

THE SINE CURVE: MELT-UP



REALITY VS PERCEPTION!

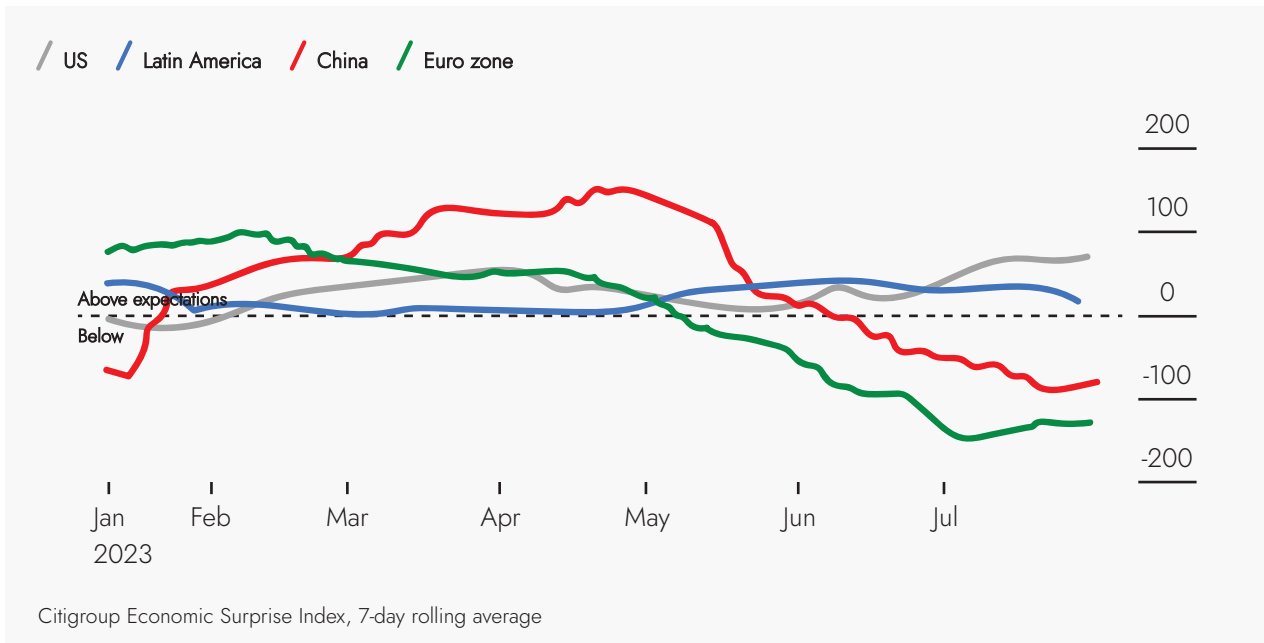
We wish to highlight 2 major global and 1 domestic factors in this month’s newsletter.

One – US economy is performing better than what most people expected it to do. China on the other hand has just not been able to recover despite government efforts- and may slip into deflation. India’s narrative is very strong- however, as usual, the earnings for the June quarter have trailed consensus. Nifty over April – July is up 13.8% and the small-cap index is more enthusiastic at 30%. All these 3 factors actually pose a risk to the markets.

Stronger than expected US economy is driving the US yields up – now above the psychological barrier of 4%. The yield curve, which was inverted has started to steep again, USD is on the rise, and INR is also testing the recent lows of ~Rs83/USD. All this may result in the unwinding of the USD carry trade. A deflationary China may get desperate - and this can result in the dumping of commodities and manufactured products - not good news for margins for many businesses. As per Bloomberg – Nifty earnings (49/50 has reported so far) have trailed estimates by 2.8% for 1Q FY24. Hence it appears that this year too, Nifty earnings growth would be in the low teens, rather than the 20% estimate which was expected a few months ago.

