Multi Asset Strategy

December 2020

RISK CALIBRATION FOR 2021

AXIS SECURITIES

AXIS STRATEGY: RISK CALIBRATION FOR 2021

Covid-19 update: Moderation of Covid cases continued in November with a drop of 30% mom. Covid-19 situation is appears to be improving since last two months with the average daily cases reducing to 45K per day in November vs. 60k in previous month. 44 vaccination candidates are in various stages of development of the Corona vaccine, out of which 10 candidates are now in Phase 3 trial which is a final phase of the vaccine development. Earlier this month, two vaccine candidates from Pfizer and Moderna have shown upbeat results with an efficacy rate of almost 95%.

High Frequency Indicators – Improvement continues, sustainability remains to see: Positive trend continued for the month of November, with manufacturing PMI at 56.3 which was slightly lower than October's decade high value of 58.9. The number shows continuation of improving operating conditions after the lifting of lockdown restrictions resulting into increase in new orders and production. GST collection topped Rs 1 lakh cr for the second consecutive month indicating the broad level pickup in business activities. Strong demand trend was seen in Automobile sales which were supported by festive demand and the momentum is likely to continue in the upcoming months. Demand for personal mobility has increased with an increased share of first time buyers and trend is also visible for car purchases being prioritized over the other discretionary spends. India's July-September GDP confirms the faster normalization of the activities in Q2 with stronger than expected pickup. Economic contraction continued in September quarter but it was far less severe than June quarter, fall of 7.5% was better than the street expectations.

Equities - More Growth and More value: The month of October saw a very strong rally across the top banks with Kotak Bank being the top performer among the frontline private banks. This traction continued in the month of November with the BFSI rally broad-basing. The management commentary across the board was largely upbeat. Q2 FY21 results beat expectations with 34 Nifty companies beat earnings expectations in Q2 by a reasonable margin. While a significant portion of the beat has been on account of better margins which is attributable to cost management but recovery of revenues has also been better than expectations. With the significant beat as a backdrop, we have raised our earnings estimates for FY21/22 by 6%/8% and introduced FY23 earnings. **We arrive at December 2021 target by valuing the NIFTY at 20x FY23E earnings of 730 translating to our target of 14,600.** Growth combined with value is a win-win proposition even as the Indian equity markets have reached an interesting point the market offers multiple plays. Value plays like Metals, Banks, NBFCs and others have started delivering solid returns but also the small and midcap space marked by discretionary consumption, retail, autos and others have delivered returns. Thus, the market is rewarding handsomely across both the themes. Hence, combination of the two themes continues to deliver the most rewarding returns.

Fixed Income: Bond yields were largely stable for the month after the intervention of RBI by applying unconventional tool of OMO and operation twist to maintain stability in the financial system. Further on expected lines, RBI's MPC maintained status quo, kept the repo rate unchanged at 4% and maintained the accommodative stance. RBI's dovish measures and continuation of accommodative stance further ruled out the possibility of a rate hike in the near term. RBI has indicated that inflation is likely to moderate in second half of the current fiscal year but still revised the target upward for upcoming quarters. Growth outlook has improved with Q2 GDP print, RBI expects FY21 GDP to be contracted by 7.5%, less severe than earlier expectation. Policy focus remains on reviving growth by ensuring liquidity along with benign interest rates to spur the demand environment in the economy. We believe the yield curve will remain steep given the ample liquidity in the system towards the lower end of the yield curve while longer end will remain elevated due to higher supply of G-sec and remain cautious due fiscal deficit & inflation risk over a medium term. **We continue to favor a quality approach in bonds with some non-AAA exposure based on individual risk appetite.**

Gold: We have already expressed our view in earlier reports about the various scenarios that could stop the momentum in Gold, which played out in November. Gold suddenly lost its momentum due to 'Risk on' trade in the global market amid positive development on vaccine front. Equity markets hit a fresh high in the month of November on account of relief from an uncertainty of the US elections and vaccination news. Overall investor's sentiments have improved in the last few days. Now, investors are betting higher on riskier assets like equity, these improved sentiments were further stoked by the optimism on the vaccine development after the upbeat results shown by two US drug manufacturers. All these developments are keeping the gold prices under pressure. The improvement in global economy and likelihood of more predictable trade policies will further keep the gold prices range bound. However, lower interest rates & dovish policy stance could continue to attract investments in gold. **We continue our Neutral stance on Gold.**

Currency: USD/INR opened higher in November with stronger USD given a negative risk tone ahead of the US elections and worries over rising Covid cases in Europe. Currency market was highly volatile in first week of November as the US elections showed no signs of the expected 'Blue wave'. However, Indian currency gained quickly as the election results settled and appeared to favor narrow democrat win – implying tougher negotiation on fiscal stimulus. Continued USD weakness and positive development over vaccine supported Indian currency positively for the month. Currently, dollar is weak against Euro but going forward the key events that will decide the direction of the dollar **1) How quickly President Biden be able to push expected fiscal stimulus 2) Smaller stimulus package could tilt the needle on FED to do more to revive the economy by keeping the rate lower or even closer to Zero for an extended period of time.**

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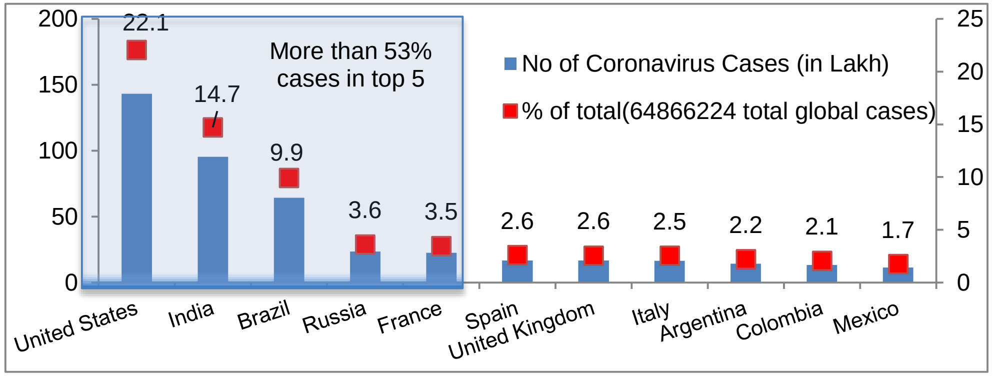
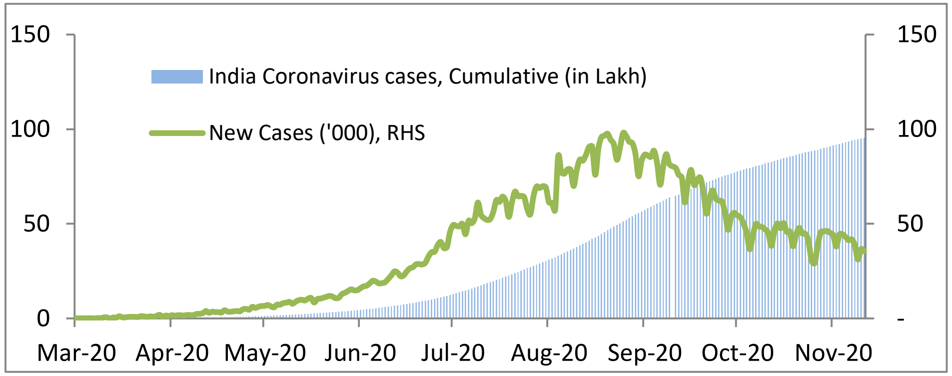
Covid-19 update: Moderation of Covid cases continued in November

India's Covid tally has surpassed 9.5 million cases in November 2020, however moderation in daily cases continued in November with a drop of 30% mom. Covid-19 situation appears to be improving since the last two months with average daily cases reducing to 45K per day in November vs 60k in previous month. This improvement in daily covid cases demonstrates that India handled the covid crisis very well vs the other developed countries where the possibility of second wave has heightened. **Currently, 58% of total Covid cases are in 6 states of India which contribute 49% to India's GDP.** Vaccine development is in advanced stages across the countries. 44 vaccination candidates are in various stages of development of the Corona vaccine and 10 candidates of them are now in Phase 3 trial which is a final phase of the vaccine development. Earlier this month, two vaccine candidates Pfizer and Moderna have shown upbeat results with an efficacy rate of almost 95%. Now the discussion has progressed towards the production and the distribution of the vaccine. As per government estimate, one out of five Indian may be vaccinated by July 2021. Government is also preparing a list of "priority population group", to get the vaccine first.

World Corona virus cases



India Covid Cases

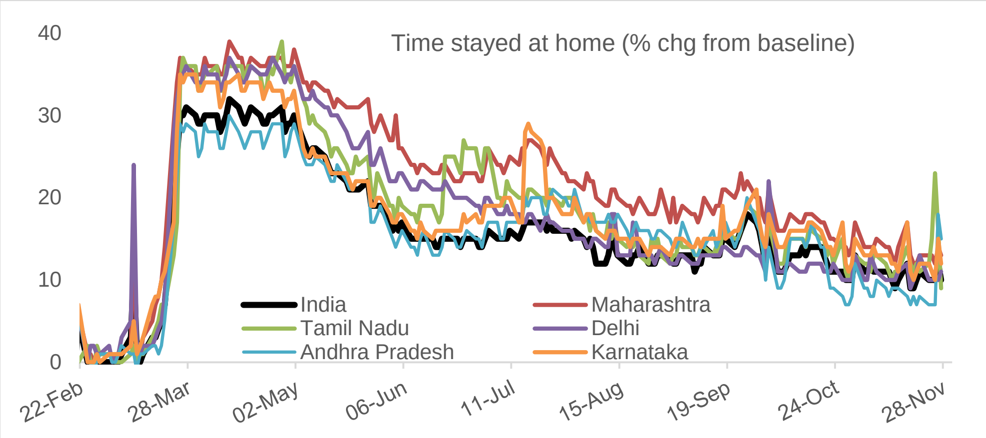


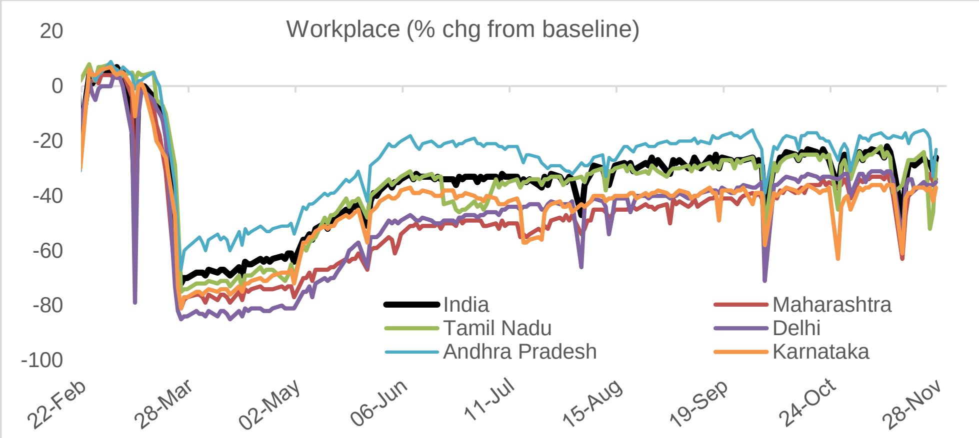
Covid Vaccine Tracker			
Country	**Candidate**	**Developer**	**Phase of Development**
Russia	Sputnik V	Gamaleya Research Institute, Acellena Contract Drug	Phase3
US	BNT162	Pfizer, BioNTech	Phase3
India	Covaxin	Bharat Biotech; National Institute of Virology	Phase 3
China	Inactivated vaccine	Wuhan Institute of Biological/ Sinopharm	Phase3
China	CoronaVac	Sinovac	Phase3
US	mRNA-1273	Moderna	Phase3
China	Ad5-nCoV	CanSino Biologics	Phase3
UK	AZD1222/Covishield	The University of Oxford; AstraZeneca;Serum Institute of India	Phase3
US	NVX-CoV2373	Novavax	Phase3
US	JNJ-78436735 (formerly Ad26.COV2-S)	Johnson & Johnson	Phase 3
Australia	Bacillus Calmette-Guerin (BCG)	University of Melbourne	Phase 2/3
India	ZyCoV-D	Zydus Cadila	Phase 2

