Abakkus
Believe in the Basics

Market Outlook

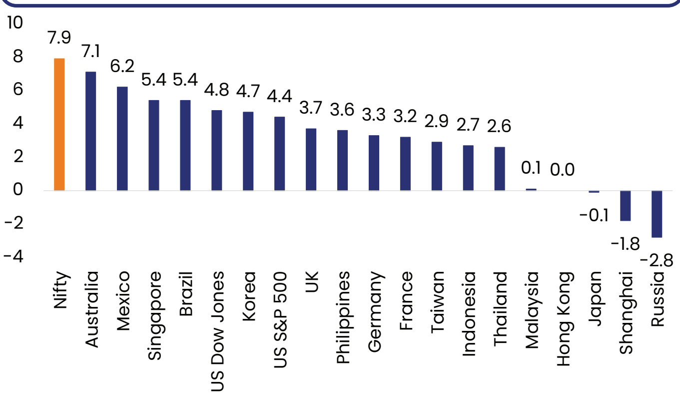
January 2024

Market Update

December was a strong month for equity markets globally in what is usually termed as a "Santa Claus" rally. Indian markets emerged as the best-performing market with benchmark Nifty gaining a strong 7.9%. Broader markets also gained in line, with the S&P BSE Midcap and S&P BSE SmallCap250 gaining 7.5% & 6.4% respectively. It was a broad-based rally with all sectoral indices ending in green. Momentum was very strong in Power, PSU and oil & gas sectors with gains of 18%, 15% and 12% respectively. FIIs remained positive for the month with net inflows of USD 7.9 billion. This significant uptick in FPI inflows can be attributed to the strong show the ruling BJP party had at the recently concluded state elections and the US Federal Reserve's dovish stance at the December policy. Domestic Institutional Investors (DIIs) saw continued net inflows of USD 1.6 billion.

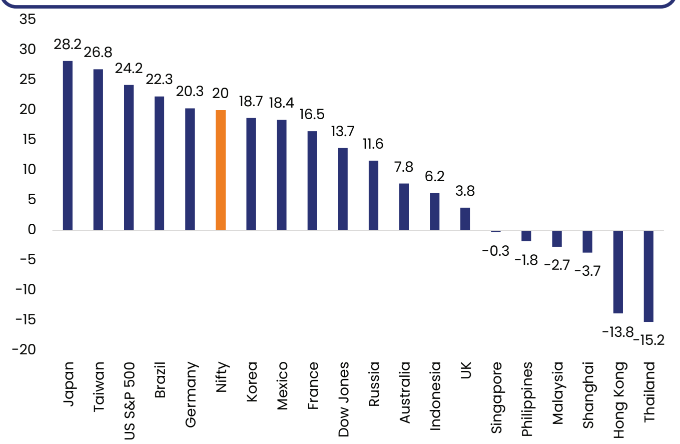
With this performance Indian markets have delivered 20% returns for CY23 and are amongst the best performing emerging markets. Though India is supposed to be benefitting from the China+1 shift, surprisingly other beneficiaries like Malaysia, Philippines and Thailand had a negative 2023. Chinese equities also ended with negative returns in 2023.

Global and regional indices 1 Month performance (%)



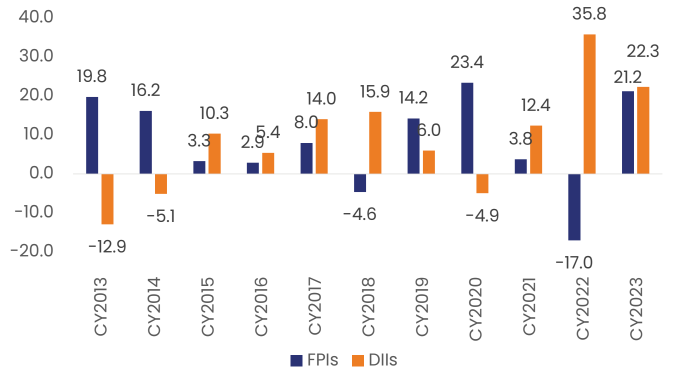
Source: Bloomberg, Kotak Institutional Equities (Data as on December 29, 2023 in Local Currency)

Global and regional indices 1 Year (CY 2023) performance (%)



Source: Bloomberg, Kotak Institutional Equities (Data as on December 29, 2023 in Local Currency)

FIIs/DIIs Inflows



Source: Source: Bloomberg, Kotak Institutional Equities (Data as on December 29, 2023 in USD Billions)

