Monthly Memo

September 2022

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Inflation – Stuck Between Supply Curtailments and Demand Destruction

Aug’22 turned out to be a good month for the Equity market with the benchmark BSE200 increasing by 4.5% and both our Pure Growth and Pure Contra strategies moving in tandem with it. After an excellent Jul’22, the market continued an upward movement in Aug’22 driven by the expectations of inflation peaking along with the interest rate cycle peaking by the end of CY22. The expectation of inflation peaking is being driven by demand destruction as developed economies stare at recession. We believe that markets could be disappointed in the near to medium term, especially when counter forces are acting to impact inflation from both sides.

While we probably have seen inflation peaking, we believe the slide down will be slow and painful for the global economy. The metal and crude prices have already corrected in the last two months on account of the slowdown in the Chinese, EU, and US economies. Moreover, as winter approaches, we would likely witness further supply curtailments, especially for metals in China due to pollution concerns as well as in the EU due to high energy prices. This may increase metal prices globally. Furthermore, OPEC+ has announced their preference for crude to be at ~$100/barrel, and with the gas supply to the EU from Russia more or less stopped, we believe the entire energy complex can witness increased pricing due to the substitution effect, which in turn, would further accentuate the problem of controlling inflation. Overall, this dynamic of lower demand due to global recession and lower supply led by various geopolitical and environmental issues will keep inflation higher for longer than expected. This may result in the Equity market witnessing higher volatility in the short to medium term.

Nishit, through his diverse experience in both Buy side and Sell side firms brings in a fresh perspective on markets at Axis Securities. As Fund Manager, he is responsible for generating superior risk adjusted returns for customers as per their mandate.

Nishit has more than 16 years of experience in the financial services industry and has worked with various companies like ING Investment Management, Kotak Mahindra Bank, Elara Capital, Reliance Securities, Anand Rathi, Motilal Oswal Financial Services etc.

Geopolitical flashpoints to remain active

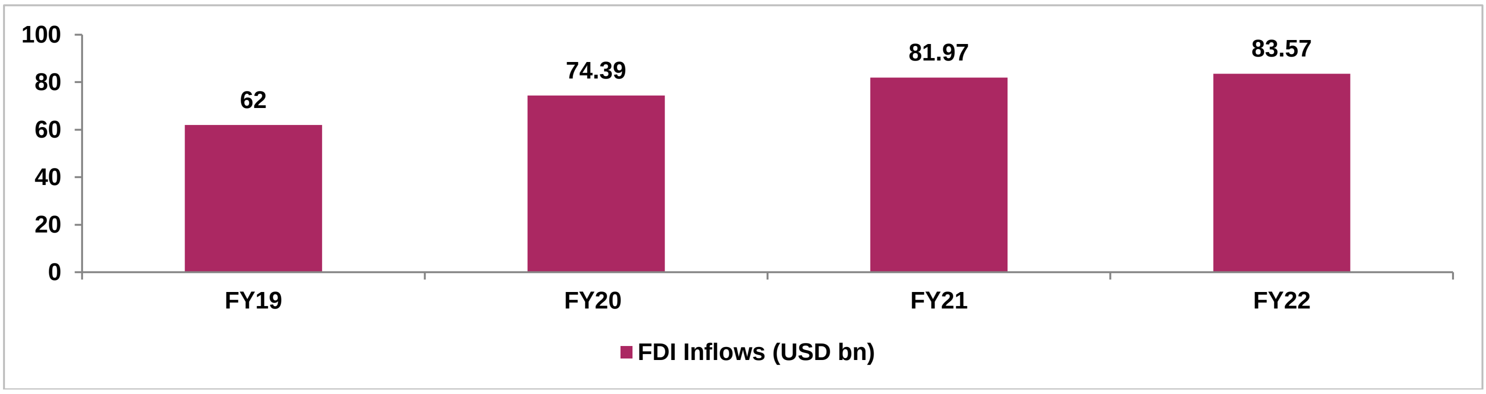
Post-Covid, we have seen various geopolitical flashpoints becoming active. Be it the Russia – Ukraine crisis or tensions across the Taiwan Straits with China on one side and the US and Taiwan on the other side. These geopolitical flashpoints can erupt anytime and cause unprecedented pressure on the global economy. Unlike the last couple of decades, it's probably more politically expedient for the current global ruling elites to keep these tensions simmering to strengthen their domestic standing. We believe that world politics has changed which will lead to higher risk premiums for equities in the long run. Keeping this backdrop in perspective, we focus more on the companies' earnings growth when we pick stocks for our portfolios and less on the possibility of multiples re-rating.

