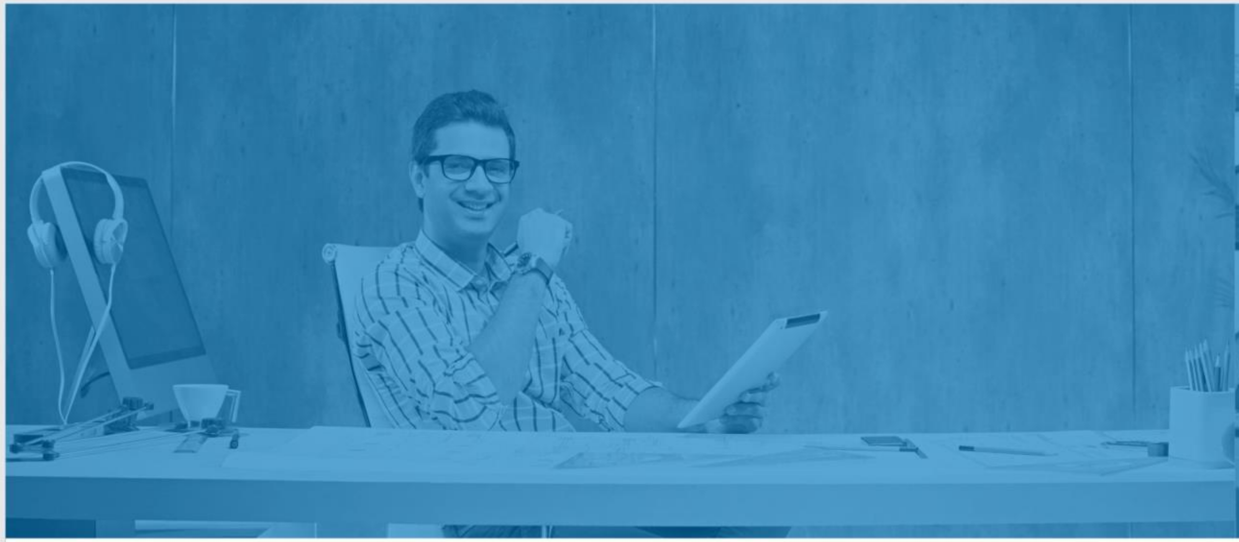
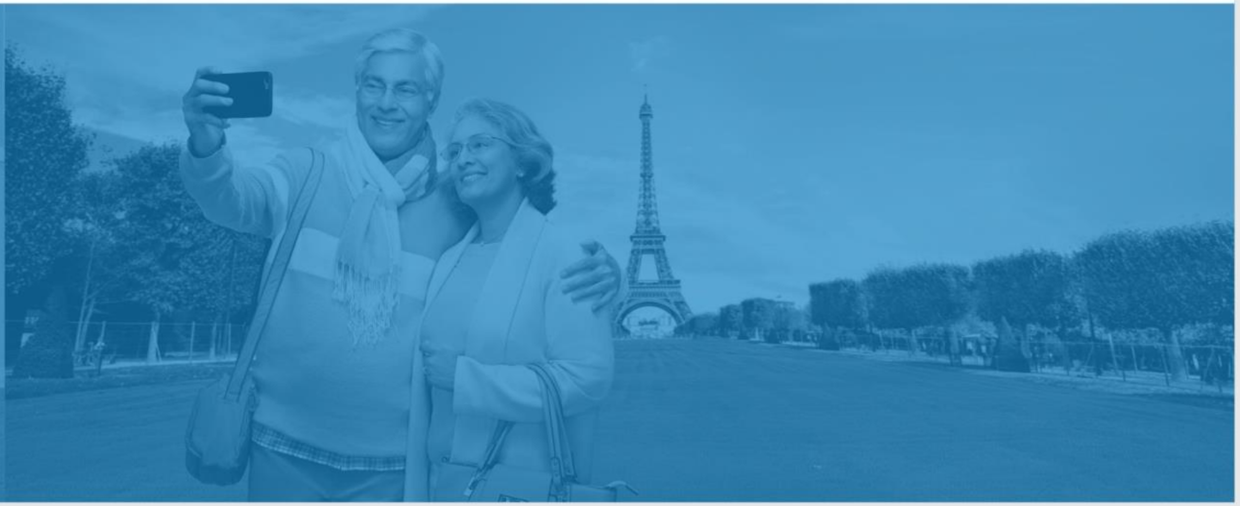


Quarterly Macro & Market Overview – April 2021

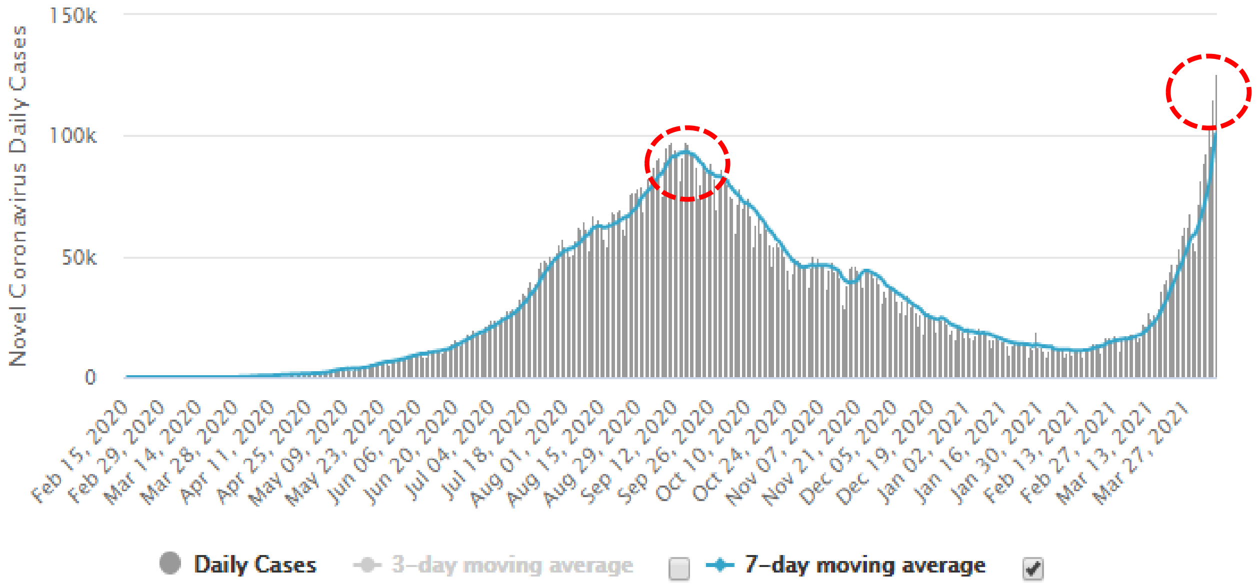
LIFE GOALS. **DONE.**

BAJAJ | Allianz



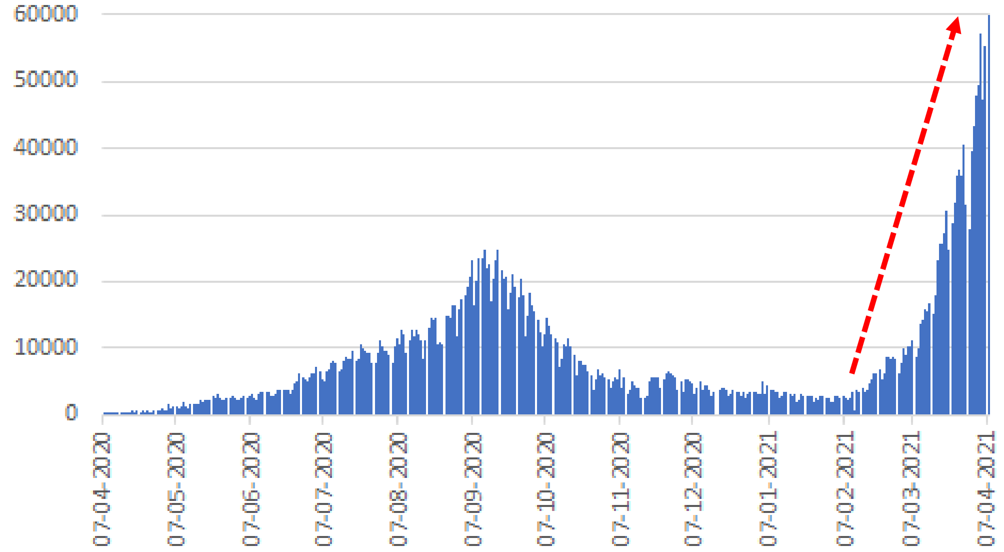
A second Covid wave been seen in India; Maharashtra worst hit

