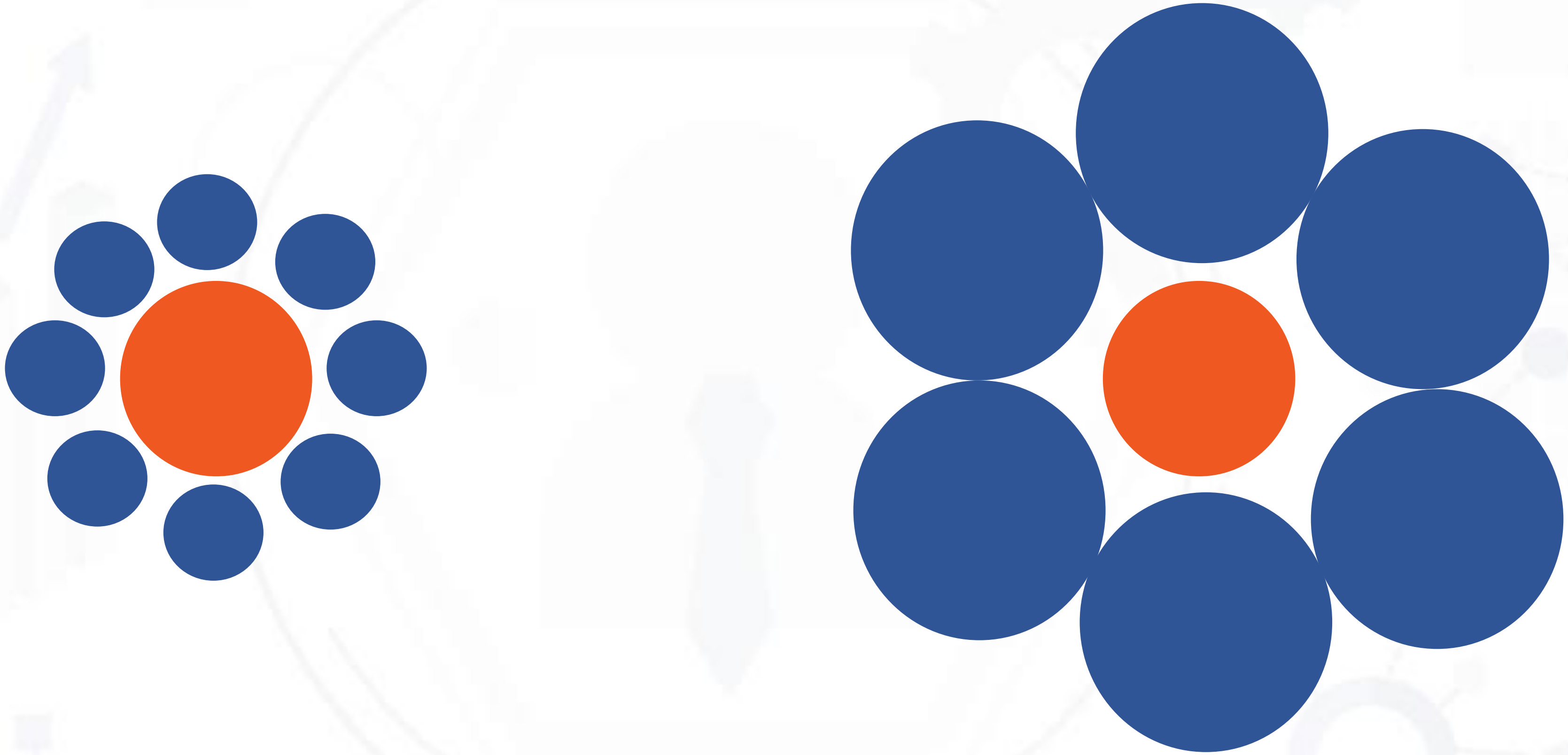
BAJAJ ASSET MANAGEMENT

Monthly Market Outlook

July 2023

Value Vs Price

How anchored are you?



Investors anchored to the Nifty 50's 52-week high have a biased outlook, with an anchored bias towards expecting further gains.

India – Markets and Macro Story
From good to strong

Indicators	Oct 2021	Jun 2023	Impact
Nifty 50	18477*	19189	Markets up 4% (2.3% CAGR)
Nifty EPS (INR)	578	826	Nifty EPS up by 42%
Nifty P/E	31.3	22.4	Nifty valuation are attractive
GST (INR Lac Crs)	1.30	1.61	GST Collection increased by 21%
Manufacturing PMI	55.9	57.8	Manufacturing PMI in expansionary zone
Services PMI	58.5	58.5	PMI above 50 is perceived attractive
CAD (% of GDP)	1.3^	0.2^^	CAD is in the comfort zone
Inflation (%)	4.48	4.25	Inflation closer to RBI's target of 4%

*As on 21st Oct 2021; ^Qtr ending Sep 2021; ^^ Qtr ending Mar 2023

EPS – Earnings per share, P/E – Price-to-earnings ratio, GST – Goods and Service Tax, PMI – Purchasing Managers' Index, CAD – Current Account Deficit

Source: www.nseindia.com; GST Council, Trading Economics, Internal Analysis. Past performance may or may not be sustained in future.

Real GDP

Indian growth accelerates in the moderating world

(Real GDP, annual percent change)	2022	2023	2024
World Output	**3.4**	**2.8**	**3.0**
Advanced Economies	**2.7**	**1.3**	**1.4**
United States	2.1	1.6	1.1
Euro Area	3.5	0.8	1.4
Germany	1.8	-0.1	1.1
France	2.6	0.7	1.3
Italy	3.7	0.7	0.8
Spain	5.5	1.5	2.0
Japan	1.1	1.3	1.0
United Kingdom	4.0	-0.3	1.0
Canada	3.4	1.5	1.5
Other Advanced Economies	2.6	1.8	2.2
Emerging Market and Developing Economies	**4.0**	**3.9**	**4.2**
Emerging and Developing Asia	4.4	5.3	5.1
China	3.0	5.2	4.5
India	6.8	5.9	6.3

- Global growth projected to reach 2.8% in 2023, followed by a modest increase to 3.0% in 2024.
- Rising policy rates raise concerns of contagion effects on the banking sector and broader financial sector.
- Germany is experiencing a recession, adding to global economic challenges.
- India's ~6% annualized growth stands out in contrast to the global economy, attracting global investors' attention.

