SBI Life INSURANCE
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Monthly Investment Update:
Volume 14, Issue 03
June, 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	30-Jun-21	31-May-21	Change (%)	31-Mar-21	Change (%)
₹/$	74.33	72.62	-2.35%	73.11	-1.67%
Forex Res.(Bn- 1 Wk Lag)	$ 609.00	$ 592.89	2.72%	$ 579.29	5.13%
Oil Price ($/Barrel)	$ 75.23	$ 69.38	8.43%	$ 64.04	17.47%
Gold (₹/10 gm)	46,504	48,933	-4.96%	44,106	5.44%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	10932	5360	103.96%	16968	-35.57%
Debt (monthly)	-3357	-1792	-87.33%	-3429	-2.10%

Indices

Particulars	30-Jun-21	31-May-21	Change (%)	31-Mar-21	Change (%)
BSE Sensex	52,482.71	51,937.44	1.05%	49,509.15	6.01%
S&P CNX Nifty	15,721.50	15,582.80	0.89%	14,690.70	7.02%
Dow Jones Industrial Avg	34,502.51	34,529.45	-0.08%	32,981.55	4.61%
FTSE 100	7,037.50	7,022.60	0.21%	6,713.60	4.82%
Hang Seng Index	28,827.95	29,151.80	-1.11%	28,378.35	1.58%
Nikkei 225	28,791.53	28,860.08	-0.24%	29,178.80	-1.33%
B S E Information Technology Index	30,135.93	27,584.81	9.25%	26,543.24	13.54%
B S E Healthcare Index	25,589.02	24,534.98	4.30%	21,328.21	19.98%
B S E FMCG Index	13,517.95	13,130.73	2.95%	12,875.40	4.99%
B S E Realty Index	2,740.68	2,680.01	2.26%	2,670.31	2.64%
B S E Capital Goods Index	22,948.98	22,498.27	2.00%	21,095.75	8.78%
B S E Auto Index	23,771.76	23,541.12	0.98%	22,252.21	6.83%
B S E Metal Index	18,664.75	18,877.33	-1.13%	14,350.61	30.06%
B S E Oil & Gas Index	16,175.51	16,472.31	-1.80%	14,820.46	9.14%
B S E Power Index	2,755.48	2,816.44	-2.16%	2,475.13	11.33%
B S E Bankex	39,349.98	40,344.68	-2.47%	37,547.91	4.80%

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Primary Key Rates

Particulars	30-Jun-21	31-May-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	2.60%	3.00%	-0.40%	2.75%	-0.15%
Current Inflation Rate (WPI)	12.94%	10.49%	2.45%	4.17%	8.77%
Current Inflation Rate (CPI) (May 21)	6.30%	4.29%	2.01%	5.03%	1.27%
IIP (WPI) % y-o-y (Apr 21)	134.44%	22.40%	112.04%	-1.60%	136.04%
AAA spread (bps)	74.00	69.00	7.25%	57.00	29.82%

	2017-18	2018-19	2019-20	2020-21	Q4 FY21
Real GDP % (New Growth No. by CSO)	6.70%	6.80%	4.20%	-7.30%	1.60%

Interest Rates (FIMMDA)

Particulars	30-Jun-21	31-May-21	Change (%)	31-Mar-21	Change (%)
91 days T - Bill	3.41%	3.39%	0.02%	3.25%	0.16%
364 days T - Bill	3.85%	3.72%	0.13%	3.75%	0.10%
5 Years G - Sec (Annualized)	5.65%	5.45%	0.20%	5.70%	-0.06%
10 Years G - Sec (Annualized)	6.05%	6.02%	0.03%	6.18%	-0.13%
30 Years G - Sec (Annualized)	7.10%	6.94%	0.16%	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

CIN : L99999MH2000PLC129113
IRDAI Regn. No. 111

DEBT MARKET REVIEW AND OUTLOOK

Market Review

June 2021 – Will the second half be better ?

It was a month when Virus cases peaked in the second wave and started falling at a fast pace, also vaccinate rates were getting impressive boosting chances for a recovery in in Q2 FY 2022. Let us hope Half 2 of FY 2022 is a better half.

