Bajaj Allianz Life Insurance Co. Ltd.

LIFE GOALS. **DONE.**

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Macro-economic developments

- US non-farm payrolls in the month of April 2021 was disappointing and rose by only 266,000 (significantly lower than expectations) compared to a revised 770,000 in the previous month. The unemployment rate rose marginally to 6.1% in April 2021 vs 6.0% in the previous month.
- US Q1 CY21 GDP grew at an annualized pace of 6.4% QoQ (helped to some extent by base effect), and up from 4.3% annualized growth in the previous quarter. Consumer spending, which accounts for around 68% of US GDP, rose by 10.7% (QoQ, annualized) compared to a growth of 2.3% in the previous quarter.
- The US Fed kept rates unchanged (as expected) in its April 2021 meeting, and maintained the quantum of monthly QE at $120 billion. The Fed chairman said that recovery is uneven and far from complete and indicated that inflation could rise in coming months, but one-time rise in prices are likely to be transitionary. The US 10 year treasury yield fell from 1.75% at the end of March 2021 to a low of 1.55% intra-month in April, and finally closed the month at 1.63%. However, data released in the month of May 2021 showed that US consumer inflation rose by a higher than expected 4.2% (highest since September 2008), and helped by a lower base effect. Post this, the 10 year US treasury yield rose to around 1.7% in the second week of May.
- Domestically in India, we have seen a large second Covid wave--with daily new cases breaching the 400,000 mark (4X of previous Sep 2020 peak); although we have recently seen some moderation in cases in the month of May. Daily new deaths also crossed the 4,000 mark (almost 4X of previous Sep 2020 peak).
- As a result, we have seen partial lockdown being implemented in several states across India. With that, we have seen a slowdown in economic activity as indicated by moderation in various high frequency indicators (like passenger vehicle & 2-wheeler registrations, e-way bills, mobility indices, power demand, property sales etc.). International agencies have downgraded India's FY22 GDP growth forecast recently. S&P cut India's GDP growth forecast for FY22 to 9.8% (from 11% earlier) and Moody's cut the growth forecast to 9.3% (from 13.7% earlier).
- Industrial production data (which comes with a 2-month lag) showed that industrial output rose sharply to +22.4YoY% in the month of March 2021 (primarily helped by a favourable base effect) versus -3.4%YoY in the previous month, and -18.7% YoY in March 2020. For full FY21, IIP contracted by 8.7% vs a contraction of 0.8% in FY20.
- Consumer price inflation (CPI) for the month of April 2021 fell to 4.3%YoY (helped by favourable base effect) from 5.5%YoY in the previous month. Food inflation (which has 39% weight in the CPI index) moderated to 2.0%YoY in April from 4.9%YoY in the previous month, but inflation in transport & communication and fuel segments was elevated. Core inflation (ex food and fuel) also moderated to 5.4%YoY in April from 5.9%YoY in the previous month.
- Brent crude oil price rose from $63.5/bbl at the end of March 2021 to close the month of April above $67/bbl—up around 6%. In early May 2021 it breached the $70/bbl mark but has moderated recently due to some soft economic data.
- The rupee fell sharply intra-month in April---breaching the INR 75/USD mark at one point; and finally closed the month at around INR74/USD—down 1.3%. This was on the back of foreign portfolio equity outflows and some slowdown in economic activity as a result of rising Covid cases and lockdown in various states. Indian rupee was a relative underperformer during the month compared to most other peer Asian and emerging market currencies.

