Dear Investors,

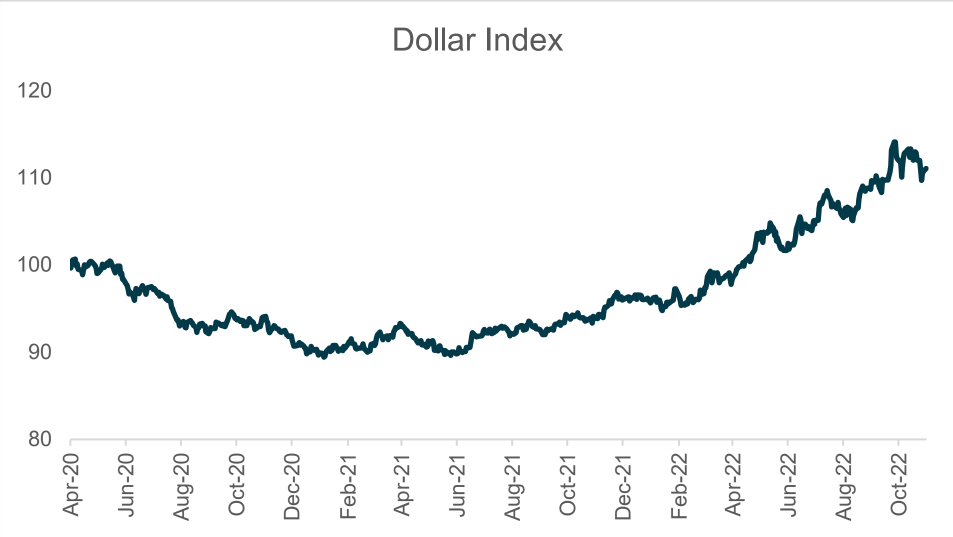
Indian equities have held up well in October amidst weak sentiment seen in emerging market equities, led by China along with other peers. While Chinese equities remain weak on fears of intensification of crackdown as President Xi Jinping secures a historic third term, Indian equities have been buoyant on continued hopes of domestic strength as reflecting in ongoing festive season demand too where urban demand has been resilient, while rural has been mixed.

Amidst this backdrop, Nifty 50 is up by 3.5% in Oct-22 in USD terms, despite ~1.8% depreciation seen in INR during the same period, while MSCI Emerging markets index has been down by 3.2% during the same period. US equities on the other hand have been strong with ~14% up move in Dow Jones Industrial Index. This is led by strong corporate earnings, even as inflation continues to remain above the expectations, making much anticipated Fed Pivot unlikely in the near term. Developments in UK (complete scrapping of budgeted tax cuts followed by PM Truss's resignation) also kept developed equities buoyant with ~6.0% up move in FTSE100 and ~9.3% up move in Germany's DAX and France's CAC 40, each in USD terms.

In terms of large cap vs midcap, October has been a bit more polarized compared to preceding months. In INR terms, while Nifty 50 has been up by 5.4% during the month, while Nifty Midcap 150 has been up a smaller 1.8%.

INR Strong Amidst the Global Turmoil…

Continued rise in inflation and commensurately Federal Reserve's (Fed's) decision to spike interest rates (Fed has raised interest rates five time already in CY22 so far) has put other countries in quandary; either increase domestic rates accordingly, accepting the economic and political consequences, or keep rates low and watch the currency collapse as traders sell it to buy dollars to capture the higher interest rates in US. Whatever strategies countries chose, currency market was in mayhem. Inflation coupled with the massive level of geopolitical risks swamping the global economy, including China's economic troubles due to its zero Covid policy and bursting real estate bubble, which have driven the investors to safe-haven investments. Back home, FII sold USD 1.6bn in last 2 months, after a brief spell of pause for prior 2 months (July and August 2022, where they bought USD 7.6bn).



