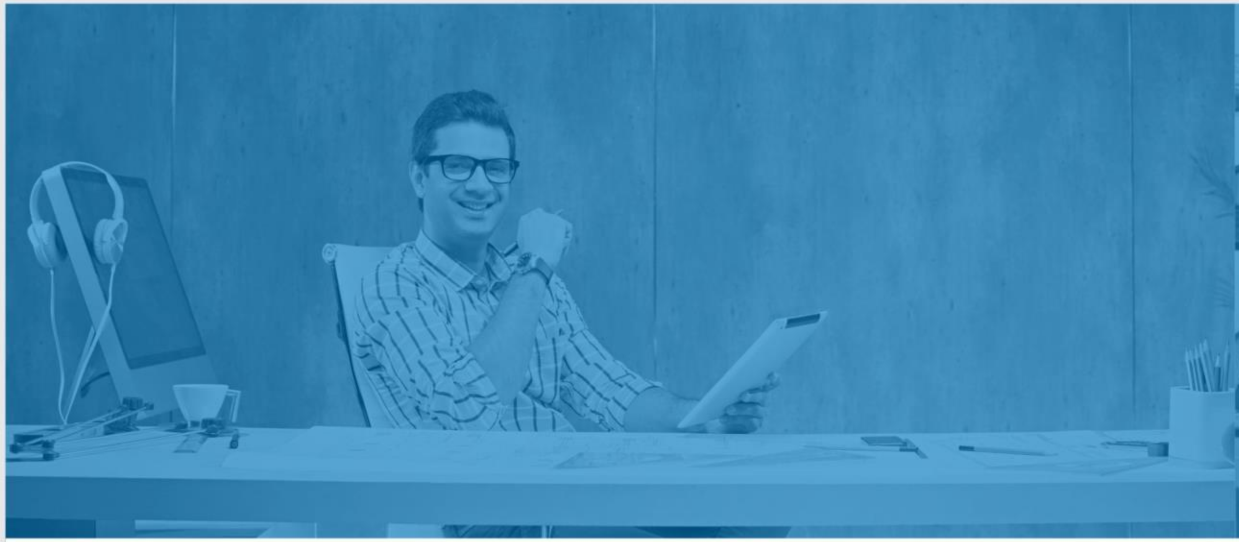
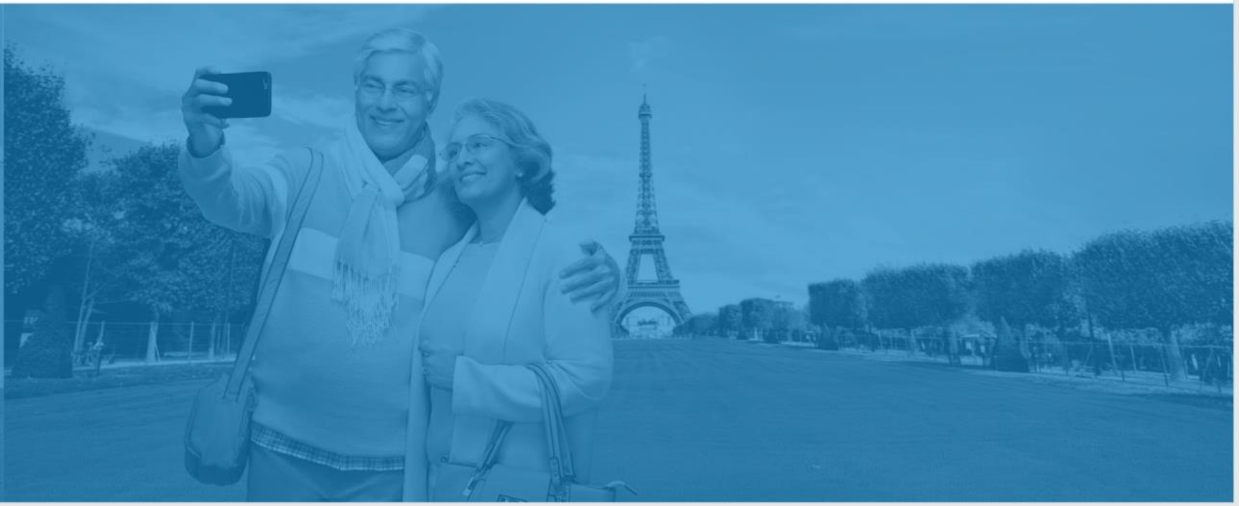


India more favourably positioned amidst the global growth slowdown

LIFE GOALS. **DONE.**

BAJAJ | Allianz

November 2022



Global Markets & Macro

Global equity markets have seen healthy correction over past year; India has relatively outperformed across time frames

Performance of International Indices (ended Oct 2022, in %)					
Index Name	Country / Region	1 Yr	3 Yrs	5 Yrs	10 Yrs
BOVESPA	Brazil	12.1	2.7	9.3	7.4
JSX Composite	Indonesia	7.7	4.5	3.4	5.0
Nifty 50	**India**	**1.9**	**14.9**	**11.8**	**12.4**
FTSE SET All Share	Thailand	-0.4	-0.5	-2.2	1.4
FTSE 100	UK	-2.0	-0.7	-1.1	2.1
FTSE/SGX STI	Singapore	-3.3	-1.4	-1.7	0.2
Nikkei 225	Japan	-4.5	6.4	4.6	11.9
S&P/ASX 200	Australia	-6.3	1.0	3.0	4.3
FTSE Bursa Malaysia KLCI	Malaysia	-6.5	-3.0	-3.5	-1.4
CAC 40	France	-8.3	3.0	2.6	6.2
FSE DAX TR	Germany	-15.5	1.0	0.0	6.2
S&P 500	US	-15.9	8.4	8.5	10.6
Shanghai Composite	China	-18.4	-0.4	-3.1	3.4
MSCI World PR USD	World	-19.8	4.5	4.6	6.9
KOSPI	South Korea	-22.8	3.3	-1.9	1.8
TSEC TAIEX	Taiwan	-23.8	4.5	3.7	6.1
MSCI EM PR USD	Emerging Mkts	-32.9	-6.6	-5.4	-1.6
MSCI Asia Ex Japan PR USD	Asia Ex Japan	-35.5	-6.7	-5.4	0.1
Hang Seng	Hong Kong	-42.1	-18.3	-12.3	-3.8

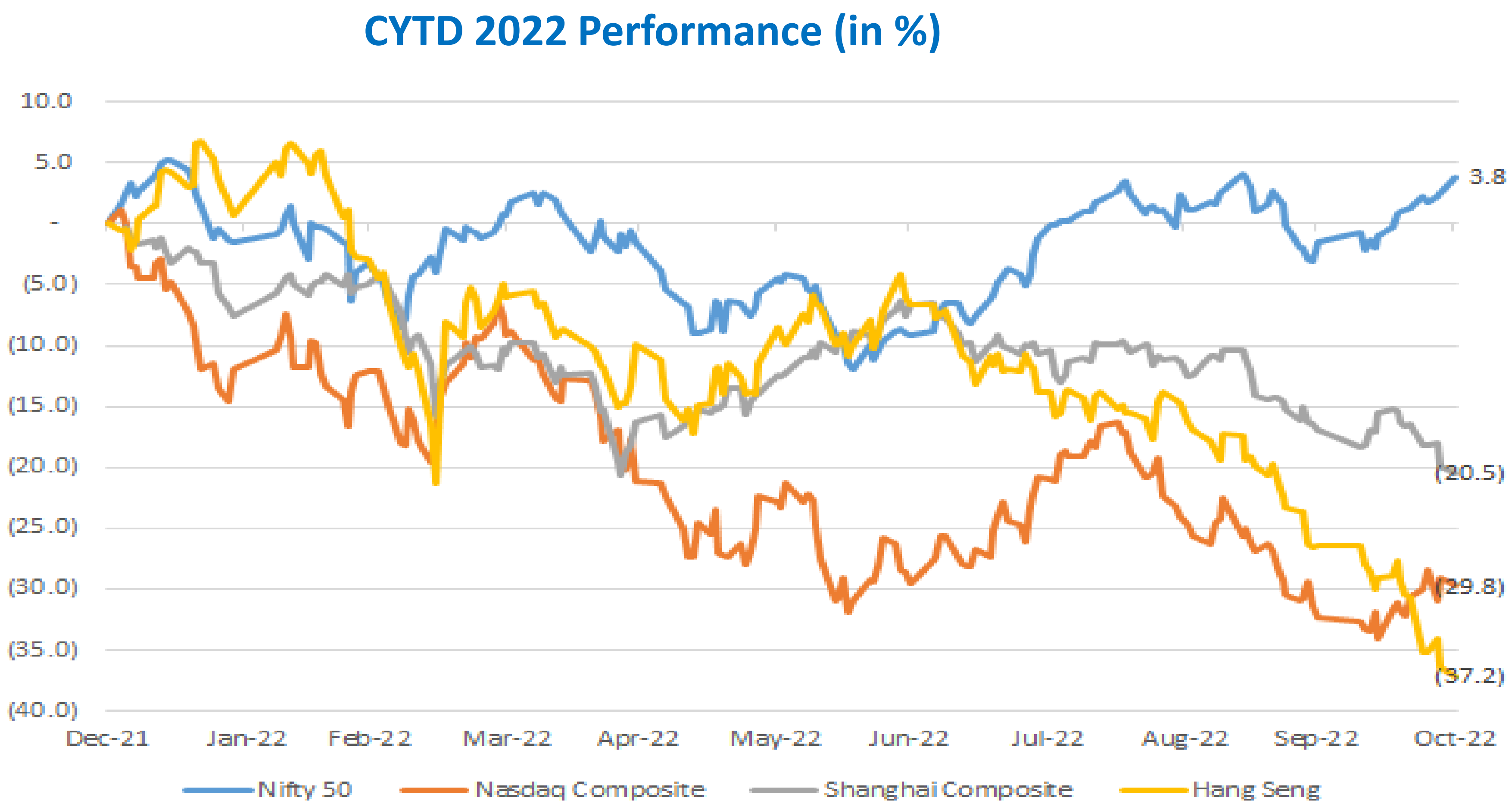
Source : Morning Star Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR. Data Sorted on the basis of 1 Yr return in descending order

Over 1 Year Period

- Global equity markets have seen healthy correction led by emerging & Asian markets
- Commodity producing countries / markets have relatively fared better.
- India has fared relatively better.

- **Over the long term (3, 5 & 10 years) Indian market has been among the top performing markets.**

India has significantly outperformed in CYTD 2022



- Nifty is up 4% CYTD vs a 37% decline for the Hong Kong market and a 30% decline for the NASDAQ.

Source: Bloomberg

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

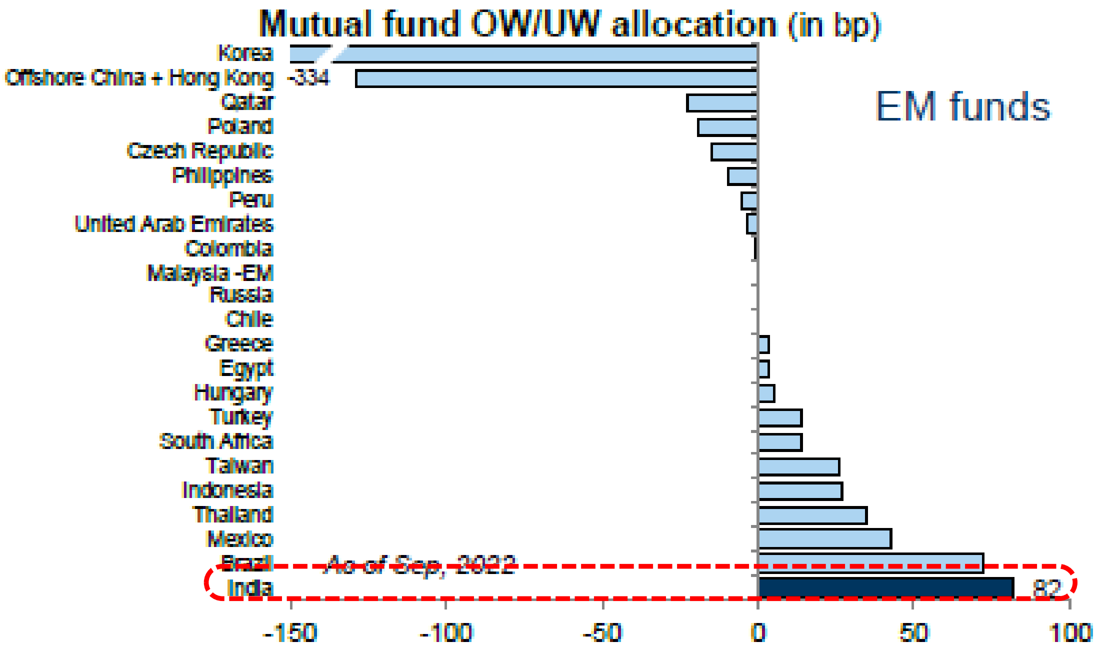
Change in Weights of Key Countries in MSCI EM Index			
Country	Weight in MSCI EM index Oct 2020 (%)	Weight in MSCI EM index Oct 2022 (%)	Change in weight (in %)
China	42.4	26.3	-16.2
India	**8.1**	**16.2**	8.1
Taiwan	12.5	13.4	1.0
South Korea	11.8	11.2	-0.6
Brazil	4.3	6.4	2.1
Source: Morningstar Direct. We have considered country net weights in iShares MSCI EM ETF			

- India's weight has increased the most (by 8%) over the past 2 years, due to relative outperformance among EM (emerging market) peers.
- Higher weight of India (now 2^{nd} highest weight in MSCI EM index) could drive more foreign inflows into India.
- China has seen the biggest drop in weight (~16%) in the MSCI EM index over the same period.

