Debt outlook: What should you expect from debt funds in July?

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10 year g-sec yield rose from 6.99% at end of May 2023 to around 7.10% in June 2023. Also, the short term yields remained supportive last month.
How will these factors impact debt funds, what will be the major triggers for debt funds and which categories of debt funds should you recommend? Let's hear what the experts have to say.

Amit Somani, Senior Fund Manager - Fixed Income, Tata MF

Outlook - In near term, debt market is likely to remain range bound as RBI may hold the existing rates for some time. However, the progress of monsoon is a major trigger as the El Nino condition builds up. Overall, debt markets remain confident as RBI firmly sets its eye on achieving the inflation goal of 4%.

Further, we expect 10-year g-sec to trade in 6.90-7.15% range. The short end curve may also remain range bound and offer decent accrual in near term.

Recommended categories - Investors looking to park funds for 1-3 months could consider money market and ultra short duration funds. On the other hand, where the horizon is of 6-12 months or longer, short-term/corporate bond funds make sense.

Also, where there is a higher appetite for volatility with a horizon of 6-12 months, investors may consider gilt funds.

Avnish Jain, Head - Fixed Income, Canara Robeco MF

Outlook - The market may remain range bound as the US Fed is likely to hike rates whereas RBI is likely to remain in a pause mode for some time.

10-year g-sec may trade between 6.95% and 7.20% and the short end of the curve is likely to react to liquidity surplus/deficit as rate easing action is not expected in the near term.

Recommended categories - Market correction gives investors opportunities to add debt allocations through various funds, depending on their risk appetite and investment horizons.

Manish Banthia, CIO - Debt, ICICI Prudential MF

Outlook - Over the last few years, RBI's focus was to keep inflation closer to 4% but now RBI is comfortable with 6% inflation. Also, going forward, RBI is likely to be on a pause mode and keep the rate constant for an elongated period. As a result, there may not be much movement in yields.

With RBI now being comfortable with 6% inflation, the 10-year g-sec would be attractive only at a yield of close to 8%.

Recommended categories - We recommend short duration and dynamic duration schemes which can dynamically manage instruments with various credit ratings and durations to handle interest-rate volatility. Also, long duration assets may be considered on tactical basis, as the margin of safety in this space is currently minimal.

Rahul Singh, Senior Fund Manager - Fixed Income, LIC MF

Overall view - The trajectory of the monsoon which is significantly below normal currently and the headline inflation could go up in the second half of FY 2024. However, lower global commodity prices should drive corporate margins higher, which could drive core inflation lower.
In terms of yields, 10-year g-sec is likely to range between 7.05 and 7.15%. However if the FED decides to hike the rates beyond 25 bps, it could range between 7.20-7.25%. On the shorter end, there could be a temporary spike based on how monsoons fare in India and US Fed action.

Recommended categories - For an investment horizon of more than a year, long duration funds make sense. And for a shorter horizon, investors may consider 1 year products like low duration and money market funds