Date: 03rd March, 2022

Dear Investor,

Hope all is well at your end.

To make sense of what's happened in the stock market this month requires you to make sense of what's happening around the world. Globally, uncertainty has become the predominant theme of 2022 and Russia's invasion of Ukraine is only the latest manifestation of that uncertainty. The only certainty in uncertain times is volatility. The benchmark NSE indices closed lower by 3.2% in February after falling by nearly 6.6% (Nifty touching monthly low of 16203), delivering a second consecutive month of losses. The volatility seen in the benchmarked index whipsawed investors with moves up or down in excess of 1% about every other day.

Russia's war in Ukraine has created a gigantic new source of worry for investors, but the factors behind the selloff go beyond just the war. They include concerns about higher inflation, impending interest rate hikes and the slowing pace of economic growth. Uncertainty has played out in rather predictable ways beyond the stock market as well: The 10 - year yield on treasury bonds has climbed higher and is back to pre-pandemic levels, oil prices have jumped to a seven-year high and gold prices have surged.

Psychological testing for investors.

Psychological influences are dominating factor governing investor's behavior. They matter as much as and at times more than - underline value in determining the securities value- Seth Klarman. This is especially truer during the conflicts/war times when there is uncertainty. However, we have seen that bad times does not last long which therefore provides good opportunity to invest during the fear times. The returns are disproportional when taken position during these times and with great margin of safety in good businesses. Professional investors are trying to estimate the potential economic fallout from the war. Compared with the devastation wrought by the Covid-19 pandemic in the past two years, however, this conflict isn't likely to inflict a similar level of economic damage in India. The NATO decision to not to fight the Russians is positive with minimal escalation. However, the world and India faces the impact of various sanctions/restrictions on financial dealings which should keep the markets volatile for some time.

What next, we expect?

1. Covid is disappearing and gone. The reduction in number of cases with little deaths seems to show that the virus mutation has happened and less effective and getting milder by the day.

2. Margins norms postponed. The stock exchange has postponed this proposal twice considering the difficulties in implementation and to prevent more damage to the market.

3. LIC issue gone. Due to turmoil in the global markets and currencies, Finance Ministry is looking at option to defer the issue for the next fiscal. This will help prevent the liquidity dry out in the system.

4. Fed rate likely to be delayed. The fed meeting is eagerly looked upon by the market and with the Russian-Ukraine conflict and the impending market fears on the growth, the Central Bank may put off the interest hike for now.

5. Bond yields have started to fall with demand for safety avenues like Treasury Bonds, Gold, Silver etc. this flight to safety might gain further momentum also in the wake of the contagion effect of financial restrictions announced by both sides.

6. Removal of Russian stocks from the Emerging Market MSCI index is again positive and lead to buying in Indian blue-chip.

While all the above factors, points to the fact that the Indian markets must be close to the bottom and discounted most of the negatives.

India continues to be on the path of recovery in the capex cycle.

The Government policies and the budget recently presented also will facilitate and provide impetus to the manufacturing setup faster to revive the economy, create employment and thereby improve consumption spending and tap the vast exports markets globally on a long-term basis. Various macro parameters (like business confidence, tendering activity, central government capex, engineering goods export & import, IIP of capital goods) are hinting towards a pick-up in capex cycle finally.

Portfolio Positioning.

While our investments approach has been of bottom-up, we continue to rationalize our portfolio continuously, track the portfolios liquidity and add wherever we feel comfortable on growth and valuations. Wishing you the best from our team and stay safe.

Thanks with Regards,
CA Rakesh Doshi
Principal Officer & Fund Manager
KRIIS – The Portfolio Management Company