

A Quarterly Newsletter by Reliance Nippon Life Insurance

# INVESTMENT BULLETIN

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## From the Desk of CIO



**Fiscal year 2021, a challenging year for humanity but a good one for markets, ended on a strong footing with optimism on the ground. With the advent of FY'22, Indian markets and economy faced some concerns over rise in second wave of Covid which impacted the nascent economic recovery. However, as the lockdowns are being lifted in a phased manner, economic activity is also getting back on track, as seen from most of the high frequency economic indicators. We reckon the economic impact of second wave of Covid shall be transient and the Indian economy and the markets will be back to the growth trajectory soon.**

The Indian equity market, which had initially taken a pause in the beginning of Q1FY'22, on the back of sharp rise in second wave of Covid, soon touched new highs towards the end of the quarter as fears around the impact of 2nd wave began to dispel. The overall market capitalization of India touched \$3 tn. mark fuelled largely by a rally in Mid and Small Cap stocks. **Nifty Midcap and Small Cap indices returned 13.8% and 20% respectively in Q1FY'22 vs 7% rise in Nifty50 Index.** FII flows into equity market were muted during the quarter at \$758 mn. compared to \$7.3 bn. in 4QFY'21. The rally in Midcap and Small Cap was largely fuelled by increasing retail participation in the markets which is a phenomenon, we have witnessed globally.

India's GDP posted a growth of 1.6% in Q4FY21, up from 0.5% in Q3FY21 indicating continued improvement in economic activity post first wave of Covid in 2020. During second wave in Q1FY22, most of the economic parameters remained resilient amid regional lockdowns. The 3-month average manufacturing & services PMI till May'21 remained north of 50 indicating expansion in the economy. After declining during the second wave, high frequency indicators such as power consumption, E-way bills and power consumption witnessed uptick since the second half of May 2021. **This positive momentum gives credence to our belief that the economy will be able to rebound and register a growth of 8-9% during FY22 as the Covid cases have reduced now and pace of vaccination has gone up to 4-5 mn per day.**

With the widespread roll-out of the Covid vaccine, growth-conducive policies and the state-wise unlocking phase, the growth outlook looks promising for India. **Budget FY'22 was a bold step in the direction of creating and establishing a growth conducive platform that would support growth for the next few years. Budget announcements, along with other policy announcements in the year (Atmanirbhar Bharat, Production linked Incentive (PLI) and National Infrastructure Pipeline) and successful implementation of the same, would start manifesting in the growth numbers. Also, RBI's pro-growth and pro-liquidity stance will aid in economic recovery.**

**While estimated growth numbers look quite reasonable, we should watch out for rising inflation in near term, both in India and Globally.** A rising inflation expectation could lead to Central Banks unwinding their liquidity stance partially to reign in the inflation. Any such step by Central Banks, coupled with relatively expensive valuation in certain pockets of the market, could give rise to volatility in markets in the near term. **Another risk to be watched out for, is the third wave of Covid. Although the high level of vaccination in the western world may minimise the economic impact, in India and other Asian markets, the vaccination levels are still low and therefore, the impact may be higher than the western world.**

With respect to bond markets, there is a renewed focus on inflation risks fuelled by improving growth, rising commodity prices, and short-term supply constraints. US bond yields inched up by more than 70bps in 2021 due to these concerns. However, the US 10Y bonds yields have fallen to 1.35% since then, taking cues from the Fed comments that inflationary pressure could be transitory in nature. On the domestic front, RBI tried to assuage the markets by re-emphasizing its commitment to keeping policy accommodative, with a shift to 'state-based guidance' and maintaining ample liquidity. **A shot in the arm for the bond markets was RBI's announcement of an explicit G-SAP program (G--sec Acquisition Program) 1&2, which put to rest, the bond market apprehensions of large borrowings in FY'22.** However, the 10-year G-sec yield eventually inched up to 6.15% due to a sharp spike in May'21 CPI inflation print of 6.3%, which is higher than the upper limit of the RBI's target of 6%.

