Indian sovereign bond closed at 5.88% vs 6.02% from its previous close ahead of the US presidential election. Traders are cautious of a contested election result and a possibility of conflict in the US weakening risk appetite globally.

After the latest monetary policy meeting, the central bank has purchased Rs 500 billion of government bonds and state bonds through open market operations, and has also purchased Rs 111.55 billion worth of bonds in the secondary market between Oct 2 and Oct 23.

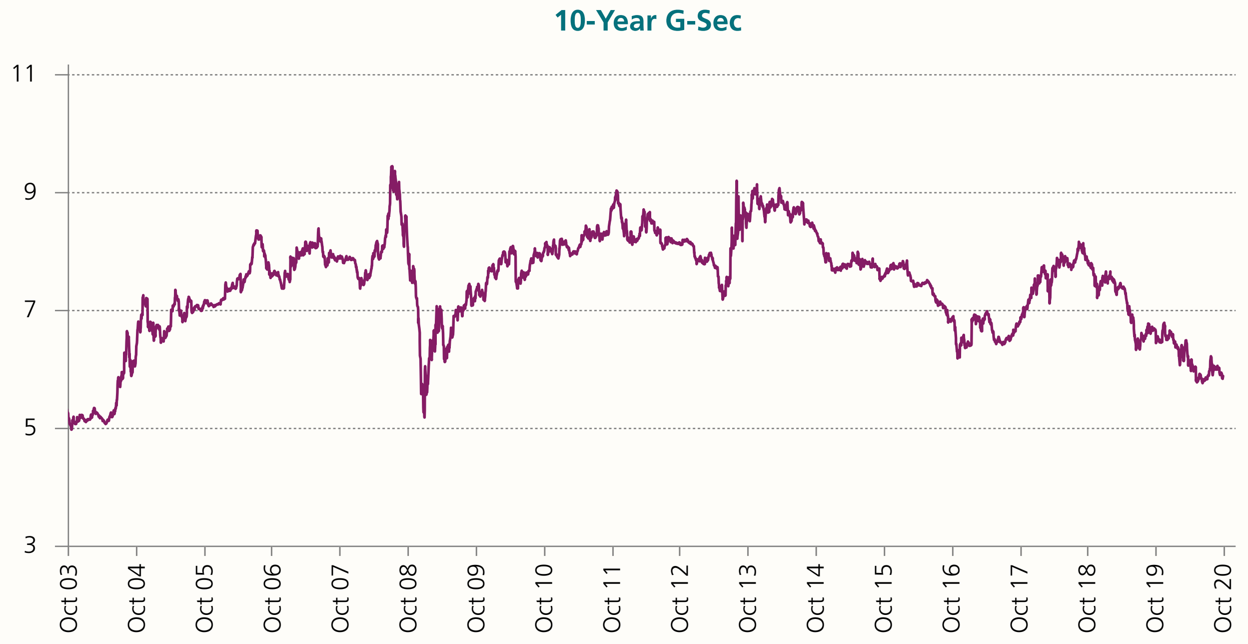
US 10Y yields are at 0.87% (-82 bps over the last 1 year). Brent oil price declined 9.9% in October to end the month at US$36.9/bbl following a 7.7% decline in September. INR depreciated by 0.5% and ended the month at 74.11/$ in October.

MARKET PERFORMANCE

The 10-year benchmark G-Sec yield closed at 5.88%, down by 14 bps from its previous close of 6.02% while that on the short-term 1-year bond ended 22 bps lower at 3.45%.

In the corporate bond segment, yields fell across the yield curve over the month. The 10-year AAA bond yield ended 35 bps lower at 6.42%, while the short-term 1-year AAA bond yield ended 40 bps down at 3.90%.

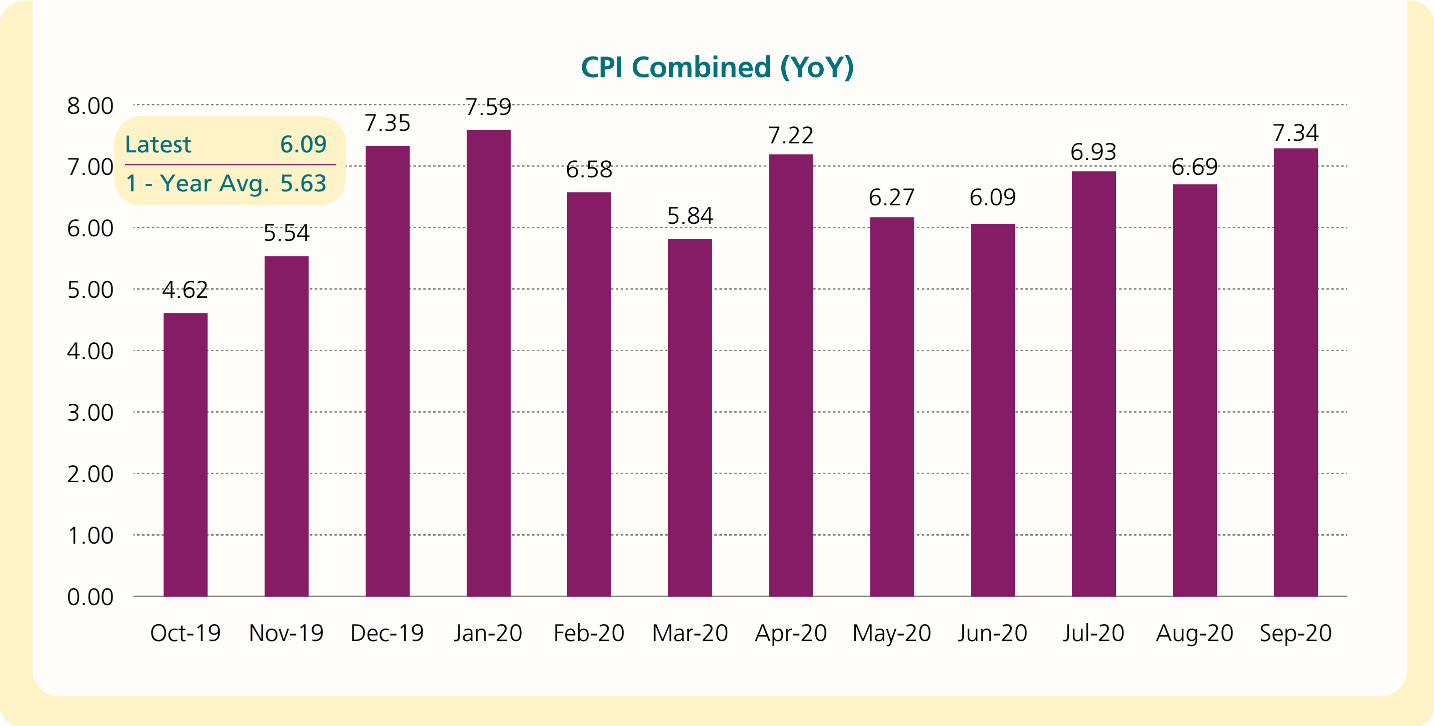
The spread between 1-year and 10-year AAA bond widened. Within the short term segment, the yield on 3-month commercial paper (CP) was down 15 bps to 3.40% while the 1-year CP yield was down 35 bps at 3.80%.



