DEBT MARKET REVIEW
OCTOBER, 2022

L&T Financial Services
Mutual Fund

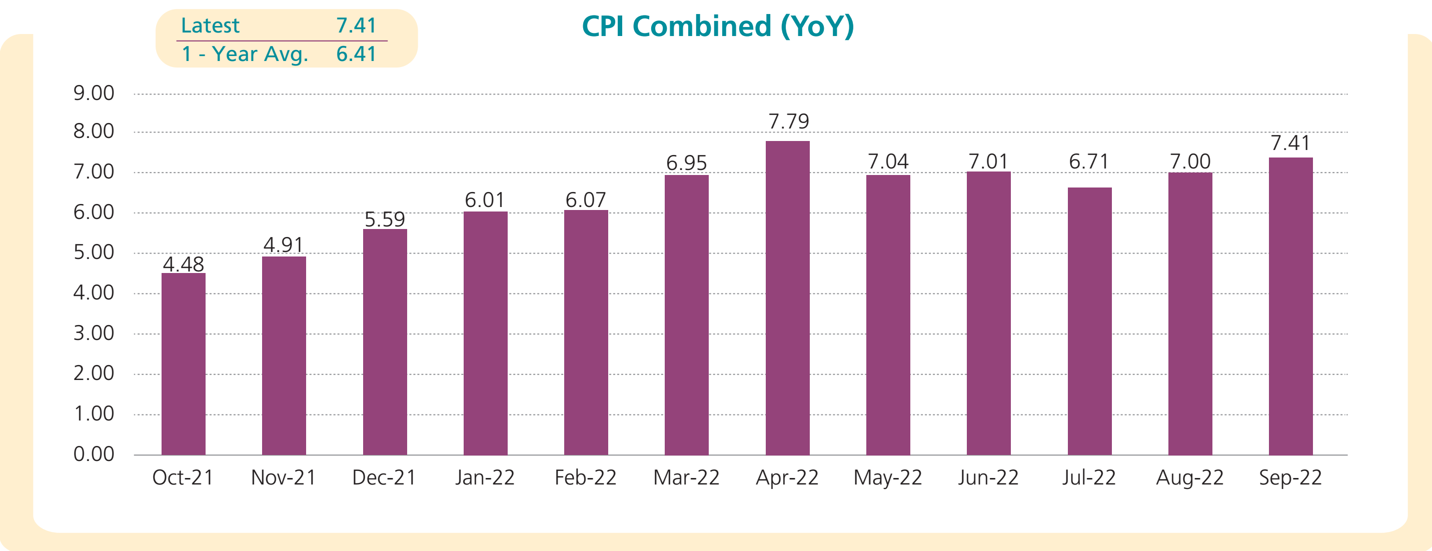
Across economies, inflation continues to dictate policy actions by Central Banks. The recent inflation prints in the US, UK and Eurozone read as 8.2%, 10.1% and 10.7% respectively. Elevated energy prices have pushed inflation in the UK and Eurozone to multi-year highs. The FOMC in its recent meeting raised policy rates by 75 bps, in line with market expectations, taking the federal funds rate to 3.75%-4.00%, while continuing with the QT framework. Although the Fed Chair guided that the pace of future hikes would slow down to account for the lag in the impact of the monetary policy actions already undertaken, he ruled out the possibility of a dovish pivot. He also hinted that terminal rates might be higher than earlier estimated and rates might remain higher for a longer period. The BOE also announced a 75 bps hike, taking policy rates to 3.00%. This is their eighth consecutive rate hike. The BOE expects inflation to hit 11% in Q4. The ECB also raised policy rates by 75 bps, with further hikes expected depending on evolving economic and inflation outlook.

US Treasury yields remained volatile throughout the month with the 10-year benchmark trading in the range of 3.65%-4.25% during the month. The yield curve continues to remain inverted with 2-yr vs 10-yr currently at ~ 50

bps. Crude prices during the month traded in the range of USD 85/bbl to USD 100/bbl.

MACROECONOMIC DEVELOPMENTS

On the domestic front, CPI inflation for Sep 2022 came in slightly higher than expectations at 7.41% (vs 7.00% in Aug) due to higher food inflation. Core CPI also inched higher to 6.1%. With this, the MPC has failed to achieve its inflation mandate, and the MPC announced a one-time meeting to be held on Nov 03, 2022, to deliberate on the report to be sent to the Government for failing the mandate. WPI inflation for Sep 2022 came in at an 18-month low of 10.70% (vs 12.41% in Aug).



