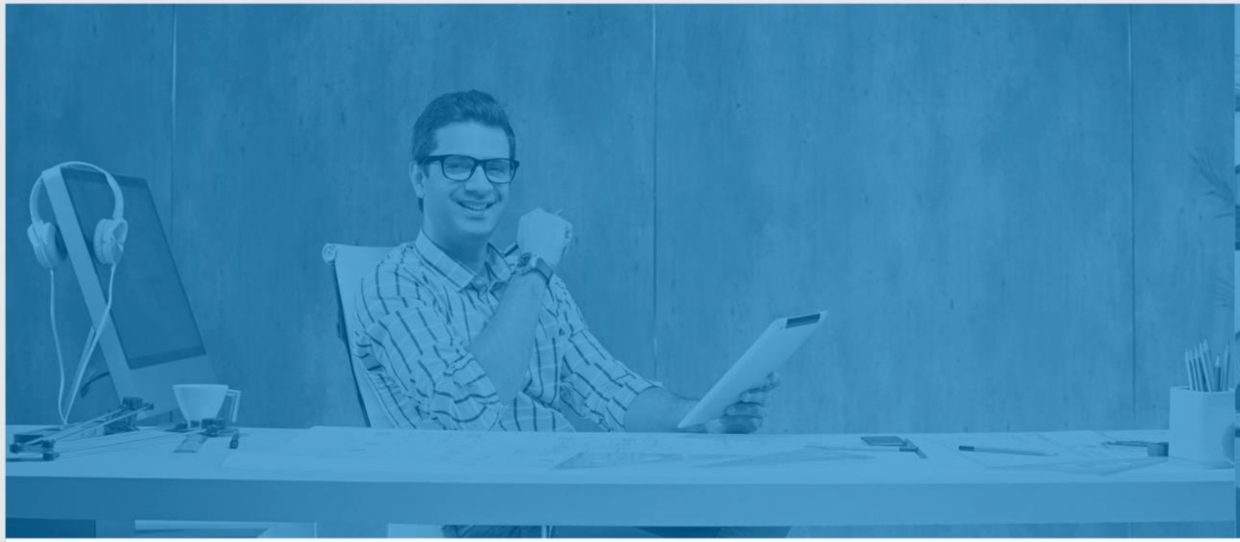
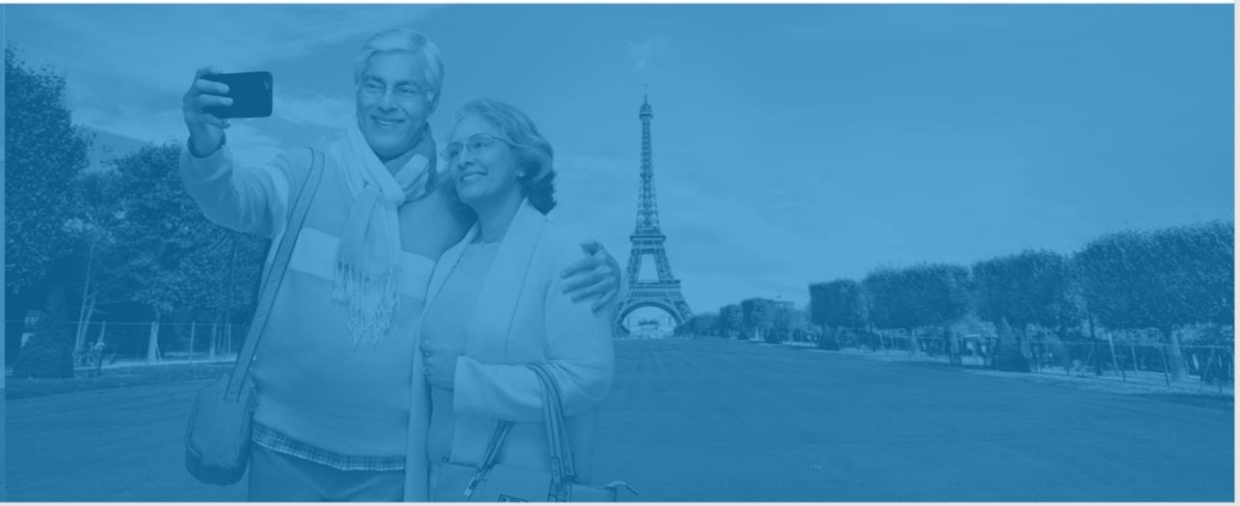



Quarterly Macro & Market Overview

April 2022

LIFE GOALS. **DONE.**

BAJAJ | Allianz

India among the top performing markets over 1 year and also over the long term

Performance of International Indices (ended March 2022, in %)					
	Country / Region	3 Mths	1 Yr	5 Yrs	10 Yrs
IISL Nifty 50	**India**	**0.6**	**18.9**	**13.7**	**12.7**
JSX Composite	Indonesia	7.4	18.1	4.9	5.5
S&P 500	United States	-4.9	14.0	13.9	12.4
FTSE 100	United Kingdom	1.8	11.9	0.5	2.7
S&P/ASX 200	Australia	0.7	10.4	5.0	5.6
CAC 40	France	-6.9	9.8	5.4	6.9
MSCI World PR USD	World	-5.5	8.6	10.5	8.8
FTSE/SGX STI	Singapore	9.1	7.7	1.4	1.2
TSEC TAIEX	Taiwan	-2.9	7.7	12.5	8.4
FTSE SET All Share	Thailand	3.0	6.6	0.3	2.6
BOVESPA	Brazil	14.5	2.9	13.1	6.4
FTSE Bursa Malaysia KLCI	Malaysia	1.3	0.9	-1.8	-0.1
FSE DAX TR	Germany	-9.3	-4.0	3.2	7.6
Nikkei 225	Japan	-3.4	-4.7	8.0	10.7
Shanghai Composite	China	-10.6	-5.5	0.2	3.7
KOSPI Korea	South Korea	-7.4	-9.9	5.0	3.2
MSCI EM PR USD	Emerging Mkts	-7.3	-13.3	3.6	0.9
MSCI Asia Ex Japan	Asia Ex Japan	-8.2	-16.1	4.5	3.4
Hang Seng	Hong Kong	-6.0	-22.5	-1.8	0.7
RTS RTSI PR USD	Russia	-36.0	-30.9	-1.7	-4.6

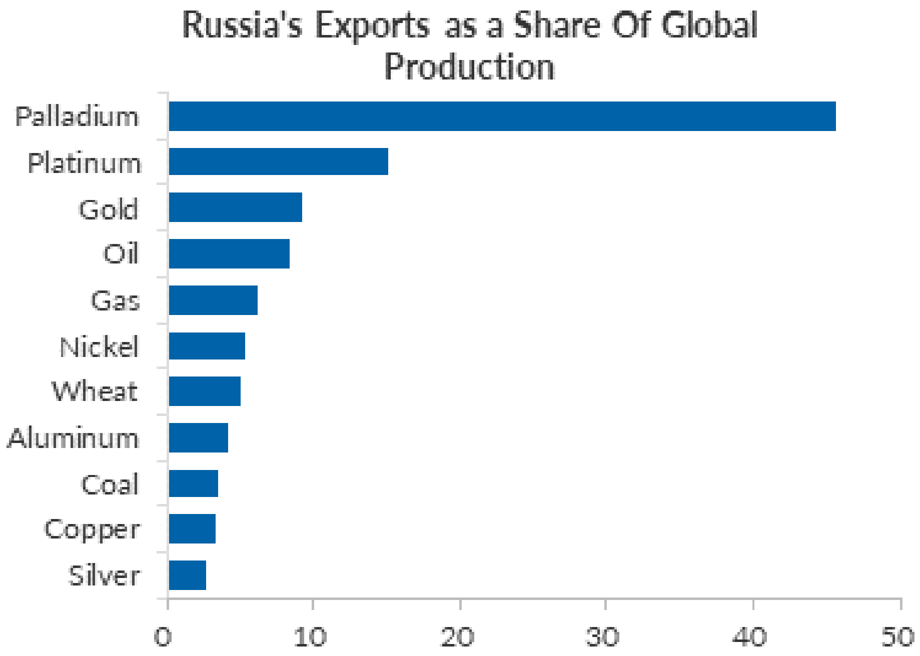
Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of 1 year return in descending order

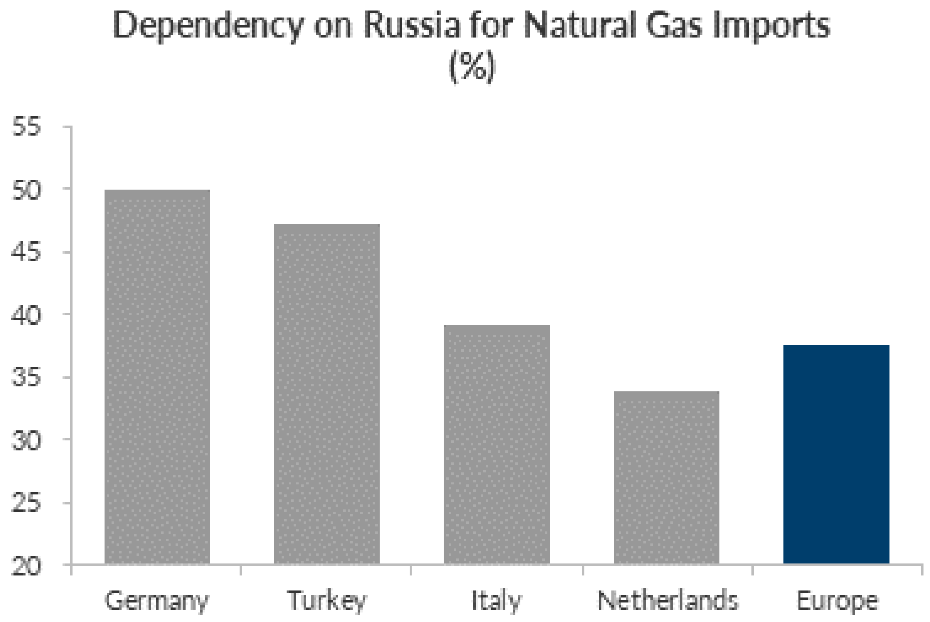
Global markets performance over the past year (FY22) has been mixed

