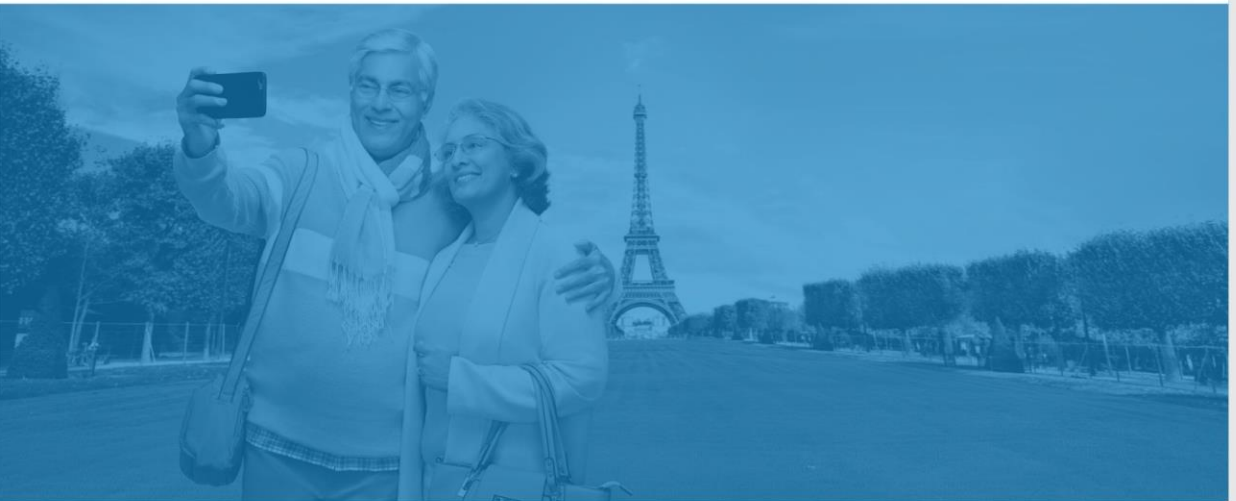


Quarterly Macro & Market Overview – Oct 2021

LIFE GOALS. **DONE.**



Global Macros & Markets

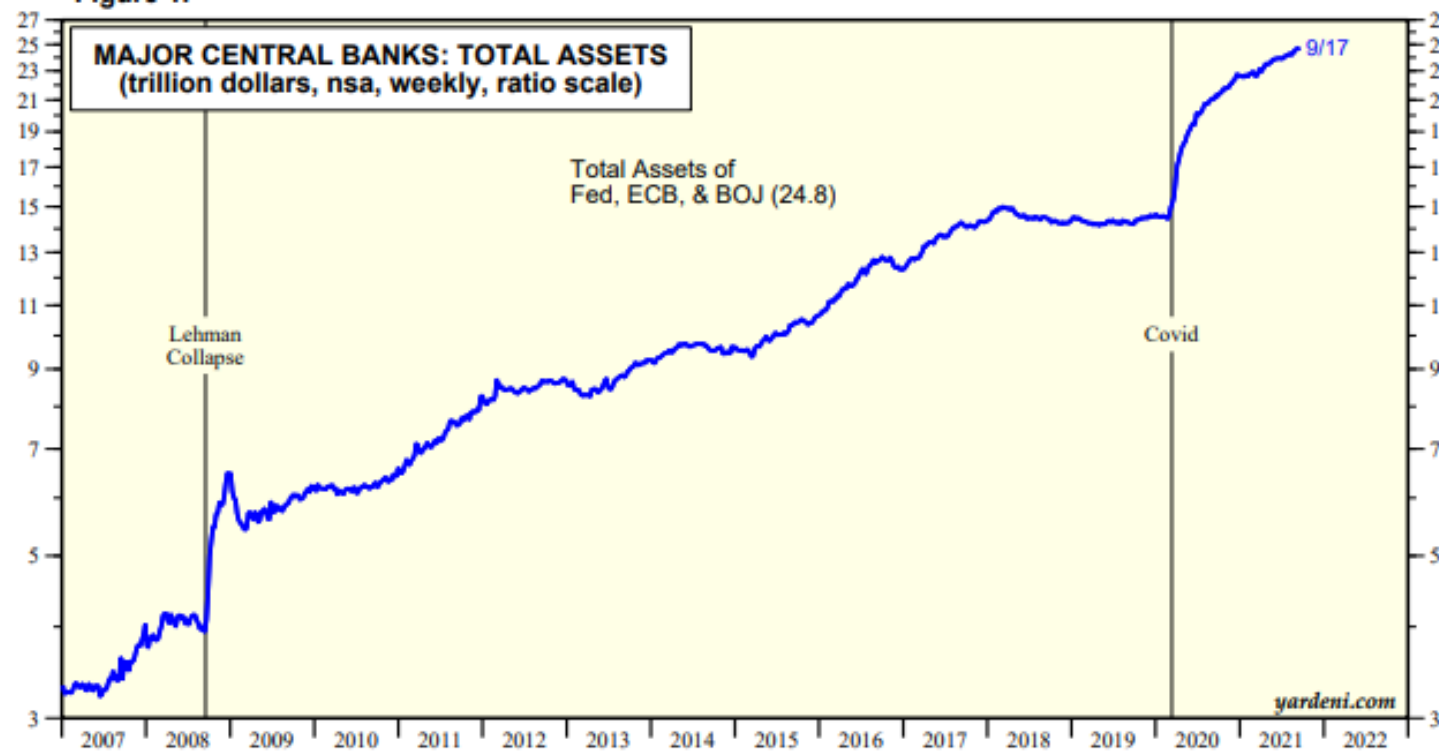
Global economy to see healthy recovery in 2021; India amongst the fastest growing major economies

IMF GDP Forecasts (in %) - October 2021 World Economic Outlook						
			Projection		Difference from July 2021 projection	
	2019	2020	2021	2022	2021	2022
World	2.8	-3.1	5.9	4.9	0.1	0.0
Advanced Economies	1.6	-4.5	5.2	4.5	-0.4	0.1
United States	2.2	-3.4	6.0	5.2	-1.0	0.3
Euro Area	1.3	-6.3	5.0	4.3	0.4	0.0
Japan	0.0	-4.6	2.4	3.2	-0.4	0.2
Emerging Markets	3.7	-2.1	6.4	5.1	0.1	-0.1
China	6.0	2.3	8.0	5.6	-0.1	-0.1
India #	4.0	-7.3	9.5	8.5	0.0	0
Brazil	1.4	-4.1	5.2	1.5	-0.1	-0.4

- As per IMF, global GDP growth to recover to +5.9% in CY21 from -3.1% contraction in CY20.
- Being helped by healthy economic recovery in developed economies like US & Euro Area and some emerging markets.
- GDP growth for US in CY21 downgraded by 1% from July 2021 projections to +6.0%. Euro area GDP growth upgraded to +5.0% for CY21.
- India's GDP growth to recover to +9.5% in FY22 vs -7.3% contraction in FY21. +8.5% growth forecasted in FY23.
- 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

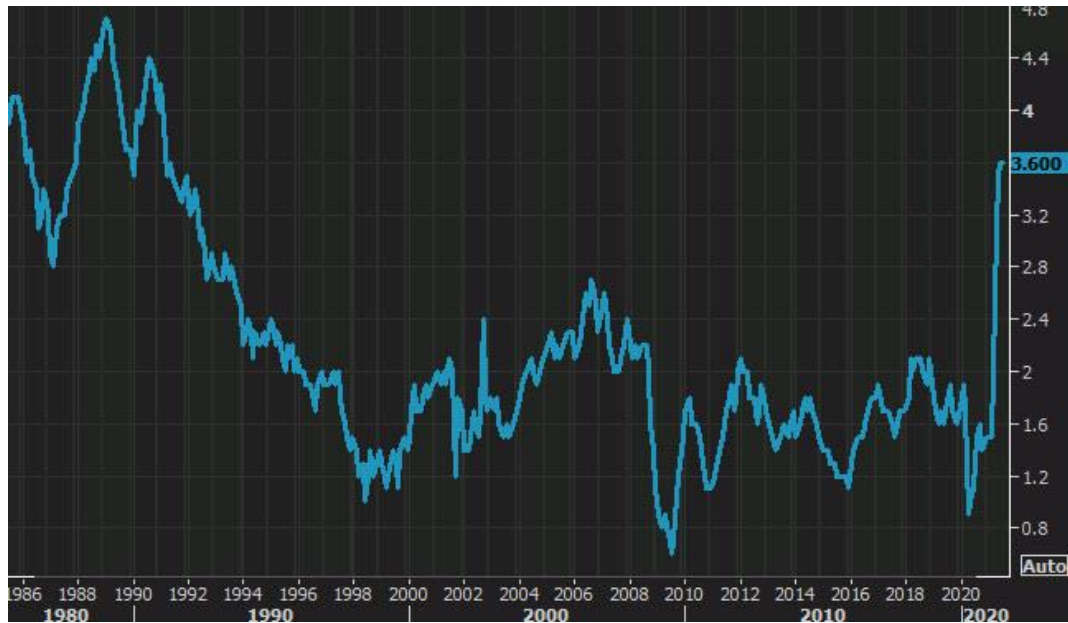
Central Bank Balance Sheet of Major Countries - Combined (US\$ in billion)



- 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 (more than \$10 trln), dwarfing the expansion seen during Global Financial Crisis (GFC) of 2008-09 (around \$3 trln).

