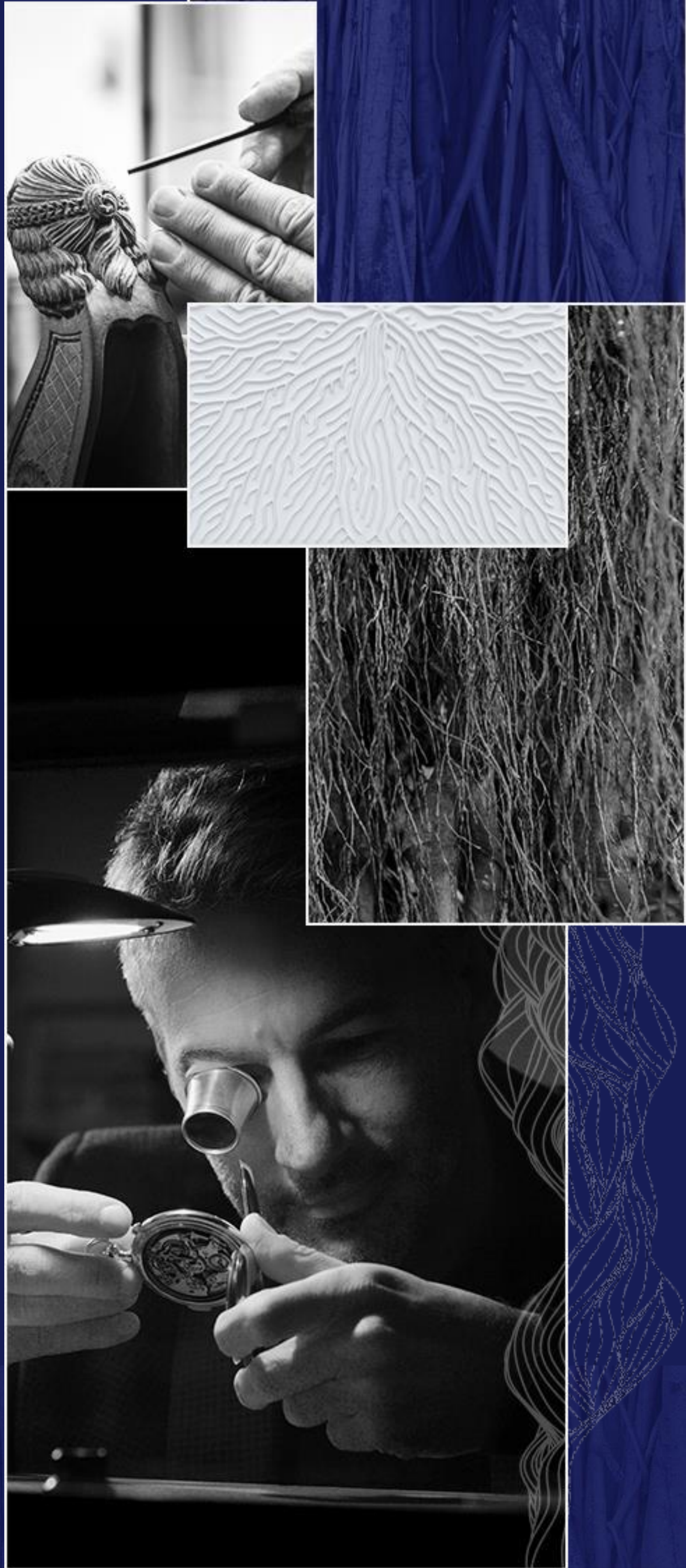

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NEWSLETTER
May 2024

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NEWSLETTER

Immediate outlook post-elections

As we edge closer to the middle of 2024, investors continue to confront rapidly changing dynamics. The evolving landscape present market anomalies that challenge traditional expectations and some long-held investment assumptions. While change can create challenges, we see opportunities, many of which will be accessible via private equity, venture capital, private credit strategies, and direct equity.

General elections in India hold immense significance for equity markets, often surpassing the impact of state polls. Historically, pre-election rallies have yielded robust returns for investors. While the NDA has formed the government, a diminished BJP majority could hinder aggressive reforms. Political stability and policy certainty, which have underpinned India's valuations, may now be in question. Additionally, the resurgence of freebie politics presents additional risks to the economy.

