

CONVERSE

by **DSP** MUTUAL FUND

June 25

RALLY HAS ENDED, BUT DON'T FLEE

... Range is the new normal



THE RALLY IS OVER

but stay long as yields settle lower

For more than two years we advocated lower yields. There was no reason for any investor to avoid a duration position.

No More. We believe the multi year rally in bonds is behind us. However, paradoxically, we ask you continue long bonds. Why?

Simple. The markets are in a range-trading zone and at current levels we are at the higher end of the range.

The yields will find hard to breach the upper range as the CPI & GDP are low, and currency stable. Lower trader risk appetite, at multi-year low yields may put pressure - but after the recent 15bp sell-off that looks unlikely - positions have got pruned.

Yields will find it hard to breach lower range as only a large trigger breaks 6% in 10Y (covid/demonetization?).

Even the term premium is at a higher range. The overnight vs. 10-yr rate at 100 bp is high. Historically, when no rate hikes are expected (as now), and no dramatic liquidity tightening is expected, this spread has been sub 100bps. Even the 30-year bond spreads are high and should fall down.

We said in last CONVERSE that we expect curve to steepen - yet prefer duration. Why? Because if yields gravitate lower, for cash participants, the higher duration can make up for any yield steepening. We maintain the view.

Finally, with the new HTM guidelines yields will be volatile. No RBI OMO to calm markets - low PSU HTM buys to ebb volatility. Its regime shift. Returns will depend on tactical calls, not strategic positions. In near future, our funds will reflect this.

OUR POSITION

(i) spread assets & (ii) in-out tacticals

So far, we had a core strategy of being in long duration and corporate bonds.

Today **the duration is no more a part of our core strategy**. By “core strategy”, we mean a strategy that will outperform with strong odds over a course of few quarters.

Yet, we have a view that

- (i) liquidity will remain abundant,
- (ii) markets will be volatile,
- (iii) 10Y yields will trade in a range of 6.35%-6.15%,
- (iv) currently we are at higher end of range,
- (v) tail risks could breach lower end of 6.20%.

In such a scenario we prefer

- (i) assets giving higher stable yields, **namely corporate bonds**,
- (ii) assets that will namely benefit in trading range, **namely duration at ~6.35%**

Thus, our funds will continue to have high proportion of corporate bonds (as we said in last CONVERSE) as it remains our core strategy. However, when yields rise up our proportion of long bonds will increase - leading to a higher duration.

Chances are DSP funds will be at lower duration compared to the past two years of historical duration, but still high enough duration in coming months to benefit from yields reverting to lower range.

Yields to trade in a range with volatility

		Q2FY26	Q3FY26	Q4FY26	FY27	SLIDES #
MONETARY POLICY	INFLATION	Inflation expected to remain low				#16
	GROWTH	Growth robust, with chinks	Risk of slower growth due to tariff war and global uncertainty			#17
	CURRENCY	Currency stable, but decrease in Forward position and tariffs uncertainty to put upward pressure				#19 & #20
FISCAL POLICY	SUPPLY	Overall supply has increased marginally, switches to impact belly				#28 & #30
	DEMAND	Demand supply mismatch				#28, #29, #30, #31
	FPI FLOWS	Active FPI demand to remain muted barring Index Inclusion (Bloomberg) related inflows				
MISC	COMMODITIES	Prices hardened. No strong view				
	GEO-POLITICS	Escalation of geo-political tension and US tariffs uncertain				
	GLOBAL YIELDS	Global rate cuts on pause	Difficult to predict macros in future			#11
	REGULATIONS	Bank HTM regulatory changes will keep yields volatile				

Q&A

Will there be further rate cuts?

RBI has not said that there will be no more rate cuts. In fact read a few quotes after the MPC from the governor (the **red** highlights are hawkish, the **green** highlights are dovish)

- **Under the present circumstances**, monetary policy is now left with **very limited space to support growth**
- The **bar for further cuts is higher** but **isn't completely off the table**.
- **Global backdrop remains fragile** and highly fluid...**uncertainty around the global economic outlook has somewhat ebbed**... however, it is still high
- **GDP... at 6.5% is good**, but there is **scope for improvement**.
- While **3% appears to be a comfortable reserve ratio for now**, it's important to **note that this may change** .

The quotes seem balanced showing the neutral nature.

And while a rate cut pause is certainly given - the question is for how long will the rates remain at pause?

We believe that rates could be cut if

- India's GDP numbers show much below 6.50%
 - Global growth falling, leading to global rate cuts
 - US/India tariff talks fail, risking growth slowdown
- or rates could remain on pause if
- India or global growth strengthens
 - Inflation risk through oil or currency.

All the above scenarios are long drawn out, apart from tariffs.

Thus, there are high odds that this is an extended pause.

Q&A

Will RBI do VRRR for higher o/n rate?

There have been discussions if RBI may reintroduce the VRRR.

What will the reintroduction achieve?

It will set-off 1 rate cut and will bring the overnight rate 20bp higher (from SDF to repo).

Why RBI may want to introduce it?

The arguments for reintroduction is that the RBI has already announced a neutral policy. In such a case, the overnight rate should track repo.

Why will RBI not introduce it?

While RBI may have announced neutral stance, but that stance is inclusive of RBI's actions and is forward guiding. The MPC's frontloading of 50 bps rate cut, against market expectations, signals a pro-growth and liquidity-supportive stance.

If the RBI intends to start with Variable Rate Reverse Repo (VRRR) auctions, it may undermine the policy's intent:

- Draining liquidity, counteracting the upcoming CRR cut and reduces banks' incentive to lend.
- Increasing cost of funds, especially short-term, discouraging credit off-take at a time when demand is already tepid.

This will send conflicting policy signals, potentially confusing market participants and reducing the effectiveness of the frontloaded rate cut. We saw a short trailer as the yield curve went higher than pre-MPC levels despite 50bp rate cut.

If RBI were to come with VRRR, it may create more damage.

Q&A

What to expect in liquidity?

Surplus. Very surplus.

The total core liquidity currently ~ Rs 6 lac cr. Till Dec 2025, following are the expected liquidity changes:

- Liquidity should increase over the course of next quarter
 - Currency in circulation should reduce
 - RBI should slowly expire its deliverable forwards
- Thereafter in Q3FY26, liquidity should increase further
 - Naturally liquidity should decrease due to increased Currency in circulation and NDTL
 - But, RBI's CRR decrease for Q3FY26 would overwhelm this

Thus, the rest of the year should see significantly flush liquidity, with only the Q4FY26 leading to any tightening.



Q&A

What to expect in rest of FY26?

In the February edition of CONVERSE, we had mentioned that the yields will fall, but unlike FY25, the yield fall will be volatile.

So far, this has proven correct. However, navigating this volatility is, and will remain, a challenge.

We believe that going forward there will be even more volatility as the Indian fixed income markets let go of the calmness of the previous years.

With no RBI OMOs expected, there will not be an RBI put anymore. This will lead markets to exit their longs in vicious sell offs.

However, during rallies there will be market participants entering to initiate new longs.

The bankers have lesser “contrarian” power in this era of new HTM regulations. Thus, there will not be a “contrarian” position taking to dampen the whiplash.

Nonetheless, we will see yields gravitate lower than where they are. How long they stay lower is anyone’s guess.

A higher CPI, or lower growth will keep us all on our toes as that may just break the range of the year.

Q&A

What to expect in long bonds?

The demand supply dynamics had already started weakening in long bonds. While the supply did not increase substantially, but the switches did not help. Moreover, RBI sell off.

We had expected a steeper curve in last CONVERSE, but we still preferred them as we expected yields to fall and a bull steepner would have still benefitted long bonds - even if curve steepened.

However, the pace of steepening of the curve surprised us.

The major reason for the steeper curve is LIC reducing the share of it's debt AUM to equities. This has meant substantial lesser purchases in long bonds.

While this trend was continuing for the past 2 years, we believed that at such low debt levels, LIC should probably stop the trend.

It hasn't occurred and the hit on long bonds has been hard.

We have slowly reduced our long bond positions (from 80% in some funds to 50%). We still believe that the mean reversion in spreads will mean that long bonds are not a bad position - but we will not add further as we do not want to predict LICs decision - it is beyond our analytical scope.

Q&A

...so yields will remain in range?

Most probably yes, the yields will remain in a range.

As mentioned earlier, most of the events that can lead to yields change are infrequent data releases like GDP, be it India or US.

While we do not expect a fall or rise in US yields to impact Indian yields - but change in US FED's rate cut probability should surely impact our yields.

However, the most realistic reason that Indian yields could breach on the lower side is if growth pangs - probably triggered by frequent RBI speeches, or tax numbers. The actual GDP numbers are still a quarter away. An expectation of sub 6.5% GDP numbers will make markets wary.

The most realistic reason that yields may rise should be higher inflation. Currently, the complacency on low inflation is quite high. However, one must remember that Inflation in India is very difficult to predict and is quite random. A higher than expected inflation could spook the markets - even if it may not spook RBI.

Until we find any of these things panning out, we believe that the yields are in a range.

DSP

#INVESTFORGOOD

June 2025

Two-year rally has ended *- But don't flee*

DSP CONVERSE



Our Framework

Monetary Policy

Inflation

- May CPI at 2.82% (lowest since Mar'19)
- Core CPI still remains comfortable
- Oil prices, however, could pose risk

RBI regime is downplaying CPI – forecast @ 3.7% vs <3.5% of economist, and ignoring real rate ~2.7%

Growth

- Urban consumption remains weak
- Even though, there has been some front loading in the Govt capex
- Credit growth remains moderate

RBI regime: More Important as Gov remains pro-growth

Currency/CAD/BOP

- RBI not worried about orderly depreciation of rupee
- Weaker INR keeps exports competitive

RBI regime: Less worried about currency

Fiscal Policy

Supply

- FY26 G-sec borrowing low (although slightly higher vs expectations)
- Switch auctions increased to 2.5lac from 1.5 lac crores last fiscal

This will impact the duration curve

- No increase in T-bill supply
- SDL supply to increase in line with nominal GDP growth

RBI regime: Short term supply & rates important for transmission

Demand

- Demand supply mismatch in FY26
- RBI OMO is now behind us (~2.4 lac crores already done in the current FY)
- Demand from insurance and NPS to come down as they increase equity component
- At current level of yields, FPI demand to remain muted. Also, trader risk appetite will be low

RBI regime: Unimportant/Ignored spreads

Miscellaneous

Global Yields

- US FED on wait & watch mode
- Labor market solid & PPI is above 2% mark
- Evolving policy level changes (after Trump)

RBI regime: Less important- inward looking RBI

Geopolitics

- US tariffs a major uncertainty
- Uncertainty in Ukraine, US-China & Gaza
- Escalation of Iran/Israel war and worsening of Indo-Pak relations

RBI regime: Less important- inward looking RBI

Commodities

- Prices hardened. No strong view

Regulatory changes

- Bank HTM changes will lead to more volatility

Positive

Negative

Neutral

Takeaway:

With US Fed on PAUSE & no major trigger domestically, India yields to remain range bound (with some volatility)

Remain long, play tactical

Rally is over

Markets to remain in range

Current yields at the higher end of range

Why is rally over?

Slightly negative **demand/supply** priced in

RBI actions **priced in**

Why will market trade in range?

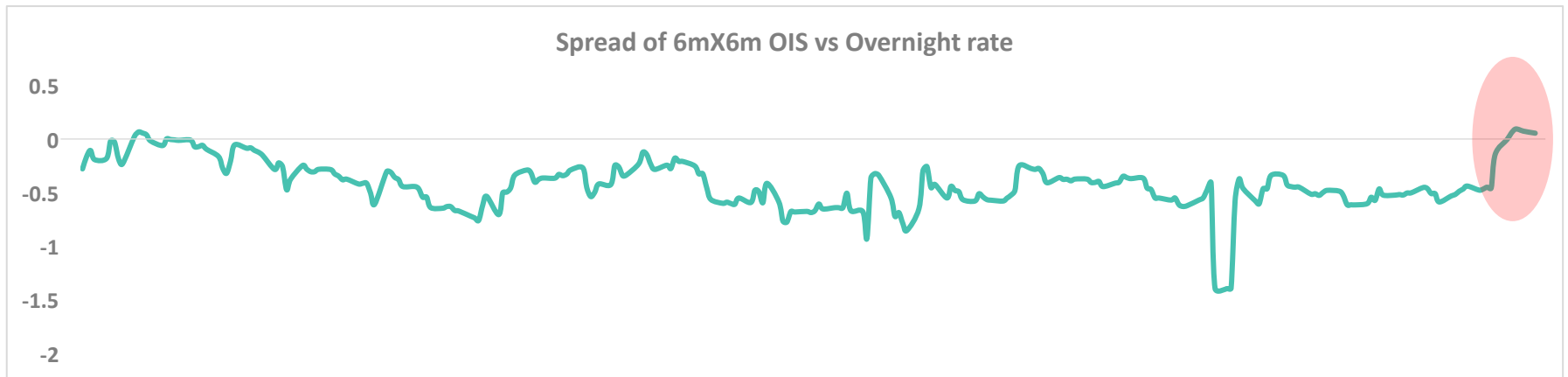
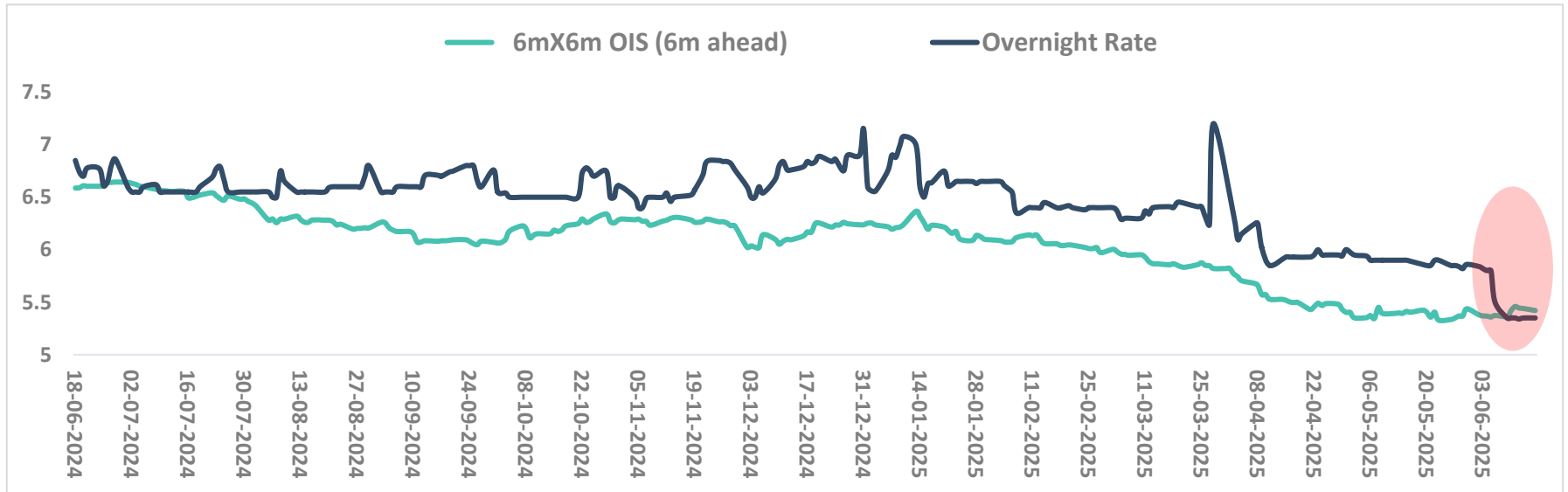
Bank AFS trades to bring **volatility**

