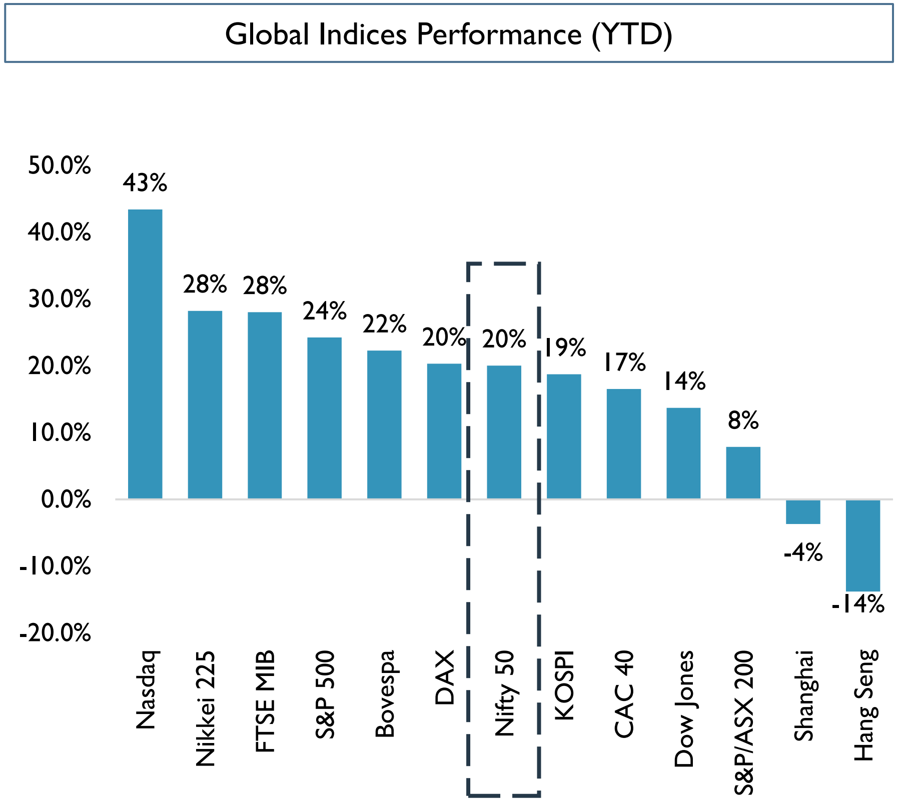
The Market Compass

December, 2023

Pi Square Investments

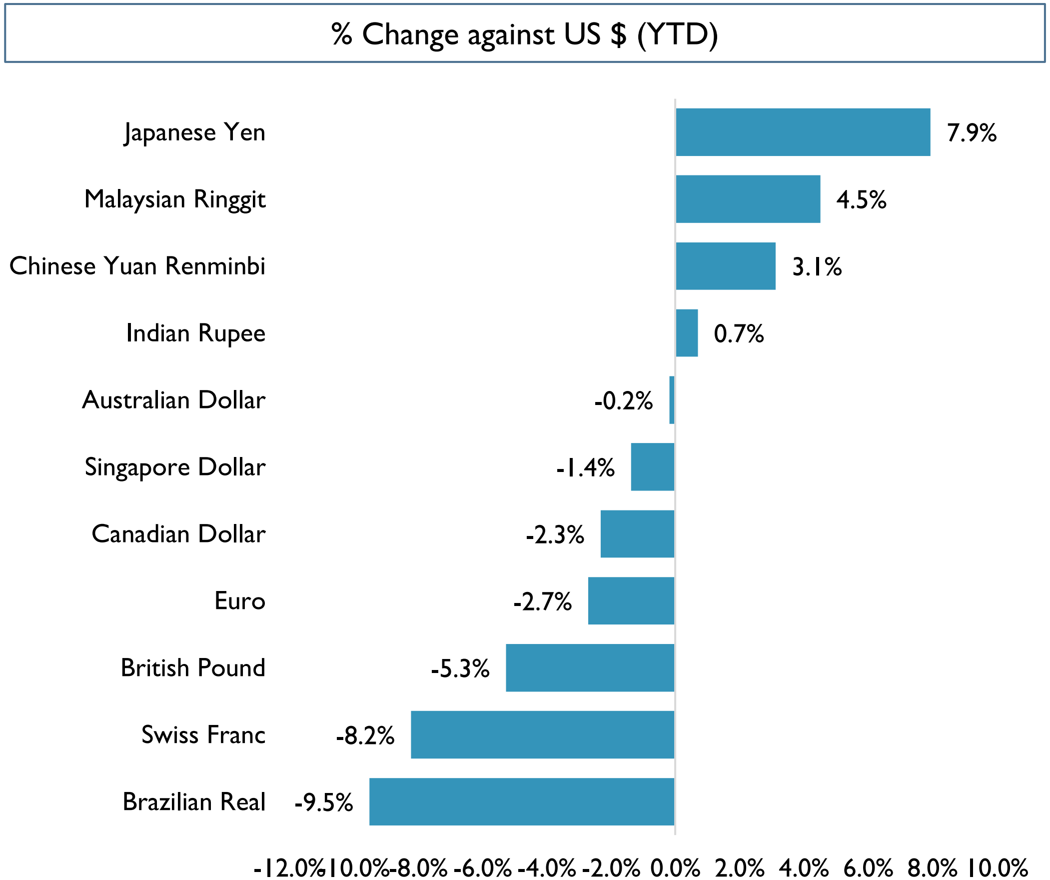
India shines in a tough year



- 2023 started with low and declining expectations for global growth and heightened fears of a recession. However, China's reopening, large fiscal stimulus in the U.S. and Europe and the expectation of Fed rate cuts resulted in a broadly positive performance for markets. Nasdaq was the best performing index globally, despite the largest increase in interest rates in decades, major wars, an energy crisis, a regional banking crisis, recession in parts of the eurozone and emerging signs of credit and consumer deterioration in the U.S.
- Equity concentration in the S&P 500 is now at levels not seen since the 1970s,the rise in stocks this year has been driven by a cluster of tech mega-cap stocks.
- In the post covid era, while most of the markets are still reeling below their 2021 highs, Indian indices have given significantly higher returns than the rest. Indian markets added ~$1trn in market cap in 2023, extending its winning streak for the 8th consecutive calendar year.

