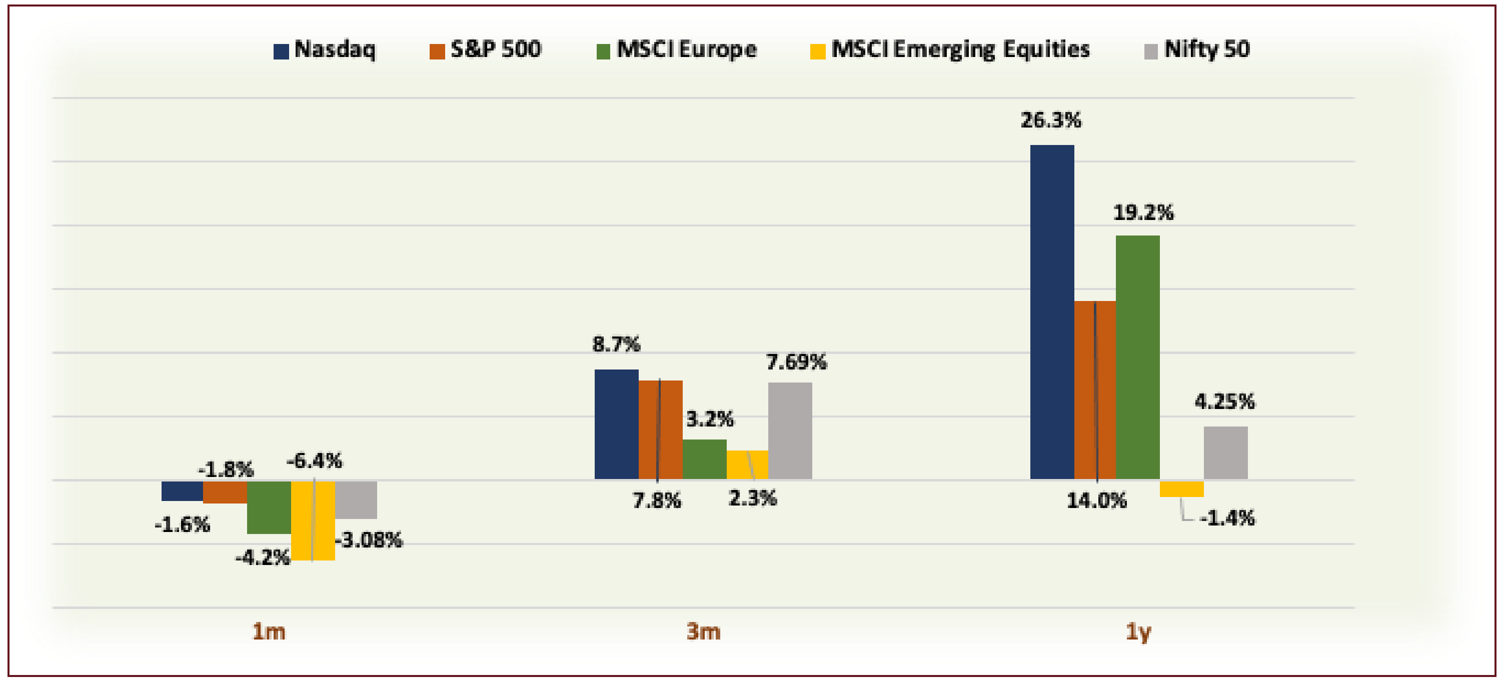
WEALTH FIRST

MONTHLY NEWSLETTER - SEP'23

