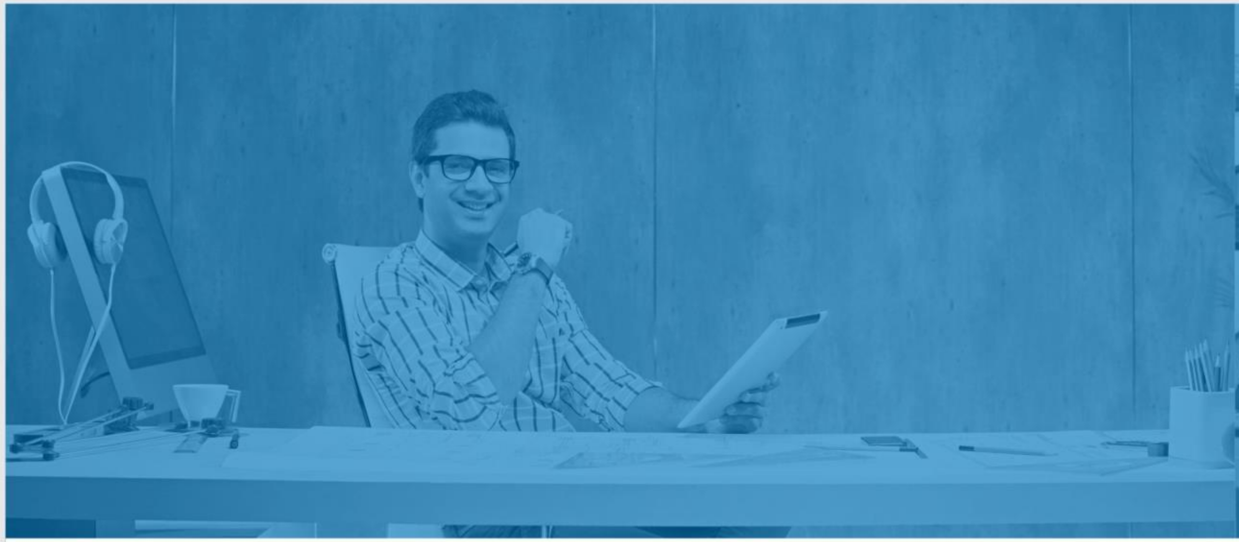
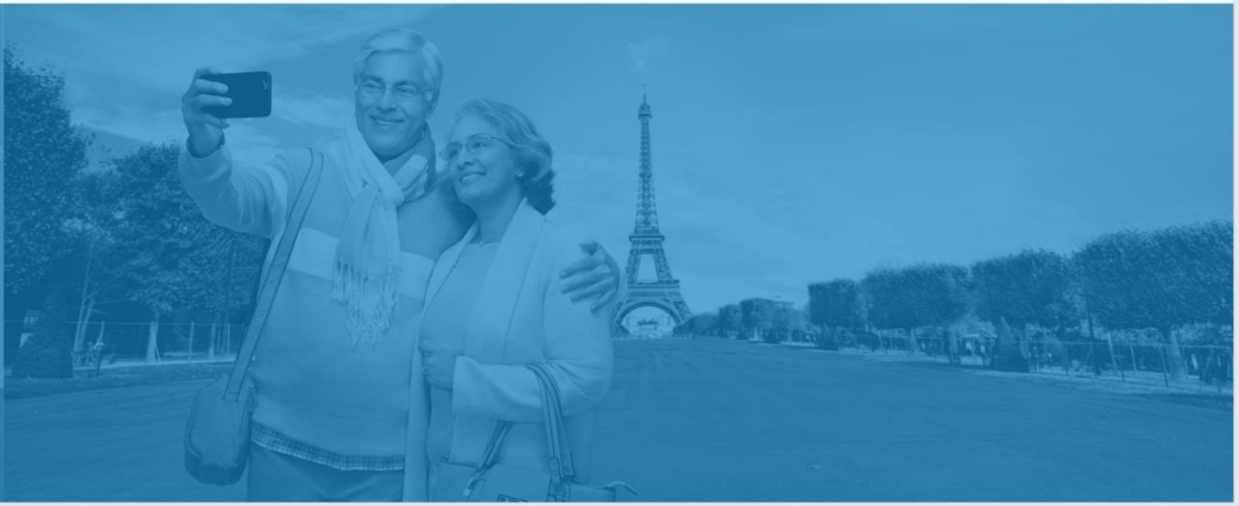


Quarterly Macro & Market Overview – July 2021

LIFE GOALS. **DONE.**

BAJAJ | Allianz



Global Macros & Markets

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

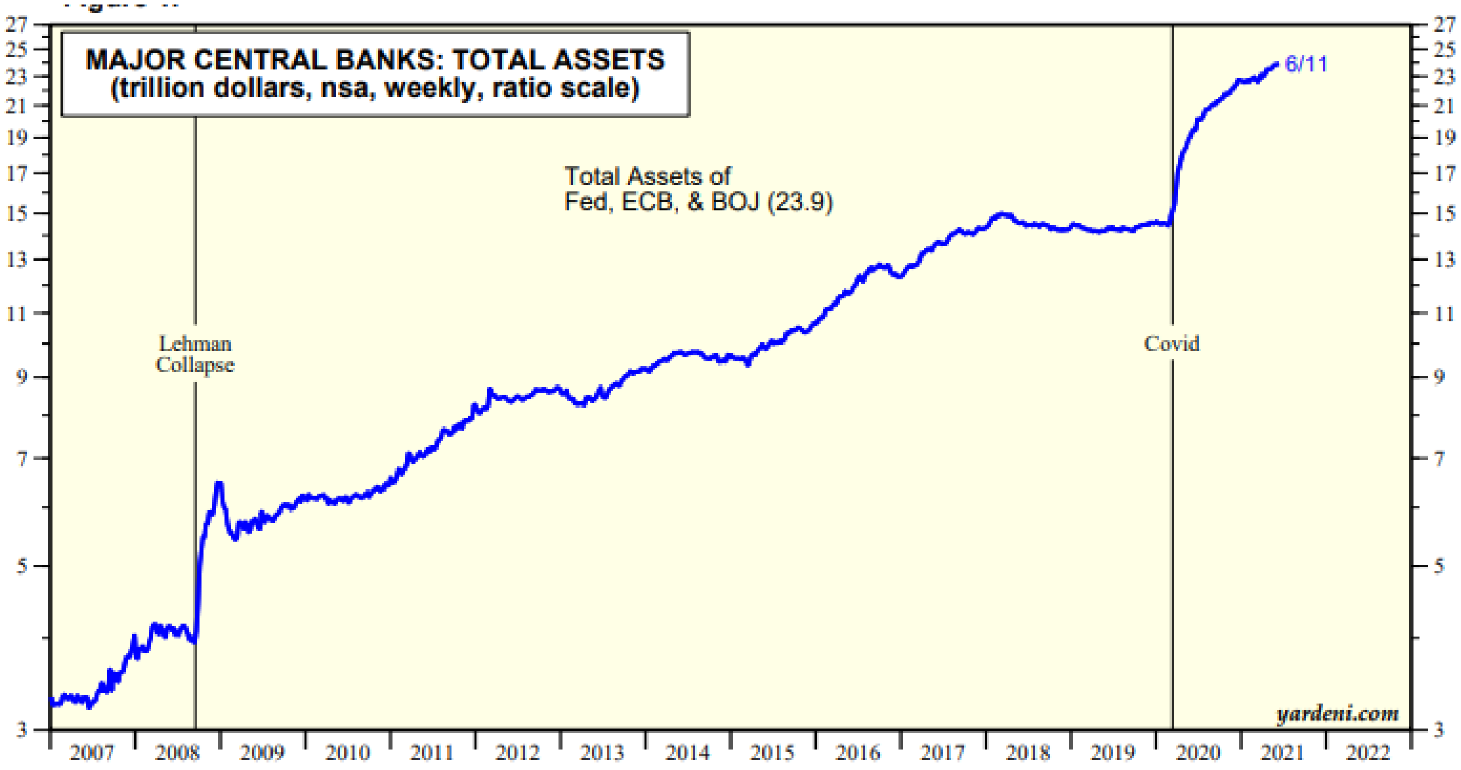
World Bank GDP Forecasts (in %) - June 2021 Global Economic Prospects						
		Estimate	Projection		Difference from Jan 2021 projection	
	2019	2020	2021	2022	2021	2022
World	**2.5**	**-3.5**	**5.6**	**4.2**	**1.5**	**0.5**
Advanced Economies	**1.6**	**-4.7**	**5.4**	**4.0**	**2.1**	**0.5**
United States	2.2	-3.5	6.8	4.2	3.3	0.9
Euro Area	1.3	-6.6	4.2	4.4	0.6	0.4
Japan	0.0	-4.7	2.9	2.6	0.4	0.3
Emerging Markets	**3.8**	**-1.7**	**6.0**	**4.7**	**0.8**	**0.4**
China	6.0	2.3	8.5	5.4	0.6	0.2
India #	**4.0**	**-7.3**	**8.3**	**7.5**	**2.9**	**2.3**
Brazil	1.4	-4.1	4.5	2.5	1.5	0.0

- As per World Bank, global GDP growth to recover to +5.6% in CY21 from -3.5% contraction in CY20.
- Being helped by healthy economic recovery in developed economies esp. the US. (+6.8% in CY21 vs -3.5% in CY20). Significant upgrade in US GDP forecast for CY21.
- India's GDP growth to recover to +8.3% in FY22 vs -7.3% contraction in FY21.
- India amongst the fastest growing major economies worldwide after China (helped to some extent by lower base effect).

