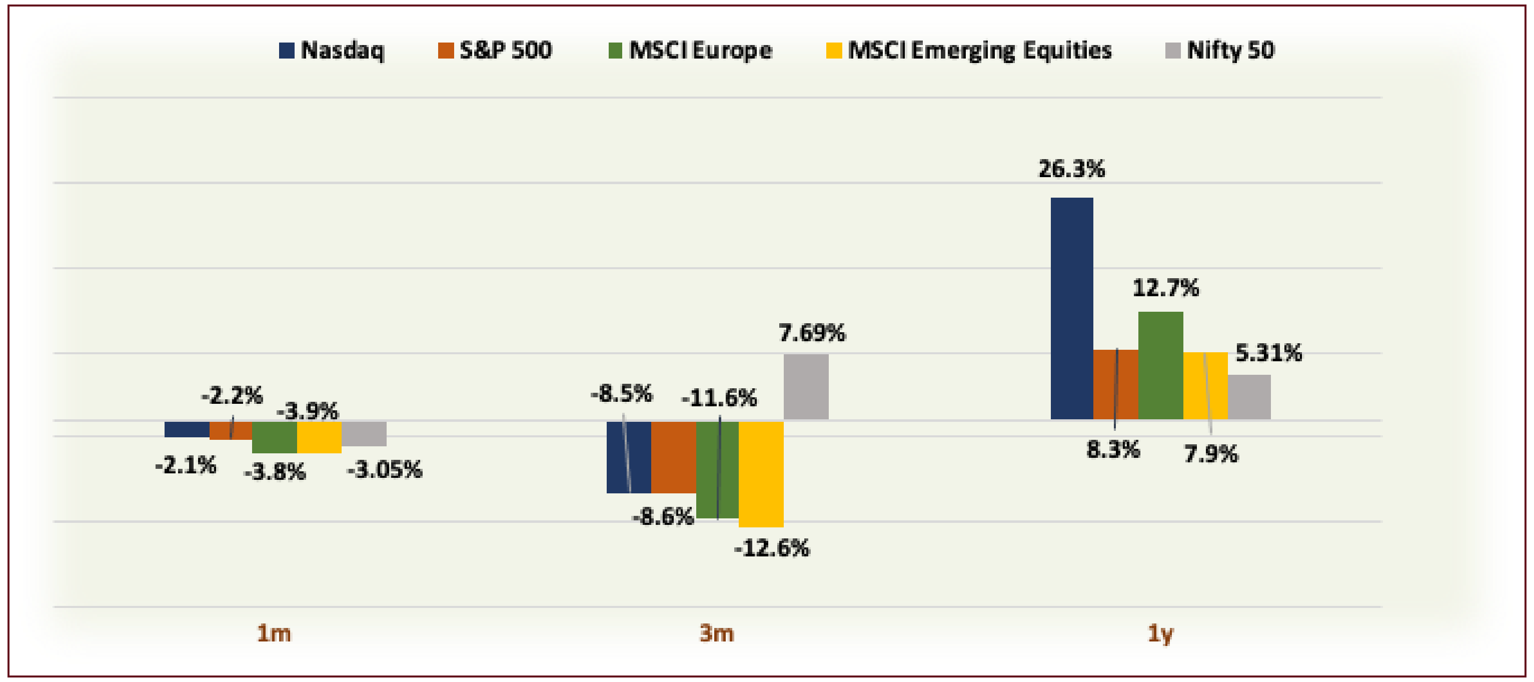
WEALTH FIRST

MONTHLY NEWSLETTER - NOV'23

Wealth is not about having a lot of money, it is about having a lot of options
-Chris Rock

