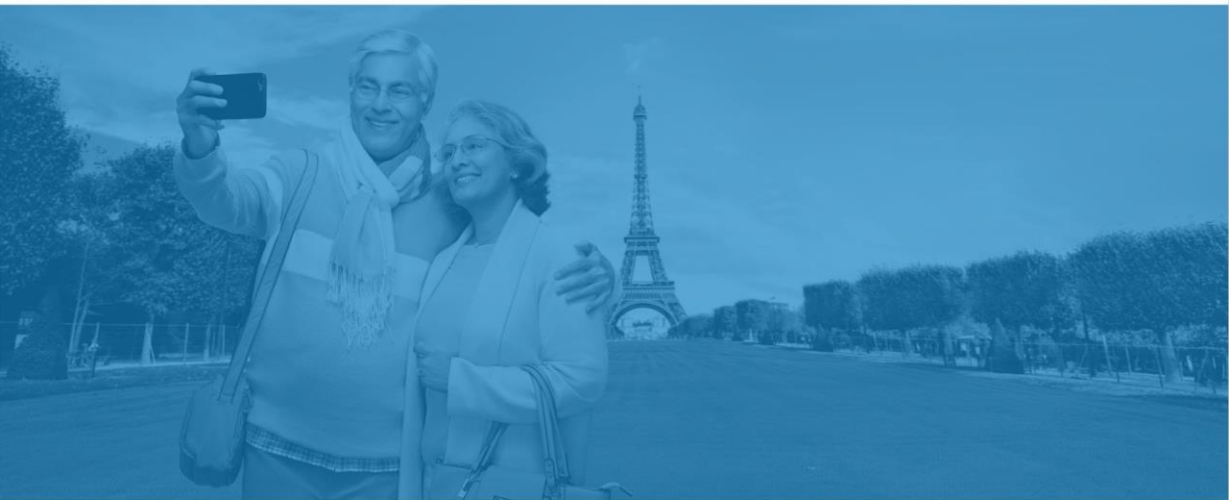


## Macro & Market Outlook Amidst Global Volatility

LIFE GOALS. **DONE.**



July 2022



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

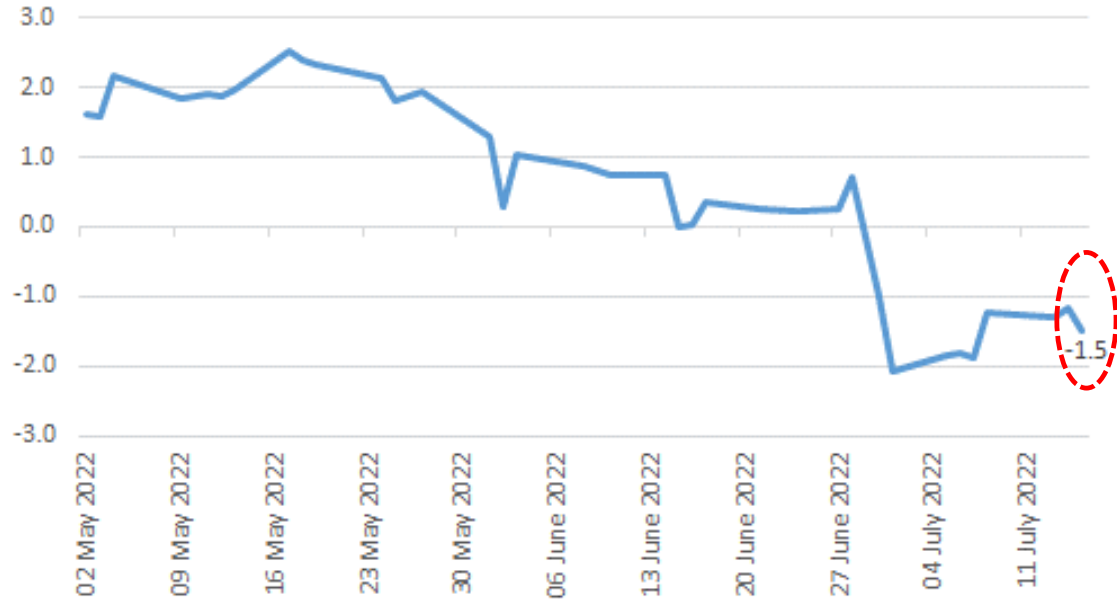
World Bank GDP Forecasts (in %) June 2022 Global Economic Prospects Report							Percentage point differences from January 2022 projections	
Country / Region	Actual			Projection			2022	2023
	2019	2020	2021	2022	2023	2024		
World	2.6	-3.30	5.7	2.9	3.0	3.0	-1.2	-0.2
Advanced economies	1.7	-4.6	5.1	2.6	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
<b>India*</b>	<b>3.7</b>	<b>-6.6</b>	<b>8.7</b>	<b>7.5</b>	<b>7.1</b>	<b>6.5</b>	<b>-1.2</b>	<b>0.3</b>
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
- Some are also talking of a possible recession.
- 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.

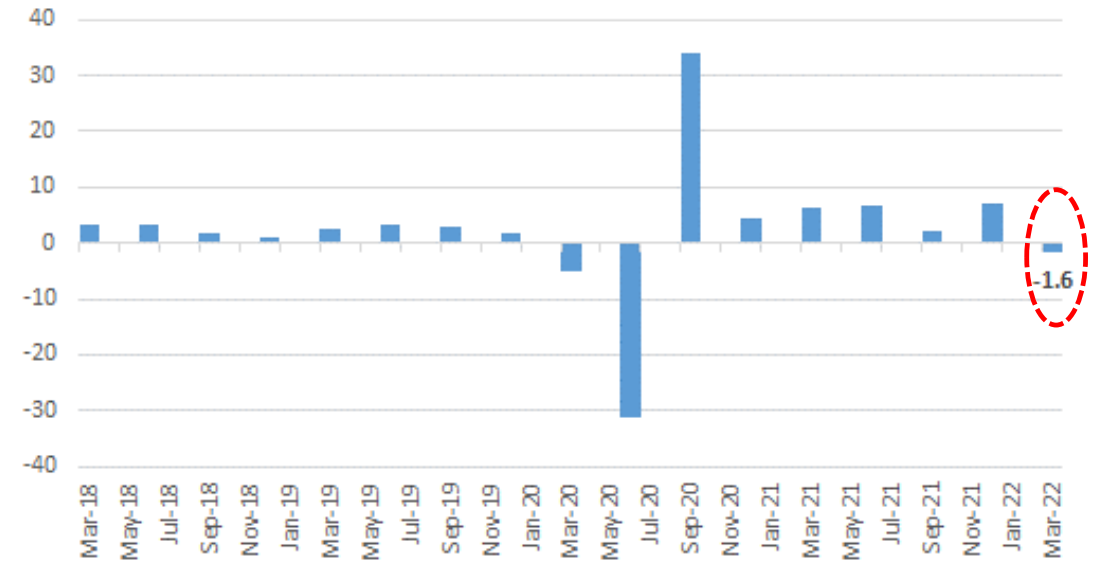
\* For India fiscal year being considered. 2022 = FY23 & 2023= FY24  
Source: World Bank Global Economics Prospect Report, June 2022

# US GDP expected to see 2 consecutive quarters of negative growth

Atlanta Fed Q2 CY22 US GDP forecast (% QoQ, SAAR)



Quarterly US GDP growth (%QoQ SAAR)

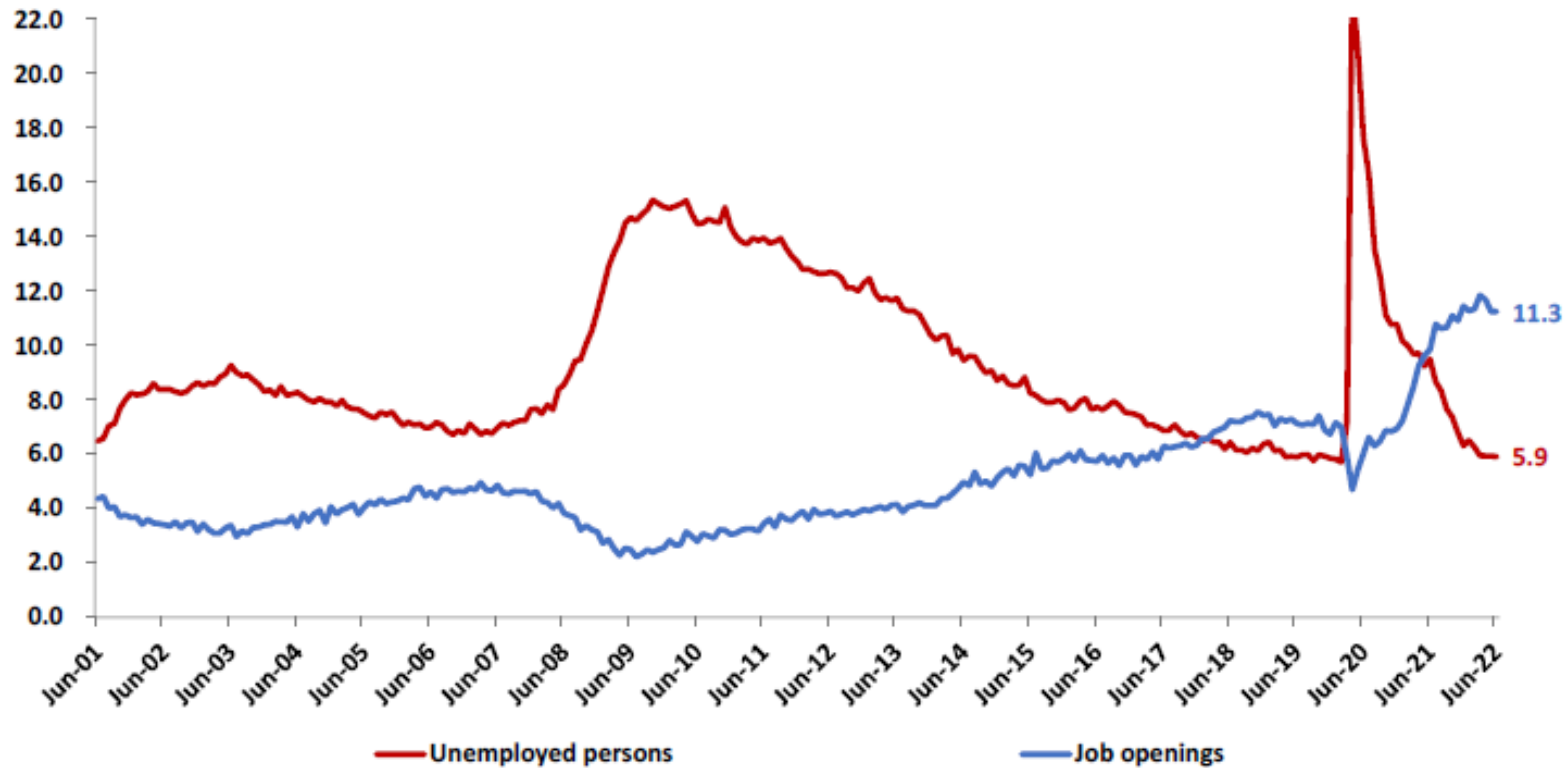


Source: Bloomberg

- US GDP growth for Q1 CY22 was -1.6% (QoQ, SAAR).
- Atlanta Fed is forecasting a negative GDP growth of -1.5% for Q2 CY22. Two consecutive quarters of negative GDP growth is termed as a technical recession in the US.

