# RBI's rate cut: More money may chase fixed income products now

The sooner-than-expected cut in a key policy rate by the Reserve Bank of India ( RBI) is expected to boost the popularity of fixed income products.

Fund managers and financial advisors said investors should buy long-term debt schemes, including gilt and income funds, while the risk-averse should lock money in high-yielding fixed deposits before interest rates fall further.

"Given that more cuts are expected, investors should invest in longer tenure debt funds and fixed deposits," said Dwijendra Srivastava, fund manager, Sundaram Mutual Fund .

A cut in interest rates would boost the performance of longerduration bond funds since they are more sensitive to interest rate movements. Gilt funds benefit the most from falling rates or softening bond yields. When yields fall, bond prices rise and vice-versa.

Medium- and long-term gilt funds have given an average return of 16.19% over the last one year, according to Value Research. A gilt fund with an average maturity of 15 years could give you capital appreciation of as much as 5% if interest rates fall by 50 basis points. Add to that the coupon rate of about 7-8%, the total return from such a fund is as high as 13%.

Srivastava believes that a sharp fall in crude oil, copper and coal prices has toned down inflationary expectations. "Inflation data continue to be lower than investor expectations, supported by subdued demand together and a drop in commodity prices. We expect to see another 50-bps cut during the course of 2015," said Rajesh Cheruvu, chief investment officer, RBS Private Banking.

In a falling interest rate scenario, investing in longer tenure bank deposits helps investors.

*(Economic Times)*