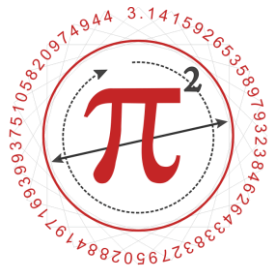


The Market Compass

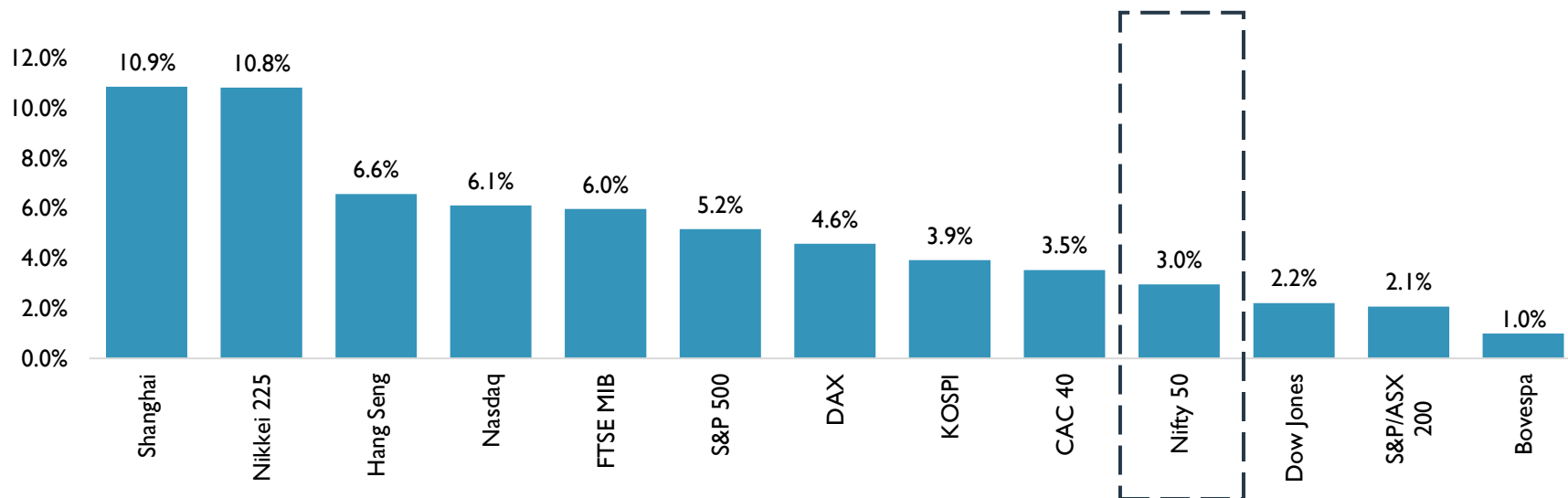
February, 2024



Pi Square Investments

Global indices performance

Global Indices Performance (MTD)



