WEALTH FIRST

MONTHLY NEWSLETTER - JUN'24

The goal of retirement is to live off your assets, not on them - Frank Eberhart

Global Equities (in USD terms)

Global Equities			
	1m	3m	1y
Nasdaq	6.3%	2.7%	30.0%
S&P 500	3.2%	3.6%	26.3%
MSCI Europe	4.1%	5.0%	16.5%
MSCI Emerging Equities	0.3%	2.7%	9.4%
Nifty 50	-0.3%	7.7%	20.4%

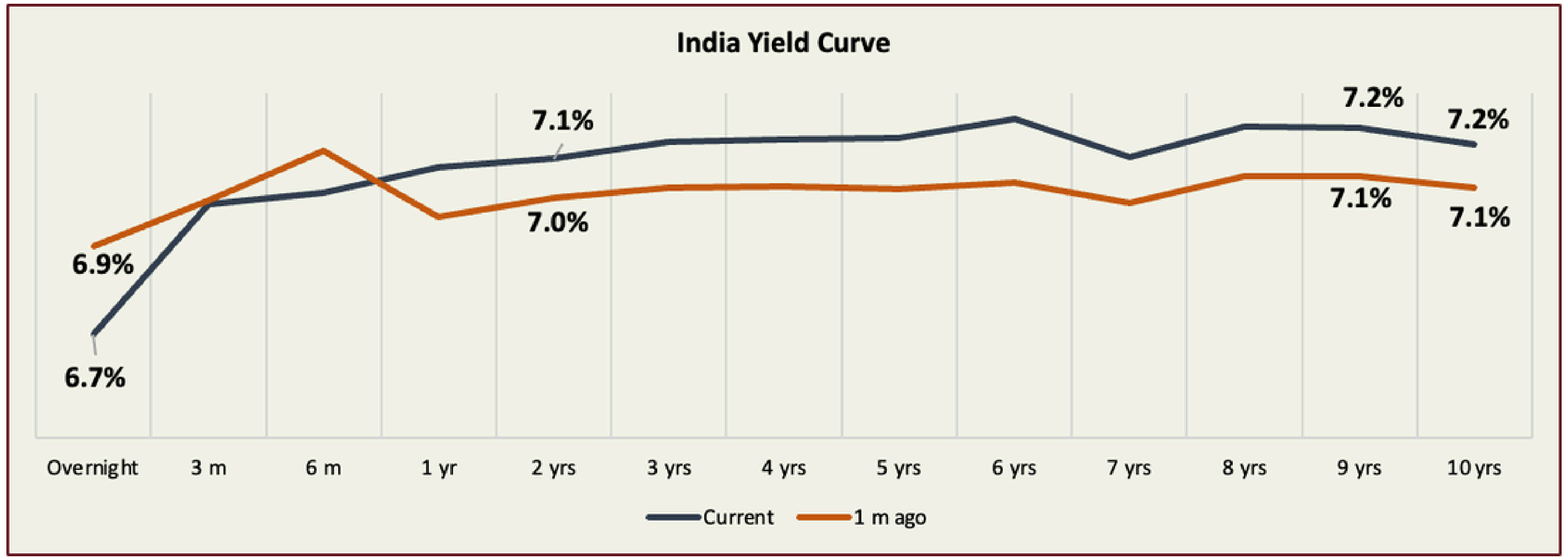
The US economy continues to surpass expectations, propelling stocks to record highs. Nvidia's shares exceeded $1,000 for the first time on the strength of a 262% jump in sales, contributing significantly to the S&P 500's gains. In Europe, the FTSE 100 edged up by 0.93% but faced a four-session losing streak due to diminishing rate cut hopes and political uncertainty ahead of elections. Asian economies show signs of improvement, particularly in China, where data surprises positively. However, challenges persist, especially in the real estate sector.

Domestic Equities

Returns		
	1 month	1 year
Nifty 50	-0.3%	21.6%
Nifty Next 50	4.0%	60.6%
Midcap 150	2.2%	53.0%
Smallcap 250	-1.3%	57.6%
Metals	6.0%	65.1%
PSE	5.2%	119.0%
Real Estate	4.7%	112.9%
FMCG	-0.2%	6.0%
Pharma	-0.9%	48.3%
IT	-2.5%	10.5%
IPO	-1.8%	61.0%

- India VIX dropped nearly 20% after exit poll results and surged nearly 18% on the counting day.
- Nifty reached record high of 23338 on 3rd June post exit polls predictions but lost ground on counting day dipping to a low of 21300 before correcting to close at 21995.
- In May 2024, Foreign Portfolio Investors (FPIs) remained net sellers, offloading Indian equities worth $3,666 million in secondary markets.
- However, they turned net buyers in the IPO market, purchasing $603 million worth of shares.
- Despite FPIs being net sellers in equities by $2,770 million in 2024 so far, aggressive buying in debt led to an overall net buying of $5,834 million.
- Political uncertainty persisted alongside a mixed outcome of Q4 results. However, on the positive side, Q4 GDP growth exceeded expectations at 7.8%, with the fiscal deficit for FY24 coming in lower than anticipated at 5.6% of GDP. Likely to resonate well with equity and bond markets.