# On the flipside, the job market in the US is still quite strong

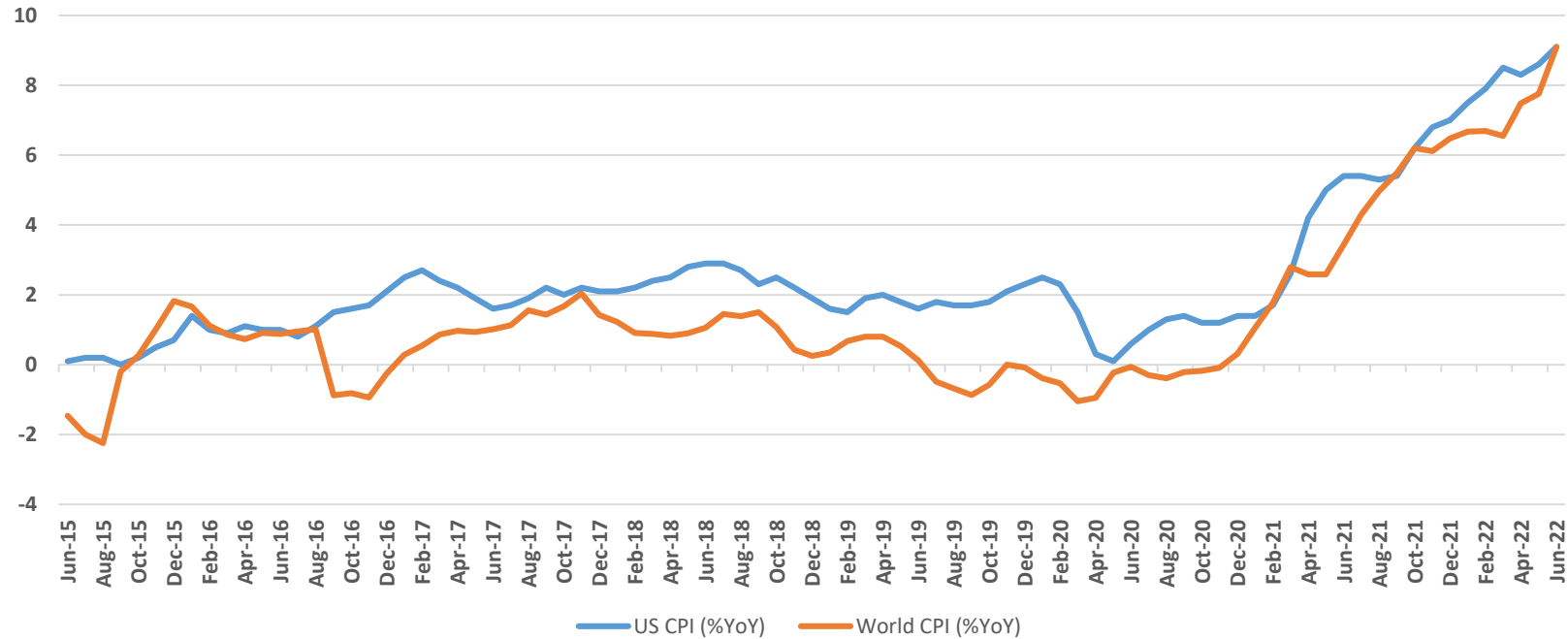
US Number of Job Openings & Total Unemployed Persons (in Million)



- US job openings at a record high and unemployment at a historical low.

# Inflation is globally quite elevated and a cause for concern

## US & Global Consumer Inflation (%YoY)



Source: Bloomberg

- US headline CPI touched a fresh 4-decade high of 9.1% in June 2022.
- Inflation is more pronounced in developed economies but is a growing issue in emerging economies as well.

# Inflation across global economies significantly higher than long term average

Global Inflation (%YoY)

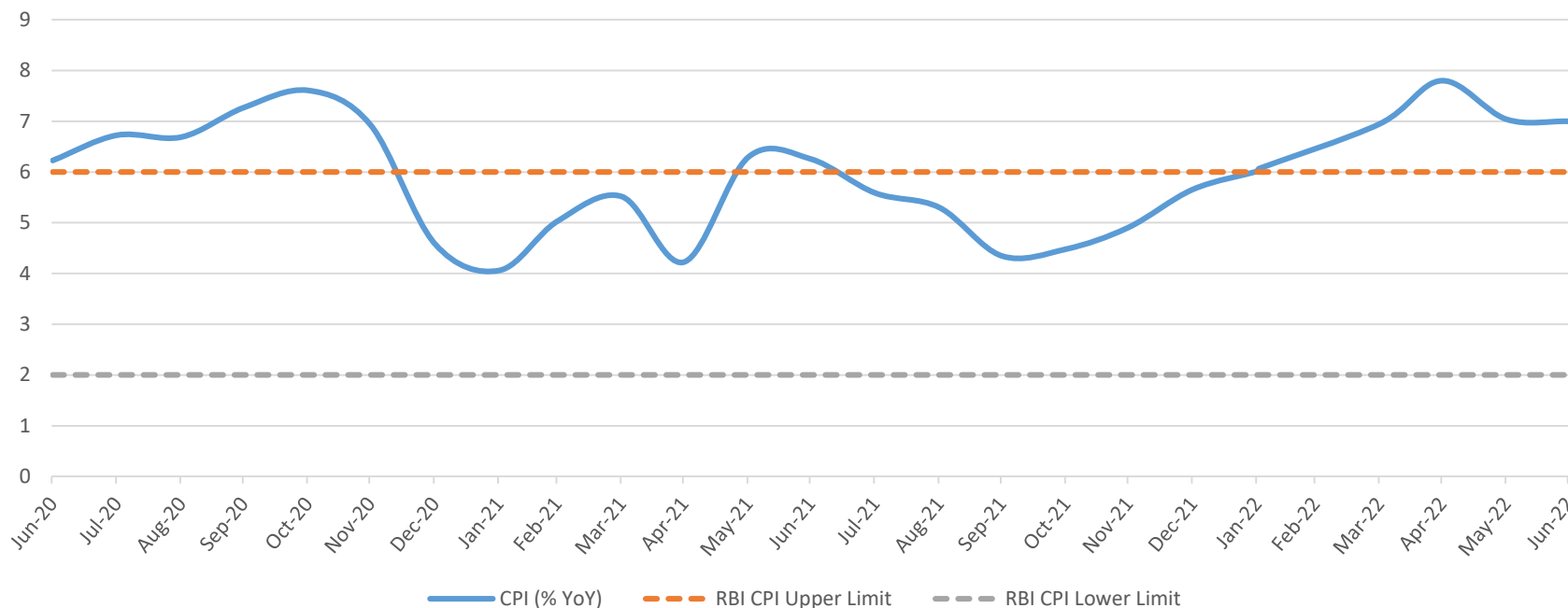
Country / Region	Current Headline CPI %YoY	10 Years Average
USA	9.0	2.1
United Kingdom	9.1	1.9
Eurozone	8.0	1.9
Turkey	78.6	17.4
India	7.0	5.8
Brazil	11.9	6.0

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

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

India Headline Consumer Inflation Trend (% YoY)



- In India, headline consumer inflation is above the 6% tolerance band of RBI; but moderated to 7% in June 2022 from 7.8% in the month of April.
- 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.

# Commodities have seen a healthy correction after witnessing a strong rally

Commodity	1 month	3 month	6 month	1 Yr
<b>Metals</b>				
Nickel	-19.7%	-39.0%	-11.8%	11.5%
Copper	-18.0%	-30.2%	-26.4%	-21.8%
Aluminium	-4.1%	-26.7%	-22.3%	-1.0%
Palladium	3.6%	-22.1%	-7.7%	-28.5%
Platinum	-6.7%	-11.9%	-15.6%	-18.9%
Zinc	-15.0%	-33.6%	-16.6%	1.3%
Gold	-6.9%	-12.2%	-7.0%	-5.6%
Lead	-3.1%	-18.5%	-15.8%	-12.4%
Iron Ore	-24.6%	-35.0%	-24.9%	-56.7%
<b>Energy</b>				
Crude Oil WTI	-4.9%	1.6%	19.8%	56.9%
Crude Oil Brent	-5.1%	0.1%	21.4%	56.4%
Newcastle Coal	2.6%	24.5%	79.1%	166.4%
Indonesian Coal	17.5%	59.0%	102.7%	222.8%
US Natural Gas	4.6%	1.2%	80.2%	92.2%
Germany Gas	14.4%	70.6%	108.4%	353.3%
<b>Agri/ Chemicals</b>				
Malaysia Crude Palm Oil (MYR)	-33.1%	-44.6%	-29.0%	-12.4%
Raw Sugar (USD)	1.3%	-7.0%	-1.2%	10.4%
US Wheat	-21.5%	-27.5%	2.0%	16.4%
US Corn	-23.9%	-26.6%	-2.3%	7.3%
HDPE (Polyethelenes Spot Price)	-5.2%	-13.4%	-3.1%	1.9%
PFAD	-39.0%	-50.5%	-41.7%	-25.4%
Soda ash	13.9%	13.9%	42.0%	128.2%

- Global growth slowdown concerns has resulted in sharp correction in commodities like base metals and agri commodities recently.
- However, energy commodity prices are still quite elevated due to Russia – Ukraine conflict and supply side pressures.
  - Natural gas prices in Europe continue to surge due to supply disruption from Russia.



