Reliance Nippon Life Insurance
A Reliance Capital Company

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INVESTMENT BULLETIN

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Content

From the Desk of CIO

With inflation at multidecade highs in many countries, policy makers in both advanced and emerging market economies have started to unwind the unprecedented financial easing measures and have pivoted towards tighter monetary policies. The monetary policy cycle is now synchronized and central bankers across the globe have accelerated the quantum and pace of rate hikes, especially in the advanced economies. This comes as a shock to the global outlook. Major economies have already revised their GDP projections, downwards. Economies like US is expected to face recessionary headwinds as FED continues with an aggressive monetary policy stance.
Domestically, India has not remained insulated from the spill overs of the Russia-Ukraine war. Global inflationary pressures too have seeped into the domestic economy through high food and fuel prices. India being a net importer of crude was directly impacted from the elevated crude prices, directly and indirectly through elevated domestic inflation as transport got expensive. Higher inflation has been a key concern for the Reserve Bank of India (RBI) and consequently led to a hawkish monetary policy cycle, leading to four consecutive rate hikes and withdrawal of accommodation by RBI. The war has impacted India on all fronts interlinked with each other – Inflation, Currency, Commodities, Trade, Monetary. While the Indian economic growth remains resilient, the annual fiscal deficit is expected to remain under pressure, given the rise in government expenditure towards higher payments to food and fertilizer subsidy - yet another trickledown effect of the war. The structurally robust nature of the Indian economy which has sustained the domestic demand showcases India's resilient growth story.

Global Economy:

Global economy has faced several headwinds, starting from the covid-19 pandemic to the Russia-Ukraine war. The first and direct impact of the war was sharply felt in the first quarter of FY23. As the global supply demand dynamics became clearer, commodity prices have shown signs of cool off. Tighter monetary policy drove downward revision of GDP projections in the United States, but the labour market conditions still exhibit strong resilience. In China, weak economic growth has kept the central bank to remain accommodative to support growth. Global inflation in major economies like US is expected to have already peaked and as global commodity prices soften, inflation is expected to soften.

Domestic Economy:

India's economy irrespective of facing spill overs from the global slowdown and global commodity pressures, has remained resilient, witnessing a real GDP growth of 13.5% y/y in Q1 FY23. Service sector showed a robust growth of 17.5% y/y, with a sustained growth momentum in Agriculture and Industry. Domestic growth indicators in Q2 of FY23 continue to show robust growth. Lead growth indicator, PMI for both manufacturing and services sector remained in the expansionary zone. Registering 55.1 in Sep-22, Composite PMI remained under expansionary zone, albeit some sequential softening led by the global slowdown. Second quarter, being a monsoon season witnessed resilient rains in most parts of the country with subpar sowing activity. Rice and pulses sowing remained a drag on the overall kharif acreage. Festival season also contributed to a pick-up in economic activities. GST collections remained strong and remained above Rs. 1.4trn for six consecutive months. On the capital account front, current account deficit widened further in Q1 FY23, led by higher trade deficit and weak capital inflows.

Equity Market Outlook:

Global economic outlook remains muted as both US & the EU continue to grind under the impact of restrictive monetary policy, high inflation & volatile economic activity. Quantum of rate hikes expected from the US Fed have sharply increased post the sequence of strong inflation and payroll numbers in August & September 2022. Amidst a weak economic scenario globally, India stands out with superior growth. As a result, Indian equities have outperformed most developed and emerging markets over Jul – Sep 2022. Credit growth has picked up above 15% which is a multi-year high. Consumption trend, especially in urban areas, remains robust as seen from the upbeat festive season demand. Rural recovery, which has been muted so far, should play out next year with increased farm income on the back of good sowing. Order books of companies in the capital goods sector looks robust. These positive economic factors coupled with a reduction in commodity prices should result in a robust earnings trajectory in Nifty50 companies over the next 2 years. Domestic focused consumption and investment sectors should benefit due to consumption growth, higher capacity utilization and margin improvement, going ahead. In the current backdrop, we remain constructive on equities as an asset class and advise investors to participate in the long-term potential of India by staying invested.

Debt Market Outlook:

Debt Market witnessed a see-saw movement during the last quarter, fuelled by tighter global monetary policies, easing commodities, depreciation of INR currency and discussions around inclusion of debt securities in global bond indices.

