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A Quarterly Newsletter by Reliance Nippon Life Insurance

INVESTMENT BULLETIN

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Content

From the Desk of CIO

The US economy has showcased resilience as labour market has been tight, while inflation moderating at a slow pace. Europe and the UK saw inflation coming off significantly during the quarter, as supply side issues dissipated, and the demand side push waned on fading economic momentum. Business and consumer confidence stayed low, and Europe continues to teeter on the brink of a recession. Among emerging economies, India continues to lead on the growth front while China's troubles continue as monetary and fiscal stimulus so far have not proved to be enough to jumpstart the economy.

Global growth continues to face headwinds from tight monetary conditions as demand slows and inflation remains elevated. The US Fed has cued on another rate hike this year, while revising its growth forecasts upwards to 2.1% for 2023, and 1.5% for 2024. Geopolitical tensions have led the economies to wind in guise of supply measures such as production cuts, sending the Brent crude prices to the north of USD95/bl during the quarter. The Israel – Palestine war could add to the crude supply issues; however, weaker demand conditions could keep the crude prices at bay going forward.

As for India, the second - round effect of crude prices could be contained and the food price shock is seen to be transient; subsiding the inflationary pressures as it traverses through the coming quarters.

Notwithstanding global headwinds on growth, India will remain among the fastest-growing economies and is well-placed to stay resilient throughout FY24 and beyond.

Q1FY24 growth was strong at 7.8% YoY, led by stable private consumption dynamics and a strong thrust on government capex. The external vulnerabilities were well managed through robust foreign exchange reserves and buoyant FPI flows. India's inclusion in the JP Morgan EM Bond Index added a level up to deepen the Indian bond markets bringing more confidence in the already robust economy. As far as the inflation - growth dynamics is concerned, Indian economy is expected to sail through the storm as inflation moves below 5% in the coming months and growth momentum remains relatively better off than other emerging economies.

Equity Market Outlook:

Global markets face pressure from rising bond yield in USA. The US Fed indicated that interest rates will be "higher for longer" which had a dampening impact on investor sentiments. Indian equity market is one of the few markets to have delivered positive return during the quarter. Domestic macro-economic fundamentals are robust. As per consensus, earnings for Nifty50 companies are expected to grow by 15-20% during FY24. We are positive on financials, discretionary spending, while demand for consumer staples should pick-up over the next 6 months. Credit growth and margins performance for Banks/NBFCs continue to be healthy. Government spending on infrastructure projects and the overall capex environment is quite strong. Electricity and cement demand is robust even in seasonally weak months. Pricing environment is conducive for core sectors like Cement and Steel. Growth in retail sale of automobiles is near double digits for the last few months. Real estate sales continue to do well. Discretionary spending is likely to improve further during the festive season. Monsoon in many parts of the country was satisfactory. Kharif and Rabi crop production should be in-line which should revive rural consumption. In terms of liquidity, while FII flow into Indian markets has turned slightly negative in September, domestic inflow into the market continues with monthly SIP into mutual funds at an all-time high. While volatility emanating from global markets and high crude oil prices pose near term risk, Indian markets are expected to do well over medium term owing to tailwind of strong corporate earnings and economic growth.

Debt Market Outlook:

Debt Market was driven by tighter & hawkish global monetary policies and rising global commodity prices in the past quarter.

The Federal Open Market Committee (FOMC) slowed down the pace of monetary tightening by maintaining policy rates unchanged but projected 50bps higher rates in 2024 considering the resilience in the economy with tighter labour market conditions and upside risks to inflation. The Reserve Bank of India kept Repo Rate steady at 6.50% but signalled towards resorting OMO sales to tighten the liquidity to further curb inflationary pressures. Domestic food inflation has started moderation with fresh supply of vegetables. Gsec yields rose in the last quarter on higher global commodity prices and US FED indicating policy rates in restrictive territory for longer. Israel – Palestine war may accentuate the crude supply issues and complicate the inflation management for RBI.

Going forward we expect RBI to continue with a prolonged pause in policy rates and may resort to OMO sales if surplus liquidity persists on higher government expenditure. Gsec yields may remain elevated in the near term. However, higher FPI flows are anticipated in 2024 on account of JP Morgan EM Bond Index inclusion which may chase the higher yields.

