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NIPPON LIFE INSURANCE
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A Quarterly Newsletter by Reliance Nippon Life Insurance

INVESTMENT BULLETIN

APRIL 2023

Content

From the Desk of CIO

During the last quarter, most developed economies witnessed moderation in rate of inflation although it is still ruling above the comfort level of Central Banks. Rate hike cycle could be approaching its peak very soon after rising at an unprecedented pace for the last one year. The change in stance was also led by turbulence in the banking system in USA and Europe leading to negative credit impulse for the economy. While we have seen minor upgrades in projection for global economic growth in 2023, especially after China re-opening, the global economic outlook remains uncertain as interest rates are at elevated levels.

Indian economy has so far been a standout performer as far as growth and inflation are concerned. India was impacted in terms of higher Current Account Deficit (CAD) and declining forex reserves. However, despite high commodity prices and capital outflow by foreign portfolio investors during FY23, Indian economy was one of the fastest growing major economies. This outperformance is expected to continue in FY24 too. The structurally robust nature of the Indian economy which has sustained the domestic demand showcases India's resilient growth story.

Global Economy:

Global economy is bracing the impact from tighter financial conditions. Banking sector experiencing contagion fears post collapse of two US regional banks and Credit Suisse getting rescued by UBS. Global monetary dynamics is complicated with Inflation control & Financial stability. The Federal Open Market Committee (FOMC) is expected to end its monetary tightening by May 2023 as inflation is moderating and labour market has started to loosen. The European Central Bank (ECB) is still focussed on its fight against inflation as it considers Euro zone banks to be resilient. Bank of England (BoE) expects the surprise resurgence in inflation to fade fast though continues with monetary tightening. Going forward, the global economic outlook will be shaped by developments in the banking sector, inflation & unemployment dynamics, and progress of monetary policies

Domestic Economy:

India's real GDP grew at a moderated pace of 4.4% y/y in Q3 FY23 driven by manufacturing sector contracting by 1.1% over the previous quarter. Meanwhile, the farm sector performing better with a growth of 3.7% in Q3 against 2.4% in Q2. Domestic high frequency growth indicators in Q4 of FY23 continue to show robust growth with GST collections for the month of Mar-2023 recording a 13% y/y growth at 1.6 lakh crore. Manufacturing PMI, which highlighted a very positive ending to FY 23 at 56.4 in Mar-2023, up from 55.3 in Feb-2023, pointed to a continued robust improvement. India's current account deficit in Q3-23 also showed strong signs of improvement by declining to US$ 18.2 billion (2.2% of GDP) from US$ 30.9 billion (3.7% of GDP) in Q2-23. On the fiscal front, robust tax revenues have kept the government on track with its budgeted deficit target of 6.4% for FY23. On the price front, CPI inflation has marginally eased from 6.52% in Jan-23 to 6.44% in Feb-23 driven by decline in vegetable prices and moderation in fuel inflation.

Equity Market Outlook:

Global market sentiments deteriorated towards the end of the quarter on fears of a broadening bank crisis. The fears of a crisis emanated from regional banks in USA and spread to European banks like Credit Suisse. In the near term, global market outlook remains uncertain amidst fears of contagion from this crisis. In response, Central banks would probably ring in the end of rate hike cycle. This in turn should support the medium-term outlook for equities. In the near term, Indian markets could remain muted owing to weak global cues and worries on the impact of the climatic pattern 'El Nino' on the monsoon. Despite these concerns, the corporate earnings should hold up over the medium term. The financial sector looks robust with continued margin expansion while consumer-oriented sectors will benefit from stable demand and cooling global commodity prices. Infrastructure creation will be supported by a pickup in Government spending this year, ahead of the general elections in 2024. Additionally, private capex spending should benefit construction and cement sectors. The foreign exchange position of India is extremely robust, and we are in a unique position to benefit from the re-orientation of supply chains globally. We are positive on Indian equity markets owing to structural positives like stable domestic macro-economic parameters, Government focus on investments and a reasonable double digit corporate earnings growth trajectory. Risks to our view are in the form of sharp reduction in global growth or weak monsoon impacting consumption adversely.