This election was so captivating that the aftermath is sure to be intense. Engulfed in months of relentless, high-stakes media coverage where candidates seemed more like superheroes from a comic book than public officials, it's no wonder even those usually indifferent to politics found themselves glued to the drama. In tandem, a sustained period appears underway wherein politics drive economics versus the other way around.

In response to this uncertain environment, we prefer defensive sectors like FMCG, utility, IT and healthcare, which offer stability. Our focus remains on stock picking and our existing call on dividend-yielding themes. While election results can trigger short-term market volatility, long-term growth relies on effective government policy and sustained stability.

Market Watch									
Indian Equities	**Mar-24**	**1 Month**	**1 Year**	**3 Year**	**Currency**	**Mar-24**	**1 Month**	**1 Year**	**3 Year**
Nifty 50	22,605	1.2%	25.1%	54.5%	USD/INR	83.40	0.1%	2.0%	12.6%
S&P BSE Sensex	74,439	1.0%	21.7%	52.5%	EUR/INR	89.48	-0.5%	-0.3%	0.6%
S&P BSE Midcap	42,111	7.0%	65.1%	107.2%	GBP/INR	104.66	-0.5%	2.4%	2.3%
S&P BSE Smallcap	47,325	9.6%	63.6%	118.3%	INR/JPY	1.88	3.6%	11.9%	27.4%
Global Equities					**Economic Data (Abs)**				
Dow Jones (US)	38,386	-3.6%	12.7%	13.3%	10-year Ind G Sec	6.99%	7.20%	6.99%	6.02%
Nasdaq (US)	15,983	-2.4%	30.9%	14.5%	CPI Inflation Ind	4.83%	4.85%	4.70%	4.29%
FTSE 100 (UK)	8,186	2.9%	4.0%	17.4%	WPI Inflation Ind	1.26%	0.53%	-0.92%	10.49%
Nikkei 225 (Japan)	38,380	-4.9%	31.8%	33.2%	US Dollar Index (DXY)	105.7	1.2%	3.5%	15.8%
Hang Seng (HK)	17,763	7.4%	-10.7%	-38.2%	CBOE VIX	14.9	14.2%	-7.6%	-20.2%
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	**-**
Gold USD	2,317.2	3.8%	16.9%	31.0%	Indian GDP YoY	7.8%	6.7%	8.4%	
Silver USD	26.7	6.8%	6.8%	2.9%	US GDP QoQ	1.3%	1.6%	3.4%	
Brent Oil USD	87.4	-0.1%	10.2%	30.0%	China GDP YoY	5.3%	4.8%	5.2%	

Source: investing.com

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RBI's Surprise Dividend of Rs. 2.11 Lakh Crore Boosts Bond Market, Strengthens INR

The Indian bond markets surged as the RBI declared an unexpected dividend of Rs. 2.11 lakh crore, more than double the anticipated amount. This provides significant fiscal flexibility to the government, boosting market sentiment with lower bond yields, a stronger INR, and record highs in stock markets. The 10-year benchmark bond yield dropped to 7.05%, and the new 10-year bond yield ended just below 7%.

The RBI also raised the Contingency Risk Buffer to 6.50%. Short-term yields fell due to reduced T-bill borrowing, with the 3-month T-bill yield decreasing to 6.85%. The INR appreciated to 83.10, supported by stable Brent crude prices. Foreign Portfolio Investor inflows into the bond market increased to USD 241 million, with year-to-date inflows at USD 5.66 billion. The Overnight Index Swap curve saw minimal changes.

Other major domestic news

1. Economic Growth in Q1 2024

- **Q1 2024 Economic Expansion:** The Indian economy expanded by 7.8% in the first quarter of 2024, compared with 8.4% growth in the previous quarter.

2. Infrastructure Output

- **Growth in Infrastructure Output:** India's infrastructure output rose 6.2% in April 2024, an increase from the upwardly revised 6.0% in March.

3. Fiscal Deficit

- **Fiscal Year 2024 Deficit:** The country's fiscal deficit stood at Rs 16.54 lakh crore, which is 95.3% of the budgetary target of Rs 17.86 lakh crore.

4. GDP Growth Projection

- **RBI's GDP Forecast for Fiscal 2025:** The Reserve Bank of India projected real GDP growth at 7.0% for fiscal 2025, with risks being evenly balanced.