Source: World Bank Global Economic Prospects, June 2021. # For India 2021 = FY22 & 2022= FY23

Major global central banks’ balance sheets have seen massive expansion

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



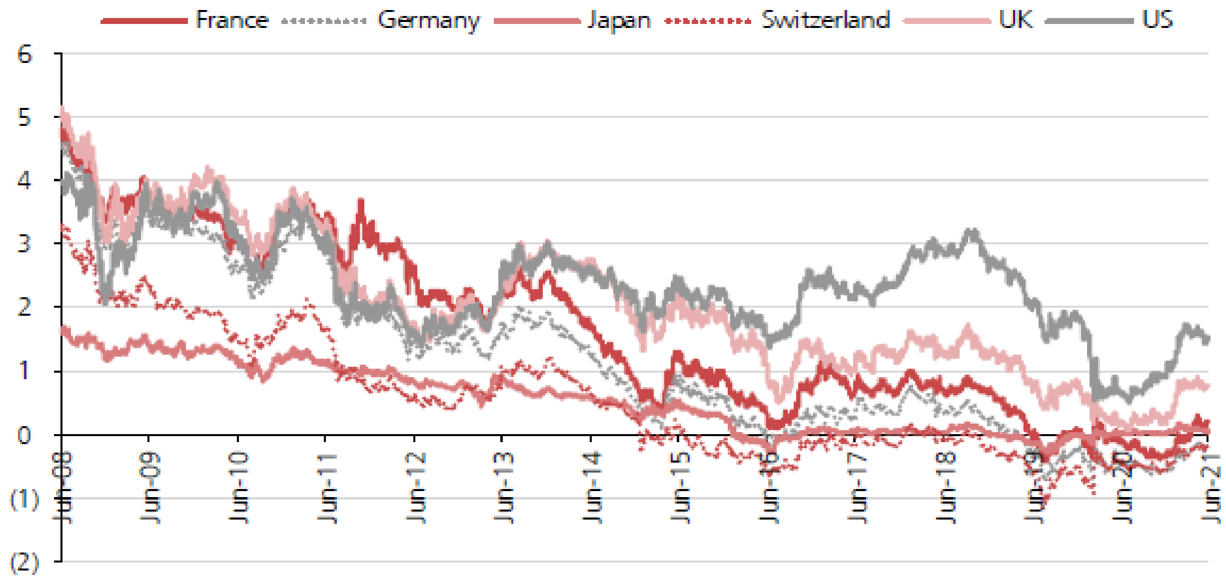
- Major central banks (esp. US Fed & ECB) have gone for massive monetary stimulus, leading to a global liquidity surge—which has helped in recovery in global equity markets & economy.

- 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: Yardeni

Global bond yields & inflation have hardened this year; but easy monetary policy to continue for some time—as Fed downplays inflation risk

10 year bond yields of Various Countries



Source: Bloomberg, Kotak Institutional Equities

US Fed Meeting Projections – June 2021

Percent

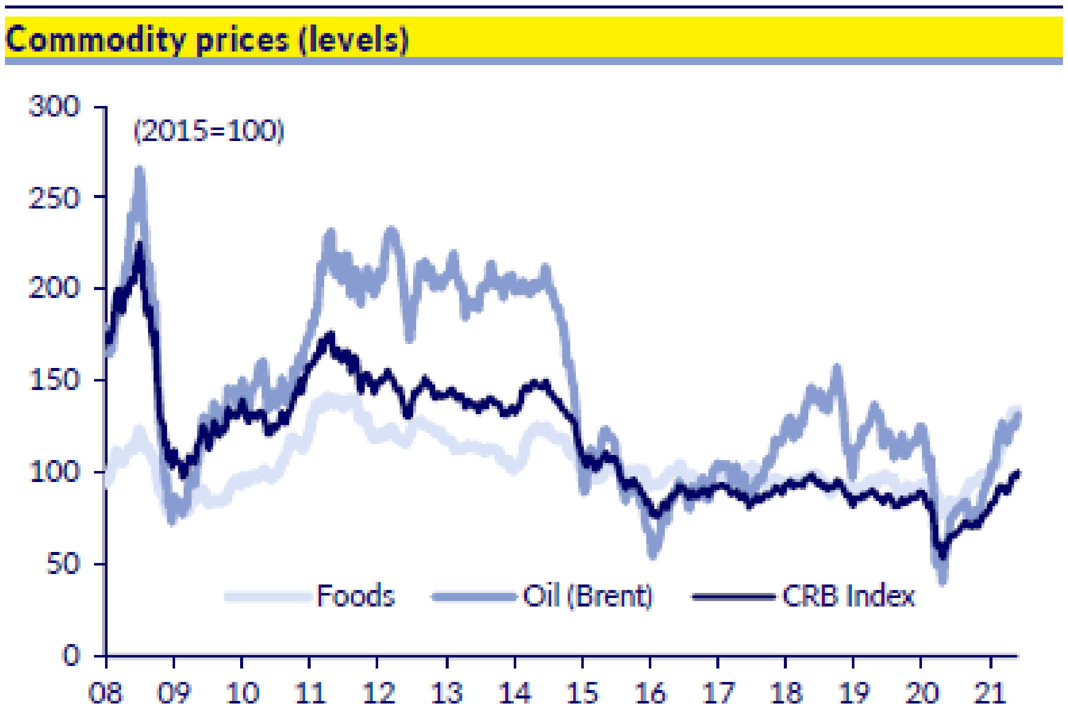
Variable	Median[1]			
	2021	2022	2023	Longer run
Change in real GDP	7.0	3.3	2.4	1.8
March projection	6.5	3.3	2.2	1.8
Unemployment rate	4.5	3.8	3.5	4.0
March projection	4.5	3.9	3.5	4.0
PCE inflation	3.4	2.1	2.2	2.0
March projection	2.4	2.0	2.1	2.0
Core PCE inflation[4]	3.0	2.1	2.1	
March projection	2.2	2.0	2.1	
Memo: Projected appropriate policy path				
Federal funds rate	0.1	0.1	0.6	2.5
March projection	0.1	0.1	0.1	2.5

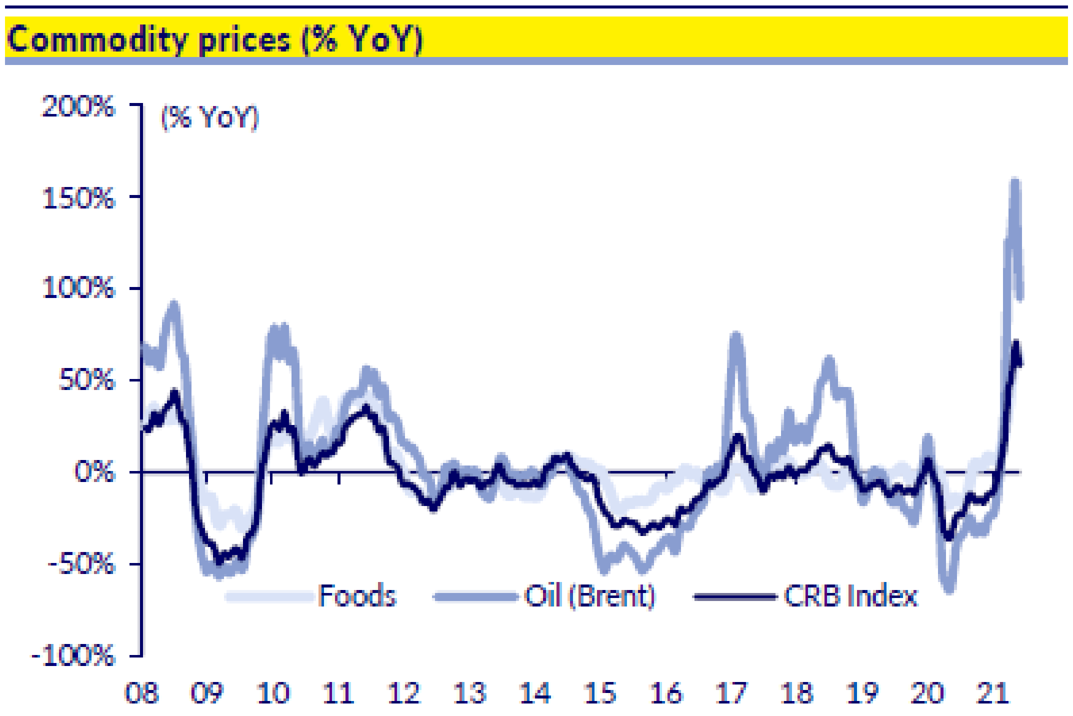
Source: US Federal Reserve

- Global bond yields have hardened in 2021 on the back of rising commodity prices (causing inflationary concerns) and a strong revival in economic growth, but has stabilized recently.
- However, major central banks continue to keep rates unchanged and maintain accommodative stance
  - .US Fed has indicated it will now go in for 2 rate hikes in 2023. We may see signal of tapering later in 2021 or in early 2022—if inflation continues to rise & pace of economic recovery continues.
  - US Fed has revised up its inflation forecast for 2021 quite significantly (Core PCE inflation forecast for CY21 at 3% vs 2.2% earlier).

PCE – Personal Consumption Expenditure

Rise in commodity prices causing inflationary concerns





- Revival in global economy has led to growth demand recovery. This along with supply constraints has led to surge in commodity prices, from pandemic lows—fueling inflationary concerns.

 Source: CLSA, Bloomberg

Most global markets have seen a strong rally over the past year; India among the top performing markets

Performance of International Indices (ended June 2021, in %)					
	Country / Region	6 mths (CYTD)	1 Yr	5 Yrs	10 Yrs
KOSPI Korea	South Korea	14.7	56.4	10.8	4.6
TSEC TAIEX	Taiwan	20.5	52.8	15.4	7.5
IISL Nifty 50	**India**	**12.4**	**52.6**	**13.7**	**10.8**
S&P 500	US	14.4	38.6	15.4	12.5
MSCI EM PR USD	Emerging Mkts	6.5	38.1	10.5	1.8
MSCI Asia Ex Japan PR USD	Asia Ex Japan	5.5	37.1	12.1	4.6
MSCI World PR USD	World	12.2	37.0	12.8	8.5
RTS RTSI PR USD	Russia	19.2	36.4	12.2	-1.4
BOVESPA	Brazil	6.5	33.4	19.7	7.3
CAC 40	France	17.2	31.8	9.0	5.0
Nikkei 225	Japan	4.9	29.2	13.1	11.4
FSE DAX TR	Germany	13.2	26.2	9.9	7.7
S&P/ASX 200	Australia	11.0	24.0	6.9	4.7
JSX Composite	Indonesia	0.1	22.0	3.6	4.4
FTSE/SGX STI	Singapore	10.1	20.9	2.0	0.0
Shanghai Composite	China	3.4	20.3	4.2	2.7
Hang Seng	Hong Kong	5.9	18.0	6.8	2.6
FTSE SET All Share	Thailand	8.4	17.2	0.6	3.3
FTSE 100	UK	8.9	14.1	1.6	1.7
FTSE Bursa Malaysia KLCI	Malaysia	-5.8	2.1	-1.5	-0.3

