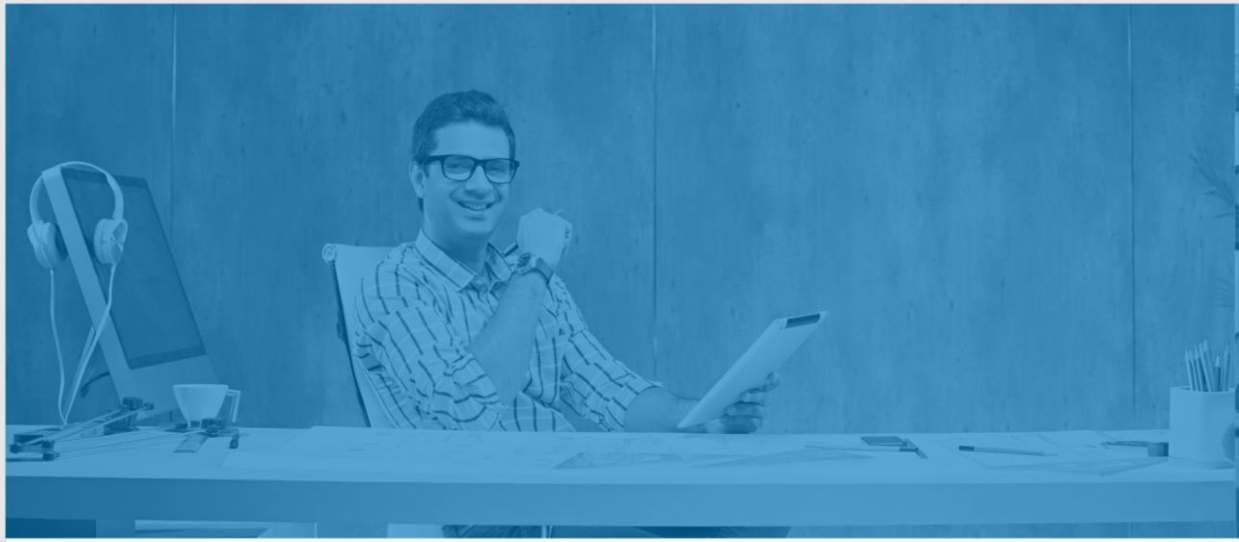
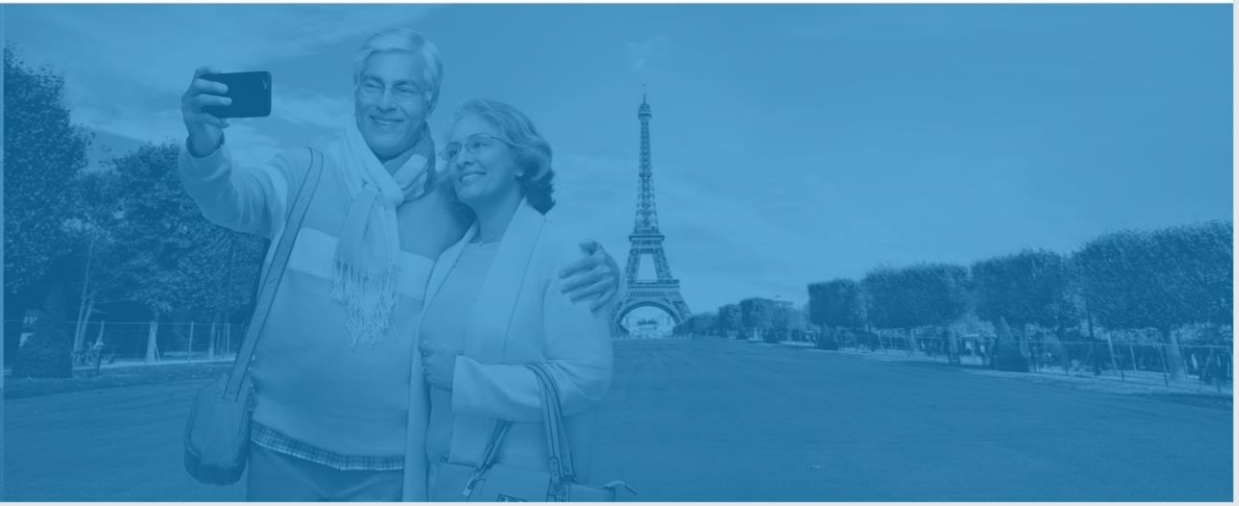


An Update on COVID-19 Impact on Macros & Markets

May 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, although some opening-up being seen in a calibrated manner

India COVID-19 cases have also risen, but not as exponentially as some of the more sensitive countries. Fatality rates remain in control so far at ~3-4% at national level. India has been on national lock-down since 24th March, and recently lock-down got extended to 18th May, but with calibrated opening of certain parts of economy.

Sharp & swift correction in global markets, followed by a swift partial recovery

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

A global recession on the cards

Sharp correction in crude prices (WTI crude turned negative due to anomaly). Sharp fall in global bond yields

COVID-19 impact on global growth: The worst global recession since the Great Depression & India growth also expected to slow-down significantly

IMF- Global GDP growth forecast (in %)

		Projections	
	2019	2020	2021
World Output	**2.9**	**–3.0**	**5.8**
Advanced Economies	**1.7**	**–6.1**	**4.5**
United States	2.3	–5.9	4.7
Euro Area	1.2	–7.5	4.7
Germany	0.6	–7.0	5.2
France	1.3	–7.2	4.5
Italy	0.3	–9.1	4.8
Spain	2.0	–8.0	4.3
Japan	0.7	–5.2	3.0
United Kingdom	1.4	–6.5	4.0
Canada	1.6	–6.2	4.2
Other Advanced Economies[2]	1.7	–4.6	4.5
Emerging Market and Developing Economies	**3.7**	**–1.0**	**6.6**
Emerging and Developing Asia	5.5	1.0	8.5
China	6.1	1.2	9.2
India[3]	4.2	1.9	7.4
ASEAN-5[4]	4.8	–0.6	7.8
Emerging and Developing Europe	2.1	–5.2	4.2
Russia	1.3	–5.5	3.5
Latin America and the Caribbean	0.1	–5.2	3.4
Brazil	1.1	–5.3	2.9
Mexico	–0.1	–6.6	3.0
Middle East and Central Asia	1.2	–2.8	4.0
Saudi Arabia	0.3	–2.3	2.9
Sub-Saharan Africa	3.1	–1.6	4.1
Nigeria	2.2	–3.4	2.4
South Africa	0.2	–5.8	4.0

- The IMF said that global economy is expected to see the worst recession since the Great Depression, with global GDP growth expected to contract by 3.0% in CY2020, but expected to recover to +5.8% in CY2021.
- The contraction in global economy is to be led by advanced economies and the US economy is expected to de-grow by 5.9% in CY2020. Emerging markets are expected to contract by 1% in 2020.
- India is expected to grow at 1.9% in FY21, but growth is expected to pick-up to 7.4% in FY22. However, post the release of the report, once the lockdown in India was extended, some other agencies/brokerages have cut India's growth forecast for FY21 to flat or negative.
- GDP growth rates of major economies have registered a sharp correction in Q1 CY20, as a result of the Covid-19 pandemic & lockdown. In Q1, US GDP contracted by 4.8%, Eurozone GDP contracted by 3.8% while China GDP fell by 6.8%.

Source: IMF World Economic Outlook, April 2020

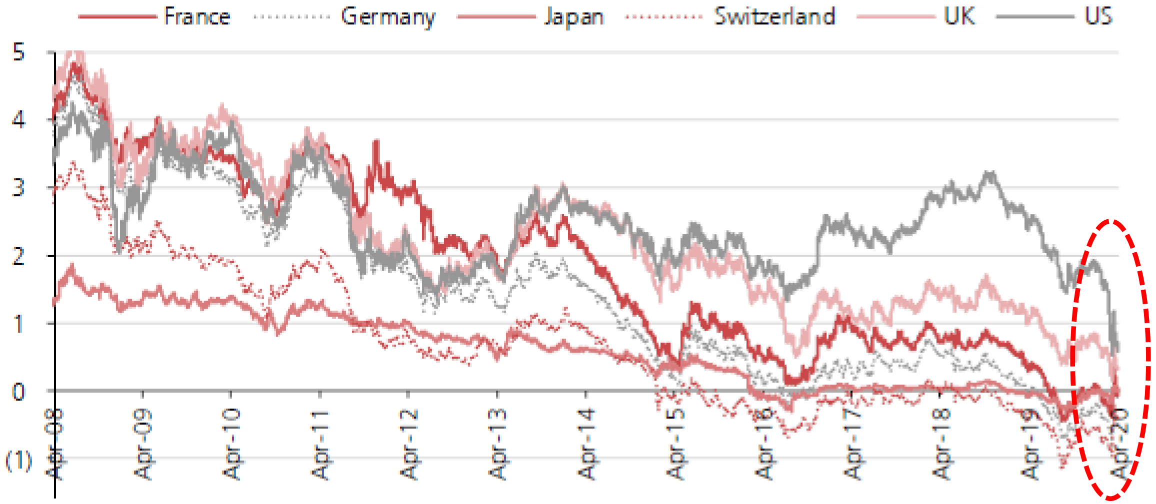
Massive fiscal & monetary stimulus announced around the world to deal with COVID-19 pandemic

