

A calibrated easing cycle: Update on RBI Monetary Policy, February 2025

Rate Action

The Monetary Policy Committee (MPC), under the chairmanship of RBI Governor Shri Sanjay Malhotra, voted to reduce the repo rate by 25bps. The RBI Governor noted the need for a “less restrictive” monetary policy to support growth as inflation remains within RBI's targeted band (4-6%). All six members voted to maintain the stance at “neutral”. The policy was largely in line with market expectations.

Assessment of Policy Action

1) Rate Cut Rationale: Factors such as moderation in headline CPI in recent months, favorable outlook on food prices and the MPC's expectations of further moderation in inflation in FY 2026 along with the substantial deceleration in real GDP growth forecast over next few quarters, have created policy space for the MPC to support growth while remaining focused on aligning inflation with the target.

2) Continuation of Neutral Stance: The MPC decided to continue with a 'Neutral' stance to retain flexibility, considering factors like excessive volatility in global financial markets, uncertainties about global trade policies and adverse weather events, which pose risks to the growth and inflation outlook.

Below are key RBI estimates on the growth/inflation trajectory into the next year compared to their previous forecasts:

	CPI Inflation (%)			GDP Growth (%)		
	9-Oct-24	6-Dec-24	7-Feb-25	9-Oct-24	6-Dec-24	7-Feb-25
Q1FY25	4.9A	4.9A	4.9A	6.7A	6.7A	6.7A
Q2FY25	4.1	4.2A	4.2A	7.0	5.4A	5.4A
Q3FY25	4.8	5.7	5.7	7.4	6.8	
Q4FY25	4.2	4.5	4.4	7.4	7.2	
FY2025	4.5	4.8	4.8	7.2	6.6	6.4
Q1FY26	4.3	4.6	4.5	7.3	6.9	6.7
Q2FY26		4.0	4.0		7.3	7.0
Q3FY26			3.8			6.5
Q4FY26			4.2			6.5
FY2026			4.2			6.7

Source: RBI, A - Actual

RBI's comments on the economy and liquidity in today's policy were:

1) Moderation in Inflation: Headline inflation hit the upper tolerance band in October 2024 and has seen sequential moderation for November and December, 2024. RBI expects significant softening in CPI print going ahead considering factors such as good Kharif production, winter easing in vegetable prices and favourable Rabi crop prospects. Although core inflation is expected to rise, it will remain moderate. RBI noted that uncertainty in global financial markets, volatility in energy prices and adverse weather events present upside risks to its inflation forecast.

2) Downside Risks to Growth: Growth projections for FY 2025 dropped marginally to 6.4% considering subdued urban demand with high-frequency indicators (tax collection, auto sales, etc.) providing mixed signals. For FY 2026, although the growth projections have been revised downward for the first two quarters, the entire year's growth projection of 6.7% is higher than FY 2025 projections.

3) Liquidity: RBI reiterated that it stands committed to providing sufficient liquidity to the banking system and has recently taken several steps in this regard. RBI also mentioned that it will continue to monitor evolving liquidity and financial market conditions and proactively take appropriate measures to ensure orderly liquidity conditions.

4) External Sector and Currency Management: RBI noted that the Current Account deficit moderated to 1.2% in Q2. India's forex reserves of US\$ 630.6 billion provide sufficient import cover for over 10 months. RBI expects CAD to be well within the sustainable level. RBI also mentioned that its interventions in the forex market focus on smoothening excessive and disruptive volatility rather than targeting any specific exchange rate level or band.

Market Reaction:

Today's rate cut marks the beginning of a shallow rate cut cycle after a gap of almost five years. This cut was widely expected by the market participants and hence bond yields have been dropping over the last few months in anticipation of the rate cut cycle. This has led to significant curve flattening across G-secs and yield curve inversion in the corporate bond space. As the rate cut cycle has started, we now expect the curve to steepen with the short to medium end (up to five years) of the yield curve outperforming the longer end.

