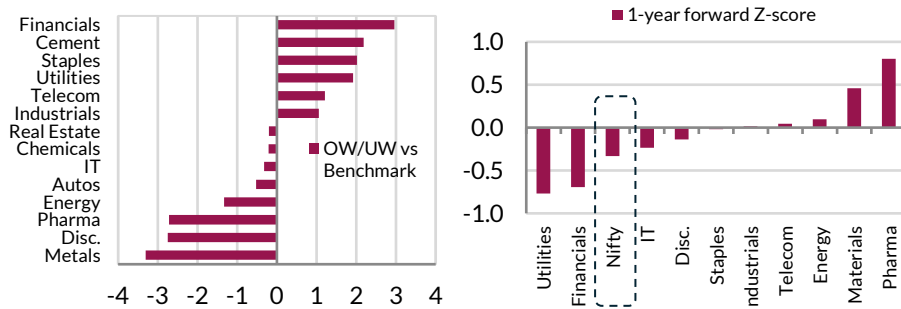


Sector positions in the Axis Model Portfolio worked well over the past month, as all the five sectors (Financials, Utilities, Cement, Industrials and Staples) with overweight (OW) positions outperformed and four of the five with underweight (UW) positions lagged. The 0.7 pp outperformance was offset by poor stock selection, which drove a 1.3 pp underperformance. Looking forward, the sharp shifts in valuations provide opportunities for a rejig – we shift to Neutral from UW on IT, as the risk of EPS cuts is priced in, in our view. We shift to UW on Healthcare on valuation grounds, and shift Telecom to OW. We persist with OW on Staples despite the sharp catch-up on P/E. We change 11 of the 30 stocks, some of which are due to new inclusions/ new coverage.

Exhibit 1: Shift IT: UW to Neutral, Pharma: Neutral to UW, Telecom: Neutral to OW



Source: Refinitiv, Axis Capital

All OW sectors in Axis model portfolio outperformed the index over past month

Over the past month, the Axis Capital 30-stock portfolio has gone up by 5.6%, lagging the benchmark index's 6.1% return. Whereas the portfolio outperformed 70 bps on sector preferences, stock picks within the sectors drove underperformance of 1.3 pp (fig 2). All the five sectors where we were OW (Financials, Utilities, Cement, Industrials and Staples) outperformed the benchmark (NSE200) and of the five UW sectors, only one outperformed (Discretionary), while IT and Metals delivered negative returns. Stock positions that hurt were our OW on Infosys and Dabur and UW on BSE, Kotak, PWGR and Bajaj Finance. Calls that worked were OW call on Ultratech, Apollo Hospitals, and SBI Life.

Rapid change in valuations across sectors changes sectoral pecking order

All sectors ex-IT have rerated in the last month, with Utilities, Financials and Telecom outperforming the most. However, on the metric of 1-year forward z-score, Utilities and Financials remain the cheapest, and Metals and Pharma the most expensive. The correction in IT Services now takes 1-year forward z-score to -0.3, implying that some of the concerns on global growth that can drive further cuts are priced in. The rally in Staples, which we had upgraded last month, driven by lower crude price as well as preference for defensive stocks, has pushed the P/E premium over market to 71% (vs 10-year mean of 64%). Given concerns on global growth, this trend may persist for longer.

Shift IT from UW to Neutral; we churn 11 of our 30-stock portfolio

In our model portfolio, we shift IT from UW to Neutral despite the overhang of further EPS cuts from a stronger rupee and weaker constant currency growth, as we believe these are now getting priced in. Despite its defensive characteristics, we downgrade Healthcare to UW, as valuations are at extremes, but shift Telecom to OW on better growth and reasonable valuations. We retain OW on Staples despite the P/E catch-up. Ten of our 30-stock portfolio change, some due to new inclusions in the benchmark (11 additions) and some due to rejigs within sectors. In Staples, we replace HUL, Dabur to GCPL and Varun. In Financials, we remove SBI Life and Power Finance and add Bajaj Finance and L&T Finance. More on exact set of changes and disclosures in exhibits 12 and 13.

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