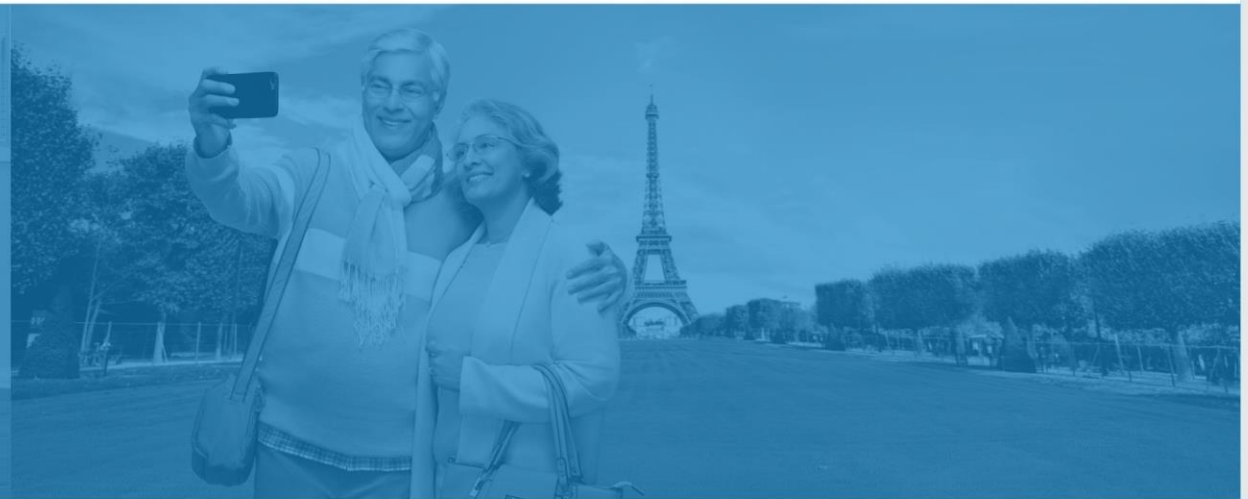


Market & Macro Outlook Amidst Rising Interest Rate Scenario

LIFE GOALS. **DONE.**



September 2022



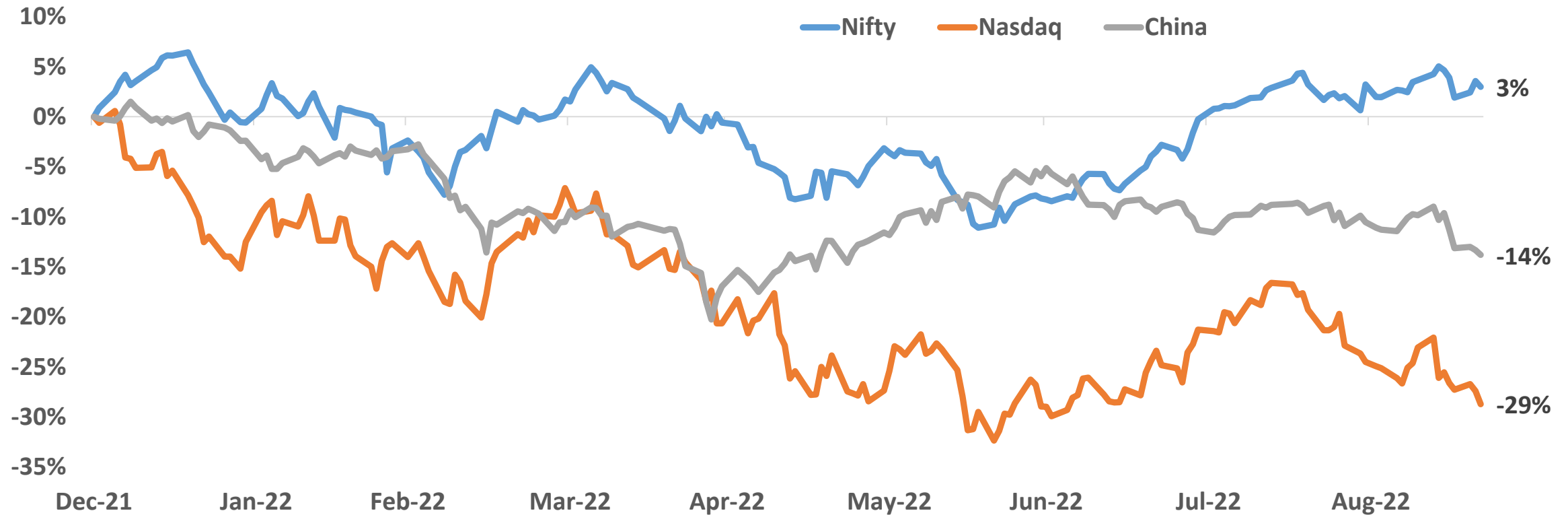
Global Macro & Markets

India has been one of the best performing market across timeframes

Performance of International Indices (ended Aug 2022, in %)					
Index Name	Country / Region	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
JSX Composite	Indonesia	16.7	4.3	4.1	5.9
FTSE/SGX STI	Singapore	5.5	1.2	-0.3	0.6
IISL Nifty 50	India	3.7	17.2	12.4	12.9
FTSE 100	United Kingdom	2.3	0.4	-0.4	2.5
FTSE SET All Share	Thailand	2.2	-1.0	-0.6	2.2
Nikkei 225 Average	Japan	0.0	10.7	7.4	12.3
FTSE Bursa Malaysia KLC	Malaysia	-5.6	-2.1	-3.1	-0.8
S&P/ASX 200	Australia	-7.3	1.9	4.1	4.9
BOVESPA TR	Brazil	-7.8	2.7	9.1	6.7
CAC 40	France	-8.3	3.8	3.8	6.0
Shanghai Composite	China	-9.6	3.5	-1.0	4.6
S&P 500	United States	-12.6	10.6	9.9	10.9
TSEC TAIEX	Taiwan	-13.7	12.4	7.4	7.4
MSCI World	World	-16.4	7.1	6.0	7.5
FSE DAX TR	Germany	-18.9	2.4	1.3	6.3
KOSPI	South Korea	-22.7	7.9	0.9	2.6
Hang Seng	Hong Kong	-22.9	-8.1	-6.5	0.2
MSCI AC Asia Ex Japan	Asia Ex Japan	-23.5	1.7	-0.7	2.8
MSCI EM	Emerging Markets	-24.0	0.3	-1.8	0.5
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 1 Yr. return in descending order					

- Over the long term (5 & 10 years) Indian market has been among the top performing markets.
- India's performance during the past twelve months has also been quite strong.

India has significantly outperformed in recent months



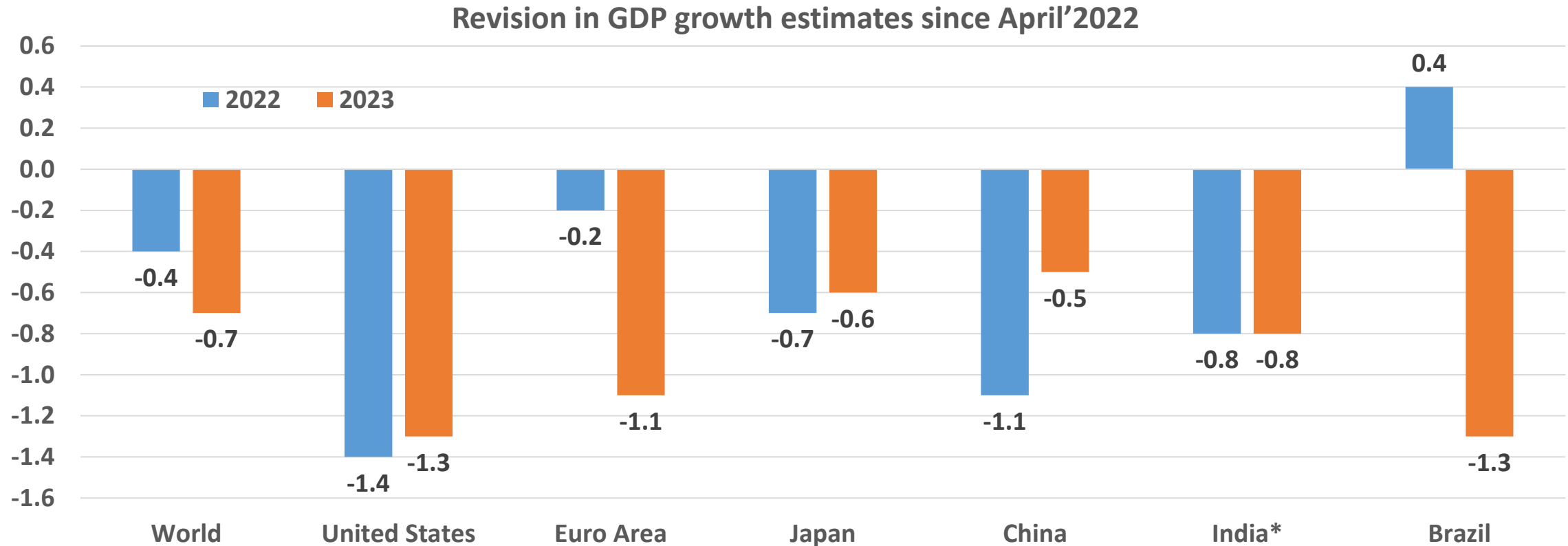
- Indian markets' outperformance in recent months has been very sharp.
- Nifty is up 3% YTD vs a 14% decline for the Chinese markets and a 29% decline for the NASDAQ.

India's weight in EM index has increased, driven by outperformance

Change in Weights of Key Countries in MSCI EM Index			
Country	Weight in MSCI EM index Aug 2020 (%)	Weight in MSCI EM index Aug 2022 (%)	Change in weight (in %)
China	41.41	31.6	-9.81
India	7.97	14.36	6.39
Taiwan	12.14	14.42	2.28
South Korea	11.44	10.87	-0.57
Brazil	4.79	5.22	0.43

- India's weight has increased the most (by ~6.4%) over the past 2 years, due to relative outperformance among EM (emerging market) peers.
- China has seen the biggest drop in weight in the MSCI index over the same period.

Global economic growth revised downwards



- IMF expects slowdown in GDP growth across key Global markets.
- Barring Brazil in 2022 (Commodity producer), growth forecast has been downgraded for economies like US, Europe, Japan, China and India since April'2022.

