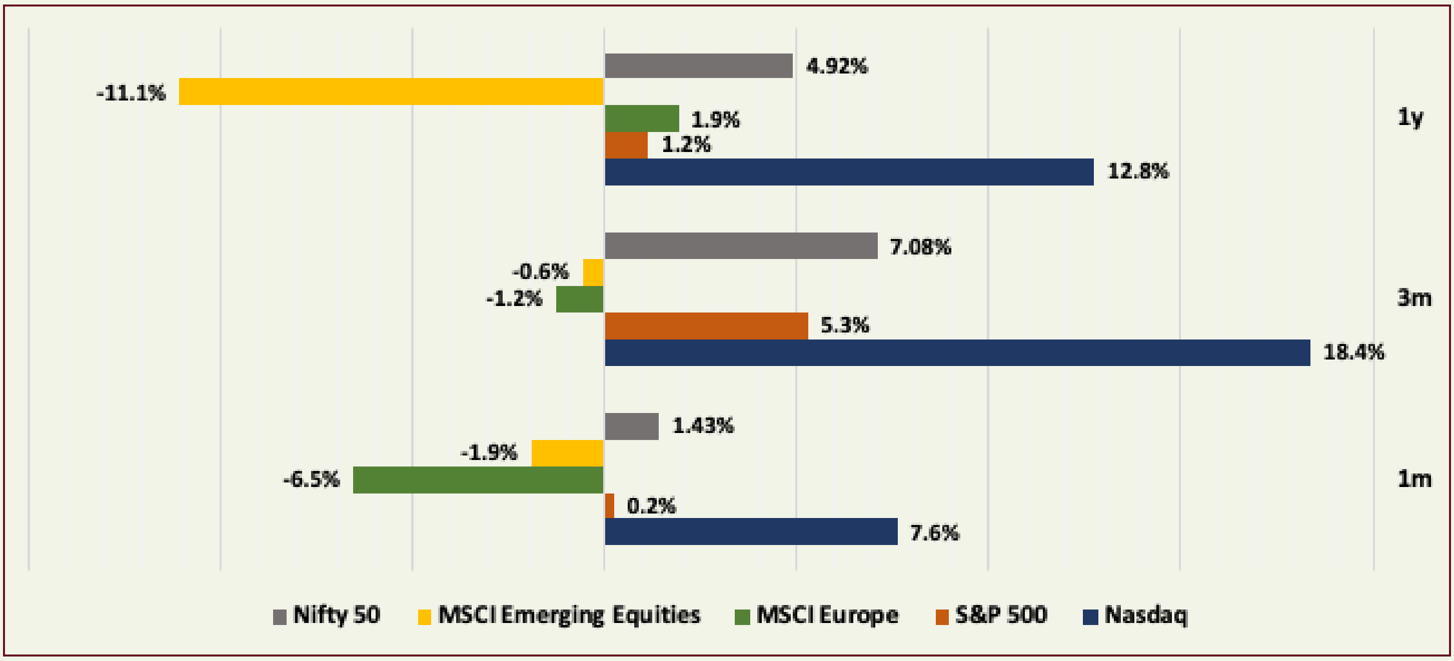
WEALTH FIRST

Monthly Newsletter

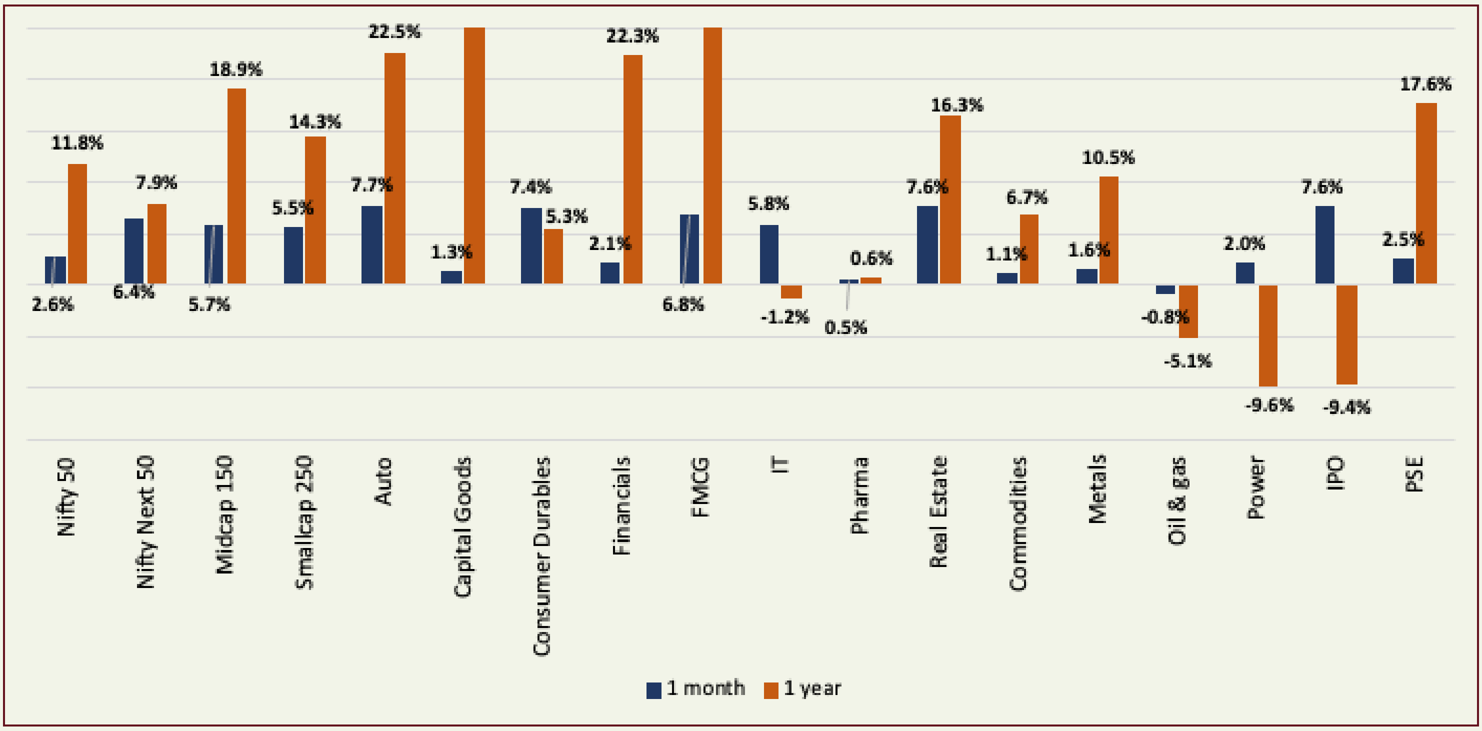
Global Equities

Europe and Emerging markets have shown weakness in May with Germany slipping into recession and weak economic data from China. US equities have risen by marginally by 0.2% despite the pressure of a debt-ceiling deal. However, Tech based NASDAQ gave good gains of 7.6%.

Rising Interest rates and downturn in consumer confidence levels is having an impact of S&P earnings growth with Q1 growth of almost 95% companies at -2.2%. This is the second consecutive quarter of declining earnings



Domestic Equities



Indian Equities gave decent returns in May with Nifty touching highs of 18660.

Auto and Realty sectors saw a strong rally aided by expectations of peaking of the rate cycle and strong inflow of FPIs.

Nifty Bank touched new highs of 44498 while IPOs have finally seen positive returns after a long drag.

Mid and Small Cap stocks continue to outperform Large Caps.

IT further corrected by 1.2% while Energy stocks have given marginally negative returns.

Correlation between Indian IT and NASDAQ has broken down this year. While Nasdaq is up 14% over last 6M period, Indian IT index is down 3%

