WEALTH FIRST

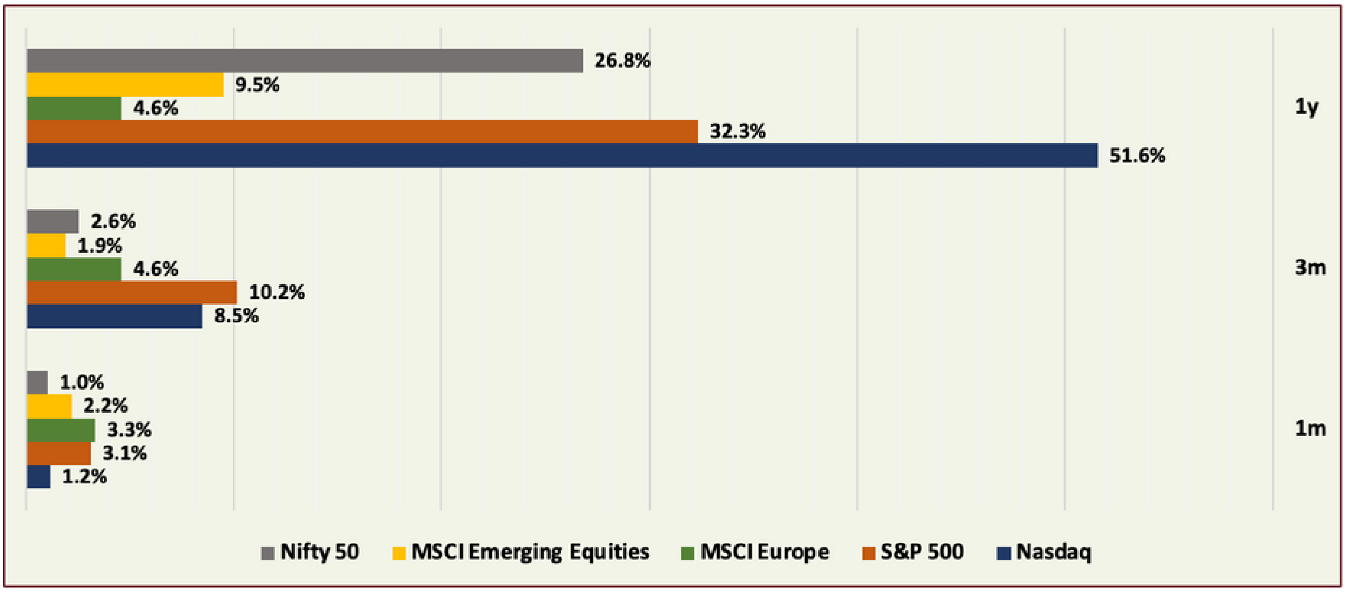
Monthly Newsletter

Global Equities (in USD terms)