Re-creating Supply Chains – Advantage Capital Goods Sector

The world is increasingly getting divided into two competing camps – the western camp consisting of the US, EU, and Japan and the eastern bloc led by China and Russia. These two camps have already started de-coupling their economies and started building independent supply chains. While this long-term story is being played out, we believe it got hastened during and after the Covid-19 pandemic when intermittent shutdowns, especially by the Chinese government, led to significant disruptions to the global supply chains. Countries across the world have since started increasing their domestic capacities to become self-reliant or friend-shoring production to friendly countries despite manufacturing costs being higher than the earlier levels. This has led to significant orders for capital goods companies globally, especially in India, after a long time. One look at the order book of capital goods companies confirms this trend as most of them are sitting on record-high order backlogs.

India with its strong relationships with both developed economies (such as the US, Japan, and EU) as well as the Eastern bloc (especially Russia from where it can avail cheap resources) stands in a unique position to benefit from the re-drawing of supply chains. This has led to many companies announcing capacity additions. Moreover, it has led to record-high FDI inflows (chart below) over the last couple of years.

FDI Inflows ($Bn)

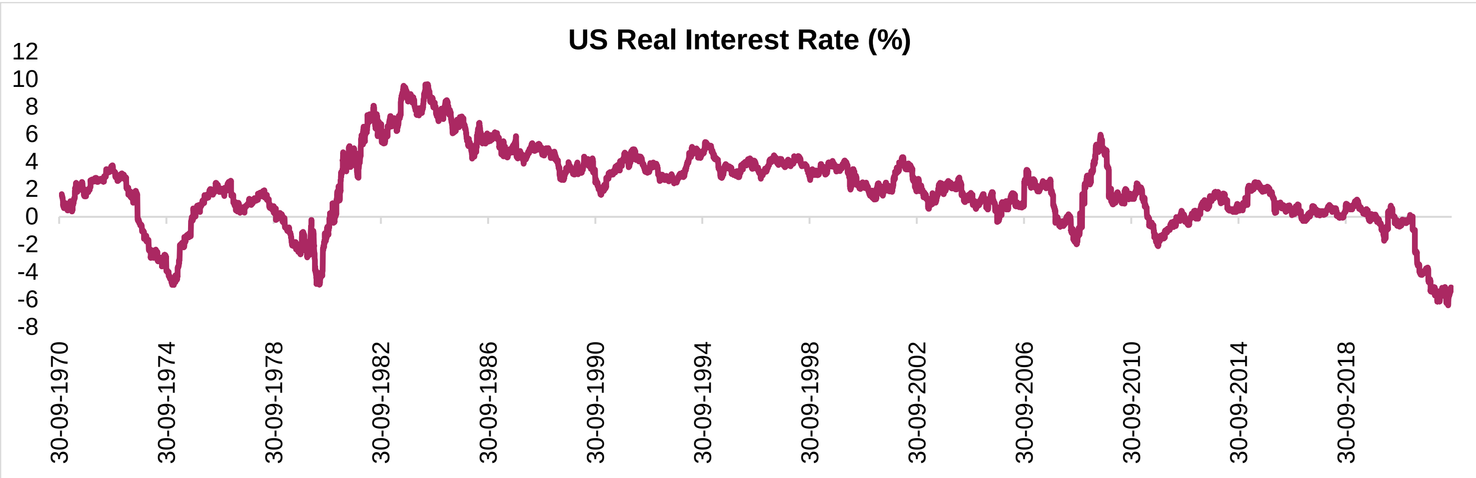


We are thus overweight on the Capital Goods sector with exposure to companies such as Cummins India, Siemens India, SKF, Apar Industries, Carborundum Universal, Linde India, and Welspun Corp, among others across various strategies. We continue to believe that the capital goods cycle, including the Defence sector, has further growth headroom and would continue to remain overweight on the sector in the short to medium term.

