

Fixed Income Market Outlook

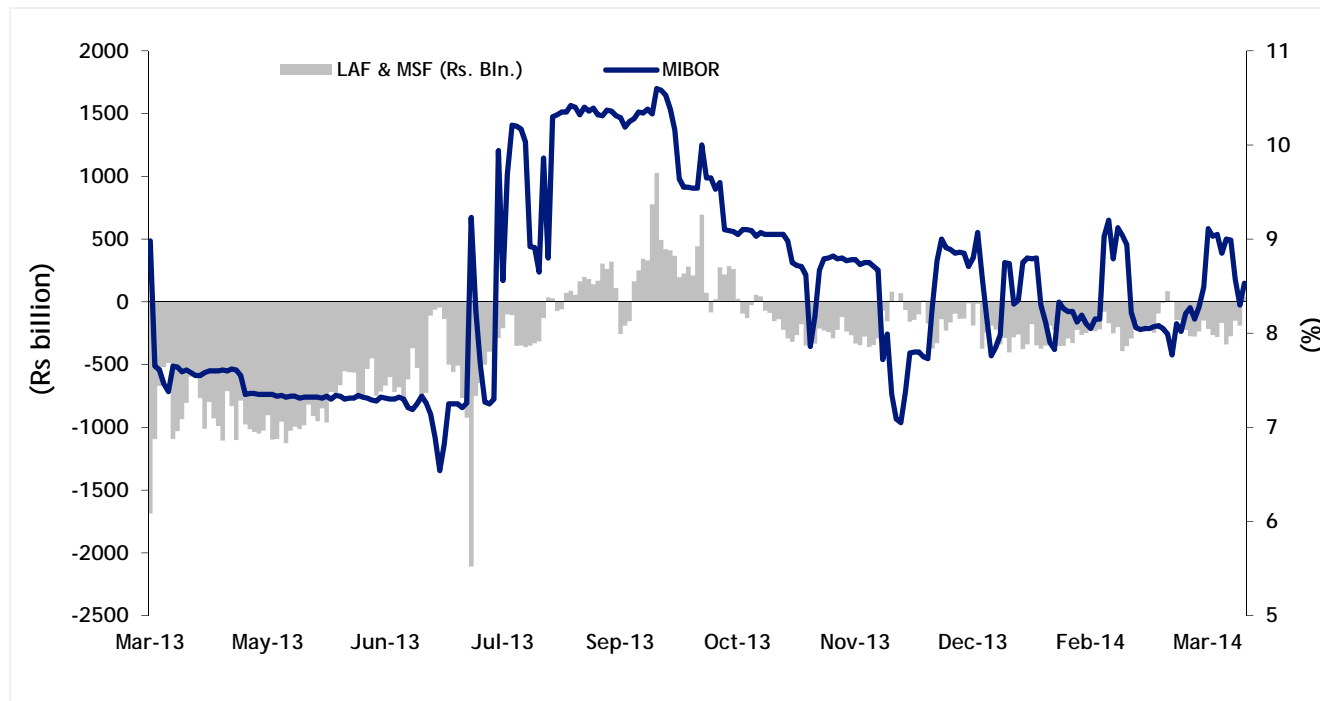
Sujoy Das, Head of Fixed Income
March 2014



