



PORTFOLIO DIVERSIFICATION – A KEY TO SAIL SMOOTHLY THROUGH VOLATILITY

## Portfolio Diversification – A Key to Sail Smoothly Through Volatility

**A Vote-of-Account-Budget sets the Narrative of “Viksit Bharat”:** We believe that the Budget has proactively set the tone for economic development in the upcoming years. It envisions a “Viksit Bharat” by 2047, following a transformation similar to the one witnessed in the last decade. The market borrowing is projected to be ~11.75 Lc Cr for FY25, and the bond market responded positively to this budgeted figure. Our key takeaways from the Interim Budget are as follows: 1) Reasonable Fiscal Math; 2) Significant positive for infrastructure; 3) Enhanced allocation to the PM AwasYojana; 4) Rooftop solarization (SuryodayaYojna), and 5) Boost to Nano DAP and Aquaculture Production.

**High-Frequency Indicators:** The country witnessed a surge in electricity demand. It went up by 8.6% YoY in Feb’24, led by prolonged cold wave and consequent use of higher use of heating equipment as well as due to pick-up in economic activities even after the festivals. Healthy pick-up in the economic activities continued in Dec’23 with 9.5 Cr E-way bills reported in Dec’23. Consumption demand for petrol and diesel in Jan’24 was 3% and 10%, respectively. India's diesel consumption saw an increase in Jan’24 backed by strong industrial activity. The Services PMI remained robust but dipped slightly in Feb’24 to 60.6 due to a slowdown in growth in new orders and output in services companies. Manufacturing PMI hit a five-month high at 56.9 in Feb’24, driven by a sharp uptick in orders, the strongest in four months, with growth reportedly boosted by marketing efforts and demand buoyancy, amid mild input cost inflation during the month. GST revenues stood at 1.68 Lc Cr in Feb’24, and remained above the 1 Lc Cr mark for twenty-four consecutive months – an impressive sign of the government's tax collection and overall fiscal position.

**Equities – Market Continues to be Driven by the ‘Narrative’ in Near Term:** Feb’24 turned out to be a favourable month for the Indian equity market as the macroeconomic narrative further strengthened in favour of the overall equity market. Thanks to this favourable narrative, Nifty touched an all-time high of 22,217 on 22<sup>nd</sup> Feb’24. We believe the market fundamentals will be driven by “narrative” in the near term moving forward, especially in the absence of any major trigger. We believe that it will continue to find direction based on 1) Macroeconomic developments, 2) US FED meeting, 3) Direction of bond yields, 4) Oil prices & dollar index, and 5) Pre-election cues. In light of the above developments in view, we believe style and sector rotation will play a critical role in the alpha generation moving ahead. Moreover, with a strong catch-up of Midcaps and Smallcaps in the last couple of months, we believe the margin of safety in terms of valuations for these segments at current levels has reduced as compared to that available in Largecaps. Keeping this in view, the broader market may see some time correction in certain pockets in the near term and flows will likely shift to Largecaps. However, the long-term story of the broader market continues to remain attractive. In our base case, **we maintain our Dec’24 Nifty target at 23000 as we value it at 20x on Dec’25 earnings.**

**Fixed Income:** In a positive move, the RBI maintained the status quo in its Feb’24 MPC meeting and kept the policy rate unchanged at 6.5%. It has also maintained its stance on

the withdrawal of accommodation while maintaining growth and inflation dynamics. The RBI governor also highlighted that the Indian economy has exhibited remarkable resilience over the past couple of months and, with the improved urban demand, the uptick is visible in most of the high-frequency indicators. The RBI has revised the GDP forecast for FY24 to 7.3%, up from the earlier guidance of 7%. The growth was propelled by the ongoing strengthening of manufacturing activity, positive trends in the construction sector, and a gradual recovery in the rural segment. These factors are anticipated to enhance the prospects of household consumption in the future. We expect the yield curve to flatten, with the shorter end of yields rising in H2FY24 relative to the higher end of yields. In addition, the upper end of yields will remain cautious due to policy normalization, rising inflationary pressures, and volatile oil prices. Keeping this in view, **we recommend a Quality approach to bonds with some non-AAA exposure based on risk appetite.**

**Gold continues to be a preferred asset class in 2024:** The Gold price continued its 2022 outperformance in 2023 as well. This was led by the cool-off in the US 10-year bond yields and rising geopolitical tensions. The US 10-year bond yields corrected by 120bps from the recent peak of 4.99% in Dec’23, triggering optimism in the gold prices. Consequently, gold prices crossed \$2000/oz once again during Dec’23. Gold delivered returns of 14.9% in 2023 (in INR terms) and 13.1% (in USD terms). Going forward, we believe Gold will continue to have an edge over other asset classes in 2024. Moreover, it will be seen as a tool to facilitate the flight to safety as the risk of a slowdown in the US market will continue to support gold prices. Fundamentally, the price of Gold is inversely related to bond yields, and any weakening in yields will continue to have a positive impact on Gold prices. Given current macroeconomic developments, Gold will remain a preferred asset class and will continue to attract investment as a proven hedge against other asset classes. **Hence, we continue our NEUTRAL stance on Gold and recommend a ‘Buy-on-Dips’ strategy.**

**Currency:** The Indian currency continued to remain range-bound and was largely stable during Jan/Feb’24. Over the past month, US 10-year bond yields have remained largely stable, consequently contributing to a stable performance of the dollar index during the same period. Indian currency performed well during the month vis-à-vis other emerging market currencies. This was primarily because of a higher foreign exchange reserve, improvement in the equity market and a stable outlook. India's foreign exchange reserve is now at an all-time high level. From now on, market commentary is likely to shift towards the softening of interest rates and the possibility of a slowdown in the global market. In addition, the direction of the bond yields, the dollar index, inflation, developed market growth, and commodity price movements remain critical to the currency market. **Key events deciding the currency market direction moving forward: 1) Interest-rate decision in the upcoming FOMC meeting, 2) Growth in the developed world, 3) Direction of the Oil prices; 4) Direction of the commodity process; 5) Inflation and growth dynamics, and 6) The direction of the foreign flows.**

INDEX

Target Asset Allocation ..... 4

Performance of Asset Classes ..... 5

Key Highlights of Union Budget FY24-25 ..... 6

High-Frequency Indicators..... 11

Cool-Off Continues in Commodity Prices..... 13

Equity Outlook: Market Continues to be Driven by the ‘Narrative’ in Near Term ..... 14

What Happened in the Last One Year! ..... 14

Fixed Income Outlook: Neutral ..... 19

Gold Outlook: Neutral..... 20

Currency Outlook..... 21

Asset Allocation: Key for Long-Term Wealth Creation..... 22

Asset Performance: During Different Market Events..... 23

Multi-Asset Portfolio: Rolling Returns ..... 24

Target Asset Allocation

Our Take:

Equity: **Overweight: Market Continues to be driven by the ‘Narrative’ in Near Term**

Debt: **Neutral**

Gold: **Neutral**

Target Portfolio Allocation (%)

Asset	Risk Averse	Conservative	Balanced	Growth	Aggressive
Equity	0%	20%	50%	70%	90%
Debt	70%	70%	35%	15%	5%
Gold	30%	10%	15%	15%	5%
Total	100%	100%	100%	100%	100%

### Performance of Asset Classes: Focus on asset allocation for 2024

While asset class leadership continues to change in different market cycles, Gold emerged as the best-performing asset class in 2022 due to geopolitical concerns and equity market volatility. Equities, on the other hand, were the best-performing asset class in 2021. The first five months of 2023 proved volatile for the equity market. The Indian market underperformed the S&P 500 but significantly outperformed the EM market. However, equities as an asset class proved to be the best-performing asset class in the second half of 2023, mainly due to positive capital flows in emerging markets and favourable macros. Moreover, the Indian market has significantly outperformed the EM market in 2023 and the broader market has proven to be the best-performing asset class.

We maintain our confidence in the long-term growth story of the Indian equity market, underpinned by a favourable emerging structure. The increasing Capex is empowering banks to improve credit growth, further supporting the positive outlook for the market. However, with current valuations offering a limited scope for further expansion, an increase in corporate earnings will be the primary driver of the market returns moving forward. Hence, we believe the style and sector rotation will play a critical role in alpha generation in 2024. Against this backdrop, we recommend staying invested in the market and maintaining good liquidity (10%) to gradually use dips in the market to build a position in quality companies (where earnings visibility is very high) with an investment horizon of 12-18 months.

**While we maintain our 'Overweight' stance on Equity, we believe it is time to review the entire portfolio and recalibrate it with the initial target allocation, which will help bring down the overall portfolio risk.**

Asset allocation and sector rotation will be keys to generating outperformance in 2024. Hence, we recommend investors to focus on asset allocation and proactively take advantage of volatility to build long-term positions in high-quality companies.