Source: investing.com

Dollar stays bright in 2023

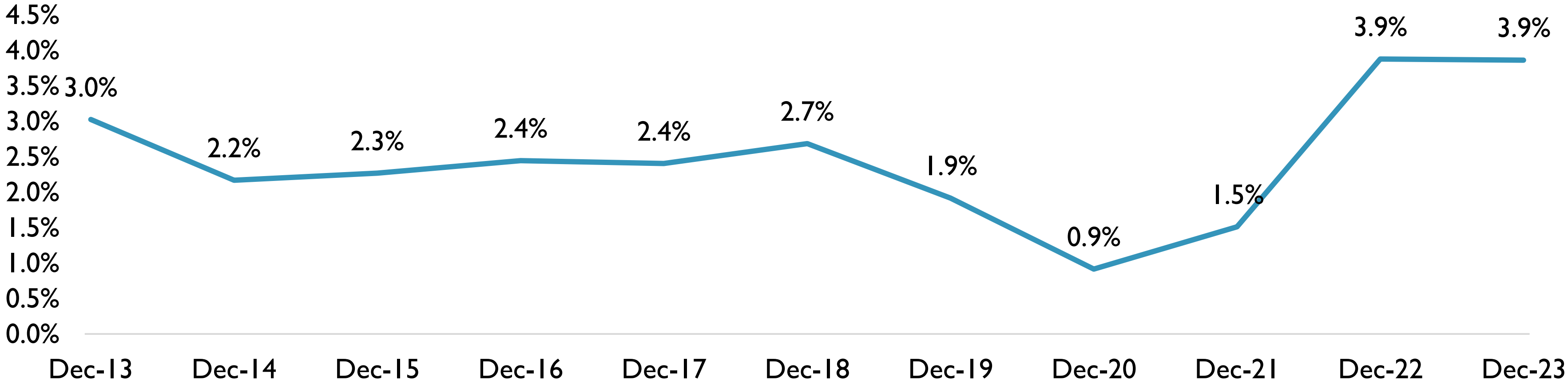


- Q3CY23 marked a period of disinflation in the euro area, while the US economy had a relatively strong performance and Japanese yen saw pressure.
- While most of the emerging-market currencies regained ground against the dollar in November, the rupee lagged its peers, primarily due to persistent demand for the dollar among importers.
- Stability of rupee is attributed to RBI's timely intervention in the foreign exchange market, current account deficit has remained less than 2% of GDP in FY24 and the robust foreign inflows, which kept the rupee afloat during global uncertainties.

Source: exchangerates.org

Bonds bounce back in 2023

U.S. Treasury yields at the highest in a decade, peaking at 4.9% in October

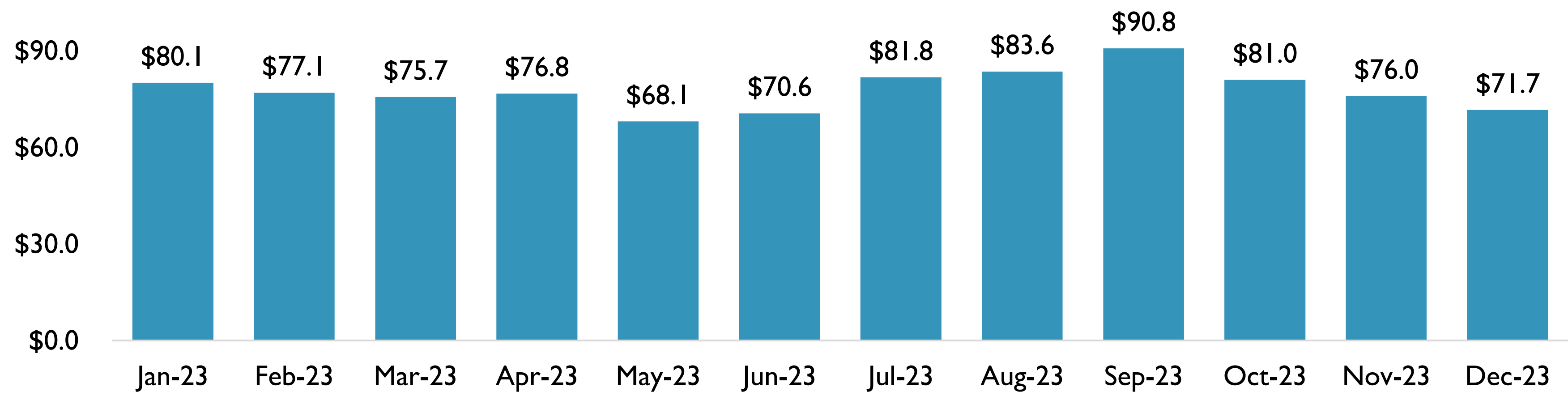


- As bonds emerge from a historic selloff, better times in the U.S. fixed income market are expected in the next year - as three rate cuts are expected in 2024. Falling rates are expected to guide treasury yields lower and push up bond prices.
- A fourth-quarter rally saved bonds from an unprecedented third straight annual loss in 2023, following the worst-ever decline a year earlier. The late year surge came after Treasuries hit their lowest level since 2007 in October.
- U.S. bonds are expected to return 4.8%-5.8% over the next decade, compared with the 1.5%–2.5% expected before the rate-hiking cycle began last year.

Source: Reuters, Investing.com

Oil prices on a steep downward trajectory

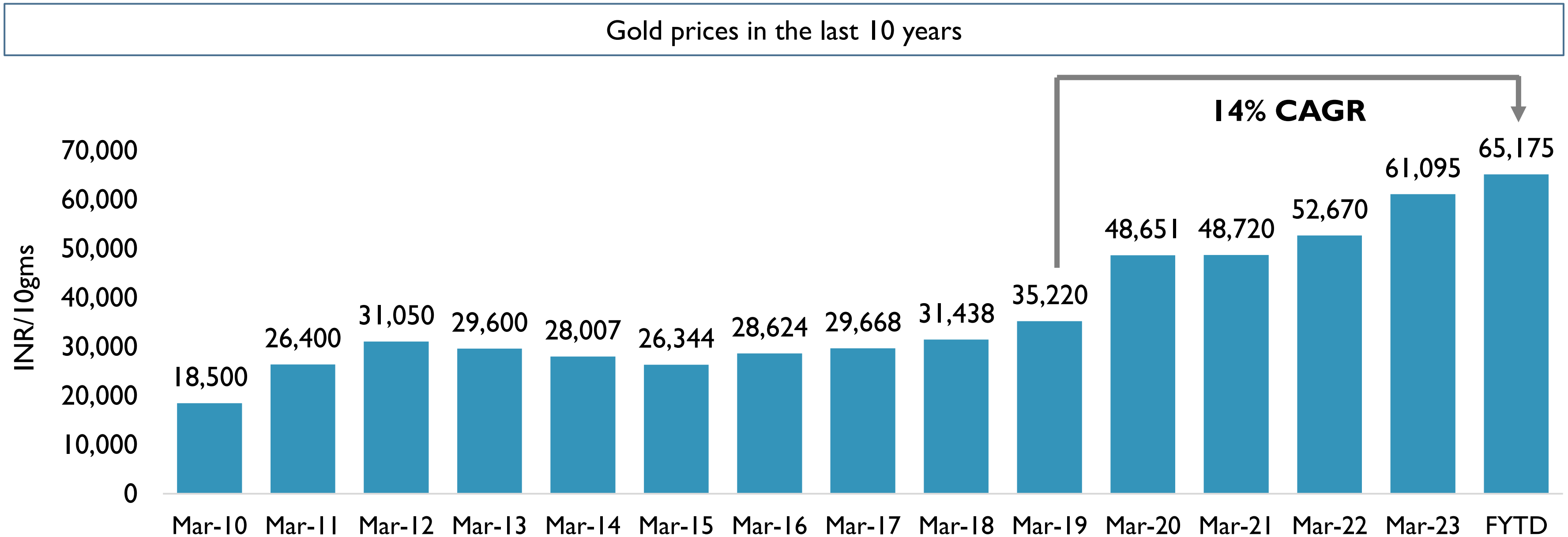
Crude oil prices peaked in Sep-23 and has corrected 21% since then