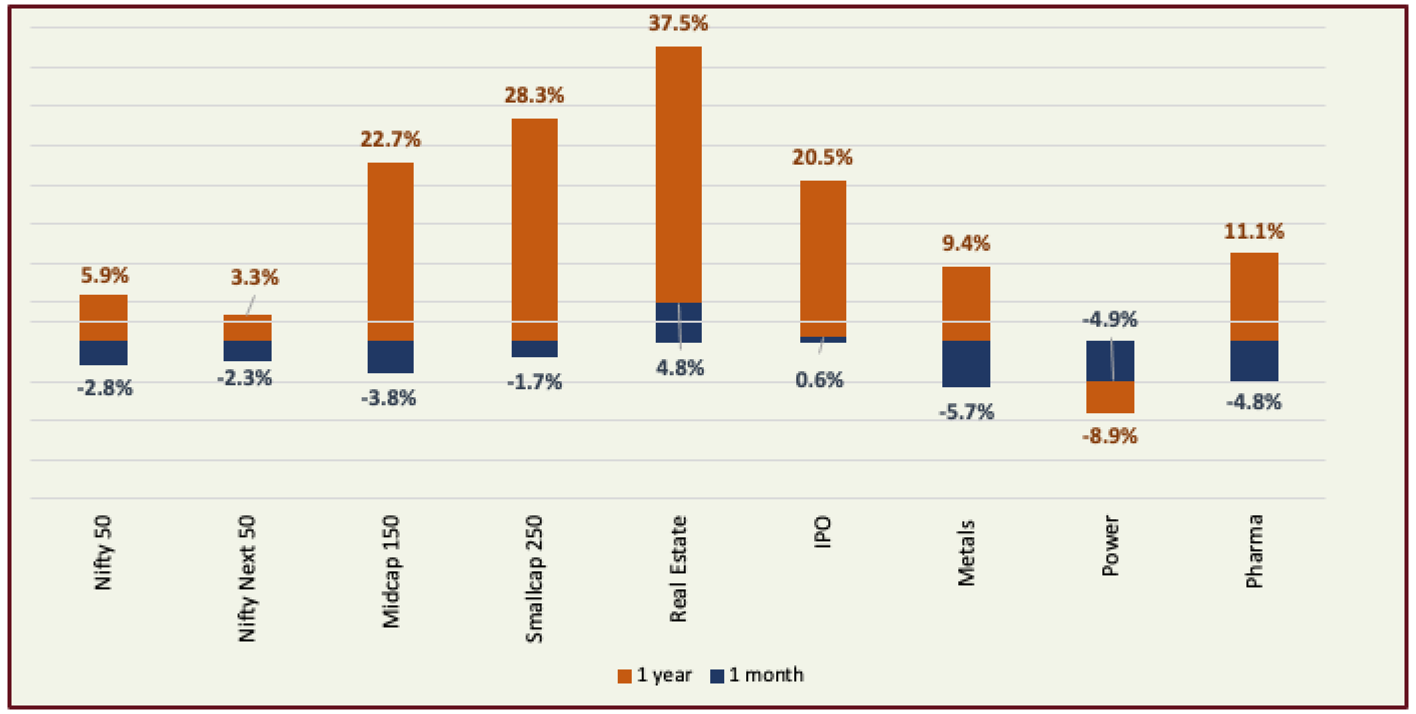
Global Equities (in USD terms)



