WEALTH FIRST

MONTHLY NEWSLETTER - OCT'24

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." – Peter Lynch

Global Equities (in USD terms)

- Global equities (MSCI World Index) rose by 1.6% in September (USD terms), supported by China's new stimulus and the US Fed's rate cut.
- US mega-cap stocks rebounded, pushing markets to all-time highs, while China's market surged 25% in response to further fiscal and monetary support.
- The S&P 500 gained 22.1% year-to-date, marking its best performance through Q3 since 1997.
- Despite tensions in the Middle East, crude oil prices softened, briefly falling below $70 per barrel.

Global Equities		
	1M	1Y
Nasdaq	2.5%	9.9%
S&P 500	2.0%	9.7%
MSCI Europe	0.3%	5.3%
MSCI Emerging Equities	6.4%	12.2%
Nifty 50	2.4%	14.7%

Domestic Equities

Returns		
	1M	1Y
Nifty 50	2.3%	15.6%
Nifty Next 50	2.4%	71.2%
Midcap 150	1.8%	47.4%
Smallcap 250	1.3%	50.5%
Metals	8.4%	49.1%
Consumer Durables	6.4%	49.2%
Real Estate	4.3%	90.9%
Oil & gas	-3.1%	64.9%
IT	-2.0%	32.0%
PSE	-1.8%	88.4%
IPO	3.2%	55.9%

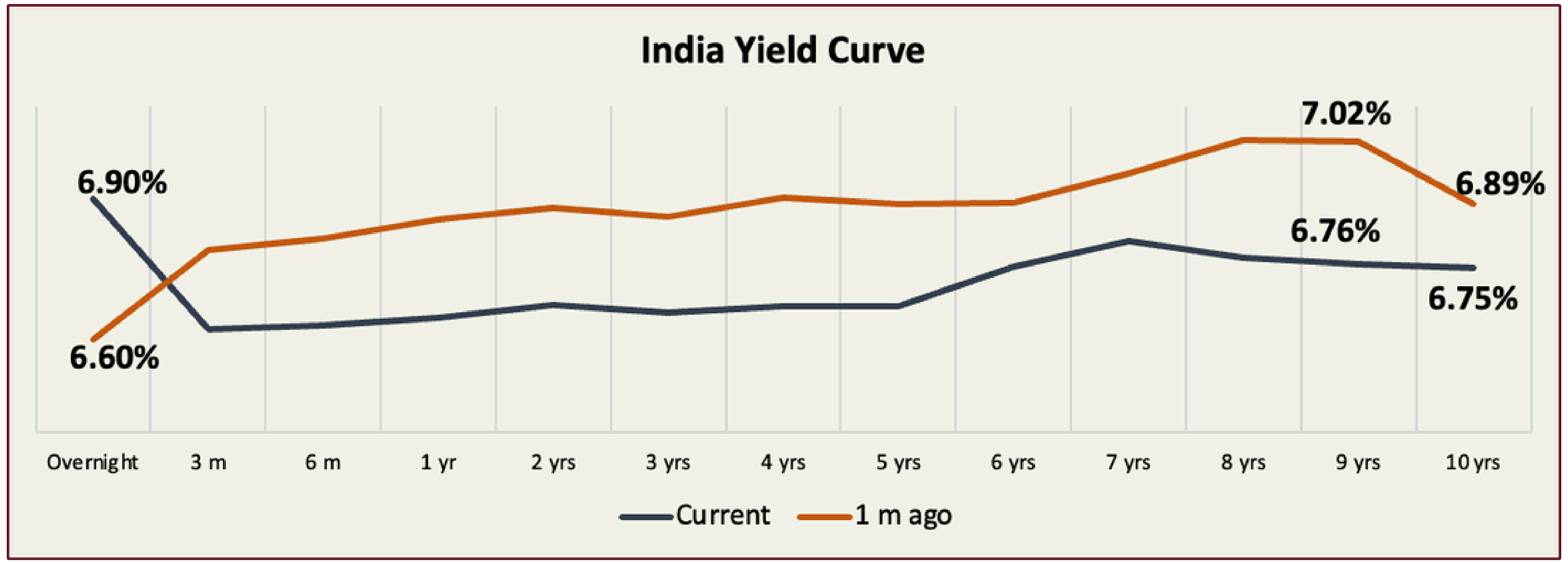
- Indian equities posted positive returns for the fourth consecutive month in September, delivering a 2.3% gain, led by sectors like Metals and consumer durables. In contrast, IT and Energy stocks underperformed.
- Mid-cap and small-cap indices also delivered gains, although their performance lagged behind large-cap equities.
- Indian economic indicators remained positive, with the equity markets delivering gains for the fourth consecutive month.
- Growth was supported by strength in domestic consumption, with sectors such as Metals and consumer durables leading the rally.
- Mid-cap and small-cap companies continued to post gains, albeit at a slower pace than large-cap stocks, indicating broader participation in the growth trend.

