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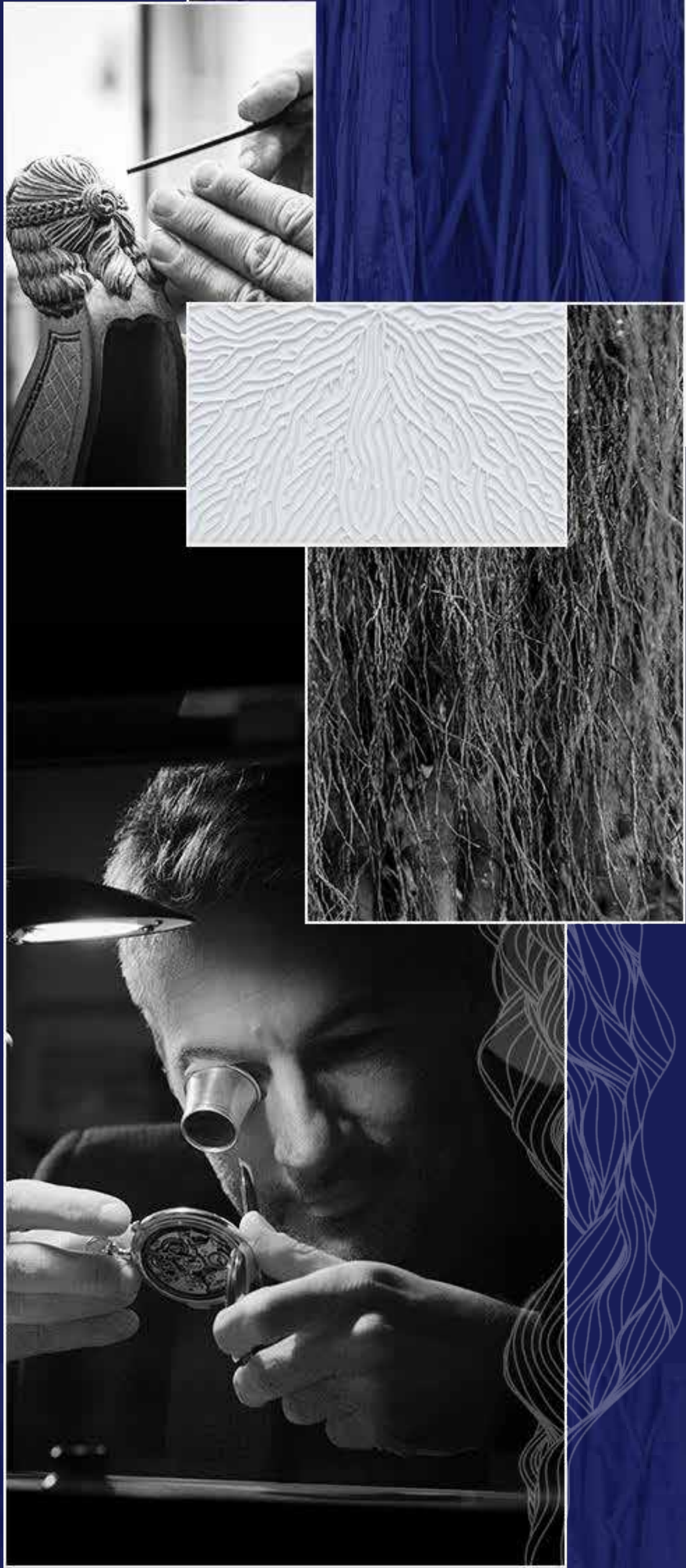

NEWSLETTER JANUARY 2023

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Market Outlook

Global Outlook

Global growth in CY22 has been slowed as a result of inflationary pressures, sluggish commerce, and restrictive economic circumstances, which continue to hurt economic activity. In comparison to other developed markets, the US economy performed better thanks to strong retail sales, a stable consumer mood, and a tight labour market. Despite some central banks raising worries about growth and the potential need for lesser rate increases, the majority of central banks are still in the tapering mode and are raising their policy rates. The US Fed increased the Federal Funds rate by 50 basis points to 4.25–4.5%, as anticipated.

