

1st October, 2024

Dear Investor,

The Indian stock market continued to be steady after its upward journey and holding around ATH of 26277 in September. The Fed rate cut after the pandemic, surprised the market with 50 bps with the urgency shown to create demand and avoid recession. US Inflation data was also favourably coming down. The markets witnessed good buying by FPI after a long time.

Global Markets Update Highlights:

- Enthusiasm for artificial intelligence related stocks drove the stock market rally in the first half of this year. This very narrow leadership was less than healthy, as corporate fundamentals remained supportive, but not evenly spread across the market. As a result, some rotation into assets had lagged the rally. Over the month of July, this was most prominent in smaller companies, which might benefit from lower interest rates.
- Softer US labour market data following growing signs of macroeconomic deceleration, have partially prompted a significant equity market correction.
- Even though the rise in reported unemployment is large enough to lead to comparison with the early stage of previous recessions, we do not see the current labour market being so negative.
- We continue to expect inflation normalization in the US but acknowledge this is usually a bumpy process. Recession probability in the US has risen but remains relatively low.
- Government bond yields have fallen in recent weeks and the price of high-quality bonds have appreciated sharply. Fixed income markets are reflecting a more benign inflationary environment and the prospect of faster rate cutting cycle.

India eyeing as a major global chain:

- The world is not moving in a unidirectional manner. The realignment in global supply chains and geopolitical partnerships is opening new opportunities. India has embarked on a mammoth task of capturing them, with a good start.
- The success of Apple's iPhone in India is a case in point. The US-based company reportedly plans to sell the latest version of the iPhone produced in India globally. Importantly, as Apple produces more iPhones, its suppliers are setting up base in India and strengthening domestic manufacturing ecosystem. Jabil, a component supplier, plans to set up a manufacturing plant in India, joining other Apple's vendors. A vote of confidence from Apple can help change India's image as the world scrambles to reorder its supply chains.
- Opportunities are not seen in electronics manufacturing alone. Numerous companies in chemical industry have set up new production plants and are supplying products to global majors. Even though excess supplies and competition from China are posing pricing pressures currently, domestic manufacturers are deepening ties with global innovators.

- The passage of the Biosecure Act in the US is expected to accelerate diversification of global supply chains in the pharma industry. This will benefit contract development and manufacturing organizations and contract research organizations in India. Companies are already seeing a rise in workloads and enquiries from potential customers. “The first-order impact will be on the biotech/pharma companies directly involved in innovator research. In India, companies involved in discovery or development of molecules are likely to benefit from the possible shift of US companies to new vendors. These developments show that India is navigating the challenges to global trade relatively well. Despite increasing protectionist measures, offshoring continues to rise in the IT services industry, a large employment generator. Global enterprises are scaling up their presence in India. Exports from global capability centre accelerated after the COVID pandemic and touched \$50 billion in FY24, as per Jefferies India.
- While these trends should please policymakers keen on attracting global investments into the manufacturing sector, India can do more to gain from the current realignment in global supply chains. Simplification of regulations, reduction in trade barriers and helping companies find the right workforce and facilities will go a long way in strengthening exports and supporting the Make in India project.

India’s Growth Story remains strong:

- Consumption, rising urbanization and higher demand for financial services are some themes which are expected to benefit due to India’s demographics.
- By the end of 2030, about 80% of India’s population will be millennials or younger with a median age of 30 years. Millennials prefer to invest in financial assets rather than physical assets. Over 50% of new investors in mutual funds are millennials.
- Financialisation of savings is reflected in the rising SIP inflows into mutual funds. In the month of August, the SIP inflows into mutual funds were to the tune of USD 2.84 Bn which is a 49% YoY growth.
- Domestic manufacturing across a wide range of sectors is expected to benefit India’s GDP.
- India’s digital infrastructure is expected to provide growth opportunities to financial services and e-commerce.
- Political stability in India assures that the process of reforms will continue.

Valuations

Given the sustained strong growth in economy, good macros, fiscal consolidation, and continuity of policy making we continue to think that valuations should sustain. Identifying and investing in good quality businesses at reasonable valuation with long-term philosophy are the core of our approach which we continue to do with discipline.

Thank you.

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

KRIIS – The Portfolio Management Company