Debt Market Outlook:

Debt Market witnessed a volatile quarter driven by tighter but moderate Global monetary policies, easing commodities, appreciating INR currency, collapse of two US regional Banks with rising contagion fears.

With a 25bps hike in the interest rates in March 2023, FOMC slowed down the pace of Monetary tightening and is expected to end by May-2023 with easing signs of Inflation, moderating economic growth, loosening signs of labour market, and rising fears of banking crisis. RBI also reciprocated by a smaller 25bps hike in Repo Rate in Feb 2023 and a pause in Apr policy with unchanged stance of withdrawal of accommodation as Inflation is estimated to ease to 5.2% in FY24, within the target mandate band of 2% - 6%. Global commodities are trying to find an equilibrium between recession fears and production cut by OPEC+ countries.

Gsec yields have been rangebound between 7.30% & 7.45%. Yield curves are flat with 5x10y spread at 12bps & 10x30y spread at 8bps factoring in a near end to tight monetary policy and a probable easing towards the end of the year. Going forward, we expect RBI to continue with a prolonged pause in policy rates to assess the impact of previous tightening on the economy. With higher issuances being pegged above 10y of Gsec curve in H1FY24, steepening of the curve is expected.

- Chief Investment Officer

Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3	0.71%	-0.90%	8.22%	25.10%	10.10%	9.93%
Nifty 50 Index	1.55%	-0.60%	8.71%	26.39%	11.41%	9.47%
Life Equity Fund 2	0.86%	-1.00%	8.28%	25.09%	10.01%	10.32%
Nifty 50 Index	1.55%	-0.60%	8.71%	26.39%	11.41%	9.51%
Make In India Fund	1.35%	0.76%	9.41%	23.35%	8.54%	10.23%
Nifty 50 Index	1.55%	-0.60%	8.71%	26.39%	11.41%	13.18%
Life Large Cap Equity Fund	1.14%	-0.34%	7.30%	24.03%	n.a.	9.79%
Nifty 50 Index	1.55%	-0.60%	8.71%	26.39%	n.a.	11.19%
Life Pure Equity Fund 2	0.22%	1.97%	11.59%	25.84%	10.88%	9.69%
Benchmark	-3.12%	-0.78%	10.54%	26.56%	10.33%	9.01%
Life Infrastructure Fund 2	6.01%	-0.16%	13.31%	31.35%	9.59%	5.22%
Benchmark	-3.48%	-6.26%	11.26%	30.94%	9.93%	4.09%
Life Energy Fund 2	7.46%	7.59%	19.92%	33.45%	12.32%	8.40%
Benchmark	-6.35%	-1.73%	18.08%	34.57%	11.99%	7.65%
Life Midcap Fund 2	-0.20%	0.71%	12.50%	34.37%	10.00%	11.51%
Benchmark	1.61%	3.46%	11.81%	38.59%	11.22%	8.85%
Life Balanced Fund 1	2.83%	2.93%	5.21%	8.67%	6.23%	7.75%
Composite Benchmark*	3.37%	3.15%	5.28%	9.49%	8.22%	7.84%
Life Money Market Fund 1	2.47%	4.09%	3.17%	2.97%	2.59%	5.85%
Crisil 91 day T bill Index;	3.19%	5.51%	4.60%	4.32%	5.25%	6.72%
Life Corporate Bond Fund 1	3.19%	3.55%	3.75%	4.60%	5.31%	7.17%
Crisil Composite Bond Fund Index	3.82%	3.80%	4.14%	5.31%	7.02%	7.71%
Life Gilt Fund 1	3.35%	4.05%	3.50%	4.24%	6.32%	6.67%
Crisil Dynamic Gilt Index	4.32%	4.28%	4.22%	4.97%	7.06%	8.03%

