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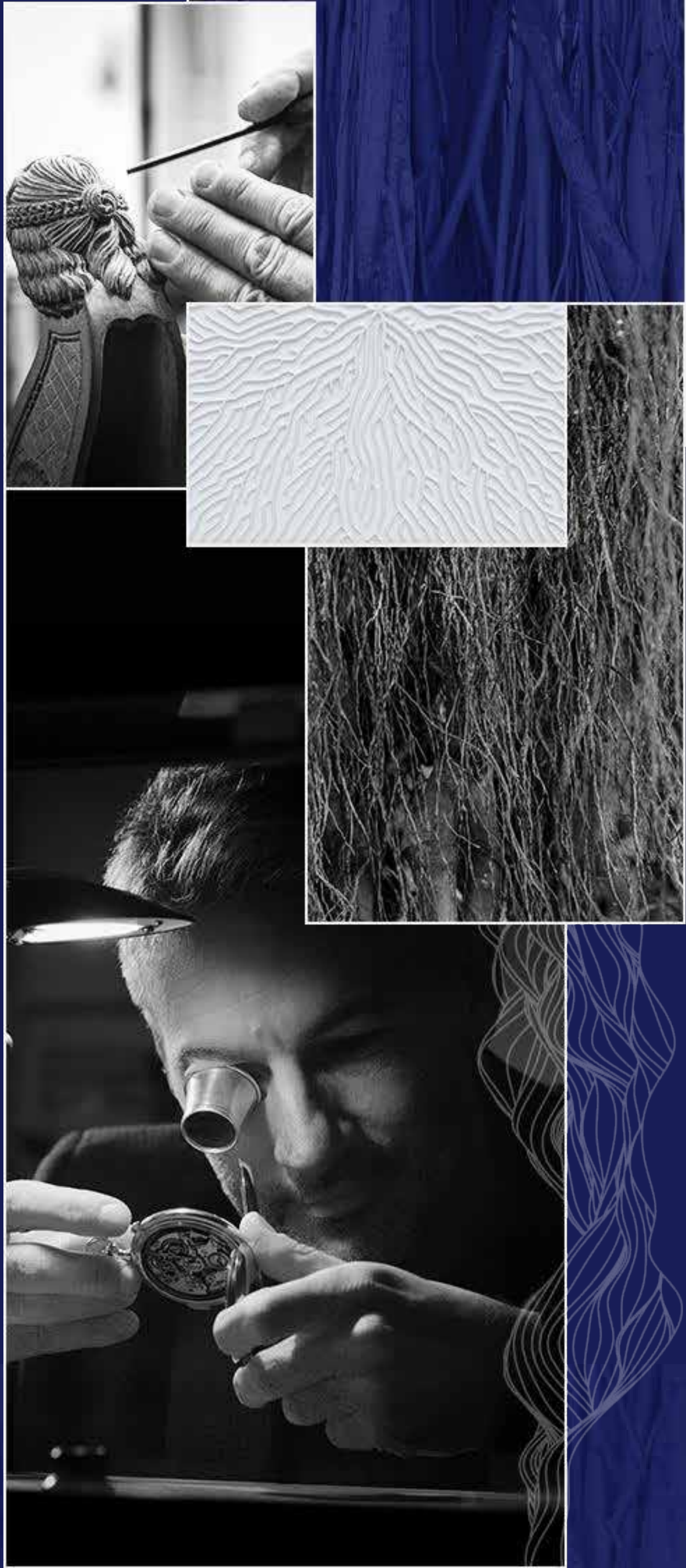

NEWSLETTER DECEMBER 2022

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WODEHOUSE INVESTMENT NETWORK

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India - Market Outlook

Introduction

India - Bull market intact

Lower-than-expected inflation numbers helped both equity and bond markets continue to trend higher in November. News from China supported this positive sentiment as the world's second-largest economy finally showed signs of a shift away from its zero-COVID policy, whilst indicating a milder stance on the property sector. At the same time, US Fed chair Jerome Powell signaled a slower pace of rate hikes, which helped to bolster the appetite for risky assets. Finally, warmer weather and brimming gas stores in Germany significantly reduced the likelihood of gas shortages, possible blackouts, forced industry shutdowns, and significantly higher gas prices. Ultimately this led to European equity markets narrowing their divergence from US equities.