Source: Morningstar Direct. We have considered country weights in iShares MSCI EM ETF

India has the highest overweight position in Global EM & Asia Ex-Japan Funds

Global EM Funds OW/UW allocation (in bps)



India Allocation in Various Global MF categories

Equity Mutual Funds	Total Assets (US$ bn)	India allocation: Avg. Fund allocation (%)	Benchmark (MSCI)	OW/UW (bp) vs. MSCI
Global ex-USA funds	1,115	2.6%	4.5%	-185 bp
EM Funds	375	16.2%	15.3%	80 bp
Global funds	705	0.4%	1.7%	-130 bp
AEJ Regional funds	90	20.1%	17.5%	260 bp
Overall (AUM wgt.)	$2,285 bn	4.9%	5.9%	-105 bp

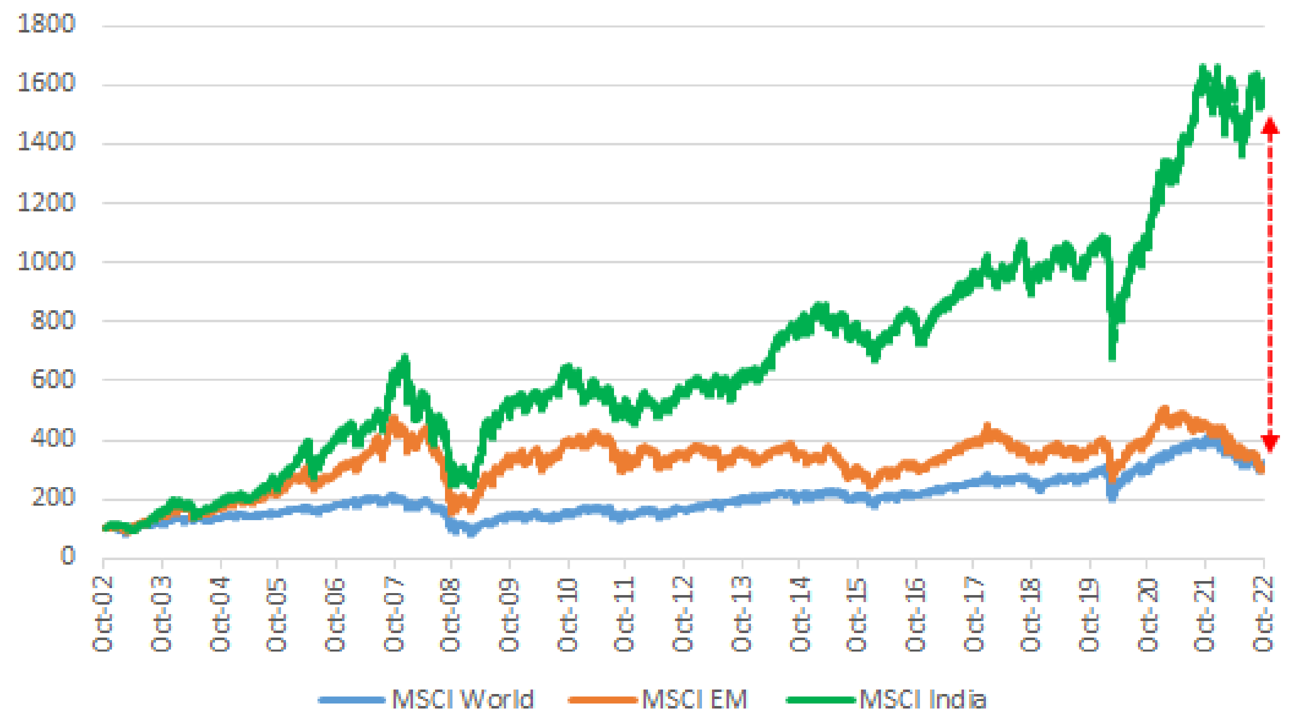
Note: As of Sep-end, 2022

- India has the highest overweight (OW) allocation in global EM & Asia ex Japan mutual funds, despite the overweight exposure coming down over the past few years.
- South Korea, China , Hong Kong have the highest underweight (UW) allocation in global EM funds relative to MSCI EM index.

Source: EPFR, Factset, Goldman Sachs Research

Over past 20 years MSCI World & MSCI EM returns have converged; India has significantly outperformed

Performance of MSCI Indices over 20-year period (Rebased to 100)

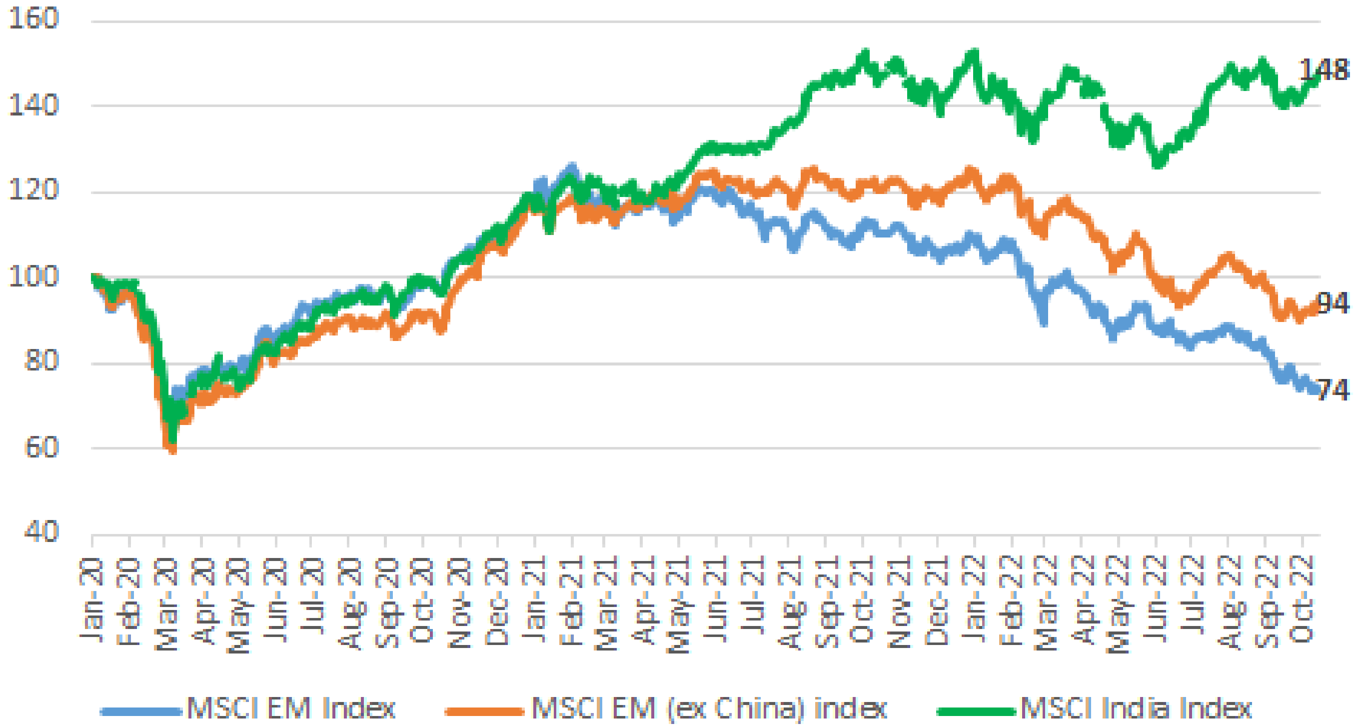


- Because of underperformance of MSCI EM index, the returns of MSCI World & MSCI EM index have almost converged over 20 yr period.
- MSCI India index has outperformed by a significant margin.

Source: Bloomberg

MSCI India is significantly above the Pre-pandemic level, while MSCI EM & MSCI EM (ex China) are below that

Performance of MSCI Indices - from Pre-Pandemic period to Oct 2022 (Rebased to 100)



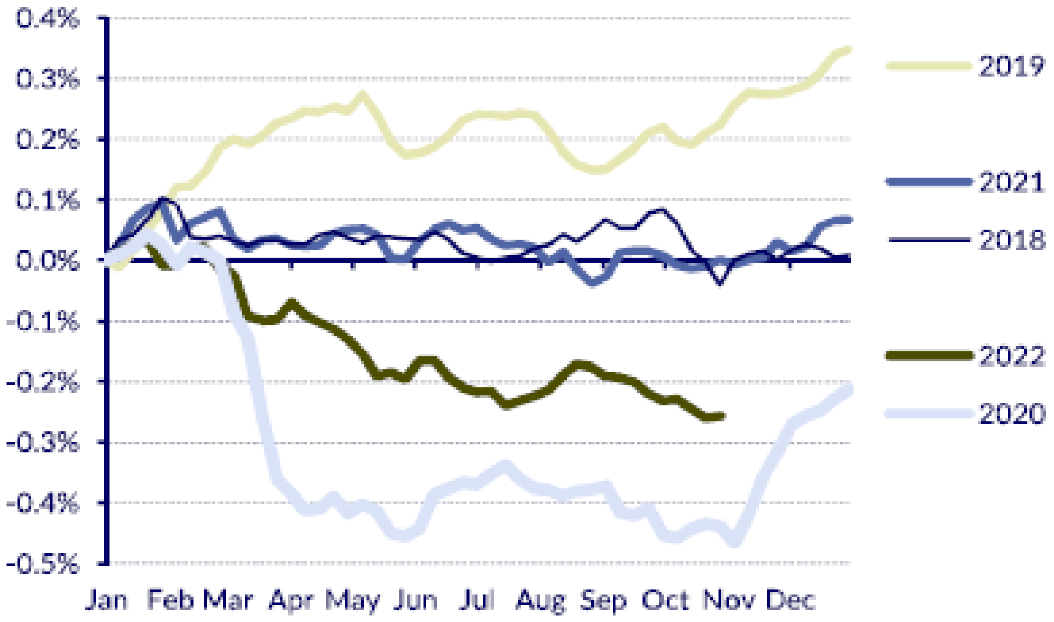
- MSCI India index is significantly higher than pre-pandemic level, and has outperformed by a substantial margin.
- MSCI EM index has underperformed--primarily dragged down by China (highest weight in index). However, MSCI EM (ex China) index is also below pre-pandemic level, pointing to underperformance of other emerging markets (ex China) as well.

Source: Bloomberg

Foreign Ownership of EM ex China at the lowest since 2010; EM's see large foreign outflows

EM ex China – Foreign Equity Ownership (% of Mkt Cap) Vs Index

EM Annual Cumulative Foreign Equity Purchases (% of Mkt Cap)



- Foreign equity ownership of EM ex China equities at the lowest level since 2010.
- Emerging Markets (EM's) have seen large foreign equity outflows in 2022.

