Mutual Fund Median Returns – Category-wise Performance

Category	Simple Annualised % (Point to Point) as on 30th June 2025						Compound Annualised % as on 30th June 2025		
	14 Day	1 Month	2 Month	3 Months	6 Months	1 Year	2 Year	3 Year	5 Year
Overnight funds	5.14	5.21	5.45	5.59	5.99	6.30	6.50	6.34	5.07
Liquid funds	5.84	6.13	6.34	6.62	7.03	7.15	7.19	6.91	5.47
Money Market funds	6.28	7.31	7.73	8.58	8.43	7.95	7.56	7.18	5.79
Ultra Short Duration funds	5.99	6.75	7.04	7.62	7.67	7.36	7.14	6.81	5.45
Low Duration funds	6.37	6.40	7.70	8.88	8.40	7.94	7.44	7.07	5.75
Floater funds	5.97	4.06	8.09	9.90	9.67	9.13	8.37	7.83	6.47
Short Duration funds	4.27	2.03	7.30	10.45	9.78	8.98	7.90	7.41	5.85
Medium Duration funds	2.95	-0.65	5.36	9.71	9.72	9.00	7.97	7.82	6.67
Medium to Long Duration funds	-1.22	-8.29	0.06	7.59	8.86	8.33	7.64	7.65	5.31
Long Duration funds	-10.10	-24.96	-12.43	0.16	5.67	6.72	8.44	9.02	5.52
Dynamic bond funds	-2.40	-10.91	-0.85	6.72	8.57	8.21	7.88	7.43	5.76
Corporate bond funds	3.93	0.66	6.95	10.55	10.00	9.33	8.16	7.60	6.01
Credit Risk funds	5.46	4.13	7.81	10.56	9.93	9.07	8.19	8.02	7.40
Banking & PSU funds	3.25	-0.32	6.48	10.14	9.78	8.96	7.86	7.44	5.93
Gilt funds	-6.35	-17.27	-5.75	4.28	7.60	7.87	7.92	7.72	5.35
Arbitrage funds	6.45	6.33	5.47	6.23	6.75	6.78	7.19	6.70	5.40
Debt Plus Arbitrage FOFs	4.20	1.89	5.90	8.30	8.26	8.66	8.56	8.01	7.06

- **Money Market and Low Duration Funds** emerged as the top performers in the sub-1-year segment, delivering robust 3-month annualised returns of **8.58% and 8.88%**, respectively, supported by elevated short-term rates and active portfolio positioning. These categories offered an **attractive blend of accrual and liquidity**, catering to investors seeking yield without taking on significant duration risk.
- **Corporate Bond Funds emerged as the top performers** over the short- to medium-term horizon, with 6-month returns outpacing other categories in the segment. Their strong performance was supported by spread compression and **attractive accrual from high-quality, higher-yielding credit instruments**, **reflecting investor confidence in stable-rated issuers amid a favorable carry environment.**
- **Debt Plus Arbitrage Fund of Funds have delivered strong and stable returns over the long term (2 year)**, supported by steady arbitrage gains and accrual from underlying debt allocations. Their hybrid structure offers significant tax advantages when held for more than two years, making them an attractive low-volatility investment choice for conservative investors with a medium- to long-term horizon.

June 2025 was marked by heightened volatility in the debt market following the RBI's unexpected 50 bps rate cut and a shift in stance to neutral. Instead of easing conditions, the move triggered a sharp rise in government bond yields, particularly at the long end, amid concerns over heavy supply and weak demand.

In contrast, **corporate bond yields edged up but remained relatively stable**, resulting in a **widening of credit spreads**. Despite the volatility, select mutual fund categories—particularly money market, corporate bond, and credit risk funds—delivered strong short-term gains.

Overall, the month reflected a re-pricing of interest rate expectations amid shifting policy dynamics and global uncertainties.

