Volume 17, Issue 06

invest care

In unit linked policies, the investment risk in investment portfolio is borne by the policyholder

SBI Life
Apne liye. Apno ke liye.

September, 2024

UNIT LINKED PRODUCTS FROM SBI LIFE INSURANCE CO. LTD.

CIN: L99999MH2000PLC129113
IRDAI Regn. No. 111

Content

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	30-Sep-24	31-Aug-24	Change (%)	31-Mar-24	Change (%)
₹/$	83.80	83.87	0.08%	83.40	-0.48%
Forex Res.(Bn- 1 Wk Lag)	$ 704.89	$ 681.69	3.40%	$ 642.63	9.69%
Oil Price ($/Barrel)	$ 71.35	$ 76.45	-6.67%	$ 86.84	-17.84%
FII inflows (Net) - Crs (`)					
Equity (monthly)	57724	7732	646.56%	35098	64.47%
Debt (monthly)	32850	17953	82.98%	13602	141.51%

Indices

Particulars	30-Sep-24	31-Aug-24	Change (%)	31-Mar-24	Change (%)
BSE Sensex	84,299.81	82,365.77	2.35%	73,651.35	14.46%
S&P CNX Nifty	25,810.85	25,235.90	2.28%	22,326.90	15.60%
Dow Jones Industrial Avg	42,330.15	41,563.08	1.85%	39,807.37	6.34%
FTSE 100	8,236.95	8,376.63	-1.67%	7,952.62	3.58%
Hang Seng Index	21,133.68	17,989.07	17.48%	16,541.42	27.76%
Nikkei 225	37,919.55	38,647.75	-1.88%	40,369.44	-6.07%
B S E Metal Index	34,608.57	32,455.81	6.63%	28,196.08	22.74%
B S E Power Index	8,651.98	8,231.68	5.11%	6,701.74	29.10%
B S E Realty Index	8,592.66	8,233.53	4.36%	7,108.37	20.88%
B S E Auto Index	61,050.69	59,040.86	3.40%	49,142.11	24.23%
B S E FMCG Index	23,787.61	23,022.21	3.32%	19,318.40	23.13%
B S E Bankex	60,038.09	58,311.51	2.96%	53,515.19	12.19%
B S E Healthcare Index	44,235.58	43,177.32	2.45%	35,052.84	26.20%
B S E Capital Goods Index	73,107.00	73,169.37	-0.09%	60,943.12	19.96%
B S E Information Technology Index	42,369.66	43,486.56	-2.57%	35,644.77	18.87%
B S E Oil & Gas Index	31,835.31	32,978.10	-3.47%	27,644.48	15.16%

Primary Key Rates

Particulars	30-Sep-24	31-Aug-24	Change (%)	31-Mar-24	Change (%)
Repo Rate*	6.50%	6.50%	0.00%	6.50%	0.00%
Reverse Repo Rate**	3.35%	3.35%	0.00%	3.35%	0.00%
CRR #	4.50%	4.50%	0.00%	4.50%	0.00%
SLR *#	18.00%	18.00%	0.00%	18.00%	0.00%
Call money rate	6.25%	6.40%	-0.15%	6.10%	0.15%
Current Inflation Rate (WPI)	1.31%	2.04%	-0.73%	0.20%	1.11%
Current Inflation Rate (CPI) (July 24)	3.65%	3.54%	0.11%	5.09%	-1.44%
IIP (WPI) % Y-O-Y (June 24)	4.80%	4.20%	0.60%	3.80%	1.00%
AAA spread (bps)	33.00	36.00	-8.33%	29.00	13.79%

Particulars	2020-21	2021-22	2022-23	Q1 FY24	Q3 FY24
Real GDP % (New Growth No. by CSO)	-7.30%	9.10%	7.20%	7.80%	8.40%

Interest Rates (FIMMDA)

Particulars	30-Sep-24	31-Aug-24	Change (%)	31-Mar-24	Change (%)
91 days T - Bill	6.55%	6.64%	-0.09%	7.00%	-0.45%
364 days T - Bill	6.50%	6.72%	-0.22%	7.07%	-0.57%
5 Years G - Sec (Annualized)	6.66%	6.75%	-0.09%	7.05%	-0.39%
10 Years G - Sec (Annualized)	6.75%	6.90%	-0.15%	7.08%	-0.34%
30 Years G - Sec (Annualized)	6.89%	7.00%	-0.11%	7.12%	-0.23%

