

11:20 AM   11 JAN <b>MARKET STATS</b>	LIVE सेन्सेक्स 36,054 ▼ -52.03	निफ्टी 50 10,806 ▼ -15.40	सोने ( एमसीएक्स) (₹/१० ग्रॅम) 32,024.00 ▲ 144.00	यू एस डी/भारती... 69.68 ▼ -0.04	पोर्टफोलियो निर्माण करा	ETMONEY THE DIRECT MUTUAL FUNDS APP	CHOOSE LANGUAGE MAR ▼	LIVE TV
--	--------------------------------------	------------------------------	---	------------------------------------	----------------------------	---	-----------------------------	------------

# How to rebalance your fixed income portfolio in current rate scenario?

BY ET CONTRIBUTORS | UPDATED: SEP 08, 2018, 03.05 PM IST

Post a Comment

By Ankur Maheshwari

Over the last one year, many investors have experienced negative to marginal positive returns on their **fixed income** holdings. This has come as a not-so-pleasant surprise and they are wondering on how to manage the debt holdings going forward. While evaluating/rebalancing fixed income holdings, it is important to understand the RBI's view, structural shift of **interest rate** cycle and accordingly formulate the investment strategy. RBI's policy rate stance:

In its latest annual report, **RBI** has reiterated concerns over rising inflationary pressures by highlighting following risks: a) Increase in crude oil prices having direct implications for domestic inflation, b) Uncertainty surrounding increase in Minimum Support Price, c) Staggered impact of HRA increases by various state governments, d) Uptick in domestic growth momentum leading to demand side pressures and e) Uncertainty and volatility in the global financial markets.

With reference to inflation projections, RBI expects headline inflation at 4.6% for Q2:2018-19; 4.8% in H2 and 5.0% in Q1:2019-20. As per the report, "the conduct of monetary policy will continue to be guided by the objective of achieving the medium-term target for CPI inflation of 4 per cent within a tolerance band of +/- 2 per cent, while supporting growth". Hence, managing inflation continues to be a key objective & concern for RBI.

## Market/economists' readings

Given the rate hikes and recent commentary from RBI, economists are divided on possibility of another rate hike. Few economists believe that RBI's hawkish tone indicates at-least one more rate hike in the near offering. However, there are also economist who believe the rates hike have been front-loaded and see no more rate hike at least for the financial year 2018-19.



गंजे लोगों ने घर बैठे दोबारा उगाये सिर पर बाल -1 आसान तरीका  
FITNESSCURE

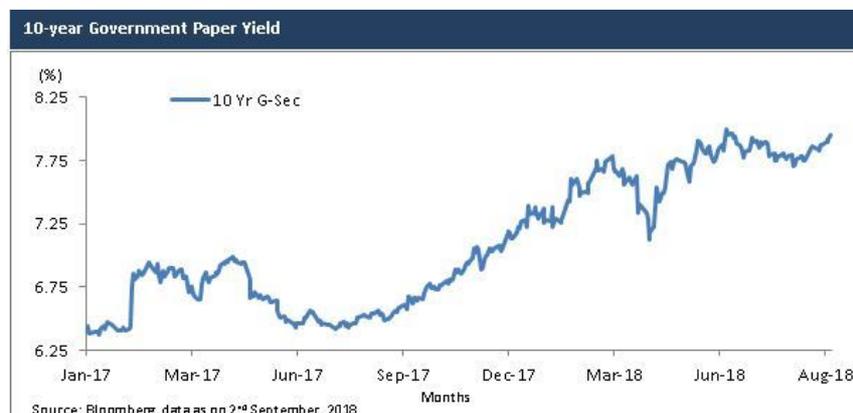


This fashion designers Delhi home is kitsch perfect  
Houzz

Recommended By Colombia

## Structural shift of interest rate cycle

Irrespective whether RBI opts for another rate hike or prolonged pause, investors need to re-evaluate their fixed income holdings in light of an upward biased yield curve. It appears that we are currently in a midst of a structurally rising interest rate regime. Having a magnified view of 10-Year government bond performance from Jan 2017 till YTD 2018 highlights the upward movement in rates.



In addition to 10-year G-sec yields, 1 year performance of select **CRISIL** benchmark indices highlights the adverse impact of increasing 10-year G-sec yields on the fixed income portfolios.

