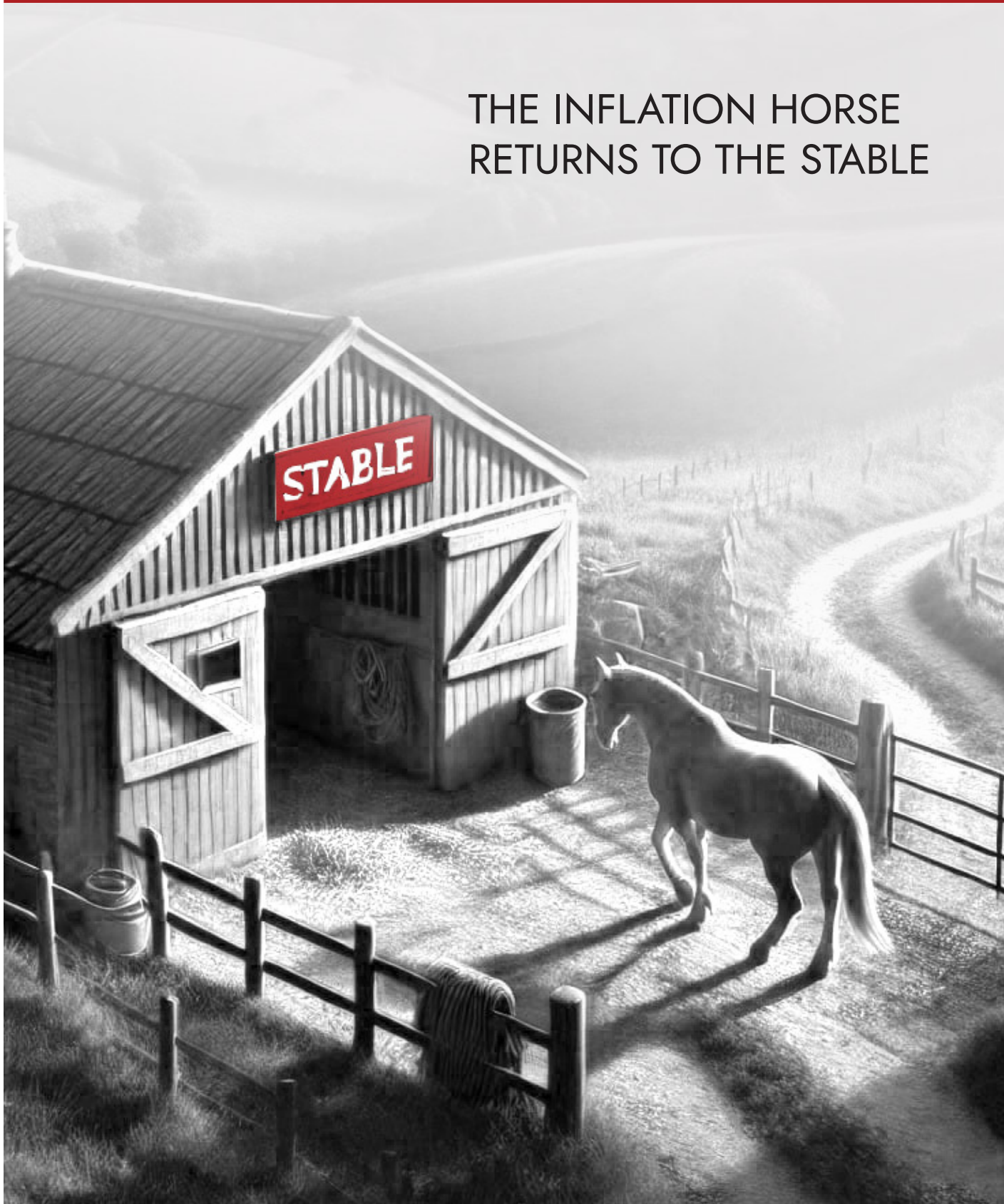


# INVESTOR COMPASS

Ambit Debt Edge Portfolio

October 2024

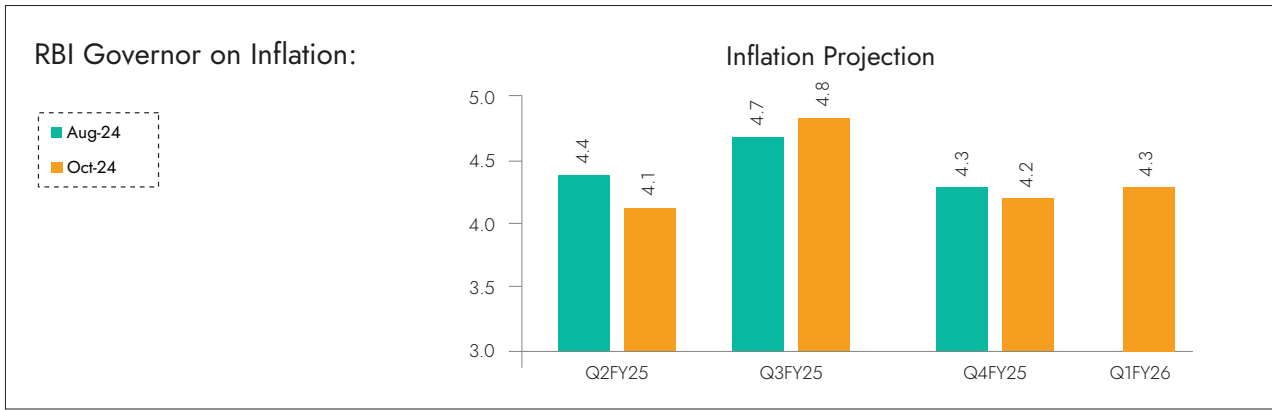
## THE INFLATION HORSE RETURNS TO THE STABLE



With inflation seeming to come under control within the RBI comfort band and they having greater visibility of it staying there on a sustained basis, the deck is now cleared for increasing focus on supporting growth before slowdown materialises. However, there is enough dry powder in terms of time of cut, since currently RBI is optimistic about growth and there are no hard or soft landing fears immediately domestically. Everyone loves flexibility for higher optimisation, and kudos to RBI for their steering the policy through the years in such a way that they have space, flexibility, and choice rather than being forced into “action” for optimising their actions. Readers can refer to our previous outlook notes [here](#), where we were positive in our investment actions and overall rate action. However, we had opined that there are no rate cuts likely immediately in the October policy and RBI would prefer to wait and watch. So while there has not been a cut, the stance has been changed from “withdrawal of accommodation” to “neutral”.

Below is a brief snapshot of the policy for reference.

Date	09 - Oct - 24	08 - Aug - 24
Action	Repo Rate unchanged at 6.50%	Repo Rate unchanged at 6.50%
Term Target	CPI 4% band +/- 2%, while supporting growth	CPI 4% band +/- 2%, while supporting growth
Stance	Neutral	Withdrawal of Accommodation
CPI Outlook	CPI Inflation FY25 @ 4.5% Q2 FY25 @ 4.1% Q3 FY25 @ 4.8%, Q4 FY25 @ 4.2% Q1 FY26 @ 4.3% Risk evenly balanced	CPI Inflation FY25 @ 4.5% Q2 FY25 @ 4.4% Q3 FY25 @ 4.7%, Q4 FY25 @ 4.3% Q1 FY26 @ 4.4% Risk evenly balanced
