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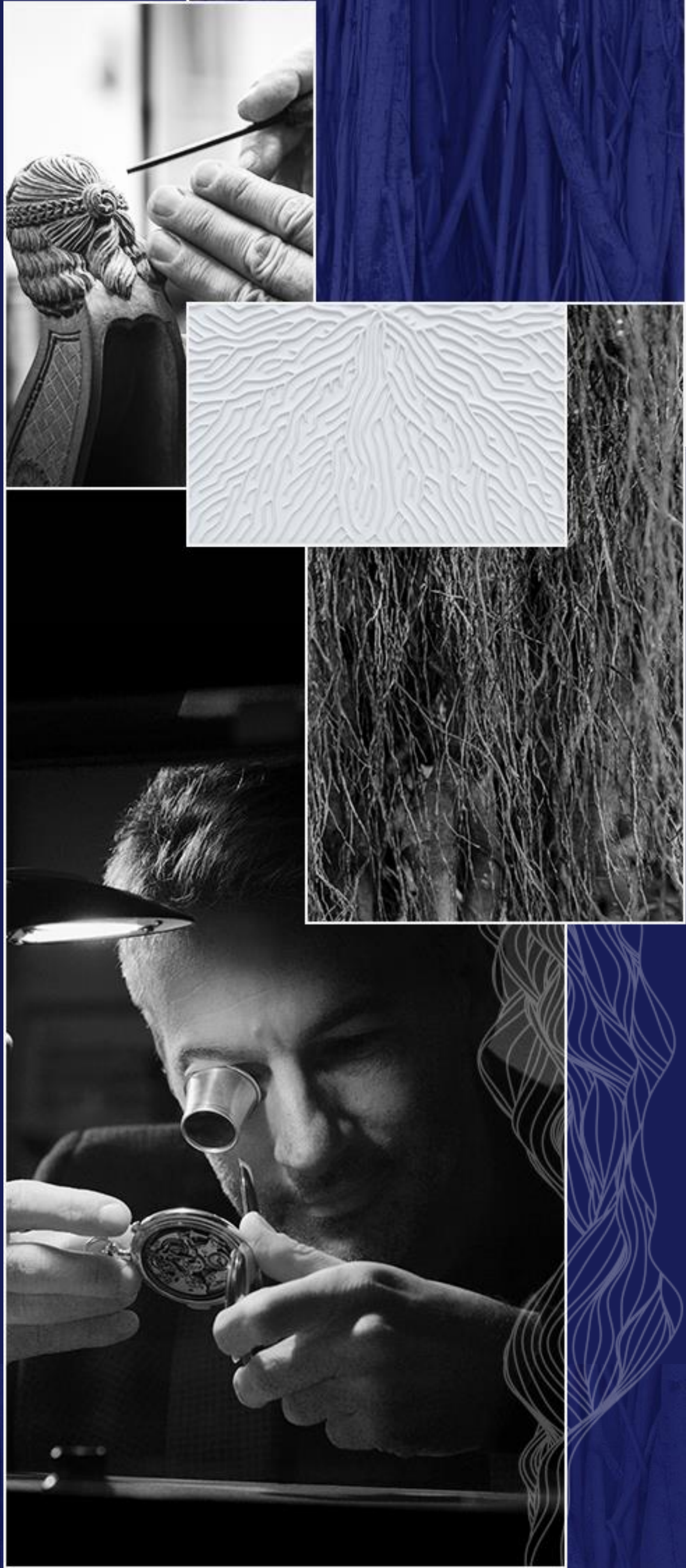

NEWSLETTER AUGUST 2022

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India – Market Outlook

Introduction

Recession: Are we heading into one?

Investors today are navigating economies in the late stages of the business cycle. There have hardly been times in the history of the global economy when Inflation is at a record high and unemployment at record lows. Underlying growth appears robust but increasingly vulnerable to downside risk, leading to downward revisions in growth forecasts. Inflation, already high, will soon start cooling down on account of lowering commodity prices and global recessionary fears. During periods of acute volatility, it's helpful to take a long-term view of financial markets not only to put recent swings in context but to prepare for what may lie ahead.

Russia's war with Ukraine has redefined political partnerships, presenting a tailwind for commodity markets and an opportunity for industrial companies that can supply materials historically supplied by Russia. The war has kick-started a new cycle of investment in many commodities, after multi-years of under-investment.