- The global oil markets in 2023 were impacted by geopolitical tensions, sluggish demand from the world's top consumers, and a tightening global supply, all of which resulted in high volatility in prices throughout the year.
- Ample of supply is seen in the next year due to a slowdown in economic activity combined with rising production from the US - that recently touched its highest at 13.24 mbpd. Moreover, Brazil, Guyana, Norway and Canada will keep the markets flush with enough oil.
- Non-OPEC production growth is expected to be robust, especially outside of the US. OPEC+, responsible for 40% of global oil supply is also anticipated to bring back at least some of its reduced production. Oil is expected to trade at $70 and $100 for most of 2024

Source: Goldmansachs, Investing.com

Gold at all time high

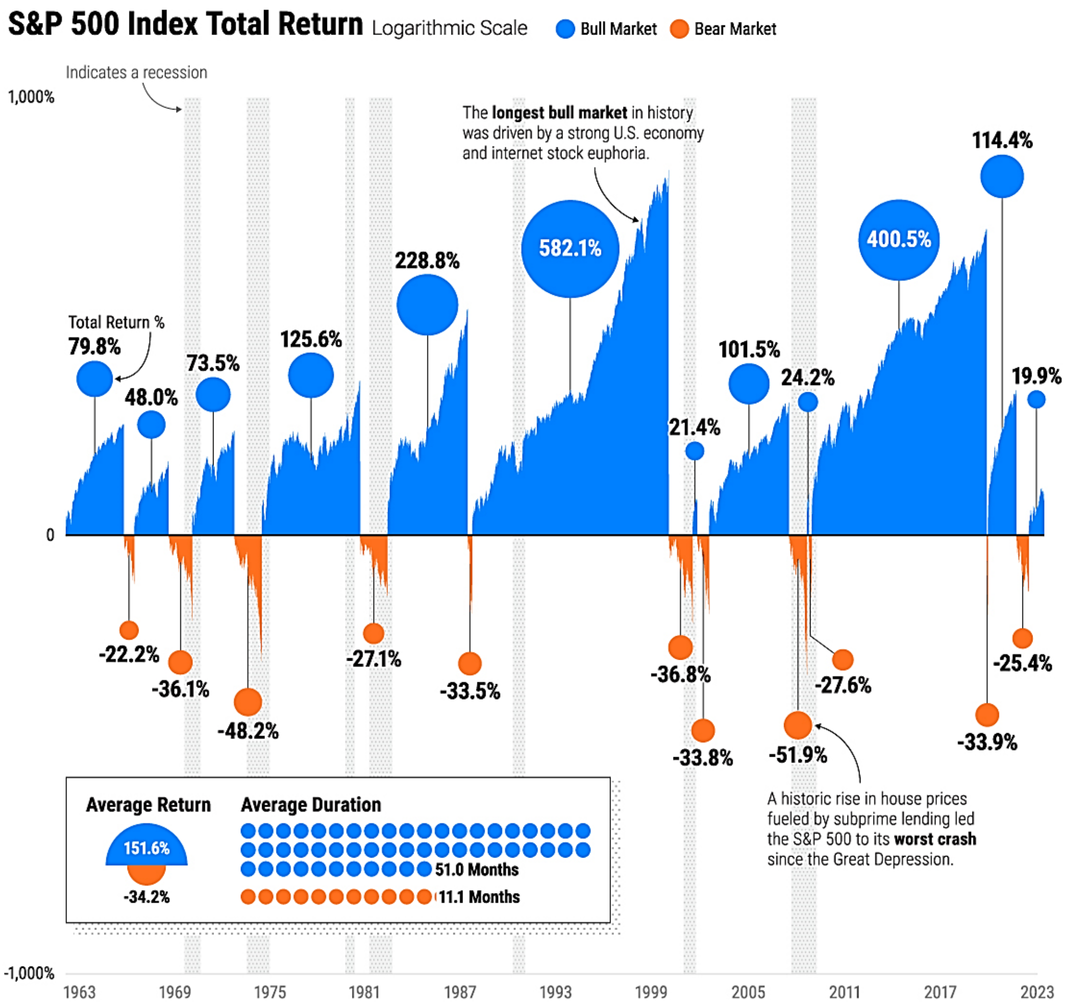


Note: FYTD = 01-04-2023 to 31-12-2023

- US banking crisis in early 2023, global economic slowdown and geo-political tension are some of the major reasons which helped gold and silver to beat stock market returns across the globe by a huge margin barring few like India.
- Gold is expected maintain its impressive run in 2024 on the back of triggers such as the moderation in US economic growth, expectation of rate cuts this year and continued buying from central banks.

Source: Investing.com

60 years of S&P 500 Cycle

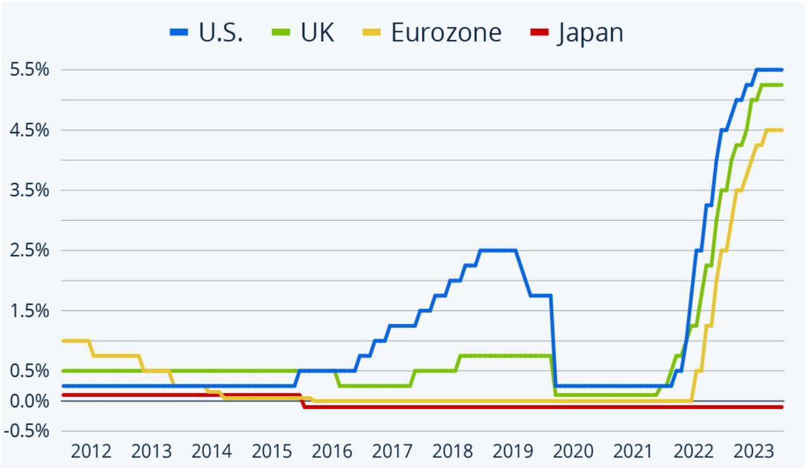


- The longest bear markets since 1962, were in the early 1970s and 1980s, both lasting ~20 months. In both cases, high inflation led the Fed to tighten monetary policy, triggering each recession. In 1974, the S&P plummeted 48.2% from its peak, one of the sharpest declines since WWII.
- On the other hand, the longest bull market took place through the 1990s amid a roaring US economy. Lasting over 12 years, it reached an apex during the Dotcom boom. Over the course of the bull market, the S&P 500 advanced 582.1%.
- After the 2008 Global Financial Crisis, the stock market witnessed another expansive bull run, lasting 11 years. Ultra-low interest rates and the outperformance of big tech in particular defined the cycle.
- In many cases, stock market peaks happen before a recession begins. For instance in 2007, the S&P 500 hit a high in October before the recession officially began in December. Similarly, the S&P 500 peaked in September 2000, 6 months before the 2001 recession officially started.