India- Daily New Covid Cases Trend



Source: Worldometers.info

Maharashtra- Daily New Covid Cases Trend

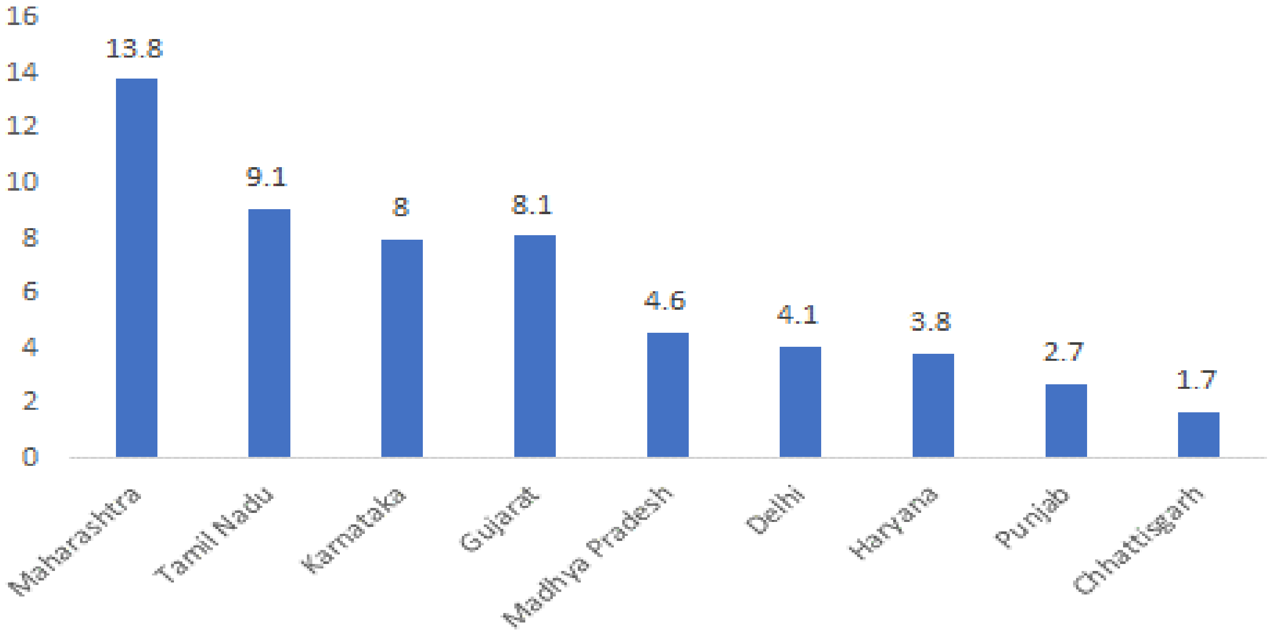


Source: Covid19india.org

- India is a seeing a second Covid wave, with Maharashtra state accounting for 50-55% of new cases & breaching the Sep 2020 peak by significant margin.
- In India, daily new cases have hit a record high (breaching the 1 lakh mark). However, mortality rate remains controlled at below 1.5% so far.
- Covid vaccination drive has progressed well, with India administering the third highest number of vaccine doses, behind the US & China. However, due to its large population, vaccine coverage (as % of population) remains relatively lower than other countries.

Maharashtra has gone in for partial lockdown. Some other states also going in for restrictions / partial lockdown.

India: State-wise GDP contribution in FY20 (in %)



- Maharashtra state has gone in for partial lock-down due to sharp escalation in Covid cases. The state has the highest contribution in India's GDP of ~14% in FY20.
- Some of the other states mentioned above are also seeing rise in Covid cases, although not to the same magnitude as that of Maharashtra. Among these Tamil Nadu, Karnataka and Gujarat have a higher contribution in India's GDP.
- We are seeing some partial lockdowns/restrictions in some other states, and further escalation may affect the pace of economic recovery.

Source: MOSPI, Nomura

Global economy to see healthy recovery in 2021; India amongst the fastest growing major economies

IMF GDP Growth Forecast (YoY in %) – April 2021 update

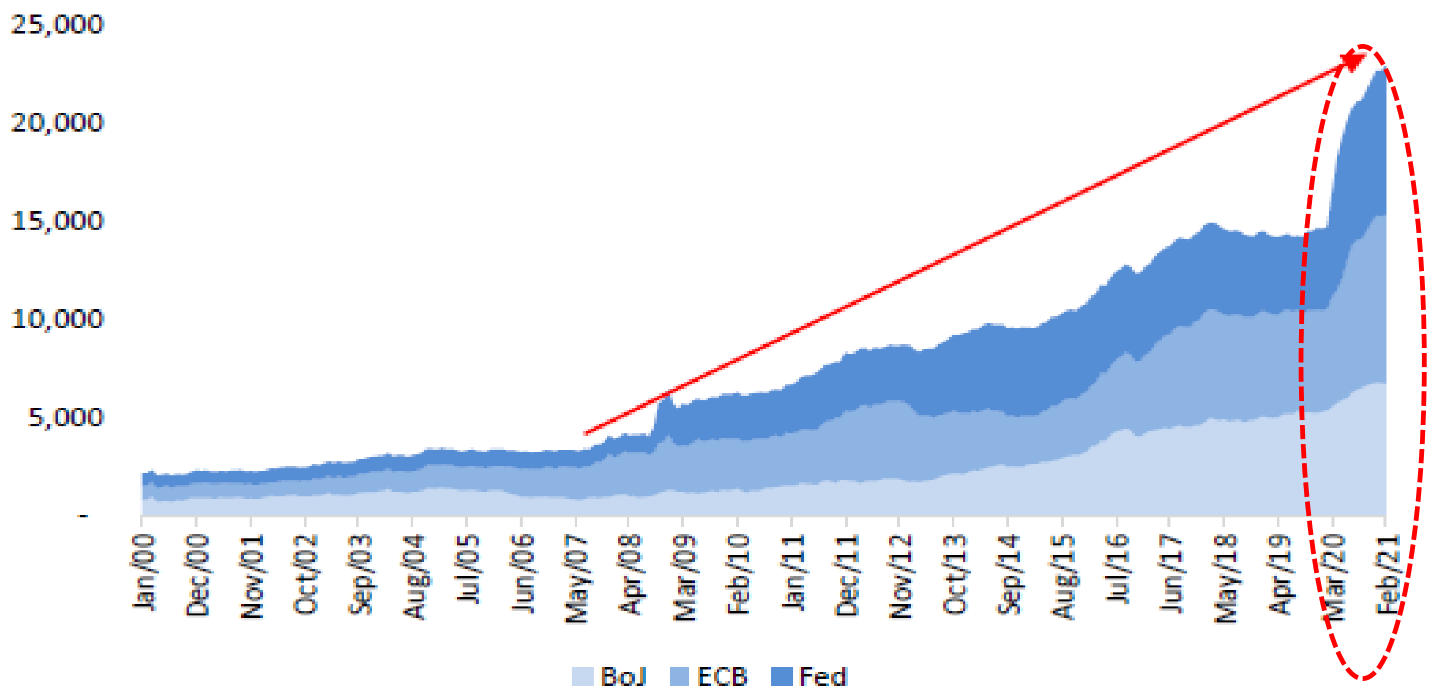
(real GDP, annual percent change)	2020	PROJECTIONS 2021	PROJECTIONS 2022
World Output	-3.3	6.0	4.4
Advanced Economies	-4.7	5.1	3.6
United States	-3.5	6.4	3.5
Euro Area	-6.6	4.4	3.8
Germany	-4.9	3.6	3.4
France	-8.2	5.8	4.2
Italy	-8.9	4.2	3.6
Spain	-11.0	6.4	4.7
Japan	-4.8	3.3	2.5
United Kingdom	-9.9	5.3	5.1
Canada	-5.4	5.0	4.7
Other Advanced Economies	-2.1	4.4	3.4
Emerging Market and Developing Economies	-2.2	6.7	5.0
Emerging and Developing Asia	-1.0	8.6	6.0
China	2.3	8.4	5.6
India	-8.0	12.5	6.9
ASEAN-5	-3.4	4.9	6.1
Emerging and Developing Europe	-2.0	4.4	3.9
Russia	-3.1	3.8	3.8
Latin America and the Caribbean	-7.0	4.6	3.1
Brazil	-4.1	3.7	2.6
Mexico	-8.2	5.0	3.0
Middle East and Central Asia	-2.9	3.7	3.8
Saudi Arabia	-4.1	2.9	4.0
Sub-Saharan Africa	-1.9	3.4	4.0
Nigeria	-1.8	2.5	2.3
South Africa	-7.0	3.1	2.0

- As per IMF, global GDP growth to recover to +6.0% in CY21 from -3.3% contraction in CY20.
- Being helped by healthy economic recovery in developed economies esp. the US. (+6.4% in CY21 vs -3.5% in CY20)
- India's GDP growth to recover strongly to +12.5% in FY22 vs -8.0% contraction in FY21.
- India amongst the fastest growing major economies worldwide (helped to some extent by lower base effect).
- However, IMF mentioned there is downside risk to estimates for India due to second Covid wave. RBI retained GDP growth forecast at +10.5% for FY22.

