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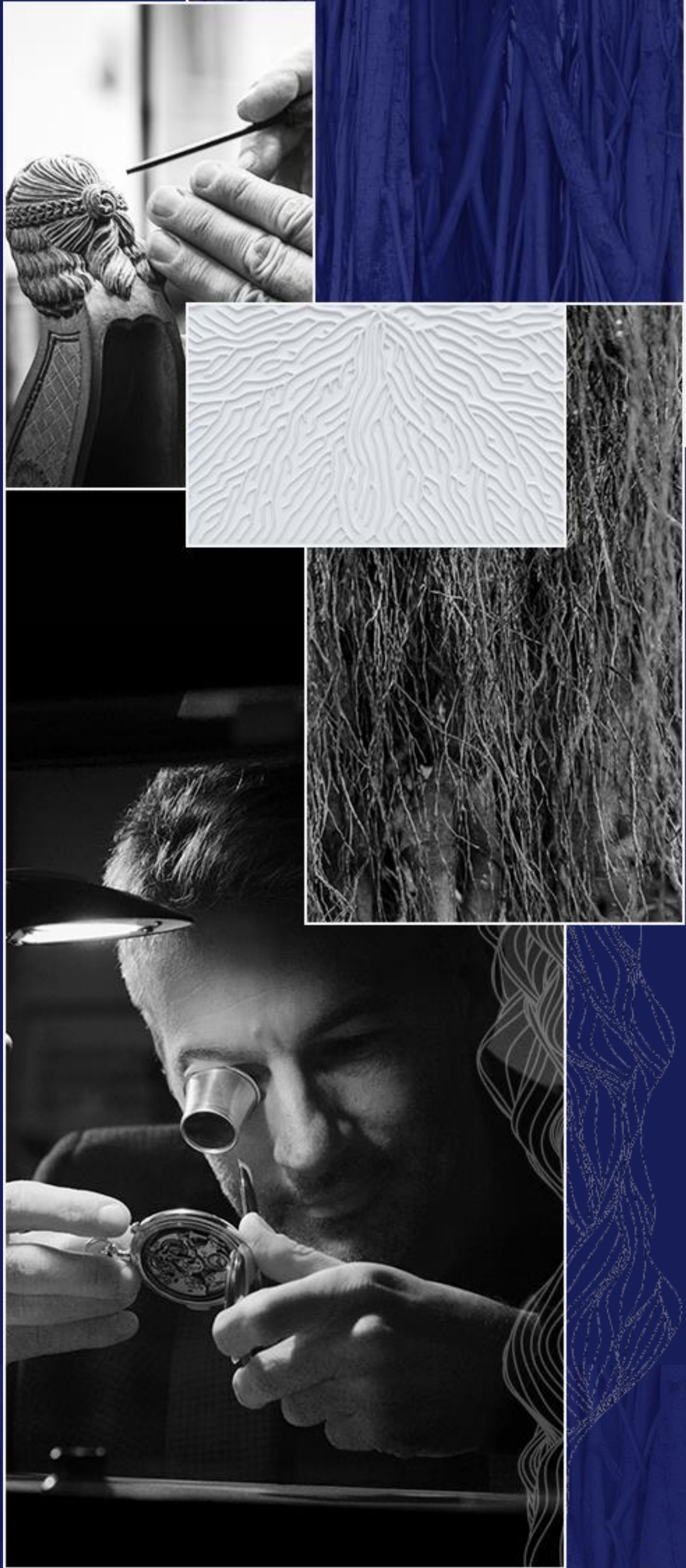

NEWSLETTER
November 2023

WODEHOUSE

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India Market Outlook

Over the past few months, investors have been enjoying a season of warmer earnings, cooler inflation, and the growing likelihood that the U.S. Federal Reserve has reached the end of its rate hike cycle. Since the Fed held rates steady at its November meeting, the S&P 500 Index has gained a little over 9%, while the 10-year U.S. Treasury yield has fallen from a cycle peak of nearly 5% to below 4.3%. Shifting interest rate expectations and lower-than-consensus Consumer and Producer Price Index readings for October-November have allowed investors to focus on corporate earnings.

