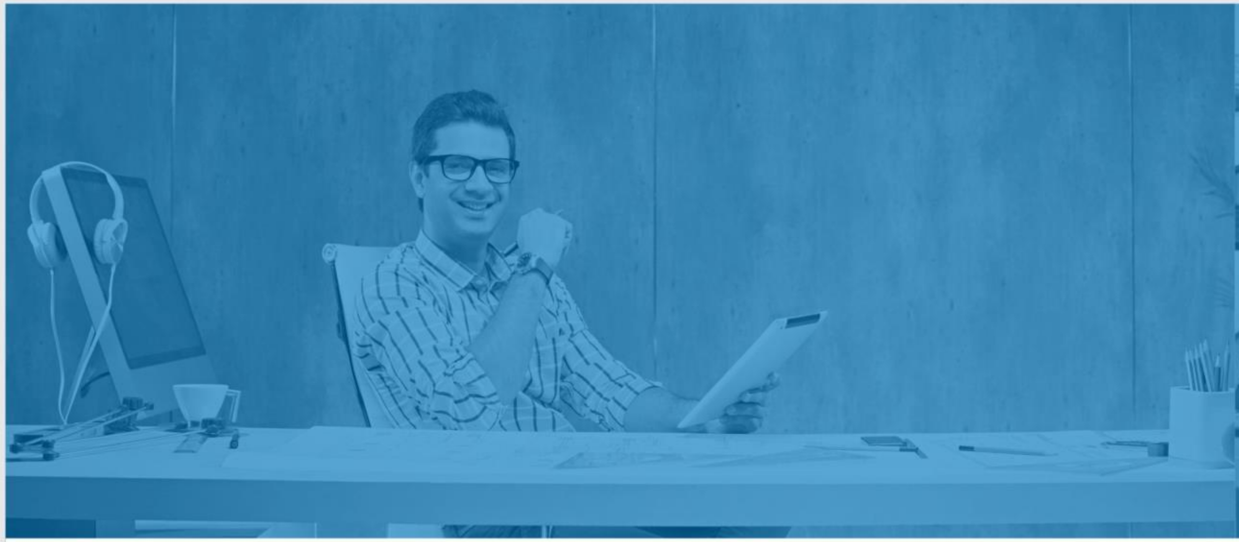
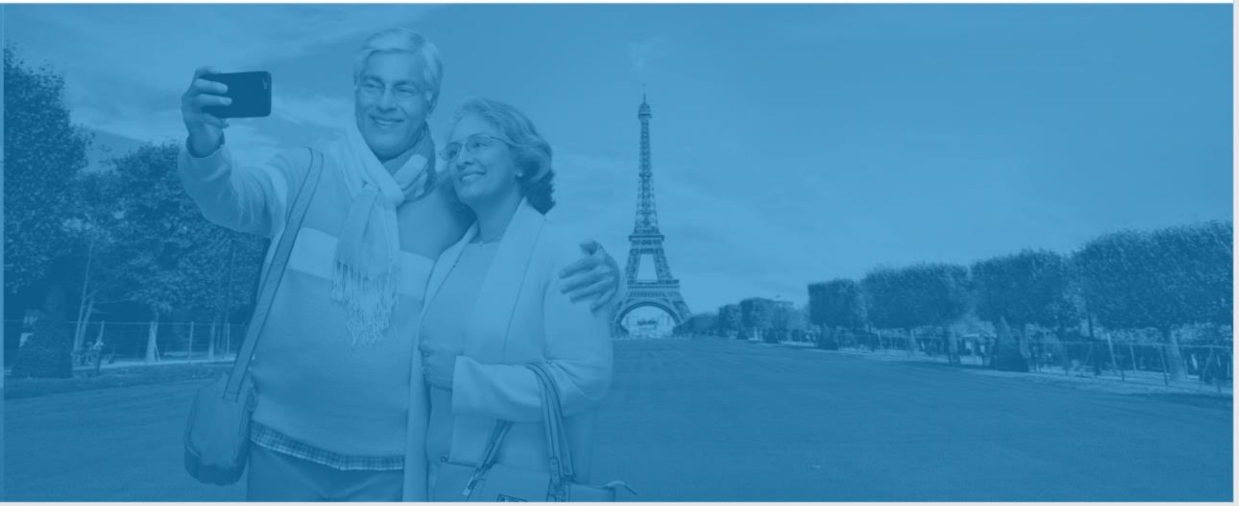


Quarterly Market/Macro Overview & COVID-19 Impact

April 2020

LIFE GOALS. **DONE.**

BAJAJ | Allianz



Global Macros, Markets, Stimulus & Coronavirus (COVID-19) Impact

Impact of COVID-19 on global macros & markets

Coronavirus Pandemic

Cases and deaths have risen exponentially globally, causing lock-downs around the world

Sharp & swift correction in global markets due to large global risk aversion

Massive fiscal & monetary stimulus announced by govt's and central banks worldwide

A global recession is a possibility

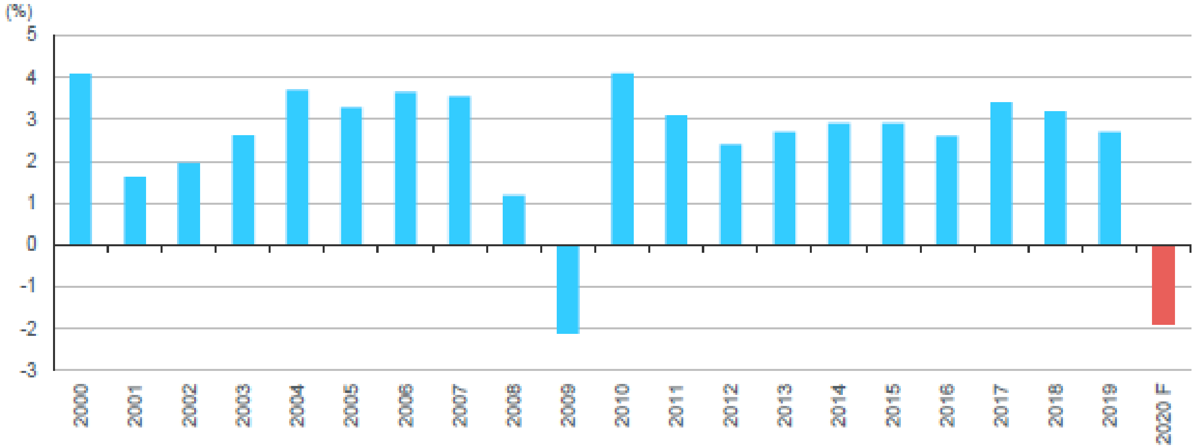
Sharp correction in crude prices. Sharp fall in global bond yields

COVID-19 impact on global growth: A global recession is possible, and also a significant slowdown of growth in India.

