WEALTH FIRST

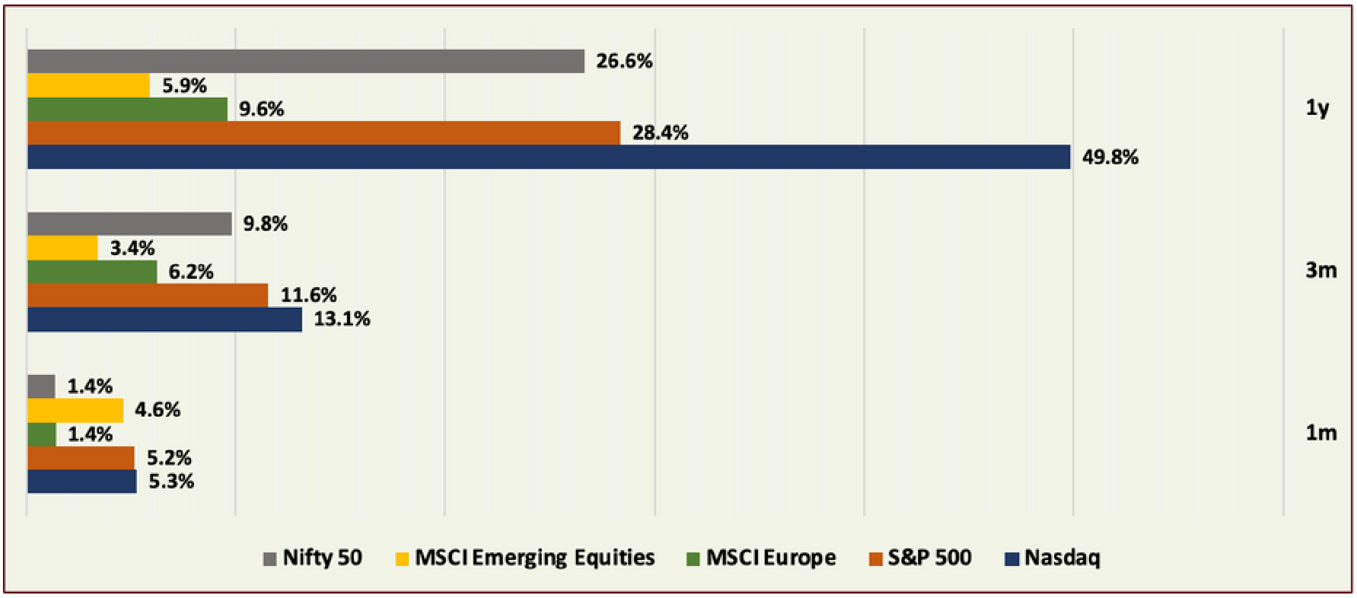
Monthly Newsletter

Global Equities (in USD terms)

