Investment Snapshot

For Quarter Ended December 2018

India rising: Story of a growing market

Toll free: 1800 102 2355

life.futuregenerali.in

FUTURE GENERALI
TOTAL INSURANCE SOLUTIONS

Dear **Valued Policyholder**,

Although Year 2018 was a year of subdued returns for equities, Indian equity markets outperformed MSCI Emerging Markets and Developed Markets by a good margin. The US was the best performing market amongst Developed Markets, and India and Brazil outperformed amongst the Emerging Markets. While the United States remained the most robust economy with regard to strong GDP growth, corporate profits and employment figures; with EU, Japan and the rest of the Developed Markets struggled to achieve good growth. Thus, Global growth was less synchronized, unlike the trends seen in 2017. Moreover, in the last quarter of 2018, despite the strength in the US consumption and robust labor market, doubts emerged about the continued strength of the US economy. With financial conditions in the US having changed, the impact of fiscal stimulus seen so far is expected to fade in 2019. Though global growth is softening, it is still above the 10-year average, and India will continue to be fastest growing economy with upward of 7% GDP growth.

For the Indian equity markets, domestic positives drove equity market valuations high during the year despite global risk-off sentiments towards Emerging Markets. Domestic broader equity indices spiked to lifetime highs in early 2018 on positive macro-economic data, encouraging corporate earnings and robust global growth trend. However, confluence of factors such as prospects of fading US fiscal policy support in 2019, reduced monetary stimulus and global growth concerns, ongoing global trade conflict, increase in crude oil prices and weakening of the EM currencies basket vs USD dampened the global risk sentiments, and hauled the Indian markets in the latter half. All major asset classes oscillated between multi-year highs and lows in a matter of a few months. While in 2017, Small and Midcaps were an outperforming theme, this year midcaps have significantly underperformed Largecaps due to high valuations, disappointing earnings growth, and FPI outflows. After a great year of 2017, the year 2018 witnessed a mix of macro headwinds and micro tailwinds leading to a split disposition in the market structure. We witnessed the continuity of a great bull-market in few stocks of Nifty and bear-market in mid & smallcaps leading to extreme polarization of market.

In the context of Debt markets, while one may optically think that the 10-year GSEC bond yields between the start and end of the year have barely moved, it was the intra year 90 bps movement in the yields that kept the Debt market investors on tenterhooks. Starting with 7.34 % levels in January 2018, the GSEC improved to its annual low of 7.13 % in the first week of April supported by lower government borrowing. The yields then rose to a high of 8.18 % in September & October and hovered around >8% levels, mainly driven by rising oil prices, depreciating rupee, and the IL&FS default. Post September, the pressure on yields eased as the GSEC rallied to 7.25 % and ended the year at 7.37%, mainly driven by cooling crude prices, back-to-back OMO announcements by RBI, a strengthening rupee, and rejuvenation in FII inflows.

While tighter global rate regime and an increase in domestic inflation had initially triggered a couple of rate hikes by the RBI, the benign inflation trends, softer crude and strengthening rupee prompted the RBI to change its stance to calibrated tightening and keep the policy rates unchanged in the remaining policy meetings for the year, which gave further impetus to the rally in the bond markets. Current inflation and external account dynamics open the possibility of change in policy stance and rate cuts in 2019. The expected turn in monetary policy and attractive real rates are positive for the bond yields in the near-term. Over a medium-term, while the institutionalization of monetary policy in India coupled with structurally contained inflation is positive news, the rural distress opening up the possibility of increased revenue spending and deteriorating fiscal dynamics will keep the yields under check. Also, globally the pace of monetary policy normalization in the US is slated to slowdown as the positive impact of fiscal stimulus on economic growth starts waning away. This should culminate in dollar weakness in 2019, which in turn bodes well for Emerging Markets such as India.