- Chief Investment Officer

Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3	13.35%	14.16%	5.40%	19.82%	11.65%	10.56%
Nifty 50 Index	13.13%	14.88%	5.58%	20.42%	12.43%	10.09%
Life Equity Fund 2	13.15%	14.13%	5.21%	19.77%	11.65%	10.85%
Nifty 50 Index	13.13%	14.88%	5.58%	20.42%	12.43%	10.06%
Make In India Fund	13.41%	14.94%	6.85%	18.43%	10.12%	11.35%
Nifty 50 Index	13.13%	14.88%	5.58%	20.42%	12.43%	14.09%
Life Large Cap Equity Fund	13.32%	14.61%	5.22%	19.58%	n.a.	12.13%
Nifty 50 Index	13.13%	14.88%	5.58%	20.42%	n.a.	13.32%
Life Pure Equity Fund 2	18.67%	18.93%	10.59%	22.70%	14.08%	10.69%
Benchmark	17.83%	14.16%	9.25%	21.89%	13.27%	9.97%
Life Infrastructure Fund 2	20.48%	27.72%	11.46%	29.93%	13.76%	6.46%
Benchmark	19.07%	14.93%	8.20%	27.64%	13.39%	5.26%
Life Energy Fund 2	22.92%	32.09%	16.15%	36.73%	17.32%	9.71%
Benchmark	21.78%	14.05%	14.33%	34.88%	16.61%	8.92%
Life Midcap Fund 2	33.98%	33.72%	16.48%	34.22%	18.52%	13.46%
Benchmark	37.14%	39.35%	18.43%	35.51%	20.23%	11.04%
Life Balanced Fund 1	5.07%	8.04%	3.98%	7.41%	7.25%	7.81%
Composite Benchmark*	5.53%	9.09%	4.75%	7.94%	9.06%	7.93%
Life Money Market Fund 1	2.86%	5.39%	4.09%	3.41%	3.24%	5.85%
Crisil 91 day T bill Index;	3.51%	6.81%	5.48%	4.80%	5.29%	6.73%
Life Corporate Bond Fund 1	2.97%	6.26%	3.35%	3.97%	6.18%	7.13%
Crisil Composite Bond Index	3.76%	7.72%	4.32%	4.82%	7.83%	7.70%
Life Gilt Fund 1	2.84%	6.28%	3.31%	3.79%	6.89%	6.64%
Crisil Dynamic Gilt Index	3.49%	7.97%	4.08%	4.53%	7.64%	8.00%

* Composite Benchmark comprising of Crisil Composite Bond Index with 80% weight and Sensex 50 with 20% weight
As on 30-Sep-2023
Note – Returns more than 1 year are CAGR returns

Fund strategy and Positioning

Equity:

Upcoming festive season demand will be crucial for consumer companies post a few subdued quarters. Capex spending should continue at a robust pace for the next few quarters as seen from strong order inflows. This could lead to positive earnings trajectory for sectors such as Banks, NBFCs, Capital Goods, Cement and Automobiles. Monsoon in many parts of the country was satisfactory. Kharif and Rabi crop production should be in-line which should revive rural consumption. We remain constructive on sectors which benefit from domestic consumption and capacity creation.

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.

