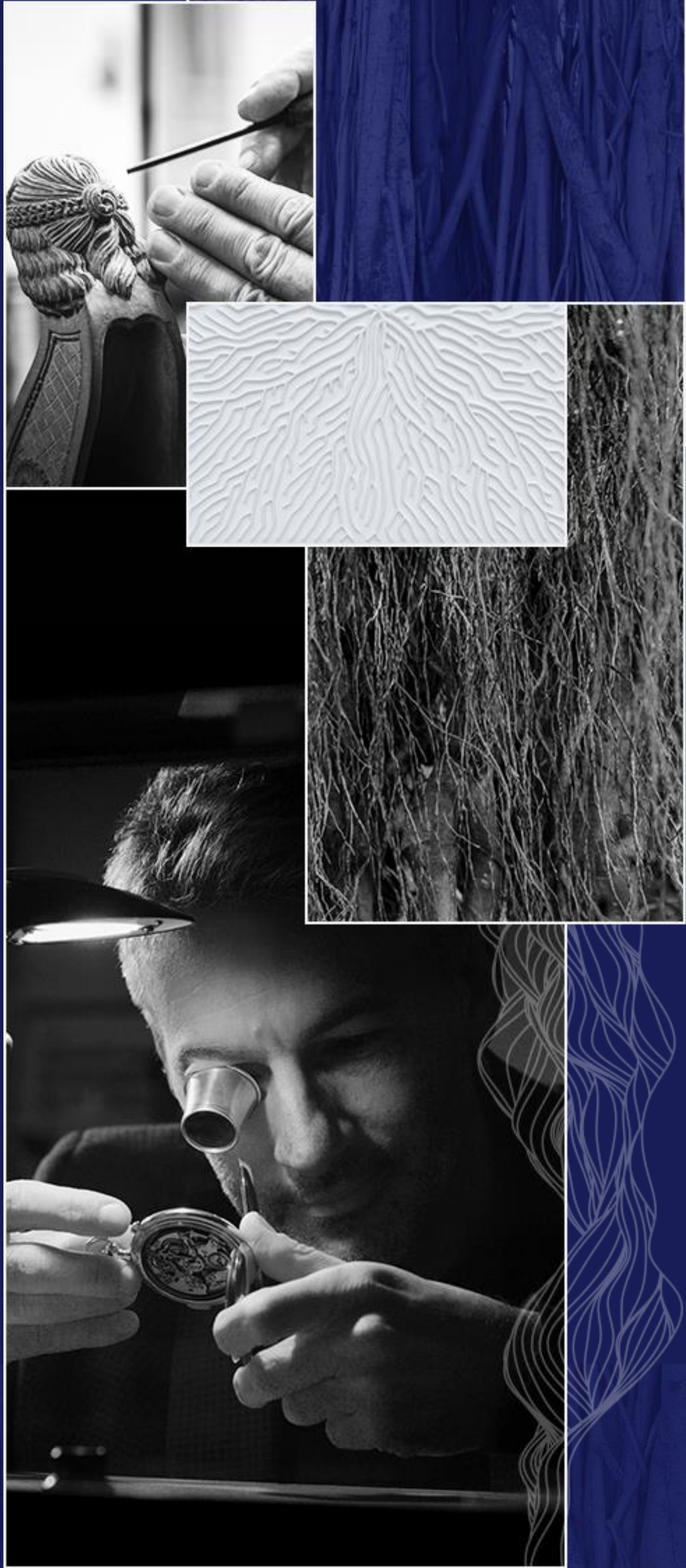
EXCELLENCE.
INTEGRITY.
ENTREPRENEURSHIP.



NEWSLETTER OCTOBER 2022

WODEHOUSE

W.I.N.
WODEHOUSE INVESTMENT NETWORK

WORLD M&A ALLIANCE

India – Market Outlook

Introduction

India's resilience in the slowing world

Global macroeconomic fundamentals continue to deteriorate, with the prospect of developed markets edging closer to recession. The probability of a hard landing remains our base case. Central banks will end up pushing their respective economies into recession to re-anchor elevated inflation expectations. Among large corporates, we are witnessing a slowdown in hiring, after months of labour shortages post-pandemic. This trend is especially pronounced in technology companies, which aggressively recruited over the past few years. Companies are also looking to increase productivity, asking staff to do more, which could suppress wage inflation and reduce pricing pressure in general.

