WEALTH FIRST

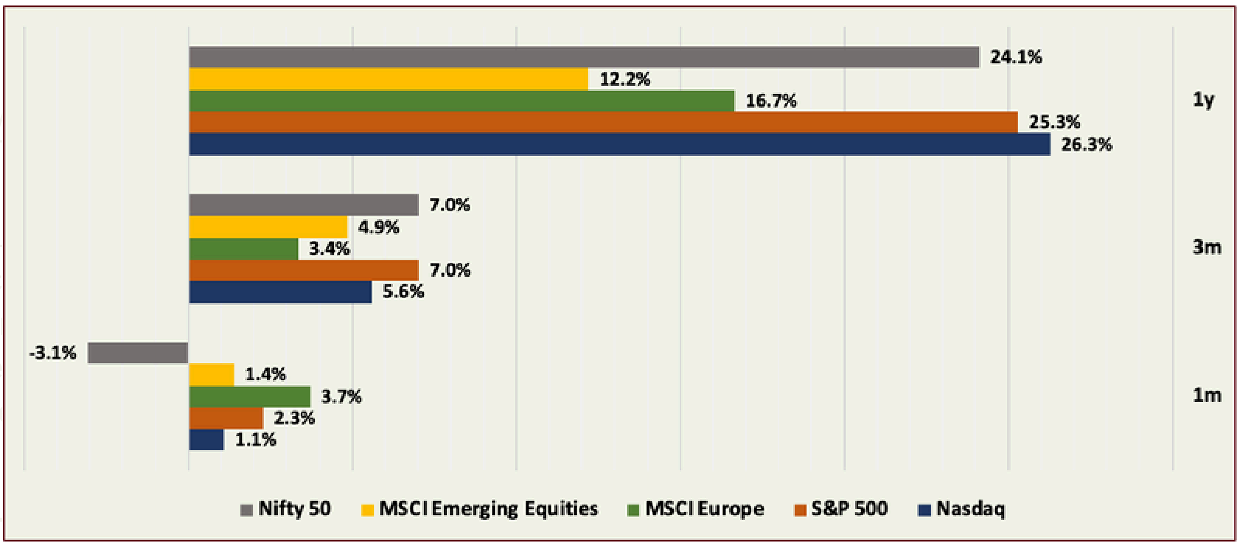
Monthly Newsletter

Global Equities (in USD terms)

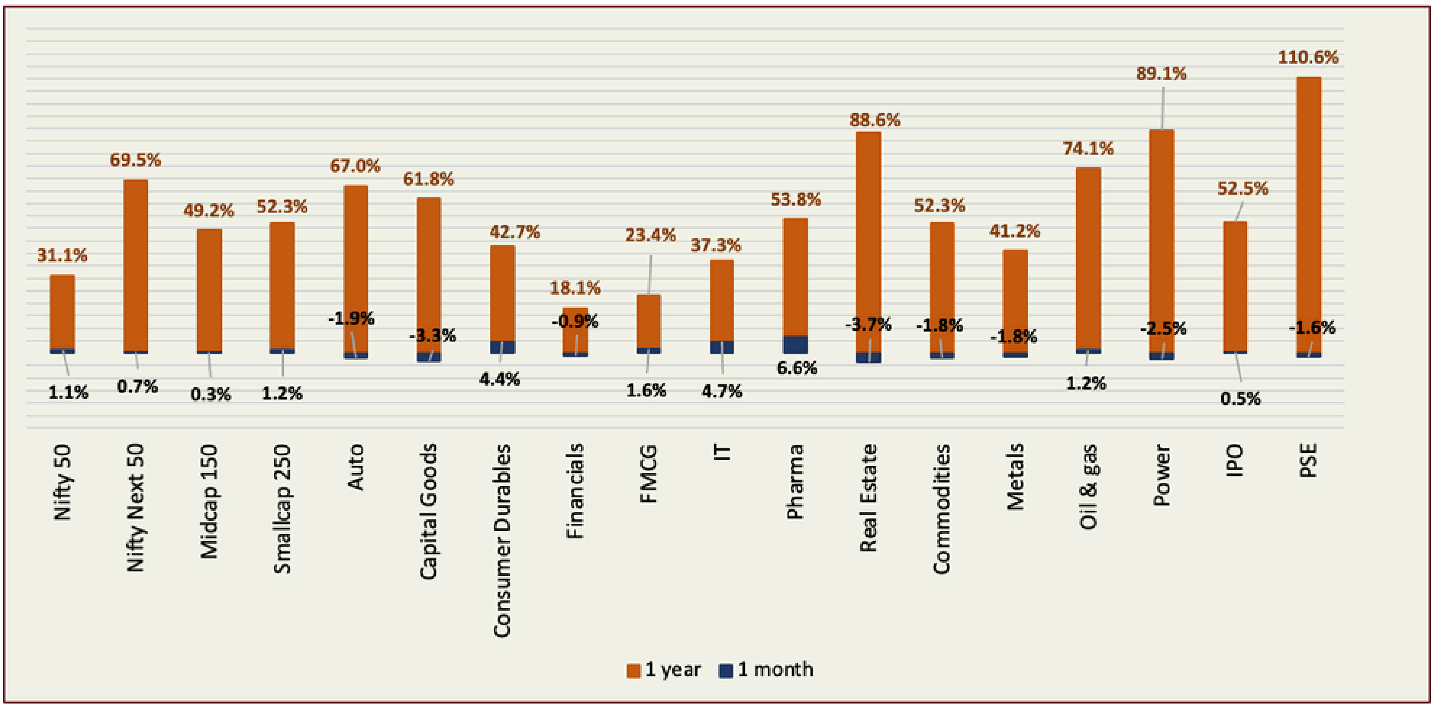
August began with a sharp sell-off in global equity markets due to disappointing US economic data and a 25 bps interest rate hike by the Bank of Japan - this along with strengthening of Yen led to reversal of carry trade and the increased volatility. However, by the end of the month, global equities rebounded as investors anticipated more aggressive policy easing by the Federal Reserve (Fed). The S&P 500 outperformed, delivering returns of 2.4% over the month, driven by broadening earnings growth outside of the technology sector.