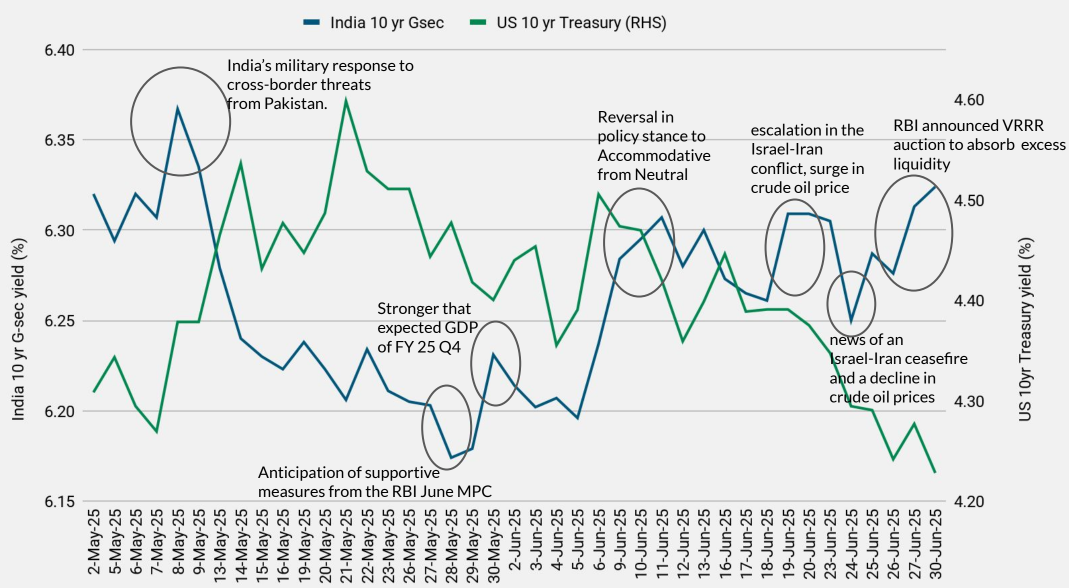
As we move into July, the focus shifts to how the RBI addresses the evolving market dynamics—particularly the ***steepening yield curve*** *and concerns around* ***long bond supply****. W****ith high term spreads and valuations turning more attractive, investors*** *will be watching for policy clarity, liquidity cues, and global trends to guide positioning across the curve.*

Monthly Debt Market Snapshot – June 2025

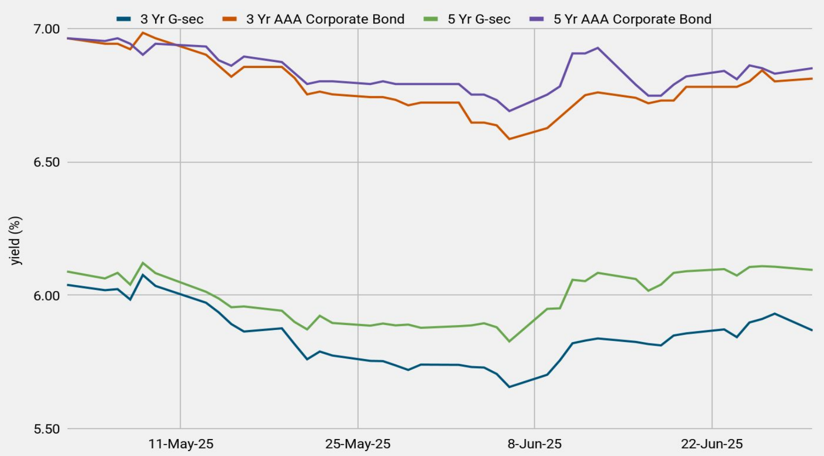
Key indicators	30-May-25	30-Jun-25	change
5 Yr GOI Bond	5.88%	6.10%	▲ 22 bps
10 Yr GOI Bond	6.23%	6.32%	▲ 9 bps
10 Yr US Treasury	4.40%	4.23%	▼ 17 bps
Call Rate	5.85%	5.50%	▼ 35 bps
T-Repo	5.83%	5.42%	▼ 41 bps
91 Day T-Bill	5.60%	5.37%	▼ 23 bps
3 M CD	6.10%	5.82%	▼ 28 bps
3 M CP	6.43%	6.20%	▼ 23 bps
USD/INR	85.48	85.54	▲ 0.06

- Domestic bond yields ended the month of June sharply higher, reversing the easing trend seen in May. The uptick was driven by a shift in the policy stance of the local central bank and a surge in crude oil prices following the Iran-Israel conflict.
- The RBI surprised the market in its June policy meeting by delivering a sharper-than-expected 50 bps rate cut, against the consensus estimate of 25 bps. Additionally, the shift in policy stance from 'accommodative' to 'neutral' caught markets off guard, triggering a sharp sell-off in bonds.
- Meanwhile, money market rates dropped supported by the RBI's liquidity-boosting move through the CRR cut in the policy meeting.

