

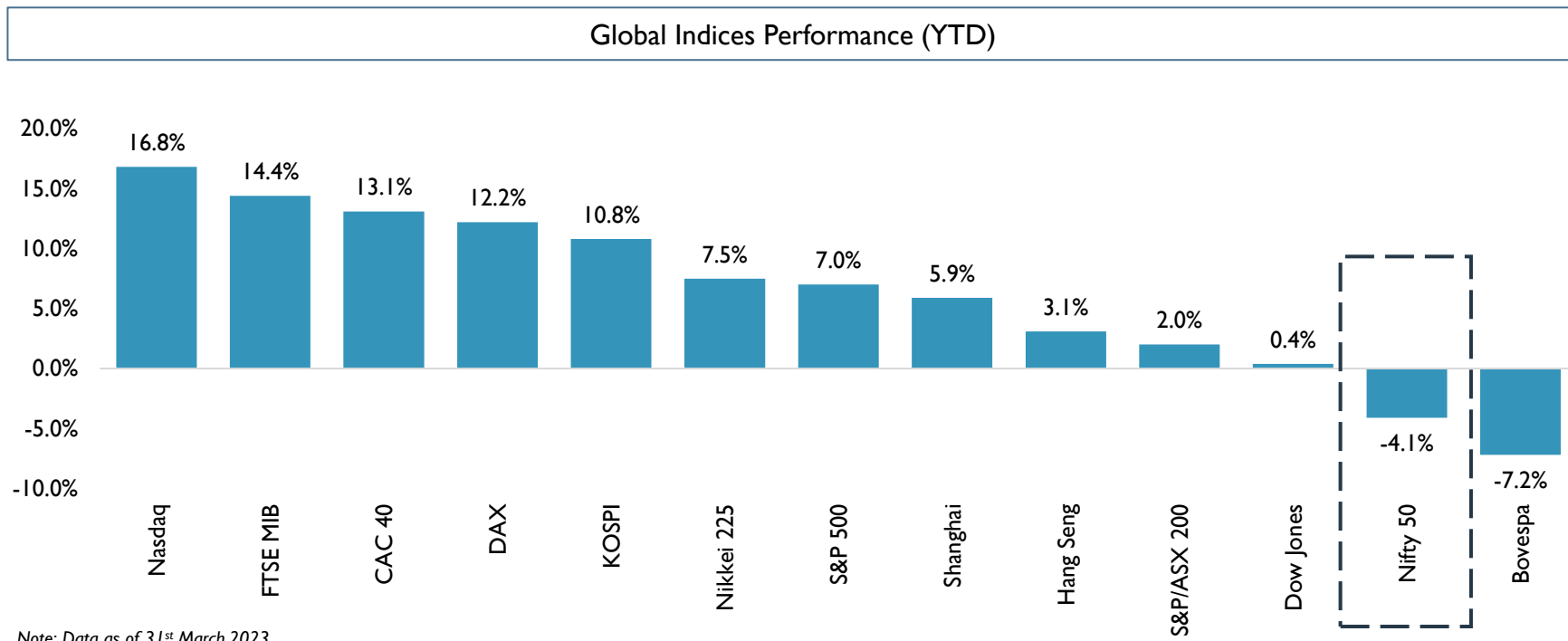


**Pi Square Investments**

# The Market Compass

March, 2023

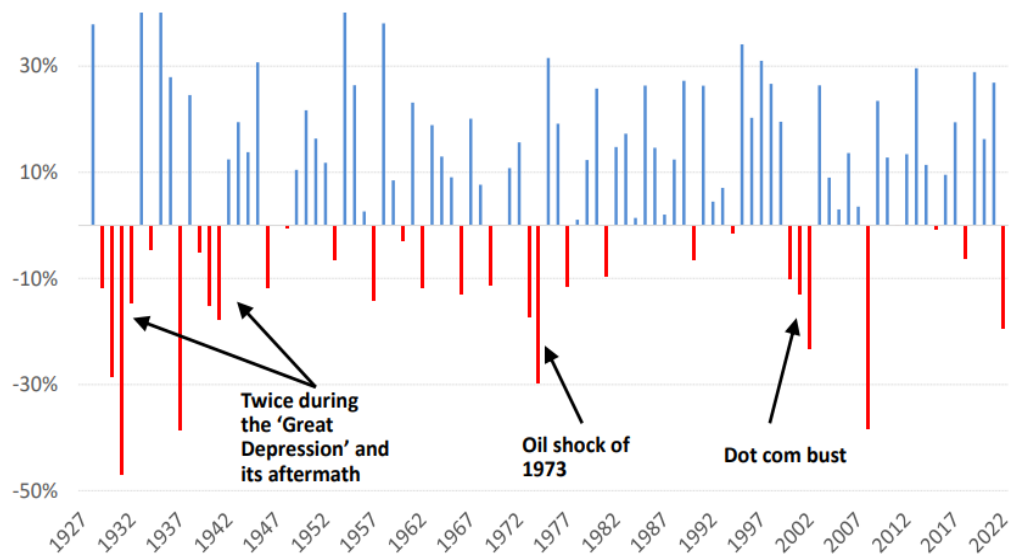
# Global indices performance



- For CY 2023, US Indices recorded broad gains with Nasdaq exhibiting a strong recovery.
- On the other hand, India massively underperformed global indices due to rapid interest rate hikes, Adani crisis and banking turmoil in Europe and US.
- Brazilian index also underperformed on the back of rising inflation concerns.

