

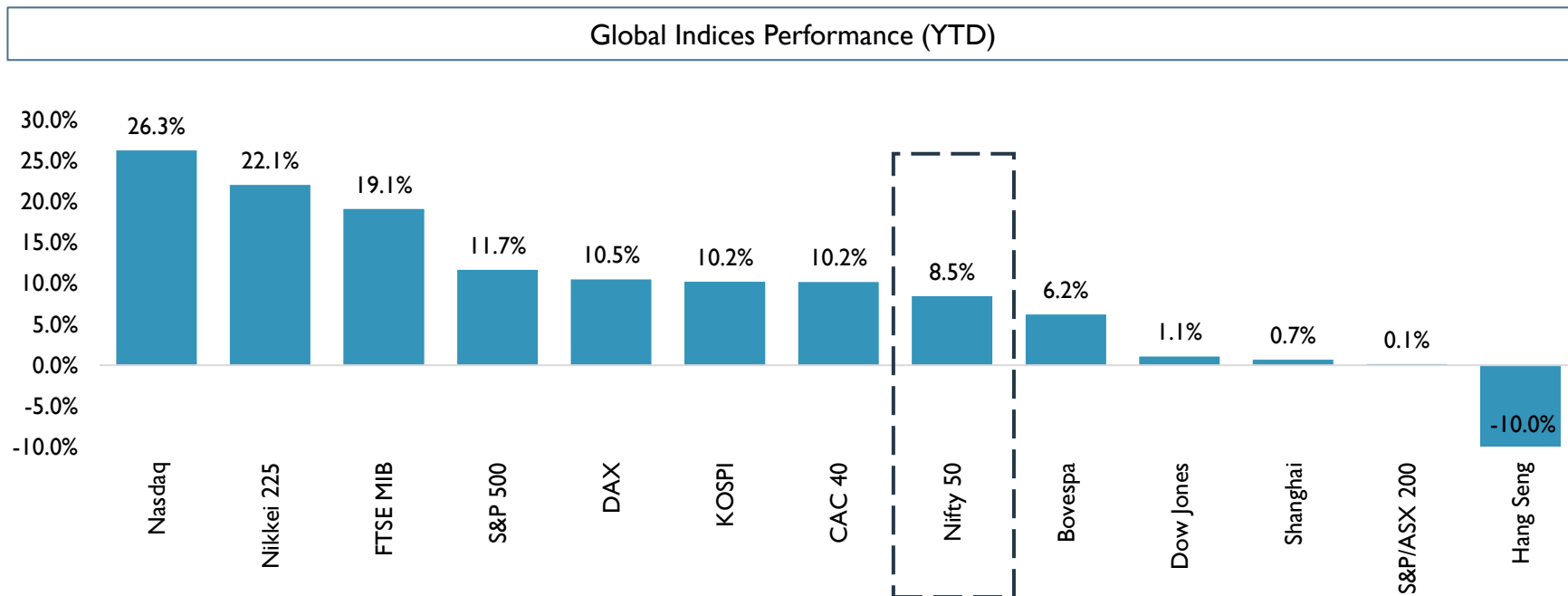


Pi Square Investments

The Market Compass

September, 2023

2022's equity selloff mostly reversed this year

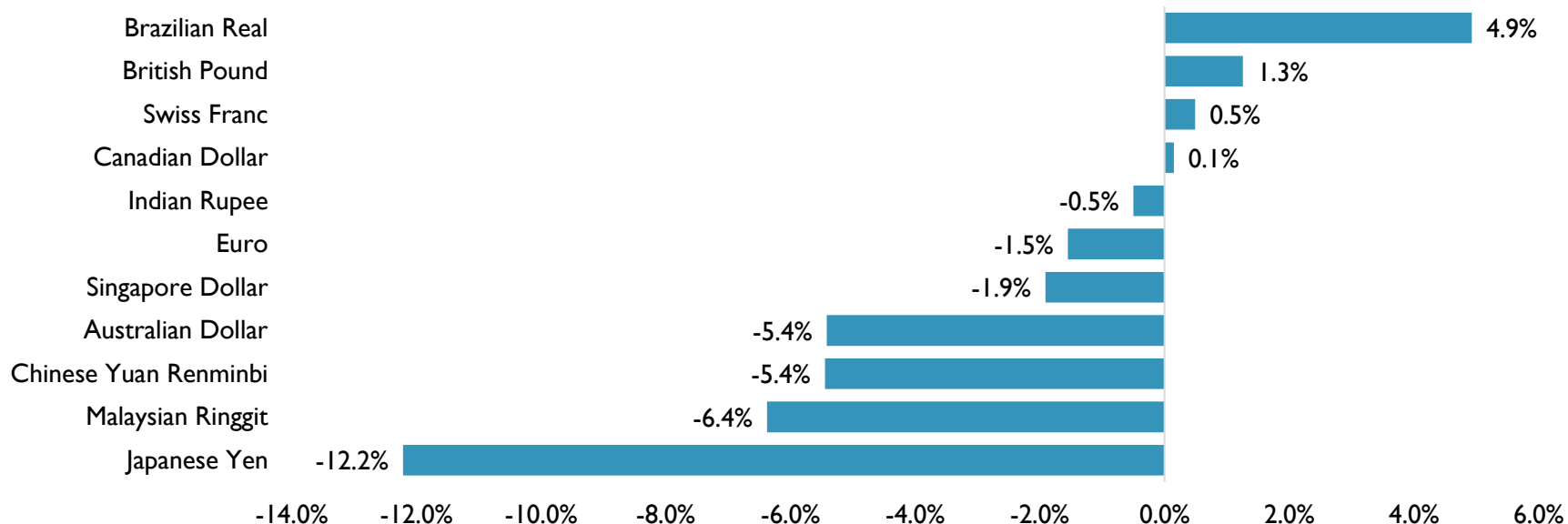


- India's economy continues to show strong growth amidst global slowdown.
- While European stocks have performed strongly, they may face new challenges as the European Central Bank keeps rates higher for longer, tightening into a slowdown.
- Meanwhile, China's debt and property woes have worsened, with the government showing little signs of coming to the rescue.

Source: Investing.com

Global Currency volatility

% Change against US \$ (YTD)

