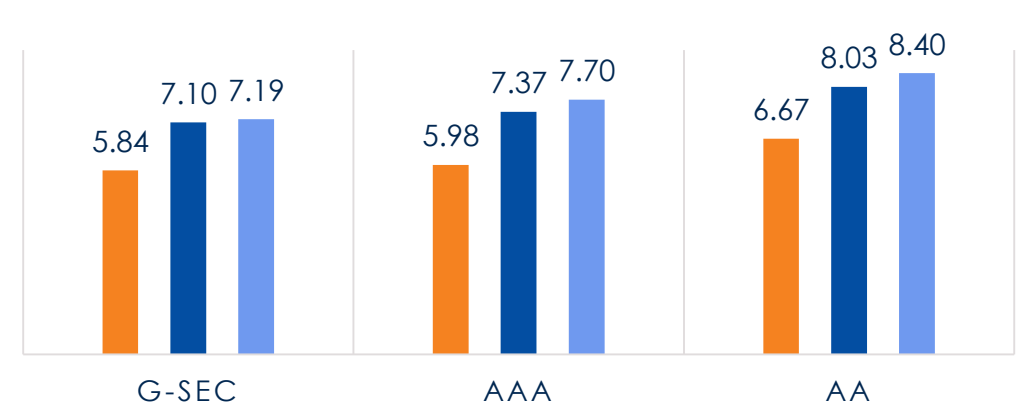


Yield movements across the Curve

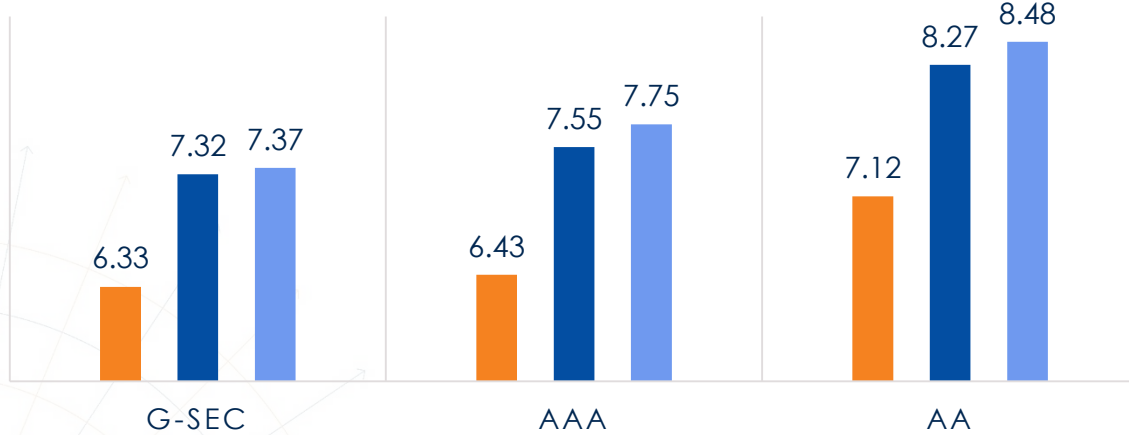
1 YEAR RATES (%)



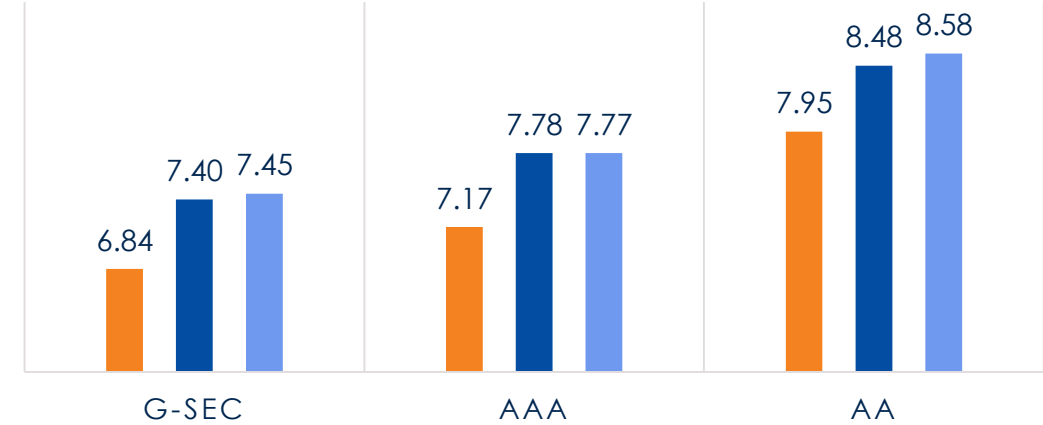
3 YEAR RATES (%)