Chart 1: Please note the China economic surprise index is decelerating, while USA is accelerating

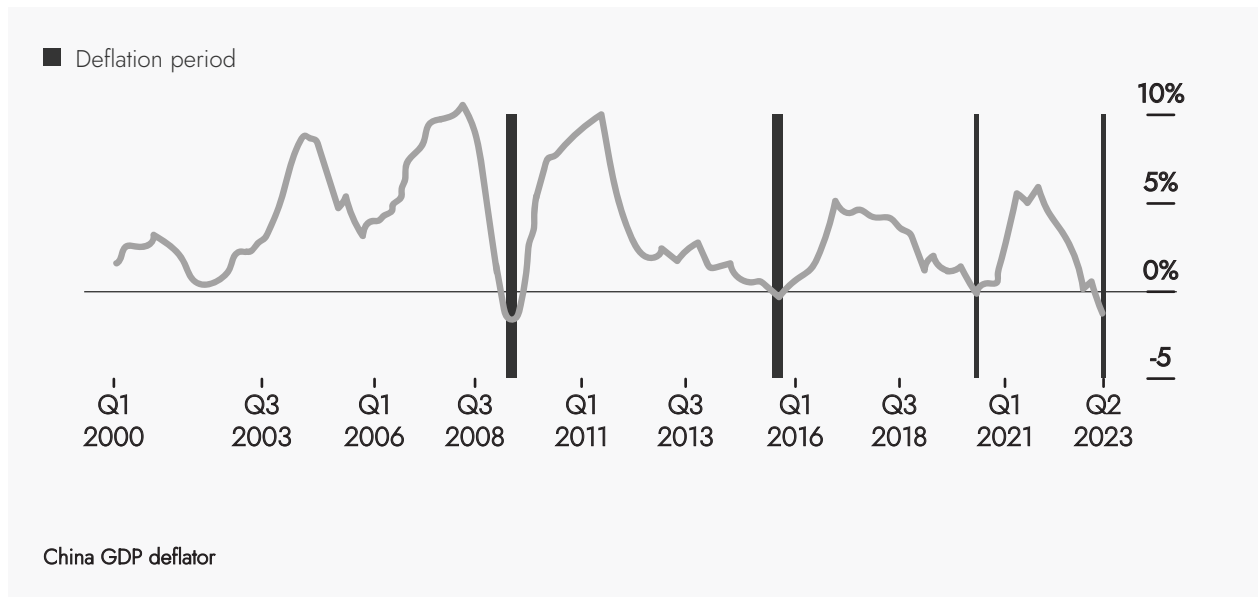
China Disappoints



Source: Bloomberg, (Source: Citigroup) Index reflects how economic performance compares to analysts’ forecasts. When negative performance is generally worse than expected.

Chart 2: China runs the risk of slipping into deflation

Bucking a Global Trend



Source: Bloomberg. (Source: China National Bureau of Statistics, compiled by Bloomberg) Index measures the difference between the nominal and real growth rate of China's GDP and serve as the broadest measure of price in the economy

