RELIANCE NIPPON LIFE INSURANCE

A RELIANCE CAPITAL COMPANY

A Quarterly Newsletter by Reliance Nippon Life Insurance

INVESTMENT BULLETIN

JULY 2022

Content

From the Desk of CIO

Following more than two years of the Covid-19 pandemic, the global economy continues to experience major negative shocks posed by the Russia-Ukraine conflict along with a multidecade high inflation, volatile commodity prices, disruption in business sentiment, trade patterns and consumer confidence. The spill over effects have steepened the projected slowdown and are hinting towards increasing risks of recession. The current ongoing geopolitical crisis has hastened the deceleration of global economic activity which as per the World Bank is projected to slow down to 2.9% for CY2022, which is nearly half of CY2021 at 5.7% and down 120bps from 4.1% projected in January 2022. Further, the effects of this have also caused reduction in policy space, and policymakers globally face exceedingly difficult trade-offs between supporting growth and controlling price pressures. Global financial conditions have tightened and borrowing costs have increased, reflecting reduced policy accommodation and a more hawkish stance in response to inflationary pressures, elevated uncertainty and heightened geopolitical risks.

Global Economy:

Global inflation continues on the upside, with the latest prints for June 2022 for US and Euro inching up to 9.1% and 8.6%, respectively. As per the latest World Bank report, global inflation for April 2022 scaled up to 7.8%, the highest since 2008; for advanced countries it is now at its highest level since 1982 and at 9.4% for Emerging Markets and Developing Economies. The stagflationary worries have elevated the possibility of a recession in the US and the Euro area, and the fear of global slowdown has resulted in a sharp correction in industrial commodity prices. The impact of stagflationary pressure is now also showing up; manufacturing Purchasing Managers Index (PMIs) across the US, Japan, and Euro Area fell sharply in June 2022. US (-4.3) and Euro Area (-2.5) have experienced major declines, though they are still in the expansion zone (i.e., PMI >50). The manufacturing survey for June 2022 indicates a sharp dip in current activity and steep declines in future (12-months) indicators relating to orders, hiring, delivery time, etc. Thus, the risk of stagflation-led recession in near-to-medium term is high. The latest assessments of Bank for International Settlements (BIS) and Organisation for Economic Co-operation and Development talks of the narrow scope for avoiding a recession amid persistently high inflation. The real policy rates in advanced economies and emerging markets remain deeply in negative and, hence, BIS report (June 2022) recommends, a wave of rate tightening will be needed to break the entrenchment of wage-price spiral.

Domestic Economy:

India too has seen inflation rising to 7.9% in April 2022 (7.0% in May 2022 & June 2022) and is expected to be around 6.5% during FY2023 due to elevated pipeline inflation, prompting Reserve Bank of India (RBI) to scale up its inflation projection by 200bps from its initial projection to 6.7%. India faces crude prices hovering above USD 100-120/bbl. The projected 7.2% real GDP growth could further be revised down considering a global slowdown. India's challenge emanates from the re-emergence of global tightening, high domestic inflation, and current account deficit amid expected decline in structural growth. Additionally, like many other emerging markets, India too has seen a steep rise in public debt and fiscal deficit-GDP ratios in the post pandemic era. In order to contain inflation, the forced fiscal response has been already initiated, which if not offset by high revenues and controlled expenditure in FY2023 may lead to high fiscal slippage than budgeted in Union Budget FY2023. Also, depreciation in the Indian rupee has gained pace recently with a sharp depreciation since end-March 2022 at above 79 to a dollar reflecting declining forex reserves and capital outflows. India's forex reserves are at USD 588 billion, down from the peak of USD 642 billion could be tested as forex reserve/imports has declined to 9-9.5 months and could further see a decline in buffers leading to debt and currency crisis.

