Monthly Investment Update:
Volume 15, Issue 05
August, 2022

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

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Major Economic Indicators

Economic Indicators

Particulars	31-Aug-22	31-Jul-22	Change (%)	31-Mar-22	Change (%)
₹/$	79.46	79.27	-0.24%	75.79	-4.84%
Forex Res.(Bn- 1 Wk Lag)	$ 561.05	$ 571.56	-1.84%	$ 617.65	-9.16%
Oil Price ($/Barrel)	$ 100.35	$ 107.97	-7.06%	$ 109.24	-8.14%
Gold (₹/10 gm)	50,986	51,301	-0.61%	51,317	-0.65%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	51204	4989	926.34%	-41123	-224.51%
Debt (monthly)	3845	-2056	287.01%	-5632	-168.27%

Indices

Particulars	31-Aug-22	31-Jul-22	Change (%)	31-Mar-22	Change (%)
BSE Sensex	59,537.07	57,570.25	3.42%	58,568.51	1.65%
S&P CNX Nifty	17,759.30	17,158.25	3.50%	17,464.75	1.69%
Dow Jones Industrial Avg	31,510.43	32,845.13	-4.06%	34,678.35	-9.14%
FTSE 100	7,284.15	7,423.43	-1.88%	7,515.68	-3.08%
Hang Seng Index	19,954.39	20,156.51	-1.00%	21,996.85	-9.29%
Nikkei 225	28,091.53	27,801.64	1.04%	27,821.43	0.97%
B S E Power Index	5,227.96	4,556.28	14.74%	4,043.63	29.29%
B S E Capital Goods Index	32,224.78	29,717.26	8.44%	27,506.04	17.16%
B S E Oil & Gas Index	20,289.83	18,999.02	6.79%	18,741.19	8.26%
B S E Auto Index	30,334.18	28,728.64	5.59%	24,049.98	26.13%
B S E Metal Index	19,166.08	18,189.93	5.37%	22,368.34	-14.32%
B S E Bankex	45,295.67	43,130.69	5.02%	41,753.80	8.48%
B S E FMCG Index	15,954.27	15,489.37	3.00%	13,334.89	19.64%
B S E Realty Index	3,690.82	3,591.24	2.77%	3,681.83	0.24%
B S E Healthcare Index	23,013.78	22,901.59	0.49%	24,303.83	-5.31%
B S E Information Technology Index	28,914.80	29,488.38	-1.95%	36,402.74	-20.57%

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Primary Key Rates

Particulars	31-Aug-22	31-Jul-22	Change (%)	31-Mar-22	Change (%)
Repo Rate*	5.40%	4.90%	0.50%	4.00%	1.40%
Reverse Repo Rate**	3.35%	3.35%	0.00%	3.35%	0.00%
CRR#	4.50%	4.50%	0.00%	4.00%	0.50%
SLR *#	18.00%	18.00%	0.00%	18.00%	0.00%
Call money rate	5.45%	4.90%	0.55%	3.87%	1.58%
Current Inflation Rate (WPI)	13.93%	15.18%	-1.25%	13.11%	0.82%
Current Inflation Rate (CPI) (July 22)	6.71%	7.01%	-0.30%	6.07%	0.64%
IIP (WPI) % Y-O-Y (June 22)	12.30%	19.60%	-7.30%	1.30%	11.00%
AAA spread (bps)	13.00	13.00	0.00%	14.00	-7.14%

Particulars	2019-20	2020-21	2021-22	Q4 FY22	Q1 FY23
Real GDP % (New Growth No. by CSO)	4.20%	-7.30%	8.70%	4.10%	13.50%

Interest Rates (FIMMDA)

Particulars	31-Aug-22	31-Jul-22	Change (%)	31-Mar-22	Change (%)
91 days T - Bill	5.62%	5.60%	0.02%	3.84%	1.78%
364 days T - Bill	6.32%	6.29%	0.03%	4.58%	1.74%
5 Years G - Sec (Annualized)	6.99%	7.03%	-0.05%	6.02%	0.97%
10 Years G - Sec (Annualized)	7.16%	7.32%	-0.16%	6.86%	0.30%
30 Years G - Sec (Annualized)	7.44%	7.65%	-0.21%	7.27%	0.17%

No change
Negative change
Positive change

*** w.e.f Aug 05, 2022**
**** w.e.f May 22, 2020**
 # w.e.f May 21, 2022
***# 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 2022 – Growth still strong!

