

FIXED INCOME OUTLOOK

MAY 2021

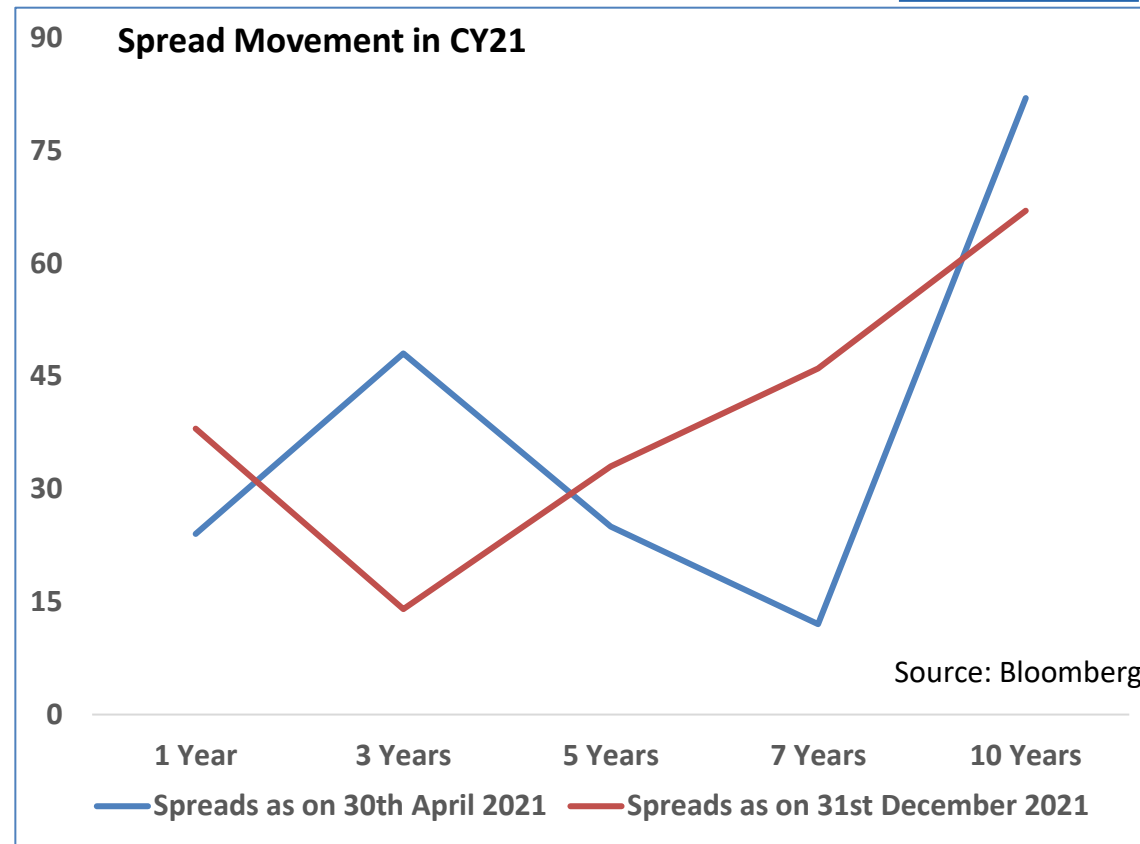