GDP Outlook	Real GDP Growth Projection FY25 @ 7.2% Q1 FY25 @ 6.7% Q2 FY25 @ 7% Q3 FY25 @ 7.4%, Q4 FY25 @ 7.4% Q1FY26 @ 7.2% Risk broadly balanced	Real GDP Growth Projection FY25 @ 7.2% Q1 FY25 @ 7.1%, Q2 FY25 @ 7.2% Q3 FY25 @ 7.3%, Q4 FY25 @ 7.2% Q1FY26 @ 7.2% Risk broadly balanced
Key Point	The MPC decided unanimously to change the stance to ‘neutral’ and to remain unambiguously focused on a durable alignment of inflation with the target while supporting growth.  MPC has decided to remain watchful of the evolving inflation outlook in the coming months. Keeping in view the prevailing inflation and growth conditions and the outlook, the MPC considered it appropriate to change the stance to ‘neutral’.	This reiterates the need to continue with the disinflationary stance until a durable alignment of headline CPI with the target is achieved. Price stability sets a strong foundation for a sustained period of high growth.  MPC also considers it appropriate to continue with the disinflationary stance of withdrawal of accommodation to ensure inflation progressively aligns with target, while supporting growth.
Rate Action + Stance	Vote to keep rates unchanged. All have voted for a neutral stance unambiguously; with one person for a rate cut. Shri Das: unchanged + Neutral Dr Ranjan: unchanged + Neutral Dr Patra: unchanged + Neutral Shri Bhattacharya: unchanged + Neutral Prof Singh: unchanged + Neutral Dr Kumar: 25 bps cut + Neutral	Vote to keep rates unchanged. Shri Das: unchanged + in favour of a stance Dr. Ranjan: unchanged + in favour of a stance Dr. Patra: unchanged + in favour of stance Dr. Bhide: unchanged + in favour of stance Dr Goyal: 25 bps cut+ Neutral Prof Varma: 25 bps cut + Neutral

