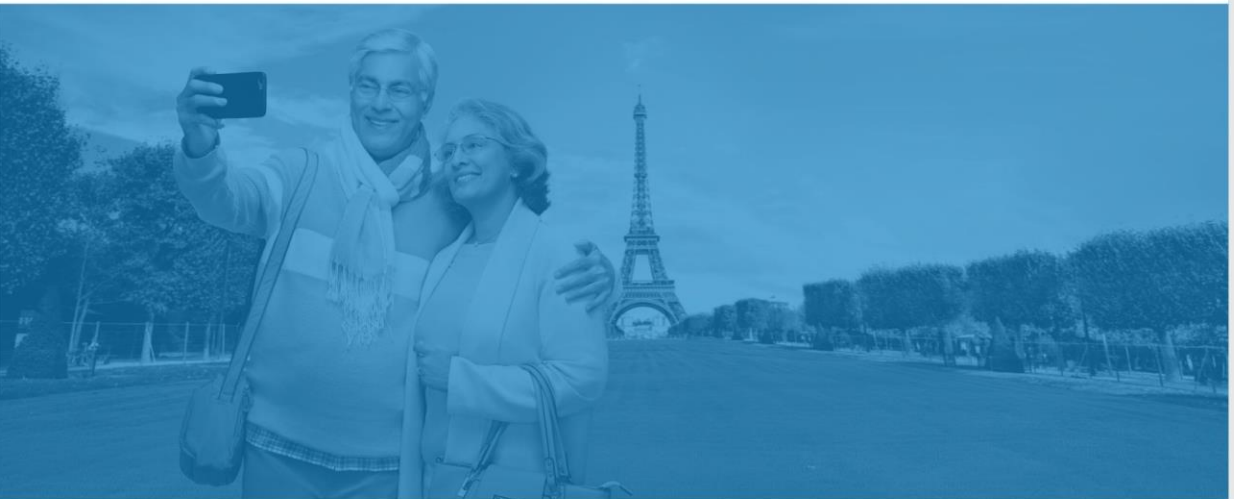


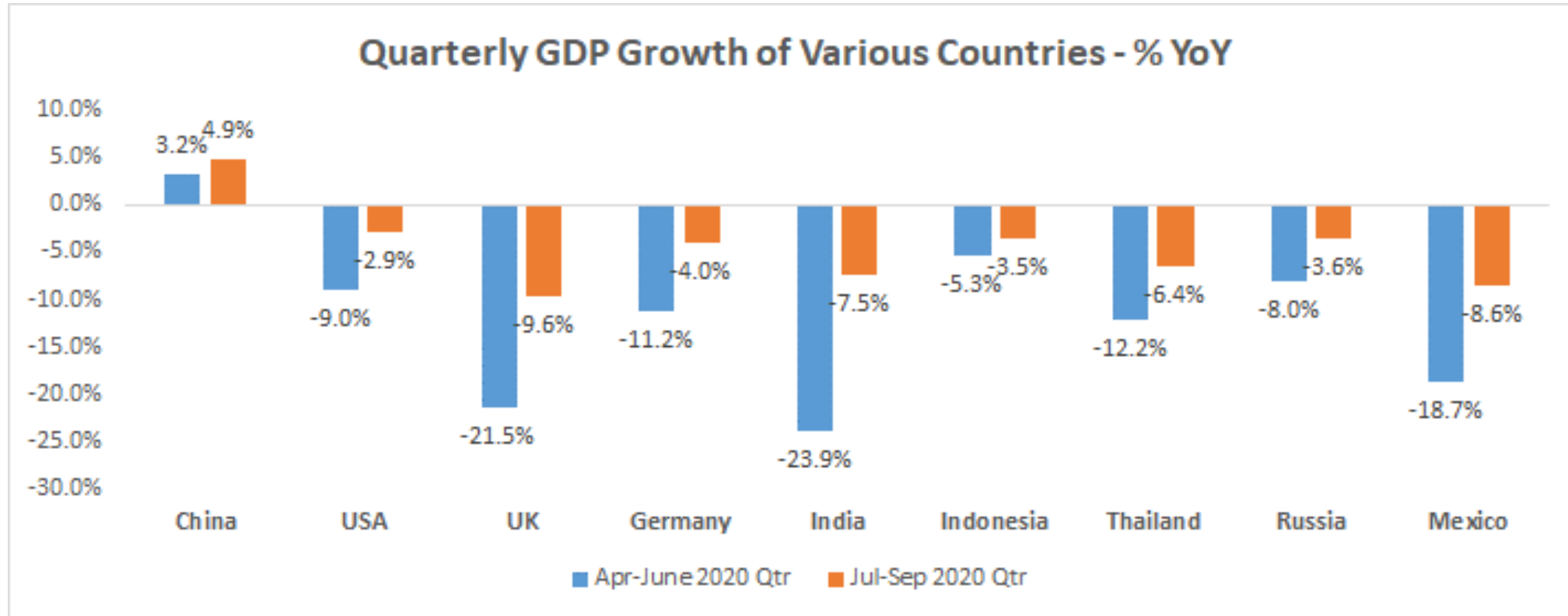
Macro & Market Overview

December 2020

LIFE GOALS. **DONE.**



Global growth slowdown is not as sharp as feared; good recovery seen in Jul-Sep 20 Qtr



- Sharp recovery seen in Q2 FY21 (July –Sep 20) on account of opening up of economies, post lock downs imposed earlier
- In India too, Q2 FY21 GDP contraction at -7.5% was better than RBI's projection of -9.8%

Most global markets have recovered and surpassed pre-covid levels

| Performance of International Indices (ended Nov 2020, in %) | | | | | | |
|---|------------------|-------------|------------|------------|-------------|------------|
| Index Name | Country / Region | FYTD 21 | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs |
| IISL Nifty 50 | India | 50.8 | 7.6 | 8.2 | 10.3 | 8.3 |
| BOVESPA | Brazil | 49.1 | 0.6 | 14.8 | 19.3 | 4.9 |
| KOSPI Korea | South Korea | 47.7 | 24.1 | 1.5 | 5.4 | 3.1 |
| MSCI EM PR USD | Emerging Mkts | 42.0 | 15.9 | 2.4 | 8.2 | 1.1 |
| TSEC TAIEX | Taiwan | 41.4 | 19.4 | 9.1 | 10.5 | 5.1 |
| MSCI Asia Ex Japan USD | Asia ex Japan | 41.1 | 22.2 | 4.3 | 9.4 | 3.9 |
| S&P 500 | US | 40.1 | 15.3 | 11.0 | 11.7 | 11.9 |
| Nikkei 225 | Japan | 39.7 | 13.5 | 5.2 | 6.0 | 10.3 |
| MSCI World PR USD | World | 39.4 | 12.7 | 7.5 | 8.8 | 8.0 |
| FSE DAX TR | Germany | 33.8 | 0.4 | 0.7 | 3.1 | 7.1 |
| S&P/ASX 200 | Australia | 28.4 | -4.8 | 3.0 | 4.8 | 3.6 |
| RTS RTSI PR USD | Russia | 26.4 | -10.9 | 4.2 | 8.6 | -2.2 |
| CAC 40 | France | 25.5 | -6.5 | 0.9 | 2.2 | 4.3 |
| FTSE SET All Share | Thailand | 23.8 | -13.7 | -7.6 | -0.3 | 2.6 |
| JSX Composite | Indonesia | 23.7 | -6.6 | -2.5 | 4.8 | 4.7 |
| Shanghai Composite | China | 23.3 | 18.1 | 0.7 | -0.3 | 1.9 |
| FTSE Bursa Malaysia KLCI | Malaysia | 15.7 | 0.1 | -3.1 | -1.3 | 0.5 |
| FTSE/SGX STI | Singapore | 13.1 | -12.1 | -6.5 | -0.4 | -1.1 |
| Hang Seng | Hong Kong | 11.6 | 0.0 | -3.4 | 3.7 | 1.4 |
| FTSE 100 | UK | 10.5 | -14.7 | -5.1 | -0.3 | 1.3 |

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 – Nov 2020)

- Indian markets among the top performers
 - Liquidity infusion by major central banks
 - Positive news on vaccine development
- Over the long term (5 & 10 years) Indian market has outperformed most peer Emerging Markets

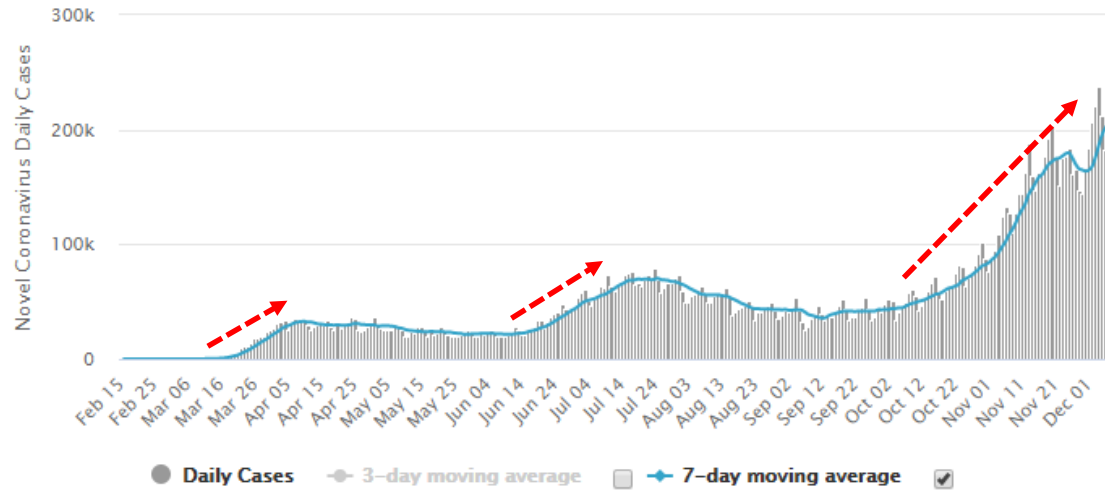
World market cap has crossed US\$100 trn for the first time



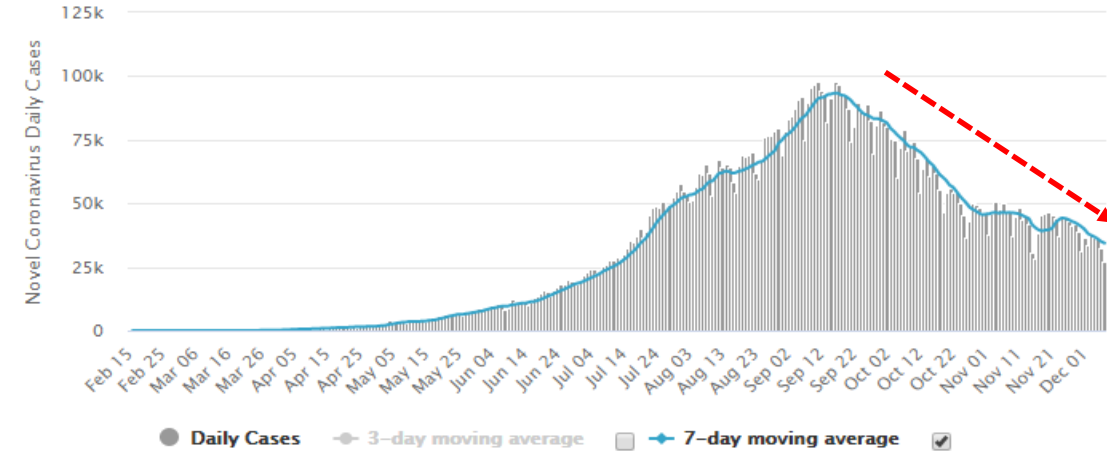
- Market capitalization of all listed stocks in the world crossed the US\$100 trn mark for the first time in Dec'2020.
- This is a sharp recovery from Mar'2020 levels when the world market cap declined from US\$87 trn to US\$68 trn due to Covid-19.