COVID-19 Global Fiscal Stimulus & Other Policy Measures (% of GDP). India lags presently with fiscal stimulus of ~0.7% of GDP, but more expected gradually

	Loan guarantees/loan supports		Non-financial corporate debt as % of GDP	% of loans covered by loan guarantees	Fiscal stimulus	
	Amount	As % of GDP			Amount	% of GDP
Eurozone	€200bn	1.7%	109%	2%	€340bn*	2.9%
France	€300bn	12.4%	155%	8%	€110bn	4.6%
Germany	€757bn-1.3trn	22%-38%	59%	51%	€132.5bn	3.9%
UK	£330bn	15.1%	82%	19%	£103.7bn	4.7%
Italy	€400bn	22.6%	69%	33%	€80bn?	4.5%
Spain	€100bn	8.0%	95%	8%	€18bn	1.4%
Japan	JPY45trn	8.1%	103%	8%	JPY25.7trn	4.6%
US	$2.3trn	10.7%	75%	14%	$2.2trn	10.3%

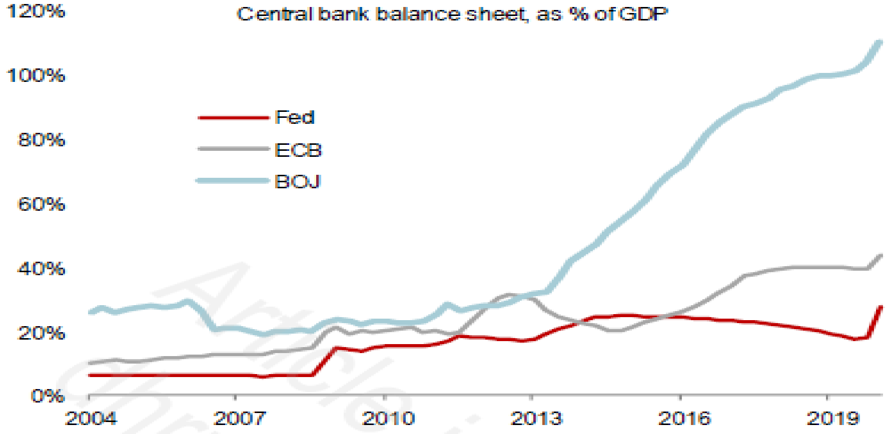
Source: Credit Suisse, as of 5th May 2020

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



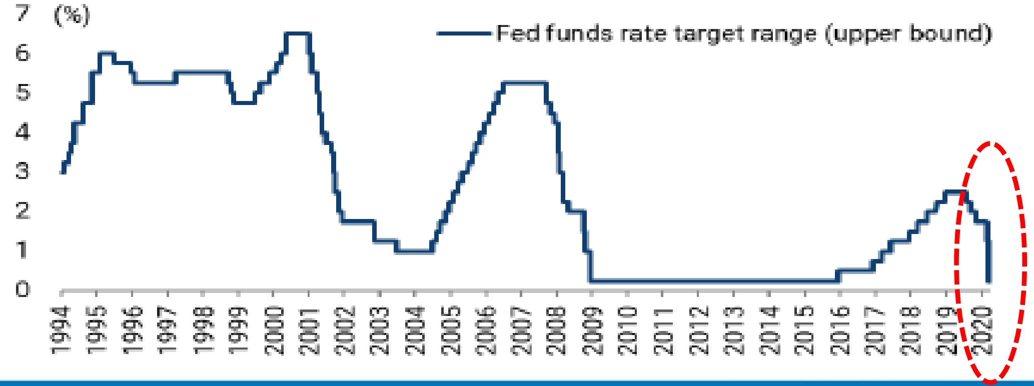
Source: Kotak Institutional Equities. 10 year bond yields of various countries

Global central bank balance sheets rising rapidly due to large monetary stimulus



Source: Credit Suisse

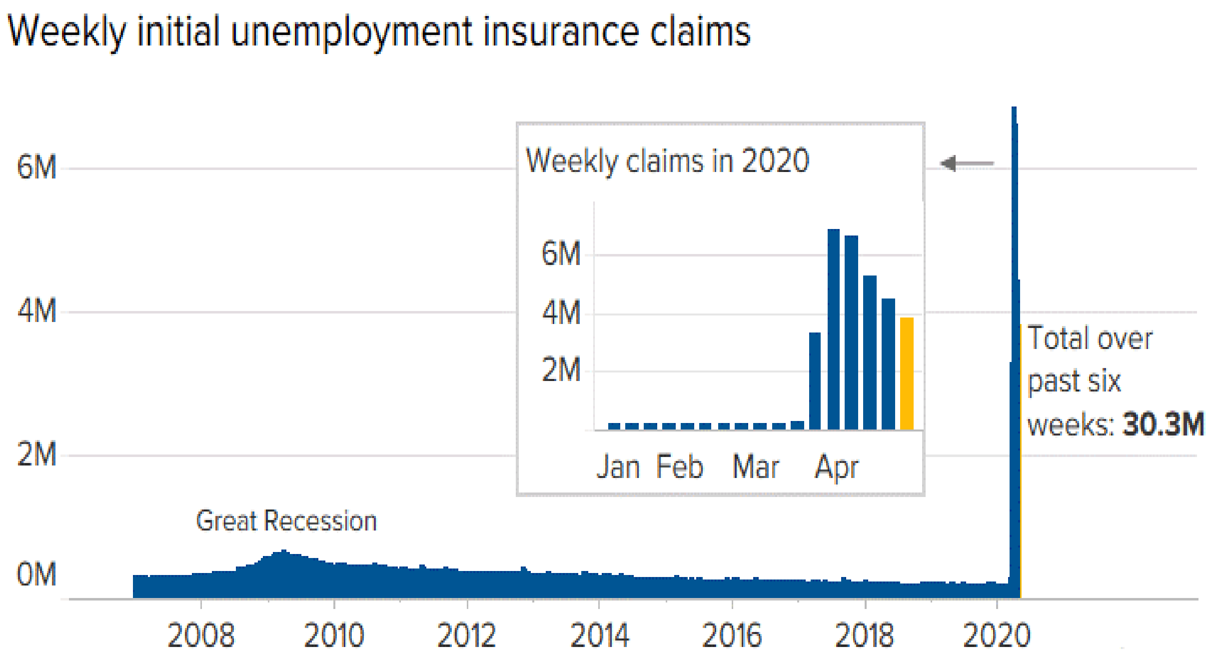
US Fed has cut rates to record low & other central banks are also engaging in large monetary easing



Source: US Fed, Jefferies

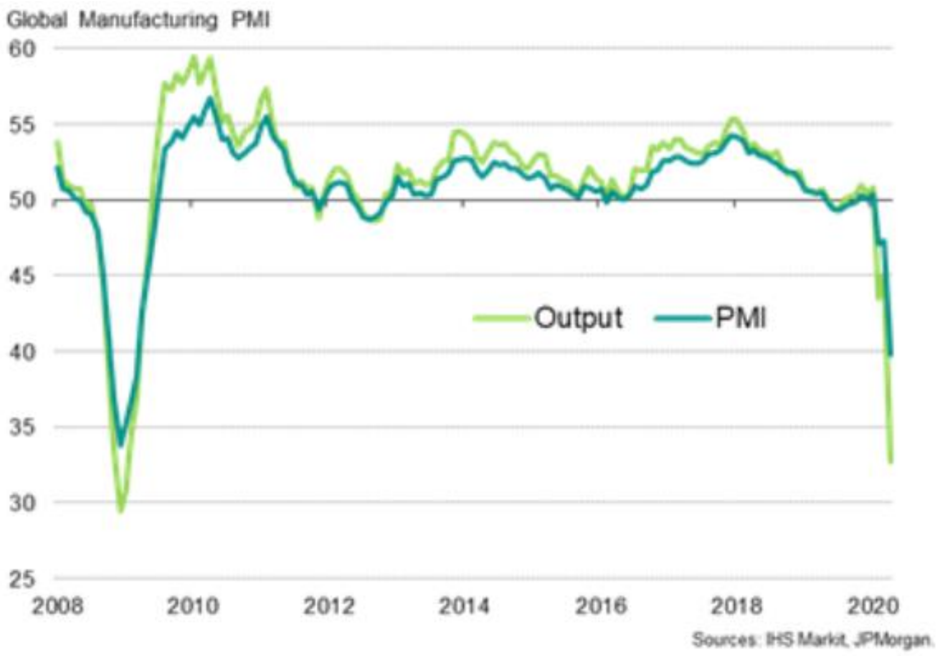
Due to lock-down US unemployment claims hit all-time high; Global Manufacturing PMIs plunge

US jobless claims hit record high of a cumulative 30 million in 6 weeks ended April 25. Unemployment rate expected to touch 15%.