Commodities

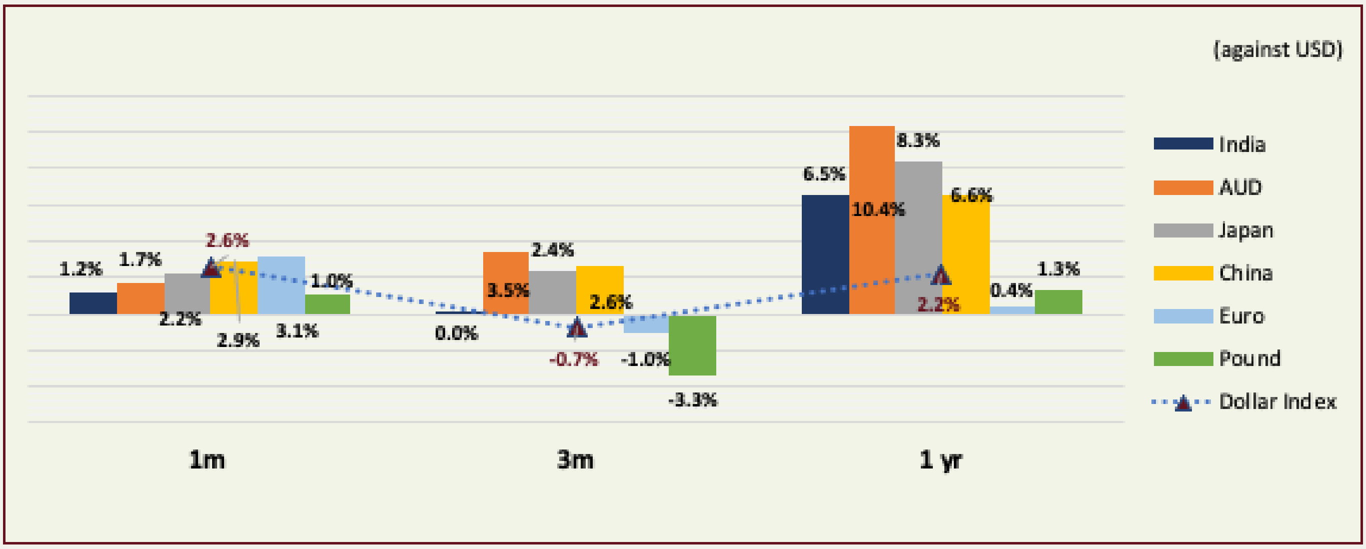
Commodities	Returns		
	1m	3m	1y
Brent Crude	-9.6%	-12.4%	-35.5%
Precious Metals			
Gold	-1.4%	7.4%	6.8%
Silver	-6.2%	12.3%	9.0%
Industrial Metals			
Steel	-7.3%	-18.7%	-27.9%
Iron Ore	-4.8%	-20.6%	-27.8%
Aluminium	0.7%	5.5%	-14.9%
Copper	-6.2%	-11.3%	-15.5%
Zinc	-15.0%	-25.0%	-42.5%
Nickel	-15.6%	-16.9%	-27.9%
Lead	-7.5%	-4.4%	-7.5%

Brent remained below $80 due to rate hikes and OPEC+ talks.

Gold witnessed 3 weeks of straight losses while finally bouncing back on the optimism around debt-ceiling deal.

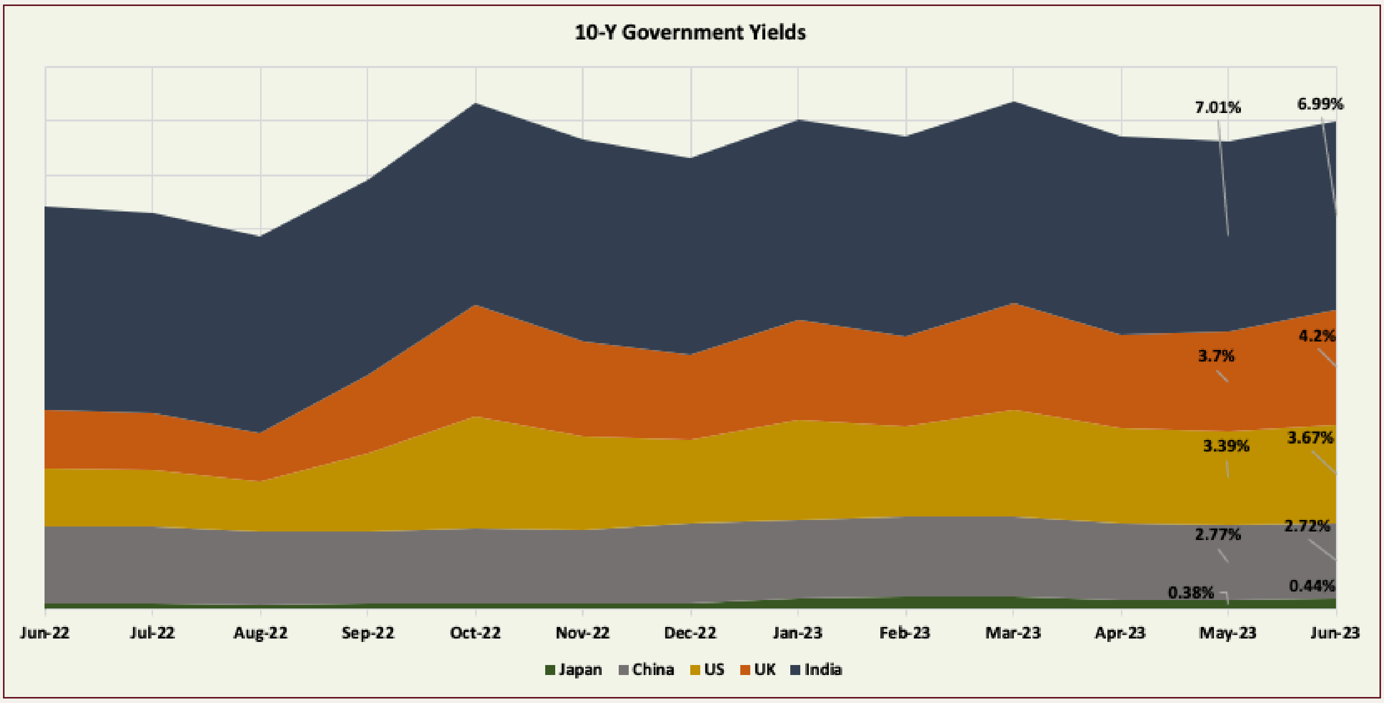
Almost all commodities have witnessed significant corrections, though still above COVID lows.