MACRO-ECONOMIC DEVELOPMENTS

IIP & Inflation: Industrial production declined by 8% in August, mainly due to lower output of manufacturing, mining and power generation sectors. Retail inflation in September rose to 7.34% from 6.69% in August, mainly on account of higher food prices. WPI inflation turned positive in August, up 0.33%, after a four-month lull which began in April.

PMI & Export: India's PMI for services rose to 49.8 in September from 41.8 in August. After recording a positive growth of 6% in September, India's exports have declined by 5.4% to $ 24.82 billion in October.



OUTLOOK & FUND RECOMMENDATION

October saw bond markets rallying across the G-Sec, money market and corporate bond curve. With the government sticking to its Rs 12 lakh crore gross borrowing program while announcing the second-half borrowing calendar, along with lower than expected SDL and T-Bill borrowing, bond markets got much-needed relief on the demand-supply overhang.

The new-look MPC, which surprised with its clear dovish tilt to the language, aided that positive sentiment. The RBI MPC has chosen to go down the path of forward rate guidance, giving comfort that policy will be accommodative in FY21 and into FY22. This clearly shows that we are likely to remain in a low rate environment for a fairly long period of time, which is a significant input for investors who have been waiting for a selloff before investing in the bond markets. **The carry earned by moving longer on the yield curve (compared to the very short end) is still reasonably attractive, especially in a protracted era of 'low for longer' interest rate policy.**

The RBI has stepped up on its OMO purchases, with the amounts increased to Rs 20,000 crore (vs Rs 10,000 crore earlier) and more significantly including SDLs in its OMO operations leading to good spread compression of SDLs over

OUTLOOK Cont...

G-Sec. With liquidity remaining in abundant surplus, limited supply of corporate securities and healthy inflows into mutual funds, we have been seeing yields rally sharply. **In our view, this trend is likely to continue as we see the yield curve continue to flatten, especially in the 2-5 year segment.**

While the upward pressure on CPI, especially the food component continues to be a worry for the markets, the dovish language of the MPC indicating their preference to see through this transient phase gives some respite. However, we need to see adequate supply-side measures by the state and central governments, to ensure that food inflation does trend down at least by December, so as to provide enough room to the MPC to continue their dovish policy measures.

Overall, **while absolute yield levels continue to trend lower, we do see the risks as one –sided as any upside in yields is likely to be capped by the RBI measures,** especially given the forward time-based guidance of accommodative policies by the MPC till early next fiscal year. **We continue to recommend investors to earn the extra carry provided by the still steep yield curve.**

FUND STRATEGY

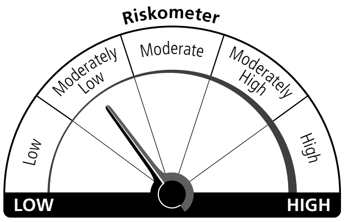
On a risk-adjusted basis, the yield curve continues to remain steep, with carry remaining attractive as we move longer on the yield curve. Accordingly, in our view, **the AAA curve remains fairly attractive both on the 3-year space (where our *L&T Short Term Bond* and *L&T Banking & PSU Fund* are invested), 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. Active management of duration, to capture any 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 an 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 that 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 250-275 bps over 3-year AAA PSU yields.**

This product is suitable for investors who are seeking*

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

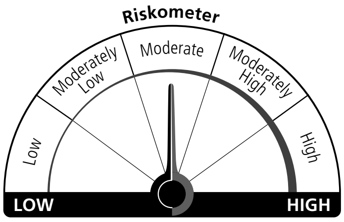
L&T Banking and PSU Debt Fund
(An open ended debt scheme primarily investing in debt instruments of banks, public sector undertakings, public financial institutions and municipal bonds)
• Generation of reasonable returns and liquidity over short term
• Investment predominantly in securities issued by 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

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

Source: MOSPI, Internal, Bloomberg