

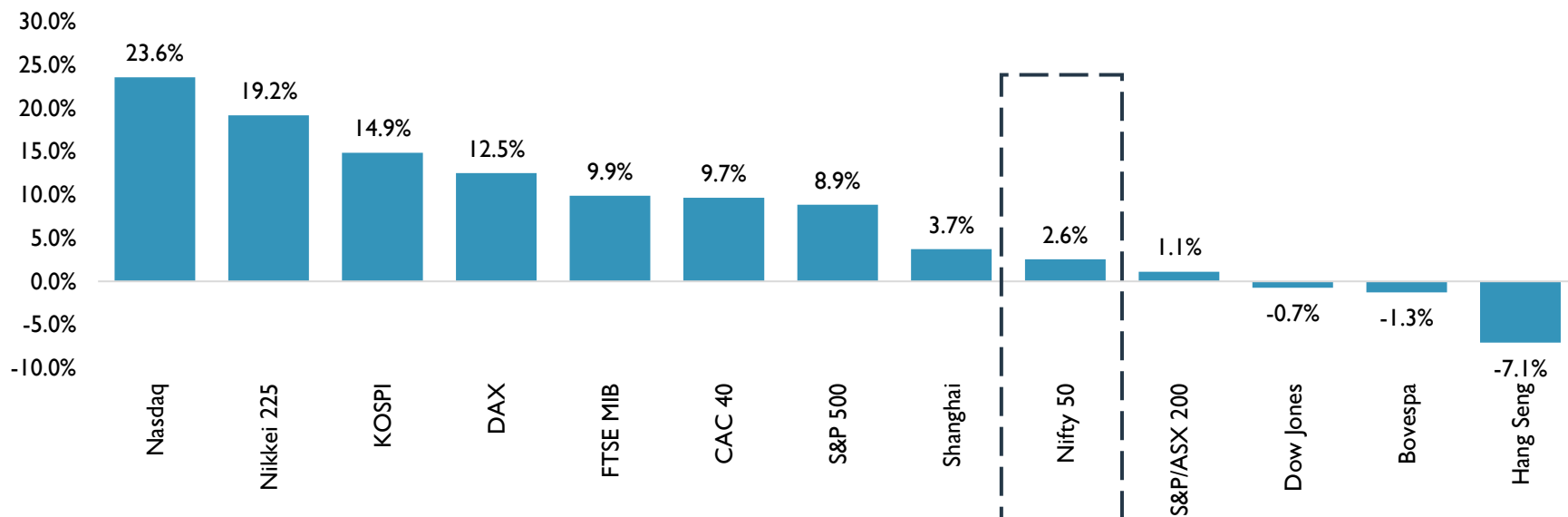
Pi Square Investments

The Market Compass

June, 2023

Global economy is recovering

Global Indices Performance (YTD)

