Global Bond Inclusion – A Win for India

Thinking ALOUD

An Axis Mutual Fund Initiative

AXIS MUTUAL FUND

Introduction

10 Years to the day, India suffered one of its worst balance of payments crises leading to a sharp deterioration in its currency and labelled as a 'Fragile Five' nation. Fast forward to 2023, a series of gradual policy reforms have allowed India to expand its global clout in the world of market finance and further integrate into the global financial system. The announcement today by JP Morgan to include select Indian government securities into its emerging market indices is a 'material' event for the Indian bond markets. Historically, the participation of foreign investors in the Indian markets has been tepid and virtually non-existent. The suggested inclusion could drive US$25 – 30 billion (~Rs 2.5 lakh Cr) over the next 18 months.

Markets have been a buzz on possible inclusions, the confirmation saw markets react positively across the yield curve with long bonds seeing heightened trading activity. The 10 benchmark 10-year G-Sec stood at 7.10%[1] at the time of writing this note.

Terms of the Inclusion

In a push for the global inclusion of Indian rupee bonds, the Indian government introduced the FAR (Fully Accessible Route) program in 2020 outlining a list of specified government securities. In addition, the government has undertaken substantive market reforms to aid foreign portfolio investments.

As per the index review, 23 bonds meet the Index eligibility criteria, with a combined notional value of approximately Rs 2.7 lakh Cr/ US$ 330 billion. As a result, India's weight is expected to reach the maximum weight threshold of 10% in the GBI-EM GD, and approximately 8.7% in the GBI-EM Global index. As per the inclusion policy, India will enter the indices in June 2024 and the weight will be assigned gradually over a 10-month period through March 2025.

Apart from these indices, India is expected to enter a host of other indices including the global aggregate series, JADE series and JSEG GBI-EM index series of JP Morgan indices.

1 22/09/2023 10:31 AM

Index Name	Type of Inclusion	Estimated Weight
Government Bond Index-EM	1% Per month over 10 months	10.00%
Government Bond Index-EM Global index		8.70%
JSEG GBI EM Index		6.73%
JADE Broad Diversified Index		20.00%
JADE Global Diversified Index		18.48%
GBI-EM Global Diversified IG 15% Cap index		14.59%
Government Bond Index - Aggregate	Single	0.95%
Government Bond Index - Agg Diversified		2.94%
Global Aggregate Bond Index (GABI)		0.52%

Source: JP Morgan, Axis MF Research. Data as of 31st August 2023

Implications for India

Passive trackers of the above indices hover at around US$250 billion. The staggered approach implies an inflow of US$ 1.5 – 2 billion per month in the 23 identified bonds. This flow is likely to boost India's profile on the world stage and further strengthen local fundamentals. We believe the RBI could conduct sterilization operations during this inclusion period buffeting Forex reserves and the currency.

Based on this success, the government could notify additional bond series opening avenues for long-term debt capital to fund India's vast infrastructure and development needs. By virtue of these bonds being rupee-denominated, we anticipate limited currency-related risks.

Market View

The news is a long-standing win for India's policymakers and markets have rightfully cheered the announcement. Despite the negativity around global bond yields, we believe our markets will remain quite resilient after this inclusion. In the medium term, our target for the benchmark 10-year bond yields at 6.75% remains on track.

For the medium term, once this entire noise around Fed hikes and global yields stabilizes, we believe peak market rates are behind us and market yields could gradually soften. From a demand perspective, markets could see incremental buying from active foreign funds. That would probably be less than $ 5 billion before the index inclusion.

We have been macro-bullish on the perspective that it's very difficult for the RBI to hike because inflation is going to be on the lower side. The only spoiler has been global yields and oil. Global yields are near its peak, and we don't expect the Fed to hike rates further.

Oil prices remain a wildcard. With Crude prices spiking to US$95, markets are likely to bake in some degree of pessimism into the Indian bond markets. However, the two aspects could negate each other over the medium term. Finally, the inclusion by JP Morgan could be a precursor for other global index providers to add domestic bonds to global indices, amplifying the impact of flows. And hence the positive bond story is likely to continue for a while.

Strategy Call – Add duration

From a strategy perspective, we have added duration across portfolios within the respective investment mandates. The call was more from a macro perspective, not in the context to this inclusion news. We expect our duration call to add value in the medium term.

