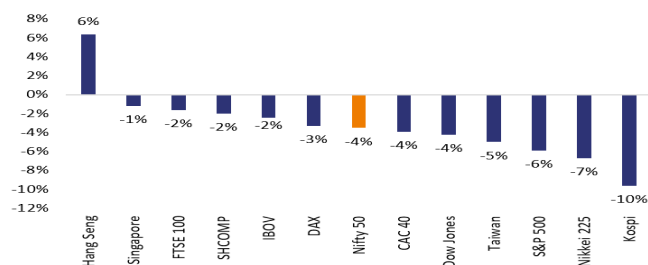


### Market Update

NIFTY50, after hitting all-time highs during the early part of December, reacted as investors chose to book some year-end profits. NIFTY50 ended the month negative 3.5% while broader markets performed marginally better with S&P BSE Midcap and S&P BSE 250 SmallCap down 2.5% & 2.1% respectively. Globally, all markets ended weak as rising Covid infection and its impact on the global economy along with demand impact owing to high inflation worried investors. China's reopening of the borders after three years was a positive trigger for the Hong Kong markets to rebound sharply.

#### 1M Performance of Global Indices



Source: Bloomberg, As on Dec 31 2022

On the news front, RBI MPC hiked the repo rate by 35 bps to 6.25%. The US Federal Reserve raised interest rates by 50 bps and sounded hawkish, however the pace of rate hike is expected to slow down going forward. Bank of Japan, in a surprise move, fine-tuned its ultra-accommodative monetary policy by widening the range for its 10-year government bond yield fluctuations leading to a sharp surge in Yen. Covid-19 cases in China saw a sharp surge as the government finally resorted to opening up of the economy. Flows were strong in December despite global uncertainty with FPI's buying ~USD 1.4 bn of Indian equities while DIIs were the net sellers at ~USD 1.7 bn.

### Macro Update

On the economy front, November'22 CPI inflation fell to 5.9% from 6.8% in October'22, led by decreasing food prices. WPI inflation eased to a 21-month low with November'22 at 5.9% vs 8.4% in October'22. October'22 IIP registered negative 4.0% y-o-y versus 3.1% in September'22. Current Account Deficit in 2QFY23 widened to USD 36.4 bn (4.4% of GDP) from USD 18.2 bn in 1QFY23 (2.2% of GDP). The core sector growth rose to 5.4% in Nov 2022 as against 3.2% in the same month last year. The gross GST revenue collection for the month of December'22 witnessed strong growth at ~INR 1.50 lakh crore. Brent crude was hovering around USD 85/bbl. INR was stable and closed at 82.74

#### Brent Crude Price (USD/bbl)



Source: Bloomberg

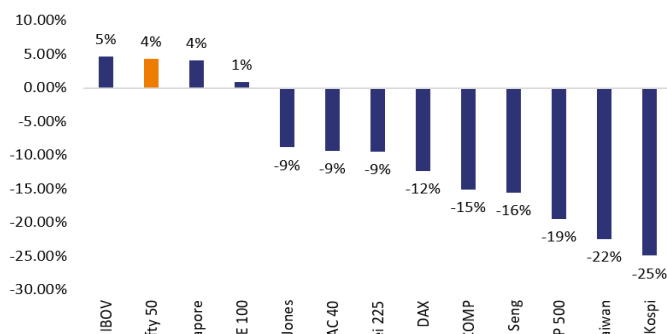
### A recap of dramatic 2022:

The year started on a negative note as Russian invasion of Ukraine constrained supply chains of multiple commodities resulting in a sharp surge in their prices, which added to inflationary pressures. This unexpected spike in inflation forced central banks across the world to be aggressive in their interest rate hikes and this led to a risk-off in markets globally. The resurgence of Covid cases in China and other parts of the world towards the end of year brought back worries of an economic slowdown. CY22 would go down in history as one of the few years where global investors had negative returns in both equity and debt markets in addition to heightened volatility in the currency markets.

### Global equity returns:

2022 was a year in which S&P 500 is down by ~19% and most of the global markets were down between 10 to 25%. The most significant feature of 2022 was the outperformance of the Indian market. NIFTY50 ended up by 4% in local currency terms, despite persistent geopolitical uncertainties and inflation worries. This outperformance is the result of India's economic growth and govt policies along with domestic investors supporting the markets by buying every dip caused by FII selling.

#### 1 Year Performance of Global Indices



Source: Kotak, Bloomberg, Period - CY22, As on Dec 31 2022

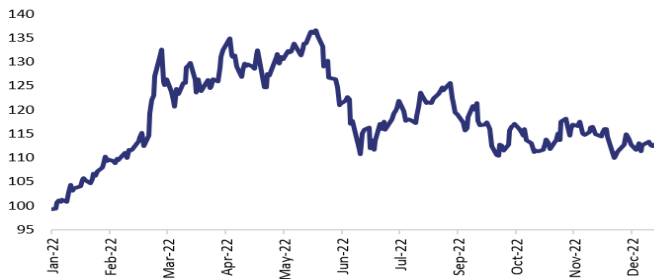
### Commodity prices / crude:

It's been a wild year for commodities as prices which saw a covid disruption linked boom give away most of the gains. With demand slowing owing to China restrictions and supply constrains easing commodities faced maximum brunt. Oil and other energy commodities too are off their highs but overall were relatively resilient owing to the Russian supply issues.