Source: CLSA

Global growth slowdown underway; India still among the fastest growing economies

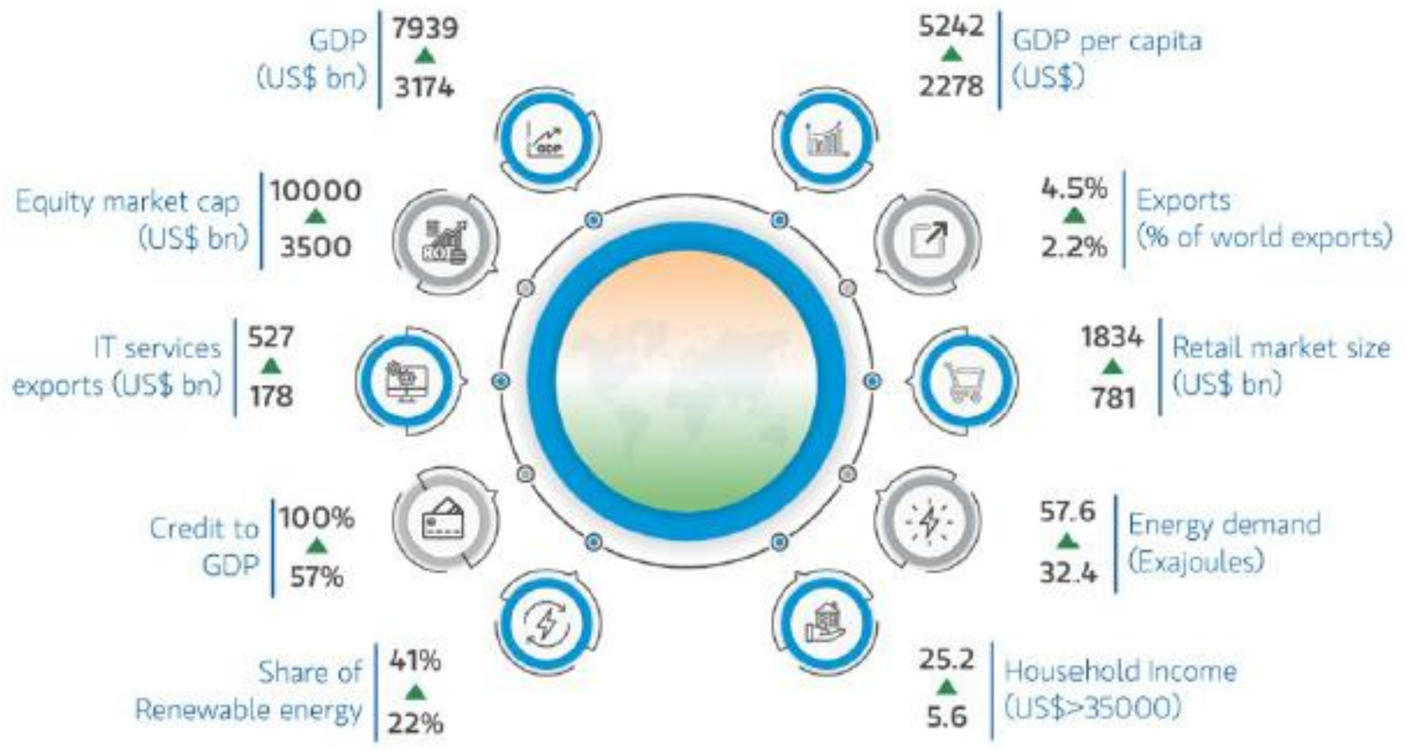
IMF World Economic Outlook Projections (in %) Oct 2022				Percentage point difference from July 2022 WEO projections	
Country / Region	Actual	Projections			
	2021	2022	2023	2022	2023
World	**6.0**	**3.2**	**2.7**	**0.0**	**-0.2**
Advanced Economies	**5.2**	**2.4**	**1.1**	**-0.1**	**-0.3**
United States	5.7	1.6	1.0	-0.7	0.0
Euro Area	5.2	3.1	0.5	0.5	-0.7
Japan	1.7	1.7	1.6	0.0	-0.1
Emerging Markets	**6.6**	**3.7**	**3.7**	**0.1**	**-0.2**
China	8.1	3.2	4.4	-0.1	-0.2
India*	**8.7**	**6.8**	**6.1**	**-0.6**	**0.0**
Brazil	4.6	2.8	1.0	1.1	-0.1

- World GDP is projected to slow down in 2022-23
- Being led by developed markets esp. US & Europe.
- There are talks of a possible global recession in adverse scenario.
- Emerging markets will continue to grow at a faster rate.
- Despite the growth slowdown in India, it would remain the fastest growing large economy in 2022-23.

* For India fiscal year being considered. 2022 = FY23 & 2023= FY24
Source: IMF World Economic Outlook, Oct 2022

India estimated to drive a fifth of global growth through the end of this decade

India – Improvement in Key Metrics (Current to 2030)



- India to become world’s third largest economy and stock market by the end of 2030 as per forecast of Morgan Stanley

Source: Morgan Stanley Research

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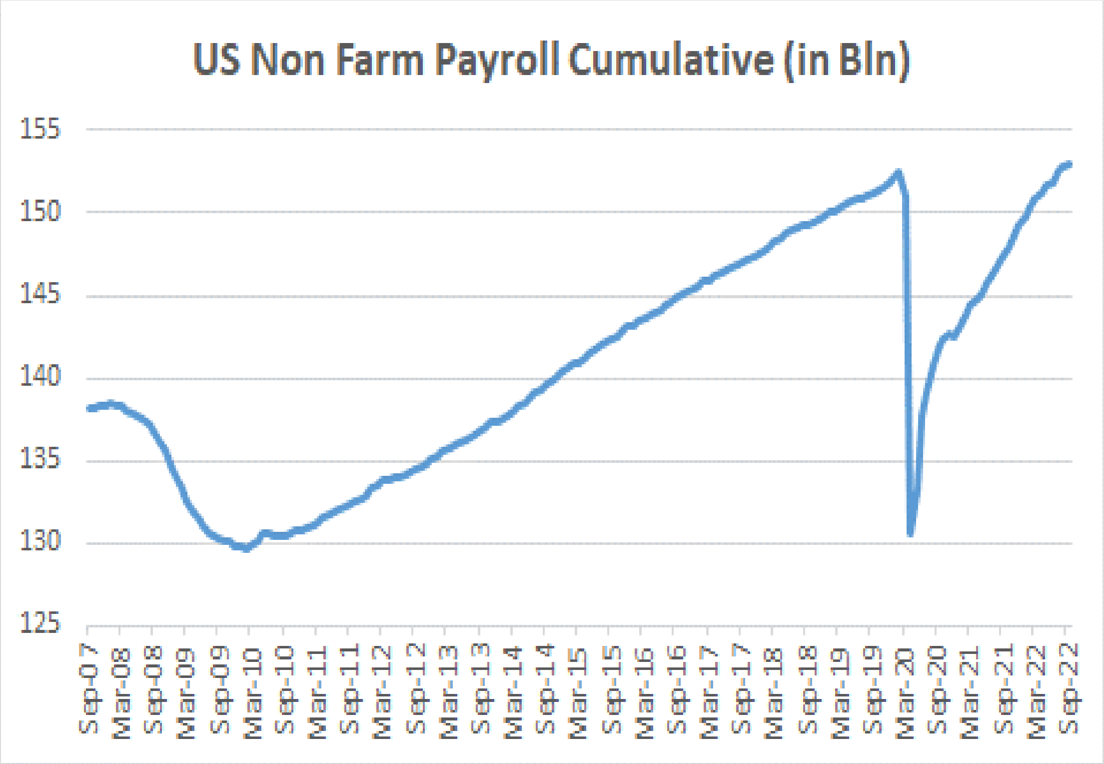
US inflation at a multi-decade high, but moderated in October

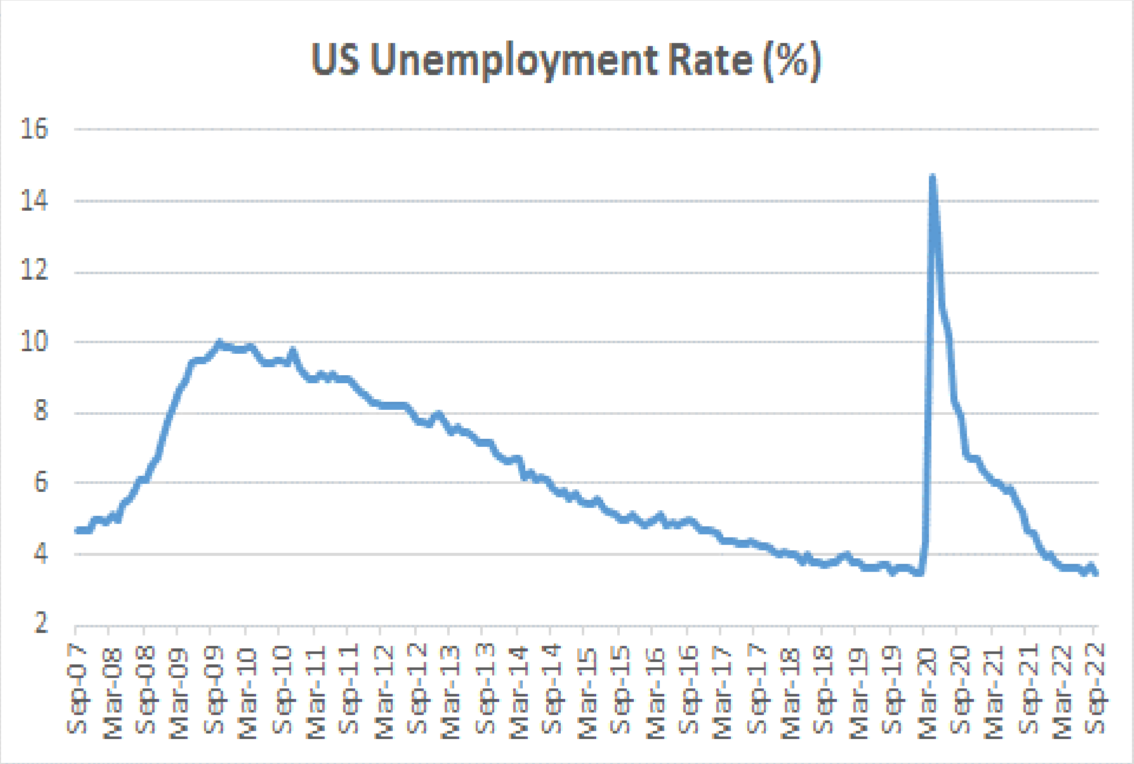
US CPI Inflation Trend with Composition (%YoY)							
	Weights	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
All items	100	8.3	8.6	9.1	8.5	8.3	8.2	7.7
Food	13.4	9.4	10.1	10.4	10.9	11.4	11.2	10.9
Food at home	8.3	10.8	11.9	12.2	13.1	13.5	13	12.4
Food away from home(1)	5.1	7.2	7.4	7.7	7.6	8	8.5	8.6
Energy	8.3	30.3	34.6	41.6	32.9	23.8	19.8	17.6
Energy commodities	4.9	44.7	50.3	60.6	44.9	27.1	19.7	19.3
Gasoline (all types)	4.6	43.6	48.7	59.9	44	25.6	18.2	17.5
Fuel oil(1)	0.2	80.5	106.7	98.5	75.6	68.8	58.1	68.5
Energy services	3.4	13.7	16.2	19.4	18.8	19.8	19.8	15.6
Electricity	2.5	11	12	13.7	15.2	15.8	15.5	14.1
Utility (piped) gas service	0.9	22.7	30.2	38.4	30.5	33	33.1	20
All items less food and energy	78.3	6.2	6	5.9	5.9	6.3	6.6	6.3
Commodities less food and energy commodities	21.4	9.7	8.5	7.2	7	7.1	6.6	5.1
New vehicles	4	13.2	12.6	11.4	10.4	10.1	9.4	8.4
Used cars and trucks	4	22.7	16.1	7.1	6.6	7.8	7.2	2
Apparel	2.5	5.4	5	5.2	5.1	5.1	5.5	4.1
Medical care commodities(1)	1.5	2.1	2.4	3.2	3.7	4.1	3.7	3.1
Services less energy services	56.9	4.9	5.2	5.5	5.5	6.1	6.7	6.7
Shelter	32.4	5.1	5.5	5.6	5.7	6.2	6.6	6.9
Transportation services	5.8	8.5	7.9	8.8	9.2	11.3	14.6	15.2
Medical care services	6.9	3.5	4	4.8	5.1	5.6	6.5	5.4

- US headline CPI remains elevated, but has moderated from a high of 9.1% in Jun 2022 to 7.7% in Oct 2022
- October inflation came in below market estimate of 8.2%, providing a cheer to markets.
- Core inflation (ex food & energy) moderated to 6.3% in Oct 2022 (lower than estimate of 6.5%) from 6.6% in Sep 2022.
- However, Shelter (Housing Rental) having a large weight of ~32% in US CPI basket rose to 6.9% in Oct 2022.