**Going forward, we see policy rates to remain status quo and the liquidity stance is unlikely to diverge from the accommodative policy stance in the near-term.** Furthermore, with Fed's recent rhetoric on Fed rate hikes in 2023 and its stance on liquidity and rates will have a bearing on the direction of global and domestic bond yields. We reckon that eventually interest rates will be more led by fundamental and structural macro variables and will begin to start inching up as economy starts seeing recovery, inflation pushes higher, and liquidity starts normalizing.

**India is on the cusp of a virtuous economic growth cycle, which will culminate into stronger momentum of earnings recovery and aid the markets to perform reasonably well. Indian corporates had seen muted earnings growth over past few years which is likely to change, going ahead. After posting a strong growth of 15% in Nifty earnings, FY'22 earnings are likely to be even higher, acting as a tailwind for the markets. Global liquidity is likely to remain benign albeit at a smaller pace. Given this construct, we believe in the medium to long-term potential of Indian equity market and shall look at any reasonable correction in market as an opportunity to buy. Equity, as an asset class, represents one of the best opportunities for long-term wealth creation and require patience from investors to reap the benefit from the long-term compounding stories we invest in.**

A handwritten signature in black ink, appearing to read 'Jyoti Vaswani', with a horizontal line underneath.

**Ms. Jyoti Vaswani**

Chief Investment Officer

## Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3	13.48%	51.07%	15.65%	12.64%	12.49%	10.72%
Nifty 50 Index	12.44%	52.60%	15.46%	13.62%	13.65%	10.03%
Life Large Cap Equity Fund	12.22%	50.61%	n.a.	n.a.	n.a.	16.69%
Nifty 50 Index	12.44%	52.60%	n.a.	n.a.	n.a.	18.01%
Life Equity Fund 2	13.50%	50.93%	15.73%	12.41%	12.49%	11.06%
Nifty 50 Index	12.44%	52.60%	15.46%	13.62%	13.65%	10.01%
Life Pure Equity Fund 2	12.05%	41.59%	18.06%	12.02%	11.47%	9.76%
Benchmark	12.77%	43.79%	17.01%	12.16%	12.77%	9.18%
Life Infrastructure Fund 2	23.89%	61.12%	16.70%	11.48%	11.33%	4.59%
Benchmark	23.05%	61.03%	17.86%	12.91%	11.98%	3.64%
Life Energy Fund 2	29.65%	60.34%	15.36%	13.51%	13.50%	7.32%
Benchmark	26.31%	58.92%	12.92%	13.51%	11.81%	6.57%
Life Midcap Fund 2	28.36%	78.30%	23.11%	12.74%	14.21%	12.04%
Benchmark	28.20%	82.57%	23.83%	15.49%	16.43%	9.08%
Make In India Fund	12.41%	42.17%	13.68%	9.70%	11.16%	11.51%
Benchmark	12.65%	44.03%	16.50%	11.75%	11.30%	12.29%
Life Balanced Fund 1	2.70%	11.97%	8.49%	7.96%	7.25%	8.08%
Composite Benchmark*	3.23%	13.40%	10.83%	11.00%	9.72%	8.19%
Life Money Market Fund 1	1.00%	2.22%	3.29%	1.91%	3.52%	6.20%
Crisil 91 day T bill Index	1.64%	3.40%	4.60%	5.54%	5.89%	6.99%
Life Corporate Bond Fund 1	0.36%	3.24%	7.37%	7.31%	6.29%	7.65%
Crisil Composite Bond Fund Index	0.86%	4.90%	8.95%	9.83%	8.39%	8.22%
Life Gilt Fund 1	0.43%	3.40%	7.05%	9.08%	7.33%	7.13%
Crisil Dynamic Gilt Index	0.20%	3.71%	8.17%	9.81%	7.99%	8.59%

\*Composite Benchmark comprising of Crisil Composite Bond Fund Index with 80% weight and Sensex 50 with 20% weight  
As on 30-June-2021

1 year or below time buckets show absolute return while more than 1 year time buckets show CAGR return