Source: IMF.

Headwinds then are Tailwinds now

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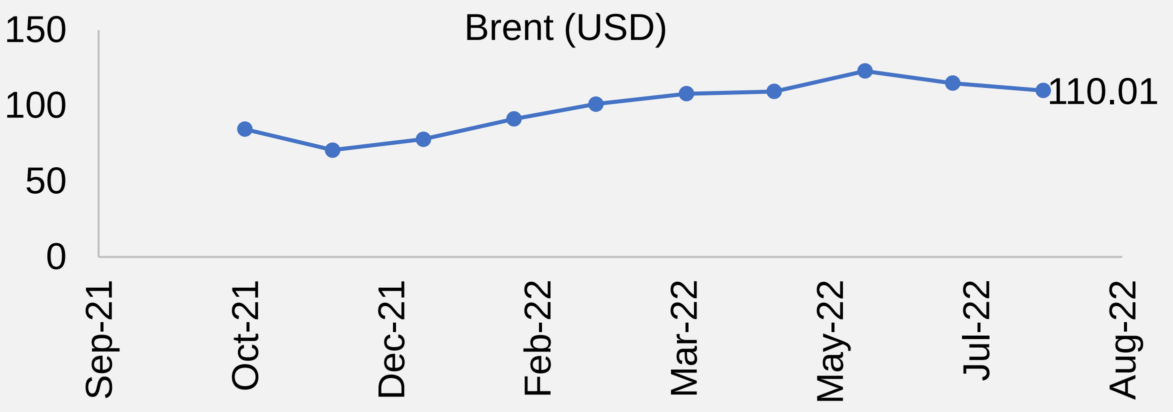
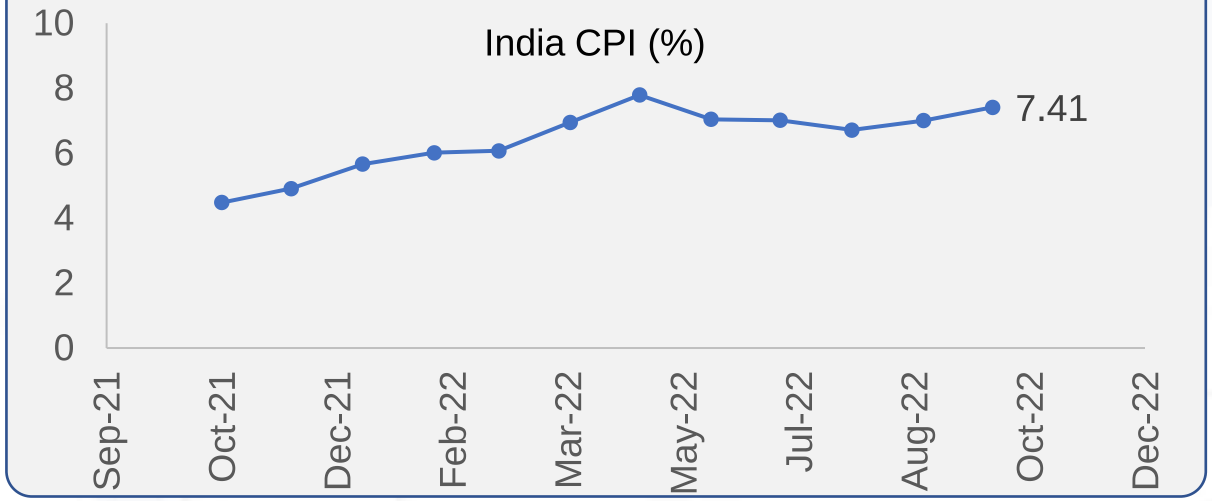
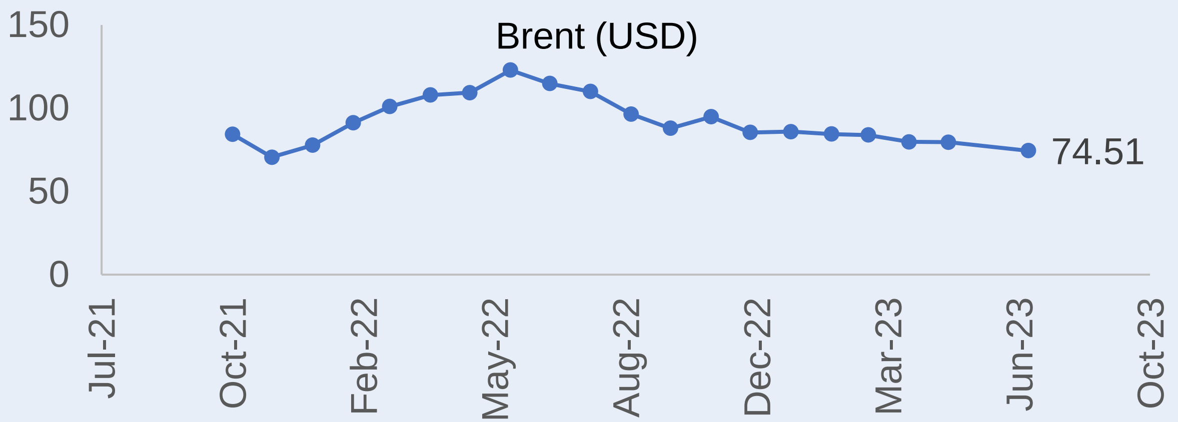
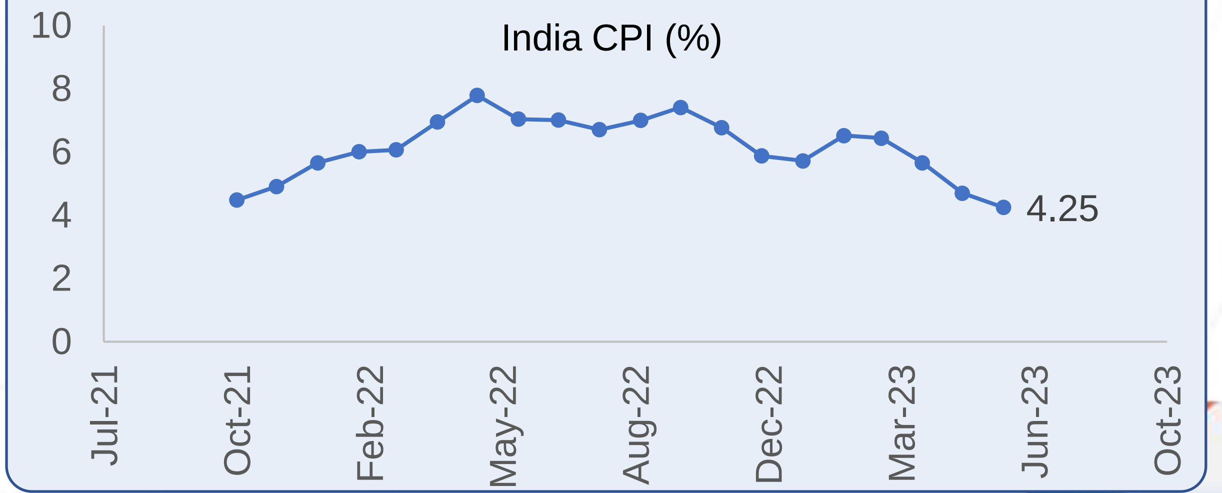
Then