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

US Core PCE Inflation (%YoY)



Source: Forexlive.com, PCE = Personal Consumption Expenditure

US FOMC Projections – Sep 2021 meeting

Variable	Median ¹				
	2021	2022	2023	2024	Longer run
Change in real GDP	5.9	3.8	2.5	2.0	1.8
June projection	7.0	3.3	2.4		1.8
Unemployment rate	4.8	3.8	3.5	3.5	4.0
June projection	4.5	3.8	3.5		4.0
PCE inflation	4.2	2.2	2.2	2.1	2.0
June projection	3.4	2.1	2.2		2.0
Core PCE inflation ⁴	3.7	2.3	2.2	2.1	
June projection	3.0	2.1	2.1		
Memo: Projected appropriate policy path					
Federal funds rate	0.1	0.3	1.0	1.8	2.5
June projection	0.1	0.1	0.6		2.5

Source: US Federal Reserve

- The US Fed's preferred gauge of inflation (US Core PCE inflation) rose 3.6%YoY in Aug 2021—making it the biggest jump in ~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 program before the end of the calendar year (markets are expecting taper to commence from Nov Fed meeting).
- However, rate hikes are still some time away, although Fed now expects first hike in 2022 vs 2023 earlier. The Fed has downgraded US GDP forecast for 2021 quite significantly and increased inflation forecast.

India among the top performing markets in FYTD22 & past 1 year

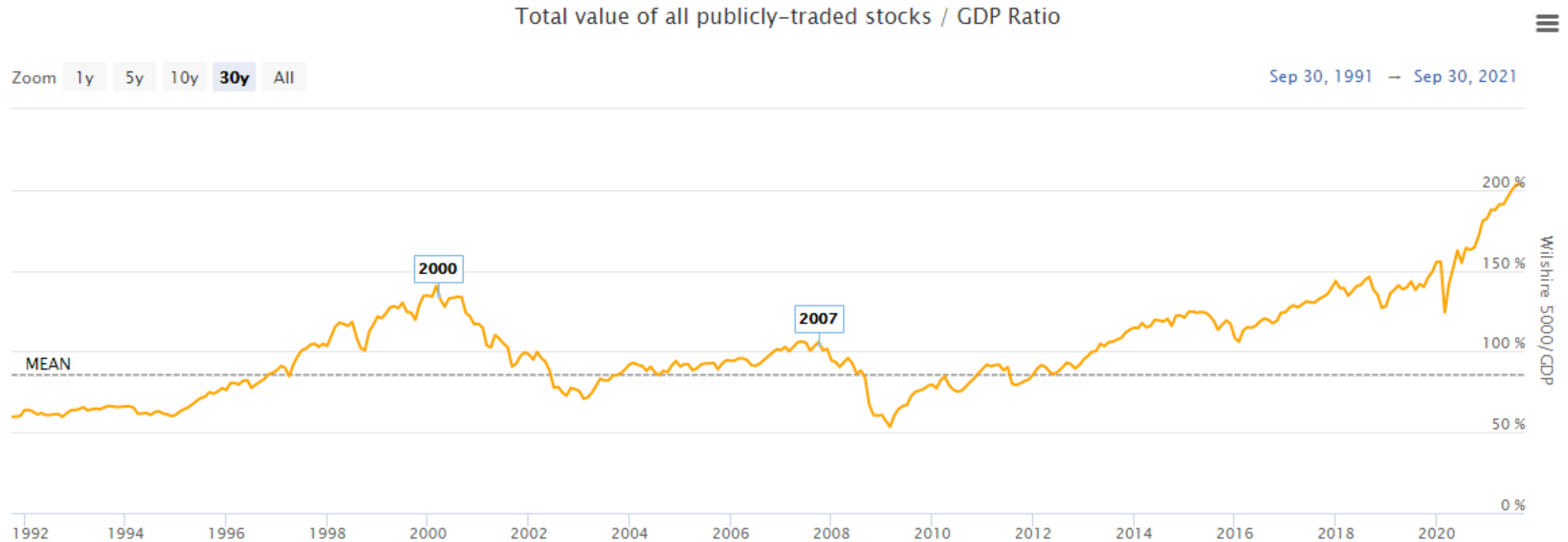
Performance of International Indices (ended September 2021, in %)					
	Country / Region	FYTD22 (6 mths)	1 Yr	5 Yrs	10 Yrs
RTS RTSI PR USD	Russia	20.4	50.8	12.4	2.9
IISL Nifty 50	India	19.9	56.6	15.4	13.6
S&P 500	US	8.4	28.1	14.7	14.3
S&P/ASX 200	Australia	8.0	26.1	6.2	6.2
CAC 40	France	7.5	35.7	7.9	8.1
MSCI World PR USD	World	6.9	27.0	11.7	10.5
FTSE 100	UK	5.6	20.8	0.5	3.3
JSX Composite	Indonesia	5.0	29.1	3.2	5.9
Shanghai Composite	China	3.7	10.9	3.5	4.2
TSEC TAIEX	Taiwan	3.1	35.3	13.1	8.9
FSE DAX TR	Germany	1.7	19.6	7.7	10.7
Nikkei 225 Average	Japan	0.9	27.0	12.4	13.0
KRX KOSPI	South Korea	0.2	31.8	8.5	5.7
FTSE SET All Share	Thailand	-0.1	31.0	0.2	4.9
FTSE Bursa Malaysia KLCI	Malaysia	-2.3	2.2	-1.4	1.0
FTSE/SGX STI	Singapore	-2.5	25.1	1.5	1.4
MSCI EM PR USD	Emerging Mkts	-4.8	15.8	6.8	3.6
BOVESPA	Brazil	-4.8	17.3	13.7	7.8
MSCI Asia Ex Japan PR USD	Asia Ex-Japan	-7.2	12.4	7.8	6.1
Hang Seng	Hong Kong	-13.4	4.8	1.1	3.4
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 22 return in descending order					

Global markets performance in FYTD22 has been mixed

- Developed markets have outperformed emerging markets.
- Indian markets among the top performers along with Russia. Over the past year too India among the top performing markets.
- Hong Kong market has underperformed significantly due to govt. regulatory clampdown on technology companies & default concerns of a Chinese realty major.
- Some other emerging and Asian markets have underperformed in FYTD22.
- 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

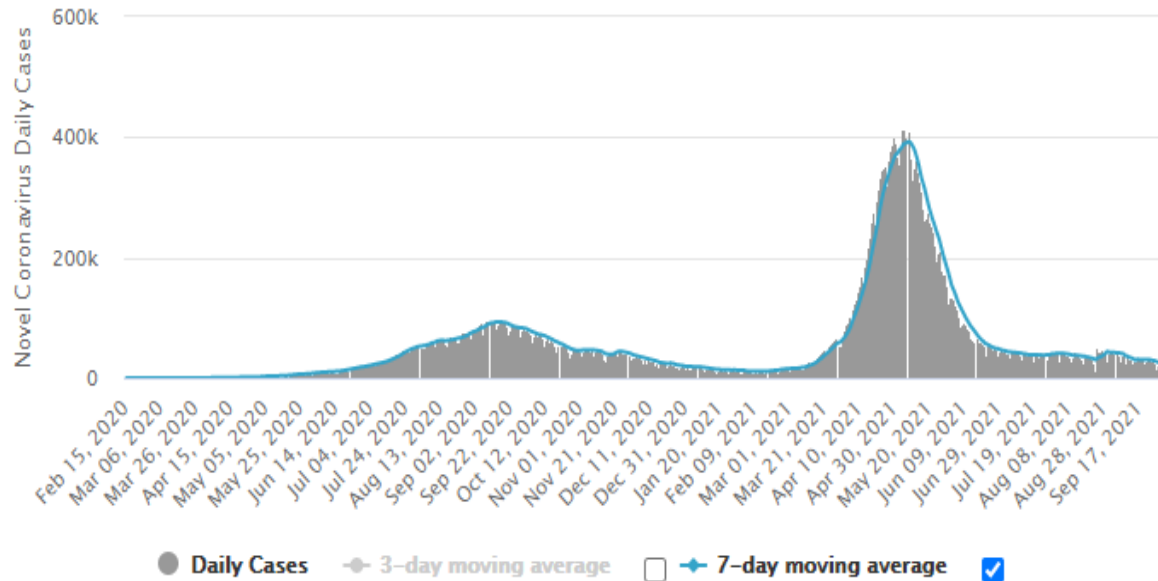
LIFE GOALS. DONE.