Source: CNBC.com

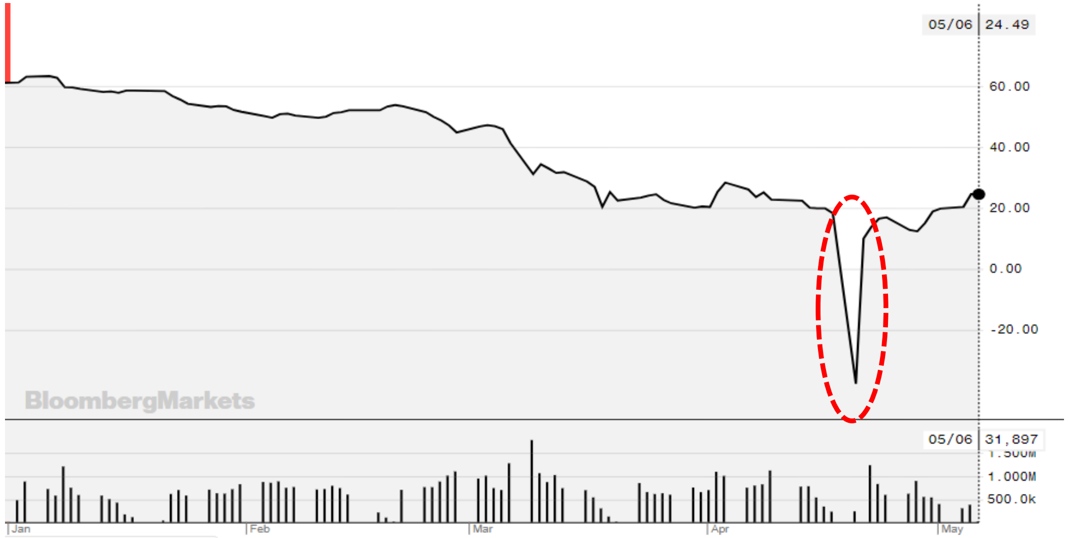
Global manufacturing PMI plunged to 11-year low in April due to lock-down (PMI below 50 means contraction)



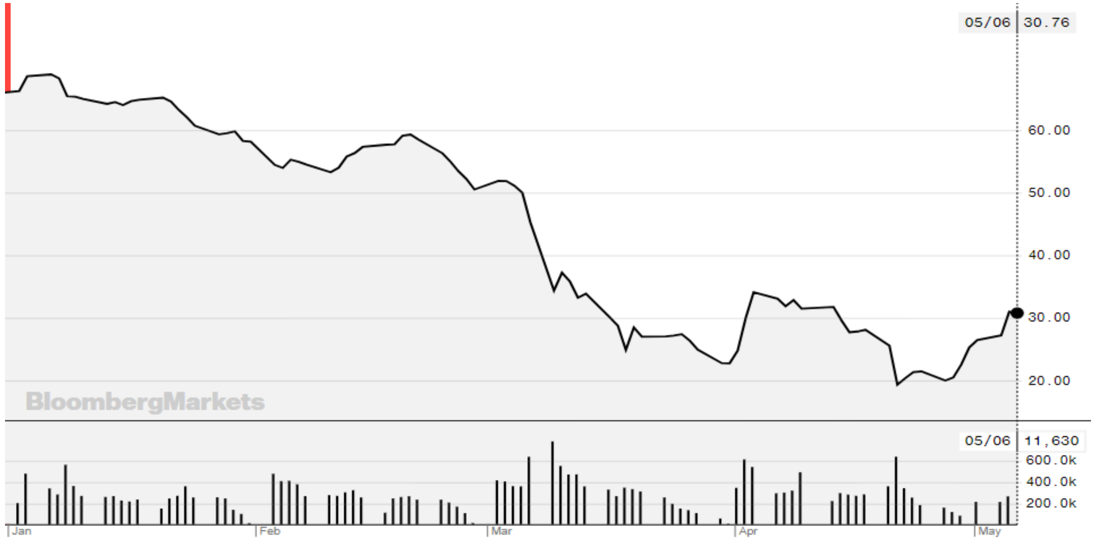
Source: IHS Market, JP Morgan

Crude oil prices plunged, with WTI Crude price turning negative at one point. However, later some recovery was seen in crude prices

WTI Crude Price ($ / bbl)



Brent Crude Price ($ / bbl)



- Crude prices crashed due to Coronavirus concerns of impact on global growth & crude demand, and also a price war.
- Crude saw an unprecedented move in the month of April with WTI crude price (in U.S) turning negative and touching a record low of (minus) $39/bbl. This was because WTI crude contract is settled through physical delivery (unlike Brent crude), and since US is land-locked and storage capacity was running out, investors sold the May WTI contract (which was due to expire) at a massive loss, so that they didn't have to take physical delivery. WTI crude recovered later.
- Brent crude did not see such price damage or prices turning negative, as it is globally traded, cash-settled, and storage is not land-locked. However, Brent crude price did fall from $22.7/bbl at the end of March to a low of ~$18/bbl (intra-month in April), before recovering some losses.
- 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.

Source: Bloomberg

Post the correction, India was among the top performing markets in April. It has also outperformed over the long term (10 years)

Performance of International Indices (ended April 2020, in %)							
Index Name	Country / Region	1 Mth	3 Mths	1 Yr	3 Yrs	5 Yrs	10 Yrs
IISL Nifty 50	**India**	**14.7**	**-17.6**	**-16.1**	**2.0**	**3.8**	**6.4**
FTSE SET All Share	Thailand	14.1	-15.7	-25.8	-7.8	-4.3	4.6
TSEC TAIEX	Taiwan	13.2	-4.4	0.2	3.6	2.3	3.2
S&P 500	United States	12.7	-9.7	-1.1	6.9	6.9	9.4
KRX KOSPI Korea	South Korea	11.0	-8.1	-11.6	-4.1	-1.7	1.1
RTS RTSI PR USD	Russia	10.9	-25.8	-9.9	0.3	1.8	-3.3
MSCI World PR USD	World	10.8	-12.4	-5.8	3.0	2.9	5.5
BOVESPA	Brazil	10.3	-29.2	-16.4	7.2	7.4	1.8
FSE DAX TR	Germany	9.3	-16.3	-12.0	-4.4	-1.1	5.9
MSCI EM PR USD	Emerging Mkts	9.0	-12.9	-14.3	-1.8	-2.5	-1.0
MSCI Asia Ex Japan PR USD	Asia Ex-Japan	8.9	-7.2	-9.7	0.9	-0.7	2.0
S&P/ASX 200	Australia	8.8	-21.3	-12.7	-2.3	-0.9	1.4
Nikkei 225	Japan	6.7	-13.0	-9.3	1.7	0.7	6.2
FTSE/SGX STI	Singapore	5.8	-16.8	-22.8	-6.2	-5.5	-1.2
Hang Seng	Hong Kong	4.4	-6.3	-17.0	0.0	-2.6	1.6
FTSE Bursa Malaysia KLCI	Malaysia	4.2	-8.1	-14.3	-7.3	-5.0	0.4
FTSE 100	UK	4.0	-19.0	-20.4	-6.4	-3.2	0.6
CAC 40	France	4.0	-21.3	-18.2	-4.6	-2.0	1.8
SSE Composite	China	4.0	-3.9	-7.1	-3.2	-8.4	0.0
JSX Composite	Indonesia	3.9	-20.6	-26.9	-6.0	-1.5	4.7

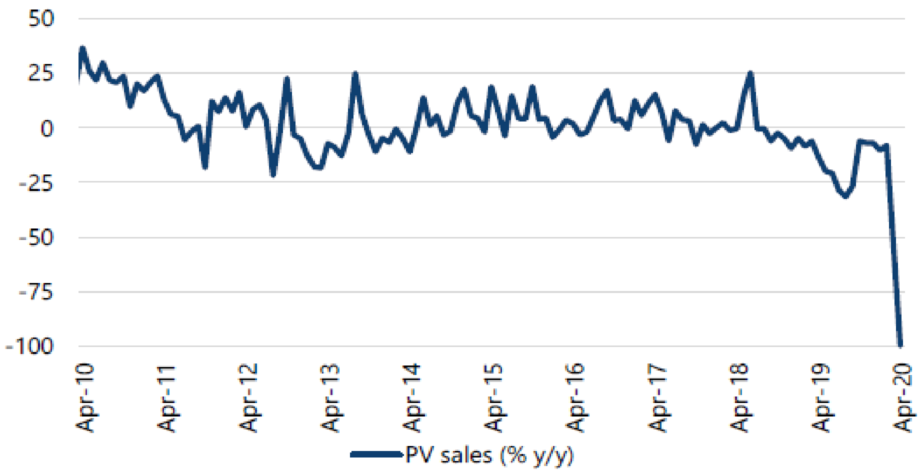
Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of 1 month return in descending order

- **After the sharp correction (in Feb – March 2020), global markets saw a strong rally in April**
  - India was one of the top performing markets globally in the month of April.
  - Within Asia, others markets like Thailand, Taiwan and South Korea also outperformed.
  - Both developed and emerging markets also fared well during the month.
  - China and Indonesia were among the bottom performing markets in April.
- Over the long term (10 years) Indian market has outperformed relatively. US has been one of the top performing markets.

