

Equity Markets- Testing Times

Rising Rates & the changing Equity Market Paradigm

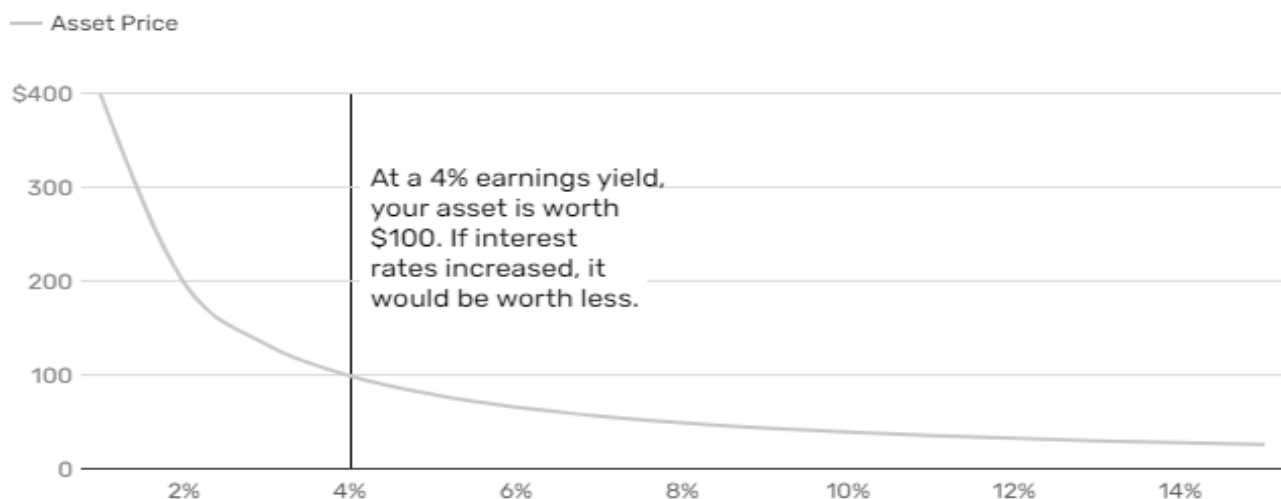
Investing Crux

Fact	Inference
In India, quality has delivered significant alpha despite a few periods of underperformance.	Consistency of returns has been a hallmark of growth and quality in India
Low interest rates had spurred speculative growth over last decade across new-age risk assets	Interest rates will be a key trigger for speculative assets especially where large growth expectations are priced into asset value
Improving economic health and financial resilience of old economy stocks	Warrants a re-look at universe a quality/growth lens
Growth/quality have globally outperformed all other forms of equity investing for over a decade	Value investing has delivered sub-optimal returns in the latest growth cycle

Rising Global Rates – What does it mean for asset prices?

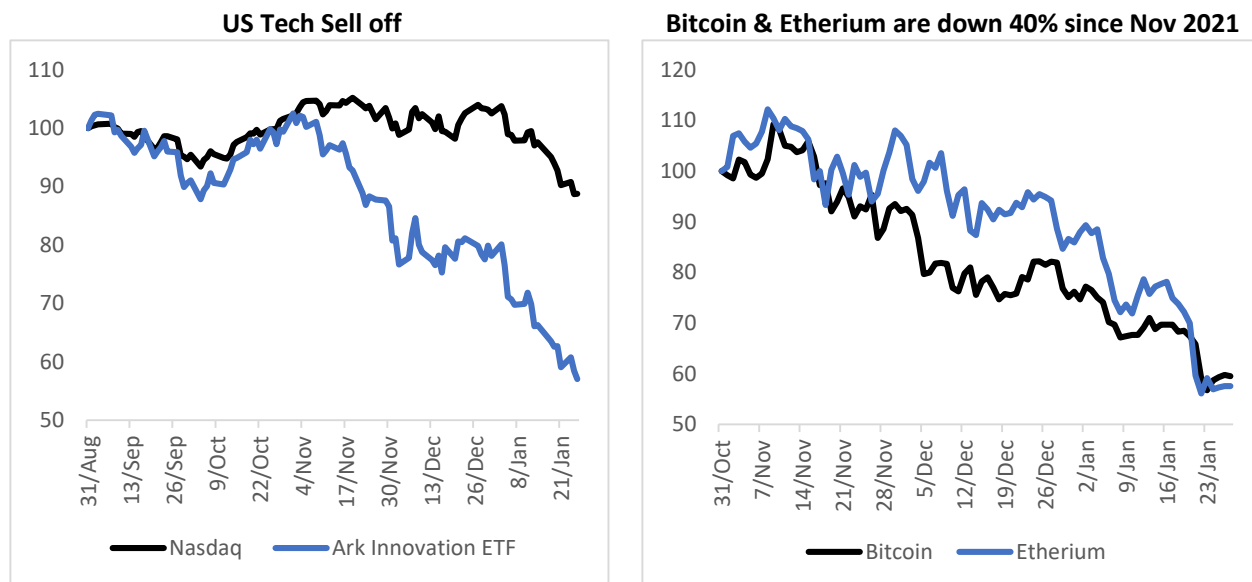
One of the side effects of covid has been the return of global inflation. In much of the developed world, inflation has been persistently low (below 3%) for more than a decade. The result has been a crippling rise in essential commodities & services. To combat this rise in inflation, global central banks have gradually put an end to accommodative monetary policy and set out a course to raise interest rates.

