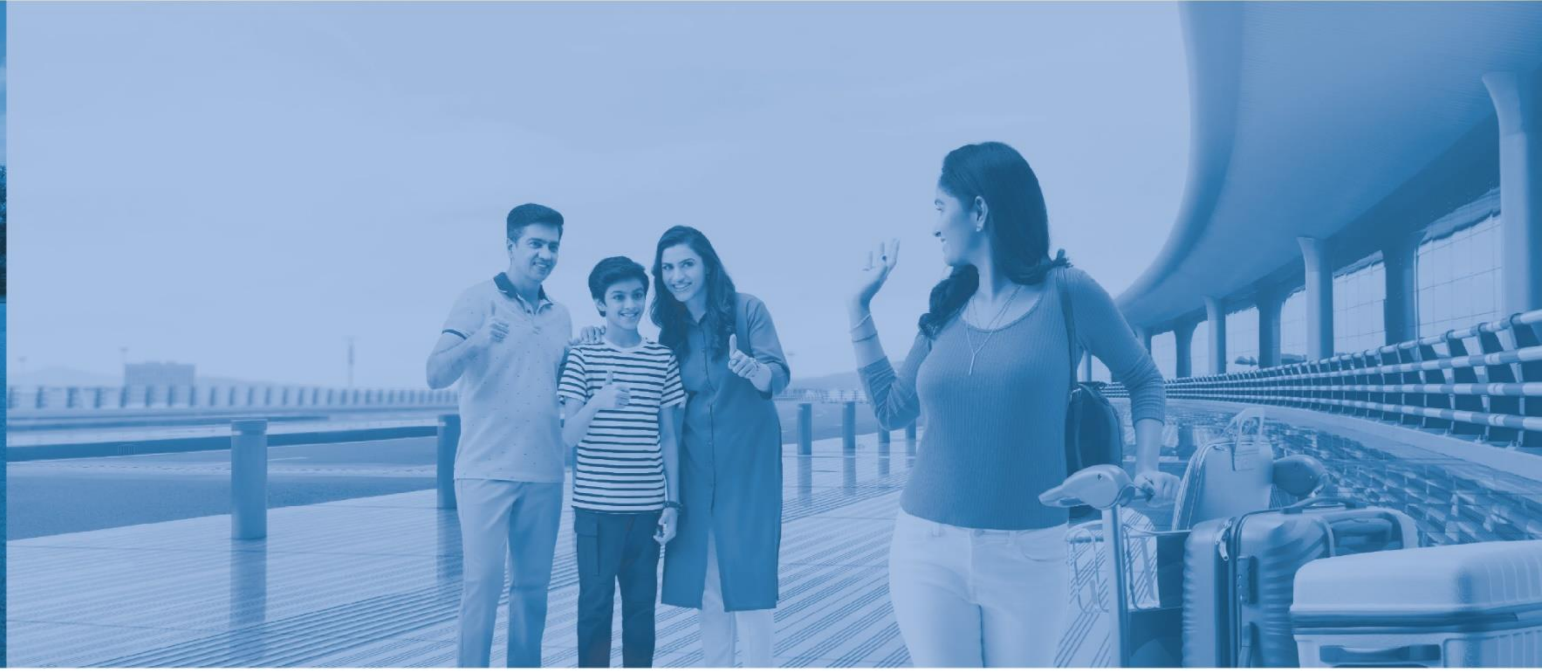

US Regional Bank Crisis & Quarterly Market / Macro Review

April 2023

BAJAJ Allianz

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Global Markets & Macro

Most global markets register correction over the past year; India delivers flattish return in FY23 but outperforms significantly over the long term

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Performance of International Indices (ended March 2023, in %)					
Index Name	Country / Region	1 Yr (FY23)	3 Yrs	5 Yrs	10 Yrs
CAC 40	France	9.9	18.5	7.2	7.0
FSE DAX TR	Germany	8.4	16.3	5.3	7.2
FTSE 100	UK	1.5	10.4	1.6	1.8
Nikkei 225	Japan	0.8	14.0	5.5	8.5
Shanghai Composite	China	0.6	6.0	0.6	3.9
Nifty 50	**India**	**-0.6**	**26.4**	**11.4**	**11.8**
JSX Composite	Indonesia	-3.8	14.5	1.9	3.3
S&P/ASX 200	Australia	-4.3	12.2	4.5	3.8
FTSE/SGX STI	Singapore	-4.4	9.5	-1.0	-0.1
FTSE SET All Share	Thailand	-6.2	11.8	-3.0	-0.6
Hang Seng	Hong Kong	-7.3	-4.7	-7.5	-0.9
MSCI World PR USD	World	-8.6	14.6	6.2	6.9
S&P 500	US	-9.3	16.7	9.2	10.1
KOSPI	South Korea	-10.2	12.2	0.3	2.1
TSEC TAIEX	Taiwan	-10.3	17.8	7.8	7.2
FTSE Bursa Malaysia KLCI	Malaysia	-10.4	1.7	-5.3	-1.6
MSCI Asia Ex Japan PR USD	Asia ex Japan	-11.0	4.8	-2.1	1.7
MSCI EM PR USD	Emerging Mkts	-13.3	5.3	-3.3	-0.4
NASDAQ Composite	US (Tech)	-14.1	16.6	11.6	14.1
BOVESPA	Brazil	-15.1	11.7	3.6	6.1

Source : Morningstar 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

- Most global equity markets have registered a correction led by emerging & Asian markets.
- European markets outperformed with France & Germany leading the pack.
- India has shown resilience and delivered flattish return.
- **Over the medium - long term (3, 5 & 10 years) Indian market has been among the top performing markets.**

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

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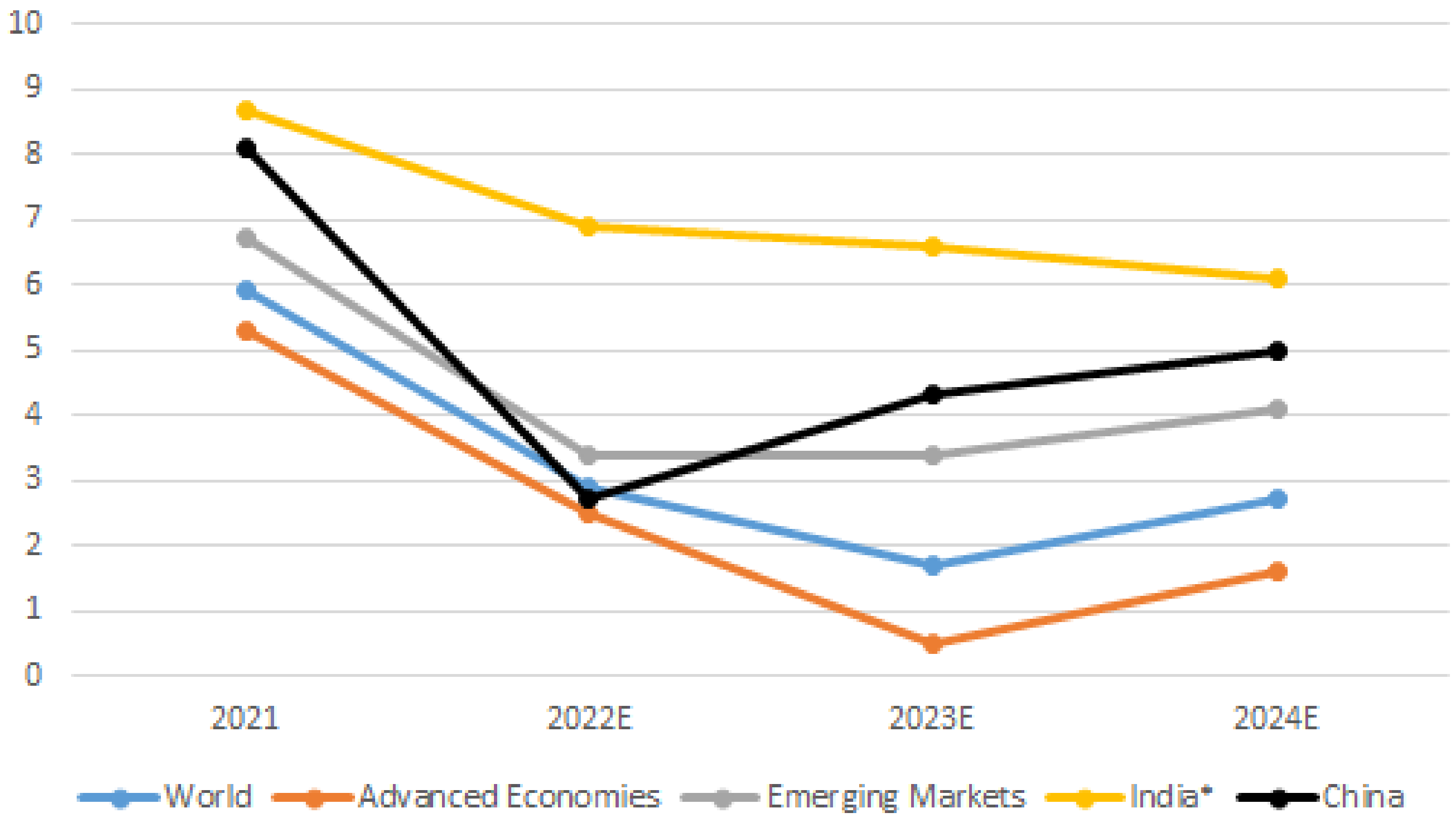
World Bank GDP Growth Forecast Trend (% YoY)

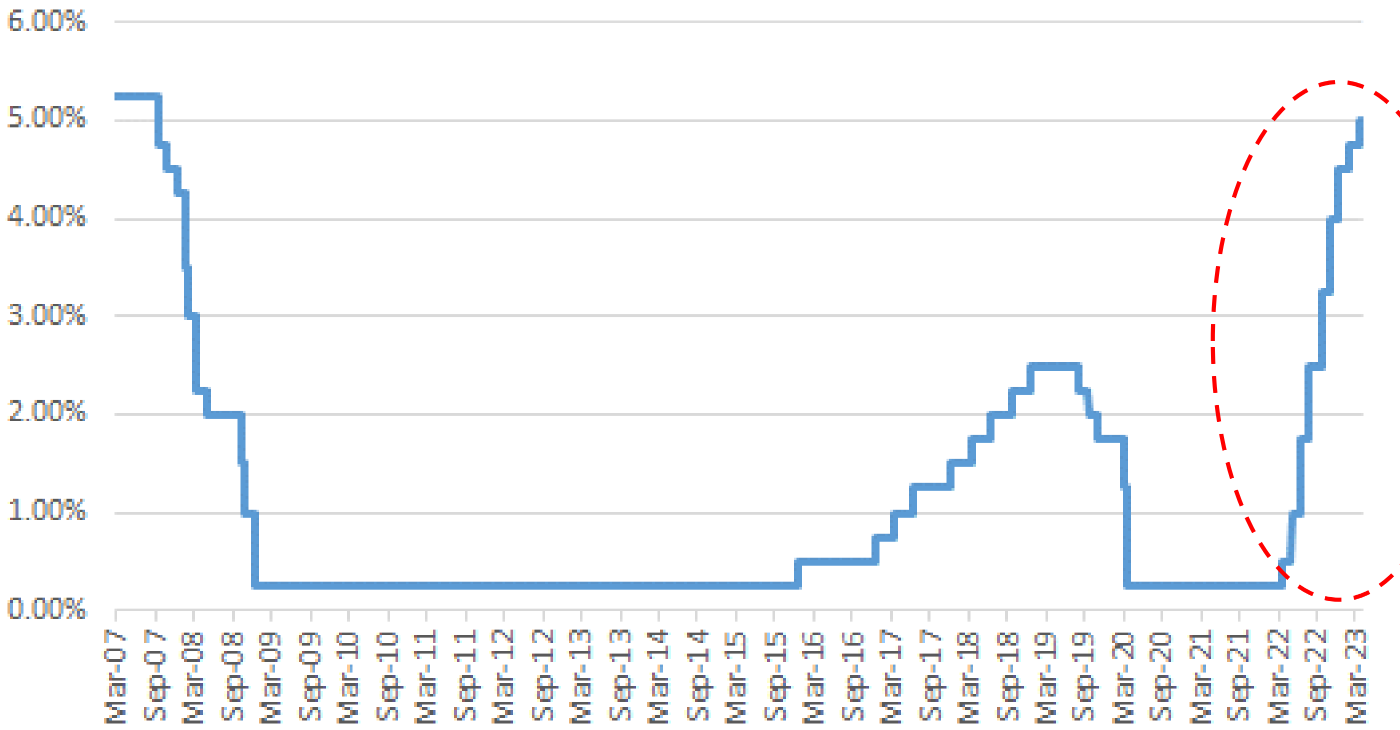


* For India fiscal year being considered. 2022 = FY23 & 2023= FY24
Source: World Bank Global Economic Prospects, Jan 2023

- World GDP growth is projected to slow down further from 2.9% in 2022 to 1.7% in 2023 but recover in 2024.
- Slowdown being led by developed markets esp. US & Europe.
- Emerging markets will continue to grow at a faster rate
- China growth expected to recover in 2023-24 with Covid restrictions being removed.
- Despite some growth slowdown in India, it would remain the fastest growing major economy in 2023 & 2024.