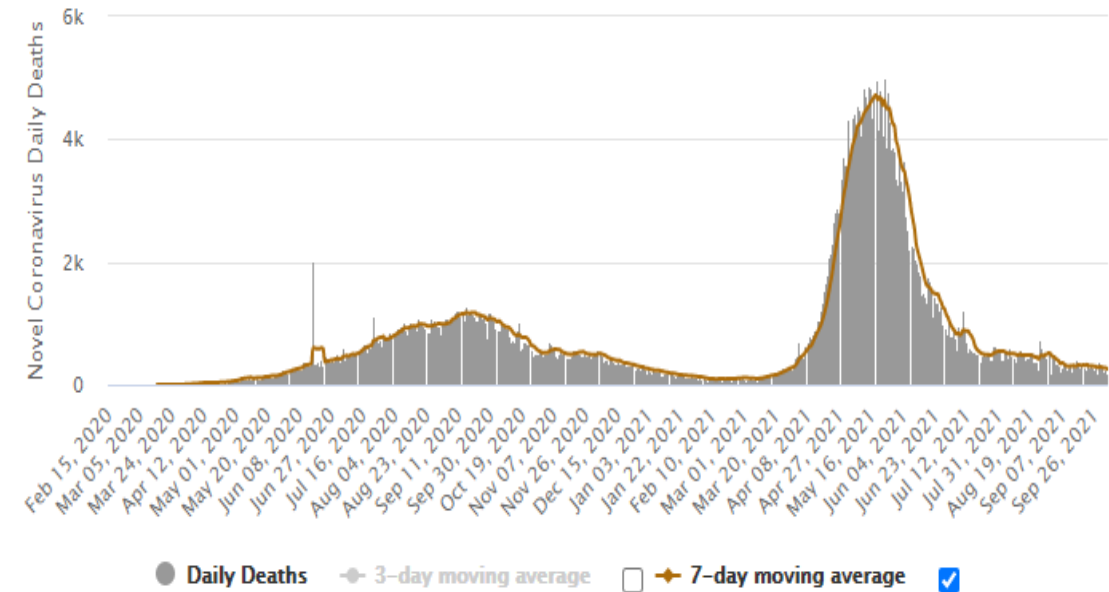
Indian Macros & Covid data

The 2nd Covid wave in India has seen significant moderation; 3rd wave not panned out as yet

India- Daily New Covid Cases Trend



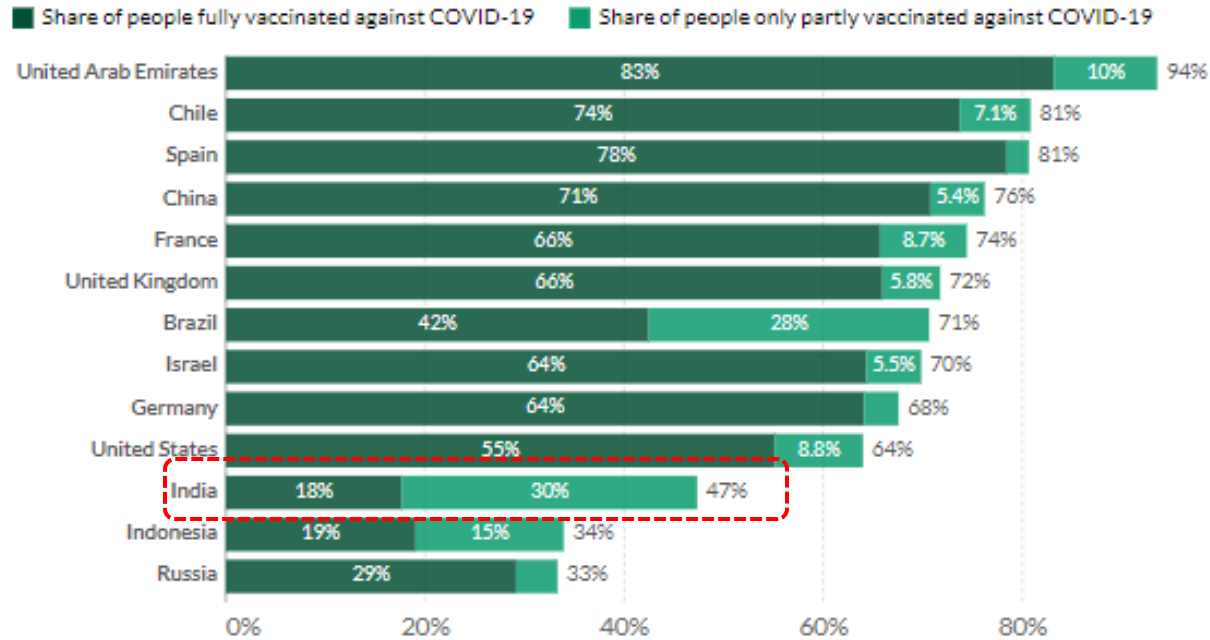
India- Daily Covid Death Trend



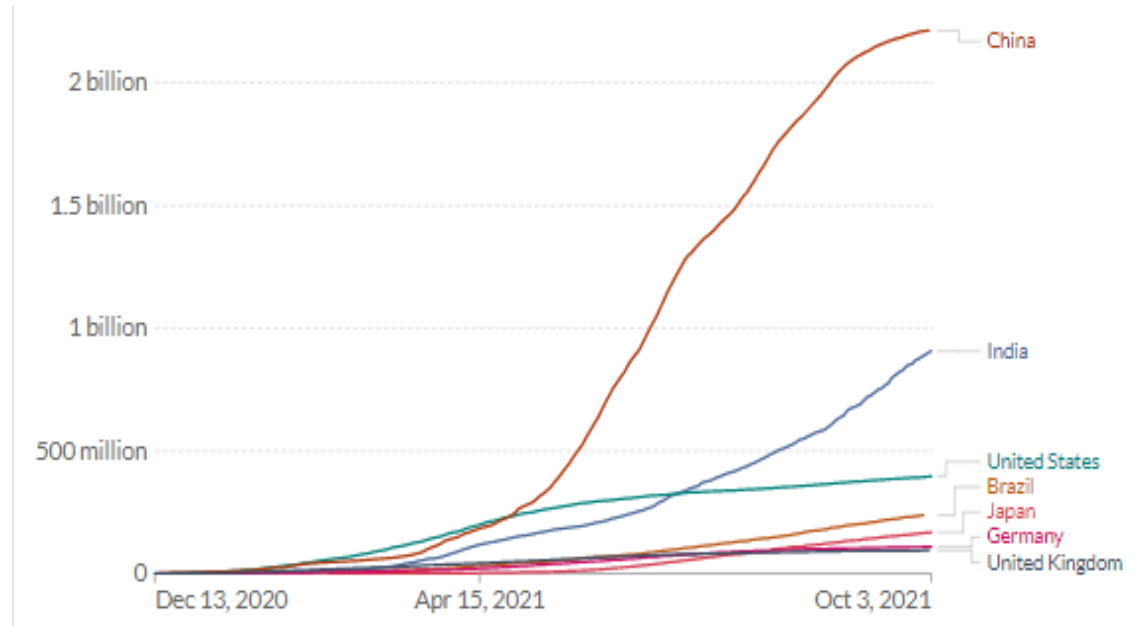
- India has seen a significant moderation in daily Covid cases from a peak of 4 lakh in May 2021 to below the 30,000 mark presently
- Covid detection rate has moderated from a peak of 22% to below 2% presently.
- As a result restrictions have been removed and economic activity has seen strong recovery.
- Covid third wave in India has not panned out as expected, which is a positive. We will have to see if the festive season causes an uptick in Covid cases.

India's pace of vaccination has picked up quite significantly

Share of population vaccinated



Cumulative Number of Covid Vaccine doses administered



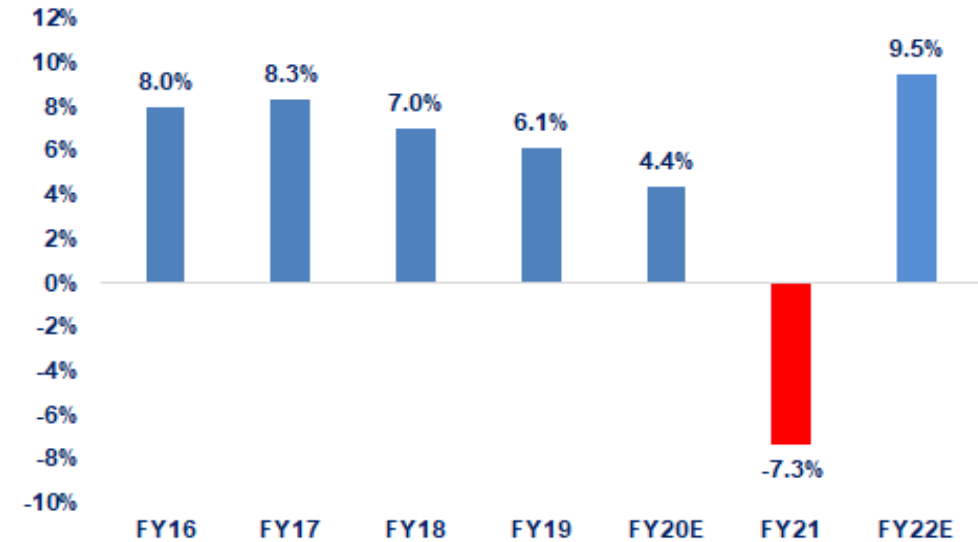
- India has seen a strong pick-up in pace of vaccination. However, China leads by a significant margin.
- However, due to its large population still a significant share of population to be vaccinated (~30% of population is partly vaccinated; ~18% fully vaccinated)
- The expansion of vaccination drive in India to help control a third Covid wave in India (if it indeed happens).