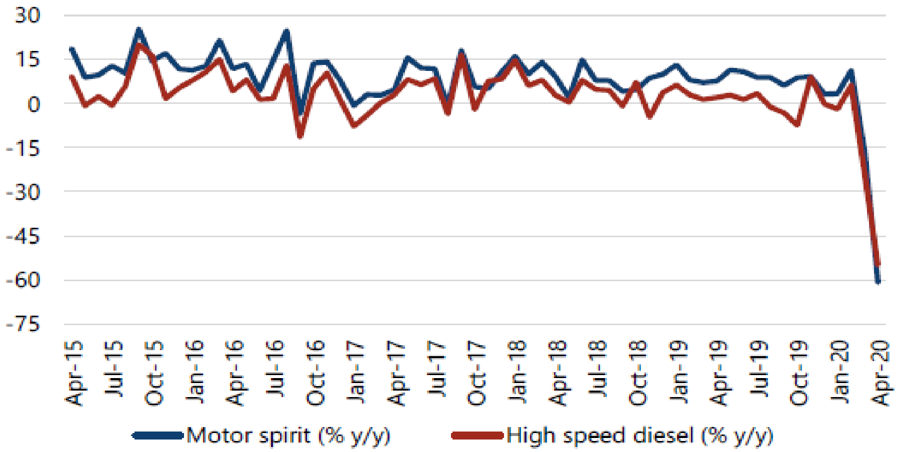
Domestic Macro & Market Overview

High Frequency Indicators: Auto sector practically saw no sales amidst the lock-down in April

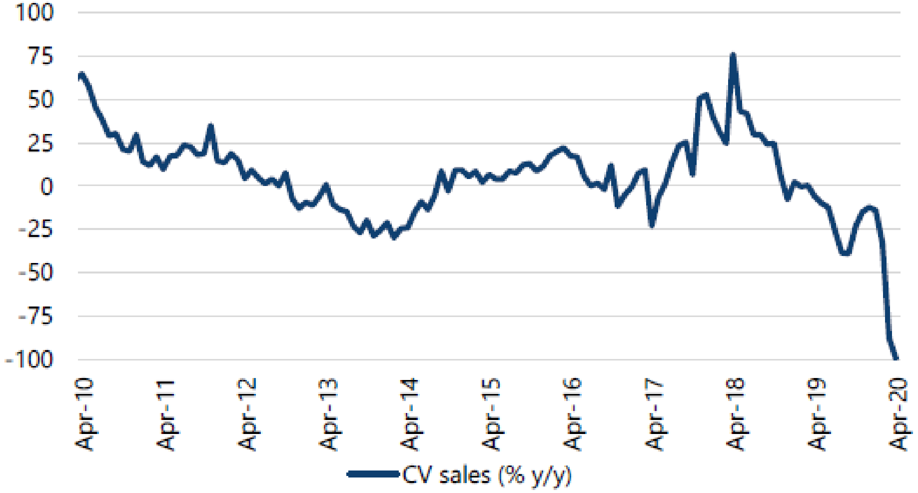
Monthly Passenger Vehicles Sales Growth (%, YoY)



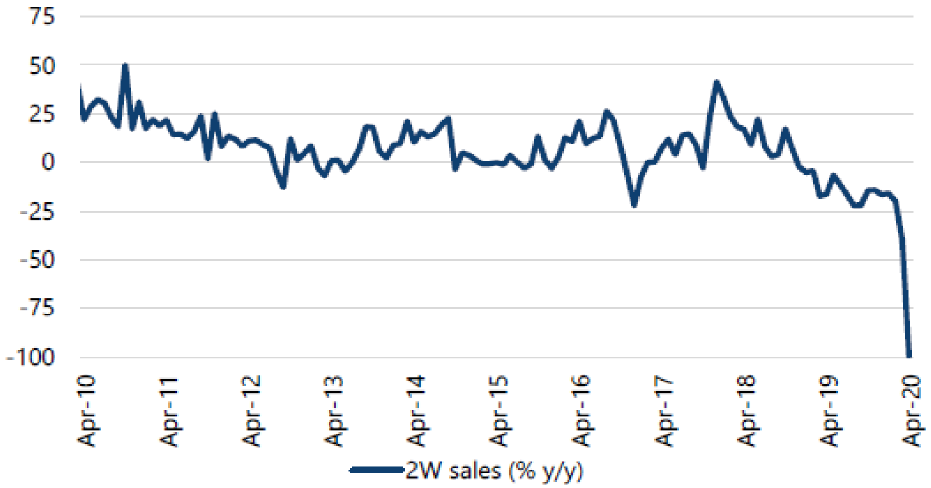
Petrol/Diesel consumption (% YoY) also plunged



Monthly Commercial Vehicles Sales Growth (%, YoY)



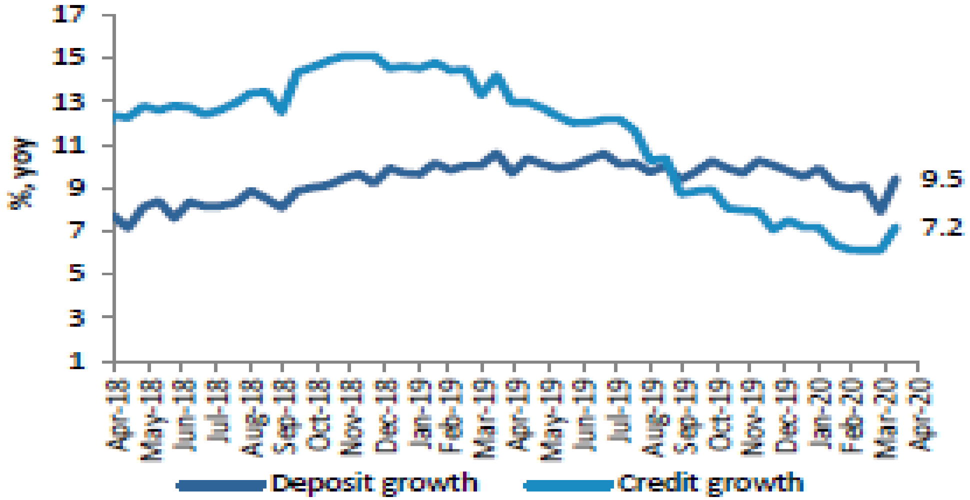
Monthly 2W Sales Growth (%, YoY)



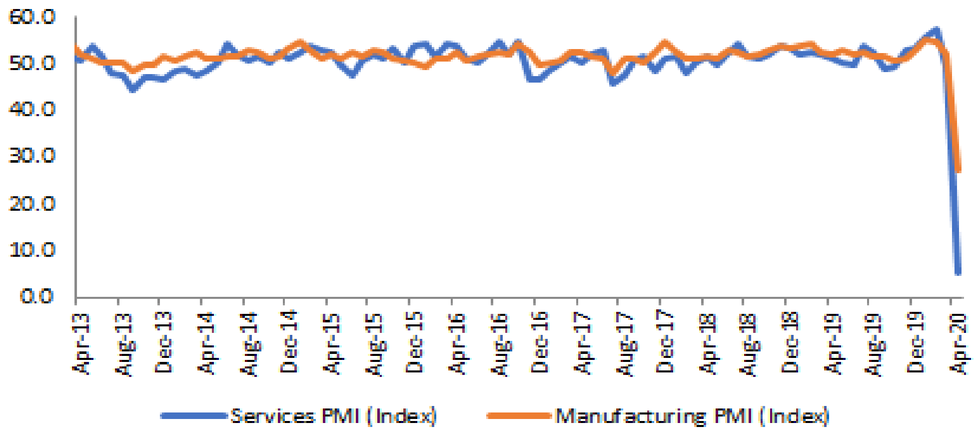
Source: SIAM, Jefferies

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

Bank credit growth has fallen sharply, but recovers marginally in April



Services & Manufacturing PMI plunges in April (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

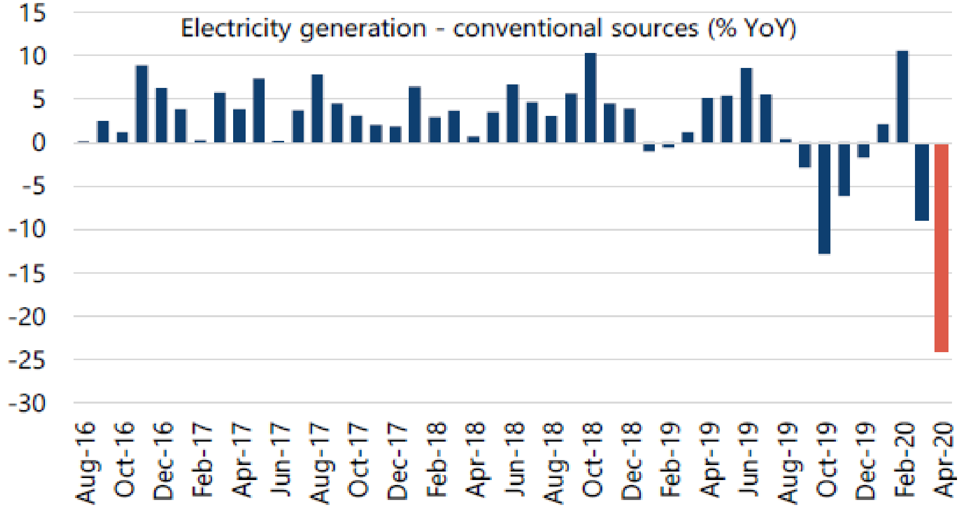
% y-o-y	Weight (%)	Jan-20	Feb-20	Mar-20
Headline CPI	**100.0**	**7.6**	**6.6**	**5.9**
Food	39.1	13.6	10.8	8.8
Intoxicants	2.4	3.7	4.1	4.7
Beverages	1.3	2.1	2.2	2.2
Prepared meals	5.6	2.6	2.7	2.8
Fuel	6.8	3.7	6.4	6.6
Clothing	6.5	1.9	2.0	2.1
Housing	10.1	4.2	4.2	4.2
Miscellaneous	28.3	4.7	4.5	4.4