India 10-Year G-Sec Yields Rise While US Treasury Yields Slide – May to June 2025

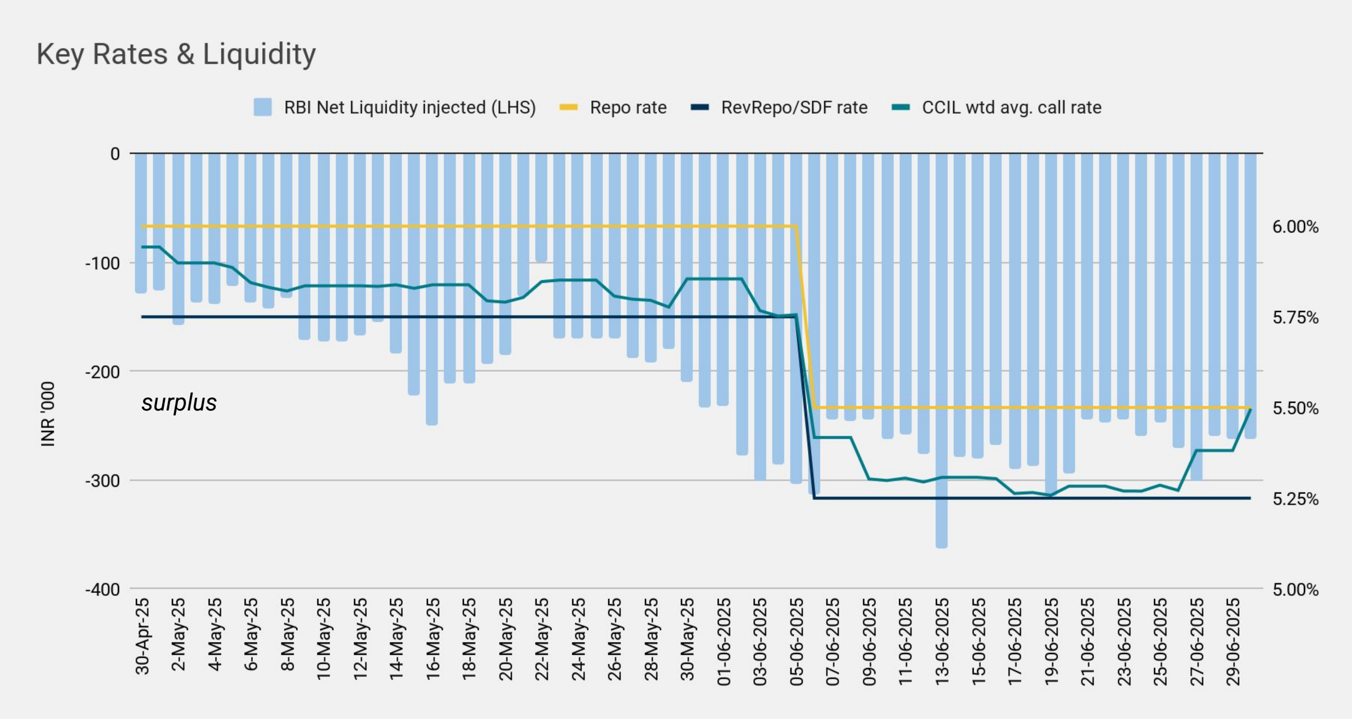


Corporate Bonds Lag G-sec Yield Spike - June 2025

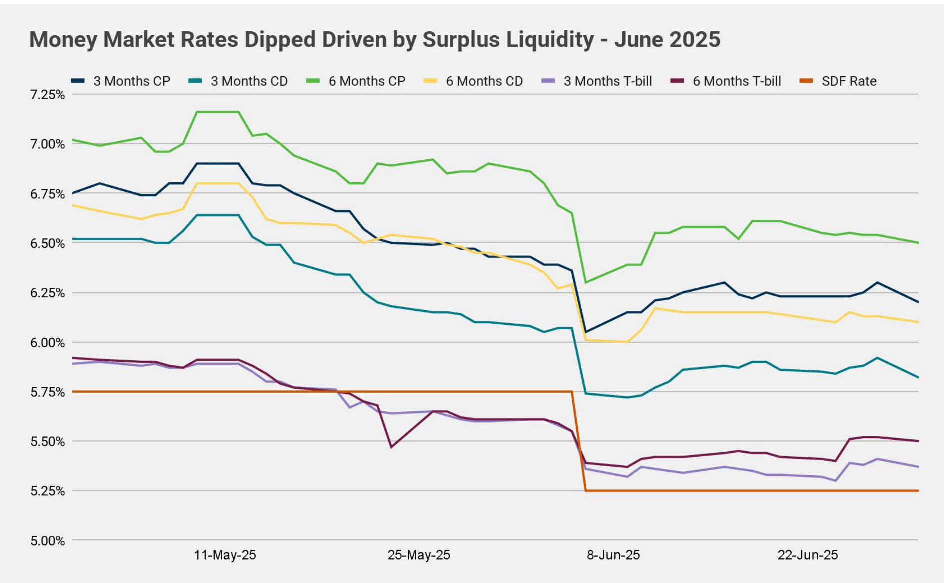


- Corporate bond yields edged up but rose at a slower pace compared to their respective G-sec counterparts, leading to a widening of credit spreads across tenors.
