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WEALTHWISE®

Wiseinvest®
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Wealthwise

"Wealthwise" is a monthly publication brought to you by Wiseinvest, an AMFI-registered Mutual Fund Distributor. Our CEO, Hemant Rustagi, is a well known personal finance expert. He brings with him an experience of more than 30 years in this field. He regularly writes articles for major national dailies and business magazines as well as appears as a personal finance expert on many investments related TV shows. Providing quality service is our top priority. In keeping with that, we constantly take steps to provide up-to-date information to our clients. In the last twenty years, thousands of our clients have made mutual funds the mainstay of their portfolios. You can benefit too from our service support for your existing as well as new investments. All you need to do is to just call up any of the offices or email your requirements at **information@wiseinvest.co.in.**

Dear Investor,

India's stock market concluded the financial year 23-24 on a buoyant note, with Nifty jumping nearly 28.6%, making it one the best performing markets in the world. Nifty's performance during this period was its second-best in the previous 10 years. Mid and small cap indices were top performers during this period. Interestingly, one-fifth of the Nifty 500 stocks doubled in FY24. The market's long-term outlook remains unchanged, on account of slew of favourable fundamentals such as strong FPI inflows, lowering commodity prices, a pick-up in credit growth, healthy bank balance sheets and the capex resurgence.

The gross Goods and Services Tax (GST) collections for the month of March came in at the second highest ever level of ₹ 1.78 lakh crore. This is an 11.5% year-on-year growth and was primarily fuelled by a significant uptick in GST collections from domestic transactions. The full year GST collections surpassed ₹ 10 lakh crore, representing an 11.7% increase over the previous fiscal year.

India's eight core infrastructure sectors clocked 6.7% growth in February, a three-month high, up from 4.1% in January. The core sectors, comprises of coal, crude oil, steel, cement, electricity, fertilisers, refinery products and natural gas.

India's fiscal deficit during April-February stood at ₹ 15.01 lakh crore or 86.5% of the full-year revised target of ₹ 17.34 lakh crore i.e. 5.8% of GDP. The gross tax revenue of the union government grew at a robust 13.4% YoY during 11 months of FY24. This was supported by an income tax growth of 25.8% YoY and corporate taxes 17.3% YoY. However, centre's net tax collections grew just 6.8% YoY during 11 months of FY24 which is at a four-year low, due to higher growth in transfers to the states.

The interest rates on various small savings schemes will remain unchanged for the quarter beginning April 1, 2024. Accordingly, deposits under Sukanya Samriddhi scheme will attract an interest rate of 8.2%, while the rate on a three-year term deposit remain at 7.1%. The interest rate for PPF and Post Office savings deposits scheme have been retained at 7.1% and 4% respectively.

Warm regards,

H Rustagi

Hemant Rustagi
Editor

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The Stock Market Performance During March 2024.

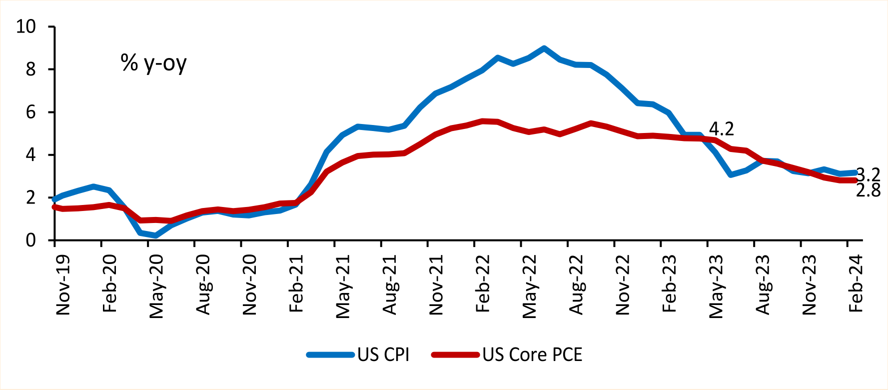
Indices	29th February 2024	28th March 2024	Change in (%)
Sensex	72,500.30	73,651.35	1.59
MIDCAP	39,346.98	39,322.12	-0.06
SMLCAP	45,225.10	43,166.34	-4.55
BSE-100	22,921.27	23,294.04	1.63
BSE-200	9,955.38	10,099.58	1.45
BSE-500	31,777.02	32,043.20	0.84

Market Outlook - SBI Mutual Fund

The last mile in the disinflation journey has in recent months proven to be the hardest with incremental data resetting market expectations on the timing and extent of rate cuts in CY24. At the same time, country specific factors are incrementally likely to shape policy actions as well as timing of the same. The policy rate hike of 10bps by the Bank of Japan marks its exit from negative rates that have persisted for more than 8 years and the first hike in more than 17 years. While the FED and the ECB could initiate policy reductions some time in CY24, Latin American central banks such as in Brazil and Mexico have already initiated rate reductions given the state of their economies and the headstart they had in the current rate hiking cycle. The path towards policy adjustment in India is also likely to be shaped by domestic growth- inflation numbers rather than any synchronization with global central bank actions.

