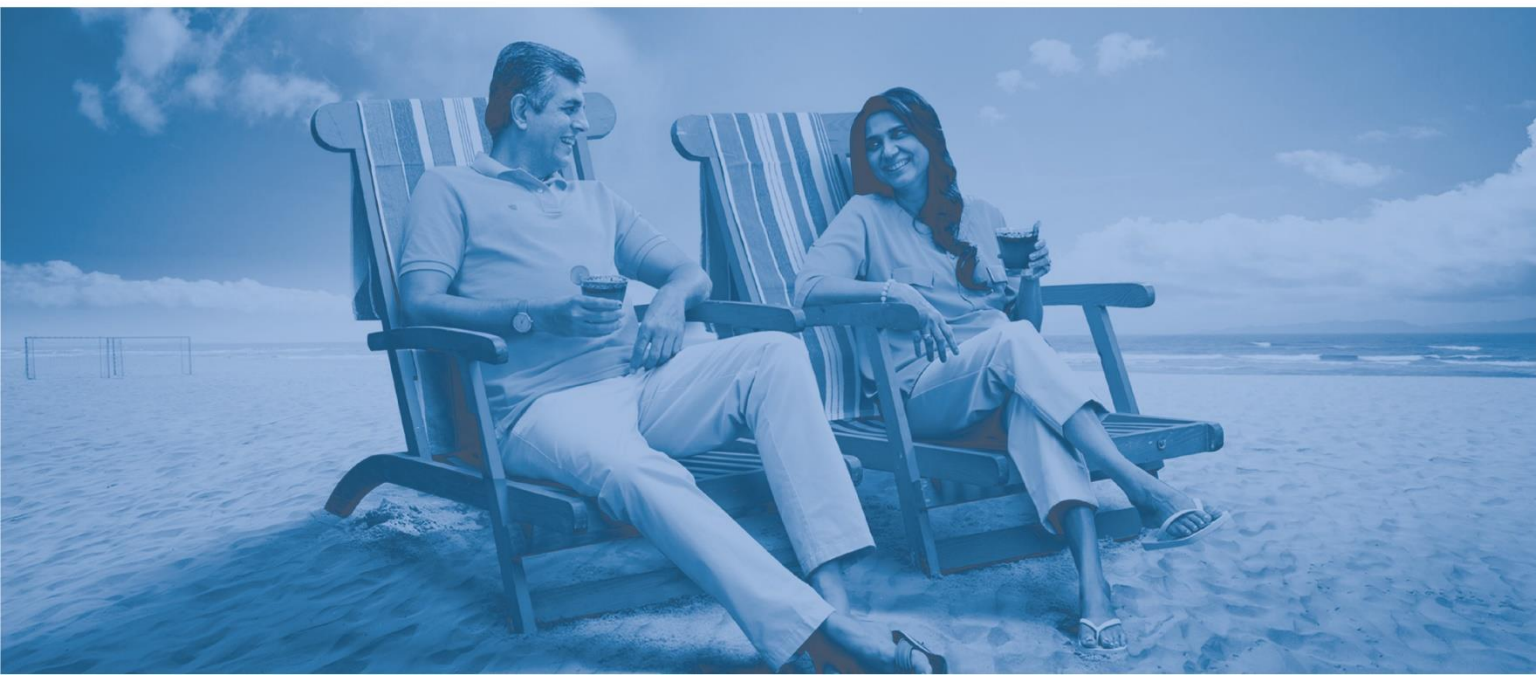




CIO Connect – “Market flows & Liquidity Update”

February 2024



Key themes for 2023

Global inflation starts to moderate from multi-decade highs

Global central banks nearing the end of rate hike cycle. Rate cuts expected by certain major central banks in 2024

Global economic slowdown not as much as expected. U.S. economy surprises on the upside

India juggernaut rolls on; among the fastest growing major economies

Global equity markets deliver healthy returns in CY23; India also fares well

Geo-political tensions; but crude oil prices remain in control

India Growth Story: Why India stands relatively better placed?

India's global GDP ranking has been rising over the years

GDP at current prices (in USD Billions)								
2005			2023			2027 P		
Rank	Country	GDP	Rank	Country	GDP	Rank	Country	GDP
1	United States	13039	1	United States	26950	1	United States	31429
2	Japan	4831	2	China	17701	2	China	22291
3	Germany	2848	3	Germany	4430	3	India	5427
4	United Kingdom	2548	4	Japan	4231	4	Germany	5328
5	China	2290	5	India	3732	5	Japan	4873
6	France	2198	6	United Kingdom	3332	6	United Kingdom	4334
7	Italy	1859	7	France	3049	7	France	3537
8	Canada	1174	8	Italy	2186	8	Brazil	2632
9	Spain	1154	9	Brazil	2127	9	Canada	2584
10	Korea	935	10	Canada	2118	10	Italy	2509
11	Mexico	918	11	Russia	1862	11	Mexico	2260
12	Brazil	892	12	Mexico	1811	12	Korea	2043
13	India	834	13	Korea	1709	13	Russia	1970
14	Russia	818	14	Australia	1688	14	Australia	1961
15	Australia	736	15	Spain	1582	15	Indonesia	1950

Source: IMF (International Monetary Fund)

India has grown from the 13th largest economy in 2005 to the 5th largest economy in 2023

- IMF projects that India's GDP will cross Germany & Japan in 2027 (to become the third largest economy)

India among the fastest growing major economies globally

World Bank GDP Growth Forecast Trend (% YoY)