# History signals S&P 500 is consolidating

In the last 100 years, S&P 500 Index has fallen for 2 or more consecutive years only four times

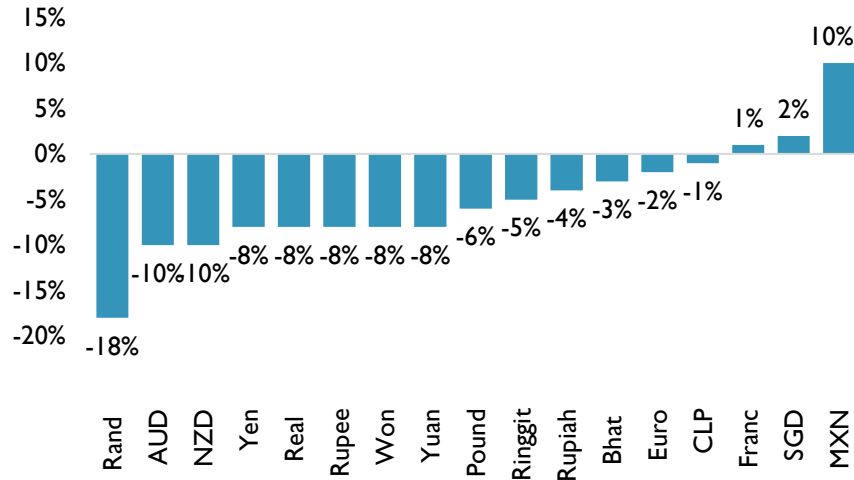


- In CY 2022, US markets closed negative. If history is any guide, in CY 2023 US equities will remain in a broad consolidation rather than see deep correction.
- This would provide some comfort to the rest of the world especially for a growth market like India.
- Indian equities is expected to benefit from a less volatile world on the back of strong earnings growth and improving valuations.

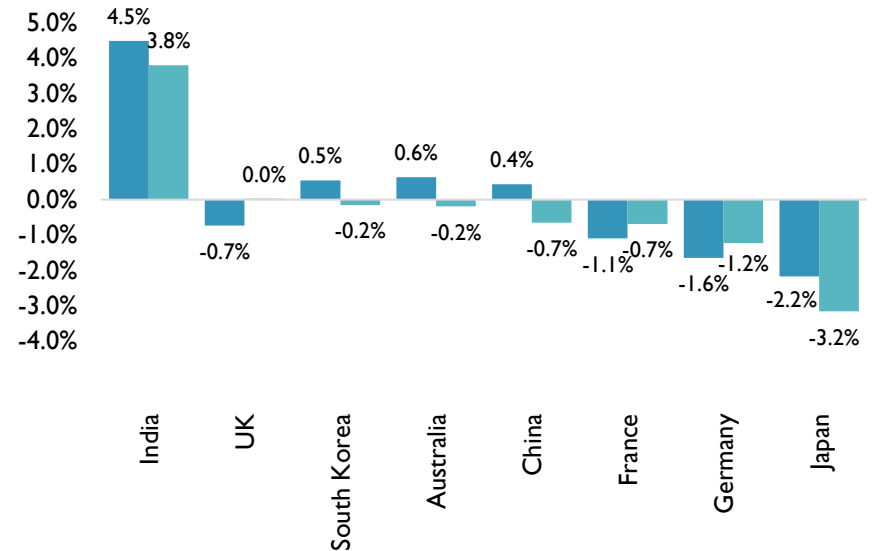
Source: World Bank, Govt Documents Data as on Feb 2023

# Dollar shows strength

Movement of various currencies against US Dollar (YoY)



Spreads Decline: US Treasury and Sovereign Bonds (10Y)



- 15 of the 18 currencies have depreciated against the USD on a monthly basis.
- The interest rate differential with other economies due to the aggressive rate hikes by the Federal Reserve has been a major factor behind the strength in the USD in the last year.
- Currency movements for developed economies tend to be influenced by bond yields and the higher yield differential of US Treasuries v/s various sovereign bonds has been pushing investment flows to higher interest-bearing US debt securities and USD denominated assets, lending strength to the dollar.

