WEALTH FIRST

MONTHLY NEWSLETTER - FEB'25

"The market is a pendulum that forever swings between unsustainable optimism and unjustified pessimism. The intelligent investor is one who recognizes this and profits from both." – Howard Marks

Global Equities (in USD terms)

- The S&P 500 initially gained up to 3.7% in January, fueled by strong corporate earnings, particularly in tech and healthcare. However, new U.S. tariffs on Canada, Mexico, China and a much cheaper AI version from Chinese firm DeepSeek has dented the U.S. tech stock bull run limiting the gains to 2.7%.
- The STOXX Europe 600 rose 6.3%, as U.S. tariff fears drove a shift from high-valued tech stocks to European equities. The FTSE 100 hit a record high of 8,673.96 (+6.1%), its best month since 2022.
- The ASX 200 (Australia) gained 4.6%, its best January in two years, helped by falling inflation and rate-cut expectations. Meanwhile, Asian markets struggled due to U.S.-China trade concerns.

Global Equities		
	1M	1Y
Nasdaq	2.2%	25.3%
S&P 500	2.7%	24.7%
MSCI Europe	6.8%	1.6%
MSCI Emerging Equities	1.7%	12.0%
Nifty 50	-2.6%	2.9%

Domestic Equities (in INR Terms)

Domestic Equities		
	1M	1Y
Nifty 50	-0.6%	8.2%
Nifty Next 50	-7.1%	14.2%
Midcap 150	-6.1%	11.0%
Smallcap 250	-10.7%	5.2%
Auto	0.1%	18.9%
Commodities	-0.4%	1.4%
FMCG	-0.2%	2.9%
Real Estate	-12.7%	7.6%
Consumer Durables	-10.1%	19.4%
Pharma	-8.4%	19.5%
IPO	-10.5%	7.2%

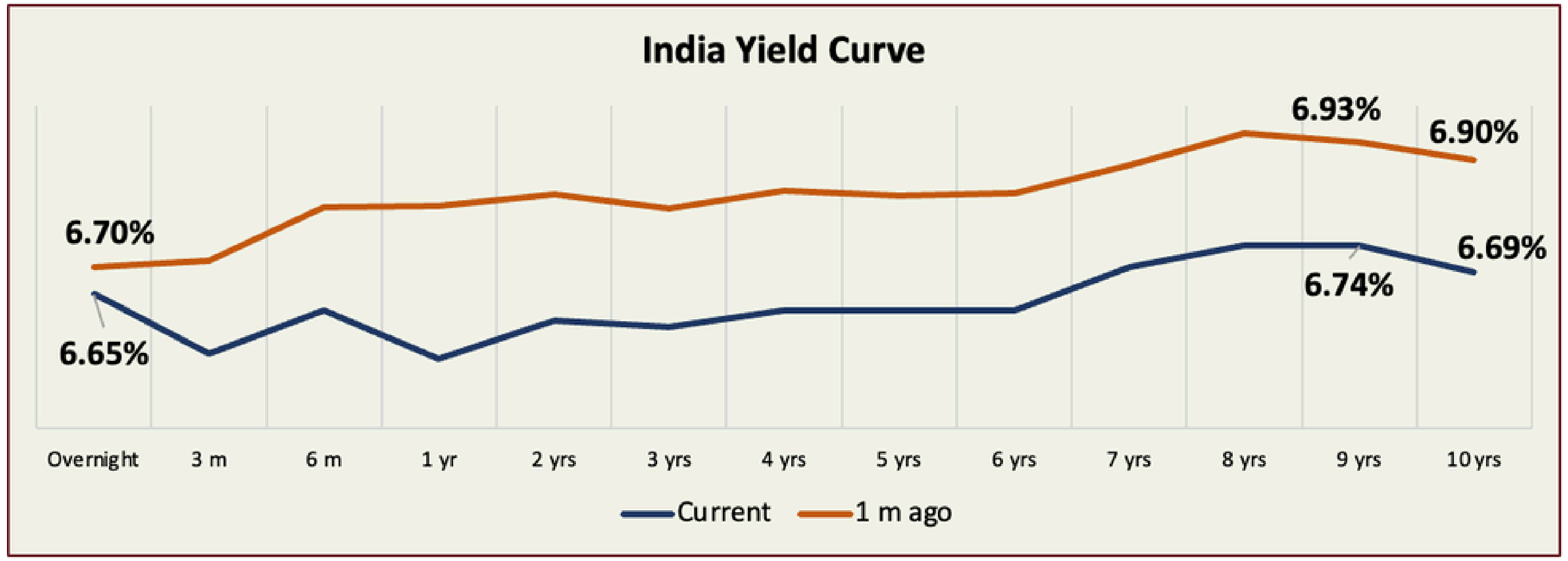
- Indian markets continued to face challenges with mixed earning as of Jan 31st, continued FII selling of 78k crore in equity markets and the looming impact of possible tariffs by the US.
- Nifty Mid and Small caps have taken the worst hit by finally seeing a long awaited correction. Investors may have capitalized on previous gains, leading to profit booking in these categories.
- FMCG and Commodities were the most resilient sectors in January while Real Estate and Consumer Durables were most affected.
- Even the IPO market witnessed weakness in line with the broader markets. Since December 1, 21 IPOs debuted, with 19 gaining 9% to 160% on listing. However, 17 are now trading below their opening prices. Among the 10 most recent IPOs, eight saw heavy demand, with subscriptions between 98x and 228x, all within an ₹200-700 crore issue size.