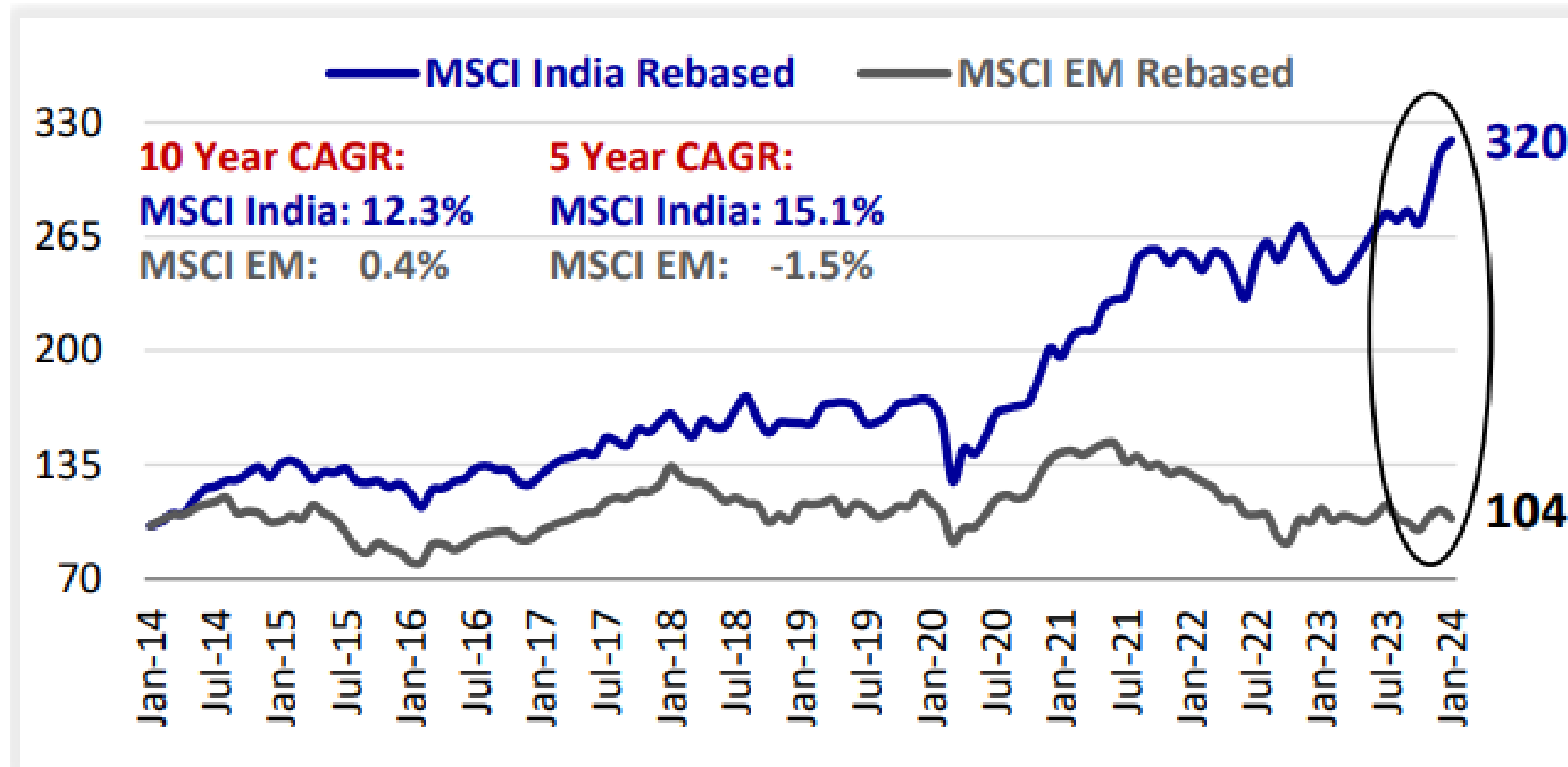
	2021	2022	2023e	2024f	2025f
World	6.2	3.0	2.6	2.4	2.7
Advanced economies	5.5	2.5	1.5	1.2	1.6
United States	5.8	1.9	2.5	1.6	1.7
Euro area	5.9	3.4	0.4	0.7	1.6
Japan	2.6	1.0	1.8	0.9	0.8
Emerging market and developing economies	7.0	3.7	4.0	3.9	4.0
East Asia and Pacific	7.5	3.4	5.1	4.5	4.4
China	8.4	3.0	5.2	4.5	4.3
Indonesia	3.7	5.3	5.0	4.9	4.9
Thailand	1.5	2.6	2.5	3.2	3.1
Europe and Central Asia	7.1	1.2	2.7	2.4	2.7
Russian Federation	5.6	-2.1	2.6	1.3	0.9
Türkiye	11.4	5.5	4.2	3.1	3.9
Poland	6.9	5.1	0.5	2.6	3.4
Latin America and the Caribbean	7.2	3.9	2.2	2.3	2.5
Brazil	5.0	2.9	3.1	1.5	2.2
Mexico	5.8	3.9	3.6	2.6	2.1
Argentina	10.7	5.0	-2.5	2.7	3.2
Middle East and North Africa	3.8	5.8	1.9	3.5	3.5
Saudi Arabia	3.9	8.7	-0.5	4.1	4.2
Iran, Islamic Rep. ²	4.7	3.8	4.2	3.7	3.2
Egypt, Arab Rep. ²	3.3	6.6	3.8	3.5	3.9
South Asia	8.3	5.9	5.7	5.6	5.9
India ²	9.1	7.2	6.3	6.4	6.5
Bangladesh ²	6.9	7.1	6.0	5.6	5.8
Pakistan ²	5.8	6.2	-0.2	1.7	2.4

- World economic growth slowdown not as substantial as expected earlier.
- US growth has been upgraded for 2023.
- Europe (esp. Germany) to see a sharper slowdown. China growth downgraded to 5.2% in 2023 and 4.5% in 2024.
- **India to see healthy growth of ~6.3% in FY24 & FY25, as per World Bank and remain one of the fastest growing major economies.**
- **India's official statistical body projects a stronger GDP growth of 7.3% in FY24**

* For India fiscal year being considered. 2023 = FY24 & 2024= FY25
Source: World Bank Global Economic Prospects, Jan 2024

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



Source: Bloomberg, Motilal Oswal

- MSCI Emerging Markets (EM) index has delivered flat return over the past 10 yrs, while MSCI India index has risen ~3x over the same period.

Indian equity market tops the global charts over the medium to long term

Performance of International Indices (ended Jan 2024)							
Index Name	Country / Region	FYTD (10 M)	1 Yr.	3 Yrs.	5 Yrs.	7 Yrs.	10 Yrs.
Nifty 50	India	25.1%	23.1%	16.8%	14.9%	14.2%	13.6%
TSEC TAIEX	Taiwan	12.7%	15.5%	5.7%	12.6%	9.5%	7.8%
S&P 500	United States	17.9%	20.6%	9.3%	12.4%	11.4%	10.5%
Nikkei 225 Average	Japan	29.4%	32.3%	9.5%	11.8%	9.6%	9.3%
MSCI World	World	14.8%	16.2%	6.4%	9.6%	8.7%	7.2%
CAC 40	France	4.6%	8.1%	12.3%	8.9%	7.1%	6.3%
FSE DAX TR	Germany	8.2%	11.8%	8.0%	8.6%	5.6%	6.1%
BOVESPA TR	Brazil	25.4%	13.8%	3.5%	5.6%	10.2%	10.4%
S&P/ASX 200	Australia	7.0%	2.7%	5.1%	5.5%	4.6%	4.0%
KOSPI	South Korea	0.8%	1.9%	-5.7%	2.5%	2.7%	2.6%
JSX Composite	Indonesia	5.9%	4.9%	7.1%	2.0%	4.5%	5.0%
FTSE 100	United Kingdom	0.0%	-2.0%	6.0%	1.8%	1.0%	1.6%
FTSE SET All Share	Thailand	0.4%	-2.2%	4.6%	1.8%	1.1%	1.8%
Shanghai Composite	China	-14.8%	-14.7%	-7.1%	1.5%	-1.8%	3.2%
FTSE/SGX STI	Singapore	-3.2%	-6.7%	2.8%	-0.2%	0.5%	0.4%
MSCI AC Asia Ex Japan	Asia Ex Japan	-5.9%	-10.8%	-11.6%	-1.1%	1.5%	1.5%
MSCI EM	Emerging Markets	-1.5%	-6.5%	-9.8%	-1.5%	1.0%	0.4%
FTSE Bursa Malaysia KLCI	Malaysia	6.4%	0.9%	-1.1%	-2.1%	-1.4%	-1.7%
Hang Seng	Hong Kong	-24.1%	-29.8%	-18.2%	-11.1%	-5.7%	-3.5%

- Over the medium - long term (3, 5, 7 & 10 years) Indian equity market has been among the top performing major markets, globally.

Source : Bloomberg. Returns are in local currency of index, and returns greater than 1 year are CAGR Date Sorted on the basis of 5 Yr. return in descending order

India has seen highest weight gain in MSCI Emerging market index due to its outperformance