Top range break unlikely (↓CPI, ↓GDP, ↔FX)

Bottom range break data dependent

RBI rate actions priced-in

- No spread between Overnight rates and 6m OIS expected 6 m ahead (6mX6m OIS)
 - ✓ Indicating no further rate action expected in the near term



Yields to remain range bound

➤ 10Y to remain range bound (6.35-6.15 band)

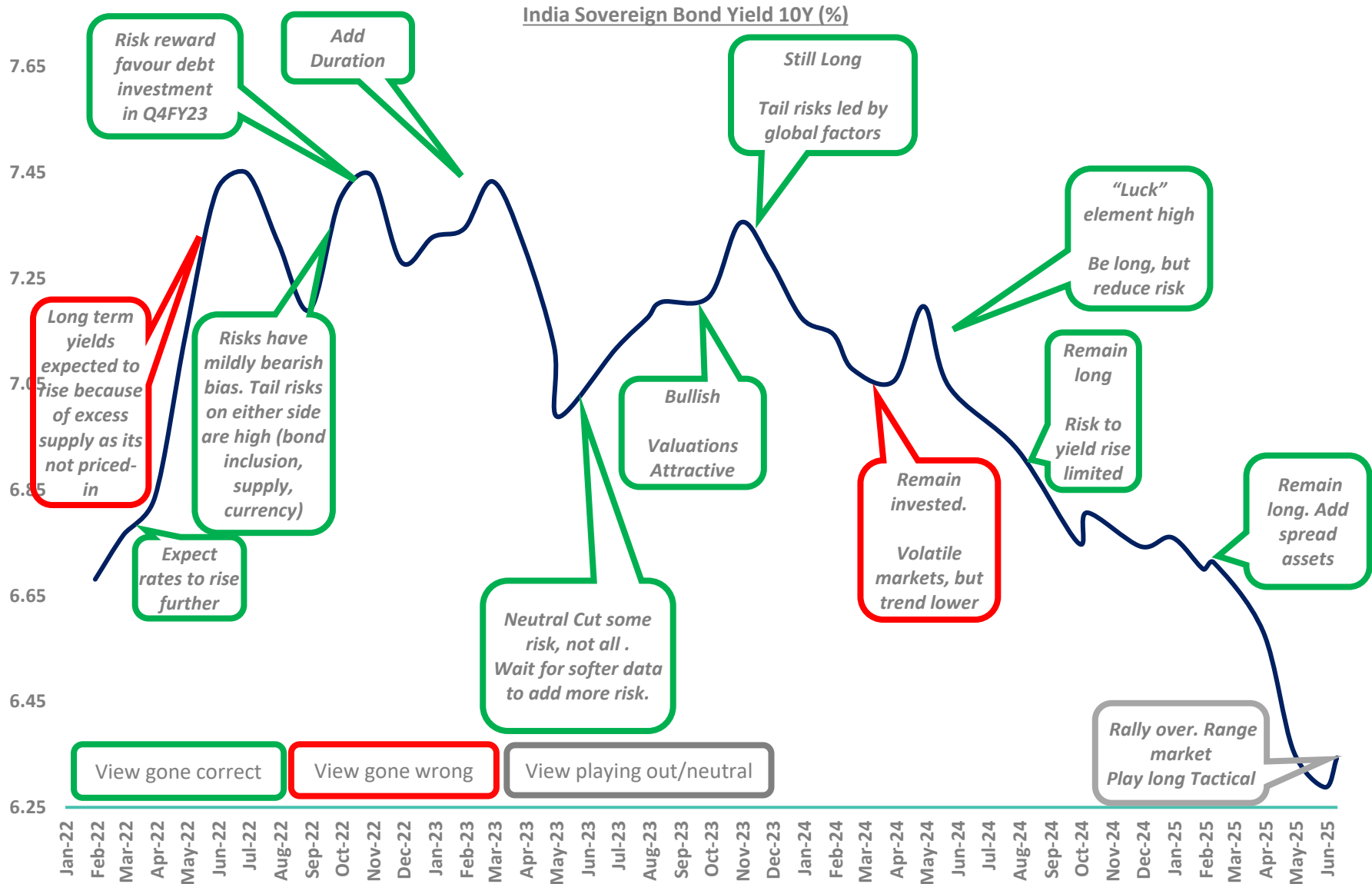


SUMMARY

Let's revisit our rates call

Let's revisit our rates call trajectory

TRAJECTORY



To start with,

**Recap of events since last
DSP CONVERSE release**

RBI on pause now - after 100 bps rate cut

RBI continues liquidity infusion

Fed continues in wait and watch mode

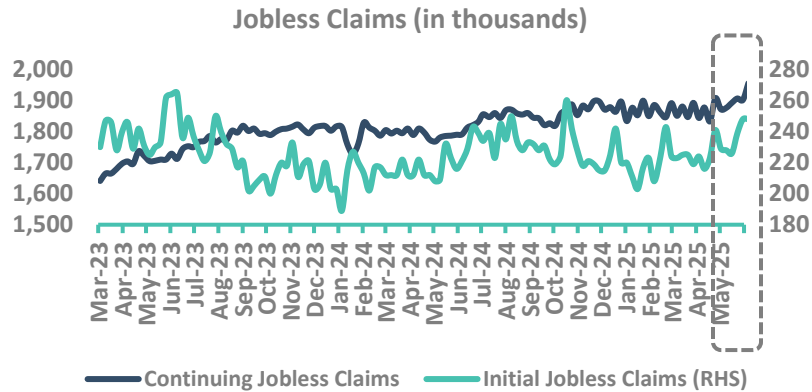
Geo-politics further escalated

Tariffs war still uncertain

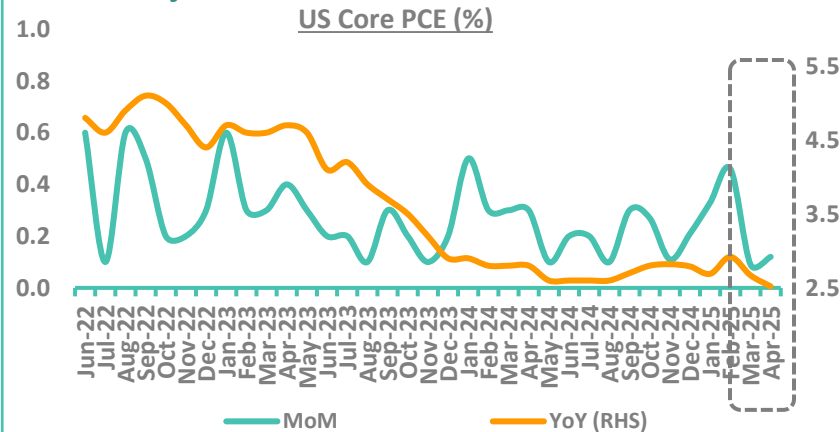
A “patient” Fed watching data

WHAT HAS CHANGED

➤ The US labor market conditions remain solid



➤ And inflation continues to run above the longer run objective

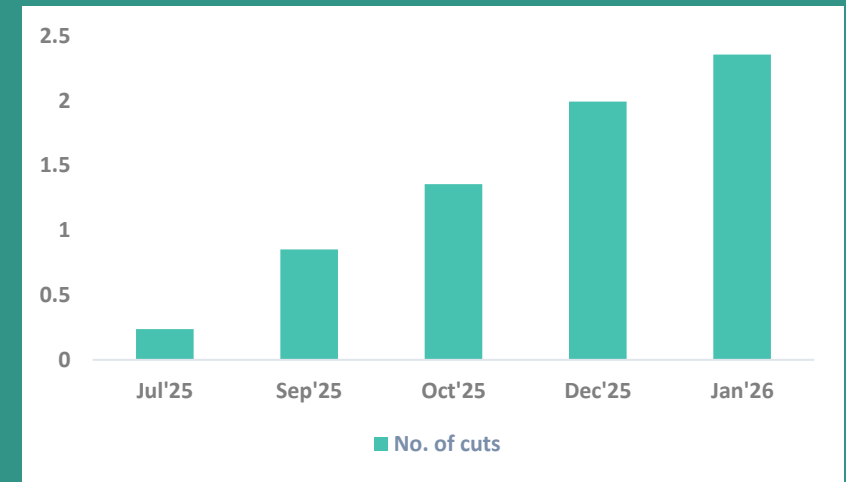


➤ Risks of higher unemployment & higher inflation have risen

➤ New Admin in process of implementing substantial policy changes/situation still evolving

➤ Further policy action to be based on the incoming data

➤ A rate cut expected in Oct policy



Takeaway:

Fed to be in wait and watch mode for now

Now our framework

And

What we track

Our Framework

Monetary Policy

Inflation

- May CPI at 2.82% (lowest since Mar'19)
- Core CPI still remains comfortable
- Oil prices, however, could pose risk

RBI regime is downplaying CPI – forecast @ 3.7% vs <3.5% of economist, and ignoring real rate ~2.7%

Growth

- Urban consumption remains weak
- Even though, there has been some front loading in the Govt capex
- Credit growth remains moderate

RBI regime: More Important as Gov remains pro-growth

Currency/CAD/BOP

- RBI not worried about orderly depreciation of rupee
- Weaker INR keeps exports competitive

RBI regime: Less worried about currency

Fiscal Policy

Supply

- FY26 G-sec borrowing low (although slightly higher vs expectations)
- Switch auctions increased to 2.5lac from 1.5 lac crores last fiscal

This will impact the duration curve

- No increase in T-bill supply
- SDL supply to increase in line with nominal GDP growth

RBI regime: Short term supply & rates important for transmission

Demand

- Demand supply mismatch in FY26
- RBI OMO is now behind us (~2.4 lac crores already done in the current FY)
- Demand from insurance and NPS to come down as they increase equity component
- At current level of yields, FPI demand to remain muted. Also, trader risk appetite will be low

RBI regime: Unimportant/Ignored spreads

Miscellaneous

Global Yields

- US FED on wait & watch mode
- Labor market solid & PPI is above 2% mark
- Evolving policy level changes (after Trump)

RBI regime: Less important- inward looking RBI

Geopolitics

- US tariffs a major uncertainty
- Uncertainty in Ukraine, US-China & Gaza
- Escalation of Iran/Israel war and worsening of Indo-Pak relations