US Fed continues to hike rates; but we are near the end of the rate hike cycle

The US Federal Funds rate trend



The US Fed meeting Projections – March 2023

Percent

Variable	Median[1] 2023	2024	2025	Longer run
Change in real GDP	0.4	1.2	1.9	1.8
December projection	0.5	1.6	1.8	1.8
Unemployment rate	4.5	4.6	4.6	4.0
December projection	4.6	4.6	4.5	4.0
PCE inflation	3.3	2.5	2.1	2.0
December projection	3.1	2.5	2.1	2.0
Core PCE inflation[4]	3.6	2.6	2.1	
December projection	3.5	2.5	2.1	
Memo: Projected appropriate policy path				
Federal funds rate	5.1	4.3	3.1	2.5
December projection	5.1	4.1	3.1	2.5

Source: Bloomberg, US Federal Reserve

- The US Fed hiked rates by 25 bps in March 2023 meeting to 4.75-5.0%, taking the cumulative rate hike to 475 bps since the low of 2022.
- The Fed kept the median Fed rate forecast for 2023 unchanged at 5.1% (indicating a terminal Fed rate of 5.25%) and expects rates to be elevated through 2023.
- Market was earlier pricing-in a terminal Fed rate of 5.5-5.75%, but now expects only one more rate hike of 25 bps. However, the market is forecasting rate cut/ cuts in H2 CY23 as indicated by Fed fund futures.
- US Fed has reduced the GDP forecast for CY23 to 0.4% (from 0.5% earlier), and for CY24 to 1.2% (from 1.6% earlier).

Unrealized losses have risen substantially in the US, due to sharp rise in yields. This & ALM issues contributed to the US regional bank crisis.

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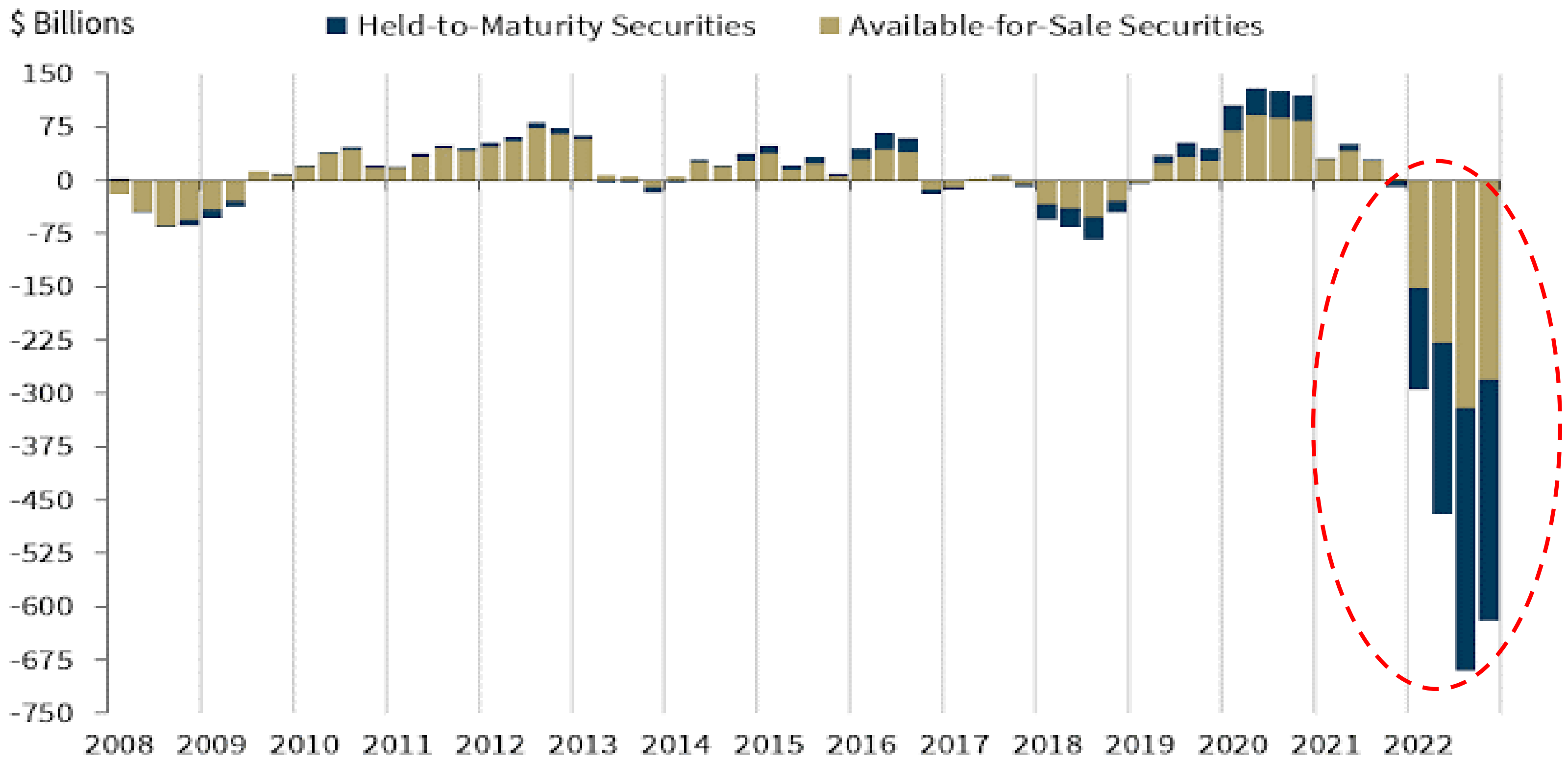
Unrealized Gains / Losses on Investment Securities for US FDIC insured Institutions ($ in Bln)

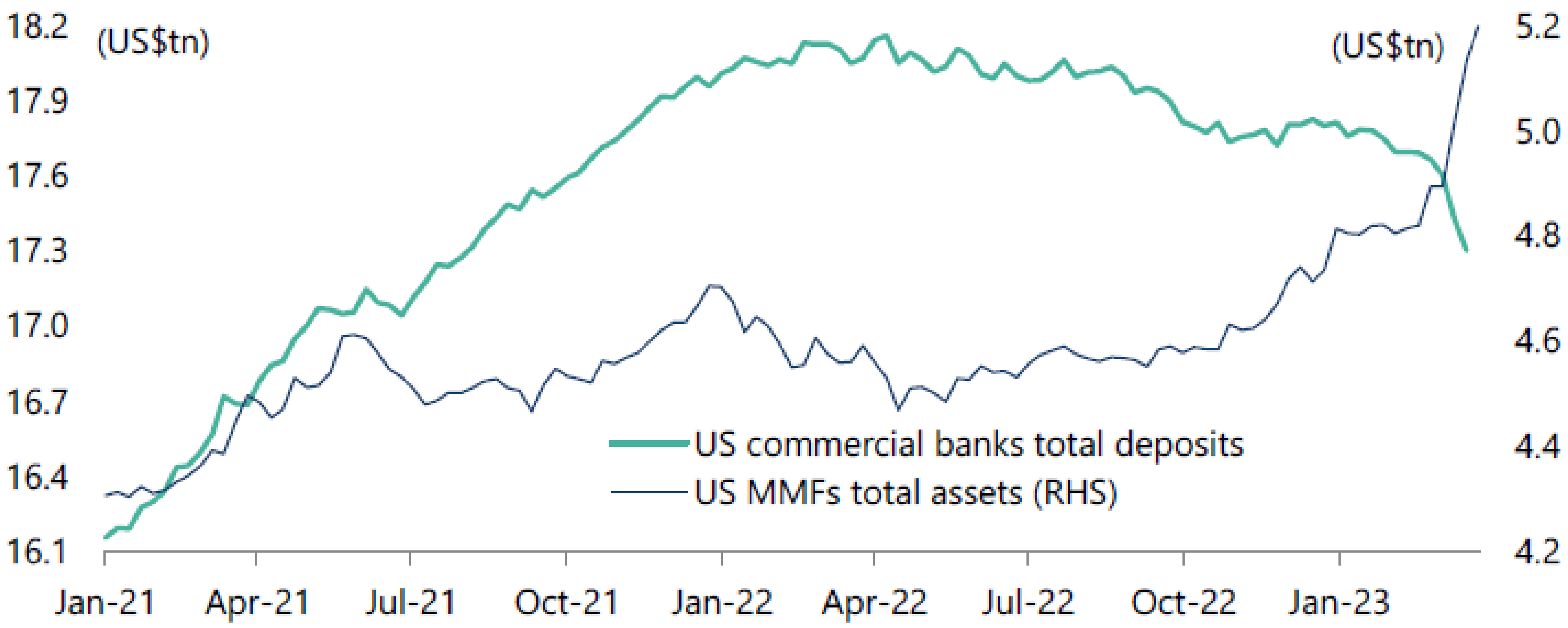


Source: FDIC. Note - Insured Call report filers only.

- Unrealized losses have increased considerably in US banks & financial institutions due to the sharp rise in US treasury yields. Losses on Available for Sale (AFS) securities (which are held for the short term & reported at fair value) have risen, and therefore have increased mark-to-market (MTM) impact.
- This along with Asset Liability Management (ALM) issues in certain banks due to large withdrawals by depositors have contributed to the US regional banks crisis and led to the collapse of Silicon Valley Bank and Signature bank.

In the US, there has been a flight of money from bank deposits to Money Market Funds

US Bank Deposits & Money Market Fund Assets Trend ($ in trillion)

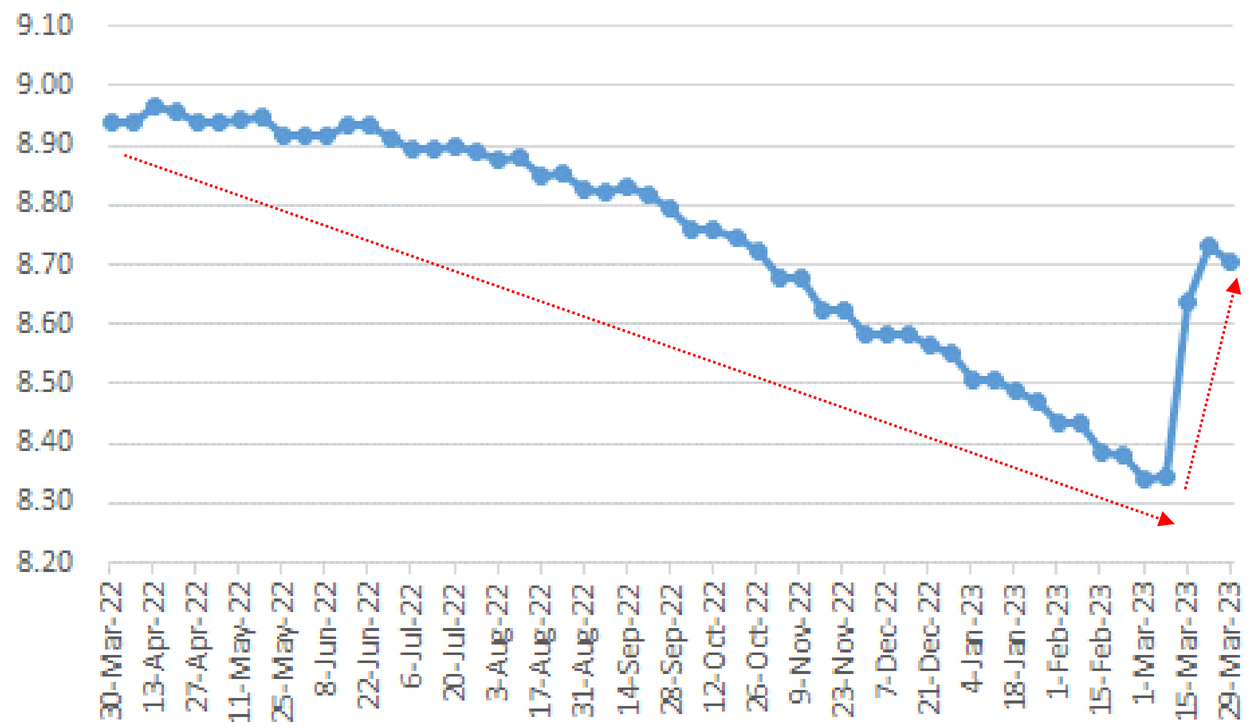


Source: Jefferies, Federal Reserve, ICI

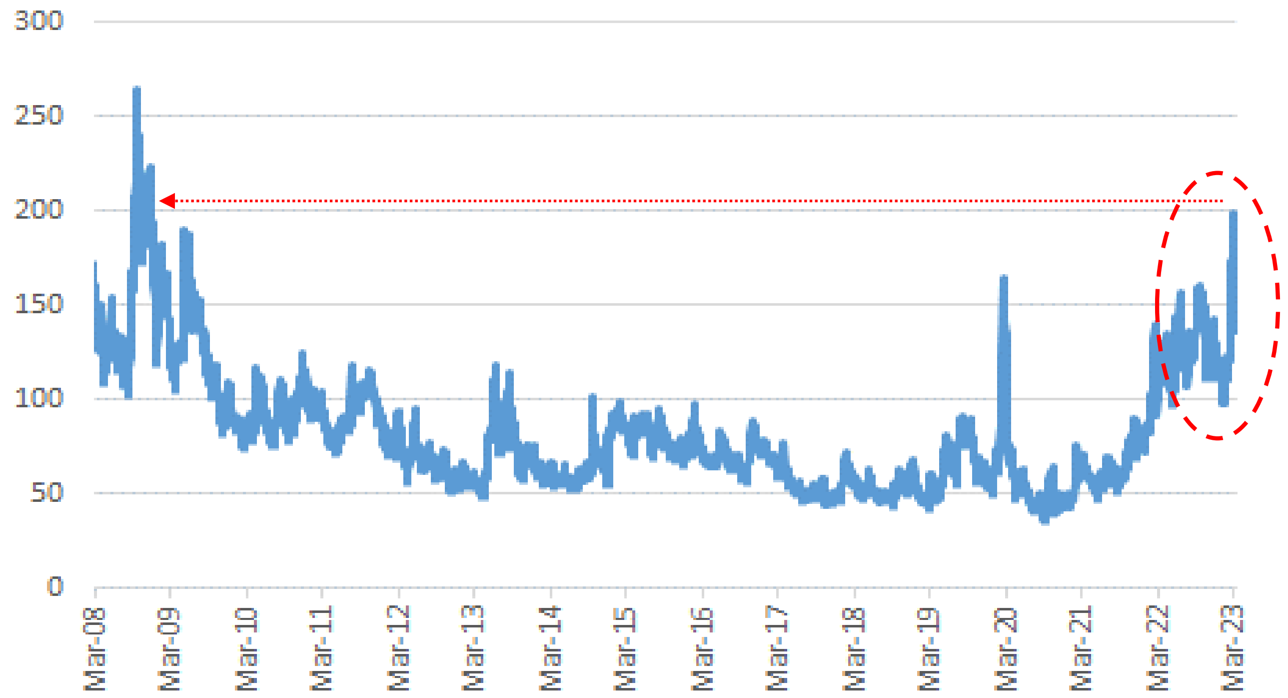
- Due to the regional bank crisis in US, there has been an acceleration in flight of money from US bank deposits to US money market funds (which crossed $5 trillion in AUM). March 2023 saw a record high monthly fall in US bank deposits.
- With short term rates rising sharply in the US, money market fund are providing very attractive yields while bank deposit rates remain relatively much lower. Therefore, we have been seeing a shift of assets from bank deposits to money market funds.