Fitch Ratings- Global GDP growth forecast (in %)

(%)	Annual Average 2014-2018	2018	2019	2020f	2021f
GDP Growth					
US	2.5	2.9	2.3	-3.3	3.8
Eurozone	2.0	1.9	1.2	-4.2	2.9
China	7.0	6.7	6.1	1.6	7.6
Japan	0.9	0.3	0.7	-2.7	2.2
UK	2.0	1.3	1.4	-3.9	3.0
Developed[a]	2.0	2.1	1.7	-3.4	3.3
Emerging[b]	4.8	5.1	4.4	0.7	6.0
World[c]	3.0	3.2	2.7	-1.9	4.3

World GDP Growth



Source: Fitch Ratings

Fitch Ratings- India GDP growth forecast (in %)

India - Forecast Summary

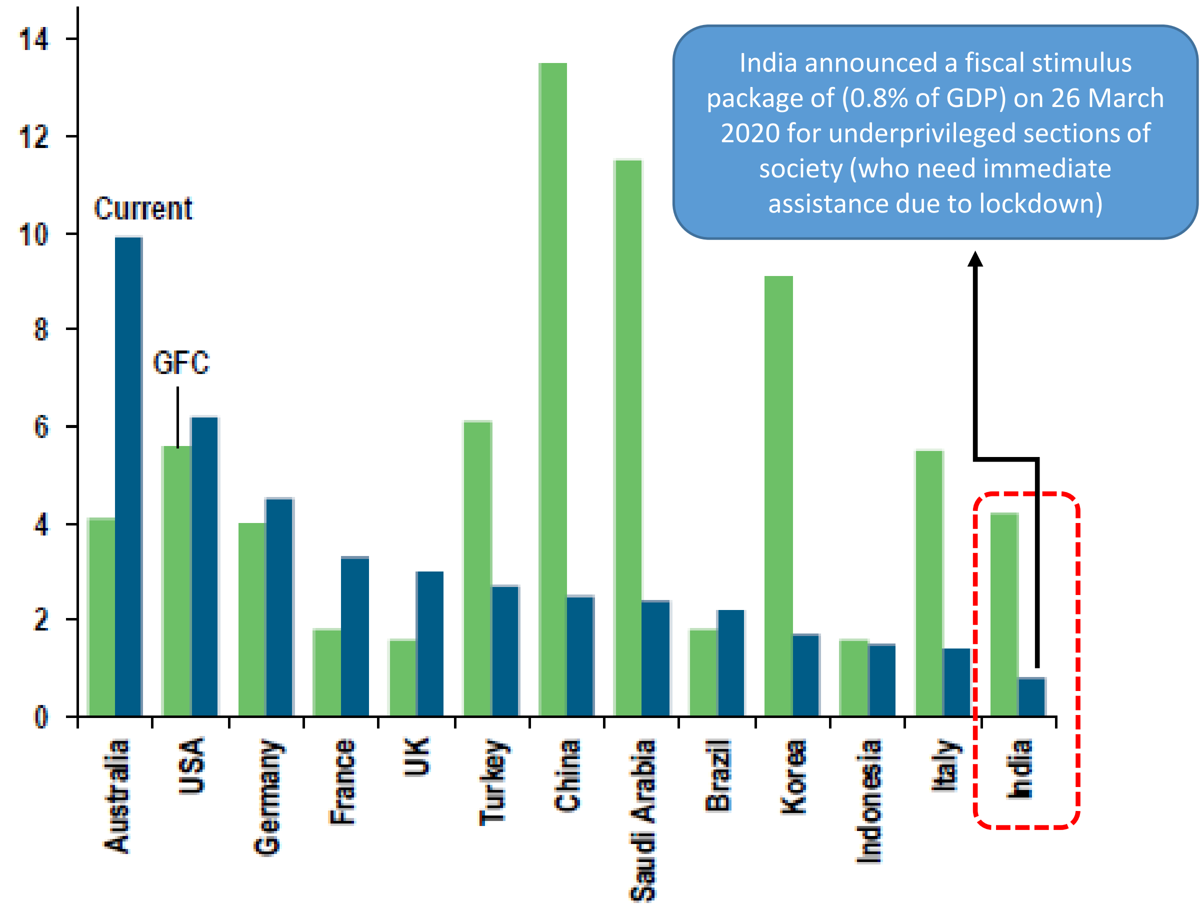
(%) FY starting April	Ann. Av.2014-18	FY18-19	FY19-20f	FY20-21f	FY21-22f
GDP	7.4	6.2	4.9	2.0	7.0

- The Coronavirus pandemic is causing lock-downs around the world—which will hamper economic activity significantly.
- As per Fitch Ratings, global growth is expected to contract at almost the same pace as during the global financial crisis (GFC) of 2008-09, but expected to recover strongly in 2021.
- As per Fitch Ratings, India's GDP growth rate is projected to slowdown to ~2% in FY21 from ~5% in FY20. However, GDP growth is expected to pick-up sharply to 7% in FY21.
  - The RBI & government have still not given revised projections for India's GDP growth, as its still a developing situation.
  - We feel that the magnitude of GDP growth slowdown in India will depend on how the outbreak pans out, and how long the lock-down continues.

Source: Fitch Ratings, Global Economic Outlook, April 2020

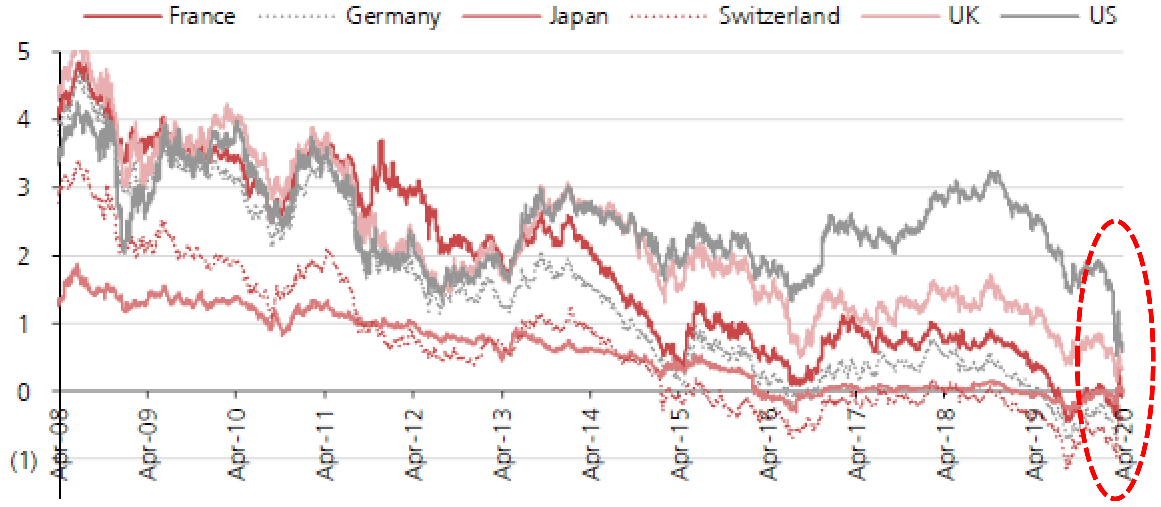
Massive fiscal & monetary stimulus announced around the world to deal with COVID-19 pandemic

