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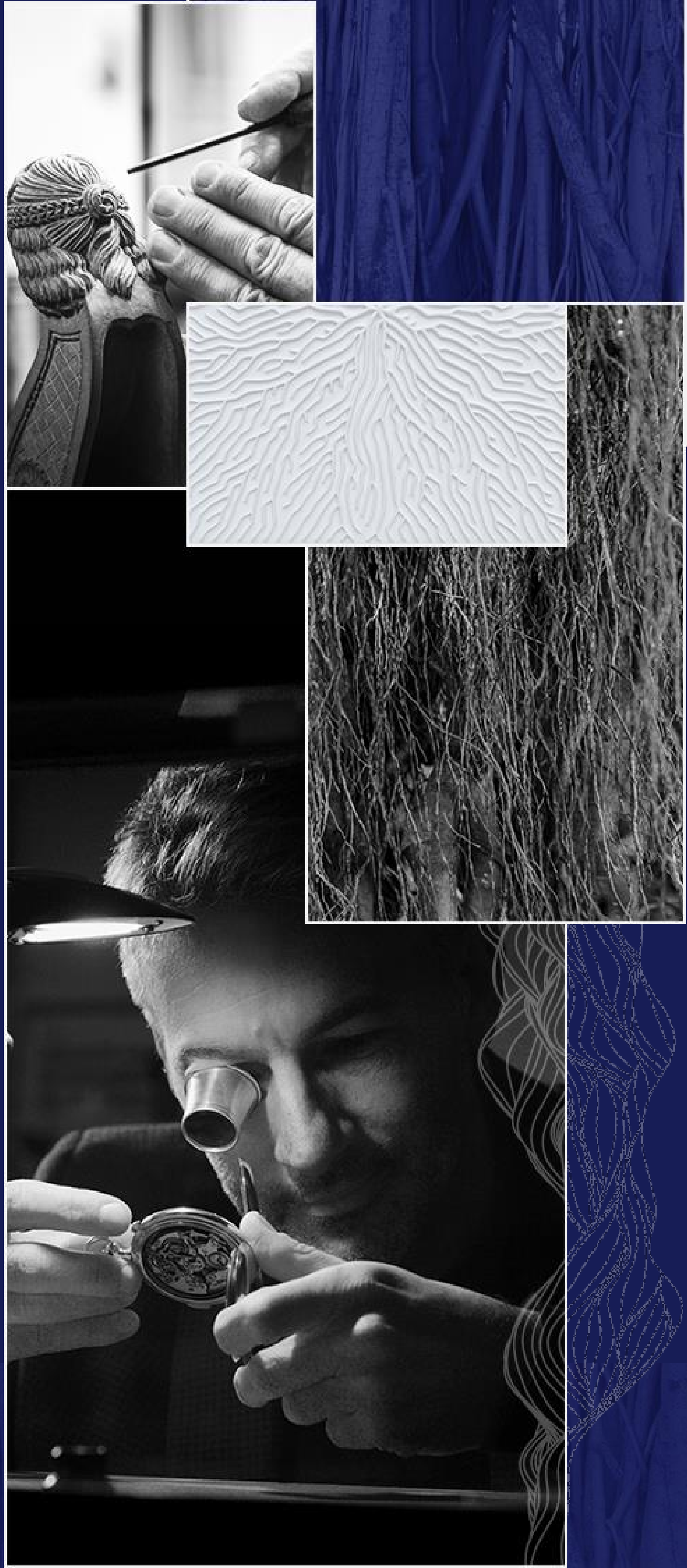

NEWSLETTER
April 2023

WODEHOUSE

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WODEHOUSE INVESTMENT NETWORK

WORLD M&A ALLIANCE

India - Market Outlook

The supply and demand balance has shifted negotiating power back to lenders, thanks to higher interest rates and more-limited capital in the market. We believe those with new money to lend have a great opportunity that could drive very strong risk-adjusted returns, even if the global economy slows. On the flip side, default rates are likely to increase as legacy issuers face the impact of higher interest rates, which could limit their ability to service debt and refinance at maturity. Top managers in the asset class who have constructed solid, diversified portfolios will likely outperform and take advantage of market dispersion to separate themselves from the competition when deploying new capital. Tailwinds such as higher credit spreads, lower leverage, and stronger documentation are offsetting many of the headwinds for private debt issuers, such as rising interest rates and inflation, and a potentially slowing economy.

