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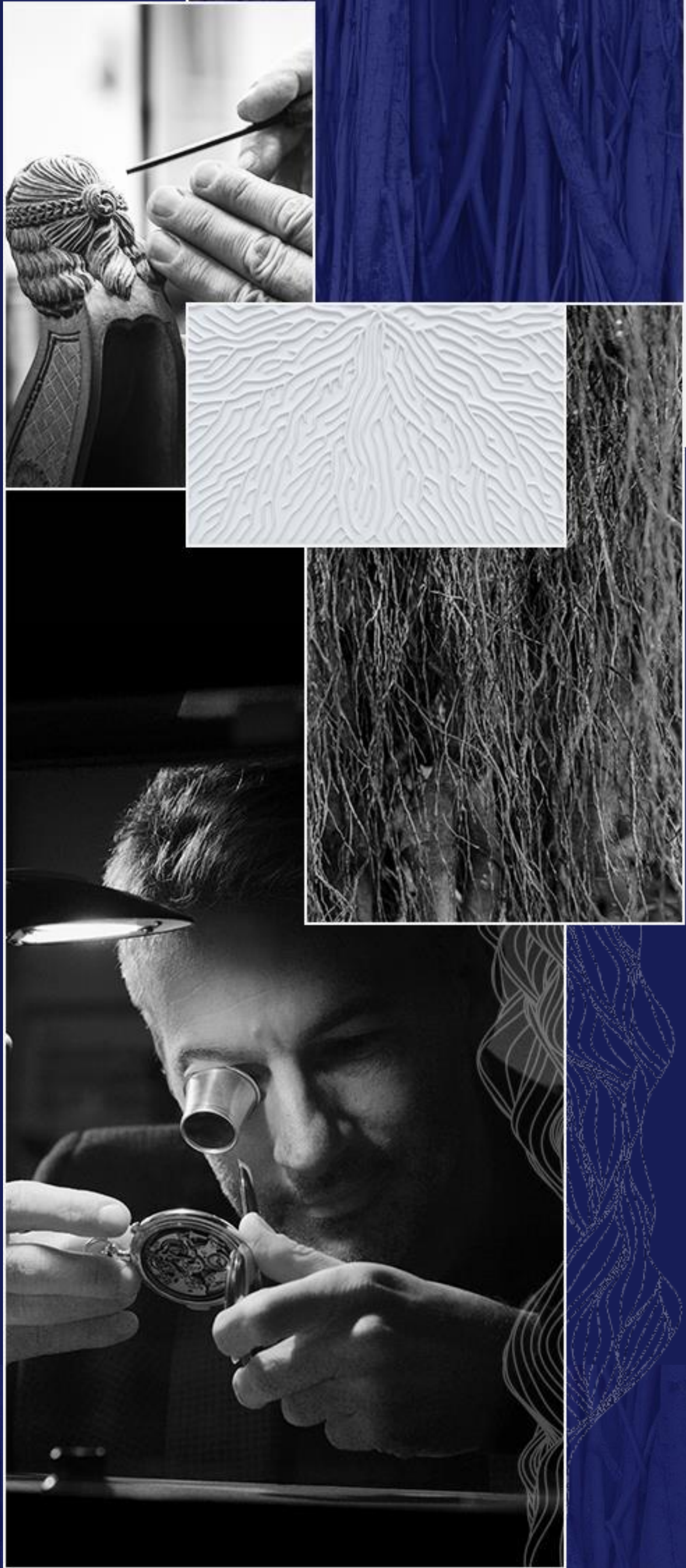

NEWSLETTER
August 2024

WODEHOUSE

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Indian - Market Outlook

As we venture deeper into 2024, it's easy to experience a vague sense of déjà vu about financial markets. In some ways, 2024 looks eerily similar to 2023: Benchmark Indices have posted strong performance, driven by Capital Goods and IT stocks, as markets continue to reprice central bank policy expectations, which have driven the ongoing moves in the market, while geopolitical uncertainty and other macroeconomic concerns remain.

