



STAY FOCUSED ON ASSET ALLOCATION

Stay Focused on Asset Allocation

High-Frequency Indicators: UPI transactions have shown a steady upward trend since their inception, reaching a record high in Sep'23. Furthermore, the collections in Sep'23 remained robust indicating a strong pace toward a digitized India. The country witnessed a surge in electricity demand. It went up by 21% YOY, led by the pick-up in economic and irrigation activities. Healthy pick-up in the economic activities continued in Sep'23 with 9.2 Cr E-way bills reported in Sep'23. Consumption demand for petrol and diesel in Jul'23 was 5% and 9%, respectively, which was driven by increased mobility of people and goods in an expanding economy. The manufacturing PMI eased as new orders rose at a softer pace and reached a seven-month low of 55.5 in Oct'23 after making a record-high in May'23. After a continued expansion till Sep'23, the services PMI eased to 58.4 in Oct'23, amid subdued demand and price pressures. However, GST revenues stood at 1.72 Lc Cr in Oct'23, and remained above the 1 Lc Cr mark for twenty-one consecutive months – an impressive sign of the government's tax collection and overall fiscal position.

Equities – 'Growth at a Reasonable Price' – an Overarching Theme: Oct'23 turned out to be a volatile month for the equity market as it took a pause and the Nifty 50 corrected by 6% from the top. A few critical factors that led to this decline were a) The rise in the US 10-year bond yields, b) The ongoing geopolitical conflict in the Middle East, c) Rising and volatile crude prices, and d) Moderation in consumption growth. However, Small and Midcaps have been the winners in the last one year with growth of 29%/25% YoY respectively. From here onwards, the market is likely to see a style and sector rotation. With the strong catch-up by Midcaps and Smallcaps in the last couple of months, we believe that the margin of safety at current levels in certain pockets has reduced as compared to Largecaps. Keeping this in view, the broader market may see some time correction in the near term and flows will likely shift to Largecaps. At current valuations, Largecaps appear to provide more margin of safety than Midcaps and Smallcaps amidst the prevailing scenario of higher bond yields, rising crude prices, and the stronger dollar index. Nonetheless, the long-term story of the broader Indian market continues to remain attractive and in this context, the theme 'Growth at a Reasonable Price' looks attractive at the current juncture. **We maintain our Dec'23 Nifty target at 20,200 and value it at 20x Dec'24 earnings.** Against this backdrop, we recommend investors maintain good liquidity (10%) to use dips in the market in a phased manner to build a position in quality companies (where the earnings visibility is very high) with an investment horizon of 12-18 months.

Fixed Income: In a positive move, the RBI maintained the status quo in its Oct'23 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 the uptick is visible in most of the high-frequency indicators along with the improved urban demand. The RBI has maintained the FY24 GDP forecast at 6.5%. This will be driven by the improvement in Kharif sowing, prospects for a pick-up in private consumption in the upcoming festive

season, an improved outlook for rural demand, and steady growth in the contact-intensive services sector. These factors will have a positive impact on the country's future economic growth. The RBI maintained the FY24 inflation forecast unchanged at 5.4%. The near-term inflation outlook is expected to improve further with moderation in food prices and a reduction in LPG prices. We expect the yield curve to flatten, with the shorter end of yields rising in H2FY23 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 rising oil prices. **We recommend a Quality approach to bonds with some non-AAA exposure based on risk appetite.**

Gold: Gold outperformed all other asset classes in 2022 and continued to do so in the first five months of 2023. However, gold prices have seen some moderation since then or have corrected with the reversal in fundamentals. The weakness continued in Jun/July/Aug/Sep'23 when the gold prices corrected in both USD and INR terms on account of stronger US 10-year bond yields. However, in Oct'23, Gold prices went up by 7% in both USD and INR terms, led by the geopolitical concerns in the Middle East. With these geopolitical concerns, the Gold price has crossed the \$2000 mark once again on 27th Oct'23. Going forward, we believe Gold will continue to have an edge over other asset classes. It will be seen as a tool to facilitate the flight to safety as the risk of a slowdown in the US market increases due to expectations that interest rates will remain higher for a longer period. Fundamentally, the price of Gold is inversely related to bond yields and any weakening in yields will continue to have a positive impact on its price. Given current macroeconomic developments, Gold will remain a preferred asset class and continue to attract investment as a proven hedge against other asset classes until uncertainties surrounding the Russia-Ukraine and Middle-East conflict subside. **Hence, we continue our NEUTRAL stance on Gold and recommend a 'Buy-on-Dips' strategy.**

Currency: The Indian currency continued to remain under pressure in the last two months led by a stronger dollar which is driven by various macro-economic developments and stronger US economic data. The USD got stronger after the start of the Middle-East conflict and the expectation of another rate hike by the US FED after a print of stronger payroll data. However, in the November FOMC meeting, the US FED kept the interest rates unchanged, leading to some cool-off in the US bond yields. The dollar index remained at an average of 106 in the last one month due to the stronger dollar. This, in turn, is keeping the domestic currency and FII flows under pressure. Indian currency performed well in the last one month as compared to other emerging market currencies, thanks to the country's robust economic outlook and foreign exchange reserves. **Key events that would decide the direction of the currency market 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.**

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Target Asset Allocation

Our Take:

Equity: **Overweight**: 'Growth at a Reasonable Price' – an Overarching Theme

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: Time to Reset the Portfolio to Initial Target Allocation

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 Jun/Jul/Aug/Sep'23, mainly due to positive capital flows in the emerging markets. On a YTD basis, the Indian market has significantly outperformed the EM market, and the broader market has proven to be the best-performing asset class.

Interesting to note that, most of the FY24 returns are front-loaded this year. Hence, we believe that the style and sector rotation will play a critical role in alpha generation for the remaining part of FY24. 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 the remaining part of FY24. 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	YTD (Jan-Sep'23)
1	MCX Gold: 32%	Midcap: 39%	S&P 500: 30%	Midcap: 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: 30%
2	Crisil comp Bond: 7%	SmallCap: 37%	Nifty 50: 7%	SmallCap: 55%	SmallCap: 7%	EM Index: 10%	Midcap: 47%	Crisil comp Bond: 6%	MCX Gold: 25%	Midcap: 22%	Midcap: 46%	Nifty 50: 4.3%	Midcap: 23.3%
3	S&P 500: 0%	Nifty 50: 28%	Crisil comp Bond: 4%	Nifty 50: 31%	Midcap: 6%	MCX Gold: 10%	EM Index: 29%	Nifty 50: 3%	EM Index: 17%	SmallCap: 21%	S&P 500: 27%	Midcap: 3.5%	MCX Gold: 10.8%
4	EM Index: -21%	EM Index: 14%	Midcap: -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%	S&P 500: 9.2%
5	Nifty 50: -25%	S&P 500: 13%	EM Index: -6%	S&P 500: 11%	Nifty 50: -4%	Midcap: 7%	S&P 500: 19%	Midcap: -15%	Crisil comp Bond: 11%	Nifty 50: 15%	Crisil comp Bond: 2%	SmallCap: -13.8%	BSE Bond index: 5.9%
6	Midcap: -31%	MCX Gold: 12%	MCX Gold: -8%	EM Index: -1%	MCX Gold: -7%	Nifty 50: 3%	MCX Gold: 6%	EM Index: -16%	Midcap: -4%	EM Index: 13%	EM Index: -2%	S&P 500: -19.2%	Nifty 50: 5.3%
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: -4.8%

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

Key Announcements

- FY24 Capex target at 10 Lc Cr, up 33% from the FY23 Capex level of 7.5 Lc Cr.
- Higher capital spending for Railways and Infrastructure
- Rs 2.4 Lc Cr announcement for railways, up 49% from the FY23 BE
- Allocation to the PM AwasYojana increased to 79,000 Cr
- More relaxation given in the new Income tax regime with the rebate limit increased to Rs 7 Lc from Rs 5 Lc earlier to incentivize the adoption of the new tax regime
- Net-zero carbon emission by 2070

Fiscal Outlook

- Nominal GDP growth for FY24 is pegged at Rs 301 Lc Cr, up 10.5% over FY23's revised number of Rs 273 Lc Cr.
- Total expenditure for FY24 is budgeted at Rs 45 Lc Cr, up 14% from the FY23 BE.
- **Gross revenue collection is expected to grow at 10% in FY24. The expectations are likely to be met.**
- The Fiscal Deficit target for FY23 has been achieved successfully and the same for FY24 has been targeted at 5.9%. The government is on the right track of fiscal consolidation path.
- The gross borrowing target for the next year is set at Rs 17.86 Lc Cr (along the expected lines).

Fiscal Outlook

- A notable thrust has been given to boost the tourism sector under priority-sector lending and to create more jobs.
- The credit Guarantee Scheme for MSMEs is to be revamped by adding an additional 9,000 Cr in the corpus to support a collateral-free credit guarantee for MSMEs
- The government has given a notable focus on green growth through initiatives in the segments of green fuel energy, mobility, building, and allied equipment.
- The government has allocated an investment of Rs 75,000 Cr for 100 critical infra projects for the coal and steel sector.