Fiscal Stimulus – Country-wise (% of GDP) – 2020 VS GFC 2008-09
India lags presently vs GFC stimulus, but more stimulus expected gradually



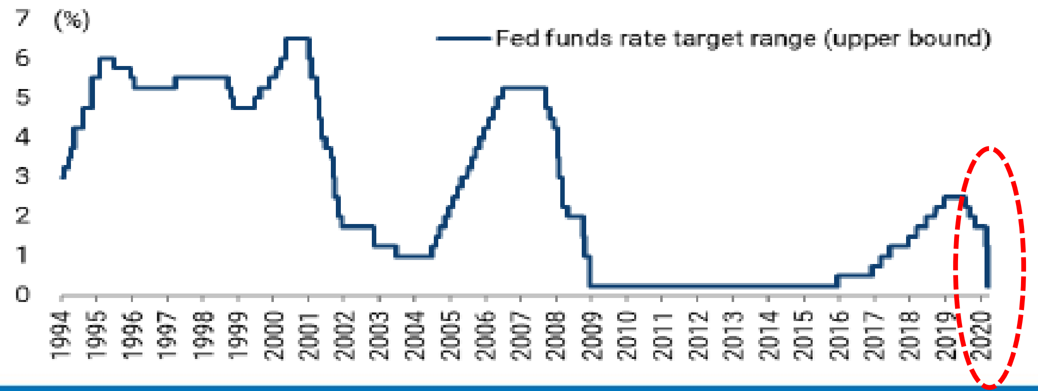
Source: Standard Chartered Bank, as of 6th April 2020

Global bond yields have fallen sharply due to monetary easing & risk aversion



Source: Kotak Institutional Equities. 10 year bond yields of various countries

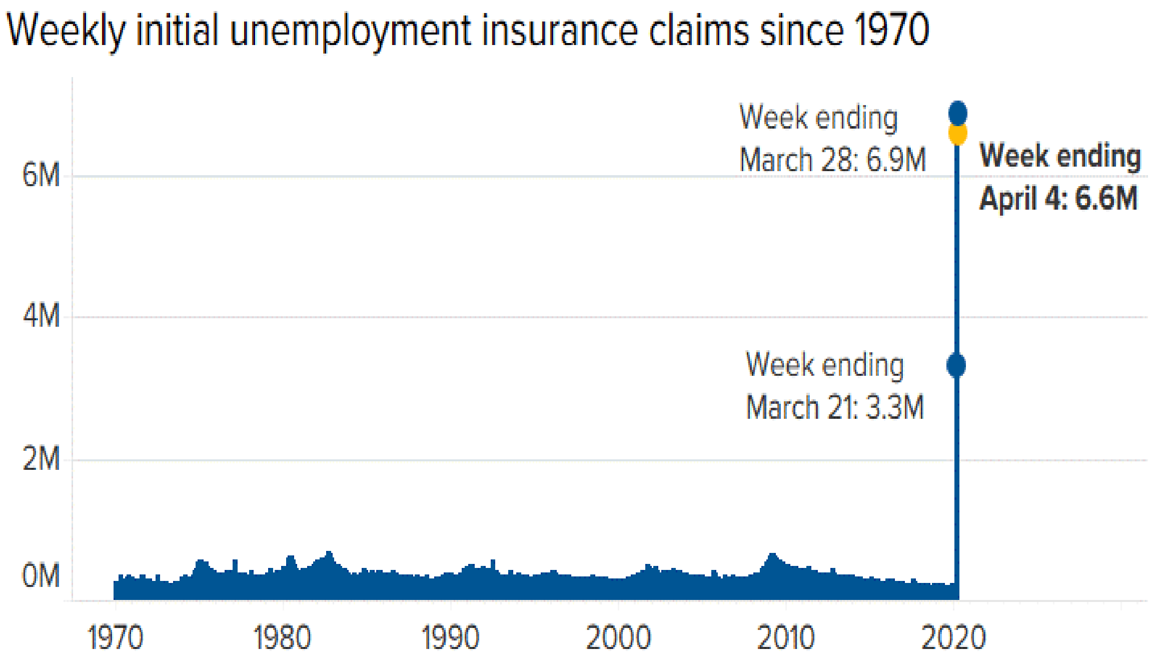
US Fed has cut rates to record low & other central banks are also engaging in large monetary easing



Source: US Fed, Jefferies

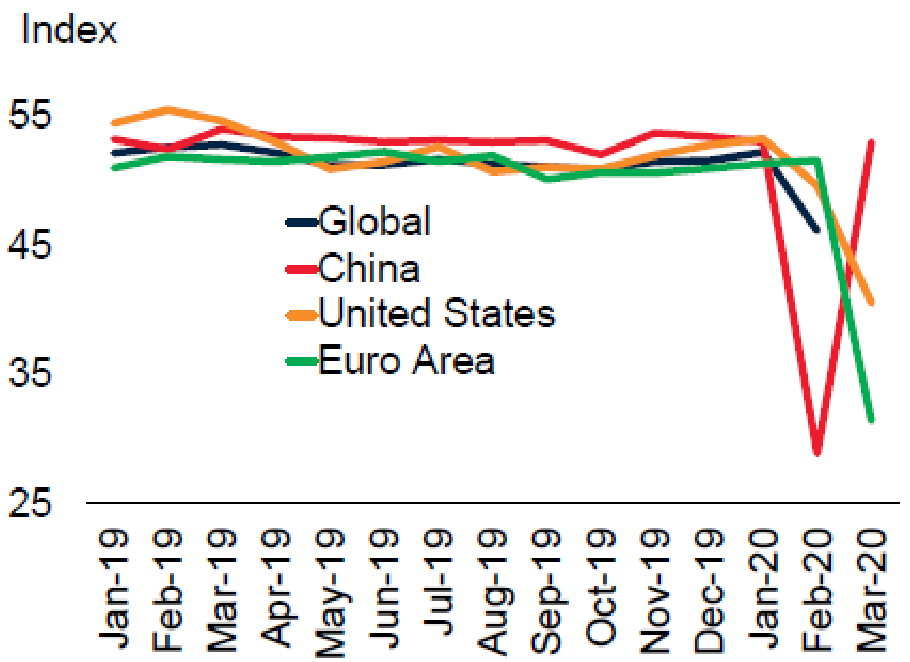
Due to lock-down US unemployment claims hit all-time high; Global PMIs plunge

US jobless claims hit record high in March amidst lock-down (~16.6 million claims in 3 weeks or ~10% of workforce)