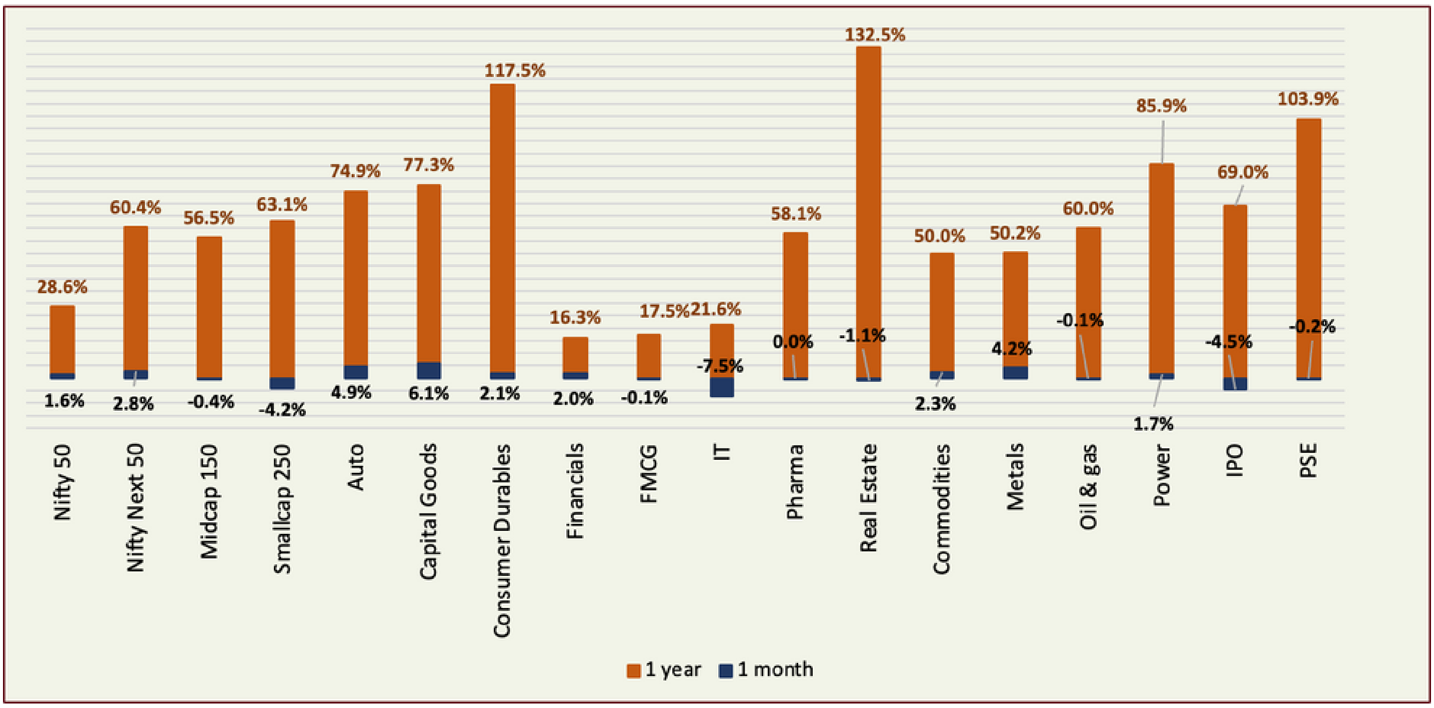
The S&P 500 has achieved its second consecutive quarter of double-digit gains, a feat seen only nine times since 1940, historically signaling bullish sentiment. Past instances resulted in positive 12-month gains averaging 14.9%. Over the last five months, the S&P 500 has seen gains, boasting a 25.3% price return, ranking as its tenth-best performance over a five-month period since 1940, indicating positive future performance.

Japanese equities receded from record highs as the yen slid to a 34-year low against the U.S. dollar. Japan, US and India were the best performing equity markets in FY24. Following a robust Q4 marked by strong momentum, U.S. equities hit all-time highs in Q1, led by the S&P 500 with a 10.6% total return. Despite a hawkish repricing of monetary policy, the equity gains continued from Q4, contrasting the dovish Fed pivot. Markets initially anticipated seven rate cuts for 2024 but scaled back to three cuts amidst improving economic growth (Q4 GDP expanded 3.4%, surpassing the initial 2% consensus) and slowing disinflation.

Developed market equities, buoyed by growth stocks, returned 10.3% in the first quarter. Emerging market equities underperformed, returning 2.4%, driven by concerns over China's growth prospects without significant fiscal stimulus. UK equities have trailed international peers, with the FTSE All-Share rising only 3.6% since the beginning of the year.



Domestic Equities



March saw a significant drop in daily trading volumes due to increased market volatility. The average daily turnover in the equity cash segment of the BSE and the NSE fell by 13.33%, the largest decline since October 2023.

In the current fiscal year, the Nifty 50 reached multiple record highs, including hitting 22,525 points on March 07.

In December, the market capitalization of Indian listed companies on the NSE surpassed $4 trillion for the first time, with 47 out of 50 stocks in the Nifty 50 index showing gains of over 25%, including three from the auto sector with multibagger returns.

The Nifty Realty index surged by an impressive 130%, with substantial gains also seen in Power (85%), Capital Goods (77%), and Auto (72%).

Mid and Small caps experienced corrections of 8.8% and over 14.23% in March from their February peaks, mainly due to perceived expensive valuations, SEBI's stress test policy and electoral bond revelations. However, both indices recovered nearly 80% of their losses by the end of March.

Out of the 22 IPOs listed in 2024, 10 delivered more than 10% listing gains and are currently profitable. Additionally, FY25 is expected to witness IPOs worth ₹1 lakh crore hitting the market.

