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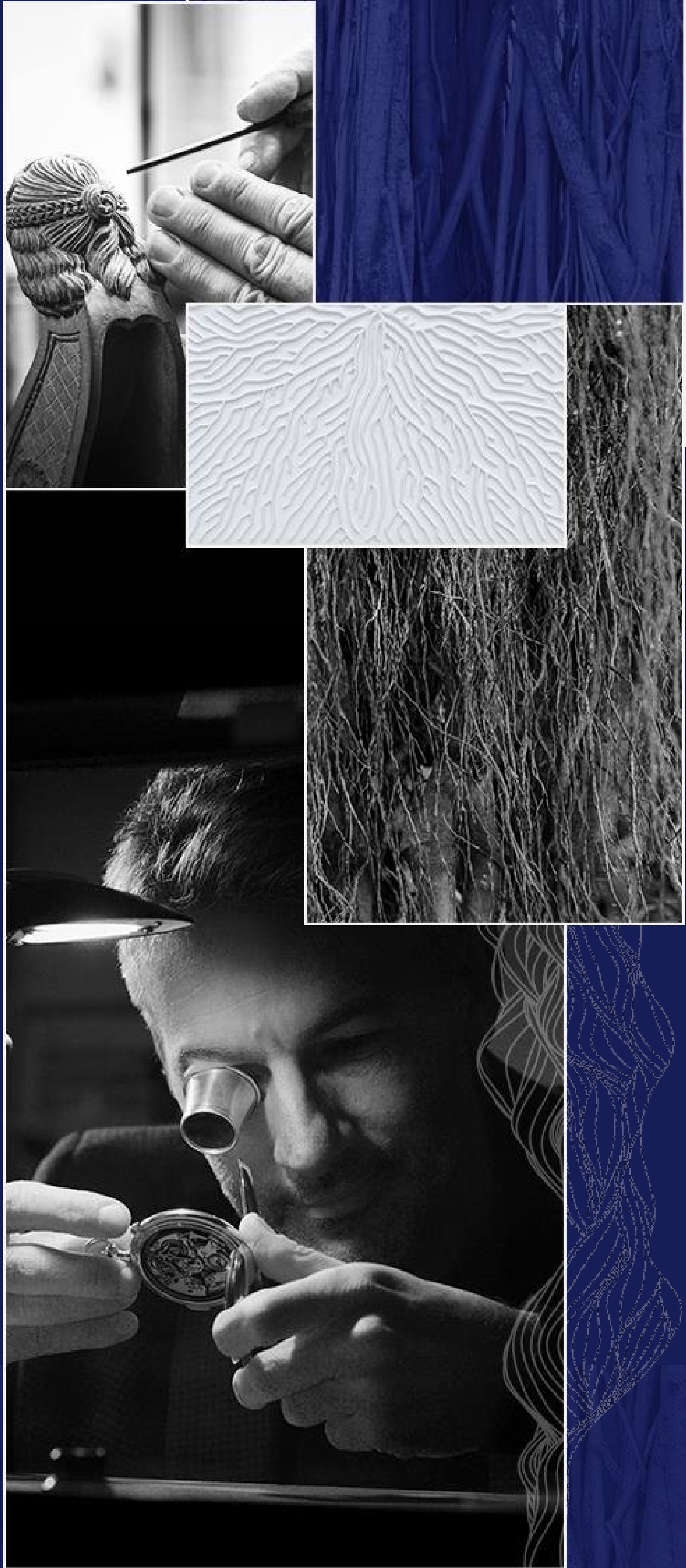

NEWSLETTER
March 2023

WODEHOUSE

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WORLD M&A ALLIANCE

India – Market Outlook

Indian Market, amidst external turbulence:

Indian markets have been range-bound in the last two or three months due to internal reasons. Based on the GDP numbers, the economy is facing a genuine slowdown. The consistent selling from FIIs, retail investors and HNIs have also impacted the Indian markets especially since Jan '23. If it were not to be supported by domestic funds the fall could have been a lot worse.

