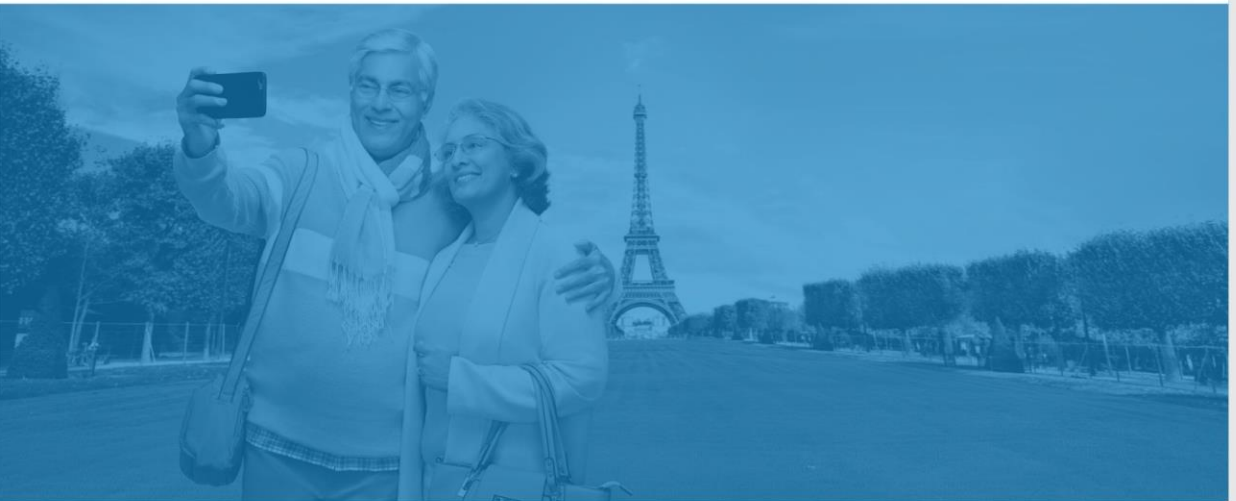


Macro & Market Overview – Sep 2021

LIFE GOALS. **DONE.**



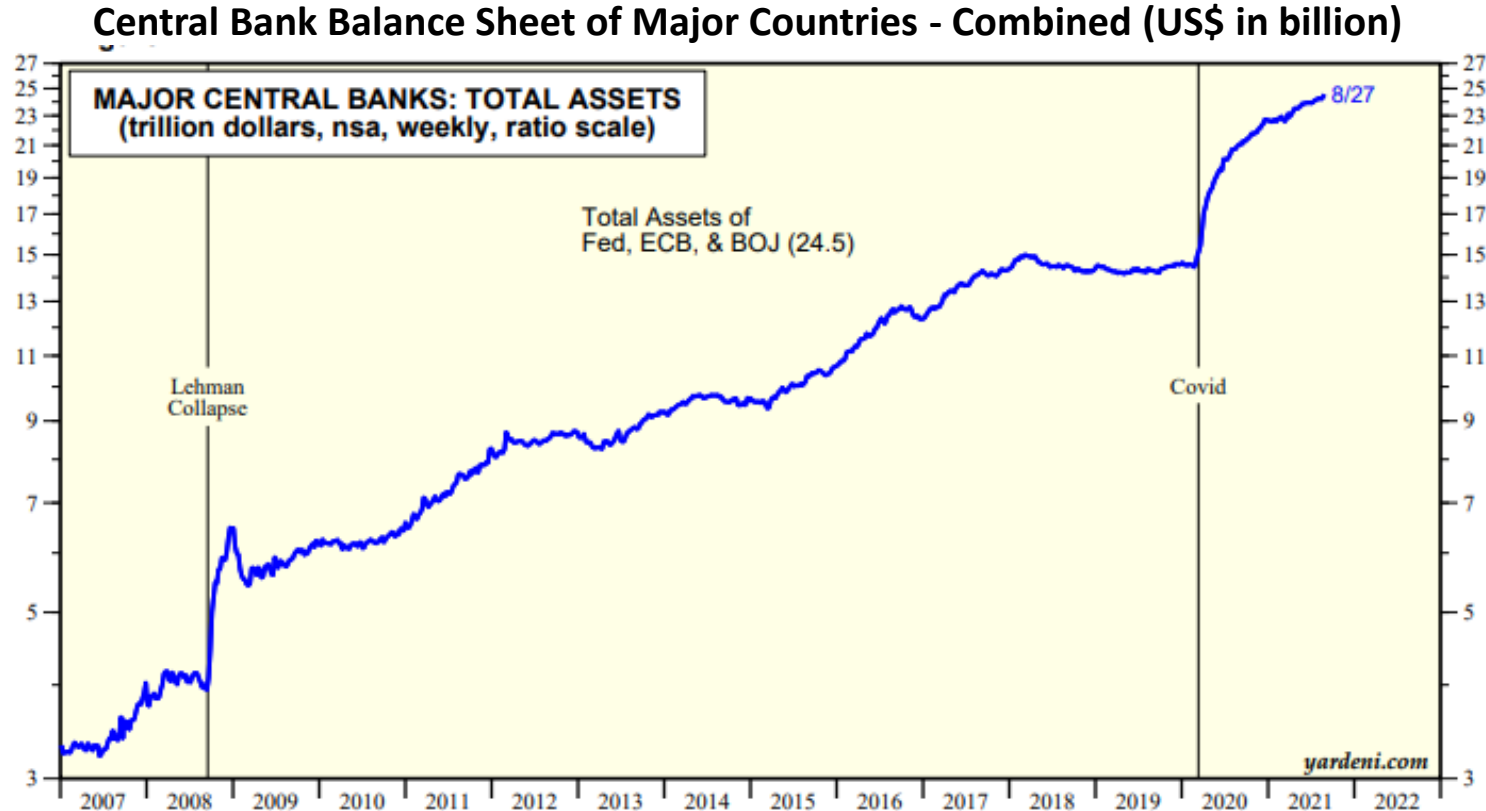
Global Macros & Markets

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

IMF GDP Forecasts (in %) - July 2021 World Economic Outlook						
			Projection		Difference from Apr 2021 projection	
	2019	2020	2021	2022	2021	2022
World	2.8	-3.2	6.0	4.9	0.0	0.5
Advanced Economies	1.6	-4.6	5.6	4.4	0.5	0.8
United States	2.2	-3.5	7.0	4.9	0.6	1.4
Euro Area	1.3	-6.5	4.6	4.3	0.2	0.5
Japan	0.0	-4.7	2.8	3.0	-0.5	0.5
Emerging Markets	3.7	-2.1	6.3	5.2	-0.4	0.2
China	6.0	2.3	8.1	5.7	-0.3	0.1
India #	4.0	-7.3	9.5	8.5	-3.0	1.6
Brazil	1.4	-4.1	5.3	1.9	1.6	-0.7

- As per IMF, global GDP growth to recover to +6.0% in CY21 from -3.2% contraction in CY20.
- Being helped by healthy economic recovery in developed economies esp. the US. (+7.0% in CY21 vs -3.5% in CY20). Significant upgrade in US GDP forecast for CY21 & 22.
- India's GDP growth to recover to +9.5% in FY22 vs -7.3% contraction in FY21.
- India amongst the fastest growing major economies worldwide (helped to some extent by lower base effect).

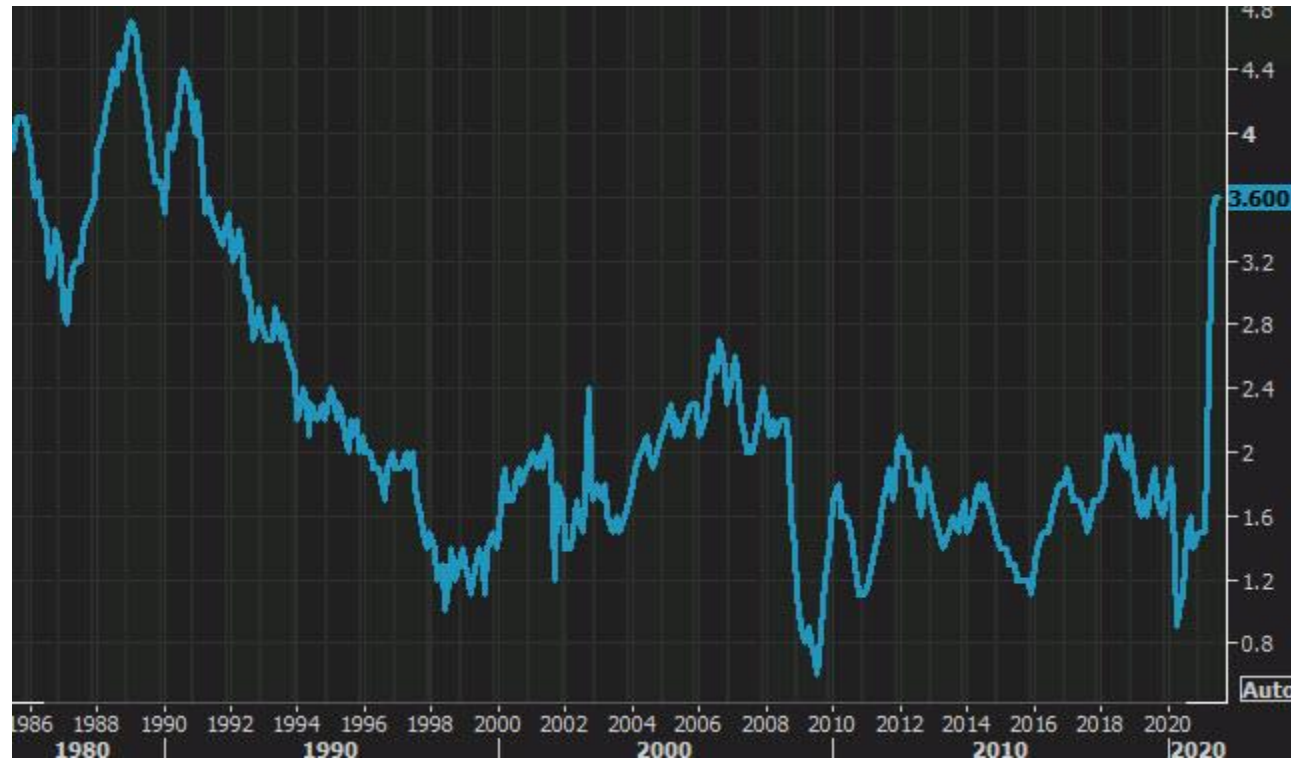
Major global central banks' balance sheets have seen massive expansion



- 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.

