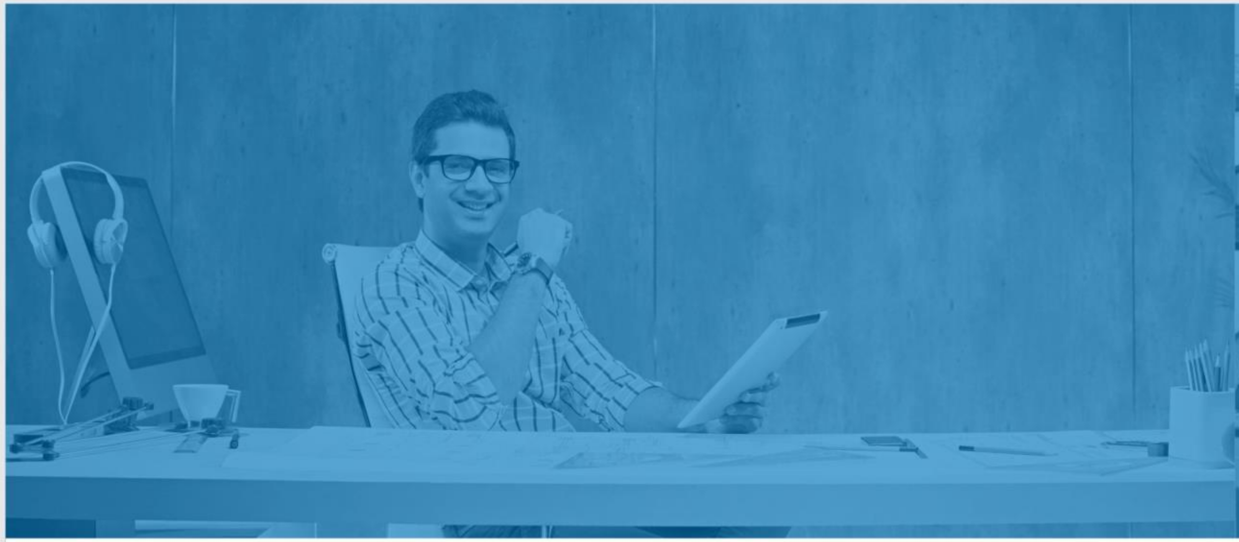
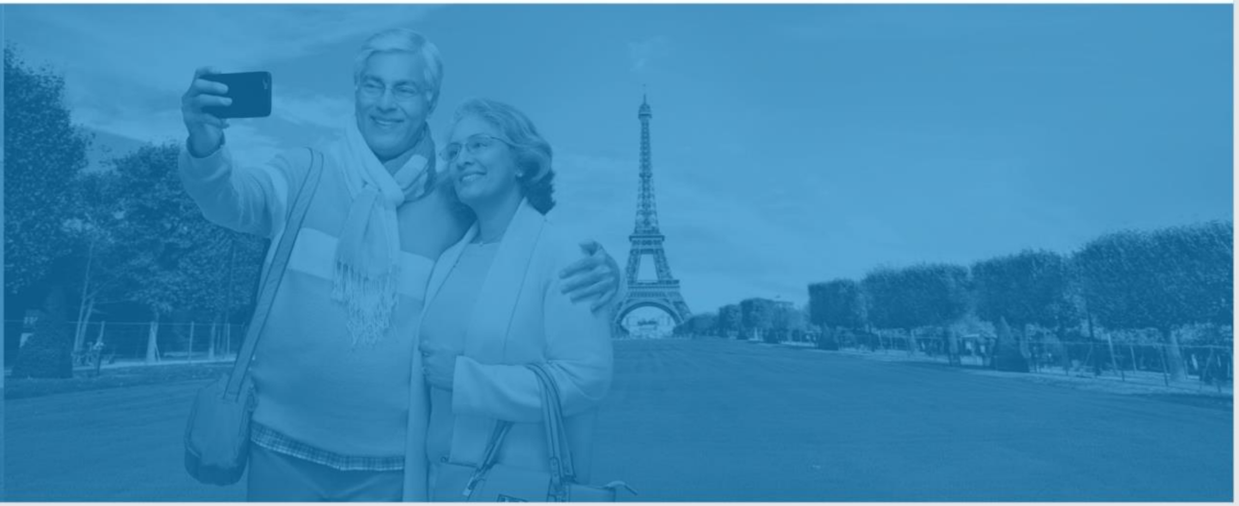


Coronavirus Impact, Market/Macro Overview & Key Lessons in Investing

LIFE GOALS. **DONE.**

BAJAJ | Allianz



Coronavirus & Impact on India

Although Hubei province in China accounts for only 1.3% of total exports of China, stalled manufacturing in other regions causes crash in manufacturing activity & auto sales

Exports of top 5 Provinces of China

	Total exports	
	(US$ bn)	(%)
Guangdong	721	28.8
Jiangsu	403	16.1
Zhejiang	339	13.6
Shandong	171	6.8
Shanghai	169	6.8

Source: Kotak Institutional Equities

Source: Bloomberg

- China accounts for ~12-13% of global trade
- China is the second largest economy in the world. Accounts for ~16% of global GDP. So a large slowdown in China could impact global growth as well. It remains to be seen if any material impact on China's growth is seen beyond Q1 CY2020.
- Hubei, which has most of the confirmed Coronavirus cases in China, contributes only 1.3% of China's exports
- Top 5 regions/provinces, which constitute ~ 72% of China's exports, account for a marginal percentage of cases in China so far.
- However, supply disruption expected in other provinces a well due to stalled manufacturing / production in several regions.
- China Manufacturing PMI crashed to 35.7 in Feb 2020 from 50 in the previous month, making it the largest decline since the 2008 global financial crisis.
- Auto sales in China also fell by a record 80%YoY in the month of Feb 2020, compared to a 21.6%YoY fall in the previous month.

Wuhan (capital of Hubei) is critical for transportation within China

Wuhan is one of the largest intermediate ports along China's Yangtze River with ships connecting the city to Shanghai and Chongqing.

Wuhan is an important transport link between the four cardinal points of China. Wuhan is a few hours by train to most of China's important cities, which makes it a major hub in China's high-speed passenger train network

Imports from China account for ~14% of total India imports in FYTD20

Commodity	FY19		FY20(Apr-Dec)	
	IN Million USD			
Total Imports	**5,14,078**		**3,61,915**	
Total CHINA imports	**70,333**	**% Share**	**51,926**	**% Share**
ELECTRICAL MACHINERY AND EQUIPMENT, SOUND RECORDERS AND REPRODUCERS, TELEVISION	20,628	*29%*	15,397	*30%*
NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF.	13,384	*19%*	10,477	*20%*
ORGANIC CHEMICALS	8,596	*12%*	6,244	*12%*
PLASTIC AND ARTICLES THEREOF.	2,723	*4%*	2,136	*4%*
FERTILISERS.	2,053	*3%*	1,634	*3%*
ARTICLES OF IRON OR STEEL	1,735	*2%*	1,277	*2%*
OPTICAL, PHOTOGRAPHIC CINEMATOGRAPHIC MEASURING, CHECKING PRECISION, MEDICAL OR SURGICAL INST	1,588	*2%*	1,047	*2%*
VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK, AND PARTS AND ACCESSORIES THEREOF.	1,521	*2%*	947	*2%*
IRON AND STEEL	1,422	*2%*	937	*2%*
MISCELLANEOUS CHEMICAL PRODUCTS.	1,291	*2%*	986	*2%*
ALUMINIUM AND ARTICLES THEREOF.	1,175	*2%*	755	*1%*
INORGANIC CHEMICALS; ORGANIC OR INORGANIC COMPOUNDS OF PRECIOUS METALS	1,050	*1%*	603	*1%*
MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION	1,047	*1%*	343	*1%*
FURNITURE; BEDDING, MATTRESSES, MATTRESS SUPPORTS LAMPS AND LIGHTING FITTINGS	988	*1%*	709	*1%*
GLASS AND GLASSWARE.	618	*1%*	473	*1%*
OTHERS	10,515	*15%*	7,960	*15%*

Source: Dept. of commerce , Gov. of India

- In 9mFY20, India imported ~ $52 bln of goods from China, constituting 14.3% of total imports.
- ~75% of imports from China are in sectors like electronics, electrical goods, chemicals, fertilizers, plastics and metals.
- There are some concerns of supply chain disruption in the above mentioned sectors.

