

## Rise in Bond Yields

### Why in news?

With the Reserve Bank of India hiking rates to rein in inflation, bond yields have risen to their highest levels in three years.

### What do the rise in bond yields mean?

- **Rise in bond yields**- The yield on benchmark 10-year government bonds has shot up by 149 basis points to 7.50% in the last one year.
- Since the start of the year, long-term yields have risen by over 100 bps, and short-term yields by over 150 bps.
- The rise in bond yields hints at the possibility of overnight rates rising to 6%-plus over the medium term.
- The rise indicates that the cost of funds in the financial system is rising and so are interest rates.
- **For the government**- It means the government will have to pay more as yield (or return to the investors), leading to a rise in cost of borrowings.
- This will put upward pressure on general interest rates in the banking system.
- Expectations of higher inflation and the possibility of a rate hike can trigger a flight of capital from bank fixed deposits to RBI sovereign guaranteed bonds.
- **For debt investors**- The rise in yields means investors expect higher interest rates and are selling their bonds which will affect the debt investors.
- When yields rise and bond prices fall, net asset values of debt funds, which hold a sizeable chunk of government securities in their portfolios, will also decline.
- It will also impact corporate bonds, which are priced higher than government bonds.
- **For equity investors**- Rising bond yields are generally not good news for equity investors as they raise the cost of funds for companies and start hurting their earnings.
- It thus leads to outflow of funds from equities towards a less risky debt instrument.

*Traditionally, bond yields have an inverse relationship with equities as a rise in bond yields means that the risk premium on equities will have to go up.*

### What to expect now?

- It is tough to figure out the peak in the current market as global uncertainties remain.
- However, markets have already factored in a rate hike of another 100 basis points by RBI.
- While the yields may rise by another 25-50 basis points depending on the government's borrowing programme and global oil prices, debt fund managers say investors can go for short-term duration investment for 1-2 years.

## Reference

1. <https://indianexpress.com/article/explained/why-bond-yields-are-rising-and-what-means-market-s-investors-7961340/>