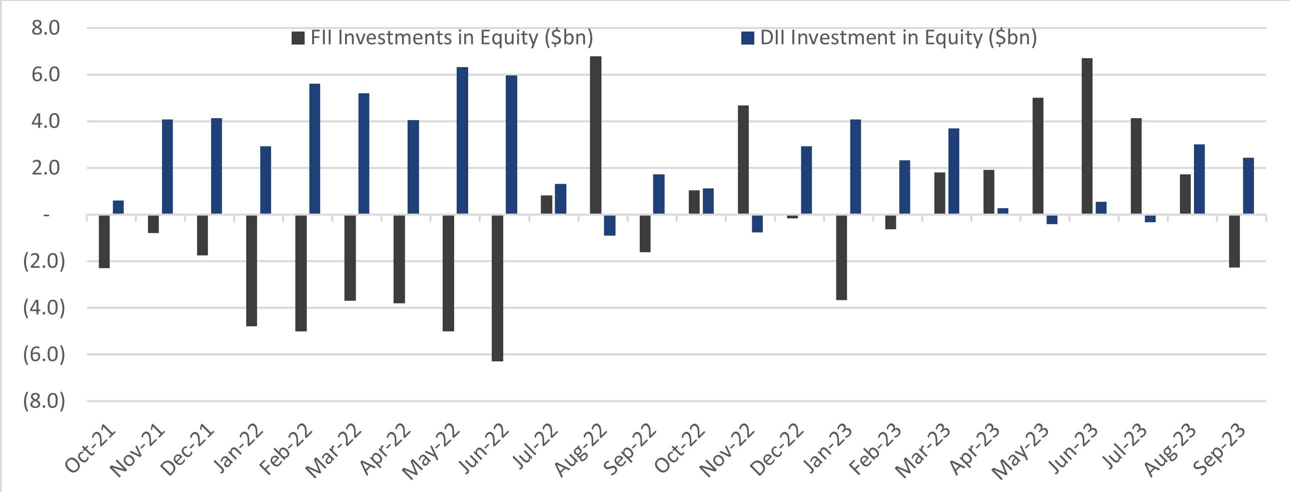
Indian Equity Market Performance

Index performance

Return %	3 Month	6 Month	1 Year
Broad Based Indices			
Sensex	3.0	13.6	16.7
Nifty	3.5	15.0	16.8
Defty	1.5	13.1	14.2
BSE 100	3.9	16.2	16.3
BSE 200	5.1	19.4	16.1
BSE 500	6.1	21.2	17.6
Nifty Junior	3.6	20.8	7.4
BSE Mid cap	13.1	35.7	31.9
NSE Mid cap	14.1	36.1	34.3
BSE Small cap	15.8	41.2	33.9

Return %	3 Month	6 Month	1 Year
Sectoral Indian Indices			
Auto	6.8	30.9	27.6
Bankex	0.1	10.9	16.6
Capital Goods	19.2	40.5	55.6
Consumer Durables	6.3	21.0	8.9
FMCG	0.5	14.6	15.6
Health Care	11.2	30.8	22.9
IT	9.8	15.4	17.6
Metal	13.2	21.6	32.2
Oil & Gas	5.2	10.8	2.5
Power	16.4	29.9	-
PSU (State Owned Enterprises)	18.9	34.7	46.0
Realty	11.2	50.9	39.0

Institutional flows



Source: NSE, BSE, Data as on 30th Sep, 2023

Fund Strategy and Outlook - Debt

Debt Fund Strategy and Positioning:

Global central bankers have indicated to keep policy rates in restrictive territory for longer as economies are showing resilience with tighter labour market conditions. RBI also has shown its intent to resort to OMO sales to tighten the liquidity on anticipation of higher Central government expenditure.

Higher for longer policy rates in US and higher crude prices have developed pressure on domestic bond yields. The overhang of OMO sales by RBI has accentuated the pressure further in near term. But expectations of lower forward inflation and higher FPI flows in 2024 on account of inclusion in JP Morgan EM Bond Index makes the yields very attractive. Our portfolios are positioned on the belly & longer end of the curve being attractive at current juncture from medium term perspective. We are overweight to benchmark in terms of overall duration and underweight to corporate bonds exposure on lower spreads. We maintain taking no exposure in lower than AAA issuers and would tactically add SDL exposure at attractive 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	7.00	12	7.38	28
6M	7.22	9	7.65	25
12M	7.45	12	7.80	15

Debt market indicators

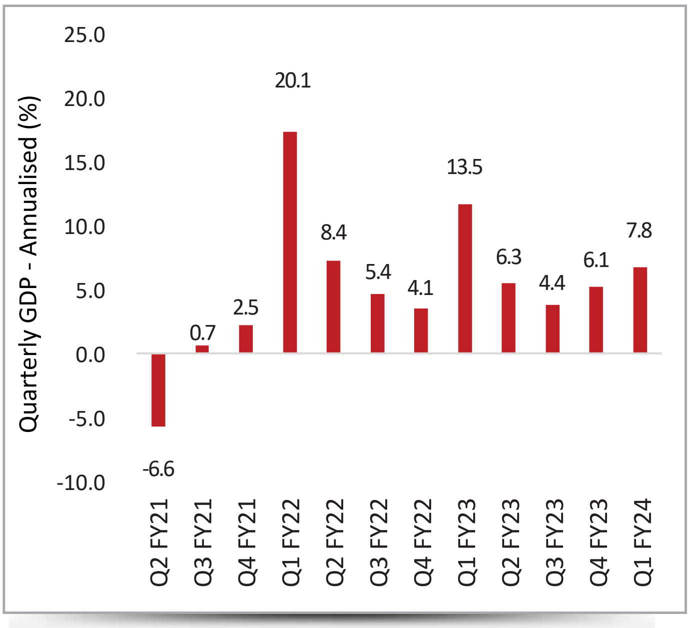
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	7.26	27	7.70	11
5Y	7.25	17	7.69	9
10Y	7.21	10	7.60	8