Source: CNBC.com

Composite PMIs of major countries plunge due to lock-down & disruption in economic activity (PMI below 50 means contraction)



Source: World Bank Global Monthly, March 2020

India has been one of the bottom performing markets in this correction, while it has outperformed over the long term (10 years)

Performance of International Indices (ended March 2020, in %)						
Index Name	**Country / Region**	**2 Mths**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
Shanghai Composite	China	-7.6	-11.0	-5.1	-6.0	-1.2
Hang Seng	Hong Kong	-10.3	-18.8	-0.7	-1.1	1.1
FTSE Bursa Malaysia KLCI	Malaysia	-11.8	-17.8	-8.1	-5.9	0.2
MSCI Asia Ex Japan PR USD	Asia Ex Japan	-14.8	-15.6	-1.3	-1.0	1.4
TSEC TAIEX	Taiwan	-15.5	-8.8	-0.4	0.3	2.1
KOSPI	South Korea	-17.2	-18.0	-6.7	-3.0	0.4
Nikkei 225	Japan	-18.5	-10.8	0.0	-0.3	5.5
S&P 500 PR	US	-19.9	-8.8	3.0	4.6	8.3
MSCI EM PR USD	Emerging Mkts	-20.1	-19.8	-4.0	-2.7	-1.7
MSCI World PR USD	World	-20.9	-12.1	0.0	1.3	4.4
FTSE/SGX STI	Singapore	-21.3	-22.8	-7.9	-6.4	-1.5
FTSE 100 PR GBP	UK	-22.2	-22.1	-8.2	-3.5	0.0
FSE DAX TR	Germany	-23.5	-13.8	-6.9	-3.7	4.9
JSX Composite	Indonesia	-23.6	-29.8	-6.6	-3.8	5.0
CAC 40	France	-24.3	-17.8	-5.0	-2.7	1.0
FTSE SET All Share	Thailand	-26.1	-33.7	-12.0	-6.7	2.8
S&P/ASX 200 PR	Australia	-27.7	-17.9	-4.7	-2.9	0.4
IISL Nifty 50	**India**	**-28.1**	**-26.0**	**-2.1**	**0.3**	**5.1**
RTS RTSI PR USD	Russia	-33.1	-15.3	-3.1	2.9	-4.3
BOVESPA	Brazil	-35.8	-23.5	4.0	7.4	0.4

Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of 2 month return in descending order

- **Over the past 2 months (market correction)**
  - Global markets have seen a sharp & swift correction due to Covid-19 pandemic concerns & massive risk aversion.
  - India has been among the bottom performing markets in this correction along with other emerging markets like Brazil & Russia.
  - China has actually been an outperformer, falling significantly less, as Covid-19 cases have significantly declined the, lock-down has been removed, and economy has opened up gradually.
    - However, China has been a significant underperformer over the long term (10 yrs)
- Over the long term (10 years) Indian market has outperformed relatively

Crude oil prices have plunged due to Covid-19 pandemic & price war between Saudi Arabia & China; will be beneficial for India

Brent Crude Price ($ / bbl)

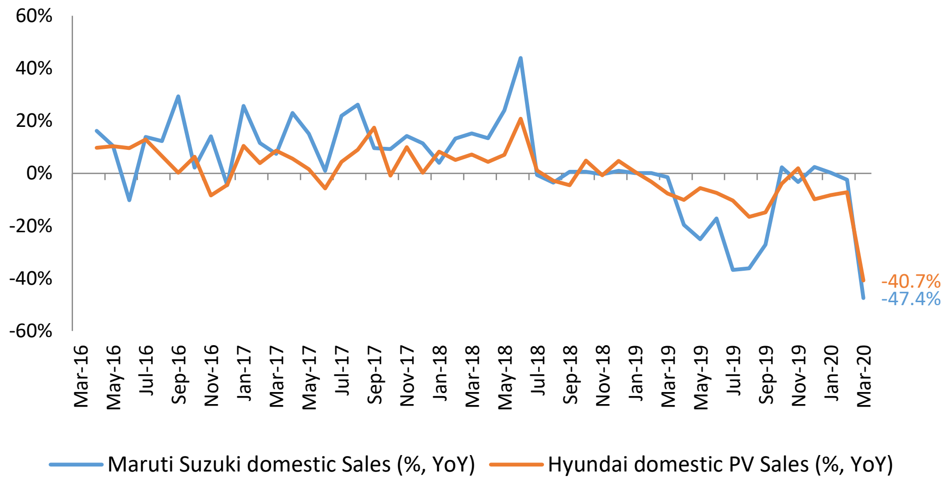
Source: Bloomberg

- Crude prices crashed due to Coronavirus concerns of impact on global growth & crude demand, and also due to the price war between Saudi Arabia and Russia (as they increased crude production).
- Brent crude price fell by around 55% to close the month of March at $22.7/bbl (around 18 year low). Post the close of the month prices, have risen in early April on expectations of some agreement between Saudi Arabia & Russia, and various stimulus packages worldwide.
- Sharp fall in crude prices is beneficial for a net oil importing country like India, where crude oil accounts for a large part of our imports, and will help to improve our current account balance.
  - ➢ India imports ~1.3 billion barrels of crude every year, so a $30/barrel fall in crude price will result in an annual savings of ~$39 billion.