Even global factors are wreaking havoc on the domestic equity markets. As central banks' efforts to cool inflation faces new challenges, fears of contagion resurfacing from the collapse of two US banks and its annual report citing 'material weaknesses' in internal controls is "likely to result in tighter credit conditions" and "weigh on economic activity, hiring and inflation." The Federal Reserve's crusade against high prices could face upheaval stemming from the heavy blow in Credit Suisse's market value this month.

Lately, just as we approach some degree of clarity in the economic situation, something unexpected occurs—and we're back to the drawing board. The Fed's dilemma on how to solve the inflation problem without breaking the labor market continues to remain an obsession for markets. Since the Fed began lowering rates during the Global Financial Crisis in July 2008 until the current cycle of rate hikes that commenced in March 2022, the average yield on an overnight deposit between lending institutions was just 0.7%. In the half-century leading up to the Global Financial Crisis, the average rate was 5.7%. The ultra-low-rate environment investors have grown accustomed has most likely reached its end.

Market Watch

Indian Equities	Feb-23	Mar-23	1 Month	Currency	Feb-23	Mar-23	1 Month
Nifty50	17,304	17,081	-1.29%	USD/INR	82.64	82.30	0.42%
S&P BSE Sensex	58,962	57,960	-1.70%	EUR/INR	87.40	89.30	-2.13%
S&P BSE Mid Cap	24,158	23,838	-1.32%	GBP/INR	99.33	101.55	-2.18%
S&P BSE Small Cap	27,341	26,599	-2.71%	JPY (100)/INR	0.61	0.62	-2.90%
Global Equities				**Economic Data**			
Dow Jones (US)	32,655	32,394	-0.80%	10-year G-Sec (%)	7.46	7.30	-2.07%
Nasdaq (US)	11,456	11,716	2.27%	Inflation (%)	6.52	6.44	-1.23%
FTSE 100 (UK)	7,876	7,535	-4.33%	Export Growth (%)	-	-	-
Nikkei 225 (Japan)	27,446	27,884	1.60%	US Dollar Index (DXY)	104.87	102.50	-2.26%
Hang Seng (Hongkong)	19,786	20,192	2.05%	IND Volatility Index (VIX)	14.02	13.63	-2.80%
Commodity				**Deposit Rates (SBI)**			
Gold (INR/10 gm)	55,714	58,930	5.77%	1-Year (%)	6.80	6.80	0.00%
Silver (INR/10 gm)	632	706	11.57%	3-Years (%)	6.50	6.50	0.00%
Brent Crude ($/bbl)	84	79	-6.00%	5-Years (%)	6.50	6.50	0.00%

Source: Investing.com, SBI, Pib.gov.in, Deloitte

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Global rating major Moody's Investors Service scaled down the Indian GDP growth forecast for 2022 -23 from 7% to 6.8%. At the same time, it has raised the growth projection for 2023-24 to 5.5% from the 4.8% it had reckoned in November 2022. In case of India, the upward revisions additionally incorporate the sharp increase in capital expenditure budget allocation of ₹10 trillion (3.3% of GDP) for the fiscal year 2023-24, up from ₹7.5 trillion for the fiscal year ending in March 2023.

Overall view debt market-

Inflation and geo-political uncertainties may force the RBI to change its current stance. However, the liquidity situation will dominate local fixed income markets and may require active intervention by the RBI to support funding needs post June 2023. Also, tighter liquidity and rising credit demand will put pressure on corporate bonds. Internal factors like inflation and RBI's actions and external factors like global macros and central bank actions may continue to influence the direction of bond yields. Yields may continue to remain elevated in the near future with the shorter end of the curve remaining tight between April and June. But as we move to the Q2 of the new financial year, we may see a cooling-off in short-term yields. However, long-term yields may continue to witness pressure. Tight liquidity along with the expectation of at least one rate hike is likely to keep the short-term rates elevated.

RBI in the current rate hike cycle has raised repo rates by 250 bps between May 2022 and February 2023 from 4.0% to 6.5%. With CPI for FY2023-24 projected at 5.3%, repo rate at 6.5% offers real rate of 1.20%, which falls into RBI target range of 1%-2%. However, until recently, with global central banks particularly the US Federal Reserve continued its hawkish stance, Indian debt market also started pricing-in one more rate hike by RBI in its April 2023 policy to 6.75%.