Macro Economic Events - Domestic

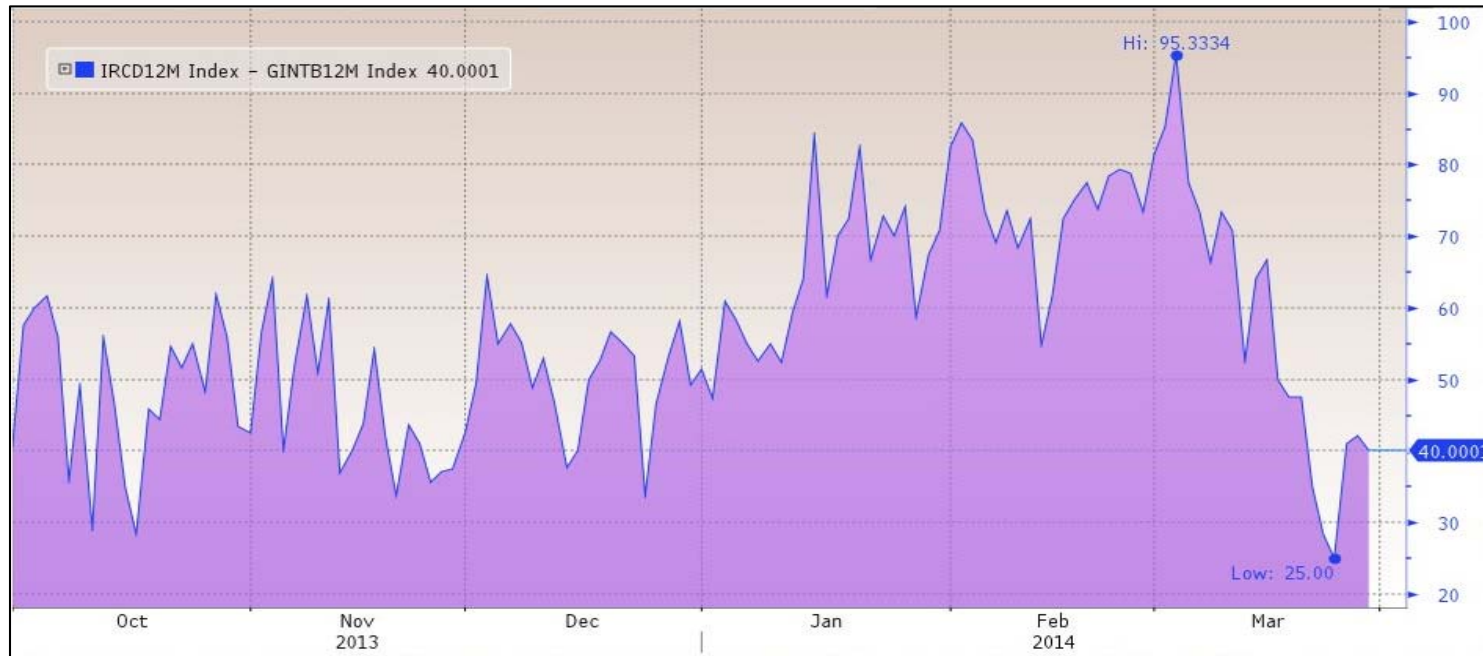
- Headline Inflation based on overall CPI index decelerated to lowest in 25 months in February 2014
- The overall headline CPI inflation slowed to 8.1% in Feb'14 from 8.8% YoY in Jan'14 and 9.9% in Dec'13
- The continued reversal in vegetable prices in Feb (-6.7% MoM) helped to moderate headline inflation
- The trade deficit for Feb narrowed to US\$ 8.13bn (5.3% of GDP annualized) compared with US\$ 9.9bn (6.5% of GDP annualized) in Jan'14. The trade deficit ex gold (estimated) declined by 23.3% YoY in Feb vs. a decline of 28.3% YoY in Jan
- The CAD has narrowed substantially from 6.5% of GDP in QE Dec'12 to 0.9% of GDP in QE Dec'13 . This improvement in the trade deficit and also current account deficit along with strong capital inflows of slightly more than \$10bn in equity and debt in the first quarter has helped the Indian rupee strengthen over 3% in the first quarter of the year

Liquidity



- The introduction of term repo auction by RBI has brought down the volatility in the overnight market
- The liquidity on an average for the quarter has remained negative by Rs. 232 billion

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



- The spreads contracted after widening to over 90 bps in March'14
- Expectations of easy liquidity in April'14 led to the drop in spreads