Exports to China contributed ~4% of total India exports in FYTD20

	IN Million USD			
Commodity	**FY19**		**FY20(Apr-Dec)**	
Total exports from India to China	**16,752**	**% Share**	**13,057**	**% Share**
Organic chemicals	3,249	*19%*	2,231	*17%*
Mineral fuels, mineral oils and products of their distillation	2,856	*17%*	1,739	*13%*
Ores, slag and ash	1,220	*7%*	1,734	*13%*
Fish and crustaceans, molluscs and other aquatic invertabrates	721	*4%*	1,171	*9%*
Plastic and articles thereof	1,105	*7%*	703	*5%*
Electrical machinery and equipment and parts thereof	580	*3%*	655	*5%*
Nuclear reactors, boilers, machinery and mechanical appliances	831	*5%*	626	*5%*
Cotton	1,787	*11%*	489	*4%*
Salt, sulphur, earths and stone	681	*4%*	460	*4%*
Iron and steel	319	*2%*	452	*3%*
Coffee, tea, mate and spices	169	*1%*	355	*3%*
Animal or vegetable fats and oils and their cleavage products	396	*2%*	301	*2%*
Tanning or dyeing extracts	525	*3%*	249	*2%*
Copper and articles thereof	244	*1%*	203	*2%*
Prepared feathers and articles made of feathers, artificial flowers, etc.	138	*1%*	146	*1%*
Others	1,932	*12%*	1,545	*12%*

Source: Dept. of commerce , Gov. of India

- In 9mFY20, India exported ~ $13 bln of goods to China. This constituted 3.6% of total Indian exports
- ~70% of exports to China are concentrated in sectors like chemicals, petroleum products, ores, fish, plastics, electrical machinery, cotton etc.

Coronavirus impact on Indian sectors is mixed

Sector	Impact
Oil and Gas	Positive
FMCG	Positive
Paints	Positive
Textile	Positive
Chemicals (Exporters)	Positive
Chemicals (Importers)	Negative
Automobile	Negative
Consumer Durables	Negative
Pharma	Mixed
Airlines	Negative
Hotels	Negative
Metals	Negative

Market & Macro Overview

Global factors impacting markets

Coronavirus is more contagious, but mortality rate is lower (compared to earlier epidemics) <u>Largely contained within China so far, but ex-China cases starting to escalate.</u>

<u>Coronavirus Epidemic</u>
impact on growth & trade (esp. for China)

Risk-off sentiment

China accounts for ~16% of global GDP
China accounts for ~12-13% of World Trade

Sharp fall in global bond yields due to risk-aversion. US bond yields at record low.

There could be further loosening of monetary policy by major central banks<u>. US Fed did an emergency rate cut of 50 bps & other central banks also starting to ease</u>

Geo-political & other events (like Coronavirus) & their impact on commodity prices & risk appetite

Crude prices had risen sharply in early Jan 2020 due to US-Iran geopolitical tensions, but have now fallen sharply due to Coronavirus concerns

Global growth slowdown seen in 2019, but some recovery expected in 2020/2021

Some uncertainty on global growth has arisen lately, due to the Coronavirus epidemic (developing situation)

De-escalation of US China Trade War

A synchronized slowdown seen in global growth in 2019, but some recovery expected in 2020/2021 (although some uncertainty persists due to Coronavirus impact)

IMF GDP growth forecast (in %)

% chg (YoY)	2018	2019E	2020F	20201F
World	**3.6**	**2.9**	**3.3**	**3.4**
Advanced Economies	**2.2**	**1.7**	**1.6**	**1.6**
US	2.9	2.3	2.0	1.7
Euro Area	1.9	1.2	1.3	1.4
Japan	0.8	1.0	0.7	0.5
Emerging Economies	**4.5**	**3.7**	**4.4**	**4.6**
China	6.6	6.1	6.0	5.8
India	**6.8**	**4.8**	**5.8**	**6.5**
Russia	2.3	1.1	1.9	2.0
Brazil	1.3	1.2	2.2	2.3
Saudi Arabia	2.4	0.2	1.9	2.2
South Africa	0.8	0.4	0.8	1.0

Source: IMF WEO Report, Jan 2020. For India, fiscal year ended March is considered, so 2019 = FY20 and 2020 = FY21. For other countries it is calendar year.

- IMF cut growth forecasts across advanced and emerging economies. Global growth slowed down from 3.6% in 2018 to 2.9% in 2019, but projected to recover in 2020/2021
- This is primarily due to growth slowdown in advanced economies (esp. US & Euro Area).
- Emerging economies growth also forecasted to slowdown to 3.7% in 2019 from 4.5% in 2018, but recover in 2020/2021.
- India's GDP growth forecast for FY20 downgraded to 4.8%, but some recovery expected in FY21/22.
  - RBI/CSO also downgraded India's GDP growth forecast for FY20 to 5%.
  - RBI forecasts GDP growth to recover to 6% in FY21
- China's GDP growth forecasted to slow down from 6.6% in 2018, to 6.1% in 2019, with further slowdown projected in 2020/2021.
  - Recent coronavirus outbreak may further impact China's growth and trade in the short term in 2020.
  - Impact on global growth to be seen, if the outbreak spreads to other countries on a large scale (still a developing situation, so some uncertainty/risk persists)

India's global GDP ranking has been rising over the years, is now $2.9 trln economy

GDP at current prices (USD in Billion) – 2005

1	United States	13,037
2	Japan	4,755
3	Germany	2,866
4	United Kingdom	2,528
5	China	2,309
6	France	2,200
7	Italy	1,856
8	Canada	1,169
9	Spain	1,159
10	Korea	898
11	Brazil	891
12	Mexico	877
13	India	834
14	Russia	821
15	Australia	734
16	Netherlands	686
17	Turkey	501
18	Switzerland	409
19	Sweden	389
20	Belgium	388

GDP at current prices (USD in Billion) – 2019 (F)

1	United States	21,439
2	China	14,140
3	Japan	5,154
4	Germany	3,863
5	India	2,936
6	United Kingdom	2,744
7	France	2,707
8	Italy	1,989
9	Brazil	1,847
10	Canada	1,731
11	Russia	1,638
12	Korea	1,630
13	Spain	1,398
14	Australia	1,376
15	Mexico	1,274
16	Indonesia	1,112
17	Netherlands	902
18	Saudi Arabia	779
19	Turkey	744
20	Switzerland	715

India has significantly improved its GDP ranking over the years. In 2019, India surpassed France & UK to become the fifth largest economy in the world

Source: IMF, Knoema

GDP growth has slowed down; Industrial production lackluster

India Quarterly GDP Growth trend (%, YoY)

	YoY growth rate				
	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Private Final Consumption Exp.	**7.0**	**7.2**	**5.0**	**5.6**	**5.9**
Government Final Consumption Exp.	**7.0**	**13.1**	**8.8**	**13.2**	**11.8**
Gross Capital Formation	**11.5**	**3.6**	**4.8**	**-3.3**	**-4.5**
Gross Fixed Capital Formation	11.4	3.6	4.3	-4.1	-5.2
Change in Stock	21.9	1.0	3.6	0.9	1.0
Valuables	-0.7	5.2	20.5	11.9	6.6
Exports of Good & Services	**15.8**	**10.6**	**3.2**	**-2.1**	**-5.5**
Imports of Goods & Services	**10.0**	**13.3**	**2.1**	**-9.3**	**-11.2**
GDP	**5.6**	**5.8**	**5.6**	**5.1**	**4.7**

- Q3 FY20 GDP growth slowed down to a ~7-year low of 4.7% YoY. Large revisions seen in historical data.
  - Slowdown was led by Investments (Gross Fixed Capital Formation), which is in sharp contraction for past 2 quarters.
  - Private consumption (~55% weight of GDP) growth improved to 5.9% from 5.6% in the previous quarter, but down from 7.0% a year back.
  - Government spending growth was healthy at 11.8%, vs 13.2% in the previous quarter.
- RBI expects GDP growth to recover from 5% in FY20 to 6% in FY21.