Asia ex-Japan & Emerging Markets: These regions outperformed Western developed markets with returns of 2% and 1.8%, respectively, supported by expectations of Fed rate cuts and a 2.3% drop in the dollar (DXY Index). Europe underperformed the US, delivering a 1.4% return. The economic backdrop remained weak, with disappointing earnings from cyclical companies despite a better-than-expected eurozone composite PMI due to the French service sector boost from the Olympics.

Federal Reserve Chair Jerome Powell signaled an imminent start to interest rate cuts, with the timing and pace dependent on incoming data and evolving economic conditions. The resilience of the labor market and consumption mitigates recession fears in the US. GDP growth is slowing, and inflation dropped below 3% for the first time since March 2021, supporting the Fed's anticipated rate cuts starting in September.



Domestic Equities



Indian equities saw a decline in early August, falling from their recent all-time highs due to a global sell-off triggered by worsening US economic data and unexpected monetary tightening by the Bank of Japan.

However, markets rebounded and reached new all-time highs, driven by strong performances in IT, pharma, and FMCG with gains of over 4%.

Pharma benefited from increased global demand for generics and a positive outlook on R&D-driven growth.
Banking and financial services & Real Estate sectors struggled in August.

Both mid and small-cap indices underperformed compared to the Nifty 50, reflecting the increased volatility and cautious sentiment among investors.

Commodities

Commodity markets struggled with weaker global growth and manufacturing momentum. The Bloomberg Commodity Index remained flat over the month.

Oil prices closed the week at $74 per barrel, declining more than 2% due to concerns about slowing energy demand.

Iron Ore Prices dropped to a two-year low, affected by the real estate crisis in China.