Global Yields

- The US 10-year Treasury yield decreased, closing at 4.58% on January 31, 2025. This decline is attributed to slowing economic growth, with Q4 GDP growth at 2.3%, down from 3.1% in Q3.
- Eurozone government bond yields rose to multi-month highs, driven by concerns over increased funding needs and the European Central Bank. In January, eurozone governments issued bonds totaling €73 billion, with demand exceeding supply by eleven times. UK 10-year Gilt yields reached 17-year highs in early January, influenced by a weakening pound and rising term premia.
- The Bank of Japan (BOJ) increased its short-term policy rate from 0.25% to 0.5%, marking the highest rate since 2008 causing the yields to shoot up to 1.24%.

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
1 Y ago	0.74%	2.45%	3.94%	3.79%	7.14%
6 M ago	0.97%	2.13%	3.97%	3.89%	6.90%
3 M ago	0.86%	2.18%	3.79%	4.03%	6.75%
1 M ago	1.07%	1.63%	4.55%	4.64%	6.79%
Feb-25	1.24%	1.64%	4.54%	4.53%	6.69%

Domestic Yields



- Yields experienced fluctuations during the month, reaching 6.83% on January 22, 2025. By January 31, 2025, the yield had decreased to 6.69% post RBI liquidity measures.
- In response to a persistent liquidity deficit averaging around ₹1.65 trillion since mid-December, the RBI announced OMOs, daily Variable Rate Repo (VRR) auctions and Dollar Rupee swap. These moves are aimed at infusing liquidity into the banking system, thereby stabilizing short-term interest rates.
- Many of the market participants are expecting 25 bps rate cut in the upcoming RBI policy on 7th

India Macro Trends

Macro Trends	Oct	Sep
FII flows (in crs)	-78,027	15,446
DII flows (in crs)	86,592	34,195
FII flows - Debt (in crs)	-3,424	3,755
New Corporate Bond Issuances (in crs)	30,444	56,808
Surplus Liquidity (in crs)	-40,102	66,021
GST Collection (in crs)	1,96,000	1,77,000
CPI	5.2	5.4
Manufacturing PMI	58.0	56.4
Services PMI	56.8	60.8
Forex Reserves (in billion dollar)	629.6	644.4

- The National Statistical Office projected real GDP growth at 6.4% for the fiscal year 2024-25, marking the slowest pace in four years. This deceleration is attributed to a weaker manufacturing sector and reduced corporate investments.

- Liquidity Measures: The RBI announced a series of measures to inject durable liquidity into the banking system, including a ₹60,000 crore bond purchase, a 56-day variable rate repo auction of ₹50,000 crore plus additional OMOs from the secondary market. These actions are expected to ease liquidity conditions and raise the probability of a repo rate cut in February.