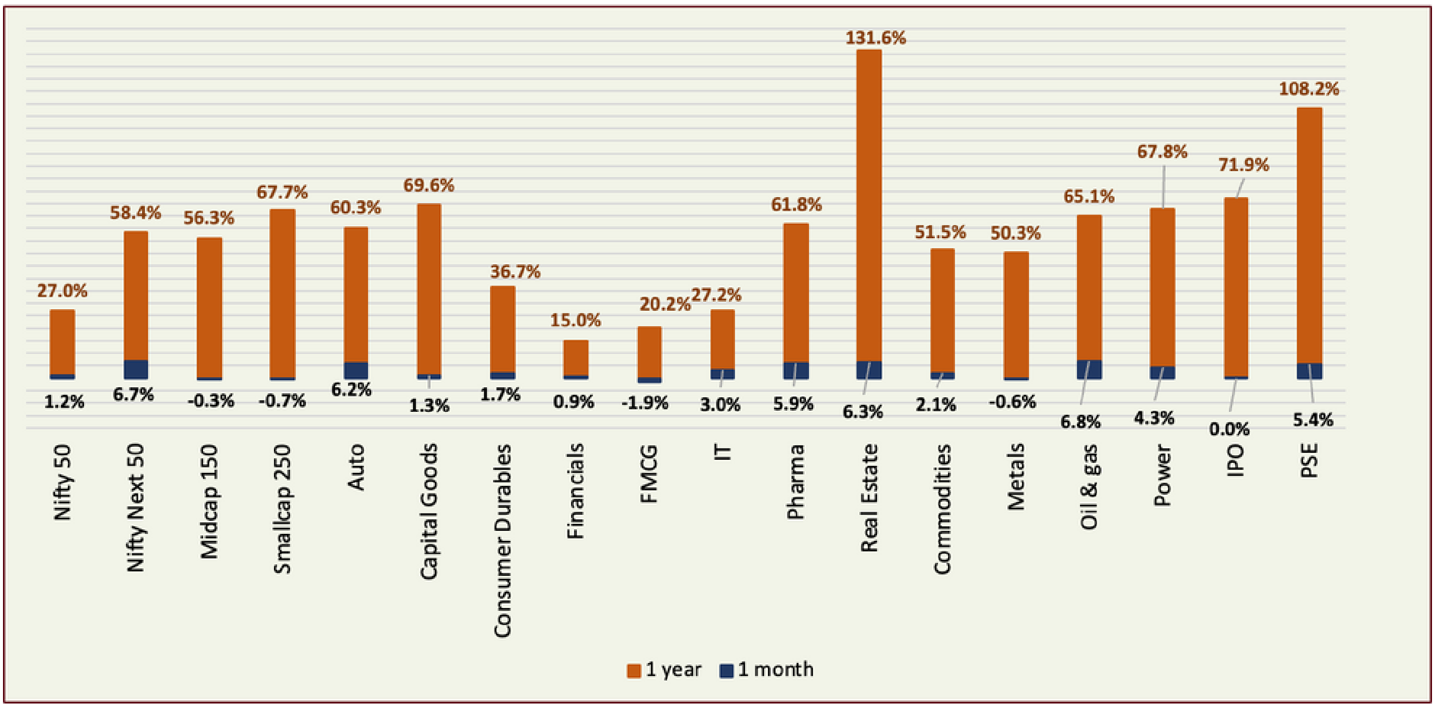
In February, markets continued their robust performance, with U.S. equity indices reaching record highs. The Nasdaq Composite, Nasdaq 100, S&P 500, and Dow Jones Industrial Average all achieved new all-time peaks, while the Russell 2000 hit a fresh 52-week high. Notably, NVIDIA surged by more than 28% during the month, contributing to a remarkable increase of $275 billion in market capitalization after its earnings report on February 21st, bringing its total market cap to nearly $2 trillion.

In contrast European markets underperformed despite positive eurozone composite PMI data. UK stocks, down 1.1% year to-date, faced challenges due to a fourth-quarter GDP contraction, leading to a downward revision in profit growth estimates.

Japanese stocks have touched highs of the year 1989 again, as foreign investors continued to invest heavily amid corporate governance reforms. Japanese stocks attracted net inflows of 5.9 trillion yen from foreign investors in 2023, a stark contrast to 4.1 trillion yen of net outflows in 2022. Emerging markets surged by 4.8%, primarily driven by a rebound in Chinese markets (China has 25% weight in the MSCI Emerging index). Chinese equity markets entered the month at five year lows. However, the markets rebounded on the back of several supportive measures: a reduction in the 5-year loan prime rate (a mortgage rate benchmark), restrictions on short selling, and state-owned investment firms' stock acquisitions.



Domestic Equities



The Indian market continued to experience heightened volatility in February with India VIX in the 15-16 range compared to 1Y average of 12.

Nifty 50 scaled fresh highs of 22,124 during the month, however, towards the last week of Feb while correcting over 1% to settle at 21982.8 at closing. Mid and Small Caps have finally seen slight corrections of 0.3% and 0.7% after a strong momentum since beginning of the financial year, as SEBI guidelines regarding Small Cap Funds hurt the sentiment.

FMCG sector was down -0.9% during the month and is likely to underperform over short term given the weak rural demand.

Energy and Real Estate continue to do well by delivering gains over 6%, Auto has joined the bandwagon with similar gains.

While broader PSU index continued the gains, many PSU stocks have witnessed corrections of over 20% in February

Commodities

In February, commodities experienced a decline, with the broad Bloomberg Commodity Index dropping by 1.5%, attributed to decreases in gas and agricultural prices.

Concerns persist over geopolitical and macroeconomic factors, as well as the possibility of further OPEC+ production cuts, influencing the market dynamics.

However, there are some positive notes in commodities, particularly in livestock and precious metals.

