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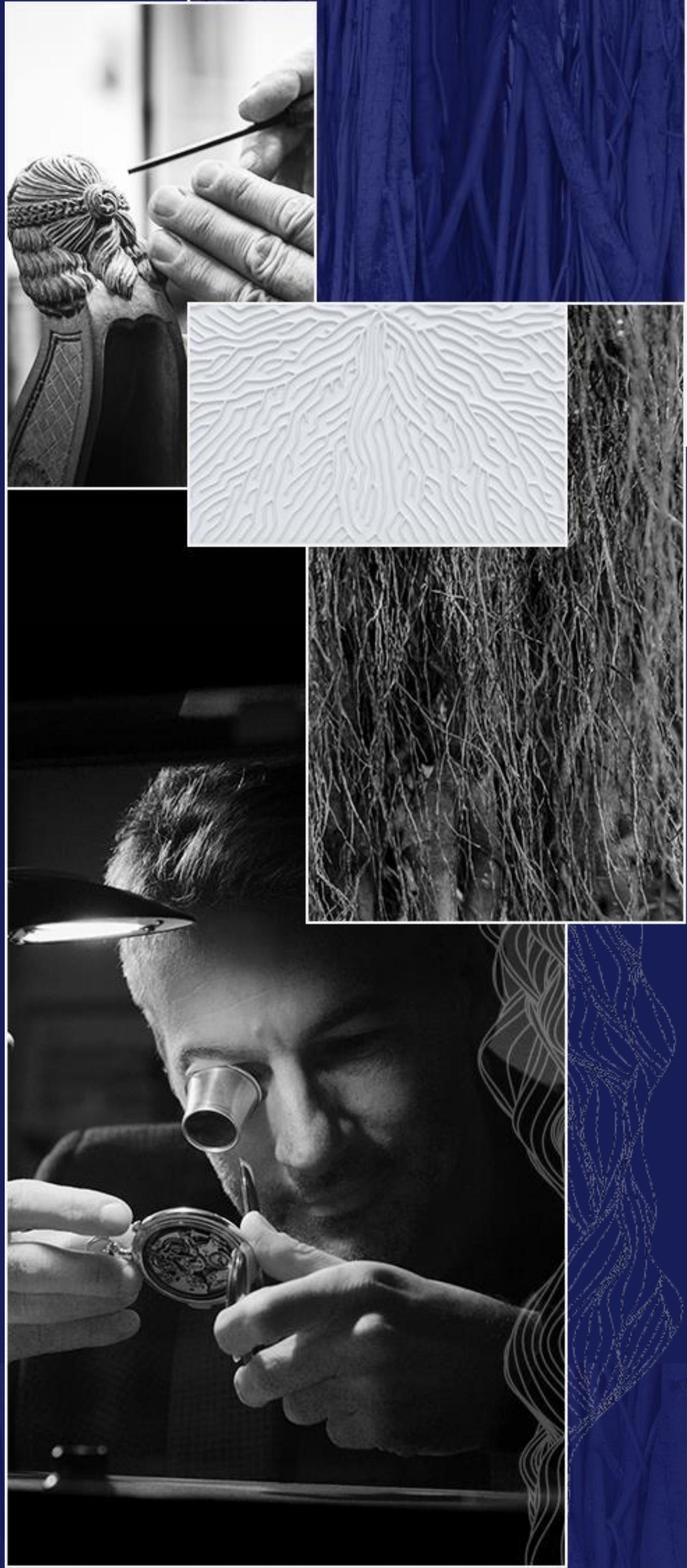

NEWSLETTER
June 2023

WODEHOUSE

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WODEHOUSE INVESTMENT NETWORK

WORLD M&A ALLIANCE

NEWSLETTER

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India – Market Outlook

In general, the economy is experiencing growth, with moderating inflation. 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. The total loan book of banks increased by 15.5%, much higher than their deposit growth of 10.4%. Additionally, both corporates and lenders have healthy balance sheets. Overall, these factors contribute to a reasonably stable macroeconomic environment.