- The RBI also conducted a $5 billion 6-month USD/rupee buy/sell swap auction on January 31, 2025. The auction was oversubscribed five times, reflecting strong market demand. This move aimed to inject rupee liquidity into the banking system.

- Despite India's growth potential, foreign portfolio investors have withdrawn over $31 billion since October, citing concerns over slowing growth and declining corporate profits.

- The HSBC India Manufacturing Purchasing Managers' Index (PMI) rose to 57.7 in January from 56.4 in December, indicating the fastest expansion in six months. This growth was driven by robust domestic and export demand, with new orders experiencing the sharpest increase since July.

- The annual CPI inflation rate eased to 5.22% in December 2024, down from 5.48% in November. This marks a four-month low, primarily due to a deceleration in food price increases. The Consumer Food Price Index (CFPI) recorded an inflation rate of 8.39% in December, a decrease from 9.04% in November.

- As of January 17, reserves stood at $625.87 billion, marking a six-week consecutive decline and reaching a 10-month low. By January 24, reserves increased by $5.58 billion to $629.56 billion, ending the seven-week downturn.

Commodities & Currencies

- Gold prices surged to an all-time high, with spot gold reaching $2,798.40 per troy ounce. This increase was driven by investor demand for safe-haven assets amid uncertainties surrounding new U.S. tariffs and global economic growth concerns.
- Silver prices rose over 8%, driven by safe-haven demand amid U.S. tariff concerns and steady industrial demand from electronics and solar sectors. However, global economic uncertainties and China's slowdown posed risks to further gains.
- The U.S. imposed tariffs of 25% on Canada and Mexico (although these were delayed by 30 days later) and 10% on China, leading to concerns about potential disruptions in oil supply chains. Following an initial decline influenced by technological developments, oil prices rebounded as U.S. stock indexes improved, contributing to modest gains in crude prices.
- Zinc experienced a decline trading below $2,800 per metric ton. This drop is attributed to expectations of increased mine supply and subdued demand in key sectors

Commodities	Returns	
	1M	1Y
Brent Crude	1.4%	-5.7%
Precious Metals		
Gold	6.6%	37.3%
Silver	8.3%	36.5%
Industrial Metals		
Steel	0.5%	-16.1%
Iron Ore	-1.9%	-24.8%
Aluminium	1.7%	13.8%
Copper	6.7%	8.9%
Zinc	-7.7%	8.8%
Nickel	-0.5%	-5.4%
Lead	0.2%	-9.8%

Performance of US Dollar against currencies		
Country	1M	1Y
India	-1.1%	-4.2%
AUD	-0.1%	4.9%
Japan	1.4%	-5.6%
Canada	0.7%	-1.2%
Euro	0.1%	-4.4%
Pound	-1.0%	-2.4%

- The USD strengthened against several major currencies, with investors flocking to the safe haven currency, driven by new tariff implementations and economic data and
- The U.S. economy grew at an annualized rate of 2.3% in Q4 2024, slightly below expectations, yet the dollar index rose by 0.2%.
- The JPY was set for its best January performance since 2018, appreciating due to expectations of continued rate hikes by the Bank of Japan (BOJ).
- The INR faced depreciation pressures, reaching an all-time low against the USD. On January 31, 2025, the rupee was quoted at 86.92-86.94 per USD, down from 86.6050 the previous day. This decline was influenced by broader Asian currency weaknesses and investor concerns over potential trade wars stemming from new U.S. tariffs.

Budget 2025 - Highlights

Key Fiscal Metrics

- Fiscal Deficit: Reduced from 4.8% in FY25 to 4.4% of GDP in FY26.
- FY26 Gross borrowing to be at 14.82 lakh cr vs 14.01 lakh cr and Net borrowing 11.54 lakh cr vs 11.63 lakh crore - positive from debt markets perspective.
- Nominal Growth Target: 10.1% for FY26.

