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BayFort Capital: January 2025 Portfolio Review

BayFort Capital's Global Leaders Portfolio delivered a 3.16% return in INR (2.3% in USD) for January. In comparison, the large-cap S&P 500 index gained 3.56% (INR), while the small-cap Russell 2000 rose by 3.44% (INR). Market sentiment was heavily influenced by a series of rapid policy announcements from the Trump administration following the January 20 inauguration. Additionally, the introduction of DeepSeek's ultra-low-compute AI LLM model over the January 26 weekend raised concerns about the potential disruption of the semiconductor industry. Investors questioned whether these cost-efficient models could reduce the need for multi-billion-dollar chip investments, leading to fears of overcapacity in the datacenter sector. As a result, markets—particularly the tech sector—saw a notable decline in the final week of January. We believe the impact of DeepSeek on the U.S. tech sector is being interpreted too quickly and simplistically. While some tech. companies may face challenges, others stand to benefit from the increased efficiency of DeepSeek's LLMs. As a result, we continued to increase our exposure to companies poised to gain from this innovation throughout the last week of January.

Net Returns, INR (Jan. 31, 2025)	1 Month	YTD	1 Year	2 Years	Inception* Annualized	Inception* Cumulative
BayFort Capital Global Leaders Advisory Portfolio (INR)	3.16%	3.16%	29.18%	35.20%	31.44%	102.64%
S&P 500 (INR)	3.56%	3.56%	30.11%	25.41%	24.28%	75.32%
NIFTY 50 (INR)	-0.58%	-0.58%	8.25%	15.37%	16.68%	48.98%

* Annualized (CAGR) Since Inception on July 1, 2022

In January, the top-performing S&P 500 sectors were Healthcare (+6.76%), Financials (+6.5%), and Comm. Services (+5.75%). Technology (-0.74%) was the weakest, followed by Consumer Staples (+0.47%) and Real Estate (+1.84%). Stock gains in January weren't broad-based. The large-cap Tech stocks caused the S&P 500 to underperform the equal-weight S&P 500 Index (+3.4%) by 70 bps.

Asset	1M	3M	6M	1Y	3Y
	Return (%) - Jan 31, 2025				
Information Technology	-0.74	4.03	5.85	17.56	13.48
Consumer Discretionary	3.49	18.14	24.32	36.96	8.80
[Benchmark] S&P 500	2.69	6.19	9.96	26.23	11.81
Financials	6.50	11.21	18.60	34.88	11.66
Industrials	5.00	3.90	9.10	24.38	13.00
Communication Services	5.75	11.52	20.01	36.41	12.57
Healthcare	6.76	0.45	-1.03	6.28	5.49
Materials	5.53	-4.43	-2.70	9.96	3.79
Utilities	2.89	-1.73	8.61	30.76	7.28
Consumer Staples	0.47	-0.67	2.76	11.35	4.02
Energy	2.31	-0.24	-4.40	8.56	14.05
Real Estate	1.84	-3.09	2.35	12.45	-0.98

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A few important points to consider as we think about the rest of the year.

1) Valuations: The S&P 500's forward P/E ratio of 25.5 indicates that valuations are not in bubble territory, reducing the likelihood of a market downturn triggered by valuation concerns. Moreover, earnings for the equal-weighted S&P 500 index are expected to increase by 14% in 2025, compared with a forecast of just 2% growth in CY-24.

2) Economic Outlook and Fed Policy: The US economy is gradually transitioning towards a soft landing, supported by the Federal Reserve's measured approach to monetary policy normalization. The Trump administration's tax cuts, lower government spending (deficits), and business-friendly policies will further strengthen the economic outlook. With minimal credit risks, excess capacity, asset bubbles, and global rate cuts providing additional tailwinds, the US economy is projected to maintain a steady growth trajectory.

3) Inflation Risk in the US: Concerns about inflation driven by tariffs on Chinese imports are largely unfounded. President Trump is unlikely to immediately impose a 60% tariff on all Chinese goods. Instead, a phased and gradual approach over several years is expected, allowing industries time to adapt supply chains and mitigate inflationary effects. Consequently, inflation from tariffs is not seen as a significant risk to the U.S. economy. Higher inflation expectations in CY-25 hurt the market sentiment with the yield on the 10-year Treasury bond rising to 4.57% in January, after closing at 4.17% in November.

Investment Strategy: Our Global Leaders Portfolio continues to invest in companies that are at the forefront of innovation, generate robust cash flows, and have demonstrated resilience in challenging market environments. We believe that the current market conditions present a compelling opportunity for both new and existing investors to participate in the long-term growth of the global knowledge economy.