Emerging Asian economies ex China have continued to face stiffening inflationary pressures with the rising cost of food an especially acute challenge. Inflation, which until recently was relatively contained compared to the West, has been rising in most countries. Global supply chain disruptions and higher oil prices have driven cost-push inflation given the dependence of regional Asian economies on imported energy. With higher-than-expected inflation readings, some regional central banks are following the Fed in raising interest rates in rapid succession.

Asian central banks, including India, South Korea, Thailand, and the Philippines, which were considered laggards in the rate hiking cycle have raised interest rates already. Asian economies are cautious around monetary tightening as they aim to balance inflationary pressures and economic recovery, particularly as consumer demand starts to slow following re-openings in most of the regional markets. India's MPC hiked the repo rate by 50 bps to 5.90% & added that inflation is expected to remain elevated at around 6% in the second half of 2022-23. The central bank also cut the growth forecast for the current financial year to 7%.

Market Watch							
Indian Equities	**Sep-22**	**Aug-22**	**1 Month**	**Currency**	**Sep-22**	**Aug-22**	**1 Month**
Nifty50	17,094	17,759	-3.74%	INR/USD	81.72	79.73	-2.50%
S&P BSE Sensex	57,427	59,537	-3.54%	INR/EUR	79.90	80.19	0.36%
S&P BSE Mid Cap	24,854	25,408	-2.18%	INR/GBP	90.96	92.38	1.54%
S&P BSE Small Cap	28,453	28,651	-0.69%	INR/JPY (100)	56.31	57.10	1.38%
Global Equities				**Economic Data**			
Dow Jones (US)	28,730	31,511	-8.83%	10-year G-Sec (%)	7.40	7.19	2.92%
Nasdaq (US)	10,971	12,272	-10.60%	Inflation (%)	-	7.00	-
FTSE 100 (UK)	6,894	7,284	-5.36%	Export Growth (%)	-	-	-
Nikkei 225 (Japan)	25,937	28,092	-7.67%	US Dollar Index (DXY)	112.12	108.86	2.99%
Hang Seng (Hongkong)	17,223	19,954	-13.69%	IND Volatility Index (VIX)	19.97	18.70	6.78%
Commodity				**Deposit Rates (SBI)**			
Gold (INR/10 gms)	50,220	50,415	-0.39%	1-Year (%)	5.45	5.45	0.00%
Silver (INR/10 gms)	573	538	6.36%	3-Years (%)	5.60	5.60	0.00%
Brent Crude ($/bbl)	88	96	-8.03%	5-Years (%)	5.65	5.65	0.00%

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

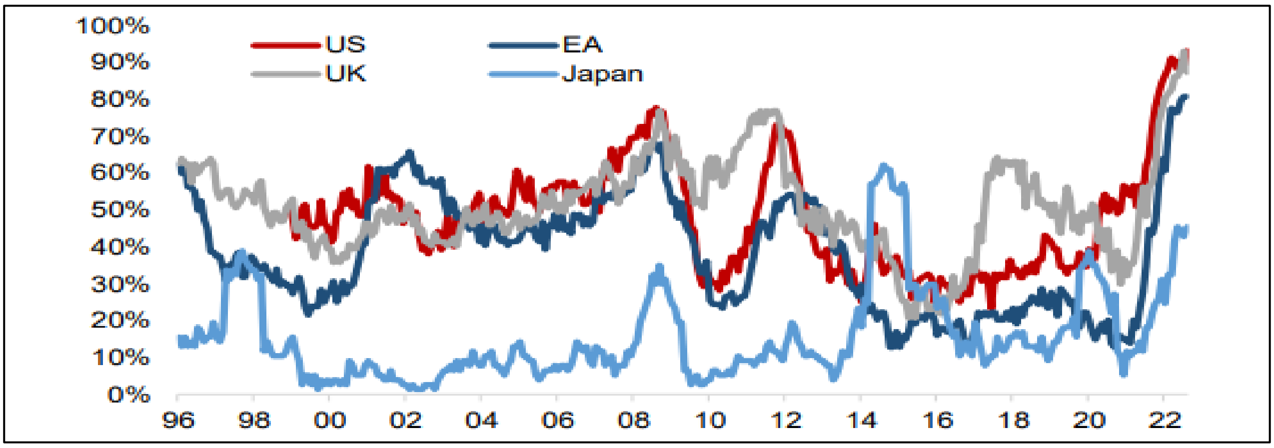
A. 1. Global Growth & Outlook: Is the worst yet to come?

