BAJAJ ASSET MANAGEMENT

Markets Symposium

Mr. Nimesh Chandan, CIO

16th January 2024

Key Market Calls

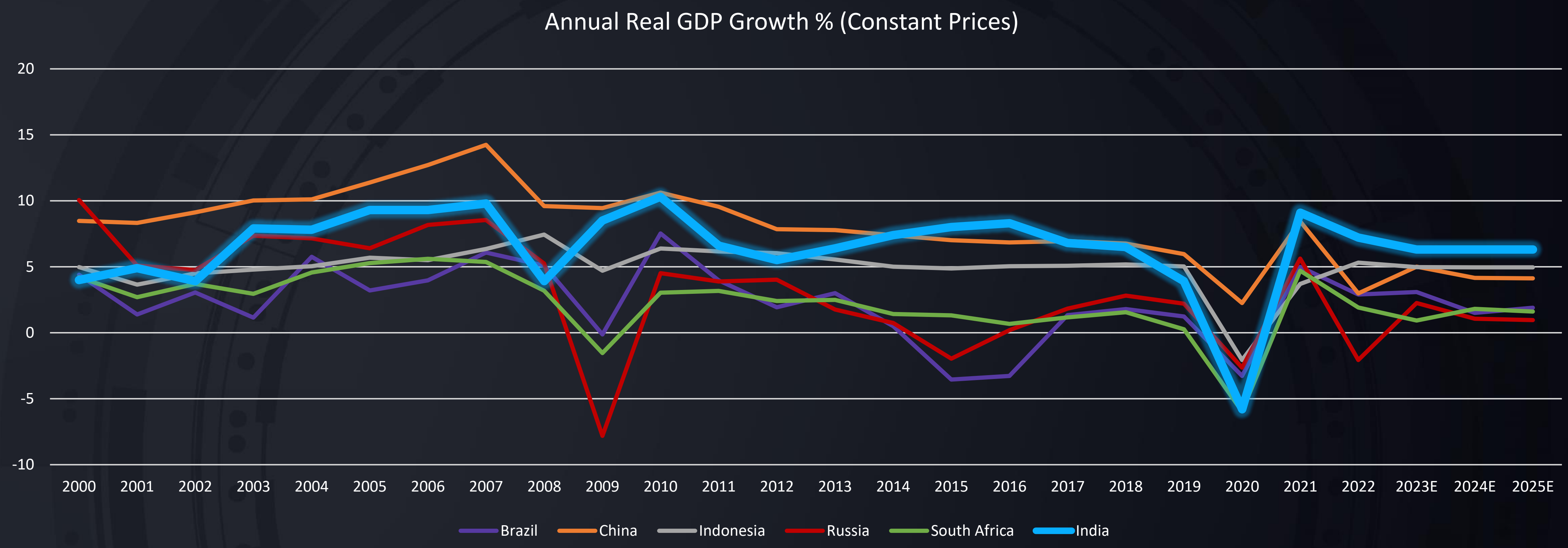
ASSET MANAGEMENT BAJAJ

- India is best placed among peers countries in terms of macro set up
  - Political stability, Macro stability, Earnings stability and Balance sheet health
  - Impact on slowing global economy to have impact on Trade, Flows and Prices
- Unprecedented 8 calendar years of positive returns in the equity market
  - Nifty at Fair value; Smallcaps and Midcaps trading above average
  - Behavioral Indicator is still bullish; Gains can continue
  - Focus to shift to Quality style
- Consumer sectors is a good long term play
  - India undergoing significant changes in consumption patterns as per capita income rises
- In the fixed income market, interest rates have peaked and likely to reverse
  - India placed well on fundamental and flows
  - Good time to lock in yields for investors
  - Scope for high coupon, potential capital gains with low credit risk

Macroeconomic Environment- India remains an island of stability

India Continues to remain Fastest Growing Major Economy

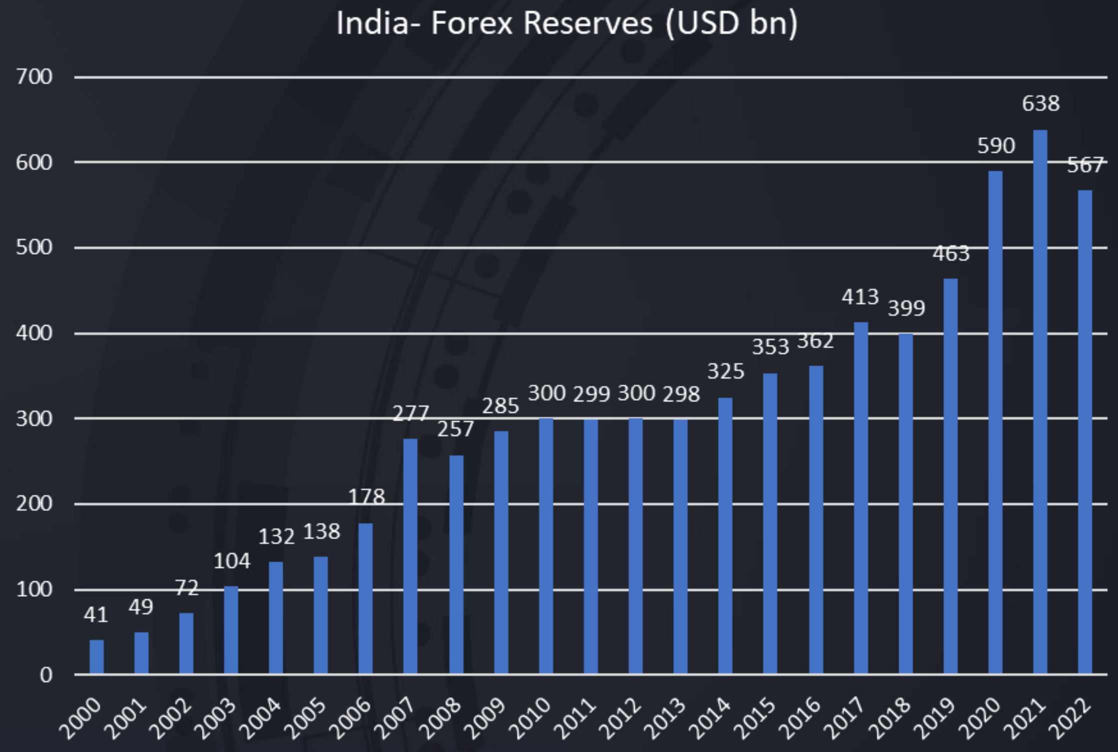
ASSET MANAGEMENT
BAJAJ

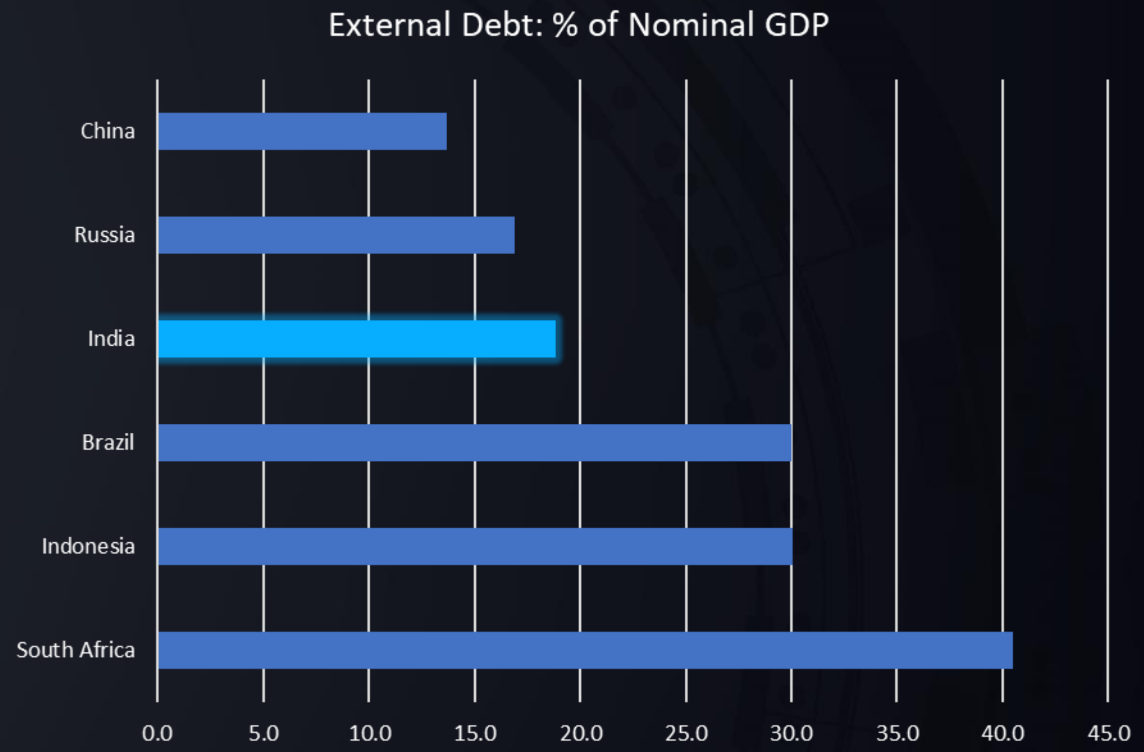


- Global macros are fraught with uncertainties with two major wars waging, high interest rates across developed economies, and ocean trade challenges intensifying
- India offering a rare combination of economic growth and macro stability to investors

Source: International Monetary Fund, World Economic Outlook Database, October 2023

Strong Public Finances- Reserves at all time high and low external debt

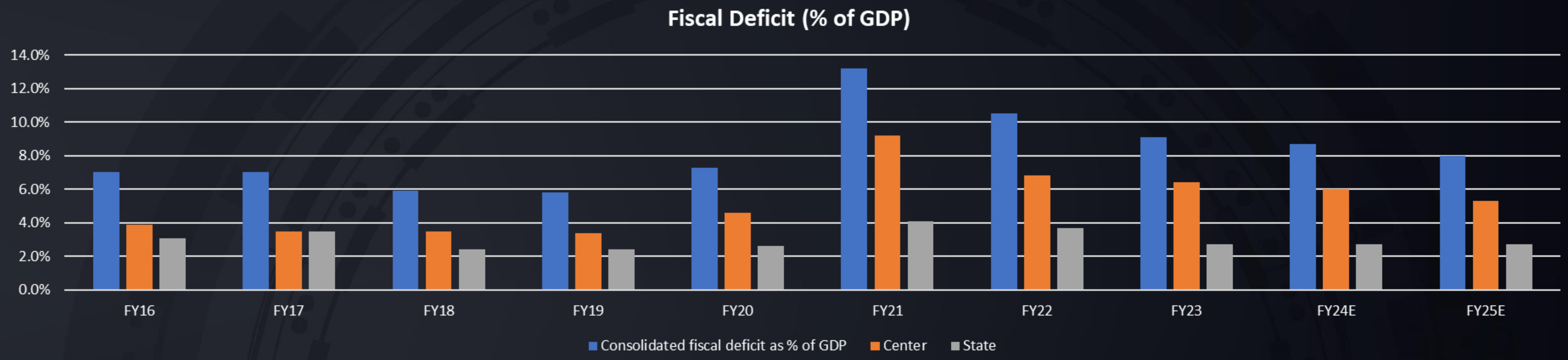




- Healthy forex reserves provide a cushion against any strong outflows due to global shocks/uncertainties
- Benefits from a relatively stable external debt position

Source: International Monetary Fund

Fiscal Consolidation on track



- After suffering a setback due to covid, India's return to the path of fiscal consolidation bodes well for long-term economic stability

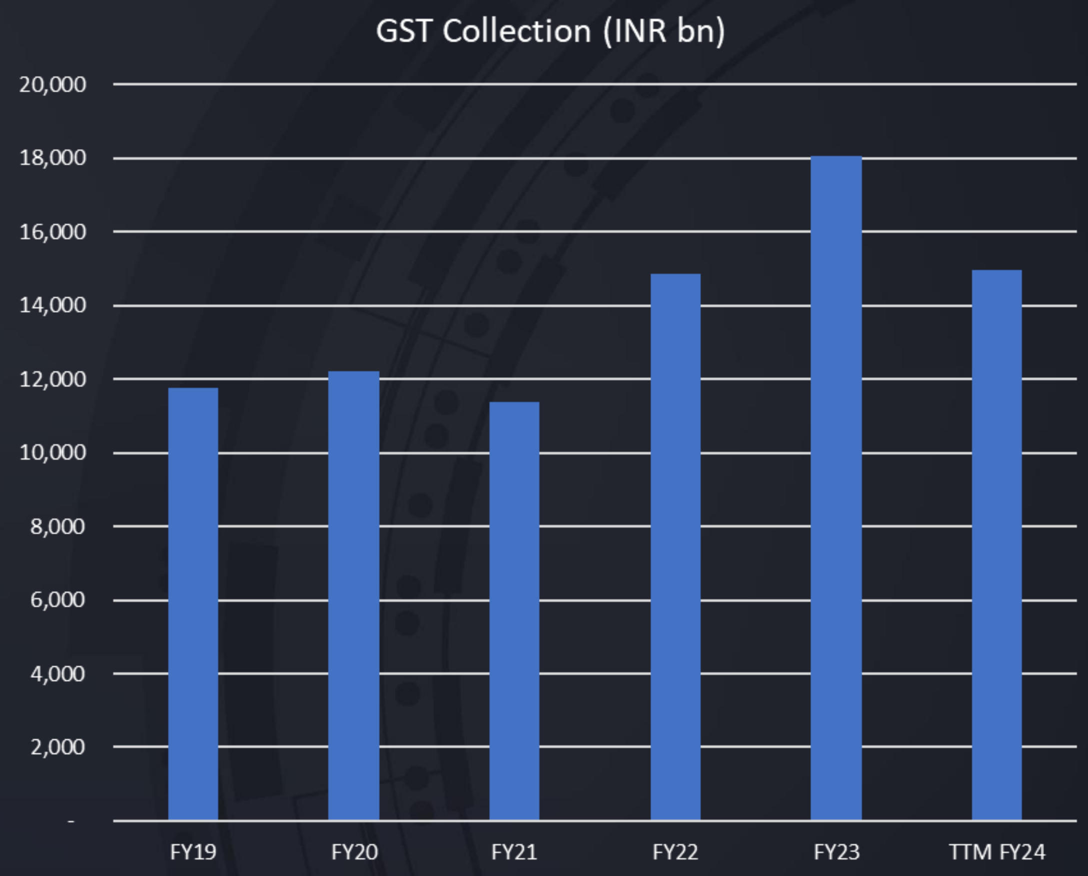
Strong Performance across Multiple Indices

