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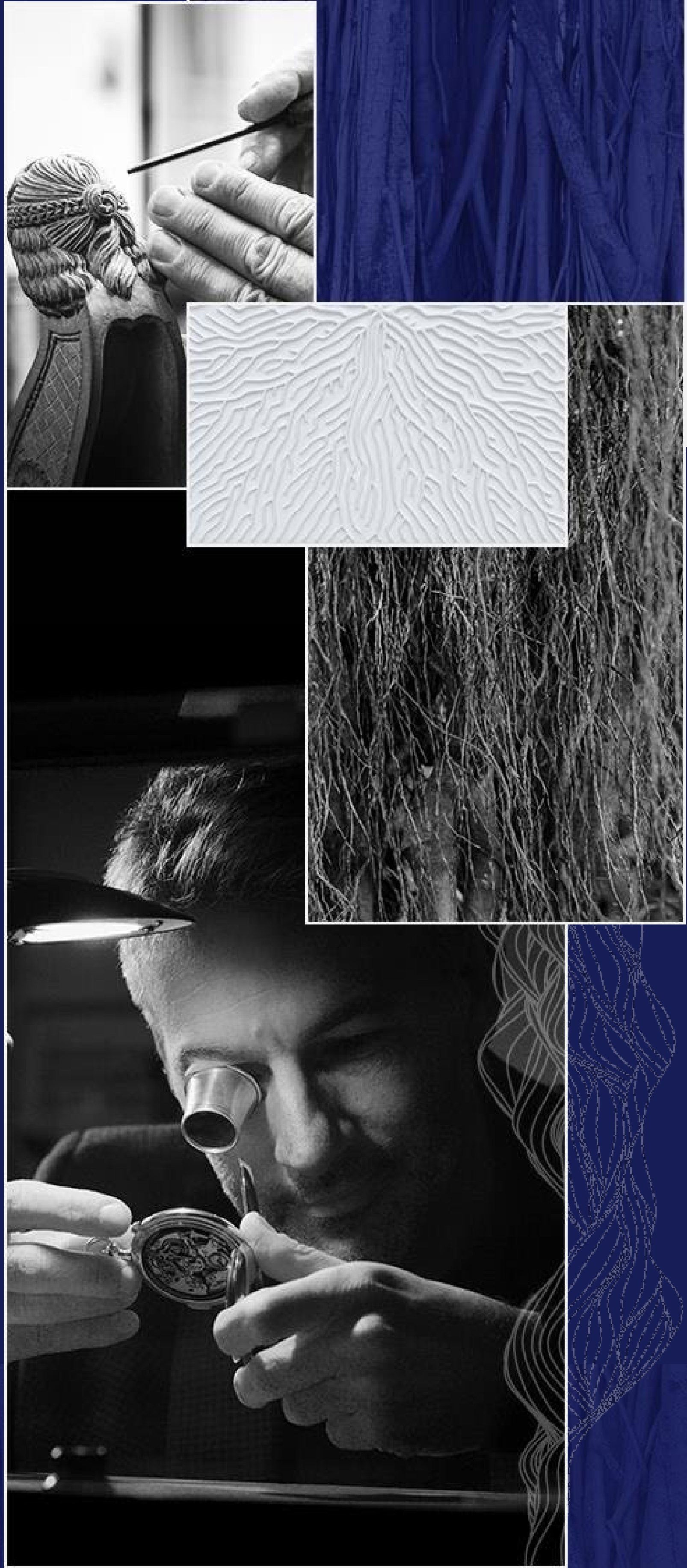

NEWSLETTER
December 2023

WODEHOUSE

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Indian – Market Outlook

For most investors, 2023 marked a much-needed comeback when it came to both stock and bond market performance after a challenging 2022. As we enter 2024, the investment landscape is set to shift significantly. This year will usher in a new phase as central banks focus on supporting economic growth and reshaping market expectations. We expect the effects of extreme fiscal policy to wane, with inflation fears giving way to concerns about economic growth and deflation, triggering interest rate reductions.

In the face of unprecedented challenges, the resilience and adaptability of economies and markets will be tested. However, with careful analysis and innovative thinking, we can confidently navigate these uncharted waters. Looking ahead to 2024 and beyond, one thing remains certain given the economic progress in the U.S. since the Second World War, a simple conclusion emerges. Global growth is set to slow down due to the high-interest rates engineered by the major central banks of the world. Meanwhile, China might recover from its trough and, with it, pick up the demand for commodities. These external factors could create push-and-pull effects on India's macros and bond yields.