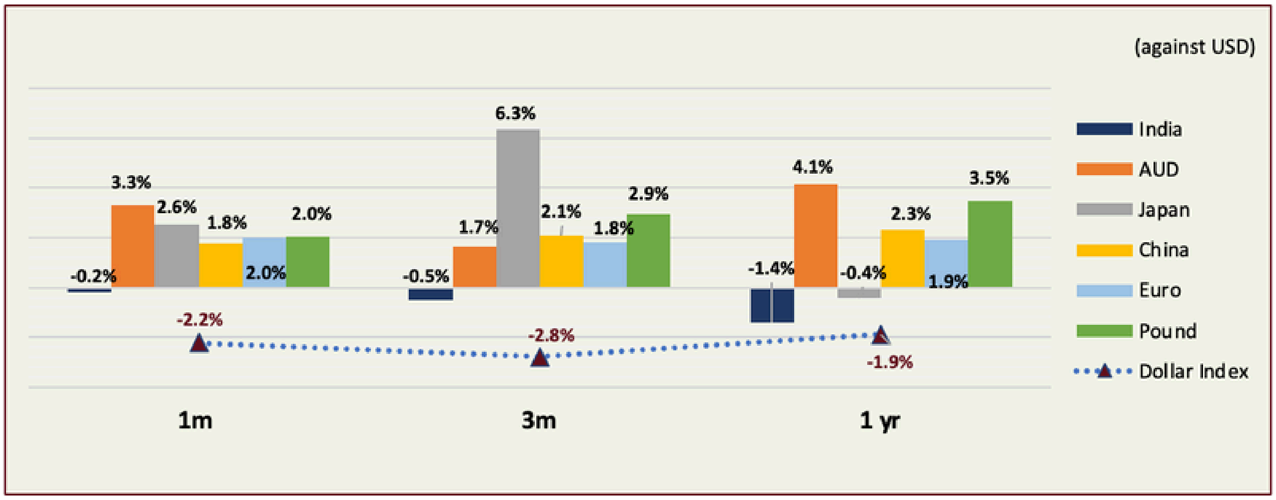
Gold gained traction, rebounding to above $2,500 per ounce by the end of the previous week.

From January to July 2024, global crude steel demand decreased by 1% compared to the same period last year. While India, Southeast Asia, and the European Union showed strong growth, China significantly pulled down the overall demand with a 2.2% year-on-year decline. The persistent downturn in China's property market has severely dampened demand, leading to prices hitting multi-year lows. Meanwhile, Europe and the US are grappling with weak demand, whereas India stands out with an impressive 10% year-on-year growth in 2024

Commodities	Returns		
	1m	3m	1y
Brent Crude	-4.7%	-5.2%	-10.8%
Precious Metals			
Gold	2.3%	7.6%	29.0%
Silver	-0.7%	-5.1%	18.1%
Industrial Metals			
Steel	8.5%	-9.0%	-13.9%
Iron Ore	-6.8%	-16.0%	-9.8%
Aluminium	7.2%	-7.7%	10.8%
Copper	-0.8%	-9.9%	9.3%
Zinc	8.3%	-2.4%	19.2%
Nickel	1.0%	-14.9%	-16.5%
Lead	-1.5%	-9.7%	-8.6%

Currencies

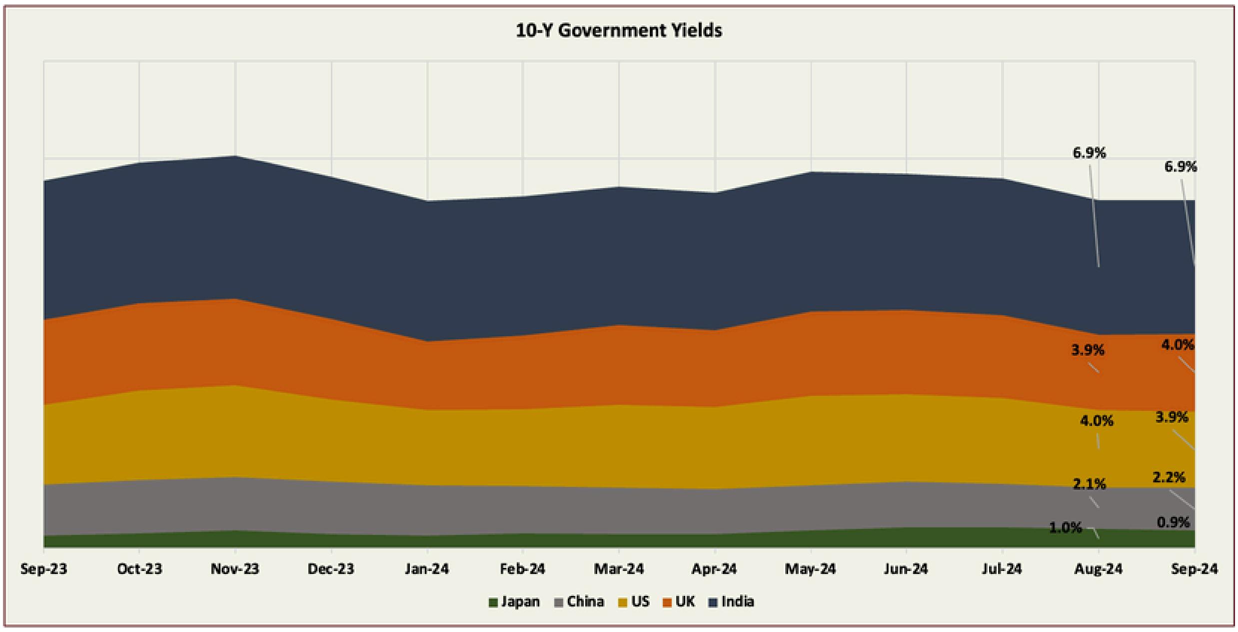
(movement against USD)