5 YEAR RATES (%)

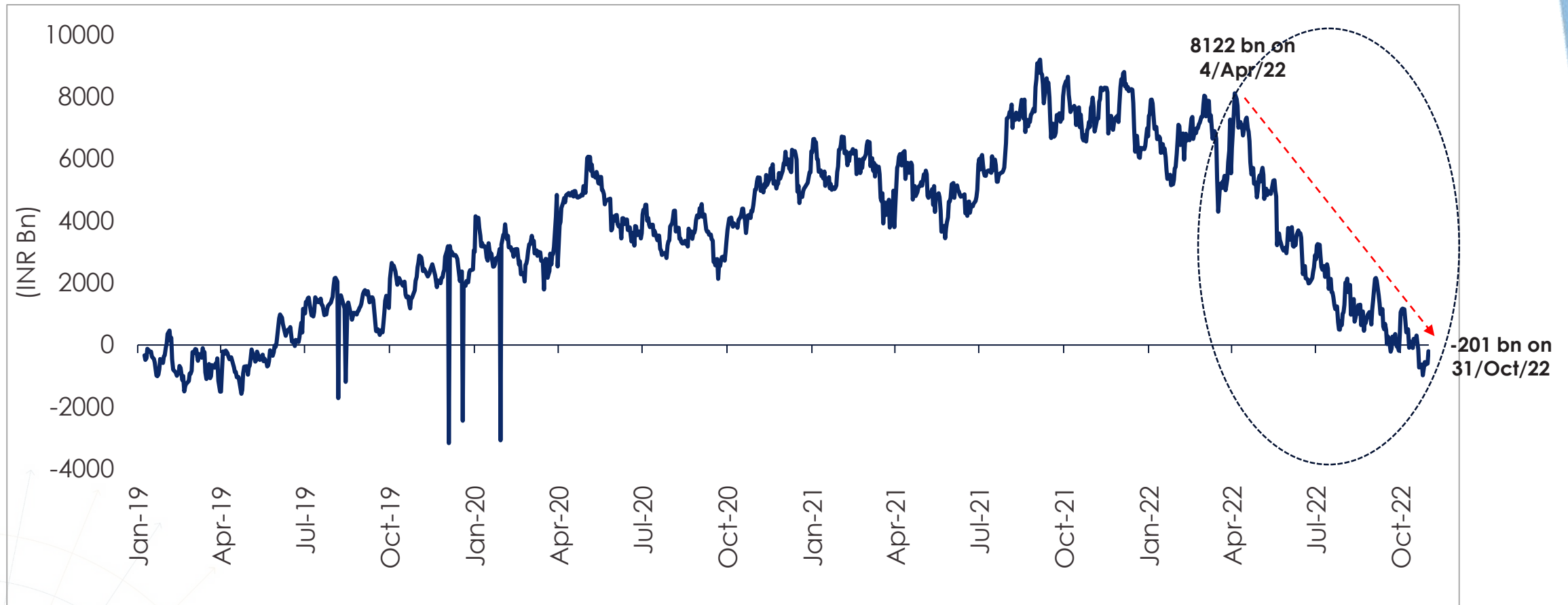


10 YEAR RATES (%)



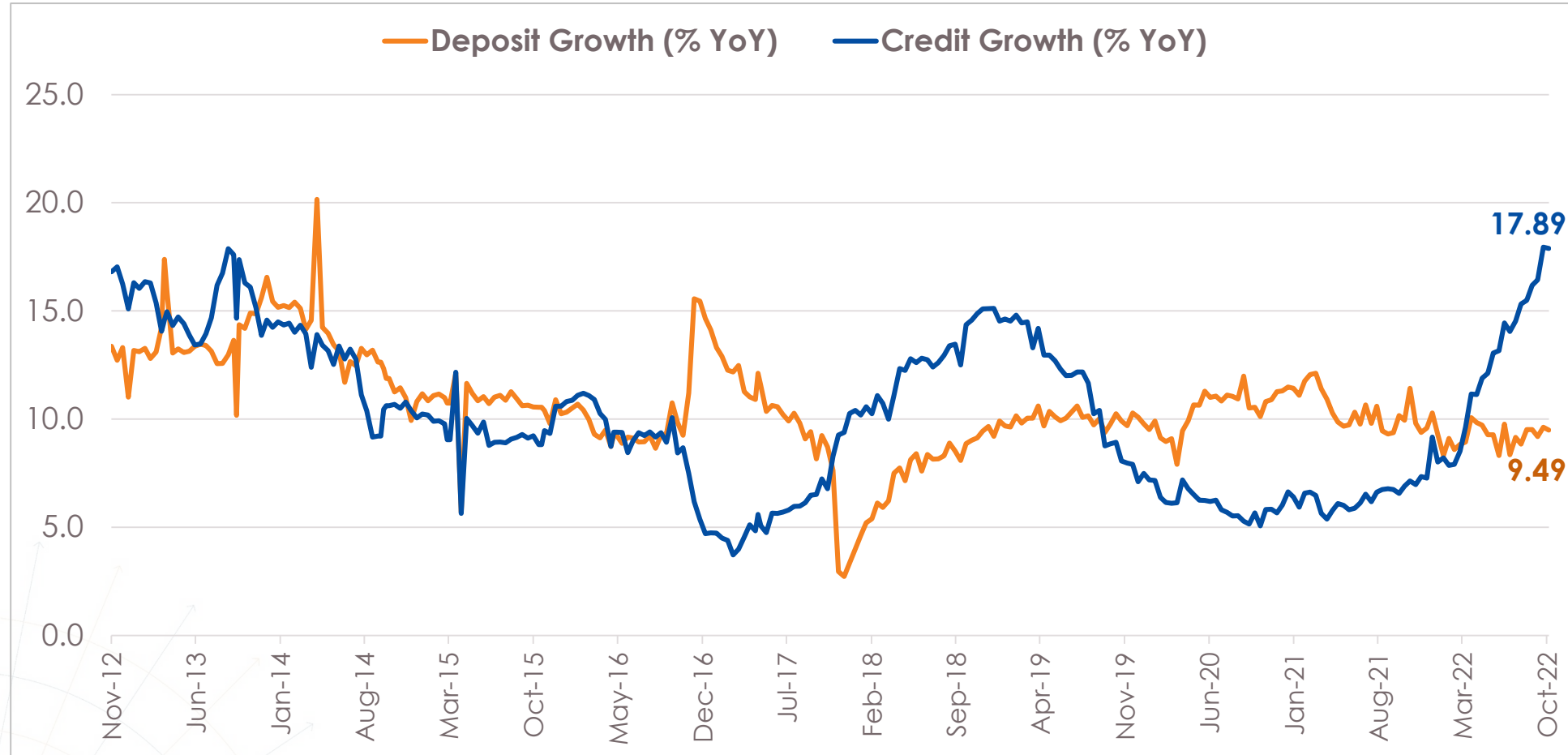
■ Mar-22
 ■ Sep-22
 ■ Oct-22

System Liquidity: Liquidity surplus turning to deficit



- Liquidity is largely expected to remain in deficit due to seasonal currency withdrawal, tax outflows & muted Government spending