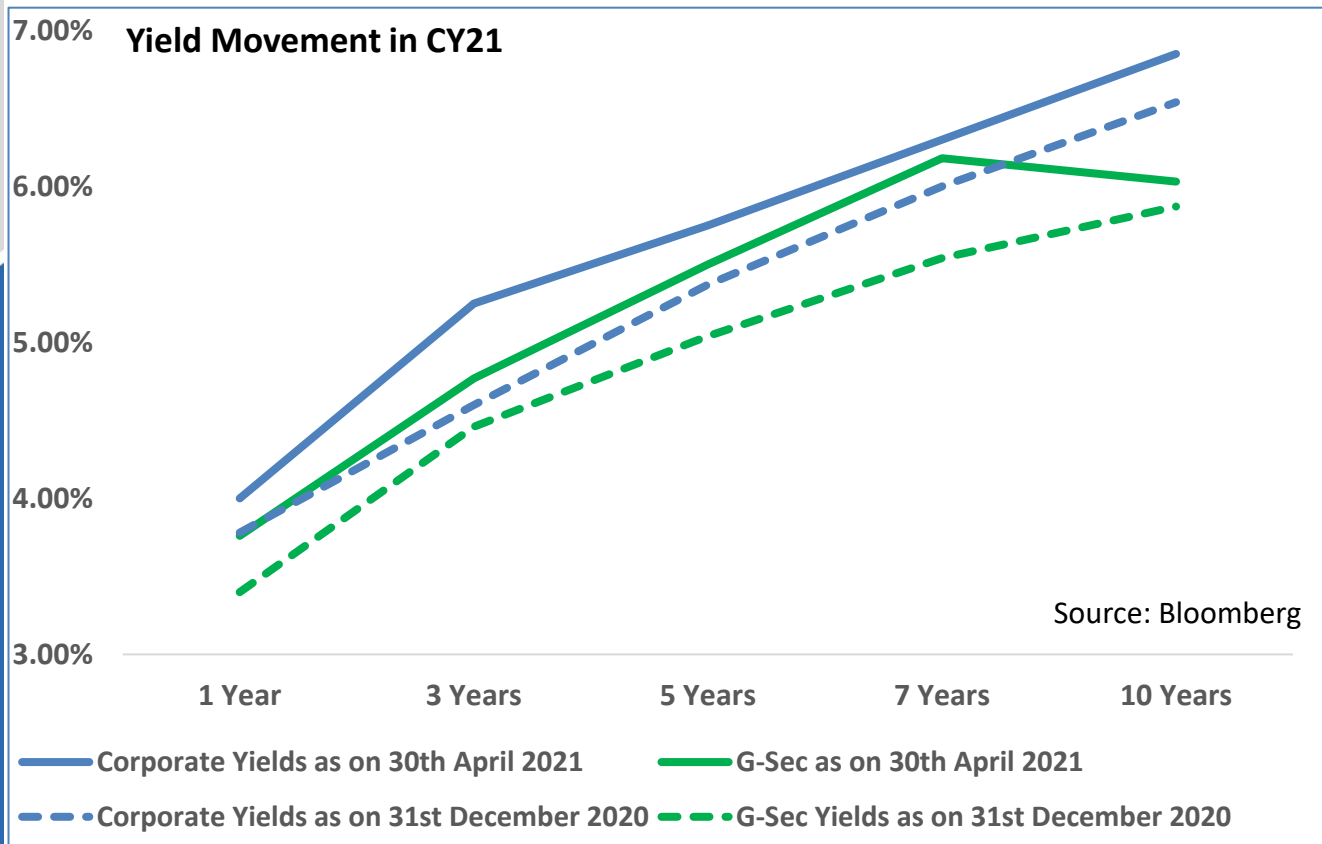
RECAP