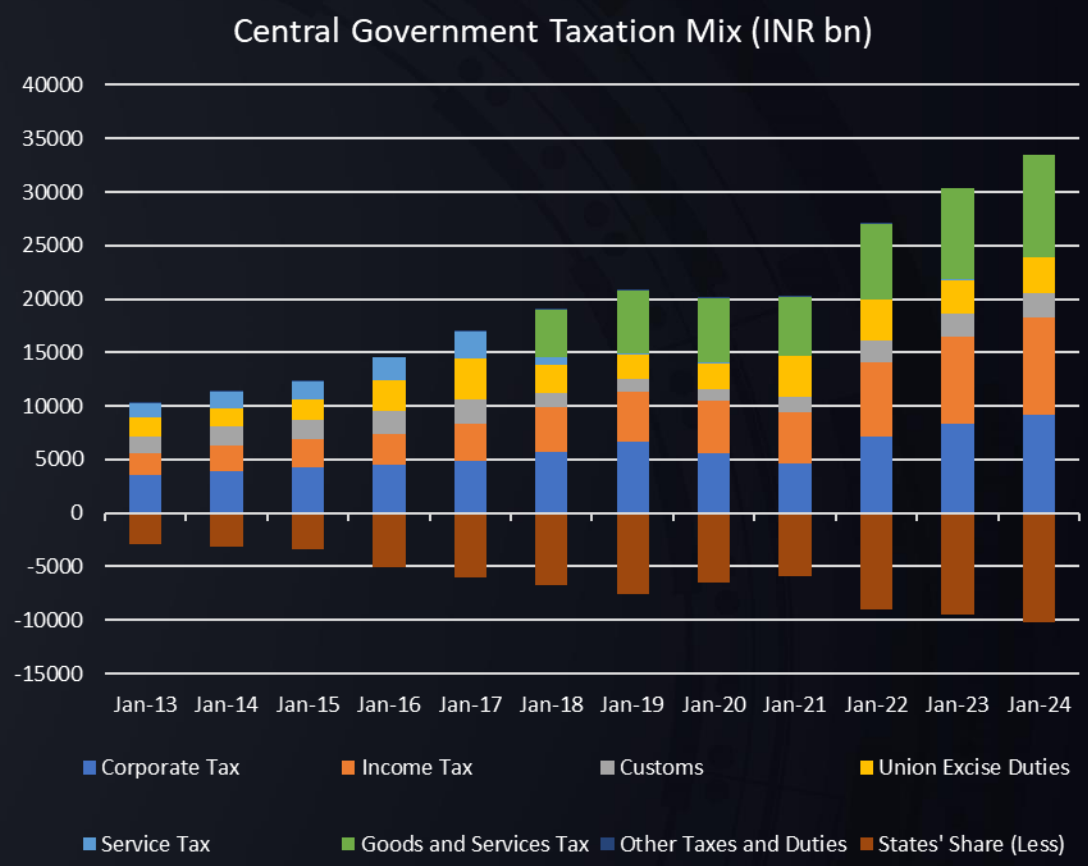
- Ranks 13 out of 190 countries, higher than USA (36), Japan (57) and Germany (69) on the 'Protecting Minority Interest' Score of the World Bank
- Ranks higher on Political Stability Score than Turkey, South Africa and Russia

Source: MOSPI, RBI

Structural Reforms by a Proactive Government Bearing Fruit

Broadening Tax Base, record GST collections



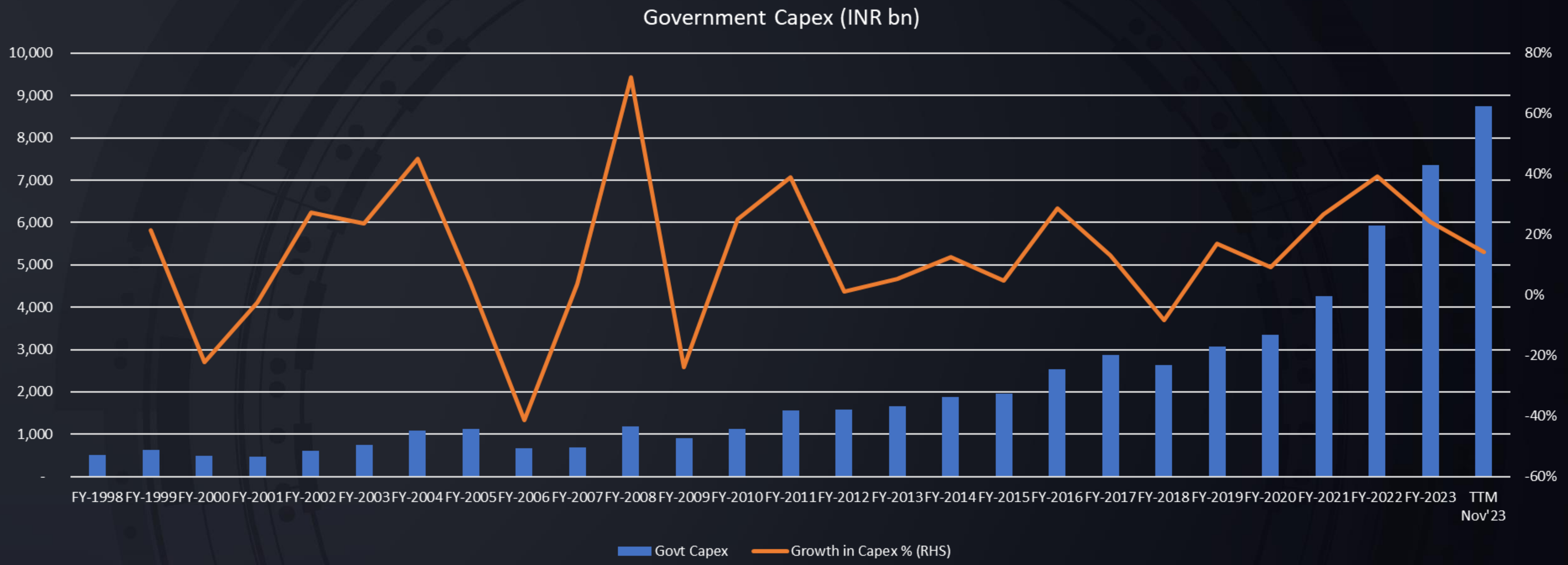


- Robust GST collections and increase in the direct tax base will help fund the government's ambitious capex programme

Source: GST Portal, Union Budget Document

Government capex spending at all time high

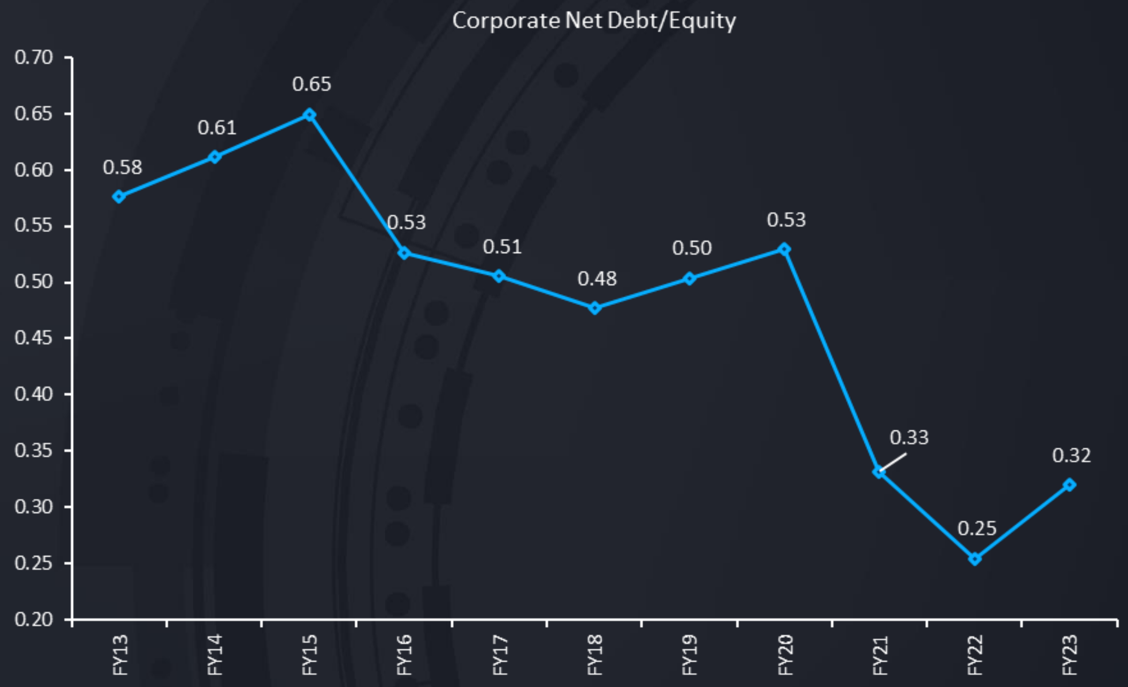
ASSET MANAGEMENT
BAJAJ

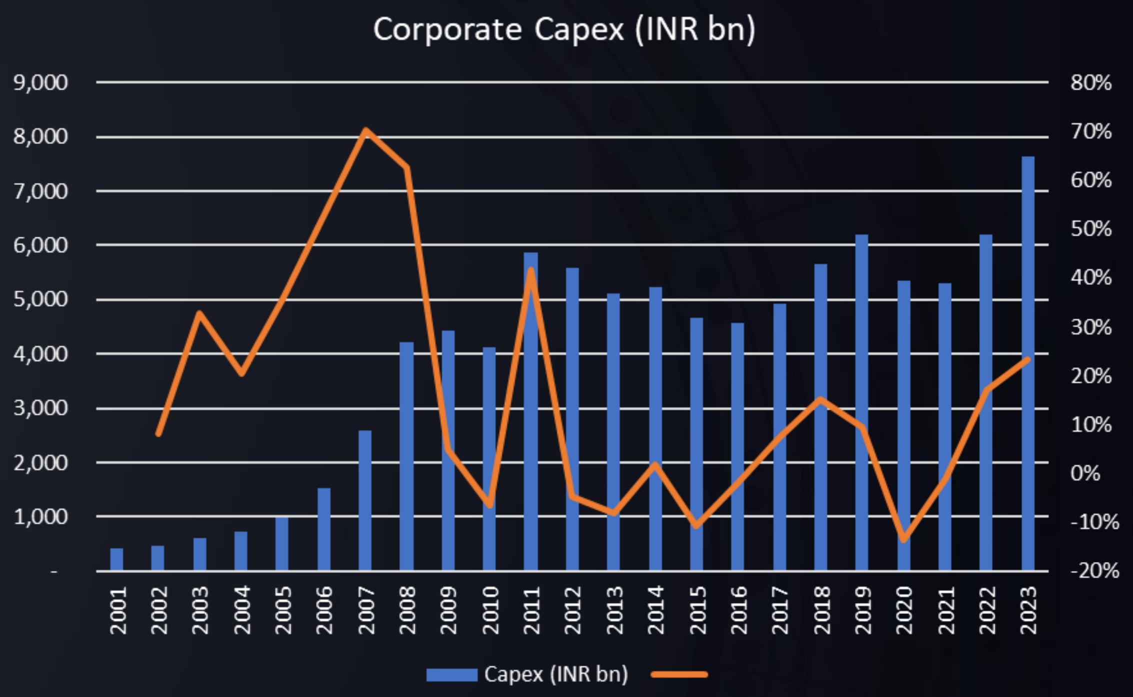


- Government's ambitious road, railway, defence and logistics push continues to drive massive capex spending and improvement in the state of infrastructure