Commodities

Last quarter, the Bloomberg Commodity Index rose slightly by 2.2%, with a decline in gas prices offset by an increase in oil prices driven by supply cuts and geopolitical tensions.

January's higher-than-expected US inflation brought uncertainty to metal markets. Initially, gold prices were dampened by hopes for rate cuts, but upgraded price forecasts emerged as expectations for future cuts increased.

In February, US and Chinese economic developments influenced metals markets. Rising US inflation tempered expectations for immediate rate cuts, leading to higher Treasury yields and a stronger dollar.

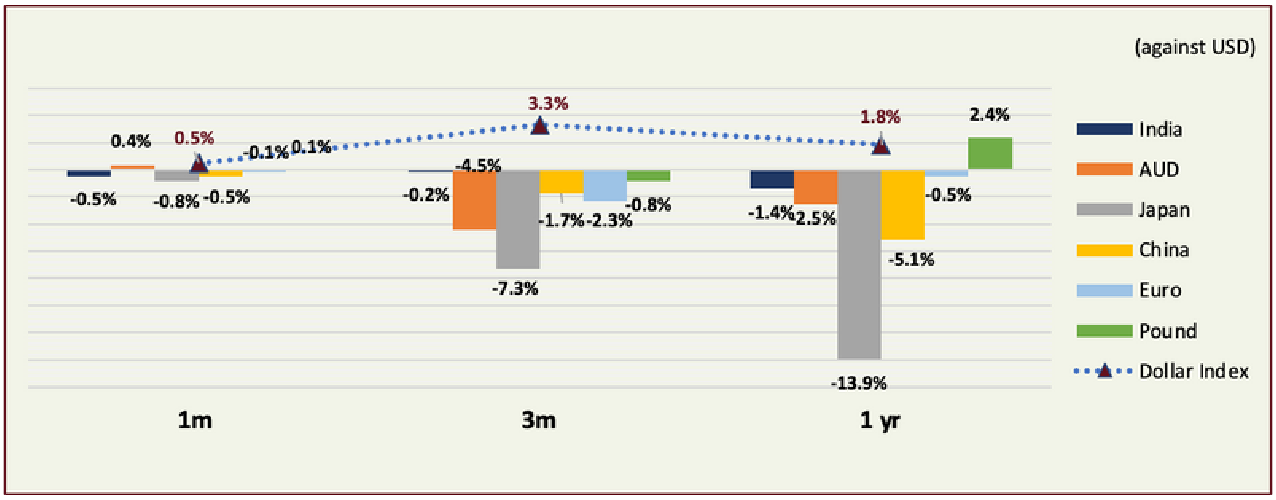
Despite mixed economic indicators, escalating geopolitical tensions pushed gold prices to a record high by the end of March.

Silver demand, linked to industrial use, could increase alongside gold's rise, while oil markets rebounded due to OPEC actions, and natural gas prices saw fluctuations.

Commodities	Returns		
	1m	3m	1y
Brent Crude	6.2%	12.9%	8.9%
Precious Metals			
Gold	9.0%	8.0%	13.2%
Silver	10.2%	5.1%	3.7%
Industrial Metals			
Steel	-9.6%	-14.4%	-22.1%
Iron Ore	-11.9%	-27.4%	-18.5%
Aluminium	5.0%	-1.9%	-3.1%
Copper	4.7%	3.4%	-1.8%
Zinc	0.6%	-8.2%	-16.5%
Nickel	-6.2%	1.2%	-29.9%
Lead	-1.6%	-0.5%	-4.7%

Currencies

(movement against USD)

