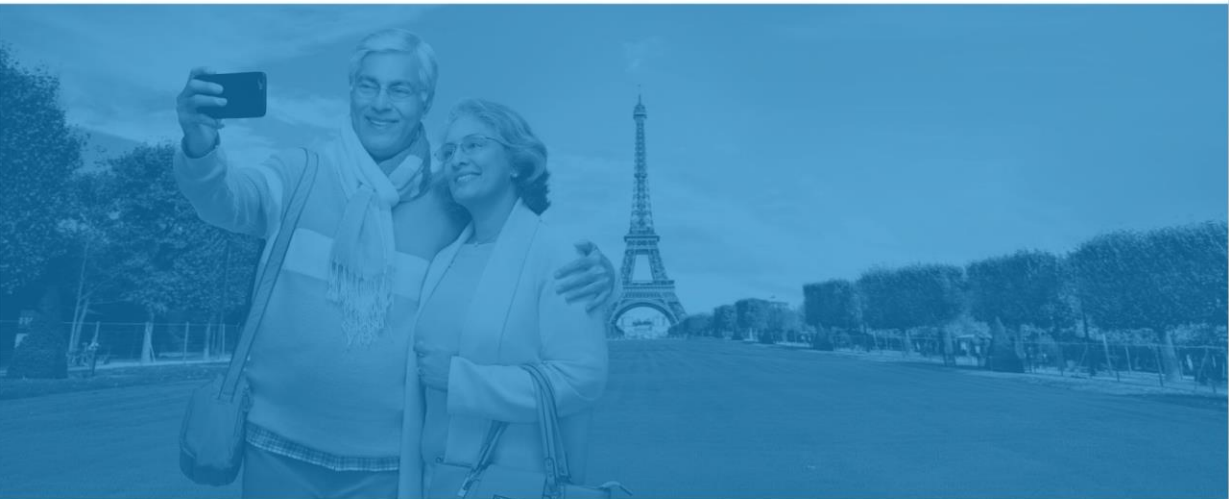


# 2021 Year-end Review & Outlook for 2022

January 2022

LIFE GOALS. **DONE.**



# Year 2021 – The Key Trends

**Strong economic recovery after contraction in 2020**

**Rapid expansion of the Covid vaccination drive**

**Strong earnings growth which surprised on the upside**

**Commencing normalization of global monetary stimulus in late 2021**

**Global inflationary pressures & rise in commodity prices**

**Continued rally in global & Indian equity markets & elevated valuations**

**Record high equity issuances & IPO mobilization in India**

**FII outflows from India but domestic flows pick-up**

**Emergence of Omicron Covid variant in late 2021**

# Healthy global economic recovery in 2021; India amongst the fastest growing major economies

IMF GDP Forecasts (in %) - October 2021 World Economic Outlook						
	2019	2020	Projection		Difference from July 2021 projection	
			2021	2022	2021	2022
<b>World</b>	<b>2.8</b>	<b>-3.1</b>	<b>5.9</b>	<b>4.9</b>	<b>0.1</b>	<b>0.0</b>
<b>Advanced Economies</b>	<b>1.6</b>	<b>-4.5</b>	<b>5.2</b>	<b>4.5</b>	<b>-0.4</b>	<b>0.1</b>
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
<b>Emerging Markets</b>	<b>3.7</b>	<b>-2.1</b>	<b>6.4</b>	<b>5.1</b>	<b>0.1</b>	<b>-0.1</b>
China	6.0	2.3	8.0	5.6	-0.1	-0.1
<b>India #</b>	<b>4.0</b>	<b>-7.3</b>	<b>9.5</b>	<b>8.5</b>	<b>0.0</b>	<b>0</b>
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. 4.9% growth in CY22.
- Being helped by healthy economic recovery in developed economies like US & Euro Area and some emerging markets.
- India's GDP growth to recover to +9.5% in FY22 vs 7.3% contraction in FY21. +8.5% growth forecasted in FY23 but there are downside risks emerging.
- India amongst the fastest growing major economies worldwide (helped to some extent by lower base effect).

# India among the top performing markets in CY 2021 & also over the long term

Performance of International Indices (ended December 2021, in %)

	Country / Region	FYTD22 (9 mths)	1 Yr	5 Yrs	10 Yrs
CAC 40	France	17.9	28.9	8.0	8.5
S&P 500	US	20.0	26.9	16.3	14.3
<b>IISL Nifty 50</b>	<b>India</b>	<b>18.1</b>	<b>24.1</b>	<b>16.2</b>	<b>14.1</b>
TSEC TAIEX	Taiwan	10.9	23.7	14.5	9.9
MSCI World PR USD	World	14.9	20.1	13.0	10.6
FSE DAX TR	Germany	5.8	15.8	6.7	10.4
RTS RTSI PR USD	Russia	8.0	15.0	6.7	1.4
FTSE 100	UK	10.0	14.3	0.7	2.9
FTSE SET All Share	Thailand	3.5	13.9	0.3	4.0
S&P/ASX 200	Australia	9.6	13.0	5.6	6.3
JSX Composite	Indonesia	10.3	10.4	4.5	5.6
FTSE/SGX STI	Singapore	-1.3	9.8	1.6	1.7
Nikkei 225	Japan	-1.3	4.9	8.5	13.0
Shanghai Composite	China	5.7	4.8	3.2	5.2
KOSPI	South Korea	-2.7	3.6	8.0	5.0
FTSE Bursa Malaysia KLCI	Malaysia	-0.4	-3.7	-0.9	0.2
MSCI EM PR USD	Emerging Mkts	-6.4	-4.6	7.4	3.0
MSCI Asia Ex Japan PR USD	Asia Ex Japan	-8.6	-6.4	8.9	5.6
BOVESPA	Brazil	-10.1	-11.9	11.7	6.3
Hang Seng	Hong Kong	-17.6	-14.1	1.2	2.4

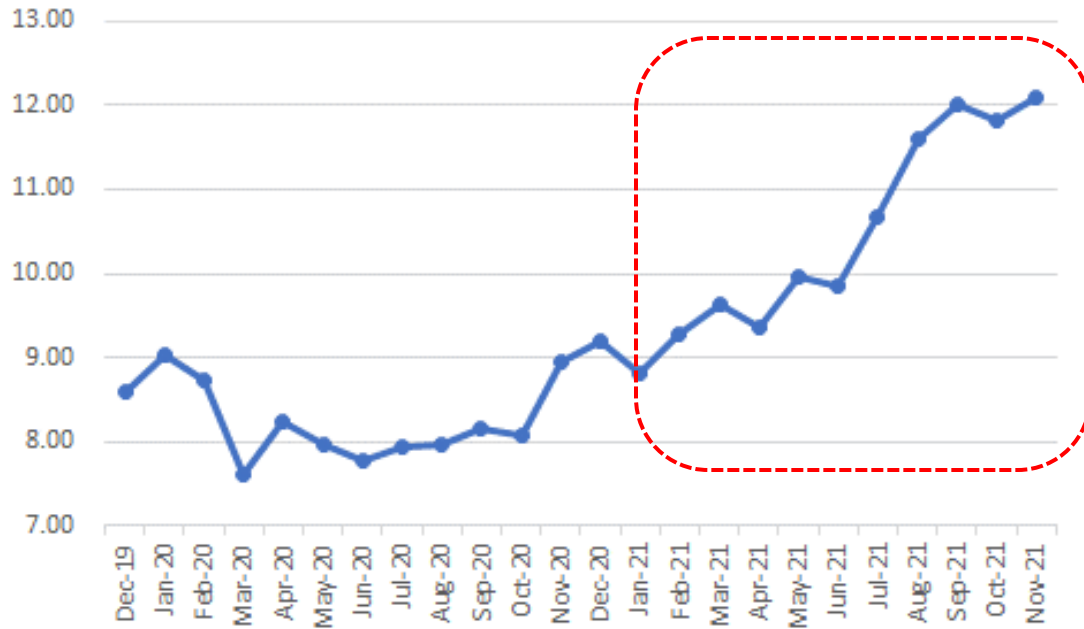
Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR  
Date sorted on the basis of 1 year return in descending order

## Global markets performance in CY21 has been mixed

- Developed markets have outperformed emerging markets by a significant margin.
- Indian markets among the top performers after France and US; significantly outperforming emerging and Asian market peers.
- Hong Kong market has underperformed significantly due to govt. regulatory clampdown on technology companies & default concerns in the realty sector.
- Over the long term (5 & 10 years) Indian market has also been among the top performing markets

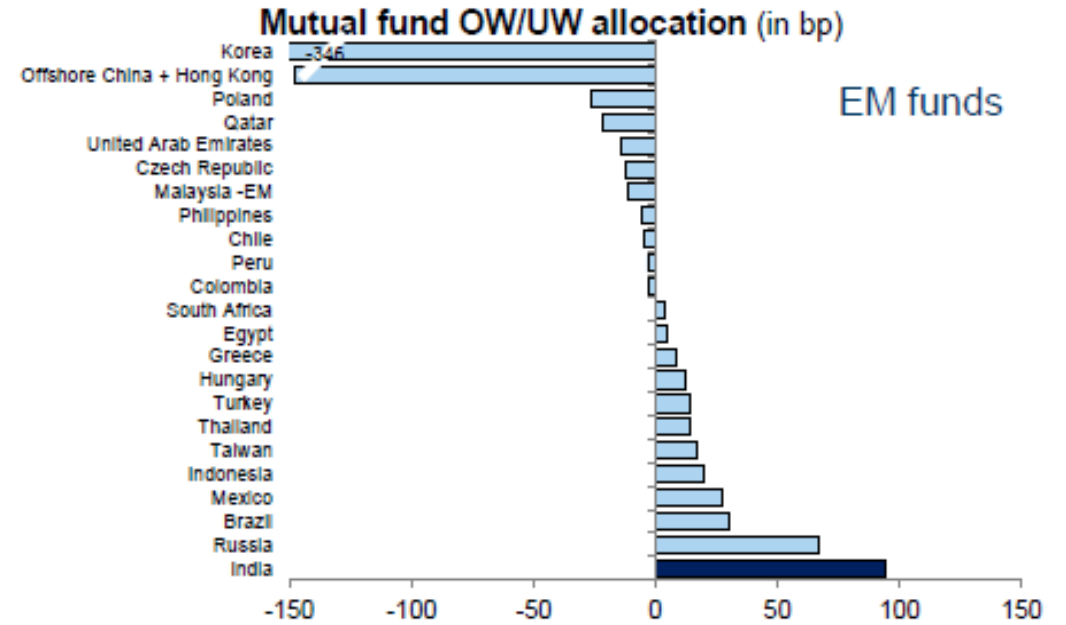
# India's weight in Emerging Market (EM) index has surged. India also remains one of the highest over-weight positions in portfolios of global EM funds

India weight in MSCI Emerging Market Index (%)



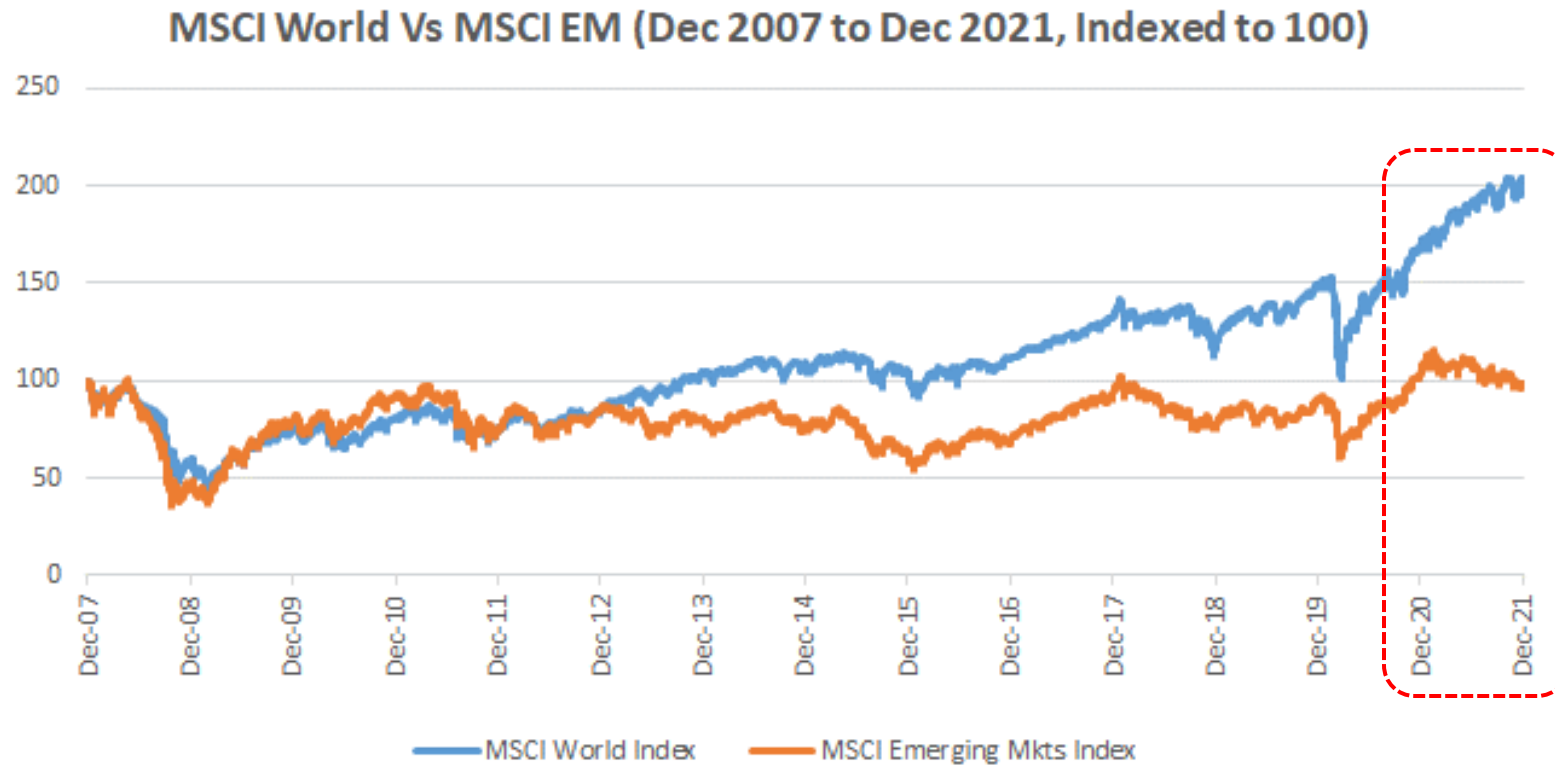
Source: Morningstar Direct. India allocation of iShares MSCI EM ETF considered

