YOUR MONEY

RUPEE'S WEAKNESS AGAINST US DOLLAR

Achieve dollar goals with US funds and gold in portfolio

HIMALI PATEL

The rupee hit a new low of ₹84.5 against the US dollar recently. While the Indian currency is down only 1.3 per cent year-to-date, the fall has been sharper over the medium and long term: 3.3 per cent compounded annually over five years and 3.1 per cent over 10 years.

What caused the fall?

The primary cause of the rupee's decline against the US dollar is the latter's broad-based strengthening against major global currencies. This trend accelerated following Donald Trump's victory. In the first term, he had implemented pro-growth policies, like significant corporate tax cuts, which had benefited corporate America. Investors anticipate similar aggressive policies from him that could spur growth in the US economy.

"The expectation that Trump might impose high tariffs on other countries is also strengthening the US dollar," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. US corporate performance has also bolstered the dollar. "In the recently announced third-quarter earnings, over 70 per cent of US companies posted results that exceeded market expectations. The strength of these earnings has reinforced confidence in the US economy and corporate sector, attracting global capital," says Sapna Narang, managing partner, Capital League.

Outflows from the Indian capital market have also played a part, driven by overvaluation in the Indian market, the economic stimulus in China, and persistent high interest rates in the US due to expectations of increased government spending, tax reductions, and hence slower rate cuts.

Long-term phenomenon

The rupee's depreciation against the US dollar is also a long-term trend. "Countries with higher productivity, lower trade deficits, and lower inflation have stronger currencies," says Abhishek Kumar, a Securities and Exchange Board of India (Sebi)-registered investment adviser and founder, SahajMoney.com.

Dollar goals impacted

All goals involving dollar-denominated spending become more expensive. These include foreign education, overseas vacations, and financial support to family members abroad. "Even the cost of purchasing commodities like gold, used heavily in Indian weddings, increases," says Kumar.

Invest in US equity funds

Investments in US equity funds, denominated in dollars, benefit from currency depreciation. If the rupee weakens, the dollar value of these funds increases, generating returns even if the underlying US asset prices remain unchanged. Kumar says investing in US equity funds provides the added benefit of geographic diversification. Narang cautions that foreign funds should form a small part of the portfolio. "The goal is to diversify and participate in global growth, not purely to hedge against currency movements," she says.

According to Dhawan, the exposure to US equity funds should be capped at 10-20 per cent of the equity portfolio. He advises using systematic investment plans (SIPs) or systematic transfer plans (STPs) to mitigate valuation risk. Investors should avoid overinvesting in US equities based on recent performance.

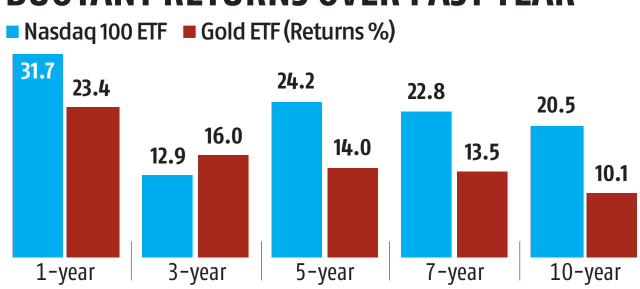
Add gold to portfolio

Gold, priced in US dollars in the international market, serves as a hedge against currency depreciation. When the rupee depreciates, the value of gold in rupee terms increases, providing a currency hedge.

Dhawan cautions against overexposure. "If interest rates in the US rise, that could hurt gold prices. A 5-10 per cent exposure to gold in the portfolio is adequate to hedge against currency risk," he says.

Investors may use gold exchange-traded funds (ETFs) or mutual funds, depending on which product they are comfortable with and whether they have a demat account. Kumar recommends the latter for ease of access and liquidity. Invest in gold, too, via SIP or STP.

BUOYANT RETURNS OVER PAST YEAR



Returns of the largest ETFs by AUM shown in the two categories–Motilal Oswal Nasdaq 100 ETF and Nippon India ETF Gold BeES. Returns above one-year are in CAGR.
Source: Navigation RA

Silver prices as volatile as stocks: Should you pick gold or silver?

A Motilal Oswal Private Wealth (MOPW) report released on November 25 shows that between 1990 and October 2024, silver's price has been just as volatile as Indian stocks. Its price has fluctuated by about 26.6 per cent each year, similar to Indian stocks at 26.8 per cent.

Biggest losses: The biggest drop in silver prices was 54 per cent, which is close to the 55.1 per cent loss seen in stocks during their worst periods.

Returns: Silver has grown by 7.6 per cent on average per year (CAGR) since 1990. Indian stocks, on the other hand, have grown faster, at 14 per cent per year over the same period. Gold, in comparison, has seen better growth than silver, with a 10.6 per cent average annual return and less price fluctuation.

While gold has been a better performer and is a good option for long-term investments, silver is more suitable for short-term or tactical investments due to its higher price swings.

The recent fluctuations in gold and silver prices can be attributed to several global events, particularly the US Presidential election.

Read full report here: mybs.in/2daYsn1

COMPILED BY SUNAINAA CHADHA