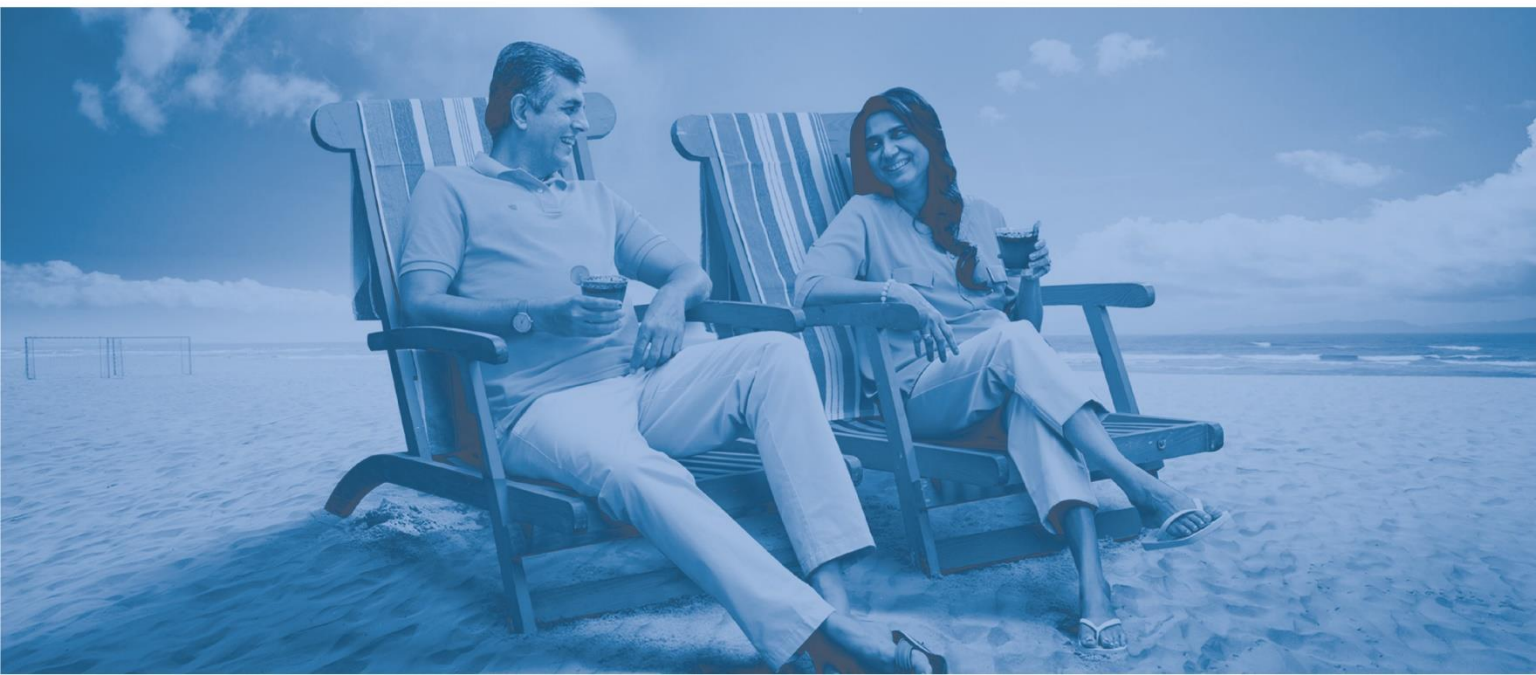




Quarterly Macro & Market Overview

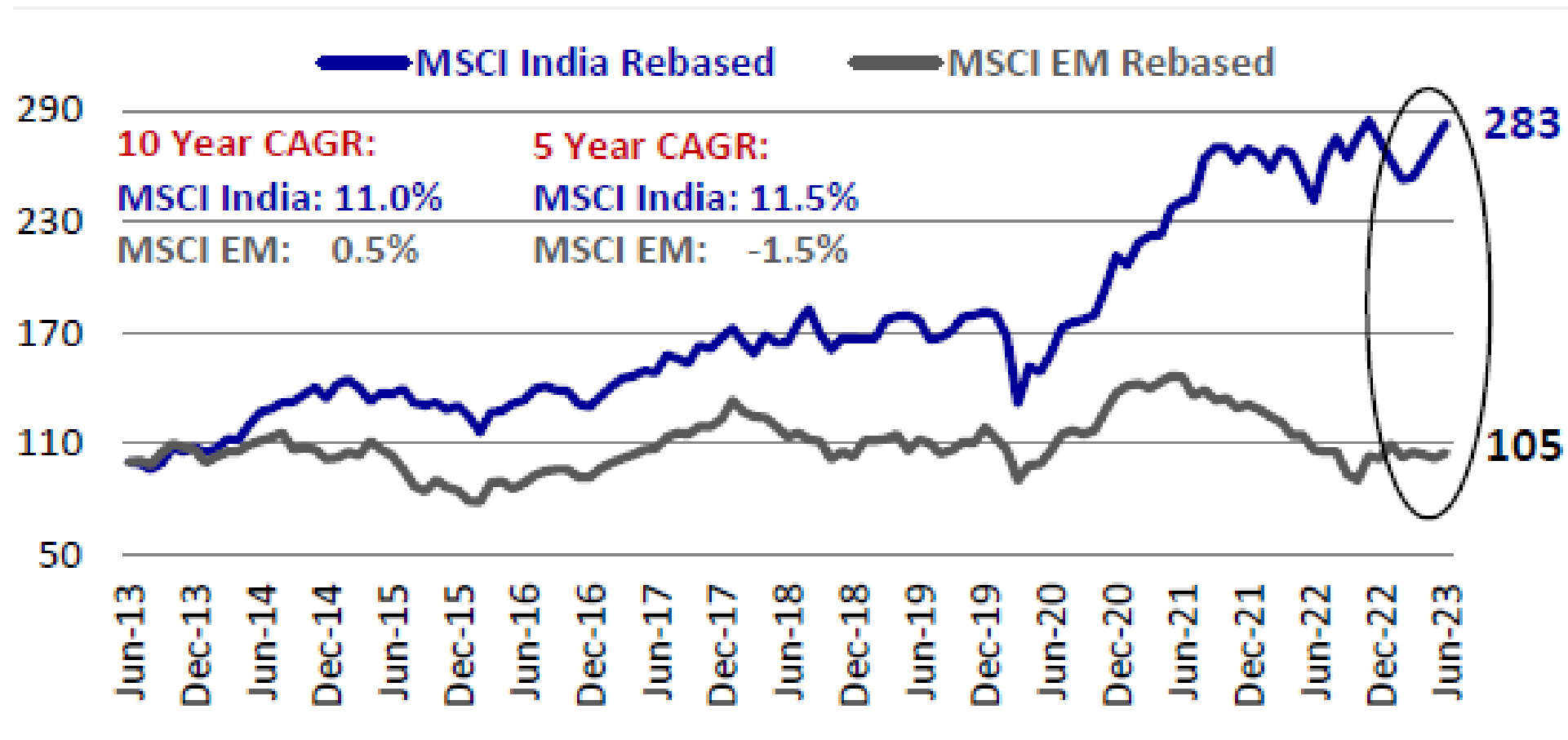
July 2023



Global Markets & Macros

Indian market has outperformed emerging markets (EM) by a huge margin over the past 10 years

MSCI India Vs MSCI EM Indexed Performance over 10 yrs (ended June 2023)



Source: Bloomberg, Motilal Oswal

- MSCI Emerging Markets (EM) index has delivered flat return over the past 10 yrs, while MSCI India index has risen 2.8x over the same period.

Indian market tops the charts over most time periods

Performance of International Indices (ended June 2023, in %)

Index Name	Country / Region	3 Mths (FYTD 24)	1 Yr	3 Yrs	5 Yrs	10 Yrs
NASDAQ 100	US Tech	15.2	32.0	14.3	16.6	18.0
FSE DAX TR	Germany	3.3	26.3	9.5	5.6	7.3
Nikkei 225 Average	Japan	18.4	25.7	14.2	8.3	9.3
CAC 40	France	1.1	24.9	14.5	6.8	7.1
Nifty 50	India	10.5	21.6	23.0	12.4	12.6
BOVESPA	Brazil	15.9	19.8	7.5	10.2	9.5
S&P 500	USA	8.3	17.6	12.8	10.4	10.7
MSCI World PR USD	World	6.3	16.5	10.5	7.3	7.5
TSEC TAIEX	Taiwan	6.6	14.1	13.3	9.3	7.7
KOSPI	South Korea	3.5	9.9	6.7	2.0	3.2
S&P/ASX 200 PR	Australia	0.4	9.7	6.9	3.1	4.1
FTSE 100	UK	-1.3	5.1	6.9	-0.3	1.9
FTSE/SGX STI	Singapore	-1.6	3.3	7.4	-0.4	0.2
MSCI EM	Emerging Mkts	-0.1	-1.1	-0.2	-1.5	0.5
MSCI Asia Ex Japan	Asia Ex Japan	-2.2	-3.4	-0.9	-1.3	2.2
JSX Composite	Indonesia	-2.1	-3.6	10.7	2.8	3.3
FTSE Bursa Malaysia KLCI	Malaysia	-3.2	-4.7	-2.8	-4.0	-2.5
FTSE SET All Share	Thailand	-5.6	-4.8	4.0	-2.0	-0.3
Shanghai Composite	China	-2.2	-5.8	2.4	2.4	4.9
Hang Seng	Hong Kong	-7.3	-13.5	-8.2	-8.2	-0.9

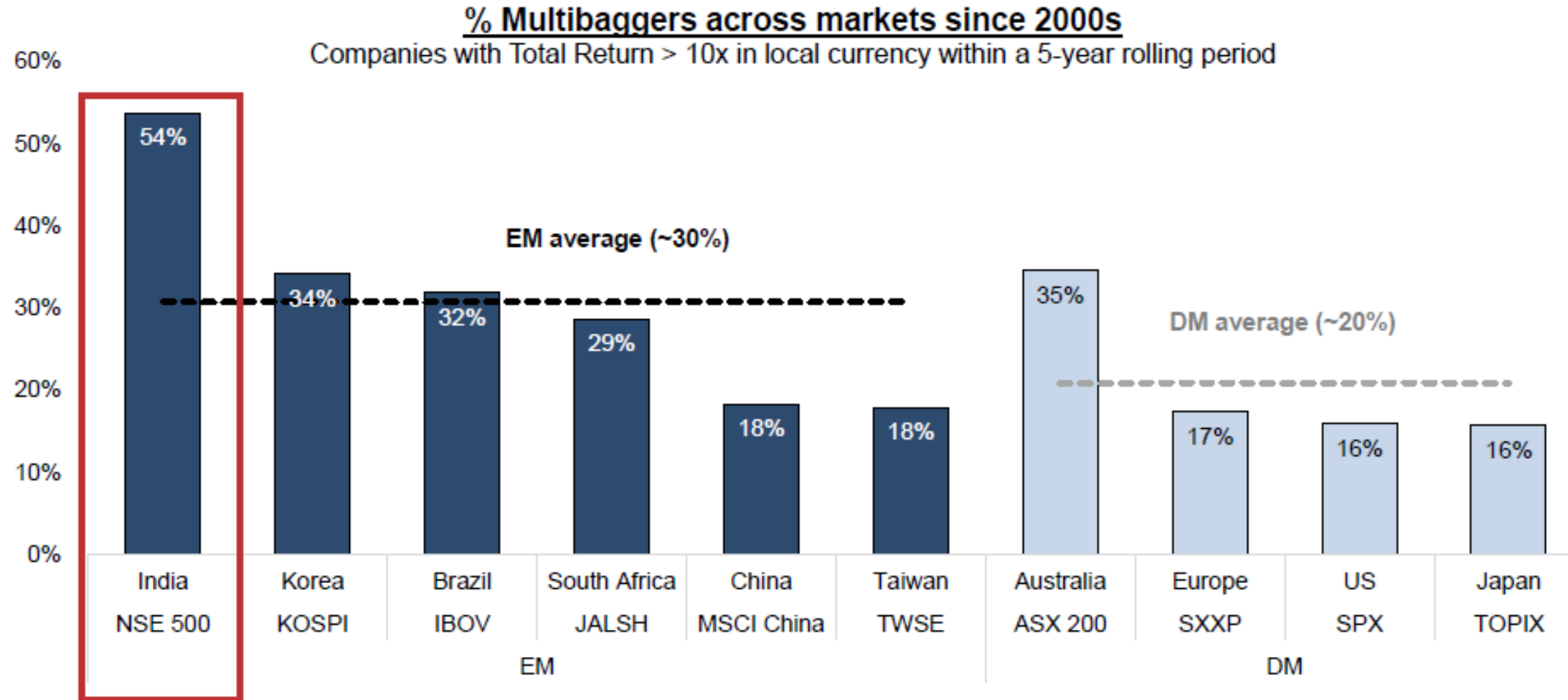
Source : Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR. Data Sorted on the basis of 1 Yr return in descending order