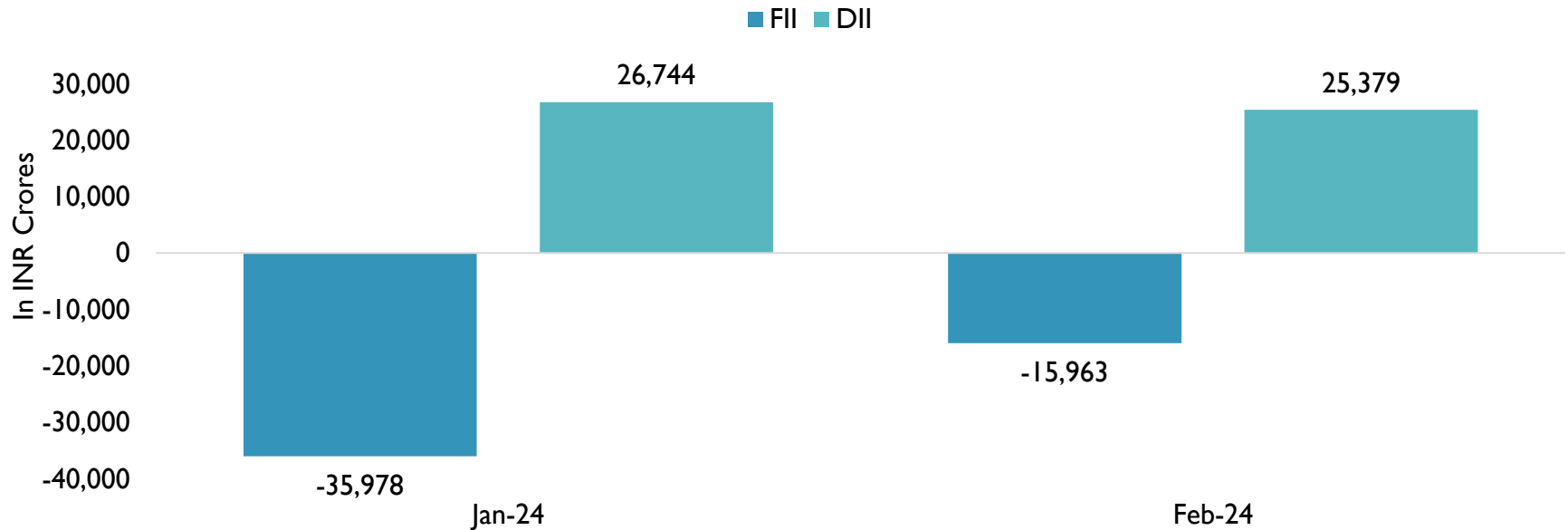
Note: Data as of 29th Feb, 2024

- With tech earnings boosting the upward momentum, S&P 500 record all time high gains and U.S. tech gains lifted tech stocks globally, with a rally in chipmakers led Japan's Nikkei to set a record for the first time since 1989.
- The Indian economy remains a 'star performing' economy against other emerging markets with Nifty 50 touching new all time high levels at 22,212
- Positive market sentiment is expected to persist as inflation cools and the Fed prepares to cut rates.

Source: Investing.com

Sustained DII Inflows

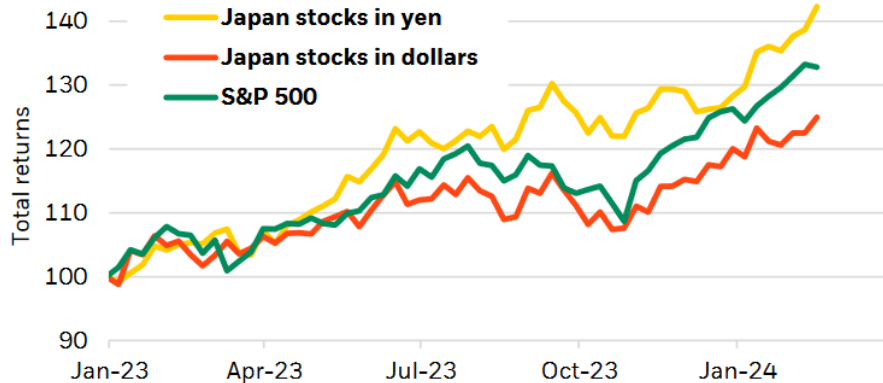
Institutional Inflows & Outflows



- The FII selling has been triggered by the rising US bond yields and the strengthening dollar. With the yield from the US 10-year at 4.3% and 2-year at 5.0%, the FIIs are likely to sell further as well.
- On the other hand, DIIs have been consistent buyers on the back of good flows to domestic mutual funds.

Nikkei hits record high since 1989

Total returns for Japanese stocks vs. U.S. stocks, 2023-2024

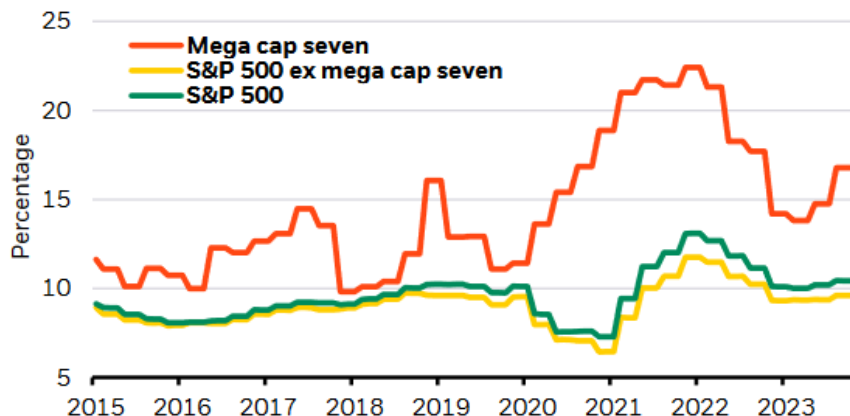


Note: The chart shows total returns for TOPIX, the Japanese stock index, valued denominated in yen and U.S. dollars, and total returns for the S&P 500. The data has been rebased so that 100 = Dec. 30, 2022.