Chart 1

Flatlining of progress in US disinflation in recent months wrt targets



Source: Bloomberg, SBIFM Research

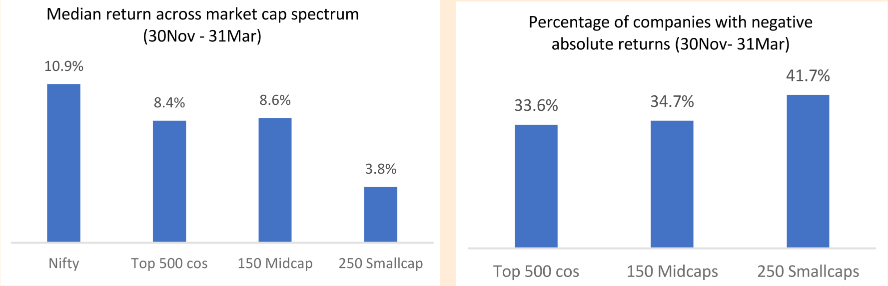
EQUITY

The month of March saw Nifty gaining 1.6% as against a 4.2% drop in Nifty Smallcap 250 index. Overall, Indian equities had a good outing in the just concluded financial year FY23-24 with strong broad-based gains. Yet the year was a tale of two halves - while the first half saw broader markets faring much better than the frontline indexes, Nifty and the Sensex, the large cap indexes fared much better in the latter part of the year. Especially, since the end of November 2023, coinciding with the election results announcement of four major states in early December, Nifty has seen a sharp surge with nearly 11% returns in the four months till March 2024. Broader markets, however, have not kept pace during this period and have significantly trailed the index. The Nifty and the 'markets' diverged quite a bit as a result.

The median return of the top 250 small cap companies by market cap was just 3.8% in the four-month period from Dec 2023 to Mar 2024 versus Nifty's 10.9% rise. Further, about 34% of the top 500 companies and 42% of the top 250 small cap companies have given negative absolute returns during this period.

Chart 2

Breadth in the recent past has been weak especially down the market cap curve



Source: Bloomberg, SBIFM Research

**Returns for the 4-month period from 30th November 2023 to 31st March 2024*

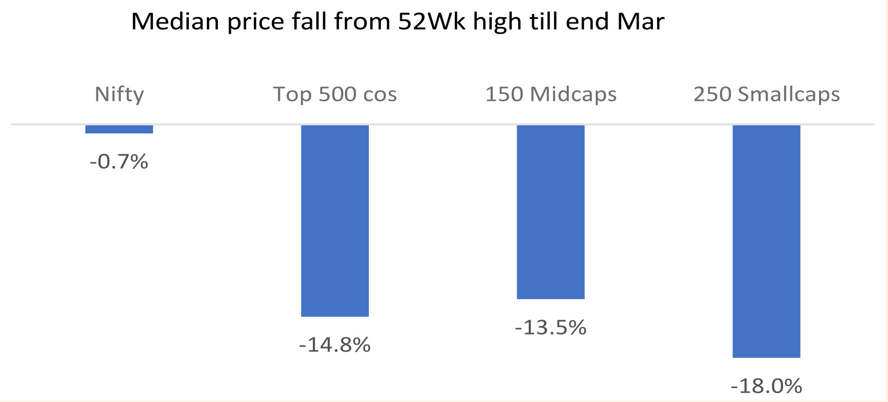
***Mid cap and small cap companies are the subsequent 150 and 250 companies beyond the top100 large caps respectively*

****Nifty return data is for the index while other return numbers are medians for the respective universes*

The deterioration in breadth ultimately culminated in the Nifty Midcap150 and the Nifty Smallcap250 indices peaking in early Feb and subsequently correcting 8% and 14% respectively. The median drop in share prices from their 52-week highs till end March is 15% for the top 500 companies and 18% for small cap companies.

Chart 3

Recent correction has been more pronounced down the market cap curve



Source: Bloomberg, SBIFM Research

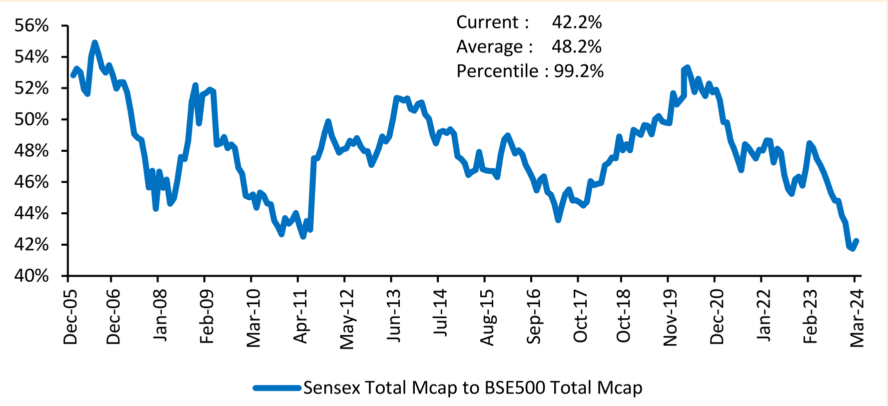
**Returns for the 4-month period from 30th November 2023 to 31st March 2024*

*** Mid cap and small cap companies are the subsequent 150 and 250 companies beyond the top100 large caps respectively*

A combination of factors may have contributed to this disconnect between the Nifty and the 'market' like: a) relative valuations of large caps becoming attractive after the sharp rally in small and mid-cap companies over the last year, b) the regulator's increasing concern over potential overheating in mid and small caps, c) resumption of Foreign Portfolio Investors' (FII) inflows into equity markets post state election results (over US$ 8bn FPI inflows in the last 4 months) which are largely large cap focused.