US seeing Covid cases escalating, India sees new cases moderating significantly; recovery rate risen to above 90% & mortality at ~1.5%

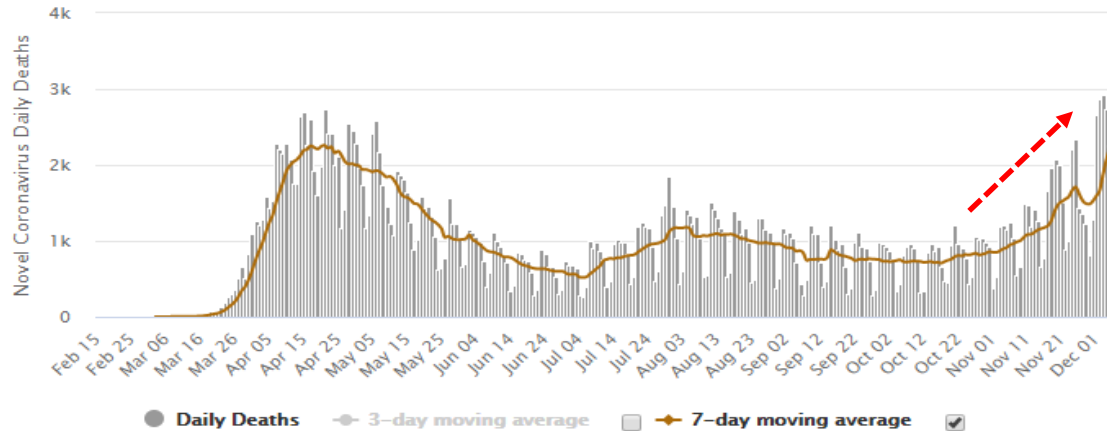
US – Daily New Covid Cases



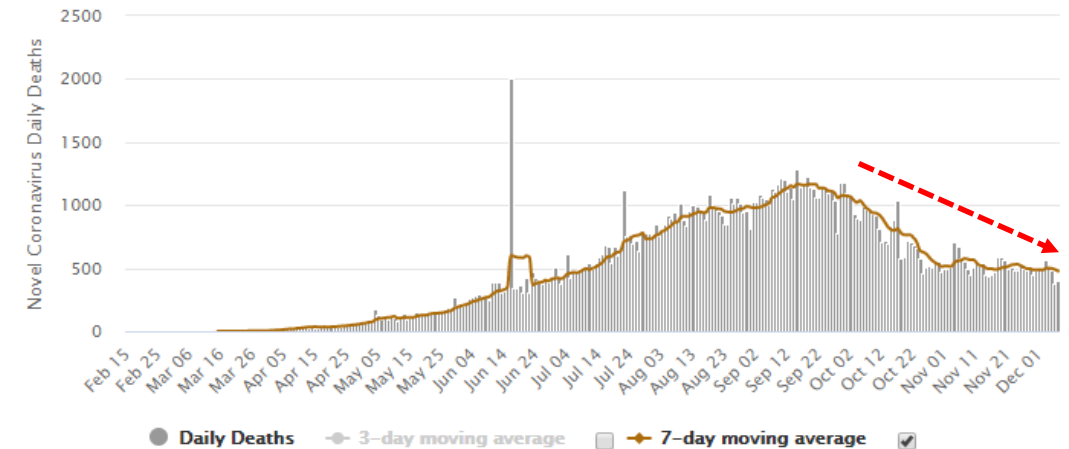
India – Daily New Covid Cases



US– Daily New Covid Deaths

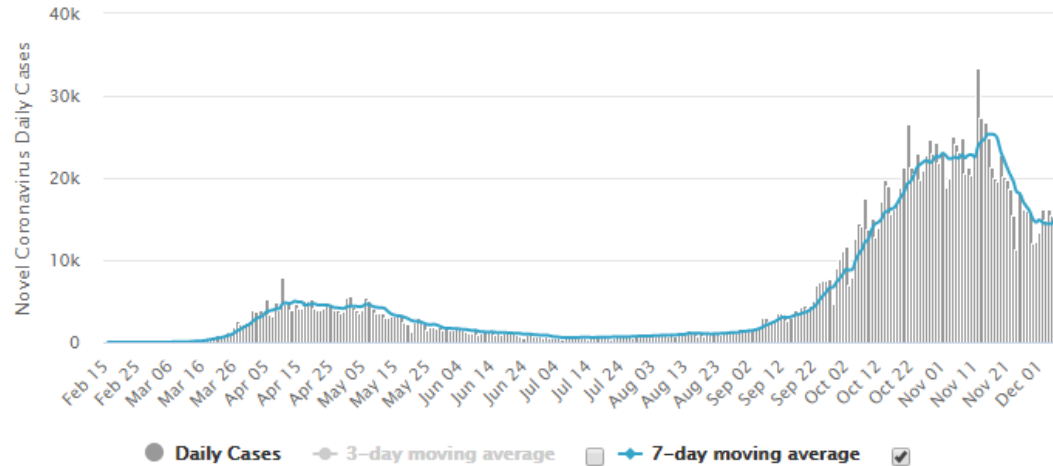


India – Daily New Covid Deaths

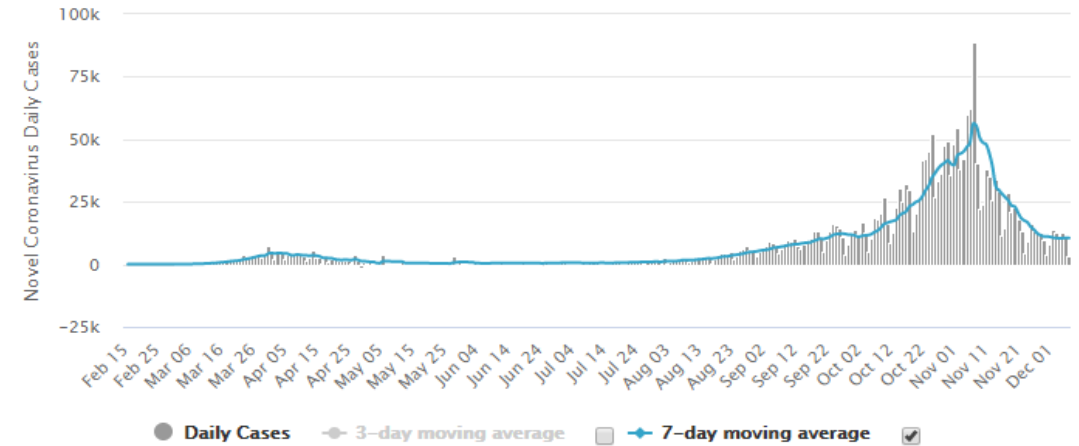


A second wave of Covid-19 cases in Europe has moderated; mortality rate is relatively lower this time

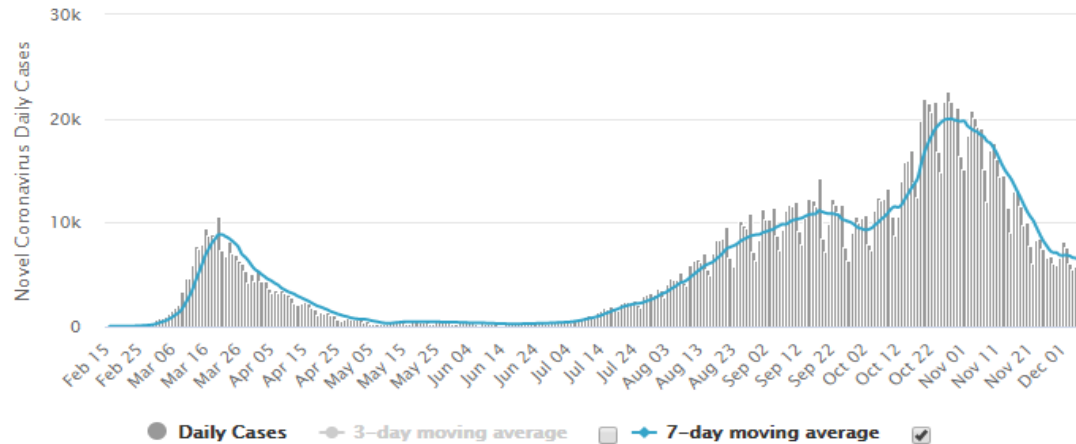
UK – Daily New Covid Cases



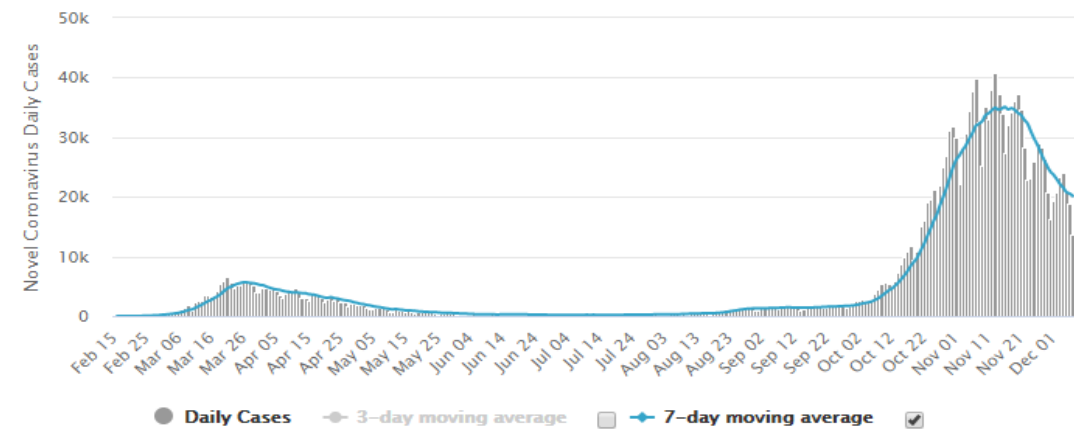
France – Daily New Covid Cases



Spain – Daily New Covid Cases



Italy – Daily New Covid Cases



India Q2 FY21 GDP – Better than expectation

India Quarterly GDP Growth trend (YoY in %)