Country/economy	Real GDP growth (y/y% avg)				Inflation (annual avg of y/y%)			
	2020	2021	2022E	2023E	2020	2021	2022E	2023E
Global	**-3.3**	**5.9**	**2.6**	**1.6**	**1.8**	**3.5**	**7.6**	**4.8**
Developed markets	**-4.7**	**5.1**	**2.2**	**0.5**	**0.7**	**3.3**	**7.3**	**4.2**
Emerging markets	**-1.1**	**7.1**	**3.2**	**3.3**	**3.5**	**3.8**	**8.0**	**5.9**
United States	-3.4	5.7	1.6	0.8	1.2	4.7	7.9	3.8
Canada	-5.2	4.4	3.4	1.0	0.7	3.4	6.9	3.8
Euro area	-6.5	5.3	2.8	-0.2	0.3	2.6	8.2	5.0
Germany	-4.9	2.9	1.5	-1.0	0.4	3.2	8.1	5.5
Italy	-9.0	6.6	3.3	-0.4	-0.1	1.9	7.7	4.6
France	-8.0	6.8	2.5	0.4	0.5	2.1	6.0	4.3
Spain	-10.8	5.1	4.5	1.3	-0.3	2.9	8.6	4.5
United Kingdom	-9.3	7.4	3.4	-0.2	0.9	2.6	9.0	6.6
Norway (CPI-ATE)*, **	-0.7	3.9	3.7	2.0	3.0	2.0	1.8	2.8
Sweden (CPIF)**	-2.3	5.0	2.6	0.8	0.5	1.9	1.6	2.6
Switzerland	-2.4	4.2	2.2	1.0	-0.7	0.6	2.9	1.5
Japan (CPI ex fresh food)	-4.5	1.7	0.6	0.6	-0.2	-0.2	2.0	1.6
Australia	-2.2	4.7	4.0	2.0	0.9	2.8	6.1	3.3
New Zealand**	-0.9	5.2	2.4	1.8	1.7	3.9	6.5	3.3
Non-Japan Asia	**0.1**	**7.3**	**4.0**	**4.4**	**2.5**	**1.7**	**3.5**	**2.8**
China	2.3	8.1	3.5	4.5	2.5	0.9	2.3	2.0
India	-6.6	8.3	7.3	6.2	6.6	5.1	6.8	5.1
Indonesia	-2.1	3.7	5.5	4.6	2.0	1.6	4.8	5.5
Singapore	-4.1	7.6	3.4	2.7	-0.2	2.3	6.2	4.3
South Korea	-0.9	4.0	2.3	2.2	0.5	2.5	5.3	3.1
Thailand	-6.2	1.5	3.4	4.0	-0.8	1.2	6.4	2.8
Malaysia	-5.6	3.1	8.5	3.8	-1.1	2.5	3.5	3.5
Taiwan	3.4	6.6	2.6	2.0	-0.2	2.0	2.9	1.8
Philippines	-9.5	5.7	6.4	5.5	2.4	3.9	5.3	4.4
EEMEA	**-2.5**	**6.2**	**-0.2**	**0.5**	**5.3**	**8.8**	**22.5**	**13.1**
Czech Republic	-5.4	3.6	2.3	0.8	3.2	3.9	12.5	5.2
Hungary	-4.4	7.3	5.5	0.9	3.3	5.1	11.5	5.4
Poland	-2.1	6.0	3.0	0.6	3.4	5.1	14.4	12.4
Russia	-2.7	4.7	-4.0	-2.5	3.4	6.7	14.2	4.5
Turkey	1.9	11.4	5.2	2.8	12.3	19.6	72.4	43.0
South Africa	-6.2	5.4	2.1	1.2	3.3	4.6	6.6	5.7
Latin America	**-6.6**	**6.6**	**3.0**	**0.5**	**7.1**	**10.6**	**15.1**	**13.7**
Argentina	-9.9	10.4	3.5	-2.0	42.7	48.1	71.6	84.1
Brazil	-3.9	4.6	2.9	0.9	3.2	8.3	9.3	5.0
Chile	-6.0	11.7	1.9	-2.3	3.0	4.5	11.5	8.6
Colombia	-7.0	10.7	7.8	2.2	2.5	3.3	9.4	7.1
Ecuador**	-7.8	4.2	2.7	2.3	-0.3	0.1	3.5	2.3
Mexico	-8.1	4.8	2.0	0.6	3.4	5.7	8.0	6.4
Peru	-11.0	13.3	2.4	1.8	1.8	4.0	7.9	6.2

Source: Credit Suisse (CS), the BLOOMBERG PROFESSIONAL™ service, various national statistical source
**2022 and 2023 figures are not CS forecasts but Bloomberg consensus.

