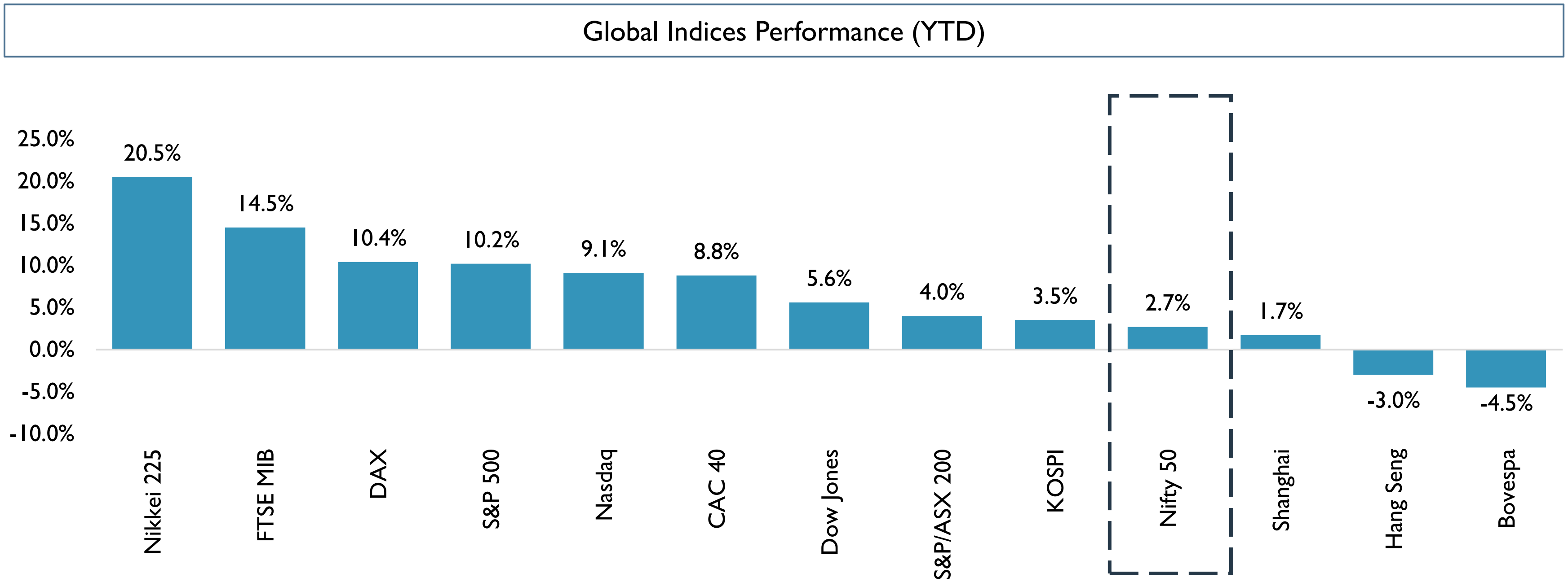
The Market Compass

March, 2024

Pi Square Investments

Global indices performance

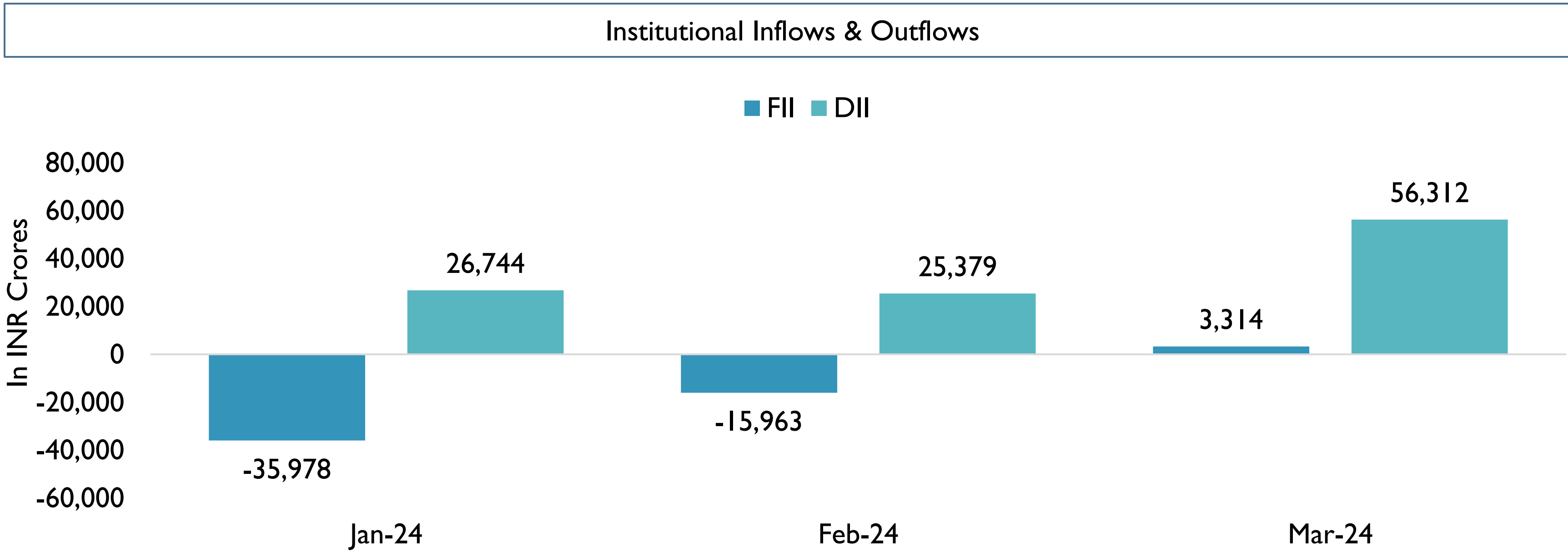


Note: Data as of 31st Mar, 2024

- Japan's Nikkei index hit a record high for the first time since 1989, being the best performing index globally.
- More than half of the stocks in the S&P 500 have notched 52-week highs with AI-related stocks in particular charged higher, extending a run-up that kicked off last spring.
- All three frontline indices of the Indian stock market have registered robust growth with Nifty Midcap being the best performer with 4.1% YTD return.