Source: First Trust Advisors, Bloomberg, Visual capitalist

Global interest rate hike cycle to ease

Major economies interest rate at a glance



Interest rates forecasts for major economies

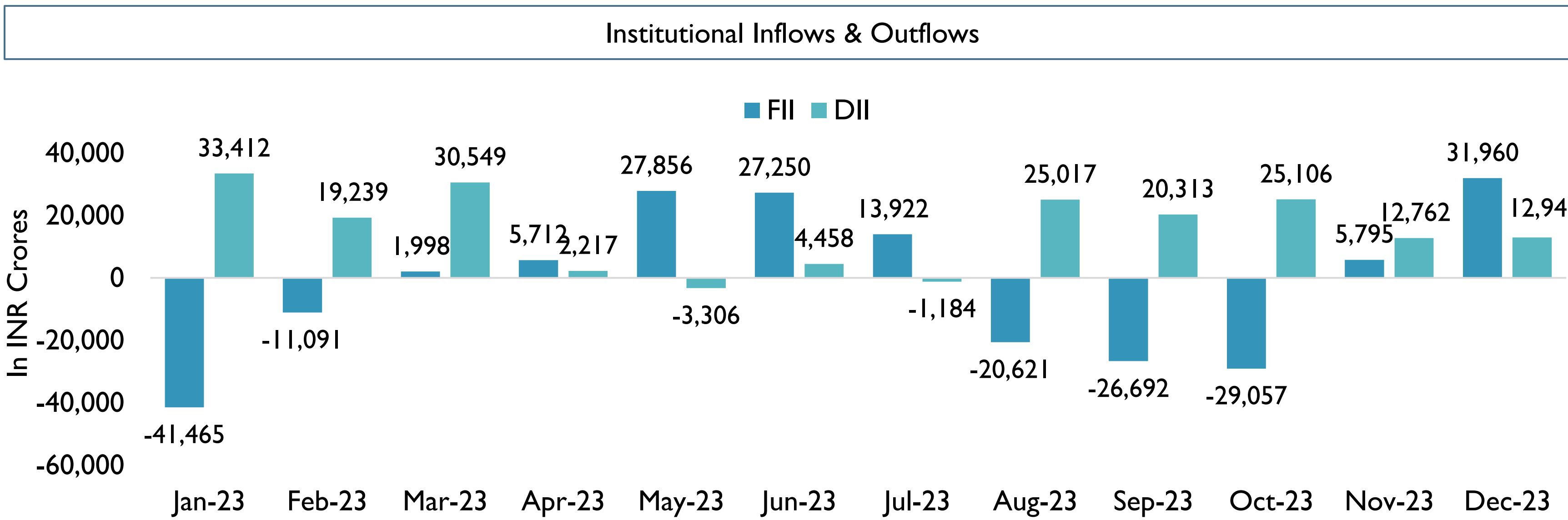
	US	UK	Eurozone	Japan
Q4CY23	5.4%	5.9%	3.9%	-0.1%
Q1CY24E	5.4%	6.0%	3.9%	-0.1%
Q2CY24E	5.4%	***5.9%***	***3.8%***	-0.1%
Q3CY24E	***5.3%***	5.7%	3.8%	-0.1%
Q4CY24E	5.0%	5.5%	3.8%	-0.1%

Indicates first rate cut

- While in much of the world, central banks are set to ease policy, Japan is about to embark upon a tightening cycle, with the Bank of Japan set to phase out its yield curve control policy and by Q3CY25 end the era of negative interest rates.
- Along with the decision to stay on hold, FOMC members have penciled in at least 3 rate cuts in 2024.
- Early cuts may cause European yields to fall earlier than those in the US and lead to the tightening of bond spreads in the peripheral eurozone.
- Back at home, RBI is expected to initiate rate cuts, following a 3-month lag, after the projected rate cut from the Fed in May.

Source: Bloomberg, IMF estimates, Statista

FIIs are getting attracted to Indian stocks once again

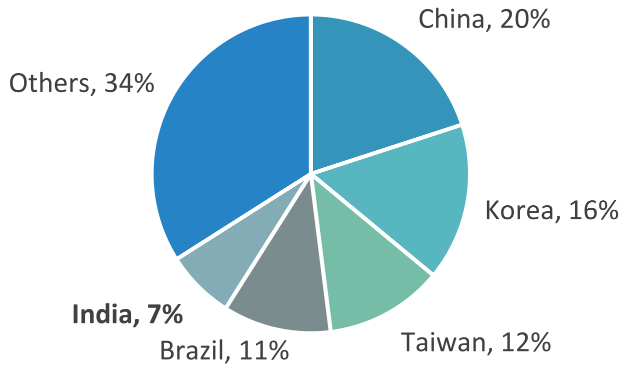


- A combination of strong earnings and economic growth along with hopes of the Fed ending the rate-hike cycle have resulted in foreign investor's highest ever inflow of INR 1.6 lakh cr since 2020 when buying stood at INR 1.7 lakh crore.
- During the year, FPIs were net sellers in just 4 months and buyers in the remaining 8, In those 4 months DIIs flows were stronger and acted as a counterforce.
- In terms of sectors, FPIs were big buyers in the financial services, autos, capital goods, and telecom.
- Net FPI investments in debt stood at INR 68,004 cr, highest ever inflow since CY17 when inflows stood at INR 1,48,533 cr

