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A Quarterly Newsletter by Reliance Nippon Life Insurance

INVESTMENT BULLETIN

October 2024

Content

From the Desk of CIO

India's economy demonstrated resilience with a 6.7% growth in Q1 FY25, driven by strong private consumption and investment. High-frequency indicators suggest this growth trend will continue. GST collections averaged Rs 1.8 trillion from April to August 2024, reflecting a 10% increase, indicating sustained domestic demand. The investment outlook is bolstered by robust non-food bank credit growth, high-capacity utilization, healthy corporate and bank balance sheets, and ongoing government infrastructure spending. The government is also pursuing a faster fiscal consolidation path, targeting a 4.9% of GDP deficit for FY25.

India's current account deficit widened to 1.1% of GDP in Q1 FY25 due to a higher trade deficit. Seasonal rainfall ended with an 8% surplus, enhancing agricultural prospects, while headline inflation declined sharply to 3.6% and 3.7% in July and August, down from 5.1% in June. Food inflation is expected to ease by Q4 FY25 due to better kharif arrivals and positive rabi season prospects.

Major economies such as the US, parts of Europe (notably Germany and France), and Japan are seeing more moderate levels of activity. In the US, retail sales and new home sales have seen a dip, and non-farm payroll growth has been slightly lower than anticipated. The Federal Reserve reduced interest rates by 50 basis points in September, with potential for additional cuts, while the ECB also lowered its policy rate by 25 basis points in response to challenging conditions. Geopolitical tensions in the Middle East have contributed to some market volatility.

The RBI's Monetary Policy Committee maintained the policy repo rate but shifted to a 'neutral' stance, focusing on aligning inflation with targets while supporting growth. The RBI projects India's real GDP growth at 7.2% for FY25, with CPI inflation at 4.5%. International organizations, including Moody's, also forecast strong growth for India, with favorable inflation-growth dynamics anticipated to support ongoing progress.

Equity Market Outlook:

Global equities have begun to show an improvement and gradually rose since Jul 2024. Similarly, US equities have excelled over the past three months, driven by rising optimism regarding a soft landing for the US economy and the prospects of lower interest rates. The overall sentiment towards equity markets worldwide has remained favourable, supported by falling inflation rates and stronger-than-anticipated economic performance, alongside a deceleration in the US Federal Reserve's balance sheet tightening. Importantly, officials from the US Federal Reserve have revealed their intentions to reduce interest rates to address these economic challenges.
Economic indicators were promising, with a 4.8% rise in the Index of Industrial Production (IIP) in July and a Wholesale Price Index (WPI) of 1.84% in September, following a four-month low in August. Additionally, improved Kharif sowing and higher water reservoir levels contributed to positive sentiment. Domestic Institutional Investors (DIIs) displayed strong confidence, investing $12.4 billion in equities, while FIIs added nearly $10.7 billion during the quarter. The outlook for Indian markets remains robust and optimistic, underpinned by strong corporate earnings, forthcoming assembly elections in some states and economic growth. Collectively, these factors contribute to a favourable outlook for Indian markets, indicative of resilience and potential for continued growth.

Debt Market Outlook:

The debt market witnessed notable decline in yields influenced by pivoting global monetary policies, easing crude oil prices, robust demand from foreign portfolio investors (FPIs) and faster fiscal consolidation domestically. By the end of the quarter, US 10-year Treasury yields had dropped to approximately 3.80%, while crude oil prices fell to $72 per barrel as investors reacted to softer economic data and adjusted their interest rate expectations.

Domestically, core inflation remained subdued below 4% despite hike in mobile tariffs. Central government budgeted a lower fiscal deficit of 4.9% of GDP for FY25. The above normal monsoon should keep food inflation in check. RBI's MPC changed the monetary policy stance to 'neutral' and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth. It has projected a lower forward CPI inflation of 4.1% for FY26 instilling confidence of aligning inflation to the target in the medium term.

Additionally, FTSE Russell announced the inclusion of Indian debt in its emerging market government bond index, effective September 2025. Demand supply equation for government securities stands favourable as government pursues a faster fiscal consolidation and FPIs are expected to invest around $2-3bn per month. However, markets will remain vigilant in light of recent geopolitical tensions that have added volatility.