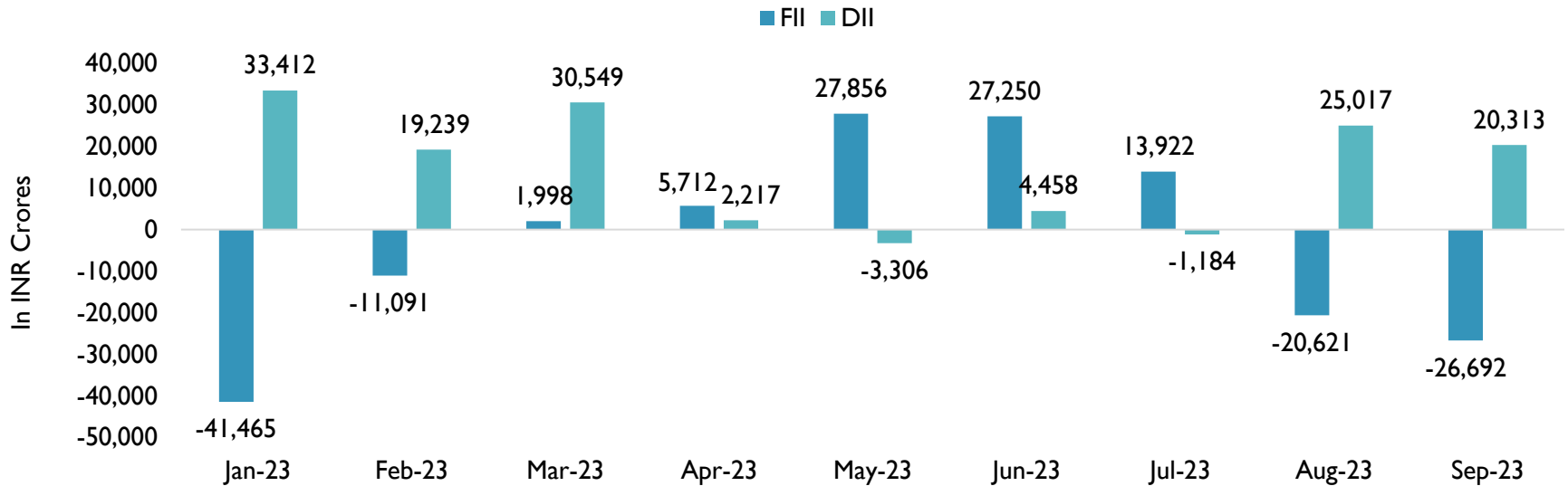


- The dollar hit an 11-month high against the Japanese yen after the U.S. Federal Reserve signaled it could raise interest rates further
- The strength of the US dollar is seen in context of the challenging economic conditions in China and loose monetary policy in other developing countries.
- Coupled with rising inflation, inaction on parts of central banks, and trade deficit numbers, developing countries currencies have nose-dived in value over the past few months.

Source: Investing.com

Domestic investors buying sustained

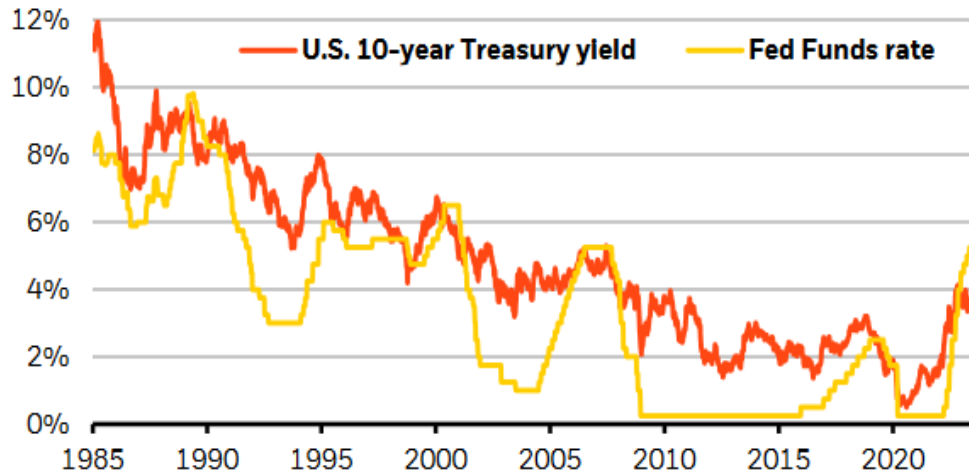
Institutional Inflows & Outflows



- Foreign portfolio investors have been net sellers from Indian equities this month primarily due to rising US interest rates, recessionary fears, and overvalued domestic stocks after buying Indian equities incessantly in the last few months
- On the other hand, local funds have procured equity worth INR 50.6 crore from the secondary market.

