



WEALTH FIRST

MONTHLY NEWSLETTER - AUG'25

"If you have trouble imagining a 20% loss in the stock market, you shouldn't be in stocks."
— John Bogle

Global Equities (in USD terms)

- S&P 500 rose 2.2%, making it the third straight monthly gain, hitting new record highs.
- Nasdaq rose for fourth straight month. No single-day move of 1% in S&P 500 – lowest volatility since July 2023. VIX (volatility index) closed near 17, signaling calm investor sentiment.
- Rally supported by: Trade agreements with EU, Japan, and Vietnam, Cooling CPI/PPI inflation, Robust Q2 earnings season, Passage of the One Big Beautiful Bill Act (OBBA)
- MSCI World Index (Developed Markets) gained 1.2%, supported by large cap tech and policy clarity.
- Emerging Markets (EMs) outperformed, rising 1.7%, aided by Greater China and Korea. Taiwanese equities surged on AI investments.
- UK equities outperformed global peers (in local currency terms), buoyed by earnings revisions in energy and materials sectors.
- Europe ex-UK underperformed (-1.8%) amid China demand slowdown and US policy risks to 2026 growth.

Global Equities (in USD)		
	1m	1y
Nasdaq	2.4%	19.9%
S&P 500	2.2%	14.8%
MSCI Europe	-1.8%	10.9%
MSCI Emerging Equities	1.7%	14.6%
Nifty 50	-4.9%	-5.0%

Domestic Equities (in INR Terms)

Domestic Equities (in INR)		
	1M	1Y
Nifty 50	-2.9%	-0.7%
Nifty Next 50	-2.8%	-10.3%
Midcap 150	-2.9%	-2.3%
Smallcap 250	-3.7%	-4.5%
Pharma	3.3%	4.6%
FMCG	1.7%	-10.1%
Consumer Durables	-0.5%	-2.4%
IT	-9.4%	-13.6%
Real Estate	-7.5%	-16.6%
Capital Goods	-5.7%	-9.8%
IPO	-0.9%	-5.8%

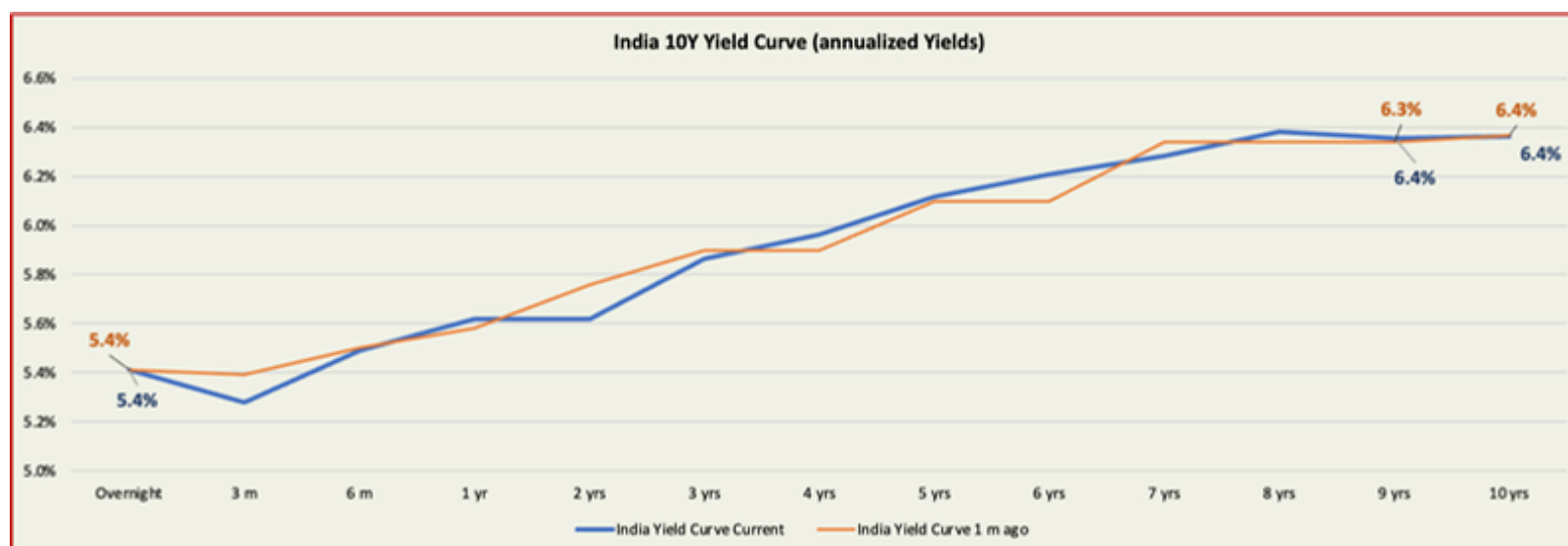
- Nifty 50 declined 2.9%, ending at 24,768, while Sensex fell 2.9% to 81,185. Broader markets were also weak, reflecting nervous investor sentiment.
- This decline was primarily driven by:
 - FII net outflows of ₹17,740 crore in July, reversing nearly half of the ₹38k+ crore of cumulative inflows in the June Quarter.
 - Weak Q1FY26 earnings, particularly in export-heavy sectors.
 - US President Trump's 25% tariffs on Indian goods, effective August 1, created major headwinds for IT, pharmaceuticals, engineering exports, and auto ancillaries.
- IT Index dropped 2.2% on July 24 alone after Infosys reported weak earnings and muted FY26 guidance. Global macro uncertainty and client budget delays were cited.
- Defence and Real Estate also underperformed.
- Pharma and FMCG outperformed relatively, seen as defensives in volatile environments.
- India-UK FTA, signed in July, brought some optimism with: Tariff cuts on 90% of tariff lines and zero duty on 99% of Indian exports, including textiles, generics, leather goods, and devices. EV import duties cut from 110% to 10%, and 75% tariff cut on Scotch whisky—expected to impact luxury retail and EV distribution in India.