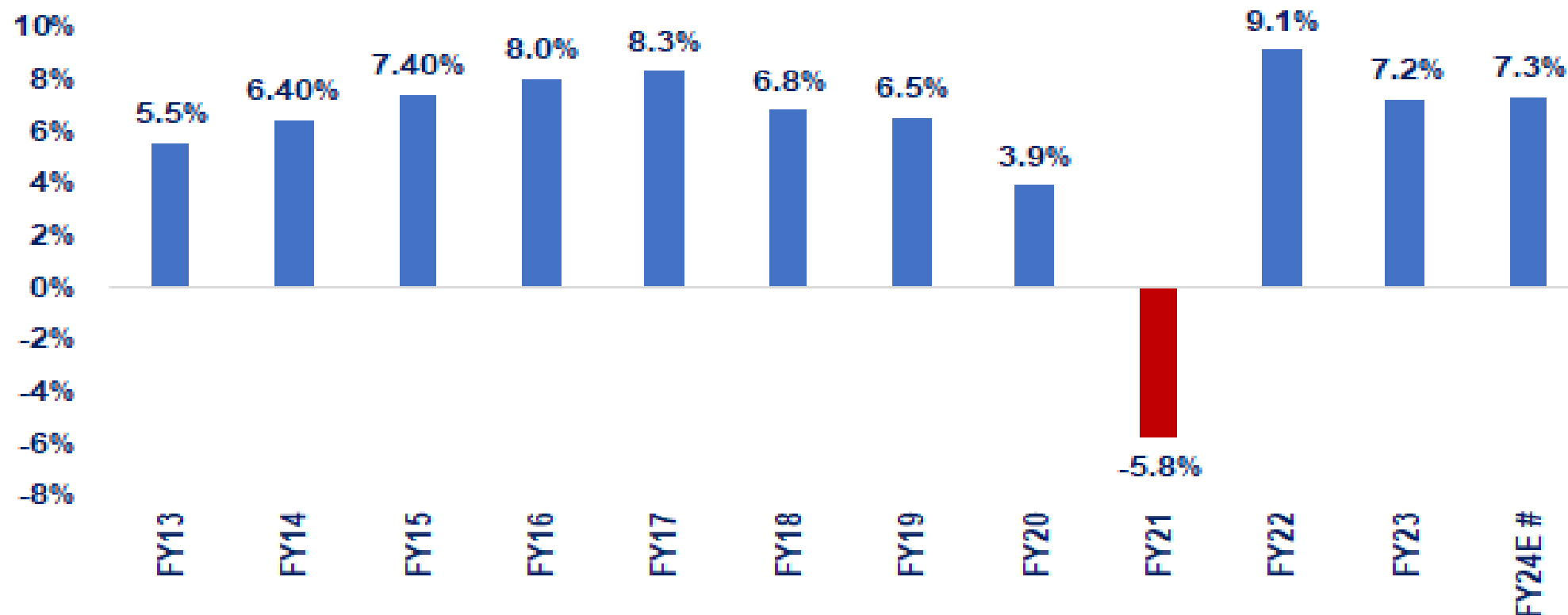
Change in Weights of Key Countries in MSCI EM Index				
Country	Weight in MSCI EM index Dec 2020 (%)	Weight in MSCI EM index Dec 2022 (%)	Weight in MSCI EM index Dec 2023 (%)	Change in weight over past 3 Yrs (in %)
China	38.6	31.6	26.1	-12.5
India	9.2	14.4	16.7	7.5
Taiwan	12.6	13.7	15.8	3.2
South Korea	13.4	11.3	12.9	-0.5
Brazil	5.1	5.2	5.8	0.7

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

- China has seen the biggest drop of weightage of 12.5% in the MSCI EM index over the past 3 years, due to its underperformance. Weight also continued to fall in CY2023
- India has seen the highest weight gain of 7.5% due to its outperformance. Weight also increased during CY2023.

India GDP expected to register robust growth of 7.3% in FY24

India Fiscal Year-Wise GDP Growth (% YoY)



Source: MOSPI. # Advance estimate for FY24, RBI

- India's GDP expanded at a robust pace of 7.6% in Q2FY24, exceeding market expectations of 6.8%, compared to 7.8% growth in Q1FY24.
- The GDP growth was driven by improvement in sectors including government consumption and investment.
- RBI has recently upgraded its GDP growth forecast to 7.3% in FY24 (following growth projections as per NSO's advanced estimates), while World Bank and IMF forecast stands at 6.3%.
- Despite the global headwinds, India is amongst the fastest growing major economies.

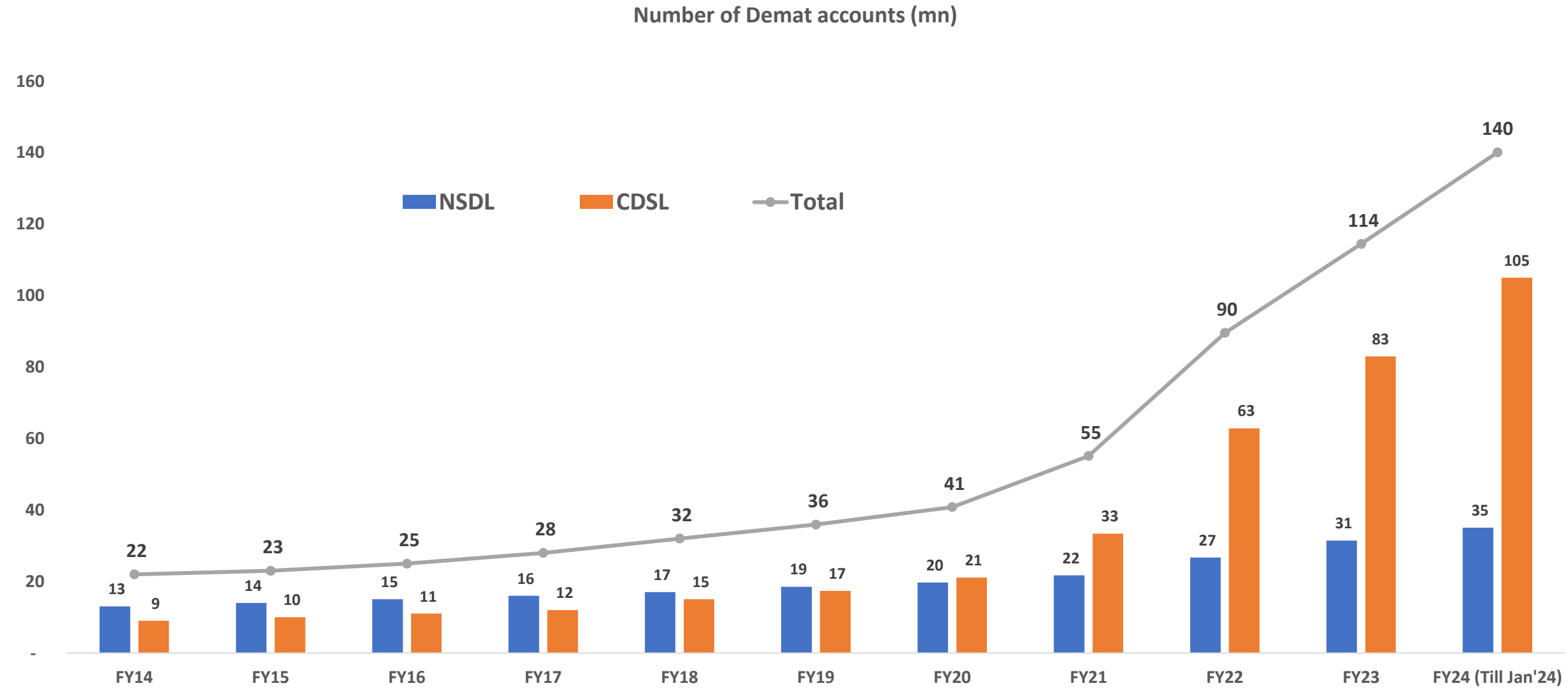
FPI equity flows have picked up in FYTD 24, while DII flows have slowed down

Source: NSDL, Axis Capital	Rs in Crore	
Year	FPIs	DIIs
FY08	52,572	47,794
FY09	-48,250	60,040
FY10	1,10,752	24,211
FY11	1,10,121	-18,709
FY12	43,738	-5,347
FY13	1,40,032	-69,069
FY14	79,709	-54,161
FY15	1,11,445	-21,446
FY16	-14,171	80,416
FY17	60,196	30,787
FY18	21,074	1,13,258
FY19	-90	72,115
FY20	6,151	1,29,301
FY21	2,74,897	-1,34,056
FY22	-1,39,434	2,21,389
FY23	-35,268	2,56,128
FY24 (As on Jan 2024)	1,70,948	1,49,491

Source: NSDL, Axis Capital	Rs in Crore	
Month-end	FPIs	DIIs
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	4,458
31 July 2023	33,994	-2,698
31 Aug 2023	14,295	25,017
30 Sep 2023	-18,894	20,313
31 October 2023	-22,113	28,254
30 November 2023	19,178	35,550
31 December 2023	58,498	12,942
31 January 2024	-26,111	26,744

- After registering continued outflows in FY22 & FY23. FPI equity flows have picked up significantly in FYTD 24 (up to Jan 2024),. This has helped equity markets to outperform over past few months.
- Meanwhile, DII equity flows slowed down in FYTD 24 (esp. April – July) after registering a record high inflow in FY23. DII flows picked up after Aug 2023, on the back strong inflows into mutual funds.