Yields are surging amidst volatile macro environment

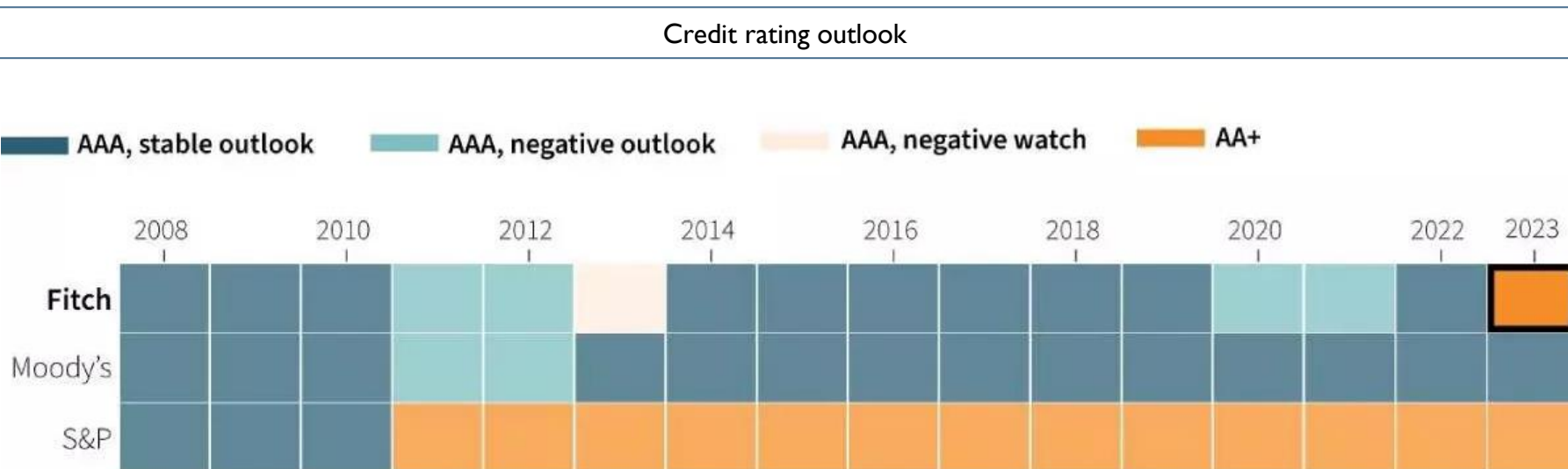
US Treasury yields & policy rate (1985-2023)



Source: BlackRock Investment Institute, LSEG Datastream

- The 10-year U.S. Treasury yield jumped to 16-year high and stocks slumped over 2% last week even as the Fed and other central banks left policy rates unchanged.
- The market narrative hasn't been one of stagnation in U.S as GDP data suggest that activity has held up.
- The U.S. is navigating 2 large and unprecedented shocks. (i) A massive, pandemic-induced shift in consumer spending creating a mismatch in what the economy was set up to produce and what people wanted to buy and (ii) a worker shortage as baby boomers age into retirement.
- Digital disruption will result in structural changes that are poised to create big shifts in profitability across economies and sectors. Digital disruption includes artificial intelligence (AI), the rewiring of globalization driven by geopolitics, the transition to a low-carbon economy and a fast-evolving financial system.

