Monthly Letter Jan 2021

We were up 6.6% in December (Nifty up 7.8%). For the calendar year 2020 we were up 38.7% versus 14.9% for the Nifty. A 'risk on 'sentiment, along with the secular fall in Covid-19 cases in India over the past few months, continue to drive the markets higher post the vaccine approvals. These have engendered a belief of a strong economic recovery through 2021.

As Central Banks across the developed world continued to reflate their flagging economies with huge stimulus packages (USD 5.6 trillion in total since March 2020), the record inflow of FPI funds into our market continued (Rs 62k crs in December). Even the concern over the new virus strain discovered in the UK, managed to cause only a hiccup in this rise. The term '*don't fight the Fed'* is likely to be on display in 2021 as well. In the context of the US Fed planning on holding interest rates at current levels for a few years, valuations may not be as stretched as they would have appeared to be otherwise.

Various data points seen in early January indicate that the economic revival in India is gaining traction, and is sustaining beyond just pent up and festive demand. GST collection growth, import growth, bank credit growth, rail freight growth and revival in commercial vehicle demand, are some data points that back up the economic revival hypothesis. We believe the earnings season for Q3FY21 will reflect this rebound in demand, but the inflationary pressure of commodity prices especially steel, may impact margins. Inflation levels are a dampener at this point; however, a good winter harvest may help ease the same.

The narrative from the Finance Ministry suggests the Union Budget for FY 2021-22 will be a growth oriented one. However, in the recent past, markets have had an extremely negative reaction to the Budget, and the scars run deep, which may give rise to skittishness as the same approaches. The Production Linked Incentive (PLI) schemes announced over the last few months are expected to be extended further in the Budget. This reform is expected to generate good FDI flows, as well as revive capital expenditure.

It would appear that the rally has strong legs at the moment. As mentioned earlier, valuations when viewed through the lens of a low interest rate environment, are not as expensive as one would otherwise believe. The IPO market has also revived in a big way and is drawing tremendous retail participation. The broad-based nature of this up-move is also very encouraging. The excesses that would make us cautious about the rally are making a small appearance now. We shall watch for them closely, and guard against any complacency that accompanies such times.

Happy New Year!

RC

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