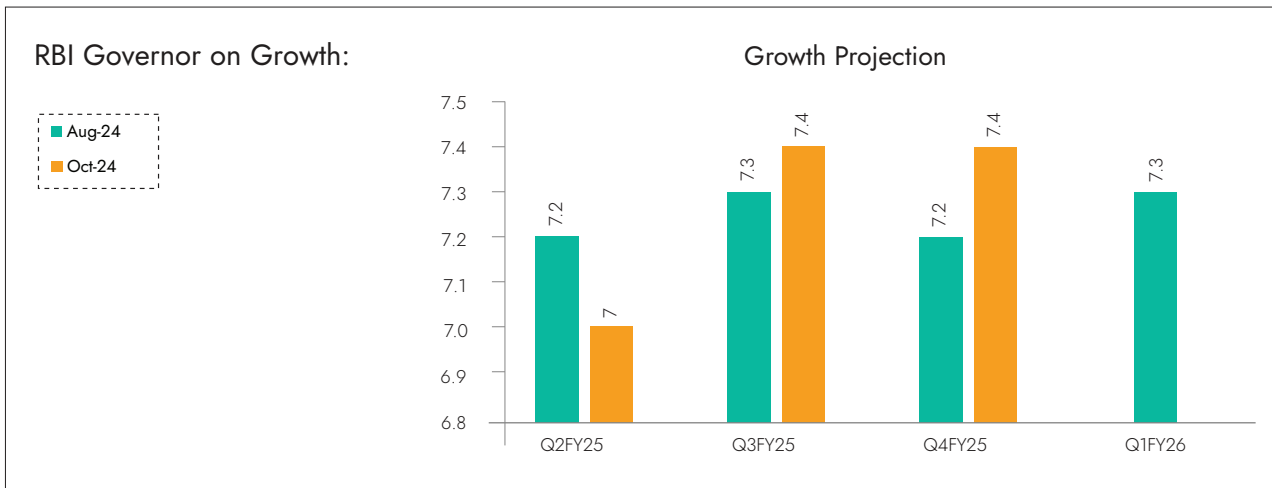


Source: RBI database

Headline CPI inflation softened significantly in July and August 29, with base effect playing a major role in July. Food inflation experienced a certain degree of correction during these two months. Considerable divergence, however, was observed within the food sub-groups. Deflation in the fuel group deepened on softening electricity and LPG prices. Core inflation, on the other hand, edged up in July and August.

The CPI print for September is expected to see a big jump due to unfavourable base effects and a pick-up in food price momentum, caused by the lingering effects of a shortfall in the production of onion, potato, and chana dal (gram) in 2023-24, among other factors. The headline inflation trajectory, however, is projected to sequentially moderate in Q4 of this year

due to a good Kharif harvest, ample buffer stocks of cereals, and a likely good crop in the ensuing rabi season. Unexpected weather events and the worsening of geopolitical conflicts constitute major upside risks to inflation. International crude oil prices have become volatile in October. The recent uptick in food and metal prices, as seen in the Food and Agricultural Organisation (FAO) and the World Bank price indices for September, if sustained, can add to the upside risks. Taking into account all these factors, CPI inflation for 2024-25 is projected at 4.5 percent, with Q2 at 4.1 percent; Q3 at 4.8 percent; and Q4 at 4.2 percent. CPI inflation for Q1:2025-26 is projected at 4.3 percent. The risks are evenly balanced.



Source: RBI database

Real gross domestic product (GDP) grew by 6.7 percent in Q1 2024-25, led by a revival in private consumption and improvement in investment. The share of investment in GDP reached its highest since 2012-13. Government expenditure, on the other hand, contracted during the quarter. On the supply side, gross value added (GVA) expanded by 6.8 percent surpassing GDP growth, aided by strong industrial and services sector activities.