Mr. Yadnesh Chavan
Chief Investment Officer

Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3	16.51%	35.53%	24.39%	14.61%	17.84%	12.09%
Nifty 50 Index	15.60%	31.43%	22.88%	13.57%	17.60%	11.42%
Life Equity Fund 2	15.96%	33.42%	23.40%	13.88%	17.37%	12.12%
Nifty 50 Index	15.60%	31.43%	22.88%	13.57%	17.60%	11.26%
Make In India Fund	15.24%	33.22%	23.74%	15.00%	17.20%	13.69%
Nifty 50 Index	15.60%	31.43%	22.88%	13.57%	17.60%	15.98%
Life Large Cap Equity Fund	15.08%	33.98%	23.92%	14.05%	NA	16.44%
Nifty 50 Index	15.60%	31.43%	22.88%	13.57%	17.60%	16.93%
Life Pure Equity Fund 2	17.50%	44.56%	31.12%	20.92%	22.61%	12.71%
Benchmark	15.95%	43.17%	27.85%	19.56%	21.07%	11.96%
Life Midcap Fund 2	23.29%	43.36%	38.46%	24.83%	28.52%	15.27%
Benchmark	24.82%	45.40%	42.34%	26.81%	30.89%	13.09%
Life Balanced Fund 1	6.71%	13.70%	10.83%	7.13%	8.70%	8.10%
Composite Benchmark*	6.94%	13.60%	11.32%	7.62%	9.37%	8.20%
Life Money Market Fund 1	2.90%	5.85%	5.62%	4.67%	3.96%	5.85%
Crisil 91 day T bill Index	3.57%	7.28%	7.05%	6.08%	5.33%	6.77%
Life Corporate Bond Fund 1	5.02%	9.95%	8.09%	5.50%	6.41%	7.30%
Crisil Composite Bond Index	4.73%	9.27%	8.49%	5.95%	6.99%	7.80%

* Composite Benchmark comprising of Crisil Composite Bond Index with 80% weight and Sensex 50 with 20% weight
As on 30-Sep-2024
Note – Returns more than 1 year are CAGR returns.

Fund strategy and Outlook - Equity

Equity Fund Strategy and Positioning:

We maintain a positive outlook for the upcoming earnings cycle, which appears poised for sustained growth in the coming years. The rural economy is showing signs of a turnaround, bolstered by indicators such as healthy Kharif sowing and above-average water reservoir levels over the past decade. With the festive season approaching, we expect a surge in consumer spending, further supported by government initiatives focused on capital expenditure following the elections.

Historically, the second half of the year favours sectors like Infrastructure, Industrial, and related areas, which should drive strong earnings momentum for Indian equities. Currently, the Nifty trades at a P/E ratio of 22x on a one-year forward basis, reflecting robust macroeconomic fundamentals and positive expectations for a sustainable earnings cycle. We are particularly bullish on structural opportunities in sectors like Data Centers, Defence, Green Energy and Power, which we believe will be pivotal for future growth. Overall, we are confident that these dynamics will support continued positive performance in Indian equities.

