WEALTH FIRST

MONTHLY NEWSLETTER - APR’25

“The purpose of fear is to determine how badly you want your dream - Robin Sharma”

Global Equities (in USD terms)

- The Trump administration's "Liberation Day" tariffs (April 2) triggered a selloff, hitting automakers, tech hardware, and consumer goods companies with new levies.
- US equity markets fell in March, with the US S&P 500 index down -6.3% and Nasdaq down 8.1%. European markets fared slightly better, benefitting from ongoing rotation from investors seeking alternatives to the US.
- Investors pulled out from "Magnificent Seven" tech giants, with the Roundhill MAGS ETF down 10.5% in March and over 15% YTD.
- Volatility picked up, but surprisingly, the VIX stayed under 30. Analysts are concersned that investor fear is underpriced and further sell-offs are likely.
- Q1 2025 was turbulent for US equities: S&P 500 fell 4.6%, Nasdaq 10.5%, and Dow 1.3%, all posting their worst quarter since Q3 2022.
- Europe outperformed, with Germany's DAX recording its best Q1 since 2023, boosted by massive fiscal expansion.
- Global equities saw their biggest quarterly erosion in 3 years, with top 10 companies losing 13.2% of market value ($18.64T) (against a $124 trillion global equity m-cap as of early 2024) according to LSEG data.

Global Equities (in USD)		
	1m	1y
Nasdaq	-8.1%	5.8%
S&P 500	-6.3%	6.2%
MSCI Europe	1.0%	5.9%
MSCI Emerging Equities	2.1%	7.4%
Nifty 50	8.7%	2.7%

Domestic Equities (in INR Terms)

Domestic Equities (in INR)		
	1M	1Y
Nifty 50	6.3%	5.3%
Nifty Next 50	10.5%	4.0%
Midcap 150	7.7%	7.6%
Smallcap 250	9.1%	5.4%
PSE	15.9%	2.4%
Power	14.3%	-3.7%
Capital Goods	13.5%	2.9%
FMCG	5.7%	-0.7%
Auto	3.9%	-0.6%
IT	-1.1%	5.7%
IPO	3.3%	1.3%

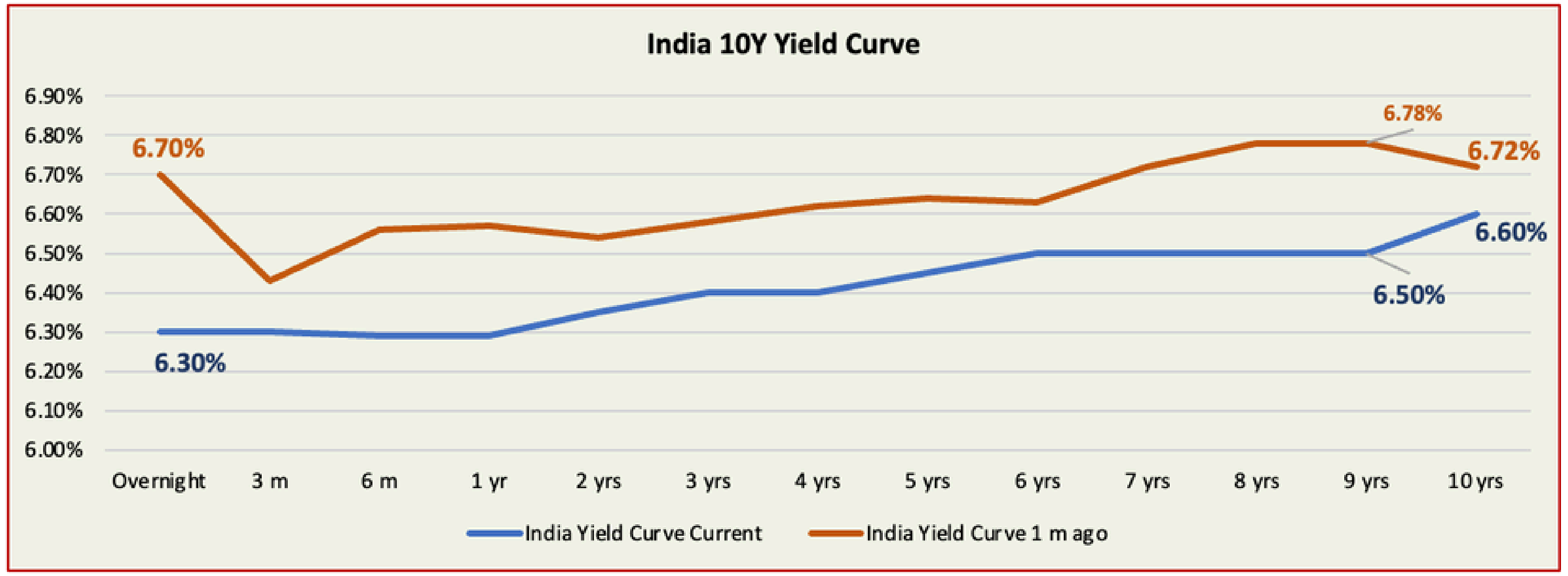
- Nifty 50 surged 6.3% in March, its best month in 15 months, reversing a 5-month losing streak and ending FY25 with +5.34% gains.
- Sensex rose 5.1% in March, rebounding from a historic 5-month losing streak.
- The March rally was powered by investors scooping up beaten-down stocks, improved macro data, and the return of foreign inflows of $2.65 billion in the final 5 sessions of the fiscal year.
- IT remains the only sector with negative returns of 1% with PSUs, Energy & Capital Goods leading the pack.
- However, for the entire FY25, FPIs were still net sellers, with $15.57 billion in net outflows, the second-highest annual outflow ever
- The once-booming IPO market, driven by massive retail enthusiasm, stalled in March, which saw no mainboard public listings—the first such dry spell since May 2023.
- Several companies deferred listings due to market uncertainty, reflecting the tight link between fundraising and market sentiment.

