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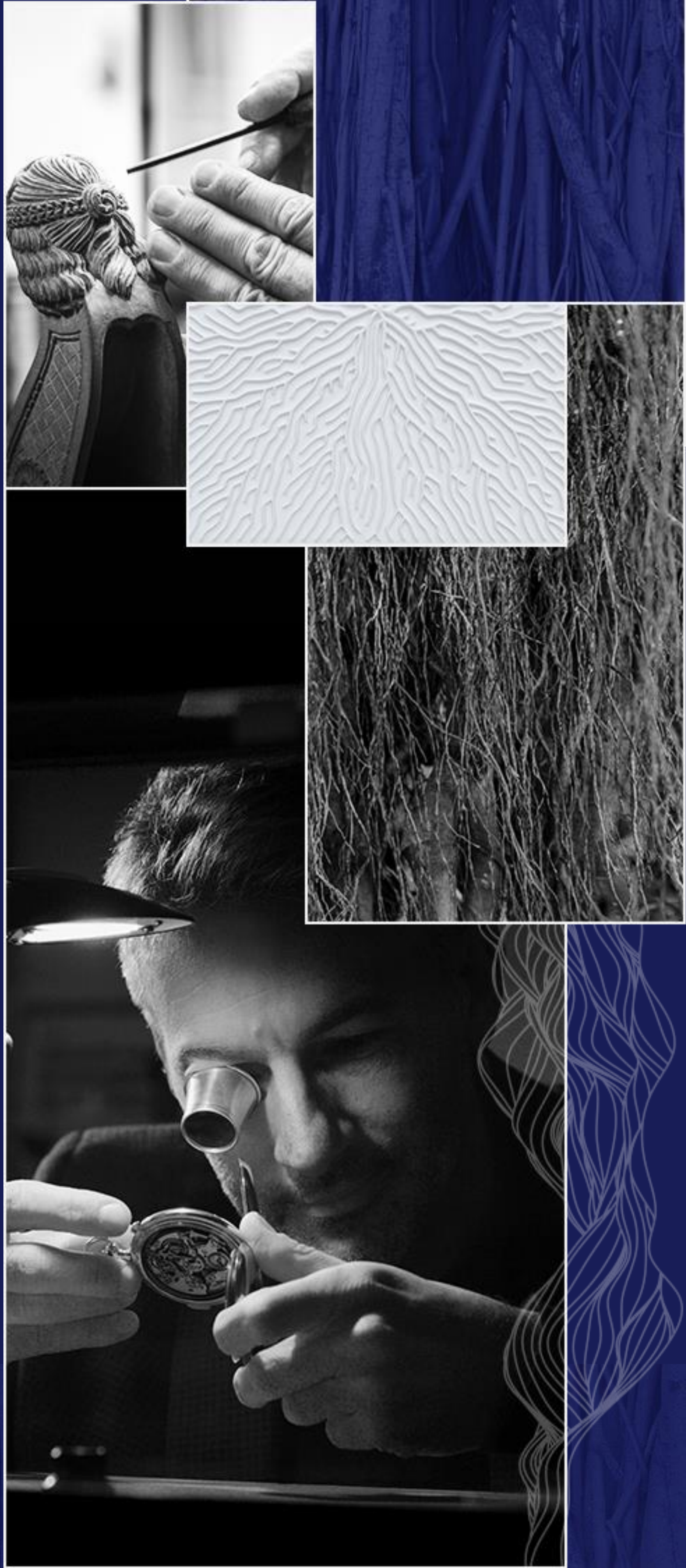

