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Column: BIZ INSIGHT: Opting for short-term bonds could be good move

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SPECIAL TO THE NATION

IN LINE with market expectations, the US Federal Reserve raised its policy interest rate by 25 basis points to 0.75-1.00 per cent last week. The higher rate with the hint at three more increases this year has affected the global market positively.

That being said, investors were unfazed by the Fed's latest move and suggested that a growing economy would keep driving corporate profits and a bull market.

The global equity markets and the main indices except Nikkei and Topix rose last week. The S&P 500 was up 0.24 per cent week on week, MSCI Asia-ex Japan up 4.04 per cent, MSCI Europe NR up 1.48 per cent, and MSCI BRIC up 3.53 per cent, according to Bloomberg as of March 17.

With these positive signals, we cannot deny that there is still an opportunity for risk-appetite investors who closely monitor the market and understand timing strategy to diversify their portfolios to global equity.

In our opinion, Asian and European equities are still charming, while the S&P 500 Index portrays equities that may be too expensive.

In the bond market, long-term bonds are commonly seen as losers when interest rates rise because of concerns regarding inflation or price increases. However, this doesn't mean there's no more appreciation return in the bond market.

Investors should be keener on adding weight to fixed income, specifically in short-term bonds. It is believed that short-term bonds provide the best option within this environment as they mature in three years or less, offering lower vulnerability than long-term bonds.

Moreover, there are more positive signs lingering regarding short-term bonds. It is frustrating and tough to see losses in bonds that are considered a safer investment, but it also presents investors another perspective on entering the market at the right time.

Furthermore, rising interest rates will add pressure to dividend-friendly sectors such as utilities and telecommunications, which may sway more investors away from stocks.

In conclusion, higher rates could lead to tighter financial conditions and possibly smother growth and limit upside for risky assets. Therefore, short-term bonds currently are a good investment option, as they offer low volatility, and investors will be able to get better returns as interest rateskeep rising.

For investors who are seeking appreciation returns from the bond market but may be unable to access investment directly in short-term bonds or lack the time to monitor the market, short-term fixed-income mutual funds are highly recommended.

As for accredited investors who can accept foreign-exchange risk, professionally managed foreign fixed-income mutual funds with duration of no more than two years are another good choice for diversifying portfolios and generating higher returns compared with savings interest in this rising-interest-rate cycle.

Contributed by Asset Plus Fund Management

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