Source: Bloomberg, investing.com

# Crude oil remains steady amid banking crisis

Brent Crude Price

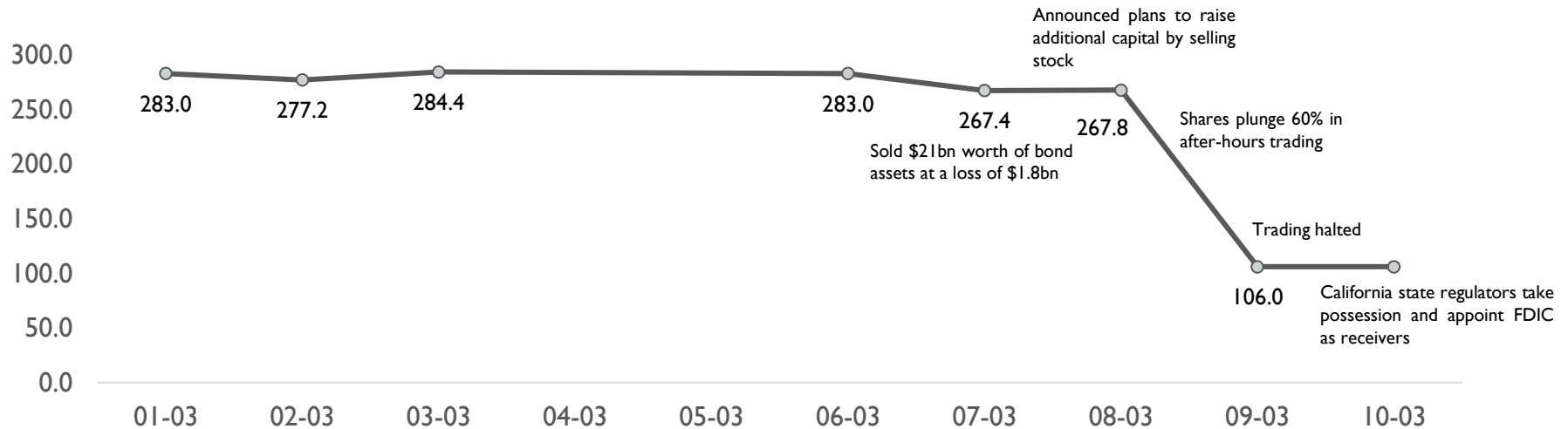


Source: S&P Global Commodity Insights,

- The market is caught in the cross-currents of supply outstripping still lackluster demand, with stocks building to levels not seen in 18 months.
- Much of the supply overhang reflects ample Russian barrels racing to re-route to new destinations under the full force of EU embargoes.
- Despite the increasing dislocation in global trade, the rising stock cover has held the Brent crude oil futures in a relatively narrow \$80-85/bbl. range since the start of the year.
- World oil demand growth is set to accelerate sharply over the course of 2023 and expected to reach a record 102 mb/d. Rebounding air traffic and the release of pent-up Chinese demand will dominate the recovery.

# Silicon Valley Bank downfall

Stock collapsed 62% in the aftermath of the second biggest bank failure in US History



- Silicon Valley bank is a 40-year old commercial bank that was an important lender for the tech and venture capital sector.
- During the funding boom of 2021, SVB amassed large of deposits \$189 billion in 2021, which later peaked to \$198 billion. It later invested heavily in bonds, which were being issued in a low-interest rate scenario. SVB's balance sheet for 2022-end showed \$91.3 bn of securities.
- In 2022, the US Federal Reserve started raising interest rates, which drove down the value of bond holdings issued at lower rates.
- Rising interest rates also led to venture capital firms cutting fewer and smaller cheques to startups triggering a funding winter. As funding depleted, deposits made by startups in institutions also started declining, forcing the bank to sell securities at a loss to cover up.

Source: Yahoo Finance, Reuters, Wall Street Journal

# Global banking crisis

10, March

FDIC took control of SVB. The wheels started to come off 48 hours earlier when the bank took a multibillion-dollar loss cashing out US government bonds to raise money to pay depositors.

12, March

FDIC shut down Signature Bank after a run on its deposits by customers who were spooked by the implosion of SVB.

15, March

After watching shares in Credit Suisse collapse by as much as 30%, Swiss authorities announced a backstop for the country's second-biggest bank.

16, March

First Republic Bank was teetering on the brink as customers withdrew their deposits.

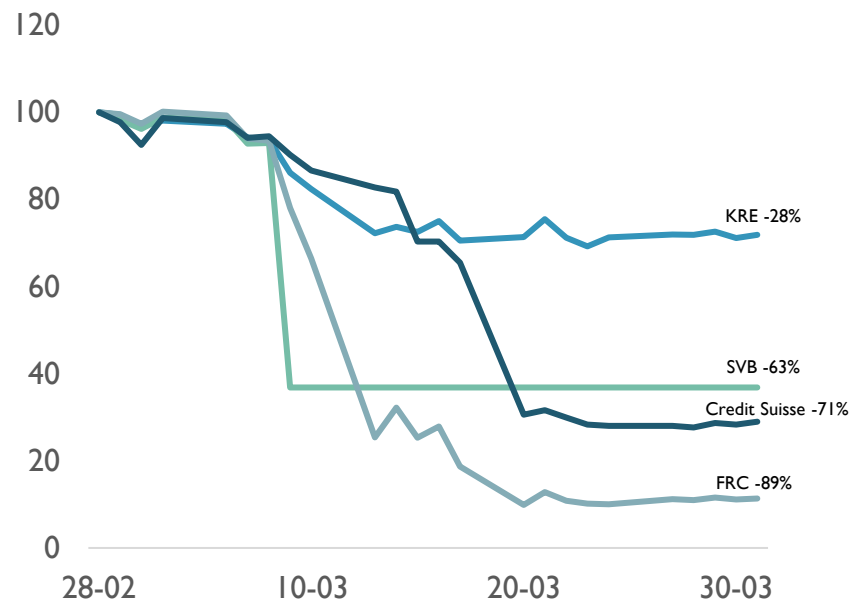
19, March

UBS agreed to takeover Credit Suisse, being the surviving entity and acquire Credit Suisse for CHF 3 bn (~\$3.25 bn). Stock dipped by at least 16%.

20, March

Deutsche Bank fell over 12% after a sharp jump in the cost of insuring against the risk of default.