NEWSLETTER SEPTEMBER 2022

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India – Market Outlook

Introduction

A rebound despite the inflationary headwinds

Inflation—which began after the pandemic led to supply chain disruptions, and then exacerbated due to the war in Ukraine and the subsequent sanctions on Russia—has emerged as the toughest challenge for economies around the world. Inflation remained a persistent problem in India throughout the pandemic. Lately, a surge in demand for services has contributed to inflationary pressures. Most importantly, rising prices of commodities and raw materials globally had also seeped into the economy through imports. However, prices have cooled off from their recent highs. India is primarily a domestic demand-driven economy with consumption and investments contributing to 70% of the economic activity. Inflation, like in many other countries, has been hard on Indian consumers, with low-income households getting disproportionately impacted. That said, consumer confidence is improving with the easing of mobility restrictions. There is an appetite for spending among the top 10 income percentile of the population that had not spent for almost two years due to nationwide curbs and lockdown protocols. Indian equities witnessed a sharp reversal in August '22 as the Nifty 50 rose ~3.5% compared to a month ago. The rebound was driven by the perception that the US Fed was likely to be less aggressive than earlier anticipated, easing the supply chain issues, & sustained buying by FPIs in the second half of the month.

Uncertainties in the global business ecosystem will indeed send crippling headwinds toward India. Inflation and supply chain disruptions will remain entrenched for some time. However, domestic demand and the desire of global businesses to look for more resilient and cost-effective investment and export destinations, among other factors, will help India ride this tide of headwinds. The optimism about India's economic recovery, although slightly bruised, remains intact.

Market Watch

Indian Equities	Aug-22	Jul-22	1 Month	Currency	Aug-22	Jul-22	1 Month
Nifty50	17,759	17,158	3.50%	INR/USD	79.73	79.34	-0.50%
S&P BSE Sensex	59,537	57,570	3.42%	INR/EUR	80.19	81.06	1.07%
S&P BSE Mid Cap	25,408	24,051	5.64%	INR/GBP	92.38	96.52	4.29%
S&P BSE Small Cap	28,651	27,056	5.89%	INR/JPY (100)	57.10	59.52	4.07%
Global Equities				**Economic Data**			
Dow Jones (US)	31,511	32,846	-4.06%	10-year G-Sec (%)	7.19	7.32	-1.80%
Nasdaq (US)	12,272	12,948	-5.22%	Inflation (%)	-	6.71	-
FTSE 100 (UK)	7,284	7,423	-1.88%	Export Growth (%)	-	11.51	-
Nikkei 225 (Japan)	28,092	27,802	1.04%	US Dollar Index (DXY)	108.86	105.98	2.72%
Hang Seng (Hongkong)	19,954	20,157	-1.00%	IND Volatility Index (VIX)	18.70	16.55	12.99%
Commodity				**Deposit Rates (SBI)**			
Gold (INR/10 gms)	50,415	51,365	-1.85%	1-Year (%)	5.45	5.30	2.83%
Silver (INR/10 gms)	538	587	-8.30%	3-Years (%)	5.60	5.35	4.67%
Brend Crude ($/bbl)	96	110	-13.06%	5-Years (%)	5.65	5.40	4.63%

Source: Investing.com, SBI, Pib.gov.in, Deloitte

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A. 1. Global Growth & Outlook:

Central banks' commitment to bringing inflation under control, despite the inherent risks to the growth outlook, shook both equity and bond markets in August. While the summer brought historical droughts and heatwaves to many parts of the world, the global economy nevertheless continued to cool down. Most of the economic data published last month, such as the global composite Purchasing Managers' Index (PMI), which dropped to a 22-month low of 50.8 in July, continued to illustrate the slowing of the global economy. However, the economic data was generally a bit better than expected, as shown by economic surprise indices, while global inflation pressures started to ease on the back of lower commodity prices.

Global stock market returns

2015	2016	2017	2018	2019	2020	2021	YTD	Aug '22
Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	Japan TOPIX -0.0%	Japan TOPIX 1.2%
MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	UK FTSE All-Share -2.1%	MSCI EM 0.5%
US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -15.6%	MSCI Asia ex-Japan 0.0%
UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -16.1%	UK FTSE All-Share -1.7%
MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -17.1%	US S&P 500 -4.1%
MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -17.2%	MSCI Europe ex-UK -4.7%

Source: FTSE, MSCI, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. All indices are total returns in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Data as of 31 August 2022.