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

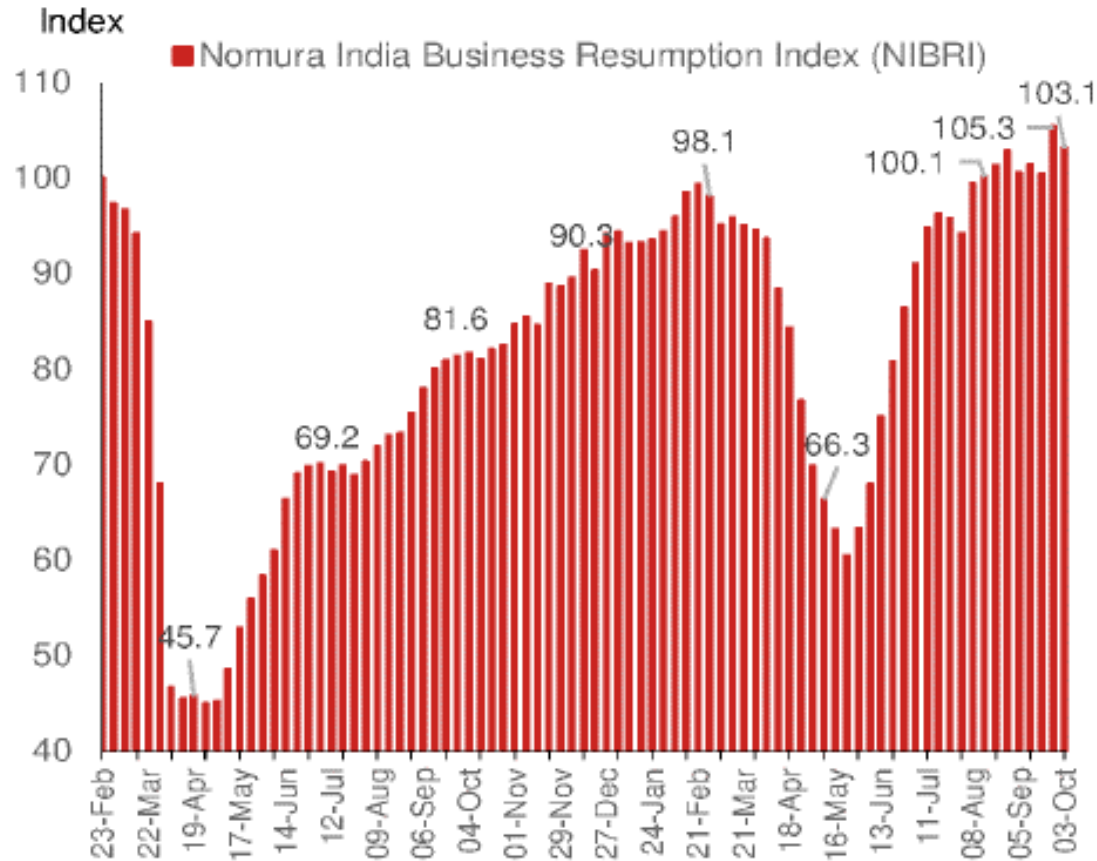
India Annual GDP Trend (% YoY)



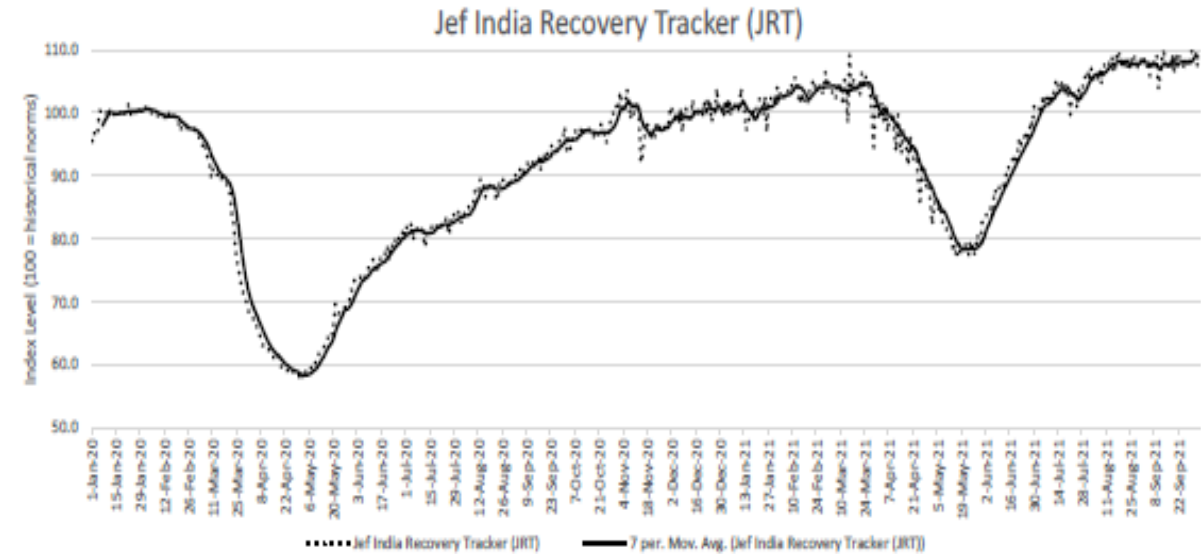
- Q1 FY22 GDP growth in India came in at a strong 20.1%YoY on the back of favourable base effect. Sequentially, GDP fell by 6.3% QoQ sa. 9.5% GDP growth forecast for FY22 at 9.5% & at 7.8% for FY23 (unofficial).
- Gross Fixed Capital Formation (or Investments) registered strong growth. Growth for private 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.

Economic/ Business Activity in India has recovered to above pre-pandemic levels

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

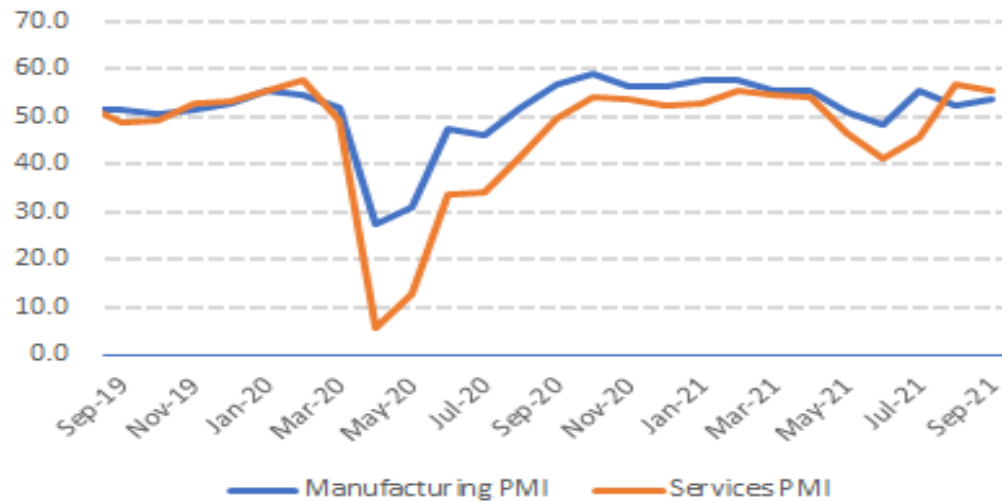


Jefferies India Economic Activity index back above pre-pandemic levels

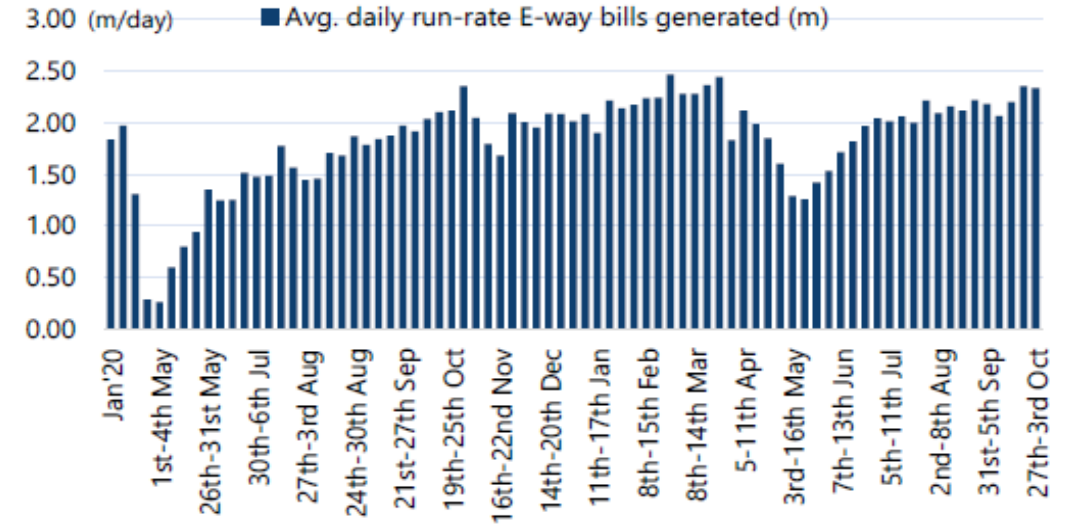


Other high frequency indicators in India also pointing to recovery after the second wave

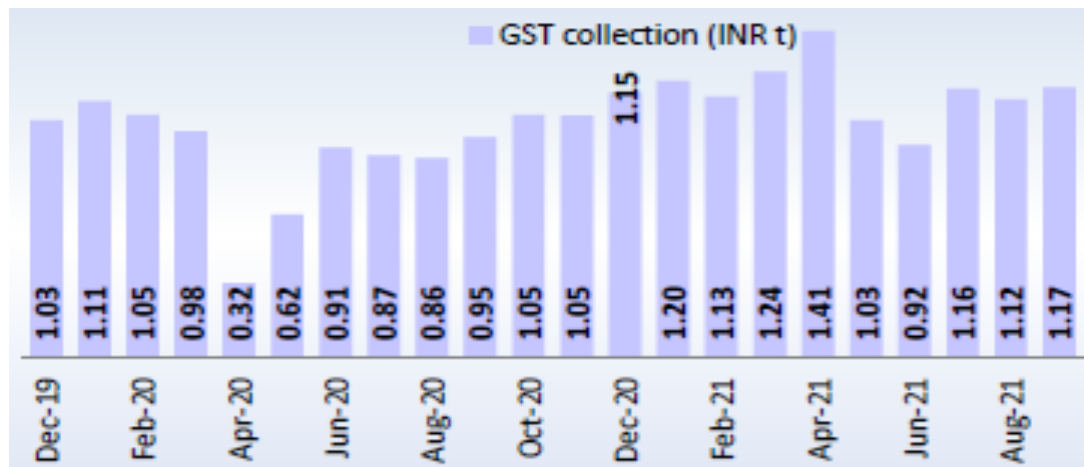
Manufacturing & Services PMI in expansion over past few months



