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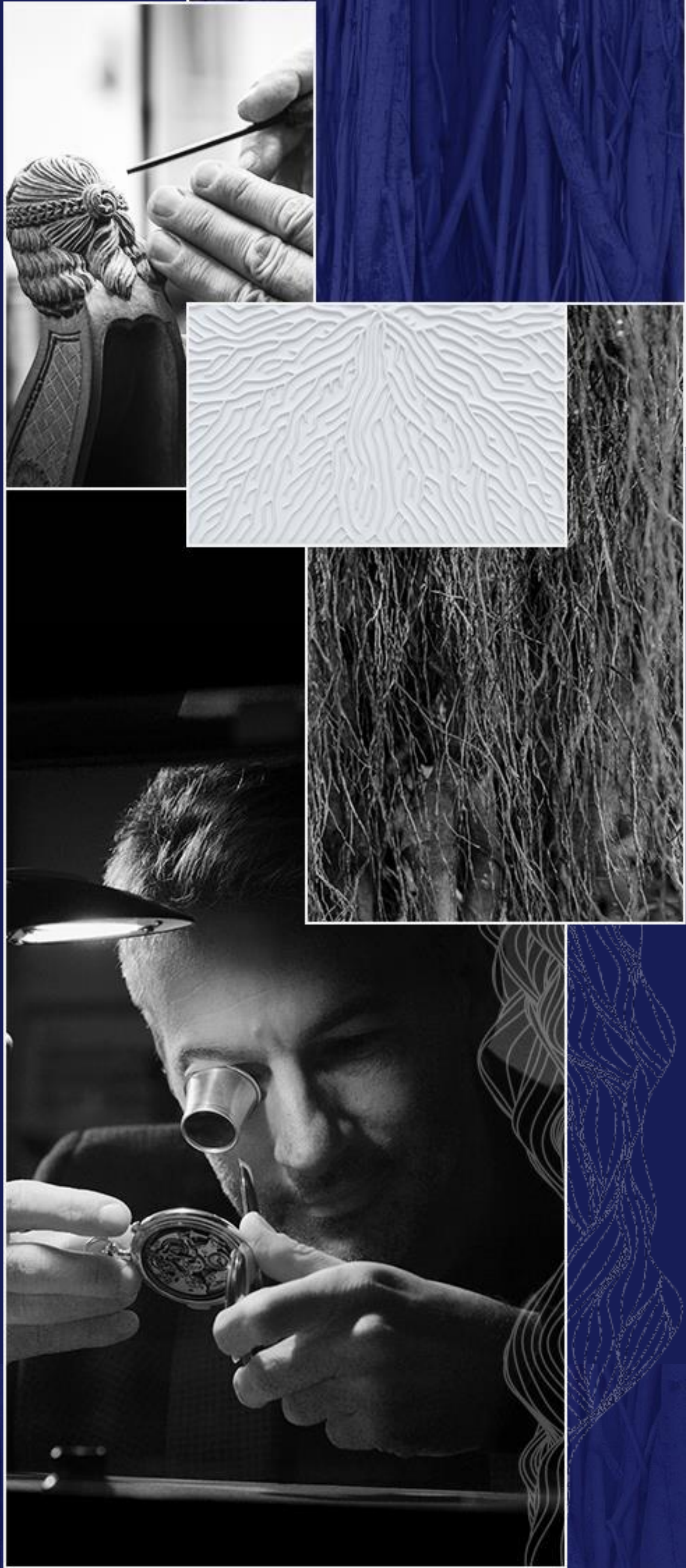

NEWSLETTER
May 2023

WODEHOUSE

W.I.N.
WODEHOUSE INVESTMENT NETWORK

WORLD M&A ALLIANCE

India – Market Outlook

The turmoil of 2022 has brought asset return forecasts close to long-term equilibrium; the 60/40 can once again form the bedrock for portfolios, with alternatives offering alpha, inflation protection, and diversification. Once today's market turbulence clears, investors will have more scope to achieve long-term portfolio return objectives.

The earnings season so far had largely been in-line with the street expectations, with the major heavy lifting of positive surprises being done by the financials. In line with what we had witnessed during the last year, Nifty EPS estimates had largely remained resilient, with the downgrades seen in other sectors (mainly IT) being absorbed by the upgrades in the financial and Auto sector. On the consumption side, while companies reported a sequential recovery in volumes and rural demand, underlying consumption trends remain muted with weak volume growth for the overall FMCG sector on the sluggish rural growth and softened urban consumption demand.

