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Investment risk in Investment portfolio is borne by the policyholders.

A Quarterly Newsletter by Reliance Nippon Life Insurance

INVESTMENT BULLETIN

January 2024

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From the Desk of CIO

In the continuously evolving realm of macroeconomic dynamics, the year 2023 concluded on a remarkable note, marked by a significant pivot by the Federal Reserve within the context of diminishing inflationary pressures and the underlying global resilience. The year commenced with a backdrop of uncertainty and elevated inflation, and witnessed the implementation of tightening monetary policy, which assumed paramount importance. As we embark on the new year, the global stage is set to witness elections and normalizing policy measures that will shape the course of 2024.

The US labor market has cooled off from record highs in the past quarter, complementing this inflation is moderating faster than expected including Europe and UK during the quarter, as supply side issues dissipated. Global growth continues to face headwinds from tight monetary conditions as demand slows and inflation moderates. The US Fed's projection show that federal funds rate have peaked at 5.5%, while inflation eases to 2.4% through 2024. Despite geopolitical tensions in the middle east, crude oil remains subdued below USD80/bl on low global demand.

Among emerging economies, India continues to lead on the growth front while China's troubles continue as monetary and fiscal stimulus so far are yet to jumpstart the economy. Despite a comforting core inflation of 4.1% in Nov-23, the food shocks owing from the food basket remains transitory and keeps the MPC cautious. Aggregate demand conditions remain robust and the rural economy started showing green shoots.

GDP grew at a strong pace of 7.6% in Q2 FY24, led by industrial production and a strong thrust on government capex. The external vulnerabilities were well managed through buoyant foreign exchange reserves and FPI flows. The Government continued demonstrating fiscal prudence by remaining on track to meet its budget deficit of 5.9% of GDP in FY24. 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 dynamic economy. As far as inflation - growth dynamics is concerned, Indian economy is expected to sail through the storm as headline inflation converges with core inflation at 4% in the long run.

Equity Market Outlook:

Global markets will continue to track signs of economic slowdown in US and geo-political risks. In terms of policy rates, the US Federal Reserve should implement rate cuts as inflation cools. There is reduced probability of recession in the US which would augur well for equity markets. On the domestic front, India's macro-economic fundamentals remain strong. The nation's thriving economy on back of robust infrastructure spending and accelerated push of domestic manufacturing have created a positive economic environment. The swift implementation of various reforms in Banks with respect to governance, NPA management mechanism and cleaner balance sheets have increased investor confidence, both domestic and foreign, on the growth outlook. The upcoming general elections will be closely monitored with optimism. Foreign portfolio investment (FPI) flows have surpassed domestic equity flows in the last quarter. Indian markets are expected to remain firm over the medium term, driven by robust corporate earnings and economic growth.

Debt Market Outlook:

Debt Market was driven by pivoting global monetary policies, easing global commodity prices, and moderating core inflation in the past quarter.

The US FOMC pivoted by maintaining policy rates unchanged and acknowledging of slowing growth and easing inflation and projected 75bps rate cuts in 2024. RBI kept Repo Rate steady at 6.50% and retained stance at ‘withdrawal of accommodation’. While there is near-term risk to inflation on account of higher vegetable prices, broad-based decline in core inflation is encouraging. Gsec yields eased with steepening of the curve in the last quarter on moderating global commodity prices and falling US treasury yields.

Going forward we expect RBI to continue with a prolonged pause in policy rates in H1 of 2024. Higher supply calendar in State government securities may increase the SDL spreads. Gsec yields may remain rangebound in near term. However higher FPI flows are anticipated in 2024 on account of JP Morgan EM Bond Index inclusion which may ease the market yields in the medium term.

