NEWSLETTER
SEP 2021

PI SQUARE INVESTMENTS

Developed market equities were broadly flat over the quarter after a moderate decline in September erased the quarter's prior gains. However, this still leaves developed market equities sitting on strong gains for the year to date. In Emerging markets, Chinese equities have struggled through and dragged emerging market equities basket down over the quarter, despite India posting one of the strongest quarterly gains. Equities held up over the quarter despite some concerns about a peak in the rate of economic growth, supply disruptions and rising inflation. Ultimately, investors still believe that, despite a moderation in the pace of growth, recession risk remains low. Expectations for ongoing earnings growth along with low interest rates in the coming years are therefore helping to support inflationary asset classes. In the US, the Federal Reserve announced that it will soon begin to slow the pace of its asset purchases, with purchases set to come to an end by around the middle of next year. The Fed also released its projections for interest rates over the next few years, with the central expectation now being for US interest rates to increase to 1.75% by the end of 2024. This surprised global markets, especially the pace of rate increases; resulting in a rise in Treasury yields in the days following the Fed's September meeting, reversing the decline in yields from earlier in the quarter.

As Indian Equity markets continued the momentum, it was one of the best performing indices globally. For the quarter, Nifty was up by 12.1% compared to 0.2% for S&P 500 and (-14.7%) for Hang Seng. For the CY 2021, Nifty is up by 26%, one of the best 9 months performance since 2014. For the quarter, Real estate was the best performing index (+49%), as the housing market saw great demand post lockdown. Low interest rate and strong economy helped young buyers to fuel the housing boom. Godrej properties, one of the largest housing players, achieved the highest ever daily revenue of Rs. 574 cr. in September. For the year, the Real estate Index is up by +63%. Nifty IT continued the momentum and posted quarterly gains of +20% (YTD +44%). Nifty Metal index underperformed the markets for the quarter at -1.8%; still the best performing index for the CY at +72%. For the year, banking and auto sectors are still the laggards. High valuation & low growth sectors like FMCG and consumption underperformed. IIP data continue to surprise the economists positively, posting monthly growth of +11.5% compared to the consensus estimates at +10.7%. The government's fiscal deficit stood at Rs 4.68 lakh crore or 31.1% of the Budget estimates at the end of August, as per data released by the Controller General of Accounts (CGA). For the current FY, the government expects the deficit at 6.8% of the GDP or Rs 15,06,812 cr.

Goods trade in September 2021 (value in $bn)					
	Sep 19	**Sep 20**	**Sep 21**	**% growth Over 2019**	**% growth Over 2021**
Exports	26.0	27.6	33.4	28.5	21.3
Imports	37.7	30.5	56.4	49.6	84.7
Deficit	11.7	2.9	22.9	96.5	675.2

India's trade deficit surged 675% in Sep 2021 on the back of high gold imports which was up 750% to $5.11bn as well as crude & products that stood at $17.5bn, up nearly 200%. Crude oil prices have soared in recent days, with Brent crude above $80 a barrel in September for the first time in three years. High crude prices are the result of less drilling by shale gas producers in the US, a disruption in crude supplies due to hurricanes in the Gulf of Mexico and galloping demand for fuel as global economies open up after the devastating Covid-19 pandemic, which reduced economic activity to a considerable extent.

Rising crude oil prices have been a recurring worry for the Indian economy. Prices of Brent crude oil have doubled in over a year, from just around $40 a barrel. Apart from adding to fuel costs that will pinch consumers, high fuel prices will also have an impact on the country's fiscal deficit. Economists say that for every $10 increase in crude oil prices, there would be a corresponding 10 basis point increase in the fiscal deficit. The continuing rise of fuel prices will put more pressure on the Centre as well as the states to reduce taxes on fuel to bring down prices.

Our India Business Leader portfolio posted 17.4% for the quarter compared to Nifty at 12.1%. Once again Bajaj Finserv was the best performing name in the portfolio for the quarter, gaining by 46% for the quarter and 99% for the CY (backed by their announcement of venturing into the asset management industry to capitalize on their wide customer network). Our top tech holdings L&T Infotech and Tata Elexsi were up by 41% and 36% for the quarter. and our small cap addition Stove Kraft posted 60%+. StoveKraft is a small cap name in white goods + Kitchen appliances segment; with their innovative products (Brands – Pigeon and Black & Decker) they continue to garner the larger market share. Chemical names like BASF and PI Industries continue to outshine peers and posted strong quarterly gains on back of strong earnings growth in the second half. FMCG names were laggards for the year as well as for the quarter, HUL and Britannia managed to post positive numbers for the quarter but high commodity inflation and impact on margin for the coming quarters was the major concern for the consumer brands. Laurus Labs was once again one of the best performing names in the healthcare industry, as capacity expansion and margin expansion for the API unit will help them generate highest free cashflow for FY23. Our Business leader portfolio does not believe in cash calls or market shuffling, as we have witnessed strong names and market leaders in each industry will help us create the large alpha over comparable indices. For the CY our portfolio has posted 41.4% compared to 26.0% for the NIFTY.

Strategy	1 M	CY	Since Inception
India Business Leaders (Incep. Date: Dec 2016)	**3.9%**	**65.1%**	**27.5%**
Nifty 50	2.8%	26.0%	11.8%