

RBI MPC decision: How should debt mutual fund investors change strategy after rate pause?

By Surbhi Khanna, Published on: April 08, 2026.



With the RBI's Monetary Policy Committee (MPC) holding the repo rate steady at 5.25%, debt mutual fund investors now face a market shaped by volatile global cues, firm inflation risks and elevated bond yields. Market expert Vishal Dhawan says the focus should shift toward balancing capital safety with smarter yield capture in this uncertain environment.

Dhawan, Founder & CEO, Plan Ahead Wealth Advisors, told ETMutualFunds that one should consider short to medium duration funds because, since yields have "hardened," these funds offer a good entry point to capture higher interest coupons without the extreme price volatility of long-term bonds.

Dhawan further said that investors can also look into investments in Corporate bonds as the balance sheets of financial institutions and corporates are healthy.

The decision to keep the repo rate unchanged in the April policy meeting marks the second consecutive such move by the RBI. In its policy meeting on Wednesday, the MPC also decided to continue with the neutral stance. In the policy meeting on December 5, 2025, the RBI reduced the repo rate by 25 basis points.

The RBI Governor, in his speech, said that since the last policy meeting, geopolitical uncertainties have heightened significantly. Headline inflation remains contained and below the target. However, upside risks to the inflation outlook, driven by increased energy price pressures and probable weather disturbances affecting food prices, have increased.

He further said that foreign portfolio investment (FPI) to India, driven by outflows in the equity segment, recorded net outflows of US\$ 16.5 billion in 2025-26, followed by outflows of US\$ 5.4 billion in 2026-27 (till April 6).

With MPC keeping the repo rate unchanged for a second consecutive month, Dhawan said that we are likely at or near the peak of the interest rate cycle and the long term yields had risen from the levels of 6.65% to 7.12% levels due to the Middle East conflict.

"Therefore, the continuation of war poses upside risk to the yields, although the current yields do provide investment opportunities for debt investors as debt funds are currently able to lock in decent interest income through accruals"

Dhawan further said that the current neutral stance of the RBI is maintained; therefore, debt investors should not expect immediate, aggressive capital gains from rate cuts, as inflation risks (energy and weather) remain on the upside. Given the volatility, investors should focus on limiting duration risk.

Equity mutual fund investors

For equity mutual fund investors, Dhawan said that given the "heightened uncertainty" from the West Asia conflict and "volatile" global markets, having a core allocation in stable, large-cap companies provides a cushion against global shocks while participating in domestic growth. Thus, index funds and

large caps funds with good track records can be considered and the flexi-cap category could also be a preferred option for investment.

The Governor explicitly mentioned "robust private consumption," "strong credit growth," and "healthy balance sheets" for banks. This bodes well for financial and consumer-facing sectors. The estimated growth for FY27 is around 6.9%, which shows MPC's expectation of healthy economic activity, which should support the banking sector in its credit growth. Thus, banking and financial services funds can also be considered to a smaller extent for aggressive investors, Dhawan further said.

What other analysts say

Sneha Pandey, Fund Manager-Fixed Income, Quantum AMC, said that for fixed income investors, the current environment calls for a measured and quality-focused approach, and allocations may be tilted toward low-duration, high-credit-quality portfolios, with short-term bond funds offering relative stability.

Pandey also said that in volatile conditions, dynamic bond funds can be considered for their flexibility to actively manage duration. However, layering multiple risks - particularly combining interest rate risk with credit risk - should be avoided. Accordingly, investors should prefer dynamic strategies that maintain high credit quality and minimal credit risk.