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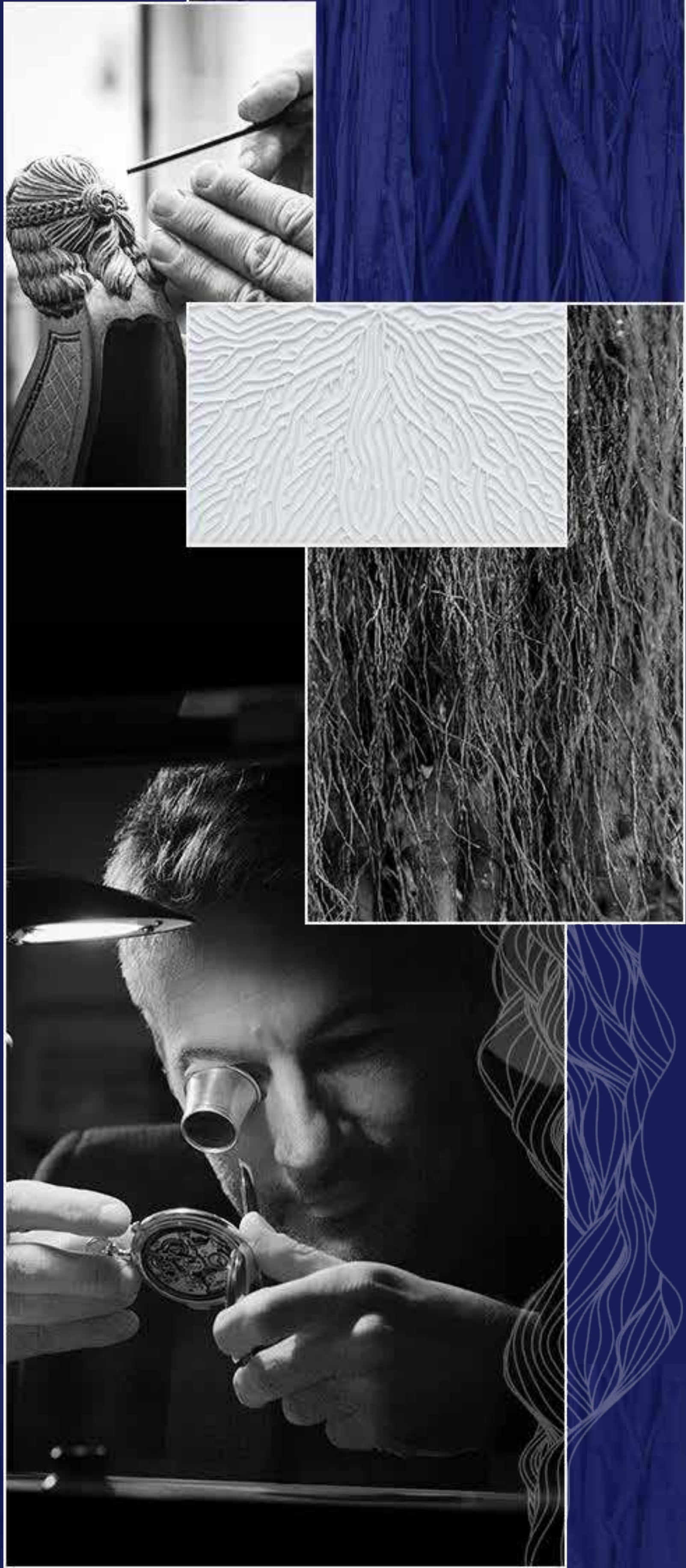

NEWSLETTER NOVEMBER 2022

WODEHOUSE

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WODEHOUSE INVESTMENT NETWORK

WORLD M&A ALLIANCE

MARKET OUTLOOK

Introduction

India - A steady ship in choppy waters

October was a good month for risky assets. A reasonable start to the earnings season, and hope of central bank dovishness, drove a rebound in investor confidence. The S&P 500 ended the month up 8.1%, Nasdaq up 3.9%, and MSCI World Index up 7.2%. The Nasdaq underperformed in relative terms due to a weaker earnings season for large-capitalization technology names in the space. The Chinese markets, in sharp contrast, sold off significantly in the wake of President Xi Jinping's move to consolidate power at the recent all-party congress and a continuation of covid Zero policies. The Hang Seng ended the month down 14.7%.

