Monthly Letter

October 2023

prodigy INVESTMENT MANAGEMENT

Invest well. Celebrate life.

We were +0.6% in September vs. +2.0% for the NIFTY50 TRI. Given that August was an exceptionally strong month for us (+9.1% vs. -2.3% for the NIFTY50 TRI), we are not surprised that the current month was subdued. In fact, reversion to the mean, and how to manage the same, is something that we think a lot about. We believe the coming months will be a consolidation period for the significant gains we have witnessed over this calendar year, as macro headwinds have strengthened significantly in the last few weeks. Indeed, for the past many months, it has been a battle between the strong domestic impulse and the weak global macro. However, this time the rise in domestic valuations and the significant deterioration in global macro, has tilted the scales negatively, even though the domestic economy remains robust.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	16.1%	43.5%
3 Years	21.9%	30.9%
5 Years	13.8%	23.6%
Since Inception (1-Mar-12)	13.2%	24.7%

***Figures are annualised, are as of 30th September 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.**

The much-awaited announcement in September, of the inclusion of Indian Government Bonds into the JP Morgan Emerging Market Bond Index from June 2024, in a phased manner, rising to a total weight of 10% by early 2025, is a very big structurally positive event. This could result in an additional inflow of between 20 to 25 billion USD of passively tracking foreign funds into India. This will help in stabilising the rupee and softening interest rates, it will also enhance the available funds for the Indian corporate sector. Adding to this, we could see other emerging market bond indices, in due course, include Indian bonds. In fact, recent news suggests that Bloomberg is also considering including Indian bonds in some of its global bond indices, which could mean another similar quantum of inflows. This development signifies the increasing attention India is receiving on the global stage, as its economic heft grows. If India keeps its fiscal parameters strong, as it has been doing; the deepening of overseas bond investor participation can grow significantly, as the allocation of this class of global investors to Indian bonds is very low at just 1% today.

September, fortunately, saw an adequate revival of the monsoons, such that in the end the monsoons have been approximately just 6% below average (from a mid-monsoon level of over 10% below average). This should help keep inflation expectations in check, as well as keep demand sentiment positive for the festive season ahead. On the other hand, global macros saw a significant deterioration over September, with the US Fed striking an increasingly hawkish tone; given the robust US labour market data, pushing up treasury yields sharply in the US to around 4.8%, a sixteen-year high. With the US Fed appearing to walk the talk on the 'higher for longer 'narrative, the US markets now appear to be entering a bear phase. The world continues to keep a close eye on crude prices, which have threatened to flare up past what would be an unpalatable USD100+ per barrel for equity markets. All this has resulted in strong monthly inflows from FPIs in calendar 2023, swinging to negative in September. Stocks with the maximum holdings of FPIs, like private sector banks, have thus been impacted the most. US politics, of late and all too frequently, have begun to throw a spanner in the works, once again we are witnessing political brinkmanship surrounding the debt ceiling issues in the US. This is also impacting yields, and even though early signs of softening in inflation and crude prices appear to be there, the debate rages as to whether or not yields are peaking. Our sense is that we are nearer to the peak than not, which means things should improve from here.

The high-frequency data for the Indian economy continues to insulate Indian equity markets from the intensifying macro headwinds. Automobile sales, GST collections, PMI reading, etc., all reflect the continuing strength of the domestic economy. Credit rating upgrades from the rating agencies are at a decadal high, reflecting the robust nature of cash flows for domestic-oriented businesses, especially in sectors that have revived after a long duration such as capital goods and infrastructure. Exports are the Achilles' heel for the economy at the present moment. However, with the China plus 1 theme playing out, and more global manufacturing investment coming to India; over the long run this should create a foundation for exports to grow secularly.

In summary, we believe that the market is likely to consolidate for some time and digest the gains seen over the past few months. We remain in a 'buy on the dips 'market. The earnings season for quarter two of fiscal 2023 is around the corner and will give us important clues for the rest of the year. We remain upbeat on the whole.

Thank you for your support,

RC

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