RBI regime: Less important- inward looking RBI

Commodities

- Prices hardened. No strong view

Regulatory changes

- Bank HTM changes will lead to more volatility

Positive

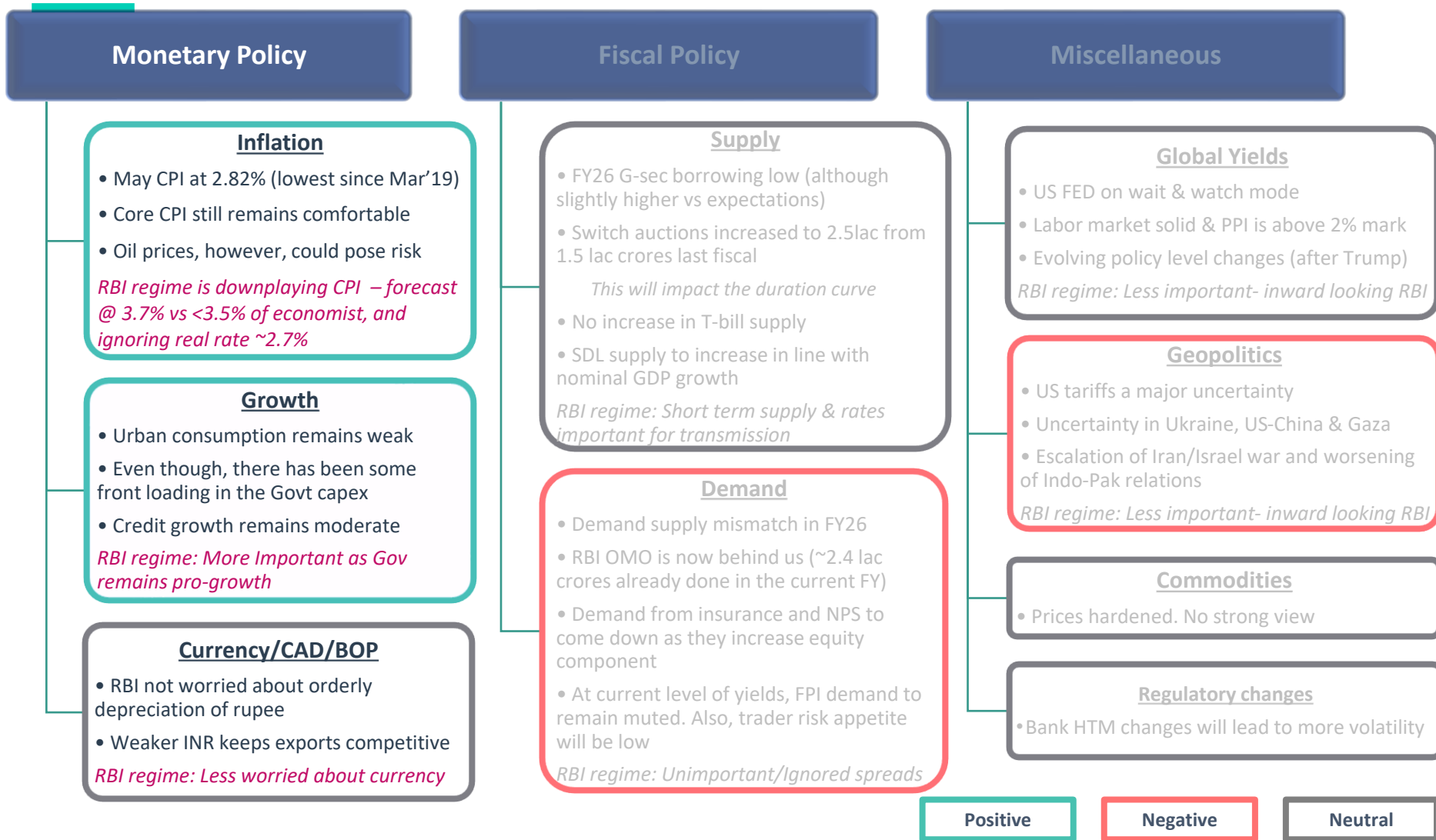
Negative

Neutral

Takeaway:

With US Fed on PAUSE & no major trigger domestically, India yields to remain range bound (with some volatility)

Our Framework



Takeaway:

With US Fed on PAUSE & no major trigger domestically, India yields to remain range bound (with some volatility)

Growth remains weak

Inflationary pressures seems contained

**RBI back to “Neutral” stance after
delivering a cut of total 100 bps**

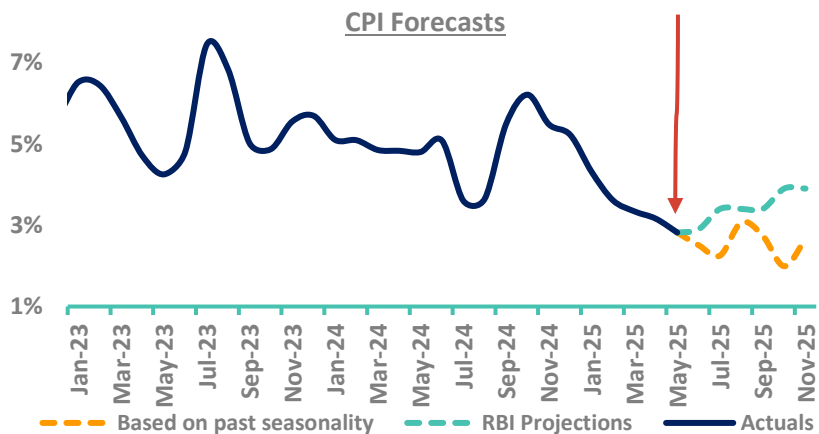
Core CPI remains comfortable. Risks seem contained

➤ CPI risk remain muted (latest print <3% mark)

- May CPI moderates further to 2.82% vs 3.16% in Apr
- Food prices in deflation for 5th consecutive month
- Led by vegetable, pulses and spices prices
- Oil price could pose risk, even though its comfortable as of now

➤ Core CPI rose to 4.3% vs 4.2% (last month).

- Excluding gold, it declined marginally



➤ Do yields track inflation projection? No.

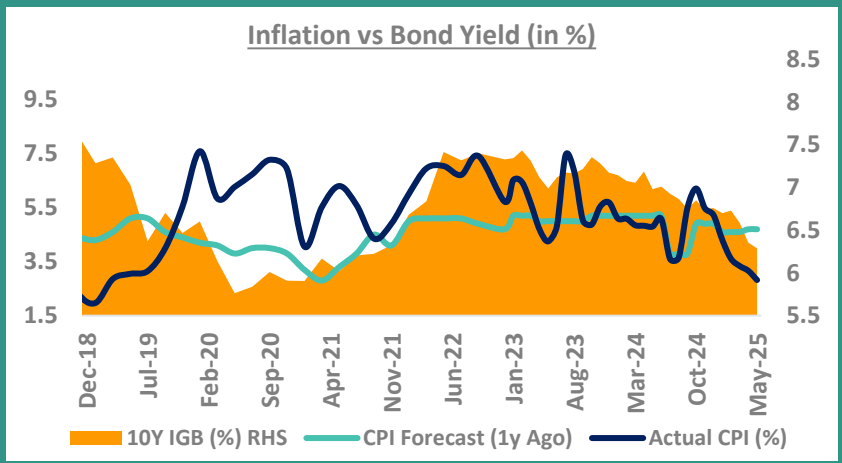
- Orange area (chart) is 10Y yields, Blue line is CPI

➤ Can forecasters predict India CPI? No.

- Green line is forecasters CPI 1-Yr ahead prediction
- Blue line is where inflation actually came
- Guess the error of margin!

➤ CPI forecast correlated (not causality) to yields

- Low predictive power, high current correlation



Takeaway:

Domestic inflation risks seem contained. Further geo-political escalation, however, could pose risk.

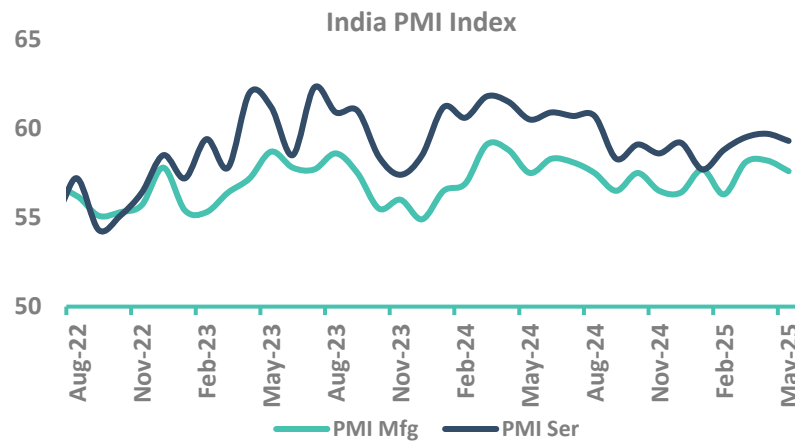
Domestic growth remains weak

➤ Sluggish domestic growth

- Consumption demand continues to remain weak (as reflected in the FMCG and FMCD results guidance)
- Even though, the Govt has front loaded its capex (up 61% in 1mFY26 over last year)

➤ Credit growth remains weak

- Unsecured PL (9% YoY vs 18% YoY last year) and loan to NBFCs (3% YoY vs 15% YoY last year) have moderated
- Housing loan growth lower at 10% vs 37% last year
- Credit to industry remains weak at 6.6% YoY

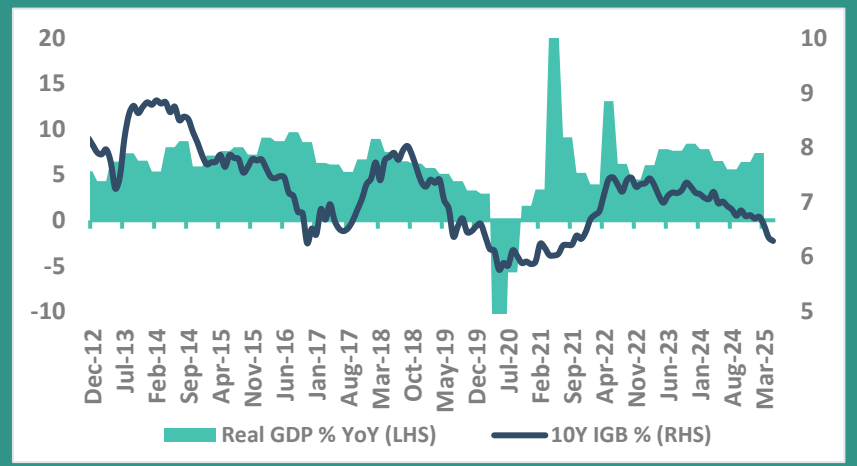


➤ How closely do yields track growth?

- Yields have usually tracked GDP growth, with correlation stronger when growth slows, barring
 - ✓ 2013, rupee depreciation and debt outflows
 - ✓ 2017, during demonetization

➤ FY26, growth, if undershoots, may prompt further policy actions from RBI

- *Current RBI Regime growth focused (unlike Mr. Das)*
- This might drive yields further lower



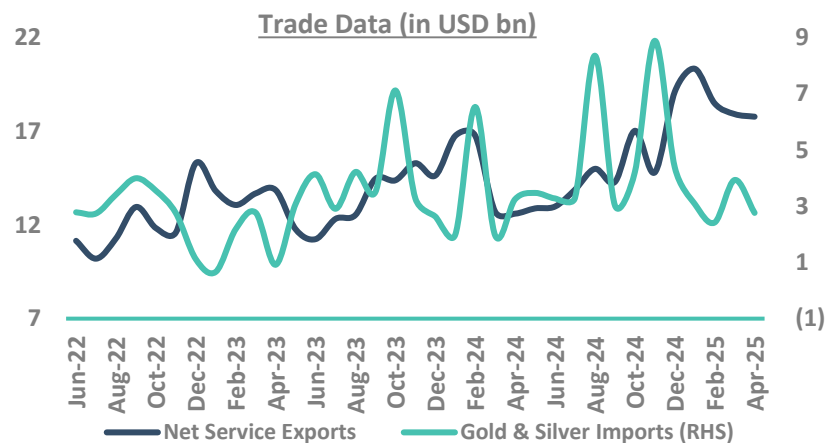
Takeaway:

Growth fails to pickup as urban consumption and private capex remains weak

External sector metrics is stable

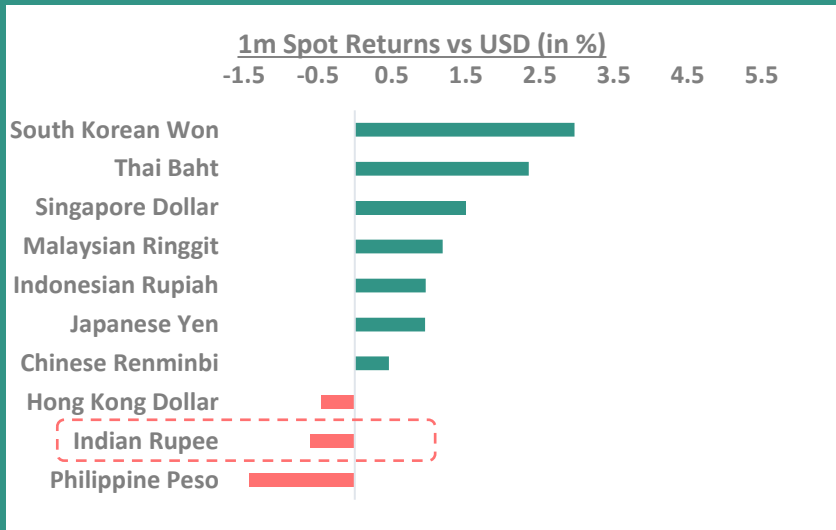
- **FX reserves again nearing \$700 bn record mark**
 - Latest print at \$696.7 bn

- **Apr trade deficit widened to 5-month high of \$26.42 bn**
 - As imports were up by 19.12%, led by ~20% YoY increase in non-oil imports
 - Services trade surplus continues to hold steady



- **Rupee has lost value as compared to its Asian counterparts**

- **RBI to allow orderly depreciation of rupee**



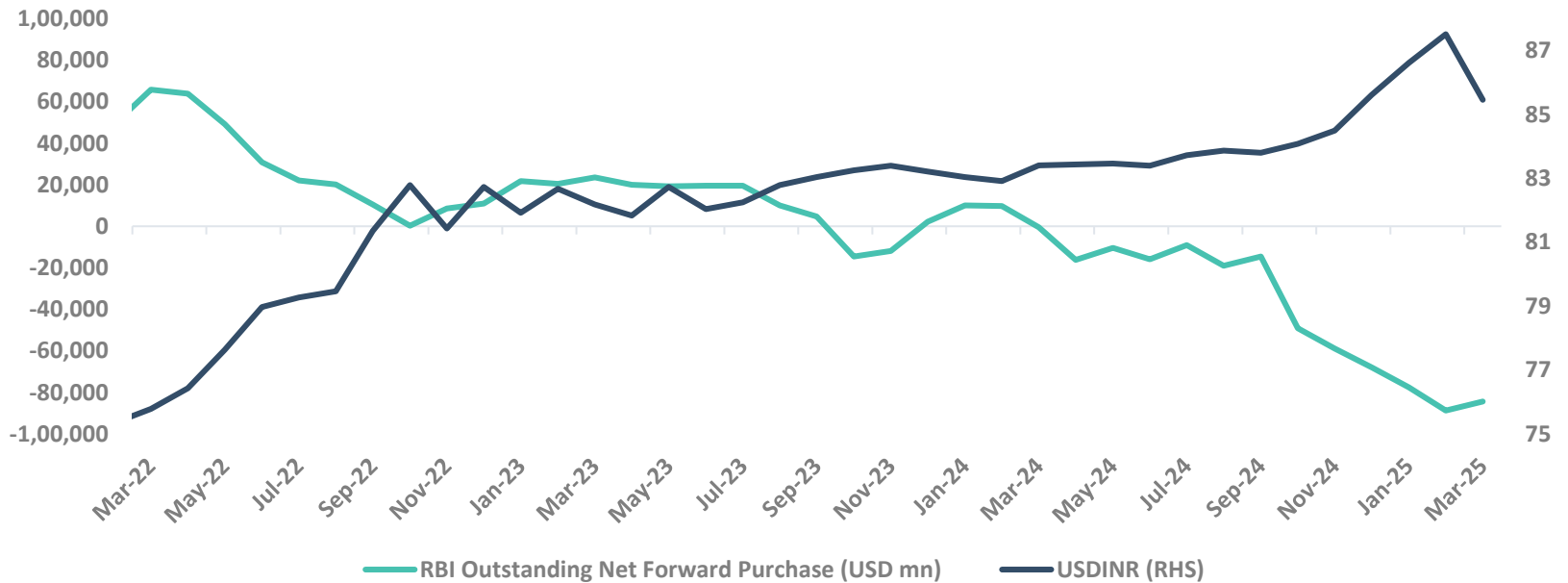
Takeaway:

Nearing record forex reserves and orderly depreciation of rupee provides stability to external sector metrics

Rupee Depreciation

- RBI will gradually reduce the lopsided RBI forward positions
- Should lead to gradual depreciation

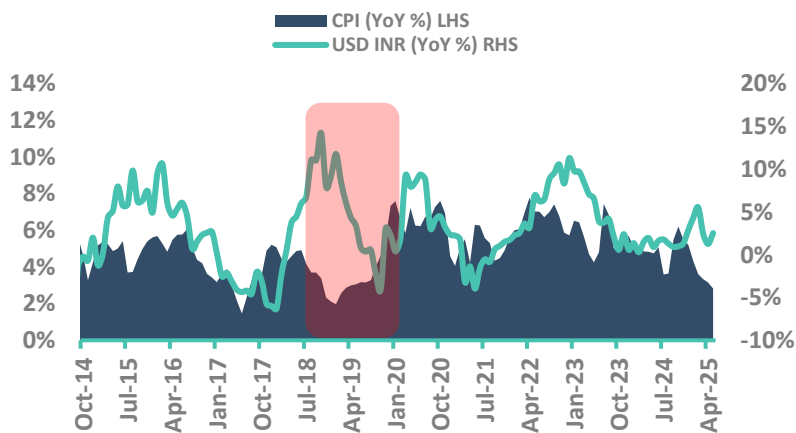
✓ As evidenced in past few months



Rupee depreciation to pose mild inflationary pressure

Rupee and Inflation have a strong correlation

- There is a strong correlation between rupee movement and CPI (barring 2018-2019)
- Reaffirms that India bears risk of imported inflation
- India CPI to face upward pressure due to higher rupee

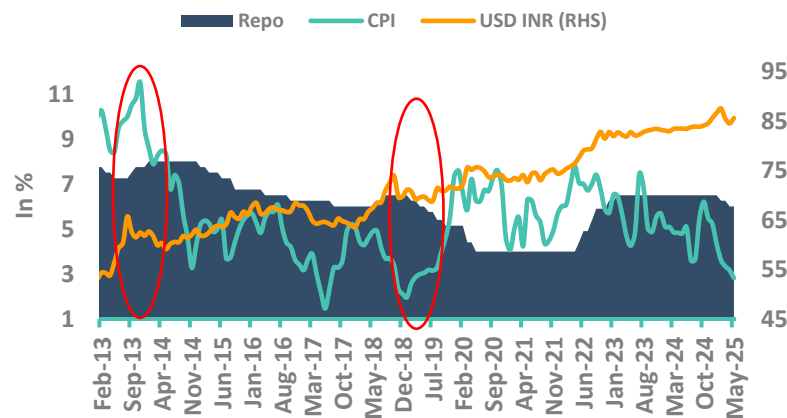


RBI has in past acted swifter to protect currency than inflation

- In 2013 and 2018 RBI increased rates when rupee depreciated
- In 2018, inflation was within RBI's target levels

This time it's different?

- RBI comfortable with notion of (orderly) INR depreciation) and yet provide rate/liquidity comfort
- Volatile geopolitics may affect BoP in the near term

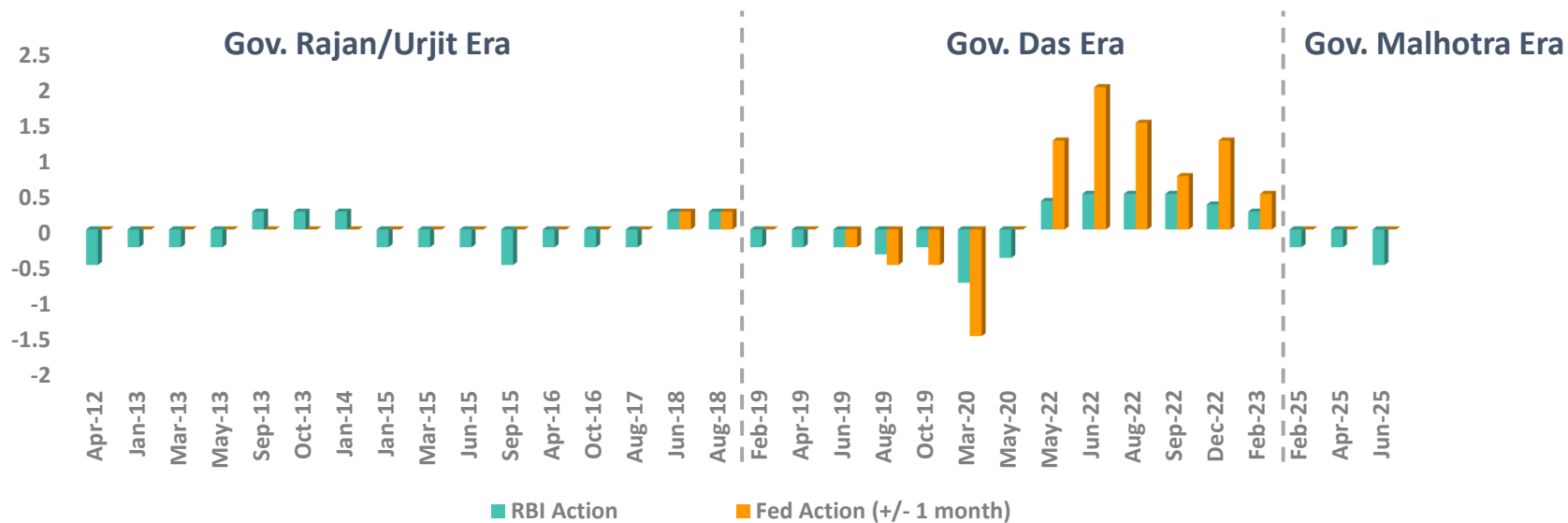


Takeaway:

RBI to look through imported inflation unless it becomes extreme

RBI is (as other central banks) driven by the Governor

- Governor Rajan and Governor Das had different decisions based on same data
- Governor Malhotra has
 - ✓ hitherto been more dovish based on same data
 - ✓ been more front loading the policy and liquidity actions
 - ✓ Been less guided by global rate actions

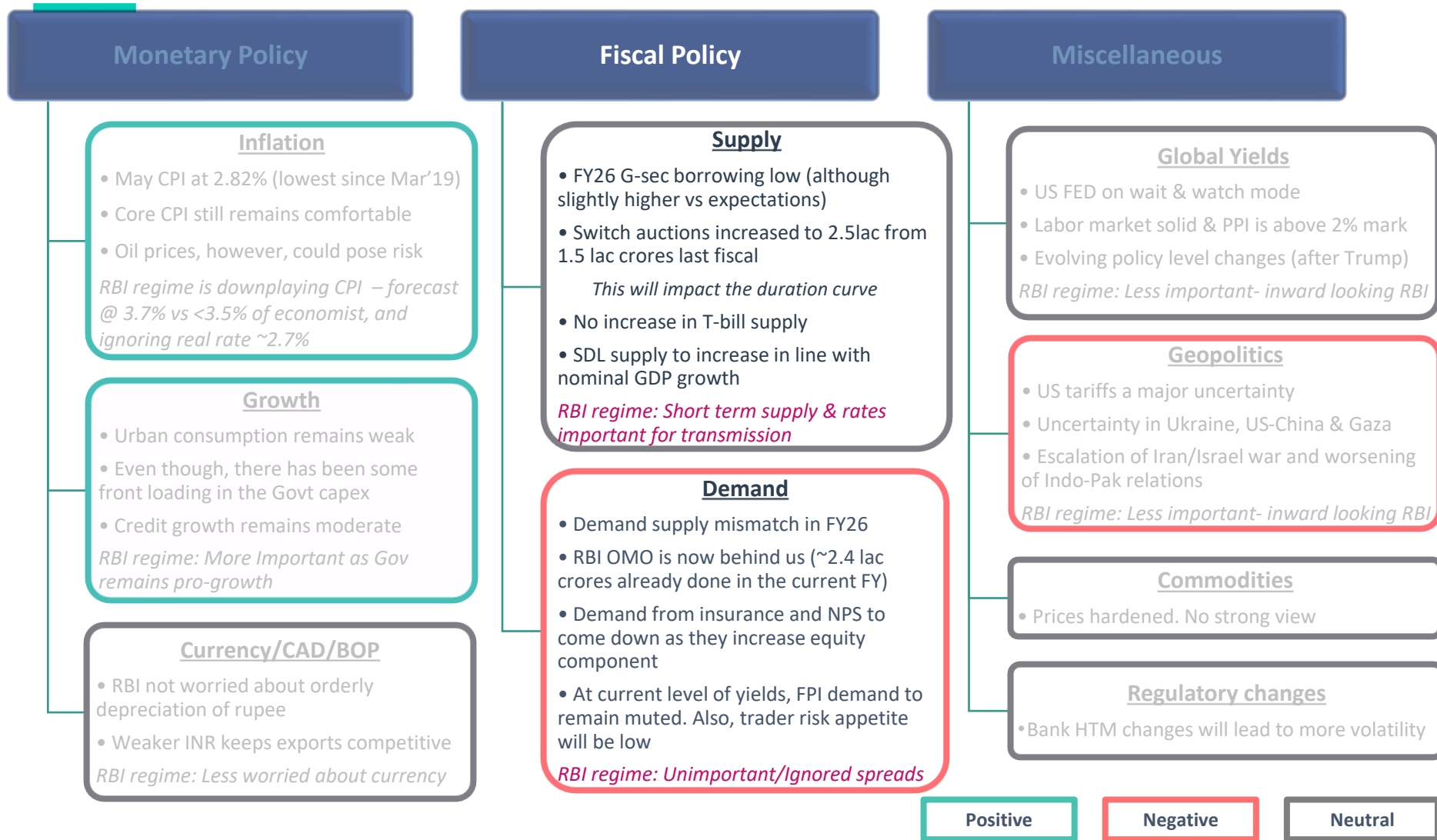


Weak growth and lower inflation

Comfortable external metrics as of now

**RBI actions on PAUSE after frontloading
of rate cuts**

Our Framework



Takeaway:

With US Fed on PAUSE & no major trigger domestically, India yields to remain range bound (with some volatility)

Generally, it drives the long bond yields

It is reflected in demand/supply equation

**Fiscal policy is slightly negative despite
lower issuance**

Because of high long bond switches

**Only a small part of bond buyers
are discretionary buyers**

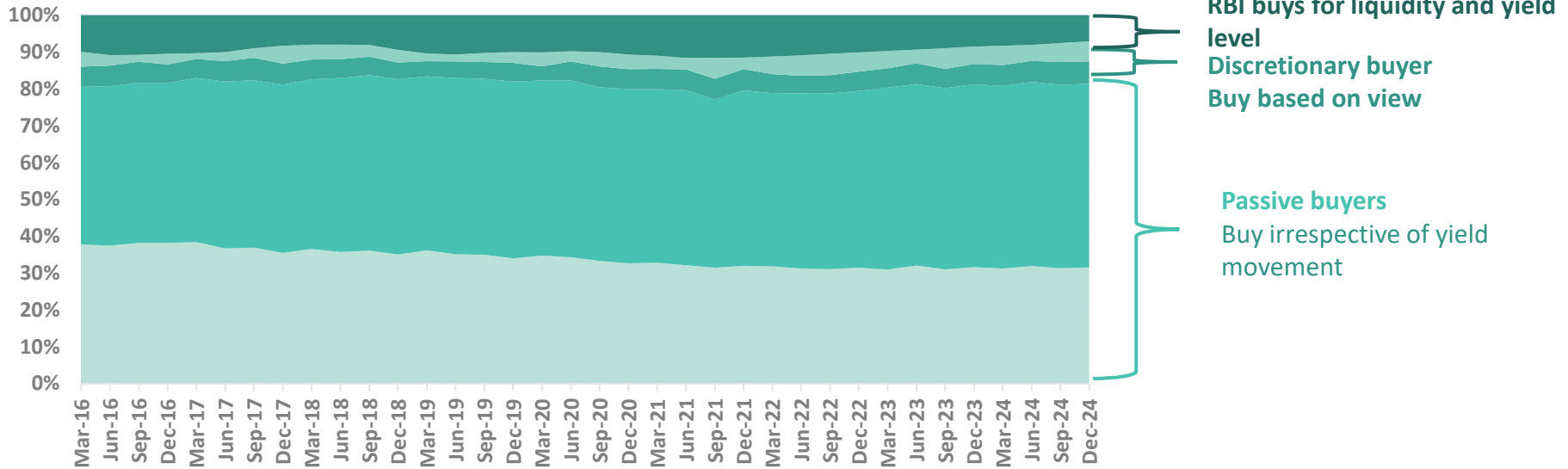
**Non discretionary buyers drive
10y+ yields**