Chart 4

Sensex Market Cap to BSE500 Market Cap: Headline valuations favour large caps

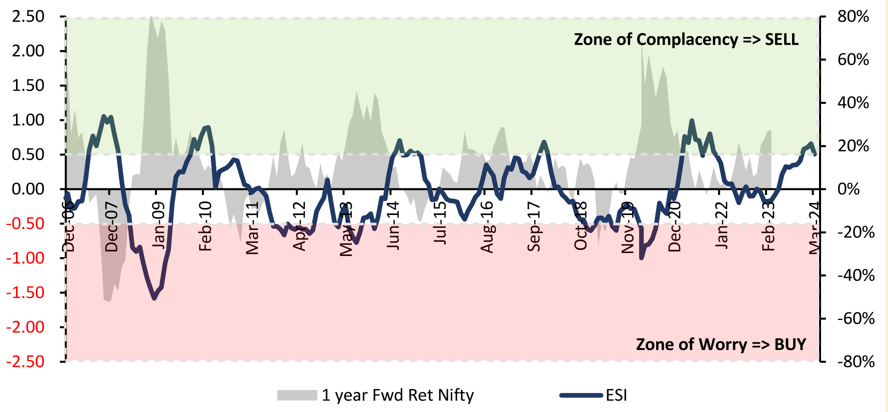


Source: Bloomberg, SBIFM Research

In summary, there is a lot of turbulence beneath the surface which is masked by the strong performance of the benchmark indices. The flip side however is that we have already seen a round of indiscriminate panic selling in mid- and small caps. While the turbulence may yet continue for similar reasons, we think increasingly the market will become more discerning and reward companies which have strong business models, long-term earnings growth visibility and sustainable cashflows across the market cap spectrum. Especially, at a time when the overall market sentiment continues to suggest complacency (discussed below), staying bottom-up and sticking to quality and sustainable growth should work.

Chart 5

Equity sentiment index suggests heightened complacency



Source: Bloomberg, FactSet, SBIFM Research;
Note: ESI stands for Equity Sentiment Index

Cont. on page 3...

Market Outlook - SBI Mutual Fund...

...Cont. from page 2

Our equity sentiment measure has dipped slightly during the month, however, remaining high, reflecting complacency in the markets. Equity Sentiment as measured through our proprietary framework is a score considering a total of 14 sub factors covering various aspects of markets to arrive at a measure of market sentiment. The sentiment index works as a contrarian measure and has an inverse correlation to expected forward returns, especially at extremes.

Fixed Income

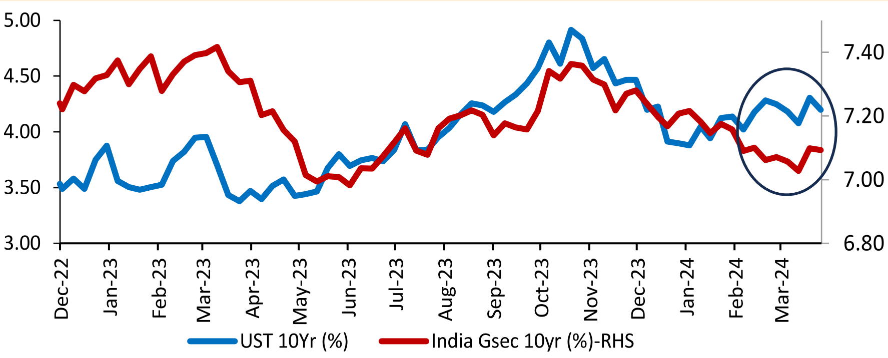
FY24 began with the RBI opting to pause in the April 23 review and triggering market expectations of some policy loosening during the year. FY24 GDP growth and CPI were projected at 6.5% and 5.2% respectively. Significant policy loosening was also being priced in most developed global markets with the FED expected to cut more than 100bps on account of concerns around growth and financial stability following the crisis at the small / regional banks. Macro outcomes during the fiscal year have evolved contrary to consensus with economic growth remaining resilient even as inflation recedes gradually towards the policy target.

After a more synchronous move in yields in H1 FY24 in line with US Treasuries, bond yields in India have broadly delinked over H2FY24. Sound macro fundamentals as well as well-matched demand- supply equation has supported the move lower in long term yields, even as net FPI flows into government securities picked up post the JP Morgan Index announcement. FPI debt flows in the last fiscal have been around USD 14bn which is remarkable considering the net outflows seen over the preceding years.