India has the highest overweight allocation in global EM funds vs MSCI EM index



Source: EPFR, Goldman Sachs

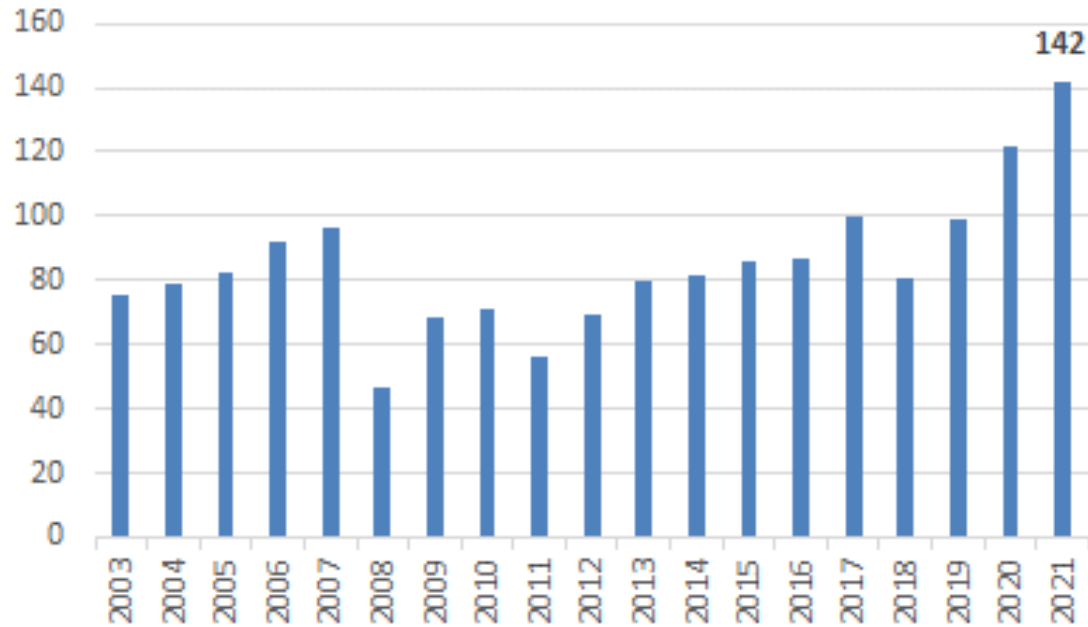
# Developed Markets continue to outperform Emerging Markets in 2021



- MSCI Emerging Market index has significantly underperformed MSCI World index (developed markets) over the past 10 years.
- In CY2021, emerging markets underperformed developed markets (primarily dragged down by China). The divergence in performance has further increased.

# Global market valuations are quite elevated

## World Market Cap to GDP (in %) – At record highs



Source: Bloomberg, Motilal Oswal

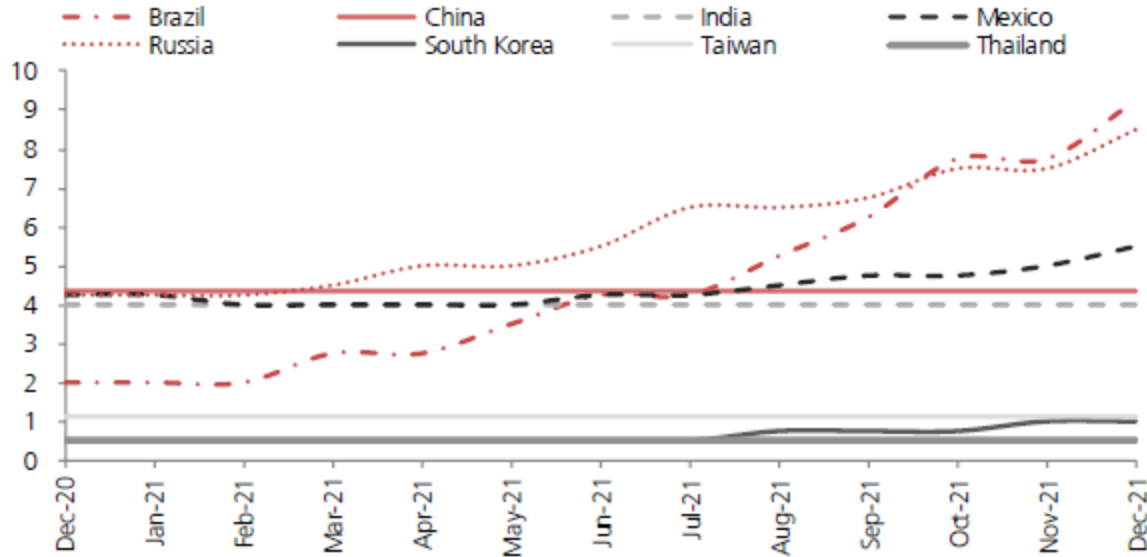
## Global P/E is elevated, although down from peak



Source: Bloomberg, Credit Suisse

# Normalization of global monetary stimulus

Central bank policy rates of EM Countries (%)



Source: Bloomberg, Kotak Institutional Equities

US FOMC Projections – Dec 2021 meeting

Variable	Median <sup>1</sup>				
	2021	2022	2023	2024	Longer run
Change in real GDP	5.5	4.0	2.2	2.0	1.8
September projection	5.9	3.8	2.5	2.0	1.8
Unemployment rate	4.3	3.5	3.5	3.5	4.0
September projection	4.8	3.8	3.5	3.5	4.0
PCE inflation	5.3	2.6	2.3	2.1	2.0
September projection	4.2	2.2	2.2	2.1	2.0
Core PCE inflation <sup>4</sup>	4.4	2.7	2.3	2.1	
September projection	3.7	2.3	2.2	2.1	
Memo: Projected appropriate policy path					
Federal funds rate	0.1	0.9	1.6	2.1	2.5
September projection	0.1	0.3	1.0	1.8	2.5

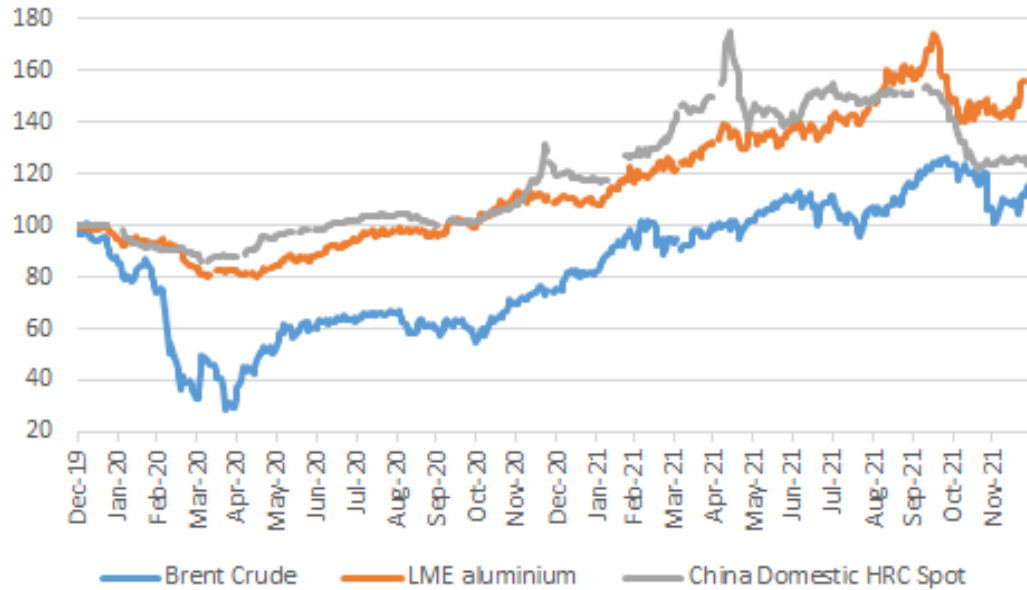
Source: US Federal Reserve

- With inflation in the US rising to a near 40-year high the US Fed has commenced with its tapering and recently increased the pace.
- Post taper (projected to end in March 2022), 3 interest rate hikes are expected by the Fed in 2022 (compared to 1-2 rate hikes earlier). US Fed has also dropped using the word “transitory” while discussing inflation. Increased inflation forecasts.
- Central banks of countries like Russia, Brazil, Turkey, South Africa, Mexico, South Korea etc. and recently the Bank of England have already started hiking rates in 2021.



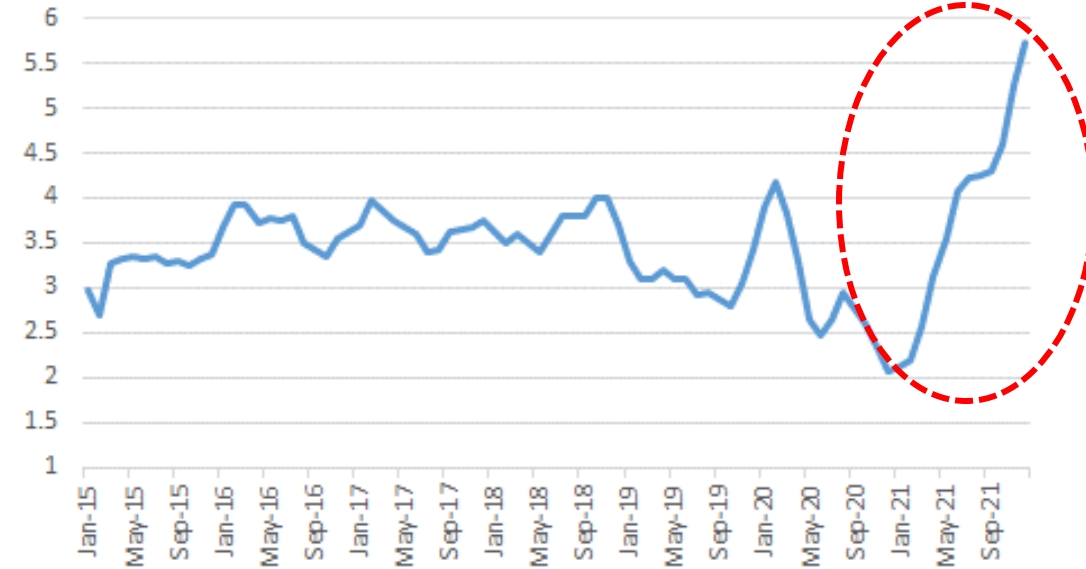
# Global commodity prices and inflation have risen substantially since the pandemic