On the economy front, the year 2018 saw a strong recovery with GDP growing above 7.5% in the first three quarters post the impact of GST in the prior year and also improvement in corporate earnings trajectory through the quarters. The Indian economy faced some challenging macro headwinds for the better part of 2018 such as steep rise in crude oil prices, sharp depreciation of the INR, liquidity crunch in the NBFC sector, FII outflows, the US-China trade war, and rising political uncertainty. However, towards the end of 2018, the macro-economic conditions have turned more supportive as crude oil has shown sharp

reversal. We expect India's macro-economic conditions to be fairly stable through FY2019. Indian macros look well poised for 2019 given the low inflation, fairly valued rupee, lower crude prices, relatively better fiscal and current account deficit, and a cleaner banking system. India is in the midst of a structurally high growth phase and remains the fastest growing economy in the world with the IMF projecting 7.5% and 7.7% GDP growth rates for FY19 & FY20 respectively. The benefits of implementation of several structural reforms such as introduction of Goods & Services Tax (GST), Insolvency & Bankruptcy Code (IBC), RERA, and JAM (Jan Dhan, Aadhaar, Mobility) have started to manifest in the growth numbers and will aid in removing inefficiencies from the economy and formalizing the same.

The much-talked about General Elections in India will remain a focus area for investors around the world. Based on previous four election studies, growth is generally seen improving during the election period. We believe earnings revival will take center-stage in FY2019, despite several local and global noises. With supportive macro-economic conditions and strong expected earnings growth, valuations seem reasonable. While volatility will rule the roost ahead of General Elections, we do expect 2019 to be a good year of performance for equities. Market movements track corpora te earnings trend, which has started picking up after a lag of 4-5 years. Better liquidity, lower real interest rates, smoother credit flow, and improving capacity utilization is likely to provide succor to the corporate profitability growth in 2019. Besides the consumption story, spending by government will drive the Indian market ahead with increasing rural consumption and the government aiming to achieve doubling of farmers' income, especially given it's an election year. On valuations front, while the Nifty looks optically at an elevated level, it is only a handful of stocks which are holding up the Nifty. Post the recent correction, the excessive valuations especially in Midcap & Smallcap have also settled down. Markets have mean reverted to near long-term averages, which makes it attractive from the medium to long-term perspective.

While the near-term concerns continue to cloud the markets, the medium to longer-term outlook for the Indian markets looks promising. While we are cognizant that in the next few months the markets could be injected with a bout of volatility with events such as General Elections, we believe that it will not have much of impact over the longer run, irrespective of the outcome. We believe, India will continue to be the fastest growing economy with upward of 7% GDP growth and its favorable demographics should continue to support growth for next few years. We believe the volatility in the markets over the next few months will provide a good opportunity to build a quality portfolio from the long- term standpoint as India is firmly entrenched on the growth path.

Regards,

Jyoti Vaswani

Chief Investment Officer

Global Economy

Sino-US trade war raised fears of global growth hit

The US Federal Reserve (Fed) raised interest rates by a quarter percentage point to a range of 2.25-2.50% in its December meeting, making it its fourth increase in the year and the ninth since it began reversing its loose monetary policy from December 2015. The Central Bank also lowered its earlier projection and forecast that there would be two rate increases, and not three as stated earlier, in 2019, signalling that its tightening cycle is nearing an end given slowing global economic growth.

In Europe, the European Central Bank (ECB) meanwhile announced the end of its 2.6 trillion euro bond-buying program by the end of December, and said that it expected interest rates to "remain at their present levels at least through the summer of 2019". The Bank of England's Monetary Policy Committee voted unanimously to leave rates on hold at 0.75%. The Central Bank warned that Brexit uncertainty had "intensified considerably", and that it, together with the slowing global economy, would weigh on the UK's economic growth outlook.

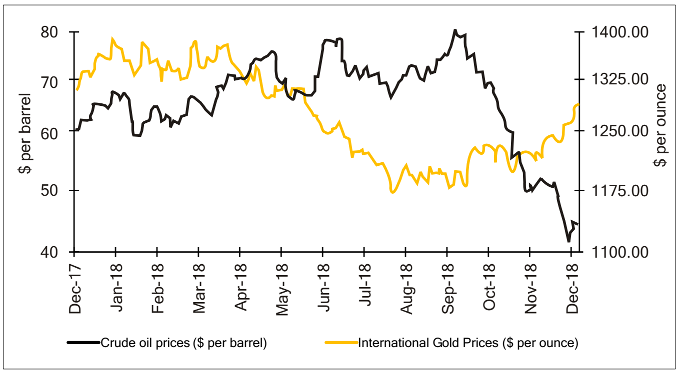
In Asia, a slowdown in Chinese manufacturing activity exacerbated fears of a slowdown in economic output. China's Central Bank ruled that the reserve requirement ratio of Chinese banks will be cut by a total quantum of 100 basis points over the month of January 2019, to give the economy a liquidity boost and to support growth. The Bank of Japan maintained its ultra-loose monetary policy by keeping its short-term rate target at -0.1%. The BoJ chief also signaled that the Central Bank stood ready to ramp up stimulus, if needed, in the event that the Japanese growth outlook is adversely impacted by the Sino-US trade tussle.

