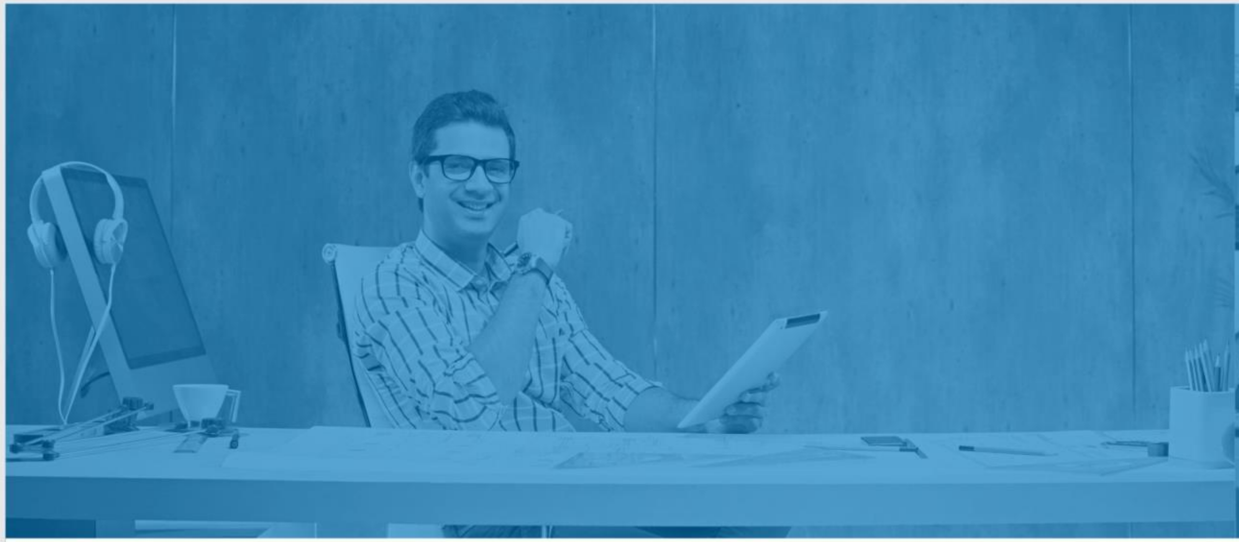
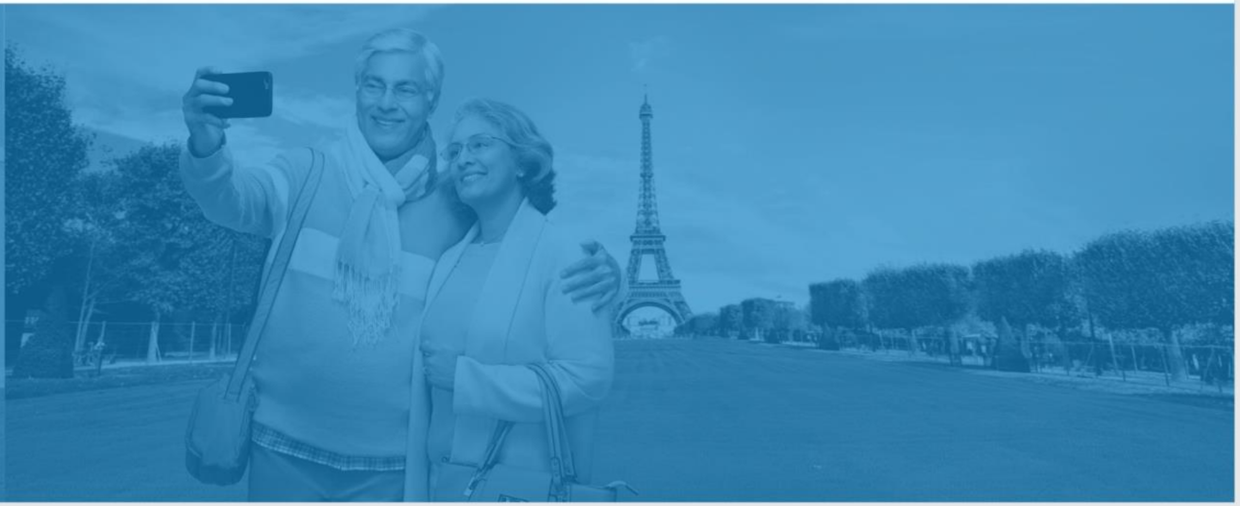


Quarterly Macro & Market Overview

October 2020

LIFE GOALS. **DONE.**

BAJAJ Allianz



Global recession in 2020 may not be as deep as expected earlier

OECD GDP growth projections (% YoY)

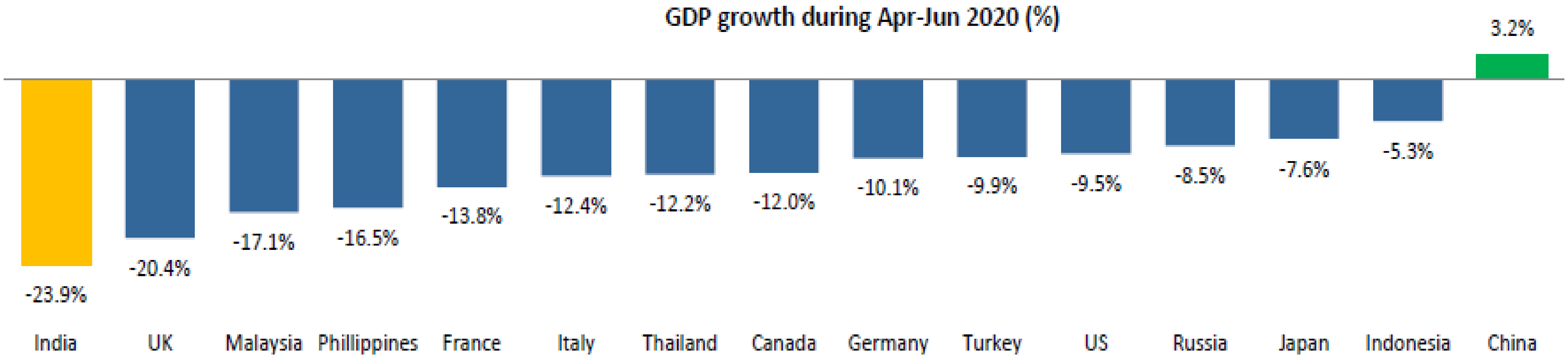
	2019	2020		2021	
		Interim EO projections	Difference from June EO single-hit scenario	Interim EO projections	Difference from June EO single-hit scenario
World[1]	2.6	-4.5	1.5	5.0	-0.2
G20[1,2]	2.9	-4.1	1.6	5.7	0.2
Australia	1.8	-4.1	0.9	2.5	-1.6
Canada	1.7	-5.8	2.2	4.0	0.1
Euro area	1.3	-7.9	1.2	5.1	-1.4
Germany	0.6	-5.4	1.2	4.6	-1.2
France	1.5	-9.5	1.9	5.8	-1.9
Italy	0.3	-10.5	0.8	5.4	-2.3
Japan	0.7	-5.8	0.2	1.5	-0.6
Korea	2.0	-1.0	0.2	3.1	0.0
Mexico	-0.3	-10.2	-2.7	3.0	0.0
Turkey	0.9	-2.9	1.9	3.9	-0.4
United Kingdom	1.5	-10.1	1.4	7.6	-1.4
United States	2.2	-3.8	3.5	4.0	-0.1
Argentina	-2.1	-11.2	-2.9	3.2	-0.9
Brazil	1.1	-6.5	0.9	3.6	-0.6
China	6.1	1.8	4.4	8.0	1.2
India[3]	4.2	-10.2	-6.5	10.7	2.8
Indonesia	5.0	-3.3	-0.5	5.3	0.1
Russia	1.4	-7.3	0.7	5.0	-1.0

- As per OECD, global GDP growth now projected to contract by 4.5% in CY2020 Vs earlier projection of 6% contraction.
- Being helped by healthy economic recovery in developed economies esp. the US. (-3.8% in CY20 vs -7.3% earlier)
- Healthy recovery of 5% in global GDP growth in CY2021.
- OECD downgraded India's GDP growth forecast to -10.2% for FY21.
- However, India's GDP expected to recover by a robust 10.7% in FY22.

Source: OECD Economic Outlook, Sep 2020. For India 2020 = FY21 & 2021 = FY22

Impact of COVID 19 seen in Q2 CY20 GDP data

April –June 2020 GDP Growth of various countries (YoY in %)