The dollar weakened, with the DXY Index dropping by 2.3% over the month. The narrowing interest rate differential as the Fed prepares for rate cuts has left the dollar vulnerable. The Bank of Japan's rate hike and hawkish tone led to the unwinding of carry trade positions, impacting global markets.

The Indian rupee was the second-worst-performing Asian currency in August after the Bangladeshi taka due to strong dollar demand and outflows from domestic equities. It depreciated by 0.2 per cent during the month to trade close to its lifetime low of 83.97 per dollar.

Yield Trends

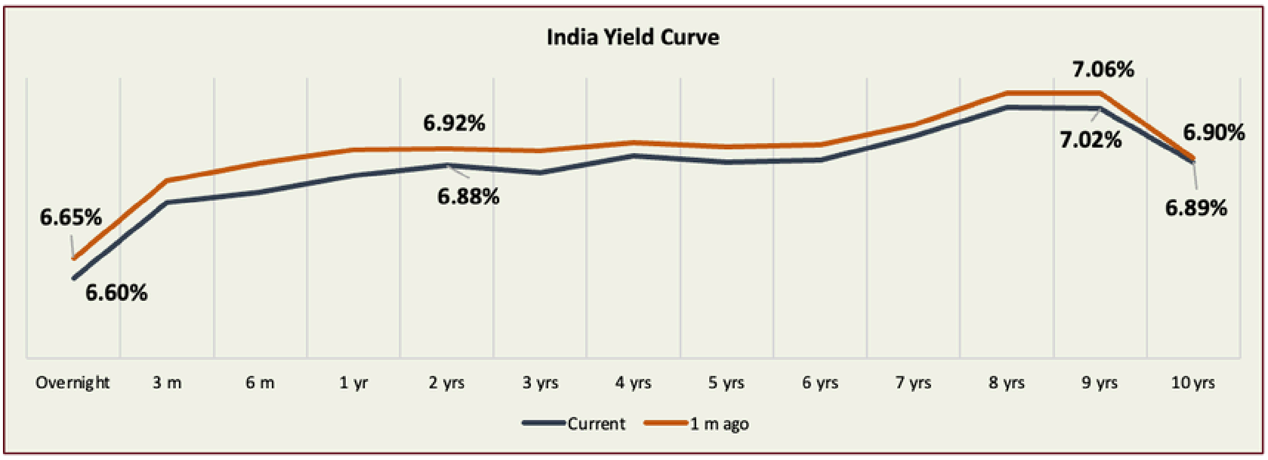


Global Yields

August was positive for fixed income investors, with the Bloomberg Global Aggregate Index posting gains as yields decreased by 14 bps. The volatility at the start of the month led to a flight to quality, and the ongoing concerns about the economic outlook led investors to discount more aggressive rate cuts from major central banks.

US Treasuries outperformed other markets, delivering returns of +1.3% as investors expect the Fed to cut rates more aggressively than the European Central Bank.

Emerging market debt also performed strongly, with returns of 2.3% supported by a weaker US dollar.



India Yield Curve

The yield on the Indian 10-year government bond held below the 6.86% mark in August, hovering near its lowest level in over two years, due to expectations of incoming rate cuts by the Federal Reserve and the prudent fiscal backdrop for the Indian government lifting demand for domestically-issued fixed-income assets.
In the meantime, India tightened restrictions on foreign bond buying in 14 and 30-year G-Secs, but exchanges continued to note wide net foreign inflows at the start of August

India Macro Trends

	FIIs	DIIs	FII Debt
Mar-24	35,098	56,312	13,602
Apr-24	-8,671	44,186	-10,949
May-24	-25,586	55,733	8,761
Jun-24	26,564	28,633	14,955
Jul-24	32,364	23,486	22,363
Aug-24	7,320	48,279	17,960

India's economic growth has slowed to 6.7% year-on-year for April-June, attributed to reduced government spending during national elections.

