

## America Powers On...

### Highlights from My U.S. Trip

April 25 - May 15, 2025

#### Thursday, May 15, 2025

I am aboard Air India flight AI 116 from New York to Mumbai with my wife, Nilima, and my older son, Aditya (he is part of the investment team at Nepean Capital), penning notes from my last three weeks in the U.S. The trip was part work and part holiday, covering New York, Omaha, Jackson Hole/Grand Teton National Park and the Yellowstone National Park. The first five days were in New York to break journey before embarking for Nebraska to hear the Oracle of Omaha, Warren Buffett. It's been on my bucket list to attend the Berkshire Hathaway (BRK) annual shareholder's meet. Little did I know that it would be his last as CEO. Here are the highlights from the trip:

**Inflation is still raging relative to pre-COVID:** I rank the U.S. as among the most expensive countries in the world to holiday in. Refer to the notes of my U.S. visits in October 2023 titled, *Recession ? What Recession ?* ([https://nepeancapital.com/pdf\\_34](https://nepeancapital.com/pdf_34)) and May 2024 titled, *Still No Signs of a Recession* ([https://nepeancapital.com/pdf\\_45](https://nepeancapital.com/pdf_45)). Frankly not much has changed since. In fact, many things have become more expensive, and I am comparing apples to apples in the Big Apple. The cost of hotels, eating out and shopping continue to remain elevated. Any half decent hotel in midtown Manhattan is north of \$350-\$450 a night (breakfast is extra). Highly rated restaurants demand reservations weeks in advance and charge \$20 per person as cancellation fee.

Coffee at *Peet's Coffee* at Terminal 4 at JFK (it's one of my benchmarks for judging inflation trends in the U.S.) is even more expensive today. Sample this: A medium cappuccino that cost \$5.40 in October 2023 now costs a dollar more and a medium latte now costs a whopping \$6.55 +21%. A simple cucumber + celery juice at *Joe & the Juice* cost me an outrageous \$15.00.



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**Travel is booming:** Our hotels in Jackson Hole and Yellowstone were full, despite the season starting three weeks later. We took eight flights in three weeks and every one of them was packed to capacity, much like most flights that I have been on in India in the past six months. For example, we transferred at Denver airport (DEN) on our way to Jackson Hole/Yellowstone. The airport was bustling with activity as hordes of people were either rushing to catch their flights or were arriving into Denver. The website says and I quote: *In 2024, DEN welcomed a record-breaking 82.4 million passengers, a 5.8% increase over the previous year. DEN is Colorado's primary economic engine, generating \$47.2 billion in annual economic impact for the state. It ranks as the 3<sup>rd</sup> busiest in the U.S. and the 6<sup>th</sup> in the world.*

The scale of the infrastructure in the U.S. doesn't cease to amaze me, as do the size of cars, malls and portions of food at restaurants. The good news for India is that over the past 11 years, the Modi government has focused its energies on building out just that, i.e. roads, highways, power, et al. The number of operational airports in India under the Modi regime has doubled from 74 in 2014 to 157 today, with the government planning to increase the number to 350-400 by 2047. Two large airports will open this year (Noida and Navi Mumbai) with a combined initial capacity of 32 Mn passengers annually and eventually expanding to 160 Mn. We are playing that growth via Interglobe Aviation (which operates India's largest airline, Indigo) in our India public market fund.

**Labor shortages very visible:** While JFK's Terminal 4 has 16 immigration booths, only seven had officers processing incoming passengers. And hence the wait time was almost 1.5 hours. Not good for one of the busiest airports in the world and the gateway to the U.S. for most international tourists. Similarly, I found restaurants and hotels stretched with limited staff.

#### **Feedback from Fund Managers and Asset Allocators:**

- In the U.S., 2025 was expected to be the year of large exits by PE funds but given all the uncertainty around tariffs, investors think it is unlikely to happen. As a result, distributions to LPs have gotten delayed.
- The second order effect of that has been that fund raising cycles have gotten drawn-out. I was told that some of the largest PE funds have been in the market for the past 15-18 months and still haven't been able to close their new raises.
- Foreign ownership of the U.S. equity market is 18%, a record high. But money is now flowing out of the U.S. and going overseas into equity markets like the EU and some to EMs.
- China remains a no-go for most funds for now but that will change if relations with the U.S. improve. The U.S.-China tariff war is front page news.
- The probability of a U.S. recession this year just got lower with the 90-day agreement on tariffs between the U.S. and China. The S&P500 has rallied 19% from its April low. Meanwhile, spending by consumers remains robust and doesn't show any signs of slowing down.
- Corporate earnings in the U.S. are still strong. 1Q net income for the S&P500 grew 12%, of which the MAG 6 reported an average 28% growth (doesn't include NVIDIA which reports on May 28) and the 493 others grew 9%, exceeded consensus earnings estimates by 16%.
- Most felt that given low unemployment and high inflation (relative to pre-COVID), it is improbable that the Fed will cut rates anytime soon.
- Investors think India seems to have gone from *very expensive* to *expensive*. It's unlikely to go to *moderately expensive* anytime soon given the strong domestic flows unabated for the past 48 months (net inflows of \$60 Bn in 2024 + another \$27.8 Bn YTD). This year, foreigners who had net sold as much \$14 Bn upto the last week of March have returned with over \$4 Bn in the past six weeks, taking India's market cap to \$5.2 Tn.
- A common question was: Why are Indian retail investors so focused on investing in the domestic market and not overseas? Do note that every Indian is allowed to remit only \$250,000 abroad each year. While that's a million dollars for a family of four, it comprises *all* foreign expenses,

