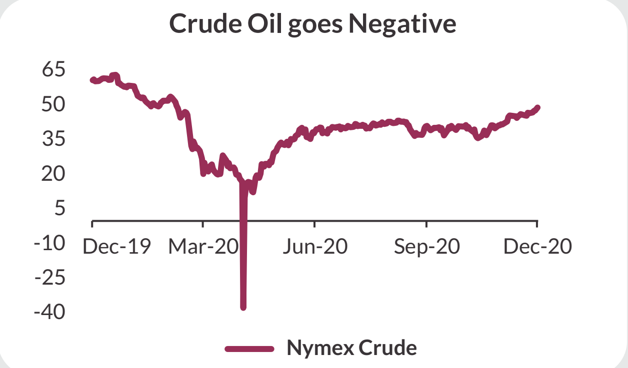
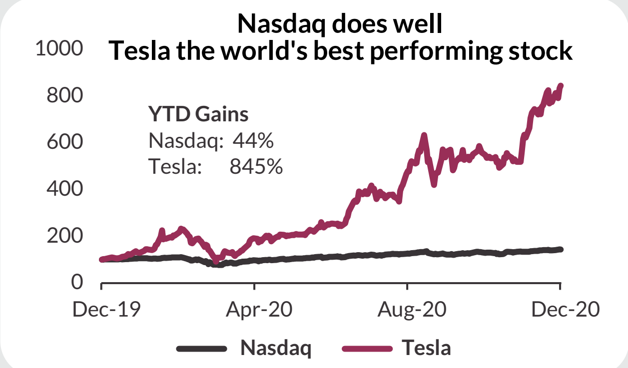
# Hindsight is 20/20

## Introduction

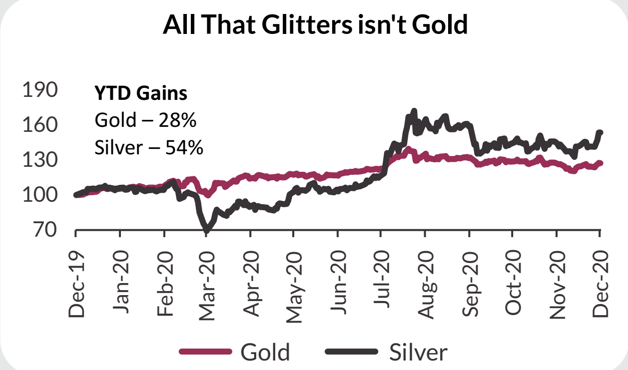
A year of transition, a year of pain, a year of disruption and a year of recovery. For most investors, 2020 can be characterized as one year where markets changed fortunes. From a grim March to a euphoric November, equity markets have been on a rollercoaster ride – a reminder that **Equities are a volatile yet rewarding asset class.**

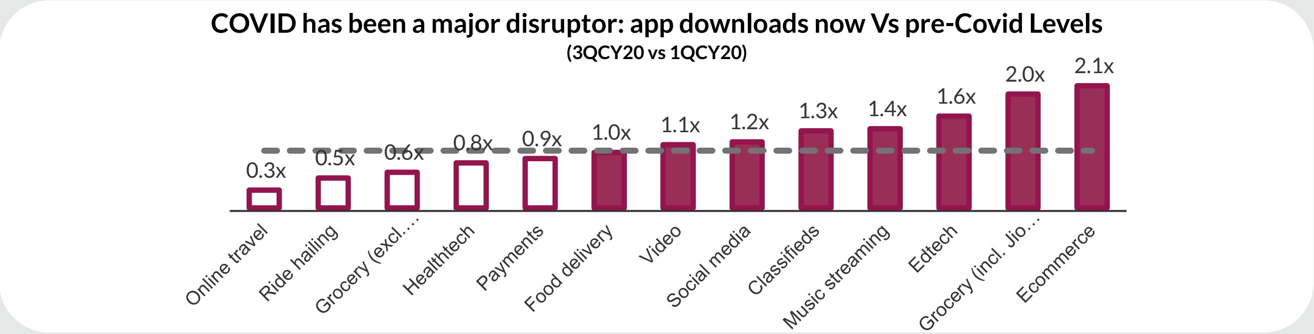
### 2020 In Charts




| A Tale of two IPO's | | |
|---|---|---|
| | **Ant Financial** | **AirBnB** |
| Industry | Finance | Hospitality |
| Country | China | USA |
| IPO Size | US$36 Billion | US$2.5 Billion |
| Current Market Cap | IPO Pulled | US$89 Billion |