E-Way bills generation pace recovers



GST collections also sees recovery



Railway freight traffic sees healthy recovery



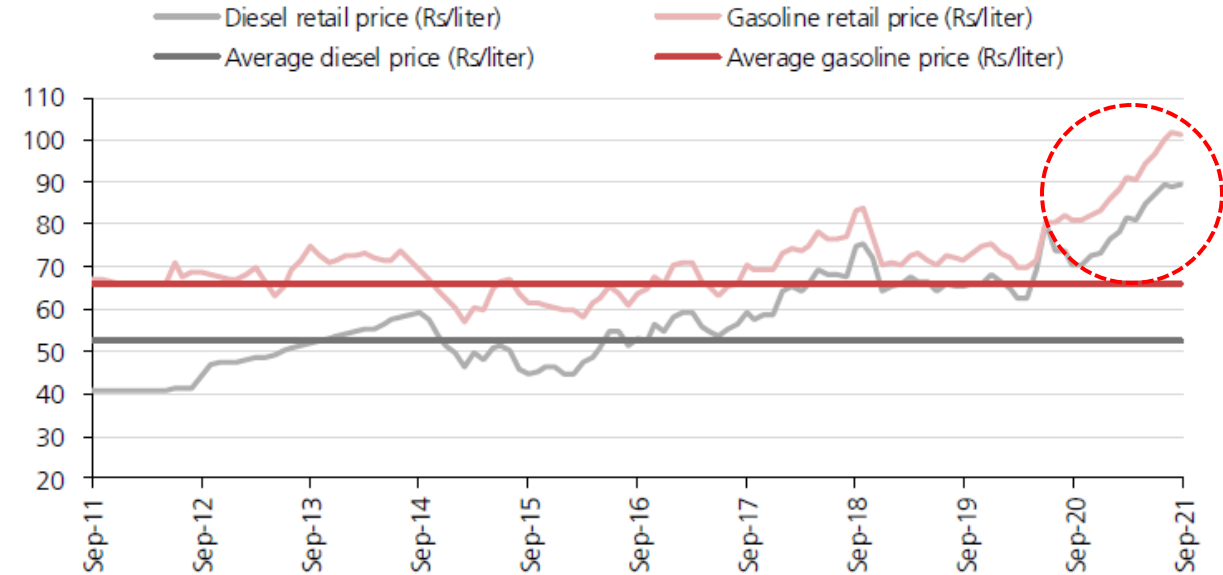
Crude oil prices on the rise again; Current account to turn into deficit in FY22

Brent Crude Price (\$/bbl)



Source: Bloomberg

Petrol/Diesel Price Trend in Delhi (Rs. / litre)



Source: Kotak Institutional Equities

- Crude oil prices on the rise again with brent crude breaching the \$80/bbl mark.
- Rise in crude prices has resulted in oil marketing companies hiking retail petrol/diesel prices multiple times.
- India's current account expected to turn into deficit of 1.3-1.5% of GDP in FY22 from surplus of 0.9% of GDP in FY21

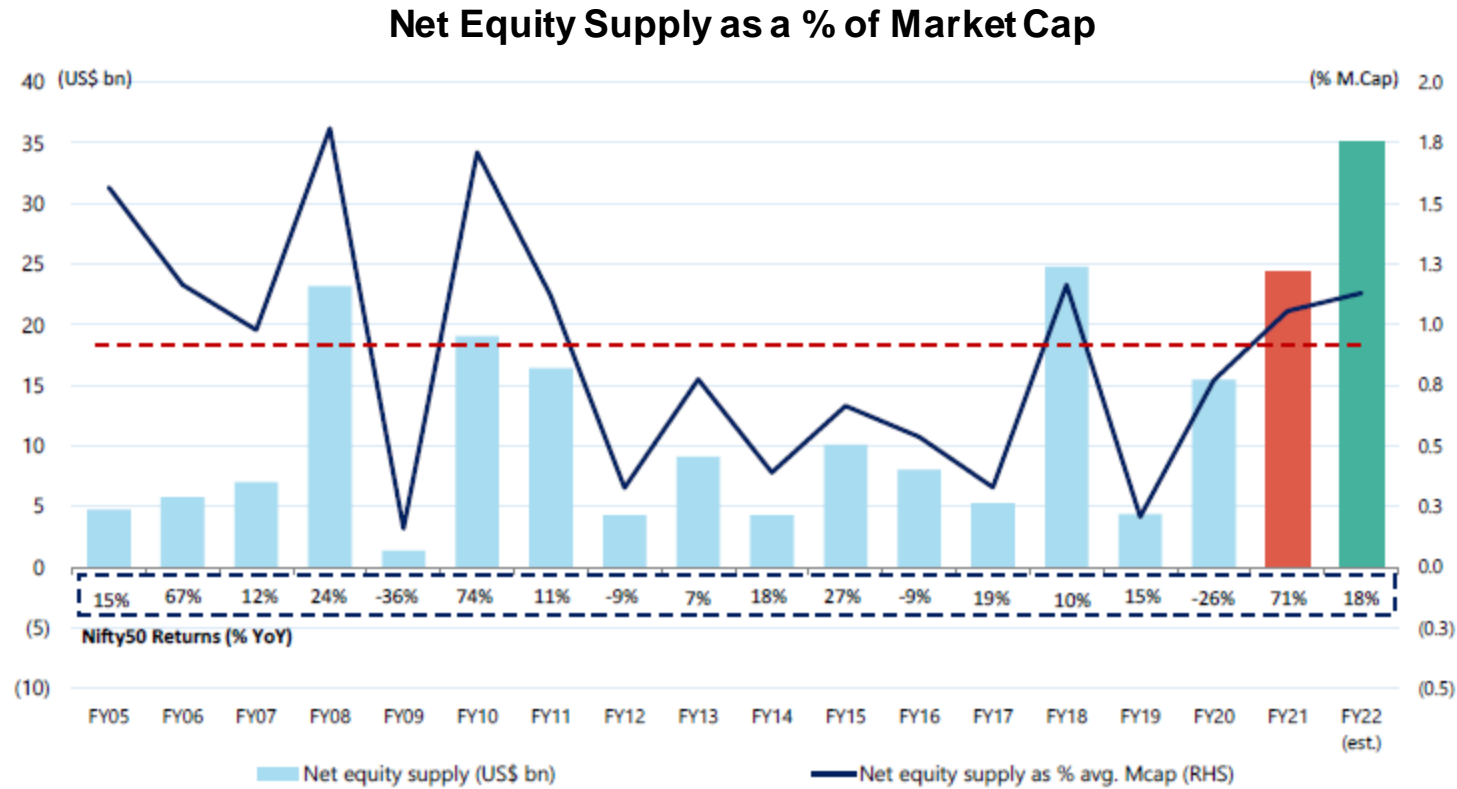
Indian Markets, Valuations, Flows & Earnings

Broader markets and sectors like realty, metals & IT outperformed in FYTD22

Performance of Domestic Indices as of September 2021 (in %)		
Index Name	FYTD 22 (6 mths)	1 year
S&P BSE Realty	53.7	145.5
S&P BSE Metal	40.6	143.0
IISL NIFTY Smallcap 100	34.2	87.0
S&P BSE IT	29.7	72.3
S&P BSE Power	29.2	93.5
IISL NIFTY Midcap 100	28.2	78.9
S&P BSE PSU	26.4	86.6
S&P BSE Consumer Durables	25.9	70.3
S&P BSE Oil and Gas	23.5	49.5
S&P BSE Capital Goods	23.1	87.7
S&P BSE Healthcare	22.3	31.8
IISL Nifty 500	22.2	61.1
IISL Nifty Midcap 50	22.2	77.4
IISL Nifty 50	19.9	56.6
S&P BSE FMCG	15.4	34.5
S&P BSE BANKEX	13.8	75.4
S&P BSE Auto	7.3	33.5
Source: Morningstar Direct. Data sorted in descending order on the basis of FYTD22 return		

- Mid/Small-caps outperformed in FYTD22.
- Sectors like realty, metals, and IT outperformed
- Sectors like Auto, FMCG and banks relatively underperformed

India equity market issuances are booming; heavy equity supply may dry up some liquidity



- After strong collections in FY21, equity market issuances for FY22 is expected to hit a record high--with a strong pipeline.
- The large equity supply in FY22 may dry up some liquidity. However, as % of market cap it is still lower than in FY08.