IIP data for Aug 2022 showed a contraction (first time in 18 months) of 0.8% (vs an expansion of 2.2% in Jul).

Trade deficit fell slightly lower than previous readings to USD 25.71 bn, with the cumulative Trade Deficit for the Apr-Sep period at USD 148.46 bn.

PMI numbers continue to remain in expansion, GST revenues remain buoyant with Oct collections at INR 1.52 Lakh Crs (second highest collection) and credit off-take upbeat with Non-Food Bank credit growing at in 16.9% in Sep 2022. The IMF, however, cut India's GDP forecast for FY2023 by 60 bps to 6.8%, while keeping the forecast for FY2024 unchanged at 6.1%. India's Fiscal Deficit for H1 FY2023 now stands at INR 6.2 Lakh Crs (37.3% of BE).

The MPC minutes of the October policy showed a divergence between members. On one hand Dr. Ashima Goyal advocated for a 35 bps rate hike while Prof. Varma was of the opinion that post the 50 bps hike in the October policy, a pause is needed to assess the impact of the rate hikes already undertaken. On the other hand, the RBI members hinted at continued policy actions to anchor inflation expectations. Against this backdrop of differing views among MPC members, and with major advanced economies still undertaking large rate hikes, the December policy becomes a bit more unpredictable and will remain a key event in evaluating future trajectory of domestic rates.

MARKET PERFORMANCE

On a month-on-month basis (as on Oct 31, 2022) Short term rates moved up sharply due to tightening liquidity conditions during the month with T-Bill rates moving up by 25-40 bps. Increased supply of Bank CDs put further pressure on short-term rates with CD levels moving higher by 50-60 bps during the month.

10-Year G-Sec

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

Movement in G-Sec and corporate bonds remained relatively subdued with yields typically moving up between 0 to 15 bps. OIS levels also moved broadly in line with G-Sec. With continued Dollar strengthening, USD INR traded in the range of 81.5 to 83 during the month.

We continue to believe that at levels close to 7.25-7.50%, the 2-4 year part of the yield curve offers good relative value vis-à-vis other points on the curve, for investors who are looking at a medium-term investment horizon. L&T Banking and PSU Debt Fund is predominantly positioned in this segment. Markets are now a lot more volatile, with frequent sharp moves in both directions. While this on the one hand warrants caution, on the other – this also means more opportunities for dynamically managed funds to be able to tactically, as well as strategically deliver alpha. With majority of the mid to longer end yields in range of 7%-8%, broadly absolute levels are not bad either. Hence, for investors desiring alpha through duration calls, funds like the L&T Flexi Bond Fund, L&T Gilt Fund and L&T Resurgent India Bond Fund are all attractive opportunities to be considered by medium to long-term investors.

L&T Gilt Fund | L&T Flexi Bond Fund | L&T Banking and PSU Debt Fund

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		

L&T Resurgent India Bond Fund

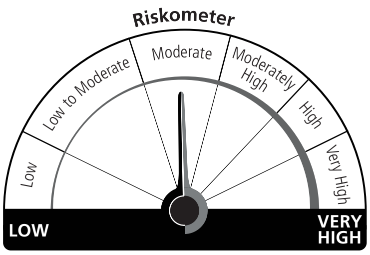
Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)		B-III	

This product is suitable for investors who are seeking*

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)#. A relatively high interest rate risk and moderate credit risk)
• 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.) A relatively high interest rate risk and relatively low credit risk:
• 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

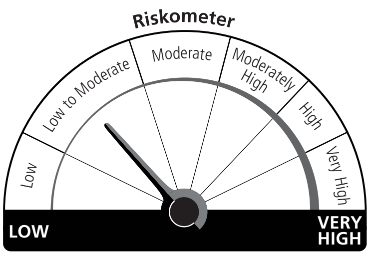
Riskometer is as of October 31, 2022



Investors understand that their principal will be at moderate risk

L&T Flexi Bond Fund
(An open-ended dynamic debt scheme investing across duration. A relatively high interest rate risk and relatively low credit risk)
• 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. A relatively high interest rate risk and relatively low credit risk)
• Generation of returns over medium to long term
• Investment in Government Securities



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

Source: MOSPI, Internal, Bloomberg