WEALTH FIRST

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

Global Equities (in USD terms)

Global Equities		
	1m	1y
Nasdaq	1.1%	26.3%
S&P 500	2.3%	25.3%
MSCI Europe	3.7%	16.7%
MSCI Emerging Equities	1.4%	12.2%
Nifty 50	-3.1%	24.1%

August began with a global equity sell-off due to weak US data and a rate hike by the Bank of Japan, but markets rebounded as investors anticipated Fed rate cuts. The S&P 500 led with a 2.4% gain, bolstered by earnings growth outside the tech sector.

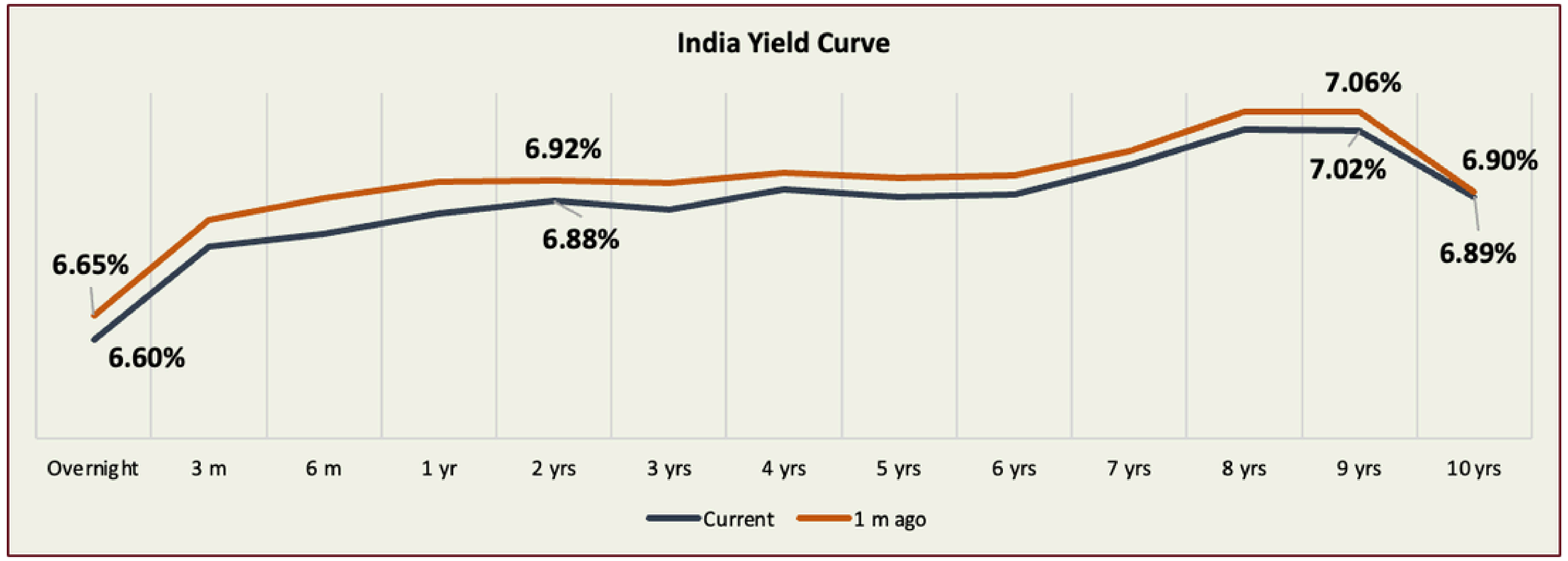
Asia ex-Japan and Emerging Markets saw returns of 2% and 1.8%, respectively, outperforming Western markets, while Europe lagged with a 1.4% return. Fed Chair Powell hinted at upcoming rate cuts, supported by slowing GDP growth and inflation dropping below 3%.

Domestic Equities

Returns		
	1 month	1 year
Nifty 50	1.1%	31.1%
Nifty Next 50	0.7%	69.5%
Midcap 150	0.3%	49.2%
Smallcap 250	1.2%	52.3%
Pharma	6.6%	53.8%
IT	4.7%	37.3%
Consumer Durables	4.4%	42.7%
Real Estate	-3.7%	88.6%
Capital Goods	-3.3%	61.8%
Power	-2.5%	89.1%
IPO	0.5%	52.5%

- 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.