Source: Investing.com

FIIs turned net buyers for the first time in 2024

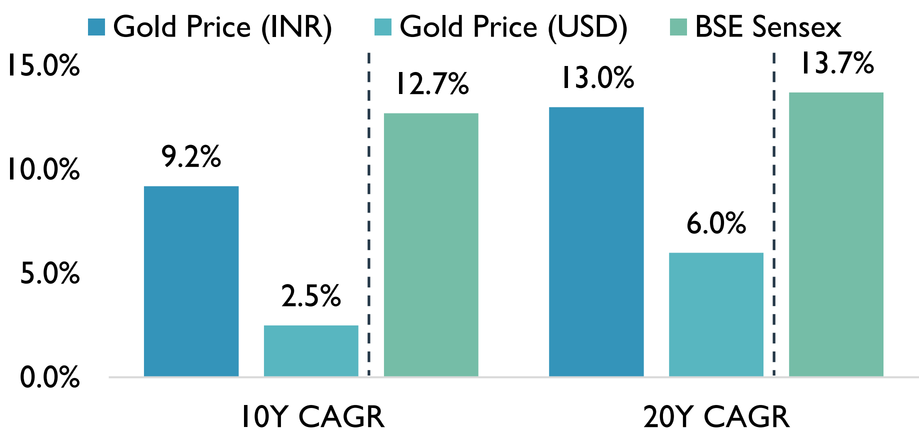


- FIIs pumped Rs. 3,314 crore into Indian equities in their biggest buying binge since December 2023. DIIs continued to be net buyers, investing around Rs 56,312 crore in the market, their highest since March 2020
- India has beaten rest of the Asian markets by attracting the highest foreign funds flow in March, defying geopolitical crises and concerns that the higher interest rate regime will continue for some more time.
- Mutual fund SIP flows are expected to remain stable, and attractive valuations may draw in investors waiting on the sidelines.

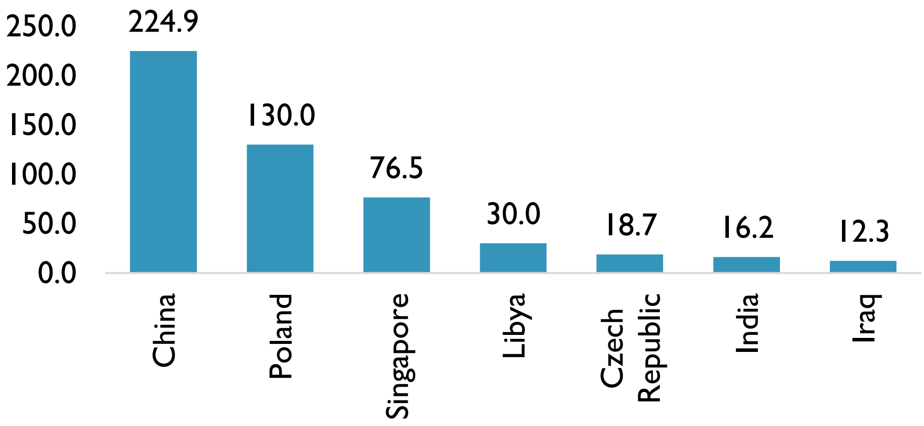
Source: NSE

Gold prices have been hitting record highs

Gold Price (INR) returns are relative to BSE Sensex returns



Gold purchases by central banks (tons) in CY2023

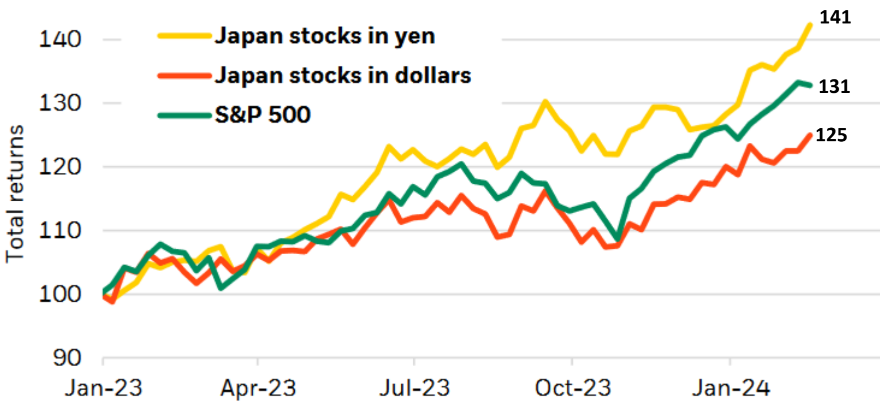


Source: NSE

- Strong physical demand for gold is also fueled by its appeal as a safe-haven asset and investors looking to diversify amid lackluster performances in other asset classes.
- Gold prices tend to share an inverse relationship with interest rates. As interest rates dip, gold becomes more appealing compared to fixed-income assets such as bonds, which would yield weaker returns in a low-interest-rate environment.
- Macquarie has also forecast gold prices to notch new highs in the second half of the year. Central banks, who have bought historic levels of gold over the past two years, continue to be strong buyers in 2024 as well.
- India's investment in gold bars and coins grew 7% year on year. The country's central bank demand for gold also continues to be strong, with the Reserve Bank of India purchasing 8.7 tons of gold in January, marking the highest monthly purchase since July 2022.