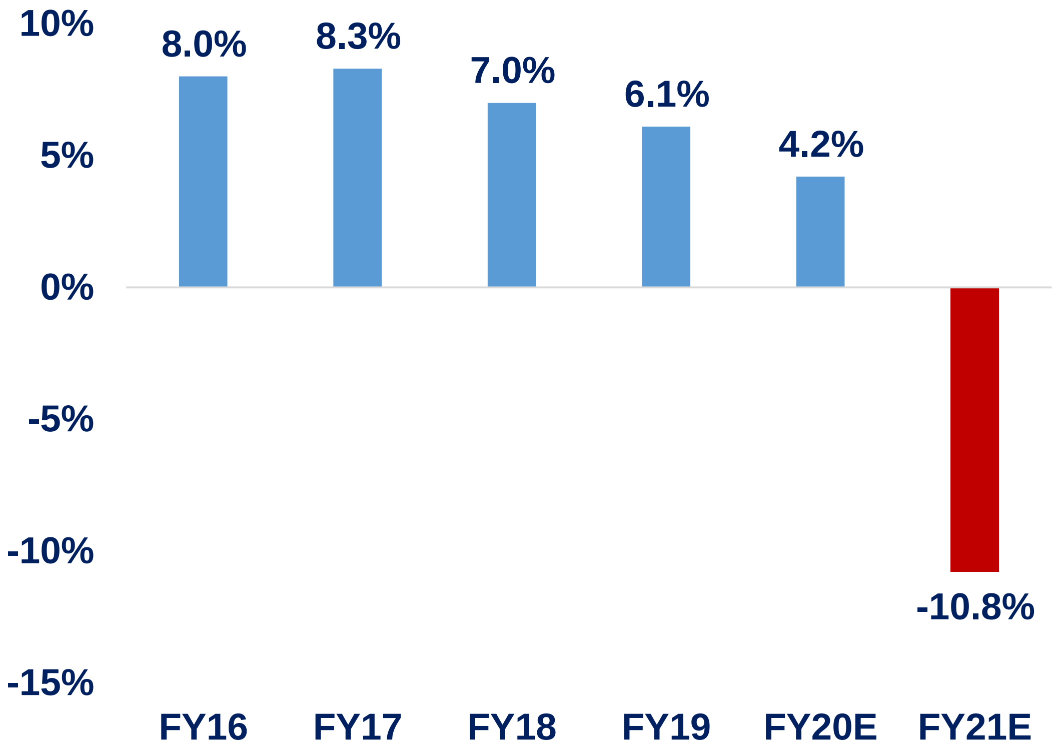


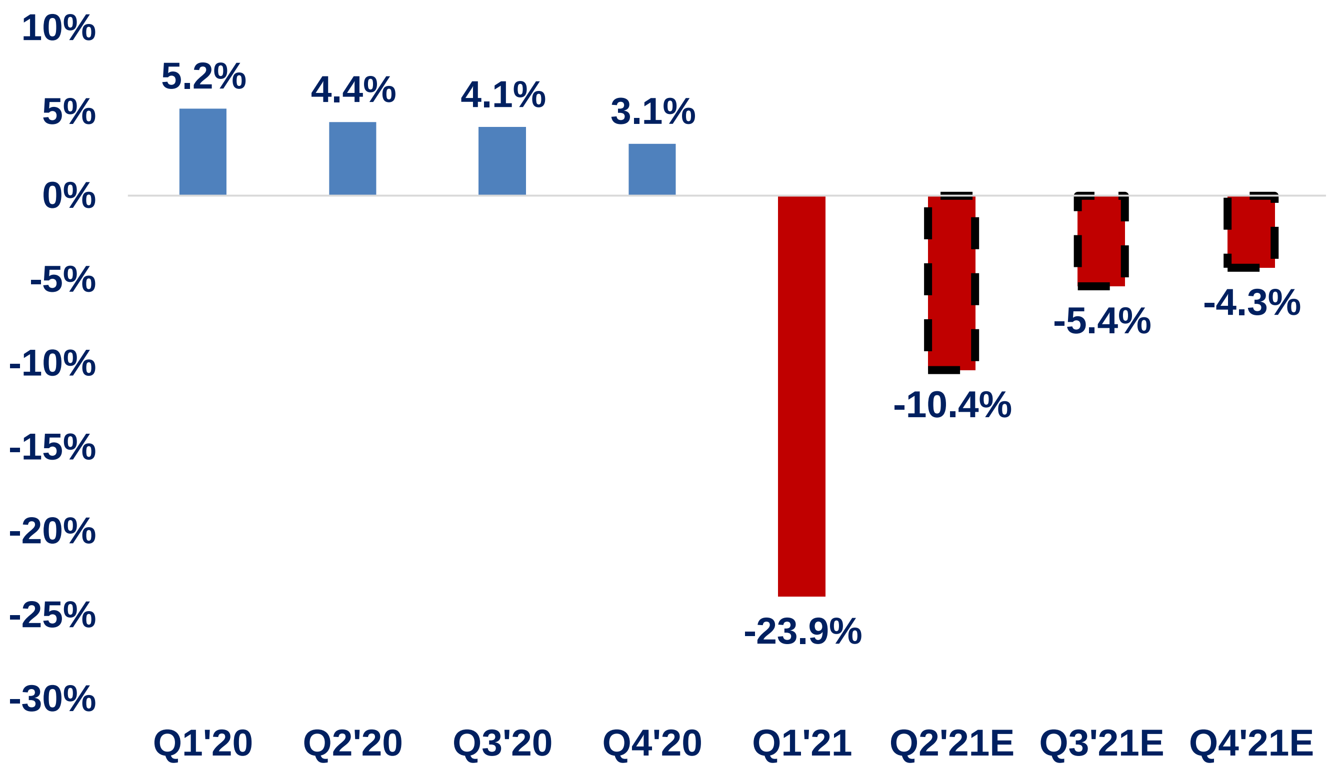
Source: Spark Capital

- Most major economies registered sharp contraction in GDP growth during the April – June 2020 quarter due to Covid-19 & lock-down impact.
- India's economy registered one of the sharpest contractions during the quarter (among major economies) due to the stringent lockdown.
- China GDP registered recovery during the quarter with the country opening up most of its economy.

COVID 19 has shattered the anticipated economic recovery in FY21

GDP – Trend and Projections (% YoY)





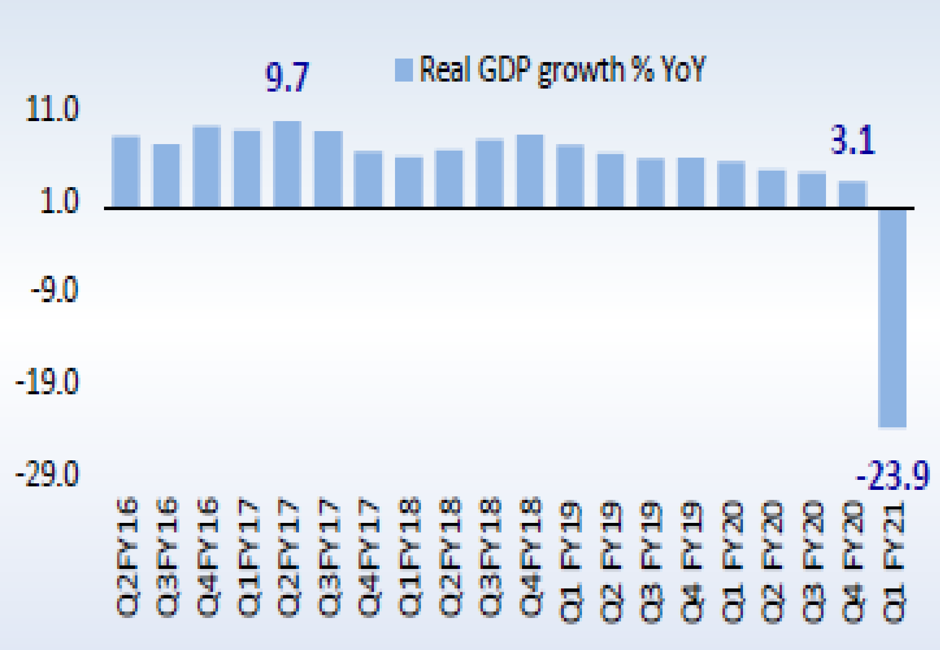
- Pre Covid, growth was expected to recover to 6 % in FY21
- Latest GDP projections of – 10.8 % for FY 21
- Latest estimates suggest GDP growth to happen in Q1FY22

Source: Nomura

India sees sharpest quarterly GDP contraction on record in Q1 FY21

India Quarterly GDP Growth trend (YoY in %)

	YoY growth rate				
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Private Final Consumption Exp.	5.5	6.4	6.6	2.7	-26.7
Government Final Consumption Exp.	6.2	14.2	13.4	13.6	16.4
Gross Capital Formation	5.3	-2.9	-4.3	-5.8	-47.5
Exports of Good & Services	3.2	-2.2	-6.1	-8.5	-19.8
Imports of Goods & Services	2.1	-9.4	-12.4	-7.0	-40.4
GDP	5.2	4.4	4.1	3.1	-23.9



- GDP was dragged down by private consumption & investments
- Only government expenditure had positive growth
- GDP expected to see gradual recovery with economy opening up

Source: MOSPI, Philip Capital

Swift recovery in global equity markets, led by strong liquidity

Performance of International Indices (ended September 2020, in %)						
Index Name	**Country / Region**	**FYTD 21 6 mths**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
KOSPI Korea	South Korea	32.7	12.8	-0.9	3.5	2.2
IISL Nifty 50	**India**	**30.8**	**-2.0**	**4.7**	**7.2**	**6.4**
S&P 500	US	30.1	13.0	10.1	11.9	11.4
BOVESPA	Brazil	29.6	-9.7	8.4	16.0	3.1
TSEC TAIEX	Taiwan	28.9	15.6	6.4	8.9	4.3
FSE DAX TR	Germany	28.4	2.7	-0.2	5.7	7.4
MSCI World PR USD	World	27.8	8.6	5.8	8.4	7.2
MSCI EM PR USD	Emerging Mkts	27.5	8.1	0.0	6.4	0.1
MSCI Asia Ex Japan PR USD	Asia Ex Japan	27.2	15.3	2.5	8.1	3.0
Nikkei 225	Japan	22.6	6.6	4.4	5.9	9.5
Shanghai Composite	China	17.0	10.8	-1.3	1.1	1.9
RTS RTSI PR USD	Russia	16.2	-11.6	1.2	8.3	-2.4
S&P/ASX 200	Australia	14.6	-13.0	0.8	3.0	2.4
FTSE Bursa Malaysia KLCI	Malaysia	11.4	-5.0	-5.0	-1.5	0.3
CAC 40	France	9.3	-15.4	-3.4	1.5	2.6
JSX Composite	Indonesia	7.3	-21.1	-6.2	2.9	3.4
FTSE SET All Share	Thailand	6.7	-27.7	-11.6	-3.1	1.2
FTSE 100	UK	3.4	-20.8	-7.3	-0.7	0.6
FTSE/SGX STI	Singapore	-0.6	-20.9	-8.5	-2.4	-2.3
Hang Seng	Hong Kong	-0.6	-10.1	-5.2	2.4	0.5

Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of FYTD 21 return in descending order

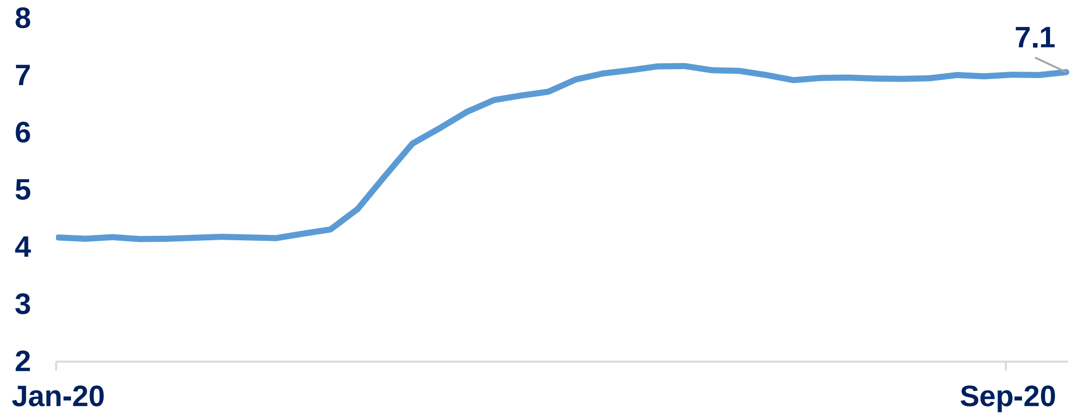
Swift recovery during FYTD 21 (April – Sep 2020)

- ➢ Liquidity infusion by major central banks
- ➢ Recovery in high frequency indicators
- ➢ Progress in vaccine trials
- ➢ Markets recovered most of their earlier losses
- ➢ India among top performing markets since March end

- Over the long term (10 years) Indian market has outperformed most peer Emerging Markets