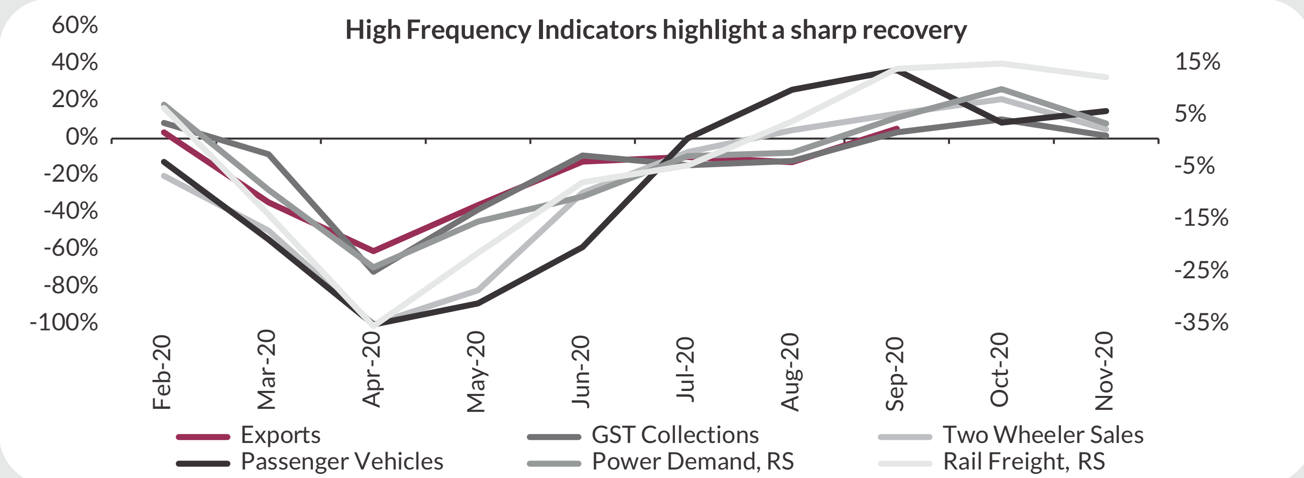

*Source: Yahoo Finance, Axis MF Research, Data as of 18th December 2020.*

Nasdaq and Tesla prices normalized to 100. Gold & Silver prices normalized to 100 and represented in US Dollars per ounce traded on the Chicago Mercantile Exchange. **Past performance may or may not be sustained in the future.** Sector(s) / Stock(s) / Issuer(s) mentioned above are for the purpose of illustration only and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the stock mentioned, from time to time.