- ➢ Developed markets have outperformed emerging markets by a significant margin.
- ➢ Indian markets among the top performers; significantly outperforming most emerging and Asian market peers.
- ➢ Russia has been the bottom performing markets due to the Russia – Ukraine conflict & sanctions.
- ➢ Hong Kong market has underperformed significantly due to govt. regulatory clampdown

- Over the long term (5 & 10 years) Indian market has also been among the top performing markets

Russia has material contribution in global commodities, particularly energy related

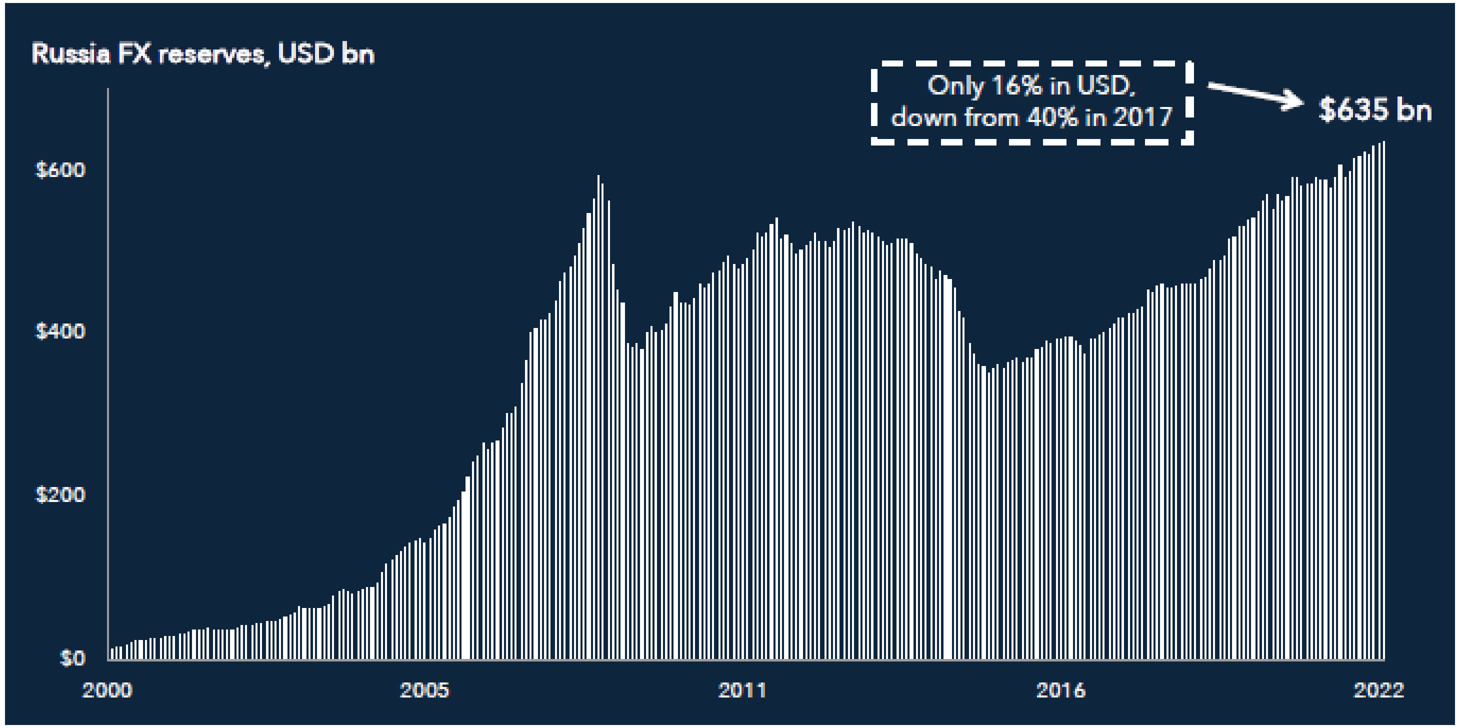




Source: Yes Securities

- Russia accounts for ~10% of global crude production and ~16% of global natural gas production. Exports share of Russia quite material for certain commodities and also for food items (esp. wheat)
- Europe has high dependency on Russia for gas imports.

Russia forex reserves exposure to USD has been reduced considerably over time

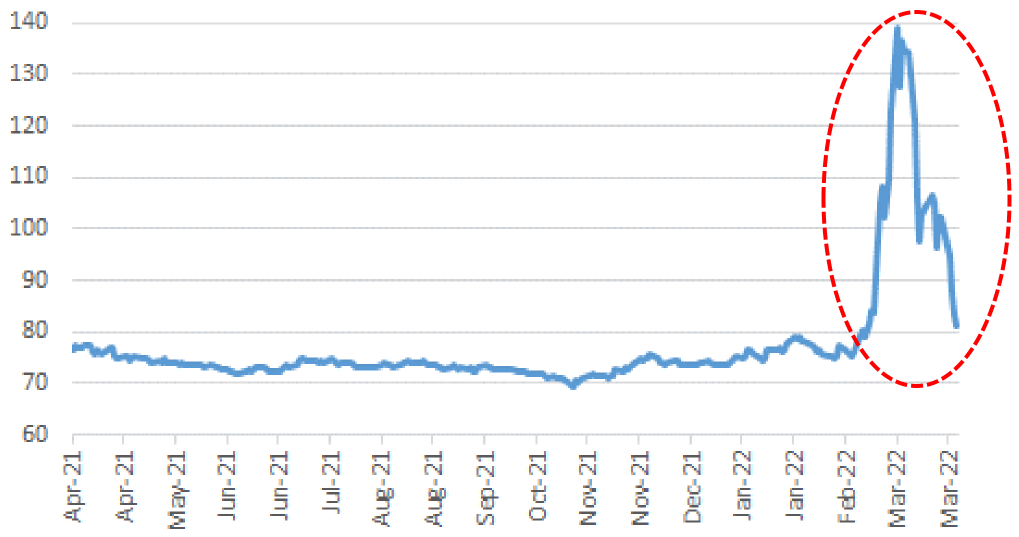


Source: MUFG Research

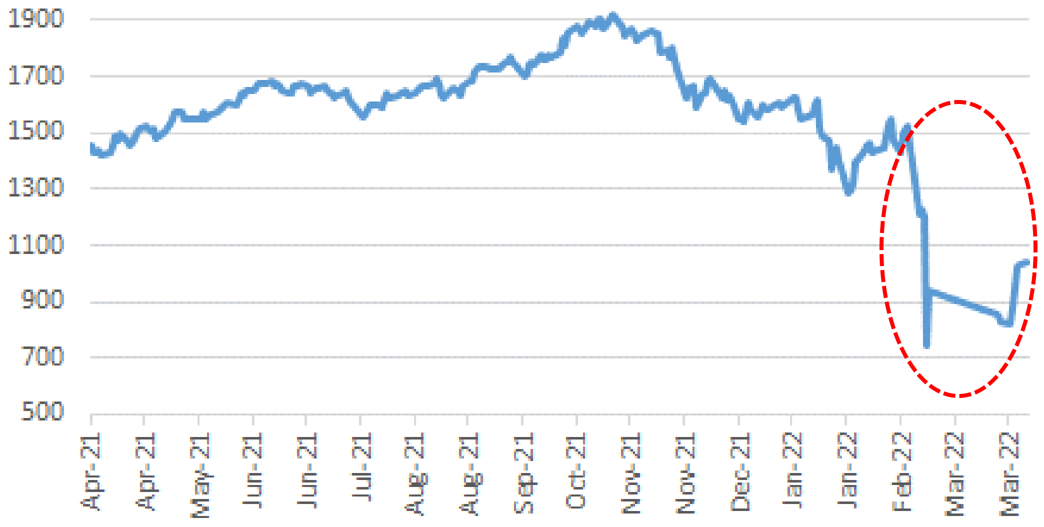
- Russia FX reserves exposure to USD has been reduced from 40% in 2017 to only 16%. Exposure to US treasuries has been reduced substantially (by 98% from peak in 2010).
- Russia's sovereign wealth fund ($170 billion in assets) has held no US dollar assets since June 2021.
- However, the western sanctions have limited Russia's ability to utilize its FX reserves

Impact on Russia due to economic sanctions of West

Movement of USD / Ruble



Movement of Russia RTS Index

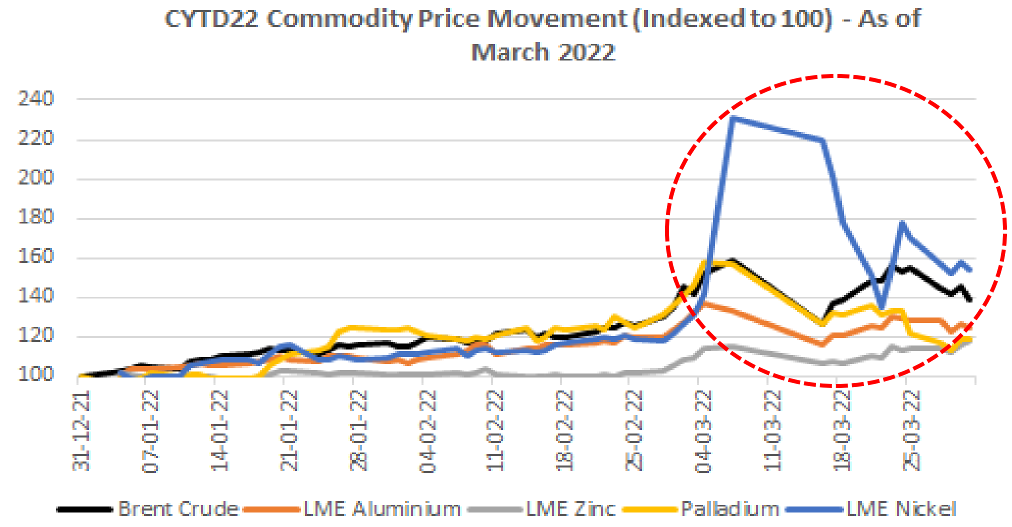


- Russian banks banned from SWIFT. Many global MNC's exit Russia operations. US embargo on Russia oil & gas imports & EU gas import cuts and sanctions.
- Russian Ruble had plunged to record lows, but has recovered as the central bank pegged Ruble to gold & Russia demanded gas payments from Europe in Ruble.
- Russia's stock market also plunged sharply and trading was suspended for a while, and has seen some recovery lately.
- Russia's central bank has hiked interest rate from 9.5% to 20% to deal with Ruble depreciation and inflation prospects.
- Global Rating agencies downgrade Russia to near default rating (C grade).