The US stock market rebound continued in Nov-22 as strong corporate earnings, lower-than-expected inflation growth, and anticipation of softer rate hikes by the US Federal Reserve boosted investor sentiments. UK and European equities, too, closed on a positive note despite recession fears and sky-high inflation. In global equities, Hong Kong (+27%), Taiwan (+15%), and the Philippines (+10%) grew the most whereas Brazil (-3%) and Indonesia (-0.2%) were the most affected.

India, too, benefitted from the global risk-on sentiments. Foreign portfolio investors pumped Rs.36,239 crore into domestic equities in November 2022, the highest in nearly two years. At the helm of India's outperformance has been government policy, including a structural rise in the domestic equity saving pool, a boost to corporate profit share in GDP, and a focus on FDI flows, which raised the share of FDI in BoP, allowing India to run monetary policy that is less sensitive to the US Fed, and reduced the equity market's sensitivity to US growth conditions and oil prices.

Market Watch							
Indian Equities	**Nov-22**	**Oct-22**	**1 Month**	**Currency**	**Nov-22**	**Oct-22**	**1 Month**
Nifty50	18,758	18,012	4.14%	INR/USD	81.50	82.65	1.39%
S&P BSE Sensex	63,100	60,747	3.87%	INR/EUR	84.53	82.42	-2.56%
S&P BSE Mid Cap	25,951	23,359	11.10%	INR/GBP	98.26	94.93	-3.51%
S&P BSE Small Cap	29,520	28,818	2.44%	INR/JPY (100)	59.21	55.65	-6.40%
Global Equities				**Economic Data**			
Dow Jones (US)	34,857	32,734	6.49%	10-year G-Sec (%)	7.28	7.42	-1.83%
Nasdaq (US)	12,030	11,406	5.48%	Inflation (%)	-	6.77	-
FTSE 100 (UK)	7,573	7,095	6.74%	Export Growth (%)	-	8.43	-
Nikkei 225 (Japan)	27,969	27,587	1.38%	US Dollar Index (DXY)	105.87	111.53	-5.07%
Hang Seng (Hongkong)	18,597	14,687	26.62%	IND Volatility Index (VIX)	13.76	15.80	-12.94%
Commodity				**Deposit Rates (SBI)**			
Gold (INR/10 gms)	52,434	50,070	4.72%	1-Year (%)	5.50	4.70	17.02%
Silver (INR/10 gms)	624	581	7.47%	3-Years (%)	6.25	5.65	10.62%
Brent Oil ($/bbl)	85	95	-9.91%	5-Years (%)	6.10	5.80	5.17%

Source: Investing.com, SBI, Pib.gov.in, Deloitte, Kotak Research. Data as of 30th November 2022.

A. 1. Global Growth & Outlook:

Global growth slowed sharply through 2022 on a diminishing reopening boost, fiscal and monetary tightening, China's ongoing Covid restrictions and property slump, and the energy supply shock resulting from the Russia-Ukraine war. GS Research expects the world to continue growing at a below-trend pace of 1.8% in 2023, with a mild recession in Europe and a bumpy reopening in China but also important pockets of resilience in the US and some EM early hikers, such as Brazil.

Real GDP Growth Percent Change yoy	Annual Average 2022		2023		2024		Q4/Q4 2023	Next 4 Quarters 2022Q4-2023Q3	Potential
	GS	Consensus	GS	Consensus	GS	Consensus	GS	GS	GS
US	1.9	1.8	1.0	0.4	1.6	1.4	1.1	0.9	1.8
Euro Area	3.3	3.1	-0.1	-0.1	1.4	1.5	0.0	-0.5	1.1
Germany	1.8	1.6	-0.6	-0.7	1.4	1.3	-0.3	-0.9	1.3
France	2.5	2.5	0.1	0.4	1.3	1.3	0.3	-0.1	1.1
Italy	3.8	3.5	-0.1	-0.1	1.3	1.2	-0.1	-0.7	0.8
Spain	4.6	4.5	0.6	1.0	2.1	2.0	0.6	0.2	1.3
Japan	1.5	1.6	1.3	1.4	1.4	1.1	1.1	1.5	0.8
UK	4.4	4.2	-1.2	-0.5	0.9	1.1	-0.8	-1.6	1.4
Canada	3.2	3.3	0.9	0.6	1.4	1.7	0.8	0.7	1.6
China	3.0	3.3	4.5	4.8	5.3	4.9	5.5	4.2	4.2
India	6.9	7.1	5.9	5.8	6.5	6.6	7.5	7.2	6.0
Brazil	2.9	2.7	1.2	0.8	2.2	1.9	1.6	1.0	1.9
Russia	-3.3	-4.0	-1.3	-3.2	1.8	1.5	0.9	0.9	1.2
World	2.9	2.9	1.8	1.8	2.8	2.6	2.4	1.8	2.6