US Fed's balance sheet expanded due to emergency credit / liquidity line; while bond market volatility in the US rose near levels seen during GFC of 2008

US Fed Total Assets ($ in trillion)



US MOVE index trend

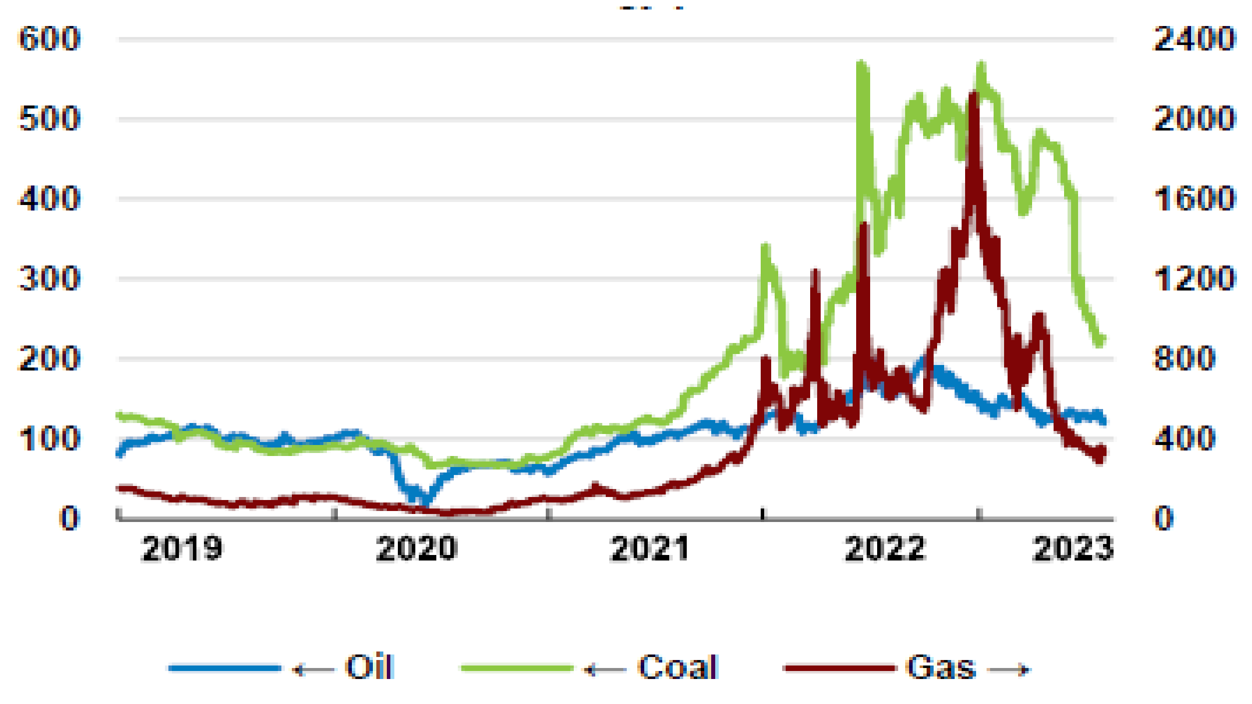


Source: Bloomberg

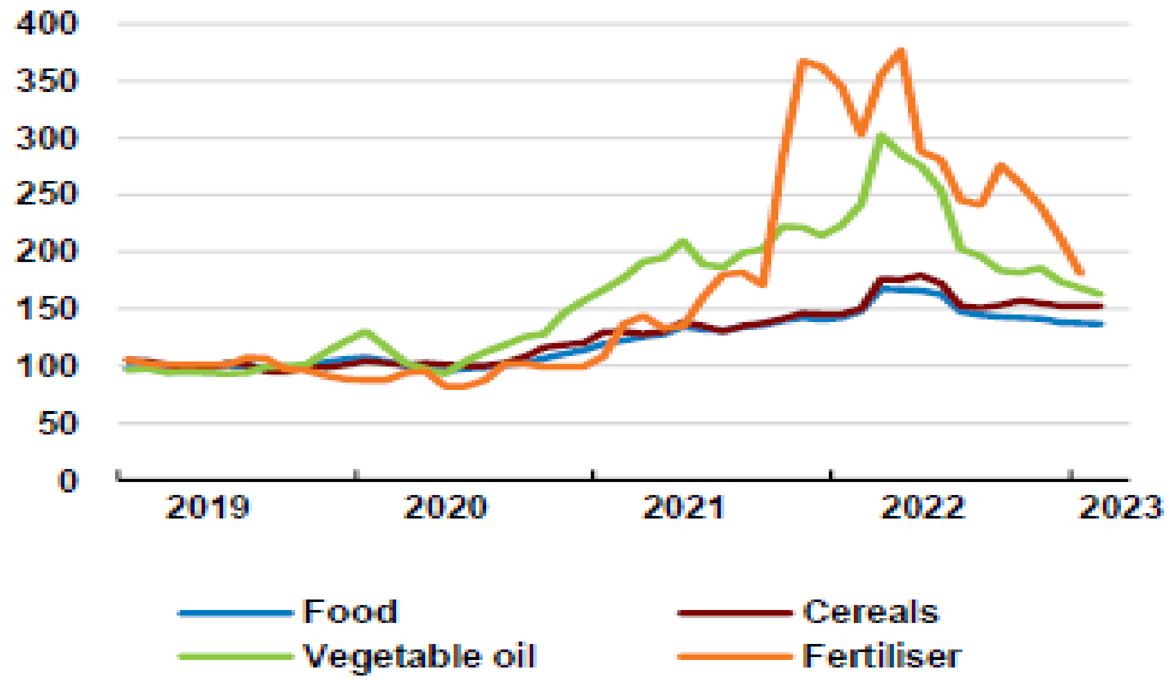
- The US Fed responded to the regional banks crisis & the Credit Suisse collapse / takeover, by announcing the creation of a new Bank Term Funding Program (BTFP), offering loans of up to one year. The BTFP is an additional source of liquidity against high quality securities (valued at par); eliminating an institution's need to quickly sell those securities in times of stress.
- Banks also borrowed large sums from the Fed discount lending window for short term liquidity. This, and the above caused the Fed's balance sheet to expand by close to $400 bln in a span of a couple of weeks. The Fed also collaborated with other major central banks to stem any liquidity concerns in the global financial system.
- Meanwhile, US bond market volatility (measured by the BofA MOVE index) jumped to levels last seen during the global financial crisis (GFC) of 2008, surpassing the Covid crisis levels. The volatility has moderated somewhat lately.

Global commodity prices have softened quite significantly

Global Energy Prices (Index 2019 = 100)



Global Food & Fertilizer Prices (Index 2019 = 100)



Source: OECD Economic Outlook, March 2023

- Globally, natural gas and coal prices have fallen quite substantially, which is a positive development.
- Fall in commodity prices (esp. Oil) will be positive for India as we are a major oil importer and will help to improve our trade / current account deficit and external position. However, recently in April crude oil prices moved up due to OPEC+ announcing a surprise cut of 1.16 million barrels per day.

US inflation has moderated from highs, but is still quite elevated

US CPI Trend with Composition (% YoY)							
	Weight (%)	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
All items	100	8.2	7.7	7.1	6.5	6.4	6.0
Food	**13.4**	**11.2**	**10.9**	**10.6**	**10.4**	**10.1**	**9.5**
Food at home	8.3	13	12.4	12	11.8	11.3	10.2
Food away from home(1)	5.1	8.5	8.6	8.5	8.3	8.2	8.4
Energy	**8.3**	**19.8**	**17.6**	**13.1**	**7.3**	**8.7**	**5.2**
Energy commodities	4.9	19.7	19.3	12.2	0.4	2.8	-1.4
Gasoline (all types)	4.6	18.2	17.5	10.1	-1.5	1.5	-2.0
Fuel oil(1)	0.2	58.1	68.5	65.7	41.5	27.7	9.2
Energy services	3.4	19.8	15.6	14.2	15.6	15.6	13.3
Electricity	2.5	15.5	14.1	13.7	14.3	11.9	12.9
Utility (piped) gas service	0.9	33.1	20	15.5	19.3	26.7	14.3
All items less food and energy (Core CPI)	**78.3**	**6.6**	**6.3**	**6**	**5.7**	**5.6**	**5.5**
Commodities less food and energy commodities	21.4	6.6	5.1	3.7	2.1	1.4	1.0
New vehicles	4	9.4	8.4	7.2	5.9	5.8	5.8
Used cars and trucks	4	7.2	2	-3.3	-8.8	-11.6	-13.6
Apparel	2.5	5.5	4.1	3.6	2.9	3.1	3.3
Medical care commodities(1)	1.5	3.7	3.1	3.1	3.2	3.4	3.2
Services less energy services	56.9	6.7	6.7	6.8	7	7.2	7.3
Shelter (Housing)	**32.4**	**6.6**	**6.9**	**7.1**	**7.5**	**7.9**	**8.1**
Transportation services	5.8	14.6	15.2	14.2	14.6	14.6	14.6
Medical care services	6.9	6.5	5.4	4.4	4.1	3	2.1

Source: US Bureau of Labor Statistics

- US headline CPI remains elevated, but has moderated from a 40-yr high of 9.1% in Jun 2022 to 6.0% in Feb 2023
- Food inflation remains quite elevated, but energy prices have moderated substantially.
- Core inflation (ex food & energy) moderated to 5.5% in Feb 2023 from a high of 6.6% in Sep 2022.
- However, Shelter (Housing Rental) having a large weight of ~32% in US CPI basket rose to 8.1% in Feb 2023.

Inflation – Has been a global phenomenon in 2022, but has started to moderate

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Global Consumer Inflation (%YoY)

Country / Region	Current Headline CPI %YoY	10 Years Average
USA	6.0	2.1
United Kingdom	10.4	1.9
Eurozone	6.9	1.9
India	**6.4**	**5.8**
China	1.0	2.0

Source :- Bloomberg

- Most major economies except China (CPI of 1.0%) facing inflation significantly higher than long term average
- Eurozone inflation has moderated from 10.6% in Oct 2022 to 6.9% (flash estimate) in March 2023. UK inflation is still very elevated.
- India's inflation still above RBI's upper threshold of 6%, but expected to moderate in coming months.