- Japan's Nikkei index hit a record high in February for the first time since 1989, when stocks soared to the point the real estate-driven bubble later burst. Both the macro outlook and company-level developments will drive the next leg.
- A stabilizing U.S. dollar is not biting Japanese stock returns in the currency as much. And the excess yield investors receive for the risk of holding Japanese stocks over bonds looks attractive. Higher inflation is allowing firms to raise prices and protect margins, while wage growth helps to keep fueling consumer spending.
- March will be a pivotal month for Japanese markets, with the annual union wage negotiations – likely to shape the inflation outlook – taking place at the same time as the BOJ's next policy meeting. The BOJ is expected to end negative interest rates in coming months but will need more evidence of sustained inflation before raising rates further.

Big tech buoys margins

U.S. net profit margins for the past 12 months, 2015-2024

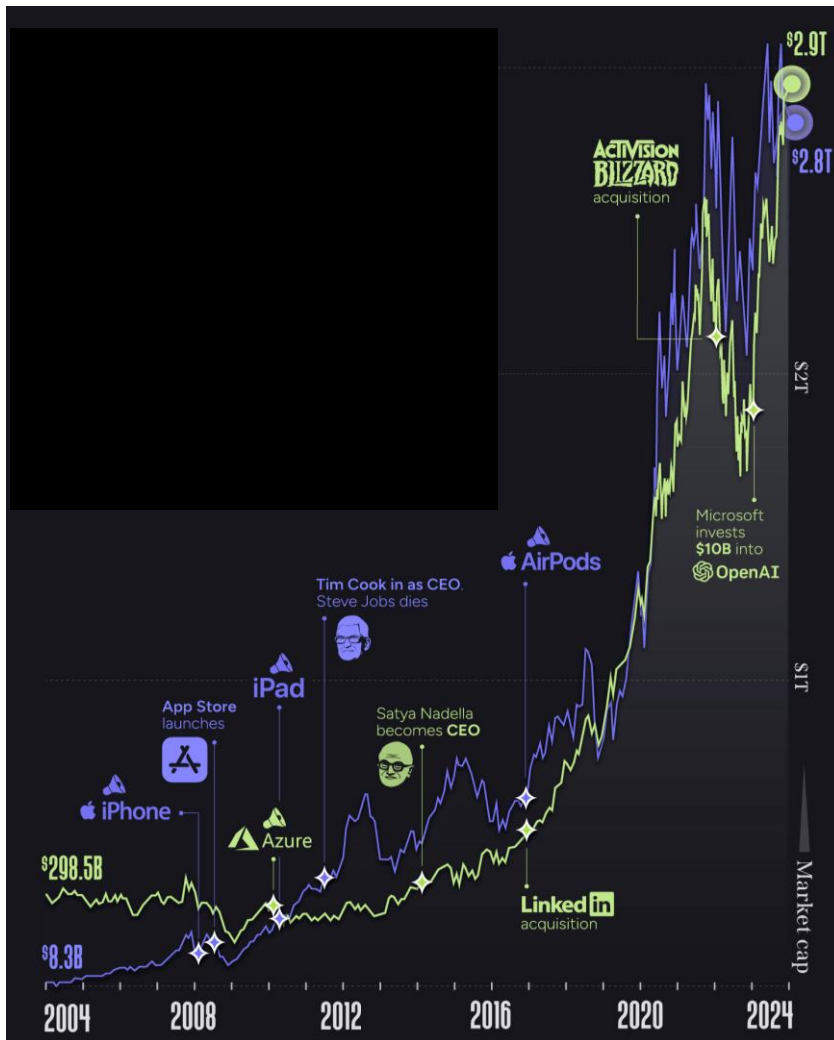


Note: The chart shows net corporate profit margins for the seven largest companies listed on the S&P 500 by market capitalization (mega cap seven), the S&P 500 excluding the mega cap seven, and the overall S&P 500 for the past 12 months.