# Where do we go from here?

## The Economy

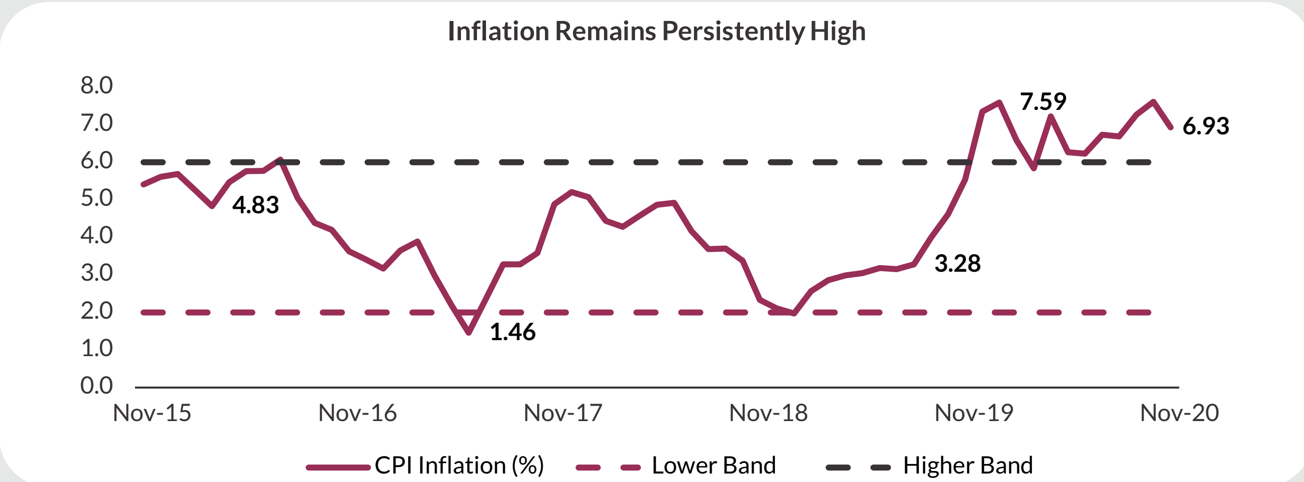
After a tumultuous 2020, we expect 2021 to look markedly different on the growth front. With high-frequency data improving, we maintain our view that the economy will reach the pre-pandemic level of output by end-2020. We remain constructive on the growth trend and expect the recovery to gain strength from Q2 FY21 onwards. We expect a still-accommodative monetary policy stance to support the recovery and structural reforms to lift medium-term growth prospects. The growth mix should be relatively more productive as we expect capex to pick up – initially by public infra spending, and later by an improvement in private capex.




*Data as of 30th November 2020.*
*Source: Ministry of Power, GST Council, CEIC, Morgan Stanley Research, Axis MF Research.*

## Inflation

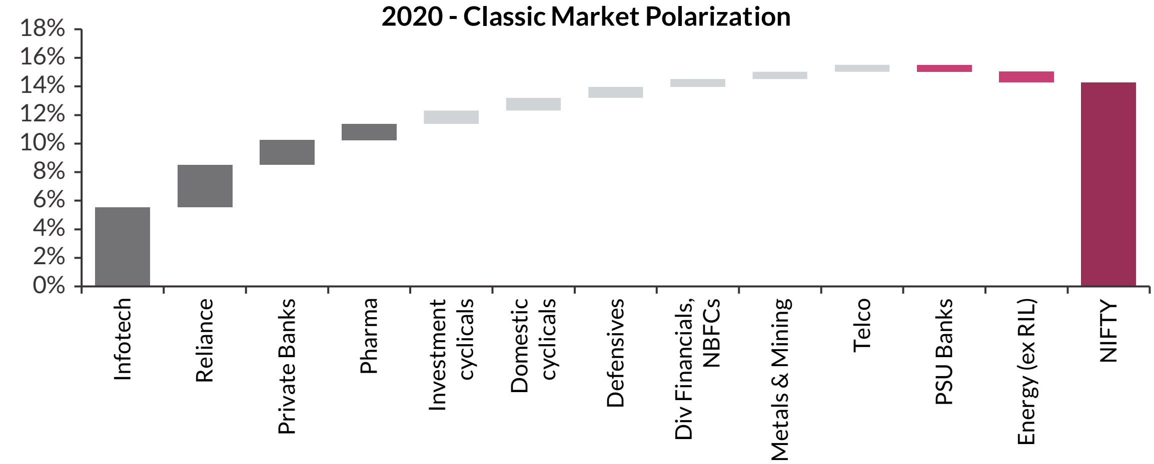
Inflation has surprised on the upside in the last few months and is tracking above the upper level of the central bank threshold (of 6%). We expect inflation to decelerate from the current high levels; however, it is likely to remain near the 4.5% mark for a good part of next year, with core inflation remaining firm as growth recovers.




*Source: Bloomberg, Axis MF Research. Data as of 30th November 2020.*
*Bands are as defined by the RBI as part of inflation targeting.*

## Equity Markets

While frontline indices have recouped losses from the march lows, and have subsequently seen a YTD gain of 14%, the narrow market environment several companies continue to remain materially lower to their January highs.




*Source: Bloomberg, Goldman Sachs, Axis MF Research*

A sectoral deep dive illustrates this very well. As we stand today, there are several segments of the market where we continue to see opportunities. In line with the recovery theme as the economy returns to a mid-to-high growth environment, several domestic cyclicals are likely to be beneficiaries of the new growth cycle. The last 2 years have seen a large degree of cost optimizations and deleveraging play out and should further add a material fillip to growth stories in the post Covid environment.