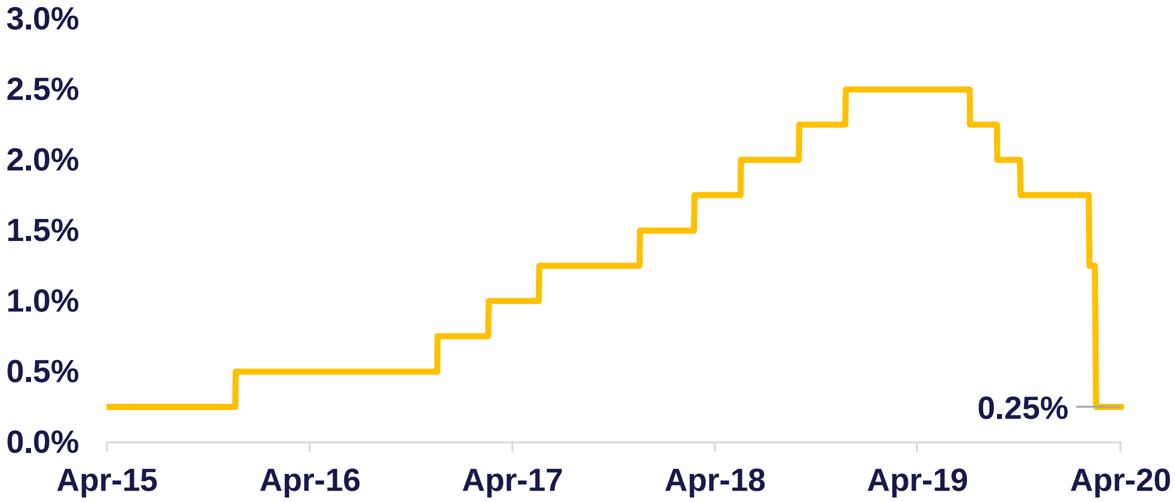
Market recovery on the back of extraordinary policy support

US Fed Balance Sheet (USD Trillion)



- US Fed now saying no hike till 2023
- Economic projections have improved
- Comfortable with inflation breaching 2% target

Fed Fund Rate – Upper Limit (%)



Fed Projections

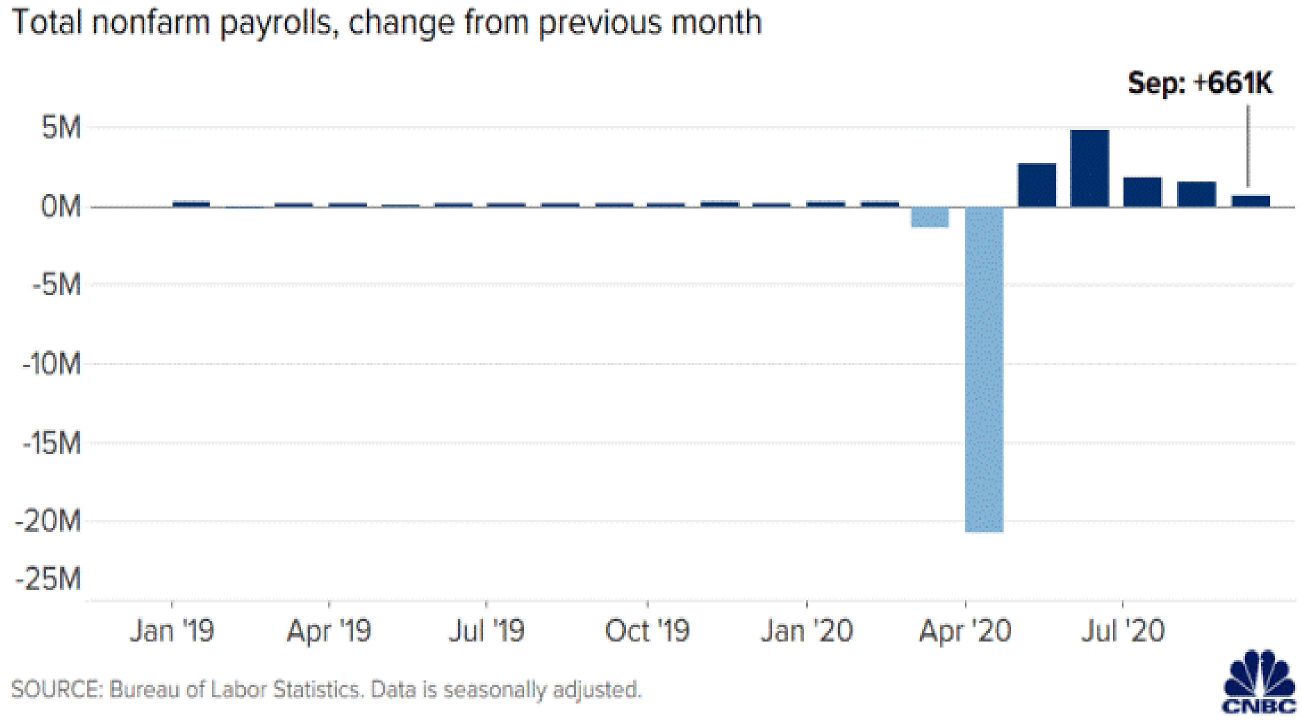
FOMC projections

Variable	Median[1] 2020	2021	2022	2023	Longer run
Change in real GDP	-3.7	4.0	3.0	2.5	1.9
June projection	-6.5	5.0	3.5		1.8
Unemployment rate	7.6	5.5	4.6	4.0	4.1
June projection	9.3	6.5	5.5		4.1
PCE inflation	1.2	1.7	1.8	2.0	2.0
June projection	0.8	1.6	1.7		2.0
Federal funds rate	0.1	0.1	0.1	0.1	2.5
June projection	0.1	0.1	0.1		2.5

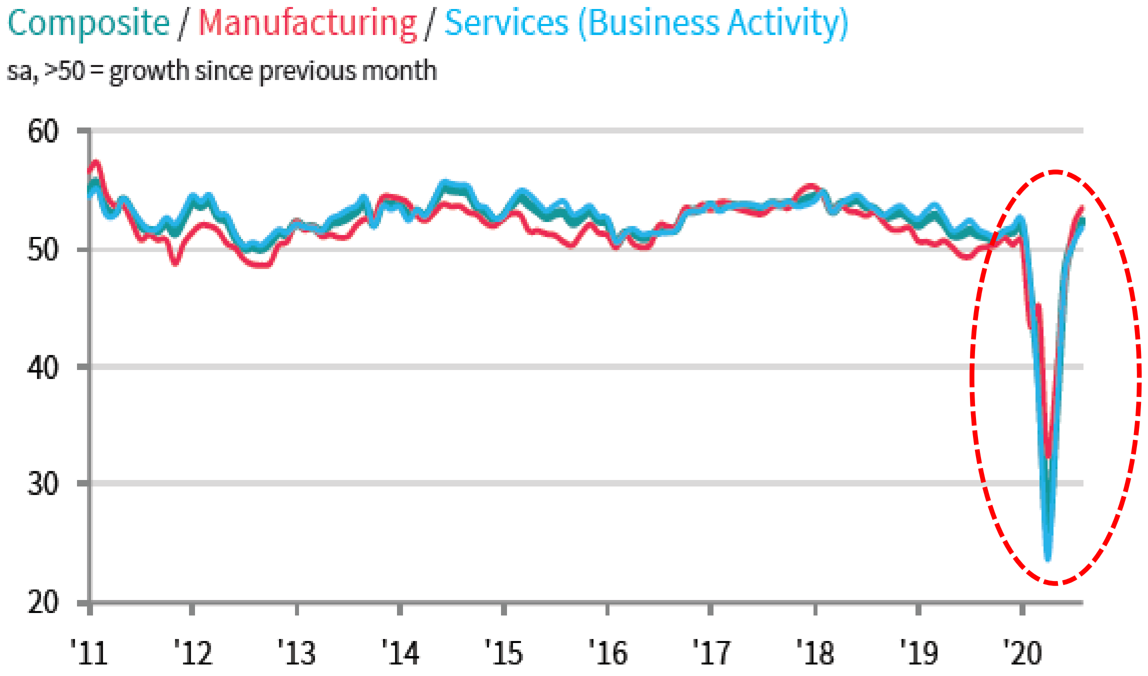
US labour market & Global PMI indicates improvement in economic activity

- US continues to add jobs, although the pace has slowed down
- Unemployment rate has fallen to 7.9% in September from a record high of 14.7% in April