Debt Market Outlook:

With respect to the Bond Markets, during the last quarter, domestically as well as globally, we witnessed bond yields moving north in response to an increasing hawkish stance by central bankers; however, with increasing fears of stagflation led recession in near-to-medium term have cooled down yields by 15-20bps in last 2 weeks. Federal Reserve in its June 2022 policy hiked the policy rate by 75bps to 1.50-1.75% range & maintained the pace of quantitative tightening of monthly USD 47.5bn for June, July & August. The dot plot guidance was revised higher to indicate that the fed funds rate will move to 3.4% by December 2022, 3.8% by December 2023 and lower to 3.4% by December 2024. Key watchable here will be that a 150bps faster pace of rate hike by Federal Reserve into 2022 would mean more adjustments for other Central Bankers could be on the cards including RBI. Having said that, Fed Chair in his testimony acknowledged that recession is certainly a possibility as interest rates are pushed higher. Domestically, focused on withdrawal of accommodation, RBI's Monetary Policy Committee raised repo rate by 50bps to 4.9%. Importantly, the phrase 'remain accommodative' has been dropped from the stance, removing any ambiguity regarding the way forward. Key concern for RBI is geopolitical shock which have been unhinged inflation so far & which is now expected to fear the spillover of global recession. Hence, the policy normalisation by Reserve Bank of India, going forward, will be a function of global and domestic inflation trajectory, growth sustainability, Fed's action on rate hikes and liquidity.

Equity Market Outlook:

The Russia-Ukraine conflict and rate hikes by most Central Banks globally led to volatility in equity markets across emerging markets. Markets should track the Q1FY2023 quarterly earnings as investors assess the impact of high commodity prices on consumer demand and corporate profitability. Inability to pass on the entire cost inflation to customers and higher wage growth is expected to drive earnings downgrades. While there has been a slight uptick in COVID cases lately, deaths and hospitalisations remained in control. With the Nifty50 down 15% from their peak in October 2021, we believe that a large part of the negative news on inflation, interest rates, liquidity and earnings downgrades have been factored in. Retail participation is markets has reduced substantially, a sign that much of the froth in the markets has come down. Any sharp correction from hereon, should be utilized to add selective stocks in the portfolio as valuations have become reasonable in certain pockets. In this backdrop, we remain constructive on equities as an asset class and advise investors to participate in the long-term potential of India by staying invested in equity markets.

Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3	-9.79%	-1.54%	21.96%	9.63%	9.72%	9.69%
Nifty 50 Index	-9.07%	0.37%	23.76%	10.21%	10.63%	9.22%
Life Equity Fund 2	-10.05%	-1.35%	22.02%	9.74%	9.61%	10.13%
Nifty 50 Index	-9.07%	0.37%	23.76%	10.21%	10.63%	9.29%
Make In India Fund	-8.02%	0.61%	19.60%	9.16%	7.44%	9.73%
Benchmark	-9.07%	0.37%	23.76%	10.21%	10.63%	13.14%
Life Large Cap Equity Fund	-9.53%	-2.29%	21.31%	n.a.	n.a.	8.55%
Nifty 50 Index	-9.07%	0.37%	23.76%	n.a.	n.a.	10.48%
Life Pure Equity Fund 2	-6.36%	6.56%	22.83%	14.11%	10.68%	9.50%
Benchmark	-6.02%	7.13%	24.11%	13.64%	10.80%	9.02%
Life Infrastructure Fund 2	-7.88%	3.53%	29.15%	12.15%	7.68%	4.50%
Benchmark	-6.75%	6.42%	30.90%	13.93%	10.58%	3.86%
Life Energy Fund 2	0.25%	14.67%	35.60%	15.14%	11.59%	7.89%
Benchmark	5.56%	25.91%	41.54%	17.15%	12.69%	8.01%
Life Midcap Fund 2	-13.91%	0.33%	33.75%	15.02%	9.20%	11.06%
Benchmark	-13.23%	-2.37%	33.51%	14.42%	10.06%	8.11%
Life Balanced Fund 1	-2.88%	1.79%	6.76%	6.21%	5.45%	7.72%
Composite Benchmark*	-2.90%	1.13%	7.09%	7.50%	7.45%	7.78%
Life Money Market Fund 1	1.21%	2.35%	2.28%	2.98%	2.70%	5.92%
Crisil 91 day T bill Index	1.91%	3.72%	3.56%	4.31%	5.30%	6.76%
Life Corporate Bond Fund 1	-1.43%	1.22%	2.22%	5.28%	4.46%	7.18%
Crisil Composite Bond Fund Index	-1.51%	1.01%	2.94%	6.23%	6.30%	7.69%
Life Gilt Fund 1	-2.00%	-0.05%	1.66%	4.63%	4.99%	6.60%
Crisil Dynamic Gilt Index	-2.24%	0.27%	1.98%	5.47%	5.73%	7.98%