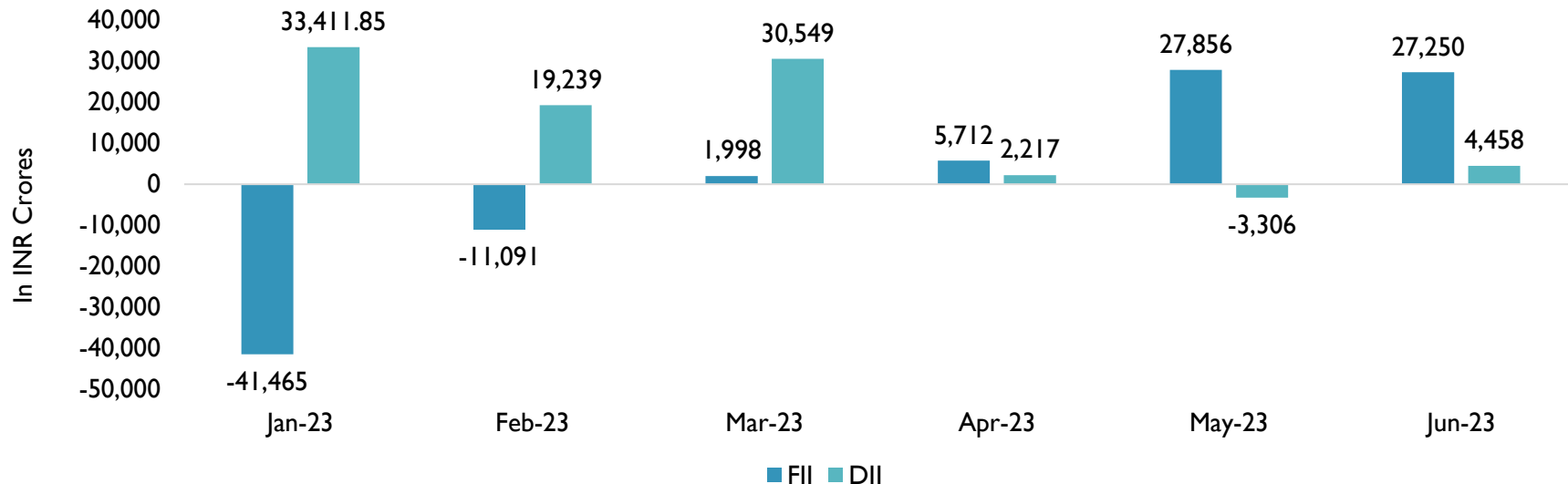


- 19 months since the start of a near year-long selloff, the Nasdaq has recovered half the losses that pushed it into a bear market. Technology stocks have outperformed the index, Nvidia reached a market cap of \$1trn & Apple reclaimed a market cap of \$3 trn.
- Japan's market was back at 1990 levels as deflationary concerns are dissipating.
- India's growth has been slower in comparison to global peers on the back of inflationary pressure and weak global macro environment but outlook remains positive as the economy continues to show resilience.

Source: Investing.com

Foreign investors made a solid comeback

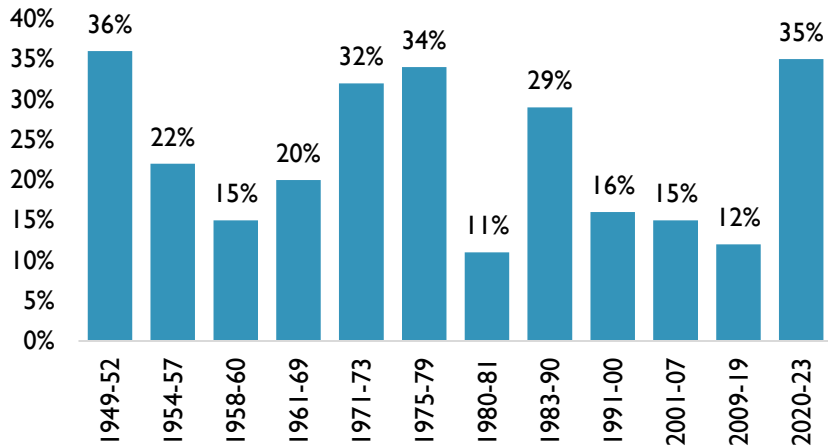
Institutional Inflows & Outflows



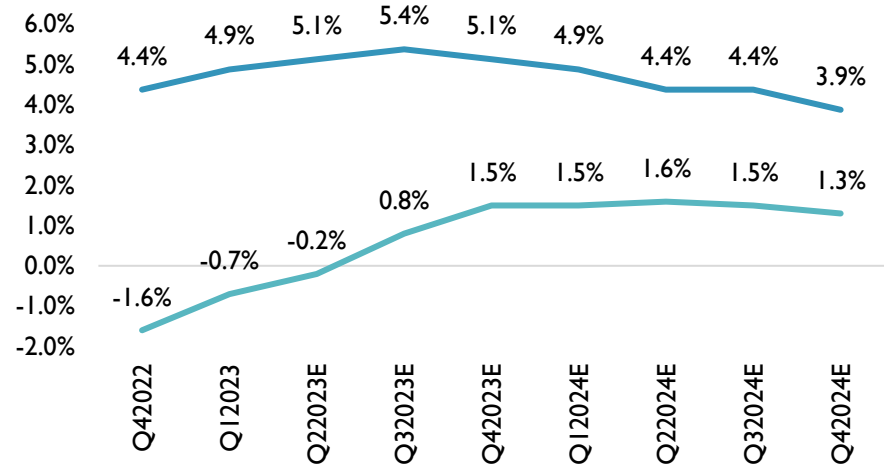
- Globally, the world is facing recessionary trends and India's emerging market peers grapple with their own challenges related to geopolitics, debt, demographics and political stability. India's resilient and stable macros alongwith strong growth prospects makes it a favored investment destination.

