WEALTH FIRST

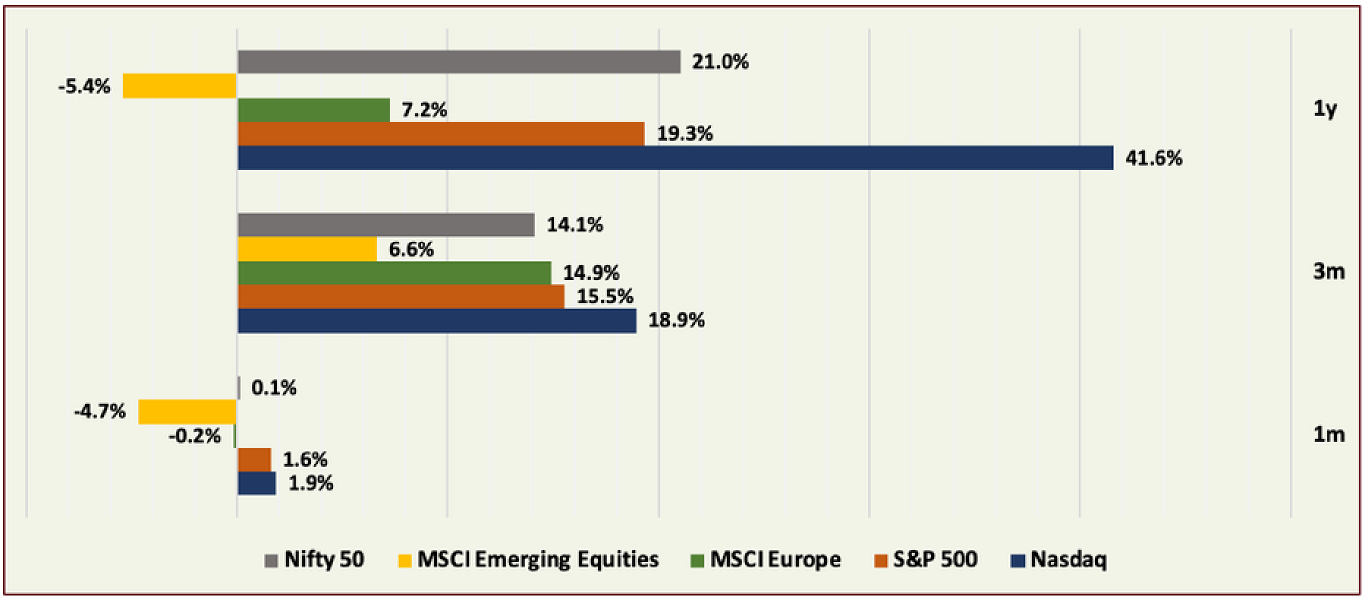
Monthly Newsletter

Global Equities (in USD terms)