Global Monetary policy cycles are expected to be Larger, Faster & Longer with FOMC & ECB hiking their policy rates by 75bps in their recent meetings in order to tame higher inflation. This is perceived as a third shock to the Indian economy leading to FPI outflows and depreciation of INR currency. RBI also reciprocated with a 50bp Repo rate hike to 5.90%, the fourth straight increase, extending its battle to anchor the stubbornly high inflation. The inflation control measures do come at the cost of economic slowdown with higher probability of recession in advanced economies. Global commodities have already corrected with crude falling ~20% in the last quarter indicating weak demand on recession fears. Hopes of inclusion of debt securities in Global bond indices did help in cooling of Gsec yields to 7.10%, but fundamentals finally superseded with higher inflation & higher policy rates pulling up the yields back to 7.40% by the end of the quarter. Yield curves flattened with 5x10y spread compressing from 20bps to 8bps. Going forward we expect RBI to tighten the monetary policy further to tame the inflation and cushion the shock from the advanced economies. Yield curves are expected to flatten further and remain elevated in near term.

Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3	-1.61%	-2.69%	22.75%	13.66%	11.12%	10.28%
Nifty 50 Index	-2.12%	-2.97%	23.28%	14.21%	11.80%	9.72%
Life Equity Fund 2	-1.85%	-3.01%	22.69%	13.52%	10.99%	10.63%
Nifty 50 Index	-2.12%	-2.97%	23.28%	14.21%	11.80%	9.73%
Make In India Fund	-0.58%	-0.67%	20.21%	13.04%	9.37%	10.82%
Nifty 50 Index	-2.12%	-2.97%	23.28%	14.21%	11.80%	13.97%
Life Large Cap Equity Fund	-1.46%	-3.40%	22.15%	n.a.	n.a.	11.22%
Nifty 50 Index	-2.12%	-2.97%	23.28%	n.a.	n.a.	12.74%
Life Pure Equity Fund 2	1.74%	2.83%	24.62%	17.25%	11.81%	10.07%
Benchmark	2.41%	4.55%	25.94%	16.75%	11.11%	9.65%
Life Infrastructure Fund 2	-5.82%	-2.72%	31.05%	16.61%	8.63%	4.95%
Benchmark	-2.89%	1.86%	34.52%	20.37%	11.29%	4.54%
Life Energy Fund 2	0.12%	2.14%	39.11%	19.16%	11.29%	8.13%
Benchmark	4.94%	14.62%	46.68%	23.39%	13.10%	8.52%
Life Midcap Fund 2	0.92%	1.47%	34.48%	22.29%	11.34%	12.01%
Benchmark	1.82%	0.65%	33.63%	23.78%	12.19%	9.08%
Life Balanced Fund 1	0.10%	0.08%	7.10%	7.30%	5.85%	7.80%
Composite Benchmark*	-0.22%	0.57%	7.37%	8.09%	7.77%	7.86%
Life Money Market Fund 1	1.59%	2.80%	2.43%	2.87%	2.62%	5.88%
Crisil 91 day T bill Index;	2.25%	4.17%	3.81%	4.20%	5.24%	6.73%
Life Corporate Bond Fund 1	0.35%	0.52%	2.85%	5.31%	4.65%	7.19%
Crisil Composite Bond Fund Index	-0.02%	1.03%	3.40%	6.00%	6.36%	7.70%
Life Gilt Fund 1	0.68%	0.42%	2.57%	4.66%	5.45%	6.66%
Crisil Dynamic Gilt Index	-0.04%	0.34%	2.85%	5.41%	6.01%	8.00%

* Composite Benchmark comprising of Crisil Composite Bond Fund Index with 80% weight and Sensex 50 with 20% weight
As on 30-September-2022
Note – Returns more than 1 year are CAGR returns

Fund strategy and Positioning

Equity:

Interest rate hikes by Central Banks continue to be front-loaded across the world, as inflation still rules at much above the comfort zone. Global markets could remain volatile in the near term till inflation trajectory is downward on a sustainable basis. With a better growth and inflation dynamics, India stands out in terms of performance among both emerging and developed market peers. As the tailwind of commodity price correction leads to margin expansion for consumer companies, earnings growth is likely to remain in double digits over FY22-24. Thus, we remain positive on Indian markets over the medium to long term.

Our view is constructive on domestic focused sectors such as Banking and Financial services, Automobiles, Consumer Discretionary, Capital Goods and Power as domestic demand remains robust as seen from parameters such as consumption and credit growth. The ongoing festive season should provide further thrust to consumption activities. Domestic capex has also started reviving after a long pause, as seen from order inflow for Capital Goods companies. While near term volatility in equity market cannot be ruled out, any correction should be used as an opportunity to buy quality stocks in above mentioned sectors.

