



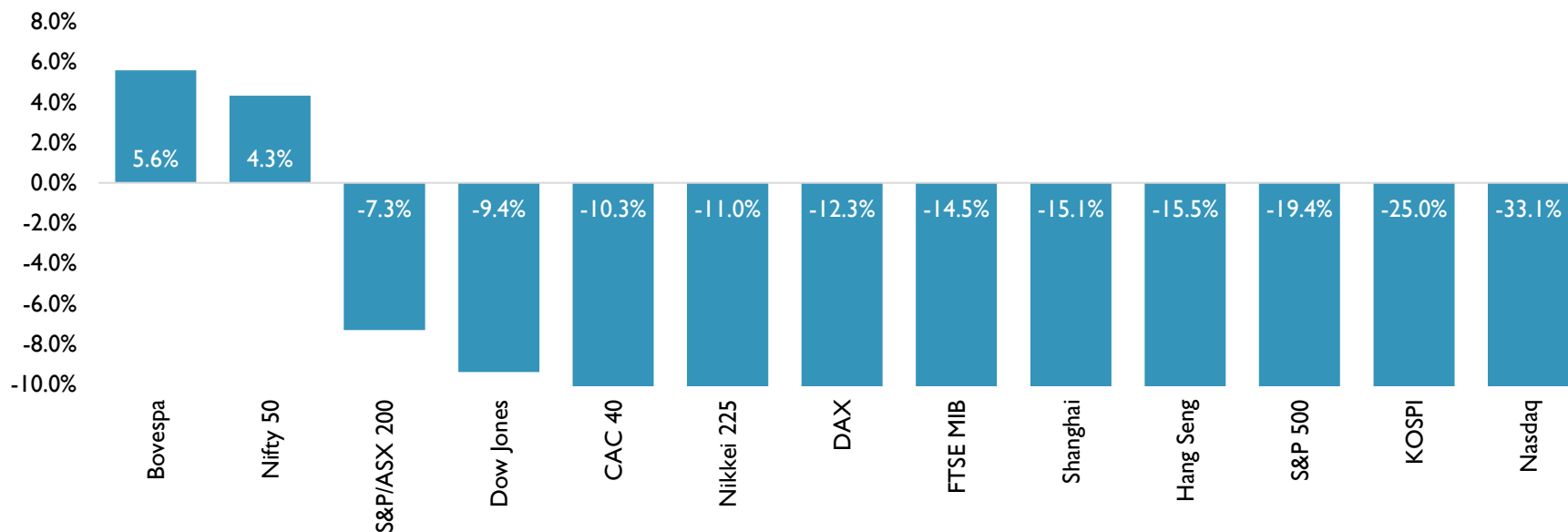
**Pi Square Investments**

# The Market Compass

December, 2022

# Global Equities Are Down \$14 Trillion

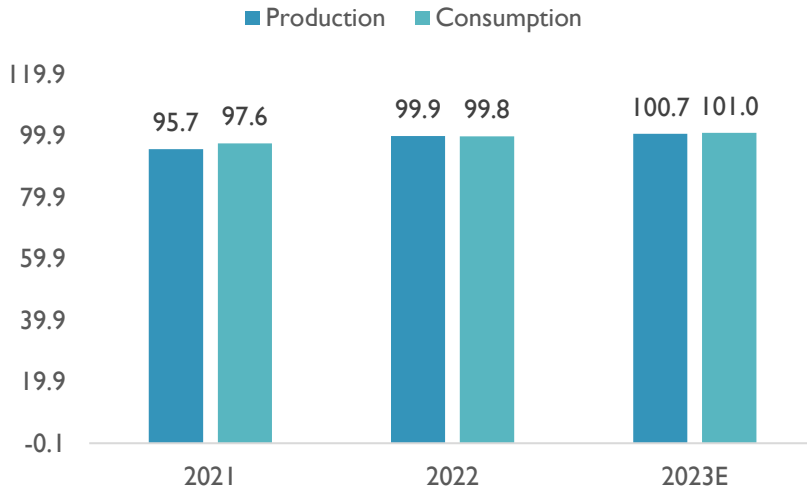
Global Indices Performance (YTD)



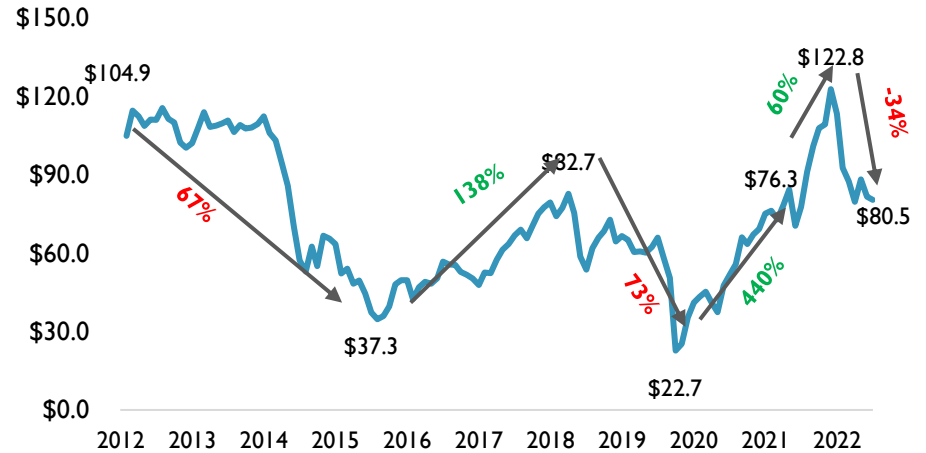
- In 2022, global markets faced challenges such as looming recession, high inflation, unresolved dispute between Russia and Ukraine and uncertainty over the global repercussions of rising Coronavirus cases in China.
- Indian equity has outperformed MSCI Emerging Markets by 26% YTD.