- US GDP expanded 3.4% in Q3 2018 compared to 4.2% in Q2 2018.
- Eurozone GDP advanced by 1.6% in Q3 2018 compared to 2.2% growth in Q2 2018.
- UK GDP rose by 1.5% in Q3 2018 compared to 1.4% in Q2 2018.
- Japan's GDP contracted 2.5% in Q3 2018 compared to 2.8% growth in Q2 2018.
- China's GDP expanded 6.5% in Q3 2018 compared to 6.7% in Q2 2018.

Crude oil prices fell 38% on higher supply fears; gold prices rose 8% on fears of global trade wars

International crude oil prices declined on reports of higher US crude stock piles. Fears of lower oil demand due to a slowdown in global economic growth also pulled prices down. Prices received some support on hopes that major oil producers would signal output cuts. Gold prices rose on safe-haven buying on worries about global trade wars and jitters following Italy's budget crisis, and owing to intermittent weakness in the dollar. Prices also rose owing to uncertainty over UK Prime Minister Theresa May's Brexit deal.

Chart 1 - Crude oil versus gold prices



Source: NYMEX, LBMA

Global Equity

Table 1 - Global benchmark indices returns

Indices	31-Dec-18	Quarterly % Change	Yearly % Change
DJIA (USA)	23327	-11.83	-5.63
Nikkei 225 (Japan)	20015	-17.02	-12.08
Hang Seng (Hong Kong)	25846	-6.99	-13.61
FTSE 100 (UK)	6728	-10.41	-12.49
Shanghai Composite Index (China)	2494	-11.61	-24.59
DAX (Germany)	10559	-13.78	-18.26
iBovespa (Brazil)	87887	10.77	15.03
MICEX (Russia)	2359	-4.72	11.78

Source: Yahoo Finance, Bloomberg, Moscow Exchange

Nearly all global equity indices ended lower

Brazil's equities emerged the sole gainer in the December quarter benefitting from Presidential candidate Jair Bolsonaro's victory in October and dovish statements from US Fed officials. Asian equity indices were hit by developments surrounding the ongoing trade war with the US. Meanwhile, a pullback in crude oil prices dented sentiment for Russian stocks. Further, US equities fell owing to worries over slowing economic growth, the ramifications of the trade conflict with China, and domestic political uncertainty.

Indian Economy

India clocked strong economic growth in Q2 FY2019

Amidst the backdrop of the Sino-US trade war which has threatened to dampen global growth, India has emerged relatively unscathed, recording good economic output figures and continuing to remain the fastest growing economy in the world. Major institutions remained upbeat about the nation's growth prospects. Investor sentiment was enhanced by a downtick in consumer inflation, although the banking regulator remained cautious and adopted a wait-and-watch mode with respect to developments surrounding inflation and growth, as per the December policy minutes. Prime Minister Narendra Modi announced various measures for small and medium enterprises, including loans of up to Rs 1 crore in 59 minutes. Further, the government decided to increase the capital infusion in public sector banks to Rs 83,000 crore, taking the total to Rs 1.06 lakh crore for the current fiscal in addition to launching a scheme that aimed to provide cheaper loans to start-ups in the cooperative sector.

Among other important developments, the government unveiled its 'Strategy for New India @ 75' document, with an aim to accelerate growth to 8-9% and make India a $5 trillion economy by 2030. The Center also signed an agreement with Iran to pay for crude oil it imports from the Persian Gulf nation in rupees, and decided to increase its contribution to the National Pension System for central government employees to 14% from 10% apart from making the entire withdrawal exempt from income tax.

- The Indian economy expanded 7.10% in Q2 FY2019 compared to 8.20% in Q1 FY2019.
- The Indian economy is expected to grow at 7.2% in 2018-19, a tad higher from 6.7% in the previous fiscal, as per the first advance CSO estimates.
- Asian Development Bank retained its growth forecast for India at 7.3% in FY19 and 7.6% in FY20.
- The OECD said India's economic growth will slow marginally, but remain robust at close to 7.50% in 2019 and 2020.
- India's consumer inflation cooled to 2.33% on year in November compared to 3.38% in October.
- India's Current Account Deficit (CAD) stood at $19.1 billion, forming 2.9% of the country's GDP in Q2 of 2018-19, up from $6.9 billion (1.1% of GDP) in Q2 of 2017-18.