Domestic Yields



In May 2024, the 10-year benchmark yields began firm at 7.16% but fell sharply to 6.97% as the RBI announced a substantial 2.11 trillion rupees dividend to the government. The dividend surpassed interim budget projections by over 100% and provides the government with the means to potentially reduce the fiscal deficit below the initial FY25 estimate of 5.1%

Global Yields

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
Jun-23	0.44%	2.72%	3.67%	4.18%	6.99%
Jan-24	0.63%	2.59%	3.87%	3.54%	7.20%
Feb-24	0.74%	2.45%	3.94%	3.79%	7.14%
Mar-24	0.72%	2.38%	4.25%	4.13%	7.08%
Apr-24	0.72%	2.31%	4.21%	3.95%	7.05%
May-24	0.89%	2.31%	4.61%	4.36%	7.17%
Jun-24	1.05%	2.33%	4.50%	4.33%	6.99%

- US inflation remains a concern with headline and core rates at 3.4% and 3.6% YoY, respectively, leading to uncertainty about further rate cuts. Conversely, the ECB is confident in its disinflationary path, signaling potential rate cuts in June. UK inflation fell to 2.3% YoY in April, but services inflation remains high, delaying potential rate cuts. Meanwhile, the Bank of Japan faces the opposite challenge, with rate hikes needed to strengthen a weak currency but risking reflation.
- Treasuries saw overall strength across the curve. The yield on the benchmark U.S. 10-year Treasury dropped by 3.87% to reach 4.50%, while shorter-term 2-year yields fell by 3.23% to 4.87%. Notably, the 10-year/2-year maturity curve has stayed inverted for nearly two years

India Macro Trends

Macro Trends	May	Apr
FII flows (in crs)	-25,586	-8,671
DII flows (in crs)	55,733	44,186
FII flows - Debt (in crs)	8,761	3,276
New Corporate Bond Issuances (in crs)	35,000	30,395
Surplus Liquidity (in crs)	1,50,710	2,35,971
GST Collection (in crs)	1,72,129	1,67,929
CPI	4.90	4.90
Manufacturing PMI	57.50	58.80
Services PMI	61.40	60.80

India has alienated from global market performance in lieu of election volatility.

Commodities & Currencies

Commodities	Returns	
	1m	1y
Brent Crude	-5.7%	11.9%
Precious Metals		
Gold	1.6%	18.6%
Silver	15.4%	29.5%
Industrial Metals		
Steel	0.7%	-0.5%
Iron Ore	6.0%	11.8%
Aluminium	2.5%	18.1%
Copper	0.8%	26.5%
Zinc	1.5%	32.1%
Nickel	2.5%	-3.5%
Lead	2.5%	13.0%

- Gold prices surged above $2400 per ounce, driven by central banks diversifying amid geopolitical tensions, despite high real bond yields and a strong dollar. Silver hit an 11-year high at $32.05 per ounce, boosted by industrial demand, especially for solar energy.
- The LME 3-month copper contract reached a record high, driven by supply tightness and short squeezes on COMEX.
- Nickel and copper prices increased, but the outlook turned bearish due to potential US rate cuts and China's manufacturing contraction.
- The S&P Global Commodity Index showed a 0.1% monthly increase and an 8.1% year-to-date gain. Brent prices in May are around $83 per barrel, aligning with the long-term inflation-adjusted average

Performance of US Dollar against currencies			
Country	1m	3m	1 yr
India	0.0%	-0.6%	-0.9%
AUD	-1.7%	0.5%	0.4%
Japan	0.4%	-4.8%	-12.8%
Canada	0.0%	-0.7%	-1.8%
Euro	1.7%	0.4%	1.5%
Pound	1.9%	0.9%	2.4%

- In May 2024, the U.S. dollar remained strong due to resilient economic indicators, trading at around 1.05 against the euro and 155 against the Japanese yen. Global economic growth was projected at 3.1% for 2024, with global inflation expected to fall to 5.8%. Geopolitical risks, including the Russia-Ukraine conflict and U.S.-China tensions, added uncertainty to the currency markets.
- The rupee started the month at around 83.45 and ended at approximately 83.43 with the monthly change being minimal. Compared to the same period last year, the INR depreciated by about 1.24%, moving from 82.41 in May 2023 to 83.43 in May 2024.

Snippets

Indian Macros

India's GDP growth for 2023-24 surpassed all estimates, including the government's, reaching 8.2 percent.

However, private consumption growth remains modest, rising by only 4 percent (the slowest rate in the past two decades) in FY24.

