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A Quarterly Newsletter by Reliance Nippon Life Insurance

INVESTMENT BULLETIN

April 2024

Content

From the Desk of CIO

The new year 2024 brings positive developments on both the global and domestic economic fronts. In the United States, the economy is experiencing robust job gains and inflation figures surpassing expectations. Meanwhile, India is basking in strong growth momentum and minimal core Consumer Price Index (CPI) inflation.

The US labor market remains resilient, with the unemployment rate holding steady at a low of 3.8%, presenting challenges for the US Federal Reserve, which had projected a reduction in policy rates by approximately 75 basis points in 2024. Geopolitical tensions in the Middle East have contributed to a surge in crude oil prices to USD 90 per barrel due to supply disruptions.

India continues to lead in economic growth, with third-quarter GDP expanding by 8.4%, driven by robust government and private capital expenditures, as well as buoyant demand in the services sector. Despite subdued core inflation of 3.3% in February 2024, the Monetary Policy Committee (MPC) remains cautious, keeping policy rates and stance unchanged due to elevated food prices. The current account deficit also remains comfortable at 1.2% of (GDP).

The government maintains fiscal prudence, staying on course to achieve its budget deficit target of 5.8% of GDP in FY24 and aiming for faster fiscal consolidation to 5.1% in FY25. India's inclusion in the J.P. Morgan Emerging Markets Bond Index has boosted confidence in the dynamic economy, attracting approximately USD 7 billion in fixed-income securities in Q4. With headline inflation expected to stabilize around 4.5% and strong projected growth of 7% next year, the inflation-growth dynamics in the Indian economy are anticipated to remain favorable, ensuring smooth sailing ahead.

Equity Market Outlook:

Global sentiment remained positive toward the Equity markets globally on back of reducing inflation and stronger than expected Economies coupled with reducing the pace of US Fed`s balance sheet tightening. Notably, US Federal Reserve officials announced plans to lower interest rates in 2024, aiming to navigate these challenges. On the domestic front, Government spending saw a significant surge, reaching a seven-month high of 20% YoY growth in February. This increase was primarily fuelled by a remarkable expansion in capital expenditure by over 300%, alongside a modest uptick of 0.8% in revenue spending. Moreover, the shift from El Nino to La Nina weather patterns is poised to positively impact India, potentially fostering rural recovery and bolstering consumption. Investment flows remained robust from both Foreign Portfolio Investors (FPI) and Domestic Institutional Investors (DII), contributing to positive quarterly and yearly figures. FPI notably purchased $1.4 bn, while DII acquired $13.1 bn in the quarter. For the full year of 2024, both FPI and DII bought $25.2 bn and $25.3 bn, respectively. The outlook for the Indian markets remains robust and optimistic, underpinned by strong corporate earnings, forthcoming elections, and economic growth. Collectively, these factors contribute to a favourable outlook for the Indian markets, indicative of resilience and potential for continued growth.

Debt Market Outlook:

The debt market was influenced by several factors, including the moderation of domestic core Consumer Price Index (CPI) inflation, a reduced borrowing program by the central government for FY25, and robust Foreign Portfolio Investor (FPI) flows during the previous quarter.

Internationally, US 10-year Treasury yields climbed to approximately 4.40% as investors processed strong economic data and adjusted their expectations regarding interest rates. Meanwhile, Brent crude oil prices reached around $90 per barrel due to supply disruptions caused by Israeli airstrikes in Syria and Ukrainian drone strikes on Russian refineries. Domestically, core inflation decreased to 3.3%, driven by a broad-based slowdown in prices. FPIs continued to display strong demand for debt securities following the inclusion of Indian debt in the J.P. Morgan Emerging Markets Bond Index. The government has set a borrowing program of INR 7.5 trillion for the first half of FY25, lower than the previous year.

Looking ahead, we anticipate the Reserve Bank of India (RBI) to maintain a prolonged pause on policy rates in the first half of FY25 to assess the progress of food inflation. With lower government securities supply and robust Foreign Institutional Investor (FII) flows, Government Securities (G-sec) yields may remain constrained in the short term. However, state government borrowing for Q1FY25 was higher at INR 2.5 trillion, which could keep the spread between State Development Loans (SDLs) and G-secs elevated.