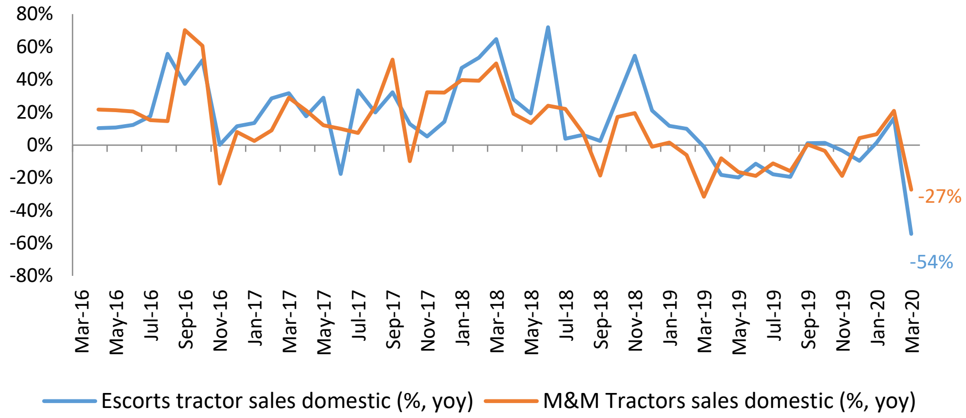
Domestic Macro & Market Overview

High Frequency Indicators: Auto sector sales weaken amidst the lock-down

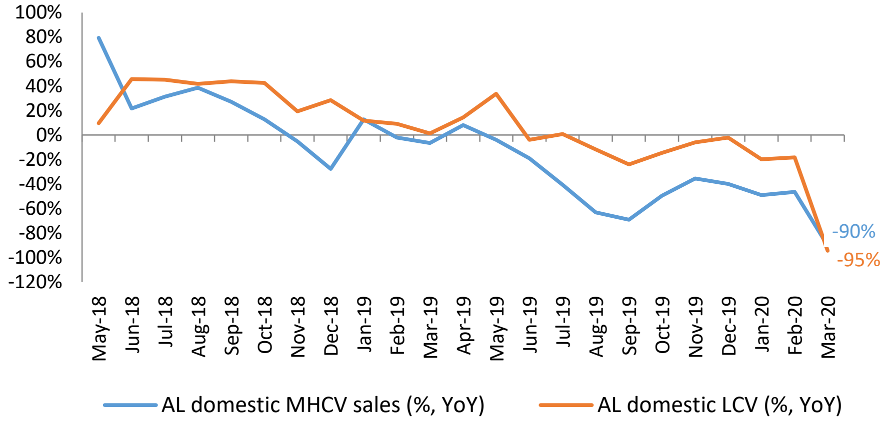
Monthly Passenger Vehicles Sales Growth (%, YoY)



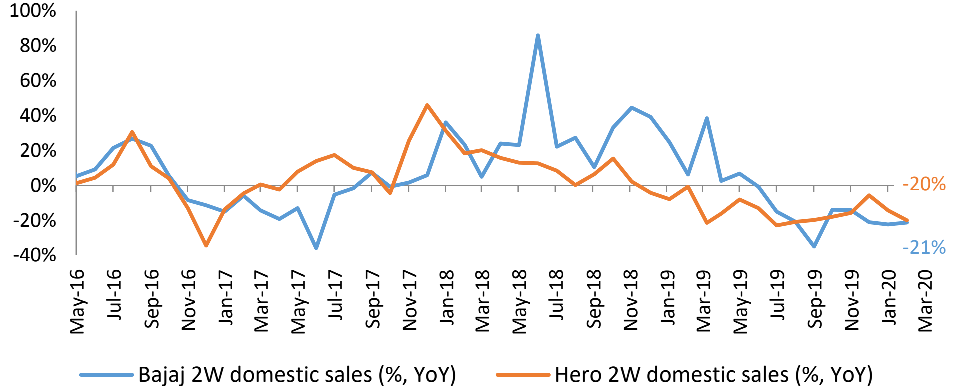
Monthly tractors Sales Growth (%, YoY)



Monthly Commercial Vehicles Sales Growth (%, YoY)



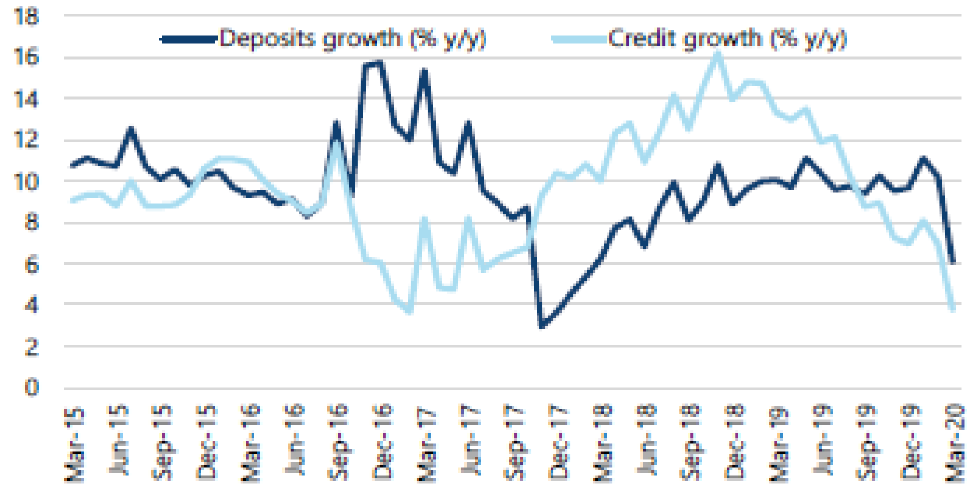
Monthly 2W Sales Growth (%, YoY)



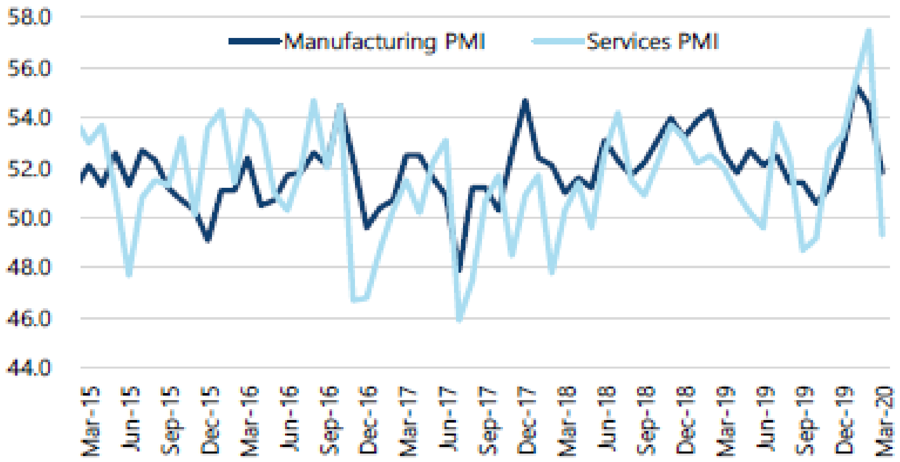
Source: SIAM, Spark Capital. LCV – Light Commercial Vehicle, MHCV = Medium & Heavy Commercial Vehicle. AL= Ashok Leyland

High Frequency Indicators: Bank credit growth, PMI data & unemployment deteriorates. Inflation subsides

Bank credit growth continues to fall



Services & Manufacturing PMI falls sharply in March (PMI less than 50 means contraction)



Inflation subsides due to fall in food inflation & RBI expects it to fall to 4.4% in Q2 FY21 and further through the year

% y-o-y	Weight (%)	Dec-19	Jan-20	Feb-20
Headline CPI	**100.0**	**7.4**	**7.6**	**6.6**
1 Food	39.1	14.2	13.6	10.8
2 Intoxicants	2.4	3.4	3.7	0.0
3 Beverages	1.3	1.5	2.1	2.2
4 Prepared meals	5.6	2.2	2.6	2.7
5 Fuel	6.8	0.7	3.7	6.4
6 Clothing	6.5	1.5	1.9	0.0
7 Housing	10.1	4.3	4.2	0.0
8 Miscellaneous	28.3	4.2	4.7	4.5

CMIE India unemployment rate spikes to ~23% vs 6-8% pre-Covid 19, due to lock-down