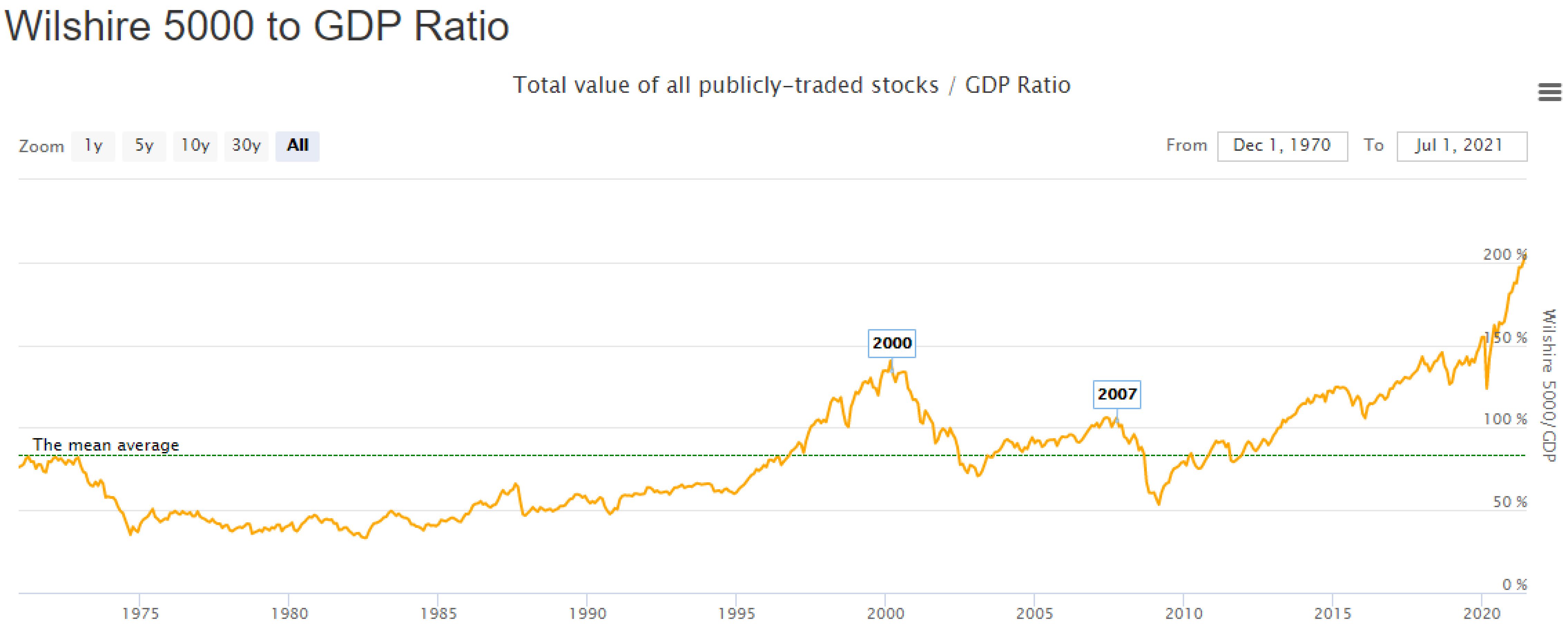
Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of 1 year return in descending order

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.
- Other markets like South Korea, Taiwan & US outperformed.
- Markets like Malaysia, UK & Thailand underperformed relatively.

- Over the long term (10 years) Indian market has also been among the top performing markets

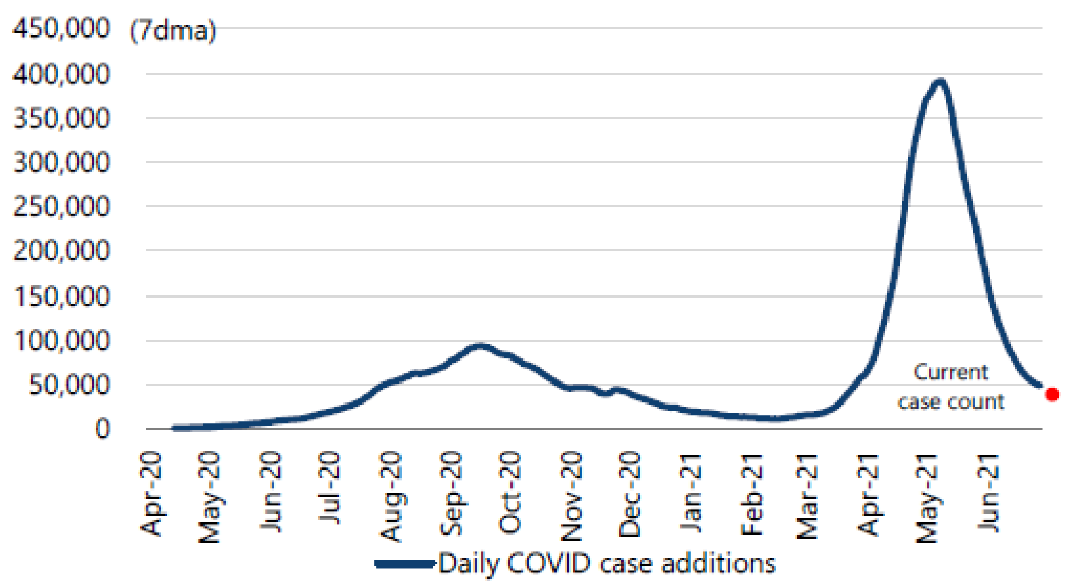
US market cap to GDP (Buffet Indicator) is at record high levels, indicating that market valuations are quite elevated

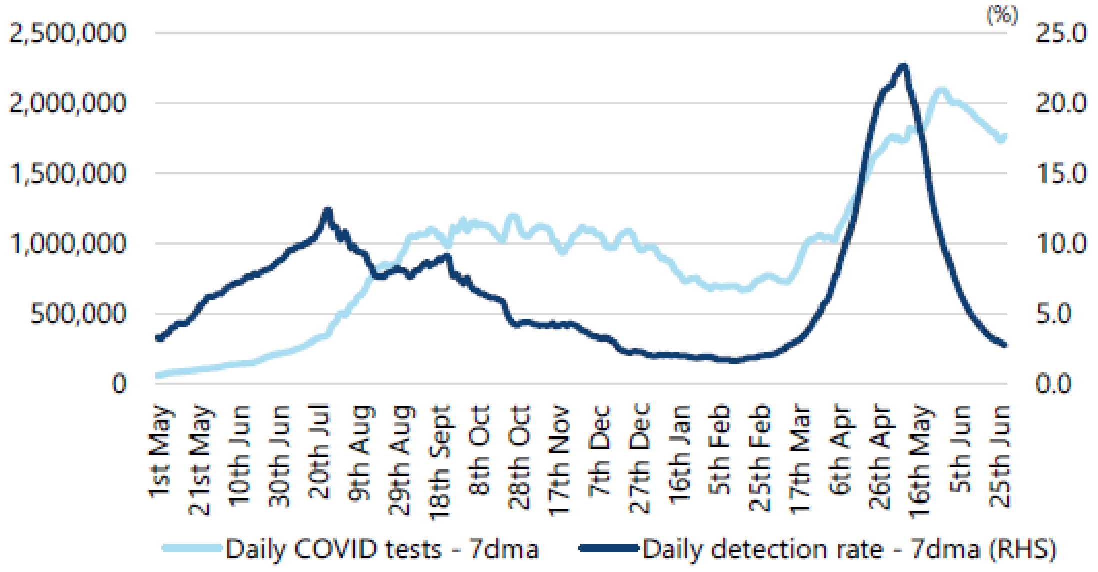


Source: Longtermtrends.net . Wilshire 5000 is widely accepted as the definitive benchmark for the US equity market and is intended to measure the total market capitalization of all US equity securities with readily available price data

Indian Macros & Covid data

The second Covid wave in India has seen a significant moderation and stabilized





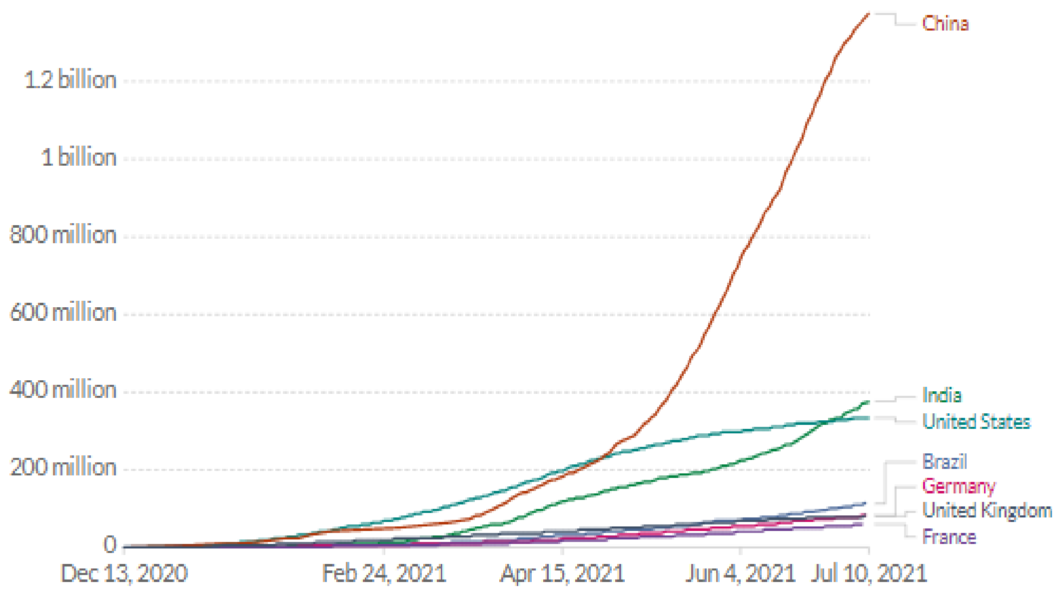
- India has seen a significant moderation in daily Covid cases from a peak of 4 lakh in May 2021.
- Covid detection rate has moderated from a peak of 22% to below 3% presently.
- With the moderation in second Covid wave lock-down and restrictions have been relaxed by various state governments.
- However, there are some concerns of a possible 3rd wave due to "Delta" variant, but we will have to see if & how it pans out.