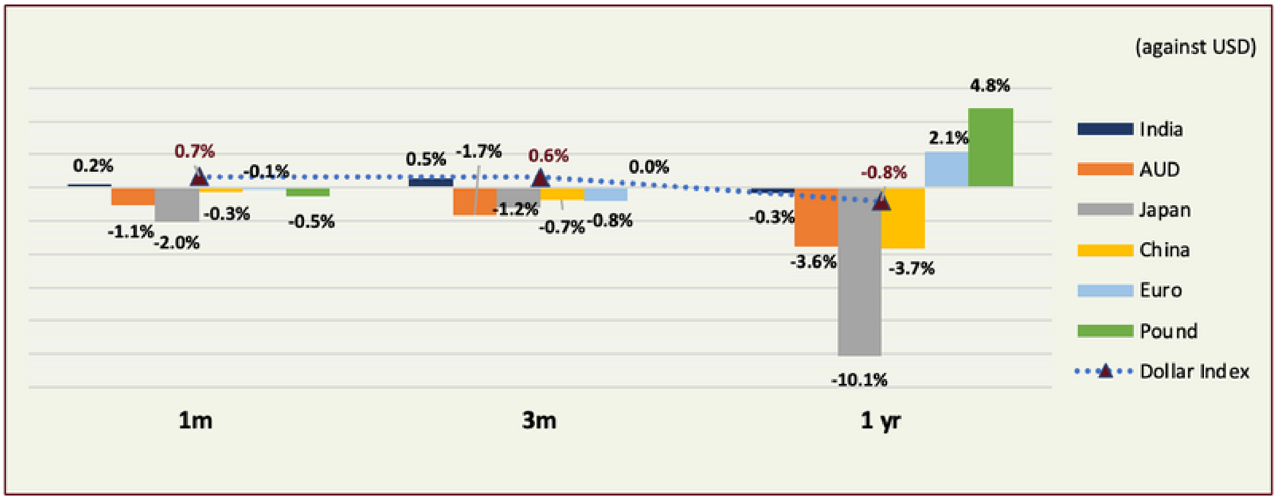
Precious metals have been supported by central bank purchases and geopolitical tensions in Ukraine and the Middle East.

Gold markets experienced some downward move in February, but notably rebounded from a significant support level. This bounce could potentially set the theme for future movements in the market.

Commodities	Returns		
	1m	3m	1y
Brent Crude	1.7%	1.7%	-1.1%
Precious Metals			
Gold	0.3%	0.4%	11.8%
Silver	-1.1%	-10.2%	8.4%
Industrial Metals			
Steel	-3.6%	-3.8%	-12.9%
Iron Ore	-11.7%	-11.3%	-6.7%
Aluminium	-2.5%	1.6%	-6.1%
Copper	-1.7%	0.1%	-6.3%
Zinc	-4.1%	-2.0%	-19.1%
Nickel	10.3%	7.5%	-28.1%
Lead	-5.0%	-1.6%	-2.2%

Currencies

(movement against USD)