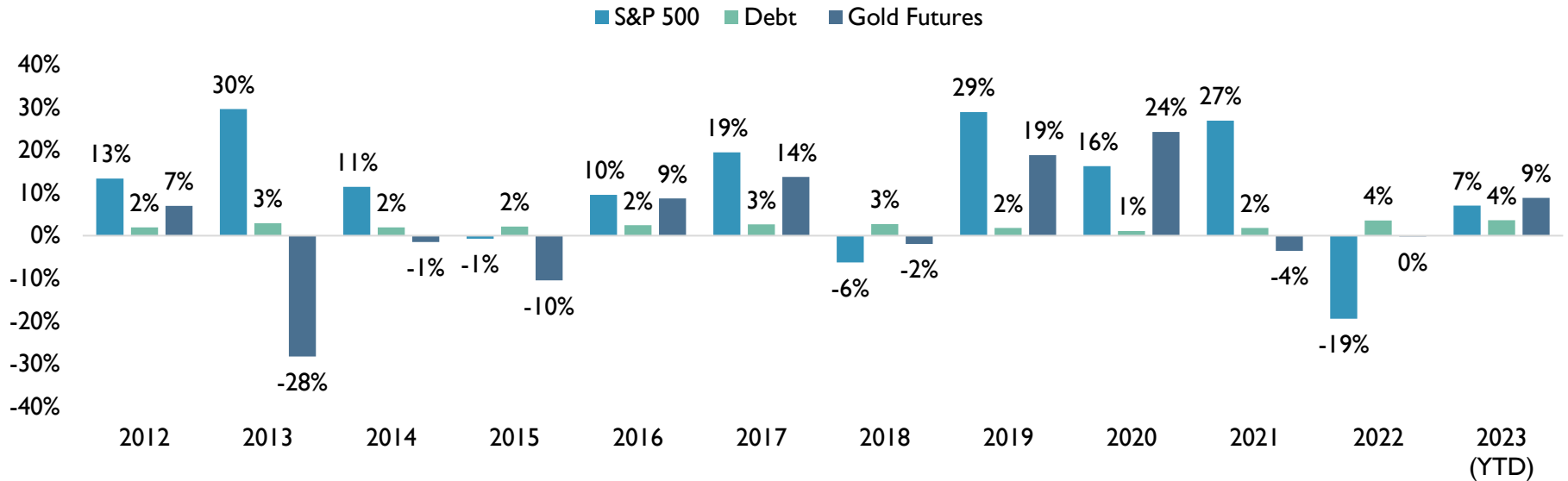
S&P Regional Banking ETF falls 29% in March



Source: Yahoo Finance, CNBC, Wall Street Journal

# Gold shines in a shaky year

Equity v/s Debt v/s Gold Returns



Note: All data in USD terms

CAGR Returns		
Time Period	Gold	Equity
12Y	2.0%	10.4%
10Y	5.1%	8.3%
5Y	9.1%	10.4%
3Y	1.6%	3.0%

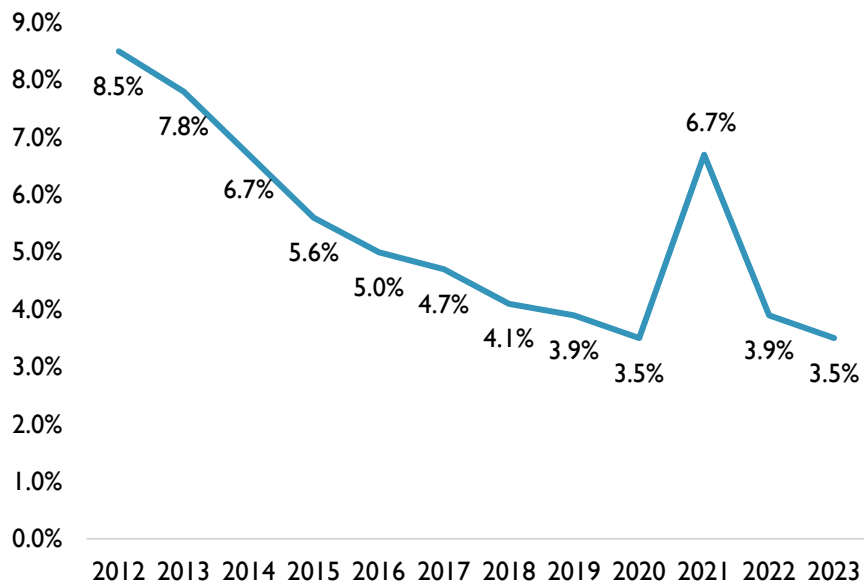
Absolute Returns		
Time Period	Gold	Equity
12Y	18%	188%
10Y	68%	100%
5Y	30%	27%
3Y	9%	-14%