CMIE India unemployment rate spikes to ~27% in early May due to lock-down. ~12 crore people unemployed

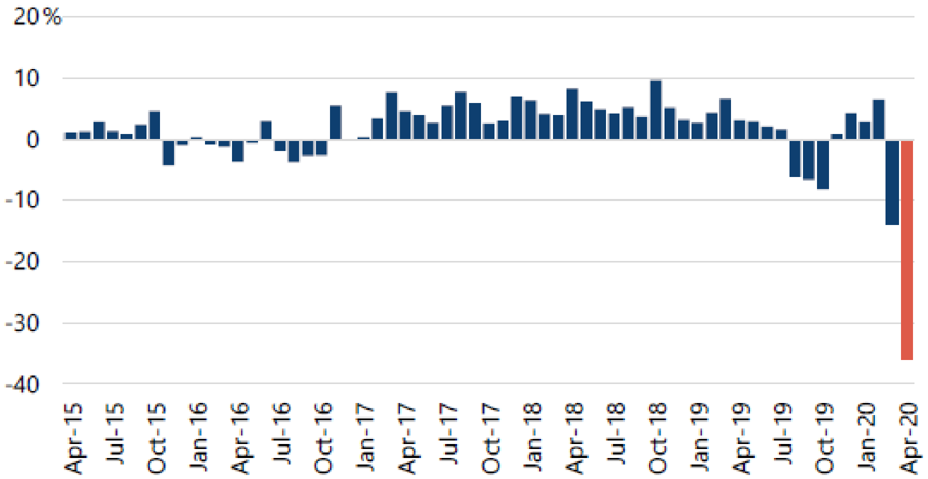
Source: Bloomberg, Nomura, Jefferies, CMIE

High Frequency Indicators: Other indicators like electricity generation, rail freight, steel consumption & core IIP also deteriorate significantly

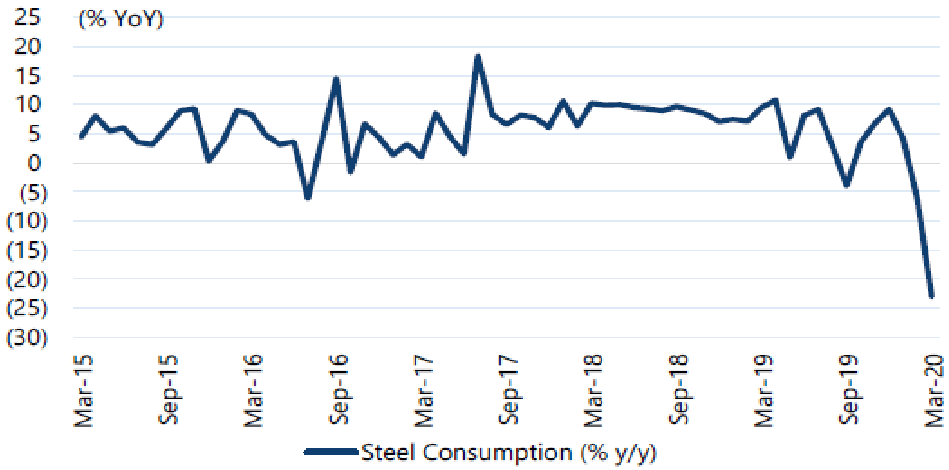
Electricity Generation (% YoY)



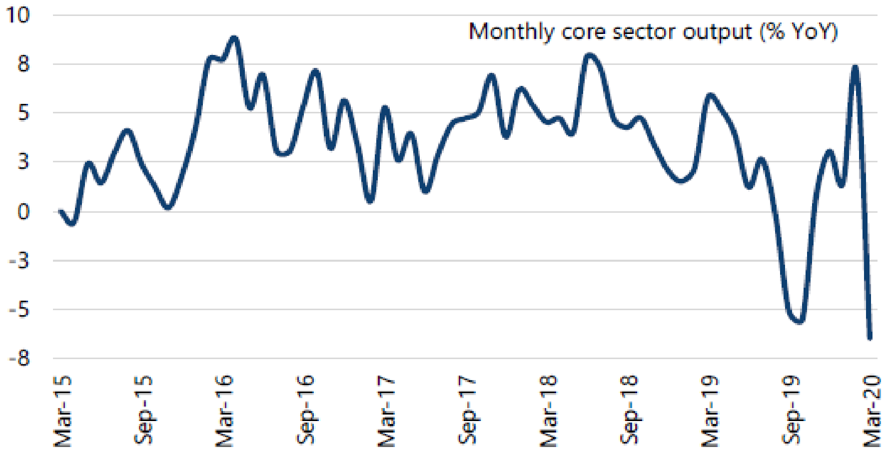
Rail Freight Traffic (% YoY)



Steel Consumption Trend (% YoY)



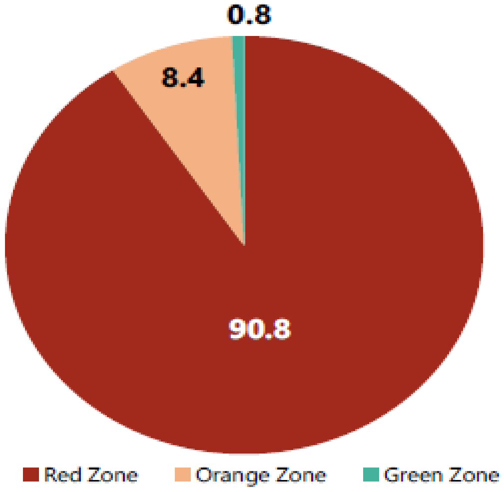
Core IIP Trend (% YoY)



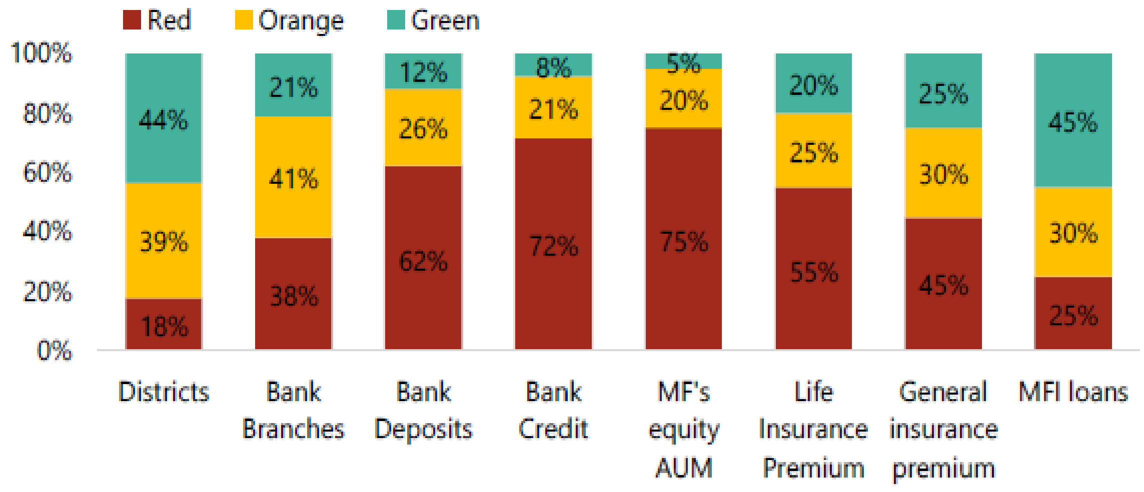
Source: Jefferies

Government has announced partial calibrated opening of economy by dividing into green, orange and red zones. But bulk of urban population, financial activity & GDP is in red zone.