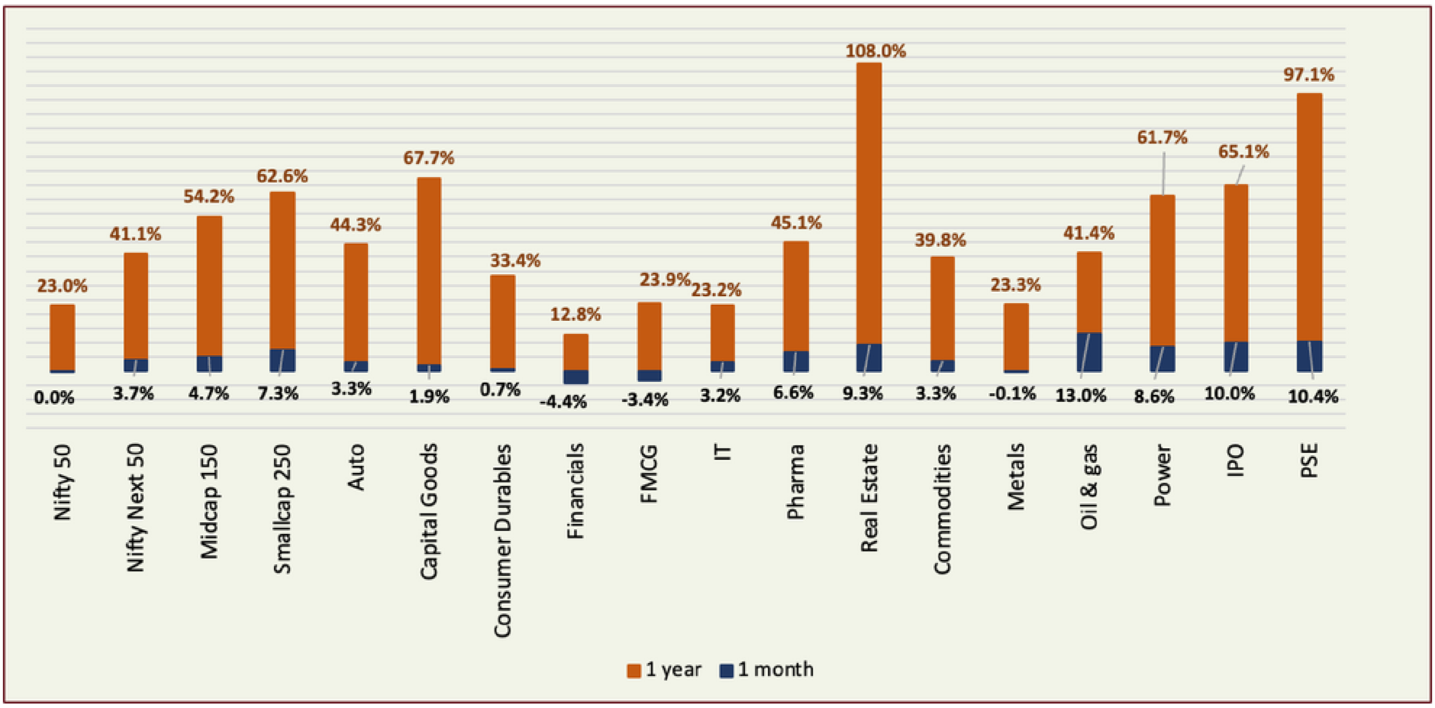
In January, the TOPIX Index led major equity markets, rising 7.8%, while uncertainty about the New Year's Day earthquake and weak wage data prompted reassessment of negative interest rate policy.

The S&P 500 hit record highs early in the month due to a 'soft landing' scenario and strong US economic indicators, but closed weaker as the Federal Reserve adopted a more hawkish stance. MSCI Europe ex-UK gained 2.1%, supported by the European Central Bank's data-dependent approach. UK equities fell 1.3% amid mixed signals, including rising composite PMI but a sharp drop in retail sales.

China experienced economic challenges, marked by disappointing retail sales and a sluggish housing sector, contributing to declines in the MSCI Asia ex-Japan Index and the MSCI Emerging Markets Index by 5.4% and 4.6%, respectively.



Domestic Equities



The Indian market experienced volatility in January, reaching record highs at one point but ultimately closing the month with a flat, negative performance as investors exercised caution ahead of the Interim Budget.

Despite this, losses were mitigated by favorable December quarter earnings and expectations of a rate cut in March. It's worth noting that Foreign Portfolio Investors (FPIs) began 2024 positively, witnessing a significant uptick in investments in December 2023, only to shift to net sellers in the latter part of the month.

Mid and Small Caps have continued their momentum with nearly 5% and 7% gains respectively. PSE, Energy and Real Estate stole the spotlight by delivering gains over 9%.

For the first time, India's stock market has outpaced Hong Kong, with the total value of shares listed on Indian exchanges reaching $4.33 trillion on 22nd Jan, surpassing Hong Kong's $4.29 trillion, according to Bloomberg data. This achievement positions India as the fourth-largest equity market globally.

Commodities

Commodities	Returns		
	1m	3m	1y
Brent Crude	4.6%	-4.6%	-5.4%
Precious Metals			
Gold	-1.2%	2.7%	5.7%
Silver	-3.6%	0.1%	-3.3%
Industrial Metals			
Steel	-1.7%	6.8%	-11.0%
Iron Ore	-6.7%	9.0%	3.1%
Aluminium	-4.1%	1.5%	-13.5%
Copper	0.7%	6.9%	-7.7%
Zinc	-4.9%	4.1%	-25.4%
Nickel	-2.2%	-10.6%	-46.9%
Lead	6.5%	4.1%	1.8%

In January, the S&P GSCI Index experienced a decline in performance, with energy and livestock emerging as the weakest segments.

On the contrary, industrial metals and precious metals displayed notable strength. Notably, natural gas prices witnessed a substantial decrease within the energy sector.