Central banks of developed economies attempt to preserve their credibility

The global equity markets have witnessed a run-on of late on the assumption that inflation has peaked and interest rates should peak by the end of the year. We, however, have a different view on the same. We believe the global central banks have taken a significant beating on their credibility by first failing to understand the sustainability of inflation and then by being late in raising interest rates. Even after the recent cooling off of inflation, the extent of the negative interest rate (interest rate minus inflation) is quite large (see the chart below). Against this backdrop, we believe the equity markets are currently underestimating the pain central banks are willing to inflict on the economy to control inflation. In an attempt to preserve their credibility, we believe the global central banks will raise interest rates beyond the markets' current estimates, which in turn, will keep the markets volatile in the near to medium term.

US Real Interest Rate (%)



India – An island of relative stability

Amidst all the pain and risk in the global markets, the Indian economy remains an island of relative stability. Inflation in the country from a historical perspective is not as high as to materially impact its businesses and households. Moreover, the country's demand growth continues to remain strong while new manufacturing facilities and export opportunities are opening up, creating further growth opportunities for Indian corporates. For NIFTY50, we expect earnings to grow at a healthy CAGR of ~20% over FY21-24 which is positive for the equity markets. India remains one of the fastest growing economies globally as seen in the chart below and thus is eliciting positive flows from FPI investors.

IMF GDP Growth Projections

Country/Region	2022	2023
India	7.4	6.1
US	2.3	1
Euro Area	2.6	1.2
- Germany	1.2	0.8
- France	2.3	1
- Italy	3	0.7
- Spain	4	2
UK	3.2	0.5
Japan	1.7	1.7
China	3.3	4.6
South Africa	2.3	1.4
Russia	-6	-3.5
Brazil	1.7	1.1
Middle East & Central Asia	4.8	3.5

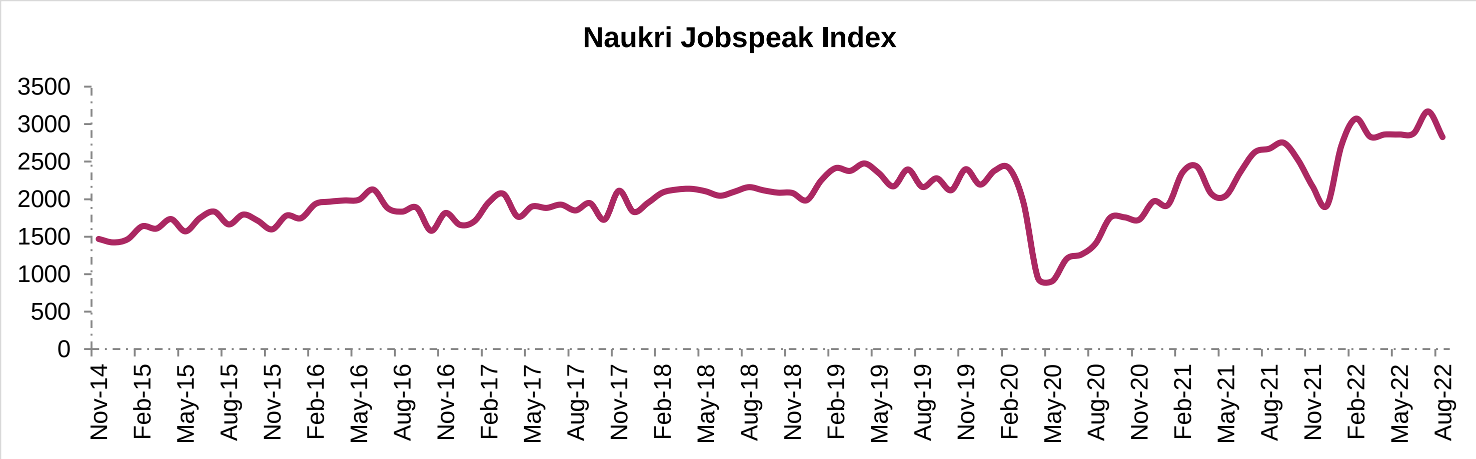
**IMF Growth projections as on July 2022*