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) kept the policy repo rate (the rate at which RBI lends money to banks) unchanged at 6.5%.

The Index of Industrial Production (IIP) grew by 5.1% in the first quarter (April-June) of 2024-25, compared to an increase of 4.8% in the same period in 2023-24.

PMIs have repeatedly passed the 60 threshold, while narrowing budget deficits magnified the impact of lower revenues needed to cover public expenditure, limiting the supply of bonds. This drove foreign funds to pile on Indian debt since last year, lastly underscored by the inclusion of Indian G-Secs in JPMorgan's emerging market index

Inflation, Manufacturing & Liquidity

CPI data	
Month	Inflation
Feb-24	5.1
Mar-24	4.9
Apr-24	4.8
May-24	4.8
Jun-24	5.1
Jul-24	3.5

3% down MoM

PMI		
Month	Manufacturing	Services
Apr-24	58.8	60.8
May-24	57.5	60.2
Jun-24	58.3	60.5
Jul-24	58.1	61.1
Aug-24	57.5	60.4

Manufacturing PMI in expansion

Surplus Liquidity (in crore)	
Month	Inflow
Mar-24	1,86,908
Apr-24	2,35,971
May-24	1,50,710
Jun-24	3,68,555
Jul-24	4,03,058
Aug-24	3,87,172

Liquidity slightly down

Other Trends

Corporate Bond Issues: 26,279 crore

Core Sector Growth: 6.12% in July (bounced back from 4% in June)

GST Collection: 1.75 lakh crore (10% YoY)

Continuous Surplus liquidity has maintained pressure on short term yields.

Equity Savings Funds - The Advantage

Overview:

Equity Savings Funds are hybrid mutual funds that invest in a mix of equities, debt, and arbitrage opportunities. Typically, they maintain around 30-35% in equity, 30-35% in debt, and the remainder in arbitrage strategies. This unique blend offers the potential for stable returns with lower volatility compared to pure equity funds.

Taxation Advantage:

With recent changes making the taxation of debt instruments less favorable and equities trading at expensive valuations, Equity Savings Funds have become more attractive. These funds are taxed like equity funds, which means long-term capital gains (after one year) are taxed at a lower rate of 12.5%, while short-term gains are taxed at 20%.

Performance:

The equity component provides growth potential, while the debt and arbitrage portions offer stability. This balanced approach helps in cushioning the portfolio against sharp market downturns while still participating in equity market upside. A disciplined asset allocation approach has enabled select funds to deliver reasonable risk-adjusted returns. The returns of schemes in the category are as follows:

Scheme Name	AUM (Rs Cr)	Equity %	Arbitrage %	Debt %	Returns (%)				
					3M	6M	1Y	3Y	5Y
Aditya Birla Equity Savings	546	17.3	57.3	25.4	3.0	5.7	11.2	6.4	9.4
Axis Equity Savings Fund	938	39.3	32.3	28.4	5.5	7.3	18.7	9.0	10.7
Bandhan Equity Savings Fund	128	20.8	49.9	29.3	3.2	4.9	10.4	6.9	8.4
Baroda BNP Equity Savings	482	32.5	34.7	32.8	4.2	7.0	16.7	9.3	9.4
DSP Equity Savings Fund	1,347	34.4	37.3	28.3	5.3	8.3	15.8	9.0	10.6
Edelweiss Equity Savings	442	25	40	35	4.7	7.2	16.9	9.5	11.2
Franklin Equity Savings Fund	625	17.2	48.9	33.9	3.5	5.6	11.9	7.8	9.2
HDFC Equity Savings Fund	4,620	32.5	33.7	33.9	4.7	6.7	17.9	10.8	11.8
HSBC Equity Savings Fund	344	36.7	34.7	28.6	7.3	14.7	26.8	13.2	13.6
ICICI Pru Equity Savings Fund	10,622	17	57	26	3.9	5.3	9.9	8.6	8.7
Invesco India Equity Savings	208	36.5	29.1	34.5	6.1	10.8	20.9	9.8	10.0
Kotak Equity Savings Fund	6,077	34.2	33.6	32.2	5.3	8.1	20.3	12.7	12.1
Mahindra Manulife Equity Saving	491	34.6	33.2	32	4.4	6.5	17.2	9.6	12.2
Mirae Asset Equity Savings	1,127	38	32.7	29.4	5.8	8.3	17.6	10.3	12.9
Nippon India Equity Savings	482	24.8	44.8	30.4	3.3	5.7	12.7	8.3	4.9
PGIM India Equity Saving	93	16.8	52.4	30.9	2.8	4.6	9.6	6.6	8.0
SBI Equity Savings	4,877	24.1	41.6	34.3	4.7	6.9	16.9	10.6	12.0
Sundaram Equity Savings	841	39.3	40.2	20.5	5.4	9.0	18.5	12.1	13.3
Tata Equity Savings	156	20.8	45.5	33.7	4.0	7.1	16.3	9.2	9.7
Union Equity Savings Fund	208	41.1	31.1	27.8	4.0	5.9	14.2	7.7	9.1
UTI Equity Savings Fund	382	23.6	44.1	32.3	4.1	6.9	16.4	11.2	11.6
Nifty 50 (for reference only)					**10.1**	**12.0**	**28.7**	**15.4**	**18.7**

