WEALTH FIRST

MONTHLY NEWSLETTER - DEC'24

"Don't look for the needle in the haystack. Just buy the haystack!" – John C. Bogle

Global Equities (in USD terms)

- The global equities market witnessed a rebound in November, with the MSCI World Small Cap Index returning 7%, largely driven by US small caps with an 11% gain (in Russell 2000 index) due to their domestic exposure.
- The US election results played a pivotal role in shaping market performance in November. Donald Trump's presidential win, combined with the Republican party securing a majority in both chambers of Congress, heightened expectations that the incoming administration's policies would reinforce American economic and market leadership.
- Emerging Markets underperformed developed markets by a notable 9 percentage points, impacted by concerns in Chinese equities due to trade tensions and real estate challenges.

Global Equities		
	1M	1Y
Nasdaq	5.2%	31.2%
S&P 500	5.7%	32.1%
MSCI Europe	-1.8%	6.4%
MSCI Emerging Equities	-3.7%	9.8%
Nifty 50	-0.9%	18.1%

returns In US Dollar terms

Domestic Equities

Domestic Equities		
	1M	1Y
Nifty 50	-0.3%	19.9%
Nifty Next 50	1.2%	47.3%
Midcap 150	0.1%	31.0%
Smallcap 250	-0.2%	33.6%
IT	6.8%	32.4%
Consumer Durables	3.0%	32.6%
Capital Goods	2.2%	-85.9%
Commodities	-4.0%	24.5%
Metals	-3.1%	28.7%
FMCG	-2.1%	9.3%
IPO	2.6%	34.7%

- The Nifty 50 Index dropped 6.2% in October and 0.3% in November. Despite the recent slump, the YTD return (as of November 30th) stands at +11.0%.
- Both Mid and Small caps have been more resilient than large caps during the recent slump. IT limited market's slump by delivering gains of of nearly 7%.
- Commodities, Metals and FMCG disappointed with negative returns in the month.
- Around 86% of equity MFs outperformed their benchmarks in November.
- 96% of small cap funds witnessed outperformance followed closely by Flexi cap funds at 90%.

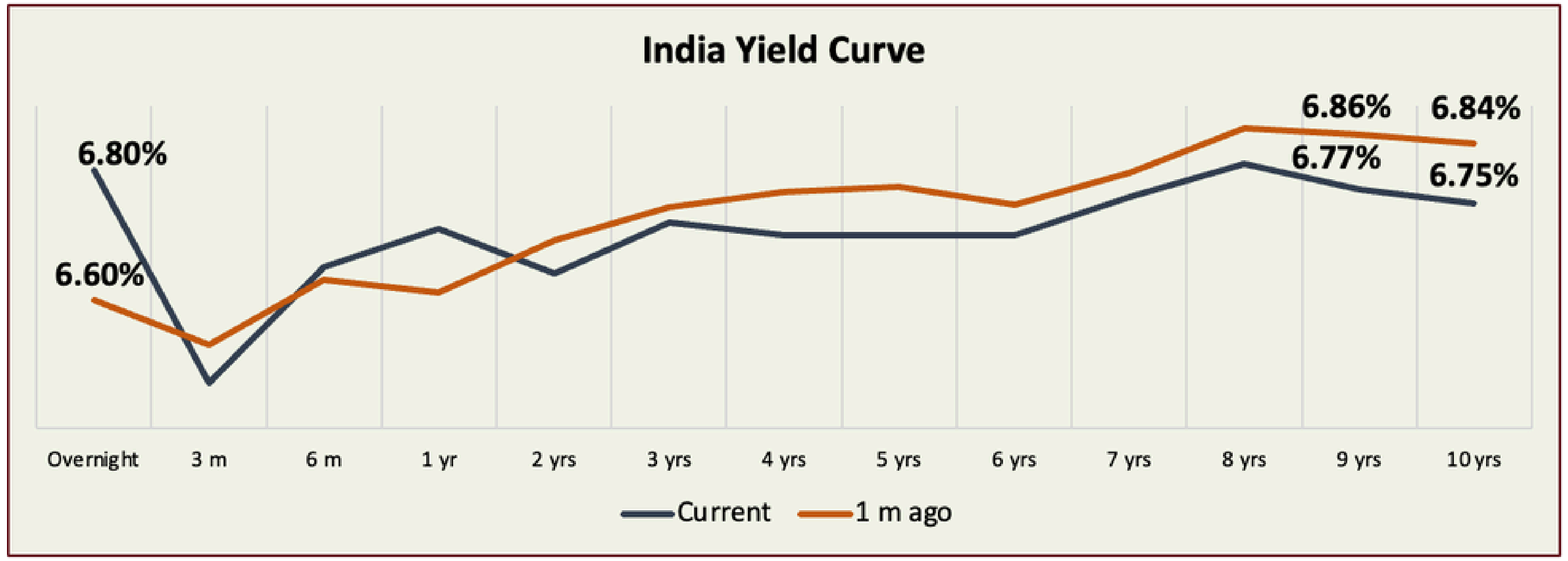
(Source: Economic Times)

