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|--------------------------------------------|----------------------------------|----------------------------------|-----------------------------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------------|
| 11:46 AM 16 NOV MARKET STATS ▼ | SENSEX 26,484 ▲ 179.38 | NIFTY 50 8,151 ▲ 42.60 | GOLD (MCX) (Rs/10g.) 29,391 ▲ 71.00 | USD/INR 67.77 ▲ 0.03 | CREATE PORTFOLIO | Download ET MARKETS APP | CHOOSE LANGUAGE ENG |
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Demonetisation: Time to invest in long-term bonds

By *Prashant Mahesh*, ET Bureau | Updated: Nov 14, 2016, 10.25 AM IST



The **demonetisation** scheme of the government, which is seen as disinflationary, has strengthened the case for investing in debt mutual funds that invest in long-term government securities. Fund managers are betting that lower **inflation** will lead to quicker rate cuts by **Reserve Bank of India (RBI)**.

Fund managers are betting that lower inflation will lead to quicker rate cuts by Reserve Bank of India (RBI).

"For the debt component of the portfolio, we advise investors to increase their allocation to long-term funds from 33% to 50%," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.



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Comments

| CATEGORY | TOP 3 FUNDS | RETURN (%) | WHY INVEST |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DYNAMIC BOND FUNDS | <ul style="list-style-type: none"> ① ICI Prudential Long Term Fund ② HDFC High Interest Fund ③ Birla SL Dynamic Bond | 11.63  | Dynamic bond funds enable fund managers to move into short or long-term bonds depending on their outlook on interest rates. They are a good bet in case there is volatility |
| INCOME FUNDS | <ul style="list-style-type: none"> ① HDFC Income Fund ② Birla SL Income Plus ③ ICI Prudential Income | 10.85  | In a falling interest rate scenario, bond prices of long-dated bonds move up, thereby resulting in capital appreciation for investors |
| GILT FUNDS | <ul style="list-style-type: none"> ① ICI Prudential Long Term Gilt ② Kotak Gilt ③ HDFC Gilt | 13.27  | If there is a sharp cut in interest rates, gilt funds will be the biggest beneficiaries as they invest in long-tenure government bonds. Such bonds see maximum appreciation in case of fall in interest rates |

Aggressive fixed income investors could invest in dynamic bond funds, income funds and gilt funds, which will benefit from falling rates (or yields). Bond prices and yields move in opposite direction; when yields fall, prices rise and vice-versa. Funds that invest in long-term government securities look to benefit from the rise in bond prices.

As individuals head to banks to deposit their old currency notes, fund managers expect liquidity to improve and CASA balances of banks to show sharp rise. As against this rise in deposits, there will be few opportunities for banks to lend as credit demand is likely to remain muted for the next couple of quarters.

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Companies are by and large, underutilising existing capacity, and consumer spending has reduced. Given this, a lot of money will chase government securities, thereby bringing down yields even further in the next 6-12 months.

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