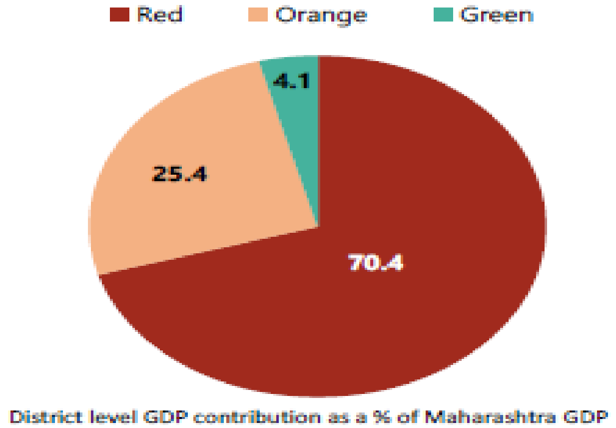
Zone-Wise Population Distribution (in %) of 50 largest cities



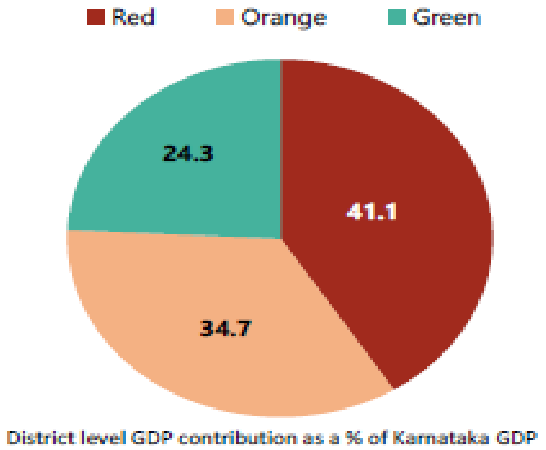
Zone-Wise Distribution of Financial Activity (in %)



Zone-Wise Contribution of Maharashtra GDP (in %)



Zone-Wise Contribution of Karnataka GDP (in %)



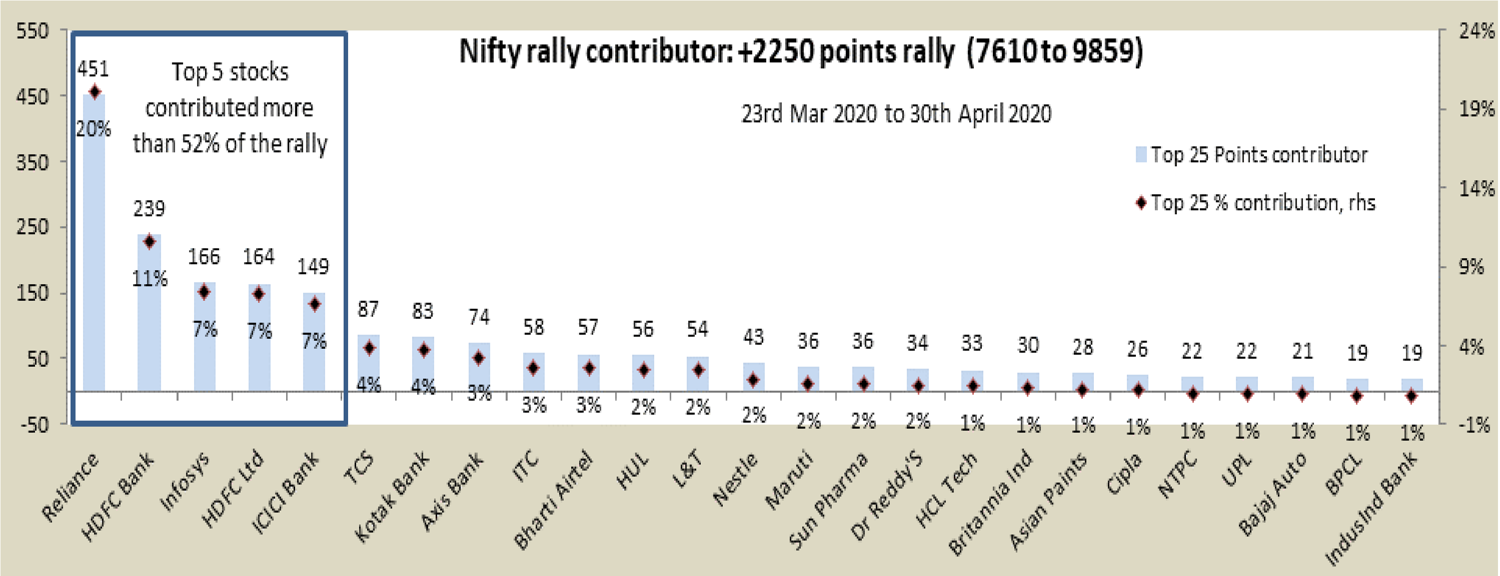
Source: Jefferies

After a sharp correction (Nifty fell ~39% from top), markets saw a swift partial recovery. Sectors like pharma, auto, oil & gas outperformed in April, while sectors like FMCG, con. durables underperformed

Performance of Domestic Indices as of April 2020 (in %)			
Index Name	1 Mth	3 Mths	1 Year
S&P BSE Healthcare	26.2	9.9	6.7
S&P BSE Auto	24.2	-26.5	-29.1
S&P BSE Oil and Gas	20.4	-13.3	-21.4
S&P BSE Metal	18.1	-28.9	-41.4
IISL Nifty Midcap 50	17.0	-24.3	-23.4
IISL Nifty 50	14.7	-17.6	-16.1
IISL Nifty 500	14.5	-18.7	-17.1
IISL NIFTY Smallcap 100	13.4	-34.5	-36.9
S&P BSE BANKEX	12.1	-29.9	-25.8
IISL Nifty Media	11.5	-36.8	-51.9
S&P BSE Capital Goods	11.0	-30.2	-32.4
S&P BSE IT	10.8	-10.3	-12.5
S&P BSE Power	8.2	-21.5	-24.3
S&P BSE PSU	7.3	-27.1	-35.7
S&P BSE Realty	7.1	-42.6	-27.8
S&P BSE Consumer Durables	6.0	-21.5	-14.0
S&P BSE FMCG	5.0	-7.5	-8.4

Source: Morningstar Direct. Data sorted in descending order on the basis of 1 mth return

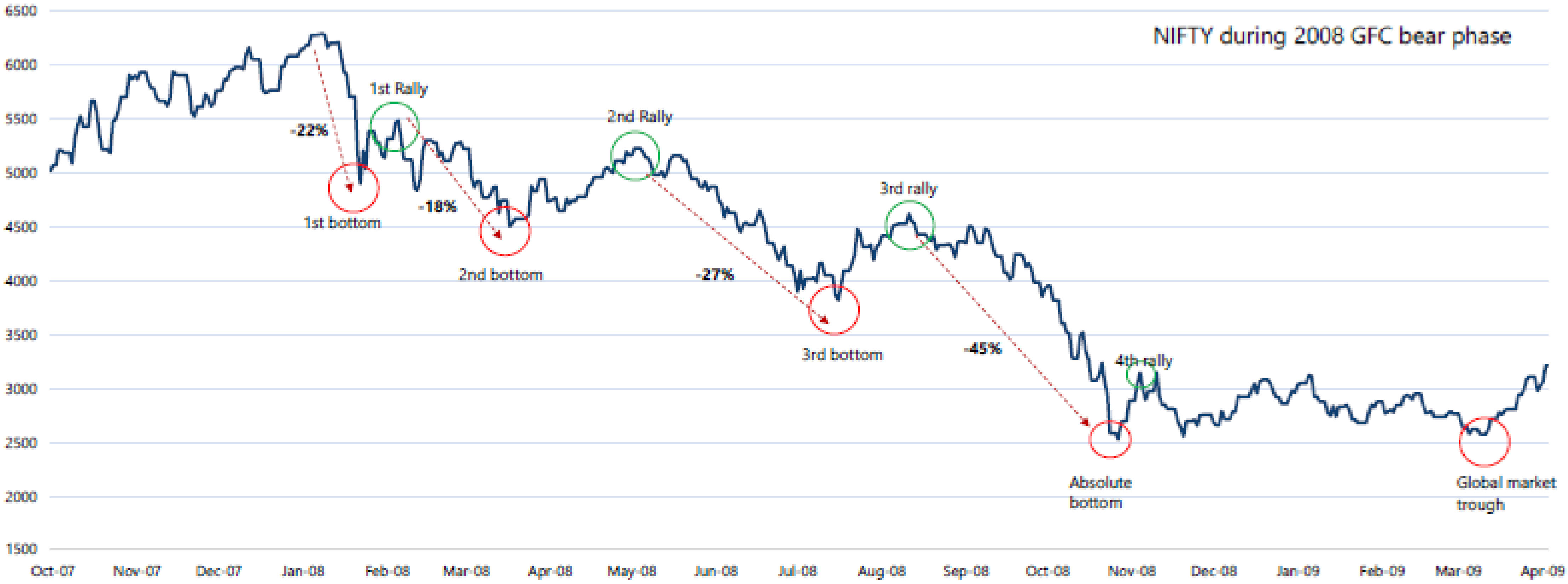
The rally (partial recovery) was a narrow one, with top 5 stocks in Nifty 50 index contributing a large part of the rally in the index



Source: Phillip Capital

Past market downturns have shown that there is a possibility of second or third wave of correction, and that cannot be ruled out—esp. if the Covid-19 outbreak in India continues to escalate.

