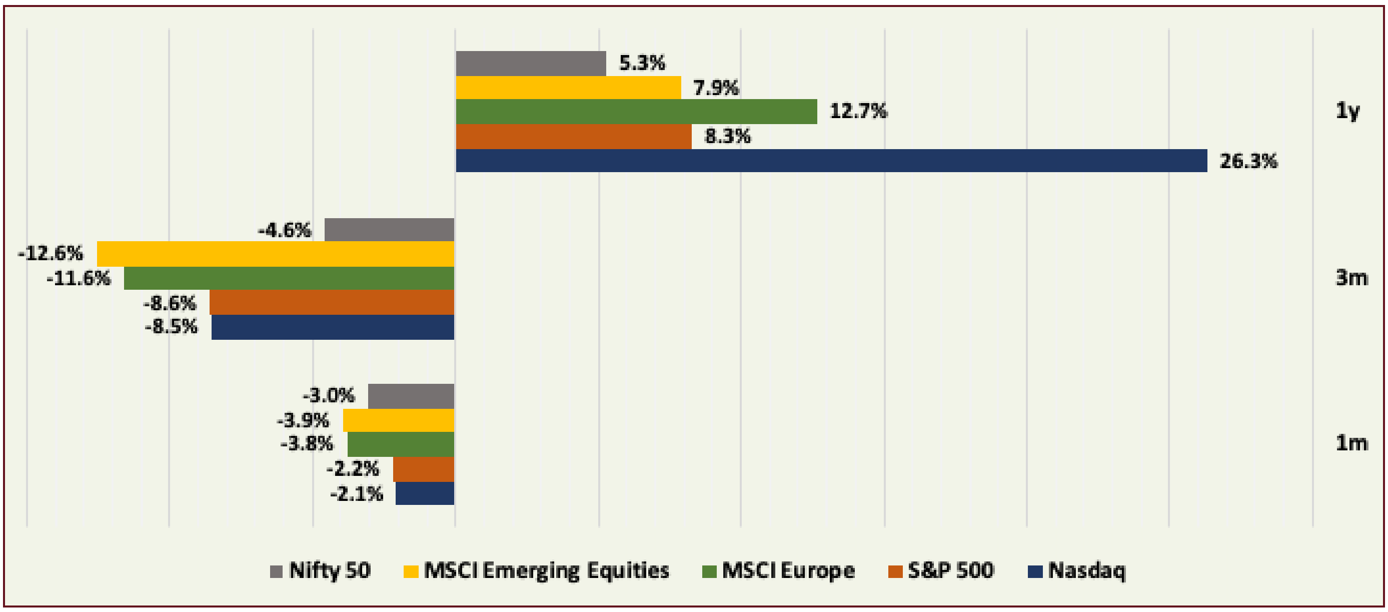
WEALTH FIRST

Monthly Newsletter

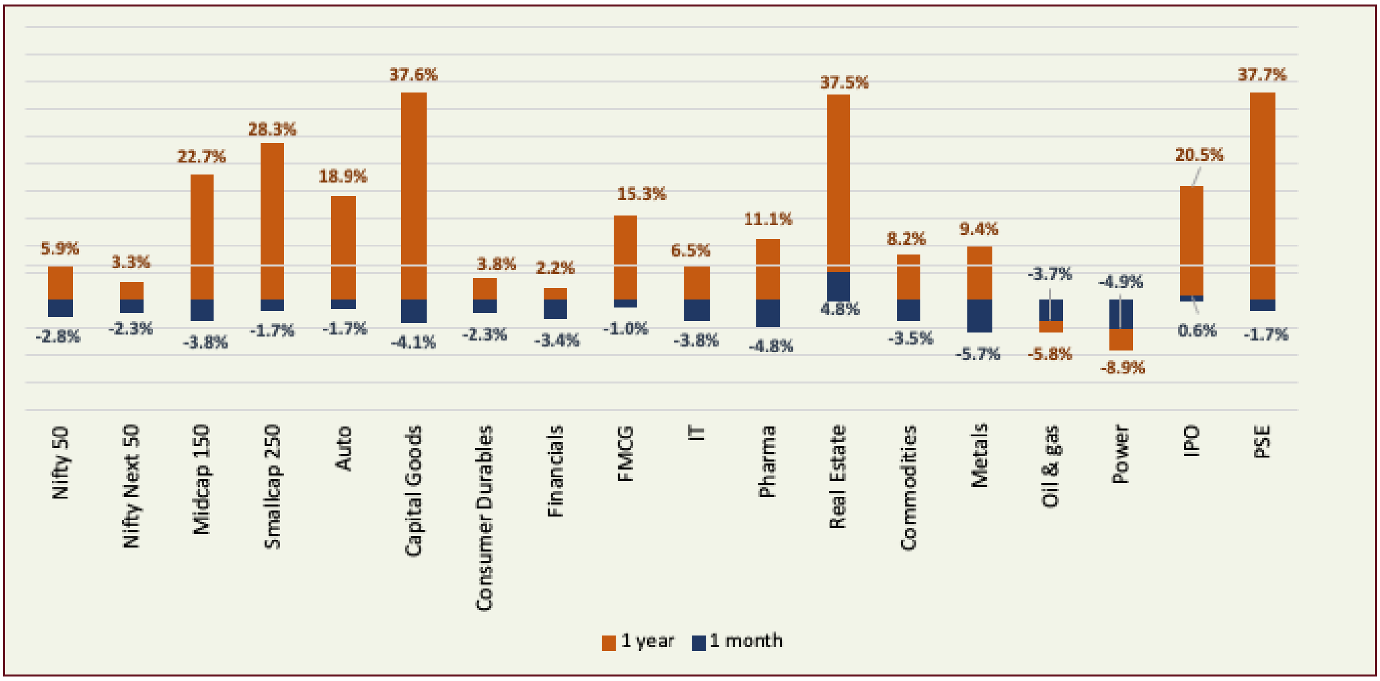
Global Equities (in USD terms)

In October, U.S. equities faced a decline, with both the S&P and Nasdaq slipping more than 10% from their July peaks, entering into a correction phase. In the global context, developed market equities declined by 2.9% during the month, while emerging market stocks faced a 3.9% drop.

Notably, the yield on the US 10-year Treasury bond exceeded 5% for the first time since 2007. This decline in stocks was attributed to the anticipation of "higher for longer" interest rates, which impacted equity valuations, and the Israel-Hamas conflict, which dampened risk appetite. The third-quarter earnings season began with modest results, with a blended earnings growth of approximately 2.8%, surpassing pre-season expectations. However, the size of these positive surprises has, thus far, fallen below the 5-year average.



Domestic Equities



The Nifty 50 index experienced its largest monthly decline in CY23, with 35 of its constituent stocks ending the month in negative territory.