Bond Yields yet again inched higher in October. Unlike the equity markets, the fixed-income market was less hopeful about inflation and central bank dovishness. The US 10-year bond reached a yield of 4% at the end of the month. Dramatically higher than the 1.5% at the start of the year. The Indian 10-year bond yield stood at 7.4% in October. Slightly higher than the 6.8% at the start of the year. The dollar was only marginally down for the month against a basket of world currencies. Crude oil prices notched their first monthly gain since June, with Brent Crude settling at around $95.45 per barrel, up 7.8%.

Indian markets closed the month in green. The Nifty50 was up 5.37% whereas the BSE Sensex was up 5.78%. The decisively positive stock market rally in India in October 2022 comes as a whiff of fresh air after the relative disappointment of September 2022. The month observed neutral flows from FPIs, with the outflow from equity secondary markets entirely offset by inflows in the primary markets. With the IPO markets seeing a revival, this trend should get accentuated in the coming months.

Market Watch							
Indian Equities	**Oct-22**	**Sep-22**	**1 Month**	**Currency**	**Oct-22**	**Sep-22**	**1 Month**
Nifty50	18,012	17,094	5.37%	INR/USD	82.99	81.72	-1.55%
S&P BSE Sensex	60,747	57,427	5.78%	INR/EUR	82.55	79.90	-3.32%
S&P BSE Mid Cap	23,359	24,854	-6.01%	INR/GBP	94.93	90.96	-4.36%
S&P BSE Small Cap	28,818	28,453	1.28%	INR/JPY (100)	57.90	56.31	-2.82%
Global Equities				**Economic Data**			
Dow Jones (US)	32,734	28,730	13.94%	10-year G-Sec (%)	7.45	7.40	0.64%
Nasdaq (US)	11,406	10,971	3.96%	Inflation (%)	-	-	-
FTSE 100 (UK)	7,095	6,894	2.91%	Export Growth (%)	-	-	-
Nikkei 225 (Japan)	27,587	25,937	6.36%	US Dollar Index (DXY)	111.53	112.12	-0.53%
Hang Seng (Hongkong)	14,687	17,223	-14.72%	IND Volatility Index (VIX)	15.80	19.97	-20.86%
Commodity				**Deposit Rates (SBI)**			
Gold (INR/10 gms)	50,070	50,220	-0.30%	1-Year (%)	6.10	5.45	11.93%
Silver (INR/10 gms)	581	573	1.48%	3-Years (%)	6.10	5.60	8.93%
Brent Crude ($/bbl)	95	88	7.81%	5-Years (%)	6.10	5.65	7.96%

Source: Investing.com, SBI, Pib.gov.in, Deloitte. Data as of 31st October 2022.

A. 1. Global Growth & Outlook: Recession environment

Real GDP Growth (2023)	Consensus (%)	Upside Case (%)	Downside Case (%)	Risk Assesment vs Consensus
Global	**2.60**	**3.2**	**1.3**	**Downside**
Developed Markets	**0.30**	**0.9**	**-1.3**	**Downside**
US	0.4	1.0	-1.0	Downside
Eurozone	-0.1	0.5	-2.0	Downside
Uk	-0.4	0.0	-2.0	Downside
Japan	1.4	2.0	0.5	Balanced
Emerging Markets	**4.3**	**4.9**	**3.2**	**Downside**
China	5.0	5.5	3.5	Downside
India	6.1	7.0	5.5	Balanced
Brazil	0.8	1.5	0.0	Balanced
Mexico	1.2	1.8	0.0	Downside
Jurkey	3.0	3.5	2.0	Downside
Indonesia	5.0	5.5	3.2	Balanced

Source: 2023 Fidelity Investment Outlook (Consensus as of 1st November 2022).

Global Equities: Cautious on global equities. It is a good time to remain highly selective with a strong focus on companies' balance sheets and funding positions as the economic downturn takes hold. A strong dollar remains detrimental to stocks, even US corporates, as the dollar value of foreign profits shrinks. When the Fed eventually pivots, a weak US economy could result in a weaker dollar, which would be supportive of global equities. We believe cognizant that market volatility and tail risks could send markets lower if left unchecked.