Currencies



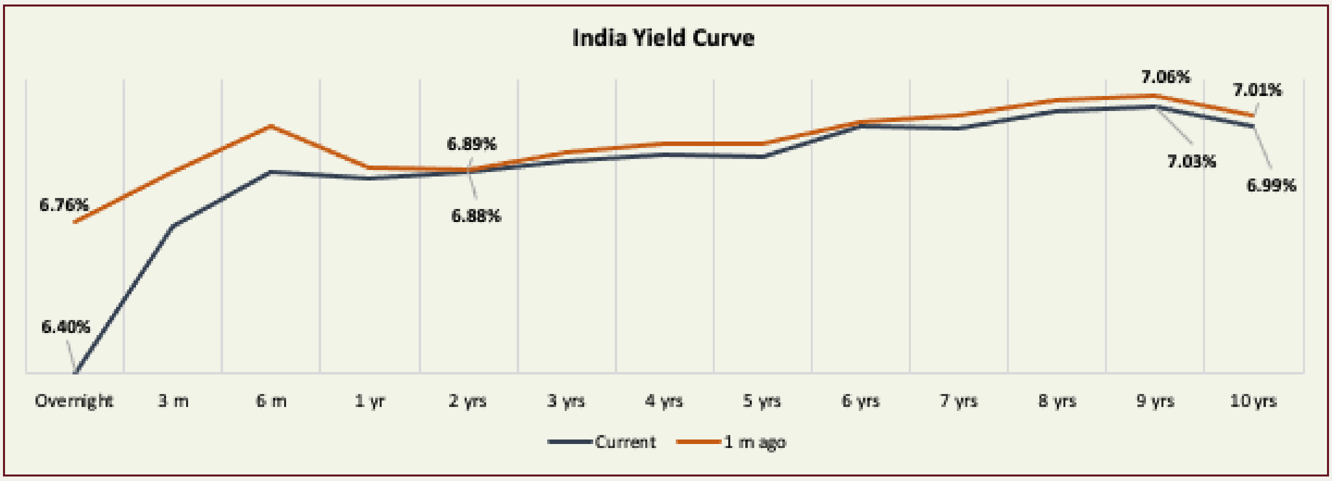
Most currencies have depreciated against the greenback in May, with Dollar soaring up by 2.6%. However, India has depreciated relatively lower when compared to the other major economies.

Yield Trends



Global Yields

Central banks have reduced the pace of rate hikes especially in US and Eurozone as they needed to find a balance between the inflation control and financial stability tradeoffs. CPI gained 4.9% YoY in April, down from peak 2022 inflation levels of 9.1% but still well above the Fed's 2% long-term target. The FOMC raised interest rates by another 25 bps in May, its tenth consecutive rate hike since March 2022. Excessive leverage in the global financial sector due to a decade of low policy rates resulted in asset-liability mismatches post rate hikes.



India Yield Curve

The yield curve has slightly normalised but still remains flattish compared historical standards as global slowdown is likely to impact India as well. Yields have come down by 30 to 35 bps across various maturities in this financial year. For most part of May liquidity condition was tight which was addressed later through large sovereign maturities and higher than expected dividend from RBI (87000 cr vs Budget expectations of 48000 crore).

Macro Trends

Month Gone By

	FIIs	DIIs	FII Debt
Dec-22	11,119	24,159	-1,673
Jan-23	-28,852	10,019	3,531
Feb-23	-5,294	14,629	2,436
Mar-23	7,936	30,500	-2,505
Apr-23	11,631	2,217	806
May-23	27,856	-3,306	396

INR has depreciated 1.2% against the greenback in May.