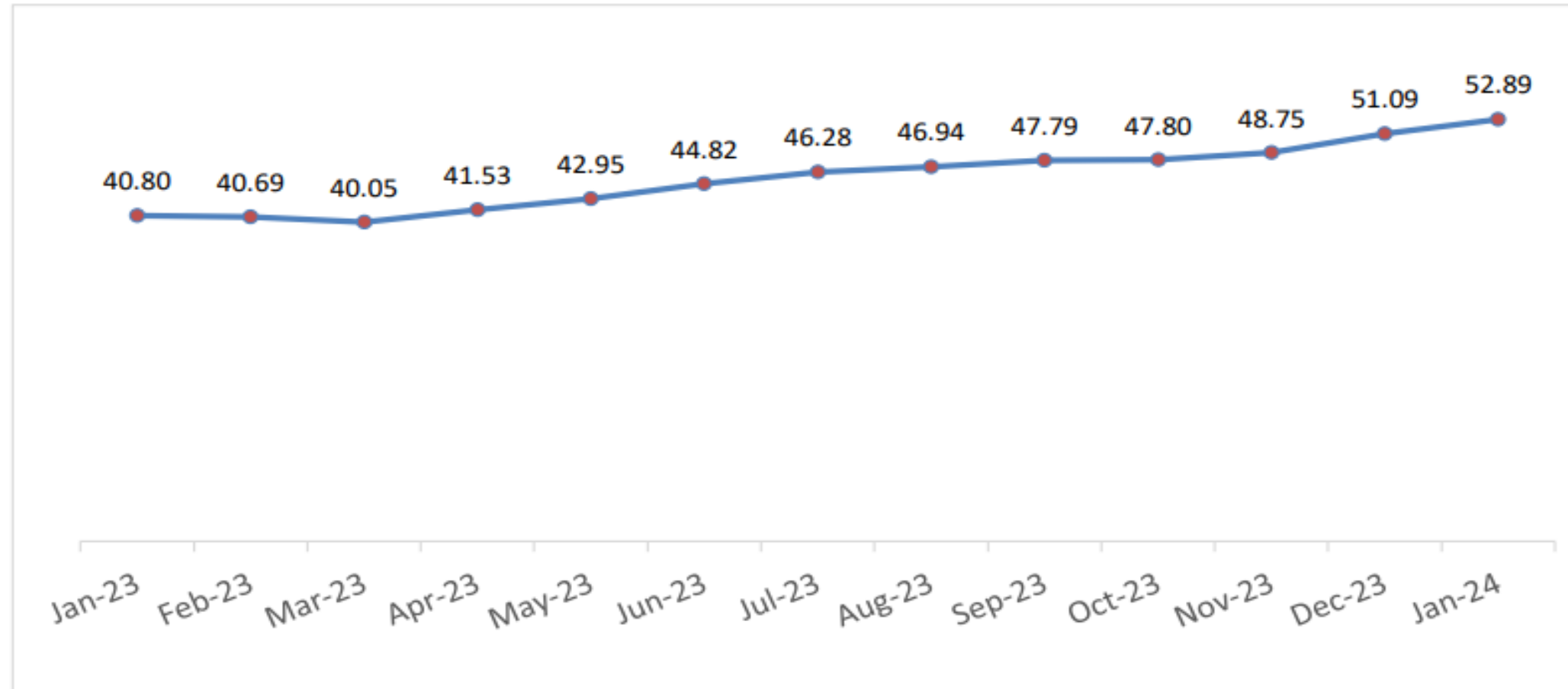
India has witnessed record demat accounts; crossing 14 cr. Mark



Source: NSDL, CDSL

India has witnessed record demat accounts; crossing 14 cr. Mark

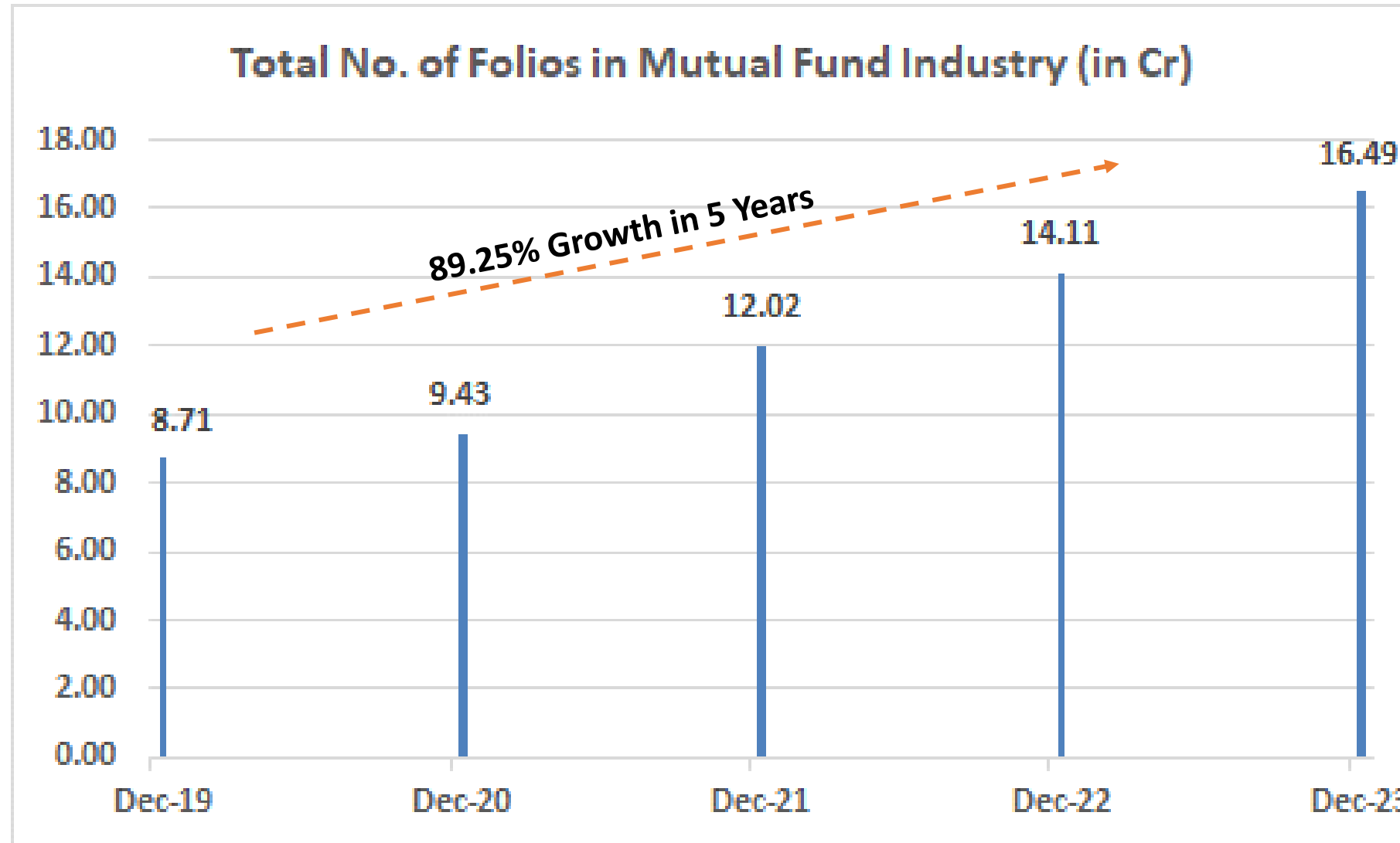
Total Assets (Rs. Trillion)



Source: AMFI

- Assets managed by the Indian mutual fund industry has increased from Rs. 40.80 trillion in January 2023 to Rs. 52.89 trillion in January 2024. That represents 29.62% increase in assets over January 2024.