Rank	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
1	MCX Gold: 32%	Mid Cap: 39%	S&P 500: 30%	Mid Cap: 56%	Crisil comp Bond: 9%	Crisil comp Bond: 13%	SmallCap: 57%	MCX Gold: 8%	S&P 500: 29%	MCX Gold: 28%	SmallCap: 59%	MCX Gold: 14.3%	SmallCap: 55.6%	S&P 500: 6.3%
2	Crisil comp Bond: 7%	SmallCap: 37%	Nifty 50: 7%	SmallCap: 55%	SmallCap: 7%	EM Index: 10%	Mid Cap: 47%	Crisil comp Bond: 6%	MCX Gold: 25%	Mid Cap: 22%	Mid Cap: 46%	Nifty 50: 4.3%	Midcap: 46.6%	SmallCap: 5.5%
3	S&P 500: 0%	Nifty 50: 28%	Crisil comp Bond: 4%	Nifty 50: 31%	Mid Cap: 6%	MCX Gold: 10%	EM Index: 29%	Nifty 50: 3%	EM Index: 17%	SmallCap: 21%	S&P 500: 27%	Mid Cap: 3.5%	S&P 500: 24.6%	Midcap: 4.6%
4	EM Index: -21%	EM Index: 14%	Mid Cap: -5%	Crisil comp Bond: 14%	S&P 500: -1%	S&P 500: 10%	Nifty 50: 29%	S&P 500: -6%	Nifty 50: 12%	S&P 500: 16%	Nifty 50: 24%	BSE Bond index: 2.9%	Nifty 50: 20%	BSE Bond index: 2.1%
5	Nifty 50: -25%	S&P 500: 13%	EM Index: -6%	S&P 500: 11%	Nifty 50: -4%	Mid Cap: 7%	S&P 500: 19%	Mid Cap: -15%	Crisil comp Bond: 11%	Nifty 50: 15%	Crisil comp Bond: 2%	SmallCap: -13.8%	MCX Gold: 14.9%	Nifty 50: 1.1%
6	Mid Cap: -31%	MCX Gold: 12%	MCX Gold: -8%	EM Index: -1%	MCX Gold: -7%	Nifty 50: 3%	MCX Gold: 6%	EM Index: -16%	Mid Cap: -4%	EM Index: 13%	EM Index: -2%	S&P 500: -19.2%	BSE Bond index: 7.9%	EM Index: 0.3%
7	SmallCap: -34%	Crisil comp Bond: 9%	SmallCap: -8%	MCX Gold: -6%	EM Index: -18%	SmallCap: 2%	Crisil comp Bond: 5%	SmallCap: -29%	SmallCap: -10%	Crisil comp Bond: 12%	MCX Gold: -4%	EM Index: -19.6%	EM Index: 5.7%	MCX Gold: -1.5%

Source: Bloomberg, Axis Securities, Note: Midcap is NSE midcap 100, Smallcap is NSE smallcap100 index, EM is FTSE EM index

## Key Highlights of Union Budget FY24-25

### Key Announcements

- FY25 Capex outlay is up 11.1% to Rs 11.1 Cr and stands at 3.4% of GDP.
- Higher capital spending for Railways and Infrastructure. Rs 2.55 Lc Cr announcement for railways, up 5% from the FY24 BE
- PM AwaasYojna – close to achieving a target of 3 Cr houses; 2 Cr more houses are planned for the next 5 year.
- Vision for Viksit Bharat by 2047: Harmony with nature, Modern Infrastructure, Earning SabkaViswas.
- Improve logistics efficiency in Energy, mineral and cement corridor;
- MatsyaSampadaYojana: Aim to double seafood exports to 1 Lc Cr through various fisher schemes + 5 Integrated Aqua Park to be set up.

### Fiscal Outlook

- Nominal GDP growth for FY25 is pegged at Rs 327.71 Lc Cr, up 10.5% over FY24 revised number of Rs 296.57 Lc Cr.
- Total expenditure for FY24 is budgeted at Rs 47.65 Lc Cr.
- **Gross revenue collection is expected to grow at 13% in FY25. The expectations are likely to be met.**
- The Fiscal Deficit for FY24 is at 5.8% (10 bps below the budgeted estimates). Fiscal deficit for FY25 is budgeted at 5.1%. The government is on the right track of fiscal consolidation path
- The gross borrowing target for the next year is set at Rs 16.85 Lc Cr (along the expected lines).

### Fiscal Outlook

- Focus to make the Eastern region a powerful driver of India's economic growth story.
- A Corpus of 1 Lc Cr will be established with 50-year interest-free to nil-interest rates for Private sector research and innovation in Sunrise Domains.
- A coal gasification and liquefaction capacity of 100 metric tons will be set up by 2030.
- Healthcare coverage will be extended to all Aasha, Anganwaadi workers, and helpers.
- Lakhpati DIDI target enhanced from 2 Cr to 3 Cr; to support Micro Finance Companies
- 40,000 normal railway bogies to convert to Vande Bharat standard

## Fiscal Account FY24-25: Subsidy & Non-tax Receipt

**Subsidy budget reduced in FY25 on account of normalcy:** In line with our expectations, the overall subsidy budget has been reduced to 1.25% of GDP vs. 1.48% in the last year. This has been on account of the encouraging pace of the economic recovery. Allocation in the fertilizer subsidy is pegged at Rs 1.64 Lc Cr vs. 1.88 Lc Cr in FY24

**A Reasonable Disinvestment Target in FY25:** In line with our expectations, the target for FY24 disinvestment has been revised to 30,000 Cr and the same for FY25 has been set at 50,000 Cr. Both seem reasonable. Estimates for the RBI dividends are set at 1.5 Lc Cr in FY25.

### Subsidy Budget FY25

Subsidy (In Cr)	2022-23 Actuals	2023-24 Budget Estimates	2023-24 Revised Estimates	2024-25 Budget Estimates
<b>Food</b>	<b>2,72,802</b>	<b>1,97,350</b>	<b>2,12,332</b>	<b>2,05,250</b>
<b>Fertiliser</b>	<b>2,51,340</b>	<b>1,75,103</b>	<b>1,88,902</b>	<b>1,64,103</b>
<i>Urea</i>	1,65,217	1,31,100	1,28,594	1,19,000
<i>Nutrition based</i>	86,122	44,000	60,300	45,000
<b>Petroleum</b>	<b>6,817</b>	<b>2,257</b>	<b>12,240</b>	<b>11,925</b>
<i>LPG</i>	6,817	2,257	12,240	11,925
<i>Kerosene</i>				
Interest Subsidies	41,676	27,565	23,980	25,550
Other	5,281	812	3,090	2997.53
<b>Total</b>	<b>5,77,916</b>	<b>4,03,084</b>	<b>4,40,536</b>	<b>4,09,723</b>

### Non-Tax Receipt

Non-Tax and Capital Receipt (In Cr)	2022-23 Actuals	2023-24 Budget Estimates	2023-24 Revised Estimates	2024-25 Budget Estimates
Interest	27,852	24,820	31,778	33,107
Dividends	99,913	91,000	1,54,407	1,50,000
<i>From Public Enterprises</i>	<i>59,953</i>	<i>43,000</i>	<i>50,000</i>	<i>48,000</i>
<i>From RBI &amp; Financials Institutions</i>	39,961	48,000	1,04,407	1,02,000
Disinvestment	46,035	51,000	30,000	50,000

Source: Union Budget Document 2024-25, Axis Securities

## Major Announcements for Infrastructure

- Allocation to Railways has been increased to Rs 2.55 Lc Cr for FY25, reflecting a 5% increase over FY24 RE.
- Allocation to Road & Highways (NHAI) has been increased to Rs 1.68 Lc Cr in FY25
- Allocation to the Power sector has been increased to Rs 20,502 Lc Cr in FY25.
- Urban development continues to be the focus area. Rs 10,400 Cr have been allotted to Smart cities and Rs 23,104 Cr have been allotted to Metro Projects.
- Allocation to Swachh Bharat Mission has been increased by 28% to Rs 12,192 Cr.

