

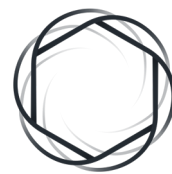


S.P. HINDUJA

BANQUE PRIVÉE

House View

OCTOBER 2022



Thoughts of the CEO

“Still cloudy, near term, but don’t forget the long-term trends.”

The past month has been marked by greater clarity from several key central banks that their first priority now is to tackle inflation. The unambiguous words and actions by central banks caught the interest rate markets off guard and negatively impacted stock markets. The earlier hopes that central banks might only raise interest rates temporarily and then cut them again at the first sign of a recession, were abruptly disappointed. Markets interpreted central banks as not only willing to tolerate lower growth, but actually requiring lower growth.

The US Federal Reserve took the lead by delivering a third consecutive 0.75 percentage point interest rate increase, the most uncompromising monetary dose in several decades, and signalled further rises. Numerous other central banks across the globe also continued to hike, reinforcing the point that the current inflation challenge is global.

Weighed down by these concerns, several stock market indices entered “bear market” territory, meaning a correction of 20 per cent or more from a recent peak. We have also seen a sharp correction in energy prices, a sign of concerns about the demand side. There have also been dramatic moves in bond yields, as the bond markets price in the expectation of higher interest rates for longer. Parts of the yield curve have started to become more attractive again.

The past month has also seen large moves in the FX markets. The US dollar continued to appreciate against major trading partners, causing the Dollar Index to reach a two-decade high. The euro fell sharply against the US dollar, and the British pound fell by even more. The one major outlier here is Japan, where the central bank decided to keep its policy rate negative – the last remaining central bank to do so – despite a very weak Japanese yen. For the first time since 1998, the Bank of Japan also intervened in the market to try and stop the depreciating trend.

The picture described above reflects a volatile constellation and not a very typical one. The economic data also do not inspire any great near-term confidence. Even China, which used to have a different growth profile to Europe and the US, now finds itself in a weak economic environment. One silver lining may be that core inflation rates appear to be close to their cyclical peak. As far as the headline inflation numbers are concerned, at least the recent falls in the oil price, if sustained, should contribute less to the overall development of inflation over the course of the year.

On the geopolitical front, an end to the war in Ukraine does not appear to be in sight, while the midterm elections in the US and the re-election of the president of China, both in November, will be closely followed by markets.

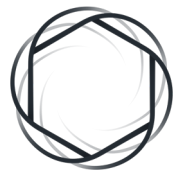
What lies beyond November? The world is big. In 2023 India is set to overtake China as the world’s most populous country. In this House View we take a closer look at India’s longer-term growth trends, recent policy announcements and what this might mean for equity investors. With economic growth expected to move within a range of 6-8 per cent on average in the decade ahead, India’s economy would be set to move up the rankings from today’s fifth largest economy to probably the third largest around the year 2050, placing India behind China and the United States.

While equity inflows will remain volatile in the short-term given monetary tightening, high inflation and global recession fears, we believe that exposure to the Asian growth story requires longer-term investors to take a closer look at their exposure to India.

Yours sincerely,

Karam Hinduja





Investment positioning

Capital market interest rates are still far below inflation rates and thus the risk of continued rising interest rates has not yet disappeared. A recession, especially a deep one, could further weigh on equities (please see Fig. 1). We, therefore, continue to recommend our clients to temporarily hold more cash than usual and to maintain a defensive portfolio positioning. Please see our asset class preferences on pages 6 and 7.

India approaches an inflection point

In 2023 India is set to overtake China as the world's most populous country. In this House View we take a closer look at India's longer-term growth trends, recent policy announcements and its implications for equity investors.

"Demography is destiny." This simple expression has huge implications for economic models, for it captures the relevance of population size and its growth to economic size and its growth. Take away population growth, as we see in Japan, and the challenge becomes how to manage a shrinking economy.

