

# Fixed Income Navigator

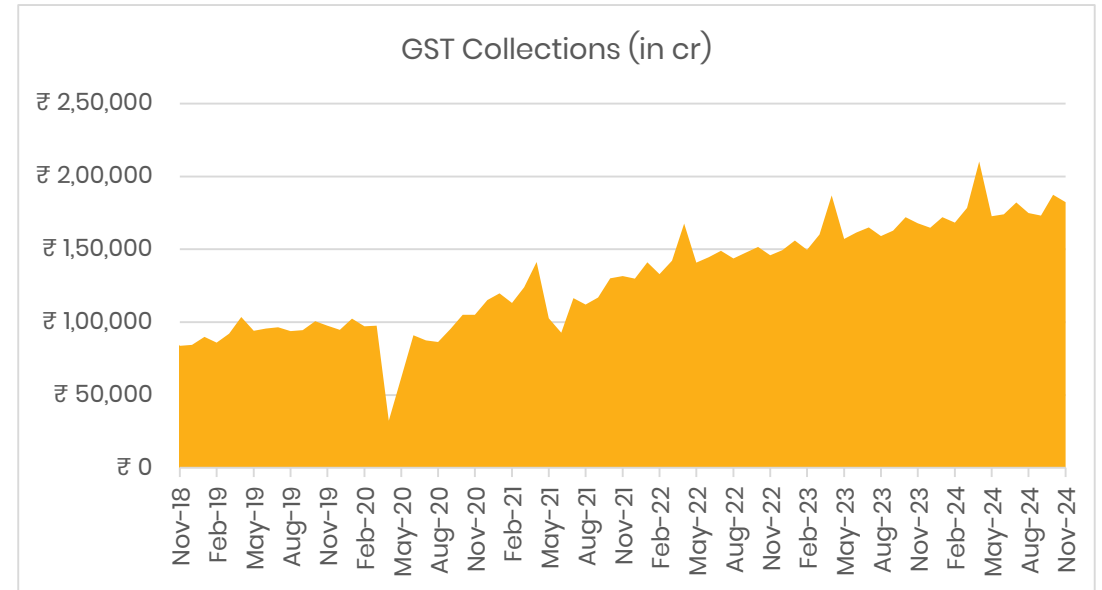
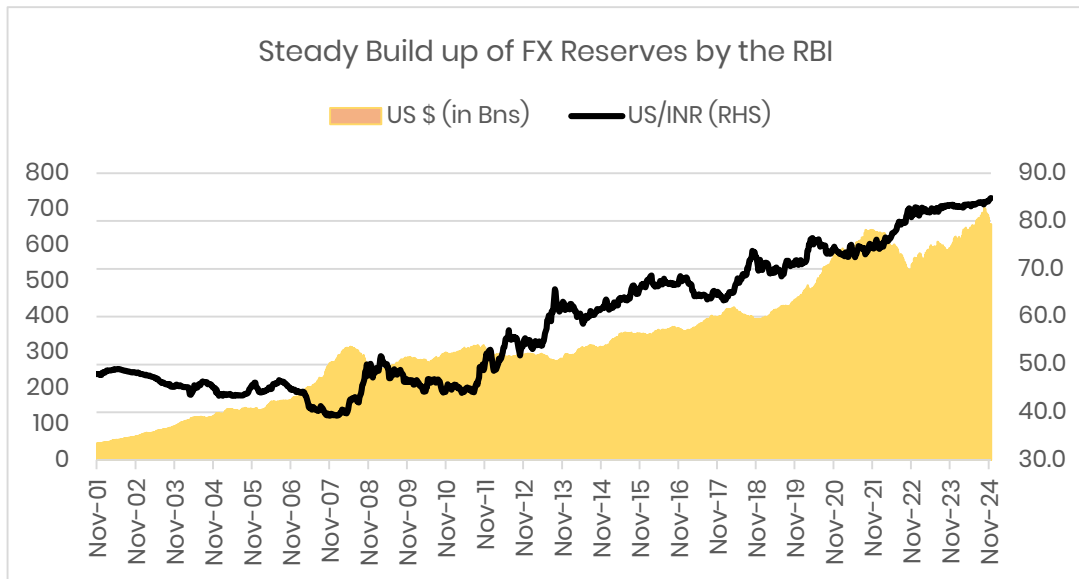
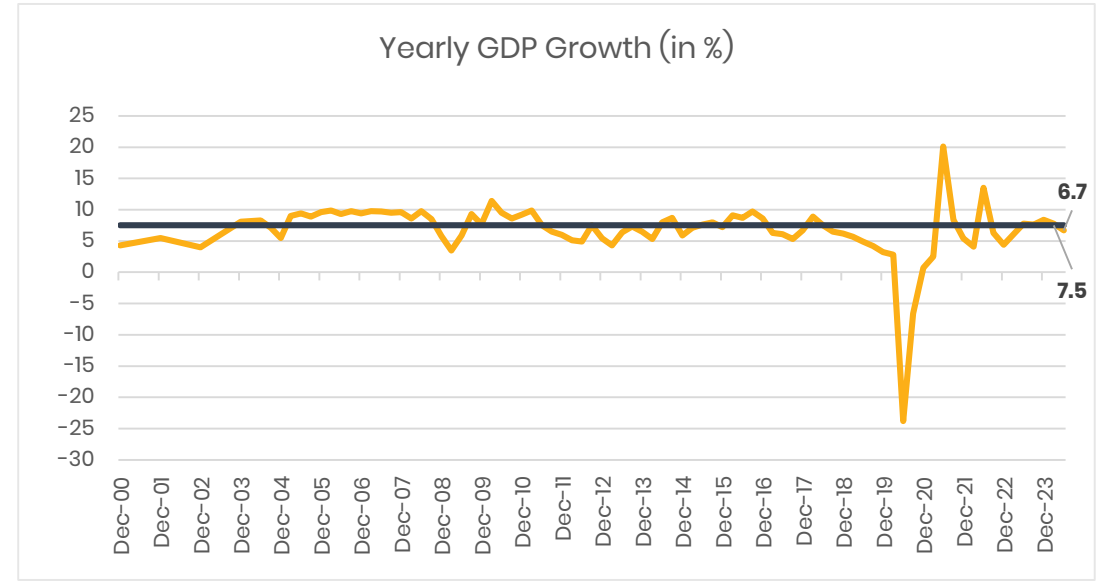
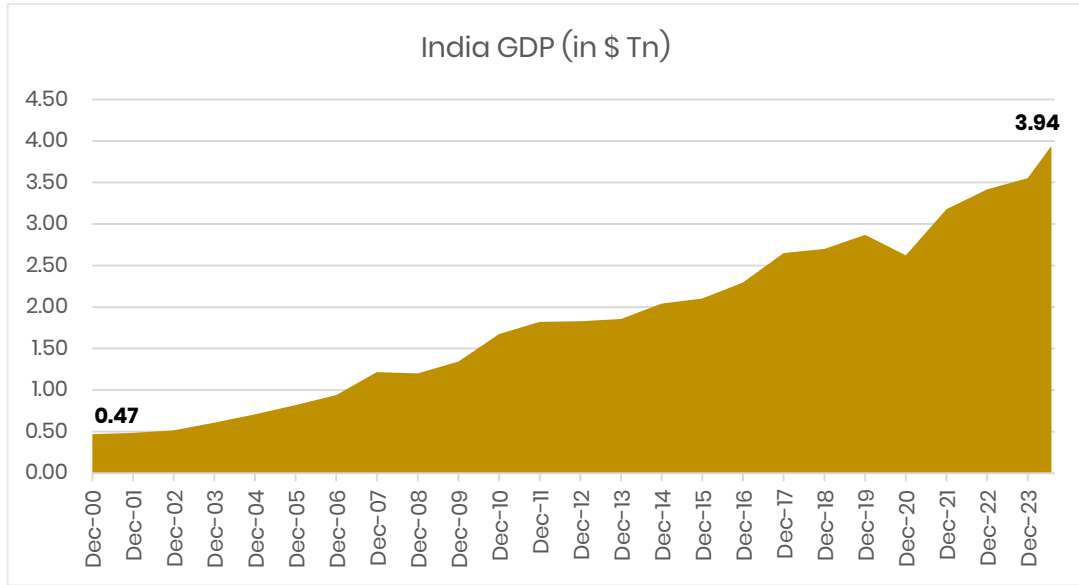
A Monthly Dose of Insights

