

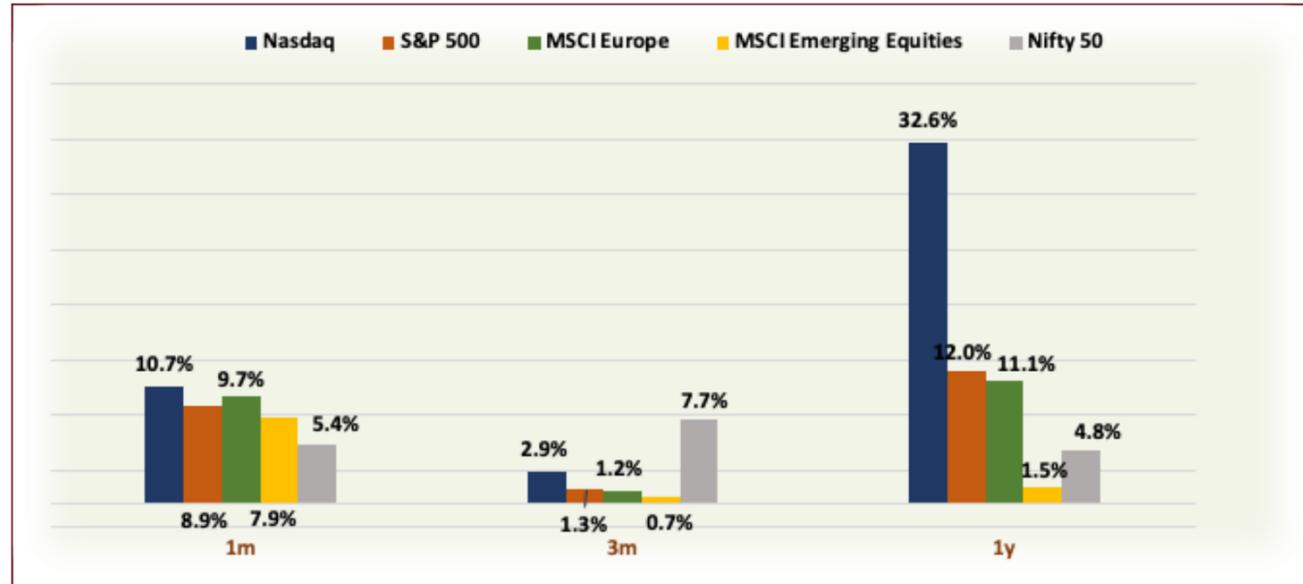


WEALTH FIRST

MONTHLY NEWSLETTER - DEC'23

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas." - Paul Samuelson

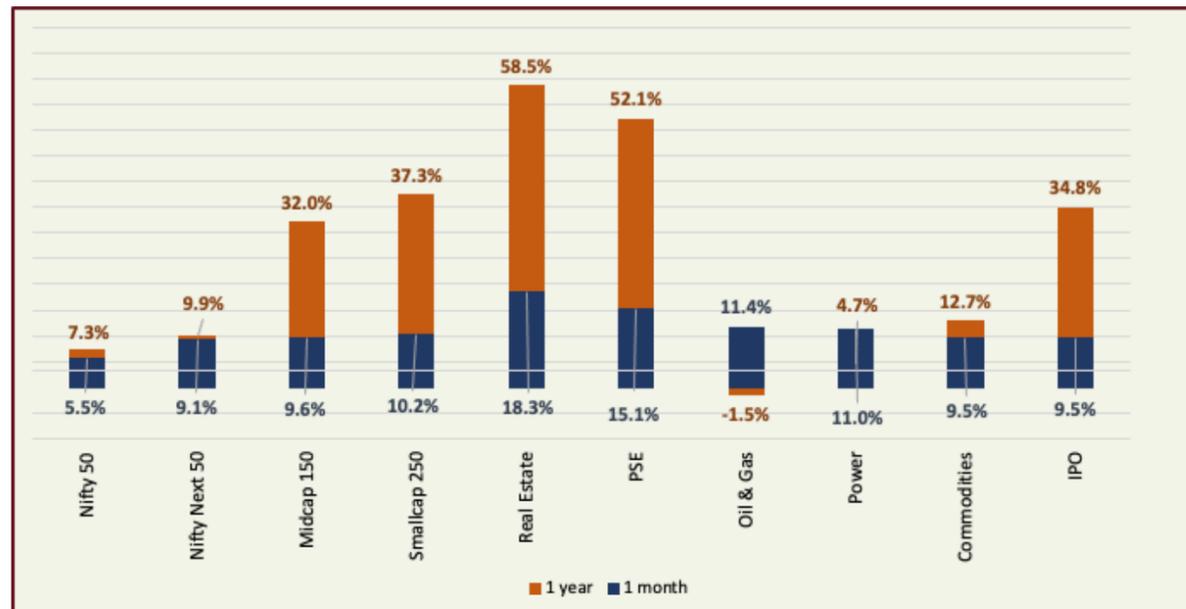
Global Equities (in USD terms)