India Credit Growth

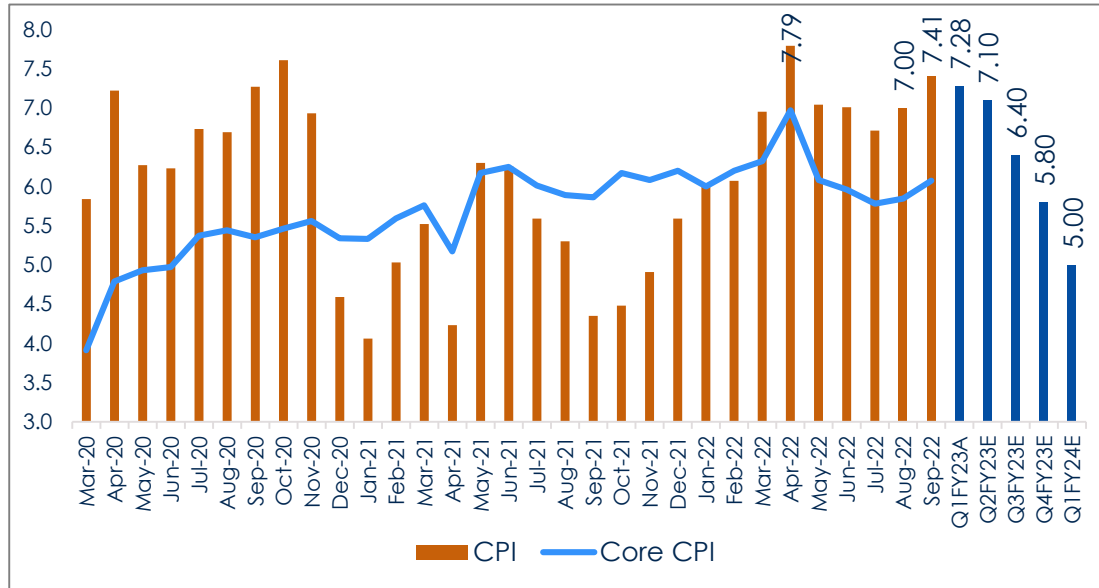


SDL Issuances

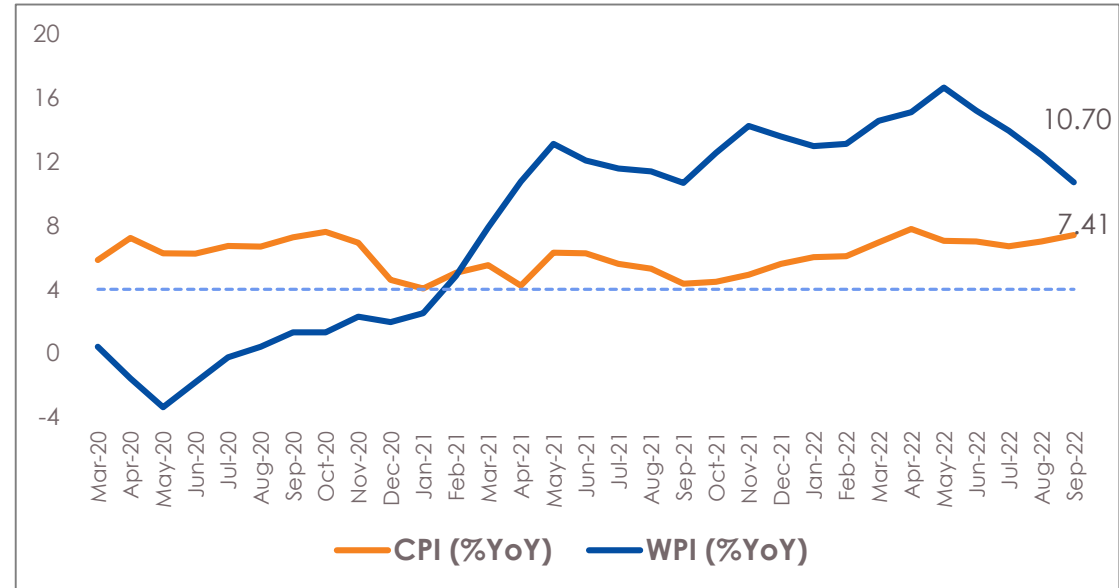
SDL issuances (INR Bn)			
Apr 1, 2022 – 31 Oct 2022			
	2020	2021	2022
Announced	3,720.1	4,308.7	4,770.3
Actual	4,278.1	3,684.2	3,468.0
Gap	557.9	-624.5	-1,302.3

Domestic Inflation Rates

CPI and Core CPI Inflation (% YoY)