IIP components, yoy growth rate,%

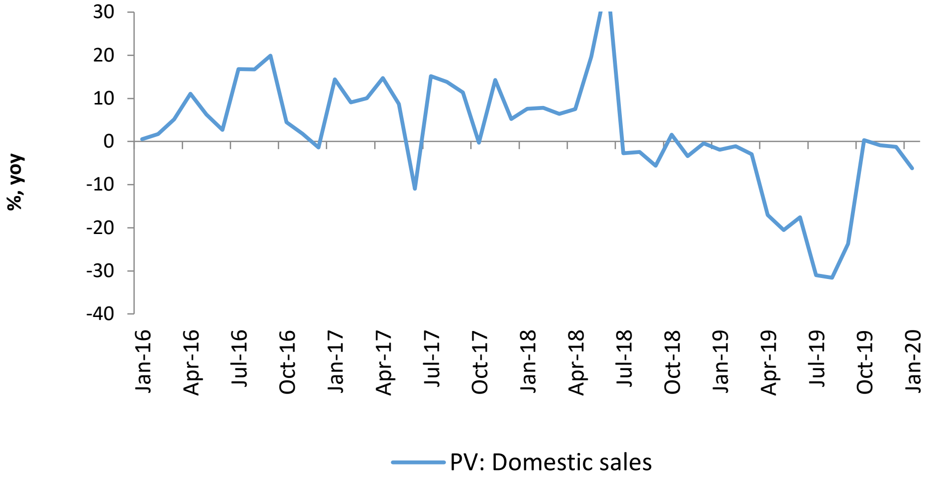
	Jan-19	Feb-19	Mar-19	Apr-19	May-19	June-19	July-19	Aug-19	Sept-19	Oct-19	Nov-19	Dec-19
IIP	1.6	0.2	2.7	3.2	4.5	1.3	4.9	-1.4	-4.6	-4.0	1.8	-0.3
Mining (wt. 14.37)	3.8	2.2	0.8	5.1	2.3	1.5	4.9	0.0	-8.6	-8.0	1.8	5.4
Manufacturing (wt. 77.63)	1.3	-0.3	3.1	2.5	4.4	0.3	4.8	-1.7	-4.3	-2.3	2.7	-1.2
Electricity (wt. 8)	0.9	1.3	2.2	6.0	7.4	8.6	5.2	-0.9	-2.6	-12.2	-5.0	-0.1

- Index of Industrial Production (IIP) has been lackluster and volatile, primarily due to slowdown in manufacturing sector (weight of ~78% in IIP).
- For FYTD20 (up to December), IIP growth was significantly lower at 0.5%YoY, compared to 4.7%YoY in the corresponding period, a year ago.

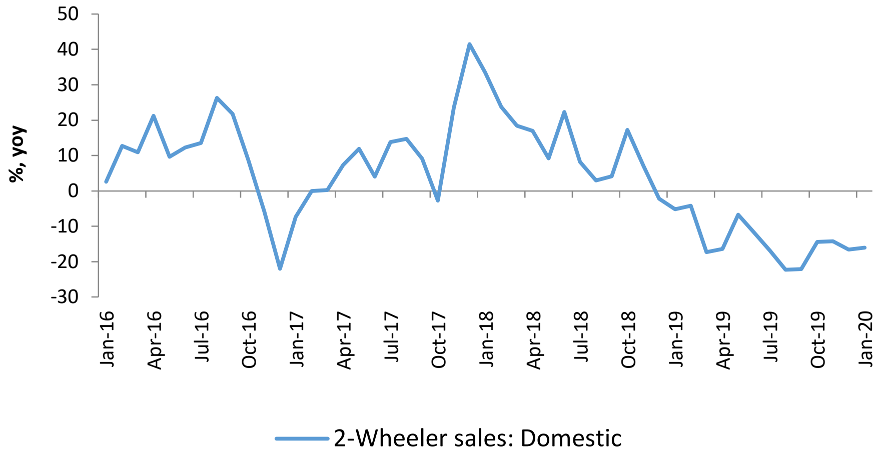
Source: CSO, MOSPI , Phillip Capital

High Frequency Indicators: Auto sector still not out of the woods completely; but we may have bottomed out

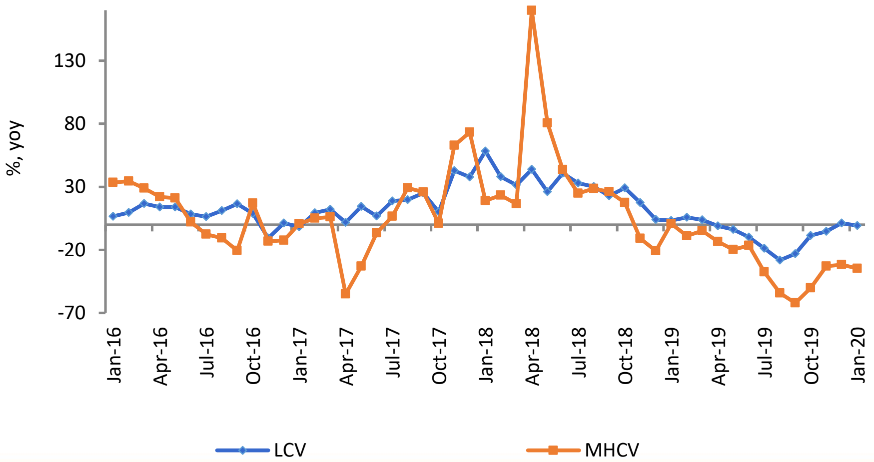
Monthly Passenger Vehicles Sales Growth (%, YoY)



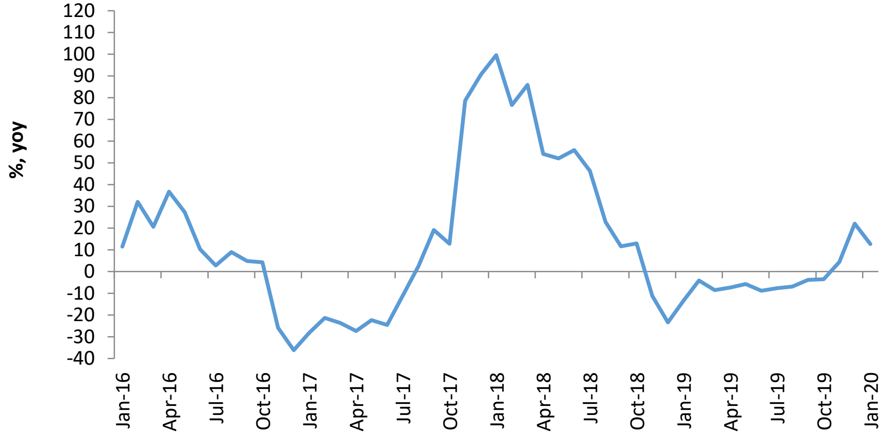
Monthly 2-Wheeler Sales Growth (%, YoY)



Monthly Commercial Vehicles Sales Growth (% YoY)



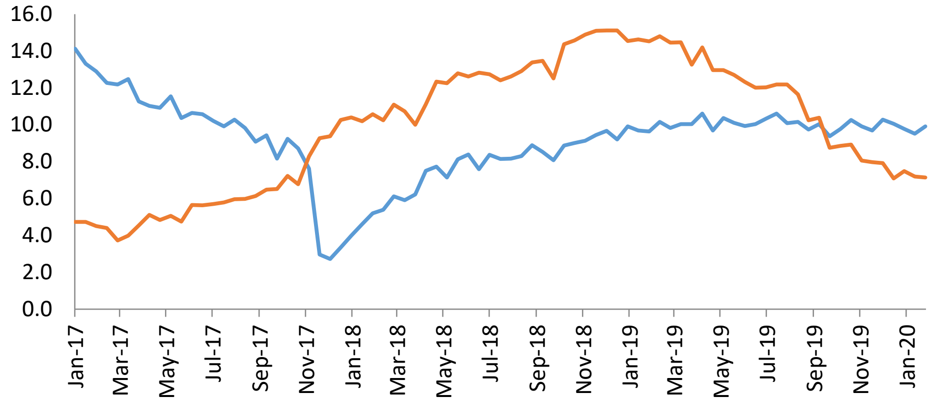
Monthly 3-Wheeler Sales Growth (% YoY)