Markets are rooting for a Goldilocks scenario where inflation will quickly fall and slowing growth will have a limited impact on margins. However, we believe earnings could be under pressure at a time when credit conditions may tighten.

Fixed Income and Alternates- Given the stage of the rate cycle we are in and given the flatness of the yield curve, we believe the allocation to duration strategy can be further augmented to maximum permissible limits in the portfolio for respective risk profiles. Post the amendments in the finance bill both mutual funds and direct bonds/NCD as instruments can be considered.

Market Watch

Indian Equities	May-23	1 Month	1 Year	3 Year	Currency	May-23	1 Month	1 Year	3 Year
Nifty 50	15,534.4	2.1%	11.5%	85.7%	USD/INR	82.7	-1.2%	-6.2%	-8.6%
S&P BSE Sensex	62,622.2	2.1%	12.2%	85.1%	EUR/INR	88.4	1.9%	-5.8%	-5.1%
S&P BSE Midcap	27,100.0	5.5%	17.3%	120.3%	GBP/INR	102.8	-0.2%	-5.0%	-9.3%
S&P BSE Smallcap	30,524.8	4.9%	14.4%	167.1%	JPY/INR	59.3	1.0%	1.6%	18.2%
Global Equities					**Economic Data**				
Dow Jones (US)	32,908.3	-2.3%	-1.0%	27.8%	10-year Ind G Sec	7.0			
Nasdaq (US)	12,935.3	7.1%	5.0%	34.6%	CPI Inflation Ind	4.7	5.7	7.8	5.8
FTSE 100 (UK)	7,446.1	-4.2%	-1.2%	19.7%	WPI Inflation Ind	-0.9	1.3	15.1	0.0
Nikkei 225 (Japan)	30,891.0	6.3%	13.0%	38.8%	US Dollar Index (DXY)	104.2	2.0	2.1	6.5
Hang Seng (HK)	18,261.0	-7.7%	-12.8%	-23.4%	CBOE VIX	17.9	-3.3	-30.4	-35.9
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	-
Gold USD	1,965.0	-2.6%	5.2%	13.7%	Indian GDP YoY	6.1	4.6	4.44	-
Silver USD	23.6	-7.3%	5.7%	30.2%	US GDP QoQ	1.3	1.1	2.6	-
Brent Oil USD	73.1	-3.0%	-37.9%	84.7%	China GDP YoY	4.5	4.0	2.9	-

Source: investing.com

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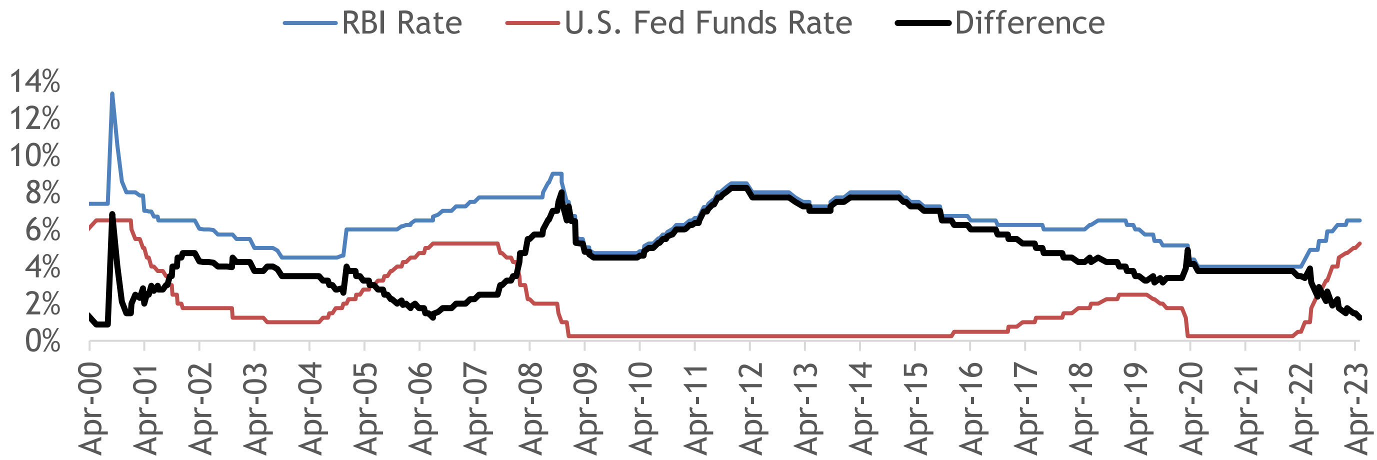
RBI Monetary Policy:

After aggressively front-loading in every single meeting of FY23 (total 250 bps in the current rate hike cycle), the RBI left the key policy rates unchanged in the April-23 meeting, to assess the cumulative impact of rate hikes in the current cycle on the real economy. With current inflation above RBI's upper bound, the RBI continues to focus on the 'withdrawal of accommodative' stance - to ensure that inflation progressively aligns with the target.