Mr. Yadnesh Chavan
Head – Investments

Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3	16.32%	31.85%	14.31%	15.59%	13.98%	11.34%
Nifty 50 Index	13.69%	28.61%	13.07%	14.97%	13.95%	10.71%
Life Equity Fund 2	15.06%	30.20%	13.53%	15.14%	13.65%	11.48%
Nifty 50 Index	13.69%	28.61%	13.07%	14.97%	13.95%	10.62%
Make In India Fund	15.61%	31.11%	14.94%	16.21%	13.28%	12.61%
Nifty 50 Index	13.69%	28.61%	13.07%	14.97%	13.95%	14.97%
Life Large Cap Equity Fund	16.43%	31.94%	14.67%	14.96%	NA	14.68%
Nifty 50 Index	13.69%	28.61%	13.07%	14.97%	13.95%	15.10%
Life Pure Equity Fund 2	23.04%	46.01%	22.02%	22.05%	18.77%	11.91%
Benchmark	23.48%	45.50%	20.15%	21.14%	17.66%	11.24%
Life Infrastructure Fund 2	28.27%	54.54%	24.21%	25.66%	20.18%	8.10%
Benchmark	29.94%	54.72%	20.43%	24.19%	19.91%	7.03%
Life Energy Fund 2	42.21%	74.81%	37.14%	35.97%	24.74%	12.10%
Benchmark	43.71%	75.01%	31.15%	34.63%	23.62%	11.39%
Life Midcap Fund 2	16.28%	55.80%	25.27%	25.40%	20.59%	14.16%
Benchmark	16.49%	59.76%	28.56%	25.94%	21.65%	11.82%
Life Balanced Fund 1	6.55%	11.95%	7.35%	7.41%	7.23%	7.95%
Composite Benchmark*	6.22%	12.10%	7.53%	7.50%	8.97%	8.05%
Life Money Market Fund 1	2.86%	5.80%	4.94%	4.03%	3.92%	5.85%
Crisil 91 day T bill Index	3.59%	7.22%	6.36%	5.47%	5.28%	6.75%
Life Corporate Bond Fund 1	4.69%	7.80%	5.66%	5.09%	6.00%	7.20%
Crisil Composite Bond Index	4.34%	8.26%	6.01%	5.49%	7.33%	7.74%
Life Gilt Fund 1	5.00%	7.98%	6.00%	4.97%	6.36%	6.75%
Crisil Dynamic Gilt Index	4.97%	8.63%	6.43%	5.67%	7.21%	8.07%

* Composite Benchmark comprising of Crisil Composite Bond Index with 80% weight and Sensex 50 with 20% weight
As on 31-Mar-2024
Note – Returns more than 1 year are CAGR returns.

Fund Strategy and Outlook - Equity

Fund Strategy and Positioning: Equity

The Indian economy demonstrates resilience amid prevailing global headwinds. Domestic growth prospects appear optimistic, supported by several factors including the progress of the south-west monsoon, improving capacity utilization, and the concurrent acceleration of private and government capital expenditure plans. Furthermore, the preliminary indications of a transition from El Nino to La Nina weather patterns are anticipated to accelerate the revival of rural demand. Government spending is on the rise, notably driven by a significant expansion in capital expenditure coupled with a moderate increase in revenue spending. These collective developments underscore a positive outlook for the Indian economy, reflecting its ability to withstand external challenges and pave the way for sustained growth in the foreseeable future.

We continue to be positive on sectors linked to infrastructure spends (Industrials, Commercial Vehicles (CV) & Cement), Auto, Oil & Gas and selective financials. Investors expect 15% earnings growth for the Nifty over the next 12 months and valuations at 20.5x PE (one-year forward earnings) are reasonable. While we are constructive on markets, our investment strategy is to be Over-weight Value & Quality.