United States:

In the US, even though the economy has already recorded two consecutive quarters of negative economic growth this year, some economic data published in August was quite positive. US employment data was surprisingly strong, hiring had picked up significantly across sectors while the unemployment rate fell, and wages rose. At the same time, inflation seems to have passed its peak as CPI increased 8.5% year on year in July, down from 9.1% in June. However, core inflation is still above the Federal Reserve's target, which combined with strong wage inflation numbers, could force the Fed to raise interest rates by another 75bps when its rate-setting committee next meets in September. The Fed remains committed to curbing inflation, as evidenced by the rather hawkish speech that Jerome Powell gave at Jackson Hole at the end of the month. 10-year treasury yields rose sharply over the month to 3.2%.

Europe:

Eurozone second-quarter GDP surprised on the upside, growing 0.7% QoQ, but the data revealed important divergences among member states. Those countries benefiting from the post-Covid services rebound, such as Spain, Italy, and, to a lesser extent, France, generally performed well while the German economy, which is the most dependent on Russian gas imports, came to a standstill. The relative resilience of the eurozone economy in the first half of the year is also due to the fiscal measures deployed in the European Union (EU) since the start of the war in Ukraine. However, the second half of the year looks more challenging. Even though EU natural gas inventories reported in August were in line with the 10-year average, thanks to more liquefied natural gas imports and the reactivation of coal-fired power stations, the substantial reduction in gas flows through the Nord Stream 1 pipeline has pushed European energy prices to new heights. In this context, German producer prices increased by 37.2% in July, their biggest increase on record, and the situation could further deteriorate on the back of logistic disruptions caused by droughts and heatwaves in both Germany and China. Recession risks remain elevated, as shown by the weakness of the euro, which dropped to parity with the US dollar, and by the Flash Eurozone composite PMI, which dropped further into contraction territory at 49.2 in August.

China:

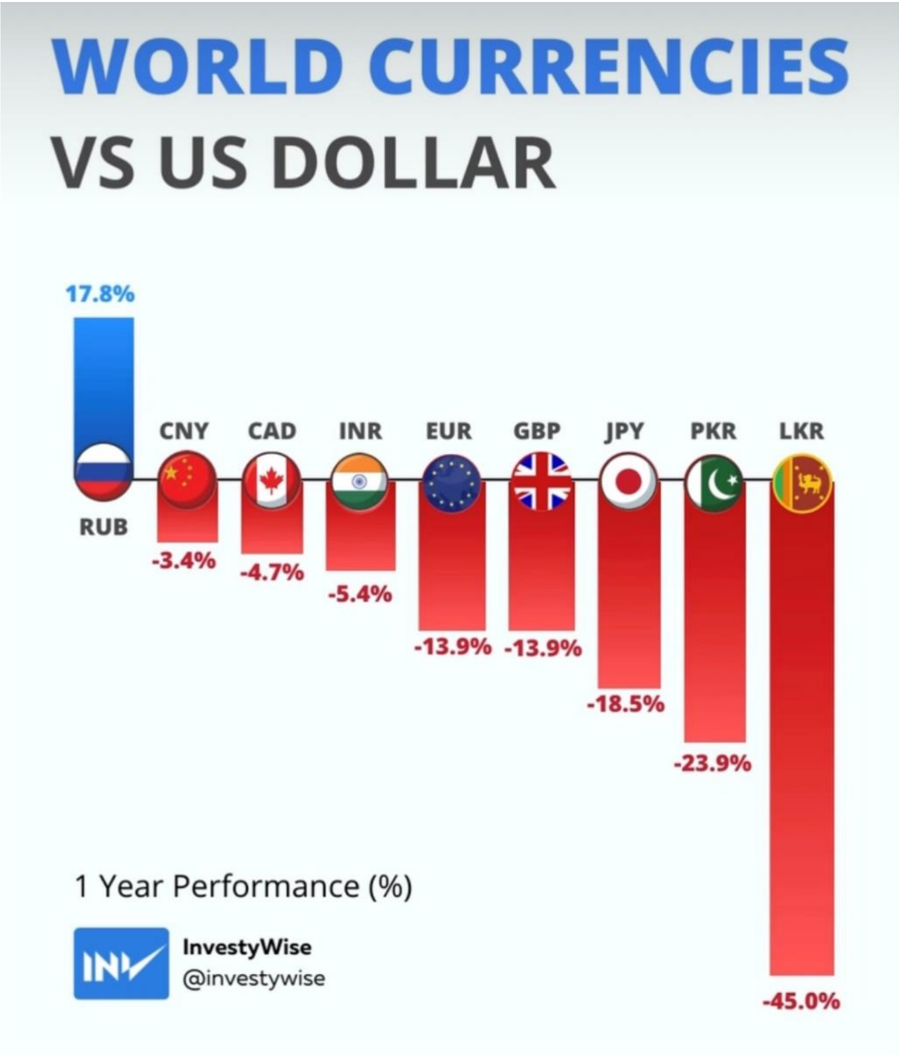
In China, the domestic economy continued to struggle over the summer amid weather-related disruptions. Economic data for July highlighted the softness of domestic demand amid lingering weakness in the housing market. Retail sales contracted MoM, while activity in the service sector also seems to have lost some momentum. Growth in total social financing and fixed investment also came in below expectations, which is somewhat concerning as the policy boost announced in recent months was supposed to support credit growth and infrastructure investment spending in the third quarter. The People's Bank of China (PBoC) eased monetary policy further by lowering its policy rate (the one-year medium-term lending facility rate) by 0.10% to 2.75%, and the one-year and five-year loan prime rates by 0.05% and 0.15% respectively.