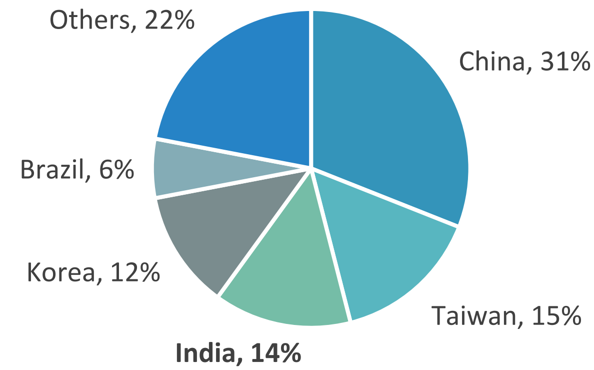
Source: NSE

India’s share of foreign flows to rise further

Weights in MSCI EM Index- 2015



Weights in MSCI EM Index- 2023

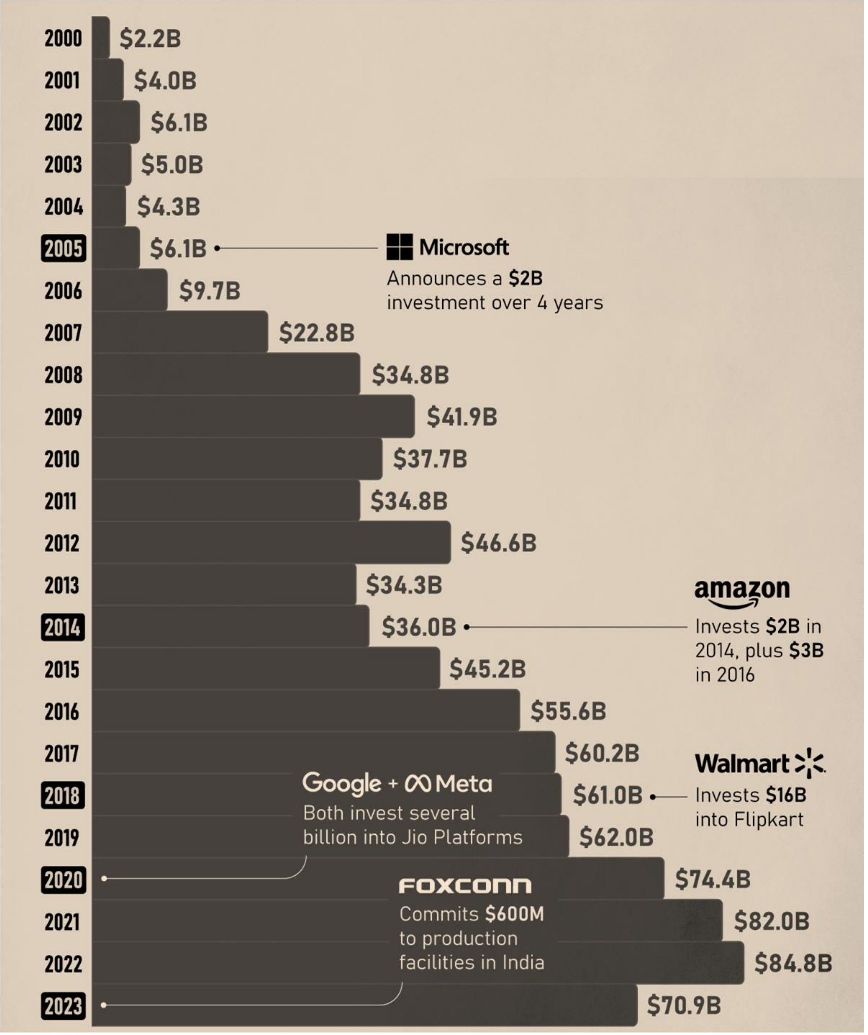


Inflows ($bn)	India	Brazil	Indonesia	Malaysia	Philippines	S. Korea	Taiwan
CY20	23.4	-8.1	-3.2	-5.8	-2.5	-20.1	-15.3
CY21	3.8	13.2	2.7	-0.8	0.0	-23.0	-15.3
CY22	-17.0	18.6	4.3	1.1	-1.2	-9.6	-44.5
CY23	17.0	6.3	-1.0	-0.6	-0.9	7.2	1.7

- India’s share in emerging market index has almost doubled from 7% to 14% in last 8 years and is likely to increase further with higher economic size
- The net flows for the current calendar year is nearly of $17 billion while rest of the emerging markets have seen nominal flows.

Source: NSE

FDI inflows into India is on the rise

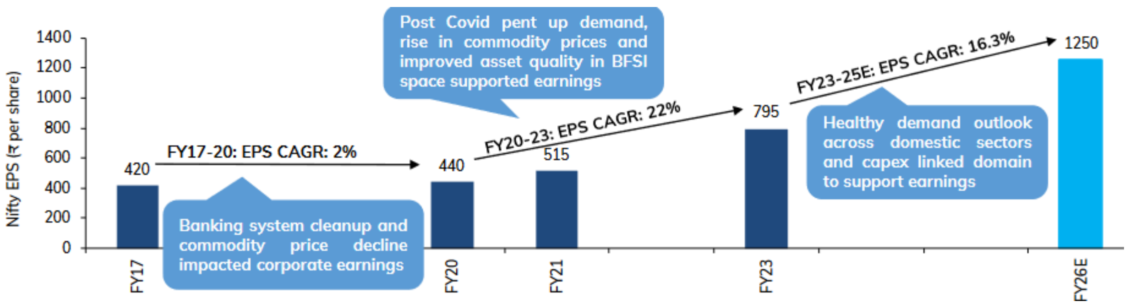


- India's FDI inflows rocketed from $2.2bn in 1999–2000 to more than $22bn in 2006–2007, mirroring the country's rapid economic growth. In the midst of the subprime crisis and the global recession, investment to the country stayed resilient due to the country's vast, and fairly insulated, domestic market.
- Looking to capitalize on the country's burgeoning demand, global brands have made increasingly large plays into the country's economy. This has been boosted by the government's continued push to liberalize it's FDI laws
- BFSI and technology sector accounts for one-third of all FDI inflows with 70% of the $70.9 billion foreign investment between April 2022 and March 2023 being concentrated in only 3 states (Maharashtra, Karnataka, and Gujarat)
- The momentum is expected to continue in 2024 as healthy macroeconomic numbers, better industrial output and attractive PLI schemes is poised to attract more overseas players amid geopolitical headwinds and tighter interest rate regime globally