- PMI now back in expansion territory, with economies opening up

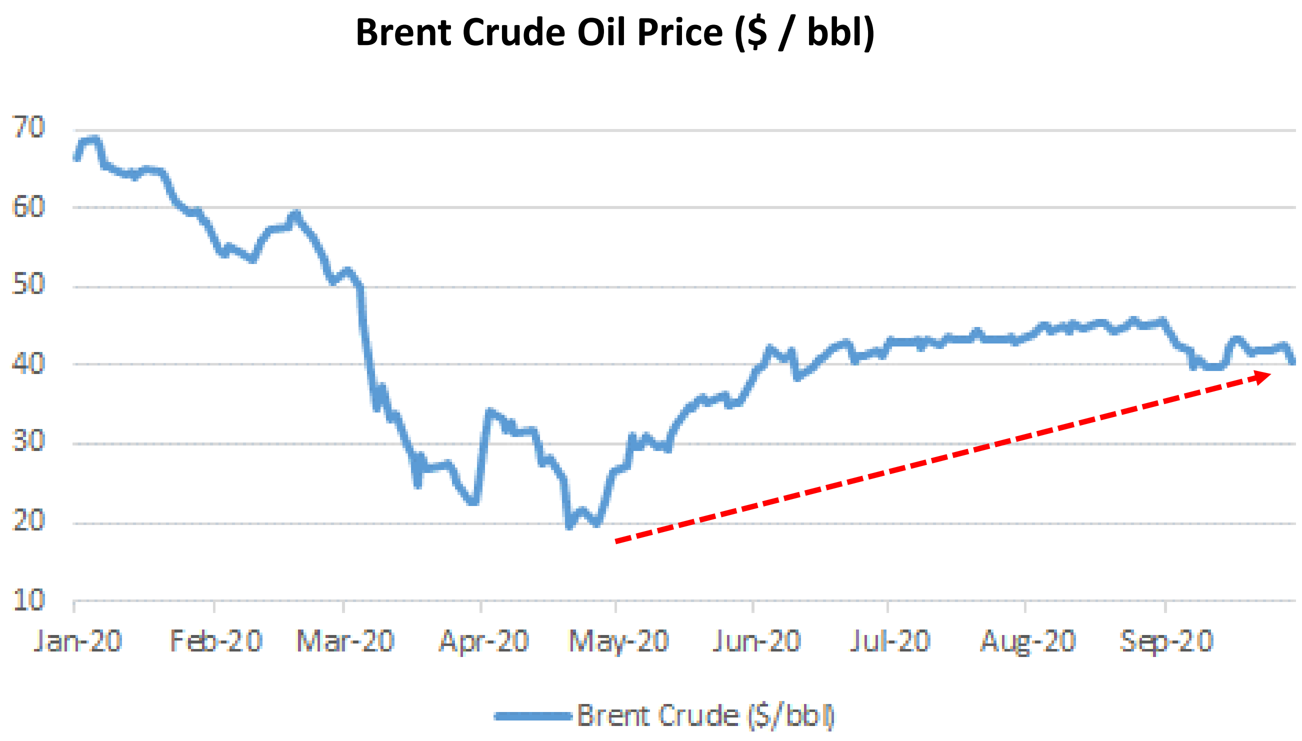


Source: CNBC.com



Source: IHS Market, JP Morgan. PMI data ended August 2020

Crude prices have recovered from their lows

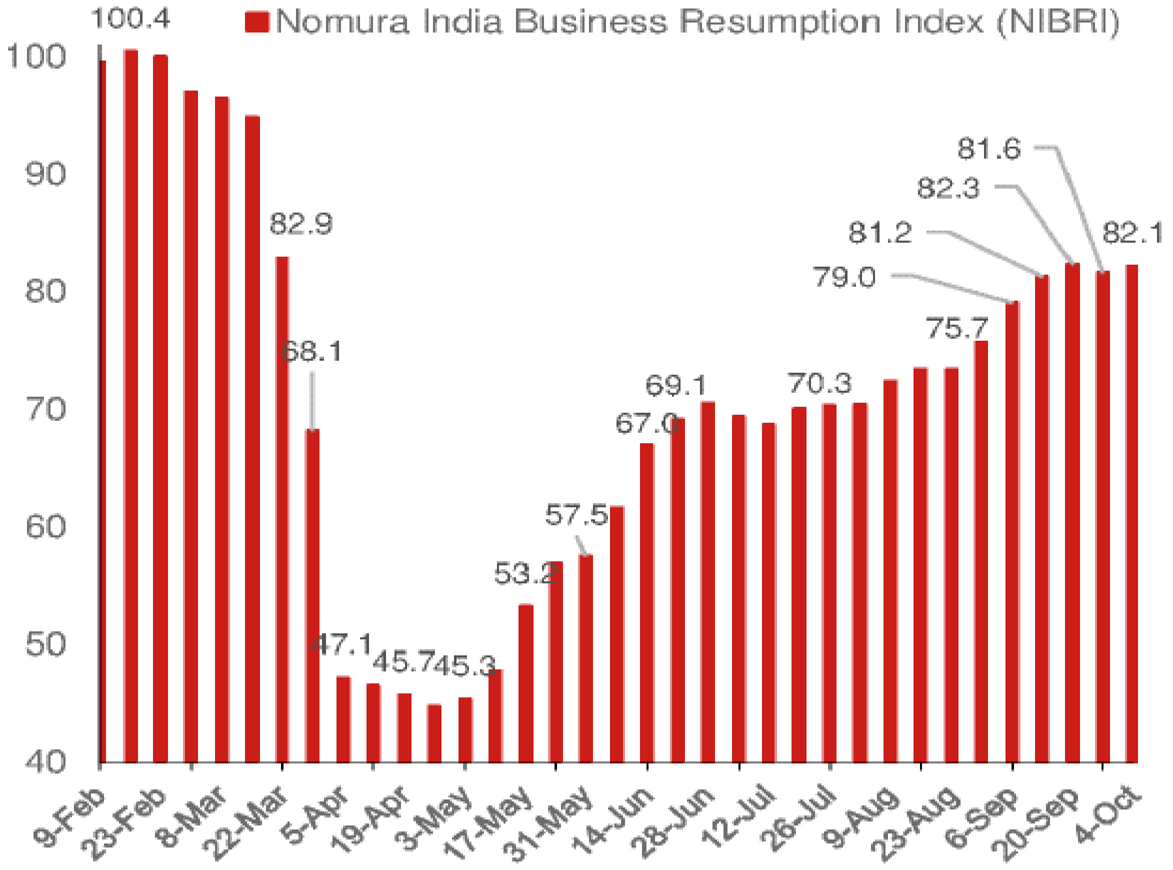


- Brent crude recovered from a record low of ~$16/bbl in April to close the month of September at around $41/bbl
- Indicates demand side recovery

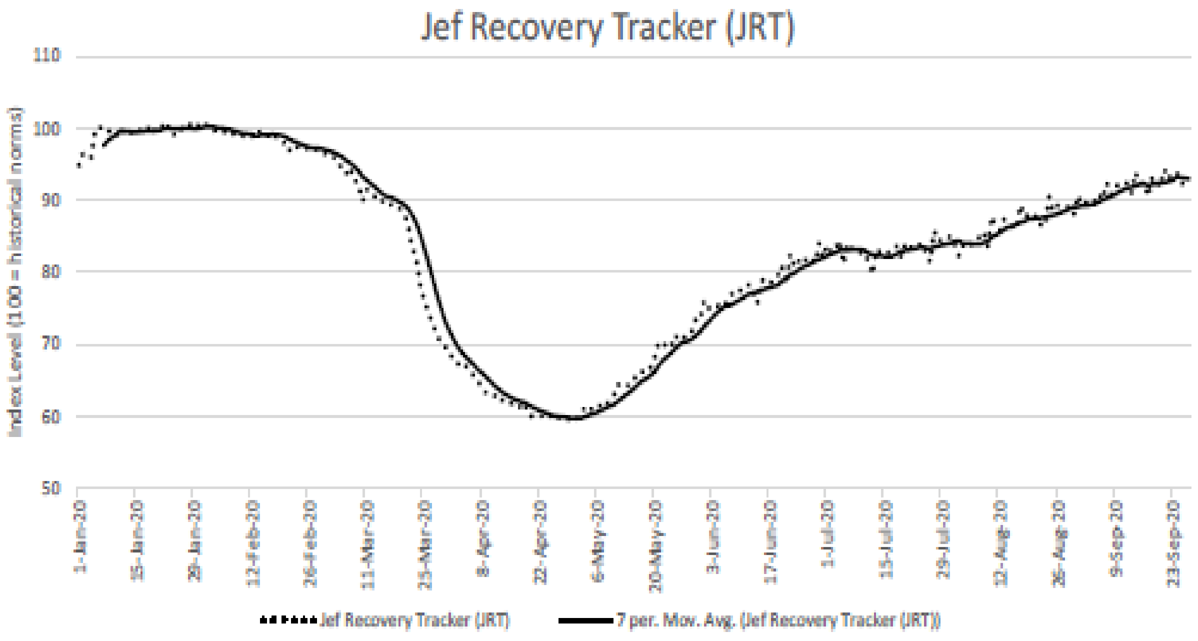
Source: Bloomberg

Economic / Business Activity in India back to ~80-90% of Pre-Covid levels

Nomura India Business Resumption Index indicates that economic activity is back to ~82% of Pre-Covid levels



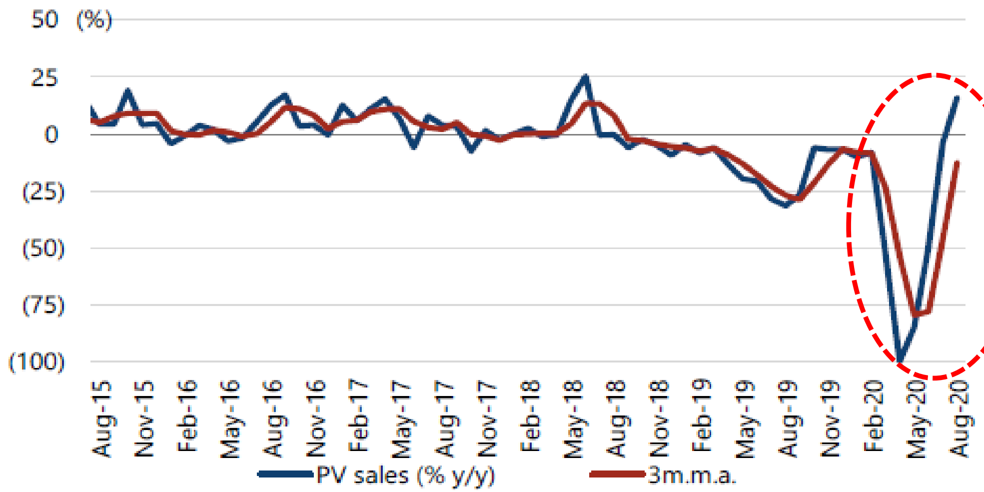
Jefferies India Economic Activity index indicates that overall activity is back to ~90% of Pre-Covid levels



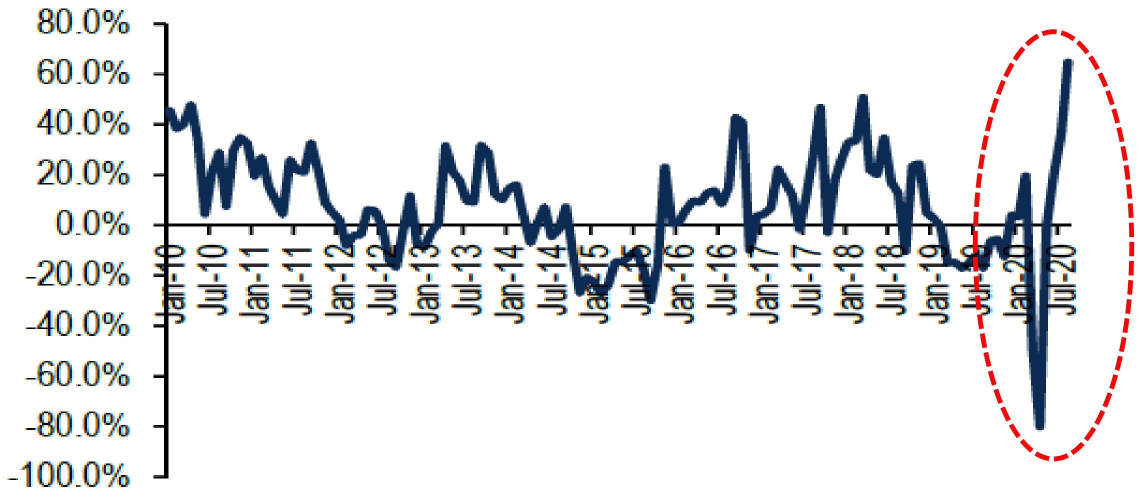
Source: Nomura, Jefferies

Cars & 2W sales sees healthy recovery, Tractor sales strong; CV sector recovering--but lags