* w e f Feb 08, 2023
** w e f May 22, 2020
# w e f May 21, 2022
*# w e f Apr 09, 2020
CSO (CHIEF STATISTICAL OFFICE)

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

Data Sources
NSE
BSE
RBI
FIMMDA
Bloomberg & Reuters

DEBT MARKET REVIEW AND OUTLOOK

Market Review

September 2024 – Cut! Cut! Cut!

Benchmark 10-year treasury yields fell to 6.75% in September 2024 from 6.86% in August 2024. The US 10-year yield was at 3.78% at the end of September (-12 bps month on month). INR was stronger at around 83.80 against 83.87 in June 2024.

India Macro Movers

Retail inflation came in at 5.49% in September 2024, from August 2024 3.5%. Core CPI has been steadily remaining under 4%. The latest month saw Core CPI at 3.6%. It is still at 0.27% month on month which is very comfortable. The latest spike in CPI headline is thanks to the rise in food prices, mainly led by veggies, oils, fats, eggs, and meat.

India IIP came in lower at -0.15% year on year in August 2024 compared to 4.7% back in July 2024. GST (Goods and Services Tax) collections have been steadily easing with latest figures at 1.75 lac crs in September 2024 versus 1.82 lac crs back in August 2024. PMIs (Purchasing Managers' Index) mildly moved lower in September 2024 for both manufacturing and Services sectors as PMI moved to 56.7 from 57.5 in the former and fell to 58.9 from 60.9 in the latter.

Global News

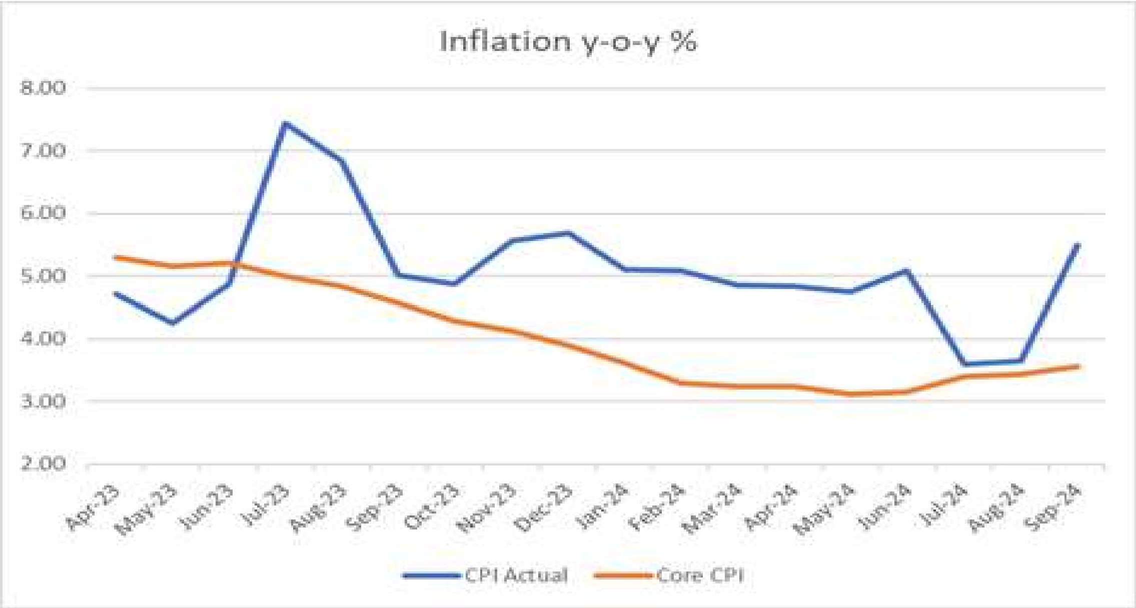
Economic data in the US, continues to moderate and this prompted the FED (Federal Reserve) to cut rates by 50 bps which was more than expected. This is now a 2-year low. US CPI came in at the lowest level in this cycle with CPI at 2.5% against 2.9% last month. The next cut by Fed could be 25 bps in November 2024 and maybe another 25 bps in December 2024. BOE (Bank of England) is expected to cut rates again cut rates in November 2024 meeting owing to softening CPI. ECB (European Central Bank) cut rates by 25 bps in early October 2024. More central banks are expected to ease rates in October 2024.

