

EQUITY MARKET REVIEW & OUTLOOK

JANUARY 2025

Happy New Year from the entire team at Axis MF!

In December, equities initially showed gains, recovering some losses, but failed to maintain the momentum and ended lower. The BSE Sensex and Nifty 50 closed 2% down, while the NSE Midcap 100 rose by 1.4% and the NSE Smallcap 100 advanced 0.6%.

2024 remained promising for most of the year against a backdrop of general elections and union budget. However, the journey wasn't without its challenges. Elevated valuations, indices hitting lifetime highs, disappointing earnings growth, and persistent geopolitical tensions cast a shadow on the markets, causing a dip in October and November. Despite these challenges, the year ended on a high note. Equities rallied setting new records month after month. The Sensex soared past the 85,000 mark, while the Nifty 50 crossed 26,000. By year's end, the BSE Sensex had climbed 8.9%, the Nifty 9.6%, the Nifty Midcap 100 an impressive 23.4%, and the Nifty Smallcap 100 surged 23.9%.

After robust inflows of US\$20.7 bn in 2023, Foreign Portfolio Investors (FPIs) adopted a cautious stance in 2024, riding a financial see-saw. As election season approached, they pulled back, resulting in a US\$4 bn outflows. However, post-election optimism from June to September saw a resurgence, with inflows reaching US\$14 bn. This optimism was short-lived, as October and November witnessed another retreat, with outflows totaling US\$13.5 bn. Despite the volatility, FPI flows managed to stay just above water, ending the year with a modest net positive of US\$124 mn. In contrast, Domestic Institutional Investors (DIIs) played the perfect counterbalance to the FPIs, consistently adding inflows each month. The October-November outflows from FPIs were countered by a substantial US\$18 bn inflows from DIIs. By the end of the year, DIIs had amassed a total of ~US\$63 bn in inflows.

We believe that markets are gravitating towards companies with clear earnings growth visibility and a lower likelihood of significant earnings downgrades. Accordingly we believe the themes in 2025 are likely to be split into two halves.

In India, 2024 was a year of optimism albeit for most of the year, but 2025 may bring more tempered expectations. We expect growth to remain moderate given the fiscal consolidation and slower credit growth. Many segments of the economy are showing signs of a slowdown given the higher base and this has translated into weaker corporate earnings. Companies have seen superior earning growth led by margin improvement, strong recovery post Covid, along with government spending and policy actions. We believe factors like margin improvement may not continue for long, however continuation of prudent capital allocation policy by government to boost both capex and consumption, may drive earnings recovery. The strength of the US dollar coupled with stimulus measures in China have led to foreign fund outflows. However, these have been counterbalanced by the robust domestic fund inflows. Nonetheless, India remains one of the fastest-growing economies globally. The tariffs on China and other countries proposed by US President-elect could significantly impact global trade. However, during his first term, the tariffs on China benefited India, and this time, India might again be able to turn these trade restrictions into an opportunity.

It is pertinent to note that we begin 2025 after the strong rallies of 2023 and 2024, and elevated valuations thereof. Key events have caused volatility and rallies in equities. While our economy has been on a strong footing so far, equities are off the all-time highs and have seen a correction in the last three months. Yet valuations remain elevated. Going forward market performance could be influenced by earnings growth and absolute valuations. Given near-term growth challenges, likely muted foreign institutional investor (FII) inflows, and subdued earnings expectations, significant valuation expansion seems unlikely. We expect 2025 to be a year of stock picking across market caps. The recent corrections in mid and small caps could present opportunities to increase exposure to select stocks.

For the first half of 2025, key themes to watch include sectors such as Information Technology, Pharma, Quick Commerce, Capital Market beneficiaries, Travel/Tourism, Renewable Capex, Power Transmission & Distribution, EMS, Defense, and select Auto companies with new product launches on the horizon. However, many of these sectors currently have high valuations. By the second half of 2025, markets may shift focus to potential triggers in underperforming sectors such as Lenders, FMCG, and IT. Over the past three years, the capital goods sector has shown strong earnings growth, outperforming other sectors. After peaking in May 2024 and consolidating, it remains superior, especially as some consumption segments have weakened. Renewables, power transmission, defense orders, and electronics manufacturing drive demand. We expect select capex and PSU companies to perform well in 2025.

- PRODUCT OVERVIEW -

AXIS BLUECHIP FUND

- The fund focuses on delivering superior risk adjusted returns. The fund aims to outperform the benchmark while delivering risk that is lower than the benchmark.
- Stocks are selected in the portfolio based on their ability to grow earnings on a sustainable basis from a medium term perspective while maintaining a highly liquid and risk managed portfolio.
- The strategy is to invest mainly in companies which operate in a secular growth segment and have leading market share in their areas of operation to provide steady returns. The remaining allocation is to companies that are gaining market share due to differentiated offerings or cost advantage.