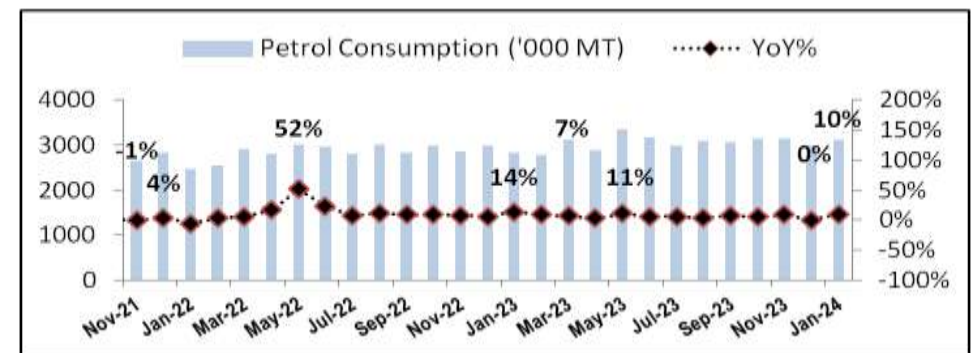
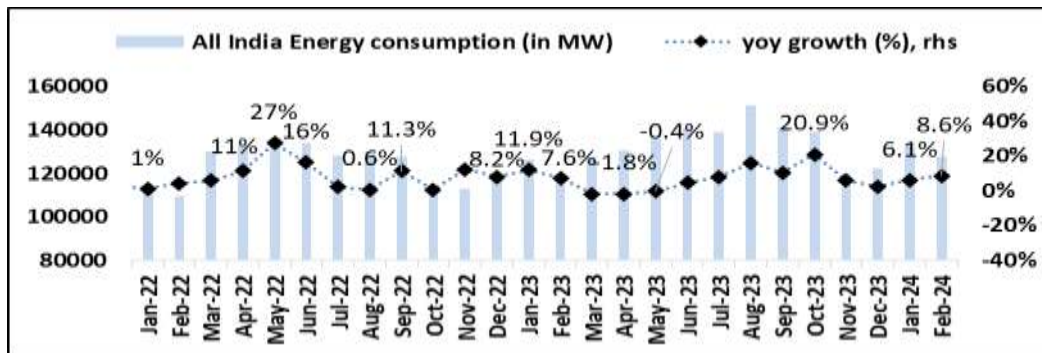
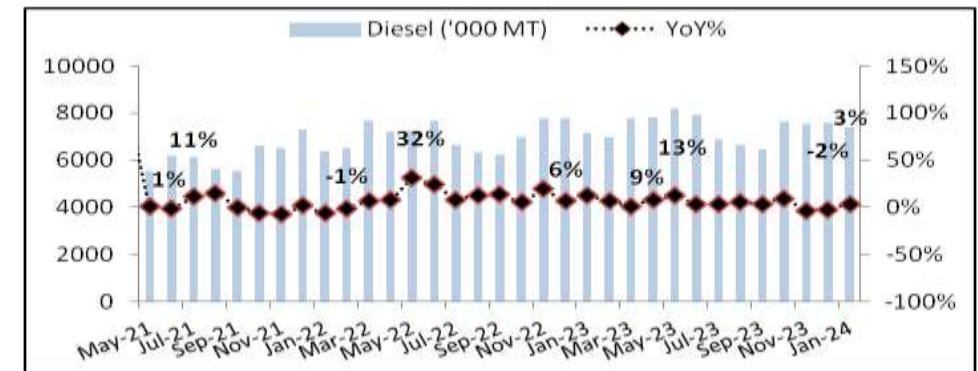
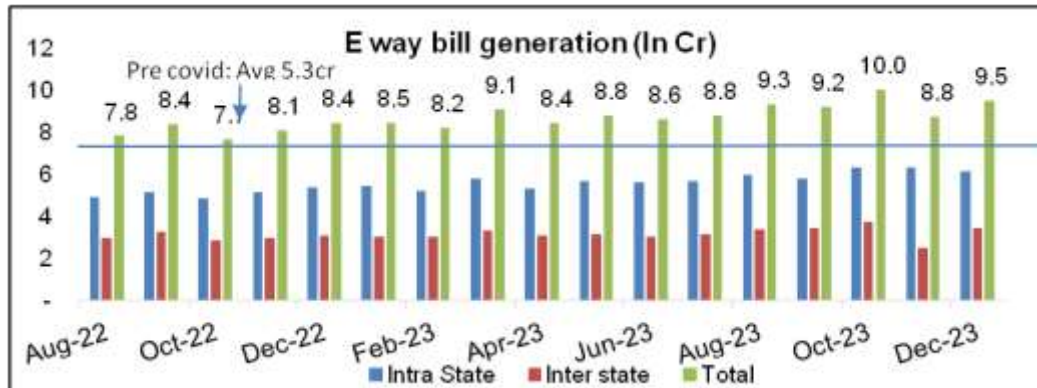
Infrastructure Budget (In Cr)	2022-23 Actuals	2023-24 Budget Estimates	2023-24 Revised Estimates	2024-25 Budget Estimates	% Increase over FY24 RE
Roads	2,17,089	2,70,435	2,76,351	2,78,000	1%
NHAI	1,41,661	1,62,207	1,67,400	1,68,464	1%
Railways	1,62,410	2,41,268	2,43,272	2,55,393	5%
Urban development	77,310	76,432	69,271	77,524	12%
Smart Cities+AMRUT	15,153	16,000	13,200	10,400	-21%
MRTS and Metro Projects	23,603	23,175	22,988	23,104	1%
Shipping	1,688	2,219	2,395	2,346	-2%
Sagar Mala Port	412.31	360	435.88	700	61%
Power	9,313	20,671	17,635	20,502	16%
Aviation	9,321	3,113	2,922	2,300	-21%
Jal Shakti	11,962	20,055	19,517	21,028	8%
Pradhan Mantri Awas Yojna (PMAY)	73,515	79,590	66,103	80,671	22%
Pradhan Mantri Gram Sadak Yojna	18,783	19,000	17,000	12,000	-29%
Swachh Bharat	6,851	12,192	9,550	12,192	28%

Source: Union Budget Document 2024-25, Axis Securities



## Economic Recovery to Display Robust Demand for Energy Consumption in the Upcoming Months

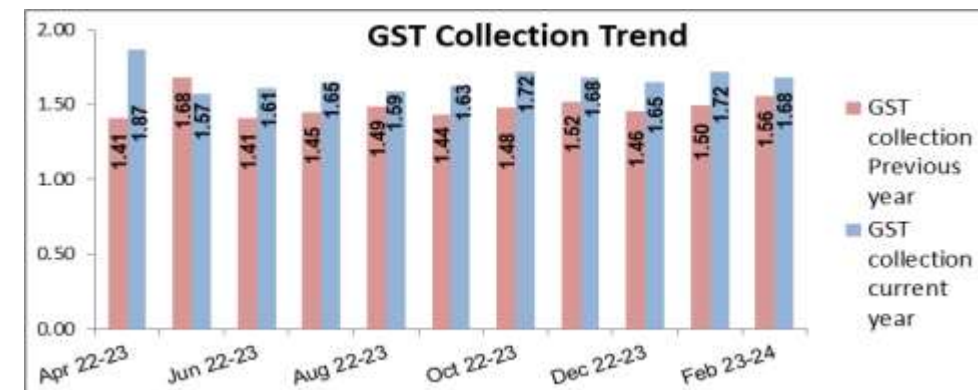
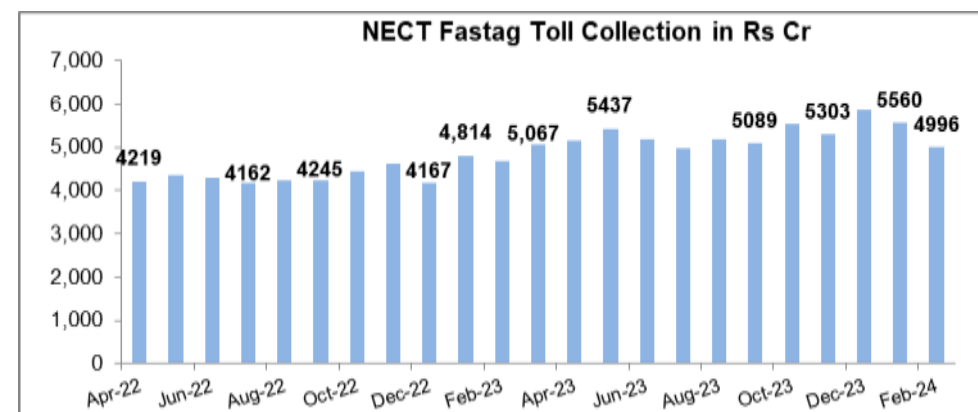
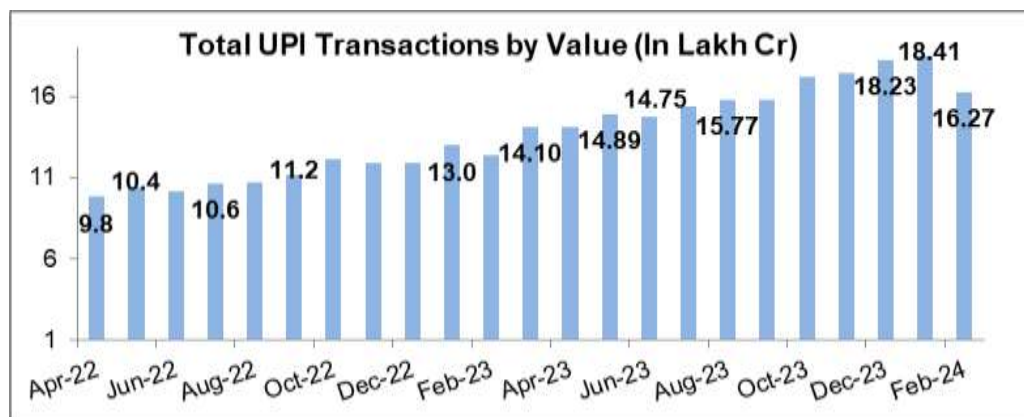
- The country witnessed a surge in electricity demand. It went up by 8.6% YoY in Feb'24, led by prolonged cold waves and the use of heating equipment and pick-up in economic activities even after the festivals. Healthy pick-up in the economic activities continued in Dec'23 with 9.5 Cr E-way bills reported in Dec'23.
- Consumption demand for petrol and diesel in Jan'24 was 3% and 10%, respectively. India's diesel consumption saw an increase in Jan'24 backed by strong industrial activity. The increase in petrol consumption was driven by increased mobility of people and goods in an expanding economy and with restrictions and fears associated with Covid-19 waned. It is now above pre-Covid levels.



Source: Bloomberg, GSTN, POSOCO, PPAC, Axis Securities

## Robust Momentum in UPI Transactions and GST Collections

UPI transactions have shown a steady upward trend since their inception, reaching a record high in Dec'23, indicating a strong pace toward a digitized India. The recent upward trend in UPI transactions points to the opening up of the Indian economy, particularly the Services sector. Moreover, toll revenues on national and state highways through FASTag have also increased significantly, reaching Rs 62,293 Cr in 2023. This is the highest annual figure and 24% higher than the levels in 2022, indicating increased mobility and further economic opening as the industry and related economic activities have been on a roll since the relaxation of the lockdown. Cargo traffic at India's 12 major ports during the first ten months of FY24, increased by 5.0% to 604.76 Mn tonnes from 576.11 Mn tonnes of cargo handled during the first ten months of FY23. The trend in the GST collection is steady and upward on a YoY basis. The month of Apr'23 recorded the highest-ever GST collection of 1.87 Lc Cr.



