'FY21 is turning out to be much better in terms of overall investment returns'

SURABHI

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The current fiscal is turning out to be much better than what was expected at the beginning of the year in terms of overall investment returns, believes Sampath Reddy, Chief Investment Officer, Bajaj Allianz Life Insurance, adding that bond yields seem to have bottomed out and equity markets have recovered. In an interview with *BusinessLine*, he said it seems that bond yields have bottomed out. Excerpts:

How is the company doing in terms of investments?

The current financial year is turning out to be much better than what we had expected at the beginning of the year in terms of overall investment returns. The equity markets have recovered very well on the back of strong global liquidity and fiscal stimulus. Most of the economic indicators have started recovering and have come back to almost pre-Covid levels.

Corporate earnings growth has also been better than expected. Even the fears of the second wave of Covid are addressed with the launch of vaccination drive globally, which has helped boost market sentiment and risk appetite. So, equity ULIP funds have also registered robust performance over the past year.

Are their concerns over returns, given the volatility in bond yields?

Bond yields have been on a declining trend over the past few years, giving scope for healthy capital gains in debt funds. The fall in yields has been sharp amid the Covid-19 pandemic, helping to boost returns for debt funds.

However, this year, we have seen a significant rise in global and domestic bond yields due to rise in prices of commodities and stronger-than-expected revival in economic growth. We feel that the rise in bond yields can lead to some volatility in equity markets.

Domestically, in India, we have significant fiscal expansion in 2020-21 and 2021-22. Therefore, it seems that bond yields have bottomed out, and the RBI is at the end of its rate cut cycle. From a fixed-income perspective, we are presently positive on the shorter to medium term part of the yield curve.

Insurance companies have been using various instruments, including forward rate agreements, to hedge interest rate risk

SAMPATH REDDY
Chief Investment Officer,
Bajaj Allianz Life Insurance

How do you perceive the government's borrowing programme for FY22?

The equity markets cheered the Budget. However, the bond markets have reacted negatively. Bond yields rose post Budget due to concerns of demand-supply mismatch on account of the large government borrowing.

However, the RBI has reiterated its commitment to ensure availability of ample liquidity to support the nascent economic recovery and manage the high government borrowing program in an orderly and non-disruptive manner, which provides some comfort.

How are insurers managing investments amid the current demand for protection products?

Due to the market volatility and Covid-19 pandemic, we have seen a significant rise in demand for non-par savings or guaranteed return products and term plan products. Insurance companies have been using various instruments, including forward rate agreements, to hedge interest rate risk.