Fiscal Account FY22-23: Subsidy & Non-tax Receipt

Subsidy budget reduced in FY24 on account of normalcy: In line with our expectations, the overall subsidy budget has been reduced on account of the encouraging pace of the economic recovery. Allocation in the fertilizer subsidy is pegged at Rs 1.75 Lc Cr vs. 2.25 Lc Cr in FY23.

A Reasonable Disinvestment Target in FY24: In line with our expectations, the target for FY23 disinvestment has been revised to 50,000 Cr and the same for FY24 has been set at 51,000 Cr. Both seem reasonable. The estimate for the RBI dividends is set at 91,000 Cr in FY24.

Subsidy Budget FY24

	2020-21	2021-22	2022-23	2022-23	2023-24
Subsidy (In Cr)	Actuals	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
Food	2,86,469	2,86,469	2,06,831	2,87,194	1,97,350
Fertiliser	1,40,122	1,40,122	1,05,222	2,25,220	1,75,100
Urea	75,930	75,930	63,222	1,54,098	1,31,100
Nutrition based	64,192	64,192	42,000	71,122	44,000
Petroleum	6,517	6,517	5,813	9,171	2,257
LPG	6,517	6,517	5,813	9,170	2,257
Kerosene					
Interest Subsidies	36,563	36,563	24,723	37,536	27,565
Other	18,201	18,201	13,050	2,959	812
Total	4,87,872	4,87,872	3,55,639	5,62,080	4,03,084

Non-Tax Receipt

	2019-20	2020-21	2021-22	2022-23	2022-23	2023-24
Non-Tax and Capital Receipt (In Cr)	Actuals	Actuals	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
Interest	12,349	17,113	20,894	18,000	24,640	24,820
Dividends	1,86,132	96,878	1,47,353	1,13,948	83,953	91,000
From Public Enterprises	35,543	39,750	46,000	40,000	43,000	43,000
From RBI & Financials Institutions	1,50,589	57,128	1,01,353	73,948	40,953	48,000
Disinvestment	50,304	37,897	78,000	65,000	50,000	51,000

Source: Union Budget Document 2023-24, Axis Securities

Major Announcements for Infrastructure

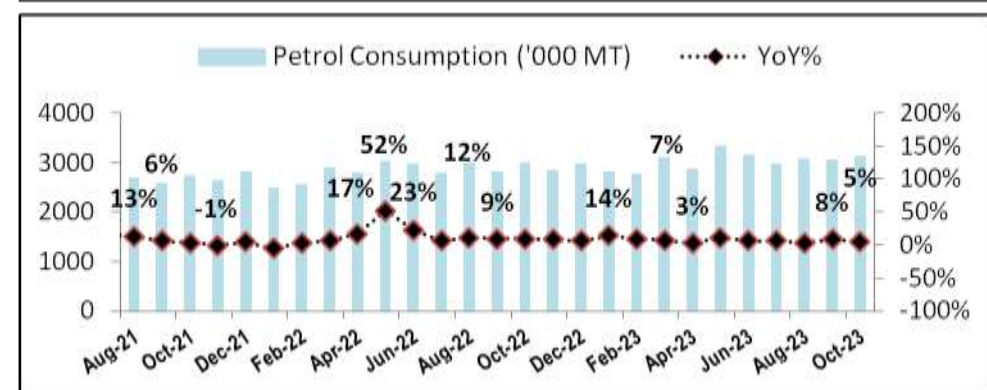
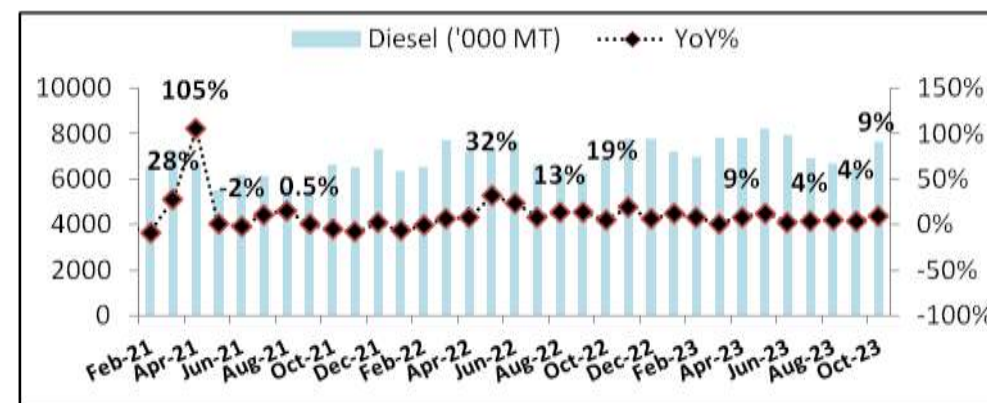
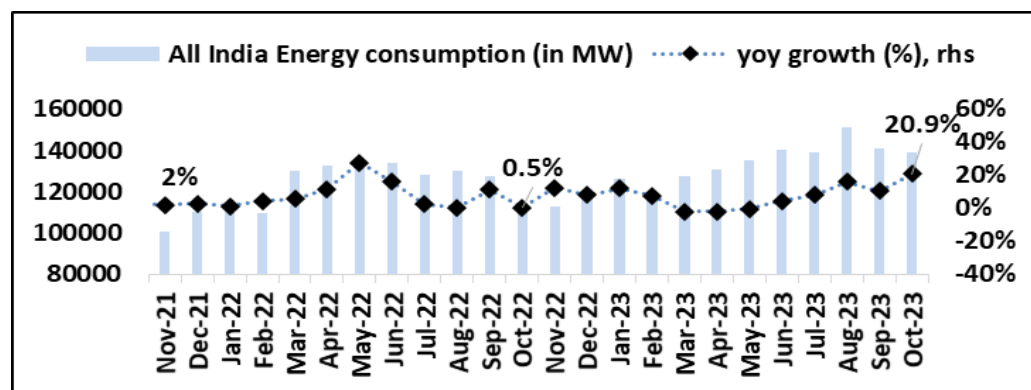
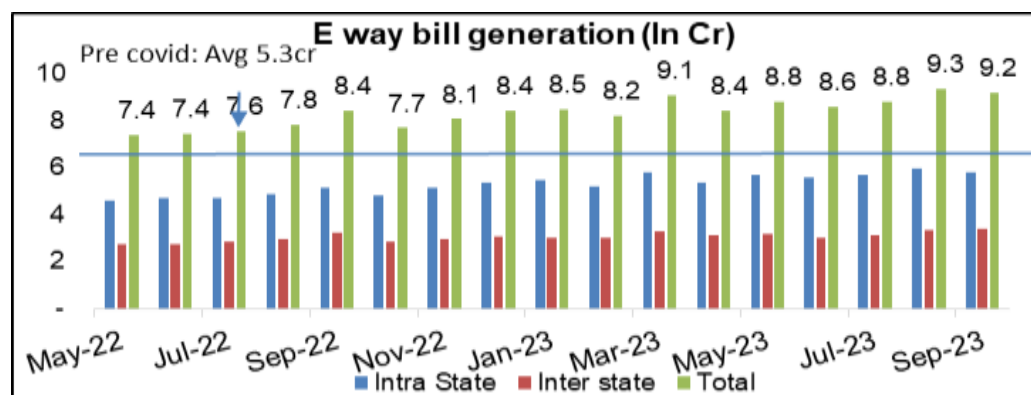
- Allocation to Railways has been increased to Rs 2.4 Lc Cr for FY24, up 49% over FY23 BE.
- Allocation to Road & Highways (NHAI) has been increased to Rs 1.62 Lc Cr in FY24
- Allocation to the Power sector has been increased to Rs 20,671 Lc Cr in FY24.
- Urban development continues to be the focus area. Smart cities have been allotted Rs 16,000 Cr and Metro Projects have been allotted Rs 15,529 Cr.
- Allocation to Swachh Bharat Mission has been increased by 74% to Rs 12,192 Cr.