- Indian market has been among the top performing markets over most time periods & over the long term.

Over 1 Year Period

- US Tech, European markets, Japan and India outperformed.
- Some of Asian and emerging markets were underperformers and delivered negative returns.
- Hong Kong & China were the bottom performers

Indian market has seen the highest proportion of multi-baggers over the long term

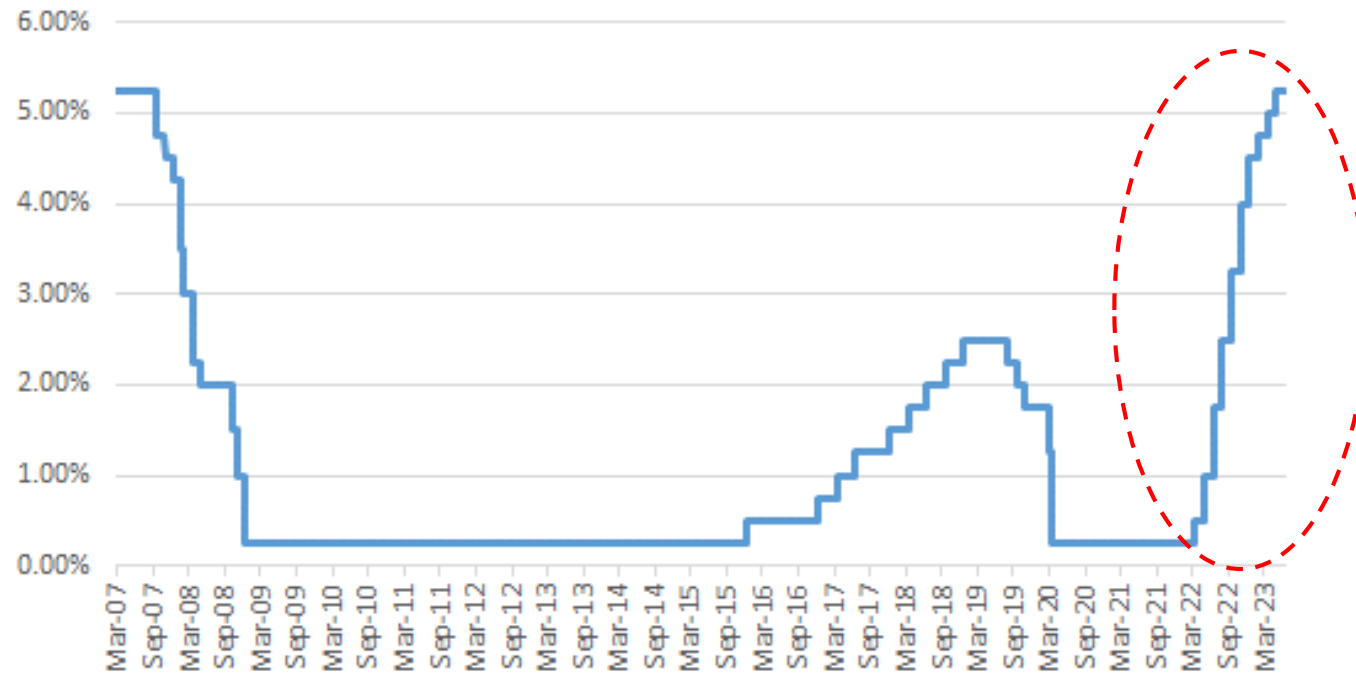


Source: Goldman Sachs

- More than half (54%) of NSE 500 stocks have generated over 10x returns within a 5-year rolling period since 2000.

US Fed goes in for a hawkish pause in its rate hike cycle

The US Federal Funds rate trend



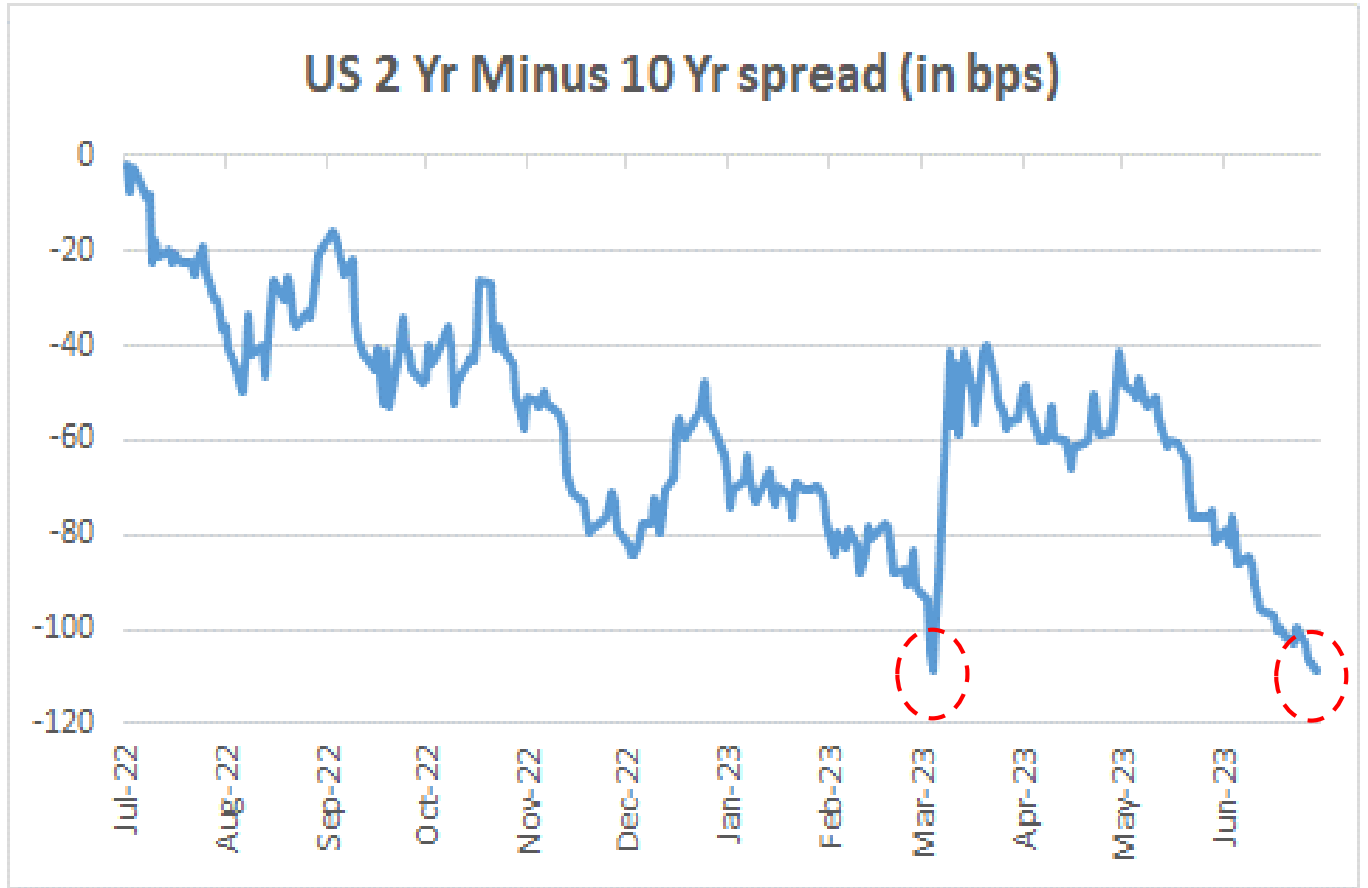
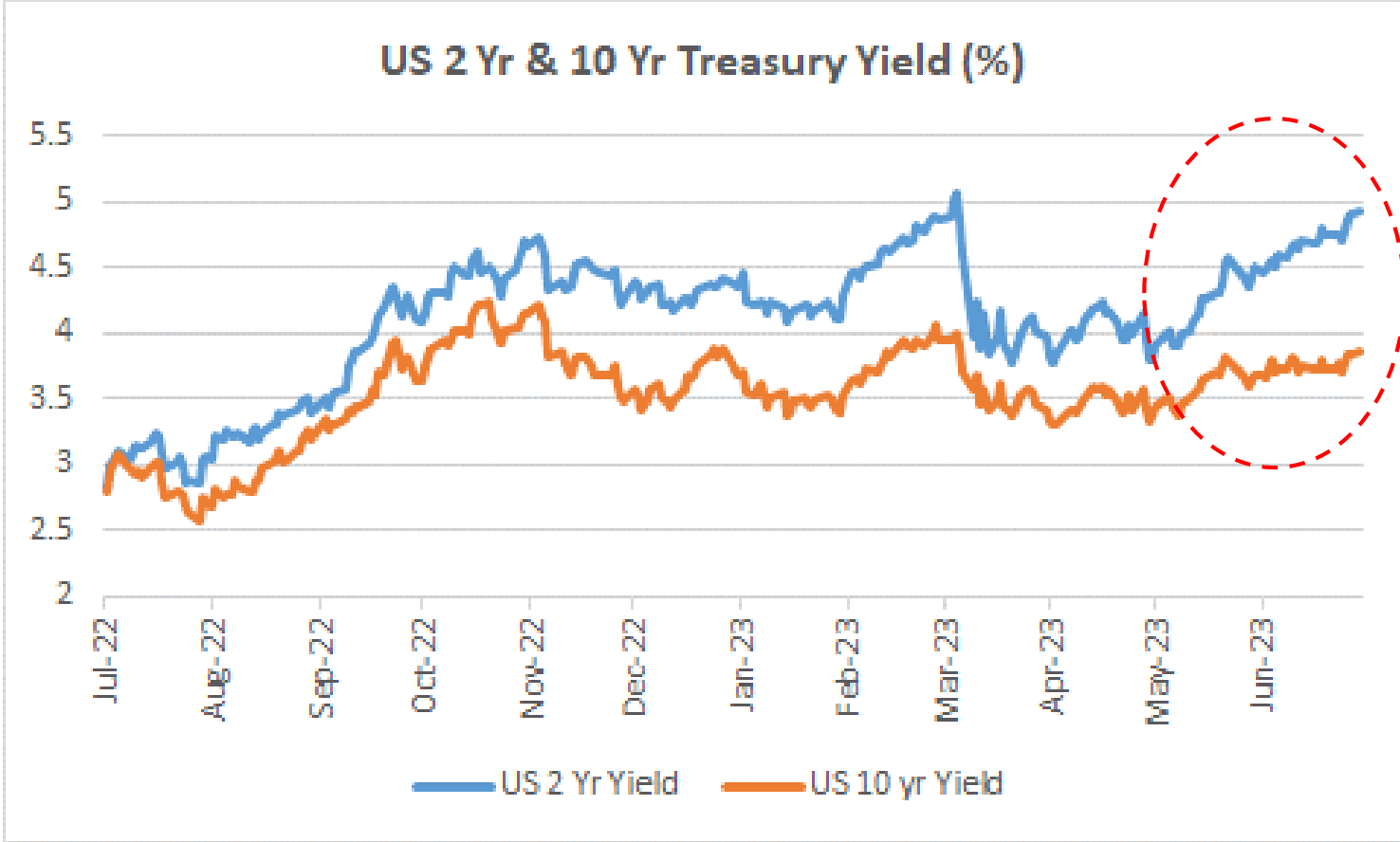
Source: Bloomberg, US Federal Reserve