US economic recovery

U.S. Nominal GDP Growth



Fed Funds and Real Fed Funds



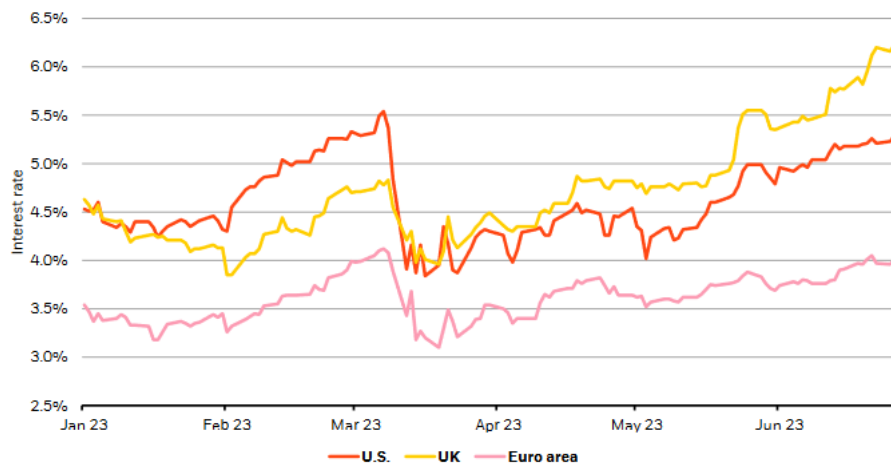
Note: Real fed funds = Fed funds – Core CPI

- The supply-side-driven regime change has unfolded across the global macroeconomic landscape post the Covid-19 pandemic, however the US economy has had the fastest recovery since the end of World War II, U.S. Nominal GDP growth 12 quarters into an expansion cycle
- Globally, there has been asynchronous recovery with nominal GDP YoY growth in Europe (9.3%) being faster than in US (6.6%)

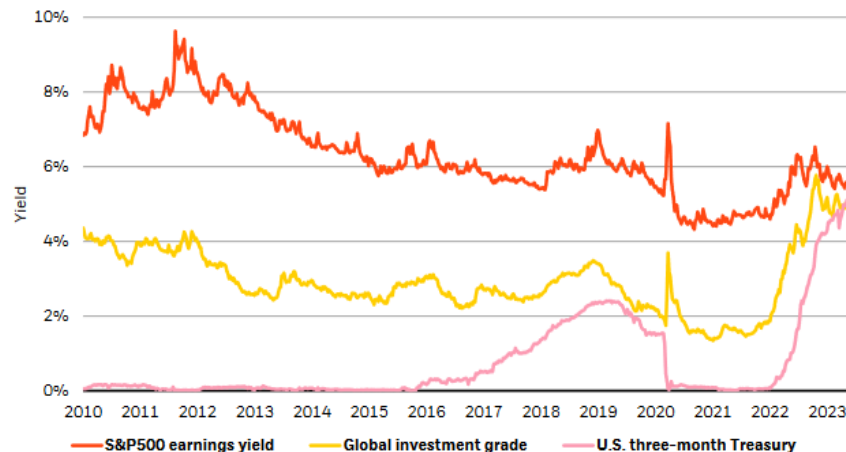
Source: BofA Global Investment Strategy, Haver Analytics.