Outlook

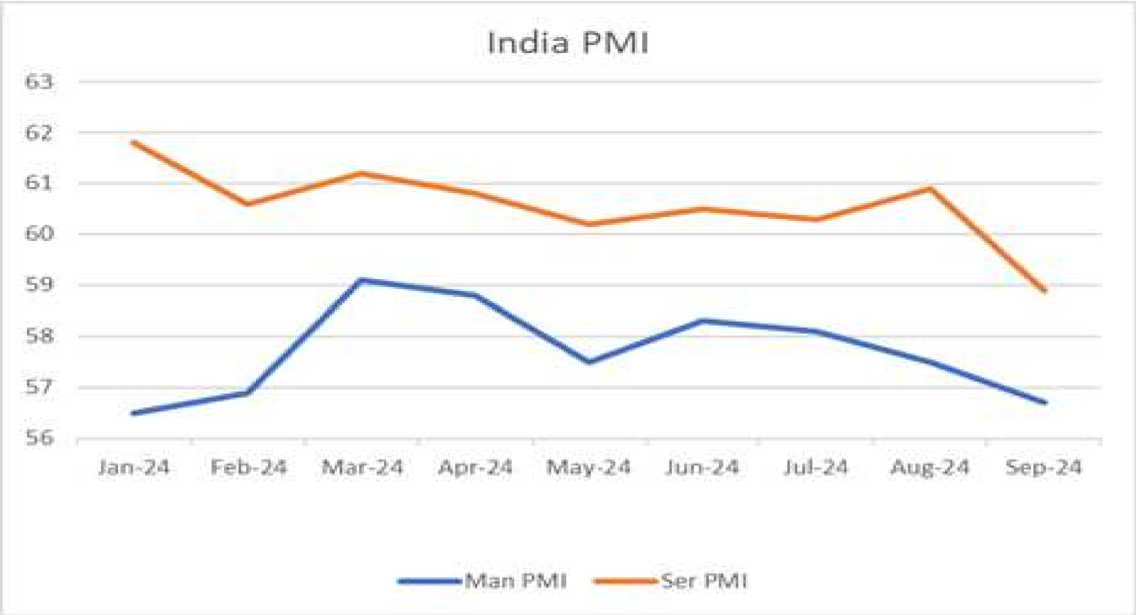
MPC (Monetary Policy Committee) kept rates steady in October 2024, Growth maintained at 7.2% from 7% in FY 2025, and Inflation projection has been maintained at 4.5%. The surprise was the change in stance from tight to neutral. We expect the RBI to cut rates in December 2024 or February 2025 based on the trajectory of growth in the coming months.

The benchmark 10 years could go to 6.50% and below gradually in next one year due to policy rate cuts, Fiscal consolidation and Bond index inclusion. Fall in G-sec rates most likely to be gradual move rather than fast. We expect 30 year- 10 year spreads to remain in range of 10-25 bps for major part of the FY 2025 year unless RBI tweaks borrowing calendar.