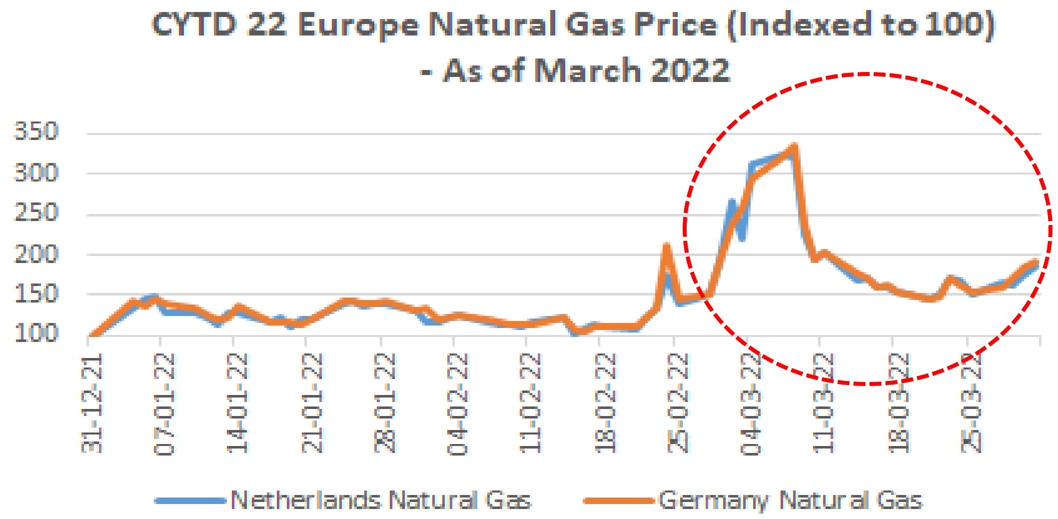
Source: Bloomberg

Commodity prices spike post Russia – Ukraine conflict, but have moderated now

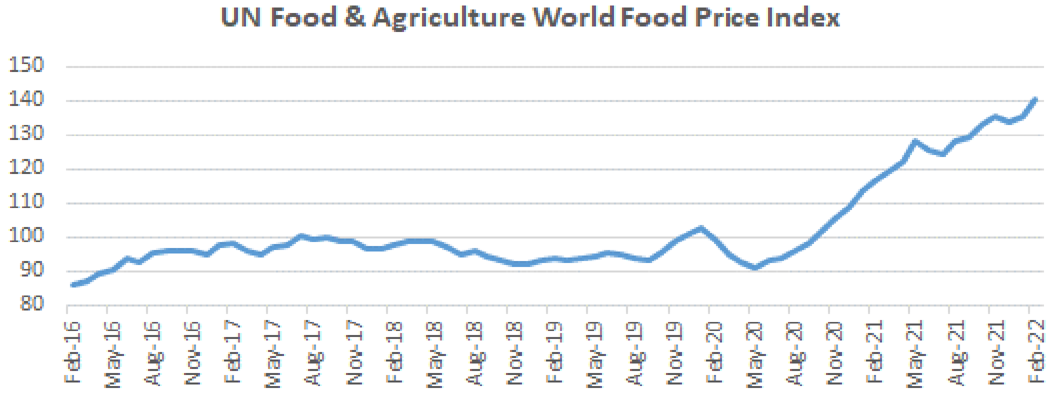
Crude touched 14-yr high & metal prices also rise; but have moderated from recent highs



Europe Natural Gas prices saw severe spike due to large import dependence on Russia, but have cooled down now



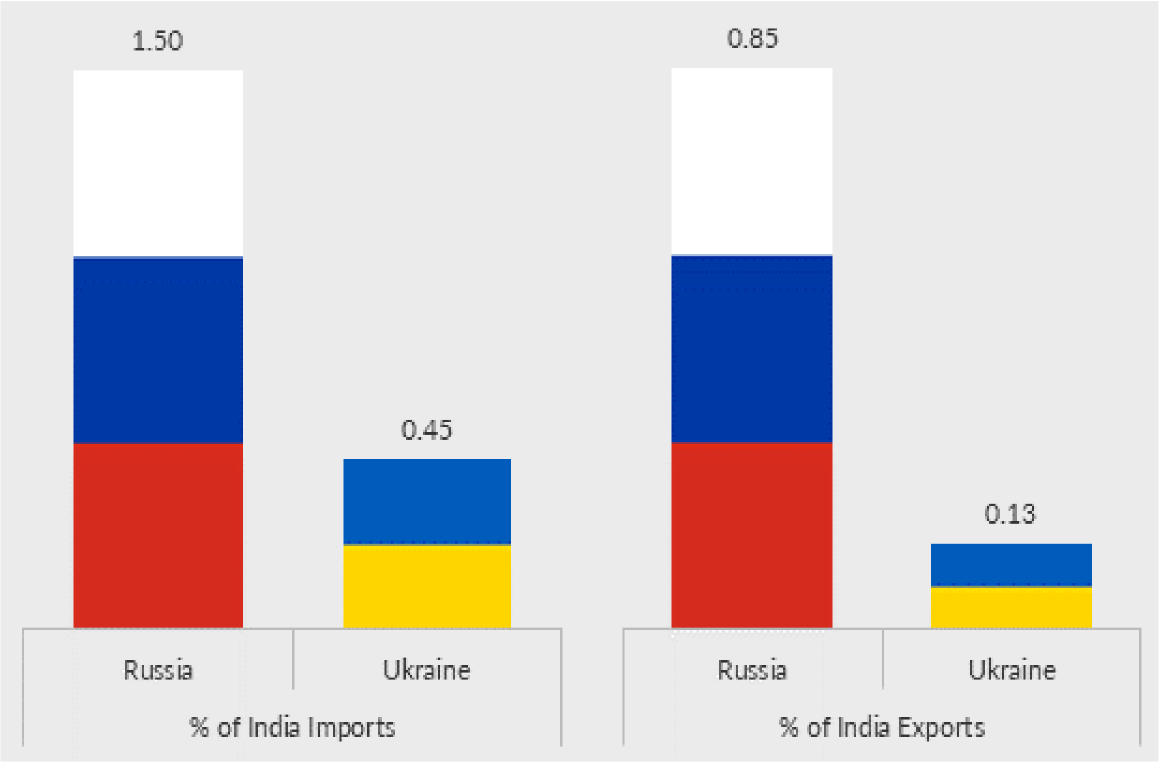
Global food prices have also risen



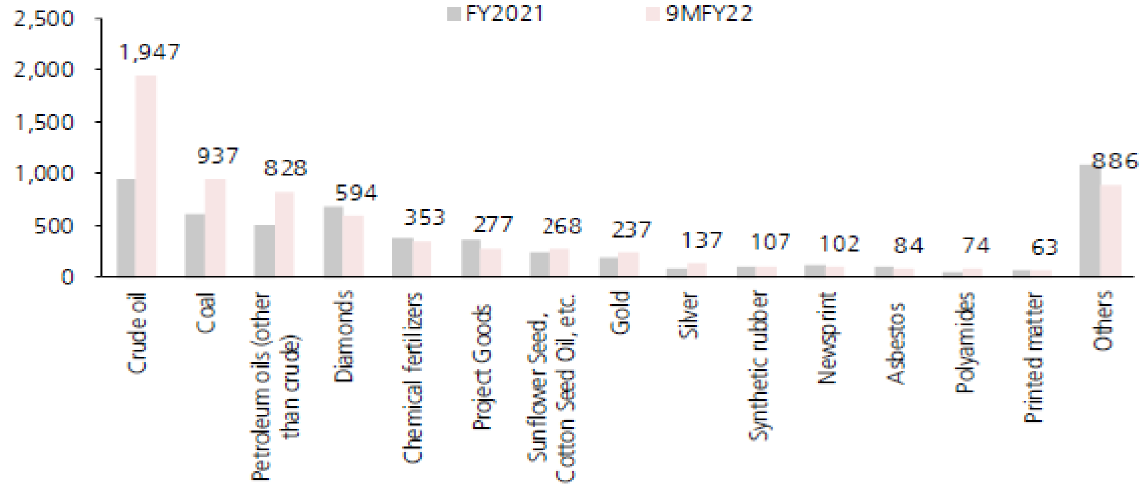
Source: Bloomberg

India’s trade exposure with Russia & Ukraine is limited

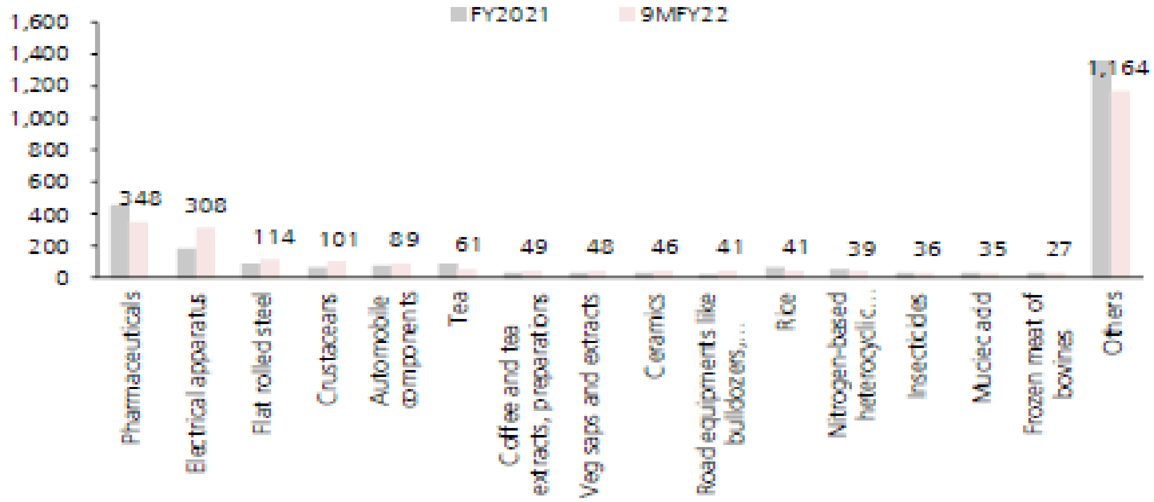
Russia & Ukraine Trade Exposure with India (in %)