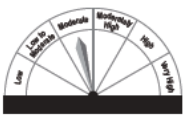
Investors could use this opportunity to top up on duration products with a structural allocation to short and medium duration funds and a tactical play on GILT funds.

Funds in Focus

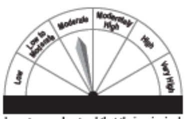
Product	Macaulay Duration	Current Positioning
Axis Ultrashort term Fund	172 Days	Actively managed parking solution offering with a duration profile of 6-12 months
Axis Corporate Debt Fund	2.66 Years	Actively managed corporate bond portfolio. 100% AAA oriented
Axis Strategic Bond Fund	3.52 Years	50% AAA % 50% AA portfolio actively managed best ideas fixed income strategy
Axis GILT Fund	4.69 Years	Actively managed GILT portfolio currently positioned at the long end of the investment mandate

Allocation and strategy are based on the current market conditions and are subject to changes depending on the fund manager's view of the markets. Data as on 31st August 2023

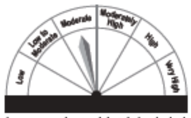
Product Labeling

Fund Name & Benchmark	Product Labelling	Product Riskometer	Benchmark Riskometer	Potential Risk Matrix (PRC)
Axis Ultra Short Term Fund (An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months and 6 months. A moderate interest rate risk and moderate credit risk.) **Benchmark:** NIFTY Ultra Short Duration Debt Index B-I	This product is suitable for investors who are seeking* • Regular income over short term • Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 months - 6 months. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	 Investors understand that their principal will be at Low to Moderate Risk		Potential Risk Class (see below)

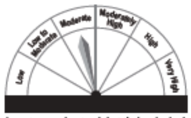
Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)		B-II	
Relatively High (Class III)			

Fund Name & Benchmark	Product Labelling	Product Riskometer	Benchmark Riskometer	Potential Risk Matrix (PRC)
AXIS CORPORATE DEBT FUND (An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and moderate credit risk.) **Benchmark:** NIFTY Corporate Bond Index B-III	This product is suitable for investors who are seeking* • Regular income over short to medium term • Predominantly investing in corporate debt *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	 Investors understand that their principal will be at Moderate Risk		Potential Risk Class (see below)

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)		B-III	

Fund Name & Benchmark	Product Labelling	Product Riskometer	Benchmark Riskometer	Potential Risk Matrix (PRC)
AXIS STRATEGIC BOND FUND (An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years. A relatively high interest rate risk and relatively high credit risk.) **Benchmark:** NIFTY Medium Duration Debt Index C-III	This product is suitable for investors who are seeking* • Optimal returns over medium term • Investment in diversified portfolio of debt and money market securities to generate optimal risk adjusted returns while maintaining liquidity *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	 Investors understand that their principal will be at Moderate Risk		See Potential Risk Class table below

Potential Risk Class			
Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)			C-III

Fund Name & Benchmark	Product Labelling	Product Riskometer	Benchmark Riskometer	Potential Risk Matrix (PRC)
AXIS GILT FUND (An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.) **Benchmark:** Nifty All Duration G-Sec Index	This product is suitable for investors who are seeking* • Credit risk free returns over medium to long term • Investment mainly in Government securities across maturities *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	 Investors understand that their principal will be at Moderate Risk		See Potential Risk Class table below

Potential Risk Class			
Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		

Disclaimer

Source of Data: Axis MF Research, JP Morgan, Bloomberg.

This document represents the views of Axis Asset Management Co. Ltd. and must not be taken as the basis for an investment decision. Neither Axis Mutual Fund, Axis Mutual Fund Trustee Limited nor Axis Asset Management Company Limited, its Directors or associates shall be liable for any damages including lost revenue or lost profits that may arise from the use of the information contained herein. No representation or warranty is made as to the accuracy, completeness or fairness of the information and opinions contained herein. The material is prepared for general communication and should not be treated as research report. The data used in this material is obtained by Axis AMC from the sources which it considers reliable.

While utmost care has been exercised while preparing this document, Axis AMC does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s). The AMC reserves the right to make modifications and alterations to this statement as may be required from time to time.

Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh). Trustee: Axis Mutual Fund Trustee Ltd. Investment Manager: Axis Asset Management Co. Ltd. (the AMC) Risk Factors: Axis Bank Limited is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.

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