Monthly Letter

June 2024

Invest well. Celebrate life.

We were +1.3% in May vs 0.0% for the NIFTY50. However, this data appears inconsequential in light of the upheaval witnessed in the Union election results announced on June 4th, and the ensuing post-election volatility, which was also a result of all the exit polls getting it surprisingly wrong. The 'K' shaped recovery of the economy (where the premium segments of all consumer-oriented sectors were recording strong growth, whereas the entry and mass market segments were struggling), post-covid, in hindsight was probably the biggest indicator that all was not well with the rural and lower segments of society, and this is what made the anti-incumbency factor significantly higher than accounted for. The overconfidence of the ruling party may have led to some amount of hubris, which led to errors in the selection of local leaders to contest on its ticket. Thus, while the result was a negative surprise for the market, in the long run, a strong opposition should be beneficial for the country.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	22.9%	52.5%
3 Years	14.4%	24.8%
5 Years	14.9%	28.0%
Since Inception (1-Mar-12)	13.8%	25.1%

*Figures are annualised, are as of 31st May 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.

With the ruling party returning to power, but well short of the 272 halfway mark, and with coalition politics returning after a gap of ten years, the stability premium our market has enjoyed will undoubtedly erode. While issues like the demands from the minority partners for sharing of ministries and if any other special dispensations are still to be known, the impact of coalition politics on a shift in focus towards greater social spending, at the cost of the current focus in investment spending, and the impact this may have on the fiscal deficit glide path, which has been the major most achievement of this Government to date, is likely to cause some jitters. And jitters don't help already elevated valuations. The coming days and the first full Budget of NDA 3.0 will be the cynosure of everyone, to get these all-important answers.

Notwithstanding the new uncertainty, the 'Goldilocks' economic scenario (one of high growth coupled with moderate inflation) that India is experiencing currently is likely to be sustained. High-frequency indicators remain robust, the monsoon prediction is one of a surplus this season, inflation and interest rates appear to be at an apogee, and the special payout to the Government of Rs. 2.1 trillion by the Reserve Bank of India (from higher yields earned on US Treasury holdings, and versus an FY25 budgeted amount of approximately Rs. 1 trillion) provides a substantial cushion, maybe to undertake the social spending shift this financial year. The fiscal deficit for FY24 of 5.6% was better than the revised estimate of 5.8% as well, indicating that the Government revenue collections are extremely robust. All this points to the fact that the necessary shift in spending towards rural and social sectors can happen, without a major disruption to the earlier focus on investment spending. Once again, whether the focus on divestment of public sector holdings will be diluted or not, will be known once the first full Budget is presented.

There is some chatter on whether or not capital gains on equity investments will be changed in the upcoming Budget. Given that it has been the strong inflows from the retail investors, directly or through the mutual fund route, that has counterbalanced the significant recent selling by foreign investors, portfolio and private equity, as well as from promoters themselves; it would be unwise to hurt this cohort, which has embraced the equity culture with such sustained strength, right from post-covid times. The equity portion of total mutual fund assets is now around 60%, from a level of 40% in December 2020.

As long as the ruling coalition stays united, the downside to the market, given the strong economic environment, is limited. There is a level of unpredictability arising from the demands of the coalition partners, wherein we could see the reallotment of key portfolios which can impact transformational reforms in high-growth areas of the market. However, whether this transpires or not, is anyone's guess. Aside from this, geopolitics remains uncertain as ever, and we have learned to live with that over the past few years. The foreign investor shift to China is also probably more cyclical than structural; we see foreign funds returning to India, as yields soften in the US later this year. Thus, we feel the India story will continue, but with a lag, as investor comfort with coalition politics will take time to rebuild. It is best to stay invested, and let confidence return in the new Government.

Best wishes,

RC

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