Monthly Letter Mar 2021

We were + 9.1% versus + 6.6% for the Nifty in February. On a rolling 12-month basis we are + 42.7% versus +29.7% for the Nifty (returns on SEBI mandated TWRR basis). In continuing with the positive sentiment engendered by the Union Budget for 2021-22, markets and our portfolio performed well. However, with the resurgence of COVID-19 numbers in many parts of the country, the economic recovery momentum has been somewhat impacted, though it continues to trend positively. The rollout of vaccines to larger sections of the population should help re-establish the momentum. It appears unlikely that the uptick in COVID-19 numbers will get out of control unless some new variant makes an appearance.

The most positive factor for our markets is the new pro-growth and pro-business approach that this government has adopted over the last few months, which is a clear departure from the more socialist approach of the many preceding years it has been in power. The 'expand the pie' rather than 'redistribute the pie' approach is what investors globally are taking notice of. The recent slew of reforms also suggests an approach to take on the challenge of difficult to do structural changes, such as large-scale privatisation of public sector units, changes in farm laws, providing production-linked incentives to revive manufacturing and capital investment. The markets are rallying on this hope that maybe India's time to shine may be ahead. Much has to happen on the execution front for this to materialise, but then markets are clearly hopeful.

One of the worries over the last few months has been the relentlessly rising prices of crude, other commodities and freight. This was highlighted in most of the earnings calls we attended during the Quarter 3 earnings season. The fear has been that this would stoke inflation and cause bond yields to rise, apart from squeezing margins substantially. Up to a point, a hardening of yields can be absorbed by markets, but beyond that, this could cause a sharp correction. This is indeed what played out briefly towards month-end, and would serve as a warning of what may happen, should the rise continue. Hopefully, supply chains and production levels in commodities will catch up with demand, and help ease this issue. Rising inflation remains the key worry for markets globally, as the concomitantly rising bond yields would stanch the flow of liquidity into emerging markets.

We have oriented our portfolio from defensive to more balanced, with a renewed focus on high-quality financials, as we believe the worst of the credit cycle is behind them, as well as the fact that they can grow at 2X the growth rate of the economy in an upcycle. We continue to hold a reasonable allocation to Digital Businesses, Pharmaceuticals and IT Services. We remain positive on the markets.

Thank you for your support.

RC

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