Indian sovereign bond closed at 6.23% up by 35 bps vs 5.91%. A rise in commodity prices has fanned inflation risks, pushing bond yields higher. The central bank conducted a special OMO, entailing simultaneous purchase and sale of G-Secs aggregating Rs 15,000 crore each on March 4.

## MARKET PERFORMANCE

The 10-year benchmark G-Sec yield closed at 6.23%, up by 35 bps from its previous close of 5.91% while that on the short-term 1-year bond ended 25 bps higher at 3.90%.

In the corporate bond segment, yields rose across the yield curve over the month. The 10-year AAA bond yield ended 50 bps higher at 7.12%, while the short-term 1-year AAA bond yield ended 30 bps up at 4.35%.

The spread between 1-year and 10-year AAA bond widened. Within the short term segment, the yield on 3-month commercial paper (CP) was down 10 bps to 3.60% while 1-year CP yield was up 25 bps at 4.30%.

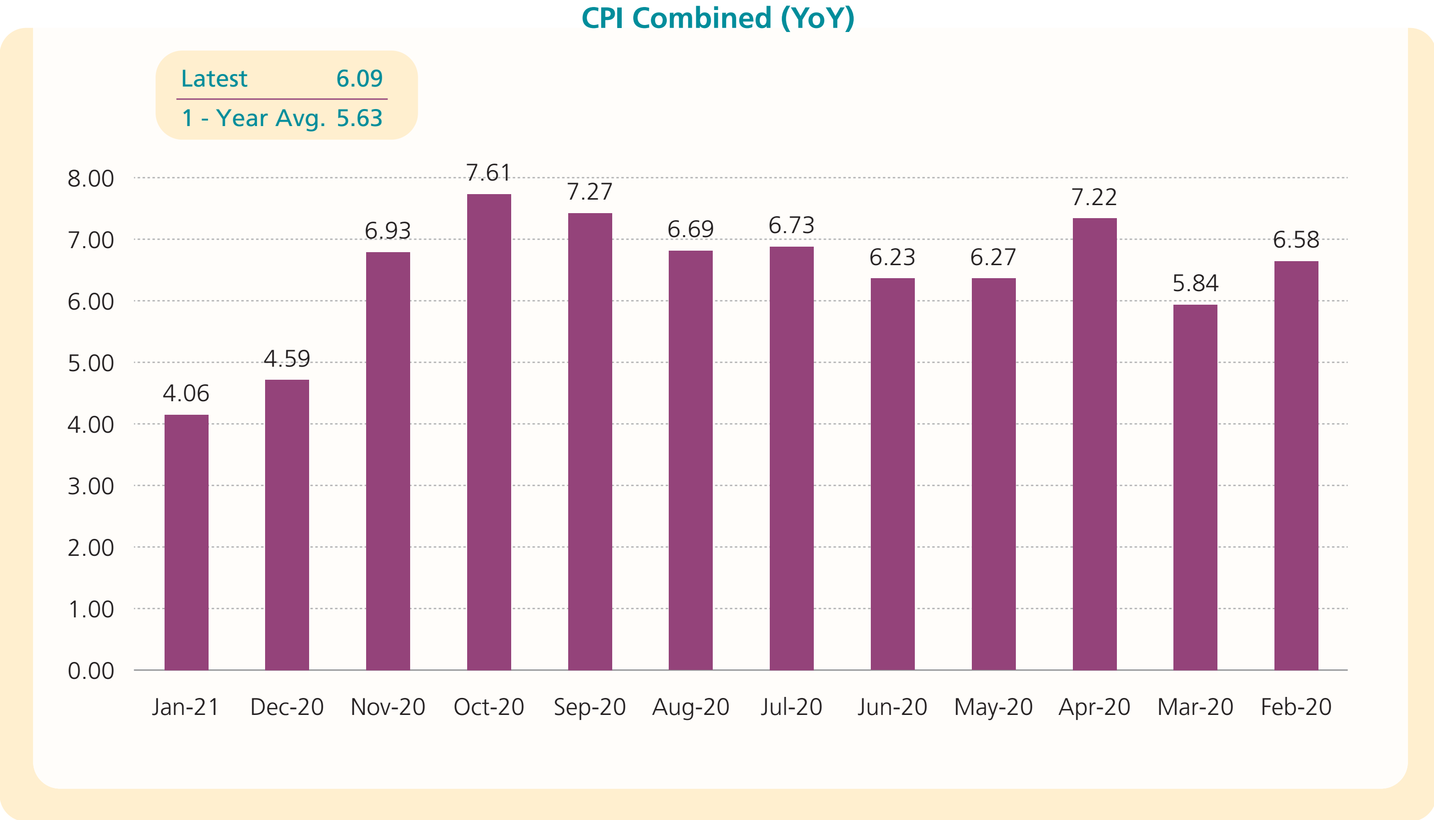

Past performance may or may not be sustained in the future.

## MACRO-ECONOMIC DEVELOPMENTS

**PMI:** The Services Purchasing Managers' Index (PMI) rose to 55.3 vs 52.8 in January, its highest since February 2020 while the manufacturing PMI fell marginally 57.5 from 57.7 a month ago.