US inflation rises to 30-year high; Fed indicates tapering before end of CY21

US Core PCE Inflation (%YoY)



- The US Fed's preferred gauge of inflation (US Core PCE inflation) rose 3.6%YoY in July 2021—making it the biggest jump in around 30 years.
- In its annual Jackson hole meeting the US Fed chairman indicated that the central bank is likely to start tapering its quantitative easing (bond purchase) program before the end of the calendar year (he clarified it doesn't mean a rate hike).

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

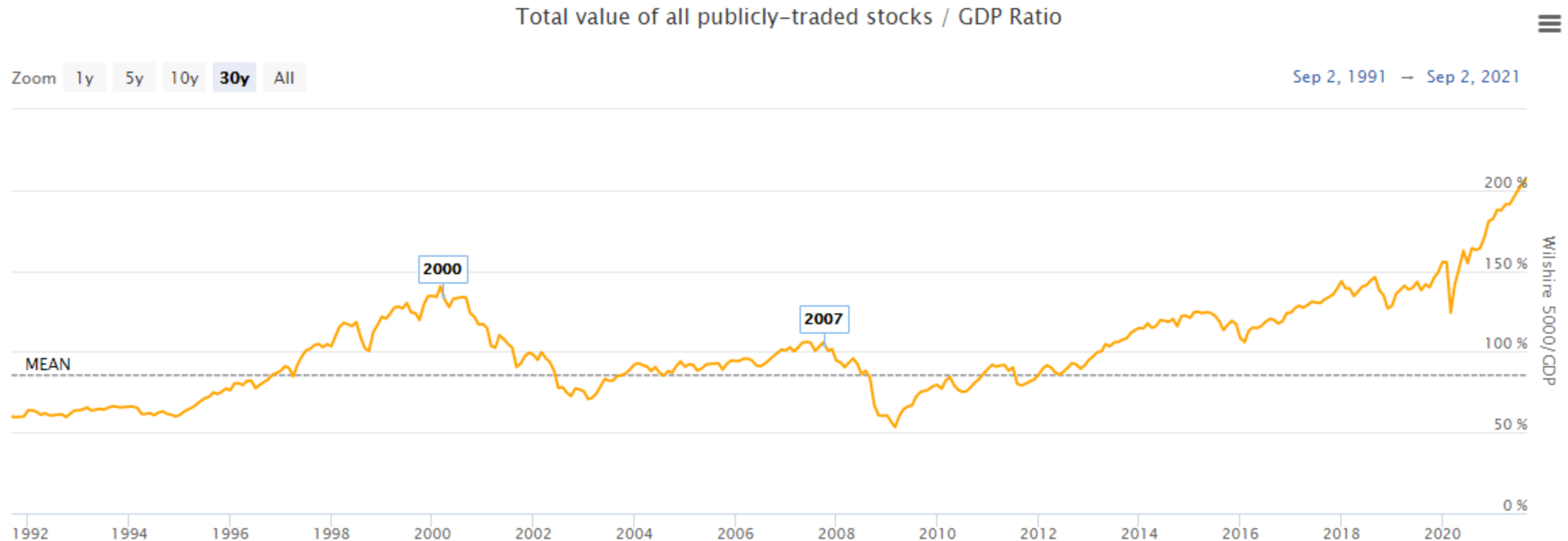
Performance of International Indices (ended August 2021, in %)					
	Country / Region	CYTD	1 Yr	5 Yrs	10 Yrs
IISL Nifty 50	India	22.5	50.4	14.3	13.1
TSEC TAIEX	Taiwan	18.7	38.9	14.0	8.5
KOSPI	South Korea	11.3	37.5	9.5	5.5
CAC 40	France	20.3	35.0	8.5	7.4
RTS RTSI PR USD	Russia	21.4	33.8	12.1	-0.1
S&P 500	US	20.4	29.2	15.8	14.0
MSCI World PR USD	World	16.8	27.9	12.8	10.0
S&P/ASX 200	Australia	14.4	24.3	6.8	5.8
FTSE SET All Share	Thailand	11.5	23.8	-0.4	3.3
FSE DAX TR	Germany	15.4	22.3	8.4	10.6
Nikkei 225	Japan	2.4	21.4	10.7	12.1
FTSE/SGX STI	Singapore	7.4	20.6	1.6	0.6
BOVESPA	Brazil	-0.2	19.5	15.5	7.7
FTSE 100	UK	10.2	19.4	1.0	2.8
MSCI EM PR USD	Emerging Mkts	1.3	18.8	7.9	2.4
JSX Composite	Indonesia	2.9	17.4	2.7	4.8
MSCI Asia Ex Japan	Asia Ex Japan	-0.6	15.6	9.0	5.0
FTSE Bursa Malaysia KLCI	Malaysia	-1.6	5.0	-0.9	1.0
Shanghai Composite	China	2.0	4.4	2.8	3.3
Hang Seng	Hong Kong	-5.0	2.8	2.4	2.3
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 & France outperformed.
- Markets like Hong Kong & China have underperformed significantly due to govt. regulatory clampdown on technology companies.
- 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 stretched

Wilshire 5000 to GDP Ratio



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

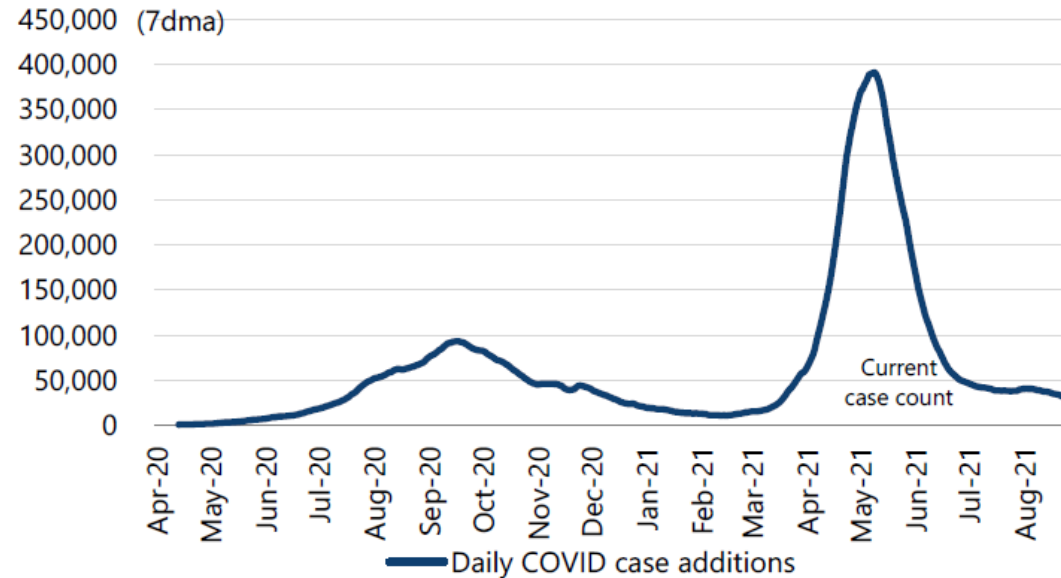
LIFE GOALS. DONE.



