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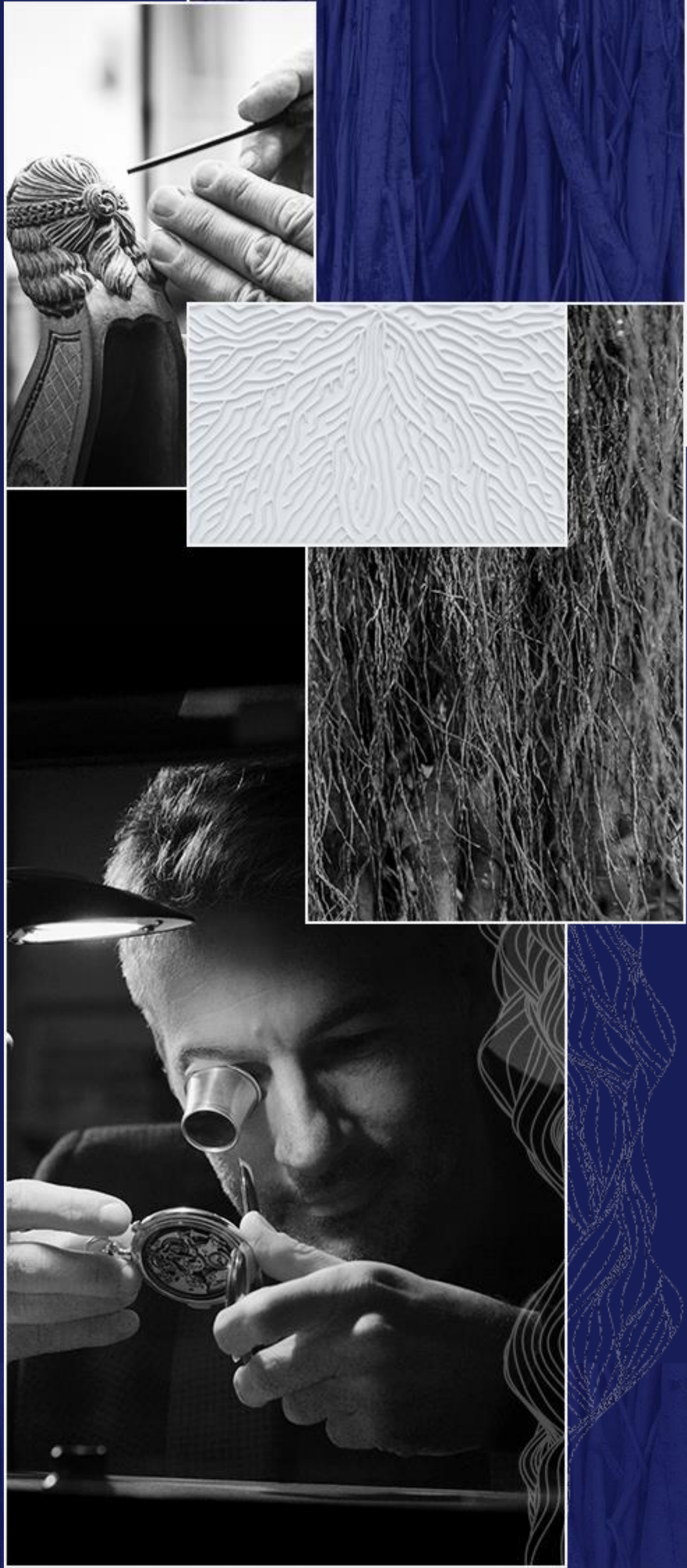

NEWSLETTER
January 2024

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Indian – Market Outlook

The new year has begun with positive trends in the stock markets, fostering optimism among investors, with an expectation that India's robust macro fundamentals and strong corporate earnings will override geopolitical risks and inflation concerns. Positive indicators encompass sustained domestic corporate earnings momentum, robust GDP growth, a favorable commodity price forecast, and the potential for global interest rate reductions.

Shifting investor sentiment in Chinese Economy: A significant shift is occurring as investors withdraw billions from China's slowing economy, once seen as a major growth engine. India and China closely observe the differing paths: On one hand, India, the fastest-growing major economy is expanding its infrastructure to attract global investment, while China faces economic challenges and a growing divide with the Western-led order.

US Markets: Financial markets started 2024 on a solid fundamental backdrop, including a persistent US economic expansion and monetary policymakers inclined toward easing. The expectation of Fed rate cuts in 2024 may already be priced into longer-term bonds, based on the direction of yields in recent months.