# Oil Prices Remained Volatile In 2022

Global Crude Oil Market (in million bpd)



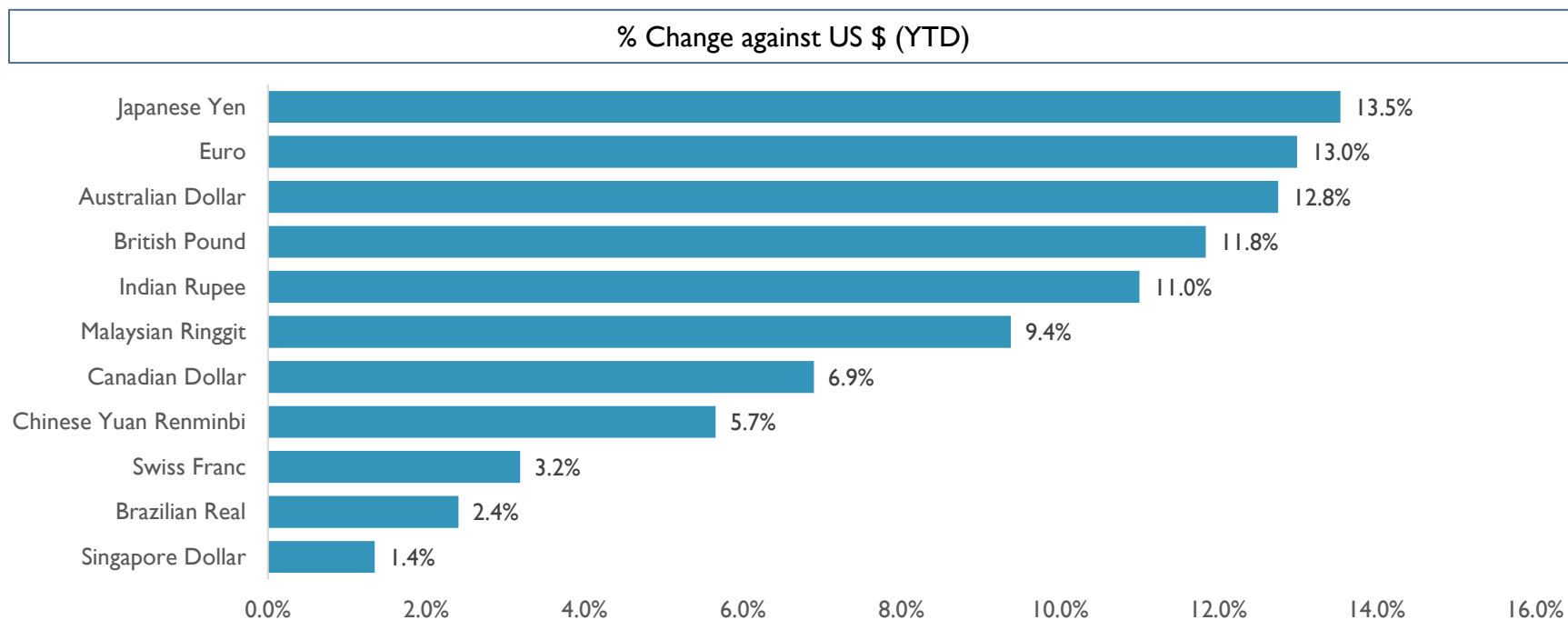
Post 2012 crude oil prices peaked in May-22 and has corrected 34% since then



- Oil prices have had a turbulent few years due to historical events from global pandemic to the Russian war in Ukraine has drastically interrupted the oil supply, including sanctions against Russia.
- Brent crude oil spiked above USD 100 for the first time since 2014 after Russia invaded Ukraine.
- Energy was the bright spot in 2022, but 2023 is likely to be more challenging. The current energy prices appear unsustainable as non-OPEC supply is set to rise and demand to slow.

Source: EIA estimates, Investing.com

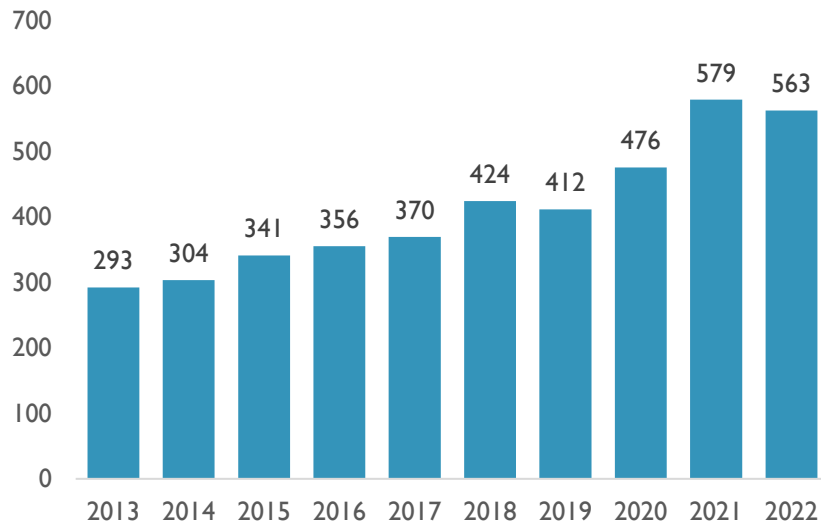
# Fall In Global Currency Highest In 20 Years