5. Regulatory Measures

- **Strengthening Financial Intermediaries:** The RBI announced in its annual report that it will implement several regulatory and supervisory measures in fiscal 2025 to strengthen financial intermediaries.

6. *S&P Global Ratings Outlook*

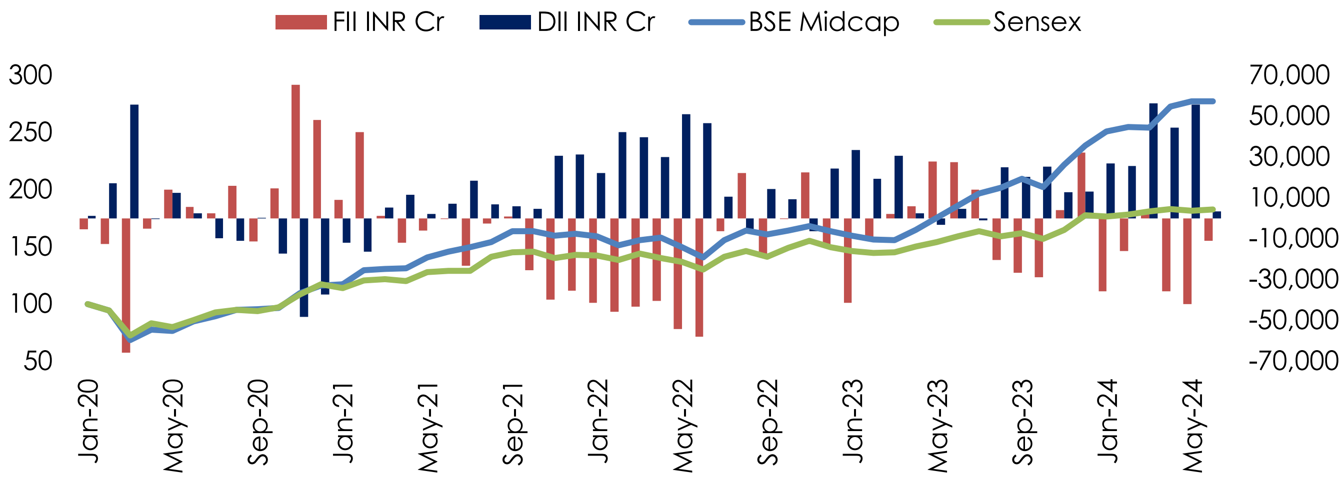
- **Revised Economic Outlook:** S&P Global Ratings upgraded its outlook for the Indian economy to 'positive' from 'stable', affirming the rating at 'BBB-' due to robust growth and improved government expenditure quality.

7. *Commodity Derivatives Regulation*

- **SEBI's Reduction in Delivery Period:** The Securities and Exchange Board of India reduced the staggered delivery period for commodity derivatives to 3 days from the previous 5 days.

Indian Markets Rapid intensification

Institutional investors who feel higher levels of uncertainty are more likely to be focused on building more resilient portfolios, but there is no consensus around the best approach.



Data Source: https://in.investing.com/

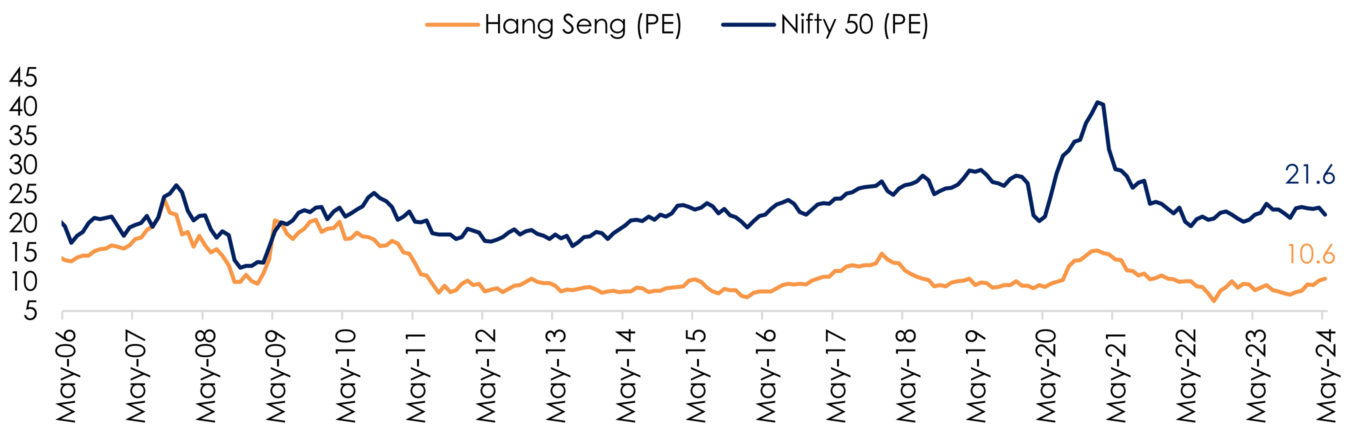
Active strategies may benefit from greater dispersion