- S&P 500 net profit margins expanded to all-time highs during the pandemic as firms passed on higher costs to consumers. The reversal of pandemic spending patterns and solid wage growth have pushed margins down from a peak of roughly 13% (green line in the chart). Still, margins have held up better than we expected against these pressures and higher interest rates.
- Stripping out mega cap tech, S&P 500 profit margins have normalized closer to pre-Covid levels (yellow line). Cost-cutting measures such as layoffs have helped companies preserve profit margins for now. However, margins have room to fall further once cost cutting ends and inflation resurges
- Digital disruption and AI is a key earnings driver this quarter, analysts expect mega cap tech earnings to grow 21% this year – a third of S&P 500 earnings growth and expect broader earnings to grow about 11% this year, with S&P 500 margins to rebound toward 13% in the next 12 months

Source: BlackRock Investment Institute, with data from Bloomberg

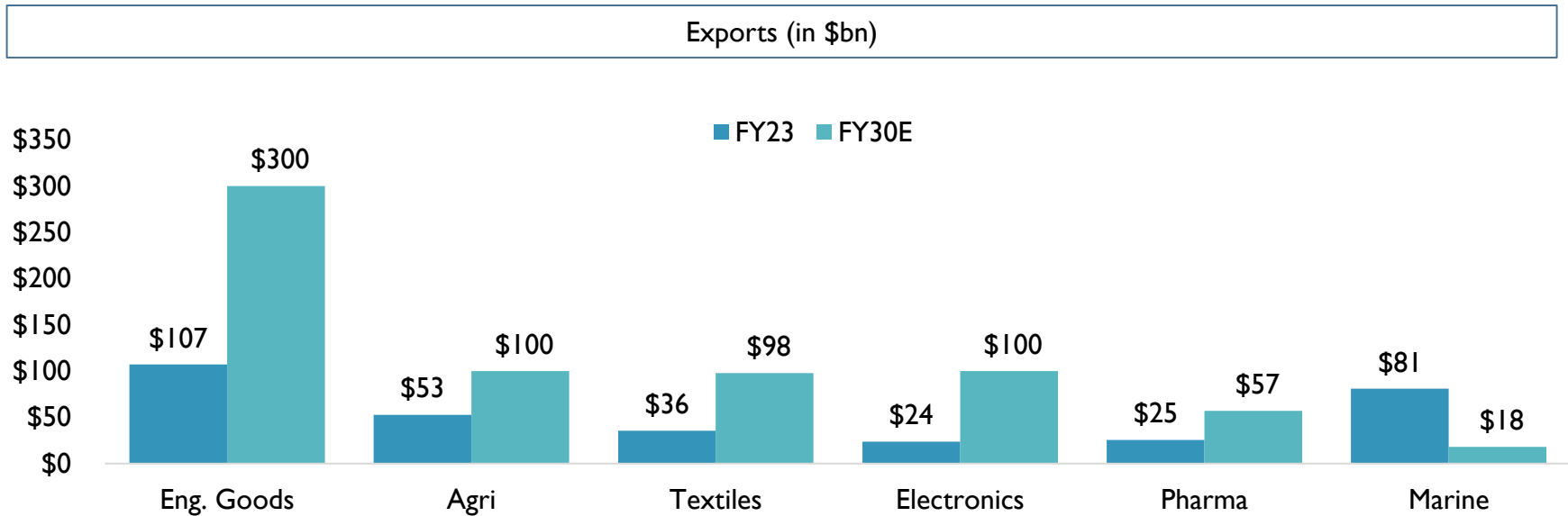
20 Years of Apple vs. Microsoft



Source: Visual Capitalist

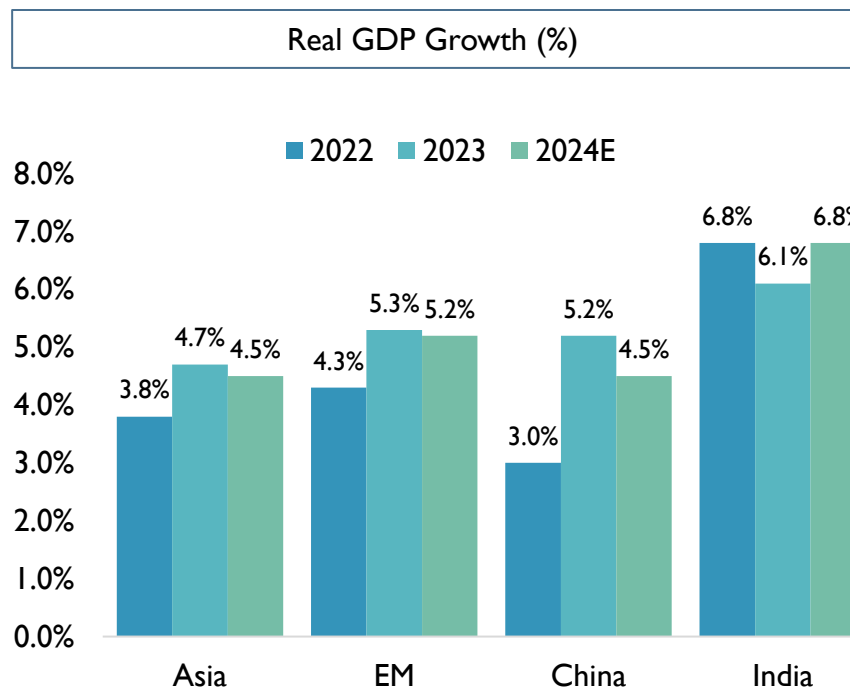
- During the 1990s, Microsoft capitalized on the success of Windows, supplanting General Electric as the most valuable company in the U.S. in the process
