WEALTH FIRST

MONTHLY NEWSLETTER - MAY'24

"Long-term wealth is like a fine wine - it takes time to mature, but when it does, it's worth the wait. Just remember not to drink it all at once."

Global Equities (in USD terms)

Global Equities			
	1m	3m	1y
Nasdaq	-4.5%	1.8%	31.7%
S&P 500	-2.6%	5.6%	22.8%
MSCI Europe	-2.4%	2.2%	4.6%
MSCI Emerging Equities	0.3%	7.2%	7.1%
Nifty 50	1.1%	7.7%	22.5%

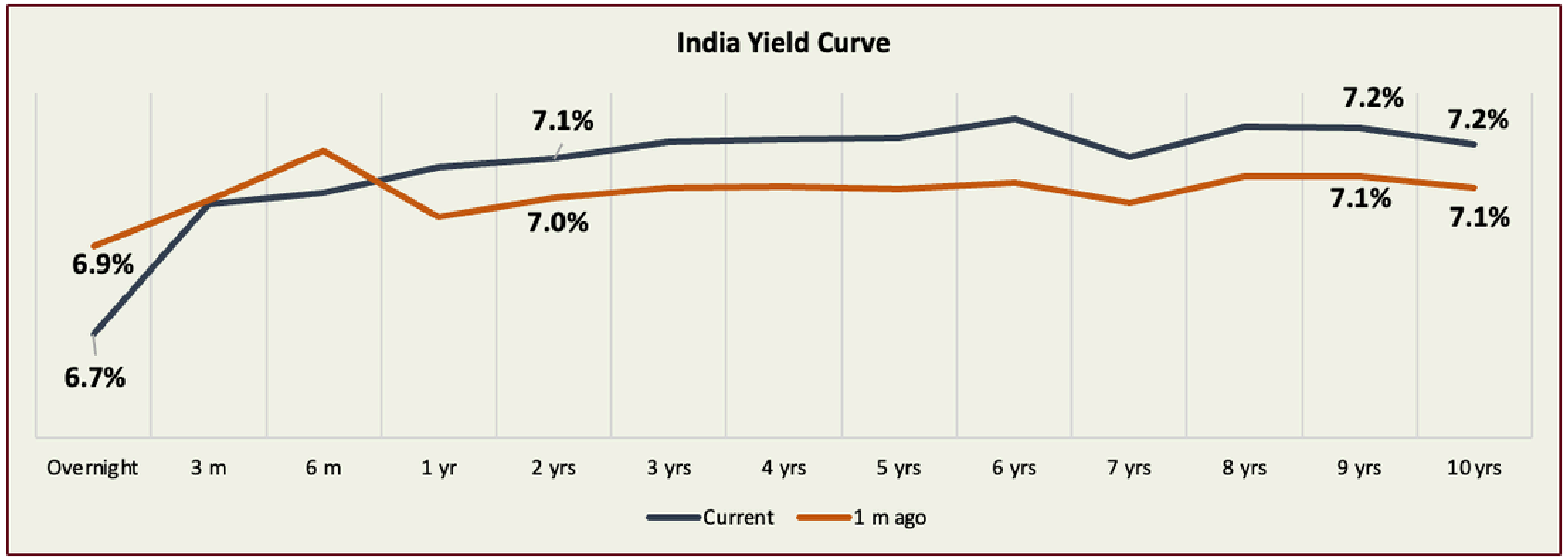
Markets anticipate rate cuts from ECB and BoE more than from the Federal Reserve due to a less inflationary environment and expectations of stable but slow growth in the euro area and UK.

Domestic Equities

Returns		
	1 month	1 year
Nifty 50	1.2%	25.1%
Nifty Next 50	7.1%	64.2%
Midcap 150	6.3%	58.2%
Smallcap 250	10.5%	68.6%
Metals	11.1%	58.2%
PSE	9.6%	113.4%
Real Estate	8.1%	118.7%
FMCG	0.5%	13.4%
Pharma	-0.1%	50.4%
IT	-4.9%	19.8%
IPO	9.2%	76.3%

- India VIX dropped 20% on April 19th, signaling reduced volatility and risk perception. However, VIX spiked just below 15 as the election outcome approached.
- Nifty hit a record high of 22775 before correcting to 21777, closing with modest gains.
- Realty gained 8.1% in April, reflecting continued preference for real estate investment among Indian households.
- Metals and PSUs saw gains, with April witnessing an 11% increase in metals.
- Mid and Small caps returned with significant gains of over 6% and 10% respectively after March corrections.
- The IT sector underperformed with disappointing financial results for major companies and below-expectation revenue guidance for two consecutive months.