As interest rates rise, asset prices fall because investors can receive a higher return on a risk-free investment. Conversely, as interest rates fall, asset prices rise (As illustrated below).



Source: the balance.com. The chart is an illustration of the inverse relationship between asset prices & moving interest rates.

This relationship is more prominent in assets where prices are a result of expectations and future output. Since September 2021, we have witnessed many assets across the world responding to the threat of rising interest rates



Source: Bloomberg, Axis MF Research. Prices normalized to 100. Data as of 24th January 2022.

Growth & Quality – The Next Leg?

Inherent features of companies that filter through growth & quality parameters represent valuations backed by a proven growth track record and underlying earnings fundamentals. However, in a rising rate environment companies with strong cash flows and surplus cash tend to benefit – Why? Its because these companies tend to effectively utilize their cash to generate meaningful investment income either internally or through treasury operations.

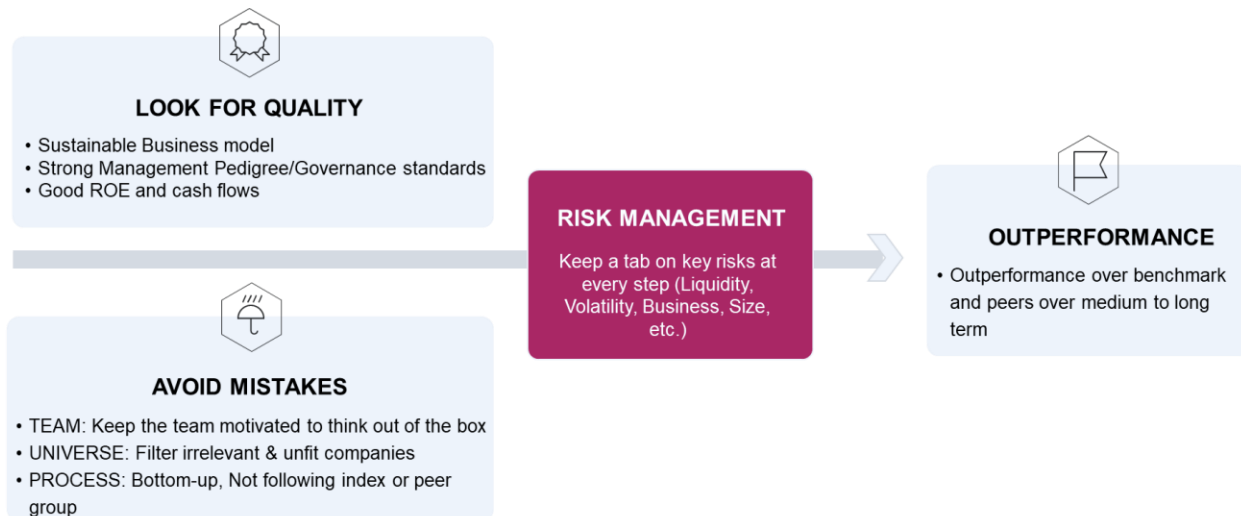
Typical cash rich companies can be companies of two types

- Companies where the business model follows a negative working cycle – i.e. they receive their money before they have to pay creditors – e.g. retail, FMCG, utility companies etc.
- Companies in the business of managing money – e.g. banks, insurance companies, NBFC's etc.