Short-term bond yields are surging

Market pricing of end-of-2023 short-term interest rates



Gap between equity & bond yields

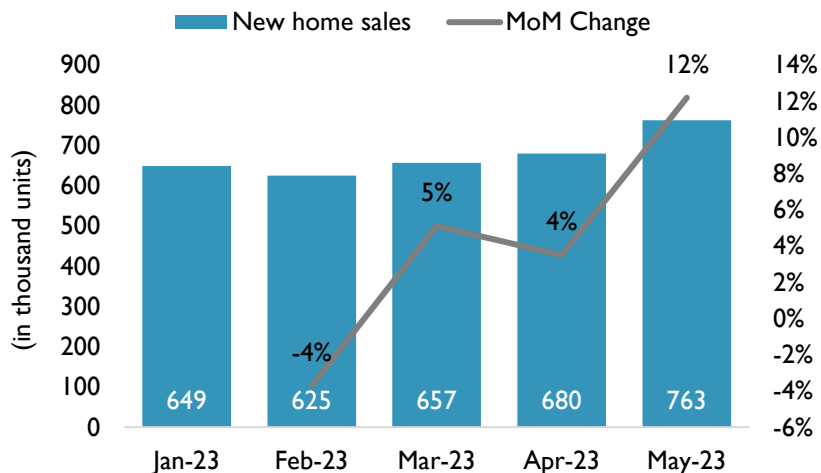


- Bond markets were quick to price in rate cuts in 2023 following the banking sector crisis in March.
- U.S. stocks climbed to 2023 highs after the debt ceiling deal and yields rose as markets expected more rate hikes after the payroll report showed a jump in new jobs in the last week of May.
- Euro area markets are pricing higher inflation than in the U.S., even as the European central bank has signaled more interest rate hikes ahead
- Core inflation is expected to remain sticky with the Fed's rapid rate hikes stopping without inflation being back on track to return fully to 2% targets.

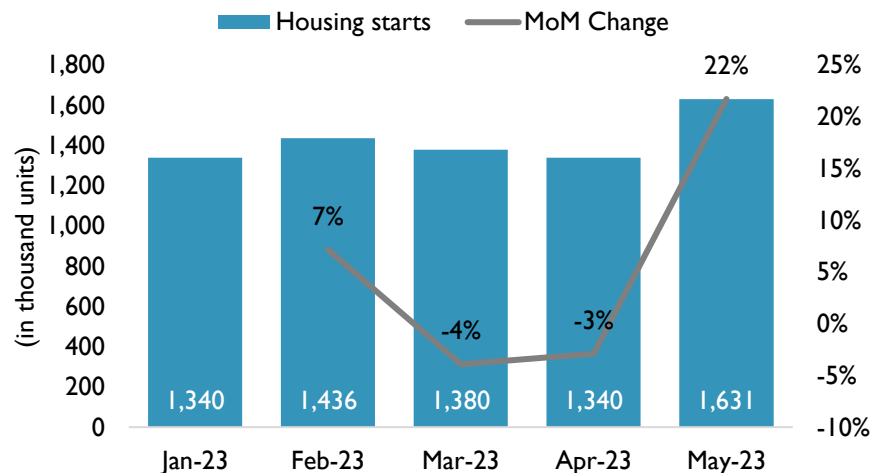
Source: Blackrock

US housing market is in recovery mode

US new home sales



US housing starts



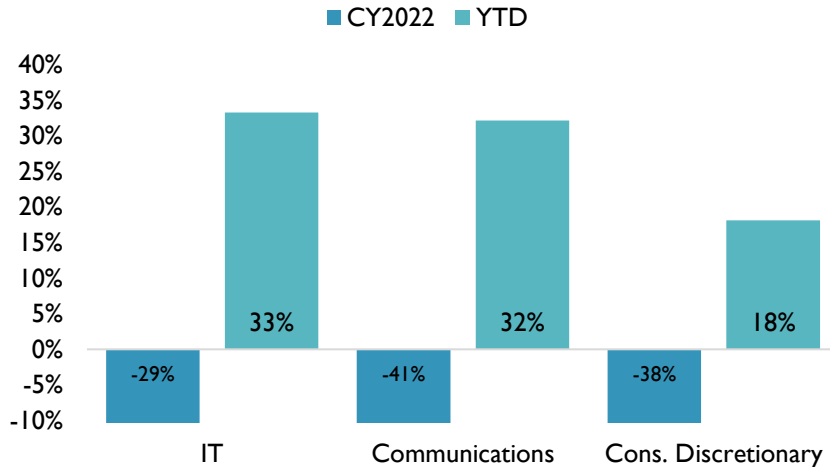
Note: Housing starts measures the annualized change in the number of new residential buildings that began construction during the reported month.

