Volatility across asset classes, both globally and in domestic markets continued. Fed kept policy rates and the pace of asset purchase program unchanged. However, they acknowledged pick-up in both growth and inflation. With markets wary of higher inflation, US Treasury yields saw a sharp movement upwards. The 10-year benchmark moved up by around 30-35 bps over the month. Crude prices after a sharp rise in February remained broadly range-bound in March.

On the domestic front, headline inflation inched higher to 5.03% vs 4.06% the previous month. Core inflation continued to remain sticky at 5.9% vs 5.7% the previous month. The inflation targeting regime, which was due for a review at the end-March, has been retained at 4% (+/-2%) for the next five years. The CRR dispensation of 1% which was provided last year, has been partially pulled back with Banks required to keep CRR at 3.5% currently. However, this might open up more room for OMO purchase by RBI. The 10-year G-Sec moved from 6.23% to 6.18% over the month. The Government cancelled the last scheduled auction in March (due to high cash balance position), which resulted in 10-year yields falling to 6.12% in the interim.

The government announced the borrowing calendar for H1 FY2022, where gross borrowing for H1 FY2022 was estimated at INR 7.24 lakh Crores (~60% of the budgeted target for FY2022). The supply in the 10-year segment was on expected lines, however, supply in the longer end was higher than expected, keeping that segment under pressure. With a sharp rise in COVID cases recently, expectations have built of the accommodative stance to remain longer than earlier expected. This led to short end rates falling in the recent past. With supply-side pressures on long tenor Corporate bonds abating and heavy investments by long only investors in year-end, spreads of long tenor Corporate bonds vis-à-vis G-Sec also compressed.

MARKET PERFORMANCE

The 10-year benchmark G-Sec yield closed at 6.18%, down by 5 bps from its previous close of 6.23% while that on the short-term 1-year bond ended 5 bps lower at 3.85%.

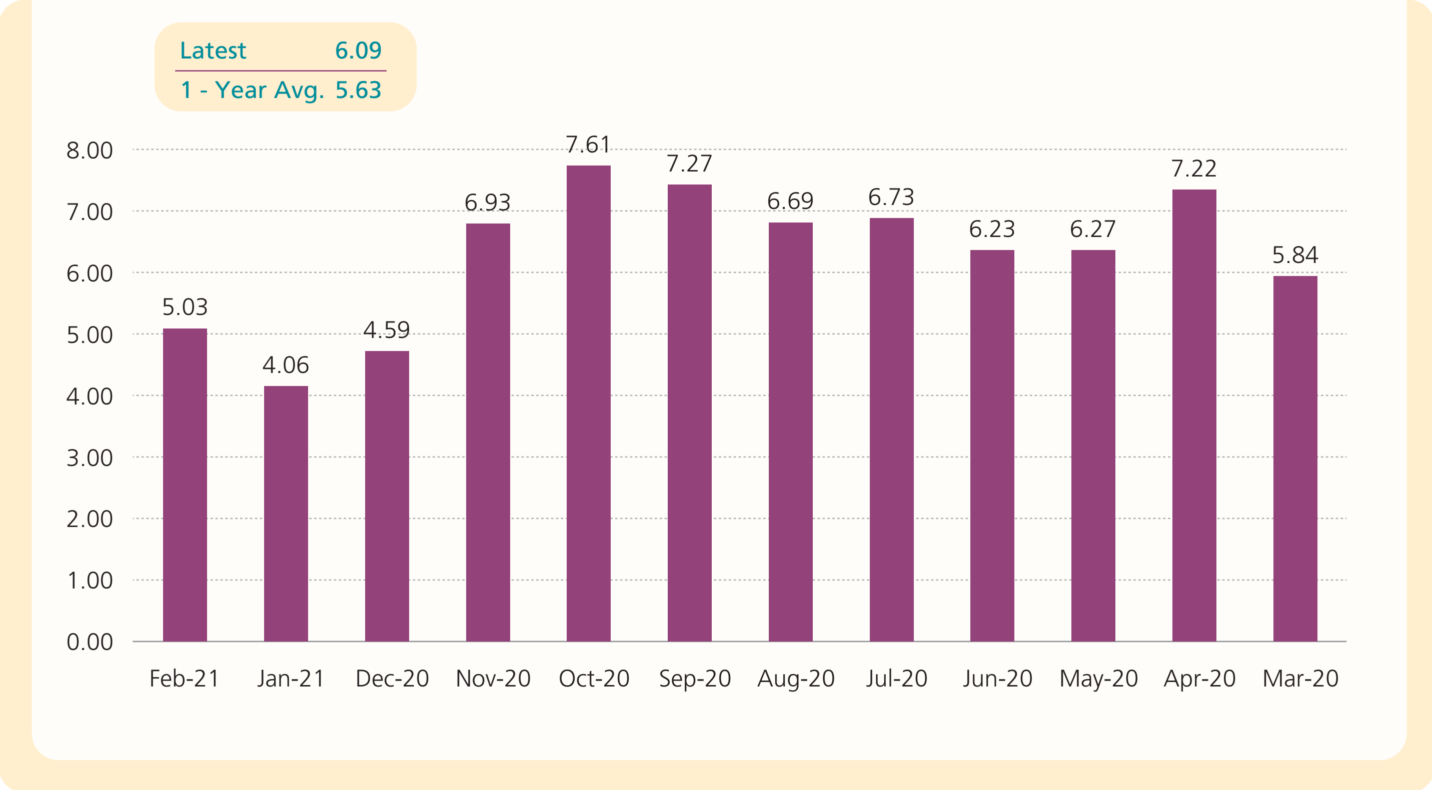
In the corporate bond segment, yields fell across the yield curve over the month. The 10-year AAA bond yield ended 27 bps lower at 6.85%, while the short-term 1-year AAA bond yield ended 15 bps down at 4.20%.