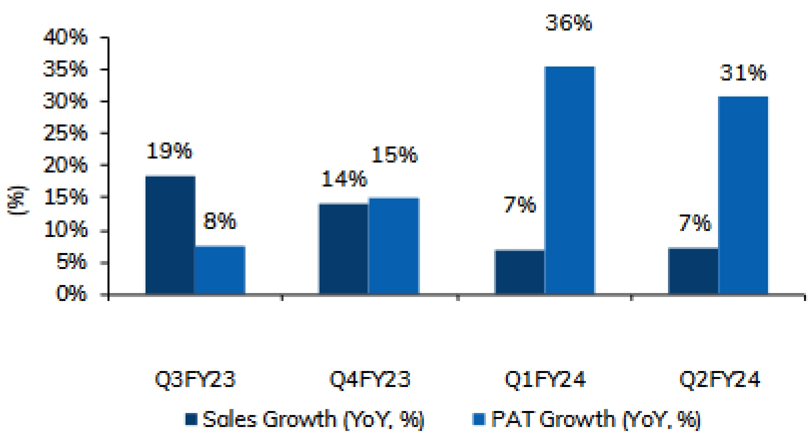
Source: RBI, visual capitalist

Nifty supported with healthy corporate earnings

Nifty earnings to grow at 16.3% CAGR between FY23-25E



Nifty earnings has grown >30% in H1FY24 on absolute basis

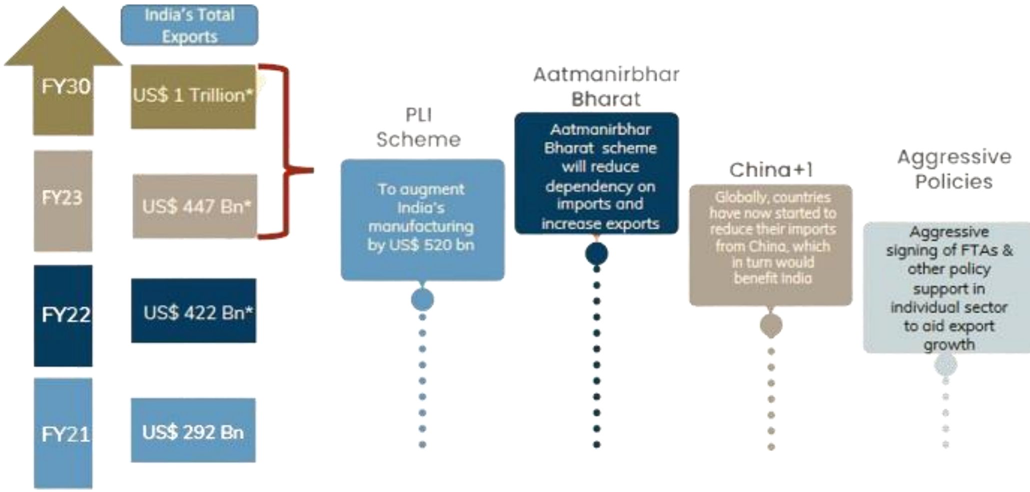


- Corporate earnings recovery has been healthy in the recent past with Nifty earnings growing at 22% CAGR over FY20-23. Going forward, Nifty earnings is expected to grow at a CAGR of 16.3% over FY23-26E.
- There are green shoots in the form of continued corporate earnings momentum domestically, healthy GDP growth, benign commodity prices outlook as well as likely rate cut globally.
- Nifty saw a sharp over 20% up move in FY24YTD, Nifty's current TTM valuation at 23.1x, is still at a ~30% discount as compared to last all time high made by Nifty during October 2021. While the market has gained over 13% during the last peak in FY21 to FY24 peak levels, Nifty earnings have actually risen by over 50% during the period.

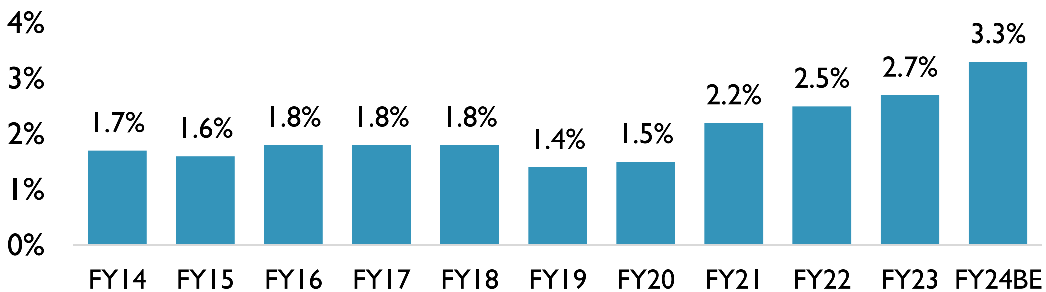
Source: RBI, visual capitalist

India to become world's new manufacturing hub

Indian exports to grow exponentially led by aggressive government policies



Capital Expenditure to GDP at an all time high

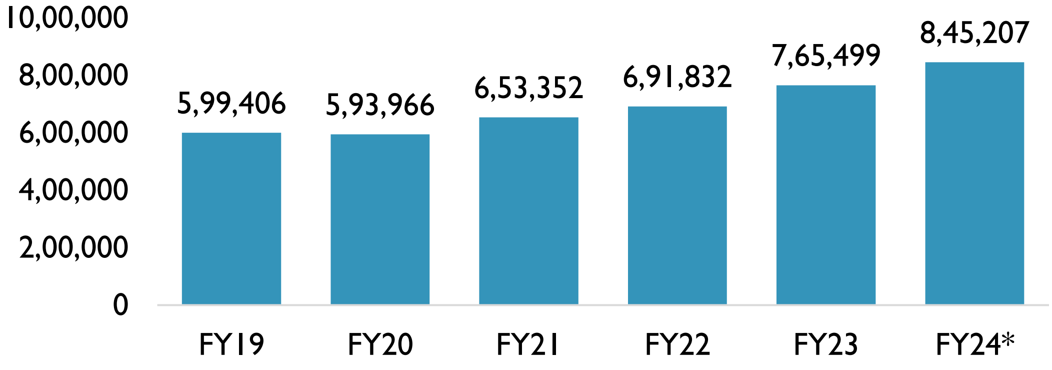


- Capital Expenditure (Capex) spending remains the key priority with government capex allocation growing at CAGR of 30% over FY20-FY24E. Two sectors that stand out in terms of allocation is Railways and Roads. Both the segments have seen allocation rising by 6x and 3x over FY18-FY24.
- Government has rolled out PLI schemes with targeted expenditure of ~ INR 2.65 lakh cr (excl. semi conductors). PLI is aimed at increasing the manufacturing output by $520 bn over the next 5 years and to drive exports as well as imports substitution.
- Mobile manufacturing PLI has led to total mobile manufacturing of over INR 2 lakh crore and is expected to reach INR 5.5 lakh crore by FY26, it includes exports of INR 80,000 cr already over the last 2 years.

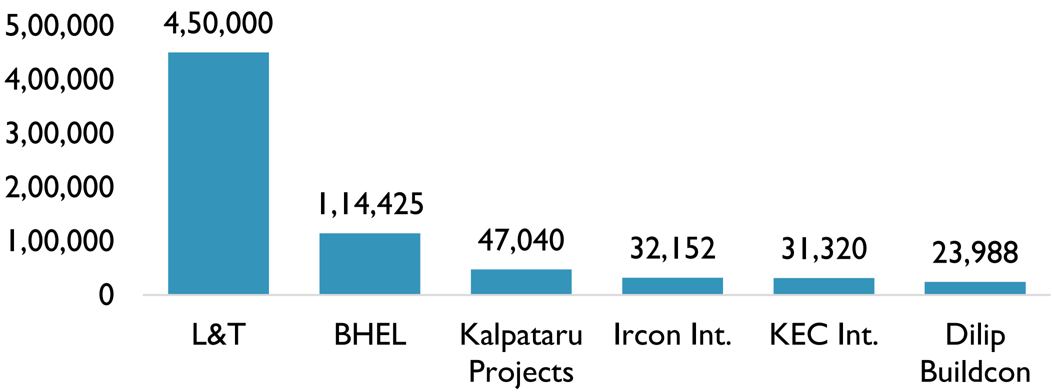
Source: Government estimates, Industry reports, Budget Documents