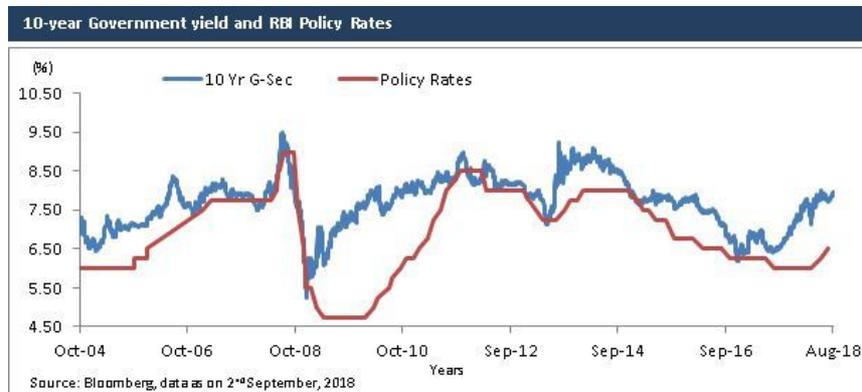
Crisil Indices	1 year Returns (As on 31 <sup>st</sup> Aug'18)
Short Term Bond Fund	4.6%
Long Term Debt	-0.6%

Source: Crisil.com

Clearly, investors holding long duration **bonds** have suffered much more vis-à-vis investors holding short duration bonds.

A slightly longer view of the benchmark 10-year government bond yield movement overlaid with RBI policy rates clearly demonstrates that their movements have been

largely in sync over many rate hike/cut cycles.



### What should be the investment strategy

When interest rates are expected to rise, bond prices tend to fall (inverse), resulting in fall in the NAVs of bond funds. Long duration bonds/funds are relatively more price sensitive than short duration bonds/funds to interest rate changes and may see price a steeper price correction in an increasing interest rate scenario. Hence, it is important for investors to prefer low duration and ultra-short term bonds over long duration funds. This strategy will minimize interest rate risk and volatility.

Incase investors are not at all comfortable with any intermittent volatility and prefer locking in yields, we recommend investing in FMPs and interval Plans in a phased manner. However, it is important to note that these are held to maturity instruments and may not provide any liquidity during the holding period.

Also, it is important to note that, while aim is to maximize the yield of the portfolio, investors do take good care on the credit quality that the portfolio brings. Many a times, a marginal improvement in the yield of the portfolios may not be worth for taking undue credit quality risk it entails.

*(Ankur Maheshwari is CEO of Equirus Wealth Management. Views are his own)*

Stay on top of business news with The Economic Times App. [Download it Now!](#)

# THE ECONOMIC TIMES

Powered by **TIMESINTERNET**

Live Market  
News  
Portfolio  
Mobile  
Live TV  
Biz Listings

Industry  
Newsletters  
Commodities  
Speed  
Blogs  
RSS

About Us  
Subscribe to ET Prime  
Book your Newspaper Subscription  
Create Your Own Ad  
Advertise with Us  
Terms of Use & Grievance Redressal  
Privacy policy

FOLLOW US



Download it from  
**APP STORE**



Download it from  
**GOOGLE PLAY**



Download it from  
**Windows Store**

Other Times Group news sites

इकनॉमिक टाइम्स | ईकोनॉमिक्स टाइम्स | Pune Mirror | Bangalore Mirror | Ahmedabad Mirror | ItsMyAscent | Education Times | Brand Capital | Mumbai Mirror | Times Now | Indiatimes | नवभारत टाइम्स | महाराष्ट्र टाइम्स | ವಿಜಯ ಕರ್ನಾಟಕ | Go Green | AdAge India | Eisamay | IGN India | NavGujarat Samay | Times of India | Samayam Tamil | Samayam Telugu | Miss Kyra | Bombay Times | Filmipop | Games App | MX Player

Living and Entertainment

Timescity | iDiva | Entertainment | Zoom | Healthmeup | Luxpresso | Gadget Reviews | Titanium & Platinum Credit Card | Online Songs | MensXP | Hotels | Travel Destinations | Cricbuzz | Recipes | Gaana | Happytrips | Getsmartapp

Interest Network

itimes

Hot on the Web

Stock market crash | GST | Rupee | Aadhaar Card | Delhi News | RBI | Mumbai News | How to save Income Tax | Sensex Today | Nifty Bank | Budget 2019 | Income Tax Calculator

Services

Book print ads | Online shopping | Matrimonial | Astrology | Jobs | Tech Community | Property | Buy car | Bikes in India | Free Classifieds | Send money to India | Used Cars | Restaurants in Delhi | Remit to India | Buy Mobiles | Listen Songs | News | TimesMobile | Real Estate Developers | Restaurant Deals in Delhi | Car Insurance | Gadgets Now | Free Business Listings | CouponDunia | Remit2India | Techradar | AliveAR | Getsmartapp App | ETMoney Finance App | Feedback | Auto | Longwalks App

## In Case You Missed It