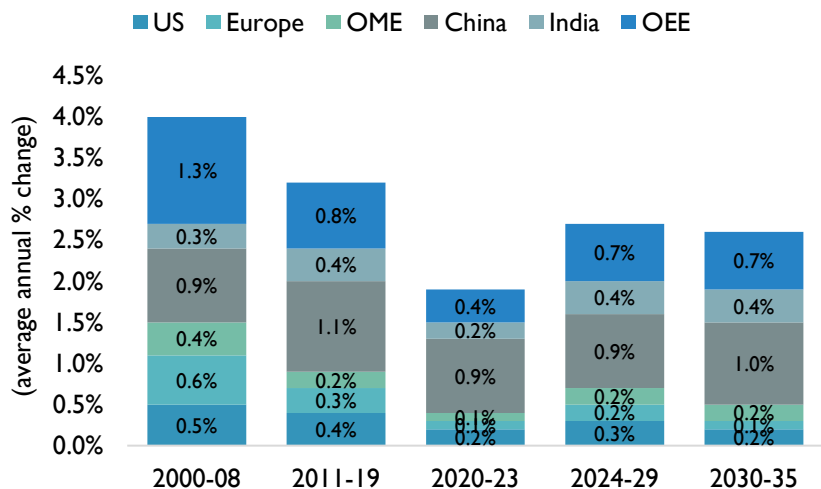
U.S. loses AAA credit rating from Fitch



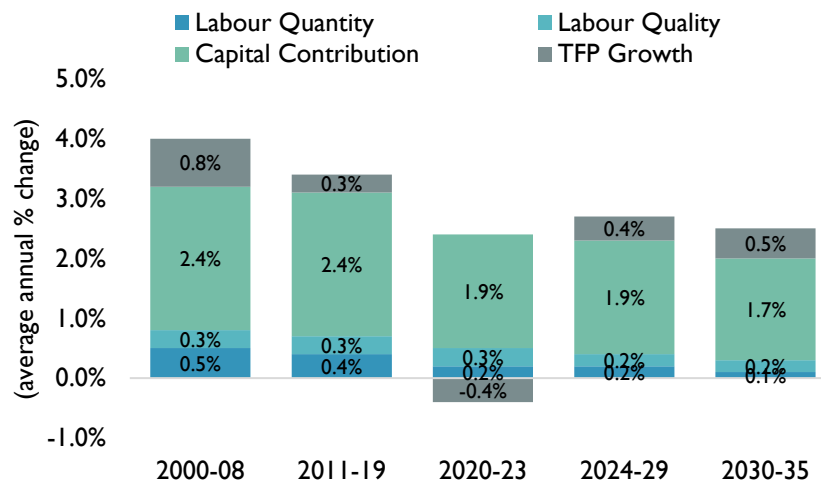
- Fitch downgraded US long-term foreign currency rating on account of (i) the rating downgrade reflecting the expected fiscal deterioration over the next 3 years, (ii) a high and growing general government debt burden, and (iii) the erosion of governance relative to A and AAA-rated peers over the last 2 decades that has manifested in repeated debt limit standoffs and last minute resolution.
- Lower deficits and high nominal GDP growth reduced the debt to GDP ratio over the last 2 years from the pandemic high of 122.3% in 2020, it is at 112.9% this year, which is still well above the 2019 pre-pandemic level of 100.1%. This implies that the debt ratio is 2.5x higher than the AAA median of 39.3% of GDP and AA median of 44.7% of GDP.

Emerging economies to remain key engine for global growth

Regional contributions to global GDP growth



Contribution of factor inputs to global GDP growth

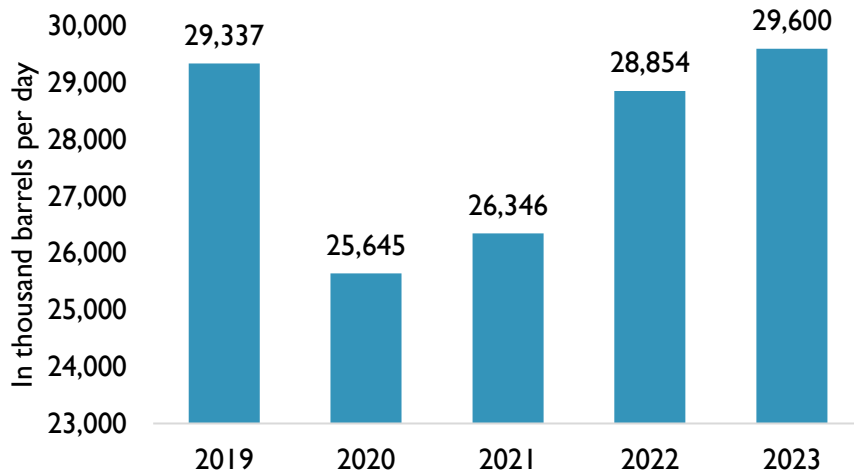


Note: OME= Other Mature Economies, OEE = Other Emerging Economies
Regional GDP contributions are calculated using shares in nominal PPP converted GDP.

- Global real GDP is forecasted to grow by 2.9% in 2023, slightly down from 3.3% in 2022. Growth forecasts for 2024 are strongest in emerging asian economies, and weakest in Europe and the US.
- Economic growth is moderating under the weight of high inflation and monetary policy tightening. Rather than a global recession, a relatively subdued economic outlook over the short-term is expected.