Source: IndiaDataHub

Corporate balance sheets healthy and poised for capex pickup





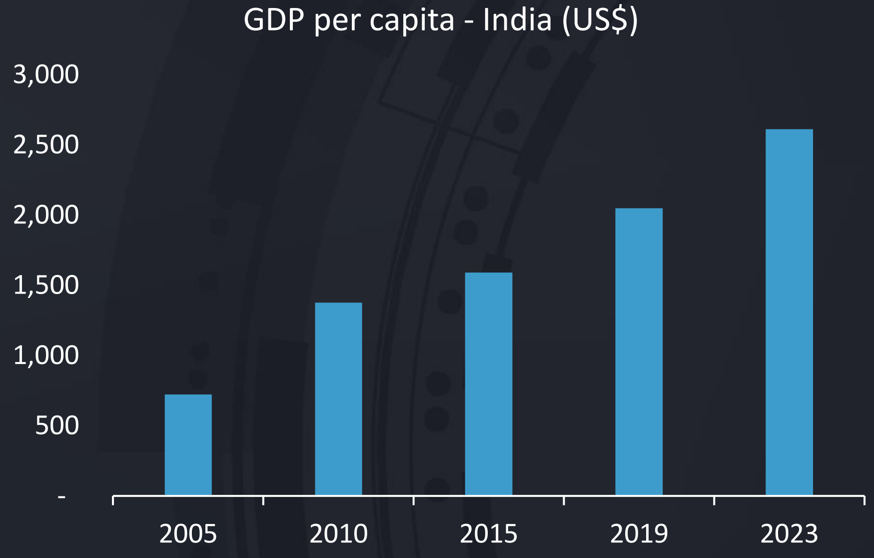
- While bulk of the capex spending has been government-led, corporate balance sheets are at their healthiest in the last decade, and private capex momentum is at an inflection point

Source: IndiaDataHub/Broker Research

Discretionary consumption in India – Premiumisation gaining traction

India’s per capita GDP has crossed a critical level

ASSET MANAGEMENT



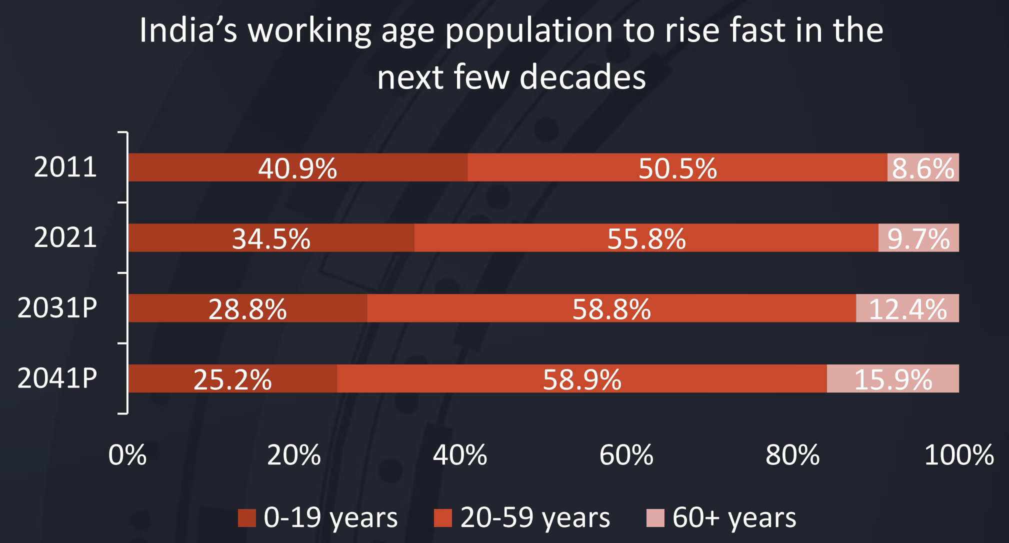
After crossing $2,000-$2,500 GDP/capita, many emerging economies have witnessed a strong spurt in discretionary consumption

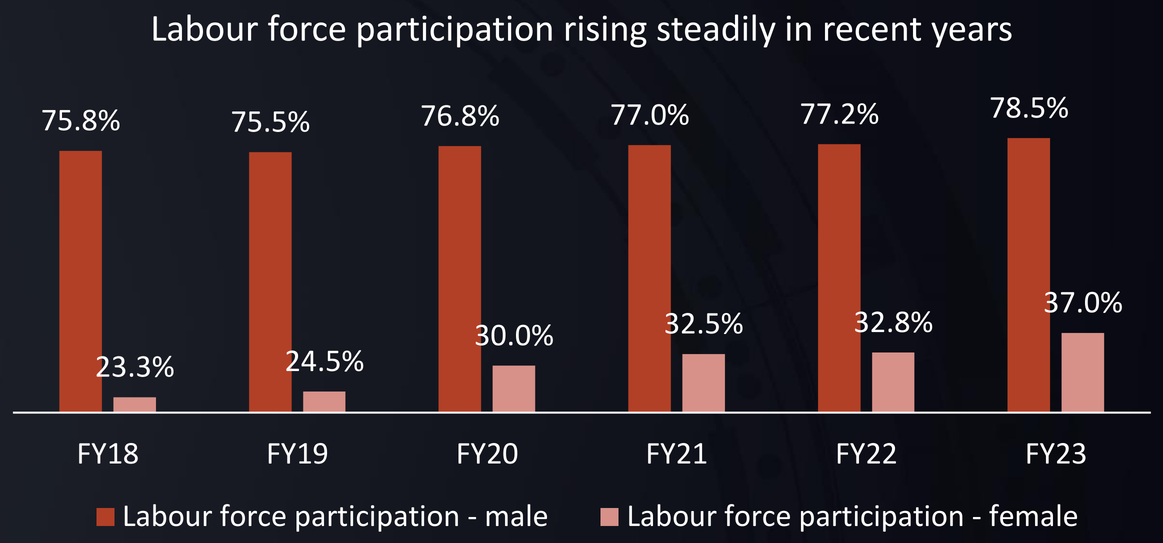
Country	China	Russia	Brazil	S. Korea
Year of crossing	2006	2001	1986	1984
Trajectory of retail sales after crossing GDP per capita of US$2,000	Per capita GDP growth accelerated, auto sales ~5x in next decade	Retail Sales doubled over the next decade	Many premium consumer categories strong growth	Retail sales leaped 4x over the next decade

- India’s per capita GDP crossed the $2,000 mark in CY19 and $2,500 mark in CY23
- As disposable income grows, propensity of consumers to spend on discretionary items and premium products rise disproportionately

Source: International Monetary Fund

Demographic dividend to sustain high economic growth

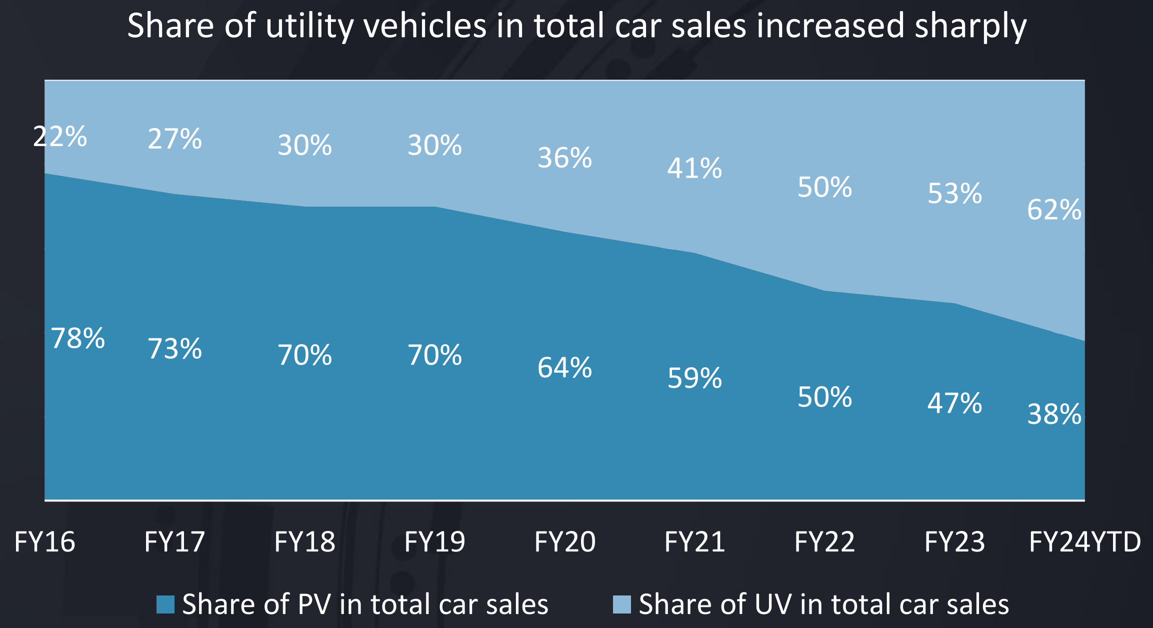


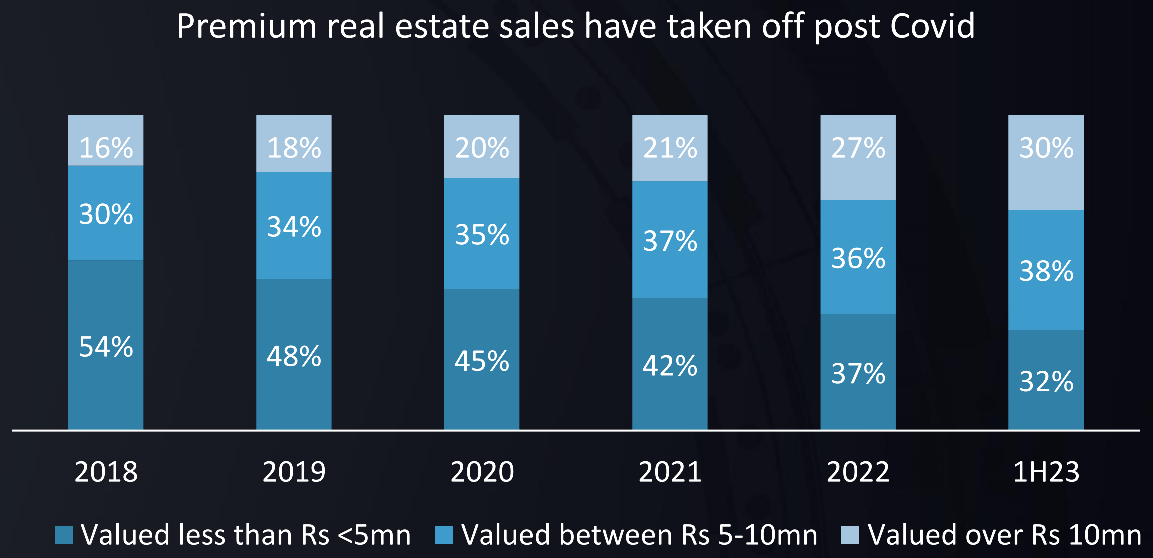


- A rising share of working age population (20-59 years) will ensure higher productivity – demographic dividend – ensuring longevity of the economic and consumption growth
- India's median age will be ~33 years by 2035, one of the lowest among major economies (China ~49, Russia ~44, Brazil ~39) – scope for a higher share in global productivity
- Labour force participation has risen steadily for both men and women in recent years