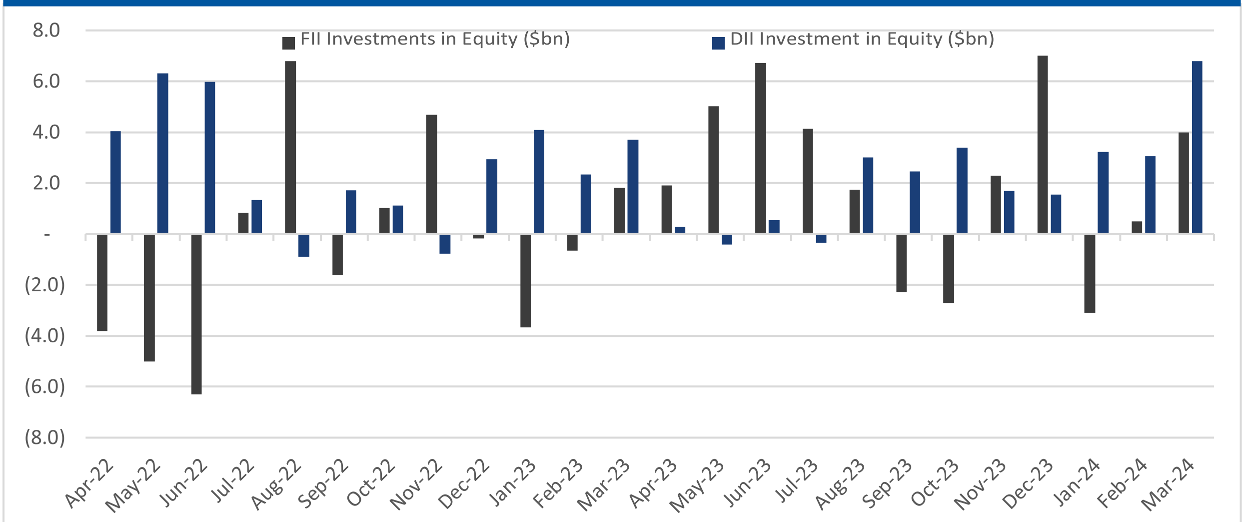
Indian Equity Market Performance

Index performance

Return %	3 Month	6 Month	1 Year
Broad Based Indices			
Sensex	2.0	11.9	24.9
Nifty	2.7	13.7	28.6
Defty	2.5	13.2	26.7
BSE 100	4.1	15.8	32.3
BSE 200	4.8	17.3	36.7
BSE 500	4.3	16.9	38.4
BSE Mid cap	6.7	21.6	63.4
NSE Mid cap	4.1	18.6	60.1
BSE Small cap	1.2	14.9	60.1

Return %	3 Month	6 Month	1 Year
Sectoral Indian Indices			
Auto	15.0	32.3	74.9
Bankex	-2.4	5.7	16.0
Capital Goods	9.5	27.7	77.3
Consumer Durables	4.6	15.2	38.9
FMCG	-5.3	4.5	17.5
Pharma	12.9	23.2	58.1
IT	-1.7	9.8	21.6
Metal	3.5	20.7	50.2
Oil & Gas	16.6	42.8	71.0
Power	15.2	43.8	85.9
PSU (State Owned Enterprises)	17.5	44.5	92.4
Realty	15.0	56.5	132.5

Institutional flows



Source: NSE, BSE, Data as on 31st Mar, 2024

Fund Strategy and Outlook - Debt

Fund Strategy and Positioning: Debt

Major central banks around the world continue to maintain high interest rates to ensure a sustainable decline in inflation towards the desired target. The Reserve Bank of India (RBI) has recognized the impact of a tighter monetary policy on moderating core Consumer Price Index (CPI) inflation but has chosen to keep the Repo rate unchanged and maintain a stance of withdrawing accommodation due to elevated food prices.

Geopolitical events have led to higher crude oil prices, while robust economic data in the United States has put pressure on global bond yields. However, expectations of reduced future inflation, a decrease in the central government's borrowing program, and increased Foreign Portfolio Investor (FPI) flows in 2024, driven by inclusion in the JP Morgan Emerging Markets Bond Index, are making domestic bond yields very appealing. Our portfolios are currently positioned towards the middle and longer parts of the yield curve, which are attractive from a medium-term perspective. We are overweight to benchmark in terms of overall duration and a lower exposure to corporate bonds. Additionally, we have increased exposure to state government securities at favourable spreads.

India's Debt Market Performance:

Debt market indicators

Money market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	CD	(bps)	CP	(bps)
3M	7.70	38	8.00	-5
6M	7.60	-5	8.05	-10
12M	7.60	-25	8.05	-15

Debt market indicators

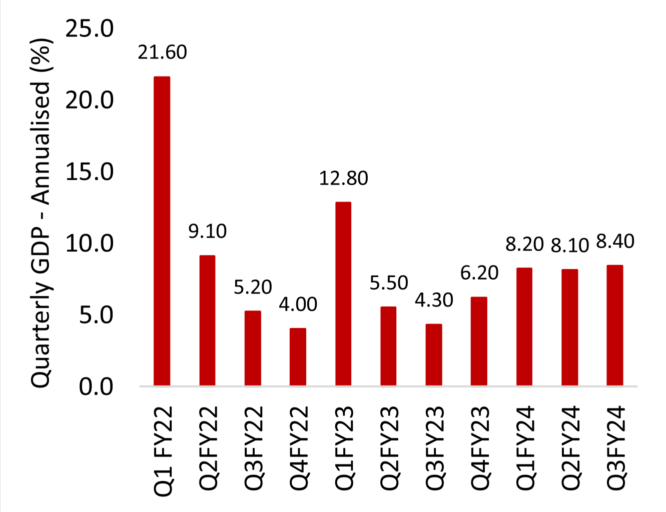
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	7.05	-4	7.60	-18
5Y	7.06	-2	7.55	-19
10Y	7.06	-12	7.44	-25