Those companies that typically depend on large debt financing or are loss making entities suffer in such conditions since their cost of capital is a key drag on their financial health.

Axis MF – Current Approach

With so much being priced in post this fed meet (5 Rate hikes) It's time to focus on basics of fundamentals driven investing which places emphasis on healthy consistent growth, quality of cash flows & RoE with 3 to 5 years view. At axis we focus on bottom up and that's what we do well i.e. Buy good businesses that can create wealth for the investors in long run.



While near term volatility could see an impact on the fund performances, our emphasis will be deliver consistent long term performance with a target to manage volatility in returns.

FPI Selling in Growth/Quality Stocks

An analysis from data published by NSDL highlights that FPI's hold large stakes in many companies we classify as growth/quality oriented stocks. As the global investment rotation takes place, in the short term, these stocks have seen significant sell offs as part of the larger global reallocation currently taking place.

This near term fall is not reflective of the health of these companies or their growth prospects. Rather as long term holders of these stocks, this fall offers a long term entry point across our funds. We have used this fall to top up our existing investments in many of these names.

Fund Metrics

Fund Name	ROE(%)		Revenue Growth (%)		EPS Growth (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Axis Bluechip Fund	15.95	17.85	25%	16%	24%	26%
Axis Focused 25 Fund	19.17	20.85	20%	17%	21%	22%
Axis Long Term Equity Fund	21.28	23.04	17%	17%	21%	22%
Axis Flexicap Fund	19.42	21.36	20%	18%	32%	26%
Axis Midcap Fund	16.15	17.52	23%	21%	38%	28%
Axis Smallcap Fund	19.50	20.52	17%	18%	22%	30%
Axis Quant Fund	14.11	15.25	32%	12%	36%	21%
BSE 100	13.17	14.70	31%	13%	21%	20%
NIFTY 500	13.25	14.77	30%	13%	22%	21%

Source: Axis MF Internal Estimates. Data based on portfolio dated 31st December 2021.

Product Label:

