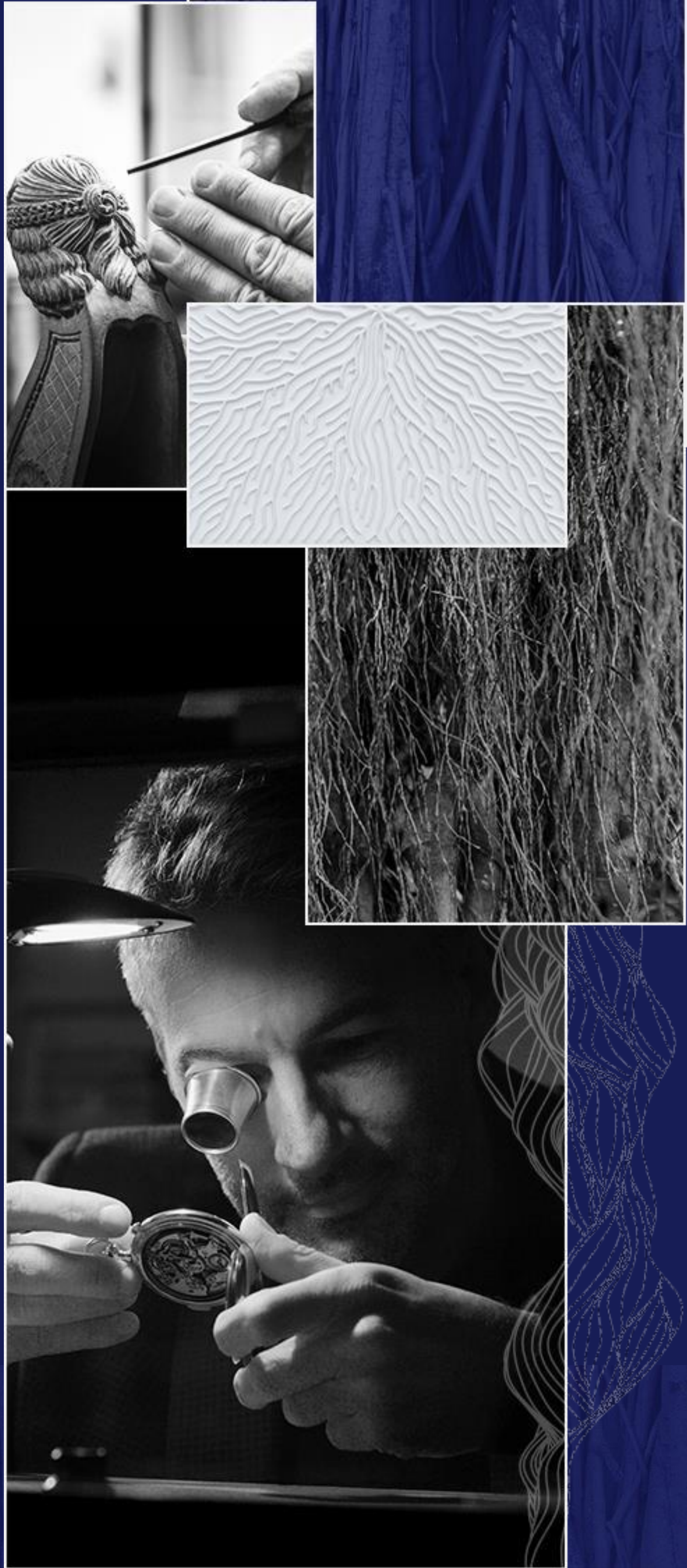

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NEWSLETTER
February 2024

WODEHOUSE

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WORLD M&A ALLIANCE

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Indian – Market Outlook

As we approach the end of fiscal year 2024, it seems that the world has transitioned beyond the pinnacle of interest rate hikes, inflation, and economic consolidation. In India, the pace of macroeconomic growth remains robust, and economic activities are above pre-pandemic levels. Government spending has resumed, employment is increasing, and supply bottlenecks are gradually easing, providing a counterbalance to the negative impact of higher inflation (although it is moderating faster). In the medium term, the Indian economy is poised to receive support from a stable political scenario, favorable policy environment, the effects of Production-Linked Incentive (PLI) programs, opportunities arising from changes in the global supply chain, and the government's focus on infrastructure spending.