Global central banks hiking rates to combat inflation. Global bond yields have risen, but have softened a bit lately due to global banking crisis

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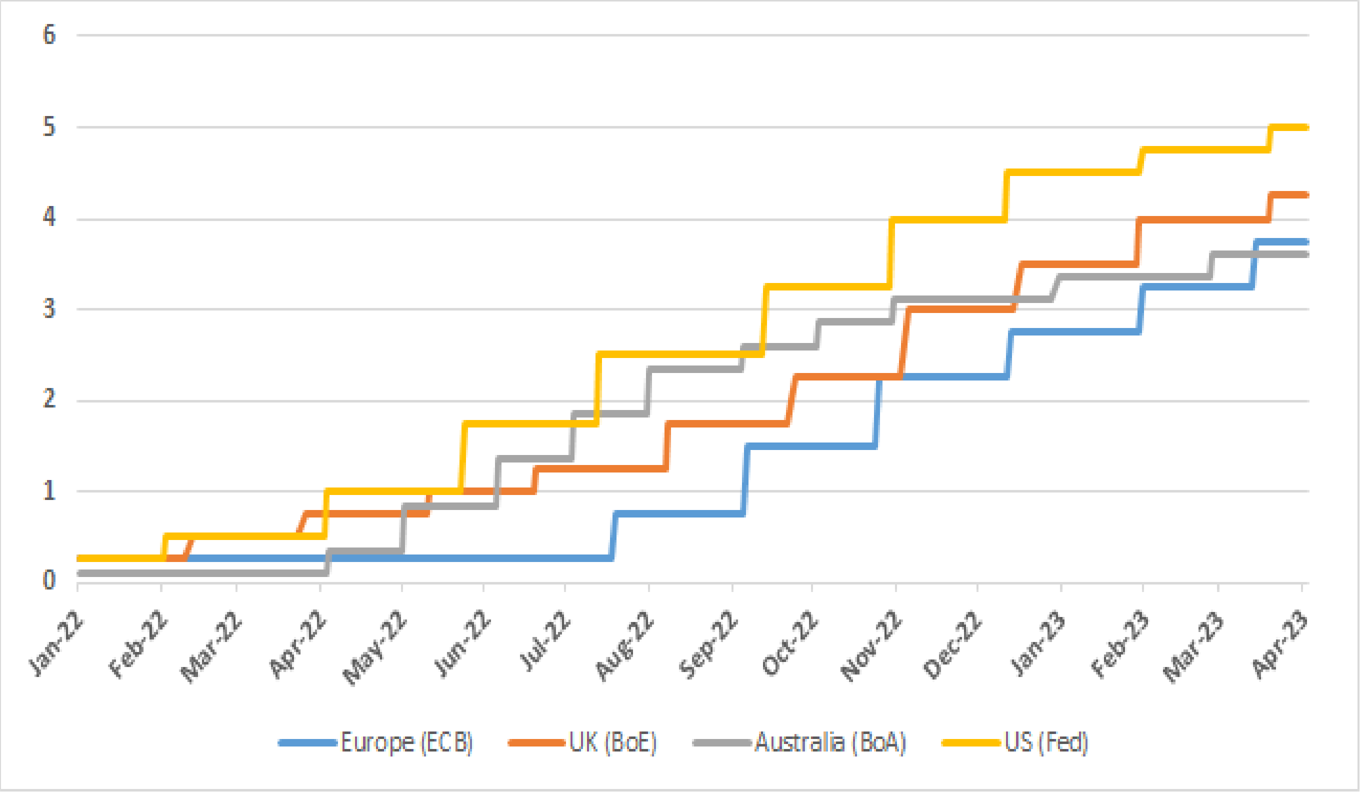
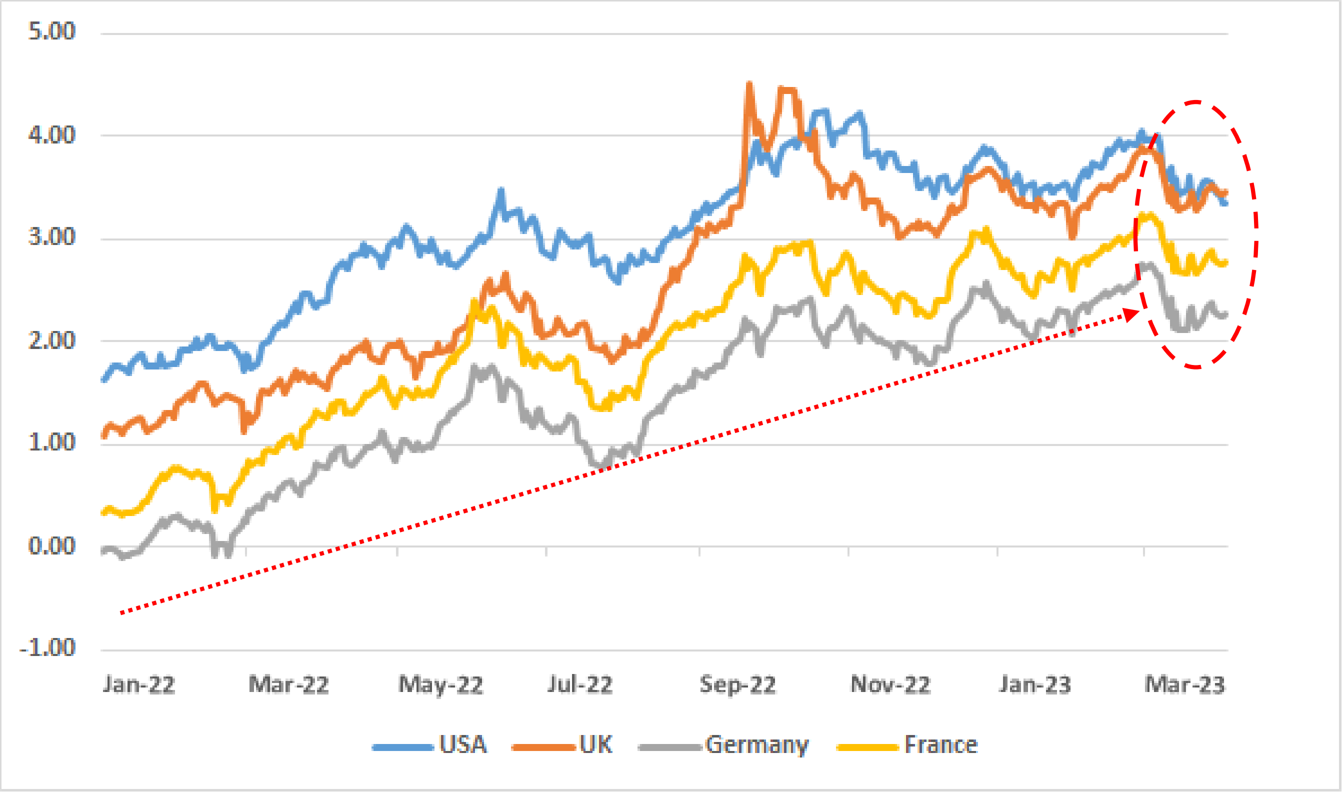
Interest Rate hikes by various Central Banks (%)



10-year Bond yields of various countries

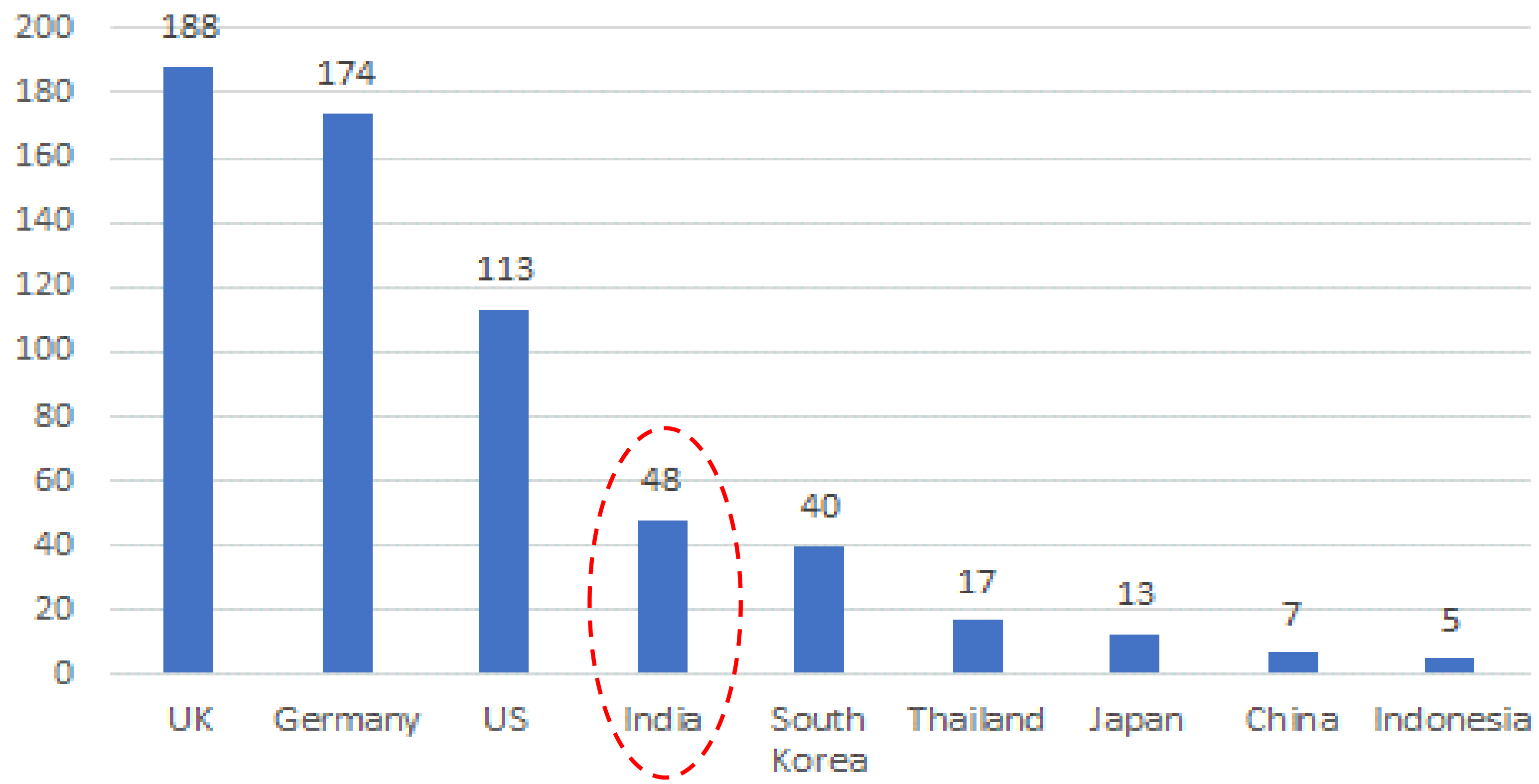


Source :- Bloomberg

- ECB (European Central Bank) hiked rates by 50 bps in its March meeting, hiking rates by a cumulative 3.5% from 2022 lows.
- BOE (Bank of England) has hiked rates 11 consecutive times, the latest being a 25 bps hike in March 2023.
- Bond yields around the world have hardened substantially from the lows, but have softened a bit lately due to the recent stress in some banks in the US & Europe, and rising concerns of a recession.

Developed market bond yields have risen much more sharply over the past year; Indian & Asian market bond yields have not risen as much

Change in 10 year bond yields over past year (FY23) - in bps

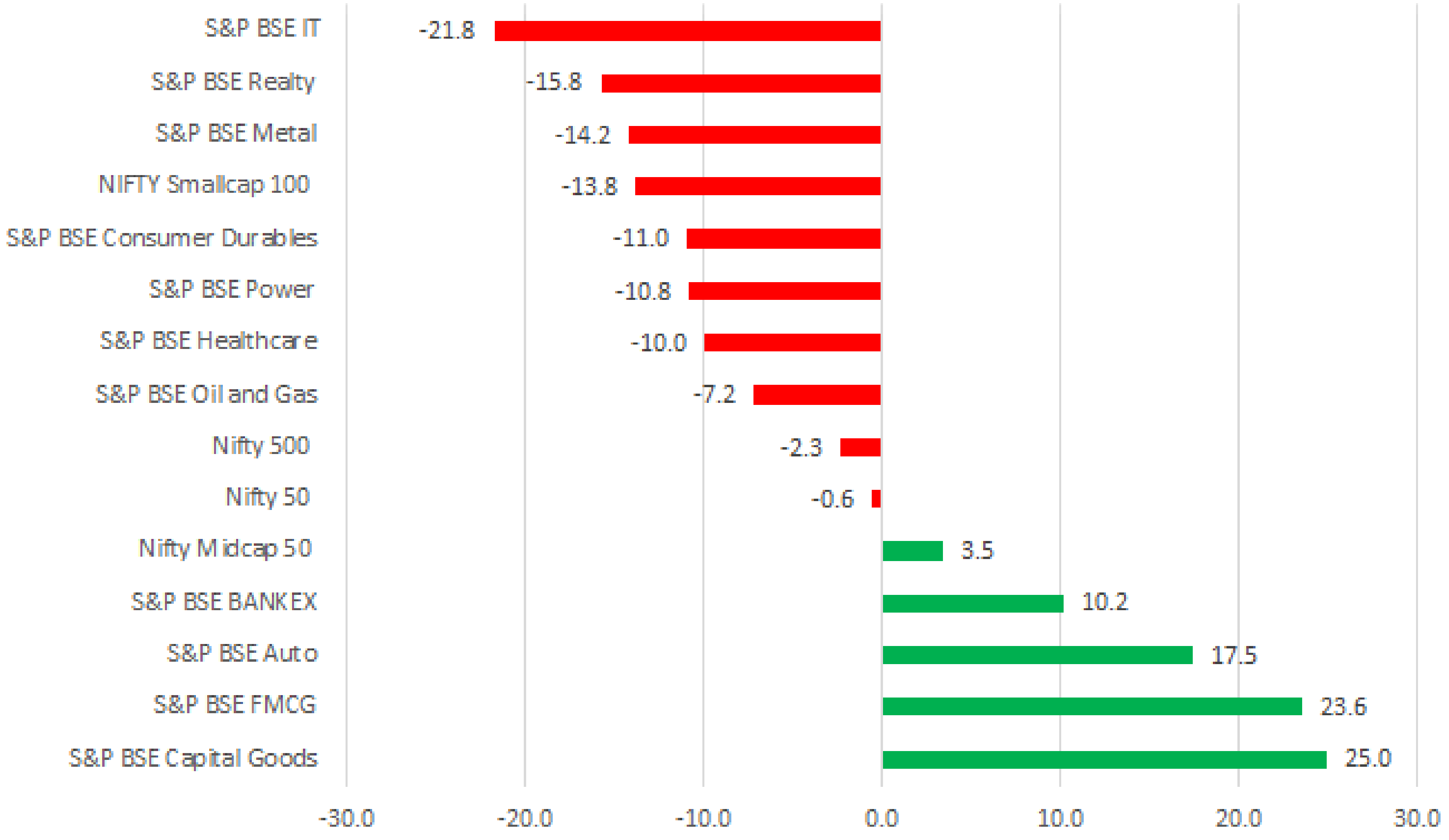


Source :- Bloomberg

Indian Markets & Macro

Capital goods, FMCG, Auto & Banking were the top performing sectors in FY23; IT, realty, metals and small-caps under-performed significantly

Domestic Indices – 1 Yr (FY23) Return in % (ended March 2023)



Source: Morningstar Direct. Data sorted in descending order.

