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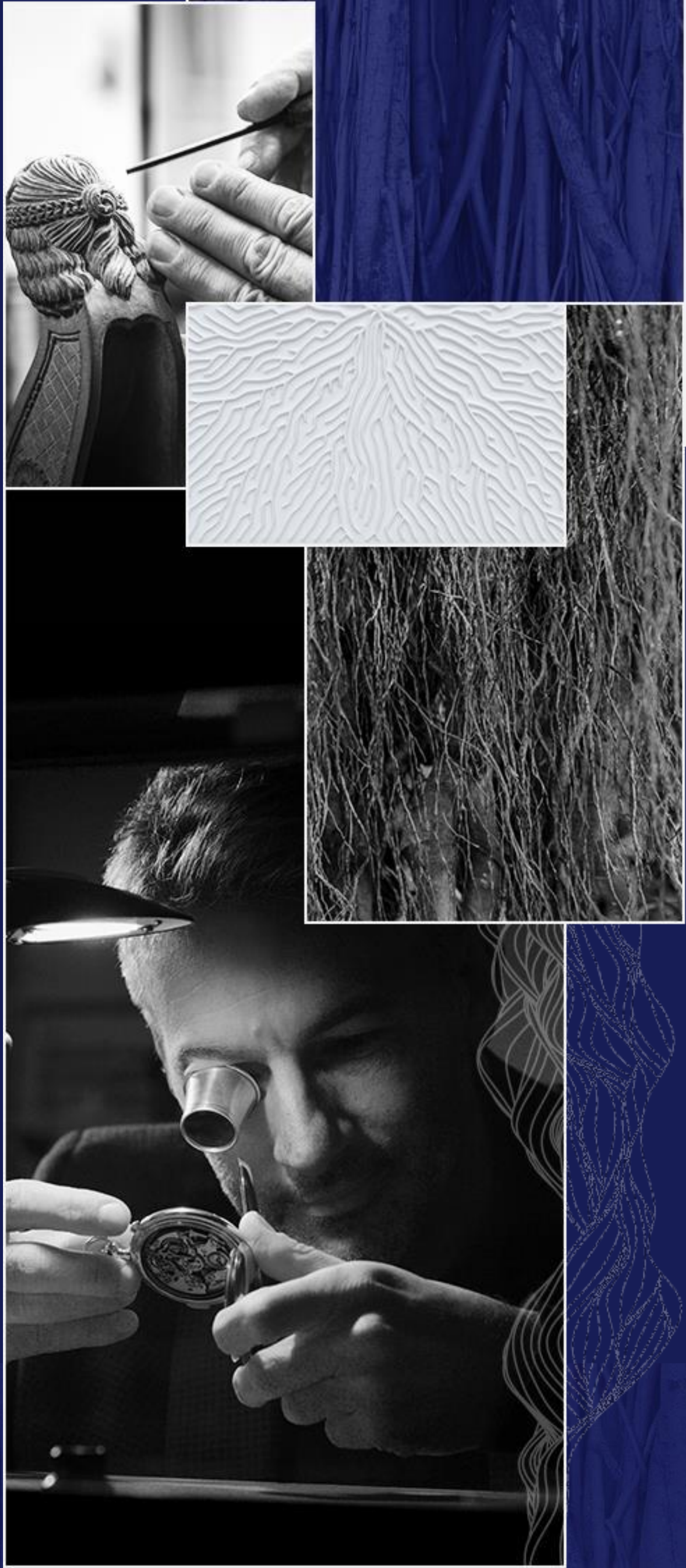

NEWSLETTER
October 2023

WODEHOUSE

W.I.N.
WODEHOUSE INVESTMENT NETWORK

WORLD M&A ALLIANCE

Indian – Market Outlook

In October, the global financial markets encountered substantial challenges as a combination of factors, including the increase in government bond yields, elevated crude oil prices, and escalating geopolitical tensions, overshadowed positive developments like a declining inflation trend. Investors are now adjusting to the likelihood of central banks maintaining higher interest rates for the time being. Interestingly, this realization has come relatively late, as most central banks are now more focused on determining the optimal duration for holding rates rather than contemplating incremental rate hikes.

Navigating global uncertainties and a sluggish economy won't be simple, but India can boost its growth by harnessing domestic demand, especially through private consumption and investments. India's advantage in private consumption lies in its vast consumer base, increasing incomes, and the ambitions of its sizable youth population. On the investment front, India's substantial scale, skilled workforce, technology, and innovation capabilities make it an appealing destination for global investors.

