3-Oct-2024

Dear Investors,

Greetings!! Our performance as of last month is as follows (Exhibit 1).

Exhibit 1: TWRR Performance (after all fees and expenses) as of 30-Sep-2024

Investment Approach (Benchmark)	Inception Date	AUM (INR cr)	1M	3M	6M	1Y	Since Inception (Annualized)*
Flexicap	**11-Apr-23**	**97**	**2.0%**	**9.9%**	**25.9%**	**38.9%**	**38.0%**
(S&P BSE 500 TRI)			2.1%	7.7%	20.2%	41.1%	40.9%
(Nifty 50 TRI)			2.3%	7.8%	16.6%	33.0%	31.2%
Small MidCap	**11-Dec-23**	**148**	**-2.8%**	**26.8%**	**57.7%**	**NA**	**60.4%**
(S&P BSE 500 TRI)			2.1%	7.7%	20.2%	NA	30.5%
(Nifty 50 TRI)			2.3%	7.8%	16.6%	NA	24.3%
Blend	**11-Aug-24**	**2**	**-1.6%**	**NA**	**NA**	**NA**	**0.6%**
(S&P BSE 500 TRI)			2.1%	NA	NA	NA	5.7%
(Nifty 50 TRI)			2.3%	NA	NA	NA	6.1%
Other AUM		**186**					
Total AUM		**433**					

**Returns for Flexicap are annualized as it has completed one full year. However, returns for Small Midcap and Blend are not annualized as they are yet to complete one full year.*

Too many forces exerting their pressure on the market

We seem to have entered a unique phase of the market where we feel too many forces are exerting their pressure on the market – few very positive and few very negative. In our opinion, it is important for investors to reflect on those.

Geopolitics

- With yesterday's attack of Iran on Israel, the Middle East tension has transformed itself into full-blown war. Since the attack of Hamas on Israel on 7-Oct-23 i.e. for almost a year, Israel has been fighting organizations like Hamas and Hezbollah in its adjoining areas. However, going forward it will no longer be a fight against the proxies, but a war between two nations.
- Iran is a very large country in size as compared to Israel. Also, Iran has some sort of nuclear capability and surprisingly, nuclear deterrence has not proven to be effective in this case. In addition, the two are not contiguous.
- We have already seen how the Russia-Ukraine situation has been dragging on for almost 3 years now. Our limited conclusion that it is very difficult for such complicated situations to resolve themselves in a short period of time. There is too much history, bad blood and entrenched political interests that comes in the way of any potential resolution.
- How this will eventually play out is anyone's guess? One needs to be very watchful of the emerging situation.

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- Having said that, the saving grace for India is that the only direct economic impact of all this is on availability and pricing of crude. In the Russia-Ukraine war situation, Indian Government has handled the crude procurement in a highly astute manner, and we have confidence that they'll be trying their best to mitigate any negatives this time too. Also, with upcoming US elections, we believe US will also try to do its best to prevent any material spike in crude prices as this would stoke inflation during election season.

US Elections

- In less than 2 months, US will be heading for its Presidential elections.
- On one hand, we have Donald Trump talking about geopolitical stability, cryptocurrency, lower taxes and lower interest rates.
- On the other hand, we have Kamala Harris talking of extreme things like taxes on UNREALIZED CAPITAL GAINS!!
- We feel this event can exert a lot of influence on the market either way.

Aggressive Global Stimulus/Interest Rate cuts

- US Fed has already delivered a 50bps rate cut last month. It was quite sizable and clearly signalled to the market that inflation is no longer a concern for them. Markets are expecting a total of 100-125bps cut in CY2024 and a further 100bps cut in CY2025.
- In addition, other leading central banks like European Central Bank (ECB), Bank of Canada, Bank of England and People's Bank of China (PBOC) have also cut rates and started to stimulate the economy.
- In fact, China has started to aggressively stimulate its economy by announcing incentives for home purchases, car purchases etc. Hang Seng Index, which had hit a high of close to 32000 in 2006 and then again in 2018, was trading at almost 17000 until end-Sep (Exhibit 2)!! One can imagine the state of Chinese economy and the wealth destruction that has taken place due to faulty and aggressive economic policies of the Chinese Government.

Exhibit 2: Long-term chart of Hang Seng Index

Source: TradingView

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- RBI MPC is scheduled to meet on Oct 7-9. Consensus doesn't expect a rate cut from RBI this time around, but does expect in Dec. We feel it is a now a matter of "when" and not a matter of "if".
- Indian 10-year bond yields have already declined from a recent high of 7.25% to 6.75% (Exhibit 3) and wholesale borrowers are benefiting from this decline. Households will also start to benefit from lower mortgage rates as and when RBI decides to cut rates.

