

April, 2019

Indian sovereign bond stood at 7.35%, a marginal rise of 6 bps in the month of April. RBI has announced a Rs 25,000-crore liquidity injection through purchase of government securities in May. Brent crude oil rose above \$75 per barrel for the first time in April 2019 due to tighter sanctions on Iran.

Globally, after raising the key lending rate 4 times last year, the US Federal Reserve voted unanimously to keep it in a range of 2.25% to 2.5% amid mixed signals about the direction of the US economy.

Market Performance

The 10-year benchmark G-Sec yield closed at 7.41%, up 6 bps from its previous close of 7.35% while that on the short-term 1-year bond ended 5 bps higher at 6.60%.

In the corporate bond segment, yields rose across the yield curve over the month. The 10-year AAA bond yield ended 10 bps higher at 8.40%, while the short-term 1-year AAA bond yield ended 50 bps up at 8.00%.

The spread between 1-year and 10-year AAA bond narrowed. Within the short term segment, yield on 3-month commercial paper (CP) was up 60 bps to 7.70% while 1-year CP yield was up 50 bps at 8.50%.

G-Sec-10yr

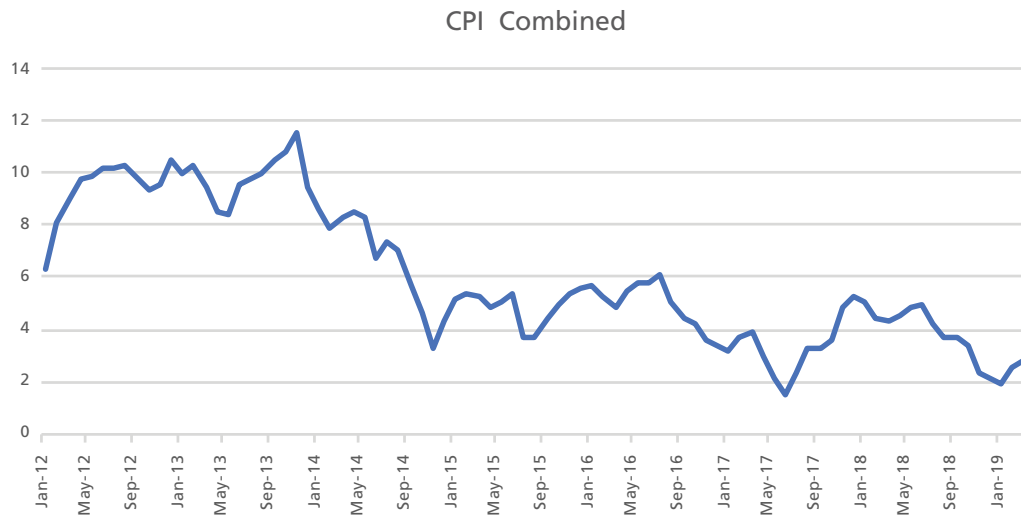


Macro-economic Overview

The Nikkei/IHS Markit Services Purchasing Managers' Index (PMI) fell to 52.0 in March from 52.5 in Feb. The Nikkei India Manufacturing PMI declined to 52.6 in March from 54.3 in Feb.

The retail inflation rate touched a five-month high of 2.86% in March, helped by the prices of food and health services. Wholesale price inflation in March accelerated to 3.18%, its highest in three months. Industrial output growth slowed to a 20-month low of 0.1% in Feb due to contraction in the manufacturing sector.

The growth of eight core sectors improved marginally to 4.7% in March 2019. Despite exports and imports growing at the same rate of 9%, India's trade deficit reached a record high of \$176 billion in 2018-19.



Outlook

The month of April saw huge volatility in the fixed income rates market. The 10-year Gilts rallied pre-policy from 7.35% to 7.22% in an anticipation of a higher than 50 bps rate cut or a 25 bps rate cut with an accommodative stance. But with the MPC delivering only a 25 bps rate cut with a neutral stance and that too with a 4-2 vote for a cut, the market was disappointed and Gilts sold off by 10 bps on the same day. Since then Brent Crude continued to inch up from \$68/barrel to \$75/barrel.

10 year Gilts traded in the range of 7.35% to 7.45% post policy. The yield curve flattened through the month as demand on the shorter end remained muted with absence of OMO purchases in the near term, RBI choosing to infuse primary liquidity in the system through dollar- rupee swap. Further tighter liquidity conditions along with no immediate visibility on any further rate cut in the June policy from the April policy minutes resulted in sell-off in the 4-5 year Gilts space from 6.82% to 7.35%. Corporate bonds also trade higher across the curve but the sell offs on the shorter end was much higher due to tighter liquidity conditions.

Going forward, we remain positive on our outlook for interest rates to move lower but the timing and the quantum remains a question mark that the MPC has now delivered back to back rate cuts. Factors that we think are favorable toward a further rate cut in this cycle are

- US Fed moving towards an extended pause along with other Central banks in
- Global interest rate backdrop being supportive
- Oil prices staying range bound
- Domestic growth slowdown, with CPI inflation
- RBI policy being more pro-growth (compared to earlier)



Investment Strategy

After the recent sell off in the shorter end of the corporate bond curve, **1-3 year AAA corporate bond segment offer good carry over the repo rate** and funds such as the **L&T Ultrashort Term Fund and L&T Short Term Bond Fund are high credit quality funds positioned to benefit from this carry**, while keeping interest rate risks relatively low.

At the longer end of the curve, despite a positive fundamental outlook for interest rates, near term technical factors such as **demand supply mismatch may keep longer end yields volatile and elevated**. We believe the longer end of the **AAA corporate bond curve is an attractive investment opportunity**, with spreads in the 80-120 bps range versus the historical average of 50-60 bps. The **L&T Triple Ace Bond Fund is well positioned in this segment**.

This product is suitable for investors who are seeking*

L&T Ultra Short Term Fund

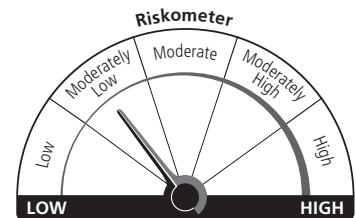
(An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months.)

- Generation of reasonable and stable income and liquidity over short term
- Investments predominantly in highly liquid money market instruments, government securities and corporate debt

L&T Short Term Bond Fund (Formerly known as L&T Short Term Opportunities Fund)

(An open ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years.)

- Generation of regular returns over short term
- Investment primarily in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions in India

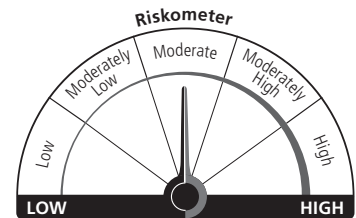


Investors understand that their principal will be at moderately low risk

L&T Triple Ace Bond Fund

(An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds)

- Generation of regular and stable income over medium to long term
- Investment predominantly in AA+ and above rated corporate bonds and money market instruments



Investors understand that their principal will be at moderate risk

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

Source: Bloomberg, Internal

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