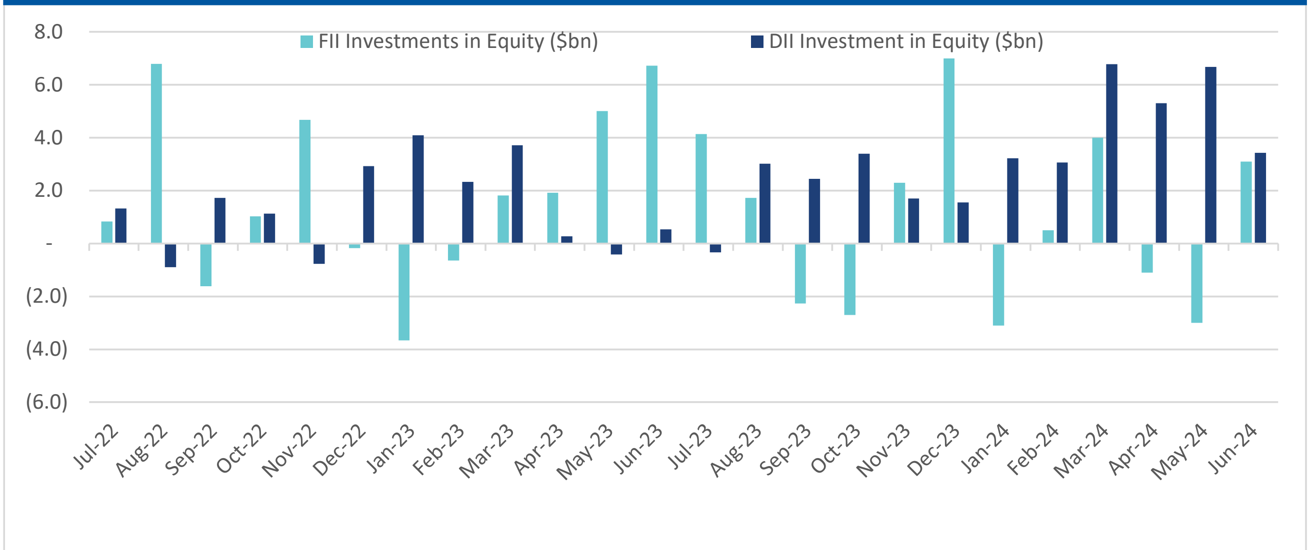
Indian Equity Market Performance

Index performance

Return %	3 Month	6 Month	1 Year
Broad Based Indices			
Sensex	6.7	14.5	28.1
Nifty	7.5	15.6	31.4
Defty	7.0	15.1	30.2
BSE 100	7.6	17.4	35.9
BSE 200	7.4	18.1	38.5
BSE 500	7.3	19.3	39.5
BSE Mid cap	6.9	25.5	52.6
NSE Mid cap	7.9	25.1	48.4
BSE Small cap	9.6	32.4	52.1

Return %	3 Month	6 Month	1 Year
Sectoral Indian Indices			
Auto	7.2	26.2	67.0
Bankex	1.2	12.4	18.8
Capital Goods	1.1	20.0	53.2
Consumer Durables	15.0	29.4	49.2
FMCG	15.5	21.5	27.0
Pharma	18.0	22.6	51.0
IT	16.0	20.2	32.0
Metal	3.9	23.5	49.1
Oil & Gas	5.3	12.8	61.1
Power	8.8	29.1	85.7
PSU (State Owned Enterprises)	0.9	17.1	69.2
Realty	-0.5	22.0	90.9

Institutional flows



Source: NSE, BSE, Data as on 30th Sept, 2024

Fund Strategy and Outlook - Debt

Debt Fund Strategy and Positioning:

Major central banks around the world have started easing their policy rates cycle with the ECB leading the path by delivering a 25 bps rate cut in June & September, reflecting significant progress in inflation containment. US FED cut policy rates by 50 bps in September on rising unemployment and gaining confidence inflation trending towards 2% target. The RBI's MPC kept the Repo Rate unchanged but changed stance to neutral.

In the US, resilient economic indicators have led markets to anticipate an additional 50 bps of Federal Reserve rate cuts in 2024. Domestically, factors such as above normal monsoon, faster fiscal consolidation by the central government, and Foreign Portfolio Investor (FPI) interest driven by inclusion in the JP Morgan Emerging Markets Bond Index and FTSE Russell Emerging Markets Government Bond Index from September 2025 , have enhanced the attractiveness of domestic bond yields. Our portfolios are currently positioned towards the middle & long segment 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 would increase exposure to state government securities at favourable spreads. We are watchful of recent geopolitical tensions which are adding volatility to the markets.