Source: Industry Estimates, Periodic Labour Force Survey

Luxury items witnessing strong traction in recent years

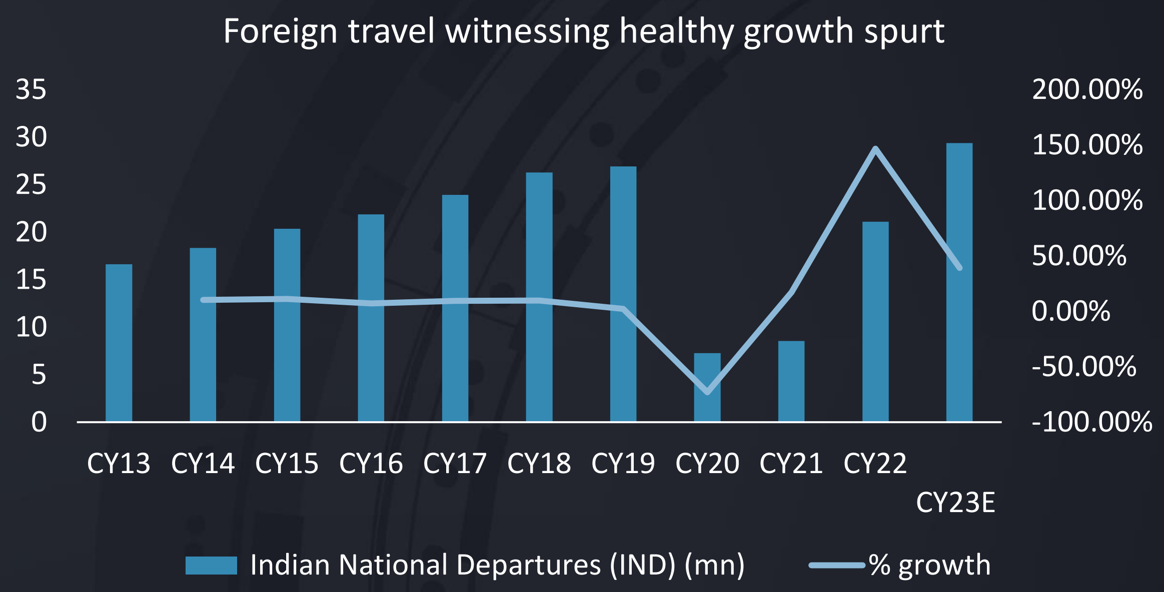


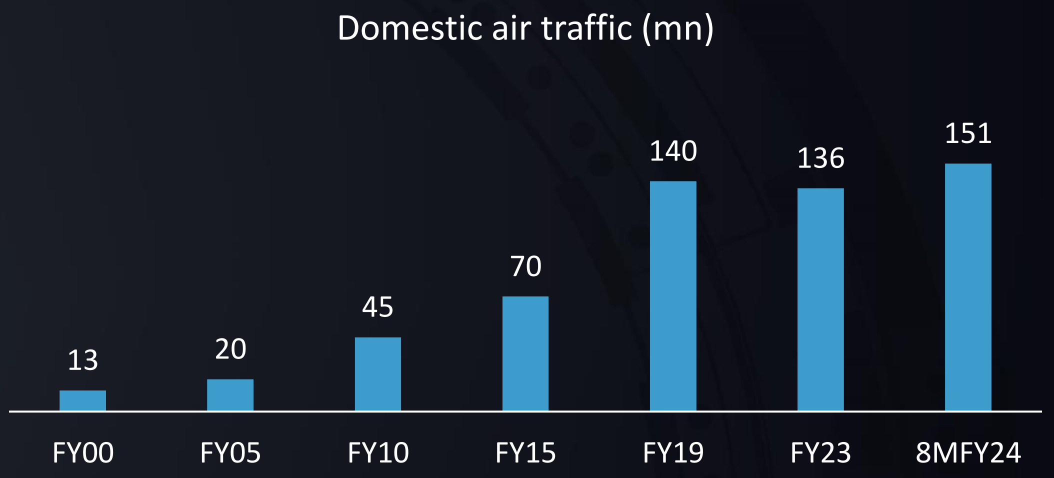


- Premium utility vehicles have seen strong growth momentum in recent years
- Despite this, the gap in luxury car sales between India and China remain wide – 1% of total car sales in India vs. 13% in China
- Real estate industry witnessing strong offtake in higher value units

Source: SIAM, Real Estate Research Agencies

Luxury items witnessing strong traction in recent years



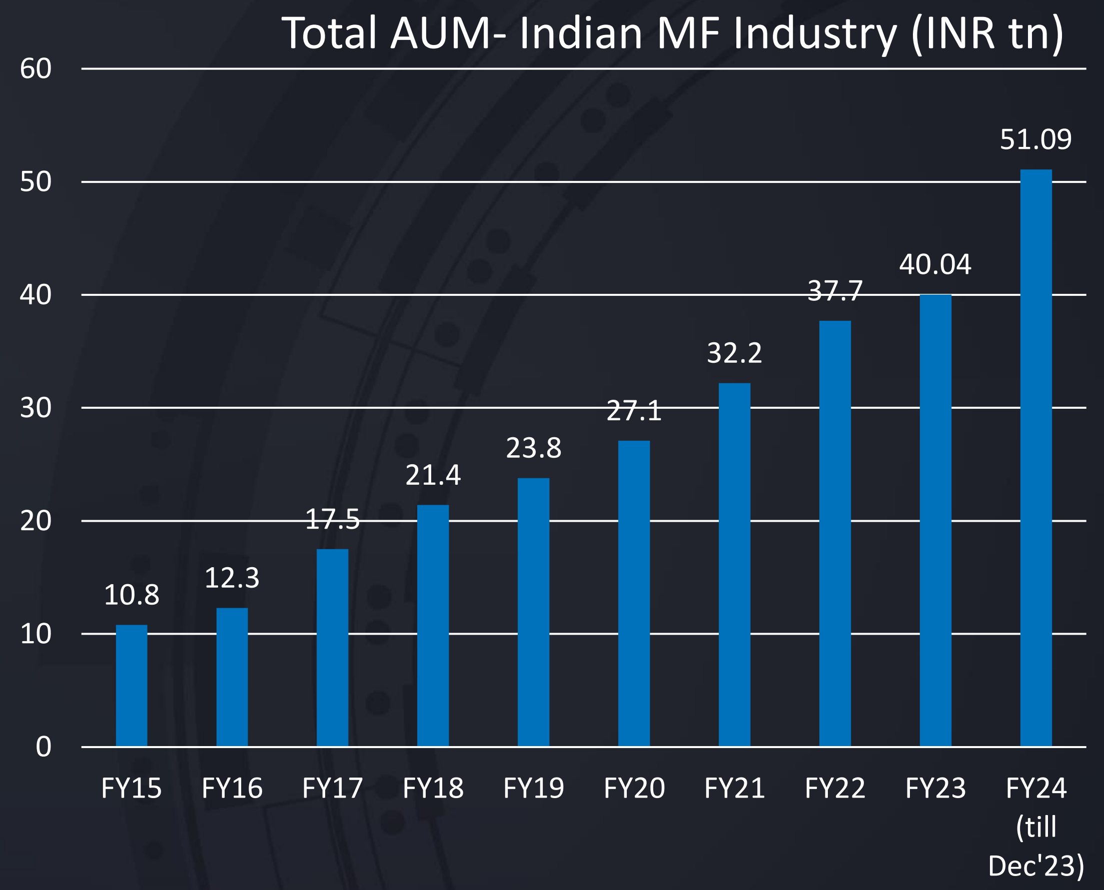


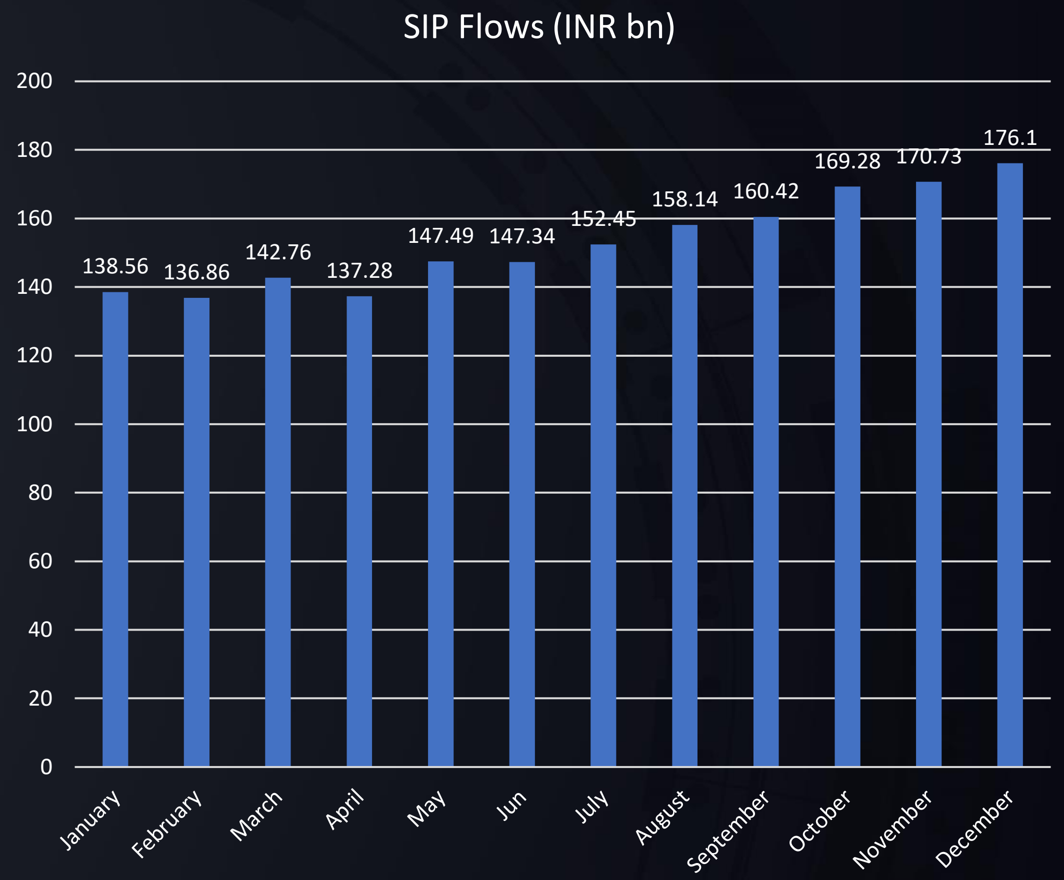
- Foreign leisure travel witnessing healthy growth uptick post Covid disruptions
- Sharp rise in tourists from smaller towns/cities
- Domestic air traffic also growing steadily

Source: DGCA

Domestic Liquidity- Remains strong across the board

MF AUM is increasing rapidly, SIP flows remain resilient

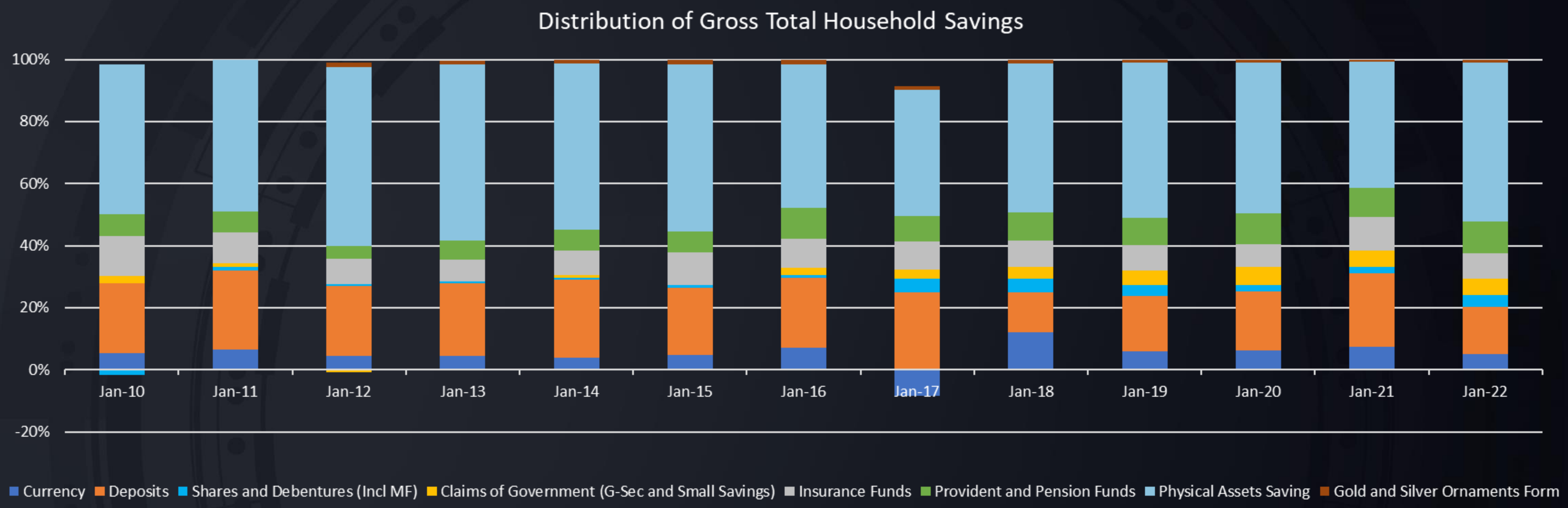




- SIP inflows have remained sticky indicating increasing in retail investor awareness and confidence
- Small and mid-cap funds seeing strong flows- broad basing of industry growth

