WEALTH FIRST

MONTHLY NEWSLETTER - AUG'24

"The only place where success comes before work is in the dictionary" - Vidal Sassoon

Global Equities (in USD terms)

Global Equities		
	1m	1y
Nasdaq	-1.6%	13.0%
S&P 500	1.1%	14.0%
MSCI Europe	2.1%	6.1%
MSCI Emerging Equities	-0.1%	11.2%
Nifty 50	3.5%	12.8%

Weaker US CPI readings and softer labor market data led to expectations of Fed rate cuts. Small-cap returns surged 6.9%, global REITs increased 6.0%, and the Bloomberg Global Aggregate Bond Index rose 2.8%. Developed equities returned 1.8%, with growth stocks dipping 1.0% due to AI investment skepticism.

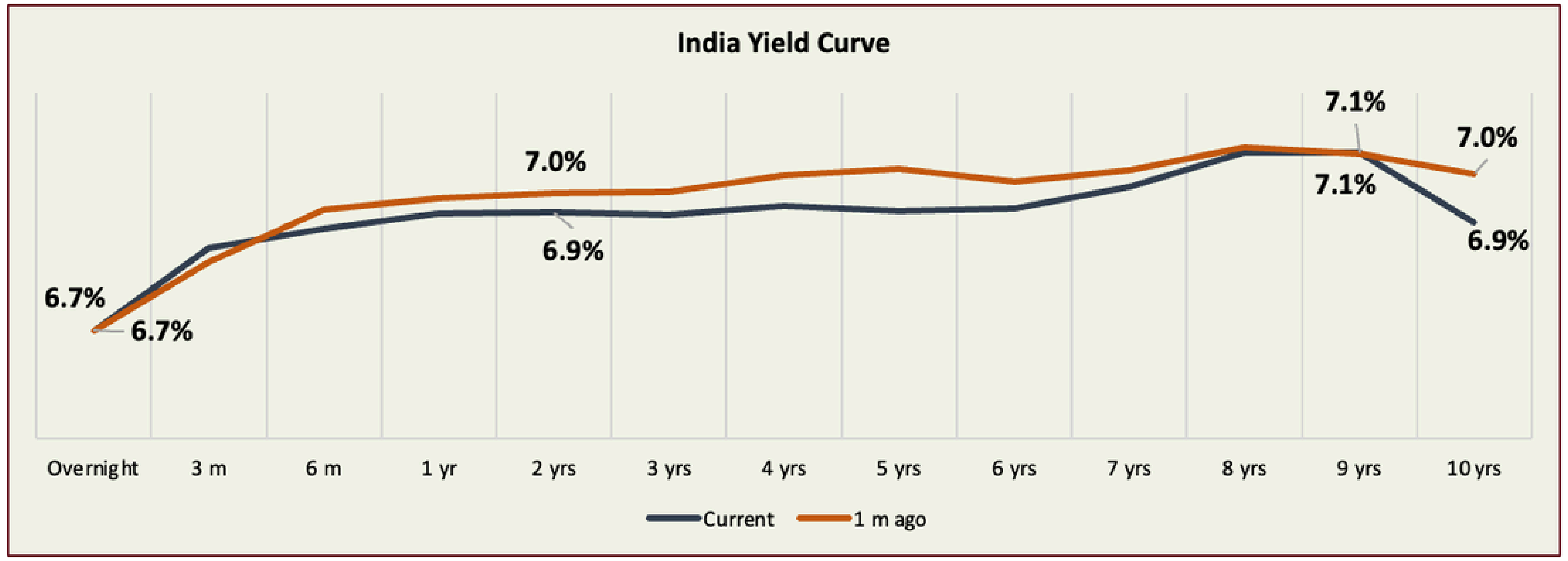
US equities were mixed: the S&P 500 gained 1.2%, and the Russell 2000 outperformed the Nasdaq 100 significantly. UK stocks rose 3.1% on strong PMIs and growth. European equities returned 0.6%, Japanese equities fell 0.5%, and Chinese equities declined 1.2%

Domestic Equities

Returns		
	1 month	1 year
Nifty 50	3.9%	14.8%
Nifty Next 50	4.6%	65.1%
Midcap 150	4.9%	54.6%
Smallcap 250	4.9%	58.1%
IT	13.0%	36.5%
Pharma	10.4%	45.3%
FMCG	9.4%	17.9%
Metals	-2.5%	41.7%
Financials	-1.3%	14.5%
Real Estate	-1.0%	93.0%
IPO	7.3%	55.3%

- The Indian stock market had varied performance: BSE Sensex rose 2.85%, Nifty 50 grew 3.35%. Mid and small caps rallied with 4.9% gains each.
- The insurance sector led with 16.11% growth. IT, Pharma, and FMCG sectors saw over 9% returns. Banking and financial services struggled due to rising NPAs and tightening liquidity.
- Budget day saw India VIX plunge 17.43% to 12.74, with Nifty and Sensex hitting 2% lows before closing at -0.12% and -0.09%, respectively.