* For India fiscal year being considered. 2022 = FY23 & 2023= FY24

Source: World Economic Outlook Report, July 2022

India still among the fastest growing economies

IMF World Economic Outlook Projections (in %) - July 2022				
Country / Region	Actual		Projections	
	2020	2021	2022	2023
World	-3.1	6.1	3.2	2.9
Advanced Economies	-4.5	5.2	2.5	1.4
United States	-3.4	5.7	2.3	1.0
Euro Area	-6.3	5.4	2.6	1.2
Japan	-4.5	1.7	1.7	1.7
Emerging Markets	-2.0	6.8	3.6	3.9
China	2.2	8.1	3.3	4.6
India*	-6.6	8.7	7.4	6.1
Brazil	-3.9	4.6	1.7	1.1

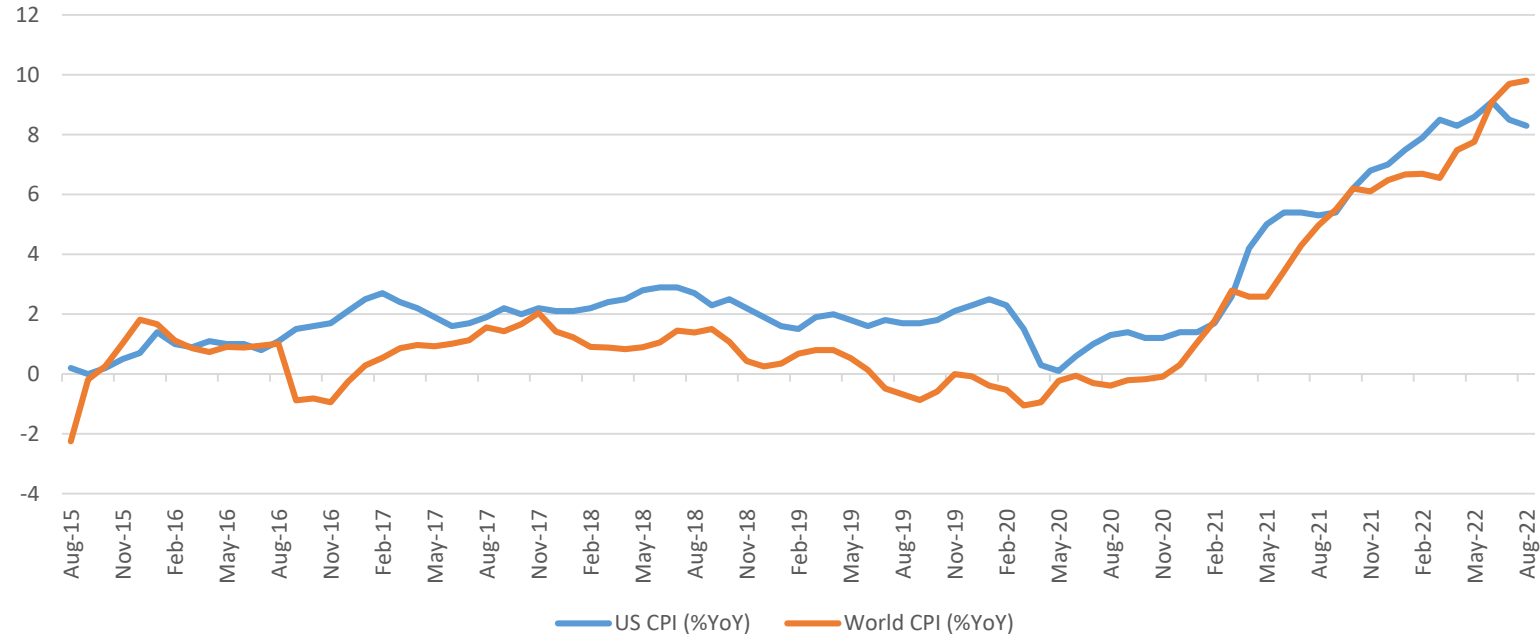
- World GDP is now projected to slow down in 2022-23
- Emerging markets will continue to grow at a faster rate.
- Despite the downward revisions, India would remain the fastest growing large economy in 2022-23.

* For India fiscal year being considered. 2022 = FY23 & 2023= FY24

Source: World Economic Outlook Report, July 2022

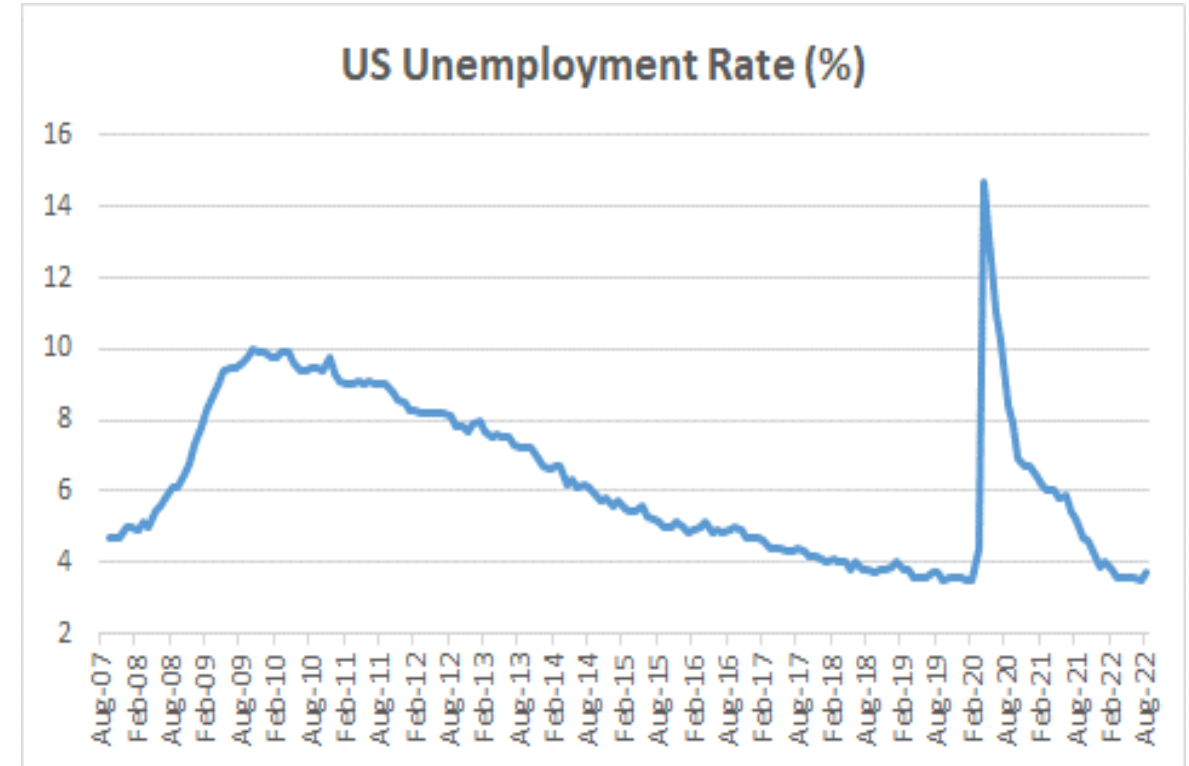
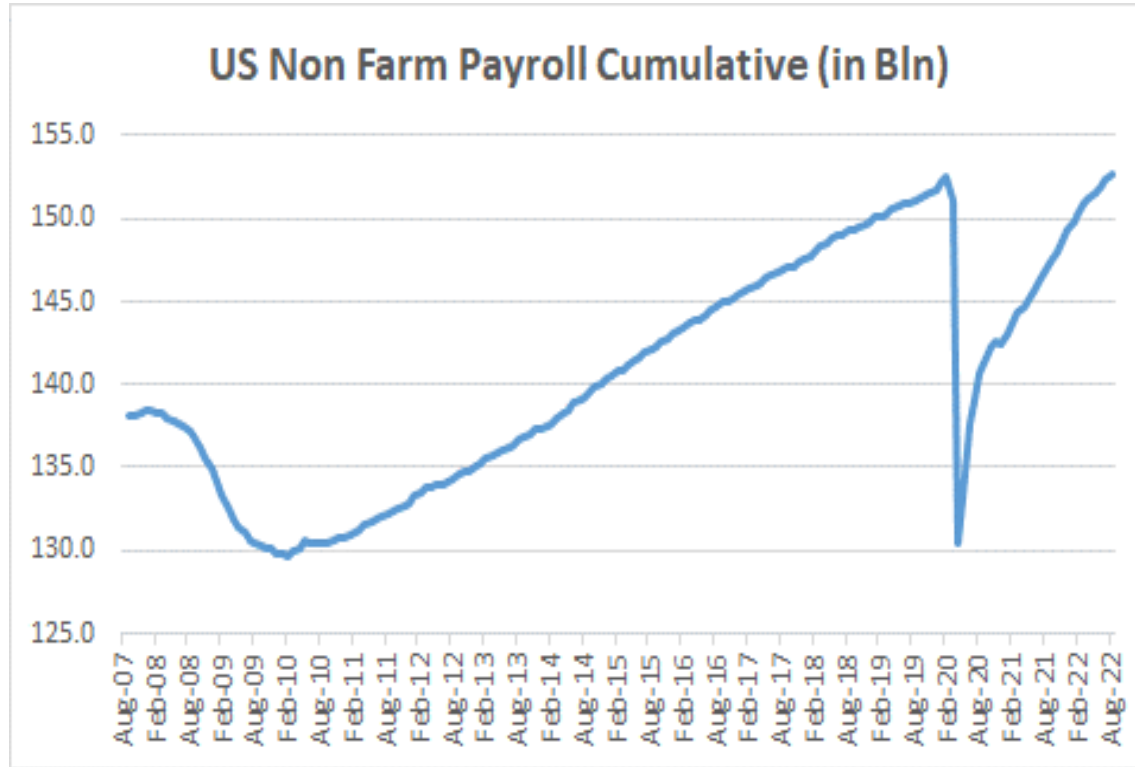
US - Inflation highest in forty years

US & Global Consumer Inflation (%YoY)



- US headline CPI remains elevated (at 4-decade high) but has moderated from a high of 9.1% in Jun 2022 to 8.3% in Aug 2022 (albeit still above market expectations).
- Inflation is more pronounced in developed economies but is a growing issue in emerging economies as well.

US - Job market remains very strong



- US cumulative non-farm payrolls at a record high and unemployment at a historical low.