If the Fed's plan to durably stem inflation works, asset valuations may benefit over the longer term, offering several considerations for investors' fixed-income portfolios such as.

- Asset-backed securities
- High-yield credit
- Emerging markets (EM) debt

The best in a decade

In our view, a dramatic reset in valuations has created one of the most attractive entry points for stocks and bonds in over a decade. Markets have powered through all the turmoil that the year 2023 has thrown at them. A diversified global stocks and bonds portfolio returned roughly +6% through the first quarter. We believe that multi-asset portfolios are on track to continue outperforming cash and inflation this year. The Indian market has been stuck in a range for the better part of the last three months and is in some kind of accumulation stage. What we find very interesting is that leadership is changing and there are a lot of churns that are happening. Although the Indian and US markets may appear disconnected in a shorter time frame, in a larger context they are strongly correlated.

Market Watch

Indian Equities	Apr-23	1 Month	1 Year	3 Year	Currency	Apr-23	1 Month	1 Year	3 Year
Nifty 50	18,065.2	4.3%	6.3%	84.1%	USD/INR	81.7	0.5%	-6.4%	-8.2%
S&P BSE Sensex	61,112.5	3.9%	7.8%	82.1%	EUR/INR	90.0	-1.1%	-10.4%	-8.6%
S&P BSE Midcap	25,492.6	6.3%	5.6%	113.7%	GBP/INR	102.7	-1.3%	-6.3%	-7.9%
S&P BSE Smallcap	28,917.8	6.9%	2.8%	162.5%	JPY/INR	0.6	4.5%	-0.5%	18.3%
Global Equities					**Economic Data**				
Dow Jones (US)	34,098.1	1.3%	2.8%	43.5%	10-year Ind G Sec	7.1			
Nasdaq (US)	12,226.3	0.2%	-2.8%	41.9%	CPI Inflation Ind	5.7	5.7	7.0	5.9
FTSE 100 (UK)	7,871.4	2.6%	4.1%	36.6%	WPI Inflation Ind	1.3	4.8	14.6	1.0
Nikkei 225 (Japan)	28,856.9	3.5%	8.7%	48.6%	US Dollar Index (DXY)	101.7	-0.1	-1.4	3.0
Hang Seng (HK)	19,895.2	-2.1%	-5.3%	-18.9%	CBOE VIX	15.8	-13.3	-45.0	-56.8
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	-
Gold USD	1,987.1	0.0%	6.2%	16.7%	Indian GDP YoY	4.4	4.6	6.3	-
Silver USD	25.0	3.7%	10.3%	66.5%	US GDP QoQ	1.1	2.0	2.6	-
Brent Oil USD	79.5	-6.5%	-24.3%	200.4%	China GDP YoY	4.5	4.0	2.9	-

Source: investing.com

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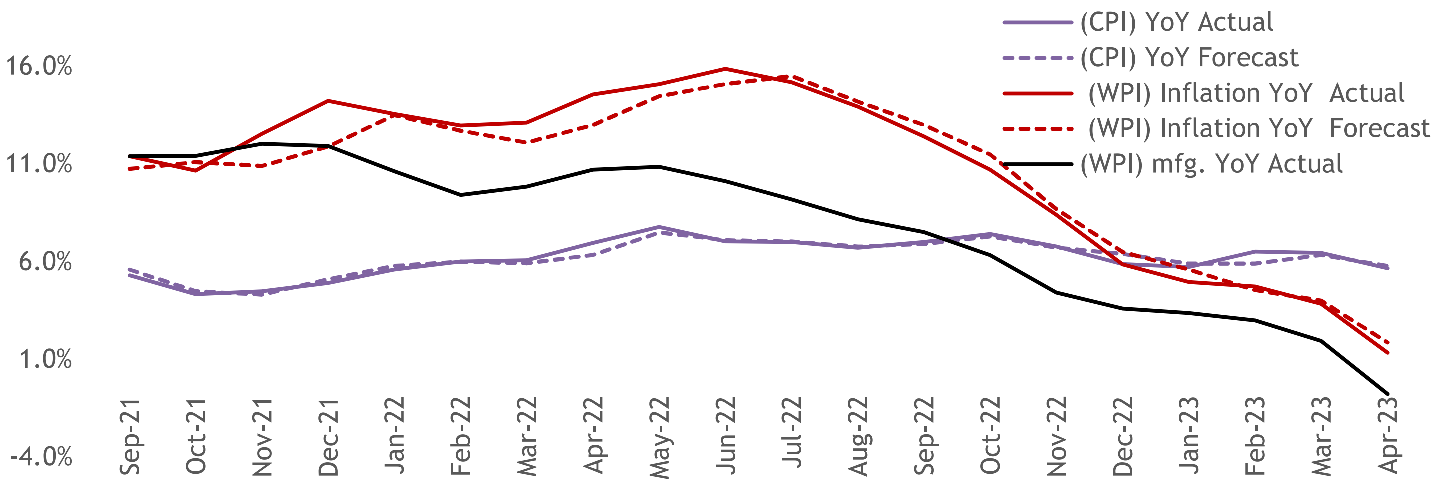
Anticipating a Smoother Ride

