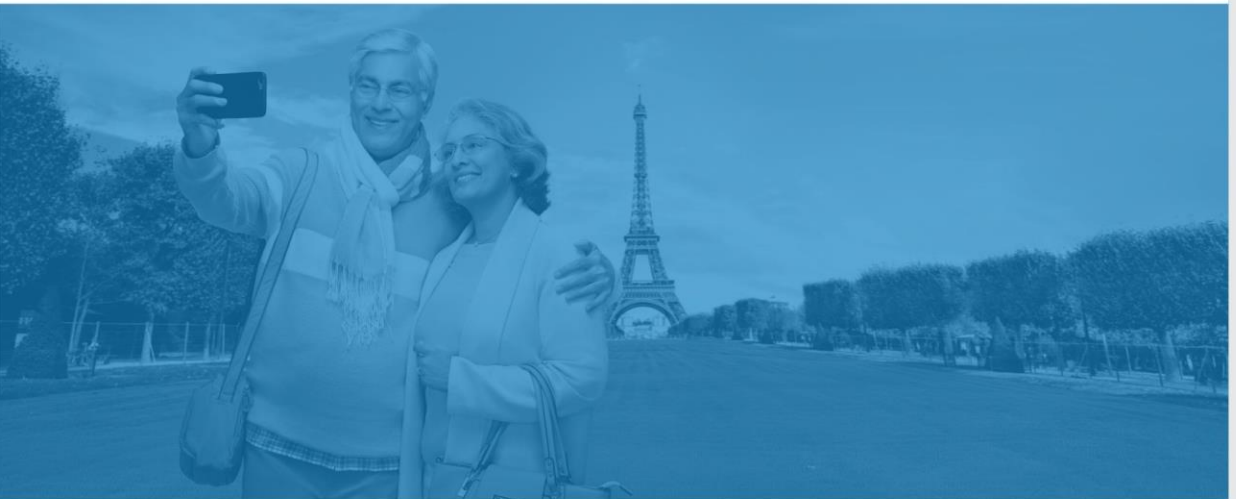


Elevated Inflation & Monetary Tightening weighing on Global Growth

LIFE GOALS. **DONE.**



June 2022



Over the long-term India is among the top performing markets

Performance of International Indices (ended May 2022, in %)

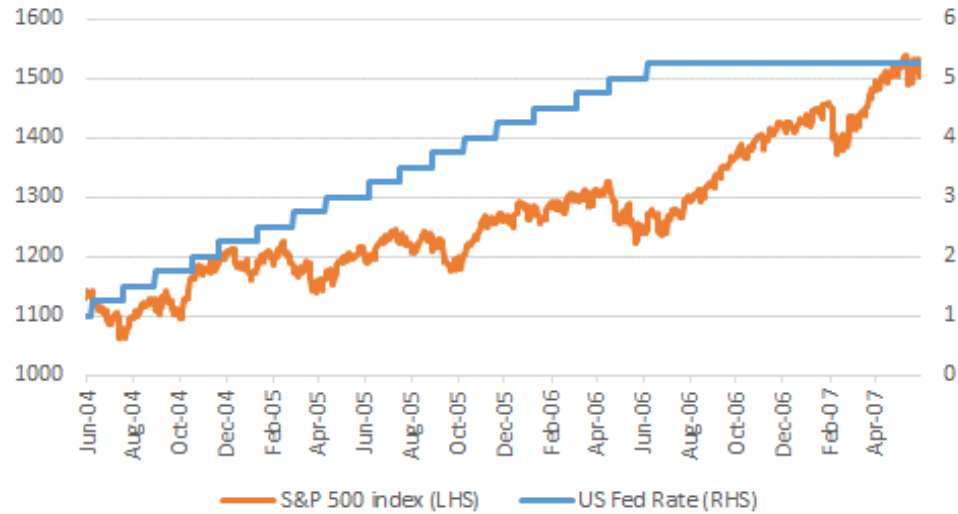
Index Name	Country / Region	CYTD	1 Yr.	5 Yrs.	10 Yrs.
JSX Composite	Indonesia	8.62	20.20	4.49	6.43
BOVESPA TR	Brazil	6.23	-11.78	12.17	7.41
FTSE/SGX STI	Singapore	3.48	2.16	0.13	1.55
FTSE 100	United Kingdom	3.02	8.33	0.23	3.64
FTSE SET All Share	Thailand	1.70	6.54	0.30	3.03
FTSE Bursa Malaysia KLCI	Malaysia	0.16	-0.85	-2.32	-0.07
S&P/ASX 200	Australia	-3.14	0.69	4.73	5.87
IISL Nifty 50	India	-4.43	6.43	11.51	12.91
Nikkei 225 Average	Japan	-5.25	-5.48	6.78	12.31
TSEC TAIEX	Taiwan	-7.75	-1.53	10.85	8.70
Hang Seng	Hong Kong	-8.47	-26.54	-3.55	1.40
FSE DAX TR	Germany	-9.42	-6.70	2.67	8.67
CAC 40	France	-9.57	0.34	4.13	7.93
KOSPI	South Korea	-9.80	-16.17	2.73	3.84
Shanghai Composite	China	-12.46	-11.87	0.44	2.99
MSCI EM	Emerging Markets	-12.53	-21.69	1.40	1.75
MSCI AC Asia Ex Japan	Asia Ex Japan	-12.84	-23.00	2.15	3.94
S&P 500	United States	-13.30	-1.71	11.37	12.17
MSCI World	World	-13.64	-6.21	7.86	9.01

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

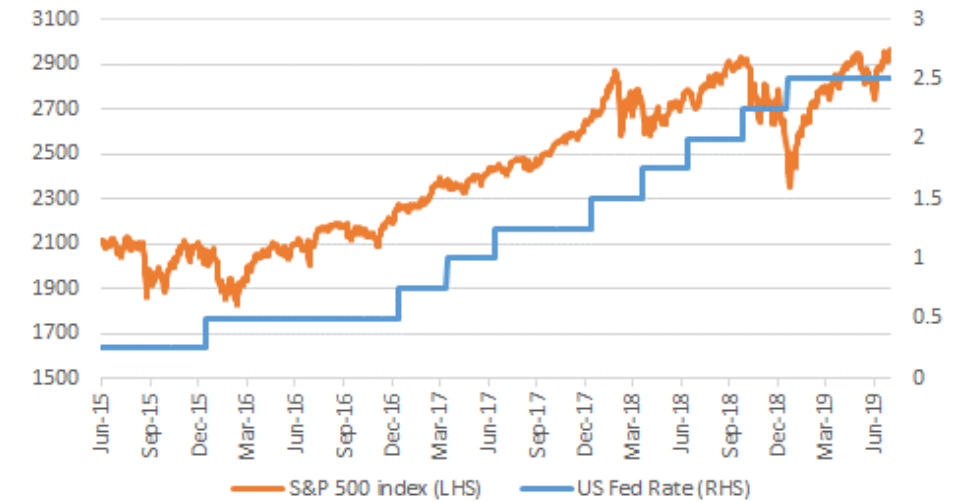
- CYTD in 2022 markets like US & China have seen a larger correction.
- India has seen relatively lower correction so far this year.
- Indonesia & Singapore have outperformed this calendar year. Brazil has also fared well.
- Over the long term (5 & 10 years) Indian market has been among the top performing markets

US equity markets continue to trend higher in earlier phases of Fed rate hikes

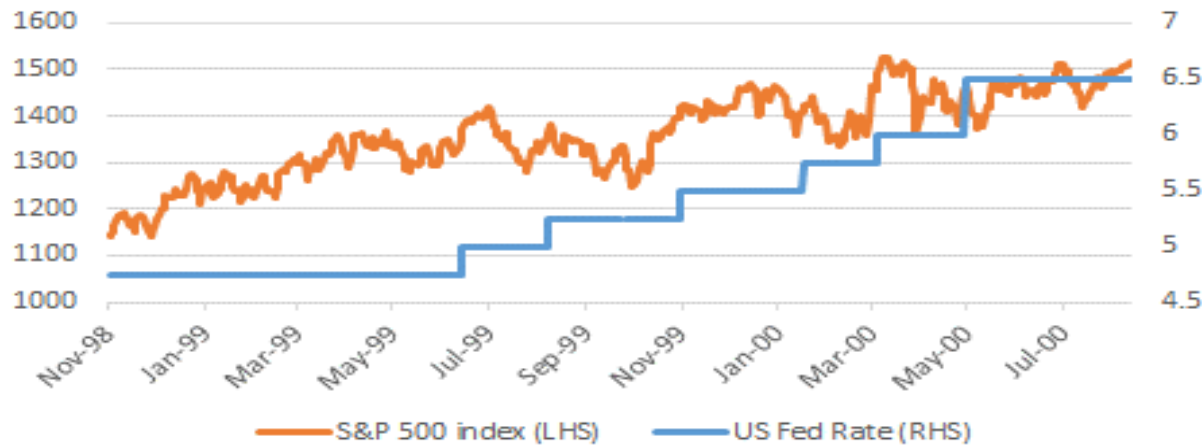
US Fed hike (2004 – 06) Vs S&P 500 index