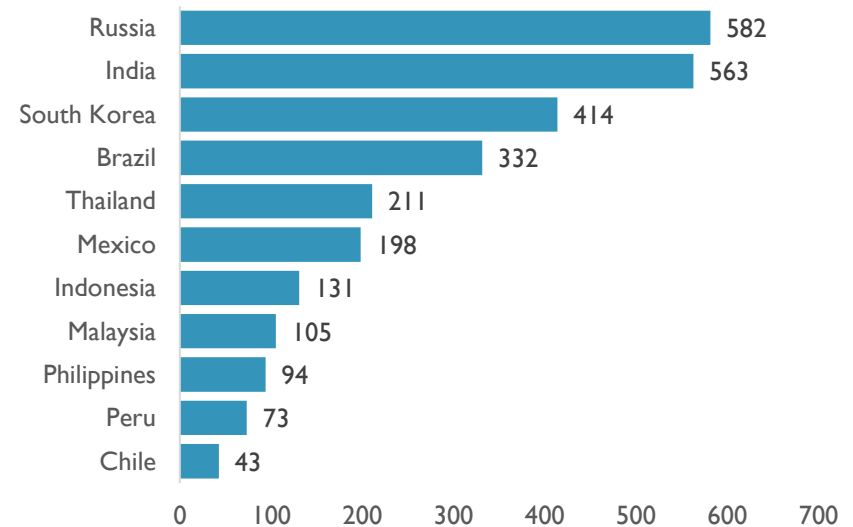
- During the year, factors such as ongoing Russia-Ukraine war, soaring crude oil prices and tightening of global financial conditions were some of the key triggers for the weakening of Indian rupee against the dollar.
- Besides, a series of rates hikes across the economies to battle rising inflation has led to a reduction in yield differential between countries resulting in money taking a flight for safety to developing economy and impacting the EM currencies.

# India's Forex Reserves Shrink In 2022

Foreign exchange reserves (in \$bn)



Emerging Market Foreign exchange reserves (in \$bn)



- India currently has one of the highest forex reserves in the world after China, Japan and Switzerland, equivalent to 13.2 months of import, and higher than the country's external debt. Balance of payments has remained in surplus throughout the last two years despite Covid-19-led disruptions.

# Interest Rate Hike Cycle

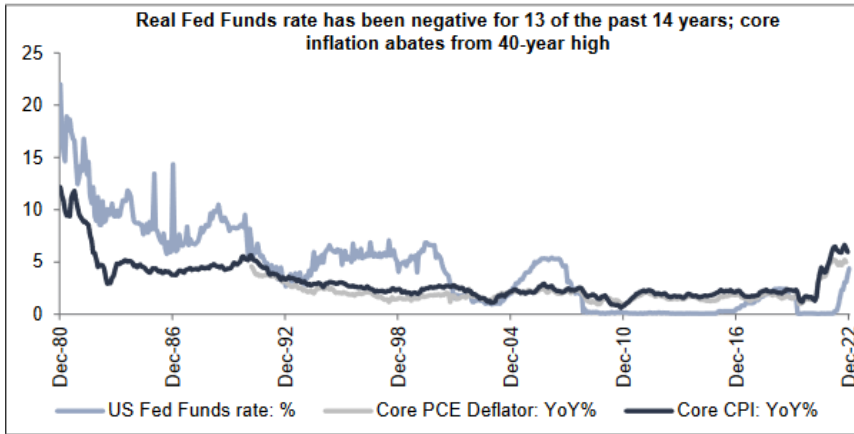
Global Central Bank Policy Rates

| Country     | Rate            | Central Bank Rate | CPI YoY | Real Central Bank Rate | Last Move | Date   |
|-------------|-----------------|-------------------|---------|------------------------|-----------|--------|
| Brazil      | Target Rate     | 13.75%            | 6.50%   | 7.30%                  | Hike      | Aug-22 |
| China       | Loan Prime Rate | 3.65%             | 2.10%   | 1.60%                  | Cut       | Aug-22 |
| India       | Repo Rate       | 6.25%             | 6.80%   | -0.50%                 | Hike      | Dec-22 |
| Switzerland | Target Rate     | 0.50%             | 3.00%   | -2.50%                 | Hike      | Sep-22 |
| Canada      | Overnight       | 4.25%             | 6.90%   | -2.70%                 | Hike      | Dec-22 |
| New Zealand | Cash Rate       | 4.25%             | 7.20%   | -3.00%                 | Hike      | Nov-22 |
| Japan       | Policy Rate     | -0.10%            | 3.70%   | -3.80%                 | Cut       | Jan-16 |
| US          | Fed Funds       | 3.88%             | 7.70%   | -3.80%                 | Hike      | Nov-22 |
| Australia   | Cash Rate       | 3.10%             | 6.90%   | -3.80%                 | Hike      | Dec-22 |
| UK          | Bank Rate       | 3.00%             | 11.10%  | -8.10%                 | Hike      | Nov-22 |
| Eurozone    | Deposit Rate    | 1.50%             | 10.00%  | -8.50%                 | Hike      | Oct-22 |
| Denmark     | Deposit Rate    | 1.25%             | 10.10%  | -8.90%                 | Hike      | Oct-22 |
| Turkey      | Repo Rate       | 9.00%             | 84.40%  | -75.40%                | Cut       | Nov-22 |

- Countries across the globe have been fighting sustained periods of rising inflation with a series of unprecedented rate hikes and slowing economic growth. Despite the hikes, central banks have still maintained hawkish commentary around further rate hikes indicating the battle with inflation is still not over.