- RBI has stated its intention to ensure orderly evolution of the G-Sec curve and reduce volatility to ensure a stable rate structure. RBI Governor has repeatedly stated yield curve is a public good. RBI and the Government have been acting to lower bond yields.
- RBI in its monetary policy announced GSAP 1 (Government Securities Acquisition Program) to buy 1 Lakh crores of Government securities in the first quarter of the financial year. This is over and above OMO and Operation Twist which RBI will be conducting to ensure soft yield curve control.
- OMO/ OT and LTRO to stabilize the yield curve

Rates	As on 30 th April 2021	As on 1 st June 2020	Change
MSF Rate (Marginal Standing Facility)	4.25%	5.40%	-1.15%
Repo Rate – Rate at which Banks borrow from RBI	4.00%	5.15%	-1.15%
Reverse Repo Rate – Rate at which banks deposit funds with RBI	3.35%	4.90%	-1.55%
Policy Corridor - difference between Reverse repo and MSF Rate	0.90%	0.50%	+0.40%
LAF Corridor - difference between Repo and Reverse Repo Rates	0.65%	0.25%	+0.40%

RBI cut its headline policy rates significantly to provide liquidity to banks to boost lending and encourage economic growth during the pandemic

The last rate cuts were in May 2020.



- Corp and G-Sec Yields rose across maturities, with the rise sharper in the longer end of the curve
- Corp Yields in the 5-10-year segment rose by 30-40 bps.
- G-Sec Yields were greater in the short to medium term with 1-5-year yields rose by 30-45 bps.

- Spreads rose in the 3- and 10-year segments and fell in the 1 year and the medium-term segment (5-7 years)

CORPORATE YIELD MOVEMENTS

	Corporate Yields as on 30th April 2021	Corporate Yields as on 31st Dec 2020	Corporate Yields as on 1st Jan 2020	Fall / rise in Yields: 1 st Jan to 30 th Apr 21(bps)	Fall / rise in Yields: CY 2020
1M CD	3.25%	3.04%	4.94%	21	-190
1M CP	3.23%	3.50%	5.63%	-27	-213
3M CD	3.35%	3.05%	5.15%	30	-210
3M CP	4.30%	3.40%	5.70%	90	-230
6M CD	3.70%	3.30%	5.48%	40	-218
6M CP	3.85%	4.00%	6.83%	-15	-283
12M CD	3.95%	3.65%	5.98%	30	-233
12M CP	4.15%	4.10%	6.95%	5	-285
1 Year	4.00%	3.78%	6.14%	22	-236
3 Year	5.25%	4.60%	6.68%	65	-208
5 Year	5.75%	5.37%	6.97%	38	-160
7 Year	6.30%	6.00%	7.24%	30	-124
10 Year	6.85%	6.54%	7.51%	31	-97

- In CY 20, Yields fell across maturities by 150-300 bps at the short end and 100-150 bps at the longer end as RBI flooded the market with liquidity to encourage growth.
- Between Dec-20 to Apr-21, yields rose, with the rise in the yields more pronounced in the longer end of the curve.