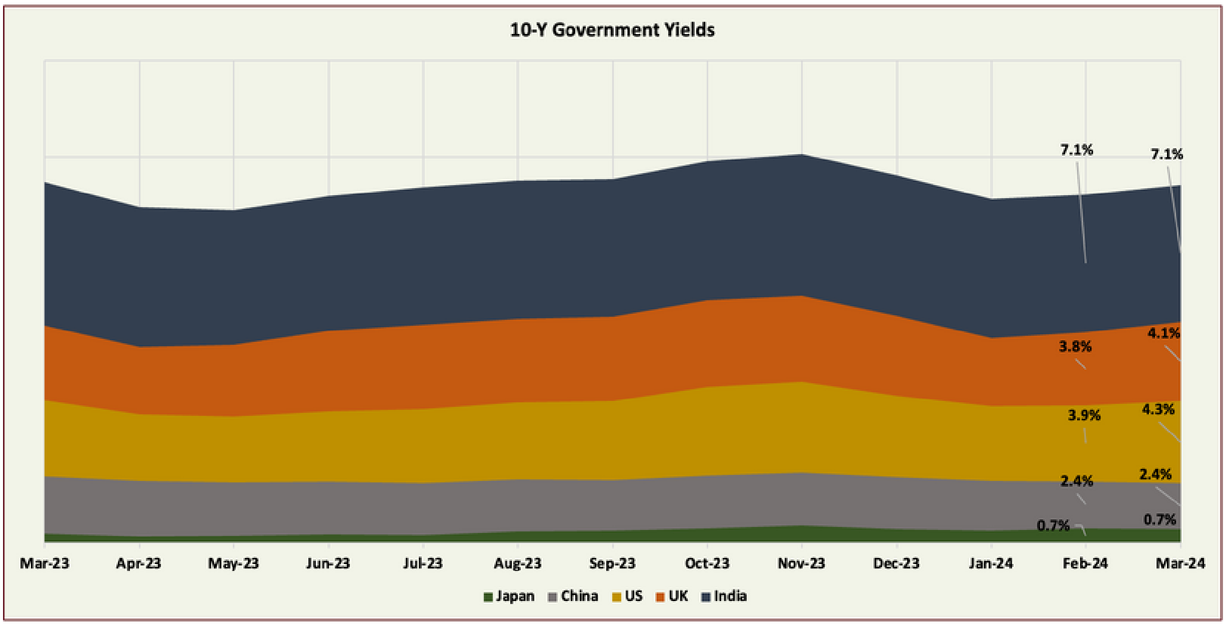


The Dollar Index appreciated by 0.7% in February and has broadly remained flat over the last 1Y.

The Indian rupee maintained its strength, hovering near levels close to similar levels in September 2023, withstanding the 82.9 mark. This resilience was supported by robust growth in the Indian economy, leading to increased currency inflows and a hawkish stance from the Reserve Bank of India (RBI).

The strong economic performance, combined with PMI readings consistently above 60, outpaced growth in other major economies, attracting foreign exchange inflows. This bullish backdrop provided room for the RBI to maintain its hawkish stance, signaling its intention to keep interest rates at restrictive levels and continue its policy of withdrawing accommodation, despite expectations of maintaining liquidity. This stance reflects policymakers' concerns about the ample money supply posing a threat to inflation.

Yield Trends

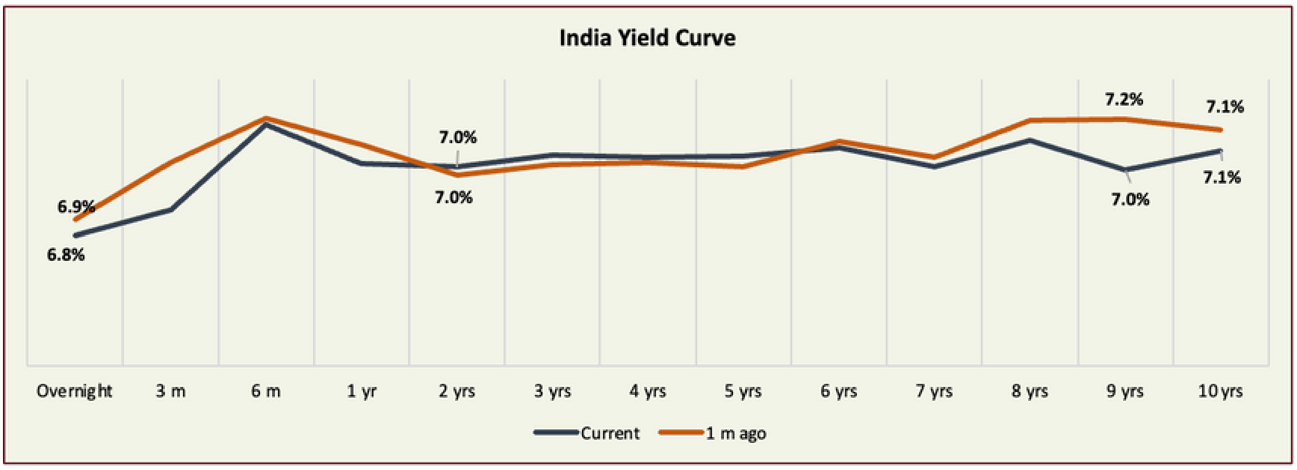


Global Yields

Fixed income markets were under pressure in February as investors delayed expectations of interest rate cuts into 2024 due to higher than expected CPI of 3.1%, causing US Treasuries to decline by 1.3%.