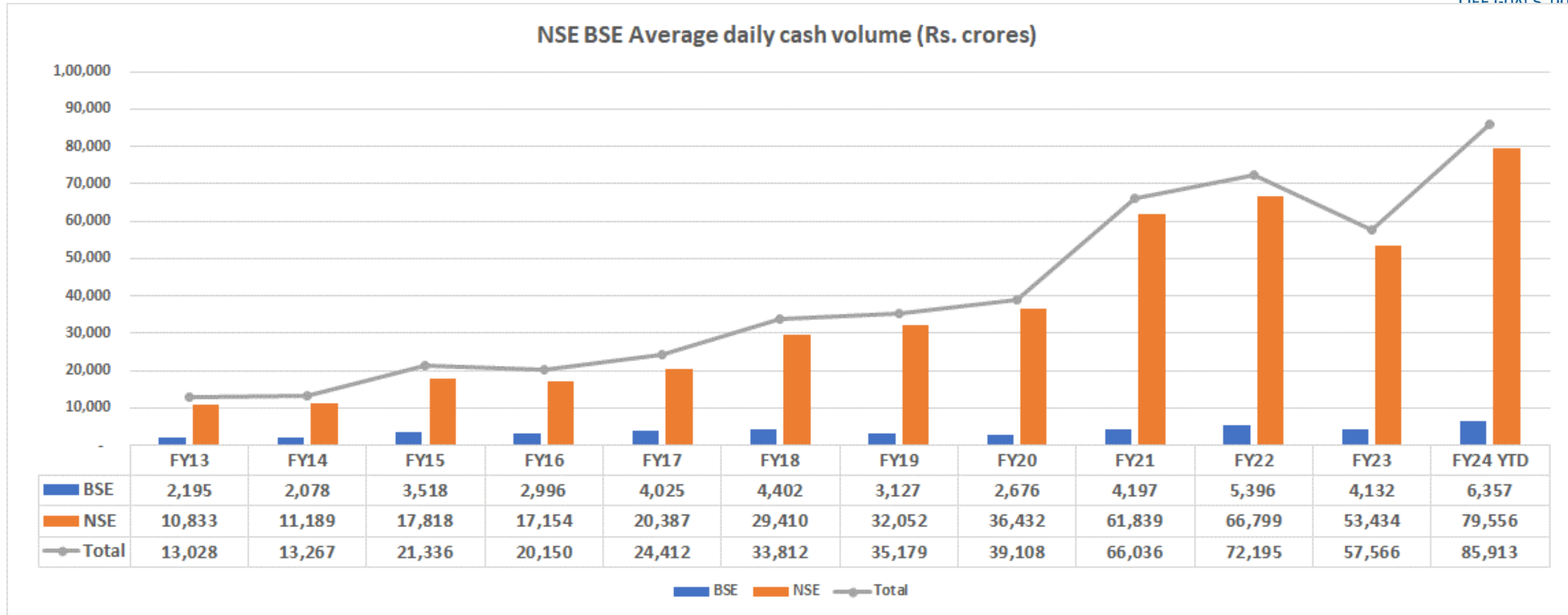
MFs have seen robust growth in number of folios



Source: AMFI

- The no. of folios in MF industry has seen much stronger growth.

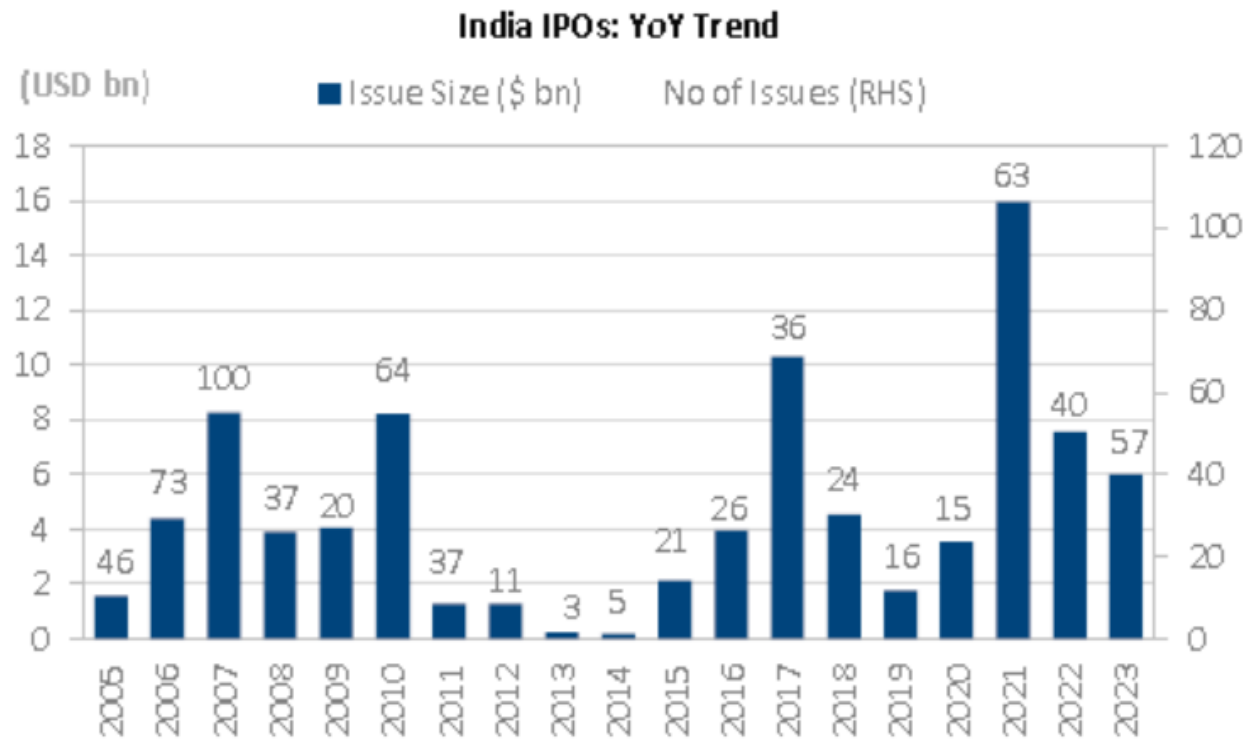
Average Daily Cash Volume significantly increased in FYTD 24



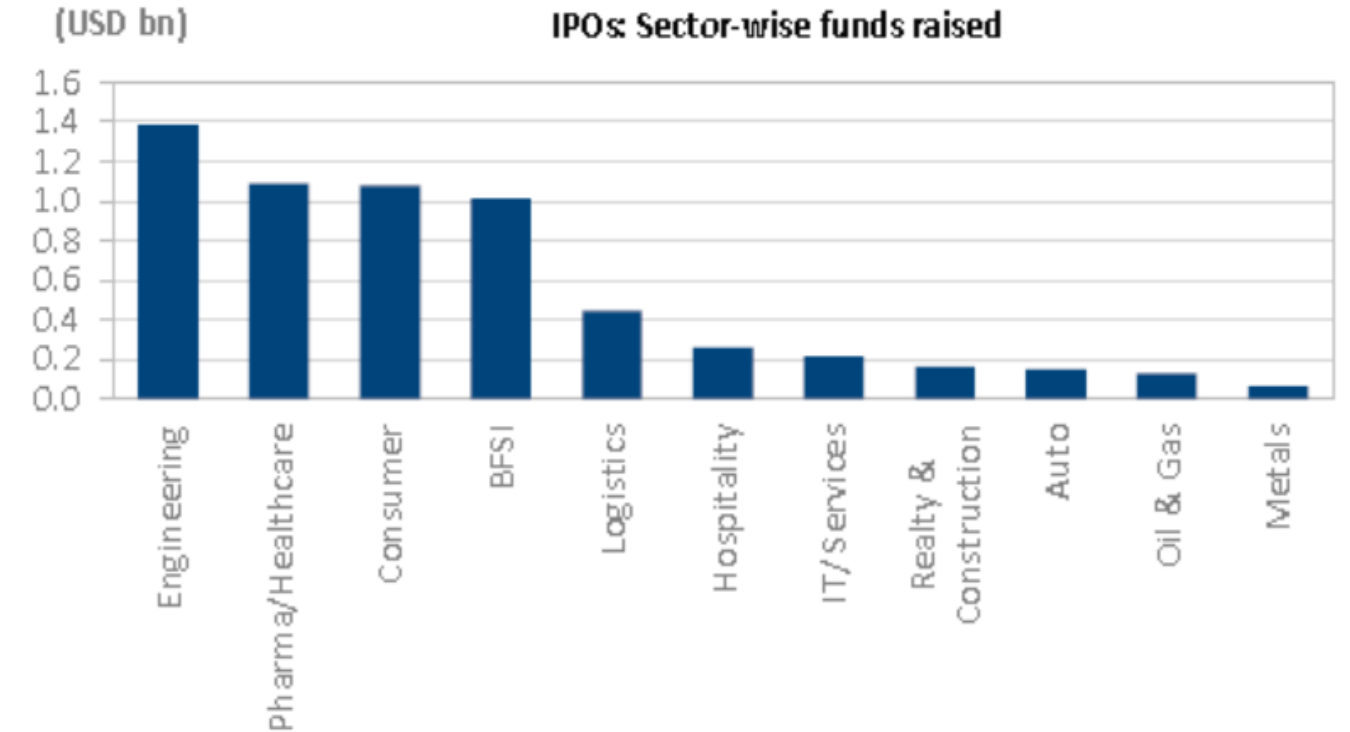
Source: Bloomberg

- The average daily cash volume in NSE & BSE has seen substantial surge, due to positive sentiments, strong continued flows & increased retail participation