Source: MoHFW, Jefferies

India’s pace of vaccination has picked up, but still a large share of population to be vaccinated

Share of population vaccinated

Cumulative Number of Covid Vaccine doses administered

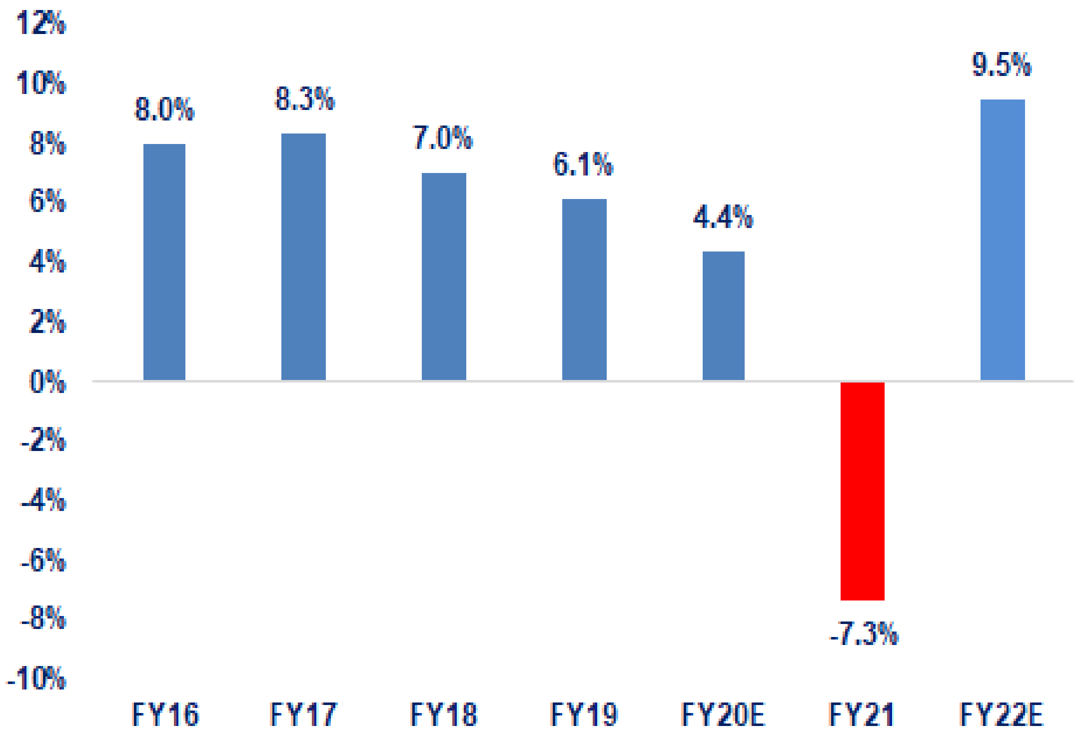


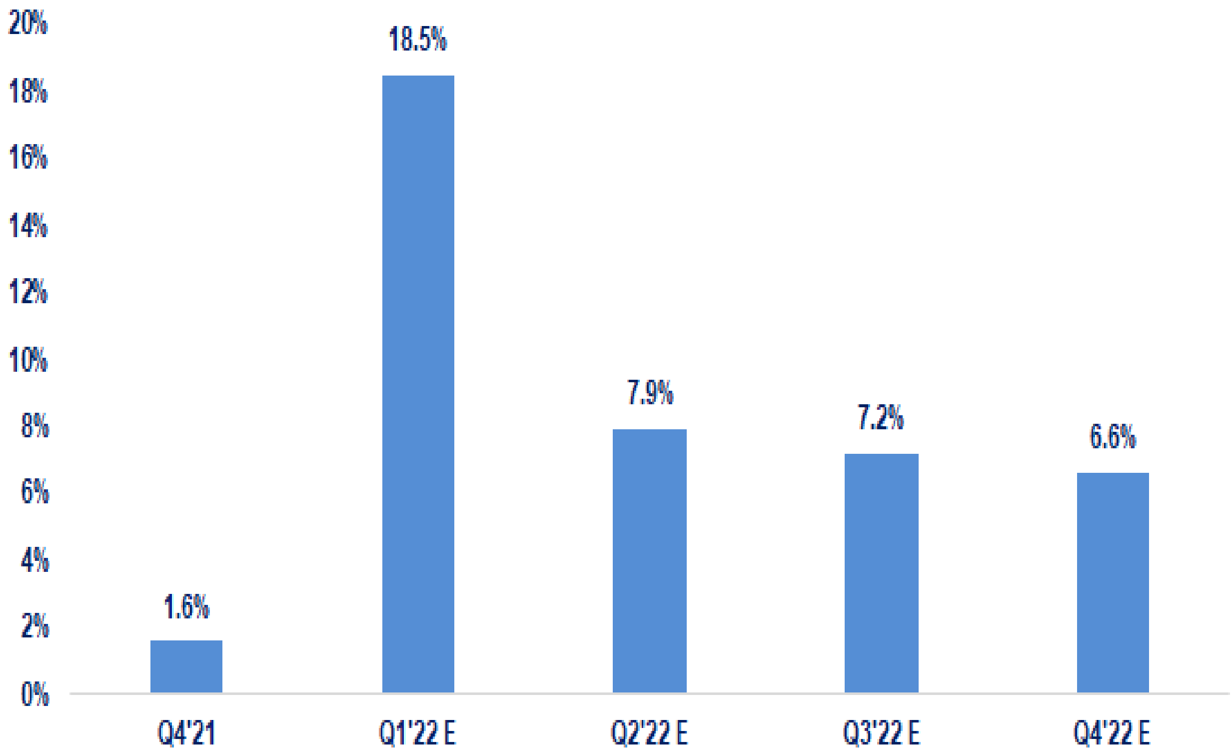
- India recently crossed the US in number of Covid vaccines doses administered. China leads by a significant margin.
- However, due to its large population still a significant share of population to be vaccinated (~17% of population is partly vaccinated with one dose)
- The supply of Covid vaccines to pick up in coming months, which should help India to pick-up its pace in vaccination.

Source: Our World in Data

Impact of Covid 2nd wave has been a negative surprise; but much less impact than 1st wave

India GDP – Trend and Projections (% YoY)



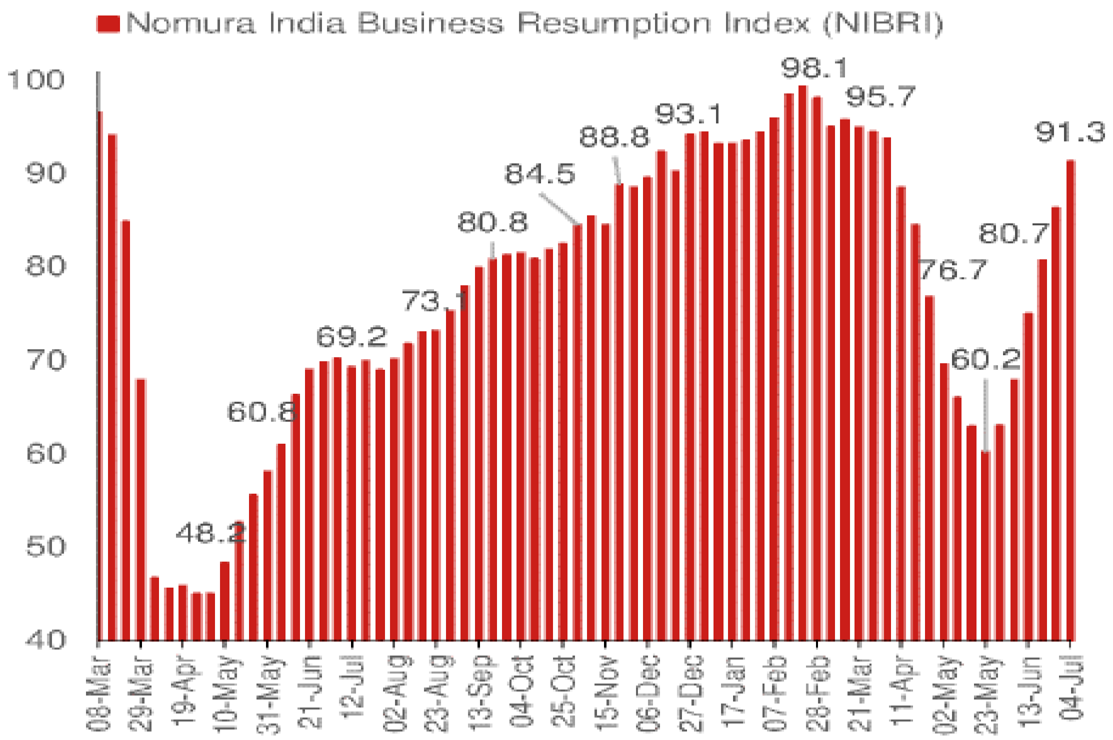


- RBI's GDP projection revised lower to 9.5% from 10.5% earlier for FY22

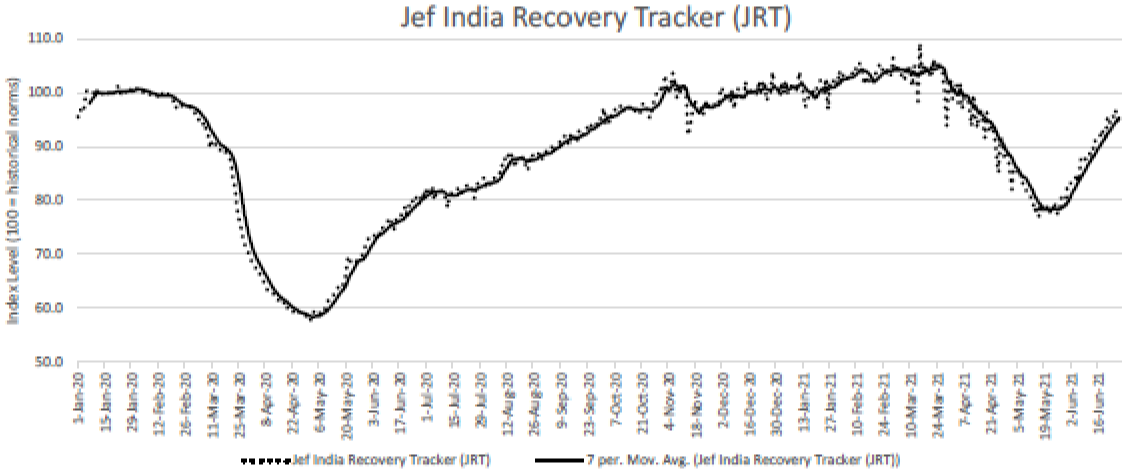
Source: RBI

Economic / Business Activity in India has seen healthy recovery post the second wave impact