Benchmark 10-year treasury yields averaged at 6.02% in June 2021 (3bp higher versus the May 2021 average). On month end values, the 10Y yield was slightly up and ended the month at 6.05%. The US 10Y yield is at 1.47% (-13bps month on month, +81bps year on year). INR lost 2.3% and ended the month at US $ 74.33 in June 2021. In the last 12 months, INR (+1.6%) has underperformed the broader EM FX (+5.4%). DXY gained a massive 2.9% in June 2021 (following 1.6% decline in May 2021) and ended the month at 92.44 (-5.1% in the last 12 months).

India Macro movers

May 2021 CPI shocked expectations by printing at 6.3%, almost a percentage point higher than what consensus and we had anticipated and also much higher than the RBI's imputed forecast for May 2021. On a sequential basis, headline prices surged 1.5% (month on month), underpinned both by firming food prices (1.2% month on month) and an unprecedented increase in core-core prices (1.5% month on month). Prima facie, some of these dynamics were likely on account of the quasi-national lockdown in May 2021 in response to the second COVID-19 wave.

The composite PMI (Purchasing Managers Index) in May 2021 contracted sharply to 48.1 from 55.4 in April 2021, as deepening of the second wave crisis hit business and output. The manufacturing index fell to 50.8 in May 2021, down from 55.5 in April 2021. The service index fell to 46.4 in May 2021, down from 54.0 in April 2021. This was the first decline in 8 months.

IP printed above expectations in April, expanding 134%, largely on account of very favorable base effects from last April 2021, when the country had just entered a national lockdown. That said, IP rose 1.1% month on month in April 2021, in contrast to the sequential contraction that we had forecast on the back of the local lockdowns that began in the second half of April 2021.

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Global News

Global equities (+1.2%) traded higher, with the US continuing to lead other developed markets (US up +8.5% vs. Europe +6.4% over 2Q). The FOMC (Federal Reserve Open Market Committee) shifted its guidance in a slightly hawkish direction mid-month. May 2021 CPI reports continued to be a string of upside surprises and highlighted the sharp and broad-based acceleration in global inflation. 1H FY 2021 global growth was strong, but gains were uneven across regions, owing to variations in policy support and vaccination programs. Growth leadership has shifted to the US, which is booming on the back of full-bodied monetary and fiscal stimulus, and away from China, where fiscal and credit tightening slowed growth below trend. Europe is now bouncing back strongly, as effective restrictions and a pickup in vaccination rates are unleashing pent-up demand.

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 ₹ 1.0 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 Finance Minister (FM) on June 28, 2021 unveiled a set of relief measures, largely focused on broadening credit guarantees instituted last year, to help alleviate economic stress induced by the second COVID-19 wave – see report. These include: (i) additional lending of ₹ 1.5 trillion (0.7% of GDP) under the Emergency Credit Line Guarantee Scheme (ECLGS) announced last year, taking its total to ₹ 4.5 trillion (2% of GDP); (ii) ₹ 1.1 trillion (0.5% of GDP) lending under a loan guarantee scheme for COVID-affected sectors; and (iii) ₹75 billion lending under a credit guarantee scheme for Micro Finance Institutions (MFI).

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 47,000/day by the last week of June 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 coming down anytime soon especially since RBI will not be in a position to sound dovish at the back of a massive spending program for FY 2022 after more stimuli announced. The continuing measures of OMO (Open Market Operations), GSAP 2.0 of 1.2 lac crs will help keep a lid on yields, but CPI, fiscal worries and global rise for yields and crude oil will also keep a floor on yields. We expect 10 y yield to range between 6.05%% and 6.25% in the coming months.

Equity Outlook

Equity Market Outlook for the Month of July, 2021

Indices, Nifty and Sensex went up 1% each respectively during the month of June 2021 discounting the commentary that came in when results were announced by corporate's and continuing with the soft monetary policy that bankers around the world followed.

Broader markets performed which means risk appetite was good. NSE mid and small cap indices moved 4.6% and 5.0%.

Our markets returns were in line with all other markets except Philippines and Taiwan that clocked 4% returns for the month. Technology, Consumer Durables and Healthcare gave 9%, 7% and 4% returns while Banking lost 2.5% on likely issues of NPA's coming up due to second wave. The sector was also looking at sops from government which was announced towards the end of the month.

Schemes rolled out include ₹ 3.76 lakh crore of economic relief for Covid 19 pandemic, ₹ 15000 crore of new scheme for Public Health & ₹ 2.37 lakh crore worth of impetus for growth and employment.