Source: NPCI, Ministry of Ports, Shipping & Waterways, Axis Securities

### High-Frequency Indicators: PMI Services and Manufacturing remain robust; Forex Reserve maintained above the \$600 Bn mark

The Services PMI remained robust but dipped slightly in Feb'24 to 60.6 due to a slowdown in growth in new orders and output in services companies. It stays in the expansionary zone, as new business expanded at a faster pace and expectations for future activity remain strong. Manufacturing PMI hit a five-month high at 56.9 in Feb'24, driven by a sharp uptick in orders, the strongest in four months, with growth reportedly boosted by marketing efforts and demand buoyancy, amid mild input cost inflation during the month. GST revenues stood at 1.68 Lc Cr in Feb'24, and remained above the 1 Lc Cr mark for twenty-four consecutive months – an impressive sign of the government's tax collection and overall fiscal position. Following a decline in Feb'23, Forex Reserves figures surged to a 22-month high in Dec'23, and this momentum persisted into Feb'24, surpassing the \$600 Bn mark once again this month. India's Forex reserves had reached an all-time high of \$645 Bn in Oct'21. Forex Reserves picked up in Feb'24 as Foreign currency assets and gold reserves appreciated along with positive cues from equity markets, strong domestic macroeconomic data, and easing crude oil prices in the international markets, which favoured the local currency. However, from time to time, the Central Bank uses the Forex Reserve to defend the Rupee amidst global pressures.

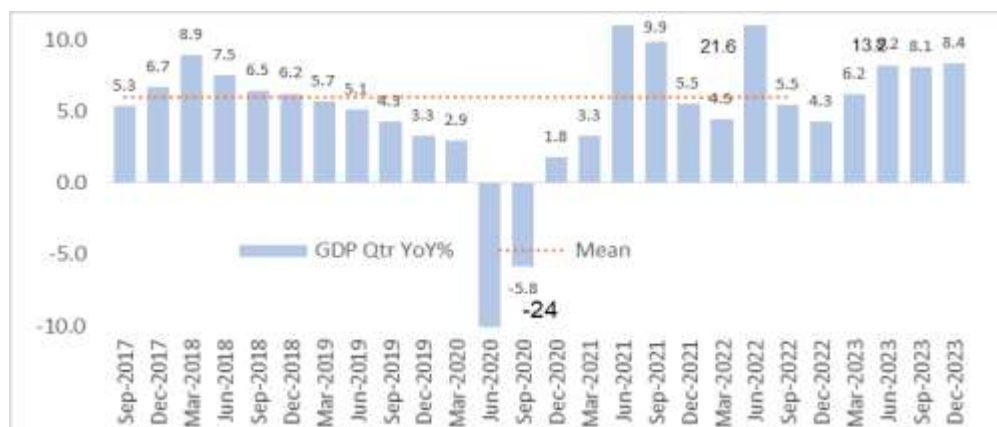
Macro	Month	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Forex reserves (\$ Bn)	Feb-24	578.4	588.8	589.1	595.1	603.9	594.9	586.9	586.1	597.9	623.2	616.7	619.1
FDI (\$ Mn)	Dec-23	1116	4017	2911	205	1639	-1707	2780	7269	3696	-2159		
Exports (YoY%)	Jan-24	-13.9%	-12.7%	-10.3%	-22.0%	-15.9%	-6.8%	-2.6%	6.2%	-2.8%	1.0%	0.0%	
Imports (\$ YoY%)	Jan-24	-7.9%	-14.1%	-6.6%	-17.5%	-17.0%	-5.2%	-15.0%	12.3%	-4.3%	-4.8%	0.0%	
IIP YoY%	Dec-23	2.0%	4.6%	5.7%	4.1%	6.2%	10.9%	6.4%	11.6%	2.4%	3.8%		
CPI YoY%	Jan-24	5.7%	4.7%	4.3%	4.9%	7.4%	6.8%	5.0%	4.9%	5.6%	5.7%	5.1%	
WPI YoY%	Jan-24	1.4%	-0.8%	-3.6%	-4.2%	-1.2%	-0.5%	-0.1%	-0.3%	0.4%	0.7%	0.3%	
PMI Manufacturing	Feb-24	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56	54.9	56.5	56.9
PMI Services	Feb-24	57.8	62	61.2	58.5	62.3	60.1	61	58.4	56.9	59	61.8	60.6
Industry													
Cement Production yoy%	Jan-24	-0.2%	12.4%	15.9%	10.0%	6.9%	19.7%	4.8%	17.0%	-4.0%	3.8%	5.6%	
Steel Production yoy%	Jan-24	12.1%	16.6%	12.0%	21.3%	14.9%	16.4%	14.8%	13.6%	9.4%	7.6%	7.0%	
Electricity Gen yoy%	Jan-24	-1.6%	-1.1%	0.8%	4.2%	8.0%	15.3%	9.9%	20.3%	5.7%	1.2%	5.2%	
Coal Generation yoy%	Jan-24	-5.7%	-5.7%	7.2%	9.8%	15.0%	17.9%	16.0%	18.4%	10.9%	10.7%	10.2%	
Eight Core Industries yoy%	Jan-24	-9.6%	-9.6%	5.2%	8.4%	8.6%	13.4%	9.4%	12.7%	7.9%	4.9%	3.6%	
GST Collection (RsCrores)	Feb-24	1,60,122	1,87,035	1,57,090	1,61,497	1,65,105	1,59,069	1,62,712	1,72,003	1,67,929	1,64,882	1,72,129	1,68,337
Tractor Sales YoY%	Jan-24	10.1%	-13.0%	-2.4%	-0.7%	0.0%	-4.1%	-15.6%	-5.3%	1.5%	-21.3%	-14.5%	
Domestic Air Pass YoY %	Jan-24	21.6%	22.2%	10.6%	50.1%	24.7%	22.6%	18.9%	10.5%	-1.5%	8.4%	4.4%	
Passenger Vehicles YoY %	Jan-24	4.5%	12.9%	14.9%	1.6%	2.9%	11.6%	3.1%	17.3%	4.3%	3.2%	13.9%	
2 Wheeler's YoY %	Jan-24	7.7%	15.1%	17.4%	1.7%	-7.2%	0.6%	0.8%	20.2%	31.3%	16.0%	26.2%	
Naukri Job Speak Index YoY%	Jan-24	5.2%	-5.2%	-0.5%	-2.9%	-18.8%	-5.7%	-8.6%	1.2%	-23.3%	-15.6%	-11.1%	

Source: Bloomberg, RBI, MOSPI, \* Provisional numbers, Axis Securities

## High-Frequency Indicators: Healthy Pick-Up in Credit Growth

- **GDP:** The country's GDP in Dec'23 was at 8.4%, which stood higher than the consensus expectation of 7%. GDP growth was led by robust expansion in investments and government revenue expenditure.
- **CPI:** India's retail inflation softened to 5.1% in Jan'24. However, it is under the threshold levels of the RBI. We believe the RBI will likely remain in the pause mode and continue to focus on curtailing inflation and bringing it down within the threshold band of 4%.
- **Non-food credit** growth remained robust in Jan'24, with healthy pick-up seen in both the services and agricultural sectors. Credit growth is expected to accelerate further in the coming months as the entire system has been flooded with liquidity and the Union Budget has expressed its support for more investments. On a further positive note, BFSI companies are posting a healthy balance sheet in Q3FY24, driven by a sequential improvement in their credit growth. Moreover, the trend of improving asset quality continued during the quarter, which will further boost confidence in the industry.

RBI Data	Month	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Deposit Growth YoY%	Feb-24	9.6%	10.2%	10.9%	15.6%	12.9%	13.2%	13.2%	13.4%	13.6%	13.2%	13.2%	13.1%
<b>Credit Growth (YoY%)</b>													
Non-Food Credit	Jan-24	15.4%	16.1%	15.6%	16.3%	19.8%	19.9%	20.0%	19.8%	20.8%	20.1%	20.4%	
Agri& Allied Activity	Jan-24	15.4%	16.7%	16.0%	19.7%	16.8%	16.6%	19.4%	17.5%	18.2%	19.5%	20.1%	
Industry	Jan-24	5.6%	7.0%	6.0%	8.1%	5.8%	6.6%	7.1%	5.9%	6.6%	8.6%	8.3%	
Services	Jan-24	19.7%	21.7%	21.4%	26.7%	23.1%	24.8%	28.3%	23.6%	25.4%	22.9%	23.9%	
Personal Loan (Retail)	Jan-24	21.0%	19.4%	19.2%	20.9%	31.7%	30.8%	33.2%	29.7%	30.1%	28.5%	28.8%	



Source: Bloomberg, RBI, MOSPI, Axis Securities



## Cool-Off Continues in Commodity Prices

Led by policy tightening and expectations of slowing global growth, commodity prices have continued to cool. Among base metals, the most notable corrections have been observed in zinc, iron-ore and nickel, which fell by 19%/19% and 31% respectively from their highs. Oil prices have dropped below \$100/bbl; however, recent conflicts between Israel and Palestine, the involvement of Iran, and disruptions at the Red Sea have led to a price increase. However, it remains 14% below its peak. Natural gas has also experienced a sharp correction of 88% from its peak. Gold and silver prices have decreased by 0.1% and 9% respectively, but are close to their 52-week highs in Feb'24. Agricultural commodities have seen significant declines in prices, with corn, oats, soybean oil, wheat and sugar witnessing decreases of 39%, 39%, 28%, and 25% respectively from their 52-week highs. However, cotton and cocoa prices have increased and are nearing their 52-week high levels.

Given the correction in major commodities, inflation is likely to moderate in the coming months. However, the ongoing geo-political tensions and a rise in food prices remain a major concern.