Our investment strategy is to remain overweight on sectors where there are visible tailwinds and in companies which have a strong corporate governance model in place. We look for companies which have strong business model, have improved their balance sheet during the pandemic and have meaningful earnings visibility over the next few years. 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.

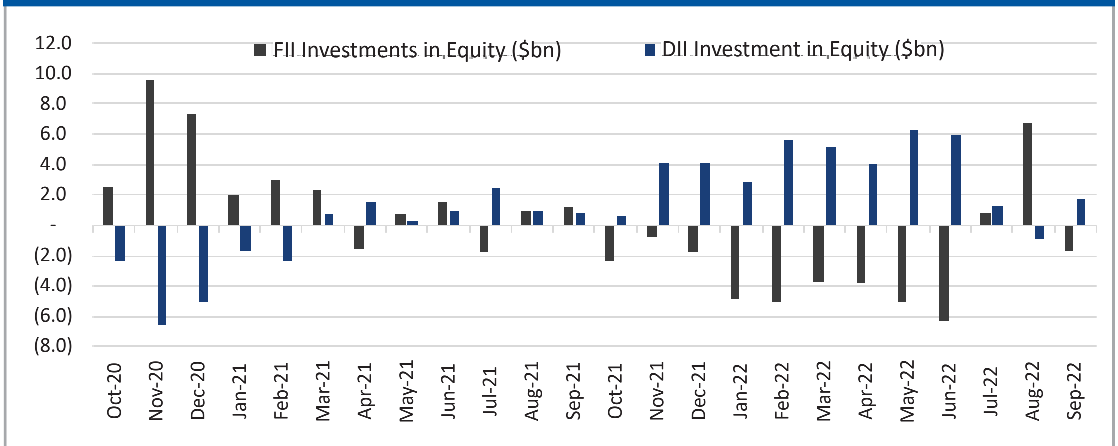
Indian Equity Market Performance

Index performance

Return %	3 Month	6 Month	1 Year
Broad Based Indices			
Sensex	8.3	-1.9	-2.9
Nifty	8.3	-2.1	-3.0
Defty	2.8	-10.9	-13.4
BSE 100	9.7	-0.8	-1.7
BSE 200	10.4	-0.2	-1.2
BSE 500	10.9	-0.2	-1.2
Nifty Junior	16.1	3.1	-
BSE Mid cap	14.5	3.1	-1.6
NSE Mid cap	15.9	3.3	0.9
BSE Small cap	14.8	0.8	1.3

Return %	3 Month	6 Month	1 Year
Sectoral Indian Indices			
Auto	9.0	21.3	22.3
Bankex	14.8	5.8	3.4
Capital Goods	20.0	13.5	20.2
Consumer Durables	22.4	0.5	2.8
FMCG	17.5	21.3	8.9
Health Care	8.0	-4.0	-10.5
IT	-2.9	-24.5	-20.7
Metal	15.8	-19.5	-10.7
Oil & Gas	3.0	-1.0	1.4
Power	16.8	17.4	48.5
PSU (State Owned Enterprises)	9.5	1.9	3.5
Realty	10.1	-8.3	-17.7

Institutional flows



Source: NSE, BSE, Data as on 30th September, 2022

Fund Strategy and Outlook - Debt

Debt Fund Strategy and Positioning:

RBI raised its benchmark repo rate by 50 bps to 5.90%, the fourth straight increase, as policymakers extended their battle to tame stubbornly high inflation. FOMC raised the policy rates by 75 bps in its September meeting and signalled a firmer policy path. Third straight three-quarter percentage point increase takes the federal fund rate to 3.00% - 3.25%.

With frontloading of monetary tightening by Central Bankers across the globe the yield curves have been flattened. Our Portfolios are positioned on the shorter end of the curve being attractive at current juncture. We maintain underweight in terms of overall duration and credit exposure sighting lower credit spreads. We continue to hold good quality Government securities and AAA corporate bonds. We would tactically look to add State government securities as the spreads widen going ahead. 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	6.32	102	6.68	128
6M	6.62	64	7.11	69
12M	7.05	50	7.27	42

Debt market indicators				
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	7.23	28	7.50	15
5Y	7.31	7	7.55	0
10Y	7.39	-5	7.65	-15