US - GDP expected to grow modestly in the near term

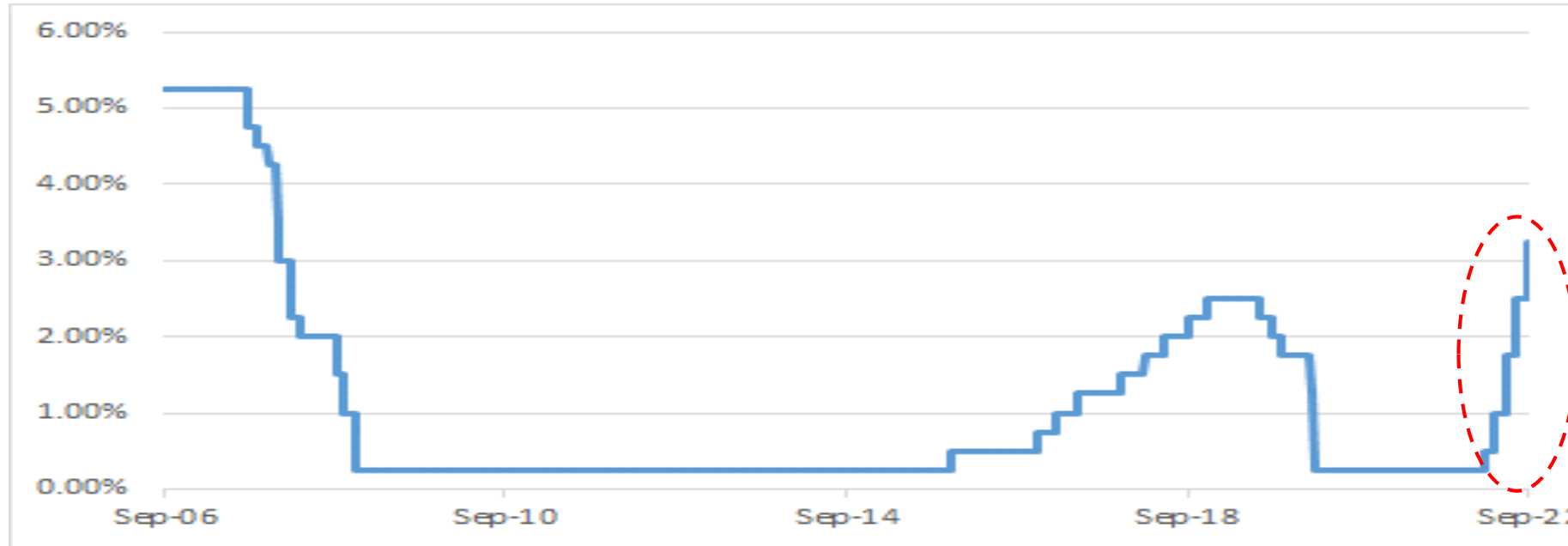
US Fed Sep 2022 meeting projections

Percent					
Variable	Median ¹				
	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8
June projection	1.7	1.7	1.9		1.8
Unemployment rate	3.8	4.4	4.4	4.3	4.0
June projection	3.7	3.9	4.1		4.0
PCE inflation	5.4	2.8	2.3	2.0	2.0
June projection	5.2	2.6	2.2		2.0
Core PCE inflation ⁴	4.5	3.1	2.3	2.1	
June projection	4.3	2.7	2.3		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	4.6	3.9	2.9	2.5
June projection	3.4	3.8	3.4		2.5

- GDP growth estimates for the US have been revised downwards and one now expects modest growth in 2022-23.
- The Fed expects a longer glide path for inflation to come down and is now projecting a 2% inflation rate only in 2025.

US Fed has raised interest rates aggressively this year

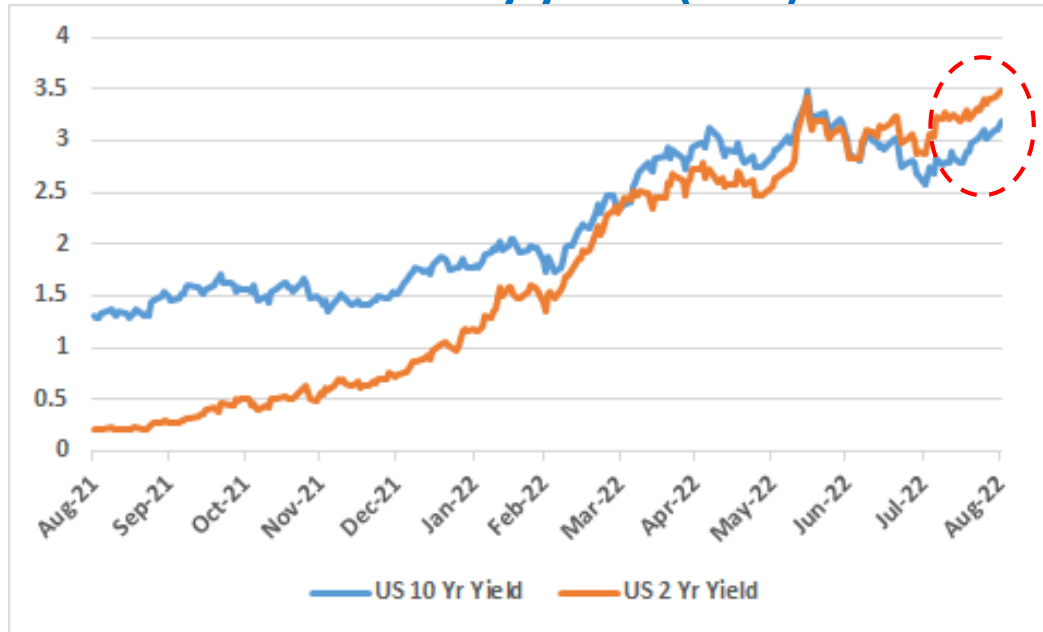
The federal funds target rate trend



- The combination of – elevated inflation, strong job market and modest GDP growth is allowing the Fed to hike rates aggressively.
- The Fed has hiked interest rates by 300bps this year with the latest one being a 75bps hikes in the September meeting.
- The median forecast for Fed Funds rate end-2022 now stands at 4.4% (revised up from 3.4% earlier). Fed has also increased 2023 end Fed rate forecast to 4.6%, contrary to earlier market expectations of rate cuts in H2 of 2023.

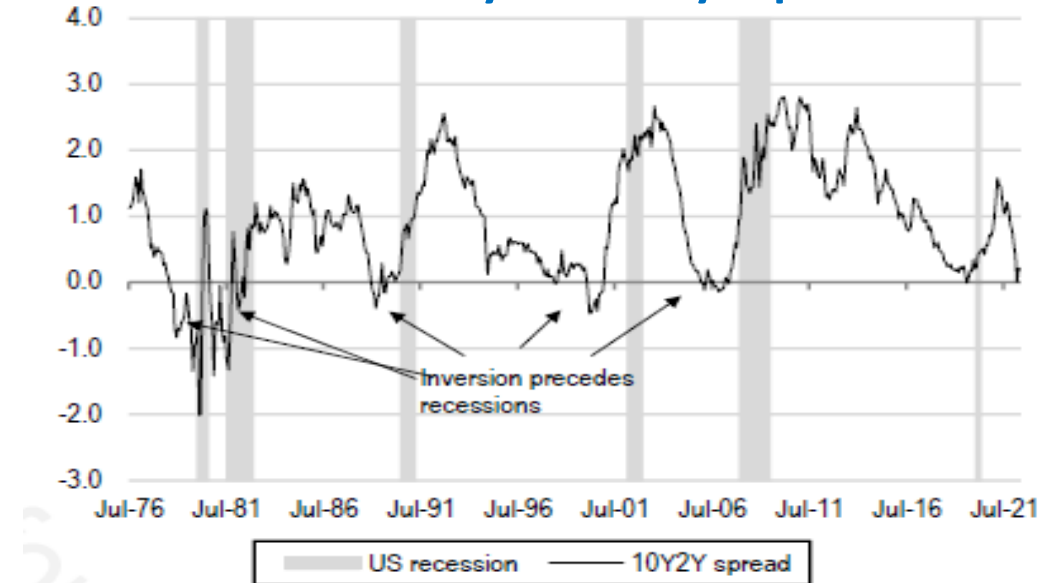
US yields have risen sharply; yield curve has inverted

US treasury yields (in %)