**Supply fluctuation is borne by
these buyers**

Gsec market is still driven by lumpy institution purchases

Gsec +SDL Holding

- RBI
- Banks excess holding
- Dynamic (PD, MF, FPI, FI)
- Passive (Insurance, Coop Banks, Corporates, PF, Others)
- Banks LCR demand



Takeaway:

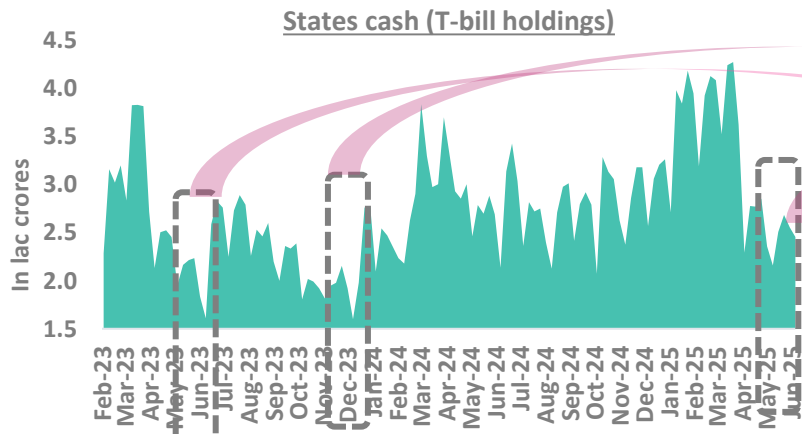
Increase in supply impacts the discretionary buying

Demand/supply mismatch for FY26

SDL supply only increases when states cash dip

➤ **FY26 borrowing increase in line with the nominal GDP growth**

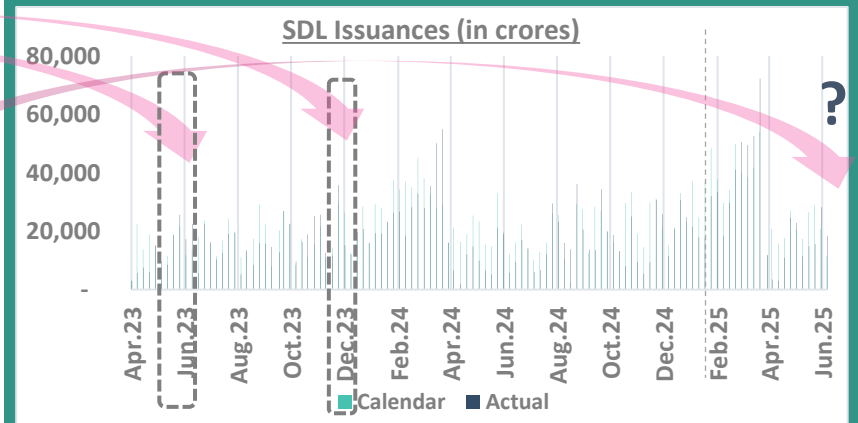
- States cash balances at ~2.5 lac crores
- No major state election in the current year



➤ **Actual SDL borrowing in line with expectations**

- Borrowing higher than the calendar only when state cash balances dipped below 2 lac mark
- YTD FY26 issuance 25% lower than calendarized

➤ **With state cash balances reducing and nearing 2-2.5 lac mark, issuance can increase going forward**

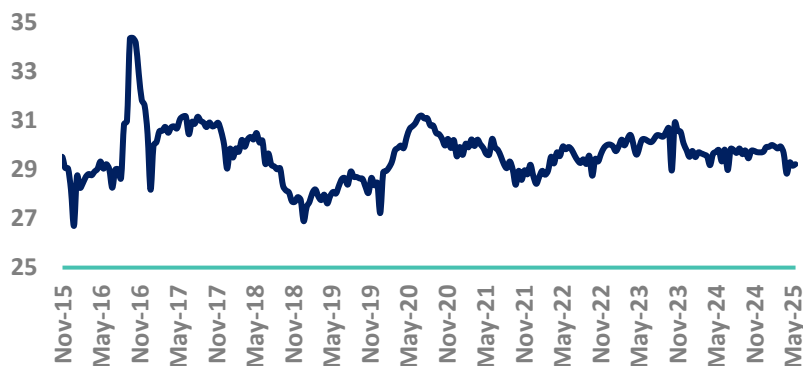


Takeaway:
With declining cash balances, issuance might increase in coming months

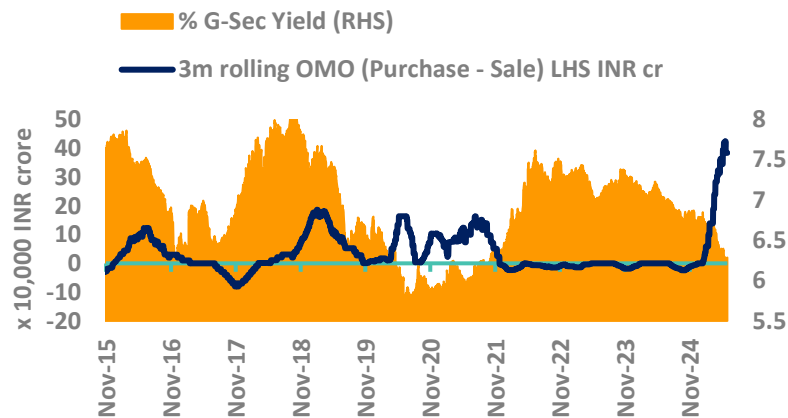
NDTL growth to still prompt Bank demand, but not sufficient

- Banks SLR holdings has declined to 28.81%
- The current pace of purchases is expected to continue
 - As natural NDTL growth will still lead to demand
 - Changes in Bank HTM rules, however, will lead to more volatility

Banks SLR (in %)(SCBs Investment-Deposit Ratio)



- Yields usually track RBI OMO purchases
 - Yields have strong correlation with RBI OMO
 - Demand/Supply mismatch is filled in by RBI
- RBI OMO demand is already behind us
 - OMO purchases of INR 2.4 lac crores in current FY
 - No more OMOs expected in the current year
- Discontinued OMO demand will continue to put pressure on steeper curve

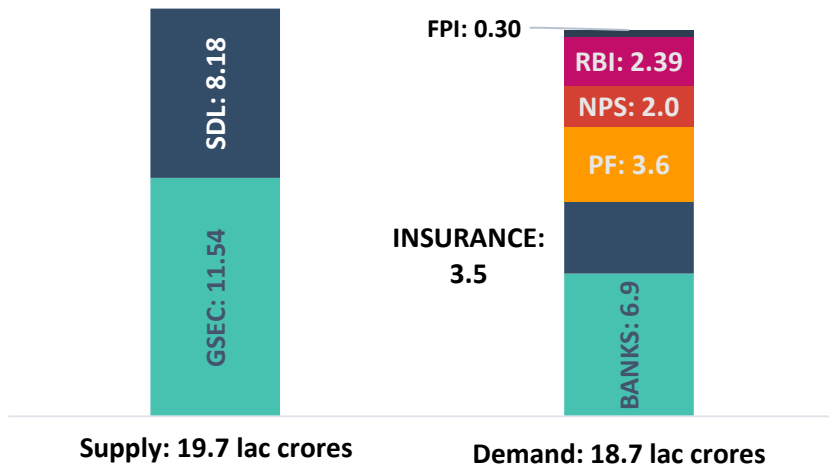


Takeaway:
 NDTL growth will lead to Bank's demand, but not sufficient-enough to meet the supply

Demand-supply mismatch in FY26

➤ Mildly negative Demand-supply equation

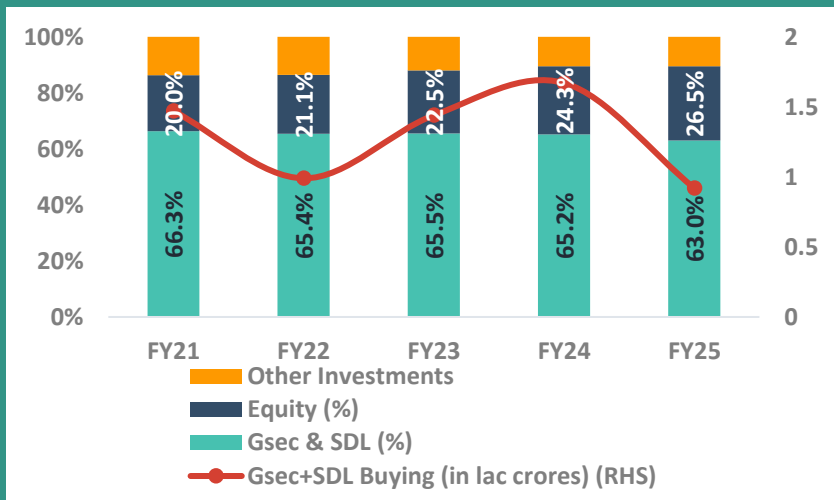
- G-sec plus SDL supply (internal estimates) is higher only by 1.5% over FY25
- Natural demand from Banks will continue
- However, NPS and Insurance demand might ease off as the equity component goes up



➤ The largest insurance player in India has been increasing its equity exposure every year

- Its equity exposure has increased from 20% in FY21 to 26.5% in FY25
- Gsec *plus* SDL exposure has decreased from 66.3% to 63%
- FY25 Gsec *plus* SDL buying decreased sharply from 1.67 lac crores to 0.92 lac crores

*(**the numbers here are based on the total investments under non-linked business: Life Fund**)*

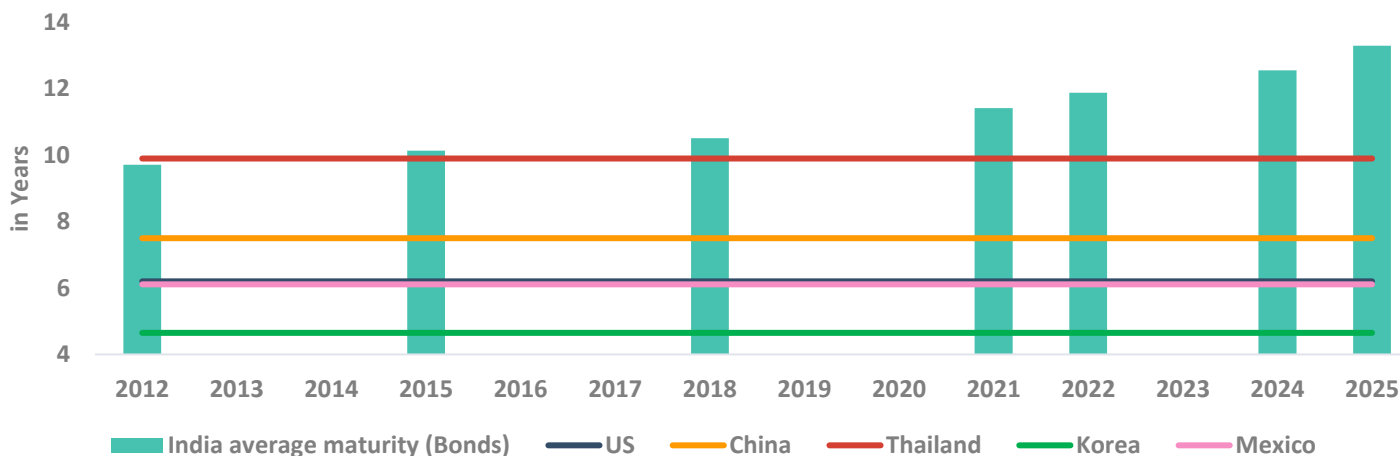


Takeaway:

Mismatch in FY26, as evidenced by increase in term premium. May continue going forward.

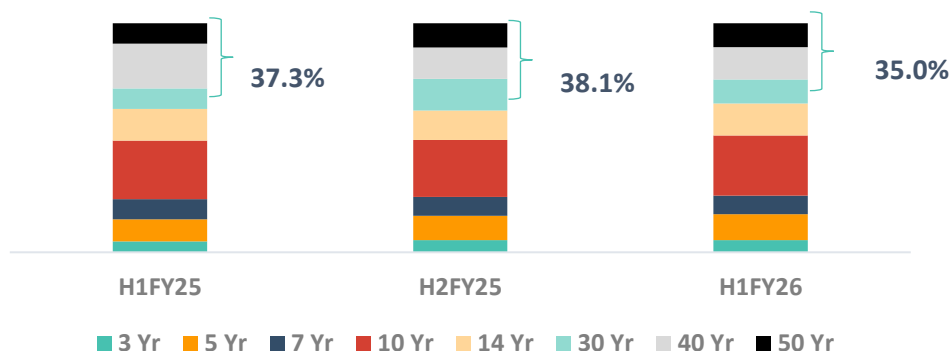
Last Converse stated wider long bond spreads – extent surprised us

India average maturity (bonds) vs other countries (2024)



India average maturity of bonds is highest as compared to the other countries

Borrowing Calendar (tenor-wise breakup)



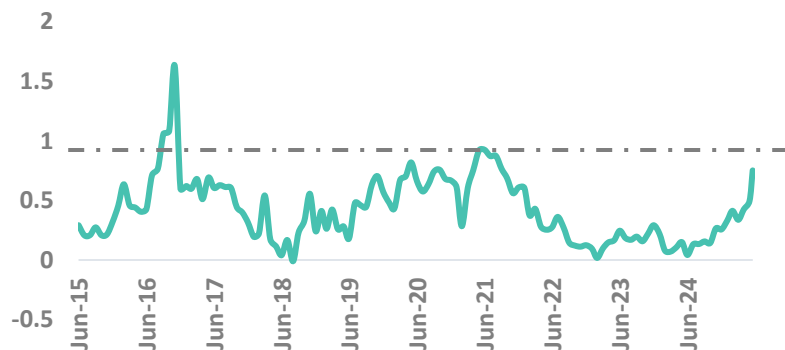
Marginal reduction in proportion of long-dated bonds (30 years and above maturity)
Unless govt reduces long bond issuances in H2FY26, spreads will be under pressure

