

Dear Subscriber,

The last 2 months have been fantastic for equity investors. Indian Markets have largely recouped their losses from September 2024, US and Japan markets have hit new all time highs. Neither Trump Tantrums nor international conflicts have managed to dent the spirits. The Indian Finance Ministry has called out that India is in a Goldilocks scenario, where everything is hunky dory.

However, it is precisely in these times that one needs to be cautious. Our job is to not get carried away and look hard at the numbers. And this objective evaluation shows that everything is priced to perfection. Our stock scanner is throwing up very few buying ideas with sufficient margin of safety. Gold is trading above \$3300/oz and may undergo some (time) correction. Debt yields have fallen and no longer warrant an overweight position. Nifty 1y forward earnings estimate remains at 1185, putting Nifty forward PE at 21.5, above its historical mean.

So how do we navigate these markets? We do this by reducing the beta of the portfolio and limited cash calls. Why limited cash calls? Because while being invested has downside risks, being high on cash poses upside risks - that is lost opportunity.

If you are sitting in our recommended portfolios, there isn't much to do.

- We track cash positions - and some of our value-conscious fund managers have also taken cash calls. E.g., Parag Parikh Flexi cap fund is sitting on 20% cash and HDFC Focused is sitting on 13.4% cash.
- In overvalued markets, we focus on downside protection (downcapture ratio becomes more important) and in bull markets we focus on upside capture.

If you are not following our recommended portfolios, then it is time to reassess if your allocations are inline with capital market expectations and risk.

Happy Reading!

Wealth Beacon Team

India Economic Indicators

Indicator	May-25	Apr-25	Trend
CPI Inflation	2.82%	3.16%	Cooling
WPI Inflation	0.39%	0.85%	Sharp Drop
Trade Deficit	\$21.88B	\$26.42B	Narrowing
Fiscal Deficit (% GDP)	4.80%	5.60%	Improving

Source: MoSPI, CGA, DPIIT and Ministry of Commerce

Broader Indices Snapshot

Broad indices	Week	Monthly	YTD
NIFTY 50	2.09%	3.57%	9.01%
NIFTY 500	2.51%	3.69%	10.68%
NIFTY Midcap 150	2.60%	3.78%	14.22%
NIFTY Smallcap 250	4.28%	5.60%	17.37%
S&P 500	2.96%	3.76%	4.47%
Nasdaq 100	3.73%	4.75%	1.46%

Source: NSE, Yahoo Finance

Key Valuation Ratios

Index	P/E	P/B	Div Yield
NIFTY 50	23.04	3.73	1.25
NIFTY 500	25.29	4.02	1.12
NIFTY Midcap 150	34.86	5.3	0.79
NIFTY Smallcap 250	33.54	4.19	0.64

Source: NSE

India - G-Sec Yields

Tenor	Current	1M Ago	6M Ago
1-Year	5.57%	6.07%	6.73%
5-Year	6.03%	6.12%	6.81%
10-Year	6.38%	6.39%	6.83%

Source: CCIL RBI Weekly Statistical Supplement

US Treasury Yields

Tenor	Current	1M Ago	6M Ago
US 10-Year Treasury	4.29%	4.48%	4.58%

Source: U.S. Department of the Treasury (home.treasury.gov)

Precious Metals

Broad indices	Week	Monthly	YTD
Gold (INR)	-2.40%	0.03%	7.42%
Silver (INR)	-1.48%	8.50%	4.26%

Source: IBJA

Key Event Updates

Middle East Calms & OPEC+ act

Geopolitical tensions in the Middle East showed signs of easing this week, notably with de-escalation between Iran and Israel. This, combined with signals from OPEC+ suggesting no immediate supply cuts, led to a sharp pullback in crude oil prices.

India in a goldilocks situation

In its monthly economic review for May finance ministry on Friday said India's broader economic health is in a "relative goldilocks situation" with moderate inflation, stable growth, and supportive policy framework. However, markets are slave to earnings and valuations are stretched, warranting caution.

Macroeconomic Update

India posted a current account surplus of \$13.5 billion in Q4, reversing from a deficit of \$11.3 billion in the previous quarter. While this marks a notable shift, we view the surplus with caution, as it appears to be driven more by weak import demand than by a surge in exports, suggesting that domestic growth signals remain mixed.

Indian Equity Market Update

Indian equity benchmarks gained alongside global peers, driven by easing oil prices and improved risk sentiment. Sensex jumped roughly 1,000 points (1.2%), hitting nine-month highs on persistent buying across sectors like banking, IT, metals, and oil & gas. Large, mid and small-caps are trading at stretched valuations reducing the odds of outsized returns from here. The sustainability of current market rally hinges on earnings growth and stability in capital inflows.

Bond Market Update

The RBI's action of conducting a 7-day Variable Rate Reverse Repo (VRRR) auction, withdrawing Rs 1 lakh crore of excess liquidity, is likely to increase short-term bond yields and potentially decrease bond prices, especially in the short end of the curve.

Precious Metal Update

After an overstretched rally that pushed gold and silver well above their comfort zones, both metals finally cooled off last week. The easing of tensions in the Middle East acted as a catalyst for the pullback.

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