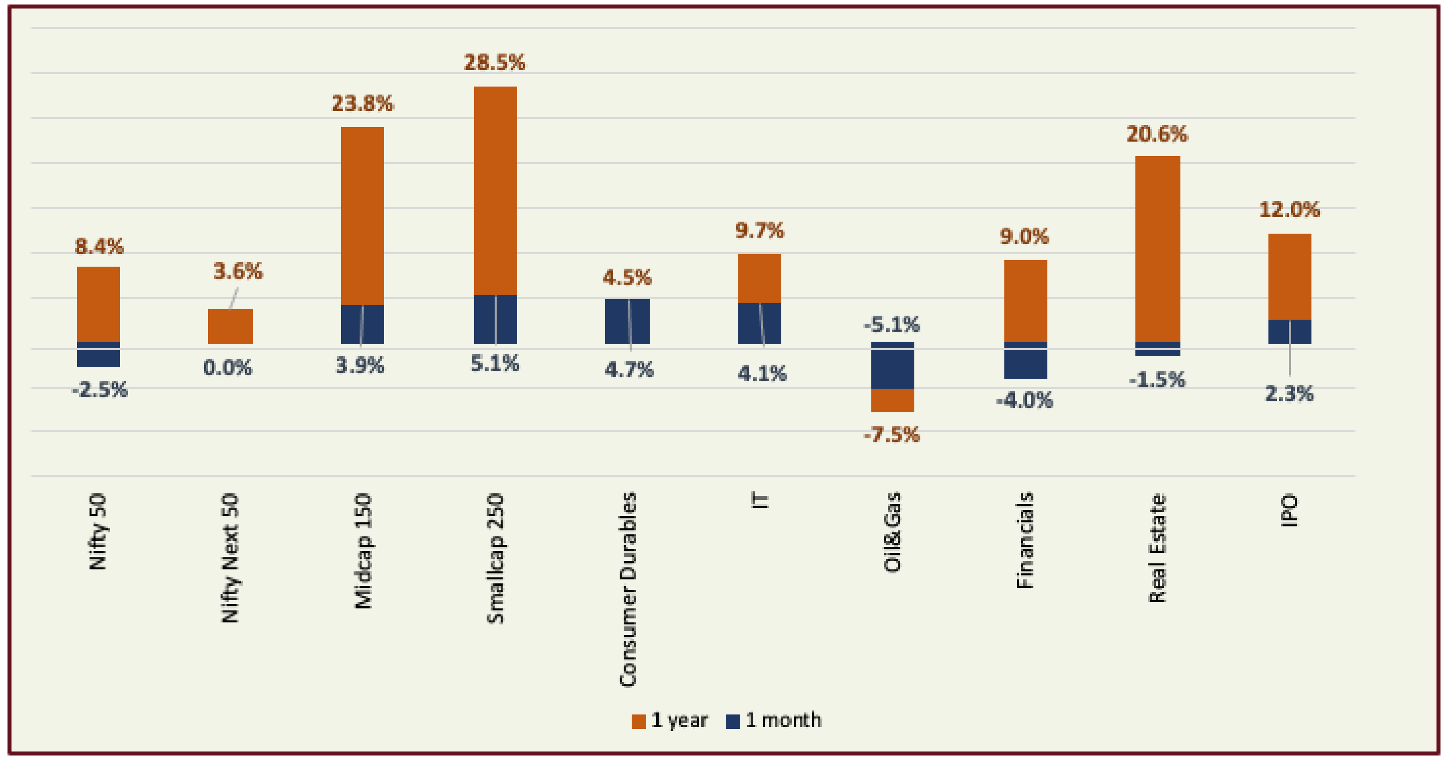
Global Equities (in USD terms)