Domestically, the RBI was able to balance growth–inflation dynamics under a hawkish US Fed. We believe the work of monetary policy has done its heavy lifting, and going forward, fiscal consolidation will be a necessary condition to maintain the growth-inflation balance.

Market Watch									
Indian Equities	**Nov-23**	**1 Month**	**1 Year**	**3 Year**	**Currency**	**Nov-23**	**1 Month**	**1 Year**	**3 Year**
Nifty 50	21,742	7.3%	19.5%	55.1%	USD/INR	83.2	0.0%	0.6%	13.8%
S&P BSE Sensex	72,272	7.1%	18.2%	51.0%	EUR/INR	92.1	1.7%	4.4%	3.8%
S&P BSE Midcap	37,037	7.1%	45.5%	103.9%	GBP/INR	106.0	0.1%	6.3%	6.0%
S&P BSE Smallcap	42,987	6.0%	47.4%	135.4%	JPY/INR	1.7	-4.1%	7.1%	19.9%
Global Equities					**Economic Data (Abs)**				
Dow Jones (US)	37,690	4.0%	13.7%	23.1%	10-year Ind G Sec	7.18%	7.28%	7.33%	6.45%
Nasdaq (US)	15,011	4.9%	43.4%	16.5%	CPI Inflation Ind	5.55%	4.87%	5.88%	6.93%
FTSE 100 (UK)	7,733	2.7%	3.8%	19.7%	WPI Inflation Ind	0.26%	-0.52%	5.85%	1.55%
Nikkei 225 (Japan)	33,464	0.1%	28.2%	21.9%	US Dollar Index (DXY)	101.4	-1.8%	-2.0%	12.7%
Hang Seng (HK)	17,047	1.3%	-13.8%	-37.4%	CBOE VIX	12.5	-1.4%	-42.6%	-45.3%
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	**-**
Gold USD	2,062.9	-0.4%	13.1%	8.7%	Indian GDP YoY	7.6%	6.8%	7.8%	
Silver USD	23.8	-6.4%	-0.8%	-9.7%	US GDP QoQ	4.9%	5.2%	2.1%	
Brent Oil USD	77.1	-2.3%	-10.3%	48.8%	China GDP YoY	4.9%	4.4%	6.3%	

Source: investing.com

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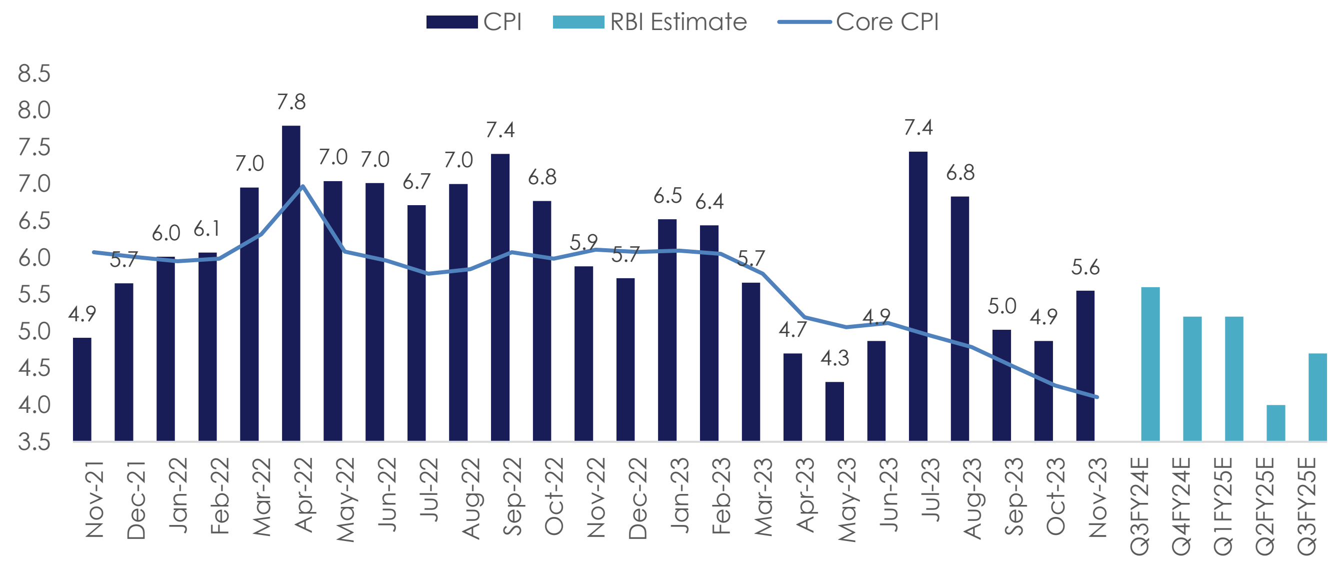
RBI Monetary Policy Update – "Status quo"