- **Globally, brokerage houses have cut GDP growth forecasts.** More tightening, rising real yields, energy price shocks in Europe, and China's ongoing property market stress and Covid lockdowns have led us to cut our GDP growth forecasts. Global GDP is set to grow 2.6% in 2022 and just 1.6% in 2023.

- **High inflation and tight labor markets lead us to raise our forecasts for interest rates significantly higher.** Global central banks are now hiking at the fastest pace since 1979. We see little prospect for any pivots toward easing. Inflation is broadening for major economies as highlighted below:



Source: Credit Suisse, Haver Analytics.

- **The US has entered a prolonged period of below-trend growth.** A recession is not our base case, but the probability is rising. Tighter financial conditions are causing cyclical spending to contract. However, healthy household and business balance sheets provide a buffer. The Fed is expected to tighten aggressively to a terminal rate of 4.5%-4.75%.

- **The euro area and the UK are already in recession.** Recent fiscal measures should mitigate the depth of the downturn from the energy shock. However, inflation is broadening, and FX weakness adds to price pressures, so monetary policy will continue to tighten aggressively. Credit Suisse forecasts the ECB to hike to 3% and the BoE to hike to 4.5% by early 2023.

- **China is in a growth recession.** Lockdown disruptions, low pass-through from infrastructure stimulus, and insufficient support to the real estate sector have led us to cut our GDP growth estimate for this year to 3.5%.

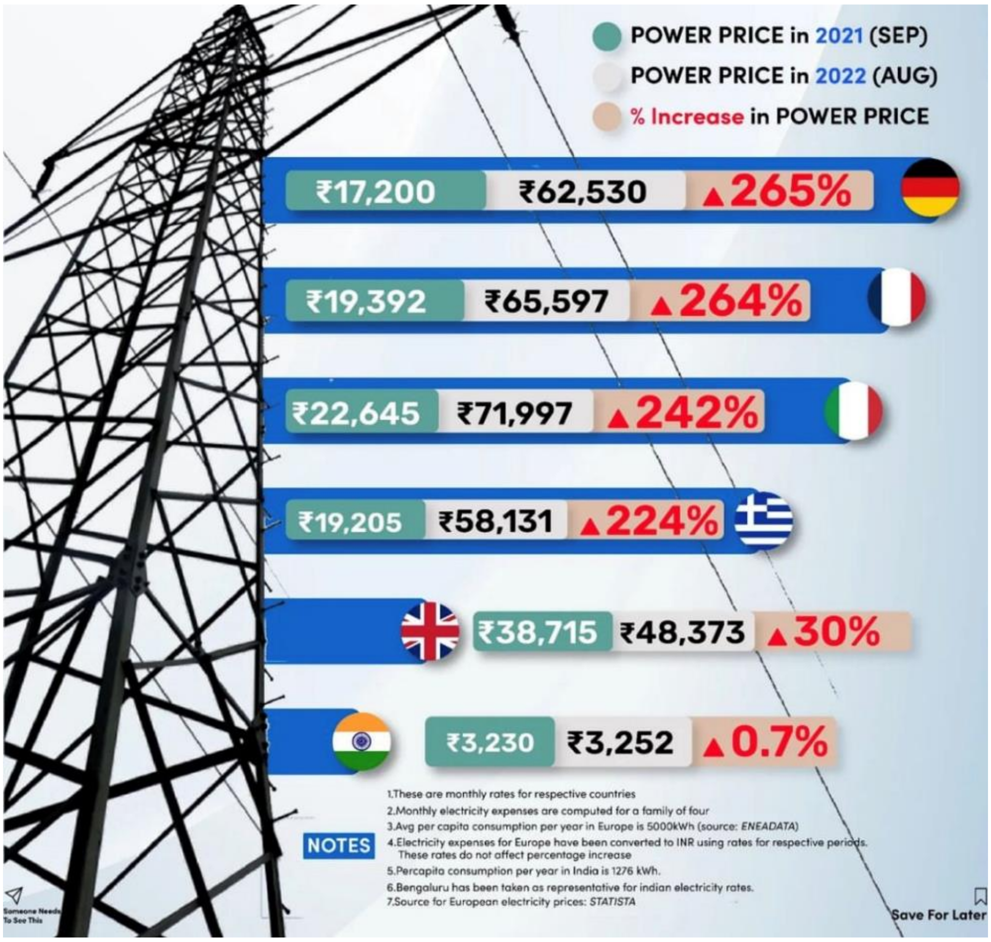
- **In emerging economies, weaker external demand and dollar strength will weigh on growth.** Inflation has likely peaked in most emerging economies.