Indian consumption story intact despite inflation

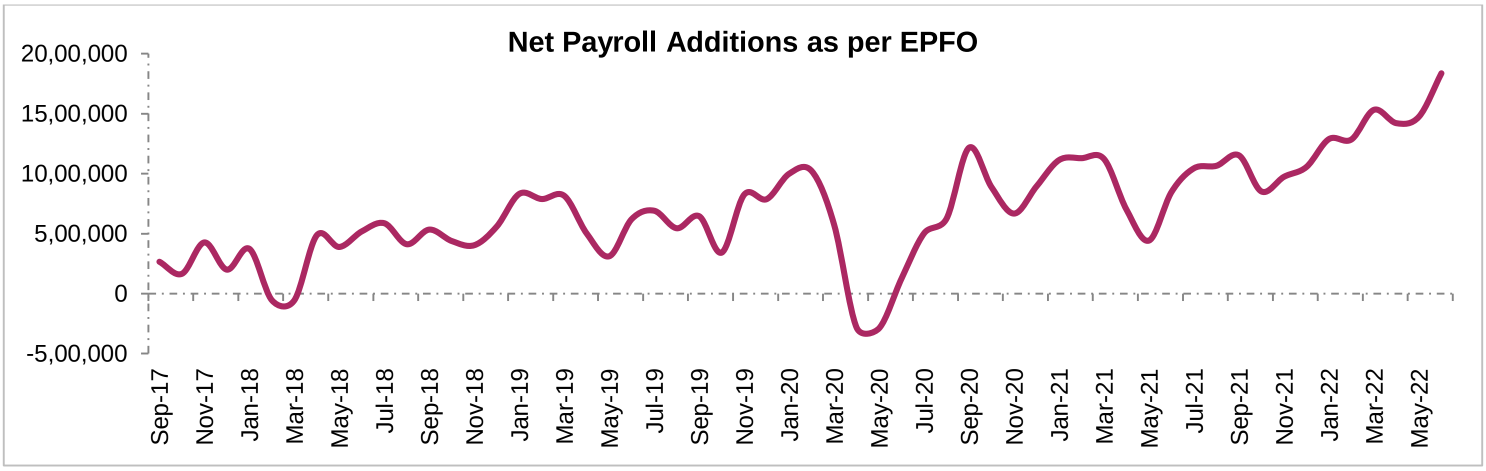
Despite the recent increase in inflation in India, the Indian consumer and corporate have adjusted well to the cost increase, thanks to the robust improvement in the employment levels along with higher wages, maintaining the disposable incomes of consumers.

The charts below show the Naukri Jobspeak Index and Payroll Data from EPFO which show significant improvement in employment expectations and formal employment opportunities.

Naukri Jobspeak Index



Net Payroll Additions as per EPFO



Both these data points prove that the spending power of Indian consumers has not waned and thus we remain constructive on the discretionary spending of consumers. We thus have a significant overweight on the Auto sector through names like Maruti Suzuki, Tata Motors DVR, M&M, and Motherson Sumi Wiring India across various strategies. We also own consumer discretionary names like EIH, Varun Beverages, United Spirits, and ABFRL across various strategies which benefit from the current environment.

Strategy Positioning

Aug'22 was fairly good for the markets with BSE200 inching up by ~4.5%. In our Pure Contra strategy, our overweight position in Consumer Discretionary including Auto, Financials, and Industrials along with our underweight positioning in IT and Healthcare helped us deliver a resilient performance. A few picks in our Pure Contra strategy that reported encouraging performance included Bank of Baroda, ICICI Bank, ABFRL, TV18 Broadcast, M&M and SKF India. However, HOEC, Neuland Labs, ENIL and Cummins India were a drag on the overall portfolio performance.