Tax Reforms and Benefits

- Personal Income Tax Relief:
  - Tax-free income limit raised to ₹12 lakh - impact of 1 lakh crore on Government finances, but should boost consumption demand in the economy.
  - Potential tax savings of up to ₹1.1 lakh across higher brackets.
  - Senior citizens' tax deduction limit doubled from ₹50,000 to ₹1 lakh.
  - Extension of time-limit to file updated returns, from the current limit of two years to four years.
- TDS and TCS Reforms: ○Annual TCS threshold on rent increased from ₹2.4 lakh to ₹6 lakh.
  - Liberalized Remittance Scheme (LRS) TCS: Threshold for TCS on foreign remittances raised to ₹10 lakh.
  - Self-Occupied Housing: o Taxpayers can now claim benefits on 2 self-occupied houses, up from the earlier limit of 1.

Capital Expenditure and Infrastructure

- Asset Monetization Plan 2025-30: launched to plough back capital of ₹ 10 lakh crore in new projects.
- Interest-Free Loans to States: ₹1.5 lakh crore in 50-year interest-free loans for capital expenditure.
- Urban Challenge Fund: ₹1 lakh crore allocated for 'Cities as Growth Hubs' and urban redevelopment.
- Jal Jeevan Mission: ₹10 lakh crore allocated to achieve 100% water supply coverage by 2028.
- SWAMIH Fund 2: ₹15,000 crore for completing 1 lakh stalled housing units.
- Nuclear Energy Mission: 100 GW by 2047.

Sector-Wise Allocations

Defence: ₹4.91 lakh crore, Rural Development: ₹2.66 lakh crore. Agriculture: ₹1.71 lakh crore, Health: ₹98,311 crore AND Education: ₹1.28 lakh crore.