Source: US Bureau of Labor Statistics

US – Job market remains very strong



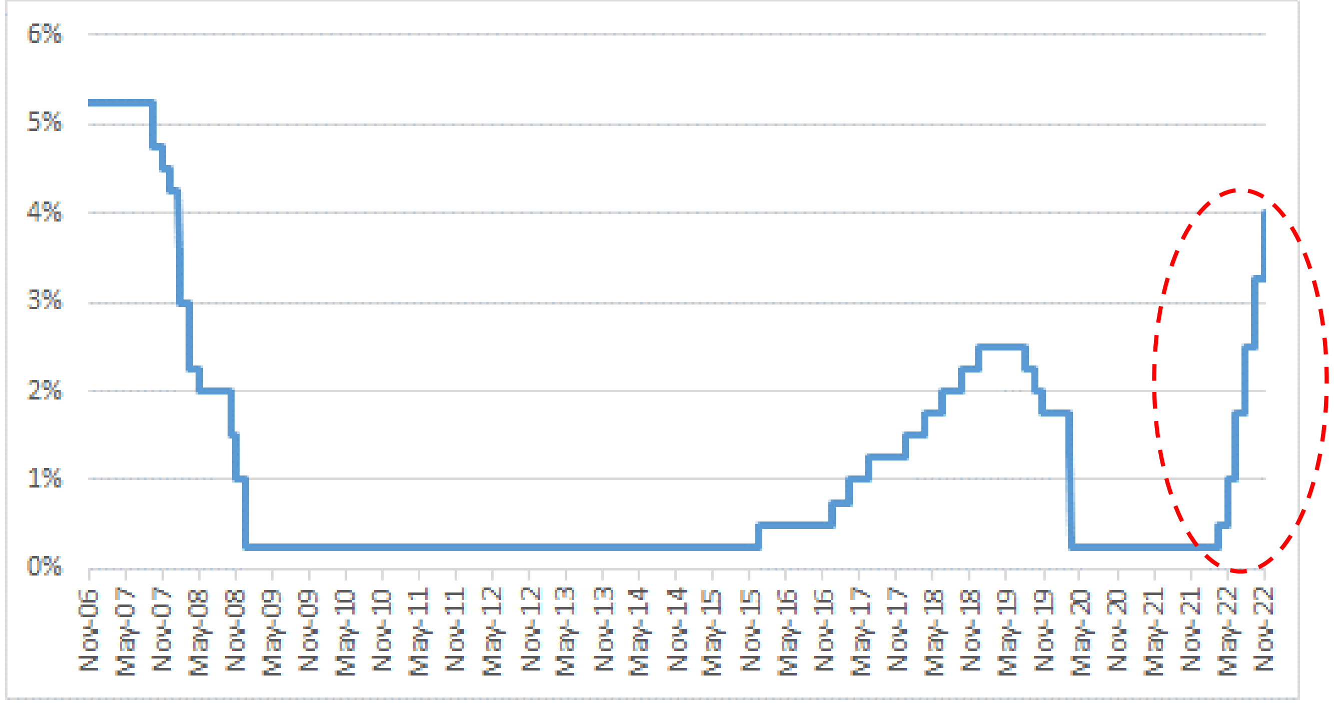


- US cumulative non-farm payrolls at a record high and unemployment at a historical low.

 Source: Bloomberg

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 375bps this year, with the latest being a 75bps hike in the Oct meeting & maintained its hawkish tone.
- The Fed indicated that terminal rate maybe higher than Sep meeting forecast of a median 4.6% (market expects ~5% or higher). It also indicated that quantum of rate hikes may reduce going forward.

Source: Bloomberg, US Federal Reserve

Inflation - Global phenomenon

Global Consumer Inflation (%YoY)

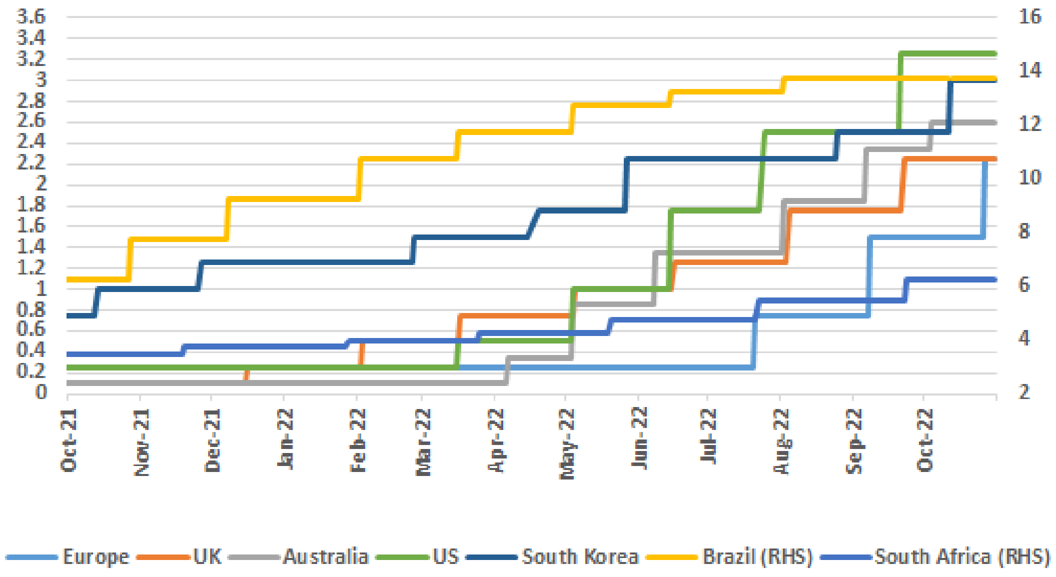
Country / Region	Current Headline CPI %YoY	10 Years Average
USA	7.7	2.1
United Kingdom	10.1	1.9
Eurozone	10.7	1.9
India	**6.8**	**5.8**
Brazil	6.5	6.0

Source: Bloomberg

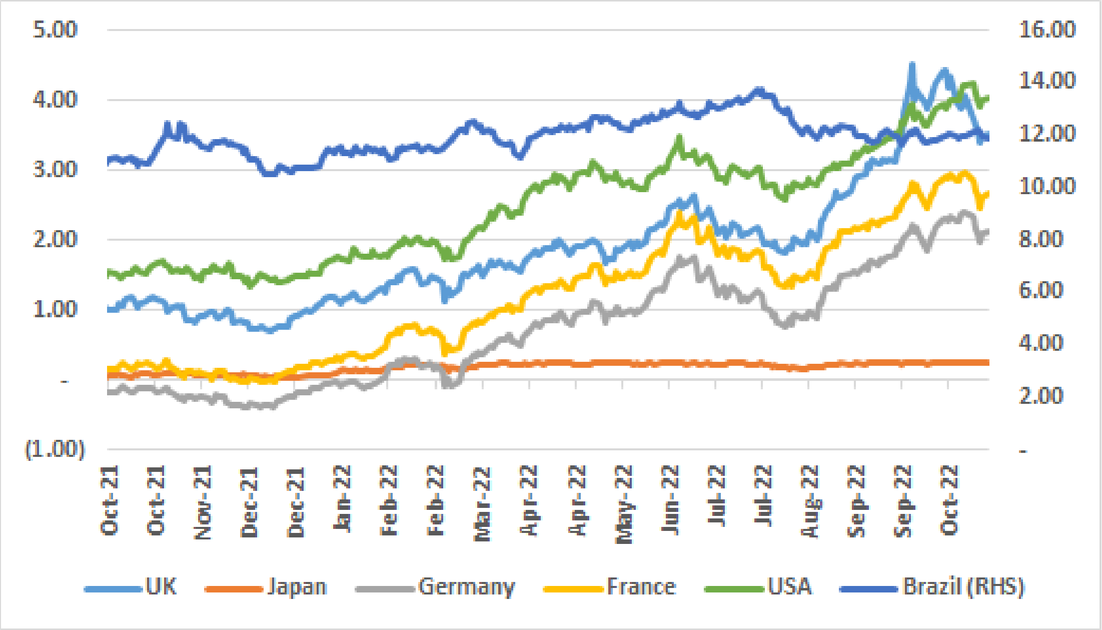
- All major economies except China facing inflation higher than long term average
- US, UK, Eurozone etc having inflation which is at multi decade high, resulting in faster tightening
- India's inflation still higher than RBI's threshold of 6%, but lower compared to global peers

Central banks across the world hiking rates to combat inflation

Interest Rate hikes by various Central Banks (%)



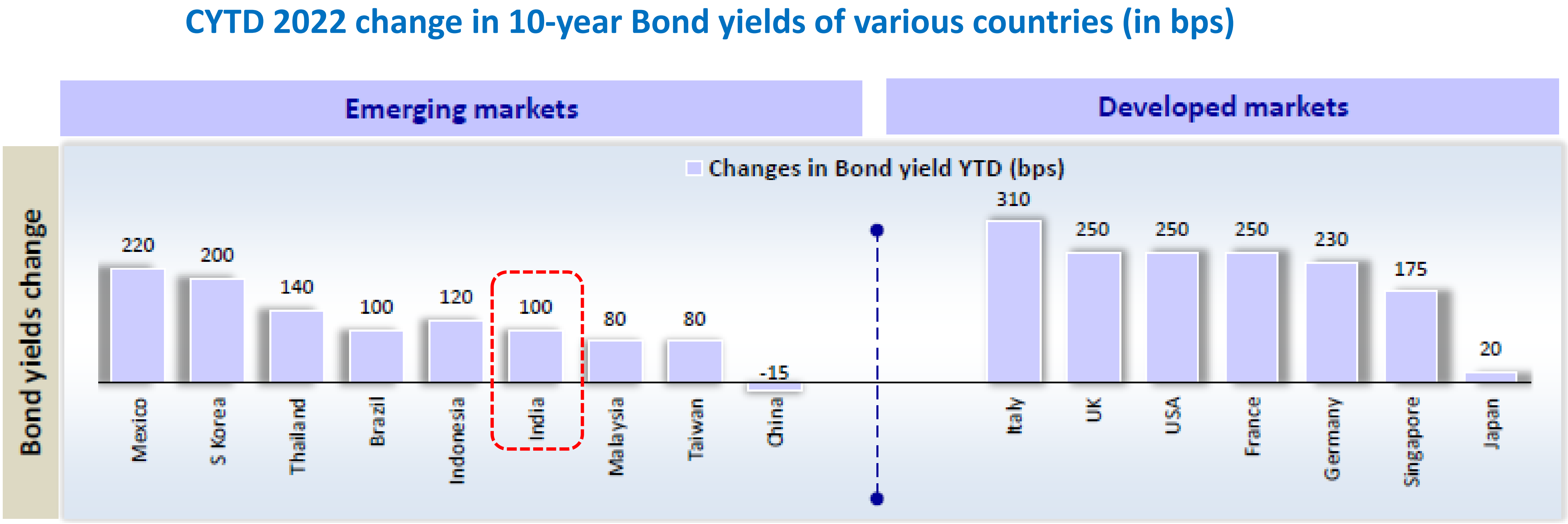
10-year Bond yields of various countries



- US Fed hiked the policy rate by 75 bps in the Oct meeting taking the cumulative hike this year to 3.7%.
- ECB (European Central Bank) ended its bond purchases and went in for 3 rate hikes of a cumulative 2%.
- BOE (Bank of England) has hiked rates 8 consecutive times this year, the latest being a 75 bps hike in November.
- Bond yields around the world have hardened, but softened a bit post the US CPI Oct 2022 data release.