Source: WCA Research, News articles, J.P. Morgan Asset Management

A. 2. World Currencies: Vs the USD

Indian Rupee is down by 6.84% (YTD) against the US dollar as Federal Reserve treads on more monetary policy tightening to get inflation under control. Several variables tend to influence the currency trajectory, though when seen through the prism of the inflation differentials, it seems that the worst for INR is behind us. Historical data suggests that inflation differentials tend to have a strong correlation with currency trajectory. INR tends to depreciate by an average of 3% annually, driven by an average 3.5% inflation gap between US and India. As the US traditionally has lower inflation than India, Indian Rupee tends to depreciate on account of higher erosion of the purchasing power of the currency.

Performance of World Currencies against the US Dollar



Source: InvestyWise, WCA Research (Data as of 7th July 2022)

A. 3. Recessionary environment in the US and its potential impact on India:

US recessions caused by Fed tightening have been relatively shallow and short-lived

Year	Number of quarters of negative growth	Average decline	Cause of recession/slowdown
1970	1	-0.17	Monetary and fiscal tightening post the Vietnam war amid rise in inflation
1974-75	5	-1.38	OPEC oil embargo. Nixon instituted wage-price controls. Nixon took the US off the 'gold standard' in response to a run on the gold held at Fort Knox, which led to inflation
1980	3	-0.81	The Fed caused this recession by raising interest rates to combat inflation. The Iranian oil embargo aggravated economic conditions by reducing US oil supplies, which drove prices up
1982	4	-1.80	An extension of the 1980 recession caused by the Fed as it resumed hikes after a brief period of rate cuts
1991	3	-0.53	1989 savings and loan crisis, higher interest rates and Iraq's invasion of Kuwait
2008-09	4	-3.24	Subprime mortgage crisis led financial collapse
2020	3	-4.74	Covid-19 health crisis

Source: The Balance, Nirmal Bang Institutional Equities Research

Recessionary environment in the US: An analysis of US recessions over the past 50-odd years suggests that recessions caused by the Federal Reserve are not uncommon. A saving grace is that recessions caused by Fed tightening is usually shallow and short-lived and have lasted ~1-3 quarters with the average decline in GDP well under 1%. Incrementally, there are signs of a slowdown in the US amid rising interest rates. Mortgage rates increasing to the highest level since 2008 and the decline in housing starts is the most concrete evidence of an impending recession.