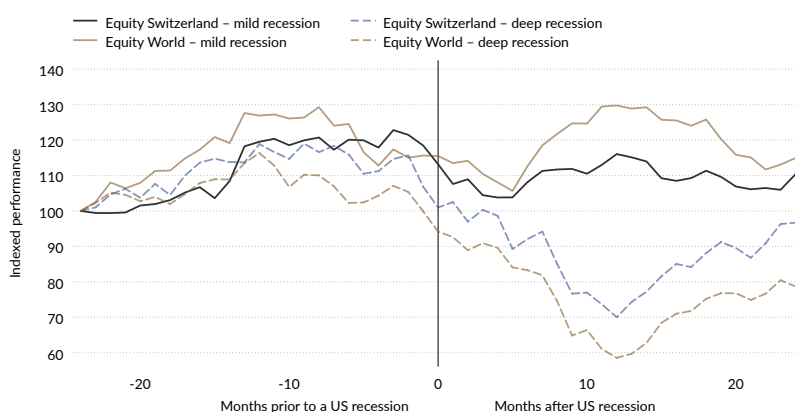
India finds itself on a very different population trajectory from that of Japan, China or Europe: India already has a large population – 1.4 billion – and will see this grow by another 0.4 billion by 2050, according to the UN's projections. Economic models tell us that this is hugely significant, as can be gleaned from a simple population comparison between India vs. China.

Population growth and economic growth tend to be correlated for the basic reason that a growing (and younger) population needs more goods and services. Economic growth also tends to be faster when there is catch-up potential, as measured in terms of GDP per capita: poorer per capita economies tend to grow faster than high per capita ones. All-in-all, the IMF projects a GDP growth rate for India of around 6.7 per cent per year on average from 2023 to 2027.

That sets the growth "baseline" or potential, around which growth would trend to if nothing dramatic were to happen (internal or external shocks). That growth number could be boosted, therefore, if the right policies were followed, but also turn out to be lower if policies were less supportive. This gives us a reasonable range of 6-8 per cent as a likely average in the decade ahead. With such a trend, India's economy would be set to move up the rankings from today's fifth largest economy to probably the third largest

Fig. 1: Equity performance before and during US recessions

Index development before and after a US recession, in months

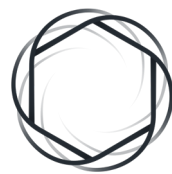


SOURCE: REFINITIV, WPULS

Share prices collapse in US recessions.

It matters whether the recession is mild or deep. In a deep recession, share prices fall significantly more and for longer. In mild US recessions, Swiss equities have in the past not offered protection, despite their defensive characteristics.





around the year 2050, placing India behind China and the United States. Under the right conditions, India could even become number two by then. We are, therefore, talking about tectonic economic shifts under way.

A boost from “Make in India”

That India aspires to shift away from “business as usual” is evident in the “Make in India” stimulus plan launched by Prime Minister Modi. It aims to transform the country into a global hub for services and manufacturing. The plan was launched to satisfy a large domestic demand. The policy question was: should India be importing what its people require or rather make it in India? The conclusion was that India should seek to substantially reduce the weight of imports in GDP. The recent global supply chain issues also appeared to create a new opportunity as manufacturers looked to set up a more diversified sourcing strategy. Of course, not everyone will now choose India as the alternative hub, but the thinking was that India could attract some of this new business as well. Overall, the goal is to increase the value added across a range of sectors: Industrials, Infrastructure, Pharmaceuticals, Technology, IT, Automotive, Textiles and Defence.

Relevance for Indian equities and bonds

The Make in India plan should also benefit from corporate tax cuts and production-linked incentives (including incentives to relocate to India). Apple recently announced a

plan to assemble, for the first time, their new iPhone 14 in India instead of China.

In the first two decades of this century, average return on equity has been 17.3 per cent for India compared to 13.0 per cent for the Emerging Markets, and 12.4 per cent Asia ex-Japan (all in USD terms). Compound annual growth rates have been in line with nominal GDP growth: 12.2 per cent earnings per share (EPS) growth from the 1993 to 2022E financial years. The expected EPS growth in FY23E and FY24E is currently 16 per cent and 14 per cent, respectively (Source: Refinitiv, Yardeni Research).

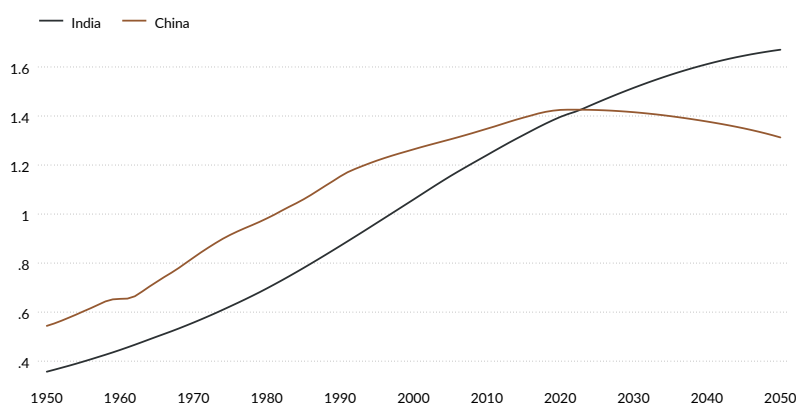
In terms of valuations, the current P/E ratio of the BSE SENSEX Index stood at 22.3x on 24 September 2022, down from an all-time high of 36.2x in February 2021 and a record low of 10.4x in October 2008 (Source: Bombay Stock Exchange). The 12-month forward P/E stood at 17.8x (Sensex Fwd PE) as of September 29 (Source: Bloomberg).

