

A Quarterly Newsletter by Reliance Nippon Life Insurance

INVESTMENT BULLETIN

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From the Desk of CIO

Facing multiple headwinds, the past two years have been episodes of economies derailing from their growth trajectory and forecasts. Going forward, the global economic outlook will be contingent on three key events – calibration of global monetary policies, developments from Russia-Ukraine war and China's growth recovery. These three events will have a significant spill over effect on India's economic outlook. India is expected to be a relatively bright spot in the otherwise sluggish global economy but India's growth prospects for FY24 will largely be shaped by external sector dynamics.

For India's economy domestic consumption has been a key driver of growth. But as consumption moderates or stagnates given multiple shocks to households and private sector and limited government intervention, investment cycle becomes a key driver in thrusting the economic growth, which is still muted in India. Relatively, India is expected to see lower commodity price pressures, a bounce back in currency in H2 of FY24, fiscal pressures, lower inflation due to favourable base effects.

Global Economy:

Global economy is bracing the impact from tighter financial conditions and spill overs from commodity cycles. Global monetary dynamics is expected to show mixed signs. Federal Open Market Committee (FOMC) is expected to pause from their aggressive tightening as growth takes a hit and inflation starts to moderate. On the hand, Bank of Japan (BOJ) expanded the range of 10-year Japanese Government Bond yield fluctuations from between around plus and minus 0.25% to between around plus and minus 0.5% to address the deterioration in market functioning. BOJ also outlined the concerns emitting from global outlook deterioration and elevated commodity prices. Given high inflation, European Central Bank (ECB) and Bank of England (BOE) continue to remain focused in hiking rates and bring inflation under control.

Domestic Economy:

India witnessed a real GDP growth of 6.3% y/y in Q2 FY23. Service sector showed a robust growth of 9.3% y/y, with a sustained growth momentum in Agriculture, whereas Industry remained a drag. Domestic growth indicators in Q3 of FY23 continue to show robust growth. High frequency economic variables indicated optimism on underlying growth. GST collections for the month of Dec-2022 recorded a 15% y/y growth starting at INR 1.49 lakh crore. Another indicator showcasing continued growth expansion is the Manufacturing PMI, which highlighted a positive ending to 2022. At 57.8 in Dec-2022, up from 55.7 in Nov-2022, it pointed to a robust improvement, that was the best seen since October 2020. The PMI average for the third fiscal quarter (56.3) was the highest recorded, since one year ago. One key concern for India's growth trajectory is the impact of external sector on India's current account. BOP in Q2-FY23 turned sharply negative, led by a widening trade deficit and muted capital flows. Current account deficit in Q2 FY23 widened to US\$36.4 bn. Given the decline in Brent prices from its peak and a range bound INR, the headwind from the external sector is expected to have peaked. On the fiscal front, robust tax revenues have offset any unaccounted increase in government's expenditure. The centre's Gross fiscal deficit remains on track to meet its FY-2023BE target with a run-rate of 59% in 8 months of FY23. On the price front, CPI inflation moderated in Nov-22, with headline CPI falling from 6.77% in Oct-22, to 5.88% in Nov-22 led by decline in the food basket. Whereas core inflation continues to remain above 6% level.

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. Amidst a weak economic scenario globally, India stands out with superior growth. As a result, Indian equities have outperformed most developed markets over October – December 2022. Strong Rabi sowing trends and moderating inflation bode well for macro-outlook and

benefit sectors like FMCG, two-wheelers, agrochemicals, and low-ticket consumer durables. Easing of commodity prices, particularly crude oil, bodes well for India. Government spending is likely to pick up this year ahead of the general elections in 2024 which should support infrastructure creation. Additionally, there are signs of pick up in private capex spending. Full-fledged capex recovery will, however, require domestic demand to sustain. Construction and cement sectors will benefit from higher Government spending on infrastructure with a possible kicker in the form of private capex. Valuations for Indian Markets reflect the positive scenario for the Indian Economy. We are positive on Indian equity markets due to the Government focus on investments, stable domestic macro-economic parameters, expected benefits from PLI schemes and Trade Agreements as well as the downtick in inflation. Risks to our view are in the form of sharp reduction in global growth or a “risk-off” scenario where valuations come off sharply.

Debt Market Outlook:

Debt Market had a volatile quarter driven by tighter Global monetary policies, easing commodities, depreciation of INR currency, reopening of Chinese economy and rising Covid-19 cases across the globe.