# US Rate Hike Cycle

Core Inflation has begun to recede from 40 year high



FOMC member's summary of economic projections

| Variable                  | 2022 | 2023 | 2024 | 2025 |
|---------------------------|------|------|------|------|
| <u>Federal funds rate</u> | 4.4  | 5.1  | 4.1  | 3.1  |
| September Projection      | 4.4  | 4.6  | 3.9  | 2.9  |
| <u>Core PCE inflation</u> | 4.8  | 3.5  | 2.5  | 2.1  |
| September Projection      | 4.5  | 3.1  | 2.3  | 2.1  |
| <u>Unemployment rate</u>  | 3.7  | 4.6  | 4.6  | 4.5  |
| September Projection      | 3.8  | 4.4  | 4.4  | 4.3  |
| <u>Change in Real GDP</u> | 0.5  | 0.5  | 1.6  | 1.8  |
| September Projection      | 0.2  | 1.2  | 1.7  | 1.8  |

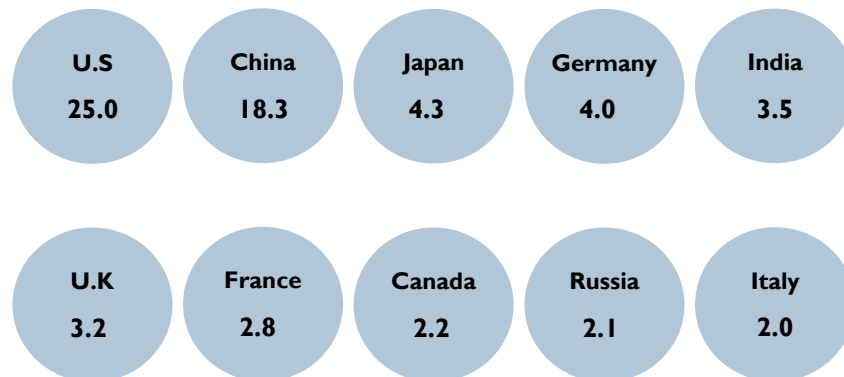
- In the US, every rate hike cycle is followed by an immediate period of slowdown/recession. US GDP growth has already slowed down to 2.9% from 3.7% in January 2022 and is expected to slow down significantly to less than 1% in 2023.
- History suggests the US Federal Reserve has never been able to keep rates higher for longer during any interest rate cycle. The current rate hike cycle is the steepest and the highest (cumulative rate hike) since 1980.

# World Economy Surpassed \$100 trn For The First Time

YOY GDP Growth (%)

| Country            | CY21 | CY22E | CY23E |
|--------------------|------|-------|-------|
| Global             | 2.9  | 3.0   | 3.0   |
| Advanced Economies | 2.6  | 2.2   | 1.9   |
| United States      | 2.5  | 2.4   | 2.0   |
| Euro Area          | 2.5  | 1.9   | 1.9   |
| Japan              | 1.7  | 1.3   | 0.6   |
| China              | 4.3  | 5.2   | 5.1   |
| Indonesia          | 5.1  | 5.3   | 5.3   |
| Thailand           | 2.9  | 4.3   | 3.9   |
| India              | 7.5  | 7.1   | 6.5   |
| Turkey             | 2.3  | 3.2   | 4.0   |
| Brazil             | 1.5  | 0.8   | 2.0   |
| South Africa       | 2.1  | 1.5   | 1.8   |

Top 10 economies (in \$trn)



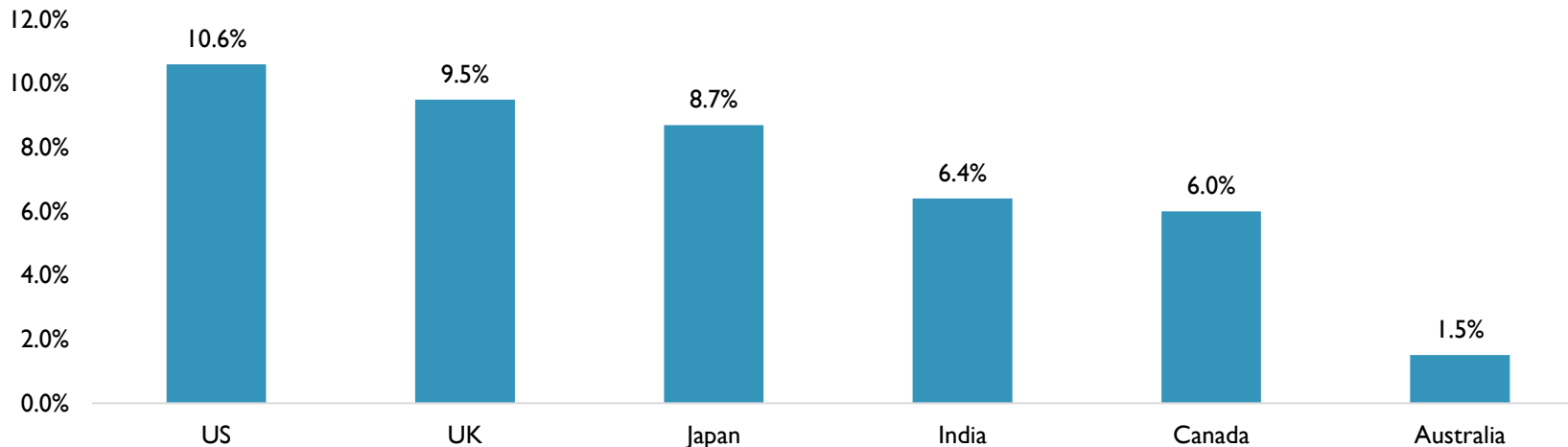
Data as on December 2022

- The world economy is likely to face recession next year as a result of the rise in interest rates in response to higher inflation. Weakening productivity, linked to a slowdown in the pace of globalization and technological progress, will also contribute to the fading growth of global GDP.
- In 2022, India took over UK to become world's 5<sup>th</sup> largest economy. India is expected to have a \$10 trillion economy by 2035 and the third-largest economy overall by 2032.