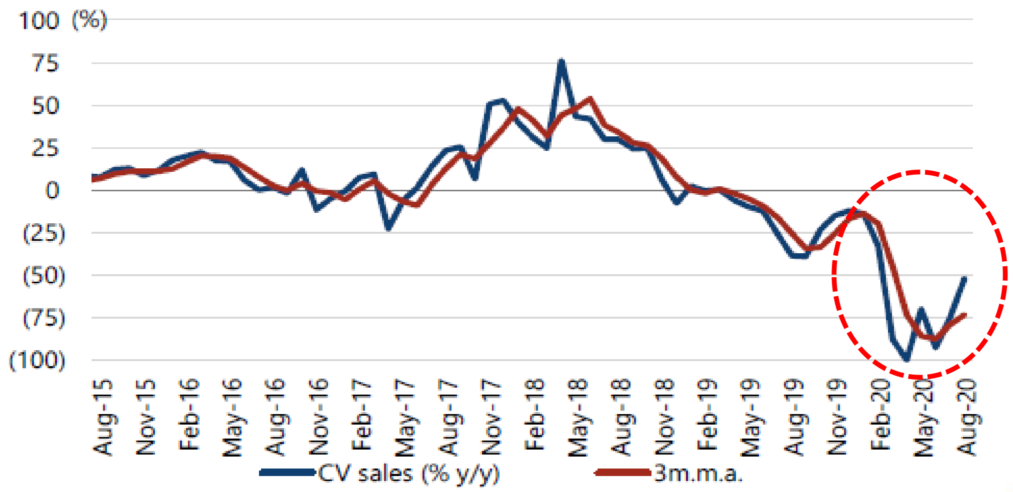
Monthly Passenger Vehicles (PV) Sales Growth (%, YoY)



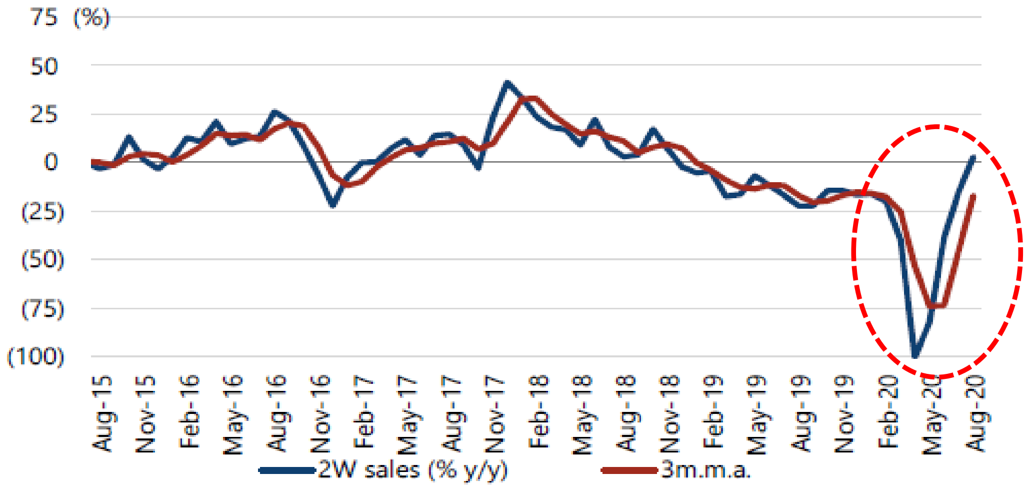
Monthly Tractor Sales Growth (%, YoY)



Monthly Commercial Vehicles (CV) Sales Growth (%, YoY)



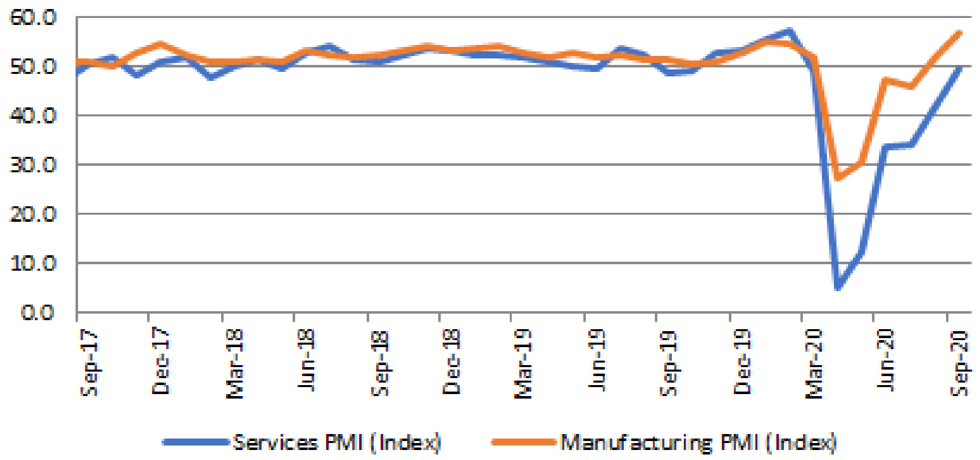
Monthly 2W Sales Growth (%, YoY)



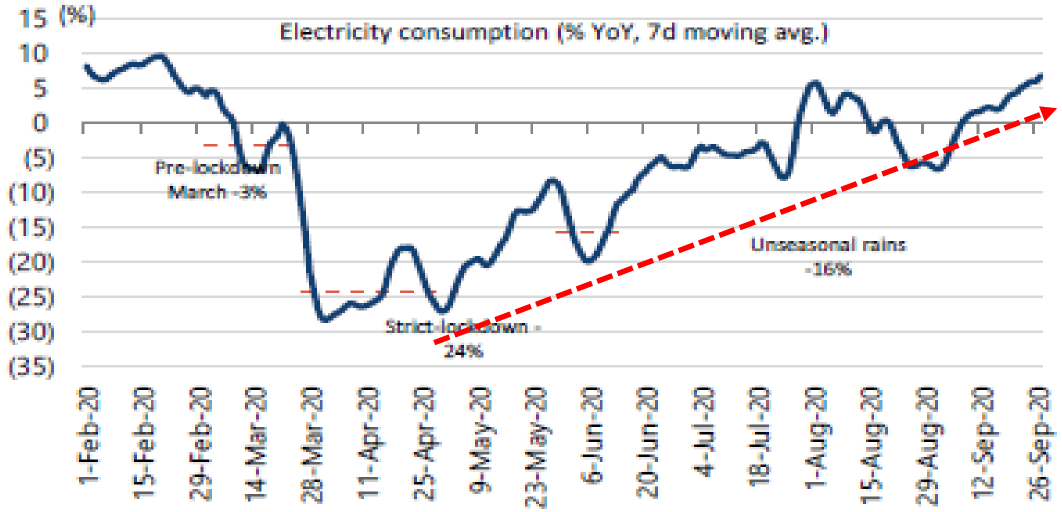
Source: SIAM, Jefferies, BOAML

Other key indicators also pointing to recovery

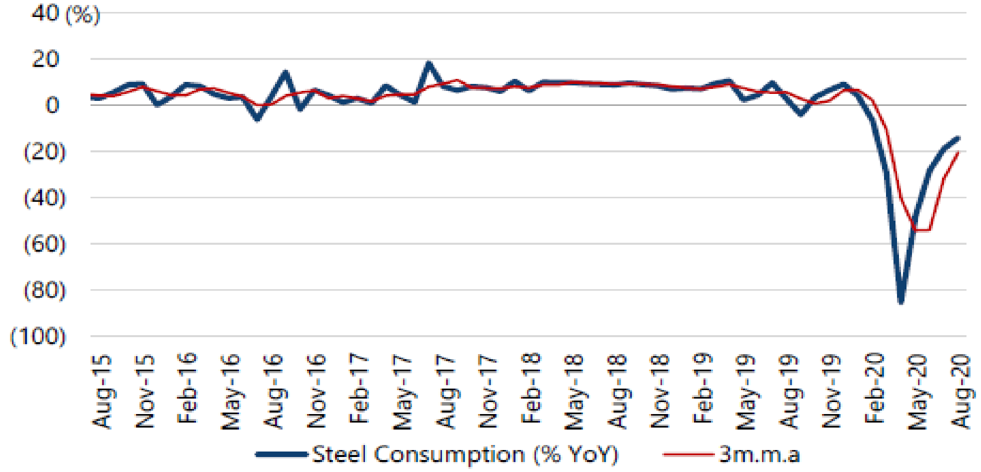
Manufacturing & Services PMI has seen healthy recovery (PMI less than 50 mean in contraction)



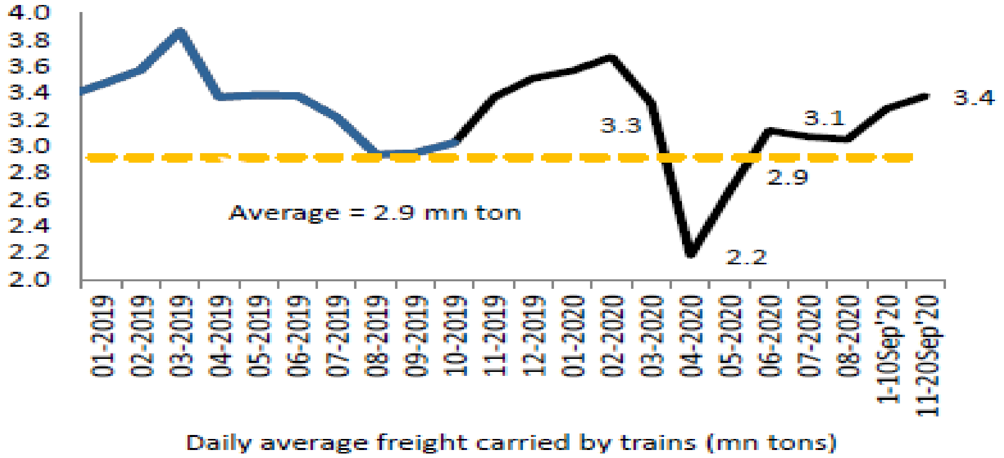
Electricity Consumption has recovered, and now in positive growth



Steel Consumption has recovered from lows



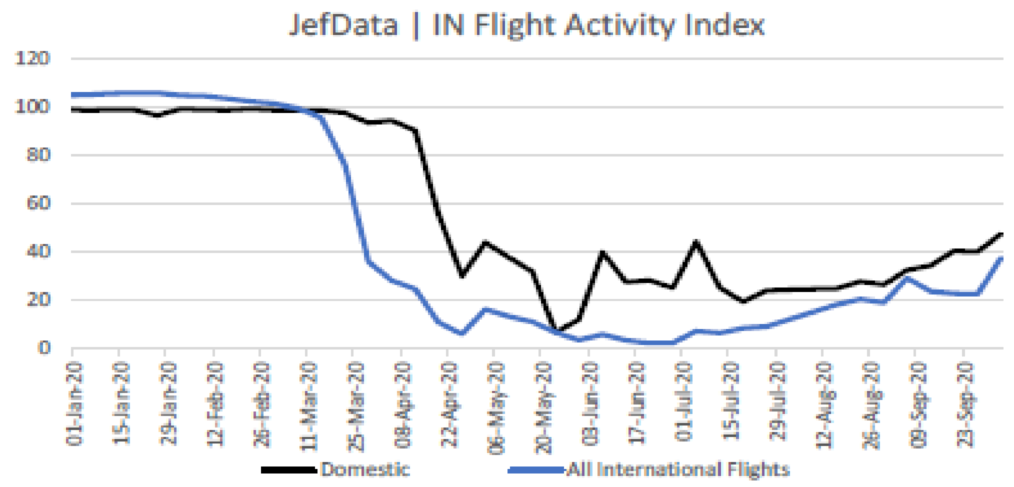
Daily rail freight carried by trains back to pre-Covid levels