Source: Investing.com

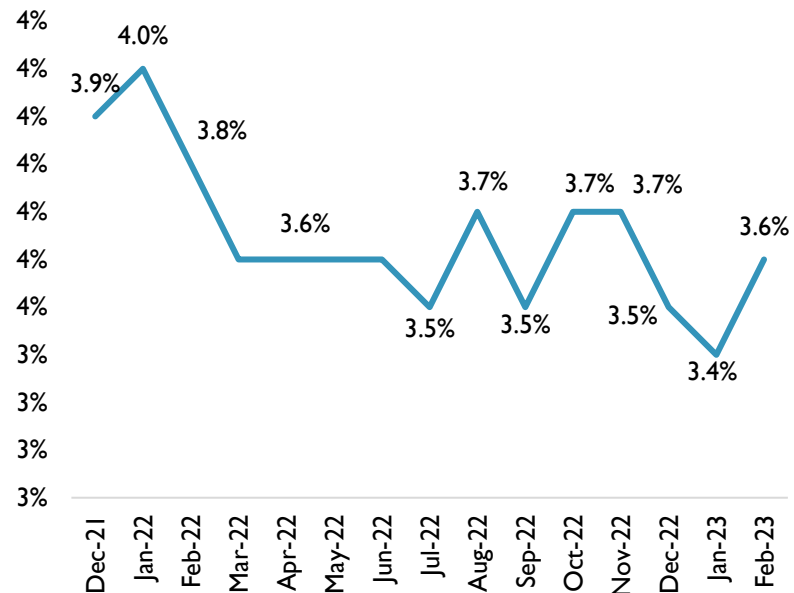


# Global layoffs amid economic turmoil in 2023

Unemployment rate at all time lows



Unemployment stable through layoffs



Layoff announcements for CY2023



18,000



12,000



11,000



10,000



10,000



7,000



6,000

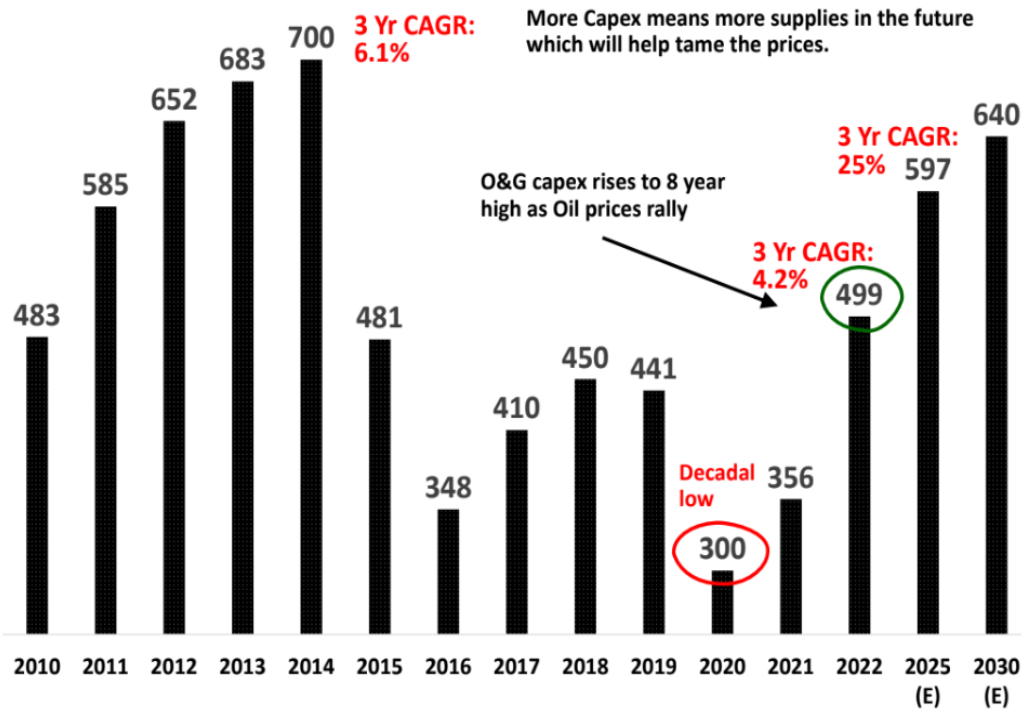


4,150

Source: Economic Times, investing.com

# Oil & Gas capex

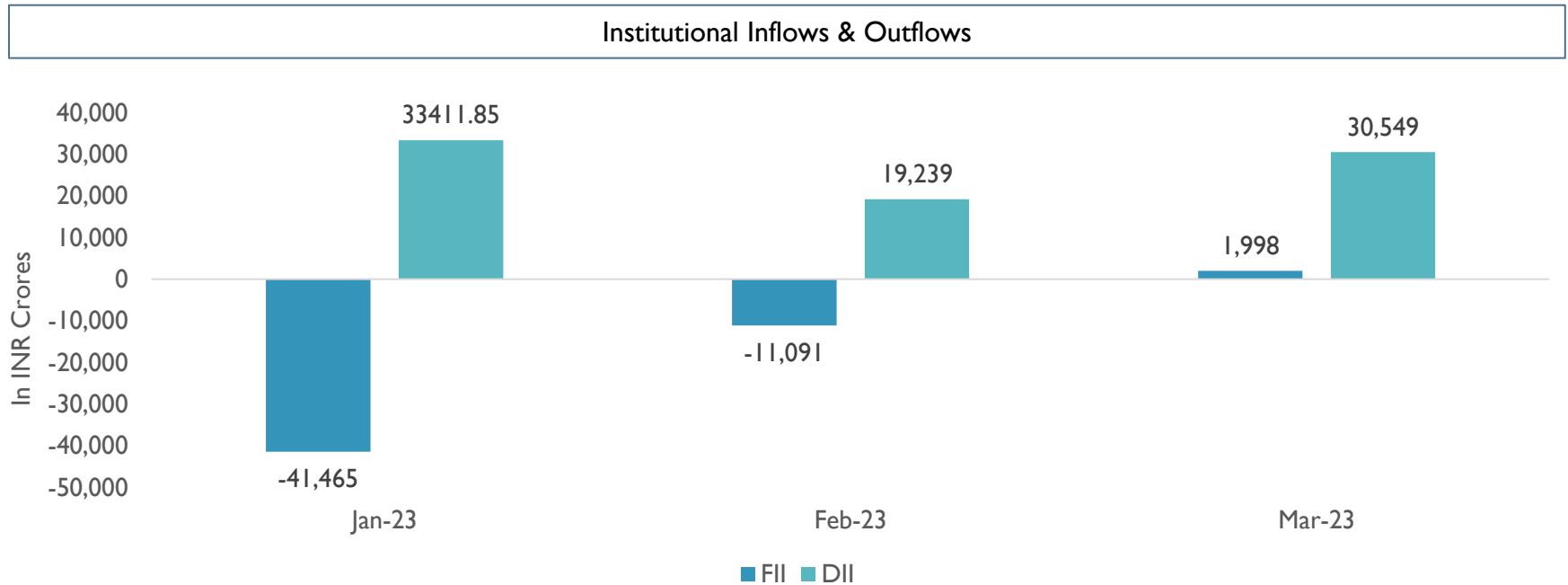
Global Oil & Gas Upstream Capex (US\$Bn)



- In 2020, crude oil prices were about \$41.96 per barrel & in 2022 the prices reached more than \$110 per barrel, surging investments in the oil & gas industry
- Last year, oil & gas majors returned capital to shareholders through buyback and dividends. The wave of capital expenditure is likely to result in raising capacities and easing of supply side uncertainty in the energy market.