High-frequency indicators available so far suggest that domestic economic activity continues to be steady. The main components from the supply side – agriculture, manufacturing, and services – remain resilient. Agricultural growth has been supported by above-normal southwest monsoon rainfall and better kharif sowing. Higher reservoir levels with good moisture conditions of soil augur well for the ensuing rabi crop. Manufacturing activity is gaining on the back of improving domestic demand, lower input costs, and a supportive policy environment. Eight core industries' output fell by 1.8 percent in August on a high base. Excess rainfall also dampened production in certain sectors such as electricity, coal, and cement in August. The purchasing managers' index (PMI) for manufacturing at 56.5 for September remained elevated. The services sector continues to grow at a strong pace. PMI services at 57.7 in September indicate robust expansion.

**Understanding:**

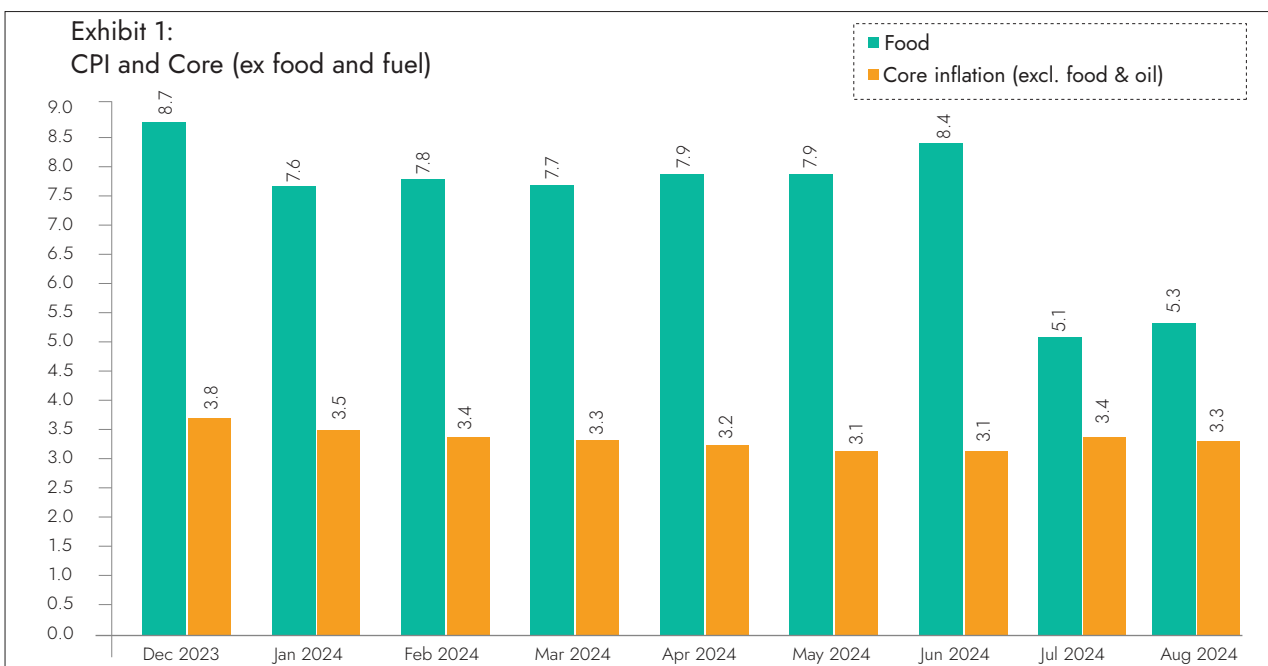
Flexible Inflation Targeting introduced a little less than a decade ago has proved to be wonderful in terms of enabling adequate flexibility for authorities to fine-tune the policies without fear of counterproductive pressure on both sides of the inflation control and growth support equation.

A unanimous decision to change the stance indicates increasing MPC's confidence in the future inflation

On the demand side, rural demand is trending upwards while urban demand continues to hold firm. Government consumption is improving. Investment activity remains buoyant, with government capex rebounding from a contraction observed in the first quarter. Private investment continues to gain steam on the back of expansion in non-food bank credit, higher capacity utilisation, and rising investment intentions. On the external front, services exports are supporting overall growth.

