

Monthly Quant Report

Factor Compass – June 2026

Market Commentary

- **Global Risk Deflation:** The prospect of geopolitical de-escalation has acted as a powerful macro catalyst. The sharp contraction in crude oil's risk premium has flushed fear out of the system, freeing up liquidity to rotate aggressively back into risky assets.
- **Stock Picker's Market:** The headline stock market indices are trading sideways without a clear direction. The easy money made by simply riding a broad index fund is on pause. To generate real returns today, you have to be highly selective—it is a pure stock picker's market where success depends entirely on uncovering the specific themes moving beneath the surface.
- **Factor Rotation in Action (The Momentum Surge):** We are witnessing a decisive regime change beneath the surface of the index. While defensive premiums evaporated last month, capital is now becoming highly selective—moving from broad "growth" and aggressively chasing pure Price Momentum and established Value.
- **Trend Over Safety:** Capital is systematically rewarding historical winners and punishing laggards. As our quantitative data will show, holding static, defensive allocations in this market environment continues to act as a severe, structural drag on portfolio performance.

Most Investors fight the lost war

The Static Factor Flaw: When markets turn volatile, the instinct is to hide in "safe" defensive stocks. However, factor premiums are dynamic. A factor that protected portfolios in the last cycle can quietly erode returns in the next.

The Opportunity: The edge isn't in selecting a single factor to hold permanently; it's in systematically identifying which factors the market is rewarding *right now*, before consensus shifts.

Our Framework: We avoid relying on isolated signals, which can lead to false positives. Our model blends four distinct pillars to navigate changing regimes:

- **Macro Business Cycles:** Aligning with the broader economic environment
- **Absolute Trend:** Capitalizing on established market momentum
- **Factor Dispersion:** Identifying environments where stock-picking is actively rewarded
- **Probability-Adjusted Valuation:** Ensuring strict fundamental discipline while avoiding "value traps"

THE OLD PLAYBOOK VS. OUR APPROACH



Static, single-factor bets

Park in defense and hope. One signal, held through every regime — exposed when leadership rotates.

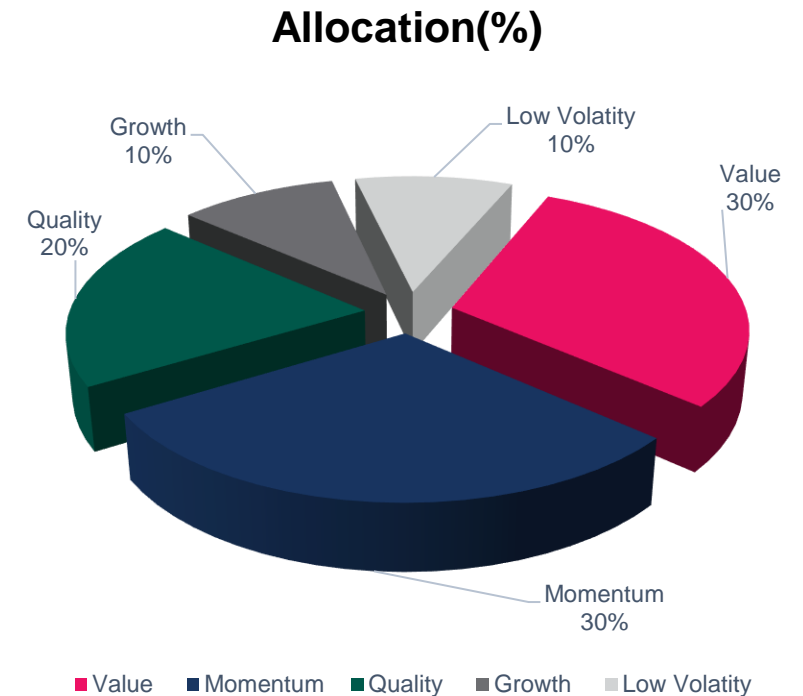


Dynamic, multi-pillar rotation

Four pillars read the regime in real time and pivot the portfolio toward what's leading now.