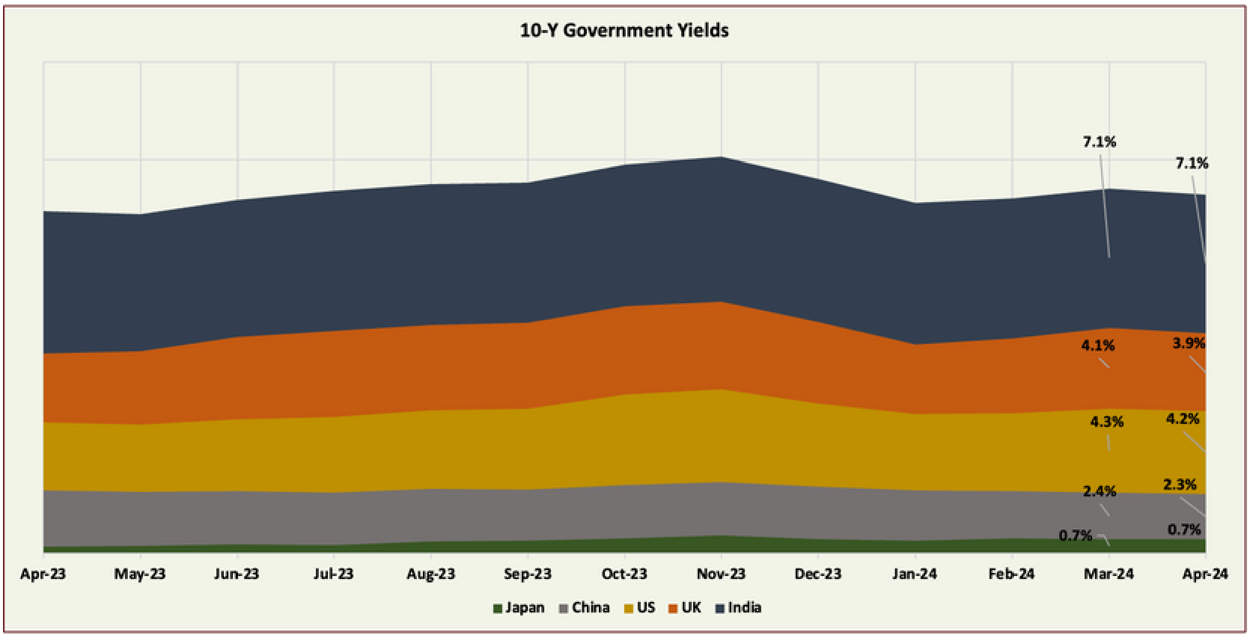


The Indian rupee rebounded to 83.3 per USD after hitting a record low of 83.7 on March 22nd, supported by Reserve Bank of India intervention and overall strength in Asian currencies due to China's tighter yuan fixing. Strong domestic growth, with Indian GDP expanding by 8.4% in the December quarter and PMI exceeding 60 for the third consecutive month in March, also bolstered the rupee.

The dollar index stabilized around 104.5 post-holiday, as investors analyzed the latest PCE price index report for insights into Federal Reserve monetary policy. February's PCE inflation gauge rose 0.3% month-on-month, slightly lower than January's 0.4% increase. Consumer spending surged last month, indicating economic resilience.

India's current account deficit (CAD) dropped to 0.2% of GDP in Q4 FY23 from 2% in the previous quarter, driven by reduced trade deficit and robust services exports. Compared to Q4 FY22, the CAD also decreased from 1.6% to 0.2% of GDP while forex reserves hit an all-time high of $642.63 billion as of March end contributing to the rupee stabilizing according to RBI data.

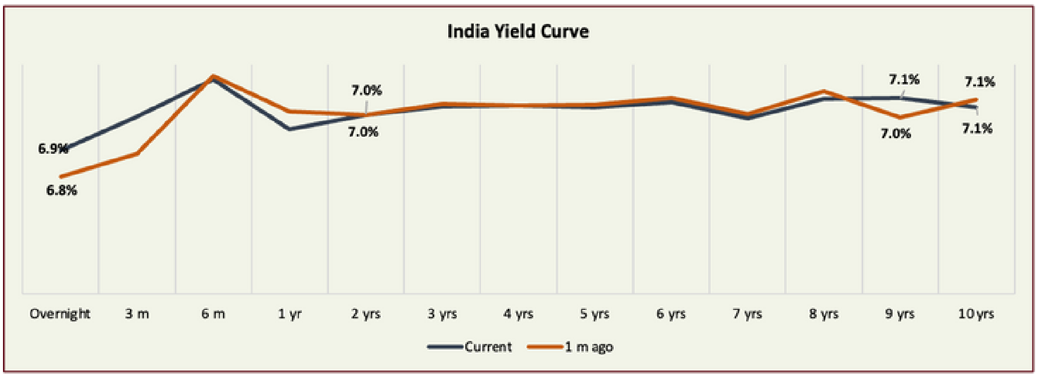
Yield Trends



Global Yields

The Fed's concerns about persistent inflation may delay rate cuts, raising the risk of the current soft landing turning into a mild recession. In its latest March FOMC meeting, the Fed maintained its inflation forecast (core PCE) to decrease to 2.6% by the end of 2024, aligning with its September projection. Both the market and the Fed anticipate three rate cuts, likely in June, September, and December.