including holiday travel, shopping, family support, overseas education and healthcare. Moreover, the growth in the domestic economy is so strong that most Indians don't bother investing abroad.

- I found that U.S. investors didn't seem too concerned about the India-Pakistan conflict and believe it is over. Media coverage of the event was overshadowed by President Trump's tariffs, his visit to the Middle East and other domestic issues. The NIFTY50 has recovered 4.2% since hitting a low of 24,000 on May 9<sup>th</sup>. In the four India-Pakistan conflicts since 2000, the NIFTY50 saw a median drawdown of 4% within the first 10 trading days and recovered in a month from the event day. In fact, the markets rallied 34% during the three-month Kargil War (May-July 1999).
- Another question that investors asked was, how big a deal are potentially higher U.S. tariffs on India. The fact is, last year India's merchandise exports to the U.S. were only \$80 Bn (or 18% of total goods exports of India and a mere 2% of GDP). India's trade surplus with the U.S. was \$46 Bn, significantly lower than China's \$292 Bn and Vietnam's \$123 Bn. That said, we believe that this is an opportunity for India to gain export market share from China, Vietnam and Mexico by playing the tariff arbitrage in industries ranging from footwear to garments to electronics. The Modi government is focused on improving the ease of doing business, tax laws and infrastructure. The poster child is Apple which last year made \$22 Bn worth of iPhones in India, +60% YoY. Today one in five iPhones sold globally are *Made in India*.
- When asked which were the fast-growing sectors in India, I pointed to EMS, GCCs (global capability centers), Travel & Tourism, Real Estate and Power (power is a multi-decadal growth story and after Financials it's the second highest sector allocation in the Nepean India Fund).
- We debated the impact of AI on Indian IT companies over the next few years. I think AI agents are likely to become a reality over the next 12-18 months and will start to neutralize the labor arbitrage that has enabled the growth of the Indian IT sector and the GCCs. This will impact both urban consumption and commercial real estate.
- Several investors wanted to know how Chinese EV companies were faring in India; some were not aware that BYD is sold in India. I gave them insights into the auto market given that I sit on the board of Landmark Cars (listed), India's largest premium cars dealer representing BYD, Mercedes-Benz, VW, Honda Motors, JEEP, Renault, MG Motors, Mahindra & Mahindra and KIA. While EVs account for 8% of the overall Indian auto market, Indians are warming up to going green. My neighbor just bought a TATA Nexon and is very happy with his purchase.

**Visits to Costco and Walmart:** This has become a standard feature of all my semi-annual U.S. trips. I enjoy spending a couple of hours studying their new products, whether made in the U.S. or overseas, and looking for *Made in India* products. And yes, I am a member of Costco, lest you think I am sneaking in.

Whether the U.S. likes it or not, I found *Made in China* still dominates. India lags China, which I believe is not necessarily a negative but an opportunity. Unlike the price of coffee, prices of garments at both stores haven't been raised. That said, last week Walmart threatened to increase prices on certain goods much to the chagrin of the White House. Listed below are garments with their countries of origin:

- Costco's private labels were made in China (almost two-thirds), followed by Mexico, Honduras, Cambodia, Vietnam, Pakistan, Peru and a new entrant, Kenya.
- Nike Sweatshirts: Sri Lanka
- Levi's Jeans: Bangladesh
- Banana Republic Long Sleeve Polos: China
- Quicksilver T-shirts: China
- Greg Norman Men's Polo: India
- Walmart's private label, George: India
- Beach Towels: India





## The Omaha Experience

On the Delta flight from New York to Omaha, I noticed a passenger poring over the BRK annual report and furiously making notes. I would look out for him during the Q&A. Separately, the pilot informed us that this year Delta is celebrating its 100<sup>th</sup> year. I think it is remarkable that an airline has survived the cyclicity of the tough aviation business for so long.





Attending the BRK annual shareholders' meet was an amazing experience. We queued up at 4 am and waited for four hours before the gates to the CHI Health Center opened. People rushed in to get to the seats nearest to the podium where Mr. Buffett, Greg Abel and Ajit Jain were seated. At the end of the event what stood out most was Warren's simplicity, humility and common-sense approach to investing. He leaves behind some very big shoes to fill. The question is, will he appear at next year's shareholders' meet or will Greg Abel be able to attract the crowd of some 40,000 people who have been flocking to Omaha each year? Frankly, I am keen to return in 2026.