Global Yields

- U.S. Treasury yields dived lower on 1st Aug as market participants moved out of equities and rushed to the safety of bonds in the wake of the latest nonfarm payrolls report. U.S. job growth in July was much weaker than anticipated, while payrolls for May and June were collectively revised lower by 258K. The more rate-sensitive U.S. 2-Year Treasury yield dropped 21 basis points to 3.76%, its lowest level in nearly a month, dating back to July 3. Meanwhile, the benchmark U.S. 10-Year Treasury yield also slid, declining 12 basis points to 4.25%, matching its lowest mark since the same date.
- Fed held rates steady at 4.25–4.50% for fifth meeting. Two dissenters favored a cut—first dual dissent since 1993. Market priced in 81% chance of rate cut in September.
- Eurozone yields rose as flash PMI rose to 51.0 (+0.4). ECB held policy rate unchanged amid 2% June inflation.
- UK 10-yr Gilt yield jumped to 4.6%:
- Japan 10-yr yield hit 1.6% (highest since 2008) after LDP lost Upper House majority.
 - Concerns over fiscal discipline and sticky inflation.

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
1 Y ago	0.9%	2.2%	3.9%	4.0%	6.9%
6 M ago	1.5%	1.9%	4.2%	4.8%	6.6%
3 M ago	1.3%	1.6%	4.3%	4.5%	6.5%
1 M ago	1.4%	1.6%	4.3%	4.4%	6.4%
Aug-25	1.6%	1.7%	4.2%	4.5%	6.4%

Domestic Yields



- 10-yr G-Sec yield rose to 6.37% (from 6.3% low on July 21)
- Triggered by Trump's announcement of 25% tariffs on India by August 1
- Indian rupee closed at a record low of 87.59 per US dollar on Thursday, weighed down by U.S. tariff concerns, persistent outflows from local equities, and a strong dollar index.
- RBI hinted at further rate cut as June CPI fell to 2.1%, lowest since 2019.
- System liquidity crossed ₹4 lakh crore after RBI ₹2.69 trillion surplus transfer to government.
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- RBI conducted VRRR auctions worth ₹2.5 lakh crore (July 11–18) to drain excess liquidity.

India Macro Trends

Macro Trends	Jul-25	Jun-25
FII flows (in crs)	-17,740	14,590
DII flows (in crs)	60,939	72,674
FII flows - Debt (in crs)	-234	-6,121
New Corporate Bond Issuances (in crs)	27,385	41,719
Surplus Liquidity (in crs)	5,38,578	5,62,116
GST Collection (in crs)	1,95,735	1,84,597
CPI	2.1%	2.8%
Manufacturing PMI	59.1	58.4
Services PMI	59.8	60.7
Forex Reserves (in billion dollar)	698.2	697.9