Domestic Yields



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. Expectations of upcoming rate cuts by the Federal Reserve and the fiscal discipline of GOI helped lifting the demand for fixed-income assets and keeping the yields subdued.

Despite India tightening restrictions on foreign bond buying in 14 and 30-year G-Secs, net foreign inflows into debt continues to be robust.

Global Yields

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
Sep-23	0.63%	2.62%	4.12%	4.36%	7.17%
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%
Sep-24	0.90%	2.18%	3.91%	4.01%	6.86%

- 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 Macro Trends

Macro Trends	Aug	Jul
FII flows (in crs)	7,320	32,364
DII flows (in crs)	48,279	23,486
FII flows - Debt (in crs)	17,960	3,276
New Corporate Bond Issuances (in crs)	26,279	1,040
Surplus Liquidity (in crs)	4,03,058	3,68,555
GST Collection (in crs)	1,74,000	1,72,129
CPI	3.54	4.80
Manufacturing PMI	57.50	58.10
Services PMI	60.40	61.10

India's core sector growth bouced back to over 6% in July from 4% in June.

Commodities & Currencies

Commodities	Returns	
	1m	1y
Brent Crude	-4.7%	-10.8%
Precious Metals		
Gold	2.3%	29.0%
Silver	-0.7%	18.1%
Industrial Metals		
Steel	8.5%	-13.9%
Iron Ore	-6.8%	-9.8%
Aluminium	7.2%	10.8%
Copper	-0.8%	9.3%
Zinc	8.3%	19.2%
Nickel	1.0%	-16.5%
Lead	-1.5%	-8.6%

- Commodity markets faced challenges due to weaker global growth and manufacturing momentum, with the Bloomberg Commodity Index remaining flat for the month. Oil prices fell over 2% to $74 per barrel amid concerns about slowing energy demand. Iron ore prices dropped to a two-year low due to China's real estate crisis. Gold, however, rebounded to above $2,500 per ounce.
- From January to July 2024, global crude steel demand fell by 1%, with China significantly dragging down overall figures due to a 2.2% year-on-year decline. While India, Southeast Asia, and the EU saw growth, China's property market downturn severely impacted demand. Europe and the US are also struggling with weak demand, while India reported a strong 10% year-on-year growth.

Performance of US Dollar against currencies			
Country	1m	3m	1 yr
India	-0.2%	-0.5%	-1.4%
AUD	-2.2%	-2.8%	-1.9%
Japan	2.6%	6.3%	-0.4%
Canada	1.8%	2.1%	2.3%
Euro	2.0%	1.8%	1.9%
Pound	2.0%	2.9%	3.5%

- 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.

Snippets

Indian Macros

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

The RBI's Monetary Policy Committee kept the policy repo rate steady at 6.5%. The Index of Industrial Production grew by 5.1% in Q1 2024-25, up from 4.8% in the same period last year.

PMIs have consistently exceeded 60, and narrowing budget deficits have limited bond supply, attracting foreign investment in Indian debt, highlighted by the inclusion of Indian G-Secs in JPMorgan's emerging market index

Valuation

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

Global

In August, major indices nearly reached all-time highs, with large caps outperforming small and microcaps.
Despite a sharp initial decline in the S&P 500 due to weaker economic data and increased unemployment, the market recovered as the Federal Reserve signaled a likely September rate cut.

Treasuries rallied for the fourth straight month, while the dollar weakened.

Historically, September has been challenging for the S&P 500, and upcoming economic reports and triple witching events could add to market volatility.

Research Corner

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:

Category	Equity %	Arbitrage %	Debt %	Returns (%)				
				3M	6M	1Y	3Y	5Y
Category Average - Equity Savings	28.9	40.7	30.5	4.5	7.3	16.0	9.5	10.4
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.

Market Watch

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.

Blog

Key Events

Aug 8: RBI MPC Meeting Decision

From July 12: India Inc Q1 Results

Sep 17-18* - Fed Rate Decision

Nov; US Presidential Elections

Book a Consultation

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 with overleveraging 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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THANK YOU