	Mar-23	Mar-24	Change
Repo rate	6.50%	6.50%	0.00%
3-year G Sec	7.09%	7.03%	-0.06%
5-year G Sec	7.18%	7.05%	-0.13%
10-year G Sec	7.31%	7.05%	-0.26%
30-year G Sec	7.41%	7.13%	-0.28%
3 Yr. Corp Bond*	7.60%	7.59%	-0.01%
5 Yr. Corp Bond*	7.62%	7.54%	-0.08%
10 Yr. Corp Bond*	7.63%	7.43%	-0.20%
10-year SDL	7.75%	7.45%	-0.30%
INR/USD	82.2175	83.3905	-1.43%

Chart 6

Sovereign yields delinking incrementally from UST moves



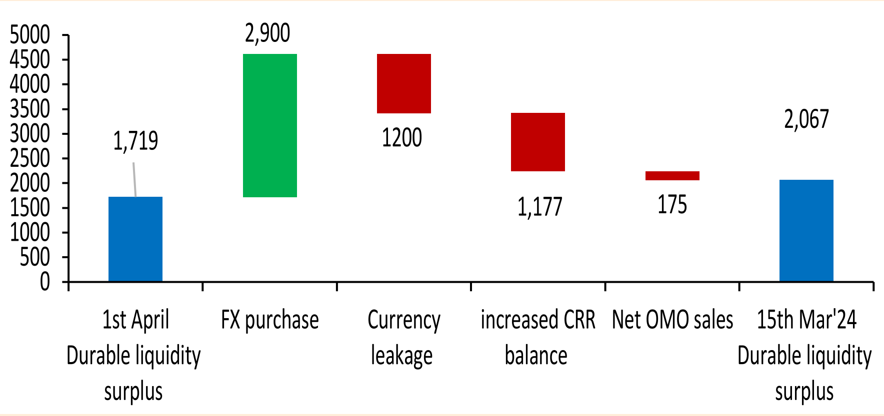
Source: Bloomberg, SBIFM Research

The new fiscal year starts in the context of real GDP projection for FY25 at 7% and average CPI for the year at 4.5% as per RBI Feb 24 estimates. The global context has been a closer alignment of market expectations and FED dot plots with respect to prospects of policy easing in CY24. At the same time, with near term data not validating expectations of immediate policy reductions, CY24 so far has witnessed an uptick in global sovereign yields. India has remained an exception to this trend so far.

While the policy rate has remained at 6.5%, policy transmission was sought to be managed through modulating system liquidity. Over the last quarter, sufficient steps have been signalled to align the overnight rate closer to the policy rate of 6.5%. Effectively, as the headline CPI has moderated closer to 5%, the effective policy tightening that had been in place since August 23 has been unwound. Even as the overall durable liquidity over the last month has marginally increased, going forward, short tenor repo as well as reverse repo operations are expected to be conducted more frequently as in recent weeks to closely align overnight settings near 6.50%. This should gradually align money market and shorter tenor yields lower.

Chart 7

FY24 durable liquidity evolution



NB:Reported durable liquidity at INR2,617 as on 15th March2024.
Fx purchase-reported till Jan

Source: Bloomberg, SBIFM Research

Cont. on page 6...

Performance Of Select Funds

Data as on March 28, 2024

EQUITY FUNDS

Large Cap, Large & Midcap, Multi Cap

Fund	Launch	6 Mth*	1 Year*	2 Year**	3 Year**	5 Year**	7 Year**	10 Year**	15 Year**
ABSL Flexi Cap Fund	Aug-98	14.89	37.32	14.77	16.90	15.40	13.24	16.67	17.98
ABSL Frontline Equity Fund	Aug-02	14.89	33.85	15.88	17.28	14.84	12.95	14.57	17.28
Axis Focused 25 Fund	Jun-12	16.52	34.63	6.74	9.44	12.63	12.78	14.53	-
Axis Growth Opportunities Fund	Oct-18	19.22	47.97	16.04	20.33	21.13	-	-	-
Bandhan Focused Equity Fund	Mar-06	18.65	39.84	15.47	15.74	14.38	13.02	12.82	13.31
Canara Robeco Flexi Cap Fund	Sep-03	16.16	33.72	14.37	16.48	16.51	15.67	15.25	18.17
HDFC Flexi Cap Fund	Jan-95	20.26	43.18	26.09	26.33	18.70	16.74	17.07	19.65
HDFC Large and Mid Cap Fund	Feb-94	17.92	49.82	24.69	25.37	19.99	16.72	14.64	16.01
HDFC Top 100 Fund	Sep-96	18.01	39.36	21.71	21.42	15.35	14.35	15.01	17.40
ICICI Prudential Bluechip Fund	May-08	21.29	42.38	21.15	21.53	17.92	15.85	16.09	18.53
ICICI Prudential Large & Mid Cap Fund	Jul-98	21.37	46.02	24.85	26.59	20.63	16.06	16.35	17.59
Invesco India Contra Fund	Apr-07	18.22	42.61	20.09	19.95	17.39	16.23	18.60	19.75
Kotak Bluechip Fund	Dec-98	15.35	32.29	15.50	16.11	15.95	13.99	14.94	15.66
Kotak Equity Opportunities Fund	Sep-04	16.58	40.91	20.92	20.63	18.84	15.91	17.87	18.52
Kotak Flexicap Fund	Sep-09	15.46	34.75	17.29	16.72	15.02	13.90	16.85	-
Kotak Multicap Fund	Sep-21	24.46	61.46	30.50	-	-	-	-	-
Mirae Asset Large & Midcap Fund	Jul-10	14.15	39.32	16.47	17.99	19.31	17.16	22.34	-
Motilal Oswal Large and Midcap Fund	Oct-19	20.99	51.48	27.73	24.27	-	-	-	-
Nippon India Large Cap Fund	Aug-07	18.81	44.82	24.29	24.55	17.15	16.00	16.98	17.61
Nippon India Multi Cap Fund	Mar-05	16.44	50.18	27.22	29.57	19.69	17.35	17.24	21.29
Parag Parikh Flexi Cap Fund	May-13	18.70	40.07	18.42	22.23	22.69	19.83	19.40	-
PGIM India Flexi Cap Fund	Mar-15	12.02	26.95	10.24	15.34	18.49	14.98	-	-
SBI Focused Equity Fund	Oct-04	11.52	34.40	11.98	16.11	15.81	15.42	17.29	22.58
SBI Large & Midcap Fund	Feb-93	13.13	33.65	18.54	21.30	18.26	15.80	17.39	18.50
UTI Flexi Cap Fund	May-92	5.57	22.94	5.15	8.44	13.45	13.07	14.19	16.77