- MPC voted unanimously to keep the policy rate unchanged at 6.50% for its fifth consecutive meeting.
- RBI kept its FY24 inflation forecasts unchanged but expects a reduction in FY25.
- The growth outlook is positive and revised to 7%.
- The overall tone was more balanced than in previous policies.
- An upward revision in growth while keeping inflation unchanged is positive, reflecting capex-led growth and hence less inflationary.



Source: https://www.rbi.org.in/

Monetary Transmission of RBI's Policy

Particulars	Pre-Rate Hikes (Apr 30, 2022)	End of 2022	Change (in bps)	Current Rates (Dec 31, 2023)	Change (in bps)	Remarks
Repo Rate	4.00%	6.25%	225	6.50%	25	*RBI hiked rates aggressively in 2022*
Lending Rate	8.72%	9.50%	78	9.80%	30	*Rate hike transmission was front-ended*
Deposit Rates	5.03%	5.78%	75	6.80%	102	*Rate hike transmission was back-ended*
182-day T-Bill	4.39%	6.73%	234	7.12%	39	*Short term rates rose faster in response to hikes.*
10-year G-Sec	7.14%	7.33%	19	7.21%	-12	*Longer end rates were immune to rate hikes*
3-year AAA	6.52%	7.65%	113	7.70%	5	*Accrual space transmission happened incrementally*
3-year AA	7.12%	8.33%	121	8.45%	12	

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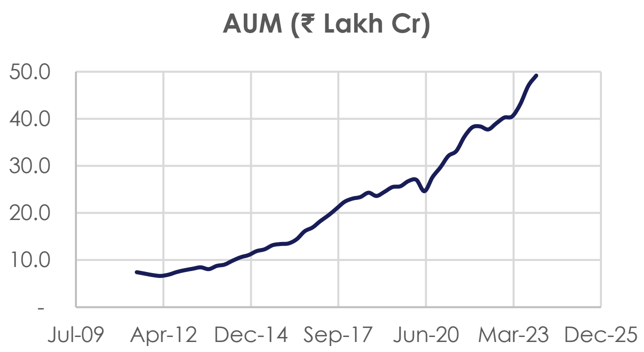
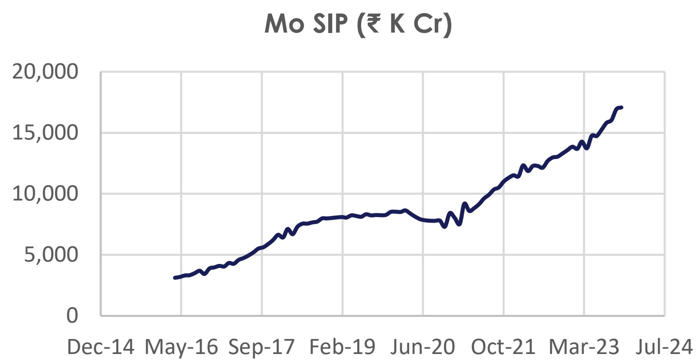
Investor Confidence Soars as Mutual Fund SIP Inflows Show Unwavering Growth

- The Indian mutual fund industry has witnessed a remarkable surge, with Assets Under Management (AUM) growing by 21% to ₹49.05 lakh crore as of November 30, 2023.
- The industry targets ₹100 trillion AUM, driven by increased investor interest fueled by a growing middle class, higher financial literacy, and a positive economic outlook.
- The number of SIP accounts has reached 74.4 million, and SIP contributions increased by 25% to ₹1.56 lakh crore in 2022-23.
- SIPs constitute around 17% of the total AUM, standing at ₹6.83 lakh crore in 2022-23, showcasing consistent growth.





Driving Factors:

- Expansion of financial intermediaries into Tier II and Tier III towns.
- Ongoing government development efforts contributing to localisation and growth.
- Positive sentiment around macroeconomic fundamentals, employment generation, and government spending.