CPI and WPI Inflation (%YoY)

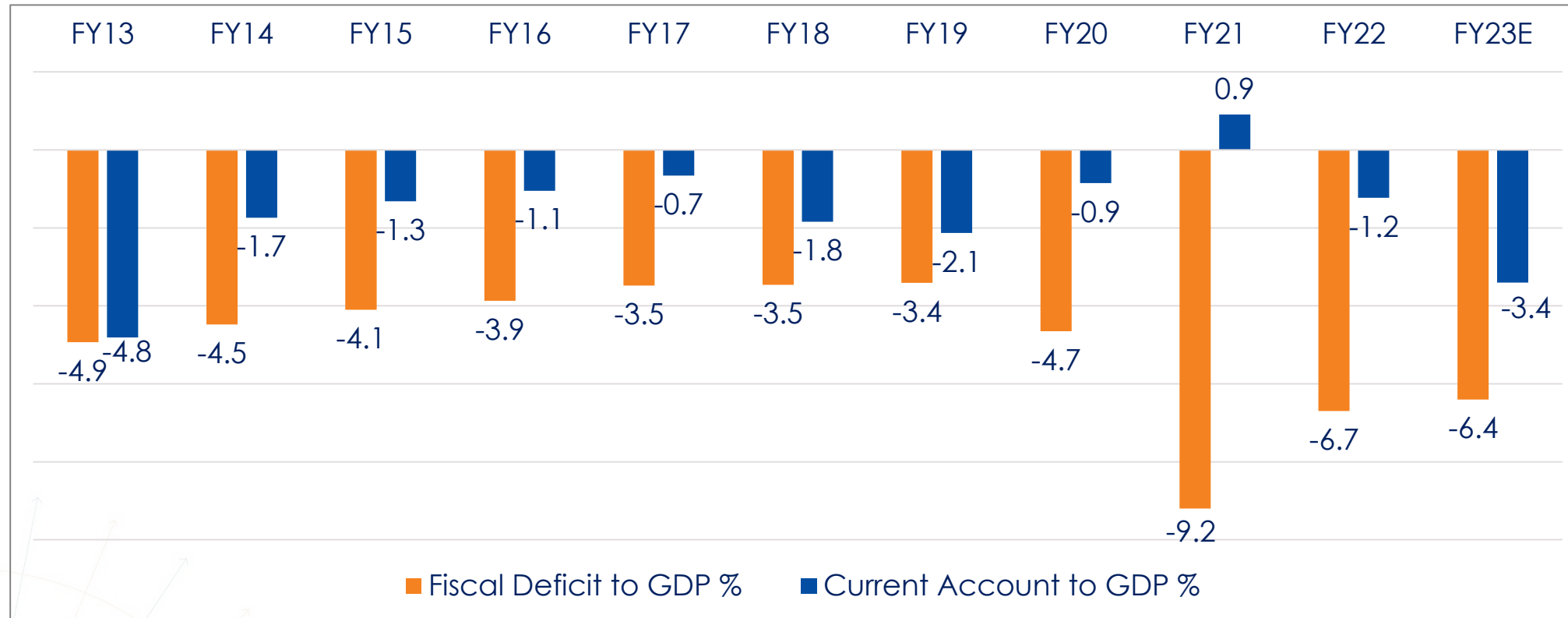


- CPI inflation rose further in Sep'22 at 41bps to 7.41% vs 7.0% in Aug'22. CPI Inflation had seen peak in CFYTD at 7.79% in Apr'22
- WPI inflation fell to an 18-month low in Sep'22 to 10.70% as food and manufactured goods prices showed signs of easing