Midcap & Smallcap

Axis Midcap Fund	Feb-11	15.67	41.33	16.21	18.56	20.09	18.45	19.54	-
HDFC Mid-Cap Opportunities Fund	Jun-07	18.79	57.23	31.53	28.85	22.73	17.82	21.43	24.47
Kotak Emerging Equity Fund	Mar-07	11.97	37.98	19.87	21.38	21.37	16.54	21.99	21.55
Motilal Oswal Midcap Fund	Feb-14	26.54	60.37	32.92	34.67	25.58	18.44	22.13	-
PGIM India Midcap Opportunities Fund	Dec-13	11.01	29.06	12.82	19.86	24.02	16.74	17.78	-
UTI Mid Cap Fund	Apr-04	10.24	40.76	17.80	19.39	19.93	14.85	18.80	22.12
HDFC Small Cap Fund	Apr-08	12.13	47.74	28.81	30.64	21.38	19.61	20.60	21.73
Kotak Small Cap Fund	Feb-05	9.43	38.38	15.43	22.06	24.70	17.68	21.55	22.22
Nippon India Small Cap Fund	Sep-10	15.16	55.34	28.80	33.73	28.52	22.27	26.54	-
SBI Small Cap Fund	Sep-09	10.42	36.50	20.47	23.02	23.36	20.24	25.63	-
Bandhan Small Cap Fund	Feb-20	21.76	69.54	26.84	28.58	-	-	-	-

Sectoral / Thematic Fund & Tax Saving

UTI Flexi Cap Fund	May-92	5.57	22.94	5.15	8.44	13.45	13.07	14.19	16.77
Nippon India Banking & Financial	May-03	10.05	33.86	20.42	20.90	12.41	12.49	15.85	19.37
ICICI Prudential Pharma Healthcare	Jul-18	23.92	62.02	23.92	20.33	24.41	-	-	-
Nippon India Pharma Fund	Jun-04	21.70	58.52	21.65	19.73	23.11	17.93	17.22	23.01
SBI Healthcare Opportunities Fund	Jul-99	22.20	57.97	24.53	20.71	23.47	13.93	15.81	21.90
Kotak Pioneer Fund	Oct-19	20.85	45.39	18.96	18.69	-	-	-	-
Axis ELSS Tax Saver Fund	Dec-09	17.59	39.20	11.17	11.73	14.13	13.68	16.02	-
Bandhan ELSS Tax Saver Fund	Dec-08	15.01	39.26	18.48	22.58	19.32	16.93	18.12	18.86
Kotak ELSS Tax Saver	Nov-05	16.47	37.59	18.69	19.91	18.31	15.35	17.67	17.44
Mirae Asset ELSS Tax Saver Fund	Dec-15	13.76	35.15	15.60	17.14	18.35	17.21	-	-

ARBITRAGE FUNDS

Funds	Launch	3 Mth*	6 Mth*	1 Year*	2 year**	3 Year**	5 Year**
Bandhan Arbitrage Fund	Dec-06	2.01	3.65	7.47	6.23	5.34	5.04
ICICI Prudential Equity Arbitrage Fund	Dec-06	2.03	3.64	7.52	6.30	5.48	5.22
Kotak Equity Arbitrage Fund	Sep-05	2.14	3.83	7.83	6.58	5.71	5.39