In addition, the much-talked-about potential inclusion of Indian government bonds into global and emerging markets’ bond indices would be a catalyst for Indian bonds. As for equities, around 70 upcoming IPOs are expected. (Source: AngelOne).

While equity and fixed income inflows will remain volatile in the short-term given monetary tightening, high inflation and global recession fears, we believe that exposure to the Asian growth story requires longer-term investors to take a closer look at their exposure to India.

Fig. 2: Population in billions of people

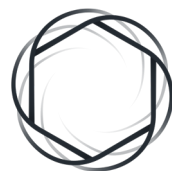
Population growth and forecast, in billions



This chart shows that India's population is set to surpass that of China in 2023 and is expected to remain on a faster growth trajectory for the next two decades at least.

SOURCE: UNITED NATIONS, POPULATION DIVISION (2022), WPULS



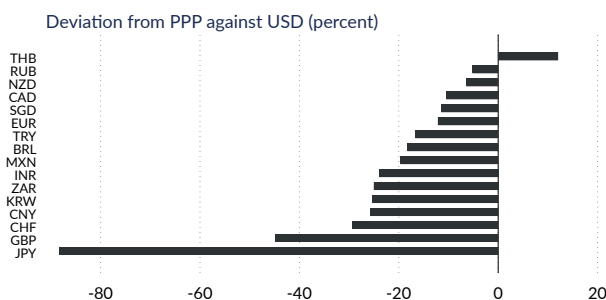
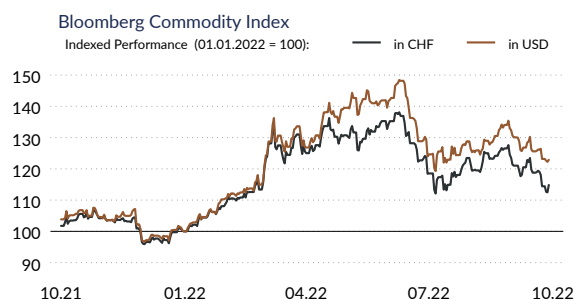
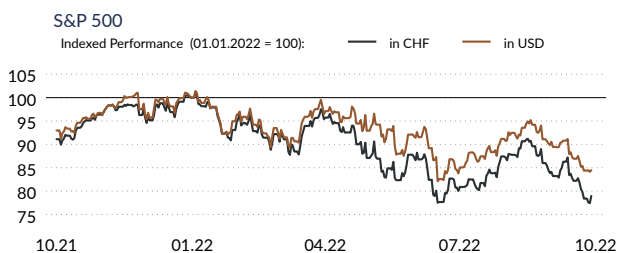
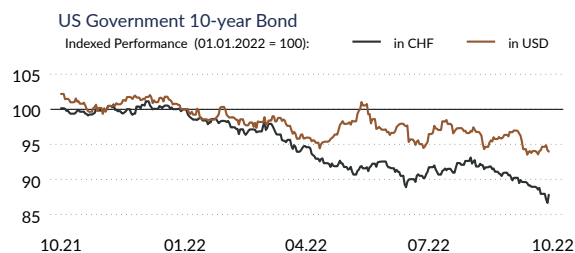


Macroeconomic estimates (in %)

	GDP Growth			Inflation		Interest Rates	Money Growth M1
	Trend	2021	2022E	2021	2022E	Q3 2022	y/y 9/2022
USA	1.6	5.7	1.0	4.7	7.0	3.25	5.2
Eurozone	1.0	5.3	2.0	2.6	8.0	1.25	7.1
UK	1.7	7.4	2.5	4.0	9.0	2.25	7.6
Switzerland	1.4	3.7	2.2	0.6	2.5	0.5	2.1
Japan	1.1	1.7	1.5	-0.2	2.0	-0.10	5.5
China	4.5	8.1	3.5	-1.6	2.5	4.35	6.1
Brazil	1.2	4.6	0.0	8.3	11.0	13.75	-7.4
India	5.0	8.3	6.0	5.1	7.0	5.9	8.7
Russia	-	-	-	6.7	-	7.5	12.3
World	2.9	6.1	2.0	4.7	7.0	-	-

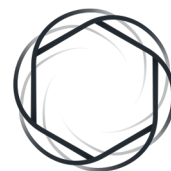
SOURCE: REFINITIV, WPULS

Financial Markets



SOURCE: REFINITIV, WPULS





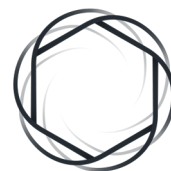
Global Asset Allocation Preferences – October 2022

“Defensive – as the probabilities for a global recession have increased significantly.”