- Around the same time, Apple was on the brink of bankruptcy due to intense competition in the personal computer market, high product pricing, and a lack of innovation. The company also suffered from numerous failed attempts to modernize the Macintosh operating system (Mac OS) and the failed launches of products like QuickTake digital cameras, PowerCD portable CD, audio players, speakers, and the Pippin video game console.
- Over the next decade, after the return of Steve Jobs as the CEO, Apple's stock performance was legendary. This can be attributed to the success of products such as the iMac, iPod, and iPhone, the launch of the famous "Think Different" advertising brand campaign and opening the Apple Store retail chain.
- In January 2024, Microsoft became the world's most valuable company after the rival iPhone maker's shares had a weak start to the year due to growing concerns over demand in China.
- Microsoft's shares have also been strongly buoyed by the company's early lead in generative artificial intelligence, mainly thanks to its early investment in ChatGPT-maker OpenAI.

India targets \$1 trn goods export by FY30



- The growth in engineering goods exports will be led by drones, solar modules, turbo jets, auto and auto components, EV vehicles and parts.
- Clusters such as Jaipur, Varanasi, Kondapalli and Channapatna have begun tapping into international markets.
- India's ecommerce exports are expected to touch \$200 bn by FY30, driven by food products, textiles, handicrafts and personal care products.