Source: Bloomberg

US Treasury 10Yr – 2yr Spread

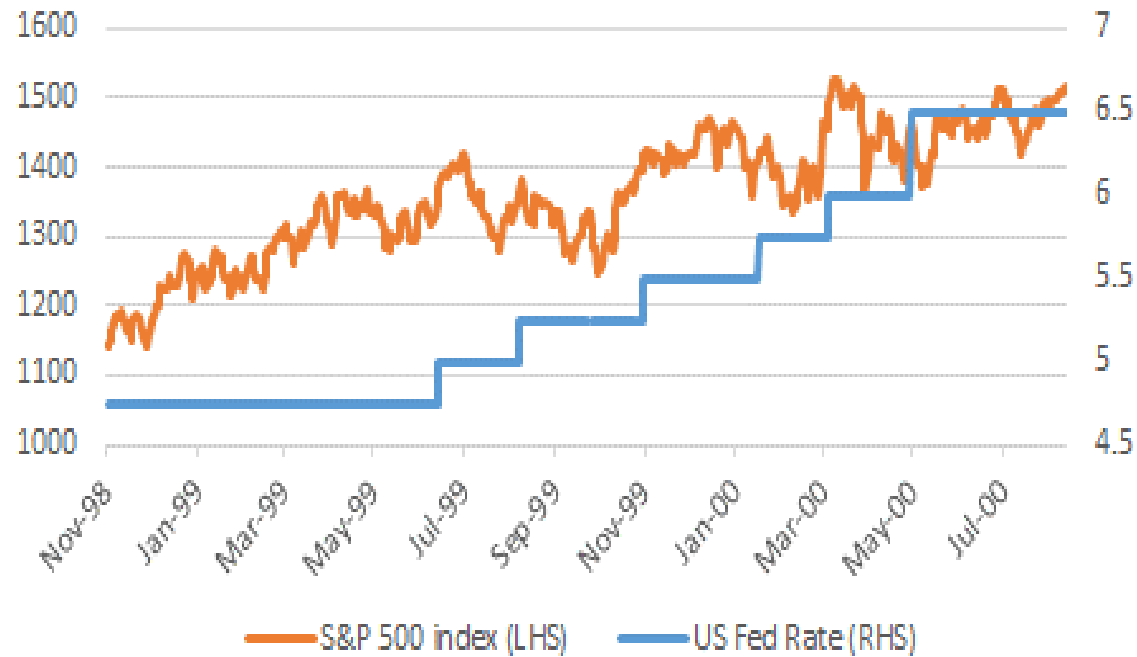


Source: US Federal Reserve

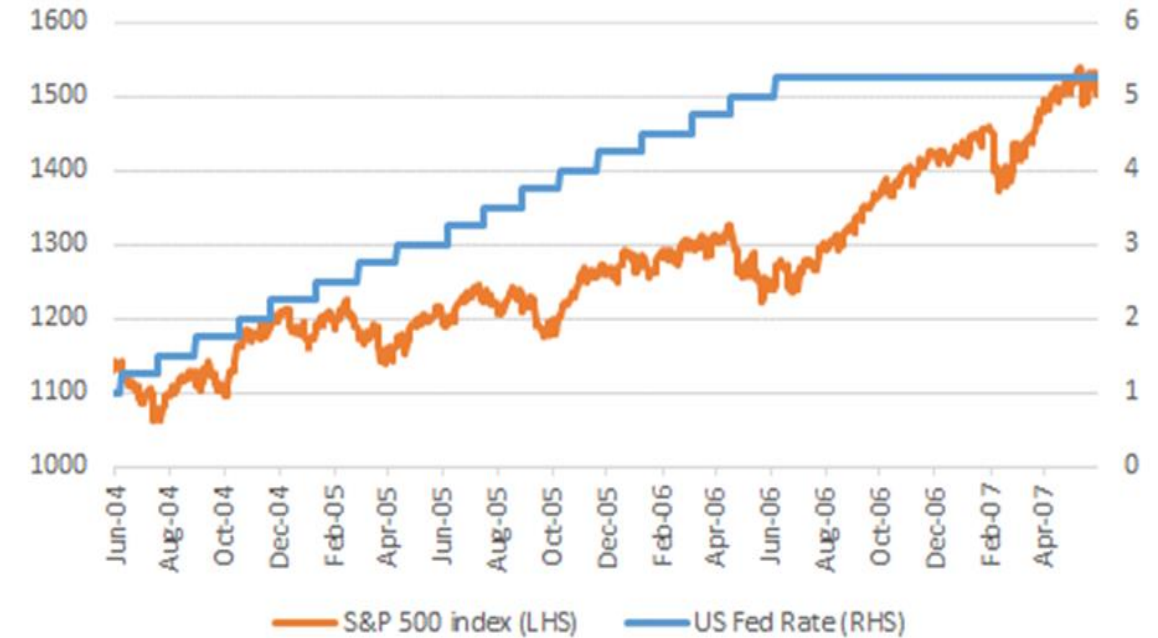
- US yields have risen and especially at the shorter end. The 10yr to 2yr spread has now turned quite negative.
- Historical trend shows that yield curve inversion in the US has typically preceded periods of US recession, albeit it does come with a lag sometimes.

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

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



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



Inflation - Global phenomenon

Global Inflation (%YoY)

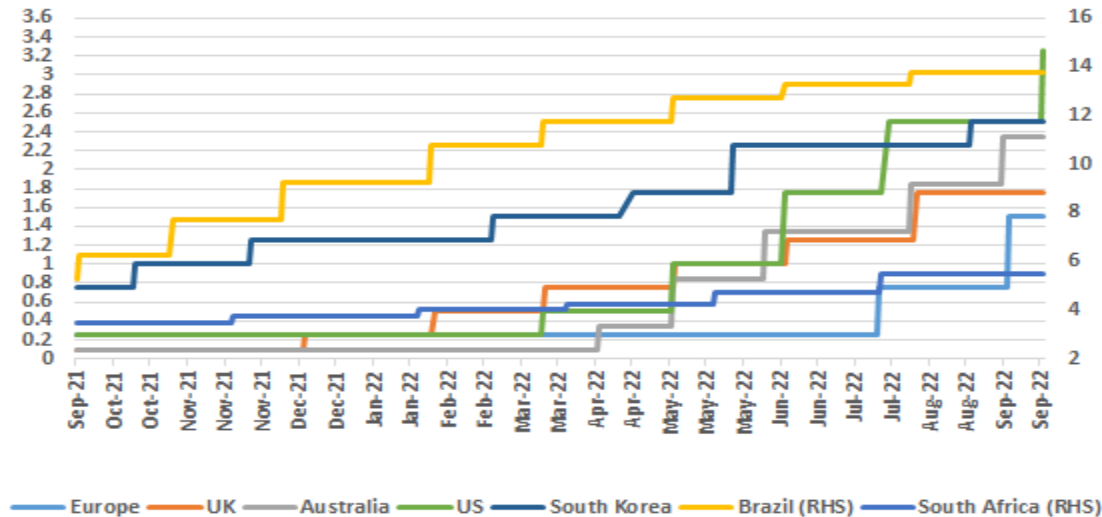
Country / Region	Current Headline CPI %YoY	10 Years Average
USA	8.3	2.1
United Kingdom	10.10	1.9
Eurozone	9.1	1.9
Turkey	81.2	17.4
India	7.0	5.8
Brazil	8.7	6.0

Source: Bloomberg

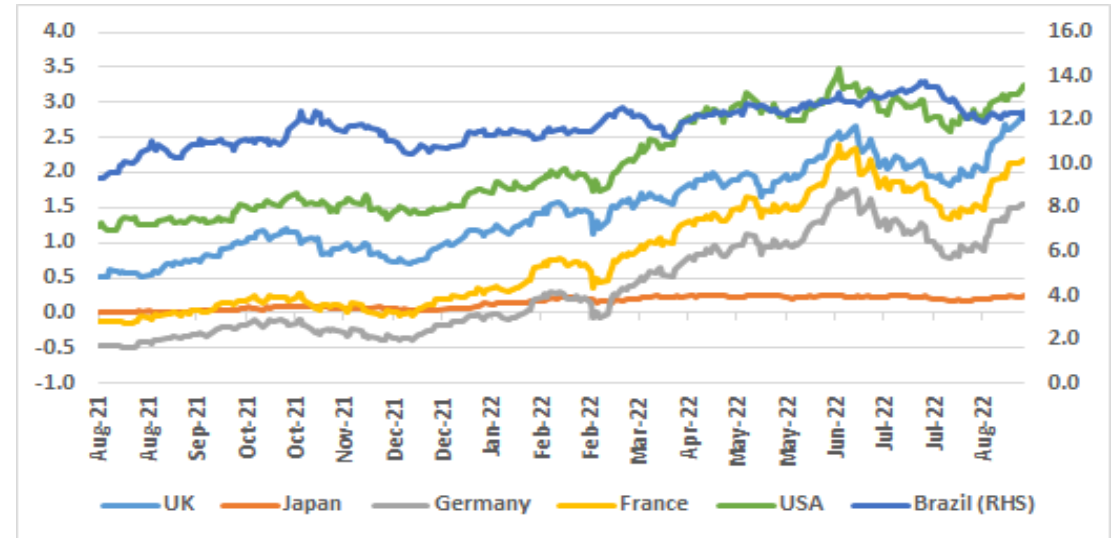
- All major economies except China facing inflation higher than long term average
- US, UK, Eurozone etc having inflation which is at multi decade high, resulting in faster tightening
- India's inflation still higher than RBI's threshold of 6%, but lower compared to global peers

Central banks across the world hiking rates to combat inflation

Interest Rate hikes by various Central Banks (%)