Infrastructure Budget (In Cr)	2020-21 Actuals	2021-22 Actuals	2022-23 Budget Estimates	2022-23 Revised Estimates	2023-24 Budget Estimates	% Increase over FY22 RE
Roads	99,159	1,31,149	1,99,108	2,17,027	2,70,435	25%
<i>NHAI</i>	46,062	65,060	1,34,015	1,41,606	1,62,207	15%
Railways	1,12,159	1,20,056	1,40,367	1,62,312	2,41,268	49%
Urban development	46,701	73,850	76,549	74,546	76,432	3%
<i>Smart Cities + AMRUT</i>	9,754	13,900	14,100	15,300	16,000	5%
<i>Metro Projects</i>	8,573	18,978	19,130	15,629	15,629	0%
Shipping	1,388	1,585	1,710	1,793	2,219	24%
<i>Sagar Mala Port</i>	247	394	413	413	360	-13%
Power	10,582	15,322	16,075	13,107	20,671	58%
Aviation	4,089	72,652	10,667	9,364	3,113	-67%
Jal Shakti	7,232	18,009	18,968	14,000	20,055	43%
Pradhan Mantri Awas Yojna (PMAY)	40,260	47,390	48,000	77,130	79,590	3%
Pradhan Mantri Gram Sadak Yojna	13,688	14,000	19,000	19,000	19,000	0%
Swachh Bharat	5,940	8,000	9,492	7,000	12,192	74%

Source: Union Budget Document 2023-2-24, Axis Securities

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

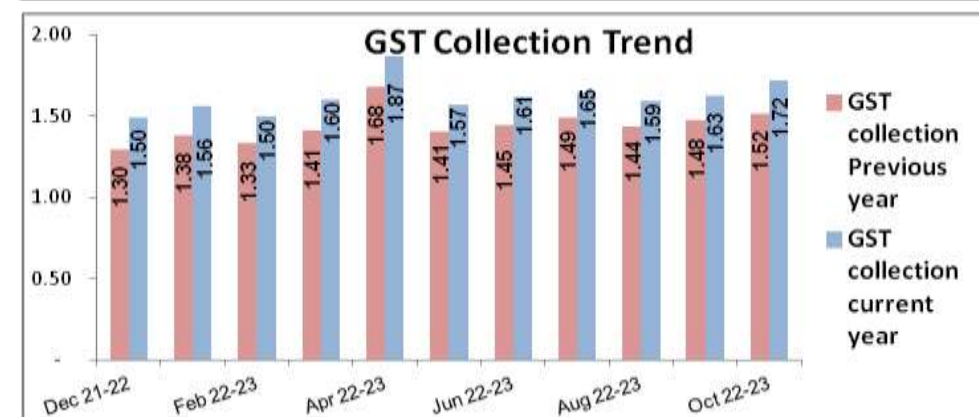
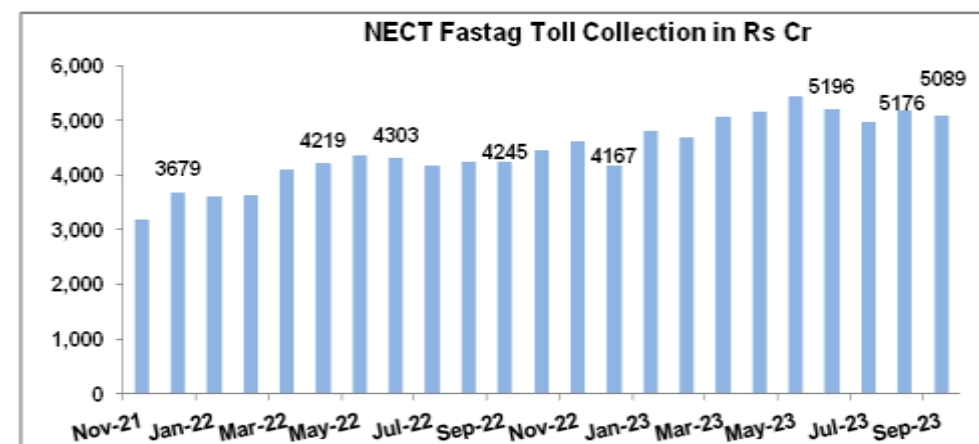
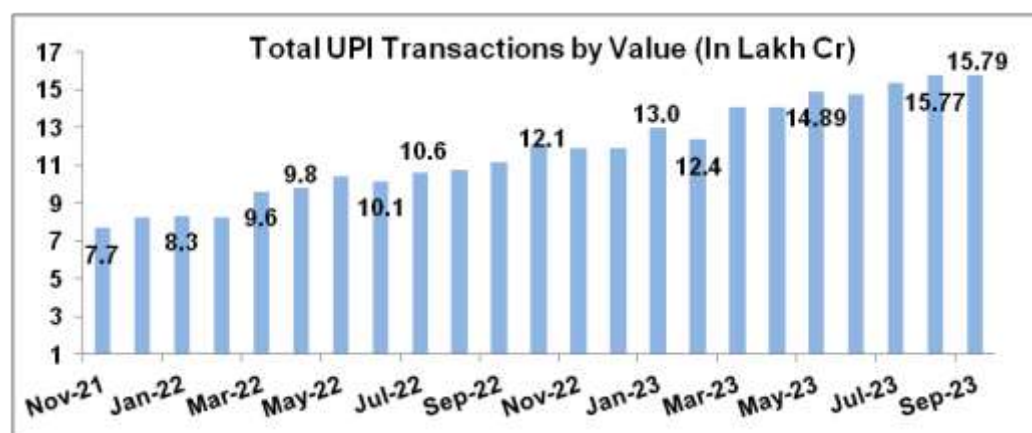
- The country witnessed a surge in electricity demand. It went up by 21% YOY, led by the pick-up in economic and irrigation activities. Healthy pick-up in the economic activities continued in Sep'23 with 9.2 Cr E-way bills reported in Sep'23.
- Consumption demand for petrol and diesel in Oct'23 was 5% and 9%, respectively. This was driven by increased mobility of people and goods in an expanding economy, with restrictions and fears associated with Covid-19 have been removed, and 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 Sep'23. Furthermore, the collections in Sep'23 remained robust, 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 50,855 Cr in 2022. This is the highest annual figure and 46% higher than the levels in 2021, 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. After a decline in Sep'22, Cargo Traffic in India continued its upward momentum in Sep'23, led by improving shipment availability. 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 at 1.87 Lc Cr.



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

High-Frequency Indicators: Robust GST Collections; some cool-off in PMI indices

The manufacturing PMI eased to a seven-month low at 55.5 in Oct'23 after making a record-high in May'23, as new orders rose at a softer pace, which tempered production growth and slowed down foreign sales. After a continued expansion till Sep'23, the services PMI eased to 58.4 in Oct'23 amid subdued demand and price pressures. GST revenues stood at 1.72 Lc Cr in Oct'23, and remained above the 1 Lc Cr mark for twenty-one consecutive months – an impressive sign of the government's tax collection and overall fiscal position. After witnessing a dip in Feb' 23, Forex Reserves figures reached a twelve-month high in Jul'23, breaching the \$600 Bn mark. Oct'23 Forex Reserves fell to a 5-month low, thus falling below the \$600Bn mark as the central bank used them to defend the rupee amidst global pressures.

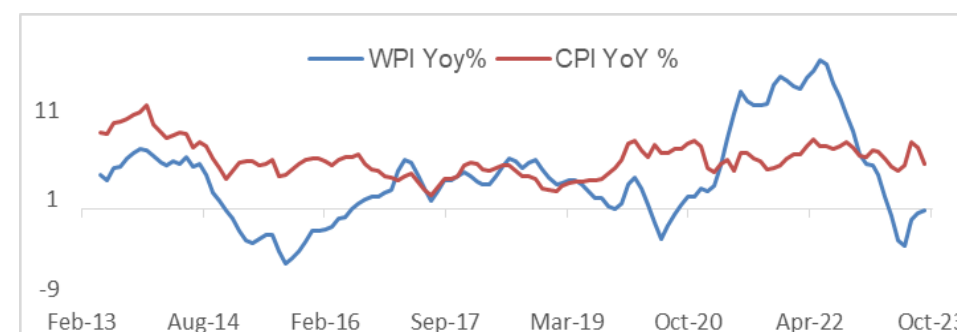
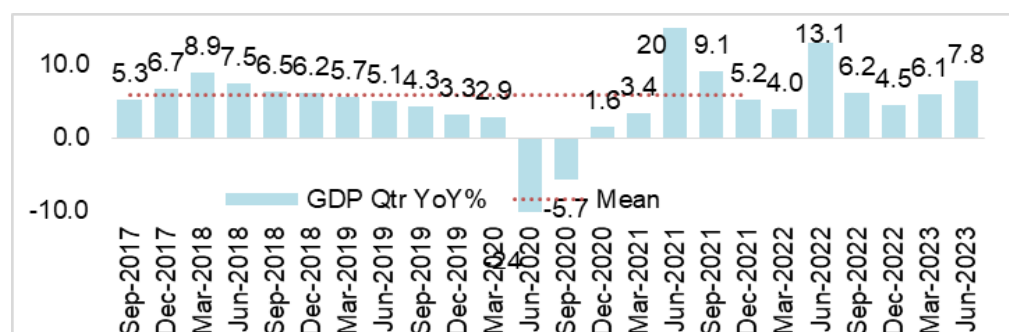
Macro	Month	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Forex reserves (\$ Bn)	Oct-23	550.1	562.9	576.8	560.9	578.4	588.8	589.1	595.1	603.9	594.9	586.9	586.1
FDI (\$ Mn)	Aug-23	-172	3637	4868	2975	1116	4017	2911	205	1639	-1707		
Exports (YoY%)	Sep-23	0.6%	-12.2%	-6.6%	-8.8%	-13.9%	-12.7%	-10.3%	-22.0%	-15.9%	-6.8%	-2.6%	
Imports (\$ YoY%)	Sep-23	5.4%	-3.5%	-3.6%	-8.2%	-7.9%	-14.1%	-6.6%	-17.5%	-17.0%	-5.2%	-15.0%	
IIP YoY%	Aug-23	7.6%	5.1%	5.8%	6.0%	2.0%	4.6%	5.7%	3.8%	6.0%	10.3%		
CPI YoY%	Sep-23	5.9%	5.7%	6.5%	6.4%	5.7%	4.7%	4.3%	4.9%	7.4%	6.8%	5.0%	
WPI YoY%	Sep-23	6.1%	5.0%	4.8%	3.9%	1.4%	-0.8%	-3.6%	-4.2%	-1.2%	-0.5%	-0.3%	
PMI Manufacturing	Oct-23	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5
PMI Services	Oct-23	56.4	58.5	57.2	59.4	57.8	62	61.2	58.5	62.3	60.1	61	58.4
Industry													
Cement Production yoy%	Sep-23	29.1%	9.5%	4.7%	7.4%	-0.2%	12.4%	15.9%	10.0%	6.9%	19.3%	4.7%	
Steel Production yoy%	Sep-23	11.5%	12.3%	14.4%	12.4%	12.1%	16.6%	12.0%	21.3%	14.2%	12.4%	9.6%	
Electricity Gen yoy%	Sep-23	12.7%	10.4%	12.7%	8.2%	-1.6%	-1.1%	0.8%	4.2%	8.0%	15.3%	9.3%	
Coal Generation yoy%	Sep-23	-5.7%	-5.7%	13.6%	9.0%	11.7%	9.1%	7.2%	9.8%	15.0%	17.9%	16.1%	
Eight Core Industries yoy%	Sep-23	-9.6%	-9.6%	9.7%	7.4%	4.2%	4.6%	5.2%	8.4%	8.4%	12.6%	8.1%	
GST Collection (RsCrores)	Oct-23	1,45,867	1,49,507	1,55,922	1,49,577	1,60,122	1,87,035	1,57,090	1,61,497	1,65,105	1,59,069	1,62,712	1,72,003
Tractor Sales YoY%	Sep-23	4.4%	19.2%	16.0%	11.8%	10.1%	-13.0%	-2.4%	-0.7%	0.0%	-4.1%	-15.6%	
Domestic Air Pass YoY %	Sep-23	22.9%	13.7%	96.0%	55.9%	21.6%	22.2%	10.6%	50.1%	24.7%	22.6%	18.9%	
Passenger Vehicles YoY %	Sep-23	28.1%	7.2%	17.2%	11.0%	4.5%	12.9%	14.9%	1.6%	2.9%	11.6%	3.1%	10.0%
2 Wheeler's YoY %	Sep-23	16.5%	2.9%	3.8%	7.6%	7.7%	15.1%	17.4%	1.7%	-7.2%	0.6%	0.8%	7.0%
Naukri Job Speak Index YoY%	Sep-23	42.9%	50.9%	1.7%	-2.2%	5.2%	-5.2%	-0.5%	-2.9%	-18.8%	-5.7%	-8.6%	