- Despite heightened G-sec volatility, AAA-rated 3-year and 5-year corporate bond yields remained largely stable, trading within a narrow range — reflecting strong investor appetite for high-quality credit.
- This stability aligns with the underlying issuance trend, where AAA-rated issuers dominated, while lower-rated entities remained subdued amid tight financial conditions.

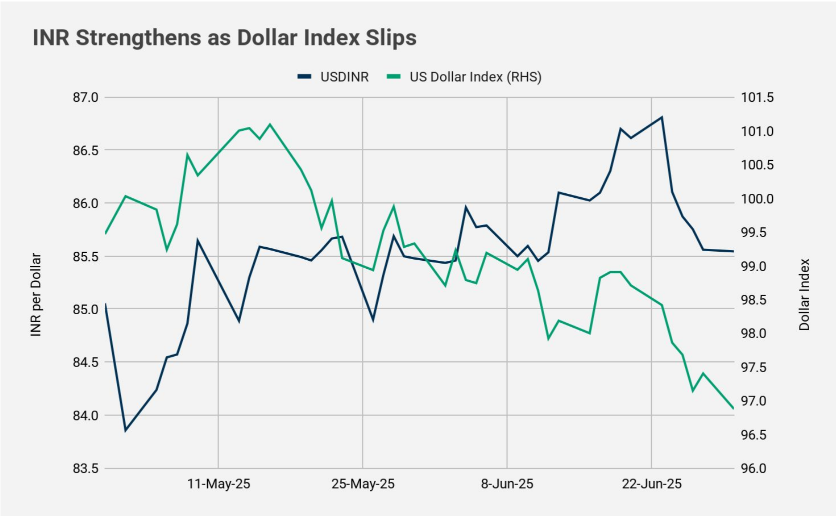
Liquidity Check And Short-term Rates Movement