10-year Bond yields of various countries

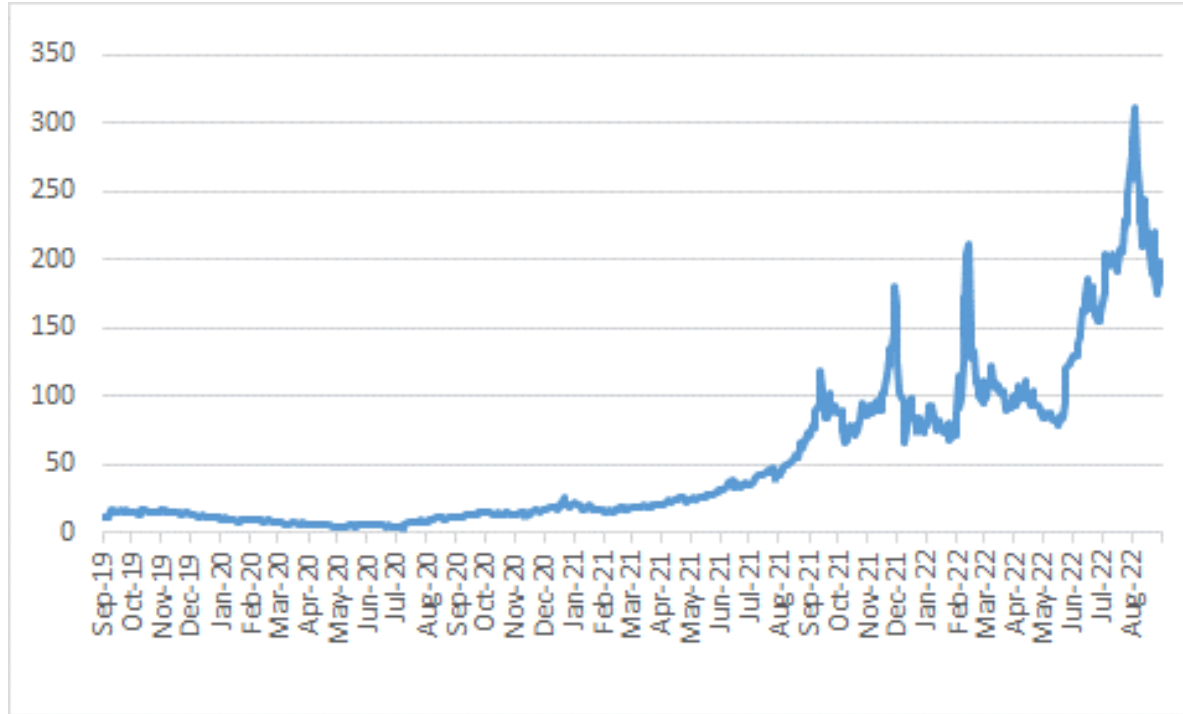


Source: Bloomberg

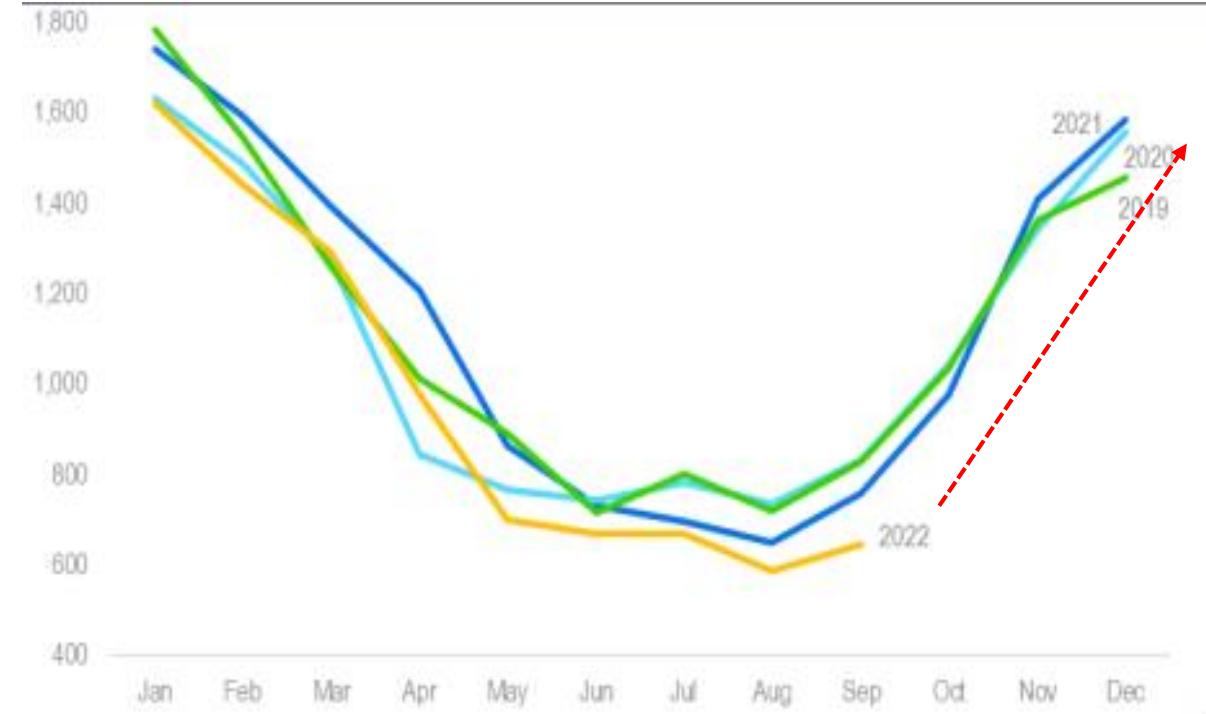
- US Fed hiked the policy rate by 75 bps in the Sep meeting taking the cumulative hike this year to 3%.
- ECB ended its bond purchases and went for 50 bps hike in July and 75 bps hike in September.
- BOE (Bank of England) has hiked the policy official bank rate 6 times in CY2022
- Bond yields around the world have hardened.

Europe - Additional pressure due to energy crisis

European gas prices – TTF (euros per megawatt hour)



European Natural Gas Demand (million cubic metres per day)



- In Europe, higher energy prices are an additional source of concern.
- The situation might worsen in the coming winter months, when natural gas demand in Europe increases substantially.

Inflation - Sticky, despite recent correction in commodity prices

Bloomberg Commodity Index



Bloomberg Agriculture Spot Index

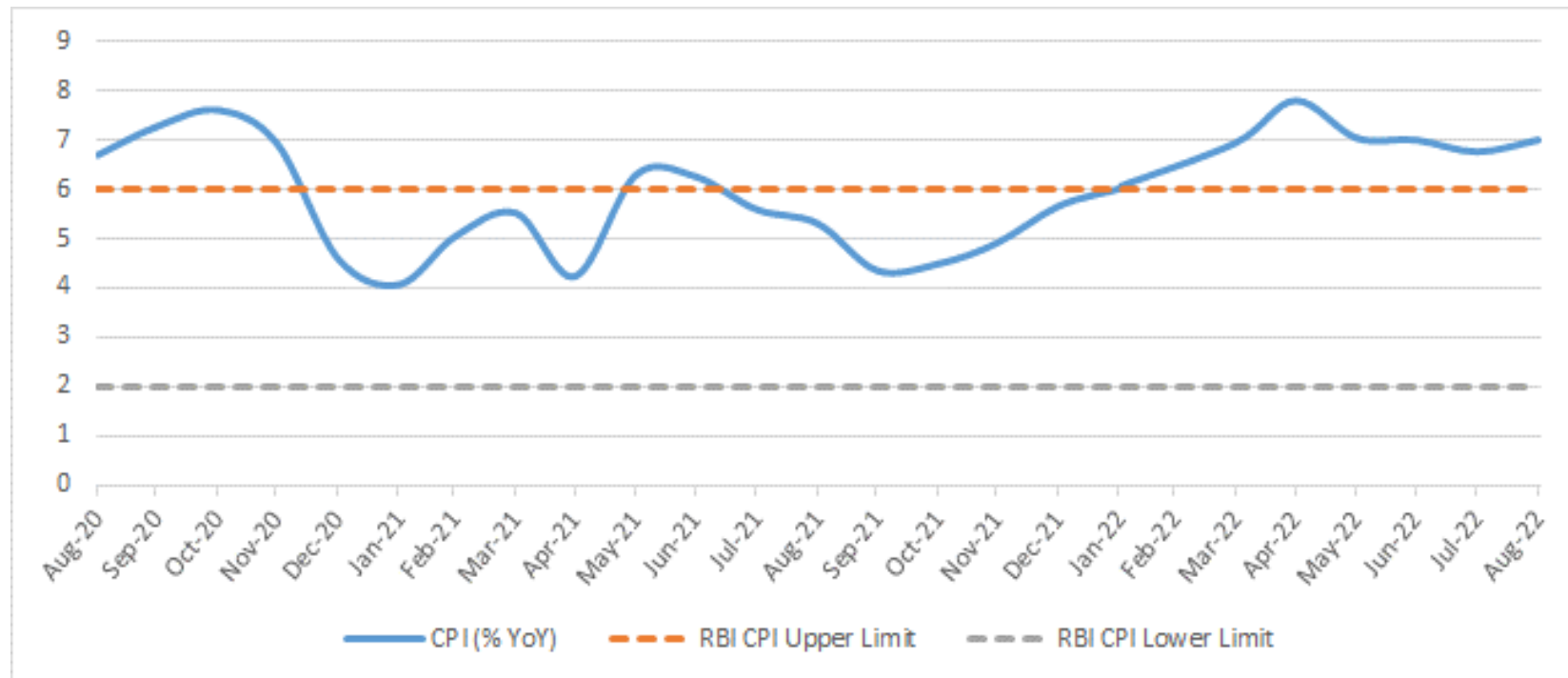


- Commodity prices have come off in recent months and the impact of the same is visible in the internals of inflation.
- However, services inflation and inflation with respect to rentals / accommodation remain elevated and would need more time to correct.

Indian Macro & Markets

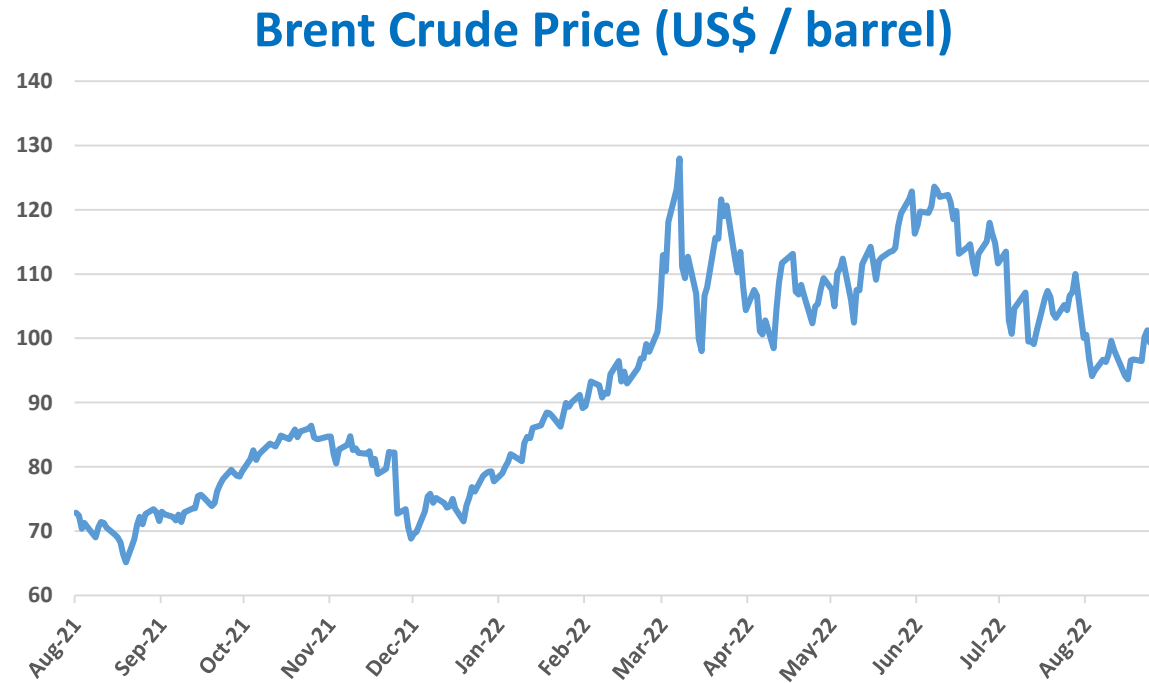
India - Inflation - CPI @ 7% appears manageable

India Headline Consumer Inflation Trend (% YoY)



- In India, headline consumer inflation is above the 6% tolerance band of RBI; but moderated to 7% in Aug 2022 from 7.8% in the month of April.
- In its Aug 2022 monetary policy meeting, RBI unchanged its inflation projection for FY23 to 6.7% from 5.7% earlier, which seems realistic.