India Market Performance over past year has been quite narrow, and market breadth has been quite negative

Nifty 500 Index Analysis

Nifty 500 Index contribution analysis over 1 Yr (ended Mar-2023)		
Name	% Chg	Index Points Contribution
ITC Ltd	60.0%	164
ICICI Bank Ltd	20.7%	135
HDFC Bank Ltd	10.2%	83
Hindustan Unilever Ltd	29.0%	67
Larsen & Toubro Ltd	23.6%	64
HDFC	11.5%	62
Mahindra & Mahindra Ltd	47.5%	47
Axis Bank Ltd	14.6%	36
NTPC Ltd	35.3%	28
Varun Beverages Ltd	117.1%	22
Top 10 contributing stocks		**709**
Remaining 490 index stocks		**-1046**
Nifty 500 index	**-2.3%**	**-337**
Source: Bloomberg		

% Down From 52 Week High	% of Nifty 500 Index Stocks
more than 5% down	94%
more than 10% down	84%
more than 15% down	71%
more than 20% down	58%
more than 25% down	46%

- In the Nifty 500 index only a handful of stocks have contributed bulk of the gains over the past year.
- Despite the Nifty 500 index returning -2.3% over past year, 58% of the index stocks have fallen more than 20% from their 52-week high.

Source: Bloomberg, Bajaj Allianz Life Research

India GDP growth still relatively healthy at 7.0% in FY23 & 6.5% in FY24

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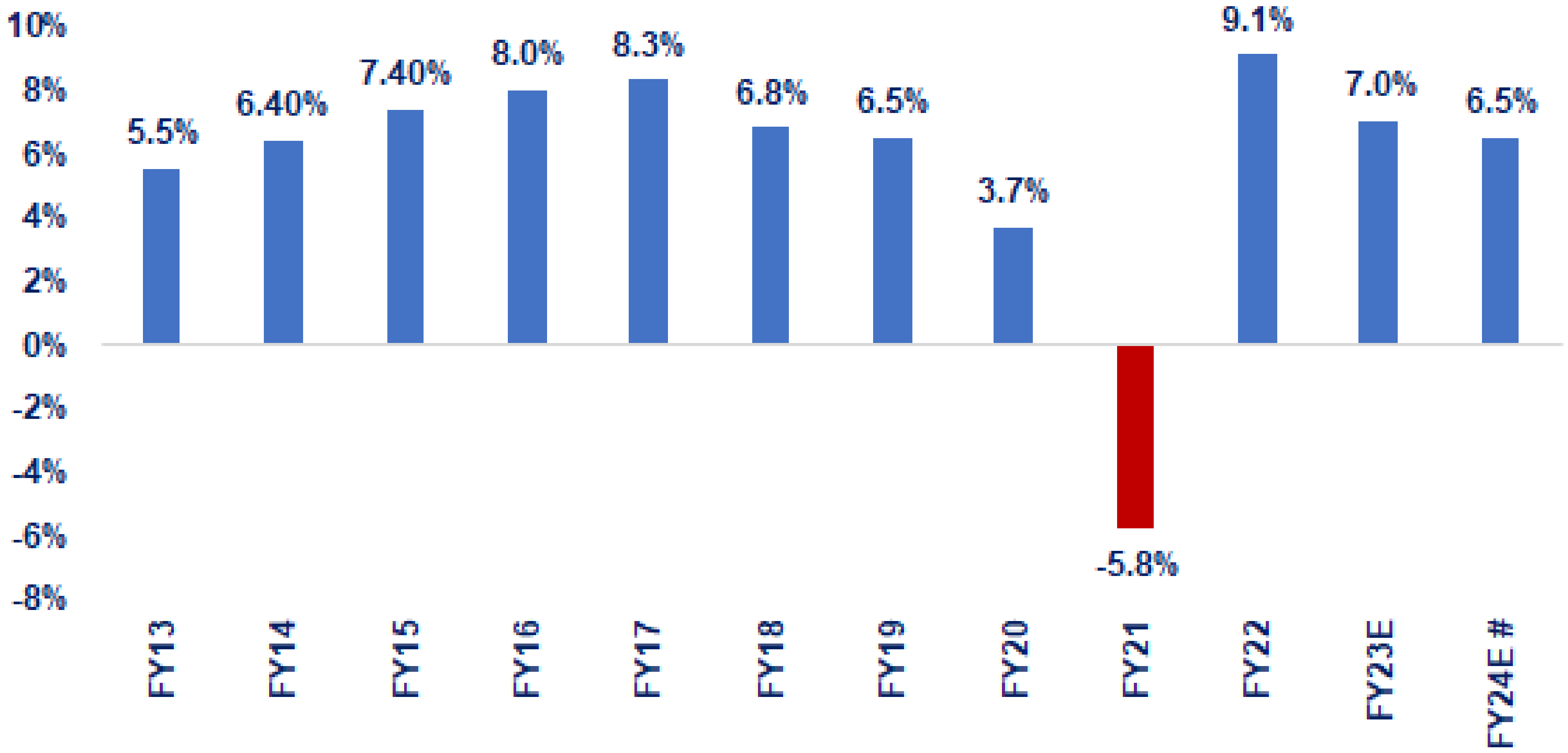
India Fiscal Year-Wise GDP Growth (% YoY)



Source: MOSPI, RBI. # FY24 GDP growth is forecasted by RBI

- RBI forecasts GDP growth of 6.5% in FY24, while World Bank & IMF forecast stands at 6.1% and 5.9% respectively.

India inflation appears manageable, although it is still a bit elevated

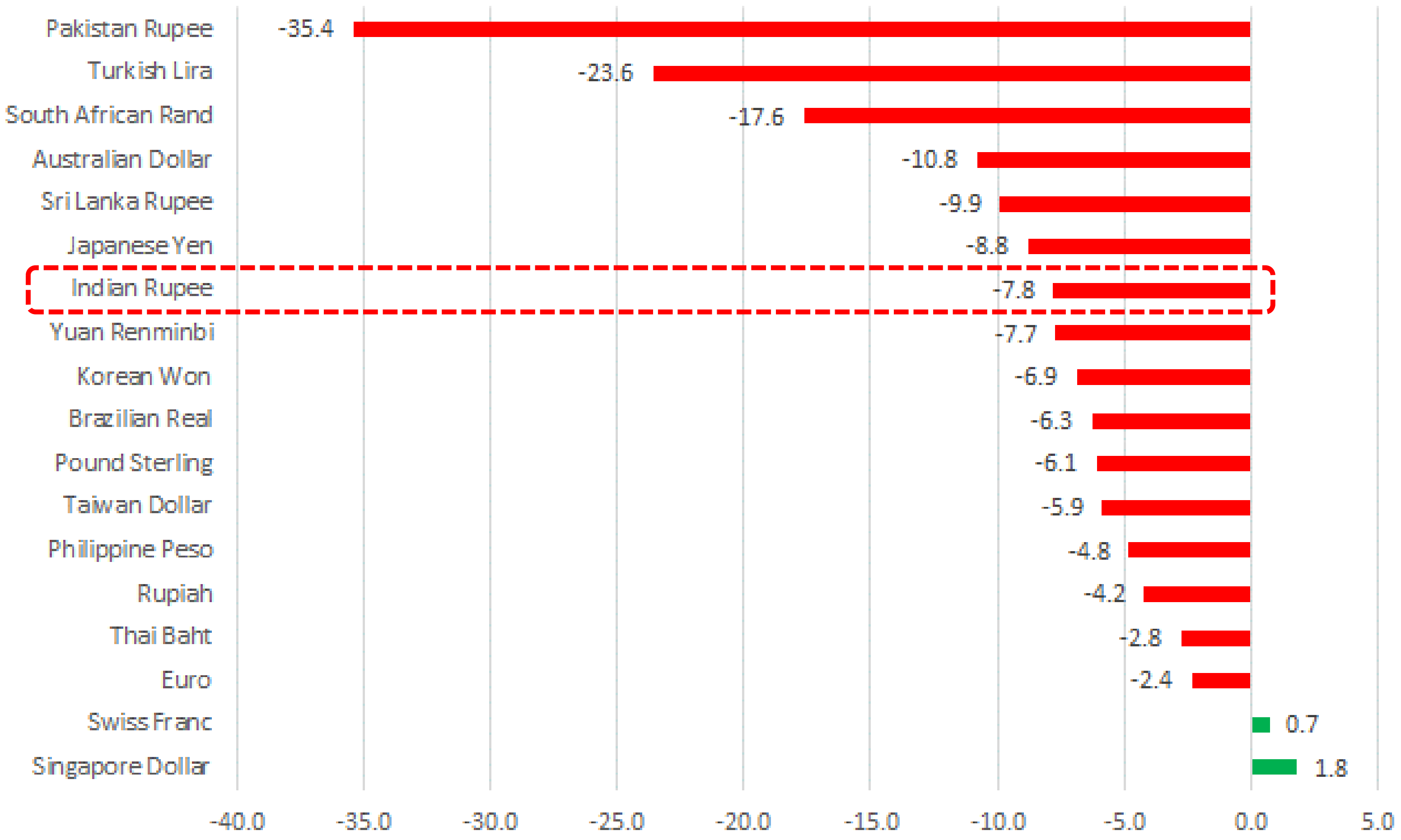
India Consumer Inflation Trend (% YoY)

Source: Bloomberg

- In India, headline consumer inflation has moderated from a high of 7.8% in April 2022 to 5.7% in Dec 2022, but has risen to 6.4% in Feb 2023—on the back of rising food prices.
- Core inflation (ex food & fuel) remains elevated at ~6%. RBI's focus seems to be on core inflation nowadays.
- In its latest April 2023 monetary policy meeting, RBI forecasts headline CPI at 5.2% in FY24.

India Rupee has underperformed over the past year, but forex reserves have picked up

Performance of Various Currencies Vs USD over 1 Yr (FY23), in %



Source: Morningstar Direct

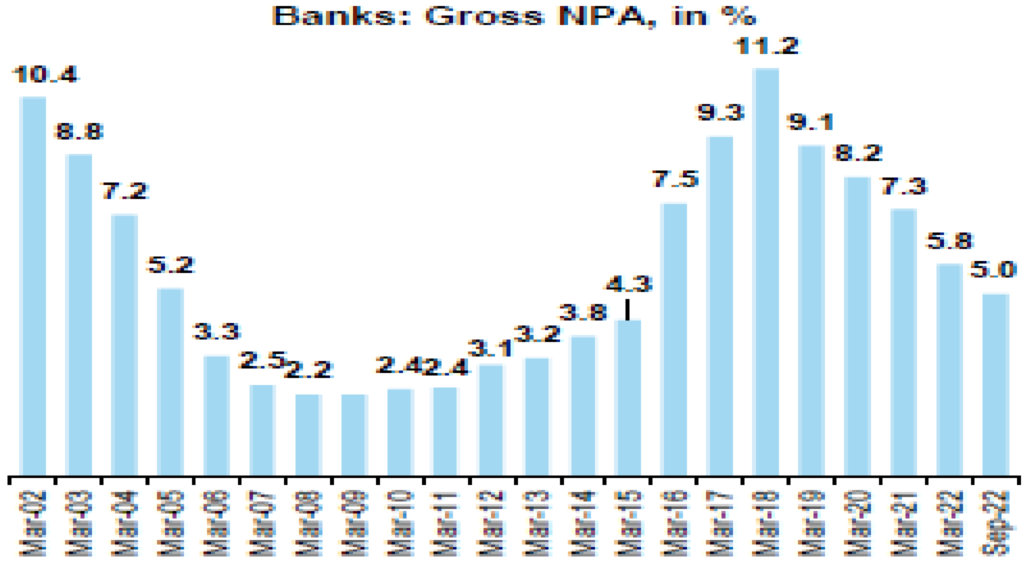
India Forex Reserves (USD in Million)

Source: Trading Economics

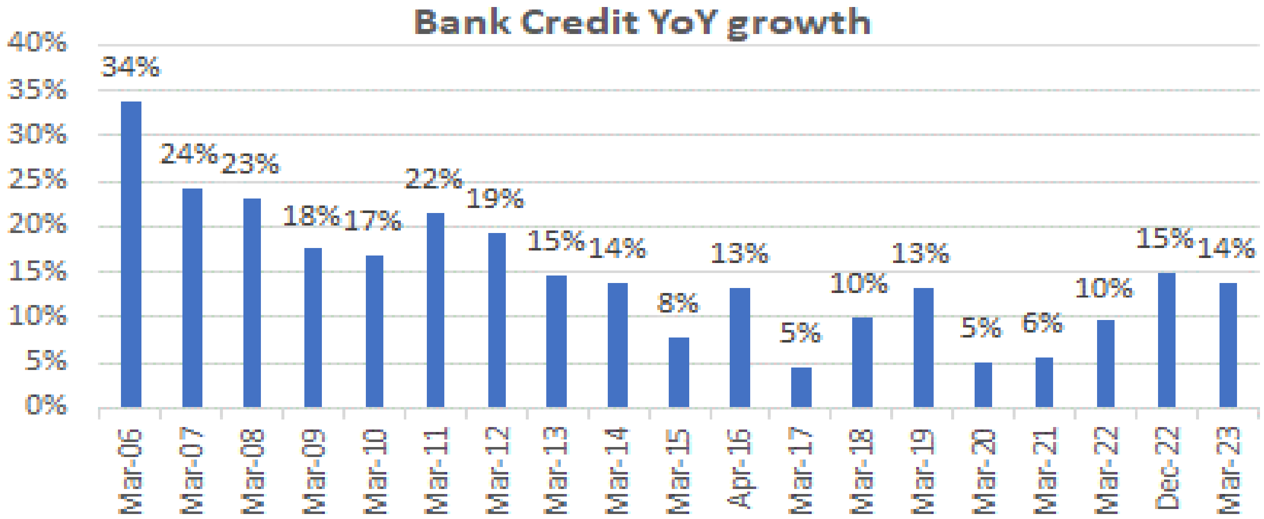
- The Indian rupee has underperformed a number of peer Asian currencies over the past year, but has fared better than Japanese Yen, Australian dollar and South African Rand,
- Forex reserves in India have picked up to around $580 billion, providing a healthy buffer.