Global Inflation Rates & Outlook:

After the Federal Reserve on 22nd March delivered a modest 25 basis point rate hike thereby setting its policy rate to 4.75%-5.00%, central banks in Switzerland, Norway and Britain all raised rates. Overall, 10 developed economies have raised rates by a combined 3,290 basis points (bp) in this cycle till date. The outlier among major central banks is the Bank of Japan, which steadfastly resists tightening owing to what it deems are temporary boosts to consumer prices in the wake of Russia's invasion of Ukraine. The Federal Reserve's ongoing fight with inflation could result in a soft landing in 2023. Mortgage-backed securities, high-yield bonds and emerging-markets debt could benefit in this environment with attendant risks. The takeaway from synchronized moves by most central banks is that they will prioritize the fight against inflation over the turmoil in the banking sector.

- The ECB raised its deposit rate by another 50 bps to 3% on March 16, the highest since October 2008 and its sixth successive hike in this cycle.
- The Bank of England raised rates by a further 25 bps and said it expects the surge in British inflation to cool faster than before, despite a surprise jump announced earlier.
- The Swiss National Bank raised its main interest rate by 50 basis points on Thursday (incorporate date here) to 1.5% and said UBS's emergency takeover of Credit Suisse had "put a halt to the crisis".

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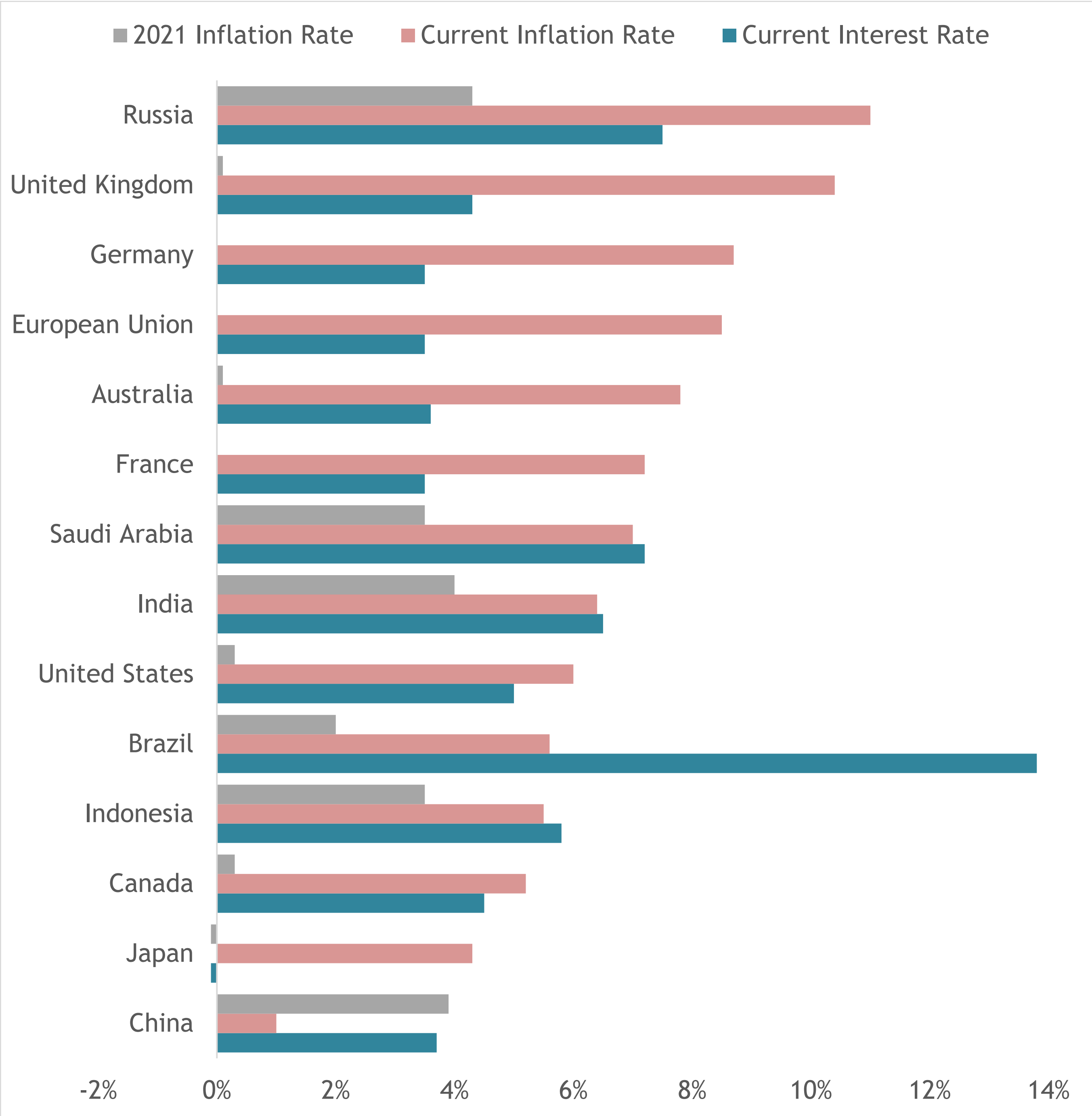
Central Bank Rate Hikes Around the World since Feb'22