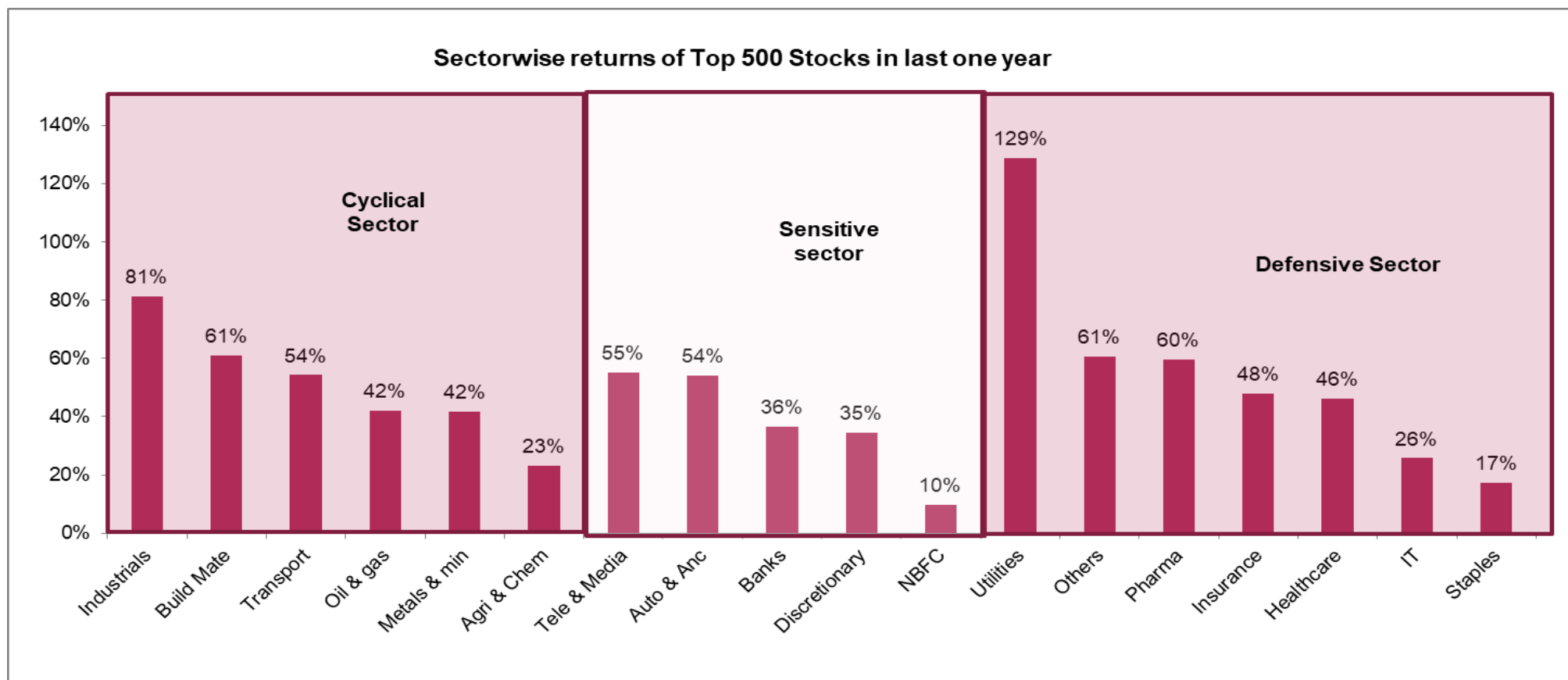
	Commodity	Unit of Measurement	CMP	52w High Price	% down from 52w High
Base Metals	Aluminium	\$/metric ton	2186	2427	-9.9%
	Copper	\$/metric ton	8401	9066	-7.3%
	Zinc	\$/metric ton	2415	3004	-19.6%
	Lead	\$/metric ton	2036	2306	-11.7%
	Nickel	\$/metric ton	17526	25593	-31.5%
	Iron Ore	\$/metric ton	117	145	-19.4%
Energy	Natural Gas	\$/MMBtu	2	13	-88.6%
	Crude oil brent	\$/bbl.	83	97	-14.5%
	Heating OIL	\$/gallon	260	348	-25.2%
Precious Metals	Gold	\$/OZ	2125	2128	-0.1%
	Silver	\$/OZ	24	26	-9.0%
Agricultural	cotton	INR/bale (170 kg)	62000	63400	-2.2%
	corn	\$/bu.	413	678	-39.0%
	Soyabean Meal	\$/ton	331	502	-3.2%
	Soyabean oil	\$/lb.	45	73	-38.7%
	Soyabeans	\$/bu.	1141	1562	-27.0%
	Wheat	\$/bu.	546	760	-28.2%
	Sugar	\$/lb.	21	28	-25.4%
	Cocoa	\$/metric ton	6970	7057	-1.2%
	coffee	\$/lb.	195	210	-6.9%
	Rice	\$/cwt	18	20	-9.9%
	Oats	\$/bu.	369	491	-24.9%

Source: Bloomberg, NSE, Axis Securities, Data as of 7<sup>th</sup> Feb'24

## Equity Outlook: Market Continues to be Driven by the 'Narrative' in Near Term

### What Happened in the Last One Year!

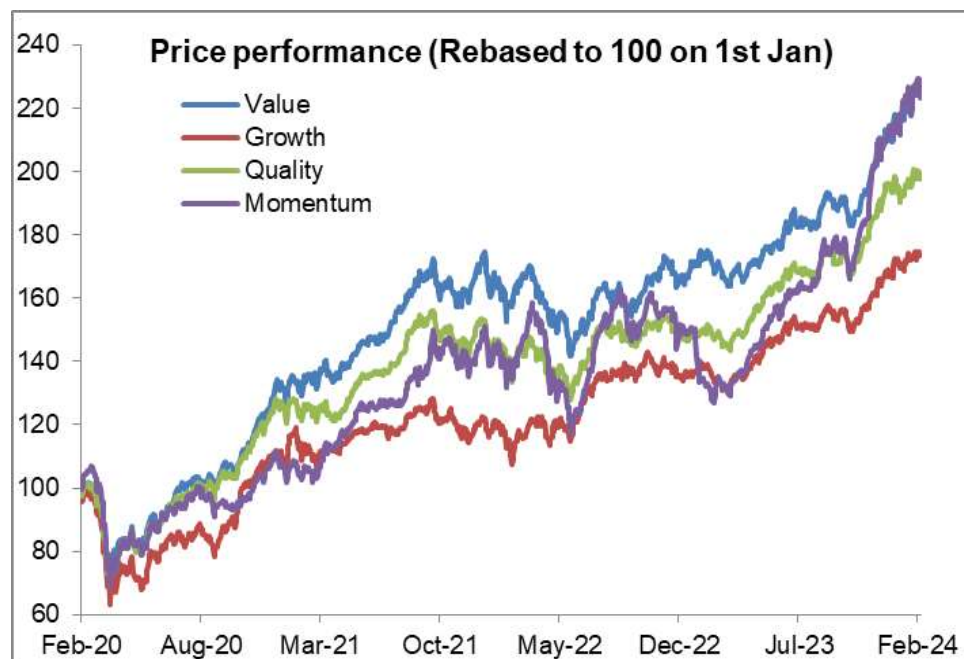
- Domestic cyclicals have outperformed the broader market
- Telecom and Auto have outperformed the other rate-sensitive play
- Utility (Due to Adani) and Pharma are the clear winners in the Defensive sector



Source: Bloomberg, Axis Securities

## Momentum continues to be a dominating theme over the last six months

- In the last one year, Quality and Momentum themes have delivered the highest returns. However, Momentum was the dominating theme in the last 1-month, 3-month, and 6-month periods.
- Over the 2-year duration, Growth and Momentum themes have been the most dominating themes in the market.
- The theme 'Growth at a Reasonable Price' looks attractive on account of the robust growth expectation, the cool-off in commodity prices, lowering inflation, rural recovery, and the expectation of margin recovery in the upcoming quarters.
- The selected Value stocks from the PSU, Metals, Commodities, Utility, and Cement sectors are well-placed to deliver superior performance. Value stocks in the BFSI space have outperformed other themes for the last couple of months and their outperformance is likely to continue moving forward. Furthermore, a structural growth play offering long-term earnings visibility will continue to do well.