Market Outlook

Expect a Shallow Rate Cycle

We expect total rate cuts of 50-75 bps in India during the current rate cycle. We expect a directional bias on the part of market participants to notch down on duration with a shift in focus from the highest duration to intermediate duration to capture accrual along with lower portfolio volatility. This presents an attractive opportunity in the intermediate duration curve (one-five years), especially in liquid corporate bonds in a one-five-year maturity bucket where spreads are in the 60-80 bps range over comparable G-secs. Given that the curve is inverted between short- and long-term corporate bonds, investors can benefit from the curve steepening during the rate cut cycle along with an opportunity to capture on higher accrual in this space.

Given the considerable gap between overnight and money market rates (up to 12 months), investors with a 6-12-month horizon can consider allocation to low duration/ money market strategies.

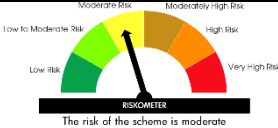


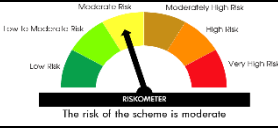
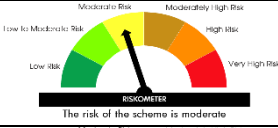
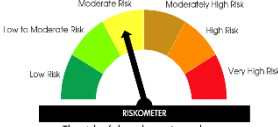
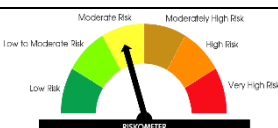

Investors with more than 12 months' investment horizon can consider allocation towards moderate duration (one-to-four year) categories, given the attractive accrual and prospects of mark-to-market gains on these strategies.

Scheme Name	AUM (INR Cr)	YTM*	Average Maturity	Modified Duration	Macaulay Duration
UTI Liquid Fund	27,432	7.23%	39 days	39 days	39 days
UTI Money Market Fund	17,810	7.51%	184 days	184 days	184 days
UTI Ultra Short Duration Fund	3,448	7.58%	144 days	136 days	142 days
UTI Low Duration Fund	3,348	7.62%	0.97 yrs	0.86 yrs	0.90 yrs
UTI Floater Fund	1,445	7.46%	1.57 yrs	1.29 yrs	1.37 yrs
UTI Short Duration Fund	2,338	7.54%	3.65 yrs	2.56 yrs	2.72 yrs
UTI Dynamic Bond Fund	534	7.09%	14.62 yrs	6.43 yrs	6.69 yrs
UTI Corporate Bond Fund	4,779	7.33%	4.89 yrs	3.58 yrs	3.77 yrs
UTI Banking & PSU Fund	814	7.32%	2.57 yrs	2.19 yrs	2.33 yrs
UTI Gilt Fund with 10 year Constant Duration	166	6.85%	9.76 yrs	6.82 yrs	7.05 yrs
UTI Long Duration Fund	122	7.11%	36.01 yrs	12.26 yrs	12.69 yrs

*Annualized Portfolio YTM - Yields of all securities are annualized Data as of January 31, 2025