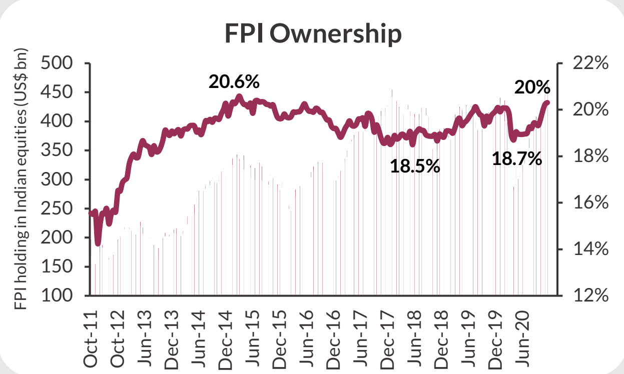
| Sector | Current Forward P/E | Change since Dec 2007 market peak | Peak P/E | Change | Current TTM P/B | Pre-Covid TTM P/B (Jan'20) | Change |
|---|---|---|---|---|---|---|---|
| Info Tech | 23.5x | 29% | 25.4x | (7%) | 6.6x | 5.4x | 22% |
| Consumer staples | 43.9x | 94% | 45.2x | (3%) | 10.6x | 13.1x | (19%) |
| Health care | 27.8x | 32% | 28.6x | (3%) | 4.6x | 2.4x | 92% |
| Energy | 17.3x | (21%) | 22.2x | (22%) | 2.0x | 1.9x | 6% |
| Cons. discretionary | 29.7x | 85% | 38.4x | (23%) | 3.6x | 3.0x | 17% |
| Financials | 24.5x | (17%) | 29.6x | (17%) | 3.0x | 3.0x | 1% |
| Materials | 19.2x | 42% | 24.5x | (22%) | 2.2x | 1.8x | 18% |
| Industrials | 24.1x | (28%) | 33.3x | (28%) | 3.2x | 3.7x | (12%) |
| Utilities | 8.2x | (73%) | 29.7x | (73%) | 1.2x | 1.2x | (3%) |
| **NSE 100** | **26.9x** | **17%** | **26.9x** | **0%** | **2.9x** | **2.9x** | **1%** |

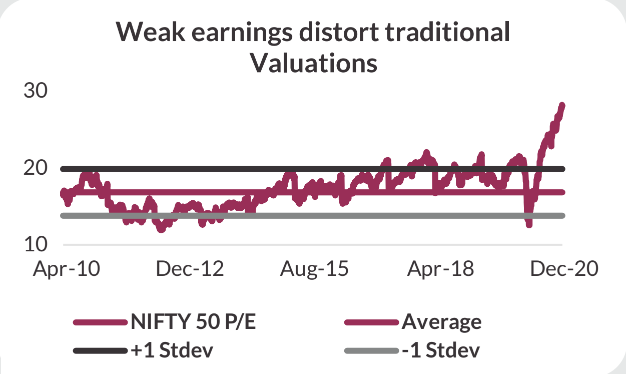
*Source: Goldman Sachs, Axis MF Research, Data as of 18th December 2020. Peak P/E is the highest forward P/E estimate since 2004 as polled by Bloomberg. TTM – Twelve months trailing, P/E – Price earnings ratio, P/B – Price to book . Sector(s) / Stock(s) / Issuer(s) mentioned above are for the purpose of illustration only and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the stock mentioned, from time to time.*

## Valuations

There has been a large rerating in a relatively short span of time and hence caution is warranted. This has been fuelled by Covid cases/fears coming down, economic activity sharply bouncing back to pre-Covid levels, positive news flow on vaccines, strong 2Q earnings led by cost management and global QE/weak USD support which has resulted in massive FPI inflows into India.

At ~20x FY22E (which is premised on superlative earnings growth in FY22E), the market does look optically elevated and hence one must remain cognizant of fundamentals. Continued liquidity could keep the market levels elevated but liquidity is a tough variable to model. Globally, India remains in sync with the rest of the world and hence a global liquidity remains a key risk to current valuations.