The outlook for the bond market looks favourable with the rate environment seeming benign. The monetary policy will continue to be actively disinflationary keeping an eye on global cues & events, being strongly interrelated. Despite the core inflation steadily easing, food inflation remains volatile and broad-based & remains a key concern. A reasonable visibility on the potential attainment of a ~4% inflation target and easing in policy rates from the developed markets could pivot the reaction by RBI in favor of a rate cut, possibly in June policy, we estimate a total of 50 bps rate cuts in the next financial year.

Market Watch

Indian Equities	Mar-24	1 Month	1 Year	3 Year	Currency	Mar-24	1 Month	1 Year	3 Year
Nifty 50	21,983	2.1%	26.9%	47.4%	USD/INR	82.92	-0.2%	0.7%	13.2%
S&P BSE Sensex	72,500	1.9%	23.1%	44.1%	EUR/INR	89.97	-0.2%	3.1%	1.6%
S&P BSE Midcap	39,347	3.1%	60.9%	91.1%	GBP/INR	105.05	-0.5%	6.9%	2.8%
S&P BSE Smallcap	45,225	0.7%	63.5%	117.4%	INR/JPY	1.81	1.8%	8.9%	24.2%
Global Equities					**Economic Data (Abs)**				
Dow Jones (US)	38,949	1.3%	18.0%	24.1%	10-year Ind G Sec	7.08%	7.17%	7.46%	6.23%
Nasdaq (US)	15,948	2.8%	39.1%	19.4%	CPI Inflation Ind	5.10%	5.69%	6.52%	4.06%
FTSE 100 (UK)	7,636	-0.4%	-3.9%	15.5%	WPI Inflation Ind	0.27%	0.73%	4.73%	2.03%
Nikkei 225 (Japan)	39,189	8.7%	42.5%	33.3%	US Dollar Index (DXY)	103.8	0.4%	-1.2%	14.3%
Hang Seng (HK)	16,511	5.2%	-19.2%	-43.3%	CBOE VIX	14.0	5.0%	-28.6%	-42.0%
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	**-**
Gold USD	2,033.1	-0.1%	10.8%	17.0%	Indian GDP YoY	8.4%	6.6%	7.6%	
Silv er USD	22.4	-3.3%	7.3%	-16.2%	US GDP QoQ	3.2%	3.3%	4.9%	
Brent Oil USD	81.9	-1.1%	-3.3%	30.7%	China GDP YoY	5.2%	5.3%	4.9%	

Source: inv esting.com

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Will Indian elections shake or shape your portfolio?

Forecasting both markets and elections is challenging. In 2024, over 2 billion voters across 50 countries will participate in record-breaking elections, notably in India and the US. In India, PM Narendra Modi's government is likely to retain its majority, with low perceived risk to continuity. Conversely, the US election presents a more contentious scenario with potential legal, political, economic, and security implications. This uncertainty is a known unknown that cannot be overlooked.

India's elections are a big show, and with the upcoming General Election in 2024, the stage is set for a roller-coaster ride in the stock markets. The big question on every investor's mind is: How will this event move the markets?

If you were to compare it with the historical average, a lot of returns have already been discounted ... and the victory of the current government is already priced to perfection.

Election Year	1 Yr. Before	6 MTh Before	During Elections	6 MTh After	1 Yr. After
1999	2,919	3,569	4,697	4,866	4,092
2004	2,960	4,949	5,399	5,964	6,451
2009	17,434	9,385	11,872	16,848	16,994
2014	20,247	20,399	24,121	28,046	27,324
2019	34,344	34,981	38,811	40,359	30,672
2024	61,964	65,655	72,500*		

Analysts believe the next leg of the trending move could happen if the Reserve Bank of India cuts interest rates.

The Impact of Geopolitics?

From elections, we head to geopolitics, which remains on the boil. The two large conflicts that dominate the global landscape are Ukraine-Russia and Israel-Hamas. The most significant risk here is that of conflagration with more players or countries getting pulled into the fray. We just don’t know yet. Alternatively, the conflicts may simmer down or for that matter reach a peaceful resolution. That would certainly be good for those directly in the line of fire and have a significant impact globally as well.