The US Fed meeting Projections – June 2023

Variable	Median ¹			
	2023	2024	2025	Longer run
Change in real GDP	1.0	1.1	1.8	1.8
March projection	0.4	1.2	1.9	1.8
Unemployment rate	4.1	4.5	4.5	4.0
March projection	4.5	4.6	4.6	4.0
PCE inflation	3.2	2.5	2.1	2.0
March projection	3.3	2.5	2.1	2.0
Core PCE inflation ⁴	3.9	2.6	2.2	
March projection	3.6	2.6	2.1	
Memo: Projected appropriate policy path				
Federal funds rate	5.6	4.6	3.4	2.5
March projection	5.1	4.3	3.1	2.5

- The US Fed went in for a hawkish pause in June 2023 meeting. It has raised rates by a cumulative 500 bps since low of 2022 to 5-5.25%.
- However, Fed has increased the terminal fed rate for 2023 – indicating 2 more rate hikes (of 25 bps each) in 2023. Bond yields went up as a result.
- **The market is now pricing in a rate hike in July 2023 policy.**
- US Fed has increased the GDP forecast for CY23 to 1% (from 0.4% earlier). Also increased Core PCE inflation forecast. US Q1 2023 GDP growth got revised upwards to 2% (from 1.3% earlier).

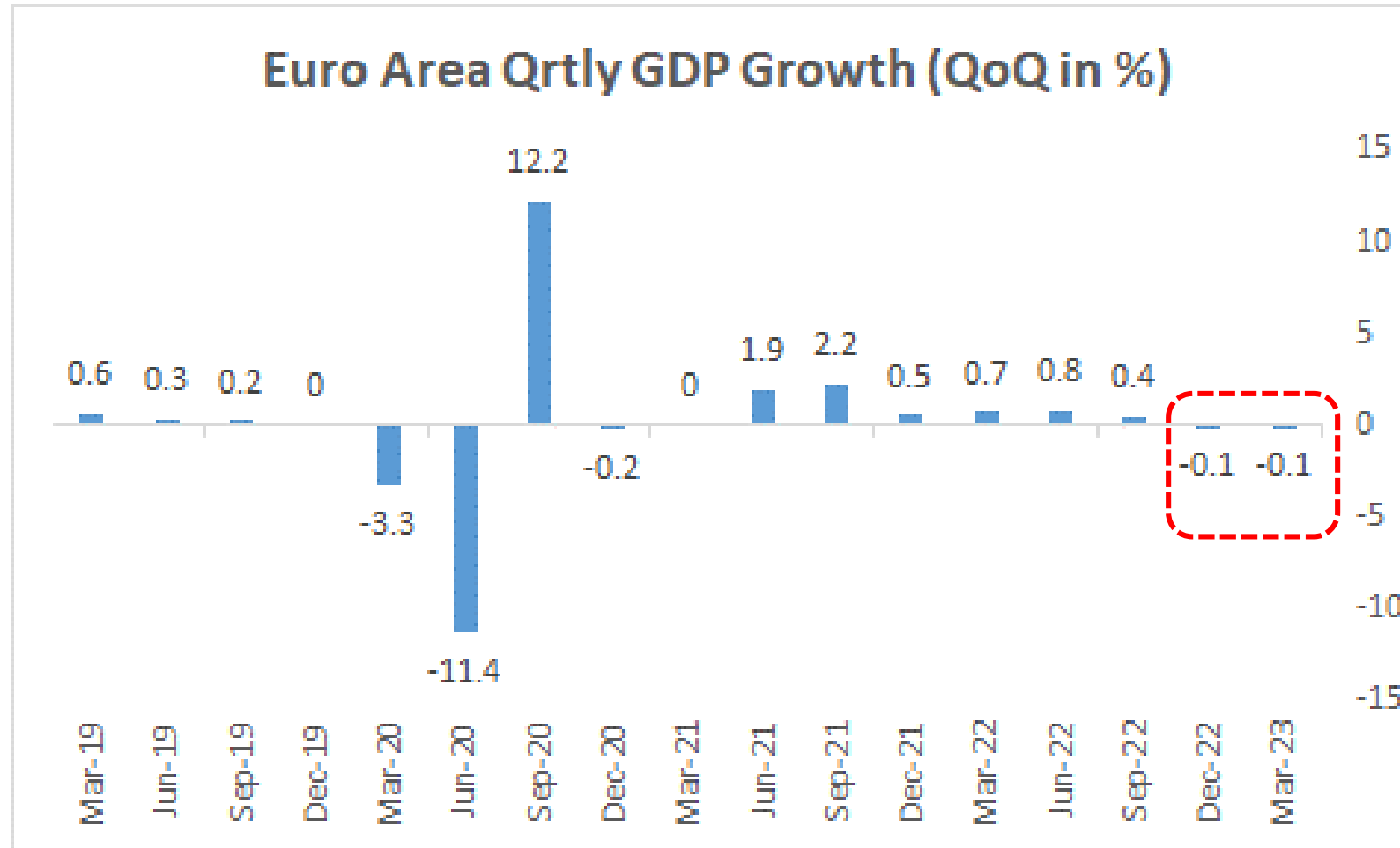
US treasury yields have retraced most of their earlier decline; yield curve has further inverted



Source: Bloomberg

- US bond yields have hardened recently on the back of hawkish US Fed commentary and some stronger than expected US economic data.
- US 2 Yr minus 10 Yr spread has further widened to March 2023 levels, indicating that the yield curve has further inverted (deepest inversion since 1980s)

Europe is in a minor technical recession already



Source: Bloomberg

- Europe has seen two consecutive quarters of minor negative growth

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



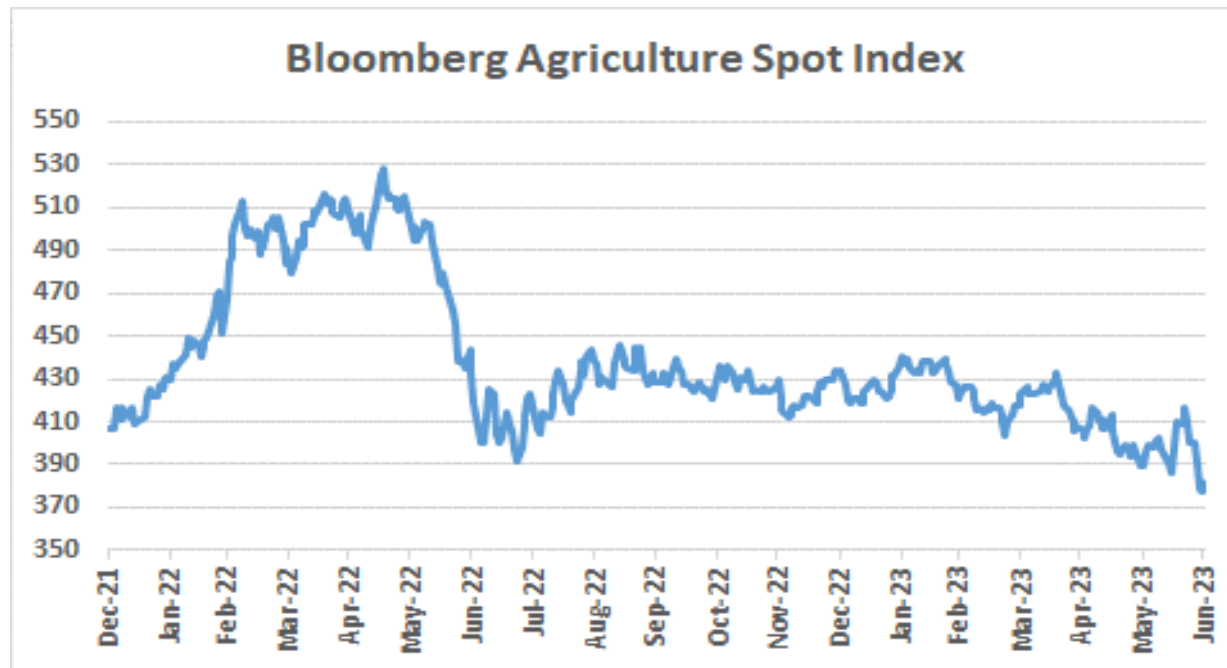
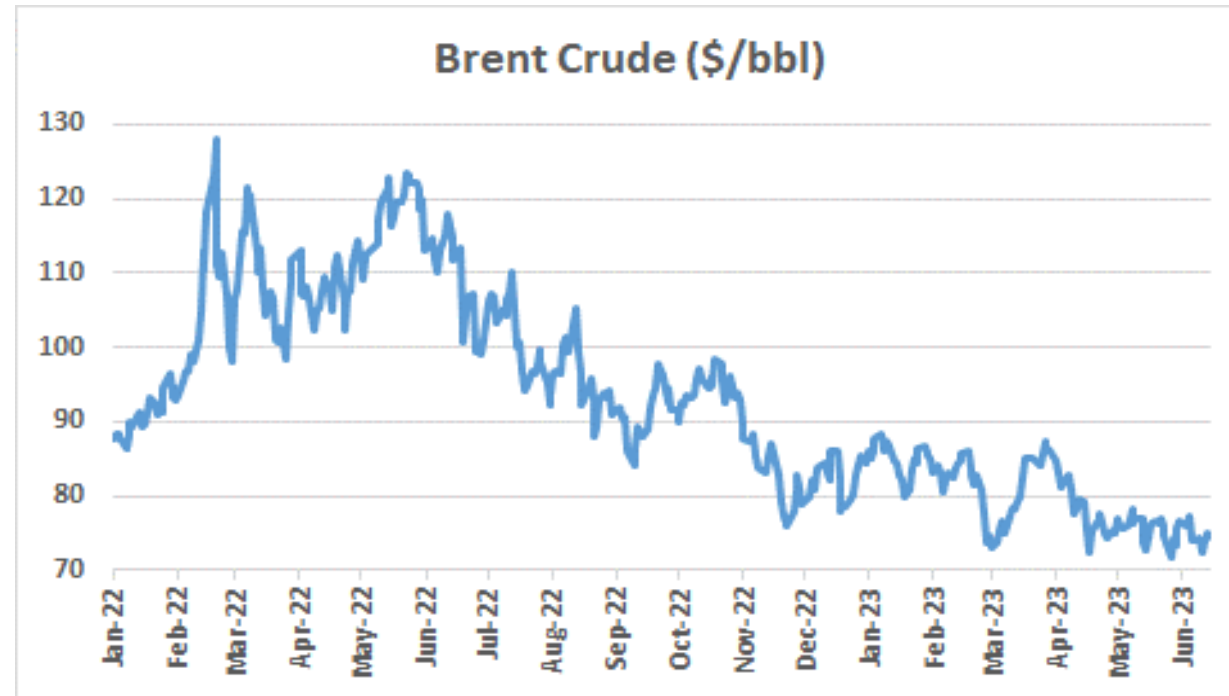
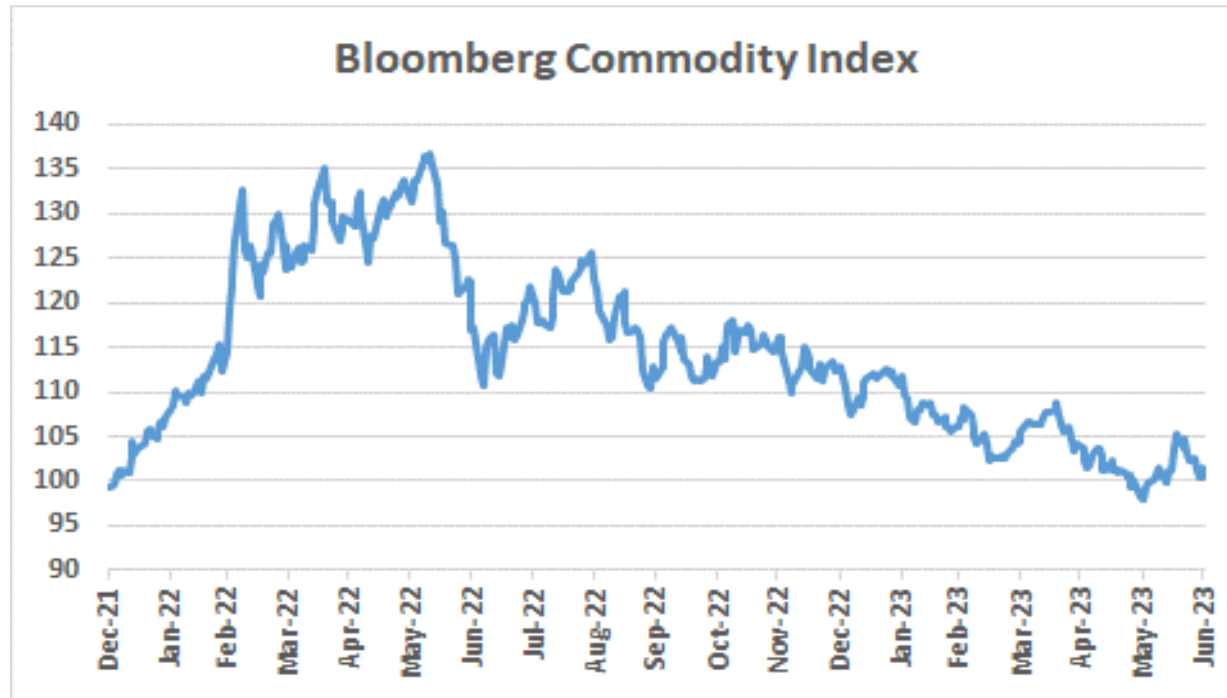
Global Consumer Inflation (%YoY)