Indian High-Frequency Indicators

- RBI maintains the status quo on monetary policy; remains vigilant on inflation.
- According to the Financial Stability Report by the Reserve Bank of India (RBI), the proportion of non-performing loans in Indian banks has reached its lowest level in a decade at 3.9%.
- With the Monsoon picking up in the last week of June, it has tempered the chances of 2023 being a rain deficit year.
- The pickup in aspirational spending is likely to continue, with a potential change in India's income pyramid.
- Indian markets continue to remain strong with no visible signs of bubble or overheating, the red flag is the stake sale activity from India Inc. Additionally June is the third consecutive month of Benchmark Indices closing in the green.
- We reiterate our approach of Selling your Mistakes and Buying your Regrets. With that in the backdrop, stocks that are fundamentally vulnerable can be switched.

Market Watch

Indian Equities	May-23	1 Month	1 Year	3 Year	Currency	May-23	1 Month	1 Year	3 Year
Nifty 50	19,189.1	3.5%	21.8%	84.0%	USD/INR	82.1	-0.8%	4.0%	8.7%
S&P BSE Sensex	64,718.6	3.4%	22.3%	82.8%	EUR/INR	89.0	0.7%	8.1%	4.8%
S&P BSE Midcap	28,776.2	6.2%	31.7%	120.0%	GBP/INR	103.7	0.8%	8.6%	10.1%
S&P BSE Smallcap	32,602.1	6.8%	31.4%	162.3%	JPY/INR	56.7	-4.4%	-2.8%	-19.3%
Global Equities					**Economic Data (Abs)**				
Dow Jones (US)	34,122.4	3.7%	9.7%	32.6%	10-year Ind G Sec	7.1%	1.7%	-4.3%	21.8%
Nasdaq (US)	13,591.3	5.1%	22.1%	33.8%	CPI Inflation Ind	4.3%	4.7%	7.0%	6.1%
FTSE 100 (UK)	7,524.1	1.1%	5.0%	22.2%	WPI Inflation Ind	-3.5%	-0.9%	15.9%	-3.2%
Nikkei 225 (Japan)	33,189.0	7.5%	28.0%	50.0%	US Dollar Index (DXY)	103.5	-0.9%	-1.6%	6.4%
Hang Seng (HK)	18,916.4	3.7%	-13.5%	-22.6%	CBOE VIX	13.4	-25.1%	-49.7%	-53.1%
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	-
Gold USD	1,904.9	-2.9%	5.2%	7.6%	Indian GDP YoY	6.1%	4.6%	4.4%	
Silver USD	22.5	-4.3%	13.0%	25.2%	US GDP QoQ	2.0%	1.4%	2.6%	
Brent Oil USD	74.7	2.9%	-33.0%	77.9%	China GDP YoY	4.5%	4.0%	2.9%	

Source: investing.com

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Key Risks to the Markets

- Being underinvested is the single biggest risk in Indian equities.
- The global economic expansion is undermined by policymakers' excessively rapid tightening measures.
- Recession probabilities overstated, home sales numbers refusing to budge in the US, as new sales jumped 12.2%, now even a soft landing is a doubtful outcome.
- The unanimous consensus among all participants in the US Federal Reserve to raise rates in July raises questions about the decision to pause in June, suggesting it may have been influenced by political factors.
- One of the clearest indicators of how the economy is faring is the level of business activity at FedEx, which reported a 10% decline in revenue during its fourth quarter, which ended in May.
- The potential red flag could be stake-sale activity from India Inc, accompanied by historic low volatility.

PE firms, promoters Block deal mania!

Despite markets remaining in a range for the better part of the June series, share sale activity at India Inc has surged to its highest level in six months. Generally, the market perceives any stake sale by the promoter as worrisome, which may indicate that the promoter is losing confidence in the business or expecting lower future profits. However, this may not always be the case. At times, the promoter does a stake sale to raise funds or meet regulatory requirements. Additionally vibrant block deal market is a sign of deepening capital markets, it's interesting to know that Liquidity is plentiful, and blocks are getting absorbed without much of a ruckus.