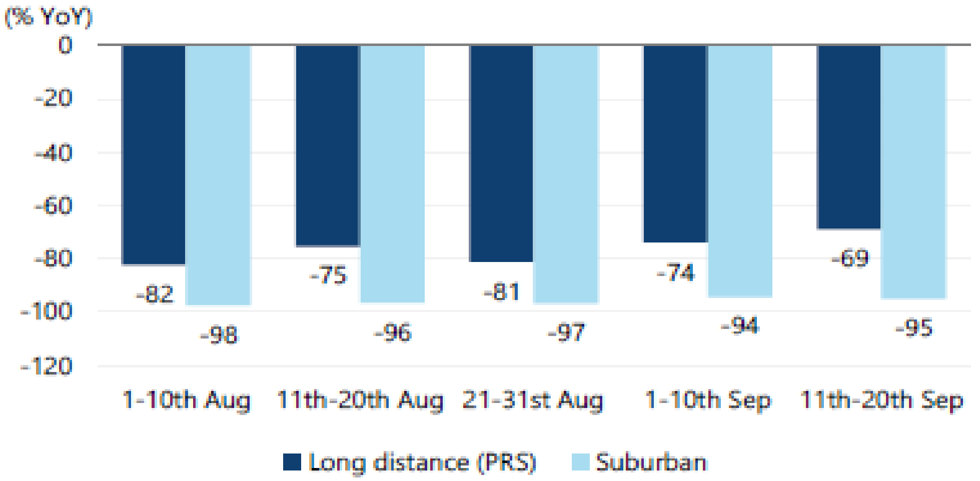
Source: Jefferies, IHS Markit, Spark Capital

Some sectors like travel & tourism have been hit due to demand shock

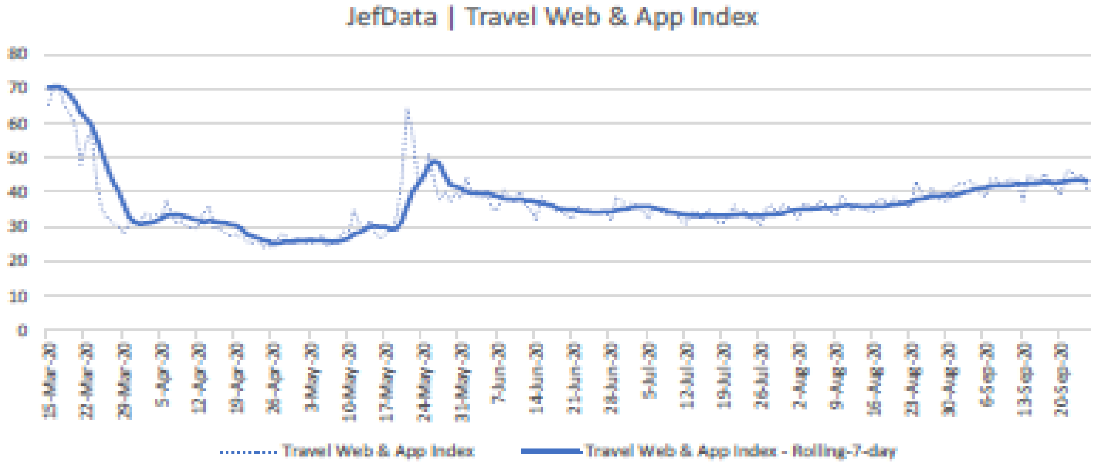
Flight activity is still quite subdued



Railway passenger traffic still in sharp contraction



Travel & Hotel industry still in doldrums as indicated by Web & App Index



Source: Jefferies

Current account & Balance of Payments (BOP) in healthy surplus in Q1 FY21

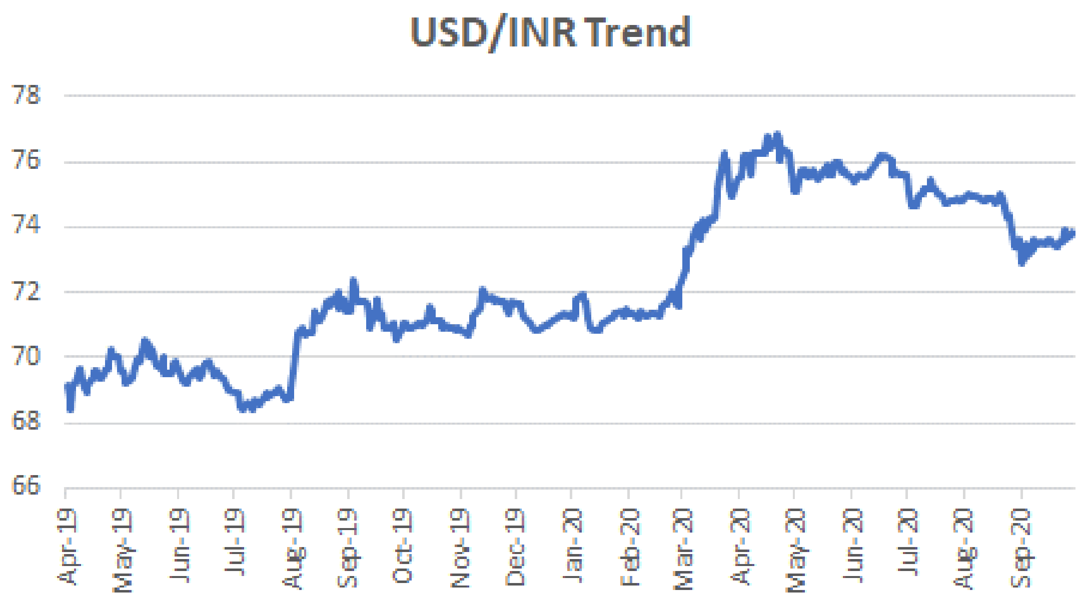
India Current Account & Balance of Payment Trend

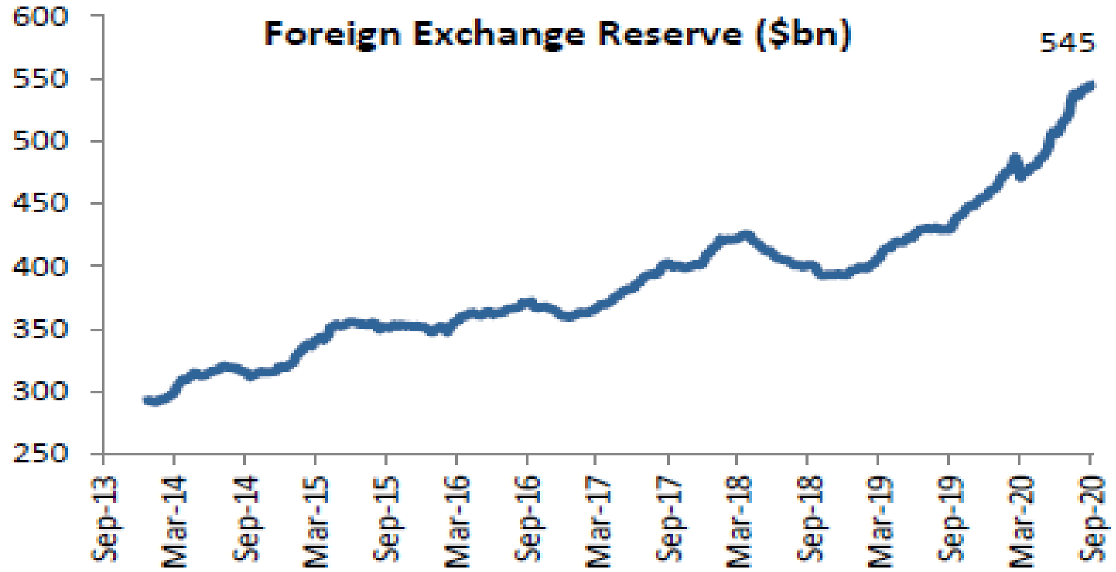
(US$ Billion)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Exports	82.7	80.0	81.2	76.5	52.3
Imports	129.5	119.6	117.3	111.6	62.3
Trade Balance	-46.8	-39.6	-36.0	-35.0	-10.0
Net invisibles	31.8	32.1	33.4	35.6	29.8
Current Account Balance	-15.0	-7.6	-2.6	0.6	19.8
CAD (% of GDP)	**-2.1**	**-0.9**	**-0.4**	**0.1**	**3.9**
Capital Account	**28.6**	**13.6**	**23.6**	**17.4**	**0.6**
Balance of Payment (BoP)	**14.0**	**5.1**	**21.6**	**18.8**	**19.8**

Source: RBI, Phillip Capital

- India's current account in healthy surplus of 3.9% of GDP in Q1 FY21, due to sharp fall in imports– causing trade deficit to fall significantly. In FY21 current account could be in surplus, if oil prices remains stable.
- Capital account flows were negligible in Q1 FY21 due to drop in FDI flows into negative territory, and lackluster FPI flows.
- Balance of Payments (BOP) continued to be healthy surplus in Q1 FY21, and is expected to be in surplus for full FY21.