Now

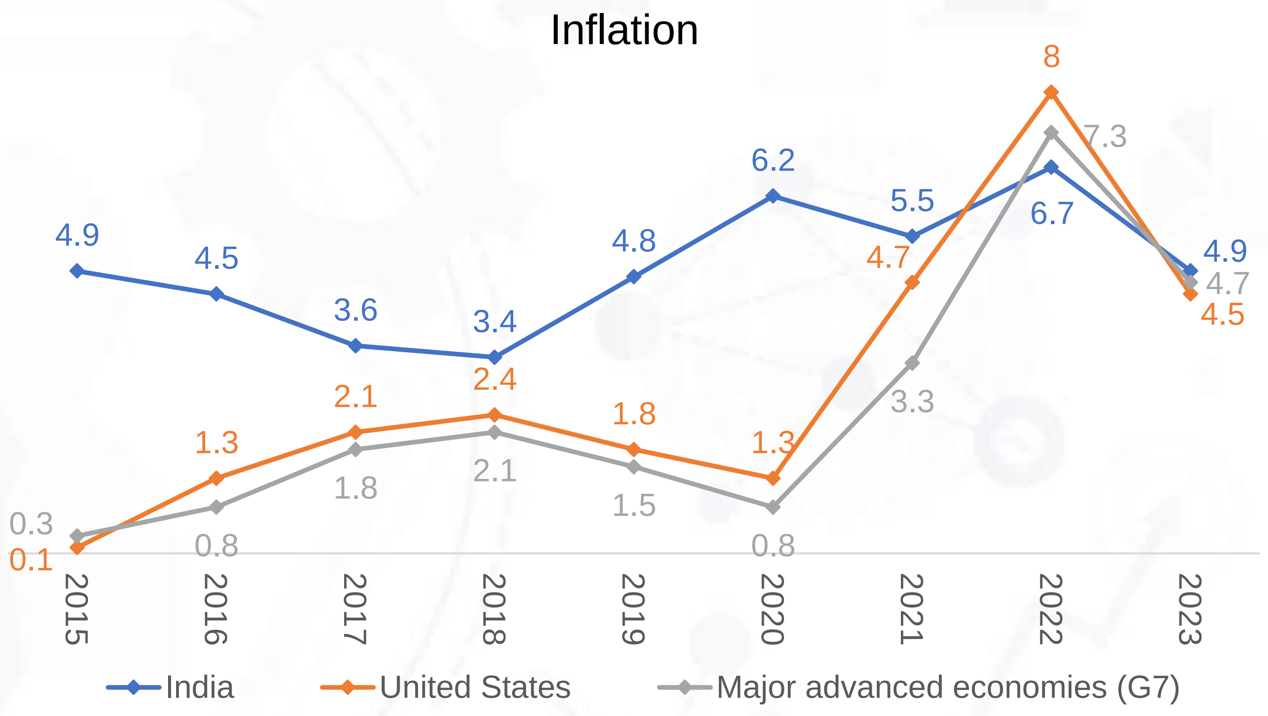




Source: Bloomberg. EIA.Gov

Taming Inflation

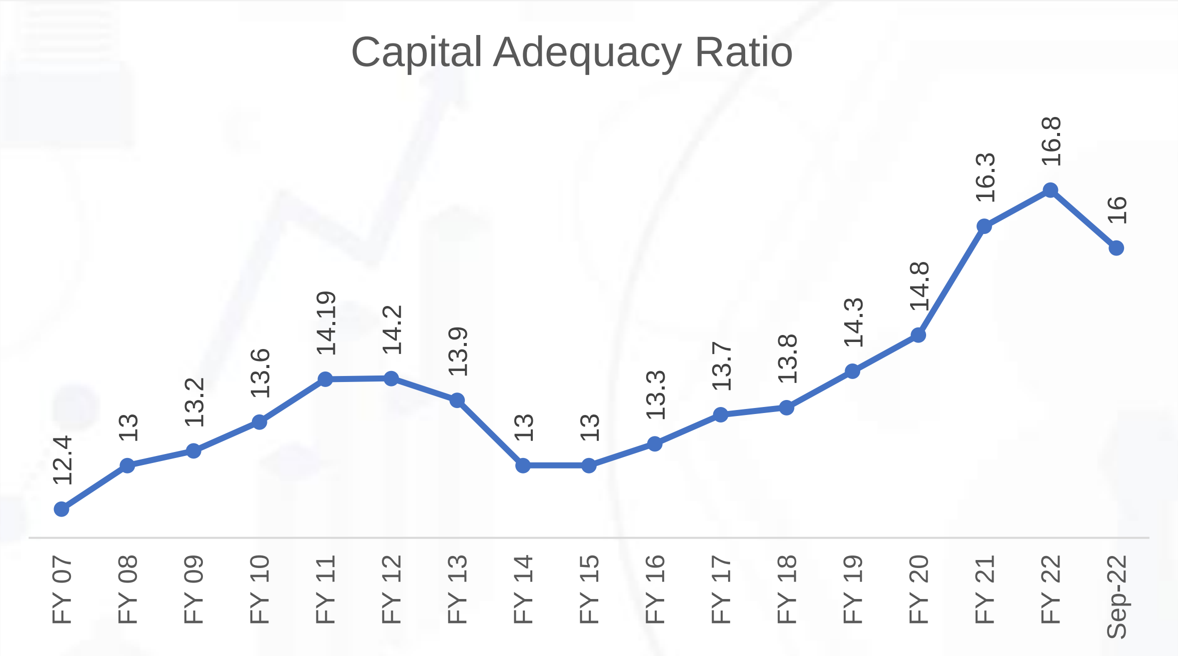
- US inflation in May 2023 eased to 4%, the lowest since March 2021.
- UK consumer inflation remained steady at 8.7% in May 2023 compared to April.
- India's WPI inflation declined to -3.48% in May 2023 from -0.98% in April, driven by lower prices in various sectors.
- The Federal Reserve paused interest rate hikes, maintaining rates at 5% to 5.25%, but suggested the possibility of two more quarter-point increases by year-end.

