The 10-year benchmark G-Sec yield closed at 6.22% vs 6.20 in the previous month. Benchmark 10-year treasury yields were up 2 bps and ended the month at 6.22%. Brent oil price declined 5.5% to ~$71/bbl in August.

## MARKET PERFORMANCE

The 10-year benchmark G-Sec yield closed at 6.22%, up by 02 bps from its previous close of 6.20% while that on the short-term 1-year bond ended 05 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 04 bps lower at 6.88%, while the short-term 1-year AAA bond yield ended 05 bps down at 4.10%.

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 3.4% while 1-year CP yield was down 05 bps at 4.05%.

10-Year G-Sec


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

## OUTLOOK

The FOMC minutes for the July policy (released in August) indicated that conditions for commencement of tapering of asset purchases would most likely be met this year. Most Fed officials believed that tapering might begin this year, although the expectations on timing seemed to be a bit divergent. Concerns were expressed on the spread of the Delta variant weighing on risk sentiment globally. However, there were some views also expressed acknowledging that inflationary pressures might turn out to be more persistent in nature than expected. The Fed Chair in his widely anticipated address at the Jackson Hole symposium mentioned that substantial progress has been met on meeting the inflation target and there is progress on achieving employment goals. Although the Fed Chair did not mention any specific date, he indicated that the tapering announcement was likely this year, depending on the evolving economic conditions (especially pertaining to employment). However, he emphasized that tapering should not be construed as the beginning a rate hike cycle. Any normalization would be very gradual and basis evolving market conditions, and even with tapering, financial conditions will continue to remain accommodative. 10-year US Treasury rates moved from 1.22% to 1.31% over the month, and have broadly traded range-bound. Crude prices continued to trade in the USD 65/bbl – USD 75/bbl range.

# OUTLOOK

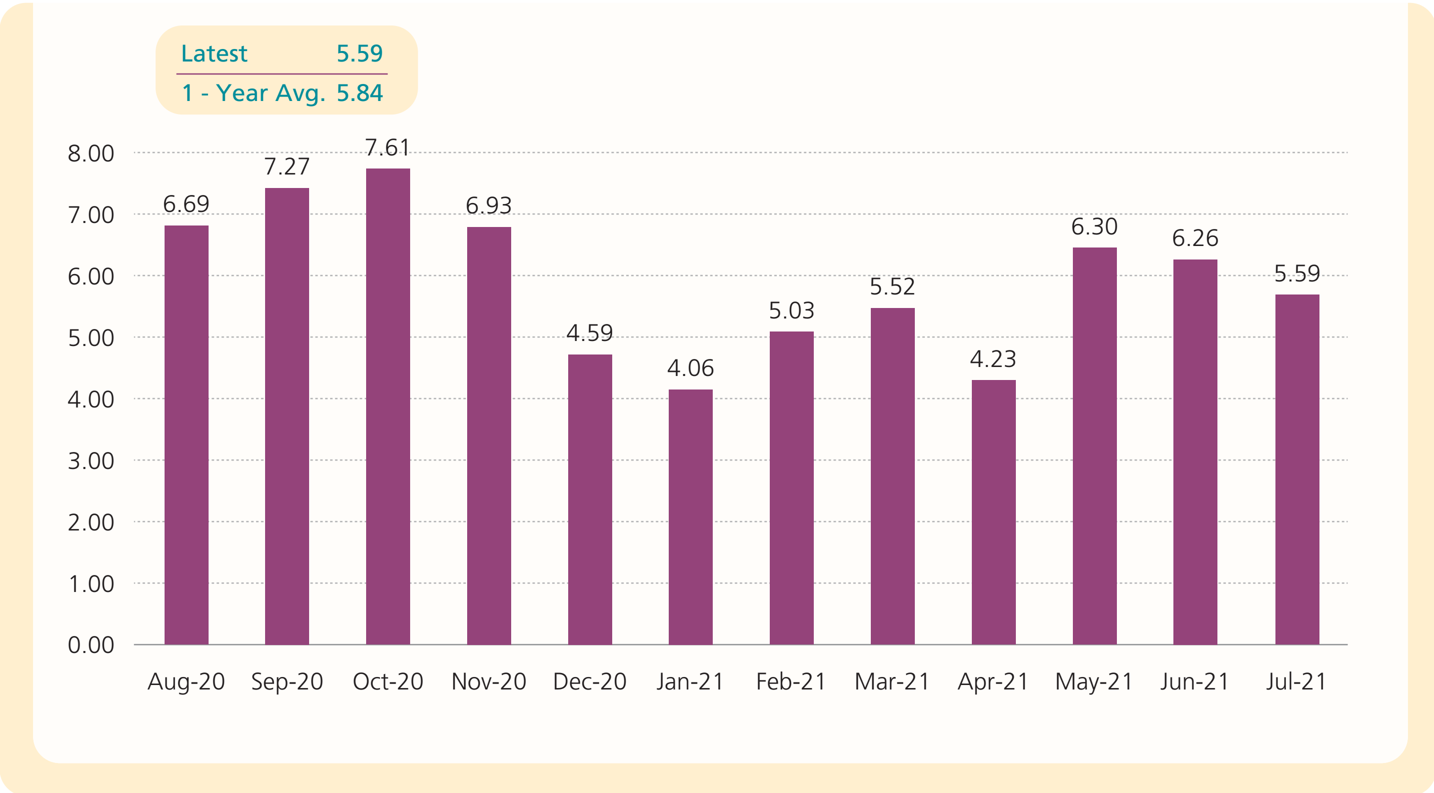
On the domestic front, the MPC minutes was the key event markets were looking forward to. Although MPC members stayed committed to support growth, they acknowledged the underlying inflationary pressures (predominantly due to supply-side factors). They also mentioned the risks associated with a potential third wave and the importance of the pace of vaccination to prevent the impact. The key takeaway from the minutes was that Professor Jayanth Varma expressed his clear dissent against staying accommodative for a long period of time. He advocated for a phased normalization of the LAF corridor and voted against the accommodative stance. Few of the other MPC members were also of the view that gradual adjustments to liquidity could begin even with the stance remaining accommodative.