With a 50bps hike in the interest rates in December 2022, FOMC slowed down the pace of Monetary tightening and is expected to end by mid-2023 with easing signs of Inflation and moderating economic growth. RBI also reciprocated by a smaller 35bps hike in Repo Rate as inflation has been moderating and is now within the target mandate band of 2% - 6%. The recession looks imminent in advanced economies. Global commodities are trying to find an equilibrium between recession fears and reopening of China.

Gsec yields have been rangebound around 7.30%. Yield curves are flat with 5x10y spread at 10bps & 10x30y spread at 12bps factoring in a near end to tight monetary policy and a probable easing towards the end of the year. Going forward we expect RBI to push the Repo Rate further to 6.50% before taking a pause to assess its impact on the economy. Market would be keenly watching the upcoming Union Budget to take cues from the Government Borrowing programme.

- Chief Investment Officer



Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3	14.77%	3.54%	13.29%	14.86%	9.99%	10.46%
Nifty 50 Index	14.73%	4.33%	13.79%	14.16%	11.45%	10.01%
Life Equity Fund 2	14.76%	3.23%	13.40%	14.87%	9.87%	10.80%
Nifty 50 Index	14.73%	4.33%	13.79%	14.16%	11.45%	9.99%
Make In India Fund	14.78%	5.58%	14.00%	15.11%	8.26%	11.19%
Nifty 50 Index	14.73%	4.33%	13.79%	14.16%	11.45%	14.38%
Life Large Cap Equity Fund	14.61%	3.68%	12.10%	n.a.	n.a.	12.09%
Nifty 50 Index	14.73%	4.33%	13.79%	n.a.	n.a.	13.78%
Life Pure Equity Fund 2	12.82%	5.64%	16.07%	18.34%	10.25%	10.14%
Benchmark	12.87%	6.07%	16.79%	18.21%	9.73%	9.67%
Life Infrastructure Fund 2	15.12%	6.04%	21.71%	19.18%	8.26%	5.46%
Benchmark	17.28%	9.37%	24.14%	21.68%	10.51%	4.98%
Life Energy Fund 2	8.80%	9.07%	27.11%	20.48%	10.41%	8.27%
Benchmark	10.57%	16.72%	32.62%	23.69%	11.31%	8.52%
Life Midcap Fund 2	18.41%	1.94%	23.11%	22.28%	9.60%	12.05%
Benchmark	19.93%	4.05%	22.08%	23.02%	9.58%	9.30%
Life Balanced Fund 1	5.71%	2.66%	5.12%	7.48%	6.06%	7.83%
Composite Benchmark*	6.26%	3.18%	5.33%	8.06%	8.14%	7.92%
Life Money Market Fund 1	2.16%	3.40%	2.76%	2.87%	2.60%	5.86%
Crisil 91 day T bill Index;	2.93%	4.89%	4.17%	4.28%	5.26%	6.72%
Life Corporate Bond Fund 1	3.41%	1.94%	2.49%	5.34%	5.13%	7.17%
Crisil Composite Bond Fund Index	4.08%	2.51%	2.97%	5.99%	6.90%	7.71%
Life Gilt Fund 1	4.19%	2.11%	2.27%	4.90%	6.12%	6.67%
Crisil Dynamic Gilt Index	4.57%	2.23%	2.50%	5.68%	6.80%	8.02%

* Composite Benchmark comprising of Crisil Composite Bond Fund Index with 80% weight and Sensex 50 with 20% weight
As on 31-December-2022

Note – Returns more than 1 year are CAGR returns

Fund strategy and Positioning

Equity:

Despite the hike in interest rates by Central Banks, inflation continues to be ahead of their targets. This is leading to continued hawkish stance by Central Banks. In this high interest rate environment, Value stocks have outperformed Growth stocks. We believe that this trend should continue in the near term till the rate cycle shows signs of reversal. As per estimates by the International Monetary Fund and World Bank, India could be the fastest growing major economy in 2023 amidst the challenging global growth environment currently. This should lead to continued outperformance of the Indian equity market.

We remain constructive on sectors which benefit from domestic consumption and capacity creation. Sectors such as Banking and Financial services, Automobiles, Consumer Staples, and Capital Goods should continue to benefit in our view. Over past few quarters, while rural demand was weak, domestic consumption was supported by urban demand. We expect revival in rural demand this year leading to continued positivity on consumption. Credit growth in the banking sector remains strong due to robust retail demand as asset quality is stable.

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 enjoy moats in their 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 stock selection to play our investment thesis.