# Elevated crude oil prices impacting inflation & trade deficit

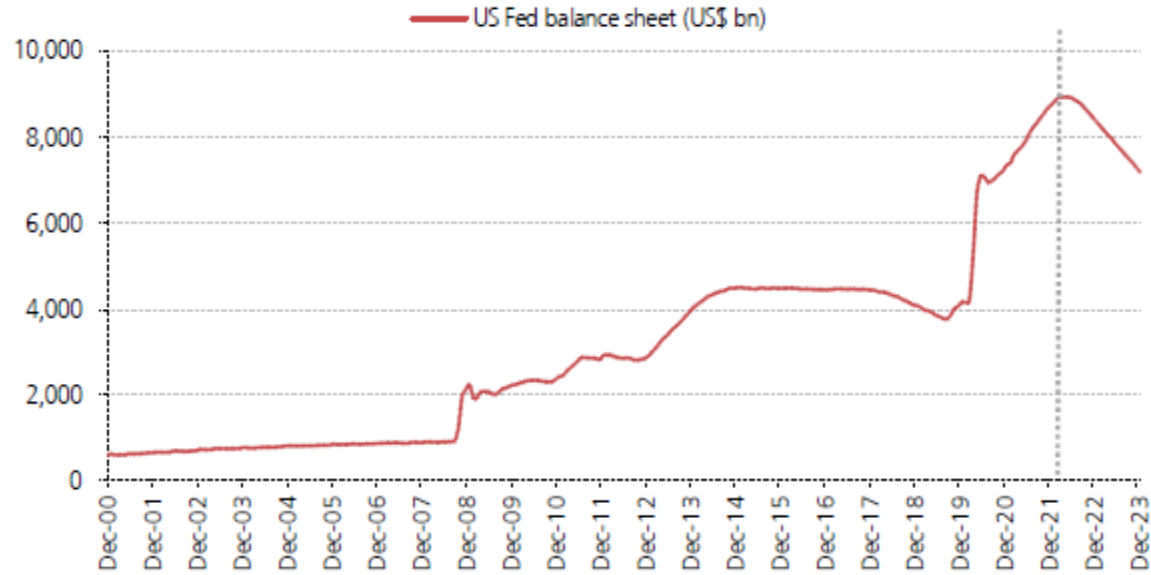
Brent Crude Price (US\$ / barrel)



- 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

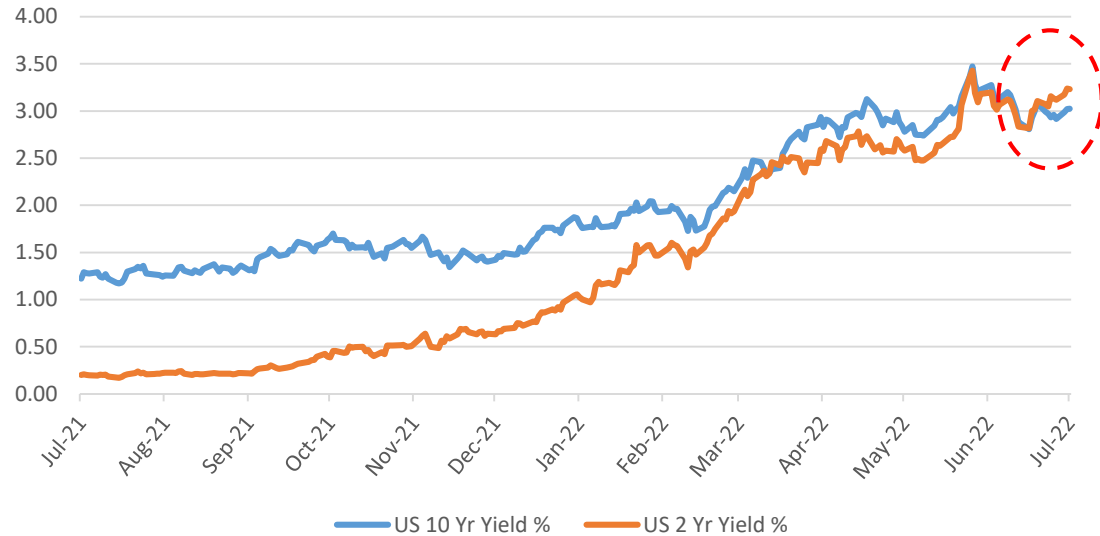
Variable	Median <sup>1</sup>			
	2022	2023	2024	Longer run
Change in real GDP	1.7	1.7	1.9	1.8
March projection	2.8	2.2	2.0	1.8
Unemployment rate	3.7	3.9	4.1	4.0
March projection	3.5	3.5	3.6	4.0
PCE inflation	5.2	2.6	2.2	2.0
March projection	4.3	2.7	2.3	2.0
Core PCE inflation <sup>4</sup>	4.3	2.7	2.3	
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. Markets are pricing in a 100bps hike in July meeting.
- US GDP growth forecast for CY22 has been cut by a percent to 1.7%, inflation & unemployment rate projections increased.

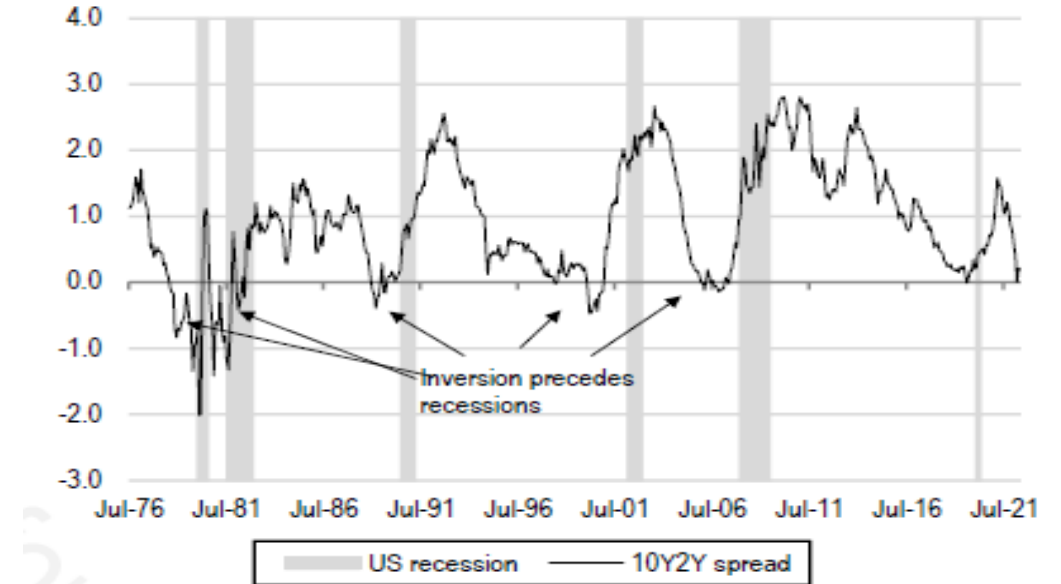
# US treasury yields (esp. short term) harden; yield curve has inverted

## US treasury yields (in %)



Source: Bloomberg

## US Treasury 10Yr – 2yr Spread

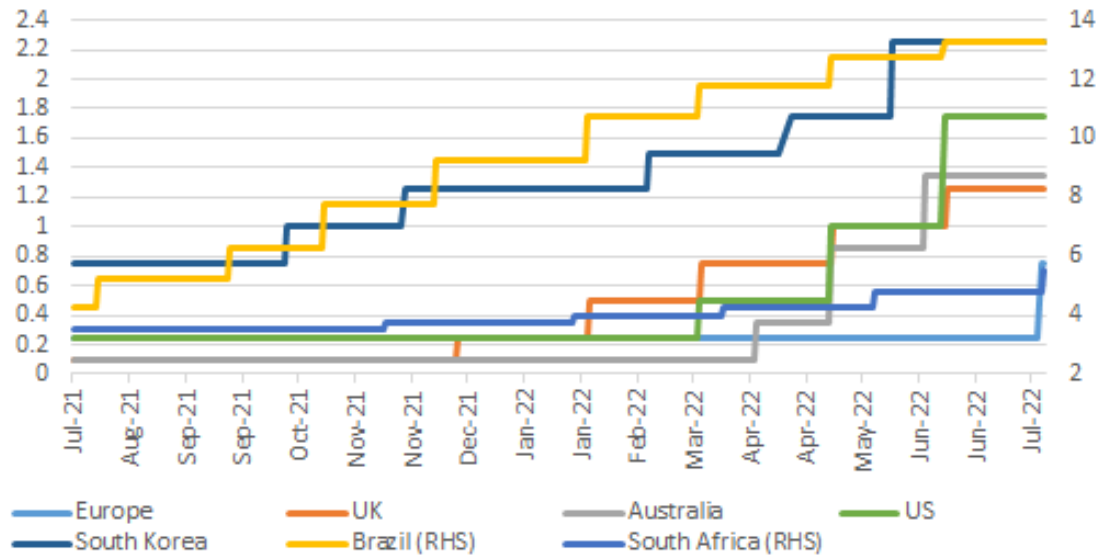


Source: US Federal Reserve

- US yields have risen and especially at the shorter end. The 10yr to 2yr spread has now turned 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.