Yield inversion persists in US Bonds, a phenomenon that developed in 2022 and continues in 2023 is the unusual shape of the representing different bond maturities. Many yield curve pairs using various maturities have been inverted since late 2022. This is due in large part to the Fed's rate hikes, which have the greatest direct impact on short-term bond yields.

Market Watch									
Indian Equities	**Feb-24**	**1 Month**	**1 Year**	**3 Year**	**Currency**	**Feb-24**	**1 Month**	**1 Year**	**3 Year**
Nifty 50	21,854	0.7%	22.4%	46.4%	USD/INR	83.0	-0.1%	1.0%	14.0%
S&P BSE Sensex	72,086	0.1%	18.5%	42.1%	EUR/INR	89.5	-1.5%	0.9%	2.1%
S&P BSE Midcap	38,928	3.2%	59.2%	100.5%	GBP/INR	104.9	-0.8%	5.9%	4.9%
S&P BSE Smallcap	45,850	4.6%	64.6%	140.1%	JPY/INR	1.8	2.8%	12.1%	23.5%
Global Equities					**Economic Data (Abs)**				
Dow Jones (US)	38,654	3.2%	13.9%	24.1%	10-year Ind G Sec	7.05%	7.21%	7.24%	6.13%
Nasdaq (US)	15,629	7.6%	30.2%	12.8%	CPI Inflation Ind	5.69%	5.55%	5.72%	4.59%
FTSE 100 (UK)	7,616	-1.0%	-3.6%	17.4%	WPI Inflation Ind	0.73%	0.26%	4.95%	1.22%
Nikkei 225 (Japan)	36,158	8.3%	31.4%	25.6%	US Dollar Index (DXY)	104.0	1.5%	1.0%	14.2%
Hang Seng (HK)	15,534	-6.1%	-28.3%	-47.0%	CBOE VIX	13.9	3.8%	-24.4%	-33.6%
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	**-**
Gold USD	2,039.8	-0.3%	9.3%	12.6%	Indian GDP YoY	7.6%	6.8%	7.8%	
Silver USD	22.7	-2.1%	1.5%	-15.4%	US GDP QoQ	3.3%	2.0%	4.9%	
Brent Oil USD	77.7	-1.4%	-2.8%	30.9%	China GDP YoY	5.2%	5.3%	4.9%	

Source: investing.com

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Interim Budget 2024 Highlights

The Finance Minister, Nirmala Sitharaman, emphasized fiscal responsibility over populist measures in the pre-election budget presented on, February 1st, in the Lok Sabha. This interim budget, delivered just before the Lok Sabha Elections, maintained the existing tax slabs without any alterations in both the old and new tax regimes. The complete budget is scheduled to be presented in July after the formation of the new government following the Lok Sabha Elections. An interim budget displaying positive direction – maintaining continuity of vital government commitments, including:

Major announcements of 2024 Interim Budget:

- The government will establish a corpus of ₹1 lakh crore with a 50-year interest-free Loan to encourage private sectors to scale up research and innovation in sunrise domains.
- Under PM Gati Shakti, three major railway corridor programmes will be implemented.
- Projects for port connectivity, tourism infrastructure and amenities will be taken up on our islands.
- To achieve 'Net Zero' by 2070, coal gasification and liquefaction capacity shall be set up by 2030. The centre will provide financial assistance for the procurement of biomass aggregation machinery.
- Through Rooftop Solarisation, 1 crore households will be able to access 300 units of free electricity every month, saving up to ₹15,000 to ₹18,000 annually.
- Taxation and GST:
    - No changes in direct and indirect tax rates were announced.
    - The tax base of GST has doubled, with average monthly collections reaching Rs 1.66 lakh crore.

In Conclusion:
Budget 2024 sets ambitious targets for economic growth, infrastructure development, and sector-specific initiatives while maintaining fiscal prudence. The government's focus on innovation, green growth, and inclusive development aims to propel India towards becoming a developed nation by 2047.

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How global rating agencies missed India's growth pulse.

Over the last 20 years India has stood out as an economic outlier, growing faster than other major economies. However, despite its robust economic fundamentals, it still lacks a superior sovereign investment rating. Despite being a global bright spot for over fifteen years, rating agencies have not upgraded India's low ratings. Will the big three agencies reassess their evaluations in 2024?