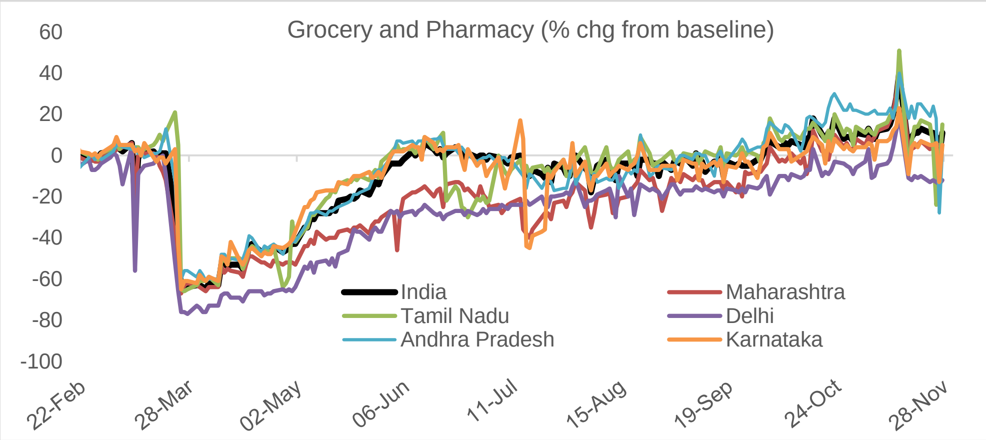
Source: Covid19India, John Hopkins, RAPS, Axis Securities

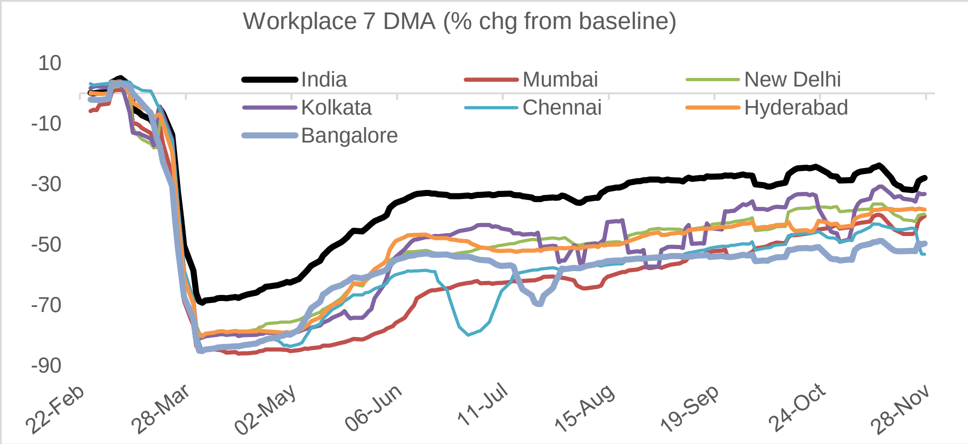
Google Mobility Report: Marginal improvement seen in mobility data

Activities at groceries and Pharmacy outlets are back to pre covid levels; however, for some of the regions activities are better than Jan/Feb levels. Tier 1 cities are still behind the curve for time to stayed at home but the situation is improving. Although at India level, time stayed at home is still 10% away from baseline with major recovery seen beyond Tier-1 cities. Workplace activity is picking up, but it is still -25% away from the base line. Tier-1 cities where the majority of workforce population works, is currently below the India average while beyond Tier-1 workplace activities are recovering but are still below the base line.





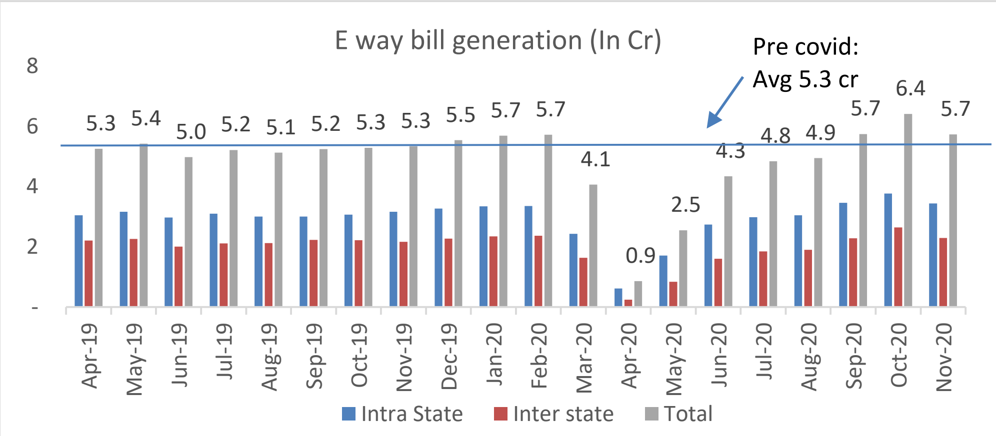


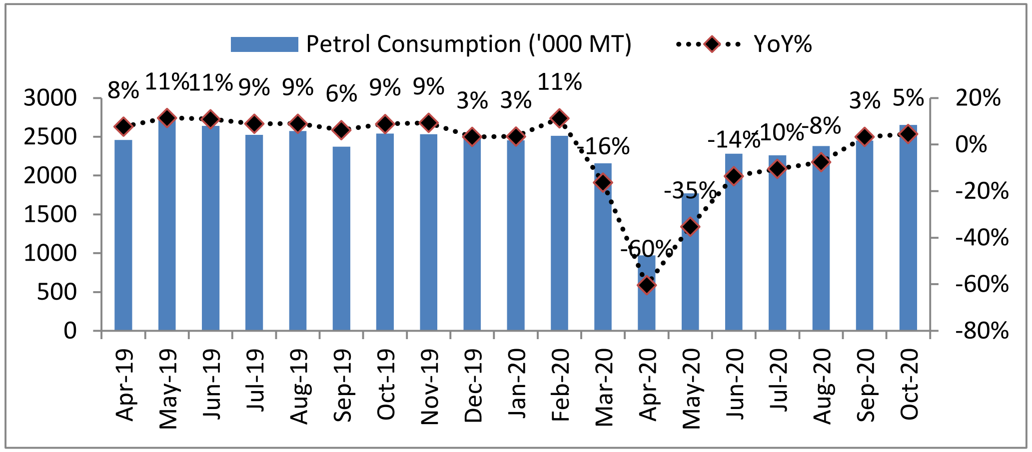


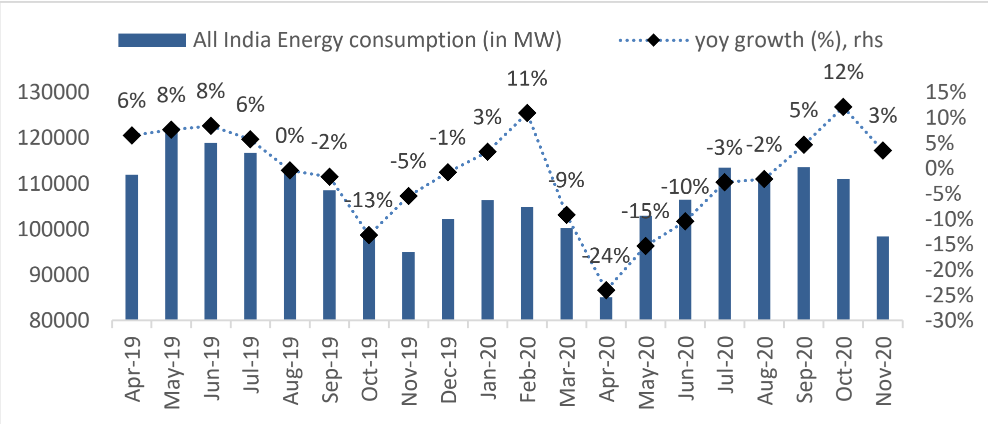
Source: Google mobility report, Axis Securities

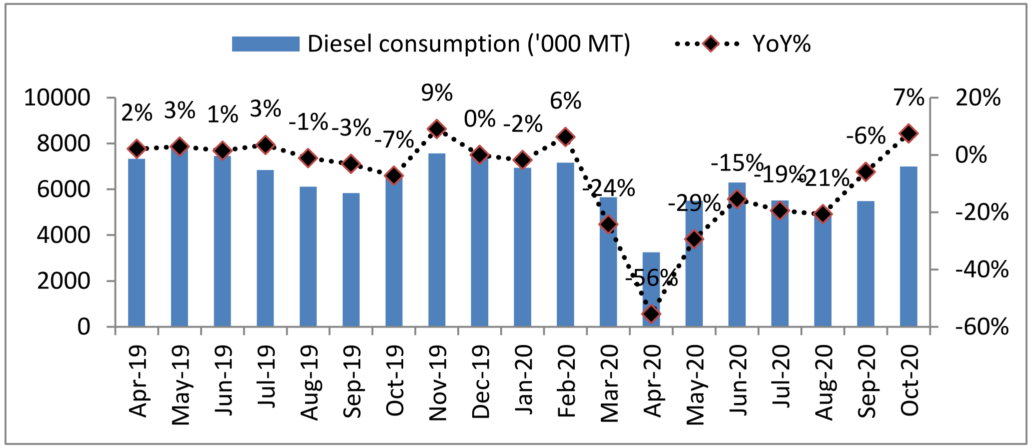
E-Way bills & Energy demand points to a continuation of economic recovery

With ease in lockdown restrictions, economic activities are resuming back to pre Covid levels at a faster than expected recovery, however the pace of recovery has moderated in the month of November vs the last month. 5.7 cr E-way bills generated for the month of November, higher than pre covid average level of 5.3 cr. With broad level pickup in business and operating activities, growth in monthly electricity consumption has turned positive, grew by 3% yoy vs 12% in October shows a consistent sign of recovery in economic activities. **Demand for Petrol and diesel is slowly picking up – both have turned positive YoY in the month of October, sharp improvement seen for Diesel consumption.**









Source: Bloomberg, GSTN, POSOCO, PPAC, Axis Securities, October electricity data is provisional

High Frequency Indicators: Improvement continues in November, sustainability remains to be seen

Manufacturing PMI at 56.3 in November, which was slightly lower than October's decade high value of 58.9. The number shows continuation of improving operating conditions arise after the lifting of lockdown restrictions which resulted in new orders and production. Another sign of recovery in the economy was the November GST collection which was above the Rs 1 lakh cr mark for the second consecutive month. Rising GST collection indicates the pickup in business activities, and is also an indication of revival of consumption. Strong demand trend was seen in Automobile sales supported by the festive demand and the momentum is likely to continue for the upcoming months. Demand for personal mobility has increased with an increased share of first time buyers, trend is also visible for car purchases which are being prioritized over the other discretionary spends, however sustainability remains to be seen.