Rupee has been stable, with strong Forex Reserves





- Even though the rupee has been stable/appreciated over the past few months, it has relatively underperformed (other global currencies) in FYTD21.
- Over the long term (10 years), Rupee has fared relatively better than a number of peer EM currencies.
- India's forex reserves have risen to a record high of ~USD 545 billion

Source: Bloomberg, Spark Capital

Domestically, broader markets (mid/small-caps) outperformed

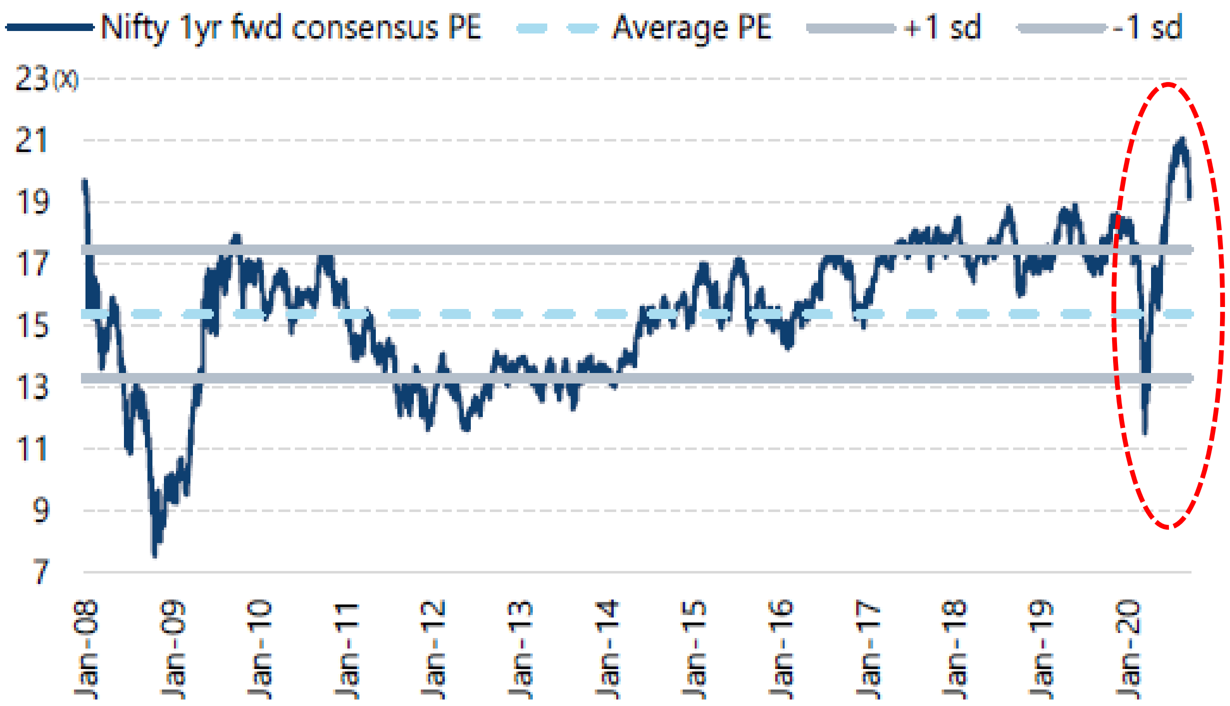
Performance of Domestic Indices as of Sep 2020 (in %)		
Index Name	FYTD 21 (Apr - Sep 20)	1 year
S&P BSE Auto	66.4	6.6
S&P BSE Healthcare	63.0	58.5
IISL NIFTY Smallcap 100	62.0	4.1
S&P BSE IT	55.6	27.5
IISL Nifty Midcap 50	46.7	6.2
S&P BSE Metal	45.3	-8.6
IISL Nifty 500	33.5	0.0
IISL Nifty 50	30.8	-2.0
S&P BSE Capital Goods	26.0	-26.0
S&P BSE Consumer Durables	25.4	-6.2
S&P BSE Realty	23.5	-15.5
S&P BSE Oil and Gas	22.2	-16.4
S&P BSE Power	20.0	-14.5
S&P BSE BANKEX	10.5	-25.9
S&P BSE FMCG	7.8	-6.1
S&P BSE PSU	1.8	-31.8

Source: Morningstar Direct. Data sorted in descending order on the basis of FYTD 21 return

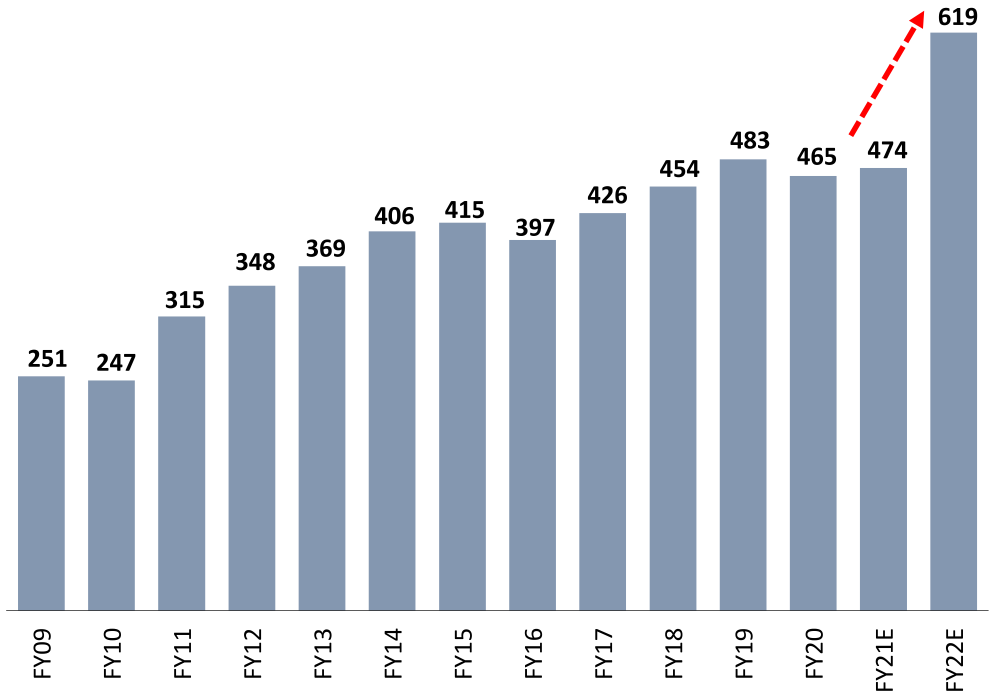
- **Equity markets rallied during FYTD21 (April – Sep 2020)**
  - Due to FII inflows, better Q1FY21 earnings and better economic activity
  - Mid/Small-caps & auto, healthcare & IT outperformed
  - Sectors like PSU, FMCG, banking and power underperformed

Valuations not reasonable presently; Earnings expected to recover in FY22

Nifty Forward P/E Ratio has gone above pre-pandemic levels



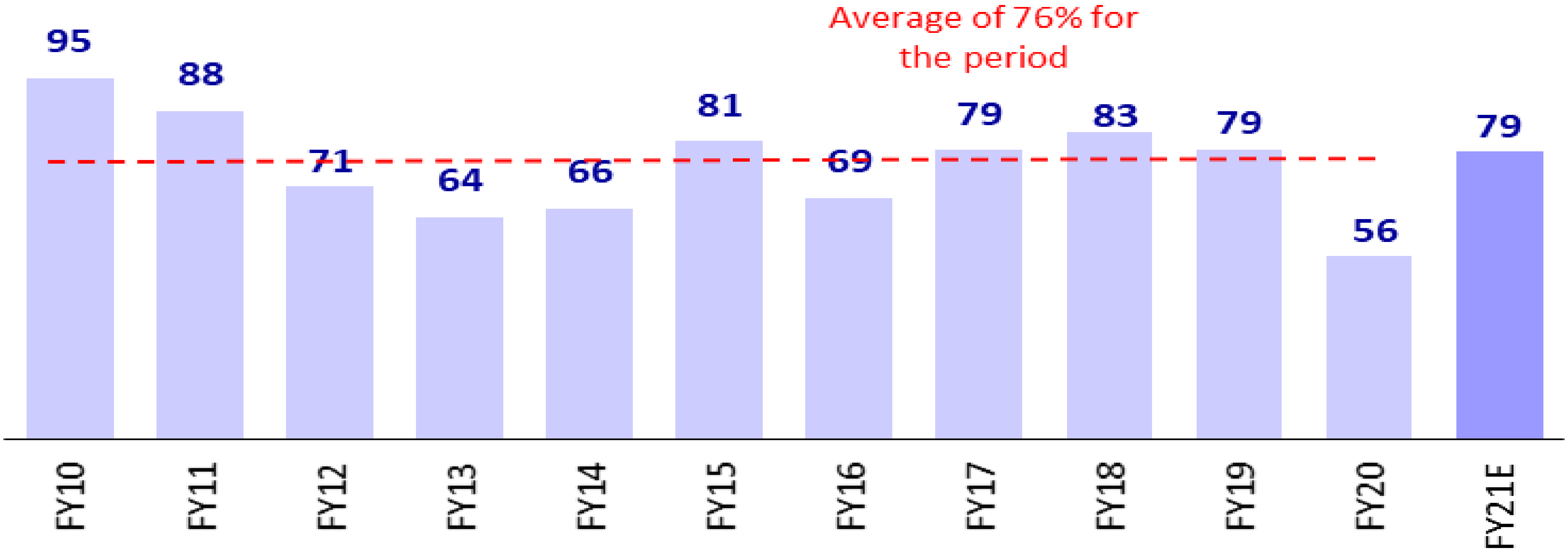
Nifty EPS



Source: Bloomberg, Jefferies, Motilal Oswal

Valuation on Market Cap to GDP ratio near long term average

Market Cap to GDP ratio is back to long term avg.



Source: Bloomberg, Motilal Oswal

Quarterly earnings better than muted expectations, focus on incremental recovery

- Q1FY21 earnings were better than the pessimistic expectations (decline of 28%) largely led by cost reductions.
- Pharma, IT, cement, telecom, OMC’s and select consumer stocks delivered better than expectations
- Looking at Q1FY21 earnings will be futile as the economy was shut down for half of the quarter. Rather the focus should be on incremental recovery and containment of the pandemic
- We expect Nifty earnings to grow by 2% / 30% in FY21/FY22E. This assumes normal business conditions which looks difficult under the current scenario. Downside risks to our estimates exist
- Nifty currently trades at 21x (12 m forward PE), which is higher than its historical average. However, with a corporate earnings recovery expected in FY22, Nifty trades at ~18x PE based on FY22 EPS—which is quite reasonable.