## Global Commodity Performance (Dec 2019 to Dec 2021, Indexed to 100)



Source: Bloomberg

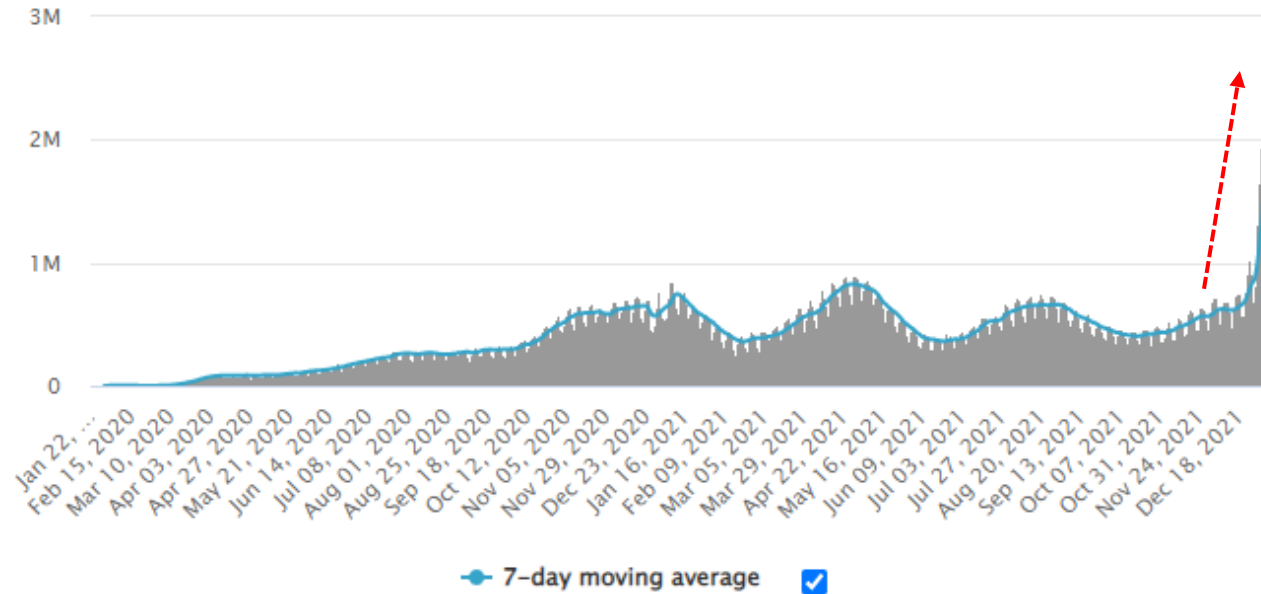
## Global Inflation (% YoY)



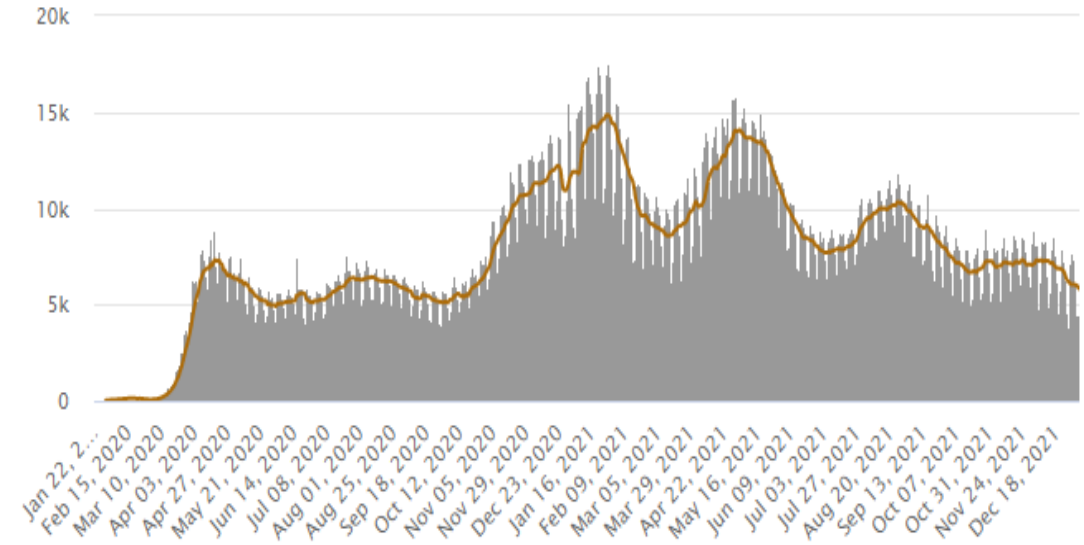
Source: Bloomberg

# Globally we are seeing a spike in Covid cases due to the Omicron variant, but deaths are controlled

## World - Daily New Covid Cases Trend



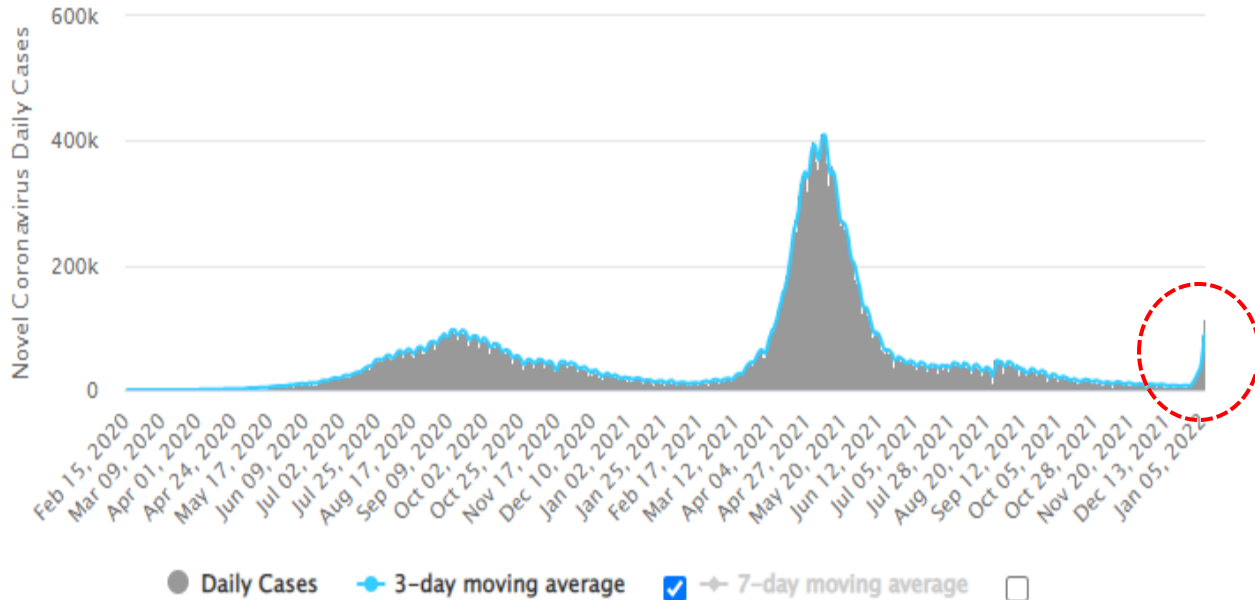
## World - Daily Covid Death Trend



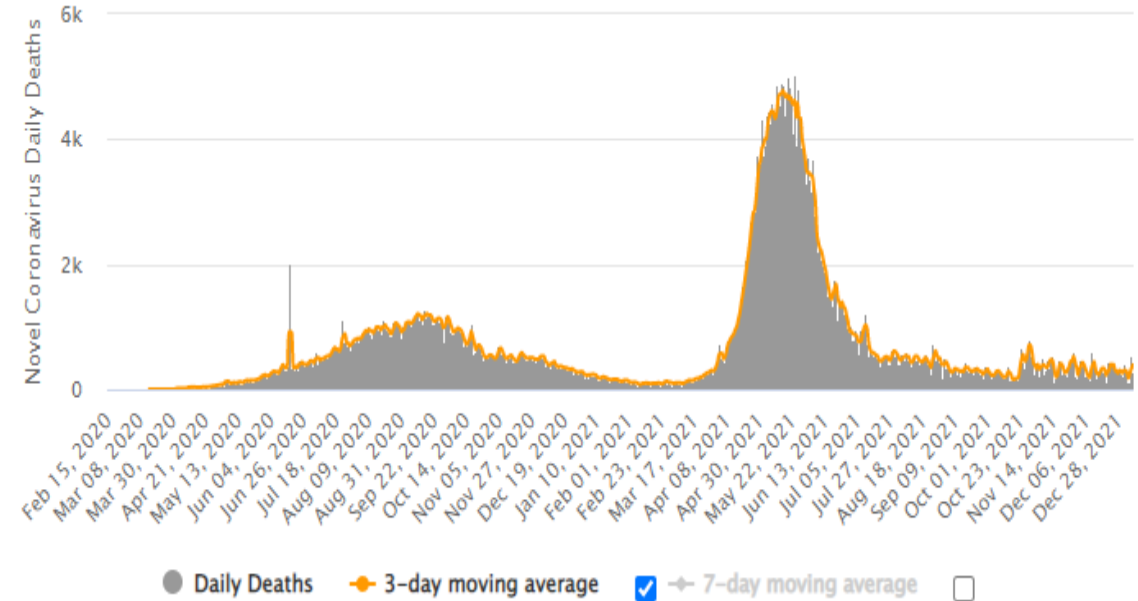
- Globally we are seeing a spike in new Covid cases due to Omicron variant, with daily new cases significantly above past waves.
- The US and various countries in Europe contributing to the spike primarily.
- However, despite the sharp spike in new cases, daily new Covid deaths is well controlled so far.
- The sharp spike in Omicron cases globally may lead to fresh restrictions / lockdowns hampering economic activity a bit in the short term.

# In India we are starting to see a rise in cases, but it is still a developing situation

## India- Daily New Covid Cases Trend



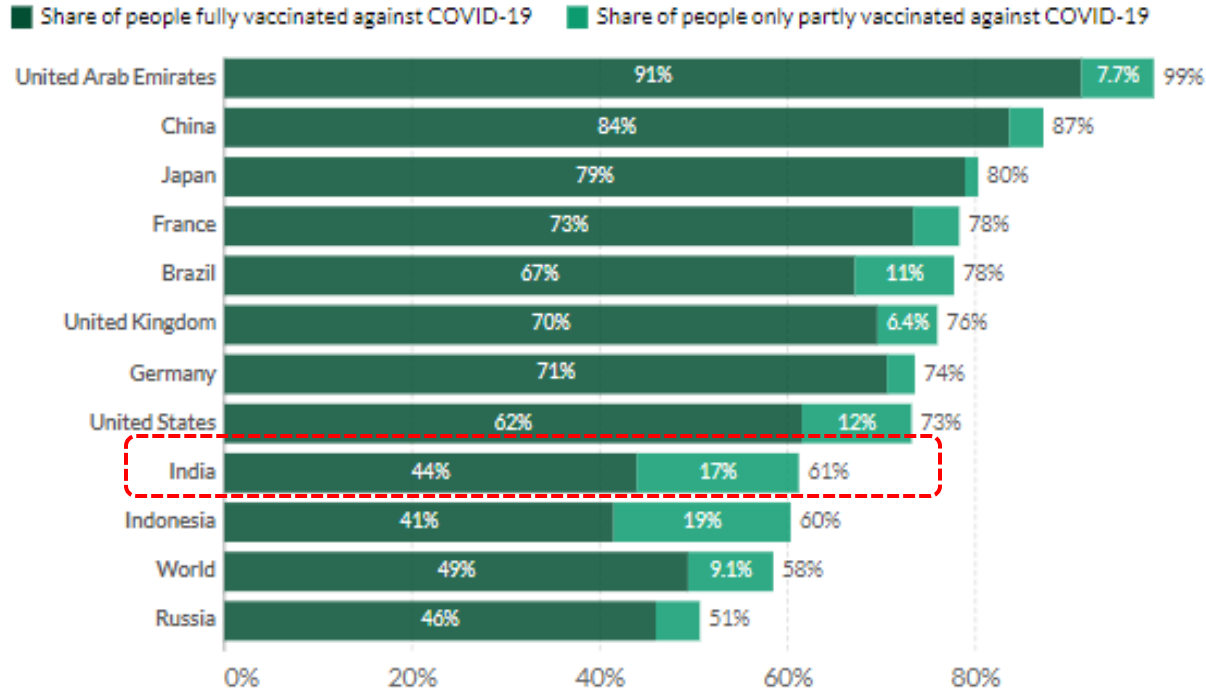
## India- Daily Covid Death Trend



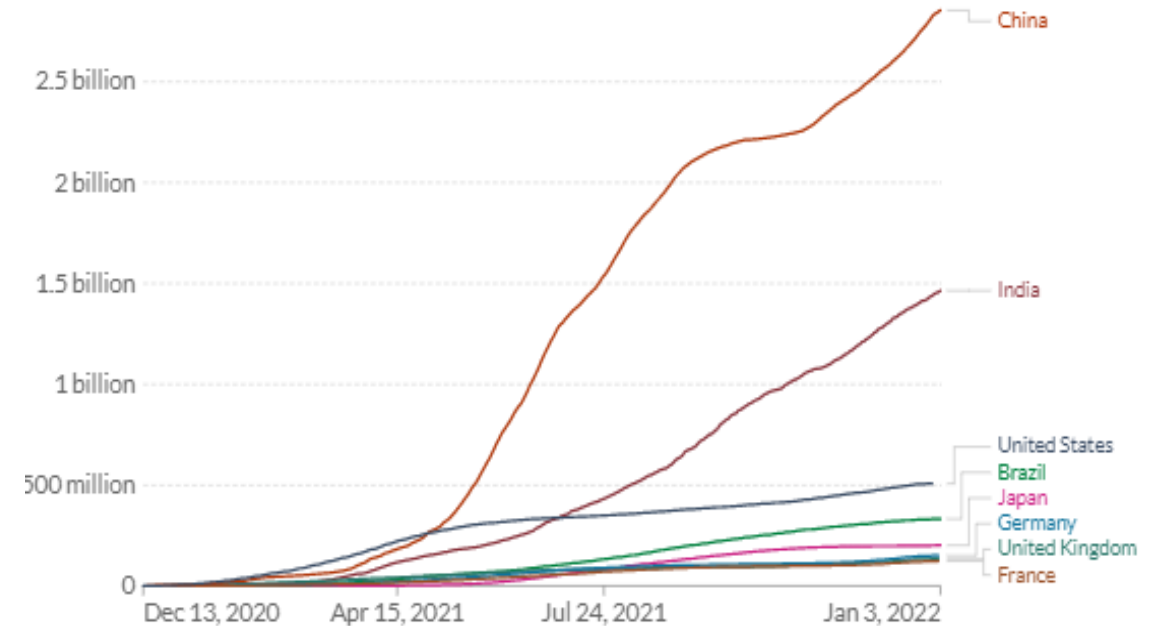
- India has seen a significant moderation in daily Covid cases from a peak of 4 lakh in May 2021
- However, recently the Omicron variant has once again led to an increase in daily new cases. This has raised concerns of a possible third wave in India although it is still a developing situation. However, deaths remain in control so far.
- A further surge in Covid cases could lead to some restrictions / lock-downs being imposed, but is expected to be in a calibrated manner.