US Fed hike (2015– 18) Vs S&P 500 index



US Fed hike (1999 – 2000) Vs S&P 500 index



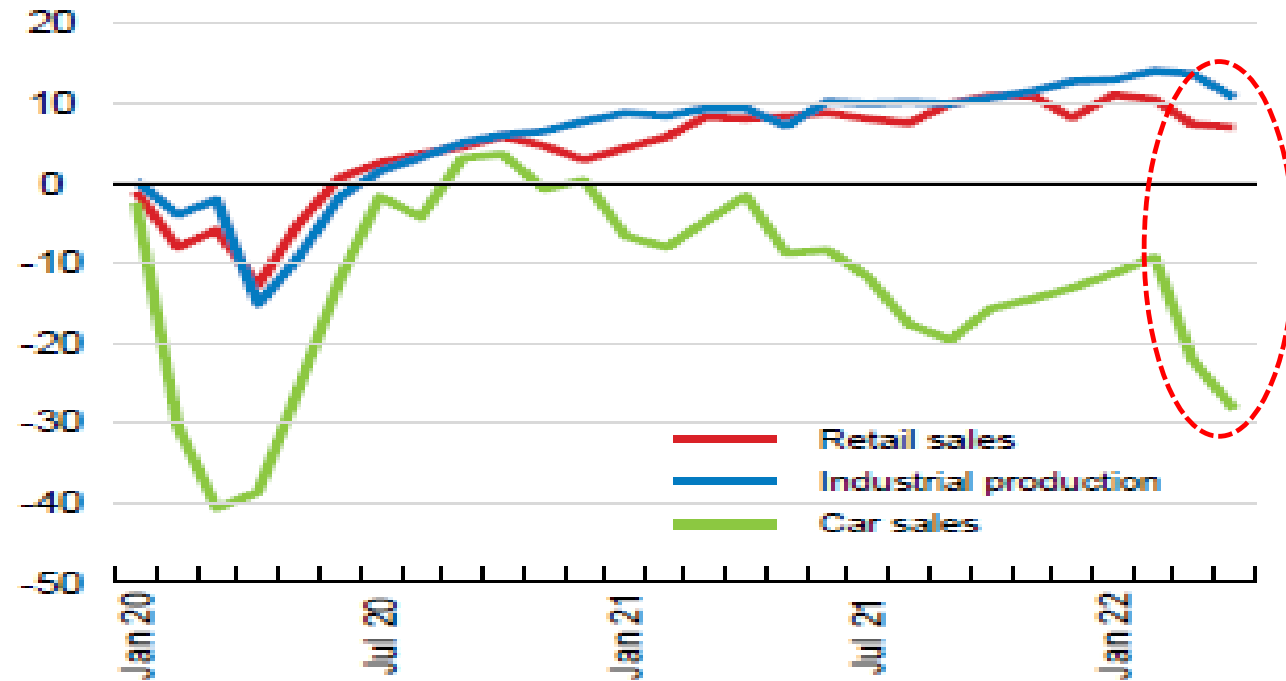
Global economic growth revised downwards; India still among the fastest growing economies

World Bank GDP Forecasts (in %) June 2022 Global Economic Prospects Report							Percentage point differences from January 2022 projections	
Country / Region	Actual			Projection			2022	2023
	2019	2020	2021	2022	2023	2024		
World	2.6	-3.30	5.7	2.9	3.0	3.0	-1.2	-0.2
Advanced economies	1.7	-4.6	5.1	2.6	2.2	1.9	-1.2	-0.1
United States	2.3	-3.4	5.7	2.5	2.4	2.0	-1.2	-0.2
Euro area	1.6	-6.4	5.4	2.5	1.9	1.9	-1.7	-0.2
Japan	-0.2	-4.6	1.7	1.7	1.3	0.6	-1.2	0.1
Emerging Markets	3.8	-1.6	6.6	3.4	4.2	4.4	-1.2	-0.2
China	6.0	2.2	8.1	4.3	5.2	5.1	-0.8	-0.1
India*	3.7	-6.6	8.7	7.5	7.1	6.5	-1.2	0.3
Brazil	1.2	-3.9	4.6	1.5	0.8	2.0	0.1	-1.9

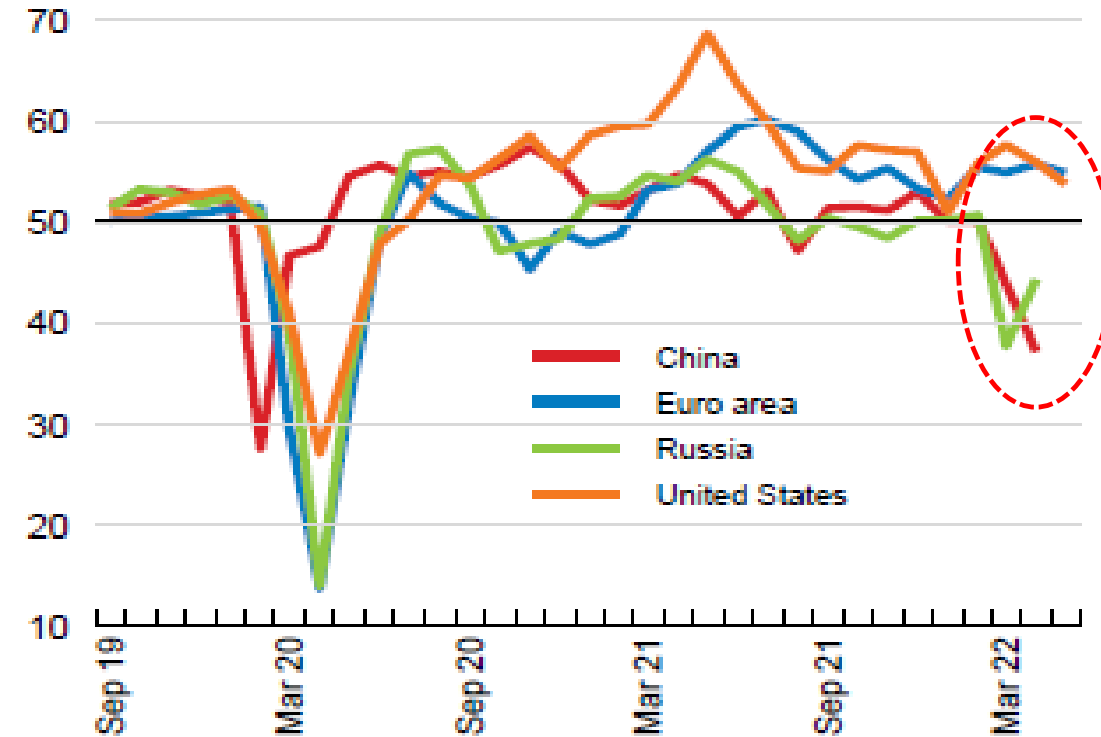
- World Bank cuts global growth forecast to 2.9% for CY22
- Led by downgrade in growth forecast for developed economies like US, Europe & Japan
- Emerging markets GDP growth for CY22 also downgraded to 3.4%
 - China GDP growth to slowdown to 4.3% in CY22
 - India growth also downgraded, but still among the fastest growing economies over the next 2-3 years.

Some of the high frequency global economic indicators have slowed recently

Global Economic Activity Indicators
(% change from same month in 2019)

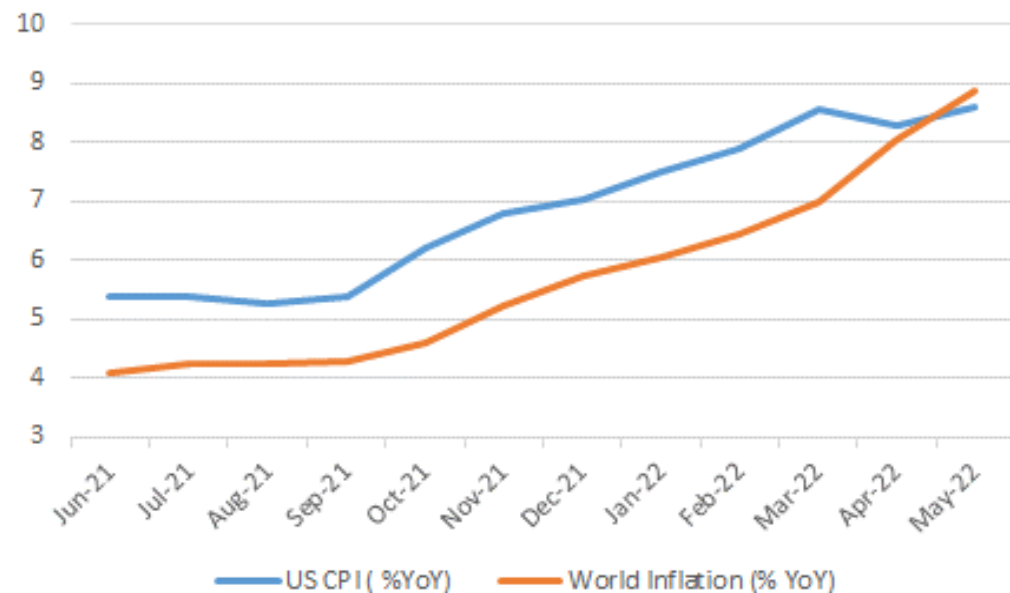


Composite PMI
(below 50 mean contraction)



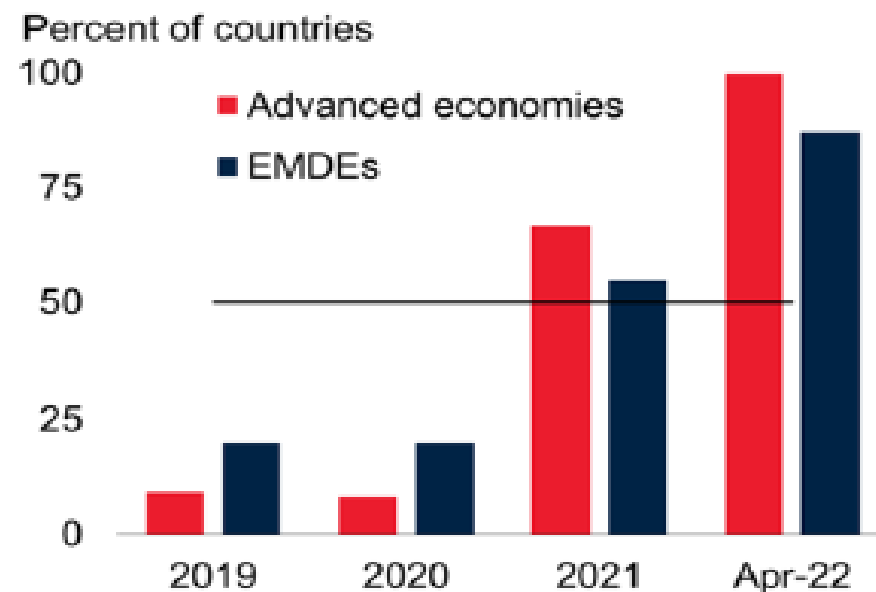
Inflation is globally quite elevated and a cause for concern

US & Global Consumer Inflation (%YoY)



Source: Bloomberg

% of Countries with Inflation Above Target



Source: World Bank Global Economic Prospects, June 2022.
EMDE = Emerging Market & Developing Economies

- US headline CPI touched a fresh 4-decade high of 8.6% in May 2022. US Fed's Core PCE inflation has also risen to around 5% (versus Fed's long-term target of 2%)
- Inflation is more pronounced in developed economies but is a growing issue in emerging economies as well.