Term premia has widened: Remain invested in duration

➤ The 30y X 10y premia on higher end of the range

- The excess borrowing in long end impacting spreads
- We advise maintaining tactical longs as the spreads may compress
 - Assumption: 10y yields do not rise significantly, else even a spread compression may hurt
- If H2 calendar has lower long bonds, then the spread will narrow structurally

India 30y vs 10y spread



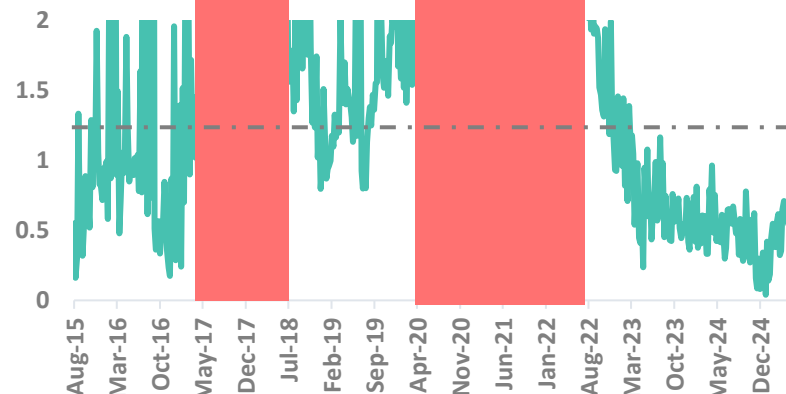
➤ The 10y X overnight premia on higher end

- Barring the extreme events (i) covid, and (ii) re-monetization

➤ Natural 10y spread has usually been sub 100bp

- Tactical plays in 10-year expected
- With-in the market ranges of 6.35%-6.15%

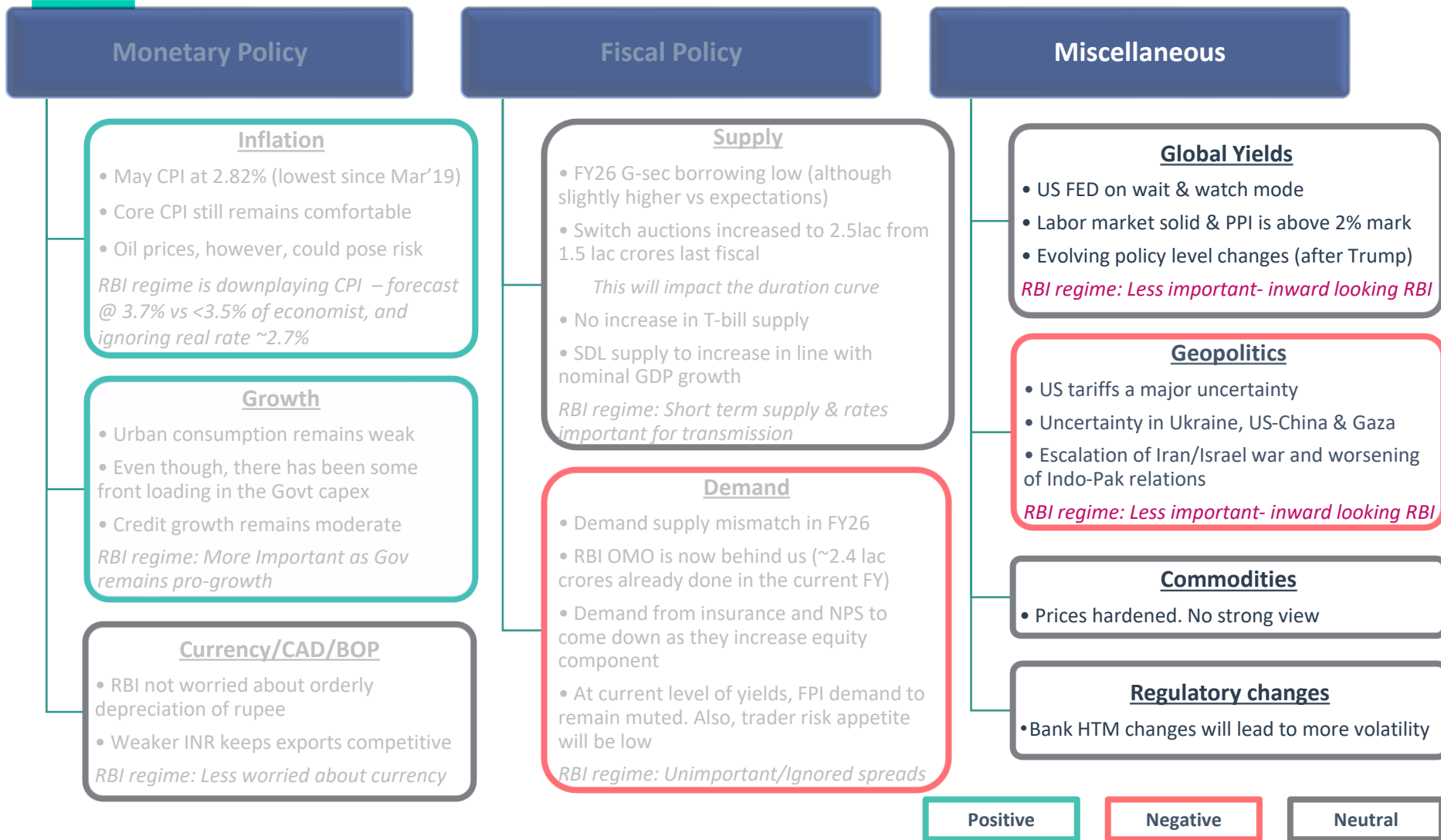
Indian 10y vs Overnight spread



Takeaway:

Term Premia has widened. Be Long

Our Framework



Takeaway:

With US Fed on PAUSE & no major trigger domestically, India yields to remain range bound (with some volatility)

Indian yields not tracking Global yields

Indian yields no more tracking global yields

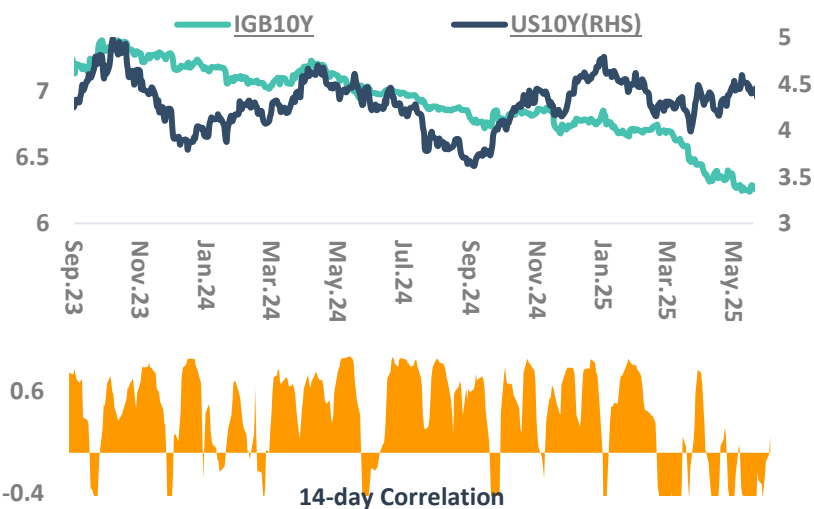
GLOBAL DRIVERS

➤ So far Indian 10Y yields tracked US 10Y

- Except for times when UST has risen sharply

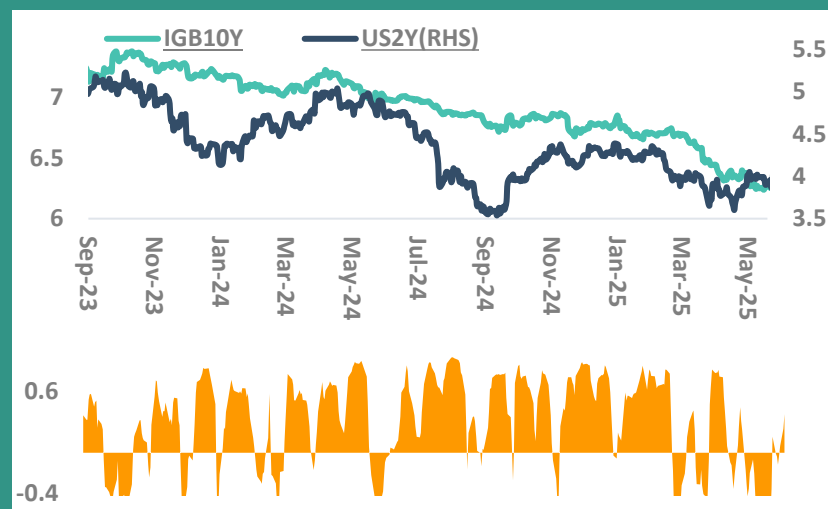
➤ Correlation only broke due to RBI actions

- Higher yields -> OMO announcement (Oct'23)
- Lower yields -> Liquidity infusion - VRR (Dec'23)
- Shift in RBI regime (Dec'24)



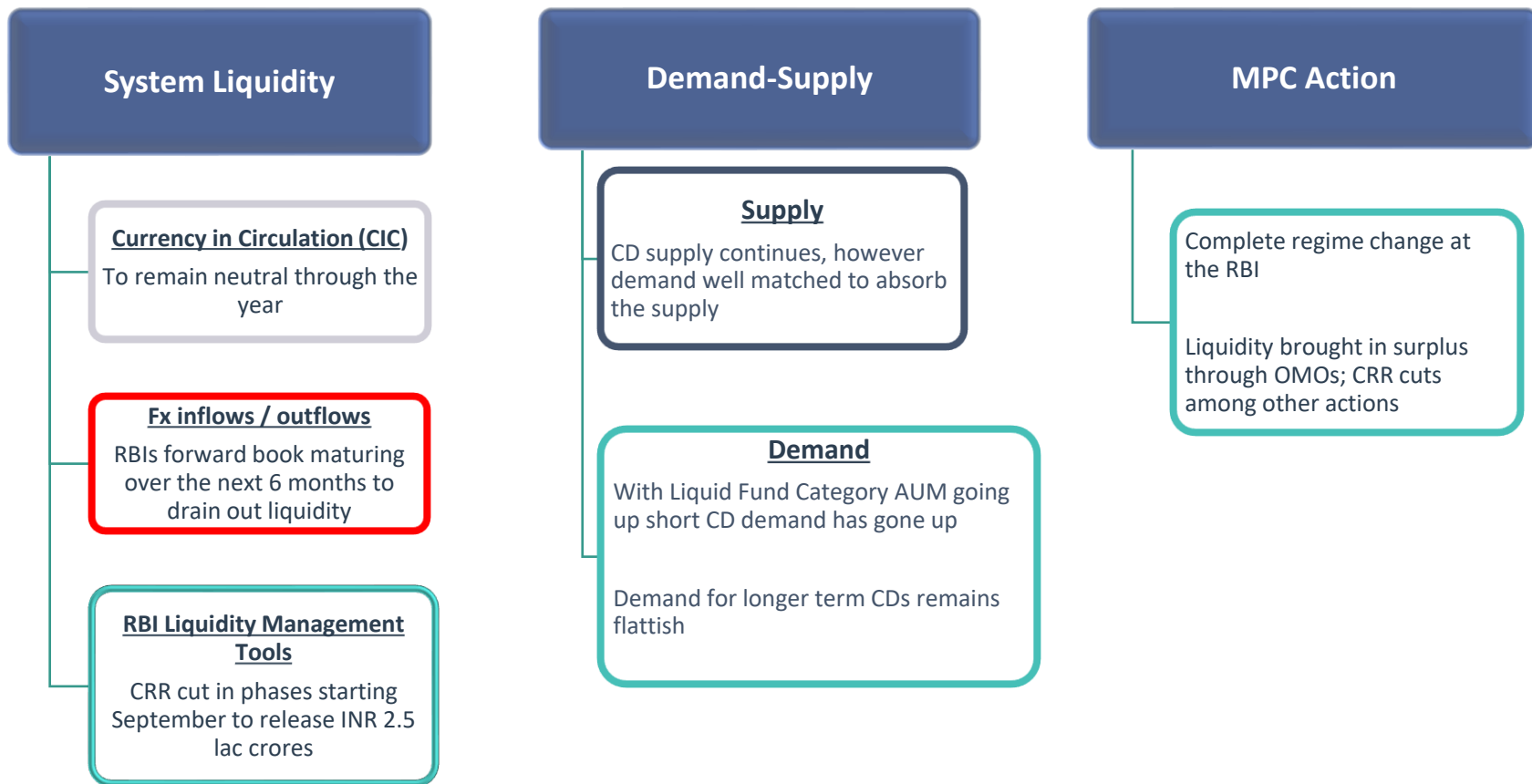
➤ With US Fed on wait and watch mode and RBI front-loading its policy actions

- US2Y to remain stable barring any geo-political uncertainty or expected fed action based on any incoming data
- India10Y to remain range bound with no major driver on the either side



Takeaway:
India yields to not track global yields

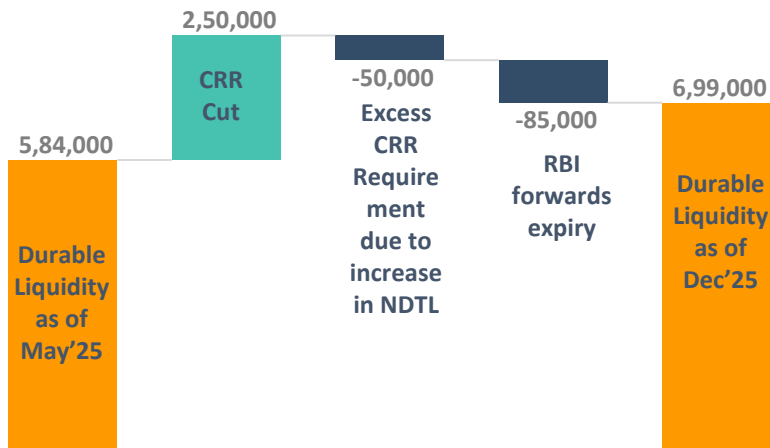
Money Market Assessment Framework



Takeaway:
We are long across our money market funds as we have seen a drastic regime shift at the RBI

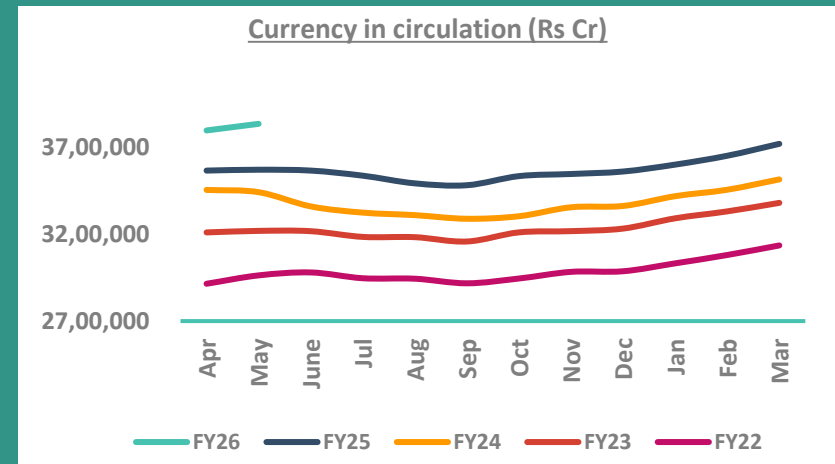
Liquidity – Surplus, Very surplus!