Future-- Could India be less of a car economy and more of a public transport?

- India has some of the most densely populated cities in the world. And to make things worse, they are not planned.
- There is little benefit of having a 6-lane highway when it ultimately merges into a two-lane.
- As per Deloitte, Indian cities perform the worse in terms of overall mobility, congestion, or readiness for the future.
- Private transport is sub-optimal, expensive, takes up a lot of space, and consequently contributes to traffic congestion.
- Finally, a developed country is not a place where the poor have cars. It's where the rich use public transportation.

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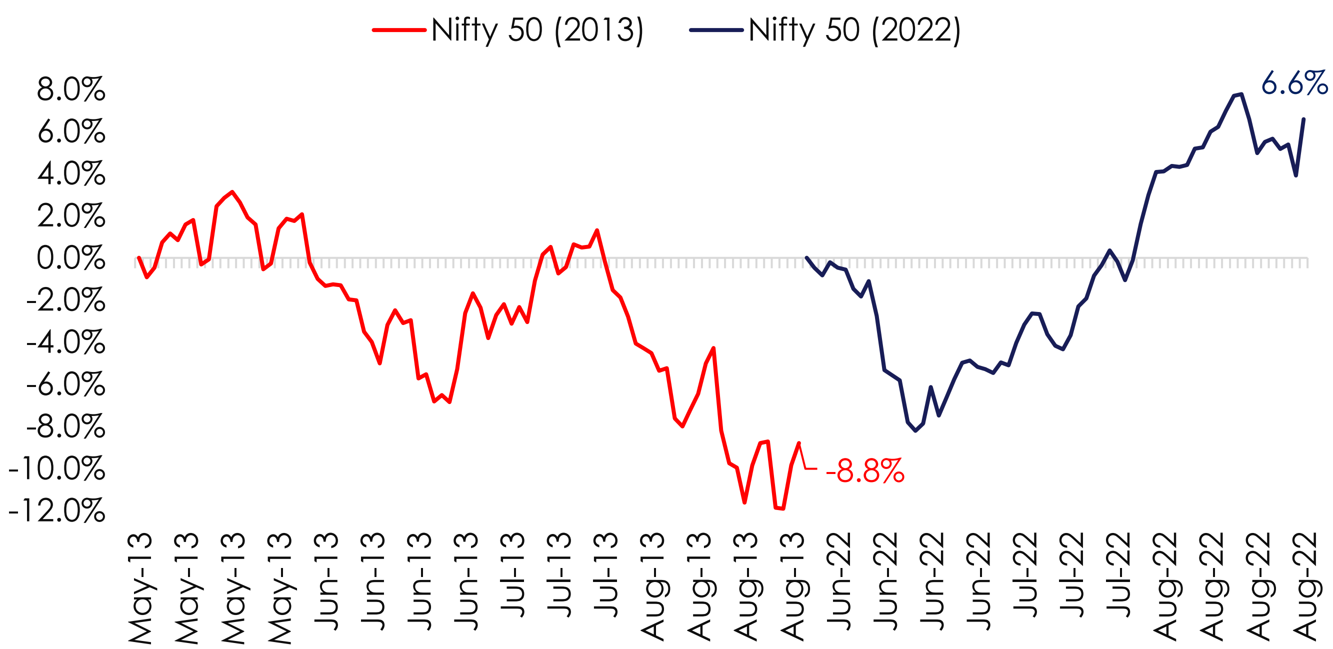
India Macros: A Reflective Period

Indian markets suffered significantly in terms of macro stability when the US Fed previously launched its balance sheet tapering strategy (in May 2013). India was one of the "FRAGILE FIVE" nations because of this. The taper tantrum caused bond yields to skyrocket, a sharp decline in the value of the currency, and a huge deficit.