*Composite Benchmark comprising of Crisil Composite Bond Fund Index with 80% weight and Sensex 50 with 20% weight
As on 30-June-2022
Note – Returns more than 1 year are CAGR returns

Fund strategy and Positioning

Equity:

Market volatility continued during last quarter as focus of most Central Banks shifted to aggressively control rising inflation by hiking interest rates. Also, lack of positive developments from the war in Ukraine dampened investor sentiments. These factors led to FII equity outflow for the third successive quarter in India. While global cues are negative in near term amidst a hawkish stance of US Fed, the current high inflationary situation could loosen a few months down the line. Any softening in the hawkish stance of central banks, as a result of lower inflation, could lead to the resumption of FII flows albeit gradually. The Indian economy remains better placed compared to most other emerging market peers in terms of growth, inflation and other economic parameters. Thus, we remain positive on Indian markets over medium to long term.

Our view is constructive on domestic focused sectors such as banking and financial services, consumer staples, consumer discretionary, capital goods and power as domestic demand remains robust as seen from parameters such as consumption and credit growth. While near term volatility in equity market cannot be ruled out, any correction should be used as an opportunity to buy quality stocks in above mentioned sectors.

Our investment strategy is to remain overweight on sectors where there are visible tailwinds and in companies which have a strong corporate governance model in place. We look for companies which enjoy moats in their business model, have improved their balance sheet during the pandemic and have meaningful earnings visibility over the next few years. We actively monitor our portfolio positioning and constantly employ tools such as sector rotation, bottom-up approach in stock selection and finding the best proxies to play our investment thesis.

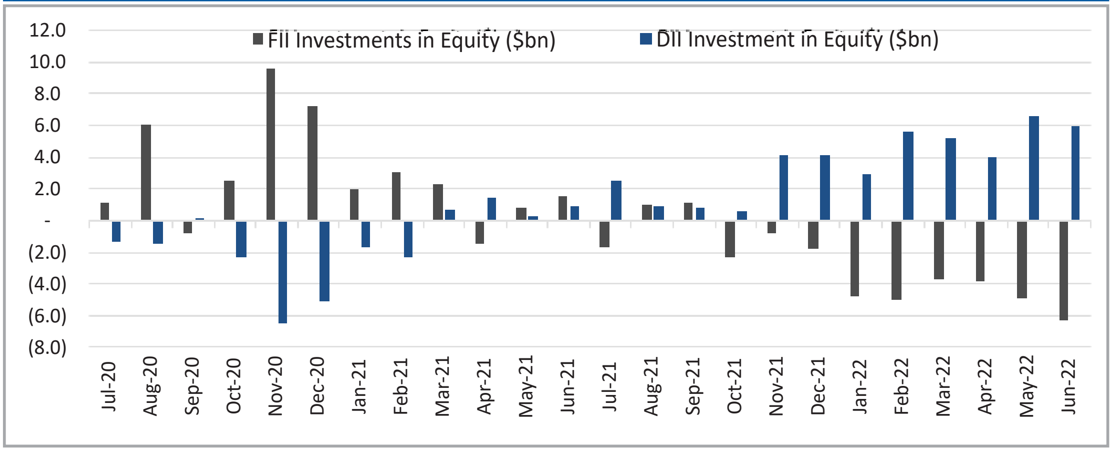
Indian Equity Market Performance

Index performance

Return %	3 Month	6 Month	1 Year
Broad Based Indices			
Sensex	-9.5	-9.0	1.0
Nifty	-9.6	-9.1	0.4
Defty	-13.2	-14.3	-5.4
BSE 100	-9.6	-9.1	-
BSE 200	-9.7	-9.6	-0.2
BSE500	-10.0	-10.4	-0.6
Nifty Jr	-11.2	-13.5	-5.2
Bse Mid Cap	-9.9	-13.0	-3.7
Nse Mid Cap	-10.9	-13.1	-1.9
BSE Small Cap	-12.2	-15.9	-1.8