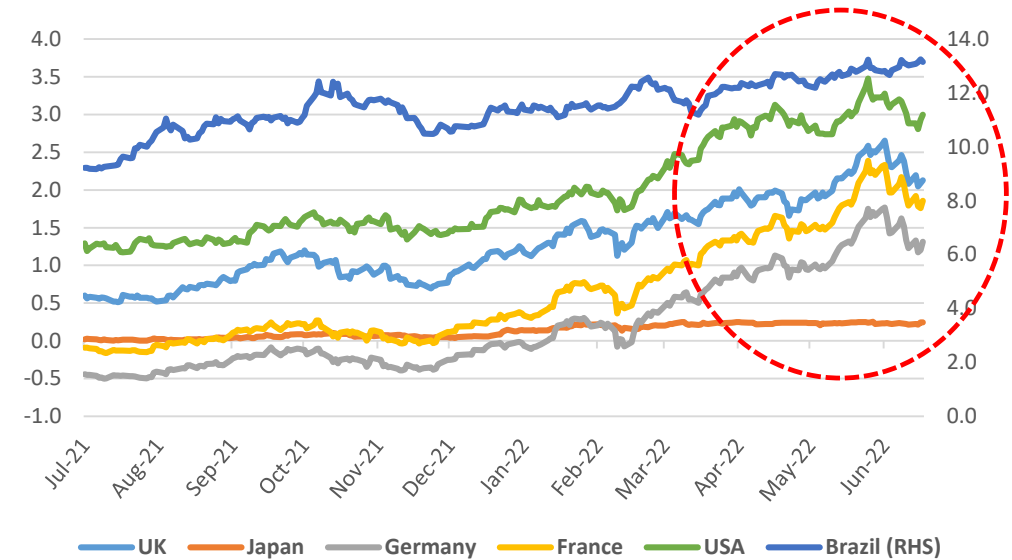
# Other central banks around the world are also hiking rates; bonds yields harden

Interest Rate hikes by various Central Banks (%)



Source: Bloomberg

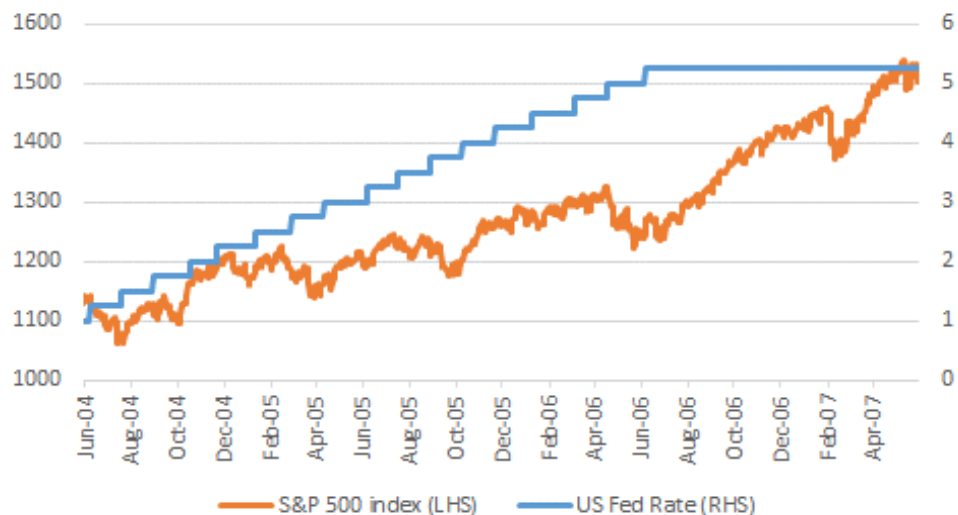
10-year Bond yields of various countries



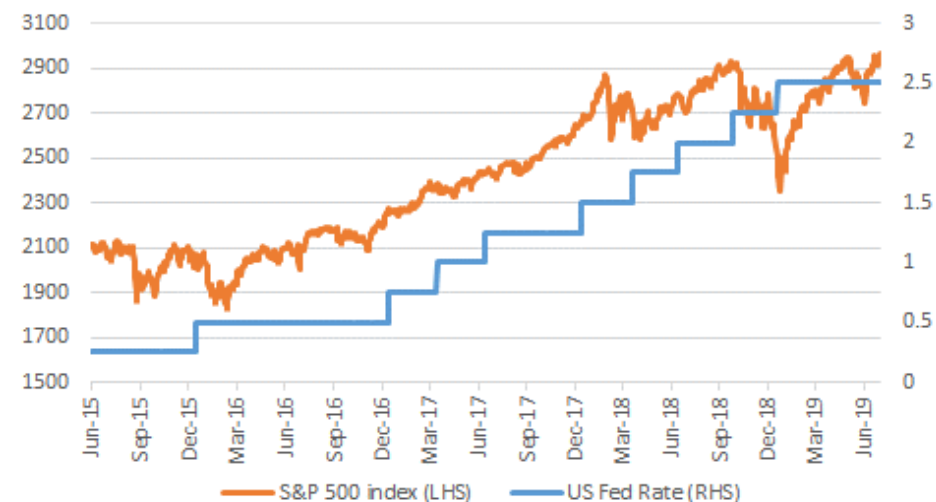
- ECB (European Central Bank) ended its bond purchases and hiked rates by 50 bps (against earlier indication of 25 bps).
- BOE (Bank of England) has hiked rates 5 times so far.
- Various other central banks have also started hiking rates. Bond yields around the world have hardened significantly.

# US equity markets had continued to trend higher in earlier phases of Fed rate hikes

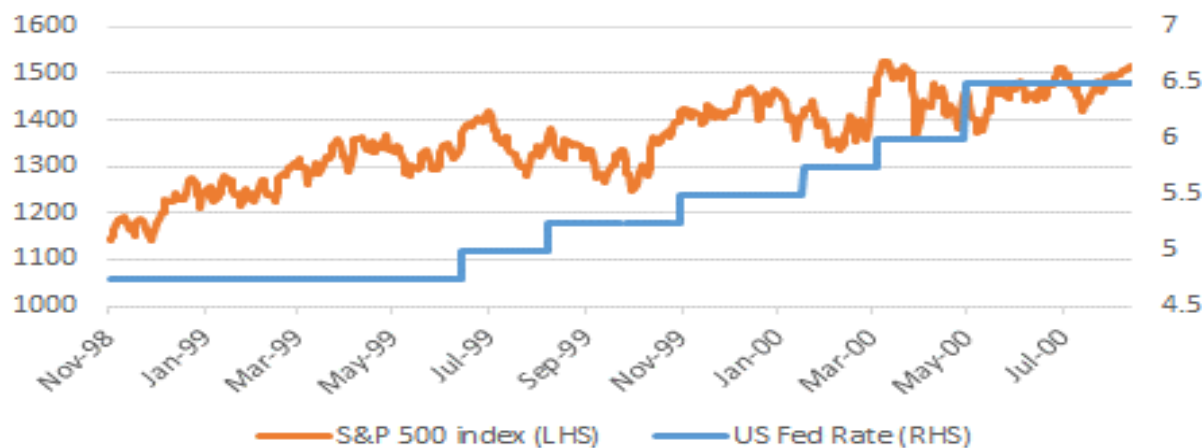
## US Fed hike (2004 – 06) Vs S&P 500 index



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



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



# India has relatively outperformed over 1 year and the top performer over the long term (5 & 10 Yrs.)

Performance of International Indices (ended June 2022, in %)						
Index Name	Country / Region	CYTD	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
JSX Composite	Indonesia	5.0	15.5	2.8	3.5	5.7
FTSE/SGX STI	Singapore	-0.7	-0.9	-2.3	-0.8	0.8
FTSE 100	United Kingdom	-2.9	1.9	-1.2	-0.4	2.6
FTSE SET All Share	Thailand	-4.2	0.7	-4.3	-1.1	2.1
BOVESPA TR	Brazil	-6.0	-22.3	-0.8	9.4	6.1
Hang Seng	Hong Kong	-6.6	-24.2	-8.5	-3.2	1.2
Shanghai Composite	China	-6.6	-5.4	4.5	1.3	4.3
FTSE Bursa Malaysia KLCI	Malaysia	-7.9	-5.8	-4.8	-3.9	-1.0
Nikkei 225 Average	Japan	-8.3	-8.3	7.4	5.7	11.4
<b>IISL Nifty 50</b>	<b>India</b>	<b>-9.1</b>	<b>0.4</b>	<b>10.2</b>	<b>10.6</b>	<b>11.6</b>
S&P/ASX 200	Australia	-11.8	-10.2	-0.3	2.8	4.8
CAC 40	France	-17.2	-9.0	2.3	3.0	6.4
MSCI AC Asia Ex Japan	Asia Ex Japan	-17.3	-26.6	0.0	0.9	3.1
TSEC TAIEX	Taiwan	-18.6	-16.5	11.4	7.4	7.3
MSCI EM	Emerging Markets	-18.8	-27.2	-1.7	-0.2	0.7
FSE DAX TR	Germany	-19.5	-17.7	1.0	0.7	7.1
S&P 500	United States	-20.6	-11.9	8.8	9.3	10.8
MSCI World	World	-21.2	-15.6	5.3	5.8	7.5
KOSPI	South Korea	-21.7	-29.2	3.1	-0.5	2.3

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 South Korea, US & Germany have seen a deeper correction.
- Singapore & UK outperformed other developed economies.
- India has also witnessed correction, but it is relatively lower than some other peer markets.
- Only Indonesia has outperformed this calendar year.
- Over the long term (5 & 10 years) Indian market has been among the top performing markets

# Broader equity markets in India have seen a much deeper correction

Index Name	% Change From 52 Week High
Nifty 500 return	-12%
% of of Index Stocks fallen more than 40%	27%
% of of Index Stocks fallen more than 30%	49%
% of of Index Stocks fallen more than 20%	72%

Index Name	% Change From 52 Week High
Nifty Midcap 100 return	-14%
% of of Index Stocks fallen more than 40%	25%
% of of Index Stocks fallen more than 30%	45%
% of of Index Stocks fallen more than 20%	70%

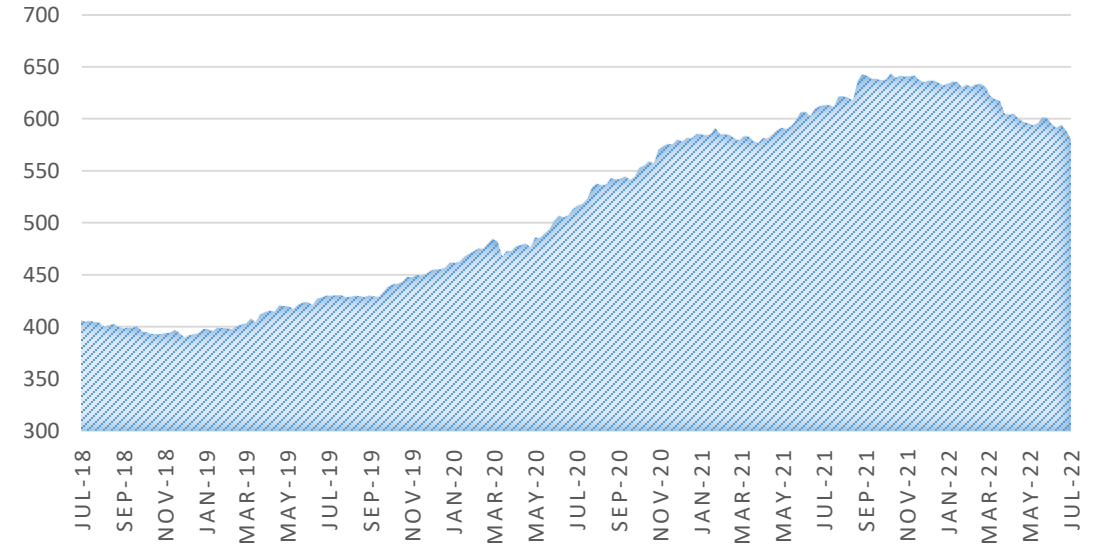
Index Name	% Change From 52 Week High
Nifty Smallcap 100 return	-26%
% of of Index Stocks fallen more than 40%	43%
% of of Index Stocks fallen more than 30%	72%
% of of Index Stocks fallen more than 20%	89%