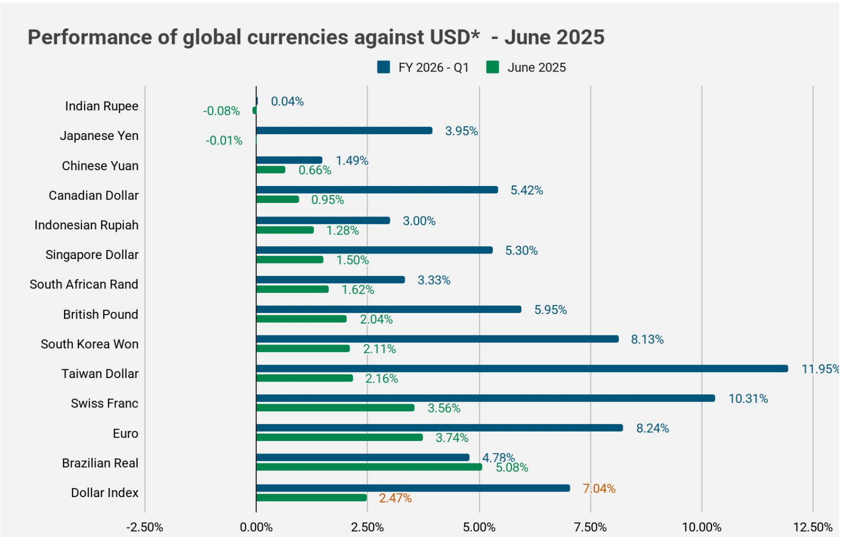


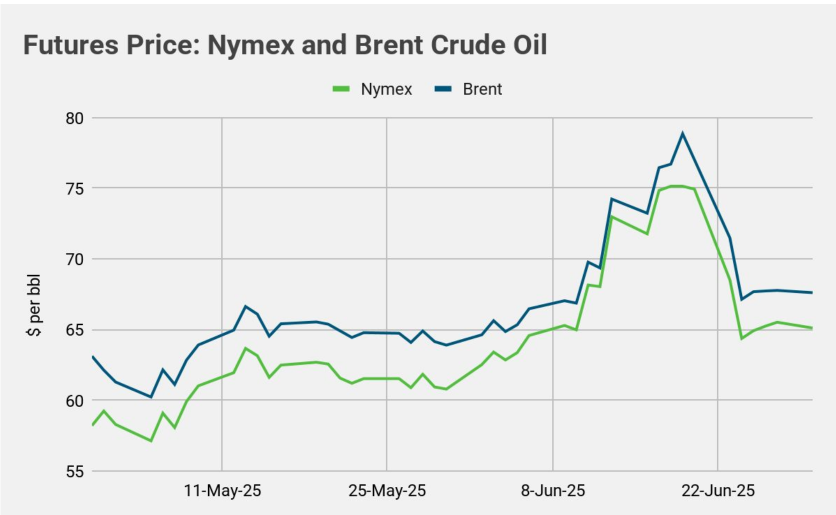
- Liquidity in the Indian banking system remained comfortably in surplus during June, with the average surplus rising from ₹1.68 lakh crore in May to ₹2.73 lakh crore. Reflecting this abundance, the RBI paused its daily Variable Rate Repo (VRR) auctions from June 11, as surplus liquidity had already surged to around ₹2.75 lakh crore by June 10.
- To manage this excess and guide overnight rates toward the policy repo rate, the RBI conducted a 7-day Variable Rate Reverse Repo (VRRR) auction worth ₹1 lakh crore. However, the auction saw only ₹84,975 crore worth of bids, pointing to either emerging tightness in banking liquidity or banks' preference for alternative short-term investments with higher yields.
- While the size and tenure of the VRRR operation were notable, market participants interpreted it as a signal of the RBI's intent to actively manage surplus liquidity and prevent excessive softening of short-term rates.
- Additionally, short-term money market rates saw a noticeable decline in June compared to May, driven not only by the abundant liquidity but also by the supportive impact of the RBI's earlier CRR cut—a move aimed at injecting durable liquidity into the system.