# India's pace of vaccination has picked up quite significantly

## Share of population vaccinated



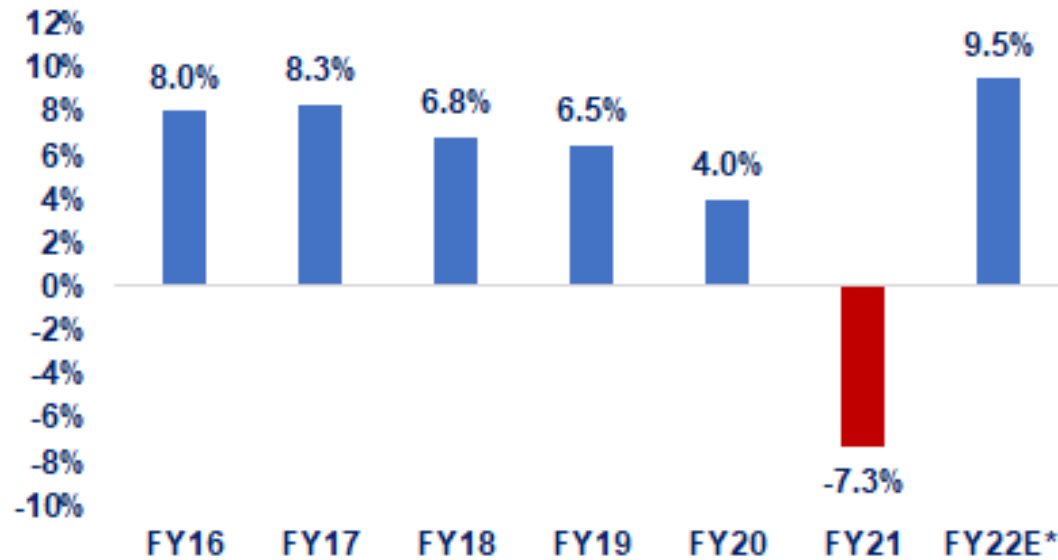
## Cumulative Number of Covid Vaccine doses administered



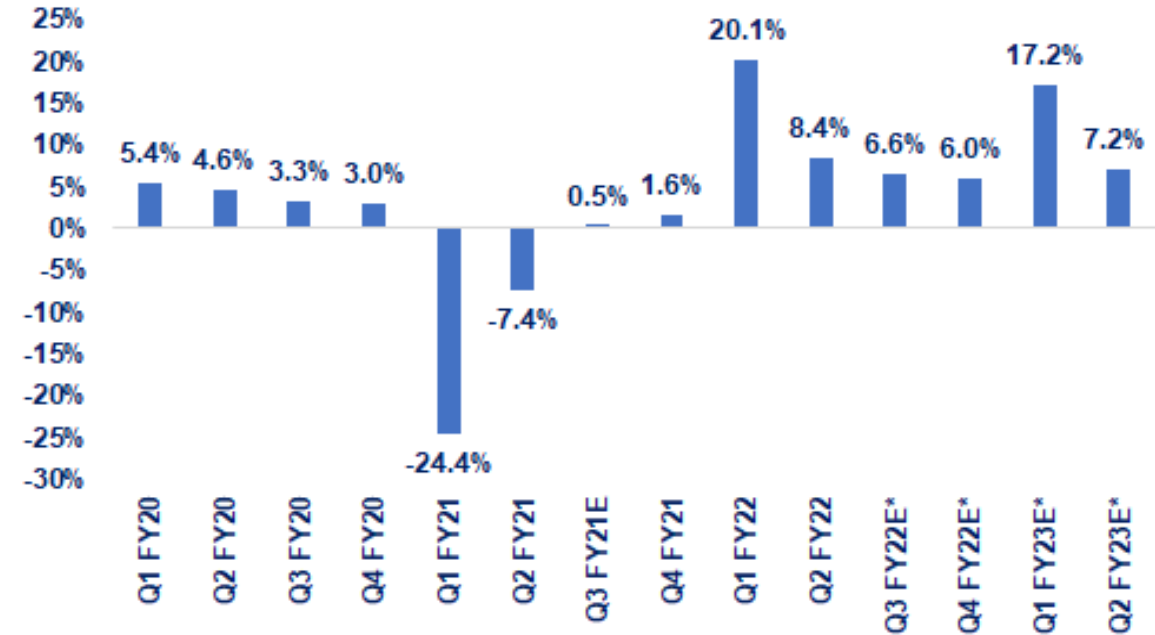
- India has seen a strong pick-up in pace of vaccination with ~1.5 billion doses administered. However, China leads by a significant margin.
- However, due to its large population still a large part of population to be vaccinated (~44% of population is fully vaccinated; ~17% partly vaccinated)
- The expansion of vaccination drive in India to help control or mitigate a third Covid wave in India to some extent.

# India sees healthy recovery in GDP growth in FY22

## India Annual GDP Trend (% YoY)



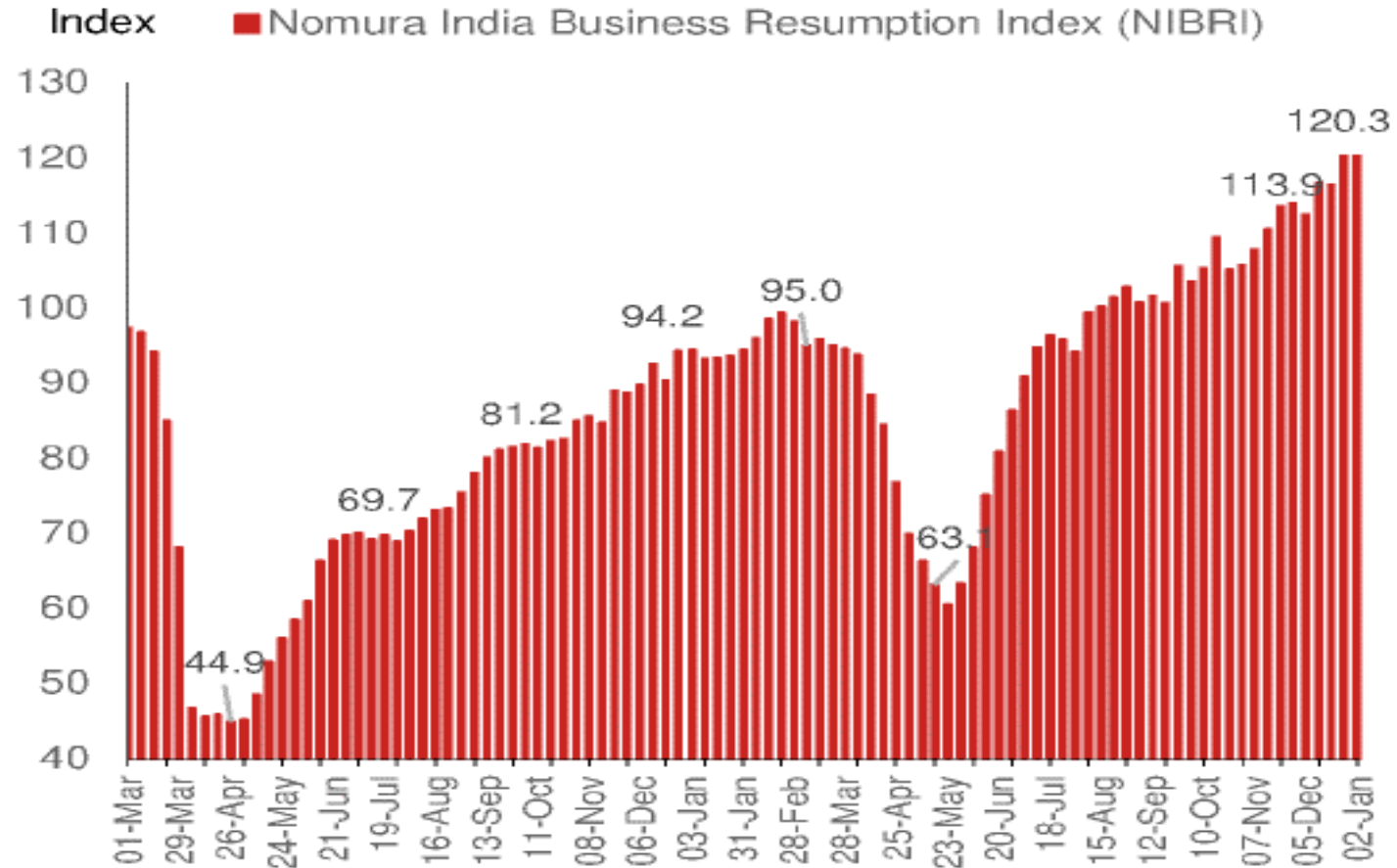
## India Quarterly GDP Trend (% YoY)



- After registering a record GDP contraction of 7.3% in FY21 (due to Covid pandemic) India's GDP is forecasted by the RBI to grow by a healthy 9.5% in FY23 (helped to some extent by base effect).
- In several sectors of the economy, pre-pandemic levels of output has been crossed, and nominal GDP is also now above pre-pandemic levels.
- Various brokerages & economic think-tanks forecast more than 8% GDP growth in FY23, but there could be some downside risks.