Source: IMF World Economic Outlook, April 2021. For India 2020 = FY21 & 2021 = FY22

Major global central banks' balance sheets have seen massive expansion

Central Bank Balance Sheet of Major Countries - Combined (US$ in billion)



- Major central banks (esp. US Fed & ECB) have gone for massive monetary stimulus, leading to a global liquidity surge—which has helped in recovery in global equity markets & economy.
- Major central bank's combined balance sheet expansion since the Covid pandemic has been the quickest on record, dwarfing the expansion seen during Global Financial Crisis (GFC) of 2008-09.

Source: Bloomberg, Phillip Capital

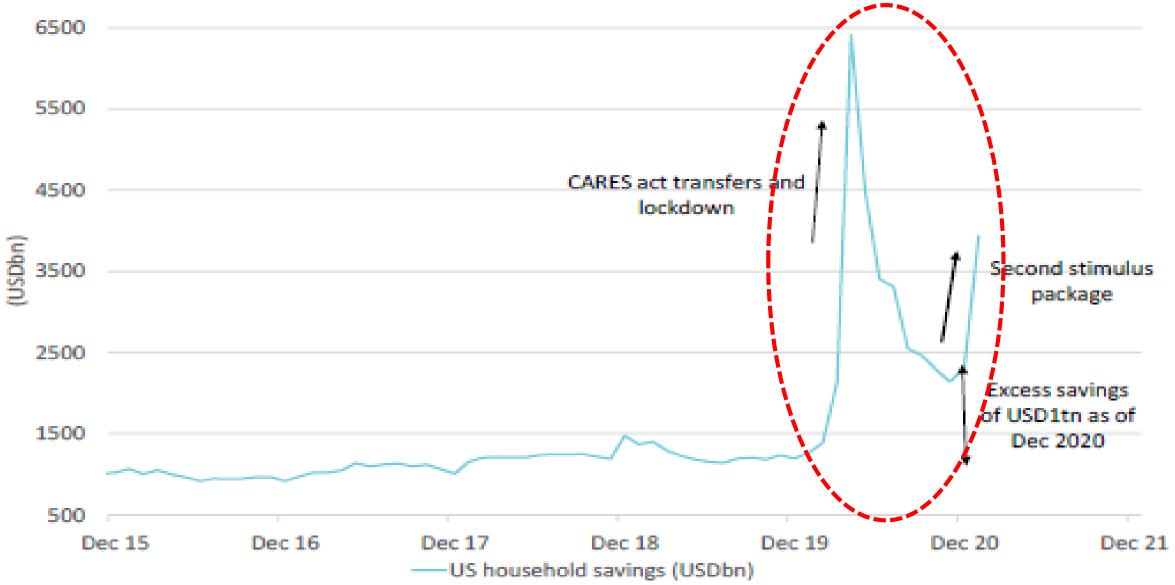
Massive fiscal stimulus seen in various countries; US recently passed $1.9 trln Covid package

IMF – Fiscal Deficit Projections (% of GDP)

Region / Country	2019	2020	2021E	2022E
World	-3.6	-10.8	-9.2	-5.4
Advanced Economies	-2.9	-11.7	-10.4	-4.6
USA	-5.7	-15.8	-15.0	-6.1
Euro Area	-0.6	-7.6	-6.7	-3.3
Emerging Economies	-4.7	-9.8	-7.7	-6.7

Source: IMF Fiscal Monitor Update, April 2021

US Household Savings (US$ in billion)

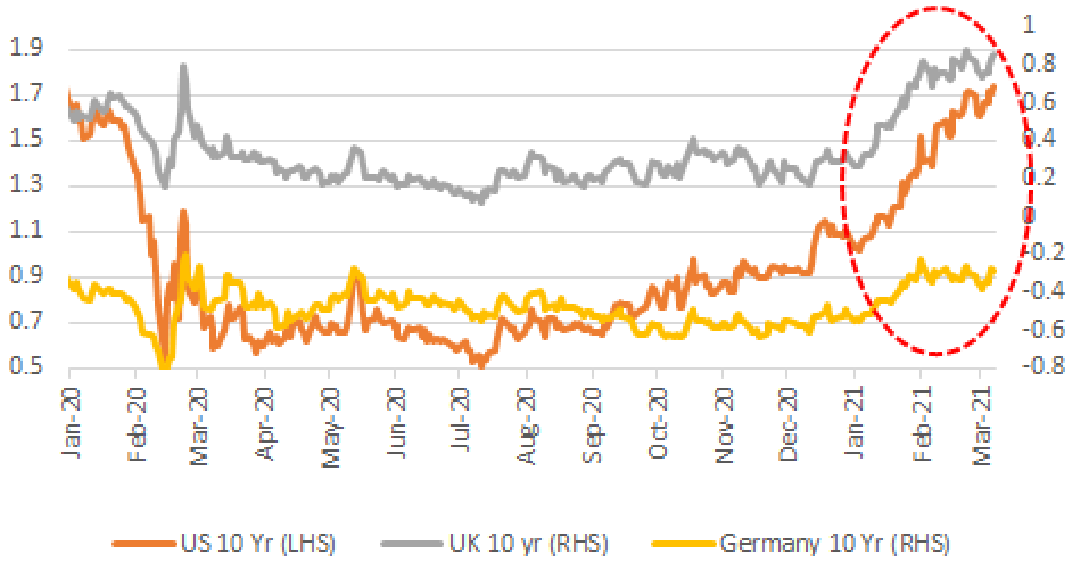


Source: Bloomberg, Edelweiss Research

- Countries have gone in for record fiscal stimulus to deal with the Covid-19 pandemic, and this has supported the economic recovery.
- US has gone in for a record fiscal stimulus in 2020 & 2021. Recently in 2021 it passed a massive $1.9 trln stimulus on the back of Covid stimulus package last year. Biden administration also announced a large infrastructure spending plan over 8-year period.
- US household savings has spiked due to the stimulus package & cheques provided by the government. Household savings have increased in other countries as well; part of this could make its way into equities & other savings.

Global bond yields have hardened this year; but easy monetary policy to continue

10 year bond yields of Various Countries



Source: Bloomberg

US Fed Meeting Projections – March 2021

Percent

Variable	Median[1] 2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8
December projection	4.2	3.2	2.4	1.8
Unemployment rate	4.5	3.9	3.5	4.0
December projection	5.0	4.2	3.7	4.1
PCE inflation	2.4	2.0	2.1	2.0
December projection	1.8	1.9	2.0	2.0
Core PCE inflation[4]	2.2	2.0	2.1	
December projection	1.8	1.9	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	0.1	0.1	0.1	2.5
December projection	0.1	0.1	0.1	2.5

Source: US Federal Reserve

- Global bond yields have hardened significantly in 2021 on the back of rising commodity prices (causing inflationary concerns) and a strong revival in economic growth.
- However, major central banks continue to keep rates unchanged and maintain accommodative / easy monetary policy stance
  - .US Fed has indicated it will keep interest rates unchanged through 2023, and that inflation going above 2% mark—will not cause it to raise rates.
  - The ECB delivered a dovish policy in March and said that it would step up its bond purchases (QE)

Most global markets have seen a strong rally over the past year

Performance of International Indices (ended March 2021, in %)					
	Country / Region	3 mths	1 Yr (FY21)	7 Yrs	10 yrs
KOSPI	South Korea	6.5	74.5	6.4	3.8
IISL Nifty 50	**India**	**5.1**	**70.9**	**11.9**	**9.7**
TSEC TAIEX	Taiwan	11.5	69.3	9.2	6.6
BOVESPA	Brazil	-2.0	59.7	12.7	5.5
MSCI EM PR USD	Emerging Mkts	1.9	55.1	4.1	1.2
Nikkei 225	Japan	6.3	54.2	10.2	11.6
MSCI Asia Ex Japan PR USD	Asia Ex Japan	2.5	54.2	6.8	4.2
S&P 500	US	5.8	53.7	11.3	11.6
MSCI World PR USD	World	4.5	51.8	7.7	7.7
FSE DAX TR	Germanu	9.4	51.1	6.7	7.9
RTS RTSI PR USD	Russia	6.5	45.6	2.7	-3.2
FTSE SET All Share	Thailand	10.1	39.8	1.2	3.3
CAC 40	France	9.3	38.0	4.7	4.3
S&P/ASX 200	Australia	3.1	33.8	3.3	3.4
JSX Composite	Indonesia	0.1	31.9	3.3	5.0
FTSE/SGX STI	Singapore	11.3	27.6	-0.1	0.2
Shanghai Composite	China	-0.9	25.1	7.8	1.6
Hang Seng	Hong Kong	4.2	20.2	3.6	1.9
FTSE 100	UK	3.9	18.4	0.2	1.3
FTSE Bursa Malaysia KLCI	Malaysia	-3.3	16.5	-2.3	0.2

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

After a sharp correction in Feb-Mar 2020, most global markets have seen a strong rally over the past year

- Rally helped by massive global monetary & fiscal stimulus, strong economic recovery, ramp-up of Covid vaccination.
- Indian markets among the top performers in FY21.
- Other Asian markets like South Korea, Taiwan & Japan outperformed.
- Markets like Malaysia, UK, Hong Kong & China underperformed relatively.

