SBI Life INSURANCE
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Monthly Investment Update:
Volume 14, Issue 05
August, 2021

invest CARE

UNIT LINKED PRODUCTS FROM SBI LIFE INSURANCE CO. LTD.

INVESTMENT OBJECTIVES AND VISION

(A) Investment Objectives:

The investment objectives of the Company are to maximize the risk adjusted returns and ensure reasonable liquidity at all times. Management of the investment portfolio is a crucial function as investment risk and returns, inter alia, determine the ability of the Company to competitively price its products, ensure solvency at all times and earn the expected profitability. The investment policy outlined in this document seeks to set the direction and philosophy for the Company's investment operations. The Policy outlined below conforms to the IRDAI Investment Regulations and the Insurance Act. The Policy covers investment parameters, exposure norms and other relevant factors that will assist in taking prudent investment decisions. The Policy framework also takes into account asset liability management, market risks, portfolio duration, liquidity considerations, and credit risk. To summarize the investment policy aims to achieve the following Investment Objectives:

a) To acquire and maintain quality assets that will meet the liabilities accepted by the Company;

b) To be able to meet the reasonable expectations of the policyholders taking into account the safety of their funds with optimum Return;

c) To adhere to all Regulatory provisions;

d) To conduct all the related activities in a cost effective and efficient manner; and

e) To achieve performance in line with benchmarks identified for the different investment portfolios.

The Company has also defined the Investment Objectives for each Fund separately, on the basis of aforesaid broader Investment objectives.

(B) Investment Vision:

"To invest the funds on the prudent principles of Safety, Liquidity & Returns, with an overall vision of meeting reasonable expectations of policy holders".

Source: SBI Life Investment Policy

Major Economic Indicators

Economic Indicators

Particulars	31-Aug-21	31-Jul-21	Change (%)	31-Mar-21	Change (%)
₹/$	73.09	74.42	1.79%	73.11	0.03%
Forex Res.(Bn- 1 Wk Lag)	$ 616.90	$ 611.15	0.94%	$ 579.29	6.49%
Oil Price ($/Barrel)	$ 71.70	$ 75.41	-4.92%	$ 64.04	11.96%
Gold (₹/10 gm)	47,090	48,250	-2.40%	44,106	6.77%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	7454	-12746	158.48%	16968	-56.07%
Debt (monthly)	3226	17	18876.47%	-3429	-194.08%

Indices

Particulars	31-Aug-21	31-Jul-21	Change (%)	31-Mar-21	Change (%)
BSE Sensex	57,552.39	52,586.84	9.44%	49,509.15	16.25%
S&P CNX Nifty	17,132.20	15,763.05	8.69%	14,690.70	16.62%
Dow Jones Industrial Avg	35,360.73	34,935.47	1.22%	32,981.55	7.21%
FTSE 100	7,119.70	7,032.30	1.24%	6,713.60	6.05%
Hang Seng Index	25,878.99	25,961.03	-0.32%	28,378.35	-8.81%
Nikkei 225	28,089.54	27,283.59	2.95%	29,178.80	-3.73%
B S E Power Index	2,921.29	2,616.52	11.65%	2,475.13	18.03%
B S E Information Technology Index	34,180.47	30,846.54	10.81%	26,543.24	28.77%
B S E Oil & Gas Index	17,083.96	15,441.74	10.63%	14,820.46	15.27%
B S E FMCG Index	14,580.82	13,480.98	8.16%	12,875.40	13.25%
B S E Bankex	41,469.62	39,190.11	5.82%	37,547.91	10.44%
B S E Capital Goods Index	24,973.86	23,671.73	5.50%	21,095.75	18.38%
B S E Healthcare Index	26,569.77	26,156.18	1.58%	21,328.21	24.58%
B S E Auto Index	22,571.39	22,489.21	0.37%	22,252.21	1.43%
B S E Metal Index	20,579.75	21,011.62	-2.06%	14,350.61	43.41%
B S E Realty Index	3,084.98	3,182.51	-3.06%	2,670.31	15.53%

Primary Key Rates

Particulars	31-Aug-21	31-Jul-21	Change (%)	31-Mar-21	Change (%)
Repo Rate*	4.00%	4.00%	0.00%	4.00%	0.00%
Reverse Repo Rate**	3.35%	3.35%	0.00%	3.35%	0.00%
CRR#	4.00%	4.00%	0.00%	3.00%	1.00%
SLR *#	18.00%	18.00%	0.00%	18.00%	0.00%
Call money rate	3.14%	3.38%	-0.24%	2.75%	0.39%
Current Inflation Rate (WPI)	11.16%	12.07%	-0.91%	4.17%	6.99%
Current Inflation Rate (CPI) (July 21)	5.59%	6.26%	-0.67%	5.03%	0.56%
IIP (WPI) % y-o-y (Jun 21)	13.60%	29.30%	-15.70%	-1.60%	15.20%
AAA spread (bps)	60.00	65.00	-7.69%	57.00	5.26%