Christian de Guzman of Moody's Investors Service states that India's fiscal consolidation has progressed since the pandemic, but it has not yet reached the level before the downgrade to BAA3. The bond markets are responding positively to the government's efforts, with lower borrowings and increased capital inflows expected. For a ratings upgrade, India's weak points, such as fiscal consolidation and debt reduction, need to show material improvement. This rating places India among the countries with the lowest investment grade, adversely impacting its ability to borrow at favorable rates in international markets. The downgrade underscores the urgent need for India to address underlying issues affecting its creditworthiness.

Understanding Credit Ratings: Credit rating agencies play a pivotal role in assessing the creditworthiness of countries through sovereign bonds. These assessments influence investor perceptions and borrowing costs for governments issuing bonds. India's ratings are determined by a combination of quantitative parameters and qualitative judgments, with perceptions often outweighing objective economic indicators.

Factor	Sub-factor	Assessment Types (Quantitative / Qualitative)
Factor: Economic Strength	Growth Dynamics	Quantitative
	Scale of the Economy	Quantitative
	National Income	Quantitative
	Adjustment to Factor Score	Qualitative
Factor: Institutions and Governance Strength	Quality of Institutions	Qualitative
	Policy Effectiveness	Qualitative
	Adjustment to Factor Score	Qualitative
Factor: Fiscal Strength	Debt Burden	Quantitative
	Debt Affordability	Quantitative
	Adjustments to Factor Score	Qualitative
Factor: Susceptibility to Event Risk	Political Risk	Qualitative
	Government Liquidity Risk	Qualitative
	Banking Sector Risk	Qualitative
	External Vulnerability Risk	Qualitative
	Adjustment to Factor Score	Qualitative

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The Cost of Lower Ratings: The ramifications of India's low credit rating are significant, translating into higher borrowing costs and diminished investor confidence. The Indian economy incurs substantial losses in interest payments due to the higher rates demanded by investors. This additional financial burden hampers economic growth and undermines India's efforts to achieve its development goals.

Challenges in Evaluation: India faces challenges in aligning with the evaluation criteria used by credit rating agencies, which are often skewed towards Western economic models. Factors such as the role of public sector banks and unique socio-economic considerations are inadequately accounted for in the assessment methodologies. This disconnect underscores the need for a more holistic approach that considers India's specific economic context.

Push for Reform: Recognizing the critical importance of addressing credit rating challenges, the Indian finance ministry has embarked on a concerted effort to advocate for reforms in the evaluation methodologies used by credit rating agencies. A comprehensive research paper has been presented, highlighting discrepancies in rating assessments and advocating for a more nuanced approach that accurately reflects India's economic fundamentals.

Credit Rating Ranking Countries Wise	Points	Rating. Legend
Australia Canada Denmark Germany Liechtenstein Luxembourg Netherlands Switzerland Norway Sweden European Union Singapore United States Austria Finland New Zealand France Taiwan United Arab Emirates	90-100	AA+ To AAA
Hong Kong Belgium Isle of Man Macau United Kingdom Qatar South Korea Cayman Islands Czech Republic Estonia Ireland Israel Kuwait	80-90	A+ To AA
Bermuda China Japan Lithuania Saudi Arabia Slovakia Iceland Malta Slovenia Chile Latvia Poland Spain	70-80	A- To A+
Malaysia Botswana Portugal Andorra Thailand Croatia Italy Bulgaria Peru Philippines Cyprus Hungary Indonesia Mexico Uruguay	60-70	BBB To A-
Kazakhstan **India** Panama Colombia Mauritius Montserrat Romania Aruba Azerbaijan Greece Morocco Trinidad and Tobago	50-60	BB+ To BBB

Looking Ahead: As India navigates the complex terrain of global economic dynamics, addressing credit rating challenges emerges as a crucial imperative. By advocating for reforms and challenging existing evaluation methodologies, India aims to secure a fairer assessment of its economic fundamentals. The outcome of these efforts will not only impact India's borrowing costs but also shape its trajectory as a global economic powerhouse.

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Paytm in Trouble: Understanding the Recent Developments

On January 31st, 2024, Paytm Payments Bank faced significant regulatory actions from the Reserve Bank of India (RBI), affecting its core services and leading to a substantial drop in market value. Let's dive into the key points of this development.

RBI Restrictions: The RBI barred Paytm Payments Bank from offering its core services due to persistent non-compliance, leading to a drastic impact on its operations.