System liquidity continues to remain in surplus, auguring well for short-term rates. GST collections have been steady and there is a possibility that Government might not need to borrow extra to compensate States for the GST shortfall. The RBI Governor, through his various media interactions has indicated that the process of normalization of rates will be gradual, to avoid market disruption and increase in VRRR auctions announced in the last policy should be not considered as the beginning of a rate hike cycle.

GDP data for Q1 FY2022 came in at 20.1% (slightly lower than market consensus) aided by a lower base. CPI inflation came down to 5.59% in July from 6.26% in June, helped by a large base effect and softening food price momentum. Core inflation also came off mildly to 6.00% (from 6.20% last month). IIP data for June came in at 13.6% led by a pick-up in sequential momentum. RBI conducted INR 50,000 Crs of G-SAP 2.0 auction in August, including liquid securities in the 5-year and 15-year bucket. Barring the first G-Sec auction in August, where RBI did not accept any bids in the 10-year benchmark security, all other weekly G-Sec auctions got cleared smoothly. 10-year G-Sec traded in the 6.20%-6.25% band over the month. G-Sec and Corporate bond yields up to the 5-year segment moved down by 10-15 bps with a good appetite from Traders and Mutual Funds.

With RBI announcing only incremental amounts in the 14 days VRRR auction, goes to show that RBI is extremely cautious to take any step that would distort markets and stand committed to ensure that normalization is achieved in a calibrated manner.

**CPI Combined (YoY)**



## FUND RECOMMENDATIONS & INVESTMENT STRATEGY

The **L&T Short Term Bond Fund** and **L&T Banking and PSU Debt Fund** are suited for investors who would want to ride this upwards rate cycle with lower volatility over the next 2-3 years with highest quality portfolios.

The **L&T Triple Ace Bond Fund**, which invests in the 2028-29 maturity segment, with investments in the highest credit quality AAA corporate bonds is positioned for long term investments, especially versus tax-free bonds but comes with a lot of potential volatility through the year. The yields on this part of the curve (7 years average maturity) are the most favorable from a risk-reward perspective.

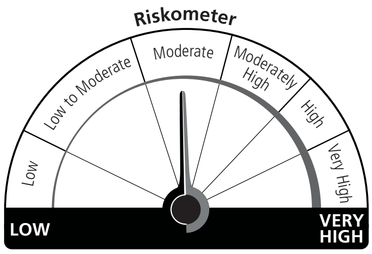
**L&T Resurgent India Bond Fund** is positioned with an attractive yield while still having more than 75% of the portfolio in the AAA segment. The interest rate volatility is relatively lower as the average maturity of the fund is below 3 years, making it an ideal investment opportunity for investors seeking higher returns over a plain vanilla AAA fund over a 3 year period.

**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

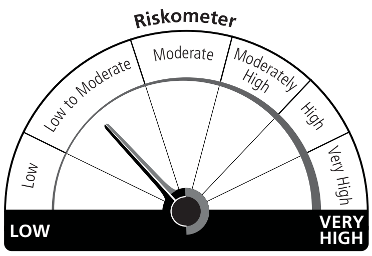
**L&T Resurgent India Bond Fund**
(An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years (please refer to page no. 18 under the section "Asset Allocation Pattern" in the SID for details on Macaulay's Duration)#
-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

**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



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 low to 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.**

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