Nomura India Business Resumption index has recovered from 60 to 91



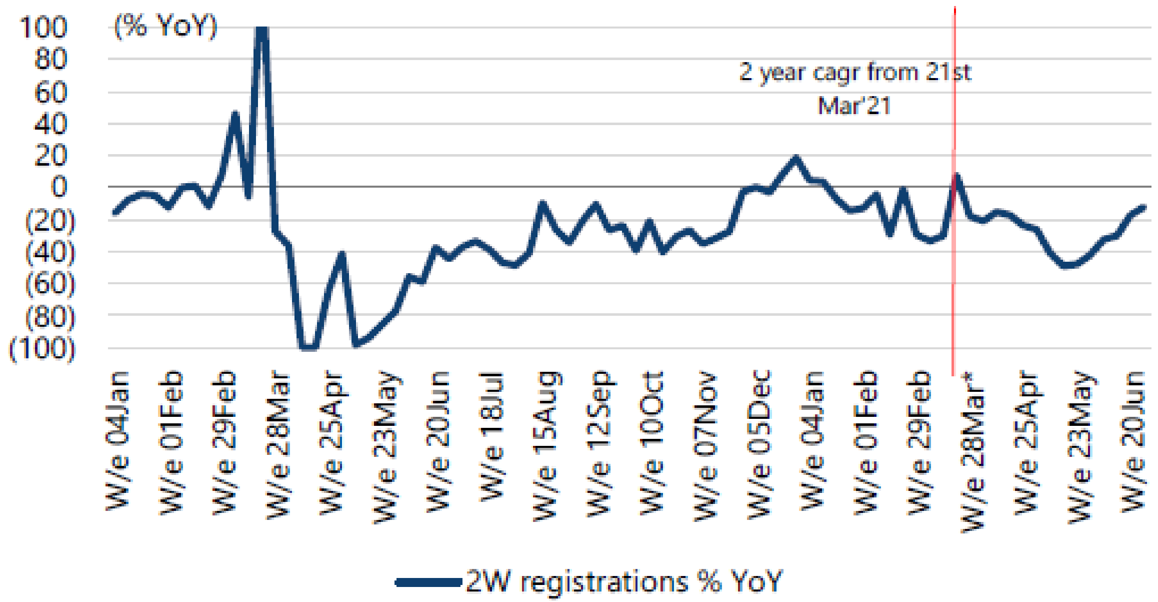
Jefferies India Economic Activity index back at ~95% of Pre-Covid level, after moderating amidst the 2nd Covid wave



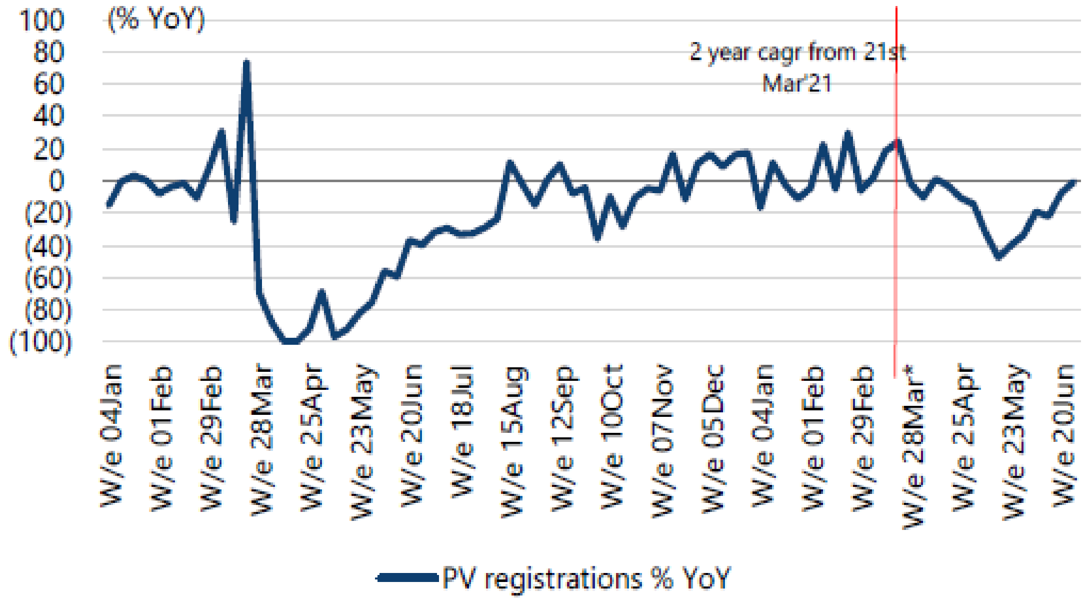
Source: Nomura, Jefferies

2-W & PV registrations see a recovery post the 2nd Covid wave impact

2-Wheeler registrations (% YoY)



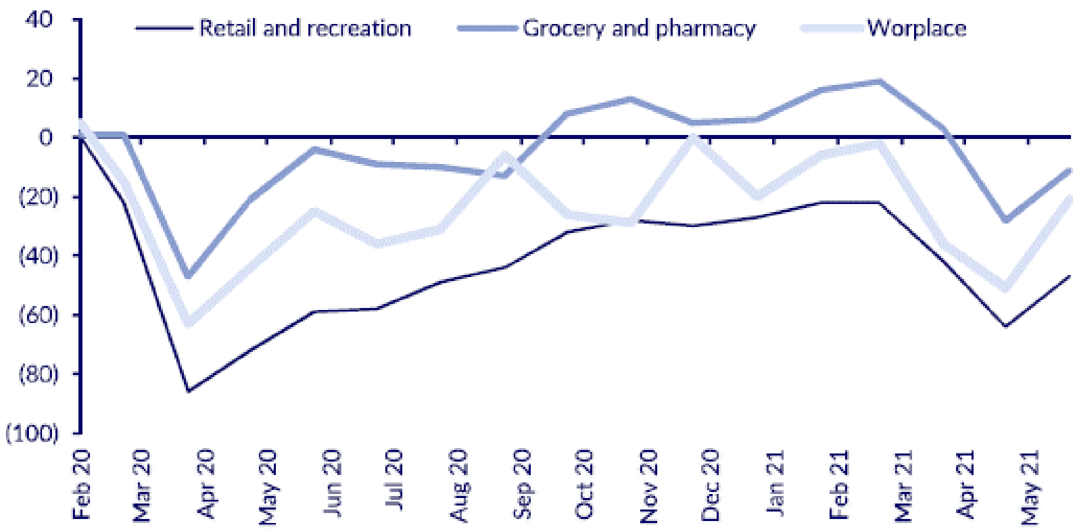
Passenger vehicle registrations (% YoY)



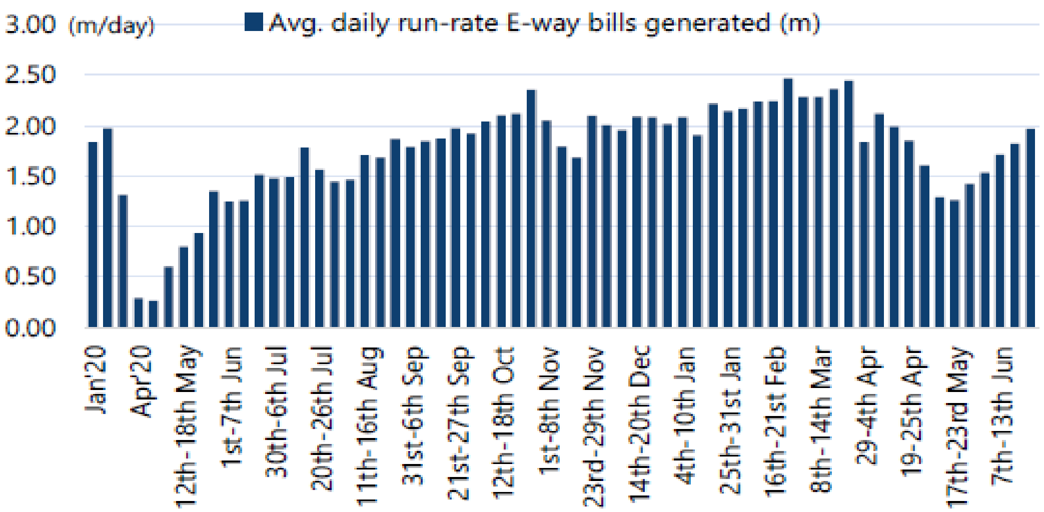
Source: Jefferies

Other high frequency indicators in India also pointing to recovery after the second wave

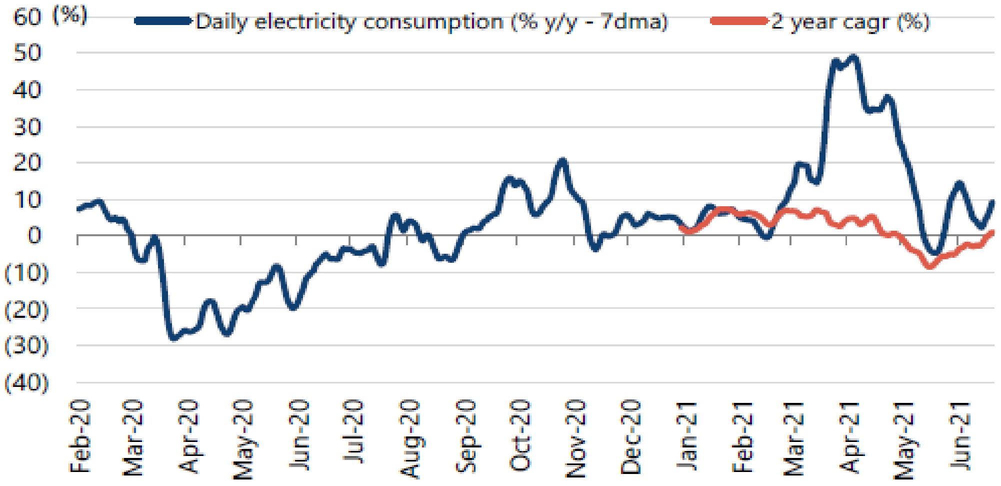
Mobility indices see a recovery with lock-down restrictions being eased



