WEALTH FIRST

MONTHLY NEWSLETTER - MAY'25

"Being slow and steady means that you're willing to exchange the opportunity of making a killing for the assurance of never getting killed." - Carl Richards

Global Equities (in USD terms)

- Global equities were volatile in April, with U.S. markets lagging due to trade tensions. The S&P 500 fell 0.8%, rebounding from early losses after President Trump's tariff announcement that the 90-day pause eased concerns. Talks with Japan and India progressed, while EU negotiations remained strained.
- European equity markets remained subdued. The Eurozone fell by 0.4% as consumer confidence and PMI data weakened amid ongoing trade tensions and the unresolved Ukraine conflict. In the UK, equities declined 0.2%, dragged down by slowing activity, higher domestic taxes, and weak PMI figures, with the composite index dropping to 48.2.
- Japan's equity market was a relative outperformer, gaining 0.3% despite manufacturing weakness, supported by a rebound in services and some resilience amid U.S. tariff shocks. China's equities fell initially but rebounded late in the month after reporting a strong Q1 GDP growth of 5.4% YoY and signals of renewed trade talks with the U.S.
- Emerging markets overall proved more resilient than developed peers. Countries like Mexico and Brazil outperformed, helped by the U.S. administration's relatively lenient stance toward them in the tariff regime.

Global Equities (in USD)		
	1m	1y
Nasdaq	1.5%	12.2%
S&P 500	-0.8%	10.6%
MSCI Europe	3.8%	10.8%
MSCI Emerging Equities	1.0%	6.4%
Nifty 50	4.5%	6.3%

Domestic Equities (in INR Terms)

Domestic Equities (in INR)		
	1M	1Y
Nifty 50	3.5%	7.7%
Nifty Next 50	2.3%	-0.6%
Midcap 150	3.9%	5.2%
Smallcap 250	1.7%	-3.0%
Consumer Durables	5.7%	9.9%
Financials	5.2%	11.8%
FMCG	5.3%	4.1%
IT	-3.0%	7.8%
Metals	-5.6%	-6.5%
Power	0.9%	-7.9%
IPO	-8.1%	-5.5%

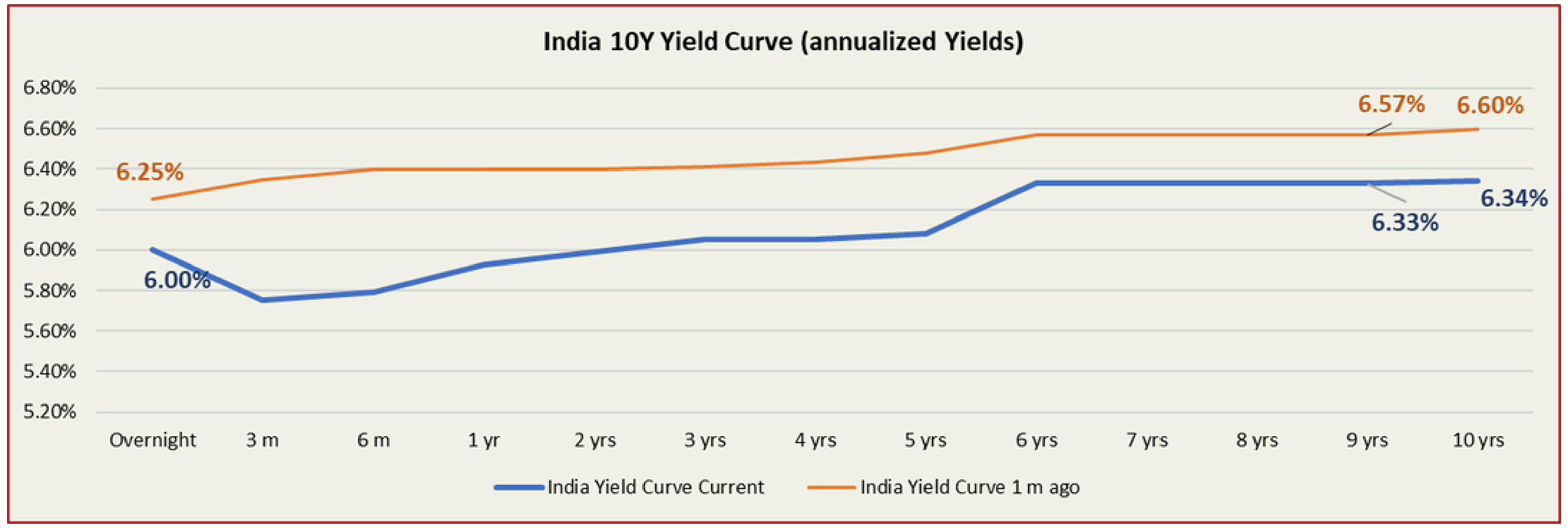
- The Indian stock market extended its winning streak into April, emerging as Asia's top-performing equity market for the second consecutive month.
- Nifty 50 initially tumbled 7.7% before surging nearly 12.0% from April lows following a turnaround in tariffs. This led to a gain of 3.5% in April. While Nifty Midcap 100 outperformed Nifty 50 in the month Nifty Small cap 100 could not beat Nifty 50 despite a 17.5% jump from its lows.
- However, investor confidence remained resilient, with sustained buying across segments despite heightened geopolitical tensions with Pakistan, .
- The rally was largely led by domestic sectors with Nifty Bank delivering gains of 6.8%, followed by notable performances in Nifty Oil & Gas, FMCG, Auto, PSU Bank, Consumer Durables, and Realty indices. IT and Metals were the worst performers of the month.
- Talks between India and the United States made steady progress throughout the month, with President Trump on April 29 expressing optimism about an impending bilateral trade agreement.