- Masterstroke by RBI's MPC which decided to pause after six repo rate hikes in a row; this reflects a forward-looking monetary policy that takes into cognizance elevated global growth risks, under-control inflation trajectory, and the need to wait and watch and assess the impact of the sharp policy tightening already delivered.
- With the unanimous policy decision, RBI has been able to avoid the trap of falling into the cacophony of voices, which is a characteristic embedded in many prominent central banks of late and indicates the first step towards properly decoupling from the U.S. Federal Reserve.
- Ever since the year 2000, the average divergence between the US Fed and RBI rates has been 465 basis points.



Source: investing.com

Institutional flow's

Domestic markets are likely to remain resilient with limited volatility. The possibility of a soft landing for the US economy is positive for the IT segment, which has been on the back foot over concerns about poor orders from the US. The strength of the rupee and the continued buying by foreign institutional investors (FIIs) will strengthen the market. FIIs have made a foray into Indian Markets in recent months as net inflows on a 6m rolling basis continue to remain healthy, as FIIs turned net buyers for the third month in a row, DII's Net Muted numbers are indicating their strategic shift from large cap to mid & small ones.

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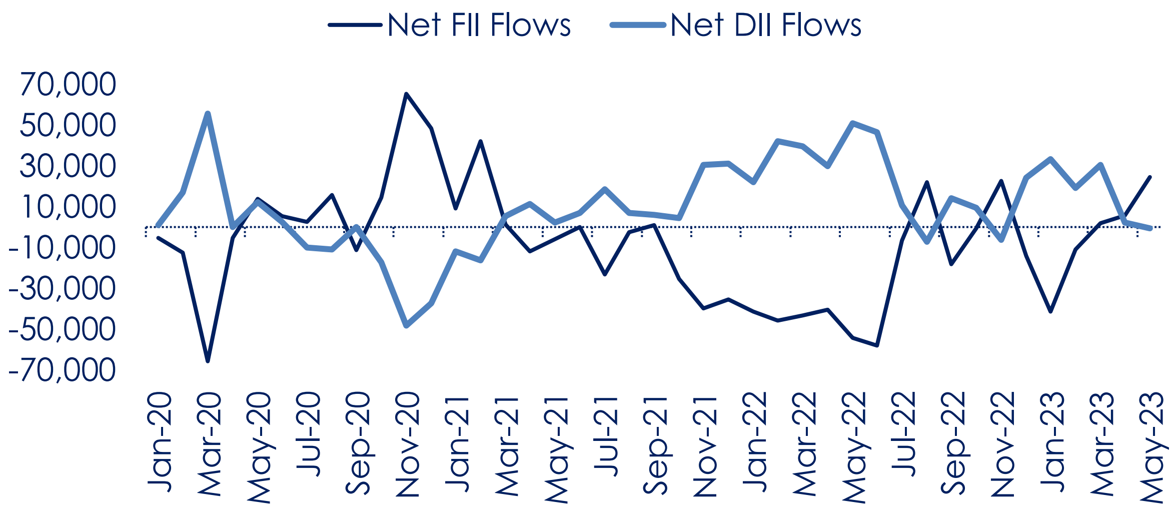

Source: investing.com

US House overwhelmingly passes Debt ceiling bill.

- US debt ceiling bill passes House with broad bipartisan support.
- The agreement keeps non-defense spending flat next year, with a 1% rise in 2025.
- Defense spending would increase to $886bn, which amounts to a 3% rise on this year.
- The White House estimates government spending would be reduced by at least $1tn.

Key Takeaways, Can the Government Create Wealth by Going into Debt?

Sometimes a concept can be counterintuitive primarily because it is wrong. In accounting terms, it can seem as if the government can ‘magically’ create wealth via deficit-spending, but only if you treat investment in government debt as equivalent to investment in productive endeavors and ignore the fact that creating money out of nothing tends to cause mal-investment.

