SBI Life INSURANCE
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Monthly Investment Update:
Volume 13, Issue 07
October, 2020

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-Oct-20	30-Sep-20	Change (%)	31-Mar-20	Change (%)
₹/$	74.11	73.77	-0.46%	75.63	2.01%
Forex Res.(Bn- 1 Wk Lag)	$ 560.53	$ 542.02	3.42%	$ 475.56	17.87%
Oil Price ($/Barrel)	$ 37.46	$ 40.52	-7.55%	$ 23.55	59.07%
Gold (₹/10 gm)	50,645	50,310	0.67%	40,989	23.56%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	18935	-6138	408.49%	-62026	-130.53%
Debt (monthly)	3363	2382	41.18%	-58579	-105.74%

Indices

Particulars	31-Oct-20	30-Sep-20	Change (%)	31-Mar-20	Change (%)
BSE Sensex	39,614.07	38,067.93	4.06%	29,468.49	34.43%
S&P CNX Nifty	11,642.40	11,226.50	3.70%	8,597.75	35.41%
Dow Jones Industrial Avg	26,501.60	27,781.70	-4.61%	21,917.16	20.92%
FTSE 100	5,577.30	5,866.10	-4.92%	5,672.00	-1.67%
Hang Seng Index	24,107.42	23,459.05	2.76%	23,603.48	2.14%
Nikkei 225	22,977.13	23,185.12	-0.90%	18,917.01	21.46%
B S E Bankex	27,388.62	24,354.70	12.46%	22,050.02	24.21%
B S E Realty Index	1,804.06	1,671.43	7.94%	1,353.65	33.27%
B S E Information Technology Index	21,058.79	19,979.89	5.40%	12,842.72	63.97%
B S E Power Index	1,729.35	1,652.97	4.62%	1,377.95	25.50%
B S E Capital Goods Index	14,167.34	13,834.15	2.41%	10,979.45	29.04%
B S E Oil & Gas Index	12,126.12	12,242.39	-0.95%	10,020.85	21.01%
B S E FMCG Index	10,922.64	11,051.22	-1.16%	10,254.89	6.51%
B S E Metal Index	8,207.51	8,304.23	-1.16%	5,713.28	43.66%
B S E Auto Index	17,517.08	17,876.44	-2.01%	10,746.15	63.01%
B S E Healthcare Index	19,257.76	19,799.24	-2.73%	12,148.57	58.52%

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Primary Key Rates

Particulars	31-Oct-20	30-Sep-20	Change (%)	31-Mar-20	Change (%)
Repo Rate*	4.00%	4.00%	0.00%	4.40%	-0.40%
Reverse Repo Rate**	3.35%	3.35%	0.00%	4.00%	-0.65%
CRR#	3.00%	3.00%	0.00%	3.00%	0.00%
SLR *#	18.00%	18.00%	0.00%	18.25%	-0.25%
Call money rate	3.25%	3.43%	-0.18%	4.30%	-1.05%
Current Inflation Rate (WPI)	1.32%	0.16%	1.16%	2.26%	-0.94%
Current Inflation Rate (CPI) (Sept 20)	7.34%	6.69%	0.65%	6.58%	0.76%
IIP (WPI) % y-o-y (Aug 20)	-8.00%	-10.40%	2.40%	2.00%	-10.00%
AAA spread (bps)	46.00	68.00	-32.35%	90.00	-48.89%

	2016-17	2017-18	2018-19	2019-20	Q1 FY21
Real GDP % (New Growth No. by CSO)	7.10%	6.70%	6.80%	4.20%	-23.90%

Interest Rates (FIMMDA)

Particulars	31-Oct-20	30-Sep-20	Change (%)	31-Mar-20	Change (%)
91 days T - Bill	3.16%	3.25%	-0.09%	4.20%	-1.04%
364 days T - Bill	3.42%	3.65%	-0.23%	4.50%	-1.08%
5 Years G - Sec (Annualized)	5.17%	5.39%	-0.22%	5.40%	-0.23%
10 Years G - Sec (Annualized)	5.88%	6.02%	-0.13%	6.14%	-0.26%
30 Years G - Sec (Annualized)	6.64%	6.70%	-0.06%	6.79%	-0.15%

No change
Negative change
Positive change

*** w.e.f May 22, 2020**
**** w.e.f May 22, 2020**
 # w.e.f Mar 27, 2020
***# 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

October 2020 – Is India recovering ?

Benchmark 10-year treasury yields averaged at 5.9% in October 2020 (8 bps lower versus September 2020 average). On month-end values, 10Y yields were down 13bps to end the month at 5.88%. INR declined by 0.5% and ended the month at US $ 74.11 in October 2020. India's FX reserves are at their all-time peak at US $ 560.5 billion as of 23 October 2020. FX reserves have increased by US $ 18.5 billion in the last four weeks.

