Monthly Letter

May 2024

prodigy INVESTMENT MANAGEMENT

Invest well. Celebrate life.

We were +6.2% in April 2024 vs +1.2% for the NIFTY50 TRI (all returns based on SEBI-mandated TWRR basis), as the recovery in the broad market continued the month post the selloff in March. Notwithstanding this recovery in the broad market, we continue to slowly rotate the portfolio into larger and more liquid names, as the risk-return equation in the broad market has turned less attractive over the last twelve months, on the back of a significant rise in valuations.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	26.4%	64.0%
3 Years	16.9%	27.6%
5 Years	15.3%	27.9%
Since Inception (1-Mar-12)	13.9%	25.1%

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

As the country moves into the final stages of the Union election, we expect volatility to rise in the weeks ahead. No matter how certain an outcome is, unless it is finally sealed and delivered, the jitters always remain. So long as the incumbent party wins a comfortable majority, we believe the market will be happy with the outcome. Government spending would restart post-election, with renewed vigour and private sector capital investments which are in the pipeline, but are waiting for the election to conclude favourably, should also kick off and give the economy a renewed momentum.

High-frequency indicators show the economy to be in fine fettle. GST collections reached a record high in April and direct tax collections for the fiscal year 2023/24 were extremely buoyant. Both direct and indirect taxes have exceeded the budgeted targets for fiscal year 2023/24. These elevated revenue receipts for the Government give it the spending power it needs to push capital and infrastructure spending aggressively. Once the new government settles in, we expect the next round of reforms to drive sentiment further. So, we wait and hope, for the election results to be favourable, as it will mean political stability and policy continuity for the next five years. The 'India Story', which is finally in progress, can continue to play out.

Interest rates in the US have hardened on the strength of the economic data released in April, showing inflation to persist at levels above those required for the Federal Reserve to cut rates in the near to medium term, as was hoped for earlier in the year. This caused investor sentiment to flag, as pundits changed their forecast for a cut in the US interest rates by the Federal Reserve to the end of 2024, from mid-2024. This also caused an outflow of FPI funds from emerging markets like ours. However, the strength of domestic inflows is now acting as a sufficient counterbalance to these outflows and thus, our market was able to withstand the same.

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Foreign Portfolio Investor holdings as a percentage of NIFTY50 listed stocks have now fallen to their lowest since December 2012. From a peak of 21.2% in December 2020, this is now 17.7%, whereas domestic institutional investors now hold 16%, up from 13.6% in December 2020, thus showing the impact of the strong inflows from domestic investors over the last few years. The gap in the holdings between these two types of investors was at its highest in 2015 at over 10%, which has now narrowed down to under 2%. This means that our market is no longer a pawn to foreign investor sentiment, the way it used to always be. In fact, this inflow from domestic investors, should it continue with the same momentum, may mean that India is finally moving towards capital sufficiency from within, something very significant.

Recent commentary from consumer-facing businesses suggests that post mid-March there has been a pickup in demand. So far, this rally has been driven largely by the investment side of the economy. This has been a weak spot in the economy which seems to be turning into an area of strength, and with the prediction of a good monsoon season ahead, we believe that the GDP growth forecast of 6.8% for 2024/25 seems achievable, with both, the investment and consumption sides of the economy firing.

In every Monthly Letter we speak about the one factor that can derail the market, this is often the geopolitical risk in various regions of the world. The re-election of Donald Trump is another factor that can dial up the geopolitical risks already lurking on the sidelines. Yet another factor is the precarious fiscal and over-leveraged position of the US Government and all the central banks of the developed world. When the 'chickens come home to roost' will be a day of reckoning for financial markets not just in the developed world, but with cascading effects globally. No wonder that gold is doing well, notwithstanding the hardening of interest rates. It is a reflection of all these uncertainties. As long as these risks do not escalate or snowball into something bigger, India will do well and actually benefit as a safer geography. But if they spin out of control then nobody will remain unscathed.

Let us hope and pray for a world where these tensions de-escalate.

Warm Regards,

RC

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