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

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

- **GDP:** The country's GDP in Jun'23 was at 7.8% vs. 6.1% in the previous quarter. The moderation in raw material prices along with overall improvement in the export and domestic demand contributed to value-added demand, especially in manufacturing and construction.
- **CPI:** India's retail inflation fell to 5% for Sep'23. This sharp decline in inflation is led by the sharp decline in the selected food items including vegetables and edible oils. 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 accelerated again in Sep'23, reaching a 10-month high with healthy pick-up seen in both 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 investment. On a positive note, BFSI companies have been posting robust profits in Q2FY24, 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	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Deposit Growth YoY%	Oct-23	9.6%	9.2%	10.5%	10.1%	9.6%	10.2%	10.9%	15.6%	12.9%	13.2%	13.2%	13.4%
Credit Growth (YoY%)													
Non-Food Credit	Sep-23	16.4%	15.3%	16.7%	15.9%	15.4%	16.1%	15.6%	16.3%	19.8%	19.9%	20.0%	
Agri& Allied Activity	Sep-23	13.8%	11.5%	14.4%	14.9%	15.4%	16.7%	16.0%	19.7%	16.8%	16.6%	16.8%	
Industry	Sep-23	13.1%	8.6%	8.7%	7.0%	5.7%	7.0%	6.0%	8.1%	5.8%	6.7%	7.1%	
Services	Sep-23	21.3%	19.3%	21.5%	20.7%	19.8%	21.7%	21.4%	26.7%	23.6%	24.7%	25.1%	
Personal Loan (Retail)	Sep-23	19.7%	20.2%	20.4%	20.4%	20.6%	19.4%	19.2%	20.9%	31.2%	30.8%	30.4%	



Source: Bloomberg, RBI, MOSPI, Axis Securities

Cool-Off Continues in Commodity Prices

- Led by policy tightening and expectations of slowing global growth, commodity prices continued to cool. In the base metals, the sharpest corrections were seen in zinc and Nickel, which fell 28%/42% respectively from their highs. Oil has fallen below \$100/bbl, however, recent situations of war between Israel and Palestine and the involvement of Iran led to an increase in Oil prices which is still 12% below its peak. Natural gas has also seen a sharp correction of 58% from its peak. Gold and silver prices have also fallen by 3%/11% after being at levels close to their 52W highs in recent months. A sharp decline in prices has also been seen in agricultural commodities. However, Sugar and cocoa prices have increased and are close to their 52W high levels. Corn, wheat, and rice prices are down 30%/33%/18% from their 52W highs.
- 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	2234.2	2624.25	-14.86%
	Copper	\$/metric ton	8095.7	9330.77	-13.24%
	Zinc	\$/metric ton	2515.5	3508.25	-28.30%
	Lead	\$/metric ton	2177.25	2336.5	-6.82%
	Nickel	\$/metric ton	17984.5	31281	-42.51%
	Iron Ore	\$/metric ton	127	135	-5.93%
Energy	Natural Gas	\$/MMBtu	3	7.17	-58.16%
	Crude oil brent	\$/bbl.	86.4	98.57	-12.35%
	Heating OIL	\$/gallon	296.28	391.48	-24.32%
Precious Metals	Gold	\$/OZ	1987.18	2050.28	-3.08%
	Silver	\$/OZ	23.2455	26.0505	-10.77%
Agricultural	cotton	INR/bale (170 kg)	58060	64200	-9.56%
	corn	\$/bu.	478.75	685.25	-30.13%
	Soyabean Meal	\$/ton	456	471.7	-3.20%
	Soyabean oil	\$/lb.	66.31	77.17	-14.07%
	Soyabeans	\$/bu.	1342	1562	-14.08%
	Wheat	\$/bu.	568.5	847.75	-32.94%
	Sugar	\$/lb.	27.69	27.77	-0.29%
	Cocoa	\$/metric ton	3872	3898	-0.67%
	coffee	\$/lb.	170.3	205.25	-17.03%
	Rice	\$/cwt	16.215	19.665	-17.54%
	Oats	\$/bu.	373	491	-24.03%

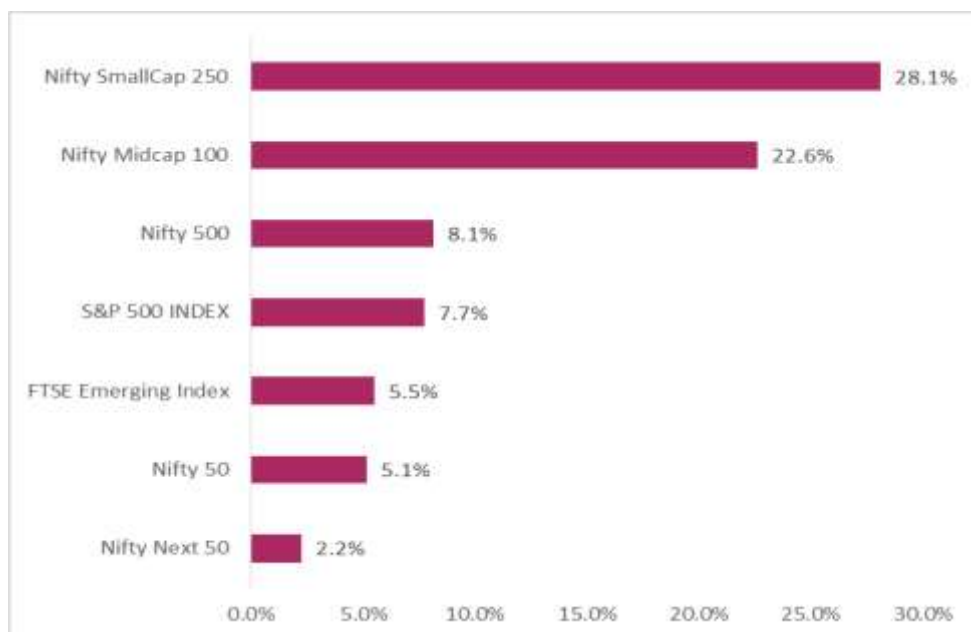
Source: Bloomberg, NSE, Axis Securities, Data as of 6th Nov'23