Global Yields

- US bond yields saw minimal benefit despite central bank rate cuts. The Fed reduced the federal funds rate by 25bps to 4.50%-4.75%, with market expectations of only three cuts in the next 12 months.
- Fed Governor Christopher Waller indicated on 2nd Dec that he favored lowering rates at the December meeting. Markets responded by ramping up expectations for a 25 basis point rate cut this month, with the probability currently at about 76%.
- The Eurozone Consumer Price Index (CPI) rose to 2.3% YoY in November, while UK headline inflation increased from 1.7% to 2.3% YoY.

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
1 Y ago	0.71%	2.70%	4.21%	4.14%	7.29%
6 M ago	1.05%	2.33%	4.50%	4.33%	6.99%
3 M ago	0.97%	2.13%	3.97%	3.89%	6.90%
1 M ago	0.95%	2.13%	4.39%	4.46%	6.84%
Dec-24	1.00%	2.00%	4.20%	4.20%	6.90%

Domestic Yields



- The yield on the 10-year Indian G-Sec hovered near 6.8%, pulling back from the three-month high of 6.9% touched on November 22nd as more evidence of a slowing domestic economy drove investors to favor fixed income instead of riskier assets.
- The Indian GDP expanded by 5.4% annually in the September quarter, well below market expectations of a 6.5% increase to mark the softest growth rate in nearly two years.
- This extended recent concerns that India has not been able to maintain the sharp expansion that made it the fastest-growing major economy in the world.
- Consequently, investors expect that the RBI may be forced to start its rate cut cycle latest by February 2025 despite the recent rebound in inflation. This sentiment is helping support G-Secs across all durations.

India Macro Trends

Macro Trends	Nov	Oct
FII flows (in crs)	-21,612	-94,017
DII flows (in crs)	1,217	1,07,254
FII flows - Debt (in crs)	44,484	-4,406
New Corporate Bond Issuances (in crs)	59,113	26,508
Surplus Liquidity (in crs)	1,88,754	4,88,495
GST Collection (in crs)	1,82,000	1,87,000
CPI	6.21	5.49
Manufacturing PMI	56.50	57.40
Services PMI	59.20	57.90
Forex Reserves (in billion dollar)	656.58	684.81

- FPIs withdrew a staggering 94k crore in October, followed by 22k crore in November, marking the highest two-month outflow since H1 2022.
- FPI outflows in October-November were driven by rising global bond yields and a stronger US dollar.
- India's GDP growth came at a 7-quarter low of 5.4%, with growth expected to improve in H2FY25 according to JP Morgan.
- The Consumer Price Index (CPI) based inflation reached a 14-month high of 6.21 per cent in October, up from 5.49 per cent in September, indicating persistent price pressures across sectors. Food inflation soars 11%.
- GST collection for the month is up 8.5% YoY while marginally lower than that in October.
- The Reserve Bank of India (RBI) reported that the banking system's liquidity was in deficit in November 2024. The core liquidity surplus, which is the sum of the system liquidity and government surplus, decreased from Rs 4.6 trillion in September to Rs 1.6 trillion in November. The decline was due to a negative balance of payments in the third quarter of financial year 2025, which was caused by a rising trade deficit and an increase in FPI outflows.
- India's foreign exchange reserves fell by $17.8 billion in the week ending November 15, 2023, to reach a four-month low of $657.9 billion. This was primarily due to a drop in Foreign Currency Assets (FCAs).
- India's merchandise trade deficit widened to a two-month high of $27.14 billion in October 2023.
- India's manufacturing growth slowed in November, with activity easing to its weakest level in 11 months, as price pressures and softer domestic demand weighed on the sector.