In our Pure Growth strategy, our overweight positioning in Industrials and Consumer Discretionary (including Auto) and underweight positioning in IT and Consumer Staples in Aug'22 helped us while underweight positions in Energy and Utilities dragged our overall performance. A few picks in our Pure Growth strategy that did well for the month were Varun Beverages, ICICI Bank, Narayana Hrudalaya, SKF, Shree Cements, Kotak Mahindra Bank, Bharti Airtel and Siemens.

However, stocks such as Inox Leisure, Indoco Remedies, Abbott India, and Linde India turned out to be laggards.

From a sectoral perspective, we continue to believe that Private Banks, Capital Goods, and Auto look most promising for this year. We have made certain changes in our portfolio to keep our portfolio relevant. We strongly urge our investors to stay invested in the market with a long-term horizon and reap the maximum benefits of investing in the equity markets.

Happy investing!

Nishit Master

Portfolio Changes:

Our portfolio changes indicate our strategic stance in the market.

Growth Strategy changes

Scrip Name	Action	Weight	Remark
SKF India Ltd.	BOUGHT	2.00%	Bearings segment seeing sharp all around pick up. SKF is a high-quality company with an excellent track record.
Motherson Sumi	SOLD	1.70%	Consistent challenges in international business and slower growth
Indoco Remedies	SOLD	2.60%	The quarterly performance continued to be sub-par

Contra Strategy changes

Scrip Name	Action	Weight	Remark
Ambuja Cements Ltd.	SOLD	3.30%	The stock was a special situation play with an exit price of Rs 385 on account of the open offer. We exited when the stock breached that price.
SKF India Ltd.	BOUGHT	2.00%	Bearings segment seeing sharp all around pick up. SKF is a high-quality company with a solid track record.
Hinduja Global Solutions Limited	SOLD	3.60%	No clarity on the price of buyback and further utilisation of cash proceeds.
Welspun Corp Limited	BOUGHT	2.00%	Play on global resuscitation of global oil and gas pipeline demand.

Portfolio Performance

Particulars	1 month	3 months	6 months	1 Year	2 Year*	Since inception*
Axis Pure Growth	4.23%	10.99%	10.45%	11.98%	31.12%	37.67%
BSE200	4.49%	8.70%	7.63%	5.61%	26.97%	32.96%

(*CAGR Returns) (* net of fees)

Top 10 Holdings

Scrip Name	Weight
ICICI Bank	12.2
Varun Beverages	9.9
Bharti Airtel	6.8
Coromandel Inter	5.8
Maruti Suzuki	5.5
Infosys	5.4
Carborundum Uni.	5.4
Abbott India	5.3
EIH	5.3
Siemens	4.7