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

India Current Account Balance & Balance of Payment Trends (\$ in billion)				
	FY23E			
	FY21	FY22	Oil @ 105/bbl	Oil @ 120/bbl
<b>Current Account Balance (CA)</b>	<b>23.9</b>	<b>-38.8</b>	<b>-105</b>	<b>-126.1</b>
<b>CA as % of GDP</b>	<b>0.9%</b>	<b>-1.2%</b>	<b>-3.0%</b>	<b>-3.7%</b>
Trade Balance	-102	-189	-262	-285
Exports	296	429	451	459
Imports	398	619	713	744
<b>Capital Account</b>	<b>64</b>	<b>86</b>	<b>40</b>	<b>35</b>
FDI (Foreign Direct Inv)	44	39	38	38
FPI (Foreign Portfolio Inv)	36	-17	-20	-25
<b>Balance of Payments (BOP)</b>	<b>87.3</b>	<b>47.5</b>	<b>-65.5</b>	<b>-91.6</b>

Source: RBI, Kotak Institutional Equities

### India Forex Reserves (\$ in billion)



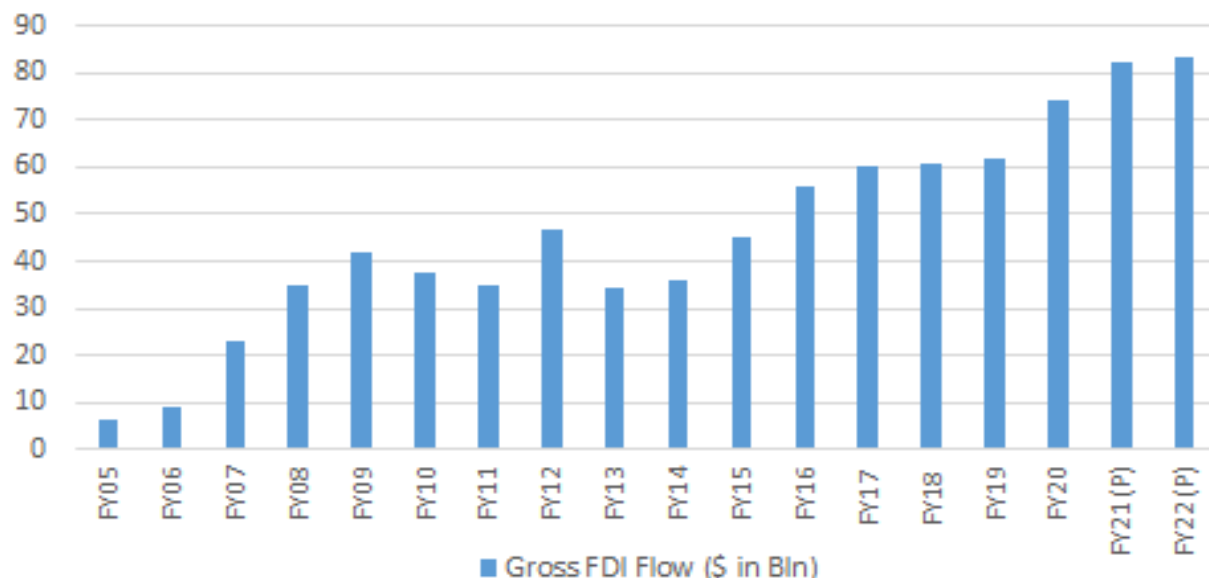
Source: Bloomberg

- 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 ~\$580 bln to provide cushion



# 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.

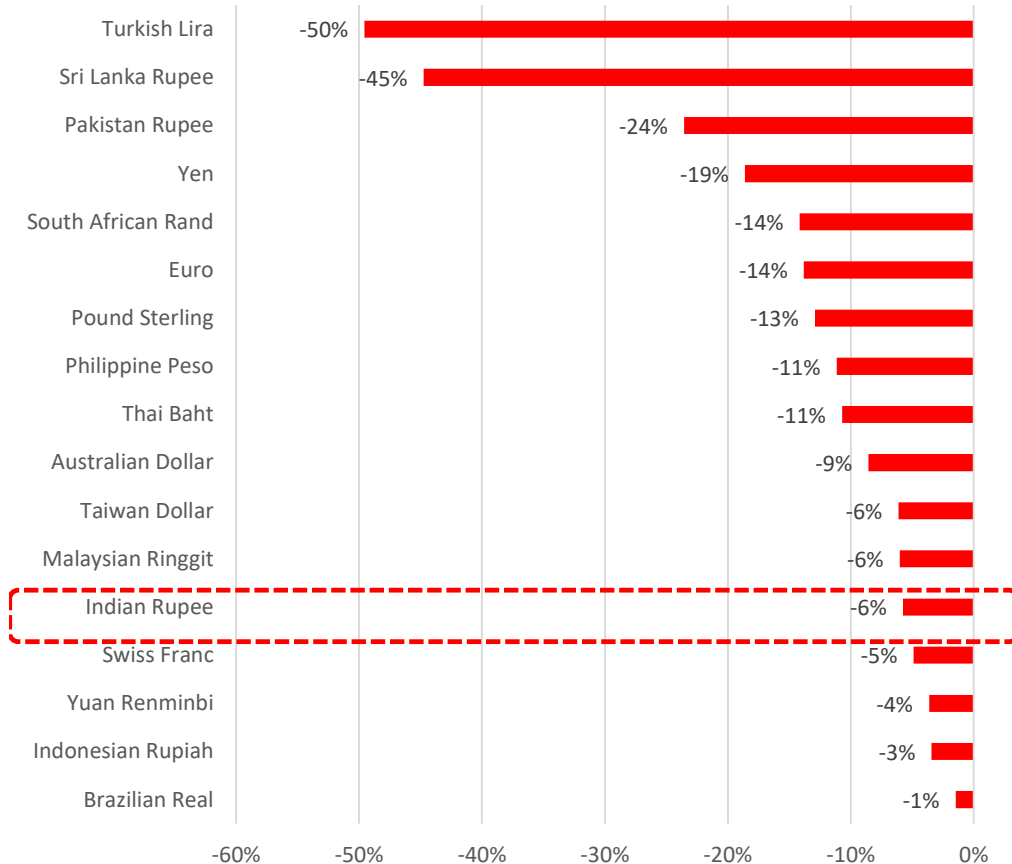
- India received a record high Gross FDI Inflow of \$84 billion in FY22
- Computer software & hardware sector registered the highest absolute FDI equity inflow in FY22, but was lower than that in FY21.
- Auto, trading and services sectors saw a pick-up in FDI flows in FY22, compared to the previous year.

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 crossed 80/USD mark but has not depreciated as much as some of the other currencies

## 1 Year Performance of Currencies (Vs USD) – in %



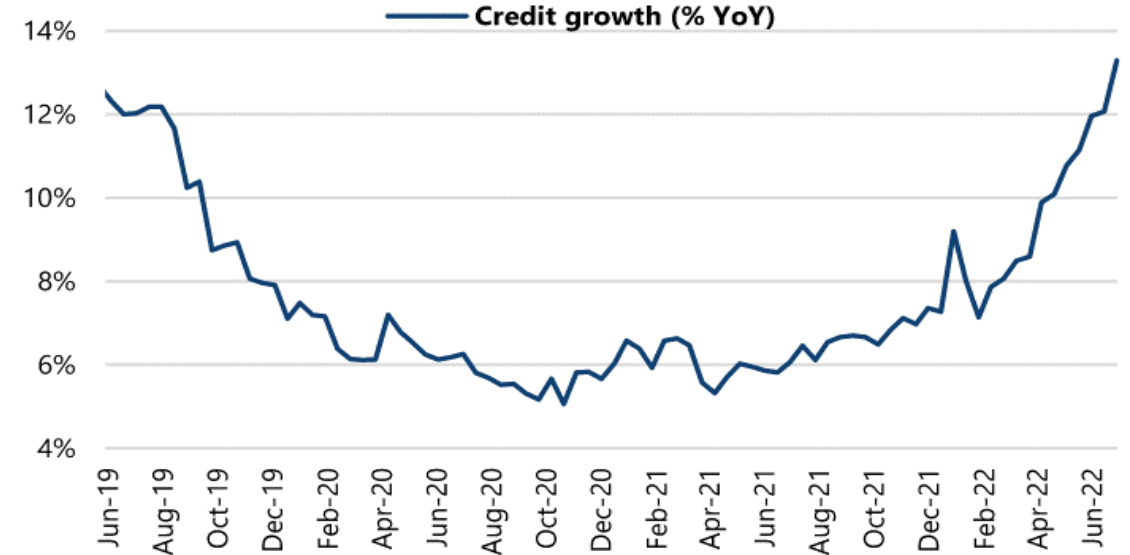
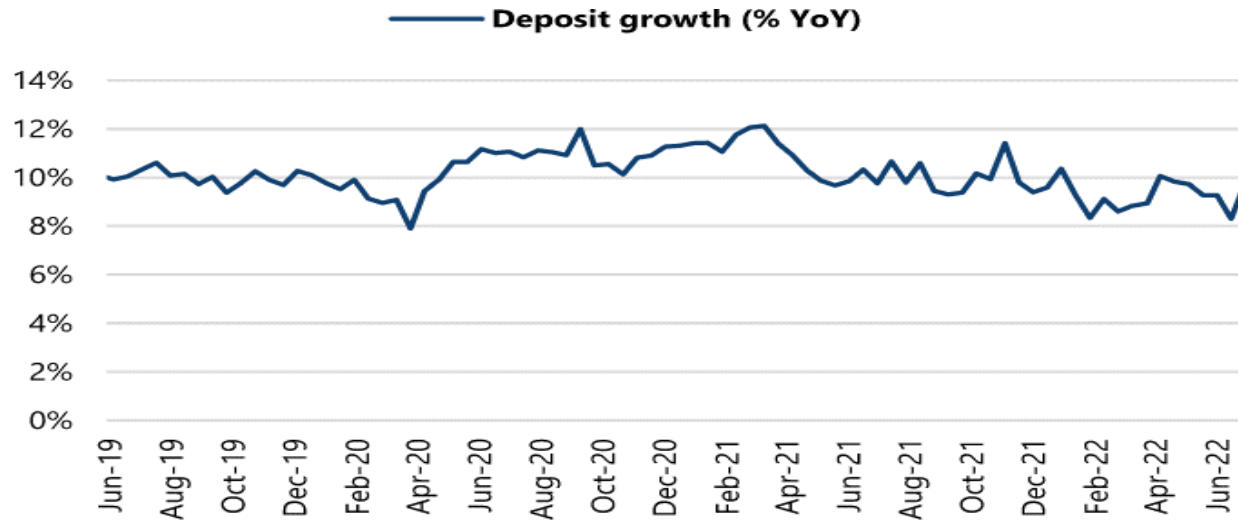
- The dollar index has gained significant strength and touched 20-year high. Though it moderated a bit recently.
- This has caused major currencies like Euro, Yen, Pound to underperform substantially versus US Dollar.