# The Housing Market Is Far From Normal

Nominal Home Price Growth (YoY%)

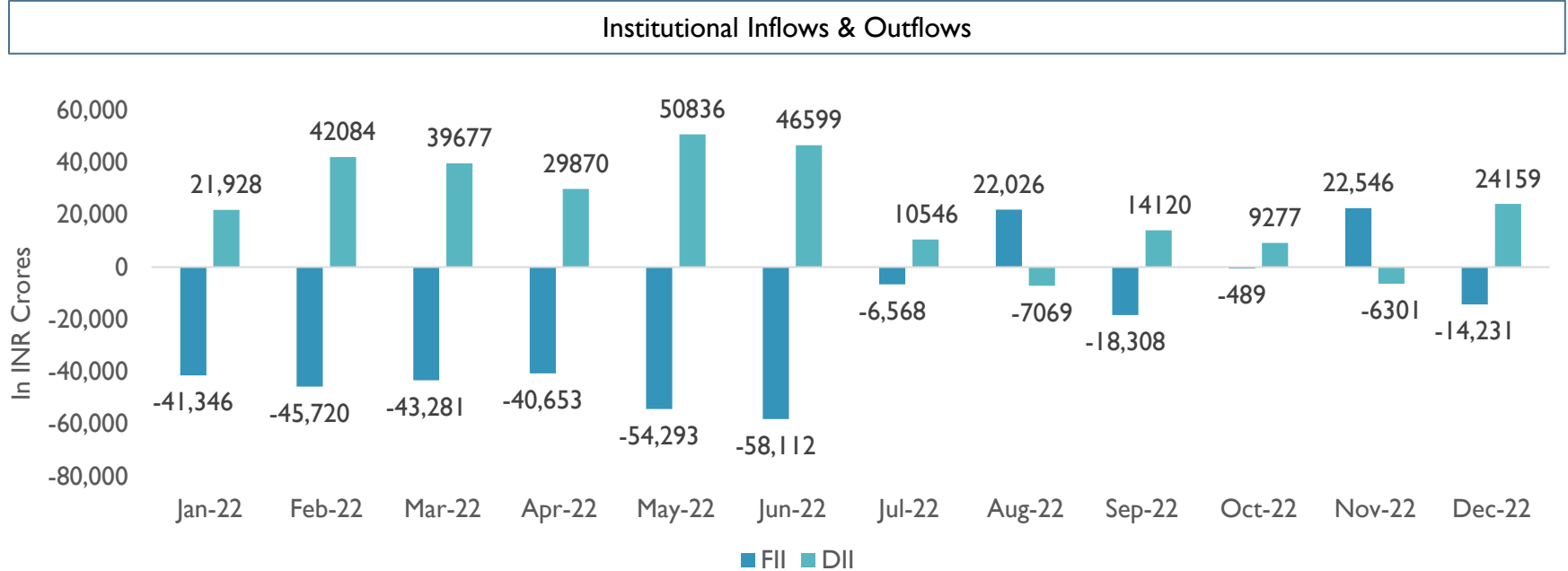


Data as of Q3 CY 2022

- House prices globally have risen at their fastest rate for 40 years as demand has outstripped supply.
- Shortages of land, lending, labour and materials are some of the factors fueling the housing crisis. According to the World Bank, the housing crisis could impact 1.6 billion people by 2025.
- COVID-19 is considered to have made the housing crisis worse, as buyers and renters looked for more space during lockdowns. Historically low-interest rates in many countries which made it cheap to borrow money, have fueled this phenomenon.

Source: OECD, World Economic Forum, Knight Frank

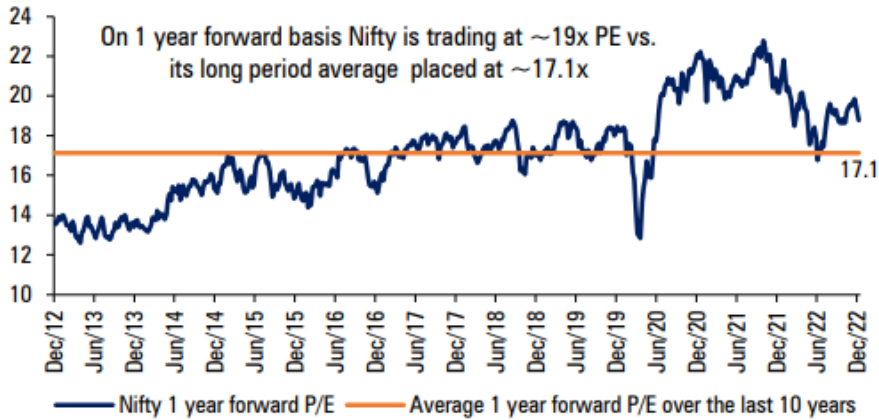
# Despite Outflows, India Remains Outperformer



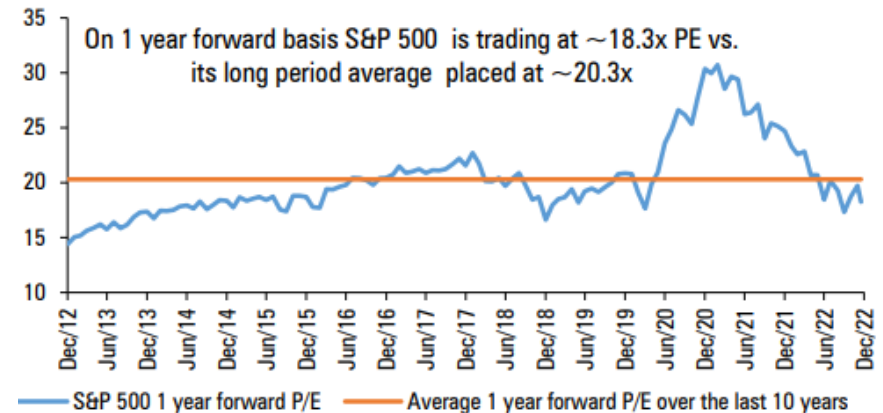
- Amid a rising interest rate cycle and depreciating rupee, FIIs have been net sellers of Indian equities to the tune of Rs 2.78 lakh crore in 2022 till date.
- FPI buying has been driven by domestic economy sectors such as financials, consumer discretionary, industrials, FMCG, healthcare and telecom. However, sectors driven by global factors such as energy and IT were sold by FPIs.