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**December 2024**

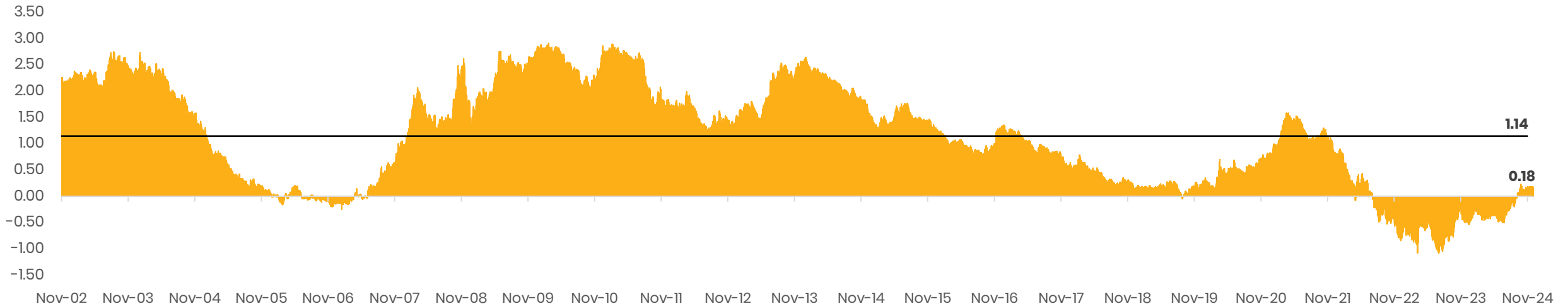
# MACRO ECONOMIC INDICATORS

# India is 5<sup>th</sup> Largest Economy with a GDP of \$3.9 Tn

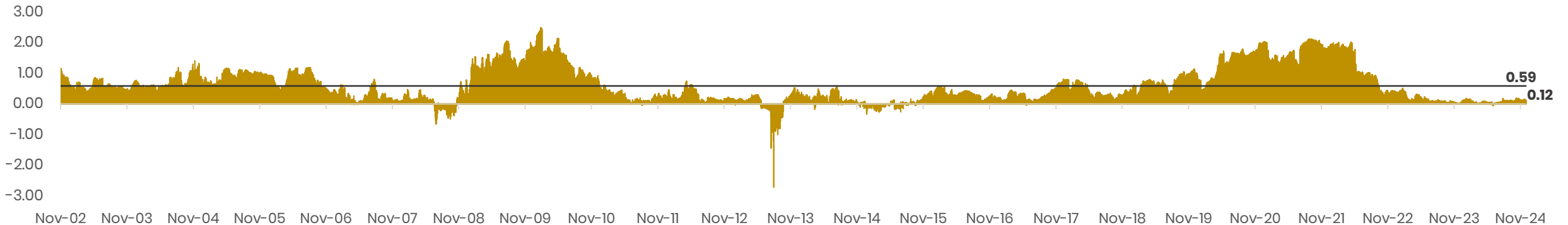


# Inverted US yields Curve fades after 2 years

% Difference between 10 yr and 2 yr US Bond yields

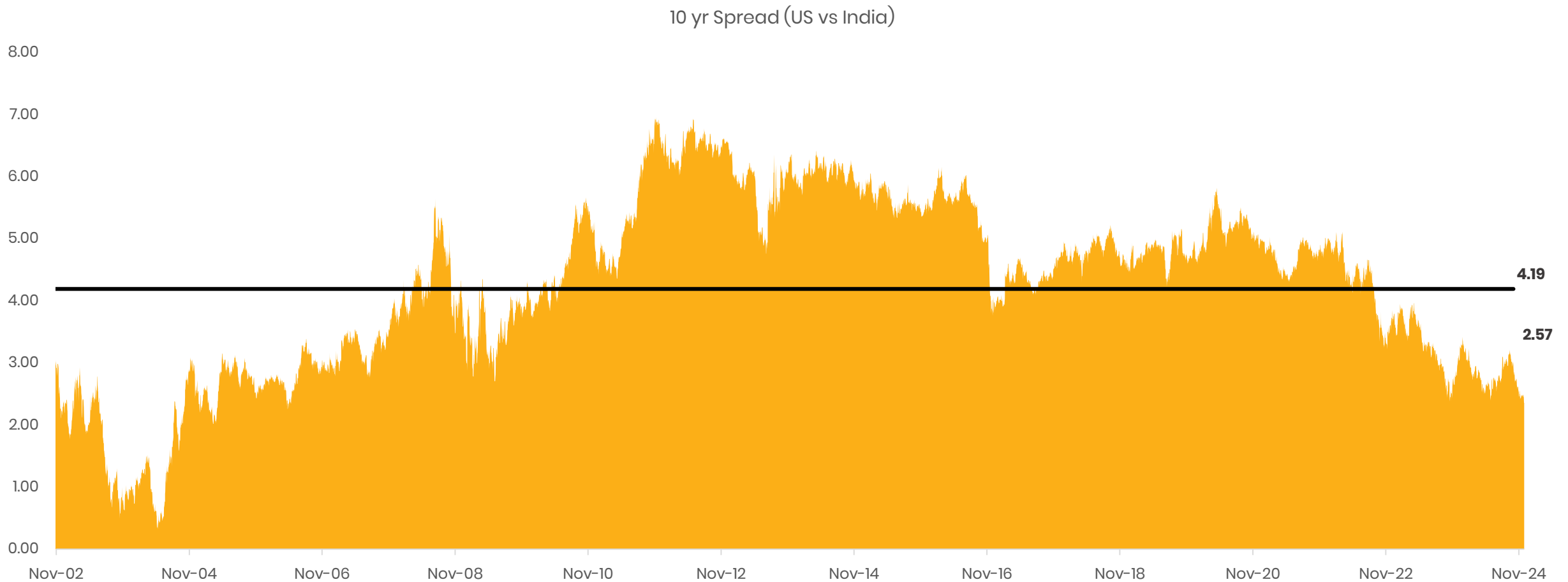


% Difference between 10 yr and 2 yr India Bond yields



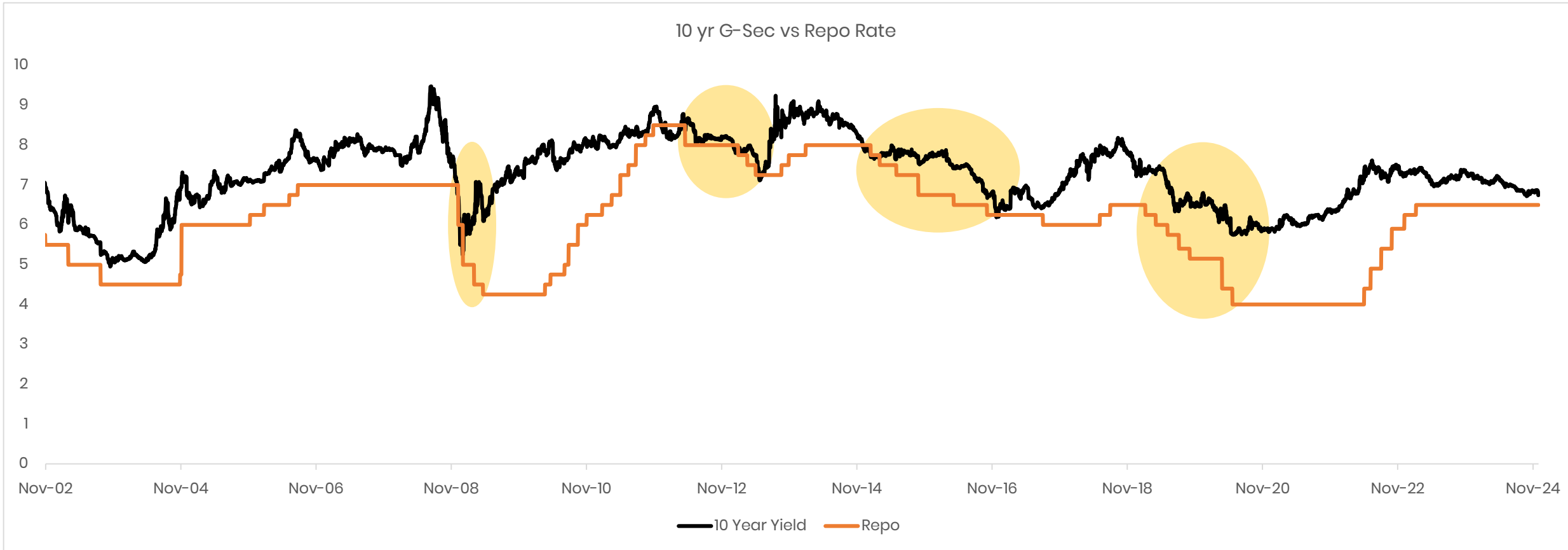
- The US economy is showing signs of stabilization, as the yield on 10-year government bonds has started to rise above the yields of 2-year government bonds since September'24.
- India's 10 yr to 2 yr yield spread is at 12 bps (LTA: 59 bps) whereas, for US it is at 18 bps (LTA: 114 bps)