More macro volatility has seen greater dispersion between and within asset classes. We see this environment as more conducive to active strategies looking to beat market benchmark returns such as those employed by hedge funds.

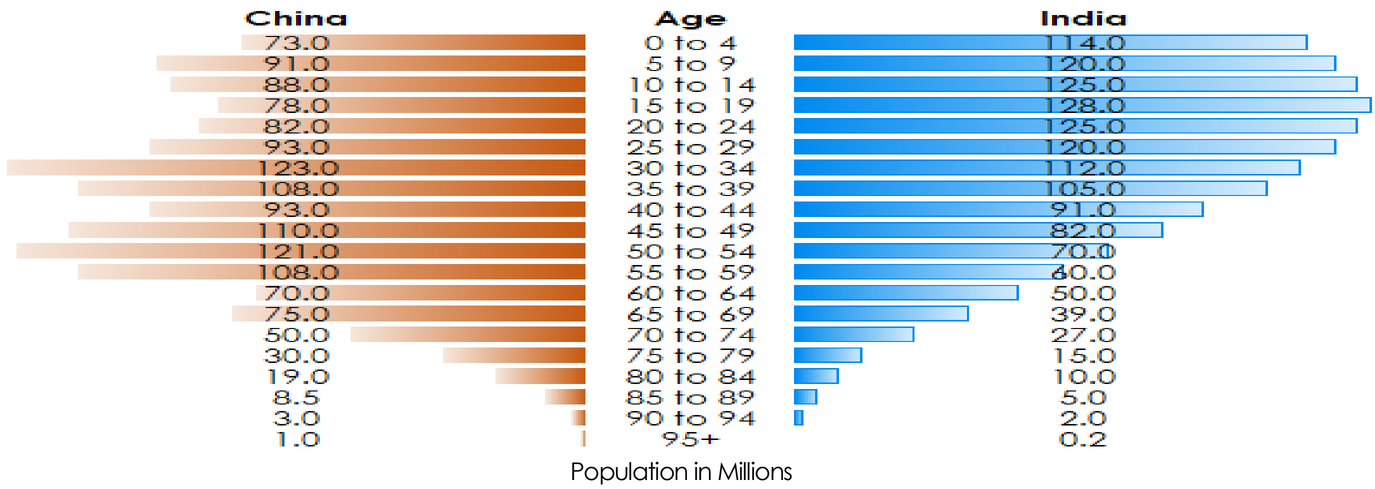
Emerging Market Contrasts: China and India

The two largest emerging markets have taken very different paths, echoing the divergence in the economic and demographic landscapes for these countries.

India fundamentals look very attractive, but high valuations pose a risk



Population by age group: China vs India



Data Source: https://primeinvestor.in/

India recently surpassed China to become the most populous country, with projections indicating its population will peak at nearly 1.7 billion by 2064. India's youthful demographic, with 43% of its population under 25, contrasts with China's ageing and shrinking population. This youthful workforce positions India for potentially faster economic growth compared to China.

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Global Macros

Against a backdrop of an evolving economy and fluctuating sentiments, India continues to demonstrate resilience and adaptability, marked by robust economic growth and a stable Indian rupee.