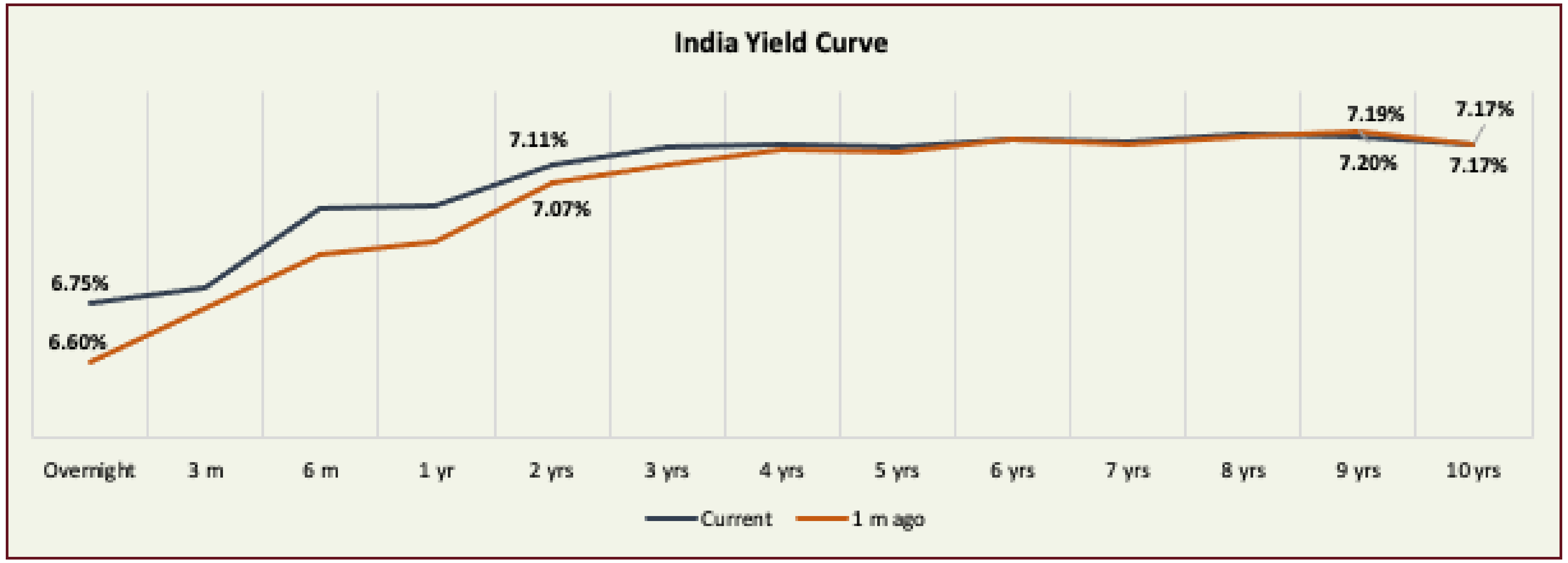
Global Yields

10 Year Government Yields					
Month	Japan	China	US	UK	India
Sep-22	0.24%	2.64%	2.88%	2.88%	7.17%
Apr-23	0.33%	2.88%	3.47%	3.47%	7.27%
May-23	0.38%	2.77%	3.39%	3.72%	7.01%
Jun-23	0.44%	2.72%	3.67%	4.18%	6.99%
Jul-23	0.39%	2.70%	3.84%	4.40%	7.11%
Aug-23	0.59%	2.70%	3.98%	4.36%	7.17%
Sep-23	0.63%	2.62%	4.12%	4.36%	7.17%

Domestic Equities



Domestic Yields



Commodities & Currencies

Commodities	Returns	
	1m	1y
Brent Crude	2.2%	-7.8%
Precious Metals		
Gold	-1.2%	13.4%
Silver	-1.4%	36.0%
Industrial Metals		
Steel	-2.7%	-8.6%
Iron Ore	5.9%	18.7%
Aluminium	-3.3%	-6.4%
Copper	-5.6%	7.2%
Zinc	-5.1%	-29.6%
Nickel	-9.0%	-5.8%
Lead	4.7%	15.4%

Macro Trends	July	June
FII flows (in crs)	12,262	46,618
DII flows (in crs)	4,383	-1,184
FII flows - Debt (in crs)	7,733	3,276
New Corporate Bond Issuances (in crs)	16,187	7,018
Surplus Liquidity (in crs)	-80,234	3,67,517
GST Collection (in crs)	1,65,105	1,61,497
CPI	7.44	4.87
Manufacturing PMI	58.30	57.70

Performance of US Dollar against currencies			
Country	1m	3m	1 yr
India	0.6%	0.0%	4.0%
AUD	1.8%	-0.5%	-4.7%
Japan	2.3%	4.4%	4.7%
Canada	1.6%	2.1%	5.4%
Euro	1.4%	-1.4%	-7.3%
Pound	1.3%	-1.8%	-8.3%

At a Glance

- Nifty declined 3.64% in August.

- Stock turnover in India's cash market has hit a 22-month high in August, reflecting the impact of a broad based rally.

- Fiscal Deficit has soared to 6.06 lakh crore, a significant increase from last year.

- US debt downgrade, high issuance of treasuries, Bank of Japan stance caused US treasuries to rise to 4.35% (16-year high) before settling at 4.11% towards August end. Yield curve has remained inverted for over a year now.

- RBI is expecting food inflation to ease in 3-4 months and holds stance of pausing rate hikes. The benchmark 10-Y yield has remained almost flat in one month.

- Most currencies continued to depreciate against the Dollar with the Index gaining almost 2% in one month. USD/INR has depreciated to 83.4 in Mid August while settling back at 82.6 towards the end. However, the dollar is expected to lose more steam with the expectations of Fed halting the rate hikes sooner than later.

- A report of lower stockpiles of crude in the US along with the fears of production disruption in the Gulf due to Hurricane Idalia, helped a late rally (over 2%) in Oil Prices.