One important takeaway for India from the Ukraine-Russia conflict is the importance of establishing a robust defence manufacturing infrastructure. As India pursues its goal of becoming the world's third-largest economy with a GDP of $5 trillion within the next three years, it must remain vigilant regarding geopolitical challenges.

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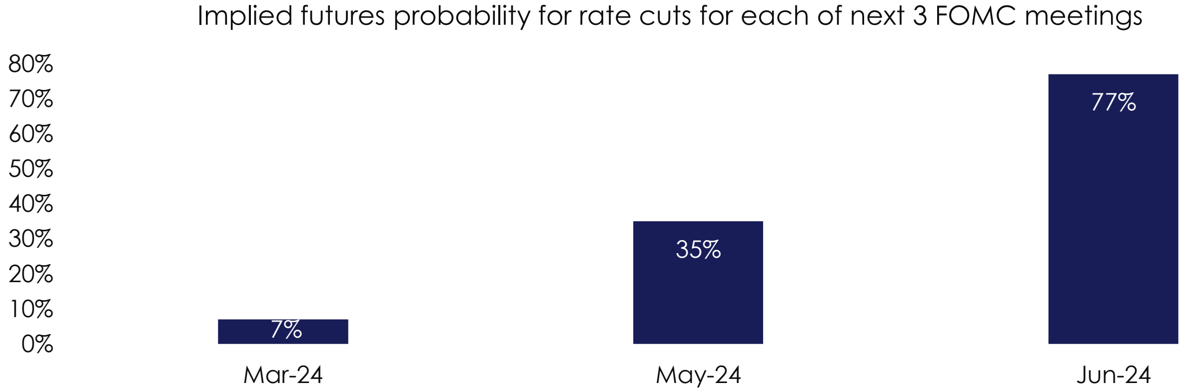
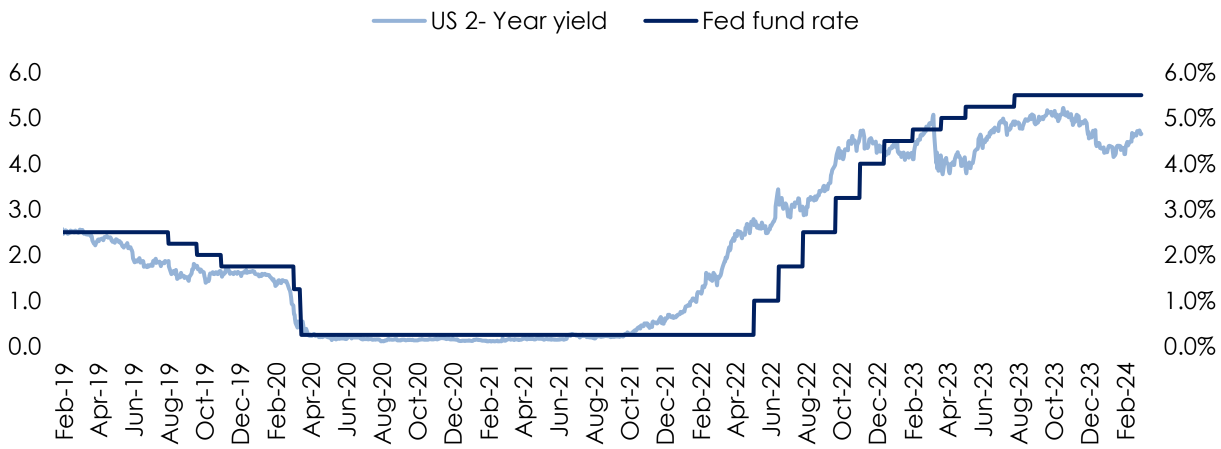
Markets Crave Rate Cuts

The latest inflation data hovers around 3%, and the markets have only delayed rather than cancelled expectations that the Federal Reserve will start trimming interest rates in the near future.

The first cut is expected for the June FOMC meeting, according to Fed funds futures, which are currently pricing in a roughly 77% probability for easing on that date, based on CME data Feb 29.