Source: Bloomberg, Nomura, Jefferies, CMIE

Domestically, broader markets (mid/small-caps) and sectors like realty, auto, metals & banking underperformed during the correction. Defensive sectors like FMCG, pharma & IT outperformed

Performance of Domestic Indices as of March 2020 (in %)		
Index Name	**2 months**	**1 Year**
S&P BSE FMCG	-11.9	-12.7
S&P BSE Healthcare	-13.0	-15.7
S&P BSE IT	-19.1	-16.0
S&P BSE Consumer Durables	-25.9	-18.8
S&P BSE Power	-27.4	-32.3
S&P BSE Oil and Gas	-28.0	-34.4
IISL Nifty 50	-28.1	-26.0
IISL Nifty 500	-29.0	-27.6
S&P BSE Dollex India	-32.4	-32.7
IISL Nifty Midcap 50	-35.3	-37.4
S&P BSE Capital Goods	-37.1	-40.6
S&P BSE BANKEX	-37.5	-35.4
S&P BSE Metal	-39.8	-49.7
S&P BSE Auto	-40.8	-42.9
IISL NIFTY Smallcap 100	-42.3	-46.1
S&P BSE Realty	-46.4	-34.8

Source: Morningstar Direct. Data sorted in descending order on the basis of 2 mths return

This was one of the swiftest / fastest corrections in Indian markets; Historically corrections took & lasted longer

	1998	2001	2008	2020
Peak Date	Aug-97	Feb-00	Jan-08	Jan-20
Trough Date	Oct-98	Sep-01	Oct-08	Mar-20
BSE Sensex Peak	4,605	6,150	21,207	42,274
BSE Sensex Trough	2,741	2,613	7,697	25,881
Peak to Trough Decline	-40%	-58%	-64%	-39%
Days taken to complete decline	443	589	291	63
Average daily decline	0.09%	0.10%	0.22%	0.62%

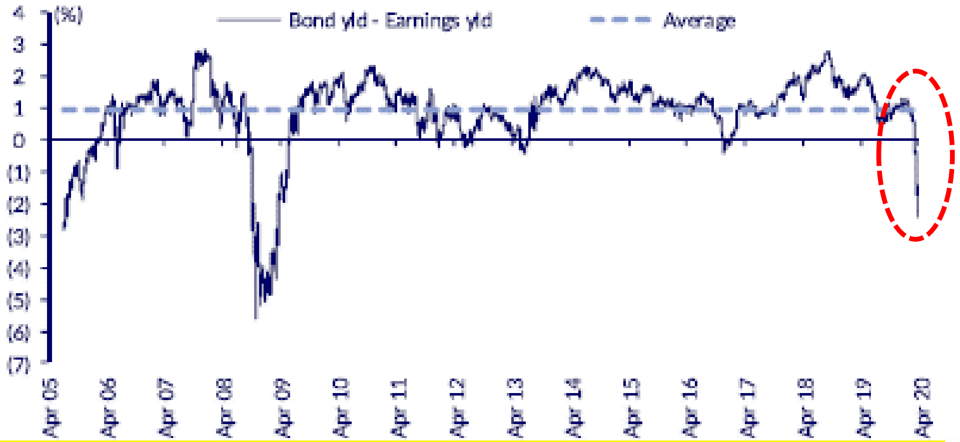
Note: Sensex Trough for 2020 has been taken as March 2020. It remains to be seen if that remains as the trough / bottom. Past performance is not an indicator of future performance

With the sharp market correction, market valuations have become quite attractive—as indicated by various valuation indicators; but not at the low of global fin. crisis (GFC) of 2008-09

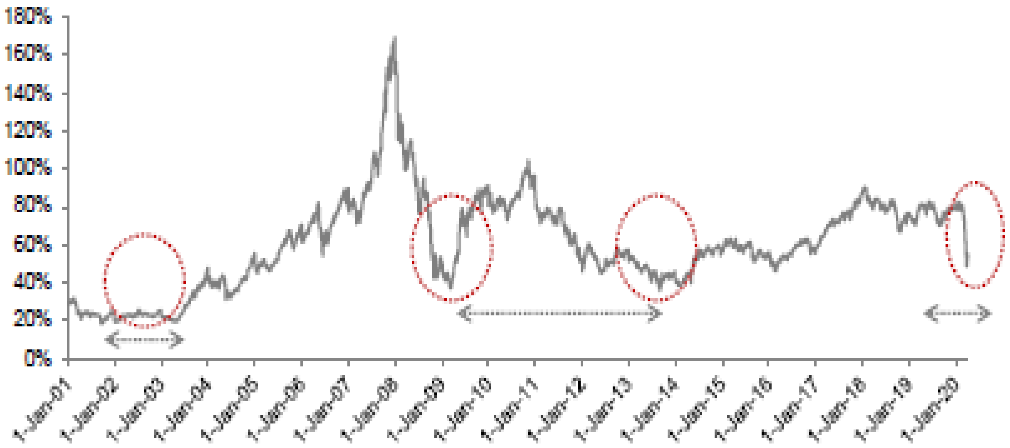
Nifty Forward P/E Ratio falls sharply

Nifty Trailing P/E Ratio also registers sharp cut

Bond yield – Equity Earnings yield Indicator is quite negative now, implying that equities are relatively more attractive



Market Cap to GDP ratio has fallen significantly



Source: Bloomberg, CLSA, Ambit

Past market corrections have been followed by robust returns; offers buying opportunity

Past Market Corrections (BSE Sensex Index) & Post Correction Returns

Year	Correction (%)	Post Correction Return (%)		
		6 Month	1 Year	3 Year
Global Correction (1986-88)	(40.8)	65.3	77.5	199.5
Gulf War/India Fiscal Crises (1990-91)	(39.3)	64.2	125.9	320.5
Harshad Mehta scam (1992-93)	(56.4)	36.6	89.5	90.2
Stock market tumble (1994-96)	(41.6)	42.3	30.0	73.8
97 Market Meltdown (1997-98)	(40.5)	24.3	74.5	11.7
Dot-com bubble (2000-01)	(57.1)	37.0	17.5	110.6
Dot-com bubble (2002)	(24.7)	3.8	66.4	171.7
Central Election Results (2004)	(32.4)	42.3	53.0	238.3
High Inflation (2006)	(30.6)	53.3	61.4	73.2
Financial Crisis (2008)	(63.7)	47.7	112.5	124.6
European sovereign debt crisis (2010-11)	(28.3)	11.6	28.5	80.8
Banking NPA Crises / Global Factors (2015-16)	(25.1)	24.0	27.8	59.4

Source: Bloomberg, Yes Securities. Returns are absolute. Past performance is not an indicator of future returns

- As the table indicates, past market corrections have been followed by robust returns.
- Therefore, historical data has shown that investments made in challenging/volatile times, has generally been quite rewarding for investors over the medium to long term.
- With the market correction, valuations have turned quite attractive, and the risk-reward / margin of safety for equities appears much more favourable at this juncture.
- Therefore, we feel this may offer some buying opportunity and long-term investors can start to gradually deploy money in equities & increase their equity exposure (as per their risk profile).
- We may see some more short-term market volatility (as COVID-19 cases continue to rise globally & in India). As we know, its difficult to predict the bottom & top of markets accurately. But the prudent thing is to at-least get started.