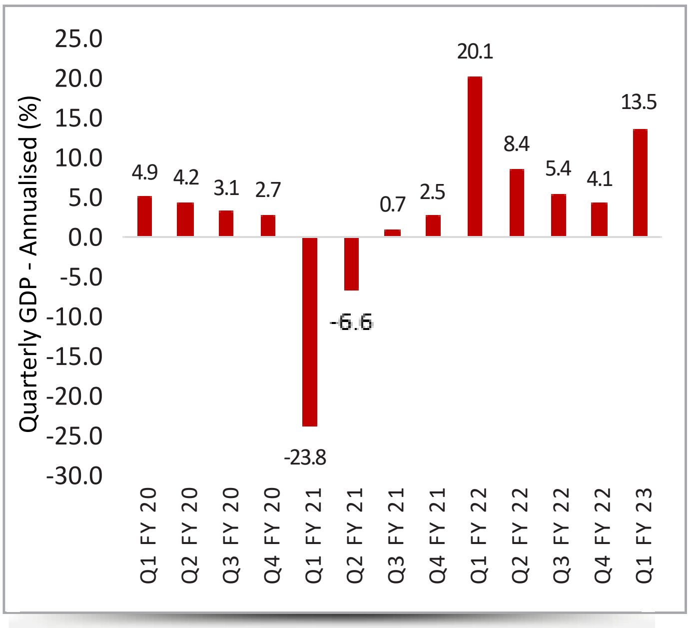
Note – Q-o-Q change is over Jun 2022 to Sep 2022
Data Source – Reuters, Bloomberg, CRISIL

Note – Q-o-Q change is over Jun 2022 to Sep 2022
Data Source – Reuters, Bloomberg, CRISIL

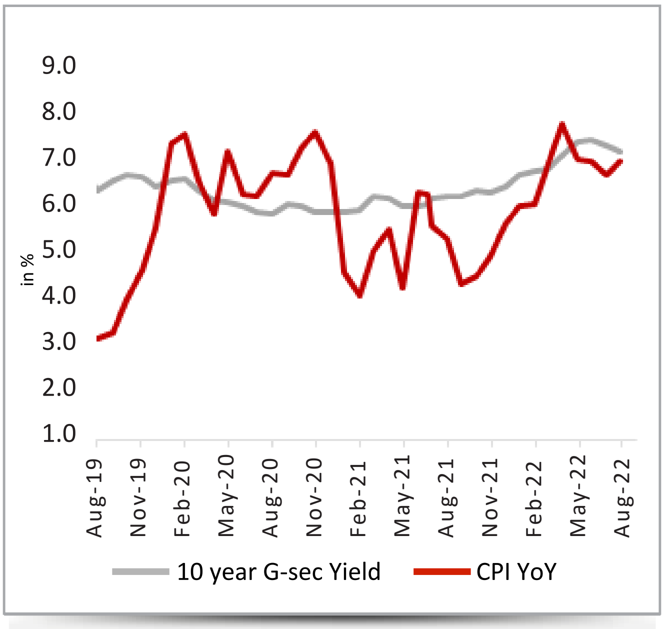
Key Economic Indicators

Other market and economic indicators:

Real GDP expanded by 13.5% y/y in Q1 FY23 aided by private consumption growth of 25.9% y/y and investment growth of 20.1% y/y.

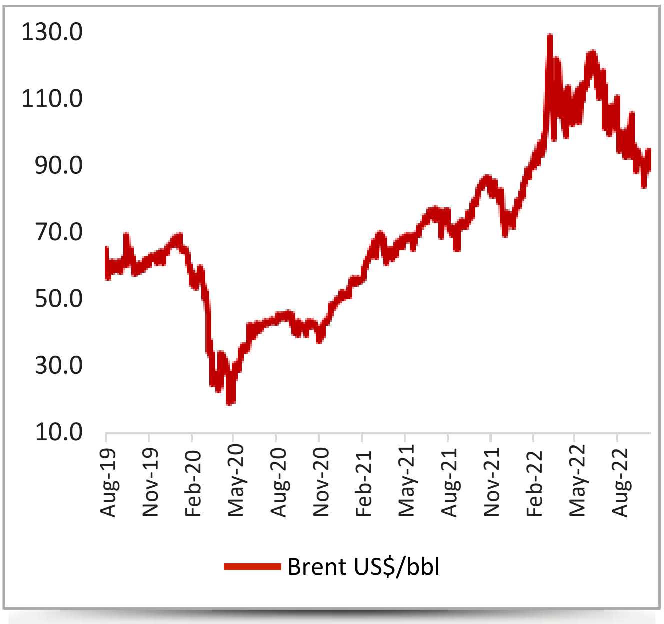


CPI increased to 7% in Aug-22, up from 6.7% in July-22, due to a pickup in food prices.

