UTI Indian Fixed Income Fund

February 2019 Review

UTI International
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India's consumer prices (CPI Inflation) eased further to at 2.05% in January 2019 from 2.11% in December 2018 on account of broad based softening across segments. Food inflation continued on deflation territory and declined by 2.17% in January 2019 as compared to a decline of 2.65% in December 2018, on account of sustained contraction in prices of vegetables, fruits, cereals and pulses. The core-CPI inflation moderated to 5.4% in January 2019 as compared to 5.7% in December 2018, led by deceleration in miscellaneous goods inflation. The inflation related to fuel and light declined sharply for a second consecutive month to 2.2% in January 2019 from a level of 4.5% in December 2018 primarily on account of continued decline in LPG prices. The Wholesale Price Index (WPI) further moderated to 2.8% in January 2019 from 3.8% in December 2018 led by lower fuel and core inflation.

February's monetary policy was a maiden policy by the RBI Governor Shaktikanta Das who was appointed in December 2019. With Governor Das at the helm, the MPC committee changed the stance from calibrated tightening to neutral and also cut the repo rate by 25 bps. During the policy meeting, the RBI also significantly lowered its inflation trajectory as they explained that they do not anticipate inflation crossing 3.9% till the end of the 2019 calendar year. The policy stated that there is a modest opening of an output gap which indicates that RBI is more concerned about growth, and were comfortable about the inflation trajectory and showed little concern about the fiscal slippage announced in the budget.

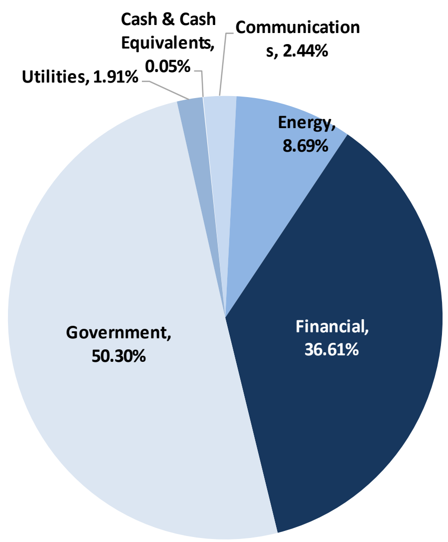
GDP growth for Q3-FY2019 slowed to a six quarter low of 6.6% as compared to 7.7% during Q3-FY2018, while Gross Value Added (GVA) growth came in at 6.3% as against 7.3% same period last year. The fall in GDP growth was led by agriculture sector slowdown, domestic credit squeeze and external headwinds. The second Advance Estimate for FY19 GDP shows a downward revision in GDP growth to 7.0% from the earlier estimate of 7.2%.

Outlook

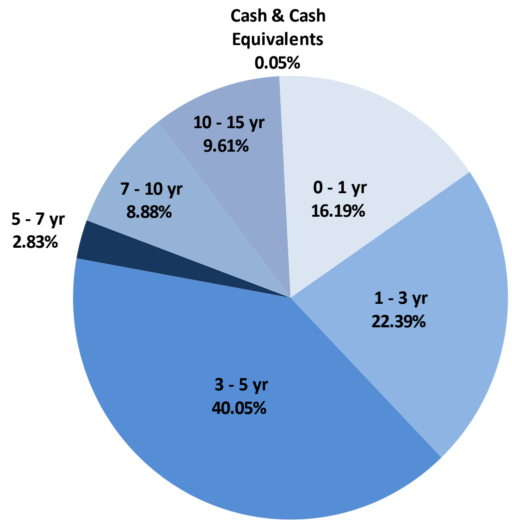
On account of some supportive factors both on global as well as local front, the RBI presented a dovish outlook along with a 25bps reduction in India's repo rate and a change in stance to 'neutral' in the monetary policy. The global backdrop has become conducive to this outlook, amidst growing concerns of a global growth slowdown, a softer stance expressed by Fed Chairman Powell with regard to US policy rates and the pace of balance sheet reduction. Oil prices also remain supportive and contained at around USD 60-65$ a barrel. On the domestic front, retail inflation prints have approached the lower band of the targeted inflation target of 4%+/-2% (2%-6%). The rate cut from RBI was substantiated by a sharply lower inflation projection for the next financial year FY2020 hinting at the possibility of further easing ahead from the central bank this year.

On account of benign inflation prints in recent months as well as expectation of inflation remaining well below the central bank target of 4% for entire 2019, we expect another 25-50bps of rate easing from the central bank in this calendar year with high probability of a 25 bps cut happening in next policy due in April. Since the environment is supportive of local bond yields, we have moved from an underweight stance on duration last year to a moderately bullish one and therefore added duration in the fund in last three months.

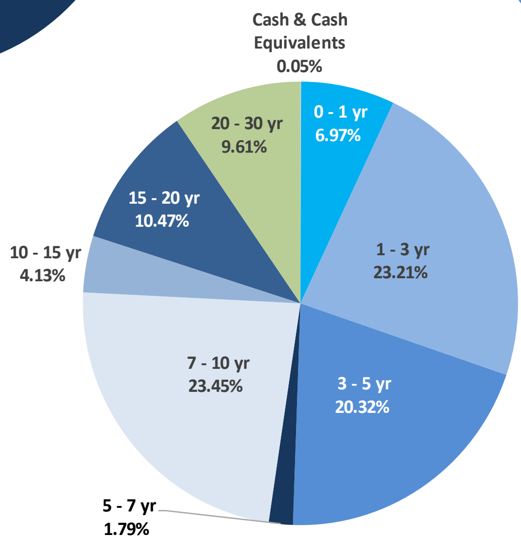
Sector Allocation



Duration Allocation



Maturity Allocation



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