The spotlight is on India’s micro, small, or medium enterprises (MSMEs). These, we believe, will be key in generating income, capabilities, capacities, and ecosystems needed for sustained growth in consumption and investment that is broad-based and comes from all sections of the economy. The good news is that the past two quarters have seen an uptick in the MSME sector. Out of the shadow of the pandemic, the steady revival of this sector will likely help India achieve broad-based growth at the grassroots levels, which is needed to ensure sustained economic activity.

Market Watch									
Indian Equities	**Nov-23**	**1 Month**	**1 Year**	**3 Year**	**Currency**	**Nov-23**	**1 Month**	**1 Year**	**3 Year**
Nifty 50	19,249	-0.9%	6.3%	61.7%	USD/INR	83.3	0.0%	1.5%	11.9%
S&P BSE Sensex	64,469	-1.1%	5.8%	58.8%	EUR/INR	88.5	1.2%	8.3%	1.5%
S&P BSE Midcap	31,678	-0.6%	23.5%	110.0%	GBP/INR	101.6	0.6%	8.9%	5.2%
S&P BSE Smallcap	37,466	-0.5%	27.9%	150.2%	JPY/INR	1.8	0.9%	1.1%	28.6%
Global Equities					**Economic Data (Abs)**				
Dow Jones (US)	33,839	2.1%	4.4%	21.5%	10-year Ind G Sec	7.32%	7.24%	7.47%	6.00%
Nasdaq (US)	13,294	0.4%	26.9%	14.7%	CPI Inflation Ind	5.02%	6.83%	7.41%	7.34%
FTSE 100 (UK)	7,447	0.5%	1.5%	26.6%	WPI Inflation Ind	-0.26%	-0.52%	10.70%	1.32%
Nikkei 225 (Japan)	31,950	4.7%	17.5%	34.8%	US Dollar Index (DXY)	106.1	-0.7%	-4.3%	13.6%
Hang Seng (HK)	17,576	2.3%	8.8%	-29.4%	CBOE VIX	15.7	-15.7%	-36.2%	-47.0%
Commodity					**GDP Overview**	**Actual**	**Forecast**	**Previous**	-
Gold USD	1,986.3	9.1%	18.2%	4.4%	Indian GDP YoY	7.8%	7.7%	6.1%	
Silver USD	22.7	8.3%	9.0%	-5.1%	US GDP QoQ	4.9%	4.3%	2.1%	
Brent Oil USD	87.0	1.4%	-11.8%	111.0%	China GDP YoY	5.2%		5.5%	

Source: investing.com

Wodehouse Capital Advisors Pvt Ltd.
info@wodehouse.com

US Federal Reserve Maintains Rates with Hawkish Bias

No surprises from the Federal Reserve with the Fed funds target range held at 5.25-5.50% for the second consecutive meeting – the longest period of no change since the tightening cycle started in early 2022. The accompanying statement acknowledges the "strong" economic activity – a slight upgrade on the "solid" description in September while there was explicit mention of "tighter financial and credit conditions", which will weigh on the economy.

- Chair Powell acknowledges the impact of tighter monetary policy during the press conference,
- While there's a slight reduction in hawkishness expressed by the FOMC, they avoid signalling the policy peak to prevent traders from anticipating rate cuts.
- In summary, interest rates have reached levels unseen by a generation of investors, potentially ushering in a new era of rate policies reminiscent of pre-financial crisis times.
- Consumer spending drives economic growth, but stagnant real household disposable income, diminishing savings, and repaid consumer credit present risks.
- Recent tightening of lending and financial conditions adds to the mild risk of recession.
- A recession could lead to a quicker decline in inflation pressures, potentially allowing the Fed to cut rates in the first half of the next year.

What's Behind the Sudden Spike in US 10-Year Bond Yields in October?

- A significant factor behind the sudden rise in US 10-year bond yields is the US government's heightened borrowing to cover its substantial deficit. This increased bond supply compels investors to seek higher yields as a condition for lending their capital, consequently driving up bond yields.
- The increase in 10-year bond yields can be attributed to expectations of prolonged high-interest rates, the US Federal Reserve's commitment to a gradual rate hike, and other contributing factors such as the upward trend in oil prices and heightened geopolitical tensions.