India Imports from Russia ($ in Mln) – Primarily Oil & Coal



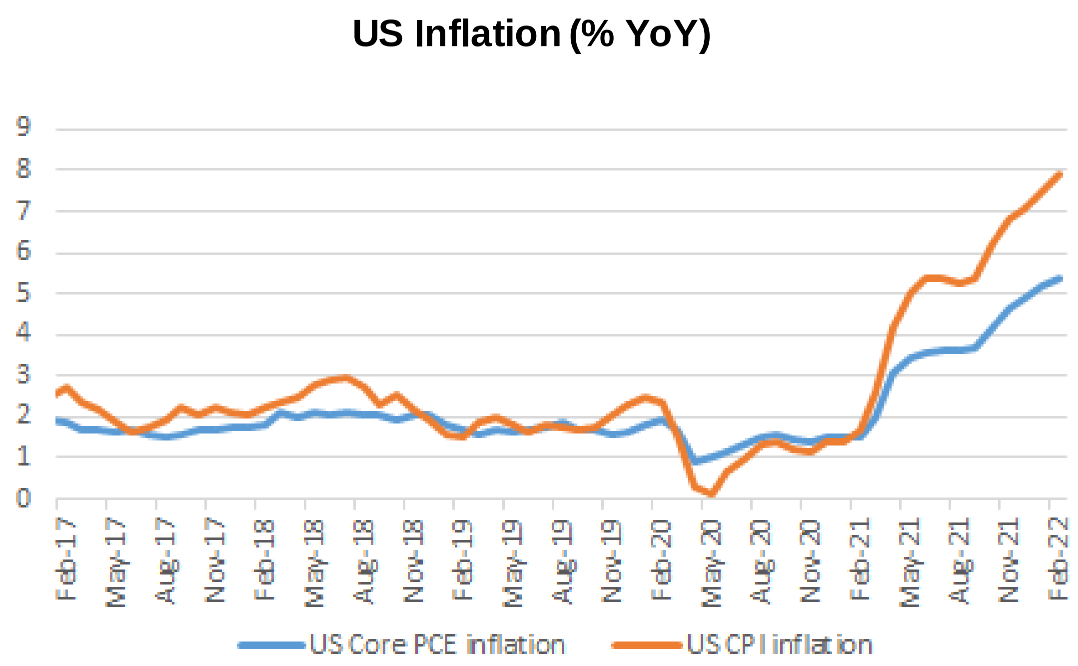
India Exports to Russia ($ in Mln) – Primarily Pharma & Electrical equip.

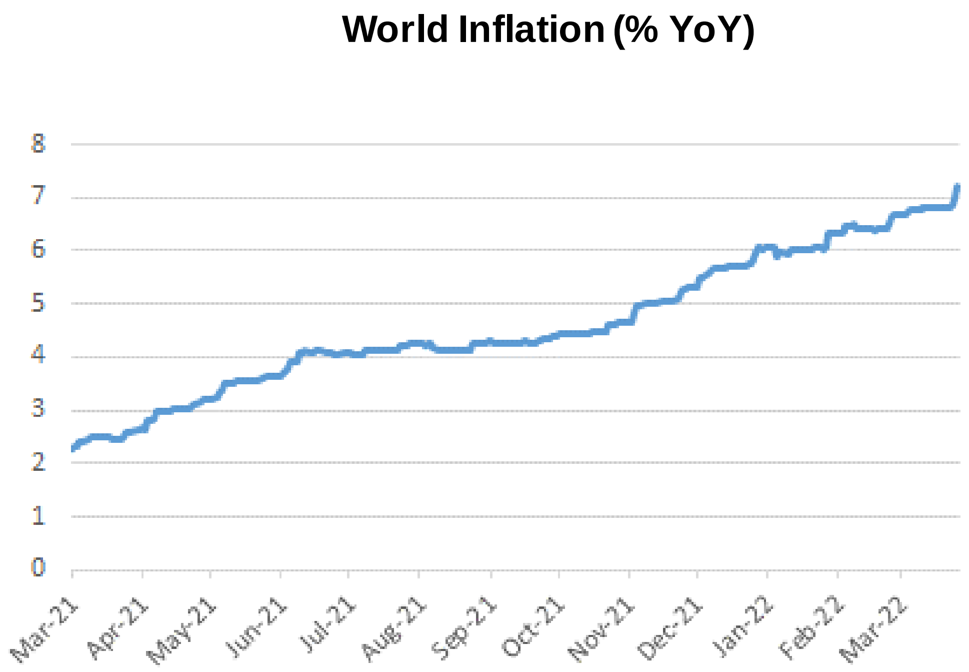


India’s dependency on Russia / Ukraine is more in energy sector and less on agri commodities

Source: Bloomberg, Yes Securities, Kotak Institutional Equities

Globally, inflation is now a cause of concern





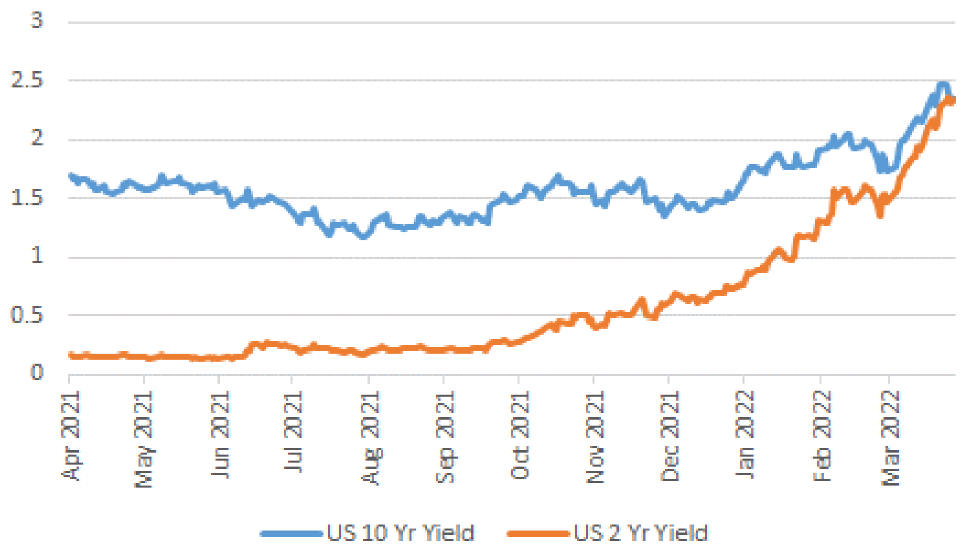
Source: Bloomberg

- US consumer inflation hits a high of 7.9%. US Fed's preferred inflation gauge (Core PCE inflation) also rises to 5.4% (highest since 1983)
- Recent rise in commodity prices to further fuel inflationary pressure in the near term.

LIFE GOALS. DONE.

US treasury yields (esp. short term) harden; Fed rate expected to rise to ~2% by 2022 end

US treasury yields (in %)



Source: Bloomberg

US Fed March 2022 meeting projections

Percent

Variable	Median[1] 2022	2023	2024	Longer run
Change in real GDP	2.8	2.2	2.0	1.8
December projection	4.0	2.2	2.0	1.8
Unemployment rate	3.5	3.5	3.6	4.0
December projection	3.5	3.5	3.5	4.0
PCE inflation	4.3	2.7	2.3	2.0
December projection	2.6	2.3	2.1	2.0
Core PCE inflation[4]	4.1	2.6	2.3	
December projection	2.7	2.3	2.1	
Memo: Projected appropriate policy path				
Federal funds rate	1.9	2.8	2.8	2.4
December projection	0.9	1.6	2.1	2.5

Source: US Federal Reserve

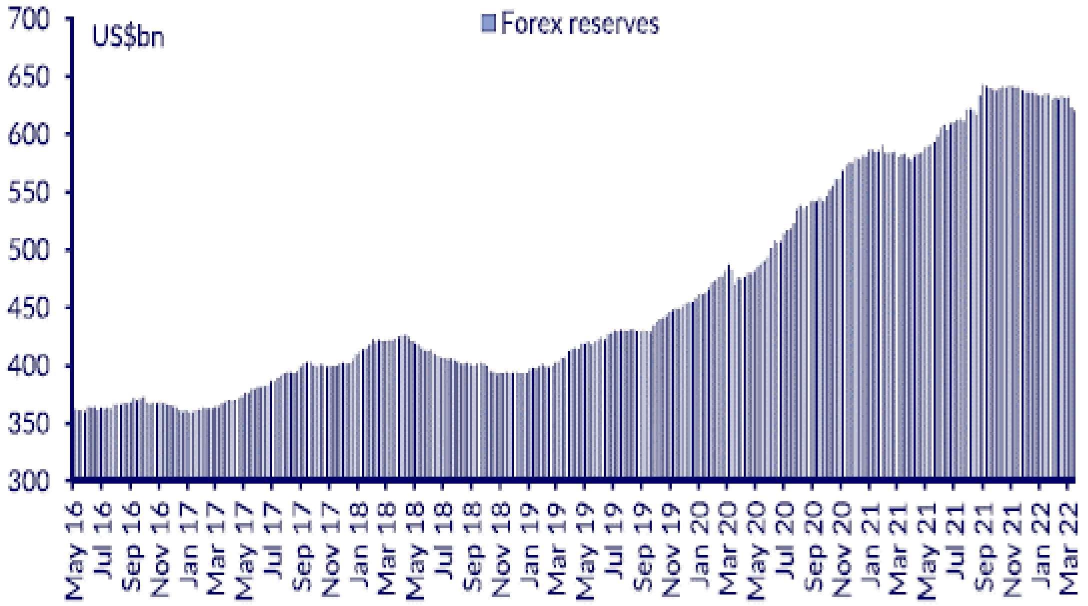
- US yields have risen and especially at the shorter end. The 10yr to 2yr spread has now turned negative, indicating an inverted yield curve
- US Fed hikes rates as expected, and Fed rate expected at 1.9% by CY22 end (compared to 0.9% earlier). Fed has revised down US GDP growth to 2.8% in CY22 (from 4% earlier) and revised up Core PCE inflation forecast to 4.1% for 2022 (from 2.7% earlier)