	2017-18	2018-19	2019-20	2020-21	Q1 FY22
Real GDP % (New Growth No. by CSO)	6.70%	6.80%	4.20%	-7.30%	20.10%

Interest Rates (FIMMDA)

Particulars	31-Aug-21	31-Jul-21	Change (%)	31-Mar-21	Change (%)
91 days T - Bill	3.29%	3.39%	-0.10%	3.25%	0.04%
364 days T - Bill	3.62%	3.67%	-0.05%	3.75%	-0.13%
5 Years G - Sec (Annualized)	5.65%	5.73%	-0.08%	5.70%	-0.05%
10 Years G - Sec (Annualized)	6.21%	6.23%	-0.02%	6.18%	0.03%
30 Years G - Sec (Annualized)	7.10%	7.15%	-0.05%	6.77%	0.33%

No change
Negative change
Positive change

*** w.e.f May 22, 2020**
**** w.e.f May 22, 2020**
 # w.e.f May 22, 2021
***# w.e.f Apr 09, 2020**

CPI – Consumer Price Index
WPI – Wholesale Price Index
IIP – Index of Industrial Production

Data Sources
NSE
BSE
RBI
FIMMDA
Bloomberg & Reuters

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DEBT MARKET REVIEW AND OUTLOOK

Market Review

August 2021 – Delta variant causes a hit on alpha returns globally !

Benchmark 10-year treasury yields averaged 6.23% in August (5 bps higher versus July 2021 average). On month end values, the 10Y yield was up and ended the month at 6.22%. US 10Y yield is at 1.31% (+9bps month on month, +60bps year on year). INR rallied (up 1.9%) and ended the month at US $ 73.01 in August 2021. Oil prices extended the wobble that began in early July 2021, shedding 5.5% to near US $ 71/bbl in August 2021 as the delta variant spreads through Asia and the peak travel season is winding down in the Northern Hemisphere.

India Macro movers

CPI inflation gapped down below 6% in July 2021, CPI inflation expectedly gapped down from 6.3% in May 2021 and June 2021 to 5.6% in July 2021, helped by a large base effect and softening food price momentum. On a seasonally adjusted basis, monthly food prices were flat after rising sharply over the last three months. This dynamic, in conjunction with favorable base effects from last year, meant annual food inflation dropped from 5.6% in June 2021 to 4.5% in July 2021. All eyes, however, were on core-core momentum, which had surged during the second wave in May 2021 (1.5% month on month) but then remained flat (0.1 %) during the reopening in June 2021.

As India's economy continued to open in July 2021, both the manufacturing and services PMIs (Purchasing Managers Index) bounced back but to varying degrees. The manufacturing index jumped 7pts to print at 55.3 while the services index rose less buoyantly by 4pts to 45.4—remaining below 50 for a third consecutive month—reflecting the restrictions and risk-aversion governing contact-intensive services.

June 2021 IP disappoints but 2Q still tracking a smaller contraction. June 2021 IP disappointed but, against the backdrop of its large and volatile swings, the undershoot was comparatively modest. IP clawed back 9.3% month on month, as the economy re-opened in June 2021 on the back of the near-14% plunge in May 2021 amid the second wave. As a result, IP grew 13.6% on year ago. Despite the June rebound, IP remains below its pre-pandemic level. Within IP, the slowest to recover by June have been capital goods (81% of the pre-pandemic level) and consumer durables (83%), consistent with our thesis that discretionary consumption and private investment will not lead the growth recovery,

The July 2021 trade deficit printed at US $ 11 billion, widening from US $ 9.3 billion in June 2021 on the back of gold imports. The July 2021 trade report underscored India's booming exports on the back of the tailwinds from global growth. Exports ex. oil grew 3% month on month, on top of an 8% jump in June 2021. Exports ex. oil growth momentum remained solid at 48% quarter on quarter in July 2021. While the jump in global commodity prices has helped, volume growth also seems to be driving export growth.

Global News

Strong growth, solid earnings surprises and Fed's accommodative stance have led global equities higher.