Indian Equity

Table 2 - Indian benchmark indices returns

Sector Indices	31-Dec-18	Quarterly % Change	Yearly % Change
Nifty 50	10863	-0.62	3.15
S&P BSE Sensex	36068	-0.44	5.91
S&P BSE CG	18821	10.01	-1.63
S&P BSE BANKEX	30377	8.52	5.27
S&P BSE CD	20695	8.15	-8.79
S&P BSE Realty	1798	5.57	-31.07
S&P BSE Power	1999	3.62	-16.06
S&P BSE FMCG	11829	2.84	10.60
S&P BSE Auto	20834	-2.99	-22.12
S&P BSE Healthcare	13923	-7.33	-5.92
S&P BSE Oil & Gas	13749	-7.45	-15.57
S&P BSE IT	14090	-9.85	24.93
S&P BSE Metal	11840	-10.84	-20.75

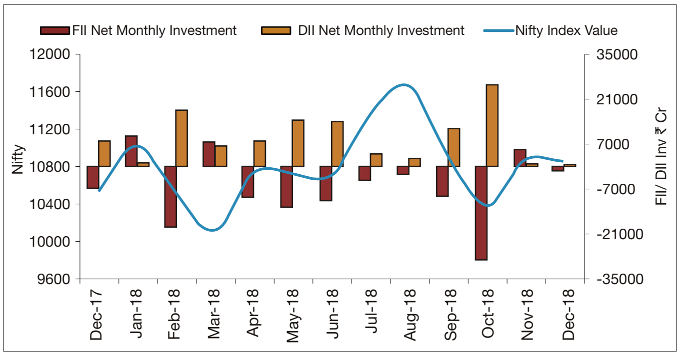
Source: BSE, NSE

Indian equities ended marginally down mirroring global equities

Indian equity indices ended the last quarter of 2018 on a dim note tracking fall in global equities and selling pressure from Foreign Institutional Investors (FIIs). Benchmarks S&P BSE Sensex and Nifty 50 fell 0.4% and 0.6% in the December quarter. The Market a witnessed sharp fall earlier in the quarter mirroring a sell-off in global equities which fell on discouraging US corporate earnings, spike in the US bond yields, and weak US economic cues. Concerns about slowdown in global economic growth after the IMF downgraded its global economic outlook and worries about China's economic outlook amid Sino-US trade tensions also weighed on the market. Surprise exit of the former RBI Governor Urjit Patel and uncertainty ahead of the assembly election results of five states also dented the sentiment.

However, most of the fall was recovered on strengthening of the rupee against the dollar and encouraging quarterly earnings of some index heavyweights. Globally, fall in crude oil prices and rising hopes of a trade deal between the US and China also helped local indices to recover some losses.

Chart 2 - FII, DII versus Nifty movement



Source: NSE

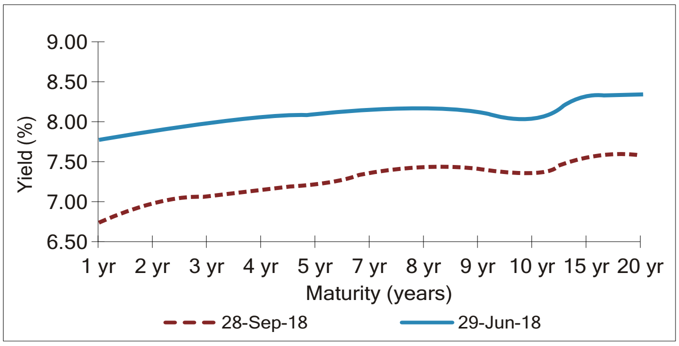
- S&P BSE Metal index fell the most (down 10.84%) in the December quarter tracking fall in global metal prices amid weak demand from China.
- S&P BSE IT index declined 9.85% as the rupee's gains against the US dollar dampened demand for domestic IT exports.
- S&P BSE Bankex gained 8.52% helped by earnings-related announcements and reports that the government expects some changes in the Prompt Corrective Action (PCA) framework prescribed by the RBI to enable more sanction of credit by PSU banks.
- S&P BSE Power index advanced 3.62% after an expert committee recommended that fuel cost should be passed on to consumers prospectively and companies should have the option to extend power purchase contracts by 10 years.
- FIIs sold Rs 19,567 crore in Indian equities in the December quarter vis-à-vis net sales of Rs 6,785 crore in the previous quarter.