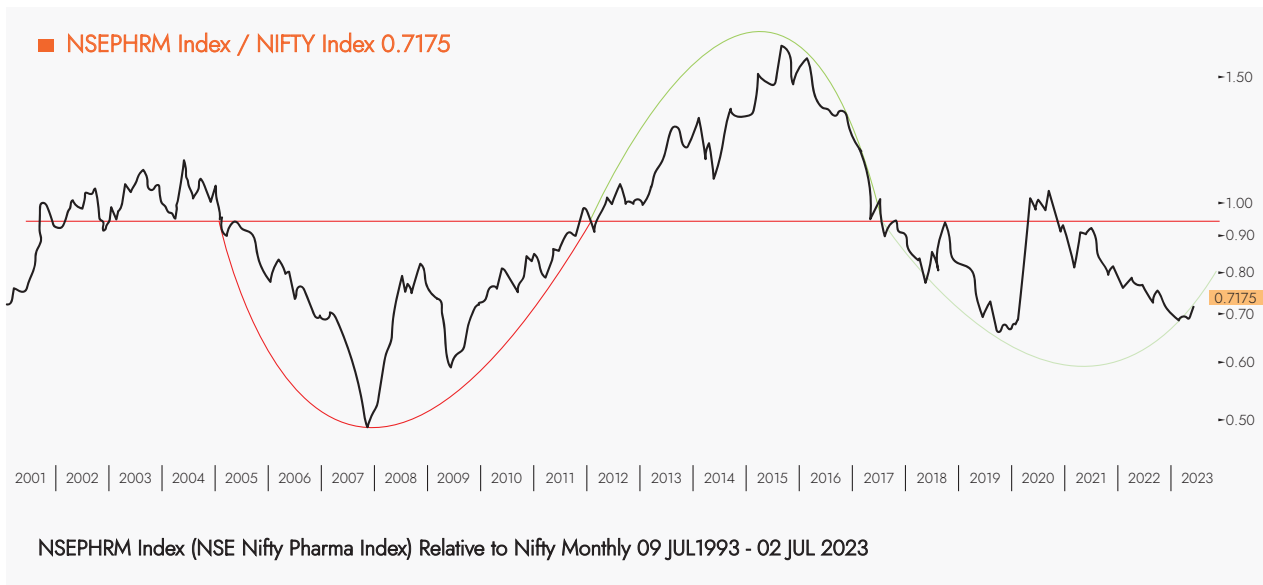
Chart 3: Earnings surprise

Are we close to a cycle top? The volatility that we saw in July also supports the thesis. While the Nifty was up 2.9% in the month, stock/ sector rotation and Nifty movement were both very choppy. While we generated a decent return in the stock book, our Nifty positions got stopped out a few signs, and we got conflicting signals. We closed the month flat – which was a tad disappointing.

PHARMA: THE CURVE IS TURNING

Ambit 365 is trying to capture the acceleration momentum into pharma sector - where the curve is bottoming from the trough. Nifty Pharma / Nifty ration recently testes the 2000 (covid lows).

Chart 4: Pharma sector at the inflection point



Source: Bloomberg

Catalyst

- i) Drug Shortages in the US market leading to lower pricing erosion (double-digit to mid-single digit) and resulting into improved revenue growth (companies reported mid-teen growth in the US market);
- ii) New launches in the speciality & complex generics and core molecule (gRevlimid) to provide stronger revenue visibility & portfolio consolidation by MNC companies;
- iii) Strong IPM growth consecutive four months, especially volume growth has picked up.

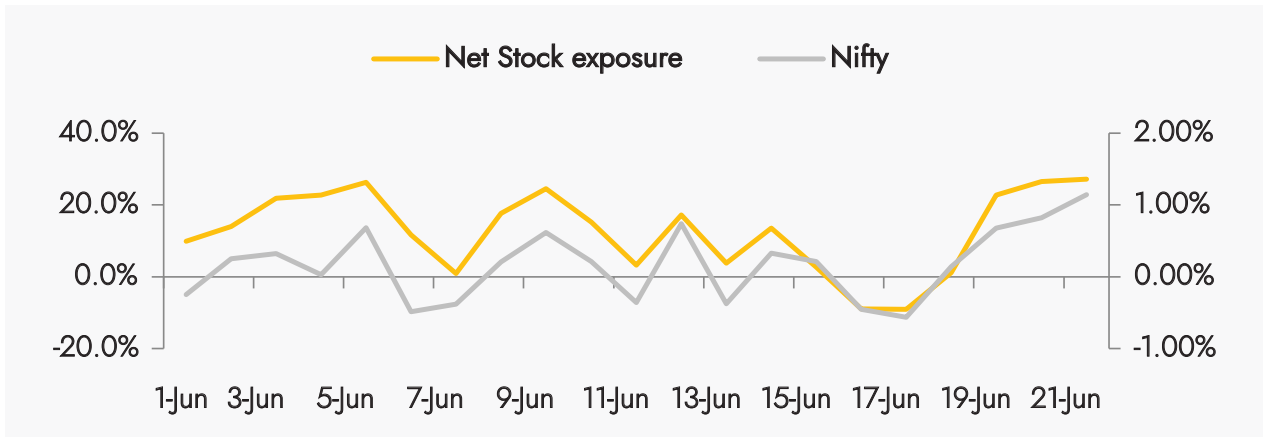
Overall, most of the pharma companies' valuations are discount to long-period average; Ambit 365 built positions in Dr Reddy's and Sun Pharma during the June month.