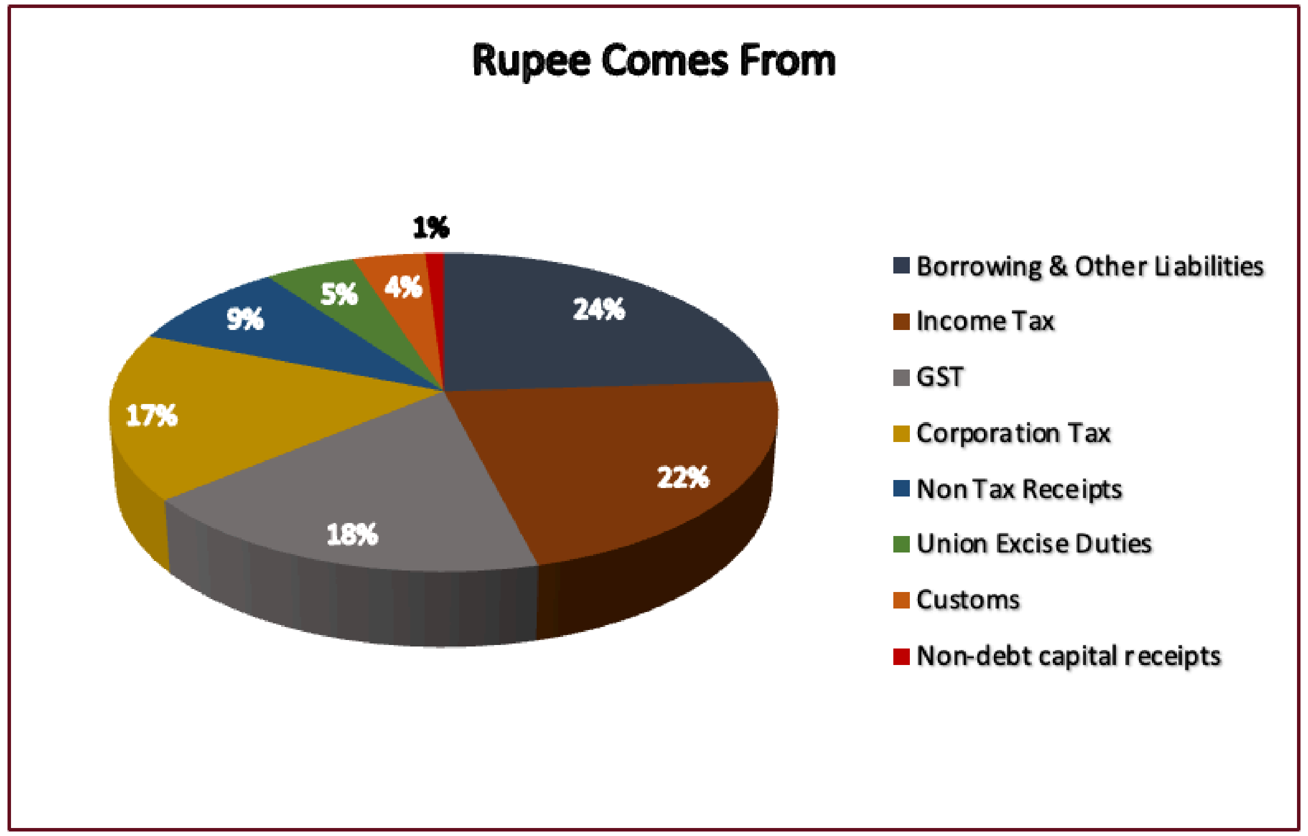
Budget 2025 - Highlights

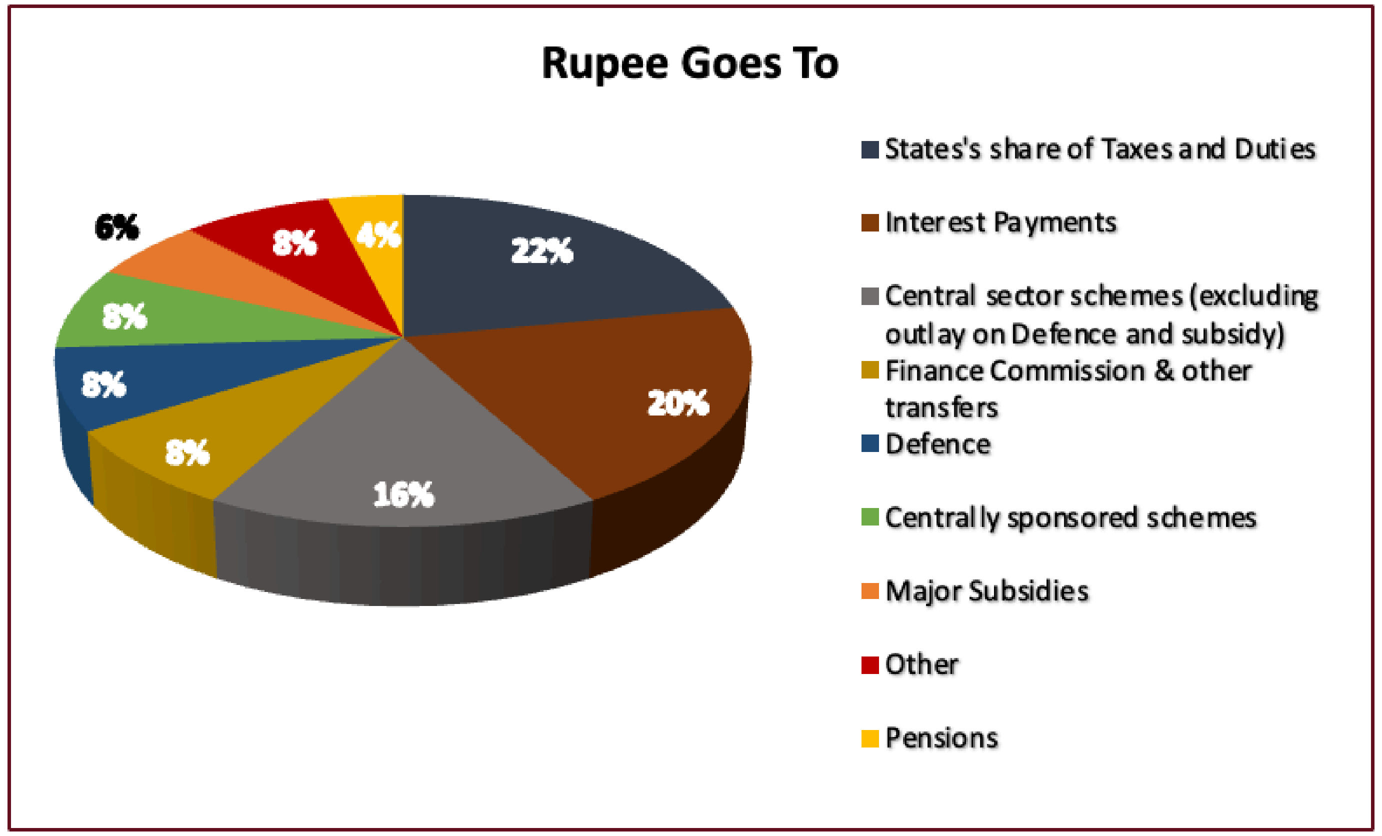
Foreign Direct Investment (FDI) and Business Reforms