| GDP | 2019-20 | | | 2020-21 | |
|------------------------------------|-------------|-------------|-------------|---------------|--------------|
| % yoy | Q2 | Q3 | Q4 | Q1 | Q2 |
| Govt Final Consumption Expenditure | 14.2% | 13.4% | 13.6% | 16.4% | -22.2% |
| Pvt Final Consumption Expenditure | 6.4% | 6.6% | 2.7% | -26.7% | -11.3% |
| Gross Fixed Capital Formation | -3.9% | -5.2% | -6.5% | -47.1% | -7.3% |
| Exports | -2.2% | -6.1% | -8.5% | -19.8% | -1.5% |
| Imports | -9.4% | -12.4% | -7.0% | -40.4% | -17.2% |
| GDP | 4.4% | 4.1% | 3.1% | -23.9% | -7.5% |

- GDP contraction eased to 7.5% in Q2 FY21, primarily led by recovery in gross fixed capital formation & exports.
- Govt. expenditure registered a record contraction in Q2 FY21

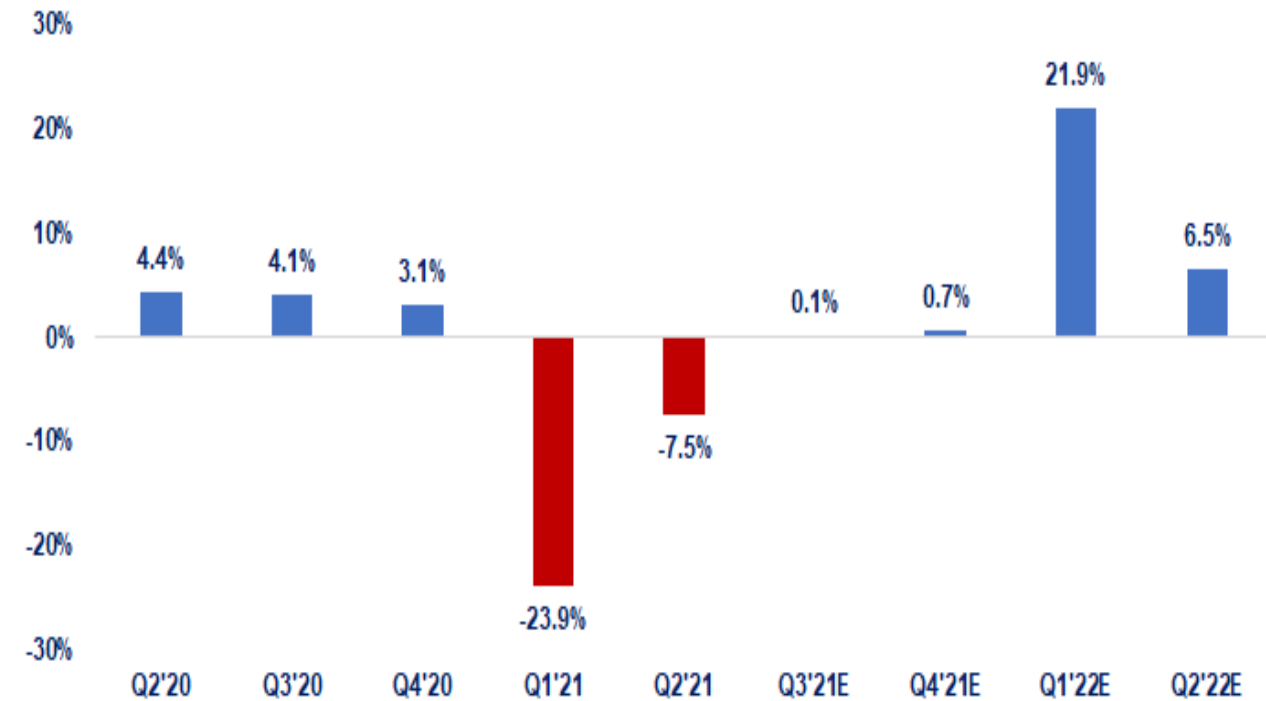
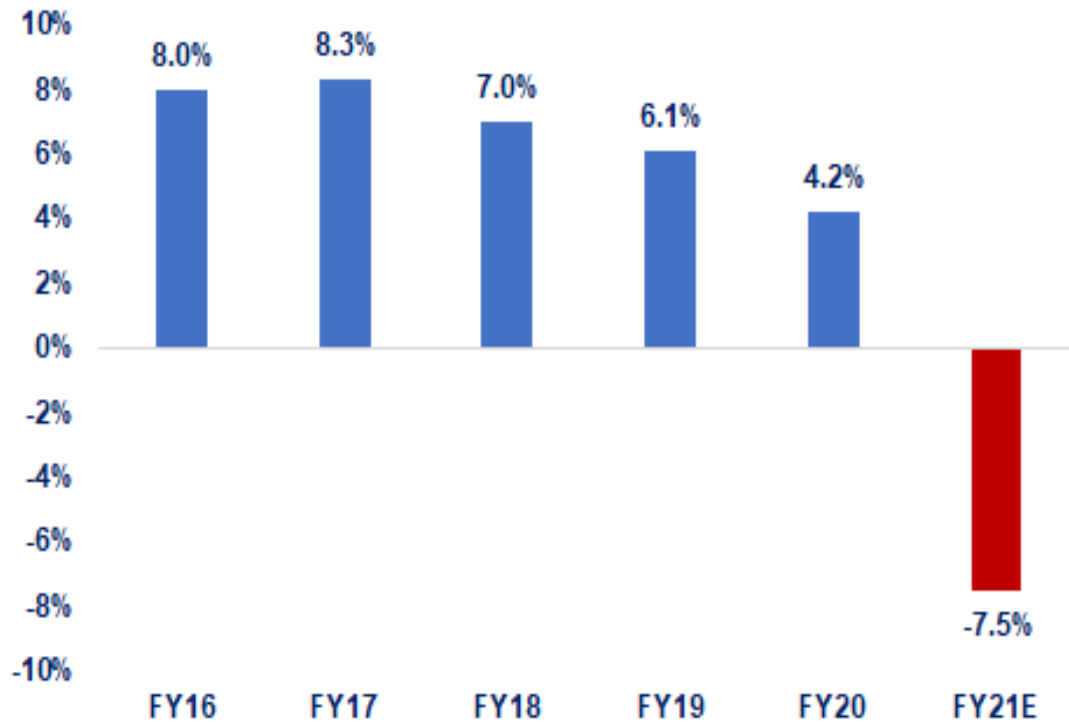
India Quarterly GVA Growth trend (YoY in %)

| GVA | 2019-20 | | | 2020-21 | |
|-------------|-------------|-------------|-------------|---------------|--------------|
| %yoy | Q2 | Q3 | Q4 | Q1 | Q2 |
| Agriculture | 3.5% | 3.6% | 5.9% | 3.4% | 3.4% |
| Industry | 0.5% | -0.3% | -0.6% | -38.1% | -2.1% |
| Services | 6.5% | 5.7% | 4.4% | -20.6% | -11.4% |
| GVA | 4.3% | 3.5% | 3.0% | -22.8% | -7.0% |

- Services sector continued to drag down growth in Q2, whereas industry registered quicker recovery

India's Q3 & Q4 FY21 GDP growth is now expected to be positive

India GDP – Trend and Projections (% YoY)

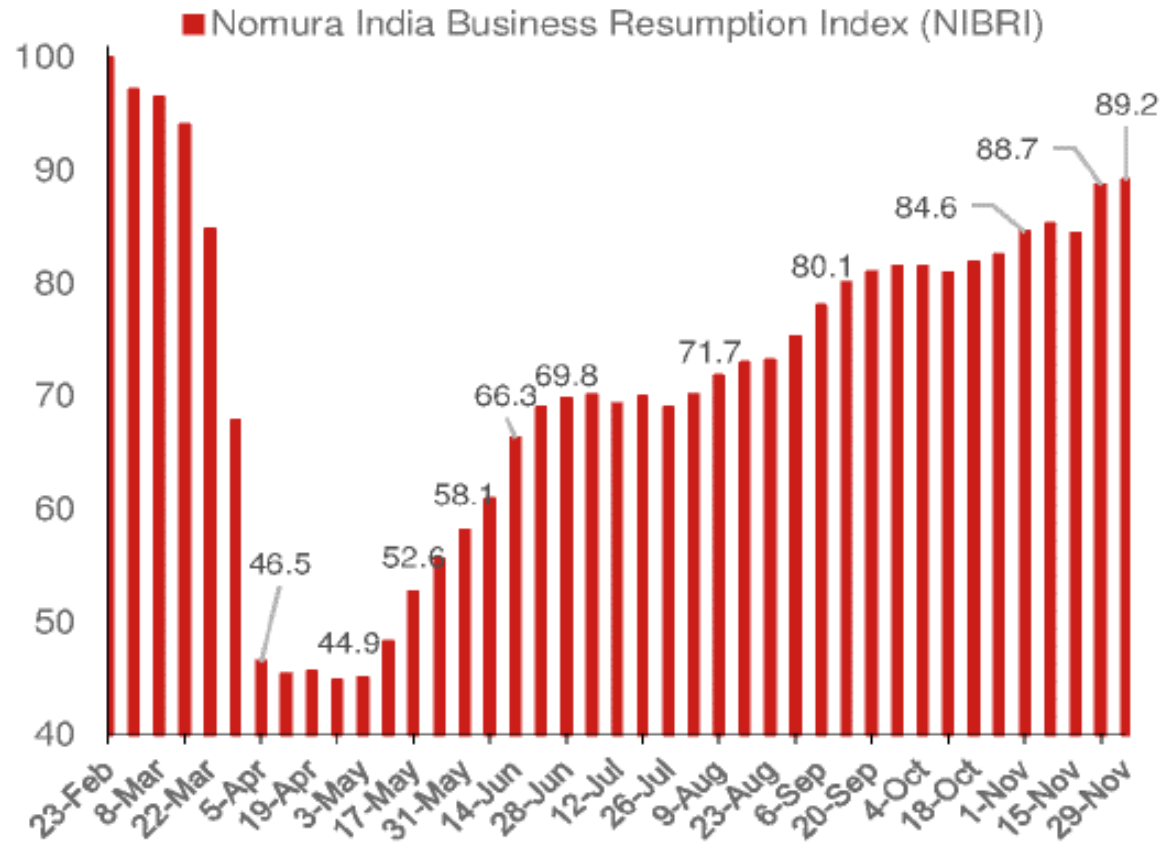


- RBI now project's India's GDP to contract by 7.5%YoY in FY21 vs earlier forecast of 9.5% contraction