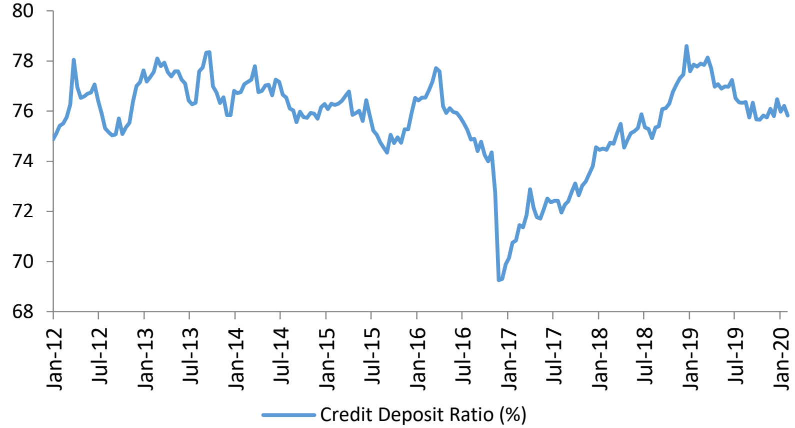
Source: SIAM, Spark Capital. LCV – Light Commercial Vehicle, MHCV = Medium & Heavy Commercial Vehicle

High Frequency Indicators: Credit growth slows down considerably; deposit growth outpaces credit growth. Cement, Steel and Coal output gaining momentum.

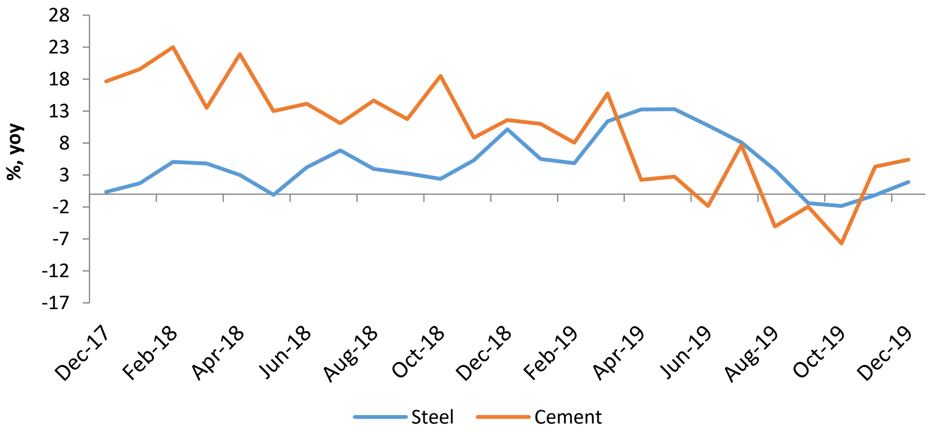
Credit & Deposit Growth (%YoY)



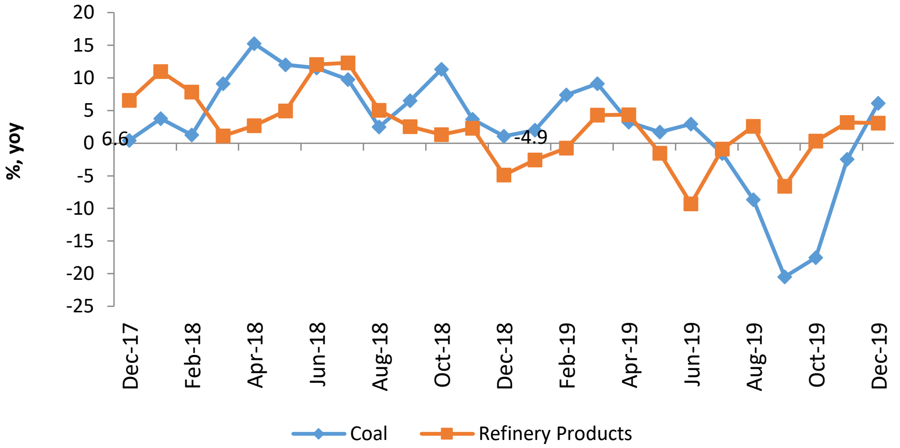
Credit to Deposit Ratio decelerated as deposit growth outpaced credit growth



Monthly Steel & Cement Output (%YoY)



Monthly Coal & Refinery products Output (%YoY)



Source: Spark Capital

India has delivered moderate returns over the past year, while it has outperformed over the long term (10 years)

Performance of International Indices (ended Feb 2020, in %)					
Index Name	**Country / Region**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
TSEC TAIEX	Taiwan	11.0	5.8	3.7	4.5
RTS RTSI PR USD	Russia	9.4	5.7	7.7	-0.8
BOVESPA	Brazil	9.0	16.0	15.1	4.6
S&P 500	US	6.1	7.7	7.0	10.3
S&P/ASX 200	Australia	4.4	4.1	1.7	3.3
IISL Nifty 50	**India**	**3.8**	**8.1**	**4.7**	**8.6**
FSE DAX TR	Germany	3.3	0.2	0.8	7.8
MSCI World PR USD	World	2.7	5.2	3.8	6.6
CAC 40	France	1.3	3.0	1.4	3.7
Nikkei 225	Japan	-1.1	3.4	2.4	7.6
Shanghai Composite	China	-2.1	-3.9	-2.7	-0.6
MSCI AC Asia Ex Japan PR USD	Asia Ex Japan	-2.3	4.2	1.7	3.4
MSCI EM PR USD	Emerging Mkts	-4.3	2.4	0.3	0.7
FTSE/SGX STI	Singapore	-6.3	-0.9	-2.4	0.9
FTSE 100	UK	-7.0	-3.2	-1.1	2.1
Hang Seng	Hong Kong	-8.7	3.2	1.0	2.4
KOSPI Korea	South Korea	-9.5	-1.7	0.0	2.2
FTSE Bursa Malaysia KLCI	Malaysia	-13.2	-4.3	-4.0	1.6
JSX Composite	Indonesia	-15.4	0.4	0.0	7.9
FTSE SET All Share	Thailand	-21.0	-6.0	-3.8	5.8

Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of 1 year return in descending order

- **Over the past year**
  - Developed markets outperformed emerging markets.
  - EMs like Taiwan, Russia & Brazil and developed markets like US & Australia were the top performers.
  - India delivered moderate returns but outperformed most of its Asian peers.
  - A number of other Asian markets underperformed over the past year.
- Over the long term (10 years) Indian market has outperformed, and been among the top performing markets.

Domestically, it has been a narrow market over the past year. Realty, consumer durables & banking were the top sectors; large-caps outperform the broader markets

Performance of Domestic Indices in % (ended Feb 2020)				
Index Name	**3 mths**	**6mths**	**1 yr**	**2 Yrs**
S&P BSE Consumer Durables	5.1	11.7	22.1	11.1
S&P BSE Realty	-2.0	3.7	18.3	-7.2
S&P BSE BANKEX	-7.7	8.0	11.3	8.6
IISL Nifty 50	-7.1	1.6	3.8	3.3
IISL Nifty 500	-5.9	2.9	3.1	-0.1
S&P BSE IT	0.8	-7.2	-1.7	9.5
IISL Nifty Midcap 50	-4.3	6.0	-2.0	-6.7
S&P BSE Healthcare	-0.9	4.7	-2.0	-2.3
S&P BSE FMCG	-6.5	-1.0	-3.4	2.2
IISL NIFTY Smallcap 100	-2.4	4.2	-4.4	-17.6
S&P BSE Power	-10.8	-9.1	-6.1	-12.1
S&P BSE Oil and Gas	-16.7	-4.1	-8.6	-9.8
S&P BSE Capital Goods	-11.4	-9.1	-9.9	-10.2
S&P BSE PSU	-16.9	-7.4	-12.7	-16.0
S&P BSE Auto	-14.0	-1.3	-17.2	-20.8
S&P BSE Metal	-15.7	-3.3	-23.5	-26.3

Source: Morningstar Direct. Data sorted in descending order on the basis of 1 year return. Returns more than 1 year is CAGR

Nifty 50 Index contribution analysis over 1 Yr (ended Feb 2020)		
Name	**% Chg**	**Index Points Contribution**
ICICI Bank Ltd	44.3%	242
HDFC Bank Ltd	13.5%	151
HFDC	19.3%	145
Kotak Mahindra Bank Ltd	33.3%	134
Bajaj Finance Ltd	69.3%	108
Top 5 contributing stocks		**780**
Remaining 45 index stocks		**-371**
Nifty 50 index	**3.8%**	**409**

Source: Bloomberg

- It continues to be a narrow market over the past year, with bulk of the Nifty returns being contributed by a handful of quality stocks.
  - ➢ Top 5 positive contributing stocks in Nifty index were all financials, and contributed +780 points.
  - ➢ Meanwhile the balance 45 stocks of Nifty index contributed (-)371 points.