Ten years later, the Indian economy is in a similar predicament as the US Fed, which is hawkish, attempts to control inflation by raising rates and reducing its bloated balance sheet. However, this time around, India is thriving despite global challenges and is better equipped to handle this dynamic economic environment. Let's quickly compare macros between 2013 and the present.



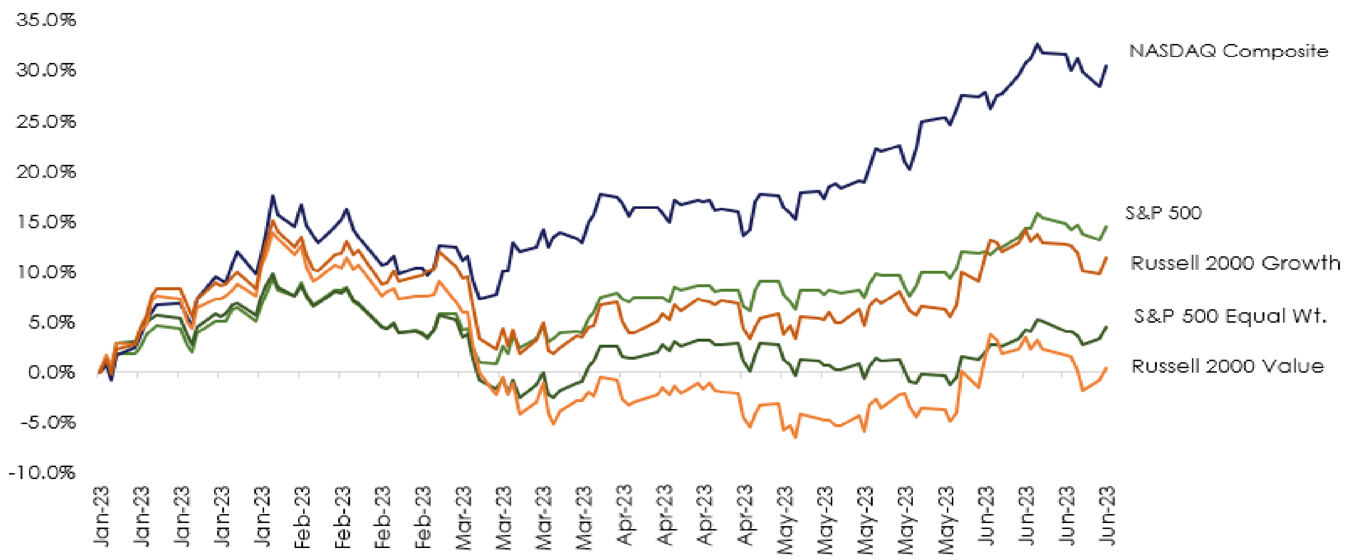
Are Indian markets maturing?

- At least the price action has become mature enough, especially since 2020. One of the reasons for increased maturity is the variety of participants in the markets,
- Additionally, RBI and Sebi have acted better than their peers in China, and the US.
- This is not a political view genuinely we believe; India's stature has improved ever since the current government came to the center.

Global High-Frequency Indicators

- New home sales in the US jumped 12.2% to a seasonally adjusted annual rate of 763,000 units last month.
- Are recession probabilities overstated? With the US Fed adopting an impact-driven approach, June home sales data have neutralized any chances of a recession & even a soft landing looks remote.
- Economist forecasts call for a hard landing but continue to push out the timing of the hard landing in the face of economic strength. Recent market performance indicates that traditional forecast models may be overstating the timing of the arrival of any recession.
- Economists say the signs of revival in the US housing market suggested the Federal Reserve would need to keep raising interest rates.

The US stock market rally is becoming increasingly broad-based.