Country / Region	Current Headline CPI %YoY	10 Years Average
USA	4.0	2.6
United Kingdom	8.7	2.7
Eurozone	5.5	2.1
India	4.3	5.5
China	0.2	1.9

Source :- Bloomberg

- Most major economies except China (CPI of 0.2%) still facing inflation significantly higher than long term average
- US inflation has moderated from 9% in Jun 2022 to 4.0% in May 2023, but still significantly above long-term average.
- Eurozone inflation has moderated from 10.6% in Oct 2022 to 5.5% in June 2023 (flash estimate). UK inflation is still very elevated.
- India's inflation has come down from 7.4% in Sep 2022 to 4.25% in May 2023.

Fall in global commodity & food prices is a positive for inflation. Sharp fall in crude oil prices to benefit India

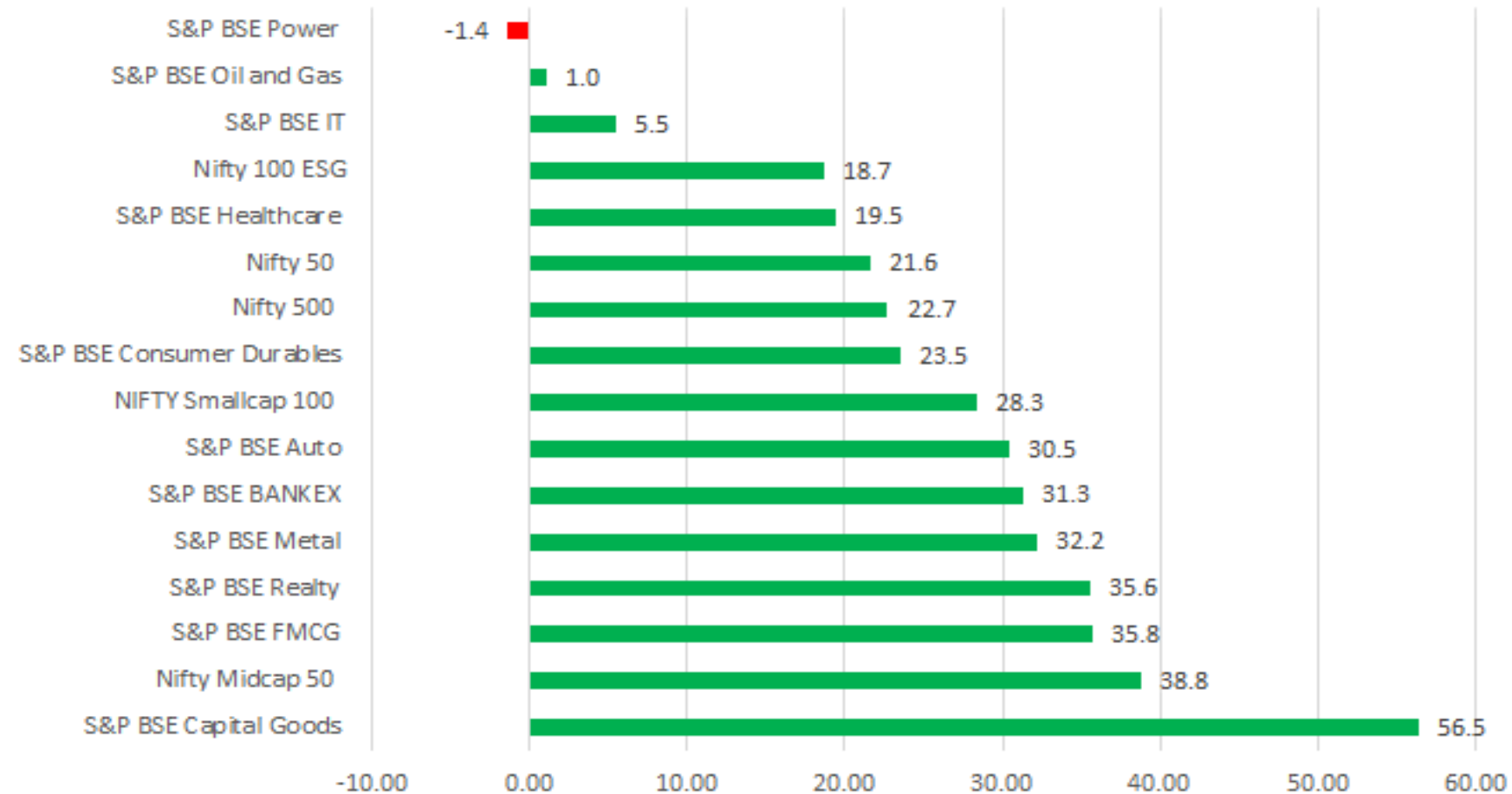


- India to benefit from sharp fall in crude oil price, as it imports ~80% of its crude oil requirement.

Indian Markets & Macro

Capital goods, FMCG, Realty, Metal & Banking were the top performing sectors over past year, along with broader markets (mid/small-caps)

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

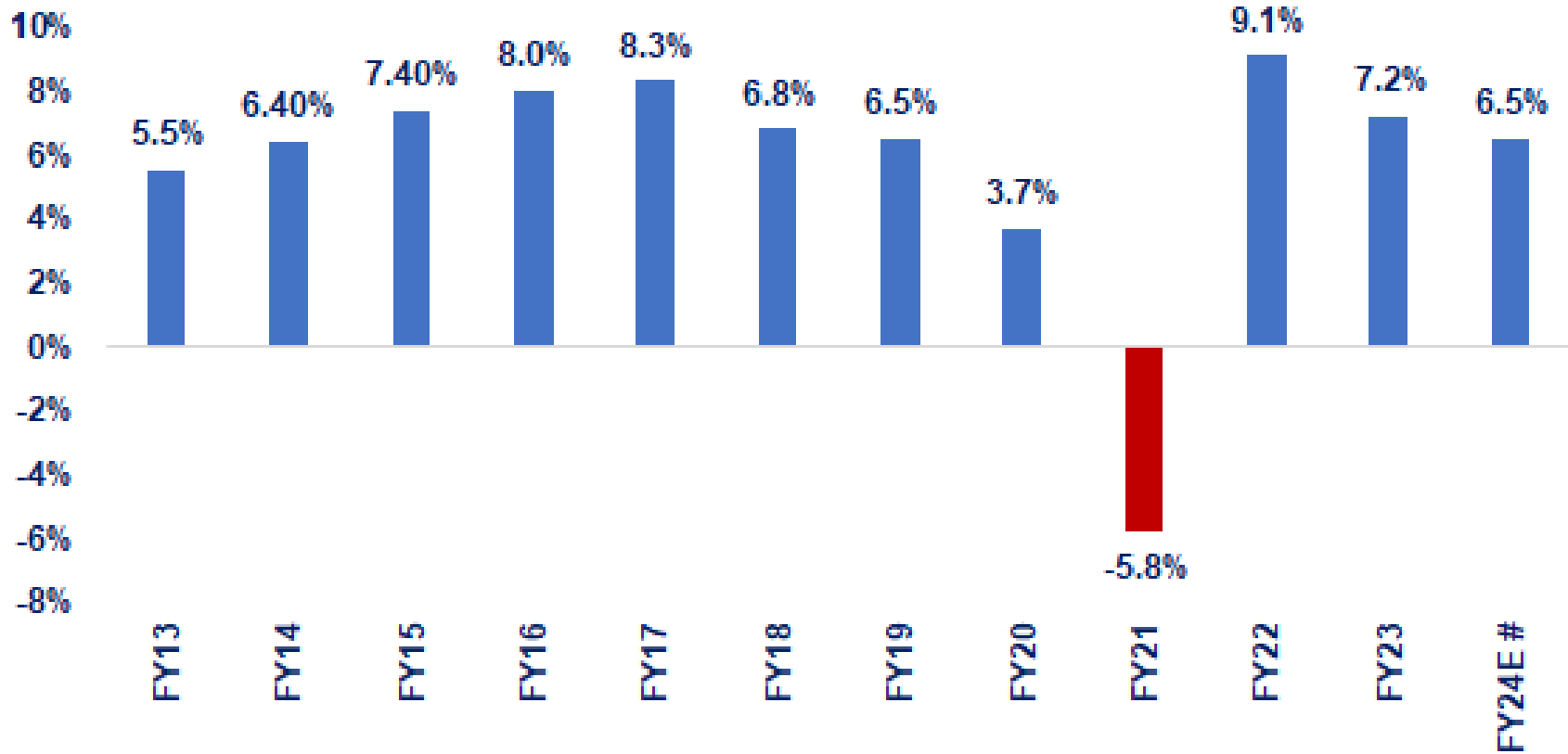


Source: Morningstar Direct. Data sorted in descending order.