- Markets delivered moderate returns over the past year. Mid/small-caps underperformed large-caps over the past year, and also 2 years (especially).
- The top performing sectors over the past year were consumer durables, realty & banking.
- The bottom performing sectors over the past year were metal, auto, PSU and capital goods

The govt. had announced a slew of measures to help and revive economic growth & improve investor sentiment

Large fiscal stimulus by slashing corporate tax rates

Higher surcharge on capital gains tax (announced in the 2019 Union Budget) rolled back for FPIs and domestic HNIs

PSU bank recapitalization of Rs. 70,000 crore would be released upfront—helping to improve liquidity

Mega merger of 10 PSU banks into 4 large banks

Measures for auto sector:

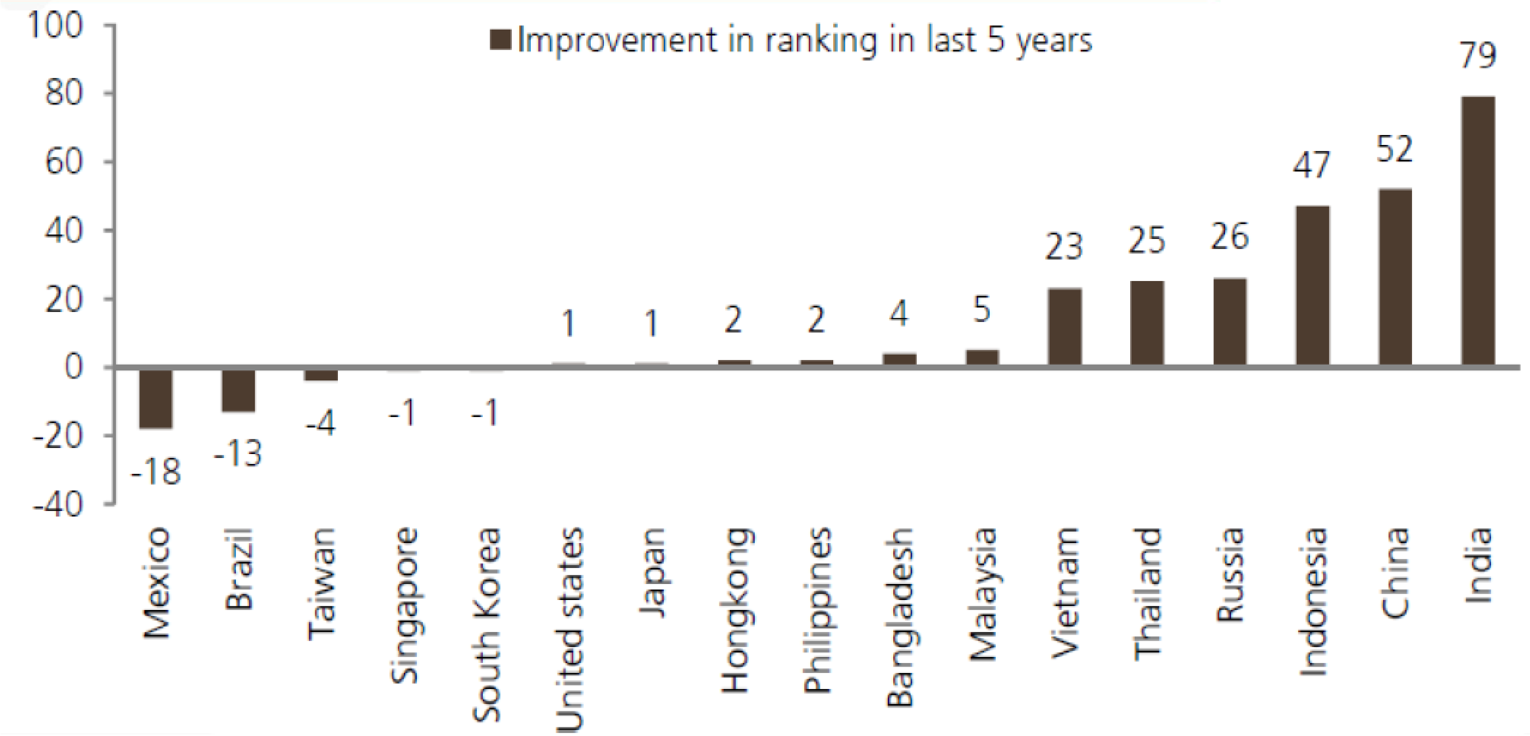
- Additional 15% depreciation to be allowed on all vehicles purchased by March 2020 (to esp. benefit CV sector)
- Govt. also postponed increase in registration fee charges for vehicles to June 2020

For realty sector, govt to set up a Rs. 25,000 crore AIF to revive stalled housing projects

Govt's push towards strategic divestment of PSUs, with a large divestment mobilization target budgeted for FY21

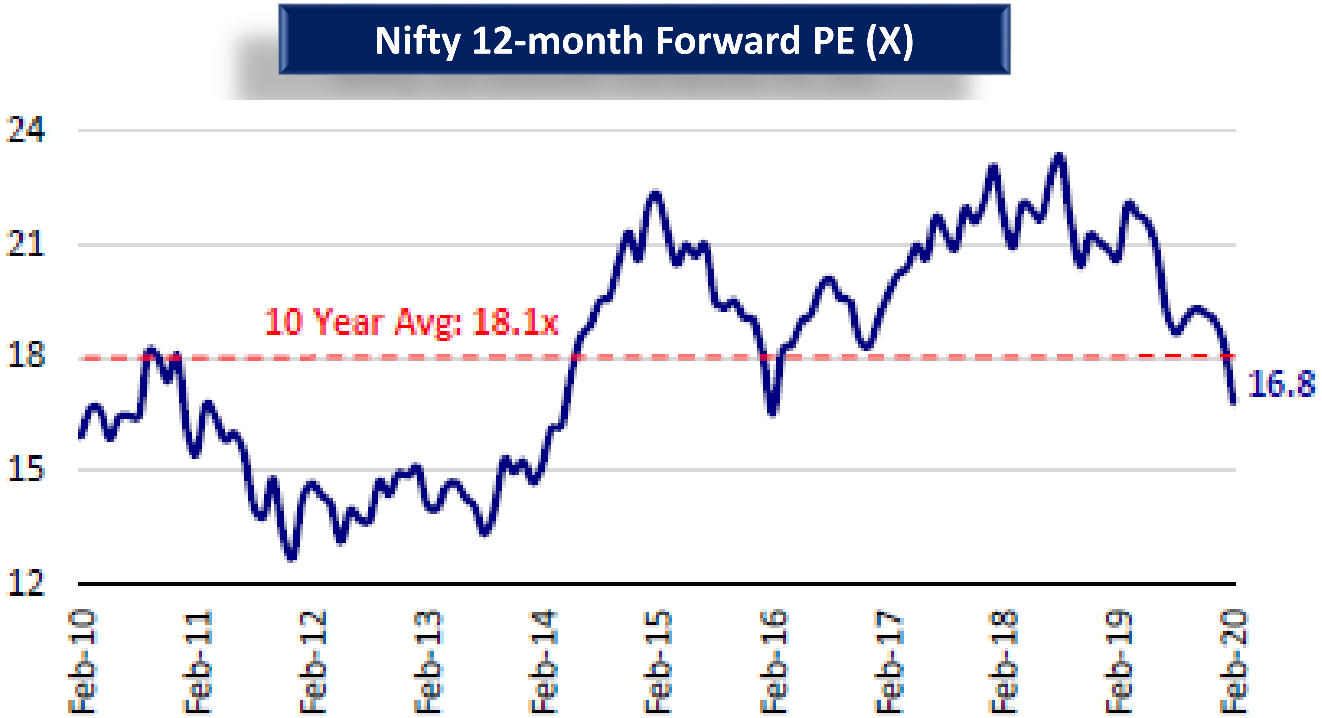
Govt releases National Infrastructure Pipeline of ~Rs. 1 lakh crore over 5 year period (FY20-25). We expect a gradual recovery in capex cycle (as the economy starts to recover).