Domestic Yields



- Interest rate gap between Indian and US sovereign bonds at its lowest in at least 17 years.
- Despite reduced rate differential, India attracts foreign investors due to strengthened fundamentals and events like the incorporation of domestic debt into global bond indices.

Global Yields

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
May-23	0.38%	2.77%	3.39%	3.72%	7.01%
Dec-23	0.71%	2.70%	4.21%	4.14%	7.29%
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%

- Fed kept rates unchanged in May, awaiting further evidence of stabilizing inflation.
- Fed's commentary that monetary policy need to be restrictive for longer than expected dampened investor confidence of a rate cut in the near future, leading to a rise in Treasury yields, with 2-year Treasury yields rising by 40bps to 5.0% and 10-year Treasury yields rising by 47bps to 4.7%.
- Global yields also rose in April, driven by hot US inflation data and resilient private sector demand shown by Q1 GDP.
- Euro sovereigns outperform US Treasuries and UK Gilts amid stable credit spreads, reflecting confidence in rate cuts from ECB and BoE.

India Macro Trends

Macro Trends	Apr	Mar
FII flows (in crs)	-8,671	35,098
DII flows (in crs)	44,186	56,312
FII flows - Debt (in crs)	-10,949	3,276
New Corporate Bond Issuances (in crs)	13,270	30,395
Surplus Liquidity (in crs)	2,35,971	1,86,908
GST Collection (in crs)	1,72,129	1,67,929
CPI	4.90	5.09
Manufacturing PMI	58.80	59.20
Services PMI	61.70	62.00

India is one of the best performers in equity markets across both developed and emerging economies in April

Commodities & Currencies

Commodities	Returns	
	1m	1y
Brent Crude	-1.2%	7.0%
Precious Metals		
Gold	2.9%	15.2%
Silver	5.5%	5.2%
Industrial Metals		
Steel	1.8%	-8.5%
Iron Ore	7.2%	-4.5%
Aluminium	10.6%	9.8%
Copper	13.7%	17.9%
Zinc	19.9%	10.5%
Nickel	16.1%	-20.5%
Lead	9.5%	2.0%

- The Bloomberg Commodities Index rose 2.7% in April, driven by a resilient economic environment and Middle East tensions.
- Energy and defensive sectors outperformed due to Middle East conflict.
- Despite military attacks, market volatility remained modest, with positive reactions in energy stocks and commodities.
- World Bank predicts a marginal decline in commodity prices in 2024 and 2025 but expects them to remain 38% above pre-pandemic levels. Gold prices are expected to hit a record high in 2024 before moderating in 2025.

Performance of US Dollar against currencies			
Country	1m	3m	1 yr
India	-0.2%	-0.5%	-2.1%
AUD	1.7%	2.9%	3.9%
Japan	-4.3%	-7.4%	-15.8%
Canada	-0.3%	-1.0%	-4.8%
Euro	-1.2%	-1.4%	-3.3%
Pound	-1.1%	-1.5%	-0.6%

- The Indian rupee stagnated around 83.4 per USD, failing to recover substantially from its record low of 83.7 on April 16th.
- Stubborn US inflation dampened expectations for significant rate cuts, leading to heightened dollar buying in Japan and weak dollar fixes in China, placing pressure on emerging market currencies across Asia.

Snippets

Indian Markets

Foreign Institutional Investors (FIIs) sold Rs 23.3k crores worth equity shares but bought Rs 14.6k crores worth shares in the Primary market, resulting in a net sale of Rs 8.6k.

In April, foreign investors offloaded bonds worth Rs 14,950 crore ($1.79 billion) on a net basis, the highest in four years, following net bond purchases totaling Rs 81,600 crores between October and March.

Despite concerns over the rupee and a surge in the 10-year US yield, investors were somewhat reassured as the Indian benchmark yield increased by only 13 basis points, supported by favorable local fundamentals.

Valuation

Nifty Valuation Zones	
Above 20800	Expensive
16300-20800	Fair
14300-16300	Buy
Below 14300	Strong Buy

Global

April was tough for global markets, with concerns over delayed central bank actions due to high US inflation and resilient demand. Global bonds fell by 2.5% and developed market equities by 3.7%.