Looking ahead, India's growth story remains intact as its fundamental drivers – consumption and investment demand – are gaining momentum. Prospects of private consumption, the mainstay of aggregate demand, look bright on the back of improved agricultural outlook and rural demand. Sustained buoyancy in services would also support urban demand. Government expenditures of the center and the states are expected to pick up pace in line with the Budget Estimates. Investment activity would benefit from consumer and business optimism, the government's continued thrust on capex, and healthy balance sheets of banks and corporates. Taking all these factors into consideration, real GDP growth for 2024-25 is projected at 7.2 percent, with Q2 at 7.0 percent; Q3 at 7.4 percent; and Q4 at 7.4 percent. Real GDP growth for Q1:2025-26 is projected at 7.3 percent. The risks are evenly balanced.

trajectory and staying on a sustained basis in the comfort band. It has handled the high inflation "elephant" and now is confident that the controlled inflation "horse" will remain bolted in the stable i.e within the tolerance band. We expect the next couple of prints to be higher, but that is likely to be the last higher prints. We have witnessed, RBIs own estimates of 1 year forward core CPI and CPI ex- vegetable inflation have been below 4% for the last 9 months.



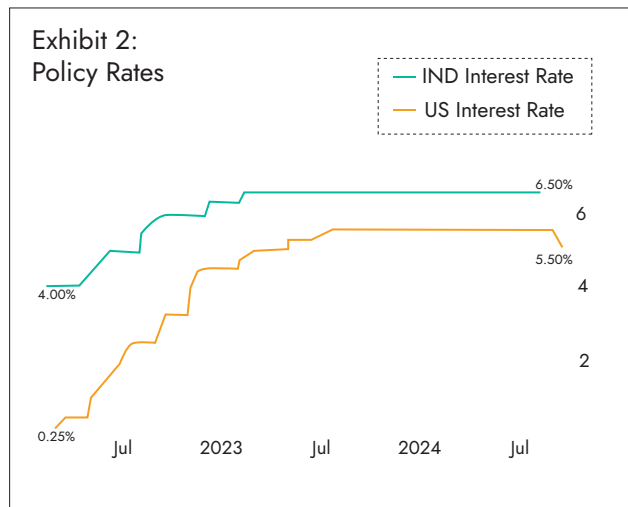
Source: CEIC, Ambit Asset Management

However, currently ongoing geopolitical tensions led to pressure on commodity prices is what RBI will want to keep an eye on. In case the firmness in prices persists then the rate cut could be delayed further. Barring that/domestic food prices witnessing disinflation, then RBI likely could start the rate cut cycle in December itself.

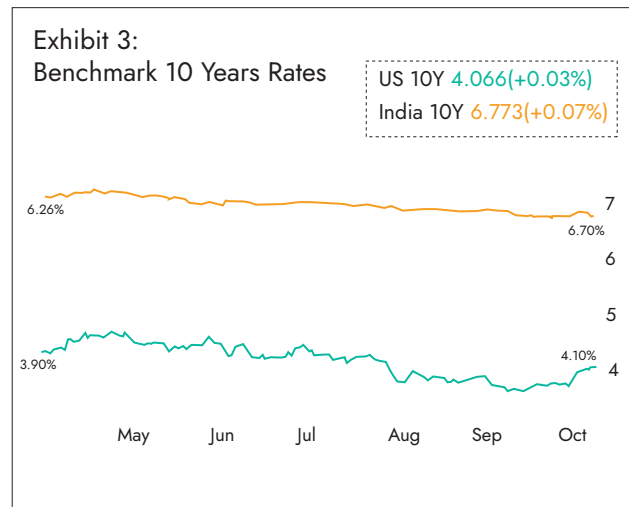
Also, investors should keep in mind that while growth momentum is strong, high-frequency indicators are suggesting weakness. Thus economy is growing, but there is some softness propping up viz weakness in PMIs, GST collection amongst others, and this weakness RBI would not want to let that get entrenched.

**Investment Outlook:**

The run-up to this policy, while internationally being volatile – from April onwards USA benchmark 10-year yields have gone from 4.3 to 3.6 and back up to 4.1), domestically scenario has been quite positive. Indian 10-year is down to 6.80 from 7.05 for the same period.



