



Indian sovereign bond closed at 5.88%. The government is expected to pursue easy monetary policy by reducing interest rates and infusing surplus liquidity for the current fiscal amid the pandemic-induced lockdown. The RBI announced special open market operations of government securities worth Rs 10,000 crore.

Global yields have eased as central banks globally have cut policy rates aggressively and have announced large QE programs, to counter the negative impact on global growth from the COVID-19 outbreak.

MARKET PERFORMANCE

The 10-year benchmark G-Sec yield closed at 5.88%, up by 10 bps from its previous close of 5.78% while that on the short-term 1-year bond ended 10 bps lower at 3.40%. In the corporate bond segment, yields fell across the yield curve over the month.

The 10-year AAA bond yield ended 20 bps lower at 6.6%, while the short-term 1-year AAA bond yield ended 40 bps down at 4.20%. The spread between 1-year and 10-year AAA bond widened. Within the short term segment, yield on 3-month commercial paper (CP) was down 50 bps to 3.5% while 1-year CP yield was down 40 bps at 4.10%.

10-Year G-Sec





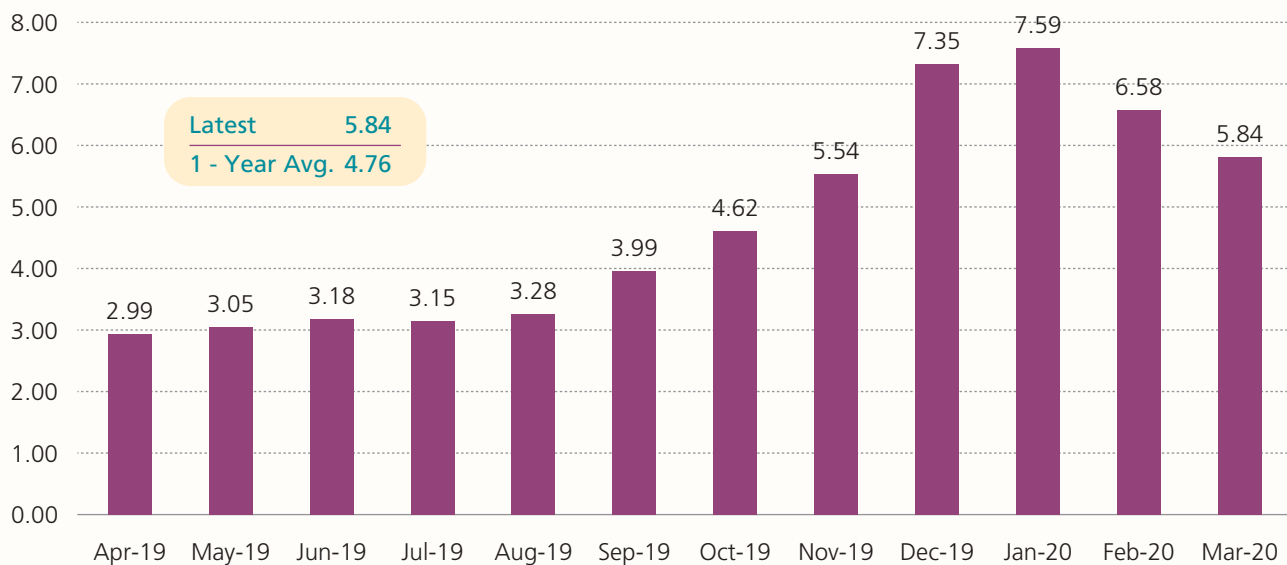
MACRO-ECONOMIC DEVELOPMENTS

Inflation & IIP: Headline CPI for May could not be released due to data compilation difficulties like April. On a YoY basis, food inflation eased from 8.6% in April to 7.4% in May. Inflation based on wholesale price index contracted by 3.21% in May. April IIP contracted by 55.5% (YoY) in April.

PMI & Trade Deficit: May Composite PMI improved marginally from an all-time low of 7.2 in April to 14.8 in May. Services PMI remained lacklustre in May, improving to just 12.6 from 5.4 in April. Similarly, the Manufacturing PMI printed at 30.8, marginally above its all-time low of 27.4 in April. India's monthly trade deficit for May came in at \$3.2 bn declined by \$3.6 bn (MoM).