The rise of the domestic investors is reshaping India's financial landscape as the young, digitally-empowered middle class channels its aspirations into equities, with small and mid-cap stocks becoming the new frontier for wealth creation.

Today's environment stands apart from prior growth-led markets in a crucial way: it has been—and remains—a ripe environment for hedge fund alpha generation, the relentless momentum in Indian equities provides fertile ground for ETF money, who seek trends with momentum may increasingly turn their attention to Indian markets.

Expanding Divergences,

Following months of anticipation, a more comprehensive shift toward lower policy rates seems imminent. However, the uneven pace of easing, combined with disparities in economic growth and challenges in credit markets, is likely to further accentuate the divide between outperformers and underperformers within the fixed-income landscape.

Market Watch

Indian Equities	Aug-24	1 Month	1 Year	3 Year	Currency	Aug-24	1 Month	1 Year	3 Year
Nifty 50	25,236	1.1%	31.1%	47.3%	USD/INR	83.85	-0.2%	-1.4%	-14.9%
S&P BSE Sensex	82,387	0.8%	27.1%	43.1%	EUR/INR	92.94	2.6%	3.7%	7.9%
S&P BSE Midcap	49,035	0.9%	57.2%	105.7%	GBP/INR	110.54	2.7%	5.5%	10.2%
S&P BSE Smallcap	56,041	1.3%	50.8%	108.1%	INR/JPY	1.73	-3.4%	-1.6%	14.8%
Global Equities					**Economic Data (Abs)**				
Dow Jones (US)	41,335	1.2%	19.1%	16.9%	10-year Ind G Sec	6.9%	6.9%	7.2%	6.2%
Nasdaq (US)	17,516	-0.5%	24.8%	14.8%	CPI Inflation Ind	3.5%	5.1%	7.4%	5.6%
FTSE 100 (UK)	8,408	0.5%	13.0%	18.1%	WPI Inflation Ind	2.0%	3.4%	0.5%	11.4%
Nikkei 225 (Japan)	38,621	-1.2%	18.4%	37.5%	US Dollar Index (DXY)	101.4	-2.6%	-2.2%	9.4%
Hang Seng (HK)	17,989	3.7%	-2.1%	-30.5%	CBOE VIX	15.6	-4.8%	14.8%	-5.5%
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	**-**
Gold USD	2,523.5	3.1%	30.1%	39.2%	Indian GDP YoY	6.7%	6.9%	7.8%	
Silver USD	29.5	1.7%	20.9%	23.7%	US GDP QoQ	3.0%	2.8%	1.4%	
Brent Oil USD	78.8	-2.4%	-9.3%	7.9%	China GDP YoY	4.7%	5.1%	5.3%	