FIIs turned net buyers while DIIs turned net sellers in May.

Passenger vehicle sales remain subdued while housing demand increased increasing net property registartions in Tier 1 cities.

Both manufacturing and Services PMI have been witnessing growth for the last 3 months signaling economic expansion. This is further boosted by reduction CPI.

Inflation, Manufacturing & Liquidity

CPI data	
Month	Inflation
Nov-22	5.88
Dec-22	5.72
Jan-23	6.52
Feb-23	6.44
Mar-23	5.66
Apr-23	4.70

17% decline MoM

PMI		
Month	Manufacturing	Services
Dec-22	57.80	58.50
Jan-23	55.40	57.20
Feb-23	55.30	59.40
Mar-23	57.20	57.80
Apr-23	58.70	62.00

Manufacturing in Expansion Zone

Surplus Liquidity (in crore)	
Month	Inflow
Dec-22	2,98,558
Jan-23	2,51,382
Feb-23	1,62,110
Mar-23	1,01,422
Apr-23	79,885
May-23	89,697

Surplus increased 12% MoM

Other Trends

Corporate Bond Issues: 34,166 crore

Core Sector Growth: 3.5% in Apr 2023 (6-month low)

GST Collection: 1.57 lakh crore (increased 12% YoY)

SUMMARY

June 03, 2023

Key Takeaways

The two key market catalysts that have gotten the most headlines in the past year remain front and center: inflation and interest rates.

With the debt ceiling deal in place, the Fed is reaching a critical point in its battle against inflation, and the next couple of months could determine whether or not it can navigate a soft landing for the U.S. economy without tipping it into a recession.

So far, the most convincing argument a soft landing may still be possible has been the resilience of the U.S. labor market. The Labor Department reported the U.S. economy added 253,000 jobs in April, exceeding economist estimates.

A weakening USD in late 2023 and early 2024 is possible due to expectations of the Federal Reserve entering an easing cycle amidst a potential US recession and subsiding inflation.

This scenario is likely to further enhance gold's attractiveness given the inverse relation to USD.