Exhibit 3: Indian 10-year Government Bond Yields

Source: TradingView

Domestic Matters

- In addition to all the above extremely significant matters, there are many other things to reflect upon, namely:
    - State elections in Jammu & Kashmir, Haryana and Maharashtra. Obviously, from an economic point of view, Maharashtra is a very significant state and any major developments in Maharashtra can impact the pace of infrastructure spending for entire nation.
    - Several large-ticket IPOs like Hyundai, Swiggy, NTPC Green and HDB Financial are in the pipeline and are likely to suck almost INR 50,000cr of liquidity out of the system in the next 2-3 months. This could create some temporary demand/supply imbalance.
    - F&O tweaks: SEBI has formalized some of the changes to F&O segment, particularly index-based derivatives and that too largely for Options. These changes do not affect the current state of demand/supply equilibrium in the equity markets. In fact, on the margin, these are quite healthy as retailers were losing a lot of their wealth trading short-term options.
    - Valuations continue to remain rich (Exhibit 4) given liquidity, and it is important that growth should continue. We'll have a better sense of that as the Q2 results start to pour in from next week.

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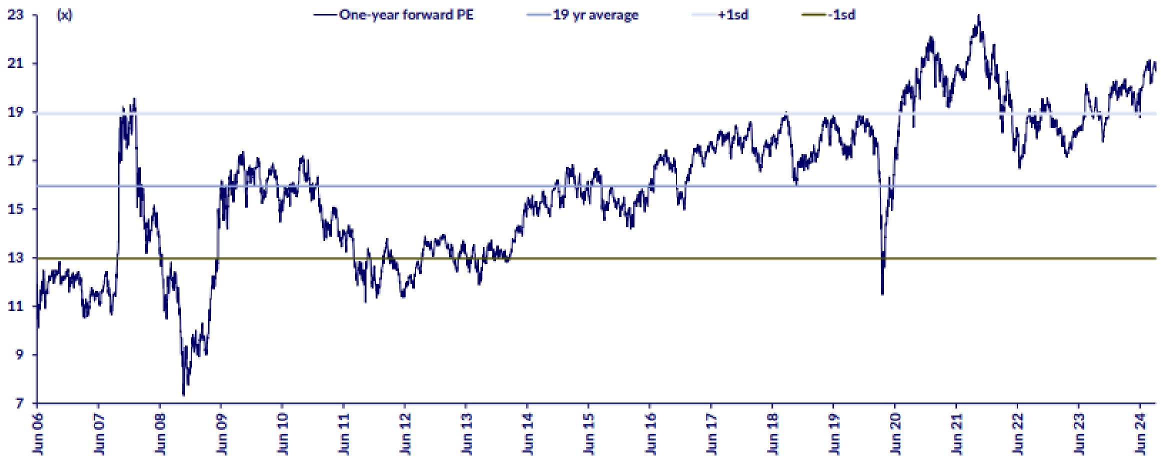
Exhibit 4: India's 12-month forward PE and historical comparison



Source: Bloomberg, CLSA

Our view from here

- A combination of a potential recovery in the two largest economies of the world i.e. US and China, along with reduction in Indian interest rates can be very potent drivers for us as well. US/China recovery can benefit many export-oriented sectors that have shown tepid performance so far.
- On the domestic side, we have been doing fine with a pick-up infrastructure spending awards ever since the National elections got over. Also, monsoon has been excellent this year in terms of intensity and spread.
- A recovery in external sectors, further push to infra spending and recovery in rural demand can result in a healthy 15-20% aggregate EPS growth and can keep the equity markets buoyant.

Conclusion

- We remain watchful of the above developments.
- In Large-caps, we continue to favour interest rate sensitive sectors, especially where valuations are more palatable e.g. Financials, Insurance etc sectors.
- In Small-caps, we continue to prune the richly valued end of the portfolio, increase weightage in companies with more reasonable valuations, get into some tactical interest rate sectors.
- In Blend, we continue to have the flexibility to shift weights between Large-caps and Small Mid-caps depending on where we see the best potential for price appreciation.

We will be happy to have a quick call with you to discuss your portfolio.

Also, we really appreciate the references you have shared thus far and would request you to continue to remain generous in sharing more references.

Warm regards,
MoneyGrow Team

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