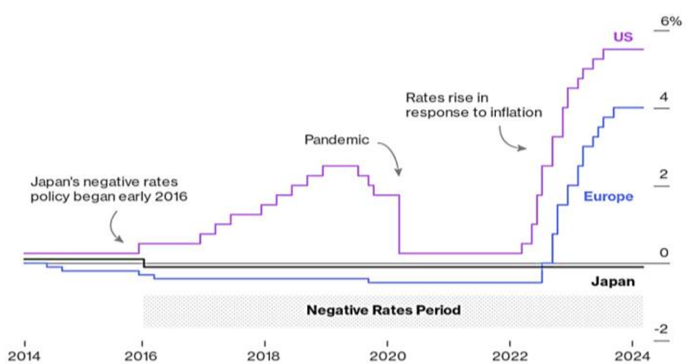
Nikkei hits record high since 1989

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.

BOJ raises rates for the first time in 17 years at 0.1%

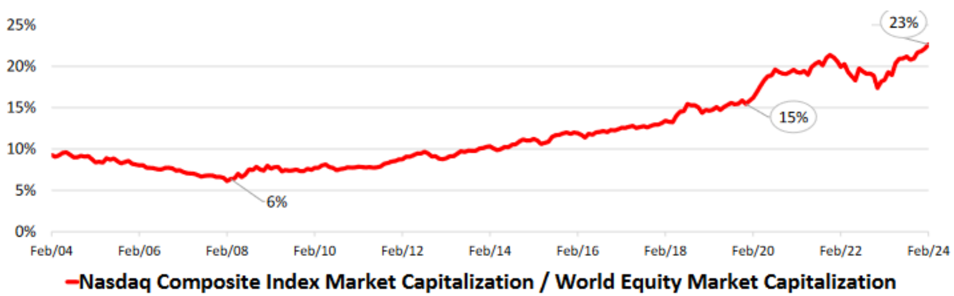


- Japan's Nikkei index hit a record high in February for the first time since 1989, when stocks soared to the point the real estate-driven bubble later burst. Both the macro outlook and company-level developments will drive the next leg.
- A stabilizing U.S. dollar is not biting Japanese stock returns 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 was a pivotal month for Japanese markets, the BOJ ended negative interest rates for the first time in 17 years. The decision sparked a sharp selloff in the Japanese yen, which dived to its weakest since 2008 against the euro and hit a 4-month low against the dollar.

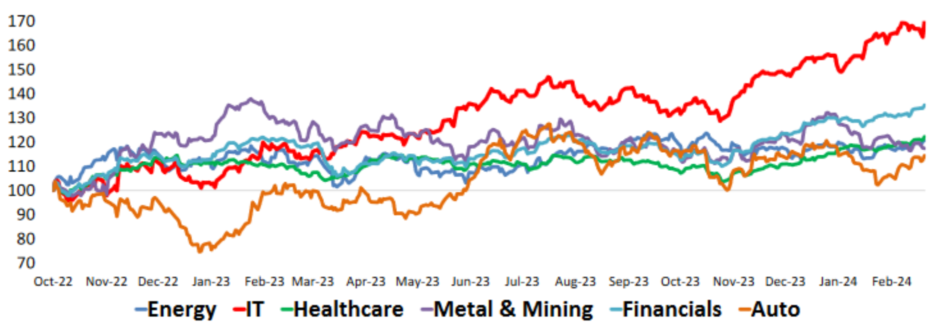
Source: BlackRock Investment Institute, with data from LSEG Refinitiv, Bloomberg

Nasdaq commands nearly a fourth of world equity MarketCap

Nasdaq composite Mcap as a % of world equity Mcap



MSCI World sector indices since the bottom of Oct'22

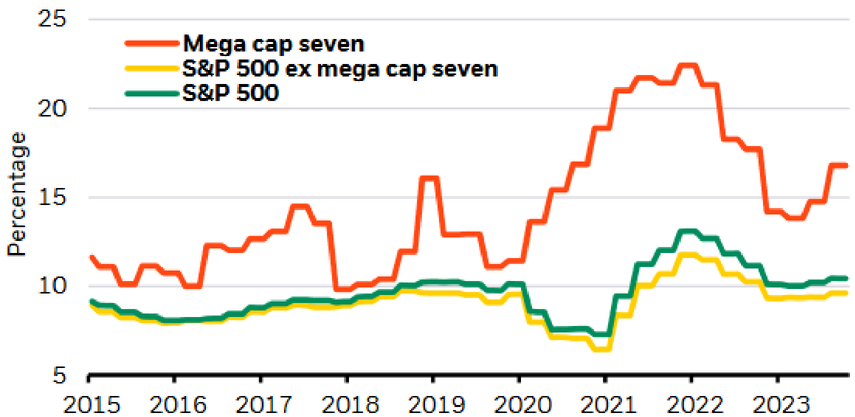


- Nasdaq composite now commands nearly a fourth of world equity market capitalization. If we add tech companies from China, India, EU & ROW, Technology's share in world market cap is nearing 40%.
- No sector has reached this level of concentration before. The last record (a derived approximation form past data) suggests that Oil & Gas (the broad energy sector at the time) accounted for nearly a third of world equity market capitalization in 1980s.
- Moreover, recently, the technology space has heated up like never before scaling summits not seen earlier. The Nasdaq composite has gained 8% in share of global market cap since the COVID bottom. Over the last year and a half, the IT sector indices have rallied while performance of most other sectors have been subpar. This makes this rally high concentrated.
- Semiconductors, semiconductor equipment and designer, now account for more than 25% of Nasdaq 100's weight. This is the highest that the industry group has ever weighed in within the technology space