- Chief Investment Officer

Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3	15.04%	21.56%	12.19%	15.98%	14.24%	11.22%
Nifty 50 Index	13.25%	20.03%	11.90%	15.84%	14.88%	10.70%
Life Equity Fund 2	14.23%	20.42%	11.50%	15.69%	14.11%	11.40%
Nifty 50 Index	13.25%	20.03%	11.90%	15.84%	14.88%	10.61%
Make In India Fund	14.62%	21.84%	13.42%	16.55%	13.20%	12.49%
Nifty 50 Index	13.25%	20.03%	11.90%	15.84%	14.88%	15.08%
Life Large Cap Equity Fund	15.18%	22.01%	12.47%	15.31%	n.a	14.52%
Nifty 50 Index	13.25%	20.03%	11.90%	15.84%	14.88%	15.33%
Life Pure Equity Fund 2	21.46%	30.80%	17.55%	20.79%	17.60%	11.50%
Benchmark	21.58%	27.21%	16.16%	20.17%	16.80%	10.84%
Life Infrastructure Fund 2	28.27%	37.40%	20.71%	26.73%	18.16%	7.48%
Benchmark	29.54%	27.19%	17.94%	25.15%	18.18%	6.44%
Life Energy Fund 2	32.08%	49.12%	27.53%	34.06%	21.34%	10.78%
Benchmark	37.61%	35.77%	25.89%	33.66%	21.00%	10.27%
Life Midcap Fund 2	27.83%	44.57%	21.40%	29.89%	20.54%	14.12%
Benchmark	29.80%	50.20%	25.01%	30.81%	21.67%	11.82%
Life Balanced Fund 1	4.76%	9.21%	5.88%	6.47%	7.20%	7.90%
Composite Benchmark*	4.93%	9.70%	6.39%	6.76%	8.98%	8.01%
Life Money Market Fund 1	2.87%	5.65%	4.52%	3.72%	3.94%	5.85%
Crisil 91 day T bill Index	3.51%	7.00%	5.94%	5.10%	5.27%	6.74%
Life Corporate Bond Fund 1	2.77%	6.66%	4.27%	3.86%	5.86%	7.14%
Crisil Composite Bond Index	2.96%	7.29%	4.87%	4.39%	7.18%	7.69%
Life Gilt Fund 1	2.83%	6.67%	4.36%	3.71%	6.22%	6.67%
Crisil Dynamic Gilt Index	3.11%	7.67%	4.92%	4.20%	6.96%	8.00%

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

Fund strategy and Positioning

Equity:

The Indian economy is resilient despite global headwinds. Festive demand for consumer durables and autos especially two-wheelers was robust. However, some sectors such as apparel and QSRs are yet to witness a pick-up. The RBI increased risk weights on unsecured personal loans (for both banks and NBFCs) as well as bank lending to NBFCs. Consequently, NBFCs could see an increase in cost of funds and some moderation in unsecured lending. Real estate bookings continue to surprise positively. Government spending on infrastructure projects as indicated by the order book wins of infrastructure companies is robust which we expect to continue. Investments in renewable energy is also gaining momentum.

We continue to be positive on sectors linked to infrastructure spends (Industrials, CV & Cement) 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.