Affected Services: Approximately 300 million wallets, 30 million bank accounts, and 8 million fast tags in Paytm's portfolio are affected by the RBI's actions.

History of Restrictions: This isn't the first time RBI has taken action against Paytm. Previous instances include bans on onboarding new users, rejection of payment aggregator licenses, and penalties for non-compliance.

Industry Perspective: Some industry experts argue that while RBI's actions aim to enforce compliance, they might portray India as an anti-startup ecosystem to foreign investors.

Reasons Behind RBI's Actions: RBI's actions are attributed to concerns over compliance, data security, and potential ties with Chinese companies, raising national security concerns.

Challenges Faced by Paytm: Paytm now faces the challenge of transitioning its nodal accounts to other banks within a tight timeframe to continue operations.

Impact on Customers: Customers using Paytm's UPI and fast tag services will be directly affected as the services will be discontinued post the specified deadline.

Business Lessons: The Paytm case underscores the importance of regulatory compliance, geopolitical factors in business decisions, and the careful calculation of incentives to avoid unintended consequences.

NYCB shows why US regional banks are not trouble-free yet.

The recent downturn in New York Community Bancorp's (NYCB) stock price serves as a stark reminder that US regional banks still face significant hurdles. Despite weathering a storm of deposit outflows that caused the demise of Silicon Valley Bank and First Republic last year, many regional banks now grapple with the task of revitalizing profitability in 2024.

- Managing funding costs and navigating exposure to the troubled commercial real estate sector are key obstacles for US regional banks.

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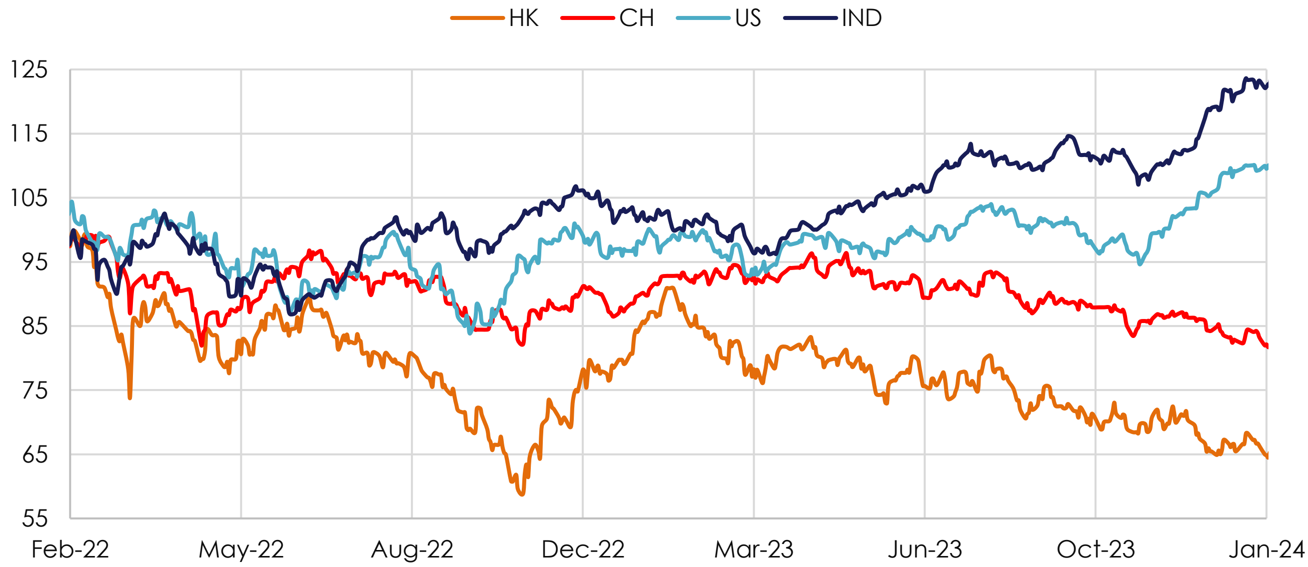
- NYCB's recent 44% share price decline highlights the significant challenge of overcoming these hurdles.
- NYCB's current situation stems partly from its role as a rescuer during the 2023 crisis, involving the swift acquisition of assets from regulators.
- This rapid expansion doubled NYCB's size, triggering heightened regulatory scrutiny due to surpassing the $100 billion asset threshold.
- The resulting regulatory requirements pose a dilemma for NYCB and other top 30 regional banks, sparking a debate on whether to pursue further consolidation for scaling up or opt for a smaller footprint to avoid stringent regulatory demands that could impact profitability.