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

Nomura India Business Resumption index has recovered from 60 in the 2<sup>nd</sup> wave to 20 points above pre-pandemic levels



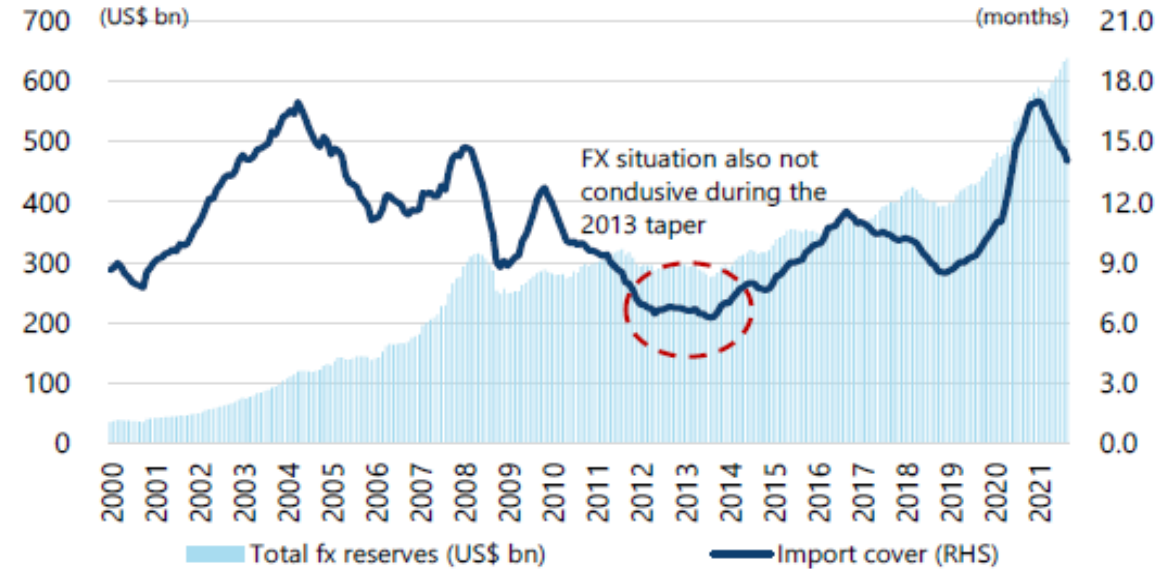
# Current account to turn into deficit but still comfortable; forex reserves provide buffer

## India Current Account & Balance of Payment (\$ in bln)

Particulars	FY21	FY22E
<b>Current account</b>	<b>23.9</b>	<b>-51.9</b>
CAD/GDP %	0.9%	-1.7%
- Trade balance	-102	-190
- Invisibles	126	138
<b>Capital account</b>	<b>64</b>	<b>79</b>
- FDI	44	38
- FPI	36	3
<b>Balance of Payment (BOP)</b>	<b>87.3</b>	<b>27.1</b>

Source: Kotak Institutional Securities

## India Forex Reserves US\$ in Bln



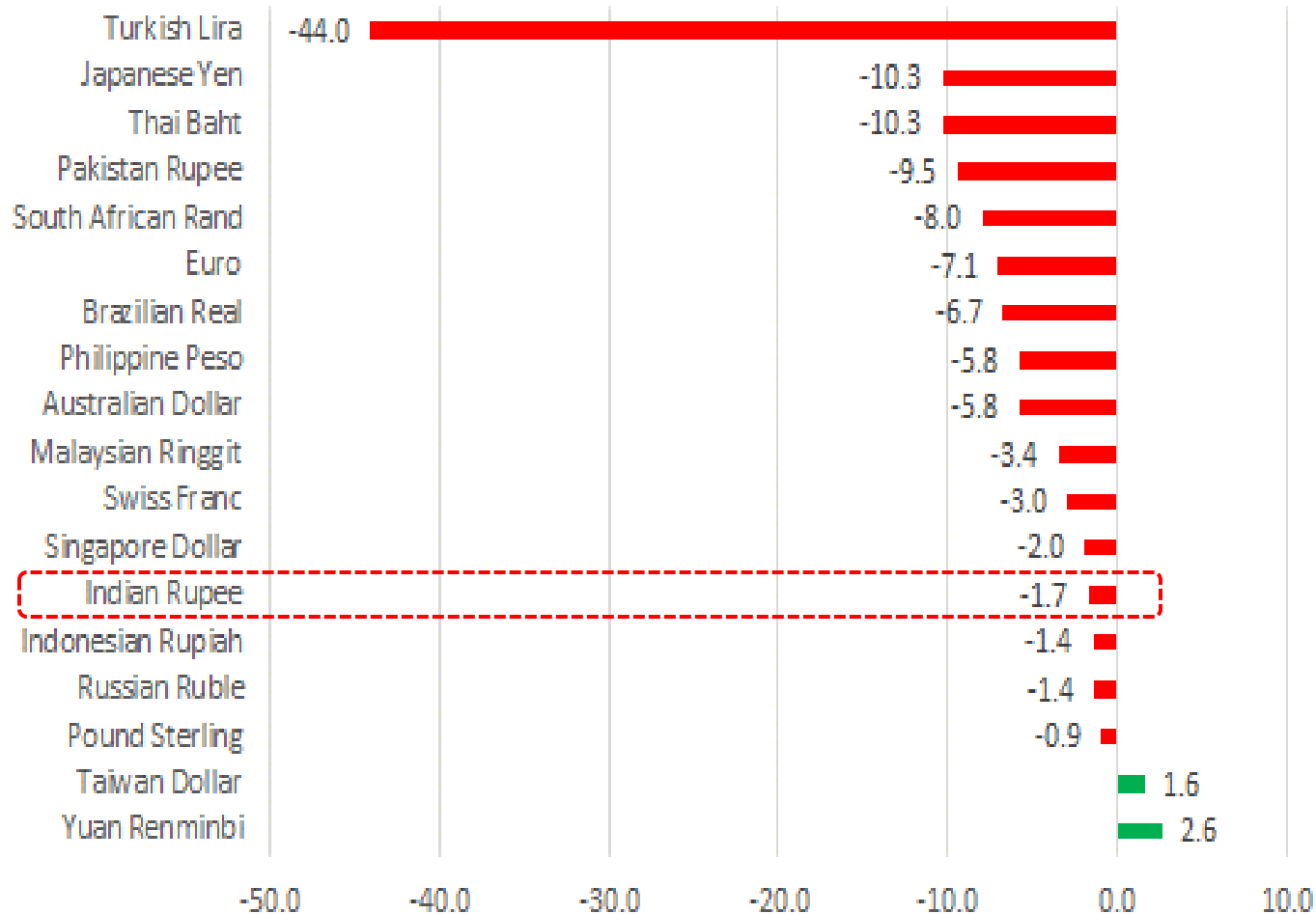
Source: Jefferies

- Current account expected to turn into deficit of 1.7% of GDP in FY22 from a surplus of 0.9% of GDP in FY21. However, a 1.7% CAD is still comfortable and significantly lower than CAD of 4.8% in FY13 (during the Fed Taper Tantrum).
- Forex reserves have crossed a record high of above \$600 bln (indicating ~13-14 months of import cover) compared to reserves of \$300 bln during the Fed taper tantrum of 2013 (when import cover was just 6 months)

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# Most currencies weakened against the US dollar in CY21; Indian Rupee relatively outperformed within EM pack

Performance of Global Currencies Vs US dollar in CY21 (in %)



- With the US dollar gaining strength in CY21 most global currencies depreciated against the dollar.
- Chinese Yuan and Taiwan Dollar appreciated against the dollar during the year.
- India fared relatively better than most other peer emerging market currencies in CY21.
- Turkish Lira fell sharply by 44% against the US dollar due to high inflation and economic crisis.
- A number of other EM currencies like Thai Bhat, Pakistan Rupee, South African Rand and Brazilian Real also underperformed in CY21



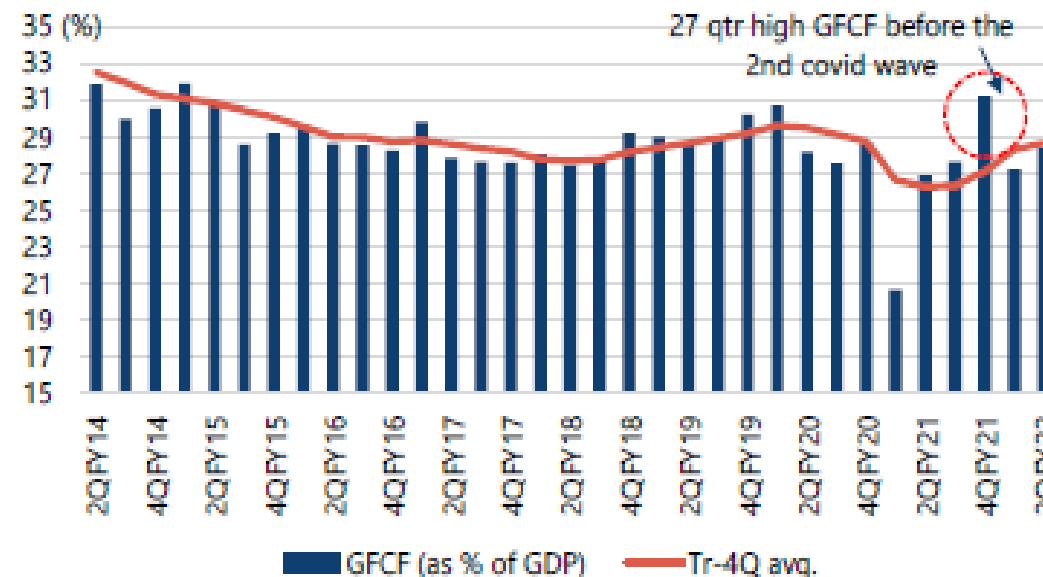
# PLI scheme to boost domestic manufacturing; capex in recovery mode

## PLI Scheme Outlay across Sectors (Rs in Bln)

Sectors	Outlay over the duration of scheme (Rs bn)	Duration
Semiconductors and Display manufacturing	760	Note
Mobile Mfg and Specified Electronic Components	386	FY22-27
Automobiles & Auto Components	259	FY23-27
Advance Chemistry Cell (ACC) Battery	181	FY23-29
Pharmaceuticals drugs	150	FY23-28
Telecom & Networking Products	122	FY22-26
Food Products	109	FY22-27
Textile Products	107	FY24-29
Electronic/Technology Products	73	FY22-25
Critical KSM/ Drug Intermediaries and API	69	FY23-28
Speciality Steel	63	FY24-30
White Goods (ACs & LED)	62	FY22-29
High Efficiency Solar PV Modules	45	FY22-26
Manufacturing of Medical Devices	34	FY23-27
Drone and Drone components	1	FY22-24
<b>Total</b>	<b>2,421</b>	

Source: PIB, respective Department's/Ministry's website, IIFL Research; Note: Scheme consists of various components with tenure of 3-6 years