Commodities & Currencies

- WTI crude oil dropped 3.3% in November, testing a critical support level of $66, a level not seen in three years. This decline is linked to weakening global demand and concerns over China's growth slowdown.
- Brent crude also dipped, settling at $72.3 per barrel, reflecting bearish sentiment across global energy markets.
- Gold prices fell 3.2% in November, closing at $2,650/oz, impacted by a strong US dollar. However, its YTD gain is at 30%, bolstered by safe-haven demand earlier in the year. Silver took a big hit with the precious metal falling over 6% in the month.
- Global metal stocks reacted after China declared that it will withdraw its 13% export tax rebates for select products made of aluminium and copper. This led to a sharp rally in both the metals.

Commodities	Returns	
	1M	1Y
Brent Crude	-1.0%	-19.4%
Precious Metals		
Gold	-3.2%	44.7%
Silver	-6.3%	49.2%
Industrial Metals		
Steel	0.0%	-5.7%
Iron Ore	0.0%	-21.9%
Aluminium	15.5%	13.0%
Copper	11.8%	24.0%
Zinc	1.5%	19.9%
Nickel	1.0%	-5.2%
Lead	2.1%	-1.7%

Performance of US Dollar against currencies		
Country	1M	1Y
India	-0.6%	-1.4%
AUD	1.8%	2.6%
Japan	1.5%	-1.0%
Canada	-1.7%	-1.5%
Euro	-2.9%	-2.9%
Pound	-1.2%	0.9%

- The DXY Index rallied 1.8% in November after a 3.2% jump in October, marking its strongest consecutive gains in 26 months.
- The dollar's resurgence was supported by robust US economic data, Trump's win and geopolitical uncertainties.
- The INR depreciated 0.6% MoM in November, closing at ₹84.5/USD, weighed down by FPI outflows and a strong dollar.
- The Japanese yen edged toward 150 per dollar, weighed down by overall dollar strength, but remained close to its highest levels in seven weeks amid expectations that the Bank of Japan could soon raise interest rates again.

Research Corner

SM REITs in India: A New Investment Avenue

In the wake of India's first SM REIT IPO opening on December 2nd, 2024, it is essential to understand how SM REITs work and their implications for investors. SEBI introduced Small and Medium Real Estate Investment Trusts (SM REITs) under the Sebi (REIT) (Amendment) Regulations 2024 to regulate the fractional ownership industry and provide structured opportunities in real estate.

What Are SM REITs?

Scale and Focus:

- Fund size: ₹50 crore to ₹500 crore.
- Property-specific investments in commercial or residential real estate, smaller than traditional REITs.

Investor Entry:

- Minimum subscription: ₹10 lakh, compared to ₹25 lakh on fractional platforms.
- At least 95% of assets must be completed and generating revenue, stricter than the 80% requirement for REITs.

Feature	SM REITs	REITs
Fund Size	₹50-500 crore	> ₹500 crore
Investment Focus	Specific properties	Diversified portfolios
Minimum Subscription	₹10 lakh	₹10,000-₹15,000
Rental Yields	Higher (up to 9%)	Moderate (5–7%)
Liquidity	Moderate (₹10 lakh lot size)	Higher (smaller lot sizes)

Transparency and Oversight:

- Investment managers need a net worth of ₹20 crore.
- Leverage capped at 49%, with a 15% co-investment if leveraged.

Taxation:

- Dividends: Tax-free while Interest is Fully taxable.
- Capital gains: 20% STCG (within a year), 12.5% LTCG (after a year).

Research Corner

SM REITs in India: A New Investment Avenue (....Continued)

India’s First SM REIT IPO

The Propshare Investment Trust (PSIT), managed by Propshare Investment Manager Pvt. Ltd., is India’s first SM REIT IPO. Its inaugural scheme, Propshare Platina, aims to raise ₹353 crore to invest in Prestige Tech Platina, an office space in Bengaluru leased to 247.ai Inc. at a rental yield of 9%. The IPO closes on December 4th, with a ₹10 lakh minimum subscription.

Investor Considerations

Pros

- Transparency: Regulated framework ensures investor protection and clear disclosures.
- High Returns: Rental yields (e.g., 9%) are higher than traditional REITs.
- Lower Entry Point: ₹10 lakh subscription makes it accessible compared to fractional platforms.

Cons

- Liquidity Constraints: ₹10 lakh trading lot limits flexibility.
- Concentration Risk: Investments focus on specific properties, increasing dependency.
- Lease Risks: Short lock-ins and staggered escalations may affect income stability.
- Opaque Fee Structures: Lack of clarity on cost recovery beyond Year 1.