## US Dollar Index

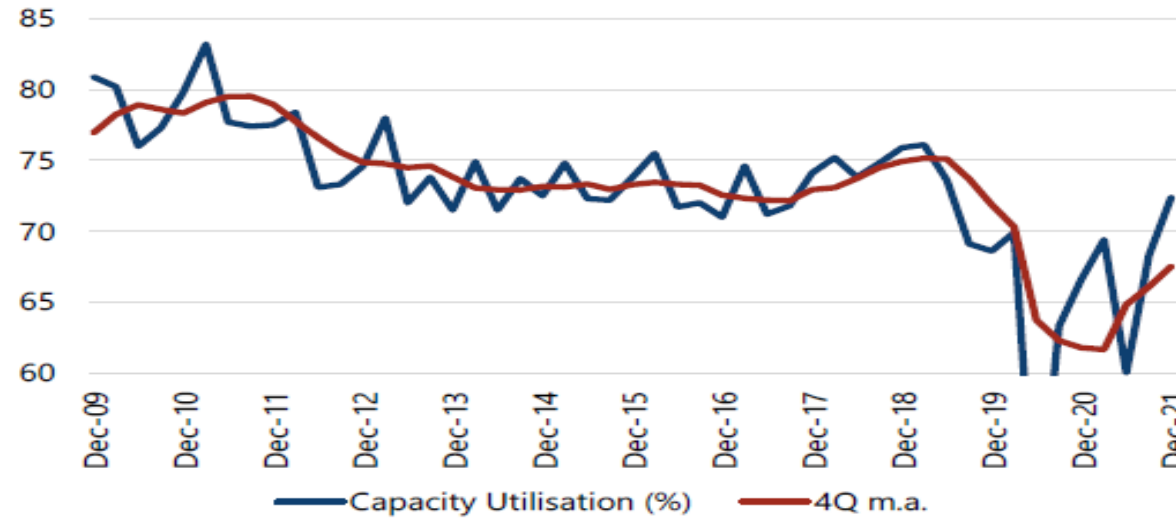


Source: Morningstar. Data sorted in descending order.

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



## India Capacity Utilization (%)



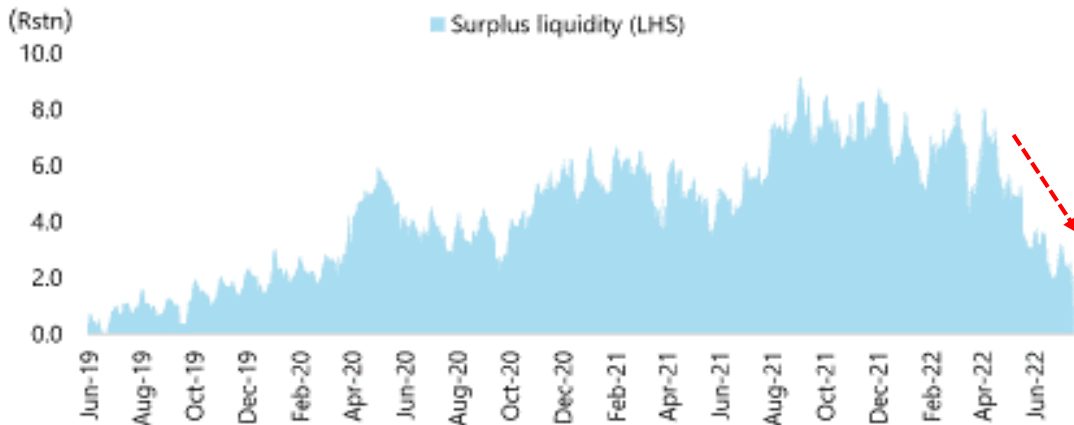
# Bond yields harden in India; RBI hiking rates to tame inflation

### India 10 Yr Yield Vs Repo Rate



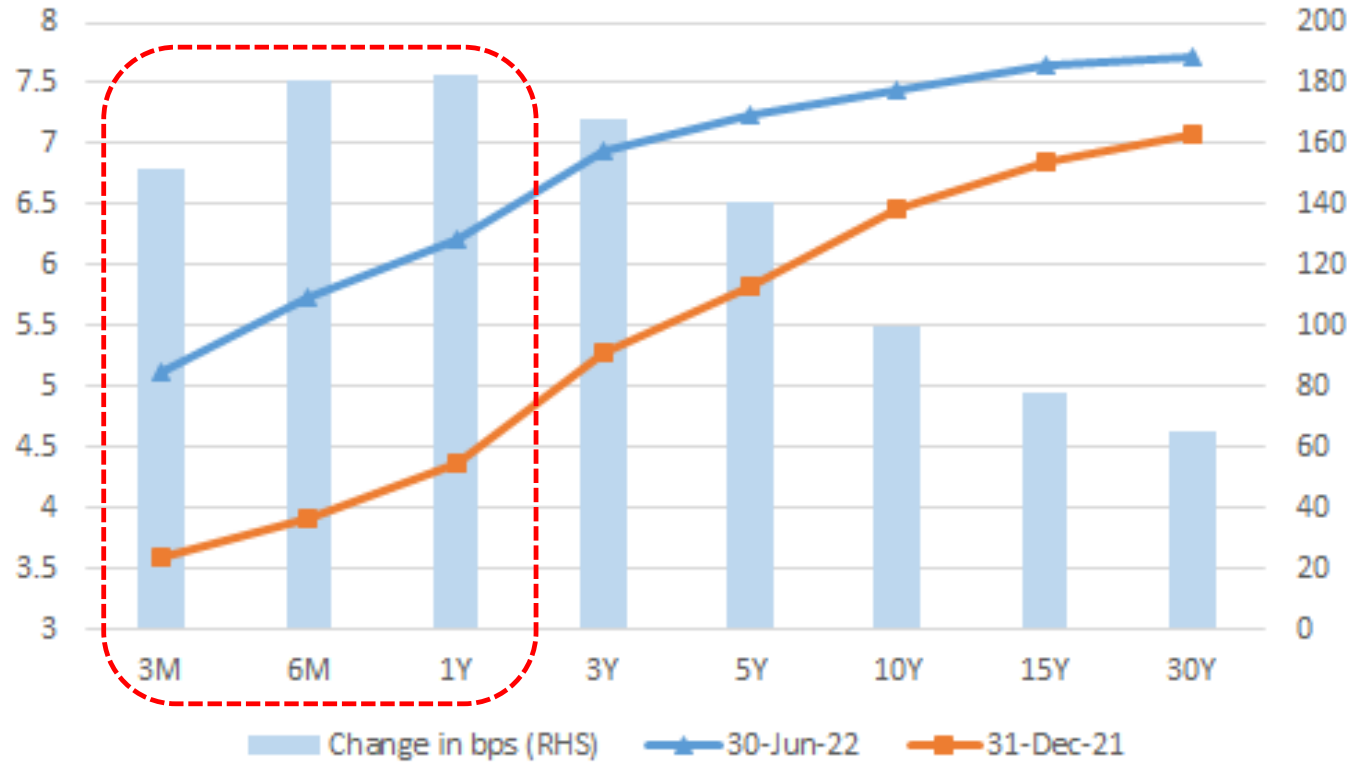
- RBI has hiked the repo rate twice recently, bringing the cumulative repo rate hike to 90 bps so far this year.
- RBI is also focusing on withdrawal of accommodation. Liquidity in the banking system has come down but still in surplus
- More rates hikes expected through the year dependent on the inflation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

### India Banking System Liquidity



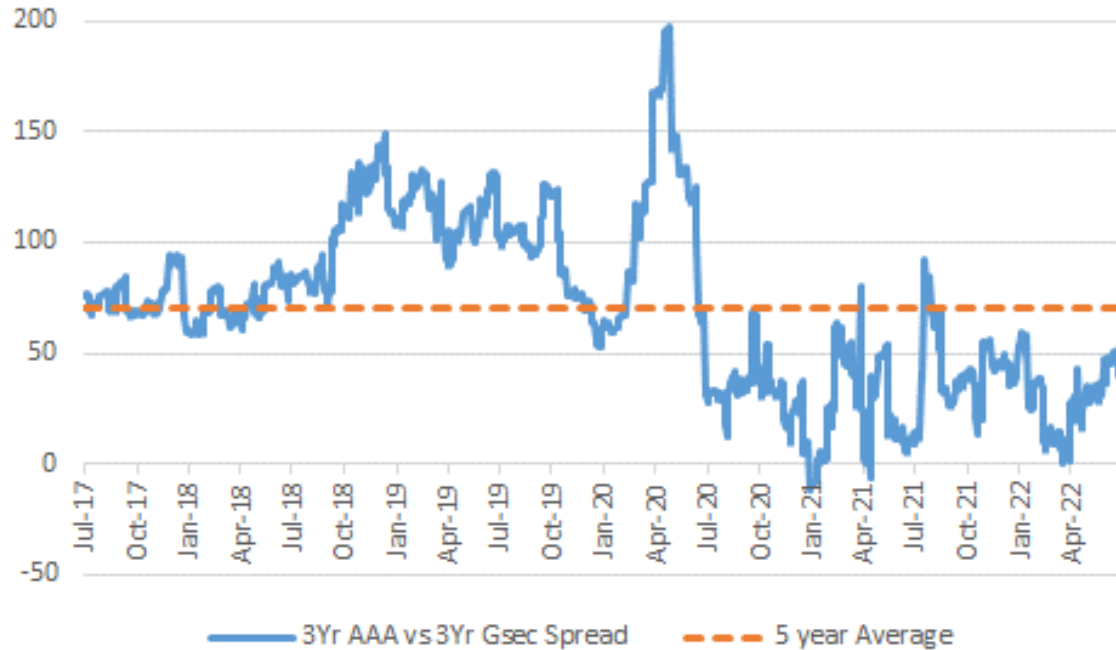
# Yields have risen more at the shorter end of the curve