Source: Bloomberg

India bond yields have not risen as much as other markets

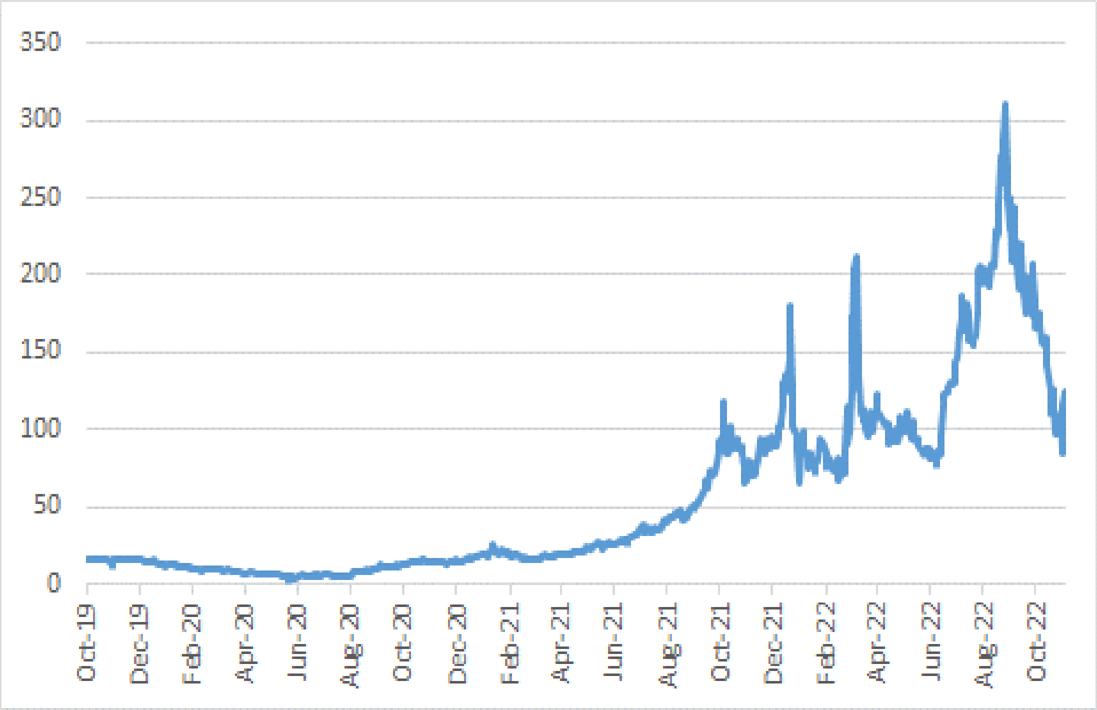


- Developed market bond yields have hardened more than emerging market (EM) bond yields this year.

Source: Bloomberg, Motilal Oswal

Europe - Despite correction in gas prices, eye needs to be kept on winter months

European gas prices – TTF (euros per megawatt hour)



European Natural Gas Demand (million cubic metres per day)

- In Europe, higher energy prices are a source of concern. They have corrected recently, but still quite elevated vs. pre-pandemic levels.
- The situation might worsen in the coming winter months, when natural gas demand in Europe increases substantially & if geo-political tensions with Russia rise.

Source: Bloomberg, Standard Chartered

Inflation – Sticky, despite recent correction in commodity prices

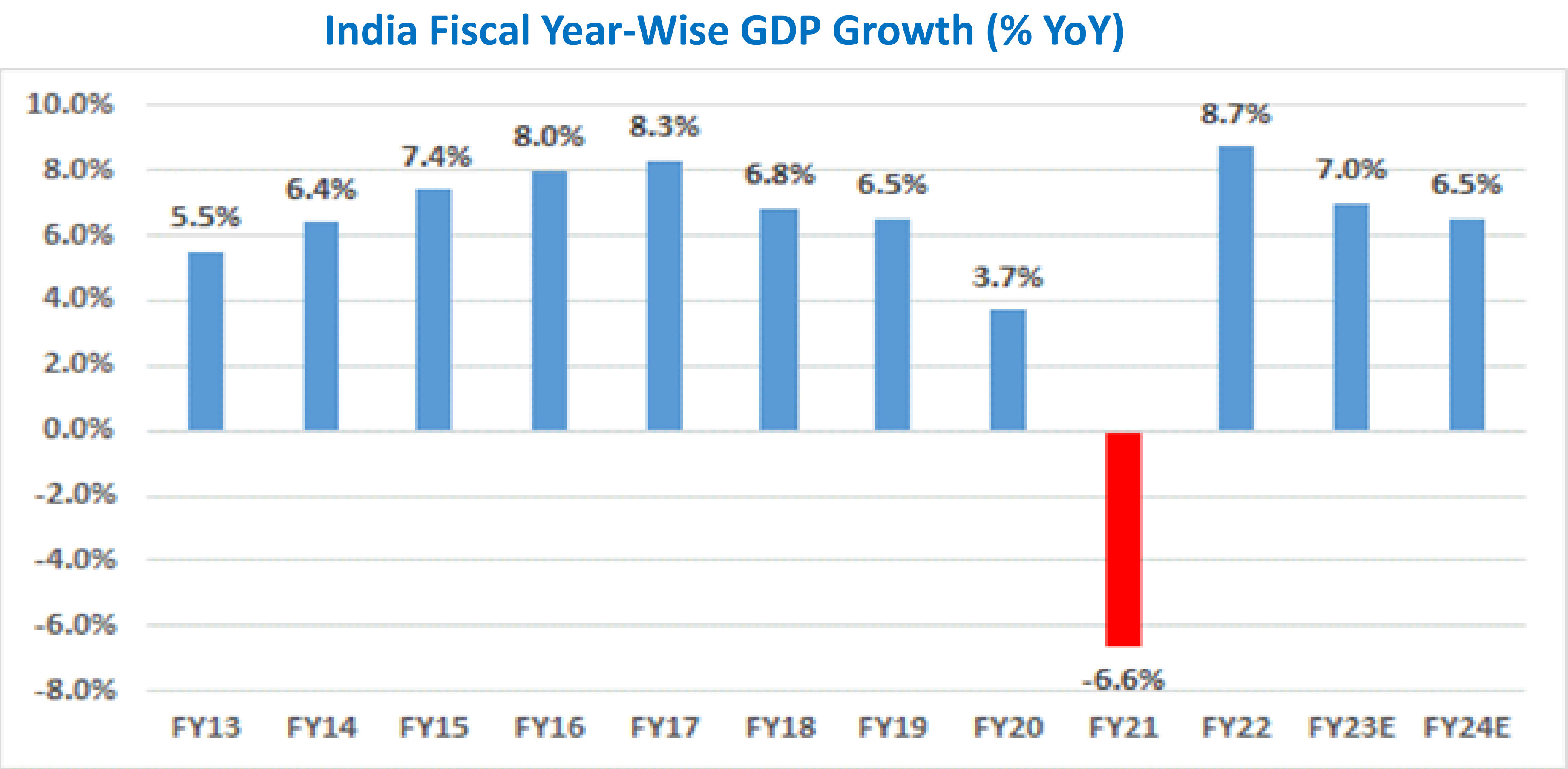
Bloomberg Commodity Index

Bloomberg Agriculture Spot Index

Source: Bloomberg.

Indian Macro & Markets

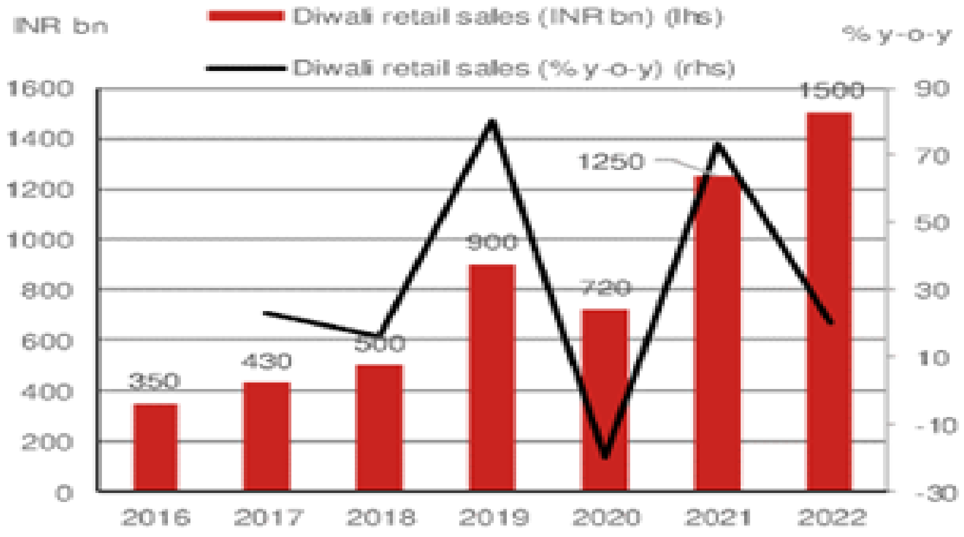
India – GDP growth still relatively healthy at 7% in FY23 & 6.5% in FY24



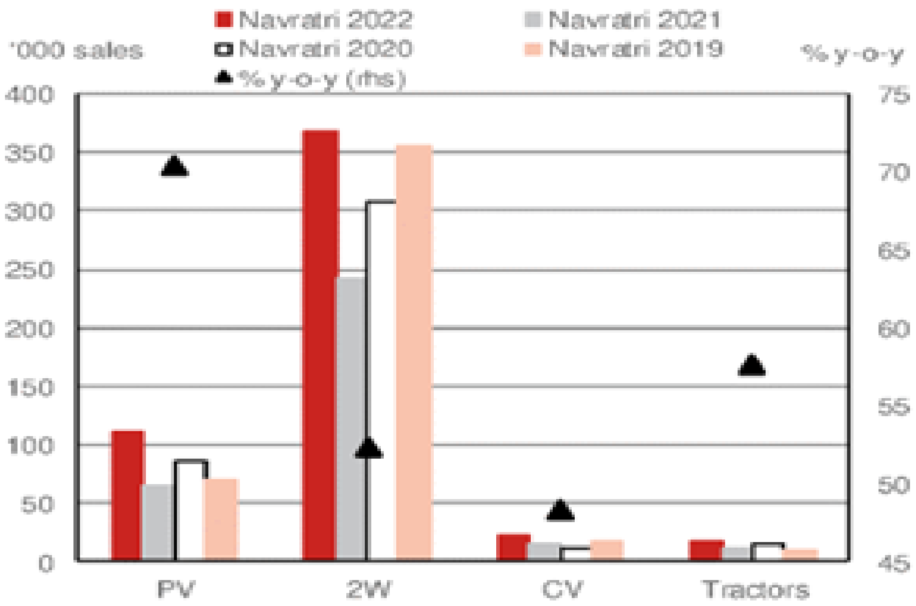
Source: Bloomberg, RBI. FY23 & FY24 growth rates are forecasted by RBI

Festive season indicates that domestic consumption has been robust

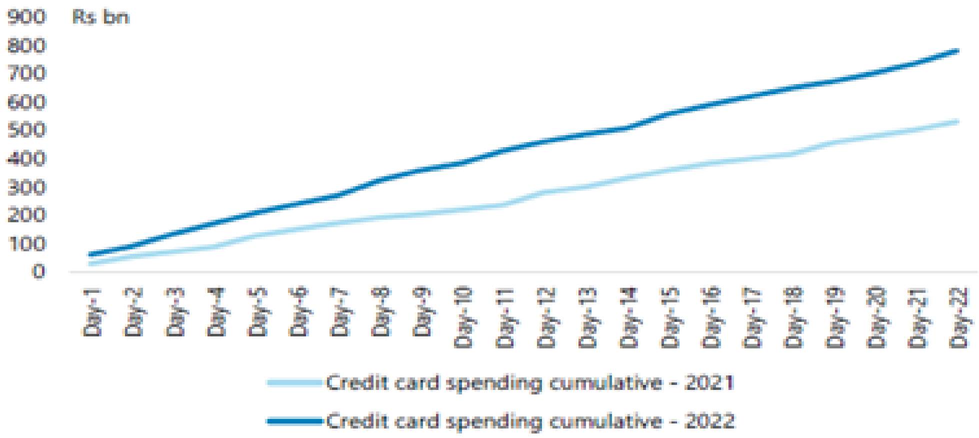
Diwali Retail Sales



Auto Sales during Navratri



Credit Card Cumulative Spends from start of Navratri

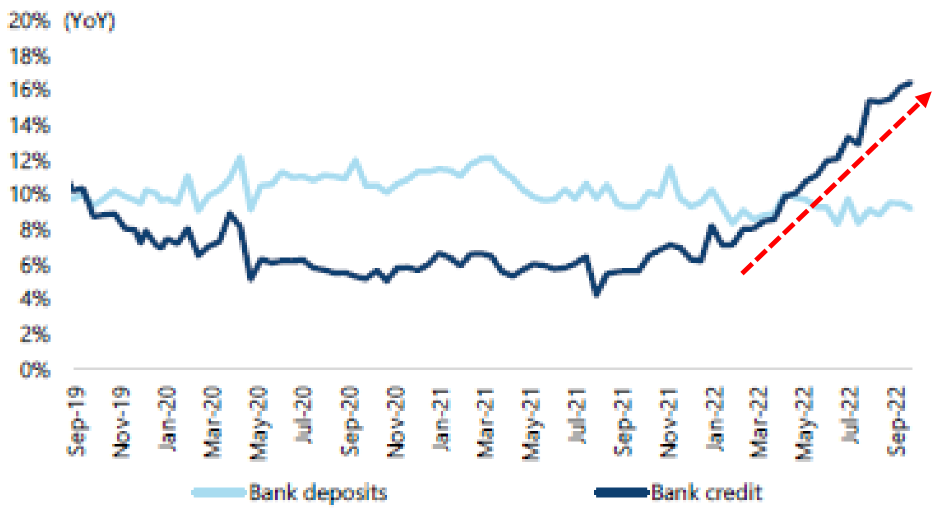


- According to Confederation of All India Traders (CAIT), sales during the Diwali festive season were in excess of Rs. 1.5 trln (~20% YoY increase)
- Auto sales during Navaratri period have been good Vs last year and pre-pandemic period, helped especially by passenger vehicle segment.
- Credit card spends from the start of Navratri has also seen a robust growth compared to corresponding year ago period.