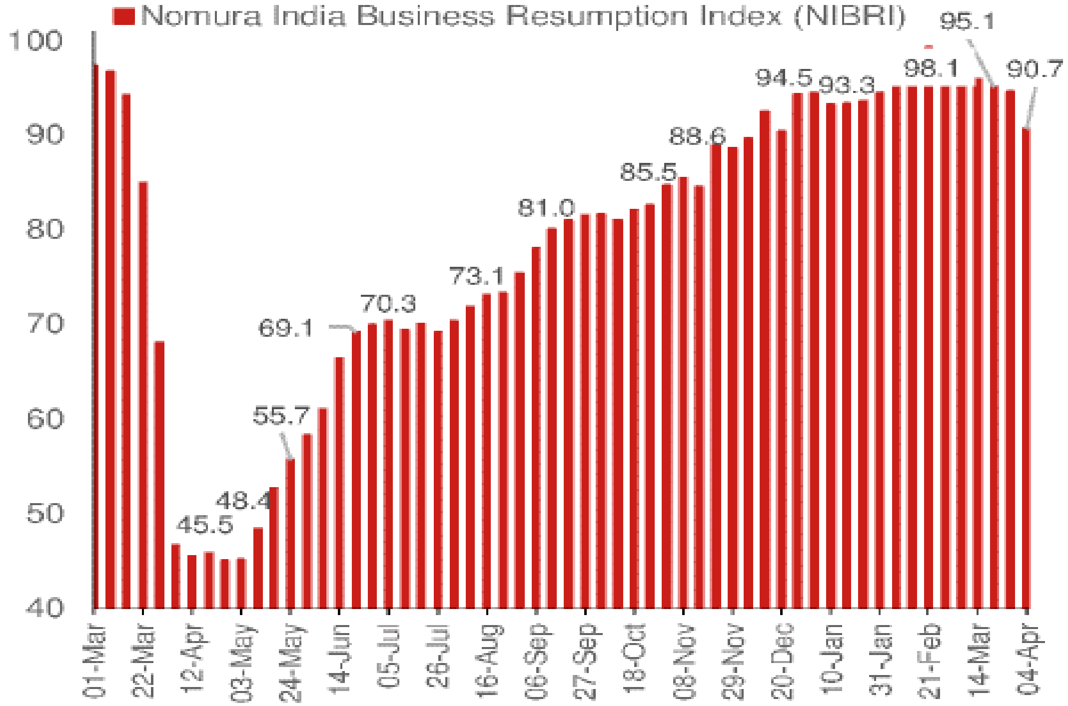
- Over the long term (7 & 10 years) Indian market has outperformed most peer Emerging Markets

World market cap to GDP is at its highest level at near 140%, indicating that global market valuations are elevated

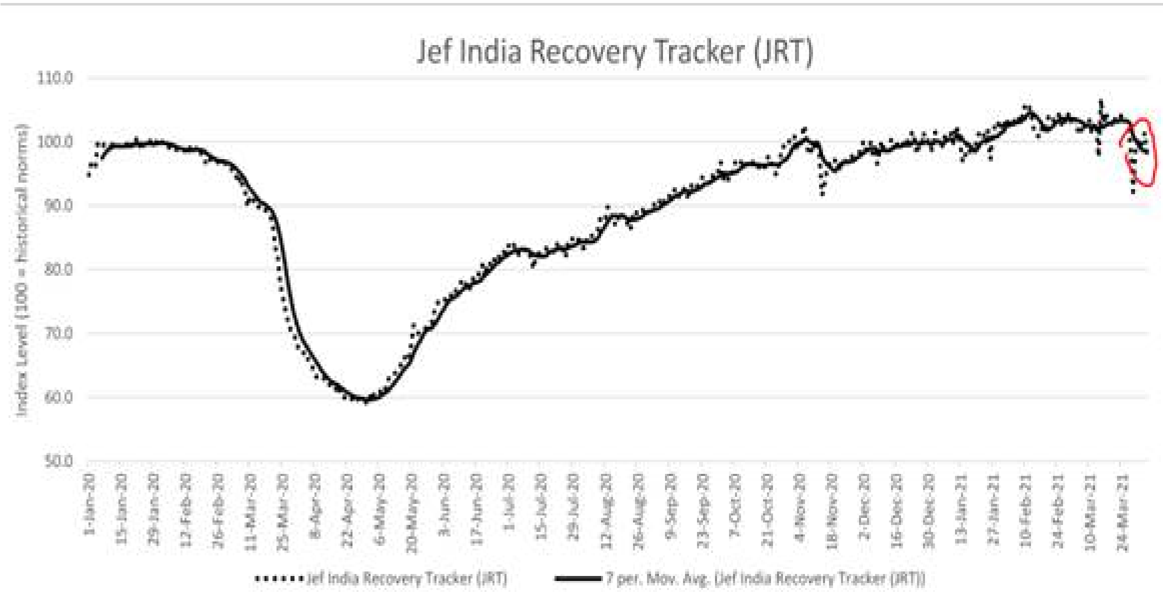
Source: Goldman Sachs

Economic / Business Activity in India almost back to Pre-Covid levels; but more lock-downs could impact pace of economic recovery

Nomura India Business Resumption index has moderated a bit after touching ~95% of Pre-Covid level