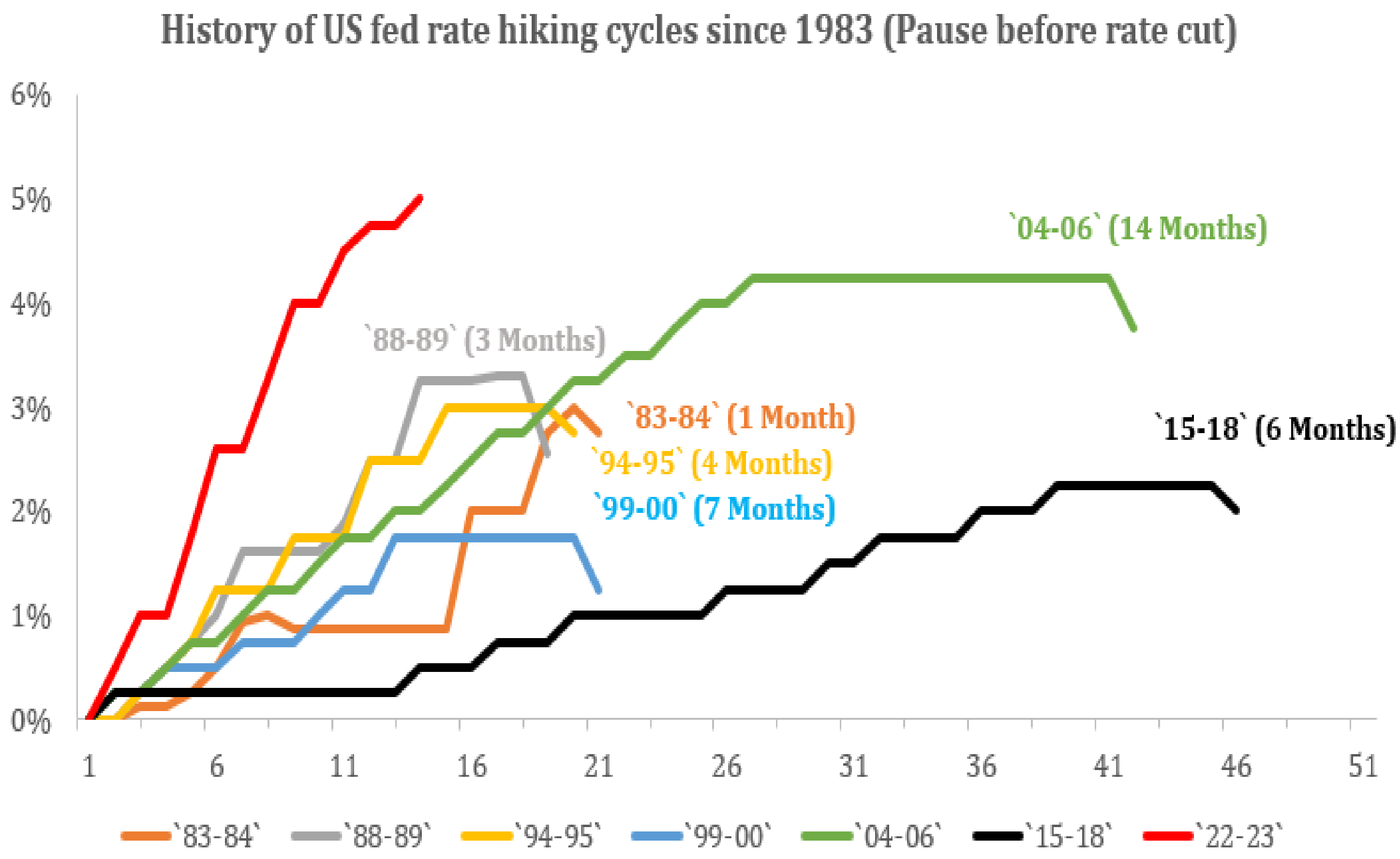


Source: Investing.com

SVB & Credit Suisse rout

Today, the Times are different. Much has been written about the downfall of Silicon Valley Bank (SVB) and other regional banks in the context of the 2008 Great Financial Crisis. The two events, in our opinion, are different. The magnitude of the 2008 financial crisis was a completely different large-scale collapse of the financial system itself, Even the regulators have learned the hard lesson from the crisis of 2008. The SVB collapse is a sign of pain coming from the end of the easy-cash era and its impact is only just starting to be felt by the world markets that are yet to see the end of the sharpest interest rate hiking cycle in decades. Small businesses and early-stage start-ups don't have a lot to leverage such a situation, and are certainly in a very vulnerable position. It is difficult to assume bull markets in Equities with the increasing cost of funding in America & India, especially with quantitative tightening still on.

Sharpest interest rate hiking cycle in decades:



Source: bankrate.com

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Global Macro

Underlying US consumer prices rose in February 2023 by the most in five months. The consumer price index, excluding food and energy, increased 0.5% last month and 5.5% from a year earlier, according to Bureau of Labor Statistics data. The overall CPI climbed 0.4% in February and 6% from a year earlier. Moody's Investors Service on Tuesday revised its outlook on the US banking system to negative from stable. US retail sales and wholesale prices slipped in February. Retail sales contracted in February by 0.4% to $698 billion, down from a revised $701 billion a month earlier. The U.S. economy added 311,000 jobs in February, following 504,000 job gains in January. Major Wall Street banks pledged a deposit of $30 billion with the First Republic Bank as an attempt to bolster confidence in the banking system.

China Macro