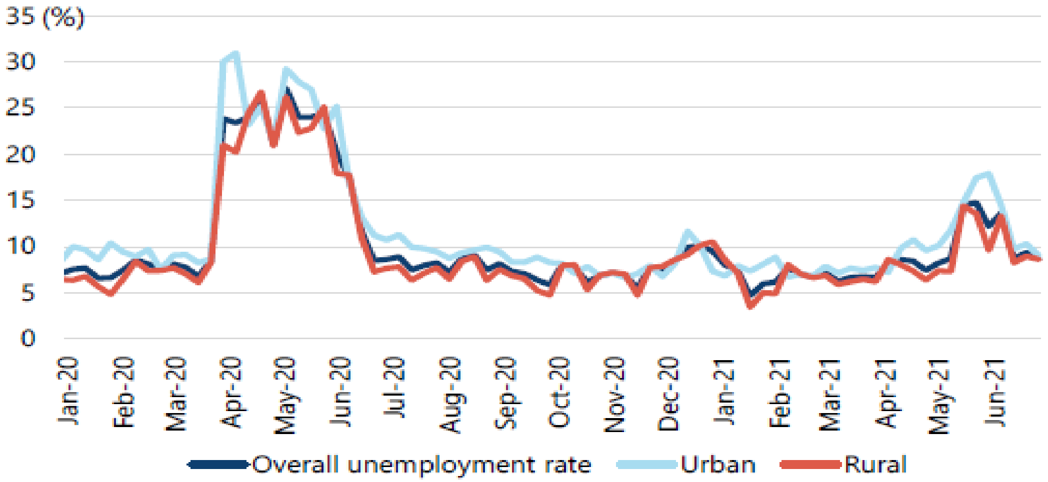
E-Way bills generation pace back to early April 2021 levels



Electricity consumption trend also sees some recovery



Unemployment rate moderates after rising amidst 2nd wave



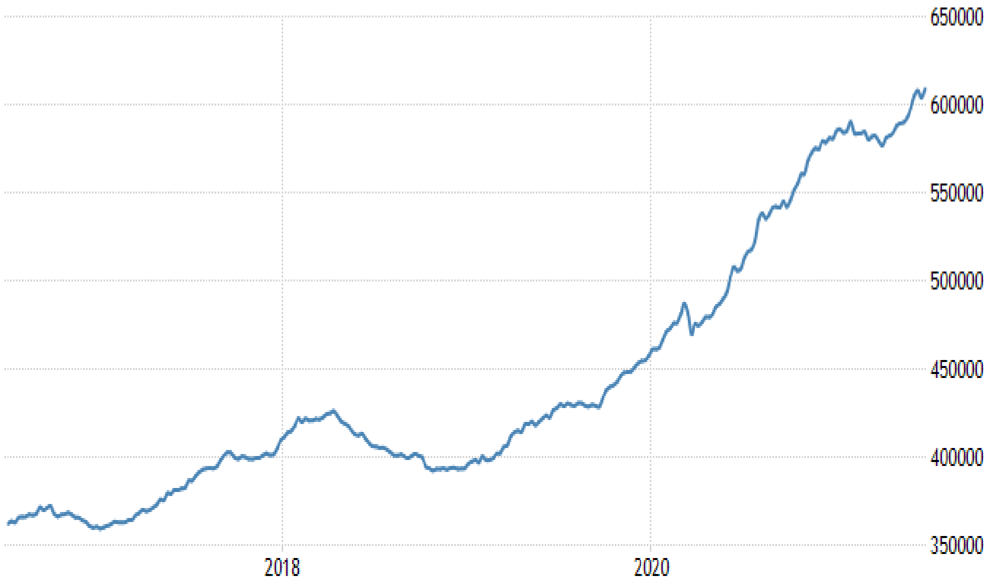
Source: Jefferies, CLSA, CMIE

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

India Current Account Balance & Balance of Payment Trends ($ in billion)					
	Q4 FY20	Q3 FY21	Q4 FY21	FY21	FY22E #
Current Account Balance (CA)	**0.6**	**-2.2**	**-8.2**	**23.9**	**-47.2**
CA as % of GDP	**0.1%**	**-0.3%**	**-1.0%**	**0.9%**	**-1.6%**
Trade Balance	-35.0	-34.6	-41.7	-102	-176
Exports	76.5	77.2	91.3	296	355
Imports	111.6	111.8	133.0	398	532
Capital Account	**17.4**	**34.1**	**12.3**	**64**	**69**
FDI (Foreign Direct Inv)	12.0	17.4	2.7	44	35
FPI (Foreign Portfolio Inv)	-13.7	21.2	7.3	36	8
Balance of Payments (BOP)	**18.8**	**32.5**	**3.4**	**87.3**	**21.8**

Source: RBI, Kotak. # FY22 estimate based on crude oil @ $75/bbl

India Forex Reserves crosses $6 trln mark



Source: TradingEconomics

- India's current account balance negative at 1% of GDP in Q4 FY21, due to higher trade deficit. Current account expected to turn into deficit of 1.6% of GDP in FY22 from surplus of 0.9% of GDP in FY21
- Capital account surplus moderated in Q4 FY21, due to moderation in FDI & FPI flows.
- BoP in surplus in Q4 FY21 and the strong BoP position has led to accretion in FX reserves to record highs. BoP expected to be in surplus in FY22 as well, but lower than in FY21.

Indian Markets, Valuations, Flows & Earnings

Market rally in India has been broad-based over the past year

Performance of Domestic Indices as of June 2021 (in %)		
Index Name	**3 mths**	**1 year**
S&P BSE Metal	30.1	158.9
IISL NIFTY Smallcap 100	20.0	110.9
S&P BSE IT	13.5	102.4
IISL Nifty Midcap 50	10.4	82.6
S&P BSE Capital Goods	8.8	78.5
S&P BSE Power	11.3	75.0
S&P BSE Consumer Durables	8.4	74.9
S&P BSE Realty	2.6	73.3
S&P BSE BANKEX	4.8	62.0
S&P BSE PSU	16.0	59.3
IISL Nifty 500	9.4	59.0
S&P BSE Healthcare	20.0	57.3
S&P BSE Auto	6.8	55.6
IISL Nifty 50	7.0	52.6
S&P BSE Oil and Gas	9.1	27.7
S&P BSE FMCG	5.0	20.1

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

- Mid/Small-caps outperformed significantly, making the rally more broad-based.
- Sectors like metals, IT, and capital goods outperformed
- Sectors like FMCG and oil & gas relatively underperformed

FPI flows slow down in FYTD 22, while DII flows pick-up

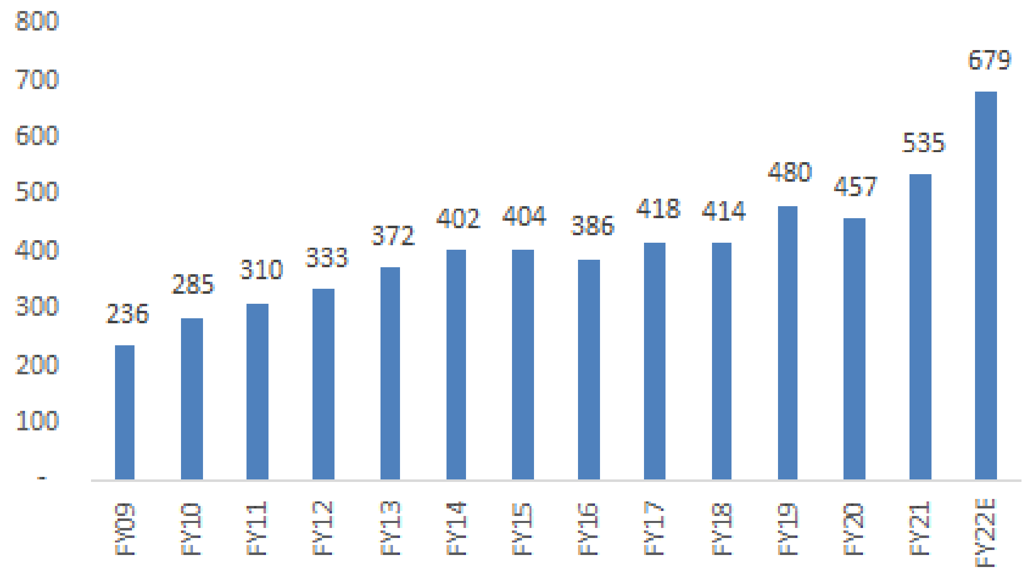
Source: NSDL, Axis Capital	Rs in Crore	
Month-end	**FPIs**	**DIIs**
31 January 2020	14,095	2,250
29 February 2020	-1,521	16,933
31 March 2020	-58,632	55,595
30 April 2020	-4,112	-826
31 May 2020	13,001	11,357
30 June 2020	18,684	2,434
31 July 2020	8,590	-10,008
31 August 2020	45,637	-11,047
30 September 2020	-5,690	110
31 October 2020	18,400	-17,318
30 November 2020	70,896	-48,339
31 December 2020	53,500	-37,294
31 January 2021	14,512	-11,971
28 February 2021	21,960	-16,358
31 March 2021	19,519	5,204
30 April 2021	-12,810	11,089
31 May 2021	5,360	2,067
30 June 2021	10,932	7,044

Source: NSDL, Axis Capital	Rs in Crore	
Year	**FPIs**	**DIIs**
FY2008	52,572	47,794
FY2009	-48,250	60,040
FY2010	1,10,752	24,211
FY2011	1,10,121	-18,709
FY2012	43,738	-5,347
FY2013	1,40,032	-69,069
FY2014	79,709	-54,161
FY2015	1,11,445	-21,446
FY2016	-14,171	80,416
FY2017	60,196	30,787
FY2018	21,074	1,13,258
FY2019	-90	72,115
FY2020	6,151	1,29,301
FY2021	2,74,897	-1,34,056
FYTD22 (upto June)	3,482	20,200

- After seeing record FPI equity inflows in FY21, FPI flows have slowed down in FYTD22 (but recovered in the month of June 2021).
- Meanwhile, DII equity flows picked-up in FYTD22, after seeing outflows in FY21.