## India Sovereign Yield Curve Shift

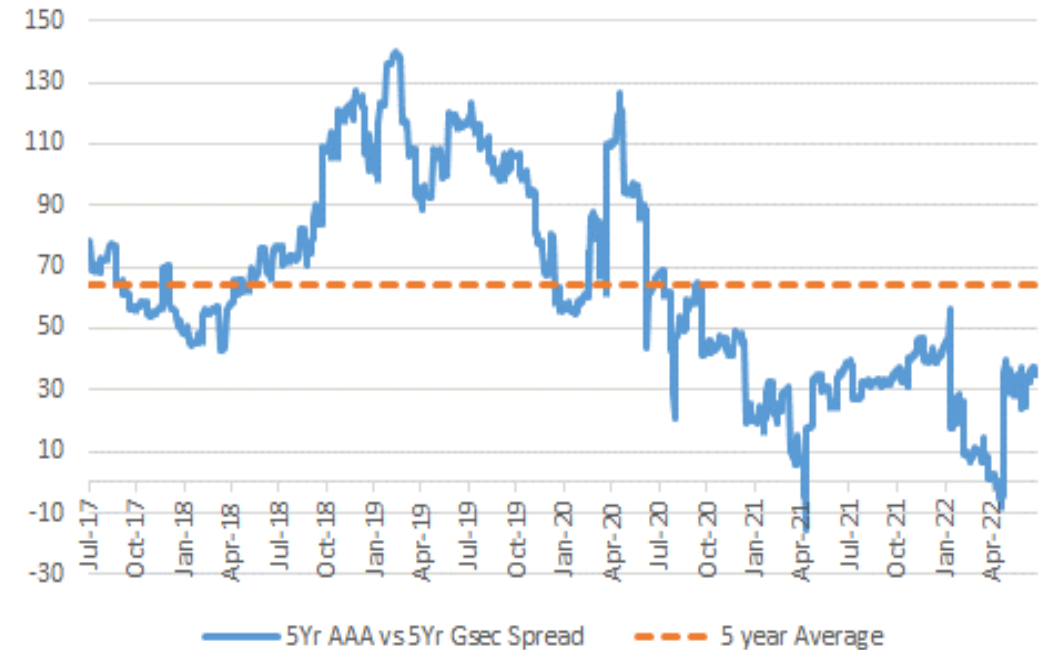


# Corporate bond spreads are still quite narrow, indicating that G-Secs are relatively more attractive

### 3 Yr AAA Vs 3 Yr G-Sec Spread (in bps)

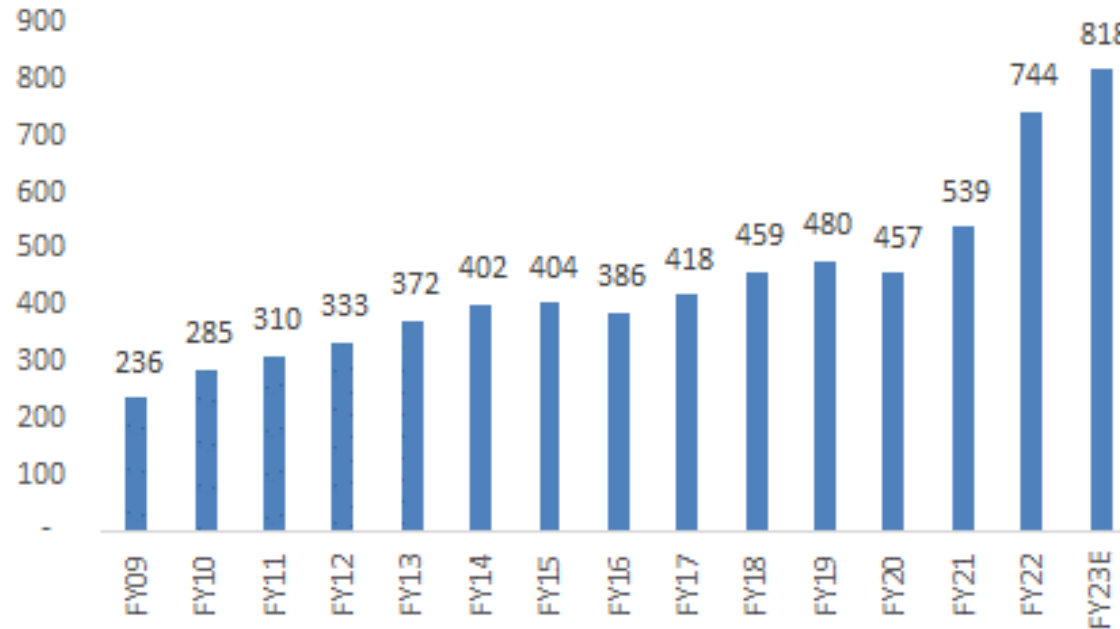


### 5 Yr AAA Vs 5 Yr G-Sec Spread (in bps)



# Corporate earnings growth expected to moderate in India

Nifty EPS Trend



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 ~10% in FY23 due to growth slowdown concerns

# Sector earnings trends

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

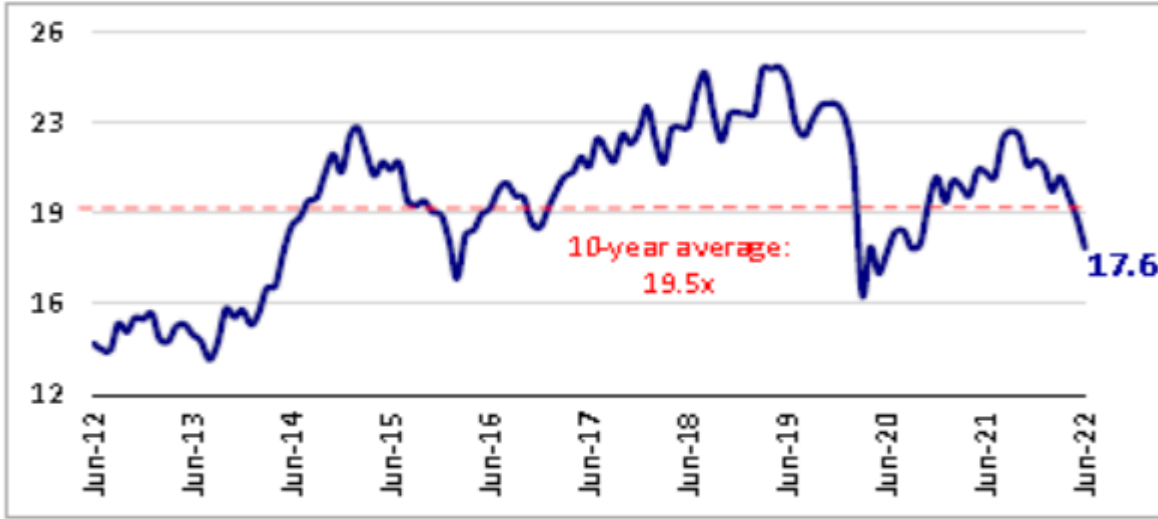
Sector	PAT (Profit After Tax), INR mn			PAT (Profit After Tax) Growth		
	FY21	FY22	FY23E	FY21	FY22	FY23E
Banks (Large Cap)	8,50,319	12,56,519	15,60,616	39%	48%	24%
Oil & Gas	8,54,859	10,02,677	13,51,181	39%	17%	35%
Software / IT	8,99,001	10,23,728	11,44,679	11%	14%	12%
Metals	5,26,737	12,58,451	7,01,576	98%	139%	-44%
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%
<b>Total</b>	<b>43,62,136</b>	<b>57,95,556</b>	<b>64,16,004</b>	<b>24%</b>	<b>33%</b>	<b>11%</b>
<b>Total (ex Metals)</b>	<b>38,35,399</b>	<b>45,37,106</b>	<b>57,14,428</b>	<b>19%</b>	<b>18%</b>	<b>26%</b>

- 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 & Metals sector to see de-growth in FY23.
- Auto sector to see strong PAT growth in FY23; most of the delta being contributed by a private auto major turning profitable.

