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FALLING YIELDS in the event of a 75 bps cut can deliver double-digit returns in a year, say advisers

Lock in to Long-Duration Debt Funds to Profit from Rate Cuts

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Mumbai: Investors looking for double-digit returns from fixed-income portfolios over the next one year can consider an allocation to long-duration funds. Fund managers expect the Reserve Bank of India to cut interest rates by half to three-quarters of a percentage point (50-75 basis points) in the second half of 2024 following global rate cuts, which could lead to a capital appreciation in long-duration funds and lead to double-digit returns.

"We expect the RBI to cut rates by 75 basis points from the latter part of the year 2024. Effectively, while the RBI rate cut could be 75 basis points, the 10-year yields could potentially fall by 100 basis points, from the current level of 7.2% to 6.2%," ICICI Securities analyst Sachin Jain said.

"With a high starting yield and expectation of a fall in bond yields, we believe that long-term government bonds offer investors a rewarding opportunity," said Pankaj Pathak, fund manager at Quantum Mutual Fund. Fund managers believe the de-

What Experts Advise

Fund Indicator	HDFC Long Duration Debt Fund	Nippon India Lakshya Nivesh Fund	SBI Long Duration Fund
AUM (₹ crore)	1,498	6,678	1,096
Expense Ratio	0.60%	0.64%	0.68%
Yield to Maturity (YTM)	7.51%	7.51%	7.49%
Modified Duration (Years)	11.89	10.63	11.59
G-Sec Exposure	97%	98%	96%
Exit Load and Period	Nil	1% for Redemption Within 1 Month	0.25% for Redemption Within 90 Days

Data as on December 31, 2023

Source: ICICIdirect and Value Research

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mand-supply dynamics in the domestic bond market are looking more favourable with robust tax collections, the government's focus on fiscal consolidation and India's inclusion in the global bond index.

According to a note from Tata Mutual Fund, the real rate — repo rate (6.5%) minus the estimated one-year forward consumer price infla-

tion (4.5%) — is now 200 basis points against real rates of 150 basis points targeted by RBI. This opens space for 50 basis points of rate cut and, if the US economy slows down, the rate cuts could be 75-100 basis points to support GDP growth.

Fund managers expect favourable demand for government securities in the coming year.

"We expect \$25 billion of FPI (foreign portfolio investor) money into government securities due to global debt infusion on account of inclusion (of India) in the JP Morgan index. On the domestic front, there will be healthy demand from insurance companies, EPFO and NPS, especially in long-tenor G-Sec like 30-year, which are growing by 11-12%," said Vikas Garg, head of fixed income at Invesco Mutual Fund. Garg expects rate cuts to begin in the second half of 2024.

The maximum impact of a fall in interest rates is captured by long-duration funds, point out analysts while recommending investors to buy into such funds.

Jain recommends a portfolio of long-duration funds such as Nippon India Nivesh Lakshya, HDFC Long Duration Fund and SBI Long Duration Fund—all of which have a modified duration of 11 years and if a rate cut happens investors could earn a capital appreciation of 4-5%. This added to the coupon income of 7-8% could help investors earn a gross return of 12-13% over one year.

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