# 10 yr US-India Spread is below its Long Term Average



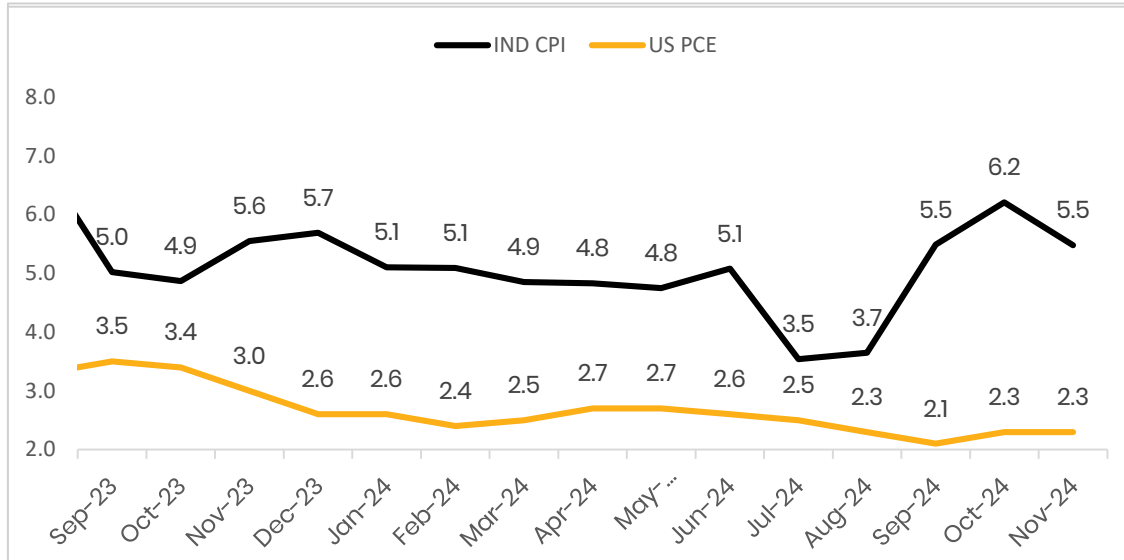
- The interest rate differential between India and US sovereign bonds has been below its long term average of 4.19% since 2 years as investors are in no mood to shun the world's fastest growing economy.
- A stable Government, strong macro indicators and the inclusion of India in JP Bond Index has helped India to keep the yield in check in the recent years.

# Repo rates have peaked

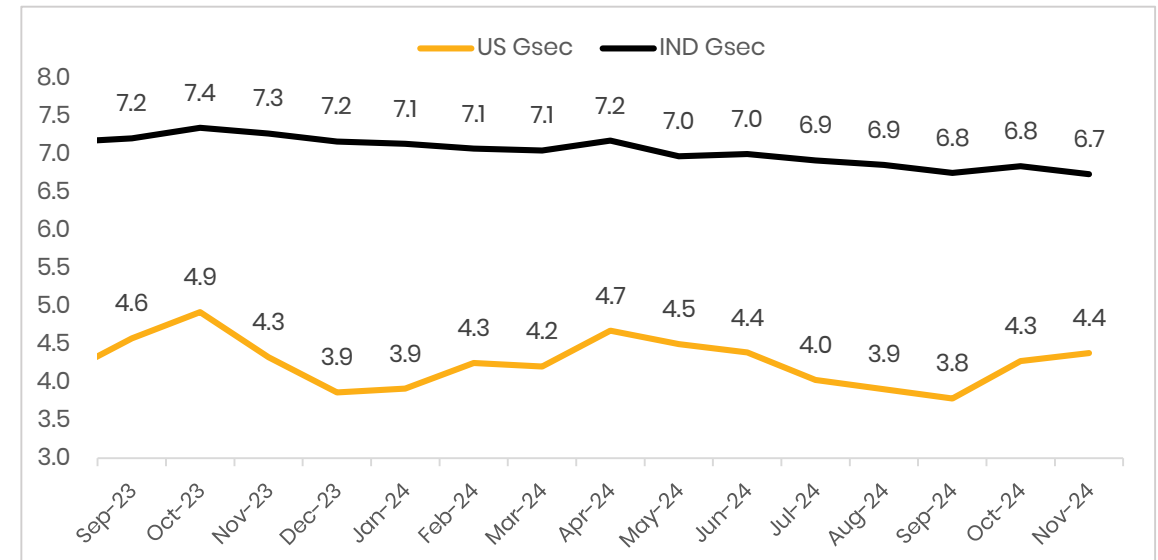


- **2008–2009:** Yields started moving lower in July 2008 ahead of the first rate cut in October 2008.
- **2011–2013:** Yields started moving lower from November 2011 ahead of the first rate cut in April 2012.
- **2014–2017:** Yields started moving lower from April 2014 ahead of the first rate cut in January 2015.
- **2018–2020:** Yields started moving lower from September 2018 ahead of the first rate cut in February 2019.

# Rising Inflation could threaten RBI's Rate Cut Plans



**CPI:** Retail inflation in November came down to 5.5%, down from 6.2% in October due to significant decline in vegetable prices, and this in turn could lead to a more accommodative monetary policy by RBI. CPI inflation is projected at 4.80% for FY 2024-25



**Yield:** India's 10-year G-sec yields have remained stable within a range of 7.4% to 6.7% in the last 12 months. In contrast, US Treasury yields have been more volatile, driven by market uncertainty surrounding the US election coupled with upbeat economic data on consumer spending and job growth.

**Path Forward:** At its November meeting, the Federal Reserve (Fed) approved its second consecutive interest rate cut, cutting the interest rates by 0.25% to the 4.50% to 4.75% range. Fed Chairman Jerome Powell acknowledged that the economy is in "Good Place" but Fed will continue to assess the data to determine the "pace and destination" of interest rates, **it also sees 1 more 25 basis point rate cut in 2024, along with a 100 bps rate cuts in 2025.**

# Fiscal Prudence to keep Supply of G-Sec in check

There had been widespread uncertainty whether the Government will stay committed to the fiscal consolidation path post a surprise coalition. Union Budget FY25 alleviated this apprehension. Two key expectations by the Central Government highlight this.