## Quarterly Capex (GFCF) as % of GDP

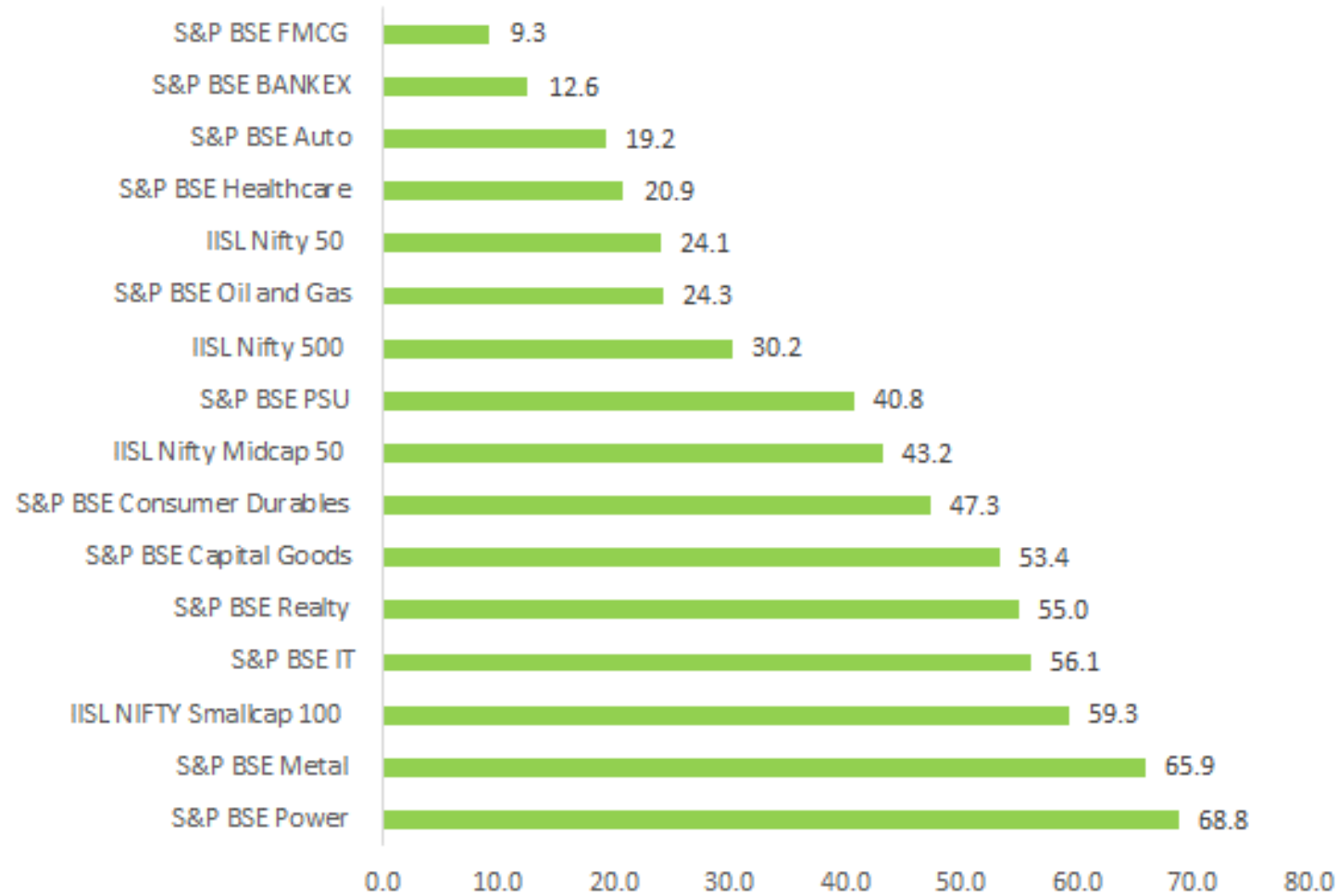


Source: MOSPI, Jefferies

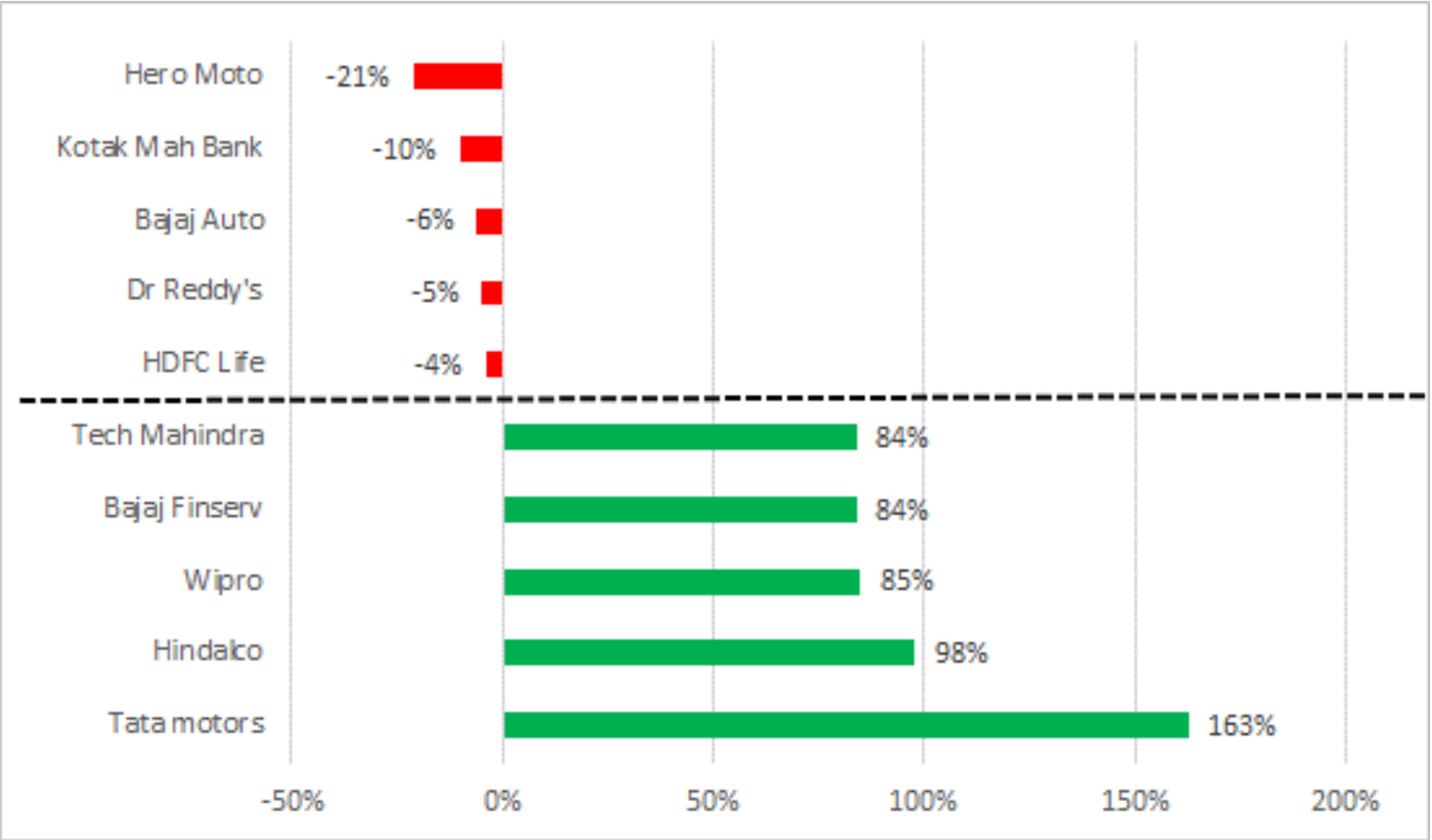
- Government's initiative of boosting domestic manufacturing through the PLI (Production Linked Incentive) scheme has been gaining good traction (total outlay of Rs 2.4 trillion announced so far). PLI scheme may get more allocation in upcoming budget.
- Capex (Gross Fixed Capital Formation) also in recovery mode and may see an uptick as economy and capacity utilization picks up. Infrastructure sector, affordable housing & health expenditure expected to see continued support from govt.
- Electronic Vehicle (EV) segment seeing good traction due to subsidies and EV charging infra may see additional boost in budget.

# Broader markets (small/mid-caps) and sectors like power, metals & IT outperformed in CY21. FMCG, banking & auto underperformed

## Performance of domestic indices in CY21 (in %)



# Top & Bottom Five Performing Stocks of Nifty index in CY 2021



# FPI flows turn negative in FYTD 22, while DII flows see a strong pick-up

Source: NSDL, Axis Capital	Rs in Crore	
Month-end	FPIs	DII
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
30 September 2021	8,348	5,949
31 October 2021	-16,584	4,471
30 November 2021	-5,710	30,560
31 December 2021	-13,150	31,231

Source: NSDL, Axis Capital	Rs in Crore	
Year	FPIs	DII
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 December)	-28,781	1,17,700

- After seeing record FPI equity inflows in FY21, FPI flows have turned negative in FYTD22.
- Meanwhile, DII equity flows picked-up strongly in FYTD22, after seeing record outflows in FY21. MF monthly SIP inflows breached the record Rs. 11,000 crore mark, and some large NFO collections in recent months have also helped.

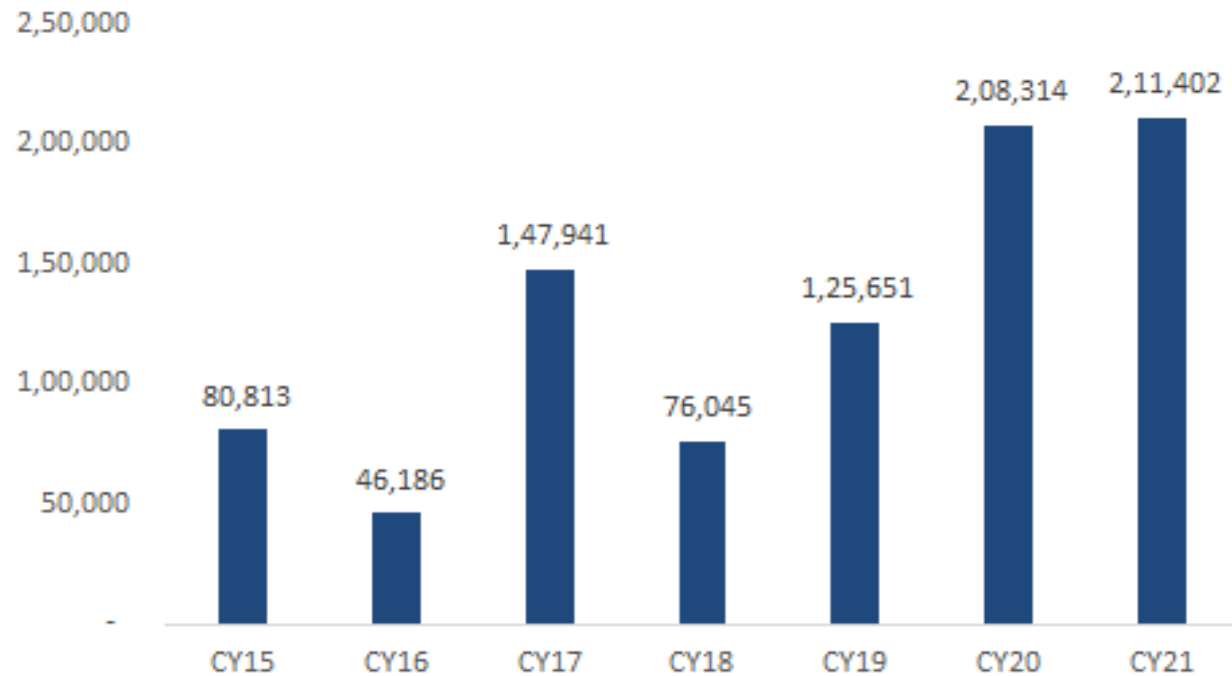
# Despite slowdown in FPI equity flows in India during CY21, it registered inflows compared to outflows from most other peer Asian emerging markets

**Asia Emerging Markets FPI equity flows Trend (US\$ in million)**

Year	India	Indonesia	Philippines	S.Korea	Taiwan	Thailand
2000	1,469	96	(122)	11,506	7,094	(857)
2001	2,741	435	87	6,799	9,742	(143)
2002	738	873	(50)	(2,068)	1,127	282
2003	6,702	1,168	(80)	12,446	16,585	(632)
2004	8,627	2,126	277	10,168	7,666	104
2005	10,901	(1,732)	354	(3,547)	23,971	2,949
2006	8,338	1,942	721	(12,642)	17,240	2,068
2007	18,518	3,600	1,357	(29,270)	2,205	1,548
2008	(12,918)	1,753	(1,138)	(36,641)	(15,484)	(4,792)
2009	17,639	1,384	424	24,682	15,680	1,136
2010	29,321	2,396	1,225	19,823	9,593	2,689
2011	(512)	2,956	1,331	(8,542)	(9,066)	(164)
2012	24,548	1,712	2,558	15,084	4,913	2,503
2013	19,986	(1,806)	678	4,875	9,188	(6,210)
2014	16,162	3,766	1,256	5,684	13,190	(1,091)
2015	3,274	(1,580)	(1,194)	(3,626)	3,345	(4,372)
2016	2,902	1,259	83	10,480	10,956	2,240
2017	8,014	(2,960)	1,095	8,267	6,114	(796)
2018	(4,557)	(3,656)	(1,080)	(5,676)	(12,182)	(8,913)
2019	14,234	3,465	(240)	924	9,590	(1,496)
2020	23,373	(3,220)	(2,513)	(20,082)	(15,605)	(8,287)
2021	3,828	2,688	(5)	(23,010)	(16,004)	(1,632)

# Equity market issuances (esp. IPOs) at a record high in CY21

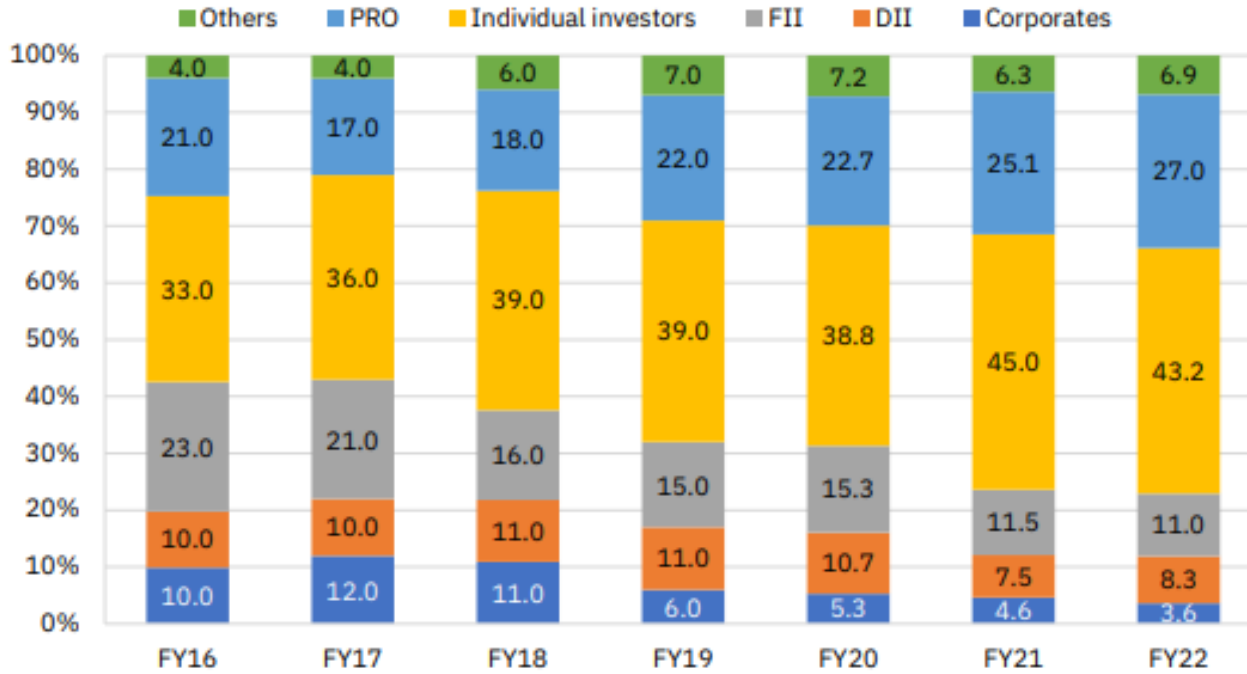
Equity Market Issuances (Rs. In crore)