The U.S. 10-year Treasury yield remained largely unchanged, closing near 4.20%. Japanese 10-year government bond yields fell further following the Bank of Japan's normalization of policy last month, reflecting policy normalization rather than inflation concerns. UK 10-year government bond yields rebounded to 3.99%, recovering from recent lows, as investors evaluated cautious remarks from central bank officials. Bank of England's Jonathan Haskel emphasized that rate cuts should be distant.



India Yield Curve

The yield on Indian 10-year government bonds eased to around 7.05%, down from a one-month high of 7.1% on March 20th, driven by positive macroeconomic conditions and robust demand outlook for G-Secs. Following JPMorgan's inclusion of G-Secs in its emerging market government bond index, Bloomberg Index Services also added domestic bonds to its emerging market local currency bond index. These changes are anticipated to attract significant foreign funds into the Indian bond market, with financial institutions projecting up to $30 billion in demand over the next 18 months, resulting in lower yields across various debt instruments.

RBI Policy Outcome

- Repo rate unchanged at 6.5%; focus on withdrawing accommodative stance.
- GDP growth outlook for FY25 steady at 7.5% supported by rural demand, improving employment and manufacturing/services momentum.
- Liquidity conditions eased while inclusion of corporate bonds in Held to Maturity portfolio aims to help stimulate debt market activity and tighten spreads.
- FIIs have invested over 1lakh crores in Debt since October and flows are expected to surge post India's inclusion in Global Debt indices in June.

	FIIs	DIIs	FII Debt
Oct-23	-24,548	25,106	-934
Nov-23	9,001	12,762	14,860
Dec-23	66,135	12,942	-4,146
Jan-24	-25,744	26,744	19,837
Feb-24	1,539	25,379	3,276
Mar-24	35,098	56,312	13,602

MF Stress Test Results

The stress test results show how long it would take fund managers to liquidate portions of their portfolio excluding the bottom 20% illiquid stocks. This should help investors understand how liquid the portfolios of these mutual fund schemes are in case markets turn volatile.

Barring the illiquid stocks of a fund, mid cap funds with an AUM of >10000 crores are expected to take 10-34 days on average to liquidate 50% of their portfolio while the smaller funds take 2-5 days on average. Also, only 10/26 Midcap MFs are taking >10 days to liquidate.

When it comes to small caps, larger funds (AUM>10000 crore) take 30 days on average to liquidate 50% while smaller funds take 6 days on average.

In light of these results and even before the stress test, many MFs have already stopped or restricted lumpsum payments into their funds. Also, on an average, small cap schemes held around 6% of their AUM in cash, while mid cap schemes' cash holding was around 3.8% of their AUM at the end of February 2024.

Stress Test results will be published on 15th of every month and these should be just considered as another means to build a healthy portfolio.

Inflation, Manufacturing & Liquidity

CPI data	
Month	Inflation
Sep-23	5.0
Oct-23	4.9
Nov-23	5.6
Dec-23	5.7
Jan-24	5.1
Feb-24	5.1

marginal decline

PMI		
Month	Manufacturing	Services
Nov-23	56.0	58.4
Dec-23	54.9	59.0
Jan-24	56.5	61.2
Feb-24	56.9	62.0
Mar-24	59.2	62.0

Manufacturing PMI in expansion

Surplus Liquidity (in crore)	
Month	Inflow
Oct-23	2,85,126
Nov-23	3,06,248
Dec-23	2,15,664
Jan-24	1,76,861
Feb-24	1,66,119
Mar-24	1,86,908

Liquidity up

Other Trends

Corporate Bond Issues: 30,395 crore

Core Sector Growth: 6.7% in November (up from 4.1% in Jan)

FPI Investments in FY24: Equity: 2.08 lakh crores, Debt: 1.21 lakh crores

DII Investments in FY24: 2.02 lakh crores

Forex Reserves: India's forex reserves hit a record high of $645.6 billion as March-end.