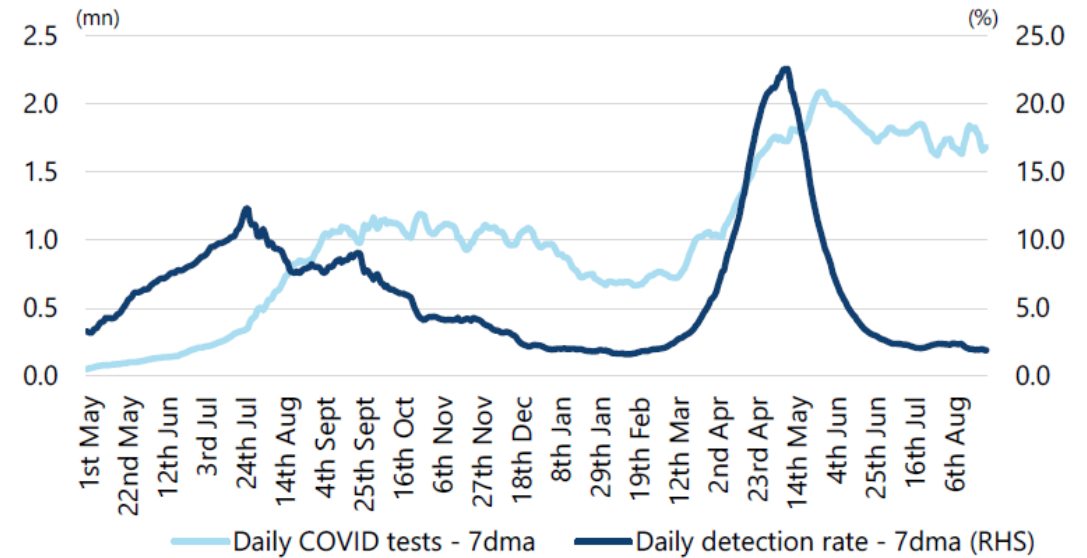
Indian Macros & Covid data

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

India- Daily New Covid Cases Trend



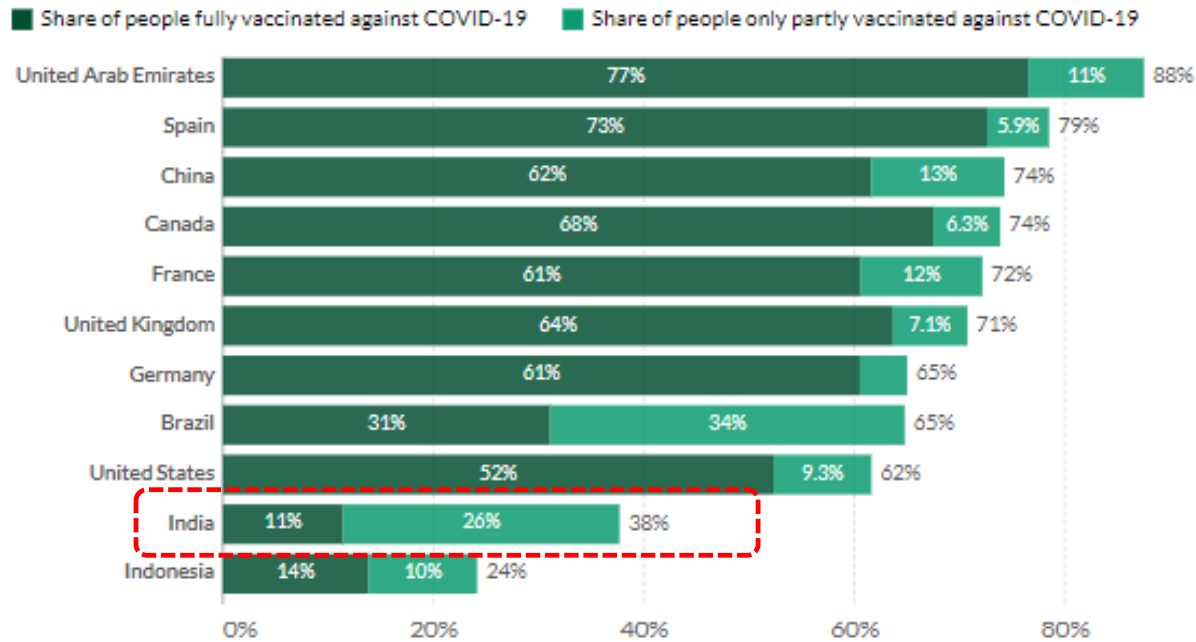
India- Daily Detection Rate & Tests Trend



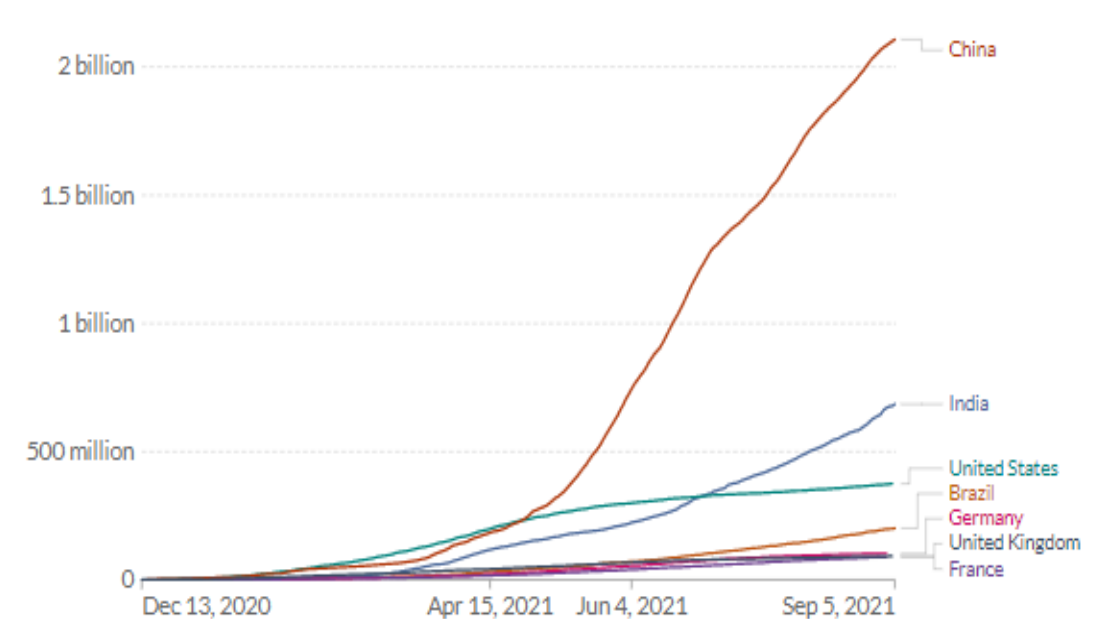
- India has seen a significant moderation in daily Covid cases from a peak of 4 lakh in May 2021.
- Covid detection rate has moderated from a peak of 22% to below 2% presently.
- As a result restrictions have been removed and economic activity has seen healthy recovery.
- However, there are some concerns of a possible 3rd wave due to “Delta” variant, but we will have to see if & how it pans out.

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



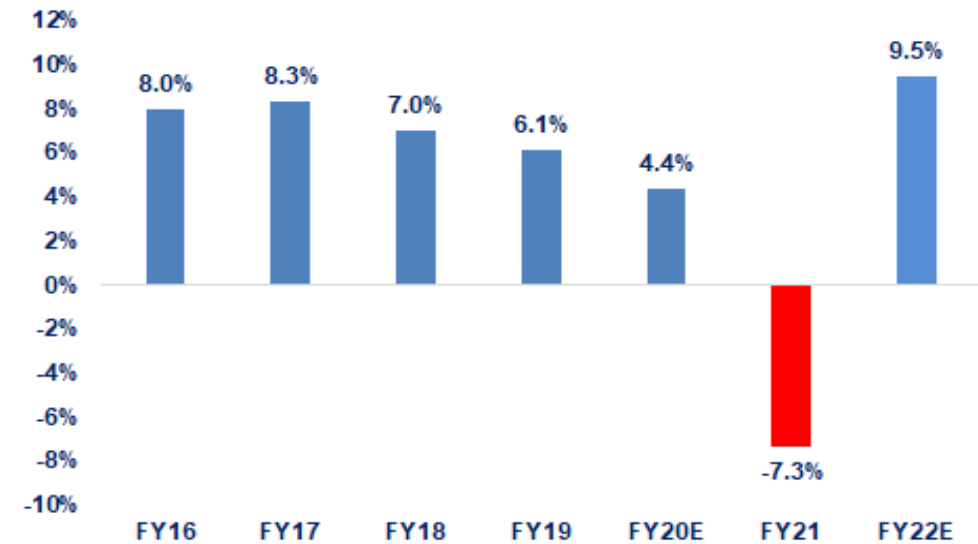
- India has seen a pick-up in pace of vaccination. However, China leads by a significant margin.
- However, due to its large population still a significant share of population to be vaccinated (~26% of population is partly vaccinated; ~11% fully vaccinated)
- The supply of Covid vaccines to pick up in coming months, which should help India to pick-up its pace in vaccination.