- **Overall, the economic environment for risk assets is deteriorating.** Stagnating global industrial production, persistent cost pressures, and rising financing costs all suggest a prolonged period of low-risk appetite.

A. 2. The European Energy Crisis

Energy traders in Europe are witnessing price increases that are hard to fathom. Natural gas, which is used to generate electricity and heat, now costs about 10x more than it did a year ago. Electricity prices tied to the price of gas, are also several times higher than what used to be considered normal. As Russia tightens the screws on the flow of gas, the energy markets are locked in a relentless upward climb. Goldman Sachs (GS) believes that the Energy Crisis, and in particular affordability, has reached a tipping point, likely requiring significant policy intervention. The market continues to underestimate the depth, breadth, and structural repercussions of the crisis – GS believes there will be even deeper than the 1970s oil crisis. At current forward prices, GS estimates that energy bills will peak early next year at c.~€500/month for a typical European family, implying a c.200% increase vs. 2021. For Europe as a whole, this implies a c.€2 tn surge in bills or c.15% of GDP.

Soaring electricity prices around major countries in Europe

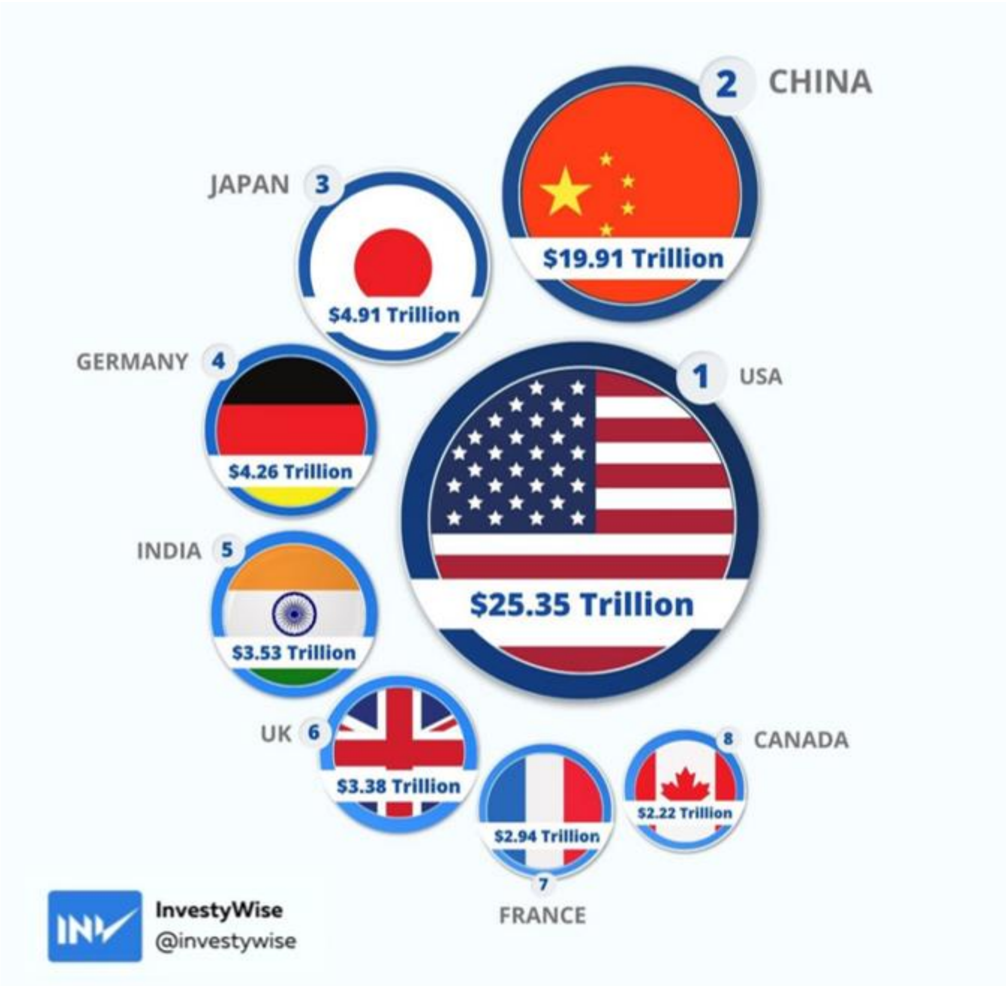


Source: WCA Research, News Articles, Trade Brains, Goldman Sachs

B. 1. India's Growth & Outlook:

India overtook the UK to become the world's fifth-largest economy, reporting double-digit GDP growth of 13.5% in Q1 FY23, it is expected to moderate going forward due to global factors. Economists expect that US Fed's battle to bring inflation under control by aggressively tightening the monetary policy and hiking rates is likely to cause harm to the US and the world economy. Compared to global economies, India has two distinct advantages. One, a long-standing issue on local corporate and bank balance sheets is now behind us. This has been a significant cyclical drag over the past many years which has now turned into a tailwind. Two, India's total monetary and fiscal policy response to Covid has been measured and responsible. This implies that there is very little overhang to deal with excess stimulus from the past unlike in the case of many developed economies.

India overtakes the UK to become the 5th largest economy in the world (2022)