Equity Outlook: 'Growth at a Reasonable Price' – an Overarching Theme

What Happened in the Last One Year

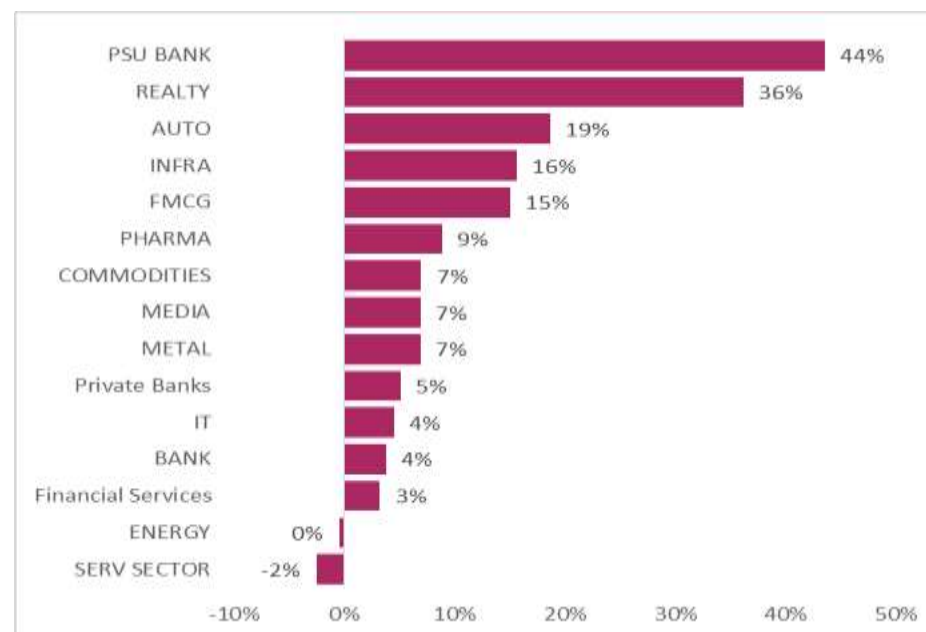
- Small and Midcaps have been the winners in the last one year with growth of 28%/23% YoY respectively
- Over the past year, the benchmark index NIFTY 50 and the S&P 500 increased by 5.1% and 7.7%, respectively. Moreover, the Emerging Market Index went up by 5.5%.
- Indian investors have demonstrated a high degree of maturity over the past year – a key reason why the Indian market has not experienced negative panic reactions like other economies.
- On the sector front, PSU Banks, Realty, Auto, Infra, and FMCG indices have closed positively over the past year, while Energy, Services, and Banking indices have closed weaker over the same period.

Benchmark Returns in The Last One Year



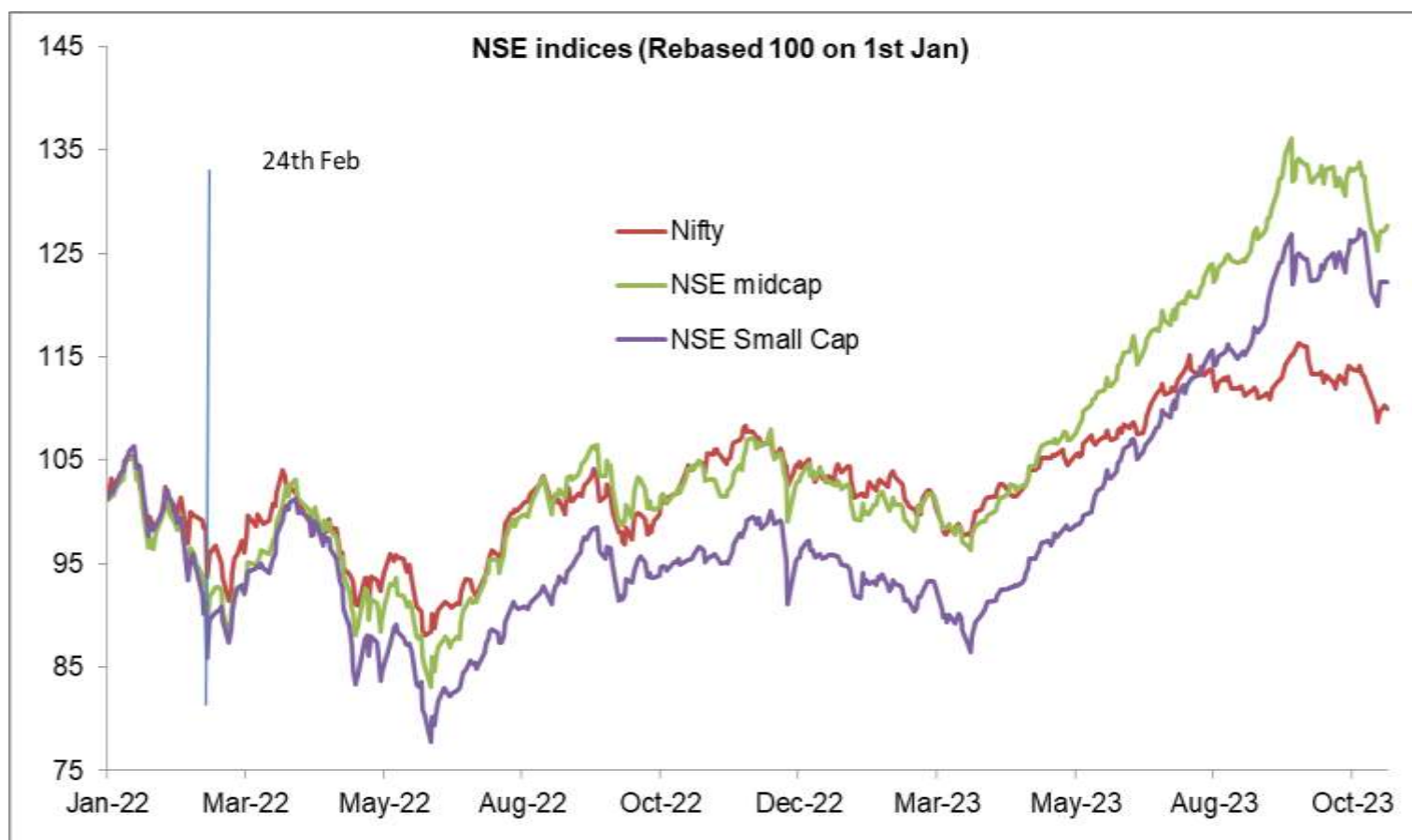
Source: Bloomberg, Axis Securities, Performance as of 31stOct'23

Sector-Wise Returns in The Last One Year



All Three Indices Moving in Tandem (Recovery Seen In Last 3 Months)

- The broader market has rebounded strongly from the Mar'23 low, thanks to the improved macro sentiment.
- Midcaps are in a sweet spot of growth and have significantly outperformed Largecaps in the recent past.
- A catch-up rally was also seen in the Smallcap Index, which has posted a robust 37% return since the Mar'23 low



Source: Bloomberg, Axis Securities

Returns since 31st Mar'23

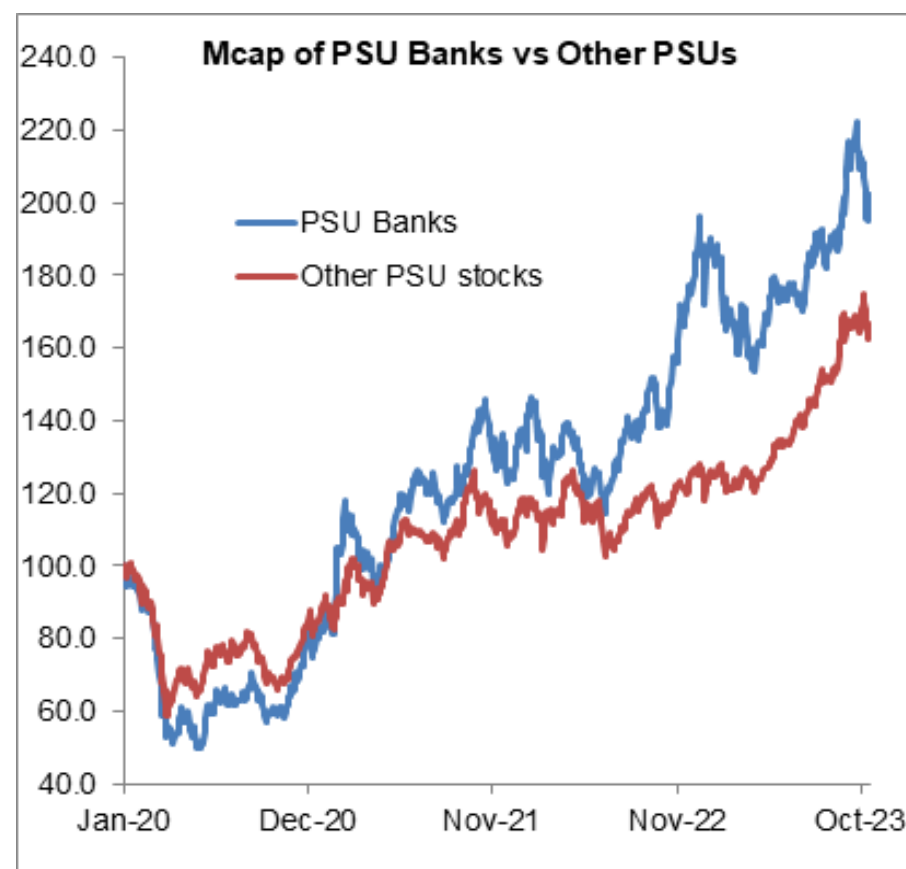
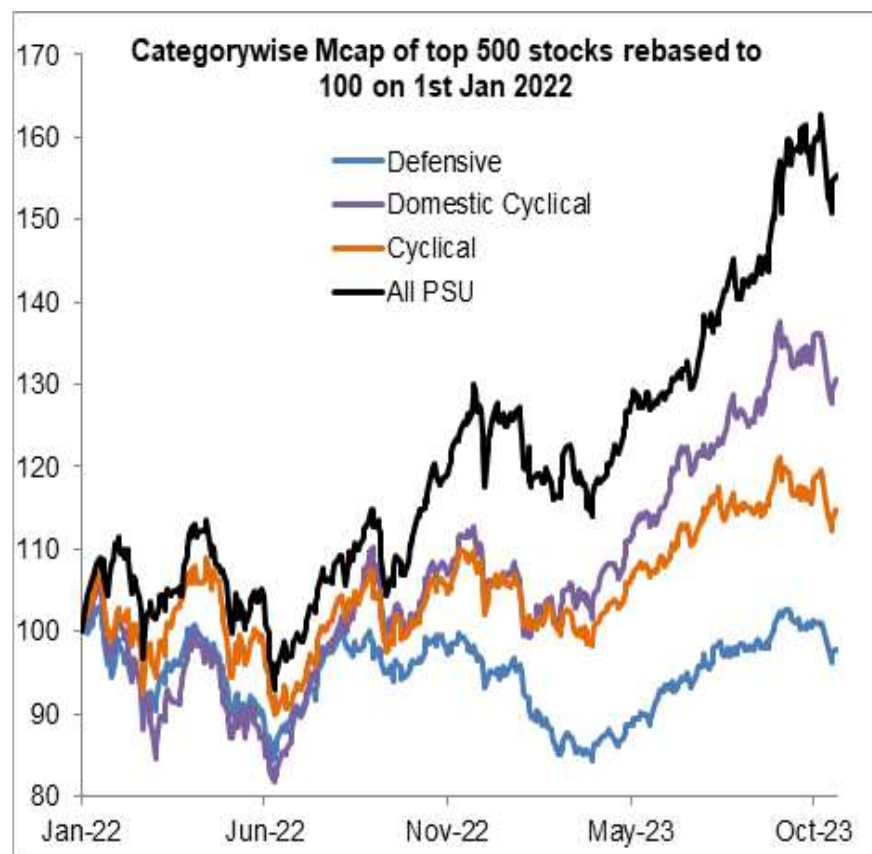
- Nifty 50: 10%
- NSE Mid Cap 100: 29%
- NSE Small Cap 250: 37%