HYBRID

Fund	Launch	6 Mth*	1 Year*	2 Year**	3 Year**	5 Year**	7 Year**	10 Year**	15 Year**
ABSL Equity Hybrid '95 Fund	Feb-95	11.92	28.80	9.86	13.00	11.57	9.82	12.84	15.27
Canara Robeco Equity Hybrid	Feb-93	12.81	27.34	13.02	13.81	14.34	13.11	14.79	16.44
DSP Equity & Bond Fund	May-99	8.78	28.46	12.99	12.92	13.95	12.06	14.58	14.95
ICICI Prudential Equity & Debt	Nov-99	19.24	41.11	22.17	25.73	20.18	16.71	17.67	18.50
Kotak Equity Hybrid Fund	Nov-99	11.43	26.79	14.18	15.28	16.12	12.77	13.41	14.40
SBI Equity Hybrid Fund	Dec-95	12.00	27.31	11.37	13.50	13.44	12.72	14.33	15.58
ABSL Bal. Advantage Fund	Apr-00	9.34	21.71	12.15	11.58	11.42	-	-	-
Bandhan Bal. Advantage Fund	Oct-14	8.58	21.04	9.23	9.40	9.99	-	-	-
ICICI Prudential Bal. Advantage	Dec-06	11.62	22.70	14.08	13.38	12.77	-	-	-
Kotak Bal. Advantage Fund	Aug-18	9.21	19.42	11.44	10.73	11.47	-	-	-
Nippon India Bal. Advantage	Nov-04	11.88	24.20	13.60	12.46	11.32	-	-	-
Bandhan Equity Savings Fund	Jun-08	4.97	11.66	7.16	7.29	7.35	-	-	-
Kotak Equity Savings Fund	Oct-14	10.16	19.79	12.37	11.86	10.57	-	-	-

DEBT

Debt Oriented & Ultra Short Term Debt Fund

Funds	Launch	1 Mth*	3 Mth*	6 Mth*	1 Year*	2 Year**	3 Year**	5 Year**
ABSL Short Term Fund	May-03	0.64	1.94	3.70	7.26	6.01	5.58	6.83
Axis Corporate Debt Fund	Jul-17	0.64	2.06	3.69	7.29	5.78	5.32	6.18
HDFC Corporate Bond Fund	Jun-10	0.69	2.20	3.71	7.87	5.94	5.57	7.09
Kotak Corporate Bond Fund	Sep-07	0.65	2.07	3.77	7.49	5.85	5.43	6.59
Kotak Banking and PSU Debt Fund	Dec-98	0.63	2.07	3.78	7.35	5.85	5.54	6.95
SBI Banking and PSU Fund	Oct-09	0.64	1.97	3.54	7.01	5.27	4.83	6.31
ICICI Prudential Savings Fund	Sep-02	0.74	2.00	3.60	7.81	6.70	5.85	6.58
Kotak Savings Fund	Aug-04	0.63	1.81	3.40	6.93	6.08	5.19	5.54

*Absolute ** Annualised. Past performance may or may not be sustained in future.

Dividends declared by equity and equity-oriented funds during the month of March 2024

Scheme name	Date	Dividend declared in ₹ Per unit
Nippon India ELSS Tax Saver Fund - Annual	07-03-2024	1.50
Nippon India ELSS Tax Saver Fund	07-03-2024	2.50
Nippon India Multicap Fund	07-03-2024	5.00
ICICI Prudential ELSS Tax Saver Fund	11-03-2024	0.70
ICICI Prudential Dividend Yield Equity Fund	11-03-2024	2.20
ICICI Prudential ESG Exclusionary Strategy Fund	14-03-2024	1.50
ICICI Prudential Business Cycle Fund	14-03-2024	1.50
ICICI Prudential Manufacturing Fund	14-03-2024	2.00
ICICI Prudential India Opportunities Fund	14-03-2024	2.10
Nippon India Large Cap Fund	14-03-2024	2.50
ICICI Prudential Value Discovery Fund	14-03-2024	4.00
Motilal Oswal Focused Fund	19-03-2024	1.39
Motilal Oswal Large and Midcap Fund	19-03-2024	1.46
Motilal Oswal Midcap Fund	19-03-2024	1.60
Motilal Oswal ELSS Tax Saver Fund	19-03-2024	1.82
Motilal Oswal Flexi Cap Fund	19-03-2024	2.09
Axis Equity Hybrid Fund	21-03-2024	0.93
Axis Midcap Fund	21-03-2024	3.10
Axis Small Cap Fund	21-03-2024	3.51
Mirae Asset Aggressive Hybrid Fund	22-03-2024	1.40
Invesco India ESG Equity Fund	22-03-2024	1.60
Mirae Asset Healthcare Fund	22-03-2024	1.85
Mirae Asset Midcap Fund	22-03-2024	2.00
Mirae Asset Large Cap Fund	22-03-2024	2.30
Aditya Birla Sun Life Equity Hybrid 95 Fund	22-03-2024	2.95
Bandhan Hybrid Equity Fund	27-03-2024	0.26
ICICI Prudential Equity & Debt Fund - Half Yearly	27-03-2024	1.15
Bandhan Focused Equity Fund	27-03-2024	1.33
Bandhan Large Cap Fund	27-03-2024	1.61
Bandhan Core Equity Fund	27-03-2024	1.93
Bandhan Small Cap Fund	27-03-2024	2.07
Bandhan ELSS Tax saver Fund	27-03-2024	2.46
Invesco India ELSS Tax Saver Fund	27-03-2024	2.60
Bandhan Sterling Value Fund	27-03-2024	2.90
Bandhan Flexi Cap Fund	27-03-2024	3.48

Please check whether you have received dividend for the fund/s that you may have in your portfolio out of this list. In case, you do not maintain any portfolio statement, Wiseinvest can do that for you free of charge. Once we have the details, we would send your updated statement every month. You can contact our corporate office or our branch to avail of this free service.