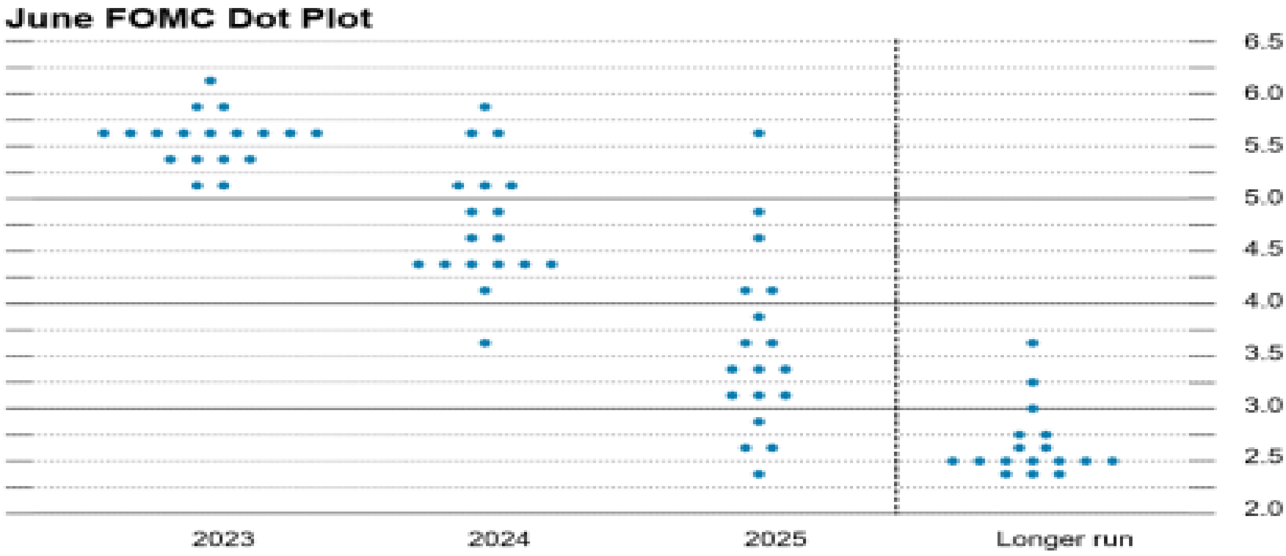


Source: investing.com

FOMC June Decision - A "hawkish pause"

The Fed announced its policy rate remained unchanged at 5.0 - 5.25% as it allows committee members to "assess additional information and its implications for monetary policy."

Still, this was a very hawkish pause as the Fed updated its dot plot to show 50bps of additional rate hikes before the end of this year with the new median fed funds rate at 5.6%.



Source: Federal Reserve. Data as of 14 June 2023.

Fed Chair Jerome Powell said, "Looking ahead, nearly all Committee participants view it as likely that some further rate increases will be appropriate this year to bring inflation down 2% over time,"

In our view June rate, pause decision looks more like a political decision considering all participants were of the view to hike in July policy.

