Monthly Letter

December 2021

prodigy INVESTMENT MANAGEMENT

Invest well. Celebrate life.

We were +1.4% in November versus -3.9% for the NIFTY50 (12 month rolling return of +56.6% versus +31.0% for the NIFTY50, 36.7% for S&P NIFTY500). In keeping with our view that markets are facing multiple headwinds, which we expounded upon in our last Monthly Letter, over the last month we have raised our cash holding to approximately 8-10% across portfolios (individual figures may vary from this range due to specific reasons). However, when we wrote on this last month, the Omicron variant was not a factor. This variant has increased the level of uncertainty that global markets are now facing, and it will only be a few weeks till we get a further understanding of the variant and clarity on how things may pan out. Until then, like everyone else, we wake up and gauge what the news of the day may hold for us.

Beyond the new travel restrictions being put into place globally, and the unanswered questions of the transmissibility of the new variant and its ability to evade vaccines, another unexpected negative for markets came in the form of the enhanced hawkishness of the US Fed, who sounded out an acceleration of the tapering of their bond-buying program. Furthermore, the Fed no longer claims that inflation is transitory, a hardline stance they reiterated over the last 12 months; this is akin to pulling the rug out from underneath the capital markets; we are now waiting to see the effects of the same and how the fresh narrative plays out. Thus, if anything, the headwinds globally have scaled up. Once again, we reiterate that this does not mean one should exit markets; but rather be ready for an intermediate correction, which has already begun and may continue for a few months.

When going through a corrective phase, it is easy to forget that the longer-term picture is still very positive, which is what we must focus on. India appears to have entered a new growth phase which is likely to persist for the next few years. We have spoken about the reasons for this many times in our earlier Monthly Letters (archived on our website). Over the last few quarters, the real estate sector has also come back to life after seven or eight years; this sector, with all its forward and backward linkages, is an extremely positive indicator of a strong economy ahead. Other high-frequency economic indicators, many of which have crossed their pre-covid highs, also point to a continued improvement and recovery in the economy. Hopefully, this new variant will also pass without severely hampering this recovery. Having witnessed a huge run-up, subsequently outperforming almost all emerging markets over the last year and a half, the Indian market is indeed expensive and vulnerable to a further correction. However, beyond this correction we see opportunity.

The ongoing slew of IPOs, many of which are mostly an offer for sale by existing Private Equity players looking for an exit, are adding a new dimension to our market. Many of these businesses are unique and are disruptive. A new cohort of large digital businesses are getting listed, which irrespective of how seemingly over-valued they appear, could be some of the biggest wealth creators over this decade. Thus, we are paying special attention to this space.

After many months, the runaway rise in commodity prices, freight, and gas appear to be abating, as does the chip shortage. This is a welcome relief for all the downstream industries. On the flip side, interest rates, which have been benign for a long time, may now start rising. Much of what happens ahead will depend on whether or not the global economic recovery is derailed by Omicron. We can see that the ‘unlock’ trade is already faltering.

So, we live in the moment, not knowing which piece of breaking news is going to trigger a sudden upheaval. The enduring belief remains, ‘this too shall pass’, and the future is bright. Thank you for your unstinting support through thick and thin.

RC

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