Global Yields

- US 10-year Treasury yield fell to 4.21% (from 4.26%), dropping to 4.18% intra-month, indicating rising recession fears.
- The US Fed held rates steady at 4.25%–4.50% in March, projecting just two 25 bps cuts in 2025, while slashing its GDP forecast and raising inflation expectations. Markets anticipate earlier action due to rising recession risks.
- Japan's BoJ initiated its first rate hike since 2007 during FY25 amid inflationary pressures. While no further hikes occurred in March, 10-year JGB yields surged to 1.6%, their highest since 2008.
- China maintained a dovish stance, supporting growth via stimulus measures like wage hikes and bond issuance. The PBoC held benchmark rates steady in March but continued liquidity support to stabilize real estate and consumer demand.
- The UK's BoE kept rates unchanged at 4.5% in March, but growing fiscal strain and slowing growth have markets expecting cuts later in 2025. Despite spending cuts, 10-year Gilt yields remained stable (+10 bps for Q1)

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
1 Y ago	0.73%	2.30%	4.21%	3.90%	7.05%
6 M ago	0.87%	2.13%	3.79%	4.00%	6.75%
3 M ago	1.08%	1.67%	4.57%	4.57%	6.76%
1 M ago	1.36%	1.78%	4.20%	4.48%	6.72%
Apr-25	1.48%	1.88%	4.22%	4.65%	6.58%

Domestic Yields



- 10-year Indian G-Sec yield at ~6.6%, lowest since early 2022. For FY25, 10Y has declined 62 bps, its biggest drop in 5 years.
- RBI rate cut in Feb (first in 4+ years); next cut expected April 9, followed by a possible final cut in August.
- RBI injected ₹4.73 lakh crore via OMOs, VRRs, and forex swaps, easing tight liquidity from tax outflows and currency interventions.
- Systemic liquidity deficit narrowed from ₹3.1 lakh crore in Jan to ₹20,416 crore by March 4.
- Call rates aligned to repo (6.25%) after peaking at 6.74% in Jan, indicating stability returned

India Macro Trends

Macro Trends	March	Feb
FII flows (in crs)	-3,973	-58,988
DII flows (in crs)	37,586	64,853
FII flows - Debt (in crs)	9,711	-5,801
New Corporate Bond Issuances (in crs)	54,178	49,591
Surplus Liquidity (in crs)	54,323	-1,973
GST Collection (in crs)	1,96,000	1,83,646
CPI	3.6%	4.3%
Manufacturing PMI	57.6	57.1
Services PMI	57.7	61.1
Forex Reserves (in billion dollar)	658.8	654.3