The International Monetary Fund (IMF) in July 2022, slashed India's economic growth forecast to 7.4% from 8.2% it estimated in April, citing the economy's vulnerability to external shocks and rapid monetary policy tightening. The rise in crude oil, food, and fertilizer prices will weigh on household finances and spending in the coming months. Rate increases by RBI to prevent energy and food inflation from becoming more generalized which in return would slow down the demand recovery's momentum.

Market Watch							
Indian Equities	**Jul-22**	**Jun-22**	**1 Month**	**Currency**	**Jul-22**	**Jun-22**	**1 Month**
Nifty50	17,158	15,780	8.73%	INR/USD	79.336	78.95	-0.49%
S&P BSE Sensex	57,570	53,019	8.58%	INR/EUR	81.06	82.755	2.05%
S&P BSE Mid Cap	24,051	21,713	10.77%	INR/GBP	96.52	96.12	-0.41%
S&P BSE Small Cap	27,056	24,786	9.16%	INR/JPY (100)	59.52	58.51	-1.73%
Global Equities				**Economic Data**			
Dow Jones (US)	32,846	30,780	6.71%	10-year G-Sec (%)	7.32	7.45	-1.74%
Nasdaq (US)	12,948	11,504	12.55%	CPI Inflation (%)	-	7.04	-
FTSE 100 (UK)	7,423	7,169	3.54%	Export Growth (%)	-	-	-
Nikkei 225 (Japan)	27,802	26,393	5.34%	US Dollar Index (DXY)	105.98	104.68	1.24%
Hang Seng (Hongkong)	20,157	21,860	-7.79%	IND Volatility Index (VIX)	16.55	21.84	-24.22%
Commodity				**Deposit Rates (SBI)**			
Gold (INR/10 gms)	51,365	50,719	1.27%	1-Year (%)	5.3	5.3	-
Silver (INR/10 gms)	587	593	-1.00%	3-Years (%)	5.35	5.35	-
Brend Crude ($/bbl)	110	115	-4.18%	5-Years (%)	5.4	5.4	-

Source: Investing.com, SBI, Motilal Oswal Private Wealth.

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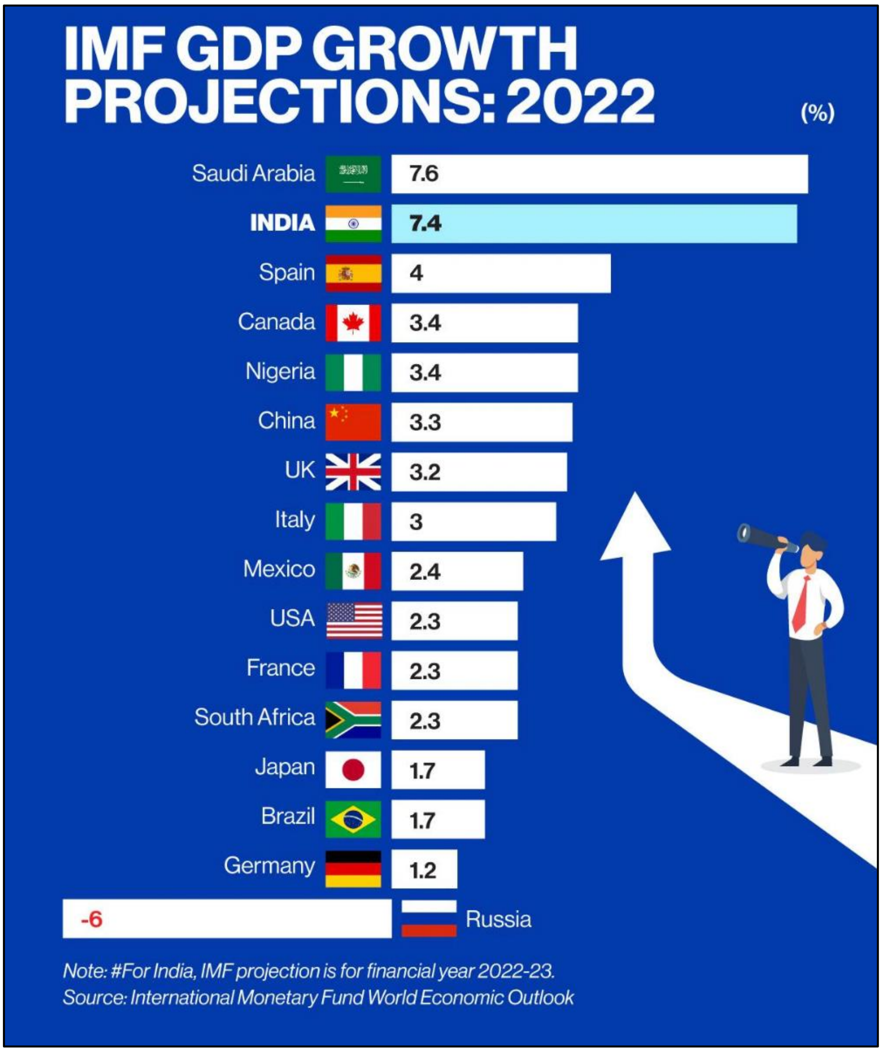
Global Growth & Outlook:

The International Monetary Fund (IMF) cut global growth forecasts, warning that downside risks from high inflation and the Ukraine war were materializing and could push the world economy to the brink of recession if left unchecked.

Global real GDP growth will slow to 3.2 percent in 2022 from a forecast of 3.6 percent issued in April, the IMF said. It added that world GDP contracted in the second quarter due to downturns in China and Russia. Global trade growth in 2023 will likely slow more than expected, reflecting the decline in global demand and supply chain problems.

GDP growth projections slashed across the world

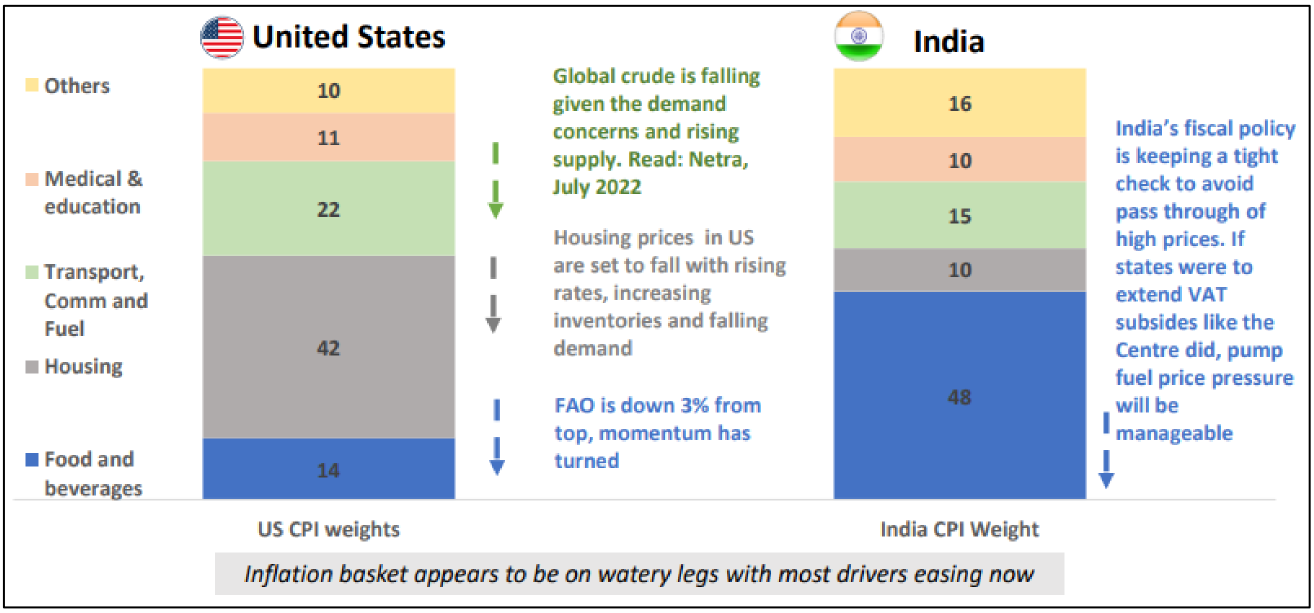


Source: WCA Research, News Articles

Decoding Inflation: The US vs India

The annual inflation rate in the US accelerated to 9.1% in June of 2022, the highest since November of 1981, from 8.6% in May and above market forecasts of 8.8%. One of the biggest drivers of inflation is commodity prices. However, the trend has now reversed as prices continue to cool down. In the US, most agricultural 'softs' are down on a YTD basis and the Agri index is down nearly 35%. Industrial metals have seen sharp cuts with Copper and Aluminium down 35% and 40% from their recent highs. Crude Oil prices have also started to soften, down 20% from recent highs. Fiscal and monetary stimulus is now working against inflation. Wage pressure is likely to dissipate as the stimulus 'Sugar Rush' ends. This is likely to contribute to a reversal in one of the core inflation drivers, especially in the US, the housing market.

