

# Monthly Letter

January 2023



*Invest well. Celebrate life.*

We were -1.5% for December versus -3% for the Nifty. December was a month of enhanced volatility, and we are mildly happy that we managed to do better than the market in this topsy-turvy month.

Returns*	NIFTY50	NIFTY500	Prodigy Growth Strategy
1 Year	4.3%	3.0%	-10.7%
3 Years	14.1%	16.1%	23.9%
5 Years	11.4%	10.2%	12.5%
Since Inception (1-Mar-12)	11.7%	12.5%	22.1%

\*Figures are annualised, are as of 31<sup>st</sup> December 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.

While the month started with a positive sentiment arising from the softer inflation readings, the US Federal Reserve was significantly more hawkish than the market expected in its mid-December meeting, which started the fall once again. The US Fed has taken the approach that while it has lost the battle to predict the return of inflation correctly, in early 2022, it now wants to win the war against inflation at all costs; even if that would mean taking rates higher through 2023 and keeping them there for longer than the market hoped for or expected. The sentiment was also impacted by the surprise decision of the Bank of Japan to raise interest rates in December, whereas this was not expected before quarter two of 2023. The final push in turning sentiment negative came from the 180-degree change in stance by China; from 'zero covid' to complete unlocking, which caused cases to explode in China, and re-ignite fears of a new global wave of infections. These factors caused a sharp three-day fall in our indices, which erased the entire gains for the quarter. Fortunately, towards the month's end, there was a recovery. Sentiment has stabilised as of now but remains fragile beneath the surface.

Through all this, our most recent economic indicators remain robust (strong bank credit growth, 26-month high in the strength of PMI, robust and sustaining GST collections, net direct tax collections up 20% year on year), which has been the basis for the outperformance of our markets versus global markets, notwithstanding a cumulative selling by FPIs of Rs 1.1 trillion in 2022. We believe this outperformance will continue in 2023, so long as FPI selling does not re-emerge. While external-facing sectors, like technology, may feel the pressure of the global slowdown, domestic themes like banks, infrastructure, and manufacturing should continue to outperform. Since our excesses in terms of quantitative easing during the last many years have been limited, our real interest rates are not negative and our inflation issues are not as severe; we believe that the Indian economy is better placed than its global peers to continue to grow robustly in 2023, and beyond. Our central bank does not need to aggressively hike interest rates to tame inflation or slow down an over-heated economy. Thus, we could be closer to the end of the rate hike cycle, as commodity inflation continues to moderate. This should also help demand to recover especially in rural areas, which are the most impacted by high inflation.

The excesses of the previous rally are now largely out of the market. This is reflected in the fall in new investor participation, the fall in the number and size of IPOs, the severe correction in 'new age' listings, and some moderation in valuations from earlier levels, as the market has remained almost flat for 2022. At the same

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time, economic growth has sustained and strengthened. Moreover, while the foundation for a new rally is building, sentiment remains fragile, given the slew of global issues still remaining unresolved. We believe that enhanced volatility will rule in the first part of 2023, even while the investment case for Indian equities will further strengthen, till a tipping point is crossed, from where a new and sustainable rally will emerge. We will need to patiently wait for that.

2022 has been a year where "value investing" stole a march over "growth investing", after almost a decade, as interest rates and liquidity sharply reversed from easy to tight, and value stocks have been under-owned. We believe this 'value' rally may still have legs to run. This factor, along with the epochal commodity and fuel price inflation from the Ukraine war, has been the reason for the most challenging year for us in the last ten years. However, in the end, India is a stock picker's market and a growth market, and our style of growth investing will return. Till then we need to do our best to re-position ourselves for the next rally in the sectors we expect will lead it. We are taking smaller positions, holding a more diversified portfolio, and maintaining somewhat higher cash levels at the moment, till we feel that the problems that are troubling the world are clearing up.

Our fingers are crossed that the upcoming Union Budget will not hurt equity investors through the changes expected in long-term capital gains and we would even venture to hope that the maximum marginal rates of tax for individuals are rationalised from the extremely high level it is currently at, as has been done in corporate tax, to encourage capital formation and wealth creation.

We remain committed to doing whatever is needed to perform for you. It is our *raison d'être*.

Thank you and Happy New Year!

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