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info@wodehouse.com

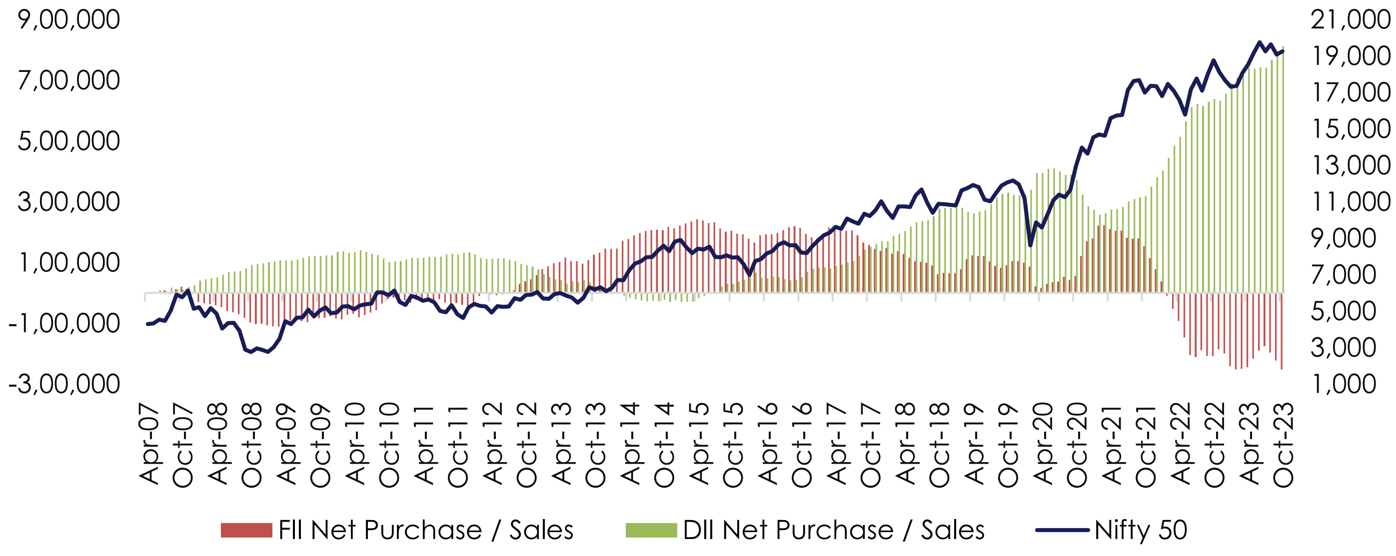
The Middle East and Global Markets: A Delicate Balance

The initiation of the Palestinian-Israeli conflict was far from a random event; its timing couldn't have been worse for the Democratic Party of the United States.

- As the United States approaches its next presidential cycle, its historical role as a security guarantor in the Middle East is becoming increasingly apparent. Current events underscore the fragility of this longstanding arrangement.
- Moreover, the United States' strategic oil reserves have reached their lowest levels since the 1980s, currently standing at 351.3 million barrels. This depletion poses a significant challenge for the United States in its ability to engage in a comprehensive energy market conflict.

Simultaneously, destructive processes within the United States are gaining momentum, causing the stakes to rise. This destabilization is anticipated to intensify, potentially influencing oil prices and bolstering the value of gold. Notably, nations heavily invested in the United States are at risk, with Japan and its stock market being particularly vulnerable.

DIIs flows driving the Indian market.



Foreign institutional investor (FII) ownership in India is lower than the average in emerging markets (EM), presenting a significant opportunity for increased FII inflows in the upcoming decade.

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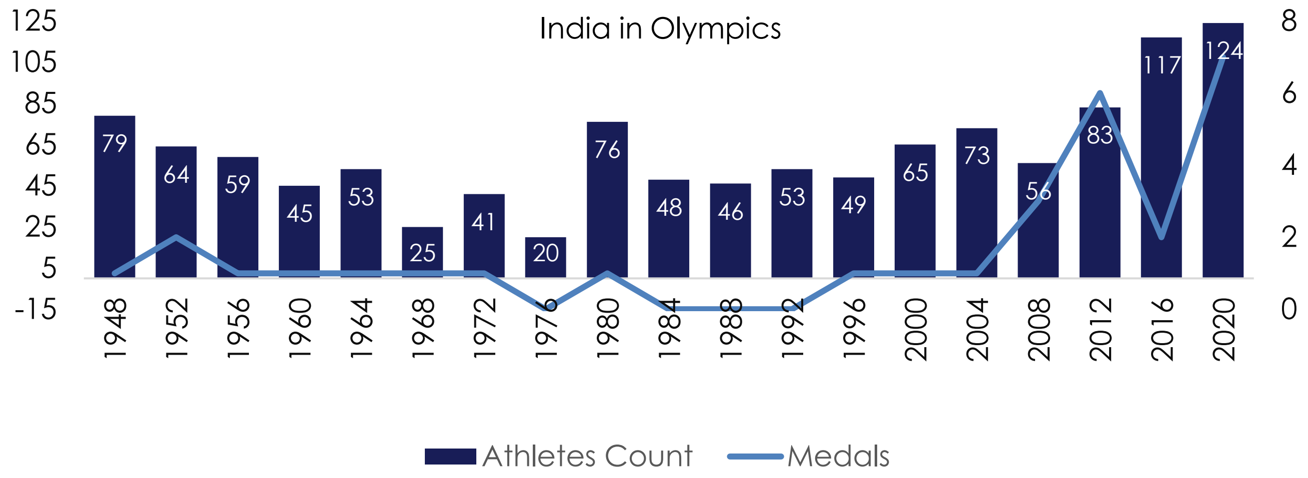
The Intersection of Sports Success and Economic Progress