Indian IT services companies are facing a double whammy of slowing business in key markets such as the US and a reduction in outsourcing basic coding jobs with many enterprises adopting artificial intelligence platforms that can automate software programming, management commentary of Indian IT services companies has begun to turn cautious given fears of a macro slowdown. While most Indian players see the weakness in the global macro environment as transitory and expect the technology upcycle to come back. Change in sectoral leadership is visible in Indian markets with the IT sector taking a backseat & Banking sector again leading from the front. In the medium to longer-term time frame, there is a possibility that Nifty Bank stocks should outperform Nifty IT Stocks, having said that Nifty IT is looking good from a longer-term perspective as risk-reward has started becoming favorable, and we won’t be surprised if Nifty IT eventually bottoms out in next three months.

RBI Policy Monetary Policy

India's bond yields crashed after RBI decided to pause the repo rate hike cycle, this act of relief will restore confidence in homebuyers’ sentiment and boost demand rally in real estate. The market was divided going into the policy with the swaps market pricing in a 50% probability of a pause. The yield curve has steepened marginally with the 5yr G-sec yield down by 10-11bps and the 10 yr. yield down by 6-7 bps. Going ahead, investors are likely to focus on RBI's liquidity management and global yield performance.

In March 2023, food inflation, based on the consumer food price index, eased to 4.79 percent from 5.95 percent a month ago and 7.68 percent a year ago. Headline retail inflation has now returned to the RBI’s tolerance range after a gap of two months, with even core inflation — non-food, non-fuel component — easing to an 18-month low. Inflation is likely to remain below 6 percent in the coming months, helped by a high base, which may prompt the RBI to maintain a pause in the next monetary policy review in June, however, RBI’s next policy action would largely depend upon what US fed plan of action.



Source: investing.com

- The pause in the repo rate-could have been based on multiple factors such as the projections for a reduction in crude prices, reduced inflation, sustained economic growth, weakening of the Indian currency, normal monsoon, and lower fiscal deficit.
- The minutes of the MPC's April 6 meeting very much sound like an extended pause.
- Goldman Sachs expects RBI to keep the rates unchanged till the end of 2023.
- IIP rises marginally to 5.6% in February. In absolute terms of the Index of Industrial Production (IIP), it decreased to 138.7 in February from 146.9 in January but was higher than 131.4 in February 2022.
- India's labor markets deteriorated in March 2023. The unemployment rate increased from 7.5 percent in February to 7.8 percent in March.

GST collection for April 2023 all-time high at Rs 1.87 lakh crore

This is the 14th month in a row that the total GST mop-up has come in above the Rs 1.4-lakh-crore mark.

Source: Ministry of Finance

The April GST collections are significantly higher than the trend. However, collections are usually higher in the first month of a financial year. In fact, ever since the GST was introduced in July 2017, April has seen collections hit a new record high. The only exception is April 2020

India races to get rich before it gets old as the population passes China.

Bloomberg Economics says India needs to advance on four broad fronts — urbanization, infrastructure, up-skilling and broadening its labor force, and boosting manufacturing — to fully cash in on its demographic dividend and reshape the global economy in the process.