CAD to deteriorate due to higher crude imports; Fx reserves provide cushion

India Current Account Balance & Balance of Payment Trends ($ in billion)				
			FY23E	
	FY21	FY22E	Oil @ 80/bbl	Oil @ 120/bbl
Current Account Balance (CA)	**23.9**	**-56.4**	**-76.9**	**-143.9**
CA as % of GDP	**0.9%**	**-1.8%**	**-2.2%**	**-4.0%**
Trade Balance	-102	-198	-222	-289
Exports	296	414	422	441
Imports	398	612	644	730
Capital Account	**64**	**84**	**57**	**57**
FDI (Foreign Direct Inv)	44	36	35	35
FPI (Foreign Portfolio Inv)	36	-13	0	0
Balance of Payments (BOP)	**87.3**	**27.5**	**-19.9**	**-86.9**

Source: RBI, Kotak Institutional Equities

India Forex Reserves ($ in billion)



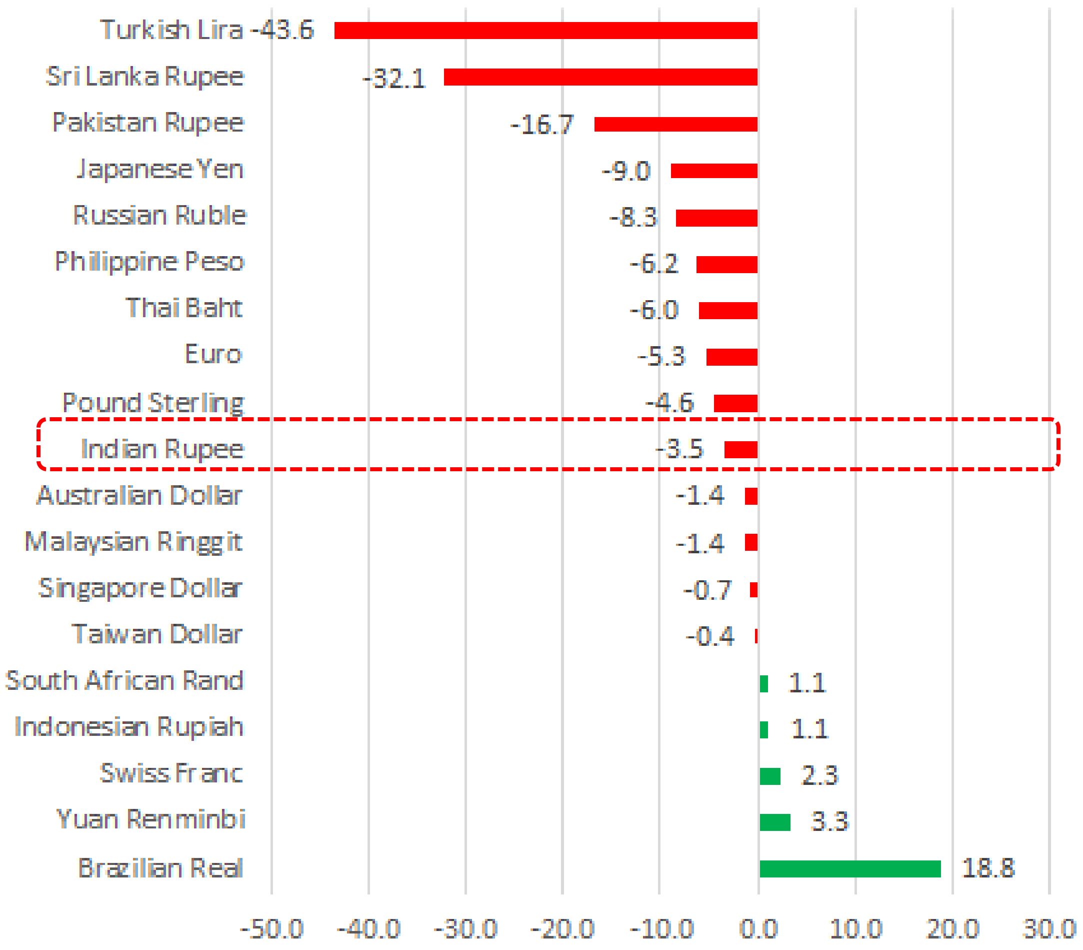
Source: Bloomberg, CLSA

- In optimistic scenario CAD is projected at 2.2% of GDP in FY23 and but with elevated crude prices CAD can rise to 3-4% of GDP
- BoP to turn negative after being in surplus.
- India forex reserves at ~$600 bln to provide cushion

CAD: Current Account Deficit

Indian rupee has not depreciated as much as some of the other currencies

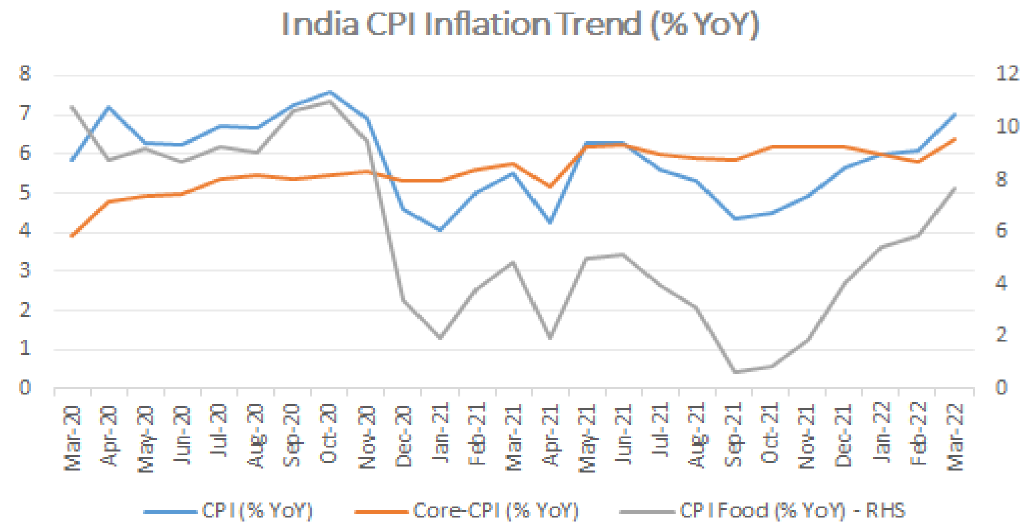
1 Year Performance of Currencies (Vs USD) – in %
(As of March 2022)



Source: Morningstar Direct. Data sorted in descending order.

- INR felt impact of worsening CAD – depreciated by ~3.5% in last 1 year
- However, performance better than several other countries' currency
- Going forward, fx rate will be function of interest rate differentials

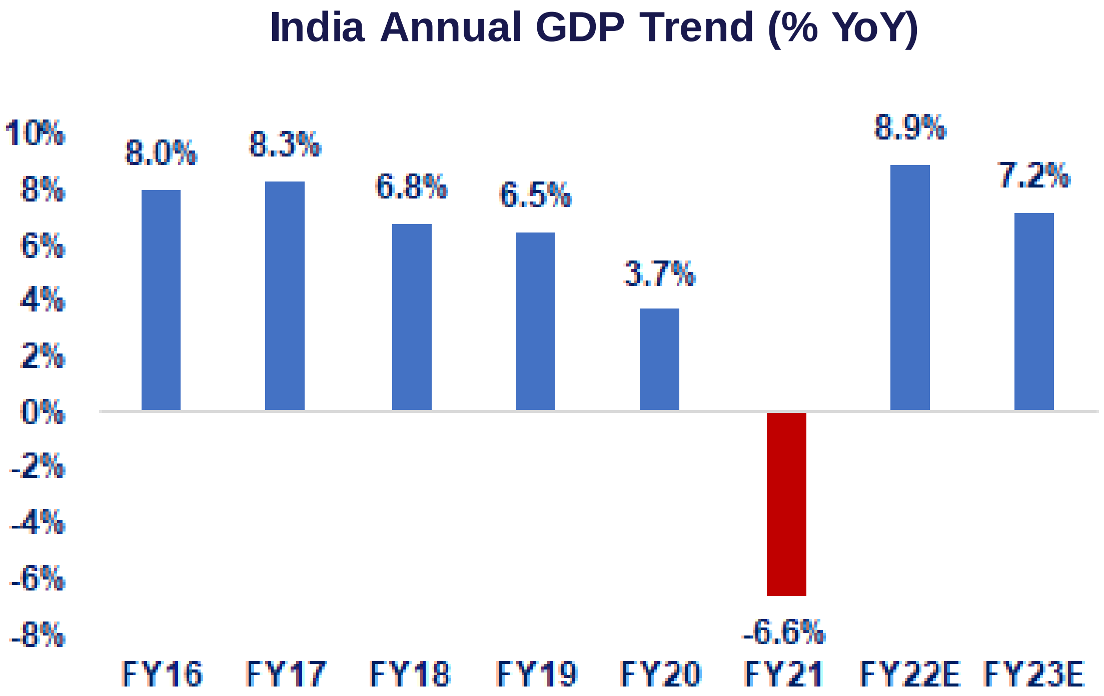
Bond yields harden in India; repo rate hikes expected later in the year