<p>Axis Bluechip Fund (An open Ended equity scheme predominantly investing in large cap stocks) Benchmark: S&P BSE 100 TRI This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> • Capital appreciation over long term • Investment in a diversified portfolio predominantly consisting of equity and equity related instruments of large cap companies <p>* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p style="text-align: center;">Riskometer</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Fund</th> <th style="width: 50%;">S&P BSE 100 TRI</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"> <p>Investors understand that their principal will be at Very High Risk</p> </td> <td style="text-align: center;"> </td> </tr> </tbody> </table>	Fund	S&P BSE 100 TRI	<p>Investors understand that their principal will be at Very High Risk</p>		<p>Axis Focused 25 Fund (An open Ended equity scheme investing in maximum 25 stocks investing in large cap, mid cap and small cap companies) Benchmark: NIFTY 500 TRI This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> • Capital appreciation over long term • Investment in a concentrated portfolio of equity & equity related instruments of up to 25 companies. <p>* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p style="text-align: center;">Riskometer</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Fund</th> <th style="width: 50%;">NIFTY 500 TRI</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"> <p>Investors understand that their principal will be at Very High Risk</p> </td> <td style="text-align: center;"> </td> </tr> </tbody> </table>	Fund	NIFTY 500 TRI	<p>Investors understand that their principal will be at Very High Risk</p>	
Fund	S&P BSE 100 TRI								
<p>Investors understand that their principal will be at Very High Risk</p>									
Fund	NIFTY 500 TRI								
<p>Investors understand that their principal will be at Very High Risk</p>									
<p>Axis Long Term Equity Fund (An Open Ended Equity Linked Savings Scheme With A Statutory Lock In Of 3 Years And Tax Benefit) Benchmark: NIFTY 500 TRI This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> • Capital appreciation & generating income over long term • Investment in a diversified portfolio predominantly consisting of equity and equity related instruments. <p>* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p style="text-align: center;">Riskometer</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Fund</th> <th style="width: 50%;">NIFTY 500 TRI</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"> <p>Investors understand that their principal will be at Very High Risk</p> </td> <td style="text-align: center;"> </td> </tr> </tbody> </table>	Fund	NIFTY 500 TRI	<p>Investors understand that their principal will be at Very High Risk</p>		<p>Axis Flexi Cap Fund (An Open Ended Dynamic Equity Savings scheme investing across Large cap, Mid cap, Small cap stocks) Benchmark: NIFTY 500 TRI This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> • Capital appreciation over medium to long term • Investment in a dynamic mix of equity and equity related instruments across market capitalization. <p>* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p style="text-align: center;">Riskometer</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Fund</th> <th style="width: 50%;">NIFTY 500 TRI</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"> <p>Investors understand that their principal will be at Very High Risk</p> </td> <td style="text-align: center;"> </td> </tr> </tbody> </table>	Fund	NIFTY 500 TRI	<p>Investors understand that their principal will be at Very High Risk</p>	
Fund	NIFTY 500 TRI								
<p>Investors understand that their principal will be at Very High Risk</p>									
Fund	NIFTY 500 TRI								
<p>Investors understand that their principal will be at Very High Risk</p>									
<p>Axis Midcap Fund (An Open Ended Equity Scheme Predominantly Investing In Mid Cap Stocks) Benchmark: S&P BSE Midcap 150 TRI This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> • Capital appreciation over long term • Investing predominantly in equity & equity related instruments of Mid Cap companies. <p>* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p style="text-align: center;">Riskometer</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Fund</th> <th style="width: 50%;">S&P BSE Midcap 150 TRI</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"> <p>Investors understand that their principal will be at Very High Risk</p> </td> <td style="text-align: center;"> </td> </tr> </tbody> </table>	Fund	S&P BSE Midcap 150 TRI	<p>Investors understand that their principal will be at Very High Risk</p>		<p>Axis Small Cap Fund (An open ended equity scheme predominantly investing in small cap stocks) Benchmark: NIFTY Smallcap 250 TRI This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> • Capital appreciation over long term • Investment in a diversified portfolio predominantly consisting of equity and equity related instruments of small cap companies <p>* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p style="text-align: center;">Riskometer</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Fund</th> <th style="width: 50%;">NIFTY Smallcap 250 TRI</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"> <p>Investors understand that their principal will be at Very High Risk</p> </td> <td style="text-align: center;"> </td> </tr> </tbody> </table>	Fund	NIFTY Smallcap 250 TRI	<p>Investors understand that their principal will be at Very High Risk</p>	
Fund	S&P BSE Midcap 150 TRI								
<p>Investors understand that their principal will be at Very High Risk</p>									
Fund	NIFTY Smallcap 250 TRI								
<p>Investors understand that their principal will be at Very High Risk</p>									
<p>Axis Quant Fund (An open-ended equity scheme following a quantitative model) Benchmark: S&P BSE 200 TRI This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> • Capital appreciation over long term • An equity scheme that invests in equity and equity related instruments selected based on quant model. <p>* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p style="text-align: center;">Riskometer</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Fund</th> <th style="width: 50%;">S&P BSE 200 TRI</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"> <p>Investors understand that their principal will be at Very High Risk</p> </td> <td style="text-align: center;"> </td> </tr> </tbody> </table>		Fund	S&P BSE 200 TRI	<p>Investors understand that their principal will be at Very High Risk</p>					
Fund	S&P BSE 200 TRI								
<p>Investors understand that their principal will be at Very High Risk</p>									

Disclaimer

Source of Data: Axis MF Research. Data as of 28th January 2022.

This document represents the views of Axis Asset Management Co. Ltd. and must not be taken as the basis for an investment decision. Neither Axis Mutual Fund, Axis Mutual Fund Trustee Limited nor Axis Asset Management Company Limited, its Directors or associates shall be liable for any damages including lost revenue or lost profits that may arise from the use of the information contained herein. No representation or warranty is made as to the accuracy, completeness or fairness of the information and opinions contained herein. The material is prepared for general communication and should not be treated as research report. The data used in this material is obtained by Axis AMC from the sources which it considers reliable.

While utmost care has been exercised while preparing this document, Axis AMC does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s). The AMC reserves the right to make modifications and alterations to this statement as may be required from time to time.

Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh). Trustee: Axis Mutual Fund Trustee Ltd. Investment Manager: Axis Asset Management Co. Ltd. (the AMC) Risk Factors: Axis Bank Limited is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.