

# FIXED INCOME OUTLOOK

**SEPTEMBER 2024**

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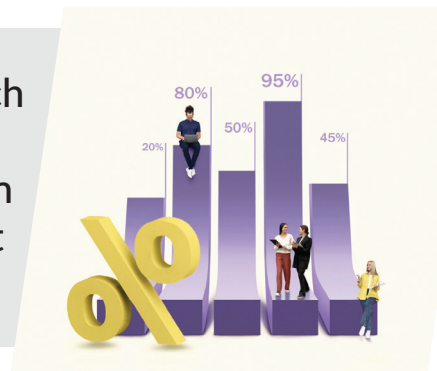


# SUMMARY OF MACRO EVENTS FOR THE MONTH- AUGUST 2024



Month of August continued to remain positive for the bond markets.

It began with significant uptick in US unemployment data, which led to fears of slowdown and increased probability of recession in US, outcome was US bond yields rallied and started pricing in aggressive rate cuts. Fed futures are now pricing in 100 bps cut till Dec 2024 and a total of 200 bps by end of 2025.



10-year US bond yields rallied and are now trading close to 3.80%. Over last 2 months, US yields have rallied by more than 60 bps due to expectations of Fed cuts.

Geopolitical tensions, particularly in the Middle East increased which led to volatility in crude price. However, weaker China macro data and fears of global growth slowdown led to lower commodity prices.





The Fed chair hinted towards rate cut in September at the Jackson Hole meeting. We believe that they would be cautious and data dependent and not expect more than 75 bps cut till Dec 2024.

The recent RBI MPC meeting continued with its status quo stance on rates with a cautious tone. The impact of the policy on the markets was very muted.



India Macro data was positive for bond markets especially July CPI print which came at 3.54% due to favorable base effects and core inflation continued to remain low at ~3.4%. We believe that due to significant fall in vegetable prices, headline CPI print for August too will be ~3.5% and CPI average for Q2 will be substantially lower than RBI expectations.

In anticipation of Lower CPI prints and Fed rate cuts starting September India 10 year bond yields rallied by more than 7-10 bps and swaps yields are lower by 20 bps over the month.



Banking liquidity as highlighted continued to remain surplus and overnight funding rate continued to remain easy which kept money market curve yields under check.

# STRATEGY FOR THE PORTFOLIOS AND OUTLOOK FOR MARKETS

Lower than expected India inflation in Q2, Fed rate cuts and positive demand supply dynamics for bonds makes us bullish on bonds.

We believe that if Fed cuts by 50 bps in September and monsoon turns out to be normal then there is a very high possibility that RBI might change its policy stance to neutral in Oct or Dec MPC.

As India Growth remains strong and geopolitical risks have increased RBI will be cautious and we don't expect RBI to be aggressive in cutting rates.

We expect 50 bps of rate cut in this cycle in next 6-12 months.

US bond markets will continue to trade in a range of 3.65-4.10% as Fed starts to cut rate from September, but high US fiscal deficits will not allow massive rally in US yields.

We believe that once festive season starts from September, banking liquidity would turn in to deficit zone and we might see some volatility in money market yields due to pick up in credit growth and higher deposit supply.

In lieu of favorable macro and positive market dynamics for Govt bonds we continue to run higher duration and our higher allocation to govt bonds across all our funds.

# RISKS TO VIEW

Market positioning is heavy (both traders and investors), which means everyone is positioned for rally in bonds. Any surprises arising due to Geopolitical risk which flares up Oil & commodities prices and puts a break to disinflation process can lead to near term uptick in yields and volatility in our bond markets.

## WHAT CAN INVESTORS DO?

**1**

Investors should continue to hold duration across their portfolios.

Investors would need to be patient for further rally as further rates easing in India would be delayed to H2 of FY 25.

**2**

**3**

With expectations of lower Q2 CPI, favorable demand supply dynamics for bonds and continued flows from FPI we continue to advise Short to Medium term funds with tactical allocation too gilt funds to our clients.

# DISCLAIMER

Data as on 31st August, 2024

Source: RBI, Bloomberg, Axis MF Research

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

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