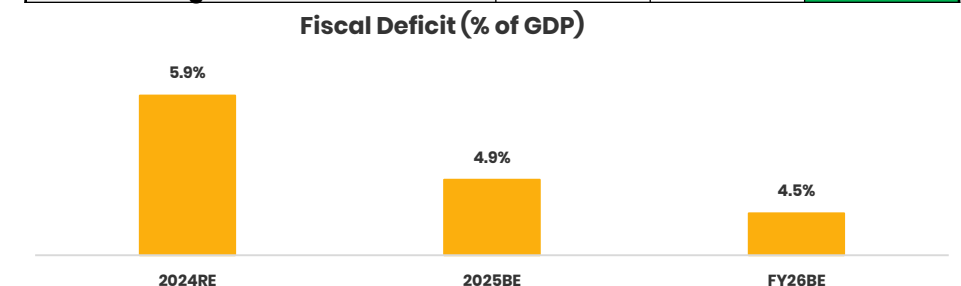
- FY25 YoY Revenue growth expected (19%) to exceed YoY Expenditure growth (7%), leading to a projection of FY25 fiscal deficit at 4.9% of GDP (v/s interim budget estimates of 5.1%), and expectation of a progressive reduction to 4.5% by FY26.
- Gross and net borrowings through dated securities (G-Sec) expected at ~Rs 14.01 lakh crore and Rs 11.63 lakh crore for FY25 and a reduction of 9% and 2% respectively v/s FY24.

## Focus on Ratings Upgrade and Attracting Foreign Flows...

After the election results but before the FY25 Union Budget, S&P Global had upgraded India's outlook from 'neutral' to 'positive' while keeping the ratings unchanged.

The Union Budget FY25 demonstrated the government's focus on achieving a rating upgrade to attract foreign investment and reduce borrowing costs. This was pursued by continuing efforts to reduce debt levels and strengthen economic resilience.

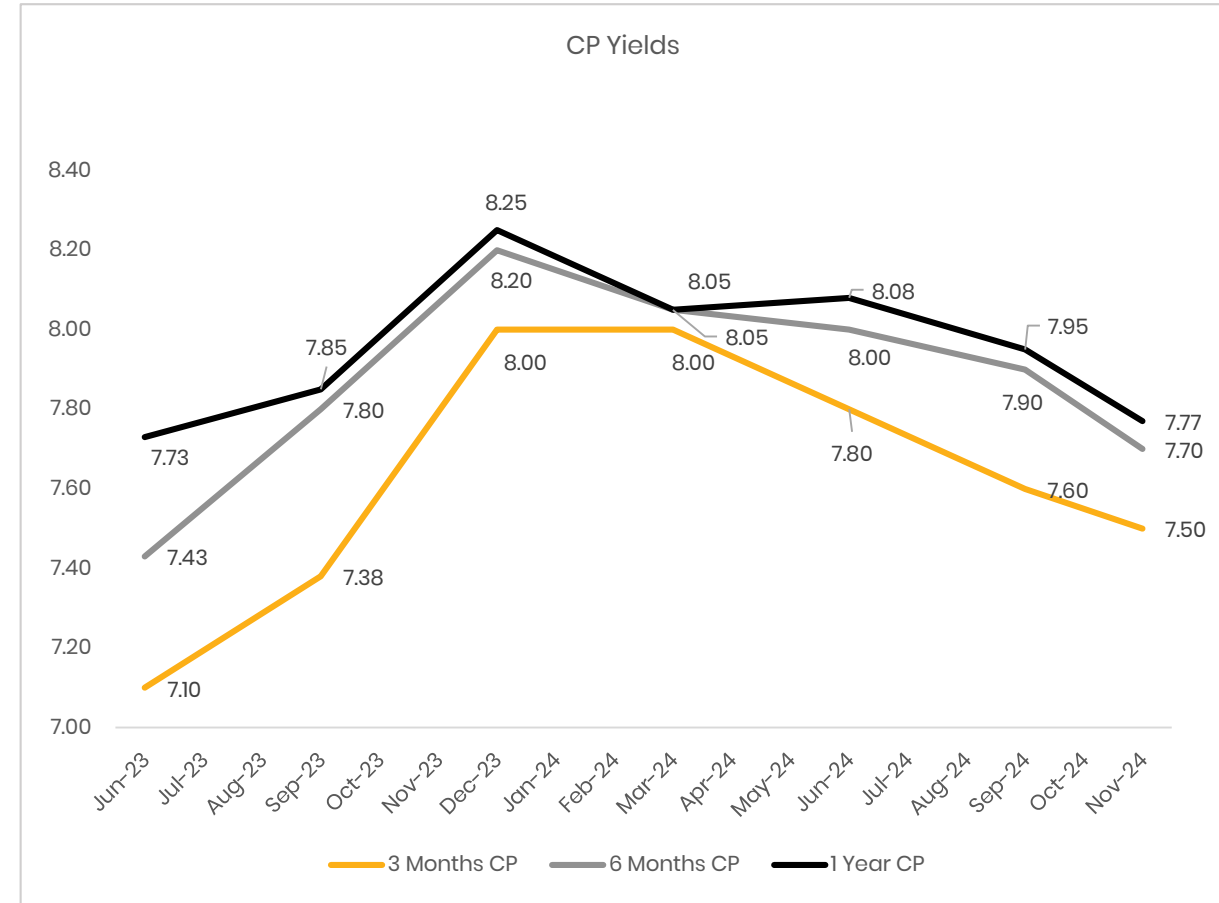
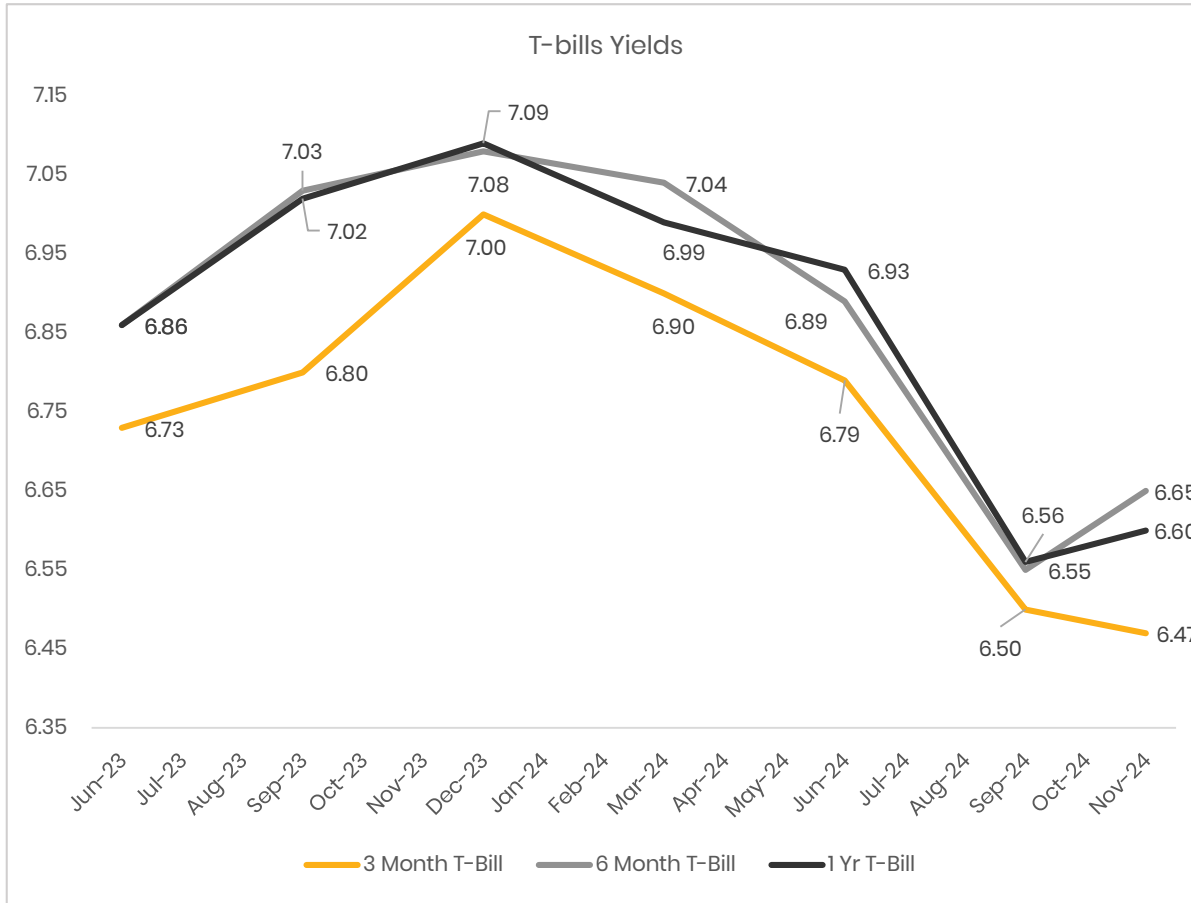
Revenue			
Receipts (Rs bn)	2024 RE	2025 BE	Change (%)
<b>1. Revenue receipts (2d + 3)</b>	26,997	31,292	<b>16%</b>
<b>2. Gross tax revenues (a + b)</b>	34,372	34,302	0%