Equity Outlook

While volatility will rule the roost, we do expect 2019 to be a good year of performance for equities. Market movements track corporate earnings trend which has started picking up after a lag of 4-5 years. Better liquidity, lower real interest rates, smoother credit flow, and improving capacity utilization is likely to provide succour to the corporate profitability growth in 2019. Post the recent correction, the excessive valuations especially in Midcap & Small caps have also settled down. Markets have mean reverted to near long-term averages, which makes them an attractive bet.

Indian Debt

Chart 3 - Domestic yield curve movement



Source: CRISIL Fixed Income database

Gilts rose on cooling crude oil prices and the rupee's gains against the greenback

Domestic bonds rose sharply in the December quarter. The yield of the 10-year benchmark 7.17% 2028 paper settled at 7.37% on December 31 as against 8.02% on September 28. Gilts rose because:

- Crude oil prices softened over the quarter, thereby reducing fears of acceleration in inflation.
- The RBI conducted open market bond purchase auctions frequently to provide liquidity, and pledged to continue with gilt repurchases via open market operations through January 2019.
- The rupee's gains against the US dollar and cooling consumer inflation also enhanced demand for debt.
- The interest rate setting panel kept key interest rates unchanged over the quarter. The apex bank also lowered its domestic inflation projection - consumer price growth is pegged at 2.7-3.2% for the second half of fiscal 2019 and 3.8-4.2% for the first half of fiscal 2020. Further gains were limited by:
- The unexpected resignation of former RBI governor Urjit Patel, profit-selling ahead of the quarter-end, concerns over fiscal deficit, and higher state-borrowing expectations.
- Prices also took some cues from the US Fed's policy announcement. The US Central Bank raised the federal funds rate to 2.50% in December and hinted at two more interest rate hikes in 2019.

  On the regulatory front:

- The RBI allowed banks to part-support bonds sold by Non-Banking Finance Companies (NBFCs). The Central Bank also increased the concentration limits for banks' exposure to individual non-banking finance companies (NBFCs) to 15% from 10% and also extended liquidity support to NBFCs by banks until March 2019.
- The banking regulator forecasted gross bad loans to decline to 10.3% of total loans by March 2019 from 10.8% at the end of September 2018 and 11.5% in March 2018; economic growth is pegged at 7.4% for fiscal 2019.
- The RBI notified that it would extend the timings of the fixed rate repo auction under Liquidity Adjustment Facility (LAF) by one hour to provide participants with more flexibility for their daily liquidity management, with effect from November 5.
- As part of the December policy announcement, the RBI also said it will provide information on daily CRR balance of the banking system to market participants on the very next day as against the practice of disclosing details with a lag of 2-3 days.
- Securities and Exchange Board of India (SEBI) issued a framework that will require large corporates to raise 25% borrowings through corporate bonds from next fiscal.

Debt Outlook

From the debt markets standpoint, the current inflation and external account dynamics has turned the interest rate cycle in 2019 and the turn in monetary policy and attractive real rates are positive for the bond yields in the near-term. Over a medium-term, while the institutionalization of monetary policy in India coupled with structurally contained inflation is positive news, the rural distress opening up the possibility of increased revenue spending and deteriorating fiscal dynamics will keep the yields under check. Also, globally the pace of monetary policy normalization in the US is slated to slow down, as the positive impact of fiscal stimulus on economic growth starts waning away. This should culminate in dollar weakness in 2019, which in turn bodes well for Emerging Markets such as India.

FUTURE GENERALI
TOTAL INSURANCE SOLUTIONS

Future Generali India Life Insurance Co. Ltd. (IRDAI Regn. No. 133) (CIN:U66010MH2006PLC165288), Regd. & Corp. Office: Indiabulls Finance Centre, Tower 3, 6th Floor, Senapati Bapat Marg, Elphinstone Road (W), Mumbai – 400013 | Call: 1800 102 2355 | Fax: 022 - 4097 6600 |

Website: life.futuregenerali.in | Email: care@futuregenerali.in | Comp-Apr-2019_002