Monthly Letter

September 2021

Invest well. Celebrate life.

We were +3.3% in August versus +8.7% for the NIFTY50. On a rolling 12-month basis our returns are +83.4% vs +50.4% for the NIFTY50 (since 1st March 2012 our CAGR is +26.4% versus +12.9% for the NIFTY50 as per SEBI mandated TWRR method). The rally in the NIFTY50 was a catch-up on the broader market, which has been significantly underperforming for over a year now. As our orientation has been more towards the broader markets, we have had a relatively quiet month. In fact, it is good to see the NIFTY50 make a strong up-move as it imparts confidence that the market rally is likely to sustain. We are slowly reorienting the portfolio towards larger businesses, as there appears to be greater value to be found as compared to the mid and small caps. The focus is also likely to move back to the sectors that were worst impacted by the second wave. They are now likely to witness an accelerated recovery, especially financials.

Confidence is growing in the economic recovery as the second wave continues to ebb. Alongside this, the vaccinated population level continues to rise rapidly; and apart from Kerala the entire country, post opening up, is still seeing low rates of infection. While the risk of a third wave due to the upcoming festive season needs to be watched, the chances of it being as devastating as the previous one appears low, unless it is once again of a new variant. Most economic indicators are showing a V-shaped recovery, which is likely to sustain as the festive season begins.

World markets got a fillip from the dovish stance that the US Fed espoused at the Jackson Hole policy meeting last week, citing current inflation spikes as transitory. This has been an overhang for markets for the last few months. The guidance to keep interest rates soft for an extended duration has given renewed confidence to the bulls. Only time will tell whether or not this stance by the US Fed is helping sustain a recovery or simply creating an unstable and inflated asset bubble. Post this event, the

rupee has also strengthened, a sign of confidence in the India story from overseas investors, especially given the recent developments in China (covered in our last Monthly Letter). We believe that even when the US Fed does begin to taper its bond purchases, India is likely to be less affected by the same than it was in the past (covered in the July Letter).

We believe we are in a mature, but not overly ripe, bull market. Last month's price action suggests that this remains a buy on the dips market and a rotation into the more beaten-down sectors will probably drive the next leg up. While it has been a liquidity-driven market thus far, an earnings recovery hereon is likely to provide fuel for the next phase. All the reforms of the past years (such as GST implementation, cut in direct tax rates, PLI schemes to drive capital expenditure, clean-up of the banking system) which never got a chance to gain traction due to the pandemic, should now cumulatively help the nation's GDP to accelerate. Low interest rates continue to play a big role in the recovery.

There are a few factors that could derail the recovery, and they need to be monitored closely. International freight rates have gone through the roof as container availability is severely crimped by the elongation of turnaround times in China. This has not only had a severe effect on supply chains and raw material costs but is also impacting exports. Secondly, the monsoons seem to have tailed off in August and we are now looking at a sub-normal monsoon season unless there is a good recovery in September. Thirdly, commodity prices continue to remain elevated and not all businesses can pass them on. Lastly, the chip shortages have worsened and the entire automobile sector is downgrading its output in the near term, with Maruti being the latest to do so. This is a significant sector with many linkages through the economy which may also be impacted. While most of these issues appear transitory, their duration to normalisation will be key.

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The important thing for us at the moment is to maintain our discipline, stay sensible, and not chase returns. This may mean letting go of some near-term gains, but that is the cost of good risk management. In the end, we make only what we manage to keep.

Thank you for your support always.

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4th Floor, Oricon House, K. Dubash Road, Fort, Mumbai – 400 001. India Tel: +91 22 22875801