Monthly Letter

August 2022

Invest well. Celebrate life.

We were +5.9% for July vs +8.7% for the NIFTY50 (the table of our historic returns is given below this paragraph). We were in 25% cash at the beginning of the month from a perspective of risk management, which has now been brought down to approximately 10% as the 'risk off' sentiment has receded and shifts towards a more 'risk on' sentiment with the sharp fall in commodity prices. However, many extant unresolved risks remain in the system, which can rear their head again if triggered. We need to be cautious of the same.

Returns*	NIFTY50	Prodigy Growth Strategy
1 Year	8.9%	-7.5%
3 Years	15.5%	27.0%
5 Years	11.2%	14.3%
Since Inception (1-Mar-12)	11.7%	22.5%

***Figures are annualised, are as of 31st July 2022, 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.**

As highlighted in our last Monthly Letter, there has been a build-up of positives in the environment which has helped the market recover from the June sell-off, especially the correction in commodity prices. This sharp correction could mean we have seen the apogee of inflation, at least in India. India continues to see a positive flow of economic data in terms of GST collections (good for the fiscal situation), strong growth in bank credit, buoyant demand for automobiles and real estate (notwithstanding the rise in interest rates), and a significant recovery in 'covid hit' sectors as consumers once again have hit the street. These factors, along with the easing of supply chain pressures, are reflected in good corporate performance in the ensuing earnings season. The sentiment amongst corporate India is reasonably upbeat for the upcoming festive season.

India has stood out for the able handling of its economy and covid years. India's fiscal prudence (not printing excess money or giving undeserved largesse), continuing reform in tough times (such as Performance Linked Incentive schemes), and a very successful vaccine program, has now allowed it to register a faster recovery than other large economies. The 'China+1' theme is continuing to play out and we find more companies alluding to it in their post-earnings calls as a positive driver of demand for Indian-made goods. Many businesses we interact with, believe that the coming years are likely to be stellar ones for India, notwithstanding the near to medium-term headwinds facing us. The current earnings season strengthens our conviction that the India consumption story is intact and gaining traction, beyond just the pent-up demand of the covid waves.

However, even as we feel positive for India, the consumer slowdown in the USA and in Europe is becoming increasingly evident on the back of inflation rates topping 9%, the highest in many decades. The excess printing of money during the pandemic, especially once it was evident that the economy has recovered, the significant delay in tightening monetary policy, and the misjudged view that inflation was transitory by their central banks, have come back to bite them. Unfortunately, as the saying goes "when the US sneezes, the world catches a cold"; we are likely to also be impacted by this, as India too will have to raise interest rates along with these nations, in order to prevent our currency from sharply depreciating. Thus, until the end of the tightening cycle is visible, it seems unlikely that our market can make a sustained rally past the previous highs. The measures necessary by the US Fed to bring inflation under control are likely to ensure that the US market and consumer demand remain subdued.

One more reason to now be cautious is that markets have already rallied sharply during July and are likely to consolidate their gains. There is a high degree of probability that we have seen the bottom of this correction at around 15,300 levels on the NIFTY50 in June, especially with the positive shift in July, of FPIs becoming buyers of Indian equity from being strong sellers (for the first time since October 2021). While more volatility may lie ahead, given the impending slowdown in the global economy and the continuing negative geopolitical news flows (how will Taiwan play out next?); as long as FPI selling does not re-emerge of the magnitude we recently witnessed (total sales of approximately Rs 2.4 trillion from October 2021 to June 2022) any fall may be taken as a chance to buy with a multi-year horizon.

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prodigy
INVESTMENT
MANAGEMENT

Invest well. Celebrate life.

We feel more optimistic than we were a month ago, but, given the global headwinds, a healthy dose of caution is still warranted.

Thank you for your support.

RC

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