Return %	3 Month	6 Month	1 Year
Sectoral Indian Indices			
Auto	11.3	7.9	12.6
Bankex	-7.9	-4.8	-2.2
Capital Goods	-5.4	-9.5	13.4
Consumer Durables	-17.9	-22.5	-2.5
FMCG	3.2	-0.1	1.8
Health Care	-11.1	-17.6	-15.6
IT	-22.2	-25.2	-6.0
Metal	-30.5	-19.2	-16.7
Oil & Gas	-3.8	2.9	11.4
Power	0.6	16.8	47.6
PSU (State Owned Enterprises)	-6.9	-1.6	3.0
Realty	-16.7	-20.1	12.0

Institutional flows



Source: NSE, BSE, Data as on 30th June, 2022

Fund Strategy and Outlook - Debt

Debt Fund Strategy and Positioning:

The Reserve Bank of India hiked the Repo rate by 50 bps to 4.9% during its June meeting, after May's 40 bps off-cycle hike, aiming to ensure inflation remains within target going forward while supporting growth. RBI revised upwards its inflation forecast to 6.7% for FY 2022-2023 from 5.7% and maintained its economic growth outlook for FY 2022-2023 at 7.2%.

The FOMC hiked policy rates by 75bps to the 1.5%-1.75% range and maintained the pace of quantitative tightening with inflation emerging as the main source of concern.

With recent correction in global commodities, bond yields have also cooled off from their peaks, but we expect bond yields to remain elevated on large government borrowing. Portfolios are maintaining underweight in terms of overall duration and credit exposure sighting lower credit spreads. We continue to hold good quality Government securities and AAA corporate bonds. We maintain taking no exposure in lower than AAA issuers.

India's Debt Market Performance:

Debt market indicators

Money market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	CD	(bps)	CP	(bps)
3M	5.30	152	5.40	115
6M	5.98	155	6.42	164
12M	6.55	177	6.85	170

Debt market indicators

Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	6.95	111	7.35	150
5Y	7.24	91	7.55	115
10Y	7.44	60	7.80	68

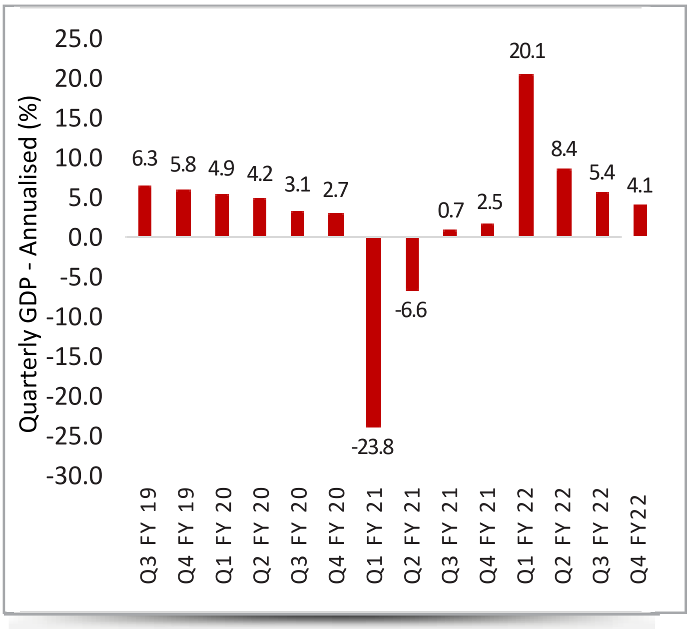
Note – Q-o-Q change is over Mar 2022 to Jun 2022
Data Source – Reuters, Bloomberg, CRISIL

Please note: Past performance is not an indicator of future performance.

