Fixed-income investors can switch to corporate bond funds for the short term amid yield volatility

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What's on Offer

Corporate Bond Funds

Scheme	3-Year return (%)
Franklin India Corporate Debt	7.95
Axis Corporate Bond	7.66
ICICI Pru Corporate Bond	7.51
Nippon India Corporate Bond	7.48
Baroda BNP Paribas Corporate Bond	7.42

As on 11th May 2026 Source: Value Research

Fixed-income investors seeking steady returns with low volatility may consider corporate bond funds, as expectations of a pause in interest rate cuts and rising inflation risks favour shorter-duration accrual strategies. Bond markets have already turned volatile in recent months following the onset of the West Asia conflict. The benchmark 10-year bond yield climbed from 6.68 per cent on March 2 to a high of 7.12 per cent on April 3. Of late, it has hovered around the 7 per cent mark.

With yields at elevated levels, funds that invest in bonds that mature in the near term and fetch interest income (accrual), rather than those betting on interest rate movements, appear favourable, said money managers. “Yields are now closer to the peak levels seen in the last cycle. This makes the corporate bond fund category attractive even in a scenario where interest rates move higher,” said Manish Banthia, chief investment officer-fixed income, ICICI Prudential Mutual Fund. Banthia said such funds continue to offer healthy accrual opportunities along with a degree of defensiveness in portfolio performance.

Corporate bond funds currently offer yields in the range of 7-7.5 per cent, depending on the mix of AAA and AA-rated securities, providing a 50-80 basis point spread over government securities. This is higher than the 3-year bank fixed deposit rates of around 6.25-6.59 per cent.

“Inflation faces notable upside risks stemming from elevated crude oil prices, rupee depreciation-induced import cost pressures, and the potential adverse effects of El Niño on domestic food prices,” said Rahul Goswami, CIO & MD, India fixed income, Franklin Templeton MF. Goswami believes this combination of factors could lead to interest rates settling at higher levels over the medium term. According to Franklin Templeton research, in the past five years, India’s headline consumer inflation has averaged around 4.84 per cent while the benchmark 10-year government security yield averaged about 6.85 per cent, highlighting the consistent real return cushion available to fixed-income investors.

“Corporate bond funds are a good option for investors who want high-quality paper, steady accrual income with low volatility,” said Vishal Dhawan, chief financial planner-Plan Ahead Wealth Advisors.