According to the official data, China's industrial output rose 2.4% between January and February. Retail sales rose 3.5% for the same period. The People's Bank of China kept the rate on 481 billion yuan of one-year medium-term lending facility loans at 2.75%. Much money has been made and lost in the oil markets since the peak of China's reopening euphoria hit in mid-Feb. But looking at USD/CNH trading at 6.90 rather than 6.80 suggests that cross-asset and FX traders are still circumspect about the mainland economic revival.

European Central Bank

The European Central Bank on March 16th announced a further rate hike of 50 basis points, signaling it is ready to supply liquidity to banks if needed, amidst the recent turmoil in the banking sector. The ECB had signaled for several weeks that it would be raising rates again at its March meeting, as inflation across the 20-member region remains sharply above the targeted level. In February, preliminary data showed headline inflation of 8.5%, significantly higher than the central bank's target of 2%.

Federal Debt and the Statutory Limit

Once again, the debt ceiling is in the news and a cause for concern. If the debt ceiling binds, and the U.S. Treasury does not have the ability to meet its obligations, the negative economic effects would quickly mount, which may trigger a deep recession. Considering the debt limit binds is unprecedented, predicting the action of the U.S. is difficult. The Treasury did have a contingency plan in place in 2011 when the country faced a similar situation, and it seems likely that Treasury would follow the contours of that plan if the debt limit were to bind this year. Under the plan, there would be no default on Treasury securities, and the Treasury would continue to pay interest on its securities as and when they become due. And, as securities mature, the Treasury would pay that principal by auctioning new securities for the same amount.

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Mounting recession risks, bank failures and lower demand expectations force Crude Oil lower.

