Monthly Letter

January 2024

Invest well. Celebrate life.

We were +1.0% in December 2023 vs +7.9% for the NIFTY50 TRI. On a rolling twelve-month basis, we were +60.8% vs +21.3% for the NIFTY50 TRI (all returns based on SEBI-mandated TWRR basis). Given the unsustainable extent of our outperformance in 2023, we are not surprised that a 'reversion to the mean' by many large-cap scrips has finally happened in December, which is why the NIFTY50 TRI has done so much better than we have. The big event in December was the unexpected dovish pivot by the Federal Reserve on its interest rate outlook for 2024. This resulted in a surge in FPI flows into our equity market, which stood at ~₹66k crores in just December alone, a near-record inflow for any given month. This, along with continuing inflows from domestic investors, resulted in our indices touching all-time highs in December.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	21.3%	60.8%
3 Years	17.2%	30.2%
5 Years	16.2%	27.1%
Since Inception (1-Mar-12)	13.9%	25.3%

*Figures are annualised, are as of 31st December 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 TWRR method.

High-frequency indicators for our Economy continue to trend positively. System services credit growth remains healthy while Industry growth is now slowing down due to the high base of last year (MSME growth is still buoyant). Tax collections, direct and indirect, are above trend and indicate that the fiscal deficit, projected at 5.9%, for this fiscal year should be easily achieved, putting the Government in a favourable position to pursue its growth-oriented plans. A year-to-date growth of 20% in direct taxes, upto mid-December, is indeed extremely positive.

The feel-good factor in the markets continues. After the stellar performance of the BJP in the state election results declared in November (viewed by markets as a harbinger of the Union Election performance in 2024), the dovish pivot by the US Federal Reserve in mid-December provided further impetus to market sentiment. This resulted in a fall in interest rates in global bond markets, as well as in India. The most significant constraint on markets globally through 2022 and 2023 has been the aggressive rate hike cycle of the US Federal Reserve, in its effort to bring inflation under control. Interest rates are singularly the most important factor that determine the valuation of all asset classes and a change in rates impacts valuations immediately. Once the US Federal Reserve indicates a pivot in its stance on interest rate hikes, other Central Banks too can take their foot off the rate hike pedal, as the pressure from the US dollar strengthening would significantly reduce. A more 'risk on 'environment can develop, and thus the increased flow of FPI funds into emerging markets like ours.

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As we mentioned earlier, the rally in December was what we call the 'revenge of the neglected', which means that after a period of prolonged underperformance, that cohort suddenly does well as the gap between the leaders and laggards becomes too large and unsustainable. However, once this plays out, the original rally leaders will again start outperforming. In the end, business performance is all that matters. Our market has always given growth stocks a heads-up over value plays.

Given the gains in the broad market have been significant in 2023, we believe we are likely to enter into a consolidation phase over the coming period so that the gains of 2023 can be digested. There are some reasons behind this, one being that valuations in a number of sectors in the domestic market are elevated and thus earnings have to catch up to these expectations. Another reason is that China as an investment destination, may see a 'revenge rally' of its own as FPIs struggle to enter the Indian market at the current valuations, finding comfort in China which is relatively much cheaper due to years of underperformance. Thirdly, the constant geopolitical flare-ups, such as what we are now witnessing in the Red Sea, keep the investing environment on shaky ground, as commodity prices and supply chains are impacted. So, while we are guiding for a quieter 2024, one should stay invested and allow the India story to compound in your portfolio over the coming years.

Best wishes for 2024!

RC

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