Monthly Foreign Trade Aggregates of India, March FY-ends (US\$ bn)

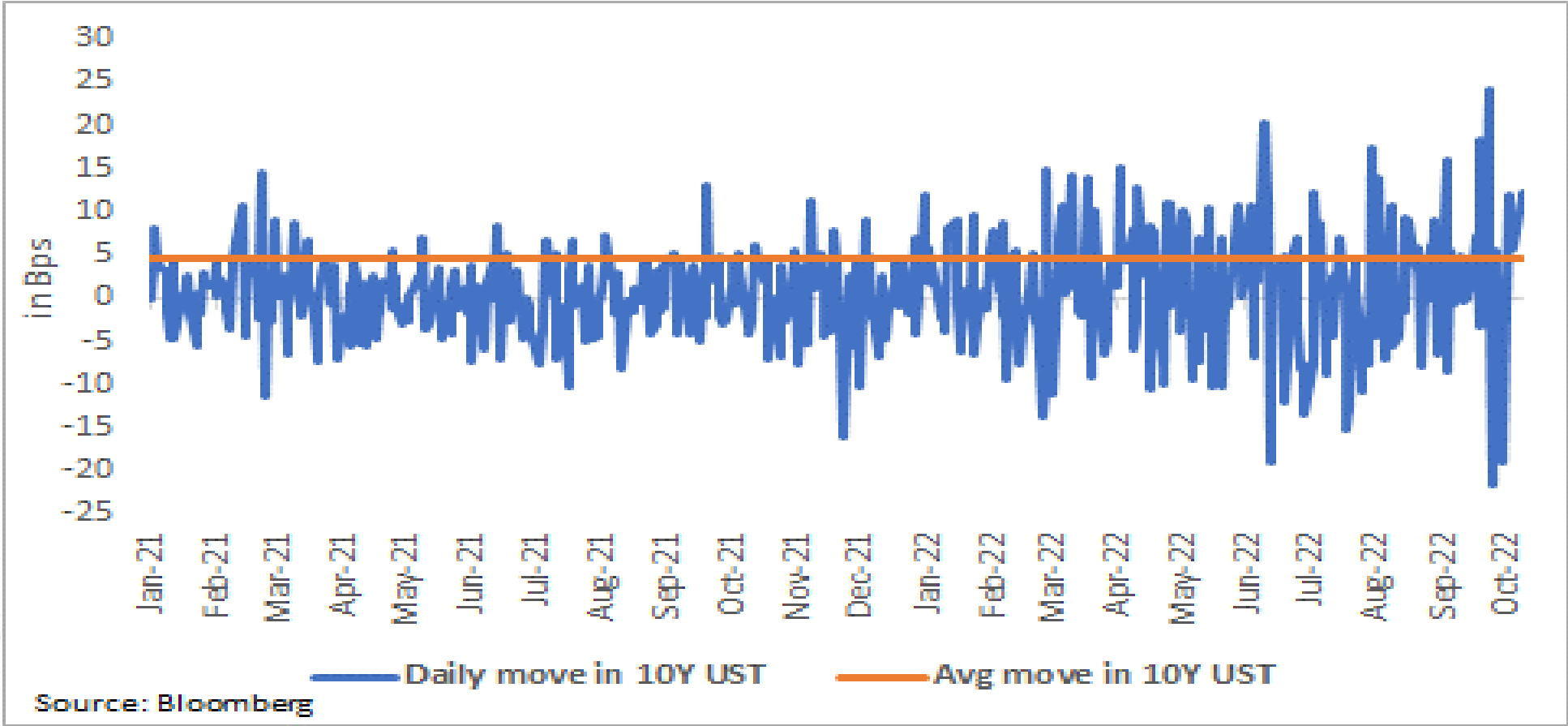
Date	Sep-22	Sep-21	Aug-22	Chg %		FYTD (Apr-Sep)		Chg (%)
				YoY	MoM	2023	2022	YoY
Exports	35.5	33.8	33.9	4.9	4.5	229	198	16
Oil exports	7.4	5.2	5.7	43.0	30.0	45	29	57
Non oil export	28.0	28.6	28.2	(2.1)	(0.7)	184	170	8.4
Imports	61.2	56.3	61.9	8.7	(1.2)	379	275	38
Oil imports	15.9	16.8	17.7	(5.4)	(10.3)	115	70	66
Non oil import	45.3	39.5	44.2	14.6	2.4	264	205	29
- Gold Imports	3.9	5.1	3.6	(25.0)	7.9	20	24	(15.1)
Trade Balance	(25.7)	(22.5)	(28.0)			(150)	(76)	