* Composite Benchmark comprising of Crisil Composite Bond Fund Index with 80% weight and Sensex 50 with 20% weight
As on 31-March-2023
Note – Returns more than 1 year are CAGR returns

Fund strategy and Positioning

Equity:

There are two factors which will be key monitorable for equities over the next 6 to 9 months. The banking crisis in US & Europe and peaking out of inflation in developed nations. India's economic parameters are superior compared to most economies with estimated GDP growth of 6.4% and average inflation at 5.3% in FY24 as per estimates by RBI. Superior growth parameters should lead to continued preference of foreign investors towards Indian markets.

We remain constructive on sectors which benefit from domestic consumption and capacity creation. Sectors such as Banking and Financial services, Consumer Staples, Cement and Capital Goods will be beneficiaries. Over the past few quarters, discretionary consumption has remained weak amidst rising inflation and weak rural demand. Revival of demand could play out through the year as disinflation in commodity prices is passed on to consumers. Credit growth in the banking sector is resilient and asset quality is stable.

Our investment strategy is to remain overweight on our preferred sectors through companies with strong corporate governance and robust financials. We look for companies which enjoy moats in their business model with improvement in balance sheet and have meaningful earnings visibility over medium term. We actively monitor our portfolio positioning in accordance with our investment thesis.

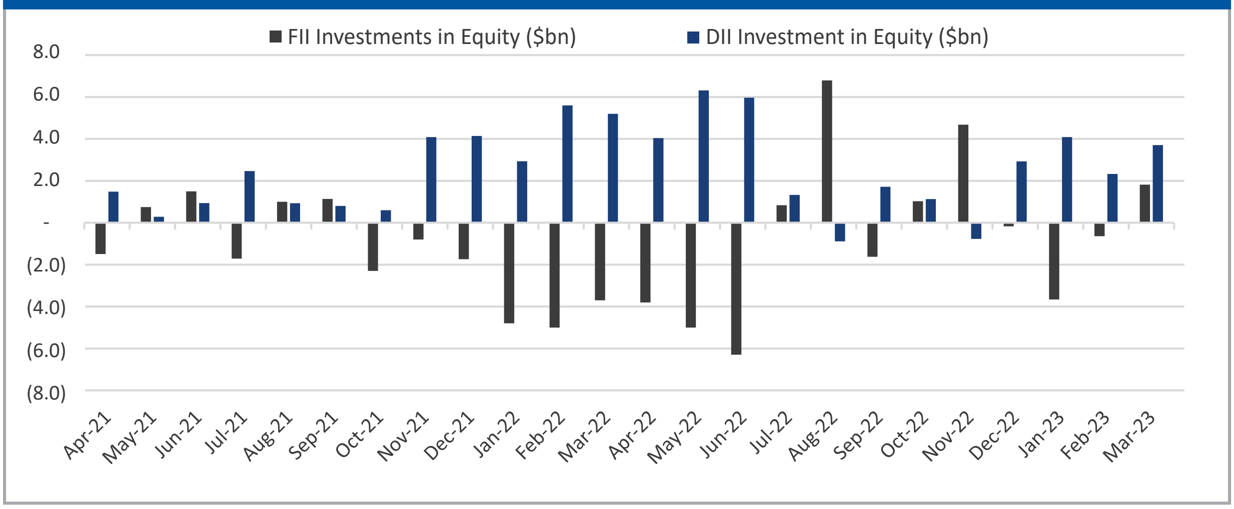
Indian Equity Market Performance

Index performance

Return %	3 Month	6 Month	1 Year
Broad Based Indices			
Sensex	-3.0	2.7	0.7
Nifty	-4.1	1.6	-0.6
Defty	-3.5	0.5	-8.4
BSE 100	-4.5	0.2	-0.7
BSE 200	-5.9	-1.8	-2.0
BSE 500	-5.9	-2.0	-2.3
Nifty Junior	-10.4	-10.8	-8.1
BSE Mid cap	-4.9	-3.2	-0.2
NSE Mid cap	-4.7	-2.1	1.2
BSE Small cap	-6.8	-5.3	-4.5