India shining, China stalling

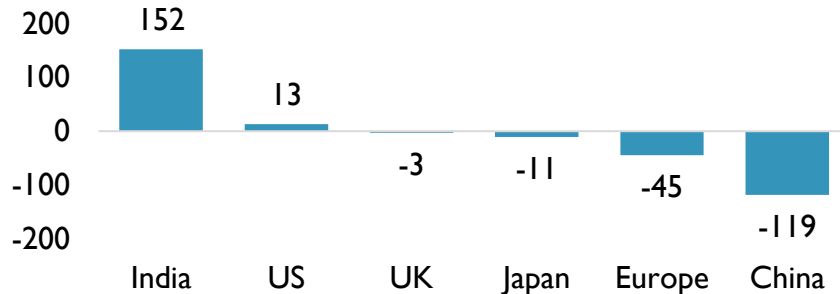


Note: India's data is on fiscal year basis

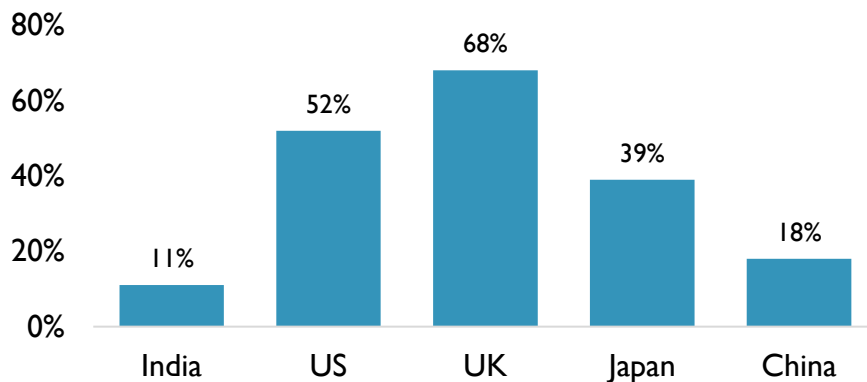
- The positive sentiment towards India contrasts sharply with its larger neighbor, China. Weak consumer demand and the protracted real estate crisis in the world second largest economy have taken a heavy toll on its markets. China's Shanghai Composite is down 8% in the last year while Hong Kong's Hang Seng Index has plunged 15%.
- While China's economic problems could put downward pressure on the growth outlook for many countries in Asia, India is expected to remain resilient. The Indian economy has the least economic linkage to China's end demand. Moreover, Indian equities exhibit the lowest price sensitivity to slowing China growth in the region.
- India is now the 5th largest equity market, Market Cap is expected to touch \$10trn by 2030.

India will be 3rd largest economy by 2027

Increase/decrease in age (30-60) population by 2045 (people in mn)



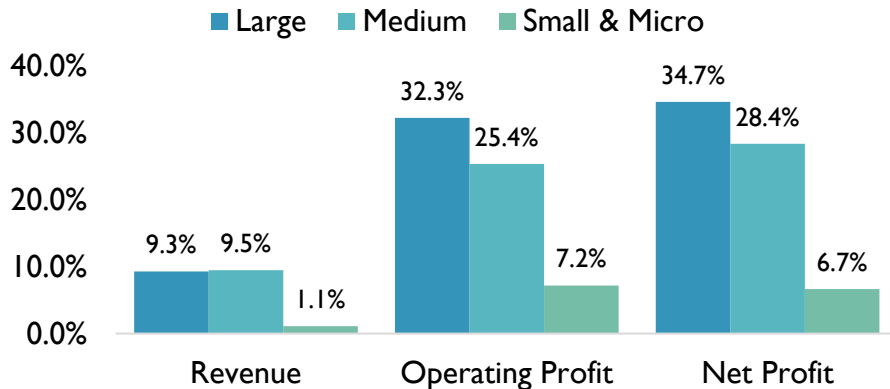
Mortgage % of nominal GDP



- From 9th largest economy a decade back, India has now become the 5th largest economy with a nominal GDP of US\$3.4trn. On a PPP basis, the GDP is already much higher at US\$13.2trn, making it the 3rd largest economy in the world. The same has been achieved by a strong 7.2% growth seen over the last decade in nominal USD terms.
- India, with the highest population in the world, also features favorable demographics with a vibrant and young population, whose average age is just a tad below 30 years. While the incremental addition to the labor force has peaked, it is still large at ~7-8m/annum.
- India's mortgage to GDP ratio is among the lowest among major economies making India's recent housing cycle uptick sustainable and to remain a key driver of GDP growth.

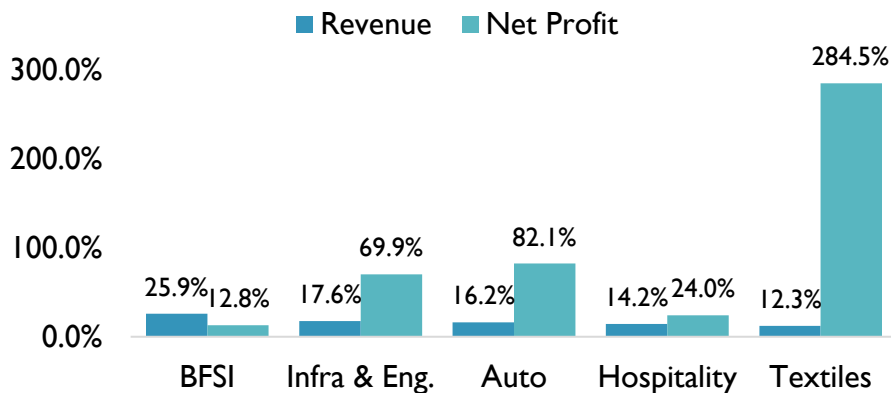
India Inc's growth in Q3FY24

YoY Change in key metrics in Q3FY24



Note: Classification based on revenue in Q3FY24: Large (> INR 10,000 cr), Medium (INR 1,000- 10,000 cr) and small & micro (< INR 1,000 cr)