Correction in crude oil prices has helped



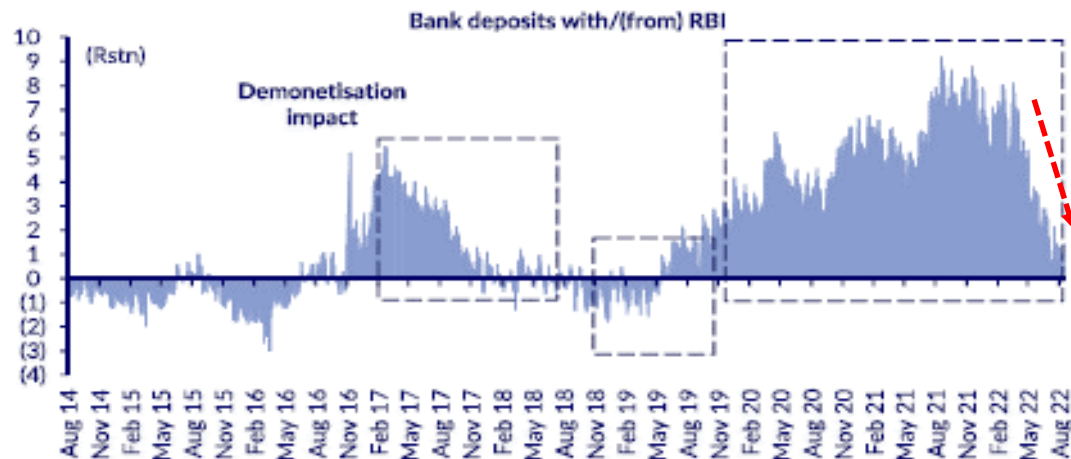
- India imports around 80-85% of its crude oil requirement. Run rate of crude oil imports is 4.5 to 5 million barrels per day (~1.8 billion barrels per year).
- At an average crude oil price of \$100/bbl that would translate to around \$180 billion oil import bill for India.
- Recent correction in crude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

RBI - hiking rates and normalizing liquidity

India 10 Yr Yield Vs Repo Rate



India Banking System Liquidity



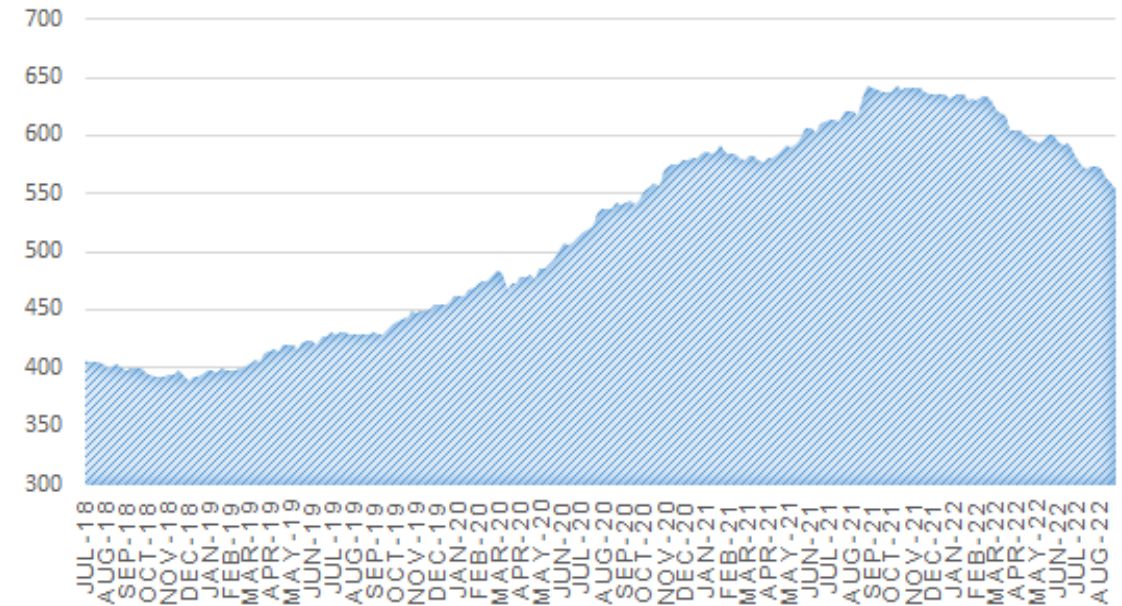
- RBI has hiked the repo rate thrice recently, bringing the cumulative repo rate hike to 140 bps so far this year.
- RBI focusing on withdrawal of accommodation. Liquidity in the banking system has come down, as a result of which short term rates have risen more,
- More rates hikes expected through the year dependent on the inflation trajectory.
- But we feel that large part of the rate hike cycle in India maybe behind us now.

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

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

Source: RBI, Kotak Institutional Equities

India Forex Reserves (\$ in billion)

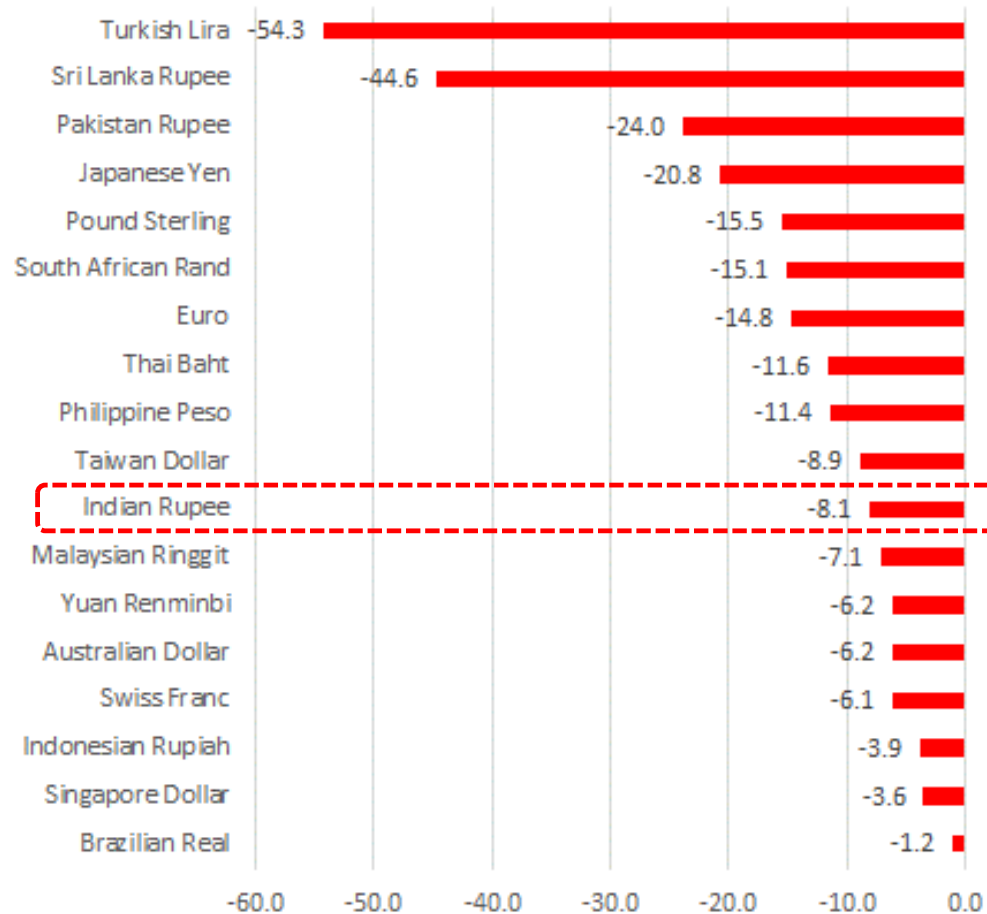


Source: Bloomberg

- With elevated crude prices Current Account Deficit (CAD) can rise to ~3.5% of GDP
- Balance of Payments (BoP) to turn significantly negative after being in surplus.
- India forex reserves have come down a bit to ~\$550 bln, but still will help to provide cushion

Indian rupee 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.
- This has caused major currencies like Euro, Yen, Pound to underperform substantially versus US Dollar.

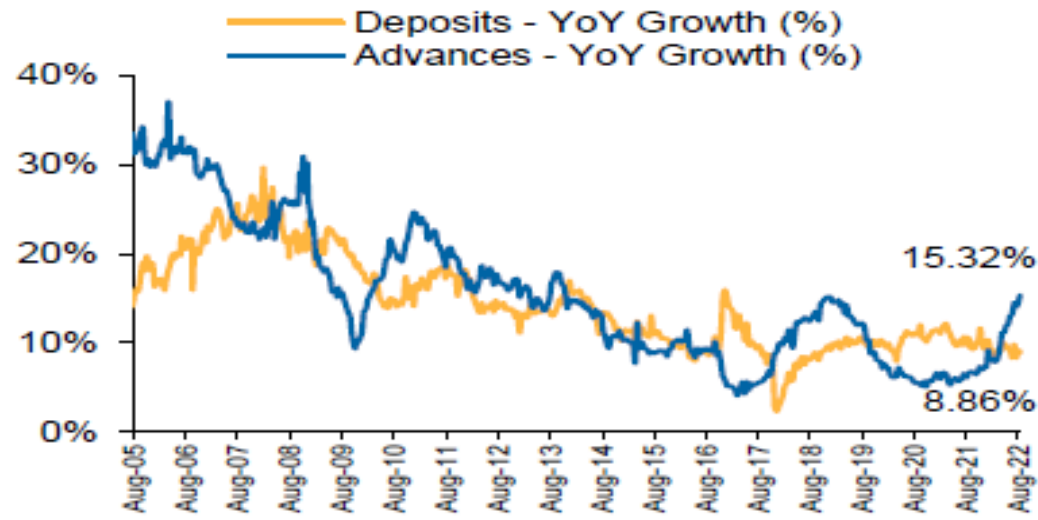
US Dollar Index



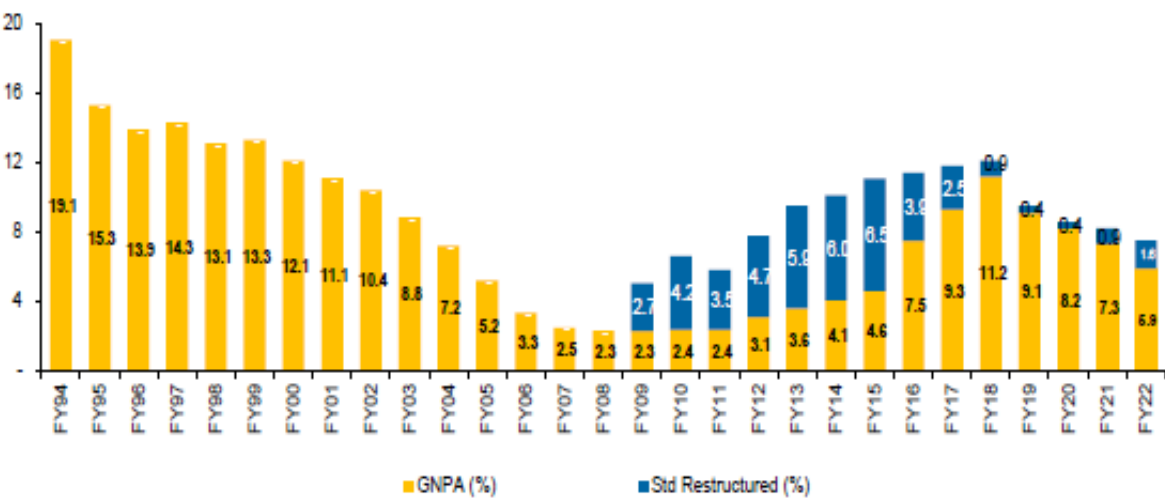
Source: Morningstar. Data sorted in descending order and ended Aug 2022.