Global Yields

- Global bond markets experienced heightened volatility amid escalating trade tensions and shifting monetary policy signals. In the U.S., the 10-year Treasury yield surged to 4.6% following the April 2 tariff announcement before retreating to 4.27% by month-end, aided by better-than-expected April jobs data (177,000 jobs added vs. forecast of 130,000). While unemployment remained stable at 4.2%, a drop in wage growth and weak manufacturing data contributed to rate cut expectations, with markets pricing in up to four Fed cuts by year-end.
- In Europe, the ECB cut rates by 25 bps to 2.3%, citing a weakening growth outlook and ongoing disinflation. This decision, along with falling eurozone bond yields, helped lift global bond indices. In the UK, yields also fell amid weak economic activity and cooling inflation, paving the way for a possible Bank of England rate cut in May

10 Year Government Yields (as of 1st of every month)					
Month	Japan	China	US	UK	India
1 Y ago	1.1%	2.3%	4.5%	4.3%	7.0%
6 M ago	1.1%	1.7%	4.6%	4.6%	6.8%
3 M ago	1.4%	1.8%	4.2%	4.5%	6.7%
1 M ago	1.3%	1.6%	4.2%	4.2%	6.6%
May-25	1.3%	1.6%	4.3%	4.5%	6.4%

Domestic Yields



- India's fixed-income market saw continued strength in April. The yield on the benchmark 10-year government bond fell to 6.3% by late April, the lowest in more than three years. RBI's 2nd rate cut in April has helped with transmission of rates down to 6.3%.
- The central bank also undertook massive liquidity injections into the banking system to offset tightening effects caused by earlier forex interventions.
- With headline inflation falling to its lowest in over five years, expectations are growing that the RBI will continue cutting rates.

India Macro Trends

Macro Trends	April	March
FII flows (in crs)	4,223	-3,973
DII flows (in crs)	28,228	37,586
FII flows - Debt (in crs)	-13,314	9,711
New Corporate Bond Issuances (in crs)	39,600	54,178
Surplus Liquidity (in crs)	2,36,088	54,323
GST Collection (in crs)	1,96,000	2,37,000
CPI	3.3%	3.6%
Manufacturing PMI	58.4	57.6
Services PMI	59.1	57.7
Forex Reserves (in billion dollar)	686.0	658.8