We think that, while generally neglecting other important factors, global equity markets appear to be overly fixated on only one particular "story" in each market. The "one-trick" factors are: (1) China's reopening; (2) India's growth; and (3) the US Federal funds "terminal" rate. We can only hope that neither these elements nor any more unfavourable tales overshadow the current narratives.

CHINA:

The Chinese market has experienced a remarkable resurgence over the last month, which suggests that the market is pretty confident that China will abandon its zero-Covid policy soon. Although it appears to be preparing for a gradual withdrawal from its zero-Covid policy (ramp-up in vaccination coverage for people over 60, loosening of controls in several cities and provinces), we observe that official communication from China is still inconsistent. In the context of history, market valuations in China appear to be pretty reasonable.

US:

The US stock market has experienced a significant comeback over the last three months (+5%), which suggests that the market is relatively confident about a "pivot" by the US Fed in its monetary policy over the coming few months. The dot plot demonstrated that the FOMC members anticipated the terminal rate to be greater than 5% by the end of CY2023.

EUROZONE:

Though most indicators are still weak, the decline in sentiment has been temporarily prevented by lower natural gas prices, which are the result of the exceptionally warm autumn weather. Given the steep decline in retail sales in October, a recession during the winter quarters is still extremely plausible, though perhaps not to the extent we had anticipated. After that, growth will be at best moderate as higher interest rates start to bite, energy prices are likely to stay high, and the budgetary stimulus will eventually run its course in 2023.

Source: WCA Research, Goldman Sachs Investment Research, Kotak Securities, News Articles.

Global Parameters

UNITED STATES	Q1CY22	Q2CY22	Q3CY22	Q4CY22
GDP (% QoQ, annualised)	-1.6	-0.6	2.9	2.1
CPI headline (% yoY)	8	8.6	8.3	7.4
Federal fund rate (%)	0.5	1.75	3.25	4.5
10-year interest rate (%)	2.4	3	3.75	3.75
Gross public debt/ GDP				99.9
EUROZONE				
GDP (% QoQ, annualised)	2.7	3.1	0.8	-1.6
CPI headline (% yoY)	6	8	9.3	10.2
10-year interest rate (%)	0.6	1.4	2.1	1.9
Gross public debt/ GDP				98.7
JAPAN				
GDP (% QoQ, annualised)	0.2	4.6	-1.2	3.2
CPI headline (% yoY)	0.9	2.4	2.9	3.8
10-year interest rate (%)	0.25	0.2	0.25	0.25
Gross public debt/ GDP				270
CHINA				
GDP (% QoQ, annualised)	4.8	0.4	3.9	-0.4
CPI headline (% yoY)	1.1	2.3	2.5	2.1
10-year interest rate (%)	2.8	2.75	2.75	2.95
Gross public debt/ GDP				129
UK				
GDP (% QoQ, annualised)	2.8	0.9	-0.7	-0.05
CPI headline (% yoY)	6.2	9.2	10	10.9
10-year interest rate (%)	2.5	2.25	4.1	3.2
Gross public debt/ GDP				97.5

Source: WCA Research, Various Central Banks, Kotak Securities, News Articles.

India Outlook

Russia's invasion of Ukraine and its effects on commodity markets, supply chains, inflation, and financial conditions have steepened the slowdown in global growth. One key risk was the possibility of high global inflation accompanied by tepid growth, reminiscent of the stagflation of the 1970s, which eventually resulted in a sharp tightening of monetary policy in advanced economies, and lead to financial stress in some emerging markets and developing economies. Monetary policy should stay the course to restore price stability, and fiscal policy should aim to alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy. IMF predicts global growth to slow from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023. This is the weakest growth profile since 2001, except for the global financial crisis and the acute phase of the COVID-19 pandemic. Amongst all these factors, World Bank predicts India to grow at 6.9% in FY23 and 6.6% in FY24. Also, Fitch Ratings has retained India's growth forecast at 7% in FY23, 6.2% in FY24, and 6.9% in FY25. We (KIE) expect Indian GDP to grow at 6.8% in FY23 and 6% in FY24, while other EM economies are expected to grow at a slower pace.