Source: S&P Global Commodity Insights,

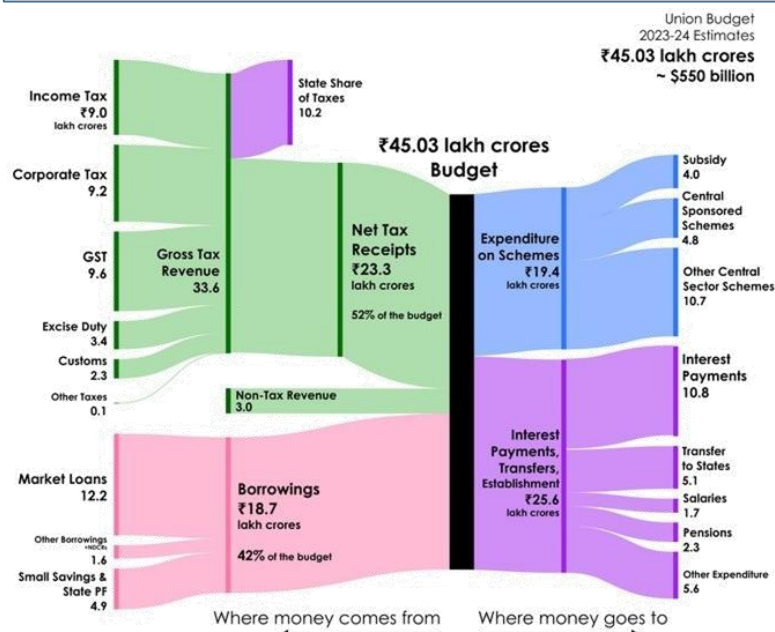
# FII flows to Indian equities may pick up



- First two months of 2023 witnessed outflows from foreign investors however, march saw a turnaround. Moving ahead in the year, India's economic growth & earnings growth differentials over its peer set could lead to a turnaround in FII flows
- Since CY2000, China has received \$1.4 trn in Foreign Portfolio Investments whereas India has received \$330 Bn. India has delivered far superior returns (+9.5% CAGR) against China (+2.9% CAGR)

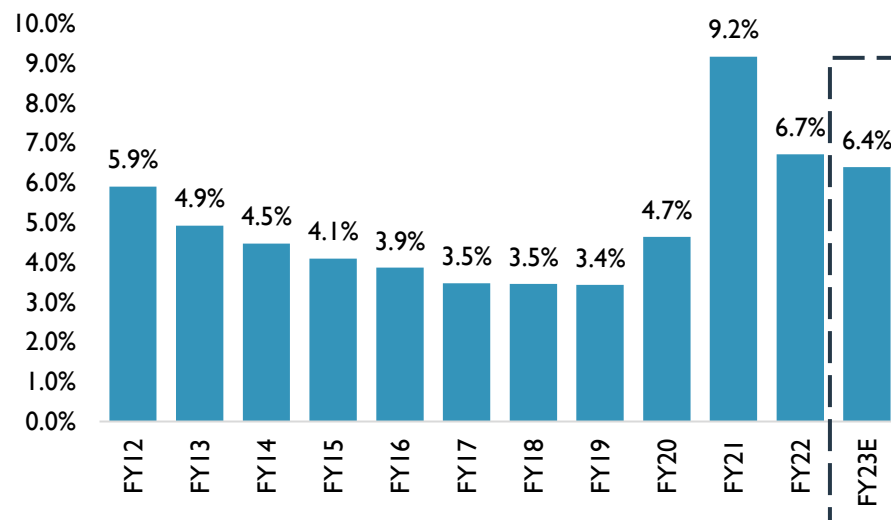
# Focus on growth, reforms and fiscal prudence

Breakdown of India's 2023 Budget



Note: Units in Rs. Lakh crore

India's Fiscal Deficit as a % of GDP

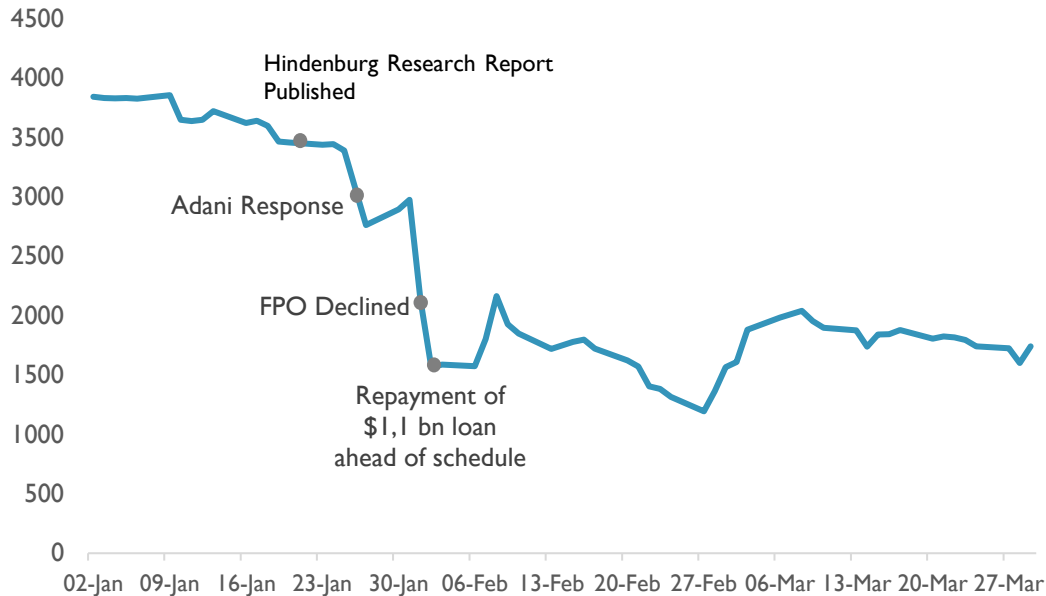


- The budget announced was bullish with positive sectors being financials, infrastructure and consumption sector whereas fertilizers, defense, medical tourism, oil & gas delivered below expectations.
- Total expenditure has grown by 9% which is significant and gives enough leg to the growth cycle.
- There were significant personal direct tax proposals with a clear push by the government to popularize the new tax regime.