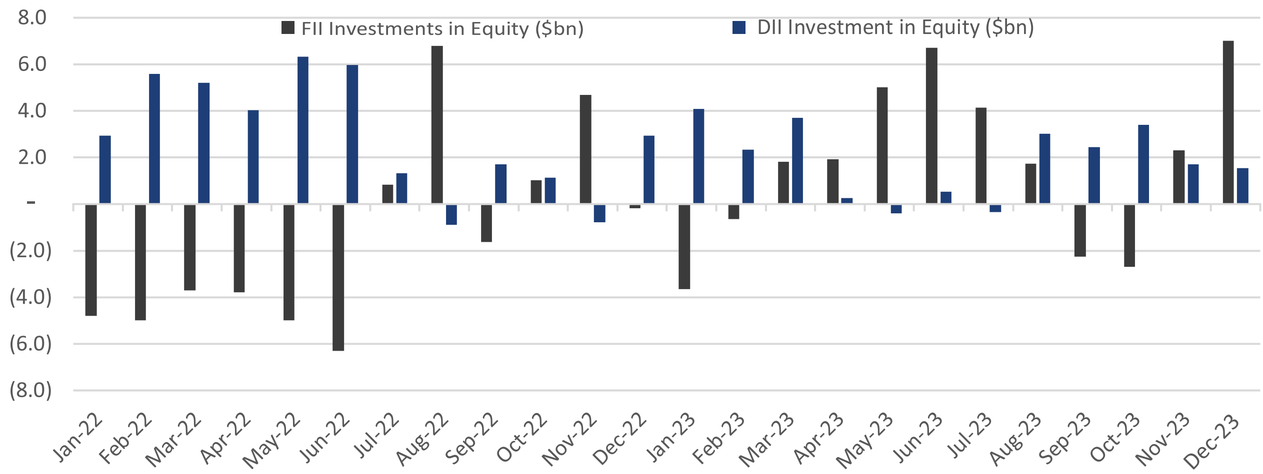
Indian Equity Market Performance

Index performance

Return %	3 Month	6 Month	1 Year
Broad Based Indices			
Sensex	9.8	11.7	18.8
Nifty	10.7	13.3	20.0
Defty	10.4	11.6	19.3
BSE 100	11.3	14.5	21.6
BSE 200	12.1	16.7	23.0
BSE 500	12.3	18.0	25.1
Nifty Junior	18.6	22.1	26.6
BSE Mid cap	14.5	28.7	46.3
NSE Mid cap	14.6	30.0	47.5
BSE Small cap	14.4	31.9	48.6

Return %	3 Month	6 Month	1 Year
Sectoral Indian Indices			
Auto	15.1	20.7	45.7
Bankex	8.3	7.6	11.1
Capital Goods	16.7	36.8	67.1
Consumer Durables	10.2	16.6	25.8
FMCG	10.1	10.0	27.9
Health Care	11.2	22.7	37.5
IT	12.8	21.0	26.1
Metal	16.4	31.4	29.5
Oil & Gas	21.8	27.2	13.5
Power	25.0	45.2	32.9
PSU (State Owned Enterprises)	24.1	46.1	56.6
Realty	34.9	49.3	80.2

Institutional flows



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

Fund Strategy and Outlook - Debt

Debt Fund Strategy and Positioning:

Global central bankers have pivoted in their monetary policies on the back of diminishing inflationary pressures and the underlying global resilience. RBI also has acknowledged the impact of tighter monetary policy on moderating core cpi inflation.

Pivoting global monetary policies and easing global commodity prices have eased the pressure on domestic bond yields. The tighter liquidity conditions have reduced the probability of OMO sales by RBI in the near term. The 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. We maintain taking no exposure in lower than AAA issuers and would tactically add SDL exposure as spreads turn attractive in near term.

India's Debt Market Performance:

Debt market indicators

Money market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	CD	(bps)	CP	(bps)
3M	7.32	32	8.05	67
6M	7.65	43	8.15	50
12M	7.85	40	8.20	40

Debt market indicators

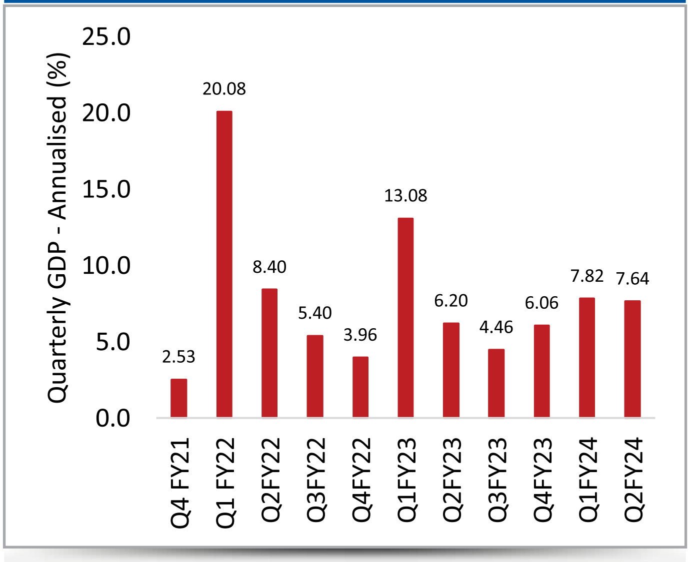
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	7.08	-18	7.78	8
5Y	7.07	-18	7.74	5
10Y	7.17	-4	7.68	8