Benchmark 10-year treasury yields averaged at 7.25% in August 2022 (14bps lower versus July 2022 average). On month end values, the 10Yr yield was up and ended the month at 7.19% (down 13bps in the month). US 10Yr yield is at 3.12% (+47bps monthly, +181bps in the year). INR depreciated sharply over the month (down 0.2% in August 2022) and ended the month at US $ 79.46 in August 2022.

India Macro movers

Marking up 2Q GDP on strong IP (Industrial Production); CPI momentum predictably slows. Industrial Production's (IP) winning streak continued with 1.3% month on month increase in June 2022 on the back of healthy growth in May 2022 (0.4%) and April 2022 (2.9%). This means that, on a year-on-year basis, IP was higher than expectations printing at 12.3% year on year. The 13.5% number in Q1 FY 2023 is lower than the 16% target of RBI and this could pull down FY 2023 GDP from 7.2% to 6.7% but with Q3 and Q4 some catch up can be achieved to get to 7%.

India's trade deficit continues to widen to record levels, as exports fall for a third consecutive month, India's monthly merchandise deficit widened to a new record, with the July 2022 deficit bulging to US $ 31 billion from US $ 26 and US $ 24 billion respectively over the previous two months. The widening was entirely attributable to a sharp fall-off in exports, which declined US $ 5 billion month-on-month – from US $ 40.1 in June 2022 to US $ 35.2 in July 2022. While both oil and non-oil exports fell sharply, the bulk of the decline (US $ 3.2 billion) was on account of the former.

RBI delivers 50bps and holds its ground but we foresee a lower terminal rate on global cues India's Monetary Policy Committee unanimously hiked policy rates by 50 bps for a second successive meeting, taking the Repo Rate to 5.40%. While this was in line with our baseline expectations, it was admittedly a very close call between 35bps and 50bps. With the global environment deteriorating rapidly in recent weeks, commodities having corrected, and crude pieces having gapped down to below US $ 95/barrel, we expect the RBI to take a dovish tilt maybe in October 2022.

Global News

Global equities weakened across regions (-3.9% in August 2022, -18.8% YTD). India, Brazil and China were outliers while all other regions declined (US -4.1%, Euro area -6.5%). S&P 500 declined - 4.2% month on month after the strong rally in the first half of August 2022. The surge in global oil and agricultural commodity prices has become a near-term disinflationary tailwind. There has also been a moderation in core goods price gains. 2H 2022 global inflation is expected to slide to 4.7% – half its current pace. On

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China, we expect a strong H2 recovery to lift not only Asia and EMs (Emerging Market), but provide support for the global cycle. Given our core view that there will be no global recession and that inflation will ease, the variable that matters the most is positioning. We maintain that inflation will resolve on its own as distortions fade and that the Fed (Federal Reserve) has overreacted with 75bps hike. We will likely see a Fed pivot, which is positive for cyclical assets. Fed is expected to hike 75bp in September 2022 and move until labor markets cool. In EM, the recent rebound in Growth should find more legs in the second half as US 10-year Treasury yields are expected to remain range bound. Value can continue to outperform in the long term as commodity prices come off their highs but remain elevated.

Outlook

RBI did a 50 bps rate hike in August 2022 MPC (Monetary Policy Committee) meeting unanimously, meaning that Repo rate is now at 5.4%. This was higher than market expectations and that led to hardening of yields, but going forward the path of rate hikes might depend on the incoming data. Slowing CPI pace domestically from better rains and food output along with Brent crude sustaining below US $ 100/bbl could all help RBI take it slow. Against original estimate of 6%-6.25% Repo rate could end lower on a terminal basis in this cycle. This gives hopes for bond markets and yield could remain in the 7.20-7.4% range based on other external factors including pace of Fed rate hikes.