This downturn was not limited to large-cap stocks; mid-and small-cap stocks also faced significant losses in October, marking a notable shift from the positive momentum observed over the preceding six months, spanning from April to September.

Remarkably, the real estate sector emerged as the sole resilient performer, delivering returns of nearly 5% during the month.

Furthermore, market volatility increased during the Q2FY24 earnings season, primarily due to major Indian IT companies such as TCS, Infosys, and Wipro reporting September figures below the Street's expectations and revising down their revenue forecasts.

Commodities

Commodities	Returns		
	1m	3m	1y
Brent Crude	-7.8%	0.1%	-6.6%
Precious Metals			
Gold	7.3%	0.9%	21.4%
Silver	3.3%	-7.5%	19.6%
Industrial Metals			
Steel	1.5%	-4.1%	6.8%
Iron Ore	2.1%	9.9%	48.8%
Aluminium	2.5%	-1.4%	1.3%
Copper	-2.3%	-9.1%	7.9%
Zinc	-8.3%	-5.3%	-9.9%
Nickel	-2.9%	-18.9%	-17.5%
Lead	-5.4%	-3.0%	5.3%

In October, there was a notable reversal in commodity prices, as evidenced by the Bloomberg Commodity Index, which recorded a 0.3% increase, offsetting some of its year-to-date losses.