Source: tradingeconomics.com



Source: tradingeconomics.com

*Favourable domestic macros, increasing international bond indices inclusion, and a skewed demand-supply equation for bonds, augur very well from an overall perspective. So in addition to the rate cut journey fixed income is now also about more sets of international buyers emerging leading to sustained structural demand. After JP Morgan and Bloomberg, FTSE Russell was the third global index to include Indian bonds in its basket with flows starting 2025 onwards. It is precisely for this we have been saying that, since the direction is clear, investors should not worry about the precision of timing.*

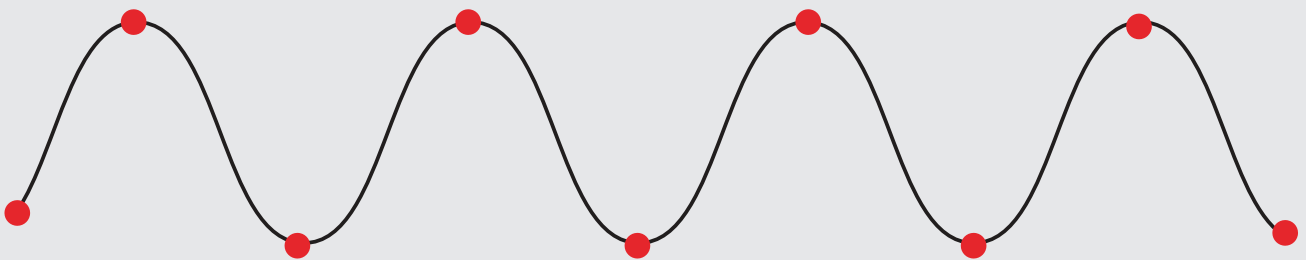
*Currently, we are of the opinion that inflation and RBI will likely undershoot RBI's projection for the year, with our projections being sub-7 % for growth and sub-4.5 % for inflation. Add to it favourable demand dynamics overall, basis that we are running elongated duration in our portfolios, with a dynamic barbell strategy. Long duration positions as tactical investments to take advantage of fall in interest rates led to amplified capital gains on one side, along with well-researched and well covenanted high yield short maturity instruments to earn constant high carry on the other side is our current strategy. This generates stable returns of high constant carry with the ability to capture capital appreciation. The focus is on dynamically building a stable all-season portfolio while minimising risks and*

*optimally maximising returns. A point to note here is that, while the rate cycle will bring gains, currently we expect a shallow cycle of approximately 50-100 bps of cuts. RBI didn't hike much unlike the 500 bps hike by the US, and RBI won't cut much. Currently, we expect a terminal rate to be 6.00-5.75 going ahead. Basis this we prefer duration as a tactical opportunity and we are accordingly positioned.*

*With all fixed-income products now getting the same taxation treatment, vis a vis certain vehicles enjoying favourable tax treatment earlier, leading to forced misallocation and/or mispricing of risk, investors now have an advantage of picking and choosing the most appropriate strategy/portfolio. This customisation will help investors earn additional alpha based on respective risk reward appetite in a more holistic and scientific manner as compared to earlier tax arbitrage-biased investment decisions.*

*As always, we manage our investments dynamically, stay watchful of evolving situations, evaluate them, and fine-tune investment thesis and resultant investment actions.*

# INVEST SUCCESSFULLY ACROSS MARKET CYCLES WITH AMBIT ASSET MANAGEMENT



Successful investing takes acumen

The acumen to have a solution for every need

The acumen to navigate volatile conditions

The acumen to always stay true to character

At Ambit Asset Management, it is this acumen that helps you invest successfully, with products that stay true to character across market cycles

**For any queries, please contact:**

Phone: +91 22 6623 3281 | Email - [amsales@ambit.co](mailto:amsales@ambit.co)

Registered Address: Ambit Investment Advisors Private Limited - Ambit House, 449, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013.

Corporate Address: Ambit Investment Advisors Private Limited - 2103/2104, 21st Floor, One Lodha Place, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013.

Ambit Investment Advisors Private Limited ("Ambit"), is a registered Portfolio Manager with Securities and Exchange Board of India vide registration number INP000005059.

Individual portfolio composition may vary on case to case basis. Number of securities in individual portfolios will be a function of investor's objectives, investment time horizon, risk-reward outlook and availability of individual securities at optimal price levels.