Note – Q-o-Q change is over Jun to Sep 2023
Data Source – Reuters, Bloomberg, CRISIL

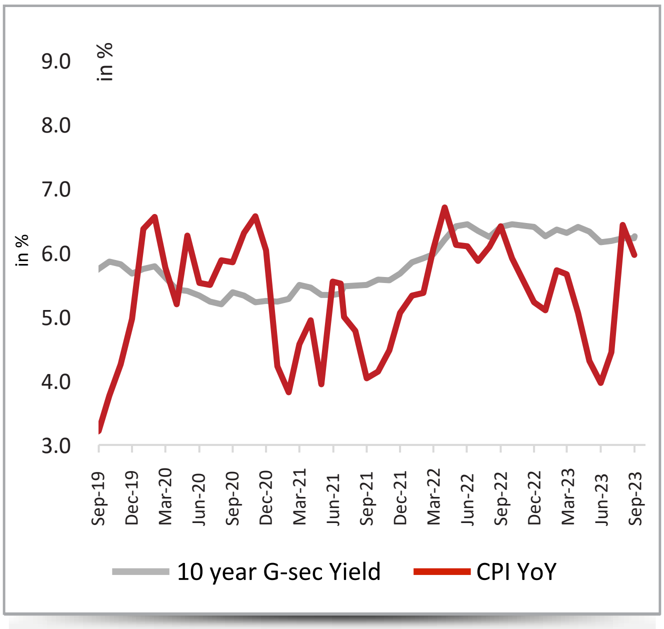
Key Economic Indicators

Other market and economic indicators:

Real GDP grew by 7.8% y/y in Q1 FY24, driven by increase in fixed capital formation and consumption.

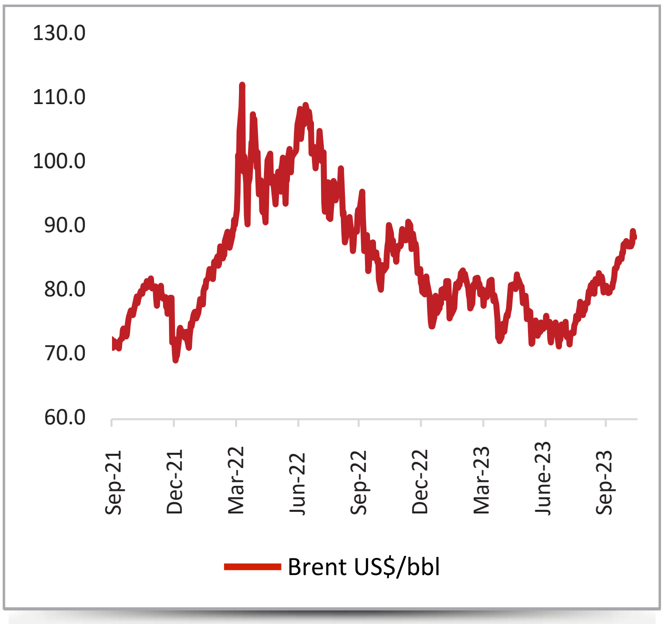


CPI inflation inched up to 6.8% y/y in Aug-23, led by sticky prices of cereals, pulses and spices. Core inflation (ex-food & fuel) Moderated to 4.8% y/y

