

## **THE VICIOUS CYCLE OF INTEREST RATE HIKES**

The Reserve Bank of India (RBI) has announced a series of interest rate hikes over the past few months, causing concern among industry professionals. The most recent hike in the repo rate was a quarter-point increase, bringing it to 6.5%.

This interest rate hike cycle has had a major impact on the Indian economy, particularly on businesses and consumers who rely on loans to finance their operations and purchases. With interest rates rising, borrowing costs are also going up, making it more difficult for companies and individuals to access credit.

For MBA Finance students, this situation presents a number of challenges. On the one hand, it is important to understand the reasons behind the interest rate hikes and the potential implications for different sectors of the economy. This requires a thorough understanding of macroeconomic principles, monetary policy, and financial markets.

On the other hand, MBA Finance students also need to think about how they can adapt to this changing environment and make informed decisions for their future careers. For example, they may need to consider how rising interest rates will impact the valuation of stocks and bonds, or how they can help companies navigate the new financial landscape.

Understanding the implications of this cycle of interest rate hikes on various investment options require the study of the following points-

### **Impact on Equity Investments:**

The interest rate hike has a direct impact on equity investments, as it increases the cost of borrowing for companies, which affects their profitability. The companies may also face difficulty in raising funds from the market, which could lead to a reduction in their growth prospects. This could ultimately affect their stock prices, and the overall stock market may experience a decline.

### **Short-term Investment Strategies:**

In the current scenario, investors need to adopt a short-term investment strategy to tackle the interest rate hike cycle. As interest rates rise, fixed income securities such as bonds become more attractive to investors. This could lead to a shift of funds from equity to bonds, which could cause a decline in equity prices. Therefore, investors need to focus on short-term investments, such as liquid funds, that provide flexibility and allow for easy entry and exit.

### **Investing in Liquid Funds:**

Liquid funds are short-term debt mutual funds that invest in securities such as Treasury Bills, Commercial Papers, and Certificates of Deposit. These funds offer higher returns than savings accounts and provide easy liquidity. They are a good option for investors who want to park their money for a short period of time, ranging from a few days to a few months.

### **Conclusion:**

In conclusion, the interest rate hike cycle initiated by the RBI could lead to a decline in equity prices, and investors need to adopt a short-term investment strategy to tackle the situation. This would include:

1. Investment in fixed deposits: When interest rates are on the rise, fixed deposits (FDs) become a more attractive investment option. You can lock in your money for a fixed period at a higher rate of interest, ensuring that your returns are not impacted by any further rate hikes during that period.
2. Investment in short-term debt funds: Debt funds that invest in short-term securities such as Treasury Bills, Commercial Papers, and Certificates of Deposits can provide higher returns during a rising interest rate environment. These funds can provide better returns than fixed deposits, while also offering liquidity and diversification.
3. Consider investing in gold: Gold can be a good hedge against rising interest rates, as it tends to perform well during periods of economic uncertainty. Investing in gold ETFs or gold funds can be a good way to gain exposure to this asset class.
4. Avoiding long-term bonds: Long-term bonds are likely to be negatively impacted by rising interest rates, as the yields on these bonds will be lower than the market rates. Investors holding long-term bonds could face significant losses in a rising rate environment.
5. Keeping a watch on inflation: Rising interest rates may also indicate rising inflation, which could impact your investments. You may want to keep a watch on inflation and consider investing in inflation-linked bonds or mutual funds.
6. Avoiding speculative investments: It is important to avoid speculative investments in a rising rate environment, as these investments could be negatively impacted by interest rate hikes. Stick to safer investment options that offer a reasonable rate of return.