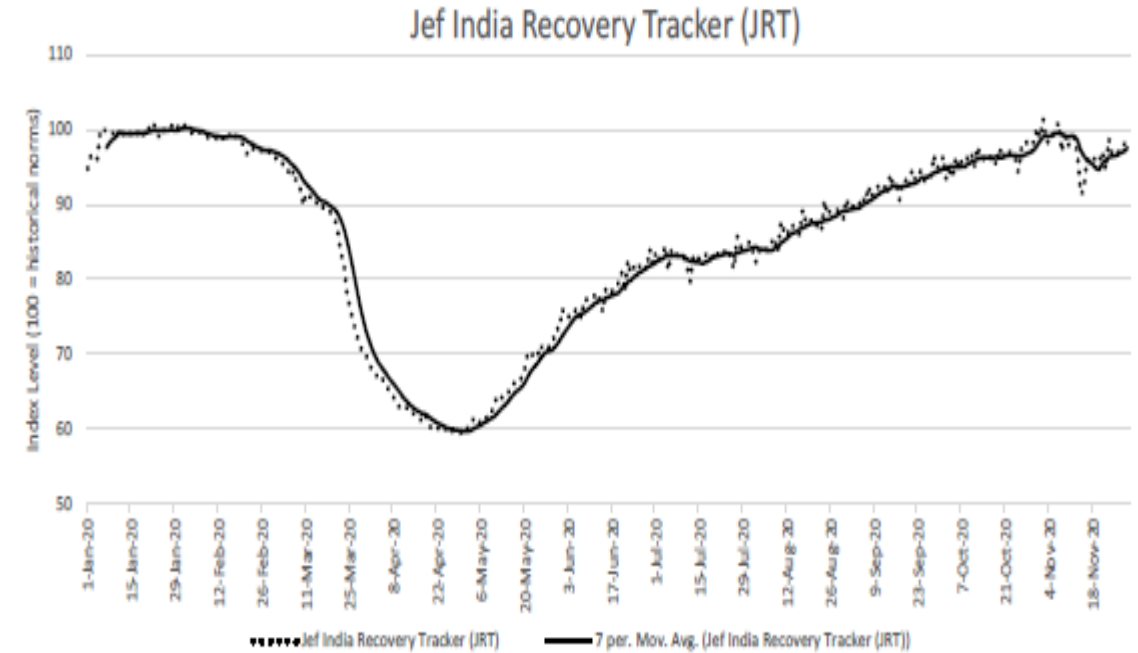
- RBI now estimates GDP growth to turn positive in Q3 FY21 vs Q4 FY21 earlier
- Q1 FY22 expected to register strong growth (helped by base effect)

Economic / Business Activity in India back to ~90-100% of Pre-Covid levels

Nomura India Business Resumption Index indicates that economic activity is back to ~90% of Pre-Covid levels

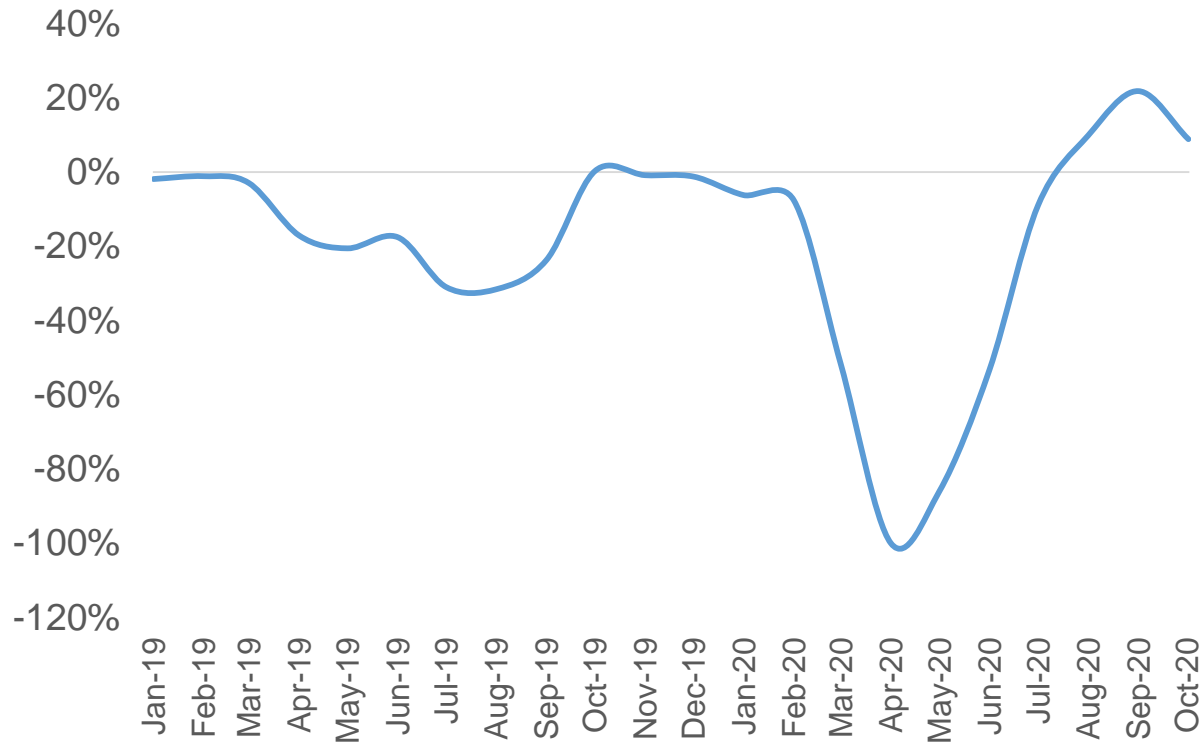


Jefferies India Economic Activity index indicates that overall activity is back to ~100% of Pre-Covid levels

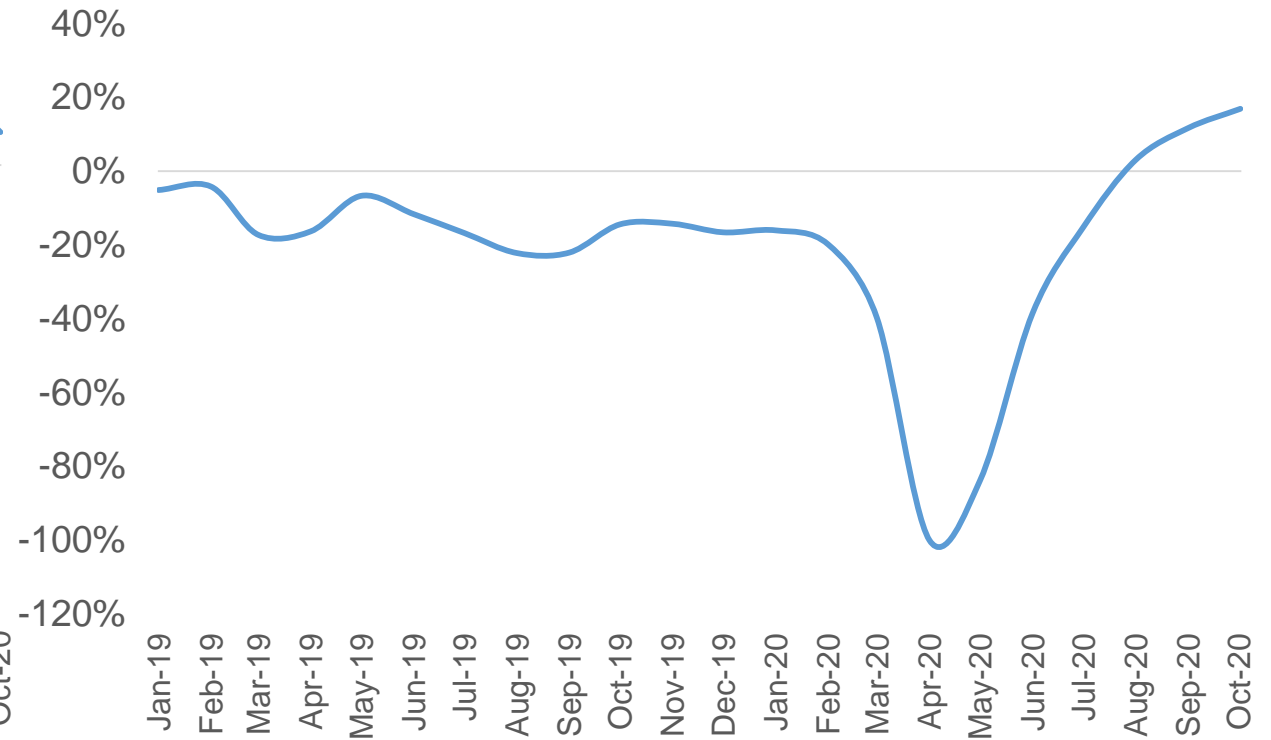


High Frequency Indicators like auto sales point to strong recovery

Cars sales (% YoY)