Fiscal Deficit & Current Account Deficit

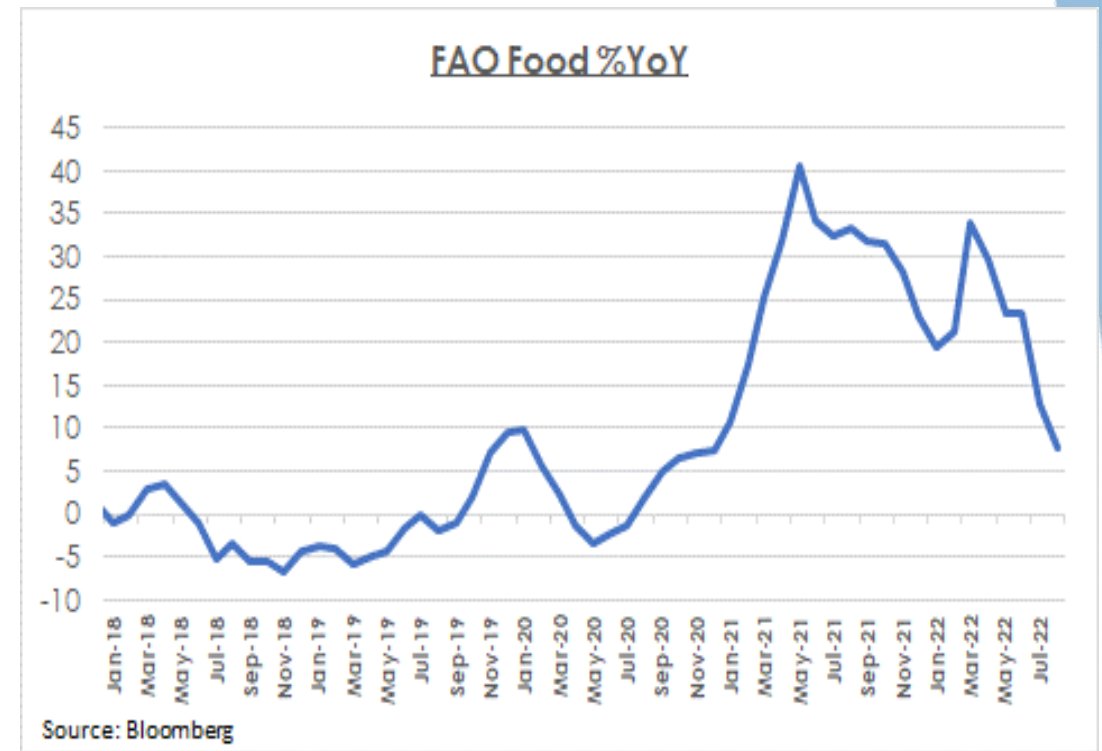
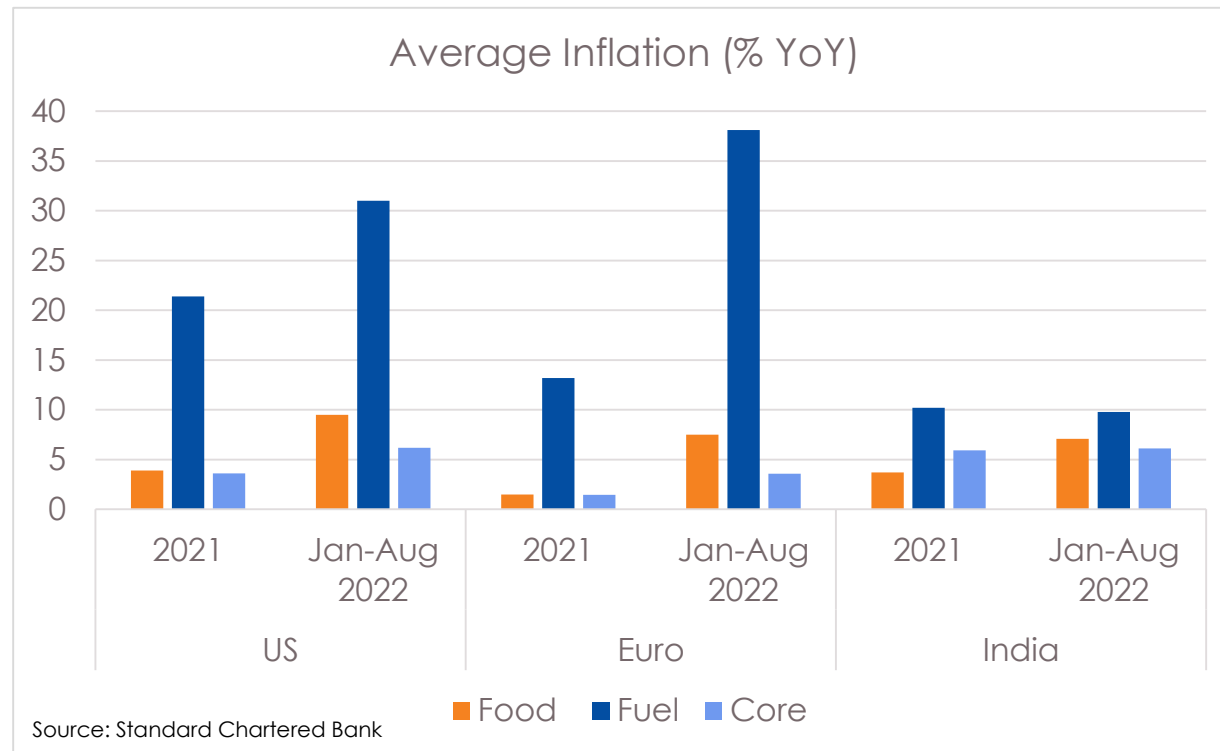


