WEALTH FIRST

MONTHLY NEWSLETTER - JAN'25

"You make most of your money in a bear market; you just don't realize it at the time" – Shelby Cullom Davis

Global Equities (in USD terms)

2024:
- Developed market equities (MSCI World) rose 19.2%, driven by US mega-cap tech and AI while European equities underperformed.
- Emerging market equities (MSCI Emerging) delivered 5.1%, with India (at 8%) and Taiwan being the best performing Asian market at 28%, contributing significantly. A late rally in Chinese equities added momentum.
- Notable regional performance: Japan was the second-best performing equity market at 20.5%; Chinese equities rallied 19.8% from Sep while only delivering flat returns at 0.03% in the first half.

December 2024:
- US equities ended a strong year on a weak note led by by fiscal concerns and valuation headwinds
- European equities continued to underperformed, hurt by tariff concerns and political instability in Germany and France

Global Equities		
	1M	1Y
Nasdaq	0.4%	24.9%
S&P 500	-2.5%	23.3%
MSCI Europe	-2.5%	-0.9%
MSCI Emerging Equities	-0.3%	5.1%
Nifty 50	-3.2%	5.8%

Domestic Equities (in INR Terms)

Domestic Equities		
	1M	1Y
Nifty 50	-2.0%	8.8%
Nifty Next 50	-3.9%	27.5%
Midcap 150	1.1%	23.8%
Smallcap 250	0.2%	26.4%
Pharma	5.2%	39.1%
Consumer Durables	4.1%	34.3%
Real estate	3.4%	34.4%
Power	-7.0%	19.7%
PSE	-5.8%	21.4%
Commodities	-4.8%	5.2%
IPO	2.0%	31.2%

2024:
- Nifty: +8.0%, compared to 20% gains in 2023, due to weaker-than-expected corporate earnings and FII outflows while Midcap and Small cap Indices: +23% and 26% compared to gains of 43% and 48% in 2023 respectively. Mid and Small caps continued to outperform large-caps due to robust domestic inflows.
- IPO Market: Raised ₹1.8 lakh crore, a record high, surpassing the 2021 figure of ₹1.3 lakh crore.
- FII Flows: FIIs sold nearly 1.2 lakh crores in secondary markets, with heavy selling in October and November.

December 2024:
- Nifty and Sensex remained subdued due to weakness in large caps, reflecting broader market caution amidst FII selling, tariffs, and weak Q2 earnings.
- Also, rupee depreciation and weak GDP data weighed on investor sentiment.
- Pharma, Consumer Durables and Real Estate led gains while Energy, PSUs and Commodities lagged.

Global Yields

2024:

