Budget 2022: Debt mutual fund returns may go down, say experts

By Shivani Bazaz ET Online| Feb 01, 2022, 04:06 PM IST

Synopsis

Fund managers believe that the higher-than-expected fiscal deficit and higher borrowing might put pressure on the bond market and it may drain down the returns from debt mutual funds in the near future.

The Union Budget 2022 has left many debt mutual fund managers worried. They believe that the higher-than-expected fiscal deficit and higher borrowing might put pressure on the bond market and it may drain down the returns from debt mutual funds in the near future. Mutual fund advisors also say that investors need to bring their return expectations down.

“A Higher-than-expected Fiscal deficit and absence of any announcement on global bond index inclusion are negative for the bond market. Higher borrowing requirements of the center and state governments will put pressure on the bond markets. We expect bond yields to move up further with a bigger impact on the longer term bond yields. Fixed Income investors should stick to categories like liquid fund or other short duration fund categories,” says Pankaj Pathak, Fund Manager- Fixed Income, Quantum Mutual Fund

In the last six months, the performance of debt mutual funds has remained muted due to uncertainties around interest rate movement. The US Federal Reserve has already signaled a hike in interest rates and the RBI is expected to follow. Many market pundits believe that the RBI might take it slow and start by changing the stance and then follow it up with rate hikes. In any case, these experts say that debt mutual funds can be under pressure this year.

“Inflation could be a challenge going forward and hence the bond market could come under pressure. Investors would need to prepare for that. There are two phases of this. one, when the interest rate would move up. During that phase, you will see a mark to market risk to all the funds. The lower the duration, the lower the mark-to-market impact. One of the categories investors need to look closely is the Target Maturity Funds. Those who can should lock-in the money. This prevents you from the impact. That is one category which has very low expenses also,” says Vishal Dhawan, Founder, Plan Ahead Wealth Advisors, based in Mumbai.

Mutual fund advisors say that investors should not exit or stop investing because of these uncertainties. In 2018-2020, debt mutual funds had proven their worth as a great asset class hedging the portfolios of investors against the equity market falls and volatility.

“The cost of holding cash continues to be high. Investors will have to build a barbell kind of strategy wherein they put some of their money away in some schemes. Waiting for the rate cycle to peak out will not be a good strategy because the liquid money will not get you much now,” says Vishal Dhawan.

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