Source: investing.com

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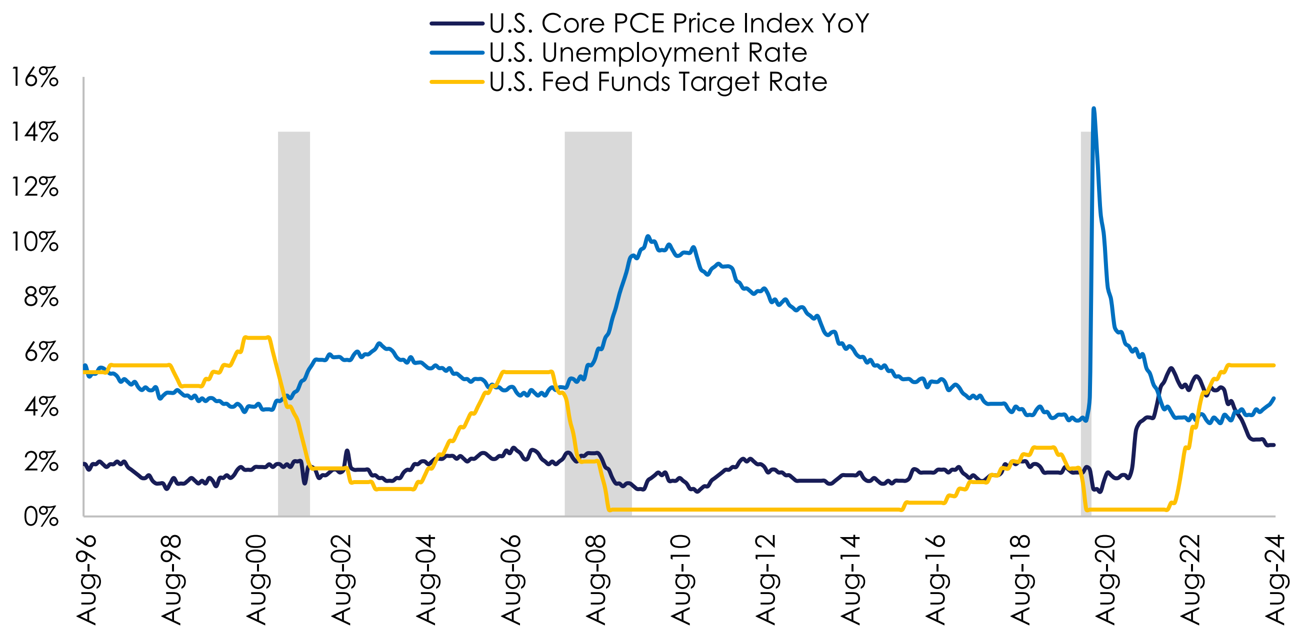
Global Macro-Economic Update and Key Events:

Jackson Hole Meeting: Federal Reserve Chair Jerome Powell indicated that the time is right for a potential interest rate cut, citing rising risks in the job market and inflation nearing the Fed's 2% target. This statement suggests an imminent policy easing.

The US Fed Weighs Rate Cuts: Over the past three decades, the Fed has not previously let the labour market weaken as much as it has time before cutting rates; however, it has also not previously cut rates with inflation still as high as it currently remains.



Data Source: https://www.investing.com/

US Economic Growth: The second quarter of 2024 saw stronger-than-expected growth at 3.0%, a significant rebound from the 1.4% growth in the first quarter.

AI Rally Stumbles, Diversification Returns: The overwhelming euphoria around Artificial Intelligence, which has almost exclusively accounted for rising U.S. stock market indices in the past nine months, has suffered a first setback. Investors are starting to re-discover the old but not obsolete virtue of diversification.

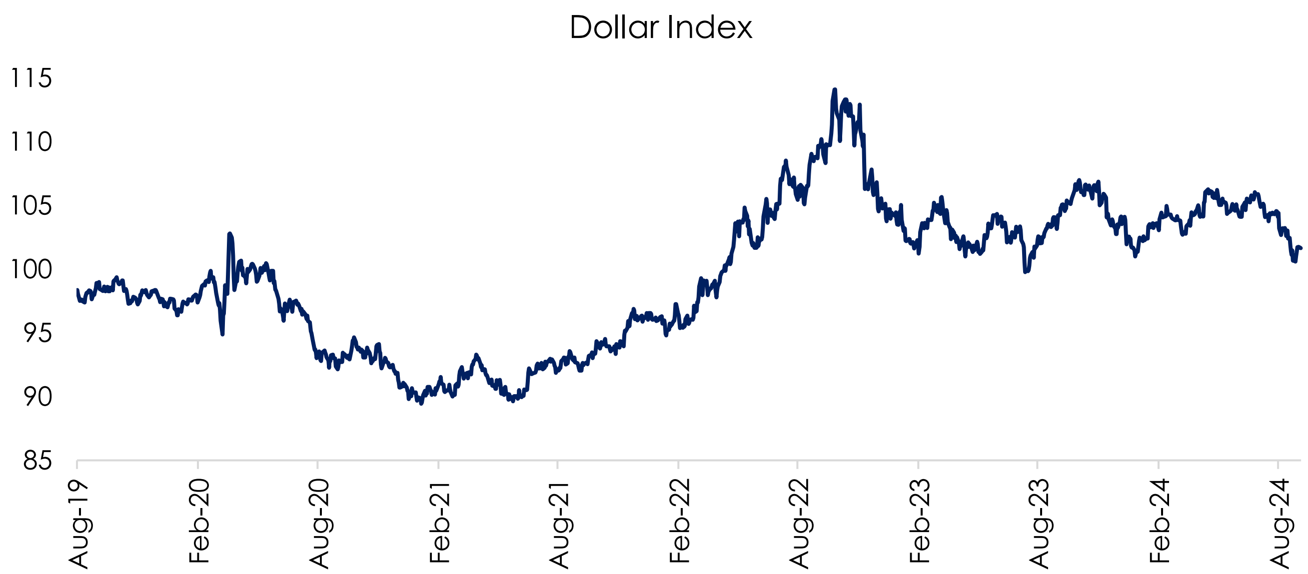
NVIDIA Results: NVIDIA's quarterly results have generated both excitement and apprehension, as the performance of one stock holds substantial influence over the global equity landscape.