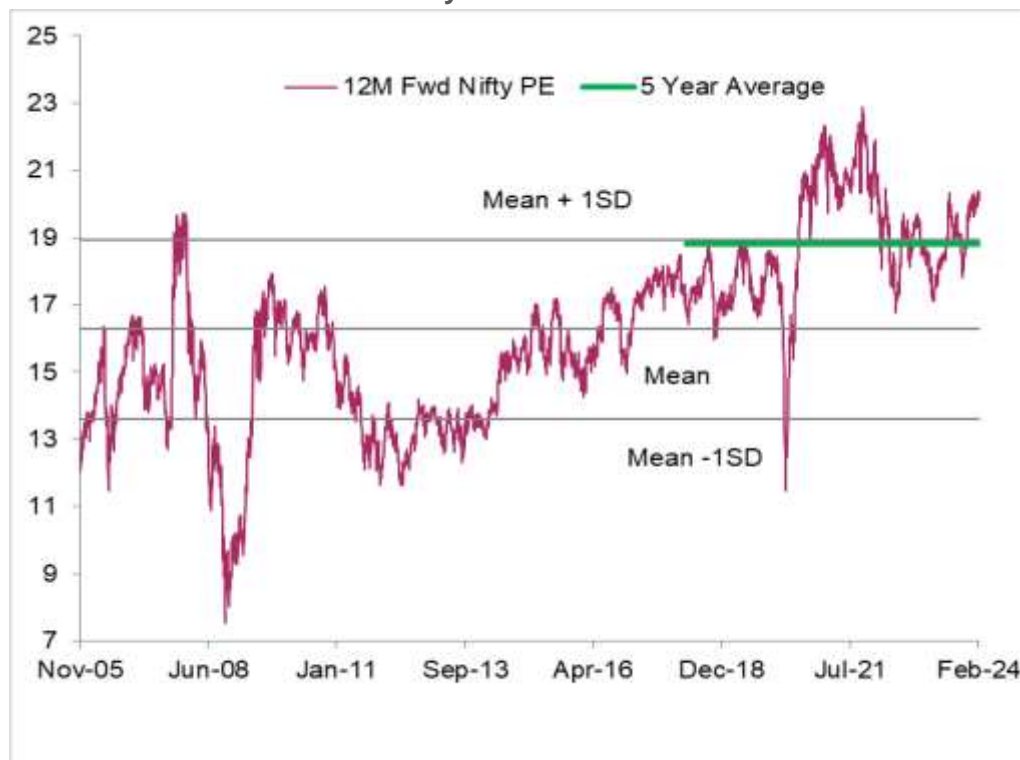
Source: Bloomberg, Axis Securities

Perf	Value	Growth	Quality	Momentum
2020	24.9%	10.2%	22.6%	6.6%
2021	34.1%	8.8%	22.2%	32.6%
2022	-0.9%	12.4%	-0.9%	7.1%
1m	2.6%	2.4%	3.1%	3.1%
3m	14.4%	10.9%	10.5%	20.4%
6m	22.7%	15.7%	18.4%	35.8%
1YR	33.7%	30.2%	34.5%	75.7%
2YR	41.3%	51.0%	39.9%	59.8%

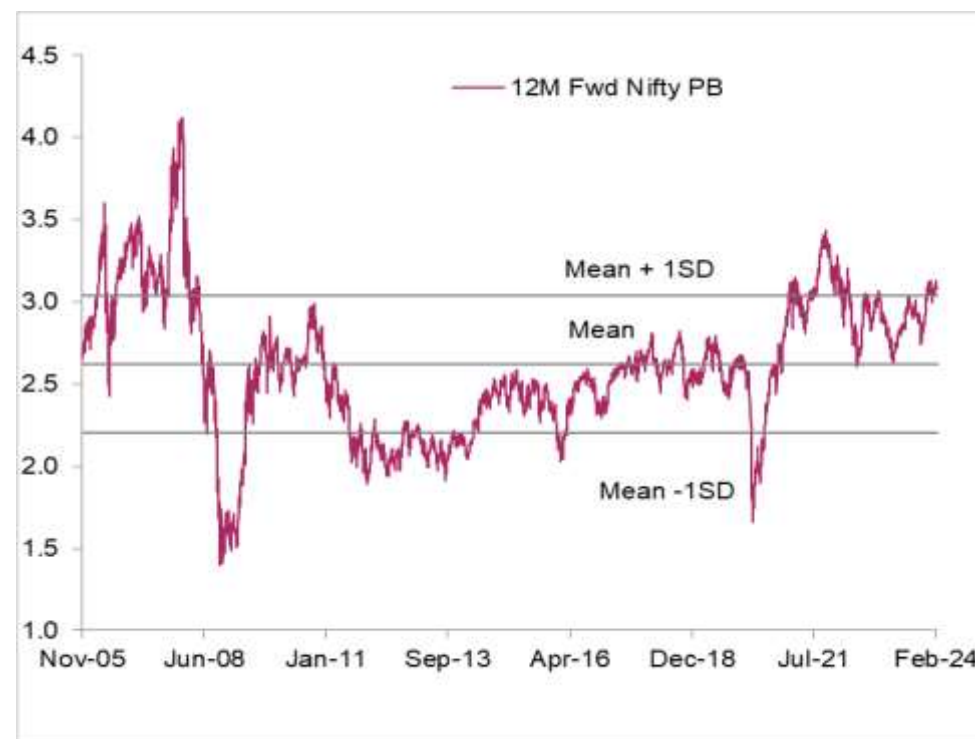
## Market Valuations: 12M Fwd PE Now Trading at 20.1x

- NIFTY is currently trading at 20.1x on a 12M Fwd PE, which stands at 1.4std to its long-term average (16.2x). However, it is trading slightly above its long-term average on a 12M Fwd PB.
- Current valuations are slightly above its 5-year average (18.8x), providing a good entry point for long-term investors.
- **Style rotation and sector selection are keys to generating alpha** as earning expectations from the broader market remain intact.

Nifty 12M Fwd PE



Nifty 12M Fwd PB

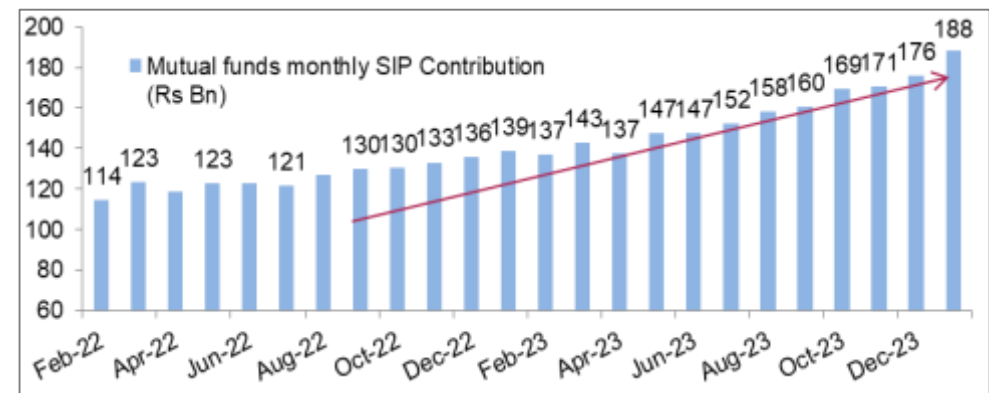
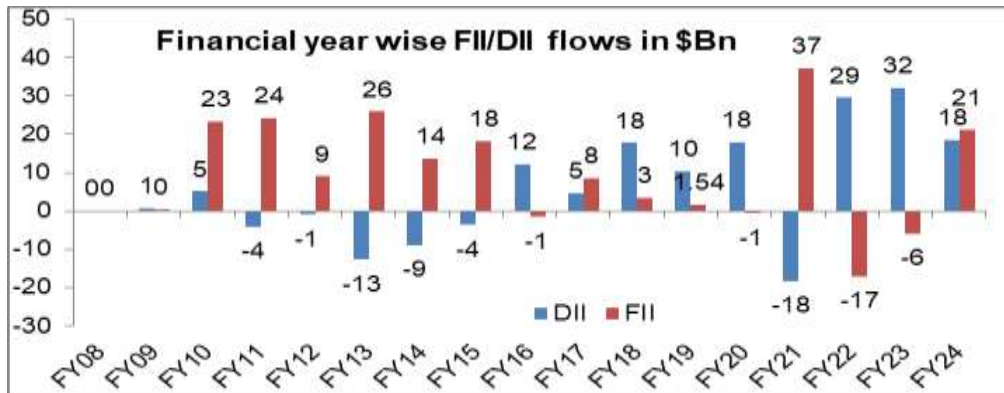
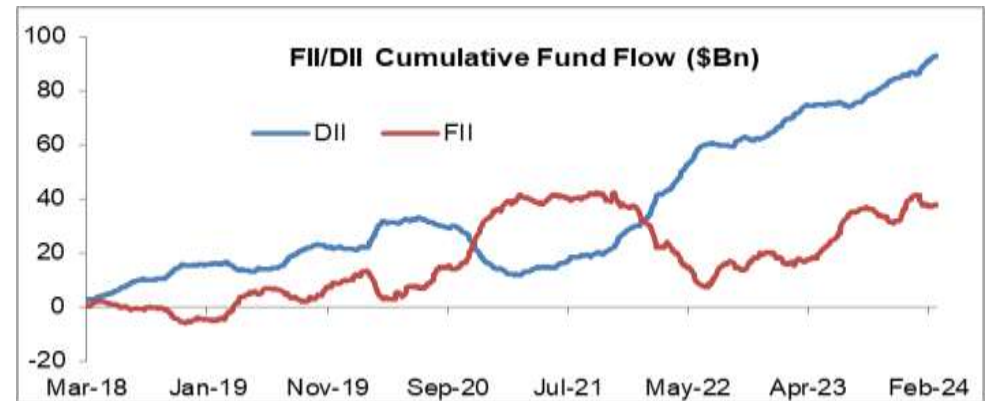
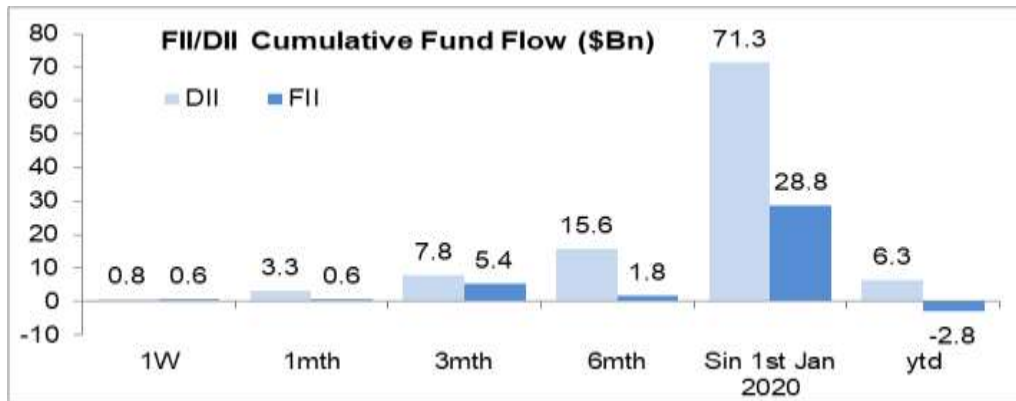


Source: Bloomberg, Axis Securities



## FII's Turned Net Seller on a YTD basis

- Investors, both domestic and foreign, have actively demonstrated confidence in India's long-term growth narrative. In FY24 so far, DIIs and FIIs have invested \$18 Bn and \$21 Bn respectively in the Indian equity market. After being net sellers in FY22 and FY23, FIIs regained confidence in FY24 and the sentiment was further reinforced by the BJP's big-bang performance in assembly elections across three out of four key states.
- However, in the last two months, FIIs pulled out \$2.8 Bn from the Indian market while DIIs invested \$6.3 Bn over the same period. SIP flow for Jan'24 has crossed Rs 18,000 Cr for the first time.