India is already the fastest-growing economy in the world, having clocked 5.5% average gross domestic product growth over the past decade. Three megatrends - global off-shoring, digitalization, and energy transition are setting the scene for unprecedented economic growth in the country. India is set to surpass Japan and Germany to become the world's third-largest economy by 2027 and will have the third-largest stock market by the end of this decade. India's GDP could more than double from $3.5 trillion today to surpass $7.5 trillion by 2031.

IMF GDP PROJECTIONS FOR DIFFERENT COUNTRIES AS ON OCTOBER 2022 IN %

COUNTRY	CY21	CY22E	CY23E
Global	2.9	3.0	3.0
Advanced Economies	2.6	2.2	1.9
United States	2.5	2.4	2.0
Euro Area	2.5	1.9	1.9
Japan	1.7	1.3	0.6
China	4.3	5.2	5.1
Indonesia	5.1	5.3	5.3
Thailand	2.9	4.3	3.9
India	7.5	7.1	6.5
Turkey	2.3	3.2	4.0
Brazil	1.5	0.8	2.0
South Africa	2.1	1.5	1.8

Source: IMF

Top 10 Surprises for 2023

A year without surprises would be a surprise in itself. Given every year comes with some, we discuss 10 that would make investors think differently and move global macro markets.

Surprise #1: Covid-19 in China leads to global deflation fears: An overloaded healthcare system in China leads to weaker growth, lower commodity prices, fears of global deflation, a weaker USD vs. EUR but stronger USD vs. EM, earlier DM rate cuts and steeper DM yield curves.

Surprise #2: The Fed doesn't cut rates, even in a recession: Even as growth moves into recession territory, inflation stays sticky and lags growth, keeping the Fed on hold through 2023 amid a recession - much like Paul Volcker's Fed in 1982.

Surprise #3: Dysfunctional UST market forces Fed to pause/end QT: Challenged liquidity continues to pose a threat to Quantitative Tightening and could force the Fed to intervene next year.

Surprise #4: 2H23 ECB rate cuts on sharply falling house prices: An acceleration in the decline in house prices, leading central banks to cut rates as soon as 2H23.

Surprise #5: Renewed gilt underperformance due to net supply: Lack of a compositional change in supply leads to a high net Dollar value of 1 basis point (DV01) issued in FY 2023- 24 and hence gilts underperform other bond markets.

Surprise #6: Nothing from the BoJ: The BoJ keeps the status quo even under the new BoJ governor, given a global growth slowdown and lack of a wage-inflation spiral.

Surprise #7: The bull case for GBP: A material fall in energy prices, the return of labor supply, and/or a more resilient consumer could lead to a constructive UK growth (and hence GBP) outlook.

Surprise #8: Citizens could cushion a Canadian condo crash: A surge in immigration prevents a housing crash from lifting USD/CAD.

Surprise #9: The Fed reviews its 2% target: The 2025 framework review encourages the Fed to consider altering its inflation target amid mounting political pressures.

Surprise #10: EUR and UK breakevens heading to record highs: De-risking from pension schemes amidst low linker supply could send breakevens to new highs in both markets.

Source: WCA Research, Morgan Stanley, News Articles.

How can Wodehouse Capital Advisors help?

Wodehouse Capital Advisors has extensive network and prior experience across each of the service vertical

Family Office Services

- Investment Management
- Succession Planning
- Real Estate Advisory
- Business Consulting
- India Entry Strategy

Merger & Acquisitions

- Buy Side Representation
- Sell Side Representation
- Bolt- On- Acquisitions

Debt

- Structured Finance
- Refinancing
- Additional Funds for Set-up

Equity

- Growth Capital
- Strategic Capital

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