| Date | 03-02-2017 |
| --- | --- |
| Website | www.economictimes.indiatimes.com |
| Link | http://economictimes.indiatimes.com/opinion/interviews/fixed-income-continues-to-remain-attractive-for-investors-sudhir-agarwal-uti/articleshow/57447949.cms |

**Fixed income continues to remain attractive for investors: Sudhir Agarwal, UTI MF**

*In an exclusive chat with ET Now, Mythili Bhusnurmath, Consulting Editor, ET NOW and* ***Sudhir Agarwal, UTI MF,*** *speaks about US Federal Reserve hiking rates, global economy and much more.*

**If we look at the Fed's history in recent times, they have been very guarded with hiking rates and that should hold whereas what we are seeing of late with sound bites coming in from the Fed governor. They might be, perhaps, more proactive in pushing rates higher. It is a tricky situation.**

**Mythili Bhusnurmath:** Absolutely, the Fed has to go into walk a tight rope really because there is another view which says that the Fed might find itself behind curb and that is one thing the Fed does not ever want to be found doing being bound beyond the curb as it were particularly when it comes to inflation because there are clear signs that inflation pressures are looking up not only in the US but all over the world because for the first time it seems as if the global economy is on a synchronised upward trend.

So, it's not just the US but Europe, China, Japan all the major economies in the world now seem to be on the uptrend leave apart of course the question of India because where there are question mark about our GDP data.

How will the Fed read that, that remains to be seen because middle of March we are going to see the Fed swing into action or perhaps explain in action but either way I think more people seem to suggest that the Fed is likely to hike rates. We also had President Trump speak quite strongly about the infrastructure stimulus. The infrastructure spending that he is going to do and possibly the Fed will think that here is an opportunity for us to agree with Howard Marks that perhaps not so much the level but the pace is important but remember markets are always like a cat on a hot tin roof and one really does not know which way the market will react.

**Mythili Bhusnurmath:** What has been the market, the bond markets readings of our GDP data and what the Fed might do? How are the bond markets reading of our latest GDP data, being a little different from

what the average economists reading is or is the bond market also a little sceptical, a little doubtful of the latest GDP numbers?

**Sudhir Agarwal:** Market has been almost non-reactive to the GDP data. Ideally with such a strong number, we could have seen uptick in the yield but surprisingly the market has not been at all reacting to the GDP data. Probably, it seems to be more focussed on the global developments. The inflation outlook going forward over next one year period, demand-supply situation. After the GDP data was released, we have actually seen the yields dipping by another around 10 to 12 bps and that was more of technical thing in nature and so totally non-reactive to the GDP data in our market.

**Mythili Bhusnurmath:** The bond markets have not really reacted to the GDP data. But broadly speaking, in the bond market the trend has been yields have been going up. Ironically, at the same time bank lending rates have been coming down. Do one read these very contrarian kind of situations, where bond yields if you look at the broad trajectory has been upward but bank lending rate has been coming down. How does one read this data? Are lending rates likely to come down or will they follow the bond yields and start moving up also over a period of time?

**Sudhir Agarwal:** Capital markets were always ahead of the bank reaction on their lending rates so we have actually seen the overall bond yields falling significantly over a period of last 6-12 month period. At that point, the bank lending rates were not cut. Of late, bank lending rates are just catching up with whatever transmission was due actually because of that aggressive RBI rate cuts over the last two year period.

The bond market yields for the medium term will be reactive to - first the global development, which is the way market expectations moving on the Fed rate hikes which we believe there are very high chances that you may see an actual hike coming in the upcoming policy that is in March and you know overall three hikes in this year are quite possible.

The way the global commodity prices are moving that is also putting pressure on the bond prices, overall the way the global inflation has been moving across countries where there was deflation a year back. All these global factors are putting pressure on our domestic bond market. Apart from this, on the local factors side, the demand-supply has not been very supportive.

If you combine the central government supplies, state governments, UDAY bond issuances, the GOI serviced bonds and the PSU bond issuances. Though the central government supply has been on lower side, but overall, demand-supply seems to be on higher side and because of which we are seeing now term premium increasing over the overnight rate.

Overall, our sense is the medium term view is that with the RBI hinting that we are at a neutral stance and probably that might be end of a rate cut cycle. In that scenario, there are chances that the 10-year G-Sec yield might probably settle somewhere between 60-70 to maybe 100 bps over and above the RBI repo rates so hence effectively maybe in the range of around 680 to 720 quarter kind of level. In the last two days, we have seen the bond yields falling by 10-12 bps. That has been more because of the technical factor but you know over the next 10-15 days period we expect that to stabilise and we expect the bond yields to again probably rise to settle at 75-100 bps in April.

**Mythili Bhusnurmath:** That means in effect the party is over for the fixed income investors, is it, particularly if the US Fed were to hike interest rates?

**Sudhir Agarwal:** From a fixed income investors perspective, ultimately they have to now probably make investment allocation based on their overall investment horizon. There was probably some bit of hot money which was also flowing into the debt funds with a view to make some quick money but I think still as an asset allocation that fixed income still continue to remain attractive.

We have been advising investors to put money into accrual oriented fund depending upon their investment horizon. If the investment horizon is say six month or lesser, we are telling them to put money into liquid or ultra short term category of fund. For those investors, who are having six months plus kind of investment horizon and maybe up to three-four years we are advising them to seriously consider funds like short term income fund or income opportunities funds. So, those still continue to offer decent yield for the investor and probably make sense for investor to put money into these funds.