Domestic Yields



After inclusion in the JP Morgan Bond Index 1M ago, yield of 10Y G-sec has come down from 7.0% to 6.86% currently. This increase followed India's tightening of restrictions on foreign bond buying. Although the government had already ceased issuing 14-year bonds and 30-year bonds represent a smaller share of foreign investment, these new restrictions dampened investor appetite and raised concerns about future barriers to Indian fixed income.

Global Yields

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
Aug-23	0.59%	2.70%	3.98%	4.36%	7.17%
Mar-24	0.72%	2.38%	4.25%	4.13%	7.08%
Apr-24	0.72%	2.31%	4.21%	3.95%	7.05%
May-24	0.89%	2.31%	4.61%	4.36%	7.17%
Jun-24	1.05%	2.33%	4.50%	4.33%	6.99%
Jul-24	1.06%	2.23%	4.42%	4.26%	7.01%
Aug-24	0.97%	2.13%	3.97%	3.89%	6.90%

- In the US, softer CPI and labor market data fueled expectations for Fed rate cuts, boosting prices of US Treasuries by 2.2%. The UK saw stronger GDP growth and persistent services inflation, resulting in Gilts returning 1.9%. Japan's government bonds remained flat despite a policy rate hike by the Bank of Japan.

- The US Federal Reserve announced its interest rate decision on July 31, leaving the benchmark interest rates unchanged at 5.25 per cent - 5.50 per cent for the eighth straight meeting, in line with Wall Street estimates. Powell on Wednesday set the stage for the central bank's first rate cut in four years, citing greater progress toward lower inflation and a cooler job market that no longer threatens to overheat the economy.

India Macro Trends

Macro Trends	Jul	Jun
FII flows (in crs)	32,364	26,564
DII flows (in crs)	23,486	28,633
FII flows - Debt (in crs)	22,363	3,276
New Corporate Bond Issuances (in crs)	54,384	1,040
Surplus Liquidity (in crs)	4,03,058	3,68,555
GST Collection (in crs)	1,74,000	1,72,129
CPI	5.08	4.80
Manufacturing PMI	58.10	58.30
Services PMI	61.10	60.50

India's core sector growth slowed to 4% in June from over 6% in May.

Commodities & Currencies

Commodities	Returns	
	1m	1y
Brent Crude	-5.8%	-5.0%
Precious Metals		
Gold	5.1%	24.5%
Silver	-0.7%	17.3%
Industrial Metals		
Steel	-11.5%	-22.8%
Iron Ore	-0.5%	-5.8%
Aluminium	-10.3%	0.0%
Copper	-4.9%	4.2%
Zinc	-9.5%	4.3%
Nickel	-4.8%	-24.8%
Lead	-6.8%	-2.9%

- In July 2024, the Bloomberg Commodity Total Return Index fell 4%, its worst monthly performance since May last year, with most sectors down except for precious metals.
- Gold led with a 4% rally, bringing its year-to-date gain to 17.3%, nearing record highs just below $2,500 per ounce due to potential US rate cuts and renewed investor interest.
- Crude oil declined approximately 3%, tempered by Middle East tensions, with Brent crude trading between $75 and $95 per barrel. OPEC+ plans to increase production from October may affect future prices.
- Natural gas prices dropped sharply by 21.2% due to ample supply and low demand. Base metals had mixed results, with silver pressured by a broader industrial metal sell-off but supported by gold's strength.

Performance of US Dollar against currencies			
Country	1m	3m	1 yr
India	-0.4%	-0.3%	-1.8%
AUD	-1.8%	-2.3%	2.1%
Japan	6.8%	5.0%	-5.4%
Canada	0.7%	0.4%	-1.1%
Euro	1.1%	1.5%	-1.6%
Pound	1.7%	2.8%	0.1%

- The US dollar weakened against major currencies, with the Japanese yen appreciating 6.5% due to Fed rate cut expectations and a Bank of Japan rate hike. The DXY declined 1.7%, highlighting the yen's strength.
- Meanwhile, the Indian rupee depreciated past 83.7 per USD in August, its weakest on record, underperforming other major Asian currencies. Despite the dollar's plunge, the rupee fell as markets anticipated a dovish Fed. The Reserve Bank of India likely intervened to prevent excessive volatility and support its foreign currency reserves, aiding Indian export competitiveness after the Bank of Japan's rate hike.

Snippets

Indian Macros

India's macroeconomic indicators showed a mixed picture in August:

GDP Growth Rate (Q2 2024): 6.8% annualized.

CPI Inflation Rate: 7.2%, up from 6.9% in July.

