Monthly Letter

March 2023

Invest well. Celebrate life.

We were +0.1% for the month of February versus -2.0% for the Nifty 50. Markets went into a 'risk off' mode mid-month as the continuing strength of the US labor market re-ignited the view that the target rate for the US Federal Reserve in its current monetary tightening cycle was likely to be well above the previously thought level of 5% and may even reach 5.5% by mid-year. This engendered another round of FPI selling over the second half of February, putting pressure on the markets. Geo-politics also played its role in dampening sentiment; as jingoistic narratives from Mr Putin, and a furthering of the rift between the US and China over suspicious balloons, added to the pressure. Erosion in the market value of the Adani group has also weakened a section of traders who may have been using their stocks as collateral. As a result, the markets have witnessed eight consecutive days of decline by the end of February, something not witnessed since May 2019. In this scenario, we are satisfied we managed to avoid any erosion in portfolio value.

Returns*	NIFTY50	Prodigy Growth Strategy
1 Year	3.0%	-1.4%
3 Years	15.6%	21.7%
5 Years	10.5%	13.5%
Since Inception (1-Mar-12)	11.2%	22.0%

***Figures are annualised, are as of 28th February 2023, and are not verified by SEBI. The portfolio returns are post-fixed and performance fees. In line with SEBI guidelines, all the portfolio and benchmark returns are calculated using the Time-Weighted Rate of Return method.**

While the just concluded quarter 3 earnings season was positive for almost all domestic facing sectors, especially banking, infrastructure, and industrials, it did reveal a slowdown in discretionary consumer demand as persistently high inflation has taken its toll on mid and lower-end consumer spending. Also, as EMIs pinch in a scenario of rising interest rates, aspirational spending suffers. While this is likely to be visible in quarter 4 earnings as well, we believe this is a period of temporary softness in demand, and a rebound is likely as inflation is receding. The narrative from all the businesses we track or are invested in remains steadfastly upbeat for the year ahead. High-frequency indicators too suggest that the economy is on a sound footing (we have covered in detail in our previous Monthly Letters, why we are very positive about the economic growth for India in the years to come).

Retail flows into equities have also been flagging, as investors have not seen anything but enhanced volatility through most of FY 2022-23. Fixed-income products have become more attractive and are attracting some flows away from equities. The rate of opening of new depository accounts has slowed down substantially (however a silver lining is that Systematic Investment Plan based inflows into equity mutual funds have held up well). Thus, the retail flows which have been a strong counterbalance to FPI selling over FY 2022-23, have now turned weaker. We believe that once market sentiment improves, retail investors will return, as the structural

shift to equities from physical assets will continue, as long as real rates of interest remain positive, as they are at the moment. Hopefully, El Nino will not cause a significant shortfall in the monsoons this year, and push inflation up.

Over the last few months, the Indian market has lost almost all the excess premium it had gained over other emerging markets and is back to the historical premium it has always enjoyed. Thus, valuations have come off to more realistic levels. Besides, our markets are showing a lot of resilience relative to the negative news that is emerging globally as well as from the Federal Reserve and that should be taken as a reasonably positive sign that the markets do not want to go down further. Paradoxically, the more the world quarrels, the safer a haven for investors our economy appears to be. The long-term growth story for India is intact, and the current correction, in hindsight, should appear to have been a good opportunity for long-term investors to increase allocation to Indian equities.

The right thing to do is to maintain one's desired level of allocation to equities in one's overall investment basket and wait patiently for the market trend to turn positive. 80% of equity returns come in 20% of the time spent in the market, but no one can predict which 20% this will be in! We are sanguine that much of this waiting time of 80% is behind us, and the 20% is close. Fingers crossed.

Thank you for your patronage.

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