Source: Bloomberg, DSP

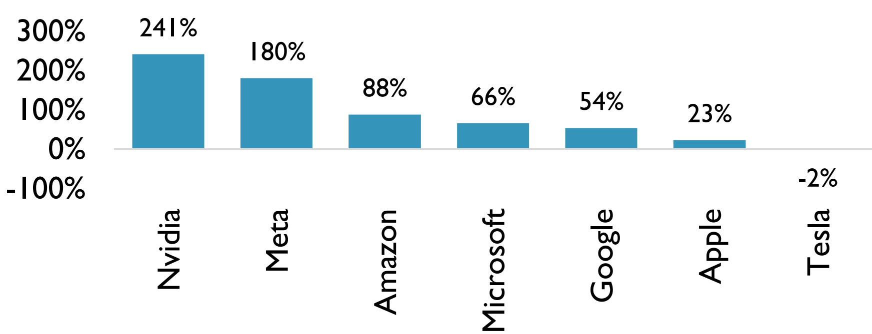
Magnificent 7 profits exceeds almost every country

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.

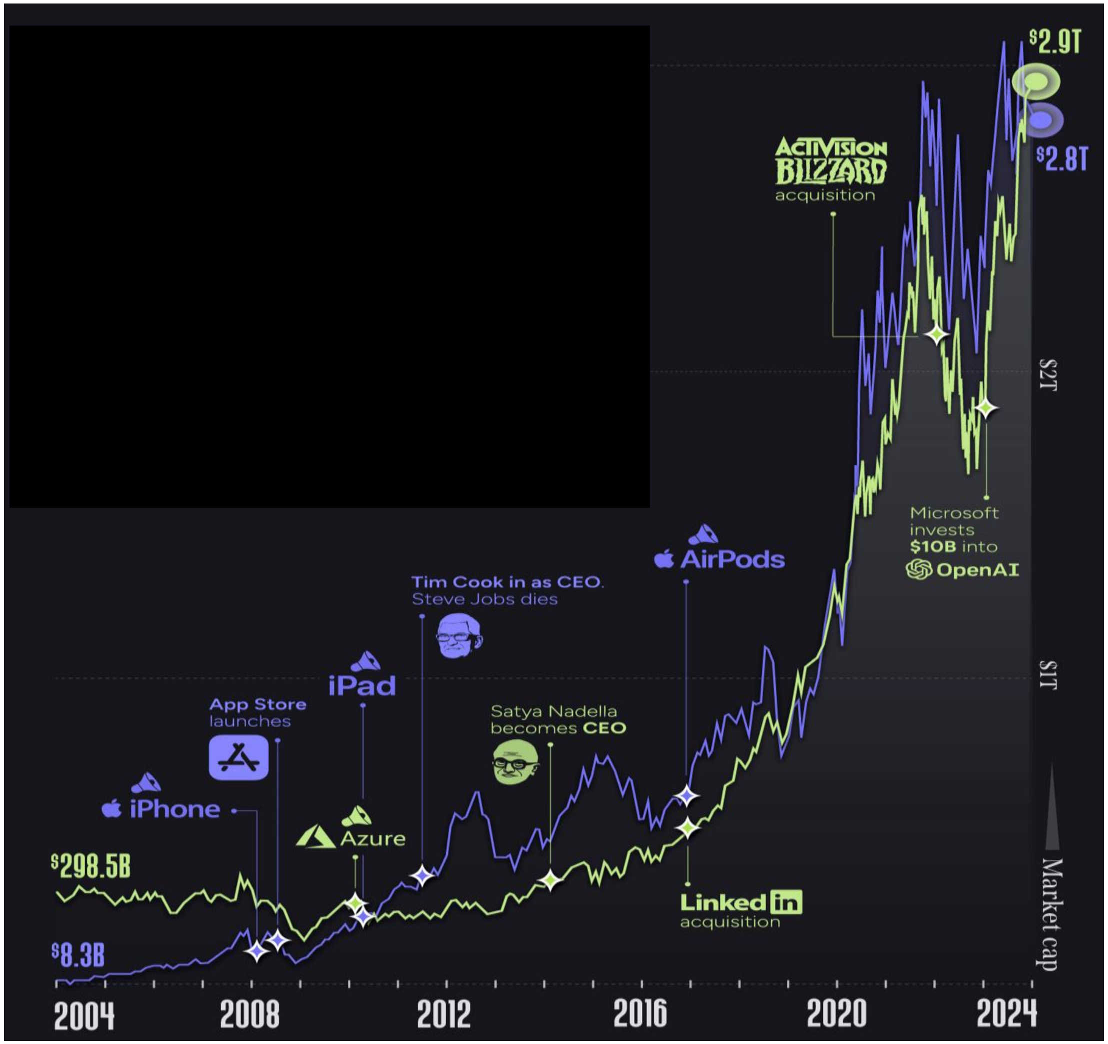
Magnificent 7: 1 year price returns



- The meteoric rise in the profits and market capitalizations of the Magnificent 7 U.S. tech behemoths - Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia and Tesla outstrip those of all listed companies in almost every G20 country.
- 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, Google Finance

