Mutual fund managers react to RBI’s surprise rate hike

Synopsis

The equity market fell around 1,000 points as soon as the announcement came. The 10-year government bond yield also rallied sharply by 9 basis points.

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The Reserve Bank of India, on Wednesday, hiked the repo rate by 40 basis points and Cash Reserve Ratio or CRR by 50 basis poin in a surprise move. The decision was taken in an unscheduled meeting and the Monetary Policy Committee (MPC) unanimously decided to hike rates for the first time after 2018. Both the equity and debt markets reacted negatively to the sudden development. The equity market fell around 1,000 points as soon as the announcement came. The 10-year government bond yield also rallied sharply by 9 basis points.

Here’s how the equity and debt mutual fund managers reacted to the central bank’s decision.

Akhil Mittal, Senior Fund Manager-Fixed Income, Tata Mutual Fund:
“In a surprise move, RBI increased repo rate by 40 bps and hiked CRR requirement by 50 bps of NDTL. RBI mentioned fast changing inflation – growth dynamics warranted such a move.

While keeping stance as accommodative, RBI mentioned today move is the withdrawal of excess accommodation done during Covid response policy move. While this comes in as a surprise, this makes RBI resolve to keep inflation under check more credible. We think RBI is uncomfortable on the developing inflation trajectory and hence doesn’t want to be too much behind the curve. This also means we could possibly look at front loading of policy reversal rather than a calibrated and gradual approach.

We expect bond markers to reach negatively and the entire yield curve to shift upwards (slightly more impact at the shorter end of the curve). Markets are likely to trade cautious in near future as fiscal comfort also seems to be dwindling at fast pace (any buffer likely offset by higher food and fertilizer subsidies and lower disinvestment mop-up). All in all, the policy reversal cycle has started out of turn, could be more targeted in approach and earlier in timeline.”

Sorbh Gupta, Fund Manager- Equity, Quantum AMC:
RBI’s surprise move on increasing the repo rates today is an acknowledgment of inflation becoming a more important variable in policy decisions than growth. It will not have an immediate bearing on growth in inflation but it is an indication of things to come. These types of events will come & go multiple times in an investor’s journey to achieving financial goals & one should not be

swayed too much. An equity portfolio stress-tested for balance sheet strength (lower leverage) & attractive valuations of investee companies is well suited for this environment. Investors should stick to their asset allocation plans & use a staggered approach to increase allocation to equities.

Mahendra Jajoo, CIO, fixed income, Mirae Asset Investment Managers:
In a rather surprising development, MPC at an unscheduled inter-meeting, hiked the repo rate by 40 bps as also hiked CRR by 50 bps. Concerned with expectations of further spike in inflation in April and the global developments where major central banks including Bank of England and Australian central banks have hiked rates recently and with Fed set to hike rates tonight, RBI seems to have made this preemptive move to align inflation expectations with target trajectory. Market yields spiked with benchmark 10Y yields hitting a fresh high of 7.38%. interest rates are expected to inch up further in anticipation of further hikes in forthcoming policies.

Rajeev Radhakrishnan, CIO-Fixed Income, SBI Mutual Fund:
The RBI pivot from excessive dovishness to neutral to cautious was evident in the April 22 review. With an intra meeting policy hike of 40 bps accompanied with an unanticipated CRR hike of 50 bps , the RBI has unequivocally joined the list of central banks taking decisive policy action to keep inflation expectations under check. With the risk of overshooting the inflation upper band of 6% for 3 consecutive quarters very much alive, today's policy actions though unanticipated in an off-meeting schedule is probably quite apt.

With the formal initiation of monetary policy tightening, there could be more rate hikes in the offing, alongside durable absorption of systemic liquidity. An immediate hike in June probably may not materialize even as the trajectory remains clear. It is challenging to call out the terminal rate against the current uncertain global backdrop. CRR has also been hiked by 50bps effective 21stMay which will immediately suck out Rs. 870bn of liquidity from the banking system. 10 Year Indian G-sec shot up by ~20bps to 7.40% in an immediate response to the policy announcement. Currently, in India we are just where the Fed was a few months ago and yields may face an upward pressure across the tenor of the curve- though liquidity reduction adds an additional element of adjustment at the shorter end.

Marzban Irani CIO (Debt) LIC Mutual Fund:
Today as a sudden announcement, the MPC decided to hike the repo rate by 40 bps to 4.40 after withdrawing the accommodative stance. At the same time CRR was hiked by 50 bps to 4.50.

Impact : At the longer end 10 year yields touched 7.40. Crr hike will lead to around 80000 cr outflow from the system and daily deployment will now happen around 4 percent. Net net now is the time to start investing in duration funds like bond funds, bpsu and gsec etf. Crr hike will help to grow liquid and upcoming money market funds.

Watch: What should be your investment policy post the RBI rate hike

After the RBI rate hike, what to do with your fixed-income investments. ET Wealth's Babar Zaidi explains. Watch