- Core liquidity crossed INR 5.8 lac crore post OMOs purchases & RBI dividend
- Our internal estimates suggest liquidity to near INR 7 lac crore by Dec'25
 - Next 7 months, CIC to remain near neutral
 - CRR cut to infuse INR 2.5 lac crore of liquidity
 - Excess CRR due to higher NDTL to drain out ~50k crore
 - Assumed 10bn USD of forward book expiry



➤ In Q2 seasonal reduction of CIC to aid liquidity further this quarter

- CIC to reduce over the next 3 months as seasonally observed over the years
- This is counter balanced by increase in CIC during the festive months starting September

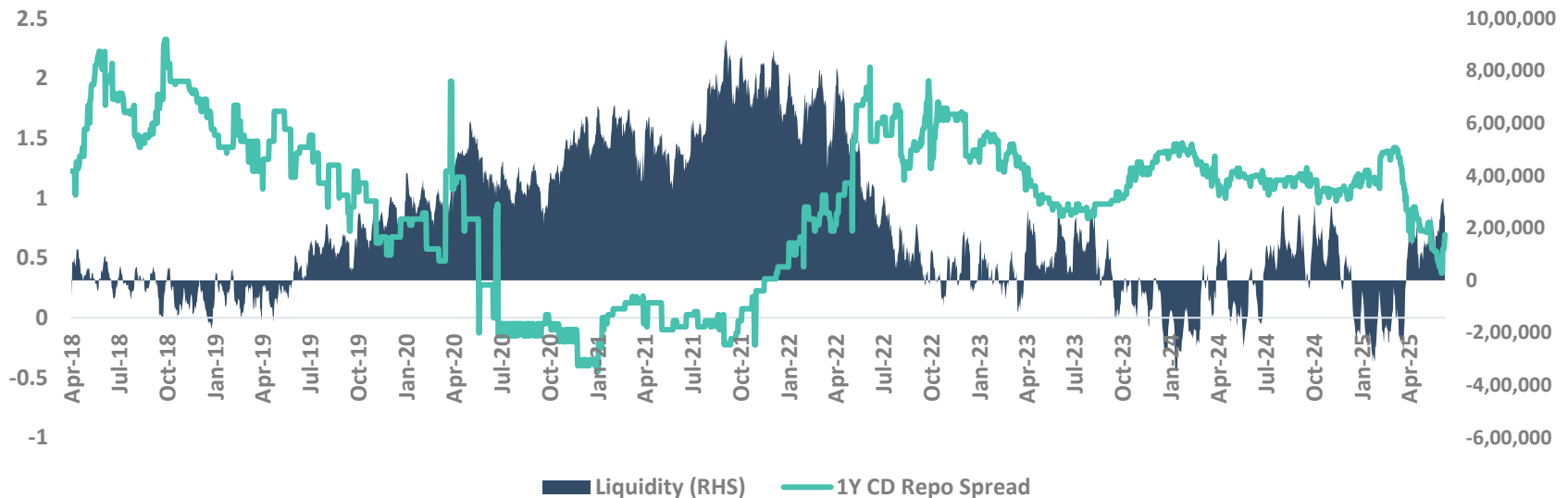


Takeaway:

We are in the era of flush liquidity. Expect to remain in a flush liquidity phase through this calendar year

Play for accrual with a major shift in regime at the RBI

- **To everyone's surprise MPC delivered a 50bps rate cut with stance changed to "Neutral"**
 - ✓ 1Y CD rates had priced in a 50bps cut
 - ✓ Leading to spreads shrinking to a low of ~40bps prior to MPC in anticipation of deeper cuts
- **With operative rate closer to the SDF the current CD spreads provide good accrual**
 - ✓ 1Y CD-Repo spreads have re-aligned post policy to ~85- 90bps
 - ✓ With flush liquidity and policy rate at 5.50% we expect rates to remain range bound
 - ✓ We remain long across our money market funds to gain accrual



Takeaway:

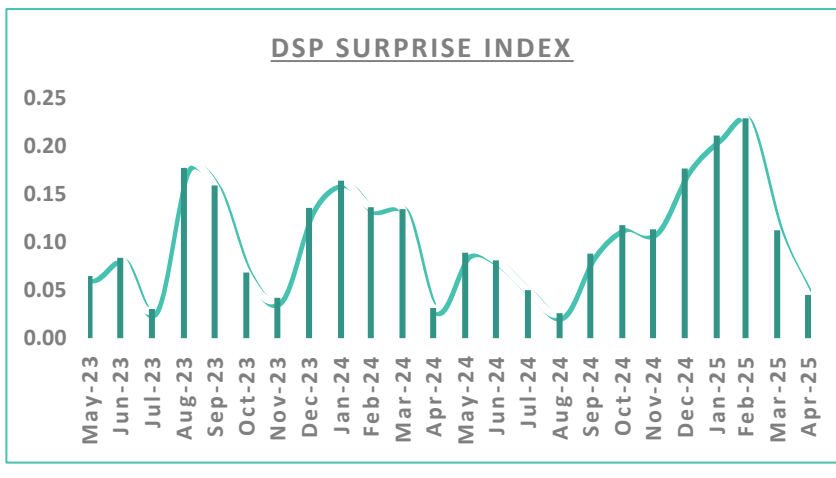
With flush liquidity operative rates are closer to the SDF, current CD yields provide an attractive carry

DSP “SURPRISE” Index

DSP Surprise Index: Indicates Stability

➤ In last 2-Years

- The index spiked in Aug'23, Dec'23, May'24, Dec'24 and Jan-Feb'25
- During these times, the markets were most volatile



➤ DSP Surprise Index to identify high risk times

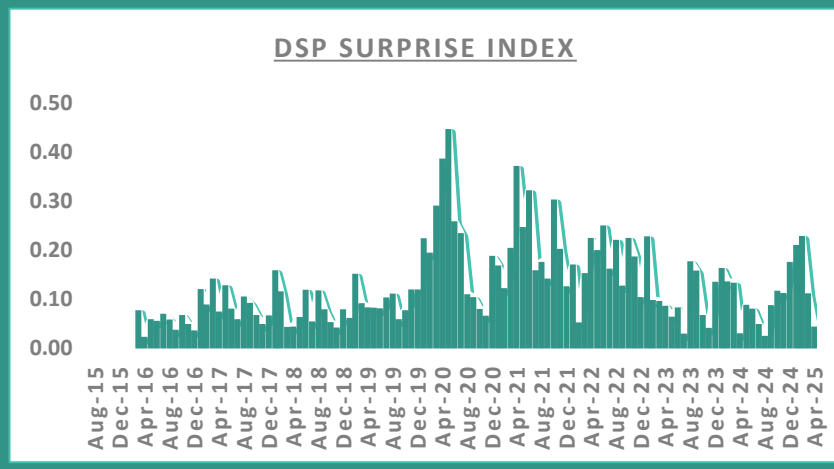
- During these times, “random” and unpredictable risks are higher than usual.

➤ DSP Surprise Index identifies when the markets are surprised by data (US)

- Chose 8 indicators from inflation, growth and labor.
- Currently, we are in low uncertainty phase

➤ Interpretation

- During high DSP Surprise Index times, we would prefer to rationalize our risks.
- During low DSP Surprise Index times, we would prefer to run conviction trades



Takeaway:

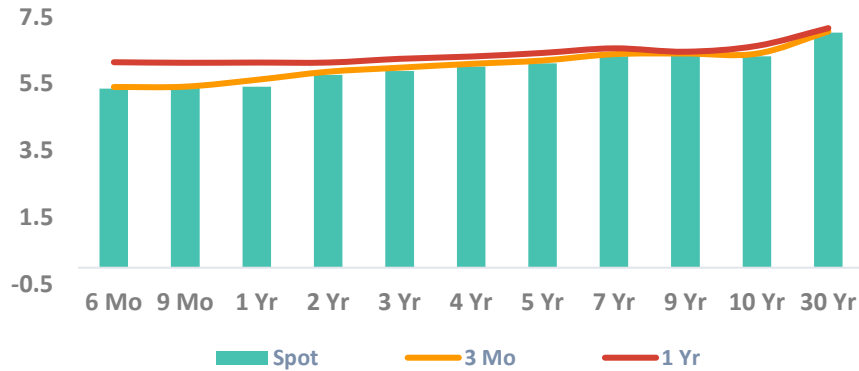
Decline in surprise factor in US data pointing out towards stability, barring any geo-political uncertainty

DSP FI Framework checklist

Drivers	1Y	5Y	10Y	>10Y	Remarks
Monetary Policy	Positive	Positive	Neutral	Neutral	
Inflation	Positive	Positive	Positive	Positive	Inflationary risks seem contained
Growth	Positive	Positive	Neutral	Neutral	Growth continues to remain weak
CAD/BOP/ Currency	Neutral	Neutral	Neutral	Neutral	External sector remains stable
Fiscal Policy	Neutral	Neutral	Negative	Negative	
Supply	Neutral	Neutral	Neutral	Neutral	Marginal increase in FY26 supply. Increase in switches to impact duration of the curve
Demand	Neutral	Neutral	Negative	Negative	Demand-supply mismatch in FY26. OMOs behind us and demand from Insurance & NPS to slow down
FPI Flows	Neutral	Neutral	Neutral	Neutral	FPI demand to remain muted but outflows unlikely
Global	Neutral	Neutral	Neutral	Neutral	
Global yields	Neutral	Neutral	Neutral	Neutral	Fed to be in wait and watch mode
Geopolitics	Negative	Negative	Negative	Neutral	A lot depends on Trump, long bonds driven by domestic
Commodities	Neutral	Neutral	Neutral	Neutral	Risks balanced, but volatility increased
Others	Neutral	Neutral	Neutral	Neutral	
RBI Regime	Neutral	Neutral	Neutral	Neutral	Regime shift/frontloaded rate cut. Policy stance changed to Neutral
Regulations	Neutral	Neutral	Neutral	Neutral	Bank HTM changes will lead to more volatility
Total	Neutral	Neutral	Negative	Negative	

DSP Duration decision:

India Sovereign Forward Curve



The chart shows how much expected yield fall/rise is already priced in the current curve.

Large gap between the spot yield and forward yield shows that yield change is priced in – and thus yield change will give capital gain/loss.

Similarly small gap means that the market is not pricing change in yields.

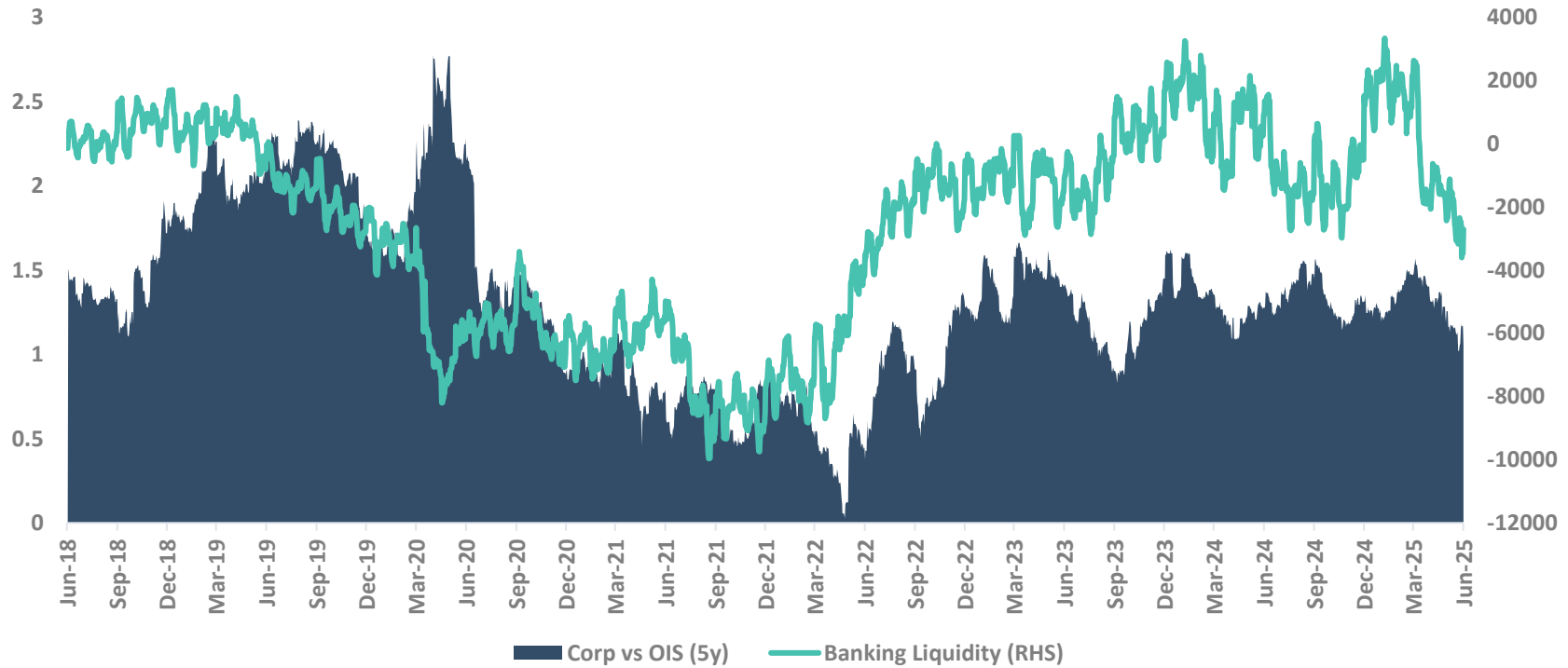
- **The forward curve is already upward sloping. We expect it to shift downward (range) or steepen marginally**
- **No strong structural view on yield shape, play ranges**
 - *Add long bonds at higher end of range – rally will absorb any steeper curve*
 - *Move to short bonds at lower end of range – flattening will absorb yield hardening*