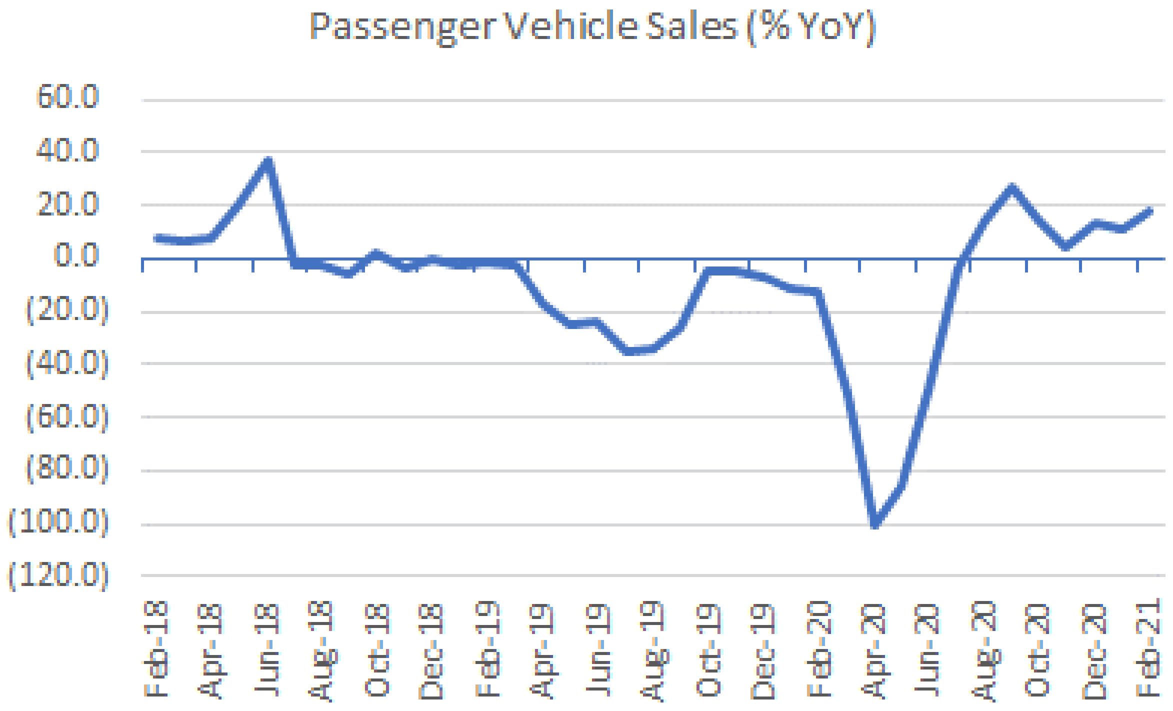


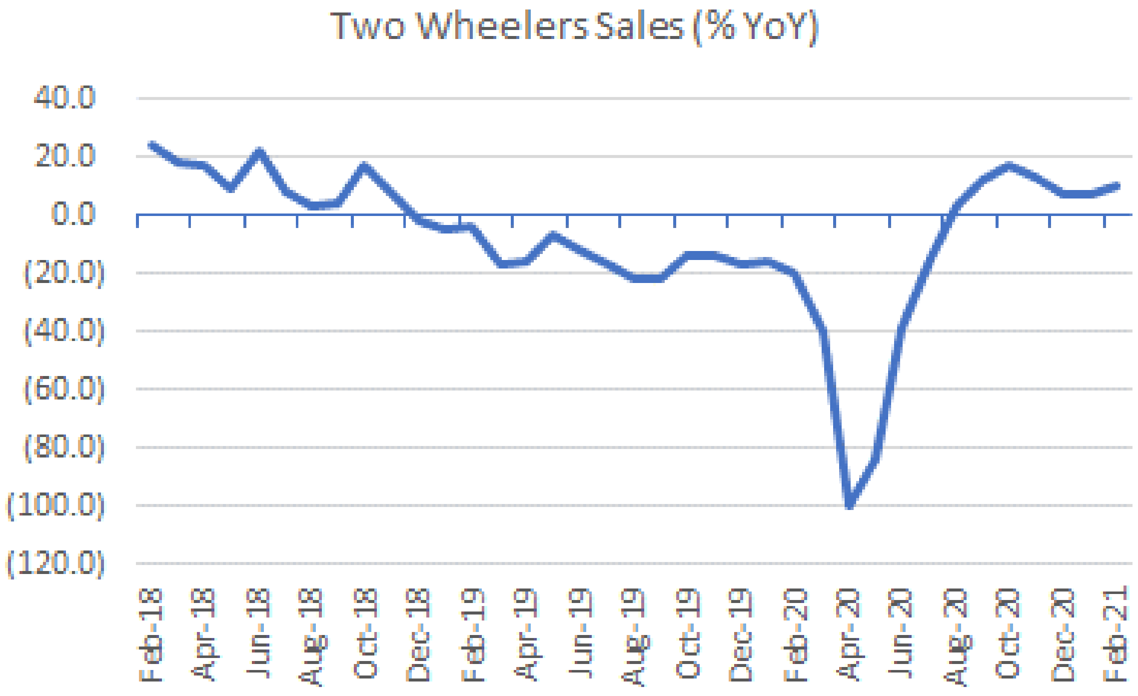
Jefferies India Economic Activity index at ~100% of Pre-Covid level; has moderated a bit recently



Source: Nomura, Jefferies

High Frequency Indicators like auto sales point to strong recovery – in positive growth territory

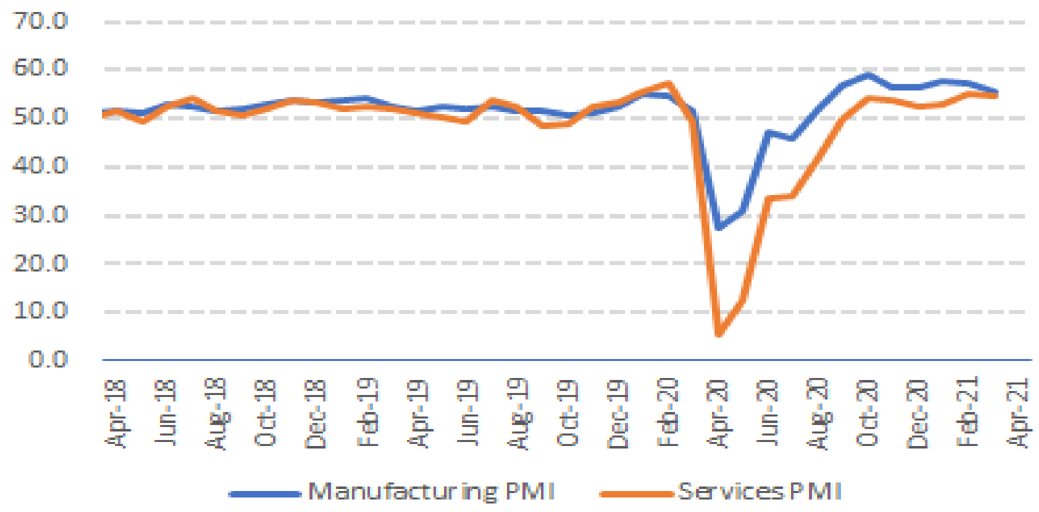




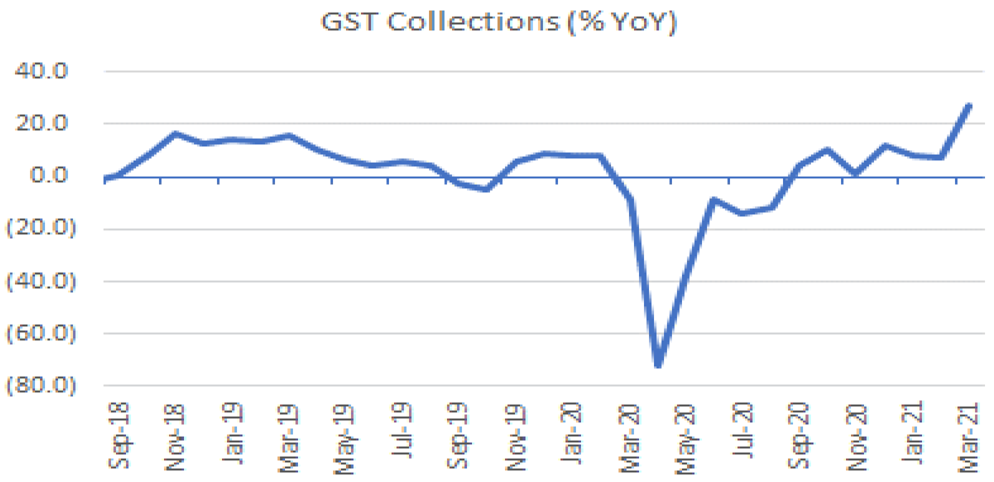
Source: SIAM, IIFL Research

Other key indicators also pointing to strong recovery

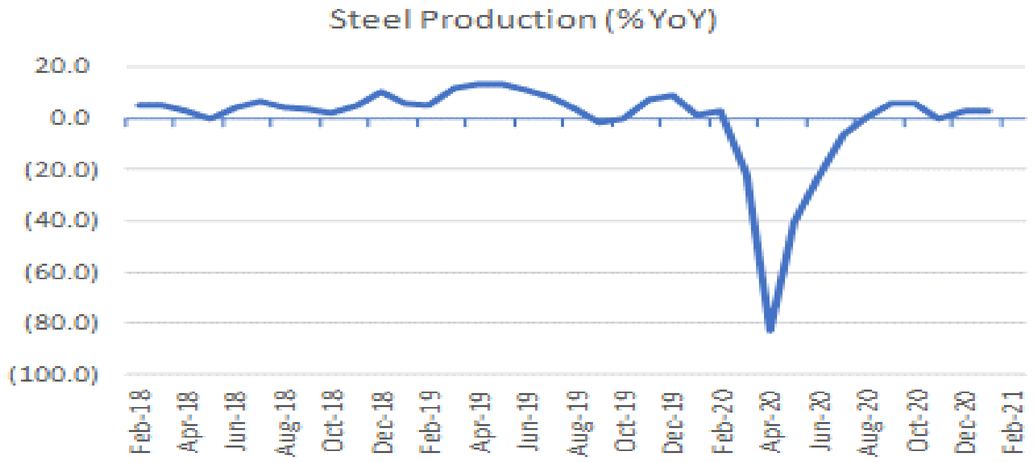
Manufacturing & Services PMI in expansion territory, but moderates a bit