RBI Maintains Status Quo On Rates And Stance

The RBI announced the first monetary policy of FY25 on 5th April, 2O24. The RBI's Monetary Policy Committee (MPC) voted with 5-to-1 majority to keep the key policy repo rate unchanged at 6.50% for the seventh consecutive time. The six-member committee also kept the stance unchanged at "withdrawal of accommodation". One of the MPC members, Prof. Jayanth Varma voted to reduce the policy repo rate by 25 basis points (bps) and change in stance to neutral. The transmission of the cumulative 250 bps policy rate hike (since May 2022) into the economy is still underway as per the RBI.

The governor referred "CPI inflation" as the "elephant in the room" and also indicated confidence by stating that "the elephant has now gone out for a walk and appears to be returning to forest". However, the governor in its commentary mentioned that even though the headline inflation has eased from its December peak, the pressure from food prices is holding back the ongoing disinflation process which is a barrier to achieving a target of 4%. Also, the MPC left its inflation forecast unchanged at 4.5% assuming normal monsoon even though the country braces for extreme summer in the midst of rising crude oil prices and persisting worries about supply chain due to Red Sea crises.

The governor also highlighted that the public debt to GDP is raising concerns in many countries and this may impact future global financial system and mentioned that India is adhering to the path of fiscal consolidation. This means that the Indian economy is well posed for a non-inflationary growth ahead. Additionally, the MPC observed that the domestic economic activity has illustrated durability, buoyed by robust investment demand and optimistic business and consumer sentiments. Additionally, RBI retained GDP growth forecast of 7% for FY25 with risks evenly balanced. This gives RBI a leeway to pursue rate cuts later.

On the external front, INR remained one of the most stable currency. In the financial account, capital flows increased sharply on account of Foreign Portfolio Investment (FPI) extended the positive momentum in H2:2023-24, supported by net inflows in both net equity and debt segments.

Also, the RBI has managed liquidity very well and the weighted average call rate (WACR) was 21 bps above the policy repo rate in H1FY24 which has now eased to around 6.5% and is expected to stay in tandem with policy repo rate in future. We expect this to remain same going forward and will provide much desired comfort to the market.

The Fed is also likely to start cutting rates by the end of the second quarter. Inflation has significantly declined from its peak in mid-2022 but it is still above the Fed's 2% target level. The Federal Reserve is likely to start reducing borrowing costs by the end of June24, with cumulative cuts of 0.75 percentage point or one point in 2024.

The bottom line is that the Indian economy is doing well, but inflation risks from food, fuel, and global shipping haven't disappeared. RBI Governor insisted that monetary policy must continue to be actively disinflationary to align to 4% target. RBI will be nimble footed and continue to use VRR and VRRR based on evolving liquidity conditions. Also, we expect a change in stance in Q2FY25 and 50 bps rate cuts in later part of FY25. Overall, a very balanced policy. RBI has shown comfort on long term rates and term spreads augurs well for duration play. More than the 10 year curve moved about a bp higher. Market is clearly buying on upticks on yields. We recommend investors to increase duration as much as they can in their portfolio.

Our Recommendation

Investment Horizon 3 months and above:

With our view of rates cuts in US and India, we have been asking investors to increase duration of the funds. The yield curve is steep in 3month to 18month category hence we would recommend investors with higher then 3m horizon to consider Ultra Short Term, Money Market, and Low Duration Funds can be considered over liquid.

Investment Horizon 12months and above:

With our view of rates cuts in US and India, we have been asking investors to increase duration of the funds. Investors having 12 month investment horizon with moderate risk appetite can look to invest in longer duration funds like Gilt/ Dynamic & Long Duration Funds. We expect spread between US & Indian Treasury to compress due to lower fiscal, rate cuts and bond index inclusion. Hence investors in these funds are likely to benefit from the same. . Investors having 12 month investment horizon with low risk appetite can consider investing in 3 yr duration funds. The current flat yield curve is likely to steepen with rate cut and hence there is scope for capital gains. The total return from these funds is likely to be higher than other fixed income traditional products. Investors can consider investment in funds like Medium Term Fund, Banking PSU Fund or Corporate Bond Funds.

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Market Outlook - SBI Mutual Fund...