Crude is headed for the steepest first-quarter drop since 2020, when the pandemic hammered demand. The slump has been driven by concerns about a potential US recession, robust Russian flows despite Western sanctions, and the banking turmoil. Still, there are signs of strong demand in Asia as China recovers after the nation ditched its Covid Zero policy late last year. Based on the Energy Information Administration data, US nationwide crude stockpiles expanded to the highest level since May 2021 after strong builds on the Gulf Coast outweighed a decline at the Cushing, Oklahoma, storage hub. Nevertheless, oil exports jumped to a record, and gasoline holdings shrank again. Despite the reopening of China's economy and sanctions against Russian oil by Europe, the United States and other countries, oil stockpiles have increased. This contributed to the bearish movement, exacerbating concerns over waning demand. Although Saudi, Russia and OPEC+ remain willing to cut production further, turmoil in financial markets continued to weigh on expectations.

Asset Class Performance	Last	1 Month
BTC/USD - Bitcoin US Dollar	27641.0	19.0%
XAG/USD - Silver Spot US Dollar	23.2	11.6%
XAU/USD - Gold Spot US Dollar	1996.4	10.2%
NASDAQ Composite	11787.4	3.4%
S&P BSE SmallCap	26767.0	-3.0%
Nifty 50	16945.1	-3.0%
BSE Sensex 30	57527.1	-3.3%
FTSE 100	7352.6	-6.7%
Brent Oil Futures	73.3	-11.5%
United States 10-Year	3.3	-16.5%

Please provide the source here

Risk-on & Risk-off; New affiliation of Gold & Bitcoin

Several asset classes have become disjointed. For instance, crude is down while copper is up; gold is up as Bitcoin is giving gold to some companies. Although it seems strange, it makes a lot of sense "because now that people fear that stocks won't do well if the inflation numbers go further up and the US Fed becomes more aggressive on interest rates, in such a situation they feel Gold and Bitcoin would be good options."

WCA Outlook Debt Markets: The Federal Reserve's ongoing fight with inflation could result in a soft landing in 2023. As a result, mortgage-backed securities, high-yield bonds, and emerging-markets debt could benefit in this environment. As the Fed has noted, rate hikes work, but there are often "long and variable lags" between changes in monetary policy action and their impact on the economy. Among the risks, Fed policy has the potential to erode U.S. corporate earnings, increase defaults, widen credit spreads, and increase the chances of a recession. In the US, the policy-sensitive two-year Treasury yield retreated after testing a high of 5.08, and is currently around 3.8 levels. Both India's six-month & one-year bond yields are trading above two, three & five-year yields. Short-term rates are a sign of tightening liquidity, with the possibility of another hike in April RBI policy. Inversion of the yield curve is typical of a slowing down economy and theoretically, such a phenomenon is seen as heralding a recession. While that is not the case here, a slowdown is imminent as seen by RBI scaling down growth rate for next year from 6.8% to 6.4%.

WCA Outlook Equities: Equities maintain their long-term appeal despite the uncertainties. Investors should not lose sight of equities' enduring role in a well-balanced portfolio. We advocate a near-term focus on global Indices that are showing resilience, like the Dow Jones. We are more constructive on precious metals like gold, silver & risk assets like equities than last quarter but remain prudent and selective since forward guidance by central banks, sensitivity of the markets to policy and growth uncertainty, as well as geopolitical tensions, which could be the likely causes of volatility. A pause or rate cut will be positive for equities & commodities, especially gold and silver, which are considered as a hedge against inflation. A weaker dollar will reduce import bills. Anecdotally, lower crude oil and US 10-year yield have worked well for Indian equities. US equities are making their long-term appeal, as during the second half of 2023 recession and not inflation, is likely to take center stage.

Indian benchmark Indices have entered a period of aberration/correction ever since December 2022 which is coinciding with risk-free returns moving past 6.5% & a corresponding cool off in GDP numbers. Indian IT majors, which have a high exposure to the US banking institutions could take a hit up to 30-basis points on revenue in the fourth quarter of FY2023 due to their exposure to crisis-ridden regional banks in the US. Anecdotally, the Indian IT sector has encountered a similar situation in the past, which had proven to be good entry opportunity for the long-term investors. Market flip-flopping is likely to continue amidst all the volatility. The October 2022 low of US Indices should act as some kind of sacrosanct level for most benchmark equity Indices.

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How can Wodehouse Capital Advisors help?

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- 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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