Return %	3 Month	6 Month	1 Year
Sectoral Indian Indices			
Auto	-2.3	-3.2	17.5
Bankex	-5.9	4.2	10.2
Capital Goods	3.1	10.1	25.0
Consumer Durables	-5.3	-11.4	-11.0
FMCG	2.6	1.9	23.6
Health Care	-5.0	-6.2	-10.0
IT	-0.7	3.6	-21.8
Metal	-8.0	6.5	-14.2
Oil & Gas	-14.8	-6.3	-7.2
Power	-17.7	-24.1	-10.8
PSU (State Owned Enterprises)	-5.2	8.3	10.4
Realty	-10.0	-8.2	-15.8

Institutional flows



Source: NSE, BSE, Data as on 31st March, 2023

Fund Strategy and Outlook - Debt

Debt Fund Strategy and Positioning:

FOMC slowed down the pace of Monetary tightening with a 25bps hike in the interest rates in March 2023, and is expected to pivot by May-2023 with easing signs of Inflation, moderating economic growth, loosening signs of labour market, and rising fears of banking crisis. RBI also reciprocated by a smaller 25bps hike in Repo Rate in Feb 2023 and a pause in Apr policy with unchanged stance of withdrawal of accommodation as Inflation is estimated to ease to 5.2% in FY24, within the target mandate band of 2% - 6%.

With monetary tightening nearing its end, the bond yields have started easing. The government borrowing programme for H1FY24 leads to a steepening of the gsec curve. Our Portfolios are positioned on the belly and shorter end of the curve being attractive at current juncture. We are underweight to Benchmark in terms of overall duration and in credit exposure sighting lower credit spreads. We continue to hold good quality AAA corporate bonds and would tactically look to add State government securities as the spreads widen going forward. 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	7.13	51	7.30	25
6M	7.28	13	7.60	3
12M	7.58	1	7.90	-10

Note – Q-o-Q change is over Dec 2022 to Mar 2023
Data Source – Reuters, Bloomberg, CRISIL

Debt market indicators

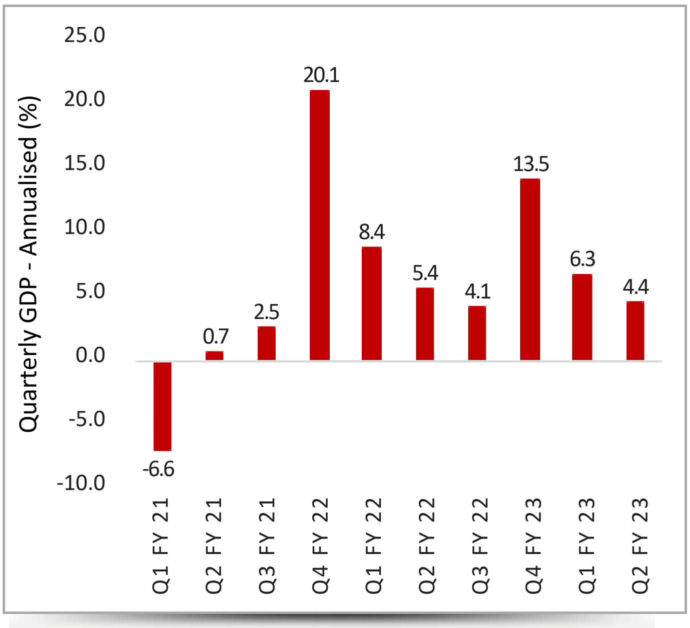
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	7.15	7	7.65	7
5Y	7.19	-4	7.70	11
10Y	7.31	-2	7.67	10

Note – Q-o-Q change is over Dec 2022 to Mar 2023
Data Source – Reuters, Bloomberg, CRISIL