The US Federal Reserve's interest rate path might shift from data-dependent to impact-dependent.

From the language of the statement and the tone of the press conference of the US central bank, it seemed the Fed was trying to prepare the markets for a pause in June. Rates now seem to be insufficiently restrictive territory. The Fed indicated it is likely to adopt a data-dependent, meeting-by-meeting approach and is not pre-committed to tightening aggressively from the current levels.

Is Fed's 'Great Pause' About to Commence?
Until now, the Fed has been looking for clear signs of a slowdown and easing inflation to justify a pause. But after this month, the calculations could flip. Officials could need to see signs of stronger-than-expected demand and inflation to keep hiking.

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NEWSLETTER

Concentration Risks Are Growing with Lopsided Equity Rally in the US

- Bullish Price Action Is Beating Economic Bears, But Trading Is Lopsided The stock rally has been uneven with the Nasdaq vastly outpacing the S&P 500 and the Dow.
- The bulls are winning the argument right now -- and the biggest beneficiary is big-cap technology.
- The top eight stocks in the S&P 500 account for 105% of its gains.
- There are many other stats that illustrate the narrowness of this market, but the big-cap names that are performing the best drive the indexes, and the indexes drive sentiment. Market participants don't do much digging. They see stocks such as Alphabet (GOOGL) and Amazon (AMZN) acting well, and from that, they conclude that the entire market is healthy.

China is in a middle-income trap.

China's economic growth over the past few decades has been remarkable, lifting millions of people out of poverty and propelling the country to become the world's second-largest economy. However, sustaining such rapid growth and transitioning to a high-income economy presents challenges.

There are several factors that contribute to the middle-income trap.

- To begin with, as countries reach a certain level of income, they often encounter diminishing returns on investment and productivity growth. The initial growth drivers, such as low-cost labor and export-oriented industries, become less effective in generating further growth.

- Additionally, China needs to transition from a manufacturing-driven economy to an innovation-driven economy to level up to the big boys club.

- Furthermore, middle-income countries often face challenges related to income inequality, environmental sustainability, and social development.

China Macro Headlines

- Bloomberg Commodity Index's lowest level since August 2021, which is negative for commodity producers like China.
- China manufacturing PMI shrinks below 50 in May, dashing recovery bets.

Crude Oil Prices in Tailspin Amid Demand Worries and OPEC+'s internal strife

Oil prices have slumped since their peak in May 2022, which followed the production cuts announcement by OPEC+. The prices have retreated amid concerns of global recession and a high-interest rate environment and the concerns surrounding the US debt ceiling.

Battling Headwinds that should dictate market trends in FY 2024

A) stronger yen could trigger; Yen carry trade unwinding.

- BoJ may consider terminating its yield curve control (YCC) policy.
- Japanese investors are the largest overseas holders of U.S. Treasuries, Japan's insurers, and pension funds alone hold $1.84 trillion in foreign assets, which is greater than the size of South Korea's economy.
- In a period of exchange rate uncertainty, it becomes less attractive to engage in any currency-carry trade.

Source: investing.com

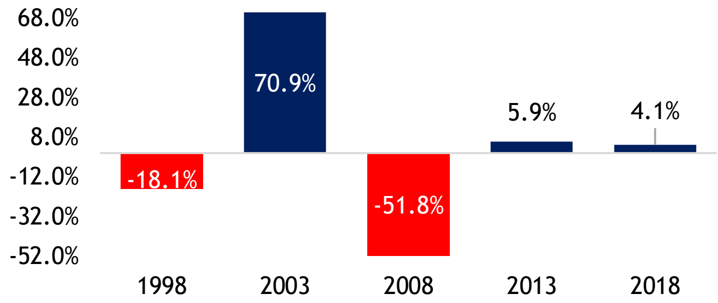
B) India and Russia suspend negotiations to settle trade in rupees, which could be Rupee negative.

- Russian exporters are not settling trade in rupees, as most countries are comfortable with dollars.
- Additionally holding rupee reserves is not going to give them any return, with an added risk of currency depreciation.
- With a wider trade gap in favor of Russia, Moscow believes it will end up with an annual rupee surplus of over $40 billion if a permanent rupee payment mechanism is worked out.
- Russian banks and companies who have trade surpluses with Indian lenders are using those rupee funds to invest in domestic government debt.