Conclusion

SM REITs offer higher yields and lower entry barriers compared to fractional platforms but come with risks like limited liquidity and property-specific exposure.

Investors must carefully assess lease agreements, yield sustainability, and transparency before investing. The success of Propshare Platina’s IPO will shape the future of this new category.

Strengthening the Case for Active Funds

As emphasised in our earlier research columns, Wealth Suggested Active funds have continued to outperform their passive counterparts with an average alpha ranging from 4.8% in a 3 year period and 2.6% in a 5-year period. (Trailing Returns are as of 30th Nov 2024)

Category		1Y	3Y	5Y
Large Cap	WF Suggested Large Cap Funds	28.9%	17.9%	18.3%
	Nifty 50 Index Fund	*20.3%*	*12.4%*	*15.5%*
	Average Alpha	*8.6%*	*5.6%*	*2.8%*
Diversified	WF Suggested Diversified Funds	38.8%	23.3%	22.7%
	Nifty 500	*27.2%*	*16.3%*	*19.7%*
	Average Alpha	*11.6%*	*7.0%*	*3.0%*
Midcap	WF Suggested Midcap Funds	41.0%	26.9%	30.1%
	Nifty Midcap 150	*31.7%*	*23.5%*	*28.4%*
	Average Alpha	*9.3%*	*3.4%*	*1.7%*
Smallcap	WF Suggested Smallcap Funds	39.7%	26.6%	31.3%
	Nifty Small Cap 250	*31.7%*	*23.5%*	*28.4%*
	Average Alpha	*8.0%*	*3.2%*	*2.9%*

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Cascading Effect

The cascading effect occurs when people base their decisions on others' actions, creating a self-reinforcing cycle. A prime example is the dot-com bubble of the 1990s:

1. Initial Spark: Early internet companies like Netscape saw massive IPO gains, attracting investor attention. Netscape's IPO in 1995 saw its stock price soar by over 100% on the first day of trading.
2. Herd Behavior: Institutional and retail investors began buying tech stocks, following early adopters and "smart money." Early followers of the trend influenced their networks, creating a perception that investing in tech was "the right thing to do."
3. Media Amplification: Constant media hype fueled confidence, pushing more people into the trend.
4. Late Entrants Flock in: By the late 1990s, even individuals with no knowledge of technology or finance began investing heavily in tech stocks, influenced by friends, family, and advisors who were already part of the frenzy.
5. Irrational Valuations: Stocks soared to unsustainable levels, often without fundamental backing.

Outcome of the Cascade

- The Crash: When the bubble burst in early 2000, tech stocks lost nearly $5 trillion in market value. Many investors who entered late in the cascade suffered massive losses.
- Lesson: The cascading effect caused investors to overlook fundamental analysis, relying instead on the actions of others. The collective trust in the "wisdom of the crowd" backfired spectacularly.

Why It's Interesting?

The dot-com bubble showcases how the cascading effect can amplify irrational behaviors across a wide spectrum of investors, from retail traders to institutional fund managers. It also demonstrates the powerful role of social proof and sequential decision-making in financial markets.

Market Watch

Snippets

Russia-Ukraine War: Ukraine advanced in the south and east, while Russia launched intensified missile strikes on key cities like Kyiv and Odessa, targeting infrastructure and civilians.

Israel-Iran Conflict: Israeli forces continued operations in Gaza, targeting Hamas infrastructure, while sporadic airstrikes hit Hezbollah-linked sites in Lebanon, amid a fragile ceasefire.

Syria Civil War: Rebel offensives in Aleppo reignited clashes, while Israeli airstrikes targeted weapon transfers near the Syria-Lebanon border.

Russian President Vladimir Putin has approved a record $126 billion defense budget for 2025, accounting for 32.5% of government spending. Meanwhile, Syria's civil war intensifies as Russia launches airstrikes against rebels in Aleppo.

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Takeaways

- Rising geopolitical tensions, particularly in the Middle East, underscore the need for vigilance in sectors like energy and commodities.
- October marked Nifty 50's worst performance since the pandemic, spurred by FPIs withdrawing US$14.3bn over two months.
- Crude oil prices testing multi-year lows and declining base metals point to softening global demand.
- A strong dollar is pressuring emerging market currencies, creating headwinds for commodity-exporting economies.

Blogs

Key Events

Ongoing; Israel - Iran Conflict Escalation

Dec; Fed Interest Rate Meeting

Book a Consultation

THANK YOU

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