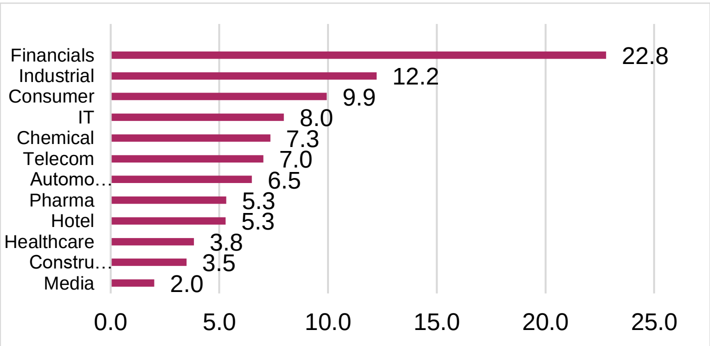
Key Portfolio Ratios

Wt. Avg. PE	22.4
Wt. Avg. PB	3.7
Wt. Avg. ROE	11.9
Wt. Avg. Mcap	2,18,281.55

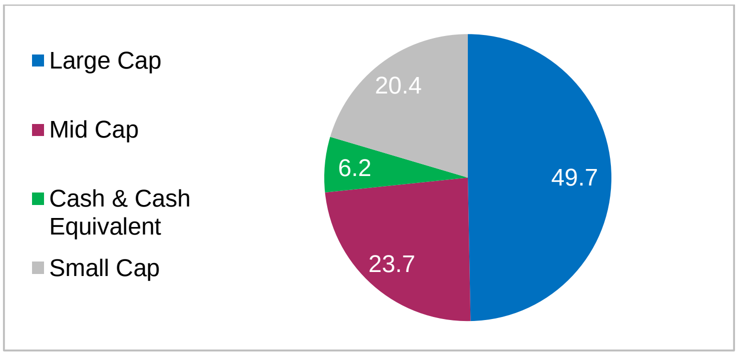
Risk Assessment

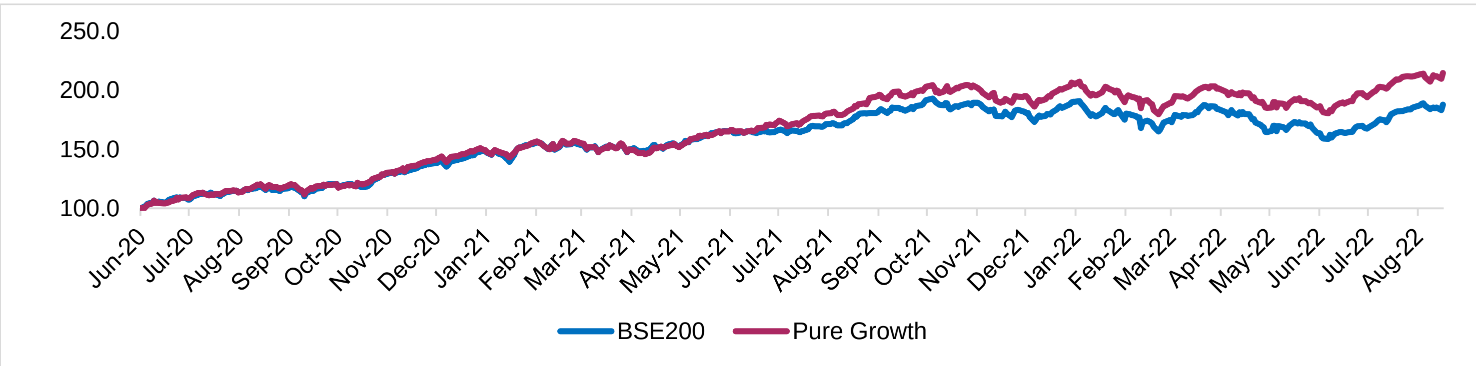
Portfolio Beta	0.90
Information Ratio	0.66
Volatility	17.50
Sharpe Ratio	0.48

Sector Allocation



Market Capitalization





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Portfolio Performance

Particulars	1 month	3 months	6 months	1 Year	2 Year*	Since inception*
Axis Pure Contra	4.59%	12.55%	7.57%	10.81%	41.07%	47.62%
BSE200	4.49%	8.70%	7.63%	5.61%	26.97%	32.96%

(*CAGR Returns) (* net of fees)

Top 10 Holdings

Scrip Name	Weight
ICICI Bank	10.7
St Bk of India	9.8
Bank of Baroda	5.8
SBI Life Insuran	5.7
Infosys	5.3
M & M	5.2
Carborundum Uni.	5.1
Aditya Bir. Fas.	5.1
EIH	4.7
Maruti Suzuki India Ltd.	4.7