- Power, Oil & gas and technology sectors underperformed over the past year.

India GDP growth still relatively healthy at 7.2% in FY23 & 6.5% in FY24

India Fiscal Year-Wise GDP Growth (% YoY)



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

- FY23 GDP growth came in higher than expected at 7.2% (vs 7% forecast).
- RBI forecasts GDP growth of 6.5% in FY24, while World Bank & IMF forecast stands at 6.1% and 5.9% respectively.
- Despite the global growth slowdown, India among the fastest growing major economies.

India Fiscal Year-Wise CAD & BOP Trend

India Current Account Balance & Balance of Payment Trends (\$ in billion)					
	FY20	FY21	FY22	FY23	FY24E
					Oil @ 85/bbl
Current Account Balance (CA)	-24.7	23.9	-38.8	-67.1	-36.8
CA as % of GDP	-0.9%	0.9%	-1.2%	-2.0%	-1.0%
Trade Balance	-158	-102	-189	-265	-239
Exports	320	296	429	456	415
Imports	478	398	619	721	654
Capital Account	83	64	86	59	49
FDI (Foreign Direct Inv)	43	44	39	28	26
FPI (Foreign Portfolio Inv)	1	36	-17	-5	12
Balance of Payments (BOP)	59.5	87.3	47.5	-9.1	12.2

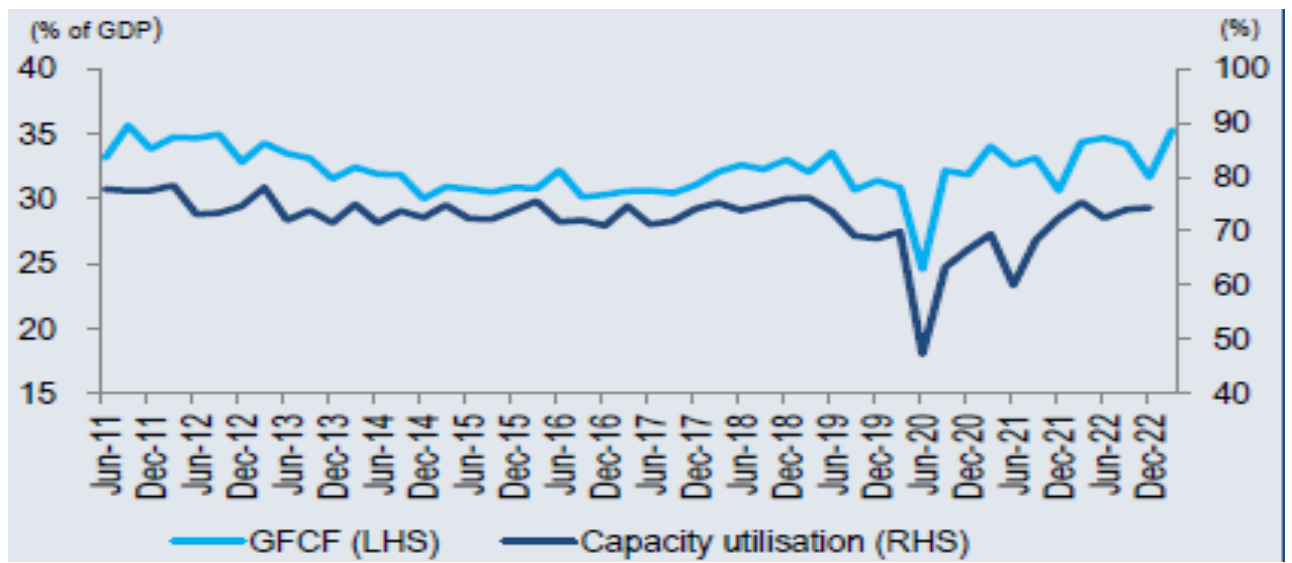
Source: RBI, Kotak Securities

- Current account deficit (CAD) narrowed to 0.2% in Q4 FY23, bringing the full FY23 CAD to 2% (vs earlier expectations of 3% when oil was elevated).
- Balance of payments expected to turn positive in FY24. India's forex reserves have picked up to near \$600 bln mark again.
- Rupee has appreciated and been an outperformer within the Asian pack over the past quarter.

Capex cycle in India in recovery mode; helping industrials / capital goods sector to outperform

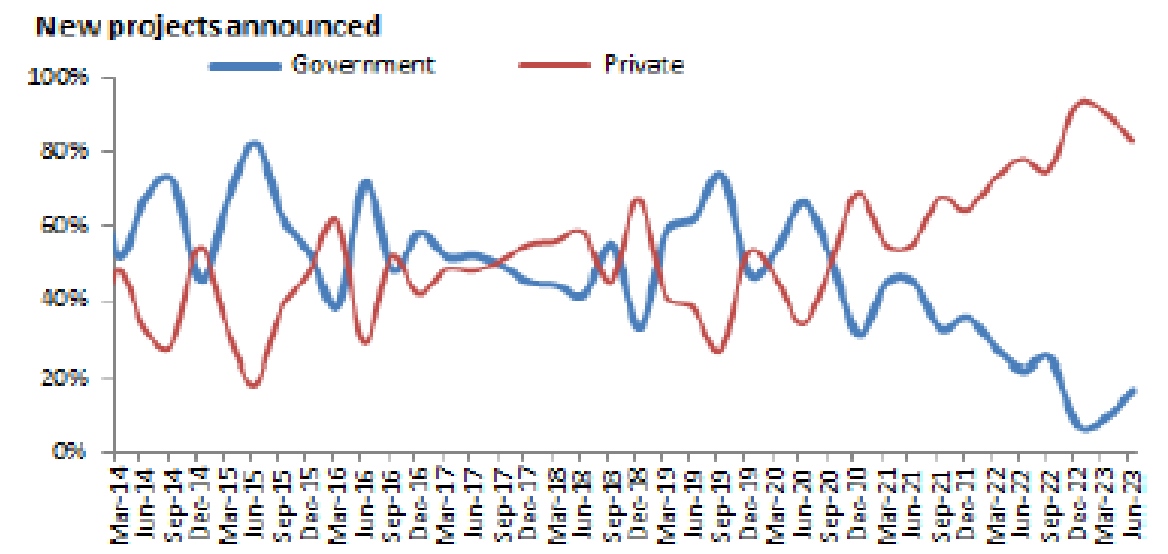


GFCF* at a decadal high & sustained capacity utilization

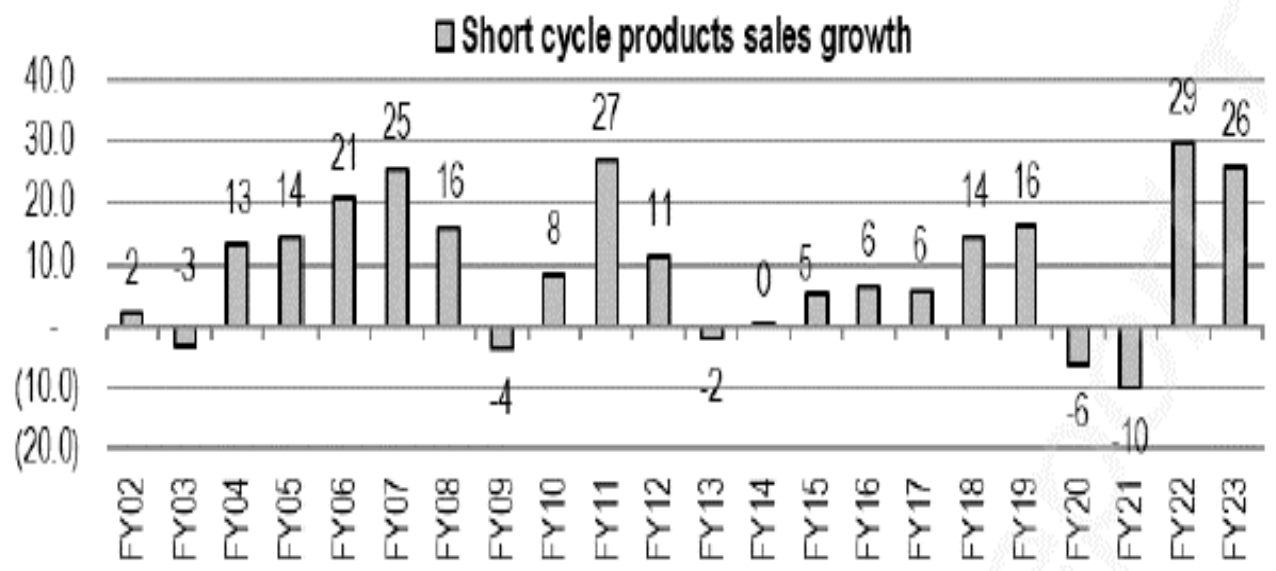


Share of Pvt Sector in New projects has gone up

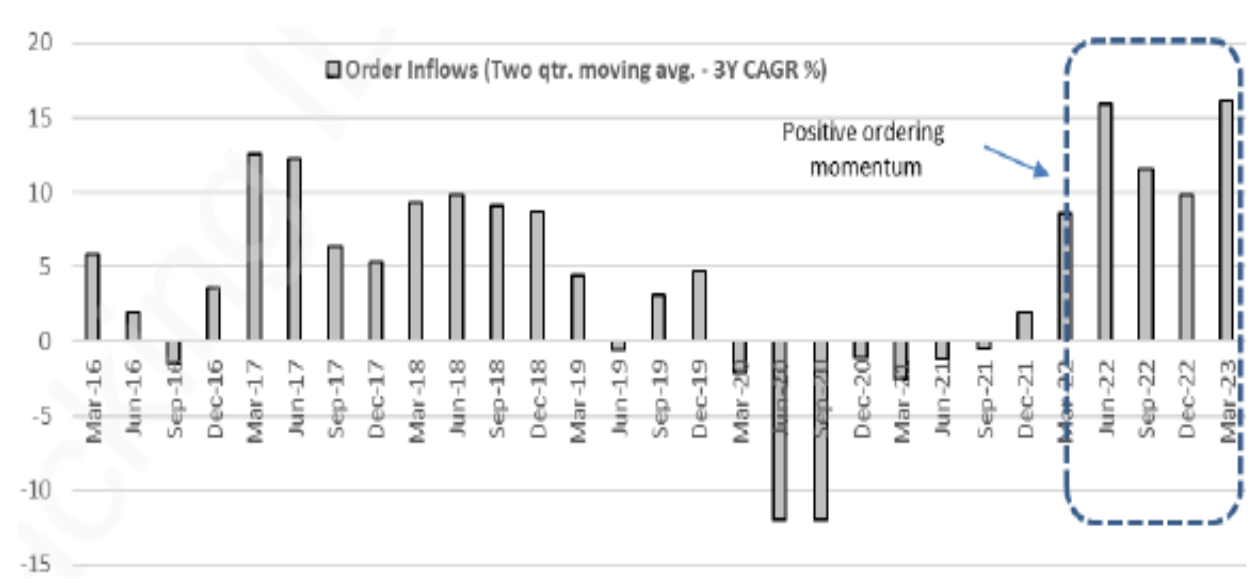
LIFE GOALS. DONE.