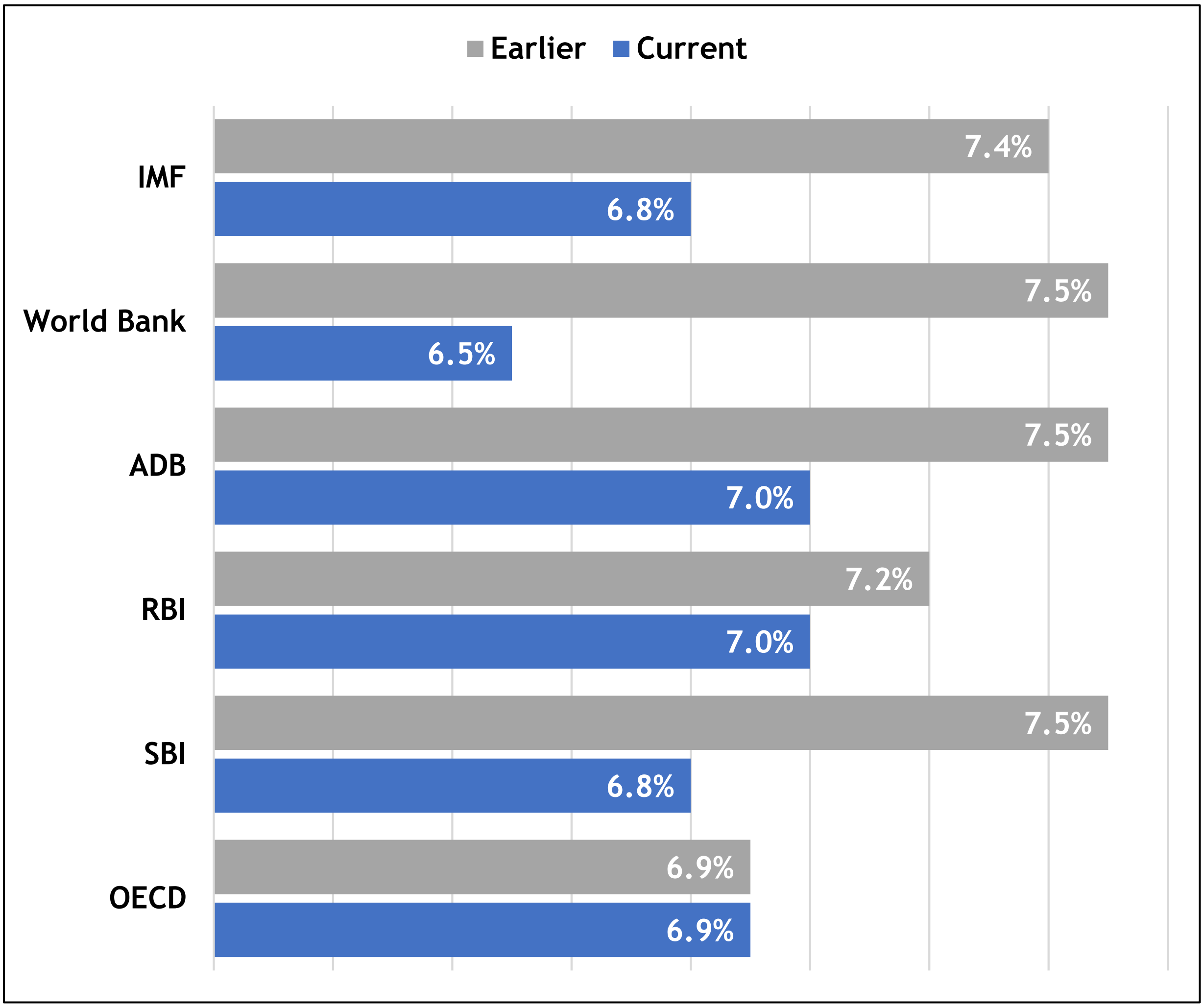
Global Fixed Income: Defensive and highly selective in the near term. The US and core Europe duration are relatively attractive, considering hard landing risks in both regions. Neutral view on UK duration given the extremely high level of volatility, dependence on future fiscal policy, and the BoE's reaction function. Policymakers will eventually re-prioritize growth, as inflation begins to ease. An inflection point would offer a significant reprieve to fixed-income asset classes and support total returns. We believe rates will settle far higher than they have at any point over the past decade.

Global Private Markets: Private markets are not immune to volatility but likely to fare better than other asset classes due to inherent features, such as floating rate structures that hedge against rising rates. Underlying credit metrics remain robust, with less exposure to CCC-rated credits than in previous downturns (e.g., 4% in Oct'22 vs 10% in Jan'07). Current valuations have priced in downside risks more than all-time lows, suggesting strong positive returns over a medium-term horizon. The market is dominated by defensive sectors, e.g., healthcare, services, & media/telecoms, but security selection remains key.