- India’s macro fundamentals strengthened notably in April. Foreign exchange reserves rose for the eighth straight week, reaching a record $688.13 billion as of April 25, offering an import cover of nearly 11 months. This followed a $1.98 billion increase from the previous week.
- The RBI’s liquidity support measures, totaling ₹6.9 lakh crore, and increased government spending in March led to a liquidity surplus of ₹1.5 lakh crore by April 7.
- GST collections hit a new all-time high of ₹2.37 lakh crore in April, marking a 12.6% year-on-year increase.
- India’s manufacturing PMI rose to 58.2 — a 10-month high — while the services PMI improved to 59.1, up from 58.5 in March. New orders, especially from overseas, increased at the second-fastest pace in over 14 years.
- Industrial production saw modest recovery, with the Index of Industrial Production (IIP) growing 3% in March, up from February’s 2.72%. However, FY25 IIP growth slowed to 4%, the lowest in four years.
- Retail inflation in India has been on a steady decline, reaching a six-year low of 3.34% in March 2025. Cooling Brent prices and steady decline in prices of vegetables, potato and other food items contributed to easing of inflation.
- While FIIs were sellers in the 1st half continuing the trend of large outflows in the previous months—₹34,574 crore in February and ₹78,027 crore in January, they were net buyers during the last 10 trading sessions of April (April 15–30), injecting ₹37,400 crore into Indian equities.
- Geopolitical tensions between India and Pakistan following the Pahalgam terror attack added an element of risk that investors are watching closely.

Commodities

- Commodities saw a mixed performance in April. Gold surged to a new all-time high of $3,500 per ounce on April 22, driven by geopolitical tensions and global economic uncertainty. In India also, Gold touched an all time peak of Rs 99,100 per 10 grams.
- Silver also gained 18.7% over the past year, with a five-year CAGR of nearly 20%. However, the metal fell to $33.8/oz (from $34.58) during the month, on worries tariffs would hit industrial demand.
- Industrial and energy commodities faced sharp declines due to trade disruptions and soft demand from China's real estate sector. Oil prices fell 16% in April, driven by recession fears and increased OPEC supply. Brent Crude fell below $60 for the first time in early May.
- U.S. natural gas prices dropped 17.6%.
- Copper -9%, with the US importing 45% of its copper; possible tariffs loom.

Commodities	Returns	
	1M	1Y
Brent Crude	-18.3%	-33.0%
Precious Metals		
Gold	4.9%	40.5%
Silver	-4.2%	18.7%
Industrial Metals		
Steel	-3.5%	-8.8%
Iron Ore	-2.7%	-0.2%
Aluminium	-5.5%	-7.5%
Copper	-9.2%	7.8%
Zinc	-9.5%	-2.0%
Nickel	-3.9%	-13.1%
Lead	-2.9%	-6.7%

Performance of Currencies against USD

Currencies against USD			
		1m	1 yr
India	USD/INR	1.0%	-1.3%
AUD	USD/AUD	2.5%	-1.4%
Japan	USD/JPY	4.8%	10.3%
China	USD/CNY	-0.1%	-0.4%
Euro	USD/EUR	4.7%	5.4%
Pound	USD/GBP	3.1%	6.6%
Dollar Index	DXY	-4.6%	-7.0%

- The U.S. dollar index suffered its largest monthly drop since July 2023, falling sharply after the April 2 tariff shock and weaker macro data. It touched a 20-year low mid-month before partially recovering as U.S.-China trade talks resumed.
- IMF cuts global growth forecast to 2.8%, cites 'significant slowdown' due to Trump tariffs
- The Indian rupee (INR) began the month around ₹85.4/$ and and touched ₹83.7/$, halting its earlier slide before settling at ₹84.5/$.
- This reversal was supported by RBI liquidity injections (₹6.9 lakh crore), rate cuts, and rising forex reserves — which reached $688.13 billion as of April 25, providing nearly 11 months of import cover.
- However, INR only rose 1% against the dollar index and underperformed other currencies.

Is It Time to Bet on Equities? Decoding the Sensex-to-Gold Ratio

History doesn't repeat, but it often rhymes—and for investors, the Sensex-to-Gold ratio might just be one of the market's most underappreciated signals.

What the Data Reveals

A dive into long-term trends reveals a compelling pattern when we analyze subsequent 3-year average returns based on the Sensex-to-Gold price ratio:

- When the Sensex-to-Gold ratio is below 1, equities tend to outperform, delivering a subsequent 3-year average return of 20.58%, while gold lags behind at 8.32%.
- Conversely, when the ratio is above 1, gold takes the lead with 15.40% returns, while equities deliver a relatively modest 8.41%.