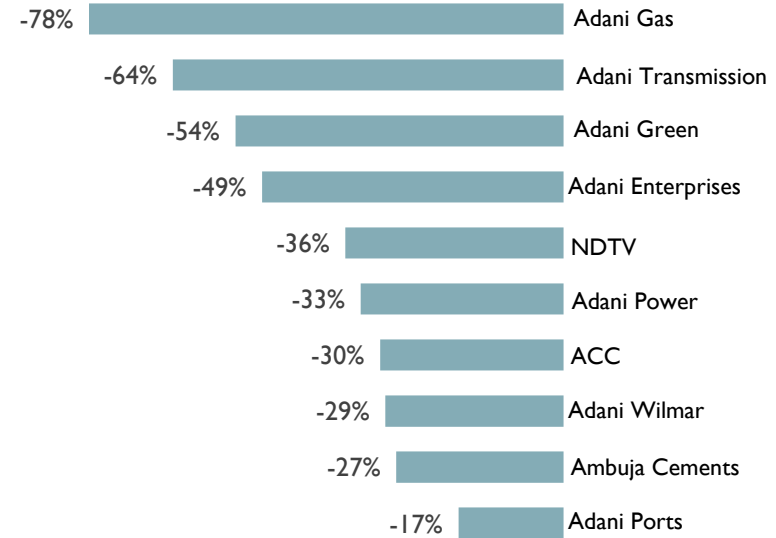
Source: Budget Documents, stats of India

# Adani v/s Hindenburg saga

Adani enterprise share price fell 49%



Adani group lost ~Rs. 10 lakh crore in MarketCap

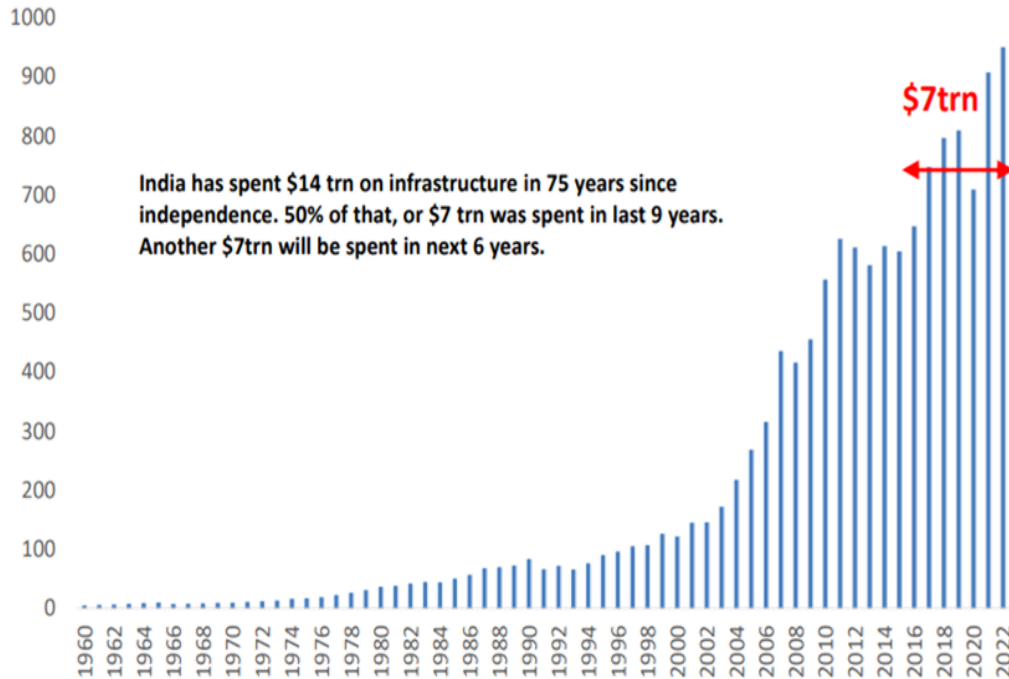


Note: MarketCap data from 23<sup>rd</sup> Jan, 2023 to 31<sup>st</sup> Mar, 2023

- The weeks following Hindenburg published the report on Adani Group release had been tumultuous ones, with stock prices rising and falling at one time peaking so quickly that trading was stopped.
- Adani Enterprises has been removed from the Dow Jones Sustainability Indices, stricken off the Credit Suisse, Standard Chartered and Citibank bond collateral lists.
- Significant damage to Adani's valuation is expected to stick around.

# India's capex cycle

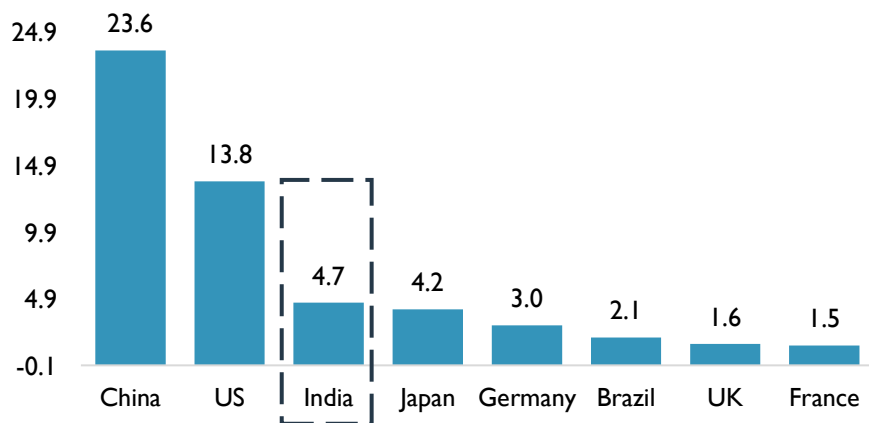
Gross fixed capital formation (investments in \$bn)