Portfolios are stuffed with increased equity allocations this holiday season, but investors should be mindful of extended valuations and other risks aplenty. Overall, inflation has moderated meaningfully in recent months in the United States, the Euro area, and India, as energy and food prices have fallen significantly. Slightly weaker inflation and economic data give the financial markets hope for interest rate cuts soon. This raises the question: is a loose monetary policy necessarily good for the stock markets?

Back in India, even as several analysts have been expecting that blue-chip stocks would outperform mid-cap and small-cap stocks, the latter continue to maintain their leading position and show no signs of relinquishing the lead. This suggests that mid-cap and small-cap stocks are still performing well in comparison with their larger and more established counterparts in the market.

Market Watch

Indian Equities	Nov-23	1 Month	1 Year	3 Year	Currency	Nov-23	1 Month	1 Year	3 Year
Nifty 50	20,128	5.5%	7.0%	53.6%	USD/INR	83.4	0.2%	2.8%	13.4%
S&P BSE Sensex	66,940	4.8%	5.8%	49.9%	EUR/INR	91.2	3.5%	6.8%	2.8%
S&P BSE Midcap	34,214	9.4%	30.9%	100.3%	GBP/INR	105.6	4.4%	6.3%	7.1%
S&P BSE Smallcap	40,329	9.2%	35.7%	136.9%	JPY/INR	1.8	-3.1%	5.9%	24.4%
Global Equities					**Economic Data (Abs)**				
Dow Jones (US)	35,430	7.2%	3.0%	18.8%	10-year Ind G Sec	7.28%	7.35%	7.28%	5.91%
Nasdaq (US)	14,258	11.0%	24.2%	15.4%	CPI Inflation Ind	4.87%	5.02%	6.77%	7.61%
FTSE 100 (UK)	7,442	1.7%	-1.5%	16.6%	WPI Inflation Ind	-0.52%	-0.26%	5.85%	1.48%
Nikkei 225 (Japan)	33,487	8.5%	18.6%	25.0%	US Dollar Index (DXY)	103.1	-3.3%	-1.5%	12.9%
Hang Seng (HK)	17,029	-0.5%	-9.1%	-35.9%	CBOE VIX	13.1	-27.7%	-33.9%	-36.9%
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	**-**
Gold USD	2,041.6	2.9%	13.2%	12.5%	Indian GDP YoY	7.8%	7.7%	6.1%	
Silver USD	25.0	9.2%	9.8%	4.2%	US GDP QoQ	5.2%	4.9%	2.1%	
Brent Oil USD	83.5	-4.5%	-3.9%	76.0%	China GDP YoY	4.9%	4.4%	6.3%	

Source: investing.com

Macro-Economic Update and Key Events

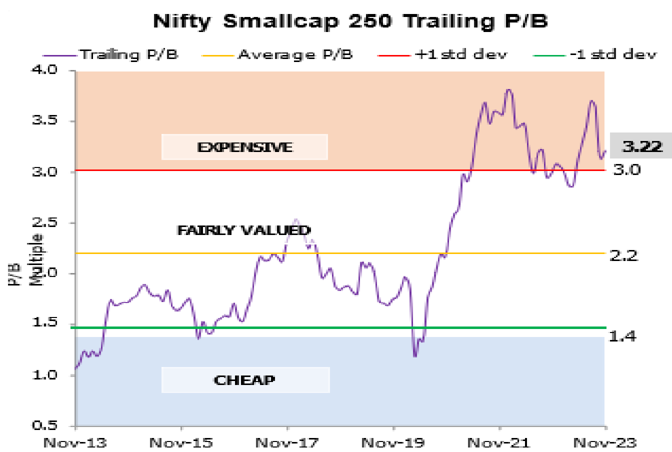
RBI kept the policy repo rate unchanged at 6.50%: The Monetary Policy Committee (MPC), in its fourth bi-monthly monetary policy review of FY24, maintained the key policy repo rate at 6.50% for the fourth consecutive time. The standing deposit facility (SDF) rate also remained unchanged at 6.25%. All six members unanimously voted to keep the policy repo rate unchanged. The MPC also remained focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target while supporting growth.