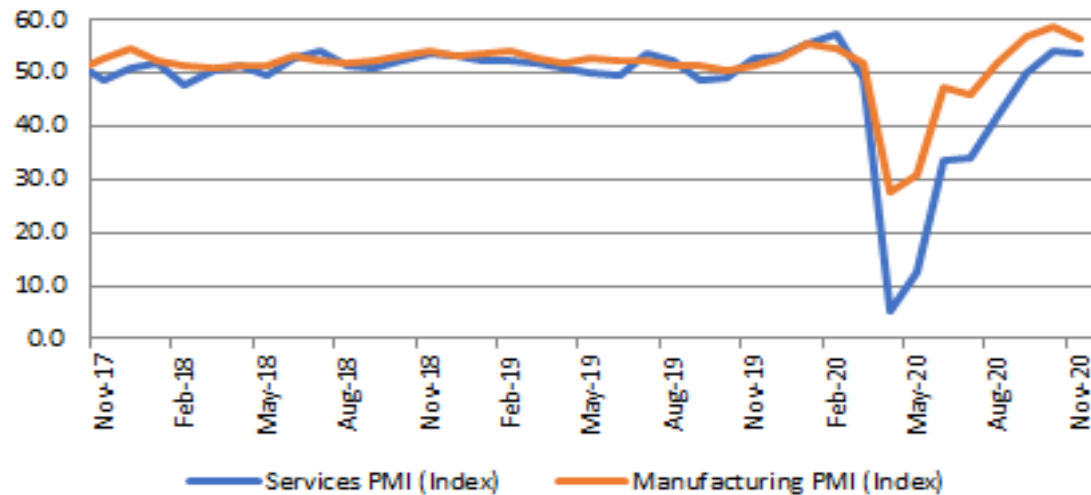
2W sales (% YoY)



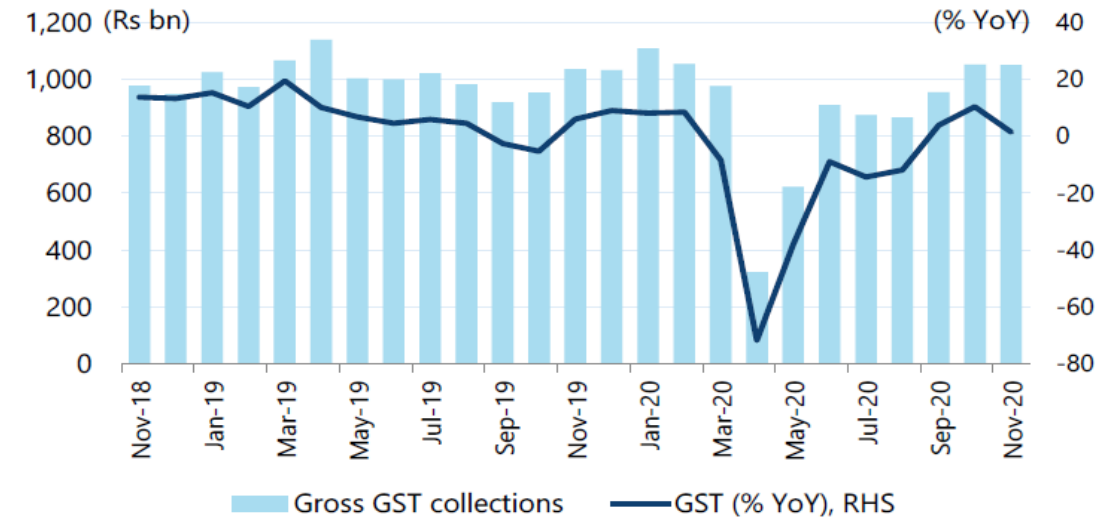
- Oct 2020 Car sale volumes were 3.10 lakh vs 2.72 lakh in Sep 2020
- Oct 2020 2-wheeler sale volumes were 20.54 lakh vs 18.50 lakh in Sep 2020

Other key indicators also pointing to strong recovery

Manufacturing & Services PMI surges into expansion territory



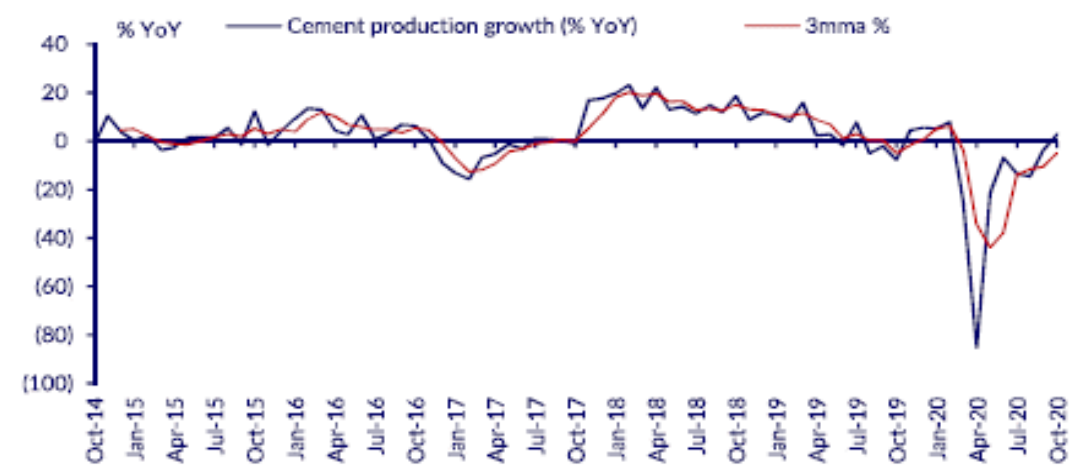
GST collections have seen strong recovery



Steel production has seen healthy recovery



Cement production has also seen healthy recovery



Some of the reform measures helping revive demand

- Coal sector private participation progressed well with 19 mines allocating to private sector
- PLI- Production linked incentive scheme to push domestic manufacturing
 - 1st phase Rs. 50,000 cr to Mobile, API, medical equipment etc.
 - 2nd phase Rs. 1,50,000 cr for ten sectors
- Credit support to MSME and NBFC sectors achieved desired result
 - Most of the companies are able to raise debt at low cost

FPI equity inflows have been robust in FYTD 21; DIIs register outflows

| Source: NSDL, Axis Capital | Rs in Crore | | | |
|----------------------------|-------------|---------|---------|-----------|
| Month-end | FPIs | DIIs | MFs | Insurance |
| 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 |
| 31 October 2020 | 18,400 | -17,318 | -14,344 | -2,974 |
| 30 November 2020 | 70,896 | -48,339 | -30,760 | -17,579 |

| 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 November) | 1,65,406 | -73,637 | -68,695 | -4,943 |

- FPI equity flows recover strongly, on the back of strong global liquidity. Month of November saw record high FPI inflow.
- However, DIIs have seen outflows. Month of November saw record high DII outflow.

Market rally has become broad-based

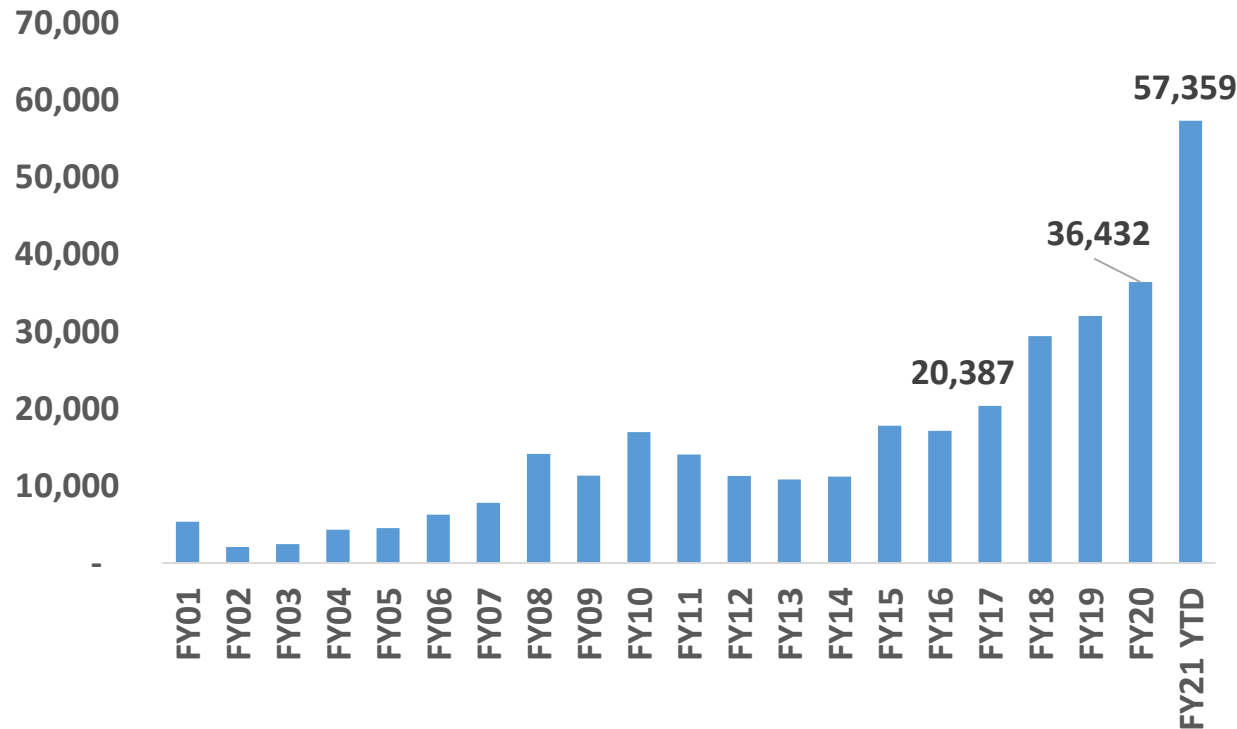
| Performance of Domestic Indices as of Nov 2020 (in %) | | | |
|--|-------|---------|--------|
| Index Name | 1 mth | FYTD 21 | 1 year |
| S&P BSE Auto | 14.9 | 87.3 | 11.2 |
| IISL NIFTY Smallcap 100 | 13.0 | 82.9 | 13.0 |
| S&P BSE Metal | 24.5 | 78.9 | 4.5 |
| IISL Nifty Midcap 50 | 19.1 | 74.7 | 17.7 |
| S&P India Small TR | 14.1 | 73.4 | 21.4 |
| S&P BSE IT | 2.7 | 68.5 | 45.4 |
| S&P BSE Healthcare | 5.5 | 67.3 | 49.4 |
| S&P BSE Capital Goods | 20.2 | 55.0 | -2.1 |
| S&P BSE BANKEX | 23.7 | 53.7 | -6.4 |
| IISL Nifty 500 | 11.9 | 53.2 | 9.2 |
| S&P BSE Realty | 14.3 | 52.3 | -4.8 |
| IISL Nifty 50 | 11.4 | 50.8 | 7.6 |
| S&P BSE Power | 15.6 | 45.1 | 3.9 |
| S&P BSE Consumer Durables | 12.3 | 39.7 | 8.7 |
| S&P BSE Oil and Gas | 9.3 | 32.2 | -12.6 |
| S&P BSE PSU | 16.2 | 18.7 | -25.1 |
| S&P BSE FMCG | 7.4 | 14.3 | 0.0 |