- FDI in Insurance: Limit raised from 74% to 100% to boost foreign capital inflows.
- Bharat Tradenet: A digital public infrastructure for international trade to streamline documentation and financing.
- Revamped Central KYC registry to be rolled out in 2025.
- Global Capability Centres (GCCs): Framework introduced to promote GCCs in Tier-2 cities, enhancing India's outsourcing potential.

Key Market Implications

- Increased Consumption: Tax relief and incentives expected to boost retail, auto, and FMCG sectors.
- Infrastructure Growth: Higher investments to drive real estate and construction industries.
- MSME Expansion: Enhanced credit access to support entrepreneurial activity and job creation.
- Stronger FDI Flow: Increased FDI in insurance to enhance financial sector strength and liquidity





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The Money Illusion Effect

The Money Illusion refers to the tendency of people to think of money in nominal terms (absolute numbers) rather than real terms (adjusted for inflation). This leads people to perceive themselves as wealthier when their income rises, even if their purchasing power has declined due to inflation.

Scenario

Imagine X owns an apartment worth ₹50 lakhs. Over five years, property prices increase, and the apartment is now valued at ₹70 lakhs. X feels wealthier, assuming his asset has grown significantly.

However, during the same period:

- Inflation has averaged 6% per year, meaning the overall price level has risen by about 34% over five years.
- The cost of buying a similar property elsewhere has also increased.
- Construction costs, land prices, and rental rates have risen.

Reality Check:

- While X sees a ₹20 lakh increase in property value, in real terms, the property's worth hasn't increased as much.
- If adjusted for inflation, the real value of the property has barely changed, and any profit is much smaller than it appears.
- If X sells the apartment and tries to buy another, he won't feel significantly richer because everything else has become more expensive too.

The Psychological Trap

Most people focus on the absolute price increase rather than the real, inflation-adjusted value of their assets.

Why This Matters in Real Life

- Homeowners believe their wealth has grown when, in reality, it has just kept pace with inflation.
- Investors assume they've made high returns on assets but don't factor in inflation.
- People feel richer during economic booms without realizing their purchasing power hasn't increased much.

Market Watch

Snippets

- Global markets diverged – S&P 500 +2.7%, Europe & Australia up, but Asia lagged on U.S.-China trade tensions.
- Indian equities fell – Sensex/Nifty fell over 0.5%, mid- & small-caps corrected sharply amid FII outflows.
- Gold hit record highs – $2,798/oz, silver $31.66/oz, driven by safe-haven demand.
- Rupee weakened – Hit 86.92/USD, pressured by Asian FX slump and trade war fears.
- Oil volatile – Fell on U.S. tariffs, rebounded as markets stabilized.
- Global yields mixed – U.S. yields fell, Eurozone/UK rose, Japan hit 17-year highs.
- RBI infused liquidity – ₹1.5 lakh crore via FX swaps & bond buys to ease shortages.
- IPO struggles – Despite strong demand (98x-228x), 17 of 21 IPOs fell below listing price.

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Takeaways

- Sticking to low-volatility quality stocks amid volatility may make sense for investors in the short - medium term.
- Considering exposure to Gold and SIlver as a hedge agains the portfolio to shiled from uncertainty may be wise.
- Export-oriented sectors (IT, pharma) may benefit, while rupee-sensitive sectors (oil & metals) may face challenges as rupee weakness may persist.
- Exposure to debt through Hybrid FUnds with equity taxation may benefit investors considering a possibility of rate cuts in the future.

Blogs

Key Events

Effect of Trade Tariffs on Countries.

Feb 7: RBI MPC Meeting Decision

Ongoing: Q3 Earnings Results

Book a Consultation

THANK YOU

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