Steady road ahead for capital goods companies

Capital goods firms combined orderbook surged past INR 8 trn in value



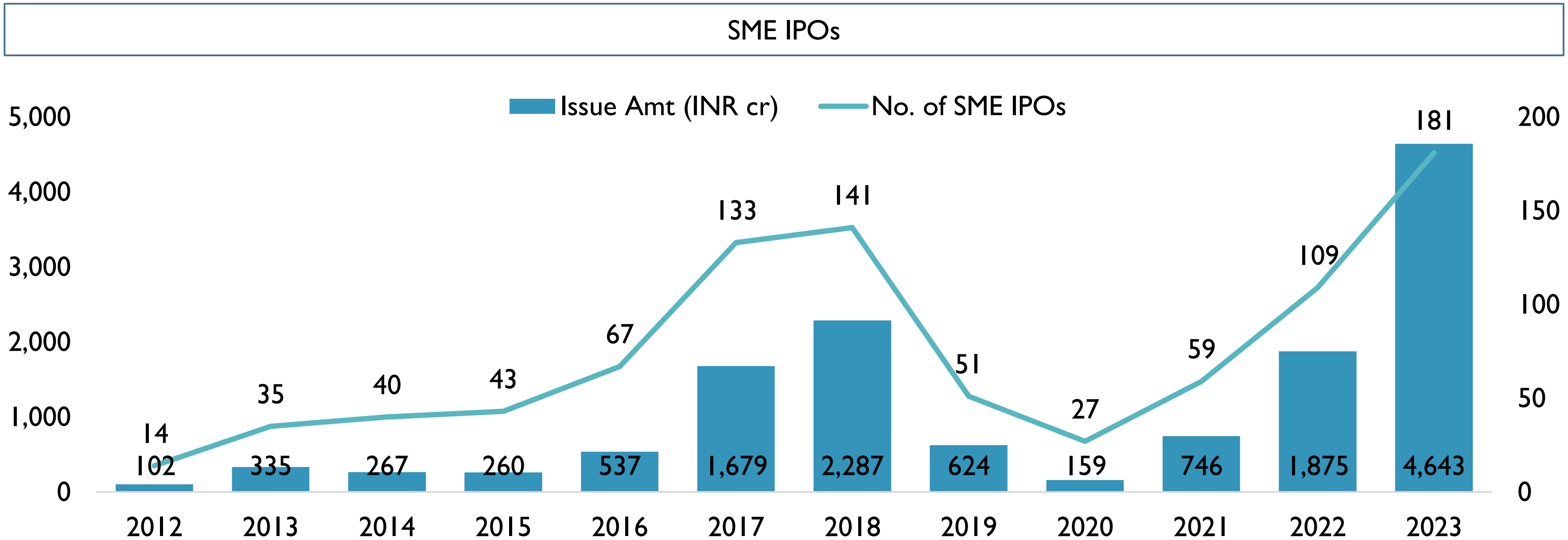
Order book of top companies (in INR cr)



- The increased focus on government-backed capital expenditure, primarily directed towards sectors like railways, power, and defence, has spurred investor interest and fueled optimism in these industries.
- Besides, volatility in raw material costs and the upcoming general elections in India could disrupt the supply chain, and hinder the current pace of order placement, especially in the near term.
- Capital goods companies are expected to maintain stable revenue growth in the second half of FY24 due to successful order backlog execution, while steady commodity prices may boost earnings
- The engineering, procurement and construction major expects to surpass its order inflow target of 10-12% and revenue growth forecast of 12-15% for FY24

Source: Company, Nuvama Research

Fundraising via SME IPOs hits record high in 2023

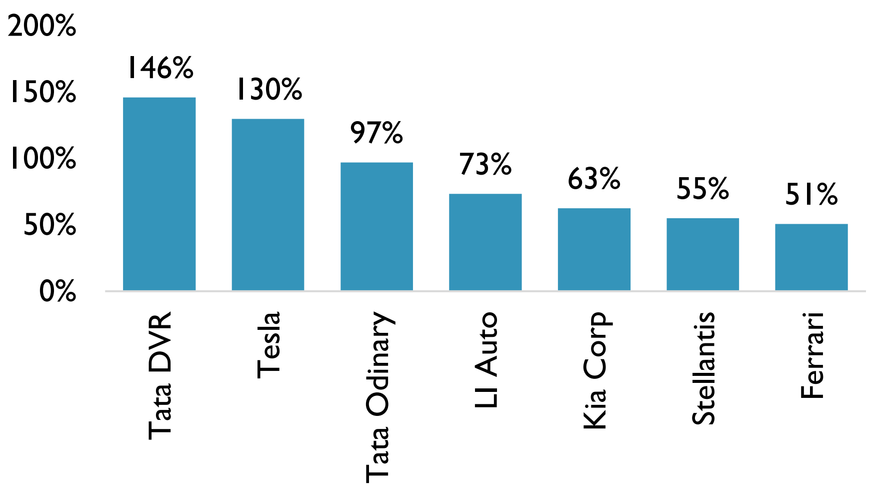


- This year, 181 companies raised ~4,643 crore through the SME IPO route, the previous all-time high was in 2018, when 141 companies raised ~2,287 crore
- The record-breaking number of SME IPOs is attributed to retail enthusiasm bolstered by strong after-listing performances
- While there were no mainboard IPOs in the first 2 months of this year, the SME exchanges saw 21 issues during the same period.

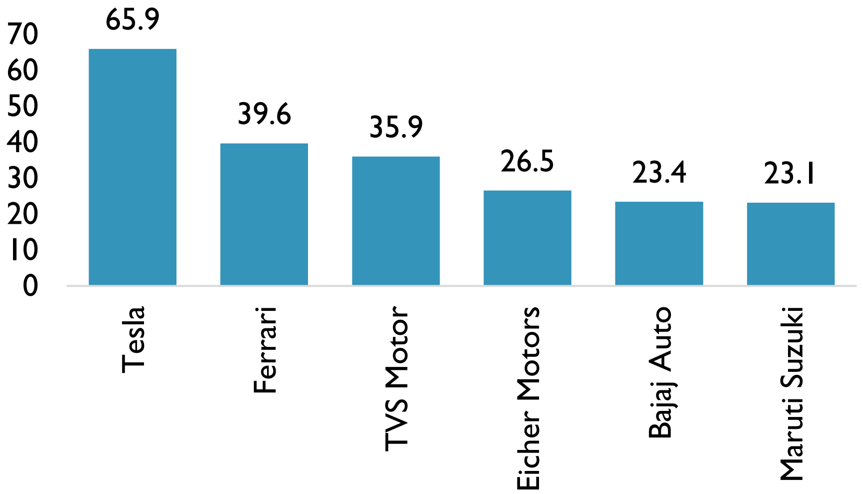
Source: Prime database

Tata Motors, the best auto performer globally

Bloomberg World Auto Manufacturers Index best performers



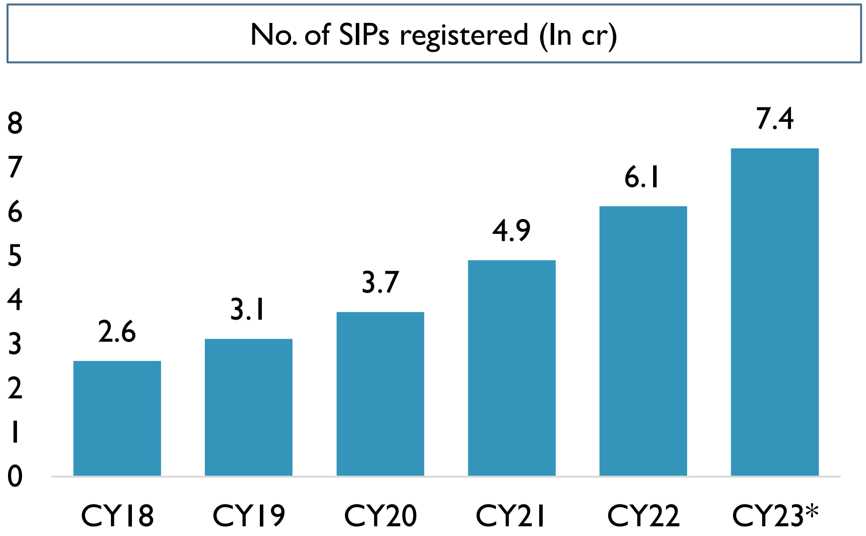
Most expensive auto stocks in the world (Fwd. P./E)