Changing electoral dynamics: We've seen EM elections in the first half of the year, French and the UK parliamentary elections in early July. Now US politics is taking precedence.

While the presidential contest's dimensions have changed, it's not clear as what could be the implications down the ballot, as the November election nears, the investors are likely to be more attuned to the potential ramifications of its outcome for businesses, the economy and the capital markets.

Trump's Weak-Dollar Strategy: Economic Nationalism's Comeback?

While trade policy watchers seem relatively calm about the prospects of a Trump restoration, Trump's long-standing push for a weaker dollar, championed by figures like Robert Lighthizer, signals a strategic shift that could reshape global trade dynamics—once again placing economic nationalism at the forefront of U.S. policy.



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Geopolitical risk remains but has shifted: A world long shaped by globalization and geoeconomics has swiftly transitioned to one grounded in geopolitical risk. Accumulating shocks, such as the Russia-Ukraine conflict and tensions in the Middle East, have persisted, significantly reorganizing global structures and relations in 2024.

Why should investors ignore the geopolitical noise?
Despite a tumultuous year of political elections and geopolitical tensions, markets have progressed. The key lesson for investors is to ignore the noise, focus on asset quality and price, and remain patient—principles we have consistently upheld and should continue to follow.

Central Bank Easing May Boost Gold: Central bank easing could create upside risks for gold and silver. With central bank buying momentum fading, the next catalyst for rising gold prices may be inflows from discretionary funds and ETF holders. This could be driven by a Fed rate-cutting cycle and lower interest rates, reducing the opportunity cost of holding gold compared to cash.

Indian Macro-Economic Update and Key Events

GST Collections: August saw a dip in GST collections to Rs 1.75 lakh crore. However, this represents a 10% increase compared to the same month last year.

GDP Growth: The economy's growth rate slowed to a 5-quarter low of 6.7% in Q1FY25. This slowdown coincides with the Capital Goods Index showing early signs of fatigue.

Banking Sector Insights: Deposit vs. Credit Growth: While deposits remain a focal point, the real concern lies in the increased reliance on intra-bank borrowings to fund credit. Historically, credit growth has outpaced deposits in 17 of the past 33 years. Thus, the current lag in deposit growth isn't as alarming as the growing dependence on borrowings.

Regulatory and Market Risks: There is an ongoing regulatory concern as household savings increasingly flow into non-productive activities, particularly speculation, which could pose risks to financial stability.