- There is considerable pent-up demand for homes from buyers who have accepted the new normal of high interest rates and builders on the other hand, are taking the opportunity to offload their inventory as sales of new homes
- The lack of housing inventory continues to prevent housing demand from being fully realized.
- The average rate for a 30-year fixed mortgage is still high at 6.7%

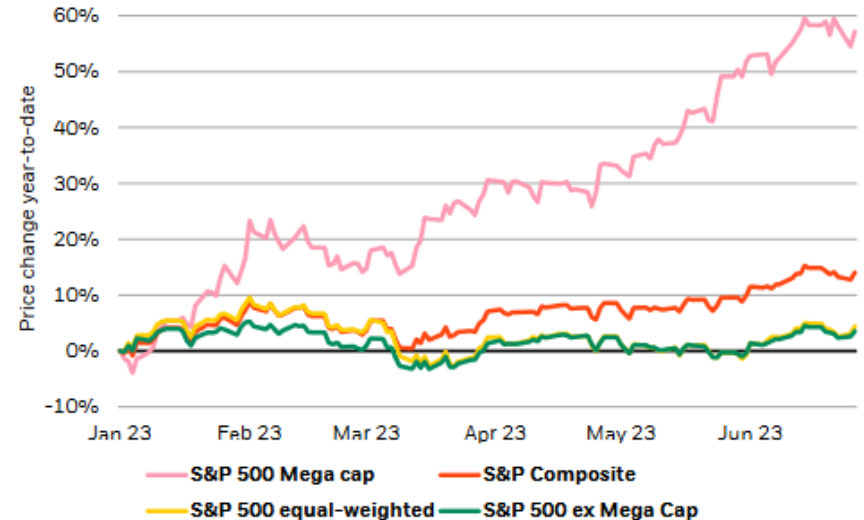
Source: Trading economics

Last year's laggards are this year's leaders

S&P Sectoral Indices Performance (YTD)



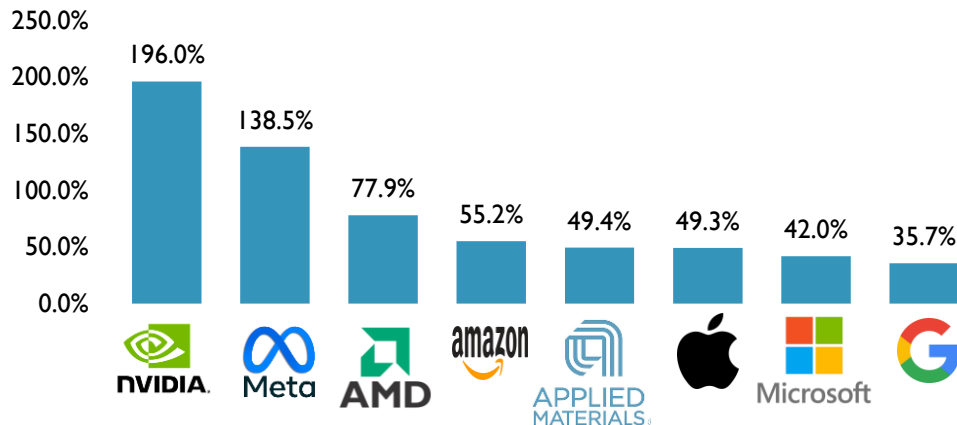
S&P 500 Indices Performance (YTD)



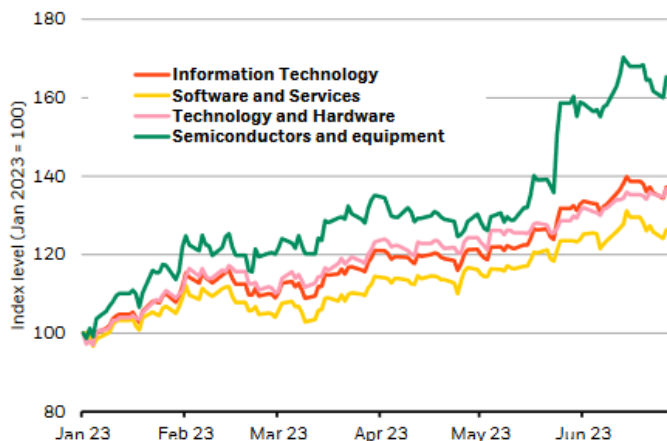
- After crashing in 2022, technology shares have carried index returns this year. In comparison, S&P 500 market-weighted gained 15%
- The mega-cap stocks, primarily tech-related stocks across IT, telecom services and consumer discretionary have driven performance this year