Sizzling oil worldwide

OPEC Crude Oil Production



Oil prices at 9 month high in 2023

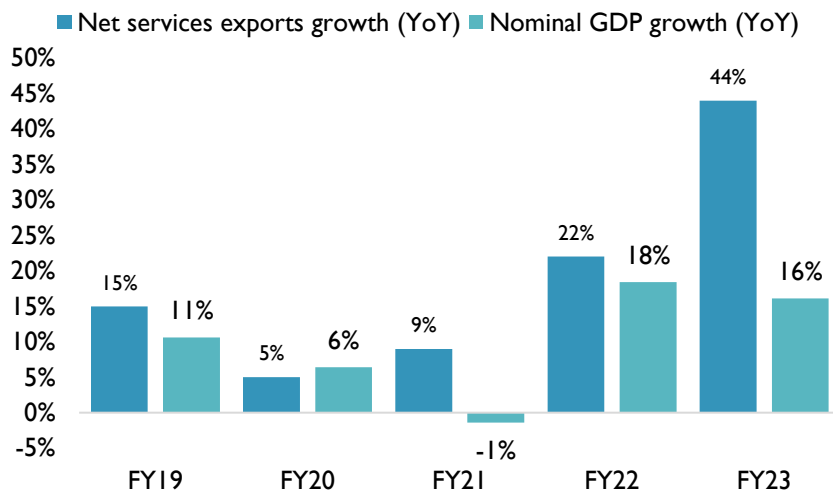


- Prices of crude oil are rising once again as the expectations of a supply deficit have outweighed concerns over low demand.
- Saudi Arabia and Russia this month extended supply cuts of a combined 1.3 million barrels per day until the end of the year. The move came against the backdrop of uncertainty about demand in China, growth in Europe and tightening monetary policy.
- The rising crude oil prices will have an impact on the global economy, which is already facing high inflation, import-dependent countries will be vulnerable.