Subsequent average 3Y Returns	Price ratio>1	Price ratio<1
Sensex Returns in INR	8.4%	20.6%
Gold Returns in INR	15.4%	8.3%

Monthly data of Sensex and Gold taken from the year 1999

Similarly, when the analysis is done to calculate subsequent median 3Y returns, the results are as shown below:

Subsequent median 3Y Returns	Price ratio>1	Price ratio<1
Sensex Returns in INR	8.8%	17.0%
Gold Returns in INR	15.5%	8.2%

This inverse relationship can serve as a useful tool for investors trying to time asset allocation decisions over a 3-year horizon. In fact, even when independent periods were considered, the alpha is very significant as shown below:

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Subsequent average 3Y Returns	Price ratio > 1		Price ratio < 1	
	Sensex	Gold	Sensex	Gold
2000-2010	7.3%	20.2%	27.9%	15.4%
2000-2008	8.2%	20.5%	32.2%	14.6%
2008-2015	5.9%	12.9%	12.1%	4.9%
2011-2020	11.1%	10.9%	13.8%	0.5%
2016-2020	12.3%	13.6%	18.1%	4.8%

The Rationale Behind the Ratio

A lower ratio typically signals that equities are undervalued relative to gold, setting the stage for a strong comeback in stock markets.
On the flip side, when the ratio is high, gold appears undervalued relative to equities, often preceding a strong performance from the yellow metal.

Where Do We Stand Now?

As of now, the Sensex-to-Gold ratio stands at 0.93, slightly below 1. If history is any guide, this could hint at an upcoming phase where equities take center stage.

While no single indicator guarantees returns, this relationship provides an insightful perspective for long-term investors looking to fine-tune their allocations.

BEHAVIOURAL FINANCE

Functional Clustering of Discount Functions

In behavioral finance, how you value ₹1 today vs. ₹1 in the future is known as your discount function. Some people are impatient and want immediate rewards, while others are happy to wait for more value later.
Functional clustering is a new approach that groups investors based on their time preferences — helping advisors and platforms offer more personalized financial guidance.

Consider three employees — X, Y, and Z — each offered the same choice:
Option 1: Receive ₹50,000 immediately
Option 2: Receive ₹75,000 after 12 months
X chooses the ₹50,000 now.
This reflects a preference for immediate gratification. X is likely uncomfortable with long lock-in periods or delayed rewards and prefers liquidity and flexibility.

Y takes time to consider but ultimately chooses Option 2.
Y shows a balanced approach — weighing present needs against future value.

Z quickly selects Option 2 immediately.
Z is clearly focused on long-term value and is comfortable with delayed gratification.

Understanding which discounting pattern you follow isn't just about self-awareness — it's about knowing whether your natural instincts align with long-term financial success.
Sometimes, the ability to recognize and overcome our default tendencies—such as the urge for instant gratification—is what separates a reactive investor from a disciplined, wealth-building one

Market Watch

Snippets

- U.S. equity markets experienced sharp swings due to aggressive tariffs but rebounded after a temporary pause.
- U.S. Q1 GDP unexpectedly declined, while inflation metrics remained subdued.
- S&P 500 earnings beat expectations, led by Health Care and Communications sectors.
- Gold hit record highs, while oil and industrial metals corrected sharply.
- The U.S. dollar weakened substantially; the euro posted its best month in 15 years.
- India's forex reserves, GST collections, and PMI data all showed strong momentum.
- RBI cut rates and infused liquidity, aiding rupee stabilization and boosting bond markets.
- FIIs returned to Indian markets, net buyers after heavy early-April selling

Takeaways

- Indian equities are in a favorable position due to strong macro fundamentals, stable forex, and renewed FII interest.
- As weakness in gold is expected to persist, and with the gold-silver ratio staying elevated, analysts are turning bullish on the Silver over Gold.
- The Nifty Bank index has led broader benchmarks higher with a strong 10% month-to-date gain, driven by good traction in both private and PSU banking stocks

Key Events

India - Pak Conflict

Effect of Trade Tariffs on Countries

June 9th: RBI MPC Meeting Decision

India Inc Q4 Earnings Season

THANK YOU

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