Monthly Letter

May 2025

prodigy
INVESTMENT MANAGEMENT
Invest well. Celebrate life.

We were -3.3% in April vs +3.5% for the NIFTY50 TRI. The uncertainty engendered by Trump's flip-flop on tariffs hurt investor sentiment deeply, and the terrorism in Kashmir added to this. The broader market, where most of our investments reside, bore the brunt of this, and the positive return in the NIFTY50 was primarily due to the narrow nature of the rally in a few heavyweights (especially Reliance Industries), reflecting the 'risk off' sentiment. It is said that the darkest hour is before dawn, and maybe we are passing through this. We expect this phase to run for some time and do not see a 'quick fix 'to the current situation. We would now rather hold most of our ideas through this period, as their growth profile will ultimately reflect in a price recovery once things stabilise.

Returns*	Prodigy Growth Strategy	NIFTY 50 TRI
1 Year	-5.4%	9.0%
3 Years	15.7%	13.8%
5 Years	28.4%	21.2%
Since Inception (1-Mar-12)	22.5%	13.5%

*Figures are annualised, are as of 30th April 2025, 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.

In the ongoing uncertainty, we see a silver lining for our economy. We believe supply chains will have to increasingly reorient themselves to include some manufacturing in India, as the alternative destinations will carry a higher level of tariffs to the US. There is also a growing global investor belief that the period of 'US exceptionalism' is over. Clearly, overseas investors in the US are starting to pare their assets, and this is getting reflected in a weaker US dollar as funds leave US shores for other currencies and asset classes, including emerging markets. We are seeing this trade play out in Gold, which is up ~27% year to date as asset allocators and central banks trade the uncertainty of the US dollar for the safety of the yellow metal.

While the first half of April witnessed an outflow of FPI funds in our equity market, this reversed sharply in the second half of the month, resulting in an overall positive number for the month. We view this initial outflow as the tip of the iceberg, as this outflow from the US is likely to accelerate (just a 5% liquidation of US assets by overseas investors in the US would mean an outflow of USD 1.5 trillion, for context, India's equity universe has a total market capitalisation of USD 4 trillion). The biggest trade in the world is the 'sell 'US assets trade. This is the unintended consequence of the US administration's aggression — directed indiscriminately at both friends and foes alike.

Another factor that is working in our favour currently is the sharp fall in crude prices, as many oil-producing nations have agreed to up production levels to ingratiate themselves with the US administration. This, along with the stronger rupee, means that inflation will remain benign. Inflation levels in India at ~3.3% are already well within targeted levels, and this gives room for the RBI to reduce interest rates further. The RBI has also been taking many measures to increase liquidity levels in the economy, which will allow the transmission of lower rates to borrowers. In addition to these factors, there is an expectation of good monsoons once again, and strong GST collections, which reflect the strength of the underlying economy. Rural demand is improving, and the tax relief provided in the last Union Budget should also help improve urban demand, which has been flagging. The ongoing earnings season has been weaker than expected, and this has also hurt the market. Hopefully, all the above factors will lift earnings and demand going forward. At the moment, it is best to avoid all businesses with externally facing business models due to the uncertainty of global demand. The realignment of supply chains will also take some time to manifest in earnings.

We believe we have gone through a significant part of the correction in our holdings price-wise. However, time-wise is harder to predict, as the geopolitical scenario remains fluid. The future for a nation like ours appears significantly better than almost anywhere else in the world today. However, we will need to be patient and let this play out.

We remain committed to performing well for you.

RC

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