Indian banking system is quite healthy and stable. MTM losses are not that large in Indian banking system Vs US banking system

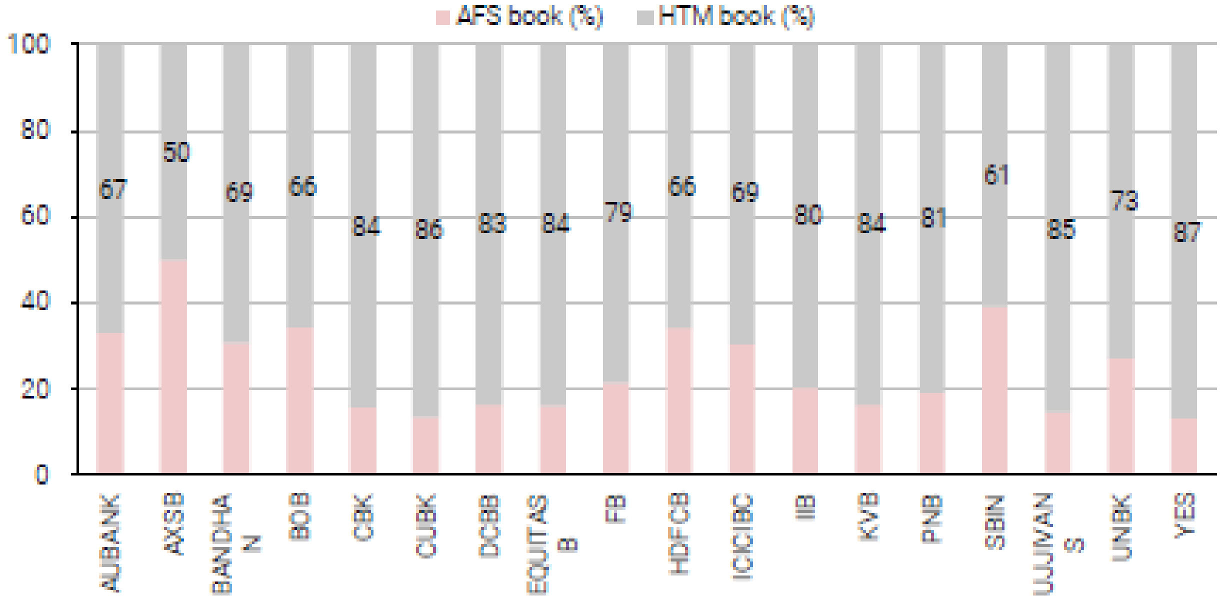
Indian Banking system asset quality has improved quite significantly



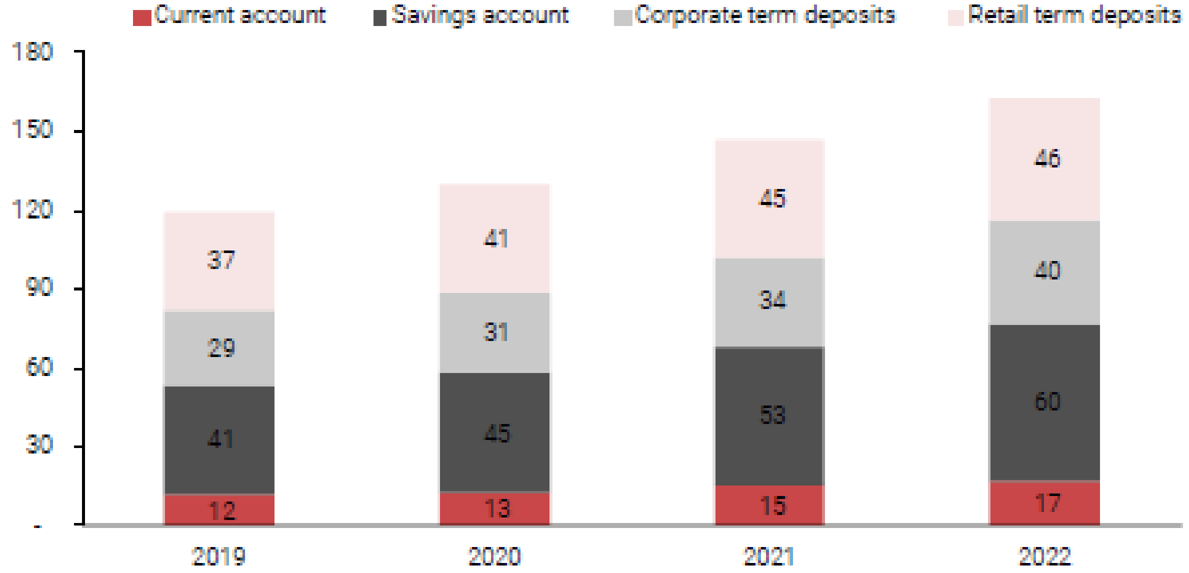
Indian banking credit growth is presently not as high as prior to GFC (25-30%); so large fall in credit growth is not expected



HTM book is much larger in Indian banks; so not much MTM losses expected



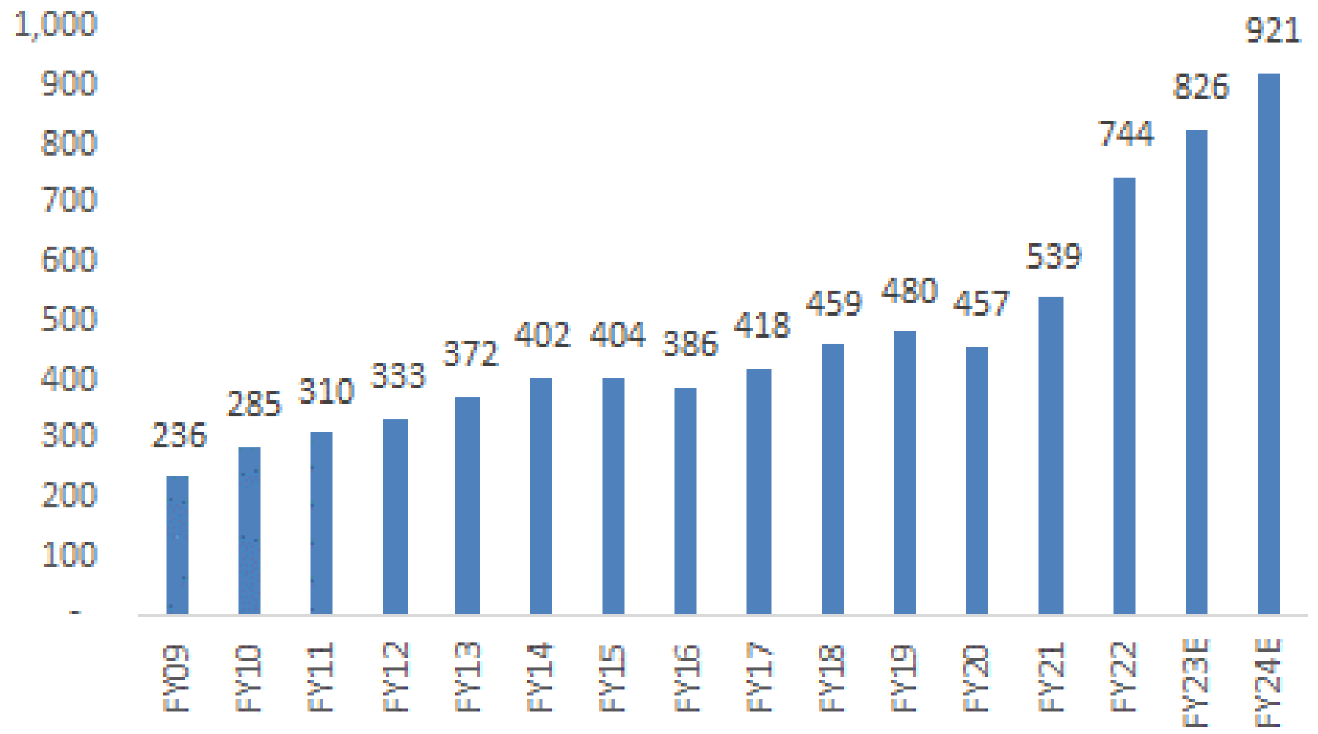
High share of Retail in bank term deposits, provides more stability



Source: Bernstein, Bloomberg, Kotak Institutional Equities, RBI

Corporate earnings growth in India expected at 11-12% in both FY23 & FY24

Nifty EPS Trend

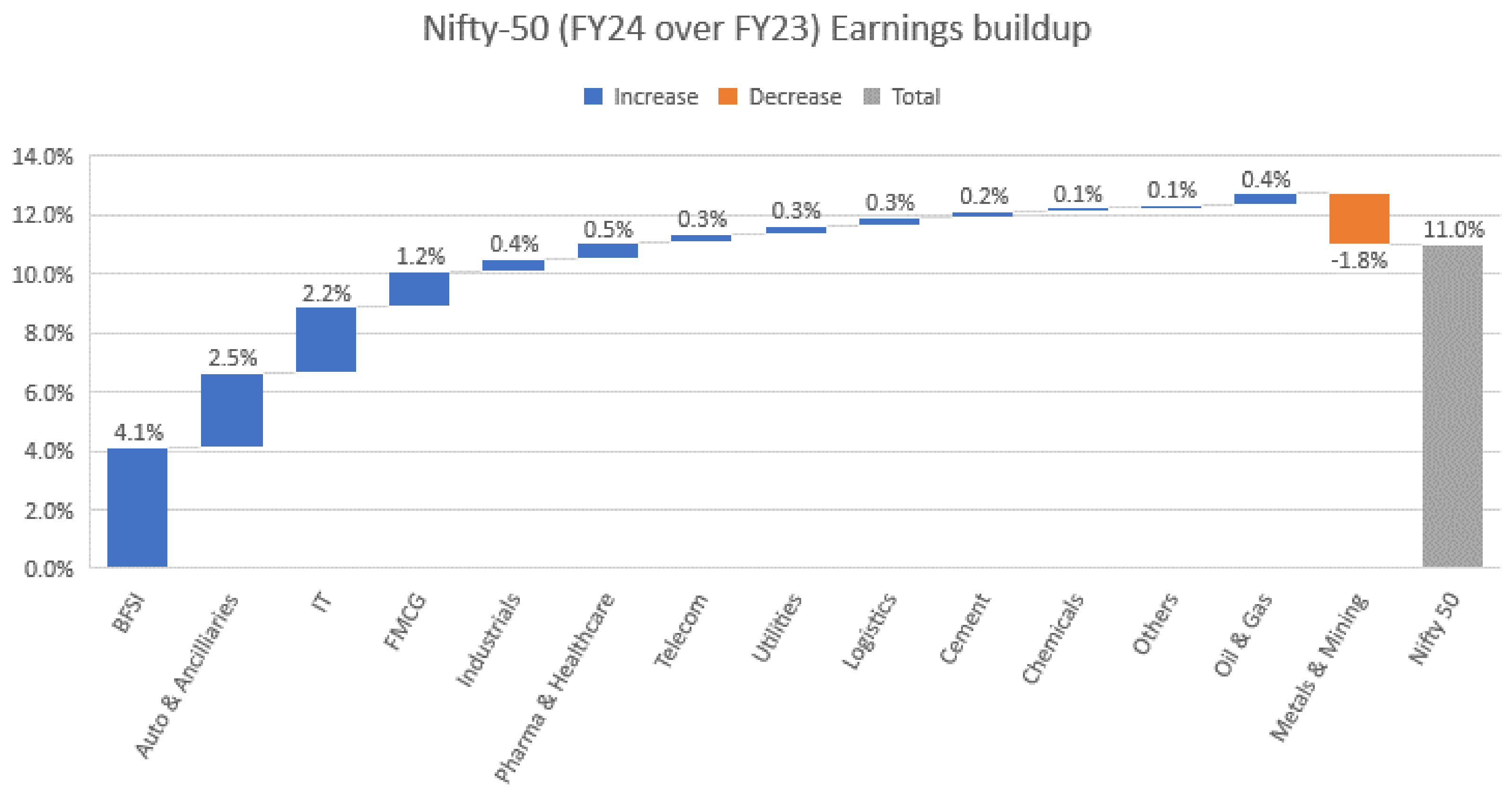


Source: Bajaj Allianz Life Research Estimates

- Nifty aggregate Profit After Tax (PAT) has almost doubled from Rs. 3.4 trillion in FY20 to Rs. 6.3 trillion in FY23 (expected).
- 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 at 11-12% in both FY23 & FY24.