Maturity	1Y	5Y	10Y	>10Y
What's expected (Total)	Neutral	Neutral	Negative	Negative
Is expectation (above row) priced in ?	Yes	Yes	Yes	Yes

**We have discussed duration and
yield movement.**

**How do we choose corporates and
credit?**

Corporate Bond spreads have narrowed. Still a “Carry Asset”



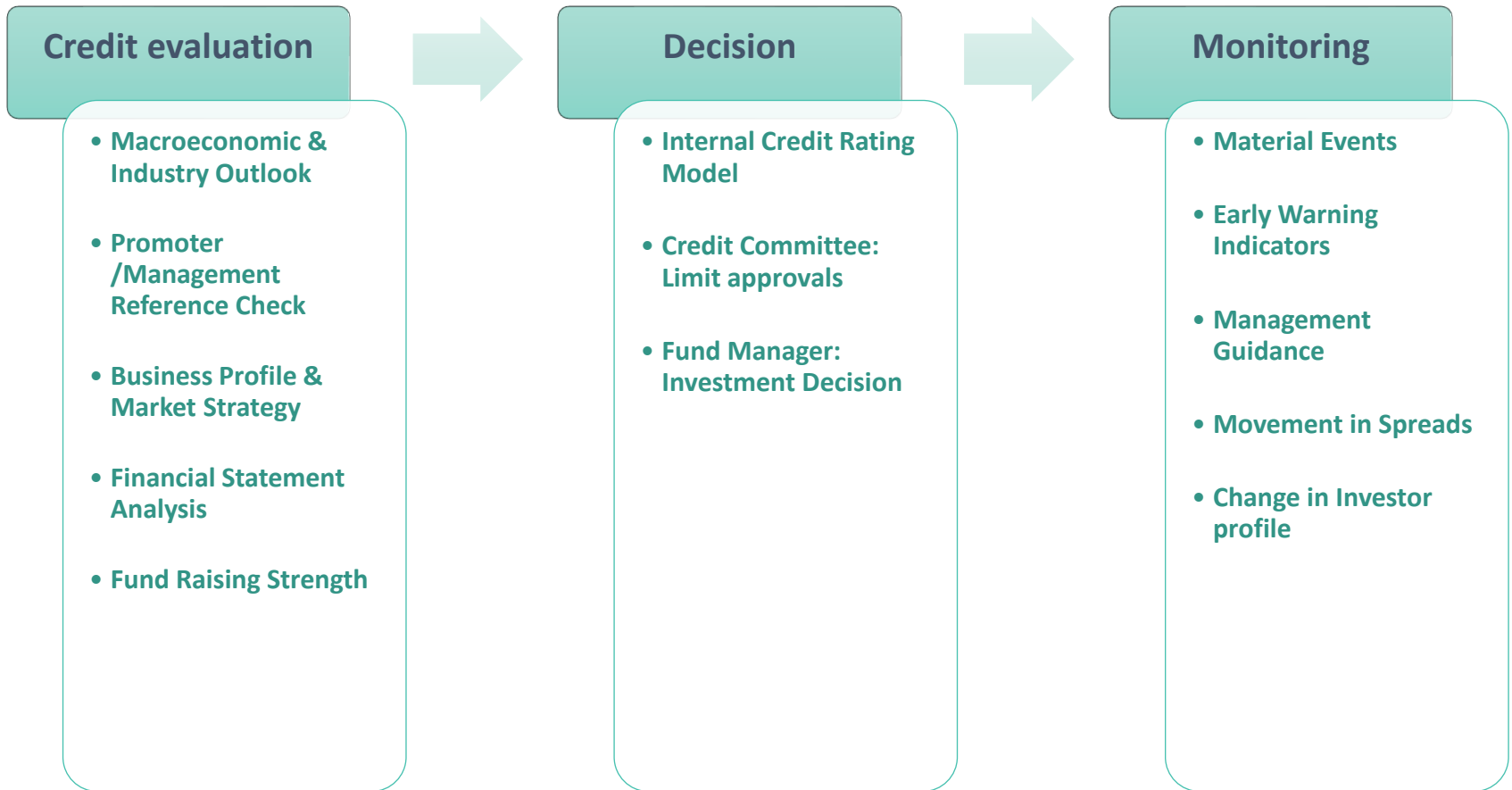
In our last converse, we said:

- Liquidity surplus would benefit spread assets
- Until the liquidity flows in, demand won't come

This has played out now

Still corporate bonds provide adequate carry

DSP Credit Investment Process – Focus on Governance



Information sources: Financial results, Management Discussion, Rating Agency Feedback, Sell Side Research, Equity analyst feedback, Lender’s feedback, etc.

DSP Credit view on sectors

Sector	Cash Flow Strength	Balance Sheet Strength	Outlook	Remarks
Automobile and Auto Components	●	●	●	The majors have all shown strong balance sheet strength despite varying growth across segments. Sector remains exposed to risk of tariff impositions and trade barriers. At the same time, any potential impact of the supply constraints on Rare Earth Minerals remains to be seen.
Capital Goods	●	●	●	Infrastructure thrust by the Government has supported companies – state government spending to be watched
Chemicals	●	●	●	Continues to be weak both on demand as well as oversupply situation. Longer term prospects are good
Construction, Metals	●	●	●	Commodity cycle has by and large been stable. Spread and volume trends are evolving, but are within acceptable credit parameters. Cement is showing some slackness due to overcapacity.
Consumer Services	●	●	●	Weak consumer demand still placing pressure.
FMCG	●	●	●	Volume growth has been modest overall. But balance sheet and cashflows are strong
Financial Services	●	●	●	Asset quality has weakened in the unsecured segment, especially microfinance due to overleveraging. Having said that, most of the pain seem to have been recognized by the companies and gradual improvement over the coming quarters is likely. Recent policy rate cuts by the RBI are expected to benefit the sector.
Media, Entertainment & Publication	●	●	●	Exposure only towards are large private conglomerate and comfort out of its parentage as well as leadership position
Oil, Gas & Consumable Fuels	●	●	●	While profitability is volatile with end product pricing being fixed, the Companies that operate in this segment are largely PSUs or strong private sector companies.
Power	●	●	●	Power demand and need for renewable energy is continuing. We are constantly watching signs of over stretch on balance sheet or evolution of receivables.
Realty	●	●	●	Strong real estate cycle has positively impacted residential companies as well as REITs. We watch presales and balance sheet evolution – companies risk taking have hitherto paid off. Demand upcycle seem to be in its fag end, but recent policy rate cuts may provide necessary support to any slowing demand.
Telecommunication	●	●	●	Virtually a two company story in India, we expect credit profiles of those two to remain solid.

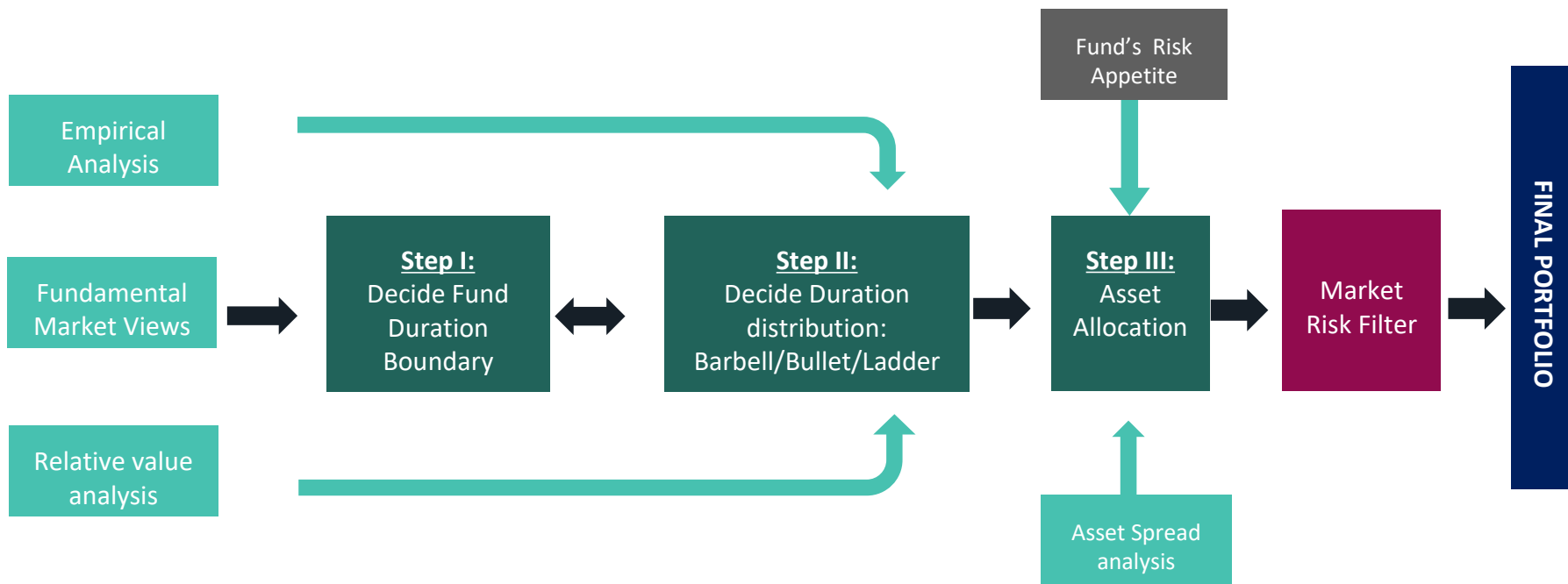
**Done with our market view
framework?**

Now

Our Portfolio creation framework

DSP Portfolio Creation: Multi-step process

DSP Fixed Income Funds follow a defined methodology for fund portfolio construction



- We apply market risk filter which can help the Fund Managers not to take extreme risks. Thus, Value at Risk is limited by ensuring the positions are balanced.

Key Risks associated with investing in Fixed Income Schemes

Interest Rate Risk - When interest rates rise, bond prices fall, meaning the bonds you hold lose value. Interest rate movements are the major cause of price volatility in bond markets.

Credit risk - If you invest in corporate bonds, you take on credit risk in addition to interest rate risk. Credit risk is the possibility that an issuer could default on its debt obligation. If this happens, the investor may not receive the full value of their principal investment.

Market Liquidity risk - Liquidity risk is the chance that an investor might want to sell a fixed income asset, but they're unable to find a buyer.

Re-investment Risk: If the bonds are callable, the bond issuer reserves the right to "call" the bond before maturity and pay off the debt. That can lead to reinvestment risk especially in a falling interest rate scenario.

Rating Migration Risk - If the credit rating agencies lower their ratings on a bond, the price of those bonds will fall.

Other Risks

Risk associated with

- floating rate securities
- derivatives
- transaction in units through stock exchange Mechanism
- investments in Securitized Assets
- Overseas Investments
- Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InvIT)
- investments in repo of corporate debt securities
- Imperfect Hedging using Interest Rate Futures
- investments in Perpetual Debt Instrument (PDI)

Disclaimer & Product Labelling

In this material DSP Asset Managers Private Limited (the AMC) has used information that is publicly available, including information developed in-house. Information gathered and used in this material is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and / or completeness of any information. The data/statistics are given to explain general market trends in the securities market, it should not be construed as any research report/research recommendation. We have included statements / opinions / recommendations in this document, which contain words, or phrases such as “will”, “expect”, “should”, “believe” and similar expressions or variations of such expressions that are “forward looking statements”. Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc. **The stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and schemes of the Fund may or may not have any future position in these stock(s)/issuer(s). The portfolio of the schemes is subject to changes within the provisions of the Scheme Information document of the schemes. There is no assurance of any returns/potential/capital protection/capital guarantee to the investors in schemes of the DSP Mutual Fund. Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments. This document indicates the investment strategy/approach/framework currently followed by the schemes and the same may change in future depending on market conditions and other factors.** All figures and other data given in this document are as on June 17, 2025 and the same may or may not be relevant in future and the same should not be considered as solicitation/ recommendation/guarantee of future investments by the AMC or its affiliates. Investors are advised to consult their own legal, tax and financial advisors to determine possible tax, legal and other financial implication or consequence of subscribing to the units of schemes of DSP Mutual Fund. For complete details on investment objective, investment strategy, asset allocation, scheme specific risk factors please refer the scheme information document and key information memorandum of the schemes, which are available at AMC and registrar offices and investor service centres/AMC website- www.dspim.com For Index Disclaimer [click Here](#)

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

DSP

MUTUAL FUND

#INVESTFORGOOD