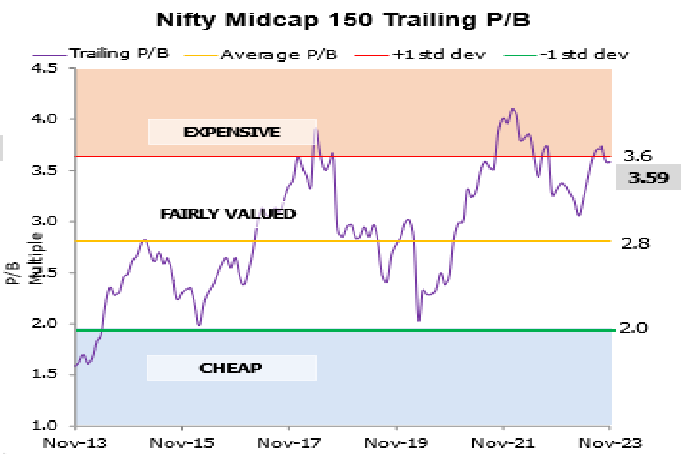
Inflation and Tax Revenue in India: In India, October's CPI stood at 4.87%, within the MPC comfort range. It must be noted that the RBI governor is increasingly articulating that the policy is guided by a target of 4%. Gross tax revenue improved to 48% of FY2024BE (compared to 46% in FY23), driven by direct tax growth at 25% in H1FY24.

Market Valuations Dichotomy: The dichotomy in valuations is now stark, with Nifty 50 trading comfortably, whereas Nifty Midcap 150 and Nifty Small cap 250 are rich and trading at a premium to large caps.

Sovereign Gold Bonds (SGB) Redemption: The first tranche of Sovereign Gold Bonds, government securities denominated in grams of gold, is set to see its first redemption on November 30, 2023. Investors holding SGB 2015-I until maturity will stand to gain a CAGR of 10.88%. The price of gold has benefited from this week's US inflation data, which came in tamer than expected.

Event Risk: General Elections Outlook: The outcome of the general elections next year will be a key event risk for India, as the bullish narrative surrounding India's growth is seen as an outcome of the current administration's ability to push ahead with policies and initiatives to propel growth.





Data Source:www.screener.in

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India Q2 GDP data highlights: The second-quarter fiscal GDP growth has pleasantly caught the markets off guard, registering a robust 7.6% year-on-year (y-o-y) increase, following the initial quarter's 7.8% y-o-y surge. This notable uptick can be attributed to the substantial growth in the manufacturing sector, which reported an impressive 13.9% y-o-y expansion.

Regulators Eye Risks: Personal Loans Fuel Concerns in Equity Derivatives Trading

The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have separately raised concerns about the surge in unsecured personal loans and losses in equity derivatives, respectively. Now, there is growing apprehension among analysts about a potential connection between these two issues: whether personal loans are being used to fund speculative trading in equity derivatives.

Exponential Growth in Equity Derivatives:

- Equity derivative volumes in Indian stock markets have grown exponentially, exceeding 400 times the underlying cash market volume.
- Digital onboarding and minimal upfront investment have led to an eight-fold increase in active derivatives traders, reaching 4 million.

RBI's Caution on Retail Credit:

- RBI Governor Shaktikanta Das and Deputy Governor Swaminathan express concern about high credit growth in certain retail segments, particularly unsecured loans.
- Warning banks to strengthen the internal surveillance systems, the RBI emphasizes the outlier status of unsecured loans with a growth rate of 23%.

Possible Connection Between Personal Loans and Derivatives:

- Some market participants speculate on the link between the rise in personal loans, especially through fintech platforms, and the booming equity derivatives market.
- Questions arise about whether borrowed money is being used for speculative purposes in the derivatives market.

In conclusion, the escalating concerns regarding the potential link between personal loans and speculative trading in equity derivatives prompt a call for regulatory scrutiny from entities like RBI and SEBI.