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

# Fund Strategy and Outlook - Equity

## Equity:

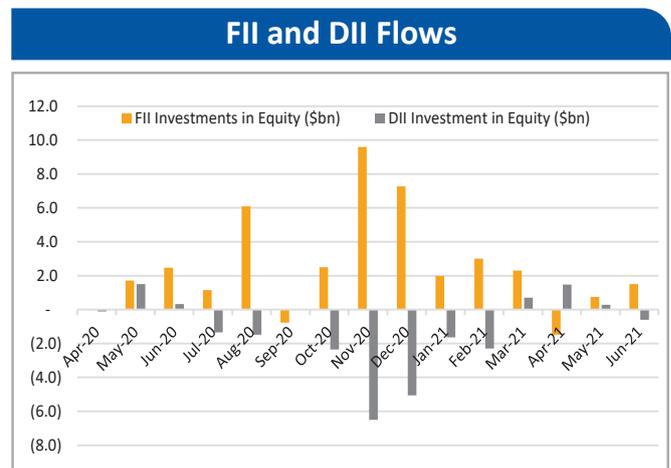
Our investment focus remains on staying overweight on sectors where there are visible tailwinds and in companies which have strong corporate governance model in place. Also, we look for companies which enjoy moat around their business model, have improved their balance sheet during the pandemic and have meaningful earnings visibility, over the next few years.

We remain positive on sectors which are likely to benefit from recovery in domestic consumption as GDP growth picks up. These sectors are private financial, consumer discretionary and consumer staples. Also, we are building a portfolio to play the economic revival in India through select infrastructure plays like Cement and Banking Sector. We look favourably at sectors like IT and Pharma too, as Covid has created a tailwind for these sectors during last one year, due to increased demand for their products/ services.

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

Returns %			
	3 Month	6 Month	1 Year
<b>Board Based Indices</b>			
Sensex	6	9.9	50.3
Nifty	7	12.4	52.6
Defty	5.6	10.9	55.5
BSE 100	7.7	13.5	53.8
BSE 200	8.5	15.5	56.6
BSE500	9.5	17.3	59.7
Nifty Jr	12.7	18.5	49.6
Bse Mid Cap	11.7	25.6	72.6
Nse Mid Cap	13.8	29.4	83.4
BSE Small Cap	22.2	39.4	103.8
<b>Sectoral Indian Indices</b>			
Auto	6.8	14.2	55.6
Bankex	4.8	9.6	62
Capital Goods	8.8	22.4	78.5
Consumer Durables	8.4	17	74.9
FMCG	5	7.2	20.1
Health Care	20	18	57.3
IT	13.5	24.3	102.4
Metal	30.1	60.9	158.9
Oil & Gas	9.1	14.8	27.7
Power	11.3	33.6	75
PSU (State Owned Enterprises)	16	34.5	59.3
Realty	2.6	10.6	72.3



Source:  
NSE, BSE, Data as on 30th June, 2021

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

# ■ Fund Strategy and Outlook - Debt ■

## ■ Debt Fund Strategy and Positioning:

The spike in inflation, in the recent past, due to rising food prices, crude and commodity prices and lowering of GDP growth projections for FY'22, does make the task of the Central Bank, a tough one this year. While the yields on the longer end of the bond markets have inched up, the 10-year yield was being anchored by RBI actions like GSAP. However, even the 10-year yield has now started rising due to the inflation prints topping the 6% mark.

Large supply of Central and State Government papers and inflation will keep the pressure on bond yields. RBI's support in the form of G-SAP/OMO's is expected to ensure that the government's borrowing programme is managed in a non-destructive manner. Eventually, we expect the interest rates to be more led by fundamental and structural macro variables and will begin to start inching up as economy starts seeing recovery, inflation pushes higher, and liquidity starts normalizing.

Portfolios are positioned to benefit from rich spreads offered in belly of the G-sec curve and State loans. Maintaining underweight on corporate bonds sighting lower spreads.