Source: AMFI

However, share of capital markets in household savings remains low

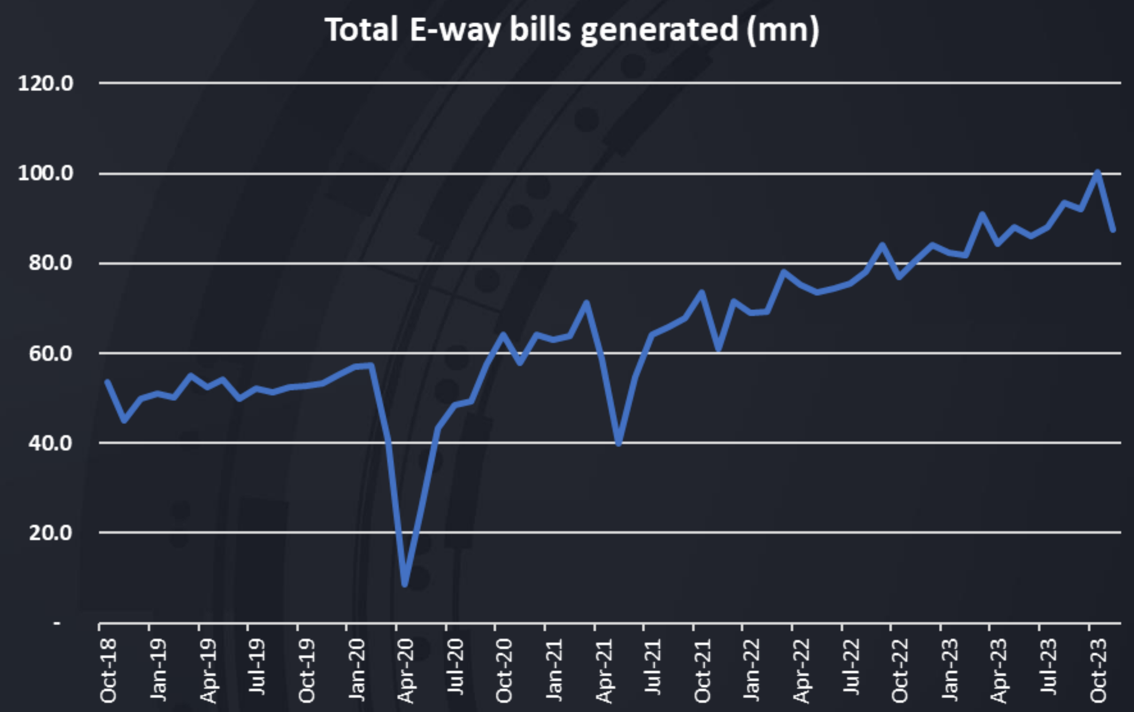


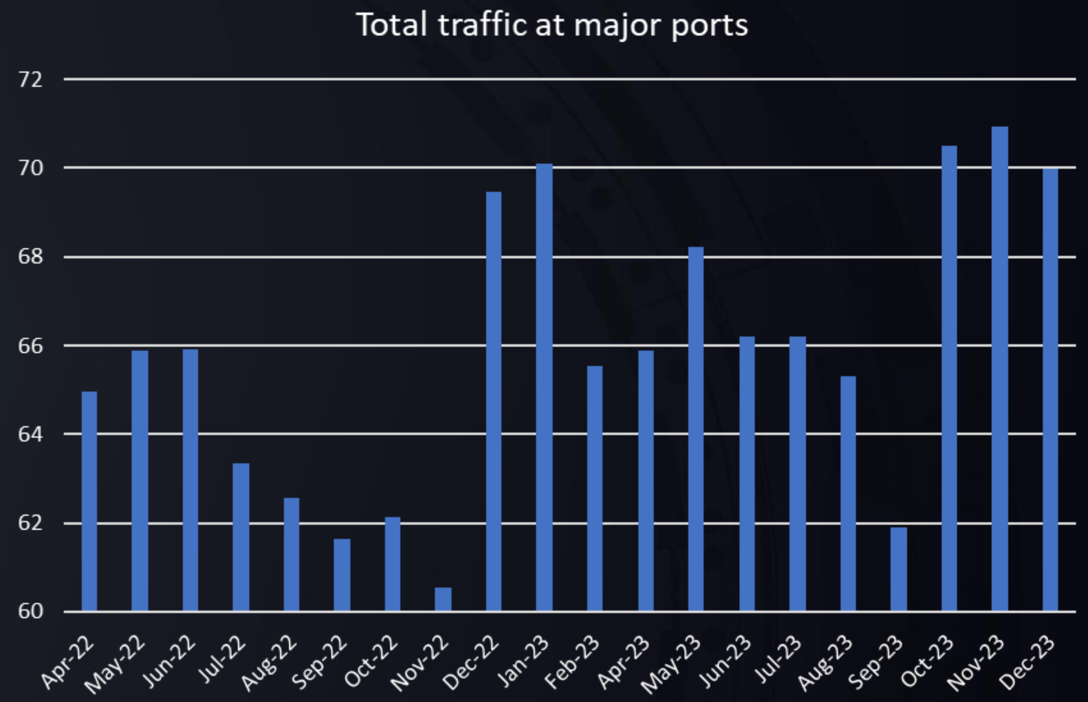
- Significant proportion of household savings still in physical assets, however financialization of savings accelerating
- Capital market share in savings is still small but poised for a rapid increase

Source: RBI

Near Term- Macros appear healthy, adverse election outcome and erratic weather potential stumbling blocks

Most High frequency indicators tracking well

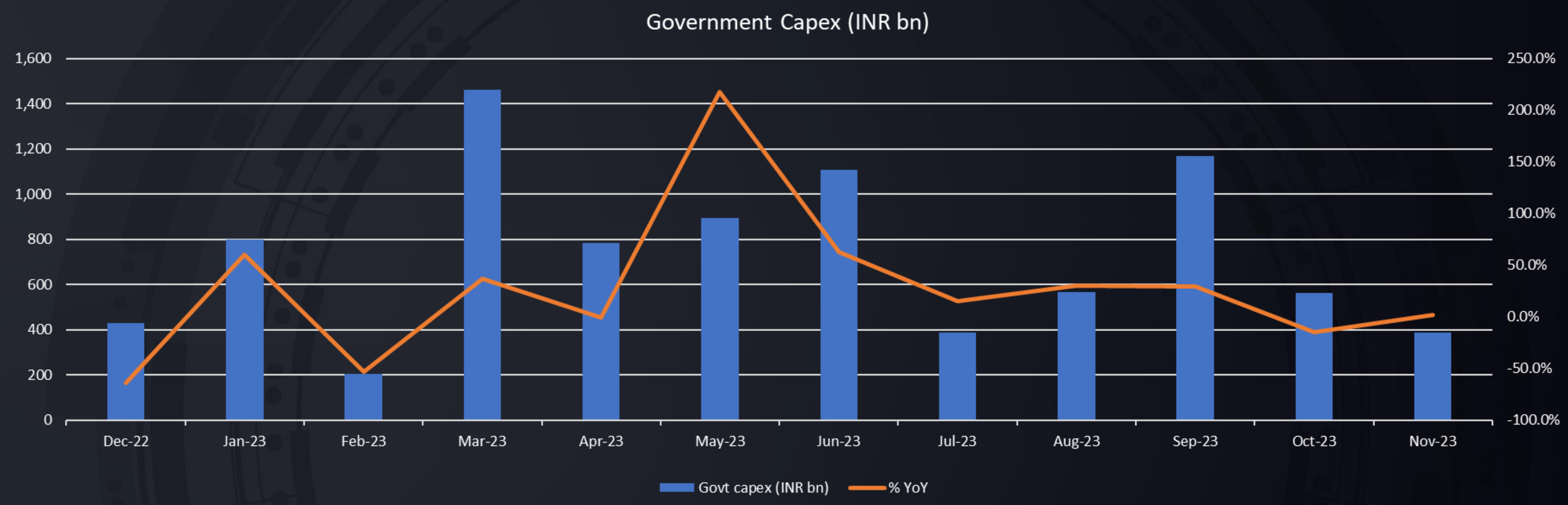




- High frequency indicators remain strong
- However, another El Nino can impact rural consumption further
- Adverse election outcome and erratic weather can adversely impact macros in the near term

Source: GSTN.org, Indian Ports Association

Most High frequency indicators tracking well



- Fresh capex likely to slowdown till elections
- However, medium term government capex outlook remains strong

Source: IndiaDataHub, Broker Research

Sectoral outlook

Sectoral outlook (1/3):

Banking and financial services:

- Overall banking credit growth has remained high with systemwide growth of 15.5% compared to 8-year average of 10% led by retail loans. While overall credit growth will come down on a higher base post RBI risk weight change it will remain in low teens.
- Net NPL for the banking sector is at its lowest levels in the past decade at 0.8%, we may see some increase from the decadal low levels, but delinquencies have not shown any material increase.
- Banking sector is adequately capitalised with CET 1 at 13.7% and CRAR at 16.8% as of Sep'23.
- Overall NIM's for the sector remains high at 3.6% in Sep'23 and is expected to moderate going forward, but will remain higher that pre-covid as retail mix of loans has increased

Consumer staples and discretionary:

- Rural demand continues to be weak in Q3FY24 – volumes unlikely to recover materially in FY24 for large FMCG companies
- Key input cost – palm oil, agri commodities, crude derivatives – prices have softened materially in the past few months
- FMCG demand to improve in FY25 given a normal monsoon and rural demand reviving
- Discretionary demand likely to fare better than FMCG – auto, luxury retail – likely to continue to see strong demand traction
- Reasonable valuation for large FMCG players given high quality and growth longevity

Note: NPL is Non-performing Loans, CET is Common Equity Tier, NIM is Net Interest Margin, CRAR is Capital to Risk Weighted Assets Ratio

Sectoral outlook (2/3):

ASSET MANAGEMENT

Information technology:

- Economic recession in Europe and US a key challenge
- Elevated interest rates to keep weighing on demand for Indian IT services
- Major IT companies remain cautious on near-term demand environment
- Supply side issues have eased out leading to healthy YoY margin expansion for IT companies

Capital goods and Industrials:

- Cyclical upturn likely to continue in the medium term with some near-term glitches anticipated
- Government capex has grown at ~37% in 8MFY24, likely to slowdown prior to general elections
- Order books remain strong for leading capital goods players, execution pace to be key
- Valuations are stretched for many companies, careful in picking the right quality businesses

Sectoral outlook (3/3):

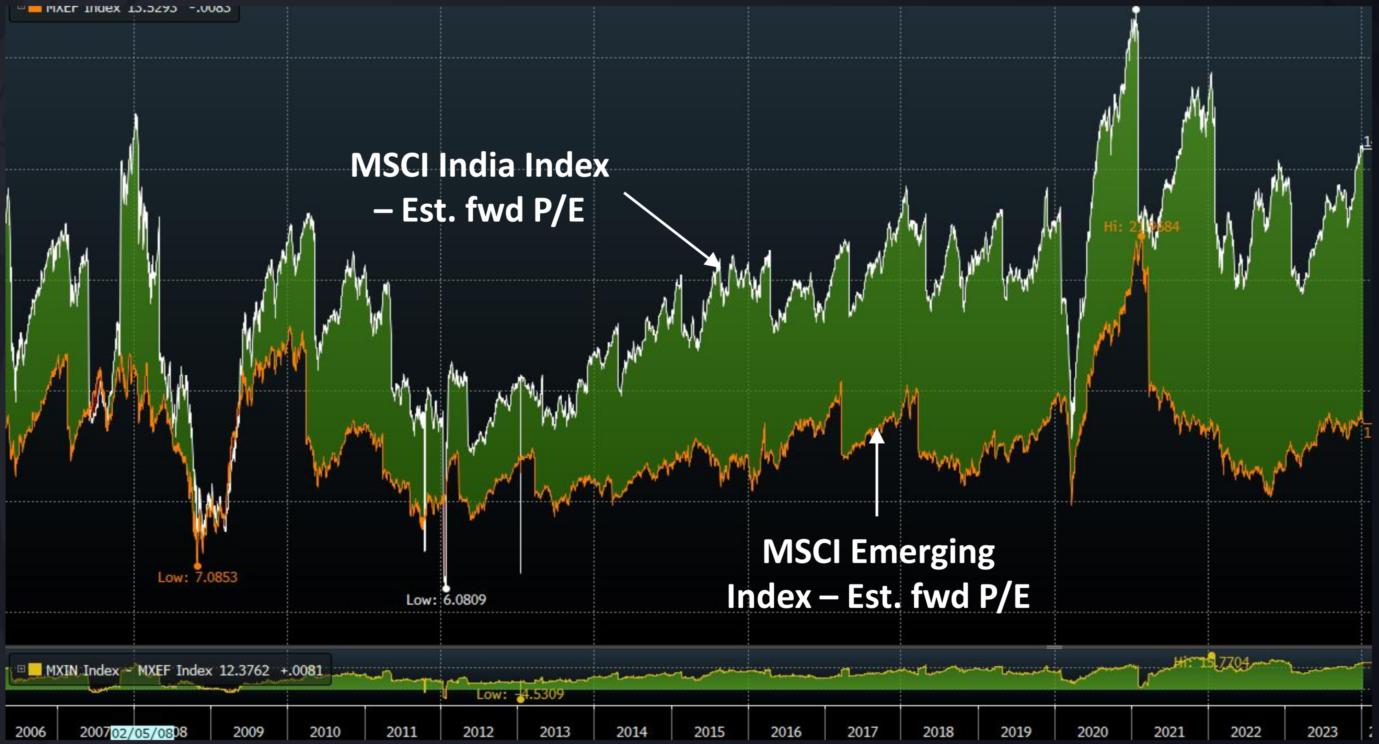
Pharmaceuticals:

- US environment remains favorable with drug shortages, new and high value launches
- Indian pharma market to show growth recovery off a weak base
- Easing raw material costs will aid margin improvement