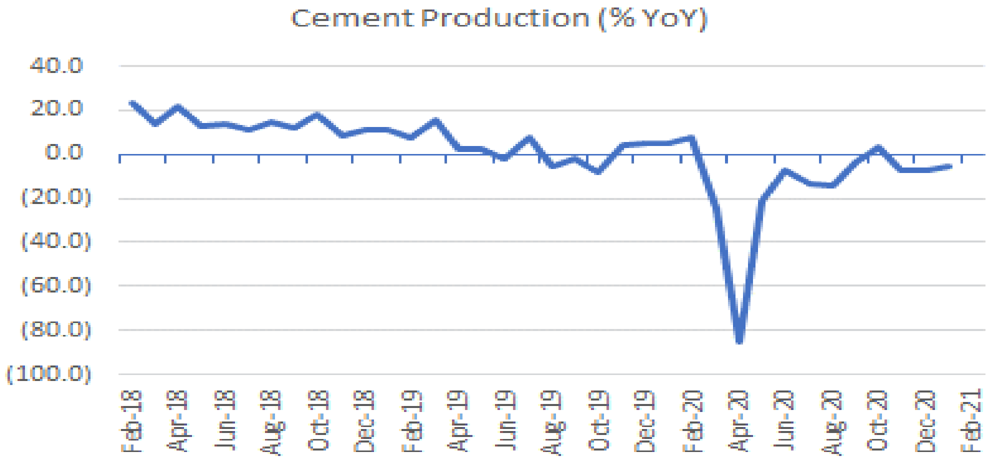
GST collections hit record highs



Steel production has seen healthy recovery



Cement production has moderated a bit after a healthy recovery



Source: IIFL Research, IHS Markit

Current account turns into deficit in Q3FY21; BoP remains in strong surplus

India Current Account Balance & Balance of Payment Trends ($ in billion)					
	Q3 FY20	Q2 FY21	Q3 FY21	FY21 (E)	FY22 (E)
Current Account Balance (CA)	**-2.6**	**15.1**	**-1.7**	**23.2**	**-34.4**
CA as % of GDP	**-0.4%**	**2.4%**	**-0.2%**	**0.9%**	**-1.0%**
Trade Balance	-36.0	-14.8	-34.5	-102.8	-163.4
Exports	81.2	75.6	77.2	278.8	332.3
Imports	117.3	90.4	111.8	381.7	495.8
Invisibles	33.4	29.9	32.8	126.1	129.1
Capital Account	**23.6**	**16.1**	**33.5**	**67.1**	**62.9**
FDI (Foreign Direct Inv)	9.7	24.6	17.0	50.0	50.0
FPI (Foreign Portfolio Inv)	7.8	7.0	21.2	34.5	15.0
Balance of Payments (BOP)	**21.6**	**31.6**	**32.5**	**89.5**	**28.5**

Source: Nomura

India Forex Reserves (US$ in billion)

Source: Bloomberg, Macquarie

- India's current account balance turned slightly negative after 3 months in Q3 FY21, due to higher trade deficit (caused by sharp jump in imports). Current account expected to turn into deficit of 1% of GDP in FY22 from surplus of 0.9% of GDP in FY21
- Capital account in strong surplus in Q3 FY21 helped by healthy FDI & strong pick-up in FPI flows.
- BoP in healthy surplus in Q3 FY21 and the strong BoP position in FY21 has led to large accretion in FX reserves to record highs. BoP expected to be in surplus in FY22 as well.

Indian rupee has been amongst the top performing currencies over the past quarter

Performance of Various currencies Vs US Dollar in % (as of March 2021)		
Currency Name	**3 Months**	**1 Year**
Pound Sterling	0.9	11.3
Indian Rupee	**-0.1**	**3.5**
Yuan Renminbi	-0.2	8.2
South African Rand	-0.5	21.0
Australian Dollar	-1.3	24.4
Taiwan Dollar	-1.5	6.0
Singapore Dollar	-1.6	6.0
Russian Ruble	-2.1	3.5
Mexican Peso	-2.6	14.7
Malaysian Ringgit	-3.0	4.2
Indonesian Rupiah	-3.3	12.3
Euro	-3.9	7.1
Thai Baht	-4.1	5.0
Swiss Franc	-6.1	2.8
Japanese Yen	-6.6	-2.3
Brazilian Real	-8.0	-8.1
Turkish Lira	-10.2	-20.4

Source: Morningstar Direct. Data sorted in descending order based on 3 mth return

- Indian rupee has been amongst the top performing currencies over the past quarter (3 months).
- Several currencies have seen significant depreciation against the US Dollar over the past quarter.
  - EM currencies like Turkish Lira & Brazilian Real have been amongst the bottom performers.
- Over the past year (in FY21), rupee has appreciated against the US dollar, but has been a relative underperformer compared to other peer EM & Asian currencies.
- However, recently in April 2021 we have seen some depreciation in the rupee.

Record FPI equity inflows in FY21; while DIIs register record outflows

Source: NSDL, Axis Capital	Rs in Crore			
Month-end	**FPIs**	**DIIs**	**MFs**	**Insurance**
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
31 December 2020	53,500	-37,294	-26,428	-10,866
31 January 2021	14,512	-11,971	-12,980	1,010
28 February 2021	21,960	-16,358	-16,306	-52
31 March 2021	19,519	5,204	4,773	432

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
FY2021	2,74,897	-1,34,056	-1,19,636	-14,419

- On the back of strong global liquidity, record high FPI equity flows registered in FY21.
- However, DIIs registered record high net equity outflow in FY21, mainly due to outflows from mutual funds. In the month of March 2021, DIIs registered the first month net inflow since Sep 2020.

Market rally in India has been broad-based in FY21

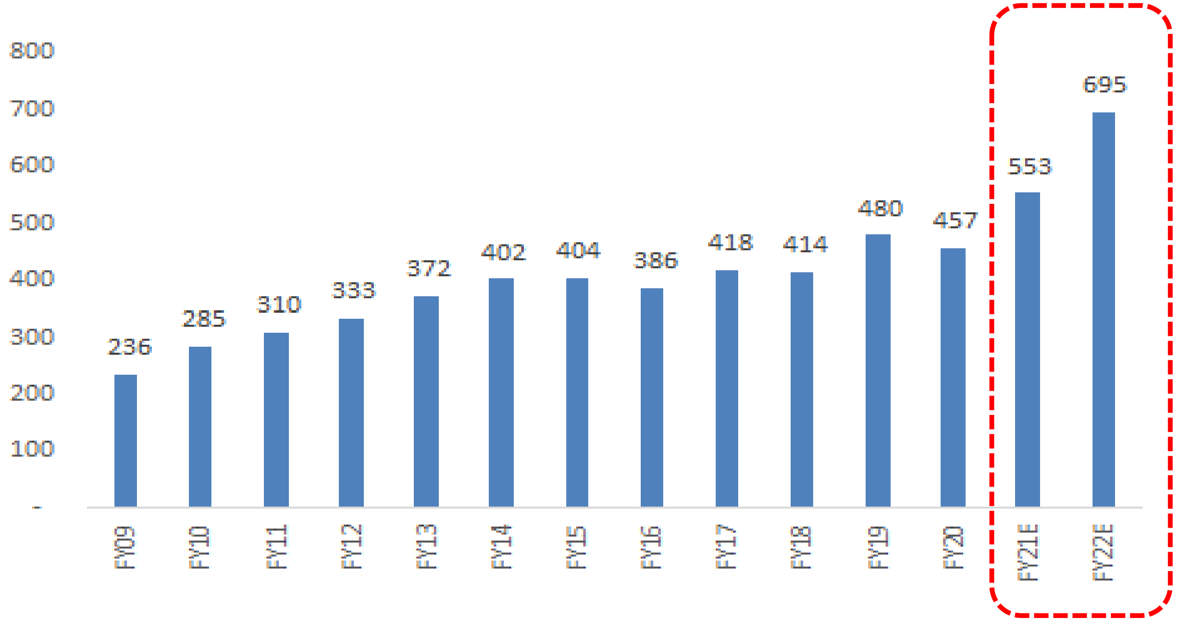
Performance of Domestic Indices as of March 2021 (in %)		
Index Name	3 mths	1 year (FY21)
S&P BSE Metal	23.7	151.2
IISL NIFTY Smallcap 100	14.5	125.7
IISL Nifty Midcap 50	15.3	112.9
S&P BSE Auto	6.9	107.1
S&P BSE IT	9.5	106.7
S&P BSE Realty	7.8	97.3
S&P BSE Capital Goods	12.5	92.1
S&P BSE Power	20.0	79.6
IISL Nifty 500	6.9	76.0
S&P BSE Healthcare	-1.6	75.6
IISL Nifty 50	5.1	70.9
S&P BSE BANKEX	4.6	70.3
S&P BSE Consumer Durables	8.0	69.5
S&P BSE PSU	16.0	50.3
S&P BSE Oil and Gas	5.2	47.9
S&P BSE FMCG	2.1	25.6

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

- **Equity markets rallied strongly in FY21, from March 2020 pandemic lows**
  - Mid/Small-caps outperformed significantly in FY21, making the rally more broad-based
  - Sectors like metals, auto, IT, realty, and capital goods outperformed
  - Sectors like FMCG, oil & gas and PSU relatively underperformed