Generative AI tailwind

AI stocks performance (YTD)



Industry performance (YTD)

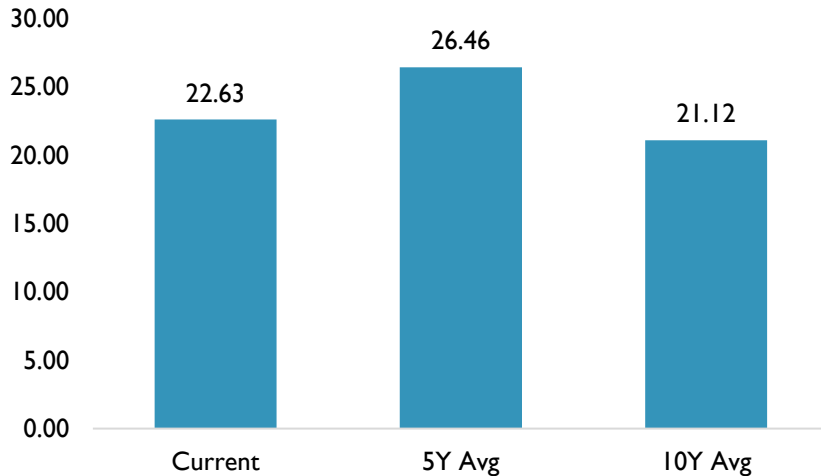


Source: Bloomberg, PWC, Yahoo Finance, Blacrock

- Generative AI is poised to be a \$1.3trn market by 2032 from \$17bn in 2022 as it boosts sales for the tech industry’s hardware, software, services, ads and gaming segments.
- Upto 300 AI use cases have been identified globally. AI bots like OpenAI’s ChatGPT and Google’s Bard are gaining traction.
- AI could contribute up to \$15.7 trillion to the global economy in 2030
- The greatest economic gains from AI will be in China (26% boost to GDP in 2030) and North America (14.5% boost), equivalent to a total of \$10.7 trillion and accounting for almost 70% of the global economic impact.

Nifty 50 at all time high

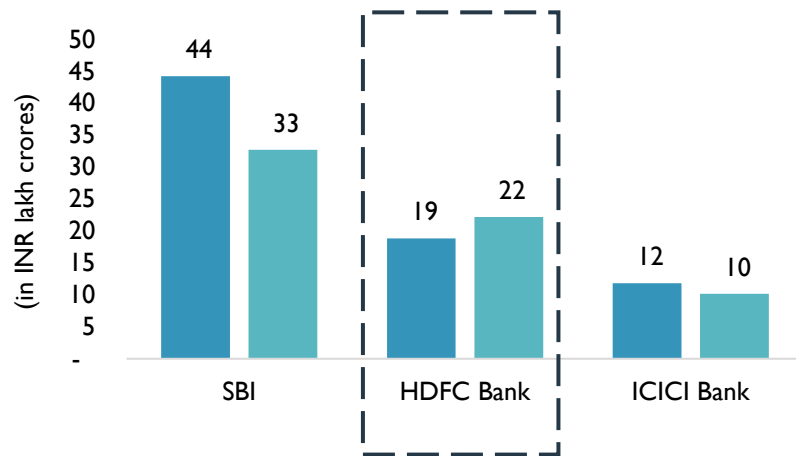
Nifty valuations are 6-7% lower than the previous time the index traded at the same level



- Nifty's 1Y forward P/E is expected to be at 18.5x based on FY24 EPS estimate of 950 (+23% YoY).
- With robust economic fundamentals, reasonable valuations, unparalleled growth potential, and a pause in rate hikes, India is expected to grow faster than most of its emerging market peers.
- IMF has projected India's Real GDP to grow by 6.3% in FY24, which remains a tad behind Vietnam's 6.9%.