20 Years of Apple vs. Microsoft

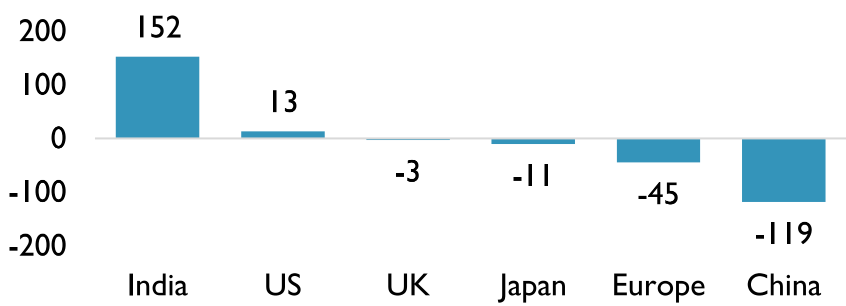


- During the 1990s, Microsoft capitalized on the success of Windows, supplanting General Electric as the most valuable company in the U.S. in the process
- Around the same time, Apple was on the brink of bankruptcy due to intense competition in the personal computer market, high product pricing, and a lack of innovation. 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.

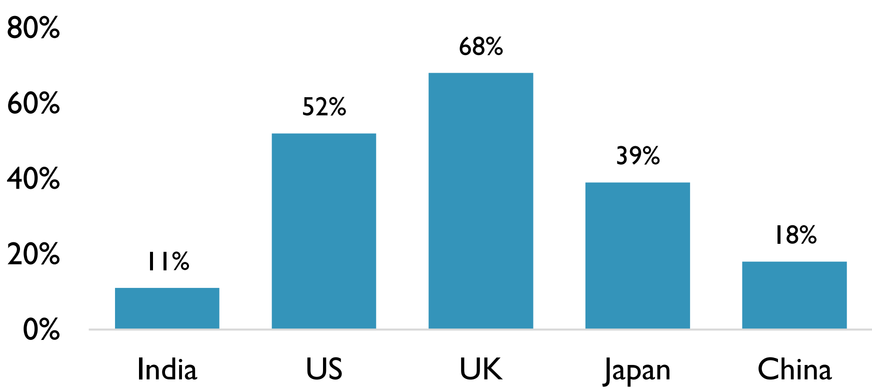
Source: Visual Capitalist

India will be 3rd largest economy by 2027

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



Mortgage % of nominal GDP



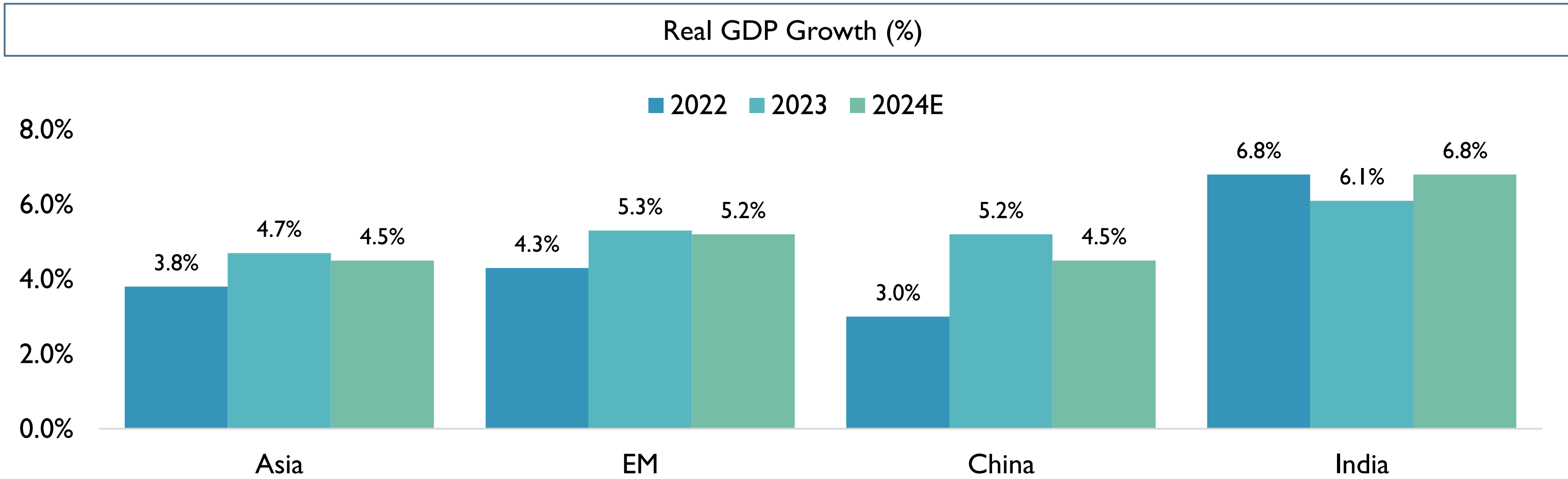
- From 9th largest economy a decade back, India has now become the 5th largest economy with a nominal GDP of US$3.4trn. On a PPP basis, the GDP is already much higher at US$13.2trn, making it the 3rd largest economy in the world. The same has been achieved by a strong 7.2% growth seen over the last decade 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.