Inflation across global economies has been trending than long term average

Global Inflation (%YoY)

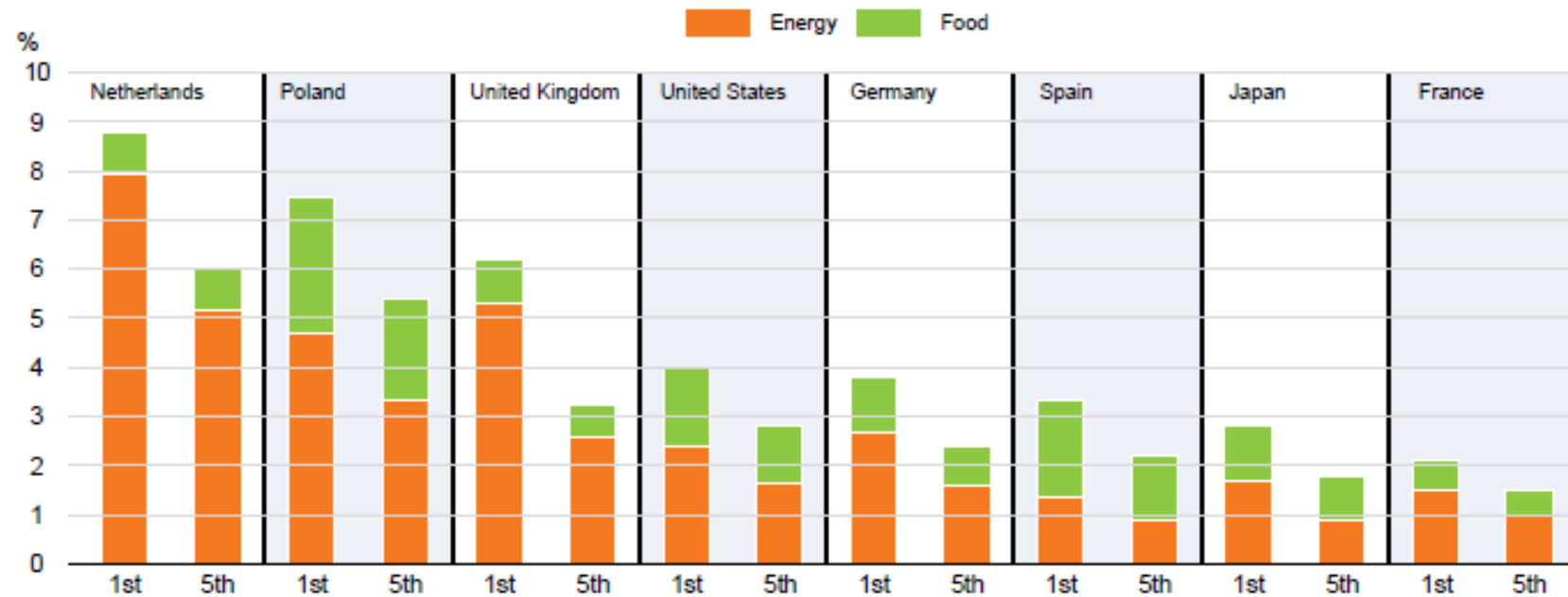
Country / Region	Current Headline CPI %YoY	10 Years Average
USA	8.6	2.1
United Kingdom	7.9	1.9
Eurozone	8.8	1.9
Turkey	73.5	17.4
India	7.0	5.8
Brazil	11.7	6.0

Source: Bloomberg

- All major economies except China facing inflation higher than long term average
- US, UK, Eurozone etc having inflation which is at multi decade high, resulting in faster tightening
- India's inflation still higher than RBI's threshold of 6%, but lower compared to global peers

Global surge in food & energy prices affecting at a household level

% increase in Household expenditures for lowest and highest quintiles

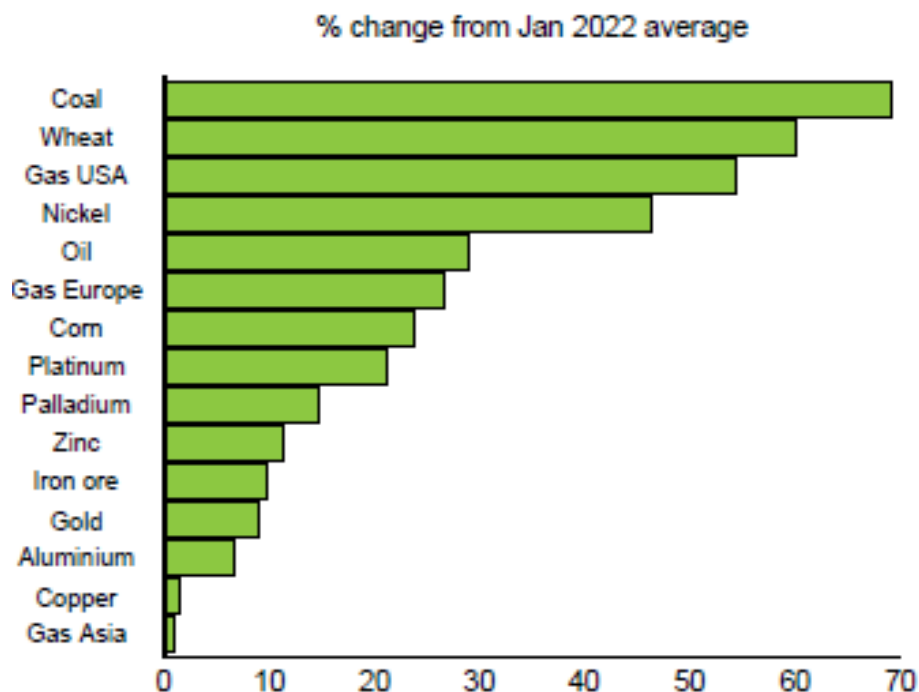


Source: OECD Economic Outlook, June 2022. 1st quintile = 20% of households with lowest income, 5th quintile = 20% of households with highest income

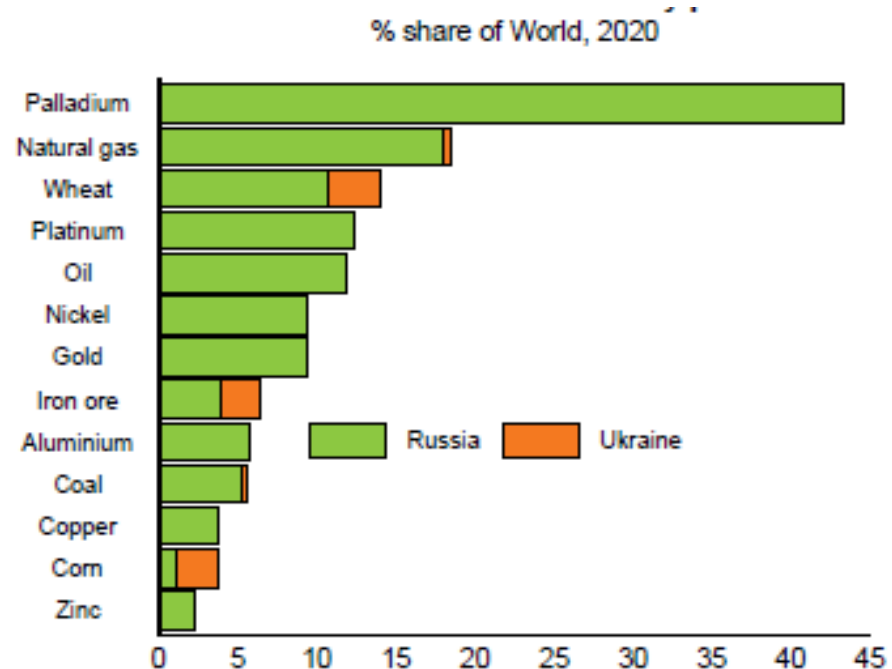
- Rise in food and energy prices has disproportionately affected the lower income households

Ukraine-Russia war contributing to global inflationary pressures

Commodity prices have surged this year

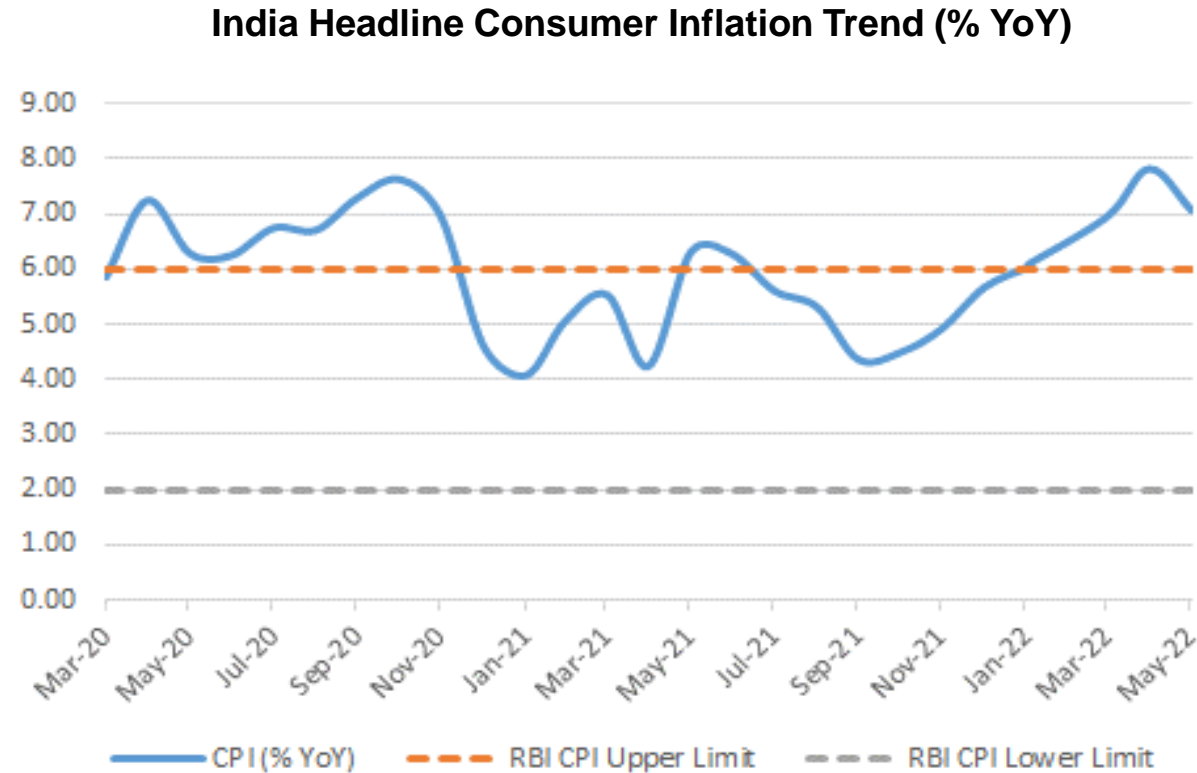


Russia & Ukraine Commodity Production



- Russia – Ukraine conflict has further created supply chain issues with them being major producers of energy and food.
 - Russia accounted for around 17% of global natural gas production (primarily in Europe) and 10% of global crude production.
 - Ukraine is a major producer of agri commodities like wheat & corn