The 2-year yield was 4.65% yesterday (Feb. 28), substantially below the Fed's current 5.25%-to-5.50% target rate (or roughly 5.32% at the median).



The Treasury market expects rate cuts in the near term. Of course, the market has been expecting that for more than a year, based on the 2-year yield, and the implied forecast has yet to play out as anticipated.

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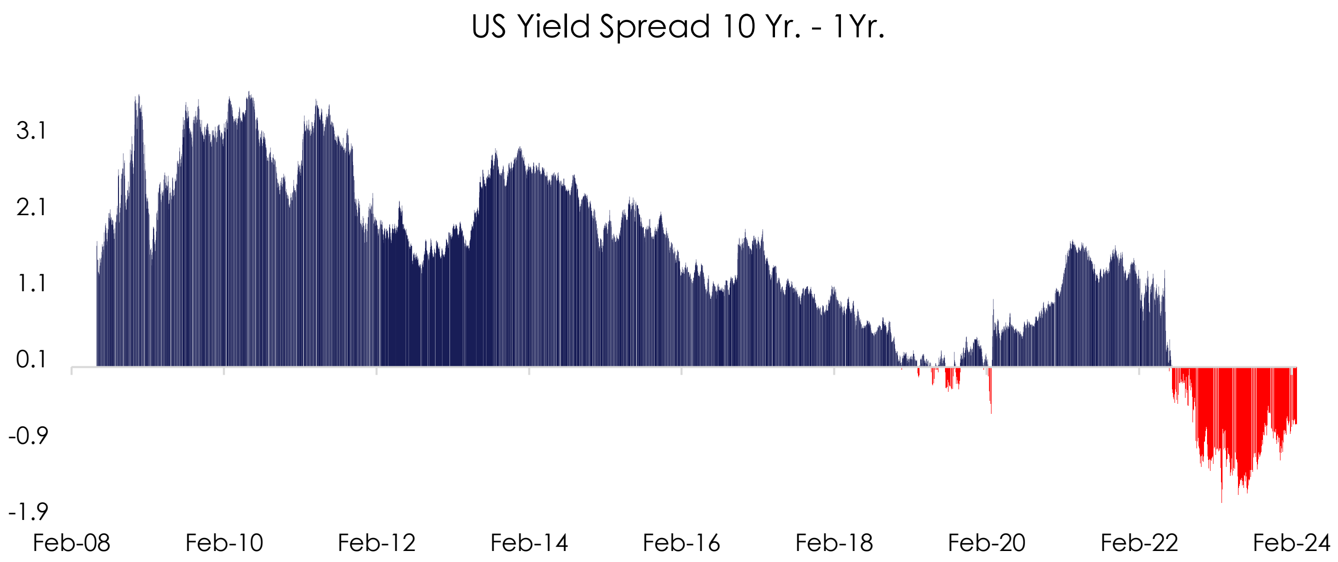
In financial markets, reverting to the mean is an unyielding rule.

Inverted yield curves are not typical. When the yield curve returns to its 'normal shape,' one of two outcomes could occur: Short-term rates could drop, or long-term rates could rise. Short-term rates respond swiftly to interest rate changes, while long-term rates are influenced more by supply-demand conditions and the macroeconomic environment.



China's Central Bank Cuts Lending Rate Amid Economic Challenges

The People's Bank of China cut the five-year loan prime rate (LPR) to 3.95% from 4.2%, while the one-year LPR, which serves as a benchmark for corporate loans, was kept unchanged at 3.45%.

China's central bank's move to cut the lending rate is aimed at encouraging commercial banks to grant more credit and at more advantageous rates.

The Chinese stock market has been pretty much in a free fall despite regular attempts from authorities to stabilize it.

In the meantime, the real estate market continues to suffer and the Chinese policymakers are grasping at straws to stimulate the economy.