Strategic Stance: The Aggressive Barbell

- **The Aggressive Barbell:** For June 2026, we have executed a distinct portfolio shift, maintaining our cyclical stance while aggressively rotating toward pure price momentum.
- **Current Positioning:** The portfolio is now heavily concentrated in a **Value 30% & Momentum 30%**.
- **Strategic Rationale:** While top-down macro indicators remain cautious, the market is aggressively rewarding strong trends and established winners, regardless of fundamental growth rates.
- **Key Downgrades:** We have sharply reduced our exposure to Growth (*down to 10%*) as its risk-adjusted trend is fading relative to pure momentum plays. Quality and Low Vol continued to be capped at 20% and 10% respectively.



Source: Axis Direct

Pillar 1: Macro view remains cautious

- Macro Regime - Slowdown:** Economic Activity is still strong, and the trend is stable. The trend for Liquidity and rates is strengthening. Capital Flows, FX & Commodities are the key drags.
- The Defensive Mandate:** In isolation, this regime favors Quality and Low Volatility exposure.
- Adaptive Override:** Our multi-pillar system is designed to adapt when macroeconomic theory clashes with market reality. The current severe underperformance of defensive factors has triggered an algorithm override, prioritizing price action over macro caution.
- Recovery Watch:** A shift toward Recovery needs evidence of stabilizing FII flows, credit relief, or improving recovery signals.
- Recovery signals track whether market panic, credit stress, and FII selling pressure signals are starting to reverse.*

MACRO

MACRO HEALTH DASHBOARD

Today's Snapshot – June 2026

Current Regime: **Slowdown**

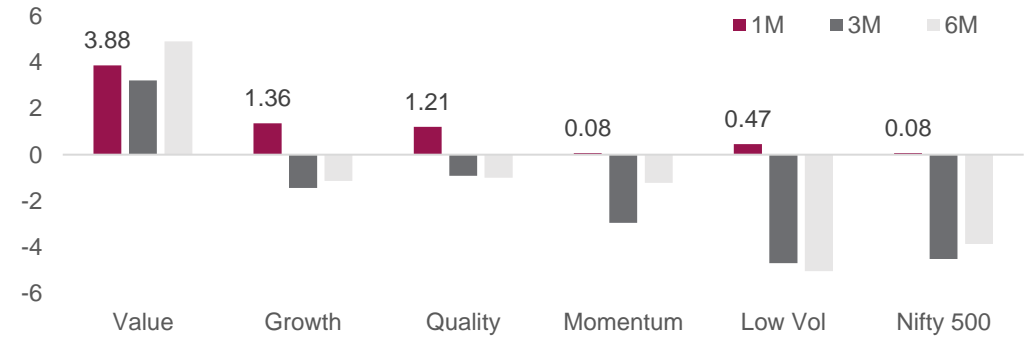
Macro Contributor	Current Signal Intensity					3-Month Trend
Activity	Bearish	Cautious	Neutral	Constructive	Bullish	Stable
Capital Flows	Bearish	Cautious	Neutral	Constructive	Bullish	Weakening
Rates & Liquidity	Bearish	Cautious	Neutral	Constructive	Bullish	Strengthening
Volatility & FX	Bearish	Cautious	Neutral	Constructive	Bullish	Weakening
Commodities	Bearish	Cautious	Neutral	Constructive	Bullish	Stable
Market Action	Bearish	Cautious	Neutral	Constructive	Bullish	Stable
Recovery Signals	Bearish	Cautious	Neutral	Constructive	Bullish	Stable

Note: The highlighted zone shows whether the bucket is a macro drag or macro support
 Source: Refinitiv and Axis Direct