In India consumer inflation is above RBI's tolerance band, but still manageable



- In India, headline consumer inflation is above the 6% tolerance band of RBI; but moderated to 7.04% in May 2022 from 7.8% in the previous month.
- In its June 2022 monetary policy meeting, RBI revised upwards its inflation projection for FY23 to 6.7% from 5.7% earlier, which seems realistic.

Elevated crude oil prices and high refining margins impacting inflation

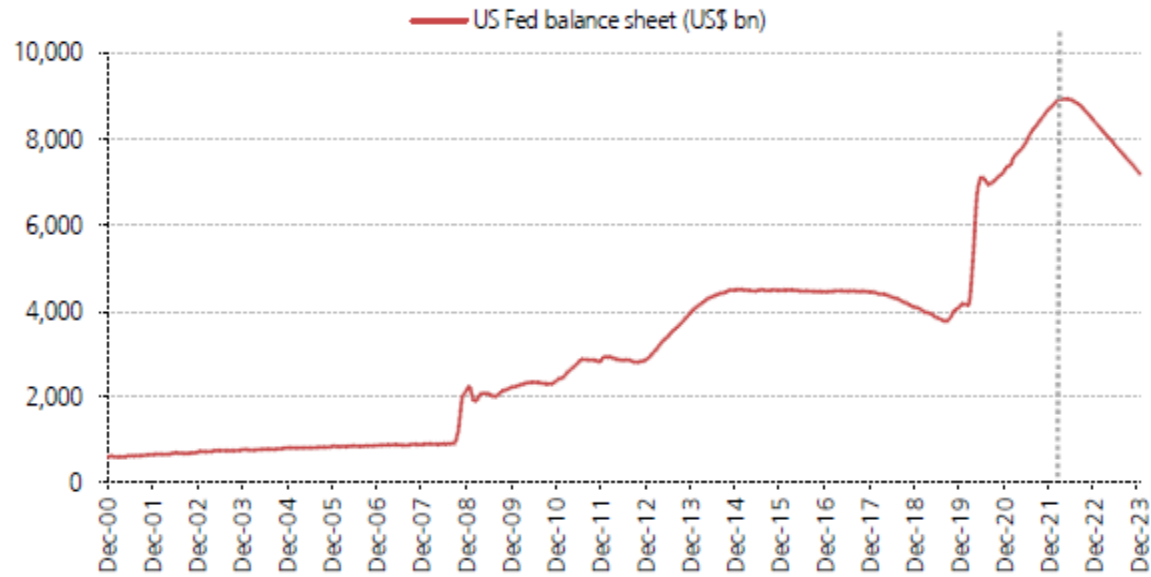
Brent Crude Price (US\$ / barrel)



- India imports around 80-85% of its crude oil requirement. Run rate of crude oil imports is 4.5 to 5 million barrels per day (~1.8 billion barrels per year).
- At an average crude oil price of \$100/bbl that would translate to around \$180 billion oil import bill for India

US Fed turns hawkish, on the back of spike in inflation

US Fed Balance Sheet (US\$ in bln)



Source: Bloomberg, Kotak Institutional Equities

US Fed June 2022 meeting projections

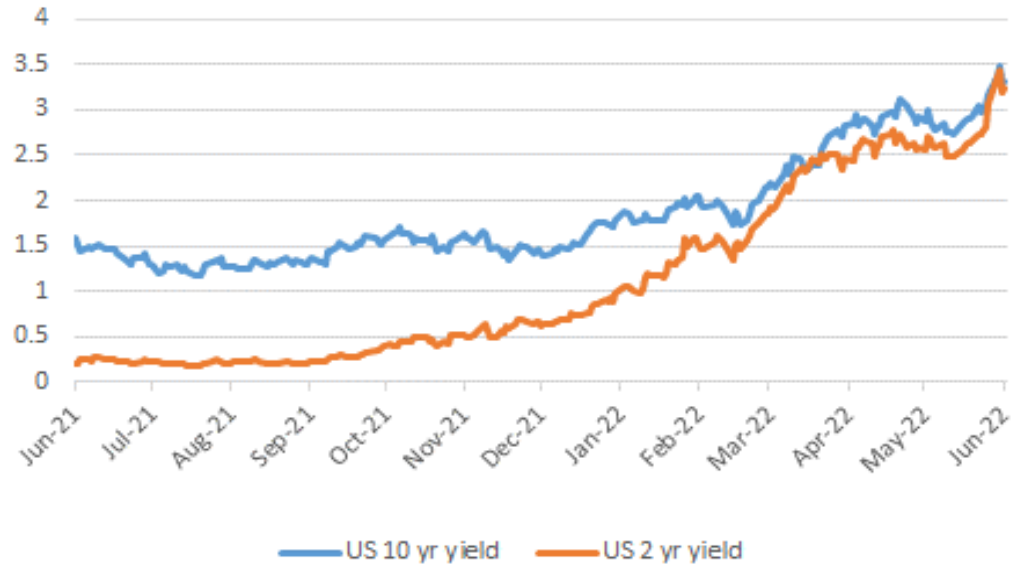
Variable	Median ¹			
	2022	2023	2024	Longer run
Change in real GDP	1.7	1.7	1.9	1.8
March projection	2.8	2.2	2.0	1.8
Unemployment rate	3.7	3.9	4.1	4.0
March projection	3.5	3.5	3.6	4.0
PCE inflation	5.2	2.6	2.2	2.0
March projection	4.3	2.7	2.3	2.0
Core PCE inflation ⁴	4.3	2.7	2.3	
March projection	4.1	2.6	2.3	
Memo: Projected appropriate policy path				
Federal funds rate	3.4	3.8	3.4	2.5
March projection	1.9	2.8	2.8	2.4

Source: US Federal Reserve

- US to increase pace of balance sheet reduction to \$95 bln per month from Sep 2022.
- US Fed has hiked rates by 150 bps so far. Fed also increased the median target rate quite sharply to 3.4% by end of CY22, from ~2% target in March meeting.
- US GDP growth forecast for CY22 has been cut by a percent to 1.7%, inflation & unemployment rate projections increased.

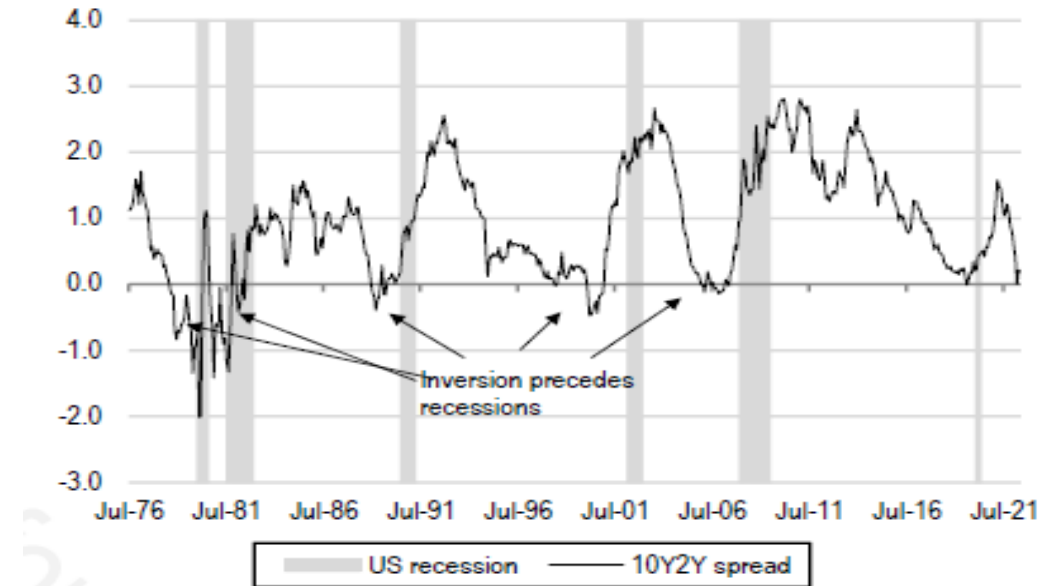
US treasury yields harden significantly; the yield curve has flattened/ inverted

US treasury yields (in %)