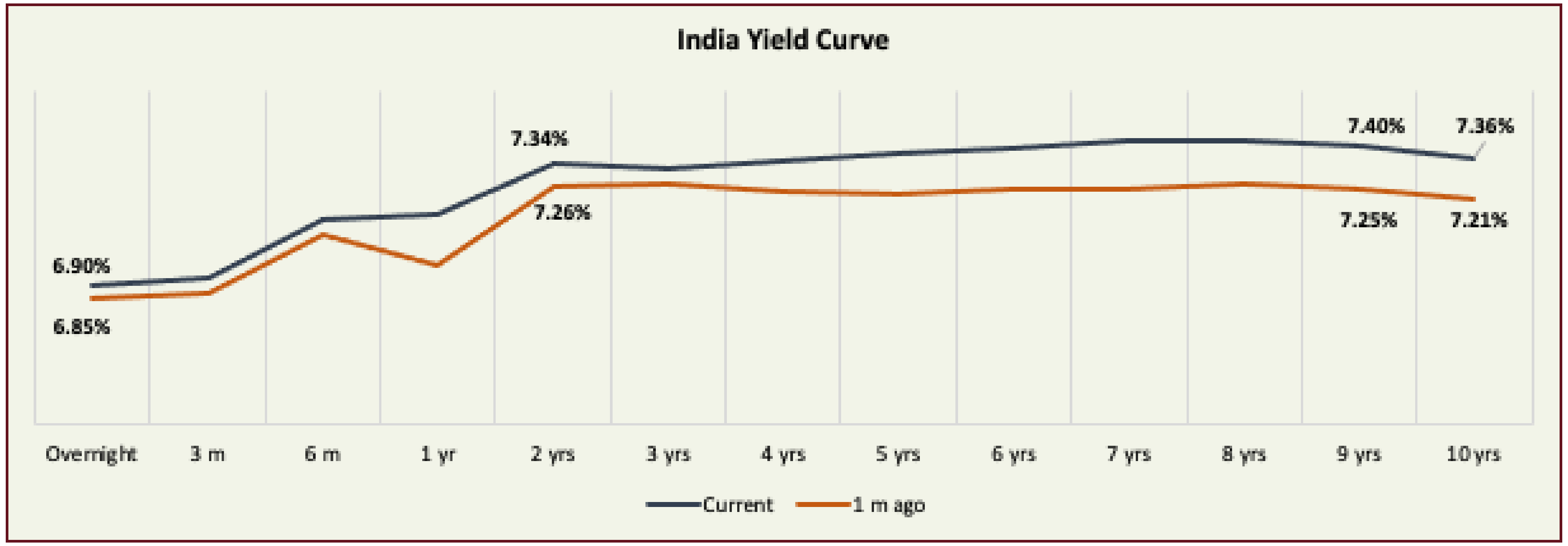
Global Yields

10 Year Government Yields					
Month	Japan	China	US	UK	India
Nov-22	0.24%	2.69%	3.46%	3.46%	7.47%
Jun-23	0.44%	2.72%	3.67%	4.18%	6.99%
Jul-23	0.39%	2.70%	3.84%	4.40%	7.11%
Aug-23	0.59%	2.70%	3.98%	4.36%	7.17%
Sep-23	0.63%	2.62%	4.12%	4.36%	7.17%
Oct-23	0.76%	2.71%	4.62%	4.48%	7.21%
Nov-23	0.92%	2.70%	4.72%	4.49%	7.36%

Domestic Equities



Domestic Yields



Commodities & Currencies

Commodities	Returns	
	1m	1y
Brent Crude	-7.8%	-6.6%
Precious Metals		
Gold	7.3%	21.4%
Silver	3.3%	19.6%
Industrial Metals		
Steel	1.5%	6.8%
Iron Ore	2.1%	48.8%
Aluminium	2.5%	1.3%
Copper	-2.3%	7.9%
Zinc	-8.3%	-9.9%
Nickel	-2.9%	-17.5%
Lead	-5.4%	5.3%

Macro Trends	Oct	Sep
FII flows (in crs)	-24,548	-14,768
DII flows (in crs)	25,106	20,313
FII flows - Debt (in crs)	-934	3,276
New Corporate Bond Issuances (in crs)	9,390	14,751
Surplus Liquidity (in crs)	2,85,126	2,36,206
GST Collection (in crs)	1,72,003	1,62,712
CPI	5.02	6.83
Manufacturing PMI	57.50	58.60
Services PMI	58.40	61.00

Performance of US Dollar against currencies			
Country	1m	3m	1 yr
India	0.2%	1.2%	0.6%
AUD	0.5%	4.8%	-4.4%
Japan	1.6%	6.6%	2.0%
Canada	0.7%	2.9%	0.7%
Euro	0.0%	4.0%	-6.6%
Pound	0.4%	5.7%	-5.6%

At a Glance

- The Nifty 50 index experienced its largest monthly decline in CY23, with 35 of its constituent stocks ending the month in negative territory.
- This downturn was not limited to large-cap stocks; mid-and small-cap stocks also faced significant losses in October, marking a notable shift from the positive momentum observed over the preceding six months.
- Remarkably, the real estate sector emerged as the sole resilient performer, delivering returns of nearly 5% during the month. Furthermore, market volatility increased during the Q2FY24 earnings season, primarily due to major Indian IT companies reporting September figures below the Street's expectations and revising down their revenue forecasts.
- U.S. equities faced a decline, with both the S&P and Nasdaq slipping more than 10% from their July peaks, entering into a correction phase.
- There was also a reversal in commodity prices, which recorded a 0.3% increase, offsetting some of its year-to-date losses. Gold, in particular, had a significant uptick, marking its strongest performance since March, briefly reaching beyond $2,000 per ounce.
- Events unfolding in the Middle East prompted investors to seek safety in gold, while oil prices rallied for a while due to concerns that a broader regional conflict could potentially disrupt oil supplies.
- INR’s monthly trading range contracted mostly due to the RBI's interventions in the foreign exchange market, which effectively prevented the rupee from breaking its previous record low of 83.29.
- The Fed maintained interest rates steady for the second consecutive time during its recent meeting. The bond market faced a challenging environment, with global bonds experiencing a 1.2% decline over the month. Notably, the yield on the US 10-year Treasury bond exceeded 5% for the first time since 2007.
- Over the past twelve sessions, India's 10-year bond yield has remained within a tight range of 7.30% to 7.39%. Market expectations for this quarter suggest approximately 500 billion rupees worth of RBI bond sales.

Snippets

JP Morgan has joined other prominent global brokerages such as Morgan Stanley, CLSA, and Nomura in upgrading India to an overweight rating.

Indian Markets

Indian stocks faced significant challenges, primarily influenced by the ongoing Israel-Palestine conflict, outflows of foreign portfolio investments (FPI), a notable surge in US bond yields, and the strengthening of the US dollar.