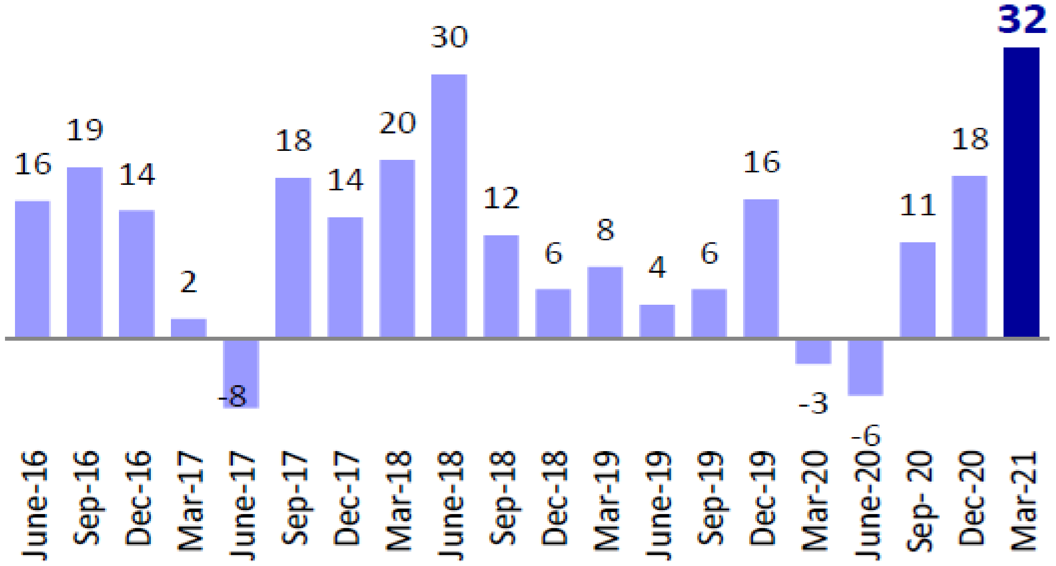
Corporate earnings to see robust growth in FY22; Q4 FY21 earnings have been better than expected

Nifty EPS Trend



Source: Bajaj Allianz Life Estimates

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



Source: Motilal Oswal

- Q4 FY21 corporate earnings have been above expectations—resulting in earnings upgrades.
- Nifty EPS sees healthy growth in FY21 despite of Covid shock & GDP contraction—which is a positive surprise.
- Robust corporate earnings growth expected in FY22 (Nifty 50 index EPS growth of 27%)

Corporate earnings to see robust growth in FY22 led by corporate lenders and ferrous metal companies

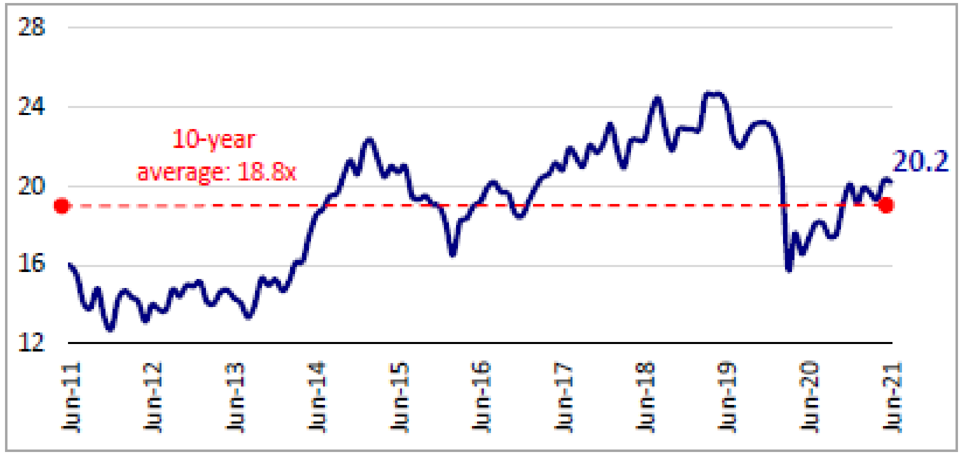
	Net Income (Rs mn)			% change		
Sector	**FY20**	**FY21**	**FY22**	**FY20/FY19**	**FY21/FY20**	**FY22/FY21**
Auto	207,787	107,581	192,018	-28%	-48%	78%
Financials	898,367	1,079,279	1,456,315	56%	20%	35%
Cement	54,084	78,932	85,504	53%	46%	8%
Utilities	216,397	249,177	279,077	0%	15%	12%
Industrials	123,735	145,433	129,176	10%	18%	-11%
Consumer	300,929	297,348	383,234	19%	-1%	29%
Metals	258,502	343,928	785,625	-36%	33%	128%
Oil&Gas	573,210	1,013,007	990,717	-37%	77%	-2%
Pharma & Agri	136,594	165,845	183,230	31%	21%	10%
IT	736,180	816,005	943,380	4%	11%	16%
Telecom	(32,430)	(5,247)	51,256	NA	NA	NA
Total	**3,473,354**	**4,291,289**	**5,479,532**	**-3%**	**24%**	**28%**

- Profit of Nifty companies was up 23.5% yy in FY21
  - Oil & gas and metal sector accounted for 64% of incremental profits
  - Corporate lenders like ICICI Bank, Axis Bank and SBI accounted for 24% of incremental profits
- In FY22, Niffy companies profitability is expected to be up by 27.7%
  - Tata Steel and JSW steel are expected to account for 33% of incremental profits
  - Corporate lenders like ICICI Bank, Axis Bank and SBI are expected to account for 16% of incremental profits
  - Turnaround companies like Bharti and Tata Motors are expected to account for 10% of incremental profits

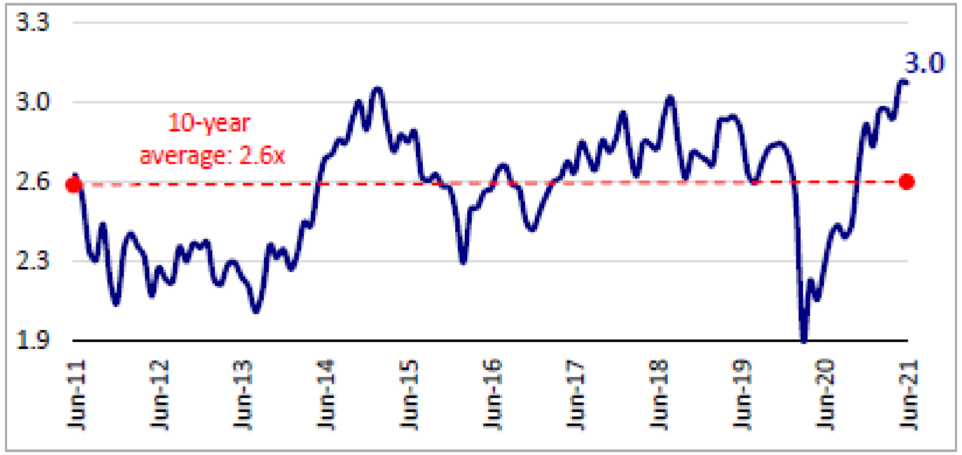
Source: Bajaj Allianz Life Estimates

Valuations are quite elevated in India

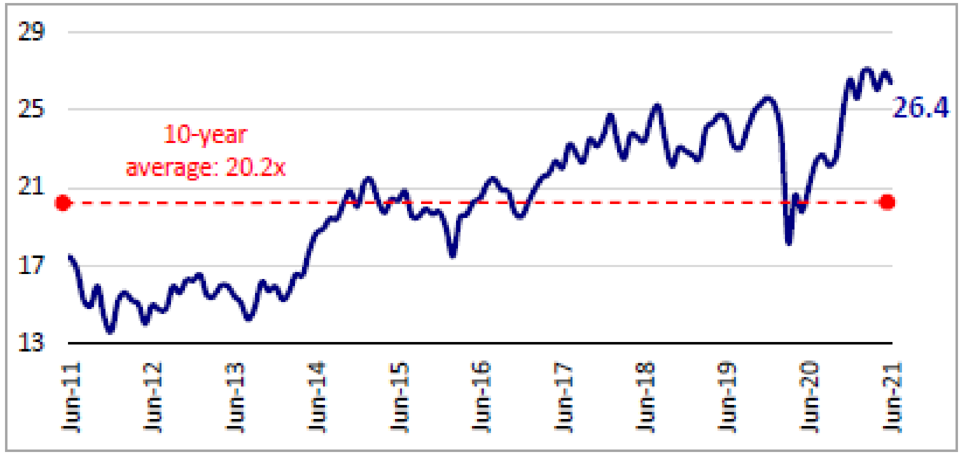
12-month forward Nifty P/E (x)



12-month forward Nifty P/B (x)



Trailing Nifty P/E (x)



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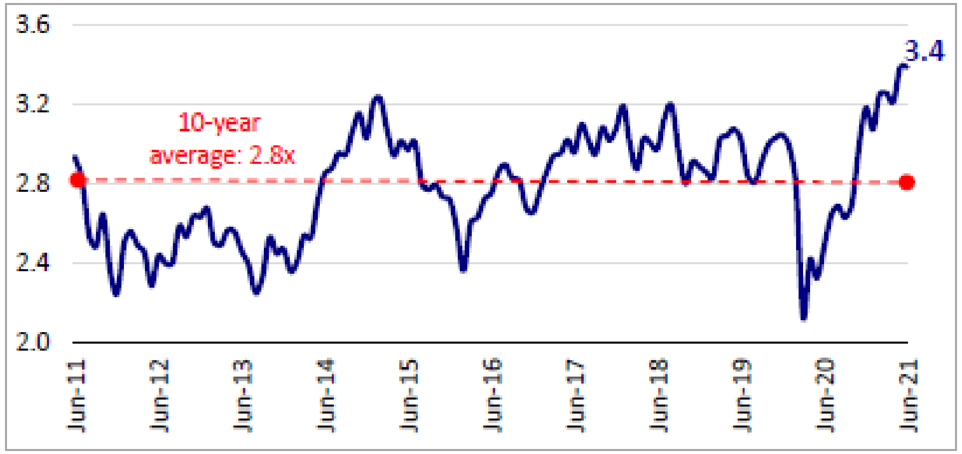
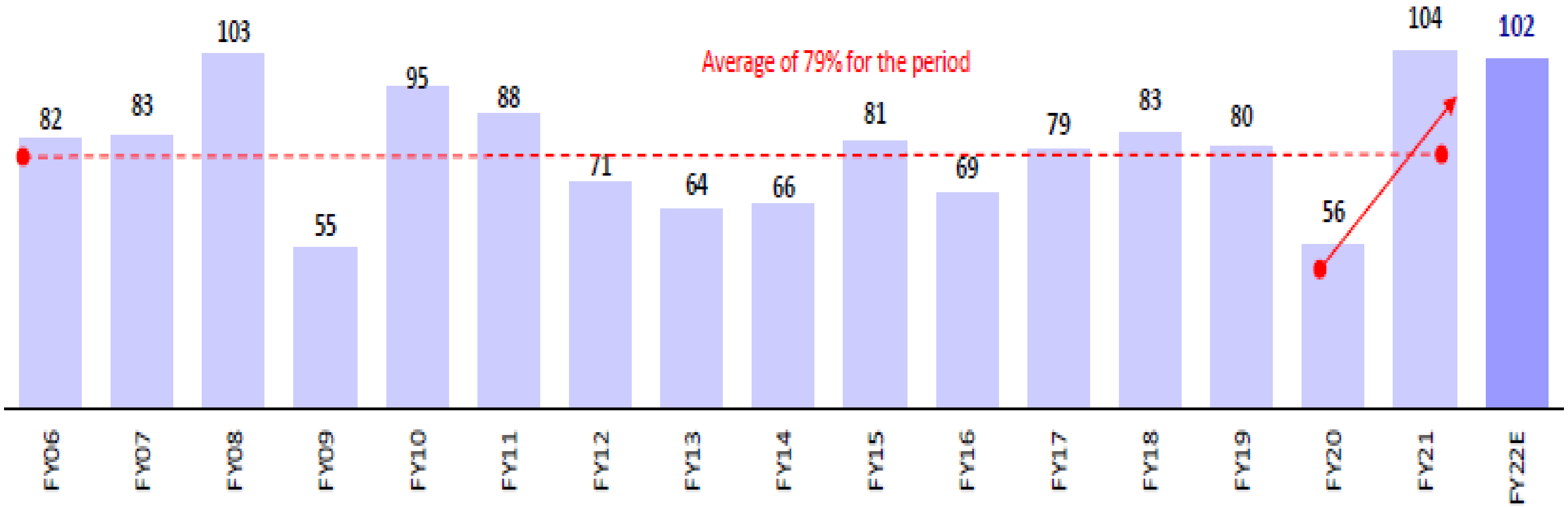