Source: Bloomberg

US Treasury 10Yr – 2yr Spread

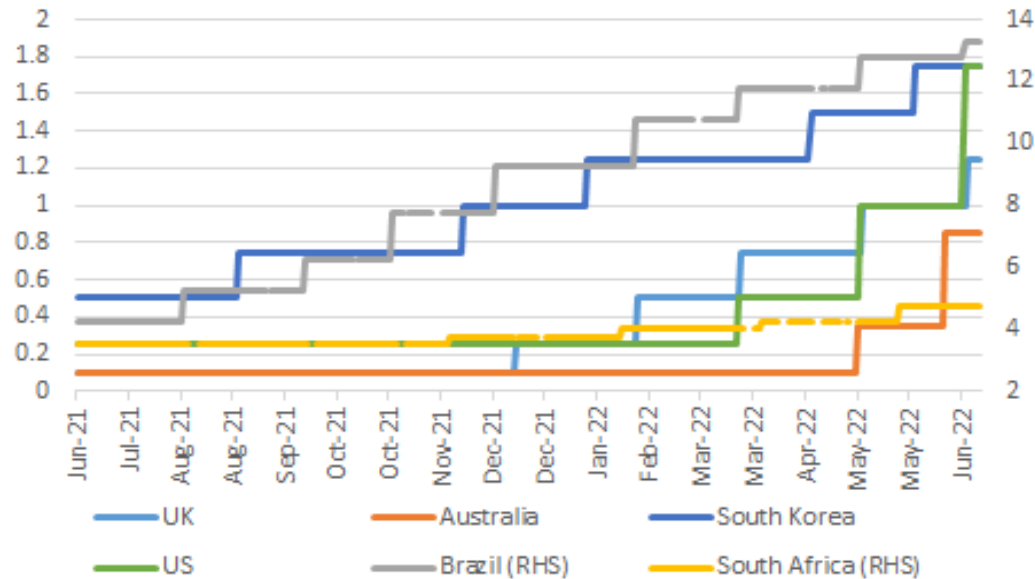


Source: Bloomberg, Credit Suisse

- US yields have risen and especially at the shorter end. The 10yr to 2yr spread has now turned flat to slight negative.
- Historical trend shows that yield curve inversion in the US has typically preceded periods of US recession, albeit it does come with a lag sometimes.

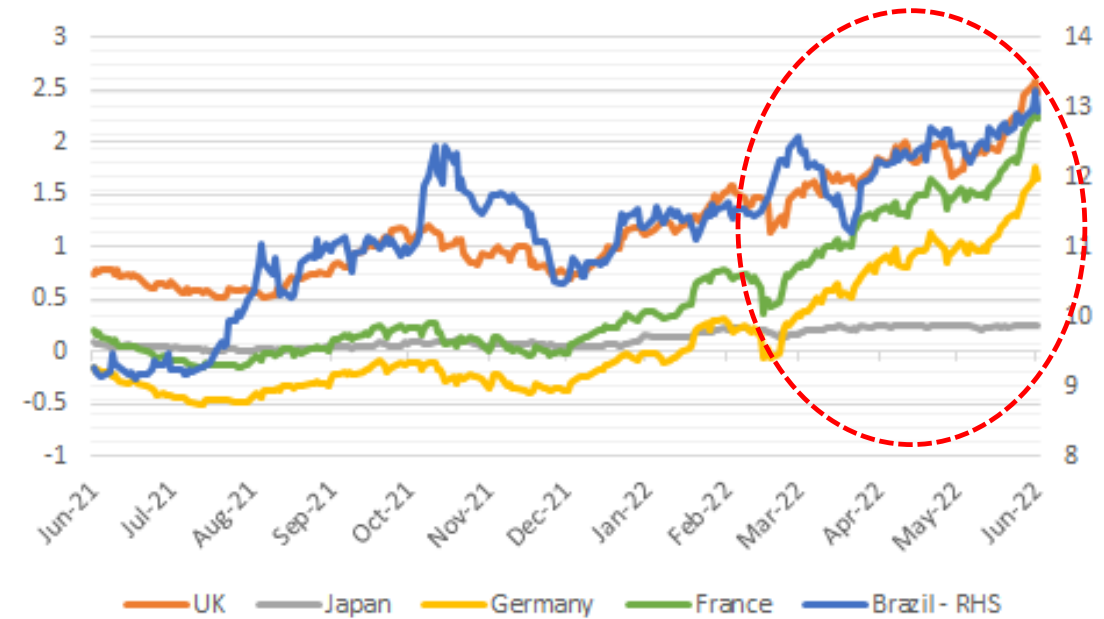
Other central banks around the world are also hiking rates; bonds yields harden

Interest Rate hikes by various Central Banks (%)



Source: Bloomberg

10-year Bond yields of various countries



- ECB (European Central Bank) will end its bond purchases and has indicated a 25 bps rate hike in July, followed by possible higher rate hikes if inflation persists.
- BOE (Bank of England) has hiked rates 5 times so far.
- Various other central banks have also started hiking rates. Bond yields around the world have hardened significantly.

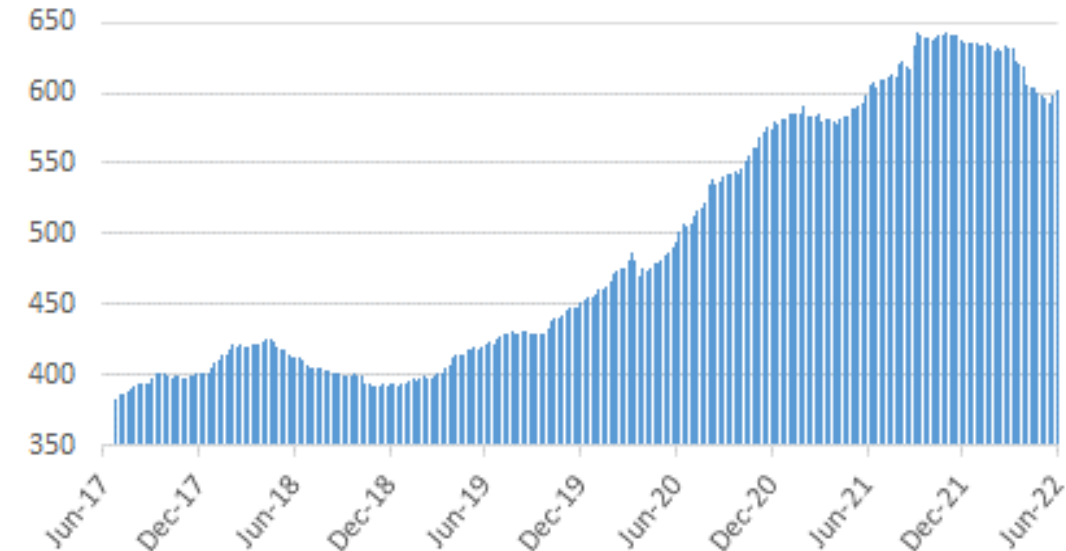
CAD to deteriorate due to higher crude imports; FX reserves provide cushion

India Current Account Balance & Balance of Payment Trends (\$ in billion)				
			FY23E	
	FY21	FY22E	Oil @ 105/bbl	Oil @ 120/bbl
Current Account Balance (CA)	23.9	-46.5	-105	-126.1
CA as % of GDP	0.9%	-1.5%	-3.0%	-3.7%
Trade Balance	-102	-193	-258	-281
Exports	296	426	449	457
Imports	398	620	707	738
Capital Account	64	96	50	45
FDI (Foreign Direct Inv)	44	39	38	38
FPI (Foreign Portfolio Inv)	36	-17	-10	-12
Balance of Payments (BOP)	87.3	49.6	-55.0	-81.1

Source: RBI, Kotak Institutional Equities

- With elevated crude prices Current Account Deficit (CAD) can rise to 3-4% of GDP
- Balance of Payments (BoP) to turn significantly negative after being in surplus.
- India forex reserves at ~\$600 bln to provide cushion

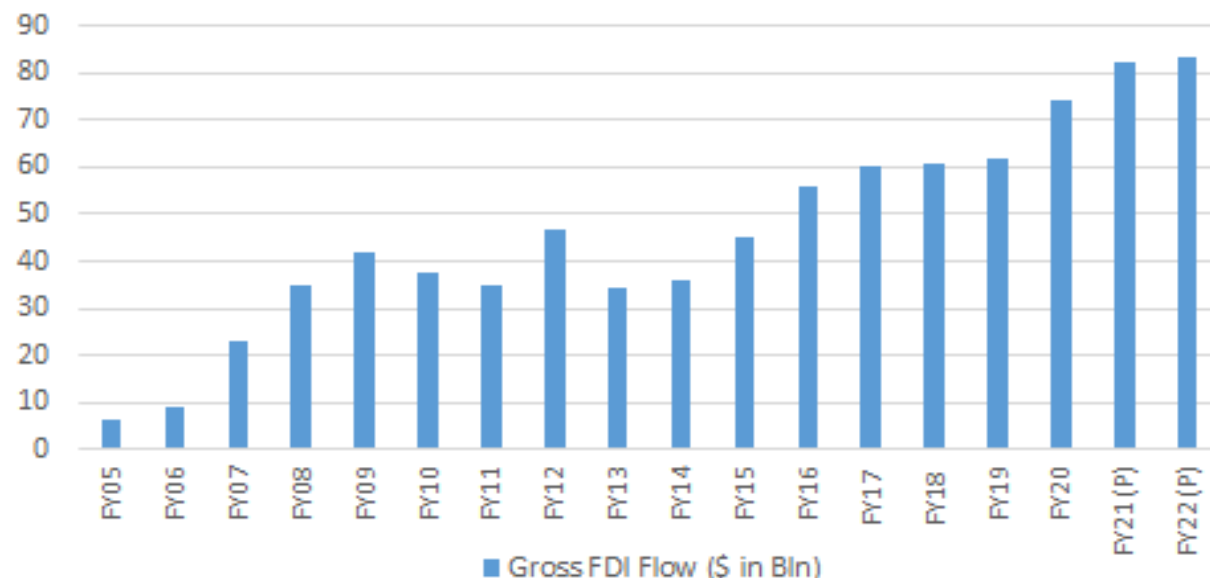
India Forex Reserves (\$ in billion)



Source: Bloomberg

FDI inflows into India at a record high in FY22

India Gross FDI flows – Fiscal Year-Wise (USD in Bln)



Source: DPIIT, Ministry of Commerce & Industries. # Services sector includes NBFC, R&D, courier, testing, etc.