Note – Q-o-Q change is overDec 2023 to Mar 2024
Data Source – Reuters, Bloomberg, CRISIL

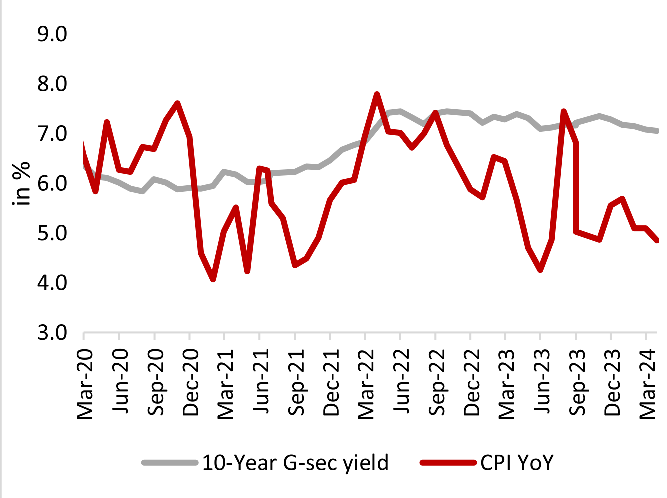
Key Economic Indicators

Other market and economic indicators:

Real GDP grew by 8.4% y/y in Q3 FY24, driven by stronger services and robust private consumption and investments.

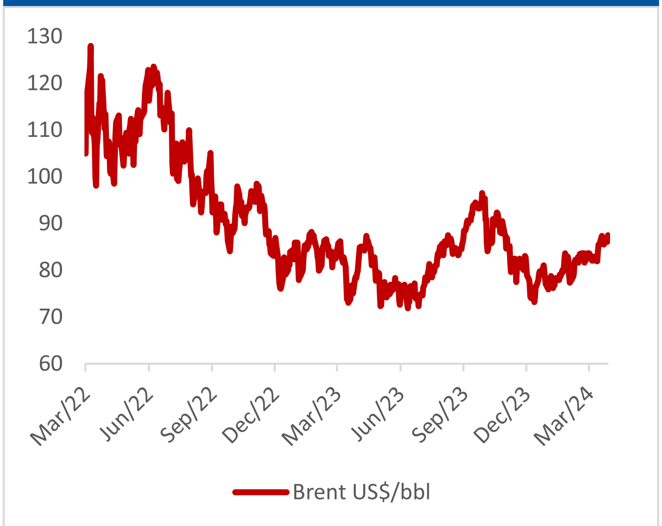


CPI inflation eased to 4.9% y/y in Mar-24, led by softer core inflation at 3.2% y/y and decline in fuel & light prices.

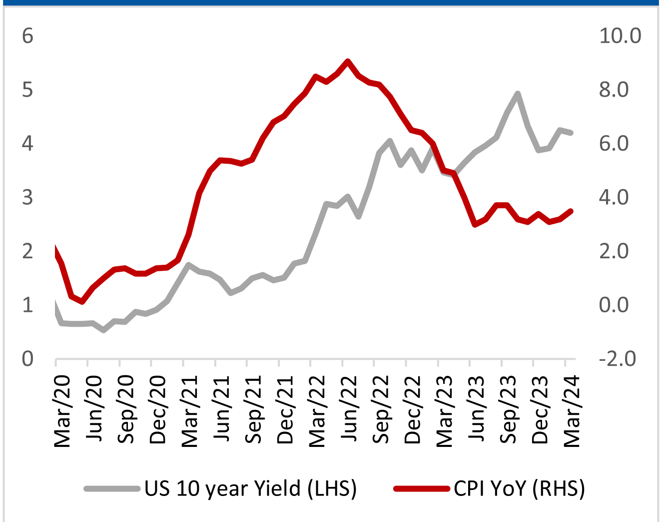


Source: Bloomberg, MOSPI, Reuters

Brent Crude oil prices rose to $87/bbl in March 2024 on supply disruptions due to conflict in middle east.