However, less rate-sensitive high yield bond markets performed better, with euro high yield bonds gaining 0.4%. The US bond market retreated in response to rising yields following a hawkish tone from the January FOMC meeting, with the benchmark US 10-year Treasury rising to 4.23% from 3.88% at the beginning of the month.

The yield curve remains inverted but is flattening (negative spread between 10Y and 2Y at 35 bps compared to 50 bps, 2 months ago).



India Yield Curve

In February 2024, the RBI maintained its repo rate at 6.5%, in line with expectations amidst inflationary pressures. Annual inflation reached 5.69% in December but remained within the RBI's target range. The RBI Governor reiterated the commitment to lower inflation to 4%. India Jan CPI has come at 5.1%

The yield on Indian 10-year government bonds hovered near 7.06%, supported by India's strong macroeconomic performance. GDP growth for the December quarter exceeded expectations, lifting the fiscal year's growth estimate to 7.6%. These factors reduced credit risk in Indian markets, following a prudent budget aiming to lower the fiscal deficit to 5.1%. Additionally, demand for government bonds was boosted by their inclusion in Bloomberg's emerging market index, alongside JPMorgan's decision to include Indian bonds in its debt index.

India Macro Trends

Month Gone By

	FIIs	DIIs	FII Debt
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	-4,146
Jan-24	-25,744	26,744	3,276
Feb-24	1,539	25,379	22,419

In the December quarter, the country's GDP expanded by 8.4% compared to the previous year, surpassing market expectations of 6.6%.

As a result, the second estimate of the current fiscal GDP was revised upwards to a growth rate of 7.6%.

On the production side, services and finance and real estate sectors saw faster growth rates compared to the previous quarter.

Private consumption rose by 3.5%, an increase from 2.4% in Q3, while investment growth remained robust but slightly slower at 10.6% compared to 11.6%.

Both exports and imports grew at a slower pace, and public expenditure contracted by 3.2% after a significant increase in Q3.

(all figures in crores in the table on the left)

Inflation, Manufacturing & Liquidity

CPI data	
Month	Inflation
Aug-23	6.8
Sep-23	5.0
Oct-23	4.9
Nov-23	5.6
Dec-23	5.7
Jan-24	5.1

10.4% decrease MoM

PMI		
Month	Manufacturing	Services
Oct-23	55.5	61.0
Nov-23	56.0	58.4
Dec-23	54.9	59.0
Jan-24	56.5	61.2
Feb-24	56.9	62.0

Manufacturing PMI in expansion

Surplus Liquidity (in crore)	
Month	Inflow
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
Feb-24	1,66,119

Liquidity down

Other Trends

Corporate Bond Issues: 64,155 crore

Core Sector Growth: 3.6% in November (15-month low)

GST Collection: 1.68 lakh crore (12.5% YoY, GST average reading for 11 months at 1.67 lakh cr compared to 1.50 lakh cr during the same period last year)

Exploring the Rise of Multi-Asset Funds: An Analysis

Multi-asset funds have emerged as a standout performer in the investment landscape, delivering an average return of 27.99% year-on-year, just trailing behind Hybrid aggressive funds at 30.13% as of 29th Feb. Positioned as one of the top investment options in the Hybrid category, these funds offer diversified exposure across at least three asset classes, each with a minimum allocation of 10% as mandated by SEBI.

The surge in popularity of multi-asset funds (MAFs) is underscored by a 192.48% month-on-month increase in net inflows, totaling 7079 crores in Jan 2024. Balanced Advantage Funds (BAFs) on the other hand have seen a decline of 2.15% month on month. Similarly, Net AUM as of Jan 31 2024 has increased 132.60% to 60324 crores for MAFs while the rise has been only 25.12% to 2.41 lakh crore for BAFs.
This surge can be attributed to several factors, notably their ability to offer diversification across equities, debt, gold, and sometimes real estate and overseas equities, thereby spreading risk and potentially enhancing returns.

In the current market scenario, where the Nifty 50 and S&P BSE Sensex have shown modest gains of 1.15% and 0.36% while gold and silver prices have declined by 0.90% and 4.68% in 2024 so far, multi-asset funds have delivered an average return of 3.7%, showcasing their resilience and value proposition.