However, emerging market equities rose by 0.5%. According to OECD, global GDP is expected to hold at 3.1% in 2024, with a slight increase to 3.2% in 2025.

US GDP growth is forecasted at 2.6% in 2024, Euro area at 0.7%, Japan at 0.5%, China at 4.9% in 2024, while India leads with 6.6% growth for both FY24 and FY25.

Research Corner

Credit AIFs: Seizing Opportunities in Shifting Banking Tides

Amidst the backdrop of banks and mutual funds retreating from certain lending sectors to mitigate Non-Performing Assets (NPA), Credit Alternative Investment Funds (AIFs) have emerged as a crucial player in the financial landscape. These funds fill the void left by traditional lenders, catering to lower-rated companies with interest rates ranging from 12% to 24%.

As a result of this market shift, AIFs are projected to experience impressive growth, with a forecasted Compound Annual Growth Rate (CAGR) of 11.5%, propelling their Asset Under Management (AUM) from $13 trillion to $23 trillion over the next five years. Investors are drawn to AIFs not only for their higher returns but also for their flexibility and speed in deal structuring compared to traditional banking channels.

Key considerations for investors include

- the comfort provided by Asset Management Companies (AMCs),
- fund structure, taxation, and the risk-reward potential.

Notably, AIFs operate as Category 2 AIFs, subject to taxation at the investor level at marginal rates. Despite the inherent risks, these funds aim to deliver attractive post-cost returns of 12% to 13%, outperforming traditional high-quality bonds yielding 7% to 8%.

Select Credit AIFs target various sectors such as infrastructure, logistics, agriculture, manufacturing, healthcare, and education, offering returns between 11% to 14% on a post-cost basis. The typical tenor for investments in these funds ranges from 3 to 5 years, striking a balance between regular coupon payments and rear-ended payouts. Portfolio companies favored by AIFs exhibit characteristics such as credible promoters, strong moats, proven business models, and covenant-heavy structures.

This surge in AIF investments signifies a shift in investor preferences, with institutions like insurance companies, corporate treasuries, and family offices increasingly favoring these funds over traditional debt products. As the regulatory environment evolves and market dynamics continue to change, Credit AIFs are poised to play a pivotal role in reshaping the credit landscape, offering tailored solutions for both investors and borrowers alike.

Market Watch

Key Takeaway

With event risk looming around the corner in the form of Indian elections, it's crucial to maintain asset allocation according to risk appetite. This ensures safeguarding against potential unfavorable outcome, even though the probability of such outcomes is low.

Blog

Key Events

India Composite & Services PMI - 6th May

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

July; India's Full year budget

Jul - Sep; Expectation of a Normal Monsoon

Book a Consultation

BEHAVIOURAL FINANCE

Neuroplasticity

In 2016, a groundbreaking study conducted by researchers from the University of Geneva shed light on the potential of neurofeedback training to enhance the decision-making skills of novice traders.

The experiment, which combined neuroscience with finance, offered valuable insights into the role of brain activity in shaping trading performance.

The study involved a group of novice traders who were tasked with making simulated trading decisions while receiving real-time feedback on their brain activity. Using electroencephalography (EEG), researchers monitored the traders' brain waves, particularly focusing on patterns associated with emotional arousal and cognitive control.

Throughout the training sessions, traders learned to recognize and regulate their emotional responses to market fluctuations, guided by the neurofeedback system. By providing immediate feedback whenever traders exhibited signs of stress or impulsivity, the system helped them develop more disciplined and rational trading strategies.

The results were remarkable. Traders who underwent neurofeedback training showed significant improvements in their ability to manage risk and make strategic decisions. Moreover, follow-up assessments revealed sustained benefits, indicating that the cognitive skills acquired through neurofeedback training persisted over time.

Dr. Olivier Crottaz, the lead researcher behind the study, commented on the findings, stating, "Our research demonstrates the potential of neurofeedback techniques in enhancing trader performance. By harnessing the brain's ability to adapt and learn, we can empower individuals to make more informed and effective decisions in the fast-paced world of finance."

Get In Touch With Us

Phone

+91 -9398528097

Website

www.wealthfirst.co.in

Address

202, Apurupa BDR, Road No 110, Jubilee Hills,
Hyderabad - 500033

THANK YOU