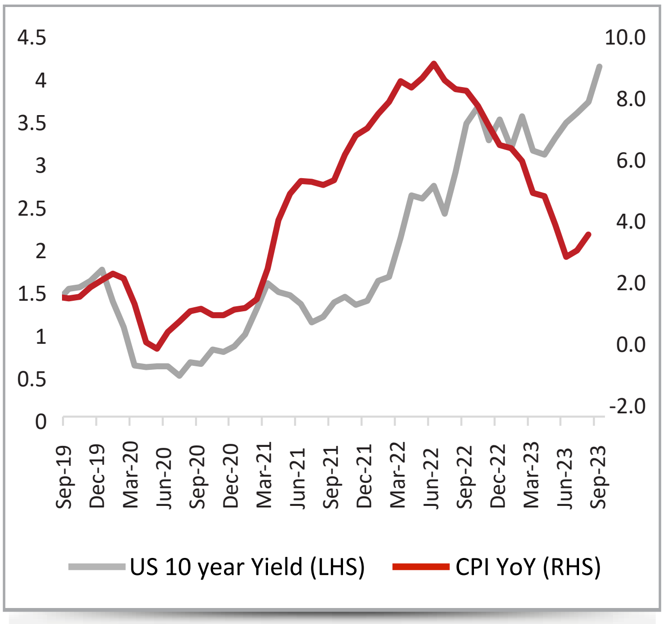


Source: Bloomberg, MOSPI, Reuters

Brent Crude oil prices inched north of $90/bbl in September 2023 on supply cuts by Saudi Arabia and Russia



US 10-year benchmark yield rose to 4.5% on continued rate hikes and further tightening of balance sheet



Source: Bloomberg, Reuters

Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map													
Indicators	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22
Industrial Sector													
Manufacturing PMI	58.6	57.7	57.8	58.7	57.2	56.4	55.3	55.4	57.8	55.7	55.3	55.1	56.2
8 Core Industries (YoY)	12.1%	8.4%	8.3%	4.3%	4.3%	3.6%	7.4%	9.7%	8.3%	5.7%	0.7%	8.3%	4.2%
Rail Freight Traffic (Loading in million tonnes)	127.0	124.0	123.1	134.2	126.5	144.6	124.0	134.0	130.6	123.1	119.0	115.7	119.3
Rail Passenger Traffic (in million)	590.7	569.1	563.1	589.3	547.8	582.9	536.7	575.3	562.7	569.8	552.1	548.4	539.9
Consumer Economy													
Passenger Vehicle Sales in thousands	359.2	350.1	280.3	288.4	331.3	292.0	291.9	298.1	235.3	276.2	291.1	307.4	281.2
Two -Wheeler Sales in thousands	1566.6	1282.1	1330.8	1471.6	1338.6	1290.6	1129.7	1184.4	1045.0	1236.2	1577.7	1735.2	1557.4
Tractor Sales in thousands	62.1	67.0	106.6	91.3	86.9	92.6	68.7	73.2	78.5	77.8	132.4	125.0	64.8
Domestic Air Passenger Traffic in thousands	12,422	12,101	12,486	13,214	12,889	12,893	12,069	12,542	12,735	11,679	11,407	10,355	10,116
Inflation													
CPI inflation, % y/y	6.83%	7.44%	4.80%	4.25%	4.70%	5.66%	6.40%	6.50%	5.70%	5.88%	6.77%	7.41%	7.00%
WPI inflation, % y/y	-0.5%	-1.4%	-4.1%	-3.5%	-0.9%	1.3%	3.9%	4.7%	5.0%	5.9%	8.4%	10.7%	12.4%
Deficit Statistic													
Trade Balance, USD billion	-24.2	-20.7	-20.1	-22.1	-15.2	-19.7	-17.4	-17.8	-23.8	-23.9	-26.9	-20.8	-28.0
Fiscal Deficit (Rs Billion)	372	1,542	2,411	767	1,336	2,793	2,631	1,978	148	2,200	1,383	782	2,008
GST													
GST collections (Rs Trillion)	1.6	1.7	1.6	1.6	1.9	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.4

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

Key Economic Indicators

- India Manufacturing PMI expanded to 58.6 in August 2023 vs 57.8 in the last quarter based on robust new order inflows, diversification in key export markets and healthy business optimism underpinned by stable demand.
- Trade deficit increased sequentially in Aug'23 to USD 24.2bn due to surge in oil and gold imports. Exports continued to de-grew on worsening global demand conditions. However, electronics, chemicals, pharma, and food products prove to be sticky.
- Urban consumption and capex continue to drive the economic growth momentum as seen in PV sales and GST collections. Rural demand however has remained subdued as suggested by tractor sales.
- CPI remained high for Aug'23 on food price shocks but is expected to normalise in the coming quarters. On the other hand, WPI remained negative on a higher base.
- Overall indicators show a healthy trend for the domestic growth to be buoyant, mainly contributed by consumption and infrastructure.

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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