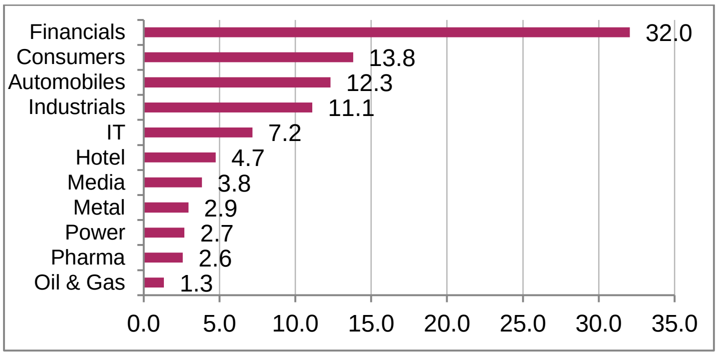
Key Portfolio Ratios

Wt. Avg. PE	24.57
Wt. Avg. PB	3.13
Wt. Avg. ROE	11.03
Wt. Avg. Mcap	1,81,672.93

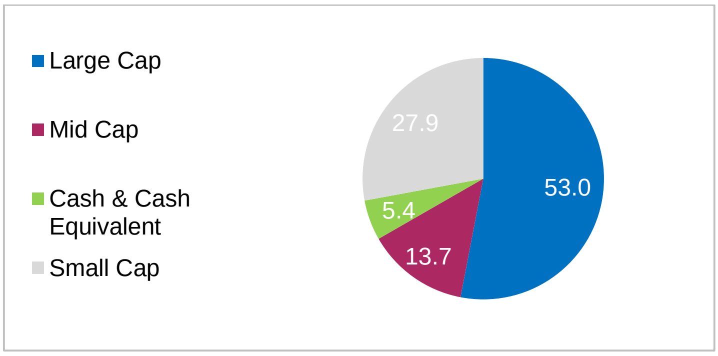
Risk Assessment

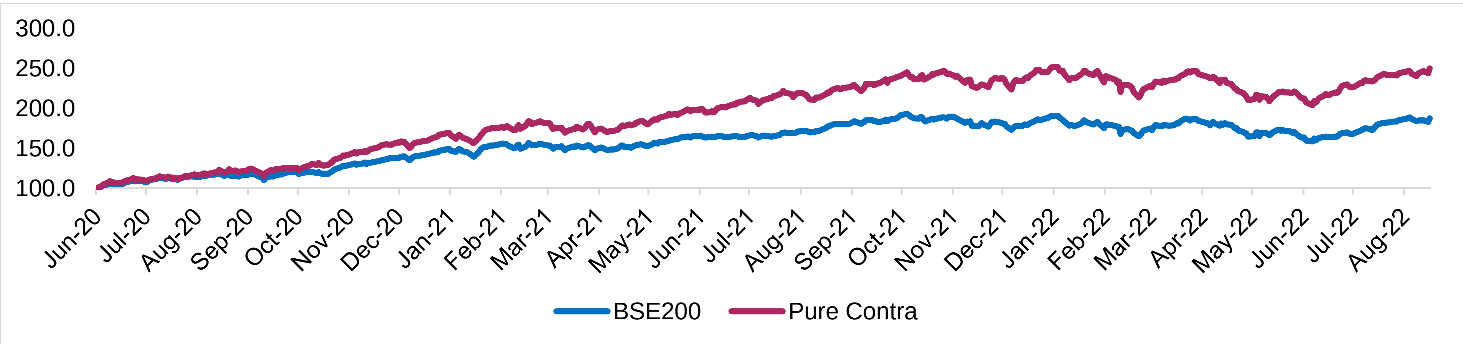
Portfolio Beta	1.08
Information Ratio	0.36
Volatility	21.18
Sharpe Ratio	0.32

Sector Allocation



Market Capitalisation





Portfolio Performance

Particulars	1 month	3 months	6 months	1 Year	2 Year*	Since inception*
Axis Pure Retirement	3.78%	5.81%	6.95%	3.40%	15.43%	20.94%
BSE200	4.49%	8.70%	7.63%	5.61%	26.97%	32.96%

(*CAGR Returns) (* net of fees)

Top 10 Holdings

Scrip Name	Weight
ICICI Bank	11.2
Reliance Industries	10.0
TCS	7.0
SBI Life Insuran	6.1
Cipla	6.1
St Bk of India	6.1
Coal India Limited	5.5
Brookfield India	5.5
United Spirits	5.5
Bharti Airtel	5.3