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

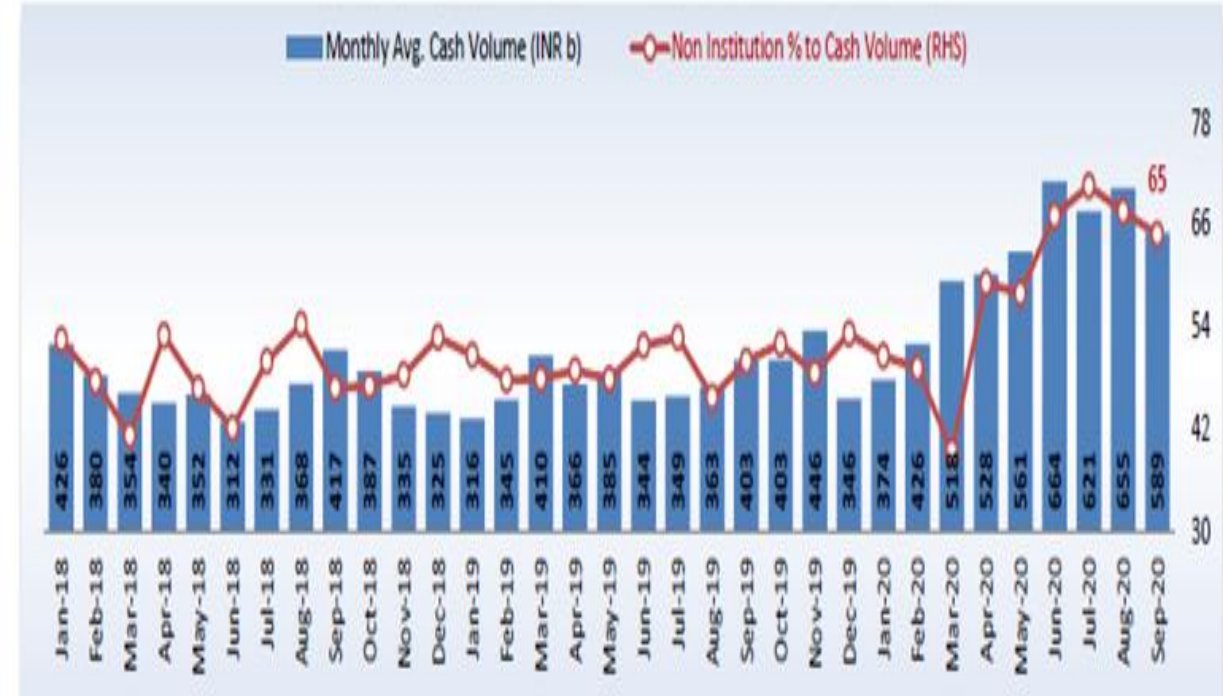
- **Equity markets rallied during FYTD21 (April – Nov 2020)**
 - Due to strong FII inflows, positive vaccine news, healthy corporate earnings and strong recovery in economic activity
 - Mid/Small-caps, auto metals, IT and healthcare outperformed
 - Sectors like PSU, FMCG, oil & gas underperformed.
- **Equity markets registered a strong rally in the month of November.**
Cyclical sectors like banking, capital goods, metals outperformed

Equity market activity has been buoyant

NSE Daily Avg. Cash market Volumes (Rs. cr)



Retail participation in equity markets has gone up

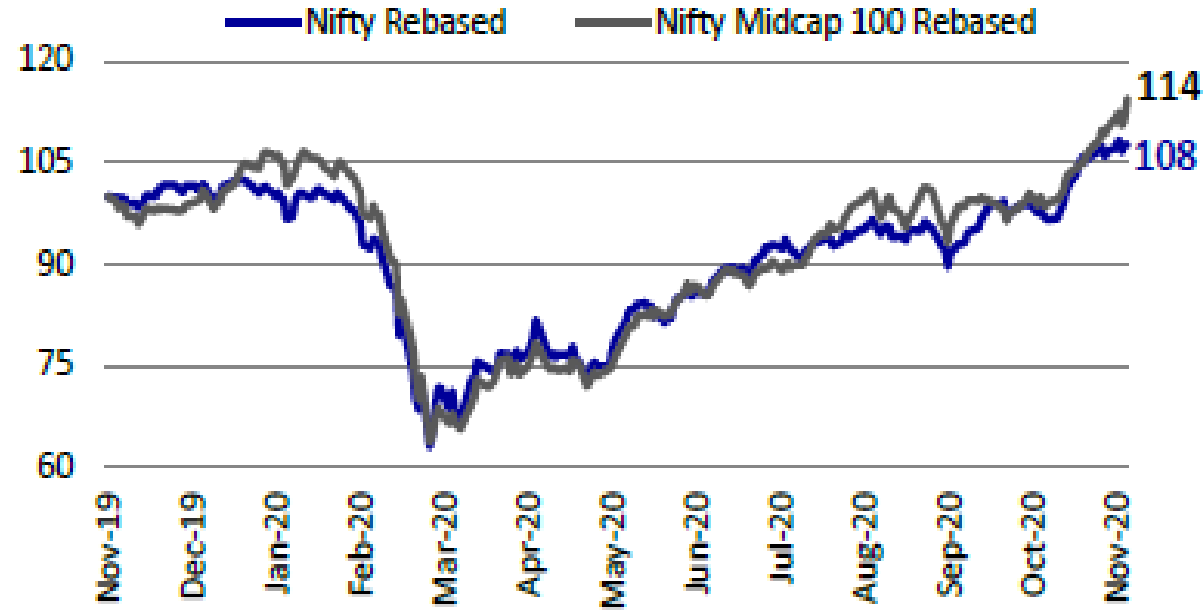


- Equity market activity has been buoyant with NSE cash market volumes picking up.
- Activity in the primary market has also picked up with a number of successful IPOs since July'2020.

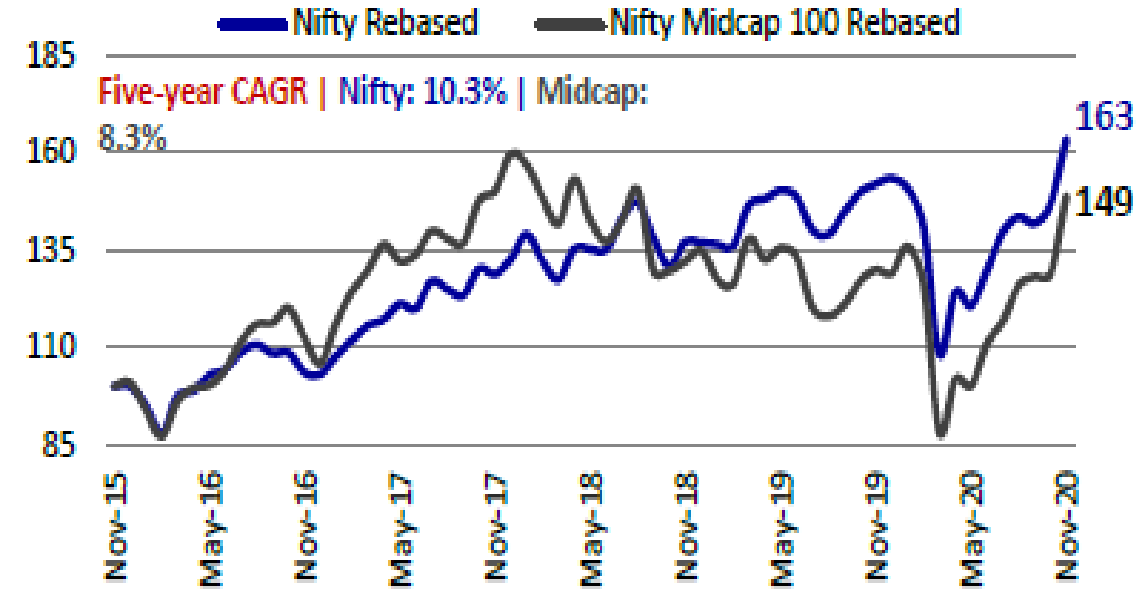
- Overall activity in equity markets are up significantly in FY21 and within that retail participation is even higher.
- Retail participation in equity markets is running at ~65% levels in FY21 v/s ~50% in earlier years.

Mid-caps playing catch-up & have seen a strong rally; but still a bit shy of 2018 beg. peak