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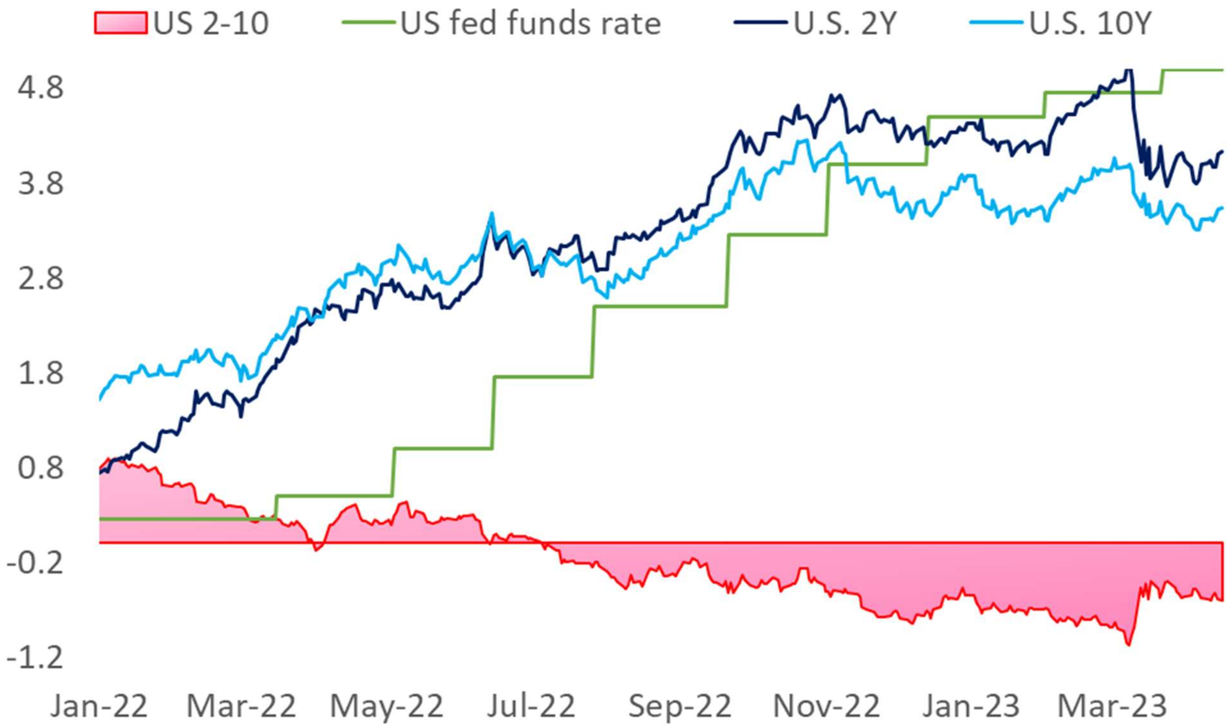
U.S. Treasury yield slashed.

Yields on U.S. 2-year Treasury notes have plunged over 100 basis points following the failure of some regional U.S. banks last month. They had peaked above 5% on March 8, policymakers have by and large reiterated their focus on taming inflation, and so at minimum one more interest rate rise in May is still in store. But Bond markets are pricing for a series of interest rate cuts starting just two months later, underscoring an exceptionally large divergence from the central bank's own view.



Source: investing.com

The latest survey predicted the inverted spread between 2-year and 10-year Treasuries, usually a reliable indicator of an impending recession, will close to about 10 basis points in the coming year. That would be the narrowest since July last year. Meanwhile, a still-strong labor market and sticky inflation continue to tell a tale of a resilient economy, not a typical scenario for pricing in imminent rate cuts.