Trade Balance:

- Exports: $35 billion, up by 2.1% from July.
- Imports: $50 billion, up by 3.5% from the previous month.
- Trade Deficit: $15 billion, widened by 5.6% from July.

India's fiscal deficit for the first quarter of this fiscal year through June stood at 1.36 lakh crore rupees, or 8.1% of annual estimates

Valuation

Nifty Valuation Zones	
Above 22000	Expensive
17500-22000	Fair
15500-17500	Buy
<15500	Strong Buy

Global

Softer US inflation and labor market data raised expectations for Fed rate cuts, benefiting interest-sensitive asset classes.

Small-cap and global REITs outperformed, while growth stocks faced skepticism.

Chinese authorities provided liquidity support amidst ongoing real estate sector challenges.

The Bank of Japan raised its policy rate, leading to a stronger yen.

Commodities faced pressure from China's growth concerns, while gold benefited from anticipated rate cuts.

Research Corner

Union Budget Key Highlights - Taxation

Fiscal Targets and Borrowing:

- Fiscal deficit target: 4.9% of GDP, Government borrowing: ₹11.1 lakh crore for FY25

Capital Gains Tax:

- Property Sales: Indexation benefit removed for assets acquired after 01-Jan-2001, LTCG: 12.5% after 2 years, STCG: Marginal rate
- Financial and Non-Financial Assets: STCG tax raised to 20% from 15%, LTCG tax set at 12.5% (effective from 23rd July 2024), Exemption limit for capital gains on certain listed financial assets increased to ₹1.25 lakh per year

Holding Periods:

- Listed Financial Assets: Long-term if held for more than 12 months, Unlisted Financial and Non-Financial Assets: Long-term if held for at least 24 months.
- Debt Funds: Taxed at slab rate if acquired on or after 23rd July 2024
  - For those acquired before 01-Apr-2023 and redeemed after 23rd July 2024: STCG taxed at slab rate, LTCG at 12.5% after 2 years
  - For investments prior to 01-Apr-2023 and redeemed up to 22nd July 2024: LTCG after 36 months taxed at 20% with indexation, STCG below 36 months taxed at slab rate.

Tax on Share Buybacks and STT on F&O:

- Buyback proceeds taxed in the hands of investors at marginal rate (after 1-Oct-24), STT on futures: 0.02% (up from 0.0125%), STT on options: 0.10% (up from 0.0625%)

Income Tax Changes: Standard deduction increased from ₹50,000 to ₹75,000

- New Regime Tax Rates:
  - ₹0-3 lakh: Nil
  - ₹3-7 lakh: 5%
  - ₹7-10 lakh: 10%
  - ₹10-12 lakh: 15%
  - Above ₹15 lakh: 30%

Key Takeaways

- Changes in Capital Gains Taxation affects real estate investors with increased tax burden especially if their CAGR on their assets does not significantly beat inflation at ~6%.
- Debt funds lose their spot by losing both the advantage of indexation and simultaneously taxed higher than equity.
- International Funds and Gold funds may become more attractive with their reduced holding periods for LTCG and revised tax structure.
- Increase in capital gains exemption limit to 1.25 lac may not significantly improve tax liability especially for those who have invested just after 2018.

Blog

Key Events

Aug 8: RBI MPC Meeting Decision

From July 12: India Inc Q1 Results

Nov; US Presidential Elections

Book a Consultation

Market Watch

BEHAVIOURAL FINANCE

Gamestop Short Squeeze

GameStop Corporation, a struggling brick-and-mortar video game retailer, faced declining sales due to the shift to digital gaming. By late 2020 and early 2021, it became heavily shorted by institutional investors, including hedge funds, betting on further decline.

GameStop became one of the most shorted stocks, with short interest exceeding 100% of the float.

Users on the WallStreetBets subreddit began discussing GameStop's stock as a candidate for a short squeeze. Their collective buying power and coordinated efforts dramatically increased the stock price. Media attention further fueled interest, leading more retail investors to buy the stock and pushing the price higher.

As GameStop's stock price surged, short sellers faced mounting losses. To limit these losses, they were forced to buy back shares at higher prices to cover their positions, which further drove up the stock price. The price of GameStop stock reached an all-time high of nearly $483 on January 28, 2021, before eventually falling back down.

Many retail investors who bought GameStop at inflated prices faced significant losses when the stock price fell. Others profited handsomely if they sold at the peak. Some hedge funds suffered substantial losses due to their short positions, while others managed to navigate the volatility with varying degrees of success. This is a powerful example of how market dynamics, behavioral biases such as Herd behaviour, Confirmation bias and FOMO can combine to create extraordinary and unpredictable financial events.

Get In Touch With Us

Phone

+91 -9398528097

Website

www.wealthfirst.co.in

Address

202, Apurupa BDR, Road No 110, Jubilee Hills,
Hyderabad - 500033

THANK YOU