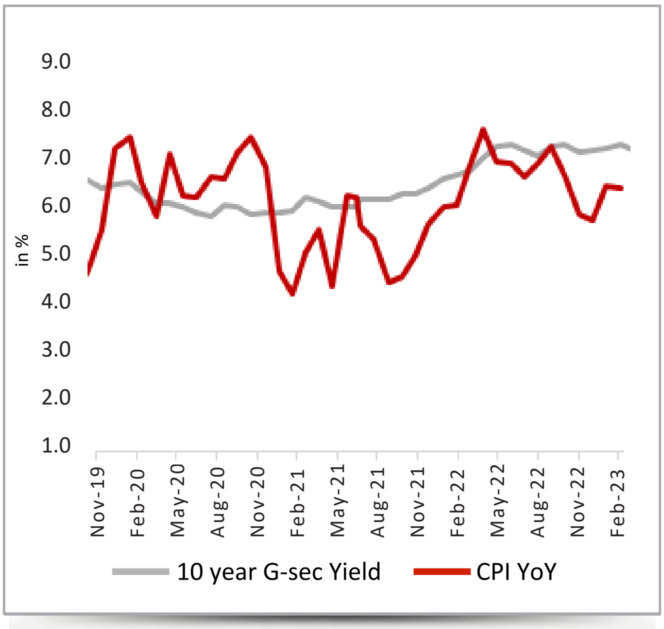
Key Economic Indicators

Other market and economic indicators:

Real GDP growth moderated to 4.4% y/y in Q3 FY23. RBI estimates real gdp growth of 6.5% for FY24.

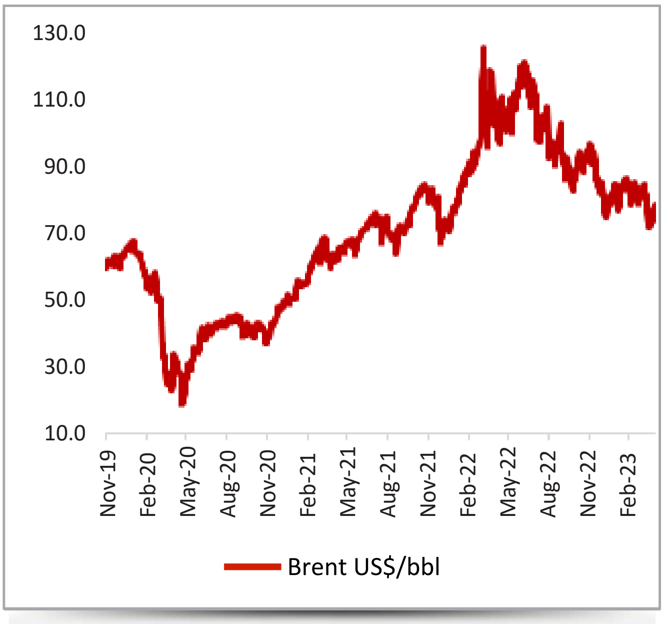


CPI inflation moderated to 6.44% y/y in Feb-23, led by decline in vegetable prices. Core (ex food fuel) remained sticky at 6.05% y/y in Feb-23