IPO markets have been buoyant



Source: IIFL Alternative Research, Prime database



Source: IIFL Alternative Research, Prime database

- IPO markets have been buoyant since 2021.
- 160 companies launched their IPOs during 2021-23.
- This is similar to the number of IPOs during the 9-year period of 2012-2020.
- Most of these have become part of the relevant universe as their market capitalization is greater than 3,000cr.
- Engineering and Pharma/Healthcare were the sectoral leaders in terms of fund raise with each attributing close to ~US\$1.4bn and ~US\$1bn respectively. Mankind (~US\$524mn) and Concord Biotech (~US\$188mn) were prominent names.

Some of the prominent IPOs

Top Issues (Size)

Bloom	Name	USD mn
MANKIND	MANKIND	524
TATATECH	TATATECH	368
JSWINFRA	JSWINFRA	339
IREDA	IREDA	260
RRKABEL	RRKABEL	238
CELLO	CELLO	230
HONASA	HONASA	206
CONCORDB	CONCORDB	188
INOXINDI	INOXINDIA	177
SAMHI	SAMHI	166
SSKL	KALAMANDI	145
INDIASHL	INDIASHLTR	145
DOMS	DOMS	145
FEDFINA	FEDFINA	132
SBFC	SBFC	124

Bloom	Name	USD mn
HAPPYFOR	HAPPYFORC	122
MUTHOOTM	MUTHOOTM	116
TVSSCS	TVSSCS	107
JLHL	JLHL	105
AVALON	AVALON	105
BLUEJET	BLUEJET	102
ASKAUTOL	ASKAUTOLT	101
YATRA	YATRA	94
AZAD	AZAD	90
SIGNATUR	SIGNATURE	88
YATHARTH	YATHARTH	83
UDS	UDS	77
NETWEB	NETWEB	76
IKIO	IKIO	73
FLAIR	FLAIR	72

Top Issues (Size)

Bloom	Name	USD mn
PAYTM	PAYTM	2,473
ZOMATO	ZOMATO	1,267
STARHEAL	STARHEALTH	865
POLICYBZ	POLICYBZR	771
SONACOMS	SONACOMS	750
NYKAA	NYKAA	723
NUVOCO	NUVOCO	676
IRFC	IRFC	626
CHEMPLAS	CHEMPLASTS	520
CARTRADE	CARTRADE	405
APTUS	APTUS	376
ABSLAMC	ABSLAMC	374
LODHA	LODHA	338
KIMS	KIMS	290
SAPPHIRE	SAPPHIRE	266

Bloom	Name	USD mn
VIJAYA	VIJAYA	256
DEVYANI	DEVYANI	248
CLEAN	CLEAN	209
GLS	GLS	205
MEDPLUS	MEDPLUS	189
METROBRA	METROBRAND	185
RATEGAIN	RATEGAIN	181
SANSERA	SANSERA	173
KRSNAA	KRSNAA	164
KALYANKJ	KALYANKJIL	159
FINOPB	FINOPB	159
INDIGOPN	INDIGOPNTS	158
HOMEFIRS	HOMEFIRST	156
CMSINFO	CMSINFO	149
MAPMYIND	MAPMYINDIA	140