Source: Goldman Sachs Global Investment Research, Goldman Sachs Economic Research.

In the past year, US growth has slowed to a below-potential pace of about 1% because of a diminishing reopening boost, declining real disposable income (driven by fiscal normalization and high inflation), and aggressive monetary tightening. In GS's forecast, growth remains at roughly this pace in 2023. Unlike a year ago, when their forecast for both 2022 and 2023 was below consensus because they expected a negative impact of monetary and especially fiscal tightening, GS's current 2023 forecast is well above consensus.

The Euro area and the UK are probably in recession, mainly because of the real income hit by surging energy bills. But GS expects only a mild downturn as Europe has already managed to cut Russian gas imports without crushing activity and is likely to benefit from the same post-pandemic improvements that are helping avoid the US recession. Given reduced risks of a deep downturn and persistent inflation, GS expects hikes through May with a 3% ECB peak.

China is likely to grow slowly in H1 as an April reopening initially triggers an increase in Covid cases that keeps caution high, but should accelerate sharply in H2 on a reopening boost. GS's longer-run China view remains cautious because of the long slide in the property market as well as slower potential growth (reflecting weakness in both demographics and productivity).

Consumer Price Inflation (YoY %) across major economies:

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
US	8.6	9.1	8.5	8.3	8.2	7.7
UK	9.1	9.4	10.1	9.9	10.1	11.1
EA	7.4	8.1	8.6	8.9	9.1	9.9
Japan	2.5	2.5	2.4	2.6	3.0	3.0
China	2.1	2.1	2.5	2.7	2.5	2.8

Source: WCA Research, News Articles, CRISIL Research.

Policy Interest Rates (End of month%) across major economies:

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
US	0.75-1.0	1.5-1.75	2.25-2.5	2.25-2.5	3.00-3.25	3.75-4.00
UK	1.00	1.25	1.25	1.75	2.25	2.25
EA	0.0	0.0	0.5	0.5	1.25	2.00
Japan	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
China	3.70	3.70	3.70	3.65	3.65	3.65

Source: WCA Research, News Articles, CRISIL Research.

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B. 1. India's Growth & Outlook:

India's GDP continued to grow by rising 13.5% in Q1FY23 in comparison to a growth of ~4.1% in Q4FY22. The high growth was helped by the favorable base effect. The further momentum of growth will depend on: (a) Capex spending by Govt as well as Private Players, (b) Improvement in the country's net exports, (c) Concerns about the Global slowdown of the economy, and (d) High Inflation & Rising Interest Rates. Broader economic activity has remained resilient with domestic demand accelerating. Upbeat corporate earnings and robust credit growth also provide support to economic growth. FPI flows remained neutral while DIIs continued their buying momentum which led to advanced market indices.

Flows	Nov-22*	Oct-22	Sep-22
FIIs (Net Purchases / Sales) (Rs Cr)	29,342	8,431	-8,255
MFs (Net Purchases / Sales) (Rs cr)	4,402	6,268	17,961

Earnings Growth (%) (Consolidated)	FY22	FY23E	FY24E
Sensex	25.4	8.3	15.6

Macro Indicators	Latest Update	Previous Update
GDP (YoY%)	6.3% (2QFY23)	13.5% (1QFY23)
IIP (YoY%)	(3.1%) (Sep 22)	(0.8%) (Aug 22)
Crude ($ bbl)	87 (Nov 30)	95 (Oct 31)
Core Sector Growth (YoY%)	0.1% (Oct 22)	7.9% (Sep 22)
Trade Deficit ($ mn)	-26,912 (Sep 22)	-25,713 (Aug 22)
Current Account Deficit ($ bn)	(23.9) (1QFY23)	(13.4) (4QFY22)

Source: WCA Research, News Articles, ICICI Prudential Mutual Fund.