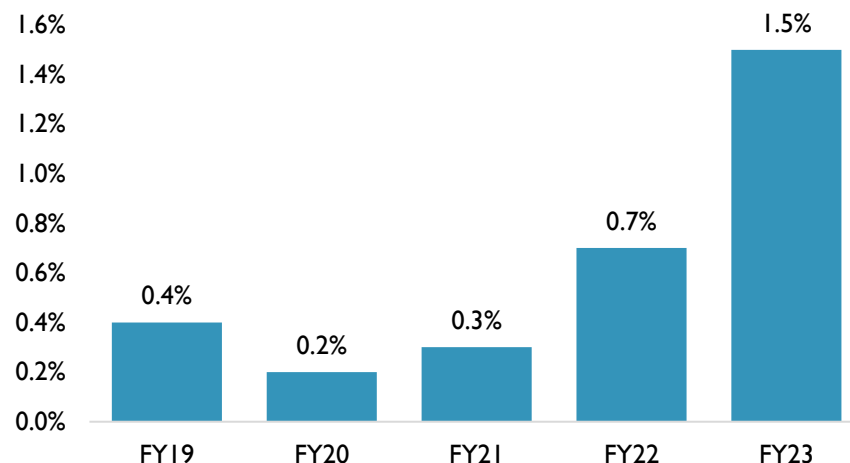
Source: OPEC

India's services sector exports defy global slowdown

Net services exports rose faster than nominal GDP



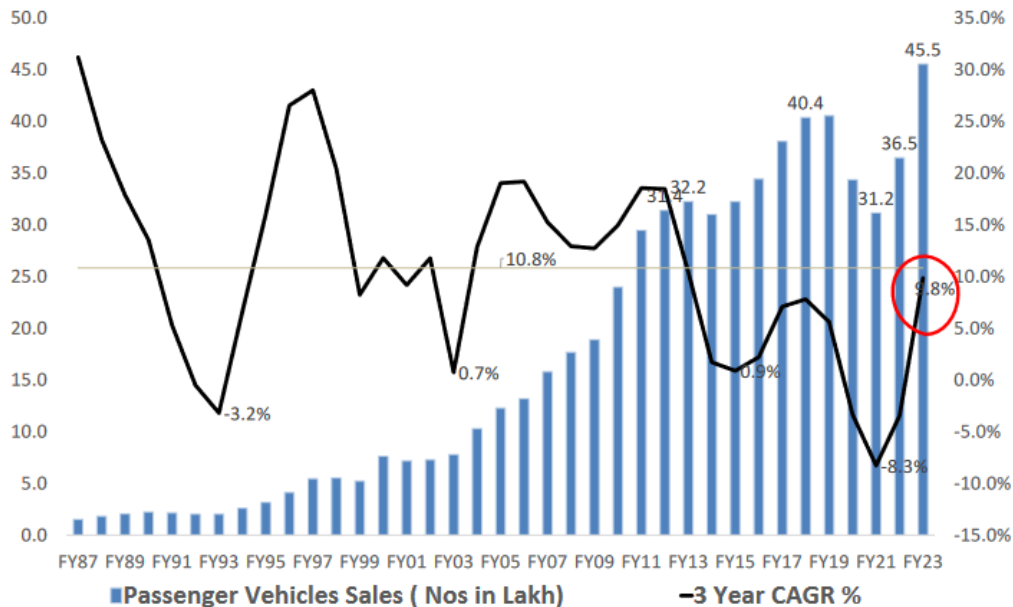
Contribution to Nominal GDP



- India's annual net services exports are now nearing \$120Bn and gross services exports are \$250bn on a rolling 12-month basis. On a nominal GDP size of \$3.5trn gross services exports are nearly 7% of GDP.
- Over the last three years, net services exports have grown at a faster clip than nominal GDP and hence now contribute more to India's growth. This contribution is up from 2014-2019 average of 30bps to now 1.5%
- India's market share in world services exports had risen to 4.9% with software services exports accounting for the bulk of share at 46%