Midcap index has outperformed in CYTD 20 & over 1 year



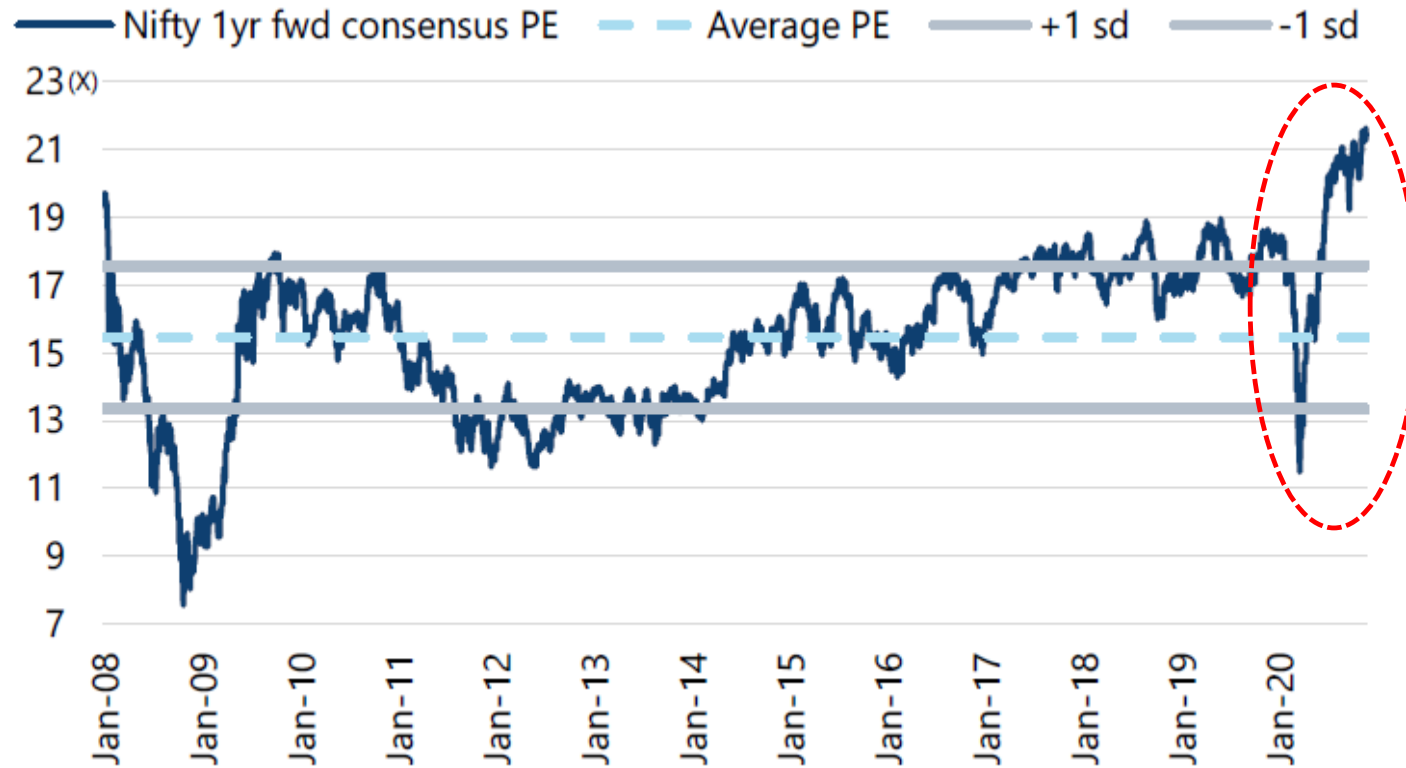
Midcap index has underperformed Nifty index (large-cap) over past 5 yrs, due to relative underperformance in CY18 & CY19



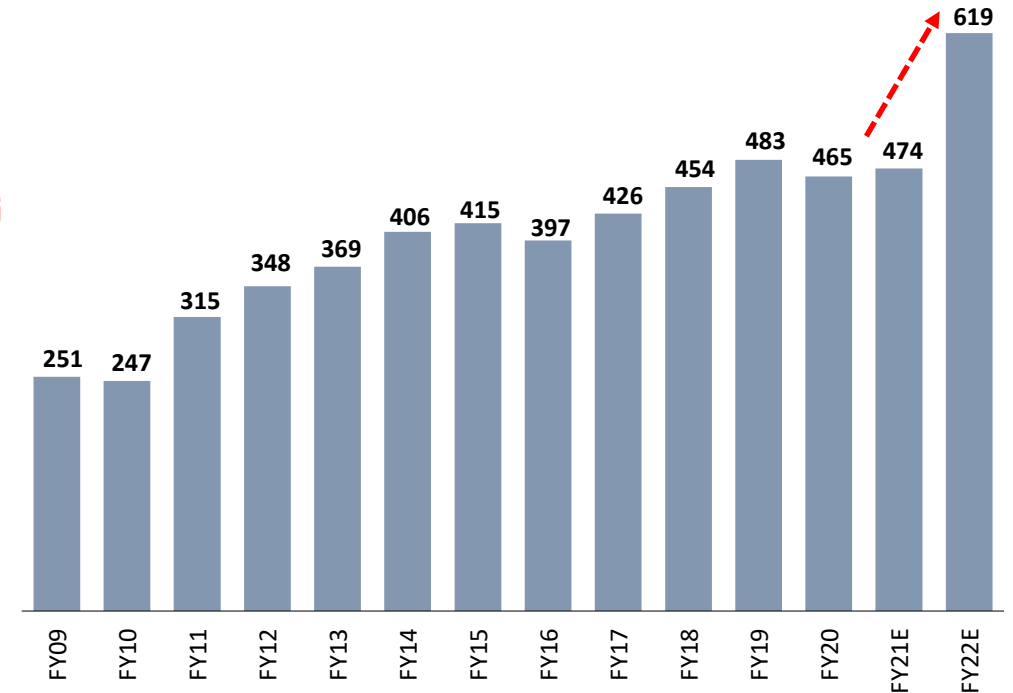
- Even though Nifty 50 index (large-cap) is at all time high, Nifty Midcap index is a bit shy of 2018 beginning peak.

Valuations not reasonable presently; Earnings expected to recover in FY22

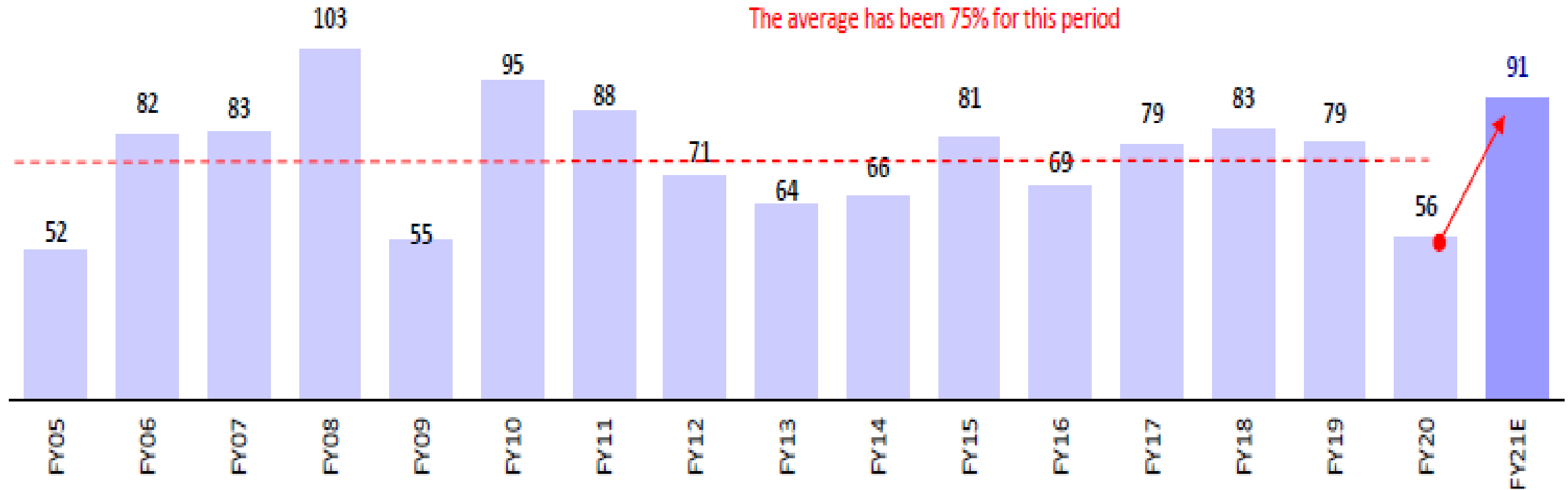
Nifty Forward P/E Ratio has gone above pre-pandemic levels