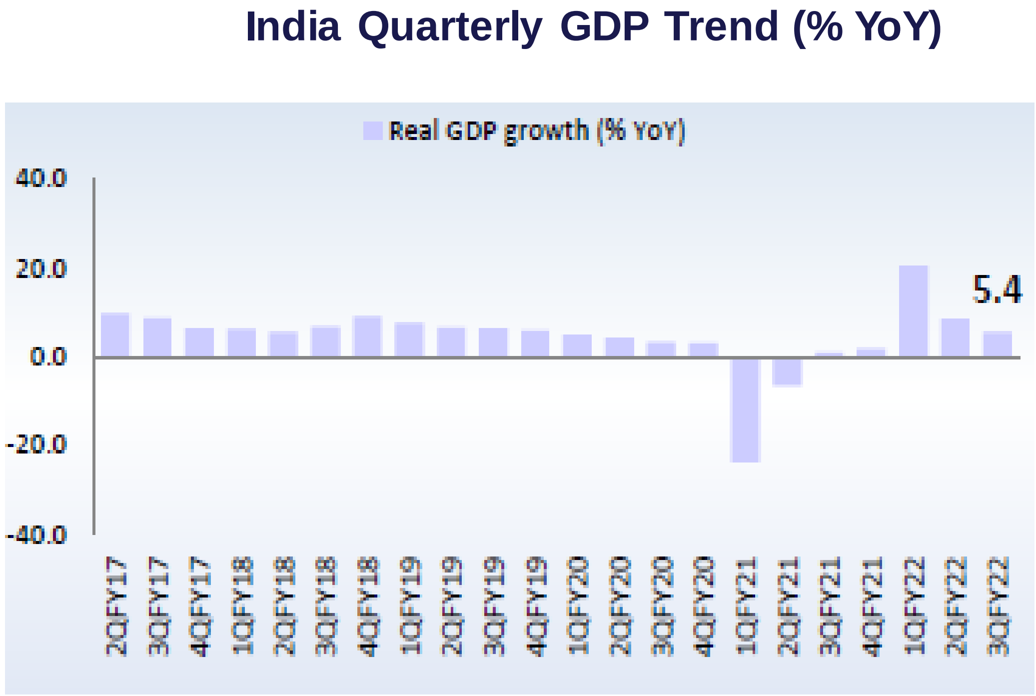


- RBI delivered a hawkish policy in April 2022, by increasing the floor of the policy corridor by 40 bps to 3.75%
- RBI is also focusing on withdrawal of accommodative policy
- Inflation forecast for FY23 was raised by 120 bps to 5.7%, GDP forecast revised downwards by 60 bps to 7.2%
- Bond yields have hardened due to RBI emphasizing its primary focus on getting inflation under control
- This along with the large government borrowing program is expected to keep yields under pressure

Source: Bloomberg

India’s GDP growth to recover in FY22/FY23



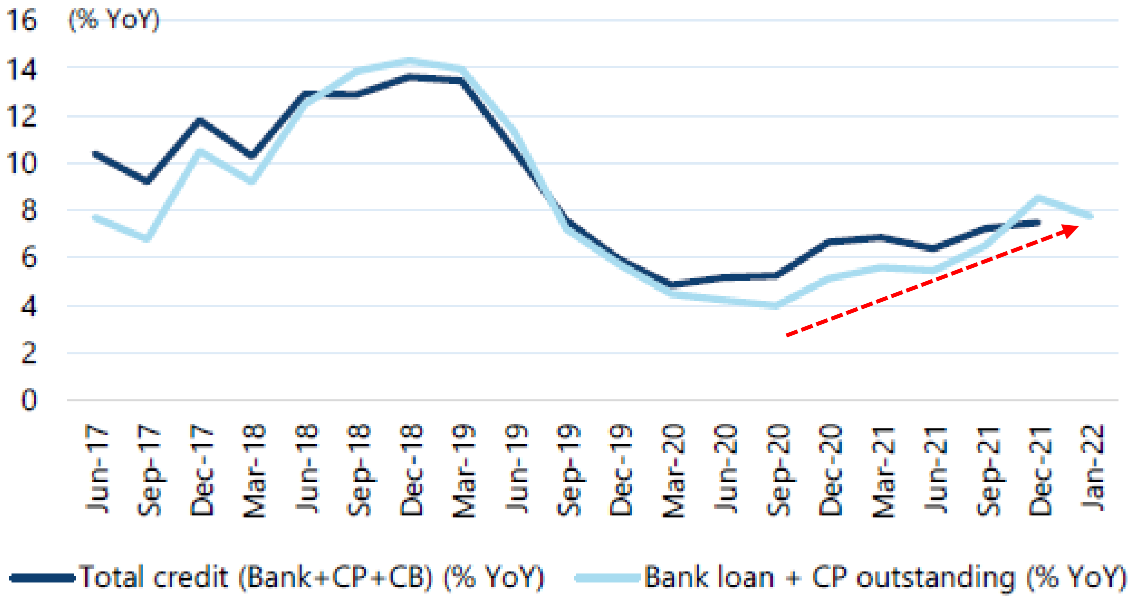


- After registering a record GDP contraction of 6.6% in FY21 , India’s GDP forecasted to grow by 8.9% in FY22
- In several sectors of the economy, pre-pandemic levels of output has been crossed, and nominal GDP is also now above pre-pandemic levels.
- RBI projects 7.2% GDP growth in FY23 (vs 7.8% earlier). Q3 FY22 GDP growth came in at 5.4% (below market expectations).

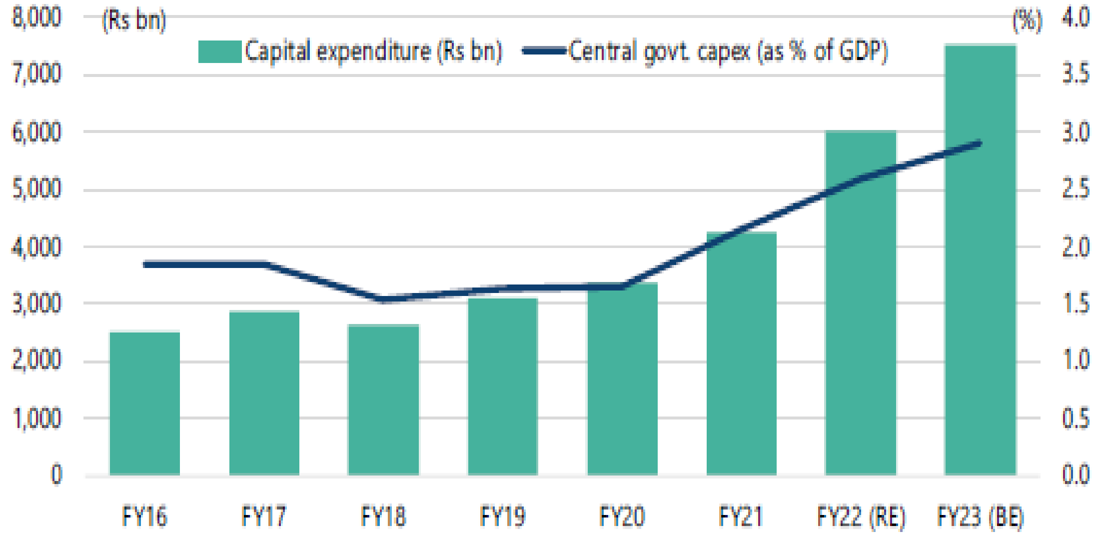
Source: RBI, MOSPI, Motilal Oswal

India credit growth picking up and capex cycle recovery on the cards

India Credit Growth Trend (% YoY)



India Central Govt. Capex Trends

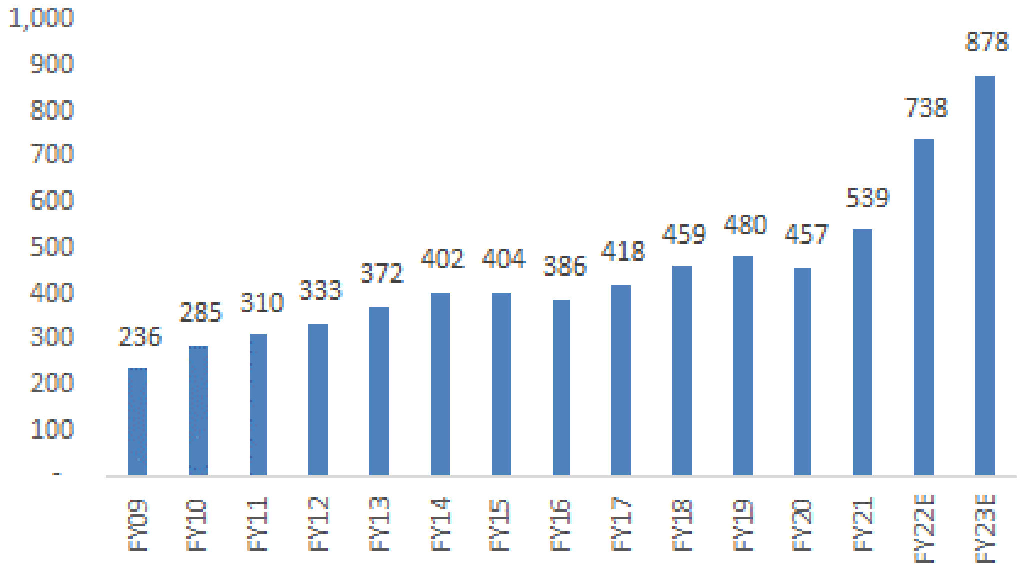


- With economic recovery, bank credit growth expected to recover gradually
- Indian government has budgeted strong capital expenditure for FY23. The PLI scheme also to provide a boost to domestic manufacturing.
- A gradual capex recovery cycle on the cards in India; capacity utilization has also recovered to ~73% (near the long term average).