US housing market is reaching new highs each day. Prices are rising at the fastest pace, rental vacancy is at an all-time low of <6%, and housing inventory is near an all-time low of just about 2.2 months of supply. At the same time, new home sales have begun to slow, new housing starts are now contracting sequentially. Housing contributes ~42% to US CPI inflation. This is likely to be a major source of dis-inflation in the US in the coming quarters. What's more important is a reversion to mean in US housing will impact not just inflation in the US but demand a wide variety of raw materials which are causing inflation globally. US Real estate contributes ~18% to US GDP and about 4.5% to global GDP. It's the elephant in the room.



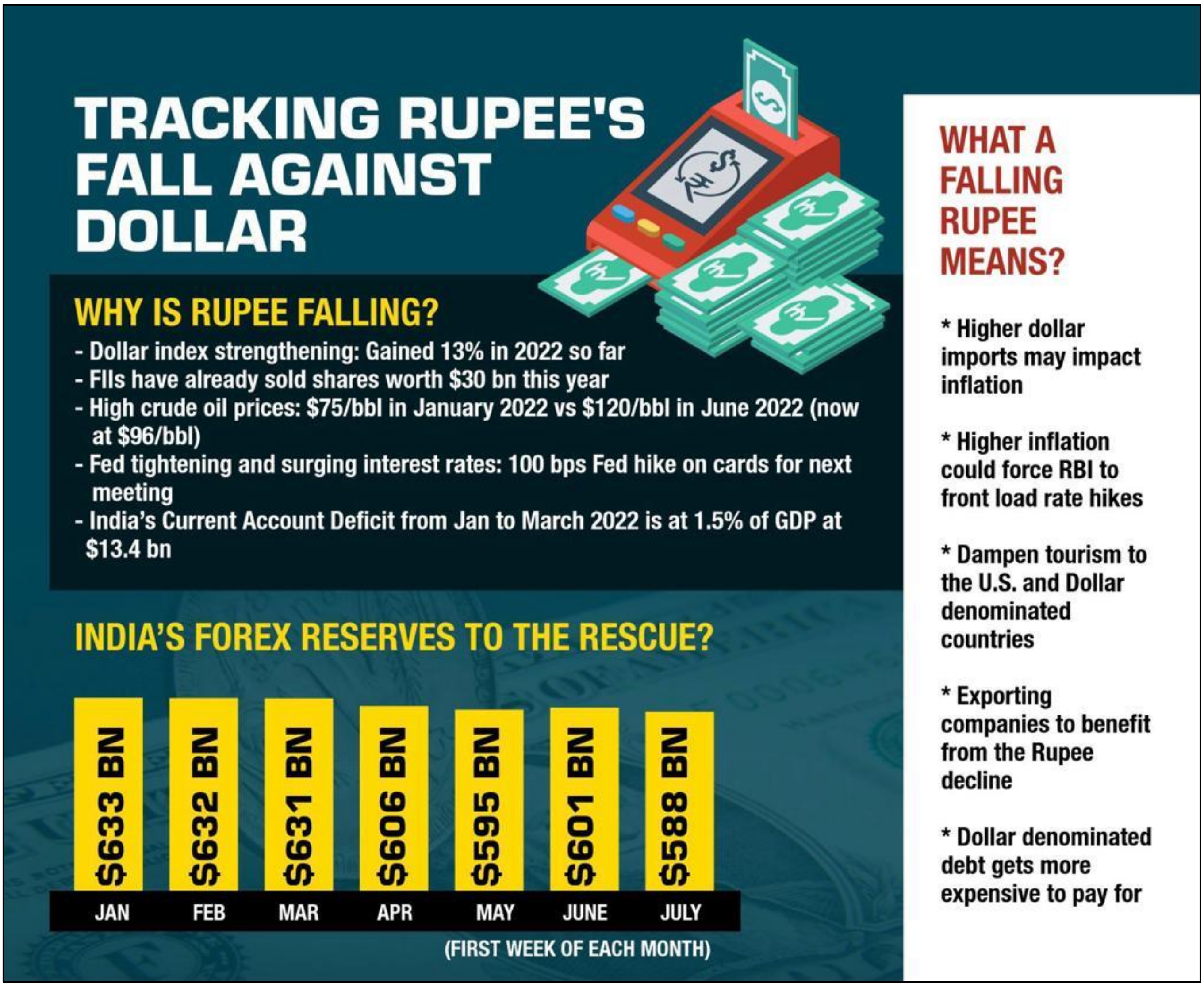
Source: DSP (The Coming Collapse Of Inflation & How To Benefit From It July 2022), Motilal Oswal Private Wealth