Equity market developments and Outlook

- Indian equity markets were a relative underperformer among global markets in the month of April 2021, on the back of the large second Covid wave, partial lockdown in various states and some slowdown in economic activity. The benchmark Nifty 50 index closed the month down 0.4%, while for the broader markets--the Nifty Midcap 50 index and the Nifty Smallcap 100 index returned -0.7% and +5.6% respectively in April.
- The sectors that outperformed during the month of April 2021 were metals and pharma. The sectors that underperformed during the month were realty, capital goods, FMCG and auto.
- Global markets delivered healthy returns during the month. Developed markets relatively outperformed, with the MSCI World index returning +4.5% in April, while both the MSCI Emerging Markets index and MSCI Asia ex-Japan index returned +2.4%.
- For the US markets, the benchmark S&P 500 index returned +5.2% during the month and was a relative outperformer. Within Europe, major markets like UK and France outperformed. Within Asia—Taiwan and South Korea outperformed during the month, while Japan, Thailand and India underperformed (closing in the red).
- Foreign portfolio investors (FPIs) registered a net equity outflow of ₹12,810 crore in the month of April compared to a net equity inflow of ₹19,500 crore in the previous month.
- Domestic Institutional Investors (DIIs) registered a large net inflow in the month of March of ₹11,100 crore compared to a net inflow of ₹5,200 crore in the previous month.
- Corporate earnings for Q4 FY21 so far have been reasonably good, with the key driving sectors being metals, private banks and NBFCs. The corporate earnings outlook for FY22 remains healthy, but we may see some downgrades in earnings in upcoming quarters if lockdown continues for long.
- Various high-frequency indicators are pointing to some slowdown in economic activity as a result of partial lockdown being implemented in various states. However, we believe that slowdown is unlikely to be of the same magnitude (or the sharp contraction) we have seen in Q1 FY21--when the entire country was under a very stringent lockdown.
- Key factors to look out for is the trajectory of the Covid second wave in India. Some early signs of moderation in new case additions in recent days gives some hope that we may be approaching the peak of second Covid wave soon, but it is still a developing situation. Beyond Covid, another factor that needs to be tracked is the policy stance of major global central banks, although in the near term--we still believe they will continue with their easy/accommodative monetary policy stance.
- Investors can continue to systematically invest in equities. They can use any large market volatility / dips to increase their equity exposure gradually (as per their individual risk profile).

Fixed Income market developments and Outlook

- Bond yields fell during the month on the back of a dovish RBI monetary policy in April, fall in global bond yields (due to dovish stance of major global central banks) and some softening of economic activity in India (due to partial lockdown in various states). The 10 year G-Sec yield closed the month of April at 6.03%--down 15 bps.
- The RBI kept policy rates unchanged as expected in its April 2021 monetary policy review and retained its accommodative stance, with a dovish undertone. Some of the key announcements/measures were as follows:
  - Announced a secondary market G-Sec acquisition programme (GSAP 1.0), under which there would be ₹1 lakh crore purchase of G-Secs in Q1 FY22. This indicates RBI's intention to calendarize its G-sec purchases and may help to manage the yield curve better and help to reduce volatility in yields to some extent.
  - The central bank intends to lengthen the tenor of variable rate reverse repo auctions, thereby helping to manage the system liquidity depending on evolving conditions and keeping it stable.
  - RBI kept CPI inflation forecasts broadly unchanged and retained its forecast for FY22 GDP growth at 10.5%.
  - Extension of on-tap TLTRO deadline by six months to Sep 2021 end. Additional liquidity facility of ₹50,000 crore for financial institutions like NABARD, SIDBI, NHB for fresh lending in FY22.
  - Bank lending to NBFCs (other than MFIs) for on-lending to agriculture, MSME and housing, which was earlier allowed to be classified as priority sector lending, has been extended by another 6 months till Sep 2021 end.
- Responding to the escalating second Covid wave, the RBI announced some additional measures on 5th May 2021. These included liquidity measures (like a ₹50,000 crore on-tap liquidity with 3 year tenor for emergency health services) and some re-structuring measures for individuals and MSMEs to help with the second wave.
- Finance Ministry data showed that GST collections in April 2021 rose to an all-time high of ₹1.41 lakh crore, which was 14% higher than earlier record collection for the month of March 2021. We have seen seven consecutive months now, when GST collections have been higher than the ₹1 lakh core mark.
- Foreign Portfolio Investors (FPIs) registered a net debt outflow of around ₹1,033 crore in the month of April, compared to a net outflow of around ₹4,700 crore in the previous month.
- The RBI has indicated multiple times that it gives precedence to economic recovery, which helps to provide some comfort at this juncture. It has also announced various measures to help reduce the term premium and manage the yield curve better---so that it can manage the large market borrowing program in FY22 in an efficient & smooth manner.
- With the second Covid wave and some slowdown in economic activity already visible we believe that the RBI will continue to remain accommodative for some time. From an investment perspective, we prefer the medium-term part of the yield curve.

Ver: April 2021