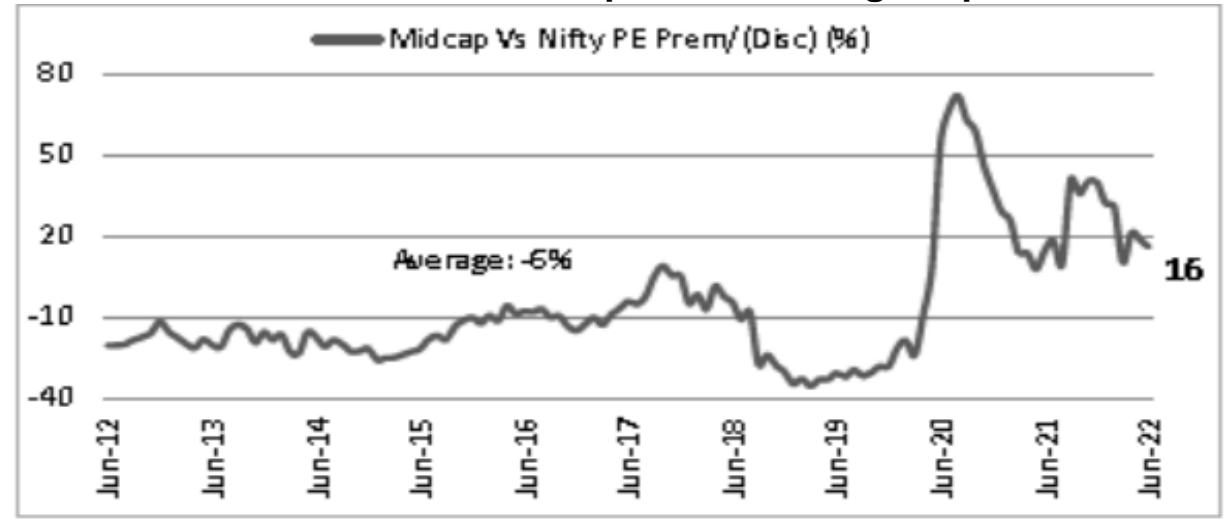


# Market valuations moderated from their highs, now below long-term average

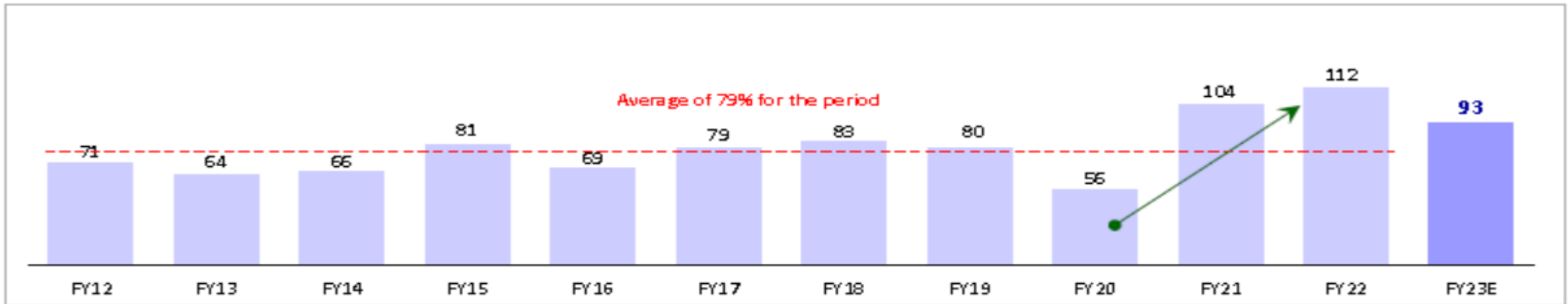
Nifty 1 Year Fwd Consensus P/E Ratio



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

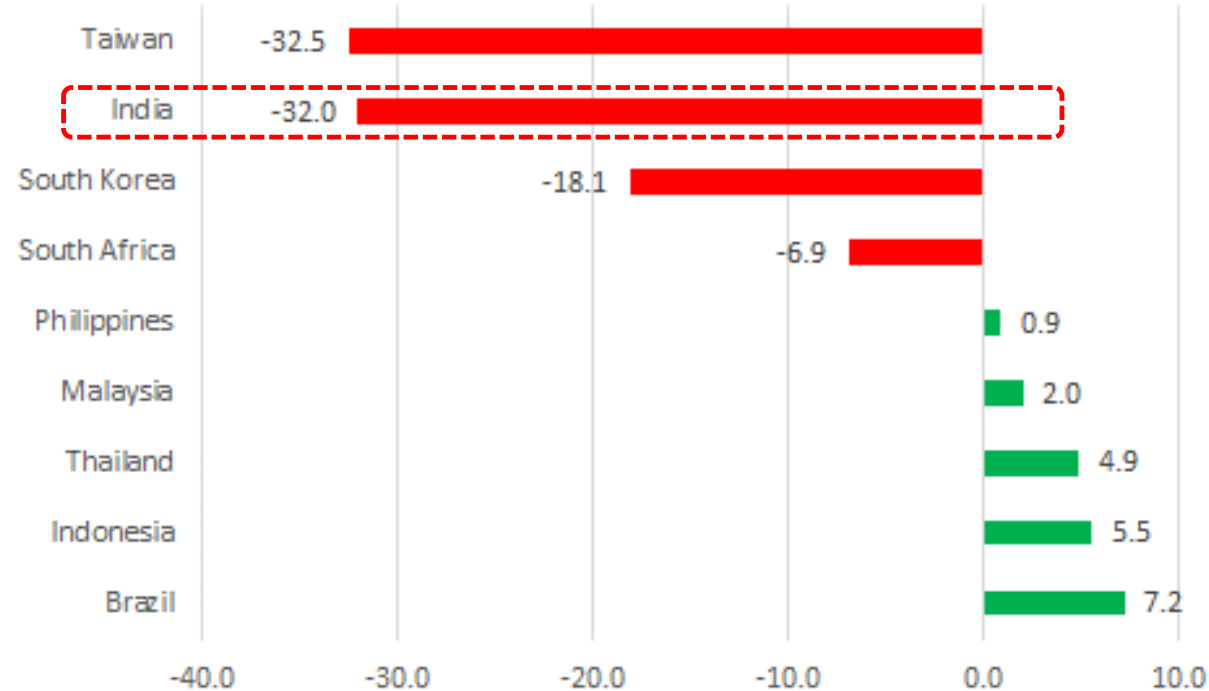
Source: NSDL, Axis Capital		Rs in Crore	
Year	FPIs	DIIs	
FY2008	52,572	47,794	
FY2009	-48,250	60,040	
FY2010	1,10,752	24,211	
FY2011	1,10,121	-18,709	
FY2012	43,738	-5,347	
FY2013	1,40,032	-69,069	
FY2014	79,709	-54,161	
FY2015	1,11,445	-21,446	
FY2016	-14,171	80,416	
FY2017	60,196	30,787	
FY2018	21,074	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 June)	-1,07,600	1,28,277	

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	
30 June 2022	-49,469	46,599	

- 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 of the highest FII equity outflows among EMs over 1 year

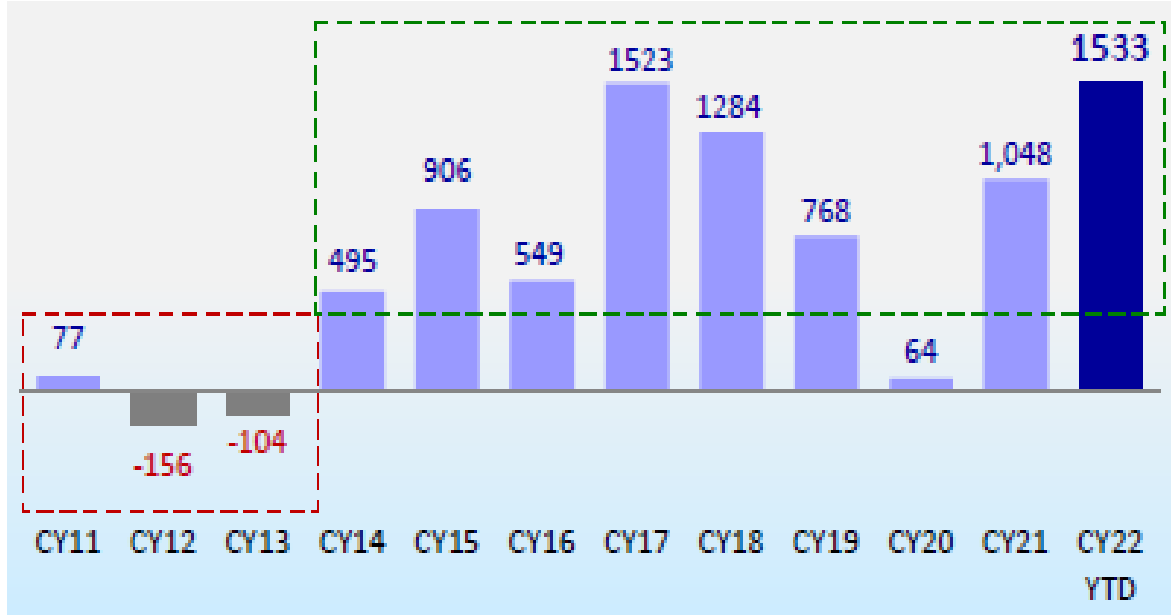
FII Equity Net Flows of various Emerging Markets (over past 12 months, as of June 2022) – in USD billion



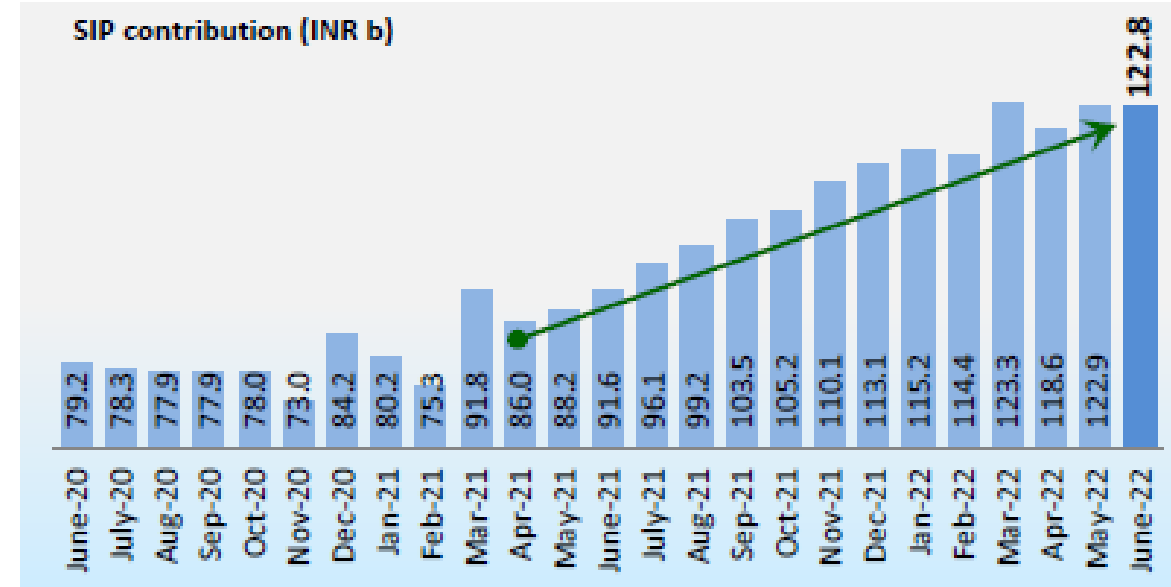
Source: Bloomberg, CLSA

# Domestic Mutual Funds witnessing robust inflows

Mutual Funds – Equity Flows (INR billion)



Mutual Funds – Monthly SIP trend (INR billion)



Source: AMFI, Motilal Oswal, CYTD = Jan 2022 to June 2022

- Domestic equity mutual funds have been witnessing robust inflows and CYTD22 flows at record high.
- 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.

# THANK YOU

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