India registers strong GDP growth in Q1FY22, helped by favourable base effect

India Quarterly GDP Trend (% YoY)

	YoY growth rate				
	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Private Final Consumption Exp.	-26.2	-11.2	-2.8	2.7	19.3
Government Final Consumption Exp.	12.7	-23.5	-1.0	28.3	-4.8
Gross Capital Formation	-47.7	-8.0	3.0	13.8	56.7
Gross Fixed Capital Formation	-46.6	-8.6	2.6	10.9	55.3
Change in Stock	-32.8	3.3	6.7	12.2	45.9
Valuables	-93.0	-4.5	10.7	107.2	456.1
Exports of Good & Services	-21.8	-2.0	-3.5	8.8	39.1
Imports of Goods & Services	-40.9	-17.9	-5.0	12.3	60.2
GDP	-24.4	-7.4	0.5	1.6	20.1

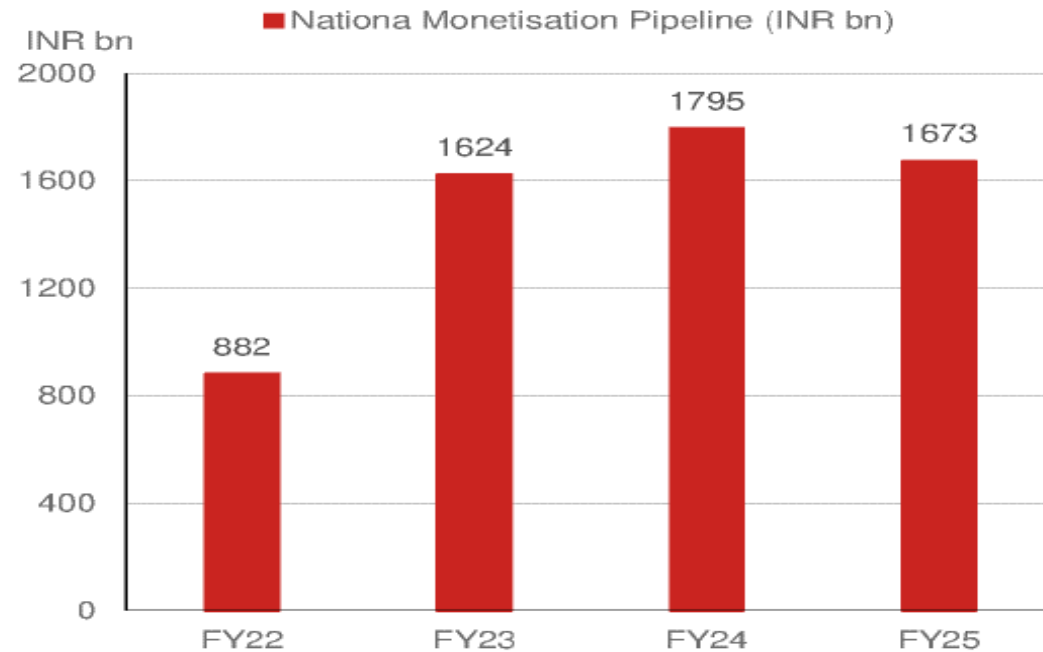
India Annual GDP Trend (% YoY)



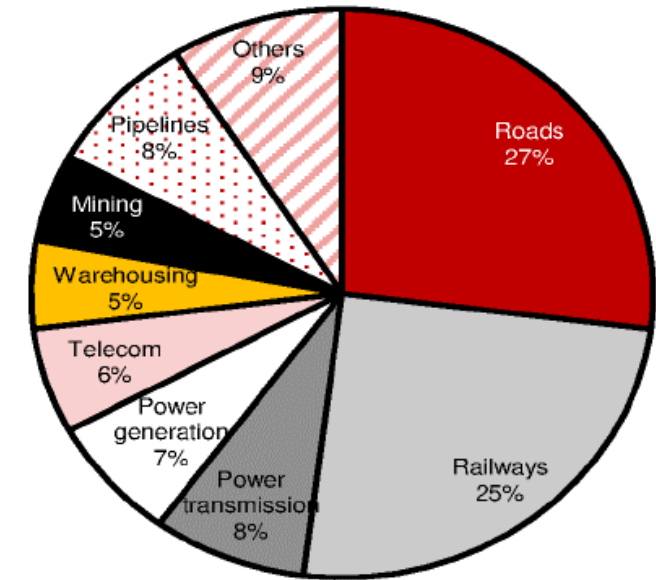
- Q1 FY22 GDP growth in India came in at a strong 20.1%YoY on the back of favourable base effect. Sequentially, GDP fell by 6.3% QoQ sa.
- Gross Fixed Capital Formation (or Investments) registered strong growth. Growth for private consumption expenditure (which has the highest weight of ~55% in GDP) came in lower than expected.
- Government expenditure disappointed and contracted by 4.8%YoY in Q1 FY22 vs a strong growth of 12.7%YoY in Q1 FY21.

India announces ambitious National Monetization Pipeline to shore up revenues

National Monetization Pipeline by Year (Rs. In Bln)



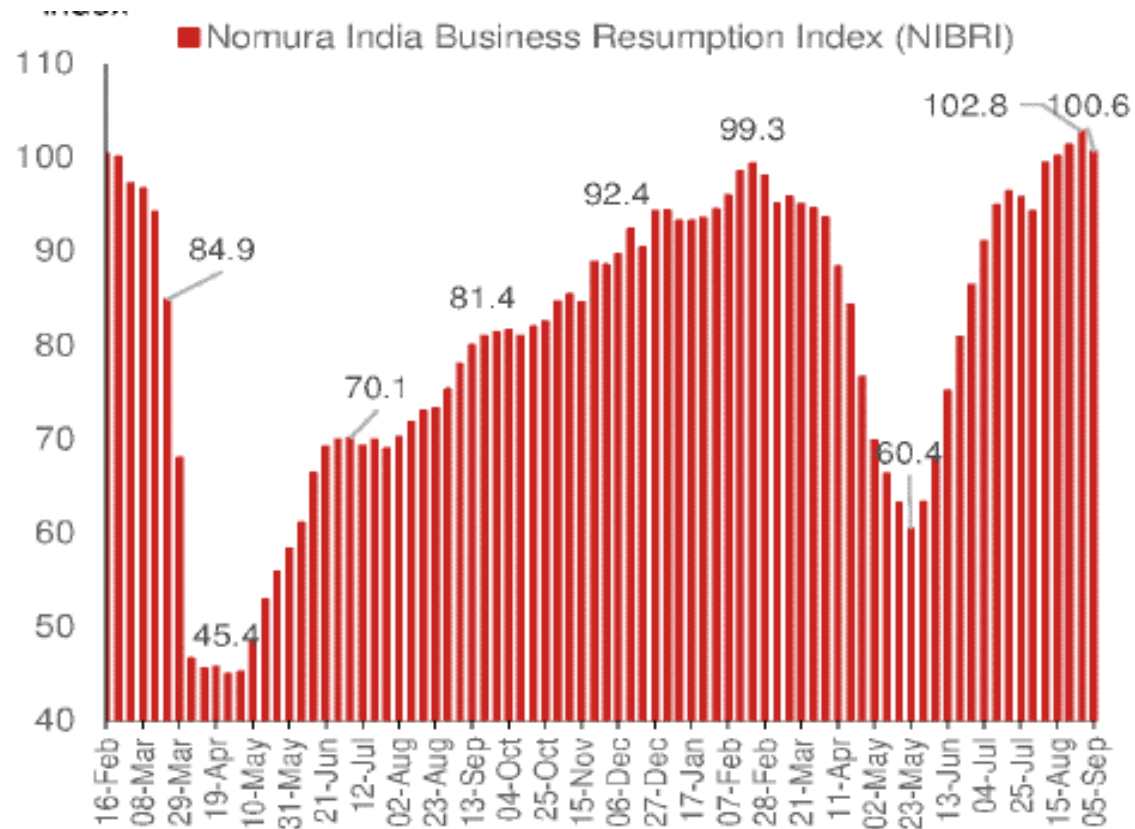
National Monetization Pipeline – By Sectors



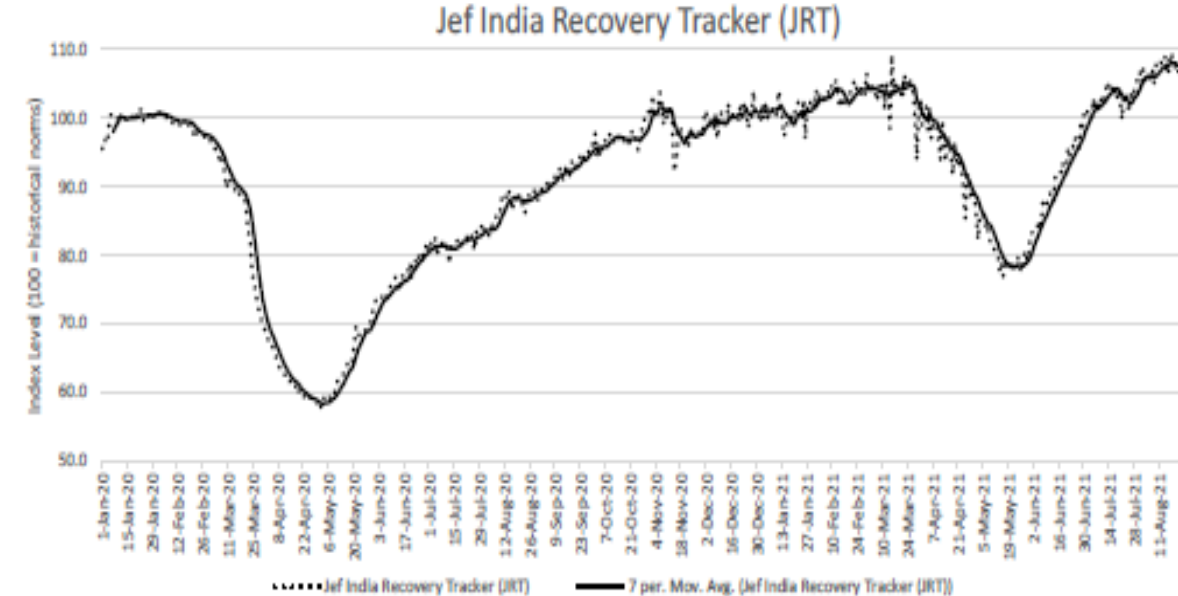
- National Monetization Pipeline involves leasing of core central govt. assets of Rs. 6 trln (~2.6% of GDP) from FY22-25.
- Only brownfield projects will be considered (with most of the projects concentrated in roads, railways and power sectors) .
- It is expected that additional revenues from asset monetization will primarily be used for infrastructure spending.