- India's economic indicators presented a mixed picture in July. On the positive side, CPI inflation for June fell to 2.1%, the lowest level in six years. This sparked hopes of a potential rate cut by the RBI, which could support borrowing and investment.
- At the same time, the RBI transferred a record ₹2.69 trillion surplus to the government, bolstering fiscal headroom. This also led to a surge in banking system liquidity, which crossed ₹4 trillion, prompting the RBI to conduct VRRR auctions of ₹2.5 lakh crore to manage excess cash and keep short-term rates aligned with its policy stance.
- Forex reserves rose by \$2.7 billion, reaching \$698.19 billion, supported by an uptick in foreign currency assets (+\$1.3 billion) and gold reserves (+\$1.2 billion). This provided a cushion against currency volatility, even as the rupee weakened due to trade tensions.
- GST collections rose by 7.5% YoY, reflecting robust domestic consumption and efficient tax compliance, although state-wise performance was uneven.
- HSBC India Manufacturing PMI rose to 59.1 (from 58.4 in June), marking the highest reading since March 2024. This was driven by strong demand, record-high new order growth, and output at a 15-month high. However, hiring slowed to an 8-month low, indicating caution on the employment front.
- On the downside, the Indian Rupee depreciated over 2% to 87.5/USD, making it the worst-performing Asian currency of 2025 so far. The fall was triggered by renewed US trade tensions and FII outflows.
- While FIIs have sold 17,740 crore of equities in July, DIIs have purchased 14,590 crore during the same time.

Commodities

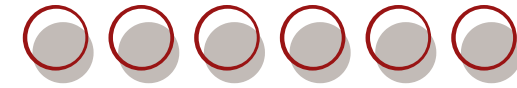
- Commodities saw heightened volatility due to geopolitics, macro shifts, and FX fluctuations.
- Brent +7.74% as OPEC+ announced a 547,000 bpd output hike for September.
- Prices surged on fears of disrupted Russian supply after Trump threatened 100% secondary sanctions on buyers, including India and China.
- COMEX Copper fell 14.32%, hit by Trump's sudden 50% import tariff, later softened for refined metals.
- Precious Metals:
 - Mixed performance: Palladium +9%, Silver +1.5%, Gold -0.44%, Platinum -3.27%.
 - Gold paused after 7 quarterly gains due to profit-booking and a stronger dollar.
- Natural Gas:
 - Inventories were 6.7% above 5-year avg but 3.8% below last year, keeping prices elevated

Commodities	Returns	
	1M	1Y
Brent Crude	7.4%	-6.7%
Precious Metals		
Gold	-0.4%	34.4%
Silver	1.1%	26.8%
Industrial Metals		
Steel	7.1%	6.4%
Iron Ore	4.9%	-4.7%
Aluminium	-1.4%	13.3%
Copper	-12.7%	7.6%
Zinc	-0.7%	3.0%
Nickel	-0.8%	-22.0%
Lead	0.0%	1.2%

Performance of Currencies against USD

Currencies against USD			
		1m	1 yr
India	USD/INR	-2.0%	-4.3%
AUD	USD/AUD	-2.3%	-1.8%
Japan	USD/JPY	-4.4%	-0.5%
China	USD/CNY	-0.5%	0.3%
Euro	USD/EUR	-3.1%	5.5%
Pound	USD/GBP	-3.9%	3.6%
Dollar Index	DX	2.7%	-4.0%

- The U.S. dollar index rose on July 31, while the MSCI global equities index declined, as strong megacap earnings were offset by concerns over rising inflation and uncertainty ahead of President Trump's trade deadline.
- Trump granted Mexico a 90-day reprieve from new tariffs but signaled that higher final duties on most other countries were imminent. U.S. data added pressure, with jobless claims below expectations and Q2 labor costs rising slightly more than forecast, driven by wage growth.
- Tensions escalated as Trump fired BLS Commissioner Erika McEntarfer, accusing her of falsifying jobs data. Markets also reacted to Trump's sweeping retaliatory tariffs, which raised fears of slower growth and higher inflation, briefly weakening the dollar.
- The Indian Rupee fell over 2% in July to ₹87.476/USD, marking its worst monthly performance since 2022 and making it Asia's weakest currency in 2025. The fall was driven by renewed U.S. trade tensions and deteriorating sentiment.
- According to Goldman Sachs, prolonged U.S. tariffs could reduce India's GDP growth by 0.3%, keeping the Rupee under sustained pressure.



India-UK FTA: Historic Trade Pacts, Muted Market Response

India and the UK have signed a landmark Free Trade Agreement (FTA), expected to boost bilateral trade by \$34 billion annually. Despite its breadth — including duty-free access to 99% of Indian exports and exemptions for 75,000 professionals from UK social security — the Indian equity markets fell nearly 1.5% over two days.

The muted reaction may seem counterintuitive, but history tells us markets tend to react cautiously to FTAs, often pricing in expected gains in advance. Let's explore.

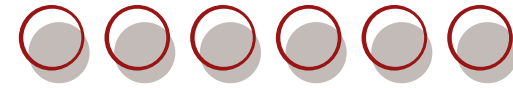
Historical Market Reactions to FTAs:

FTA	Signed On	Key Sectors	Nifty returns in the 1 month before signing	Nifty Reaction on the Day
SAFTA	Jan 6 2004	Textiles, Pharma, IT	17.10%	-1.50%
India-Korea CEPA	Aug 7 2009	Auto, Steel	10.10%	-2.30%
India-Japan CEPA	Feb 16 2011	Pharma, Auto	-3.10%	0.00%
India-UAE CEPA	Feb 18 2022	Textiles	-4.50%	-0.20%
India-UK FTA	Jul 24 2025	Textiles, Pharma, IT	0.00%	-0.60%

Markets can sometimes price in the benefits early on and pull back as execution risks and global cues take center stage.