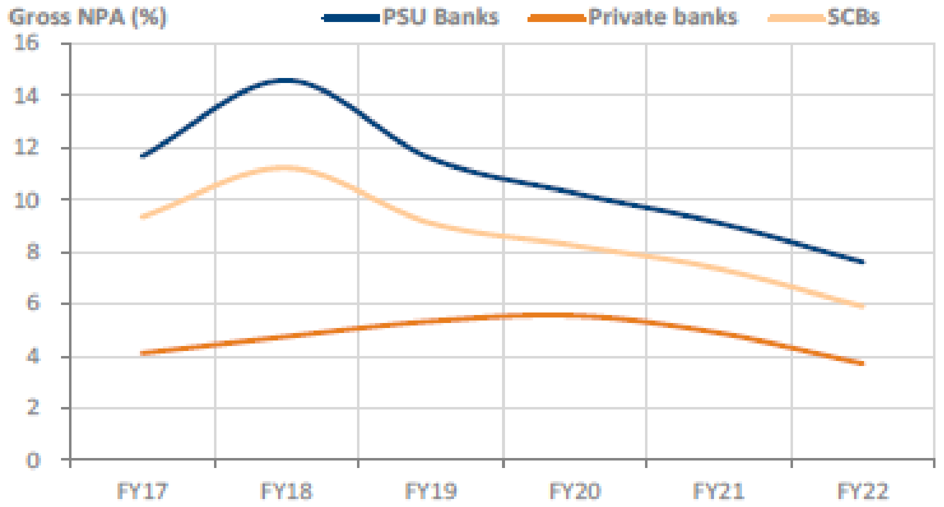
Source: CAIT, FADA, Nomura, Jefferies

India - Growth indicators well placed

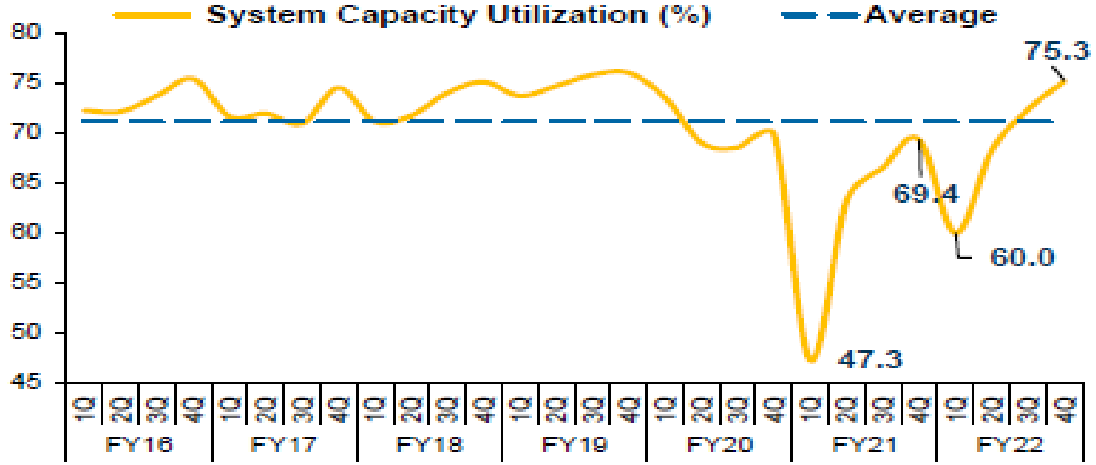
India – Bank Credit & Deposit Growth (% YoY)



Asset Quality in the banking system has improved with NPAs trending down



Capacity Utilization rises above the long-term average

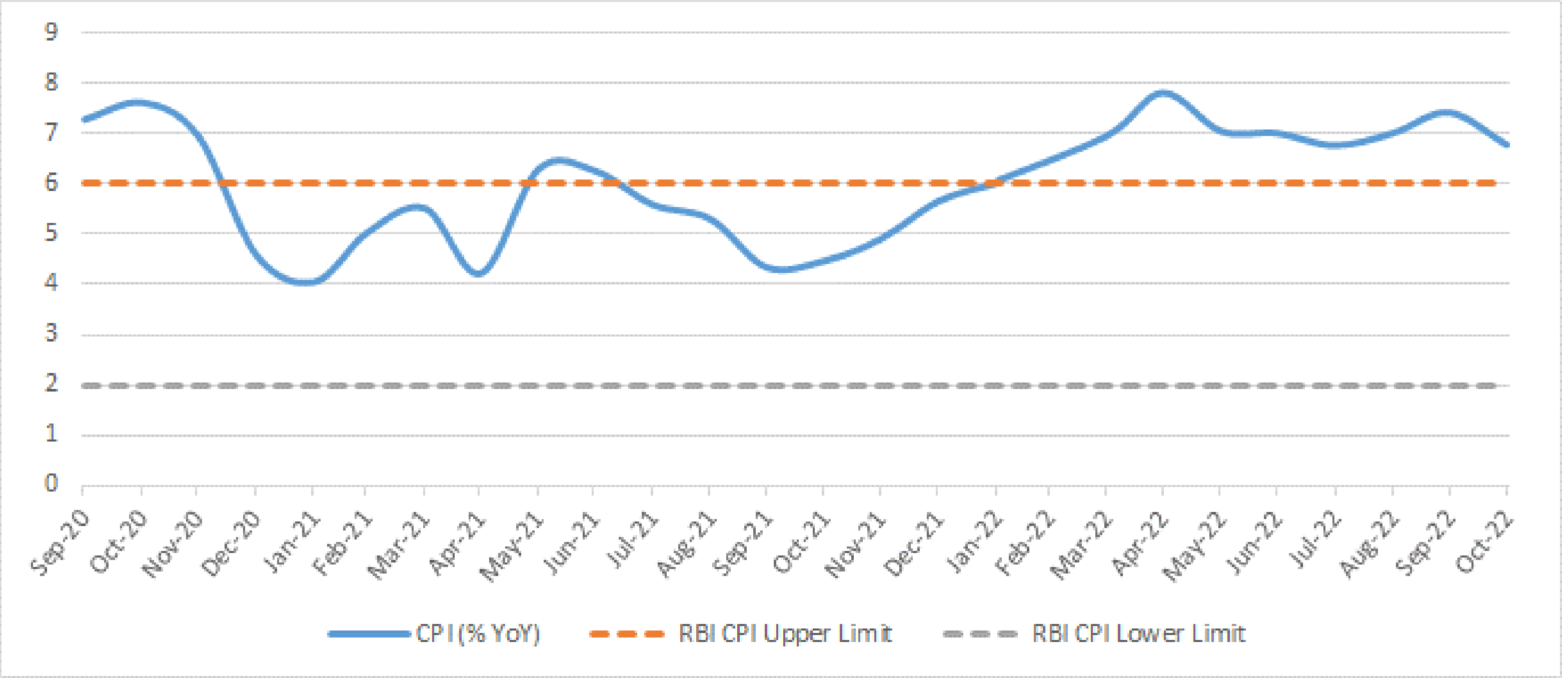


GST Collections have been quite healthy

Source: RBI, Macquaire, Jefferies, IIFL

India Inflation – CPI appears manageable and started to moderate

India Headline Consumer Inflation Trend (% YoY)



- In India, headline consumer inflation is above the 6% tolerance band of RBI. It has moderated from high of 7.8% in April to 6.8% in October.
- In its Sep 2022 monetary policy meeting, RBI kept CPI inflation forecast unchanged at 6.7% for FY23.

Source: Bloomberg

Correction in crude oil prices has helped India

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.
- Recent correction in crude oil prices is positive for India.

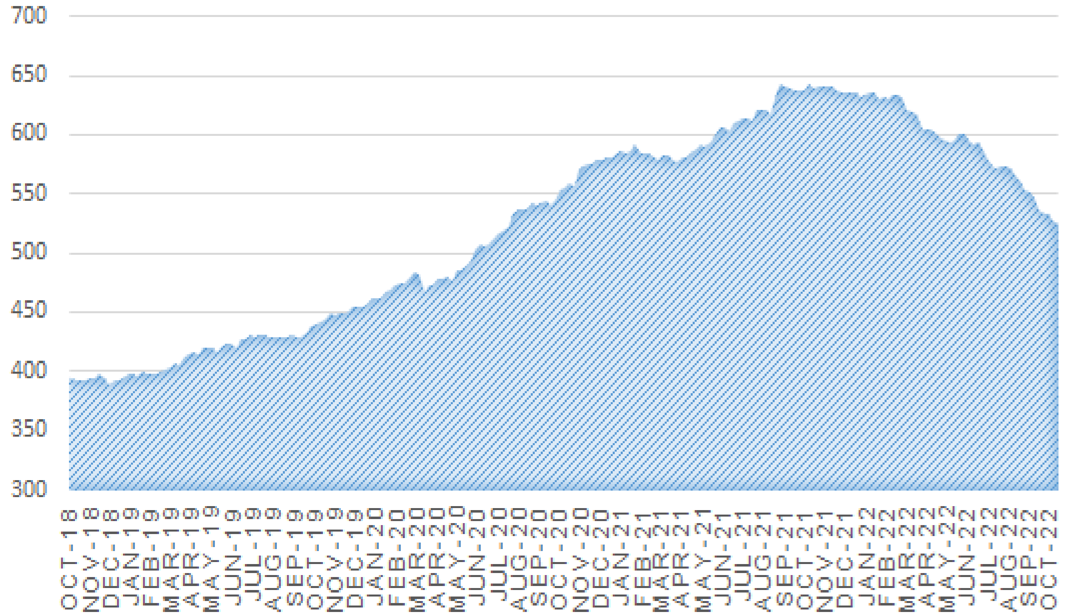
Source: Bloomberg

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 @ 90/bbl	Oil @ 105/bbl
Current Account Balance (CA)	**23.9**	**-38.8**	**-110.7**	**-132.6**
CA as % of GDP	**0.9%**	**-1.2%**	**-3.2%**	**-3.9%**
Trade Balance	-102	-189	-269	-293
Exports	296	429	428	436
Imports	398	619	697	728
Capital Account	**64**	**86**	**74**	**69**
FDI (Foreign Direct Inv)	44	39	38	38
FPI (Foreign Portfolio Inv)	36	-17	-5	-10
Balance of Payments (BOP)	**87.3**	**47.5**	**-36.7**	**-63.6**

Source: RBI, Kotak Institutional Equities

India Forex Reserves ($ in billion)



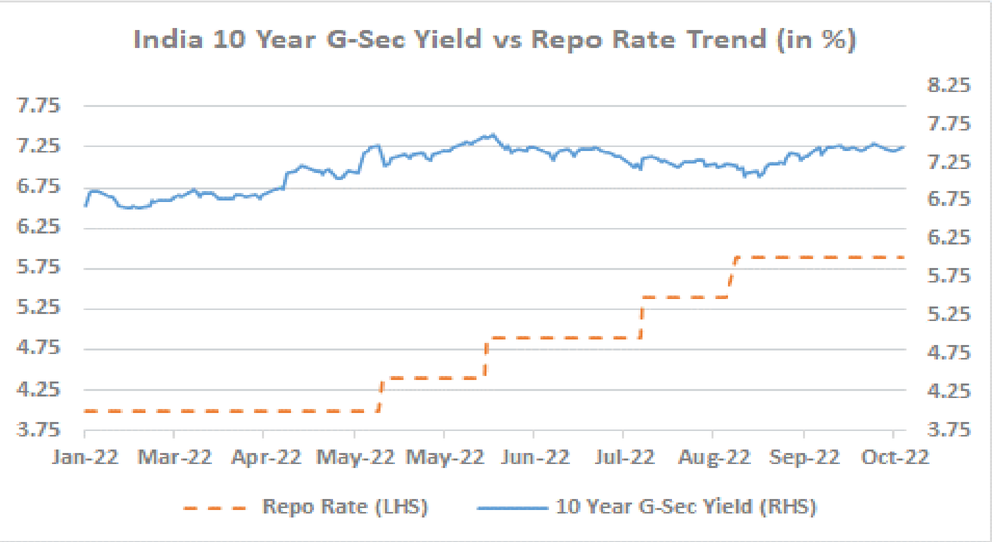
Source: Bloomberg

- 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 by ~$115 bln from the peak, but will still help to provide some cushion