G-SEC AND T-BILL YIELD MOVEMENTS



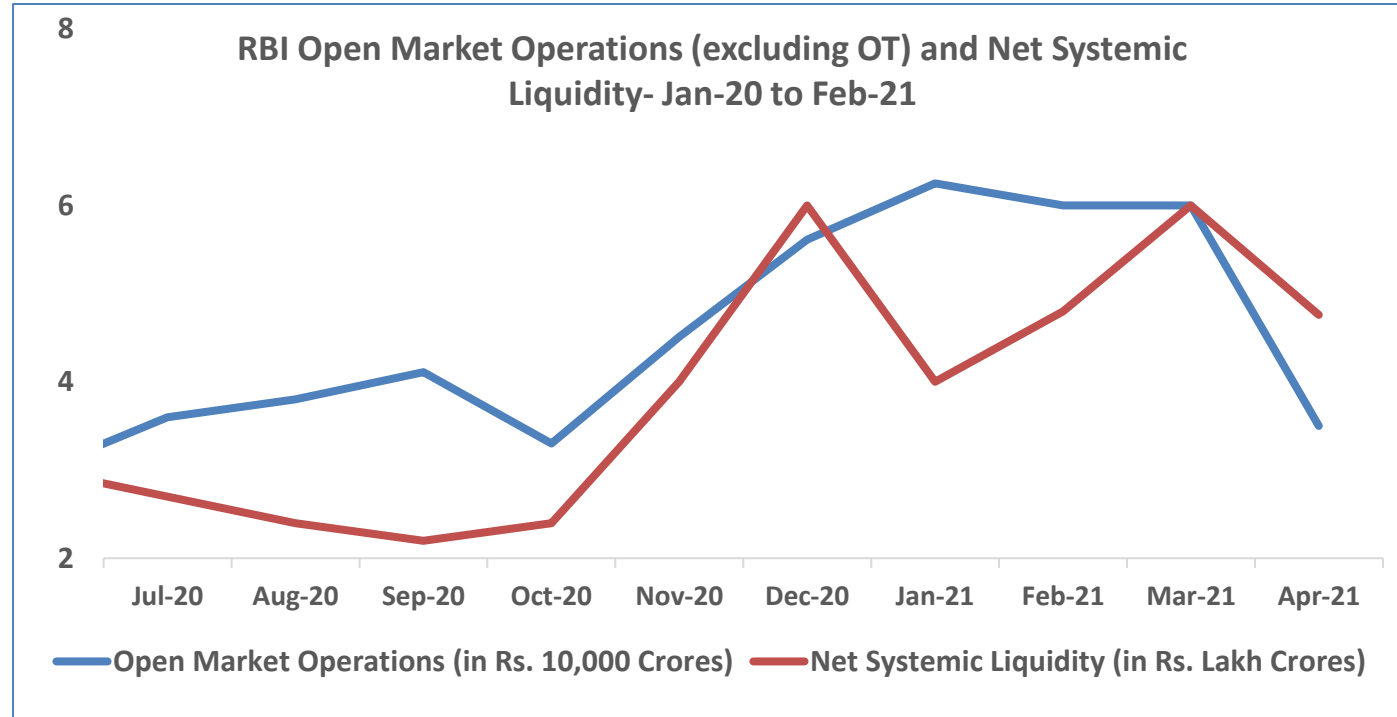
	G-Sec Yields as on 30th Apr 2021	G-Sec Yields as on 31st Dec 2020	G-Sec Yields as on 1st Jan 2020	Fall/rise in Yields 1st Jan - 30th Apr 21	Fall / rise in Yields CY 2020
1M	3.10%	2.95%	4.89%	15	-194
3M	3.32%	3.08%	5.03%	24	-195
6M	3.47%	3.34%	5.22%	13	-188
12M	3.68%	3.46%	5.30%	22	-184
1 Year	3.76%	3.40%	5.48%	36	-208
3 Year	4.77%	4.46%	6.23%	31	-177
5 Year	5.50%	5.04%	6.41%	46	-137
7 Year	6.18%	5.54%	6.59%	64	-105
10 Year	6.03%	5.87%	6.51%	16	-64

- **T-bill Yields:** Fell by 180-200 bps in CY20 as RBI took conventional and unconventional measures to boost liquidity. Between Dec-20 to Apr-21, yields rose by ~15-25 bps.
- **G-Sec Yields:** Fell to a lesser extent in than T-Bills in CY20, but still significant extent, with fall in yields greater in the shorter end of the curve. Between Dec-20 and Apr-21 G-Secs yields rose by 30-45 bps in the 1–5-year segment and ~65 bps in the 7-year segment.

	Spread Movement- 1st Jan to 30 th Apr 2021 (bps)	Spread Movement- 31-Mar to 31-Dec 2020 (bps)
1M CD	6	-40
1M CP	-42	-120
3M CD	6	-61
3M CP	66	-157
6M CD	27	-71
6M CP	-28	-114
12M CD	8	-35
12M CP	-17	-85
1 Year	-14	-62
3 Year	34	-100
5 Year	-8	-49
7 Year	-34	-24
10 Year	15	-34

- Spreads Compressed from 150-250 bps in Mar 2020 to 40-50 bps in Dec 2020.
- In 2021 so far, CD spreads widened, and CP spreads generally compressed.
- 1-10-Year spreads compressed between Mar-Dec 2020 across maturities and moved unevenly in CY 21.

