1. Fund Manager's Commentary

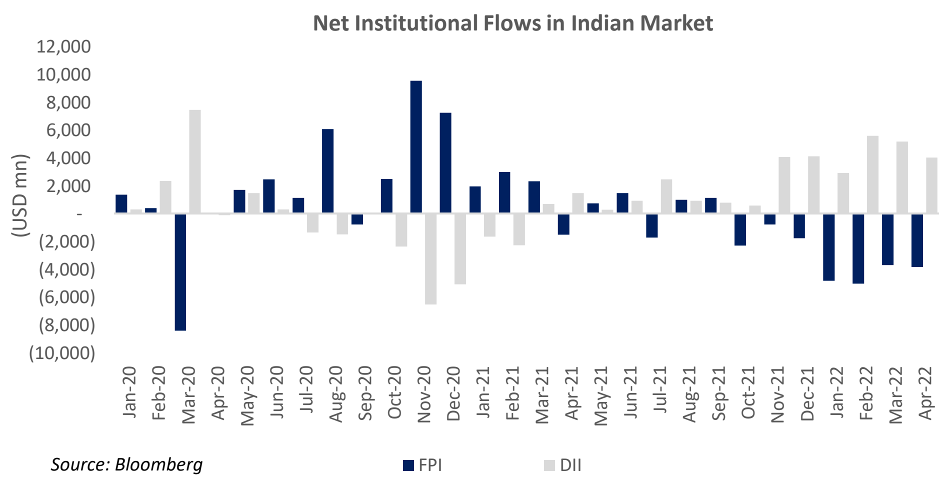
The Girik Multicap Growth Equity Strategy is inspired by the CANSLIM philosophy of stock picking developed by American investor William J. O'Neil. The goal of this strategy is to identify leading companies from leading industry groups that show sharp acceleration in earnings, newness in products or change in management and suggests buying them at the right price with enough margin of safety ahead of the company's major stock price advance.

In our newsletter last month, we had discussed about the tough choices faced by central bankers on how to tame inflationary pressures without sacrificing too much of economic growth and we saw big action on that front. As we write this newsletter in the first week of May, US Fed raised its policy rate by 50bps and also articulated the pace and extent of monetary policy tightening over the next few months. While this action by Fed was well flagged and widely expected; RBI in India sprang a big surprise. In an unscheduled meeting, RBI decided to raise repo rate by 40bps and CRR by 50bps. It is clear that central bankers have been taken aback by the ferocity of inflationary pressures and are now trying to gain some control over its course. Central bankers want the markets to believe that inflation can be controlled without paying too heavy a price on the growth front.

The change of regime in monetary policy and its impact on economic conditions was the key narrative in the markets even as Russia's war in Ukraine continued to drag on. Nifty was down 2.1% in April but outperformed both MSCI Global index (down 7.6%) and MSCI EM index (down 5%). NSE Midcap 100 index was up 0.6% while NSE Small Cap 100 index was down -1.7% in April.

The resilience shown by the Indian equity market in the face of worrying global backdrop and macro-economic headwinds is remarkable. While it can be partially explained by relatively strong economic growth momentum; strong domestic fund flows into the market are playing a big role too.

Heightened level of interest by domestic investors is manifested in two ways: (a) rising popularity of mutual funds as a vehicle and (b) rising salience of direct investors trading through widely popular low cost brokers. The chart below shows how the big selling by FPIs since October 2021 has been absorbed by the DIIs (mainly mutual funds). Based on the past experience we can say that without the enthusiasm shown by domestic investors, Indian markets would have corrected meaningfully in the face of strong FPI selling. Going forward, the key thing to monitor will be the behaviour of domestic investors in case the macro headwinds continue for a longer period.



Source: Bloomberg

At Girik we will continue to diligently follow our time tested investment process to identify potential winners and avoid likely losers and also ruthlessly implement our risk mitigation framework.