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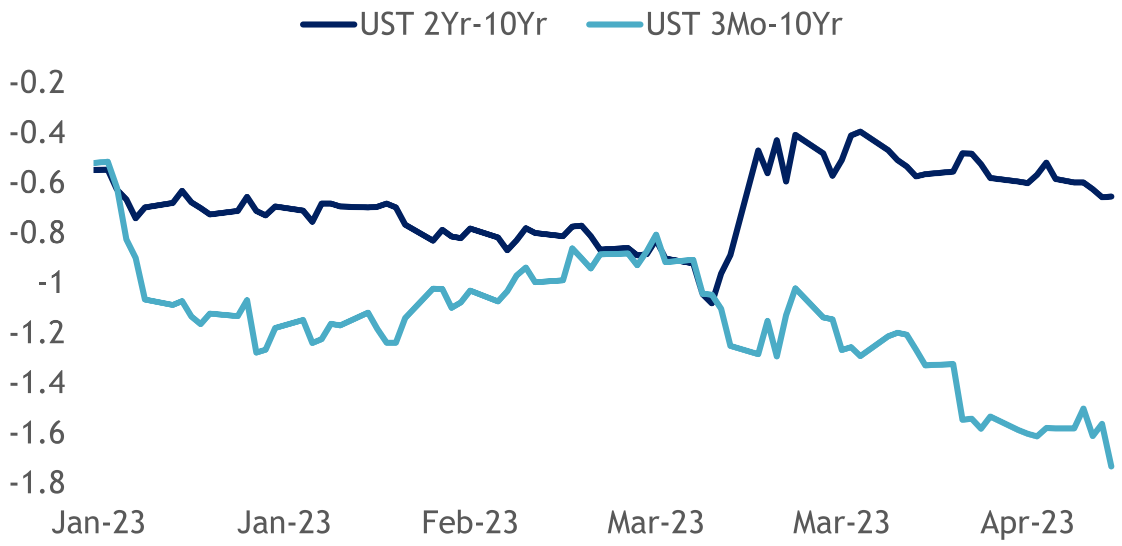

Source: investing.com

With respect to the UST 3mo/10yr measure, the inversion has still been gathering steam. the negative differential has gone from roughly -50 basis points (bps) to the end of 2022 to expand to -160 bps as of 20th April 2023, compared to a year ago, when the spread was a positive +200 bps. On UST 2yr/10yr the inversion reached its peak of -109 bps on 8th March 2023, but since then, the negative differential has been essentially cut in half to -53 bps. Meanwhile, for the UST 3mo/10yr, the inversion has increased by about 55 bps. The 2-Year yield has fallen for two key reasons: the changing Fed outlook, where rate cut expectations have increased, and inflows coming in from either a-safe haven status or attempts to lock in yields before any Fed reversal.

Summary: For fixed-income investors, the continued inverted shape of the yield curve plays into the notion that I'd still rather be "late than early" to the duration party.

What history tells us about markets and recessions?

Recession Beginning and End Dates	S&P 500 Index 3 Months Before Recession End Date	S&P 500 Index 1 Year After Recession End Date	S&P 500 Index 3 Years After Recession End Date	S&P 500 Index 5 Years After Recession End Date
Aug. 1957 - Apr. 1958	3.2%	37.2%	66.1%	89.3%
Apr. 1960 - Feb. 1961	15.2%	13.5%	34.8%	67.7%
Dec. 1969 - Nov. 1970	8.0%	11.3%	20.4%	24.8%
Nov. 1973 - Mar. 1975	23.0%	28.3%	21.6%	54.8%
Jan. 1980 - Jul. 1980	16.0%	13.0%	56.0%	100.0%
Jul. 1981 - Nov. 1982	17.5%	25.5%	66.4%	102.4%
Jul. 1990 - Mar. 1991	14.5%	11.1%	29.9%	98.3%
Mar. 2001 - Nov. 2001	2.7%	-16.5%	8.4%	34.2%
Dec. 2007 - Jun. 2009	15.9%	14.4%	57.7%	136.9%
Average	**12.9%**	**15.3%**	**40.1%**	**78.7%**

Source: investing.com

Again, the rides for investors in certain recessionary environments (1973, 2001, 2008) have been far worse than the above numbers reveal. Excluding 2008, the worst return from the cycle peak to the end of the recession was in 1973, when the market fell 31%. With today's market down 25% in Oct'22, it's already done more than 80% of that. While the markets have priced in a lot of rate hikes, a Fed that goes to 6% or higher and a European Central Bank that goes to 4% or higher would-be shocks that would likely cause asset prices to plummet.

Weaker growth but stronger markets

So far, that thesis is on track. While growth seems to be slowing down, and new challenges have arisen, markets so far have delivered much stronger performance than they did in 2022, U.S. stocks have soldiered on through a banking mess to notch solid first-quarter gains. The benchmark S&P 500 posted a 7% gain for the first quarter, and the Nasdaq Composite's 16.8% first-quarter jump was its biggest quarterly rise since 2020, which is in line with our recommendation that Oct'22 lows of US indices are sacrosanct & can be used as benchmark level for most of the global equity indices.

