Monthly Letter

October 2022

prodigy
INVESTMENT
MANAGEMENT

Invest well. Celebrate life.

We were +0.8% for the month vs -3.4% for the Nifty (longer-term returns in table below). Once again, the month witnessed elevated volatility emanating from the divergence in the strength of the Indian economy (reflected in our high-frequency indicators), and the recessionary trends in the global economy. While the Indian markets have been outperforming all global markets for a while now, the question remains as to whether this can sustain as the gap continues to widen.

Returns*	NIFTY50	Prodigy Growth Strategy
1 Year	-3.0%	-7.6%
3 Years	14.2%	26.3%
5 Years	11.8%	14.4%
Since Inception (1-Mar-12)	11.4%	22.5%

***Figures are annualised, are as of 30th September 2022, 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 Time-Weighted Rate of Return method.**

As the US Fed raised rates by 0.75% once again in end September and adopted a stridently hawkish tone on a further rate increase and raised its final target rate further to 4.75% from 3.5%; FPIs, who had turned buyers in our markets over the past few months, once again turned aggressive sellers. This caused a sharp correction towards month end. If this trend persists, then it could be tough for our market to sustain the recovery we have witnessed over the past few months, notwithstanding the strength of the domestic economy. The US Feds' job to control inflation is even tougher given the strength of the US jobs market, and reigning in inflation under control may drag on for longer than is good for anyone.

Europe is grappling with its own inflation problems arising from the continuing energy crisis, and China is also showing a sharp slowdown in growth, due to its real estate sector problems and zero covid policy. Thus, indeed the world economy is in a very tough situation, and this is exacerbated by the tightening of rates in the US, leaving no wriggle room for central banks in other countries, which must follow suit, or allow their currencies to depreciate. The sheer speed and aggression with which the US Fed is raising rates is a huge challenge to adjust to for everyone, especially for emerging market economies.

In this milieu, India has been standing out as an ocean of relative calm. However, the global slowdown is reflecting in our rising current account deficit, as exports are clearly slowing down. The China plus one factor, which we have alluded to often, as well as the traction of reforms of the recent past, are all buoying the domestic economy. However, if the headwinds strengthen further, it will have an adverse impact. So far, the rise in interest rates does not appear to have dampened domestic demand (auto and housing sales are at record highs in September, and credit growth is very robust), however, if rates rise further as the US Fed continues its journey, the impact will be seen at some point.

Over the past years, the asset quality of our banking sector has seen a sea change for the better, on the back of banking sector reforms. Now we see that the credit ratings upgrade to downgrade ratio for the Indian corporate sector for the first half of the current financial year is at a decadal high level of between 3:1 and 5:1 for the important rating agencies. This reflects both the improvements in balance sheet quality as well as the improvement in demand for the cyclical sectors of the economy. This is an important indicator of the improved health of India's corporate sector and its ability to borrow and grow.

With so many moving parts to the extant economic environment, it is extremely difficult to predict the near to medium-term outlook. Suffice to say that it will be extremely volatile. While the recent weakness in the US economy has triggered a sharp bounce in global markets on the belief that this will prompt the Fed to take its foot off the tightening pedal, it's too early to make any firm predictions based on small data slices. So long as the US dollar continues to appreciate, and the end of the rate hike cycle is not visible, it is fair to say that making money in the market is going to be hard, notwithstanding the strong footing the Indian economy is on. However, we feel increasingly confident that the years beyond this period will be extremely positive for us. We need to be patient and let this transpire.

Thank you for your support.

RC

301-302, Mittal Avenue, Nagindas Master Road, Kala Ghoda, Fort, Mumbai – 400 001. India Tel: +91 22 22875801