India - Growth indicators well placed

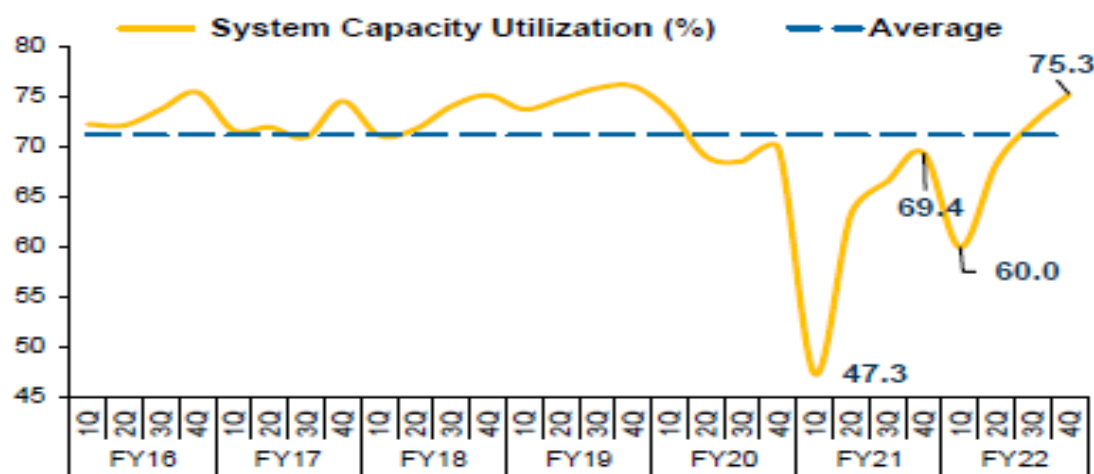
India – Bank Credit & Deposit Growth (% YoY)



Asset Quality in the banking system has improved

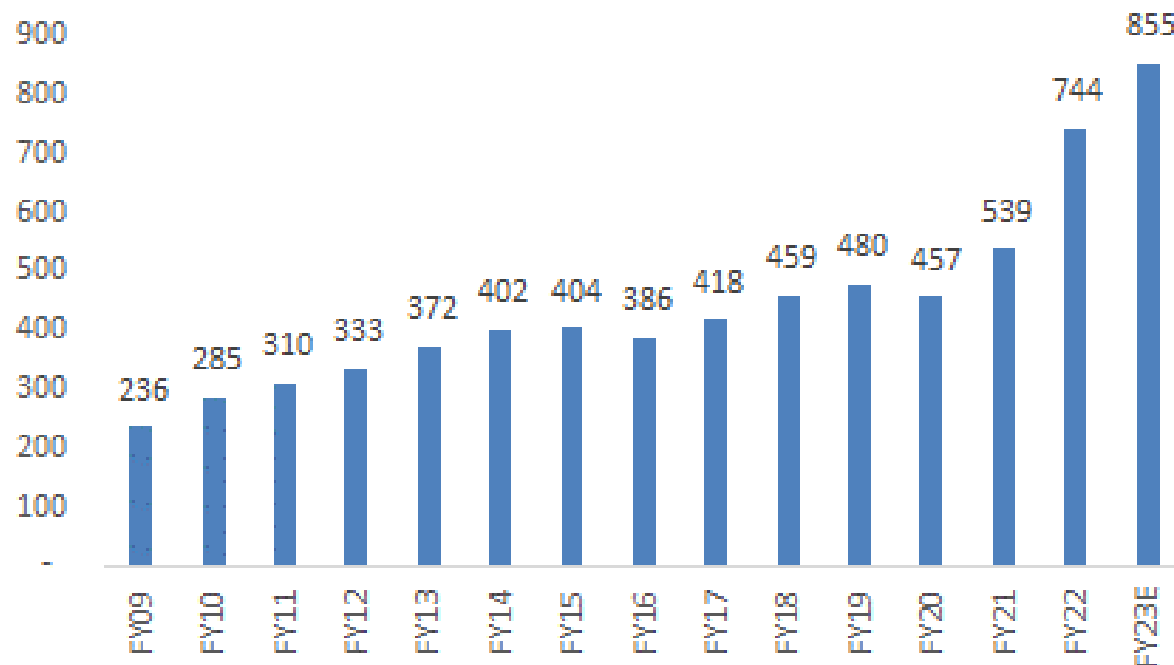


Capacity Utilization rises above the long-term average



Corporate earnings expected to grow @15% in FY23

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 ~15% in FY23.

Sector earnings trends

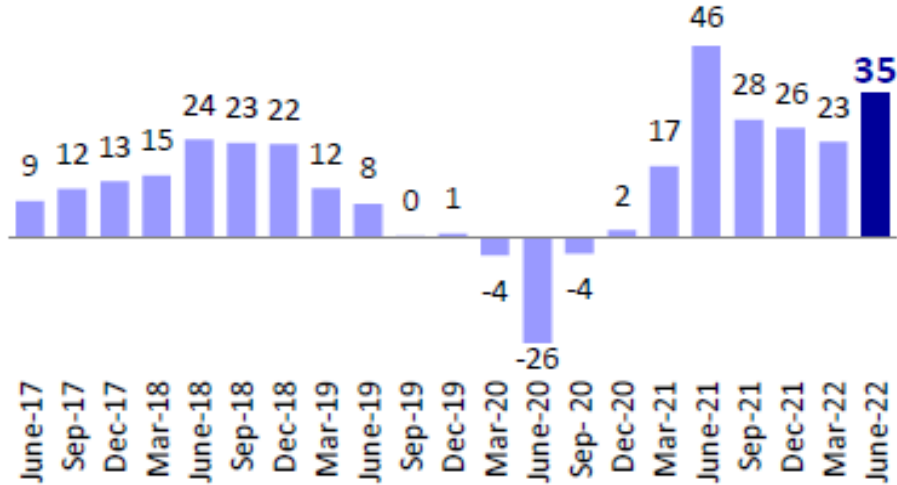
Sector Profit After Tax (PAT) of Bajaj Allianz Life Research Universe

Sector	PAT (Profit After Tax), INR mn		
	FY21	FY22	FY23
Banks (Largecap)	8,50,319	12,56,519	15,60,616
Oil & Gas	8,54,859	10,02,677	13,51,181
Software/IT	8,99,001	10,23,728	11,44,679
Metals	5,26,737	12,58,451	7,01,576
FMCG	3,32,275	3,75,682	4,30,578
NBFC	2,64,767	2,94,378	3,51,961
Utilities	2,81,034	3,31,662	3,37,454
Auto	1,69,287	87,767	3,01,472
Pharma (Largecap)	2,16,744	2,32,158	2,52,152
Industrials	1,53,243	1,45,867	1,85,549
Auto Ancillaries	81,091	83,013	1,25,671
Specialty Chemicals	32,232	63,844	74,738
Total	46,61,591	61,55,745	68,17,628

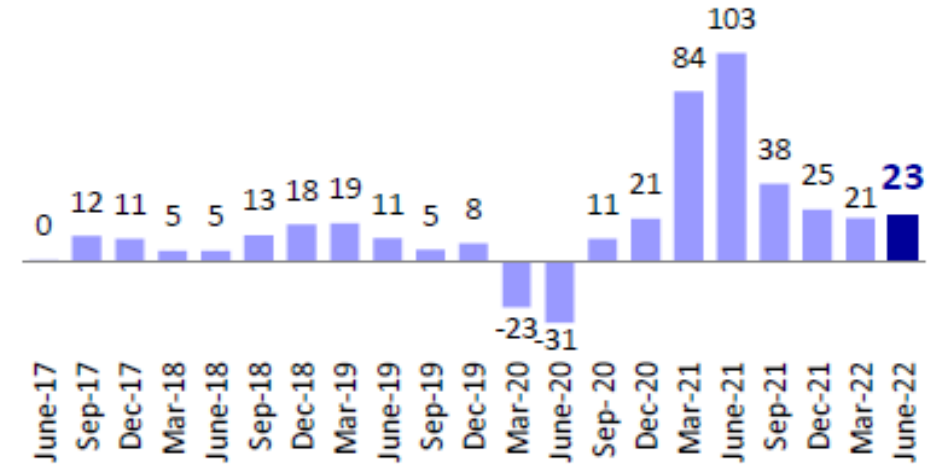
- Top 7 banks to grow PAT by 25% in FY23, which is a significant contributor to Nifty earnings.
- Oil & Gas sector to see healthy growth in FY23; a private oil & gas major driving most of the earnings growth.
- Software & FMCG sector to see stable PAT growth in FY23.
- Cement sector PAT to de-grow by 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.