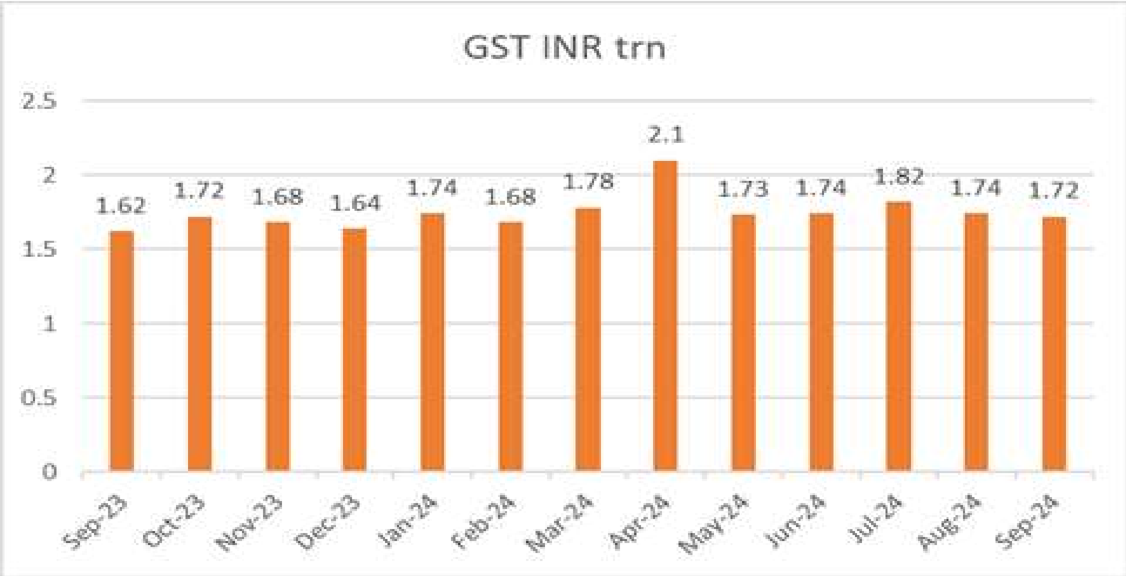
India headline rose owing to higher food prices, Core CPI is seeing moderation



PMIs have moderated, and that could mean the beginning of some weakness



GST collections continue to soften, with collections falling below Rs. 1.8 trillion for the second consecutive month



Equity Outlook

Equity Market Outlook for the Month of October, 2024

Nifty and Sensex ended at 84,300 and 25,811 respectively, up 2.3% and 2.35% for the month of September 2024. Markets were driven by continued inflows into equities fuelled by the US Fed's 50 bps rate cut, among other factors.

Broad markets in India underperformed large cap stocks, with the NSE Small-cap 100 index moving down -0.7% and NSE Mid-cap 100 index moving up 1.5% in the month.

Our markets outperformed the US equity indices, as S&P (Standard and Poor's) 500 gave a return of 2.0% in September 2024. The bull run of defensive sectors has taken a pause this month – Metals and Consumer Durables outperformed during the month with returns of 8.4% and 5.8% respectively. PSU (Public Sector Undertaking) Banks and Oil & Gas have underperformed, falling 3.3% and 3.1% respectively.

The first half of September 2024 saw expectations of rate cuts by the US Fed swinging between 25 and 50 bps. The Fed ultimately went for an aggressive 50 bps cut on 18th September 2024, citing the progress made on inflation and the rising risks to employment and growth. The Fed Funds Rate now stands at 4.75% to 5.0%.

Fig 1. Interest Rate Actions by Countries in the last year

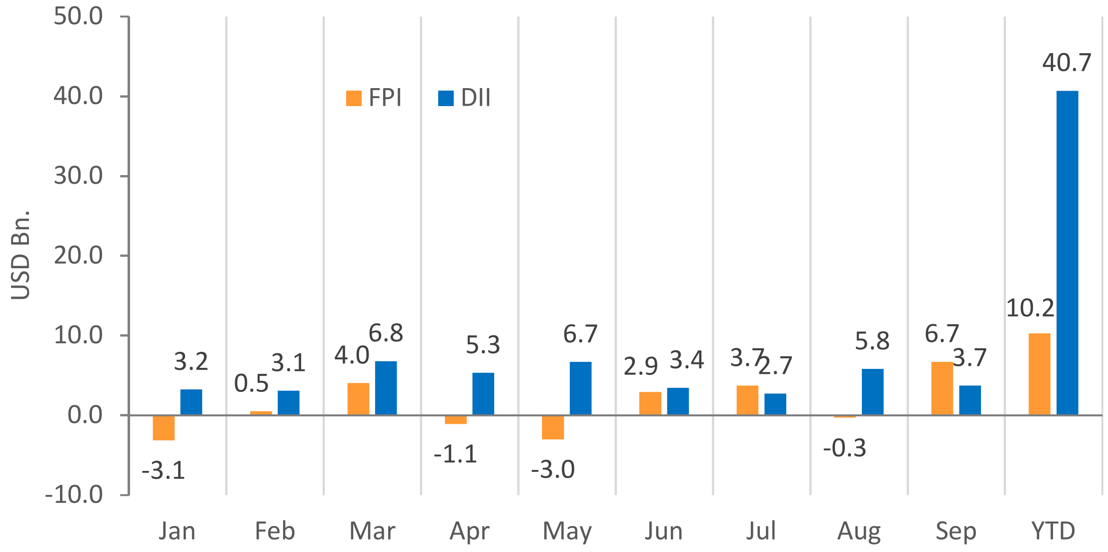
Latest Inflation Rate (%)	Hike	No Change	Cut
>0 and <=2		Thailand	Canada (75bps), China (10bps), Malaysia (25bps), New Zealand (25bps), Sweden (25bps), Switzerland (50bps)
>2 and <=4	Japan (20bps)	Australia, India, Norway, South Korea	Brazil (25bps), EU (85bps), Indonesia (25bps) Peru (50bps), Philippines (25bps), UK (25bps), USA (50bps)
>4 and <=6			Chile (125bps), Mexico (25bps), Romania (50bps), Serbia (50bps), South Africa (25bps)
>6 and <=8			Colombia (200bps)