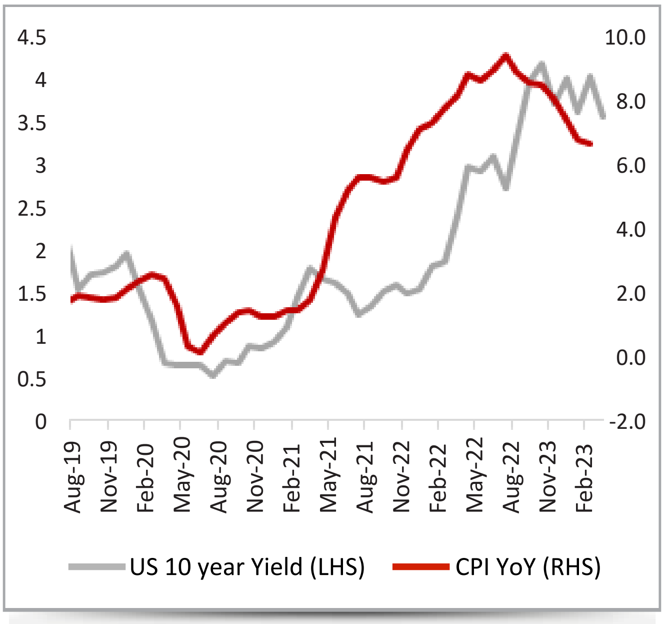


Source: Bloomberg, MOSPI, Reuters

Brent Crude oil prices remained rangebound and below the $90 mark, on expectations of weak global demand



US 10-year benchmark yield fell to 3.5% after a volatile quarter on expectations of growth slowdown & easing inflationary pressures.



Source: Bloomberg, Reuters

Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map												
Indicators	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22	Jul-22	Jun-22	May-22	Apr-22	Mar-22
Industrial Sector												
Manufacturing PMI	55.3	55.4	57.8	55.7	55.3	55.1	56.2	56.4	53.9	54.6	54.7	54.0
8 Core Industries (YoY)	6.0%	7.8%	7.4%	5.4%	0.9%	7.9%	4.2%	4.8%	13.1%	19.3%	9.5%	4.8%
Rail Freight Traffic (Loading in million tonnes)	124.0	134.0	130.6	123.9	119.0	115.7	119.3	122.1	125.5	131.7	122.2	139.2
Rail Passenger Traffic (in million)	536.7	575.3	562.7	569.8	552.1	548.4	539.9	516.0	500.7	500.6	455.9	484.1
Consumer Economy												
Passenger Vehicle Sales (in thousands)	291.9	298.1	235.3	276.2	291.1	307.4	281.2	293.9	275.8	251.1	251.6	279.5
Two Wheeler Sales (in thousands)	1,129.7	1,184.4	1,045.0	1,236.2	1,577.7	1,735.2	1,557.4	1,381.3	1,308.8	1,253.2	1,148.7	1,184.2
Tractor Sales (in thousands)	68.7	73.2	78.5	77.9	132.4	125.0	64.8	67.0	107.3	93.5	99.9	84.2
Domestic Air Passenger Traffic (in thousands)	12,000	12,500	12,735	11,679	11,407	10,355	10,116	9,705	10,512	12,081	11,000	10,696
Inflation												
CPI inflation % y/y	6.4%	6.5%	5.7%	5.9%	6.8%	7.4%	7.0%	6.7%	7.0%	7.0%	7.8%	7.0%
WPI inflation % y/y	3.85%	4.73%	5.02%	5.9%	8.4%	10.7%	12.4%	13.9%	16.2%	16.6%	15.4%	14.6%
Deficit Statistics												
Trade Balance (USD billion)	-17.4	-17.8	-23.8	-23.9	-26.9	-20.8	-28.0	-30.0	-26.2	-24.3	-20.1	-18.7
Fiscal Deficit (Rs Billion)	2630.6	1978.3	148.2	2200.2	1382.9	782.5	2007.7	-110.4	1479.5	1290.8	748.5	2699.4
GST												
GST collections (Rs Trillion)	1.50	1.56	1.50	1.46	1.52	1.48	1.44	1.49	1.45	1.41	1.68	1.42

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

Key Economic Indicators

- India Manufacturing PMI rose to a 3-month high of 56.4 in March 2023 on strong new order growth.
- Trade deficit narrowed in Feb-23 to USD 17.4 bn from 23.8 bn in Dec-22, as imports declined 8.2% amid weakening domestic demand.
- GST collection remained above the INR 1.4tn mark for the twelfth consecutive month reflecting robust domestic demand and economic activity.
- Domestic High frequency indicators highlighted strong Manufacturing and overall resilience in the underlying economy.

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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