- RBI conducted open market operations and various other measures and kept net systemic liquidity positive during CY20
- RBI reduced the CRR by 100 bps and lent Rs. 2.50 Lakh crores at prevailing repo rates in 3-Year loans in order to boost liquidity in the market
- RBI also did open market purchases/ secondary market operations to ensure smooth borrowing program of central and state government
- Liquidity in the system rose between Aug-Dec-20 and since then has stabilized



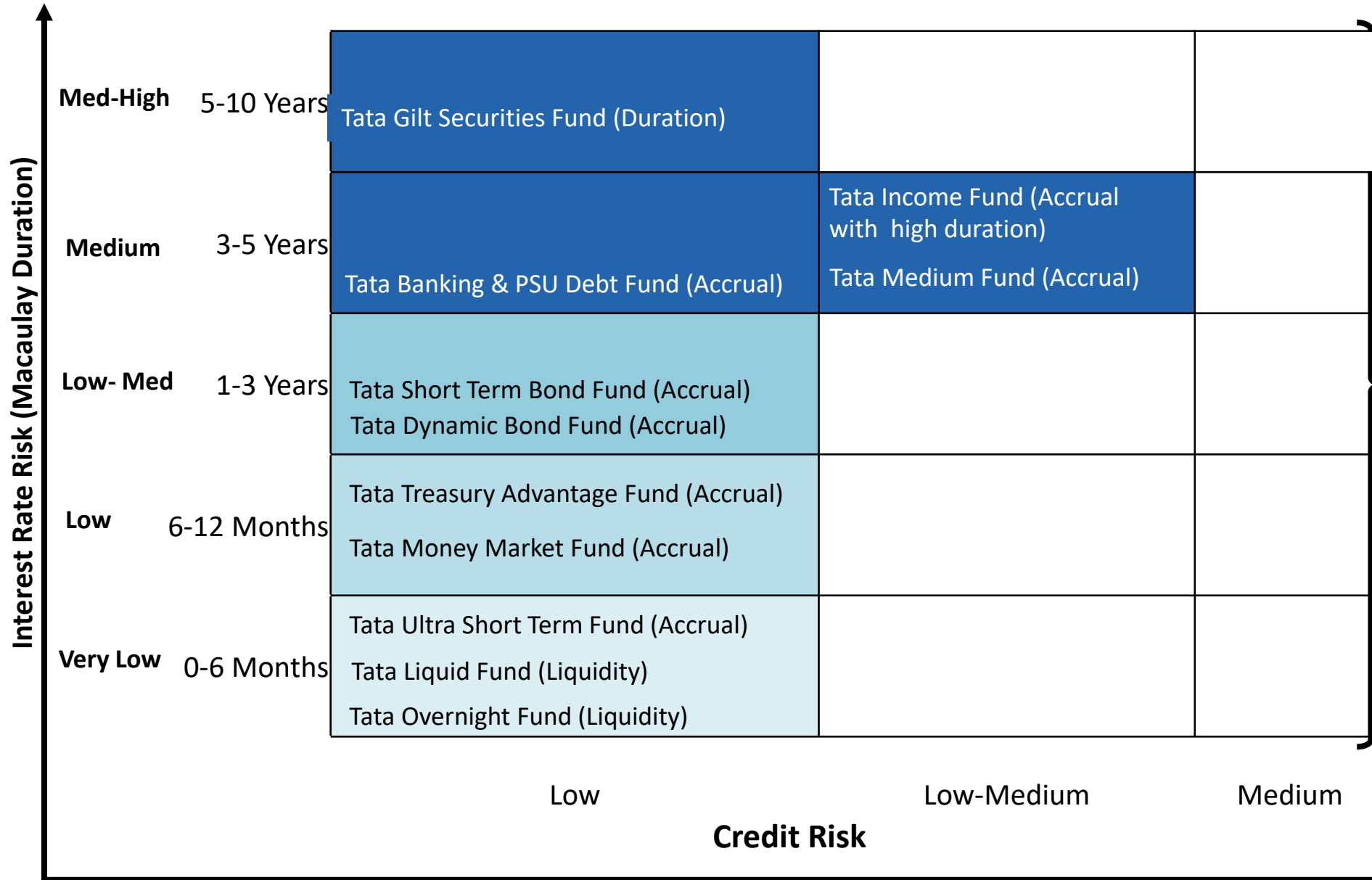
Cumulative Value of OMOs and Net Liquidity in CY20	
Month	Amount (in Rs Lakh Crores)
Jan-20	3.50
Mar-20	5.25
Jun-20	3.60
Aug-20	4.04
Oct-20	4.91
Dec-20	6.21
Feb-20	6.00
Mar-20	6.60
Apr-20	5.11