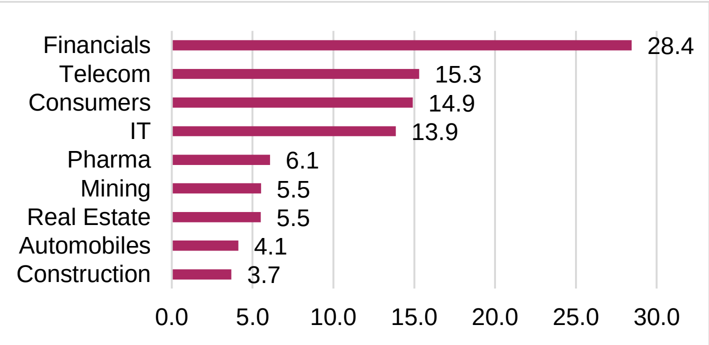
Key Portfolio Ratios

Wt. Avg. PE	31.3
Wt. Avg. PB	5.0
Wt. Avg. ROE	17.2
Wt. Avg. Mcap	4,78,948.68

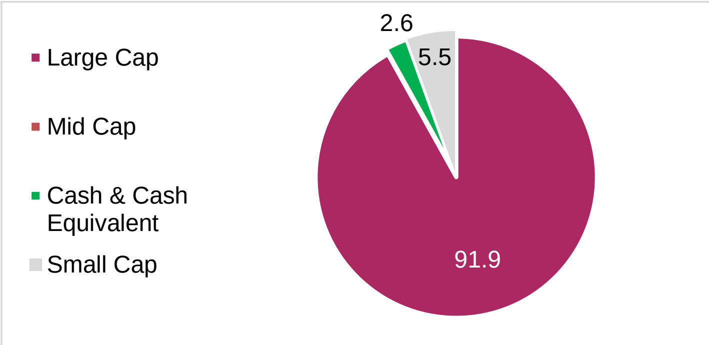
Risk Assessment

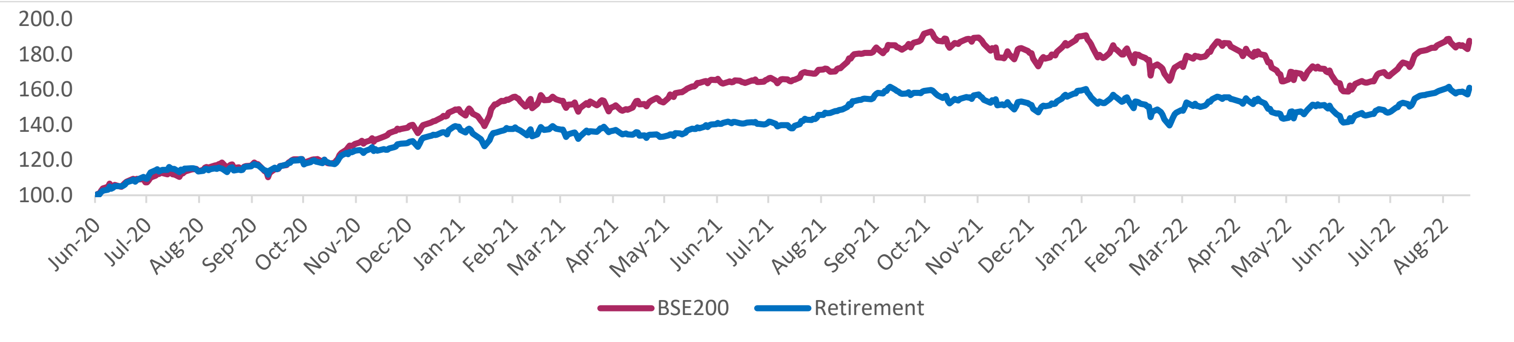
Portfolio Beta	0.85
Information Ratio	0.15
Volatility	15.52
Sharpe Ratio	0.25

Sector Allocation



Market Capitalisation





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