The trailing returns of some of the top MAFs are given below (returns are as of 29th Feb 2024):

Trailing Returns						
Category	Scheme	1M	3M	6M	1Y	3Y
Multi Asset Fund Category	Quant Multi Asset Fund	5.6%	20.0%	28.6%	44.3%	31.7%
	UTI Multi Asset Fund	3.8%	11.7%	22.0%	38.6%	16.5%
	Nippon India Multi Asset Fund	3.6%	10.5%	16.3%	30.5%	15.9%
	ICICI Pru Multi Asset Fund	3.2%	8.9%	15.3%	30.7%	22.7%

The launch of seven new multi-asset allocation funds in 2024 alone reflects the growing demand and confidence in this investment strategy.

Following adjustments in debt taxation, fund houses are introducing these products to provide tax advantages to investors. Some funds capitalize on indexation benefits by allocating between 35% and 65% in equities, while others offer equity taxation benefits by investing more than 65% in equities.

Investors stand to benefit from the off-the-shelf solution that multi-asset funds provide, allowing them to delegate investment decisions to professionals while focusing on other aspects of their financial goals.

Particularly suited for investors with lower risk tolerance or limited time to manage their portfolios actively, these funds offer a convenient and effective pathway to achieve investment objectives with reduced volatility.

SUMMARY

Mar 04, 2023

Key Takeaways

- Emerging Markets Performance: Emerging markets outperformed amidst a broder decline in fixed income markets contrasts with the broader decline in fixed income markets, emphasizing the strength of emerging economies amidst global economic fluctuations.
- Indian Equities: Nifty 50 reached fresh highs towards the end of February despite increased volatility, illustrating market resilience amid fluctuations.
- Indian Debt Markets: Despite Global Fixed Income Markets facing Pressure, Indian debt markets are very stable with bond yields liekly to ease further as the incorporation of sovereign debt into international benchmarks such as JP Morgan and Bloomberg attracts inflows, which would alleviate pressure on bond prices in India, the third-largest economy in Asia.