Source: RBI, Ministry of Finance, Jefferies

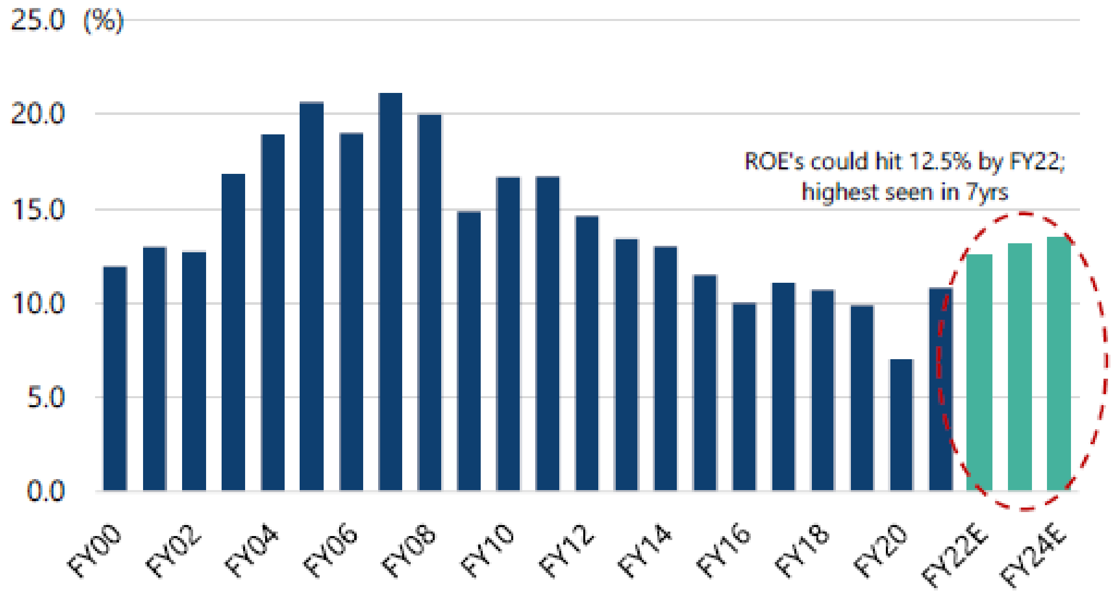
Corporate earnings & ROE have surprised with strong growth amidst the pandemic

Nifty EPS Trend



Source: Bajaj Allianz Life Estimates

India – ROE Trend of Listed Companies (in %)

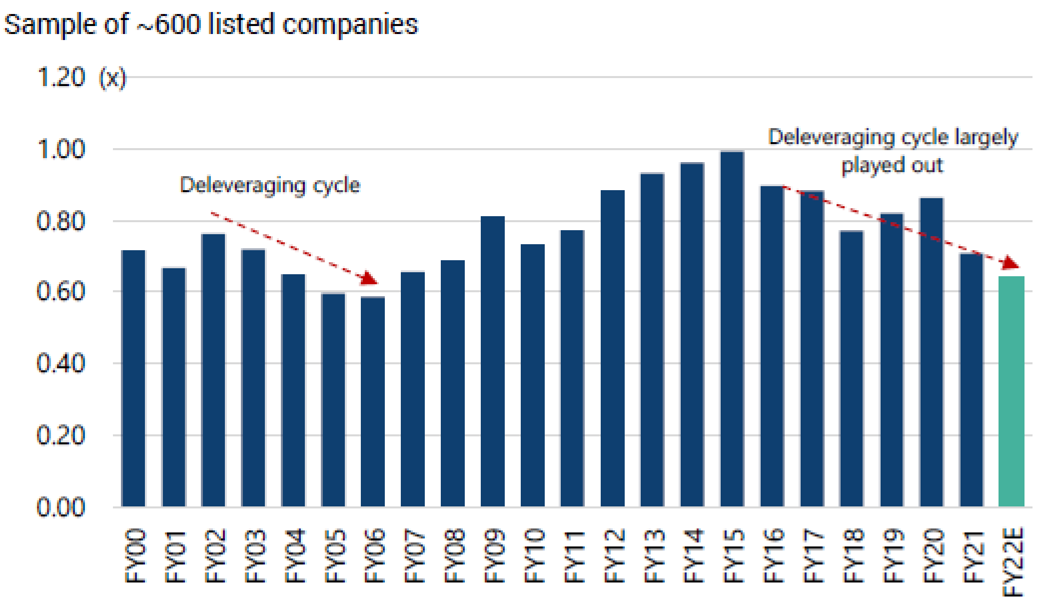


Source: Ace Equity, Jefferies

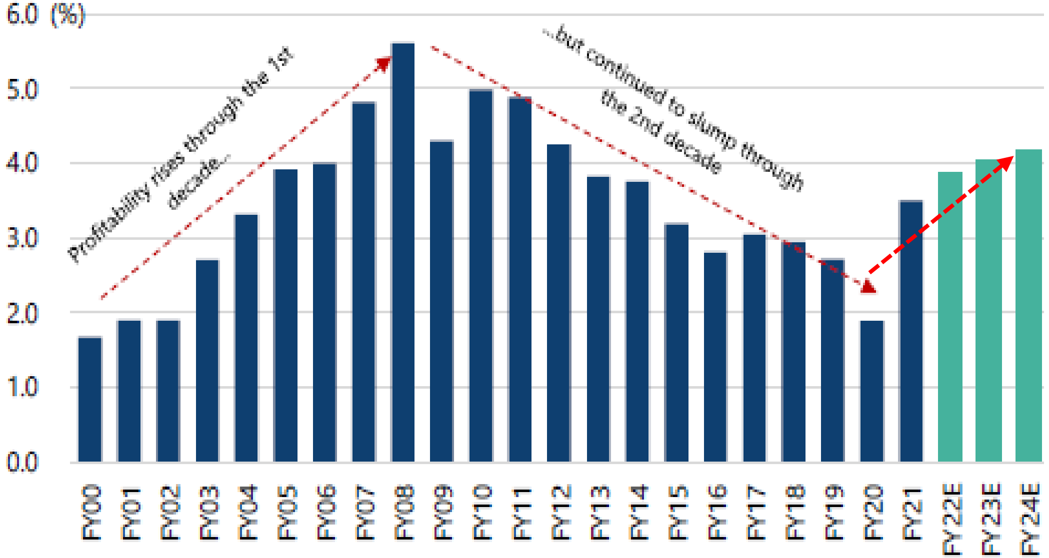
- Nifty EPS registered healthy growth of 18% in FY21 despite Covid shock & GDP contraction, which is a positive surprise.
- Robust Nifty earnings growth of ~37% expected in FY22 & FY23 EPS growth forecasted at ~20%. We may see some margin pressure in upcoming quarters due to higher commodity prices.
- 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



India – Corporate Profits as a % of GDP Trend

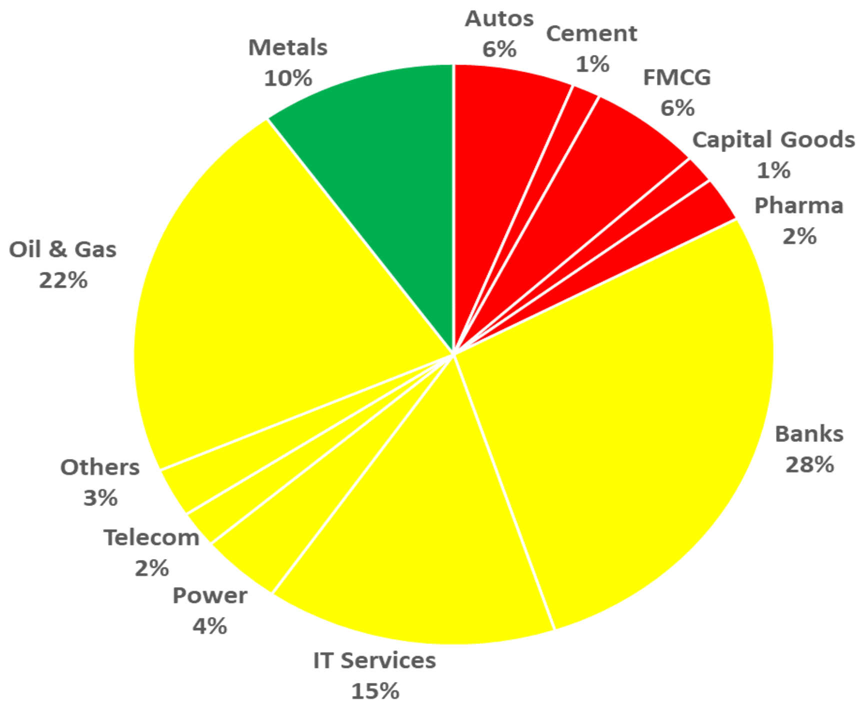


Source: Ace Equity, Jefferies

- 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.

Limited impact on Nifty earnings due to war

Nifty – Earnings impact due to war

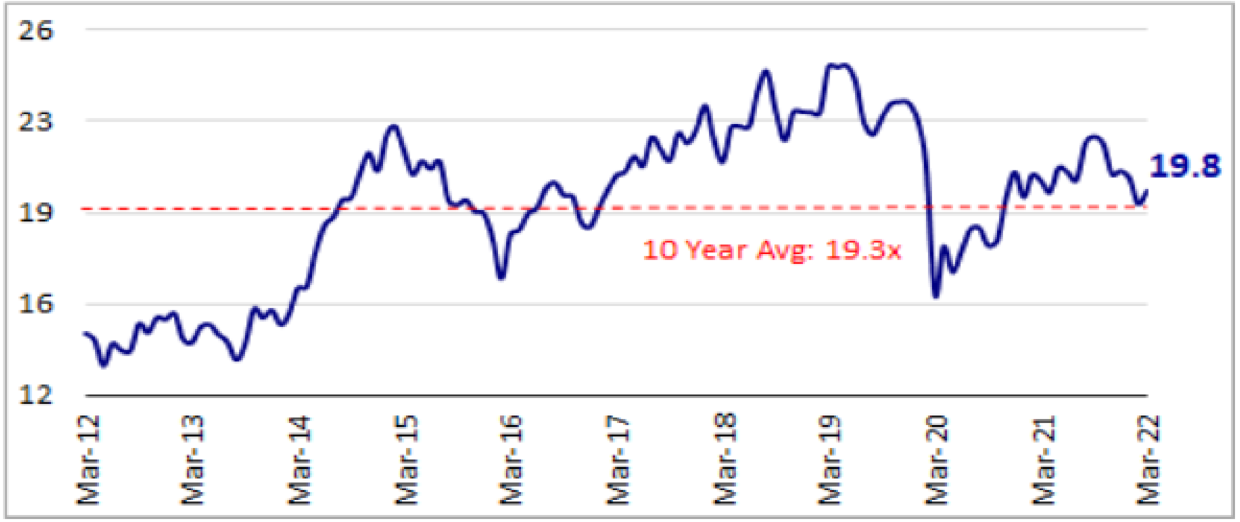


- Earnings for Autos, Cement, FMCG, Capital goods companies (16% of Nifty50 earnings) to be negatively impacted due to higher commodity prices following the war.
- BFSI, IT, Power & Telecom companies (73% of Nifty50 earnings) should not see any meaningful impact on earnings.
- Impact on Oil & Gas to be neutral with the Producer benefiting while OMC earnings to be hit.