Equity Savings Funds are ideal for conservative investors, tax-sensitive individuals, and those seeking a balanced, tax-efficient investment option with moderate risk and potential for stable returns.

SUMMARY

SEP 05, 2024

Key Takeaways

- Investors looking for opportunities in SME IPOs must be cautious, especially those that present an overly optimistic picture.
- With the upcoming changes in taxation after October 2024, there has been a surge in buybacks in the market.
- Investors might want to seize this chance for partial tax-free gains, but it's important to evaluate the specifics carefully.

Key Events in 2024

Aug 8th: RBI MPC decision

US Presidential Debates

Ongoing: India Inc Q1 Results

Sep 17-18* - Fed Rate Decision

Nov; US Presidential Elections

Snippets

Nifty Valuation Zones	
Above 22100	Expensive
17600-22100	Fair
15600-17600	Buy
<15600	Strong Buy

Global

- Market Performance: Major indices, both globally and in India, closed just below all-time highs, with large caps outperforming small and microcaps.
- Federal Reserve: The Fed strongly hinted at a September rate cut, with markets pricing in a 70% chance of a 50 basis point cut.
- Economic Indicators: August started with a significant decline, with the S&P 500 dropping over 6% early on. The Sahm Rule was triggered due to a weak July payrolls report and rising unemployment.
- Market Recovery: Despite the initial sell-off, markets rebounded as recession fears eased and expectations for a softer economic landing grew.
- Inflation and Rates: The July core CPI met expectations and slowed to its lowest pace since February 2021, leading to Fed Chair Powell's focus on labor market support.
- Treasuries and Dollar: Treasuries rallied for the fourth consecutive month, the longest streak since 2020, with the dollar experiencing its worst monthly performance since November 2023.
- Corporate Earnings: Q2 earnings were mixed, with 49% of S&P 500 companies beating revenue estimates and 80% surpassing EPS forecasts. Energy and tech sectors reported strong earnings growth.
- September Outlook: Historical data suggests a challenging September for the S&P 500, with key economic reports and potential volatility from triple witching events ahead.

BEHAVIOURAL FINANCE

Long-Term Capital Management (LTCM) Collapse

Long-Term Capital Management (LTCM) was a hedge fund established in 1994 by John Meriwether and a team of eminent traders and economists, including Nobel laureates Myron Scholes and Robert Merton. The fund utilized sophisticated mathematical models to trade derivatives and bonds with high leverage, aiming to capitalize on pricing inefficiencies.

Collapse: LTCM's downfall began in 1998 when the Russian financial crisis and the subsequent default on Russian government debt caused global market disruptions. The fund had employed excessive leverage, which, combined with severe market turbulence, created a liquidity crisis.

The collapse was exacerbated by several behavioral finance biases:

- Overconfidence Bias made managers over-rely on their models.
- Anchoring Bias led them to trust historical data without accounting for market extremes.
- Herding Behavior worsened the crisis as market panic intensified.
- Confirmation Bias caused them to ignore warning signs.
- Risk Compensation led them to take on unsustainable risk.

The severity of the situation led to a bailout orchestrated by a consortium of major banks and financial institutions, with the Federal Reserve facilitating the rescue to prevent a broader financial crisis. The LTCM crisis underscored the significant impact of behavioral biases on financial decision-making and risk management.

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"Being rich is having money; being wealthy is having time."
- Anonymous