The shareholders' shopping day that starts a day before, i.e. Friday, May 2 was also great. Berkshire had several of its investee companies display and sell their products ranging from chocolates from See's Candies, innerwear & tees from Fruit of the Loom to RVs from Forest River RV. To my delight, I found Warren Buffett tees for sale, proudly made in..... *India*.



*On a lighter note....*

**Grand Teton and Yellowstone** were breathtaking. We had four bear sightings, saw plenty of Bison and Elk but alas, no Moose. At one stretch of Yellowstone, we parked beside some 20 cars and SUVs to watch a mama bear and her three cubs foraging in the woods. A park ranger walked up to the crowd, motioning them to be quiet and said something I will never forget, '*Remember we are on their land.*'



One of the many things that I admire about the U.S. is the way they have protected their national parks and allowed their ecologies to thrive. The National Park Service (NPS) website says, and I quote: *The National Park Service preserves unimpaired the natural and cultural resources and values of the National Park System for the enjoyment, education, and inspiration of this and future generations. The National Park Service cooperates with partners to extend the benefits of natural and cultural resource conservation and outdoor recreation throughout this country and the world.* I think India should take a leaf out of the NPS experience and learn their best practices to protect its own national parks.

Apparently, the Yellowstone National Park was established as the world's first national park on March 1, 1872 and is spread over 2.2 million acres across three states, Wyoming, Idaho and Montana. Our otherwise incredible experience in Yellowstone was marred by our stay in the historic hotel, the *Old Faithful Inn*. Located on the edge of the *Old Faithful* geyser, it is the world's largest log cabin hotel with 327 rooms. While the lobby is lovely, near *Disneylandesque*, the rooms are at best 2-star but at 5-star prices. What's worse is that it has no WiFi even though its sister property, the *Snow Lodge* which is a five-minute walk away, offers it. The only mobile service that does work is that of Verizon. And hence we were compelled to sprint to the *Snow Lodge* to download messages and make WhatsApp calls.

Another first was encountering the *Huckleberry*. It is a small berry that resembles a blueberry and has a bold, sweet-tart flavor that is richer and more complex than blueberries. Oddly I couldn't find an actual huckleberry at any supermarket, but what was on sale were a variety of themed products, namely chocolates, ice-cream, lip balms, lotions and even wine ! This reminds me of how a couple of years ago the craze for *Pumpkin Spice* had pervaded all sorts of commercial goods, from Oreos, Twinkies, Pop Tarts, cake mixes, breakfast cereals, snack foods, ramen, to even beer and dog biscuits. As if that weren't enough, pumpkin *spiceification* had crept into nonedible products such as air fresheners, beard oils, trash bags and detail sprays. I wonder how much *huckleberryfication* is coming. Google says that the phrase, '*I'll be your huckleberry*' means, '*I'll be your buddy/best friend.*'

**Flying Air India:** Believe it or not, people's experiences on India's second largest airline make good cocktail conversations at home. Venturing on to an Air India flight has been a hit or a miss, with everyone in India having their favorite story. We arrived in New York on Friday, April 25<sup>th</sup> on Air India, still the only non-stop flight from Mumbai; all U.S. airlines stopped flying right after the start of the Russia-Ukraine War. To our surprise and relief, the aircraft was relatively new and clean. More importantly, the crew was very courteous, and their average age was half what it used to be under government ownership.

The inflight entertainment worked without a glitch and had a wide choice of Hollywood & Bollywood movies and TV shows. (*I got through several episodes of Star Trek Discovery's Season 5*). Nilima, like a true Gujarati, had packed *theplas* (a delicious Gujarati bread made of whole wheat, millets, methi/fenugreek & spices) as a precaution but we didn't need them as the food onboard was wonderful. Do consider flying Air India on your next visit as the non-stop to Mumbai takes a mere 15 hours.

While it's been nearly four years since the government sold the airline to the Tata Group, the transformation from a PSU (public sector undertaking or SOE as they are called in China) to a private enterprise has been painstakingly slow but is surely happening. Hopes of a turnaround are high, as the Tatas are not new to the travel & tourism industry. They own TAJ, India's largest hotel chain, which added 100 new hotels (2,356 keys) in the past 12 months alone. Its CEO, Puneet Chhatwal, has done an extraordinary job after assuming office around seven years ago; the stock has risen 6.5x since to cross \$12 Bn in market cap.

**We are hosting Puneet on the Nepean Capital Leadership Series podcast on Thursday, May 22 at 6 pm India/8:30 am EDT/8:30 pm Asia/1:30 pm UK. Do log in.**

**Zoom link:** <https://us06web.zoom.us/j/84472755449>