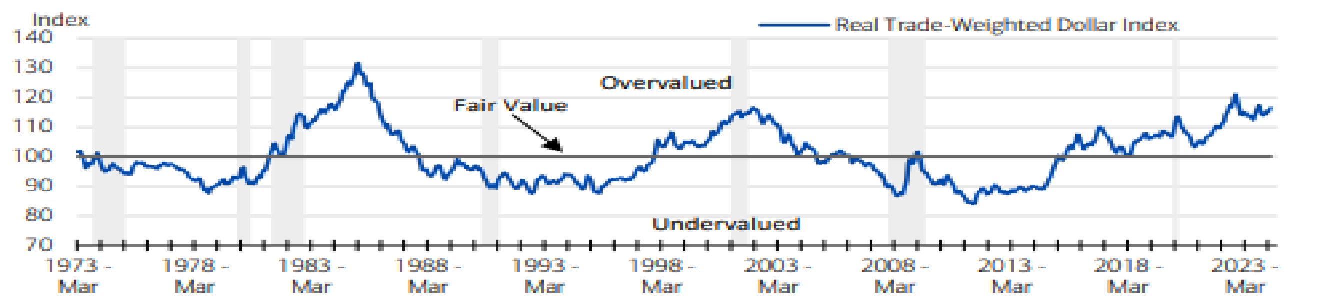
Country	GDP QoQ	interest Rate	Inflation Rate	Unemployment Rate	Debt/GDP Ratio
United States	1.30%	5.50%	3.50%	3.90%	129
China	5.30%	3.50%	0.10%	5.20%	77.1
Euro Area	0.30%	4.50%	2.40%	6.50%	88.6
Japan	-2.00%	0.10%	2.70%	2.60%	263.9
India	7.80%	6.50%	4.90%	7.60%	86.54
Germany	-0.20%	4.50%	2.20%	5.90%	63.6
United Kingdom	0.40%	5.30%	3.20%	4.20%	97.6
France	0.20%	4.50%	2.20%	7.50%	110.6
Russia	5.40%	16.00%	7.70%	2.70%	17.2
Canada	0..3%	5.00%	2.90%	6.10%	107
Italy	0.30%	4.50%	0.90%	7.20%	137.3
Brazil	2.50%	10.80%	3.90%	7.90%	72.87
Australia	1.10%	4.40%	3.60%	3.80%	22.3

Source: Trading Economics, Data as on 30th April 2024

U.S. Economy and Dollar Remain Strong and Resilient

The U.S. economy continues to demonstrate high resilience and innovation, evidenced by strong growth, corporate profits, and a robust dollar. Despite global geopolitical tensions and concerns over U.S. debt, the dollar's dominance is bolstered by favorable interest rates, technological advancements, and its status as a safe haven. Increased overseas holdings of U.S. government debt and a growing share of the dollar in global FX reserves indicate sustained confidence. While the dollar is overvalued, its demand remains strong due to the dynamic U.S. economy and liquid capital markets. Alternative currencies like the euro and yuan face significant challenges, limiting their appeal.

Exhibit 1: Strong Demand Brings The Greenback Far Into Overvalued Territory.



Gray period represents recessionary periods. Sources: Federal Reserve Board/Haver Analytics. Data as of May 28, 2024.

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Thought of the Month—

- In 2023, China was the top source of imports for 66 countries, compared to just five countries at the start of the century.
- China plans to expand its export footprint, particularly in clean technology products like electric vehicles (EVs), lithium-ion batteries, and solar panels.
- U.S. and EU-targeted protectionism is challenging China's export growth.
- Emerging countries are increasingly scrutinizing Chinese imports.
- Pursuits of greater self-sufficiency globally could result in higher costs along the renewable supply chains and slower global growth/trade.

WCA Outlook Fixed Income

As core inflation hits an all-time low of 3.20%, and with the fiscal leeway available to the government being higher than expected, RBI bond yields will continue to drift lower, with favorable demand-supply dynamics providing the necessary tailwind.

Bond yields tend to move in advance of rate action and investors can look to increase allocation to Fixed Income at every uptick in yields. We expect long bond yields to continue to drift lower over the next couple of quarters. We expect the benchmark 10-year bond yield to go towards 6.50% by Q4 of FY25.

WCA Outlook Equities

The government is one of the most critical cogs in the functioning of the economy. From impacting the monetary and fiscal structure to large-scale trade deals, its influence is enormous for the functioning of the economy and businesses within it.

Investing in the stock market is investing in the future of businesses. Therefore, understanding how businesses and their prospects are affected by government stability or change will help us understand why a stable central government is one of the most positive signs for the stock market.

Post-general elections, Indian stocks have experienced extreme volatility, oscillating between losses and gains. Despite the unexpected outcome of India's crucial parliamentary elections and the onset of a new era of coalition politics, we believe the long-term growth story of India remains intact over the next five years despite the short-term downturn.

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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

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