a. Direct taxes	20,354	22,200	<b>9%</b>
b. Indirect taxes	14,794	12,117	<b>-18%</b>
c. Transfers to states, UTs, etc	8,303	8,303	0%
<b>d. Net tax revenues (2 - 2c)</b>	26,069	25,999	0%
<b>3. Non-tax revenues</b>	3,758	5,457	<b>45%</b>
<b>4. Non-debt capital receipts (a + b)</b>	560	580	<b>4%</b>
a. Recovery of loans	260	200	<b>-23%</b>
b. Other receipts (inc. divestments)	300	380	<b>27%</b>
<b>5. Total receipts (1 + 4)</b>	<b>27,557</b>	<b>32,872</b>	<b>19%</b>
Expenditure			
Expenditure (Rs bn)	2024 RE	2025 BE	Change (%)
<b>6. Revenue expenditure</b>	35,402	37,094	<b>5%</b>
<b>7. Capital expenditure</b>	9,503	11,111	<b>17%</b>
a. Defence	2,480	2,520	<b>2%</b>
b. Railways	2,600	3,772	<b>45%</b>
c. Roads and highways	2,645	2,720	<b>3%</b>
d. Loans for capex to states	665	650	<b>-2%</b>
e. Housing and urban affairs	225	240	<b>7%</b>
<b>8. Total expenditure (6 + 7)</b>	<b>44,905</b>	<b>48,205</b>	<b>7%</b>
Central Government Borrowings through Dated Gsec			
Borrowings (Rs bn)	2024 RE	2025 BE	Change (%)
<b>Gross Borrowing</b>	15.4	14.0	<b>-9%</b>
(-) Repayments	3.6	2.4	<b>-33%</b>
<b>Net Borrowing</b>	<b>11.8</b>	<b>11.6</b>	<b>-2%</b>