Hindenburg Report: Market Maturity Outpaces Sensationalism: The Indian capital markets have demonstrated resilience and maturity in the face of repeated allegations. Despite the gravity of the claims in the Hindenburg report, which once led to a massive $150-billion loss in Adani stocks, the market's reaction this time has been notably measured. Investors are showing a discerning attitude, no longer swayed by sensational reports but instead focusing on verified information. This shift signals a growing confidence and sophistication within the market, reflecting its ability to withstand external pressures and prioritize long-term stability over short-term panic.

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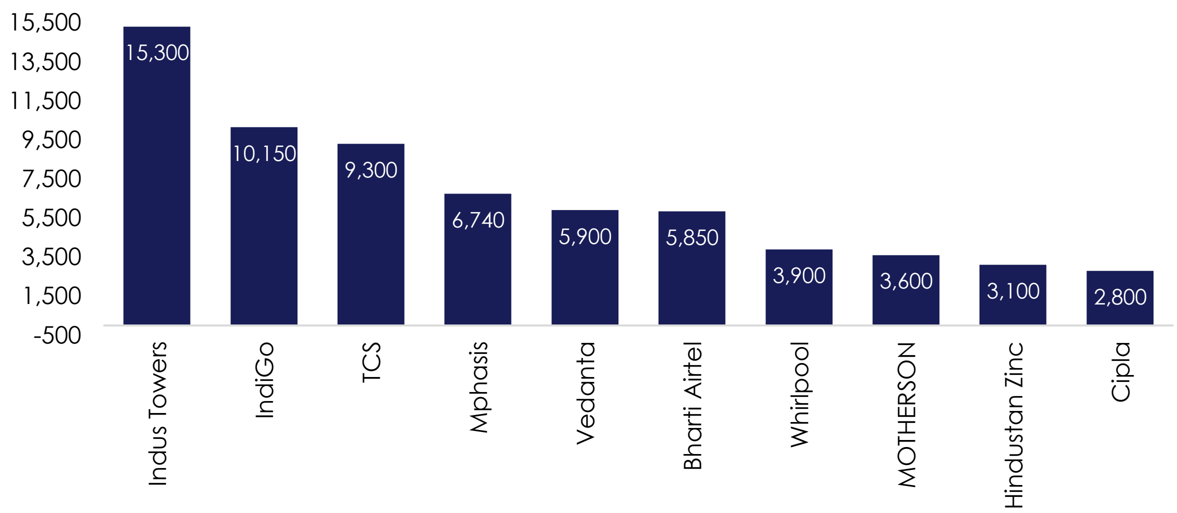
Domestic flows underpin India's equity valuations

Since 2020, retail investors have rewritten the playbook in Indian markets, emerging as the 'smart money', while FPIs, despite their early entry in 2003, missed the latest wave of India's growth. With the U.S. economy slowing, FPIs are at a crossroads: stay on the sidelines or dive back in. One thing is clear—this is purely a retailer's bull market, and they deserve recognition for their continued faith in the Indian growth story.

The big question then arises: If both foreign institutional investors (FIIs) and domestic investors are buying, who would be the seller? The likely answer: is company promoters.

Promoters sell-off in 2024



Source: Prime Database, BSE

Promoter stake sales in Indian equity market are at multi-year highs driven by strategic reasons like debt reduction and compliance with shareholding norms. Leaving investors guessing whether the stock market boom has taken valuations to unsustainable levels, India Inc bigwigs are making the most of the liquidity-fueled rally as promoter selling has just crossed the Rs 1-lakh-crore mark in 2024.

What Are the Key Risks to the Market?

- Indian markets are highly responsive to domestic macroeconomic factors.
- A significant domestic macro event would be needed to trigger a substantial correction in the Indian market.
- Sustained buying by both FIIs and domestic investors over an extended period could lead to market imbalances and unhealthy conditions.