US 10-year treasury yield rose to 4.20% on stronger than expected economic data.



Source: Bloomberg, Reuters

Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map													
Indicators	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23
Industrial Sector													
Manufacturing PMI	56.9	56.5	54.9	56	55.5	57.5	58.6	57.7	57.8	58.7	57.2	56.4	55.3
8 Core Industries (YoY)	6.7%	4.1%	4.9%	7.9%	12.7%	9.4%	13.4%	8.5%	8.4%	5.2%	4.6%	4.2%	7.4%
Rail Freight Traffic (Loading in million tonnes)	136.6	142.7	139.0	128.4	129.0	123.5	127.0	124.0	123.1	134.2	126.5	144.6	124.0
Consumer Economy													
Passenger Vehicle Sales in thousands	370.8	393.1	286.4	334.1	389.7	361.7	359.2	350.1	280.3	288.4	331.3	292.0	291.9
Two -Wheeler Sales in thousands	1520.8	1495.2	1212.0	1623.4	1895.8	1749.8	1566.6	1282.1	1330.8	1471.6	1338.6	1290.6	1129.7
Tractor Sales in thousands	51.8	62.8	52.1	79.0	125.4	105.5	62.1	67.0	106.6	91.3	86.9	92.6	68.7
Domestic Air Passenger Traffic in thousands	25,441	26,207	27,432	25,378	25,089	24,436	24,828	24,336	24,861	26,339	25,534	25,689	24,044
Inflation													
CPI inflation, % y/y	5.09%	5.10%	5.69%	5.55%	4.87%	5.02%	6.83%	7.44%	4.87%	4.31%	4.70%	5.66%	6.40%
WPI inflation, % y/y	0.2%	0.3%	0.7%	0.4%	-0.5%	-0.3%	-0.5%	-1.4%	-4.2%	-3.5%	-0.8%	1.3%	3.9%
Deficit Statistic													
Trade Balance, USD billion	-18.7	-17.5	-19.8	-20.6	-31.5	-19.4	-24.2	-20.7	-20.1	-22.0	-15.5	-19.7	-17.4
Fiscal Deficit (Rs Billion)	3,988	1,203	757	1,029	1,018	590	372	1,542	2,411	767	1,336	2,793	2,631
GST													
GST collections (Rs Trillion)	1.7	1.7	1.6	1.7	1.7	1.6	1.6	1.7	1.6	1.6	1.9	1.6	1.5

Source: Bloomberg, MOSPI, Reuters, S&P Global, PIB, CEIC, SIAM, TMA, DGCA, CGA

- S&P Global India Manufacturing PMI stood high at 56.9 driven by fast export order growth.
- India's trade deficit narrowed to USD 18.7 billion. Exports soared 11.9% y-o-y to $41.4 billion, boosted by sales of drugs and pharmaceuticals, engineering, and electrical goods. Imports rose 12.2% to $60.11 billion, as domestic demand remains strong and crude prices went up.
- Economic growth momentum persists with urban consumption and capital expenditure leading the way, evident in the robust performance of PV sales and GST collections. Meanwhile, rural demand appears to be subdued, as indicated by sluggish tractor sales.
- CPI for Feb'24 eased to 5.1% on Core CPI easing to 3.3% with broad-based deceleration and still elevated food inflation.
- Overall indicators depict a positive trajectory for domestic growth, primarily driven by robust consumption and infrastructure development.

Key Economic Indicators

SFIN	Fund Name
ULIF04201/01/10LEQUITYF03121	Life Equity Fund 3
ULIF07101/12/19LLARGCAPEQ121	Life Large Cap Equity Fund
ULIF02510/06/08LEQUITYF02121	Life Equity Fund 2
ULIF04601/01/10LPUEQUTY02121	Life Pure Equity Fund 2
ULIF04401/01/10LINFRAST02121	Life Infrastructure Fund 2
ULIF04101/01/10LENERGYF02121	Life Energy Fund 2
ULIF04501/01/10LMIDCAPF02121	Life Midcap Fund 2
ULIF06924/03/15LMAKEINDIA121	Make In India Fund
ULIF00128/07/04LBALANCE01121	Life Balanced Fund 1
ULIF02910/06/08LMONMRKT01121	Life Money Market Fund 1
ULIF02310/06/08LCORBOND01121	Life Corporate Bond Fund 1
ULIF02610/06/08LGILTFUN01121	Life Gilt Fund 1

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