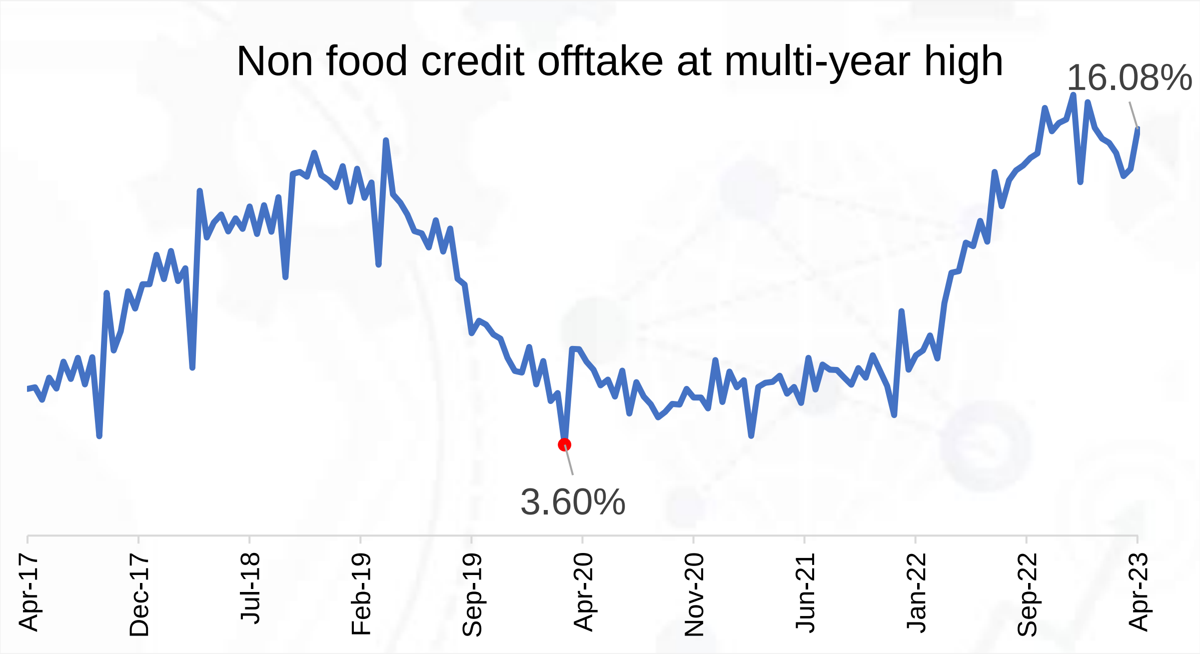


- The ECB raised its main rate by 25 basis points to 3.5% in its eighth consecutive hike since July 2022, addressing high inflation in the region.
- The RBI governor emphasized monitoring above-target headline inflation in India and the impact of the Southwest monsoon on food prices.

Source: IMF.

Indian Banking Sector on strong footing





- This positions the Indian economy favourably for a new credit and investment cycle without stressing the system.
- The credit mix has shifted from corporate loans to retail segments over the past decade, improving corporate balance sheets and creating positive credit demand.
- Indian bank balance sheets are robust, reaching their strongest point in a decade. With a net NPA ratio of around 1% banks are well position to expand their credit books sizably in the coming years.

Source: RBI, internal analysis.

India's Growth Confidence

Manufacturing PMI

	Jan-23	Jun-23
India	55.4	57.8
United States	46.9	46.3
Japan	48.9	49.8
China	49.2	50.9
South Korea	48.5	47.8
UK	47	46.5
Vietnam	47.4	46.2
Germany	47.3	40.6
Brazil	47.5	46.6

Services PMI

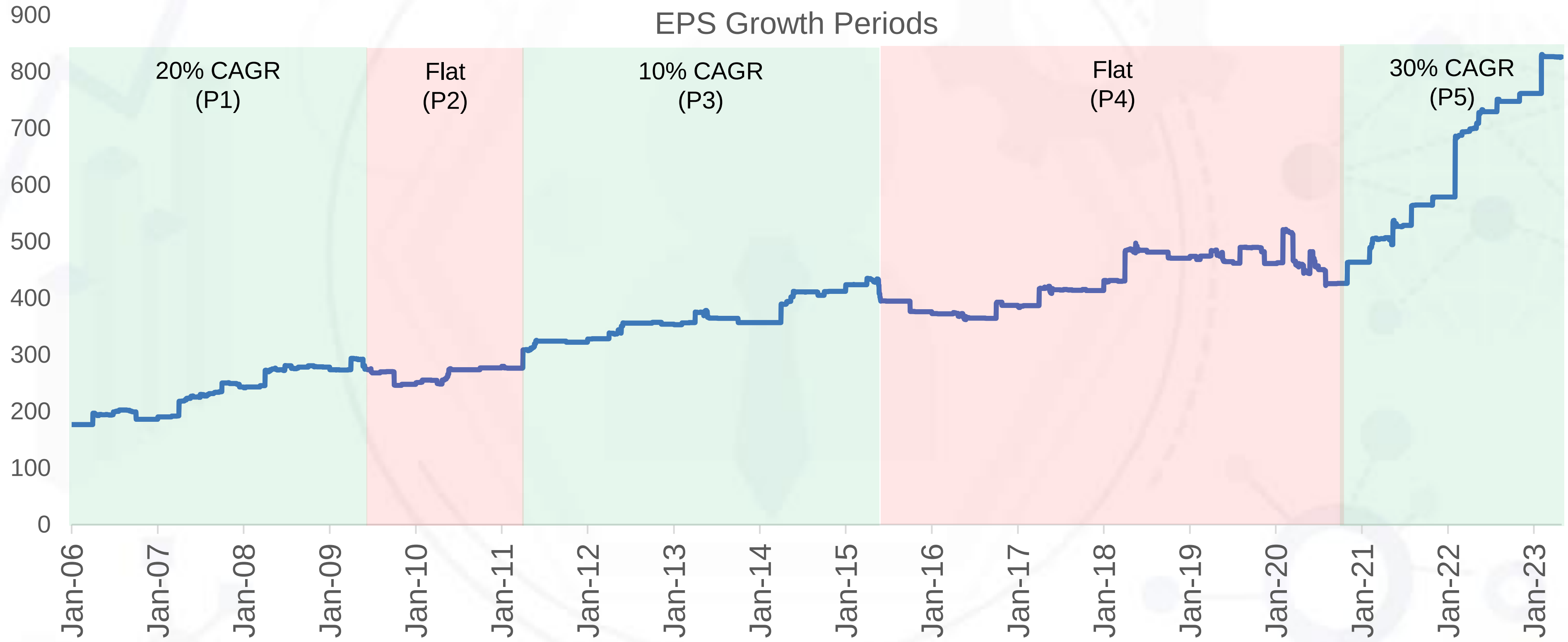
	Jan-23	Jun-23
India	57.2	58.5
Japan	52.3	54
Brazil	50.7	53.3
UK	48.7	53.7
France	49.4	48
Germany	50.7	54.1
China	52.9	53.9
Australia	48.6	52.5
United States	46.8	54.4