S&P revised outlook for India for the first time in 10+ years, also mentioning possibility of rating upgrade in next 24 months, if policy reforms continue without affecting the fiscal deficit

Valuation

Nifty Valuation Zones	
Above 21400	Expensive
16900-21400	Fair
14900-16900	Buy
<14900	Strong Buy

Global

In 2024, the Dollar Index experienced its initial decline. Fiscal dominance emerges as bond investors seek higher yields on US Treasuries amid concerns over the "debt cliff." Interest payments on US debt approach the top spot in the budget, surpassing defence spending.

Gold purchases by East and Central Asian central banks have sharply risen as they diversify away from traditional assets like the US dollar and euro. This move aims to spread risk, with gold offering stability amidst ongoing global uncertainty in 2024.

Research Corner

Equities Post Elections

As India has completed its 18th general election, investors are understandably cautious, given the historical volatility experienced in the run-up and aftermath of these significant political events. To help you make informed investment decisions, we'll delve into past election cycles and their impact on the financial markets.

Reviewing Elections from 1996 Onward

We have analyzed how markets have performed 6 months and 1 year post the election results. With the election result date looming just over a month away, this analysis could provide some insights for investors aiming to make well-informed decisions.

Sensex After Elections					
Year	Election Result dates	3 months after	6 months after	1 year after	Remarks
1996	09-May-96	-5.32%	-16.41%	2.03%	Hung Parliament
1999	06-Oct-99	15.41%	3.60%	-12.88%	Weak Coalition
2004	13-May-04	-5.49%	10.46%	19.48%	Clear win for Indian National Congress
2009	14-May-09	29.80%	41.91%	43.14%	Clear win for United Progressive Alliance
2014	16-May-14	8.21%	16.27%	13.28%	Clear win for NDA
2019	23-May-19	-5.44%	3.99%	-17.90%	Clear win for NDA and market moved by 7% till Jan-2020. Subsequently, market crashed due to COVID.
Average		**6.20%**	**4.26%**	**4.68%**	
2024	04-Jun?	?	?	?	

As can be seen, markets tend to perform whenever there is a decisive mandate irrespective of near-term volatility. Although the NDA secured a majority, the results were not as strong as predicted by the exit polls, necessitating that the BJP form a coalition government. This may lead to near-term uncertainty.

Election Volatility

Counting Day

- Markets reacted negatively to election outcome with BJP falling short of majority. BJP expected to form a coalition government with TDP and JDU. NDA won in 293 constituencies with BJP winning 240 seats, short of the magic 272 figure.
- Nifty recorded the largest single day fall of 8.2% since COVID on June 4th before settling at a loss of 5.93%.
- PSU Index was hit hardest with the Nifty PSE Index falling 16.38% followed by Infra (11%) while Mid and Small Cap indices corrected over 7%.
- India VIX, a measure of volatility in Indian markets, jumped nearly 50% to a high 31.7 before falling to 26.7.
- All sectors barring FMCG and IT have witnessed steep losses with Nifty Bank also falling 7.95%. Pharma Index fell nearly 5.5% intraday before recovering and settling at a loss of 1.38%
- International Brokerages expect markets to demand proof of reforms with coalition government underway.
- Most Analysts also deem any further correction as a buying opportunity.
- Given the results that diverged from exit poll predictions, key aspects to monitor include policy continuity, private capex cycle, ongoing reforms in key development sectors, Full-year budget, and the first 100-day plan

Market Watch

Key Takeaways

- BJP (falling short of majority) led NDA government is on the path to form a Coalition government with the support of TDP and JDU.
- Given the surprise in the election results, there is a chance for near term correction unless the argument for the earlier stance for development or reforms is strengthened.
- Investors may have to take a cautious approach especially in terms of PSUs, aggressive investments such as small and midcaps until a clear mandate of the coalition is directed.

Blog

Key Events

05-07 June: RBI MPC Meeting

07 June: RBI Interest Rate Decision

July; India’s Full year budget

Nov; US Presidential Elections

Book a Consultation

BEHAVIOURAL FINANCE

Temporal Discounting

The concept of temporal discounting was first formally described and studied within the field of behavioral economics and psychology in the mid-20th century. The foundational research on temporal discounting can be attributed to the work of several influential scholars:

George Ainslie: Ainslie, a psychologist, proposed the concept of hyperbolic discounting in the 1970s.

Hyperbolic discounting refers to the phenomenon where the subjective value of a reward decreases rapidly as the delay to receiving it increases. Ainslie's work laid the groundwork for understanding how individuals' preferences for immediate rewards can lead to inconsistent decision-making over time.

Imagine you have the choice between receiving $100 today or receiving $150 one year from now. Logically, waiting one year to receive $150 seems like the better option because you would earn an additional $50. However, due to temporal discounting, many people might choose to take the $100 today instead of waiting for the larger amount.

This preference for immediate rewards can have significant implications for various aspects of personal finance such as struggling for long term goals, poor debt management habits, prioritizing spending on immediate wants etc.

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THANK YOU