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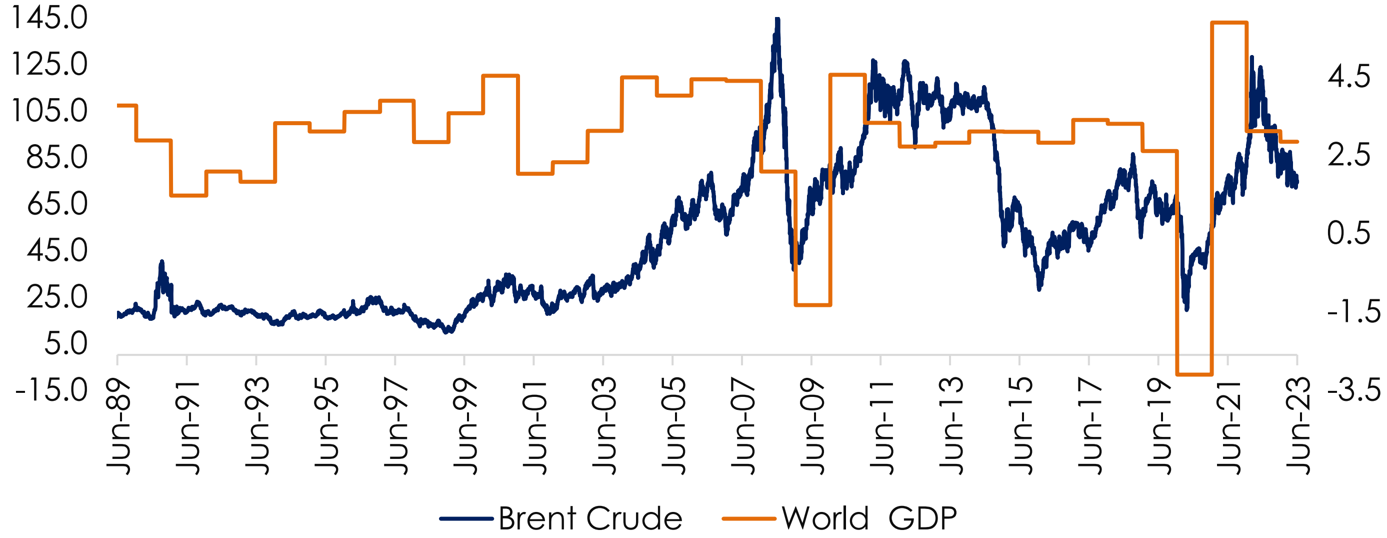
MSCI: No, South Korea Is Not Ready for MSCI's Elite Club

- South Korea fails to get the status of a developed nation: lack of offshore forex trading, English information, and regulation on foreign investors are cited as reasons for the world's 8th-largest stock market being left in emerging status.
- South Korea currently accounts for almost 12.4 percent of the MSCI EM Index and re-allocation of emerging market money may see net inflows into other large EM Asian markets like China, Taiwan, and India.
- Nomura estimates close to $26 billion of inflows into India and includes both active and passive funds; According to Nomura, active fund inflow may be at $20.1 billion and passive fund inflow might be at $6 billion.

Crude Oil is a true indicator of global economic growth.

High oil prices are a challenge for importing countries while at the same time working to the advantage of exporting countries. It is really a zero-sum game. With price changes, there is a shift in profit between oil-producing and oil-consuming countries. Change and volatility seem to be the only constant in the oil market, past oil price shocks have either led to – or coincided with – significantly weaker global growth.