Note: Countries in green are emerging economies, others are advanced economies

India's CPI inflation for August was at 3.7%, marginally up from 3.5% for July 2024, while WPI for August 2024 dropped to a 4-month low to 1.3% against 2.0 % for July 2024.

FPIs (Foreign portfolio investment) bought Indian stocks worth 6.7 billion USD while locals bought stocks worth 3.7 billion USD. The end of September 2024 notably saw China double down on fiscal stimulus measures to aid their flagging economy – this included several measures for their struggling housing sector, credit lines amounting to USD 113 billion for institutional stock market purchases, and more. Chinese indices have rallied since, with Hang Seng and Shanghai Composite up 18% in September 2024. In commodities markets, steel prices were up 12.8% in September 2024, although current levels are still 6.6% down from prices a year ago. Brent crude fell by 8.8% in September 2024, and will be volatile in upcoming months with tensions rising in the Middle East.

Fig 2. DII and FII flows from Jan ’2024 to Sep ‘2024 (Kotak, Morgan Stanley)



In India, Mutual Fund flows have been robust. Flows garnered in terms of new IPOs have also been good. 61 Equity/Growth oriented schemes have been floated by Mutual Funds houses in the 12 months up to July 2024, that garnered INR 76,414 crores. Retail participation has also increased. Schemes floated and money raised and the monthly subscriptions for the same period is given in the annexure.

Ownership patterns have changed, and FPI ownership of Indian Corporates are at historic lows.

Fig 3. FPI, Retail and Domestic Institutional holdings in India Inc. (Nuvama)

Category	H2 FY19	Q1 FY25
FPI	19.9%	18.3%
DII	13.2%	14.3%
Mutual Funds	*7.8%*	*9.1%*
Insurance	*4.5%*	*5.1%*
Promoter	49.7%	51.7%
Others	17.2%	15.8%

In conclusion, large stimulus and escalating Middle East tensions may result in a market reaction. However, the Ukraine-Russia war in 2022 first led to fall and post that a rally. Therefore, nothing can be ruled out here on the future trajectory of markets. However, the Israel Hamas conflict appears to be big, and will also be followed by US election results.

These events may spoke the rally, and may also create the basis for a fall.

A 50-basis point rate cut was a major and unexpected move by the Fed. 10-year bond yields had softened prior to this. With these developments, Fixed Income appears to be a place of refuge in these times. We therefore stick to our stand in terms of preferring Balance funds. Other than this, we prefer Bond Optimizer. Fund characteristics for the same are enclosed in the annexure.