# UPDATE ON YIELDS

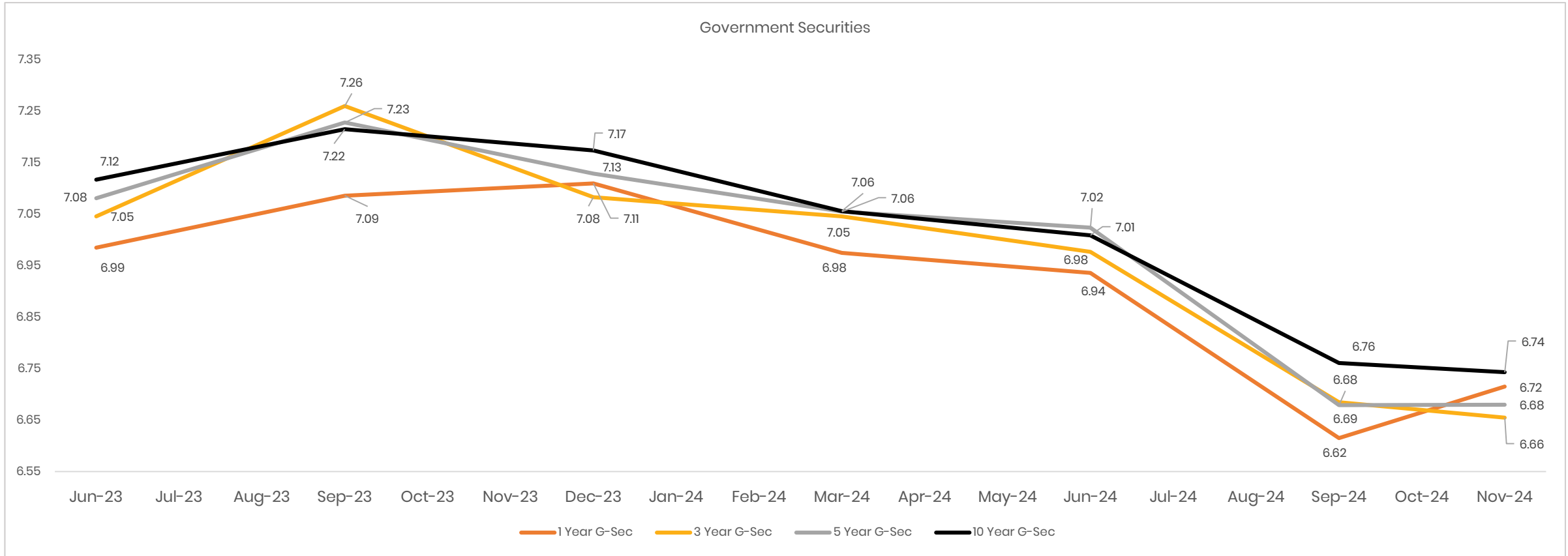
# CP Yields dropped to their lowest level in the last 4 quarters