India's inflation rate stood at 7.01% in June 2022. Inflation in India has been more well-behaved than the global inflation trajectory. Domestic food prices and a delayed recovery helped India to avoid double-digit consumer price inflation. Now with Agri prices cooling off (Food & beverages contribute 48% to India's CPI), the inflation trajectory in India appears to have peaked.

Rupee Depreciation: Cause & Effect

The Indian rupee weakened to a historic closing low of 80.05 per U.S. dollar on Wednesday as foreign portfolio investors continued to sell their Indian holdings and head back to the safety of the dollar and domestic oil importers too bought the U.S. currency for funding purchases.

FII outflows and demand from oil importers weigh on the Indian currency



Source: WCA Research, News Articles

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Indian Capital Markets

Equity Markets: Indian equity markets witnessed a sharp correction during the quarter with benchmark indices closing down 10% while broader markets witnessed higher damage to the tune of 20% The quarter was eventful as US Fed came in aggressively to hike rates and do quantitative tightening in an attempt to tame inflation leading to significant sell-off in emerging markets. The geopolitical situation remained worst along with inflation rearing its head up leading markets to retrace sharply. Nevertheless, economic activity continued to remain buoyant with lead indicators signaling strong growth prospects. Foreign Portfolio Investor (FPI) investors continued to remain major sellers in the markets selling more than Rs. 95,000 crores during the quarter. However, domestic institutions and retail investors remained net buyers and ensured equity markets could cap the fall. On the international front, US markets went into a tizzy as Fed hiked rates and gave a hawkish interest rate outlook along with a taper to control inflationary pressure.

Debt Markets: Indian debt markets witnessed immense pressure during the quarter as rising inflation, strengthening dollar and quantitative tightening led the yields to move higher significantly across the curve. A rate hike by US central government, a depreciating rupee-dollar equation, and elevated commodity prices-maintained pressure on the yields. Additionally, RBI changing its monetary policy stance as inflation remained above the comfort zone added to the woes. On the positive side, domestically the government's fiscal position continued to improve on the back of strong GST collections and the path to fiscal consolidation being followed. Markets remained apprehensive owing to hawkish US Fed outlook and rate hikes. Corporate bond markets too witnessed a firming up in yields in line with sovereign bonds as risk premia increased. Credit risk has remained sustained and did not witness any major credit expansion.

WCA Outlook

Indian economy bravely weathered the inflation storm though could not remain unharmed in the global turmoil. Lead indicators although continued to remain buoyant were off their highs. Equity markets witnessed a sell-off amid enhanced valuation and international concerns arising from developed markets over the rollback of quantitative easing & rate hikes on account of increased inflation. Accordingly, risky assets witnessed a sell-off including emerging markets as the dollar firmed up. Nevertheless, valuations tapered off after the sharp sell-off in equity markets.

Indian markets after the correction are witnessing range-bound movements awaiting directions from stabilizing global factors. Expectations of consistent corporate earnings and low leverage on the balance sheet are likely to keep the market anchored in the medium term amid volatility.

We continue to remain constructive on India’s growth story in the long term, volatility in the short term in equities markets needs to be digested by investors. Investors may look to take advantage of the volatility by undertaking staggered allocation to equities through SIP/STP route and entering markets from a long-term perspective.

Source: Motilal Oswal Private Wealth, WCA Research, 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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