Monthly Debt View – June 2022

The MPC (Monetary Policy Committee) of **the RBI raised the policy repo rate by 50 basis points** from 4.40% to 4.90%. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65%, and the marginal standing facility (MSF) rate, and the Bank Rate to 5.15%.

The MPC also dropped the phrase *"staying accommodative"* from its forward guidance and guided it to ***"remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth".***

Consumer price inflation has been running above the RBI's upper threshold of 6% since the start of this year averaging at 6.72% between January-April 2022. RBI's own estimate of average inflation in the fiscal year 2022-23 has been revised higher from 5.7% to 6.7%.

The RBI is now squarely focused on bringing down inflation. The MPC statement noted - ***"Continuing shocks to food inflation could sustain pressures on headline inflation. Persisting inflationary pressures could set in motion second round effects on headline CPI. Hence, there is a need for calibrated monetary policy action to keep inflation expectations anchored and restrain the broadening of price pressures."***

Taking into account the introduction of the SDF in the April monetary policy at rate of 25 basis points below the repo rate, the RBI has raised the effective overnight interest rate by 130 basis points over the last two months. The floor policy rate before the April monetary policy was at 3.35% (the reverse repo rate). It has now moved to the SDF rate of 4.65%.

This clearly shows a sense of urgency within the RBI to withdraw the ultra-easy monetary policy.

Given the fact that the policy repo rate is still significantly lower than the expected inflation rate, the RBI may continue with the rate hikes in the remaining MPC meetings in 2022. However, the pace of rate hikes (quantum of hike in each policy) may slow down after the covid time the ultra-accommodative monetary policy is reversed.

Before the Covid shock, the Repo rate was at 5.15%. With another 25-50 basis points hike in the August meeting, the repo rate will get to the pre-covid level. Overall, we expect the repo rate to peak around 6% by early 2023.

On liquidity, the RBI reiterated to normalise the pandemic-related extraordinary liquidity surplus over a multi-year time frame though it kept the CRR (Cash Reserve Ratio) rate unchanged in this policy.

The bond market was already pricing for a 40-50 basis points rate hike in this policy. So, the policy outcome was broadly in line with the market expectation.

However, after the surprise repo rate and CRR hike on May 4, 2022, the market had built in some premium for another CRR hike and/or an outsized repo rate hike in this policy. To that extent, there was a positive surprise for the bond market.

Bond yield came down 3-9 basis points after the policy announcement. The 5-year government yield came down from 7.36% to 7.28% during the day.

Much of the potential rate hikes are already priced in the current bond valuations. The yield spread between the 3-year bond (6.94%) over the 3 months treasury bill (4.98%) is around 196 basis points vs its long term 20 year average of around 70 basis points.

Thus, the bond market may not be too sensitive to RBI's rate hikes going forward. However, high uncertainty over global monetary policy, rising crude oil prices, and unfavourable demand-supply dynamics will continue to put upward pressure on medium to long-term bond yields.

Lending rates have already moved up as most loans today are linked to benchmarks like Repo rate or MCLR. We should expect further upward revision in lending rates. The interest rate on fixed deposits will also move higher in the coming months.

From an investor's perspective, the return potential of liquid and debt funds has improved significantly after the sharp jump in bond yields over the last six months. The gap between the bank savings rates and liquid fund returns will widen and remain attractive for your surplus funds. Investors with a short holding period and low-risk appetite should stick to categories like liquid funds of good credit quality portfolios.

Medium to Long term interest rates in the bond markets are already at long-term averages as compared to fixed deposits which remain low. Investors with more than 2-3 years holding period can consider dynamic bond funds which have the flexibility to change the portfolio positioning as per the evolving market conditions. However, such investors should be ready to tolerate some intermittent volatility in the portfolio value.

In the Quantum Dynamic Bond Fund, we have been avoiding long-term bonds for some time due to our cautious stance on the markets. After the steep sell-off in the last two months, valuations have become attractive on medium to long-term bonds. However, given the high uncertainty as mentioned above, we will continue to be cautious in adding into long-duration bonds as a core portfolio position.

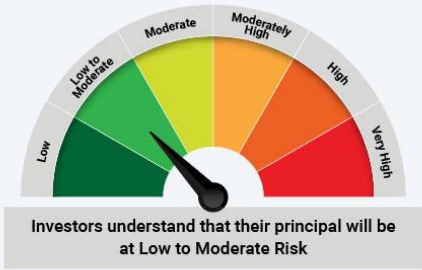
We continue to like the 3-5 year segment of the bond market, the bulk of the QDBF portfolio is in 3-4 year maturity government bonds.

We would remain open and nimble to exploit any market mispricing by making a measured tactical allocation to any part of the bond yield curve as and when the opportunity arises.

We stand vigilant to react and change the portfolio positioning in case our view on the market changes.

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

Product Labeling

Name of the Scheme	This product is suitable for investors who are seeking*	Riskometer
Quantum Dynamic Bond Fund **An Open-ended Dynamic Debt Scheme Investing Across Duration. A relatively high interest rate risk and relatively low credit risk.**	• Regular income over short to medium term and 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.
The Risk Level of the Scheme in the Riskometer is based on the portfolio of the scheme as on May 31, 2022.

Potential Risk Class Matrix - Quantum Dynamic Bond Fund

Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		

Product Labeling

Name of the Scheme	This product is suitable for investors who are seeking*	Riskometer
Quantum Liquid Fund **An Open-ended Liquid Scheme. A relatively low interest rate risk and relatively low credit risk.**	• Income over the short term • Investments in debt / money market instruments	 **Investors understand that their principal will be at Low Risk**
Quantum Dynamic Bond Fund **An Open-ended Dynamic Debt Scheme Investing Across Duration. A relatively high interest rate risk and relatively low credit risk.**	• Regular income over short to medium term and capital appreciation • Investment in Debt / Money Market Instruments / Government Securities	 **Investors understand that their principal will be at Low to Moderate Risk**

*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.
The Risk Level of the Scheme in the Riskometer is based on the portfolio of the scheme as on April 30, 2022.

Potential Risk Class Matrix - Quantum Liquid Fund

Credit Risk → **Interest Rate Risk ↓**	**Relatively Low (Class A)**	**Moderate (Class B)**	**Relatively High (Class C)**
Relatively Low (Class I)	**A-I**		
Moderate (Class II)			
Relatively High (Class III)			

Potential Risk Class Matrix - Quantum Dynamic Bond Fund

Credit Risk → **Interest Rate Risk ↓**	**Relatively Low (Class A)**	**Moderate (Class B)**	**Relatively High (Class C)**
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	**A-III**		