Correction from Peak (Since 15th Sep'23)

- Nifty 50: 6%
- NSE Mid Cap 100: 5%
- NSE Small Cap 250: 2%

All Some Correction Seen In PSU Stocks after a Strong Rally

- Since Jan'22, PSU stocks have outperformed other themes (Defensive, Cyclical, and Interest-rate sensitive).
- PSU banks have seen some correction in the last one month after a strong rally since Mar'23 low
- Other PSU stocks declined less in the last one month
- Defensive stocks are holding the performance



Quality & Momentum Theme Rebounded Sharply in Last Six Months

- In the last one year, the Value and Quality theme delivered the highest returns. On the other hand, Quality and Momentum themes were the dominating themes over the last six months.
- 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 and 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 even amidst the prevailing challenging environment.



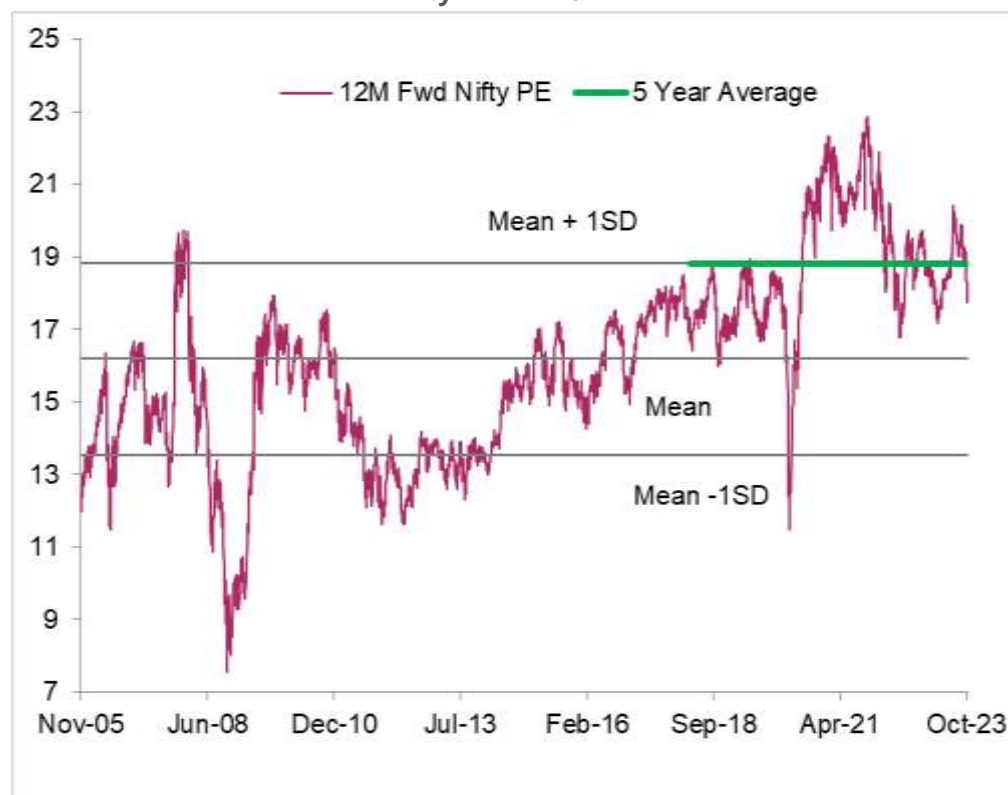
Source: Bloomberg, Axis Securities

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	-2.9%	-2.3%	-1.4%	-5.1%
3M	-0.3%	-0.7%	0.3%	2.9%
6M	8.7%	9.4%	11.4%	20.8%
1YR	12.0%	6.0%	12.2%	8.1%
2YR	15.4%	25.0%	15.6%	20.8%

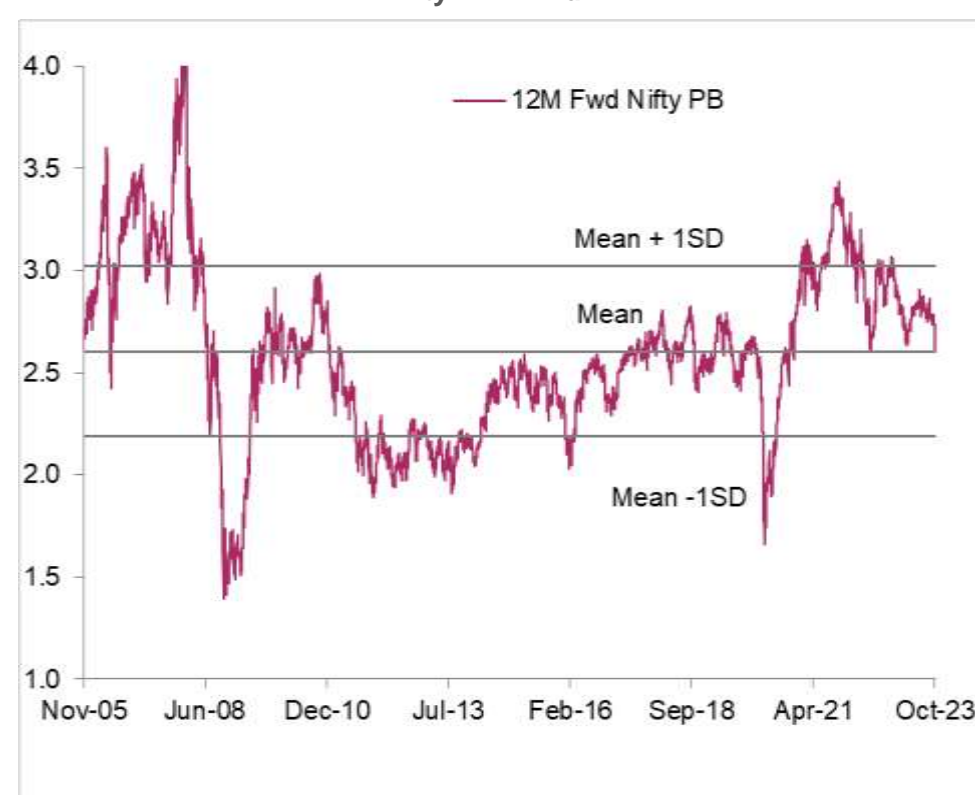
Market Valuations: 12M Fwd PE Now Trading at 18.0x

- NIFTY is currently trading at 18.0x on a 12M Fwd PE, which stands slightly below 1std to its long-term average (16x). However, it is trading at a long-term average on a 12M Fwd PB.
- Current valuations are slightly below the 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 the earning expectations from the broader market remain intact.**