India's Debt Market Performance:

Debt market indicators				
Money market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	CD	(bps)	CP	(bps)
3M	7.20	8	7.25	-15
6M	7.40	-5	7.55	-15
12M	7.50	-10	7.70	-20

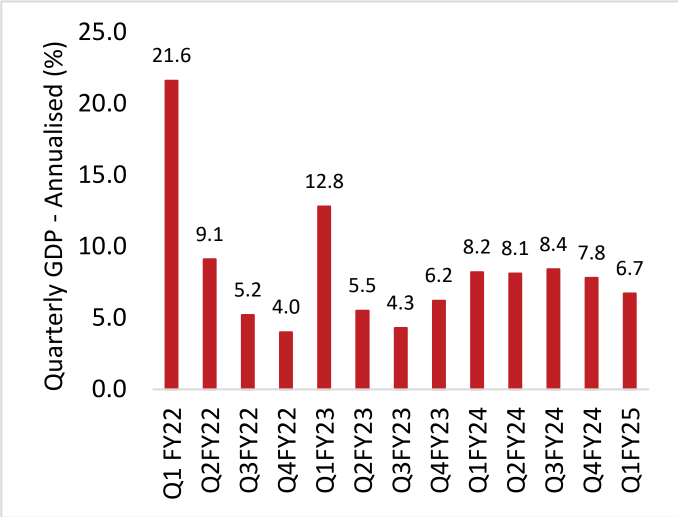
Debt market indicators				
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	6.68	-31	7.48	-19
5Y	6.67	-35	7.37	-22
10Y	6.75	-26	7.2	-26

Note – Q-o-Q change is over Jun 2024 to Sep 2024
Data Source – Bloomberg, CRISIL

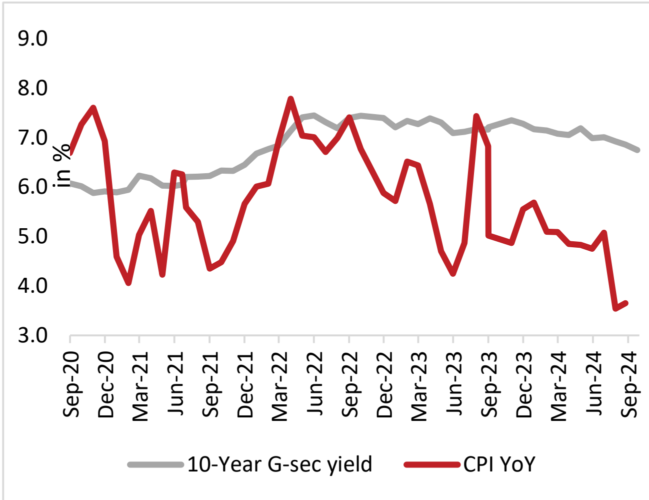
Key Economic Indicators

Other market and economic indicators:

Real GDP grew by 6.70% y/y in Q1 FY25, driven by stronger services and robust private consumption and investments.

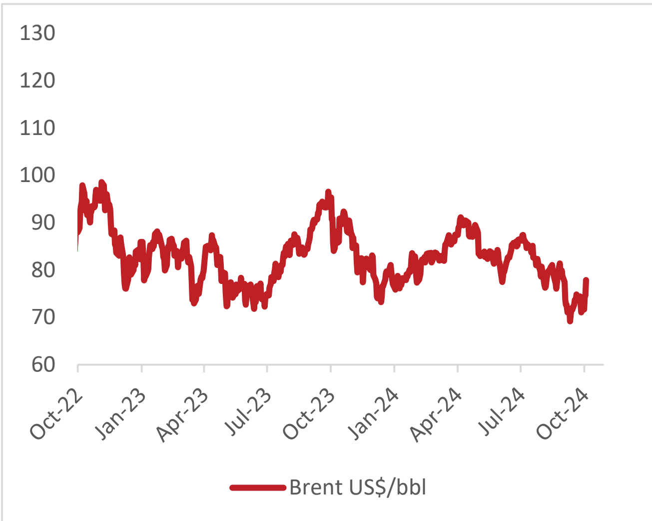


CPI inflation stood subdued at 3.65% y/y in Aug-24 and core inflation at 3.40% y/y, amid elevated food prices.