The performance of the Portfolio Manager has not been approved or recommended by SEBI nor SEBI certifies the accuracy or adequacy of the performance related information contained therein. Returns are calculated using TWRR method as prescribed under revised SEBI (Portfolio Managers) Regulations, 2020. Performance is net of all fees and expenses. Past performance is not a reliable indicator of future results. Please note that performance of your portfolio may vary from that of other investors and that generated by the Investment Approach across all investors because of 1) the timing of inflows and outflows of funds; and 2) differences in the portfolio composition because of restrictions and other constraints. For comparative Performance relative to other Portfolio Managers within the selected Strategy, please visit: [bit.ly/APMI\\_PMS](http://bit.ly/APMI_PMS).

This presentation / newsletter / report is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities or to enter into any Portfolio Management agreements. This presentation / newsletter / report is prepared by Ambit strictly for the specified audience and is not intended for distribution to public and is not to be disseminated or circulated to any other party outside of the intended purpose. This presentation / newsletter / report may contain confidential or proprietary information and no part of this presentation / newsletter / report may be reproduced in any form without its prior written consent to Ambit. All opinions, figures, charts/ graphs, estimates and data included in this presentation / newsletter / report is subject to change without notice. This document is not for public distribution and if you receive a copy of this presentation / newsletter / report and you are not the intended recipient, you should destroy this immediately. Any dissemination, copying or circulation of this communication in any form is strictly prohibited. This material should not be circulated in countries where restrictions exist on soliciting business from potential clients residing in such countries. Recipients of this material should inform themselves about and observe any such restrictions. Recipients shall be solely liable for any liability incurred by them in this regard and will indemnify Ambit for any liability it may incur in this respect.

Neither Ambit nor any of their respective affiliates or representatives make any express or implied representation or warranty as to the adequacy or accuracy of the statistical data or factual statement concerning India or its economy or make any representation as to the accuracy, completeness, reasonableness or sufficiency of any of the information contained in the presentation / newsletter / report herein, or in the case of projections, as to their attainability or the accuracy or completeness of the assumptions from which they are derived, and it is expected each prospective investor will pursue its own independent due diligence. In preparing this presentation / newsletter / report, Ambit has relied upon and assumed, without independent verification, the accuracy and completeness of information available from public sources. Accordingly, neither Ambit nor any of its affiliates, shareholders, directors, employees, agents or advisors shall be liable for any loss or damage (direct or indirect) suffered as a result of reliance upon any statements contained in, or any omission from this presentation / newsletter / report and any such liability is expressly disclaimed. Further, the information contained in this presentation / newsletter / report has not been verified by SEBI.

You are expected to take into consideration all the risk factors including financial conditions, risk-return profile, tax consequences, etc. You understand that the past performance or name of the portfolio or any similar product do not in any manner indicate surety of performance of such product or portfolio in future. You further understand that all such products are subject to various market risks, settlement risks, economical risks, political risks, business risks, and financial risks etc. and there is no assurance or guarantee that the objectives of any of the strategies of such product or portfolio will be achieved. You are expected to thoroughly go through the terms of the arrangements / agreements and understand in detail the risk-return profile of any security or product of Ambit or any other service provider before making any investment. You should also take professional / legal /tax advice before making any decision of investing or disinvesting. The investment relating to any products of Ambit may not be suited to all categories of investors. Ambit or Ambit associates may have financial or other business interests that may adversely affect the objectivity of the views contained in this presentation / newsletter / report.

Ambit does not guarantee the future performance or any level of performance relating to any products of Ambit or any other third party service provider. Investment in any product including mutual fund or in the product of third party service provider does not provide any assurance or guarantee that the objectives of the product are specifically achieved. Ambit shall not be liable for any losses that you may suffer on account of any investment or disinvestment decision based on the communication or information or recommendation received from Ambit on any product. Further Ambit shall not be liable for any loss which may have arisen by wrong or misleading instructions given by you whether orally or in writing. The name of the product does not in any manner indicate their prospects or return.

The product 'Ambit Coffee Can Portfolio' has been migrated from Ambit Capital Private Limited to Ambit Investments Advisors Private Limited. Hence some of the information in this presentation may belong to the period when this product was managed by Ambit Capital Private Limited.

The performance data for coffee can product between 6th march 2017 - 19th June 2017 represents model portfolio returns. First client was onboarded on 20th June 2017. The performance data for G&C product between 1st June 2016 to 1st April 2018 also includes returns for funds managed for an advisory offshore client. Returns are calculated using TWRR method as prescribed under revised SEBI (Portfolio Managers) Regulations, 2020.

You may contact your Relationship Manager for any queries.