Outlook on Indian equity markets

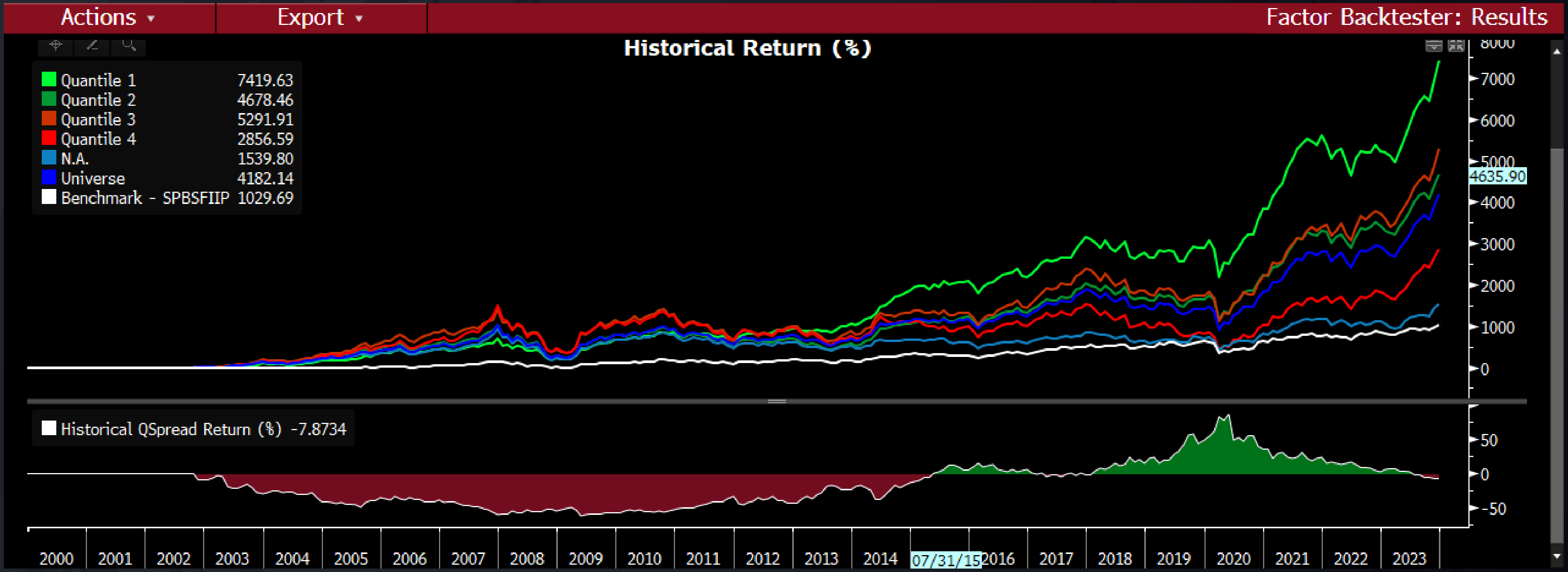
India’s valuation premium to emerging nations justified given higher growth potential

MSCI India index continues to trade at a premium to MSCI Emerging Markets index



Source: Bloomberg

Long-term Performance of Quality



As of January 5, 2024, out of the BSE200 companies:

- 69 have a positive return expectation based on consensus target price
    - Majority are from BFSI sector
- 179 have a positive return expectation based on best high target price
- Quality style has underperformed since Covid as attention shifted to value stocks in the second half of 2020
- Completed 4 years of underperformance

Source: Bloomberg

Fixed Income Outlook

Mr. Nimesh Chandan, CIO

16th January 2024

India’s Goldilocks Positioning

A Goldilocks economy is an economy that is not too hot or cold, in other words sustains moderate economic growth, and has low inflation, which allows a market-friendly monetary policy

Quantifying Goldilocks

- In Current scenario this can be quantified as 2 % CAD ,4% Inflation, 6% Fiscal deficit ,6.5% to7 % Real growth.

Growth

- Real GDP growth is expected at ~7.3% percent in 2023-24
- For 2024-25, assuming a normal monsoon and no major exogenous or policy shocks, estimates indicate real GDP growth is at 6.5 percent

CAD

- FY24 CAD is expected to be ~1.5%. For FY25, CAD could however rise but still be below 2% in FY 25. This is if imports continue to rise despite factoring in some recovery in exports.
- For now, the ongoing turbulence in Middle East and Red Sea region restates that global uncertainty is far from over.
- Hence, supply disruptions, commodity prices, and global sentiments are still sensitive

Source: CAD is Current Account Deficit, GDP is Gross Domestic Product

India’s Goldilocks Positioning

Inflation

- For 2024-25, assuming a normal monsoon, and no further exogenous or policy shocks, inflation is projected at an average of 4.5 %, in a range of 3.8-5.2 percent.

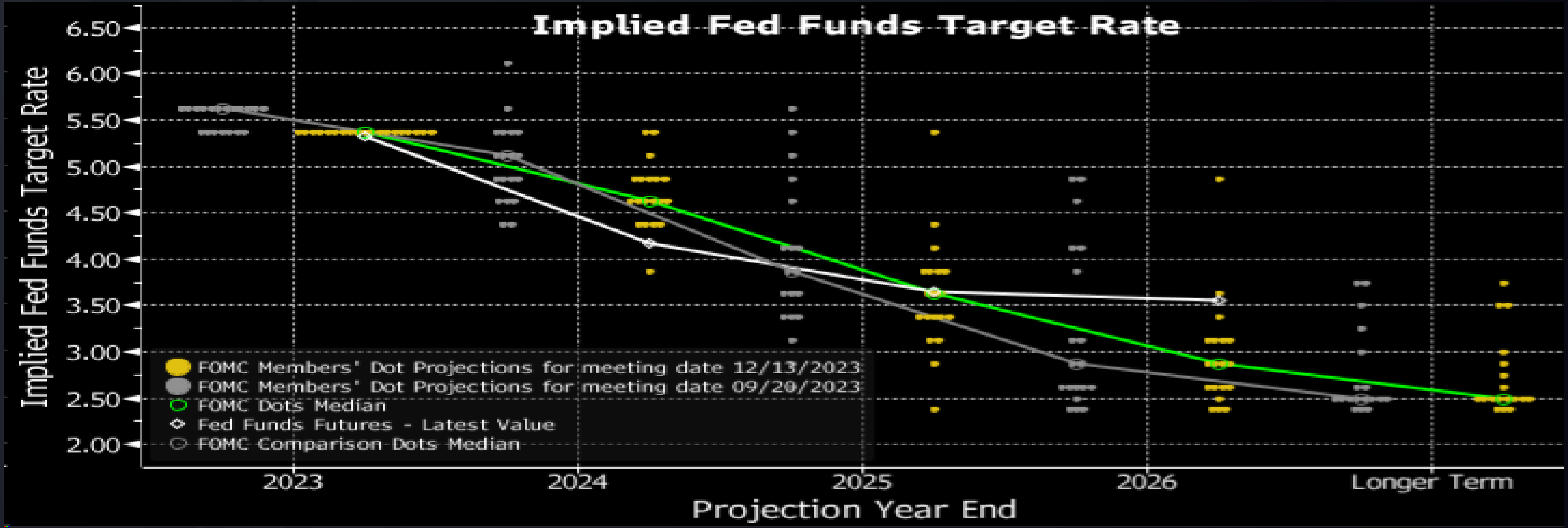
Fiscal deficit- On glide path post Covid. FY 25 target ~ 5.4%

- Macro environment of resilient growth, anchored core inflation, balances external account creates setting for continued benign macro environment for now.
- Resultant Monetary Policy stance has RBI in wait-and-watch mode with hawkish pause and liquidity withdrawal as the interim focus

Source: RBI; MOSPI

Finally - FED Pivot

1. Communication, Dot plot and survey economic projections are in direction of Fed pivot
2. Rate mkts preempted this as US 10y was down by 80bps from OCT peaks before FOMC
3. Lagged effect 12m to 18m. Market pricing in FDTR ~4% Dec 2023
4. Median estimate has dropped by 50 basis points



Source: Bloomberg

US Rates Market

Clear Signals –Fed Speak

•Policy was now “well into restrictive territory” (not merely “restrictive” as he said in November, when conditions were tighter than now).

•Removed : “Reducing inflation is likely to require a period of below-potential growth and some softening of labor market conditions.” Hoping Soft landing.

•Said explicitly that Fed would need to start cutting rates “way before” inflation reached its 2% target, and even that failing to do so could lead to an overshoot and slow activity too much.

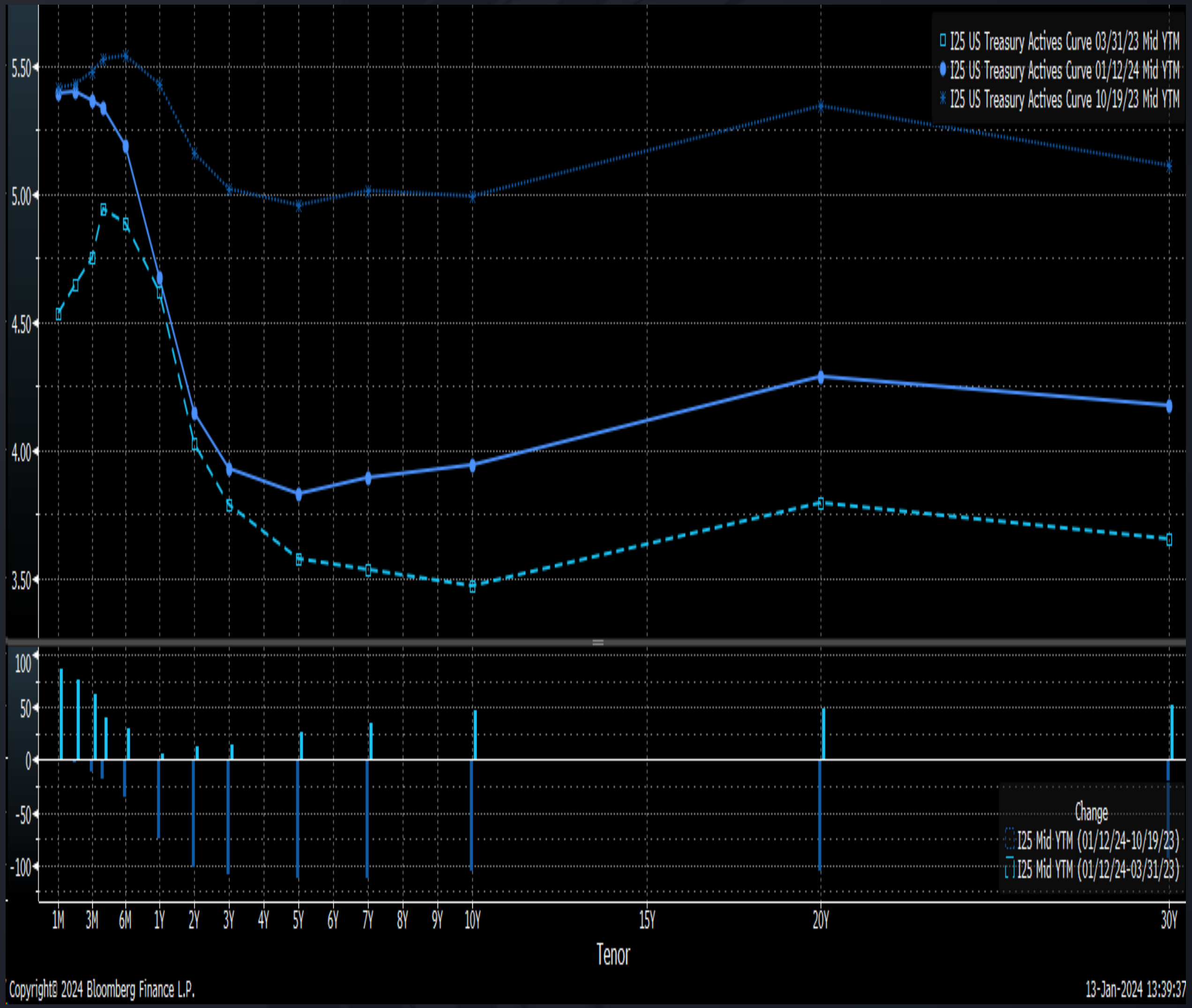
•Declared the Fed was “very much focused” on the risk of keeping rates too high for too long (having previously tried to convince the market that it might keep them “(**higher for longer”).**

•Admitted that FOMC had discussed when they should start cutting rates — a stark difference from his denials that the committee was “even thinking about thinking about” rate hikes.

•Declined an invitation from a reporter to complain that financial conditions had loosened too much, despite having emphasized in earlier meetings that higher bond yields and lower share prices were helping the Fed do its job.