Global Yields

- 10-year US Treasury bond yields continued to fall, briefly touching a year-to-date low of 3.6%.
- The US yield curve reverted to a positive spread after 26 months of inversion, driven by a sharper decline in shorter-dated bond yields compared to longer maturities - indicating increased expectation of mild recession.
- The US Federal Reserve began its anticipated rate-cutting cycle with a 50 basis point reduction, bringing the target rate range to 4.75-5.00%. The European Central Bank and Swiss National Bank also cut their policy rates by 0.25%.
- Despite mixed economic signals, the Fed remains committed to further rate cuts, especially as consumer confidence saw its largest monthly decline in over three years.

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
1 Y ago	0.76%	2.71%	4.62%	4.48%	7.21%
6 M ago	0.72%	2.31%	4.21%	3.95%	7.05%
3 M ago	1.05%	2.33%	4.50%	4.33%	6.99%
1 M ago	0.90%	2.18%	3.91%	4.01%	6.86%
Oct-24	0.86%	2.18%	3.79%	4.03%	6.75%

Domestic Yields



- Indian fixed income markets showed resilience, with the Reserve Bank of India maintaining its policy rates amidst a stable economic outlook.
- The benchmark government bond yields remained steady, supported by the RBI's dovish stance on inflation.
- Jump in crude prices remains a key risk for domestic yields.

India Macro Trends

Macro Trends	Sep	Aug
FII flows (in crs)	57,724	7,320
DII flows (in crs)	30,857	48,279
FII flows - Debt (in crs)	1,299	17,960
New Corporate Bond Issuances (in crs)	48,551	26,279
Surplus Liquidity (in crs)	4,27,689	3,87,172
GST Collection (in crs)	1,73,000	1,74,000
CPI	3.65	3.54
Manufacturing PMI	56.50	57.50
Services PMI	58.90	60.40

- Foreign portfolio investors (FPIs) continued their buying spree in September, driven by the recent 50 basis points (bps) rate cut by the U.S. Federal Reserve.
- However, tensions have flared with Iran launching ballistic missiles at Israel, raising concerns about potential retaliation and further escalation.
- As a result, foreign institutional investors (FIIs) have pulled out nearly ₹32,000 crore from Dalal Street in just the first four days of the month, as Israel-Iran tensions weigh on markets.
- FIIs are shifting funds away from other emerging markets and into the relatively cheaper Chinese market.
- Meanwhile, mutual funds in India have been holding a cash reserve of ₹1.86 lakh crore, with their cash holdings as a percentage of total assets under management (AUM) reaching a five-year high at the end of August.
- Active equity mutual funds with assets of at least $1 billion held an average of 5.39% of their portfolios in cash, according to Morningstar data, marking the highest levels in five years.
- GST collections slumped to a 40-month low of 6.5% in September, with revenues at ₹1,73,240 crore, about 1% lower than the tally in August.

Commodities & Currencies

- Commodities broadly strengthened, with gold prices climbing to new highs, supported by safe-haven demand amidst escalating Middle East conflicts. Gold traded near $2,655 per ounce, driven by geopolitical uncertainty.
- Brent crude oil prices remained volatile, briefly dropping below $70 per barrel before rising toward $75 on Oct 2nd due to concerns over potential supply disruptions from the Middle East conflict.
- US crude oil inventories rose by 3.89 million barrels, while gasoline demand hit a six-month low, easing immediate supply shortage concerns.

Commodities	Returns	
	1M	1Y
Brent Crude	-6.7%	-19.4%
Precious Metals		
Gold	5.7%	44.7%
Silver	9.0%	49.2%
Industrial Metals		
Steel	10.0%	-5.7%
Iron Ore	-4.9%	-21.9%
Aluminium	7.2%	13.0%
Copper	8.6%	24.0%
Zinc	7.8%	19.9%
Nickel	4.6%	-5.2%
Lead	3.5%	-1.7%

Performance of US Dollar against currencies		
Country	1M	1Y
India	0.1%	-0.8%
AUD	-0.9%	-5.1%
Japan	1.7%	3.8%
Canada	1.0%	3.9%
Euro	0.8%	5.0%
Pound	1.9%	8.8%

- Major currencies continued to strengthen against the US dollar in September. The US dollar weakened amidst a dovish Federal Reserve outlook and robust economic signals from other regions.
- European currencies remained resilient, even as inflationary pressures in the Eurozone subsided, with headline inflation falling below 2%.

Research Corner

Fed Rate Cuts and Equities

The relationship between the Federal Reserve's (Fed) rate cuts and equity markets has historically been significant. When the Fed cuts rates, it is usually in response to economic weakness, aiming to stimulate growth. However, the timing and size of these cuts can have different impacts on global equity markets, including U.S. stocks (S&P 500) and Indian indices like Nifty and Sensex.