Fig 4. Major events and Nifty50 movements during September 2024

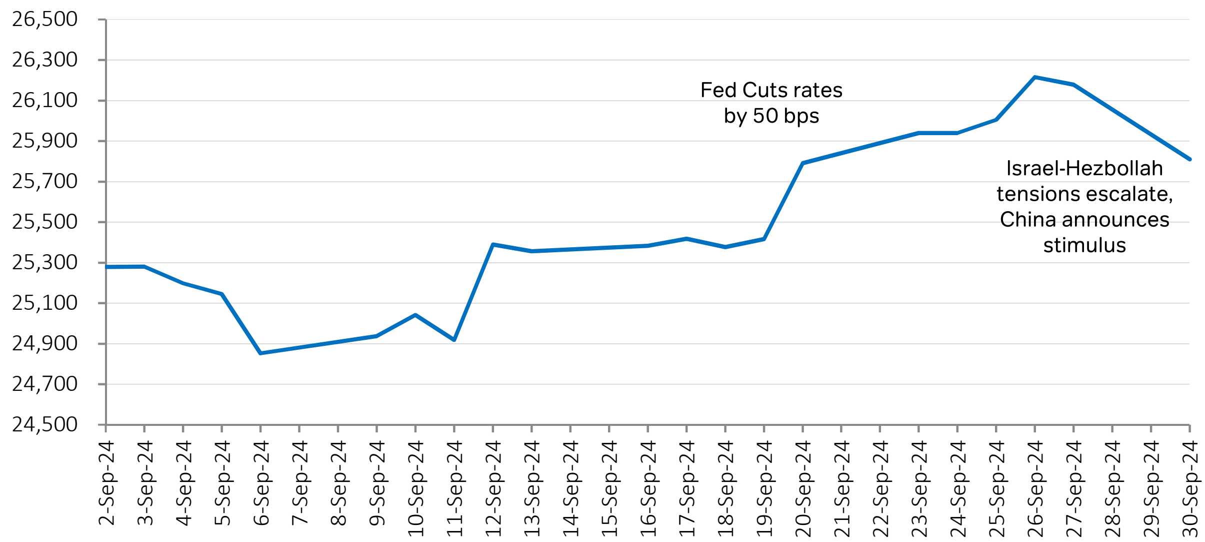


Fig 5. Mutual Fund Equity/Growth Schemes launched and funds raised (AMFI)

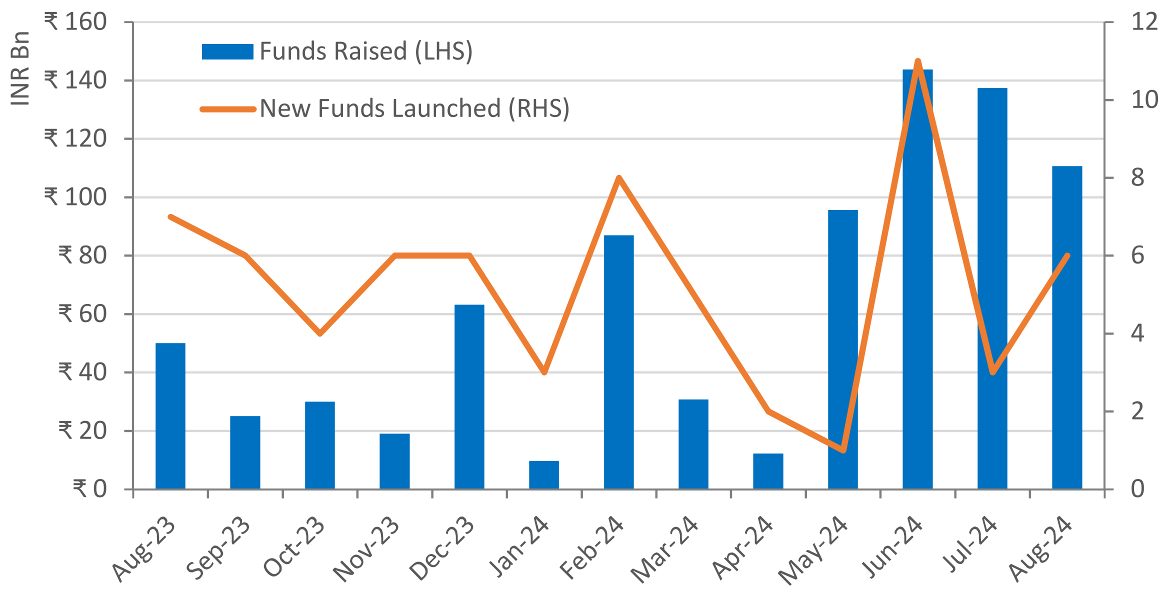


Fig 6. Net Subscriptions to Equity/Growth Mutual Fund Schemes (AMFI)

