

# DEBT OUTLOOK

NOVEMBER 2024



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Politics has been the mother of all macro events and recent outcome of the US election just proved that. Donald Trump's election as US President had been partly priced in by financial markets in the run up to election outcome. As the result became clearer, US equity markets advanced to new highs, bond yields ticked higher, and the US dollar gained ground against other major currencies. The markets' moves reflect investors' consensus that the incoming administration will pursue a broadly pro-growth agenda for US i.e. cutting corporate tax rates, expanding the US fiscal deficit, reducing regulation and imposing tariffs on imports into the US. These views are based on election rhetoric and clues from Trump's first term. Outcome of these measures are likely to prove inflationary.

While markets are celebrating the potential policy induced growth prospects, there are limitations of wider budget deficits, inflationary pressures and currency adjustments. Overall macro set up is very different from 2016-2018 period and such frictions have turned out to be broadly a zero-sum outcome. This leaves "checks and balances" to overall decision-making space. Hence monetary policy making is in a tricky position unless more clarity emerges on timing and sequencing of policy changes. For now, we maintain our view that nothing changes for Fed in policy path in the short term.

Indian markets are also impacted in evolving global paradigm but has turned out to be low beta with INR outperforming EM currency basket and Indian yields were also quite well behaved. On the risk side, India runs a significant trade surplus with US, INR has also been put on the monitoring list of currency manipulation in the US Treasury report and India has been identified one of the 12 countries most at risk of US tariff. However, India also stands to gain significantly by diversification from China which is likely to bear the brunt of US policy, and likely to benefit from lower crude prices. We thus believe that India will continue to be less vulnerable to trade policy changes in the US and has potential to benefit out of it.

Locally, high frequency indicators have been generally mixed month on month and suggestive of an economy growing at somewhat lower pace compared to last year. Among major indicators IIP contracted in August, while credit growth moderated. However, tax collections and fuel consumption points to decent numbers but growth rate is decelerating. Rural demand improved in H1FY25, whereas urban demand reported flat growth during the same period. Heavy rainfall in the September quarter may be contributing to some weakness in activity. We expect Indian growth in FY25 to be between 6.5-6.75%, lower than the RBI estimate of 7.2%.

Inflation has seen some upside pressure in September and October due to base effect lead reversal and some weather disruptions affecting food prices. However, the disinflationary pressure will continue from November onwards. RBI has also hinted that it will wait for the near-term inflationary hump to pass and not react too much to it. RBI communication continued to be neutral with MPC members highlighting some growth moderation but still not comfortable enough on inflation to start cutting rates in next policy. Last October monetary policy was status quo on rates but showed a dovish tilt with stance changed to neutral from "withdrawal of accommodation". For almost 3 years, inflation has dominated growth for primacy in importance for monetary policy decision making. Going forward, growth outcomes will significantly influence the direction of policy. We believe that RBI has laid the groundwork to cut rates at an upcoming meeting as they gain greater confidence on inflation and potential volatility induced by new administration in the US. We believe that slowing growth and stabilisation in geopolitics (and therefore commodity prices) and a good kharif output will enable the MPC to cut rates by 75 bps in 2025.

Contd...

Government fiscal account remained comfortable with headline fiscal deficit in first half of the fiscal at only 29% of full budgeted year, compared to median value of more than 50%. There was pick-up in government expenditure but the surge in tax collection was higher. India's tax collections continue to be very robust, and government is on course to steady reduction in fiscal deficit in the next two years. This together with strong buying from FIIs and large domestic investors like Pension Funds, Insurance and Banks means that demand-supply in Indian government bond market remains skewed. In this backdrop, given superior macro setup, we don't expect material change in our outlook on Indian bonds. We continue to expect reduction towards 6.50% in bond yields in 2025, on the back of RBI monetary easing, lower inflation, fiscal consolidation and demand outstripping supply. Banking system liquidity has eased durably and provides relief to short term rates as well.

We believe that investors should continue to add duration to their portfolios and take benefit of any intermittent sell-off through short-term funds (Short-term fund, corporate bond fund, and Banking & PSU fund). Ultra short-term investors should look to invest in money market, ultra short-term funds and low duration funds incrementally as accrual strategy to reduce reinvestment risk over overnight and liquid fund.

Source: CEIC, Bloomberg, RBI

Issuer(s) / Stock(s) / Sector(s) mentioned above are for the purpose of disclosure of the portfolio of the Scheme(s) and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the same, from time to time.

### 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 advisors before investing.

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