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Money as a Negative Art: Unconventional Investment Mindset

Money, in a curious way, operates as a negative art. Accumulating more of it often involves shedding bad traits rather than acquiring good ones. While many ambitious individuals focus on becoming smarter and acquiring new skills, when it comes to wealth, eliminating undesirable traits can be more effective.

The average person may struggle as an investor by thinking like a consumer instead of an investor. While investors are commonly perceived as a niche group, we are all investors in choosing where to allocate our time and money for the greatest impact. The challenge lies in people not always investing their time optimally, often without awareness. It's essential to realize that someone will always be getting richer faster than you, and viewing this as a tragedy is akin to committing one of the deadly sins.

Wealth is What You Don't See

Our unique investing experiences shape our views on money. Financial wealth isn't a universal property but reflects how humans value things like stocks, crypto, bonds, houses, or gold. It's not just tied to economic changes but also the dynamic supplyand demand of financial assets.

When we speak of wealth being created or destroyed, it extends beyond conventional factors such as economic expansion, property loss due to disasters, or the birth and demise of businesses. While these factors contribute, a closer examination reveals that financial wealth experiences flux not just because of shifts in the real economy, but also due to the dynamic nature of the prices we attribute to financial assets.

To understand wealth mechanics, consider "mark-to-market accounting." This approach values all shares at market prices, making market cap synonymous with wealth. When the market cap contracts, wealth doesn't relocate; it vanishes, as people decide to trade shares at lower prices.

Beyond this, the real estate market is a prime illustration of the law of vital Few; unlike stocks which trade on a live market Monday through Friday, providing a constant look at prices. Home sales, which are frequently based on a small number of transactions. You may believe your home is worth a certain price because someone down the street sold a home similar to yours for a certain price months ago. We say this is a terrible approach to estimating worth because it is prone to large swings in both directions; it just takes a few disastrous transactions to reprice an entire area.

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Evolving Economic Scenarios

While inflation has continued to decline, growth remains incredibly resilient. Rather than be prescriptive on the trajectory of rates, it may be useful to identify economic scenarios that could play out over the next 12-24 months and assess the impact to U.S. Treasury bond returns.

Scenario 1: Robust Growth and Inflation
Economic Conditions: Strong economic growth, inflation above 3%, Fed hikes rates.
Investment Implications:

- Stocks, yields, and the dollar rise.
- Long-term rates move higher due to stronger growth and inflation.
- The yield curve steepens, then normalizes as growth and inflation return to trend.

Scenario 2: Soft Landing - Modest Growth and Inflation
Economic Conditions: Slowing inflation, moderating labour market, Fed pauses rate hikes.
Investment Implications:

- Gradual decline in long-term yields.
- The yield curve continues to steepen but becomes positively sloped by the end of 2025.
- Resilient consumer and healthy labour market prevent a recession.

Scenario 3: Mild Recession - Negative Growth and Disinflation
Economic Conditions: Monetary policy leads to recession, banking sector issues, slower credit growth.
Investment Implications:

- Fed cuts rates to 3.5% by the end of 2024 and to 2.5% by the end of 2025.
- Long-term yields fall initially, and gradually move higher as the economy improves.
- A mild recession due to limited cyclical excess and a structural labour shortage.

Certainly, these scenarios are not the exclusive possibilities anticipated in the coming years. In our scenario analysis, we examine the repercussions on returns in various markets under more adverse conditions, including a severe recession and a stagflationary environment. Nevertheless, we consider these to be the most probable outcomes.

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WCA Outlook Fixed Income

The reset in yields and the prospects for mild economic fundamentals in the year ahead suggest re-engaging actively managed fixed income will be critical for portfolios over the next market cycle. We do not expect Fed rate cuts to begin before mid-2024. It is important to use the waiting time wisely. We maintain extending a portfolio's duration has helped capture the price appreciation created by future rate declines, whenever they may occur. We advocate a diversified multi-sector approach, focused on higher-quality credits across sectors. Active management remains critical, as credit spreads will likely widen in the coming months.