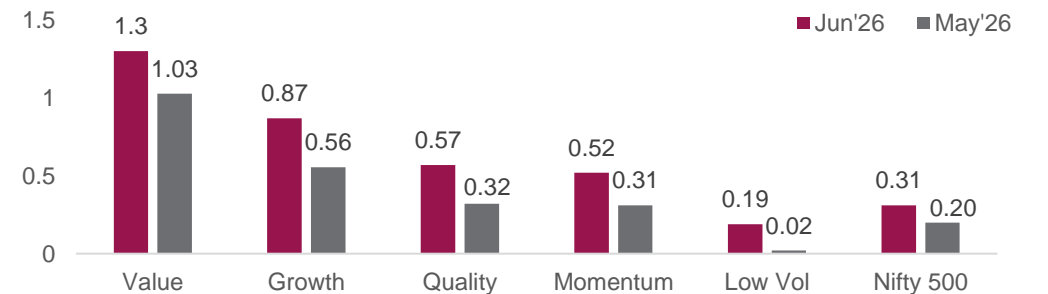
Pillar 2: Absolute Trend (Price Action)

- The Broader Rally:** Moving into June 2026, both absolute and 1-year risk-adjusted returns (Sharpe ratios) improved across all five factors, indicating a rising tide lifting the broader market.
- Value & Growth Hold the Line:** Despite the broad market lift, Value (1.30) and Growth (0.87) remain the undisputed leaders in absolute trend efficiency. The market continues to reward pure price action in these cyclical buckets.
- The Momentum Lag:** Pure Momentum factor (Sharpe 0.52) is still technically lagging behind Growth and Quality in pure trailing price action.
- Model action (The Early Signal):** If our model only relied on Trend (Pillar 2), we would never buy Momentum today. The algorithm's decision to rotate 30% into Momentum this month is majorly anchored by our probability engine (Pillar 4) identifying a massive statistical mispricing, allowing us to enter the trade before the trend officially peaks.

Factor Performance (%)



1 Year Risk adjusted Returns



Source: Bloomberg, Refinitiv and Axis Direct

TREND

Pillar 3: Factor Dispersion

What dispersion shows: Dispersion measures the return gap between the best and worst stocks within a factor. Positive dispersion means the market is rewarding stock selection within that factor.

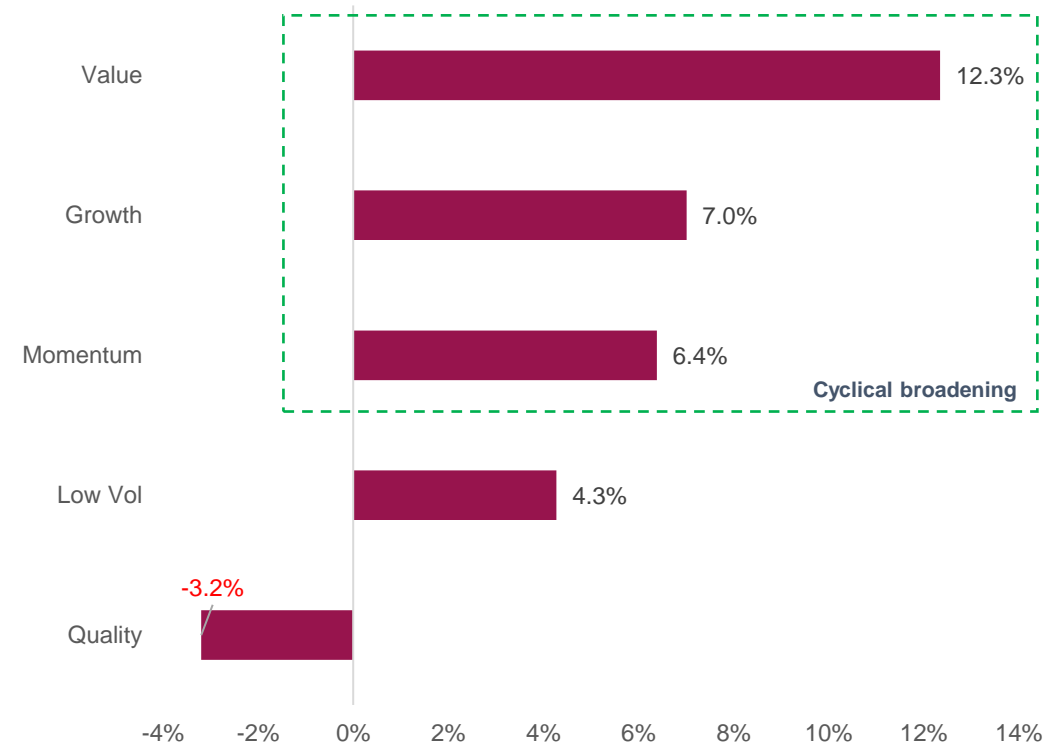
Unstoppable Value: Value (+12.3% spread) is exhibiting extreme positive dispersion. The market is aggressively rewarding "factor purity" in value stocks.