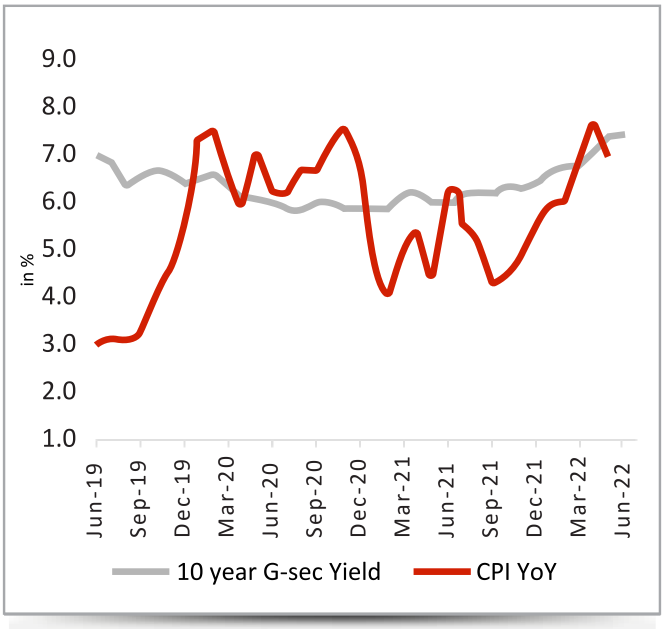
Key Economic Indicators

Other market and economic indicators:

Real GDP expanded by 4.1% y/y in Q4 FY22, Considering the March-22 quarter GDP growth, economy expanded by 8.7% in FY22

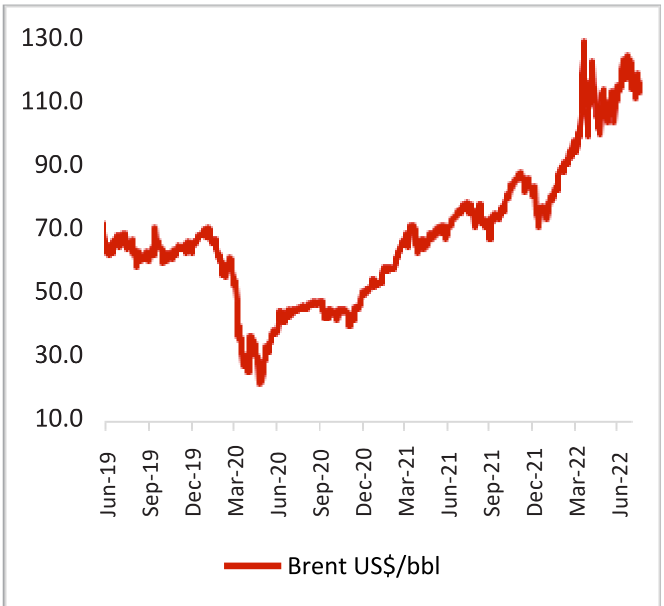


Inflation spiked above 7% in April-2022 and May-2022 on account of spillovers from global commodity prices.