Significant spike in volatility witnessed in bond market

US 10Y Treasury Yield – Daily Change vs Average Absolute Change



Will India follow DM central banks? - Drivers of Inflation is different in India



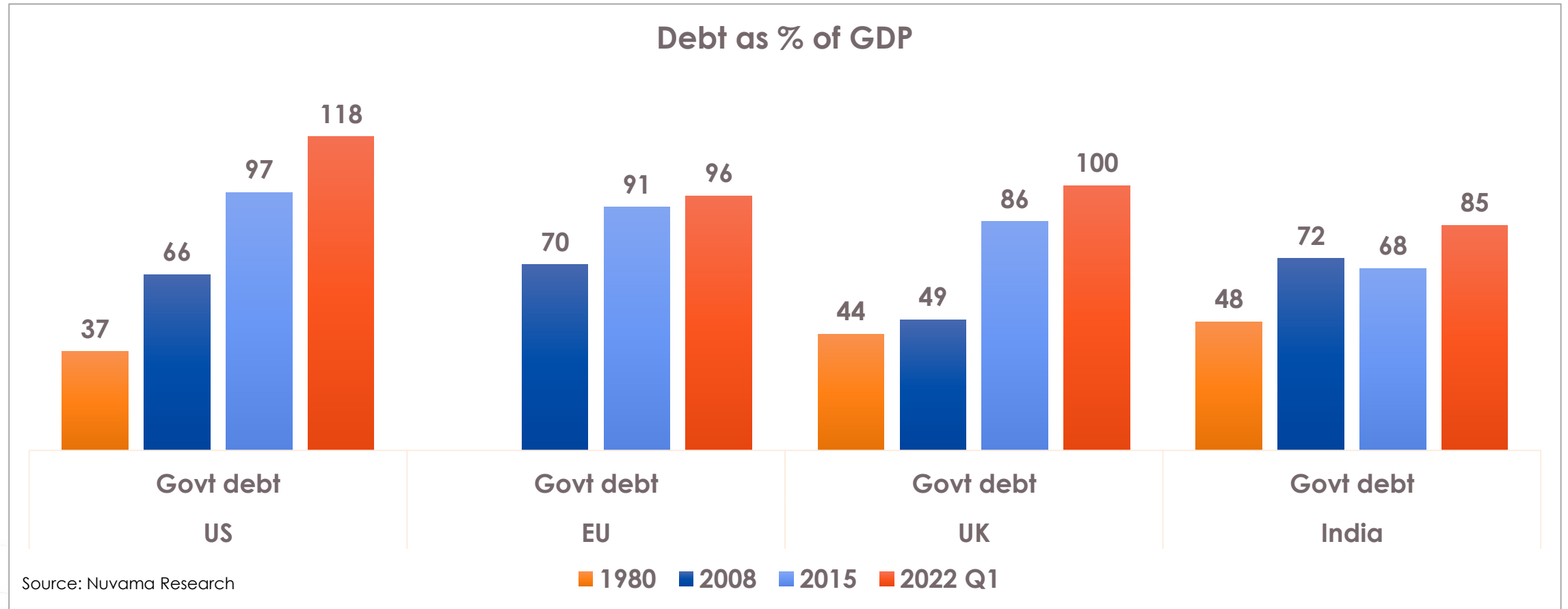
- Inflation in the US is much more broad-based, while Europe is suffering from the scarring effects of the energy shock
- Core inflation likely to be sticky in India, stable food prices & base effects could help inflation move towards RBI's 5% CPI target in Q1FY24