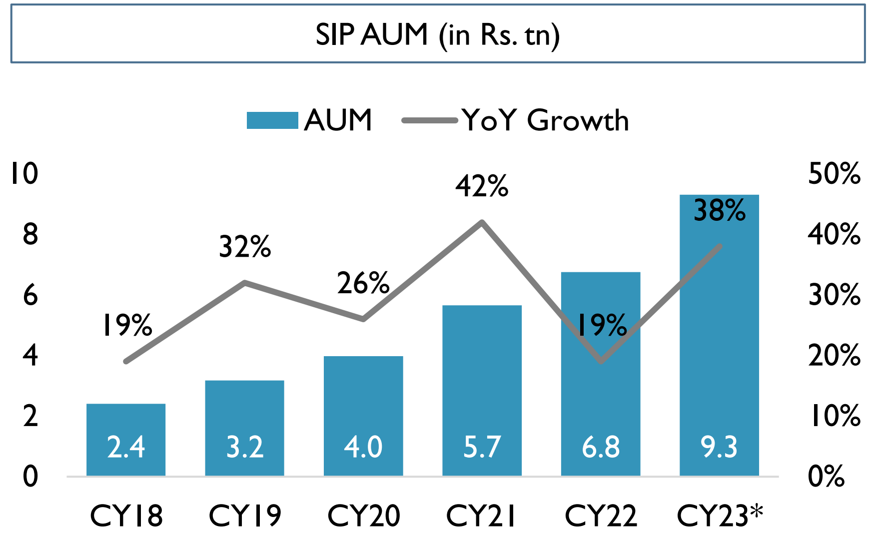


- The total market cap of Indian automakers rose by $54 bn in CY23 to $162 bn, earnings are expected to grow by 50-80% for FY24
- Considering the global automobile companies with market cap of above $5bn, 4 Indian automakers including Tata motors, TVS motors, Bajaj Auto and Hero MotoCorp emerge as top 10 players according to Bloomberg.

Source: Prime database

SIP collection soars to record high in 2023





**Data at the end of November*

- Monthly SIP investments have been going up consistently, rising from INR 8,023 cr in January-21 to INR 17,073 crore in November-23.Within a year, the share of SIPs in the total MF AUM surged to 19.1% in November from 16.6% at the start of 2023.
- Since 2020, markets rose and as a result, a growing number of investors invested in equity; market penetration, has also been increasing consequently.

Source: AMFI

About Us

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

11+ 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

HRISHIT JHAVERI

RESEARCH ANALYST

Hrishit is a certified financial planner and gold medalist in the field of commerce from Ahmedabad University. He has a prior experience of 1.5 years working as a quant analyst.

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.

DEEP SHAH

TECHNICAL ANALAYST

Deep is a B.Com (Hons.) graduate from GLS University. He has cleared Chartered Wealth Manager affiliated by the American Academy of Financial Management. He is skilled in technical analysis with over 2 years of experience in the Indian markets.

Reach out to us

pisquareinvestments.com crm@pisquareinvestments.com +91 2717 459 271

Disclaimer

1) Pi Square Advisors is registered with SEBI as a Registered Investment Adviser ("Investment Adviser"). 2) This material is provided for informational purposes only. Information contained does not constitute and shall not be deemed to constitute in any manner any investment advice or an offer for sale or solicitation or endorsement relating to the products/ services mentioned herein ("Products"/ "Services"). The data used in this material is prepared and issued based on internal data, publicly available data and also obtained from the sources which it considers reliable. Pi Square Advisors and its related entities distributing this document and each of their respective partners, officers and agents believe that utmost care has been taken to represent facts and provide correct information as at the time of its compilation. However, Pi Square Advisors does not warrant the completeness/accuracy/reasonableness of the information and disclaims itself from all liabilities, losses/damages arising out of the use of this information. Pi Square Advisors / its subsidiaries / affiliates / sponsors or their officers, employees, personnel, partners shall not be liable for any loss, damage, liability whatsoever, whether direct or indirect, arising from the use or access of any information. 3) For Pi Square Client/s: (a) The Client understands that the Advisor serves as Investment Advisor for other clients and will continue to do so. The Client understands that the Advisor may give advice or take action in performing its duties to other clients, or for its own accounts, that may differ from advice given to or acts taken for the Client based on the individual time horizon, risk tolerance, financial situation and other subjective criteria. The Advisor is not obligated to buy, sell or recommend for the Client any security that the Investment Advisor may buy, sell or recommend for any client or for its own accounts. (b) This does not limit or restrict in any way the Advisor from buying, selling or trading in any security or other investments for their own accounts. The Advisor may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. This should not be construed as invitation or solicitation to do business with Pi Square Advisors. The recipient is requested to read and understand the warnings/ disclaimers/ disclosures, etc. before making any investment related decisions. 4) The information contained in this document is for general purposes only and may not be a complete disclosure of every material fact and terms and conditions and features. The statements contained herein may include statements of future expectations/outlook and other forward looking views that are based on our current views and assumptions/factors and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Any forecasts or opinions expressed may be subject to change without any intimation. The recipient alone shall be fully responsible / liable for any decision taken on the basis of this presentation. This communication is for private circulation only and for the exclusive and confidential use of the intended recipient(s) only. Any other distribution, use or reproduction of this communication in its entirety or any part thereof is unauthorized and strictly prohibited. The content of this presentation is confidential and intended solely for the use of the addressee. If you are not the addressee, or the person responsible for delivering it to the addressee, please delete the same immediately and any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it is prohibited and may be unlawful. No part of this document may be duplicated in whole or in part in any form and/or redistributed without prior written consent of Pi Square Advisors. 5) Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved. Past performance of the investment adviser does not indicate its future performance. Portfolio Advisory products/strategy along with product name does not in any manner indicate either the quality of the products/strategy or its future prospects and returns. References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for information only and do not imply that the portfolio will achieve similar results in the future. The index composition may not reflect the manner in which a portfolio is constructed. 6) As with any investments in securities, the value of portfolio can go up or down depending on various factors and forces affecting capital/fixed income markets and hence such investments may not be always profitable and there is no guarantee against loss resulting from investment. Asset allocation and strategies have some base assumptions which may or may not be right due to either internal circumstances relating to the corporation or external circumstances. 7) Confidential information about the client shall not be divulged without taking prior permission from the client except where such disclosures are required to be made in compliance with any law for the time being in force. 8) There are no outstanding litigations against the Company and its Partners. 9) The Analyst has not served as an officer, director or employee of the company(ies) mentioned herein. SEBI's correspondence address: SEBI Bhavan, Western Regional Office, Panchvati 1st Lane, Gulbai Tekra Road, Ahmedabad – 380006. Pi Square Advisors is a Non-Individual Investment Advisor registered with SEBI bearing registration number INA000018179 and BASL ID 2018 with a perpetual validity. You may reach out to our Principal Officer on principalofficerpisquare@gmail.com / +91 2717 459 271