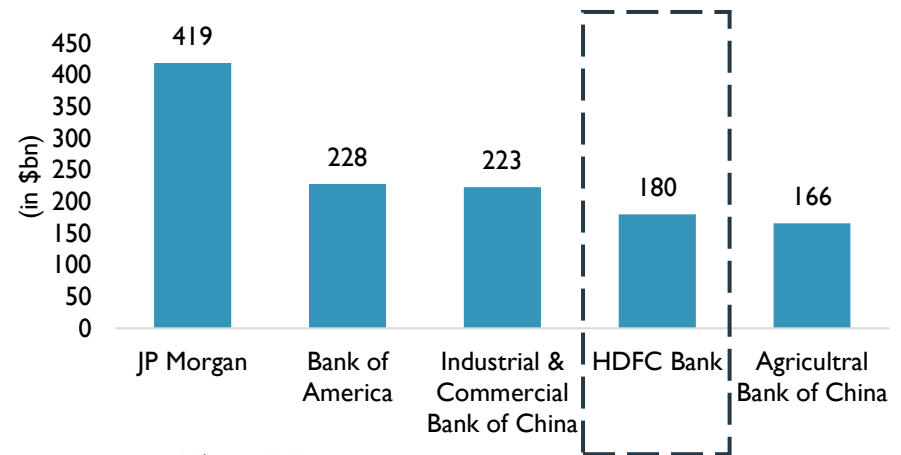
HDFC – HDFC Bank merger creates banking giant

Deposits & Advances



Note: Data as on 31st March, 2023

Top 5 global banks by market cap



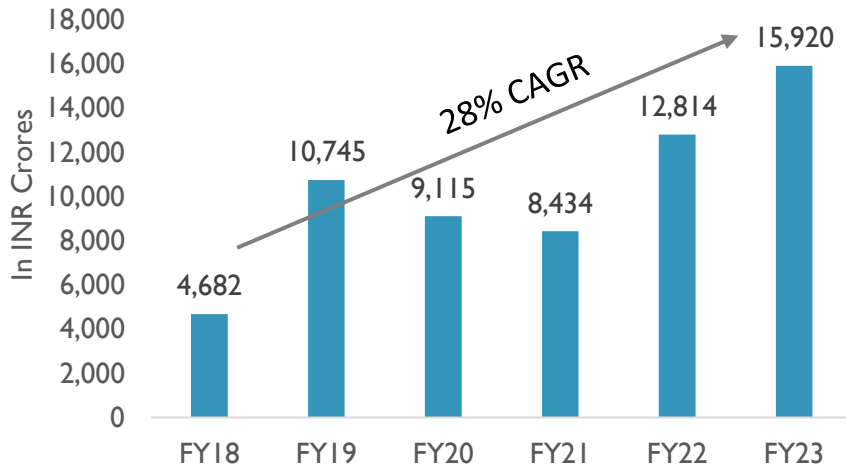
Note: Data as on 30th June, 2023

- This quarter earmarked the completion of HDFC-HDFC bank merger, making it the fourth largest bank in the world and financial services conglomerate that offers a full suite of financial services, from banking to insurance, and mutual funds through its subsidiaries.
- HDFC Bank (Mcap: INR 14,02,200 cr) will become the second largest company in India behind Reliance (Mcap: INR 17,25,492 cr)
- HDFC Bank will have around 120 million customers, greater than the population of Germany. It's branch network will increase to over 8,300 and have more than 1,77,000 employees.

