Disclaimer :- This was originally published on 6th April 2023 and is part of our Q4FY23 letter. Link to the letter here

Implications of global repricing of risk

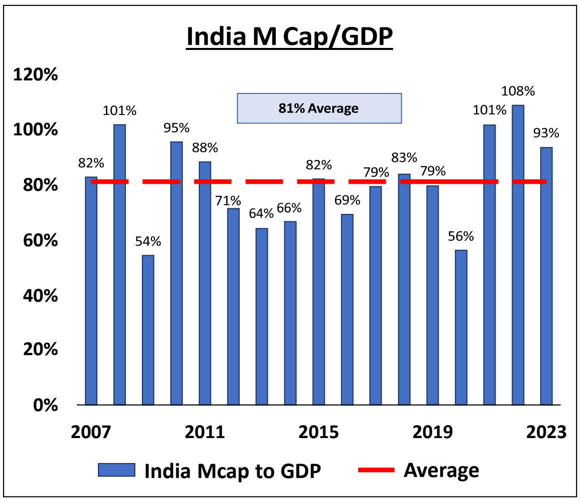
The Western World is undergoing a dramatic repricing of money with an increase in both long term interestrates and risk premiums, even as a profit recession looms.

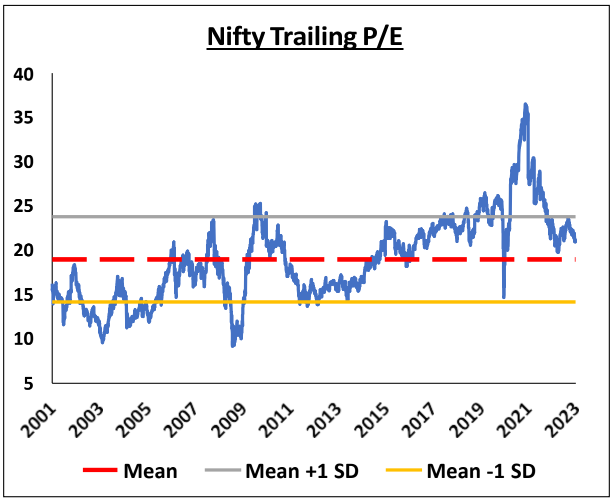
- Long term interest rates in the US rose from <1% to ~4% in the last 12 months. The US continuesto run trillion-dollar deficits. With increasing geopolitical conflict, the US cannot rely on traditionalplayers like China to buy its Debt. It can also no longer monetize these deficits[3] due to high inflation. Interest rates in the US may therefore stay elevated to incentivise investors to buy its Debt.
- Risk premiums are expanding - the side effects of very loose monetary policy are coming to the fore (e.g. collapse of Silicon Valley Bank, Credit Suisse, bankruptcy of countries). Larry Fink, the CEO of BlackRock, the world's largest Asset Manager, fears a series of rolling crises.

Even as some companies will do very well, growth in US/Europe will be challenged. Central Banks can nolonger support growth as inflationary risks have come to the forefront. The peace dividend between super-powers of the last two decades is over. The developed world could face a "profit recession".

India is standing out for prospects of growth and stability.

- A healthy Banking sector is critical to support economic growth. Only 15 years after the Lehmancrisis, regulators in the US/Europe are once again intervening to ensure stability. On the other hand, Indian Banks are perhaps the strongest they have been in two decades.
- The benefits of the India digital stack have started to accrue. A step up in investments in infrastructure is visible which will provide a multiplier effect to the economy. Global supply chainde-risking is a big opportunity for Indian manufacturing. It is not about "China +1" alone, rather it is "+1".
- Valuations are more reasonable after an 18-month sideways move, only marginally higher than long term averages. But one can argue that the economy is more resilient to shocks and hence some premium to longer term averages can be justified.





Source: Ambit Capital

[3] Monetisation of deficits means printing money to fund the budget deficit

SOLIDARITY
INVESTMENT MANAGERS

However, we should recognize reality.

- The ~8% depreciation of the Rupee against the USD in FY23 shows India cannot stay disconnected from global events in the developed world. We live in a global village.
- We are witnessing a "K" shaped recovery. At present, businesses more exposed to the top 5-10% of the income pyramid are doing better than those catering to the bottom[4].
- There is a regime change in monetary policy which requires more conservatism in entry valuations.

[4] Even as TITAN/Metro do well (serving top of the pyramid), 2Ws/Relaxo see growth pressure.