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Equity Outlook

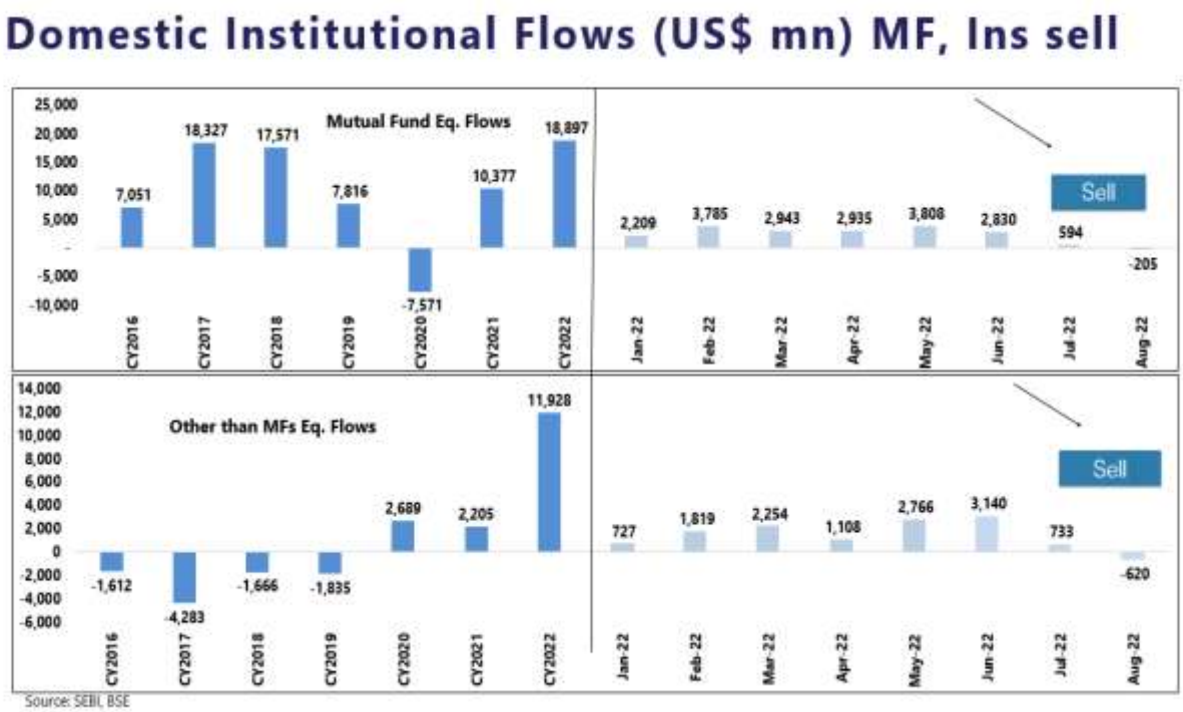
Equity Market Outlook for the Month of September, 2022

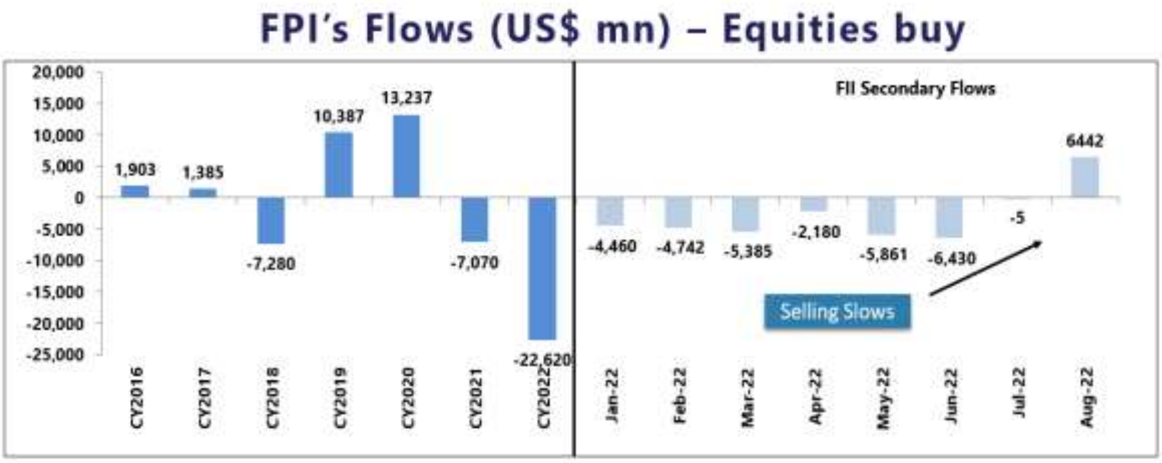
Equity indices gave a return of 3.4% in Sensex and 3.5% in Nifty to end the month of August 2022 at 59537 and 17759. Our indices surged on the back of FPI (Foreign Portfolio Investors) buying despite headwinds it is facing on account of increasing interest rate, soaring inflation in Euro Zone and across globe. Some of the other EM's like Philippines, Brazil & Thailand bettered returns posted by Nifty and Sensex. Returns beat the MSCI EM index (Morgan Stanley Capital International Emerging Market) which was flat for the month.

