

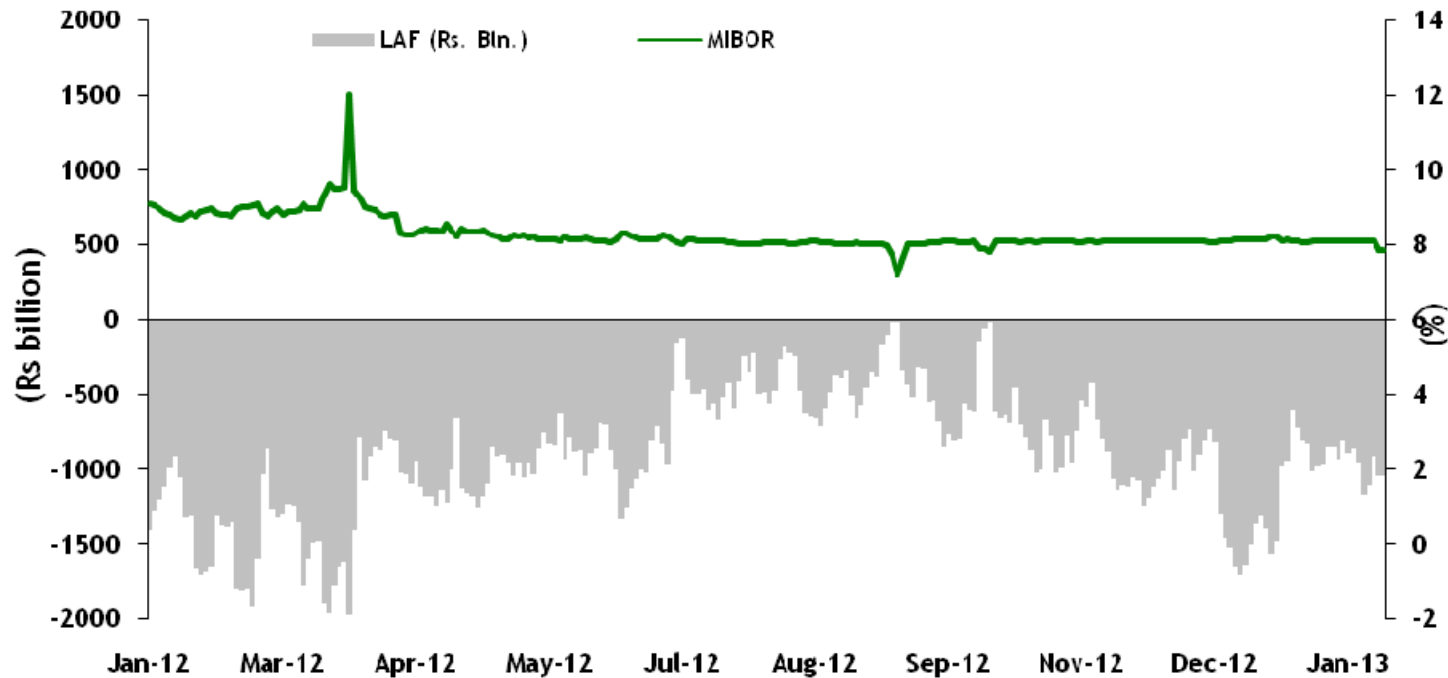
Fixed Income Markets : Current Environment and Outlook

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Macro Economic Events - Domestic

- The macro economic data seems to suggest some kind of bottoming-out
- The IIP data for Dec'12 was -0.6% (-0.1% previous month)
- Imports growth for Dec'12 was 6.3% (6.4% previous month)
- Exports de-growth was -1.9%(-4.2% previous month)
- WPI inflation for Dec'12 was 7.18% (7.24% previous month)
- CPI inflation for Dec'12 was 10.56%(9.90% previous month)

Liquidity



- The deficit liquidity enters the 31st month, began in May/June 2010
- The daily average borrowing was in excess of Rs. 90,000 crore over Jan'13



Money Market (spread between 12M T bill & CD)



- The yields in the bank CD market moved sharply upwards post the credit policy on 29th Jan'13 despite the rate reduction by RBI
- The primary supply pushed the yields higher



Inflation Dynamics

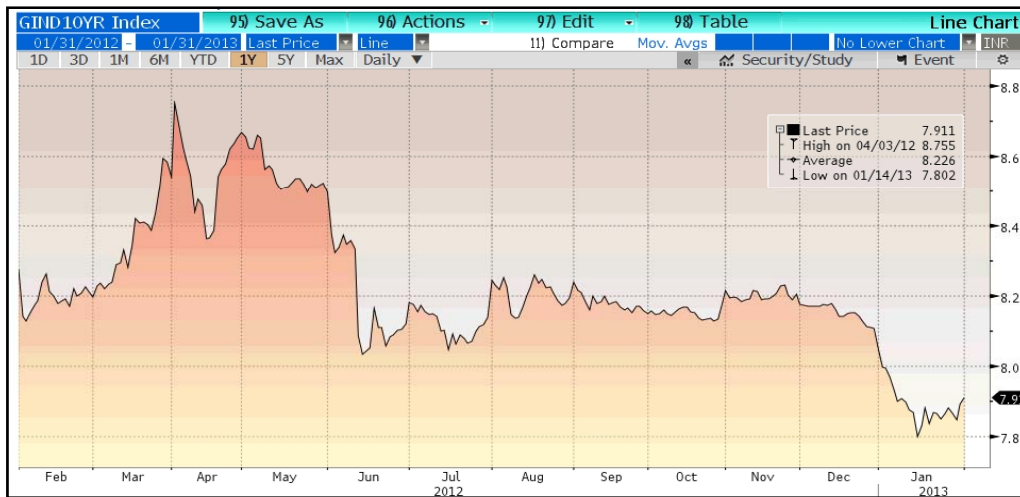


- The drop in WPI inflation and core inflation below the RBI's baseline projection levels has prompted RBI governor for a 25bps repo rate reduction
- RBI has dropped the March'13 target to 6.8% from 7.5%