US Rates Market

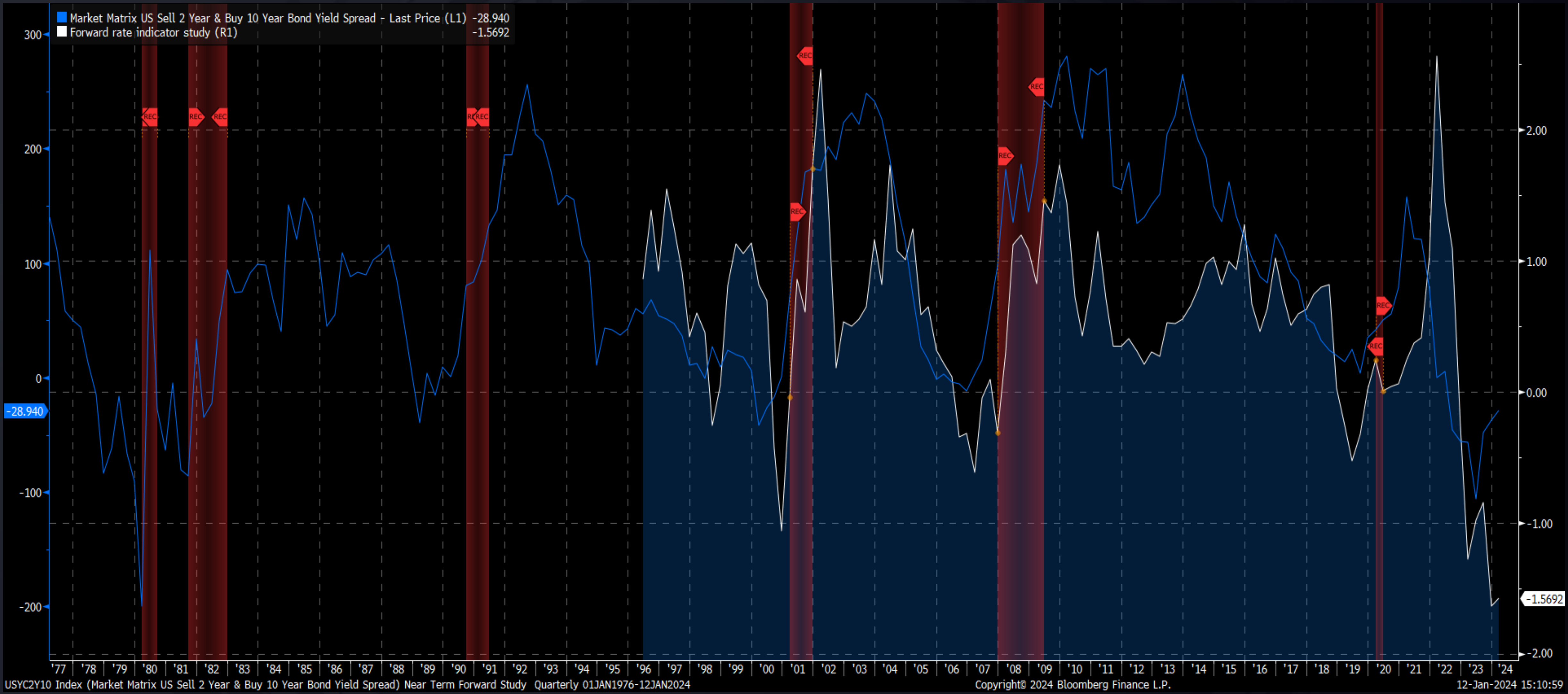
US Treasury Rates Curve- Oct'23 peaks Vs Now



- US Treasuries' November advance was the biggest since GFC and market's first gain since April 23
- 2-year note is at 4.12% & 10 year note at 3.94 %.in Jan 24 from peak of 5.22% and 5.00% respectively
- Fed policy expectations became more dovish

Source: Bloomberg

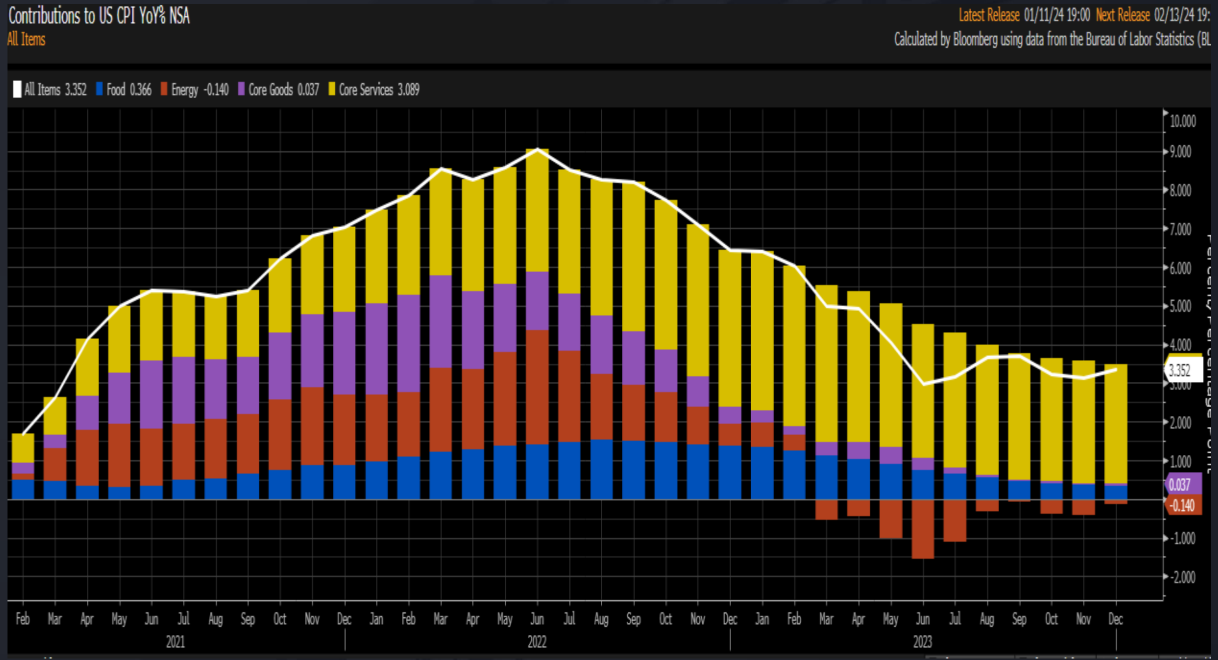
Near term Forward Study, Yield Inversions and Recessions

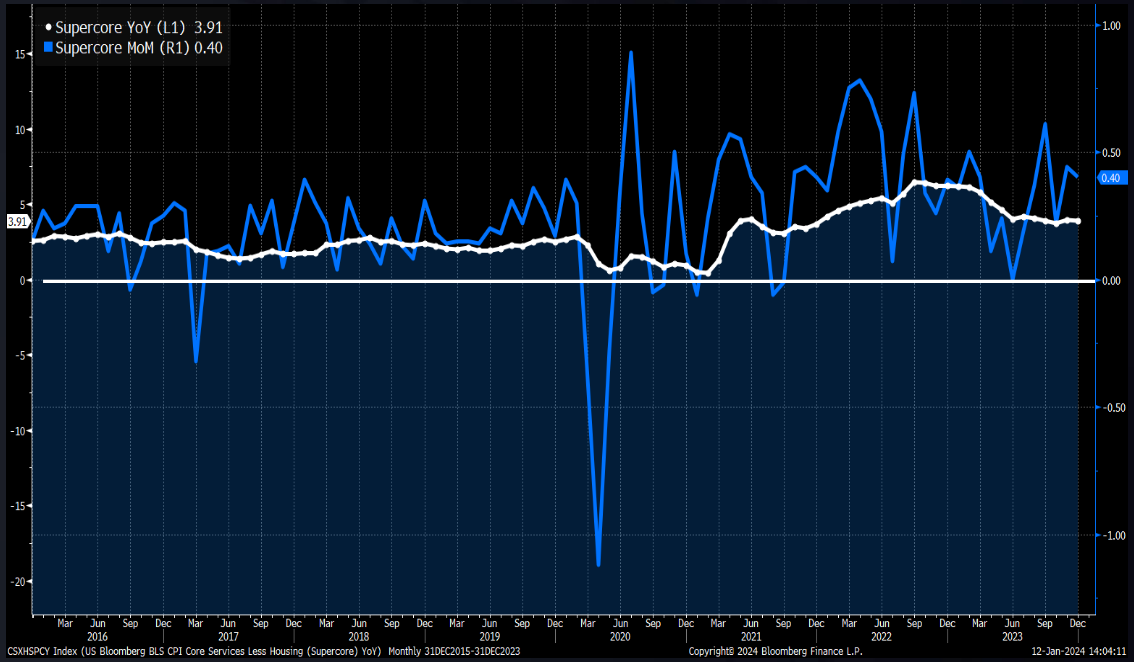


Source: Bloomberg

CPI Diffusion- Last mile disinflation is going to be slow

Supercore Remains Sticky





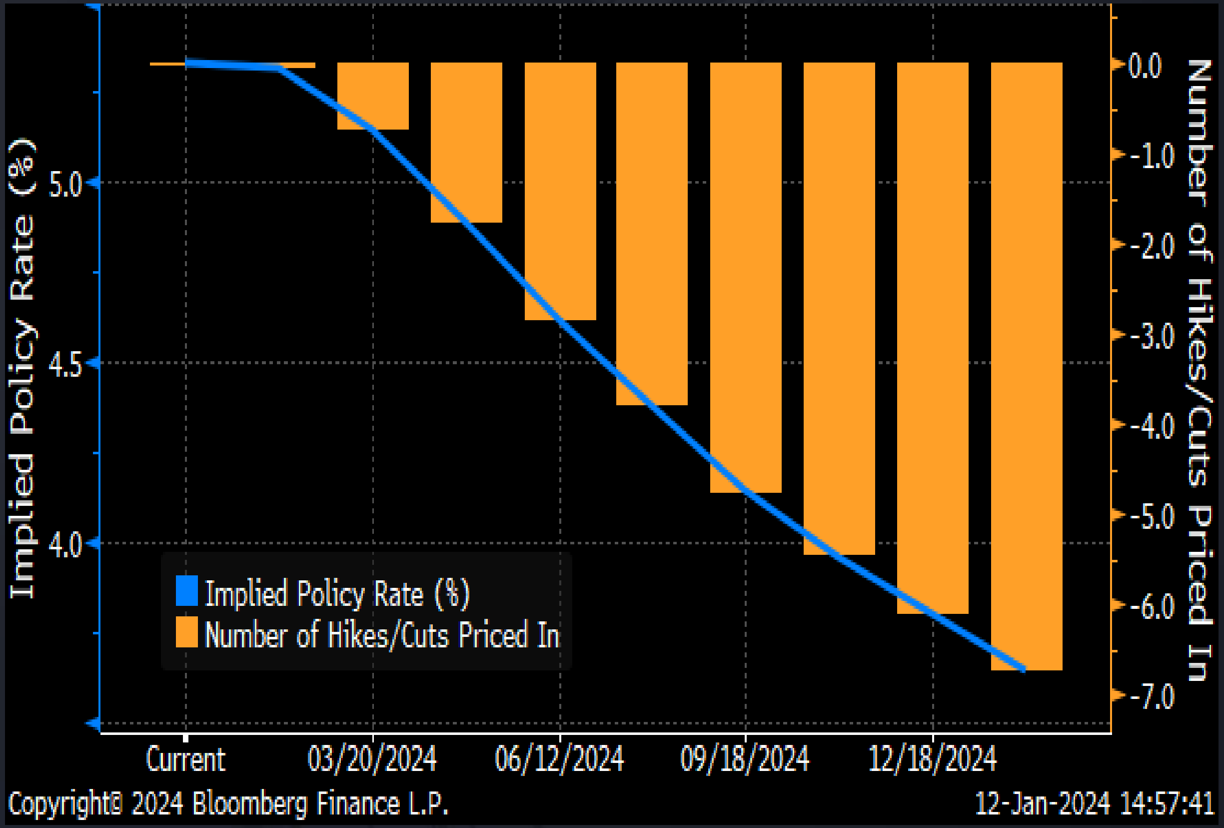
- The Headline CPI disinflation stalled in June 2023
- Core Services now account for all inflation now. As all other components net out to zero
- Headline Inflation Excluding Shelter Inflation is below 2 %

- “Supercore inflation” is a measure that drives what the Federal Reserve does next.
- It covers the services sector excluding shelter, also stagnating. These businesses are particularly sensitive to wages.
- Services ex-shelter inflation remains sticky — supported by still-elevated wage growth.
- Last-mile disinflation, which was exceptionally fast by historical standards in 2023 may be slower and more complicated in 2024.