C) How do Elections Affect Stock Markets?

In less than a year, India will hold its next general election. It's the year ahead of the polls when the market really moves. This time, an added combination of high inflation, quantitative tightening, and a global banking crisis is at play already. Only once on the last five occasions, Nifty 50 returned substantial gains in the year before the Lok Sabha polls.

Nifty's CY Performance prior to General Elections



Calendar year	open	High	Low	Close	% Change
1998	1081.2	1212.8	808.7	884.3	-18.2%
2003	1100.2	1879.8	924.3	1879.8	70.9%
2008	6144.4	6287.9	2524.2	2979.5	-51.5%
2013	5950.9	6363.9	5285.0	6304.0	5.9%
2018	10435.6	11738.5	9998.1	10862.6	4.1%

Source: investing.com

Global Macro & Markets

As investors, we must ask whether the market suggests the worst is behind us, since October, stocks have been in a decent rally, with the Nasdaq leading the charge in 2023. That rally is noteworthy because the stock market leads the economy by 6-9 months. However, we're not suggesting the markets, and the economy, won't potentially struggle in the months ahead. This is the dichotomy that investors currently face.

'Paradigm shift' Shifting our regional preferences.

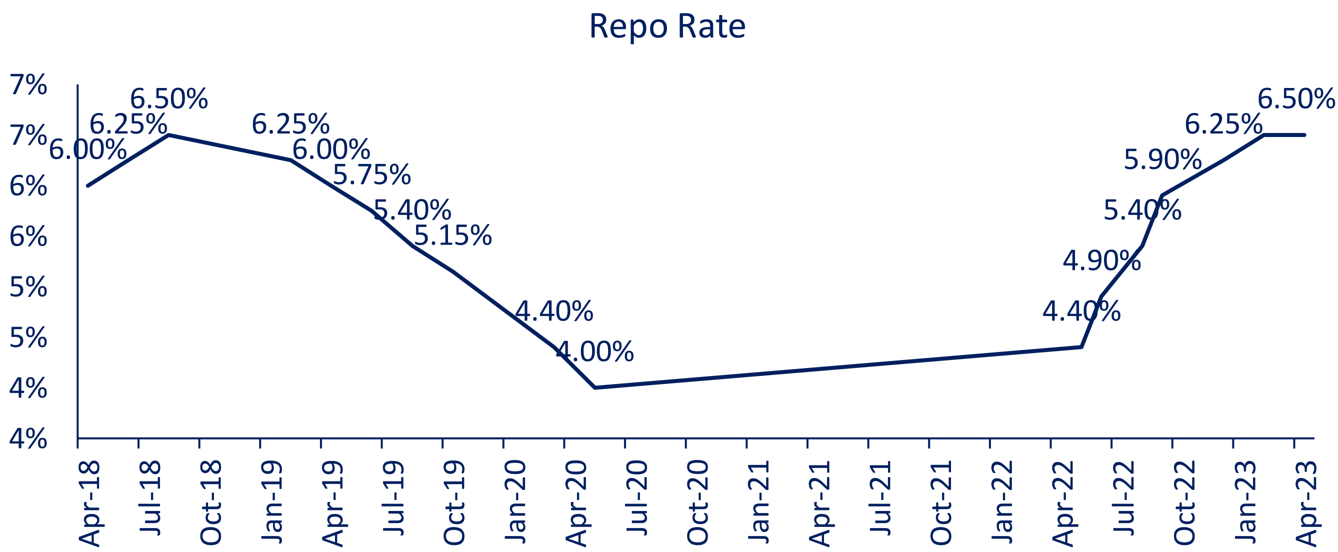
- Disinflation could halt rate hikes. The US is now at a point where the fed funds rate exceeds inflation. Historically that has signaled the end of rate hikes.
- We are overweight equities in our strategic view as we estimate the overall return of stocks will be greater than fixed-income assets over the medium term. Valuations on a long horizon do not appear stretched to us. Tactically, we're underweight in Asian markets Ex of Japan & India.
- There is a possibility most Developed Markets could avoid a technical recession, this is the beginning of a longer-term trend. Investors are now better off putting their money to work in US, Europe & Japan.
- AI is becoming the stock market's answer to everything.
- Sell your Mistakes in the Bull Market and Buy your Regrets in the Bear Market- is the mantra we are recommending.