Aggressive monetary actions from AE central banks create growth headwinds



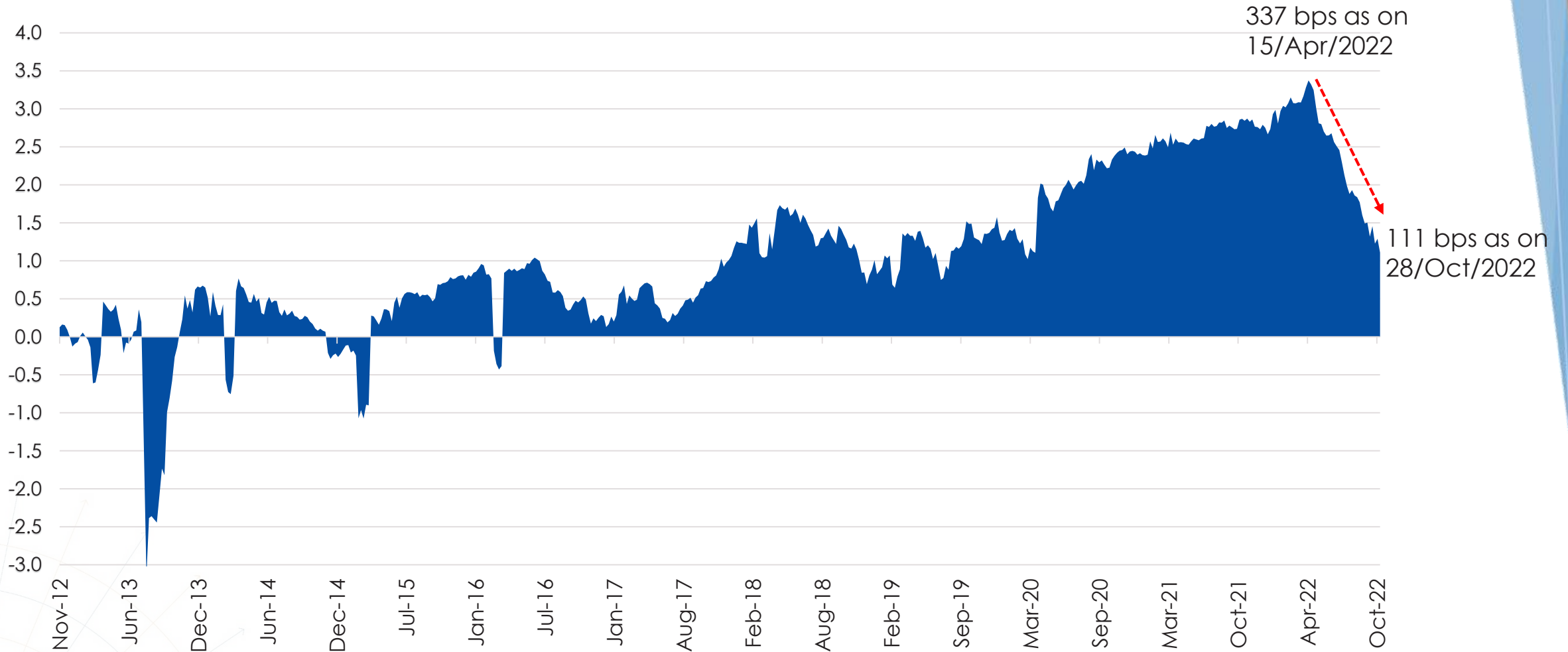
- Slowdown in exports could result in a slowdown in the Capex cycle, especially if uncertainty and tighter financial conditions remain in the fray

Debt as % of GDP



- Leveraged Government balance sheets make it difficult for AE central banks to keep extremely high policy rates for longer

10Y GSEC – 1M OIS Spreads



Fixed Income: Key Takeaway

Markets may continue to behave erratically in the near term, a more frontloaded & aggressive rate hiking cycle in AEs increases the probability of inadvertent systemic error, downside risks to growth, and thereby cyclical disinflation for India over the medium term

We continue to expect more measured tightening steps by the RBI unlike the large moves by the Fed and ECB unless there is a meaningful change in inflation/external account drivers.

Our base case is of a terminal repo rate around **6.50%** going forward, which appears to be largely priced in the short to medium part of the curve (2-5 years) although near-term actions such as the change in borrowing mix, possible RBI interventions (Operation twists) & global cues could impart intermittent volatility in the near term.

The current volatility in the bond market & especially on the short end of the yield curve (1-5 years) is driven more by capitulation & extreme risk aversion. We were running duration for most of our funds at the lower ends of their duration spectrum to let the weight of evidence guide our decisions.

Investors with tolerance for intermittent volatility and 6-12 months horizon may consider allocation towards the money market and low-duration strategies given the significant correction while investors having above 2 years horizon may consider actively managed high-quality short-term or corporate bond strategies.

Investors with more than three years of investment horizon may consider a staggered allocation towards roll-down strategies to lock in the current high levels.

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Thank You

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