Returns were on top of 9% positive returns it gave during the month of July 2022 which indicates substantial strength.

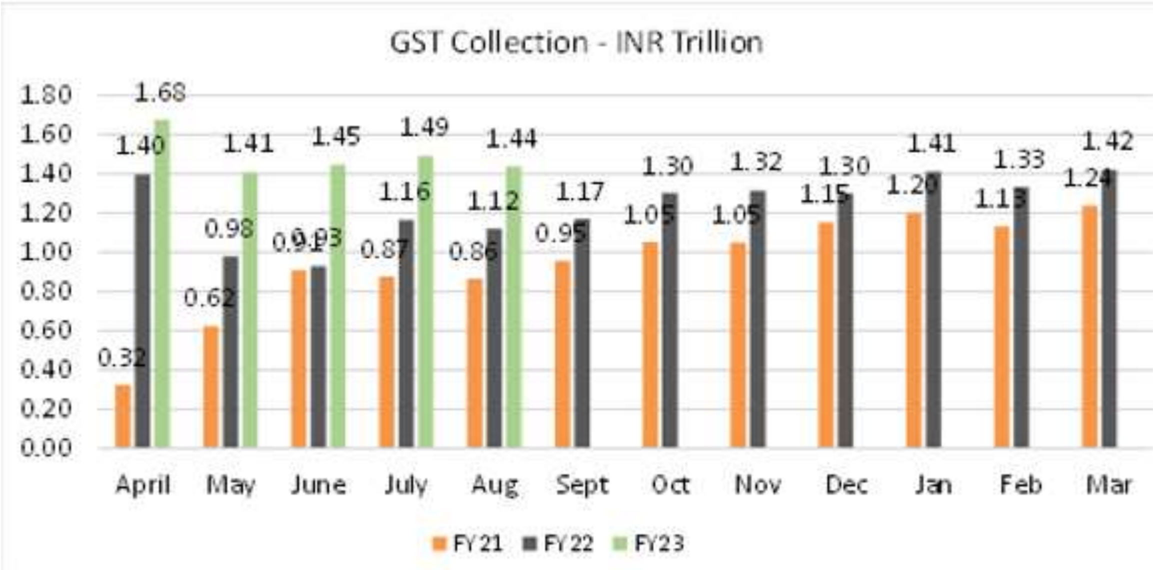
Rally had strength. NSE Mid Cap index and NSE Small Cap index moved 6.2% and 4.9% indicating breadth in the rally. We had power and stocks in industrial segment that moved up. Robust numbers reported for the quarter propelled the rally.

Liquidity was good. FPI's after 7 months during this calendar year started to invest. They were net investors to the tune of US $ 6.4 billion last months. All through during this year they have been sellers. DII's (Direct Institutional Investors) together with Mutual Funds sold shares worth US $ 825 million during the month.





Inflation scare moderated. CPI inflation reported for the month of July 2022 came in at 6.71% versus 7.01 for June 2022. WPI too eased. It was at 13.9% in July 2022 compared to 15.2% in June 2022. GST (Goods & Services Tax) collections at current rate look impressive. With this rate and busy season starting, likely hood that the collection budget of 6.8 lakh crore may be exceed is a high probability.



The GDP (Gross Domestic Product) number, India reported for first quarter of FY 2023 came in at 13.5% below consensus and RBI estimates of 16.2%. Though the numbers have been below estimates, central bank in its policy review has not lowered the growth forecast for the financial year. It had maintained its growth forecast at 7.2%

The debt and equity markets were positive despite central banks increase in rate by 50 basis and a hawkish commentary. This was in line with the expectations. India is a sweet spot. Growth intact, increase in inflation at a milder pace compared to other countries, stable government / policies, favorable demographics & a good alternative to China makes it a better destination to invest for longer term. Returns are much better on a longer horizon.