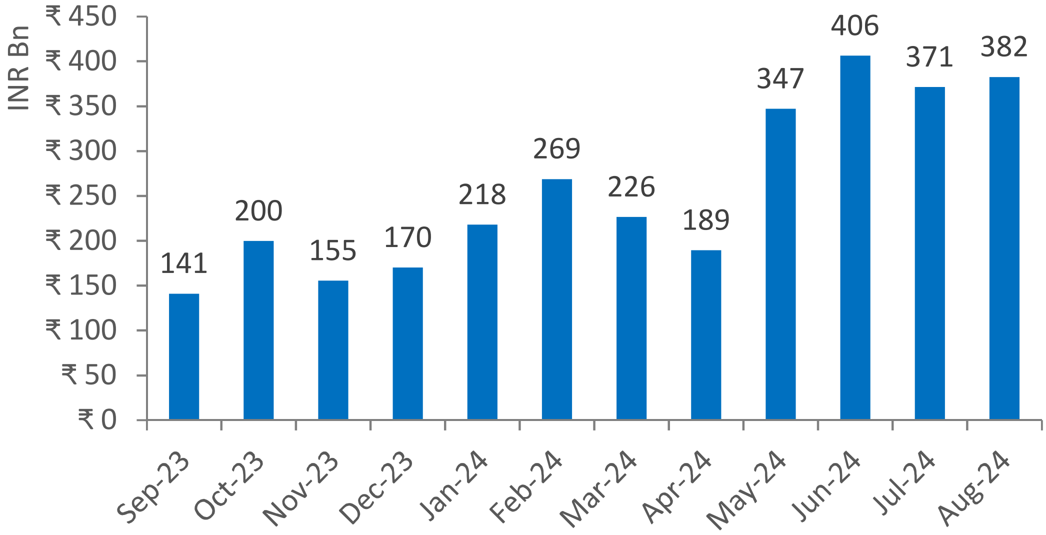


Fig 7. Nifty Trailing P/E Ratio since Jan 2022

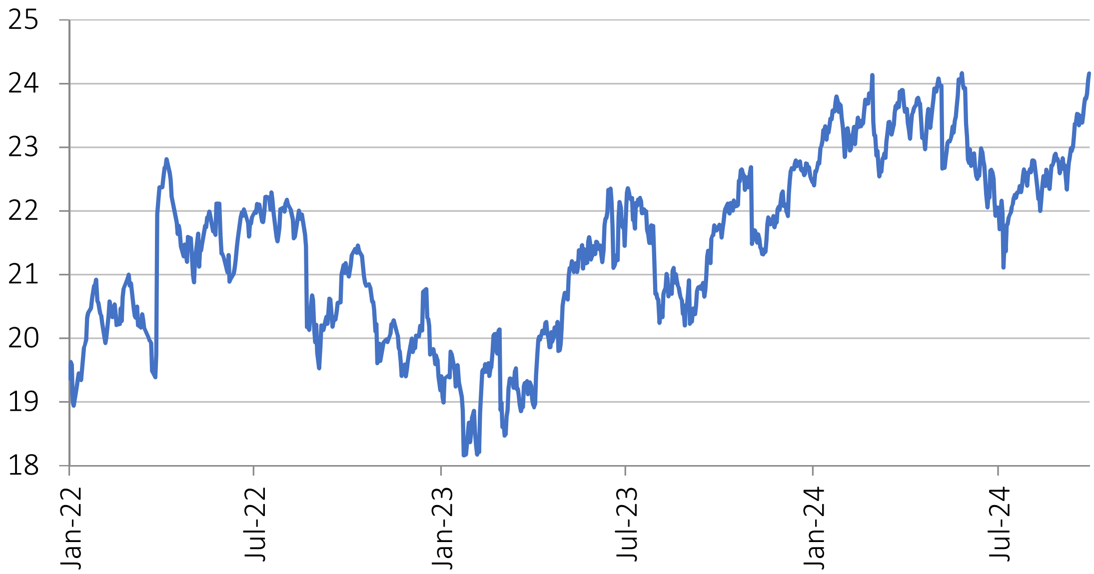


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Fig 8. Recommended Funds – AUM Mix and Performance (CAGR)