# Nifty's Volatile Journey

Nifty 1 Year Forward PE



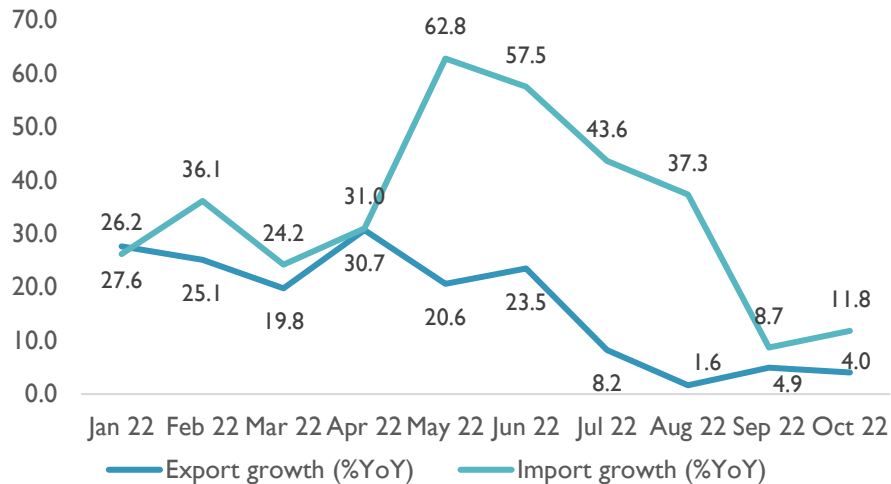
S&P 500 1 Year Forward PE



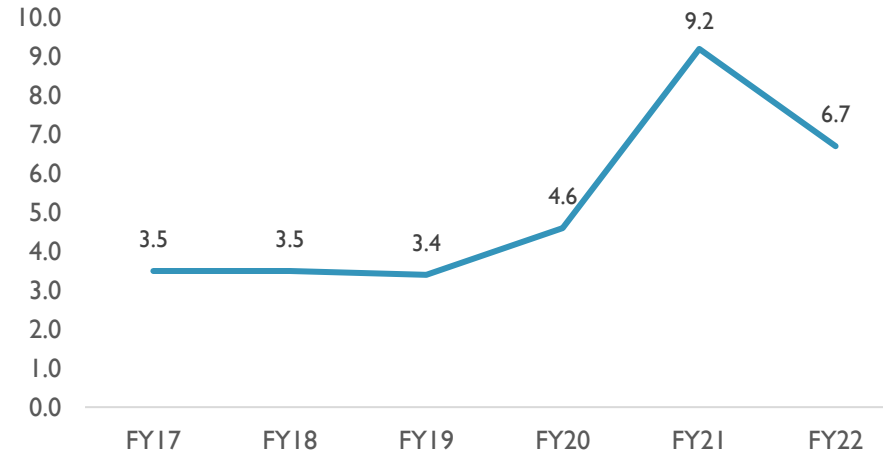
- The growth visibility both on the economic and corporate front, along with inflation trajectory rightly explain the premium valuations trajectory. Nonetheless, the P/E trajectory for Indian equities, considering the last five-year period, has remained at average levels amid relatively superior earnings visibility in the global construct.
- On one year forward basis, Nifty trades at ~19x P/E that seems expensive (i.e. at ~11% premium) vs. its past 10 year's average of ~17.1x. Notably, S&P 500 trades at ~18.3x one year forward PE vs. its 10 year forward PE average of 20.3x (i.e. at ~10% discount)