Nifty 12M Fwd PE



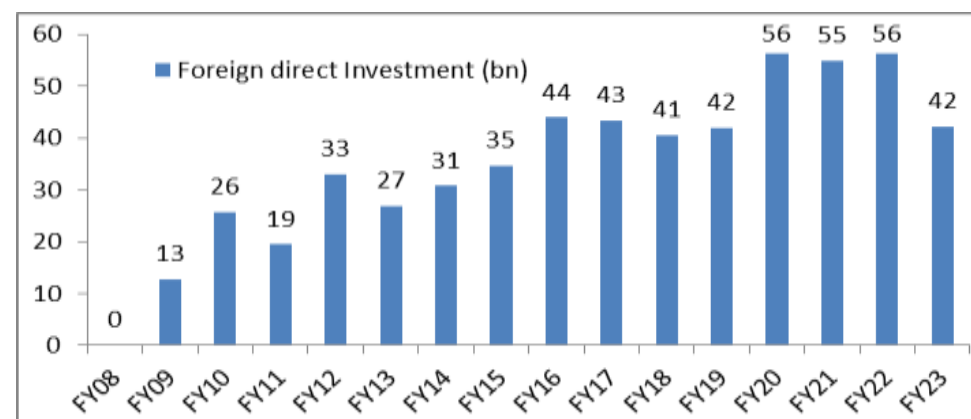
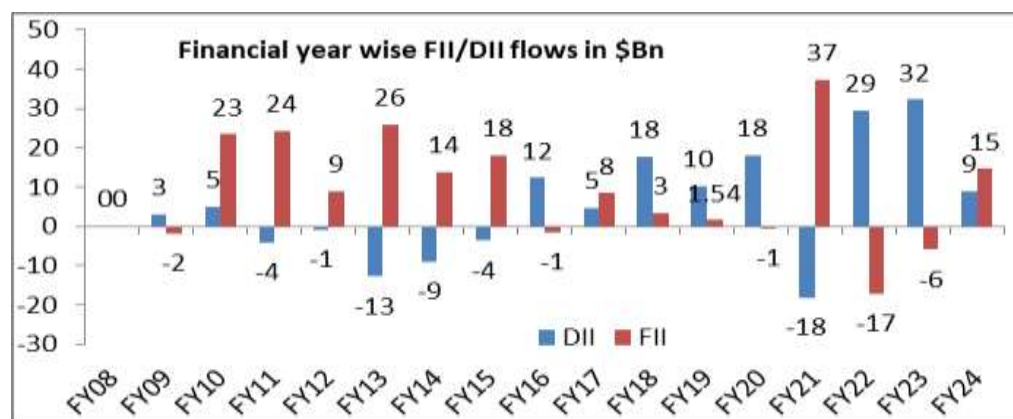
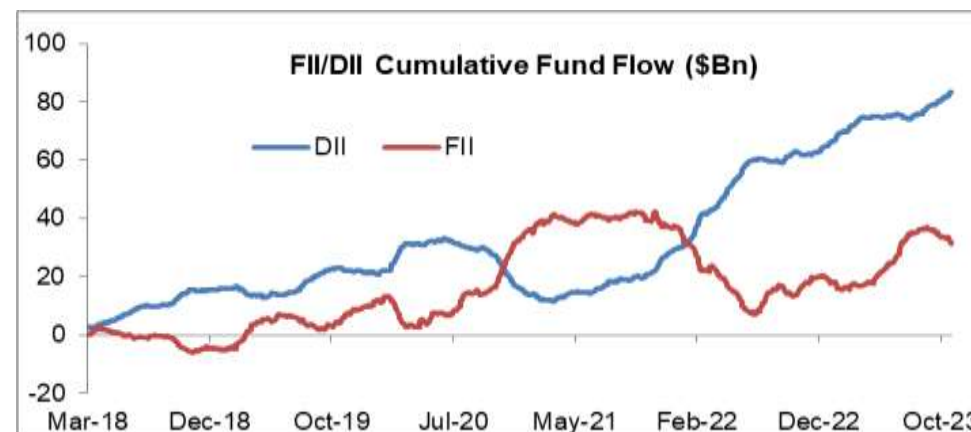
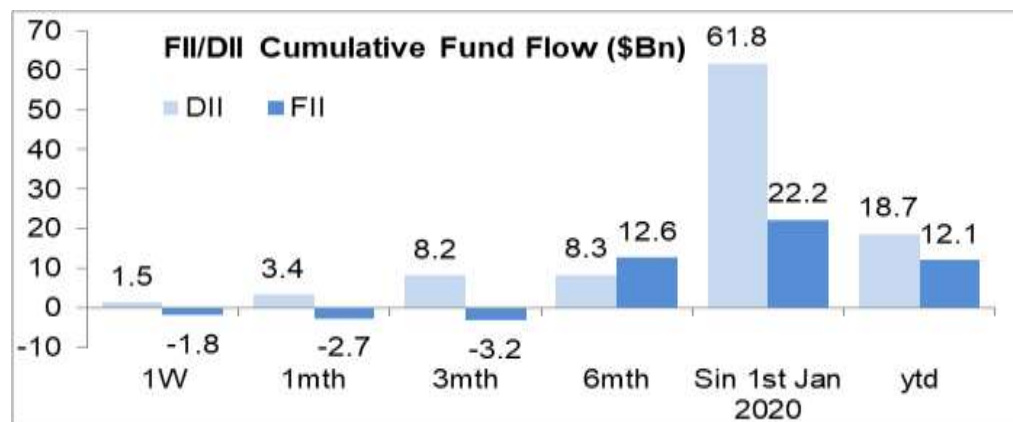
Nifty 12M Fwd PB



Source: Bloomberg, Axis Securities

FII added \$15Bn in FY24 (till date)

- On a YTD basis, both FIIs and DIIs have been the net buyers in the Indian equity market. FIIs had pulled out the majority of the easy money from the Indian market which they had pumped in after the Covid-19 crisis in Mar'20. It pulled out \$23 Bn in FY22/23 out of \$37 Bn that had been pumped in FY21.
- Nonetheless, the pace of selling has reduced in FY24 and so far in the current fiscal; FIIs have added \$15 Bn to the Indian equity market. In the last one month, FIIs pulled out \$2.7 Bn from the Indian equity market while DIIs added \$3.4 Bn over the same period.



Source: Bloomberg, Axis Securities

Equity: 'Growth at a Reasonable Price' – an Overarching Theme

Our Take

- Macro factors continue to take centre stage
- Relative valuation will continue to attract the flows
- Style rotation is the key; 'Growth at a Reasonable Price' might be the winner in the near term
- We maintain our Dec'23 NIFTY Target at 20,200

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, Maruti Suzuki India, State Bank of India, Lupin, Federal Bank, Varun Beverages, Ashok Leyland, PNC infra, ITC, Relaxo, CIE Automotive India, Bank of Baroda, Westlife Foodworld, CreditAccess Grameen, JTL Industries and Kirloskar Brothers Ltd

For detailed Note: [Click here](#)

Fixed Income Outlook: Neutral

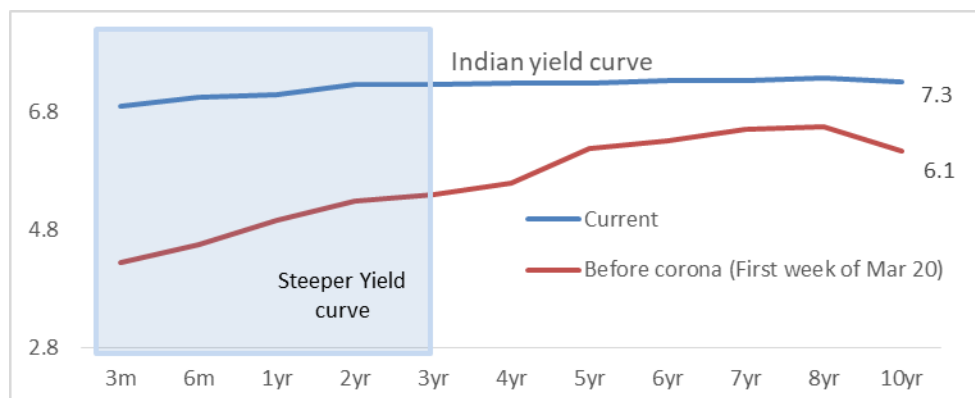
Thanks to monetary policy support, the slope of the yield curve has flattened since Oct'21, whereas it had been steep in the months before. On a positive note, in the MPC meeting of Oct'23, the RBI maintained the status quo and kept the policy rate unchanged at 6.5%. The RBI has maintained its stance 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 months due to improved Kharif sowing, festival season, and the improvement in the services PMI. The RBI has maintained the FY24 GDP forecast at 6.5%. This is driven by the improvement in Kharif sowing, prospects for a pick-up in private consumption in the upcoming festive season, an improved outlook for rural demand, and steady growth in the contact-intensive services sector. These factors will have a positive impact on the country's future economic growth. However, global factors such as geopolitical tensions and volatility in oil prices and financial markets may pose some risks to the growth outlook.

The RBI remained consistent in its monetary policy statement and maintained its focus on removing the 'accommodation' stance in a calibrated manner. It suggests that further rate hikes can be expected through additional calibrated measures to anchor inflation expectations. This implies that there could be another round of rate hikes of a similar magnitude before it takes a final pause in rate hikes. The RBI maintained its FY24 inflation forecast unchanged at 5.4%. The near-term inflation outlook is expected to improve further with moderation in food prices and a reduction in LPG prices.