Macro	Month	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Forex reserves ($ Bn)	Nov-20	457.5	471.3	481.5	475.6	479.5	493.5	506.8	534.6	541.4	542.0	560.7	575.3
FDI ($ Mn)	Sep-20	5065	6742	4533	4075	3402	2535	-72	3988	18371	3288		
Exports (YoY%)	Oct-20	-1.8%	-1.7%	2.9%	-34.6%	-60.3%	-36.5%	-12.4%	-10.2%	-12.7%	6.0%	-5.1%	
Imports ($ YoY%)	Oct-20	-8.8%	-0.7%	2.5%	-28.7%	-58.6%	-51.0%	-47.6%	-28.4%	-26.0%	-19.6%	-11.5%	
IIP YoY%	Sep-20	0.5%	2.2%	5.2%	-18.7%	-57.3%	-33.4%	-16.6%	-10.8%	-7.4%	0.2%		
CPI YoY%	Oct-20	7.4%	7.6%	6.6%	5.8%	7.2%	6.3%	6.2%	6.7%	6.7%	7.3%	7.6%	
WPI YoY%	Oct-20	2.8%	3.5%	2.3%	0.4%	-1.6%	-3.4%	-1.8%	-0.3%	0.4%	1.3%	1.5%	
PMI Manufacturing	Nov-20	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46	52	56.8	58.9	56.3
PMI Services	Nov-20	53.3	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8	54.1	53.7
Industry													
Cement Production yoy%	Oct-20	5.5%	5.1%	7.8%	-25.1%	-85.2%	-21.4%	-6.8%	-13.5%	-14.5%	-3.5%	2.8%	
Steel Production yoy%	Oct-20	8.7%	1.6%	2.9%	-21.9%	-82.8%	-40.4%	-23.3%	-6.5%	-1.7%	2.8%	-2.7%	
Electricity Gen yoy%	Oct-20	0.0%	3.2%	11.5%	-8.2%	-22.9%	-14.8%	-10.0%	-2.4%	-1.8%	4.8%	10.5%	
Coal Generation yoy%	Oct-20	6.1%	8.0%	11.3%	4.0%	-15.5%	-14.0%	-15.5%	-5.7%	3.6%	21.2%	11.6%	
Eight Core Industries yoy%	Oct-20	3.1%	2.2%	6.4%	-8.6%	-37.9%	-21.4%	-12.4%	-7.6%	-7.4%	-0.2%	-2.5%	
GST Collection (Rs Crores)	Nov-20	1,03,184	1,10,818	1,05,366	97,597	32,294	62,009	90,917	87,422	86,449	95,480	1,05,155	1,04,963
Tractor Sales YoY%	Oct-20	4.0%	3.3%	19.6%	-50.2%	-80.1%	0.5%	20.2%	35.9%	64.8%	26.7%	9.0%	
Domestic Air Pass YoY %	Oct-20	2.6%	2.2%	9.0%	-33.1%		-97.7%	-83.5%	-82.3%	-76.0%	-65.8%	-57.2%	
Passenger Vehicles YoY %	Nov-20	-1.2%	-6.1%	-7.8%	-51.0%	-100.0%	-86.0%	-53.2%	-9.0%	14.2%	26.5%	17.0%	8.6%*
2 Wheeler's YoY %	Nov-20	-16.6%	-16.0%	-19.8%	-39.8%	-100.0%	-83.8%	-38.6%	-15.2%	3.0%	12.9%	17.0%	15.7%*
Naukri Job Speak Index YoY%	Oct-20	10.5%	5.8%	0.0%	-17.8%	-61.6%	-61.2%	-44.4%	-47.3%	-34.7%	-23.0%	-17.0%	

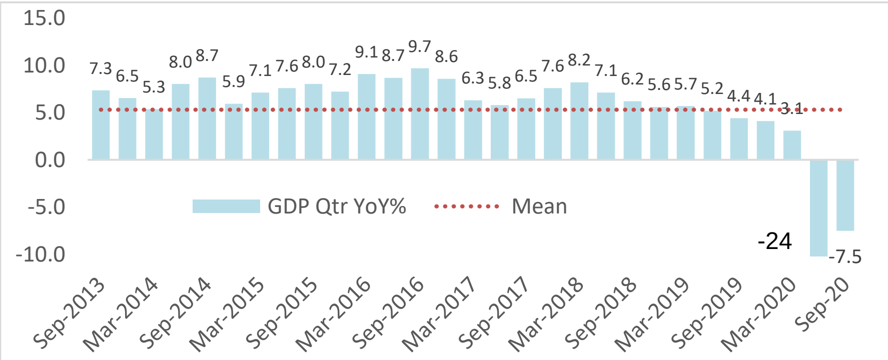
Source: Bloomberg, RBI, MOSPI, * Provisional numbers, Axis Securities

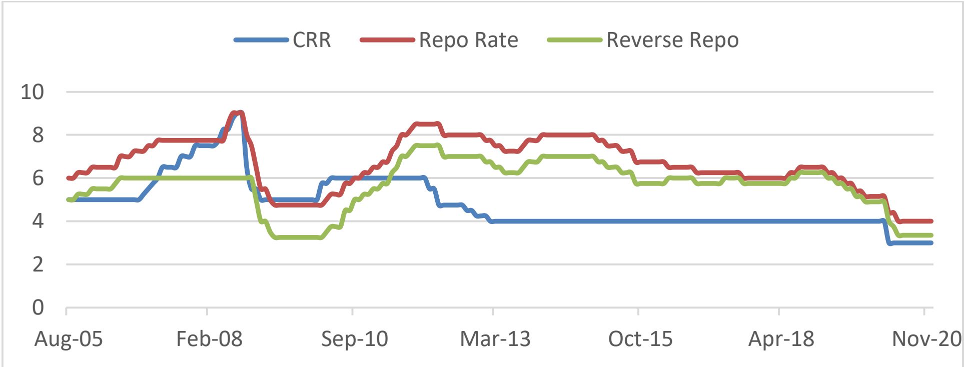
High Frequency Indicators: Faster normalization of the activities in Q2

India's July-September GDP confirms the faster normalization of the activities in Q2 with stronger than expected pickup. Economic contraction continued in September quarter but it was less severe than June quarter, fall of 7.5% is better than the expectations of the street. High frequency indicators like PMI, GST collection, E-way bill, and electricity consumption were already trending higher, suggesting the upward trend of economic growth showing strong recovery in economic activities. Further on an expected line, RBI's MPC maintains status quo, kept repo rate unchanged to 4% and maintained the accommodative stance. RBI's dovish measures and continuation of accommodative stance has ruled out the possibility of rate hike in the near term, which was the biggest fear expressed by the investors, onset of continued higher inflation. However, RBI expressed inflation will likely to moderate in second half of the current fiscal year. Growth outlook has improved with Q2 GDP print, RBI expects FY21 GDP to be contracted by 7.5%, less severe than earlier expectation.

Overall credit growth remained muted for the month of October reflecting low demand and risk aversion in the system. Growth in personal loan segment continues to be sluggish with 9% in October vs 16% last year. Recovery can be seen in the credit growth of Agri & Allied activities which grew by 7.4% and services which grew by 9.5%. It remains to see the trend of credit growth for upcoming months as Indian banking system is flushed with liquidity and focus of management has now shifted to growth rather than collections.

RBI Data	Month	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Deposit Growth YoY%	Nov-20	10.1%	11.2%	10.0%	7.9%	9.8%	10.6%	11.0%	11.9%	10.9%	10.5%	10.1%	11.0%
Credit Growth (YoY%)													
Non Food Credit	Oct-20	7.0%	8.5%	7.3%	6.7%	7.3%	6.8%	6.7%	6.7%	6.0%	5.8%	5.6%	
Agri & Allied Activity	Oct-20	5.3%	6.5%	5.8%	4.2%	3.9%	3.5%	2.4%	5.4%	4.9%	5.9%	7.4%	
Industry	Oct-20	1.6%	2.5%	0.7%	0.7%	1.7%	1.7%	2.2%	0.8%	0.5%	0.0%	-1.7%	
Services	Oct-20	6.2%	8.9%	6.9%	7.4%	11.2%	11.2%	10.7%	10.1%	8.6%	9.1%	9.5%	
Personal Loan (Retail)	Oct-20	15.9%	16.9%	17.0%	15.0%	12.1%	10.6%	10.5%	11.2%	10.6%	9.2%	9.3%	