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

Nomura India Business Resumption index has recovered from 60 to pre-pandemic levels

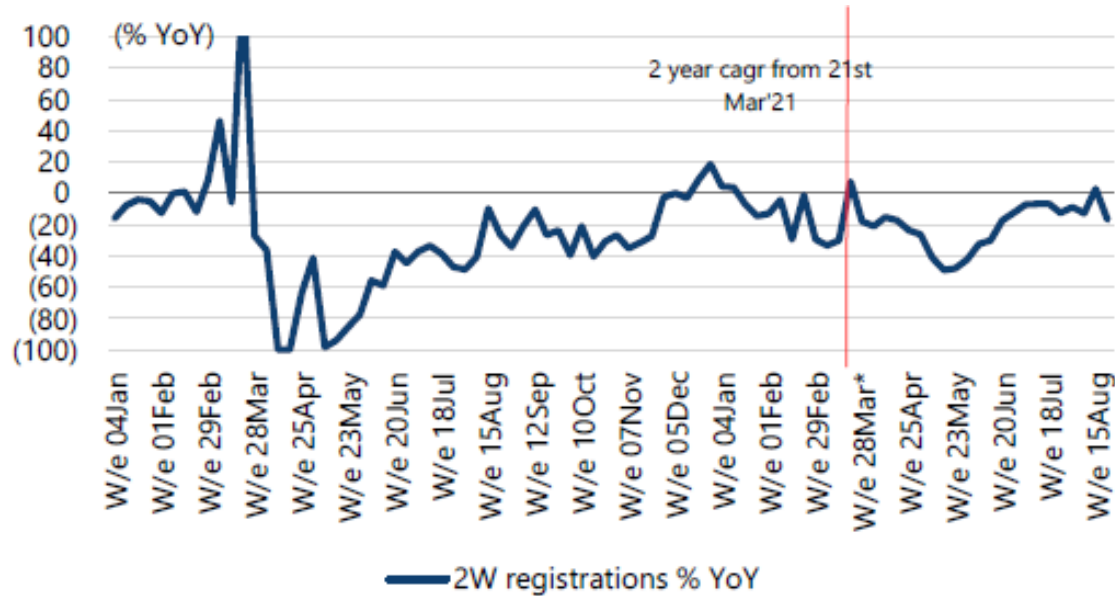


Jefferies India Economic Activity index back above 100, after moderating amidst the 2nd Covid wave

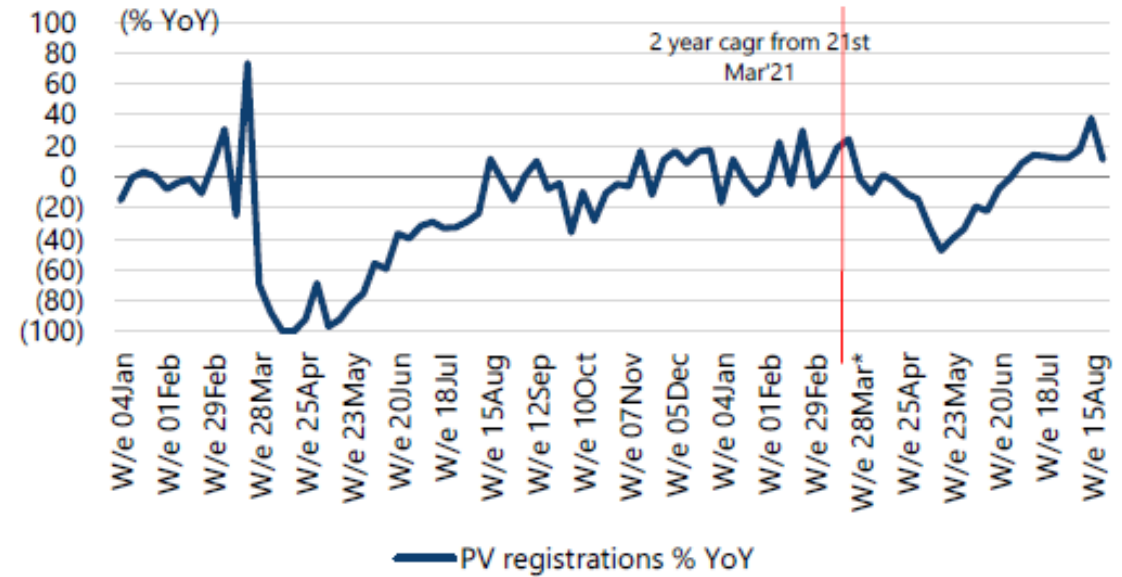


2-W & PV registrations see a recovery post the 2nd Covid wave impact, but have tempered a bit lately

2-Wheeler registrations (% YoY)

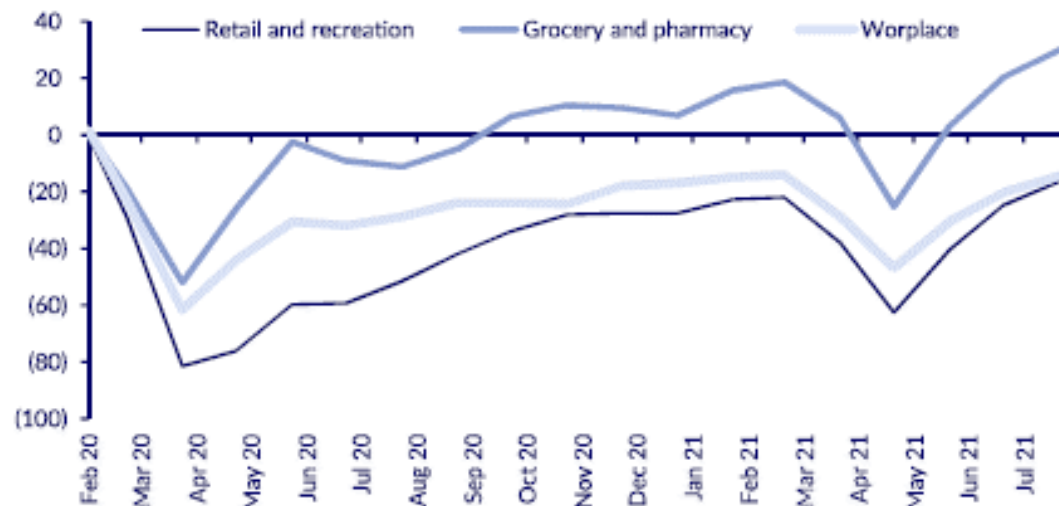


Passenger vehicle registrations (% YoY)

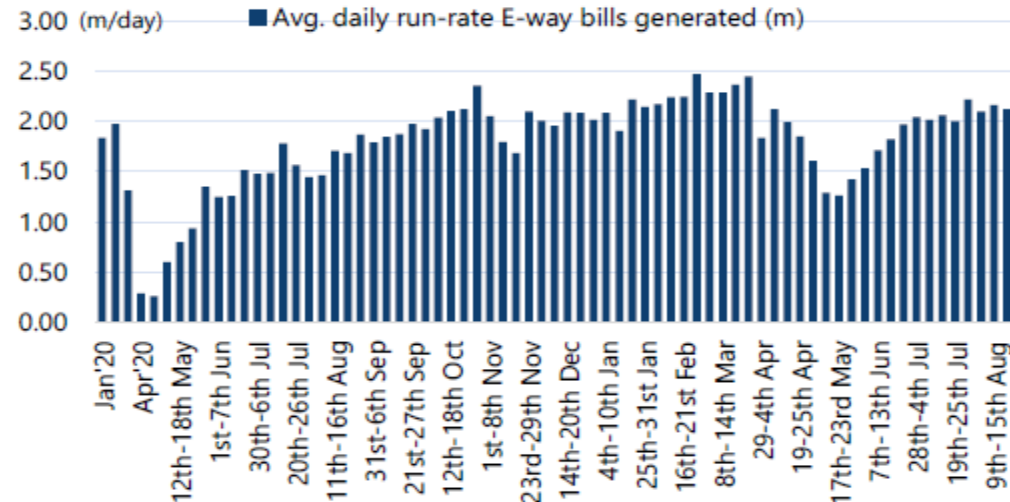


Other high frequency indicators in India also pointing to recovery after the second wave

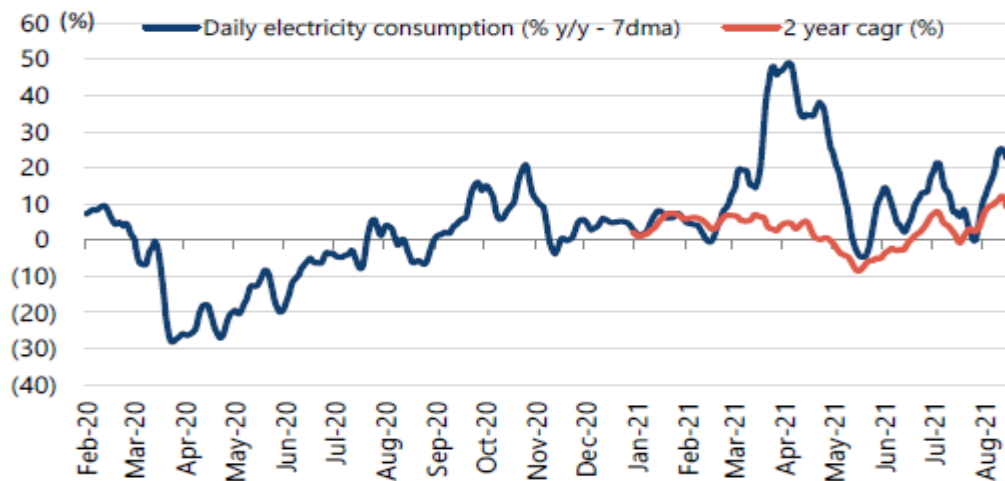
Mobility indices at a new post-Covid high