Source: Bloomberg, Motilal Oswal

Market cap to GDP (Buffet indicator) for India near its peak

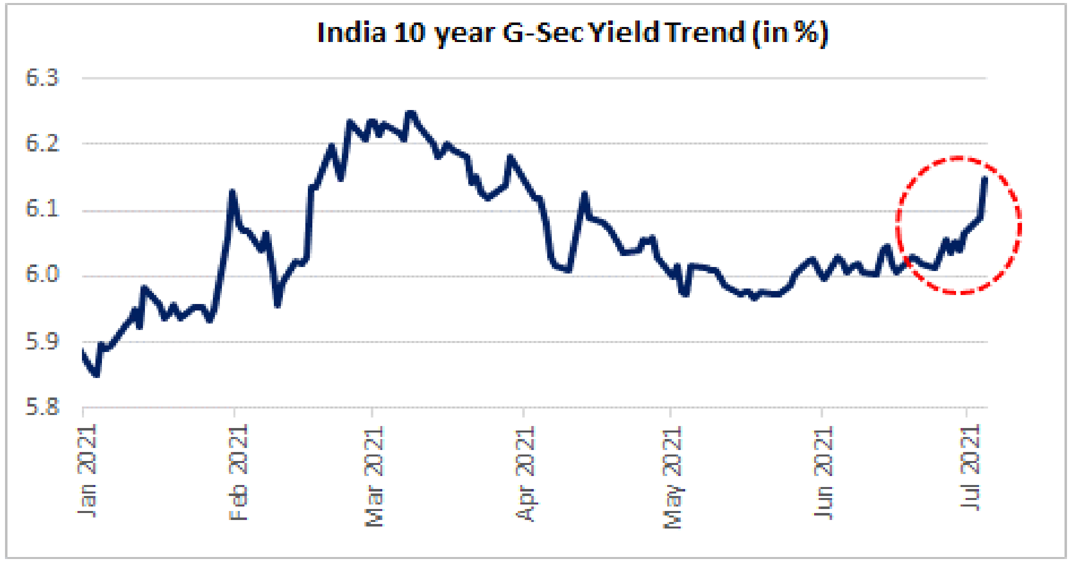
India Market Cap to GDP Trend (in %)



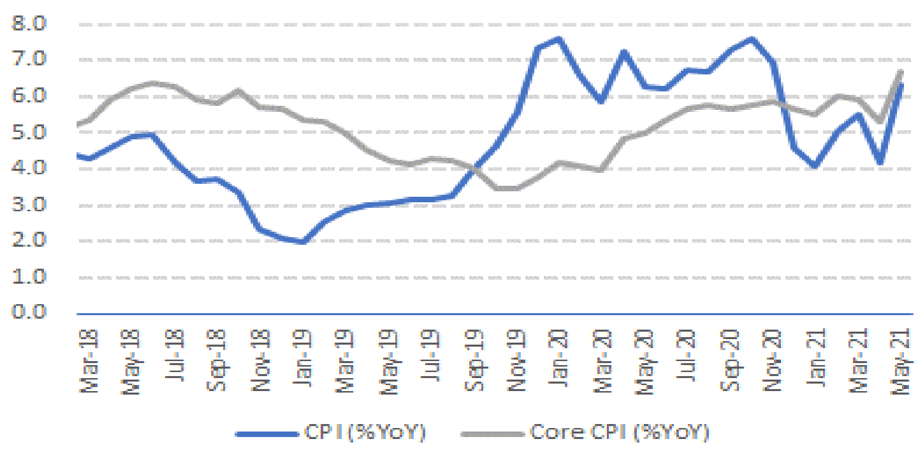
Source: Bloomberg, Motilal Oswal

Fixed Income Markets

RBI taking various steps to support bond markets; but inflation a cause for concern



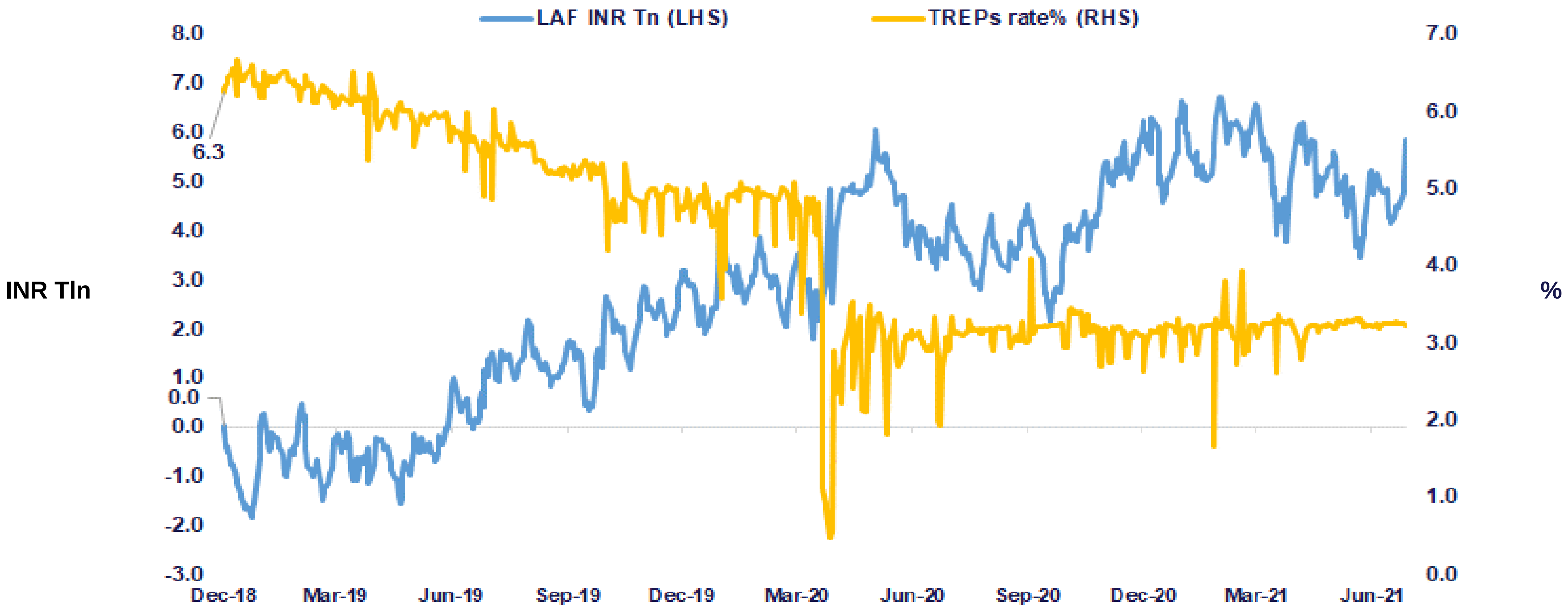
India CPI Inflation Trend (% YoY)



- The RBI has provided liquidity support to various sectors like SME, MSME, MFIs, NBFCs, hotels, restaurants and tourism.
- RBI maintains accommodative stance and has announced purchase of G-Secs (under GSAP) to the tune of Rs. 2.2 trillion in H1 FY22.
- RBI undertone has been dovish and it intends to keep borrowing costs in control by flattening the yield curve & providing ample liquidity.
- This should help the RBI manage its large borrowing programme in FY22 in a smooth and efficient manner.
- Central bank to retain accommodative stance till economic recovery visible, while monitoring inflation trajectory.
- However inflation has increased recently above RBI's 6% tolerance limit—raising some concerns and causing bond yields to harden.

Source: Bloomberg, Investing.com

Surplus liquidity keeping short term rates low, risk aversion prevails



- Liquidity at Rs 5-6 trillion
- Overnight rates currently at ~3.3%

- RBI is likely to conduct OMOs of ~Rs. 3-4 trillion which will keep liquidity at elevated levels

Source: RBI
LAF – Liquidity Adjustment Facility, TREPS – Triparty Repo Dealing and Settlement

Market Outlook

Economic activity picks-up with restrictions being relaxed	• The economic activity sees recovery with 2nd Covid wave moderating and lock-down restrictions being relaxed. • There is some concern due to Covid delta variant, but the expansion in vaccination drive may help to counter the spread.
Inflation has hardened this year; but easy monetary policy to continue for some time	• Inflation has hardened this year due to sharp rise in commodity prices & economic revival. • US Fed downplays inflation risk, but may signal tapering in late 2021 or early 2022 if inflation continues to rise.
Corporate earnings better than expected; but valuations elevated	• Corporate earnings surprises with healthy growth in FY21 & robust 27% Nifty EPS growth expected in FY22. • Market valuations are elevated and above the long term average.
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. However, inflationary and supply concerns may put upward pressure on bond yields. • We prefer shorter to medium term part of the G-Sec yield curve.

THANK YOU

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