Asset Class	View	Constituents	We favour	We avoid	Commentary
Cash	++				Temporarily increase cash due to heightened uncertainty and risk aversion.
Fixed Income	+	Segments	Treasuries, investment grade credit.	Convertibles, High Yield, Emerging Markets.	Continued tightening by central banks keep fueling the risk of economic slowdown or recession. Nominal rates likely to remain high in the near-term, making better-rated fixed income investments look more attractive relative to risk assets.
		Duration	Short term.		We favour short duration and IG credit in view of continuing rate volatility over the next quarter. We would like to see more signals of yields reaching their peak in order to take a more active stance on longer duration fixed income. For investors with specific income targets, we are starting to see attractive yields in the medium part of the curve.
					Reach out to us for advice on how to balance duration risk and income generation in your portfolios.

VIEW: ++ VERY ATTRACTIVE + ATTRACTIVE = NEUTRAL - UNATTRACTIVE -- VERY UNATTRACTIVE





Global Asset Allocation Preferences – continued

“Defensive – as the probabilities for a global recession have increased significantly.”

Asset Class	View	Constituents	We favour	We avoid	Commentary
Equities	–	Markets	U.S.	Europe, Emerging Markets.	<p>The Fed's determination to bring down inflation increases the odds of recession in the U.S. Continued uncertainty from Ukraine-war. Rising energy costs to hit European households and corporations. We start to see attractive risk-reward opportunities for long-term investors in the European market. Within EM, we have a preference for faster-growing India.</p> <p>Heightened uncertainty warrants reduction in exposure to risk assets.</p>
		Themes	Quality value. Dividends. Consumer staples, health-care and agricultural stocks.	Highly levered, long duration equities. Avoid cyclicals.	Focus on companies with robust pricing power. Value stocks generating real cash flow. Dividend growth.
Alternatives	+		Selected REITS, listed infrastructure, gold.	Distressed debt, long duration equities. Avoid cyclicals.	<p>Looking for potentially uncorrelated assets, hedges from inflation, and steady cash-flow. We recommend holding some gold in the portfolio.</p> <p>We are neutral on carbon credits as we weigh the positives (more use of coal) and the negatives (increased risk of recession, leading to lower energy use).</p>

VIEW: ++ VERY ATTRACTIVE + ATTRACTIVE = NEUTRAL - UNATTRACTIVE -- VERY UNATTRACTIVE



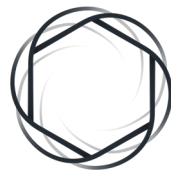


Figure of the Month

1.0

Markets like a target and parity is an especially appealing target. This year has seen some dramatic FX moves among some of the larger currency pairs: the euro fell through parity against the US dollar; the Swiss franc fell through parity against the euro; and over the past month, sterling almost reached parity with the US dollar – a multi-century low for sterling. Big moves in inflation are one of the triggers for these currency realignments. Whereas inflation has increased globally, producer price inflation between countries has shown large differences. Another driver has been a flight to perceived safer-haven currencies (the US dollar and the Swiss franc).

S. P. Hinduja Banque Privée – A family-owned Swiss Bank with Indian roots.

S.P. Hinduja Banque Privée S.A. is an innovative Swiss bank with roots in India, offering wealth management and investment advisory services to entrepreneurial clients. We partner with clients to create exponential economic and social impact, as our family has aspired to do for over 100 years.

Founded in Geneva in 1994 by Srichand Parmanand Hinduja with a vision to provide clients with a bridge between East and West, our institution remains the only Indian-owned Swiss bank in history. With an active presence in Switzerland, India, UAE and the UK, S.P. Hinduja Banque Privée offers its clients the reliability of Swiss regulatory oversight, while providing specialized access to high-growth markets.

We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

The future of banking is emerging at the intersection of profit and purpose.

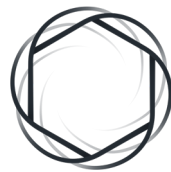
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S.P. HINDUJA
BANQUE PRIVÉE



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