KRIIS
PORTFOLIO PRIVATE LIMITED

2nd September, 2024

Dear Investor,

I hope this find you in fine form. The Indian stock market continued to be steady after its upward journey and holding around ATH of 25000. The volatility mainly due to the regulator imposing and restricting the use of certain securities as collateral margins and also imposing higher margins to cool down the midcap/small cap stocks.

All eyes of Fed rate cut!!!
At Jackson Hole, Fed chief Jerome Powell served up warm comfort food for the markets. The Jackson Hole symposium has served as a platform for central bankers to take stock of the economic and financial environment and point to the way ahead. Powell stated that "times have changed. Inflation is retreating all over the world and yet growth has held up reasonably well. A rare soft landing for the global economy seems to be in the offing. To be sure, inflation, albeit elevated, is trending lower in the US and conditions in the labour market are close to where they were just before the pandemic". The bulls on global equity markets charged ahead after the US Federal Reserve Chair Jerome Powell turned dovish, more confident narrative of softening US inflation and labour market signals the much-awaited rate cut in September. The next obvious question on rates is -- how much and how many? The upshot: a US Fed rate cut, the first since the pandemic, will lower borrowing costs and boost loans, mortgages and consumption. In turn, economic growth augurs well for equity markets, which explains the sharp jump in S&P 500 and Nasdaq indices.

Advantage for India and Emerging markets
Rate cuts in the US could also be the catalyst for emerging markets. After all, there are strong fundamental reasons for it. After weakening sharply in the past decade, emerging economies are rebuilding their growth lead over developed economies, including even the strongest one, the US, to levels not seen in 15 years. The proportion of emerging economies in which per capita GDP is likely to grow faster than the US is on course to surge from 48 percent over the past five years to 88 percent in the next five.''

Marked improvement in Consumption and Private Capex

What's more, private consumption has shown year-on-year growth of 7.5 percent, a welcome change from the tepid growth in earlier quarters. That's a big improvement from the 4 percent growth in Q4 FY24 and it shows that consumption is finally trickling down to the masses and is becoming more broad-based. That's not all. Despite widespread fears of a slowdown in Capex due to the elections, gross fixed capital formation growth was 7.5 percent in Q1 FY25, compared to 6.5 percent in the previous quarter. GDP has been down in Q1 as a result of the drag from net exports of goods and services and lower government consumption expenditure. Growth in construction was very strong, at 10.5 percent y-o-y. Growth in the trade, transportation, communications sector has also picked up. Stronger growth in these sectors, therefore, augur well for the growth of consumer demand. Growth in manufacturing slowed down in Q1 FY25 due to base effect. Also the Monsoon Watch column said, the monsoons so far have been relatively good, which should keep inflation in check, thereby aiding consumption demand.

A recovery in private investments can create a virtuous cycle of growth that will give a fresh impetus to the manufacturing sector, create more supply of goods that should help meet demand without leading to inflationary trends, and also create demand for capital and labour. The second order benefits of private sector investment will be felt by a number of sectors and more importantly, create more opportunities for investors.

Valuations

Given the sustained strong growth in economy, good macro outlook, fiscal consolidation, and continuity of policy making we continue to think that valuations should sustain. Mid and small caps continue to be key beneficiaries of the new policy direction and are experiencing better growth in earnings. Identifying and investing in good quality businesses at reasonable valuation with long-term philosophy are the core of our approach to investments.

Thank you. Happy Investing

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

KRIIS – The Portfolio Management Company