

Strategy Report | March 19, 2025

As domestic cyclical headwinds (fiscal, monetary, regulatory) fade, forward EPS estimates for domestic sectors are at less risk than those for globally exposed sectors. IT & Pharma, despite the recent de-rating, are still relatively the most expensive on P/E Z-score. In our 30-stock Axis Capital Model Portfolio, we switch from UW to OW on Staples despite a weak earnings momentum, given a favorable valuation (vs the sector's own history vs market) and low exposure to upcoming global volatility. We also stay OW on Financials, Industrials, Cement, and Utilities, and UW on IT and Metals.

OW on Financials help Axis Portfolio outperform; we shift Staples to OW



Source: Refinitiv, Bloomberg, Axis Capital

OW on Financials, UW on IT help Axis Capital Portfolio outperform

In our [last note](#) on the Axis Capital model portfolio changes, we stated our overweight (OW) call on Financials, Utilities, Cement, and Industrials, and underweight (UW) call on Metals, Energy, and IT. Since the update (7 Jan'25), Financials/Utilities have outperformed the market, while sectors like IT/Discretionary have underperformed. This helped the portfolio outperform the market, offsetting the loss from outperformance of metals and underperformance of Industrials. We relaunch a new model portfolio, with the universe and benchmark index set to NSE200. The number of stocks (30) and methodology of sector and stock picks, though, remain the same (for details, please see Appendix).

More uncertainty now on global growth; IT/Pharma still most expensive

Over the past three quarters, growth forecasts for India have been cut, whereas global growth has held steady. As domestic cyclical headwinds fade (fiscal, monetary, regulatory), sectors exposed to the domestic economy are likely to see less pressure on earnings, but given rising global uncertainties and higher likelihood of growth downgrades in the US ([link](#)), EPS estimates for globally exposed sectors (IT, Pharma) are now more at risk (Ex. 7). These are also the most expensive relatively on our measure of 1-year-forward Z-score (Ex. 5). Financials and Utilities remain the cheapest, and now Staples and Discretionary have also become attractive after strong underperformance over the past year.

Shift Staples to OW and add UW to IT; retain preference for Financials

12MF EPS for Consumer Staples has been unchanged since Oct'23, with a steady pace of EPS cuts offsetting the roll-forward gains (Ex. 6/7). We expect earnings to remain weak, with low-end consumption lagging overall GDP growth. However, we believe markets are pricing this in, as the sector is cheap vs its own history (forward P/E premium to market is now at the low end of the 60-80% range seen for the sector) and could find a bid given rising global uncertainty. Thus, we shift to OW on Staples (add D-Mart), taking weight from IT (remove Wipro, add Mphasis). We also make some minor adjustments to the portfolio to retain relative positions given the change in the benchmark index.

Neelkanth Mishra
neelkanth.mishra@axiscap.in

Abhay Khaitan
abhay.khaitan@axiscap.in

Vishal Rangarajan
vishal.rangarajan@axiscap.in