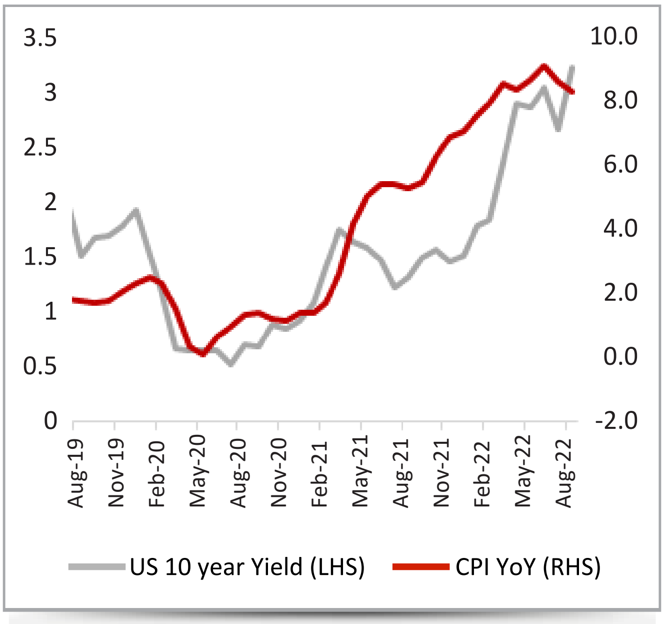


Source: Bloomberg, MOSPI, Reuters

Brent Crude oil prices tumbled below the $100 mark, as the world demand outlook remains weak.



US 10-year benchmark yield consolidated above 3.5% tracking FED's aggressive rate hikes, driven by inflationary concerns over US economy.



Source: Reuters

Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map

Indicators	Aug-22	Jul-22	Jun-22	May-22	Apr-22	Mar-22	Feb-22	Jan-22	Dec-21	Nov-21
Industrial Sector										
Manufacturing PMI	56.2	56.4	53.9	54.6	54.7	54.0	54.9	54.0	55.5	57.6
8 Core Industries (YoY)	3.3%	4.5%	13.2%	19.3%	9.5%	4.8%	5.9%	4.0%	4.1%	3.2%
Rail Freight Traffic (Loading in million tonnes)	119.3	122.1	125.5	131.7	122.2	139.2	119.7	129.0	126.8	116.8
Rail Passenger Traffic (in million)	539.9	516.0	500.7	500.6	455.9	484.1	413.8	345.2	397.1	377.0
Consumer Economy										
Passenger Vehicle Sales in thousands	281.2	293.9	275.8	251.1	251.6	279.5	263.0	254.3	219.4	215.6
Two Wheeler Sales in thousands	1557.4	1381.3	1308.8	1253.2	1148.7	1184.2	1038.0	1128.3	1006.1	1050.6
Tractor Sales in thousands	64.8	67.0	107.3	93.5	99.9	84.2	62.3	63.3	55.6	74.6
Domestic Air Passenger Traffic in thousands	10116.0	9705.0	10512.0	12081.0	11000.0	10696.0	7696.0	6408.0	11202.0	10516.0
Inflation										
CPI inflation, % y/y	7.0%	6.7%	7.0%	7.0%	7.8%	7.0%	6.1%	6.0%	5.7%	4.9%
WPI inflation, % y/y	12.4%	13.9%	16.2%	16.6%	15.4%	14.6%	13.1%	13.0%	14.3%	14.9%
Deficit Statistic										
Trade Balance, USD billion	-28.0	-30.0	-26.2	-24.3	-20.1	-18.7	-20.9	-17.4	-21.7	-23.2
Fiscal Deficit (₹ Billion)	2007.7	-110.4	1479.5	1290.8	748.5	2699.4	3787.3	1785.0	637.5	1485.9
GST										
GST collections (₹ Billion)	1436.1	1490.0	1446.2	1408.9	1675.4	1421.0	1330.3	1409.9	1297.8	1315.3

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

Key Economic Indicators

- India's lead growth indicator, PMIs, remained in the expansionary zone. PMI manufacturing came at 56.2 marginally changed from the 8-month high in July-2022.
- Trade deficit narrowed to USD 28bn in Aug-2022, as brent prices traded below $100 per barrel. Exports growth slowed as global economy faces sluggish growth.
- GST collection remained above the INR 1.4tn mark for the sixth consecutive month reflecting robust domestic demand and economic activity.
- Domestic high frequency indicators highlighted strong service and trade activity and festive pickup in demand.

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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