AXIS MUTUAL FUND

FIXED INCOME OUTLOOK

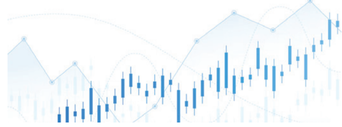
JULY 2024

By Devang Shah
Head - Fixed Income, Axis Mutual Fund

SUMMARY OF MACRO EVENTS IN JUNE 2024

Impact of election results: A weaker than expected election results led to volatility in bond market yields. A 10 bps rise in bond yields on election result day was observed, most of it got reversed over the month.

Inclusion of Indian Govt Bond in JP Morgan Indices: Finally, Indian govt bonds got included in JP Morgan Indices from 28 June and we should expect ~15-20 bn USD of inflows till March 2025.



Impact of OPEC+ decision: OPEC+ extended their cut which led to rise in Brent prices by 5% over last 1 month. Other commodities especially base metals lost shine last month and most of them corrected by 2-5%.

US macro data: US macro data continued its weaker trend. Q2 data was substantially weaker as compared to Q1. Retail sales, employment and inflation data all came weaker than market expectations. The US govt continuing to expand its fiscal is concerning. For 2024 its Fiscal Deficit is expected to rise to 6.8% of GDP as against 6.3% previously.

CPI data: Headline CPI in India came @4.75%. Both headline and core inflation came a tad softer than expected and unless we see any surprises from monsoon, we don't expect any upside in CPI trajectory in near term.

Global central bank rate cycle: Large global central bank pivoted on rate cycle, ECB, Swiss Central bank, Bank of Canada all delivered a rate cut and guided for further rate cuts due to falling inflation trajectory.

RBI monetary policy: Another major event for the month was RBI monetary policy which announced a status quo on rates. RBI continued with its cautious stance on Inflation and there were no significant revisions in any of their macro projections.

Banking Liquidity: The banking liquidity continues to remain in deficit zone due to lack of Government spending. The government is running a huge balance of more than INR 5 trillion and we believe that scheduled GSec maturities and accelerated spending will improve banking liquidity from July.

IMPACT OF MACRO EVENTS ON CURRENT MARKETS

Bond markets traded in a narrow range for the month of June. Yields across the curve both short and long end did not move significantly on either side.

With continued FPI debt flows and accelerated spending in July we expect bond yields to trend lower.

Both US and India markets still don't price in any significant rate cuts till Dec 2024, and we don't expect any rate cuts immediately.

We expect Government to stick with its 5.1% fiscal deficit target for FY25 and use the buffer of 0.3-0.4% of the GDP created due to excess RBI dividend on additional welfare and capex spending.

We believe that Government would continue with its path to fiscal consolidation, focus on infrastructure and policy continuity in the budget.

All eyes in July would be on budget and we don't expect any major moves before the budget.

INVESTMENT STRATEGY FOR THE PORTFOLIOS AND OUTLOOK FOR THE MARKET:

1. Strong Growth/ high frequency indicators and monsoon uncertainty will keep RBI cautious and we don't expect RBI to be in any hurry to cut rates.

2. Higher than anticipated US Fiscal deficit would also keep US yields trade in a range despite soft US Macro data.

3. Our core view continues to remain constructive on rates due to positive demand supply dynamics especially for India IGB's, lower CPI and stable external sector outlook.

4. We expect 50 bps rate cut in this cycle in next 12 months.

5. In anticipation of continued FPI flows in Government bonds due to JP Morgan inclusion and expectations of improvement in banking liquidity our portfolio allocation has tilted towards a higher Gsec and 1-3 year corporate bonds.

RISKS TO VIEW

Market positioning is heavy (both traders and investors), which means everyone is positioned for rally in bonds. Any surprises about borrowing in the budget, like additional borrowing can lead to volatility and rise in yields by 10-20 bps.

WHAT CAN INVESTORS DO?

A Investors may continue to hold duration across their portfolios.

B Investors would need to be patient for further rally as further rates easing would be delayed to H2 of FY25.

C With expectations of lower Q2 CPI, no change in fiscal deficit and borrowing in Budget and continued flows from FPI, we continue to advise Short to Medium term funds with tactical allocation to gilt funds to our clients

DISCLAIMER

Data as on 30th June, 2024
Source: RBI, Bloomberg, Axis MF Research

Past performance may or may not be sustained in the future.
Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s).

Statutory Details: Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh). **Trustee:** Axis Mutual Fund Trustee Ltd. **Investment Manager:** Axis Asset Management Co. Ltd. (the AMC). **Risk Factors:** Axis Bank Limited is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.

This document represents the views of Axis Asset Management Co. Ltd. and must not be taken as the basis for an investment decision. Neither Axis Mutual Fund, Axis Mutual Fund Trustee Limited nor Axis Asset Management Company Limited, its Directors or associates shall be liable for any damages including lost revenue or lost profits that may arise from the use of the information contained herein. No representation or warranty is made as to the accuracy, completeness or fairness of the information and opinions contained herein. The AMC reserves the right to make modifications and alterations to this statement as may be required from time to time.

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.