Nifty Index Corrections & Rallies during the Global Financial Crisis of 2008-09

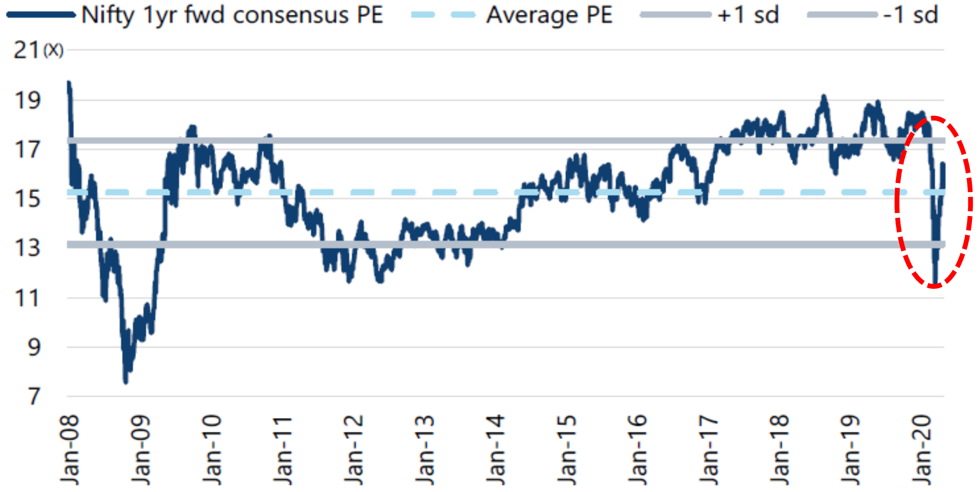


- We have witnessed three to four waves of corrections (followed by rallies) in other major market downturns as well -- like 2000 dot-com crash, 2011 European debt crisis etc.

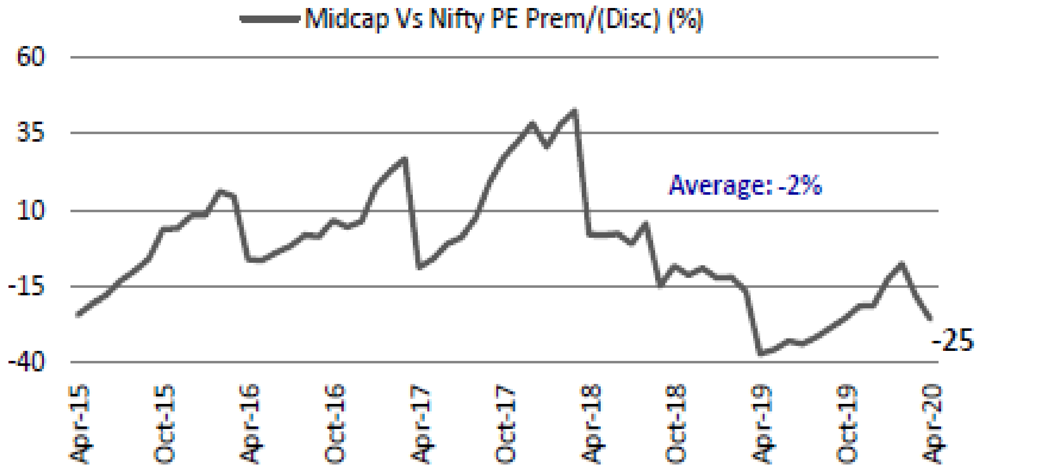
Source: Jefferies. Past performance is not an indicator of future returns

With the recent market rally, valuations have also recovered partially, but still quite attractive

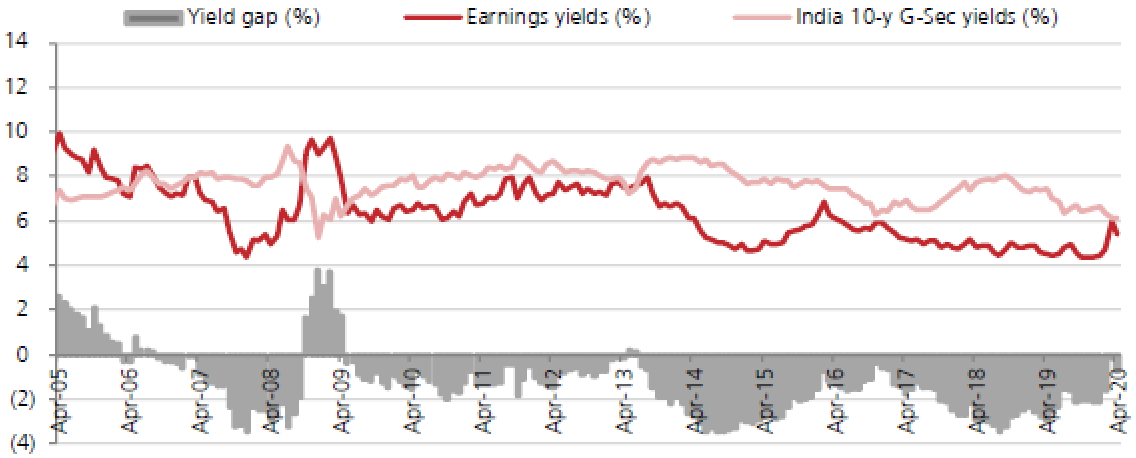
Nifty Forward P/E Ratio recovers after the sharp fall



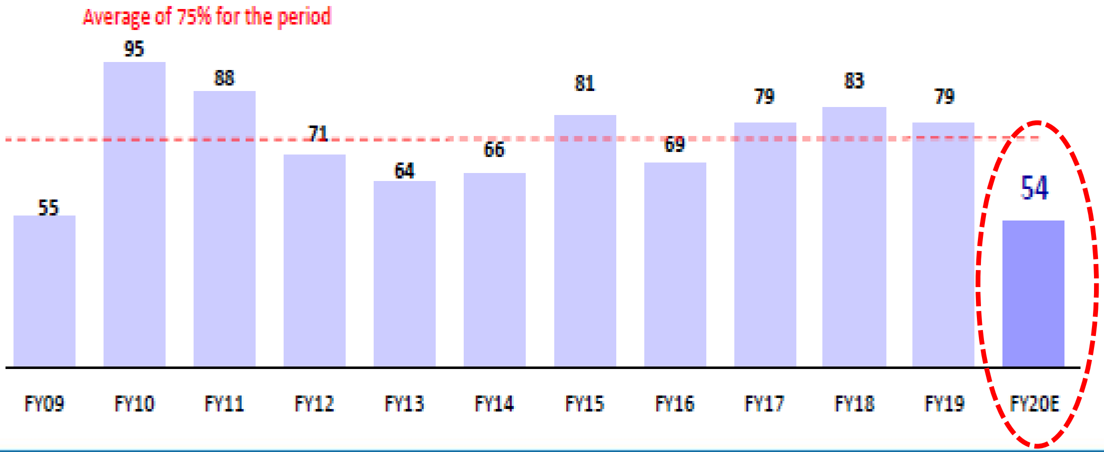
Midcaps trading at a healthy discount to large-caps (Fwd P/E)



Bond yield vs Equity Earnings yield Indicator implying that equities are relatively more attractive, but downside risk to earnings exists



Market Cap to GDP ratio has fallen significantly



Source: Bloomberg, Jefferies, Motilal Oswal, Kotak Insti

Past market corrections have been followed by robust returns; offering 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 more favourable at this juncture.
- Therefore, we have been advising long-term investors 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.

There have been large FPI equity outflows in the month of March, but DII inflows (MFs & Insurance) have countered FPI outflows. April saw FPI outflows slowdown considerably.

Source: NSDL, Axis Capital	Rs in Crore			
Month-end	**FPIs**	**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
31 March 2020	-58,632	55,595	30,130	25,464
30 April 2020	-4,112	-826	-7,965	7,139

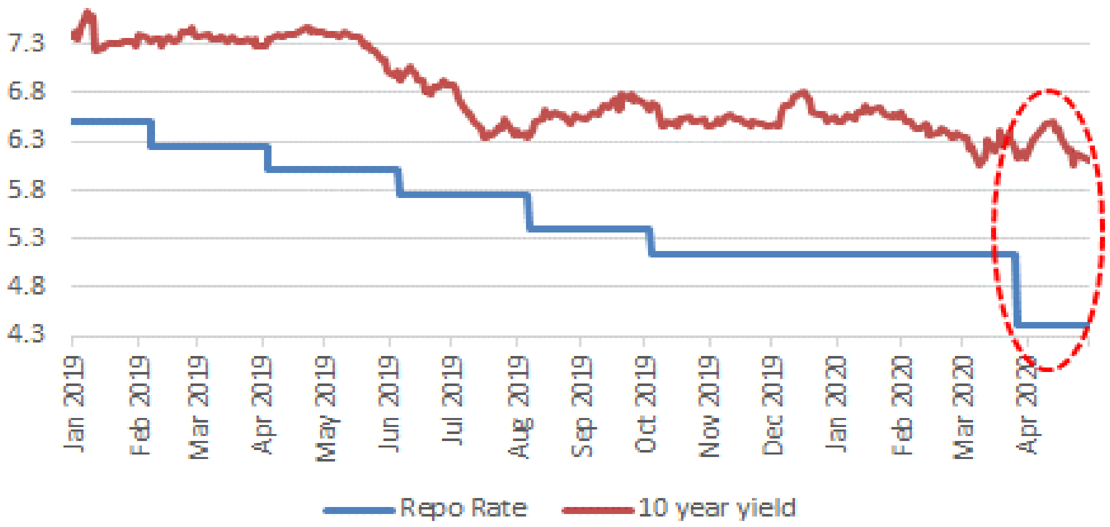
Source: NSDL, Axis Capital	Rs in Crore			
Year	**FPIs**	**DIIs**	**MFs**	**Insurance**
FY2008	52,572	47,794	15,948	31,846
FY2009	-48,250	60,040	6,962	53,078
FY2010	1,10,752	24,211	-10,235	34,446
FY2011	1,10,121	-18,709	-19,974	1,265
FY2012	43,738	-5,347	-1,384	-3,963
FY2013	1,40,032	-69,069	-22,008	-47,061
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
FY2020	6,151	1,29,301	91,814	37,483

- In the month of March 2020, we saw record high Foreign Portfolio Investor (FPI) net equity outflow of Rs. 58, 632 crore. However, DIIs (MFs & Insurance) countered the FPI outflow and registered a net equity inflow of Rs. 55,595 crore during the month.
- In the month of April, FPI equity outflow slowed down considerably. DIIs saw a small net equity outflow in April, primarily due to net selling by mutual funds (MFs).