Oil & Rupee: Brent oil price gained 12% (MoM) in June to end the month at US\$40.9/bbl. INR appreciated by 0.1% and ended month at 75.51/\$ in June.

CPI Combined (YoY)



OUTLOOK, INVESTMENT STRATEGY & FUND RECOMMENDATIONS

Bond and money markets have continued to rally, with yields grinding lower across the G-Sec and AAA curves. Despite this rally, **spread of 3-year AAA bonds versus the overnight rates (~3%) is still at an attractive 200-225 bps. Similar spread for the 10-year AAA is at 350-375bps, showing that the carry for taking additional duration risk is fairly rewarding even now.**

Also, from an investor's perspective, various alternative avenues for deployment of funds such as bank FDs or tax free bonds also continue to move lower, thereby keeping the relative appeal of mutual funds intact despite the lower absolute yield levels.



With the COVID-19 curve in India still not showing signs of flattening out, the impact on GDP growth is likely to be severe despite the attempts at reopening across the country. We expect that the RBI would need to remain accommodative (expect 25-50 bps of further rate cuts in the coming months) and ensure soft interest rates for a significant amount of time, possibly for the most part of 2021 as well.

With the RBI backstop at play, our markets remain a one-sided bet, with losses capped as any sell-off will likely prompt the RBI to intervene (as they did recently with the special OMO operation of Rs 10,000 crore. **Thus, on a risk-adjusted basis, the carry offered by the AAA curve remains relatively attractive in our view, both on the 3-year space (where our L&T Short Term Bond and L&T Banking & PSU Debt Fund are invested), and also at the longer end (where L&T Triple Ace Bond Fund is positioned).**

For investors looking to make additional alpha, a good alternative is to play duration actively. The current bond market environment is a tricky one, where rates are likely to stay low or rally over the coming year, with potential for normalisation (upward movement) of rates in late 2021/2022 as and when the economic situation in the post COVID-19 era improves.

Active management of duration, to capture the ongoing rally, while limiting losses in later years through well timed duration reduction – can offer the most optimal strategy. L&T Flexi Bond Fund and L&T Gilt Fund, both have a demonstrated track record of active duration management in past such cycles, and are well suited in the current market conditions.

The other alternative for alpha generation that is slowly catching investor attention is good quality, but less liquid securities in the AAA/AA+/AA rating buckets, which have been disproportionately punished in terms of market pricing following the credit related fiasco over the past few months.

While the credit environment surely remains extremely challenging and warrants abundant caution, we do believe that funds which can offer access to good quality issuers in these higher rating buckets could be considered by investors willing to move up a notch in the risk-reward chain. L&T Resurgent India Bond Fund is well positioned in this space, with a pickup of almost 325 bps over 3-year AAA PSU yields.



This product is suitable for investors who are seeking*

L&T Banking and PSU Debt Fund

(An open ended debt scheme primarily investing in debt instruments of banks, public sector undertakings, public financial institutions and municipal bonds)

- Generation of reasonable returns and liquidity over short term
- Investment predominantly in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions and municipal corporations in India

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 Flexi Bond Fund

(An open ended dynamic debt scheme investing across duration)

- Generation of reasonable returns over medium to long term
- Investment in fixed income securities

L&T Gilt Fund

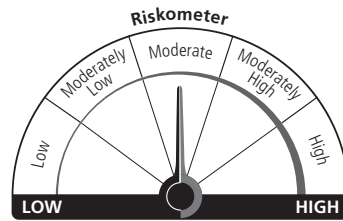
(An open ended debt scheme investing in government securities across maturity)

- Generation of returns over medium to long term
- Investment in Government Securities

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)

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

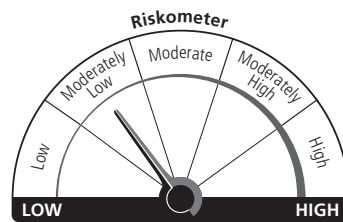


Investors understand that their principal will be at moderate risk

L&T Short Term Bond 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 in fixed income securities of shorter term maturity.



Investors understand that their principal will be at moderately low 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.