Monthly Letter

July 2021

prodigy INVESTMENT MANAGEMENT

Invest well. Celebrate life.

We were +7.5% for June vs +0.9% for the NIFTY50 and +1.9% for the NIFTY500. For the quarter ended June, we were +22.9% vs +7% for the NIFTY50 and +9.4% for the NIFTY500 (all returns based on SEBI mandated TWRR method). In keeping with our process of paying out a part of quarterly returns to those who have opted for the same, we returned 5% of corpus this quarter. Our longer-term returns over various time frames are as in the table below.

Returns*	NIFTY50	Prodigy Growth Strategy	NIFTY500
1 Year	52.6%	98.6%	59.0%
3 Years	13.4%	21.9%	13.5%
5 Years	13.5%	24.1%	13.8%
Since Inception (1-Mar-12)	12.1%	25.5%	13.0%

*Figures are annualised, are as of 30th June 2021 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 Time-Weighted Rate of Return method for our Discretionary PMS which commenced from 1st March 2012.

Fortunately, the second wave of COVID19 in India has continued to recede over the past month, allowing for the unlocking of more geographies as the month progressed, which is an encouraging sign for business revival going forward. Vaccination rates too, have picked up pace. Coupled with this, the improving availability of vaccines augurs well for reducing the impact of any potential third wave. These factors have kept sentiment buoyant and the bull grip remains strong. We believe this is a buy on the dips market, with every correction seeing strong investor support.

Though Central Banks in the developed world have made a note of the rise in commodity prices, the risk of rising inflation, and rising interest rates as a result of their ultra-easy reflation programs, they have made it clear that there will be no change in their stance in the near to medium term. Thus, markets globally, after some hiccups, have continued their uptrend. This global risk-on environment has benefited all emerging markets and amongst them, India has been a big beneficiary. But the question that remains at the back of the mind for all intelligent investors is, what happens once these easy money policies are tapered, or what will happen from the worry that they will be tapered from early 2023? Will we be similarly impacted as happened in the well-documented taper tantrum of 2013 (the rupee plummeted and the market fell sharply from the exit of hot money from emerging markets)?

This time around India may be much better insulated from such an event than it was back then. India's forex reserves are much higher at USD$600 billion, more than double the level than that of 2013, and our current account deficit, which was almost 5% of GDP then, is negligible now. Also, on an important note, India has managed to tame inflation since the taper tantrum episode, with inflation remaining benign for the past years (though it has spiked recently), giving us some headroom to absorb any surge in the price of crude oil.

Though the fiscal deficit is at elevated levels due to the impact of COVID19, it should come back under control once the crisis passes, as the economy is expected to grow at high nominal rates, possibly in the low double digits in the coming year. This time the US Fed has also given a glide path well in advance, so that market participants can adjust their positions gradually, unlike the last time around when things happened quite suddenly. So, all in all, we should be able to weather any change in reflationary policies by global central banks much better this time around.

Interestingly, there is a resurgence in the global capex cycle, and in India too, we are seeing signs of the same. This reflects what we are hearing from multiple business earnings' calls; that they are expecting a resurgence in demand over the coming years, arising from domestic pent-up demand, from favourable government policies, like the PLI schemes, as well as from the inquiries arising from the China+1 re-engineering of supply chains. This will have multiple spin-off benefits across industry and is a big positive for markets.

Retail investor inflows into the market as well as into equity schemes of mutual funds remain robust. The under-allocation of domestic savings to equities, as well as the low rates of interest in the fixed income markets, appear to be driving this change; and it is likely to continue, given the positive spiral that investors are experiencing at the moment.

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The one concern that remains is the very low level of volatility in the market, which may be allowing excesses to build up in the near term, and thus could accentuate market turbulence due to any negatively perceived news flow. We go into earnings season for Q1FY22 expecting the economic impact of the lockdowns to manifest itself fully therein, but more important would be the outlook for the second half of this financial year.

Thank you for your support.

RC

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