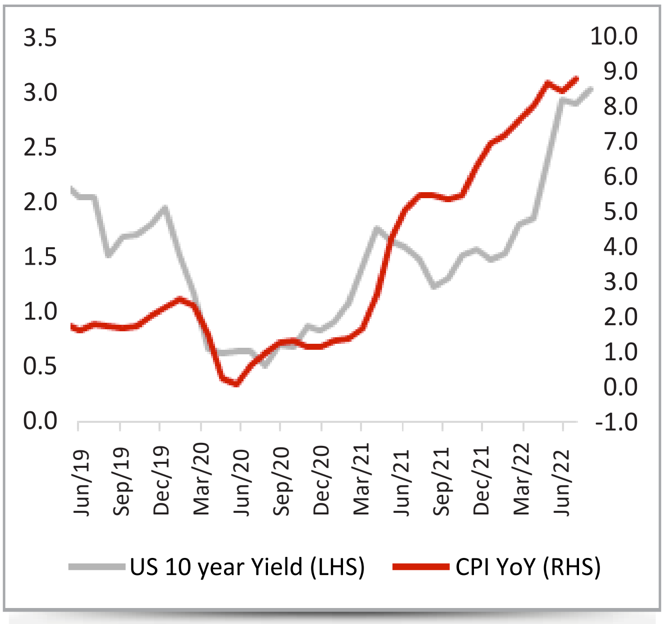


Source: Bloomberg , MOSPI, Reuters

Brent Crude oil prices remain elevated given the current geopolitical situation affecting the global oil demand supply equation; however, the prices have cooled down in 1st week of July 2022.



US 10-year bench mark yield accelerated above 3% tracking FED's aggressive rate hikes, driven by inflationary concerns over US economy.



Source: Reuters

Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map										
Indicators	**May-22**	**Apr-22**	**Dec-21**	**Nov-21**	**Oct-21**	**Sep-21**	**Aug-21**	**Jul-21**	**Jun-21**	**May-21**
Industrial Sector										
Manufacturing PMI	54.6	54.7	54.0	54.9	54.0	55.5	57.6	55.9	53.7	52.3
8 Core Industries (YoY)	18.1%	9.4%	4.9%	5.9%	4.0%	4.1%	3.2%	8.7%	5.4%	12.1%
Rail Freight Traffic (Loading in million tonnes)	131.7	122.2	139.2	119.7	129.0	126.8	116.8	117.4	106.0	110.6
Rail Passenger Traffic (in million)	500.6	455.9	484.1	413.8	345.2	397.1	377.0	344.4	294.5	256.0
Consumer Economy										
Passenger Vehicle Sales in thousands	251.1	251.6	279.5	263.0	254.3	219.4	215.6	226.4	160.1	232.2
Two Wheeler Sales in thousands	1253.2	1148.7	1184.2	1038.0	1128.3	1006.1	1050.6	1541.6	1528.5	1331.4
Tractor Sales in thousands	93.5	99.9	84.2	62.3	63.3	55.6	74.6	127.8	105.2	65.5
Domestic Air Passenger Traffic in thousands	12081.0	11000.0	10696.0	7696.0	6408.0	11202.0	10516.0	8985.0	7066.0	6701.0
Inflation										
CPI inflation, % y/y	7.0%	7.8%	7.0%	6.1%	6.0%	5.7%	4.9%	4.5%	4.4%	5.3%
WPI inflation, % y/y	15.9%	15.1%	14.6%	13.4%	13.7%	14.3%	14.9%	13.8%	11.8%	11.6%
Deficit Statistic										
Trade Balance, USD billion	-24.3	-20.1	-18.5	-20.9	-17.4	-21.7	-23.2	-19.9	-22.9	-13.8
Fiscal Deficit (₹ Billion)	1290.8	748.5	2699.4	3787.3	1785.0	637.5	1485.9	201.8	588.4	1468.7
GST										
GST collections (₹ Billion)	1408.9	1675.4	1421.0	1330.3	1409.9	1297.8	1315.3	1301.3	1170.1	1120.2

Source: Bloomberg, MOSPI, Reuters, IHS Markit, PIB, CEIC, SIAM, TMA, DGCA, CGA

Key Economic Indicators

- Inflationary pressures remained a key concern in Q1 FY23, emanating from current geopolitical spillovers. CPI remained above 7% for first two months of FY23 on account of spillovers from global commodity prices.
- Trade deficit recorded new high at USD 24.3 billion and USD 25.6 billion in May 2022 and June 2022 driven by imports of petroleum and coal and slow exports. The widening trade deficit highly reflects India's high dependence on oil imports.
- Industry wise indicators showed a robust pick up in start of the fiscal year FY23. Consumer economy, especially the service-based indicators showed a sharp pickup in demand despite of high inflationary pressures.
- Economic indicators showed progress despite of persistent price pressures in the economy. Changing Global growth dynamics will have significant spillovers in the domestic economy routed through trade and currency.

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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