- In FY25, FIIs were net sellers to the tune of $15.57 billion, the second-highest annual outflow ever, but they turned aggressive buyers in March, pumping $2.65 billion in just the last 5 sessions.
- DIIs, supported by robust SIP flows (~₹26,000 crore/month), provided consistent buying support through the year and helped absorb FII-led corrections.
- India's forex reserves ended FY25 near $659 billion, and the INR appreciated 2% in March (best since Nov 2018) to 85.5/USD, buoyed by returning capital flows and RBI interventions.
- Headline CPI for March came in at ~3.6% YoY, easing from previous highs, while core inflation moderated but remained sticky around 5%, keeping inflation within the RBI's comfort band.
- India's PMI numbers remained strong, with March manufacturing PMI around 58 and services PMI near 57, indicating broad-based growth momentum and strong domestic demand.
- To ease funding stress, the RBI injected ₹4.73 lakh crore in Q3 FY25, sharply reducing the systemic liquidity deficit from ₹3.1 lakh crore in January to just ₹20,416 crore by March 4.
- Interbank call rates, which had spiked to 6.74% in Jan, normalized to the repo rate of 6.25% by March, reflecting restored money market stability.
- The RBI cut rates in February (6.50% → 6.25%), its first easing move in over 4 years, and is expected to cut again on April 9, followed by a likely final cut in August.
- Gross GST collections for FY25 reached a record ₹22.1 lakh crore, up ~9% YoY, with March 2025 collections at ₹1.96 lakh crore, reflecting strong economic activity and improved compliance.
- Despite external headwinds, India enters FY26 with macro stability, high reserves, easing inflation, and supportive monetary policy, positioning it as a standout in the global emerging market basket

Commodities

- Gold surged 20% in Q1 to $3,160/oz, best quarter since 1986; driven by:
  - Trump tariff fears.
  - Central bank demand.
  - China insurance firms now allowed to invest in gold.
  - Record inflows in gold ETFs (GLD saw $3.4B inflow in Feb).
- Silver fell to $33.8/oz (from $34.58), on worries tariffs would hit industrial demand.
- Copper +11%, with the US importing 45% of its copper; possible tariffs loom.
- Oil (WTI) at $71.40, near monthly highs (+2.9%), supported by supply concerns and ME tensions.

Commodities	Returns	
	1m	1y
Brent Crude	-0.6%	-16.8%
Precious Metals		
Gold	7.9%	38.1%
Silver	9.5%	36.6%
Industrial Metals		
Steel	-2.6%	-4.0%
Iron Ore	-4.1%	-0.1%
Aluminium	-2.2%	9.2%
Copper	13.5%	28.0%
Zinc	2.0%	17.1%
Nickel	6.0%	-1.8%
Lead	1.6%	-1.3%

Performance of Currencies against USD

Currencies against USD			
		1m	1 yr
India	USD/INR	2.3%	-2.6%
AUD	USD/AUD	1.3%	-3.6%
Japan	USD/JPY	0.5%	1.0%
China	USD/CNY	0.3%	-0.4%
Euro	USD/EUR	4.4%	4.6%
Pound	USD/GBP	-2.8%	-2.4%
Dollar Index	DXY	3.4%	0.5%

- DXY Dollar Index -4% YTD, worst start since 2008; supported EM currencies.
- INR strengthened to 85.5/USD, +2% in March—best monthly gain since Nov 2018.
- FII inflows, RBI liquidity support, and lower global yields aided the rally.
- INR gains capped by weak local markets and dollar demand.
- Rouble +35%, helped by Trump-Putin reset, though still under sanctions

Will Bank Nifty Steal the Spotlight from Nifty?

Investors often weigh exposure between Nifty 50 and Bank Nifty, especially in volatile markets. In February, while Nifty fell nearly 6% from its highs, Bank Nifty dipped only 3.3%, strongly defending the 48,000 level—highlighting the impact of smart sectoral allocation. Let us see what history indicates to assess where the index might be headed.

Bank Nifty's Consistent Outperformance

A closer look at the past 19 years shows that Bank Nifty outperformed Nifty 50 in 12 of those years (63.16% of the time). Some of the best performing years—such as 2009, 2014, and 2021—saw significant alpha generation by Bank Nifty, proving its ability to deliver strong upside moves.

Is the Recent Underperformance a Buying Opportunity?

In 2024, Bank Nifty has underperformed Nifty 50 by -9.87%, raising the possibility that it might be due for a rebound. History shows that such periods of lagging performance have often been followed by strong recoveries, making this an area worth monitoring. Some of the factors supporting the same are shown below:

1. Valuations Suggest Room for Growth: Currently, Bank Nifty's P/E ratio stands at 13.6x, well below its historical average of 22x, whereas Nifty 50's P/E is at 21x, in line with its 20-year long-term average. This significant undervaluation might indicate a potential rotation into Bank Nifty.