Source: Jefferies

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.

Source: IMF, World Economic Outlook

India gears up for General Elections 2024

Benchmark large-cap equity market index tends to rise before & after election results

Election result dates	Nifty-50 performance (%)					
	Pre-election			Post-election		
	6-month	3-month	1-month	1-month	3-month	6-month
06-Oct-99	36.3	11.0	-0.9	-1.0	15.8	5.4
13-May-04	6.7	-9.2	-6.9	-11.8	-6.1	9.3
16-May-09	30.6	28.9	5.4	22.1	24.7	37.8
16-May-14	17.6	17.8	5.8	5.8	9.4	17.8
23-May-19	11.5	8.8	1.2	-0.1	-8.5	1.5
Simple average	**20.5**	**11.4**	**0.9**	**3.0**	**7.1**	**14.4**

Pre-election Nifty-50 performance is calculated using the point-to-point index until the end of day before result date; Election result end-day index is the starting point for calculating post-election Nifty-50 performance

Source: India Stock exchanges (BSE/NSE), CEIC, MOFSL

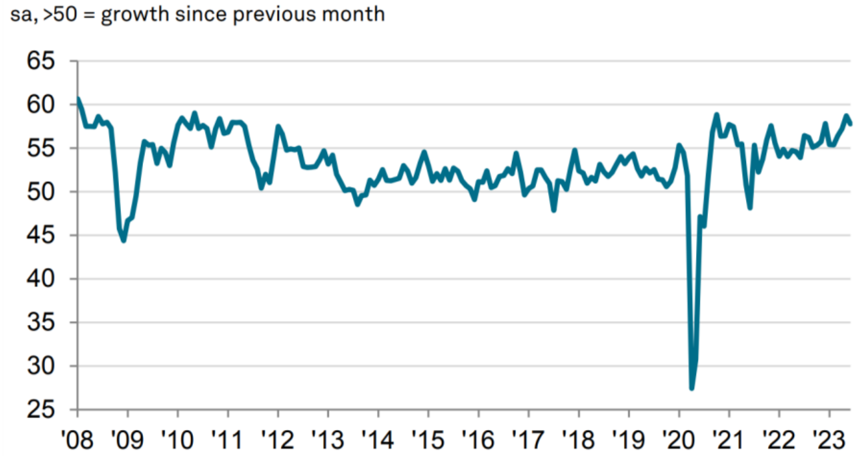
Nifty 50 YTD return = 2.7%

- The analysis of the run-up to the election results demonstrates that, irrespective of the pre-election scenarios, the Sensex and Nifty 50 consistently delivered positive returns post-elections. Banking, Consumer Durables, and Information Technology emerged as the top-performing sectors after the election outcomes.
- In 2004, an exception occurred, with both indices experiencing negative returns ahead of the results. However, in 2009, 2014, and 2019, the Sensex and Nifty 50 provided positive returns, with the most substantial gain observed in 2009, where both indices surged by 26% and 24%, respectively, before the election results were announced.

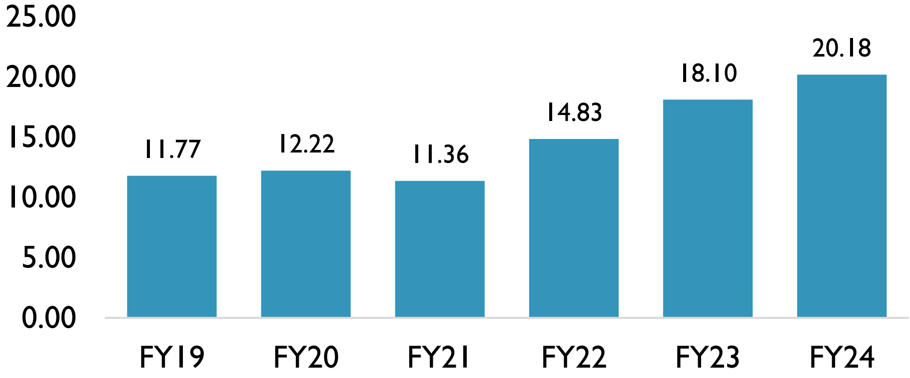
Source: Motilal Oswal, Financial Express