10-Y Sovereign Yield Movement in Key Economies

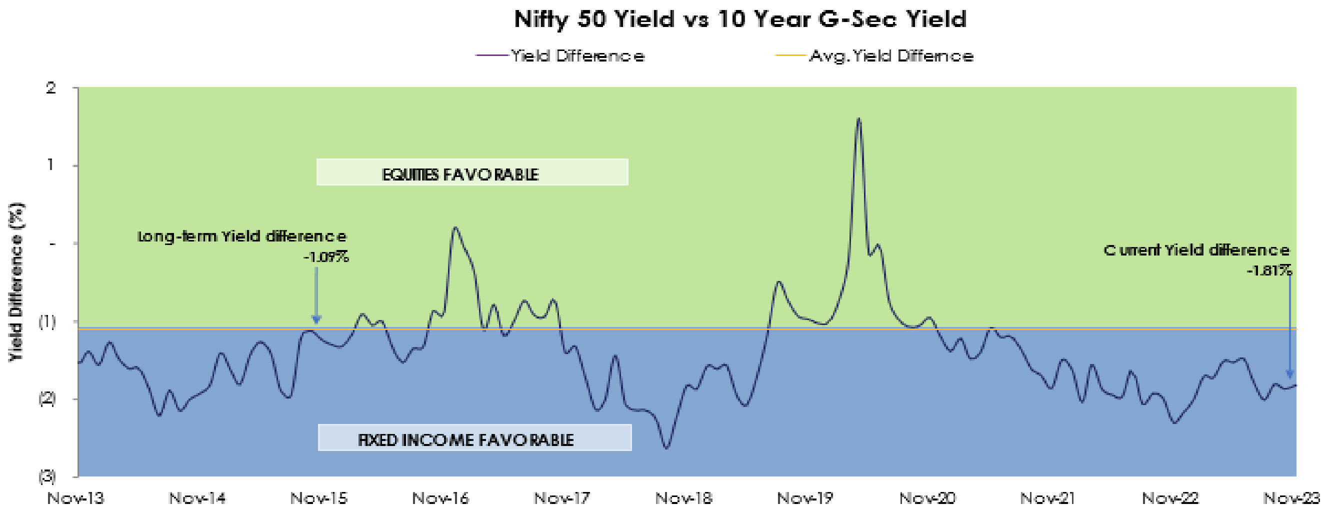
Region	Country	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	1M change (Bps)	YoY change (Bps)
Asia Pacific	India	7.5	7.3	7.3	7.3	7.4	7.3	7.1	7.0	7.1	7.2	7.2	7.2	7.4	7.3	-9	-1
	Japan	0.2	0.3	0.4	0.5	0.5	0.3	0.4	0.4	0.4	0.6	0.7	0.8	0.9	0.7	-27	43
	China	2.7	2.9	2.8	2.9	2.9	2.9	2.8	2.7	2.6	2.7	2.6	2.7	2.7	2.7	1	-22
WEST	US	4.1	3.6	3.9	3.5	3.9	3.5	3.4	3.6	3.8	4.0	4.1	4.6	4.9	4.3	-66	66
	UK	3.5	3.2	3.7	3.3	3.8	3.5	3.7	4.2	4.4	4.3	4.4	4.4	4.5	4.2	-36	99
	Germany	2.1	1.9	2.6	2.3	2.7	2.3	2.3	2.3	2.4	2.5	2.5	2.8	2.8	2.4	-40	48
LATAM	Brazil	11.9	12.7	12.7	13.2	13.5	12.8	12.3	11.6	10.6	10.8	11.2	11.7	11.9	10.9	-101	-188

Data Source:www.investing.com

WCA Outlook Equities

Anything that evolves – markets, technology, careers, etc. – has to be approached with the mindset that one's great ideas can expire, and when they reach that point, you're better off walking away rather than attempting to repair them. The secret to investing is enduring uncomfortable situations, so selling at the first hint of imperfection is usually regretted. But its opposite – an unshakeable anchor to past decisions – is perhaps worse. The saying, "Our favourite holding period is forever," should be replaced with, "Our favourite holding period is until the facts change."

The time to completely pause your investments in equity hasn't arrived yet. For now, slowing down and focusing on safer parts of the market should be your priority.



Data Source:www.investing.com

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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