When P/E of Bank Nifty < Long Term Avg Historical P/E	
Bank Nifty's 3 Yr return	15.51%
Nifty's 3 Yr return	10.61%
Alpha over Nifty 50	4.90%

When trading below its historical P/E, Bank Nifty has delivered 15.51% 3-year returns, with an alpha of 4.90% over Nifty 50.

Contd...

2. Earnings Growth Supports Long-Term Strength

- 7Yrs EPS CAGR of Bank Nifty is 24.5% against price growth of 11.3%.
- 10 Yr EPS CAGR is 14.8% against price growth of just 10.9%.

Both numbers suggest that prices have lagged earnings and could play catch-up in the coming years.
With EPS growth continuing at a better than average healthy pace as seen above, Bank Nifty appears to be in a stronger earnings cycle than before, which may support future price appreciation.

3. Mean reversion could drive a rebound

When P/E of Bank Nifty < Long Term Avg Historical P/E	
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Nifty's 3 Yr return	10.61%
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While the average 1Y rolling return pre-COVID was ~20% for Bank Nifty, it is just ~14% post-COVID suggesting that there may be scope for reverting to the mean. This can also indicate that Bank Nifty may have to give more than average returns to compensate for the same.

Conclusion

Given its current undervaluation and strong earnings growth, investors seeking long-term opportunities may find merit in increasing exposure to this index, particularly when historical cycles suggest potential upside now while market volatility persists.

BEHAVIOURAL FINANCE

Attention-Based Asset Pricing (ABAP)

Attention-Based Asset Pricing (ABAP) challenges traditional finance theories by emphasizing the role of investor attention in asset pricing. Unlike rational models that assume equal access and processing of information, ABAP posits that both attention and salience drive investor decisions—often leading to temporary mispricing. Stocks that grab headlines, trend on social media, or show sharp movements tend to attract disproportionate interest, regardless of their fundamental value.

A compelling example of ABAP in action is the IRCTC stock rally in October 2021. The public sector monopoly witnessed a meteoric rise from ₹2,700 in August to over ₹6,300 by mid-October—despite no equivalent improvement in core earnings. The rally was largely driven by:

- A stock split announcement, triggering perception of affordability.
- High social media and retail influencer activity promoting the stock.
- Visibility across platforms like Zerodha, Moneycontrol, and news headlines.
- Speculative trading on rumors (like F&O inclusion).

This surge in retail participation, driven more by visibility than valuation, illustrates how attention can act as a pricing factor. The aftermath—a sharp intraday fall of 25% when regulatory clarity changed expectations—demonstrated the volatility and risk associated with attention-fueled mispricing.

Similarly, some small cap stocks which receive limited to no attention remain underpriced for a long term although they are of a higher intrinsic value until they gain prominence through institutional buying o

ABAP provides a vital lens for understanding modern market dynamics, especially in an era of digital noise, algorithmic nudges, and investor FOMO. For long-term investors, it reinforces the importance of cutting through attention bias to focus on intrinsic value.

Market Watch

Snippets

- US imposed global 10% baseline tariff comes into effect on April 5, higher tariffs from April 9.
- India was hit with a 26% tariff on its exports to the U.S. despite ongoing talks for a trade agreement.
- The tariffs sparked warnings of reprisal from China and the European Union — which were hit with additional tariffs of 34% and 20% respectively — though India's reaction was muted initially.
- Gold hit an all-time high, silver surged, and crude oil rebounded, while base metals, especially copper and aluminum, were impacted by US trade policies.
- India's 10-year G-Sec feel sharply 9 basis points to 6.4% after RBI announced 80k crore worth OMO operations before settling above 6.5%.

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Takeaways

- April 2's "Liberation Day" tariffs are broad-based and reciprocal, with major impact on autos, tech, and consumer goods. Watch out for more volatility as scope expands.
- Experts say, India may benefit in certain sectors such as textiles and pharma due to the differentially higher tariffs imposed on other countries.
- Despite global risk-off, India attracted $2.65B in final week of March.
- With persistent depreciation, investors with global exposure may assess currency risk, while domestic markets await RBI's next steps on liquidity and rate cuts.
- Safe Haven assets such as Gold and Silver are seeing growing demand amidst uncertainty

Blogs

Key Events

Effect of Trade Tariffs on Countries

April 9th: RBI MPC Meeting Decision

India Inc Q4 Earnings Results

Book a Consultation

THANK YOU

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