India's manufacturing PMI rises to 8-month high

India's Manufacturing PMI



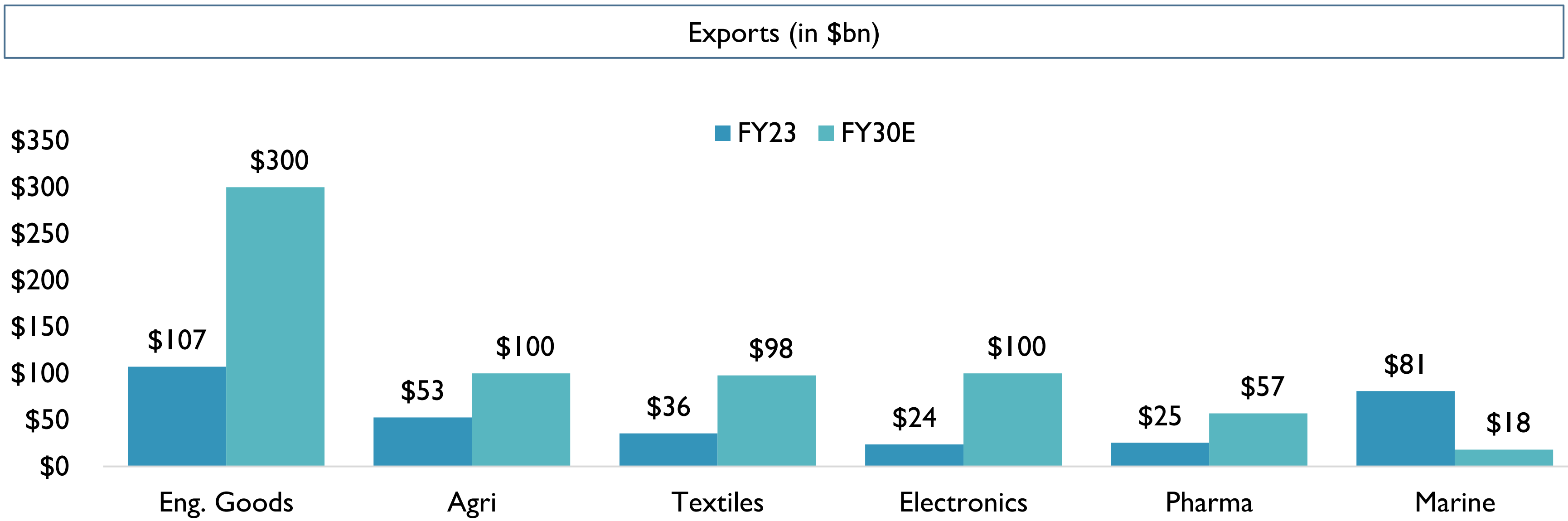
GST Collection at record high levels (In INR lakh cr.)



- According to HSBC's flash India Composite Purchasing Managers' Index (PMI), compiled by S&P Global, the index rose to 61.3 in March, increasing from 60.6 in February. This marks the 32nd consecutive month of expanding activity, underlining India's position as the fastest growing major economy.
- India's PMI index has been above the level of 50 since last 23 months indicates a favorable environment for the manufacturing industry to grow and increase in production, new orders, and employment, implying a robust manufacturing growth further.
- The demand for factory goods remained robust, with new orders experiencing the fastest expansion in over three years.

Source: S&P Global PMI

India’s goods export to reach $1trn by FY30 from $765bn in FY23

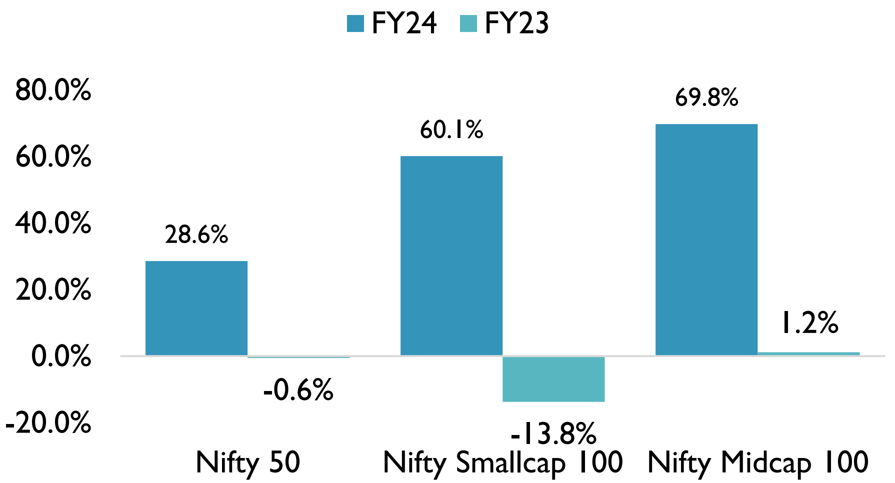


- The growth in engineering goods exports will be led by drones, solar modules, turbo jets, auto and auto components, EV vehicles and parts.
- Clusters such as Jaipur, Varanasi, Kondapalli and Channapatna have begun tapping into international markets.
- India’s ecommerce exports are expected to touch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

