

Debt funds: What to expect in January 2022

Alok Sahoo of Baroda MF, Devang Shah of Axis MF, Pankaj Pathak of Quantum MF and Prashant Pimple of JM Financial MF tell us what can we expect from the debt market in the coming month.



Karishma Gagwani 1 hour ago



As against November 2021, the bond yield moved up by 10 to 15 bps at the longer end in December 2021 while the short end of the curve moved higher by 20 to 25 bps owing to RBI's liquidity normalization measures.



What about the coming month? What can we expect in the near term? Let's hear what the experts have to say.



What to expect



Alok Sahoo, Head - Fixed Income, Baroda MF



- RBI may increase the reverse repo rate as core inflation may move up due to increase in raw material prices
- Currently, fiscal matrix looks stronger due to good revenue but government needs to be mindful of additional expenditure
- Impact on growth due to Omicron variant and RBI intervention through operation twist could cap any sharp upward movement in the yield
- 10-year g-sec rates are expected to trade in the range of 6.40-6.55% in the near term

Devang Shah, Co-head Fixed Income, Axis MF

- The debt market is expected to remain range bound until the Budget 2022 announcement
- RBI may reduce the difference between repo rate and reverse repo rate to 25 bps
- The central bank is likely to absorb excess liquidity from the system to curb inflation
- 10-year-g-sec should probably be in the range of 6.40% to 6.55% while interest rates on the shorter end of the curve could gradually rise by another 15-25 bps

Pankaj Pathak, Fund Manager - Fixed Income, Quantum MF

- The market will closely follow the developments in the monetary policy and will also take cues from the Budget due on February 1, 2022
- The pace at which the government consolidates its fiscal deficit and the level of market borrowings will be key factors to watch out for
- Continuity of liquidity normalization process for reducing surplus liquidity in the system poses challenges for the shorter end of the bond yield especially up to 2 years of maturity
- The 10-year g-sec is expected to be in the range of 6.30% to 6.50%

Prashant Pimple, CIO - Debt, JM Financial MF

- RBI has maintained status quo on rates in December. Its priority would continue to be accelerating growth
- RBI is expected to reduce the gap between reverse repo and repo in FY 22 followed by a 50-75 bps rates hike in FY 23 in repo rate
- Interest rates are expected to move up gradually due to ample liquidity and rising inflation
- The 10-year-g-sec has recently touched a near term high of 6.45%, and the upward bias may continue in the near future

What to recommend

Alok Sahoo, Head - Fixed Income, Baroda MF

- Short term funds and credit risk funds with low duration for an investment horizon of around two to three years

Devang Shah, Co-head Fixed Income, Axis MF

- Ultra short-term/floating rate funds for less than one year of investment horizon
- Credit funds/short term funds for an investment horizon of more than one year

Pankaj Pathak, Fund Manager - Fixed Income, Quantum MF

- Short term investors and investors having a lesser appetite for volatility could opt for liquid funds
- Investors with a three-year holding period who can tolerate some intermittent volatility could opt for a dynamic bond fund

Prashant Pimple, CIO - Debt, JM Financial MF

- Short duration schemes are recommended in general
- Overnight fund, liquid fund and low duration funds for investors with near term liquidity requirement
- Investors with medium to long investment horizons can allocate funds in the short term space
- Dynamic bond funds for an investment horizon of more than 3 years