Chinese equities remained flat led by weakness in July 2021 activity data and continued regulatory overhang. We remain bullish on stocks (particularly cyclicals/value) thanks to a strong earnings season and signs of receding risk from the delta variant. In Emerging Markets, we favor cyclical sectors focusing on reopening and reflation, as both valuation and positioning are supportive, given their underperformance versus Developed Markets.

Outlook

The MPC (Monetary Policy Committee) voted unanimously to keep the Repo Rate on hold at 4% (link). The Committee reiterated its accommodative stance, noting: "all members of the MPC unanimously voted to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward." The RBI announced the next stage of its bond buying program (GSAP 2.0) of ₹ 1.2 trillion over the next quarter, higher than the Rs1.0 trillion announced in GSAP 1.0. The RBI also announced an on-tap window for lending to contact intensive-sectors to the tune of ₹ 150 billion with tenors of up to three years at the repo rate.

India's second COVID-19 wave appears to be abating almost as rapidly as it rose with daily reported cases declining from about 400,000/day in early May 2021 to less than 40,000/day by the last week of August 2021. But, the economic hit, though less than the first wave, is likely to be meaningful.

Bond Markets will find it hard to see yields move in either direction from the 6.15-6.25% narrow range especially since RBI will not be in a position to sound dovish at the back of a massive spending program for FY 22 after more stimuli announced. But Members of MPC have been conveying that the focus is still on growth and that supply led inflation should ease. With Fed and other DM central banks also postponing tapering, and with peak growth keeping crude oil calm, India bond yields will find a way to move lower as and when any uptick in yields pushes 10 Y close to 6.25% mark. RBI could continue to signal and remove liquidity and hence short end yields could rise, causing a bear flattening of the curve.

Equity Outlook

Equity Market Outlook for September, 2021

There was a big surge in Equity indices during the month of August 2021 led by profit booking in Mid and Small Cap, large mop up under new schemes by domestic mutual funds, money shifting from China / Hong Kong investments, Fed handling of taper well, Repo Rates being held by RBI & NMP announced by government.

Sensex ended 9.4% up at 57552 and Nifty at 17132 up 8.7%. Mid and Small Cap indices did not move as much. NSE Mid Cap and Small Cap indices ended at 28417 up 2.2% and 10263 down 2.5%. Indian indices were the best gainers for the month compared to all other major markets.

Large fund raise by MF's also led to positive sentiments. Big success of IPO's in tech space (Zomato) and Large Unicorns created have led to a all new wave in digital space. Details of how many Unicorns in India given in the annexure (Annexure-1). Shanghai Markets were down 2.2% in August 2021 going by negative sentiments created in the tech space.

RBI held the rates though it did indicate withdrawal of liquidity by increase in VRRR (Variable Reverse Repo Rate). The RBI did mention of accommodative stance and not allowing growth to slow down. GDP (Gross Domestic Product) for the first quarter at 20.1% came at slightly better than expectations. India PMI for July 2021 came in at robust 55.3 against 48.1 in June 2021. CPI at 5.59 came in to cool the debt markets against 6.26 for June 2021.

FPI (Foreign Portfolio Investors) and Domestic institutions both were buyers in the market. FPI's bought stocks worth US $ 1 billion versus domestics buying stocks worth US $ 1.5 billion.

Nomura Business resumption index says we are just above the pre pandemic levels in terms of activity. Graph enclosed in Annexure. Vaccinations rate is also a good indicator for opening up. Graph enclosed. (Annexure-2) Fed calmed the markets on taper though negative Real rates in US are quite high.

Taper should not dither Indian economy. Some of the indicators that shows India is stronger compared to FY 13 is enclosed in the Annexure that will give comfort of the fact that taper should not hurt us. (Annexure-3)

Markets got the boost from retail mutual funds subscriptions and FPI selling from Chinese markets. Results from banking sector catering to micro finance industry show signs of stress. Best of results (influenced more by metals sector are behind). Having said this we see no events that may result in a fall.

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Things like good revenue collections for the government, low fiscal deficit compared to last year makes us feel things are improving. Vaccination pace is clearly showing signs of opening up faster than expectations. (Annexure-4)

