What should be your mutual fund strategy after RBI's 25 bps rate cut?

By Surbhi Khanna, Published on 9th April 2025

After the Reserve Bank of India slashed down the repo rate by another 25 basis points at 6%, the mutual fund experts believe that debt mutual fund investors should shift towards categories that benefit from a declining interest rate environment such as dynamic bond funds, medium to long-duration funds, and high-quality corporate bond funds.

"Dynamic bond funds, medium to long-duration funds, and high-quality corporate bond funds can be considered, as they are better positioned to capture potential gains from falling yields.

Investors can also look at short-term bond funds if they prefer a lower-risk approach, but for those willing to take some interest rate risk, longer duration categories are more favourable in this phase of the cycle," recommends Sagar Shinde, VP of Research at Fisdom This is the second consecutive rate cut by RBI in the current calendar year and the first one in the current financial year. This marks the second consecutive cut under Governor Malhotra. In February, the apex bank had reduced the repo rate by 25 basis points. Before this, the repo rate was held at 6.5% for 11 consecutive meetings.

"This decision is in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth," said the RBI Governor, Sanjay Malhotra.

"Net FPI inflows to India stood at 1.7 billion US dollars during 2024-25, supported by debt inflows as the equity segment recorded net outflows," the Governor said in his policy statement.

According to the expert, the investors should align debt investments to a more duration-focused strategy and as rates are expected to remain soft, gradually building exposure to funds that have the flexibility to manage duration, such as dynamic bond funds or medium-to-long duration funds, could be a good approach.

"Staggered investments through systematic transfer plans (STPs) into such funds may help manage entry timing better and reduce volatility. At the same time, maintaining a core allocation to high-quality, shorter-duration funds ensures liquidity and stability," Shinde recommends.

"Given the change in stance to accommodative and back-to-back rate cuts, investors should ideally have a medium to long-term horizon for their fixed income investments. Longer horizons will allow them to ride through interest rate movements and benefit from potential capital gains if rates ease further. While short-term investments can provide stability, to fully capture the benefits of a falling rate cycle, a horizon of three years or more would be more suitable," Shinde adds.

Equity mutual funds

Post the second consecutive rate cut by the apex bank, a market expert recommends that equity investors should continue to look at being overweight on index and flexi cap funds and cut exposure to mid and small cap funds.

"The rate cut of 25 bps is a long expected line considering heightened global uncertainty on the back of reciprocal tariffs by the US, slowing inflation in India and growth concerns on the back of a slowdown in domestic consumption and global supply chain disruptions. Equity investors should continue to look at being overweight on index and flexi cap funds and cut exposure to mid and small cap funds due to their continued elevated valuations," recommends Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai

The expert also recommends that SIPs and STPs should be continued and not stopped due to the uncertainty, to get the benefits of rupee cost averaging and global equities can also be considered gradually in a selective manner due to the sharp corrections there.

According to the RBI Governor, "The recent trade tariff related measures have exacerbated uncertainties clouding the economic outlook across regions, posing new headwinds for global growth and inflation. Amidst this turbulence, the US dollar has weakened appreciably; bond yields have softened significantly; equity markets are correcting; and crude oil prices have fallen to their lowest in over three years."

Commenting on the Growth and Inflation Outlook, the RBI Governor said that, “The global economic outlook is fast changing. The recent trade tariff related measures have exacerbated uncertainties clouding the economic outlook across regions, posing new headwinds for global growth and inflation. Financial markets have responded through sharp fall in dollar index and equity sell-offs with significant softening in bond yields and crude oil prices.”

With the second consecutive rate cut by RBI, the expert recommends investors to consider index funds, flexicap funds and balanced advantage funds with a five-seven year investment horizon.

“Additionally, the investors with a higher risk tolerance can consider banking and financial sector stocks with a similar investment horizon,” Dhawan said.