Monthly Letter

July 2024

We were +10.0% in June vs +6.8% for the NIFTY50 TRI. June was one of the most volatile months we have experienced recently due to the false expectations the exit polls created. The relief that the new Government was likely to be a stable one and result in policy continuity in the coming years, with a few tweaks to reflect the areas that needed renewed focus, resulted in a sharp bounce back and took the market into 'All Time Highs' (ATH). While ATH is a wonderful thing, we need to be aware of the fact that now valuations in the sectors that have led the market to these levels, are indeed elevated, and we need to proceed with extra caution.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	26.6%	57.8%
3 Years	16.5%	25.7%
5 Years	16.7%	30.3%
Since Inception (1-Mar-12)	14.3%	25.9%

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

The date for the Union Budget for fiscal year 2024-25 has been announced as July 23rd, and this will be an important date for the market. Proof of policy continuity for sectors like Manufacturing, Railways, Renewable Energy and Infrastructure would be widely expected, as well as an increased focus on spending for rural and social sectors and more benefits for the middle class. Thus, some shift in focus towards the consuming sectors of the economy should be evident, as the neglect towards the lower income segments and the rural population might have resulted in the poll results coming in well below the expectations of the ruling party. The strength of the economy and the resultant buoyancy in tax collections, both direct (advance tax collections up 27% year on year in June) and indirect (robust GST collections), as well as the enhanced dividend from the RBI this year (Rs 2.1 trillion), gives the government space to fulfil this shift, without compromising on fiscal rectitude. Hopefully, there will be no changes in the Capital Gains Tax regime, which could impact retail inflows into equities, which have been such a counterbalance to FPI outflows at various times over the past couple of years.

The election of Donald Trump as the next President of the United States seems almost inevitable post the exceptionally poor performance of Joe Biden in the recent Presidential debate. This has serious and mostly negative consequences for the world, geopolitically as well as economically. We have been highlighting this repeatedly over the past many months, hoping it would not come to pass, yet now it appears to be almost certain. The implications of America's stand towards NATO and its position as a defender of the rights of smaller nations; raising of tariff barriers on imports, especially from China, and engendering an era of rampant protectionism; a pull back from policies to fight global warming; weakening fiscal rectitude which can push up inflation and interest rates all over again; are some of the serious consequences of a Trump Presidency. No matter how strong our economy is at the moment, global headwinds the nature alluded to above, can slow us down a lot. When China grew as fast as it did in the decades gone by, it had the benefit of global tailwinds, which in our 'golden decade' ahead, may be the opposite.

The much-awaited inclusion of India into the global bond indices started in June, this event has led to strong inflows over the last couple of months. Over the next year, this is expected to bring in flows of over USD 25 billion into India, help stabilise the currency and result in a fall in our bond yields by 25 basis points. FPIs have also turned strong buyers in June, post-election results while the retail flows have remained strong, if the budget is reform-oriented and the flows remain strong, the structural upmove in the market is likely to continue.

While the monsoons were disappointing in June, a pick-up during the first week of July has narrowed the deficit, which should help in meeting the seasonal target. Government spending, which was at an ebb due to the elections, would have an impact on the earnings for the quarter ended June 30th for many sectors. However, post Budget this should pick up.

While we remain a buy-on-the-dips-market, given the recent run-up, we need to be slow on pushing fresh funds into the market. We will watch and wait for the Budget and the earnings season ahead to give us direction.

Thank you for your support as always.

RC

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