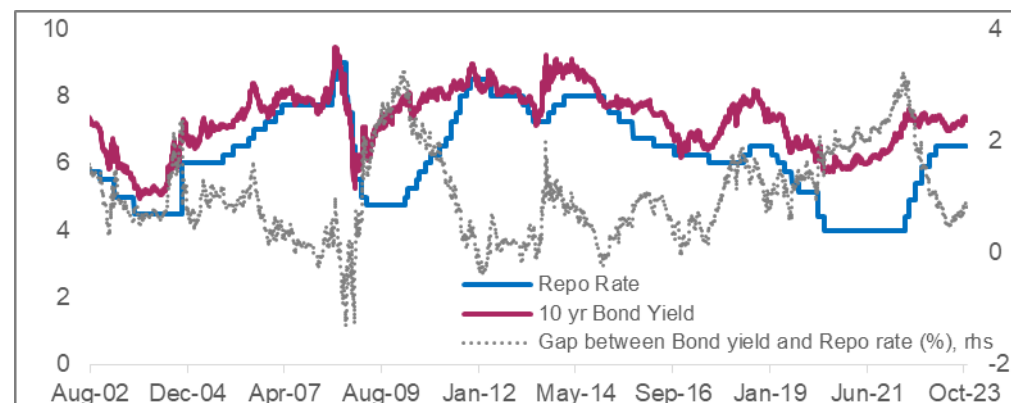
We expect the yield curve to flatten, with the shorter end of yields rising in H2FY23 relative to the higher end of yields. In addition, the upper end of yields will remain cautious due to policy normalization, rising inflationary pressures, the impact of the El Niño effect, rising oil prices and subdued growth expectations. In addition, the market will continue to monitor the rise 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 6th Nov'23

Bond yields are trading at 80bps above the repo rate



Gold Outlook: Neutral

Gold continues to be a preferred asset class for 2023

The Gold price continued its 2022 outperformance in the first five months of 2023, reflecting weak bond yields and a modest increase in the dollar index in recent months. Gold prices also exceeded \$2,000/oz in the first week of May'23 following the Federal Reserve's 25bps rate hike and in anticipation of an FOMC pause at the next meeting. However, as the month progressed, market volatility increased due to concerns over the debt ceiling, which caused bond yields to rise further. This eventually led to weakness in the Gold price in May'23.

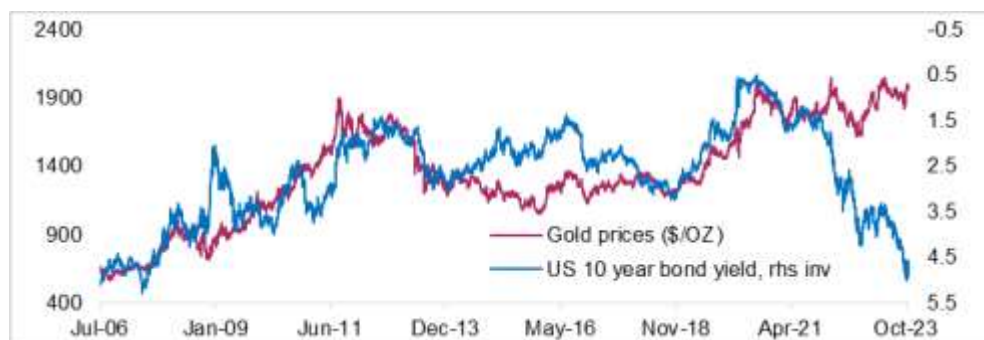
The weakness continued in Jun'23 when the Gold price corrected by 3% in both USD and INR terms. However, in Jul'23, the Gold price recovered to some extent and increased by 2% in USD and INR terms. In Aug'23, Gold prices were flat in INR terms while they declined by 1% in USD terms. In Sep'23, Gold prices were down by 4% in INR terms and 5% in USD terms on account of stronger bond yields in the US market. However, in Oct'23, Gold prices went up by 7% in both USD and INR terms, led by the geopolitical concerns in the Middle East. With these geopolitical concerns, the Gold price crossed the \$2,000 mark once again on 27th Oct'23. Going forward, we believe Gold will continue to have an edge over other asset classes. It will be seen as a tool to facilitate the flight to safety as the risk of a slowdown in the US market increases due to higher-for-longer interest rate expectations. **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
Apr-23	1%	1%	0%
May-23	0%	-1%	1%
Jun-23	-3%	-2%	-1%
Jul-23	2%	2%	0%
Aug-23	0%	-1%	1%
Sep-23	-4%	-5%	0%
Oct-23	7%	7%	0%
2022	14%	0%	11%
2021	-4%	-4%	2%
2020	28%	25%	2%

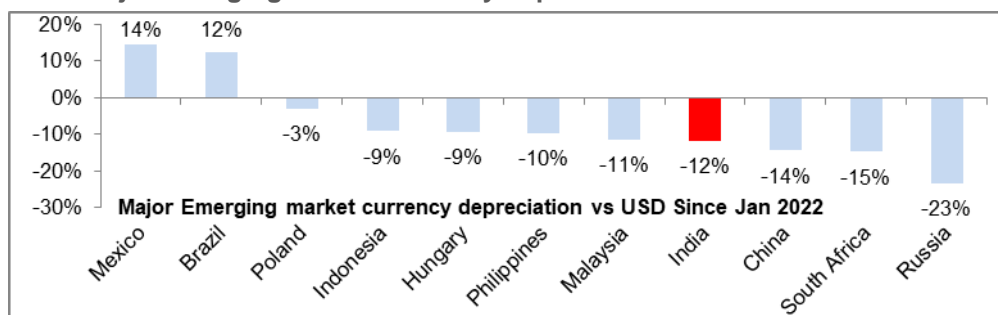
Currency Outlook

The Indian currency continued to remain under pressure in the last two months led by a stronger dollar which has been driven by various macro-economic developments and stronger US economic data. The USD got stronger after the start of the Middle East conflict and the expectation of another rate hike by the US FED after a print of stronger payroll data. The bond yields in the US market went up to 5% in anticipation of a rate hike in the November FOMC meeting. This resulted in the downward pressure on the Indian currency for the latter half of the month. Higher crude prices also kept the Indian currency under pressure during the month. The Dollar index remained at an average of 106 in the last one month due to a stronger dollar. This is keeping the domestic currency and FII flows under pressure. However, the Indian currency performed well in the last one month as compared to other emerging market currencies, thanks to a robust economic outlook and robust foreign exchange reserve. Moreover, in the November FOMC meeting, the US FED kept the interest rates unchanged, leading to some cool-off in the US bond yields.

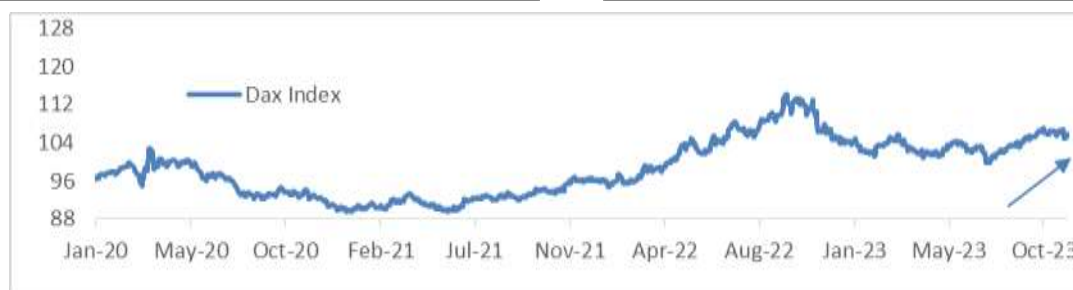
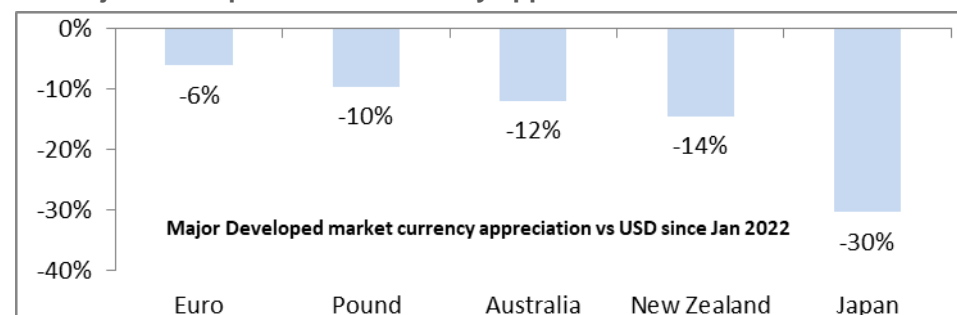
From now on, market commentary is likely to shift towards the softening of interest rates and the possibility of a slowdown in the global market. In addition, the direction of the bond yields, the dollar index, inflation, developed market growth, and commodity price movements remain critical to the currency market. In the Oct'23 MPC meeting, 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%. 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 evolving data.

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.

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 (1yr to 2yr). Portfolio is made up of Equity (40%), Debt (40%), Gold (15%), 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%)

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