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

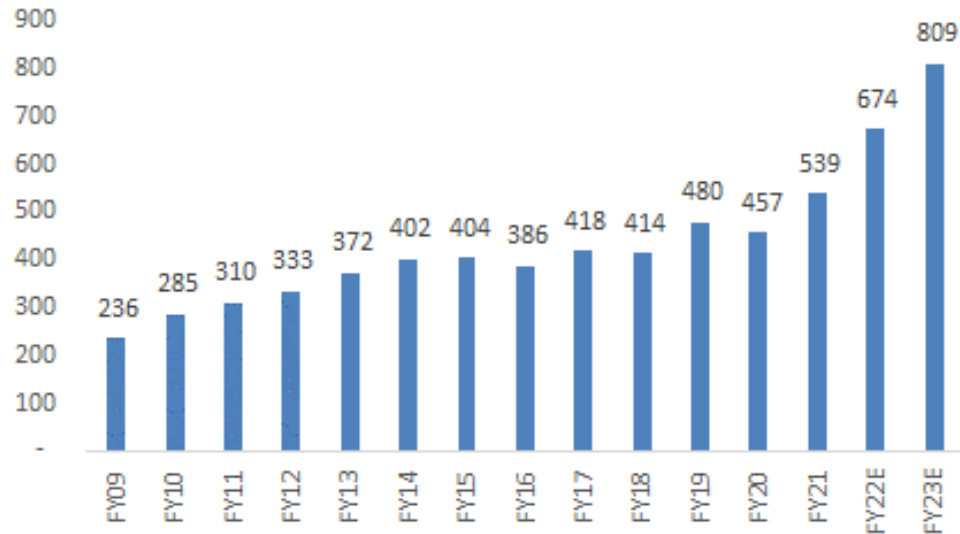
Source: NSDL, Axis Capital	Rs in Crore	
Month-end	FPIs	DIIs
30 April 2020	-4,112	-826
31 May 2020	13,001	11,357
30 June 2020	18,684	2,434
31 July 2020	8,590	-10,008
31 August 2020	45,637	-11,047
30 September 2020	-5,690	110
31 October 2020	18,400	-17,318
30 November 2020	70,896	-48,339
31 December 2020	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
31 July 2021	-12,622	18,394
31 August 2021	7,455	6,895
31 September 2021	8,348	5,949

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 September)	6,663	51,438

- After seeing record FPI equity inflows in FY21, FPI flows have slowed down in FYTD22 (but recovered a bit in the past 2 months).
- Meanwhile, DII equity flows picked-up in FYTD22, after seeing outflows in FY21. MF monthly SIP inflows breached the record Rs. 10,000 crore mark, and some large NFO collections in recent months have also helped.

Corporate earnings have surprised with strong growth amidst the pandemic

Nifty EPS Trend



Source: Bajaj Allianz Life Estimates

India – Corporate Profits as a % of GDP Trend



Source: Jefferies

- Nifty EPS registered healthy growth of 18% in FY21 despite Covid shock & GDP contraction of 7.3%—which is a positive surprise.
- Corporate earnings cycle on an uptrend after more than a decade of moderation. 2nd Covid wave saw limited earnings downgrades.
- Robust Nifty earnings growth of around 25% and 20% expected in FY22 and FY23 respectively.

Sectors driving corporate earnings growth

Fiscal Year-Wise Nifty Sectoral Profit & Growth Trend (in %)

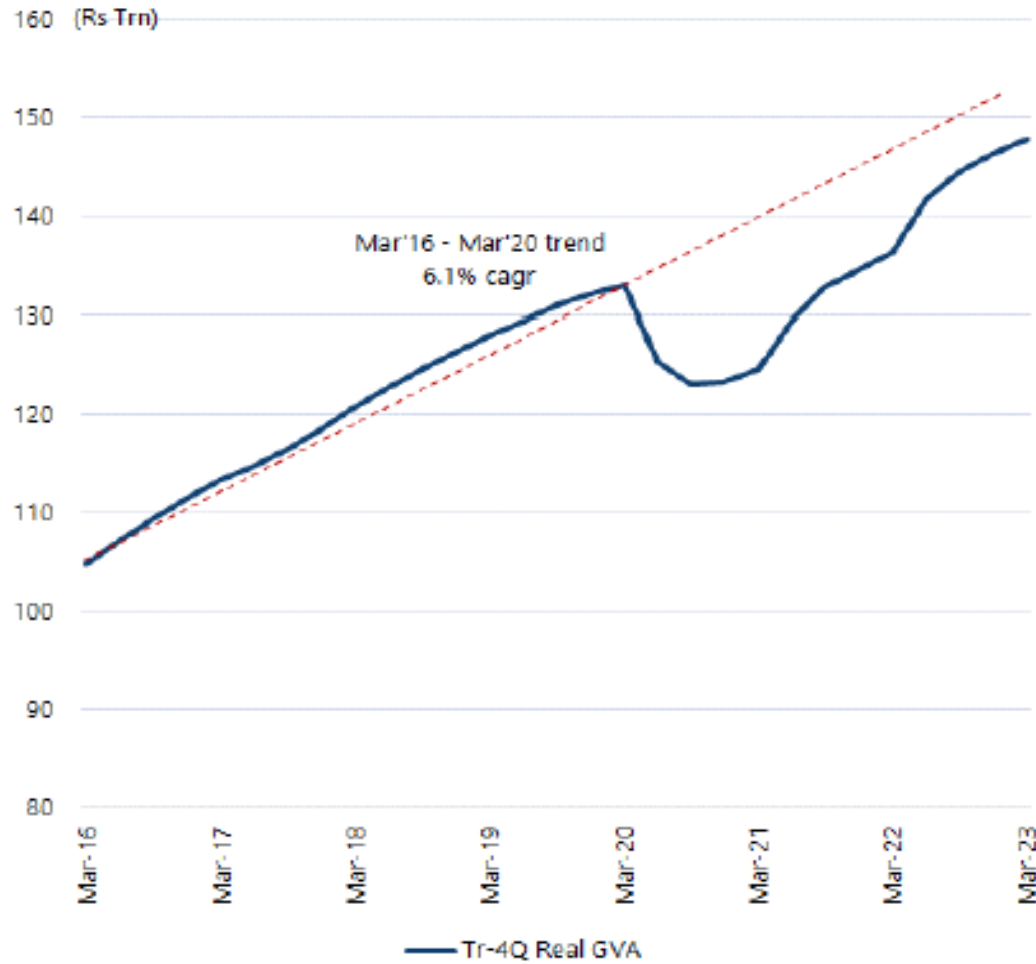
Sector	Profit After Tax (PAT) - Rs in Billion				Growth YoY (%)			
	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Agro Chemicals	27	35	45	53	8	30	31	16
Automobiles	103	178	229	421	-53	74	28	84
Banking	896	1,116	1,500	1,898	48	25	34	27
Capital Goods	89	69	91	113	11	-22	32	24
Cement	116	123	163	192	45	6	33	18
Consumer	289	292	326	394	20	1	11	21
Healthcare	90	128	159	185	10	42	24	17
Infrastructure	37	50	66	81	-7	35	32	23
Metals	71	216	720	549	-70	205	233	-24
Oil & Gas	743	994	1,096	1,302	-26	34	10	19
Retail	15	10	16	27	9	-35	61	68
Technology	741	792	925	1,106	4	7	17	20
Telecom	-41	-7	28	53	Loss	Loss	LP	91
Utilities	411	404	445	486	6	-2	10	9
Nifty index	3,586	4,400	5,809	6,858	-3	23	32	18

Source: Motilal Oswal

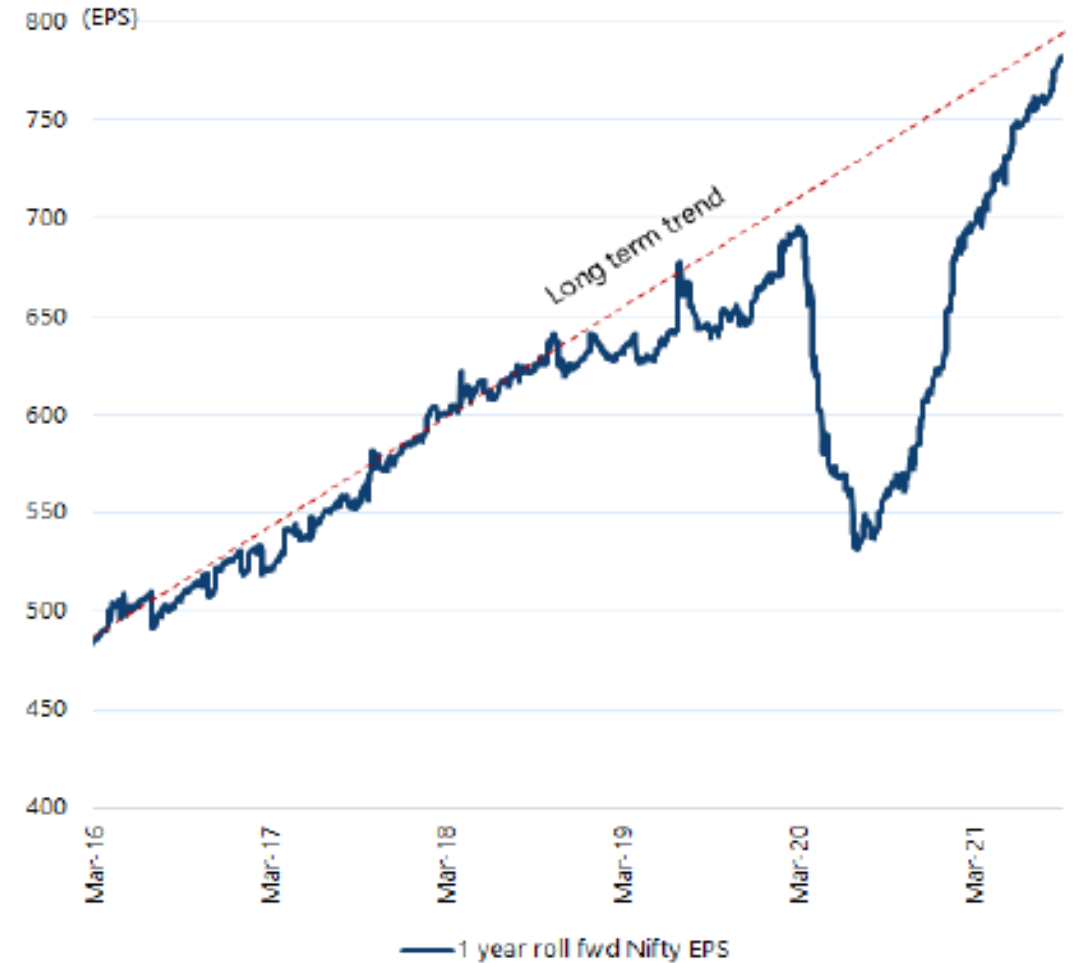
- Banking & fin. services, which accounts for 25% of earnings, has recovered from corporate loan stress & supported by moratorium / liquidity measures. Stable growth expected in this and next fiscal year.
- Technology sector has seen improvement in earnings growth buoyed by uptick in digital spending.
- Commodity producers such as metals, cement and chemicals seen strong recovery in earnings due to higher commodity prices.