Source: Bloomberg, ASK IM Research

Performance of Major Currencies Against US$

Country	Currency	1 Month	3 Months	1 Y
Brazil	USD-BRL	-4.3%	-0.1%	-8.1%
India	**USD-INR**	**1.4%**	**4.1%**	**10.1%**
China	USD-CNY	1.9%	7.5%	13.2%
Thailand	USD-THB	0.4%	3.0%	14.2%
Euro	USD-EUR	-1.6%	2.6%	16.0%
France	USD-FRF	-1.6%	2.6%	16.0%
Germany	USD-DEM	-1.6%	2.6%	16.0%
UK	USD-GBP	-3.8%	4.8%	17.8%
Japan	USD-JPY	2.0%	10.8%	29.5%

Source: Bloomberg, ASK IM Research as on 31 Oct 2022, positive number indicates respective currency depreciation against US Dollar. Data sorted basis 1 Year performance.

Table above highlights performance of major currencies against USD across 1 month, 3 month and 1 year timeframe. INR clearly has withered the storm much better than other currencies like GBP, EUR, CNY, JPY. India's external situation has worsened, with CAD above 2.8% of GDP in Q1 FY23 and expected to be above 5% in Q2 FY23, more than $115bn fall in forex reserves (currently forex reserves stand at USD 525bn vs USD 642bn at peak), uncertain global geopolitical and economic environment keep the threat of INR strength alive. However, multiple things stand out for India and that should support currency behaviour over medium term:

- Structural superior relative growth globally
- Reducing inflation differential. With higher focus on Atmanirbhar Bharat, and reforms related to improvement in supply side economics, inflation differential may not revert to past levels
- Large domestic market
- Self-sufficiency in many raw materials
- Strong performance of India Inc

Amidst this Uncertainty Globally, Earnings Season So Far Has Been Largely In Line

India's earnings season so far has been in line. About half of Nifty 50 companies have reported results so far, dominated by IT and Financials. Some of the key trends that we have observed for the quarter are:

- **Information Technology –** Nifty IT is down ~26% CYTD22 in INR terms in anticipation of global growth slowdown, leading to cut in technology spends. While these headwinds have been built into to the earnings expectations and are expected to sustain for next few quarters, results were broadly in line with the expectations. Most of the companies saw beat on operating margins led by a) wage cost moderation on variable pay, b) somewhat moderating attrition, c) better utilisation and d) tailwinds from rupee depreciation. Going forward, growth is expected to moderate for the sector as a whole as global growth slows down, which also reflected in lower deal wins momentum, caution generally cited by corporates in response to the global uncertainties.

- **Financials:** 5 out 6 Nifty banks (barring SBI) have reported their results so far, reporting strong Net Interest Income (NII) growth led by improving Net Interest Margin (NIM), which was also led by better-than-expected NIM in 4 out of 5 private banks that have reported numbers. Strong asset quality and adequate buffers have kept slippages pressure at bay. Given the rising rate environment, NIM's outlook is strong and credit cost is expected to remain low given adequate provisions. Given that domestic demand remains strong, especially driven by stable urban demand, loan growth momentum is expected to sustain and hence outlook for loan growth looks strong too. Banks are expected to report continued momentum in earnings growth going forward.

- Materials led by cement and metals saw weak earnings performance on expected lines as weak realisations hit top line while cost pressures remained because of high-cost inventory, which are expected to ebb next quarter onwards. Cost pressures have started to ease for Cement and they should start to report improving profitability going forward

- **Consumer:** demand recovery appears mixed – with rural India lagging urban. Here again, cost pressures have started to stabilise, and margins should start to improve sequentially. Early trends in the festive demand have been moderate with urban holding up better than rural.

- **Overall, in the ongoing results season, domestic consumption/investments are likely to report relatively better numbers than those businesses that are dependent on global demand / cyclicals / commodities.**

Outlook

Globally inflation continues to remain sticky so far and data prints continue to surprise on upside, keeping monetary tightening at an accelerated pace. However, we believe drivers of inflation have started to turn albeit at the margin. Despite tightening, earnings season so far has been in line in India as well as US, which has led to uptick in equity market. Additionally, festive cheer so far has been moderate with urban holding up better than rural (which has been particularly weak in UP, Bihar etc). Having said that, domestic economy remains better off amongst other emerging peers, on macro-economic and corporate earnings front, which has been providing resiliency to the Indian markets. While Nifty may see cut in earnings expectations, this is driven more by cuts in sectors with global linkages. We are/have been focused more on the strength of the domestic market, into businesses that have execution prowess, and capability to record profit growth with superior capital efficiency. This characteristic we believe should help us deliver superior returns to our investors over long period of time.