Debt Outlook

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Global Macro

Global growth is decelerating from the higher levels but remains steady. Strong labour market, high wage growth and excess savings are keeping the consumer spending elevated. Purchasing Managers Index are showing sectoral divergence with Manufacturing PMI showing weakness while Services PMI remains strong.

Headline inflation has come down and base effect has helped. But the core inflation has remained sticky and hasn't seen much deceleration in last few months. Goods prices have come down, but the services inflation has remained sticky.

Central banks are worried about the risk of inflation becoming entrenched at these levels. They would want to ensure that a constant progress is being made in bringing their favoured measure of inflation downward. Any signs of this not happening would make them more hawkish. Recently we have seen two large Central Banks Reserve Bank of Australia & Bank of Ceylon resuming their hiking cycle, after a brief pause, citing sticky inflation.

Central Banks were slightly late in starting the hiking cycle and they got a lot of stick for that. Looks like, they want to avoid any chance of erring on the same side again by being too dovish too early. If at all, Central banks would like to err on the side of being more hawkish at the margin. The bar for rate cuts is very high. We think rate cuts would be a story of 2024, only a significant deterioration in growth could lead to cuts in 2023.

Indian Macro

High frequency indicators suggest that a robust economic recovery is underway. PMIs are coming at near record highs, credit growth continues to remain high, services exports are doing well, GST numbers are strong and capacity utilization is inching up. Recent GDP data also surprised on the higher side mainly driven by capital formation and exports. However, consumption expenditure remains weak. We are positive on growth outlook and expect FY24 GDP in 6.25-6.50% range. The risk to growth could come from weak global growth or surge in commodity prices.

CPI has moderated to 4.25% mainly due to base effect and downward surprise in food inflation. Core remained sticky at high levels for long but is now showing signs of moderating. We expect FY24 CPI to average around 5%. The risk to inflation could come from disruptive El Nino causing surge in food inflation or surge in commodity prices.

On the external front, trade deficits have narrowed significantly, averaging $16.6 Bn in the first four months of CY2023 vis a vis $24.9 Bn deficit in the last four months of CY2022. Services exports are also strong and are tracking about $ 155 Bn annual run rate. Due to these factors, our FY24 estimate of CAD is a comfortable 1%.

Overall, growth is good, Inflation is moderating, cash available for distribution is comfortable, Supply side reforms are being executed and Balance Sheets of corporates & lenders are healthy. We are doing reasonably well in terms of Macro Stability.

RBI Policy and Market Outlook

The MPC kept policy rates and stance unchanged in the June Monetary Policy. The commentary in the governor's statement and post policy press conference was on somewhat hawkish side, with RBI expressing confidence on strength of growth, and repeatedly referring to importance of inflation aligning with the 4% target and not being satisfied with inflation merely coming within the 2-6% zone.

We are constructive on growth outlook and believe that the rate cuts will be delayed. We do not expect any rate cuts in FY24. Evidence of slowing growth and further moderation in core inflation will be needed before RBI pivots toward easing.

We like the short end of the yield curve which allows us to earn healthy accruals without taking significant duration risk. We find the long end rich with the large supply overhang meeting a narrow term premium. We advocate investors having a 3 – 12 months investment horizon to match their investments with the duration of the fund and consider investing in our ultra short duration fund, low duration fund or Floater fund category. Investors having a horizon of 12 months+ can look at investing actively managed funds and can consider our Corporate Bond Fund, Short Duration Fund, or Banking & PSU fund category. Long term debt investors having an investment horizon of 3 years+ can look at our dynamic bond fund or our target maturity debt funds category.

Sources: Reserve Bank of India, World Bank, International Monetary Fund, Bloomberg, CEIC

Date of data: 12th June 2023

Our Recommendations

Approach	Fund	Investment horizon
Very Short Duration	Aditya Birla Sun Life Liquid Fund	7 days -1 month
Very Short to Short Duration	Aditya Birla Sun Life Savings Fund	1 month -6 months
Short Duration	Aditya Birla Sun Life Low Duration Fund	6-12 months
Accrual Strategy **with High Quality Credit**	Aditya Birla Sun Life Corporate Bond Fund	1-3 years
Active Management	Aditya Birla Sun Life Dynamic Bond Fund	Above 3 years
Accrual Strategy **with High Yielding Credit**	Aditya Birla Sun Life Medium Term Plan	Above 3 years

None of the aforesaid recommendations are based on any assumptions. These are purely for reference and the investor are requested to consult their financial advisiors before investing.