B. 1. India's Growth & Outlook:

IMF joined the World Bank to project below 7% growth. In October 2022, The International Monetary Fund (IMF) lowered India's gross domestic product (GDP) growth projection for 2022-23 to 6.8% from the earlier 7.4%, citing the impact of a slowing global economy, stubborn inflation, rising interest rates and the war in Ukraine. Several other agencies, economists, and investment banks have also slashed India's growth estimates for the current financial year. The RBI has also cut the GDP growth estimate to 7% from 7.2%. The revised forecasts for India follow weaker-than-expected 13.5 percent growth in the June quarter and growing external headwinds, particularly the tightening of interest rates by key central banks. Nevertheless, India will continue to remain the world's fastest-growing economy.

How India's growth forecasts have been reduced by different agencies for FY 2022-23



Source: WCA Research, News Articles, IMF

B. 2. India and its Inflation

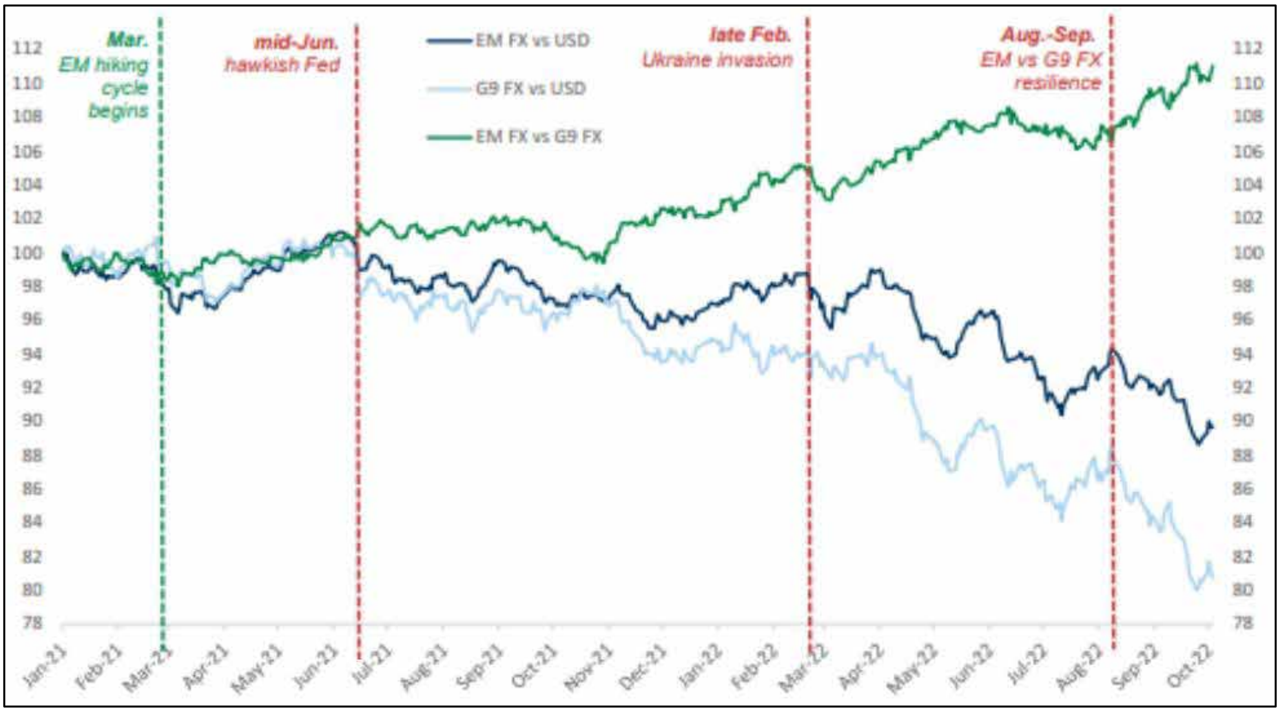
Headline CPI inflation stood at 7.4% y-o-y in Sep'22, before easing to 6.5% by Feb'23 and falling below 6.0% in Mar'23. Further, it is projected to ease to 5.0-5.5% in FY24, implying that the 4.0% level is unlikely to come before FY25. Nevertheless, with the repo rate already at 5.9%, the terminal repo rate forecast stands at 6.5% which has already been factored in by the markets as evident by 1-year g-sec yields close to 7%. RBI remains concerned about the Rupee and focuses more on the 4% target, and short-term rate decisions will continue to be driven by declining forex reserves which are close to critical levels. India's foreign exchange reserves could fall to ~USD530b this year, leading to faster depreciation in INR against USD.

Inflationary pressure across India & the Globe

Source: WCA Research, StockWitsIndia, Motilal Oswal Private Wealth

B. 2. Indian Rupee - An emerging market winner

Even though Emerging Market currencies have struggled versus the Dollar, they have outperformed those in G9 countries.



Source: Goldman Sachs Global Investment Research.

