



Two Ways to Look At This Market

It has been two years since we launched our PMS, and those two years have coincided with a market in which the headline indices have gone nowhere. We know that single-digit returns over such a stretch test the patience of even the most committed investor.

At this point, as an investor, you can look at the market in two ways.

One is the current listless scenario: the war in West Asia, foreign selling of over Rs 2 lakh crores this year, the worst since foreign investors were first allowed into India in 1993, tepid profit growth among Nifty50 companies, high crude prices, and an overall mood of desperation and concern.

Alternatively, you can consider a second scenario: the war ending in the coming months, which we believe is more likely than the market is pricing in. Crude oil dropping to \$50-60 per barrel. Rs 6-7 lakh crores flowing into Indian banks through FCNR(B) deposits and ECBs. Corporate profit growth of over 20% outside the Nifty50 companies. Foreign investors once again finding value in Indian companies. And GDP growth climbing back above 7%.

I am a votary of the second scenario. Let me explain why, starting with crude oil.

A price rise of this magnitude has historically destroyed its own demand. There are already signs of demand destruction in China, and consumption has slowed in many other large oil-importing countries. Importantly, the current price rise is not the result of any production or supply problem. It has been created by transportation bottlenecks. Brent had dropped to about \$60-65 even without Venezuelan and Russian oil hitting the market. When the war ends, a large amount of oil will come into the market through increased production from OPEC countries and from the UAE, which has quit OPEC. Look also at the price behaviour of crude itself: even with the war ongoing, oil has been making lower tops. Even now, with no guarantee of a resolution in the coming weeks or months, Brent has dropped to \$90. That is clear evidence of weakness in price.

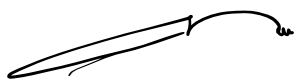
On the Indian rupee, the government's bold measures will likely stabilise the currency around 92 to a dollar once the large foreign exchange inflows expected through FCNR(B) deposits and ECBs reach Indian shores. The RBI will bear the full hedging cost on fresh three-to-five-year FCNR(B) deposits, and has opened swap facilities for ECBs and overseas borrowings. It is the 2013 playbook, the one that brought in \$34 billion in three months under Governor Rajan during the taper tantrum. We estimate these measures could bring in Rs 6-7 lakh crores or more, with banks able to offer NRIs 5.5-6% on dollar deposits against roughly 4.2% on US Treasuries. Our expectation is that as these inflows arrive and the conflict premium fades, the currency stabilises around 92 to the dollar.

Corporate profits are already healthy across several sectors of the economy: Financials, which form about 40% of the market, Power Distribution, Capital Market Players, Renewable Energy, Defence, Healthcare, Pharma exports, and several others. The drag on overall profitability has come from tepid performance in FMCG, IT, and a few other large companies. Our reckoning is that the sectors doing well today, and those likely to do well when the expected improvement in the macro picture plays out, will drive the market to new highs. The Midcap 100 index of the NSE already touched a new high two weeks ago.

So forget about the Nifty and the Sensex for any meaningful gratification. Concentrate instead on companies and sectors with strong earnings and clear visibility for the next few years. That is where we have positioned the portfolio.

Since June 2024, when we launched our PMS, our fund has never seen an easy market. Through that period, while the Nifty 50 TRI returned 0.98% annualised and the BSE 500 TRI 1.88%, our Multicap Value Fund delivered 5.67%, an outperformance of nearly 4 percentage points over the broader benchmark. Over the last one year, the fund returned 3.16% while the BSE 500 TRI fell 3.46% and the Nifty fell 6.45%, an outperformance of nearly 7 and 10 percentage points respectively. We have protected and grown capital through the storm, albeit modestly.

Markets are never linear. Long periods of consolidation are often followed by sharp periods of outperformance, and the patient investor collects what the restless one forfeits. Korea and Taiwan are the most recent reminders. Two years of flat indices have built the base. Look forward to more rewarding times ahead.



Jose C Abraham
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