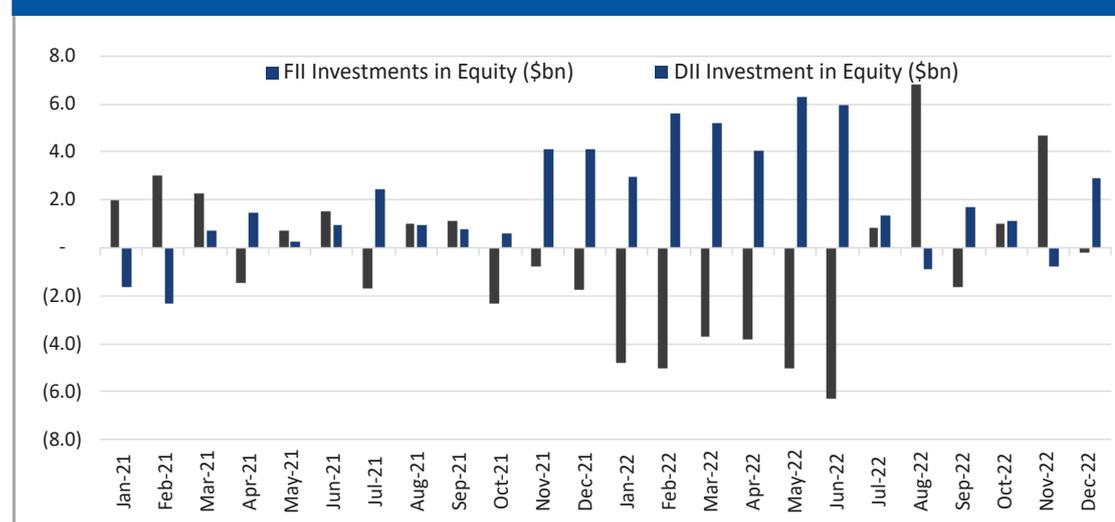
Indian Equity Market Performance

Index performance

Return %	3 Month	6 Month	1 Year
Broad Based Indices			
Sensex	5.9	14.8	4.4
Nifty	5.9	14.7	4.3
Defty	4.5	9.9	-5.9
BSE 100	4.8	15.1	4.5
BSE 200	4.4	15.3	4.2
BSE 500	4.1	15.4	3.3
Nifty Junior	-0.5	15.6	-0.1
BSE Mid cap	1.9	16.6	1.4
NSE Mid cap	2.7	19.1	3.5
BSE Small cap	1.7	16.7	-1.8

Return %	3 Month	6 Month	1 Year
Sectoral Indian Indices			
Auto	-0.9	8.1	16.5
Bankex	10.7	27.1	21.0
Capital Goods	6.8	28.1	16.0
Consumer Durables	-6.5	14.5	-11.3
FMCG	-0.6	16.8	16.6
Health Care	-1.3	6.6	-12.1
IT	4.3	1.3	-24.2
Metal	15.8	34.1	8.4
Oil & Gas	10.0	13.2	16.6
Power	-7.7	7.7	25.8
PSU (State Owned Enterprises)	14.2	25.0	23.1
Realty	2.1	12.3	-10.3

Institutional flows



Source: NSE, BSE, Data as on 31st December, 2022

Fund Strategy and Outlook - Debt

Debt Fund Strategy and Positioning:

RBI raised its benchmark repo rate by 35 bps to 6.25%, the fifth-rate hike in a row indicating its commitment to tame high inflation though revised the GDP growth for FY23 lower to 6.8% from 7.0% earlier. FOMC slowed down the pace of monetary tightening by raising the policy rates by 50 bps in its December meeting taking the federal fund rate to 4.25% - 4.50% to gauge the impact of earlier rate hikes on the economy.

With monetary tightening nearing its end, the bond yields have peaked. Our Portfolios are positioned on the belly and longer end of the curve being attractive at current juncture. We are aligned with Benchmark in terms of overall duration though remain underweight in credit exposure sighting lower credit spreads. We continue to hold good quality AAA corporate bonds and 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	6.62	30	7.05	37
6M	7.15	53	7.57	46
12M	7.57	52	8.00	73