**Inflation & IIP:** Index of Industrial Production (IIP) grew 1% in December against a 1.9% contraction registered in November. Wholesale price index based inflation for January came in at 2.03%, higher than the 1.22% print recorded in December 2020. Retail inflation grew at 4.1% in January 2021, in keeping with trend of moderating prices since November 2020.

**Export:** Exports dropped 0.3% (YoY) in February to $27.67 billion, against a 6.2% rise in the previous month. Trade deficit narrowed to $12.88 billion in February from $14.54 billion in the previous month, but it's almost 27 per cent higher from a year earlier.




## OUTLOOK & MARKET IMPACT

***A MONTH OF VOLATILITY...***

The past month has been fairly volatile across asset classes, both globally and from a domestic perspective. With green shoots visible in growth with daily COVID cases falling and resumption of economic activity, commodity prices have started to pick up. Crude, in particular, saw a sharp movement from USD 55/bbl to USD 65/bbl over the month. This could partly also be due to investors moving from other asset classes to commodities as part of a global reflation trade.

Similarly, US Treasury yields have also seen a sharp spike in February, with the 10-year benchmark breaching 1.50% before retreating to ~1.45%. Although, the Fed has indicated that the economy is still a long way from inflation and the removal from accommodative policy measures will be gradual, markets are pricing in a faster revival in inflation and possible tapering earlier than expected.

Domestic data during the month was encouraging. CPI inflation for January 2021 came in at 4.06% (15 month low) driven by easing of food prices. However, Core inflation remained sticky at 5.65%. GDP growth for Q3 FY2021 came in at 0.4%, having entered positive territory after two consecutive quarters of contraction. With a significant push given from the Budget, momentum is expected to pick up in the coming months.

The recent spike in US Treasury yields and Crude prices have had an impact on yields domestically as well. This in conjunction with continuing demand supply mismatch concerns have led to 10-year benchmark yields moving to 6.20%-6.25% after having traded below 6% for a significant amount of period pre-Budget. Although the MPC continued with the accommodative stance (as long as necessary to revive growth) in the February policy and the Governor reiterated an "orderly evolution of the yield curve" and ensured smooth borrowing for the Government, market sentiments have continued to remain wary.

This was evident from the lackluster demand in auction biddings. RBI did not accept bids in one of the auctions, devolved multiple securities on PDs in the last three auctions. To give markets comfort, RBI conducted OMO and OTO auctions and even conducted a special auction of the benchmark 5-year and 10-year securities which were indirectly absorbed by RBI.

Additionally, RBI also conducted a uniform price auction, to enable market participants to bid competitively in the auction. However, all these measures taken by RBI have not been able to instill confidence in the market, which wants clarity from RBI in terms of the amount/schedule of OMOs/OTOs that they intend to conduct. With the market staring at a huge supply next year, credit growth starting to pick up and no clear investor segment visible to absorb the extra supply, markets are fairly dependent on RBI and any incremental worries related to supply absorption will push yields higher.

However, liquidity has continued to remain in surplus and overnight rates are still trading below Reverse Repo, keeping short end rates broadly anchored. An earlier than expected narrowing of the corridor between Repo and Reverse Repo or withdrawal of liquidity will remain a key monitorable.

Over the past month, interest rates globally as well as domestically – have broken out of their benign ranges, on the back of not just GDP projections being marked higher, but fears of inflation becoming more entrenched as well.

## INVESTMENT STRATEGY & FUND RECOMMENDATIONS

In our markets, while yields have moved sharply higher, especially in the short to medium (2-3 years) part of the curve, thereby offering better value ***– we believe investors should continue to adopt a cautious approach by investing in funds with duration somewhat lower than their own investment horizons so as to minimize the negative impact of capital losses as interest rates move higher.***

***For investors with a long term horizon of 3 years and more, the steepness of the curve – especially between the 3-year and 7-year segment of the curve – is very attractive, and yields in the 7-year segment (where L&T Triple Ace Bond Fund is positioned) offer a substantial cushion to be able to offset the impact from the upward move in rates which is likely over the coming few years.***

***Spreads on less liquid AAA securities and some of the good quality AA securities still remain attractive, and in an environment of interest rates trending higher, a strategy which delivers better yield pickup through judicious exposure to such securities, while still keeping duration moderate – are well suited for investors with a 3 year plus horizon. L&T Resurgent India Bond Fund is well positioned in this segment.***

L&T Financial Services
Mutual Fund

**This product is suitable for investors who are seeking***

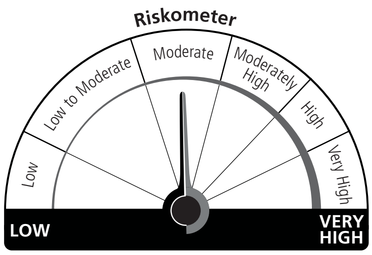
**L&T Triple Ace Bond Fund**
(An open-ended debt scheme predominantly investing in AA+ and above rated corporate bonds)

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

**L&T Resurgent India Bond Fund**
(An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years (please refer to page no. 18 under the section "Asset Allocation Pattern" in the SID for details on Macaulay's Duration)#

- Generation of income over medium term
- Investment primarily in debt and money market securities

**Riskometer is as of February 26, 2021**




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:** MOSPI, Internal, Bloomberg

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