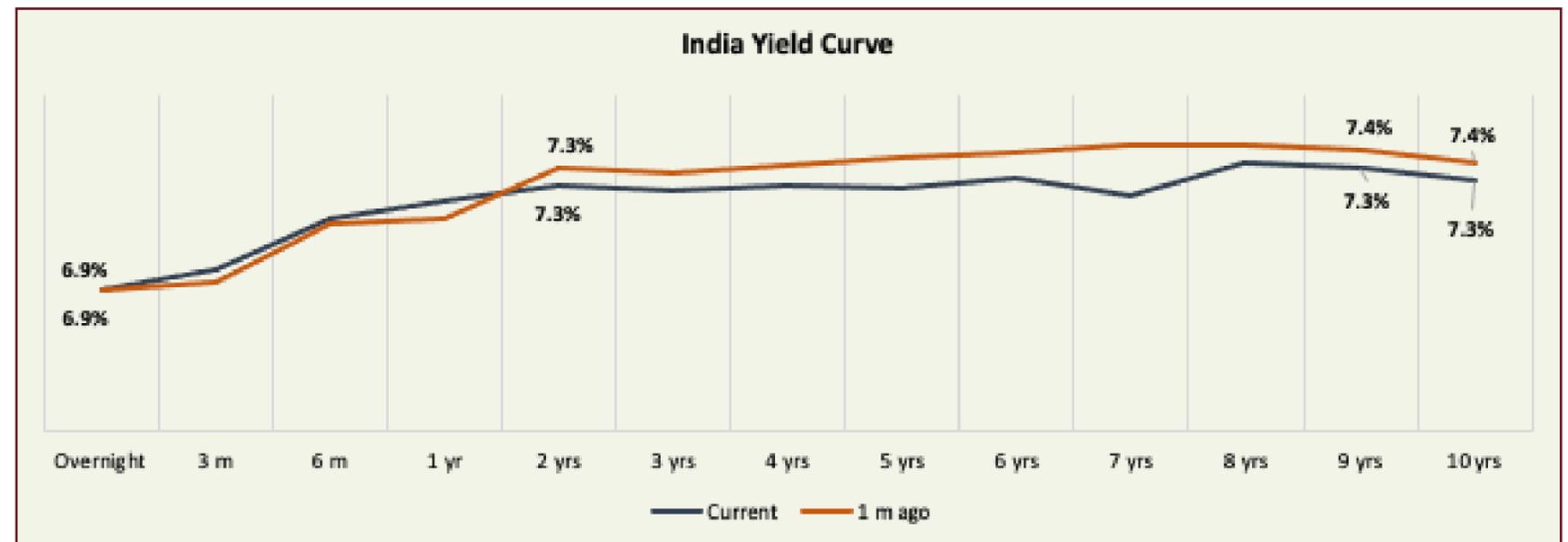
Global Yields

10 Year Government Yields					
Month	Japan	China	US	UK	India
Dec-22	0.25%	2.90%	3.10%	3.10%	7.28%
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%
Dec-23	0.71%	2.70%	4.21%	4.14%	7.29%

Domestic Equities



Domestic Yields



Commodities & Currencies

Commodities	Returns	
	1m	1y
Brent Crude	-4.9%	-7.0%
Precious Metals		
Gold	2.7%	15.1%
Silver	10.3%	13.9%
Industrial Metals		
Steel	7.5%	3.1%
Iron Ore	8.6%	28.6%
Aluminium	-2.6%	-11.5%
Copper	5.1%	2.4%
Zinc	1.9%	0.0%
Nickel	-5.6%	-37.2%
Lead	0.5%	-4.1%