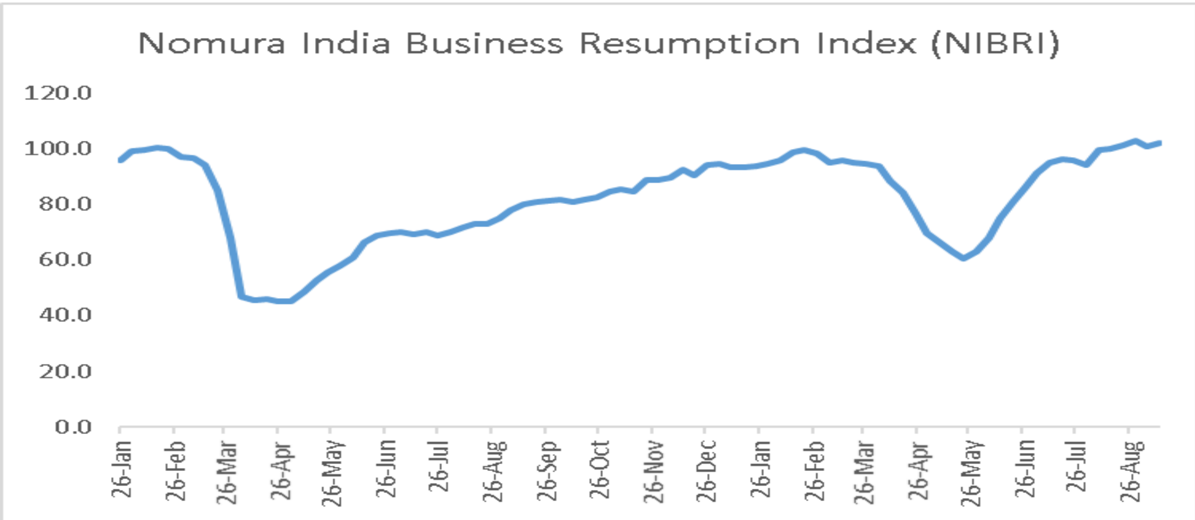
Our recommended funds include Bond Optimizer & Balance fund. We have removed Equity Funds from the recommended list as the run up has been too fast.

Annexure-1: Unicorns in India

	USA	CHINA	INDIA	UK	GERMANY
No. of unicorns	396	277	51	32	18
Avg. no. of years to unicorn	7	6	7.3	6.5	6
Avg Valuation ($bn)	3.1	4.7	3.3	2.7	2.5

Company *(Founded year)*	Total funding received ($mn)	Core sector
Zilingo *(2015)*	310	e-commerce
Mobile Premier League *(2018)*	230	Gaming
Rebel Foods *(2011)*	340	Shared economy
Cure.fit *(2016)*	410	Fitness
Spinny *(2015)*	230	e-commerce
RateGain *(2004)*	50	Saas
MamaEarth *(2016)*	70	e-commerce
CarDekho *(2007)*	250	e-commerce
GreyOrange *(2011)*	170	AI
MobiKwik *(2009)*	170	Fintech

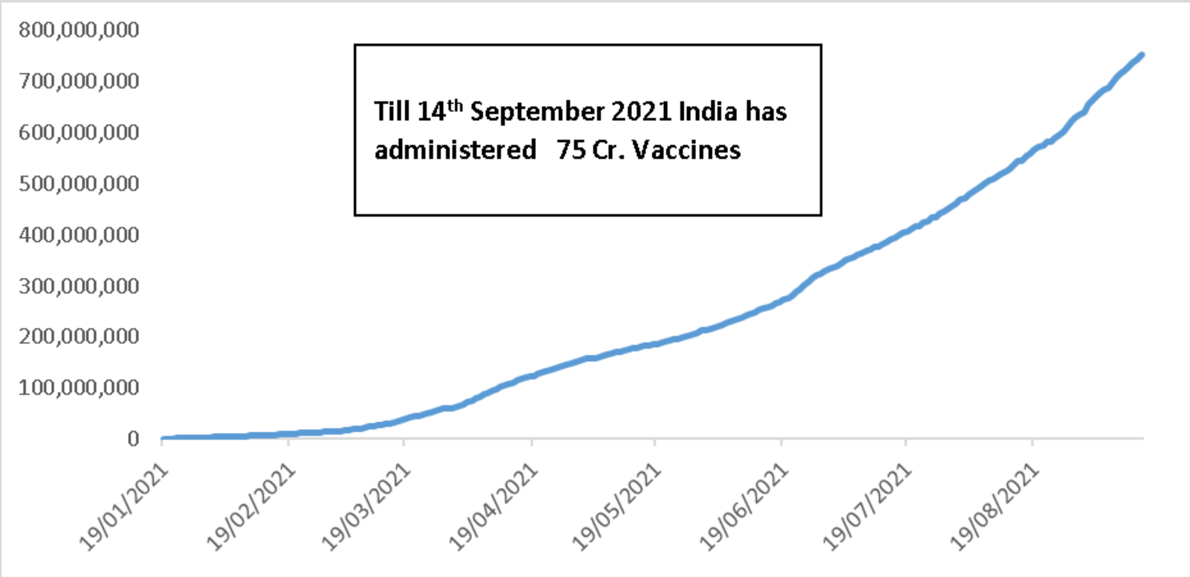
Annexure-2: Nomura India Business Resumption Index (NIBRI)