Corporate earnings almost back to Pre-Covid trajectory trend; GDP has seen healthy recovery--but is taking a bit longer

India – Real GDP Vs Long Term Trend

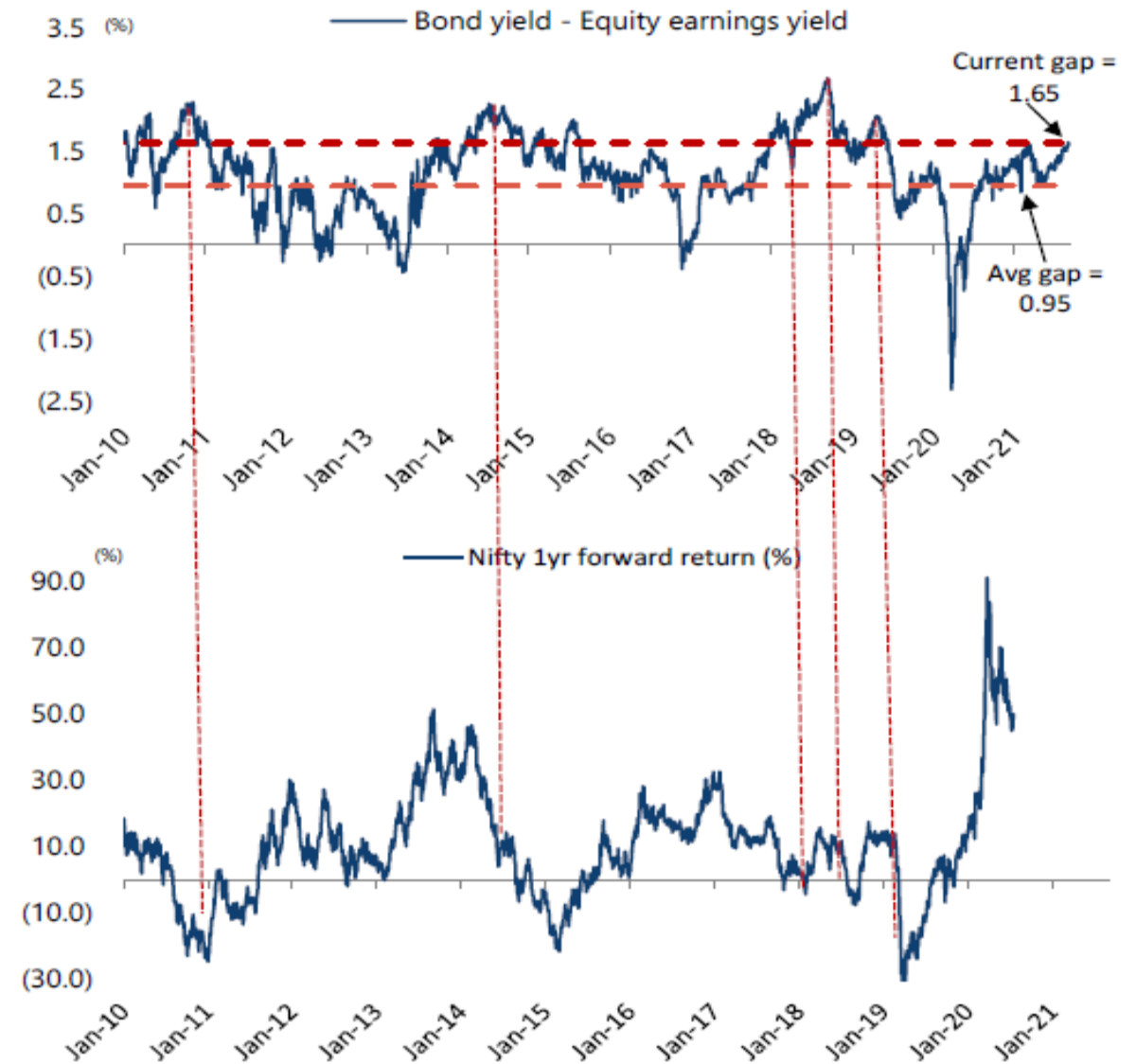


1 Yr Rolling Fwd Nifty EPS Vs Long Term Trend



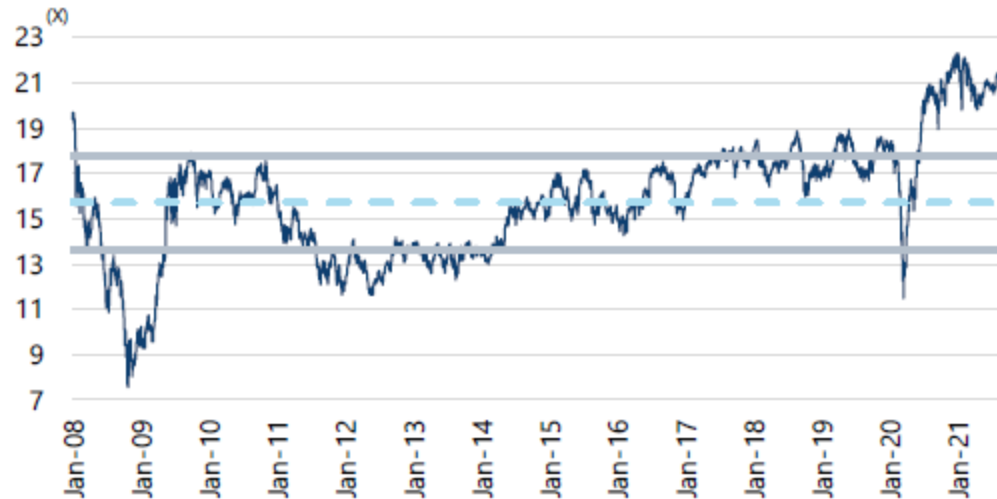
Bond yield & equity earnings yield spread indicates that risk-reward for equities is not as favourable as before

- 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.