Financials sector to continue to be the key contributor to Nifty earnings in FY24

Nifty FY24 sectoral earnings growth build-up

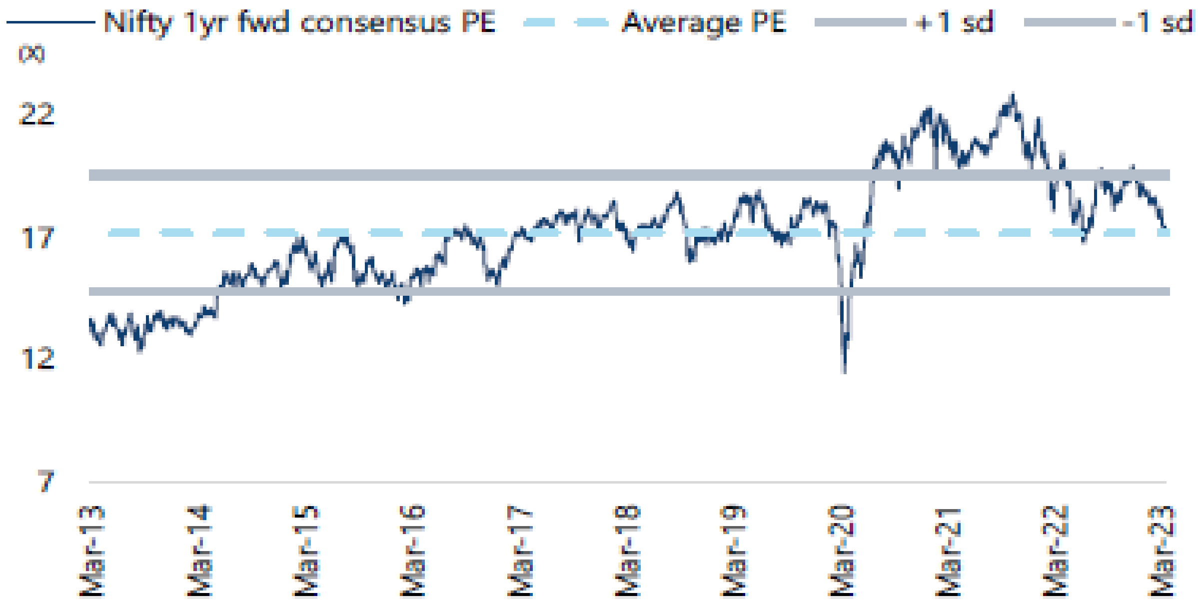


Source: Bajaj Allianz Life Research Estimates

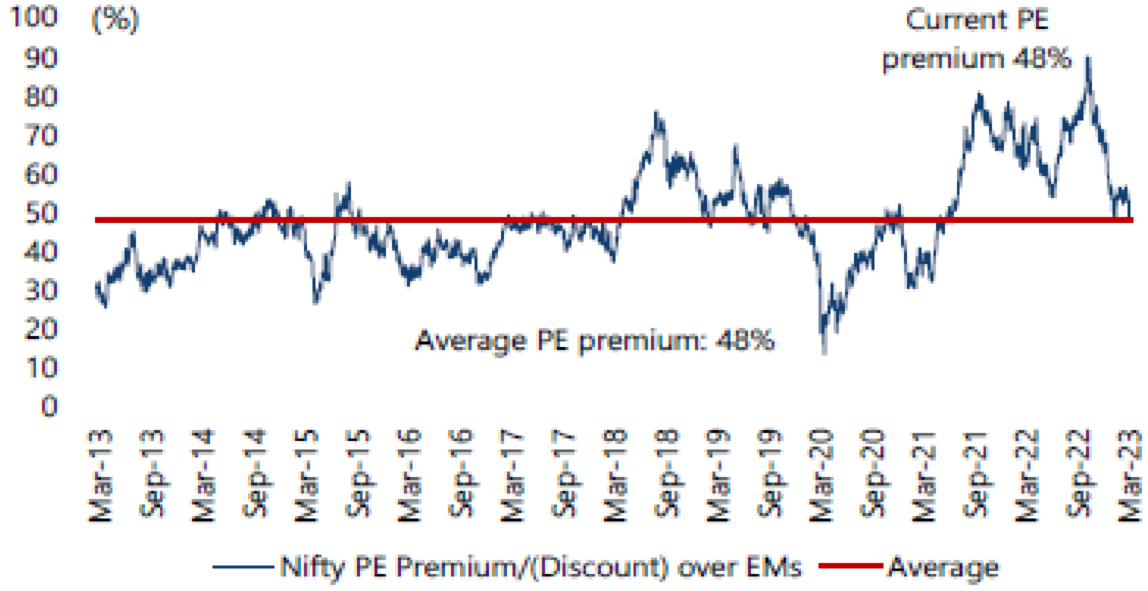
- Auto sector to be a healthy contributor in FY24, primarily due to an auto major (loss in FY23 to profit in FY24).
- IT sector expected to be a healthy contributor to Nifty earnings growth in FY24, after a fall in contribution in FY23. Industrials & FMCG to see good PAT (Profit After Tax) growth in FY24
- Metals and mining sector expected to register negative contribution & PAT growth in FY24.

India market valuation has moderated and is reasonable now; valuation premium to emerging markets (EM) has also come down

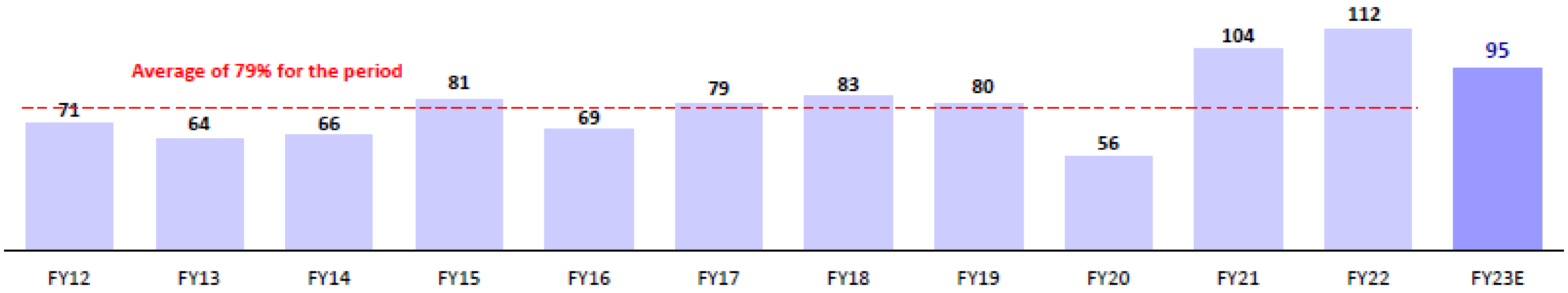
Nifty 1 Year Fwd Consensus P/E Ratio



India P/E Premium to EM



India Market Cap to GDP Trend (in %)



Source: Bloomberg, Jefferies, Motilal Oswal

FPI outflows have somewhat stabilized; DII inflows at a record high in FY23

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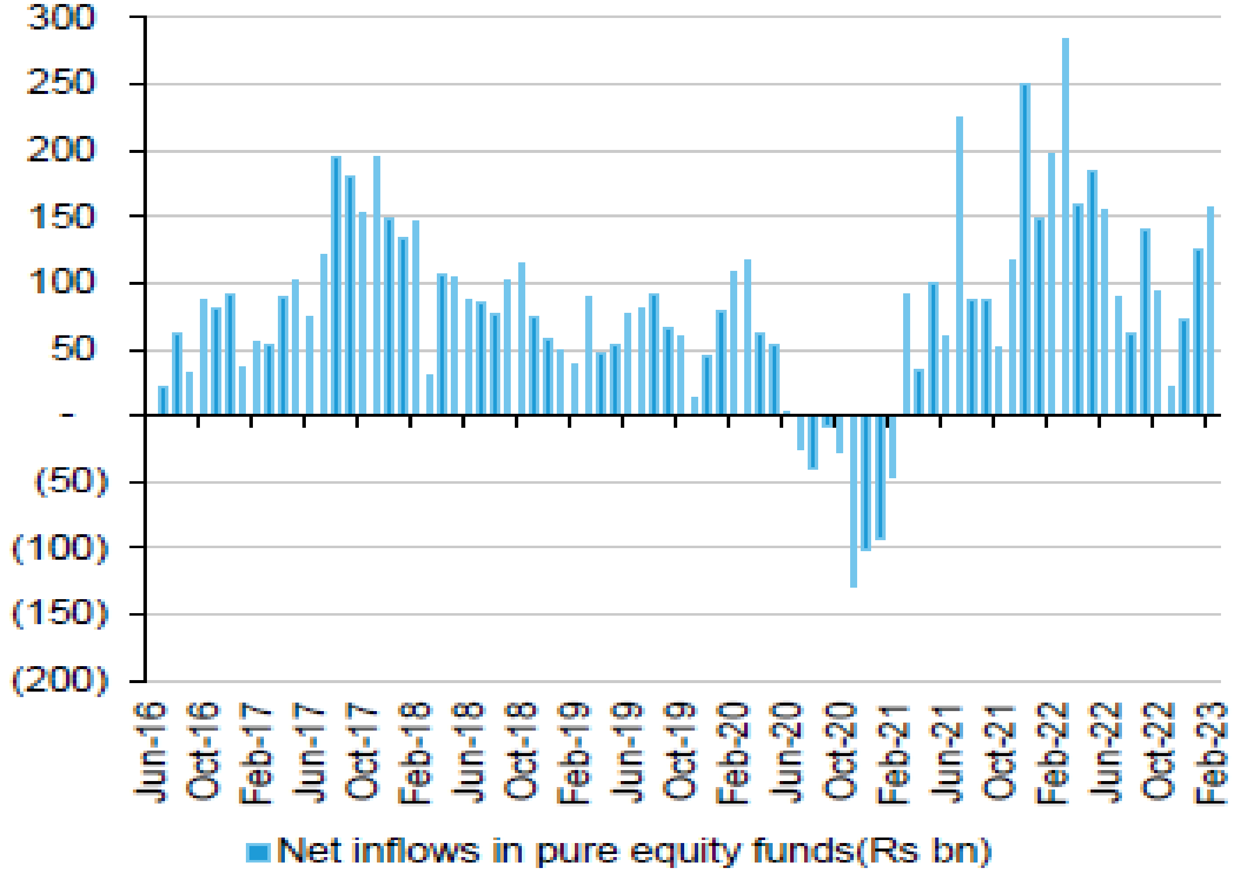
Source: NSDL, Axis Capital	Rs in Crore	
Year	**FPIs**	**DIIs**
FY2008	52,572	47,794
FY2009	-48,250	60,040
FY2010	1,10,752	24,211
FY2011	1,10,121	-18,709
FY2012	43,738	-5,347
FY2013	1,40,032	-69,069
FY2014	79,709	-54,161
FY2015	1,11,445	-21,446
FY2016	-14,171	80,416
FY2017	60,196	30,787
FY2018	21,074	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
FY2023	-34,151	2,53,577

Source: NSDL, Axis Capital	Rs in Crore	
Month-end	**FPIs**	**DIIs**
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
30 November 2022	38,234	-6,302
31 December 2022	-1,356	24,159
31 January 2023	-29,950	33,412
28 February 2023	-5,279	19,239
31 March 2023	16,061	27,998

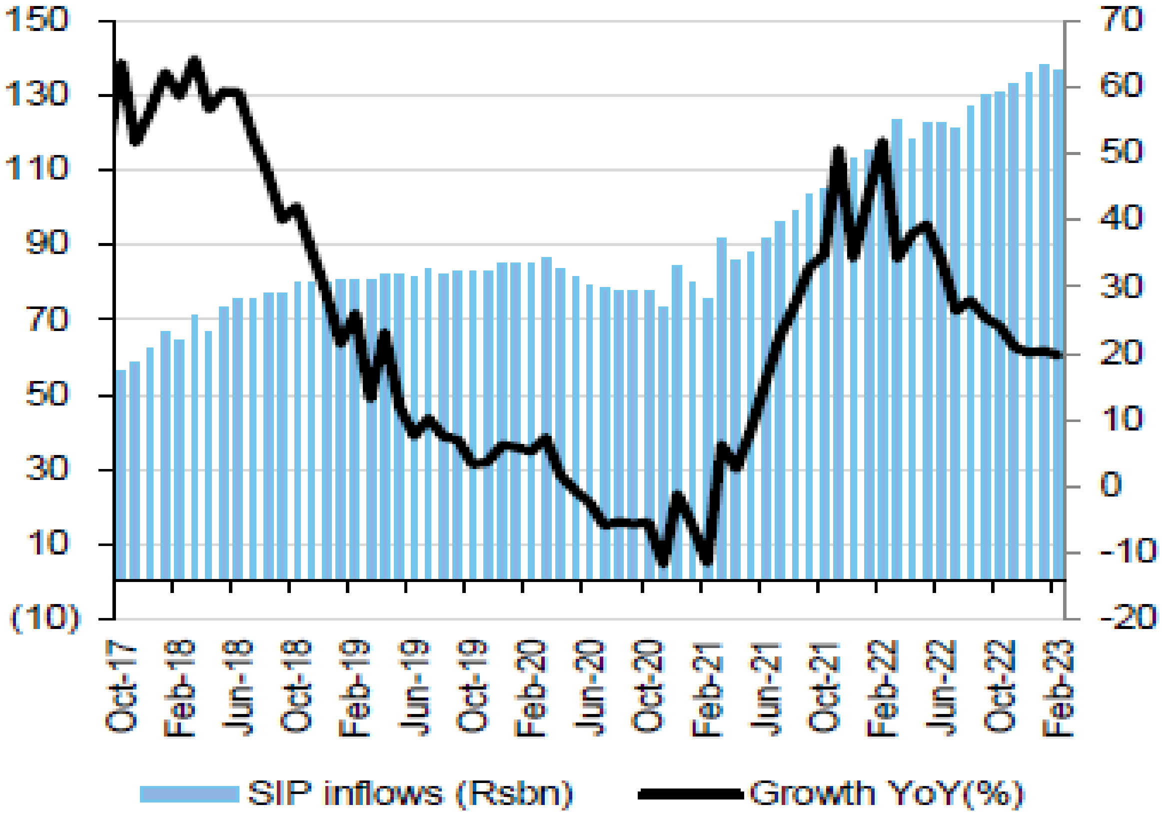
- FPI equity outflows have moderated in FY23 compared to record high outflow in FY22
- Meanwhile, DII equity flows touched a record high in FY23, on the back of a strong FY22. DII inflows have helped to counter FPI outflows, thereby leading to relatively less fall in Indian equity markets, compared to peers.