India's Ease of Doing Business rankings have significantly improved under the present govt.



- India's ranking in the World Bank "Ease of Doing Business report 2020" improved further to 63rd position (out of 190 countries) from 77th position in the previous year.
- The improvement in ranking was helped due to categories like resolving insolvency / bankruptcy, construction permits and trading across borders.
- India's rankings have improved the most (by 79 places) from 124th rank in 2014, under the present government

Indian market trading near longer term average valuation

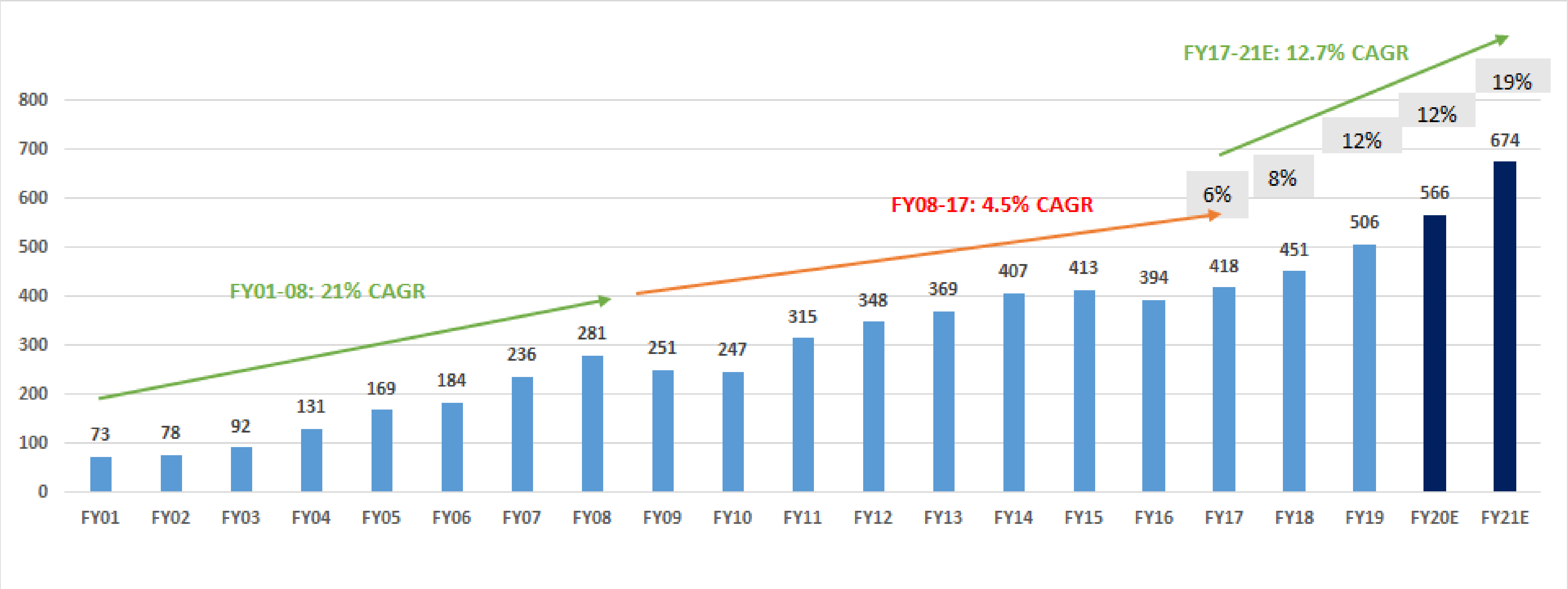


- Even though forward P/E valuations are reasonable (due to expected corporate earnings recovery in FY21), trailing P/E for Nifty is at slightly elevated levels.
- Valuations are particularly rich for some quality stocks—which have seen significant outperformance.

Source: Bloomberg, Motilal Oswal

Corporate earnings for Q3 FY20 have been tepid, but expected to recover--with Nifty EPS growth projected to rise from 12% in FY20 to 19% in FY21

Nifty Earnings Per Share (EPS) Trend



Source: Bloomberg, Bajaj Allianz Research

FII equity flows have been significantly higher this fiscal year

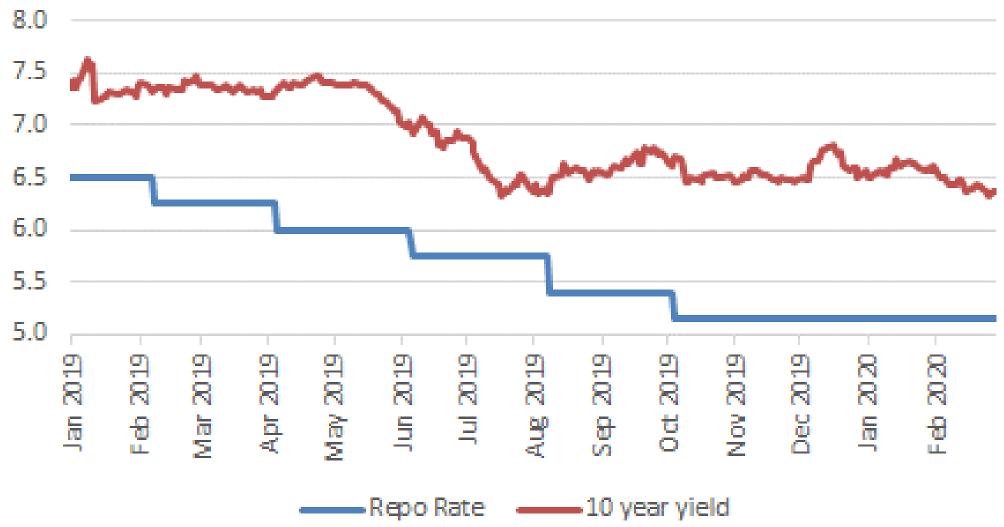
Source: SEBI, BSE	Rs in Crore			
Year	**FIIs**	**DIIs**	**MFs**	**Insurance**
FY2008	52,572	47,794	15,948	31,846
FY2009	-48,250	60,040	6,962	53,078
FY2010	1,10,752	24,211	-10,235	34,446
FY2011	1,10,121	-18,709	-19,974	1,265
FY2012	43,738	-5,347	-1,384	-3,963
FY2013	1,40,032	-69,069	-22,008	-47,061
FY2014	79,709	-54,161	-21,069	-33,092
FY2015	1,11,445	-21,446	40,087	-61,533
FY2016	-14,171	80,416	66,143	14,273
FY2017	60,196	30,787	56,209	-25,422
FY2018	21,074	1,13,258	1,40,517	-27,259
FY2019	-90	72,115	87,462	-15,036
FYTD2020 (upto Feb)	64,783	73,706	61,684	12,019

Source: SEBI, BSE	Rs in Crore			
Month-end	**FIIs**	**DIIs**	**MFs**	**Insurance**
31 January 2019	-505	2,147	7,161	-5,014
28 February 2019	15,328	-566	2,173	-2,739
31 March 2019	33,116	-13,930	-7,665	-6,265
30 April 2019	20,280	-4,219	-4,600	380
31 May 2019	9,826	5,316	5,164	153
30 June 2019	1,033	3,643	6,232	-2,589
31 July 2019	-13,316	20,395	15,083	5,312
31 August 2019	-15,552	20,934	17,406	3,527
30 September 2019	6,674	12,491	11,029	1,461
31 October 2019	14,657	4,675	3,485	1,190
30 November 2019	22,489	-7,971	-4,845	-3,126
31 December 2019	6,118	-741	2,746	-3,487
31 January 2020	14,095	2,250	1,053	1,196
29 February 2020	-1,521	16,933	8,931	8,002

- FPI equity flows picked up strongly, on the back of some return in global risk. India registered one of the highest FPI flows among peer EM Asian markets. However, in the month of Feb 2020, FPIs registered outflows due to global risk aversion.
- DII equity flows had slowed down in recent months (due to lumpsum outflows from equity mutual funds, although SIP inflows remained stable). However, in the month of Feb 2020, DIIs registered a healthy net inflow.
- For FYTD 20 both FPI and DII (esp. MF) cumulative equity flows now stand somewhat similar, unlike the previous fiscal year.