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Month	Total No. of outstanding SIP Accounts	No. of New SIPs registered	No. of SIPs discontinued/ tenure completed	SIP AUM ₹ crore	SIP Contribution ₹ crore
Apr 23 - Nov 23	**744.1**	**243.3**	**135.1**	**9,31,333**	**1,24,313**
Nov-23	744.1	30.8	16.7	9,31,333	17,073
Oct-23	730.0	34.7	17.6	8,59,924	16,928
Sep-23	712.9	36.8	20.7	8,70,363	16,042
Aug-23	696.9	35.9	19.6	8,47,131	15,814
Jul-23	680.5	33.1	17.9	8,32,275	15,245
Jun-23	665.4	27.8	15.3	7,93,609	14,734
May-23	652.9	24.7	14.2	7,52,944	14,749
Apr-23	642.3	19.6	13.2	7,17,176	13,728
Apr 22 -Mar 23	**635.99**	**251.4**	**143.2**	**6,83,296**	**1,55,972**
Apr 21– Mar 22	**527.7**	**266.4**	**111.2**	**5,76,358**	**1,24,566**

Source: https://www.amfiindia.com/

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Mutual Funds: SIP inflows rising consistently; is this trend sustainable?

- While some SIPs are discontinued or completed due to various reasons, a large number of new investors are entering the market.
- In November alone, the industry witnessed record-high SIP inflows of ₹17,073 crore, with 30.80 lakh new SIPs registered.

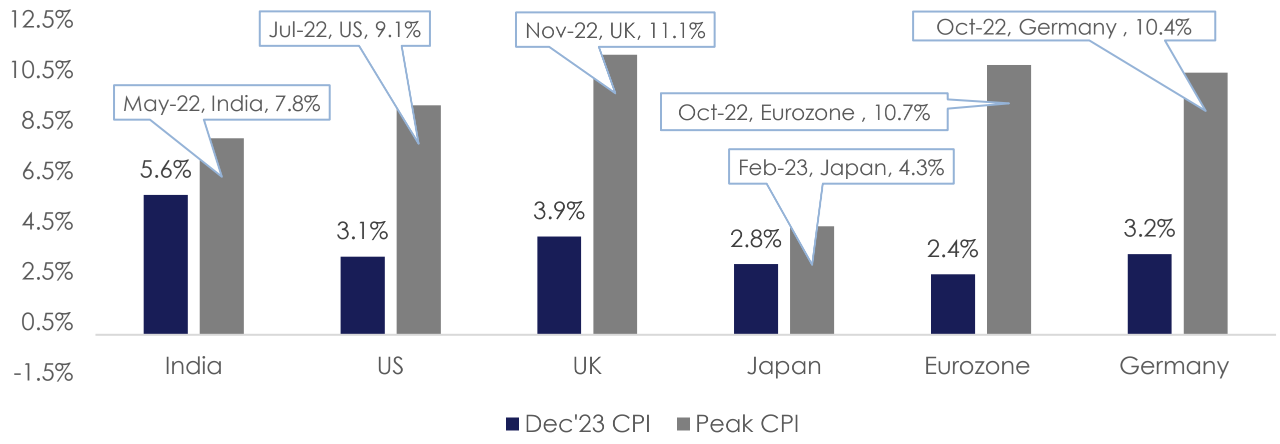
Conclusion:

- The sustained performance of the Indian equity market amid global uncertainties, coupled with the country's robust fundamentals, continues to attract investors.
- The disciplined approach of investing through SIPs is expected to contribute to the industry's growth in the medium to long term.
- Continued SIP inflows may lead to a potential premium scarcity in the equity market, where an excess of capital competes for a limited pool of shares, creating a challenging situation for investors.