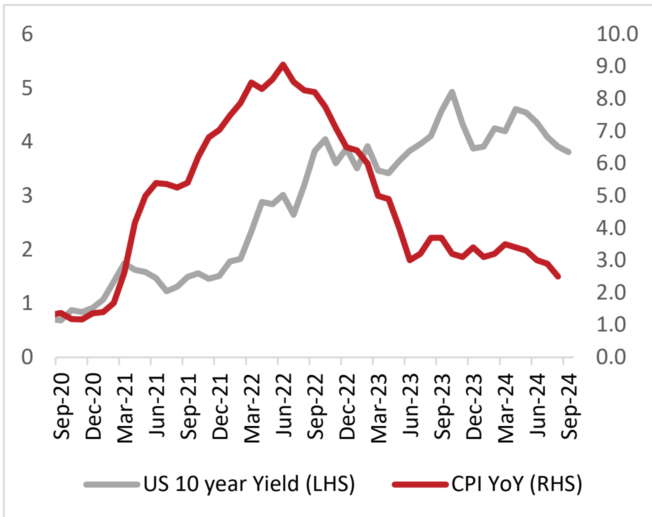


Source: Bloomberg, MOSPI

Brent Crude oil prices fell to $72 /bbl in Sep 2024 on global economic concerns.



US 10-year treasury yield fell to 3.78% on easing inflation and rising unemployment.



Source: Bloomberg

Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map													
Indicators	Aug-24	Jul-24	Jun-24	May-24	Apr-24	Mar-24	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23
Industrial Sector													
Manufacturing PMI	57.5	58.1	58.3	57.5	58.8	59.1	56.9	56.5	54.9	56	55.5	57.5	58.6
8 Core Industries (YoY)	6.7%	5.2%	6.6%	6.6%	6.9%	6.3%	7.1%	4.1%	4.9%	7.9%	12.7%	9.4%	13.4%
Rail Freight Traffic (Loading in million tonnes)	126.9	129.6	135.5	139.2	128.3	157.2	136.6	142.7	139.0	128.4	129.0	123.5	127.0
Consumer Economy													
Passenger Vehicle Sales in thousands	352.9	341.5	337.8	347.5	335.6	368.1	370.8	393.1	286.4	334.1	389.7	361.7	359.2
Two-Wheeler Sales in thousands	1711.7	1441.7	1614.2	1620.1	1751.4	1487.6	1520.8	1495.2	1212.0	1623.4	1895.8	1749.8	1566.6
Tractor Sales in thousands	58.7	68.0	110.3	91.8	84.4	74.5	51.8	62.8	52.1	79.0	125.4	105.5	62.1
Domestic Air Passenger Traffic in thousands	32,690	26,174	26,582	27,902	26,515	26,905	25,441	26,207	27,432	25,378	25,089	24,436	24,828
Inflation													
CPI inflation, % y/y	3.65%	3.54%	5.08%	4.75%	4.83%	4.85%	5.09%	5.10%	5.69%	5.50%	4.80%	5.02%	6.83%
WPI inflation, % y/y	1.3%	2.0%	3.4%	2.6%	1.3%	0.5%	0.2%	0.3%	0.7%	0.3%	-0.3%	-0.3%	-0.5%
Deficit Statistic													
Trade Balance, USD billion	-29.7	-23.5	-21.0	-23.8	-19.1	-15.6	-18.7	-17.5	-19.8	-20.6	-31.5	-19.3	-24.2
Fiscal Deficit (Rs Billion)	1,582	1,412	851	- 1,595	2,101	1,523	3,988	1,203	757	1,029	1,018	590	372
GST													
GST collections (Rs Trillion)	1.7	1.8	1.7	1.7	2.1	1.8	1.7	1.7	1.6	1.7	1.7	1.6	1.6

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

- S&P Global India Manufacturing PMI remain robust and steady at 57.5.
- India's trade deficit widened to USD 29.7 billion as exports declined 9.3% y-o-y to $34.71 billion on global economic concerns.
- Economic growth momentum persists as evident in the robust performance of GST collections.
- CPI for Aug’24 fell to 3.65% and Core CPI at 3.40% with broad-based deceleration amid elevated food inflation.
- Overall indicators depict a positive trajectory for domestic growth, primarily driven by robust consumption and infrastructure development.

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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CIN: U66010MH2001PLC167089. Mktg/RKL/ULIP Quartely Newsletter/V1/Oct24