Bond yields have softened over the past year

India 10 Yr G-Sec Yield Vs Repo Rate (%)



Source: Bloomberg

- Bond yields have fallen over the past year on RBI rate cuts, global monetary easing and fall in bond yields, fall in crude prices, improving liquidity, and RBI's "Operation Twist".
- The RBI has cut policy rate (repo rate) 5 times since Feb 2019, by a cumulative 135 bps, and also changed the policy stance to "accommodative". In the Feb 2020 policy review, RBI maintained status quo on rates but incentivized credit to certain stressed sectors & also tweaked the liquidity framework to aid in greater monetary transmission.
- CPI inflation projection was revised upwards to 6.5% for Q4 FY20, 5.4-5.0% for H1 FY21 (vs 4.0-3.8% earlier), but expected to fall sharply to 3.2% in Q3 FY21.
- RBI recognized that there is monetary policy space for future action, but it will be data–dependent. RBI also said that it is ready to take action to maintain financial stability.

Market Outlook & Strategy

Global Risk aversion due to Coronavirus epidemic	• Some global risk aversion & correction in global markets being seen. Central banks have started to react with the US Fed going in for an emergency 50 bps cut; other central banks also follow. • We may see some market volatility in the short term if the epidemic escalates to other countries, but value may start to emerge at some juncture—if a significant slowdown doesn't pan out.
Valuations are reasonable except for "quality"	• Barring a few "quality stocks", where valuations are elevated, for the rest of the market valuations are in line with the long term average.
Corporate Earnings	• Corporate earnings to also gradually recover, and Nifty earnings growth projected to pick-up from ~12% in FY20 to 19% in FY21. This will help to decide the market trajectory.
Equity Investment Strategy	• Investors should continue to invest systematically into equities. • We continue to prefer large-caps, but also see some bottom-up opportunities in the mid-cap segment—from a valuation perspective.
Debt Markets & Strategy	• The market borrowing & fiscal deficit was along expected lines. This, along-with some positive measures for bond markets, Feb 2020 RBI policy, fall in global bond yields & crude prices have helped yields to soften. RBI also indicated its ready to take action to maintain financial stability. • We currently prefer the medium term part of the yield curve.
Factors to watch out for	• Eye needs to be kept on the impact of Novel Coronavirus outbreak, global monetary policy stance, global growth trajectory, geo-political events, progress on US-China trade resolution and global risk appetite.

Some Key Lessons in Investing

Different Asset Classes Outperform / Underperform in Different Years: Asset allocation may help in times of volatility

Calendar Year-Wise Performance of Different Asset Classes (in %)												
CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Mid-Cap Equity (+71.8%)	Gold (+26.1%)	Mid-Cap Equity (+100.5%)	Gold (+23.2%)	Gold (+31.7%)	Mid-Cap Equity (+35.1%)	Cash (+9.0%)	Mid-Cap Equity (+46.1%)	Debt (+8.6%)	Debt (+12.9%)	Mid-Cap Equity (+51.3%)	Gold (+7.9%)	Gold (+23.8%)
Large-Cap Equity (+54.8%)	Debt (+9.1%)	Large-Cap Equity (+75.8%)	Large-Cap Equity (+17.9%)	Cash (+8.2%)	Large-Cap Equity (+27.7%)	Large-Cap Equity (+6.8%)	Large-Cap Equity (+31.4%)	Cash (+8.2%)	Gold (+11.3%)	Large-Cap Equity (+28.6%)	Cash (+7.6%)	Large-Cap Equity (+12.0%)
Gold (+16.4%)	Cash (+8.4%)	Gold (+24.2%)	Mid-Cap Equity (+10.4%)	Debt (+6.9%)	Gold (+12.3%)	Debt (+3.8%)	Debt (+14.3%)	Mid-Cap Equity (+1.5%)	Cash (+7.5%)	Cash (+6.7%)	Debt (+6.0%)	Debt (+10.7%)
Cash (+7.6%)	Large-Cap Equity (-51.8%)	Cash (+4.9%)	Cash (+5.1%)	Large-Cap Equity (-24.6%)	Debt (+9.4%)	Mid-Cap Equity (-2.8%)	Cash (+9.2%)	Large-Cap Equity (-4.1%)	Mid-Cap Equity (+7.2%)	Gold (+5.1%)	Large-Cap Equity (+3.2%)	Cash (+6.9%)
Debt (+7.0%)	Mid-Cap Equity (-65.4%)	Debt (+9.1%)	Debt (+5.0%)	Mid-Cap Equity (-39.9%)	Cash (+8.5%)	Gold (-4.5%)	Gold (-7.9%)	Gold (-6.6%)	Large-Cap Equity (+3.0%)	Debt (+4.7%)	Mid-Cap Equity (-11.0%)	Mid-Cap Equity (-4.7%)

Source: Bloomberg. Asset classes represented by the following indices: **Debt** (Crisil Composite Bond Index), **Cash** (Crisil Liquid Fund Index), **Large-Cap Equity** (Nifty 50 index), **Mid-Cap Equity** (Nifty Midcap 50 index), **Gold** (MCX Spot Gold index)

- Mid-cap equity and large-cap equity was the top performing asset class in CY 2007, but then became the bottom performing asset class (falling sharply) during the market downturn of 2008. Similarly equities did well in 2012, 2014 and 2017, but was the bottom performing asset class in 2011, 2016, and 2018.
- Gold as an asset class outperformed during the financial crisis (in the years of 2008 to 2011), but was among the bottom performing asset class in 2013-2015. In 2019 gold was the top performing asset class.
- Debt outperformed in 2015 and 2016, but was an underperformer in 2017, as bond yields hardened during the year. However, debt did well in 2019 as bond yields fell during the year.

Past performance is not an indicator of future performance

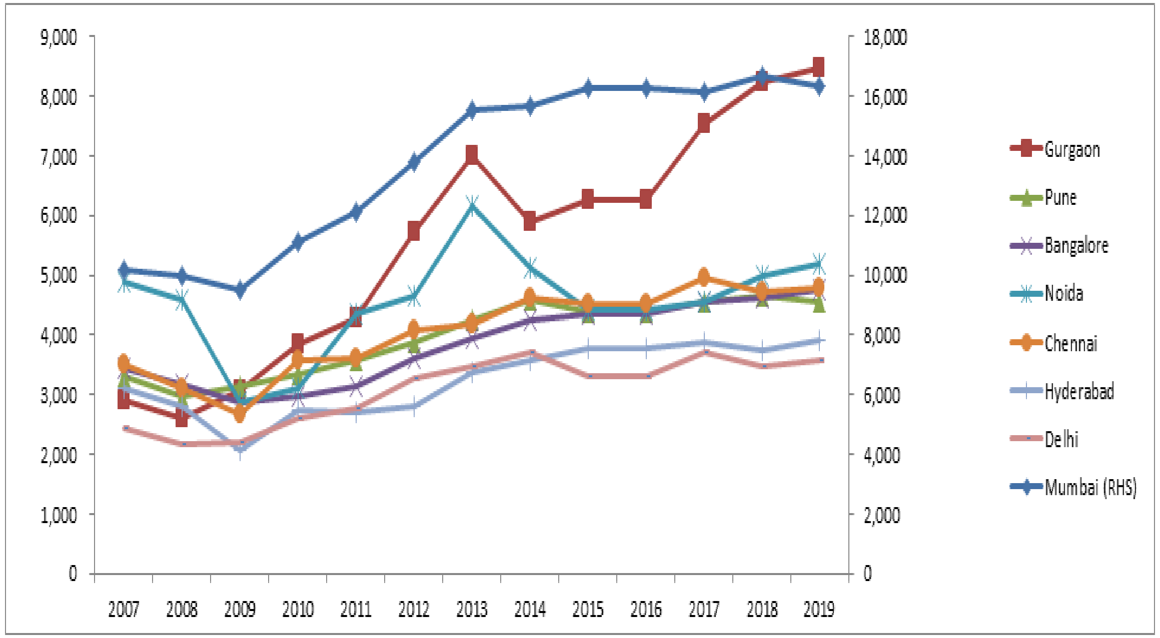
Performance of different asset classes in India– Equities have outperformed over the long term