India Macro movers

IP contracted -8.0% Year on year in August 2020 (versus -10.8% in July 2020 and -15.8% in June 2020) and came in below consensus. Economists highlight that seasonally-adjusted IP was at 87% of its pre-pandemic levels in August 2020 marginally down from 89% in July 2020. Consumer durables were at 87% of the pre-pandemic level in August 2020 improving from 82% in July 2020. Non-durables, in contrast, eased to 98% of the pre-pandemic level in August 2020 from 103% in July 2020.

September 2020 CPI at 7.3% came in ahead of consensus largely led by food inflation (10.7% in September 2020 versus 9.1% in August 2020). However, the core-core inflation (core inflation ex gasoline and diesel) continued to ease with September 2020 coming in at 0.26% month on month compared to 0.32% month on month, in August 2020 and 0.46% month on month in July 2020. Economists note that although the easing of core momentum is in-line with their expectations, if food inflation continues to remain elevated, the risk will rise of it broadening into core, especially as the economy continues to recover.

India's monthly merchandise trade balance for September 2020 at US $ 2.7 billion came in slightly below consensus (US $ 3.0 billion) and narrowed from US $ 6.8 billion in August 2020. Merchandise exports were up +6% in September 2020 (versus 13% decline in August 2020) and imports were down 20% in September 2020 (versus a 26% decline in August 2020).

Global News

Global equities had a volatile month and continued to record negative returns in October: SPX (-2.8%), MSCI DM (-3.1%) and MSCI Europe (-5.7%). The VIX index jumped up 44% month on month. Equity markets remained focused on a double dip in global growth, driven by lack of US fiscal stimulus, renewed COVID-19 lockdowns in Europe and the read-across from Europe's virus challenges to the US. The last week of October 2020 saw three national lockdowns. US 10Y yields are at 0.87% (+19bps month on month, -82bps year on year).

Outlook

The pressure on supply demand mismatch has eased considerably after the HTM (Held To Maturity) hike and RBI commitment to keep doing OMOs (Open Market Operations) in the last RBI Policy. OMOs along with OTs and OMOs for SDLs have been announced and are being done with predictable regularity.

This has eased pressure on bond yields especially longer end as MPC (Monetary Policy Committee) minutes also referred to discomfort over the steepness of the yield curve. Govt spending has definitely fallen since April 2020 from 21% to -26% in September 2020. This means the supply of govt borrowing will not exceed those already announced, meaning supply-demand equation seems stable. Credit growth also hit a low of 5.1% and all these factors support a positive view on bonds. CPI hit 7.61% again in October 2020 and at this rate the CPI trajectory will touch 5.3% by December 2020 instead of 3.7% originally expected 2 months ago. Growth indicators are showing a recovery; as even RBI believes full recovery could happen one quarter before originally estimated. Combining these we feel there is a falling probability of rate cuts in FY 21, and hence yield curve could flatten with short ends set to rise, and long end yields set to fall

Equity Outlook

Equity Market Outlook for the Month of November, 2020

Markets have gained strength post the lifting of lockdown in a major way. Indices have had further legs with US election results likely to be announced soon. Some company results that were announced added spice to the rally with positive commentary from the management side.

Sensex ended at 39614 and Nifty at 11642 up 4% and 3.7% each respectively for the month. Mid cap and Small cap indices that moved in the month of October 2020 had a modest 1.5% and -0.1% moves during the month. Top sector performers this time included the Banking.

Liquidity was abundant with FPI's buying stocks worth US $ 2.7 billion and DII's selling marginally to the extent of US $ 2.4 Million.

News was not good on the debt side. CPI index rose to 7.34% for September 2020. IIP fell 8% in August 2020. But the trade balance helped by reduced imports came in at US $ 2.7 billion negative for September 2020 against US $ 6.8 billion negative for August 2020.

We have been neutral to negative on valuations basis for some time now. With passage of time, substantial improvement in number of cases incrementally getting reported and mortality numbers is observed. We now think that time correction was good enough. Index has not moved beyond its previous highs despite time of more than 6 months having lapsed.

Increased confidence in management commentaries makes us feel that market is now ready to take things at its stride. It is ready to move on. India relief package is the least and modest compared to peers. If our country can show recovery in the same fashion as other countries do, markets can outperform peers in the region even from here.

With winds of Democratic Government formation coming up in US, cooperation between India and US should strengthen further. It is widely expected that the policy towards China plus 1 may gain further momentum.

Agriculture will support growth this year with good monsoon. Sectors like Information Technology, Banking & Pharmaceutical may perform well going by numbers reported and the management interactions.

Market will now be stable with major uncertain events like Covid 19 and US elections likely to get over soon with the risk of second wave only remaining.

Markets will be stock specific.

We would urge investors to look at and invest in Bond Optimiser fund, Balance fund and Corporate Bond Fund. Investors who would like to take higher risk may opt for Mid Cap fund.

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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