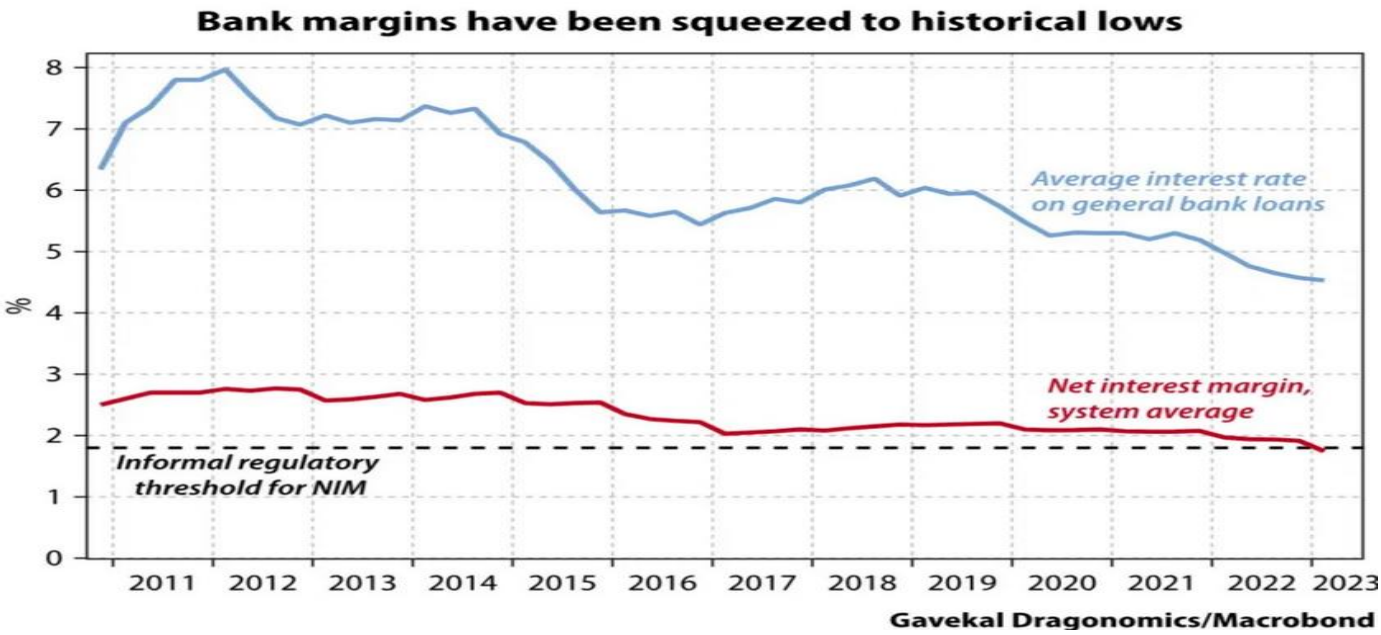
The extraordinary events in Russia last week of June made for dramatic headlines although the ramifications are likely far from over, it was interesting to note that Crude Oil largely remained unperturbed by this development. Crude Oil is a political commodity and should have had some reaction to this news. Oil prices have been persistently low for well over the last 6 months now. In our view low oil prices could complicate things especially if Brent crude were to breach below 65 $ a barrel.



Source: investing.com

The Chinese economy faces the imminent risk of a balance sheet recession.

- China faces a potential balance sheet recession due to a high debt-to-GDP ratio and a slowing property market.
- With this backdrop in mind – an aging population paired with risk aversion – cutting interest rates may prove useless. And instead, make things worse.
- The dollar-to-yuan conversion has increased by 7% over the last year. Meaning that the yuan has depreciated significantly.
- Chinese banks – already under stress – have seen their net interest margins (NIMs) sink to very low levels.



- Japan fell into this same problem back in the early-1990s. And so did the West after 2008. And monetary easing proved useless for growth (only created asset bubbles).
- Typically, in a balance sheet recession, the primary concern of households and businesses is to repair their damaged balance sheets by paying down debt rather than spending or investing.
- Now, monetary policy – which often involves lowering interest rates to stimulate borrowing and spending – is becoming less effective in this situation because the focus is on *reducing* debt rather than taking on *new* loans.

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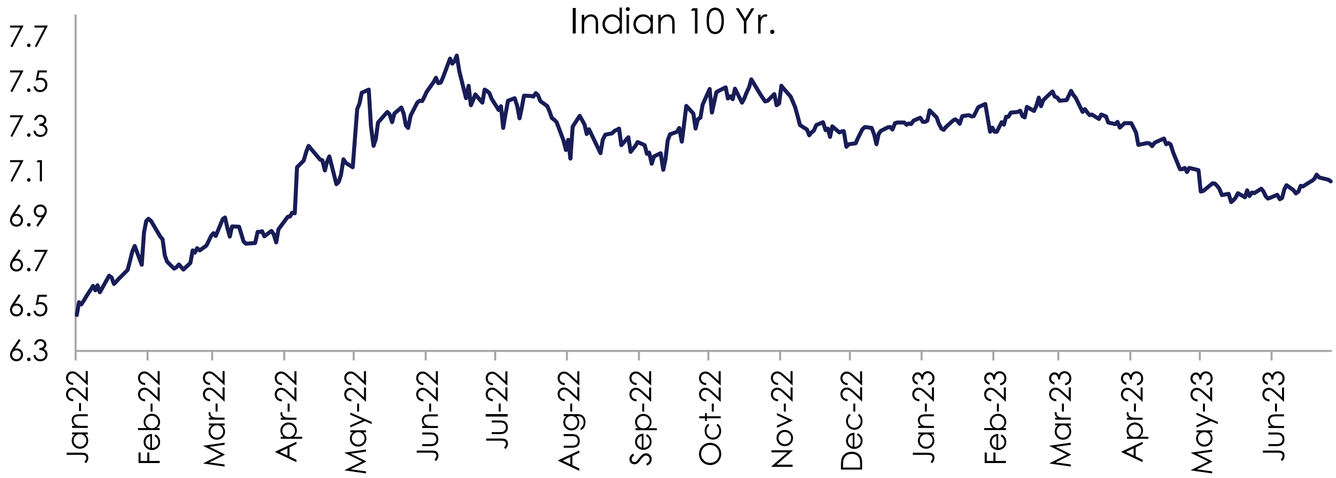
Lessons from the Economic Cycle and Debt Cycle