AXIS ELSS TAX SAVER FUND

- The fund is focused on quality companies having strong long term earnings growth prospects. Thus the fund maintains a stable core portfolio with relatively low churn. Within that objective, the fund is comfortable looking past shorter term volatility in performance.
- With a medium to long term view towards capturing growth, the fund is biased towards stocks which can deliver superior returns.
- While the fund looks at opportunities across the market cap, the portfolio remains tilted towards large and mid-cap allocations. It invests in quality businesses for the long term through bottom up stock picking.

AXIS FOCUSED FUND

- The fund manager runs a high conviction portfolio and invests in up to 30 stocks while ensuring reasonable diversification and focus on quality and risk management.
- Fund follows a multi cap strategy with top-down alignment and bottom-up selection process
- Stocks are selected in the portfolio based on their ability to grow earnings on a sustainable basis while maintaining a highly liquid and risk-managed portfolio.

AXIS GROWTH OPPORTUNITIES FUND

- Axis Growth Opportunities Fund offers investors a unique opportunity to take exposure to global equities through a structured allocation by way of an open ended mutual fund.
- Currently fund invests ~80% in domestic equities through a bottom up approach while the rest will be invested in global large caps. Overall the fund will maintain a compact portfolio of high conviction domestic and international companies hence offering investors a tax efficient yet unique investment proposition for portfolio diversification.

AXIS MULTICAP FUND

- Indian capital markets offer a multitude of investment opportunities across the market cap spectrum. The fund offers a diversified portfolio of equities within a predefined construct of large caps, mid caps and small caps. To ensure diversification of investment across market caps, the scheme will invest a minimum of 25% each in Large, Mid and Small Cap stocks, with the balance 25% flexibility to the fund manager.
- The fund aspires to capture potential opportunities throughout the lifecycle of the company's progression from small cap all the way to large cap. Through this approach, the fund aims to achieve a quality centric long term portfolio with an improved risk reward profile and controlling fund volatility typically faced during fund rebalancing.

AXIS FLEXICAP FUND

- Good ideas can do better irrespective of its sector/theme/size.
- Axis Flexicap Fund seeks to invest across the market cap spectrum in high conviction ideas with improved risk-adjusted return characteristics. The fund manager looks for stocks that are expected to report faster growth relative to the benchmark.
- The fund as such is sector agnostic and focuses on a bottom up approach to invest in stocks that are at an inflection point such as market share gain, industry consolidation, sunrise industries, improved management focus and capital allocation or regulatory & policy changes.

AXIS MIDCAP FUND

- The fund focuses on bottom-up investing in stocks that provide the potential to grow cash flows over the medium term. The portfolio seeks to add businesses with economic moats and distinct competitive advantages.
- The fund remains true-to-label in its portfolio allocations with a diversified and risk-managed mid-cap portfolio which has a superior liquidity profile.

AXIS SMALLCAP FUND

- Axis Smallcap fund aims to invest primarily in high conviction small cap stocks. The bottom up approach to investing seeks to identify long term businesses keeping in mind risk and reward by navigating volatile stock movements.
- Small caps are a broader universe as compared to large & midcaps and hence the need for active management keeping in mind the opportunities in this space come with a higher degree of risk as compared to their larger counterparts.
- Fund focuses on stocks with Quality management, strong balance sheet, scalability of business model and ability to withstand event shocks.


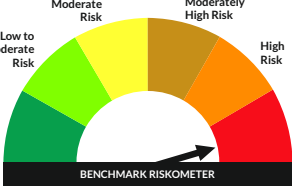
AXIS INNOVATION FUND

- Innovation is a broad concept encompassing multifaceted transformation. Innovation-led trends have been driving change across major industries creating potential investment opportunities both in India and abroad.
- A combination of government push, global investments, domestic ingenuity and focus on low cost, wide adoption models have already seen upcoming, unique transformative solutions in India.
- The fund endeavours to target innovation-led growth opportunities both in India & abroad. Through a multicap approach, the fund will aim to identify innovators across the entire value chain while retaining our quality bias and investment philosophy. The international exposure will be managed in collaboration with Schroders our JV partner, a stalwart in global active asset management.