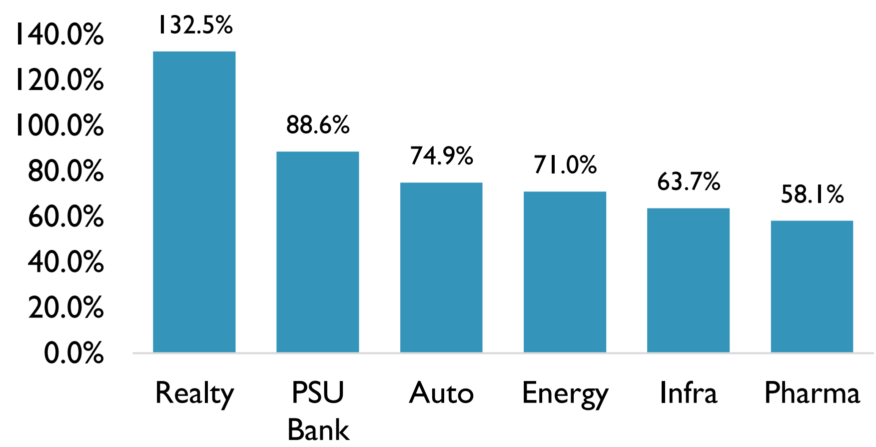
Source: Economic Times

Smallcaps outperform larger peers

Index Performance



Best-performing sectors (Nifty indices) in FY24

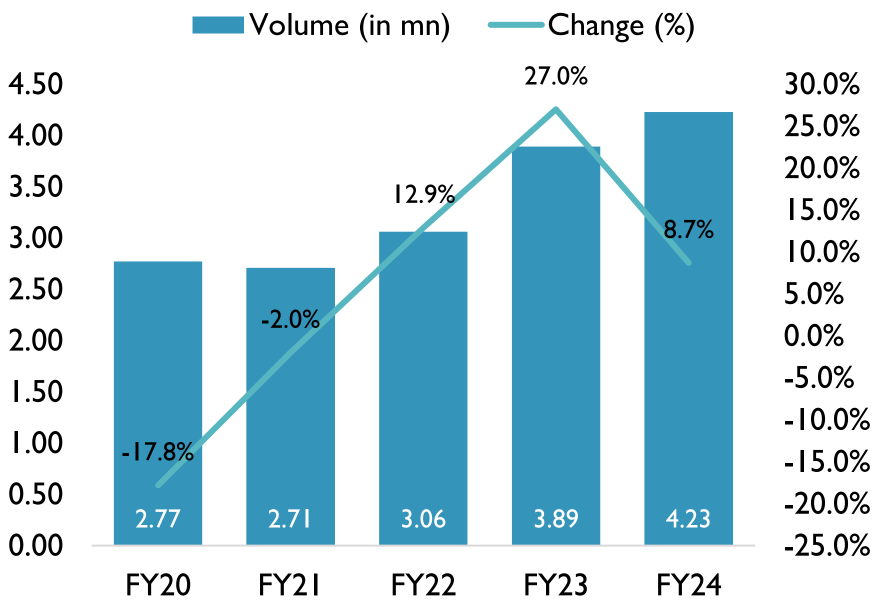


- Despite having come off over 8% from its peak, Nifty smallcap 100 index finished FY24 with a gain of nearly 70%, outperforming the benchmark Nifty by 41%
- For FY25, most analysts retuned for midcap are expected to plateau and large caps to outperform give the better risk-reward

Source: Bloomberg

Carmakers end FY24 on a high note

Passenger Vehicle at record high volumes

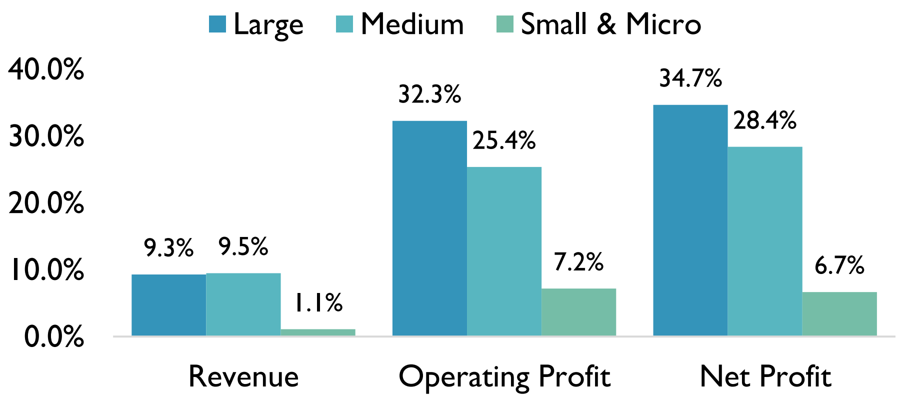


- Clocking a record of 1mn sales every quarter, the passenger vehicle (PV) industry ended FY24 on a robust note with a total volume of over 4.23 mn units, making the country the third biggest market in the world.
- Indian car buyers saw ~60 product introductions during the fiscal with an average of one new launch every week across segments and price points, including new variant additions.
- It is also the year when for the first time sports utility vehicle (SUVs) and multi-purpose vehicles (MPVs) breached the 50% market share
- In FY25, focus would be on EV launches with atleast 10 EV launches in the pipeline for FY25 from Tata Motors, JSW, Maruti Suzuki, Kia, Volkswagen and Mahindra

Source: Carmakers & SIAM

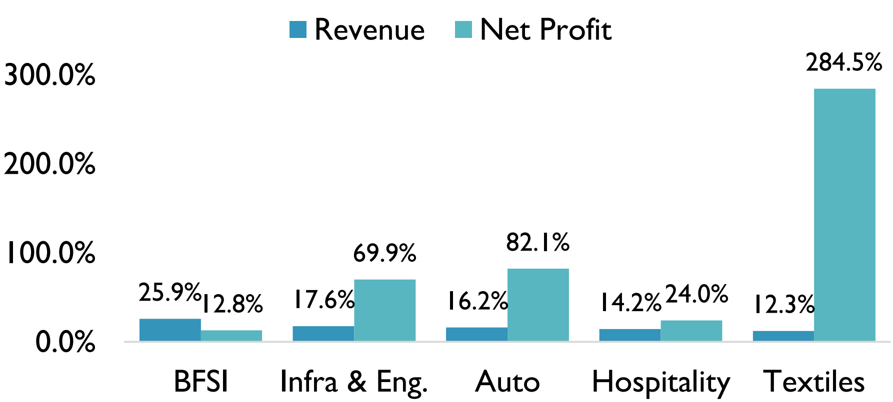
India Inc's growth in Q3FY24

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



- 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

Source: IMF, World Economic Outlook

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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.

HILONI GANDHI

RESEARCH ANALYST

Hiloni has an experience of 3 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

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