Key Market Trends



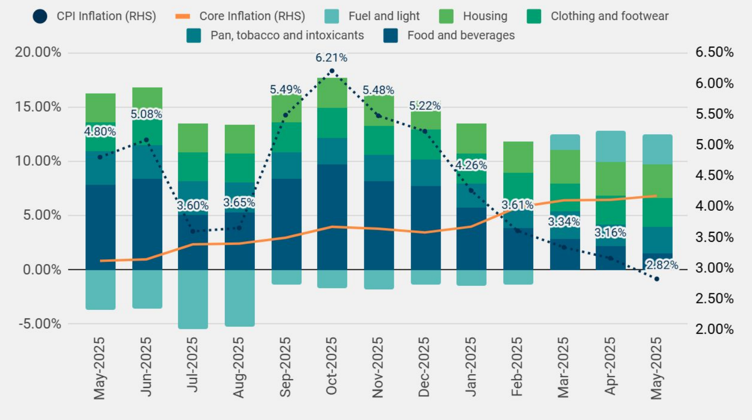




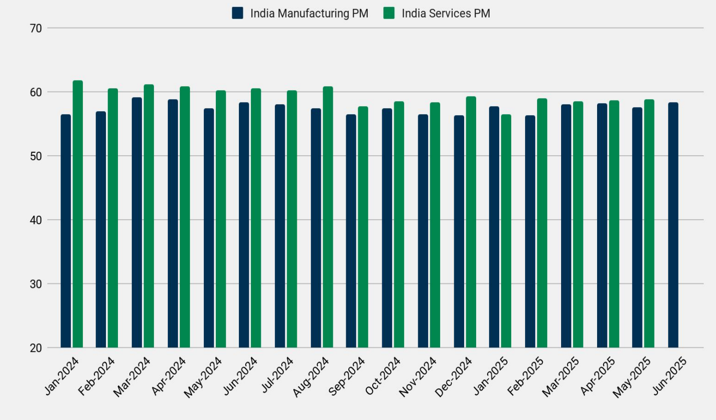
- In June 2025, the **Indian rupee depreciated by 0.08%**, closing the month at **85.5439 against the U.S. dollar**, underperforming Asian peers despite a broadly weaker dollar environment, amid **muted foreign portfolio inflows** and concerns over India's **external investment deficit**.
- However, the Indian rupee **recovered by 1.5% from its three-month low of 86.81/USD**, touched in the last week of June following the **U.S. strike on Iran's nuclear facilities**, as geopolitical tensions eased and global risk sentiment stabilised.
- While the Indian rupee remained **largely flat in Q1**, it **underperformed most Asian peers**, including the **Taiwan dollar (+13%)**, **Korean won (+8%)**, and **offshore Chinese yuan (+2%)**, which benefited from stronger capital flows and external balances.
- Analysts attribute the rupee's relative weakness to **India's negative Net International Investment Position (NIIP)**, which stood at a **deficit of ~$350 billion as of December 2024**, reflecting that India owes more to the world than it owns in overseas assets.
- In contrast, economies like **Taiwan, South Korea, and China** hold **positive NIIPs**, and their currencies tend to strengthen in a weaker dollar environment as investors repatriate capital or hedge foreign assets.
- Despite these structural pressures, a **weaker dollar outlook** and **stabilising global risk sentiment** may offer some near-term support to the rupee, keeping the **USD/INR range-bound between 84–86** with a mild downside bias.
- **Crude oil prices were highly volatile in June**, with Brent crude futures briefly spiking above $75 per barrel following the U.S. strike on Iran's nuclear facilities on June 13, driven by fears of supply disruption. However, **prices corrected sharply later in the month as geopolitical tensions eased and a ceasefire held.**
- Despite the late-month decline, **both Brent and WTI posted gains for** the **second consecutive month, rising approximately 6% and 7%**, respectively.
- **The oil market remains caught between easing supply risks, record-high U.S. output, and subdued global demand,** leaving prices vulnerable to further weakness, even as some structural tightness persists in select regions.

India's Economic Strength Shines Through: Inflation Eases, Growth Sustains

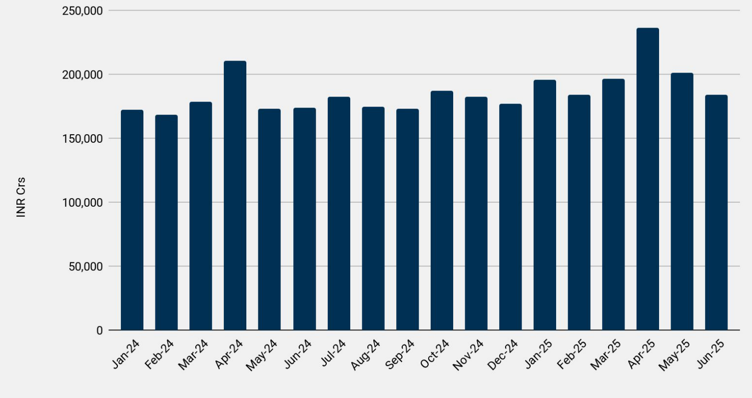
CPI Inflation Cools to 6-Year Low on Sharp Food Price Correction