LOOKING AHEAD

	Corporate Yields	G-Sec Yields
Expected Movement	Corporate bond yields may move up on account of supply from corporates and global yields rising	Expected to remain stable, due to easy liquidity and RBI intervention to cap yields in the near term
Short End Rates	Corporate bond yields expected to remain range bound with an upward bias as RBI starts to normalize liquidity conditions in the bond markets	Expected to remain stable on the back of easy liquidity.
Long End Rates	Expected to go up, but RBI is expected to intervene to ensure that yields remain capped.	Longer term yields (10-years) likely to be stable. RBI is likely to restrict 10-year yields to the 5.90% levels from 6.10% levels.
RBI Actions	RBI to support rates at current levels	Conventional and unconventional measures to cap rising yields and support government borrowing

- RBI in its monetary policy announced GSAP 1 (Government Securities Acquisition Program) to buy 1 Lakh crores of Government securities in the first quarter of the financial year. This is over and above OMO and Operation Twist which RBI will be conducting to ensure soft yield curve control.
- Due to rising covid cases, RBI is doing its best to reduce the borrowing cost of the government and corporates. However, further cuts in policy rates are not expected.
- Credit growth has remained muted at below 5.70% for the last one year. Surplus liquidity is Rs 5 Lakh crores and overnight rates of 3.30 %. This has pushed transmission of lower rates in the economy as corporates are borrowing in the bond markets and repaying their higher cost borrowings.
- Liquidity is expected to remain comfortably in surplus over the medium term.
- RBI has reiterated its commitment to maintain accommodative monetary policy stance till growth is firmly entrenched.
- **Portfolio positioning** - We remain neutral on debt markets and expect accruals to be major driver for return generations for next few months.

CURRENT FUND POSITIONING OF DEBT ORIENTED SCHEMES OF TATA MUTUAL FUND



Based on its objective, each fund primarily follows a Duration, Accrual or Blend Strategy.

The strategies entail the fund to take either accrual risk or interest rate risk for return generation.

The grid shows positions of funds based on the risks it undertakes to achieve the underlying strategy

Grid is based on the current positioning of funds and may change in future.

- **Playing it Safe:** Avoid credit funds given global and domestic uncertainties
- **Lower Maturity:** Investors should look to invest in funds having average maturity of 3 years and lower
- **Higher Quality:** We advise investors to invest in high quality portfolio depending on the time horizon to get the underlying accrual of the portfolios.
- **Tata Short Term Bond Fund, Tata Banking & PSU Debt Fund and Tata Dynamic Bond Fund** may be preferred for investment horizons of 2-3-years.
- For short term parking of surplus funds, investors can look at **Money Market Funds** and **Low Duration Debt Funds**

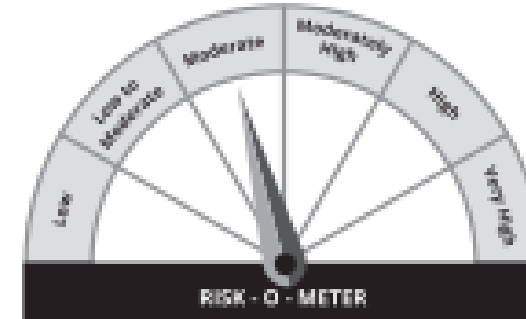
There are no assured or guaranteed returns under any of the mutual fund schemes

Tata Money Market Fund

This product is suitable for investors who are seeking*:

- Regular Income over Short Term.
- Investment in Money Market Instruments.