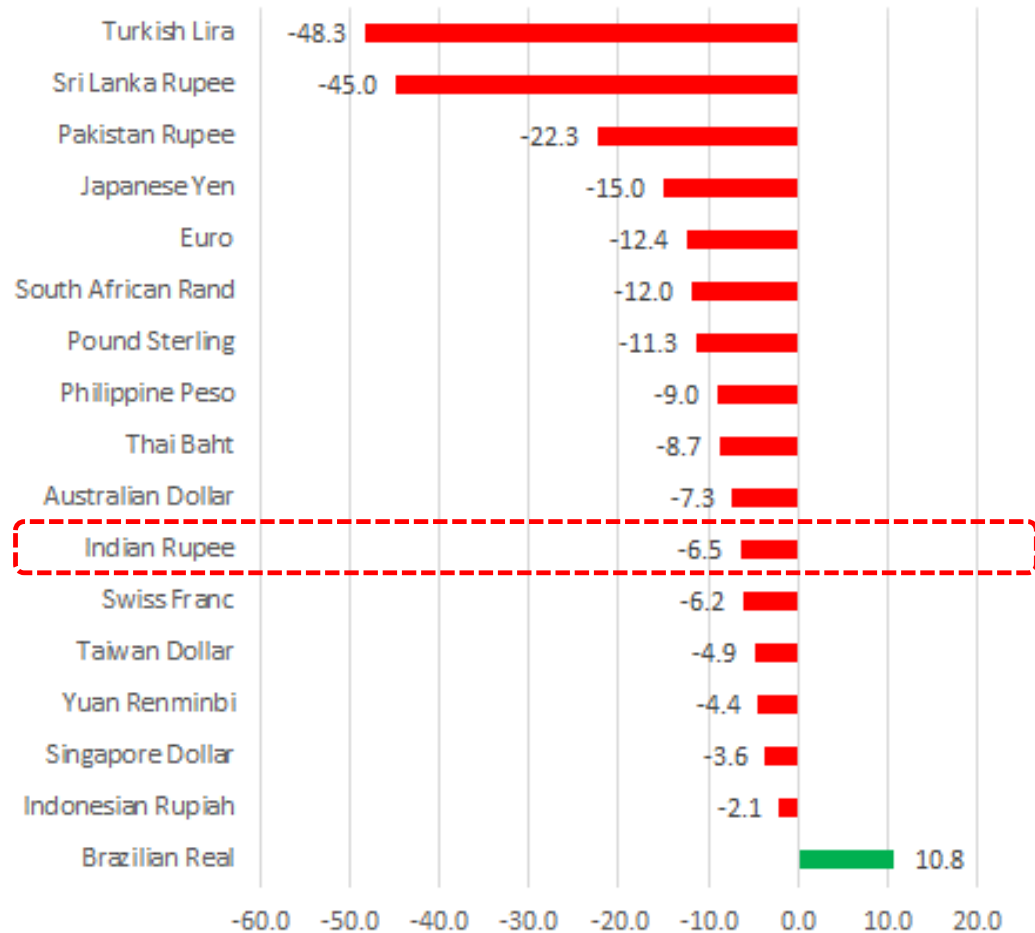
- India received a record high Gross FDI Inflow of \$84 billion in FY22
- Computer software & hardware sector registered the highest absolute FDI equity inflow in FY22, but was lower than that in FY21.
- Auto, trading and services sectors saw a pick-up in FDI flows in FY22, compared to the previous year.

Sectors receiving the highest FDI Equity Flows (USD in Mln)

Sector	2019-20 (April – March)	2020-21 (April – March)	2021-22 (April – March)
COMPUTER SOFTWARE & HARDWARE	7,673	26,145	14,461
SERVICES SECTOR #	7,854	5,060	7,131
AUTOMOBILE INDUSTRY	2,824	1,637	6,994
TRADING	4,574	2,608	4,538
CONSTRUCTION (INFRASTRUCTURE)	2,042	7,875	3,248

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

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



- The dollar index has gained significant strength and touched 20-year high.
- This has caused major currencies like Euro, Yen, Pound to underperform substantially versus US Dollar.

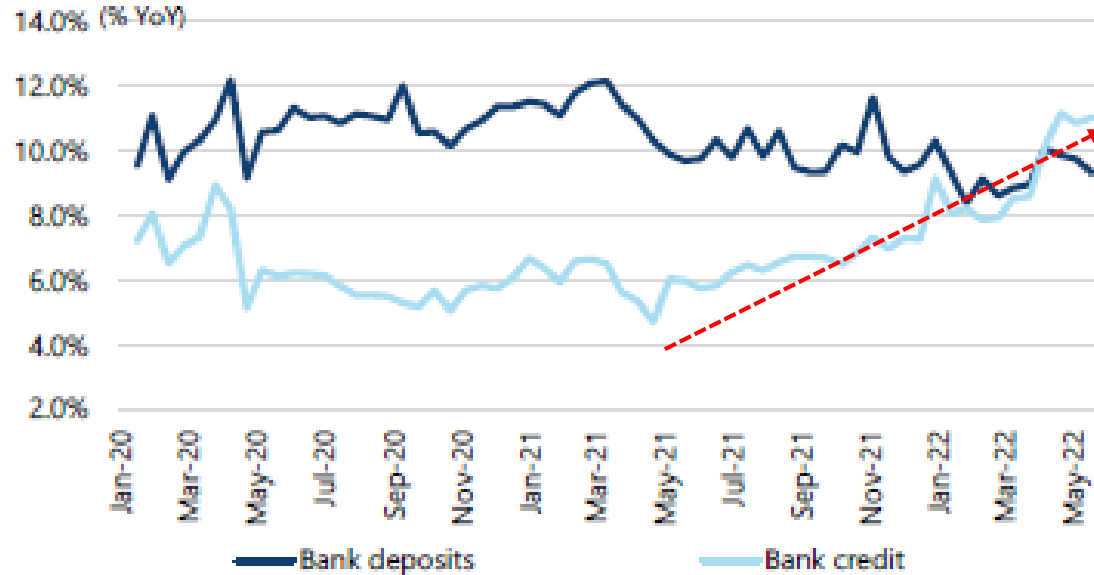
US Dollar Index



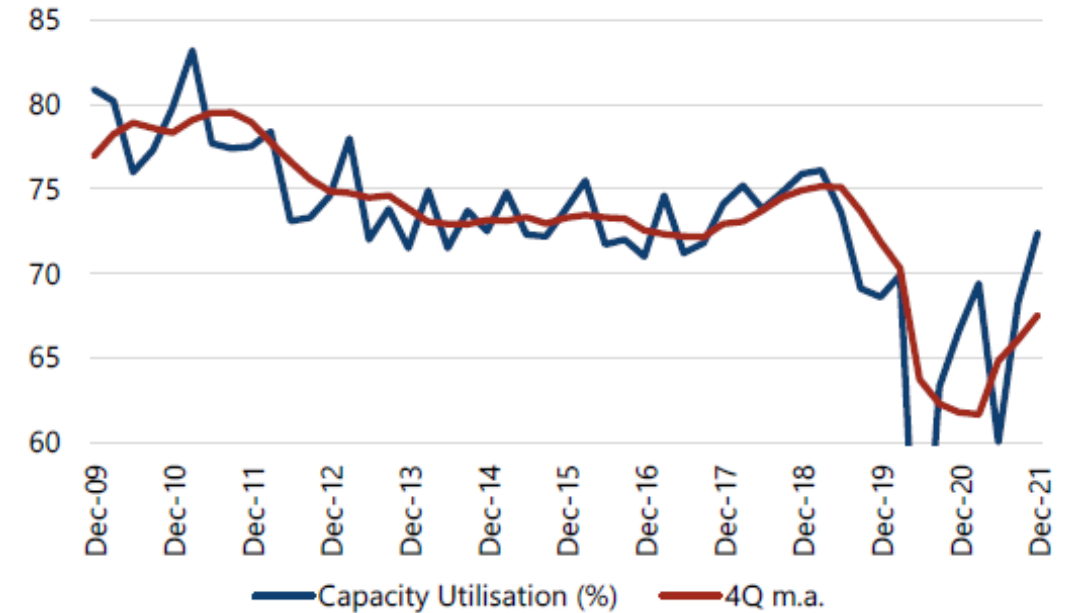
Source: Morningstar Direct. Data sorted in descending order.

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

India Credit & Deposit Growth Trend (% YoY)



India Capacity Utilization (%)



- With economic recovery, bank credit growth expected to recover gradually
- A gradual capex recovery cycle on the cards in India; capacity utilization has also recovered to ~73% (near the long-term average).

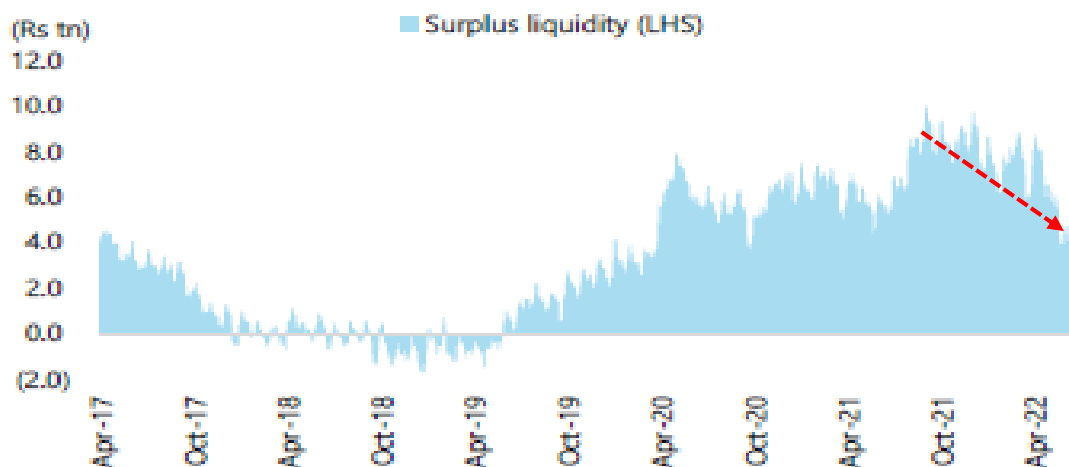
Bond yields harden in India; RBI hiking rates to tame inflation