G-Sec Yield Curve

10 Year G – Sec Yield Curve



- The sovereign debt market started off on a very positive note
- The drop in the WPI inflation data mid-month added to the positive sentiment and the 10 year benchmark yield dropped to a low of 7.81%
- The fading of any OMO expectation and comments around inflation being sticky around the current levels led to some drop in the prices

G – Sec Yield Curve Change



Corporate Bond spreads widened



- The sovereign papers outperformed the corporate debt securities and the credit spreads contracted over the month



Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- The drop in WPI and core inflation is a clear positive sign and the drop in RBI target inflation for March'13 from 7.5% to 6.8% might trigger further rate actions from RBI
- The fiscal consolidation steps including the recent small increase in the railway passenger tariff along with increase in the diesel prices are also a positive sign and helps in negating any immediate threat of a sovereign rating downgrade. This might help in maintaining the sovereign yields around the current levels with a declining bias
- Based on our assessment of the economic & market parameters we feel the risk reward matrix is in favor of staying invested in the debt market. While the market is already witnessing an appreciation in the prices based on several positive events, we expect them to continue well over the first 2-3 quarters of 2013
- All investments in Short Term Funds may deliver better returns for the investor over a quarter as the yields are expected to soften in the new FY
- Moreover, in a declining growth environment RBI is expected to pursue a benign rate environment and long duration rate products are expected to work in favor by posting capital appreciation over the next few quarters

Portfolio Actions during the month

- **Religare Liquid Fund**

- The fund has continued to maintain a low duration. It is maintaining a well diversified portfolio and following the ladder approach to investments

- **Religare Ultra Short Term Fund**

- The fund has also maintained a low duration & a well diversified portfolio. In light of the volatile rate environment in the money market space the fund has shorted the duration after extending it within the month

- **Religare Short Term Fund**

- The fund has maintained duration around 15 months. The bulk of the assets are in the 1-3 years segment

- **Religare Credit Opportunities Fund**

- The fund has been successfully investing in mis-priced credits with low interest rate risk

- **Religare Active Income Fund**

- The fund has been actively trading in the liquid PFI credit segment apart from the 10 year plus gilt segment. The fund has maintained a higher allocation to gilts over the previous month. The duration of the fund has been actively managed within 4 – 7 years

- **Religare Gilt Fund – Long Duration Plan**

- The fund has been actively trading in the liquid 10 year plus gilts. Its investing upto 30 years gilts. Currently maintaining a duration of over 7 years

- **Religare Gilt Fund – Short Duration Plan**

- The fund has been actively trading in the liquid segment of the gilts market. Its maintaining an average maturity within 3 years

- **Religare Bank Debt Fund**

- The fund is invested in the Bank CD and Bank Bonds segment Its maintaining a modified duration around 3 years



Ideas for investors

- The market opens up several opportunities for investors in an environment of a moderating GDP growth, moderating inflation and lower inflation target for March'13 by RBI. Investors are encouraged to select funds, which are maintaining longer duration than their own investment horizon. Moreover, investors are encouraged to rebalance over 6-12 months
- The **Religare Credit Opportunities Fund** offers an opportunity for investors with short investment horizons of 1-3 months and moderate level of credit risk appetite. The fund is ideally positioned to capture mis-priced risk in an environment of deficit liquidity and superior credit spreads of short maturity papers
- The **Religare Short Term Fund** offers accrual along with a contained interest rate risk. Ideal for investors with 3-9 months investment horizon
- The **Religare Medium Term Bond Fund** offers higher current yield and moderate interest rate risk. The present duration of around 24-30 months opens up opportunities of capital appreciation over a 9-15 month investment horizon for investors with moderate risk appetite
- The **Religare Active Income Fund** – offers a superior mix of corporate debt and gilts and runs a duration between 48-84 months. It opens up opportunities of capital appreciation in an environment of the yield curve steepening through active duration management. It is intended for investors with varied investment horizon (at least 3 months) with moderate to high risk appetite
- The **Religare Bank Debt Fund** – a thematic high credit quality portfolio comprising of bank CD and bank bonds, along with a small allocation to gilts. It's a superior investment allocation for credit risk averse long term investors, looking for stable returns, along with some capital appreciation from a well regulated credit class over a 1 year investment horizon
- The **Religare Gilt Fund – Long Duration Plan** – It opens up opportunities of capital appreciation in an environment of risk aversion and hence higher demand for gilts. An actively managed gilt portfolio during phases of low credit spreads is intended for investors with varied investment horizon (at least 3 months) with moderate to high risk appetite



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



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