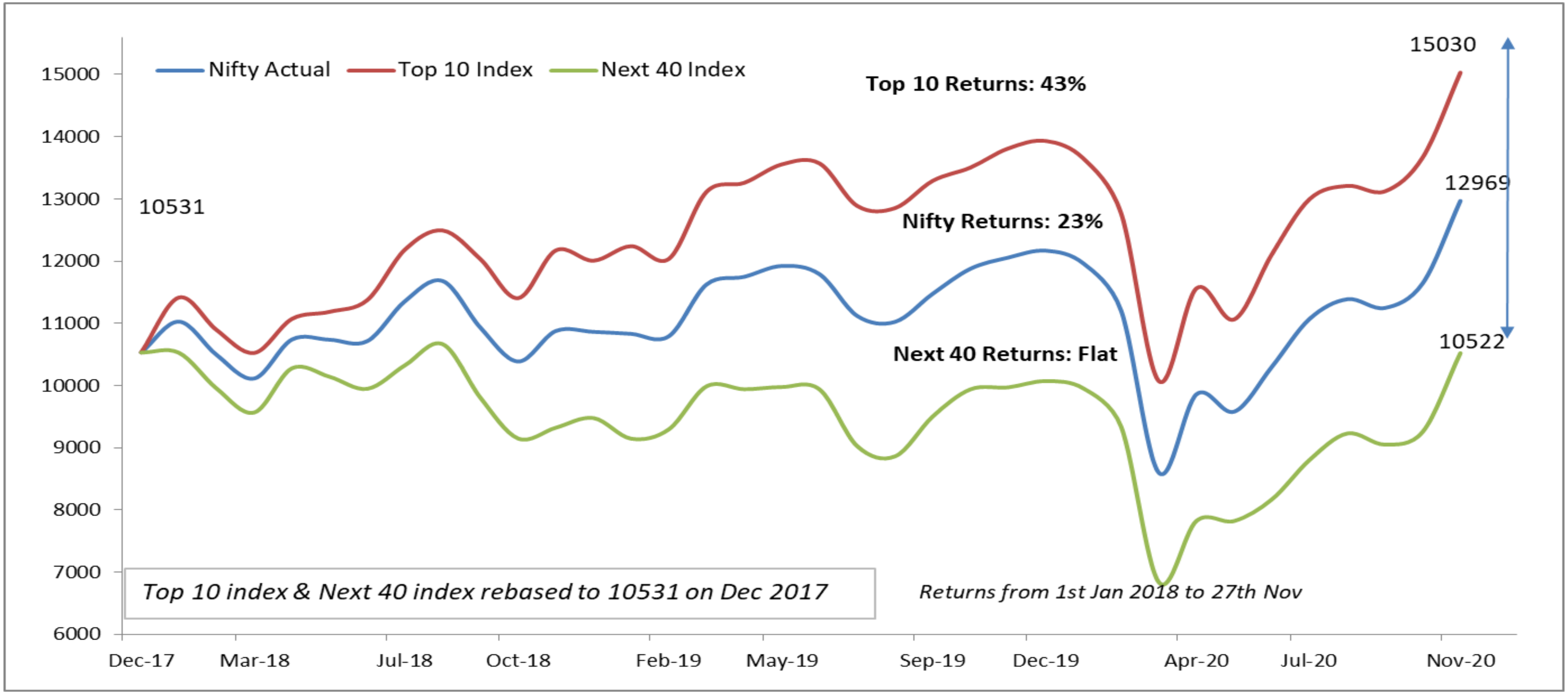


Source: Bloomberg, RBI, MOSPI, Axis Securities

Equity: More Growth and More value

Huge Divergence in the returns of Nifty Constituents

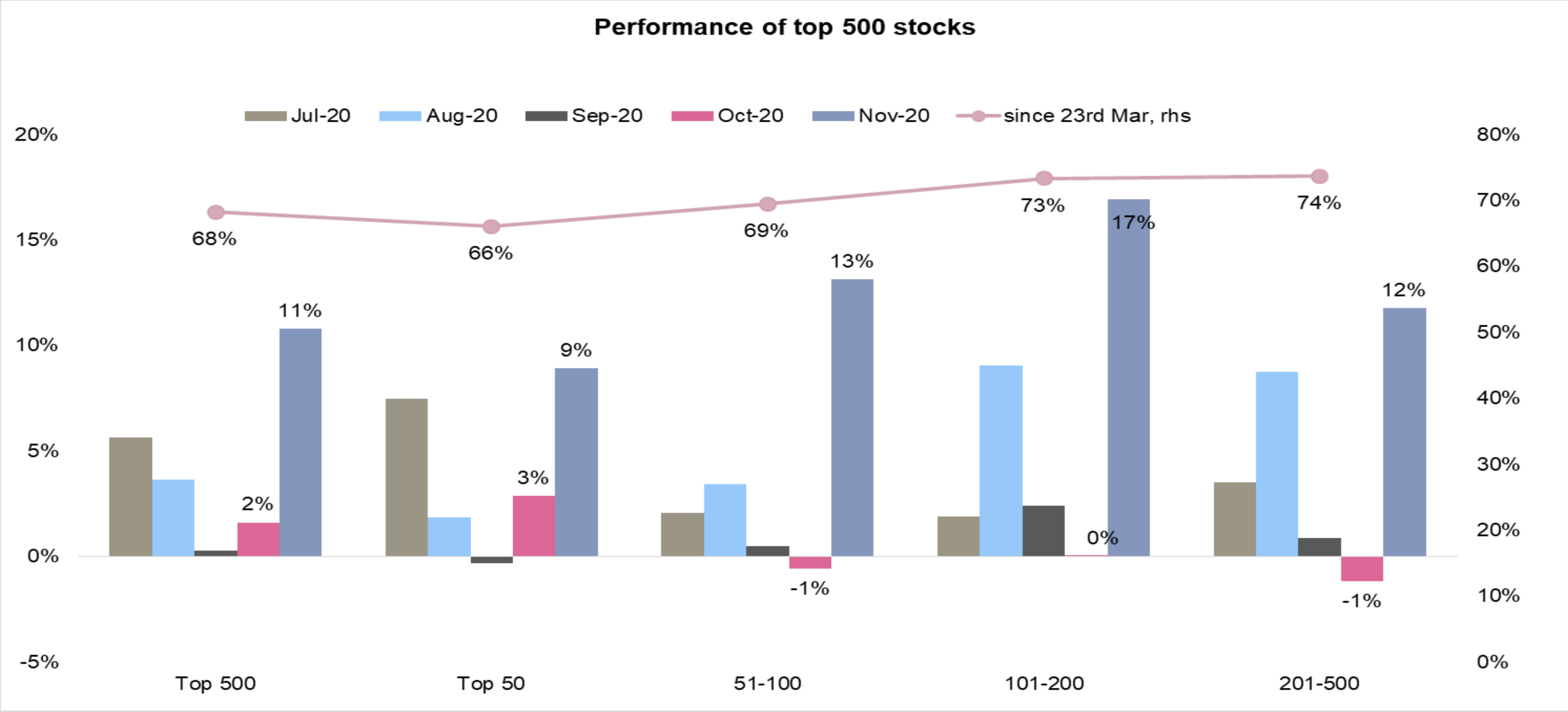
Since Dec 2017, Nifty has delivered a return of 23%. Out of which, the top 10 stocks by free float market cap have delivered a stellar return of 43% while remaining 40 stocks have remained flat. This divergence has widened in the recent months, based on the top 10 stocks the adjusted Nifty value works out to 15030 while the remaining 40 would lead NIFTY to just 10522 (Dec 2017 level). This indicates Nifty is better valued beyond top 10 names. Long term risk rewards are better in next 40 names vs. top 10.



Source: Bloomberg, NSE, Axis Securities Note: Data till 27th Nov 2020

Performance of top 500 stocks

Broader market performance seen in the month of November, 17% rally was seen for companies ranking from 101-200. Small and midcap stocks are picking up steam and they should deliver solid returns in 2021 as economic uncertainties will reduce and volatility will decline. We believe volatility will decline significantly in 2021 which will lead to a small and mid cap rally.

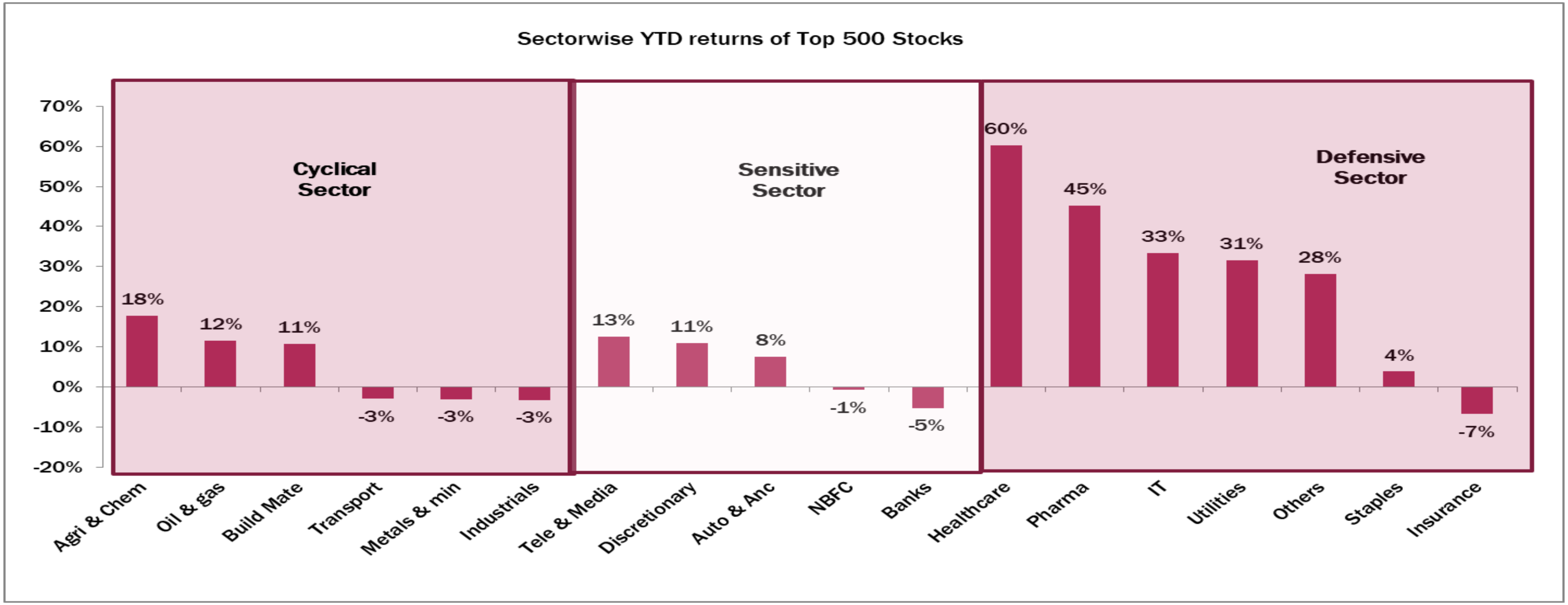


Source: Bloomberg, NSE, Axis Securities Note: Data till 27th Nov 2020

Sector rotation: Cyclical & Sensitive sectors are playing a catch-up rally

On YTD basis defensives are the clear winners, Pharma gained 45%, IT up 33% on YTD basis while NBFC down by 5%, Bank down by 1%, Industrials and Metals are down by 3% on YTD basis.