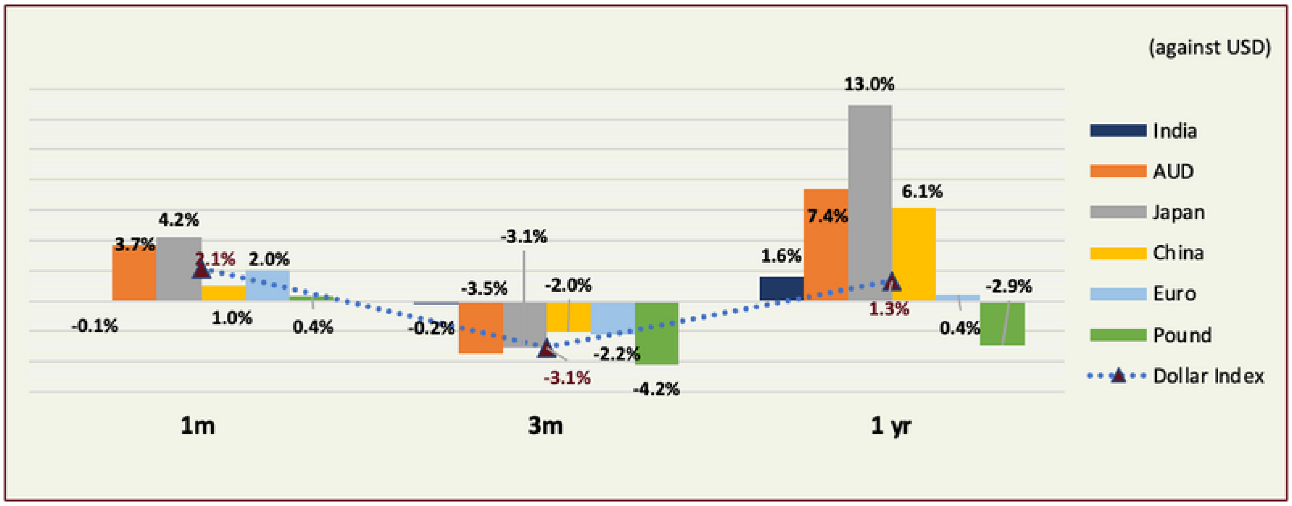
Among industrial metals, lead prices declined, whereas zinc, aluminium, and copper all exhibited robust gains.

In the precious metals category, gold prices marked a significant increase compared to the previous month, while silver experienced a slight decline.

The escalation of tensions in the Middle East and ongoing disruptions to shipping in the Suez Canal contributed to a rally in oil prices. Additionally, uncertainty in the global oil market heightened due to drone attacks on Russian energy infrastructure.

Currencies

(depreciation against USD)