Short Cycle product sales growth has picked up



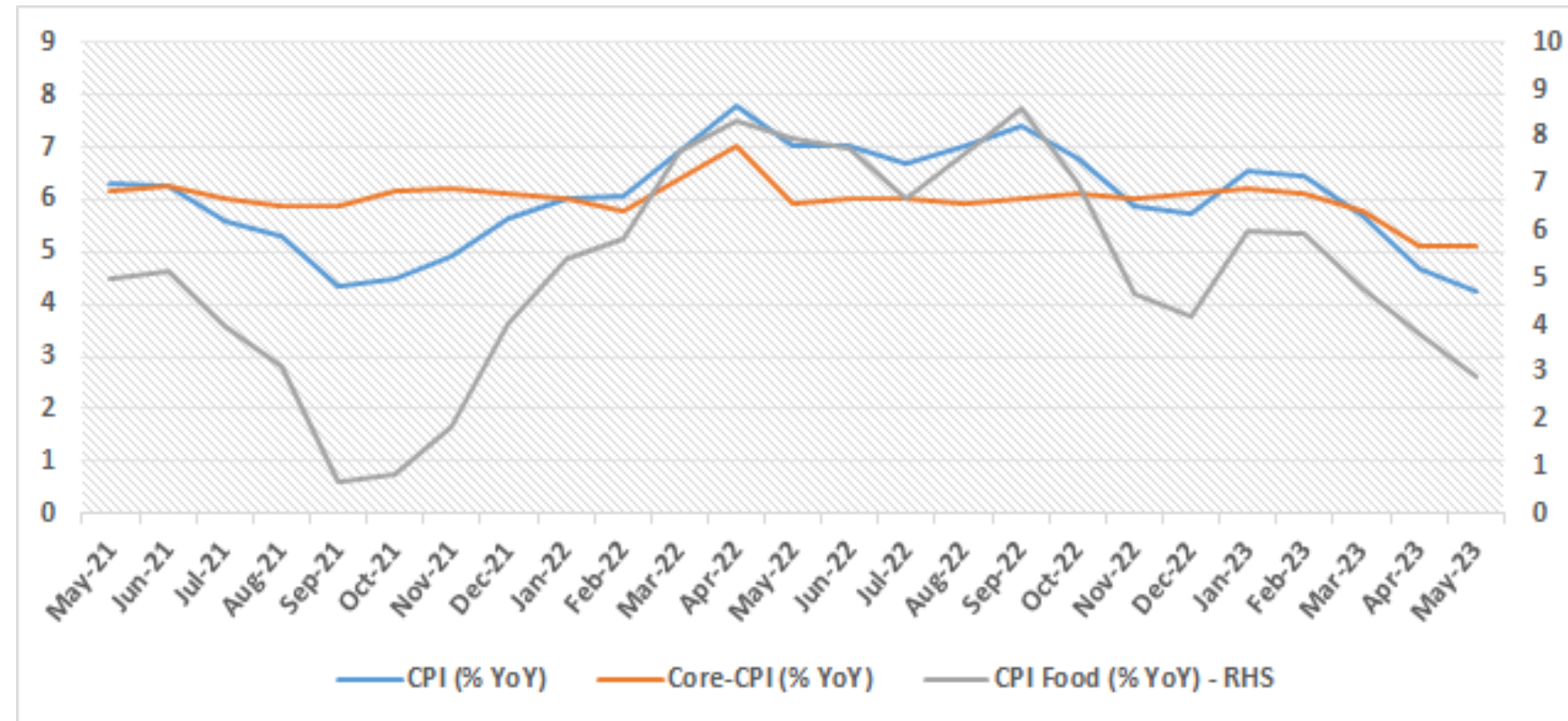
Order inflows momentum has picked up



Source: CMIE, Nirmal Bang, Philip Capital, Credit Suisse. *GFCF = Gross Fixed Capital Formation (Investments)

India inflation has moderated and at a comfortable level presently

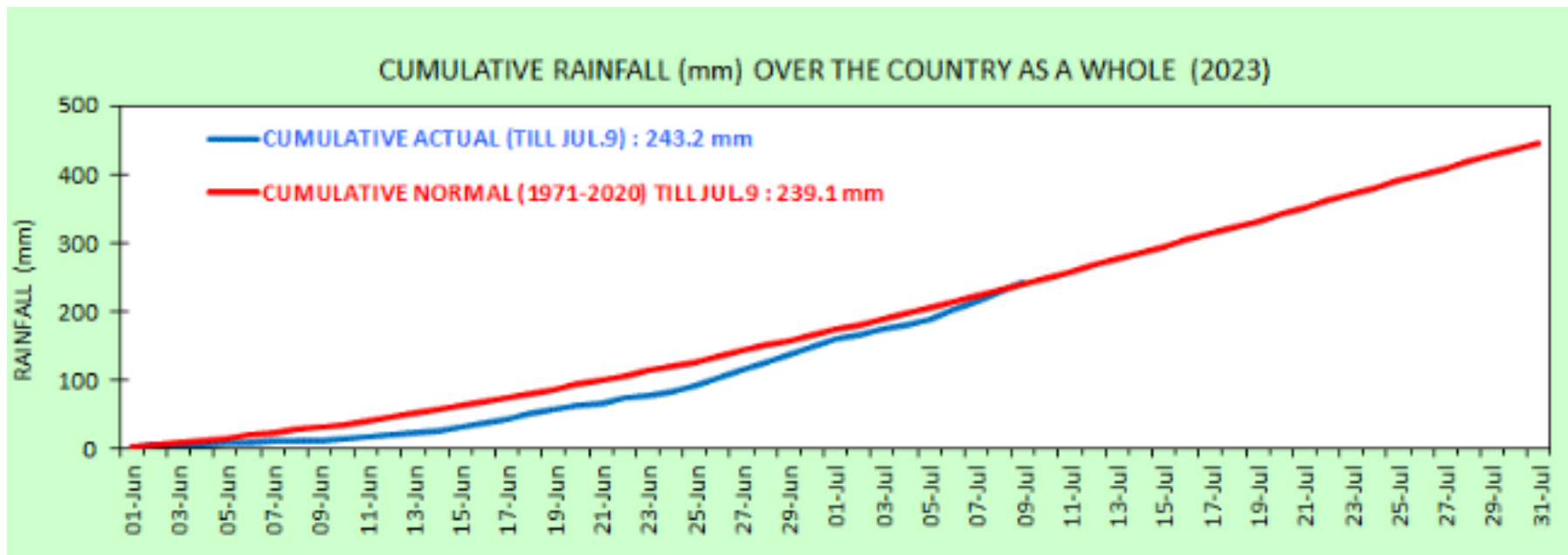
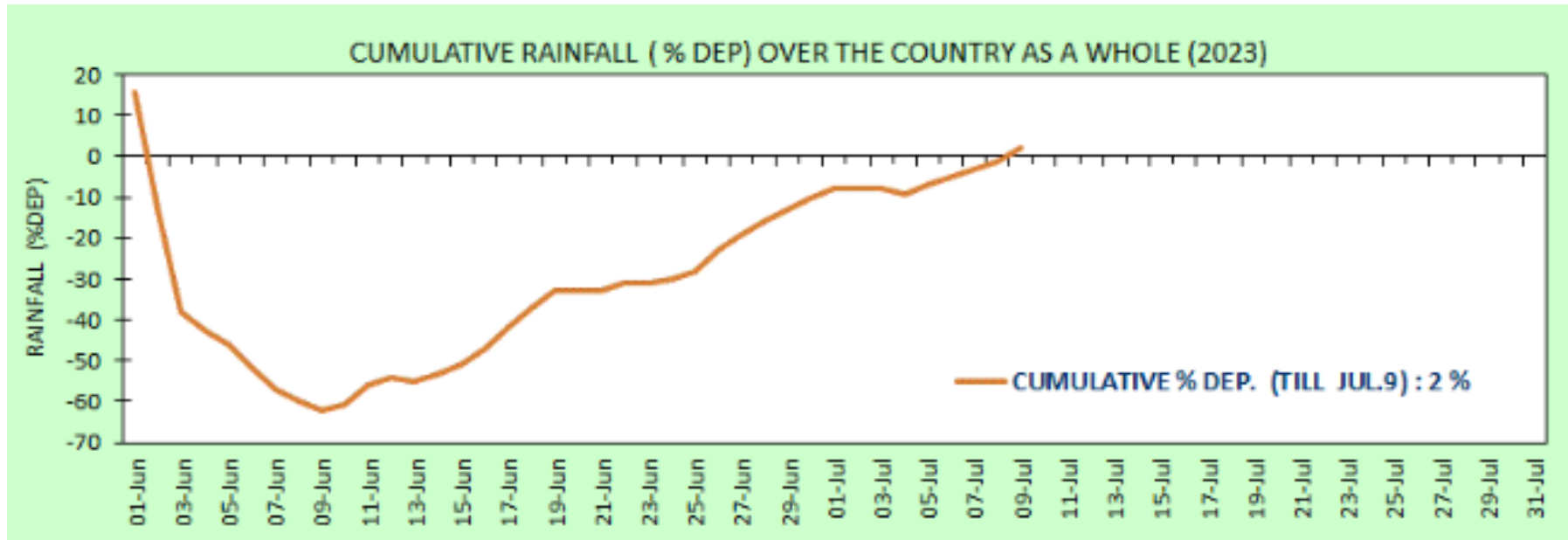
India Consumer Inflation Trend (% YoY)