Potential impact on India: India is not immune to a US recession. Domestic growth in the past has slowed by ~1.5-2.5% even in normal Fed-led recessions without domestic macro stability concerns. India's interest rate cycle has never moved in the opposite direction to that of the Fed. But there have been periods of extended pauses in the 1970s and 1980s when the Fed had raised as well as cut rates. Similarly, in the early 1990s, when the Fed cut rates, the RBI maintained its pause. During 2010-2014, the RBI raised rates even as the Fed remained on pause. Therefore, there is a likelihood that the RBI could remain on an extended pause or not match rate cuts (if any) by the Fed in the event of a US recession if India's growth remains relatively resilient.

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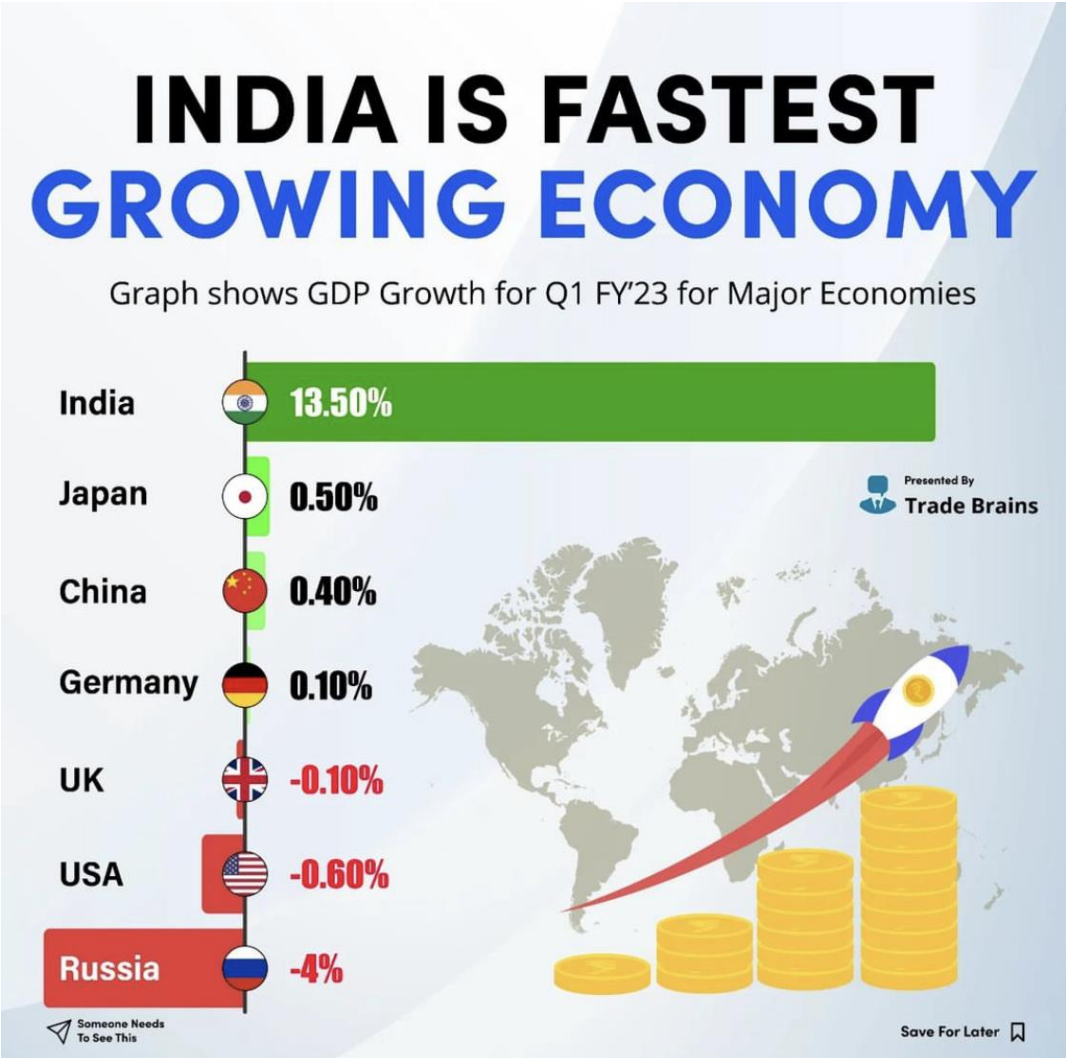
B. 1. India's Growth & Outlook:

India's economy grew by 13.5% in the April-June period this fiscal, the fastest in the last four quarters, on account of better performance by the agriculture and services sectors. As per the data, Gross Value Added (GVA) grew by 12.7% to Rs 34.41 trillion in April-June this year. The GVA growth in the farm sector is 4.5% in the first quarter compared to 2.2% a year ago. However, the GVA growth in the manufacturing sector decelerated sharply to 4.8% during the quarter from 49% during the year-ago period.

India's GDP growth vis-à-vis the developed markets (Q1 FY'23)

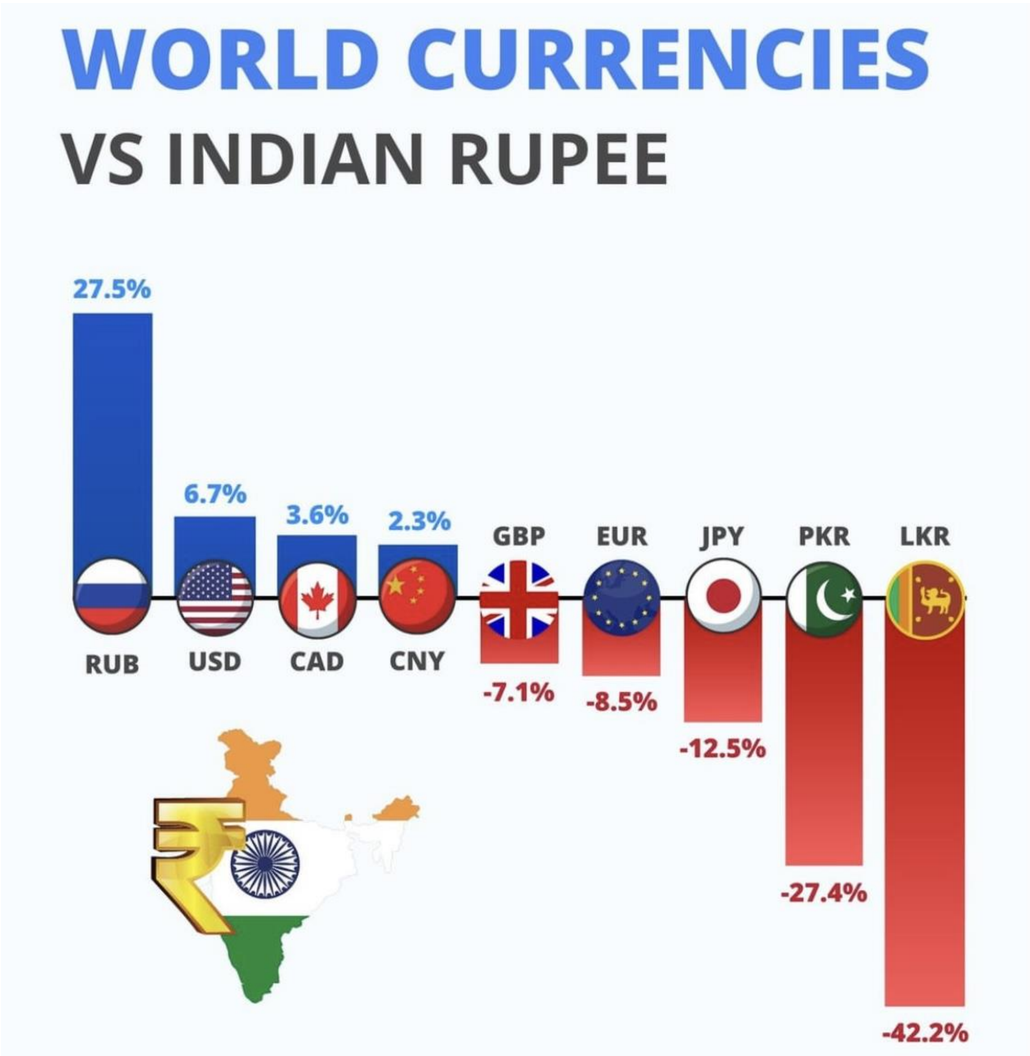


Source: Trade Brains

B. 2. World Currencies: vs the INR

The risk in global markets has posed several challenges to the Indian rupee versus the US dollar. The Indian currency breached the 80-dollar level last month. USD/INR declined 6.84% on a year-to-date basis. Rupee depreciation to positively impact India's IT & Pharma sectors and negatively impact the Aviation, Oil & Gas, and Consumer Electronics sector.

Performance of World Currencies against the Indian Rupee



Source: InvestyWise, WCA Research (Data as of 29th July 2022)

D. 1. Indian Capital Markets Outlook:

Equity Markets: Indian equities witnessed a sharp reversal in August compared to the previous month. The rebound was driven by the perception that the US Fed was likely to be less aggressive than earlier anticipated, easing the supply chain issues, and sustained buying by FPIs in the second half of the month. The Federal Reserve's 75-basis-point interest-rate hike drew a cheerful response from markets. Inflation seems to be slowing as most commodities are in bear markets —down at least 20% from their peaks—and gasoline prices have dropped. FPIs bought net equity worth USD 0.8 bn in July 2022 following net selling of USD 6.4 bn in June 2022. DIIs continue to remain net buyers and bought equity worth USD 1.3 bn during the month and have cumulatively bought USD 17.9 bn in the first four months of FY23. The sharp run-up in Mid and Small cap indices aided by healthy earnings growth, improved sentiments, benign liquidity, and low cost of capital has bridged the gap between 1 year-forward Mid and Small-cap valuations as against the large caps.