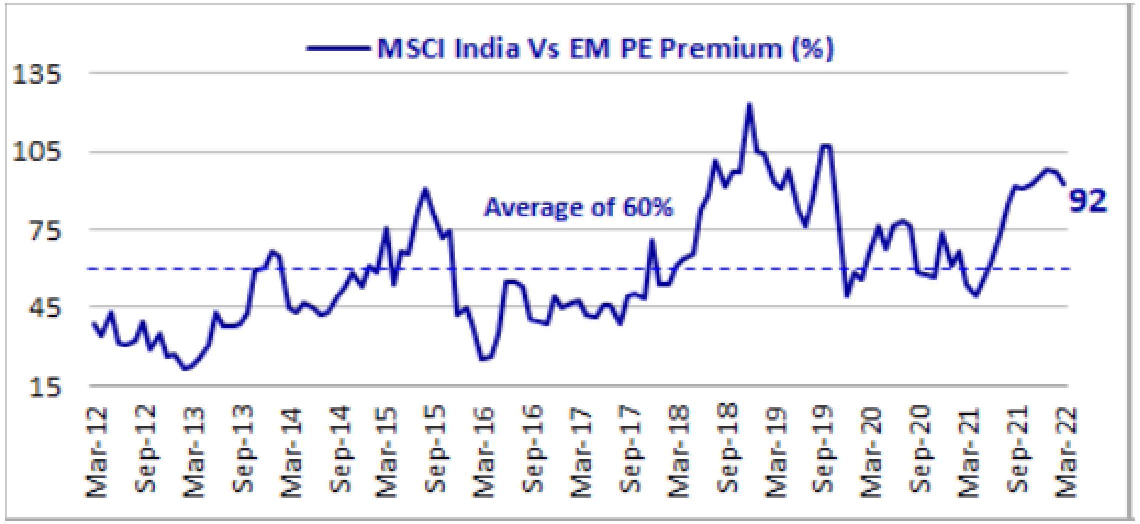
Source: IIFL, BALIC

Market valuations have moderated from their highs, but still above long term average

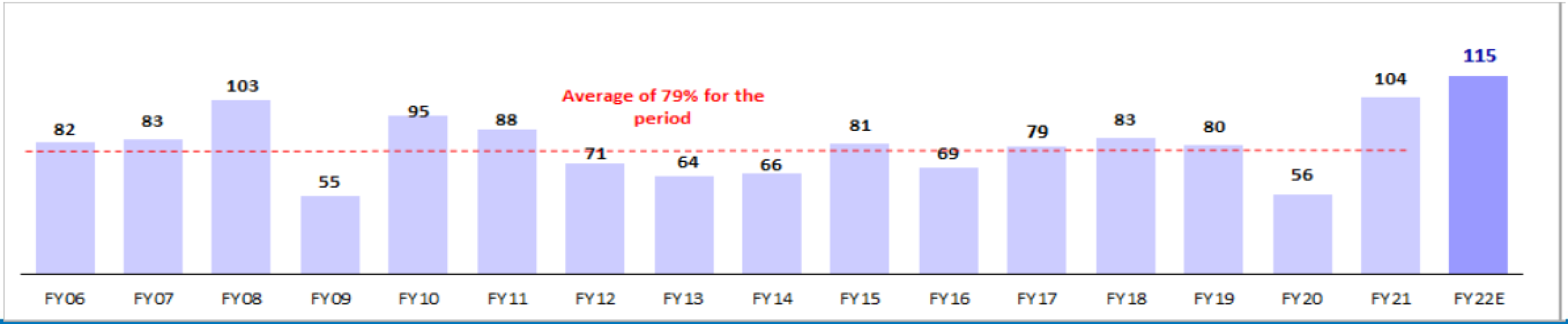
Nifty 1 Year Fwd Consensus P/E Ratio



Nifty PE Premium / (Discount) to Emerging Mkts



India Market Cap to GDP Trend (in %)



Source: Bloomberg, Motilal Oswal

FPI flows significantly negative in FY22, while DII register record inflows

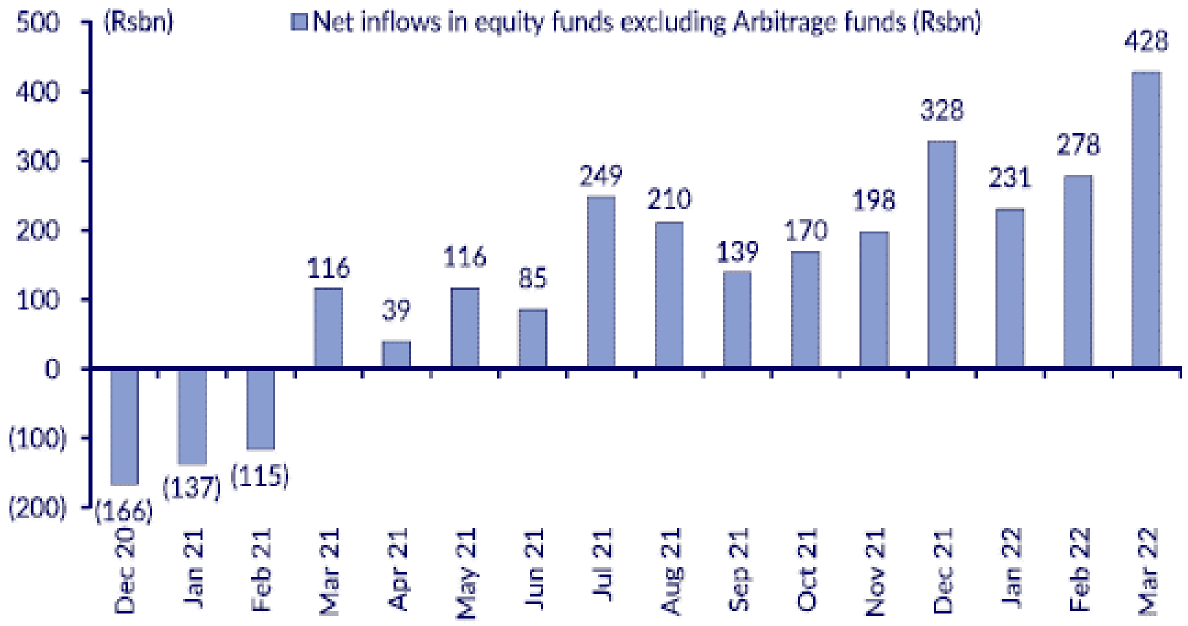
Source: NSDL, Axis Capital	Rs in Crore	
Month-end	**FPIs**	**DIIs**
28 February 2021	21,960	-16,358
31 March 2021	19,519	5,204
30 April 2021	-12,810	11,089
31 May 2021	5,360	2,067
30 June 2021	10,932	7,044
31 July 2021	-12,622	18,394
31 August 2021	7,455	6,895
30 September 2021	8,348	5,949
31 October 2021	-16,584	4,471
30 November 2021	-5,710	30,560
31 December 2021	-13,150	31,231
31 January 2022	-35,975	21,928
28 February 2022	-37,689	42,084
31 March 2022	-36,989	39,677

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
FY2022	-1,39,434	2,21,389

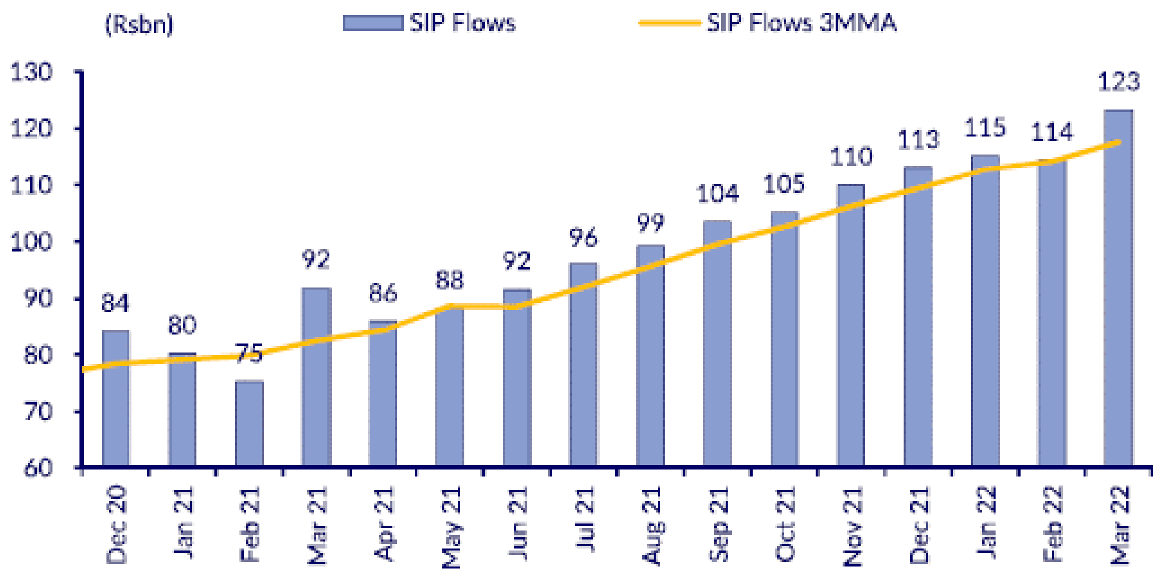
- After seeing record FPI equity inflows in FY21, FPI flows have turned significantly negative in FY22 (record outflow).
- Meanwhile, DII equity flows picked-up strongly to a record high in FY22 (helping to counter FII outflows), after seeing record outflows in FY21.

Domestic Mutual Funds witnessing robust inflows

Mutual Funds – Equity inflows (INR billion)



Mutual Funds – Monthly SIP trend (INR billion)



Source: AMFI, CLSA

- Domestic equity mutual funds have been witnessing robust inflows since Mar'2021.
- In addition, money is also coming in via the Index Funds / ETFs.
- Monthly run-rate of SIP investments now stands above Rs. 12,000 crore.

Market Outlook

- **Geo-political tensions rise globally:**
  - **C**ommodity prices such as Crude may impact inflation, and the infation impact is expected to be felt through the year

- **Market Valuations have moderated,** but still above the long term average.

- **Economic Growth recovery is in place. Corporate Earnings have surprised positively over past 2 years, but the earnings upgrade cycle seems to have ended.**

- **Global unwinding of monetary policy stimulus and a more hawkish US Fed may lead to some market volatility.**

- **Equity Investment Strategy**:
  - Equity market returns expected to be moderate in CY2022
  - Companies with strong cash flows would outperform

- **Debt Investment strategy:**
  - Bond yields have already moved up, expected to further harden as RBI starts reversing easy monetary policy

THANK YOU

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