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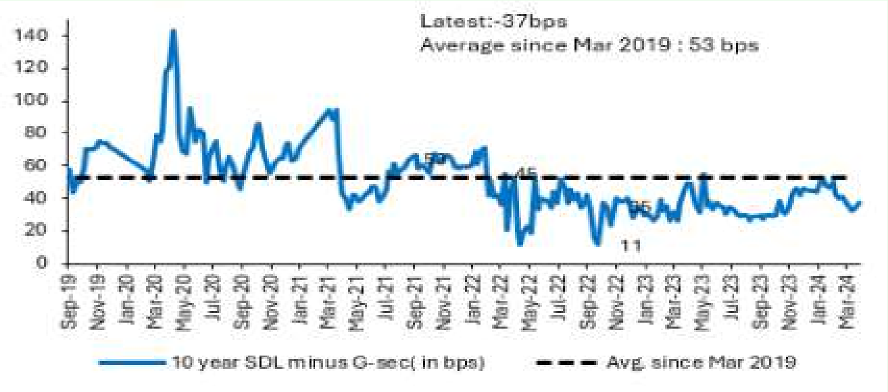
FY 24 gross borrowings by the centre and states totalled ₹ 15.43 trillion and ₹ 10.05 trillion respectively. State government borrowings after having undershot the calendar in Jan- Feb 24 picked up pace with a cumulative issuance of ₹ 1.93Tr in March. This takes the FY24 SDL borrowings to around 92% of the issuance calendar. SDL spreads however remained tight at around 40bps and lower across tenors.

Chart 8

SDL spreads stay tighter even as gross issuances reach closer to the indicative calendar

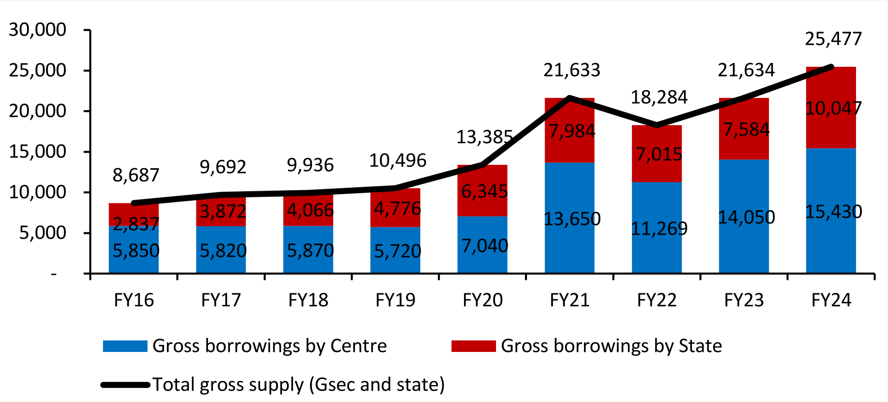


Source: Bloomberg, SBIFM Research

The schedule for H1 central government borrowings at 53% of the issuance is below market estimates and previous year's pattern. At the same time, the tenor mix has largely been in line with strong investor demand as seen in the higher scheduled issuances in the 30y and above tenor. The maturity pattern of issuances alongside anticipated unwinding of the liquidity premium should lead to a steepening bias to the yield curve. SDL borrowings for Q1 FY25 have been announced with a gross number of ₹ 2.54 trillion. This is slightly above estimates, with a likelihood of lower actual issuances if the trends in previous FY are to repeat. Overall FY25 gross supply may not be significantly lower than what it was in FY24 given the higher SDL supply.

Chart 9

Gross government bond supply at ~INR 25 trillion in FY24 (vs. INR 21.6 trillion in FY23)



Source: Bloomberg, SBIFM Research

Scheduled commercial banks appetite for sovereign securities has remained robust overall in FY24, with overall SLR around 27.5% of NDTL. With the gap between credit and deposit growth persisting, the extent of excess SLR at a system wide level would be a key factor influencing market yields over the next FY. With steady demand expected to persist from other key segments including insurance and long-term investors and new demand from FPI, banking system demand could still be a key swing factor. The new investment norms for bank SLR holding and the impact on eventual bank buying also is a key variable to monitor.

Not much is expected to change with respect to the monetary stance in the near term as the RBI has clearly delinked the stance from system liquidity dynamics and aligned it with progress towards the inflation target. The fiscal consolidation announced should complement the RBI efforts towards aligning inflation lower. While there has been steady progress towards bringing headline within the range and core remaining softer, there remains ground to cover with respect to aligning CPI to the midpoint target of 4% on a durable basis. A forward outlook where growth remains stronger and macro financial stability is not under threat, provides the central bank sufficient leeway to sequence policy actions to sustainably meet the inflation mandate. This would be independent of policy actions undertaken by other central banks. Even as the RBI tolerance towards liquidity surplus increases to ensure alignment of operating target to the policy rate, a stance change could potentially be only a H2 FY25 possibility.

With visibility emerging on the liquidity dynamics, the elevated levels at the front end of the curve should settle lower over the coming months. This should enable better risk- reward equation for incremental investments at the shorter segment (up to 5y) of the curve. While shifting external market dynamics on policy rates as well as geopolitical issues and its impact on key commodities remain key risks, the recent market resilience remains comforting at the margin.

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

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