Nifty EPS

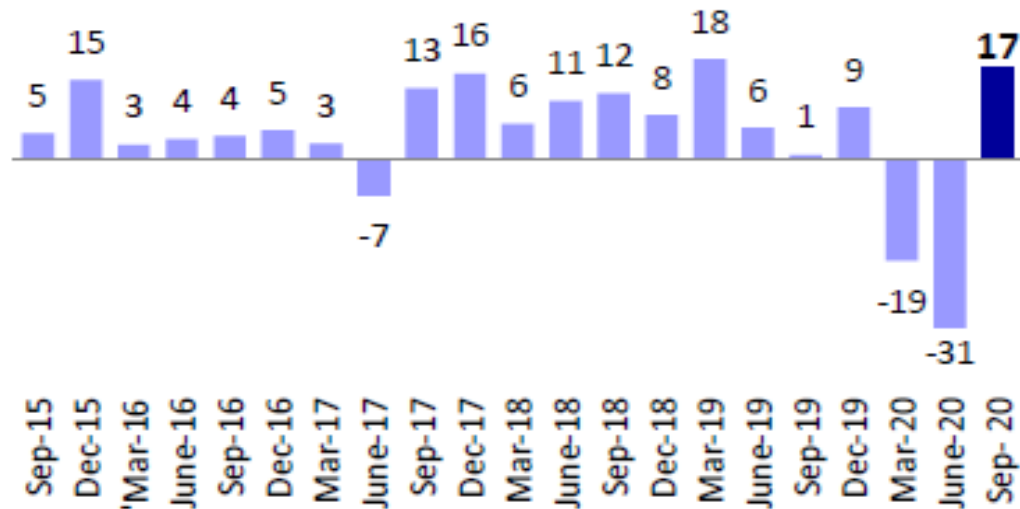


Valuation on Market Cap to GDP above long term average

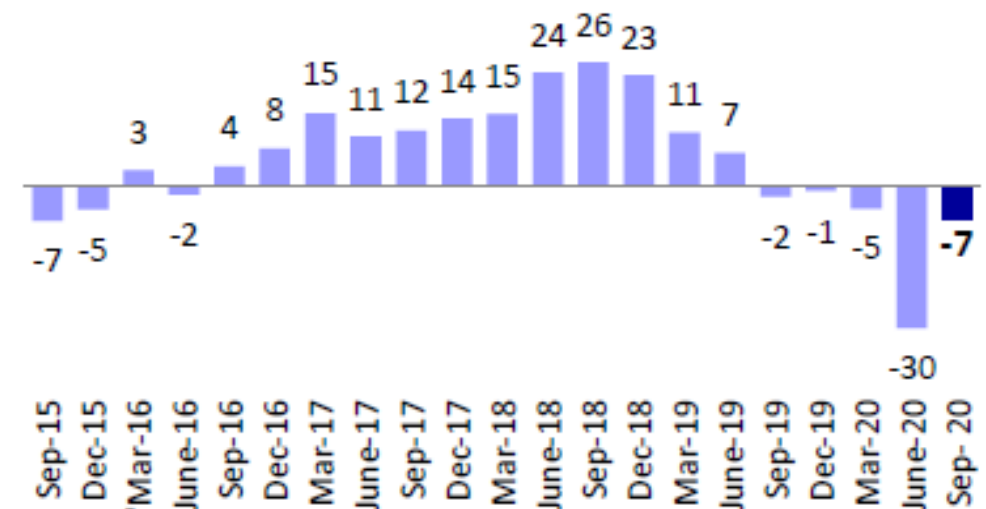


Q2 FY21 earnings have come in better than expected, helped by cost control

Nifty Q2 FY21 PAT growth (%YoY) strong vs expectation of decline

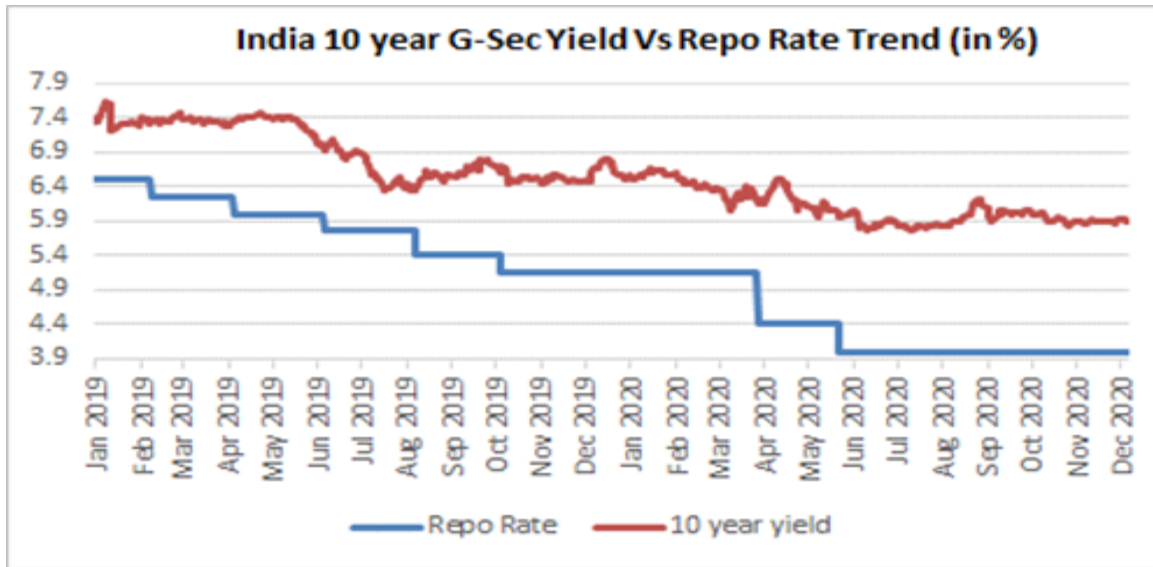


Nifty Q2 FY21 Sales decline (%YoY), in-line

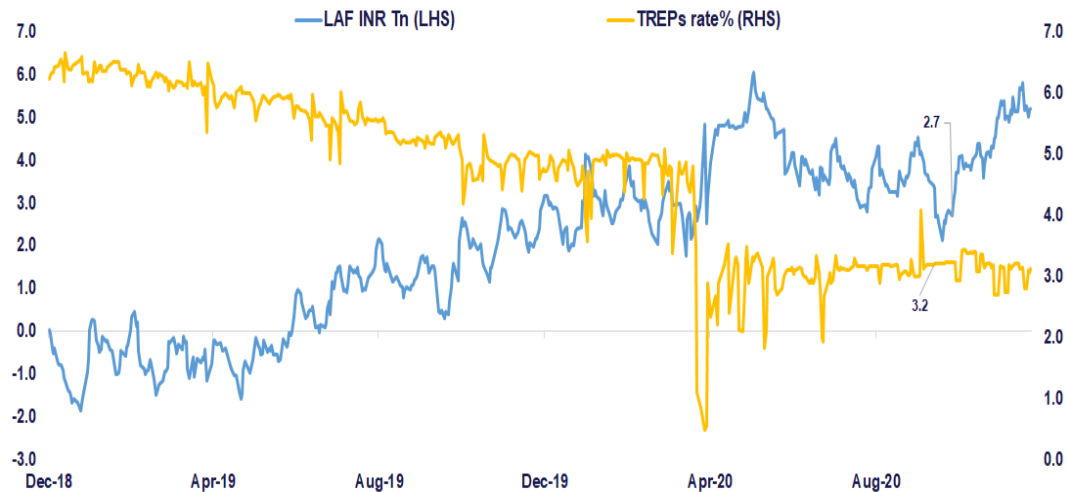


- Nifty Q2 FY21 earnings were quite strong, helped by cost control. As a result we have seen earnings getting upgraded.
- Earnings expected to continue to recover through FY21, and pick up strongly by 25-30% in FY22.

Domestic liquidity is ample- RBI's focus has been on growth



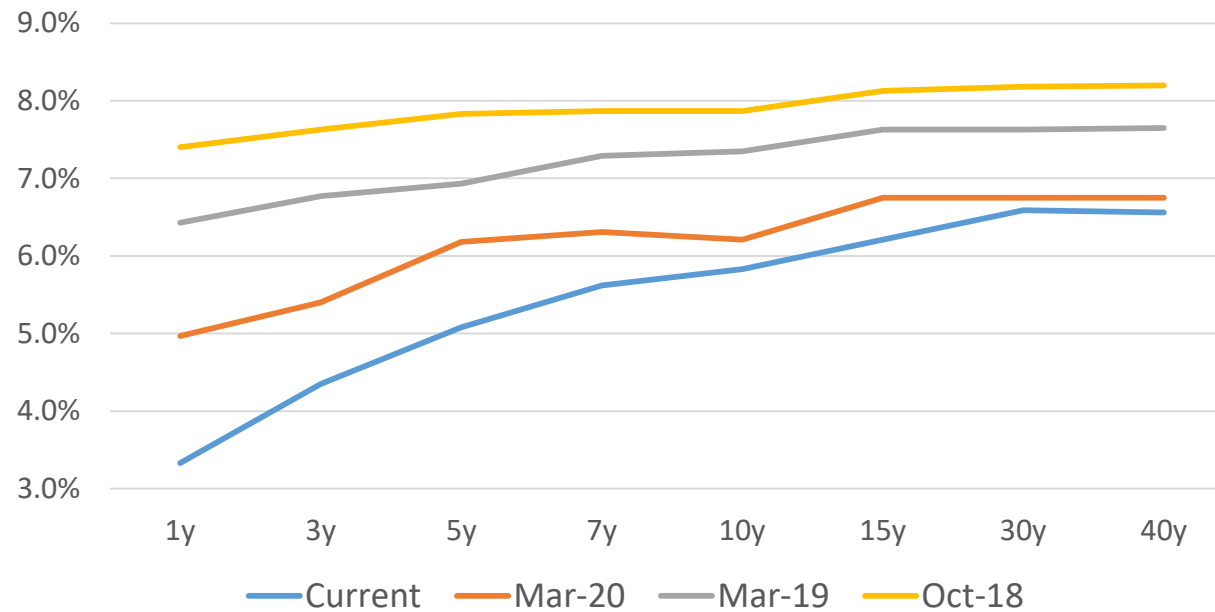
Net Liquidity in the system (Rs trillion)



- RBI kept policy rates unchanged in December 2020
 - Dovish undertone
 - Accommodative stance till next fiscal year
 - Growth over inflation
- CPI inflation was high for last few months
 - Sep'20 at 7.3% and Oct'20 at 7.6%
 - Sept 21 Estimate at 4.6%
- Liquidity remains high at Rs 5.5 trn
- With inflation being elevated, limited space for more rate cuts, and further monetary action will be dependent on inflation trajectory.
- We prefer medium term part of yield curve

Yield Curve and Spread

India G-Sec Yield Curve

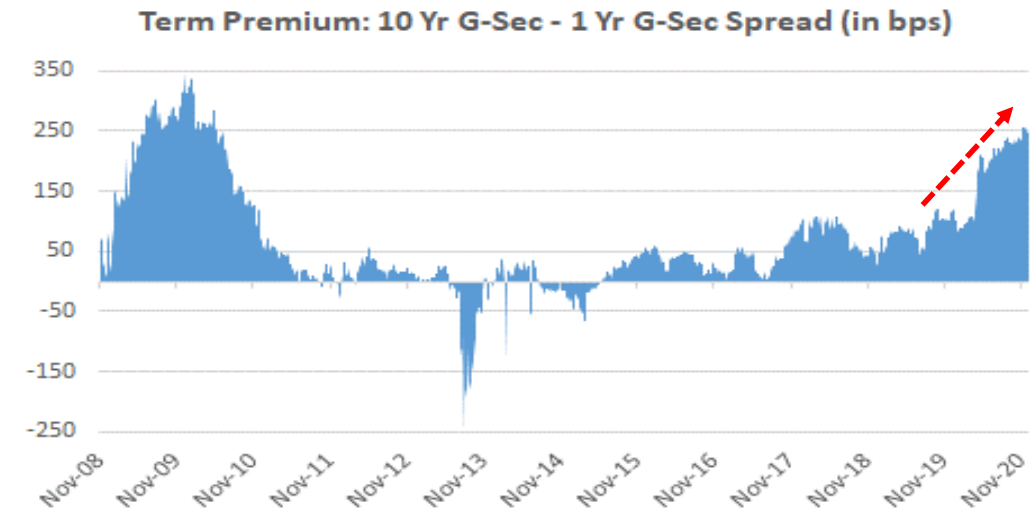


- Shorter end of yield curve has come down much more than the rest of the yield curve
- Corporate bond spreads have come down

AAA Spread (over G-Sec) %

| AAA Spreads | 5yr | 10yr |
|-------------|------|------|
| Nov-20 | 0.3% | 0.7% |
| Mar-20 | 0.4% | 0.9% |
| Mar-19 | 0.8% | 0.8% |
| Oct-18 | 1.0% | 0.7% |

Term Premium has increased significantly



Summary

- **External sector remains strong**
 - Current account balance forecast for FY21 is surplus of ~1.5-1.9% of GDP vs deficit of -0.9% of GDP in FY20
 - Foreign exchange reserves are at record high of USD 575 bln
- **Crude remains at a comfortable level**
- **Global liquidity is ample**
 - US Fed balance sheet expanded from ~USD 4 trn in Jan'20 to USD 7 trn presently
- **GDP forecast “upgrade”**
 - With economy opening up, GDP estimates getting better
 - Vaccine is very close
- **Corporate earnings better than estimated**
 - FY21 is expected to register flattish growth. FY22 expected to see ~30% growth
- **Fiscal deficit and Inflation remains a challenge**
 - Even though GST collections is back to normal, fiscal deficit is a challenge this year
 - Inflation is high for last 2 months
- **Valuations are elevated**
 - In the short term, markets may consolidate or see muted returns, although long-term fundamentals are still intact.

THANK YOU

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