AXIS MOMENTUM FUND

- The Axis Momentum Fund is a thematic fund that offers a unique investment opportunity by leveraging the momentum strategy, active management, and robust risk management to potentially deliver superior returns. This fund employs a model-driven approach, systematically identifying and investing in high-momentum securities across various sectors. The framework filters securities by considering data availability and liquidity, and then evaluates them based on price momentum trends.
- Momentum as a strategy is a dynamic signal, and the active management of the momentum strategy in the Axis Momentum Fund allows it to capture opportunities as market dynamics evolve. This makes it a flexible and responsive investment option.
- Momentum investing can be a powerful tool when combined with a diversified asset allocation strategy. By incorporating momentum funds alongside broad-based index funds, investors can benefit from high-performing stocks while managing overall portfolio risk

- PRODUCT LABELLING & DISCLAIMERS -

Fund Name & Benchmark	Product Labelling	Scheme Risk-o-meter	Benchmark Risk-o-meter
AXIS BLUECHIP FUND (An open-ended equity scheme predominantly investing in large cap stocks) Benchmark: BSE 100 TRI	This product is suitable for investors who are seeking*: <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>The risk of the scheme is very high</p>	 <p>The risk of the benchmark is very high</p>
AXIS ELSS TAX SAVER FUND (An open-ended equity linked saving 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*: <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. 		
AXIS MIDCAP FUND (An open-ended equity scheme predominantly investing in mid cap stocks) Benchmark: BSE Midcap 150 TRI	This product is suitable for investors who are seeking*: <ul style="list-style-type: none"> Capital appreciation over long term. Investing predominantly in equity & equity related instruments of mid cap companies. 		
AXIS FOCUSED FUND (An Open-ended Equity Scheme investing in maximum 30 stocks across large cap, mid cap and small cap companies) Benchmark: NIFTY 500 TRI	This product is suitable for investors who are seeking*: <ul style="list-style-type: none"> Capital appreciation over long term. Investment in a concentrated portfolio of equity & equity related instruments of up to 30 companies. 		
AXIS FLEXI CAP FUND (An open ended dynamic equity scheme investing across large cap, mid cap, small cap stocks) Benchmark: NIFTY 500 TRI	This product is suitable for investors who are seeking*: <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. 		
AXIS GROWTH OPPORTUNITIES FUND (An Open-ended Equity Scheme investing in both large cap and mid cap stocks) Benchmark: NIFTY Large Midcap 250 TRI	This product is suitable for investors who are seeking*: <ul style="list-style-type: none"> 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) Benchmark: NIFTY Smallcap 250 TRI	This product is suitable for investors who are seeking*: <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. 		
AXIS MULTICAP FUND (An open ended equity scheme investing across large cap, mid cap, small cap stocks) Benchmark: NIFTY 500 Multicap 50:25:25 Index	This product is suitable for investors who are seeking*: <ul style="list-style-type: none"> Capital appreciation over long term. Investment in a portfolio of large, mid and small cap equity and equity related securities. 		
AXIS INNOVATION FUND (FORMERLY KNOWN AS AXIS SPECIAL SITUATIONS FUND) (An open ended equity scheme following innovation theme) Benchmark: Nifty 500 TRI	This product is suitable for investors who are seeking*: <ul style="list-style-type: none"> Capital appreciation over long term. Investment in stocks based on innovation theme. 		
AXIS CONSUMPTION FUND (An open-ended equity scheme following consumption theme) Benchmark: Nifty India Consumption TRI	This product is suitable for investors who are seeking*: <ul style="list-style-type: none"> Capital appreciation over long term. An equity scheme investing in equity & equity related securities of companies engaged in consumption and consumption related sector or allied sectors. 		
AXIS MOMENTUM FUND (An open-ended equity scheme following momentum theme) Benchmark: Nifty 500 TRI	This product is suitable for investors who are seeking*: <ul style="list-style-type: none"> Capital appreciation over long term. An equity scheme investing in equity & equity related securities selected based on the momentum theme. 		

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

*Fresh/additional subscriptions/switch-ins will be allowed/ accepted only for an amount less than or equal to Rs. 1 crore per investor per day (across all folios), till further notice; Fresh/ new registrations through Systematic Investment Plan ("SIP") or Systematic Transfer Plan ("STP") or such other special product will be allowed/ accepted wherein the value of per installment would be less than or equal to Rs. 1 Crore per investor (across all folios) till further notice, from the effective date (May 15, 2023).

Note: Schemes & Benchmark Riskometer(s) mentioned are as per the latest details available with the AMC. For latest riskometer(s), kindly visit www.axismf.com.

Source & Date: Source: Bloomberg, Date: 31st December 2024.

Disclaimer: Past performance may or may not be sustained in the future. The Stocks mentioned above are used to explain the concept and is for illustration purpose only and should not be used for development or implementation of any investment strategy. It should not be construed as investment advice to any party. The stocks may or may not be part of our portfolio/strategy/ schemes. The fund manager(s) may or may not choose to hold the stock mentioned, from time to time. Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s). This document should not be construed as research report.

Current Portfolio Allocation is based on the prevailing market conditions and is subject to changes depending on the fund manager's view of the equity markets.

Market caps are defined as per SEBI regulations as below:

a. Large Cap: 1st -100th company in terms of full market capitalization. b. Mid Cap: 101st -250th company in terms of full market capitalization. c. Small Cap: 251st company onwards in terms of full market capitalization.

Investors are advised to consult his/her own Tax Consultant with respect to the specific amount of tax and other implications arising out of his/her participation in ELSS.

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.