Source: Bloomberg

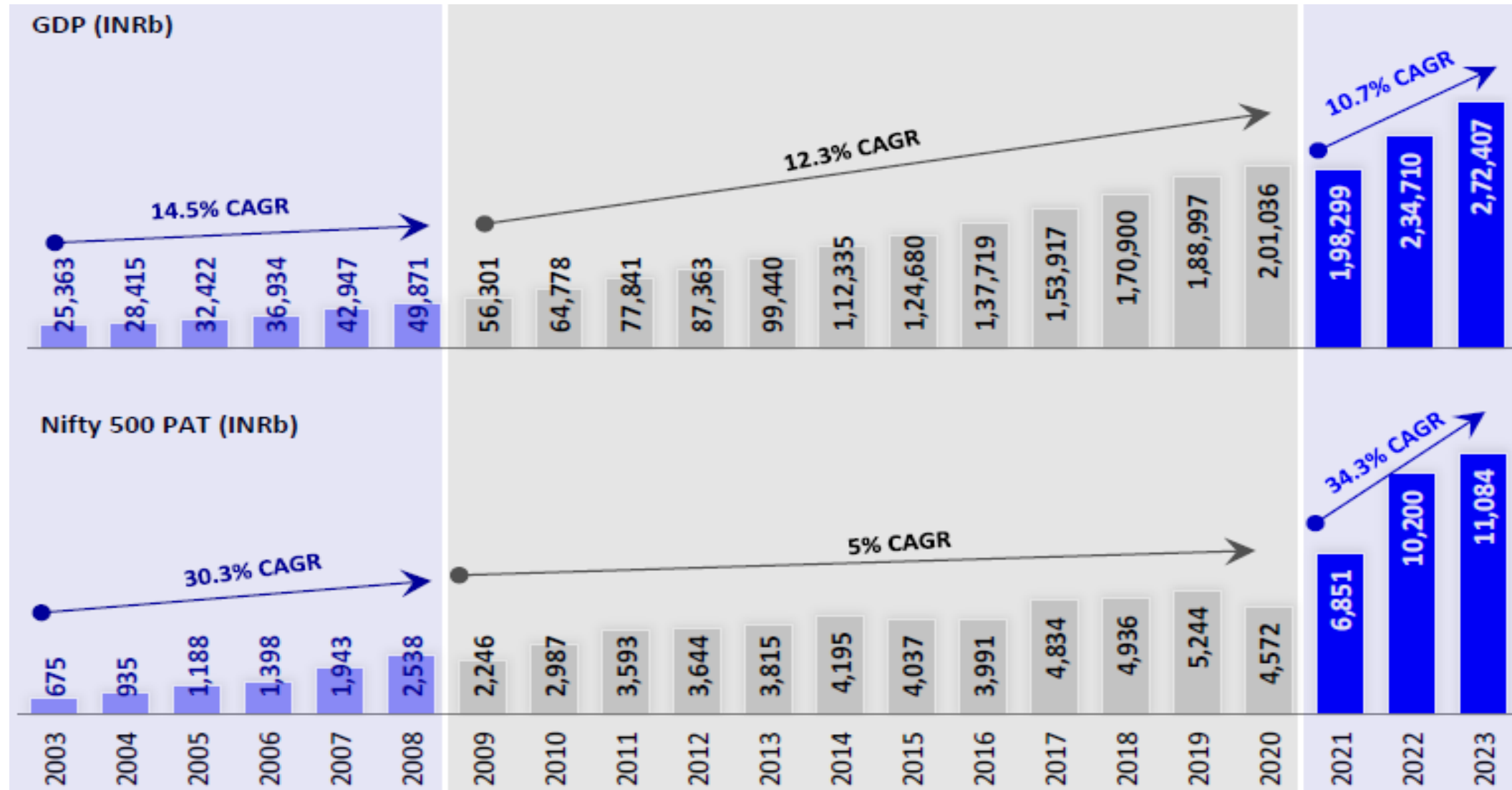
- In India, headline consumer inflation has moderated from a high of 7.8% in April 2022 to 4.3% in May 2023— primarily on the back of sharp fall in food prices.
- Core inflation (ex food & fuel) has also moderated to 5.1%.
- In its June 2023 monetary policy meeting, RBI forecasts headline CPI at 5.1% in FY24. Monsoon will be an important factor to watch out for.

Monsoon in India started on a poor note due to El Nino concerns, but recently has managed to cover most of the deficiency



- Monsoon season has progressed well recently, and managed to cover the earlier deficiency to a large extent.
- Month of July is an important month for crop sowing, so the progress of monsoon in July is important.

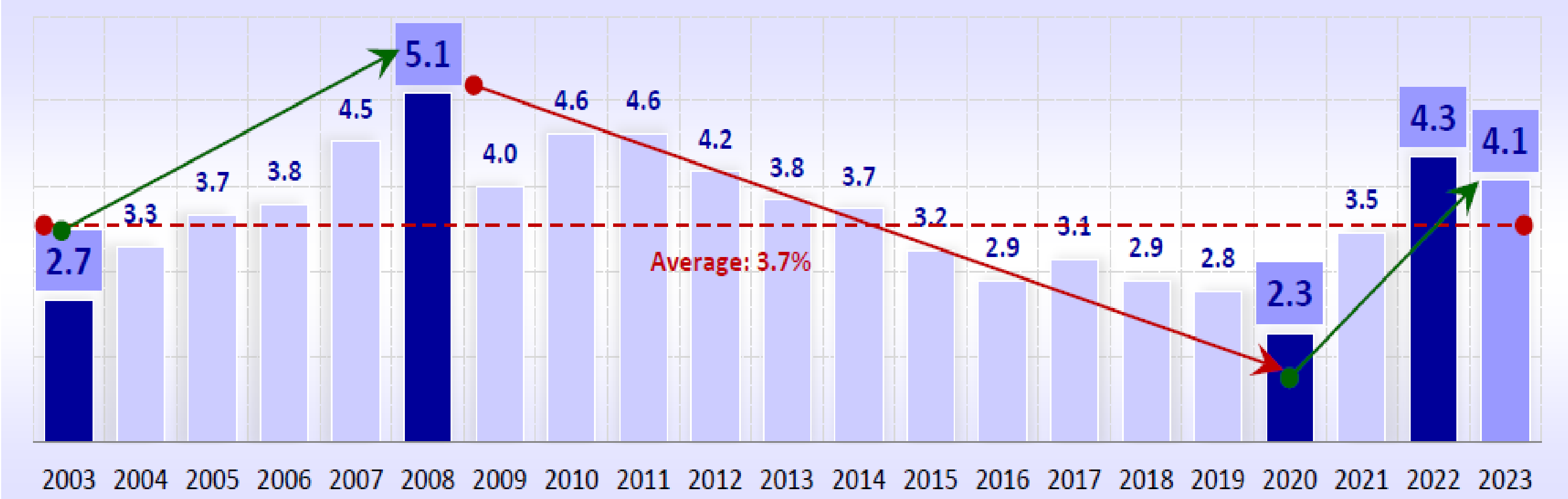
Since the Covid pandemic, India's corporate earnings have grown at a significantly faster pace than GDP



- The positive corporate earnings surprise (even during pandemic) has helped Indian markets to outperform, along with strong liquidity.

India Corporate Profit to GDP ratio is picking up again

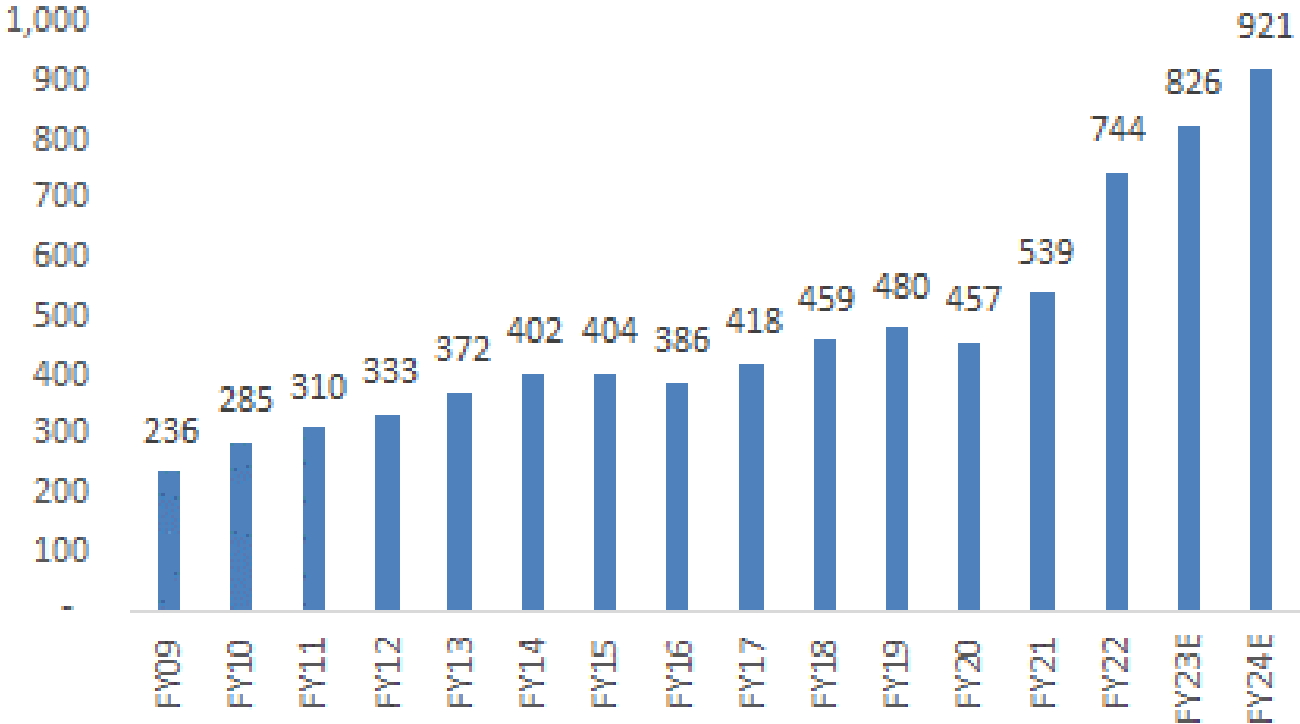
Nifty 500 index- Corporate Profit to GDP Ratio – Fiscal year wise



Source: Motilal Oswal

Corporate earnings growth in India expected at ~12% in FY24

Nifty EPS Trend



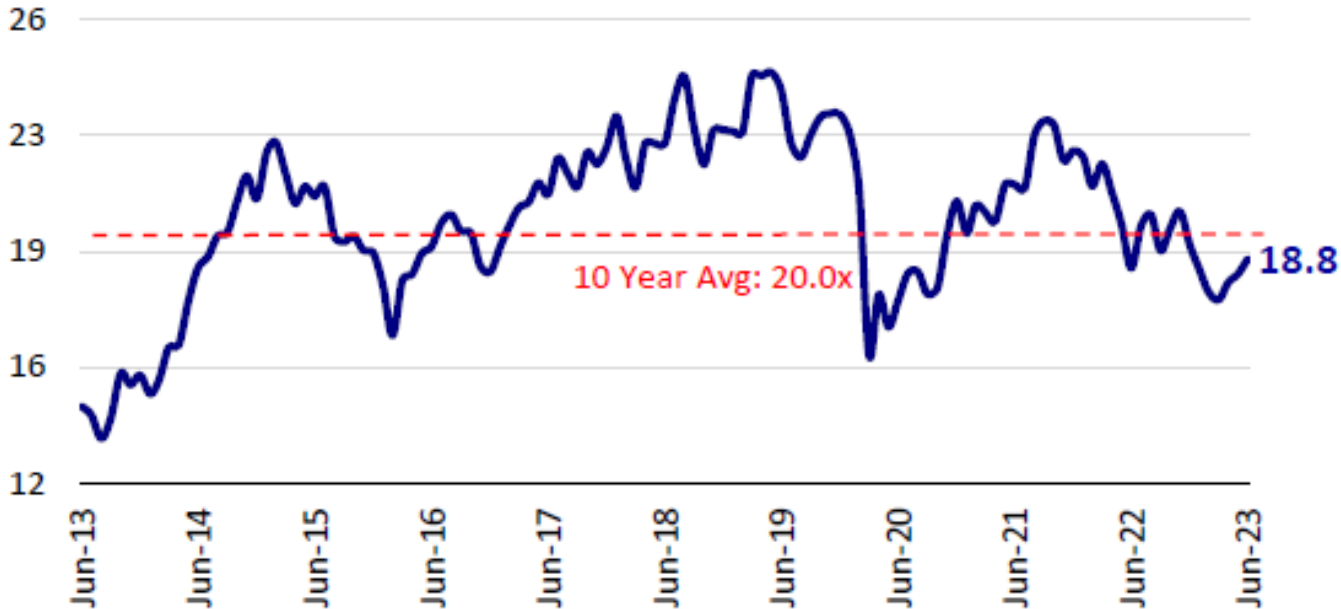
Source: Bajaj Allianz Life Research Estimates

- Nifty aggregate Profit After Tax (PAT) has almost doubled from Rs. 3.3 trillion in FY20 to Rs. 6.1 trillion in FY23 .
- 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 grew by 11% in FY23 and expected to grow 12% in FY24.

