



## Pausing for breath : December 2021 Newsletter

### Sharp moderation to returns

During the final quarter of 2021, India equities delivered the weakest returns in over 2 years, both in absolute terms as well as relative to global markets. Although another Covid wave did add to the concern, sharp moderation was largely due to slower than anticipated economic recovery. In such an environment, Ampersand NAV was up under 1% and outperformed major indices, including benchmark (BSE500). Significantly, our fund has delivered cumulative returns of 120% since inception in Sept 2017 and 50% in CY21, both well ahead of key comparable indices.

As on Dec 31, 2021, our fund consists of 31 stocks and a cash surplus of 4.5%. This cash balance is slightly higher than previous quarters, as we expect markets to be volatile in the near term, and thereby give opportunities to make fresh investments.

### IT gains offset by domestic cyclicals, financials

Our marginal outperformance during this quarter was mainly due to IT sectoral performance (overweight with 23% exposure, and sectoral index rose 10%), but Financial indices dragged it back with a 5% decline (our exposure ~20% albeit underweight stance). Domestic cyclicals fared poorly for us, especially consumer discretionary names. Our pharma holdings too underperformed the sector. Segment-wise, mid-caps dominate our portfolio and it was the worst performing segment during the quarter under review. On the other hand, we didn't participate in the small and micro caps rally (which was up nearly 5%), due to our minimal exposure to this space as an investment strategy by choice.

### Equities positively correlated to initial phase of rate hikes

Typically, India stock markets rise in tandem with interest rates, albeit with increased volatility during the initial year of hike. This run sustains until interest rates rise to prohibitive levels, which is when market reversal sets in. Historical data has shown that stock markets rise until interest rates rise by 300bps on a cumulative basis. And since RBI is likely to commence hikes in the Feb meet, we anticipate at least 2 years before we could get to that situation. Hence, we can conclude that the ongoing bull market could last until then.

### Looking beyond the results season

Our view for the current season is that corporate earnings will be mixed. And as has been in recent periods, expectations are uniformly running high. So it is likely that even in-line performances may see correction in several stocks. This is more so for sectors which have done well, and outperformed the market. We recognise such risk in IT, one of our preferred spaces. On the flip side, we expect underperforming sectors e.g. financials, to hold up if asset quality concerns are allayed. So while we are underweight on this space, it still remains our second largest exposure, as has been for a while. Although stock volatility is usually high during this period (and this season has been no exception), management



commentary and outlook are the key aspects to track. And that is where we will continue to back select sectoral and investment themes, rather than get carried away by stock price movements.

## We expect markets to look up from next fiscal

After peaking in Oct, India stock market is struggling to resume uptrend, weighed down by near term considerations which include (1) quarterly earnings season, where expectations run high, so minimal room for disappointments, (2) upcoming general budget, where again expectations could be unrealistic, and (3) political uncertainty, as state poll results will be out by March. So as the events calendar suggests, markets may continue to sustain a challenging phase for the next couple of months.

We opine that markets will bottom out sometime in the first half of 2021. This is on the premise that improvement in corporate earnings outlook is needed to revive bullish sentiment. And we expect this to kick in from Q1 of next fiscal, driven by (1) easing of cost pressures, and (2) much reduced Covid lockdown constraints. So markets should positively react to improvement in earnings outlook for FY23. Given the bullish prospects, we look forward to taking advantage of anticipated price correction to add fresh positions in equities.