YoY Change in Top 5 sectors in Q3FY24

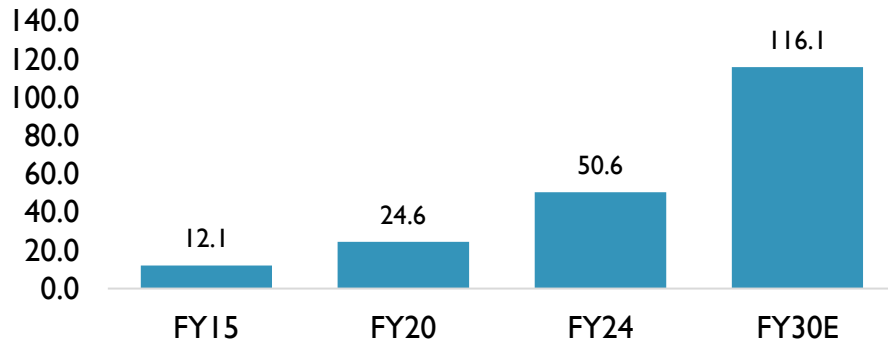


Source: IMF, World Economic Outlook

- In Q3FY24, revenues expanded 8% YoY, the fastest in 3 quarters, but profit growth slacked to 31%, the slowest in 2023-24 so far.
- The overall earnings was impressive, but not broad-based, as many as 11 of the 18 key sectors showed some slowdown in their net profit growth. With the exception of a few public sector banks, the majority of banks saw their margins remain flat or slightly decline
- The raw materials head has come down from 30% to 28.3% YoY, aggregate operating margins remained strong, rising from 24.1% to 28.6% YoY in Q3FY24
- The next few quarters will remain volatile as freight costs are on a rise due to the Red Sea crisis, affecting some of the input cost and margin. On the positive side, companies could also expect a lift from increased consumption demand, especially in urban areas, in election season

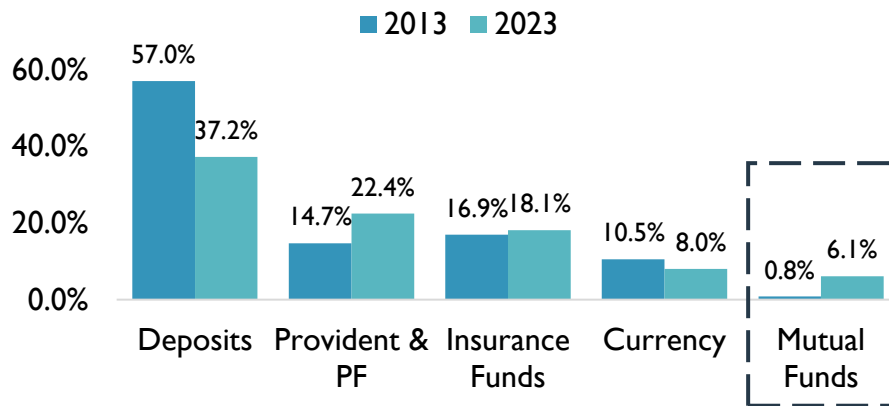
MF industry's assets to reach Rs 100 lakh crore by 2030

AUM (in Rs.Trn) expected to grow at 14% CAGR



Note: FY24 data till Dec-23.

MF share in household savings has risen overtime



Source: Axis Capital Report

- With SIPs and the 'Mutual Fund Sahi Hain' campaign promoting MFs, the share of equity MFs and ETFs has risen from around 24% in FY14 to 70% in December 2023.
- Digitisation has played a key role in attracting more retail investors. Retail participation (including high net-worth individuals) in MFs has gone up from 45% in FY16 to 60% now. In December 2023 alone, 4 million new SIP accounts were created.
- The growth in MF industry assets will be driven by rising retail participation in MFs with rising savings. Assuming nominal GDP growth at a CAGR of 11% over 2023-30, household savings is expected to grow at a similar rate until 2030.

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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

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.



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RESEARCH ANALYST

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HRISHIT JHAVERI
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FUND MANAGER

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