

February, 2019

Indian sovereign bond posted a rise of 12 bps to 7.40% in February vs 7.28% in January. The Reserve Bank of India on February 7 lowered the repo rate by 0.25 bps to 6.25% and changed its stance to "neutral" from "calibrated tightening", signalling higher chances of more cuts in the coming months if inflation remains within limits.

Besides, the RBI infused Rs 12,500 crore into the system through open market operations on Feb 28. Crude oil closed on a positive note for the second consecutive month in February 2019.

Market Performance



The 10-year benchmark G-Sec yield closed at 7.40%, up by 12 bps from its previous close of 7.28% while that on the short-term 1-year bond ended 30 bps lower at 6.67%. In the corporate bond segment, yields fell across the yield curve over the month.

The 10-year AAA bond yield ended 10 bps lower at 8.65%, while the short-term 1-year AAA bond yield ended 20 bps down at 8.1%. The spread between 1-year and 10-year AAA bond widened. Within the short term segment, yield on 3-month commercial paper (CP) was up 20 bps to 7.50% while 1-year CP yield was flat at 8.7%.

Market Performance

Nikkei India Services Business Activity Index declines for second straight month to 52.2 in January 2019. The seasonally adjusted Nikkei India Composite PMI Output Index was at 53.6 in January, unchanged from December.

Lower inflation in fuel made India's wholesale price inflation cool to 2.76% in January from 3.8% in December. Consumer Price Index inflation dropped to 2.05% in January, the lowest level since June 2017. The combined Index of Eight Core Industries stood at 134.8 in January 2019.



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Market View

February has seen a slight upward grind in yields, with the 10 year G-Sec benchmark moving from 7.28% to close at 7.40%, on the new 10 year benchmark. Supply worries and a bit of uncertainty around RBI's OMO operations for March kept yields on an upward trajectory. Also, the border tensions had some near term impact on the bond markets.

With the RBI MPC having taken a clearly dovish stance as indicated by the rate cut in February and subsequent data continuing to indicate growth slowdown combined with a very low inflation, we are likely to see the MPC continue on this path of further monetary policy accommodation. Also, RBI has proactively provided for Rs. 1 lakh crore of liquidity through longer dated repo operations, to take care of the seasonal March tightness.

We remain positive on our outlook for interest rates to gradually move lower based on

- US Fed moving towards an extended pause
- Global interest rate backdrop being supportive
- Oil prices staying rangebound
- Domestic growth slowdown, with below target CPI inflation
- RBI policy being more pro-growth (compared to earlier)

Investment Strategy

While systemic liquidity has fluctuated from negative to surplus depending on how much the Govt. has accessed the WMA account, short end rates of 7.6-8.3% in the 9 months - 3 year segment, continue to provide extremely good pickup over the policy repo rate. **Funds such as the L&T Ultrashort Term Fund, L&T Money Market Fund and L&T Short Term Bond Fund are high credit quality funds positioned to benefit from this carry, while keeping interest rate risks relatively low.**

At the longer end of the curve, despite a positive fundamental outlook for interest rates, near term technical factors such as demand supply mismatch may keep longer end yields volatile and somewhat elevated. However, **from a medium term perspective, we believe the longer end of the AAA corporate bond curve is an attractive investment opportunity**, with spreads in the 100-120 bps range versus the historical average of 50-60bps. **The L&T Triple Ace Bond fund is well positioned in this segment.**

Finally, while credit risk funds have witnessed turbulent times, given the IL&FS as well as NBFC / HFC scare and recently the loan against shares triggers, **none of our funds have any kind of exposure to IL&FS and its SPVs and we have zero exposure to any kind of loan against shares NCDs.** We believe that spreads offered by such funds are actually very attractive compared to the past. It is in times of such risk aversion, that issuers are forced to pay higher rates, which compensate adequately for their underlying credit risks. **Well managed funds, with a majority of exposures in the AA segment, offer a good risk–return tradeoff.**

This product is suitable for investors who are seeking*

L&T Ultra Short Term Fund

(An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months.)

- Generation of reasonable and stable income and liquidity over short term
- Investments predominantly in highly liquid money market instruments, government securities and corporate debt

L&T Short Term Bond Fund (Formerly known as L&T Short Term Opportunities 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 primarily in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions in India

L&T Money Market Fund (Formerly known as L&T Floating Rate Fund)

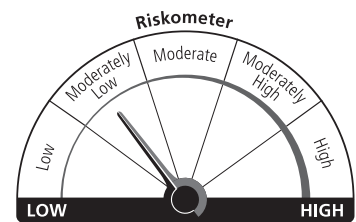
(An open ended debt scheme investing in money market instruments.)

- Generation of regular income over short to medium term
- Investment money market instruments

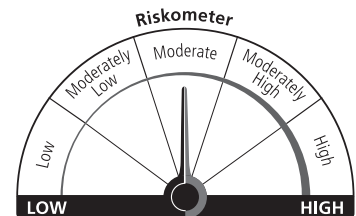
L&T Triple Ace Bond Fund

(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



Investors understand that their principal will be at moderately high risk



Investors understand that their principal will be at moderately high risk

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

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