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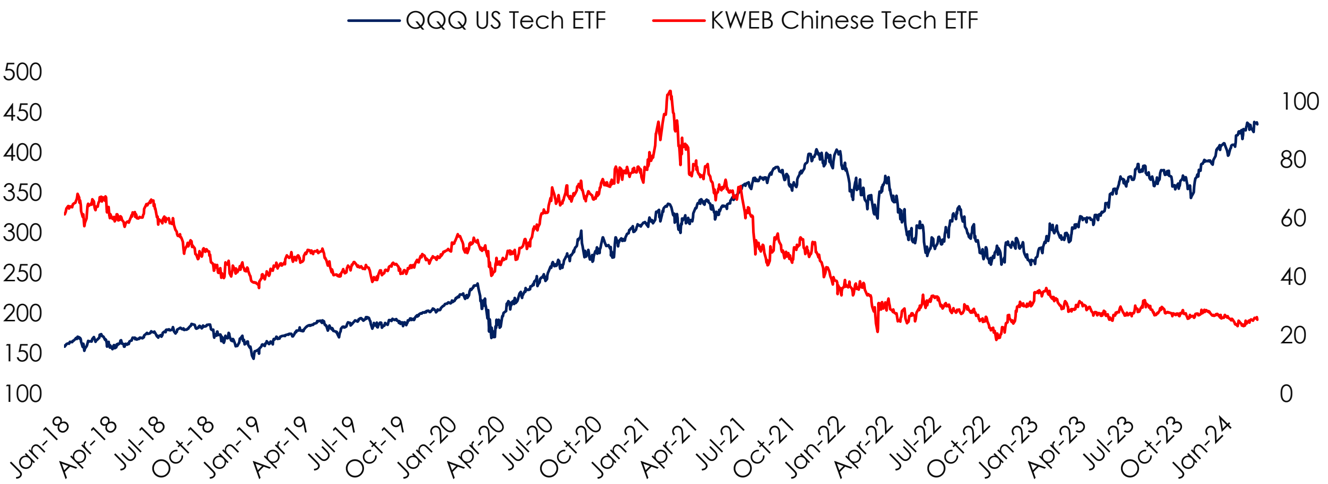

Addressing China's Balance Sheet Recession

China continues to remain in a balance sheet recession, as we highlighted in August of last year. A balance sheet recession is a toxic economic loop wherein households and corporations, having been affected by deleveraging and lower asset prices, refuse to take on new credit. Instead, they focus solely on repaying their debt and shrinking their balance sheets.

That causes a vicious loop of further deleveraging, lower asset prices, and lower economic activity which can't be stopped with lower interest rates. For sure you can't fix it by lowering interest rates and Japan shows us why.

In the early 1990s, the Japanese real estate bubble burst and the world's most famous balance sheet recession unfolded – the BoJ lowered and kept rates to 0% for decades after and nothing happened.

When you hit corporates and consumers' balance sheets hard through a deleveraging process, asking them to take more credit isn't going to work even if interest rates are low.

The best chance to stop a balance sheet recession is through targeted fiscal stimulus.

Exactly like the US did in 2009 and in a stealthy way the Chinese government can step in and use its balance sheet to throw fresh resources at troubled real estate developers and households.