*Source: Bloomberg, NSDL, NSE, Axis MF Research. Data as of 18th December 2020*

### Mid & Smallcaps – An Opportunity

Covid has been a great opportunity for many mid and Smallcap names to retool and refocus on their business. We believe companies in this segment are likely to benefit from 3 major tailwinds in the post Covid environment

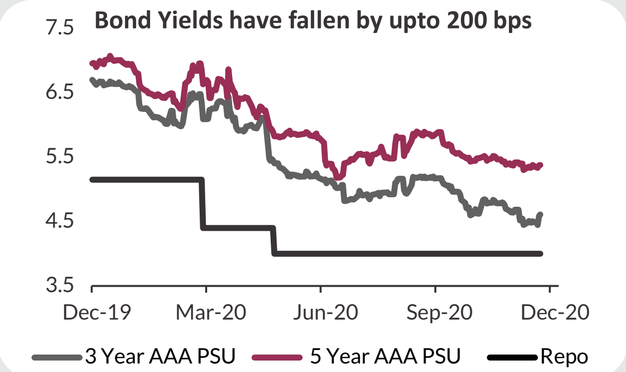
- **Lower cost of capital:** Lower funding costs and a recovering economic cycle augers well for growth prospects of well managed businesses with innovative and well-articulated business models. Currently low interest rates have also dramatically improved profitability and project IRRs thus benefiting long term investors and promoters.
- **Availability of capital:** Easy liquidity conditions and global influx from new age sources of capital like PE/VC funding as well as deeper financial markets offer opportunities to fund business growth and novel ideas
- **Renewed focus of government on import substitution & exports:** As India works towards becoming the next manufacturing and services hub of the world, global opportunities for demand buoyed by government incentives is likely to usher a multi-year growth phase for MSME's and smaller listed players.

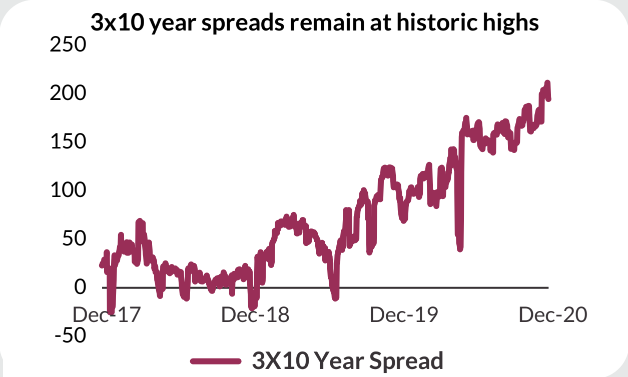
## Debt Markets

### Duration

Domestic bond yields have followed the operative rate downwards as the RBI and the government have emphasised of bringing rates lower through policy action and accommodative monetary policy in an attempt to spur growth. While the money market curve and the 3/5-year space has broadly followed suit, longer dated papers especially corporate bonds have remained somewhat anchored. This has resulted in a steep yield curve

The corporate curve and long dated government bonds today trade at spreads of over 200 bps over comparable 3 year assets creating significant opportunities for long term investors looking to lock in rates. The opportunities on the G-Sec & AAA Curves offer attractive risk reward opportunities along with a high degree of margin of safety. Medium term guidance by the RBI on keeping rates status quo also offers opportunities for medium term investors to go up the curve to capture this opportunity.




*Source: Bloomberg, Axis MF Research. Data as of 18th December 2020*

## Credits

Credits like equities have had a rollercoaster ride as covid struck just as credit markets were recovering from the liquidity crunch of the previous downturn. Since then, markets have returned to normalcy largely on account of the government's action to reduce the risk quotient by offering large scale guarantees and accommodative risk frameworks to facilitate industrial lending and efficient capital markets.

In the current low interest rate environment, credits offer investors the opportunity for materially higher carry. Learnings from past mistakes have made investors more cognizant to risks of default and credit risk thus making such products more transparent.

# How to position yourself for 2021?

## Equity Markets

The post pandemic recovery theme has played out well as markets saw renewed interest for domestic equities from all market participants including FPI's, and portfolio investors. Earnings have exceeded investor beaten down expectations post pandemic and we believe markets are poised to remain positive sans Covid. Loose monetary policy and positive current account balances are key positives for the economic recovery.