Debt Markets: Bonds yields across the curve cooled off in tandem with global rates as market pessimism recedes. The benchmark 10 Year G-Sec ended the month at 7.32% down 13bps. Similar trends were seen in SDLs and short-tenor corporate bonds. Off-cycle monetary meets and surprise rate hikes have kept markets volatile. A key positive for central bankers has been the sharp fall in commodities. Commodities have corrected by 30-40% driven by a weaker global demand outlook and fears of an inflation-induced recession. Weaker commodities bode well for inflation, especially in a country that has a commodity-heavy import bill. This offers conviction that we may be near anticipated peak interest rate levels. Domestic markets echo similar sentiments as bond markets in India have priced terminal policy rates closer to 6.25%-6.50% from the current repo rate of 4.9%.

WCA Outlook

India continues to witness strong economic tailwinds. Buoyancy in consumption patterns triggered by economic recovery, high inflation, and increased enforcement action to curtail evasion activities are seen as having contributed to the rise in GST collections. Indian markets outperformed most of the emerging and developed markets in August 2022. FIIs turned net buyers of Indian equities in July 2022 after 9 months of sustained outflows. The last 3 months have seen monetary policy responding to aggressive inflation pressures. As global central banks attempt to combat runaway inflation, global debt markets have priced in sharp rate hikes. We await the RBI policy for more clarity but largely expect the policy to remain a non-event for markets as current levels indicate markets have factored in a 35bps rate hike in the upcoming policy.

Equities continue to remain volatile in the medium term given heightened geopolitical tensions and the potential for downward earnings revisions. Considering the external risks and their potential impact, investing in equities in a staggered manner (Multi Cap/Flexi Cap strategies)- may help iron out market extremes. Credits to remain attractive from a risk-reward perspective give the improving macro fundamentals. In the interim period, as spreads widen, investors would be better suited to favor strategies with a G-Sec & SDL bias.

Source: WCA Research, News Articles, Motilal Oswal Private Wealth

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How can Wodehouse Capital Advisors help?

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- India Entry Strategy

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

Debt

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

Equity

- Growth Capital
- Strategic Capital

THANK YOU

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