- Services sector is still upbeat in most major economies, as indicated by their PMIs.
- The outlook for both services and manufacturing in India remains optimistic. Services PMI in India indicates strong demand resilience, with output growing at the second fastest pace since July 2010. PMI for Indian manufacturing reached 57.8 in Jun, marking the strongest improvement since October 2020.
- Manufacturing outlook in the US remained weak in Jun, raising concerns about economic health and the possibility of a recession.

Source: Trading Economics.

Earnings Heading Northward

Currently, Nifty is in an attractive earnings expansion zone after a time correction of over 5 years.



P1 – Jan 2007 to May 09; P2 – May 09 to Mar 11; P3 – Mar 11 to May 15; P4 – May 15 to Oct 20; P5 – Oct 20 to Apr 23.

Source: Bloomberg, Internal Analysis.

In a nutshell
Advantage India

Global Scenario

- Uncertain Global Macros
- Global Liquidity tightening
- US facing recessionary pressure

Domestic Scenario

- Strong Indian Macros
- Comfortable liquidity
- Healthy corporate earnings
- Robust credit offtake

- ✓ Markets may see volatility in short terms owing to global uncertainties.
- ✓ Nifty 50 despite being at lifetime highs, the valuation due to time correction has reached the fair valuation zone.
- ✓ This provides sufficient headroom for long term investors.
- ✓ Whether the overall market undergoes correction or not, pockets of opportunities continue to exist.
- ✓ If the markets correct, we believe that such correction for Indian markets may be short lived.
- ✓ The fund manager would allocate gradually to align with the risk reward trade off. Any volatility would provide attractive entry points to the investors.

What lies ahead!

- The current state of the Indian macroeconomy is robust, though the risks in the global environment, especially in the United States, as developed world grapples with rising recessionary pressures.
- The US Fed is communicating further 50 bps rate hike. Although in Jun month meeting, the US Fed took a pause after 10 straight increases which in total raised the rate by 500 bps.
- On that account, while Indian fundamentals remain robust, the market may experience short volatility in sympathy with the global market trends.
- This may create short-term buying opportunities for the fund with ample allocation schedule to construct the required portfolio from long term perspective.
- This scenario presents a potentially favorable opportunity to invest in our upcoming New Fund Offering (NFO). This way the investor may not only capitalize on the core growth impulses of India’s growth story but also investors can gain exposure to companies that have the potential to reshape entire industries and generate long term growth.
- By investing in a fund that identifies and capitalizes on these shifts, investors can position themselves to benefit from these fundamental changes.

BAJAJ FINSERV FLEXI CAP FUND

An open ended equity scheme investing across large cap, mid cap, small cap stocks.

This product is suitable for investors who are seeking*:

- Wealth creation/capital appreciation over long term
- Investment in equity and equity related instruments across large cap, mid cap and small cap stocks

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

SCHEME

RISKOMETER#

Investors understand that their principal will be at very high risk

BENCHMARK

RISKOMETER#

S&P BSE 500 TRI

An open ended equity scheme investing across large cap, mid cap, small cap stocks

#The product labelling assigned during the New Fund Offer is based on internal assessment of the Scheme Characteristics or model portfolio and the same may vary post NFO when actual investments are made.

Thank you!

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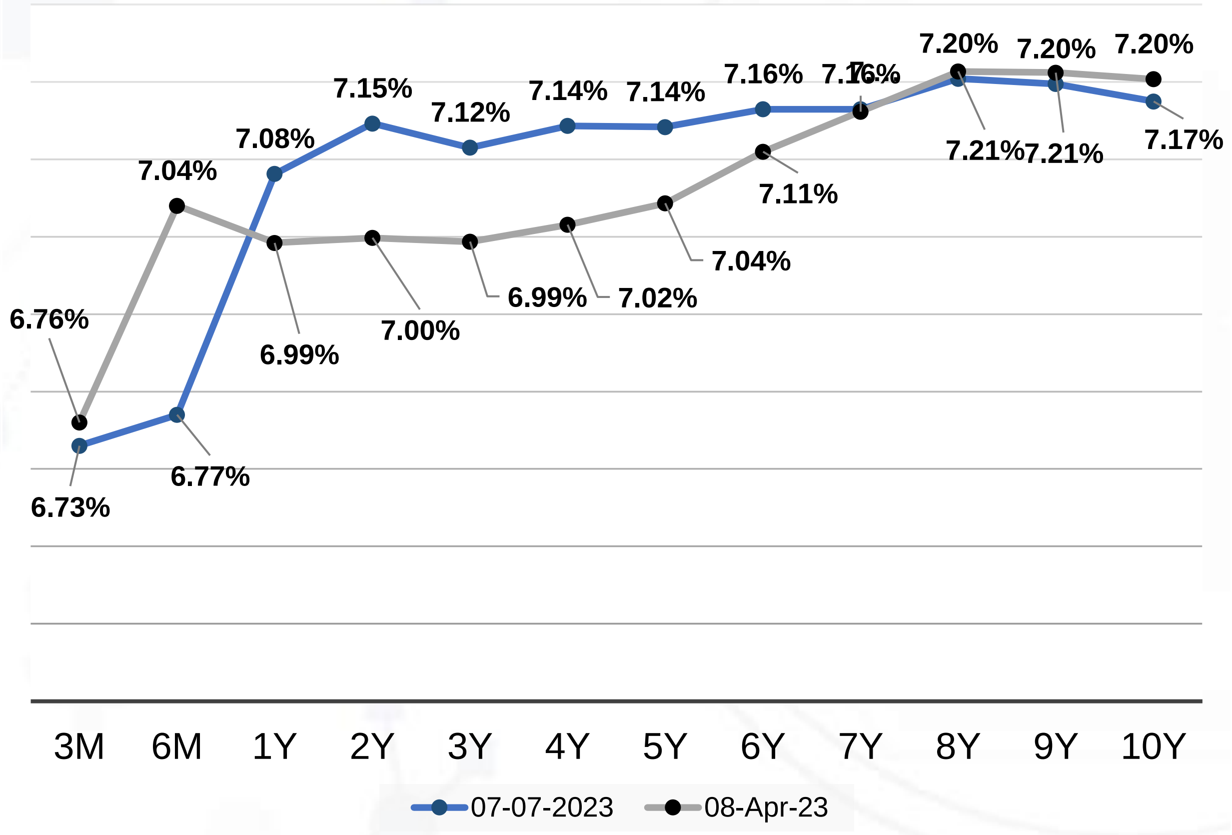
Annexures