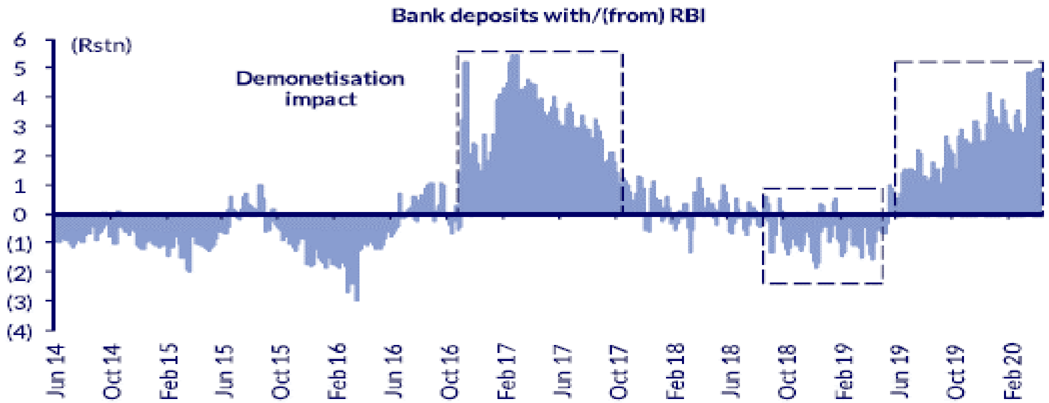
Debt Markets

RBI has done 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 trln)

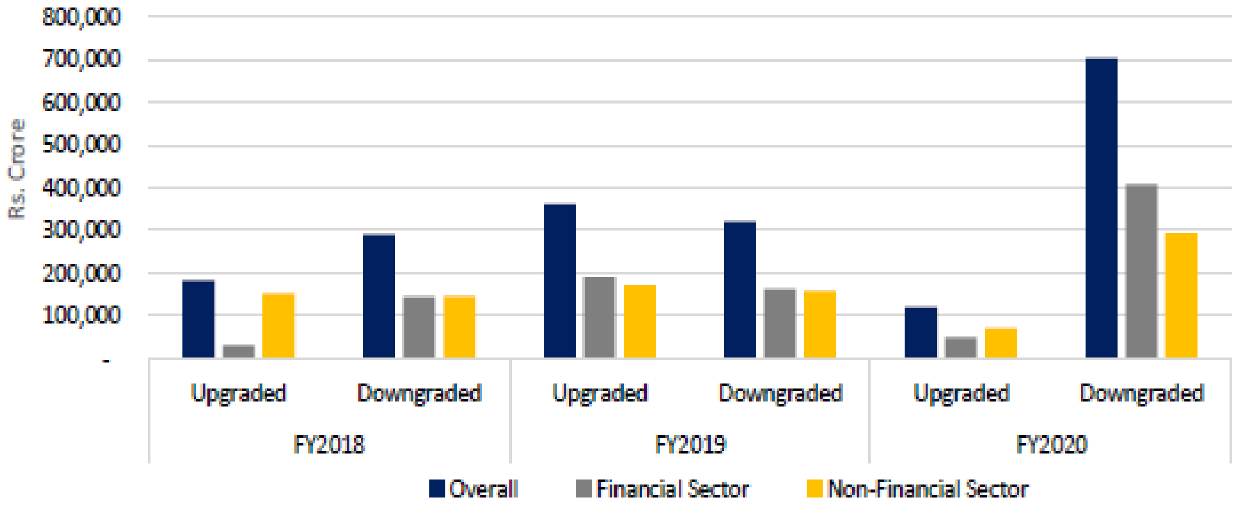


- The 10 year bond yield has softened this year, falling closer to the 6% mark at one point. However, concerns of large supply, fiscal slippage and FPI outflows have caused some volatility in bond yields.
- Liquidity in the system is quite comfortable at around Rs. 6 trillion surplus presently.
- RBI has announced a number of monetary stimulus, liquidity and regulatory measures. The key ones 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.
  - CRR cut of 1% to 3% till 26 March 2021, and various other liquidity measures announced.
  - Later the reverse repo rate was further cut by 25 bps to 3.75%, to discourage banks from parking excess money with RBI and encourage lending.
  - Targeted Long Term Repo Operations (TLTROs) of Rs 1 trillion - which banks could deploy in investment grade bonds and CPs.
  - Announced TLTROs of Rs. 500 billion targeted at NBFCs & MFIs, with 50% of the amount to be invested in mid and small-sized NBFCs/MFIs.
  - 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, with inflation expected to subside

Source: Bloomberg, CLSA

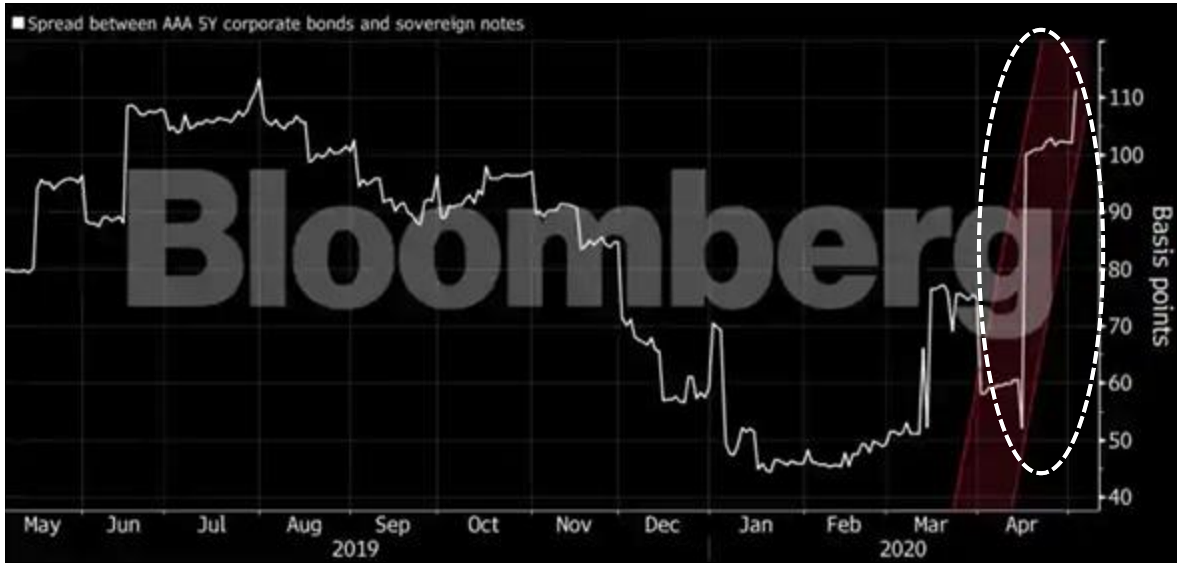
Credit crunch being seen in debt markets, with downgrades increasing and credit spreads spiking

ICRA – Trend in volume of debt downgraded / upgraded



Source: ICRA

Spread between 5 Yr AAA bond & G-Sec (in bps)



Source: Bloomberg, BloombergQuint

- In FY2020, credit rating agency ICRA downgraded entities having aggregate debt of Rs. 7.0 trillion vs Rs. 3.2 trillion downgraded in FY2019.
- The volume of the debt upgraded by ICRA in FY2020 stood at Rs. 1.2 trillion. This was the lowest quantum of debt upgraded by ICRA in the past six years, pointing at the significant weakening of the credit quality tailwinds at a systemic level.
- Corporate bond spreads spiked due to the risk aversion, and more so in lower rated segments.
- We have been cautious on corporate bonds and have been increasing exposure to government securities in our portfolios.

Market Outlook & Re-cap

Significant economic slowdown & earnings downgrade expected	• A global recession on the cards, and a sharp growth slowdown in India as well this year—depending on how long the lockdown lasts. • 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.
With the recent rally, valuations have partially recovered, but still quite attractive	• Risk-reward for equities still looking quite favourable, despite the recent rally. Mid-caps trading at a healthy discount to large-caps. • We have been recommending investors to gradually deploy money in equities amidst this correction & increase their equity exposure (as per their risk profile).
Past market downturns have seen 2-4 waves of corrections	• We have seen a swift partial recovery from the market bottom in Indian & global markets. • Past market downturns have shown that there is a possibility of 2nd or 3rd wave of correction, and that cannot be ruled out—especially if the Covid-19 outbreak in India continues to escalate.
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 prefer the shorter-medium term part of the G-Sec yield curve. Cautious on corporate bonds.
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, geo-political tensions, flows & risk appetite.

THANK YOU

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