## Staying focused on earnings outlook

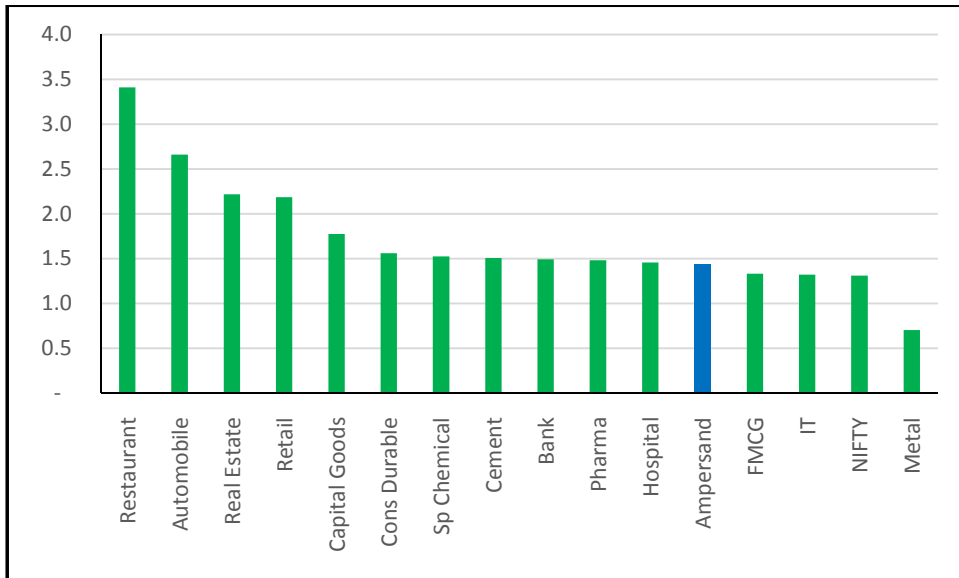
Ampersand has a simple criteria for stock selection. And that is to follow philosophy of Investing in companies which can deliver strong and sustainable earnings growth. Based on this, we see opportunities in the following spaces for 2021:

- Autos and electronics, on improved supply situation such as availability of semiconductors
- IT services, which is witnessing structural transformation on the digitalisation theme
- Service oriented sectors such as Travel, Entertainment, Construction and Banking due to lifting or fewer lockdown restrictions
- Other themes witnessing structural change including electric vehicles and ethanol blending

Our portfolio construct will include most, if not all the sectors and themes listed above.



**Chart 1: Robust profit outlook for FY24 vs FY22 (x), mainly led by Services and Autos**



Source: Tkr.com, Ampersand Research estimate



## DISCLAIMER:

*Ampersand Capital Investment Advisors LLP (Ampersand) is an Investment Manager of Ampersand Growth Opportunities Fund Scheme – I (Fund), a Scheme of Ampersand Capital Trust registered as a Category III – Alternative Investment Fund (AIF) under the SEBI (Alternative Investment Funds) Regulations, 2012.*

*This document is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities or funds or to enter into any contribution agreements. Before anyone considers an investment, it is important to read through and understand the contents of the Disclosure and/or Offer Document.*

*This document does not constitute or is not intended to constitute an offer to buy or sell, or a solicitation to an offer to buy or sell financial products, units or securities. The information provided by Ampersand is obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness and expressly disclaims all warranties and conditions of any kind, whether express or implied.*

*This document is prepared by Ampersand strictly for the specified audience and is not intended for distribution to public and is not to be disseminated or circulated to any other party outside of the intended purpose. This document may contain confidential or proprietary information and no part of this document may be reproduced in any form without its prior written consent to Ampersand. If you receive a copy of this document and you are not the intended recipient, you should destroy this document immediately.*

*Any dissemination, copying or circulation of this communication in any form is strictly prohibited. In preparing this document, Ampersand has relied upon and assumed, without independent verification, the accuracy and completeness of information available from public sources. Accordingly, neither Ampersand nor any of its partners, employees, agents or advisors shall be liable for any loss or damage (direct or indirect) suffered as a result of reliance upon any statements contained in, or any omission from this document and any such liability is expressly disclaimed.*

*Investments in Shares and Securities are subject to market risks and investor's risk profile. In making an investment decision, Investor must rely on their own examination of the terms of the offering, including the merits and risk involved. Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance will be profitable or equal to corresponding indicated performance levels. There is no assurance or guarantee that the objectives will be achieved. No client or prospective client should assume that any information presented in this document as the receipt of, or a substitute for, personalized individual advice from the registered adviser or any other registered investment professional.*

*All intellectual property rights emerging from this newsletter are and shall remain with Ampersand. This is for your personal use and you shall not resell, copy, or redistribute the newsletter or any part of it, or use it for any commercial purpose.*