	Equity:Non Equity	1M	1Y	3Y	5Y
Balance Fund	50:50	1.84%	20.73%	10.00%	12.31%
Benchmark		*1.68%*	*20.09%*	*9.96%*	*12.66%*
Bond Optimizer	20:80	1.73%	15.49%	8.89%	10.31%
Benchmark		*1.32%*	*13.54%*	*7.60%*	*9.34%*
Equity Fund	100:0	2.11%	37.56%	15.57%	18.18%
Benchmark		*2.28%*	*31.43%*	*13.57%*	*17.60%*

Fig 9. Major Index and Asset Class Returns

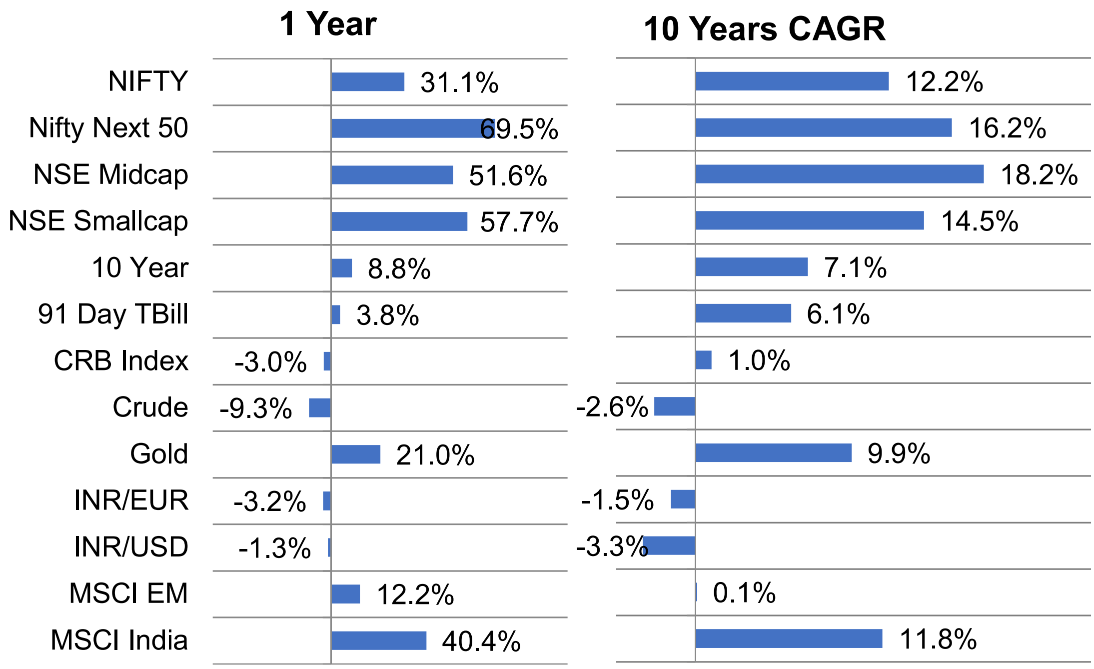

Fig 10. Sensex yearly Performance in August (percent)

-30 and below	-30 to -20	-20 to 0	0 to +20	20 to 40	40 to 60	60 and above
			2022			
			2020			
			1984			
			2012			
			1996			
			2013			
			2009			
			2016			
		1993	2023	1989		
		1987	1997	1980		
		2000	1983	2018		
		2011	1982	2004	2014	1999
		2008	2017	2024	1991	1992
	2001	2019	2010	2007	2021	1994
	1995	2002	1986	2003	2006	1990
	1998	2015	1988	1981	2005	1985

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 fulfilment 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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To know more about us

Visit us at www.sbilife.co.in or

Call Toll Free No. 1800 267 9090 (24x7)

Registered Office and Corporate Office: "Natraj", M.V Road & Western Express Highway Junction, Andheri (E), Mumbai-400069

CIN: L99999MH2000PLC129113

Email: info@sbilife.co.in

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