India's macro dataflow: Strong

I. **Manufacturing PMI:**
Manufacturing PMI rose MoM in November'22, reaching 55.7, and remained in the expansion zone (>50 points) for the 17th straight month, with a marked rise in business optimism, and new orders, including export orders. Manufacturing IIP rose by 3.1% YoY in September'22 vs a -0.7% contraction in August'22.

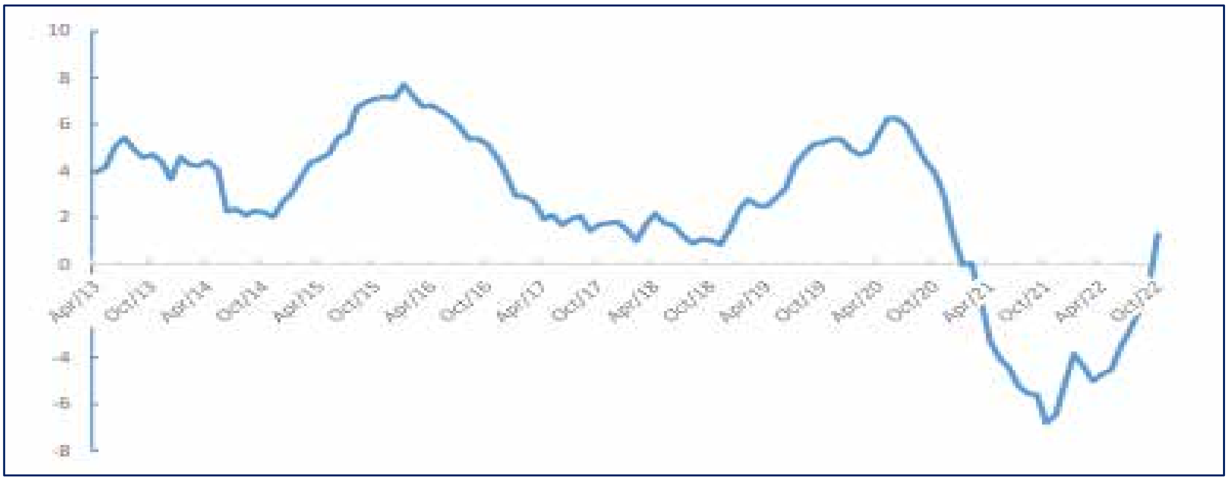
II. **GST Collection:**
Collections of INR 1.46 Tn (+11% YoY) in November'22 concluded the ninth consecutive month of collections over the 1.4Tn mark. Improving tax compliance, commodity price pressure, and robust consumer demand sustainably driving the GST collections.

III. **Core sector production:**
Core sector production growth slowed to a 12-month low of +0.1% YoY in October'22, owing to a contraction in cement, refinery products, and natural gas production, which shrank for a fourth successive month.

IV. **Credit growth:**
Credit growth accelerated to 17% YoY as of 4th November 2022 against YoY growth of 6.1% as observed on 5th November 2021.

V. **Inflation:**
October'22 CPI inflation fell to 6.8% from 7.4% in September'22, led by still elevated food prices. WPI inflation continued to fall sharply with the October'22 print at 8.4%YoY, 230 bps down from September 2022's at 10.7%YoY reading.