There's a different kind of India growth story we are witnessing — of the country's sporting prowess. With a record 100-plus medal haul at the Hangzhou Asian Games, We look at the correlation between rapid economic growth and greater sporting muscles being flexed in the international arena, the standout athletes who are proof of this pudding, and the growth path leading up to next year's Paris Olympics. India finally is punching its weight.

India looks like China of 2007

China in 2007	India in 2023
✓ Per Capita $2,691	✓ Per Capita $2,745
✓ Rising share in global exports	✓ Rising share in EMS exports
✓ Demographic Dividends	✓ Median age 28.4 – 10 years younger to China
✓ High Credit Growth	✓ Credit growth at 15%
✓ Low Labour cost	✓ India's labour cost is now lower than China

- China's economic growth since 2007 has been driven by a substantial increase in exports, cost-effectiveness, and the advantage of a demographic dividend.
- India is currently in a similar position and has the potential to experience similar benefits to China in the years ahead.

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info@wodehouse.com

Key Drivers Advancing India's Progress Toward a $5 Trillion Economy.

Consumption
The addition of 140 million households to India's middle class by 2030 is poised to drive consumer spending, while an estimated urbanization rate of 56% by 2030 promises improved consumption prospects.

Infrastructure Investments
Allocating 8-9% of GDP to infrastructure spending is a pivotal step toward achieving a $5 trillion economy, with the aim of reaching 70% of the National Infrastructure Pipeline targets by 2025.

Corporate Capital Expenditure
A significant majority of companies witnessed a reduction in debt in 2021, positioning them as strong candidates to spearhead capital expenditure. An investment of INR 3.5-4 trillion is anticipated through the PLI scheme over the next 3-4 years.

Innovation
The Digital India initiative targets a transition to 80% digital transactions by 2030, and there are over 100 unicorns collectively valued at $340 billion, highlighting the dynamic innovation landscape.

Potential Threat to the US Economy

The fact that M2 Money Supply has contracted on a YoY basis in the US, is a point of concern, Unfortunately, this is the intellectual equivalent of focusing exclusively on the liabilities in a balance sheet and not the assets, Because of the sustained decline in the money supply, the economy is in real danger. So far, only the remaining excess money the Fed created between 2020 and 2021—the cumulative excess savings from the Covid handouts—has been keeping businesses hiring and consumers spending. The effects of the excess money are still giving the economy a lift, but that extra fuel is almost exhausted. When it dries up, the economy will run on fumes."

What we fail to acknowledge is there are $4 TRILLION of excess "fumes" from an unprecedented increase in Money Supply – due to an unprecedented shutdown in the global economy in 2020-2021. In other words, the money supply will have to contract for multiple years just to come back to the long-term uptrend. This is one of the reasons we believe inflation should run above trend (in a reasonable range of 3-5%) for a few years.

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info@wodehouse.com

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WCA Outlook Equities

For the US markets, many predicted a technical recession, an earnings recession, or both heading into this year. This was reflected by portfolios positioned tactically defensively. In reality, growth has surprised to the upside, inflation has moderated, and investor sentiment has been overtly risk-on. Though the direction of monetary policy remains uncertain, inflation risks have partially faded. Therefore, we feel that now is the time to focus on long-term positioning.

In the gap between widespread perception and reality, there can lie investment opportunities. Considering the current leg of the ongoing correction in Indian equities, it has entered into the upper end of an accumulation zone.

WCA Outlook Fixed Income

While many investors understand the appeal of extending duration, we believe few have truly returned to their strategic portfolio weights in light of elevated cash yields. However, we espouse a new angle to core fixed income: beyond attractive yields, modest expected spread tightening, and a normalizing equity/bond return correlation, we find that implied return asymmetry in intermediate-duration bonds has significantly improved relative to the zero-interest rate world of 2020. In other words, we find that bond prices today are theoretically punished less if rates rise, and more importantly, that they are theoretically rewarded more if rates fall, which is more likely today vis-à-vis pre-pandemic.

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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

Wodehouse Capital Advisors Pvt Ltd.
info@wodehouse.com