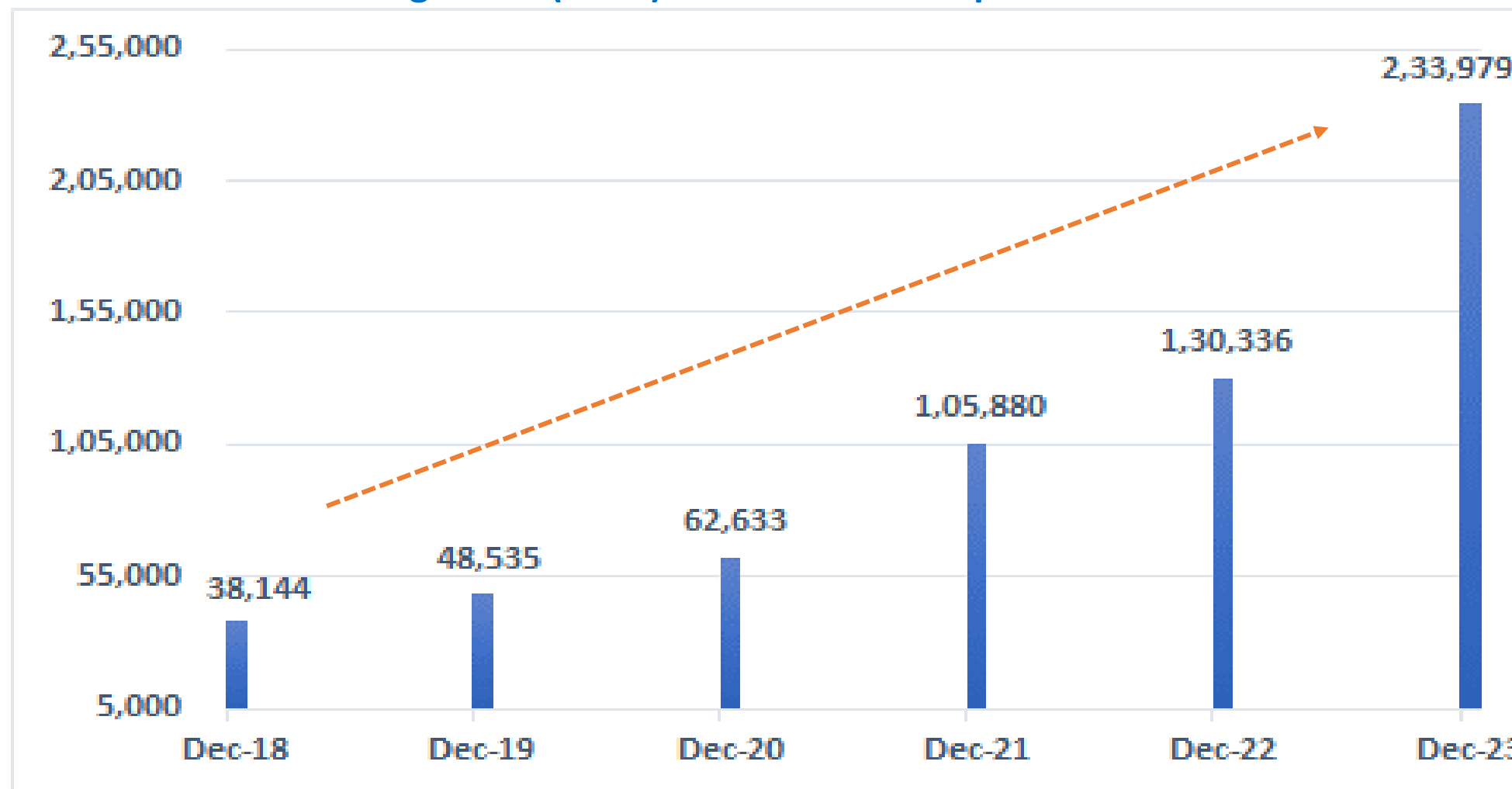
IPO Pipeline – Forthcoming IPOs



Small Cap Mutual funds see significant traction from investors

Assets of Small-Cap Mutual Funds have grown multi-fold over the past few years

Assets Under Management (AUM) Trend of Small-Cap Mutual Funds – INR in Crore

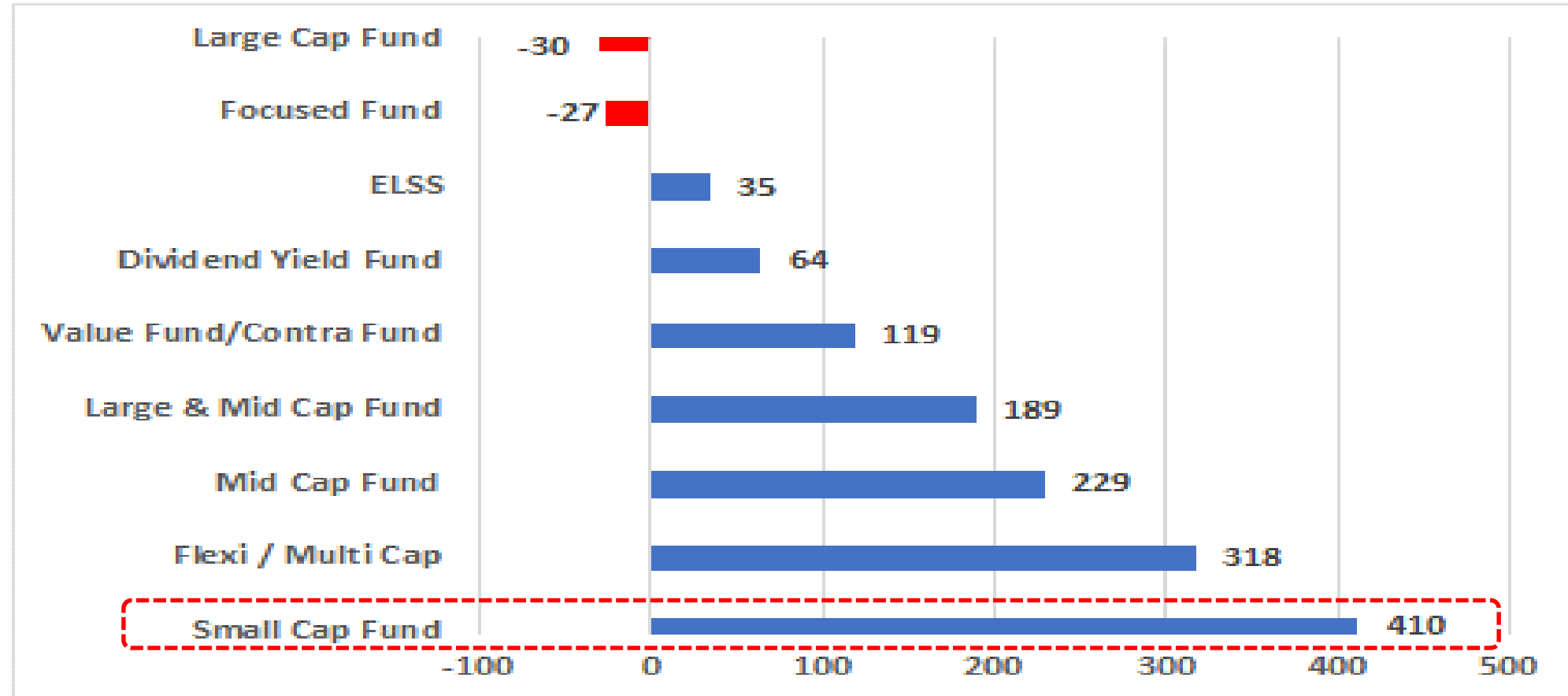


Source: Morningstar Direct, AMFI

- Assets of Small-Cap Mutual Funds have grown by 6X since end of 2018 to ~Rs. 2.35 lakh crore, indicating investor traction towards this small cap category.

Small-Cap MF category has registered the highest inflows over last Calander year, among various equity MF categories

Net Flows into Various MF Equity Categories over 1 Year (ended December 2023) – INR in Billion



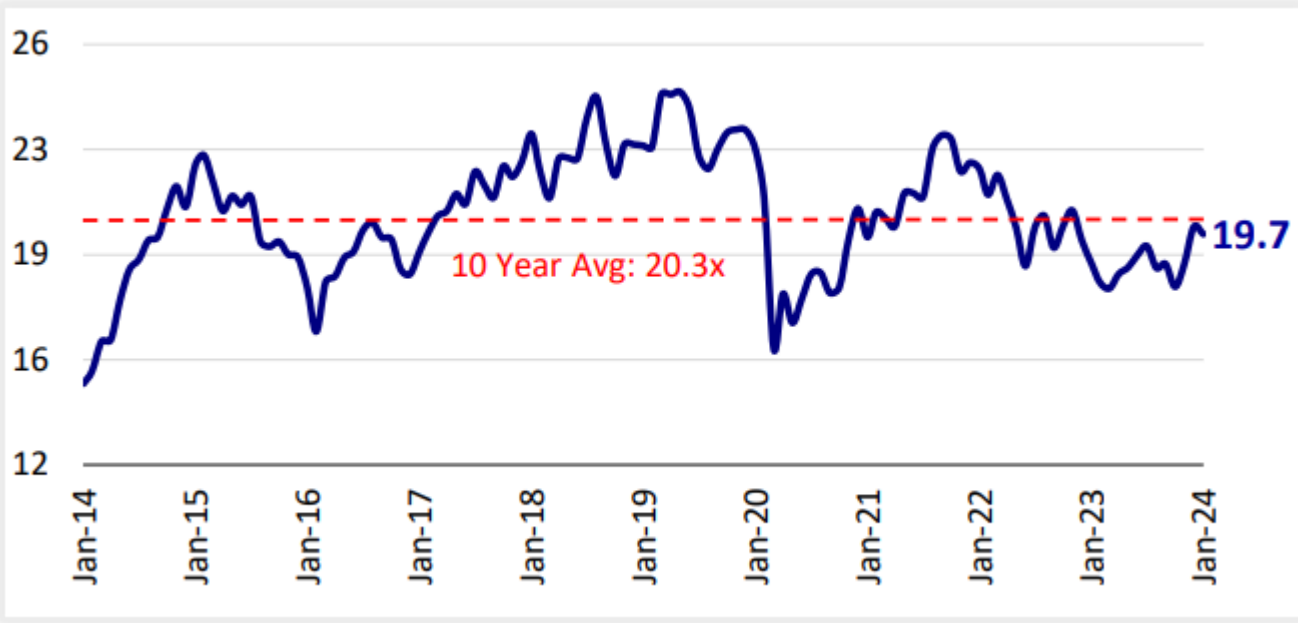
Source: AMFI, INR 1 billion = INR 100 crore

- Within various equity mutual fund categories, small-cap equity fund category has registered the highest inflow of Rs 410 billion (~Rs. 41,035 crore) over the last Calander year (Jan'23-Dec'23). However, Large & Focused as a category seen outflows
- This also indicates investor traction towards the small-cap fund category, which is the fifth largest equity MF category in terms of AUM.