Rising cost pressures cool as the gap between Core CPI Inflation and Core WPI inflation turns positive in October'22 (1.3%)

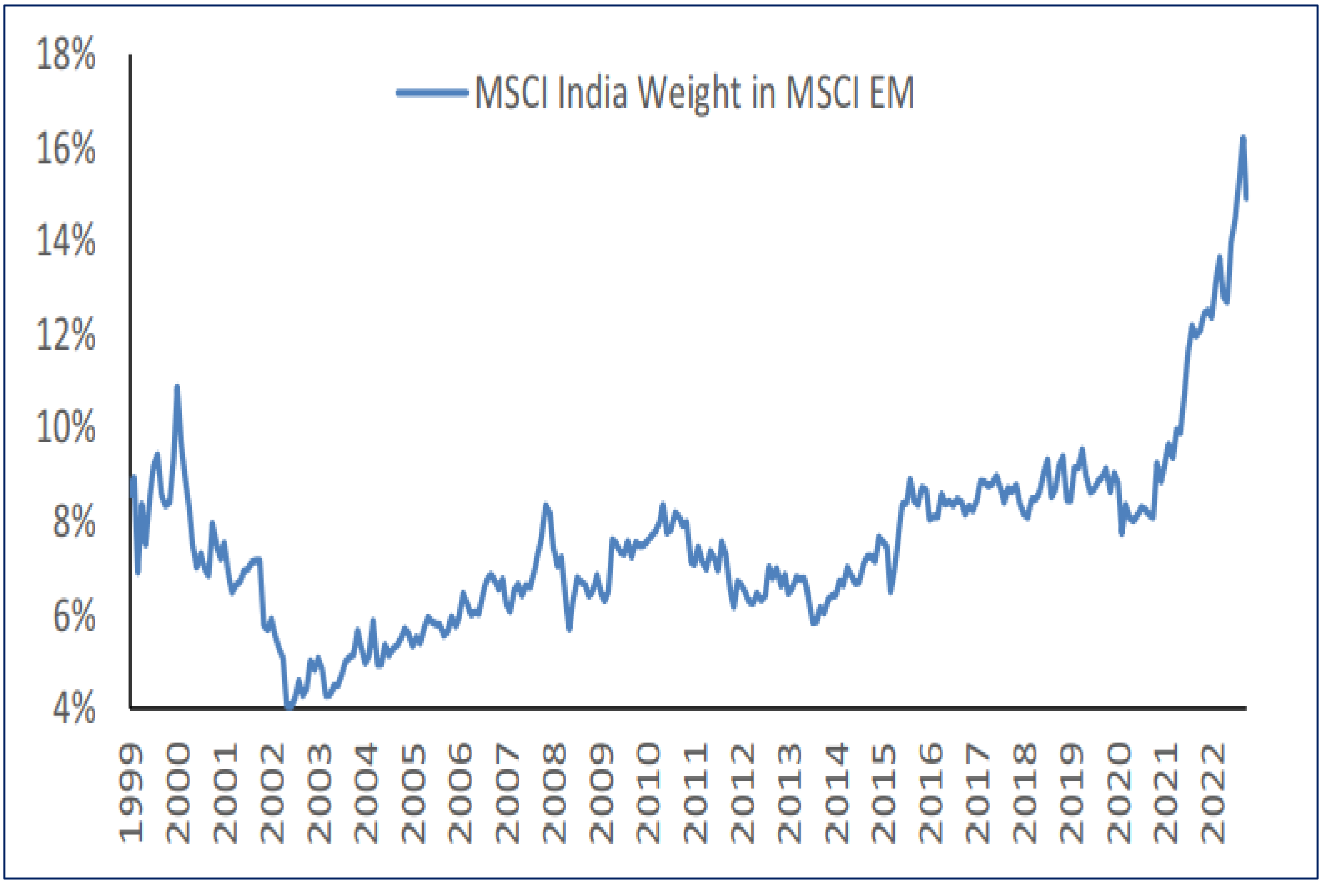


Source: WCA Research, MS Research, Nippon India Mutual Fund.

B. 2. India - A Rising Emerging Market Champion

Emerging markets are likely to benefit from a relatively more benign world vs 2022, and India's trailing outperformance could take a breather in 1H2023, given relative valuations. At the helm of India's outperformance has been government policy, including a structural rise in the domestic equity saving pool, a boost to corporate profit share in GDP, and a focus on FDI flows, which raised the share of FDI in BoP, allowing India to run monetary policy that is less sensitive to the US Fed, and reduced the equity market's sensitivity to US growth conditions and oil prices. Profit share in GDP is on a structural up-trend with falling material costs and rising Capex, strong demand conditions favoring earnings in 2023.