FPI equity inflows have been robust in FYTD 21; DII equity flows have slowed down

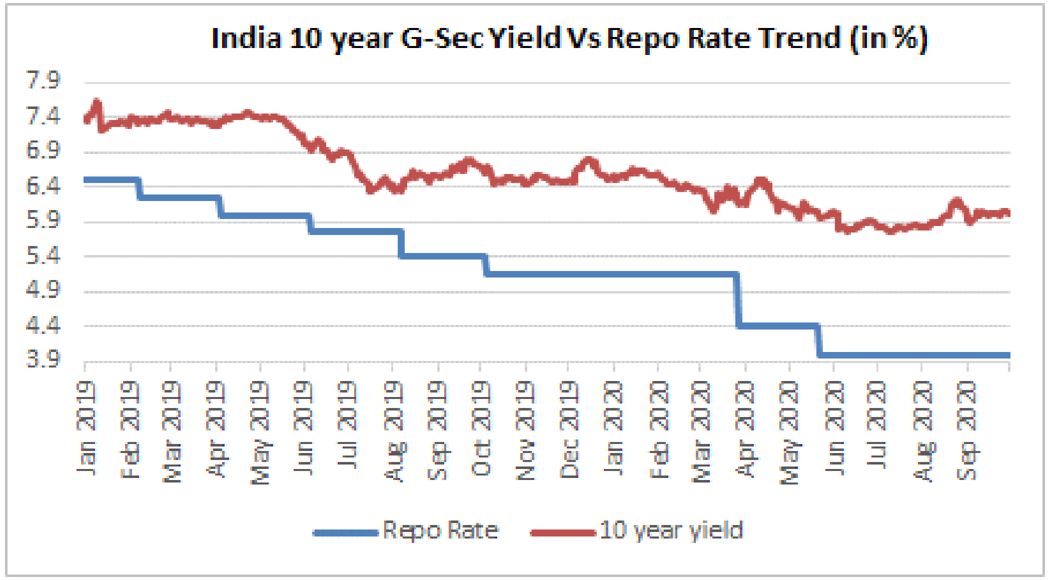
Source: NSDL, Axis Capital	Rs in Crore			
Month-end	**FPIs**	**DIIs**	**MFs**	**Insurance**
30 September 2019	6,674	12,491	11,029	1,461
31 October 2019	14,657	4,675	3,485	1,190
30 November 2019	22,489	-7,971	-4,845	-3,126
31 December 2019	6,118	-741	2,746	-3,487
31 January 2020	14,095	2,250	1,053	1,196
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
31 May 2020	13,001	11,357	6,522	4,835
30 June 2020	18,684	2,434	-612	3,046
31 July 2020	8,590	-10,008	-9,195	-813
31 August 2020	45,637	-11,047	-8,359	-2,689
30 September 2020	-5,690	110	-3,982	4,092

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
FYTD2021 (upto September)	76,110	-7,980	-23,591	15,610

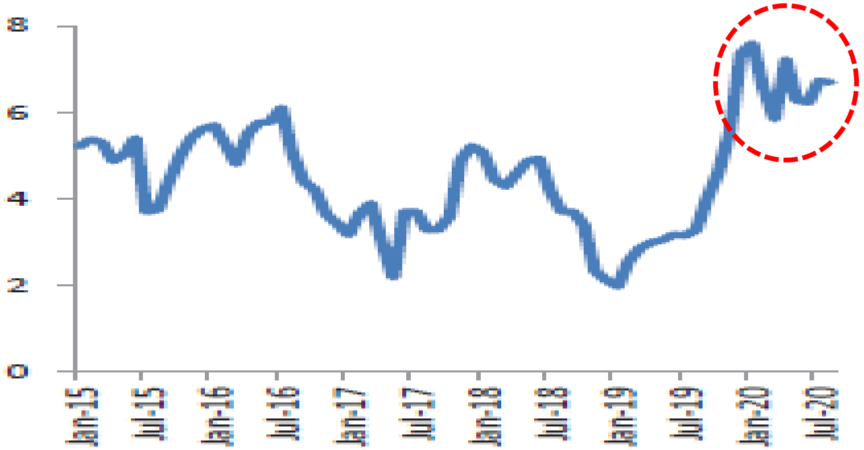
- FPI equity flows recover strongly, esp. in May-August 2020 on the back of strong global liquidity. Sep 2020 saw outflows due to global market volatility.
- However, DII equity flows (especially net purchases by mutual funds) have slowed down, and have seen outflows lately.

RBI maintains status quo with elevated inflation, keeps window open for rate cuts

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



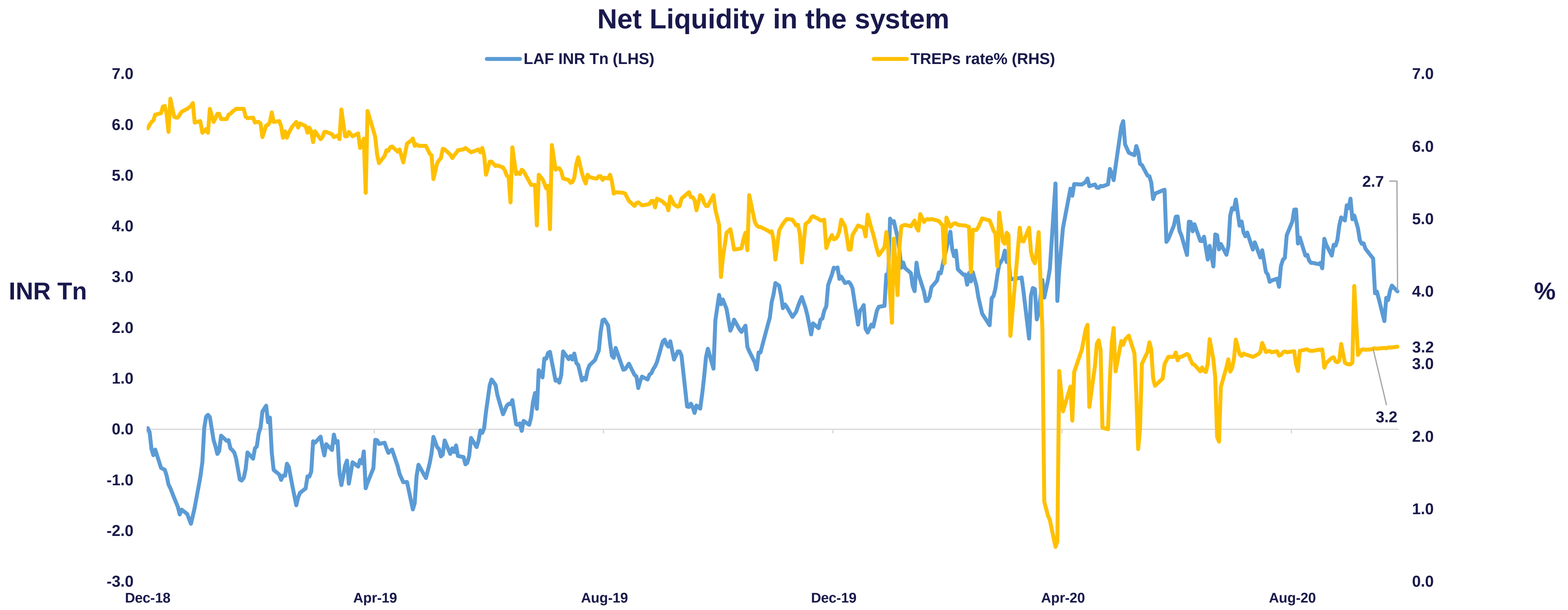
India Consumer Inflation Trend (% YoY)



- RBI kept rates unchanged in Aug 2020 policy.
- RBI expects inflation to be elevated in Q2FY21; moderate in H2FY21
- RBI indicated there is space for monetary action if inflation subsides
- After the recent spike in bond yields, RBI has announced various measures to support the bond markets; yields softened post that.
- We presently prefer the medium-term part of the yield curve as the curve is relatively flat at the longer end.

Source: Bloomberg

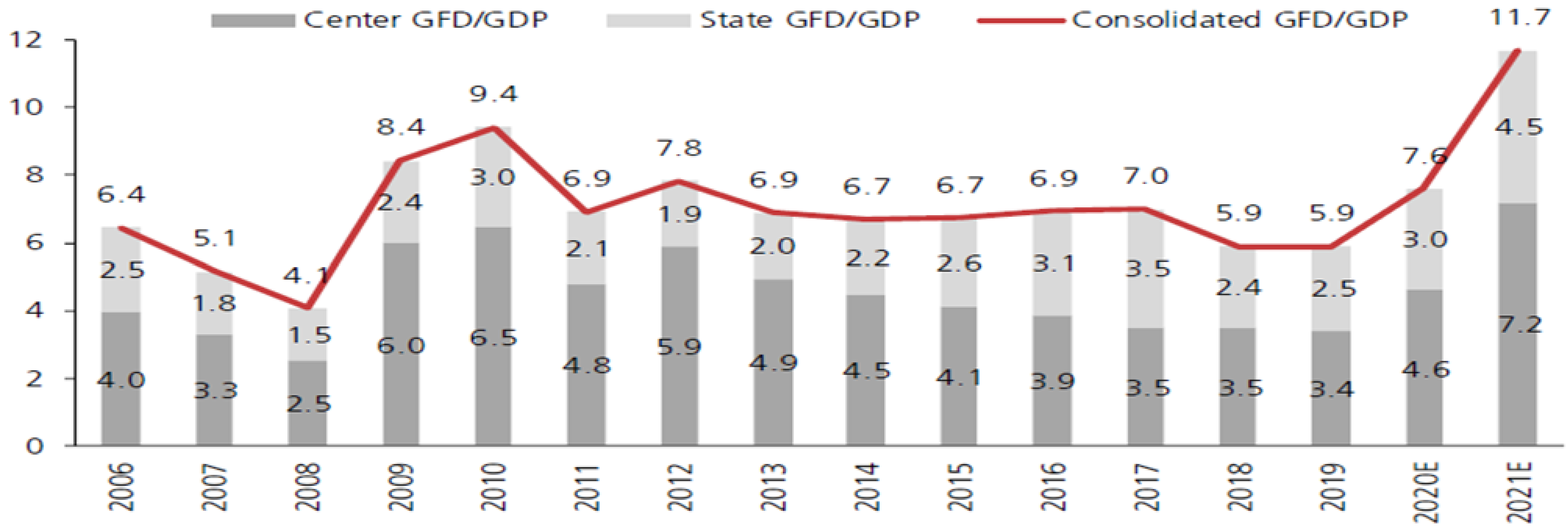
Surplus liquidity keeping short term rates low, risk aversion prevails



- Liquidity in the system has come down lately, but still in comfortable surplus
- Overnight rates at ~3.2%

While fiscal remains a worry, it can wait due to growth concerns

Fiscal deficit to balloon in FY21



- Center's gross borrowing up from Rs 7.8 trln to Rs 12 trln for FY21. Borrowing calendar for H2 FY21 left unchanged at Rs 4.3 trln
- State's allowed to increase their fiscal deficit from 3% to 5% of GDP subject to conditions.
- Consolidated fiscal deficit (both centre & states) could rise to 11-12% of GDP in FY21

Source: Kotak Institutional Equities

Key Thoughts – How Covid is impacting us ?

- Shift in consumer behavior helping new age companies / business models
  - Digital payments
  - Delivery apps (Edu Tech, food delivery, groceries etc.)
  - Online platforms (MS Teams, Zoom etc.)

- Some sectors benefiting, some adversely affected

<u>Positively impacted</u>	<u>Adversely impacted</u>
- Pharma	- Travel & Hospitality
- IT / Tech	- Outdoor based consumer businesses (malls, movies halls etc.)

- Push through important reforms
  - Farm reforms to reduce hindrance in free flow of agricultural produce
  - Opening up of mining and minerals – any party can bid and liberalized entry norms
  - Freeing up of airspace for civilian use and more airports to be privatized
  - Strategic sectors to have at least 1 PSE, but not more than 4 PSEs – in other sectors PSEs to be privatized
  - Labor and Land reforms

THANK YOU

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