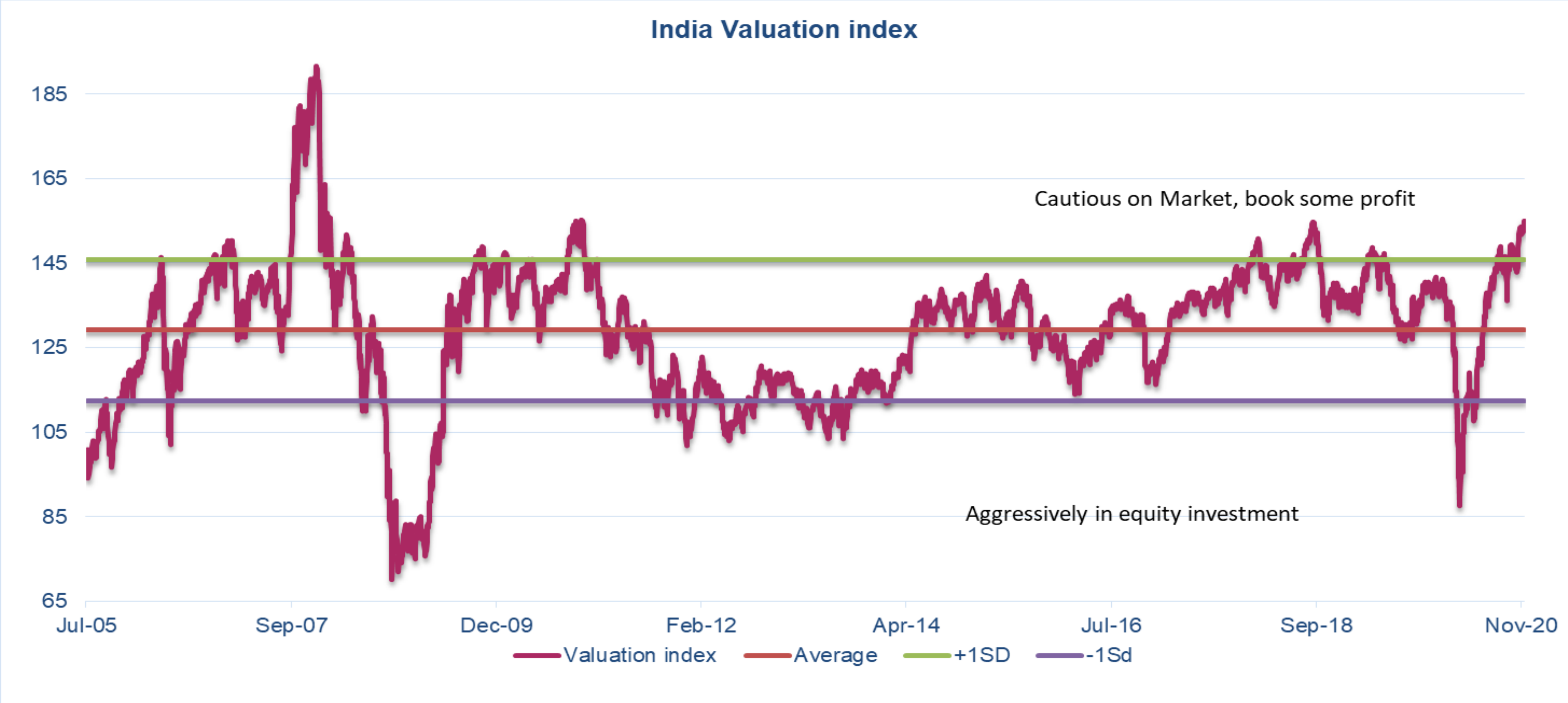
In the last few months, the entire market narrative was positioned towards defensive plays with IT and pharma stocks were outperforming the market. In November, we saw recovery in BFSI, Auto, Metals, Cyclicals (Ex Reliance) which has also started outperforming in the month of November. BFSI sector was on backseat till October and outperformed the broader market with improved fundamentals in the month of November. Market cap of BFSI space is still 4-5% below pre-covid level. With improved outlook and with focus towards growth, risk rewards are in favour for this sector. We believe outperformance of BFSI will continue in upcoming quarters also.



Source: Bloomberg, NSE, Axis Securities Note: Data till 27th Nov 2020

India Valuation Index: Retracing back to cautious zone after a recent run-up

Our Market valuation index has retraced back to the cautions zone after the recent run-up (earlier seen in 2018). Index value was one standard deviation below its long-term average in March 2020, which meant one should have aggressively invested in equity. However, current levels indicate some profit booking in the market (especially large caps), stock picking and sector rotation is a key at current level to generate outperformance. India valuation index calculated on the basis of four fundamental market parameters (12m fwd PE, 12m fwd PB, Bond Equity Earning yield ratio, Mcap to GDP ratio)

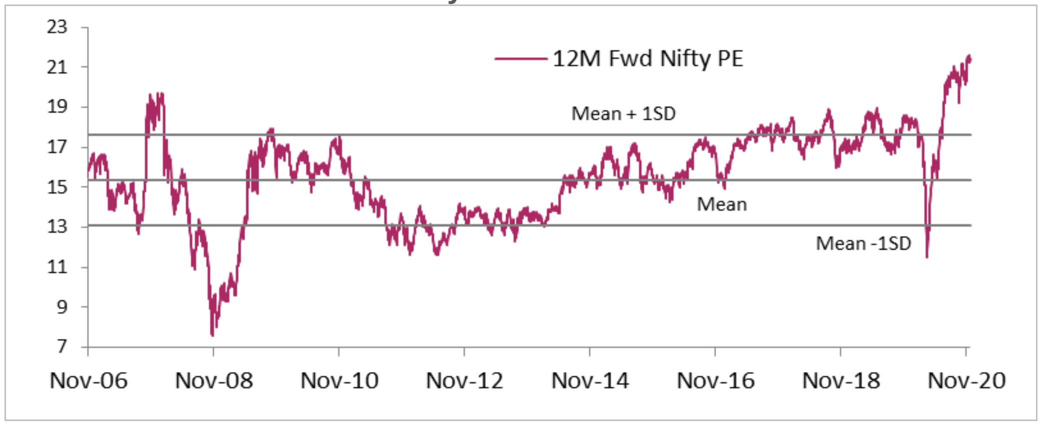


Source: Bloomberg, Axis Securities Note: Data till 27th Nov 2020

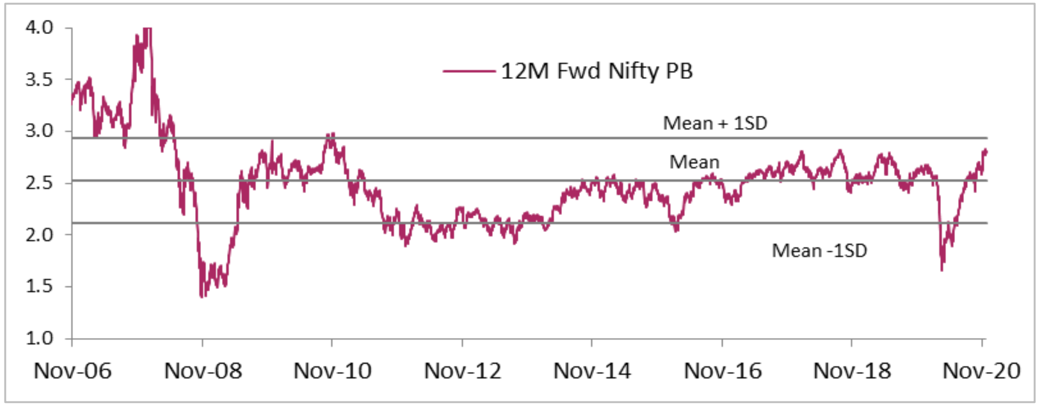
Market Valuations: Upgraded the FY21/22 EPS by 6%/8%, see Nifty at 14,600 in December 2021

Nifty is currently trading at 21.3x on 12m fwd PE, 2.6 std above its long-term average while Nifty is trading at its long-term average on 12m Fwd PB. Divergence between returns of top 10 vs. remaining 40 constituents has brought Nifty into expensive zone. Beyond top 10 names, Nifty looks less expensive. **(Top 10 trading at 25.0x while remaining 40 trading at 17.7x on 12m fwd PE).** Earnings scenario has improved with the Q2FY21 quarterly results with the majority of earnings beating expectations, 34/50 Nifty companies have beaten the street estimates at EPS level. Based on this we have upgraded our FY21/22 EPS by 6%/8%. **We value Nifty at 20x at FY23 earnings translating to our December 2021 target for Nifty at 14,600.**