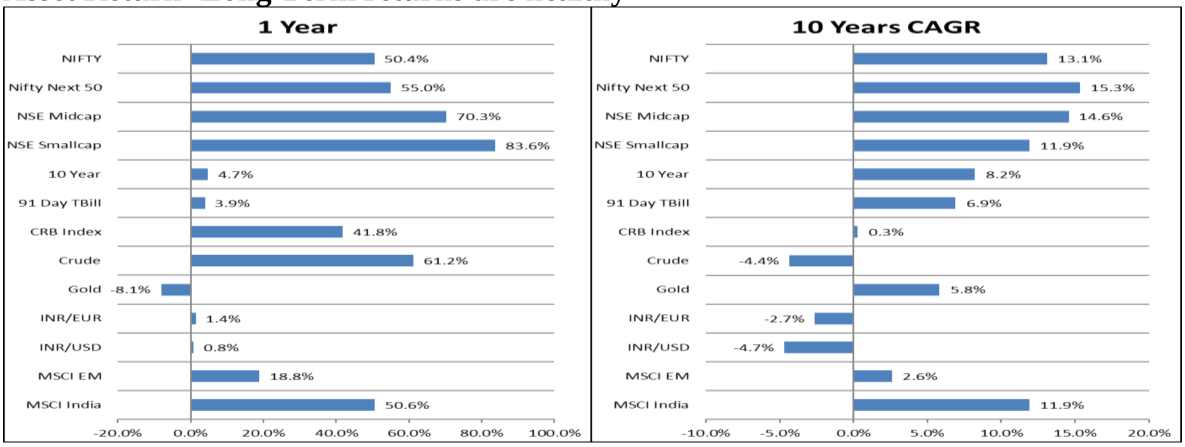
Annexure-3 : India is now better prepared for taper tantrum

	FY12	FY13	FY21	FY22e
CPI Inflation (%)	8.6	9.9	6.2	5.0
Repo (%)	8.5	7.5	4.0	4.4
Real rate (%)	-0.1	-2.4	-2.2	-0.6
Current account balance (% of GDP)	-4.8	-5.2	0.9	-0.9
Central Government Fiscal Deficit (% of GDP)	5.9	4.9	9.3	6.8
Fx reserves (US$ bn)	294.4	292.0	577.0	608.1
Import cover (months)	7.1	7.0	17.7	15.5
External debt/ GDP (%)	19.9	22.4	20.3	20.3
Fx reserves/ external debt (%)	81.6	71.3	102.4	102.4

Annexure-4 Total number of vaccine Administered in India



Asset Return- Long Term returns are healthy



BSE Sensex (since 1980): Yearly performance +ve in August (+ve 31 out of 42 years)

-30 and below	-30 to -20	-20 to 0	0 to +20	20 to 40	40 to 60	60 and above
			1988			
			1986			
			2010			
			2017			
			1982			
			1983			
		2015	1997			
		2002	2016	1981		
		2019	2009	2003		
		2008	2013	2007	2005	1985
		2011	1996	2004	2006	1990
	1998	2000	2012	2018	2021	1994
	1995	1987	1984	1980	1991	1992
	2001	1993	2020	1989	2014	1999

Sensex yearly Performance in percent

RISK MANAGEMENT PRACTICE FOR UNIT LINKED PORTFOLIOS

Company's investment exposure to any sector is as per limits prescribed by IRDAI under Investment Regulations and the same is monitored on a daily basis. In addition, the company also follows stringent asset allocation metrics as per policy features communicated to the policy holder and the same is adhered to while making investment decisions. In case of guaranteed products, investments are made in suitable asset classes taking into account market and credit risk, and liquidity of the investment to ensure fulfillment of guarantee promised. There is an efficient stop loss policy in place, which is triggered every time the stock price breaches a specific threshold level. This warrants review of investment decision and establishes the rationale for continuance or discontinuance of the specific investment thus preventing sharp fall in value of our holdings and prolonged underperformance of the portfolio. Significant importance is given to asset liability management and accordingly, portfolios are reviewed on a monthly basis to ensure adherence.

Disclaimer:

1) This newsletter only gives an overview of economy and should not be construed as financial advice
2) SBI Life Insurance Co. Ltd however makes no warranties, representations, promises or statements that information contained herein are correct and accurate. Please consult your Advisor/Consultant before making the investment decision

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