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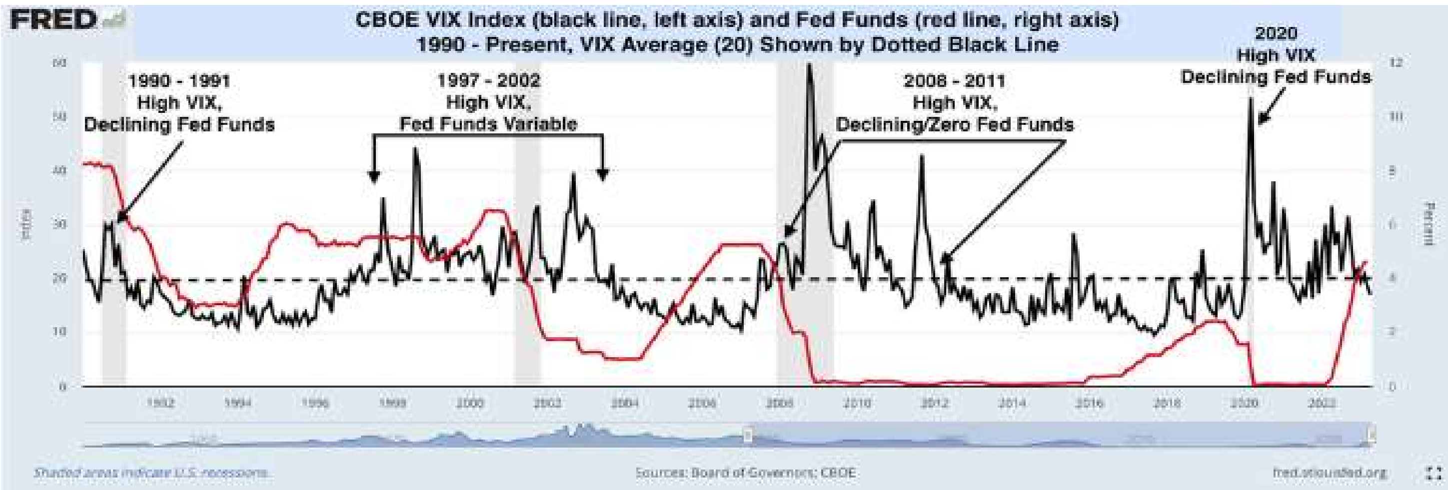
High inflation, strong dollar - a contradiction?

Changes in currency rates can have an inverse impact on a country's inflation. Historically, there has been an inverse relationship between inflation and the dollar's strength. The US consumer has benefited from a "flight to safety" that has strengthened the dollar's value. This has helped keep the costs of imports lower, shielding them from potentially even higher prices. While a strengthening dollar has provided relief for US consumers against inflation, if the dollar were to fall against other currencies, this benefit would dissipate and expose Americans to further inflation from increasing import costs.

Predictions over the past several months that inflation had peaked have proven to be just as inaccurate as the "inflation is transitory" narrative from 2021. So, in our opinion, the US Fed cannot allow the Dollar to weaken and the easiest way to achieve that is by keeping interest rates higher for longer than anticipated. While the USD may continue to enjoy bouts of support from the US Fed as long as Inflation remains a primary concern, we believe the bigger picture is likely to drive the USD weaker over the medium to longer-term time frame. Anecdotally Indian equities have done well corresponding to lower US GDP.

S&P 500 CBOE VIX Crashed

Market volatility has fallen markedly as measured by the CBOE Volatility (VIX) Index. VIX is a real-time index that represents the market expectation for near-term volatility in the S&P500 index. Investors and traders have long used VIX as a measure of the level of risk, fear, or stress in the market. Anecdotal evidence shows that falling stock-market volatility doesn't gibe with expectations for rate cuts. There are exceptions. Elevated volatility near the peak of the 1990s dot-com bubble came with a higher, rather than lower, fed-funds rate. Last year's rise in the VIX was another case.



Source: investing.com

Why has Equity Index & Bond Index Volatility Diverged?