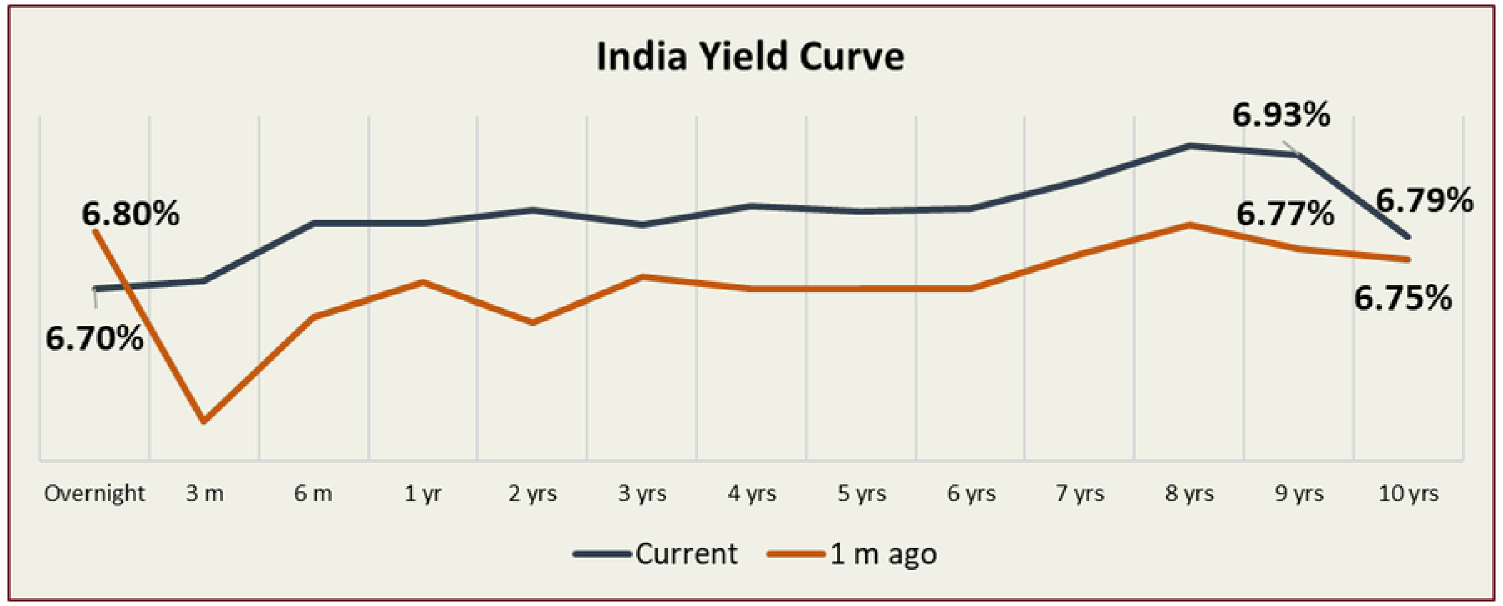
- **US Federal Reserve** delivered three rate cuts, reducing the federal funds rate to 4.25–4.50% by December 2024. Maintained a cautious tone, projecting only two more rate cuts for 2025 due to sticky inflation. US Treasury yields remained elevated in the first half, reflecting concerns over fiscal deficits. Also, there has been no clear trend in the direction of the yields with the 10Y moving broadly in the range of 3.5-4.5%.
- **European Central Bank (ECB)** Cut rates from 4.00% to 3.00% during the year, citing weakening growth momentum. Yield curves flattened as economic data pointed to slower activity across the eurozone.
- **Bank of Japan (BoJ)** Exited negative interest rate policy in March, raising the benchmark policy rate to 0.25% by year-end. Ended yield curve control, allowing the 10-year Japanese government bond yield to rise above 1.00% for the first time in years

December 2024:

- US Treasury yields moved higher as markets priced in limited further rate cuts.
- ECB signaled a pause in rate cuts amidst concerns over inflation targets

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
1 Y ago	0.63%	2.59%	3.87%	3.54%	7.20%
6 M ago	1.06%	2.23%	4.42%	4.26%	7.01%
3 M ago	0.90%	2.18%	3.91%	4.01%	6.86%
1 M ago	1.04%	2.04%	4.18%	4.25%	6.86%
Jan-25	1.07%	1.63%	4.55%	4.64%	6.79%

Domestic Yields



2024:

- **Reserve Bank of India (RBI):**
  - Held the repo rate steady at 6.50% throughout the year, prioritizing inflation control over growth concerns. RBI Governor Shaktikanta Das emphasized the importance of anchoring inflation at 4% sustainably.

December 2024:

- RBI maintained its policy stance despite mounting calls for rate cuts to stimulate growth.
- Market expectations leaned towards a potential 25 bps cut in Feb 2025, contingent on inflation softening.
- Liquidity and Inflation: Inflation moderated to 5.5% in December, but core inflation remained sticky, preventing a rate cut.

India Macro Trends

Macro Trends	Dec	Nov
FII flows (in crs)	15,446	-21,612
DII flows (in crs)	34,195	1,217
FII flows - Debt (in crs)	3,755	44,484
New Corporate Bond Issuances (in crs)	56,808	59,113
Surplus Liquidity (in crs)	66,021	1,88,754
GST Collection (in crs)	1,77,000	1,87,000
CPI	5.48	6.21
Manufacturing PMI	56.40	56.50
Services PMI	60.80	59.20
Forex Reserves (in billion dollar)	644.39	656.58

Foreign and Domestic Investments:

- For 2024, FIIs net sold equity worth ₹1,19,277 crores in the secondary market, driven by concerns over high valuations. Interestingly, FIIs have remained net investors in Indian equities due to ₹1,20,932 crores invested through the primary market, highlighting their preference for IPOs.
- December alone saw FIIs invest ₹17,331 crores in the primary market.
- Domestic institutional investors continued to support the market, with net inflows of ₹34,195 crores in December, reflecting consistent retail participation.