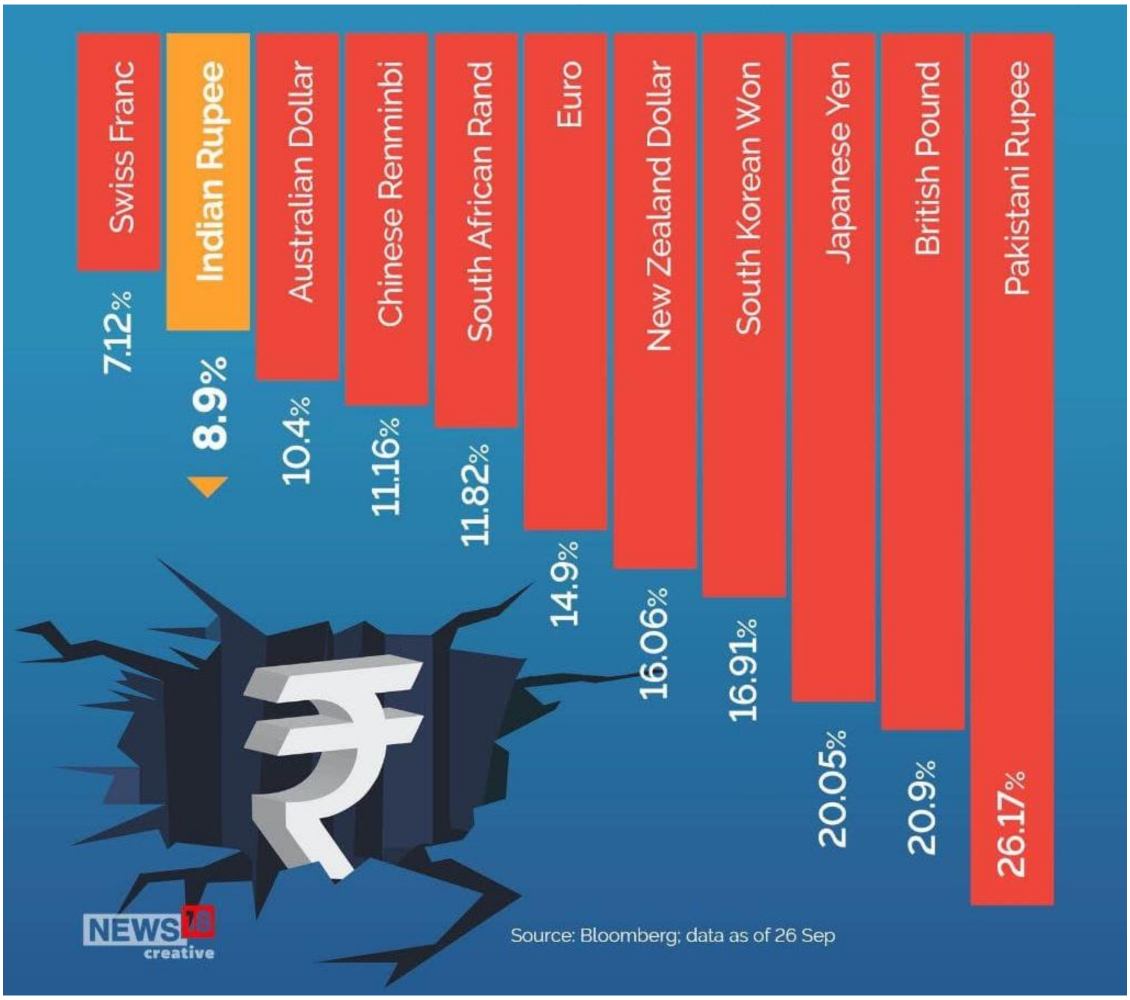


Source: WCA Research, News Articles, InvestyWise, Motilal Oswal Private Wealth

B. 2. The Indian Rupee Depreciation

The Indian Rupee is not the only currency that has depreciated in 2022 against the US Dollar. Many other currencies are falling worldwide, and by much more. As of 5 PM on September 26, 2022, the rupee was trading at 81.66 against the USD, its lifetime low level. Even as INR's slide continues, the worst for the domestic currency is not over, given related developments. The market is assessing spillover from the US Federal Reserve's hawkish policy stance. Forex market analysts, therefore, believe INR is set to lose more strength in the near term against the US dollar.

Depreciation of the Indian Rupee vs the US Dollar (YTD)



Source: WCA Research, News Articles, News18, Motilal Oswal Private Wealth

C. 1. Indian Capital Markets Outlook:

Equity Markets: If July and August were the months of hope and optimism, September 2022 was the month that the markets were mugged by hard reality. After heady FPI inflows in August, the FPI sentiments turned back once again in September as FPIs moved from being net buyers to being net sellers. Towards the end of September, the FPIs had sold equities worth over $900 mn, despite being net buyers for the first 3 weeks. Nearly $2.3 bn of equities got net sold by FPIs in the last 8 trading sessions of September 2022. Not surprisingly, the Nifty ended the month with negative returns. The Nifty fall of -3.74% may not appear to be bad after 2 successive months of rising. However, the fall got accentuated after the Fed announced a 75-bps rate hike. If one looks at the sectoral mix, it is the rate sensitives like realty and automobiles that took the biggest hit during the month. Apart from the rates, sticky inflation, recession fears, and a consistently falling rupee are not helping matters.

