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'One should look at 3-year products like Short duration or Banking and PSU fund'

In an interview with Ashwini Kunder Talurmath of Myiris.com, **Rahul Singh, Sr. Fund Manager - Debt, LIC Mutual Fund Asset Management** says, "From Debt market perspective, the biggest risk is Inflationary risks which could arise due to Brent crude prices, Metals/Gold prices and domestic demand."

Interview Excerpts:

1. The RBI's Monetary Policy Committee kept key interest rates unchanged on February 10 and retained the accommodative stance. Your thoughts on the same.

I suppose the status quo and accommodative stance was bit of a surprise considering the way US Fed gave an aggressive rate hike cycle and huge domestic supply in FY23. My expectations were that RBI would at least hike the Reverse Repo and narrow the corridor between Repo and Reverse Repo. Also, the way global and domestic inflation is shaping up, there is no way that we see a cut in rates going forward. So, a change in stance to neutral could have been done. However, RBI stuck to its narrative that ongoing domestic recovery is still incomplete and needs continued policy support. It vowed to continue it as long as necessary provided inflation remains within the target range.

My understanding is that although hiking reverse repo by 15-20 bps would not have made any material difference to overnight rates, however it was more of a signal that RBI wanted to give the market that they are still on the accommodative path and not appear hawkish like some other global central banks. It could also be due to the huge borrowing program that was announced a week prior in the budget, that RBI didn't want the market to panic further.

RBI's decision to maintain status quo was also motivated by the fact that inflation remains within their target range and even the expectations for next 1 year is within control. The overall policy gave a signal to the market that even if global rates are going up and we have a huge supply coming, RBI will be there to support the yields by regular intervention in some form or another.

2. What do you make of the recent Budget? Did Budget 2022 match up with your expectations? How do you see things panning out?

In my view, Budget was practical and in the right direction. Government has realised that increasing revenue expenditure can only be supported by increasing revenue going ahead. The best way to do that is to focus on capital expenditure currently and create a multiplier effect in the coming years. Their intention was clear from the fact that there were hardly any subsidies and focus was more on infrastructure creation and policy stability.

3. What led to the surge in bond yields?

Post Budget, yields went up due to higher-than-expected borrowing for FY23. Also, the Fiscal deficit number announced for FY22 was higher than market expectations.

4. Will we see a spike in inflation the way some developed economies are experiencing right now?

As per RBI, FY23 inflation is maintained at 4.5% which I suppose is quite good. However, even if the average number reaches 5%, we are well within our target range of 4-6%. I guess there are only 2 variables that could overshoot 6% CPI inflation is if Brent crude prices remain above USD 100 for a long period of time and if monsoon is below par.

5. What is your view on the trajectory of interest rates in India and globally?

Rates on the rise both India and Globally and would continue throughout the year as long inflation continues to pose risk. However, every central bank would have an upper band beyond which they may not be comfortable letting yields go up.

6. What are the kinds of debt products that investors should look at right now?

In a rising interest rate scenario, every debt fund would bleed. So, the obvious choice for any investor should be to reduce duration. Having said that yields will not rise like an upward sloping curve. Considering RBI would intervene time and again, there could be bouts of volatility in rates. So, a lot of investment would depend on the horizon of investment. For e.g. 1-3 month investor should look at liquid, 3-6 month can look for low duration and in case yields go above 7%, one should look at 3 year products like Short duration or Banking and PSU fund.

7. How do you see the new virus variant impacting the Indian market?

Now I suppose the risk of Omicron is fading. Yes, if a new variant comes and cases rise, then it changes the dynamics. RBI would continue with their accommodative stance for couple more quarters.

8. What is your take on primary markets and outlook for 2022?

Post MPC primary market issuances rose as yields came down. Till March issuances should continue until the borrowing calendar is announced. Post that issuance would depend on the yield trajectory. As mentioned above, whenever RBI intervenes and yields come down, primary market issuances would happen.

9. What are the benefits of mutual fund and why someone should invest in mutual fund rather than direct equity?There are wide range of options in terms of asset classes (Equity, Debt, Gold, etc.) depending on one’s financial goals, returns expectations and risk tolerance. MF are best suited for new investors or informed investor where one can participate in equity market with SIP or lump sum. MFs have Professional with over decade experience in fund management. For Knowledgeable investor who invests directly in equities, MF investments serves as diversification.

10. Mistakes do investors make while investing in Mutual funds?

Investments in mutual fund should be done along with proper understanding of the product and then allocate in different asset classes depending on their risk appetite. Investor buys fund on recommendation/joining the herd rather than based on personal risk and return expectation. Investors sometimes lose patience or do not give the requisite time for an investment to provide the desired rate of return, and hence redeem prematurely.

11. Why are mutual funds making a rush for investing in IPOs?

Mutual funds are not rushing in all IPOs, but are evaluating IPOs based on reasonably niche business, good management competence, track-record, technology led and growth potential of the company. These businesses are likely to continue to see a good response.

12. What are the key risks that investors have to face in 2022?

From Debt market perspective, the biggest risk is Inflationary risks which could arise due to Brent crude prices, Metals/Gold prices and domestic demand. How RBI supports the market considering the huge supply, will determine the yield curve trajectory. Nonmarket factors may make significant impact like the one we are seeing between Russia and Ukraine.