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

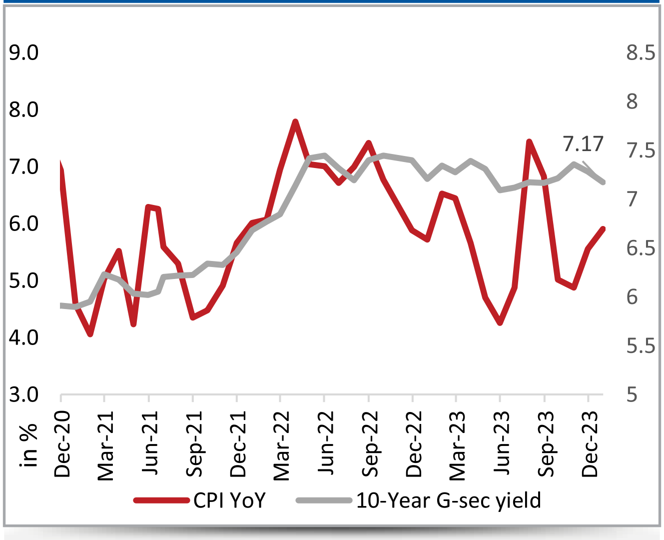
Key Economic Indicators

Other market and economic indicators:

Real GDP grew by 7.6% y/y in Q2 FY24, driven by manufacturing and fixed capital formation.

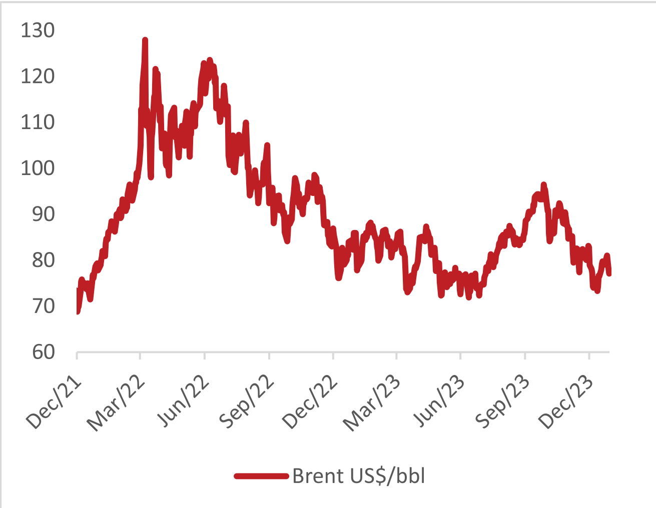


CPI inflation climbed to 5.7% y/y in Dec-23, led by higher food prices where a score inflation moderated below 4% y/y.