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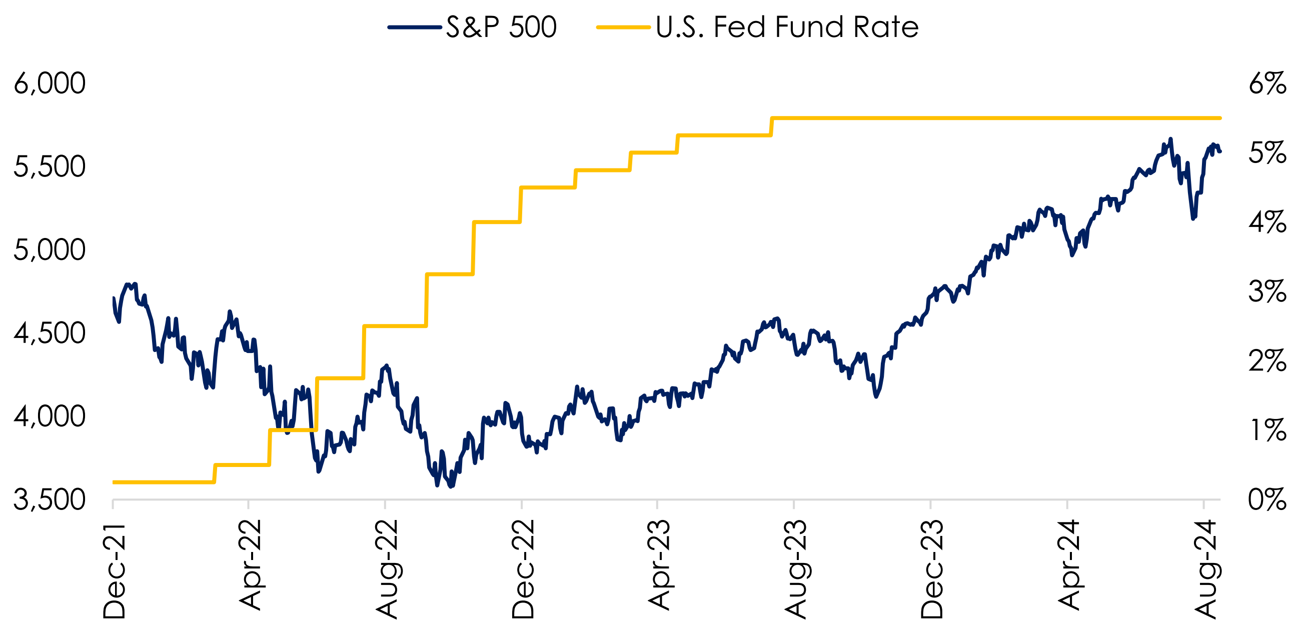
The Futility of Predicting the Unpredictable:

The global economy is incredibly complex, with data that can vary and interpretations that can shift. Unexpected events can also play a role. If central bankers themselves are uncertain about their next steps, it's understandable that predicting outcomes is challenging. Nonetheless, some pundits continue to analyze policymakers' every word, gesture, and even their silence for hints, which can be quite speculative.



Don't sweat the central banks—hawkish or dovish, it's all birdbrained. The real story is the bull market ahead, and even a Fed rate cut is just one chapter in the macro saga. Expect volatility but enjoy the ride.

WCA Outlook Equities

Steady as she goes. With the broad equity market trading over fair value, we advocate for investors to position themselves at a market weight within their targeted long-term asset allocations between equity and fixed income. With the rate of economic growth projected to slow for the next few quarters, stock markets could become increasingly volatile this fall, and pullbacks could provide an opportunity to move back to overweight equity positions. Within the equity portion of a portfolio, we continue to see the best chance in the value category stocks.