Trailing Returns of various Asset Classes (ended Jan 2020)					
Asset Class	1 Year	3 Years	5 Years	10 Years	15 Years
Mid-cap Equity	6.5	5.3	6.5	9.6	13.0
Large-Cap Equity	10.4	11.8	6.3	9.4	12.5
Gold	22.5	11.9	8.1	9.6	NA
Debt	11.3	6.9	8.3	8.2	7.3
Cash	6.7	7.0	7.3	7.7	7.2

Source: Bloomberg, Morningstar. **Returns greater than 1 year are CAGR**. Asset classes represented by the following indices: **Debt** (Crisil Composite Bond Index), **Cash** (Crisil Liquid Fund Index), **Large-Cap Equity** (Nifty 50 index), **Mid-Cap Equity** (Nifty Midcap 100 index), **Gold** (MCX Spot Gold index),

Past performance is not an indicator of future performance

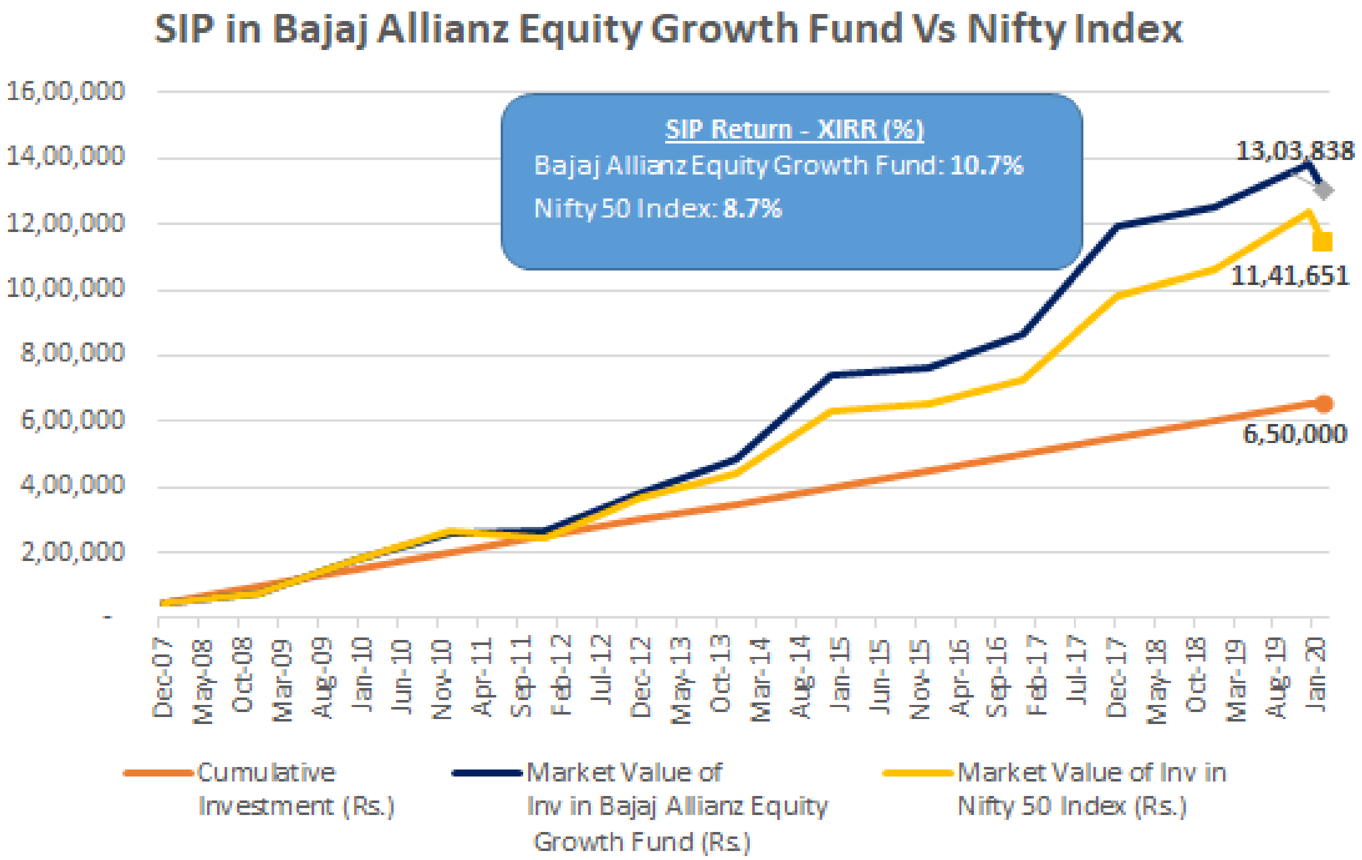
Real estate price trends – City-wise



Source: Phillip Capital

- Equities has been one of the top performing asset classes over the long term, even though it comes with intermittent volatility / corrections.
- Real estate has been among the bottom performing asset classes over the past 5 years. City-wise data shows that real estate prices rose strongly between 2009-2013, but post that have been flattish to negative.

Invest systematically in equities, as market timing is difficult. Patience is the key.



- Assuming an investor started an SIP in Bajaj Allianz Equity Growth Fund (of Rs. 50,000 per year) at the previous market cycle peak of 2007 end.

- If the investor would have continued with the SIP (and not got deterred by volatility / market corrections) then the cumulative investment of Rs. 6.5 lakhs would be worth:

  - **Rs. 13.04 lakhs (10.7% XIRR) in Bajaj Allianz Equity Growth Fund**
  - **Rs. 11.42 lakhs (8.7% XIRR) in benchmark Nifty 50 index**

Source: Bloomberg, Bajaj Allianz Insurance Analysis. **Data as of 28 Feb 2020**. Past performance may not be indicator of future returns.

LIFE GOALS. **DONE.**

Longer the holding period – lower the risk of investing in equities, generally

Nifty in 28 Years	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Total Years	28	26	24	19	14	9
Negative Years	11	4	3	1	0	0
Positive Years	17	22	21	18	14	9
% age in +ve years	**61%**	**85%**	**88%**	**95%**	**100%**	**100%**
Lowest Return in %	-47.6	-13.8	-5.2	-1.1	6.5	7.4
Highest Return in %	244.3	51.5	37.1	19.2	16.9	14.8

Source: Bloomberg, Bajaj Allianz Life Insurance Analysis. Past performance is not indicative of future returns. Returns greater than 1 year is CAGR.

- Equities help beat inflation and meet longer term goals.
- Individual stocks are risky, but as a portfolio of stocks, risk gets minimized—due to diversification. Risk and chances of delivering negative returns further gets reduced by investing in regular intervals over a longer time period.
- For 5 year period, 88% of cases were positive return years. For 10 year period, almost all years (except 1) delivered positive returns. Above 10 year period, there have been no cases of negative returns.
- Also the volatility (range of returns) reduces for longer holding periods.

Warren Buffet – "The stock market is a device for transferring money from the impatient to the patient”.

THANK YOU

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