

DEBT CALL Experts say interest rate trajectory for long term not quite clear, with a host of factors at play

Short-term Gilts Have the Edge Amid Rate Uncertainty



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Mumbai: The interest rate trajectory in 2016 will depend on three key factors: how the government manages its fiscal deficit, how inflation pans out and how central banks across the world react to global uncertainties. So what should debt market investors do?

Investing in short-end government bonds appears to be a better bet in 2016, according to money managers mainly, because taking a long-term

call on rates is fraught with danger in the current scenario

“Taking a call on interest rates in 2016 is challenging because of many X factors like how the US Federal Reserve will move, what direction oil prices will take and also how the government will achieve its fiscal deficit target,” said Dwijendra Srivastava, chief investment officer, debt, at Sundaram Asset Management.

According to Srivastava, investors should look at a short-term horizon for their debt investment this year.

“If a retail investor goes through

mutual fund schemes, it makes sense to invest in shorter-maturity funds like accrual or corporate debt funds,” said Raghvendra Nath, managing director of Ladderup Wealth Management, a financial advisory firm. “If investors stay invested for three years, they can expect 8-8.50% post-tax returns.

Expectations are that the RBI will reduce its benchmark repo rate by a quarter to half percentage point this year after cutting it by 1.25 percentage point in 2015. However, the interest rate trajectory will depend on

how the government manages its fiscal balance which will be under stress from the implementation of the Pay Commission award and One Rank One Pension.

“The government sticking to its fiscal deficit target will be crucial for interest rates because it will give more room for the RBI to cut rates and push up bond prices. However, there is every chance that rates may not move at all, especially if the government fails to meet its target,” said SP Prabhu, head of fixed income at IDBI Federal Life Insurance.