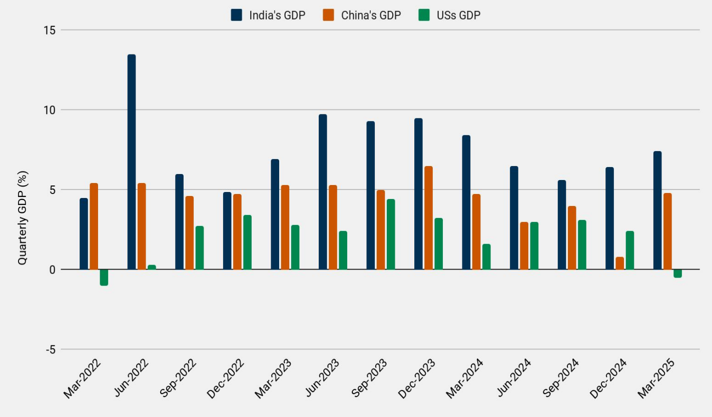
India's PMI Continues to Signal Strong Economic Momentum



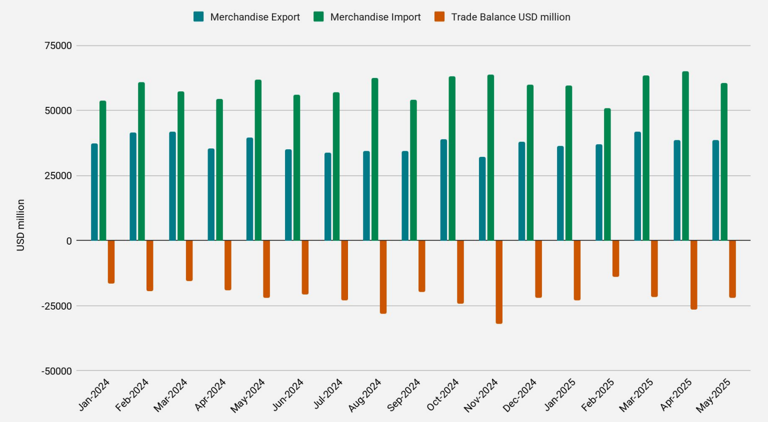
GST Collections Remain Above ₹1.5 Lakh Crore for Two Years; Hit Record ₹2.34 Lakh Crore in April 2025



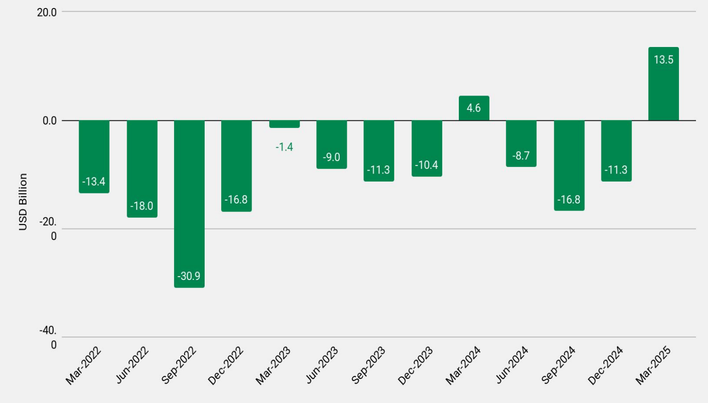
India Maintains Lead in Global Growth Amid Slowing US and China Economies



India's Merchandise Trade Deficit Narrows to $21.88 Billion in May Despite Dip in Exports



India's Current Account Swings to $13.5 Billion Surplus (1.3% of GDP) in Q4FY25 on Strong Services Exports



India's macro fundamentals remain strong — CPI inflation eased to **2.82% in May 2025** (lowest since Feb 2019), **GST collections stay robust** above ₹1.5 lakh crore for 24+ months, and **PMIs** indicate continued expansion across manufacturing and services.

External metrics improve — **Trade deficit narrowed** to $21.88 bn in May, **current account posted a $13.5 bn surplus in Q4FY25**, and **GDP growth** continues to lead major economies, supported by resilient exports and strong domestic demand.

B-402, Business Square, 4th Floor, Andheri Kurla Road, Chakala, Andheri (E), Mumbai – 400093
E/ research@matasec.com