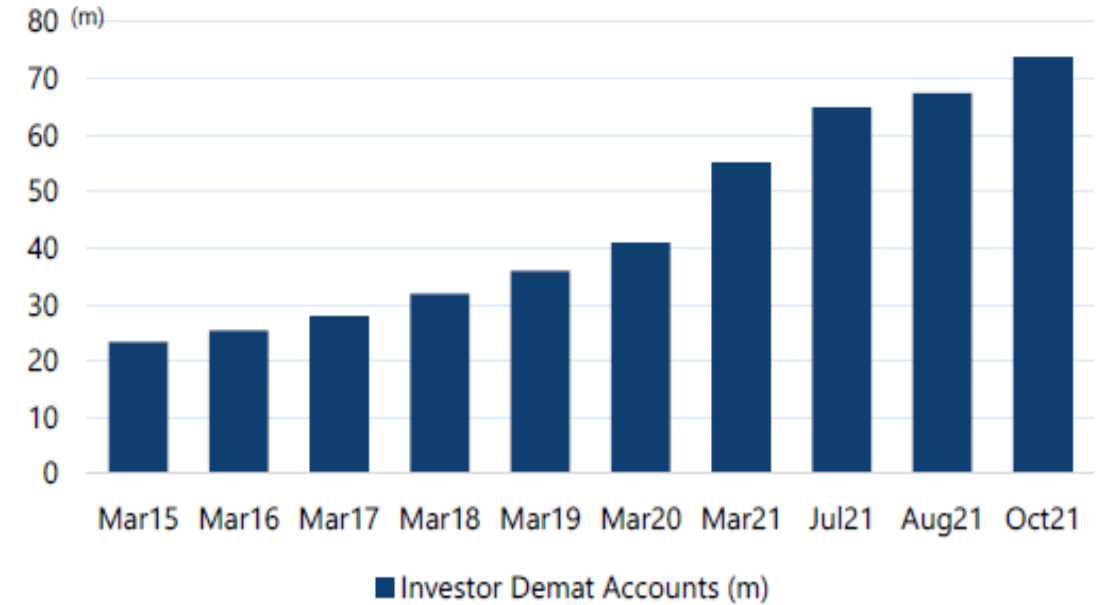
- Equity market issuances at a record high in CY21 with IPOs accounting for 56% of total issuances. Similar trend is expected to continue in early part of 2022 with a strong IPO pipeline.
- On the divestment side, we have not seen much traction during 2021, but we expect to see some large public sector divestments in the coming year (like LIC, Concor, BPCL etc.).

# Retail participation in equity markets & no. of demat accounts have picked up significantly since the pandemic

Client Participation trend at NSE – Cash Market Turnover (%)

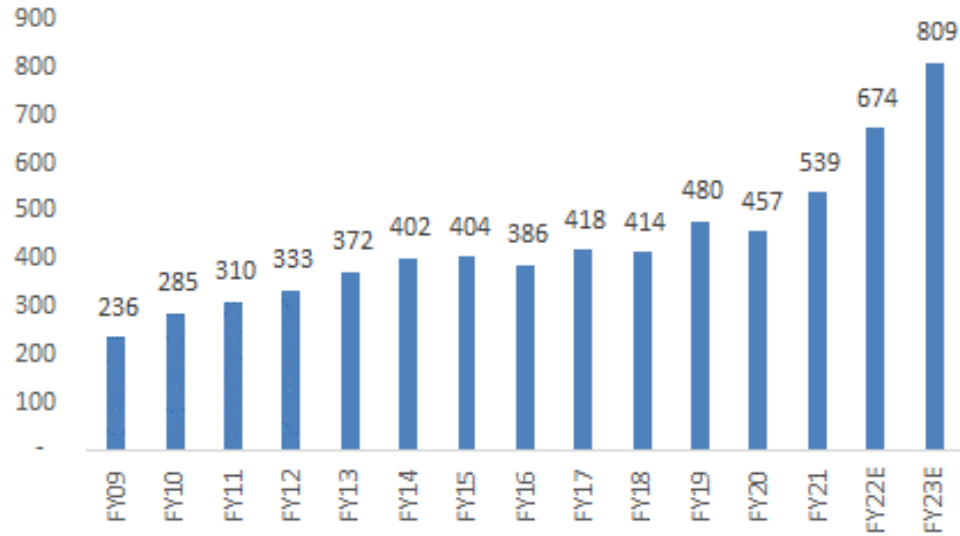


No of demat accounts in India (in million)



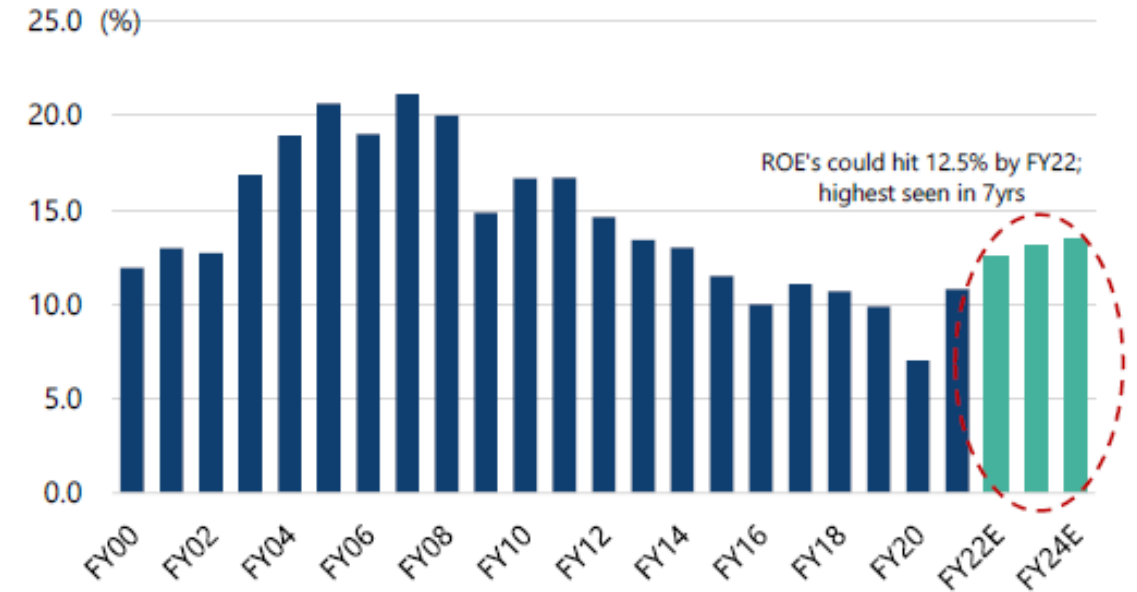
# Corporate earnings & ROE have surprised with strong growth amidst the pandemic

## Nifty EPS Trend



Source: Bajaj Allianz Life Estimates

## India – ROE Trend of Listed Companies (in %)



Source: Ace Equity, Jefferies

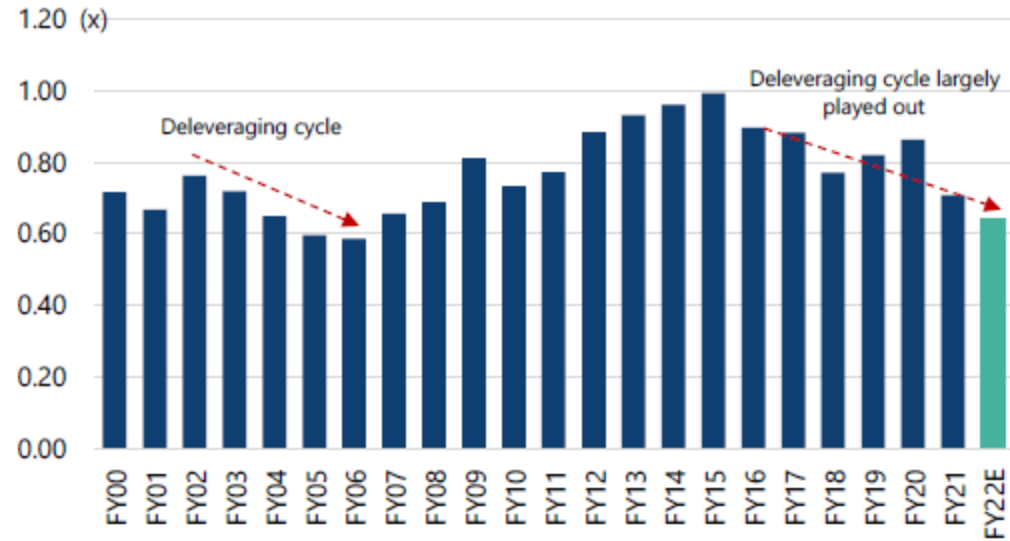
- Nifty EPS registered healthy growth of 18% in FY21 despite Covid shock & GDP contraction of 7.3%—which is a positive surprise.
- Robust Nifty earnings growth of around 25% and 20% expected in FY22 and FY23 respectively.
- Pick-up in earnings growth also driving a surge in ROE (Return on Equity) to 7-year high in FY22.



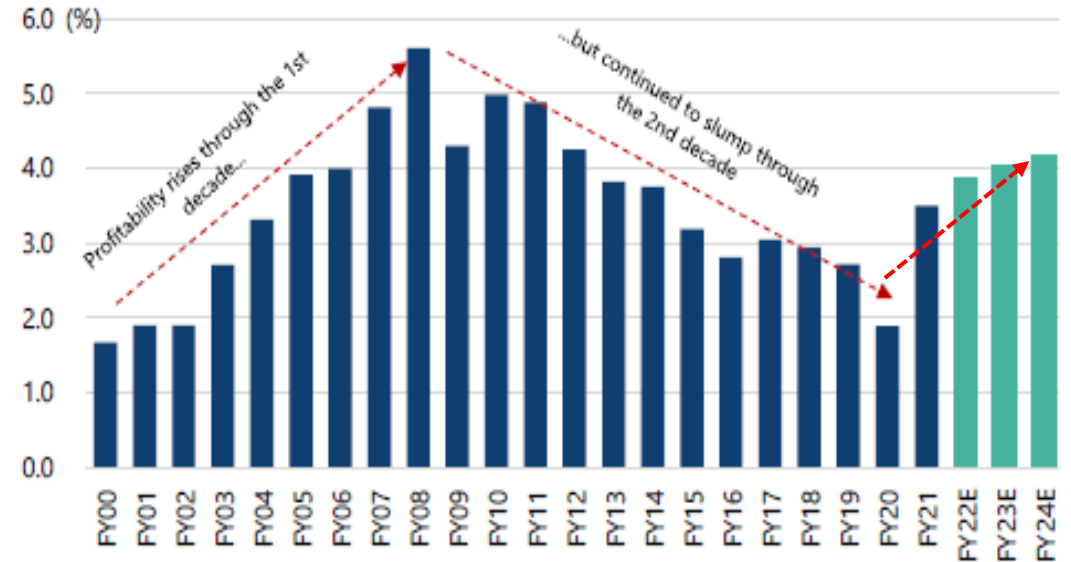
# Corporate earnings cycle on an up-trend & corporate balance sheets have also de-leveraged