Perspectives on Gambling Advertisements: Ignoring Past Lessons

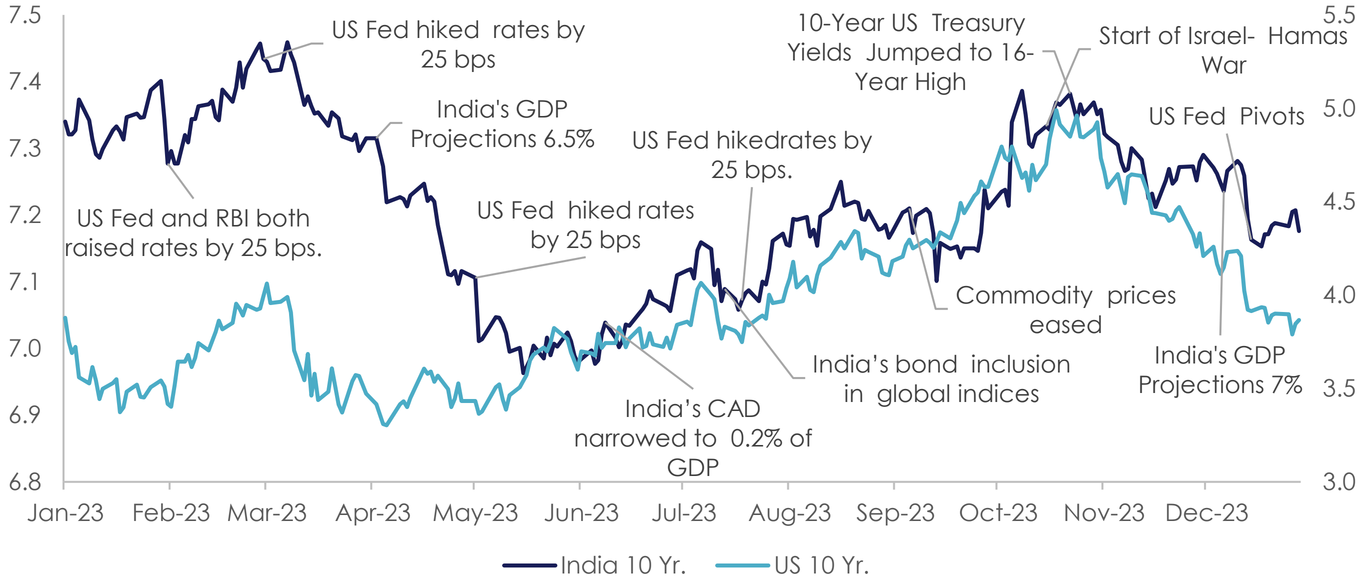
With the proliferation and acceptance of gambling in society, gambling advertisements have become increasingly prominent. Despite attempts to protect minors from harm by prohibiting them from engaging in most forms of gambling, there are few restrictions on the marketing of gambling products. The pervasive influence of these promotions, often backed by celebrities and athletes, not only grooms children for gambling but also promotes risky behavior. It's time to prioritize the well-being of our future generations by eliminating these ads that contribute to the normalization of gambling among the young and impressionable.

Inflation continues to moderate Globally.



- Inflation continues to moderate from its peak levels across major economies.
- Investors are still cheering about the thought of the Fed taking their hands off the interest rate situation, but there's a much longer profit play out there for 2024.

A tumultuous year for Bond markets



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

WCA Outlook Equities

We think the biggest problem in 2024 is going to be one of expectations. Because 2023 has been such a good year for equities, debt, and even gold, people's expectations have again gone out of whack. People should moderate their portfolios now. Our worry with all this mid and small-cap rally, especially small-cap, is that now people are demanding microcap funds. That's scary.

If you are looking to invest in a small or midcap mutual fund for the first time, be ready for lackluster returns over the next two years. Today, the challenge is that the markets are not cheap. Historically, we have observed that any area that attracts a lot of money is the area where investors don't make money in the medium run. Consider people who invested in tech funds in 1999, in infrastructure funds in 2007, in small and midcap funds in 2017, and in new-age companies in 2021. None of them made money in the medium term. Now, people are again investing in small and midcap funds. The challenge is to convince people about this fact.

Key Points:

- Risks are hard to spot, which is why the best solution to manage risk is through asset allocation.

- With rates dropping, dividend-yielding stocks will likely become more attractive in 2024. Income investors, who previously benefited from the Fed's higher rates, should now reconsider and include appealing dividend stocks in their portfolio strategy.

WCA Outlook Fixed Income

- The policy debate has shifted from "how high the rates should be" to "how long to keep rates high enough".
- With the central bank focused on disinflation, we expect a policy pivot in the latter part of CY24 as some "last mile" inflation pressures remain.
- Expect a shallow rate cut cycle given that domestic growth remains resilient and inflation may not sustainably remain at 4%.
- Moderate duration (1-4 years) in high credit quality assets seems to be most attractive from a risk/reward perspective as it provides a reasonable level of real yields with the possibility of participating in capital gains as the interest rate cycle turns.
- Investors with a 6–12-month horizon can consider an allocation to low-duration/ money market strategies.
- Investors with more than 12 months investment horizon can consider allocation towards moderate duration categories.

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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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