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



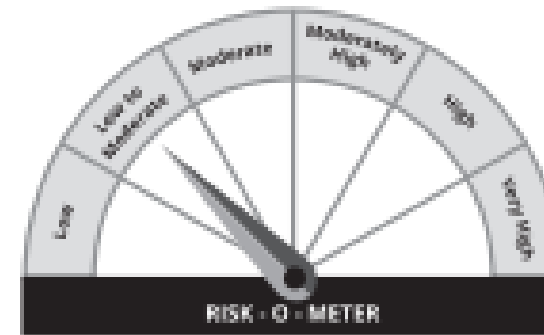
Investors understand that their principal will be at Moderate Risk

Tata Liquid Fund

This product is suitable for investors who are seeking*:

- Regular Income for Short Term.
- Investment in Debt / Money Market Instruments.

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



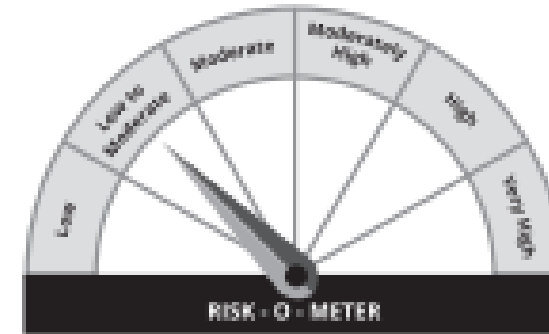
Investors understand that their principal will be at Low to Moderate Risk

Tata Treasury Advantage Fund (Scheme has 1 segregated portfolio)

This product is suitable for investors who are seeking*:

- Regular Fixed Income for Short Term.
- Investment in Debt & Money Market Instruments.

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



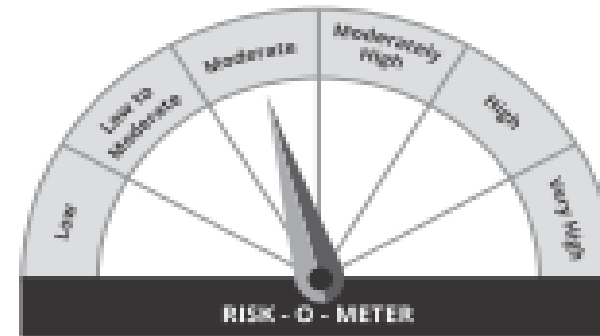
Investors understand that their principal will be at Low to Moderate Risk

Tata Ultra Short Term Fund

This product is suitable for investors who are seeking*:

- Regular Income Over Short Term
- Investment in Debt & Money Market instruments such that the Macaulay Duration of the portfolio is between 3 months - 6 months.

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



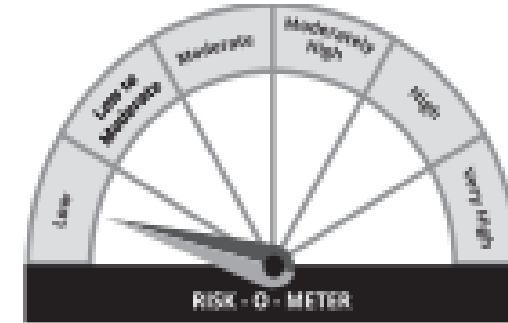
Investors understand that their principal will be at Moderate Risk

Tata Overnight Fund

This product is suitable for investors who are seeking*:

- To generate reasonable returns in line with overnight rates and high liquidity over short term
- Investment in debt and money market instruments having maturity of upto 1 business day

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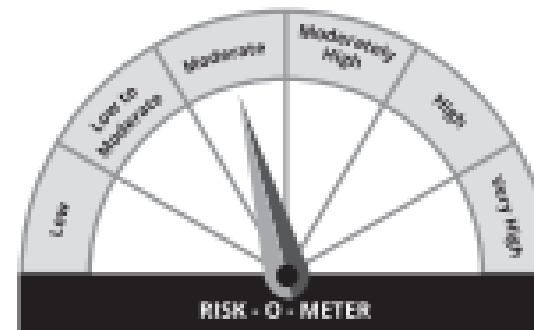
Investors understand that their principal will be at Low Risk

Tata Dynamic Bond Fund

This product is suitable for investors who are seeking*:

- Short Term to Medium Capital Appreciation.
- Investment in Debt / Money Market Instruments / Government Securities.

