Are target maturity debt funds a good investment option at this time?

By Shivani Bazaz , ET Online Last Updated: Feb 21, 2022, 12:42 PM IST

Synopsis :

The spike in 10-year government bond yields has made them an attractive option for investors looking to invest in debt funds for a longer term horizon.

Target maturity funds (or debt funds with a specific maturity date) are the talk of the town. Fund managers and mutual fund advisors are speaking about these schemes as a good way of navigating the current volatility in the debt space. The spike in 10-year government bond yields has made them an attractive option for investors looking to invest in debt mutual funds for a longer term horizon.

"Target Maturity Funds allow investors to lock-in their investments in a specific maturity segment of bonds where yields are attractive. Currently, yields in the longer maturity segment between 5 to 10 years have gone up and investing in TM funds with 2026 to 2032 maturity looks as a reasonable opportunity for long term investors," says Niranjan Avasthi, Head Product, Marketing and Digital Business, Edelweiss Mutual Fund.

January 2022 was volatile for global bond markets, including India. Bond yields rose in developed as well as emerging markets as participants rushed to adjust their positions amid prospects of greater-than-expected rate hikes by central banks. Yield of benchmark 10Y UST hardened by 44 basis points to 1.95% on YTD basis by Feb 14. Government bond yields shot up sharply in India after the Union Budget shocked the bond market with larger-than-expected government borrowing for FY23. Yield touched a peak of 6.94% on February 4 from their pre-budget level of 6.66% on February 1.

The bond market is expected to remain volatile and it will have a direct bearing on all the debt mutual fund categories. The returns from debt mutual fund categories have been low lately. Most debt fund categories were in red after the Budget and the RBI's decision of maintaining status quo has come as a momentary relief for these funds, say fund managers. They also say that the uncertainty of the impact caused by rate hike is still looming large on the debt funds.

At this juncture, mutual fund advisors are advocating target maturity funds for investors who can invest for the specified period and looking for predictable returns.

"Considering that fixed income investors in India have traditionally wanted three things from their fixed income investments - predictability of returns, a predefined period to hold investments and liquidity in case of emergencies, debt target date funds are a good choice for investors to look at in their portfolio," says Vishal Dhawan, a certified financial planner and founder & CEO of Plan Ahead Wealth Advisors, a SEBI registered investment advisory firm, based in Mumbai.

"These schemes are created tracking different indices, which could be PSU bonds or government securities or state development loans or combinations of these underlying instruments. Since they are passive funds and also have low costs, they could be an efficient choice. Investors will need to ignore the mark to market impacts in the short to medium term, as they are likely to hold these schemes to maturity date in most cases anyways," says Vishal Dhawan.

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