WCA Fixed income outlook- Tactical duration play

We have been vocal that long-term Treasury bonds are an excellent investment at current yield levels. However, timing the purchase of bonds will prove difficult as numerous headwinds may temporarily impede their path lower in yield.

		Aug-18	May-20
Strategy	Fund name	Absolute return	Annualised Returns
Long duration	ICICI Prudential Long Term Bond Fund - Growth	27.9%	15.1%
Long duration	Nippon India Nivesh Lakshya Fund - Growth	33.8%	18.2%
Liquid Fund	Franklin India Liquid Fund	12.4%	6.9%

Funds are only for illustration purpose and no recommendation to inv est in any of the mentioned schemes



Source: investing.com

Tactical allocation to duration strategy by using instruments with 6 years and 10 years modified duration will be preferred.

- Long-duration funds benefit from duration play in the declining interest rate cycle.
- If interest rates start to fall, it can be used opportunistically for adding duration to the Fixed Income portfolio.

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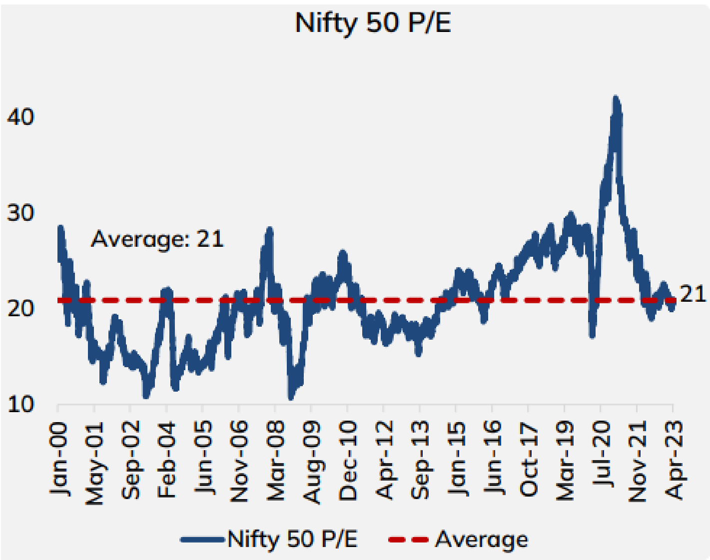
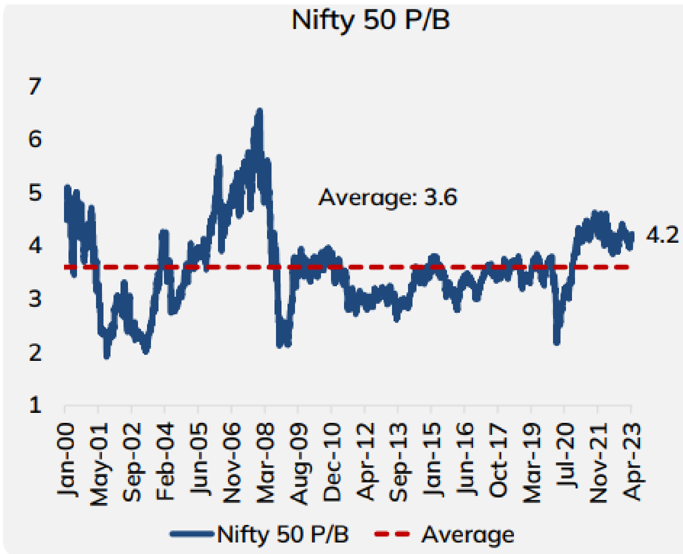
WCA Outlook Equities

Efficient markets hypothesis - Stock markets are a discounting mechanism, meaning the current price attempts to take into consideration all available information about present and future events. The evidence is that the market is highly; if not perfectly, efficient — available information is digested rapidly and reflected in market prices. Stock pickers can't identify underpriced stocks with any regularity. The perfect example is how momentum investing has resurfaced.

Time horizons matter - a lot. We continue to maintain our positive stance on equities which was initiated in March 2023, in our strategic views as we estimate the overall return of stocks should be greater than fixed-income assets over the next Five years. We're strategically more optimistic on DM Indices (US, UK, DAX, CAC & NIKKEI) because we think downside risks have lessened, boosting potential long-term returns. Yet, we see near-term risks tilted against DM stocks, with earnings growth forecasts not fully reflecting the recessions ahead. We're tactically underweight in most of the Asian markets (Ex India & Japan).





Source: NSE. Data as of April 30, 2023.

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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

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

THANK YOU

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