Fed Rate Cuts and Market Behavior

- Strong Economic Data: When economic indicators are robust, the Fed raises rates to control inflation. This often weighs on equity markets as higher interest rates can reduce corporate profits and investor appetite for risk.
- Weak Economic Data: On the other hand, weak economic indicators often prompt the Fed to cut rates to support growth. While these cuts typically boost equity markets over time, the immediate aftermath can involve volatility if investors fear the cuts are coming too late.

As the Fed considers potential rate cuts, possibly in response to economic weakness, equity markets could experience short-term corrections before a recovery.

Historically, once the rate cuts take effect, markets have rallied, though the timing of these cuts remains crucial in shaping the path forward for both U.S. and global equities, including Indian indices like Nifty and Sensex

Year	Fed Action	Nifty Reaction	Market Impact (S&P 500)
2000-2003	Fed cut rates from **6.86%** to **1% (~20%)**	**Nifty dropped -44%** and recovered **+102% by end of** 2003	S&P 500 dropped **-46%** from 2000-2002, followed by a **+36%** recovery in 2003
2007-2008	Fed cut rates from **5.31%** to near zero (~19%)	**Nifty dropped -55%** in 2008, recovered **+89%** in 2009	S&P 500 dropped **-53%** in 2008, followed by **+53%** by end of 2009
2020	Fed cut rates from **2.44%** to near zero (~6%)	**Nifty dropped -30%** during March 2020 crash, rebounded **+63%** by year-end	S&P 500 fell **-23%** during COVID crash but recovered **+50%** by year-end

BEHAVIOURAL FINANCE

Disposition Effect

The Disposition Effect highlights a key behavioral bias where investors make irrational decisions by selling winning investments too early and holding onto losing ones for too long. This behavior goes against traditional financial theory, which suggests that investors should sell their losing stocks to avoid further losses and hold onto winners to maximize gains. The disposition effect is driven by emotions like fear, pride, and regret, which can distort decision-making.

Detailed Example:

During the COVID-19 pandemic in 2020, the stock market initially plunged due to widespread uncertainty. However, as tech companies like Apple, Amazon, and Tesla adapted quickly and thrived in a digital-first world, their stock prices soared. Many individual investors, spooked by the volatility, rushed to sell these stocks after modest gains to "lock in" profits. For example:

- Tesla stock: After the market dip in March 2020, Tesla's stock began to recover. Some investors who bought Tesla at lower prices sold it as soon as it went up by, say, 20-30%, fearing the market could crash again. By the end of 2020, Tesla's stock price had surged by over 700% from its low, meaning those who sold too early missed out on substantial returns.
- Apple stock: Apple also experienced a surge in value during the pandemic, as demand for its products remained strong. Some investors sold their shares after small gains of around 10-15%, fearing another market drop. However, by the end of 2020, Apple had risen by about 80% from its pandemic low.

The Disposition Effect explains why many investors cashed out early instead of letting their winners ride, often based on the emotional desire to "bank" small gains, driven by pride and fear. At the same time, the same investors might have held onto poorly performing stocks, hoping they would recover, instead of cutting their losses.

This tendency is also linked to regret aversion—the fear of selling a stock that might later rise, causing emotional regret. So, rather than selling losing stocks, investors hold onto them longer, waiting for a reversal that might never come.

Market Watch

Snippets

Global

- Global equities gained momentum as central banks, led by the US Federal Reserve, began easing monetary policies.
- China's aggressive stimulus measures triggered a significant stock market rally, signaling recovery from its prolonged bear market.
- Bond yields and commodity prices, including gold, responded to heightened geopolitical risks, reflecting a more cautious investor sentiment.

India

- Domestic economic stability and controlled inflation continue to fuel investor confidence, keeping India attractive for long-term investors.
- Despite challenges in IT and energy sectors, broad-based growth across large, mid, and small caps supported overall market performance.

Visit Us

Takeaways

- Rising geopolitical tensions, particularly in the Middle East, underscore the need for vigilance in sectors like energy and commodities.
- This uncertainty might benefit safe-haven assets like gold but could increase risks in oil-dependent industries.
-
- Divergence in performance of Large/Mid and Small caps has narrowed significantly in the last 3 months.
- With crude oil prices potentially volatile due to Middle East tensions, investors in oil-importing economies like India should be mindful of the indirect effects on inflation, currency, and corporate earnings

Blogs

Key Events

Ongoing; Israel - Iran Conflict Escalation

Oct 9: RBI MPC meeting

Nov; US Presidential Elections

Dec; Fed Interest Rate Meeting

Book a Consultation

THANK YOU

Wealth First Portfolio Managers

CAPITOL HOUSE, 10 PARAS-2 BUNGLOWS,
Prahlad Nagar Rd, Prahlad Nagar,
Ahmedabad, Gujarat 380015

Wealth First Advisors

Wealth-First Advisors Pvt Ltd
408, Powai Plaza, Hiranandani Gardens,
Powai, Mumbai - 400 076

Wealth First Finserv

202, Apurupa BDR, Road Number 10,
Jubilee Hills, Hyderabad,
Telangana 500033