The tragic events unfolding in the Middle East prompted investors to seek safety in gold, while oil prices rallied briefly before correcting later due to concerns that a broader regional conflict could potentially disrupt oil supplies.

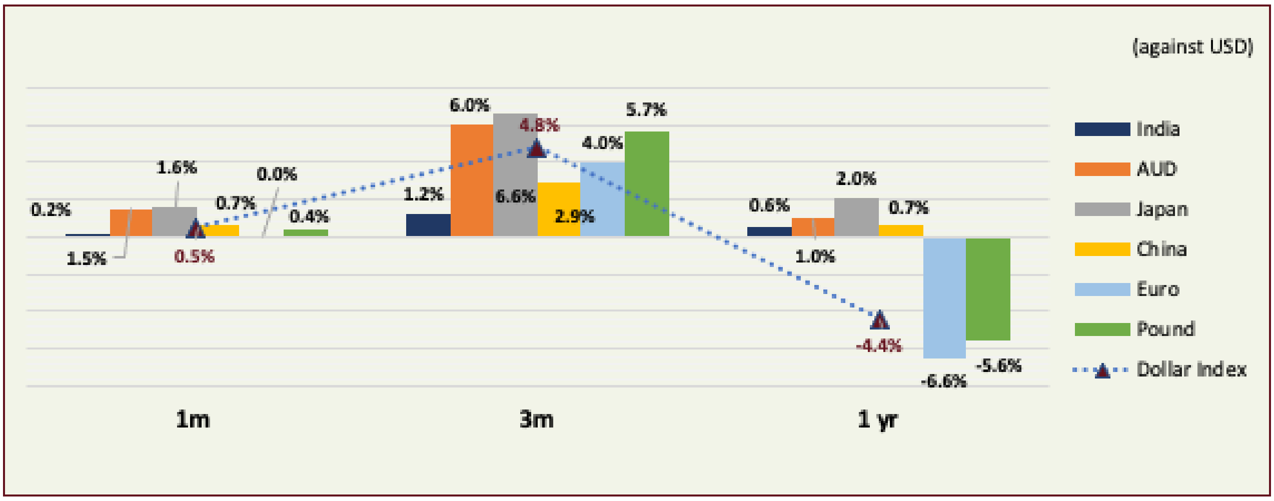
However, it's worth noting that the price of Brent Crude remained below its September peak.

Simultaneously, European gas prices experienced an upward surge, driven by concerns regarding global supply chain disruptions, which were exacerbated by the sabotage of a gas pipeline in the Baltic Sea.

Gold, in particular, had a significant uptick, marking its strongest performance since March, briefly reaching beyond $2,000 per ounce.

Currencies

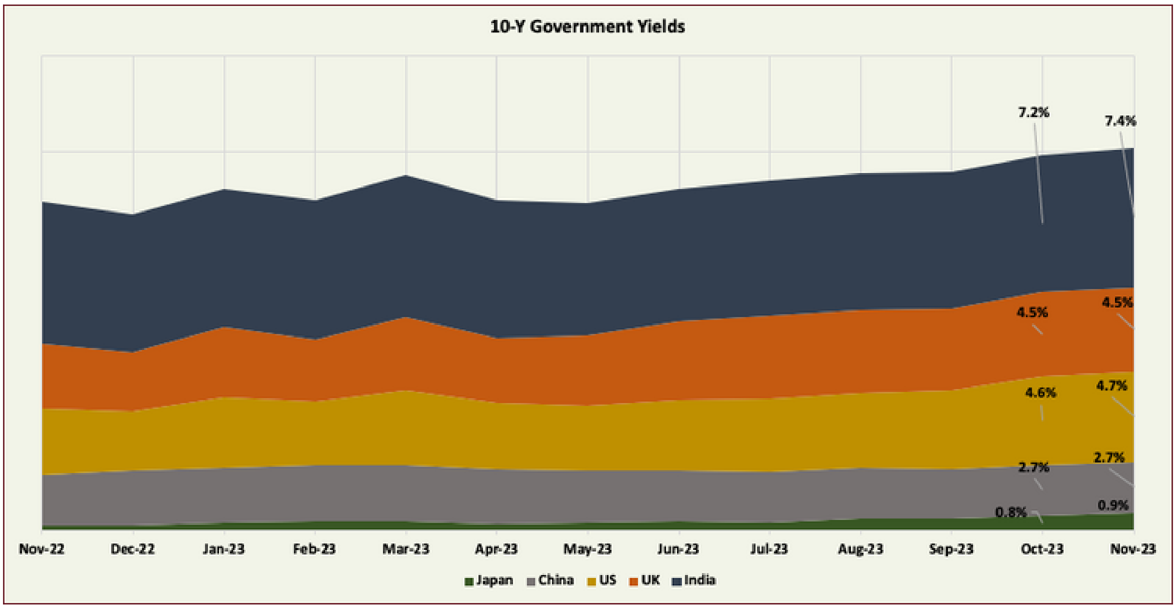
(depreciation against USD)