Finally, we are seeing the transmission of interest rates happening into various segments. If these trends persist, they can possibly drive growth in various segment of economy such housing, investments etc. We have seen surprises in company performance right from exports (IT, Pharma) to financials (Asset quality), to domestic consumption (Autos etc). While we believe vaccines are on anvil and governments are chalking out large-scale inoculation drives, the risk of a delay in vaccination persists.

Our portfolio stance has turned optimistic as we play the recovery theme through quality. The caveat however remains that markets are volatile. This volatility is best served by staying invested rather than trying to time the markets. The longer term outlook for equities continues to remain intact. Short term volatility can be used by investors to top up their existing investments with a 3 to 5-year view.

## Debt Markets

We anticipate RBI will withdraw accommodation and reduce liquidity in turn starting the process of rate normalization. Unless we see a huge fiscal consolidation or downward growth/ inflation shock rate cuts looks unlikely. For 2021, we believe investors will be best suited to go up the duration curve which would serve investor needs of a higher risk reward. The RBI will move on rates hikes over the course of the next year, albeit slowly as they would not like to jeopardize growth that is coming on the back of the ongoing recovery in the economy. We expect a rising rate environment to ensue over the next twelve to eighteen months.

For Investors, we see an attractive play for the reinvestment benefit that can be availed in the short bond and money market segment reinvestments on maturity happen at higher rates in rising rate environment. Theirs is also a strong steepness in the yield curve between 2-3 Year and 5-10+ Year segment. There is hence an opportunity to exploit this steepness in the portfolios through targeted barbell strategies as this curve flattens.

There has been an uptick in the high frequency indicators and many positive sign visible on the macro front, this is a positive for the broad economy and in turn credits. Short-term credits (up to 2 year) offer significant opportunities for active strategies at this juncture. A mix of spread compression and attractive 'carry' makes exposure to this space vital to debt portfolios amidst persistently low yields. A prudent mix of AA and AAA/G-Sec strategies may be beneficial for investors looking at inflation-adjusted returns from a long-term investment horizon.

However, investors must remain vigilant and focus on portfolio granularity and liquidity while identifying investment opportunities in this space. Investors looking for short term parking solutions should continue to move up the yield curve to capture any capital gains as the curve normalizes.