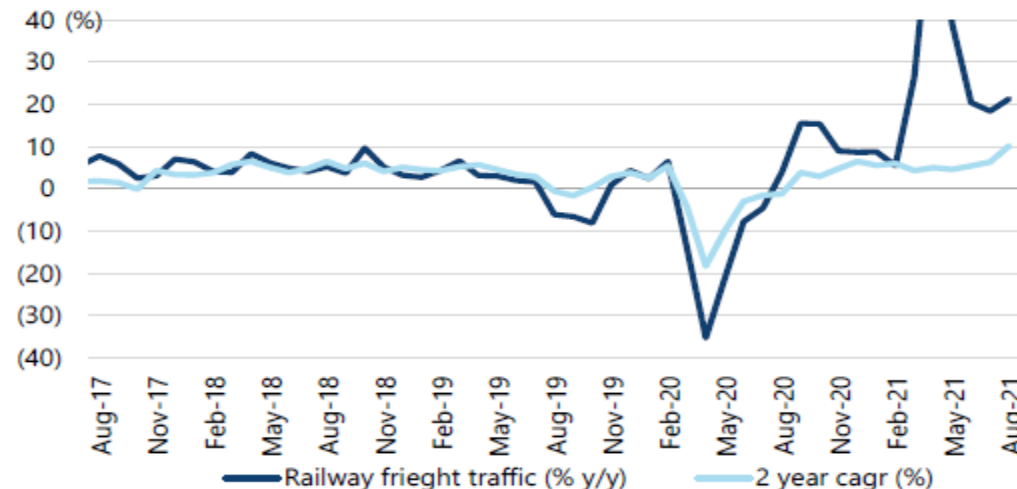
E-Way bills generation pace recovers



Electricity consumption trend also sees recovery



Railway freight traffic sees healthy recovery



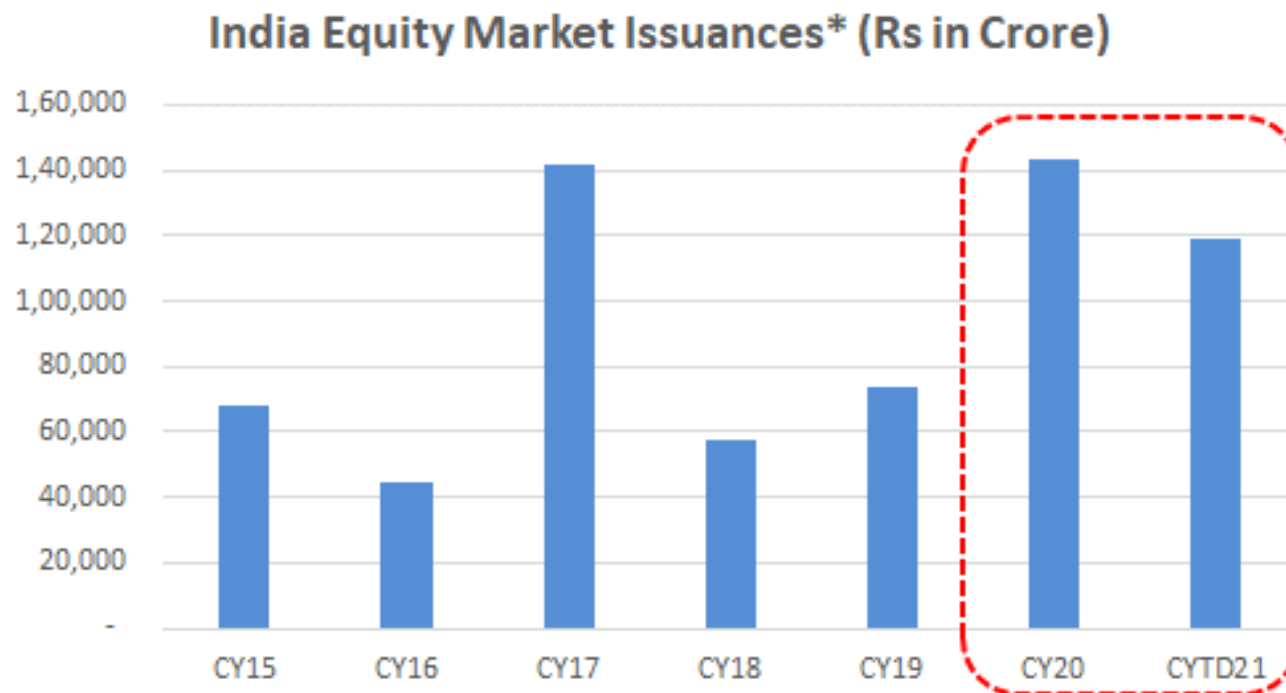
Indian Markets, Valuations, Flows & Earnings

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

Performance of Domestic Indices as of August 2021 (in %)		
Index Name	CYTD	1 year
S&P BSE Metal	77.4	133.0
S&P BSE IT	41.0	89.3
IISL NIFTY Smallcap 100	44.8	83.6
S&P BSE Capital Goods	33.2	81.7
S&P BSE Realty	24.5	75.4
S&P BSE Power	41.7	74.9
S&P BSE Consumer Durables	22.9	64.2
IISL Nifty Midcap 50	27.8	61.8
IISL Nifty 500	26.4	55.3
S&P BSE BANKEX	15.6	53.7
IISL Nifty 50	22.5	50.4
S&P BSE PSU	33.8	50.4
S&P BSE Healthcare	22.5	44.5
S&P BSE Oil and Gas	21.2	30.6
S&P BSE FMCG	15.6	28.5
S&P BSE Auto	8.5	27.6
Source: Morningstar Direct. Data sorted in descending order on the basis of 1 Year return		

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

India equity market issuances are booming; pipeline for IPOs is quite strong



- After strong collections in CY20, equity market issuances (incl IPO, FPO, OFS, QIP) for CYTD 21 (upto Aug) is also very robust.
- Pipeline for upcoming IPOs also remains very strong. As per data from Kotak Institutional equities, forthcoming IPOs that have been filed with SEBI so far in 2021 stands at ~Rs. 1.06 lakh crore, of which ~Rs. 20,250 crore has been cleared by SEBI so far.

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

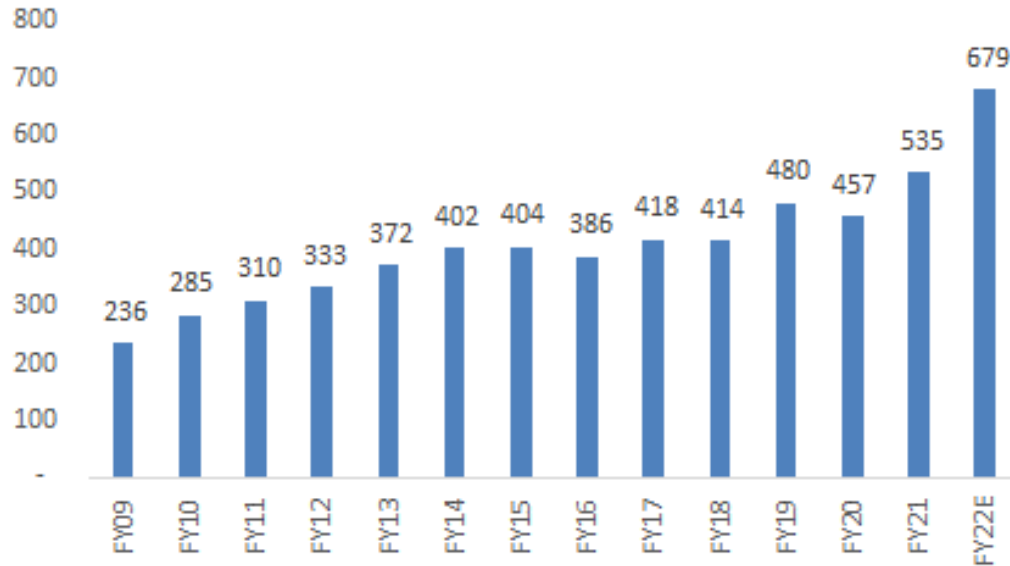
Source: NSDL, Axis Capital	Rs in Crore			
Month-end	FPIs	DIIs	MFs	Insurance
31 January 2020	14,095	2,250	1,053	1,196
29 February 2020	-1,521	16,933	8,931	8,002
31 March 2020	-58,632	55,595	30,130	25,464
30 April 2020	-4,112	-826	-7,965	7,139
31 May 2020	13,001	11,357	6,522	4,835
30 June 2020	18,684	2,434	-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
30 April 2021	-12,810	11,089	5,527	5,562
31 May 2021	5,360	2,067	476	1,591
30 June 2021	10,932	7,044	6,437	606
31 July 2021	-12,622	18,394	19,716	-1,322
31 August 2021	7,455	6,895	11,546	-4,651

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
FYTD22 (upto August)	-1,685	45,489	43,702	1,786