India – Interest rate yield curve



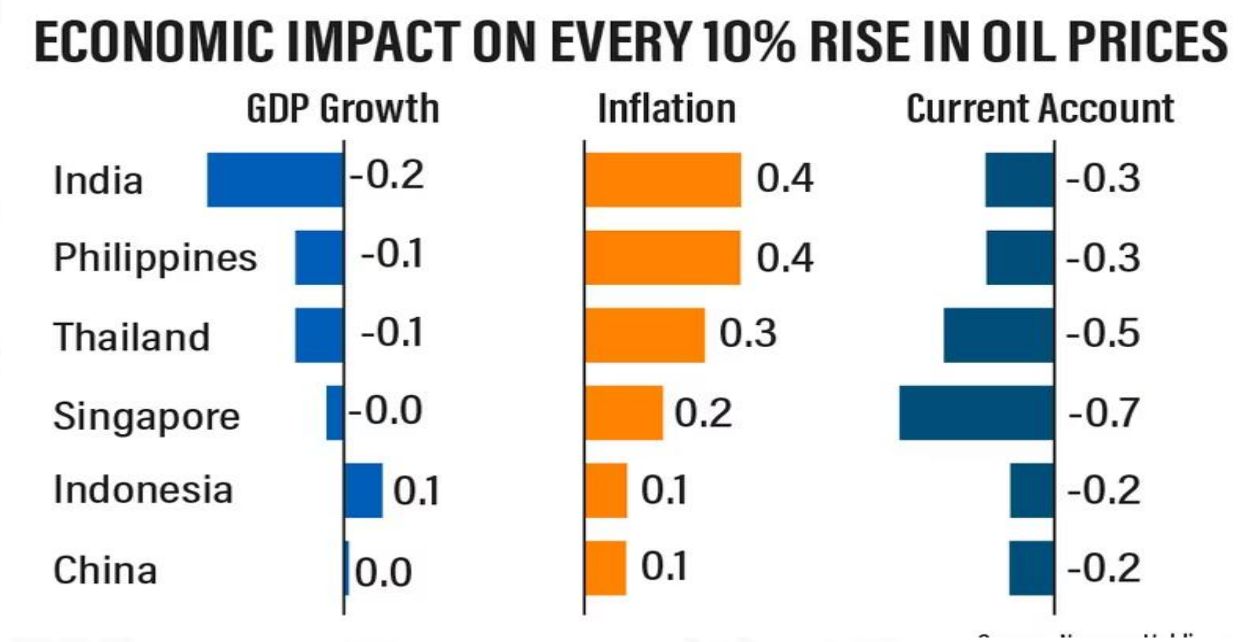
- Interest rate yield at the near end has fallen as the liquidity inflow from Rs 2000 currency withdrawal flushes the system.

- The short term yields have come down steeply while the longer end of the curve remains firm on account of uncertain outlook in the US debt market.

- We believe that as the liquidity gets pulled out of the system, the near-term rates too may begin to reflect the broader market view. The market will await the data on monsoon, US Fed action and demand supply interplay to determine further course.

Source: Bloomberg.

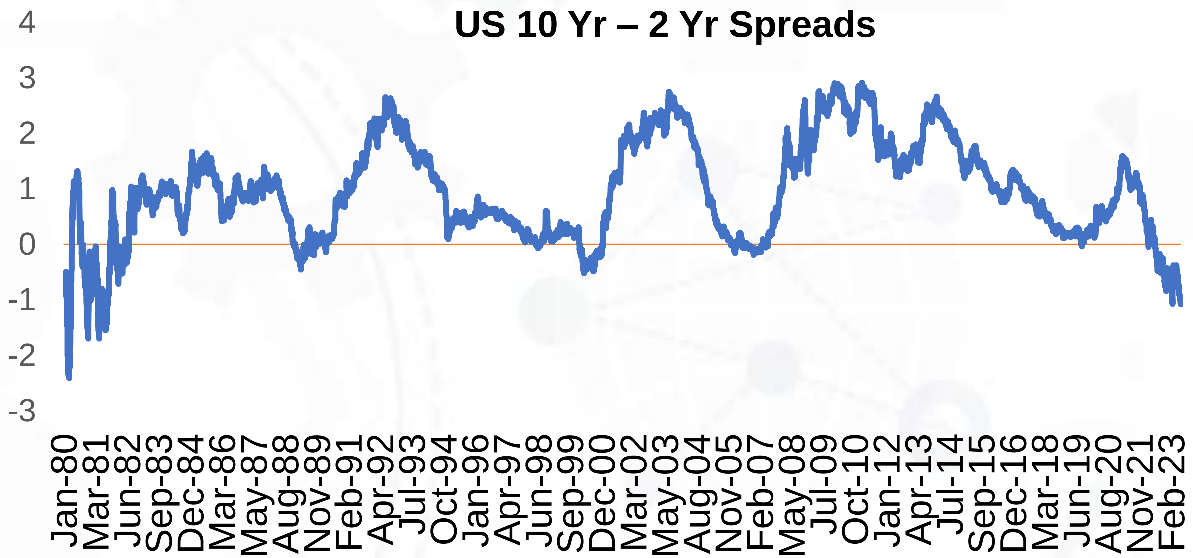
Falling Brent and Improving Indian Trend



- Low oil prices will impact the Indian economy positively as energy input costs are likely to come down on YoY basis.
- Already the CAD has moderated down. The possibility of slowdown/recession in developed economies may pull down the oil prices further in the medium term.