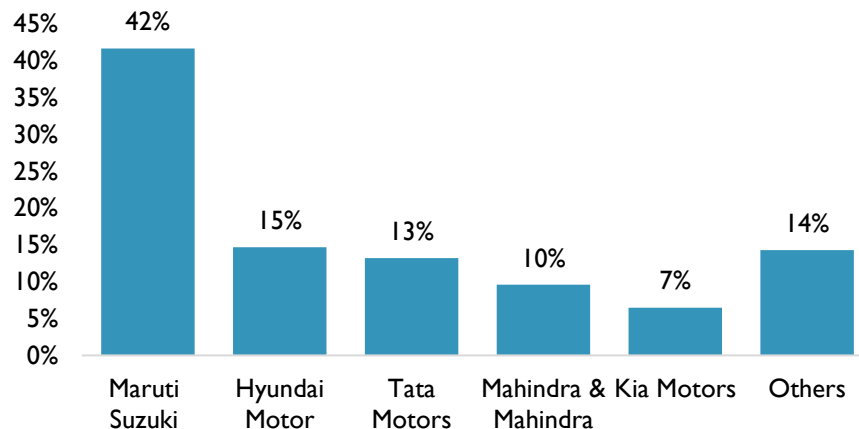
- India's investment to GDP ratio peaked in 2011 & remained low until COVID-led disruption upended the supply chains. Post COVID recovery & a large push through government expenditure, investments are making a come back.
- Record profitability in FY22 and the paring down of corporate debt have improved the financial health of corporate India. The net debt levels have fallen to a 6 year low.
- This augurs well for the capex cycle, as a healthy balance sheet & strong profitability open the door for corporate India to spend more.

# India tops Japan to become world's 3rd largest auto market

Vehicle Sales in 2022 (in mn)



Indian Vehicle Retail Market Share

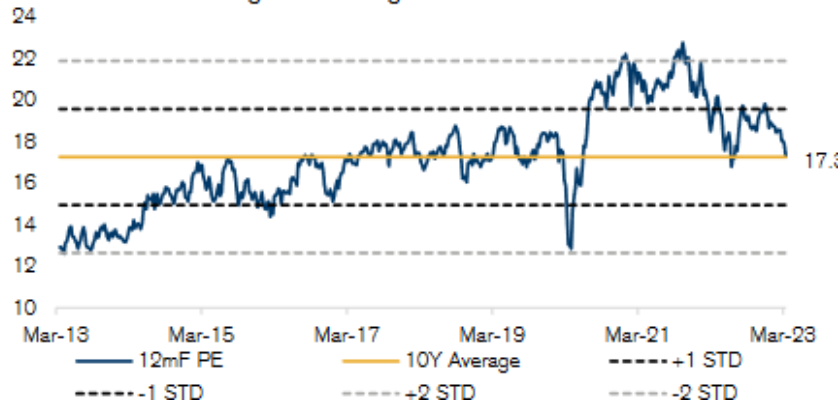


- As India's auto market grows, there appears to be a paradigm shift in motion, India is no longer a home just for small cars after pandemic, more expensive cars are growing faster in sales. India has 3,334 vehicles per million population.
- The value of the auto market in India lags behind other larger markets since vehicles here are far cheaper and the per capita vehicle ownership is low for India's population.
- Rs. 65,000 crore investment is expected by passenger vehicle makers in India by FY25 to ramp up production capacity to cater to enhanced demand.

# Nifty's volatile journey

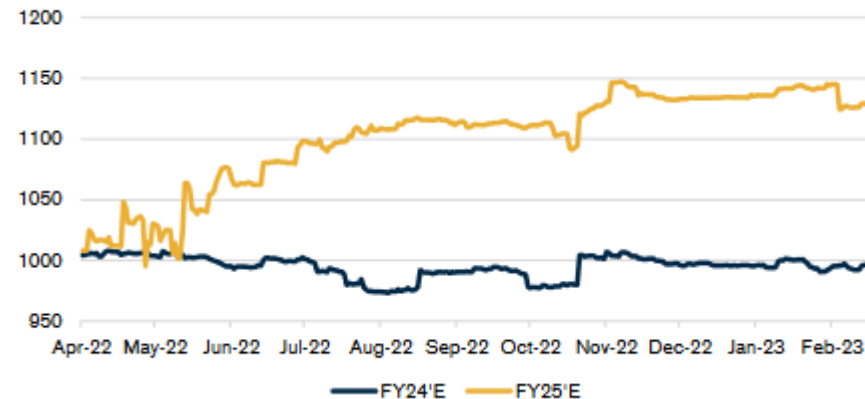
Nifty 1 Year Forward PE

Valuation falls to its long-term average



Nifty EPS consensus Estimate

Earnings momentum has remained resilient so far



- The Indian equity market has been under pressure since the beginning of 2023 with the Nifty 50 Index correcting over 4% due to several factors including India's high valuations, a research note alleging accounting fraud by a major Indian conglomerate and the instability in the global banking system.
- The valuation of the India equity market has corrected over the past few months toward its 10-year average to 17.3 but below its 5-year average of 18.3
- Indian equities can see a turnaround in the second half of the year premised on India's improved corporate fundamentals, political stability, and positive medium-term economic growth outlook.



# 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



**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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