Macro Trends	Nov	Oct
FII flows (in crs)	9,001	-24,548
DII flows (in crs)	12,762	25,106
FII flows - Debt (in crs)	14,860	3,276
New Corporate Bond Issuances (in crs)	39,808	9,390
Surplus Liquidity (in crs)	3,06,248	2,85,126
GST Collection (in crs)	1,67,929	1,72,003
CPI	4.87	5.02
Manufacturing PMI	56.00	55.50
Services PMI	58.40	61.00

Performance of US Dollar against currencies			
Country	1m	3m	1 yr
India	0.1%	-3.9%	2.4%
AUD	-3.0%	-0.2%	-2.4%
Japan	-2.3%	1.8%	7.3%
Canada	-2.9%	-1.7%	0.7%
Euro	-2.9%	-0.4%	-4.4%
Pound	-3.8%	0.4%	-4.5%

At a Glance



- In November, the Indian market rebounded with the Nifty 50 surging 5.52%, a notable turnaround from the 2.84% decline in October. The real estate sector posted an impressive 18% gain. Tata Tech's IPO led with a remarkable 140% listing gain.
- With clear mandate for BJP in MP, Rajasthan and Chhatisgarh state elections, the key risk before Central elections in May has been removed. As such, the sentiment has turned positive and the gains have got extended further in December.
- Mid and Small Caps sustained momentum with nearly 10% gains each. In the U.S., all major indexes rose by at least 8%, marking a significant resurgence, and the Dow Jones hit a new high for 2023.
- Despite Middle East conflicts, Brent crude oil dipped to \$80 due to increased U.S. supply and OPEC+ non-compliance. Gold steadied near a seven-month high, driven by anticipation of potential U.S. Federal Reserve rate cuts.
- The dollar index fell by 3% in November, continuing a cumulative 9% decline since its 2022 peak. A weaker dollar is favorable for equities and commodities. As disinflation expectations rise, speculators bet on further dollar weakening and U.S. equity market ascent.
- Lower yields benefited fixed income, with gains in investment-grade and high-yield bonds. Emerging market debt performed well due to supportive local central bank policies and a weaker U.S. dollar.
- India saw the most substantial monthly decline in benchmark bond yields in six months, mirroring the trend in U.S. Treasury yields. Traders assign over 45% probability for a Federal Reserve rate cut in March, with an 80% likelihood in May.
- RBI is expected to maintain interest rates, but market focus is on its liquidity stance after the previous announcement of bond sales through auction.
- Investors await a decision on the potential inclusion of Indian bonds in the Bloomberg Global Aggregate index, which could attract additional foreign capital. Optimism grew with a favorable 7.6% GDP growth rate in November (exceeding estimates) and a S&P Global Ratings forecast of 6.4% growth for India in FY24, propelling the Nifty 50 towards record highs.



Snippets

Market rally was fuelled by factors such as lower crude oil prices, reduced U.S. bond yields, a weakened U.S. Dollar Index, strong Q2 earnings, and robust domestic liquidity.



Indian Markets

Indian Stocks hit 4 trillion dollar market cap for the first time. The Nifty 50 surged past the significant 20,000 mark, marking a triumphant return after a two-month hiatus.

Adding to the positive sentiment, S&P Global Ratings released a report titled 'China Slows, India Grows,' predicting that India's GDP growth rate will reach 7% by 2026, outpacing China's projected growth of 4.6%. It expects Asia-Pacific's growth engine to shift from China to South and Southeast Asia.

Nifty at 20000 is trading in expensive zone as per valuation.



Macro

Investors experienced a welcome respite as both bonds and equities saw gains for the month. The easing of inflation, supported by data, reinforced the belief among investors that major central banks in developed markets had concluded their monetary tightening cycles.

While it might be too early for interest rate cuts, the probable conclusion of policy rate hikes made core bonds an attractive option for diversification against a disinflationary recession.



Global

In the UK, both headline and core inflation experienced a larger-than-expected fall to 4.6% and 5.7% year-on-year, respectively.

China's macro data exceeded expectations, with retail sales up 7.6% year-on-year in October. Yet, the housing market continued to act as a drag on growth, with new home sales declining year-over-year.

The meeting between the Chinese and US presidents resulted in agreements on energy transition and climate change, potentially indicating reduced tensions between the two nations.