Source: Internal Research

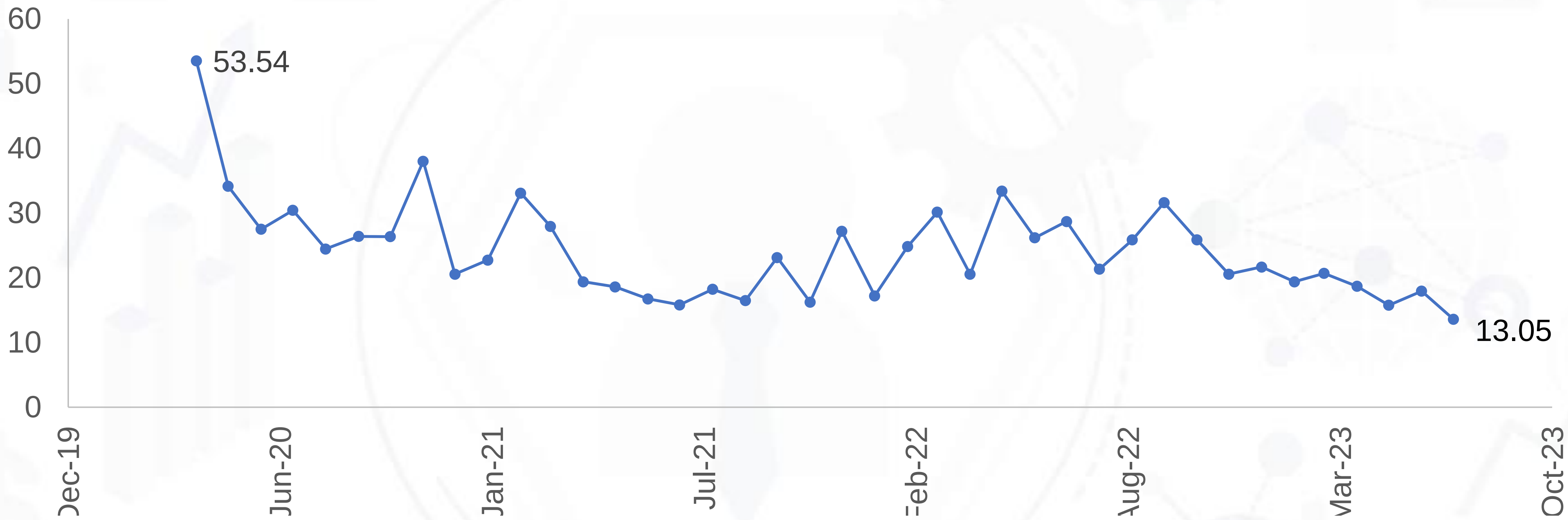
The Term Premia in US Debt Markets
now fallen!



- Inverted yield curves have historically predicted recessions. The current inversion is deeper and has been ongoing for over a year. The economy is highly dependent on low-interest rates due to increased leverage.
- Inverted yield curves and tight credit spreads discourage lending and impact bank profitability. The yield curve usually precedes a recession by about 16 months. It suggests that investors have a pessimistic outlook on the economy, as they are demanding higher yields on short-term bonds compared to long-term bonds.
- This phenomenon is sometimes referred to as an "inverted yield curve," which has historically been associated with economic downturns.

Source: US Fed.