The US dollar displayed varied performance, depreciating against the euro while gaining strength against the Japanese yen. In the case of the rupee, its monthly trading range contracted in the previous month, even in the face of continuous domestic demand for dollars and capital outflows from the equity market.

This narrowing range was attributed to the central bank's interventions in the foreign exchange market, which effectively prevented the rupee from breaking its previous record low of 83.29.

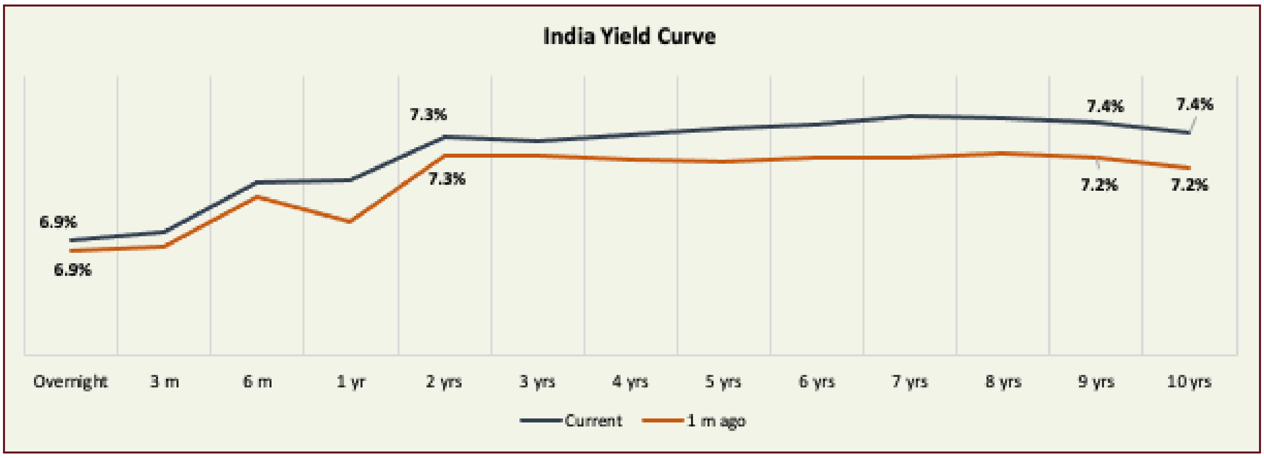
Yield Trends



Global Yields

The Federal Reserve (Fed) maintained unchanged interest rates for the second consecutive time during its recent meeting. In October, the bond market faced a challenging environment, with global bonds experiencing a 1.2% decline over the month.

This increase was driven by a combination of robust economic data, which raised the possibility of "higher for longer" interest rates, and concerns regarding the sustainability of government finances. Yields rose across the global government bond market and in the credit sector, resulting in widened spreads that negatively impacted monthly returns for both investment-grade and high-yield bond markets.