Key Events in June, 2023

RBI Interest rate Decision - 8th June

Wipro Buyback Record Date - 16th June

Snippets

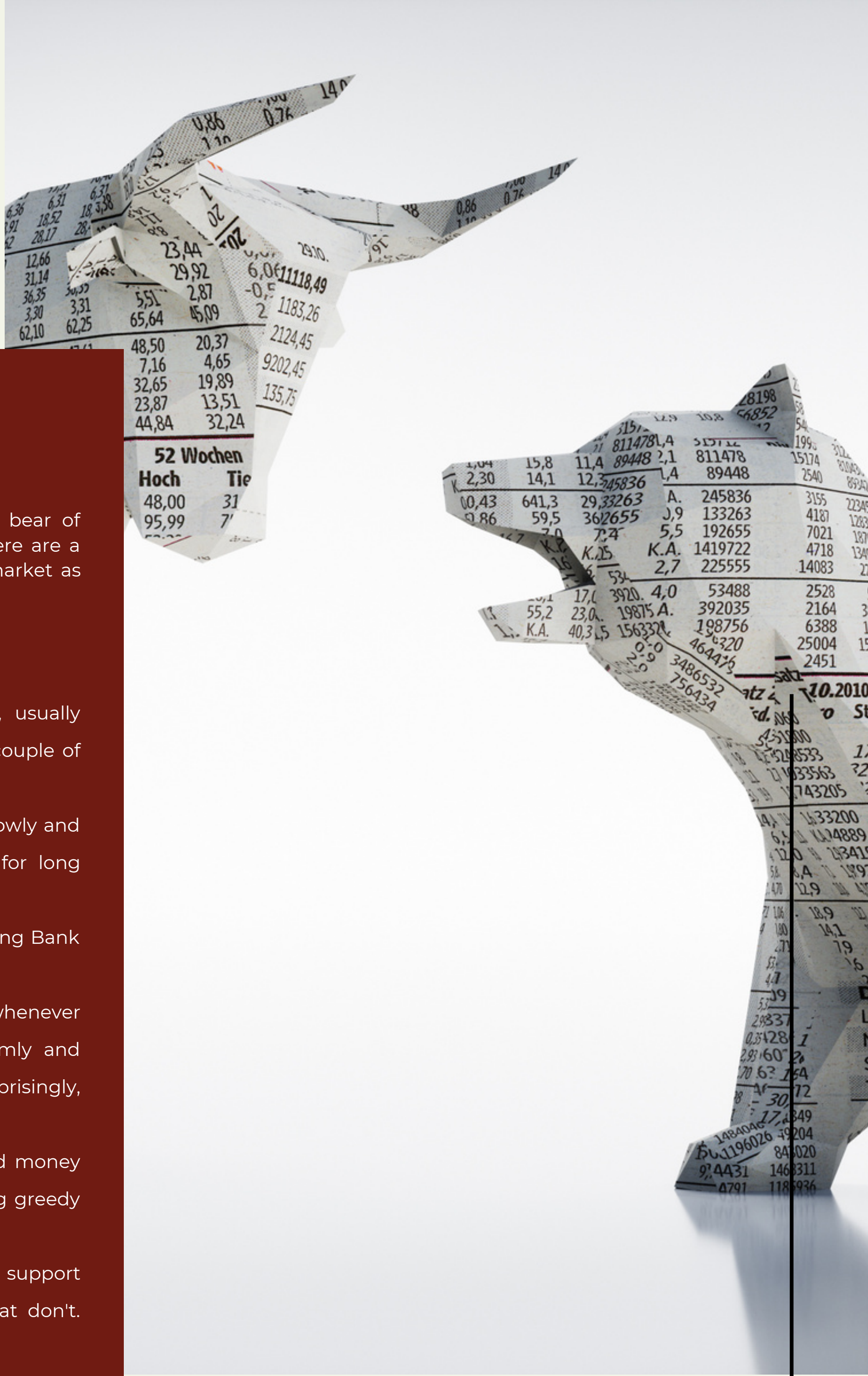
India

- India's GDP grew by 6.1% in Q4 2022-23, exceeding expectations (estimate 5%) and raising the yearly growth rate to 7.2% for FY23. While this is good news, ongoing challenges include slowing global economy and lack of private capital expenditure.
- The broader markets are doing well after a corrective phase of 18-20 months post peaking out in October 2021. - Mid/small indices are up 11-12% in 2 months of this financial year
- The withdrawal of Rs.2000 denomination notes led to steepening of the curve as the market started anticipating that this step can lead to deposits accrual for the banks in the vicinity of Rs. 1 to 1.50 trillion as the currency returns to the banking system in the form of deposits.
- Manufacturing activities improved further and touched a 5-month high boosted by improving supply chain conditions, mild price pressures and new robust business growth.
- Nifty at 18540 is trading in expensive zone as per valuation.

Nifty Valuation Zones	
Above 18000	Expensive
13500-18000	Fair
11700-13500	Buy
Below 11700	Strong Buy

Global

- World economy to grow at 2.5% in 2024, far below the average 3.1% growth rate. Developed economies to grow at an average rate of 1.8%.
- Despite consumer and business sentiments slightly improved in major economies, confidence levels levels remain well below long-term averages , especially for China (at 92).
- US economy's growth 0.2% down from 0.5%, China's growth forecast at 2.8% and Eurozone projected to grow at 0.2%.
- Manufacturing activity, as measured by PMI seems to have bottomed out.
- Global inflation is projected to reduce to 5.2% in 2023.
- Unemployment levels of most developed economies except US and UK, above pre-pandemic levels.



BEHAVIOURAL FINANCE

Almost everyone has heard of the bull and bear of financial markets. But, did you know that there are a whole lot of other animals investing in the market as well?

Let us see if we can identify with any of them:

1. Rabbits: They are short-duration traders, usually staying invested in a range of 1 day to a couple of weeks. They like to make quick money.
2. Tortoises: These are the kind that invest slowly and steadily. They hold on to their investments for long despite market turbulences.
3. Snails: They are content with the low yielding Bank deposits or life insurance policies.
4. Chickens: They basically 'chicken-out' whenever markets turn volatile. They invest randomly and usually go by tips floating around. Unsurprisingly, they lose more than they gain.
5. Pigs: These are investors who make good money on their initial bets but lose out by turning greedy and irrational.
6. Ostriches: They like to confirm views that support their own theories while ignore those that don't. Doesn't really work at all times.
7. Sharks: These look for high unleastic gains everywhere and try to make them even by artificial means.
8. Whales: These are the large institutional investors with deep pockets.
9. Sheep: They have a herd mentality and blindly follow investment advice from others

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Markets can remain irrational longer than you remain solvent
-John Maynard Keynes