Rupee has weakened, but has fallen less than other emerging market currencies

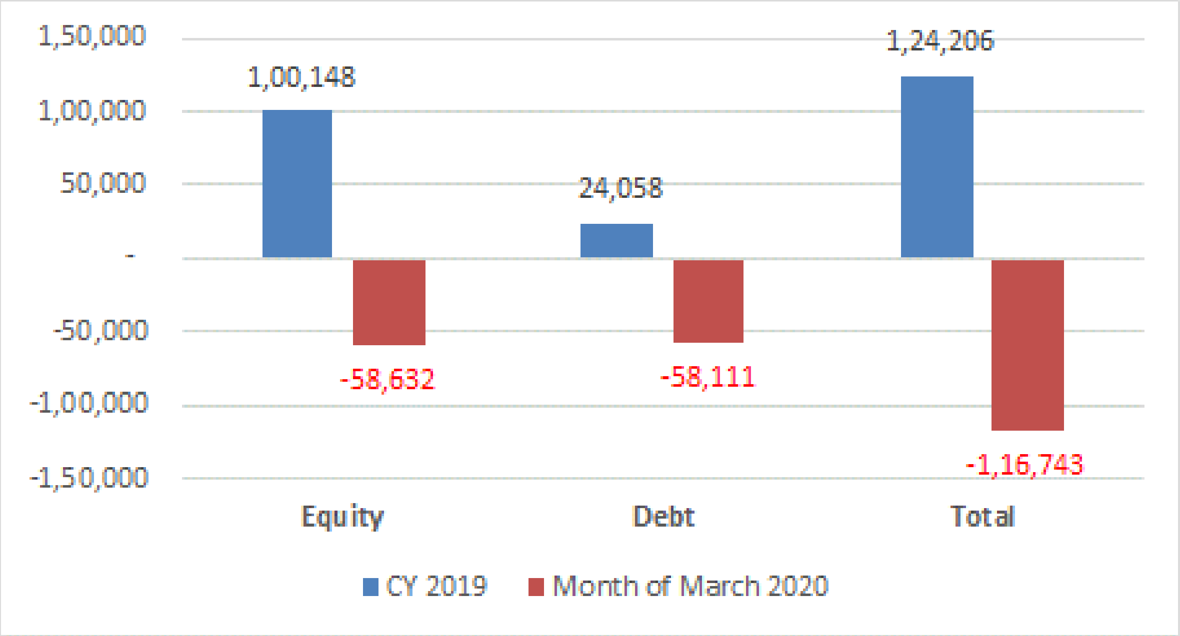
Performance of Various Currencies Vs USD (as of Mar 2020)				
Name	**3 mths**	**1 yr**	**3 yrs**	**5yrs**
Japanese Yen	0.7	2.5	1.1	2.1
Swiss Franc	0.1	2.9	1.1	0.1
Philippine Peso	-0.4	3.2	-0.5	-2.5
Chinese Yuan	-1.8	-5.3	-1.0	-2.7
Euro	-2.2	-2.3	0.9	0.4
Malaysian Ringgit	-5.3	-5.5	0.8	-3.0
Singapore Dollar	-5.6	-4.9	-0.6	-0.7
Indian Rupee	**-5.6**	**-8.4**	**-5.0**	**-3.7**
Pound Sterling	-6.4	-4.8	-0.3	-3.5
Pakistan Rupee	-6.8	-15.3	-14.2	-9.3
Thai Baht	-8.7	-3.3	1.5	-0.2
Turkish Lira	-9.7	-14.3	-17.9	-17.0
Australian Dollar	-12.9	-13.8	-7.1	-4.3
Indonesian Rupiah	-14.9	-12.7	-6.5	-4.3
Russian Ruble	-20.5	-15.9	-10.3	-5.7
South African Rand	-21.7	-19.3	-9.1	-7.5
Brazilian Real	-22.4	-25.0	-15.1	-9.2

Source: Morningstar Direct. Data sorted on the basis of 3 month Return.
Returns greater than 1 year are CAGR

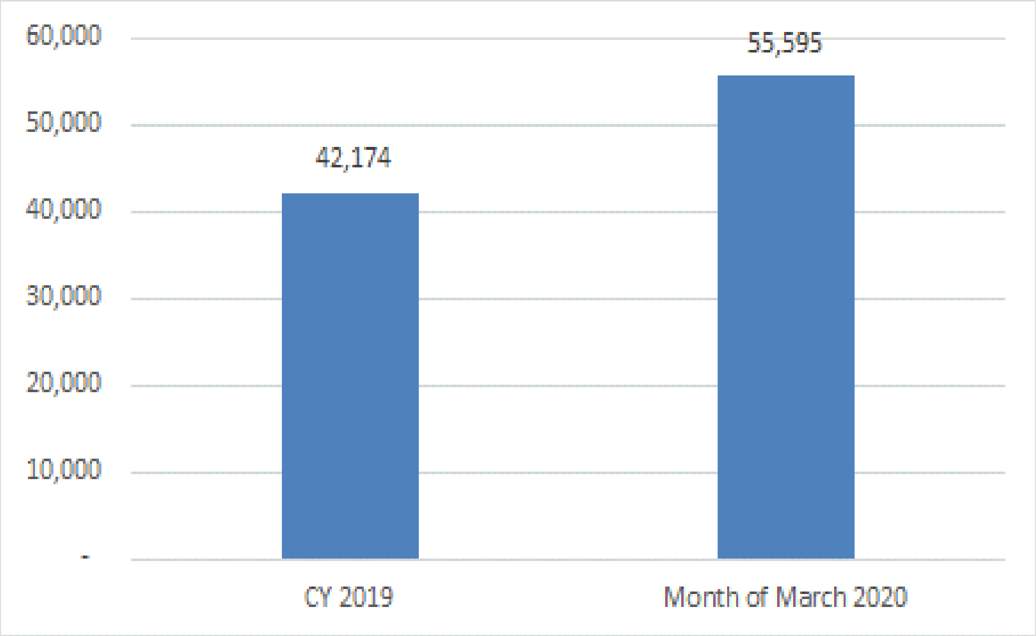
- The rupee depreciated on the back of large foreign portfolio outflows and global risk aversion.
- The rupee has weakened from around the INR 72/USD mark at the end of February 2020, and has breached the INR 76/USD mark (all-time low).
- However, if we compare with other emerging market (EM) currencies the rupee has fared better in CYTD20 (past 3 months).
  - ➢ E.g. EM currencies like Brazilian real, South African Rand and Russian Ruble have fallen by more than 20% (vs US dollar) over the same period.
- The rupee has also fared better than other peer EM currencies over the long term.
- India's forex reserves still are quite robust at ~$470 billion.