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

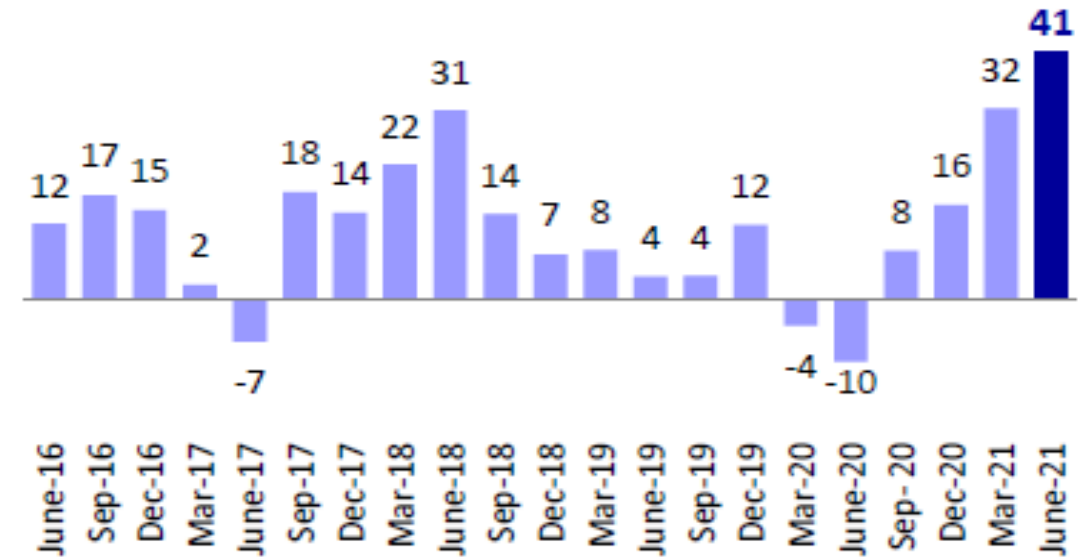
Corporate earnings to see robust growth in FY22; Q1 FY22 earnings have been in-line with elevated expectations

Nifty EPS Trend



Source: Bajaj Allianz Life Estimates

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

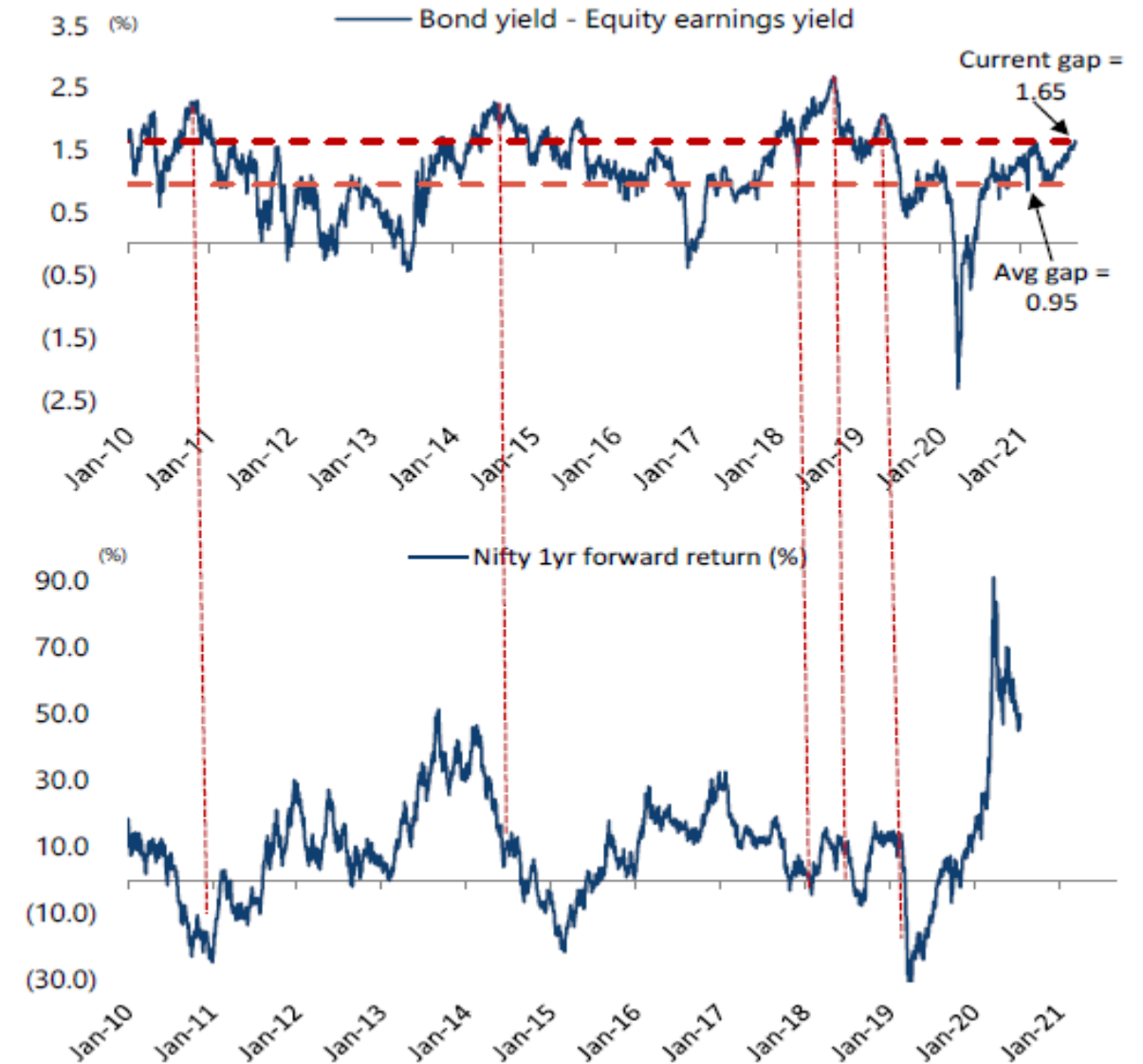


Source: Motilal Oswal

- Q1 FY22 corporate earnings benefited from favourable base effect. Cyclical sectors like metals and oil & gas benefited from rise in commodity prices and the IT sector continued to see healthy revenue growth.
- Nifty EPS registered 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%)

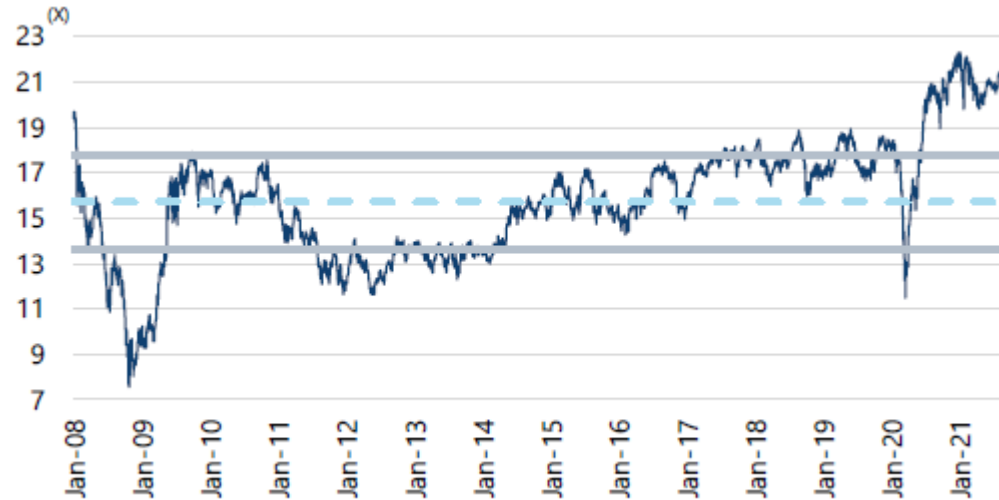
Bond yield & equity earnings yield spread indicates that risk-reward for equities is not as favourable as before

- Equity earnings yield is inverse of the Nifty P/E ratio—and indicates what equities is yielding as an asset class.
- Typically, when bond yield (minus) equity earnings yield gap reduces or turns negative, then equities start to look more attractive (than bonds) from a relative valuation perspective (seen during the Covid market correction of March 2020).
- On the flipside, when bond yield (minus) equity earnings yield gap increases significantly above the long term average, then it indicates that risk-reward for equities is not as favourable as before.