PORTFOLIO

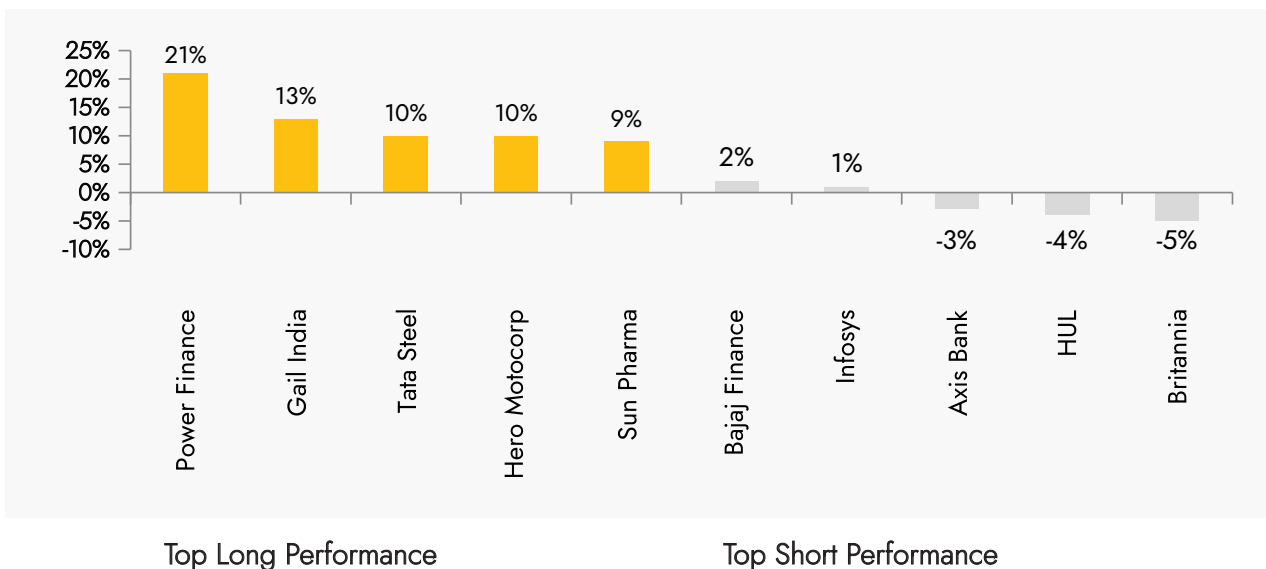
One key change we made in the long book this month is we built position towards utilities sector as we find sectors' fundamentals turning around along with favourable risk-reward ratio. We completely exited Titan during the month as we found better opportunity with relatively lower risk towards Pharma & Utilities stocks. We played ABB as one of our core long for very long time & finally exited during the month as we found the risk-reward unfavourable plus parent order growth moderation from Indian subsidiary. We reduced our position towards Financials as we expect the margin moderation plus higher opex growth to moderate the earning growth going ahead.

Most of our short book is constructed of names where we see earnings risk, or relative slower earnings. During the month we build higher allocation towards banks & NBFCs as we started witnessing margin compression plus cautious commentary towards consumer lending on account of rising competitive intensity & increasing asset quality trend. However, among the IT sector we witnessed higher miss for most of the companies on growth resulting into earnings & valuation de-rating, where we initiated short position

PORTFOLIO EXPOSURE MOVEMENT



PORTFOLIO ATTRIBUTION



*For 31st July 2023

PERFORMANCE

Our portfolio delivered a return of 0.2% this month vs. 2.9% Nifty return. On the net stock book we delivered positive attribution of 80bps while Nifty we failed to play the rising trend & delivered negative 80bps.

Since, the start of the CY23, Ambit 365 has been able to deliver 4.5% on YTD basis vs. 11.7% for Nifty.

July'23		1M	3M	6M	CYTD	SI
Serum 1	60 Cr	0.2%	0.2%	3.1%	4.5%	4.9%
	100 Cr	0.1%	0.1%	2.7%	2.4%	2.9%
Serum 2	30Cr	0.5%	0.5%	2.7%	4.1%	0.5%
	50Cr	0.3%	0.3%	1.6%	2.4%	0.3%
Prop book						

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