While volatility has fallen for equities, volatility has increased for bonds. This divergence began in mid-2022, but it has accelerated recently. Uncertainty about the path going forward for the Federal Reserve may be to blame. We would anticipate implied volatility to increase slightly for equities as the US gets closer to hitting the debt ceiling without a resolution.

IMF Outlook on Growth and Inflation.

The baseline forecast is for growth to fall from 3.4 percent in 2022 to 2.8 percent in 2023, before settling at 3.0 percent in 2024. Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7 percent in 2022 to 1.3 percent in 2023. In a plausible alternative scenario with further financial sector stress, global growth declines to about 2.5 percent in 2023 with advanced economy growth falling below 1 percent. Global headline inflation in the baseline is set to fall from 8.7 percent in 2022 to 7.0 percent in 2023 on the back of lower commodity prices.

	2022	2023	2024
Emerging Market and Developing Economies	4.0	3.9	4.2
Emerging and Developing Asia	4.4	5.3	5.1
China	3.0	5.2	4.5
India	6.8	5.9	6.3
Emerging and Developing Europe	0.8	1.2	2.5
Russia	-2.1	0.7	1.3
Latin America and the Caribbean	4.0	1.6	2.2
Brazil	2.9	0.9	1.5
Mexico	3.1	1.8	1.6
Middle East and Central Asia	5.3	2.9	3.5
Saudi Arabia	8.7	3.1	3.1
Sub-Saharan Africa	3.9	3.6	4.2
Nigeria	3.3	3.2	3.0
South Africa	2.0	0.1	1.8
Emerging Market and Middle-Income Economies	3.9	3.9	4.0
Low-Income Developing Countries	5.0	4.7	5.4

	2022	2023	2024
World Output	3.4	2.8	3.0
Advanced Economies	2.7	1.3	1.4
United States	2.1	1.6	1.1
Euro Area	3.5	0.8	1.4
Germany	1.8	-0.1	1.1
France	2.6	0.7	1.3
Italy	3.7	0.7	0.8
Spain	5.5	1.5	2.0
Japan	1.1	1.3	1.0
United Kingdom	4.0	-0.3	1.0
Canada	3.4	1.5	1.5
Other Advanced Economies	2.6	1.8	2.2

Source: IMF, April 2023 World Economic Outlook

WCA outlook Debt market

Investors should consider increasing the duration of their fixed-income portfolios without further delay, in our opinion, most central banks are likely to reach their terminal policy rate in this quarter. This should support the positive sentiment in the bond market. Investors should consider investing in a 3- to 5-year maturity bucket through suitable funds for their fixed-income allocations. As we head into a contraction, adding high-quality bonds in the front end of yield curves is our top idea, such as short-maturity investment grade corporate bonds and securitized credit.

US Markets: The underlying growth outlook remains healthy, thanks to strong consumer balance sheets and solid levels of business investment. This combination should keep corporate defaults low. Treasury yields are likely to fall this year, and we expect the 10-year Treasury yield to end 2023 at around 3.25%. We favor selectively taking on risk in this environment of attractive prices and yields. Credit selection is key as we search for bonds with favorable income and solid fundamentals.

Serious challenges continue to prevail in the US property market and might be under a lot of pressure over the next few months. Real estate has been considered a profitable bet, with super-low interest rates providing the scaffolding for strong returns. But in recent months, the cracks have really started to show across these assets.

WCA Outlook Equities

The prospect of lower interest rates has supported equity markets so far this year, it seems like inflation is past its peak and the process of a slow grind back toward more tolerable levels is underway. Given progress on the inflation front and financial stability concerns, the Fed appears to be on track to pause its rate hiking cycle sometime this summer. The crash of the volatility index globally is a sign of markets entering an era of low volatility. With many investors under-allocated to international equities, we believe moving toward strategic asset allocations in a cycle of narrower regional return differentials will pay dividends. In our view, portfolios constrained by a single region cannot adequately capture the entire opportunity set, informing our belief in global alpha over regional beta.

In India, businesses like Lending, Exports & manufacturing (Medium to large-scale) have mostly done well. As a result of ongoing correction in the Nifty IT sector, IT services companies are providing more than a descent entry opportunity, with a weighted entry price spread over the next three months. We continue to reiterate our call made last month on US markets, that they have made some durable bottom in October 2022 & this can be used as Benchmark for most Global Indices.

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How can Wodehouse Capital Advisors help?

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

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- 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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