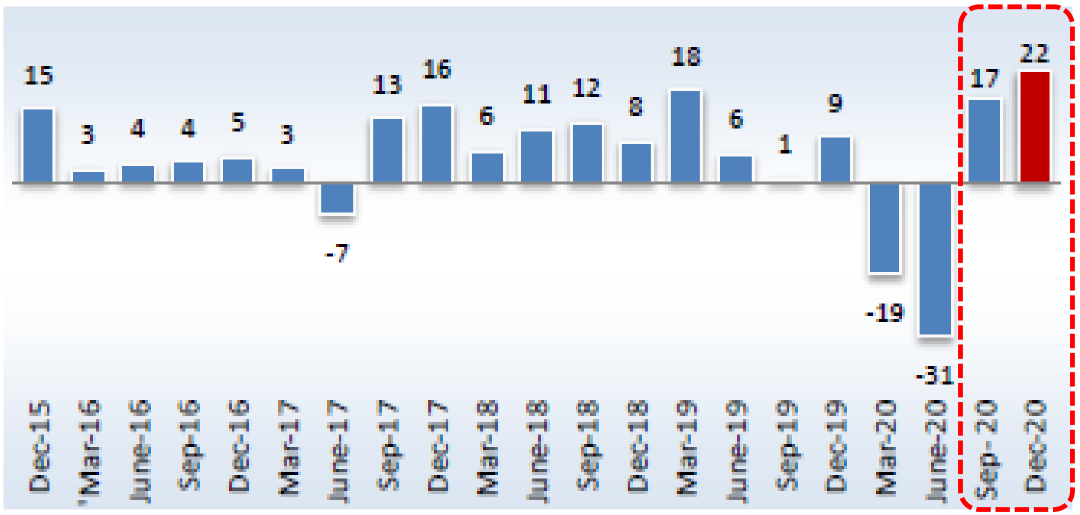
Q2 & Q3 FY21 corporate earnings have been better than expectations; Corporate earnings to see heathy recovery

Nifty EPS Trend



Source: Bloomberg, Bajaj Allianz Life Insurance Estimates

Quarterly PAT growth trend of Nifty 50 index (% YoY)

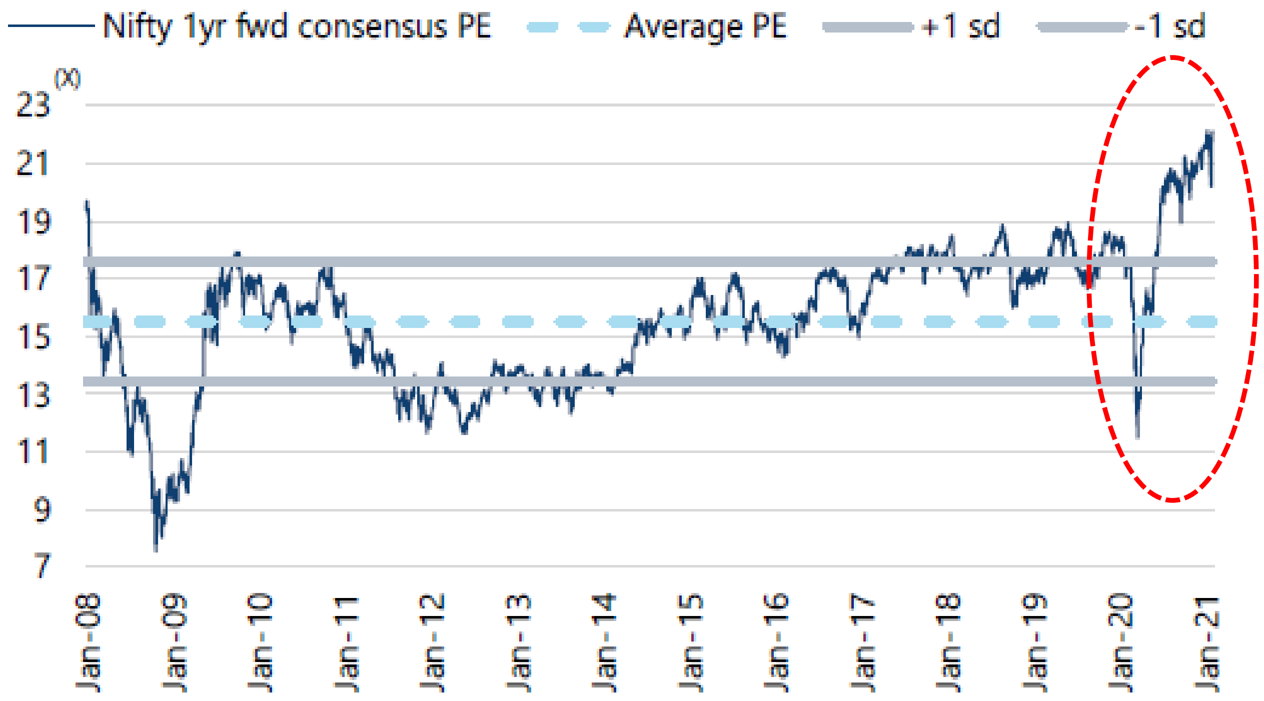


Source: Motilal Oswal

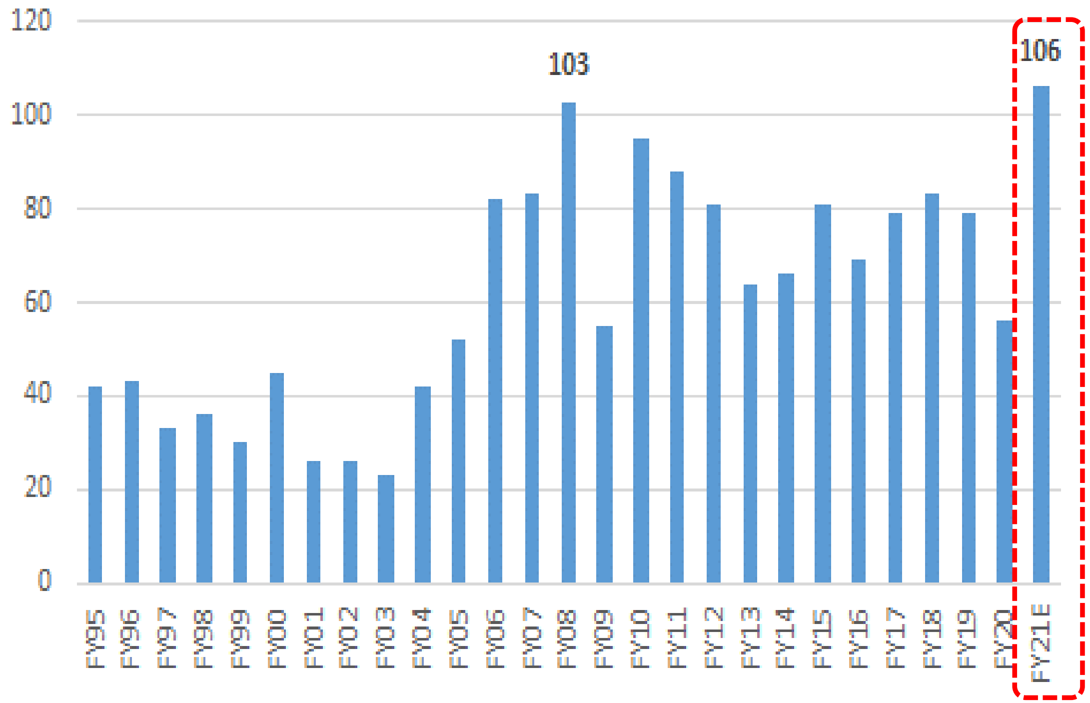
- Q2 & Q3 FY21 corporate earnings have been above expectations (helped by cost controls)—resulting in earnings upgrades.
- We now expect Nifty EPS growth at ~21% for FY21 (compared to earlier estimate of lower single-digit growth), and Nifty EPS growth to recover further to ~26% in FY22.

Valuations are quite elevated; Market cap to GDP near its peak

Nifty Forward P/E Ratio has moderated a bit, but still elevated

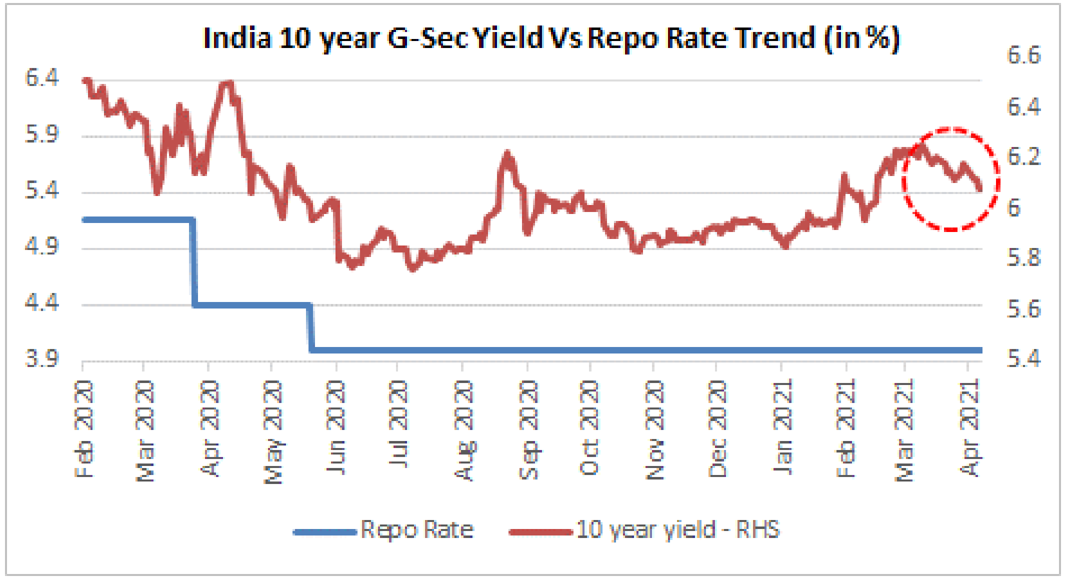


India Market Cap to GDP Trend (in %)