Mutual Fund equity inflows continue to be strong; SIP inflows hit a record high

Monthly Flows of Pure Equity Mutual Funds (Rs in billion)



Monthly SIP Inflows of MFs (Rs in billion)



Source: AMFI, Bernstein

Equity issuances & IPO market in India was subdued in FY23 v/s previous 2 years

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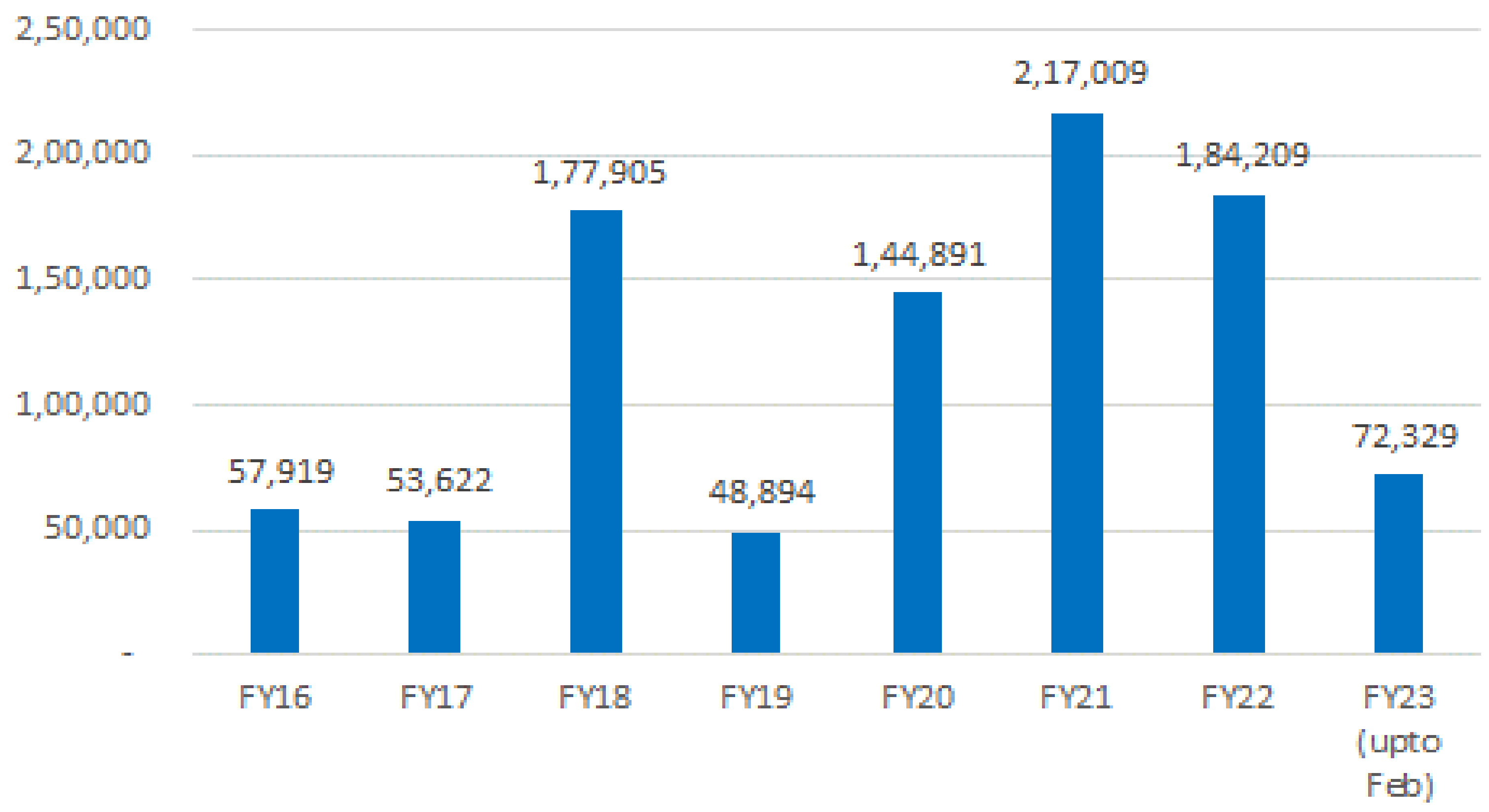
India – Fiscal Year-wise Equity Issuances (Rs . In Crore)



Source: Prime Database, Kotak Institutional Equities. Equity Issuances includes IPO, QIP, Rights Issue, OFS & FPO

- Total equity issuances in India were relatively subdued in India during FY23, on account on market volatility, and poor performance of some earlier new-age company IPOs
- Within equity issuances, IPO collections stood at ~Rs 51,000 crore in FY23 (upto Feb) v/s a record high of Rs 1.1 lakh core in FY22.

RBI goes in for a pause in its rate hike cycle

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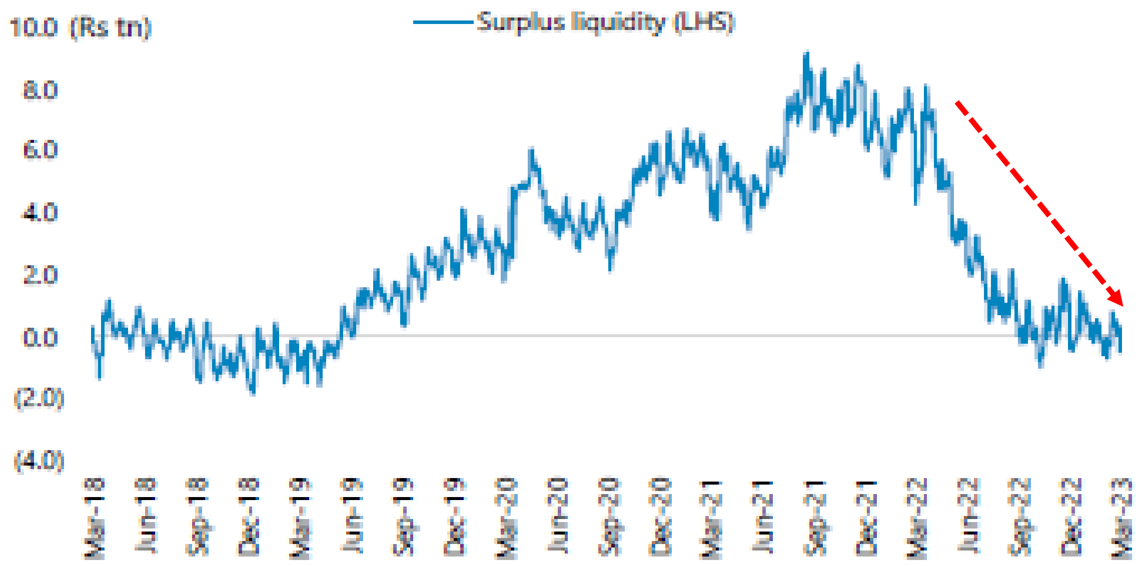
India 10 Yr Yield Vs Repo Rate

India Banking System Liquidity (Rs in trillion)

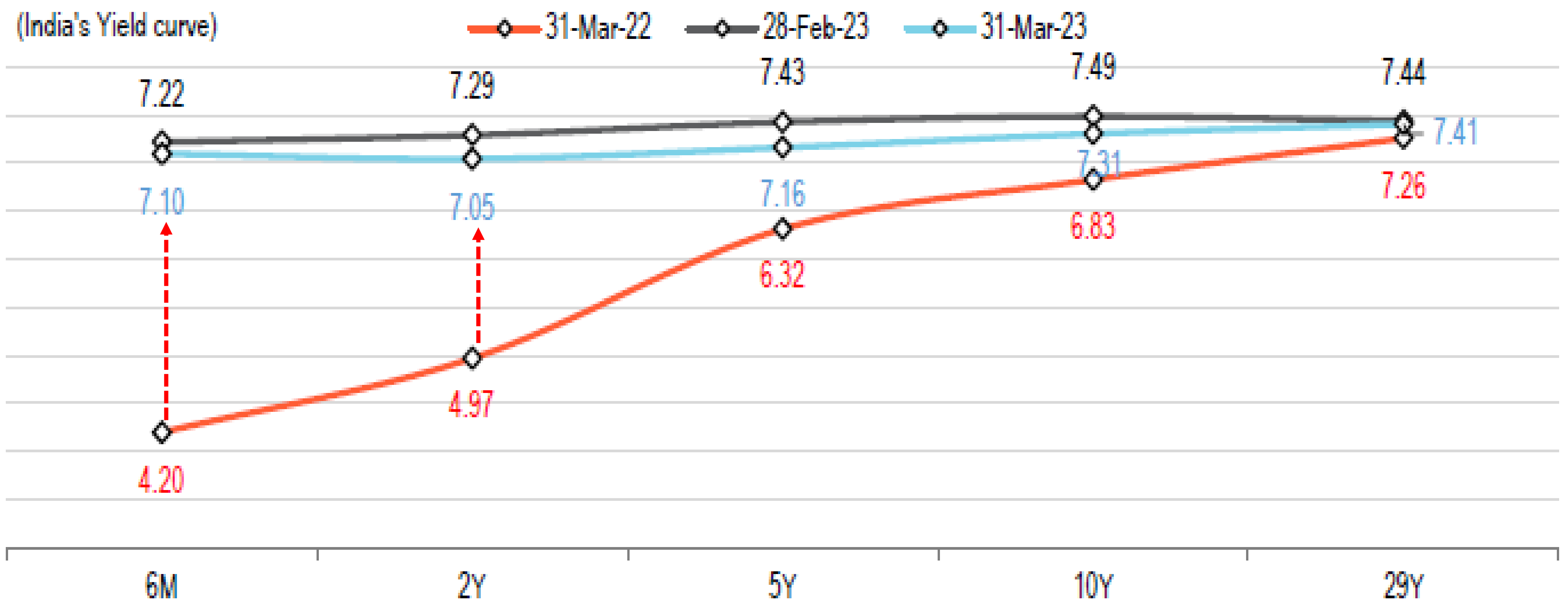


- RBI delivered a pause in the April monetary policy review versus consensus expectation of a 25 bps hike; but maintained stance as – “withdrawal of accommodation”.
- Bond yields have softened in India over past few months on the back of fall in global bond yields & crude oil prices, and expectation of nearing the end of rate hike cycle.
- RBI had hiked the repo rate 5 times in FY23 to 6.5%, bringing the cumulative repo rate hike to 250 bps during the fiscal.
- Liquidity in the banking system has come down quite substantially over the past year..
- We believe that we are at the end of the rate hike cycle in India, although RBI has said that “it will not hesitate to take further action as maybe required in future meetings”.

Source: Bloomberg, RBI, Jefferies

Short term rates have gone up more than the longer end of the yield curve, making the yield curve flat

India – G-Sec Yield Curve Movement



Source: Bloomberg, Bank of Baroda

- Due to tightening liquidity & rate hikes, short term part of the G-Sec yield curve hardened considerably more than the longer end of the curve over the past year.
- The yield curve has now flattened. We are positive on the medium-term part of the yield curve.

Outlook & Overview

- With inflation cooling off across the globe we are **nearing the end of the current rate hike cycle (esp. in the US)**. Events concerning financial stability, like the recent stress in the banking system in US & Europe may also alter the rate trajectory in the medium term.

- There is **some downside risk to India's GDP growth estimate for FY24** if there is a global recession, but **India is more favourably positioned** from a macro-perspective (compared to peers), and the economy is more domestic focused.

- Equity market **valuations in India have moderated** from their highs and are more **reasonable** now, making a case for investment in Indian equities from a medium to long term perspective.

- Overall, the **equity outlook remains evenly balanced with modest return expectations** in the near term.

Fixed Income

- We believe we are at the **end of the rate hike cycle in India,** although RBI has said that future action will be data-dependent. We presently prefer **medium term part of yield curve**.

Thank You

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