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



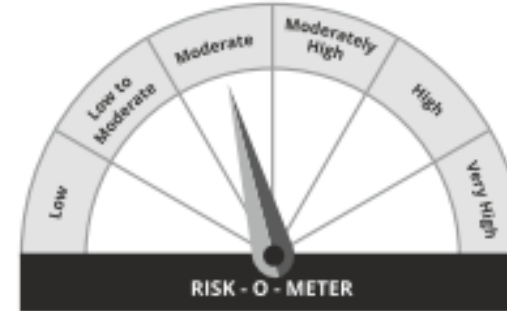
Investors understand that their principal will be at Moderate Risk

Tata Banking & PSU Debt Fund

This product is suitable for investors who are seeking*:

- Regular Income Over Short Term to Medium Term.
- Predominant investment in Debt & Money Market instruments issued by Banks, Public Sector Undertakings & Financial Institutions.

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



Investors understand that their principal will be at Moderate Risk

Tata Short Term Bond Fund(The scheme has 1 segregated portfolio which was created under Tata Corporate Bond Fund. Main portfolio Tata Corporate Bond Fund was merged with Tata Short Term Bond Fund w.e.f. 14th December 2019).

This product is suitable for investors who are seeking*:

- Regular Fixed Income for Short Term.
- Investment in Debt / Money Market instruments / Government Securities.

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



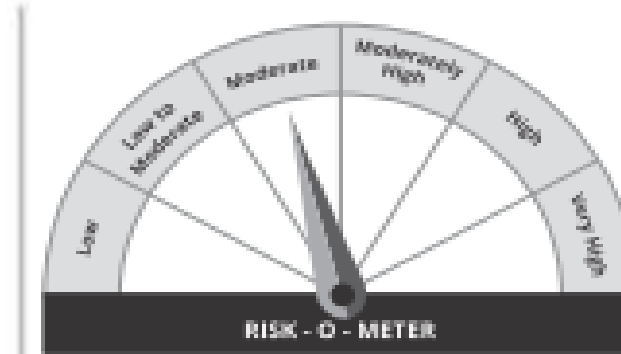
Investors understand that their principal will be at Moderate Risk

Tata Medium Term Fund (The Scheme has one segregated portfolio)

This product is suitable for investors who are seeking*:

- Income/Capital Appreciation over medium term.
- Investment in Debt / Money Market Instruments / Government Securities.

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



Investors understand that their principal will be at Moderate Risk

Tata Gilt Securities Fund

This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation & Regular Income.
- Investment predominantly in Government Securities.

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



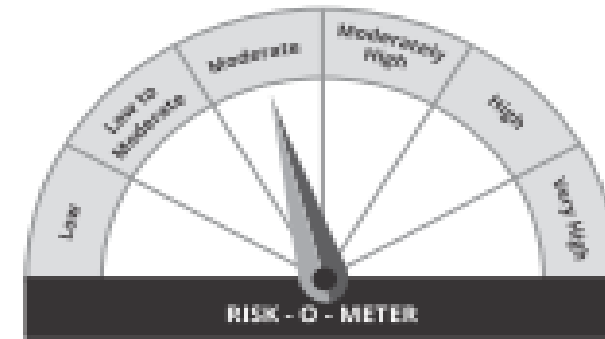
Investors understand that their principal will be at Moderate Risk

Tata Income Fund

This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation & Regular Income.
- Investment in Debt & Money Market Instruments / Government Securities.

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



Investors understand that their principal will be at Moderate Risk

THANK YOU

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

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