CBOE - USA

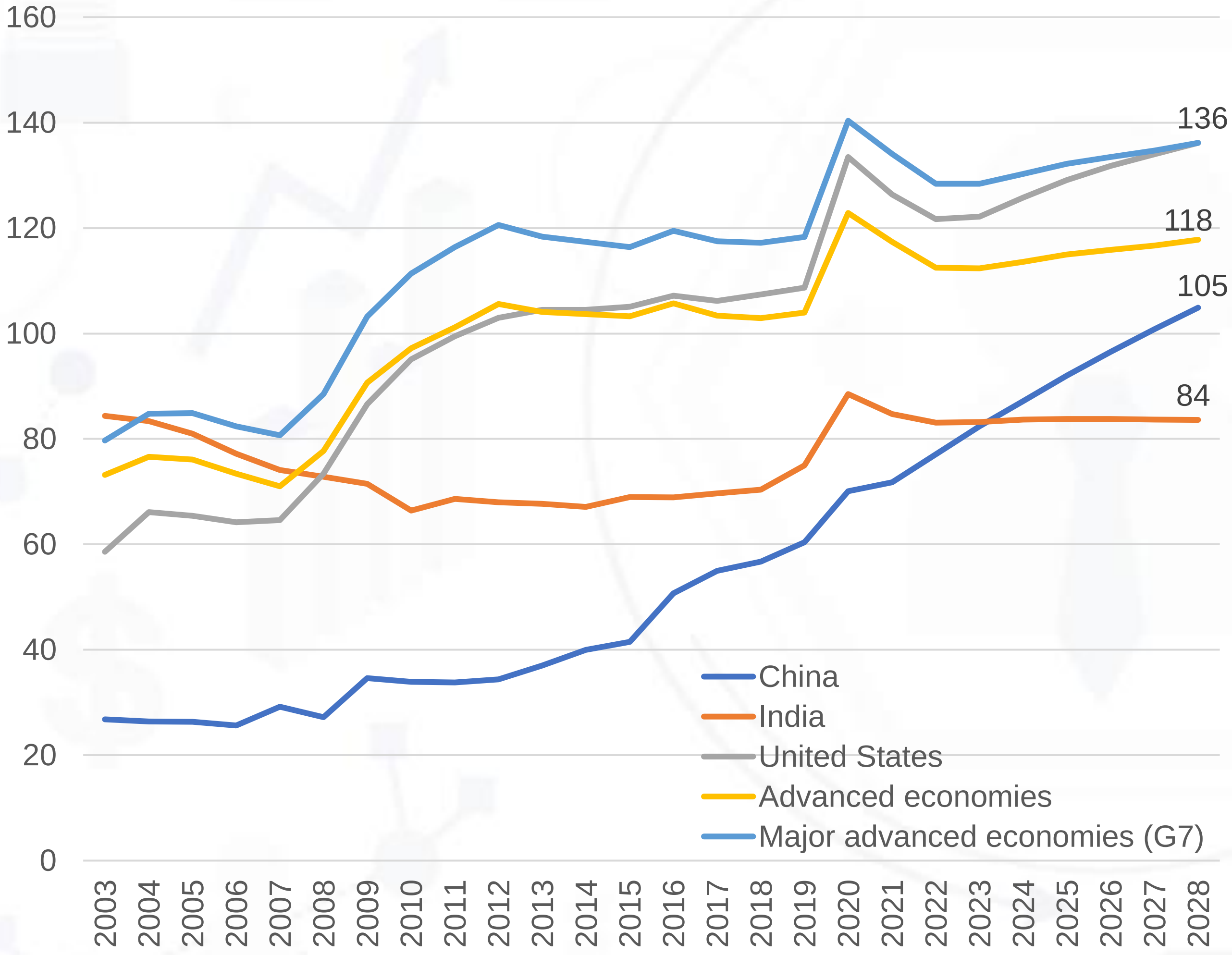


- The CBOE Volatility Index (VIX), often referred to as the "fear gauge," measures market expectations of near-term volatility in the U.S. stock market.

- A lower level of the VIX suggests that investors are not currently factoring in a significant equity risk premium.

Source: www.cboe.com,

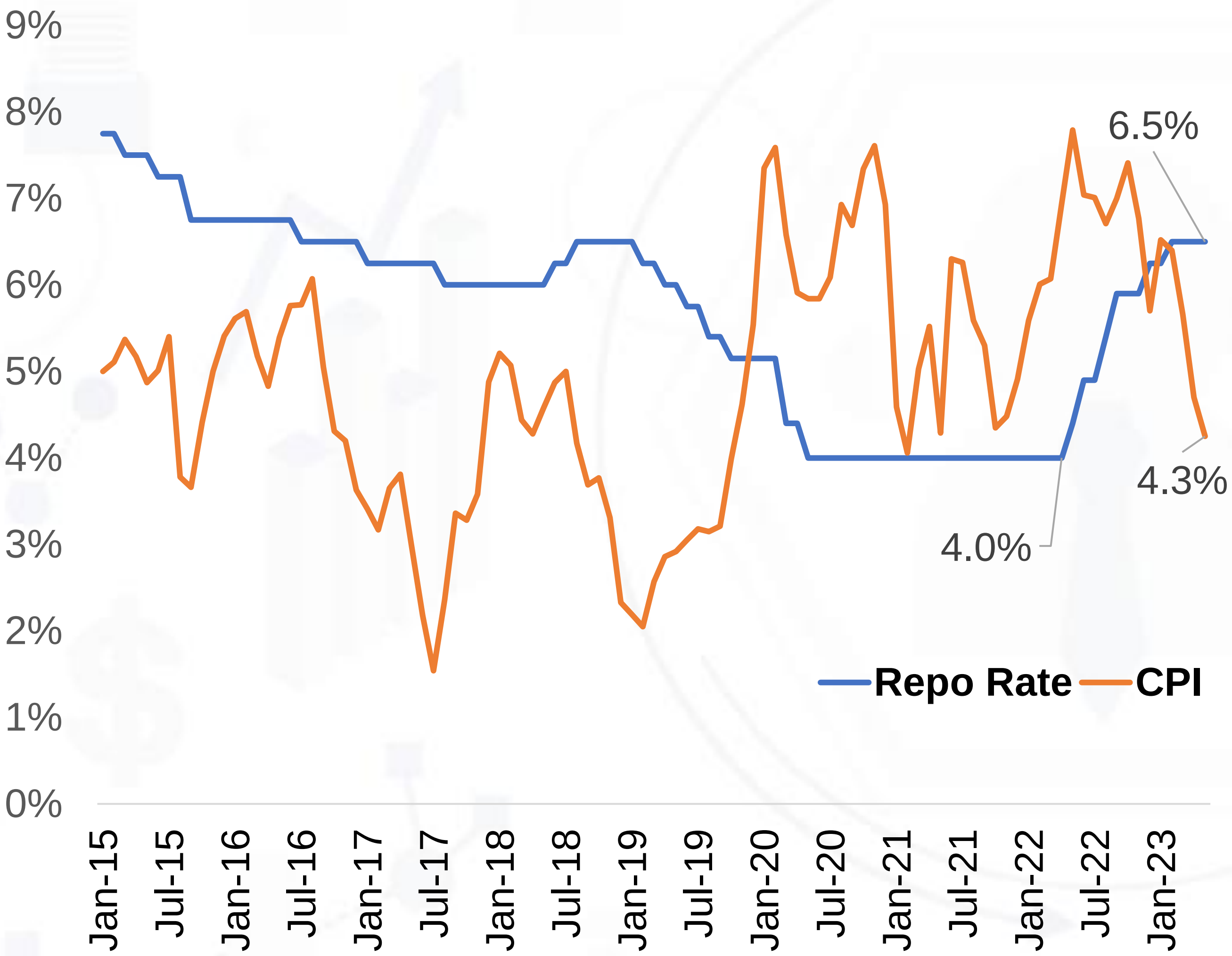
Gross Debt (% of GDP)



- Compared to major economies, India's gross debt to GDP ratio is relatively low, which can be considered a positive factor for the country.
- A low debt to GDP ratio implies that India has a smaller debt burden relative to its economic output. This can be advantageous as it allows the government to have more flexibility in managing its finances and potentially mitigates risks associated with high levels of debt.

Source: IMF.

Inflation and Monetary Policy Stance



- Indian Bond market is increasingly range bound.
- The inflation is on downward accent due to improving supply , low brent prices and onset of previous policy actions.
- The central banker seems to be on wait and watch mode on the course of future policy action in US, the monsoon data and macro demand supply interplay before it decides future course of action.

Source: IMF.