The spread between 1-year and 10-year, AAA bond narrowed. Within the short-term segment, the yield on 3-month commercial paper (CP) was down 10 bps to 3.5% while 1-year CP yield was down 5 bps at 4.25%.

10-Year G-Sec

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

CPI Combined (YoY)



MONETARY POLICY

The Monetary Policy Committee (MPC) came out with their bi-monthly policy statement today. Some of the key announcements are as follows:

- The MPC members unanimously voted for keeping the policy rates unchanged
- The MPC also unanimously decided to continue with an accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remained within the target going forward
- As a fall out of the growth-driven Budget by the Government, demand has picked up. However, the recent surge in COVID infections has added uncertainty to the growth outlook. To counter spillovers to the economy at large, fiscal and monetary authorities will stand ready to act. Considering these factors, the MPC has retained its expectation of real GDP growth at 10.5% for FY2022
- The projection for CPI inflation has been revised to 5% for Q4 FY2021, 5.2% in H1 FY2022, 4.4% in Q3 FY2022 and 5.1% in Q4 FY2022

Unlike previous policies where the MPC gave a time-frame based guidance on accommodative stance, this time around they have dropped the time frame based guidance, and given more outcome-based guidance, possibly because of the uncertainty around the evolving impact of the pandemic on growth.

The Governor also made two very important announcements in his address today:

- Given the success of the Variable Rate Reverse Repo (VRRR) auctions and the rising surplus liquidity in the system, RBI announced to further conduct VRRR auctions of longer maturity. However, the RBI reiterated that this should not be considered as liquidity tightening
- The Governor announced a secondary market G-Sec acquisition program (G-SAP 1.0), where the RBI will upfront commit to a specific amount of open market purchases of G-Sec in order to ensure orderly evolution of yield curve. For Q1 FY2022, G-SAP of INR 1 lakh Crores will be conducted, the first of which will be conducted for an amount of INR 25,000 Crores on April 15, 2021. Separately, the RBI will continue to use other tools under LAF, long term repo/reverse repo auctions, FX operations, OMOs and special OMOs as and when required

The G-SAP program is essentially a commitment from the RBI to provide durable liquidity to the system irrespective of market conditions.

Some of the other non-policy related announcements are as follows:

- The on-tap TLTRO scheme provided to Banks to lend to specific sectors which was allowed till March 31, 2021 has been extend by a period of 6 months
- Special liquidity facility worth INR 50,000 Crores will be provided to All India Financial Institutions (NABARD, NHB and SIDBI) for FY2022
- Bank lending to NBFCs (for on-lending to Agri/MSME/Housing) which were allowed under PSL will be extended till Sep 30, 2021

The Governor reiterated that RBI stands committed to ensuring ample system liquidity in consonance with accommodative stance of the MPC, and RBI will continue to preserve financial stability and insulate domestic financial markets from volatility arising from global spillovers.

Post policy, G-Sec up to 5 year segment remained neutral to negative, however beyond 5 year segment, yields were down by 3-7 bps. Money market papers were up ~10 bps, 2-3 year Corporate bonds were up 5-10 bps, however the 5-10 year segment was down by up to 5 bps. With longer tenor VRRR pushing short end rates higher and G-SAP program providing predictability on G-Sec supply absorption by RBI and in turn supporting longer end rates, markets are now expecting the yield curve to flatten. However, it will have to be seen how the G-SAP is conducted and which segments on the curve does the RBI target.

Overall, the RBI governor has been very articulate in his communication that the RBI and MPC stand ready to support growth in the face of the second wave of pandemic, and will ensure that the bond market functions in an orderly manner, with adequate provision of liquidity. While this does provide much needed comfort to market participants, especially for yields at the longer end of the curve via the newly announced GSAP 1.0 program, the announcement regarding the longer tenor variable rate reverse repos (VRRR) does suggest that RBI is moving in a calibrated manner towards nudging up levels at the shorter end of the curve. Yields at the extreme short end have been trading close to the reverse repo rate with hardly any reward in the 0-6 month part of the curve. Effective implementation of the VRRR can gradually push up the term premia in the money market part of the curve, leading to a gradual flattening of the yield curve, which so far has been extremely steep.

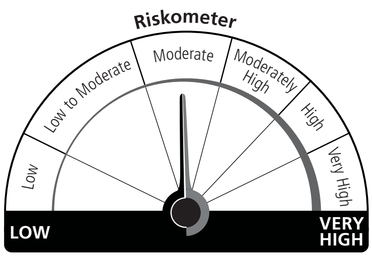
Yields in the short to medium (2-3 years) part of the curve have moved higher over the past few months, thereby offering better value for investors looking for some yield pickup over other money market segments. ***For investors with a long term horizon of 3 years and more, the steepness of the curve – 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 that delivers better yield pickup through judicious exposure to such securities, while still keeping duration moderate – are well suited for investors with a 3 year + horizon. L&T Resurgent India Bond Fund is well-positioned in this segment.***

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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