- India is in a moderate growth and moderate inflation environment.
- Currently, the yield curve shape is flat.
- Hence, there is a lower carry on the longer end of the curve.
- RBI is expected to move into a neutral zone in terms of rate decisions as growth and inflation are in a moderate zone.
- Currently, the Yield curve is flat, and exposure to the longer end should be tactical.
- Product Strategy – Low to Moderate Duration and High Accrual.
- Indian Bond market has already priced in a rate cut.



Source: investing.com

2023 Mid-year newsletter outlook recap

Month	Our View
Mar-23	We may see a cooling-off in short-term yields
Mar-23	SVB & Credit Suisse rout, has no comparison to 2008 Financial crisis.
Mar-23	Lower crude oil and US 10-year yield have worked well for Indian equities.
Mar-23	**US equities are making their long-term appeal, as during the second half of 2023 recession and not inflation, is likely to take centre stage.**
Mar-23	**Indian IT sector has encountered a similar situation in the past, which had proven to be good entry opportunity for the long-term investors.**
Mar-23	**The October 2022 low of US Indices should act as some kind of sacrosanct level for most benchmark equity Indices.**
Apr-23	Positive on diversified global stocks and bonds portfolio returned
Apr-23	**We won't be surprised if Nifty IT eventually bottoms out in next three months.**
Apr-23	**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.**
Apr-23	**The 2-Year yield has fallen indicting: the changing Fed outlook**
Apr-23	Investors should consider increasing the duration of their fixed-income portfolios
Apr-23	**It seems like inflation is past its peak and the process of a slow grind back toward more tolerable levels is underway.**
Apr-23	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.
May-23	Markets are rooting for a Goldilocks scenario
May-23	US Federal Reserve's interest rate path might shift from data-dependent to impact-dependent.
May-23	Fixed income outlook- Tactical duration play
May-23	We estimate the overall return of stocks should be greater than fixed-income assets over the next Five years.
May-23	We're strategically more optimistic on DM Indices (US, UK, DAX, CAC & NIKKEI)
Interim June 2023	Indian markets waiting for clarity on monsoon, Nifty started picking pace coinciding with monsoon reaching Mumbai.

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WCA Outlook Fixed Income

The expected direction of near-term inflation and the performance of the domestic economy are likely to influence bond yields. Additionally, yields are expected to be influenced by crude oil prices and global bond yields. Furthermore, concerns about the availability of government securities from both central and state governments will impact bond yields.

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.

WCA Outlook Equities

Market volatility is likely here to stay. While we don't anticipate the same degree of heightened volatility as last year (when capital markets were caught off guard by rapid rate-hiking cycles), We think there is likely to be ongoing volatility in most markets, including fixed income. This volatility could arise from multiple sources like Inflation, Interest rates, the global financial sector, & geopolitical risks.

The two big stories of the year have been the US banking crisis, which threatened to derail the financial system, and AI which has reignited enthusiasm for technology investing.

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How can Wodehouse Capital Advisors help?

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- 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

THANK YOU

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