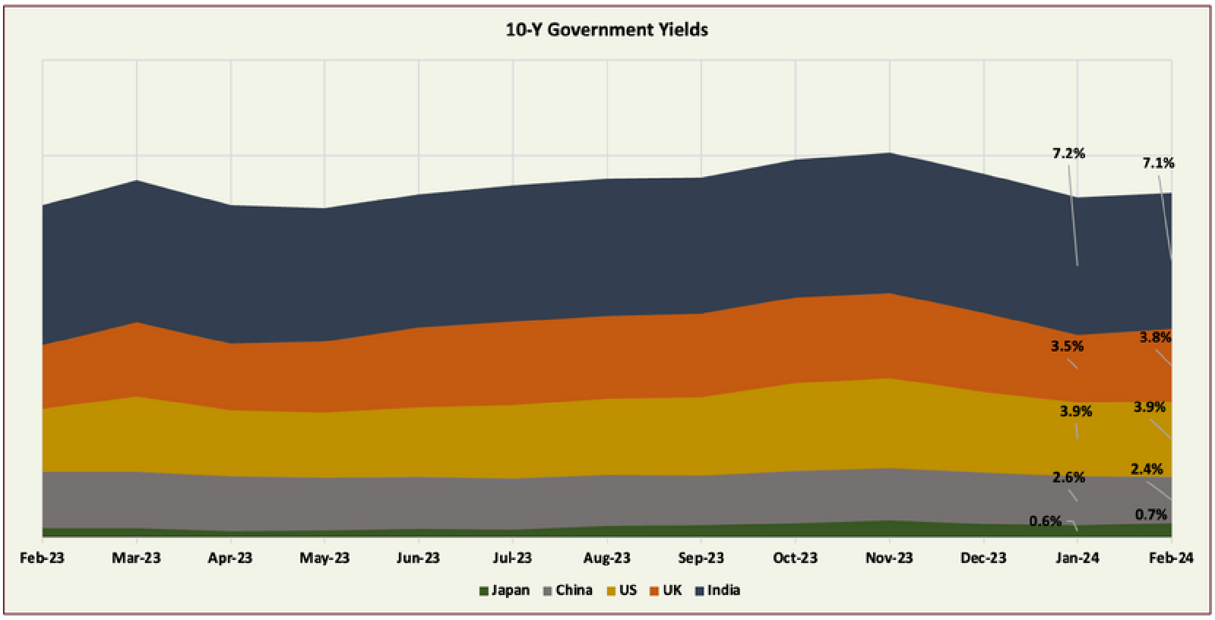


In early February, the Indian rupee marginally strengthened to approximately 83 per USD, reaching a two-week high, following the interim budget announcement.

In January, the Indian rupee maintained stability amid a renewed surge in dollar strength, influenced by reduced expectations of aggressive rate cuts in the U.S., impacting Asian currencies.

Despite reaching a peak of 82.77, the highest since September, equity-related outflows and a strengthened dollar led to a partial erosion of these gains. Share repository data revealed that overseas investors sold $2.8 billion in Indian equities during the month, but this outflow was partially mitigated by $2 billion in debt-related inflows.

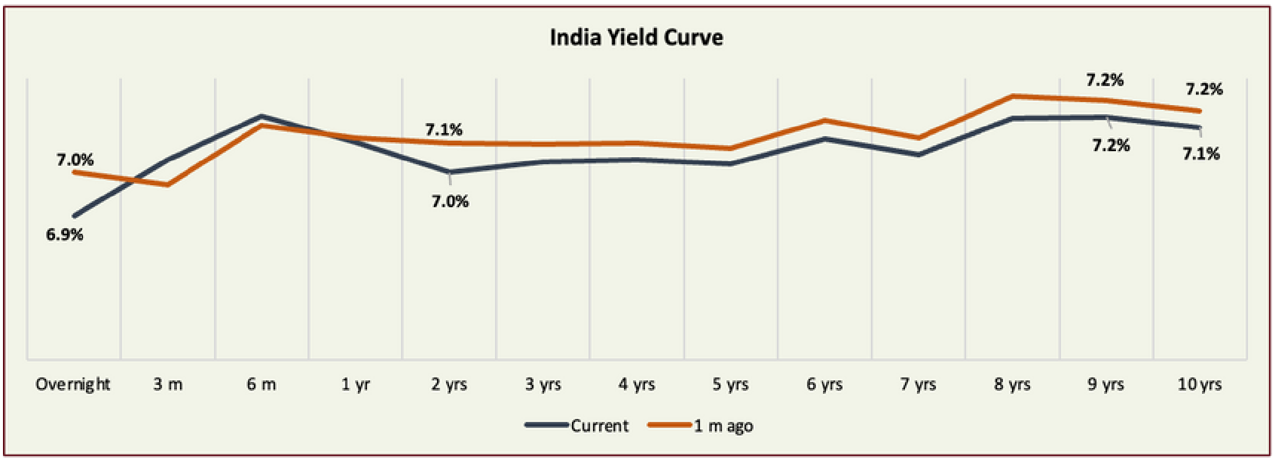
Yield Trends



Global Yields

Strong economic data in January supported the market's optimism for a 'soft landing' but reduced the likelihood of pre-emptive rate cuts in the first quarter. Global government bonds, including UK Gilts, declined by 1.8%, with UK Gilts facing particular challenges due to persistent services inflation and elevated wage growth, diminishing expectations of imminent rate cuts by the Bank of England (BoE).

In the credit market, European high yield bonds outperformed, delivering positive returns of 0.9%, while US counterparts remained flat. Despite tightening spreads, global investment grade credit experienced negative returns. The stronger US dollar adversely impacted emerging market debt, leading to a 1.2% decline. Treasuries exhibited weakness, resulting in a steeper yield curve, with the 30Y yield briefly surpassing 4.40% before a slight pullback by month-end following lower-than-expected Q1 borrowing estimates and the quarterly refunding update from the Treasury.



India Yield Curve

The 10-year Indian government bond yield reached 7.05%, marking the lowest level since mid-July, following positive reception to a prudent interim budget. The Indian finance minister projected a fiscal deficit decrease for the 2024-2025 financial year, targeting 5.1% compared to the revised 5.8% for 2023-2024.