# India's Export Boom

Trade Growth



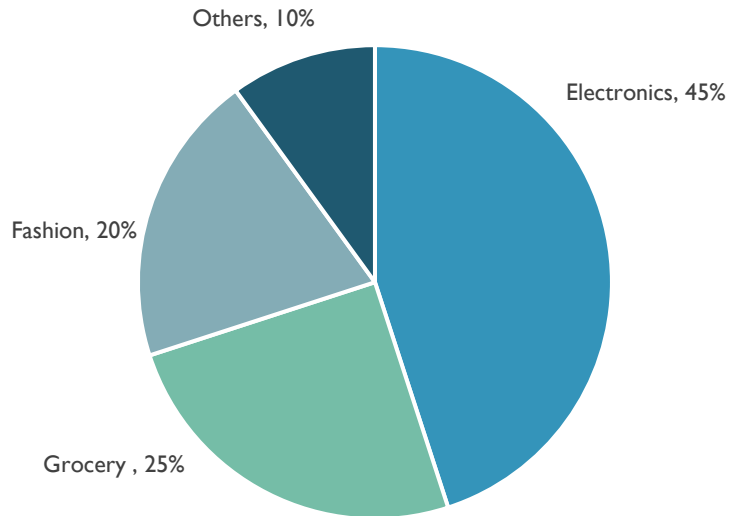
Fiscal Deficit as a % of GDP



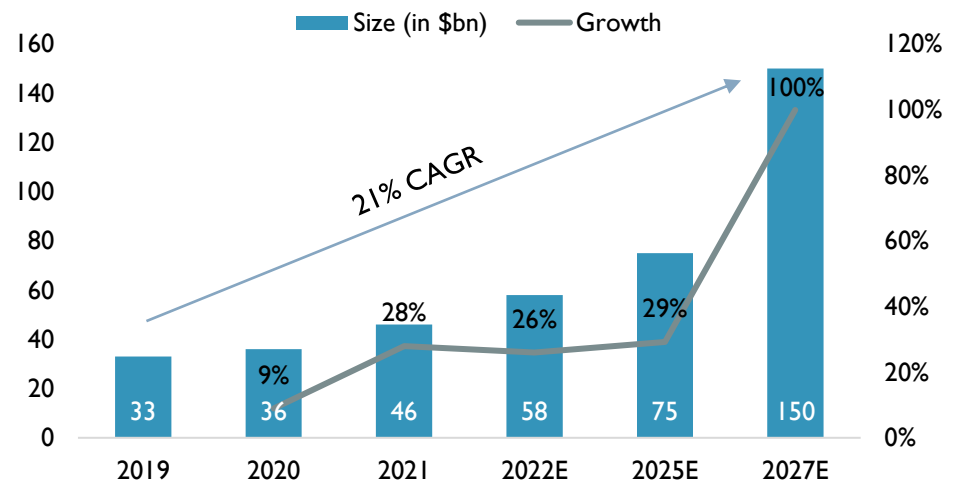
- India's exports is largely attributed to the growth momentum in advanced economies and the resultant increase in global import demand. The depreciating rupee has come as a blessing in disguise as it makes Indian goods from labor-intensive sectors like textiles and clothing more competitive globally.
- India is also aggressively negotiating free trade agreements with the European Union, Australia, the UAE, the UK and the Gulf Cooperation Council.
- Indian exports to China have also grown by more than 50% in the last two years.

# India's E-retail Market

Market share by Category (2021)



Growing Market in India

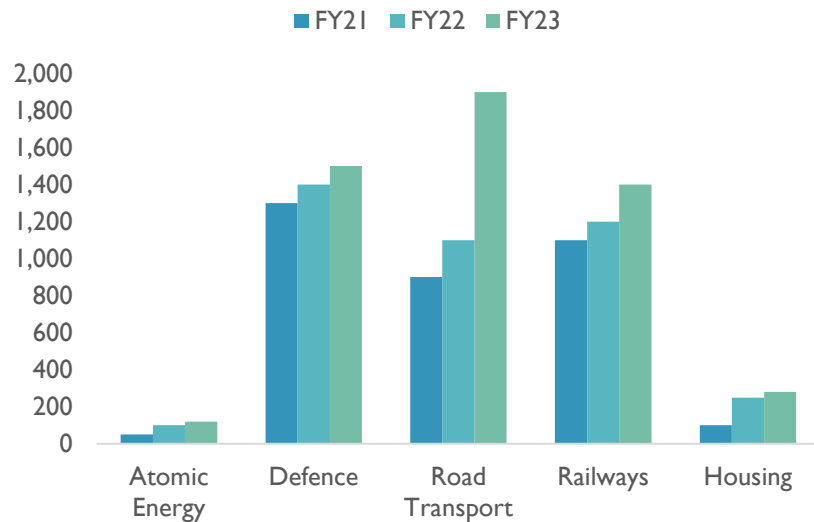


- India's e-retail market is likely to be fueled by fashion, grocery and general merchandise that will account for up to two-third of e-retail by 2027. It is also expected that the rising numbers of online shopper base in India, particularly from low-tier cities, is all set to make it Asia's third largest economy.
- Over 60% of the new online shoppers came from the breadth of India and one in three online shoppers belonged to the low-income segment and were below the age of 25. The rising penetration of the internet has enabled India to add 40-50 million online shoppers.

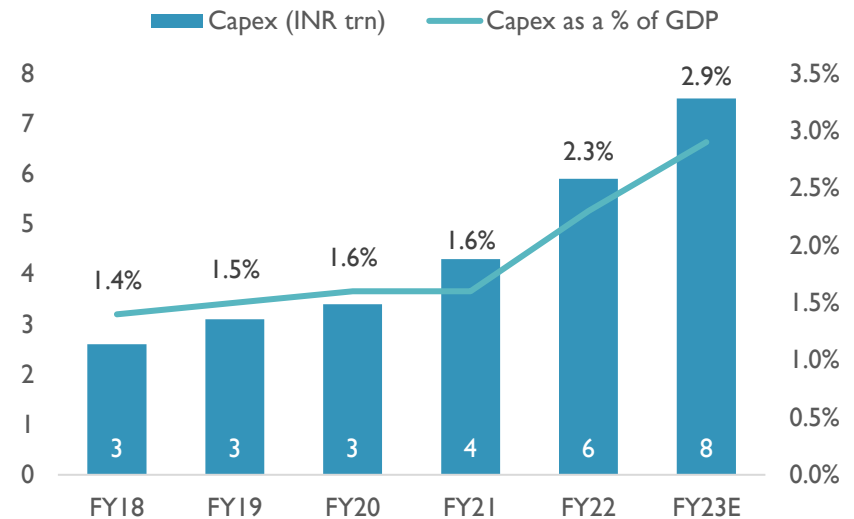
Source: Business Standard, IBEF

# India's Capex Cycle Set For A \$10 trn Economy

Annual Capex of select ministries (Rs. Bn)