Debt Markets: Fed hawkishness remained the biggest issue. September was the third successive Fed meet where the rates had been hiked by 75 basis points and the Fed showed no signs of relenting. Powell continues to hold on to his “inflation control at any cost” argument. Not only is Fed ready for higher terminal rates, but it is also willing to heavily front load. The 10-year GSec yield in the US has spiked by 150bps in less than two months to about 4% - an almost 14-year high. In comparison, the Indian 10yr GSec yield has risen only 25bps from its recent lows of 7.3%. At about 3.3ppt, this is the thinnest yield differential between US and Indian 10yr GSec yields in 13 years. Simply put, this is the highest relative valuation that Indian bonds have commanded versus US bonds in 13 years. Many factors determine relative bond valuations, but for this extended relative valuation of Indian bonds to remain in place, investors would need to at least be sanguine that annual INR depreciation vs USD will be less than 3%. With the forex cover of imports falling to nine months and geopolitical and commodity risks not fully behind us, we find it difficult to rule out much higher currency volatility.

WCA Outlook

India Inc. presented a very positive performance in the first quarter of the financial year. Barring mining, all sectors witnessed positive growth this quarter. We expect October could be another volatile month, with major triggers such as upcoming quarterly earnings, GDP growth, macro data, geopolitical issues, and action from global central banks deciding the future course of the market. The upcoming festive season and the consequent demand would also play a role in the direction of the index. We believe the underlying demand trend remains strong in India as India is poised to experience, the first, normalized festive season post-pandemic. At the margin, the $20 fall in crude prices will boost domestic savings by $25bn. Corporate and Bank Balance sheets are healthy, and the private sector is accelerating its capital expenditures. Thus, India remains a sweet sport in a slowing world.

Source: WCA Research, News Articles, Motilal Oswal Private Wealth, CLSA, Renaissance Investment Managers

Wodehouse Capital Advisors Pvt Ltd.
info@wodehouse.com

WODEHOUSE

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