KRIIS
PORTFOLIO PRIVATE LIMITED

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Dear Investor,

Hope all is fine at your end.

NSE benchmark continued to be volatile and dance with global tumult especially during the second half. The index however closed almost flat during the month of September. Fears of recession, unbridled inflation and currency volatility have sent tremors across markets. Screens across exchanges are flashing red and bearish sentiment among investors is rising. In India, the benchmark Nifty50 tumbled by 5 percent in the last week trading sessions and however tried to recover partially. The FPI again was on selling spree with the Indian currency hitting a new low 81.7/dollar.

US and inflation effects allowing little choice for FED

With inflation raging, the US Federal Reserve had little choice but to continue with the hawkish tone that came into vogue at the Jackson Hole conference. The Federal Open Market Committee unanimously delivered a 75bps rate hike, the third in a row in 2023. With this, the Fed funds rate has moved up to 3-3.35%, the highest since January 2008. To be sure, there are more in the offing. The revision in median rates for end- 2022 to 4.4 percent from 3.4 percent estimated in June, indicates cumulative rate hikes of another 125 bps, at the least, over the next two meetings this year.

This is not surprising. Note that huge rate hikes in the last two meetings have done little to rein in inflation. In fact, core inflation on a three, six, and twelve-month trailing basis remains sticky at 4.5-4.8 percent. Worse, it is seen to be spreading beyond food and energy prices. A robust labor market and wage hikes are not comforting signs. Therefore, Fed Chairman Jerome Powell's pledge to quell inflation regardless of "pain" may be justifiable. Powell's rhetoric is now making the rest of the world jittery of slipping into recession. His commitment to get inflation back to 2%, a big task in the near term, only underscores restrictive policies. No one knows whether this process will lead to a recession or if so, how significant that recession would be. There is a potential of how rising borrowing costs in the US can result in spillover effects for other countries. Given surging costs in the UK and Europe, the days ahead would have more rate hikes being delivered by central banks of these countries.

Europe already in fuel turmoil

The sabotaging of the Nord Stream gas pipeline not only ensures a cold winter of discontent in Europe, but also escalates the war, as does Russia's annexation of Ukraine's eastern provinces. Inflation continues to surge in Europe and the initial estimate for consumer price inflation for September in the Netherlands shot up to an eye-popping 17 percent. With governments scrambling to insulate people from high energy costs, there's a real risk that others may follow in the UK's fiscal footsteps -- Germany has just unveiled a Euro 200 billion energy support plan. A recession in Europe is now looks a certainty.

India still on a strong wicket

The economic reviews put out by the Reserve Bank of India and the finance ministry reports point out that the prospects of economic growth in India are strong. Inflation is also decelerating as some of the largest economies in the world tip into recession. The supply side pressures are also easing, thanks to weakening global demand. For example, some car makers in India are talking of ramping up production as chip supplies resume. Both government and central bank economists believe that aggregate demand will remain strong and indeed, get a boost from the ongoing festival season, thanks to improved consumer sentiment and factors such as improved kharif crop sowing. Also, the GST collection spike 28% at 1.46 lakh crores in September. With the onset of the festival season, which is typically large consumption driver for all businesses, the GST collections in the coming months would be expected to be robust. The government sees the biggest risks to India's economic growth coming from abroad – as the world economy slows. Slowing exports and accelerating imports will act as drag on domestic economic growth and bloat the trade deficit. For the Reserve Bank of India, the strength of the US dollar and the spillovers from the actions of the US Federal Reserve are the biggest risks.

The RBI's Monetary Policy Report puts real GDP growth at 6.5 percent in FY24, no mean feat considering the stormy weather in the rest of the world—the OECD expects US GDP to grow 0.5 percent in 2023, the UK at zero percent, the Euro zone at 0.3 percent and China at 4.7 percent.

With the Indian markets looking more attractive in the current geopolitical risks after some recent correction,the Indian investors and domestic funds continue to buy and absorb the FII sales. This trend can only get better in the future with more savings in equities. Why did the Indian equity market rebound strongly after the RBI raised its policy rate by another 50 basis points? The rate hike had been fully discounted, of course, so maybe it was a long sigh of relief. But there could be another, more potent, reason. The Monetary Policy Committee forecast GDP growth of 4.6 percent in the second half of the fiscal year, against their earlier projection of 4.1 percent in Q3 and 4 percent in Q4. That's not all—for the first quarter of FY24, the forecast is now of GDP growth of 7.2 percent, compared to the earlier prediction of 6.7 percent. Best of all, this higher growth is expected to come about with no change in the inflation forecast for the second half and the first quarter of FY24. As Deputy Governor Michael Patra said at the press conference on monetary policy, "Soft landing is for advanced economies. For India, it's a take-off."

Portfolio Positioning.

We reiterate the stance we have taken in our earlier reports and recommended investors to remain invested through this current turmoil and we are seeing the outcome. Once we invest in fundamentally great companies and follow the principles of discipline and patience, success is a matter of when and not whether. Wishing you the best from KRIIS team and stay safe.

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

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