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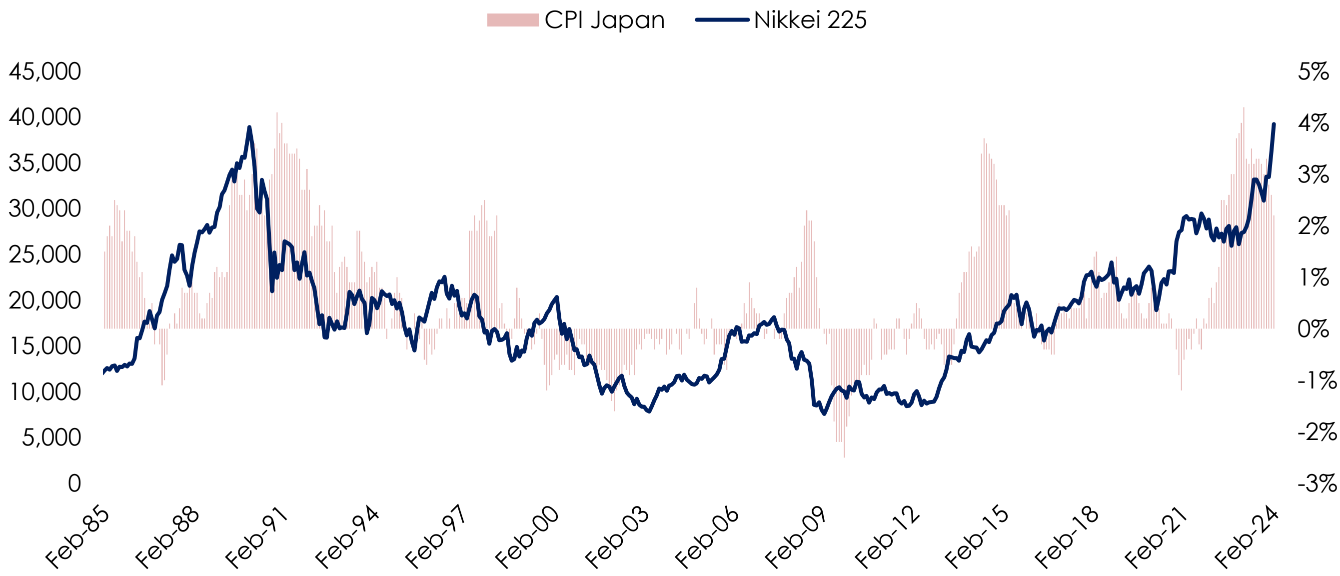
Japan's Economic Revival Key Takeaways

Japanese benchmark indices have moved up ever since we first spoke of it in May last year. The Nikkei 225 is trading at its highest levels in decades, and foreign investments are increasing, supported by domestic macroeconomic strength, a breakout from years of deflation, and renewed corporate governance reform.

It remains to be seen whether positive momentum can translate into a permanent regime shift, but the outlook for Japan is more favorable than it has been in the past, particularly for active investors well-positioned to identify market inefficiencies.

Success over the long term may require public and private market exposure, along with local investment expertise and an understanding of the cultural nuances of corporate Japan.



Japan finds itself in a domestic demand recovery characterized by an unfamiliar yet desirable cycle of rising prices and wage growth.

The Road Ahead

Japan's economic revival and intense focus on improving governance standards have captured investors' attention and may provide a powerful tailwind for corporate earnings in the years to come.

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WCA Outlook Equities

The market is seeing a sharp rotation from high-quality growth stocks to value stocks which has accelerated post-state election results. Domestic liquidity has been strong, while FII flows are weak the foreign interest to invest in India is strong given strong growth and attractive currency fundamentals. The broader market continues to outperform the headline index.

Risk-taking has been well-rewarded in the stock market over the last three years. The biggest risk today is the overconfidence that is building in the minds of investors rather than in events or developments. The risk is that we have already incorporated our collective potential into valuations. As we proceed, let us remain vigilant, adaptable and mindful that our investment horizons may shift with evolving circumstances. Moreover, we must remain vigilant, as any decrease in the likelihood of a US Fed rate cut in June could precipitate a fresh wave of market volatility, underscoring the importance of the optimal approach to Mid-cap and Small-cap segments along with certain Sectors like Capital Goods, Manufacturing, and IT which have seen significant price increases, offering both risks and potential gains. Navigating these segments demands economic insights and a clear investment strategy for effective decision-making.

WCA Outlook Fixed Income

The global monetary tightening cycle has ended and we are in for a long pause on rates both domestically and internationally. RBI will also be on a long pause and though we expect rate cuts only in Q3 of CY2024, RBI can change its monetary policy stance to "Neutral" before the commencement of rate cuts. The yield curve has flattened and can continue to stay flat given the positive demand/supply dynamics and rate cut prospects going into FY25.

- Government bonds are the popular choice for investors locally and internationally.
- State development loans (SDL) and corporate bonds issuance exceeded expectations, increasing availability through government securities.
- Despite tight liquidity measures by RBI, the overnight rate remains stable at around 6.75%
- Global interest rates have peaked with positive inflation changes and consistent improvements in India's domestic current account deficit.
- The domestic current account deficit is consistently improving and there's an anticipated continuous influx of global funds into the Indian bond market.

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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