Forex reserves

- Forex reserves continued to fall for the second consecutive month. Reserves fell to $644 billion in December, down from $656 billion in November. The decline reflects the RBI's interventions to stabilize the rupee, which hit a record low of ₹85.7/USD.

Liquidity

- Surplus Liquidity declined sharply to ₹66,021 crores in December from ₹1,88,754 crores in November, signaling tighter liquidity as the RBI primarily focused on inflation control through dollar sales to help stabilize the rupee.

Inflation

- CPI softened to 5.5% in December from 6.2% in November, reflecting easing price pressures. Core inflation, however, remained sticky.

GST Collection

- GST collection jumps 7.3% YoY to 1.77 lakh crores in Dec 2024.

Commodities & Currencies

2024 Overview:

- Brent Crude: Fell 6% till Nov end although December saw a modest recovery of +3% due to supply adjustments. Weak Chinese demand and geopolitical uncertainties were the primary drivers of annual declines.
- Gold: Gained +27.2% for the year, driven by safe-haven demand, geopolitical tensions, and currency weakness. December saw a slight correction of -1.3%, consolidating after reaching life-time highs in November.
- Silver: Delivered +21.5% for the year although December saw a sharp drop of ~6%, reflecting weak investor appetite and softer industrial momentum.
- Zinc: Best performer among base metals, rising +12.5% for the year, supported by demand for green energy projects. Declined -4.1% in December.

Commodities	Returns	
	1M	1Y
Brent Crude	3.1%	-3.1%
Precious Metals		
Gold	-1.3%	27.2%
Silver	-5.7%	21.5%
Industrial Metals		
Steel	-1.9%	-18.1%
Iron Ore	1.1%	-24.0%
Aluminium	-1.7%	7.5%
Copper	-2.3%	2.7%
Zinc	-4.1%	12.5%
Nickel	-4.4%	-6.6%
Lead	-6.2%	-3.9%

Currencies against USD		
Country	1M	1Y
Indian Rupee	-1.2%	-2.8%
AUD	-5.3%	-10.1%
Japanese Yen	-5.1%	-11.6%
Chinese Yuan	-0.8%	-2.8%
Euro	-2.2%	-6.6%
Pound	-1.8%	-1.7%

2024 Overview:

- US Dollar Index strengthened 6.8% over the year.
  - The dollar strengthened over 11% against the yen, 3% against the yuan, +10% against AUD and ~7% against the Euro and ~2% against the Pound.
- Indian Rupee (INR):
  - Depreciated -2.8% against the US dollar for the year, hitting a record low of ₹85.7/USD in December.
  - Key drivers included FII outflows, a strong dollar, and RBI interventions to stabilize the currency.
  - Despite depreciation, the rupee remained more stable than many other currencies globally.

Research Corner

India’s IPO Boom: A Record-Breaking 2024

2024 marked a monumental year for the IPO market in India, placing the country at the forefront of global equity fundraising. As the second busiest IPO hub worldwide, India contributed significantly to the global IPO landscape, showcasing resilience amidst global economic uncertainties.

Key Highlights

Unparalleled IPO Volume and Value

- IPO Volume: India launched 332 IPOs, accounting for 28.9% of global IPOs.
- IPO Proceeds: India raised $22.7 billion, a staggering 176% increase over 2023, making it the best year on record since the 1980s. The US led with $32.8 billion, while China trailed at $8.9 billion. India captured 16% of global IPO proceeds, second only to the US (28%), as China’s dominance waned, securing just 7% of market share.

Sectoral Contributions

- The automobile and auto components sector raised over ₹37,000 crore, driven by Hyundai Motor India’s ₹27,870 crore IPO—the year’s largest.
- The consumer services sector, including Swiggy’s ₹11,300 crore IPO and Vishal Mega Mart’s ₹8,000 crore offering, was another standout.

Investor Returns

- **Listing Gains: 83% of the 144 mainboard IPOs posted listing gains, with 48% delivering gains above 20%.**
- **Performance:**
  - of the 144 companies, companies that posted positive listing delivered average gains of 37% while companies that posted losses delivered average losses of 5%.
  - Weighted average Listing gains of the mainboard IPOs in 2024: 24%

Cautious Optimism: While 2024’s record-breaking performance signals market maturity, the high fundraising often precedes corrections. Vigilance may be wise.

