

# Monthly Letter

July 2025



*Invest well. Celebrate life.*

We were +2.7% for June vs +3.4% for the NIFTY50 TRI. Given the prevailing geopolitical and economic headwinds globally, this market performance suggests that the worst is behind us. The surprise cut of 50 basis points (versus an expectation of 25 basis points) in the repo rate by the RBI in early June provided a much-needed impetus to the market and should help revive consumption and investment demand as it filters through the economy. The additional 100 basis point cut in the cash reserve ratio of banks should also boost liquidity, which is the real driving force behind equity markets. The expectation of a trade deal with the US in the near future has also provided optimism. The total recovery of the US markets, from the deep fall into almost bear territory post 'liberation day', into all-time highs, given the significant uncertainties of doing business in the US at the moment, is something that has defied consensus and challenges interpretation. This is all the more striking given how multipolar the world is becoming, and the continuous weakness of the US dollar.

Returns*	Prodigy Growth Strategy	NIFTY 50 TRI
1 Year	-6.0%	7.5%
3 Years	25.3%	18.7%
5 Years	30.0%	21.4%
Since Inception (1-Mar-12)	23.2%	13.8%

\*Figures are annualised, are as of 30<sup>th</sup> June 2025, 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.

While high frequency data suggests that demand in our economy remains subdued in Q1 of FY2026, especially in consumer goods and the automobile sector; the belief is that with strong monsoons, interest rate cuts, benign inflation and personal income tax cuts coming into force, demand revival is around the corner. The recent purchase managers index (PMI) in June has improved to a 14-month high, suggesting that demand is improving. As the earnings season kicks off in a few days, we will be closely tracking management commentary for cues on sectoral trends and demand visibility.

One of the factors acting as a significant overhang for the broader market is the spate of divestment by promoters and private equity participants. It would appear that this constituency, having missed a chance to exit in September last year, is now using the current recovery to encash a part of their holdings. Over the last six months, we have experienced such bulk selling in as many as one-third of the stocks we hold. We expect this to continue going forward and is something we have to weave into our expectations as a new normal. The pipeline of new listings is once again full, and is also likely to keep market gains in check.

A clear beneficiary of the evolving global order and the conflagrations being witnessed with increasing frequency is the defence sector. Most nations are now forced to increase their budget allocations to this space, unfortunately, at the cost of other development expenditure, or by increasing their borrowing levels, leading to

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higher fiscal deficits. This marks a pivotal shift for many nations after decades of enjoying the 'peace dividend' a unipolar world afforded. The level of demand forecast has changed dramatically (the EU has now committed to increasing allocation up to 5% of GDP by 2035, from levels of below 2% today). Our own defence sector is also undergoing a structural shift. The need to reduce dependence on foreign suppliers of critical components is another factor driving domestic demand. The performance of Indian equipment in the recent war with Pakistan is also helping create an export market for our suppliers. This tailwind is likely to continue into the foreseeable future, as the world has changed permanently, with the US no longer able to play the role of a benign hegemon, and regional players have begun asserting themselves. Given these dynamics, we have increased our allocation to this sector to 10%+ of the portfolio.

India would appear to be one of the best emerging markets, if not the best one, to be invested in today. The factors for this have been highlighted by us in all our previous Monthly Letters. From the fiscal prudence, to the pro-growth reforms, to the demographic dividend, we believe that the 'India story' is alive and kicking. It will have its ups and downs, but the basic direction is strongly positive, with a sustained real GDP growth of 6.5%+, the best is ahead of us.

Thank you for your support.

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