## Funds to watch out for in 2021

### Equity Funds

- Axis Bluechip Fund
- Axis Growth Opportunities Fund
- Axis Smallcap Fund

### Fixed Income Funds

- Axis Dynamic Bond Fund
- Axis Strategic Bond Fund
- Axis Corporate Bond Fund

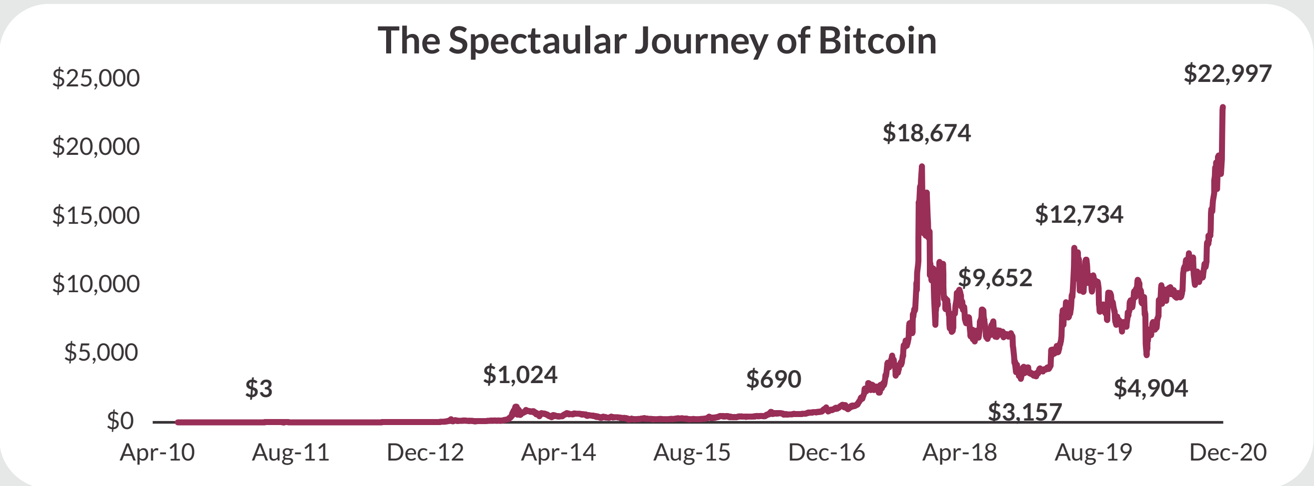
### Hybrid Funds

- Axis Equity Hybrid Fund
- Axis Triple Advanatage Fund

## Off the Beaten Road – An Ode to Bitcoin!

Bitcoin has been a star hedge for Covid even as gold and the US dollar have been unable to stave off the effects of the covid downturn. As we end the year, Bitcoin trades at its highest levels ever (Above US$ 22,000 per coin)

*Figure 10 Bitcoin has trumped gold as the new safe haven*




*Source: Bloomberg, Axis MF Research. Data as of 18th December 2020. Axis MF or AMC do not offer a view on bitcoin as an asset class nor do they offer recommendations to trade/speculate on the asset.*

## Things to watch out for in the New Year

The Indian economic recovery, Tokyo Olympics and most importantly your COVID vaccine shot!

# Disclaimers & Product Labelling

**Axis Bluechip Fund** (An open ended equity scheme predominantly investing in large cap stocks)

This product is suitable for investors who are seeking*

- Capital appreciation over long term
- Investment in a diversified portfolio predominantly consisting of equity and equity related instruments of large cap companies

**Axis Growth Opportunities Fund** (An Open-ended Equity Scheme investing in both large cap and mid cap stocks)

This product is suitable for investors who are seeking*

- capital appreciation over long term
- investment in a diversified portfolio predominantly consisting of equity and equity related instruments both in India as well as overseas

**Axis Small Cap Fund** (An open-ended equity scheme predominantly investing in small cap stocks)

This product is suitable for investors who are seeking*

- Capital appreciation over long term
- Investment in a diversified portfolio predominantly equity and equity related instruments of small cap companies

**Axis Equity Hybrid Fund** (An open ended hybrid scheme investing predominantly in equity and equity related instruments)

This product is suitable for investors who are seeking*

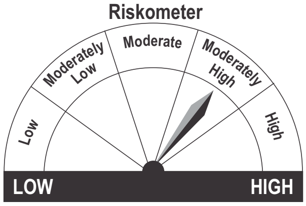
- Capital appreciation along with generation of income over medium to long term
- Investment in equity and equity related instruments as well as debt and money market instruments.

**Axis Triple Advantage Fund** (An open ended scheme investing in equity, debt and gold)

This product is suitable for investors who are seeking*

- Capital appreciation & generating income over long term.
- Investment in a diversified portfolio of equity and equity related instruments, fixed income instruments & gold exchange traded funds.

Riskometer




Investors understand that their principal will be at Moderately high risk

* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

## Disclaimers & Product Labelling (Contd.)

**Axis Dynamic Bond Fund** (An open ended dynamic debt scheme investing across duration)

This product is suitable for investors who are seeking*

- Optimal returns over medium to long term
- To generate stable returns while maintaining liquidity through active management of a portfolio of debt and money market instruments.

**Axis Strategic Bond Fund** (An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years)

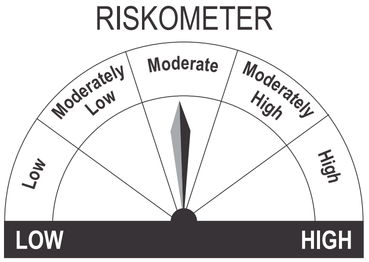
This product is suitable for investors who are seeking*

- Optimal returns over medium term
- Investment in diversified portfolio of debt and money market securities to generate optimal risk adjusted returns while maintaining liquidity

**Axis Corporate Debt Fund** (An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds)

This product is suitable for investors who are seeking*

- Regular income over short to medium term
- Predominantly investing in corporate debt.



Investors understand that their principal will be at Moderate risk

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