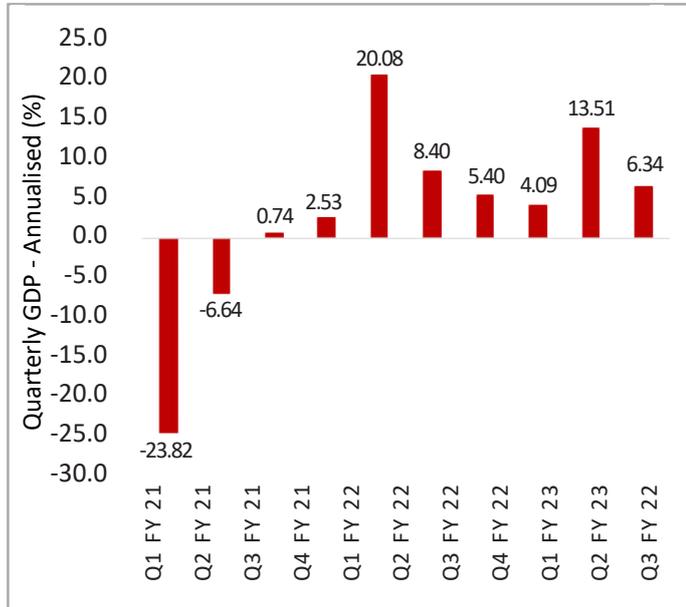
Note – Q-o-Q change is over Sep 2022 to Dec 2022
Data Source – Reuters, Bloomberg, CRISIL

Debt market indicators				
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	7.08	-15	7.58	8
5Y	7.23	-8	7.59	4
10Y	7.33	-6	7.57	-8

Key Economic Indicators

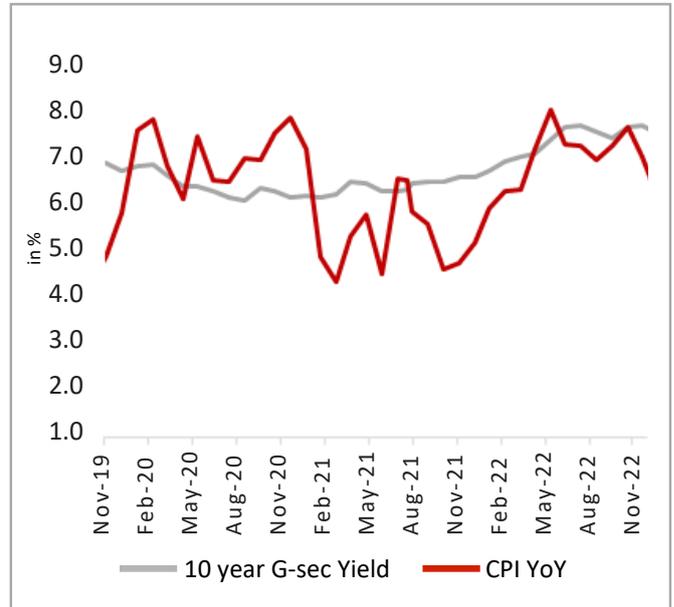
Other market and economic indicators:

Real GDP expanded by 6.3% y/y in Q2 FY23. NSO estimated real gdp growth of 7% for FY23.

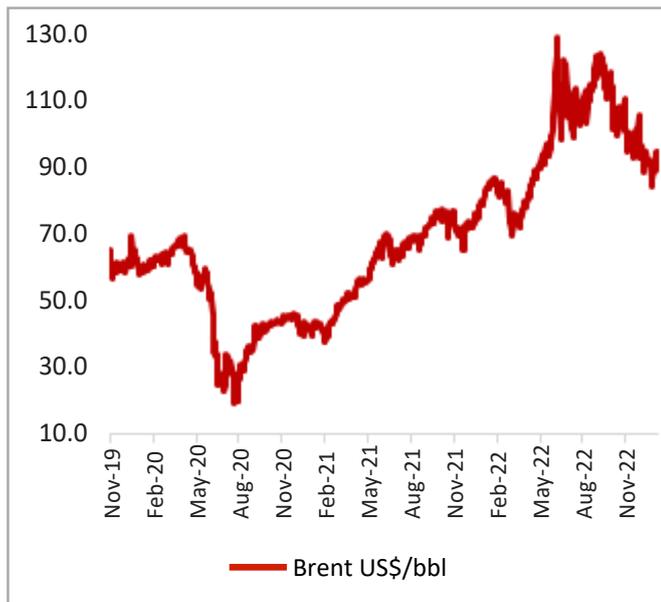


Source: Bloomberg, MOSPI, Reuters

CPI declined to 5.88% y/y in Nov-22, led by decline in vegetable prices. Core (ex food fuel) remained elevated at 6.03% y/y in Nov-22.