India 10 Yr Yield Vs Repo Rate

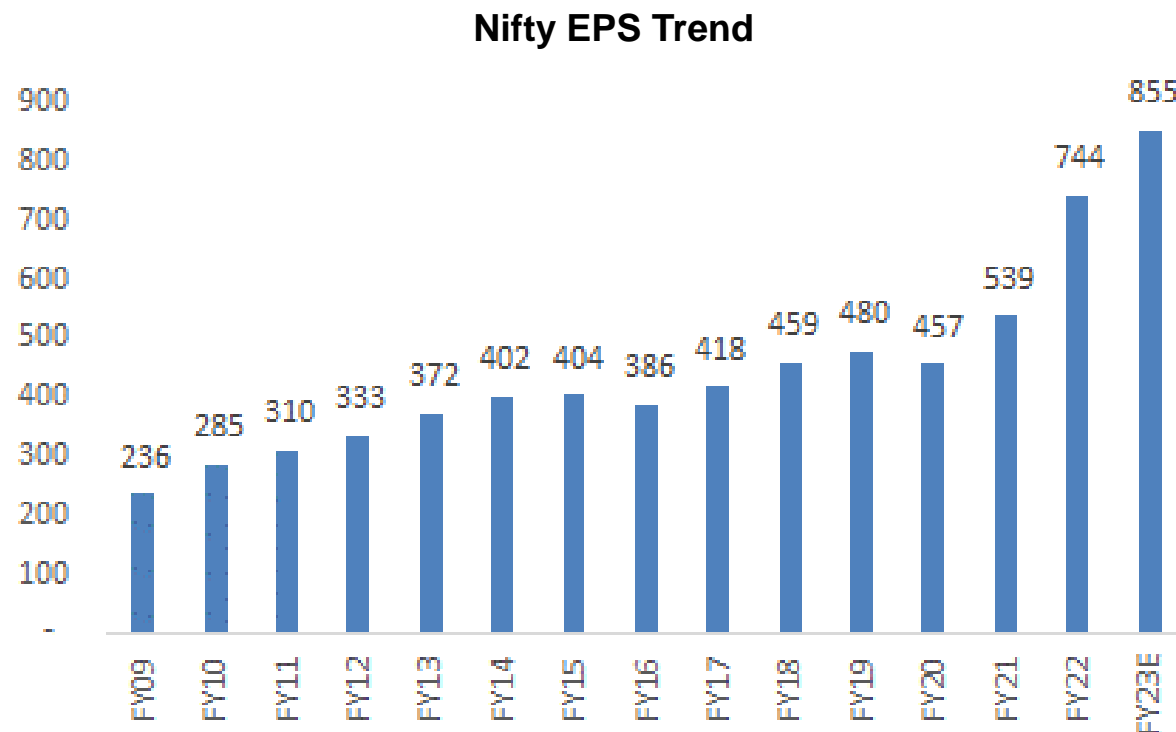


- RBI has hiked the repo rate twice recently, bringing the cumulative repo rate hike to 90 bps so far this year.
- RBI is also focusing on withdrawal of accommodation. Liquidity in the banking system has come down but still in surplus
- More rates hikes expected through the year dependent on the inflation trajectory

India Banking System Liquidity



Corporate earnings growth expected to moderate in India



Source: Bajaj Allianz Life Research Estimates

- Positive corporate earnings surprise (which had helped Indian markets to outperform earlier) may be behind us now.
- After a robust Nifty earnings growth of ~38% in FY22, Nifty EPS growth is expected to moderate to 15-16% in FY23, and there could be some more downside risk.

Sector earnings trends

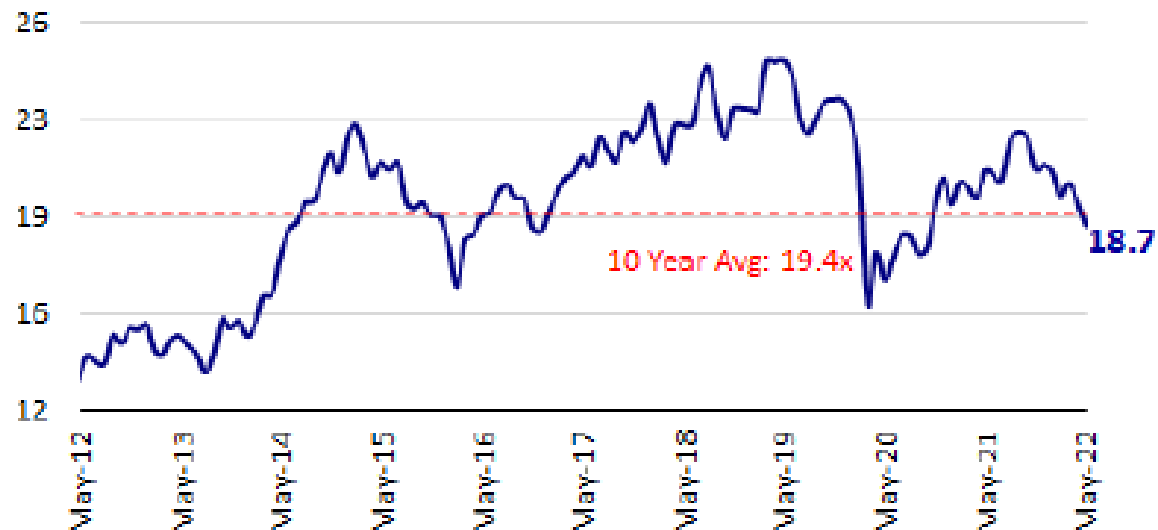
Sector Profit After Tax (PAT) of Bajaj Allianz Life Research Universe

Sector	PAT (Profit After Tax), INR mn			PAT (Profit After Tax) Growth		
	FY21	FY22	FY23E	FY21	FY22	FY23E
Banks (Large Cap)	8,50,319	12,56,519	15,60,616	39%	48%	24%
Oil & Gas	8,54,859	10,02,677	13,51,181	39%	17%	35%
Software / IT	8,99,001	10,23,728	11,44,679	11%	14%	12%
FMCG	3,32,275	3,75,682	4,30,578	1%	13%	15%
Auto	1,69,287	87,767	3,01,472	27%	-48%	243%
Pharma (Large Cap)	2,16,744	2,32,158	2,52,152	27%	7%	9%
Industrials	1,53,243	1,45,867	1,85,549	9%	-5%	27%
NBFC	1,08,789	1,23,944	1,56,759	-1%	14%	26%
Cement	1,37,558	1,41,909	1,31,033	46%	3%	-8%
Auto Ancillaries	81,091	83,013	1,25,671	1%	2%	51%
Specialty Chemicals	32,232	63,844	74,738	-3%	98%	17%

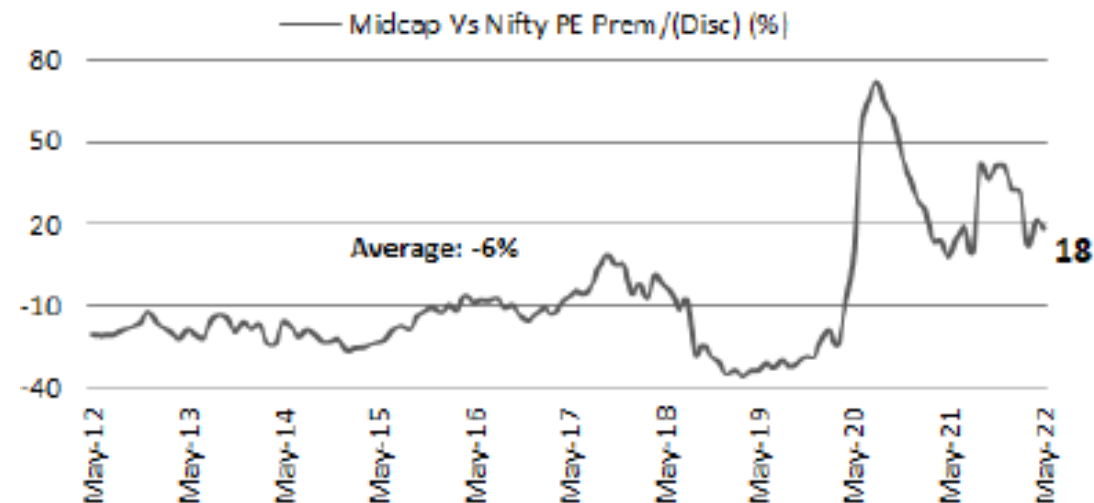
- Top 7 banks to grow PAT by 25% in FY23, which is a significant contributor to Nifty earnings.
- Oil & Gas sector to see healthy growth in FY23; a private oil & gas major driving most of the earnings growth.
- Software & FMCG sector to see stable PAT growth in FY23.
- Cement sector PAT to de-grow by 8% in FY23. Industrial sector to see healthy earnings growth in FY23 (helped to some extent by base effect).
- Auto sector to see strong PAT growth in FY23; most of the delta being contributed by a private auto major turning profitable.