India Yield Curve

Over the past twelve sessions, India's 10-year bond yield has remained within a tight range of 7.30% to 7.39%.

In October, bond yields increased following the unexpected announcement by the Reserve Bank of India (RBI) regarding its intention to conduct bond auctions, coupled with the continuous rise in U.S. yields for the sixth consecutive month.

Market expectations for this quarter suggest approximately 500 billion rupees worth of RBI bond sales. The central bank is scheduled to meet with specific banks later this week, with discussions expected to center on liquidity within the banking system.

India Macro Trends

Month Gone By

	FIIs	DIIs	FII Debt
May-23	43,838	-3,306	396
Jun-23	47,148	4,458	9,178
Jul-23	46,618	-1,184	3,726
Aug-23	12,262	25,017	7,733
Sep-23	-14,768	20,313	3,276
Oct-23	-24,548	25,106	-934

JP Morgan has joined other prominent global brokerages such as Morgan Stanley, CLSA, and Nomura by upgrading India to an overweight rating.

This upgrade is attributed to several factors, including the positive seasonality associated with general elections, robust growth in emerging markets (EM) nominal GDP, and the development of a more extensive bond market, which in turn would mean lower yields and higher multiple for equity.

FPIs extended their selling streak in October, withdrawing ₹20,300 crore from Indian equities (till October 27) on the back of spiking US Treasury yields. September marked the beginning of FPIs turning into net sellers, withdrawing ₹14,768 crore from Indian Equities.

Inflation, Manufacturing & Liquidity

CPI data	
Month	Inflation
Apr-23	4.7
May-23	4.3
Jun-23	4.9
Jul-23	7.4
Aug-23	6.8
Sep-23	5.0

26.5% decline MoM

PMI		
Month	Manufacturing	Services
Jul-23	57.8	58.5
Aug-23	57.7	62.3
Sep-23	58.6	60.1
Oct-23	58.6	61.0
Sep-23	57.5	58.4

Manufacturing PMI at 4-month low

Surplus Liquidity (in crore)	
Month	Inflow
May-23	89,697
Jun-23	2,84,219
Jul-23	3,67,517
Aug-23	3,60,558
Sep-23	2,36,206
Oct-23	2,85,126

Liquidity up

Other Trends

Corporate Bond Issues: 9390 crore

Core Sector Growth: 8.13% in Sep 2023

GST Collection: 1.72 lakh crore (increased 13% YoY)

Research Corner

From Boom to Balance: The Trajectory of Indian MFs investing in International Mutual Funds

The Rise and Plateau of Indian MFs investing in Overseas Funds

Indian MFs investing in overseas funds witnessed rapid growth from 2020 to 2023. Starting with 33 such schemes and Rs 7,598 crore AUM in 2020, the market doubled to 66 schemes with an AUM of Rs 47,850 crore by September 2023. However, most of this growth occurred during the initial 24 months, and AUM stabilized at Rs 48,278 crore by December 2021. However, only 10 new schemes were launched between January 2022 and September 2023, indicating a slowdown.

What Caused the Slowdown?

The initial surge was driven by the strong performance of the Nasdaq 100 and the popularity of FAANG stocks. Yet, this trend waned after 2022 due to weakening returns. Moreover, the cap on overseas investments for Indian mutual funds, set at $7 billion, was reached in January 2022, limiting further investments in this space.

Global Economic Factors

Global economic conditions have also contributed to the perception of weak returns over the last decade. Some of them are:

- Rising interest rates in 2022 and 2023, coupled with economic slowdowns in Europe, the US, and China, have introduced uncertainty.
- In contrast, India stands out with resilient growth, while the rest of the world faces challenges.
- GDP growth in developed economies like the US and Europe has been lackluster, impacting the returns of overseas funds.
- China, once a robust market, is now grappling with stagnation.

Taxation of International Mutual Funds

Additionally, all gains are taxed at the investor's tax slab for international MFs in a clear contrast to domestic equity instruments. For an investor with a 30% tax slab, this reflects a direct 20% difference in taxation. This could also contribute to limiting investments in the international space.