Center's capex has surged to an 18-year high

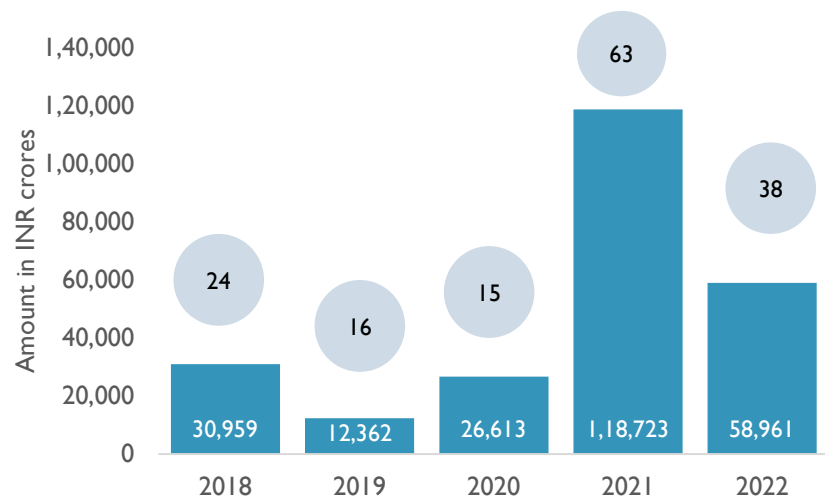


- Government spending supports capex boom while corporate capex continues to languish.
- India is witnessing multiple tailwinds in terms of higher consumption, at inflexion GDP per capita of \$2200+, better factor cost dynamics, post-pandemic resumption of the economy, emerging opportunities to plug in the business value migration opportunities from the global supply chains like China+I/Europe+I.
- Post-Covid demand recovery, higher commodity prices, and better pricing power driven by industry consolidation are among the key drivers. Industry utilization is at a trigger point (73.4%, highest in the last 12 quarters) for the top five players making a strong case for corporate capex.

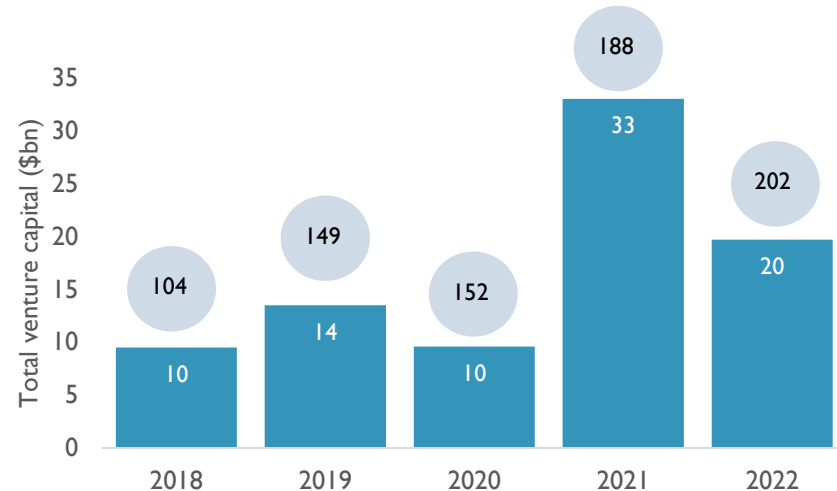
Source: Controller General of Accounts, CEIC

# Fundraising Slows

IPOs in the last 5 years



Large-sized funding for startups fell about 40% in 2022



- The year 2021 was exceptional due to low interest rates, high-profile exits and a general optimism driven by the tech adoption due to covid-19.
- The optimism tempered in 2022 in a backdrop made fraught by the Russia-Ukraine war and central banks clamping down on easy capital. The average deal size dropped 44% in 2022 over 2021.

# About Us

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Founded in 2011, Pi Square is a niche asset management firm with over a decade of experience in the listed equity space. Our fundamental, bottom-up research approach helps us identify the untapped growth opportunities. Catering to HNI, UHNI and family office clients with a wholistic approach to create consistent long-term wealth. Our research team strives to evaluate the businesses based on the 3P strategy: Product, Profits and Promoters

**10+ Years**

Portfolio Managers Average Industry Experience

**Over 600 Crore**

Asset Under Management

**10+**

Multi-Family Office Clients

**Global Equity  
Market Leader**

**More than 300**

Clients Pan India

**10 Years**

Proven Track Record

**7+**

Product Offerings

**Strategic Allocation & Actively Managed**



# Asset Management Team

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**VISHRUT PATHAK**  
**CHIEF INVESTMENT OFFICER**

Vishrut completed MBA from St. John's University, with specialization in International Finance and has a PGD from New York university in Financial Statement Analysis. Over 20 years of investment management and corporate finance experience.



**ABHIJIT SINHA**  
**SENIOR RESEARCH ANALYST**

Abhijit is a finance graduate from the University of London. He has a history of working in the financial markets as well as the financial services industry for over 6 years.



**HILONI GANDHI**  
**RESEARCH ANALYST**

Hiloni has an experience of 2 years working in financial services Industry. She has an internship experience at global firms like ANG advisors and Duff & Phelps



**MAITRI PARIKH**  
**RESEARCH ANALYST**

Maitri has an experience of 4 years working in financial services Industry. She has a comprehensive understanding of financial statements.



**MEGHA HARIRAMANI**  
**FUND MANAGER**




Megha has an experience of more than 9 years of progressive experience in portfolio management and investment analysis. She has a sound understanding of industry macros and works with fundamental research team build the GARV matrix.



**PARTH RAVAL**  
**TECHNICAL RESEARCH HEAD**

Parth is a technical analyst with more than 7 years of experience in financial markets. He has a sound knowledge of portfolio performance reporting.

## Reach out to us

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