Key Events in 2024

May : India General Elections

July - India's Full year budget

November: US Presidential Elections

Snippets

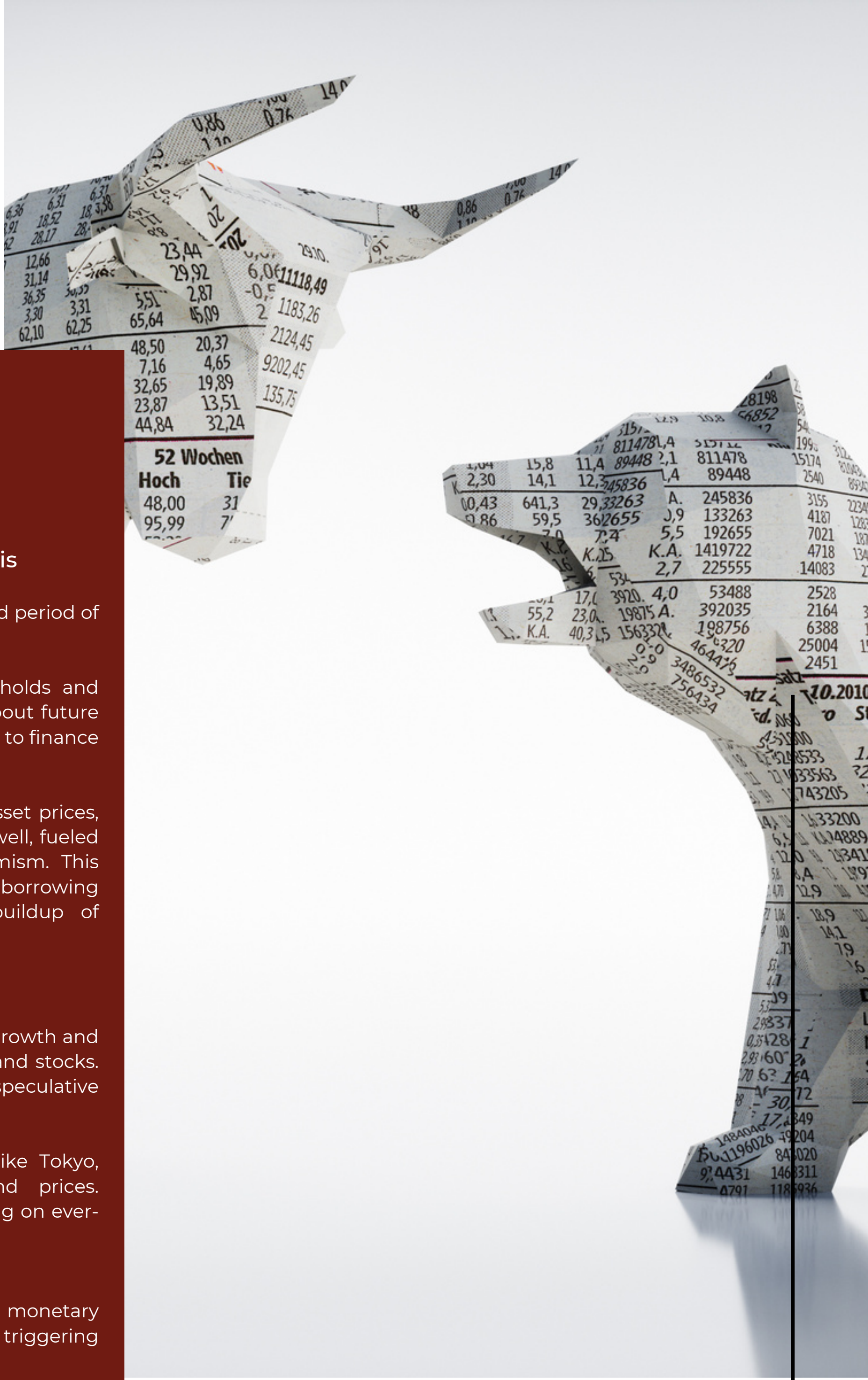
India

- India's 2024-25 Interim Budget has garnered significant attention from investors, who seek insights into its market implications.
- Key highlights include a substantial allocation of INR 11,11,111 crore for capital expenditure, aiming at infrastructure development, alongside a projected fiscal deficit of 5.1% of GDP, indicating a balanced approach to expenditure and revenue.
- Sector-specific initiatives targeting marginalized groups and no proposed changes in tax rates ensure policy continuity.
- Market response post-announcement saw initial volatility, with the BSE Sensex dropping by 106.81 points and the NSE Nifty falling by 28.25 points, reflecting mixed sentiments, though certain sectors like infrastructure and agriculture reacted positively while others remained cautious.

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

Global

- Economic data remained resilient, with the US composite PMI indicating continued expansion in February and the US economy adding 353,000 jobs in January.
- However, REITs lost 0.1% as expectations for slower interest rate cuts outweighed the positive impact of supportive activity data.
- In the UK, wage growth in December fell less than expected leading investors to scale back rate cut forecasts for the Bank of England. UK Gilts suffered, down 3.6% year-to-date.
- Meanwhile, China grappled with the aftermath of its property crisis, and the outcome of the US election was not expected to significantly alter the protectionist tilt or the race for technological supremacy.
- Amid a weaker economic outlook for China and a global slowdown, commodities faced a challenging backdrop, but gold appeared favorable, particularly in periods of central bank rate cuts.



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Minsky's Financial Instability Hypothesis

Imagine an economy experiencing a prolonged period of economic growth and low interest rates.

During this time, borrowers, such as households and businesses, become increasingly optimistic about future prospects and are willing to take on more debt to finance consumption, investment, and expansion.

As borrowing and lending activity increase, asset prices, such as real estate or stocks, begin to rise as well, fueled by easy access to credit and investor optimism. This positive feedback loop further encourages borrowing and speculative behavior, leading to a buildup of leverage in the financial system.

For example,

During the 1980s, Japan saw rapid economic growth and surging asset prices, especially in real estate and stocks. Low interest rates and easy credit spurred speculative buying, leading to inflated markets.

The real estate bubble, especially in cities like Tokyo, became unsustainable, with sky-high land prices. Investors and institutions piled on debt, betting on ever-rising values.

However, when the Bank of Japan tightened monetary policy due to inflation fears, interest rates rose, triggering a crash in asset prices.

Real estate values nosedived, causing bankruptcies and financial turmoil. The burst bubble ushered in the "Lost Decade" of economic stagnation, marked by deflation and banking crises.

Minsky's theory explains how Japan's initial market stability fueled risky borrowing, resulting in a severe crisis.

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“Investing is a business where you can look very silly for a long period of time before you are proven right.” - Bill Ackman

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