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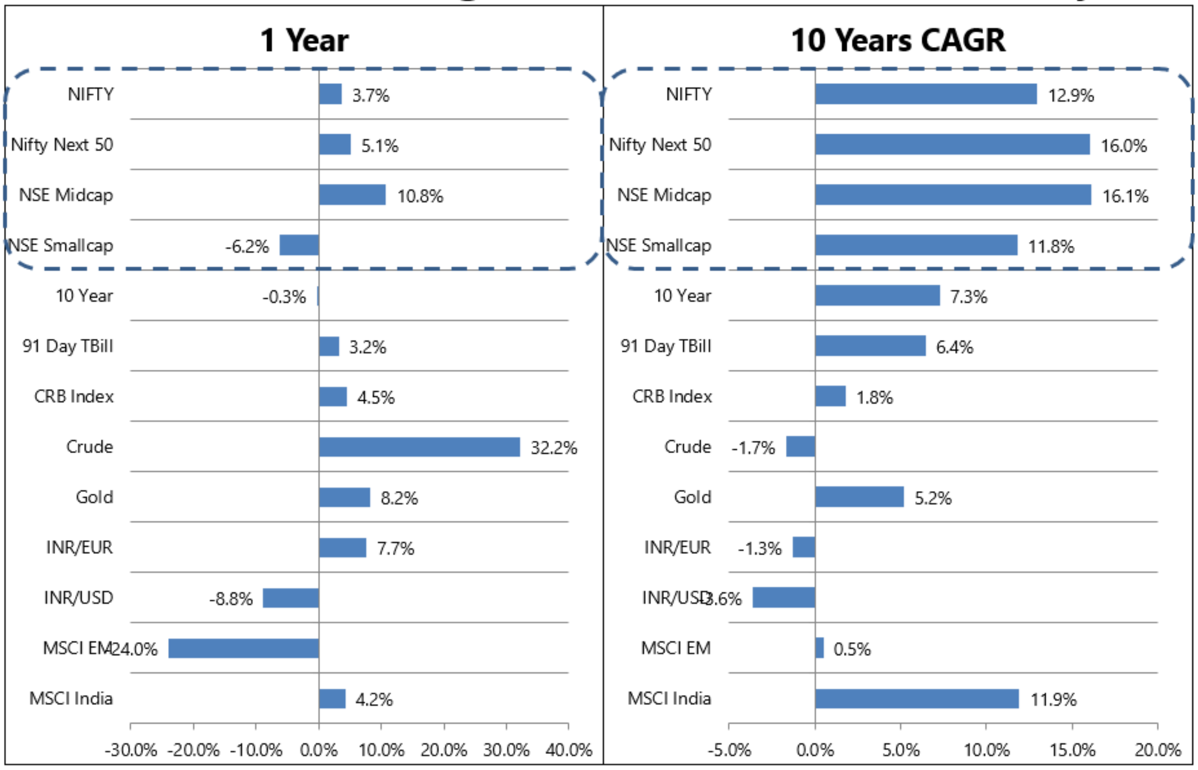
Asset Return- Long Term returns are healthy



As on 31st Aug2022

FED Chair made it more than clear that higher rates will remain for longer period of time. It also made it clear that hikes to be maintained to tame inflation even if this comes at a cost of growth and it hurts. NFP (Non-Farm Payroll) numbers and wage growth will be the most watched numbers closely for relief amidst this tightening spree right now.

Valuations have inched up around 19 times forward. The differential between India and US interest rates have now narrowed. While the world economy goes to grow slower our exports may be hit. Geo political risks cannot be ruled out with winter approaching. Recent talks by OPEC (Organization of the Petroleum Exporting Countries) to decrease the output may have counter intuitive impact on the prices. Inflation though has peaked may not come back to desirable levels in the near future.

We prefer to have minimal exposure to equity and hence would like to maintain our stands on recommending Bond Optimizer and Balance fund to the investors. A yield pick up as interest rates have hardened together with attractive returns in equity (as indicated in chart below) on a long term basis should augur well on a portfolio basis.

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BSE Sensex (since 1980): Yearly performance +ve in August (+ve 32 out of 43 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			
			1997			
		2015	2016			
		2002	2009	1981		
		2019	2013	2003		
		2008	1996	2007	2005	1985
		2011	2012	2004	2006	1990
	1998	2000	1984	2018	2021	1994
	1995	1987	2020	1980	1991	1992
	2001	1993	2022	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.

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1) This newsletter only gives an overview of economy and should not be construed as financial advice
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