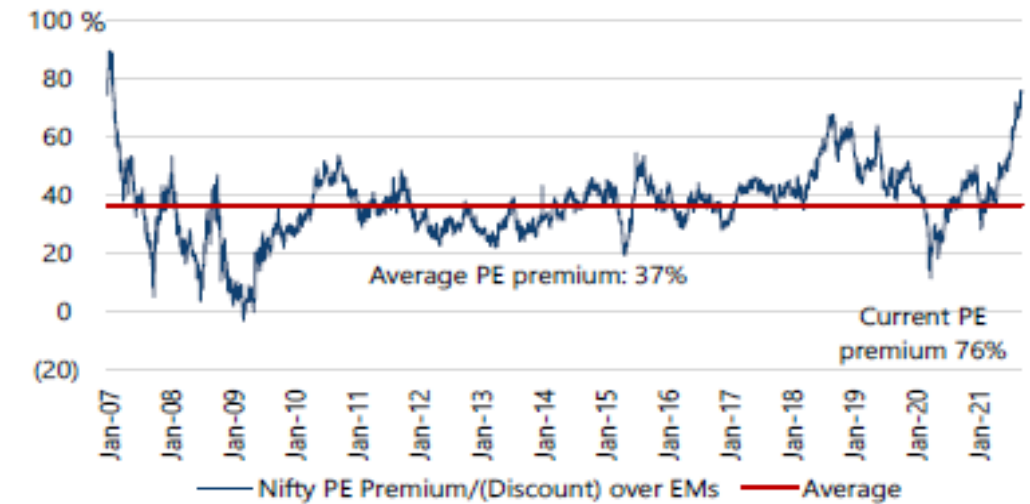


Market valuations are quite rich in India

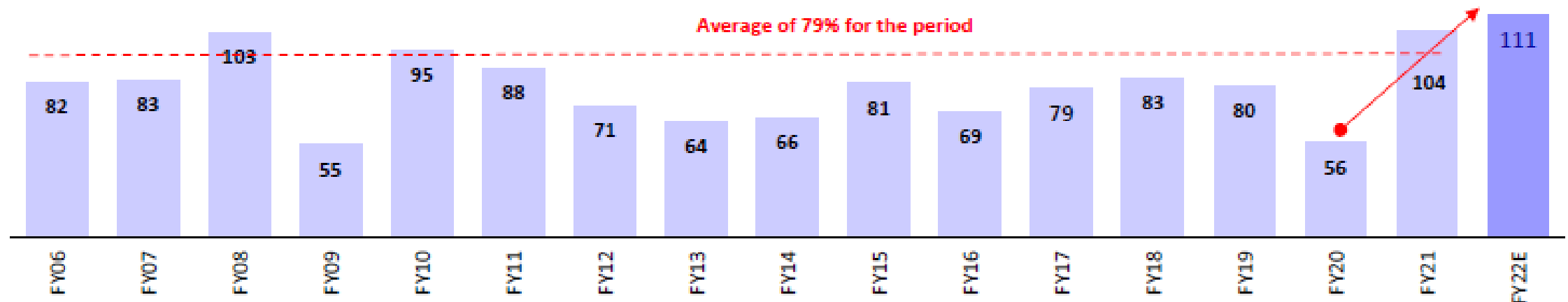
Nifty 1 Year Fwd Consensus P/E Ratio



Nifty PE Premium / (Discount) to Emerging Mkts

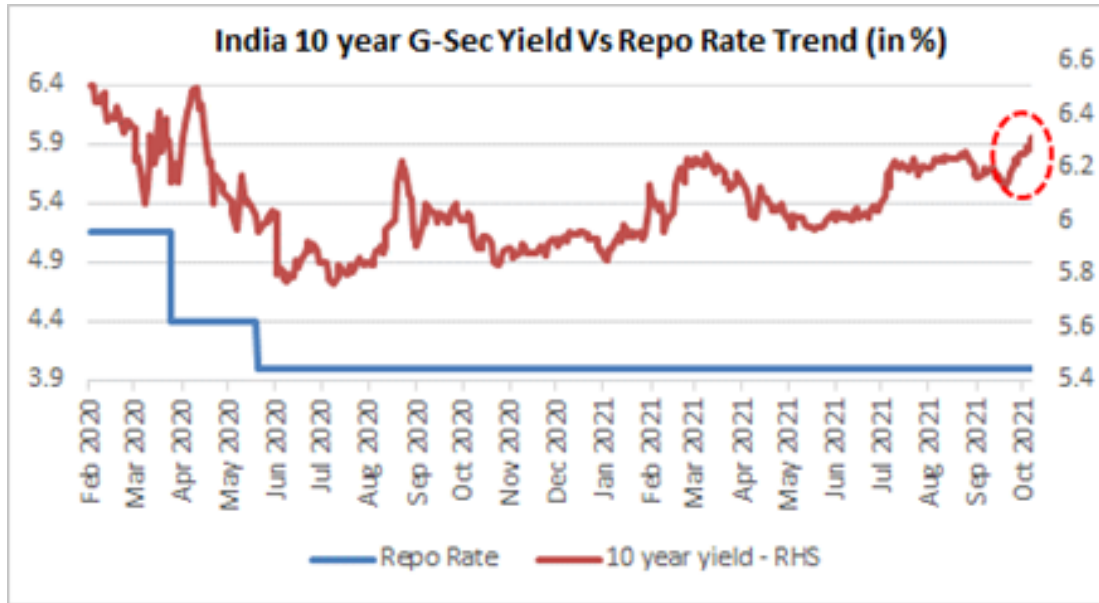


India Market Cap to GDP Trend (in %)

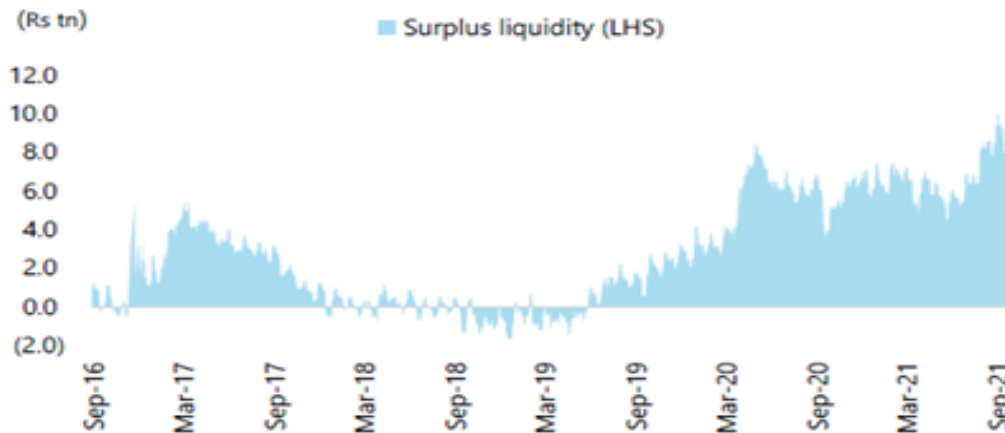


Fixed Income Markets

RBI remains accommodative but hints at gradual liquidity normalization. Bond yields harden.



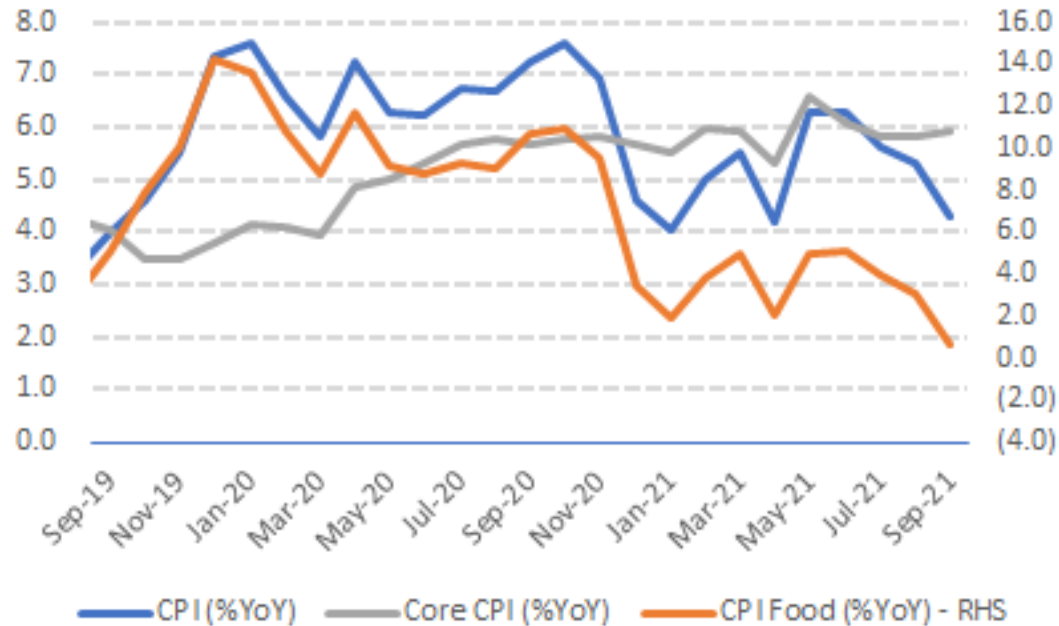
Banking system Liquidity (Rs. In trln)



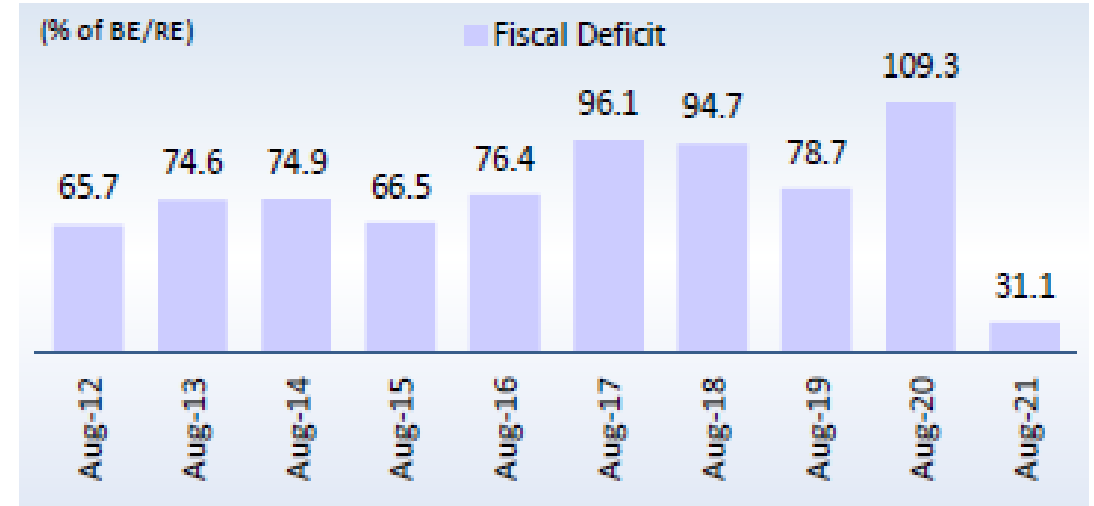
- RBI has kept rates unchanged and maintains accommodative stance.
- RBI revised down inflation forecast for FY22 to 5.3% from 5.7% earlier.
- RBI has hinted at gradual liquidity normalization– stops GSAP & will increase the quantum of VRRR auctions in calibrated manner.
- However, RBI will continue with Operation Twist & OMOs to manage the yield curve effectively.
- RBI will continue to be accommodative for some time (to support economic recovery), with an eye on the inflation trajectory. The central bank may start by narrowing corridor between repo & repo rate.
- Bond yields have hardened recently due rise in crude oil prices, Fed Taper concerns & cues of liquidity normalization by RBI.
- From an investment perspective we prefer the medium term part of the yield curve.

Inflation has eased recently; Fiscal deficit has also improved

India CPI Inflation Trend (% YoY)



India Fiscal Deficit Trend (% of full year)



- CPI inflation for the month of Sep 2021 moderated to 5.3%YoY (due to lower food prices) compared to an elevated level of 6.3%YoY in the month of June 2021.
- Core inflation (ex food and fuel) remains slightly elevated at 5.9%YoY in Sep 2021 compared to 6.1%YoY in June 2021.

- India's fiscal deficit for first 5 months of FY22 (April – Aug 2021) came in at 31% of full year estimate vs 109% in corresponding previous year period.
- This has been helped by revival in tax revenue (helped by base effect). Non-tax revenue picked-up strongly due to upfront of RBI dividend.
- Fiscal deficit expected to undershoot its 6.8% target for FY22.

THANK YOU

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