Research Corner

Decoding Central Banks' Gold Rush: An Insight

Following the 2008 global financial crisis, central banks underwent a pivotal shift from net sellers to net buyers of gold. This strategic move, driven by unconventional monetary policies and a need to diversify from dollar holdings, has witnessed a consistent rise in gold purchases. In 2022, central banks globally recorded their highest annual gold buying, and this trend continued into the first half of the following year, signaling a robust start for gold acquisitions.

Geopolitical Uncertainties Drive Surge:

The surge in gold purchases is a response to prevailing geopolitical uncertainties, with events like the conflict in Ukraine prompting central banks to view gold as a safe-haven asset. During April-June, a temporary slowdown occurred due to the Central Bank of Turkey acting as a substantial seller. However, this was seen as circumstantial, and post the presidential election, the Central Bank of Turkey resumed gold buying, aligning with its ongoing trend.

Net global central bank buying of 800 tonnes so far is 14% ahead of the same quarter last year.

Global Diversity in Gold Purchases:

Excluding the temporary dip caused by Turkey, the period witnessed robust central bank gold buying. Noteworthy purchases were made by diverse countries such as China, Singapore, Poland, and India, with India securing the fifth position in terms of central bank gold purchases. This global diversity underscores the widespread engagement of central banks in gold buying, transcending geographic, economic, and currency regime boundaries.



India's Gold Demand Shines:

The metal has delivered returns of 14.5% and 16.6% YTD in USD and INR terms respectively. Despite the elevated prices, India's gold demand has surged. In the bar and coin sector, demand increased by an impressive 20% YoY, outpacing China's 16%. Additionally, India's jewelry demand showed resilience, growing by 6% YoY, in stark contrast to China's 6% decline.

Implications for Investors

- Firstly, a global activity level maintains a healthy gold price, indicating stability.
- Secondly, central banks' motivations extend beyond geopolitics, aligning with broader global concerns.

To conclude, the ongoing surge in central bank gold purchases encourages investors to view gold as an integral part of their strategy, supporting optimistic price expectations for this precious metal.

Key Takeaways

- 8 of the 10 mainboard IPOs that have listed in November have delivered a premium with the top 2 IPOs delivering 140% and 87% listing gains respectively.
- Analysts are now pricing over 45% probability of the Fed cutting rates in March, and around 80% probability in May. This might mean that the same could be expected of RBI.
- The 1st Sovereign Gold Bond has matured on November 30th delivering a CAGR of ~11% per annum in 8 years. This is much higher than FD rates and just shy of the long term average market growth rate of 12%.
- While many investors express concerns about the impact of elections on the markets, maintaining investment positions throughout this period is crucial.
- Historical evidence indicates that investments have generally yielded substantial positive returns in the majority of 1-2 year periods following elections.
- FIIs have turned net buyers in November while also investing heavily in the Indian debt markets

Blog 

Key Events

- Dec 1-7 : TCS Buyback Tendering
- Dec 6-8 : RBI Policy Meeting
- Dec 12: India Industrial Production & CPI Data
- Dec 14: US FOMC Meet

Book a 
Consultation

Market Watch



BEHAVIOURAL FINANCE

Non Linear Probability Weighting Bias

Imagine you're offered two lotteries:

Lottery A:

Option : You have a 50% chance of winning \$100.

Expected Value = $(100 \times 50\% + 0 \times 50\%) = \50

Lottery B:

Option : You have a 5% chance of winning \$1,000.

Expected Value = $(1000 \times 5\% + 0 \times 95\%) = \50

Now, according to traditional expected value calculations, both lotteries have the same expected value: \$50. However, people often exhibit non-linear probability weighting bias in their choices.

In this scenario, many individuals might prefer Lottery A over Lottery B. The reason is that people tend to be risk-averse when it comes to gains, and the certain gain of \$100 in Lottery A is more attractive to them than the small chance of winning \$1,000 in Lottery B.

There might be another set of individuals who prefer Lottery B as it appears more lucrative with its \$1000 chance even though the chance may be very slim and the expected value is the same for both.

Even though the expected value is the same, the non-linear probability weighting bias influences people to make choices that may not align with a purely rational, expected value-maximizing strategy. This example demonstrates how individuals' perceptions of probability and risk can deviate from what traditional economic models predict.



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THANK YOU