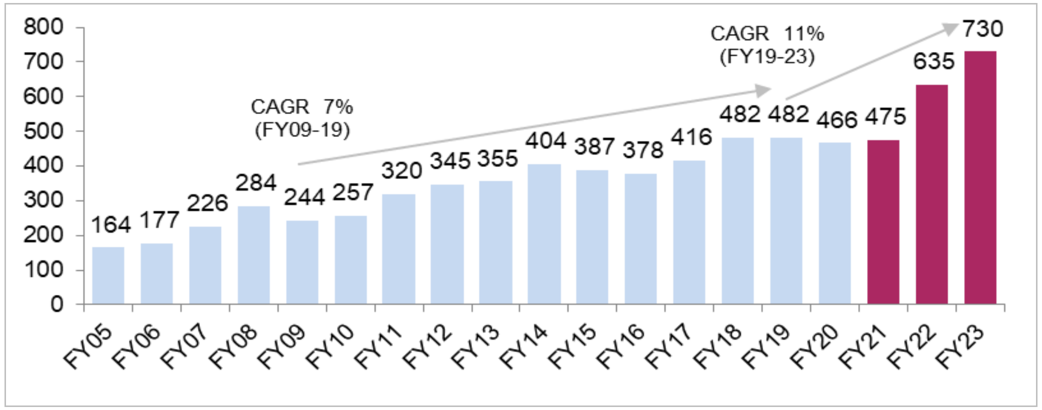
Nifty 12m Fwd PE



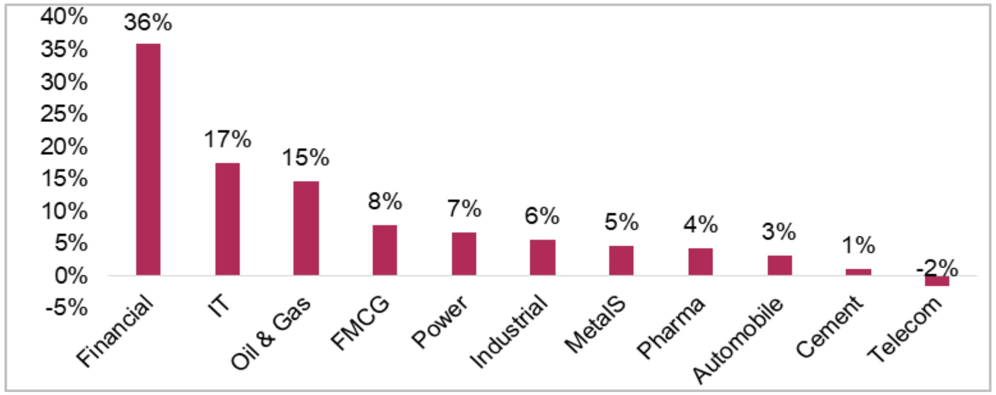
Nifty 12m Fwd PB



Nifty EPS



FY21 EPS Contribution

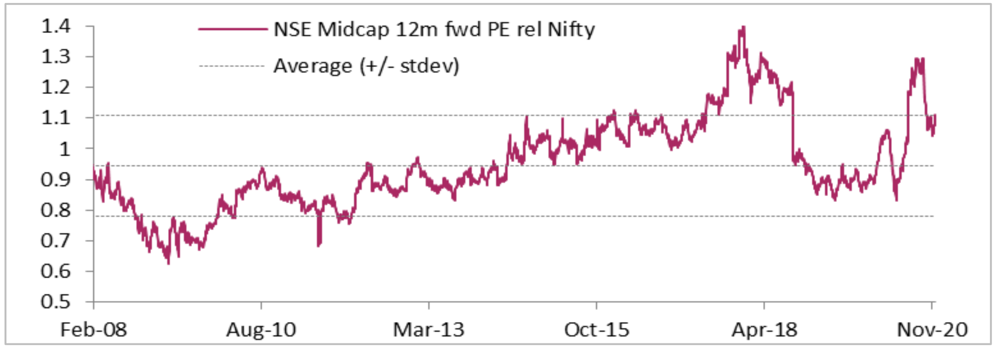


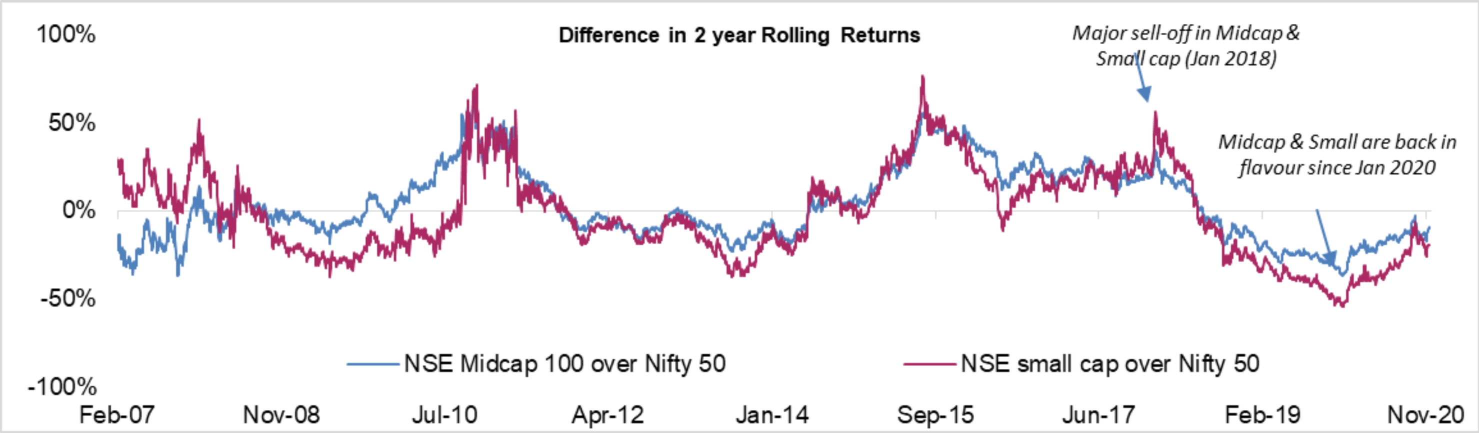
Source: Bloomberg, Axis Securities

Midcaps look attractive: Trading at 11% premium to large caps

From a valuation perspective, the Midcaps look attractive vs. large caps. Historically, during the bull phase of 2017, midcaps were trading at 45% premium to large caps. The recent spate of IPOs and their success clearly indicates that the appetite for mid and small cap stocks. Our case for two year rolling returns indicates that the market has turned in favour of small and mid cap stocks which are more reasonably valued and offer greater upside potential. Also, SEBI's new guidelines on multicap funds has clearly tilted the favour in case of mid and small cap stocks which will keep the space in vogue over the medium term.

In November, Small and midcaps are picking up steam and they should deliver solid returns in 2021 as economic uncertainties will reduce and volatility will decline. We believe volatility will decline significantly in 2021 which will lead to a small and mid cap rally.

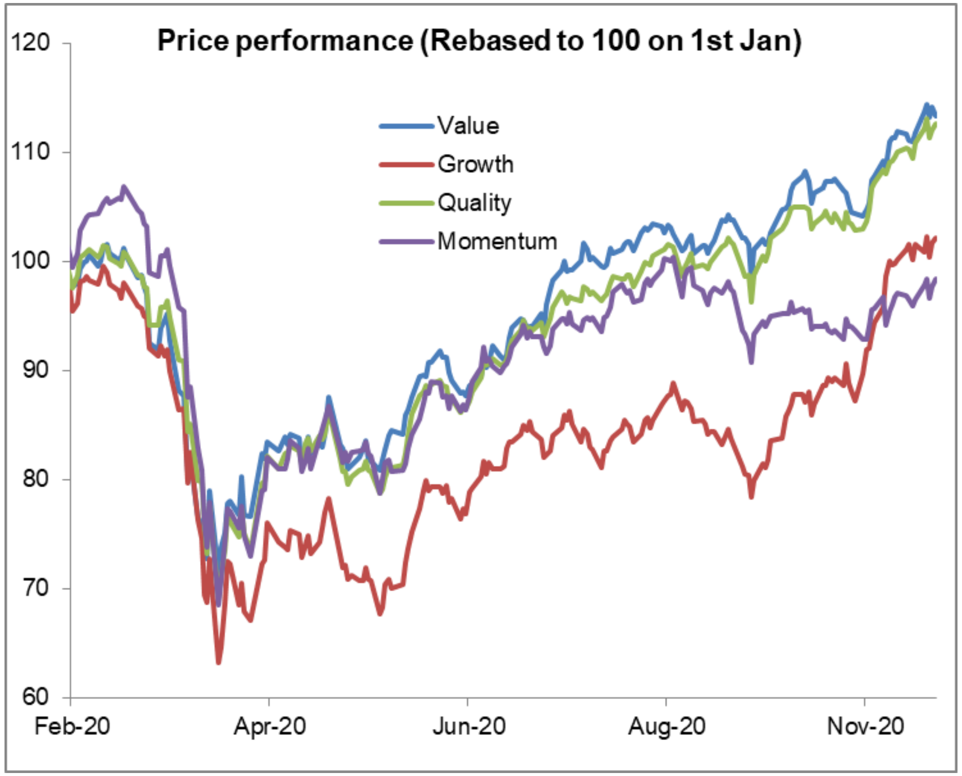




Source: Bloomberg, Axis Securities 27th Nov 2020

Recovery in growth theme is stronger than expected

Growth as an investment style is the best performer in last one month, outperformed all the other investment styles. On YTD Value outperformed all the investment styles with returns of 13% while growth has delivered only 2.2% and it is likely to catch-up going forward. Recovery in growth as an investment style is stronger than expected, will continue to do well. Momentum had lost ground ahead of US election in October which has started outperforming in the month of November, will play a catch-up rally.

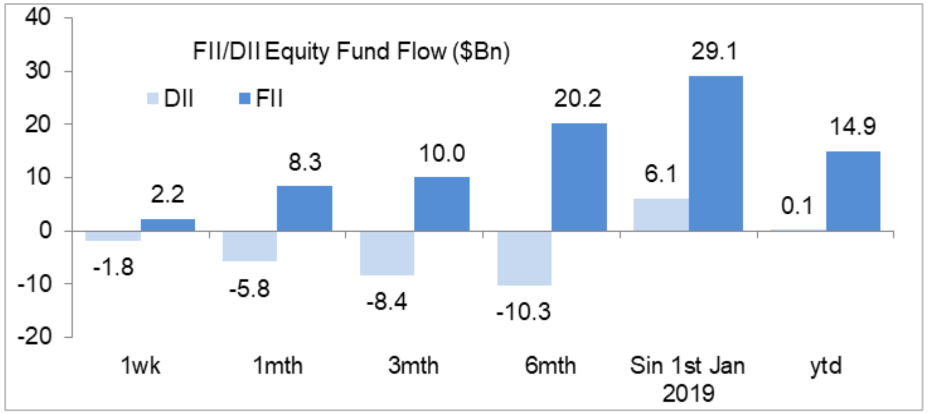


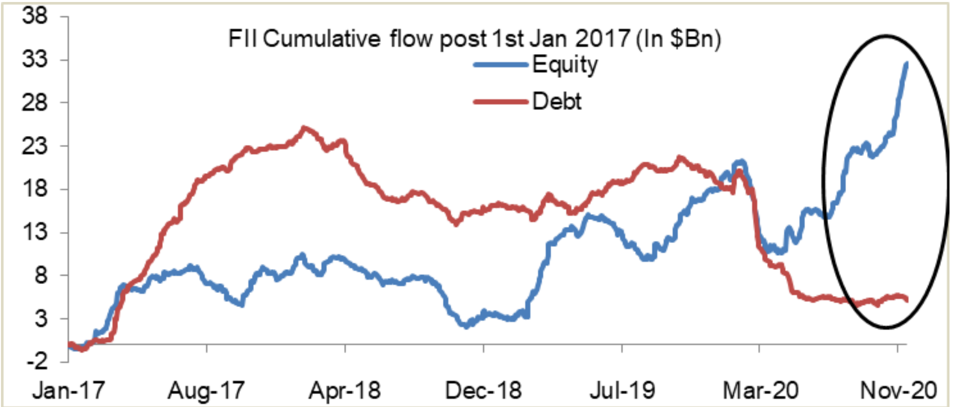
Performance (%)				
YTD perf	Value	Growth	Quality	Momentum
Till 23 Mar	-28.5%	-36.8%	-30.9%	-31.4%
Since 23 Mar	60.1%	61.7%	63.9%	43.4%
YTD	13.4%	2.2%	12.7%	-1.6%
1m	8.5%	17.1%	9.6%	4.9%
3m	12.2%	18.2%	14.2%	1.7%
6m	29.3%	35.8%	31.0%	16.8%

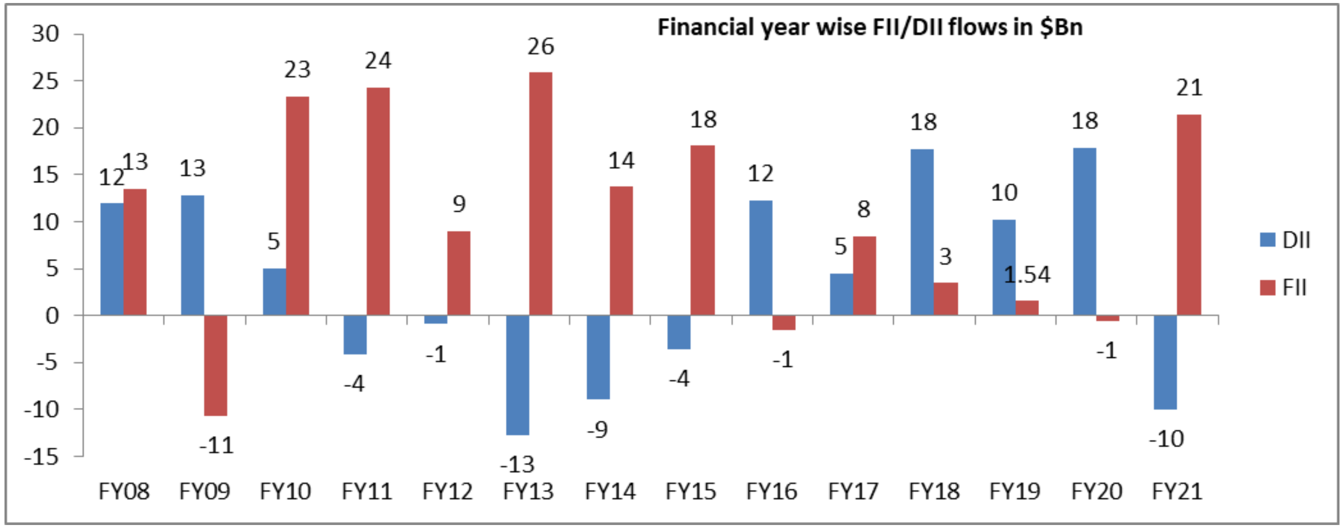
Source: Bloomberg, Axis Securities 27th Nov 2020

Strongest FII flows in November

FIIs are net buyers in last 3 months; FIIs have added USD 10 bn while DIIs have pulled out USD 8.4 bn from Indian equity market in last 3month. FIIs Cumulative flow in equity market is at USD 32.5 bn since Jan 2017. **In first 10 months of FY21, FIIs have added USD 21 bn in Indian market, similar to the trend earlier seen during FY10-13.**