FY period: April-Mar, CPI: Consumer Price Index, WPI: Wholesale Price Index FII: Foreign Institutional Investors, GST: Goods & Services Tax, DII: Domestic Institutional Investors Fed: US Federal Reserve, IIP: Index of Industrial Production, GSec: Government of India Dated Securities, GOI: Government of India, FDI: Foreign Direct Investment, CAD: Current Account Deficit, YTD: Year To Date, CY: Calendar Year, WTI: West Texas Intermediate, UPI: Unified Payments Interface. Inflation numbers released with 1 month lag, Core Sector number released with 1 month lag, IIP number released with 2 month lag

Source: NSDL, PTI, ANI, Bloomberg, BSE, NSE, Abakkus Estimates, RBI

## Bloomberg Commodity Index

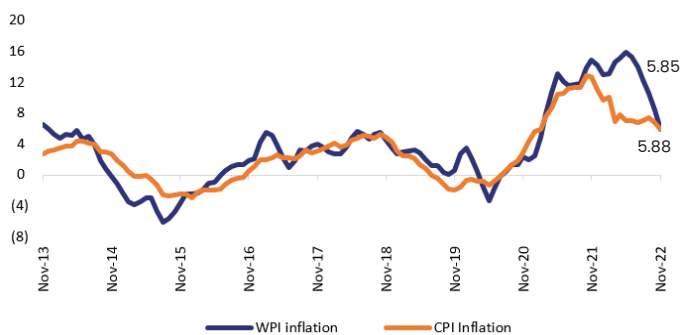


Source: Bloomberg

### • Inflation:

Russian invasion led sharp increases in the prices of energy, metals and other commodities added to the inflationary pressure which already was running high than comfort zone. In response central banks frontloaded interest rate hikes. The Fed hiked rates multiple times, its largest increase in 28 years, after inflation rose to a 40-year high. In India too the 4% repo rate at the start of the year now has moved up to 6.25%. With inflation print cooling off in recent months market expectation now is that we are already at the flag end of the rate hike cycle. Owing to a high base and slowing discretionary spend inflation is now headed lower.

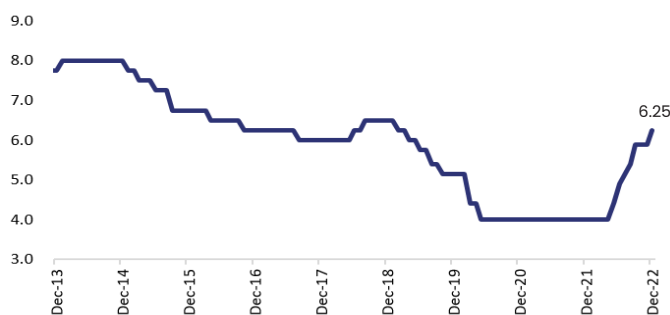
## India's CPI & WPI Inflation (%)



Source: Bloomberg

### • Interest rates:

## Repo Rate (%)



Source: Bloomberg

### • Currency:

The global foreign exchange market also witnessed higher volatility. The rising interest rates supported the US Dollar which appreciated vs almost all currencies. INR hitting 83 levels is more of a dollar appreciation than INR depreciation since rupee has appreciated vs most other currencies.

## USD / INR



Source: Bloomberg

### Market Outlook

Post a strong two-year rally from covid lows, markets have taken a breather in CY22, posting a modest 4% returns. However, if we look around, India is amongst the top performing markets globally.

The year started with record high FII outflows. However, FII's turned net buyers again since August, a function of a relatively resilient Indian economy that grew at 6.3% in a year where the world was staring at recession. Domestic flows into the equity markets remained very buoyant in 2022 and the trend is expected to continue.

India continues to be amongst fastest growing large economies globally and has come out as very resilient amidst the global turmoil. Going ahead too we are in a sweet spot as the growth rates are expected to accelerate. Unlike our past dependence on only consumption, economy today has more pillars of growth. The 4Ds are supporting the India Story – **Democracy** (Pragmatic government policies, government spending), **Demographics** (Rising working age population, rich product propositions), **Domestic consumption** (Outlook on both rural and urban is strong) and **Digitisation** (amongst the best in the world).

We believe that quite a few headwinds in 2022 will ebb and in fact become tailwinds. These would include inflation coming off sharply, possible end of interest rate cycle, global economies coming back to stability and growth, China opening-up aiding global growth and hopefully some solution on the Russia-Ukraine issue. Indian equity markets have seen 2022 as a year of consolidation. Our view is that 2023 will be an interesting year with possibility of double digit returns though accompanied with volatility. The importance of investing in companies with profits, visible growth in profits and in a value conscious manner was the highlight of investing in 2022. We expect this to be only reinforced in the coming year.

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Abakkus is also the Investment Manager to Abakkus Growth Fund, a SEBI registered Category III AIF vide SEBI Reg. No.: IN/AIF3/18-19/0550 dated June 05, 2018, India-Ahead Venture Trust, a SEBI registered Category I AIF vide SEBI Reg. No.: IN/AIF1/21-22/0976 dated January 25, 2022 and India-Ahead Private Equity Trust, a SEBI registered Category II AIF vide SEBI Reg. No.: IN/AIF2/21-22/0980 dated January 27, 2022, under SEBI (Alternative Investment Fund) Regulations, 2012 as amended from time to time and the Circulars and Guidelines issued there under from time to time collectively referred as the SEBI Registered Intermediary.

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