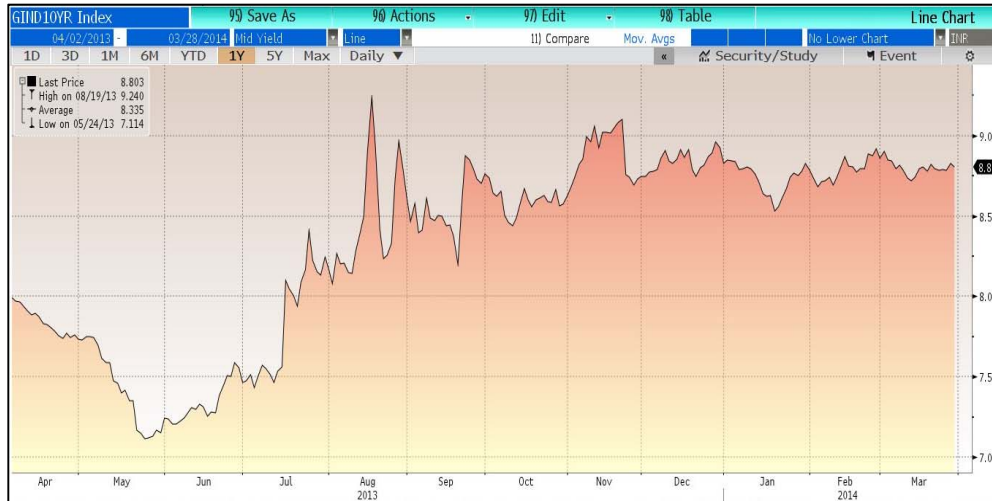
Inflation Dynamics



- The CPI inflation has seen a steady decline from Nov'13 onwards
- This decline is led by sharp fall in food inflation

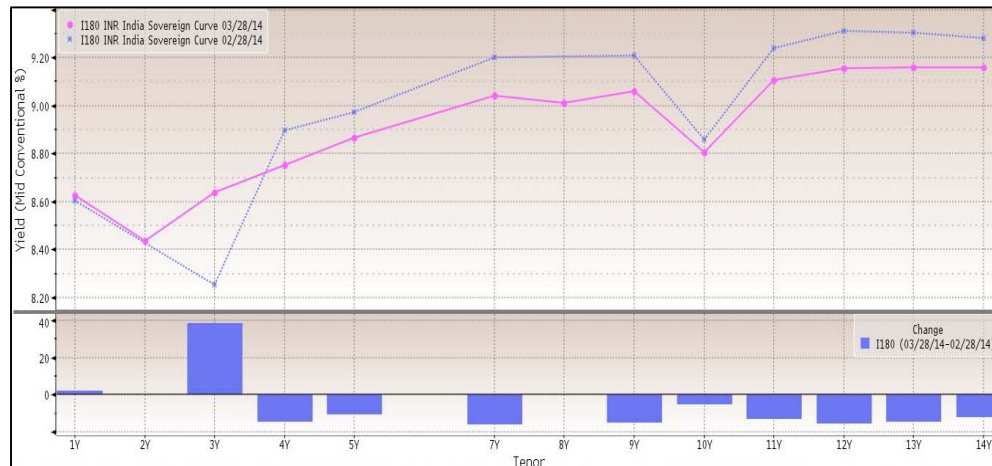
G-Sec Yield Curve

10 Year G – Sec



- The G-secs traded within a narrow range over the last quarter.
- The rally in Jan was short lived due to the stiff target of the Urjit committee recommendations
- The lower than budgeted fiscal of 4.6% (compared to 4.8% in budget) failed to improve the market sentiment as market was unsure about the subsidy burden and the final tax collections for FY14

G – Sec Yield Curve Change



Corporate Bond spreads contracted



- The spreads contracted over the last quarter as FII demand was concentrated in bonds over gilts

Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- In light of the improved India's external balances position a calibrated US Federal tapering programme is not expected to induce undue volatility in the rates market
- The sovereign rating continues to be under the threat of a downgrade in case the general election results are fragmented. On a medium to long term basis the risks remains of a weak government unable to pursue a lower fiscal deficit from the new FY
- As RBI seems to be focusing towards targeting CPI inflation and taking it as a guidepost while formulating monetary policy decisions, any upside in inflation or significant deviations from its projected levels may lead RBI to hike interest rates
- At the same time, RBI may be prompted to cut interest rates if inflation continues to soften and the new government pursues strong fiscal policy. While the beginning of reversal in interest rate cycle is yet to happen and it is difficult to put a time frame to the same, we feel that eventually interest rates may fall, if there is extended pause on rate action
- As there is no clear visibility on trajectory of interest rates in near months and market is eyeing election outcome, we feel that markets will remain volatile before secular decline in interest rates happen. We also expect that superior liquidity management by RBI will lend support to shorter end of the curve










Portfolio Actions during the quarter

- **Religare Invesco Liquid Fund:** The fund has maintained a low duration and increasing exposure to very short maturity securities through a mix of CD, CP and T-bills and other short maturity assets
- **Religare Invesco Ultra Short Term Fund:** The fund is comprised of bank CDs and CPs apart from T-bills. The duration is being actively managed between 1-12 months , hence the scheme will benefit from the reduction in the marginal standing facility (MSF) rates
- **Religare Invesco Short Term Fund:** The fund is maintaining a duration between 1-1.5 years largely comprised of the AAA PFI segment. The exposure in the 3 years space has been increased in order to benefit from any curve steepening
- **Religare Invesco Credit Opportunities Fund:** The fund continues to invest in assets of short maturity which are available at a higher credit spread compared to others. The maturity is being maintained below 2 months to reduce any rate risk
- **Religare Invesco Active Income Fund:** The fund has been actively trading in the liquid PFI credit segment apart from the gilt segment. We actively managed the portfolio duration between 1.5 - 6 years. The exposure to gilts has been actively altered based on market volatility and view
- **Religare Invesco Gilt Fund – Long Duration Plan:** The fund has been actively trading in the liquid 10 year-plus gilts. It is investing upto 30 years gilts. Currently maintaining a duration between 1-7 years
- **Religare Invesco Gilt Fund – Short Duration Plan:** The fund maintained exposure in short maturity T-bills of under 91 days
- **Religare Invesco Bank Debt Fund:** The fund is largely invested in the Bank CD and Bank Bonds segment. It is maintaining a portfolio modified duration around 1year. The fund has also indulged in tactical trades in gilts.
- **Religare Invesco Medium Term Bond Fund:** The fund has actively reduced duration and maintained a duration of around 2.5 years

Ideas for investors


- Investors are urged to remain cautious and should select funds with moderately longer duration, as the rates are poised to decline over the years as headline inflation shows sign of gliding towards 6% by Jan'16
- *Religare Invesco 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
- *Religare Invesco Short Term Fund* offers accrual along with a contained interest-rate risk. Ideal for investors with 3 - 6 months investment horizon
- *Religare Invesco Medium Term Bond Fund* offers higher current yield and moderate interest rate risk. The present duration of under 36 months opens up opportunities of capital appreciation over a 3 - 9 month investment horizon for investors with moderate risk appetite
- *Religare Invesco Active Income Fund* – It opens up opportunities of capital appreciation in an environment of the yield curve steepening through active duration management within 2 - 6 years. It is intended for investors with varied investment horizon (at least 3 months) with moderate to high risk appetite
- *Religare Invesco Bank Debt Fund* – a thematic high credit quality portfolio comprising of bank CD and bank bonds, along with a small allocation to gilts/PFI. 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 industry over a 1 year investment horizon
- *Religare Invesco Gilt Fund – Long Duration Plan* –Investors are encouraged to invest in gilt funds as the valuations are attractive and the yields are trading close to historic highs and the monetary rates are creating the dis-inflationary effect for attaining 6% on CPI by Jan'16