Anticipated revenue growth accompanied plans to issue bonds totaling INR 14.13 trillion, below market expectations. India's bond market saw increased foreign inflows after JPMorgan's September announcement of including 23 Indian government bonds in its emerging market indices from June 2024. Bloomberg Index Services is seeking feedback on a proposal to incorporate India's Fully Accessible Route (FAR) bonds in its emerging market local currency index.

India Macro Trends

Month Gone By

In January 2024, foreign investors withdrew over $3 billion from the Indian stock market due to lower earnings and rising treasury yields. This marked the highest outflows among emerging markets.

While FPIs had sold shares in January of the past two years, they had shown significant interest in India in the preceding months.

Despite India witnessing outflows of $3.2 billion, Brazil and Thailand also experienced significant share sales. In contrast, South Korea attracted $2.3 billion in inflows, and Taiwan saw $1.4 billion in purchases.

The surge in the 10-year US Treasury bond yield to 4% in January influenced global investment decisions. Notably, almost a third of FPI investments are in the financial services sector, with $237 billion in assets under custody.

Despite FPI outflows, domestic institutional investors bought $3 billion worth of shares in January, limiting losses in the Nifty50, which ended the month marginally lower at 21,725.70 points, down 0.03%.

	FIIs	DIIs	FII Debt
Aug-23	12,262	25,017	7,733
Sep-23	-14,768	20,313	938
Oct-23	-24,548	25,106	-934
Nov-23	9,001	12,762	14,860
Dec-23	66,135	12,942	3,276
Jan-24	-25,744	26,744	19,837

Inflation, Manufacturing & Liquidity

CPI data	
Month	Inflation
Jul-23	7.4
Aug-23	6.8
Sep-23	5.0
Oct-23	4.9
Nov-23	5.6
Dec-23	5.7

2.5% increase MoM

PMI		
Month	Manufacturing	Services
Sep-23	57.5	60.1
Oct-23	55.5	61.0
Nov-23	56.0	58.4
Dec-23	54.9	59.0
Jan-24	56.5	61.2

Manufacturing PMI in expansion

Surplus Liquidity (in crore)	
Month	Inflow
Aug-23	3,60,558
Sep-23	2,36,206
Oct-23	2,85,126
Nov-23	3,06,248
Dec-23	2,15,664
Jan-24	1,76,861

Liquidity down

Other Trends

Corporate Bond Issues: 32,560 crore

Core Sector Growth: 3.8% in November (14-month low)

GST Collection: 1.72 lakh crore

Interim Budget FY25: Balancing Act for Growth and Stability

Introduction:

The recently presented Interim Budget for FY25 provided a sneak peek into the government's financial roadmap until the full budget is unveiled post-election. Despite being a placeholder, the budget made significant strides in fiscal prudence, revealing key strategies for the upcoming fiscal year.

Fiscal Highlights:

Surprising the markets, the fiscal deficit target was revised downwards to 5.8% of GDP in FY24 and further to 5.1% in FY25, marking a deviation of 20 to 30 basis points from market expectations. Notably, the FY24 gross market borrowing was capped at ₹14.1 trillion, with net borrowing at ₹11.7 trillion – both figures below market estimates.

Revenue Assumptions and Tax Landscape:

While maintaining status quo on direct and indirect taxes, the budget assumed a nominal GDP growth of 10.5% for FY25. Revenue collection growth, at 11.5%, exhibited a conservative stance compared to the previous fiscal year. The GST revenue was pegged at ₹10.7 trillion, aligning with nominal GDP growth.

Expenditure Allocations and Fiscal Discipline:

Total expenditure growth for FY25 was budgeted at 6.1% YoY, with a notable 3.2% increase in revenue expenditure. The commitment to fiscal consolidation was evident, with headline capital expenditure rising to 3.4% of GDP. The capex assumptions appeared realistic, reinforcing fiscal discipline.

Market Dynamics and Fixed Income:

Equity markets saw a muted response, but the debt market welcomed the budget favorably. The 10-year G-sec yield dropped by 8 basis points to 7.06%, showcasing positive investor sentiment.

Sectoral Impacts and Infrastructure Push:

The budget continued its emphasis on infrastructure development, allocating ₹11.11 trillion for capex, a significant 16.9% increase. Three major railway corridors, focusing on energy, mineral, cement, port connectivity, and high traffic density, were announced. These corridors aim to expedite freight movement and reduce transportation costs, aligning with the broader economic development agenda.