There have been large FPI outflows in the month of March, but DII inflows (MFs & Insurance) have countered FPI outflows

Foreign Portfolio Investor (FPI) Net Flows (Rs crores)



Domestic Institutional Investor (DII) Equity Net Flows (Rs crores)

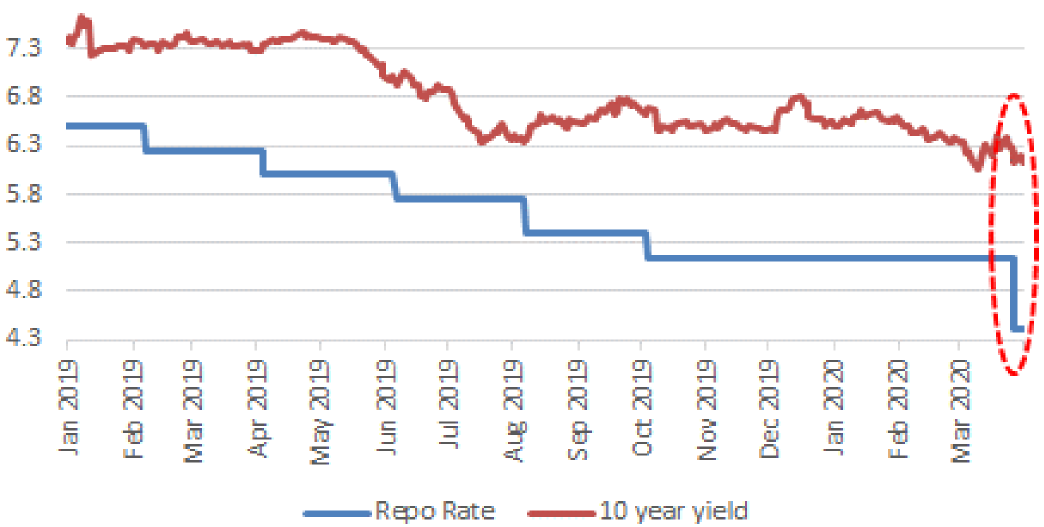


Source: NSDL, Axis Capital

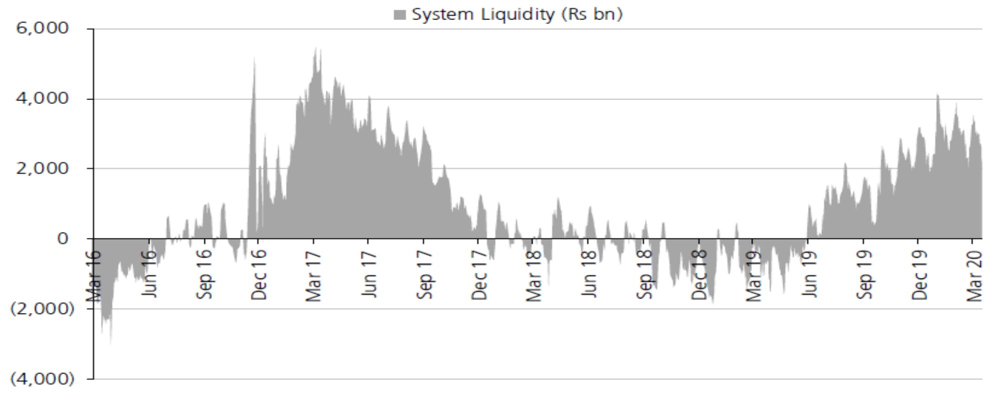
Debt Markets

RBI has done a large monetary stimulus; bond yields have softened but have been volatile

10 year G-Sec yield versus Repo Rate (%)



Net Liquidity in the system (Rs bln)



- The 10 year bond yield has softened this year, falling closer to the 6% mark at one point. However, concerns of large supply, fiscal slippage and FPI outflows have caused some hardening of bond yields lately.
- Liquidity in the system is quite comfortable at around Rs. 3-4 trillion presently.
- RBI pre-poned it April meeting and announced a large monetary stimulus on 27 March 2020. The key highlights are as follows:
  - Reduced policy repo rate by 75 bps to 4.4% and reverse repo rate by 90 bps to 4%. RBI has cumulatively cut policy repo rate by 210 bps this year.
  - CRR cut of 1% to 3% till 26 March 2021, and various other liquidity measures announced.
  - Targeted Long Term Repo Operations (TLTROs) of Rs 1 trillion - which banks could deploy in investment grade bonds and CPs. This will help to bring down corporate bond spreads which had widened sharply earlier.
  - The various liquidity measures is expected to infuse liquidity of Rs. 3.7 trillion into the banking system as per the RBI.
  - 3 month moratorium on payment of instalment on term loans sanctioned by all lending institutions.
  - RBI indicated that there is space for more policy action, if the situation demands, and it will be data-dependent.

Source: Bloomberg

Market Outlook & Strategy

Significant economic slowdown & earnings downgrade expected	• Due to lock-downs economic activity will be hampered substantially. So there is possibility of a global recession and significant growth slowdown in India as well this year. • Its difficult to predict the exact impact on corporate earnings growth (as it's a developing situation), but we are likely to see significant downward revision in earnings going forward.
Valuations are quite attractive, presenting a buying opportunity	• With the market correction, valuations have become quite attractive, and risk-reward for equities is looking much more favourable now. • We have been recommending investors to gradually deploy money in equities amidst this correction & increase their equity exposure (as per their risk profile).
Difficult to time the market bottom	• As we know it's difficult to time the market bottom. We could still see some short-term market volatility if COVID-19 cases continue to escalate. • However, historical data shows that investment made in past market corrections have been generally been rewarding for investors over the medium to long term.
Equity Investment Strategy	• We continue to prefer large-caps, but investors can also consider some partial allocation to mid-cap segment, due to their attractive valuation—but note that they are generally more volatile
Debt Markets & Strategy	• RBI has indicated that there is space for more monetary action, if the situation demands. • We currently prefer the shorter to medium term part of the yield curve.
Factors to watch out for	• The trajectory of COVID-19 cases globally & India and if the lock-down is extended. Trajectory of global growth & other economic data. More fiscal stimulus or other measures to be announced by the government. Global monetary policy, flows & risk appetite.

THANK YOU

Bajaj Allianz Life Insurance Co. Ltd., Regd. Office Address: Bajaj Allianz House, Airport Road, Yerawada, Pune – 411006, IRDAI Reg. No: 116, CIN : U66010PN2001PLC015959, Mail us : customercare@bajajallianz.co.in, Call on : Toll free no. 1800 209 7272/ Fax No: 02066026789