➤ Commercial Paper Yields saw a major drop in their yields in the last 4 quarters whereas government backed T-bills' yields have increased in the month of November for 6 months and 1 year duration, while decreased for 3 months duration

Source: NSE; Bloomberg; RBI and External Sources. Data as on 30<sup>th</sup> November 2024. The above data is shown quarterly

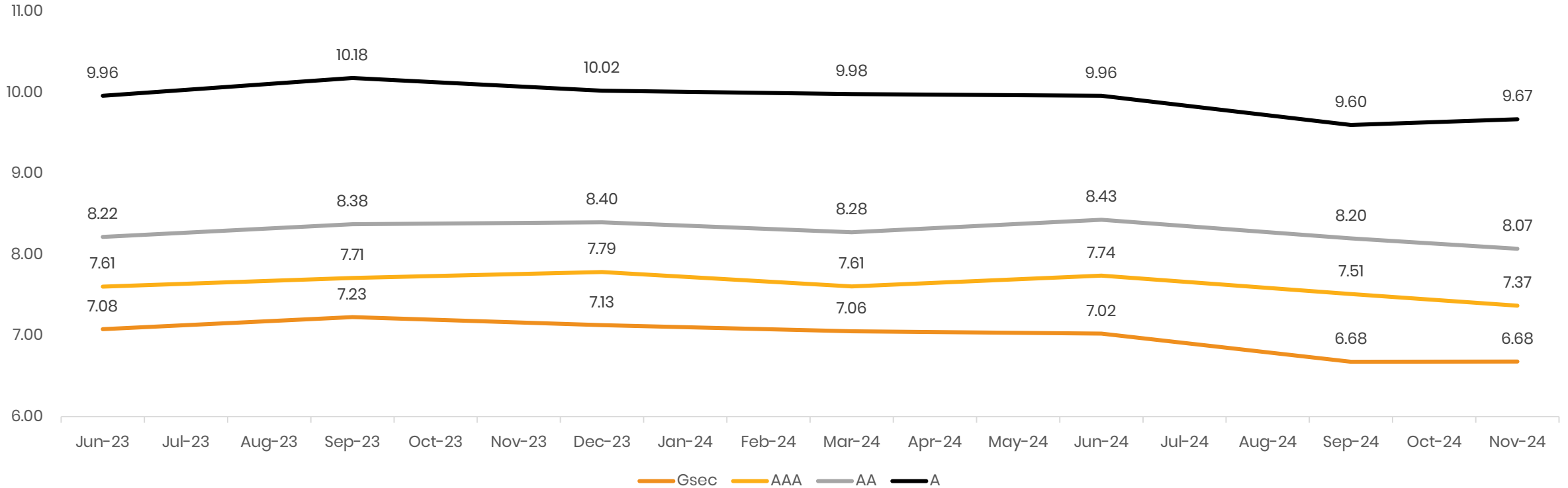
# The Shifting Landscape of G-Sec Yields



- In Nov'24, government securities yields declined or remained stable across all maturities, except for the 1 yr duration, which saw an increase.
- Yield spread between the 1 yr and 3 & 5 yr G-Secs is negative, indicating a significant yield curve inversion

# G-Sec yield spreads narrowed further with AAA & AA papers but widened with A-rated papers.

Credit Spread for 5 Year



- Credit Spread between **the Government sec & AAA rated sec** stands at **0.69%**, down from 0.75% in Oct, whereas with **AA rated sec it is 1.39%** v/s 1.40% in Oct
- It is **expected that the spreads will remain elevated** and widen a bit more in the near term once RBI starts cutting down the Repo Rates as Gsec are highly sensitive to Repo cuts.

# House Views & Recommendations

# Fixed Income Portfolio Strategy

With the evolving interest rate scenario, the fixed income portfolio should be **Overweight on Accrual Strategies and Neutral on Duration Strategies**

**With regards to duration**, since majority of easing of the yields in 10 y G-Sec has played out from 7.35% in Oct 2023 to 6.75% in Dec 24, we believe **only the last leg is left in terms of easing of yields** which can be played through longer maturity G-Sec Bonds/Funds, albeit interim volatility

**15% – 20% of the portfolio** should be invested in

- Actively Managed Duration Funds or Long Term (15 to 30 years average maturity) G-sec papers/funds

**Accrual can be played across the credit spectrum by allocating 40% – 50% of the portfolio** to Performing Credit & Private Credit Strategies, InvITs & Select NCDs

- **25% – 35% may be invested** in Performing Credit Strategies/NCDs and InvITs
- **15% – 20% may be invested** in Private Credit including Real Estate/Infrastructure strategies and select NCDs

**15% – 20% of the portfolio** may be invested in

- **Arbitrage Funds** (minimum 3 months holding period),
- **Floating Rate Funds** (9 – 12 months holding period),
- **Absolute Return Long/Short strategies** (minimum 12 – 15 months holding period)