Source: Bloomberg, Axis Securities

## Equity: Market Continues to be Driven by the 'Narrative' in Near Term

### Our Take

- A Vote-of-Account-Budget sets the Narrative of “Viksit Bharat”:
- Macro factors continue to take centre stage
- Style rotation is the key; 'Growth at a Reasonable Price' might be the winner in the near term
- We roll over the Nifty target to Dec'24 at 23000

### Sector View

Sectors	Current View
Automobile	Overweight
BFSI	Overweight
Capital Goods	Equal Weight
Cement	Equal Weight
Cons Staples	Equal Weight
Cons Disc	Equal Weight
IT	Equal Weight
Metals & Mining	Equal Weight
Oil & Gas	Equal Weight
Pharma	Equal Weight
Real Estate	Equal Weight
Sp Chemicals	Equal Weight
Telecom	Overweight

**Our Top Picks:** ICICI Bank, Coal India, Nestle India, State Bank of India, Lupin Ltd, Federal Bank, Varun Beverages, TVS Motors, Bharti Airtel, PNC infra, CIE Automotive India, Bank of Baroda, Westlife Foodworld, Credit Access Grameen, JTL Industries

**For detailed Note:** [Click here](#)

## Fixed Income Outlook: Neutral

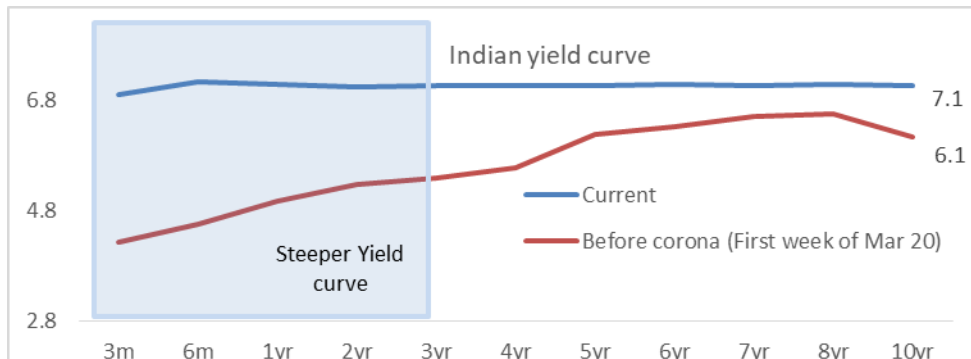
Thanks to monetary policy support, the slope of the yield curve has flattened since Oct'21, whereas it had been steep in the months before. On a positive note, in the MPC meeting of Feb'24, the RBI maintained the status quo and kept the policy rate unchanged for the sixth time at 6.5%. The RBI has maintained its stance on the withdrawal of accommodation by maintaining the growth and inflation dynamics.

The RBI Governor also highlighted that the Indian economy has shown remarkable resilience in recent months and the upturn is visible in most high-frequency indicators along with improved urban demand. Rural demand is also improving and could see a good revival in the coming. The RBI has revised the country's FY24 GDP forecast to 7.3% from the earlier guidance of 7%. This is supported by robust growth seen in the last two quarters which has been led by continued strengthening of manufacturing activity, buoyancy in construction, and brightening prospects of household consumption with gradual recovery in the rural sector. RBI projected the FY25 GDP growth rate at 7%.

The RBI remained consistent in its monetary policy statement and maintained its focus on removing the 'accommodation' stance in a calibrated manner. While inflation estimates have been retained at 5.4% for FY24, and estimated the FY25 inflation at 4.5%. One out of six members was in favour of changing the stance, so changing the stance to "Neutral" could be on the table in the next one or two quarters before considering the rate cuts in the latter part of FY25.

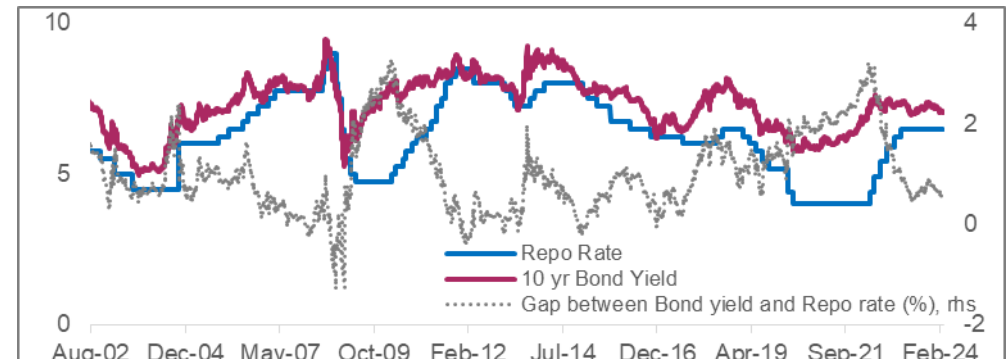
We expect the yield curve to flatten, with the shorter end of yields rising in H2FY24 relative to the higher end of yields. In addition, the upper end of yields will remain cautious due to policy normalization, and volatility in global market. In addition, the market will continue to monitor the volatility in Brent Crude Oil and Commodity Prices, the direction of the dollar, and global policy changes in the near term.

India Yield Curve



Source: Bloomberg, Axis Securities, Data up to 6<sup>th</sup> Mar'24

Bond yields are trading at 55bps above the repo rate



## Gold Outlook: Neutral

### Gold continues to be a preferred asset class in 2024

The Gold price continued its 2022 outperformance in 2023 as well, led by a cool-off in US 10-year bond yields, and rising geo-political tensions. The US 10-year bond yields corrected by 120bps from their peak of 4.99% during Dec'23, triggering optimism in gold prices. Consequently, gold prices crossed \$2000/oz once again in Dec'23. In Dec'23 gold prices were up by 1% in both USD and INR terms. It has given returns of 14.9% in INR terms and 13.1% in USD terms in 2023. In Jan'24, the gold prices were largely stable in INR terms while declining by 1% in USD terms. In Feb'24, gold prices declined by 1% in INR terms but stayed largely flat in the USD terms.

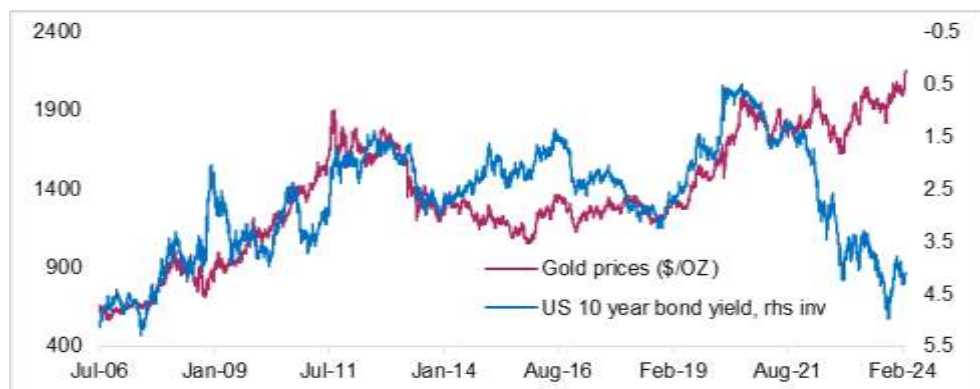
Going forward, we believe Gold will continue to have an edge over other asset classes in 2024. It will be seen as a tool to facilitate the flight to safety as the risk of a slowdown in the US market will continue to support the gold prices. **Fundamentally, the price of Gold is inversely related to bond yields, and any weakening in yields will continue to have a positive impact on the price of Gold.**

Given current macroeconomic developments, Gold will remain a preferred asset class until uncertainties surrounding the Russia-Ukraine and Middle East crisis subside and will continue to attract investment as a proven hedge against other asset classes. Gold prices will continue to find support from prevailing geopolitical risks as well as concerns over growth and inflation pressures in the global environment. **We maintain our neutral stance on Gold and recommend a 'Buy on Dips' strategy.**

### Why continue to remain invested in Gold

- **Low yield:** Low yields are the driving force for the Gold rally. With central banks at the peak of the rate hike cycle, Gold will continue to attract investments in the near future.
- **Slowdown risk** mounts over the US market and Gold will continue to look **attractive as a hedging instrument** to balance the risk.
- **Gold is the best anti-inflation asset.**
- **Gold provides 'flight for safety' given the recent geopolitical conflict.**