3Y PV sales CAGR rises to long term average after a decade

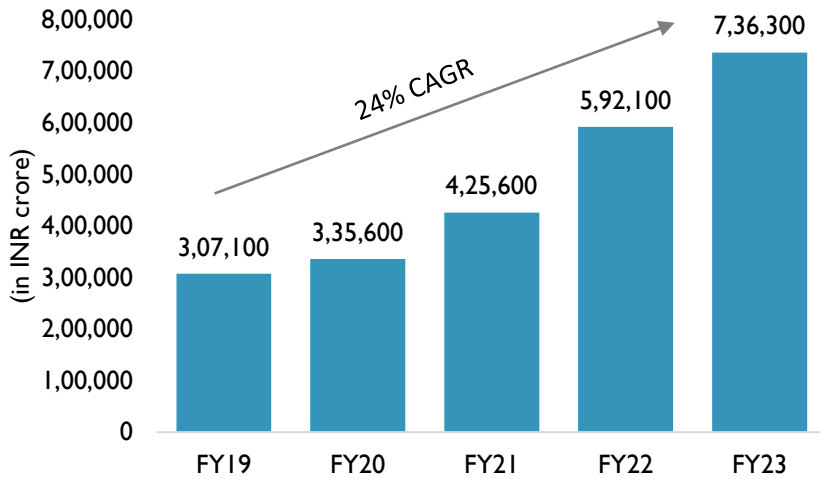
Passenger Vehicle Sales



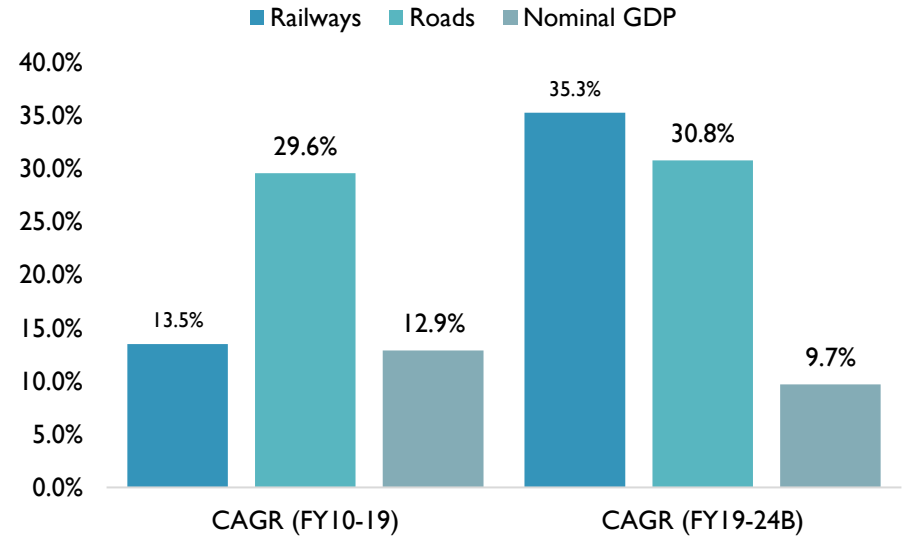
- Amidst the looming disruption posed by EVs, consumers are transitioning from small, economical cars to larger and high-ticket SUVs.
- PV sales, although seeing traction, are still patching as SUVs continue to dominate while other category growth rates are yet to see a return to base rates. The SUV market now commands over 51% of the PV market.
- Near term disruption to this sector is going to come from fragmentation of the SUV market. The long-term prospect for this sector remains positive as growth rates are reverting to long term trends.
- The headwinds from EVs and the sentiment will be a major contributor.

Capital goods sector builds big on rising infra spending

Centre Government Capex



Centre's Roads & Rail capex outpaces GDP growth

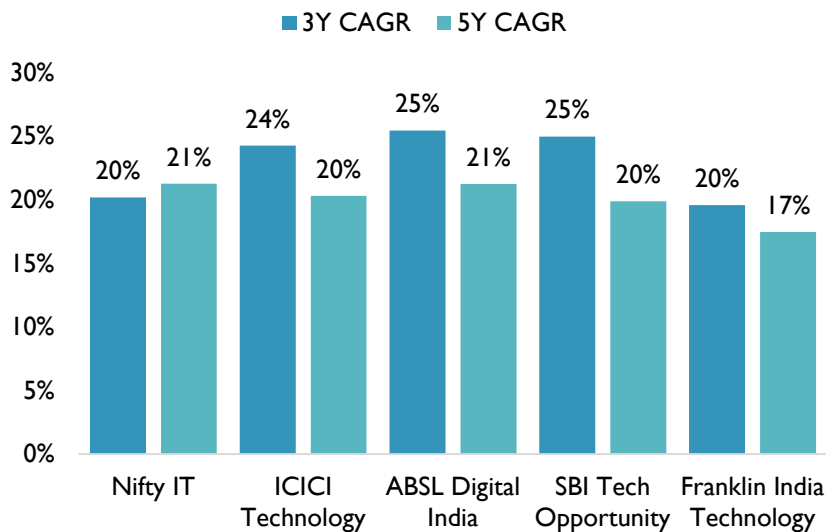


- In the medium term, domestic capex has several strong drivers, including low corporate debt in India, low bank leverage, better access to SME credit, political stability, pro-business policies, de-Sinofication (China+I) and green energy.
- Order inflow has been strong, most companies in the capital goods sector has recorded 30%+ order inflow YoY in FY23
- Major growth has been seen in emerging segments like renewables, data centers and automation.

Source: CMIE, CEIC, CGA,

The sudden focus on technology by Mutual Fund Houses

Existing Technology Funds Performance



Recent NFOs

Fund Name	NFO Launch Date
Axis Nifty IT Index Fund	June 27, 2023
DSP Nifty IT ETF	June 21, 2023
Bandhan Nifty IT Index Fund	August 18, 2023
Quant Teck Fund	August 22, 2023
HDFC Technology Fund	August 25, 2023

- In the last few months most AMC's have launched their mutual fund products in the information technology space.
- The Indian IT service companies have more than doubled their market share in the last decade. With low cost high-quality IT staff available in India, many Indian companies are investing in IT to make their operations more robust to ride the Indian growth story.

Source: CMIE, CEIC, CGA,

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.



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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



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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.

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