May 2021 CPI inflation was at 6.3% (4.2%) and WPI was at 12.3% (10.5%). RBI lowered India's Growth forecast for the FY 2022 by 1% to 9.5%.

Accommodative stance of central bank continued with repo rate being maintained. We feel there are chances of change in stance soon. Inflation above 6% most part of this fiscal is a worry. MPC minutes are not comforting.

FED on the other hand changed its earlier stance of no hike in CY 2023. It said there will be two hikes in the CY 2023. Therefore, unless growth picks up to normalize inflation withdrawal of stimulus (bond buying) and rate hikes may start by the end of this fiscal.

Liquidity was good with FPI's (Foreign Portfolio Investors) buying US $ 1 billion worth of stocks and Domestic institutions too picking up US $ 943 million worth of stocks during the year.

Market was right. While so much money was made available there was buying all around and all class of assets. FY 2021 Earnings for Nifty stocks went up 23% on an aggregate basis. Q4 earnings for this set was up 5.7% versus expectations. It was up 143% year on year.

What's remaining to be seen is if this growth absorbs inflation or it bites. If it can absorb inflation and say it is transitory, then rally will sustain and if growth picks up it would have legs to move up.

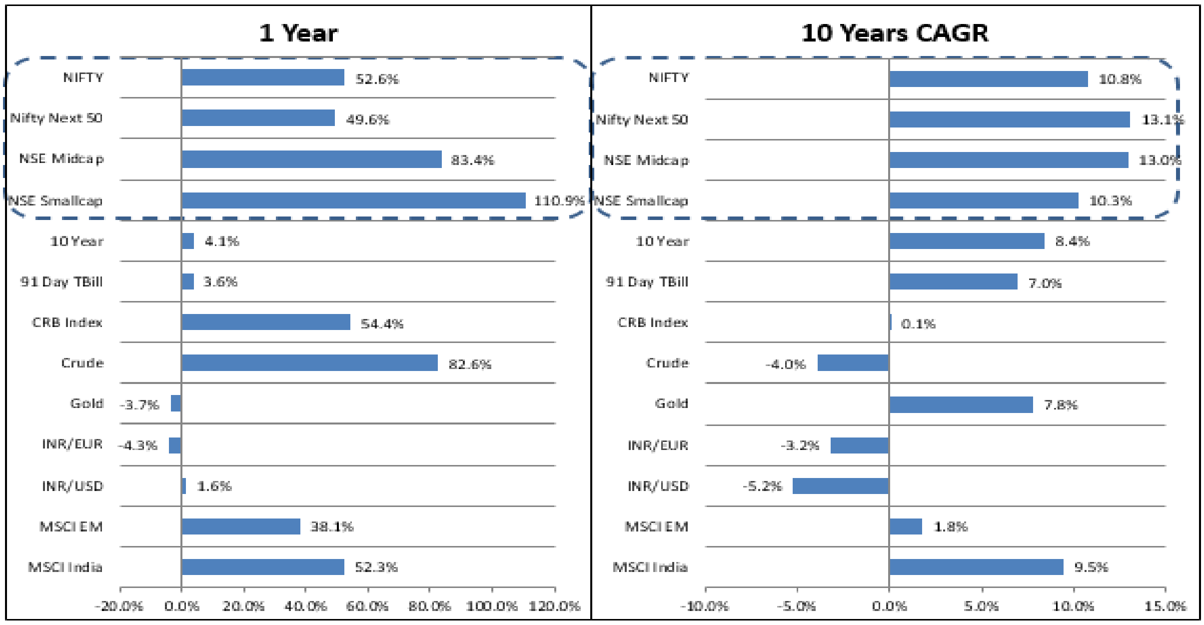
Our choice of funds has bias to Equity Fund (Large cap) as Mid Cap is looking expensive. Equity fund and Bond Optimizer would be choice of the day.

BSE Sensex (since 1980): Yly performance +ve in June (+ve 30 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
			1996			
			1983			
			2000			
			2018			
			2017			
			1997			
			2013	2007		
		2020	2019	1989		
		2008	2003	1988		
		2012	2015	2004		
	1993	2002	2009	2014	1991	1992
	2001	2016	1990	1999	2021	1994
	1998	1982	2011	1986	2005	1985
1987	1995	1980	1984	2010	2006	1981

Sensex yearly Performance in percent

Asset Return- Long Term returns are healthy



As on 30th June 2021

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
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