India's Weight at All-time Peak - Some Correction in the Offing, mainly led by an increase in the weights of other markets



Source: MSCI, RIMES, Morgan Stanley Research.

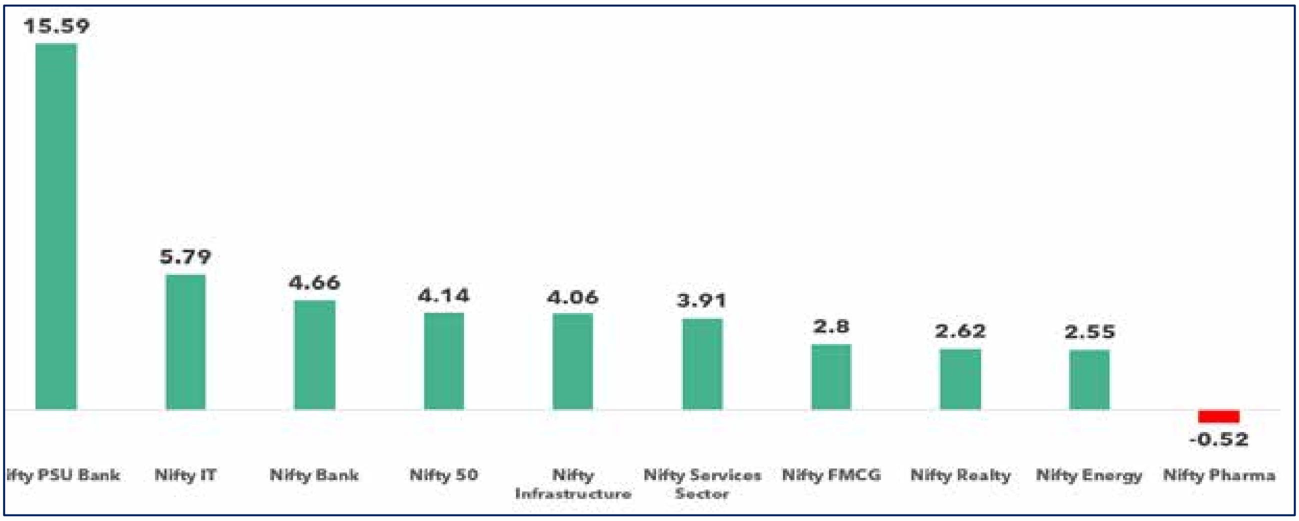
Nifty50 Index - At A Peak

Nifty extends winning run in November 2022 (in %)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2005	-1.1	2.2	-3.2	-6.5	9.7	6.4	4.1	3.1	9.1	-8.9	11.9	7.0	36.3
2006	5.8	2.5	10.7	4.6	-13.7	1.9	0.5	8.6	5.1	4.3	5.6	0.3	39.8
2007	2.9	-8.3	2.0	7.0	5.1	0.5	4.9	-1.4	12.5	17.5	-2.3	6.5	54.8
2008	-16.3	1.7	-9.4	9.1	-5.7	-17.0	7.2	0.6	-10.1	-26.4	-4.5	7.4	-51.8
2009	-2.9	-3.9	9.3	15.0	28.1	-3.6	8.1	0.6	9.1	-7.3	6.8	3.4	75.8
2010	-6.1	0.8	6.6	0.6	-3.6	4.5	1.0	0.7	11.6	-0.2	-2.6	4.6	18.0
2011	-10.3	-3.1	9.4	-1.4	-3.3	1.6	-2.9	-8.8	-1.2	7.8	-9.3	-4.3	-24.6
2012	12.4	3.6	-1.7	-0.9	-6.2	7.2	-1.0	0.6	8.5	-1.5	4.6	0.4	27.7
2013	2.2	-5.7	-0.2	4.4	0.9	-2.4	-1.7	-4.7	4.8	9.8	-2.0	2.1	6.8
2014	-3.4	3.1	6.8	-0.1	8.0	5.3	1.4	3.0	0.1	4.5	3.2	-3.6	31.4
2015	6.4	1.1	-4.6	-3.7	3.1	-0.8	2.0	-6.6	-0.3	1.5	-1.6	0.1	-4.1
2016	-4.8	-7.6	10.8	1.4	4.0	1.6	4.2	1.7	-2.0	0.2	-4.7	-0.5	3.0
2017	4.6	3.7	3.3	1.4	3.4	-1.0	5.8	-1.6	-1.3	5.6	-1.1	3.0	28.7
2018	4.7	-4.9	-3.6	6.2	0.0	-0.2	6.0	2.9	-6.4	-5.0	4.7	-0.1	3.2
2019	-0.3	-0.4	7.7	1.1	1.5	-1.1	-5.7	-0.9	4.1	3.5	1.5	0.9	12.0
2020	-1.7	-6.4	-23.3	14.7	-2.8	7.5	7.5	2.8	1.2	3.5	11.4	7.8	14.2
2021	-2.5	6.6	1.1	-0.4	6.5	0.9	0.3	8.7	2.8	0.4	-3.9	2.2	24.1
2022	-0.1	-3.5	4.3	-2.1	-3.0	-4.9	8.7	3.5	-3.8	5.4	3.4		