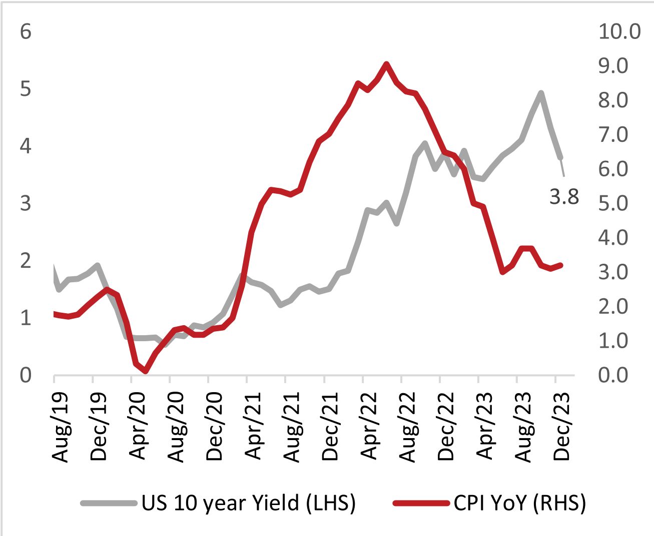


Source: Bloomberg, MOSPI, Reuters

Brent Crude oil prices remain subdued at $78/bbl in November 2023 on low global demand.



US 10-year treasury yield declined sharply to below 4% on euphoric expectations of rate cuts



Source: Bloomberg, Reuters

Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map													
Indicators	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22
Industrial Sector													
Manufacturing PMI	56.0	55.5	57.5	58.6	57.7	57.8	58.7	57.2	56.4	55.3	55.4	57.8	55.7
8 Core Industries (YoY)	7.80%	12%	9.2%	13.4%	8.50%	8.40%	5.10%	4.60%	4.20%	7.40%	9.70%	8.30%	5.70%
Rail Freight Traffic (Loading in million tonnes)	128.4	129.0	123.5	127.0	124.0	123.1	134.1	126.5	144.6	124.0	134.0	130.6	123.0
Rail Passenger Traffic (in million)	587.9	598.9	569.7	590.7	569.1	563.1	589.2	547.8	582.9	536.7	575.3	562.7	569.7
Consumer Economy													
Passenger Vehicle Sales in thousands	334.1	389.7	361.7	359.2	350.1	280.3	288.3	331.2	292.0	291.9	298.1	235.3	276.2
Two -Wheeler Sales in thousands	1623.4	1895.8	1749.8	1566.6	1282.1	1330.8	1471.5	1338.5	1290.5	1129.7	1184.4	1045	1236.1
Tractor Sales in thousands	61.97	62.44	54.49	73.85	90.77	98.66	70.74	55.84	81.07	68.99	73.16	78.56	78.72
Domestic Air Passenger Traffic in thousands	12,730	12,662	12,322	12,422	12,101	12,486	13,214	12,889	12,893	12,069	12,542	12,735	11,679
Inflation													
CPI inflation, % y/y	5.55%	4.80%	5.00%	6.83%	7.44%	4.80%	4.25%	4.70%	5.66%	6.40%	6.50%	5.70%	5.88%
WPI inflation, % y/y	0.30%	-0.50%	-0.30%	-0.50%	-1.20%	-4.10%	-3.48%	-0.92%	1.34%	3.85%	4.73%	5.02%	5.85%
Deficit Statistic													
Trade Balance, USD billion	-20.58	-31.46	-19.30	-24.20	-20.70	-20.10	-22.12	-15.24	-19.70	-17.40	-17.80	-23.80	-23.89
Fiscal Deficit (Rs Billion)	1028	1,018	590	372	1,542	2,411	767	1,336	2792.69	2,631	1,978	148.2	2,200
GST													
GST collections (Rs Trillion)	1.7	1.7	1.6	1.6	1.7	1.6	1.6	1.9	1.6	1.5	1.5	1.5	1.4

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

- S&P Global India Manufacturing PMI stood expansionary at 56. Despite a marginal increase in outstanding business, change in inflation hit a 9-month low, but confidence remainedat a 3 month high.
- India's trade deficit narrowed to USD 20.6 billion. Imports declined by 4.4% to USD 54.5 billion, with gold, petroleum, and electronic goods moderating. For April-November, exports contracted by 6.5% to USD 278.8 billion, and imports decreased by 8.7% to USD 445.2 billion.
- 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 for Nov'23 clocked 5.5% owing to corrections in vegetable prices. Core CPI eased to4.1%, at 44 month lowwith broad-based deceleration.
- Overall indicators show a healthy trend for the domestic growth to be buoyant, mainly contributed by consumption and infrastructure.

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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