Q1 FY23 Nifty earnings grew 23% (on a weak base)

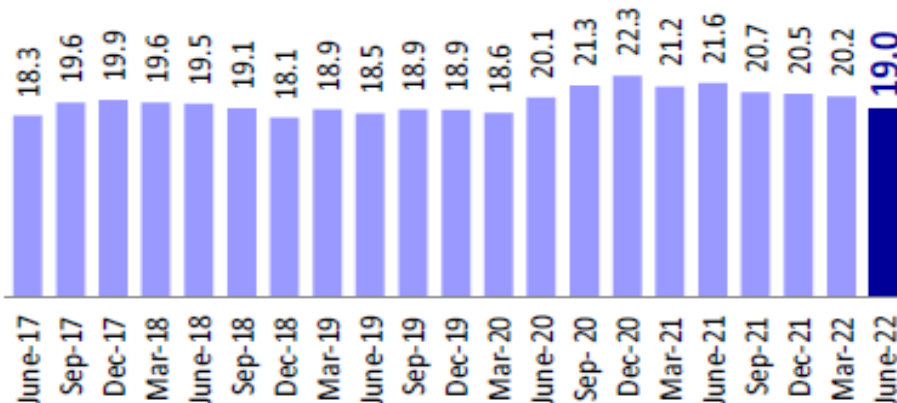
Nifty Quarterly Sales Growth (%YoY)



Nifty Quarterly PAT Growth (%YoY)



Nifty EBITDA Margin (ex Financials)



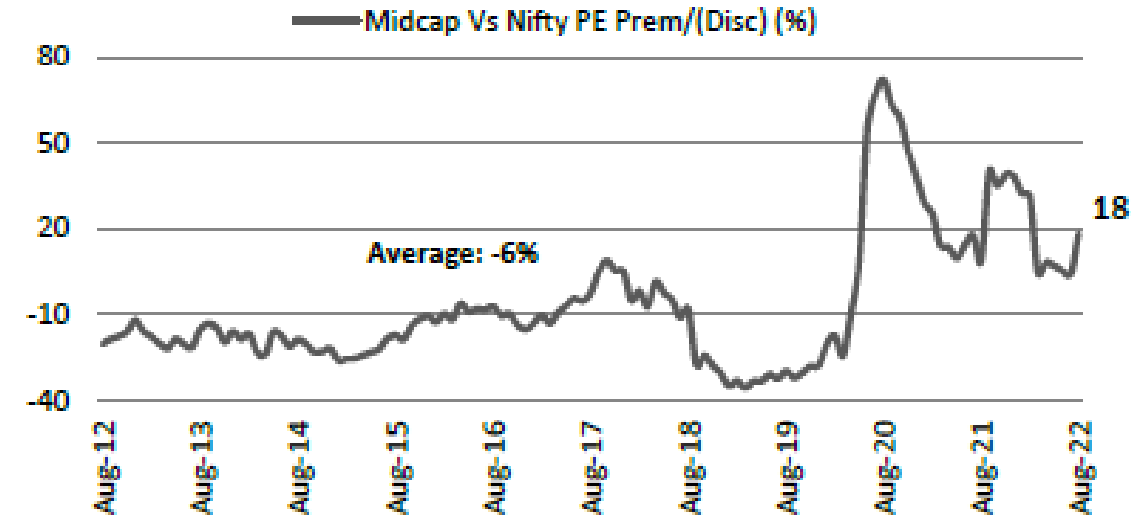
- Financials were the key contributors in Q1 FY23 earnings, and sectors like Consumer, Metals, Capital goods have fared well.
- Oil & Gas sector underperformed expectations.
- Nifty EBITDA margin has come down 260 bps from the peak.

Market valuations moderated from their highs; near long-term average

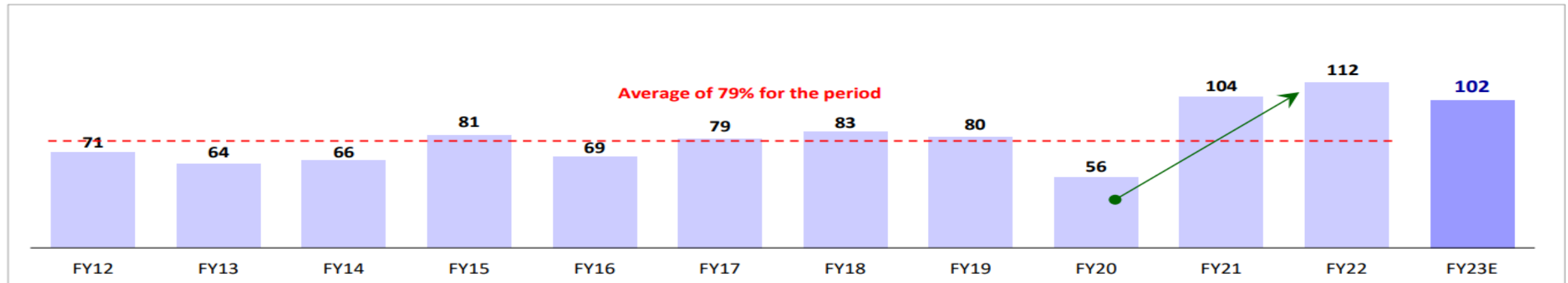
Nifty 1 Year Fwd Consensus P/E Ratio



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 being countered by DII inflows; recently FPI flows pick-up

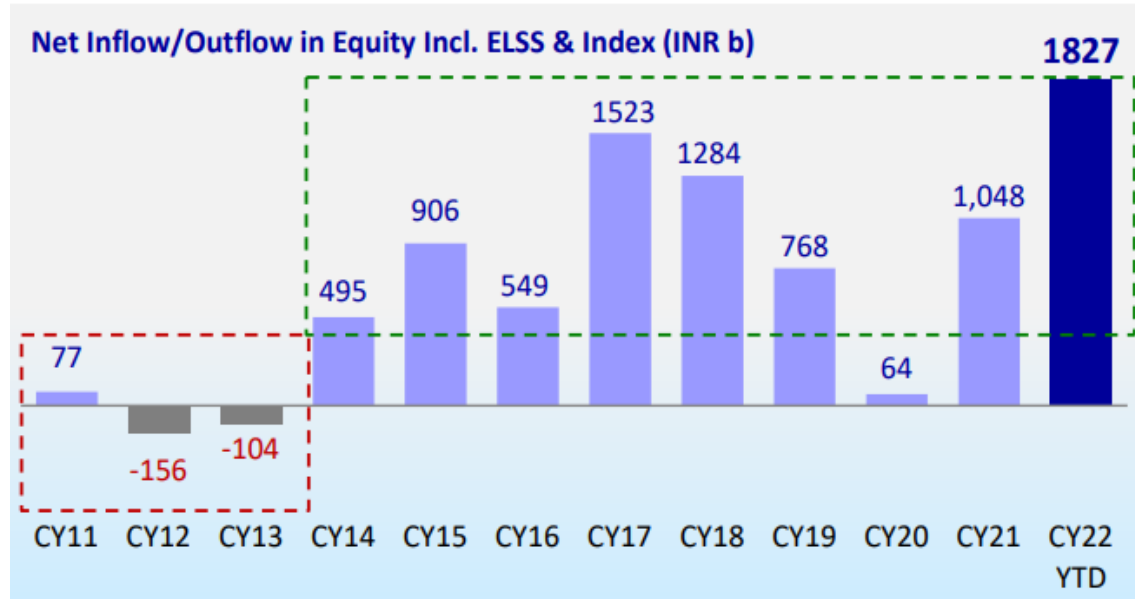
Source: NSDL, Axis Capital	Rs in Crore	
Year	FPIs	DIIs
FY2008	52,572	47,794
FY2009	-48,250	60,040
FY2010	1,10,752	24,211
FY2011	1,10,121	-18,709
FY2012	43,738	-5,347
FY2013	1,40,032	-69,069
FY2014	79,709	-54,161
FY2015	1,11,445	-21,446
FY2016	-14,171	80,416
FY2017	60,196	30,787
FY2018	21,074	1,13,258
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 Aug)	-46,886	1,31,754

Source: NSDL, Axis Capital	Rs in Crore	
Month-end	FPIs	DIIs
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
31 July 2022	6,720	10,546
31 Aug 2022	53,994	-7,069

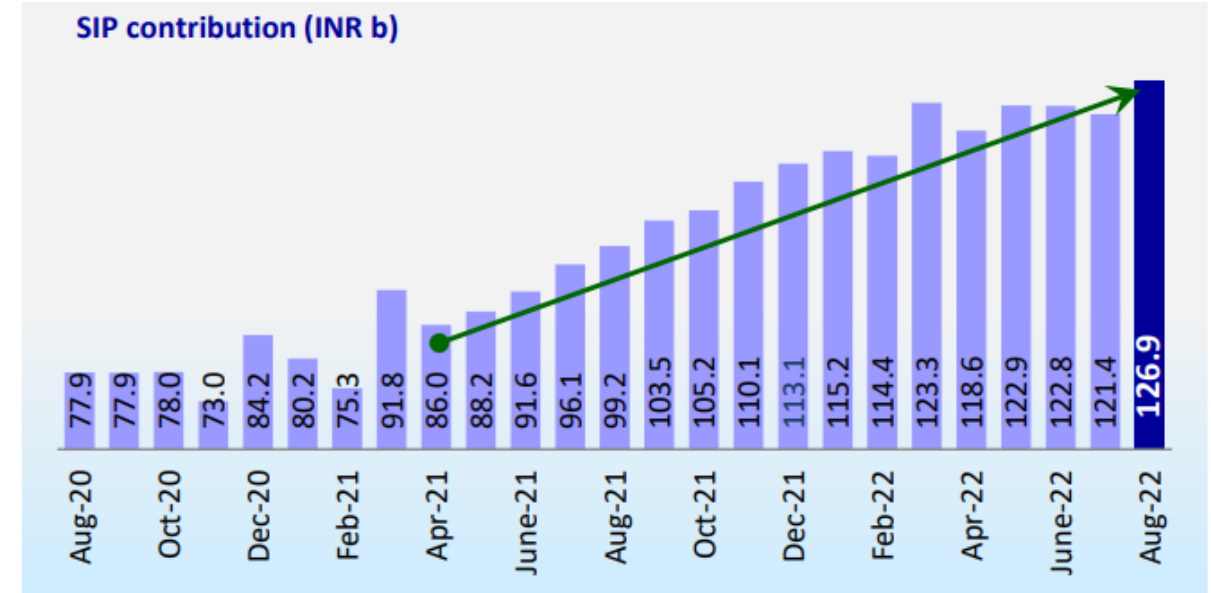
- FPIs have registered record equity outflows. However, flows turned positive in the month of July and registered a significant jump in Aug 2022 (which is highest net equity inflow since November 2020).
- Meanwhile, DII equity flows continue to be strong, after a record inflow in FY22. DII inflows have helped to counter FPI outflows, thereby leading to relatively less fall in Indian equity markets, compared to peers.

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 Aug 2022

- Domestic equity mutual funds have been witnessing robust inflows and CYTD flows at record high.
- In addition, money is also coming in via the Index Funds / ETFs.
- Monthly run-rate of SIP investments now stands at a record high above Rs. 12,000 crore.

Outlook

- Equities remain the preferred asset class for long term wealth creation.
- However, near term return expectations from the Indian equity markets should be modest, given the rising interest rates, global uncertainties and current valuations.
- Prefer
 - **Private Banks** – Credit growth picking up, margins are stable and asset quality outlook is benign. Most banks are well capitalized.
 - **Domestic plays** – Like companies exposed to domestic growth in sectors like Industrials, Cap Goods etc.
 - **IT** – Sector has underperformed due to global recession fears, valuations are approaching attractive zone.
 - **Pharma** – Lacks near term triggers, however, valuations are attractive on selective basis.

Fixed Income

- The interest rates in India also moving up in synch with global yields.
- Expect interest rates to peak out soon in the current cycle.
- While currently our preference is towards short to medium term duration, we would look to add duration above 7.5% mark for the 10-year yield.

THANK YOU

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