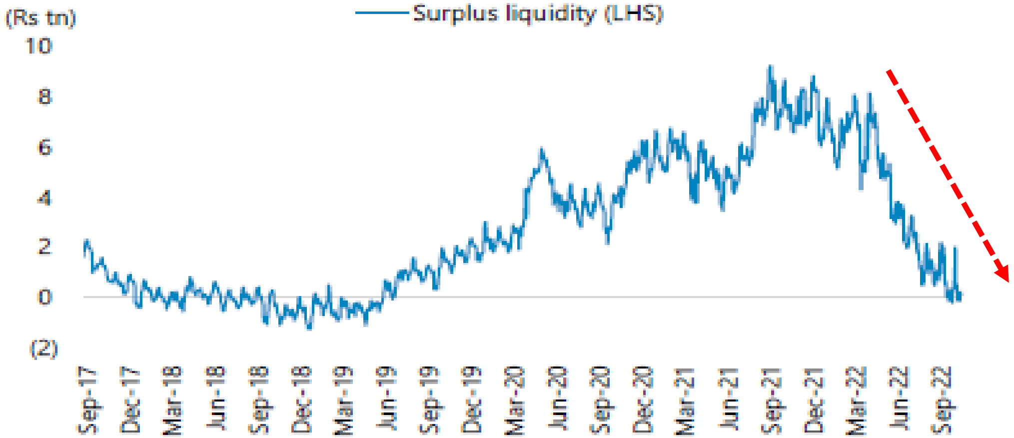
 CAD: Current Account Deficit

RBI - hiking rates and normalizing liquidity

India 10 Yr Yield Vs Repo Rate



India Banking System Liquidity

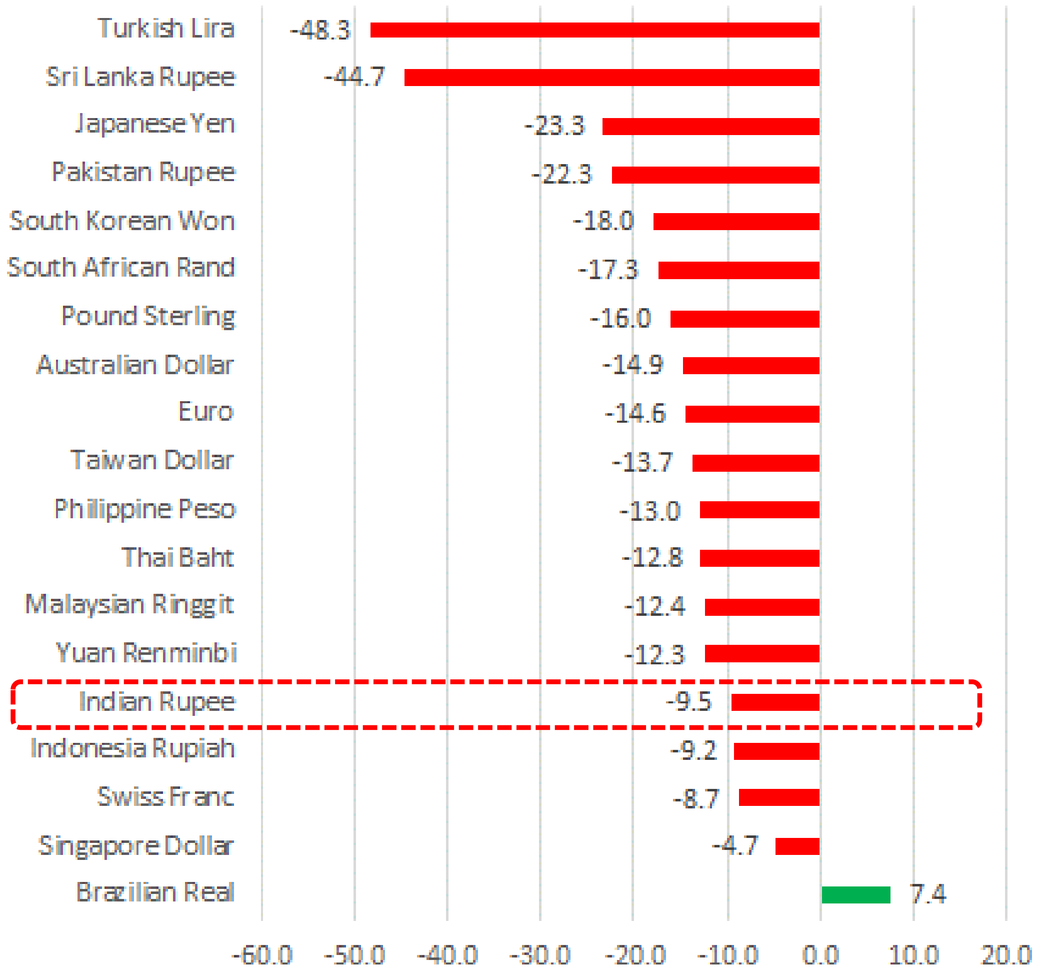


- RBI has hiked the repo rate thrice recently to 5.9%, bringing the cumulative repo rate hike to 190 bps so far this year.
- RBI focusing on withdrawal of accommodation. Liquidity in the banking system has come down, as a result of which short term rates have risen more this year.
- We feel that large part of the rate hike cycle in India maybe behind us now. We expect terminal repo rate at 6.5-6.75%.
- Future rate hikes will have more to do with supporting the Indian rupee & to some extent the inflation trajectory.

Source: Bloomberg, CLSA

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

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



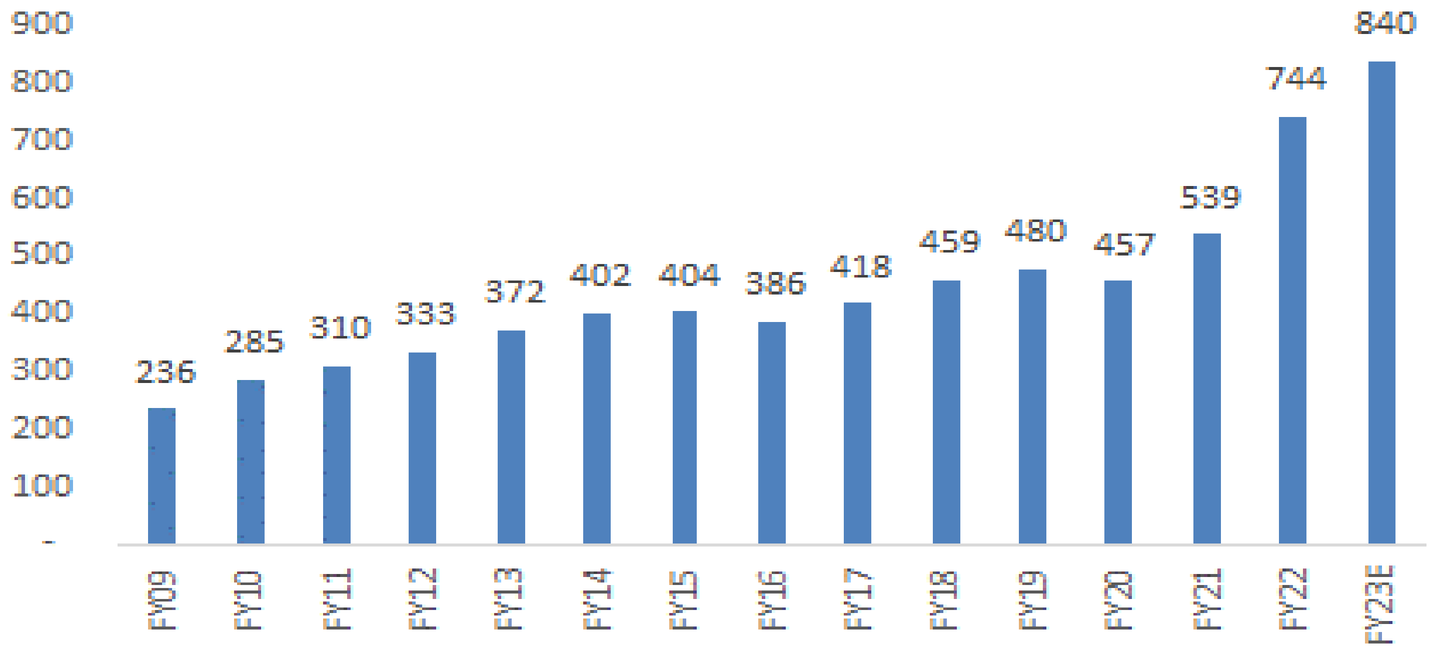
Source: Morningstar. Data sorted in descending order and ended Oct 2022.

- 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.
- Despite the Rupee breaching the INR82/USD mark, it has relatively depreciated less than peer currencies

US Dollar Index

Corporate earnings in India expected to moderate to 12-13% in FY23

Nifty EPS Trend

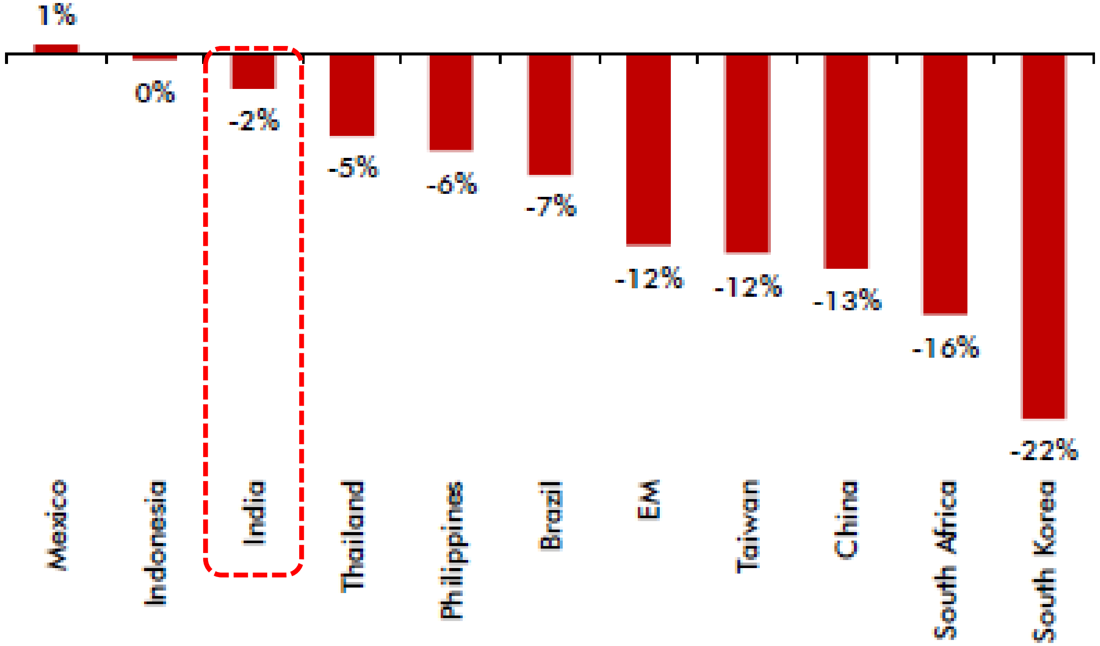


Source: Bajaj Allianz Life Research Estimates

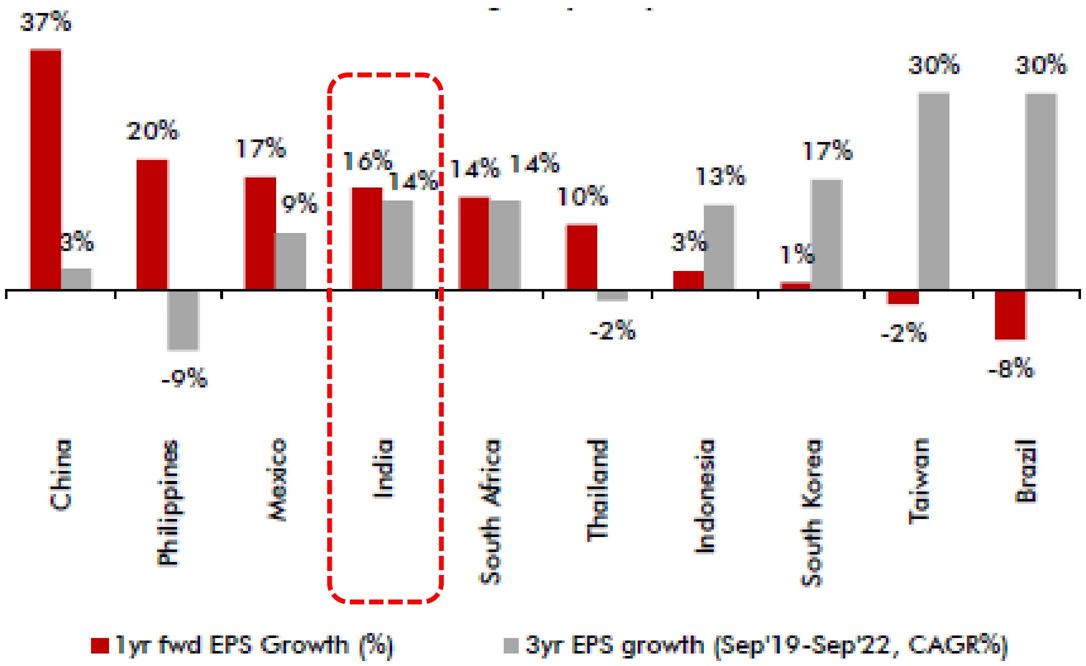
- Positive corporate earnings surprise (which had helped Indian markets to outperform earlier) may be behind us now.
- After a robust Nifty earnings growth of ~38% in FY22, Nifty EPS growth is expected to moderate to ~12-13% in FY23.