Source: Bloomberg, Axis Securities

Equity: Overweight - More Growth and More value

Our take:

- Strong rally in the BFSI sector
- Q2 FY21 results beat expectations; NIFTY target for December 2021 at 14,600
- Mid and small caps outperform and likely to gain more traction
- Growth combined with value is a win-win proposition

Sector View

Sectors	Current View
Automobile	Overweight
BFSI	Equal Weight
Cap Goods	Underweight
Cements	Equal Weight
Cons Staples	Overweight
Cons Disc	Equal Weight
IT	Overweight
Metals & Mining	Equal Weight
Oil & gas	Underweight
Pharma	Overweight
Real Estate	Underweight
Sp Chemicals	Overweight
Telecom	Overweight

***Our Key Themes:** Digital, Pharmaceuticals, private banks, Telecom, staples, personal transportation, rural and Housing*

***Our Top Picks:** ICICI Bank, Manappuram Finance, Canfin Homes, Federal Bank, Bharti Airtel, HCL Tech, Tech Mahindra, Varun Beverages, CCL Products, Biocon, Minda Industries, NOCIL, Endurance Technologies, Steel Strip Wheels and Dr Reddy's*

For detailed Note: Click here

Fixed Income: Neutral

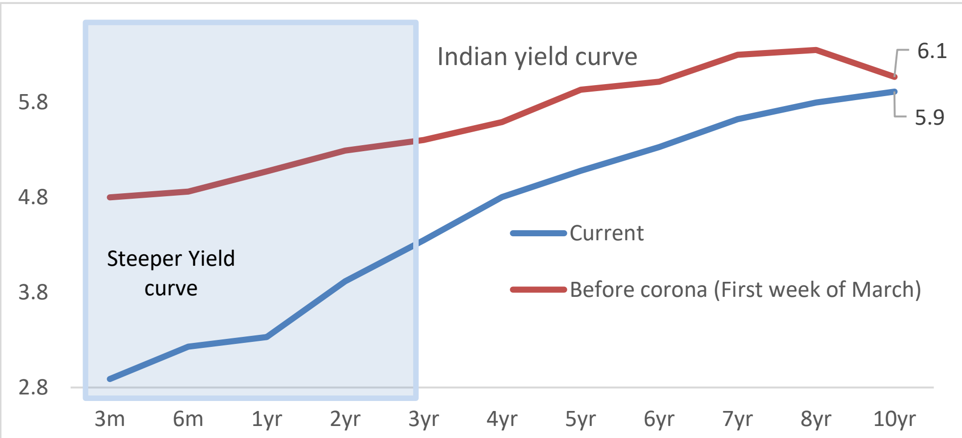
Slope of the yield curve has been the steepest in recent years. The difference between shorter and longer (3m, 10 year) bond yield is 300 bps which was 130 bps during pre Covid times. Bond yields were largely stable for the month after the intervention of RBI by applying unconventional tool of OMO and operation twist to maintain stability in the financial system. Yields were largely stable for the month amid positive recovery in high frequency indicators which were showing an upward trend of growth. India's July-September GDP confirms the faster normalization of the activities in Q2 with stronger than expected pickup. Economic contraction continued in September quarter but less severe than June quarter, fall of 7.5% is better than expectation of the street. High frequency indicators like PMI, GST collection, E-way bill, and electricity consumption were already trending higher, suggesting the upward trend of economic growth showing strong recovery in economic activities. November GST collection crossed Rs 1 lakh cr for second consecutive month, rising GST collection indicates the pickup in business activities, and is also an indication of revival of consumption

Further on an expected line, RBI's MPC maintains status quo, kept repo rate unchanged to 4% and maintained the accommodative stance. RBI's dovish measure and continuation of accommodative stance will further rule out the possibility of rate hike in near term, which was the biggest fear expressed by the investors, onset of continued higher inflation. However, RBI expressed inflation will likely to moderate in second half of the current fiscal year and still revised the target upward for upcoming quarters. Growth outlook has improved with Q2 GDP print, RBI expects FY21 GDP to be contracted by 7.5%, less severe than earlier expectation. **Policy focus remains on reviving growth by ensuring liquidity along with benign interest rates to spur the demand environment in the economy.**

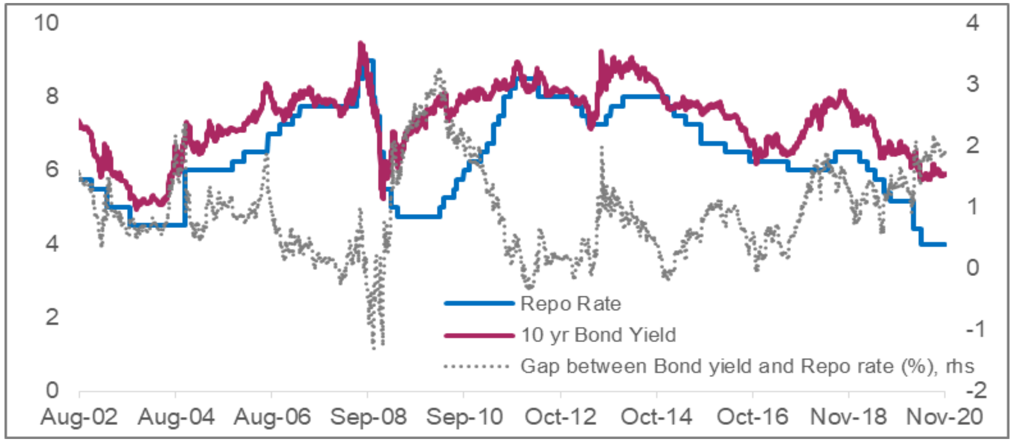
We believe yield curve to remain steep given the ample liquidity in the system towards the lower end of the yield curve while longer end of the yield curve remain elevated due to higher supply of G-sec and remain cautious due fiscal deficit & inflation risk over a medium term.

Primary activity is gradually picking up from last few months, credit spreads has started easing from last few months especially in AAA category. With this attractive investment opportunities emerging in selected non-AAA rated bonds, however their spread with AAA rated bond continue to remain elevated levels vs the historical average suggesting risk aversion still in place. Going forward with improvement in growth outlook and ample liquidity may lead to broad based moderation in credit spreads. We continue to favor a quality approach in bonds with some non-AAA exposure based on individual risk appetite.

India yield curve



Bond yield are trading at 191 bps above repo rate



Source: Bloomberg, Axis Securities

Gold: Neutral

Why Gold has lost its momentum

We have already expressed our view in earlier reports about the various scenarios that could stop the momentum in Gold, which played out in November. Gold suddenly lost its momentum due to 'Risk on' trade in global market amid positive development on vaccine front. Equity market hit a fresh high in the month of November on account of relief from an uncertainty over the US election and vaccination news. Overall investor's sentiments have improved in the last few days. Now the investors are betting higher on riskier assets like equity, these improved sentiments further stoked by optimism on the vaccine development after the upbeat results shown by US drug manufacturer Pfizer and Moderna. All these developments are keeping the gold prices under pressure. The improvement in global economy and likelihood of more predictable trade policies will further keep the gold prices range bound.

Earlier in the year, Gold has emerged as a promising asset class during these uncertain times and performed strongly. As the flight for safety theme gathered traction; gold investment has outperformed all the major asset classes. On YTD basis, Gold has given 23% returns in INR and 18% returns in US$. However gold prices corrected sharply in the month of November on account of 1) 'Risk on' trade in global market 2) Equity Market hitting all time high 3) More risk appetite towards risker asset especially emerging market 4) Positive development on the vaccine 5) Chances of smaller fiscal stimulus vs the earlier expectation.

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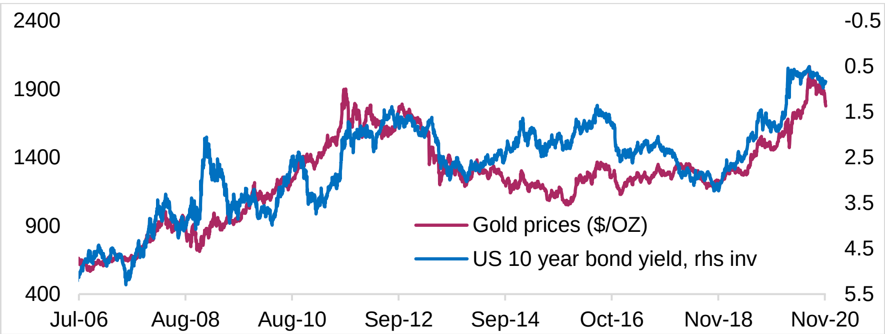
Fundamentally, Gold prices are inversely correlated with bond yields. Currently, US bond yields are in downward trajectory and likely to remain softer on account to slower economic growth in 2020. US FED also signaled that, these interest rates will continue to be softer for longer period of time. We believe, in this lowering yield environment across the countries, where all the major central banks are supporting their economies, gold will continue to attract investments for hedging risk against other asset class.

Why continue to remain invested in Gold

- Low yield: Low yields are the driving force for Gold rally, with central banks keeping the interest rates lower will continue to attract investment in Gold
- In a longer run consensus are expecting weaker dollar which is a positive for Gold
- Gold is best anti-Inflation asset