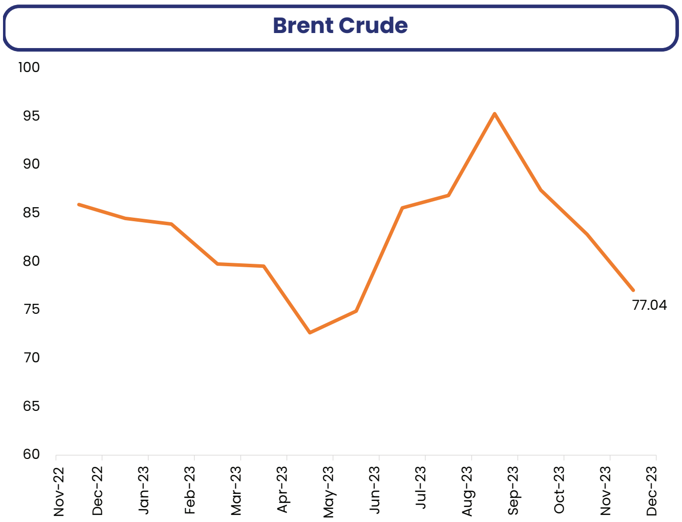
Macro Update

The RBI, as expected, maintained the status quo on rates and kept their stance unchanged, while the Fed held rates at 5.25%-5.5% for a third straight time and laid out the timeline for rate cuts in 2024.

On the domestic macro front, India's CPI inflation for November'23 month came marginally higher at 5.50% YoY vs. 4.87% YoY in October'23, largely due to higher vegetable prices. WPI inflation, which had been negative for the last seven months, rose in November due to higher food prices at 0.26% vs. -0.52% in October'23. IIP growth accelerated to 16 months high of 11.7% in October'23 vs. 5.8% in September'23 mainly due to double-digit growth in manufacturing, power and mining sectors' output.

India's merchandise trade deficit narrowed to $20.58 billion in November from $31.46 billion in October, largely due to decline in imports in November to USD 54.48 bn from USD 65.03 bn in October. November exports recorded a marginal uptick to USD 33.9 bn from USD 33.6 bn in October. GST collection rose 10% YoY to INR 1.64 lakh crore in December'23. The INR was stable and closed at ~83.2. India G-sec yield remained stable and was flat at 7.2% during the month. Brent crude corrected sharply to USD 77 per barrel.

FY period: April-Mar, CPI: Consumer Price Index, WPI: Wholesale Price Index FII: Foreign Institutional Investors, GST: Goods & Services Tax, DII: Domestic Institutional Investors Fed: US Federal Reserve, IIP: Index of Industrial Production, GSec: Government of India Dated Securities, GOI: Government of India, FDI: Foreign Direct Investment, CAD: Current Account Deficit, YTD: Year To Date, CY: Calendar Year, WTI: West Texas Intermediate, UPI: Unified Payments Interface. Inflation numbers released with 1 month lag, Core Sector number released with 1 month lag, IIP number released with 2 months lag.



Market Outlook

Indian markets are entering CY24 on a high note and with a high base. India has been amongst the best performing markets and is at all time high levels. The obvious question in everyone's mind is what next? Will the party continue or mean revision play out or on the current base India can be a relative underperformer?

Views for 2024:

Everything seems to be going right for India at present. GDP growth is trending over 7% and the outlook for the next few years continues to be strong. The probability of continuity of the same government in the elections to be held in 2024 is very high. This will make India the only large democracy with the same PM for 15 years at a stretch, highlighting continuity of policies and growth focus. Corporate profitability has been good, and the outlook remains positive.

From a global perspective, crude oil prices have corrected below $80 per barrel, despite the war in West Asia. We believe that a combination of higher US shale oil production, benign demand growth, attractive renewable energy prices and huge innovation related disruption like EVs, hydrogen, etc.; will ensure that oil prices stay meaningfully soft over the medium to long term.

Inflation globally seems to have peaked and interest rates are likely to start their downward trajectory sooner than expected. The 10-year US yields are already down to 3.9% levels after hitting a high of 5% only two months back. Global growth though will take some time to revive, though here also the bottom seems to have been made.

Indian equity markets however seem to have already factored in quite a bit of these. There is a bit of over exuberance, particularly in theme related sectors, IPOs, non-banking PSUs, penny stocks and possible turnaround stories. While being optimistic on Indian equity markets, we would sum our views as follows:

1. Returns from Indian equities are likely to be more moderate than in the recent past. Low to middle teen returns are more likely.
2. Volatility and wild swings have and will continue to be a part of equity markets.
3. Story-based and momentum-based investing might look exciting but will probably end sour.

Abakkus All Cap Approach

PMS Strategy

Abakkus
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Portfolio Update

The fund continues to focus on our philosophy of fundamental based investing. The returns of the funds were strong for the month 6%, though slightly lower than the benchmark as we consciously stayed away from momentum. Over one year, the fund is up 36.2%. Since its inception, the fund has achieved an impressive return of 155.9%, outperforming the benchmark, which stood at 110.1%.

