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Debt market outlook: February 2024

Avnish Jain, Head-Fixed Income, Canara Robeco MF, Gautam Kaul, Senior Fund Manager, Fixed Income, Bandhan MF and Rahul Singh, Senior Fund Manager – Fixed Income, LIC Mutual Fund share their debt outlook for the coming month.



Muzammil Bagdadi Jan 31, 2024

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Despite tight liquidity, 10-year G Sec was hovering around 7.15% to 7.25% in January. As a result, many investors continue to prefer government bonds for their fixed income exposure.

How will the debt market perform in the coming month?

Our experts Avnish Jain, Head-Fixed Income, Canara Robeco MF, Gautam Kaul, Senior Fund Manager, Fixed Income, Bandhan MF and Rahul Singh, Senior Fund Manager – Fixed Income, LIC MF share their thoughts on what to expect in the upcoming month.

Avnish Jain, Head-Fixed Income, Canara Robeco Mutual Fund

Outlook

- Debt markets remained range bound with 10-year G Sec hovering around 7.15% to 7.25%
- Tight liquidity led RBI to use variable repo rate (VRR) auctions to manage deficits
- Near-term market outlook depends on US FED and RBI meetings with key focus on fiscal deficit numbers
- Overall, market direction seems positive with lower yields expected as per US Fed policy indications on rate cuts
- The short end of the curve is likely to stay high due to tight liquidity whereas longer end curve rates are influenced by major central banks including RBI MPC
- 10-year G-Sec may remain in range of 7% to 7.20% in near term



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Funds Recommended

Investors should consider medium duration funds like Banking & PSU funds and long duration funds such as gilt funds

Gautam Kaul, Senior Fund Manager, Fixed Income, Bandhan Mutual Fund

Outlook

Government bonds are the popular choice for investors locally and internationally

State development loans (SDL) and corporate bonds issuance exceeded expectations, increasing availability through government securities

Despite tight liquidity measures by RBI, the overnight rate remains stable at around 6.75%

Global interest rates have peaked with positive inflation changes and consistent improvements in India's domestic current account deficit

Interest rates worldwide have reached their peak and there are positive changes in inflation

The domestic current account deficit is consistently improving and there's an anticipated continuous influx of global funds into the Indian bond market



Funds recommended

Investors should consider short-term or medium-term funds

Rahul Singh, Senior Fund Manager – Fixed Income, LIC Mutual Fund

Outlook

December 2023 CPI inflation was lower than expected at 5.7%

The RBI Governor, speaking at Davos, highlighted the need for active disinflationary policy until achieving a durable 4% inflation target while expecting robust growth

The financial year budget will provide a five-year economic policy direction, maintaining fiscal consolidation with a projected 5.3% GDP deficit in FY25, indicating substantial market borrowing of Rs.15.20 trillion

Global factors such as crude demand projections and domestic and international considerations are impacting the G- Sec market

Expectations include index inclusion inflows, potential rate cuts in the US in FY 2024-25, upcoming election results, domestic inflation trends and geopolitical conflicts affecting crude demand

Overall, the 10-year benchmark is expected to range between 7% and 7.30%



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