India’s corporate earnings relatively better placed among EM peers

Change in 1 Yr Forward EPS – Since March 2022



Corporate Earnings Trajectory

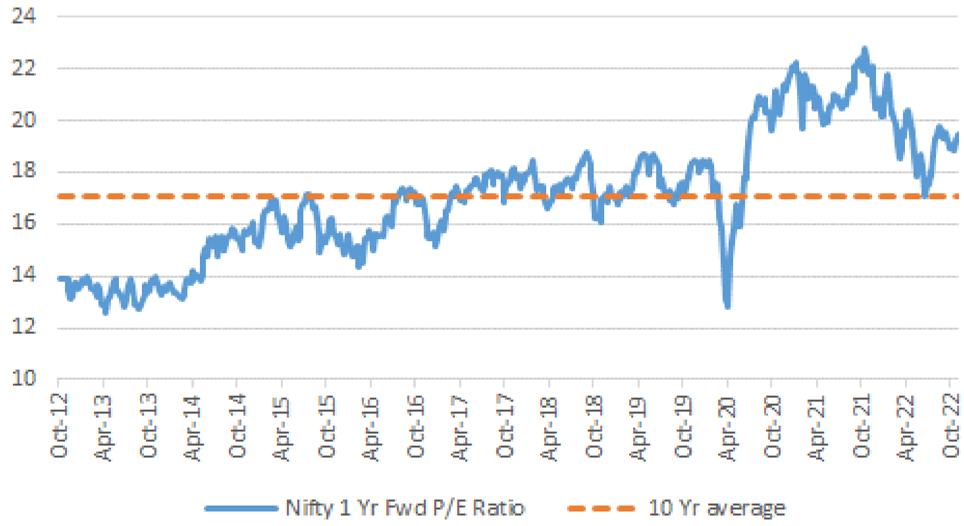


- India has seen one of the least downgrade in corporate earnings growth compared to emerging market (EM) peers.
- India’s corporate earnings trajectory relatively better placed among EM peers.

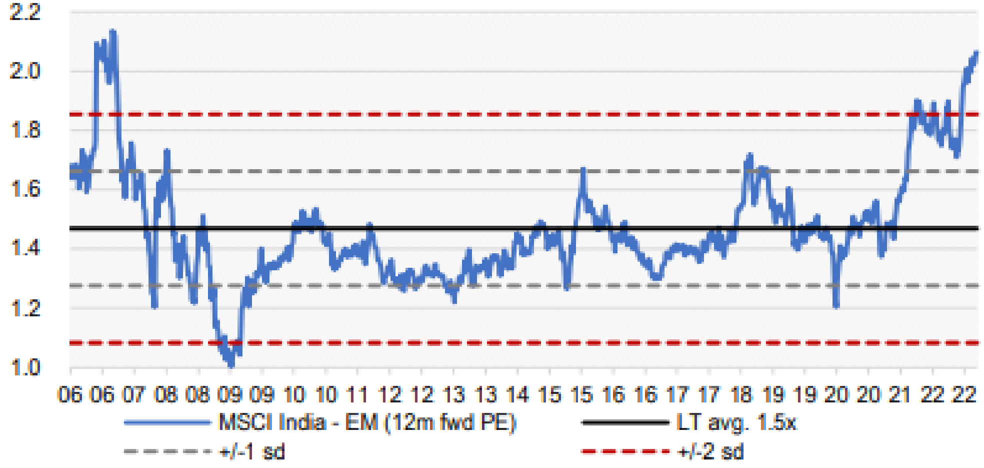
Source: Ambit Research, Bloomberg

India market valuation has moderated from highs; but at a significant premium to EM

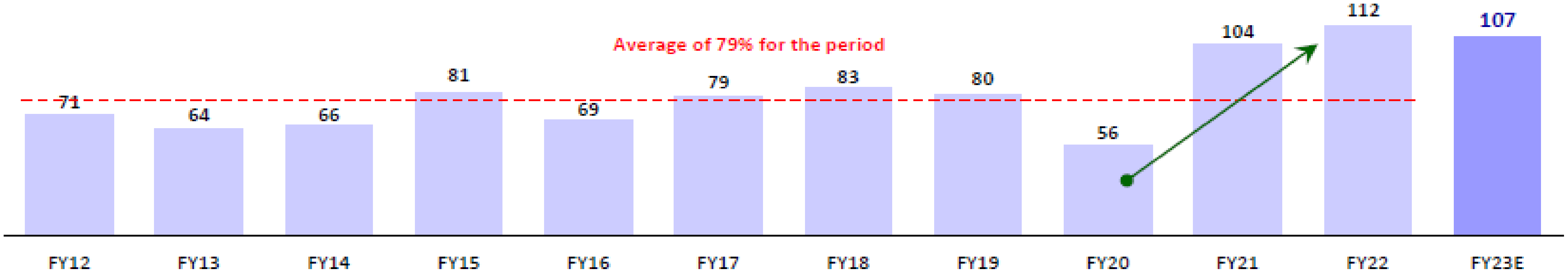
Nifty 1 Year Fwd Consensus P/E Ratio



MSCI India 1 Year Fwd P/E Ratio Premium to MSCI EM



India Market Cap to GDP Trend (in %)



Source: Bloomberg, Motilal Oswal, JP Morgan

FPI outflows being countered by DII inflows; recently FPI flows see some recovery

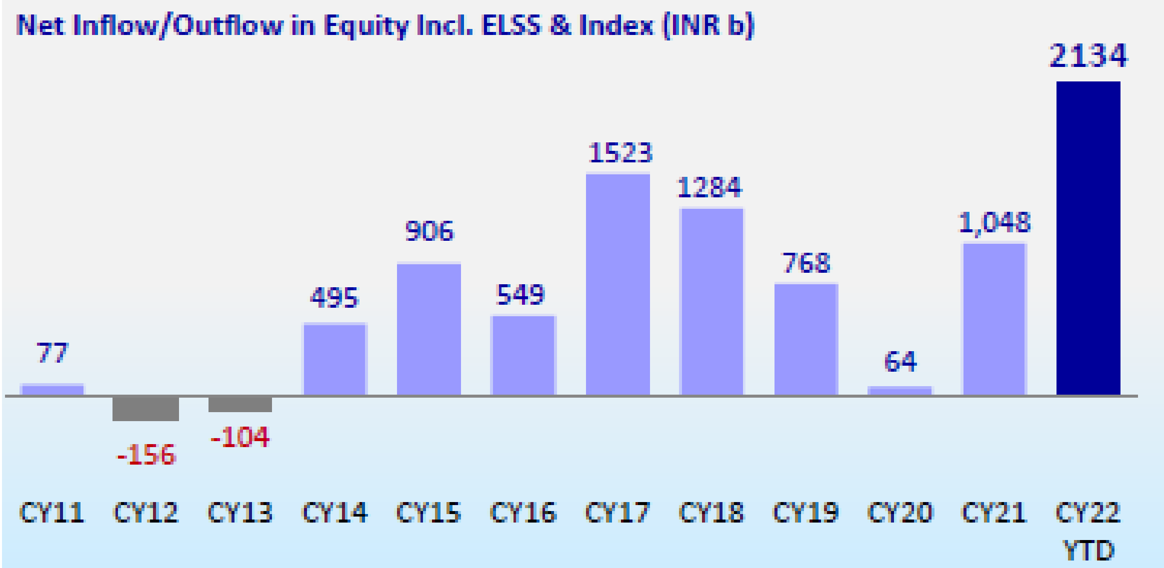
Source: NSDL, Axis Capital	Rs in Crore	
Year	**FPIs**	**DIIs**
FY2008	52,572	47,794
FY2009	-48,250	60,040
FY2010	1,10,752	24,211
FY2011	1,10,121	-18,709
FY2012	43,738	-5,347
FY2013	1,40,032	-69,069
FY2014	79,709	-54,161
FY2015	1,11,445	-21,446
FY2016	-14,171	80,416
FY2017	60,196	30,787
FY2018	21,074	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 Oct)	-51,861	1,55,071

Source: NSDL, Axis Capital	Rs in Crore	
Month-end	**FPIs**	**DIIs**
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
30 September 2022	-13,406	14,120
31 October 2022	8,431	9,197

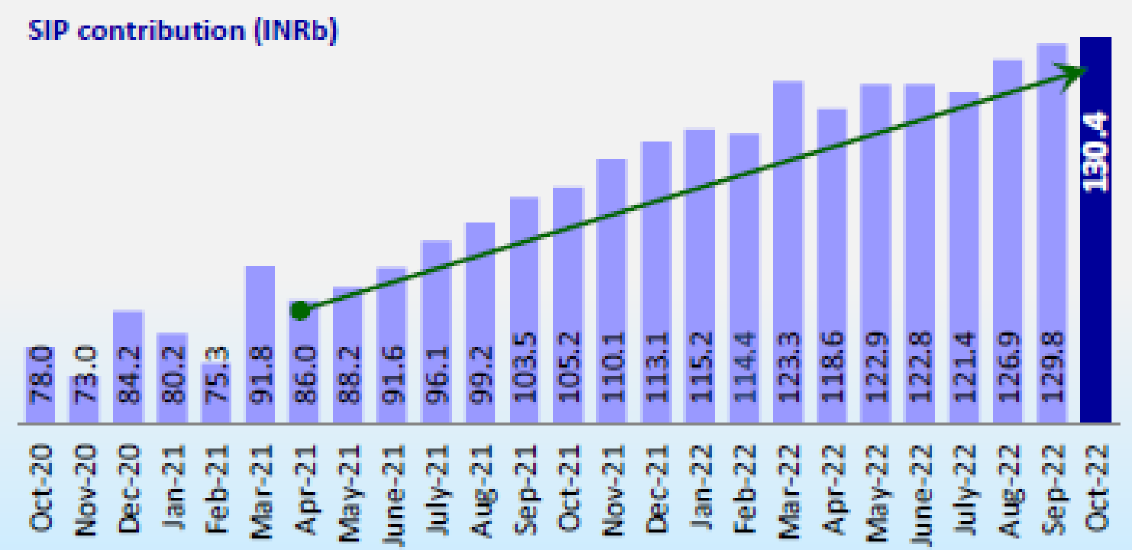
- After seeing significant FPI equity outflows over the past year, FPI flows are showing some signs of recovery in past few months.
- Meanwhile, DII equity flows continue to be strong, after a record inflow in FY22. DII inflows have helped to counter FPI outflows, thereby leading to relatively less fall 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 Oct 2022

- Domestic equity mutual funds have been witnessing robust inflows and CYTD 2022 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 of Rs. 13,000 crore.

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Outlook

- India is more favourably positioned from a macro-perspective (compared to peers) amidst the global growth slowdown, and the economy is more domestic focused.

- Equities remain the preferred asset class for long term wealth creation. Long term India growth story is intact.

- However, near term return expectations from the Indian equity markets expected to 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

- Interest rates in India also moving up in synch with global yields.
- Large part of the interest rate hike cycle in India maybe behind us now.
- Currently our preference is towards medium term duration, and we would look to add duration above 7.5-7.6% mark for the 10-year yield.

THANK YOU

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