Gold vs US 10 year bond yield



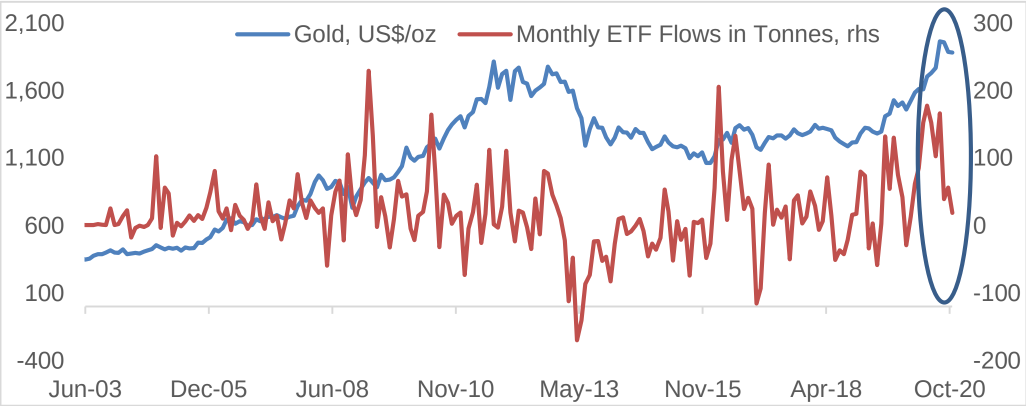
Source: Bloomberg, Axis Securities

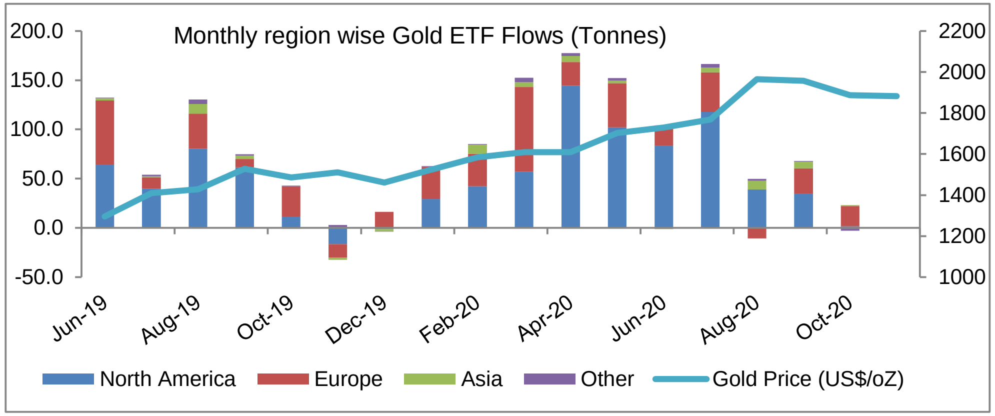
Gold Prices performance

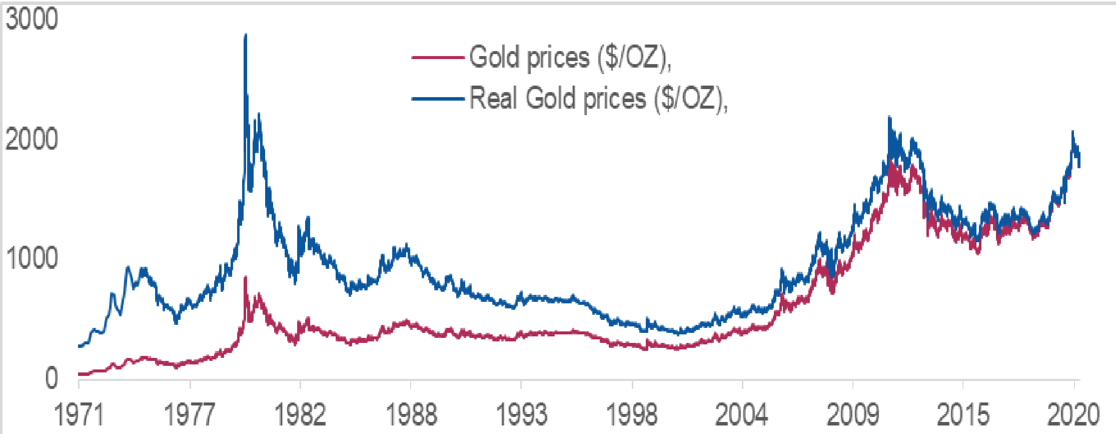
% Returns of Gold vs Dollar			
	MCX gold prices (INR/10gm)	Gold prices ($/OZ), rhs	USDINR
May-20	4%	3%	1%
Jun-20	5%	3%	0%
Jul-20	10%	11%	-1%
Aug-20	-4%	0%	-3%
Sep-20	-2%	-3%	-1%
Oct-20	1%	0%	0%
Nov-20	-5%	-5%	0%
1H20	25%	17%	6%
YTD	23%	18%	4%

Gold: Investment demand spur in Gold ETFs, with lower pace in recent months

ETF flows contributed significantly in the run-up of gold prices since the beginning of CY2020. **ETF flows (in tonnes) jumped to 1012 tonnes in the first ten months of 2020, increased by 1.4x vs last year**, in which major contribution done by North America. However the pace of ETF investment has been moderated in recent months. North America seen positive flows for the month of October but at a significant lower pace vs last few months. Positive flow in Europe is continue for second consecutive month vs the outflow seen in August 2020.







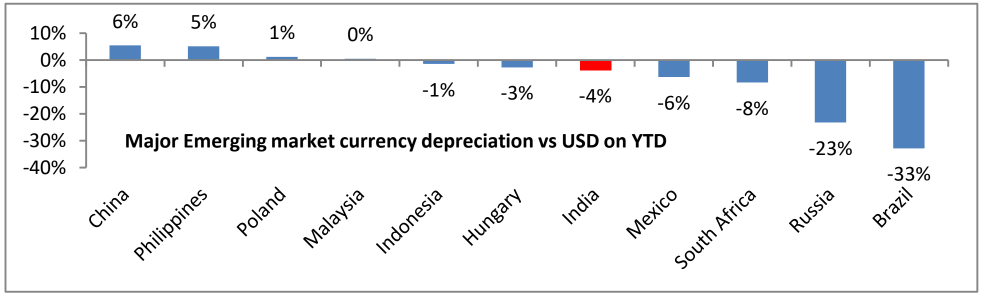
Source: Bloomberg, World Gold Council, Axis Securities

Currency

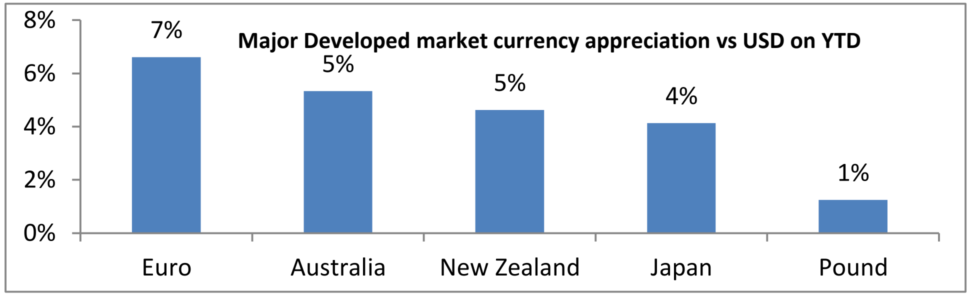
USD/INR opened higher in November with stronger USD given a negative risk tone ahead of US election and worries over rising Covid cases in Europe. Currency market was highly volatile in first week of November as emerging US election showed no sign of expected 'Blue wave'. However, Indian currency gained quickly as the election dust settled and appeared to favor narrow democrat win – implying tougher negotiation on fiscal stimulus. Continued USD weakness and positive development over vaccine supported Indian currency positively for the month. On YTD basis, Indian currency performed well and it has been stable vs. the other Emerging market currencies of Brazil, Russia and South Africa on account of higher foreign exchange reserve and stable outlook. Currency market further supported by faster than expected sequential recovery in high frequency indicators, suggesting strong pick-up in economic growth.

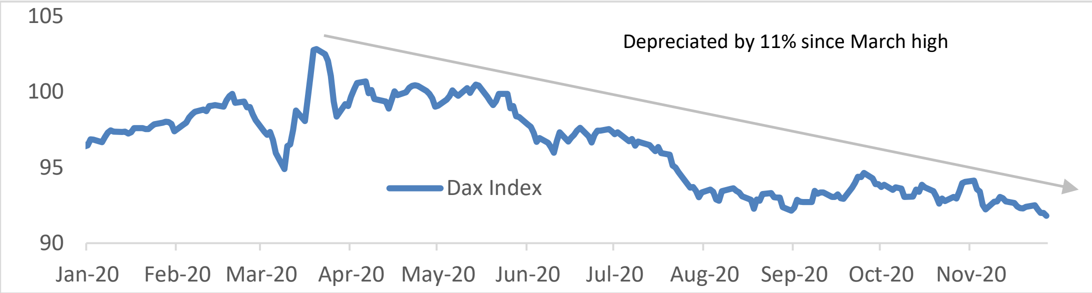
DAX index has depreciated by 11% since Mar-2020 high with almost 2% depreciation in November on account of weak blue wave in US election vs the expectation. On YTD basis, all the major developed market currencies appreciated against the dollar, Euro has appreciated against dollar by 7%. Currently, dollar is weak against Euro but going forward the key events that will decide the direction of the dollar 1) How quickly President Biden able to push expected fiscal stimulus 2) Any smaller stimulus package could tilt the needle on FED to do more to revive the economy by keeping the rate lower or even closer to Zero for an extended period of time 3) While in a longer run dollar may lose strength on account of lower interest rates which is likely to be softer for long period of time. 4) Based on the assumption of more predictable policy making leads to an outflow form US market towards riskier assets especially emerging market, adding further weakness.

Major Emerging market currency depreciation vs USD on YTD



Major Developed market currency appreciation vs USD on YTD





Source: Bloomberg, Axis Securities

Asset Allocation: Key for long term wealth creation

Top performer

- Equity: 8 years
- Gold: 6 years
- Debt: 3 years

- *Diversification in asset is a key to maximize the returns*

- *Returns of Asset classes varies in different cycle, Asset allocation is a key to reduce risk and maximize returns*

	Calendar year returns (%)						
Year	Equity	Gold	Debt	FD	Portfolio	Portfolio return rank among asset classes	Portfolio return > Equity Return
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
YTD	7.7%	23.2%	11.9%	5.1%	12%	7.7%	YES

- *7/17 years Portfolio returns are greater than Equity returns*
- *6/17 years Portfolio returns is on second rank*

Note: Equity represents Nifty index, Gold is MCX gold spot prices, Debt is 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

Different asset classes' return varies during different market events, with right asset allocation we able to manage downside risk. **For all the equity market correction events, Multi asset portfolio returns are better than equity returns.**

Year	Equity	Gold	Debt	FD	Portfolio	Equity Market phase Correction/Rally/Neutral	Portfolio return > Equity Return
	Calendar year returns (%)						
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	Euro zone crisis	Correction
Event4	Jan-12 to Aug-13	UPA 2: Policy paralysis	Neutral
Event5	Aug -13 to Mar-15	BJP emerged as 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 US china trade war, 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 Nifty index, Gold is MCX gold spot prices, Debt is 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%)

Multi Asset portfolio: Rolling returns

Multi asset portfolio reduces the negative observations in three year. Volatility and drawdowns also reduce once diversification of equity investment into Debt and gold.

	Returns (%)			
1yr rolling returns	Equity	Gold	Debt	Portfolio
Average	15%	15%	7%	12%
Minimum	-57%	-18%	-1%	-37%
Maximum	99%	77%	16%	60%
Stdev	24%	17%	4%	13%
Max Drawdown	-60%	-18%	-9%	-38%
Negative observation	21%	21%	2%	12%
Return >10%	57%	54%	27%	52%

	Returns (%)			
3yr rolling returns	Equity	Gold	Debt	Portfolio
Average	9%	11%	8%	9%
Minimum	-6%	-8%	5%	1%
Maximum	28%	36%	13%	22%
Stdev	6%	11%	2%	3%
Max Drawdown	-60%	-18%	-9%	-38%
Negative observation	4%	19%	0%	0%
Return >10%	42%	46%	12%	31%

	Returns (%)			
5yr rolling returns	Equity	Gold	Debt	Portfolio
Average	9%	11%	8%	9%
Minimum	-2%	-3%	5%	3%
Maximum	21%	28%	10%	17%
Stdev	4%	9%	1%	2%
Max Drawdown	-60%	-18%	-9%	-38%
Negative observation	2%	10%	0%	0%
Return >10%	50%	50%	1%	25%

	Returns (%)			
7yr rolling returns	Equity	Gold	Debt	Portfolio
Average	11%	12%	7%	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%	49%	56%	0%	31%

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

Target asset allocation

Our take:

Equity: **Overweight: More Growth and More value**

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%**

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