Product Labeling


Scheme Name	Suitable for investors who are seeking*:		Scheme Name	Suitable for investors who are seeking*:	
Religare Invesco Liquid Fund Open – ended Liquid Scheme	a)	Regular income over short term	Religare Invesco Active Income Fund Open – ended Income Scheme	a)	Regular income over medium to long term
	b)	Provide reasonable returns with high liquidity by investing in money market and debt securities		b)	Provide optimal returns while maintaining liquidity through actively managed portfolio of debt and money market instruments
	c)	Low Risk  (BLUE)		c)	Low Risk  (BLUE)
Religare Invesco Ultra Short Term Fund Open – ended Debt Scheme	a)	Regular income over short term	Religare Invesco Bank Debt Fund Open ended – Debt Scheme	a)	Regular income over short to medium term
	b)	Provide optimal returns while maintaining balance between safety and liquidity by investing in a mix of short term debt and money market instruments		b)	Provide optimal returns by investing in debt and money market instruments issued primarily by banks
	c)	Low Risk  (BLUE)		c)	Low Risk  (BLUE)
Religare Invesco Short Term Fund Open – ended Income Scheme	a)	Regular income over short to medium term	Religare Invesco Gilt Fund – Long Duration Plan Open – ended Dedicated Gilt Fund	a)	Credit risk free returns over medium to long term
	b)	Provide steady returns by investing in short-medium term debt and money market instruments		b)	Provide optimal returns by investing in securities issued and guaranteed by Central and State Government with portfolio maturity of greater than 3 years
	c)	Low Risk  (BLUE)		c)	Low Risk  (BLUE)
Religare Invesco Credit Opportunities Fund Open – ended Income Scheme	a)	Regular income over short to medium term	Religare Invesco Gilt Fund – Short Duration Plan Open – ended Dedicated Gilt Fund	a)	Credit risk free returns over short to medium term
	b)	Provide high level of current income (vis-à-vis treasury bills) by investing in investment-grade low duration debt securities and money market instruments		b)	Provide optimal returns by investing in securities issued and guaranteed by Central and State Government with portfolio maturity of less than 3 years
	c)	Low Risk  (BLUE)		c)	Low Risk  (BLUE)
Religare Invesco Medium Term Bond Fund Open – ended Income Scheme	a)	Regular Income over medium term			
	b)	Provide regular income and capital appreciation by investing in medium term debt and money market instruments having residual maturity up to 5 years.			
	c)	Low Risk  (BLUE)			

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

Note – Risk is represented as:

 (BLUE) Investors understand that their principal will be at low risk

 (YELLOW) Investors understand that their principal will be at medium risk

 (BROWN) Investors understand that their principal will be at high risk

Disclaimer

Disclaimer: This presentation is for information purposes only and is not an offer to sell or a solicitation to buy any mutual fund units/securities. The information alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. All opinions, figures, charts/graphs and data included in this document are as on date and are subject to change without notice. The content of this document is intended solely for the use of the addressee. If you are not the addressee or the person responsible for delivering it to the addressee, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it is prohibited and may be unlawful. The data used in this document is obtained by Religare Invesco AMC from the sources which it considers reliable. While utmost care has been exercised while preparing this document, Religare Invesco AMC does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. Neither Religare Invesco AMC nor any person connected with it accepts any liability arising from the use of this information. The recipient(s) before acting on any information herein should make his/their own investigation and seek appropriate professional advice.

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

Get in touch

Corporate Office:

Religare Invesco Asset Management Company Private Limited

GYS Infinity, Paranjpe 'B' Scheme, Subhash Road,

Vile Parle (E), Mumbai - 400057

T +91 22 67310000 F +91 22 28371565

To invest:

Call 1800-209-0007 Δ sms 'Invest' to 56677

Invest Online www.religareinvesco.com

Follow us on