Continue to hold good quality Government securities and AAA corporate bonds. No exposure to be taken to 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	3.28	15	3.62	34
6M	3.67	2	3.94	46
12M	4.03	7	4.14	38

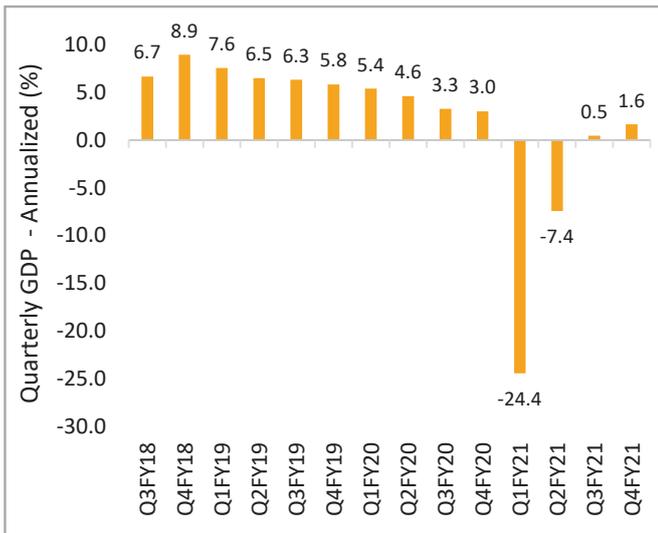
Note – Q-o-Q change is over March 2021 to June 2021  
Data Source – Reuters, Bloomberg, CRISIL

Corporate bond spreads				
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	4.89	-4	5.65	26
5Y	5.72	2	6.40	26
10Y	6.05	-13	6.92	-15

# Key Economic Indicators

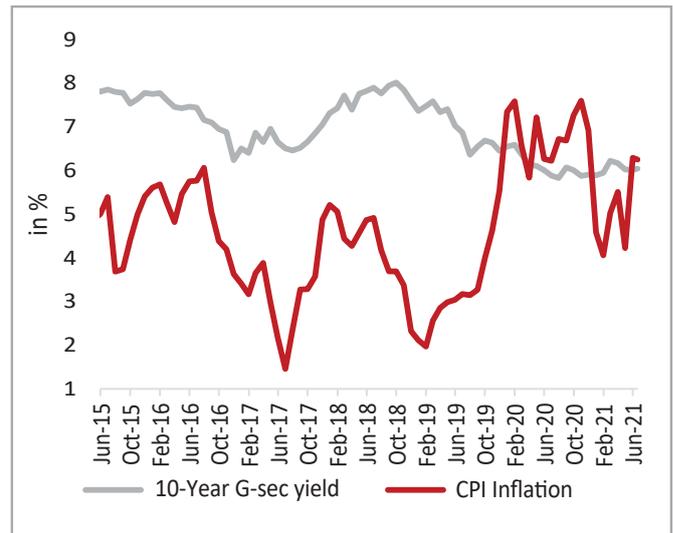
## Other market and economic indicators:

**Real GDP (%) – RBI has estimated real GDP growth rate of 9.5% for FY2022**

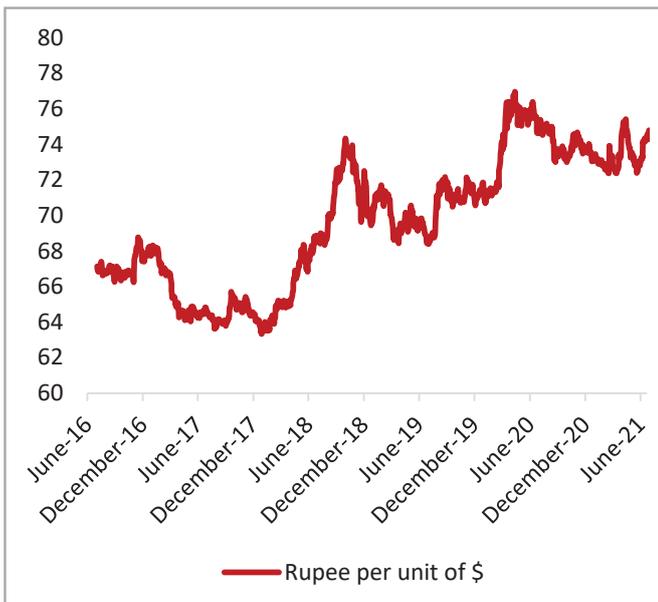


Source: Bloomberg, MOSPI, Reuters

**CPI rose to 6.26% y/y in June 2021, compared to 5.52% y/y in March 2021 largely led by food prices**

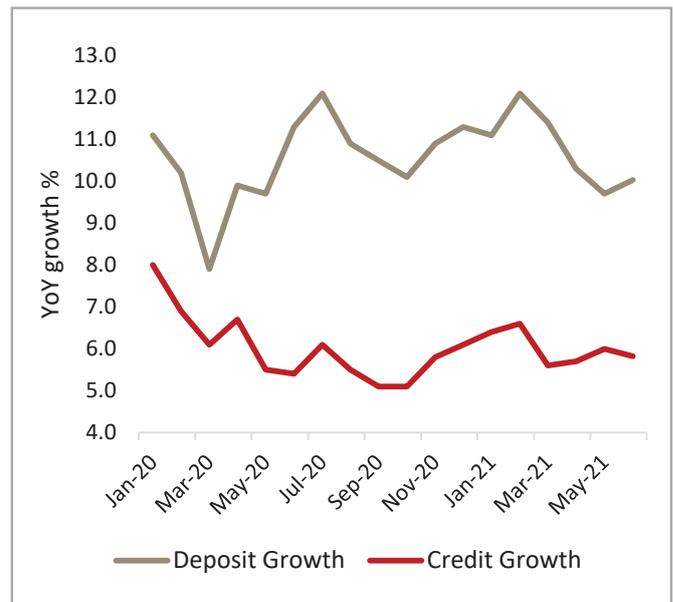


**Rupee depreciated to settle at Rs 74.2 per dollar on June 30<sup>th</sup> from Rs 73.1 per dollar on March 31<sup>st</sup>**



Source: RBI, Reuters

**Bank deposit and credit growth rose 10.0% and 5.8% year on-year in June 2021; Compared with 11.4% and 5.6% in March 2021, respectively**



# Key Economic Indicators

## Other market and economic indicators:

Economic indicators heat map									
Indicators	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21	Dec-20	Nov-20	Oct-20
<b>Industrial Sector</b>									
Manufacturing PMI	48.1	50.8	55.5	55.4	57.5	57.7	56.4	56.3	58.9
8 Core Industries (YoY)	-	16.8%	60.9%	11.4%	-3.3%	1.3%	0.4%	-1.1%	-0.5%
Rail Freight Traffic (Loading in million tonnes)	-	115	112	130	112	120	118	110	108
Rail Passenger Traffic (in million)	-	86	212	316	288	239	190	122	62
<b>Consumer Economy</b>									
Passenger Vehicle Sales in thousands	-	88	262	291	281	277	253	265	310
Two Wheeler Sales in thousands	-	353	995	1,497	1,427	1,430	1,128	1,600	2,054
Tractor Sales in thousands	-	63	72	95	85	88	72	90	124
Domestic Air Passenger Traffic in thousands	-	2,115	5,725	7,822	7,827	7,734	7,327	6,354	5,271
<b>Inflation</b>									
CPI inflation, % y/y	6.3%	6.3%	4.2%	5.5%	5.0%	4.1%	4.6%	6.9%	7.6%
WPI inflation, % y/y	-	12.9%	10.5%	7.9%	4.8%	2.5%	2.0%	2.3%	1.3%
<b>Deficit Statistic</b>									
Trade Balance, USD billion	-	-6.3	-15.2	-13.9	-12.6	-14.5	-15.4	-9.9	-8.7
Fiscal Deficit (₹ Billion)	-	445	787	4,159	1,716	755	830	1,224	392
<b>GST</b>									
GST collections (₹ Billion)	928	1,027	1,414	1,239	1,131	1,198	1,152	1,050	1,052

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

# Key Economic Indicators

- Inflation remains a concern as May numbers highlight broad based increase in prices in the CPI basket. Core inflation remains higher on account of high input cost pressures in the economy and transfer in output prices irrespective of weak demand conditions.
- Consumer confidence index deteriorated from last reading of 53.1 in Mar-21 to 48.5 in May-21, reflecting the weak demand on consumer side of economy.
- GST collection for May 2021 is ~Rs. 92,000 crores, below the Rs. 1,00,000 crore mark and lowest seen in last 7 months.
- Trade deficit declined to USD 6.3bn largely on account of decline seen in imports whereas export numbers remained robust in May-21.
- However, the slowdown in the economy due to second wave of covid is largely expected to be transient and we are witnessing early signs of recovery which is visible in the high frequency 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
ULIF04601/01/10LPUEQTY02121	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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