For tax efficient fixed income alternative solutions, **20% – 25% of the portfolio may be allocated** in **Conservative Equity Savings funds** (minimum 3 years holding period)

# Recommended Mutual Funds : Debt

Scheme name	Fund Manager	Inception Date	Annualised Return					SI	Avg Maturit	Mod Duratio	Exp Ratio	Gross YTM %	Sov & AAA	Below AAA	Call & Cash	Unrated
			3 Months	6 Months	1 Year	3 Year	5 Year									
<b>Active Duration Funds</b>																
ICICI Pru All Seasons Bond Fund	Manish Banthia	Jan-10	7.3	8.6	8.5	6.6	7.5	8.8	5.5	3.5	1.3	7.6	64.7	29.8	5.3	0.2
<b>G-Sec Funds</b>																
BHARAT Bond ETF - April 2033	Dhawal Dalal,	13-Dec-22	9.1	10.7	10.8	--	--	8.6	8.1	5.7	0.0	7.2	94.6	--	5.4	--
HDFC NIFTY G-Sec Jun 2036 Index Fund	Anupam Joshi	15-Mar-23	7.3	9.9	11.4	--	--	10.1	11.4	7.6	0.4	7.0	99.1	--	0.9	--
Mirae Asset CRISIL IBX Gilt Index - April 2033 Index Fund	Amit Modani	20-Oct-22	7.4	9.9	10.2	--	--	9.0	7.9	5.8	0.4	6.9	97.2	--	2.8	--
<b>Credit Strategies</b>																
HDFC Ultra Short Term Fund	Anil Bamboli	24-Sep-18	7.1	7.1	7.4	6.2	5.7	6.2	0.5	0.5	0.7	7.5	89.9	5.6	4.3	0.2
ICICI Pru Ultra Short Term Fund	Manish Banthia	03-May-11	7.1	7.1	7.4	6.2	5.9	7.4	0.5	0.4	0.8	7.6	83.0	14.8	2.0	0.2
<b>Floating Rate Bonds</b>																
HDFC Floating Rate Debt Fund	Shobhit Mehrotra	Oct-07	7.35	8.23	8.31	6.71	6.74	7.78	4.33	1.36	0.49	7.71	81.79	14.30	3.64	0.27
ICICI Pru Floating Interest Fund	Rohan Maru	Nov-05	7.04	8.06	8.00	6.48	6.65	7.62	5.63	1.11	1.19	7.94	68.59	26.91	4.12	0.37
<b>Arbitrage Fund</b>																
Edelweiss Arbitrage Fund	Bhavesh Jain	Jun-14	6.4	6.6	7.8	6.3	5.4	6.1	0.4	0.4	1.1	7.2	13.4	84.8	1.8	--
Invesco India Arbitrage Fund	Deepak Gupta	Apr-07	6.2	6.7	7.7	6.7	5.5	6.6	0.5	0.4	1.1	7.0	2.8	20.8	76.4	--
Kotak Equity Arbitrage Fund	Hiten Shah	Sep-05	6.5	6.8	8.0	6.5	5.6	6.9	0.2	0.2	1.0	7.1	2.2	97.0	0.8	--
<b>Equity Savings Fund</b>																
ICICI Pru Equity Savings Fund	Dharmesh Kakkad	05-Dec-14	3.2	9.1	9.7	8.7	8.2	8.0	2.0	1.3	1.0	7.1	10.7	83.4	5.5	0.5
Kotak Equity Savings Fund	Devender Singhal	13-Oct-14	1.6	9.6	14.6	11.8	11.5	9.7	1.4	0.9	1.8	7.1	12.5	78.7	7.9	0.9

# Exclusive Offers



# Secondary Market Bond Yields

***EXCLUSIVE OFFER FOR THE DAY***						
ISIN	SECURITY DESCRIPTION	MATURITY	IP DATES	RATINGS	QUANTUM	YIELD
INE982X08109	13.85% Satya Microcapital Limited 2029	12-07-2029	Monthly	BBB+ CRISIL	Multiple Of Rs.5 Lacs	14.56%
INE0Z4807015	0% Cyqure India Private Limited 2028	17-03-2028	On Maturity	CARE BBB- Stable	Multiple Of 10 Lakhs	13.82%
INE549K08509	10.45% Muthoot Fincorp Limited 24/12/2032	24-12-2032	Monthly	AA-/STABLE	Multiple Of Rs.3 Lakhs	10.80%
INE348L07209	9.57% Mas Financial Services Ltd. 2027	21-06-2027	Monthly	AA- CARE	Multiple Of Rs.3 Lakhs	9.43%
INE338I07172	9.25% Motilal Oswal Financial Services Ltd. 2032	03-09-2032	Annually	AA CRISIL	Multiple Of Rs.10 Lakhs	8.72%
INE306N08078	9.25% Tata Capital Financial Services Limited 2025	22-07-2025	Annually	ICRA AAA	Multiple Of Rs.10 Lakhs (Upto 1.9cr Only)	7.46%
INE818F07286	8.89% Kerala Financial Corporation 13/03/2034	13-03-2034; 13-06-2034; 13-09-2034; 13-12-2034	Quarterly	AA BY ACUITE	Multiple Of Rs.5 Lakhs (Upto 70 Lakhs Only)	8.80%
INE018E08367	8.25% SBI Cards And Payment Services Limited 2034	08-08-2034	Annually	AAA ICRA	Multiples Of 1cr (Upto 2cr)	7.99%

# Thank You!

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Investment in securities market are subject to market risks, read all the related documents carefully before investing.

# Humbled to receive Multiple Awards



Consistently featured in '**Fortune 500 (India)**' from 2020 to 2023



Featured in '**Forbes Super 50 Companies**' in 2017.



Awarded '**Brand of the Year**' at the CNBC TV18 - India Business Leadership Awards 2018.



Inducted into the '**HALL OF FAME**' at the CNBC 10<sup>th</sup> Financial Advisor Awards 2019.



Enters the Limca Book of Records for creating **India's Largest Dealing Room** in 2009.



Consistently **ranked among the top 3 for Best Brokerage (India)** for over a decade at the Asiamoney Brokers Poll.