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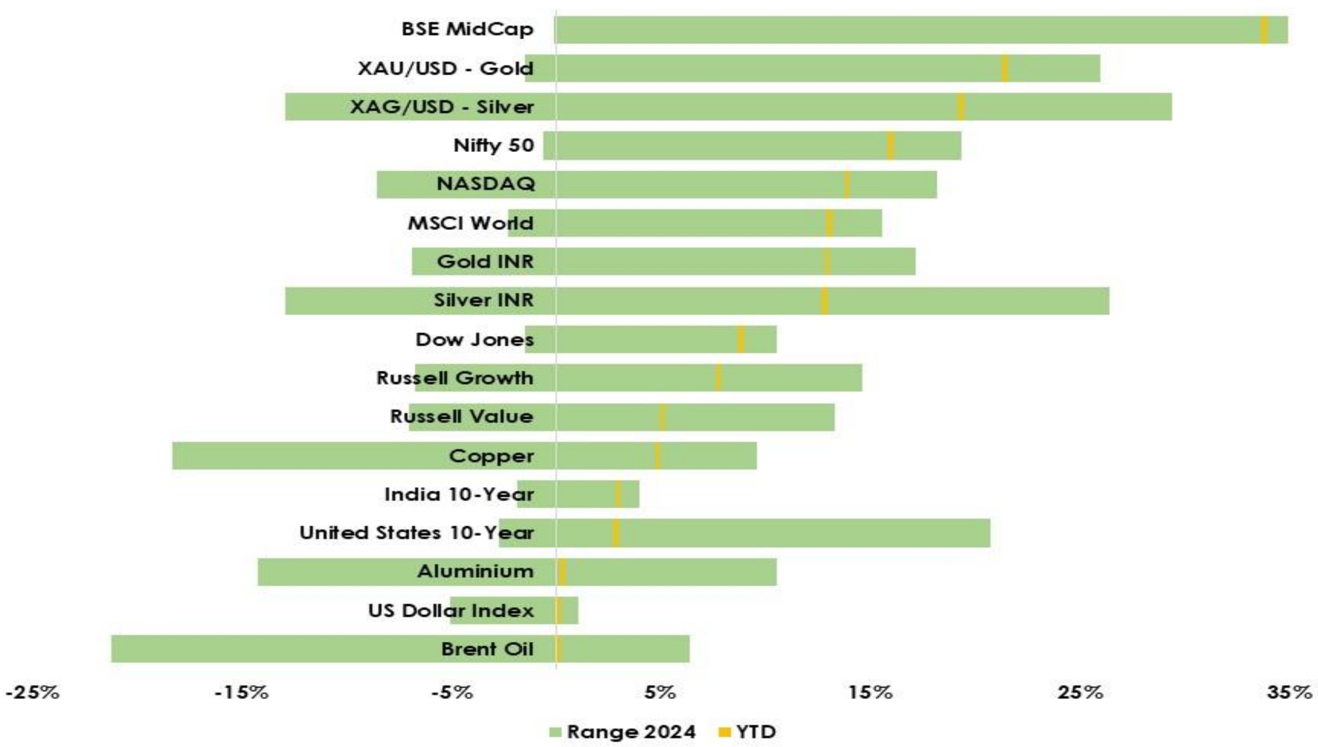
WCA Outlook Fixed Income

The recent policy has focused on volatile food inflation, with the RBI/MPC drawing comfort from the ongoing strength in growth. This is especially feasible, as a continued focus suggests continued inaction, underpinned by the idea that India's policy rate is not far from what would be considered the long-term neutral rate. Thus, there is very little risk of a 'policy error' by the RBI, unlike its Western counterparts. That said, inflation is heavily skewed, and the volatile vegetable component may (hopefully) soon offer some relief. While the RBI's growth forecast is strong, risks persist, particularly from global factors, as large parts of the world are distinctly slowing. Overall, for the reasons analyzed here, we believe the threshold to signal a lower probability of continued inaction may be met relatively soon. We expect a stance change in the October policy, followed by a rate cut in December. That said, a change in stance does not necessarily need to precede the first rate cut.

Selected asset performance 2024 year – to date and range



Data Source: https://www.investing.com/

Our overall view is that alternatives have an important role in multi-asset portfolios.

HowcanWodehouseCapitalAdvisorshelp?

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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