During the month we have made two new investments and exited one of the holdings in the chemicals sector. The company we exited is India's agrochemical company which has been acing margins headwinds as chemical prices globally have corrected. Alongwith this, with interest rates rising there is an additional interest burden which will impact near term earnings. With earnings momentum decelerating we felt it is better to exit this name and use money more productively somewhere else. Of the companies we bought, one is a leader in the chemicals sector. Owing to global headwinds on chemical prices stock has underperformed in recent quarters. We feel these headwinds will bottom out over the next 3-9 months post which earnings should start to look up. Once this happens we feel investors will take notice of the same and rerate the stock. Our second investment is an auto ancillary company which is into manufacturing of pistons and valves. This company has recently made two acquisitions with a clear intention of getting into the EV ecosystem. Going ahead company intends to use its current 800 crs net cash to make further inroads in the EV space. At just 10x forward earnings we believe valuations are in our favour for this investment which is zero debt, high margin and ROCE generating company.

Portfolio Performance as on December 31, 2023

Period	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	2 Years (%)	3 Years (%)	Since Inception CAGR (%)	Since Inception Absolute (%)	FY24 YTD (%)	CY23 YTD(%)
Abakkus All Cap Approach	6.0	7.6	21.6	36.2	15.9	32.1	34.5	155.9	39.7	36.2
S&P BSE 500 TRI	8.0	12.4	18.5	26.6	15.2	20.4	26.2	110.1	34.1	26.5

**Unaudited Performance data for Portfolio Manager and Investment Approach provided hereunder is not verified by any regulatory authority and Past performance may or may not sustain in the future. The performance is based on TWRR as on December 31, 2023. Inception Date is October 29, 2020. As per SEBI guidelines, returns are net of all expenses and investor returns may differ, based on their period of investment, fee structure and point of capital flows.
Please note that performance of your portfolio may vary from that of other investors and that generated by the Investment Approach across all investors because of
1) the timing of inflows and outflows of funds; and
2) differences in the portfolio composition because of restrictions and other constraints.
As per SEBI circular SEBI/HO/IMD/IMD-PoD-2/P/CIR/2022/172 dated December 16, 2022, the comparison of the relative performance of the investment approach with other portfolio managers is available at https://www.apmiindia.org/apmi/ IACompare.htm?action=iacomaprepage

Top 5 Sector Classification as on December 31, 2023

Sector	Asset %
INDUSTRIALS	26.6
NBFC	16.0
BANKS	13.4
COMMUNICATIONS	9.9
INFORMATION TECHNOLOGY	7.4

Securities/sectors quoted are for illustration only and not recommendatory

Top 10 Holdings as on December 31, 2023*

JINDAL STAINLESS LIMITED	NTPC LIMITED
POLYCAB INDIA LIMITED	SUN PHARMACEUTICAL INDUSTRIES LIMITED
BHARTI AIRTEL PP LIMITED	MAX FINANCIAL SERVICES LIMITED
IIFL FINANCE LIMITED	STATE BANK OF INDIA
HCL TECHNOLOGIES LIMITED	LARSEN AND TOUBRO LIMITED

*The current portfolio holdings may or may not be a part of the future portfolio Holdings and may or may not be a part of all client portfolios.

Disclaimers

January 2024

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Abakkus is also the Investment Manager to Abakkus Growth Fund, a SEBI registered Category III AIF vide SEBI Reg. No.: IN/AIF3/18-19/0550 dated June 05, 2018, India-Ahead Venture Trust, a SEBI registered Category I AIF vide SEBI Reg. No.: IN/AIF1/21- 22/0976 dated January 25, 2022, India-Ahead Private Equity Trust, a SEBI registered Category II AIF vide SEBI Reg. No.: IN/AIF2/21-22/0980 dated January 27, 2022, Abakkus India Equity Fund, a SEBI registered Category III AIF vide SEBI Reg. No.: IN/AIF3/23-24/1326 under SEBI (Alternative Investment Fund) Regulations, 2012 as amended from time to time and the Circulars and Guidelines issued there under from time to time collectively referred as the SEBI Registered Intermediary.

The branch office of Abakkus situated at IFSC-GIFT City is registered with the IFSCA as Registered FME (Non-retail) (IFSCA/FME/II/2022-23/041) under IFSCA (Fund Management) Regulations, 2022.

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Alternative Investment Fund

As per SEBI Circular No. SEBI/HO/IMD/DF6/CIR/P/2020/24 dated February 05, 2020, details of industry benchmark and AIF level performance versus Benchmark Reports are available at https://www.nseindia.com/products-services/aif-benchmark-report & https://www.crisil.com/en/home/what-we-do/financial-products/alternate-investment-funds-benchmarks.htm

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Email – complianceteam@abakkusinvest.com

Portfolio Management Services:

You may refer the Disclosure Document available at https://abakkusinvest.com/regulatory-disclosure/ for detailed disclosures.
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You may refer the Disclosure Document available at https://abakkusinvest.com/regulatory-disclosure/

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