Information Classification: **UTI AMC - Confidential**

Product Labelling and Riskometer

Scheme Name	This product is suitable for investors who are seeking*	Riskometer#
UTI Liquid Fund An open-ended liquid scheme. A Relatively Low Interest Rate Risk and Moderate Credit Risk	<ul style="list-style-type: none"> Steady and reasonable income over short-term with capital preservation Investment in money market securities & high-quality debt 	 <p>The risk of the scheme is low to moderate</p>
UTI Money Market Fund An open-ended debt scheme investing in money market instruments. A Relatively Low Interest Rate Risk and Moderate Credit Risk	<ul style="list-style-type: none"> Reasonable income with high level of liquidity over short-term Investment in money market securities 	 <p>The risk of the scheme is moderate</p>
UTI Ultra Short Duration 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	<ul style="list-style-type: none"> Reasonable income with low volatility over short term Investment in debt & money market instruments 	 <p>The risk of the scheme is moderate</p>
UTI Low Duration Fund An open-ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolios is between 6 months and 12 months. A Moderate Interest Rate Risk and Moderate Credit Risk	<ul style="list-style-type: none"> Reasonable income consistent with high liquidity over short term Investment in Debt & Money Market instruments 	 <p>The risk of the scheme is moderate</p>
UTI Floater Fund An open-ended debt scheme predominantly investing in floating rate instruments. A Relatively High Interest Rate Risk and Moderate Credit Risk	<ul style="list-style-type: none"> To generate reasonable returns To invest predominantly in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives) 	 <p>The risk of the scheme is low to moderate</p>
UTI Dynamic Bond Fund An open-ended dynamic debt scheme investing across duration. A Relatively High Interest Rate Risk and Moderate Credit Risk	<ul style="list-style-type: none"> Optimal returns with adequate liquidity over medium to long term Investment in Debt & Money Market Instruments 	 <p>The risk of the scheme is moderate</p>
UTI Corporate Bond Fund An open-ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A Relatively High Interest Rate Risk and Relatively Low Credit Risk	<ul style="list-style-type: none"> Optimal returns over the medium to long term To invest predominantly in AA+ and above rated corporate debt 	 <p>The risk of the scheme is moderate</p>
UTI Short Duration Fund An open-ended short-term debt scheme investing in instruments such that the Macaulay duration of portfolio is between 1 year and 3 years. A Relatively High interest rate risk and moderate Credit Risk	<ul style="list-style-type: none"> Reasonable income with low risk and high level of liquidity over short-term Investment in Debt & Money Market instruments 	 <p>The risk of the scheme is moderate</p>
UTI Banking and PSU Fund An open-ended debt scheme predominantly investing in debt instruments issued by Banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds. A Relatively High Interest Rate Risk and Moderate Credit Risk	<ul style="list-style-type: none"> Reasonable income, with low risk and high level of liquidity over short to medium term Investment predominantly in Debt & Money Market Securities issued by Bank, Public Sector Undertaking (PSUs), Public Financial Institutions (PFIs) and Municipal Bonds 	 <p>The risk of the scheme is moderate</p>
UTI Gilt Fund with 10 year Constant Duration An open-ended debt scheme investing in government securities having a constant maturity of 10 years. Relatively High Interest rate risk and Relatively Low Credit Risk	<ul style="list-style-type: none"> Reasonable income over long term Investment in government securities having a constant maturity of 10 years 	 <p>The risk of the scheme is moderate</p>
UTI Long Duration Fund An open-ended debt scheme investing in instruments such that the Macaulay duration of the portfolio is greater than 7 years. Relatively High Interest rate risk and Relatively Low Credit Risk	<ul style="list-style-type: none"> Long term wealth creation A debt scheme that invests in debt and money market instruments with an aim to maximize income while maintaining an optimum balance of yield, safety and liquidity 	 <p>The risk of the scheme is moderate</p>

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

#Risk-o-meter for the fund is based on the portfolio ending January 31, 2025. The Risk-o-meter of the fund/s is/are evaluated on monthly basis and any changes to Risk-o-meter are disclosed vide addendum on monthly basis, to view the latest addendum on Risk-o-meter, please visit the addenda section on <https://www.utimf.com/downloads>

Potential Risk Class Matrix

Credit Risk →	Relatively Low (Class A)		Moderate (Class B)		Relatively High (Class C)	
Interest Rate Risk ↓						
Relatively Low (Class I)	A-I	-	B-I	UTI Liquid Fund UTI Money Market Fund	C-I	-
Moderate (Class II)	A-II	-	B-II	UTI Ultra Short Duration Fund UTI Low Duration Fund	C-II	-
Relatively High (Class III)	A-III	UTI Corporate Bond Fund UTI Gilt Fund with 10 year Constant Duration UTI Long Duration Fund	B-III	UTI Short Duration Fund UTI Floater Fund UTI Banking & PSU Fund UTI Dynamic Bond Fund	C-III	-

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

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