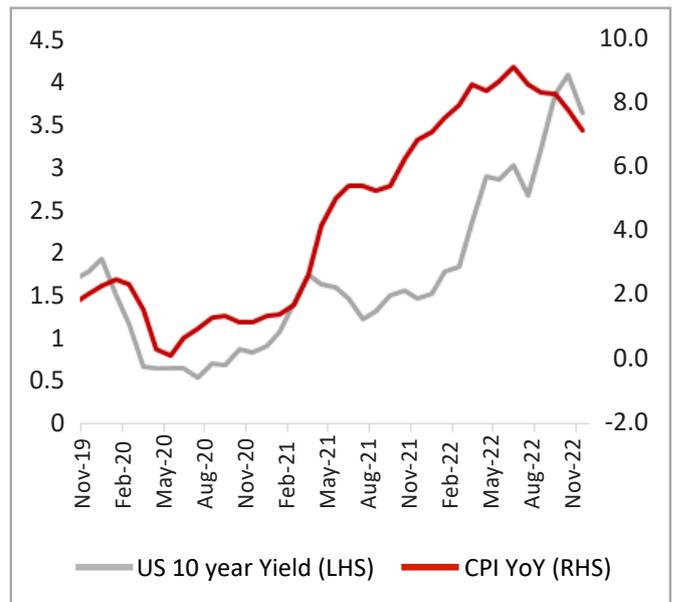


Brent Crude oil prices remained volatile and below the \$100 mark, on expectations of weak global demand.



Source: Reuters

US 10-year benchmark yield consolidated to 3.5% on expectations of easing inflationary pressures.



Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map

Indicators	Nov-22	Oct-22	Sep-22	Aug-22	Jul-22	Jun-22	May-22	Apr-22	Mar-22	Feb-22	Jan-22
Industrial Sector											
Manufacturing PMI	55.7	55.3	55.1	56.2	56.4	53.9	54.6	54.7	54.0	54.9	54.0
8 Core Industries (YoY)	5.4%	0.9%	7.9%	4.2%	4.8%	13.1%	19.3%	9.5%	4.8%	5.9%	4.0%
Rail Freight Traffic (Loading in million tonnes)	123.1	119.0	115.7	119.3	122.1	125.5	131.7	122.2	139.2	119.7	129.0
Rail Passenger Traffic (in million)	569.8	552.1	548.4	539.9	516.0	500.7	500.6	455.9	484.1	413.8	345.2
Consumer Economy											
Passenger Vehicle Sales in thousands	276.2	291.1	307.4	281.2	293.9	275.8	251.1	251.6	279.5	263.0	254.3
Two Wheeler Sales in thousands	1236.2	1577.7	1735.2	1557.4	1381.3	1308.8	1253.2	1148.7	1184.2	1038.0	1128.3
Tractor Sales in thousands	77.8	132.4	125.0	64.8	67.0	107.3	93.5	99.9	84.2	62.3	63.3
Domestic Air Passenger Traffic in thousands	11,679	11,407	10,355	10,116	9,705	10,512	12,081	11,000	10,696	7,696	6,408
Inflation											
CPI inflation, % y/y	5.9%	6.8%	7.4%	7.0%	6.7%	7.0%	7.0%	7.8%	7.0%	6.1%	6.0%
WPI inflation, % y/y	5.9%	8.4%	10.7%	12.4%	13.9%	16.2%	16.6%	15.4%	14.6%	13.1%	13.0%
Deficit Statistic											
Trade Balance, USD billion	-23.9	-26.9	-20.8	-28.0	-30.0	-26.2	-24.3	-20.1	-18.7	-20.9	-17.4
Fiscal Deficit (₹ Billion)	2200.2	1382.9	782.5	2007.7	-110.4	1479.5	1290.8	748.5	2699.4	3787.3	1785.0
GST											
GST collections (₹ Trillion)	1.45	1.51	1.47	1.43	1.49	1.44	1.40	1.67	1.42	1.33	1.40

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

Key Economic Indicators

- The PMI average for the third fiscal quarter (56.3) was the highest recorded for one year ago.
- Trade deficit narrowed in Nov-22 to US\$ 23.9 bn from 26.9 bn in Oct-22, as imports declined w.r.t softening in crude prices.
- GST collection remained above the INR 1.4tn mark for the ninth consecutive month reflecting robust domestic demand and economic activity.
- Domestic High frequency indicators highlighted strong service and overall resilience in the underlying economy.

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
ULIF04601/01/10LPUEQUITY02121	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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