Source: Bloomberg

US Rates Market- Still pricing in a March cut

Rate Cuts -Implied probability

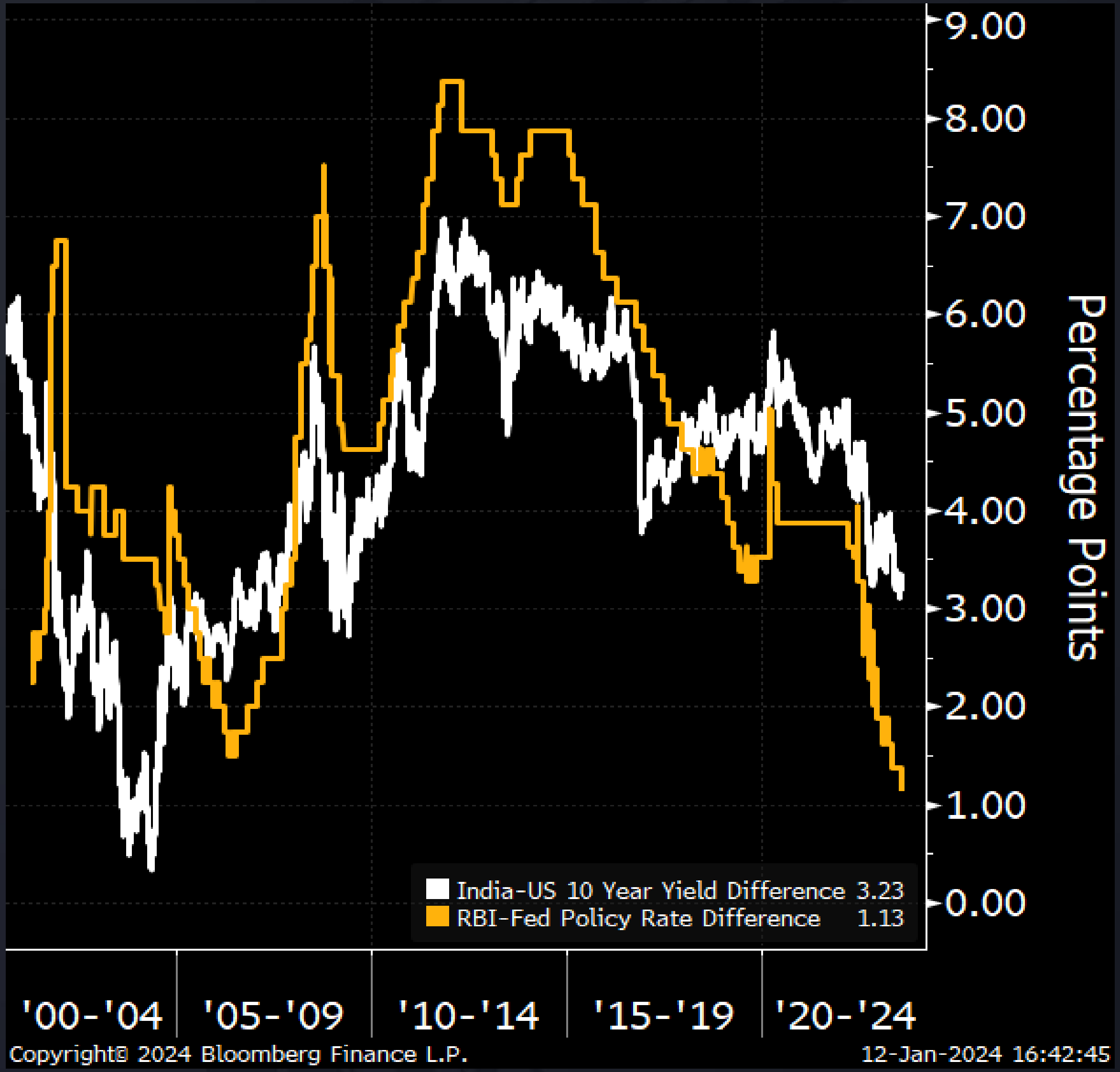


1 year Forward rates Vs US Treasury returns

- Markets still price in cuts as early as March even with inflation still above target. The chance of a 25 basis-point cut in March is still put as high as 63% Vs 90% in the aftermath of Jerome Powell's dovish performance at the last FOMC meeting. This now seems an overly high belief in rate cuts.
- 1-day rate 1 year forward are as low as March-23 levels (mini banking crisis)

Source: Bloomberg

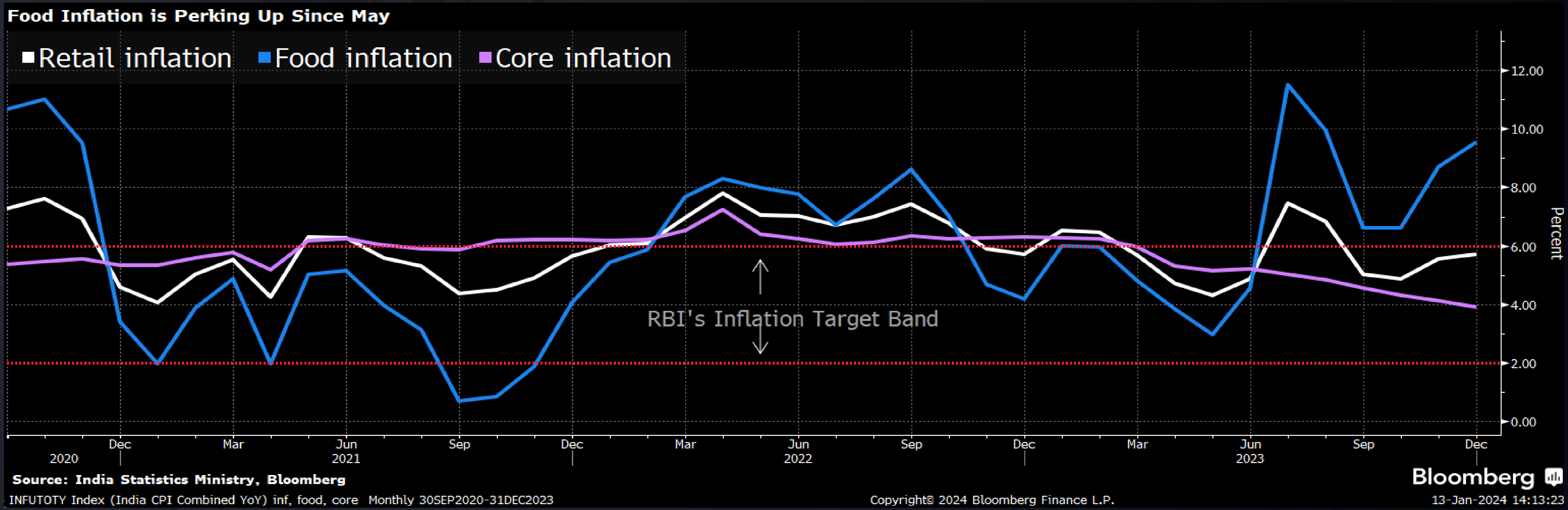
India-US Policy/10-year Sovereign Rate Differential at Record Low



- India US rates differentials are at record low
- This will have a bearing on the quantum and timing of policy rate cut

Source: Bloomberg

India CPI Components Softening

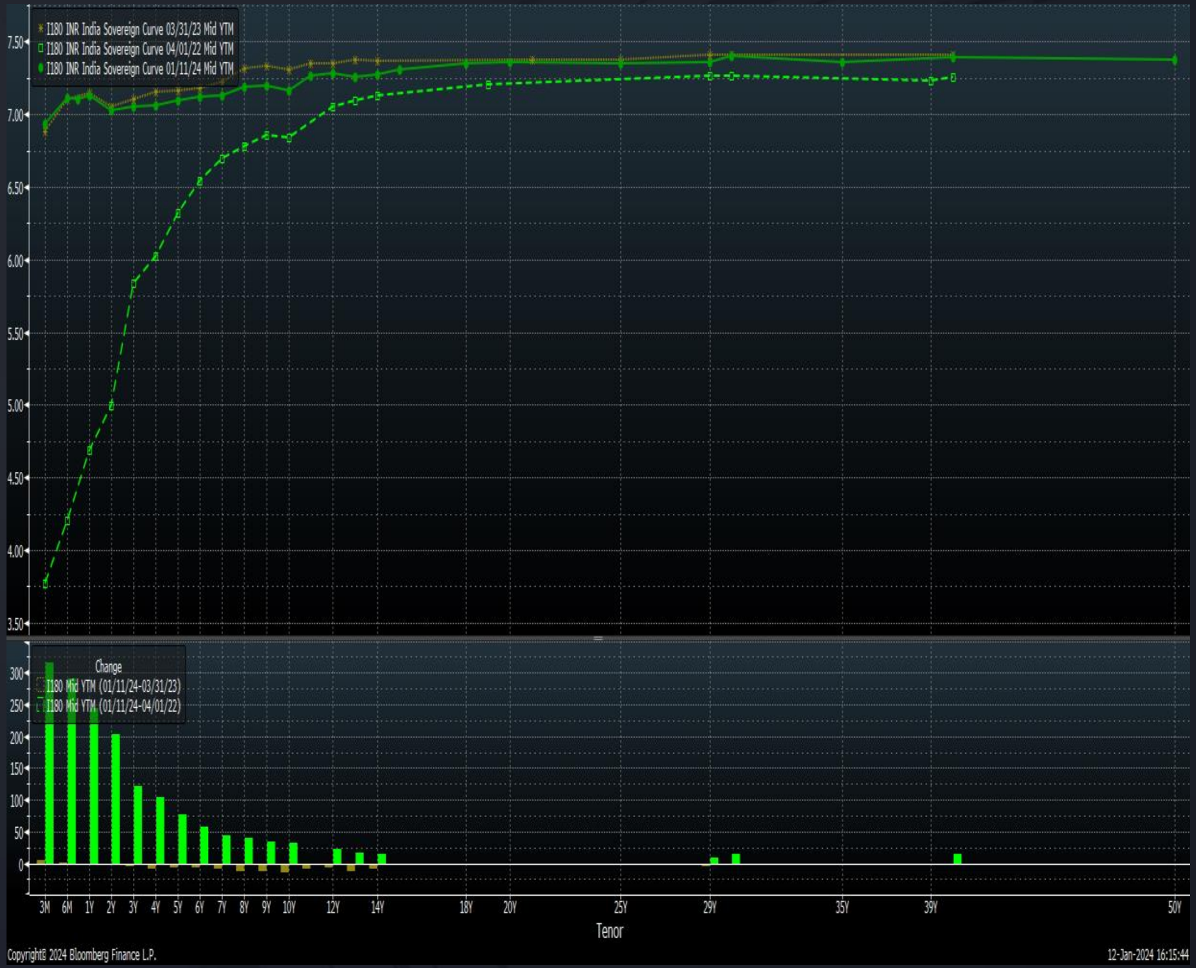


The food Inflation has moved up since May 23. The RBI will be willing to look through this pick up if Core is disinflating consistently

Source: Bloomberg

INDIA – How the Yield Curve has evolved?

Flatter Yield Curve at inflexion point



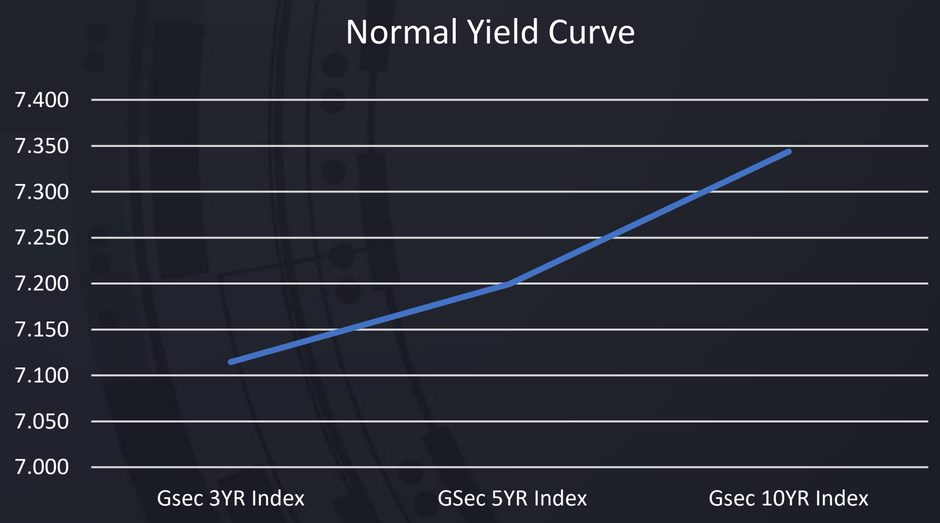
Indian G-Sec 10y -5y Spread

Flat Yield Curve –Risk return profile still favors the belly of the curve

Source: Bloomberg

Riding the Yield Curve

1. Different from Roll Down Strategy
2. Riding the Yield curve attempts to outperform this basic and low-risk strategy of roll down
3. Portfolio with maturity longer than holding period of Investor.
4. Expectation Normal shaped upwards sloping Yield curve post rate cuts.(We give Higher probability shallow rate cut Cycle as of now)
5. Short rates rally more than longer rates – Bull steepening.
6. Risk to strategy– Rise in rates / Flat Curve



Scenario	3 year Portfolio	5 year Portfolio
YTM	7.65%	7.65%
2y Accrual	**15.3%**	**15.3%**
MD After 1 year	1.82	3.39
50 Bps Cut MTM	0.9%	1.7%
Return in 2 years	16.2%	17.0%
Mean reversion 0.20 bps		2.37%
Return		17.67%
Outperformnce		1.46%
Annual	8.10%	8.83%

Note: This slide is for illustrative purpose to explain the concept of riding the yield curve and how rate cuts benefit the fixed incomes schemes. Actual performance for any scheme will depend on investment strategy for any scheme and market conditions at the time of investment. Other details such as expense ratio have not been factored in this computation

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully. This document should not be treated as endorsement of the views / opinions or as an investment advice. This document should not be construed as a research report or a recommendation to buy or sell any security. This document is for information purpose only and should not be construed as a promise on minimum returns or safeguard of capital.

This document alone is not sufficient and should not be used for the development or implementation of an investment strategy. The recipient should note and understand that the information provided above may not contain all the material aspects relevant for making an investment decision. Investors are advised to consult their own investment advisor before making any investment decision in light of their risk appetite, investment goals and horizon. This information is subject to change without any prior notice.

THANK YOU