Currency	YTD %	Currency	YTD %
Russian Rouble	23.8%	Euro	-9.3%
Mexican Peso	5.0%	China Renminbi	-9.9%
Brazil Real	4.6%	South Korean Won	-10.2%
Swiss Franc	-3.6%	New Zealand Dollar	-10.4%
Canadian Dollar	-4.8%	Norwegian Krone	-11.4%
Indonesian Rupiah	-8.0%	British Pound	-13.1%
Australian Dollar	-8.1%	Swedish Krona	-13.2%
Indian Rupee	-8.3%	Japanese Yen	-17.5%

Source: Axis MF Research. Data as of 14th November 2022. Values form both baskets indexed to 100 on 4th January 2021.

B. 2. India’s Wildcard - Russian Oil

Russia has surpassed Iraq and Saudi Arabia as India’s largest supplier of oil. India has historically bought most of its oil from Iraq and Saudi Arabia, but Russian imports have surged since President Vladimir Putin invaded Ukraine. Western energy sanctions against Russia have pushed it to cut prices for those buyers still willing to purchase its crude, squeezing out more expensive supply in countries such as India, oil trade data show. US Treasury secretary Janet Yellen has signaled that the US was willing to see this trend continue, telling Indian media this week that Washington wanted India to benefit from a western price cap on Russian oil that would give it a bargaining chip to negotiate even deeper discounts.

Russia becomes India’s top oil supplier as sanctions deflate the price

Source: WCA Research, Financial Times, News Articles.

Russian crude arrivals into India, averaged 970,000 barrels per day in Oct’22, according to research firm Kpler, up around from 942,000 b/d in Sep’22. Imports from Iraq averaged 806,000 b/d in Sep’22 and 918,000 b/d in Oct’22, Kpler’s data show, while imports from Saudi Arabia plunged from 860,000 b/d in Sep’22 to 617,000 b/d in Oct’22 — their lowest level since March 2021.

C. 1. Indian Capital Markets Outlook:

Equity Markets: Indian equities have sharply outperformed both developed and emerging markets. We believe higher domestic demand and relative macro stability have resulted in some decoupling with other major economies globally. Post some outflows witnessed by FIIs in Sep, we have started seeing inflows in Oct'22. On the other hand, Domestic institutional investors continue to be net buyers, thus supporting the broader market. We assess that risks to Indian equities currently are more global than domestic and given the near-term risks, we may witness some volatility. Indian equity markets are trading slightly above long-term averages and at a premium to other Emerging markets.

We anticipate in the near term there could be intermittent corrections globally due to the macro backdrop. However, India stands relatively better as compared to other markets given the improving domestic macro conditions, continuing FPI and domestic flows, correction in commodity prices, and expected improvement in festive demand. In the near term, sectors focused on domestic consumption are likely to outperform the sectors dependent on global demand such as cyclical, and commodities. On a medium-to-long-term basis, we continue to remain constructive on Indian equities. India also stands out globally in terms of structural growth driven by various key themes in the form of discretionary consumption, China+1 strategy, and PLI.

Debt Markets: Indian growth data suggest softening of growth momentum and continuation of K-shaped recovery. Q1 FY23 GDP data disappointed and the print came in at 13.5% YoY, below consensus. Growth estimates are being steadily downgraded. Real GDP continues to be below the pre-covid trend by 8.5%. The worsening global environment has added another downside risk to growth through trade, confidence, commodity prices, and capital flows channels. Merchandise exports, which had been a bright spot for much of the last few quarters had turned negative. Hawkish RBI will also negatively impact growth. Keeping all these in mind, MPC raised the Repo rate by 50 basis points to 5.90% in line with market expectations. The stance was also kept unchanged with the MPC focused on 'withdrawal of accommodation'. We continue to believe that the external sector will drive monetary policy action in the coming months with domestic inflation and growth playing second fiddle despite RBI not acknowledging the same explicitly.

We believe further rate hikes are likely with a terminal rate of 6.25-6.5%. However, there is quite a bit of uncertainty about the terminal rate given the extraordinary global backdrop. The front end of the yield curve up until 2027 still appears to be the best point on the curve. Investors are advised to align their investments basis their investment horizon. Beyond rate action, liquidity will drive the term premium as we expect the banking system to be neutral post-festive season. We continue to advocate for investors to invest in high-grade debt securities/funds which continue to be the best risk-adjusted places for fixed-income investors over other fixed-income opportunities.

Source: WCA Research, News Articles, Aditya Birla Sun Life AMC, Motilal Oswal Private Wealth

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