Monthly Letter

November 2024

We were -3.3% for October vs -6.1% for the NIFTY50 TRI. The month witnessed a sharp correction on the back of heavy FPI selling as well as a weak earnings season. The concerns of a second Trump Presidency also weighed on emerging markets out of the fear of new tariff barriers and inflationary policies. The elevated valuations of our market, combined with these factors were enough to trigger a significant correction.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	28.4%	38.4%
3 Years	12.4%	23.2%
5 Years	16.6%	31.1%
Since Inception (1-Mar-12)	14.0%	25.5%

*Figures are annualised, are as of 31st October 2024, 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.

For most of the last year, we have been highlighting the risk for our market and the world at large of Donald Trump being elected for a second term. This has come to pass. While we may feel happy about the 'China+1' factor getting accentuated by this, we believe the risks for us as an economy as well as for our market outweigh the positives. The tariff barriers likely to be erected going forward are bad for our exports to the US (Trump has recently accused India of benefiting from the tariff levels it has, vis a vis the USA). The overriding concern is that the tax cuts promised in Trump's election manifesto and the proposed tariff barriers are likely to spur inflation once again and prevent the sustained reduction of interest rates by the US Federal Reserve. The already stretched US fiscal deficit would widen further (from already unsustainable levels), and government debt levels would further balloon. Trump's policies are good to win an election but just bad in economics. Ultimately, the bond vigilantes will force interest rates to be increased. This rise in interest rates would mean that emerging economies like ours will be unable to reduce their own interest rates which in turn would hurt our growth outlook (else our currency would depreciate and lead to inflation anyway). High interest rates would also hurt capital flows into emerging markets. Thus, there are many knock-on risks arising with the change of guard in the mother market (US).

Trump's policies would hurt global trade in a big way by erecting high tariff barriers which would be retaliated with a corresponding rise in tariff barriers. This will only accelerate the trend of de-globalisation. Geopolitics could also take a turn for the worse with the US reassessing its role as the main deterrent to rogue regimes. The future of Ukraine and Taiwan becomes unknown. Europe will have to spend significantly more on its own defense. Thus it is hard for us to feel constructive about an unfettered Trump Presidency and there is now a very high tail risk of a crisis being brought about by his policies or actions. Given there is a clean sweep on the cards for the Republican Party, the checks and balances that were in place during Trump's last term are out of the way and this time we are likely to see a more aggressive, increasingly unpredictable Trump. However, despite this,

we are seeing markets celebrate the Republican victory with stocks in green, gold in red and lifetime highs for more speculative assets like bitcoin. This could be due to the belief that there is now a 'Trump put' in place, meaning the government will not allow a sustained stock market crash or recession, forcing the Federal Reserve to intervene with a bailout.

FPI's net outflows of over USD 13 Billion from our market in October were amongst the largest monthly outflows ever. That our market fell just ~6% in the face of such selling, is a testament to the strength of domestic inflows that counterbalanced the same. It is good to know that our market is no longer a slave to what FPIs do, as was the case a decade ago.

The earnings season so far has been muted and reflective of a clear slowdown in urban consumption. Industrial demand has also been impacted by the very heavy monsoons in many parts of the country. However, we believe that these factors are temporary in nature and demand should rebound in the months ahead; a strong festive season off-take is indicating the same. We are also hearing of a rural demand pick-up from certain FMCG companies, adding some optimism during a gloomy period. Government spending is also expected to be strong in the second half of this fiscal year, which should provide an impetus.

In this scenario what may work for us is the fact that India's dependence on foreign trade, compared to other emerging markets, is relatively less. Our economy is strong and growing on the back of domestic demand. Export growth has been muted for many years now and we have still grown at ~7% annually. Politically, India and the US have been growing closer over the last decade, and the US sees India as a strong counterbalance to China in Asia; thus they may not want to disturb this relationship. The US will also want access to our market and human resources. India's large foreign exchange reserves and solid fiscal situation, are significant internal strengths. The shift in US focus towards fossil fuels may keep a lid on oil prices, which would be a big benefit to us. Thus every dark cloud has a silver lining, and we feel in due course these strengths will get reflected in our market. We have weathered much turmoil in the past and this time we will do so again.

Thank you for your support.

RC

Disclaimer: This report is for the personal information of the authorized recipient and does not construe to be any advice to you. Prodigy Investment Management is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.