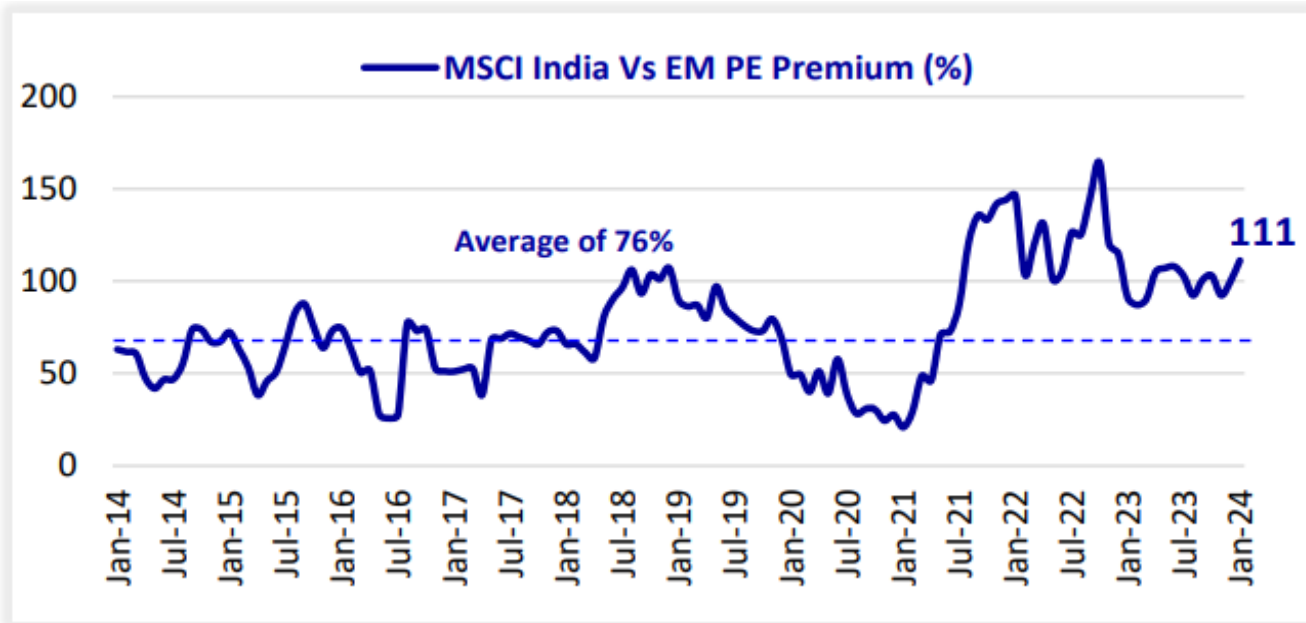
India market valuations appear a bit expensive, but still below the long-term average



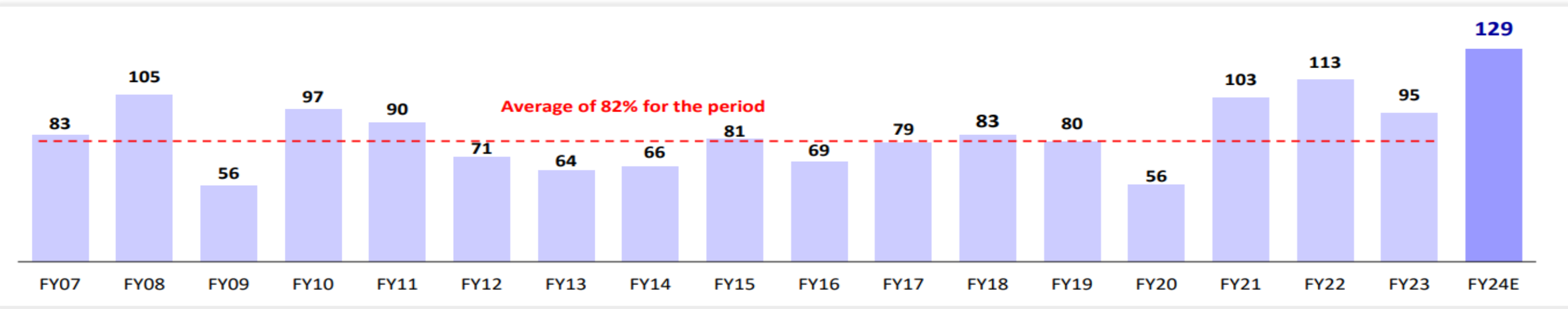
Nifty 1 Year Fwd Consensus P/E Ratio



India P/E Premium to EM



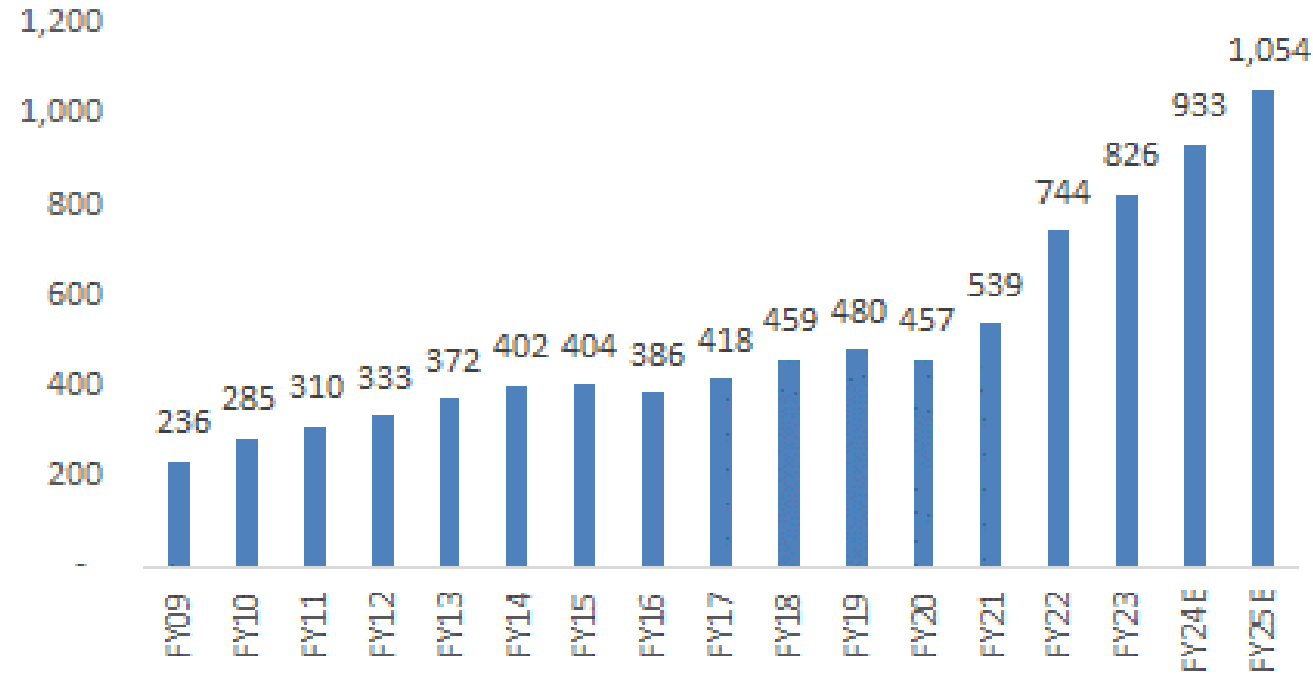
India Market Cap to GDP Trend (in %)



Source: Bloomberg, Motilal Oswal

We expect Nifty earnings growth of ~13% in FY24 & FY25

Nifty EPS Trend



Source: Bajaj Allianz Life Research Estimates

Nifty Earnings have kept pace

	Nifty50 EPS	EPS growth	Nifty50 returns
FY20	457		
FY21	539	18%	71%
FY22	744	38%	19%
FY23	826	11%	-1%
FY24E	933	13%	24%
FY25E	1054	13%	
Cumulative		131%	150%

- H1 FY24 corporate earnings have been quite healthy and above expectations.
- We anticipate some moderation in earnings growth in H2 of FY24.
- We expect Nifty earnings growth of ~13% in both FY24 & FY25, which is quite healthy, amidst the global growth slowdown.

- Equity market delivered solid returns in CY23. While the Nifty50 was up ~20%, mid and small cap indices delivered around 50% gains.
- Global monetary policy tightening in response to an inflation scare which acted as the biggest headwind for Equities in 2022 appeared near its end, as most major Central Banks paused during the second half of 2023.
- Fears of a **global recession in 2023 also didn't materialize** with the global GDP expected to register a growth of 2.6% in CY23.
- In **India, the macros appear robust with a recovery in GDP growth in FY24** combined with deficits closer to the budgeted levels.
- **Equity earnings in India have been solid** with Nifty50 companies delivering a 20%+ growth in H1FY24 and are on track to deliver robust growth in full year FY24 and FY25 as well.
- **Flows –**
 - **FII flows have turned positive in recent months** and given India's relative standing are expected to be positive in 2024.
 - Domestic flows continue to be very strong with a significant portion coming via SIPs (Systematic Investment Plans).
- Post the 2023 rally, **valuations are now elevated thereby limiting substantial upside from current levels** despite the strong fundamentals and macros.
- Overall, **we expect modest returns from Equities** over the next one year. From a market cap perspective, we **prefer large-caps to mid/small-caps presently.**

Thank You

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