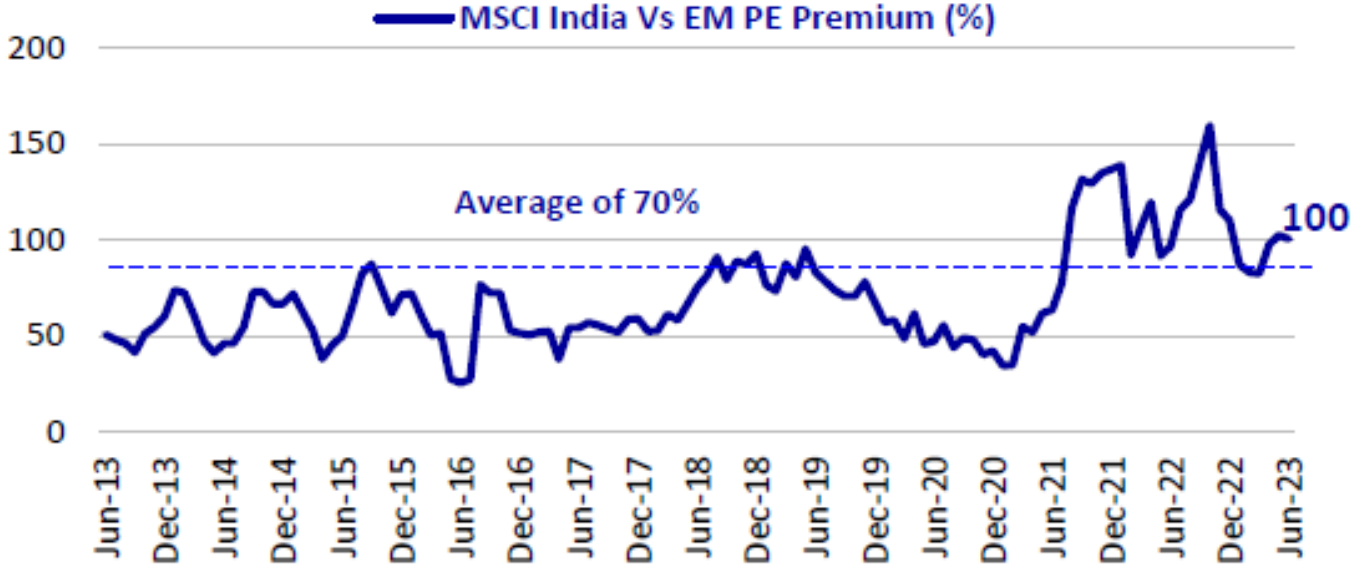
India market valuations is now in neutral zone (near long term average); valuation premium to emerging markets (EM) is a bit above long-term average



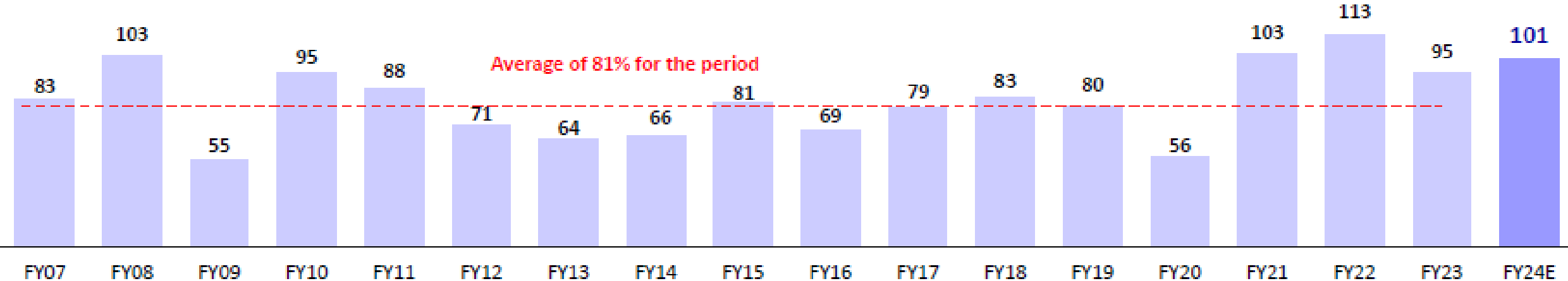
Nifty 1 Year Fwd Consensus P/E Ratio



India P/E Premium to EM



India Market Cap to GDP Trend (in %)



Source: Bloomberg, Motilal Oswal

FPI equity flows have picked up in FYTD 24, while DII flows have slowed down

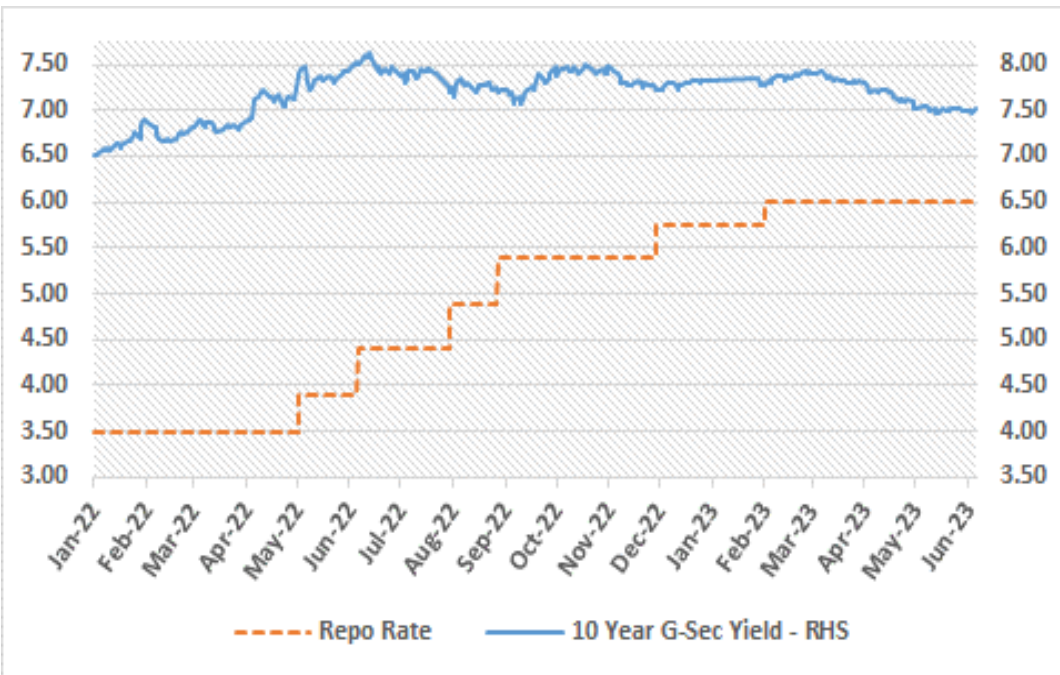
Source: NSDL, Axis Capital	Rs in Crore	
Year	FPIs	DIIs
FY2008	52,572	47,794
FY2009	-48,250	60,040
FY2010	1,10,752	24,211
FY2011	1,10,121	-18,709
FY2012	43,738	-5,347
FY2013	1,40,032	-69,069
FY2014	79,709	-54,161
FY2015	1,11,445	-21,446
FY2016	-14,171	80,416
FY2017	60,196	30,787
FY2018	21,074	1,13,258
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	-35,268	2,56,128
FY2024 (As of June 2023)	1,12,101	244

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	14,944	30,549
30 April 2023	15,733	2,217
31 May 2023	41,207	-3,306
30 June 2023	55,161	1,334

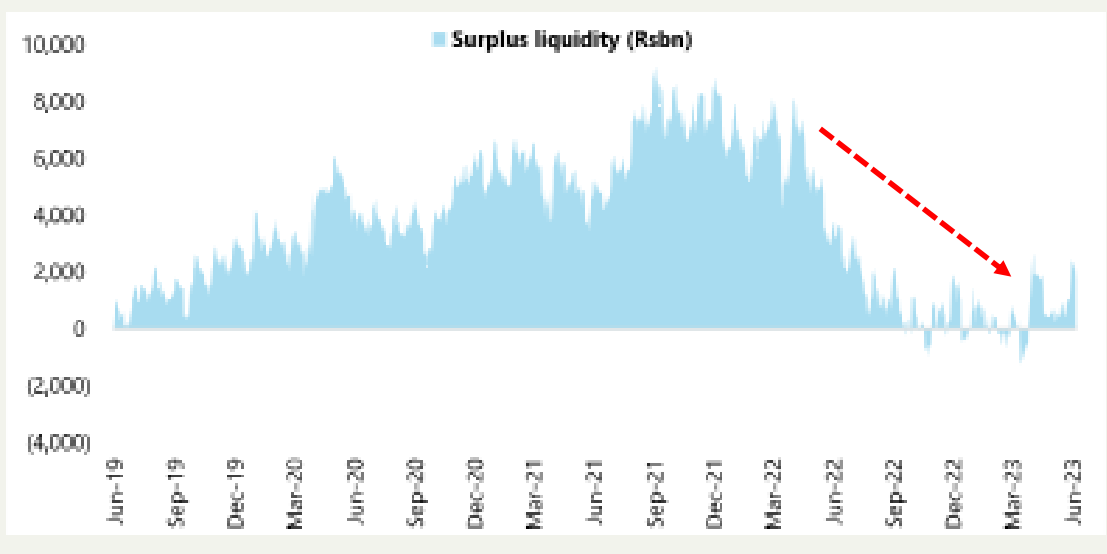
- FPI equity flows have picked up considerably in FYTD 24, after registering outflows in FY 23. This has helped equity markets to outperform over past few months.
- Meanwhile, DII equity flows have slowed down significantly in FYTD 24 (esp lumpsum flows), after registering a record high inflow in FY23.

RBI goes in for a pause in its rate hike cycle

India 10 Yr Yield Vs Repo Rate



India Banking System Liquidity (Rs in billion)



- RBI delivered a pause in the April policy review & maintained stance as – “withdrawal of accommodation”. Status quo maintained in June 2023 policy review.
- 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 year.
- Bond yields had softened in India earlier on the back of fall in global bond yields & crude oil prices & pause in rate hike cycle. However, yields have hardened recently due to hawkish US Fed commentary and rise in US bond yields.
- We believe that we are at the end of the rate hike cycle in India and will be on an extended pause.
- We are positive on medium term part of yield curve.

Source: Bloomberg, RBI

Thank You

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