

# IT'S A GOOD TIME TO BUY FIXED INCOME...



## RITESH JAIN

**PROFILE:** Leads the Fixed Income team and oversees fund management at Canara Robeco

**CAREER:** He has more than 10 years experience in the fixed income market. Jain began his career at IDBI Bank, where he worked as manager, treasury, between 1998 and 2001. He then moved to Kotak Mahindra AM as fund manager on the Fixed Income side where he rose to become the head of fixed income in 2007

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... considering that interest rates and inflation are on the verge of peaking out, **Ritesh Jain** tells PRAVIN PALANDE

How much should an investor allocate to fixed income as compared to equity?

While equity has its own risks, the asset class is bound to deliver attractive returns over a longer period of time given the strong India growth which is yet to unfold to its fullest potential.

In the current scenario, fixed income looks good considering that interest rates and inflation are on the verge of peaking out. The hardening G-Sec [government securities] yields [with the 10-year G-Sec yield much above its long-term average] throw opportunities in the long-term bond funds to take advantage of potential returns once the yield start easing.

In the context of equities, investors need to be cognizant of the market valuation. SIP [systematic investment plan] strategy in equities could be looked upon as ideal to even out volatility.

How will Fixed Maturity Plans (FMPs) perform going forward?

Fixed Maturity Plans belong to a breed of investment strategy which does not involve any trading or duration risk taking on the portfolio. The short & medium term rates have risen closer to 10 percent as a corollary of the 13 rate hikes by the RBI since March 2010. Though RBI has temporarily stopped its rate actions, we may not see interest rates move down quickly. Thus, at current elevated interest rate, FMPs would continue to provide a competitive yield to investors looking at not taking any interest rate or duration risk.

Government of India securities?

With the 10-year corporate papers available at around 9.75-10 percent, it surely comes to the fore as a better investment avenue. Once the inflation starts coming off, the spreads over the 10-year government bonds are poised to shrink. Thus, a combination of corporate bonds and government bonds with higher allocation to corporate bonds is desirable in the current market environment.

Most investors are looking at short-term debt investments like liquid funds. Are there any takers for long-term debt?

When the yield curve flattens out, it means the markets are expecting growth to come off. When the short-term and long-term interest rates are at the same level, both look attractive from an accrual perspective. However, the long-term rates carry additional risk in the form of duration. Given the uncertain and fragile nature of the markets both globally and domestically, there is an increased sense of risk aversion among investors, which induces investors to deploy money over the short term rather than blocking capital for the long term wherein the mark-to-market risk in case of downtrend in rates is higher.

Some banks are giving a rate of 13 percent on their fixed deposits. Should investors simply park their money in such FDs?

We believe mutual funds are a tax efficient way of investing in fixed income markets.