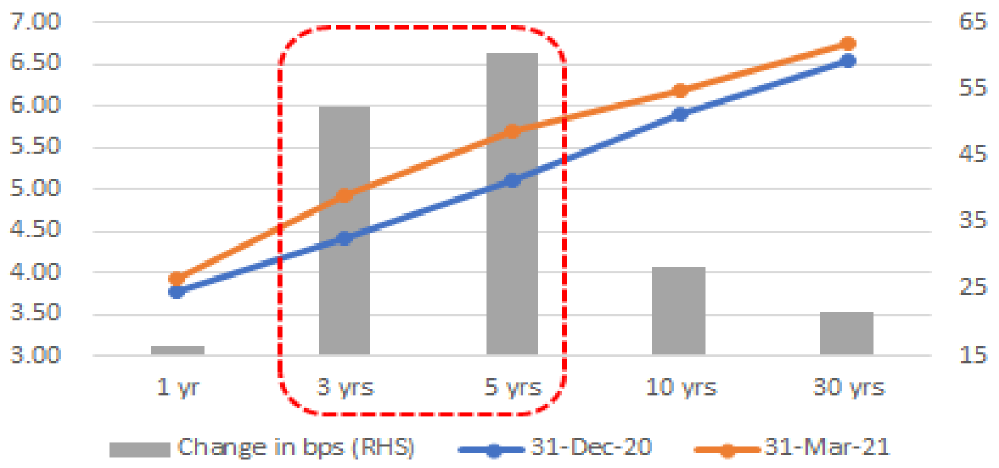


Source: Bloomberg, Jefferies, Motilal Oswal

Bond yields hardened initially but soften later; RBI goes in for a dovish pause



India G-Sec Yield Curve Shift

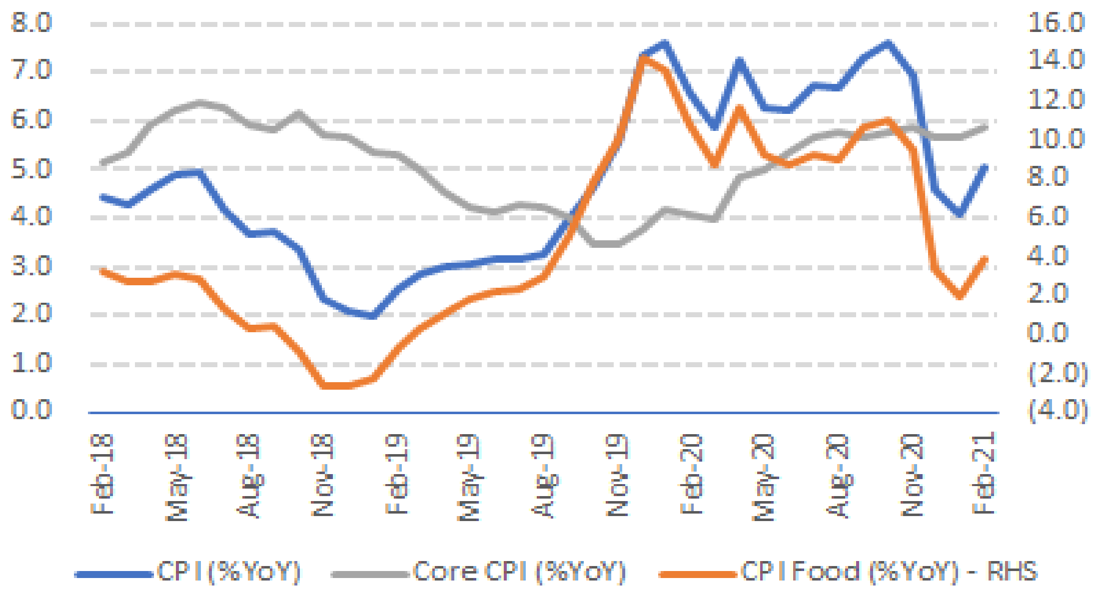


- Bond yields hardened for most past of the quarter, but softened in late March.
    - Yields rose more in the medium term part of the yield curve (3-5 yrs).
- RBI kept rates unchanged in April policy, but gave dovish undertone
    - Announced secondary market G-sec purchase programme (GSAP 1.0) of Rs. 1 trln in Q1 FY22 for yield curve management.
    - Lengthen the tenor of variable rate reverse repo auctions to manage the liquidity and keep it stable.
    - Extension of on-tap TLTRO by 6 months
    - Additional liquidity support of Rs. 50,000 Cr for NABARD, SIDBI, NHB
- Yields softened further post the RBI April policy. RBI's priority is to support economic growth recovery.
- Also, keep borrowing cost in control to manage the large borrowing programme in an efficient and non-disruptive manner.
- Central bank to retain accommodative stance till economic recovery visible, while monitoring inflation trajectory.

Source: Bloomberg, Investing.com

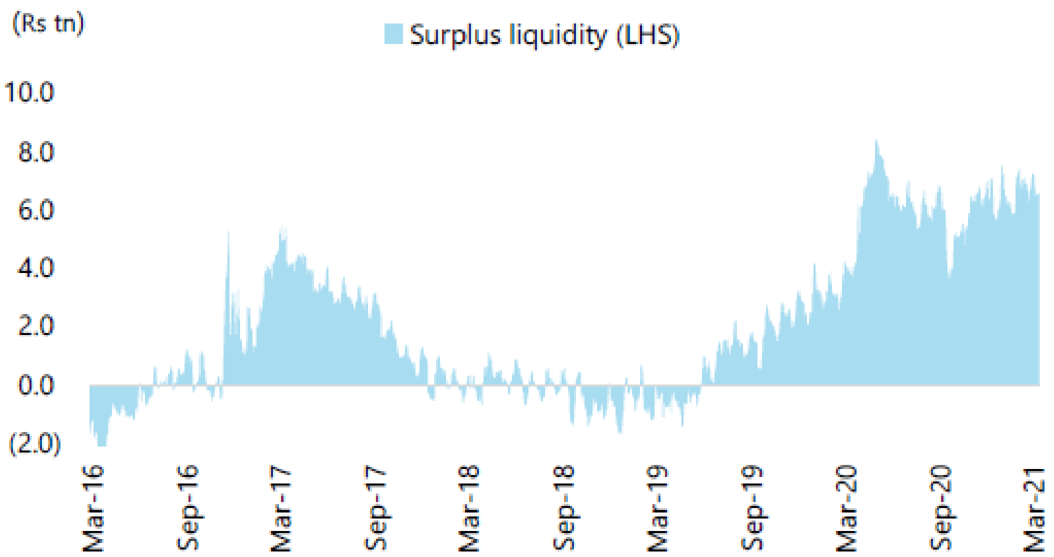
Inflation has picked up a bit; liquidity remains in healthy surplus

India CPI Inflation trend



Source: Bloomberg

Banking system Liquidity (Rs. In trillion)



Source: Jefferies

- CPI inflation has picked up a bit in Feb 2021 after moderating from earlier highs; Core inflation (ex food & fuel) remains elevated.
- RBI broadly leaves inflation forecasts broadly unchanged in April 2021 policy review; Q4 FY22 forecast at 5.1%.
- Banking system liquidity in healthy surplus; may moderate a bit with lengthening of the tenor of variable rate rev repo auctions.

Market Outlook

Second Covid wave in India	• Further escalation in Covid cases could lead to more lockdowns/restrictions, which may hamper pace of economic recovery in the short term & cause some market volatility. • However, the expansion in vaccination drive may help to counter the spread.
Rising bond yields; but easy monetary policy	• Further rise in bond yields may cause some market volatility in the short term. • However, major central banks give dovish guidance; easy monetary policy to continue.
Corporate earnings better than expected; but valuations elevated	• Corporate earnings seeing strong recovery & upgrades—21% & 26% Nifty EPS growth expected in FY21 & FY22 respectively. • Market valuations are elevated, but can moderate a bit if corporate earnings pan out as expected.
Investment Strategy	• Investors can continue to invest systematically. Any market correction/dips can be used to gradually increase equity allocation (as per individual risk profile).
Debt Markets & Strategy	• RBI to remain accommodative for some time to support economic growth. • We prefer medium term part of the G-Sec yield curve.
Economic recovery to continue; Year of normalization	• India expected to be among the fastest growing major economies in FY22. • With expansion of Covid vaccination drive, this will be the year of normalization, and set the trajectory for future growth.

THANK YOU

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