GST Collection: 1.78 lakh crore (11.5% YoY) for March and 18.1 lakh crore ona net basis for FY24

Research Corner

Maximizing Returns, Minimizing Risks: The Case for Sovereign Gold Bonds

Gold holds a revered status among investors, especially in India, deeply embedded in cultural and financial traditions. Yet, traditional gold investments like jewelry purchases incur hidden charges and taxes, limiting returns.

In response, alternatives like Gold ETFs and Gold Funds emerged, but none match the advantages of Sovereign Gold Bonds (SGBs). SGBs offer capital appreciation and annual interest earnings, devoid of storage and security risks. With a five-year lock-in period and eight-year maturity, SGBs ensure stability and growth potential.

Comparative Analysis: SGBs outshine other gold investment avenues in returns, despite taxable interest income. **They surpass alternatives like Gold ETFs and Gold Funds, making them a compelling choice for investors seeking optimal returns on gold investments.**

For comparison, we have considered SGB Mar24 (the most recent SGB that has come up fro redemption on 29-Mar-2024) with Gold ETF, Gold Fund and Spot Gold. The Bond has been issued at a price INR 2916/- on 29-Mar-2016 with a redemption price fixed at INR 6601/-. Additionally, a semi-annual 2.75% pa interest was paid to the investor till maturity. The assumption here is that the SGB has been purchased in the secondary market and held to its maturity.

Pre-Tax Returns as of 29-Mar-2024				
	3 Years	5 years	7 years	8 years
Spot Gold	14.57%	15.87%	12.71%	10.94%
HDFC Gold ETF	13.89%	15.09%	11.87%	10.06%
Kotak Gold Fund	12.73%	14.78%	11.61%	10.06%
SGB Mar24	15.47%	19.53%	15.08%	12.61%

Post-Tax Returns as of 29-Mar-2024				
	3 Years	5 years	7 years	8 years
Spot Gold	12.38%	13.75%	11.15%	9.66%
HDFC Gold ETF	11.82%	13.09%	10.43%	8.91%
Kotak Gold Fund	10.88%	12.83%	10.21%	8.90%
SGB Mar24	14.90%	19.05%	14.50%	12.15%

SGBs have, in fact, outperformed Nifty's pre-tax returns of 14.52% over 3 years, making gold a lucrative option. With a 1-2% alpha over other avenues, SGBs offer steady income through an annual interest rate of 2.5% till maturity, coupled with tax-free capital gains if held to maturity, appealing to investors seeking optimal returns with minimized tax liabilities.

Strengthening the Case for Active Funds

Category	Scheme	Returns					
		1M	3M	6M	1Y	3Y	5Y
Top Large Cap Funds - WF Suggested	ICICI BlueChip	2.46%	8.30%	21.29%	44.46%	21.85%	17.90%
	Nippon India Large Cap	2.52%	7.28%	18.81%	46.95%	25.05%	17.13%
	Quant Large Cap	0.32%	10.24%	27.03%	55.03%	0.00%	0.00%
	HDFC Top 100	1.68%	4.86%	18.01%	41.31%	21.82%	15.35%
Nippon India ETF Nifty 50 BeES		***1.56%***	***2.91%***	***14.07%***	***32.10%***	***16.74%***	***15.17%***
Top Large & Mid Cap Funds - WF Suggested	Quant Large & Mid	2.05%	12.27%	31.63%	63.36%	29.94%	24.55%
	Bandhan Core Equity	0.65%	7.91%	22.83%	54.93%	24.99%	19.07%
	HDFC large & Mid	0.32%	4.37%	17.92%	51.63%	25.92%	19.99%
Nifty Large Mid cap 250 Index Fund		***0.70%***	***4.47%***	***17.56%***	***47.67%***	***22.43%***	***19.46%***
Top Diversified Funds - WF Suggested	Quant Flexi	-0.69%	12.03%	29.14%	60.41%	33.28%	28.78%
	Whiteoak Flexi Cap	0.36%	3.70%	15.68%	45.16%	-	-
	JM Flexi Cap	-0.56%	8.59%	23.86%	59.35%	26.46%	22.21%
	Kotak Multi Cap Fund	0.85%	9.40%	24.46%	62.66%	-	-
	Nippon India MultiCap	1.86%	6.54%	16.44%	52.06%	30.10%	19.67%
Motilal Oswal Nifty 500 Index Fund		***0.75%***	***4.16%***	***16.91%***	***41.07%***	***18.49%***	***-***

As emphasised in our earlier research columns, Top Active funds have continued to outperform their ETF or index counterparts on average with an alpha ranging from 4-10% in a 3 year period.