- According to Bloomberg, "August's deterioration in US consumer confidence signals that the recent spending splurge won't last. Inflation remains elevated, and interest rates have surged, putting rate-sensitive purchases out of reach for many households".

Snippets

India GDP growth rate at 7.8% in the first quarter of the current fiscal; Core sector growth at 8%

Indian Markets

Markets saw a consolidation phase in August as Nifty was broadly range-bound. Mid Cap Index continued to clock record highs with Small Cap Indices outperforming Midcap. Financials downplayed in August.

The IPO Frenzy continued in August with most IPOs generating good listing gains greater than 15%.

DIIs have become net buyers in the month while FII inflows reduced in August.

Macro

GDP data showed that the Indian economy grew at its quickest pace in a year during Q1 which could boost foreign fund inflows.

Manufacturing activity continues to be in expansion zone with the PMI at 3-month high.

Spot Gold hit its highest in nearly a month at $1945.81 per ounce after a fresh batch of weak US economic readings reinforced the view that the Fed may have to hit pause on hikes.

Global

Falling Inflation and softening labour market in the US increased expectations of a soft landing scenario.

The difficulties of Country Garden and Evergrande, two of China’s largest property developers highlighted real estate weakness in August.

S&P 500 and NASDAQ have posted their first monthly decline since February.

Research Corner

Liquid vs Arbitrage Funds

Arbitrage Funds must have 65% of the fund assets in equities or equity-related securities as per SEBI mandates. The returns are generated from a pricing mismatch between the cash and the futures market.
Liquid Funds on the other hand invest in short term market securities like commercial papers, T-bills and other government securities.
Investors who look to park their surplus in liquid funds can consider Arbitrage funds as these funds started outperforming liquid of late. Also, they are more tax efficient.

Outperformance of Arbitrage over Liquid Funds					
	1M	3M	6M	1Y	3Y
HDFC	0.14%	0.13%	-0.29%	0.17%	-0.13%
ICICI Prudential	0.19%	0.16%	0.15%	0.02%	0.17%
Invesco India	0.16%	0.20%	0.20%	0.44%	0.33%
Kotak Equity	0.17%	0.22%	0.26%	0.26%	0.36%
Nippon India	0.15%	0.16%	0.09%	-0.13%	0.10%

Tax Treatment

Since Arbitrage funds invest over 60% in equity or equity related securities, they enjoy the advantage of equity taxation.
Liquid funds, however, have debt taxation, which implies that short term gains (held for less than 3 years) are taxed under the income tax slab of the individual.

Under these facts, Arbitrage Funds could be a better alternative to Liquid Funds for shorter time periods.

Market Watch

Takeaways

Small cap stocks are currently trading at expensive valuations. Investors looking for short term gains should be more cautious.

Gold is expected to see more consolidation in September as well and investors can use the opportunity to accumulate on dips.

AMCs have launched Tech Funds in the hope that the sector has bottomed out and Nifty IT PE slightly above its 5Y average.

Arbitrage Mutul funds have witnessed an increased inflow in the last couple of months with better returns than liquid funds.

Multi-Asset funds are also seeing increased interest with their relatively low-risk status.

Blog

Events

- Sep 5 - S&P Global India PMI Services & Composite
- Sep 12 - India Industrial Production and CPI
- Sep 13 - US CPI
- Sep 20 - Fed Rate Decision

Book a Consultation

BEHAVIOURAL FINANCE

Millions of dollars have been lost in a Casino on a single fateful night in Monaco in 1913.

It was an ordinary evening until someone noticed that the roulette ball had fallen on black several times in a row and continued to do so. This was when people started betting that the ball had to fall in red soon.

However, the ball continued to fall in black for 27 more turns after which it finally fell in red. By this time, people lost millions.

This idea that past behaviour influences future behaviour without really considering all the factors that go into it is termed the Gambler’s Fallacy.

The problem doesn’t lie with believing in numbers. It rather does in how we understand them.

For example in a coin flip, the probability of landing a head is the same (50/50) irrespective of the number of times we flip it. However, we tend to focus on the latter. If a coin is flipped four times and lands heads in the first two trials, we expect it to land tails in the next 2 trials. Unfortunately, that is not the case.

The same theory applies to Investing as well. Blindly extrapolating past performances to future does not work while Mindful investing works wonders.

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THANK YOU

I FINALLY KNOW WHAT DISTINGUISHES MAN FROM OTHER BEASTS: FINANCIAL WORRIES
-JULES RENARD