Gold vs. US 10-year bond yield



Source: Bloomberg, Axis Securities

Gold Prices Performance

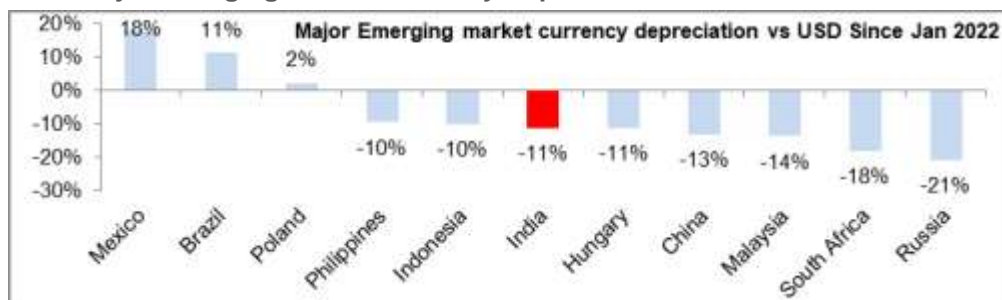
% Returns of Gold vs. Dollar

	MCX Gold prices (INR/10gm)	Gold prices (\$/OZ), rhs	USDINR
Aug-23	0%	-1%	1%
Sep-23	-4%	-5%	0%
Oct-23	7%	7%	0%
Nov-23	4%	4%	0%
Dec-23	1%	1%	0%
Jan-24	0%	-1%	0%
Feb-24	-1%	0%	0%
2023	14.9%	13.1%	0.6%
2022	14.4%	-0.3%	11.3%
2021	-4%	-4%	2%

## Currency Outlook

- The Indian currency continued to remain range-bound and was largely stable during Jan/Feb'24. US 10-year bond yields were largely stable in the last 1 month, and based on that dollar index was also stable in the last one month. Indian currency performed well during the month vis-à-vis other emerging market currencies. This was primarily because of a higher foreign exchange reserve, improvement in the equity market and a stable outlook. India's foreign exchange reserve is now at an all-time high level.
- From now on, market commentary is likely to shift towards the softening of interest rates and the possibility of a slowdown in the global market. In addition, the direction of the bond yields, the dollar index, inflation, developed market growth, and commodity price movements remain critical to the currency market. In Feb'24 MPC, the RBI maintained the status quo, leaving the repo rate unchanged at 6.5%. It also maintained its stance on withdrawing accommodation. The near-term outlook is expected to improve further with moderation in food prices and a reduction in LPG prices. In this regard, the RBI kept the FY24 inflation forecast unchanged at 5.4% and projected the FY25 inflation at 4.5%. As we approach the peak of the interest rate cycle, the currency market is expected to stabilize in the coming months, although this will still depend on the evolving data.
- Key events deciding the currency market direction moving forward are: 1) Interest-rate decision in the upcoming FOMC meeting, 2) Growth in the developed world, 3) Direction of the Oil prices; 4) Direction of the commodity process; 5) Inflation and growth dynamics, and 6) The direction of the foreign flows.**

Major Emerging Market Currency Depreciation vs. USD since Jan'22



Major Developed Market Currency Appreciation vs. USD since Jan'22



Source: Bloomberg, Axis Securities

## Asset Allocation: Key for Long-Term Wealth Creation

### Top performer

- **Equity:** 9 years
- **Gold:** 6 years
- **Debt:** 3 years

➤ *Asset diversification is the key to maximize returns*

➤ *Returns of Asset classes vary in different cycles. Asset allocation is the key to maximize returns while reducing risk.*

Year	Calendar Year Returns (%)					Portfolio return rank among asset classes	Portfolio return > Equity Return
	Equity	Gold	Debt	FD	Portfolio		
2004	6.9%	0.8%	-0.4%	5.5%	3%	3	
2005	36.3%	21.1%	4.8%	5.5%	20%	3	
2006	39.8%	21.3%	4.0%	7.5%	21%	3	
2007	54.8%	14.4%	6.9%	8.3%	27%	2	
2008	-51.8%	28.6%	9.1%	9.5%	-12%	4	YES
2009	75.8%	22.4%	3.5%	6.0%	35%	2	
2010	17.9%	24.2%	5.0%	7.8%	13%	3	
2011	-24.6%	31.8%	6.9%	9.3%	-2%	4	YES
2012	27.7%	12.9%	9.4%	9.0%	17%	2	
2013	6.8%	-7.9%	3.8%	9.0%	3%	4	
2014	31.4%	-6.0%	14.3%	8.5%	18%	2	
2015	-4.1%	-6.6%	8.6%	7.8%	1%	3	YES
2016	3.0%	10.1%	12.9%	6.9%	8%	3	YES
2017	28.6%	6.2%	4.7%	6.8%	15%	2	
2018	3.2%	7.7%	5.9%	6.7%	5%	4	YES
2019	12.0%	24.6%	10.7%	6.7%	13%	2	YES
2020	14.9%	28.2%	12.3%	5.1%	15%	2	YES
2021	24.1%	-4.1%	3.4%	5.1%	11%	2	

➤ *Portfolio returns are greater than Equity returns for 7/18 years.*

➤ *Portfolio returns are on the second rank for 8/18 years.*

Note: Equity represents the Nifty index, Gold is MCX Gold spot prices, Debt is the Crisil Composite Debt Index, FD is SBI Fixed deposit rates (1 Yr to 2 Yr). Portfolio is made up of Equity (40%), Debt (40%), Gold (15%), and FD (5%)

## Asset Performance: During Different Market Events

Returns of different asset classes vary during different market events and one can manage downside risk through the right asset allocation. **Notably, Multi-asset portfolio returns have been better than equity returns for all correction events in the equity market.**

Year	Calendar Year Returns (%)					Equity Market phase Correction/Rally/Neutral	Portfolio return > Equity Return
	Equity	Gold	Debt	FD	Portfolio		
Event1	-59.1%	38.2%	7.8%	6.0%	-14%	Correction	YES
Event2	144.9%	34.2%	8.6%	7.8%	67%	Rally	
Event3	-19.3%	36.7%	8.6%	9.0%	2%	Correction	YES
Event4	7.6%	17.6%	8.3%	9.0%	9%	Neutral	YES
Event5	55.2%	-20.6%	11.0%	8.5%	24%	Rally	
Event6	29.9%	14.9%	8.2%	6.8%	18%	Rally	
Event7	-8.3%	1.3%	1.4%	6.7%	-2%	Correction	YES
Event8	-38.0%	4.8%	0.5%	6.7%	-14%	Correction	YES
Event9	45.5%	30.8%	8.6%	5.1%	27%	Rally	

	Period	Event	Equity Reaction
Event1	Jan-08 to Mar-09	GFC correction	Correction
Event2	Mar-09 to Nov-10	Post GFC rally	Rally
Event3	Nov-10 to Jan-12	Eurozone crisis	Correction
Event4	Jan-12 to Aug-13	UPA 2: Policy paralysis	Neutral
Event5	Aug -13 to Mar-15	BJP emerged as the biggest party, Oil price correction	Rally
Event6	Mar -15 to Jan -18	Global factor, Demon, Financialization	Rally
Event7	Jan -18 to Mar -18	Start of the US-china trade war, the LTCG tax	Correction
Event8	Jan -20 to Mar -20	Market correction due to pandemic	Correction
Event9	Mar -20 to Jul - 20	Post Lockdown rally	Rally

Note: Equity represents the Nifty index, Gold is MCX Gold spot prices, Debt is the Crisil Composite Debt Index, and FD is SBI Fixed deposit rates (1yr to 2yr). Portfolio is made up of Equity (40%), Debt (40%), Gold (15%), FD (5%)



## Multi-Asset Portfolio: Rolling Returns

A multi-asset portfolio reduces the negative observations in three years. Volatility and drawdowns also reduce post-diversification of equity investment into Debt and Gold.

1Yr Rolling Returns	Returns (%)			
	Equity	Gold	Debt	Portfolio
Average	16%	14%	7%	13%
Minimum	-57%	-18%	-1%	-37%
Maximum	99%	77%	16%	60%
Stdev	25%	17%	4%	14%
Max Drawdown	-60%	-18%	-9%	-38%
Negative observation	20%	23%	1%	11%
Return >10%	59%	52%	26%	55%

3YrRolling Returns	Returns (%)			
	Equity	Gold	Debt	Portfolio
Average	10%	11%	8%	9%
Minimum	-6%	-8%	5%	1%
Maximum	28%	36%	13%	22%
Stdev	6%	10%	2%	3%
Max Drawdown	-60%	-18%	-9%	-38%
Negative observation	4%	17%	0%	0%
Return >10%	46%	51%	12%	38%

5Yr Rolling Returns	Returns (%)			
	Equity	Gold	Debt	Portfolio
Average	10%	11%	8%	10%
Minimum	-2%	-3%	5%	3%
Maximum	21%	28%	10%	17%
Stdev	4%	9%	1%	2%
Max Drawdown	-60%	-18%	-9%	-38%
Negative observation	2%	9%	0%	0%
Return >10%	54%	49%	1%	32%

7YrRolling Returns	Returns (%)			
	Equity	Gold	Debt	Portfolio
Average	11%	12%	8%	10%
Minimum	4%	0%	5%	5%
Maximum	22%	26%	10%	17%
Stdev	3%	7%	1%	2%
Max Drawdown	-60%	-18%	-9%	-38%
Negative observation	0%	0%	0%	0%
Return >10%	54%	50%	0%	36%

Note: Equity represents the Nifty index, Gold is MCX Gold spot prices, Debt is Crisil Composite Debt Index, FD is SBI Fixed deposit rates (1yr -2yr). The portfolio is made up of Equity (50%), Debt (35%), Gold (15%)



## Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

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