Market valuations moderated from their highs, now below long-term average

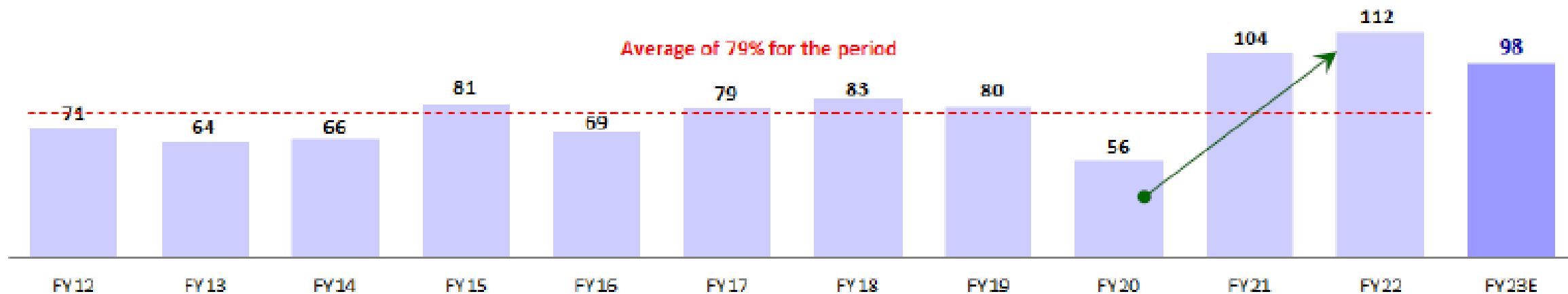
Nifty 1 Year Fwd Consensus P/E Ratio



Nifty Midcap index P/E has fallen more due to sharper correction, but still trades at a premium to large-cap



India Market Cap to GDP Trend (in %)



FPI outflows continue unabated, while DIIs register record inflows

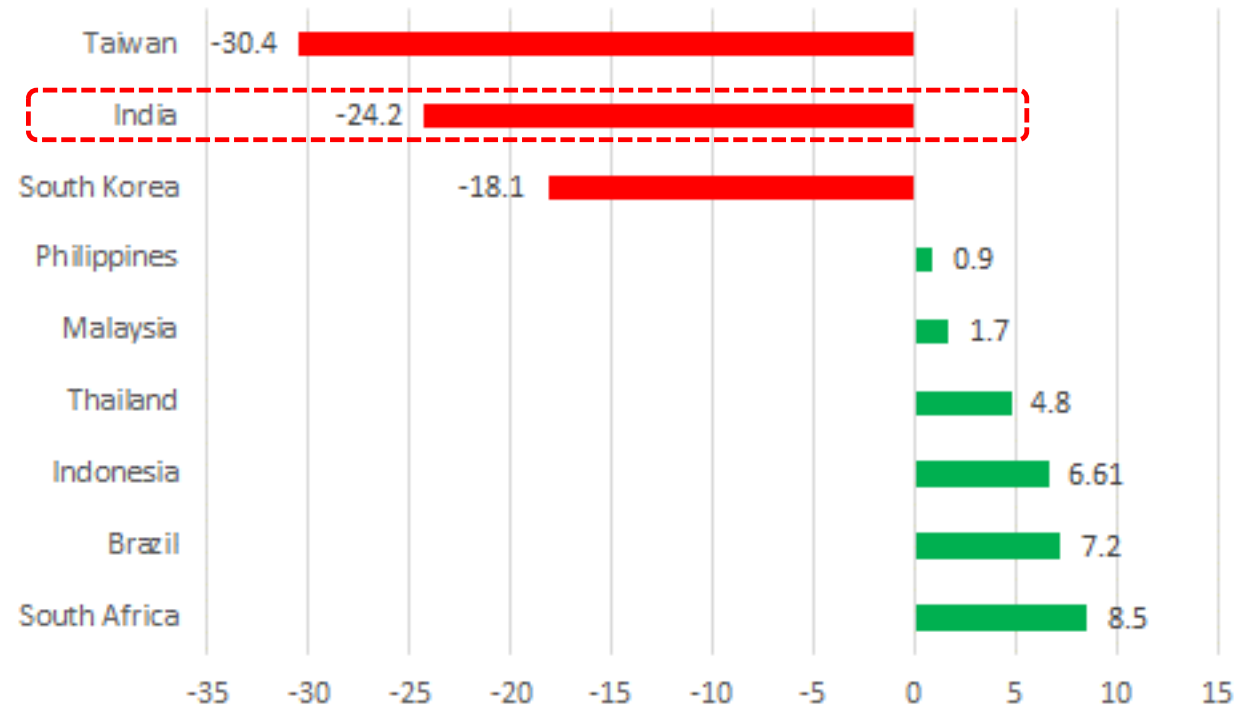
Source: NSDL, Axis Capital		
	Rs in Crore	
Year	FPIs	DIIs
FY2008	52,572	47,794
FY2009	-48,250	60,040
FY2010	1,10,752	24,211
FY2011	1,10,121	-18,709
FY2012	43,738	-5,347
FY2013	1,40,032	-69,069
FY2014	79,709	-54,161
FY2015	1,11,445	-21,446
FY2016	-14,171	80,416
FY2017	60,196	30,787
FY2018	21,074	1,13,258
FY2019	-90	72,115
FY2020	6,151	1,29,301
FY2021	2,74,897	-1,34,056
FY2022	-1,39,434	2,21,389
FYTD2023 (Upto May)	-58,131	81,678

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
30 April 2022	-20,468	30,842
31 May 2022	-37,663	50,836

- After registering record outflows in FY22, FPI outflows continue unabated.
- Meanwhile, DII equity flows continue to be strong, after a record inflow in FY22. DII inflows have helped to counter FII outflows, thereby leading to relatively less fall in Indian equity markets, compared to peers.

India has seen one the highest FII equity outflows among EMs over 1 year

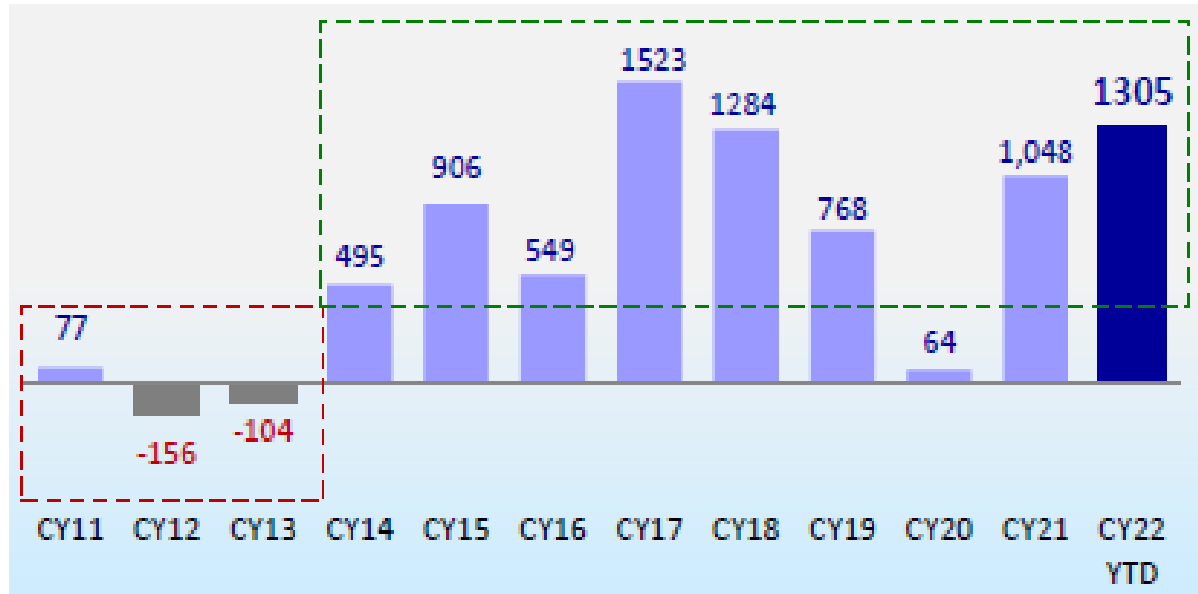
FII Equity Net Flows of various Emerging Markets (over past 12 months, as of May 2022) – in USD billion



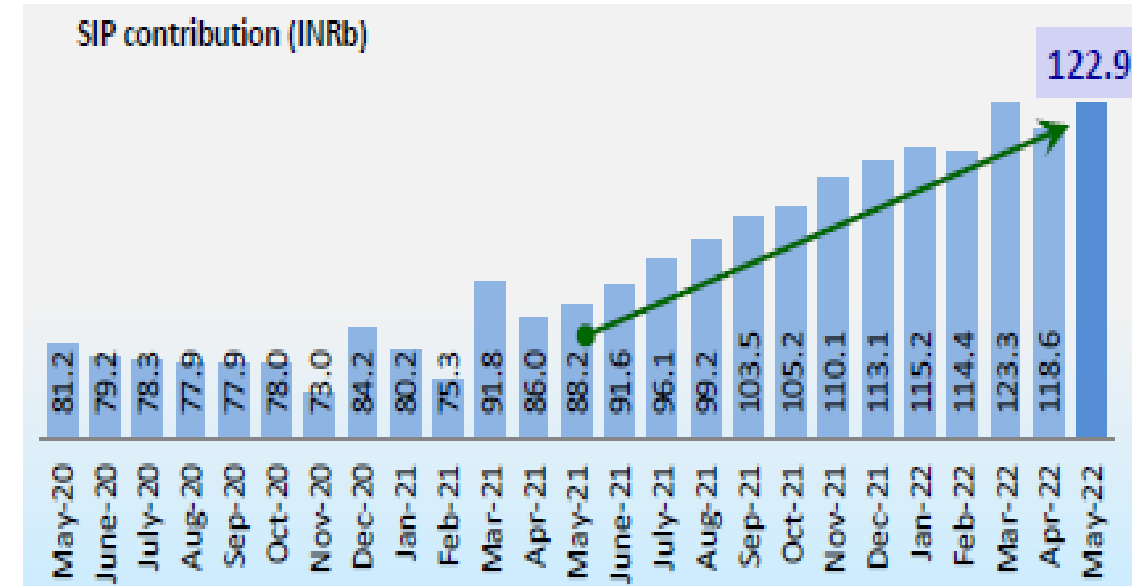
Source: Bloomberg, CLSA

Domestic Mutual Funds witnessing robust inflows

Mutual Funds – Equity Flows (INR billion)



Mutual Funds – Monthly SIP trend (INR billion)



Source: AMFI, Motilal Oswal

- 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

- **Global central banks (esp. the US Fed) has become quite hawkish:**
 - Several countries around the world are hiking rates, and global yields have also hardened.
 - US Fed among the most hawkish; Fed target rate expected to rise to ~3.4% by CY22 end (a hike of almost 3.25% in a year)
- **Globally, inflation is a major cause of concern and weighing down on global economic growth**
 - India also to see some slowdown, but still among the fastest growing major economies over next 2 years.
 - Elevated commodity prices, and geo-political tensions a risk
- **Market valuations have moderated** due to the correction and become more reasonable now in India.
- **Positive earnings surprise behind us now. Earnings growth to moderate** in India due to margin pressure and higher interest rates.
- **Equity Investment Strategy:**
 - Markets may see more volatility if pace of global monetary tightening is higher than anticipated and if commodity prices remain elevated.
 - 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, and expected to harden more as RBI further hikes rates depending on the inflation trajectory.

THANK YOU

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