The Future: Investing in Emerging Markets

Looking ahead, it appears that the decade between 2020 and 2030 will witness the resurgence of emerging markets. Economies such as India, South Korea, and Taiwan are poised to shine. With a strong focus on Asia and emerging markets, including India, investors can navigate the shifting tides of the global economy and build resilient portfolios.

SUMMARY

Nov 04, 2023

Key Takeaways

- Despite a decline in global gold demand, India has experienced a noteworthy 10% increase in the same in lieu of the upcoming festive season. Coupled with gold's renewed status as a safe haven asset, the commodity looks much more attractive for investments.

- Market volatility, which characterized October, is anticipated to persist for several more months due to external factors and upcoming elections.

- While many investors express concerns about the impact of elections on the markets, maintaining investment positions throughout this period is crucial.

- Historical evidence indicates that investments have generally yielded substantial positive returns in the majority of 1-2 year periods following elections.

- Also, the impact of FII selling need not be of great concern as it is largely cushioned by positive inflows from Domestic Institutional Investors (DIIs) and retail investor

Key Events in Nov, 2023

Nov 8 - US Midterm Elections

Nov 12 - Diwali Muhurat Trading

Nov 17 - Indian Election season starts

Snippets

India

- In October, Indian stocks faced significant challenges, primarily influenced by a confluence of factors. These included the ongoing Israel-Palestine conflict, outflows of foreign portfolio investments (FPI), a notable surge in US bond yields, and the strengthening of the US dollar.

- Meanwhile, on the domestic front, there was a surprise as the September Consumer Price Index (CPI) inflation figure came in lower than expected at 5.02%, down from 6.83% in August. Globally, equity markets may be more affected by the rise in US bond yields than by the Israel-Palestine conflict. The US 10-year bond yield surpassing 4.9% is expected to persist as a significant headwind for stock markets.

- Nifty at 19300 is trading in expensive zone as per valuation.

Nifty Valuation Zones	
Above 18500	Expensive
14000-18500	Fair
12200-14000	Buy
Below 12200	Strong Buy

Global

- Geopolitical concerns took center stage following a terrorist attack by Hamas on Israel on October 7th, resulting in the hostage-taking of several individuals, including US citizens.

- While we await the potential development of a major ground invasion that could escalate into a broader regional conflict, it's worth noting that historically, the market tends to overlook geopolitical events. However, a more extensive conflict could have implications for energy prices and inflation.

- In October, the US economy demonstrated resilience with robust indicators, including a strong jobs report, impressive retail sales data, and a robust third-quarter GDP growth rate of 4.9% on an annualized basis. Inflation exceeded expectations, with the headline figure holding steady at 3.7% year-on-year in September, defying forecasts of a slight moderation.

- Commodities, particularly energy prices, performed well, and investors turned to gold as a safe haven asset. In China, there were positive surprises in third-quarter GDP, industrial production, and retail sales. However, ongoing weaknesses in the real estate sector and reports of new US restrictions on AI chip exports to China dampened market sentiment.

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The October Effect

The "October Effect" denotes a market anomaly in which equities tend to decline in October.

However, this notion is increasingly seen as a psychological anticipation rather than a concrete reality, as most statistical evidence contradicts it.

Many investors may become apprehensive in October due to historical market crashes associated with this month, including the Great Depression of 1907, Black Tuesday (1929), Black Thursday (1929), Black Monday (1929), and Black Monday (1987) and Oct 2008 when Nifty was down 26%.

Nonetheless, these effects lack a solid analytical basis, and it's worth noting that there have been more instances of negative returns in September than in October. It's based on a limited sample of notable crashes and may not represent typical market behavior.

Financial markets are influenced by numerous factors, and attributing market movements to a single month oversimplifies a complex system. Instead of focusing on seasonal patterns, it's wiser to base investment decisions on diversified portfolios, risk management, and long-term strategies, which are more reliable guides for successful investing regardless of the month.

Wealth is not about having a lot of money, it is about having a lot of options
-Chris Rock

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