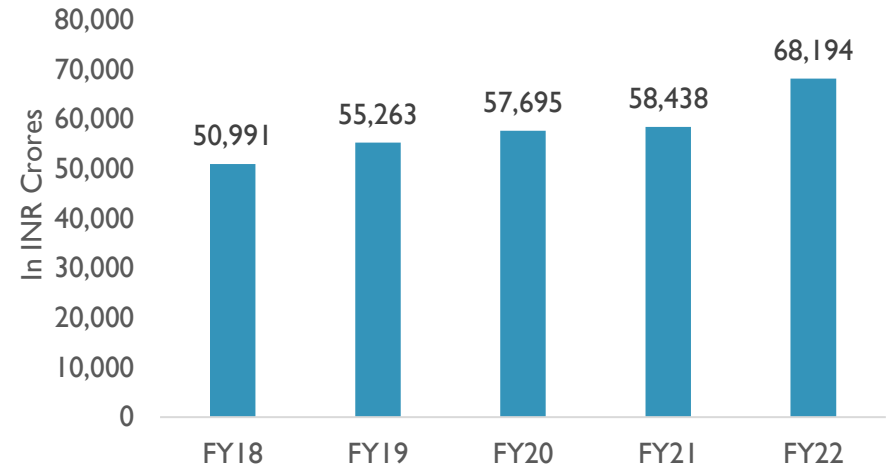
Source: Company Reports

The rise of Indian defence manufacturing industry

India's defence exports



Revenue of defence sector companies

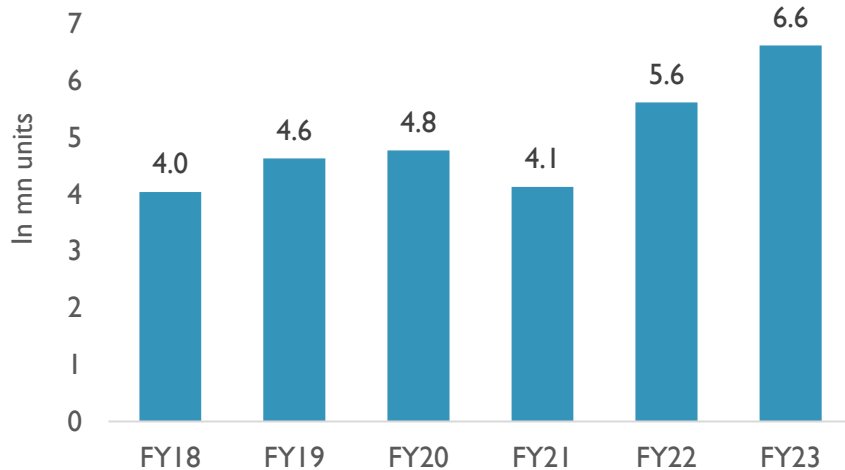


- The \$11.3 bn Indian defence industry is shifting from an importer (15% global share) to exporter (<2% global share), India now exports to 85+ countries
- India is positioned as the 3rd largest military spender in the world, with a defence budget of 2.15% of GDP. Over the next 5-7 years, the Government plans to spend \$130 Bn for fleet modernisation across all armed services.
- Ministry of Defence has set a target of achieving a turnover of INR 1.75 lakh crore in aerospace and defence manufacturing by 2025, which includes exports of INR 35,000 crore. Dedicated defence industrial corridors in the states of Tamil Nadu and Uttar Pradesh have been announced
- Nifty India Defence index has gained 83% over the last year

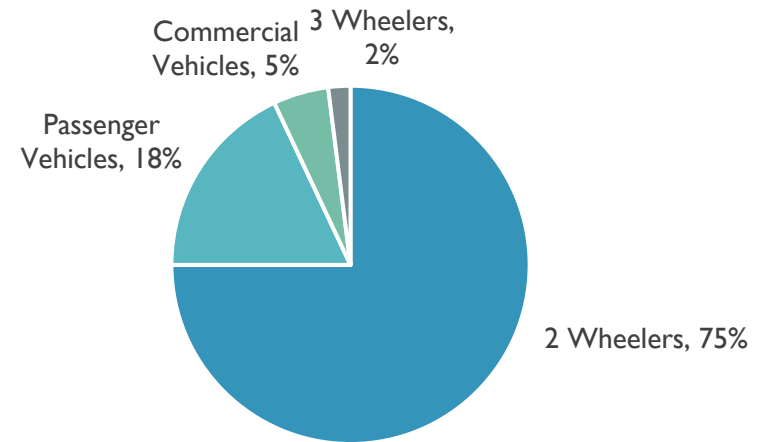
Source: Invest India, NSE, Company Reports

India's automotive industry is rising to global dominance

Automobile export



Segment-wise Domestic Market Share (FY23)



- India's \$222 billion automotive industry is anticipated to reach \$300 billion by 2026. Two-wheelers and passenger cars dominate the market, accounting for 76% and 17.4% of the market share, respectively. Small and mid-sized cars lead passenger car sales.
- The EV market is expected to grow at a CAGR of 49% between 2023-2030, with annual sales reaching 10 million units by 2030.
- Currently, the automobile industry contributes 7.1% of India's GDP and accounts for 49% of its manufacturing GDP.

Source: IBEF

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

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.



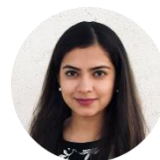
HILONI GANDHI
RESEARCH ANALYST

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



HRISHIT JHAVERI

Hrishit Jhaveri 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.



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.

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