Sector-Specific Outlook:

1. Infrastructure: The budget allocated ₹11.11 trillion for capex, reflecting a 16.9% increase, and announced three major railway corridors to boost economic connectivity.
2. Renewable Energy/Energy Security: A positive outlook was set with a 63.7% increase in allocation to $128.5 billion, emphasizing green hydrogen and solar projects.
3. Auto Sector: Neutral stance with continued support for electric vehicles, evidenced by allocations for FAME II and Production Linked Incentive (PLI) schemes.
4. PSU Banks: Lower government borrowing might benefit PSU banks as it leaves more space for lending to the private sector thereby improving their margins.

Takeaway:

Fixed income investors may find favourable conditions with positive demand-supply dynamics especially in securities such as SDLs (State Development Loans), adding duration in an efficient manner without taking any credit risk.

SUMMARY

Feb 03, 2023

Key Takeaways

- Diversify Across Sectors: Given the nuanced responses in sectors like renewables, auto, and PSU banks, Indian investors may consider diversifying their portfolio to capture potential opportunities arising from government initiatives and sector-specific trends.

- Focus on Infrastructure-Linked Stocks: With a significant allocation for infrastructure development, investors could explore stocks related to railways, energy, and construction.

- Monitor Bond Market Movements: The positive response in the bond market, indicated by the drop in the 10-year G-sec yield, presents an opportunity for fixed-income investors.

Key Events in 2024

May : India General Elections

Fed Meetings

July - India's Full year budget

RBI MPC

November: US Presidential Elections

Snippets

India

- The Finance minister disclosed an 11% increase in public infrastructure spending for the 2024-2025 financial year, projecting a rise in revenues.

- Despite no changes in individual tax rates, the government aims to reduce the fiscal deficit to 5.1% from the revised 5.8% for 2023-2024. The Finance Ministry expressed optimism about the Indian economy's potential growth above 7%, citing the strength of the financial sector and ongoing structural reforms.

- India's GDP surpassed expectations, growing by 7.3% in the 2023-24 fiscal year. To maintain stability, the central bank has actively intervened in foreign exchange markets to prevent the rupee from dropping below its record low of 83.4, a level tested since the third quarter of 2023.

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

Global

- Economic data in the US, including a stronger-than-expected GDP print of 2.9%, led investors to anticipate a more tempered approach to rate increases by the Federal Reserve.
- Across sectors in the US, risk appetite increased, with technology, consumer discretionary spending, and travel and auto stocks outperforming.
- Eurozone shares excelled, driven by economically-sensitive sectors such as information technology and consumer discretionary, and a rebound in real estate.
- Japanese stock markets rebounded in January, and attention focused on discussions around inflation sustainability and potential policy changes by the Bank of Japan.
- Asia ex Japan and emerging markets experienced positive performance, notably in China, South Korea, Taiwan, and Hong Kong, benefiting from economic reopenings.

BEHAVIOURAL FINANCE

Regret Aversion Theory

Alice is an investor looking at two investment options.

- To invest in a stable and established company with a history of moderate returns.
- The second option is a startup in the technology sector, known for its high-risk, high-reward nature.

Alice is intrigued by the potential of the tech startup but is cautious about the associated risks. Charlie, her friend and fellow investor, took the bold step of investing in the startup. Over the next few months, the technology sector experiences a boom, and Charlie's investment in the startup yields significant returns.

Now, Alice faces a dilemma. She looks at Charlie's success and starts feeling regret for not taking the same risk. The fear of missing out on substantial gains creates a sense of remorse. On the other hand, if Charlie's investment had failed, Alice would have experienced regret for not choosing the safer option.

Regret Aversion Theory comes into play as Alice contemplates her next move. The theory suggests that individuals, like Alice, may lean towards avoiding decisions that could lead to regret, even if the decision is objectively rational.

In this scenario, Alice might be more inclined to stick with safer, less risky investments to shield herself from potential regret. This behavioral bias could hinder her ability to take calculated risks that align with her financial goals and risk tolerance.

Investors embracing the Regret Aversion Theory should recognize that regret is an inherent part of investing, and avoiding it entirely might mean missing out on valuable opportunities.

Read our Blogs here:

The greatest shortcoming of the human race is our inability to understand the exponential function."

- Albert Allen Bartlett (While not directly related to investing, it underscores the importance of understanding compounding effects, crucial in financial decision-making.)

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