Strengthening the Case for Active Funds

As emphasized in our earlier research columns, Wealth First Suggested Active funds have continued to outperform their passive counterparts with an average alpha ranging from 0.5% to 13% across categories and various time periods . (Trailing Returns are as of 1st Jan 2025).

Category		1Y	3Y	5Y
Large Cap	WF Suggested Large Cap Funds	18.4%	16.6%	17.6%
	Nifty 50 Index Fund	*10.5%*	*12.3%*	*15.6%*
	Average Alpha	*7.9%*	*4.3%*	*2.0%*
Diversified	WF Suggested Diversified Funds	30.0%	24.5%	21.5%
	Nifty 500	*16.5%*	*15.6%*	*19.1%*
	Average Alpha	*13.5%*	*8.9%*	*2.4%*
Midcap	WF Suggested Midcap Funds	35.2%	26.7%	30.0%
	Nifty Midcap 150	*24.3%*	*23.4%*	*28.3%*
	Average Alpha	*10.9%*	*3.3%*	*1.7%*
Smallcap	WF Suggested Smallcap Funds	32.8%	25.6%	31.0%
	Nifty Small Cap 250	*27.5%*	*23.0%*	*30.7%*
	Average Alpha	*5.3%*	*2.6%*	*0.3%*

BEHAVIOURAL FINANCE

SPOT Effect

The SPOT Effect (Spontaneous Preference for Own Theories) can blind investors with overconfidence in their ideas, often leading to catastrophic financial decisions. A gripping example is the dramatic 2022 cryptocurrency crash, marked by the implosion of Terra's Luna token and the FTX platform.

Rise of False Narratives

Picture this: investors fervently believed in Luna's algorithmic stablecoin as the future of decentralized finance. They hailed it as a game-changer, immune to the volatility that plagued other cryptocurrencies. Similarly, FTX, led by its charismatic founder, cultivated an image of trust and innovation. For many, these weren't just investments—they were symbols of a financial revolution. Critics warning of unsustainable mechanisms in Luna or questionable practices at FTX were dismissed as naysayers out of touch with the "new era."

Doubling Down

As cracks appeared—Luna's algorithm faltering and whispers of irregularities at FTX—the SPOT Effect kicked in. Investors clung to their narratives, confident their understanding was superior. Some even doubled down, believing the dip was an opportunity to "buy the future" at a discount.

The Collapse

Then, the house of cards collapsed. Luna lost nearly all its value in days, and FTX's bankruptcy revealed staggering mismanagement. Billions were wiped out, leaving devastated investors grappling with the harsh reality that their cherished theories had led them astray.
This story vividly illustrates the dangers of the SPOT Effect. It's a cautionary tale for anyone tempted to overestimate their insights and ignore red flags. The antidote? A disciplined approach—question your assumptions, seek diverse perspectives, and remember that the market is often smarter than any single theory.

Market Watch

Snippets

US equities continued to dominate, but emerging markets like China and Japan showed renewed strength, supported by fiscal and monetary shifts.

Safe-haven demand surged globally, driven by geopolitical tensions and persistent inflation concerns, making gold a standout performer.

Central banks are easing cautiously; the US Fed cut rates three times, but inflation pressures remain sticky, slowing the pace of rate cuts in 2025.

Despite global challenges, India's domestic liquidity, retail flows, and GST collections reflect macroeconomic resilience.

FIIs exited secondary equity markets but turned significant investors in IPOs, showing confidence in India's structural growth story.

The US dollar stayed strong, pressuring most currencies, while some, like the yen, rebounded due to policy shifts.

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Takeaways

- Midcaps and small caps showed resilience over large caps and continue to offer strong growth potential. Investors may focus more on diversification.
- Maintaining exposure to gold as a hedge against inflation and geopolitical risks may help investors navigate through uncertainties.
- Rising FII interest in Indian debt markets suggests attractive fixed-income opportunities.

Blogs

Key Events

Ongoing; Israel - Iran Conflict Conflict,

Russia - Ukraine War

Jan 20th: Trump presidential Inauguration

Feb 1; Interim Budget 2025

From Mid Jan - Q3 Results

Book a Consultation

THANK YOU

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