SUMMARY

Apr 05, 2024

Performance of Asset Classes in FY24

Asset Class Returns in FY24	
Debt	
10Y G-Sec	8.8%
Equity	
Nifty 50	32.1%
Mid Cap Index	58.8%
Small Cap Index	66.5%
Currency	
Rupee vs USD	-1.5%
Commodities	
Gold	11.8%
Gold Bonds	13.5%
REITs/INVITs Index	10.2%
Brent Crude	9.1%
Silver	3.5%

Equity Fund Returns in FY24	
Equity Funds Average	
Large Cap	37.5%
Large & Mid Cap	43.2%
Focused	39.1%
Value	49.2%
Multicap	48.6%
Flexi cap	43.5%
Mid Cap	51.0%
Small Cap	49.6%
ELSS	41.2%

Key Events in 2024

Apr -May; India Elections, Results on June 4th

July; India's Full year budget

Nov; US Presidential Elections

Snippets

India

- India has scheduled its 18th General election from April 19th to June 1st, with results expected on June 4th.
- SEBI Chief Madhabi Puri is optimistic about REITs & INVITs, anticipating significant value potential.
- Foreign portfolio investment in the 'hybrid' category, reflecting REITs and InvITs, has surged to $875 million in 2024, the highest in four years.
- International brokerage firms have revised GDP projections upward, with Jefferies foreseeing India becoming the world's third-largest economy by 2030, with a projected market capitalization of $10 trillion. Moody's raised India's growth forecast for 2024 to 6.8%, affirming its position as the fastest-growing among G20 nations.
- Additionally, India and the European Free Trade Association (EFTA) signed a historic free trade agreement.

Nifty Valuation Zones	
Above 20000	Expensive
15500-20000	Fair
13500-15500	Buy
Below 13500	Strong Buy

Global

- In the U.S., despite robust economic growth, both price and wage pressures eased, an uncommon phenomenon.
- The widening inversion between the 10-year and 2-year yields, indicating potential economic weakness ahead, persisted throughout the quarter, although it has been in place for over a year despite improving economic growth.
- Japan has seen a significant shift in corporate behavior, contributing to enhanced return on equity. Conversely, Canada's growth has been sluggish compared to the U.S., yet the market anticipates similar rate actions from the Bank of Canada as the Fed.
- Notably, returns among U.S. mega-cap stocks have varied greatly, with Tesla declining by 35% and Nvidia surging by 78%.
- In the U.S. labor market, there's a cooling trend, with job openings down roughly 25% from their early 2022 peak as of mid-March, and indications of increased stress among lower-income households.

BEHAVIOURAL FINANCE

The Buffalo Hunt

One lesser-known but intriguing example of behavioral finance in action is the story of the "Buffalo Hunt" as described by economist David Dreman in his book "Contrarian Investment Strategies."

In the late 19th century, a group of investors in the American West saw an opportunity to profit from the booming buffalo hide market. They believed that as the population of buffalo dwindled due to overhunting, the price of buffalo hides would skyrocket, allowing them to make significant profits.

One particularly ambitious investor, let's call him John, decided to invest a large sum of money into acquiring buffalo hides. He purchased a substantial number of hides at what seemed like favorable prices, confident that he would be able to sell them for a handsome profit as the buffalo population declined further.

However, John's investment did not turn out as he had hoped. Instead of the expected rise in prices, the market for buffalo hides collapsed unexpectedly. John was left with a massive inventory of unsold hides and a significant financial loss.

What John failed to consider was the survivorship bias at play in the buffalo hide market. He had heard stories of other investors who had made fortunes by successfully buying and selling buffalo hides, but he failed to account for the many others who had failed or gone bankrupt in their attempts.

He fell victim to the selective attention to success stories, ignoring the broader context and the possibility of failure.

This serves as a poignant example of the dangers of survivorship bias in investment decision-making. It highlights the importance of considering all available data, including failures and losses, and avoiding the temptation to base investment decisions solely on success stories.

Read our Blogs here:

"Investing is like planting a tree. The best time to start was 20 years ago. The second best time is now. Just watch out for those squirrels!"
-Anonymous

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