The September CPI inflation figure came in lower than expected at 5.02%. Globally, equity markets may be more affected by the rise in US bond yields than by the Israel-Palestine conflict.

Nifty at 19300 is trading in expensive zone as per valuation.

Macro

Geopolitical concerns took center stage following a terrorist attack by Hamas on Israel on October 7th, resulting in the hostage-taking of several individuals, including US citizens.

While we await the potential development of a major ground invasion that could escalate into a broader regional conflict, it's worth noting that historically, the market tends to overlook geopolitical events. However, a more extensive conflict could have implications for energy prices and inflation.

Global

US economy demonstrated resilience with robust indicators, including a strong jobs report, impressive retail sales data, and a robust 3rd quarter GDP growth rate of 4.9%. Inflation exceeded expectations, with the headline figure holding steady at 3.7% year-on-year in September, defying forecasts of a slight moderation.

In China, there were positive surprises in 3rd quarter GDP, industrial production, and retail sales. However, ongoing weaknesses in the real estate sector and reports of new US restrictions on AI chip exports to China dampened market sentiment.

Research Corner

From Boom to Balance: The Trajectory of Indian MFs Investing Overseas

The Rise and Plateau of Indian MFs investing Overseas

Indian MFs investing in overseas funds witnessed rapid growth from 2020 to 2023. Starting with 33 such schemes and Rs 7,598 crore AUM in 2020, the market doubled to 66 schemes with an AUM of Rs 47,850 crore by September 2023. However, most of this growth occurred during the initial 24 months, and AUM stabilized at Rs 48,278 crore by December 2021. However, only 10 new schemes were launched between January 2022 and September 2023, indicating a slowdown.

What Caused the Slowdown?

The initial surge was driven by the strong performance of the Nasdaq 100 and the popularity of FAANG stocks. Yet, this trend waned after 2022 due to weakening returns. Moreover, the cap on overseas investments for Indian mutual funds, set at $7 billion, was reached in January 2022, limiting further investments in this space.

Global Economic Factors

Global economic conditions have also contributed to the perception of weak returns over the last decade. Some of them are:

- Rising interest rates in 2022 and 2023, coupled with economic slowdowns in Europe, the US, and China, have introduced uncertainty.
- In contrast, India stands out with resilient growth, while the rest of the world faces challenges.
- GDP growth in developed economies like the US and Europe has been lackluster, impacting the returns of overseas funds.
- China, once a robust market, is now grappling with stagnation.

Taxation of International Mutual Funds

Additionally, all gains are taxed at the investor’s tax slab for international MFs in a clear contrast to domestic equity instruments. For an investor with a 30% tax slab, this reflects a direct 20% difference in taxation. This could also contribute to limiting investments in the international space.

The Future: Investing in Emerging Markets

Looking ahead, it appears that the decade between 2020 and 2030 will witness the resurgence of emerging markets. Economies such as India, South Korea, and Taiwan are poised to shine. With a strong focus on Asia and emerging markets, including India, investors can navigate the shifting tides of the global economy and build resilient portfolios.

Market Watch

Takeaways

- Despite a decline in global gold demand, India has experienced a noteworthy 10% increase in the same in lieu of the upcoming festive season. Coupled with gold's renewed status as a safe haven asset, the commodity looks much more attractive for investments.
- Market volatility, which characterized October, is anticipated to persist for several more months due to external factors and upcoming elections.
- While many investors express concerns about the impact of elections on the markets, staying invested throughout this period is crucial.
- Historical evidence indicates that investments have generally yielded substantial positive returns in a majority of 1-2 year periods following elections.

Blog

Key Events

Nov 8 - US Mid-Term Elections

Nov 12 - Diwali Muhurat Trading

Nov 17 - Indian Election season starts

Book a Consultation

BEHAVIOURAL FINANCE

The October Effect

The "October Effect" denotes a market anomaly in which equities tend to decline in October.

However, this notion is increasingly seen as a psychological anticipation rather than a concrete reality, as most statistical evidence contradicts it.

Many investors may become apprehensive in October due to historical market crashes associated with this month, including the Great Depression of 1907, Black Tuesday (1929), Black Thursday (1929), Black Monday (1929), and Black Monday (1987) and Oct 2008 when Nifty was down 26%.

Nonetheless, these effects lack a solid analytical basis, and it's worth noting that there have been more instances of negative returns in September than in October. It's based on a limited sample of notable crashes and may not represent typical market behavior.

Financial markets are influenced by numerous factors, and attributing market movements to a single month oversimplifies a complex system. Instead of focusing on seasonal patterns, it's wiser to base investment decisions on diversified portfolios, risk management, and long-term strategies, which are more reliable guides for successful investing regardless of the month.

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THANK YOU