Source: INDMoney, NSE.

November 2022 Index Returns (in %)



Source: INDMoney, NSE.

C. 1. Indian Capital Markets Outlook:

Equity Markets: Global macros continue to remain uncertain as counter-inflationary steps like higher interest rates, and lower liquidity is likely to result in weaker growth and impact demand across the globe. However, on a positive note, the growth concerns have led to a cool-off in the commodity prices including crude, which bodes well for India. Both from a cyclical and structural perspective India is better placed than the rest of the World. Domestic high-frequency indicators remained resilient despite the global headwinds. Policy reforms, huge under-investments in Capex, and stronger corporate Balance Sheets alongside a transition to a multipolar world may aid manufacturing, exports, and Capex - creating a virtuous cycle of growth. However, near-term global uncertainties are unlikely to wither away soon. The anticipated global slowdown and rising energy & interest costs may lead to higher-than-usual volatility, especially in the short run.

From an investor's perspective given the external risks and their potential impact investing in a staggered manner or systematic route may help iron out market extremes. Given our view that broader markets can do well with the present fundamentals, long-term investors can consider diversified strategies like multi-cap or Flexi-cap offerings for equity investments. Conservative investors seeking equity exposure with lower volatility may consider asset allocation strategies like Balanced Advantage/Asset Allocator which manage equity allocations dynamically.

Debt Markets: After a sharp rise in yields in Sep-Oct on a hawkish pivot, US treasury yields eased from their record high levels. The US 10 Yr Treasury bond yield started the month at 4.07%, rose sharply post policy to cross 4.22% within the first week of the month, only to ease sharply and remained at ~average 3.76 levels in the second half of the month - driven down mainly by lower than consensus inflation print and on lower rate hike pivot of Fed. It closed the month at 3.68%. (Oct end: 4.10%, Sep end: 3.83%, Aug end: 3.15, July end: 2.67%, June end: 2.98%, May end: 2.85%, Apr end: 2.89%, Mar end: 2.32%, Feb end: 1.83%, Jan 2022 end: 1.79%). Reflecting this sharp decline in yields, Dollar Index depreciated by 3.5% m/m after rising sharply in Sep-Oct. It closed the month at 108.05 (Oct end: 111.53, Sept end: 112.11) YTD Dollar index has risen by ~10.8%.

While the October'22 inflation print was higher than expected on festive season demand and heavy rains, data in November'22 indicates an easing of food prices. Gong forward, we expect inflation to come down on the back of seasonality (typically veggies, fruits, and cereals prices come down during winter) and a favourable base effect. Yet, with inflation expected to remain above 6% for most of 2H, RBI will continue to remain vigilant. That said, with commodity prices down, food prices are expected to moderate on seasonality, changing global central bankers' pivot, and decline in the US treasury and dollar index thereby reducing pressure on the rupee may provide RBI cushion to go slow. Given the growth resilience and external balance concerns, we expect RBI to be nimble-footed. On the fiscal front, strong revenue receipts in Apr-Oct FY23 and robust nominal growth will likely help in achieving the FY23 fiscal deficit target, despite the rise in additional expenditure on various items (from subsidy to MNREGA).

Source: WCA Research, News Articles, Nippon India Mutual Fund

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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