India-UK FTA – Sectoral Impact Snapshot:

Sector	Impact Summary
Textiles & Leather	Zero duty from 8-16%; potential 11% CAGR in UK exports
Pharma	Zero-duty generics; UK market ~\$30B and India's current exports < ~\$1B
Spirits	Scotch whisky will drop to 75% from 150%, and then slide to 40% over the next decade
IT & Services	75,000 Indian professionals exempt from UK's 20% social security
Marine & Agri	95–99% exports duty-free to UK. Fishery exports to benefit
Auto	Tariff cut from 150% to 75% (and 40% in 10 years) on luxury vehicles. Limited to high-end vehicles; no benefit to mass market EVs yet



Contd...

Why Markets Reacted Cautiously:

- Select Stock specific Gains were pre-discounted: Stocks like KPR Mill (+26%) & Biocon (+15.4%) rallied to highs pre-announcement and settled down.
- Execution > Headlines: Real benefits depend on regulatory alignment, Logistics & Compliance
- Readiness and Slow activation of sectoral quotas not just tariff cuts.
- Post-CEPA exports grew at single-digit CAGR over a decade on average, slower than pre-deal
- domestic growth (Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S))
- Global cues influenced sentiment: Treasury Yield spike, oil rally and possible sanctions on Russian oil
- muted domestic enthusiasm

Conclusion:

The India–UK FTA presents a strong structural opportunity, but markets await execution, earnings upgrades, and visible traction. For patient long-term investors, sector-specific plays in textiles, pharma, marine, and digital services may offer long-term upside.

BEHAVIOURAL FINANCE

Prospect Reversal Zones (PRZ): A New Twist on Investor Psychology

Prospect Reversal Zones (PRZ) is an emerging behavioural finance theory that builds on Kahneman and Tversky's Prospect Theory. While classical theory states that investors are risk-averse in gains and risk-seeking in losses, PRZ suggests that this pattern reverses at extreme points:

- In very large gains: Investors become risk-seeking again, trying to "double their money" instead of securing profits.
- In very large losses: Investors become risk-averse, avoiding further action due to emotional exhaustion, regret, or fear of deeper losses.

Real-Life Example:

Dogecoin Investor (2021–22)

- Investor bought DOGE at ₹2, watched it rise to ₹60+ (30x return).
- Instead of exiting, they doubled down at ₹50, hoping it would reach ₹100 – risk-seeking despite huge gains.
- After the crash to ₹6, their portfolio collapsed by 85%.
- Instead of trying to recover, the investor froze – stopped trading, uninstalled apps, and avoided all risk – a reversal into risk-aversion at deep loss.

PRZ explains:

- *Why investors hold winners too long (greed zone)*
- *Why they freeze after big losses (regret + fatigue)*

This matters now because after the sharp rally till June–July 2024, many new investors—conditioned by recent 30–40% gains—are exhibiting Prospect Reversal behaviour, chasing unrealistic returns despite Indian markets historically averaging just ~12%, making them vulnerable to irrational decisions and future shocks.



Snippets

- US passed landmark crypto regulation: GENIUS Act, CLARITY Act, and Anti-CBDC Act reshape digital asset landscape.
- Indian CPI fell to 2.1%, raising hopes of RBI rate cut, but FII outflows and US trade threats hurt markets.
- Ethereum exploded 49.55%, outperforming Bitcoin's 8.62% rally amid regulation clarity and state-level reserves.
- Oil spiked ~9% as OPEC+ announced production hike and Trump threatened sanctions on Russian oil buyers.
- Global yields surged across US, UK, EU, Japan amid sticky inflation and policy uncertainty.
- India-UK FTA signed, expected to boost trade by \$34B annually—includes major tariff cuts and market access gains

Takeaways

- FII outflows (₹42K Cr), weak earnings, and geopolitical noise (US tariffs) demand prudence.
- After a modest +1.1% rise in July and underperformance relative to gold, silver offers a favourable risk-reward setup amid industrial demand support and precious metals momentum
- Ethereum's 49.5% jump and US regulatory advances may guide India's crypto policy outlook
- EM outperformance, UK strength, and tech leadership suggest global equity exposure can enhance diversification.

Key Events

August 5th - US Services PMI(Jul)
Aug 6th - RBI Interest rate decision
US-India Trade deal

Market Watch





THANK YOU



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