## India – Debt to Equity Ratio of large listed companies

Sample of ~600 listed companies



## India – Corporate Profits as a % of GDP Trend

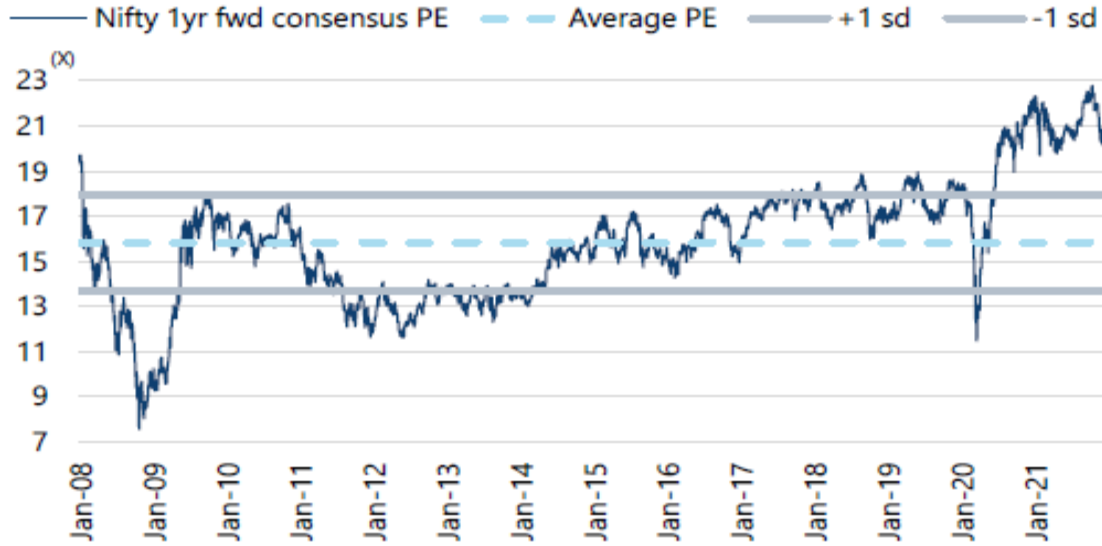


Source: Ace Equity, Jefferies

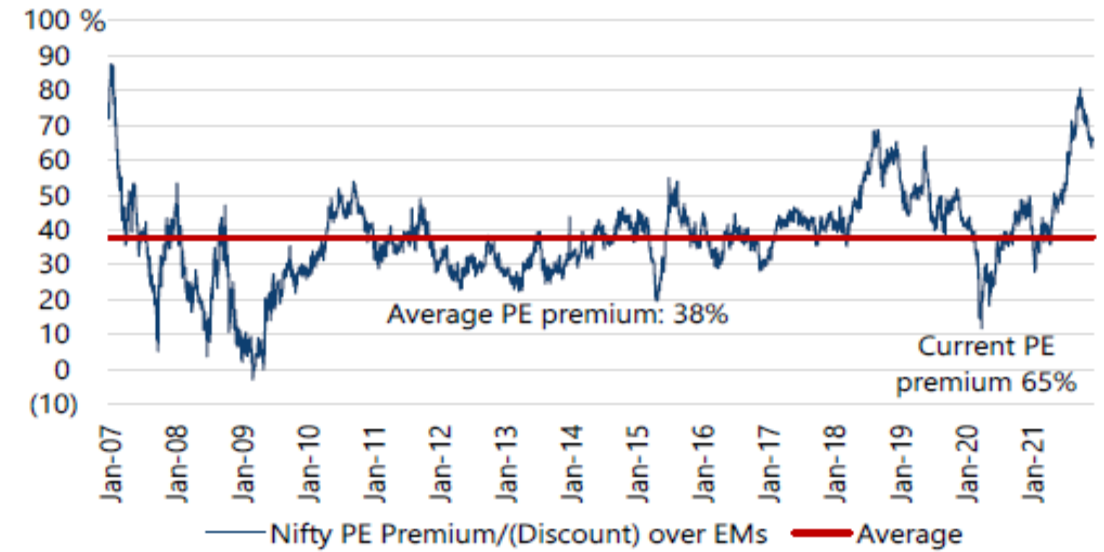
- Corporate earnings cycle (corporate profits as % of GDP) on an uptrend after more than a decade of moderation.
- Corporates have also de-leveraged (reduced debt to equity ratio) creating capacity to kick-start the capex cycle again.

# Market valuations are elevated in India

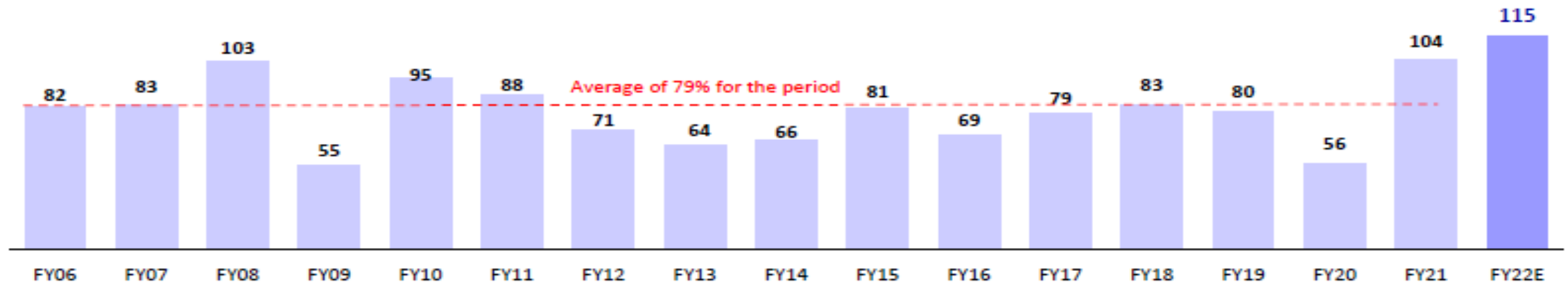
## Nifty 1 Year Fwd Consensus P/E Ratio



## Nifty PE Premium/(Discount) to Emerging Mkts



## India Market Cap to GDP Trend (in %)

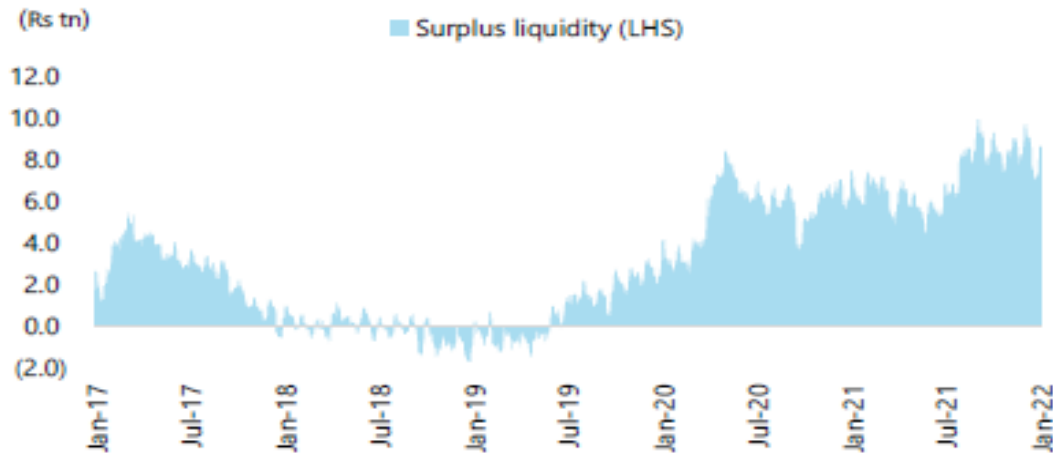


# RBI remains accommodative but has started liquidity normalization. Bond yields harden.

10 Year G-Sec Yield



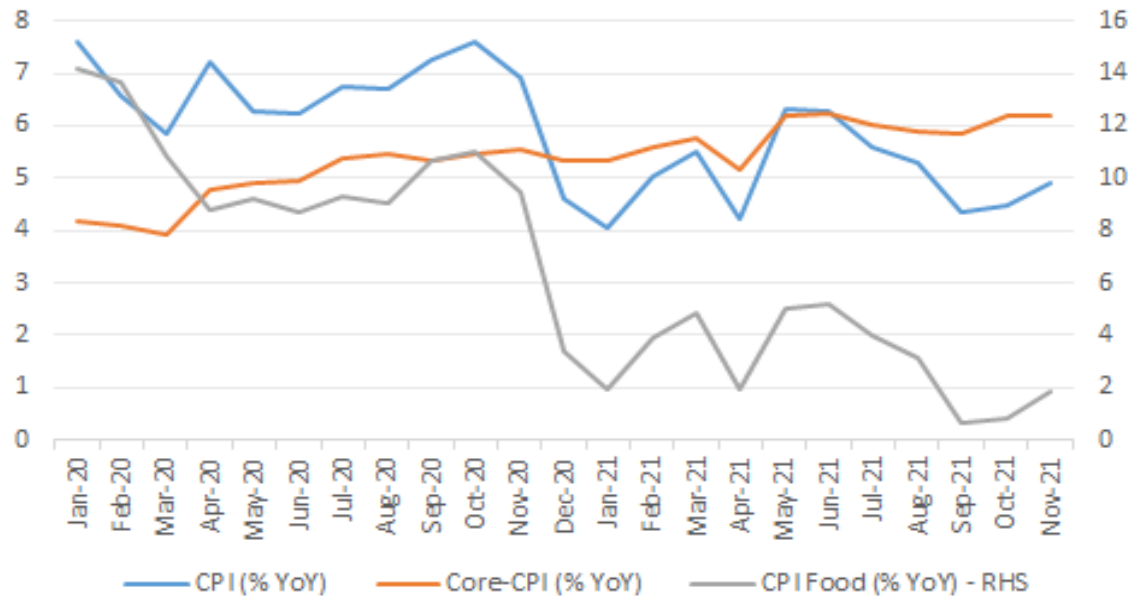
Banking system Liquidity (Rs. In trln)



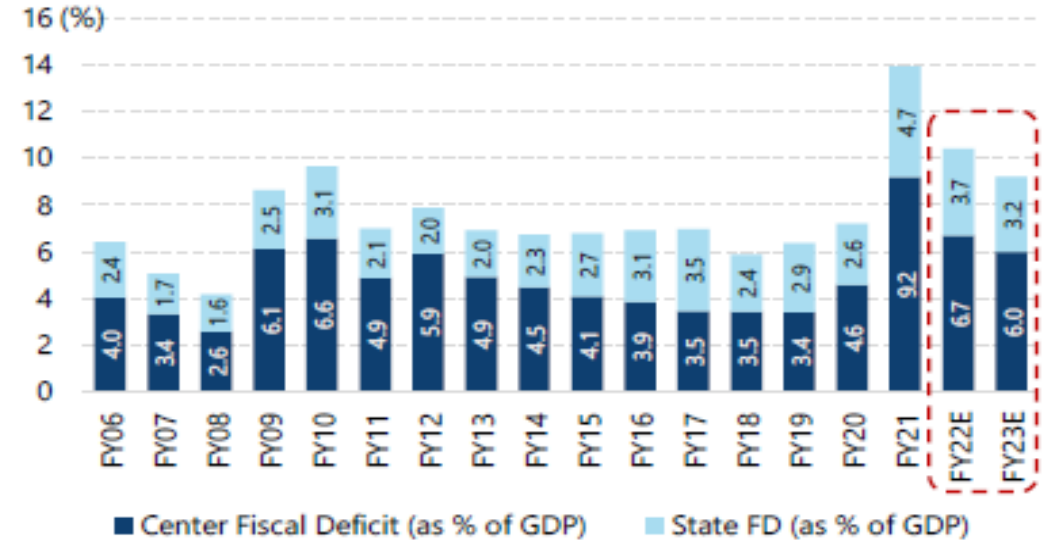
- RBI has kept rates unchanged and maintains accommodative stance.
- RBI has started liquidity normalization– stops GSAP & increasing the quantum of VRRR auctions in calibrated manner.
- RBI will continue to be accommodative for some time (to support economic recovery esp. with Omicron concerns rising), with an eye on the inflation trajectory.
- We expect RBI to hike reverse repo rate in early CY22 (to narrow the LAF corridor) followed by repo rate hikes later in the year.
- Bond yields have hardened in CY21; 10 year G-Sec yield closed the year up 56 bps and is expected to harden further in CY22.
- Factors to watch out for are inflation, US Fed monetary policy, crude oil prices and the upcoming Union Budget.
- From an investment perspective we prefer the medium term part of the yield curve.

# Inflation remains in control in India; Fiscal deficit has also improved

### India CPI Inflation Trend (% YoY)



### India Fiscal Deficit Trend (% of GDP)



- CPI inflation in India remains in control compared to global spike in inflation. Lower food prices have contributed to lower inflation in India.
- Core inflation (ex food and fuel) remains elevated at 6.1%YoY in Nov 2021.
- We may see some upside pressure on headline inflation going forward.

- India’s fiscal deficit for first 8 months of FY22 (April – Nov 2021) came in at 46% of full year estimate vs 135% in corresponding previous year period.
- This has been helped by revival in tax revenue. Non-tax revenue picked-up strongly due to upfronting of RBI dividend.
- Fiscal deficit expected to slightly undershoot its 6.8% target for FY22.

# Market Outlook

Economy sees strong recovery, but there maybe some downside risks in the short term

- The economy has seen healthy recovery and the long-term India growth story remains intact.
- There is some concern of the Omicron variant causing a possible 3<sup>rd</sup> wave in India, but any restrictions/lock-downs are expected to be calibrated with limited economic & earnings impact.

Normalization of global monetary policy stimulus

- US Fed has started to taper and is expected to go in for 3 rate hikes in CY22.
- If the unwinding of monetary stimulus is faster than anticipated then it may lead to some volatility in global & emerging markets (incl. India) in the short term.

Corporate earnings better than expected; but valuations elevated

- Corporate earnings have surprised on the upside and India Inc. is set for a multi-year earnings recovery cycle.
- However, market valuations are elevated and above the long term average.

Equity Investment Strategy

- We expect moderate returns from equities in CY22. Investors can continue to invest systematically.
- Any market correction/dips can be used to increase equity allocation (as per individual risk profile).

Debt Markets & Strategy

- RBI is expected to hike reverse repo rate in early 2022 followed by repo rate hikes later in the year.
- Bond yields expected to harden further in 2022. We presently prefer medium term part of the yield curve.

# THANK YOU

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