In light of these challenges, it is evident that the recent crisis at NYCB underscores the ongoing challenges facing US regional banks, particularly regarding funding costs and exposure to troubled sectors. This situation prompts discussions about the optimal path forward, including considerations of further consolidation versus maintaining a smaller footprint to navigate regulatory demands. Moreover, speculation is mounting that the Federal Reserve may respond with a rate cut in June to address these challenges and resolve the liquidity crisis in the US financial system.

China's economy needs to get out of deflation for equities to rally.

Chinese officials face challenges addressing a struggling economy. Plans include a $278 billion rescue effort to stabilize the stock market, injecting $140 billion into banks for liquidity, and implementing measures to address property sector issues. Despite surpassing GDP growth expectations in 2023, a US research firm forecasts slower growth of 3-4% annually for China, citing unresolved structural issues like local government debt and limited progress in attracting foreign investment.



Source: investing.com

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WCA Outlook Fixed Income

The Federal Reserve might not implement rate cuts as extensively as anticipated. Even if it does, the rationale behind such actions may not align with the favorable assumptions of most investors. Moreover, it would be intriguing to observe the stance of the Reserve Bank of India (RBI) in this regard.

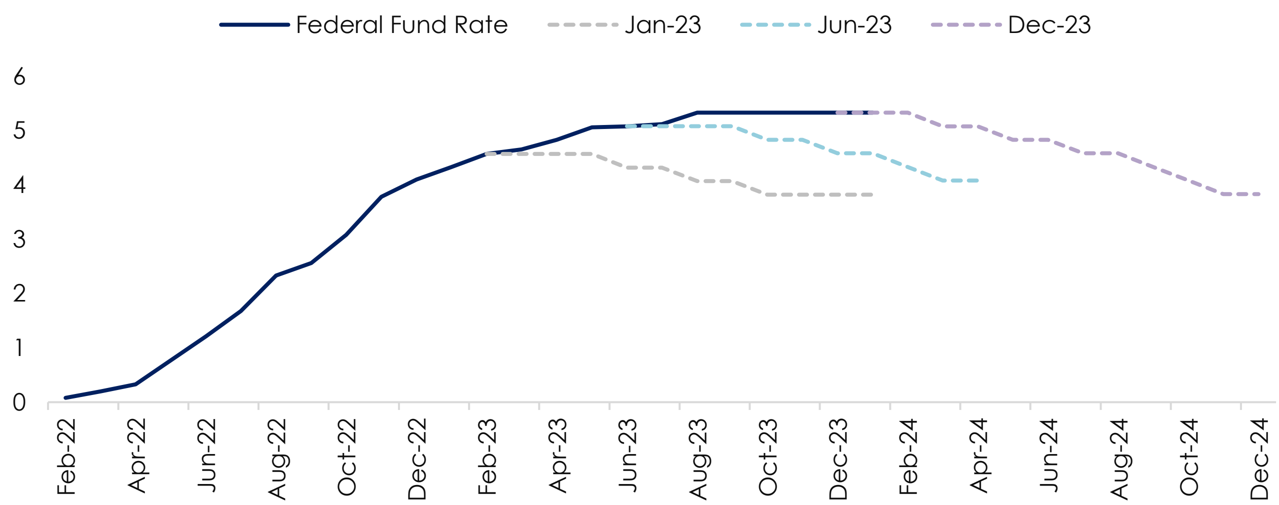
The foundation has been laid for a change in the interest rate environment. If the Fed cuts short-term interest rates, yields on shorter-term debt issues are likely to decline.

The Fed's rate hikes were designed to slow the economy as a way to reduce inflation, which peaked at 9.1% for the 12 months ending June 2022 but dropped to 3.4% by December 2023. Investors with a low tolerance for risk can offset the impact of inflation on their purchasing power, and in the current environment, grow their purchasing power, by owning bonds with a range of maturities.

WCA Outlook Equities

In conclusion, the optimal approach to risk management remains rooted in effective asset allocation, with a continued positive outlook on dividend-yielding stocks. As we proceed, let us remain vigilant and adaptable, 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 staying nimble and informed in our investment strategies.

Fed Fund Rate increases vs. expectations at three points in time.



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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

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