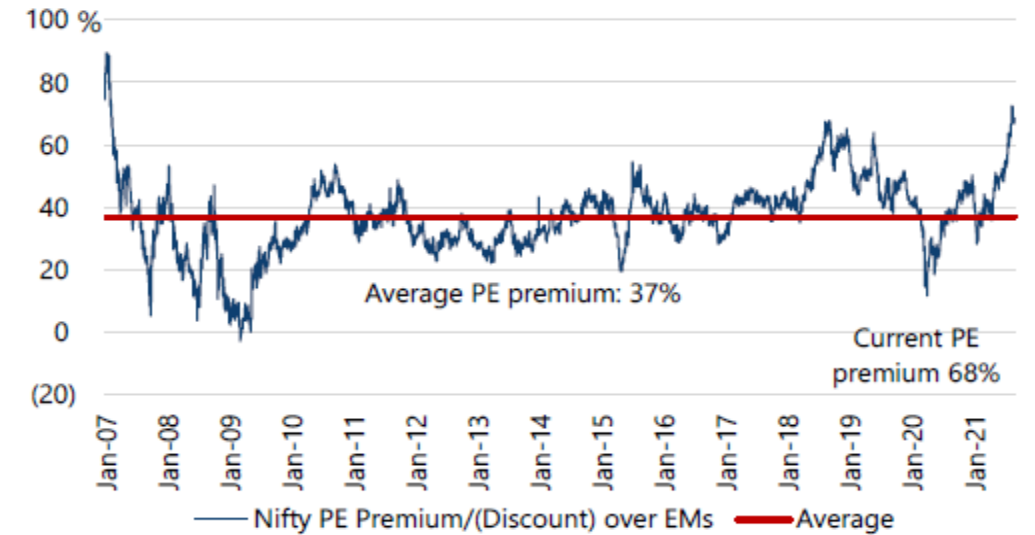


Market valuations are quite stretched in India

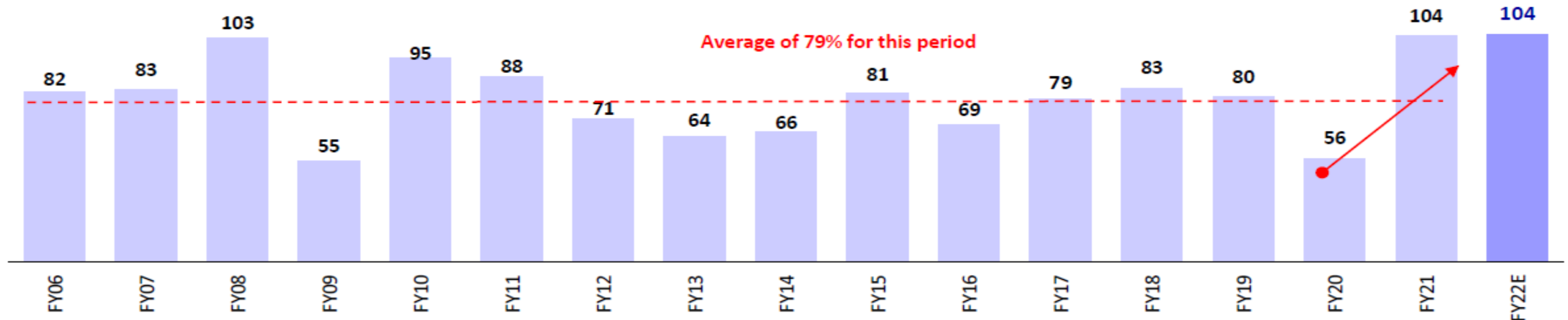
Nifty 1 Year Fwd Consensus P/E Ratio



Nifty PE Premium / (Discount) to Emerging Mkts



India Market Cap to GDP Trend (in %)



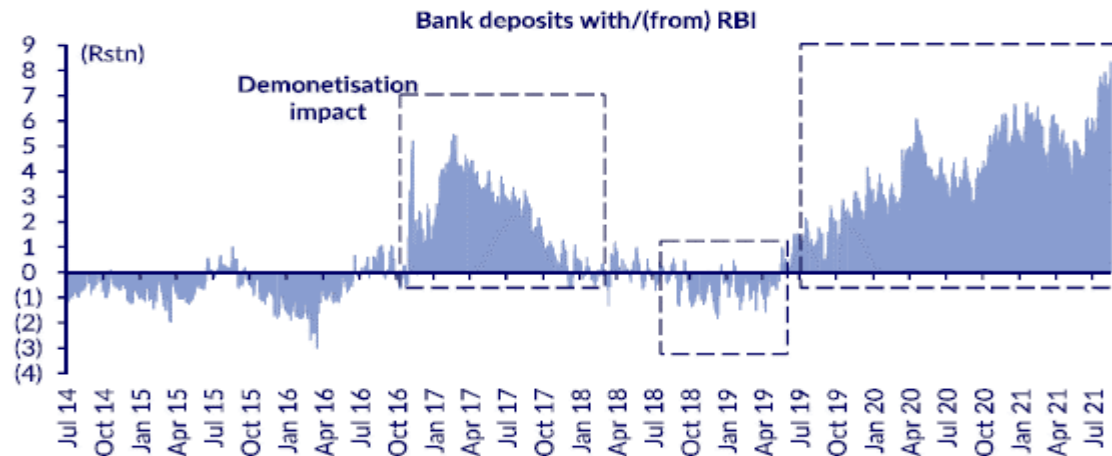
Fixed Income Markets

RBI remains accommodative and taking various steps to support bond markets

India 10 year G-Sec Yield



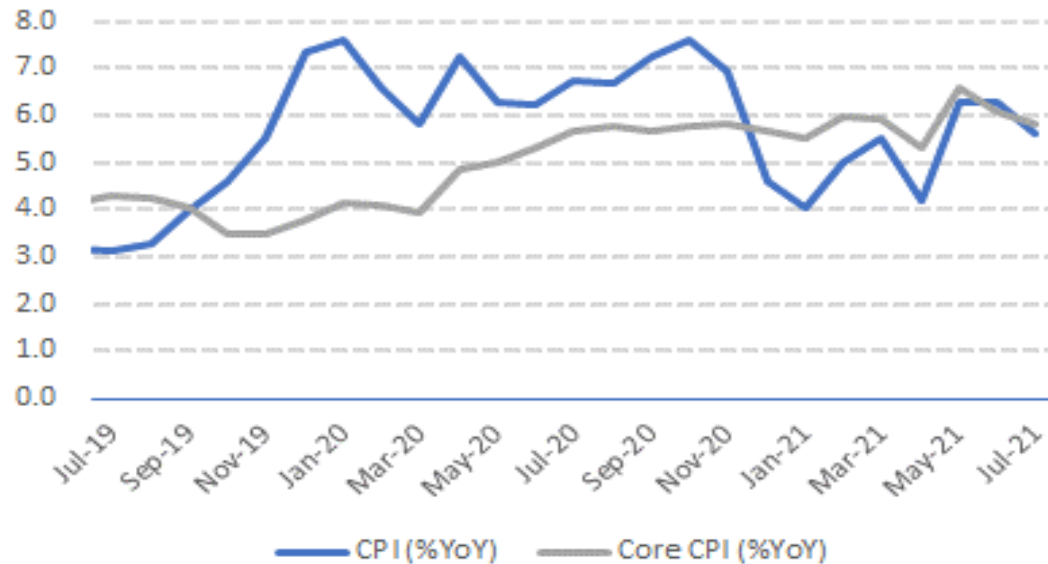
Banking system Liquidity (Rs. In trln)



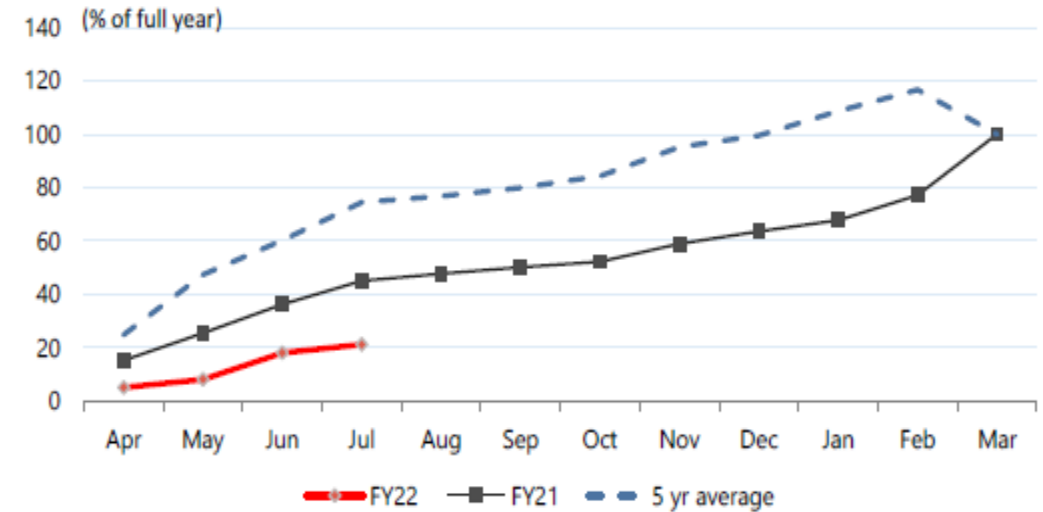
- RBI has kept rates unchanged and maintains accommodative stance.
- RBI feels that inflationary pressures are transitory in nature and largely driven by supply side issues. However, it increased its headline inflation forecast for FY22 to 5.7% from 5.1% earlier
- Banking system liquidity remains in strong surplus. The RBI will continue to conduct Operation Twist, OMOs & GSAP.
- The RBI's priority is to provide impetus to support economic growth recovery and we expect it to intervene to support bond yields.
- RBI will continue to be accommodative for some time (at least through this calendar year), with an eye on the inflation trajectory.
- From an investment perspective we prefer the shorter to medium term part of the yield curve.

Inflation has eased a bit recently; Fiscal deficit has also improved

India CPI Inflation Trend (% YoY)



India Fiscal Deficit Trend (% of full year)



- CPI inflation for the month of July 2021 moderated to 5.6%YoY compared to an elevated level of 6.3%YoY in the months of May and June 2021.
- Core inflation (ex food and fuel) moderated to 5.8%YoY in July from 6.1%YoY in the previous month.

- India's fiscal deficit for first 4 months of FY22 (April – July 2021) came in at only 23.1% of the budgeted estimate for FY22.
- This has been helped by revival in tax revenue (helped by base effect). Non-tax revenue picked-up strongly due to upfronted of RBI dividend to the govt and better than expected dividend.

THANK YOU

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