The Economic Times
Title : Wealth Managers Favour Short-term Debt Products Now
Author : Prashant Mahesh
Location :
Mumbai:
Article Date : 12/16/2016

Financial planners change their views as they feel RBI's pace of rate cuts may be slower

Wealth managers have tweaked their fixed income strategies after the US Fed's move to increase rates by 25 basis points and the Reserve Bank of India's decision to keep rates unchanged last week.

While earlier they were allocating more money to schemes that bet on long-term government bonds on expectations the RBI will cut rates aggressively post demonetisation, they are now shifting to debt products that invest in shortterm bonds judging that rate cuts now will be slower. “RBI's focus on inflation, and the Fed's hike means, future rate cuts may happen at a slower pace,“ said Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Earlier, wealth managers like Dhawan were recommending investors equal allocation in longterm and short-term debt products.

These days, they are recommending investors to hold two thirds of their portfolio in short-term products and the balance one-third portfolio in dynamic bond funds.

Long-term debt schemes bet on government bonds with an intention to churn capital gains from a rise in prices. In short-term products, there is usually expectation of a fixed return till they mature.

Post demonetisation, as liquidity swelled with banks, the yield on 10year benchmark bond fell from 6.8% to 6.2%. However, with the Fed increasing rates and the RBI keeping them unchanged, the yield has risen by 34 basis points to touch 6.54%.

Fund managers believe, given the flow of global news and local news post demonetisation, volatility in the bond markets is likely to continue. “Given the volatility expected in the global markets, incremental money into debt could go into short and medium duration funds as these remain a suitable investment avenue for relatively stable and better risk adjusted returns from here on,“ said Rahul Goswami, chief investment officer-fixed income, ICICI Prudential Mutual Fund.

International factors could also decide when the central bank could go for its next round of rate cuts. The benchmark 10-year G-Sec in the US moved up sharply from 1.6% to 2.62%, as the Fed hiked rates by 25 basis points for the first time in 2016 and indicated three hikes in 2017.

“As and when global factors stabilise, RBI will go for its next round of rate cuts,“ believed Mahendra Kumar Jajoo, chief investment officer (fixed income), Mirae Asset Management.

He advised investors to look at short term debt funds in the near term and stagger their investments in duration funds till March. Jajoo believes the RBI will cut rates by 25-50 basis points over the next six months.