The Growth & Momentum Rebound: Both Growth (+7.01%) and Momentum (+6.39%) saw sharp recoveries in their spreads this month. This broadens the cyclical rally and confirms that active stock picking is working robustly across multiple risk-on buckets.

Defensives Stabilize, but Lag: While Low Volatility recovered into positive territory (+4.28%) and Quality improved slightly (-3.19%), defensive spreads pale in comparison to the cyclical space.

Model action: The model recognizes the stabilization in defensive factors, but actively shifts capital toward the Value/Momentum barbell to capture the vastly superior stock-selection spreads currently available in trending, pro-cyclical names.

Cyclical Dominance & Broadening Breadth:



Source: Bloomberg, Refinitiv and Axis Direct

DISPERSION

Pillar 4: Valuation, Avoiding Traps

The Illusion of "Cheap" (The Low Vol Trap): On a raw yield basis, Low Volatility is screamingly cheap. A basic value model would blindly back up the truck here. However, our probability engine recognizes this specific price collapse as a structural Value Trap, aggressively downgrading its final score to a 1.0.

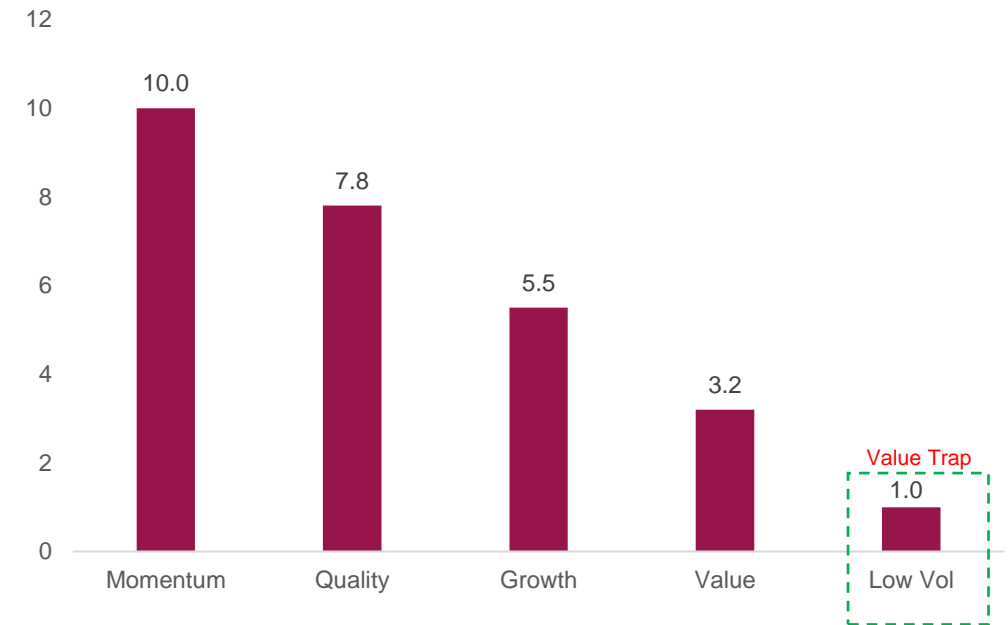
Our Probability Filter: We employ historical win-rate analysis to filter raw value-based signals. The model evaluates whether a factor's current "cheapness" statistically leads to a breakout.

The Statistical Upgrades: Momentum and Quality appear somewhat expensive on a raw yield basis. Yet, our historical binning engine identifies their current setups as high-probability launchpads, upgrading Momentum to a perfect 10.0 and Quality to 7.8.

The "Expensive" Value Reality: Value is currently screening as the most expensive factor in the market both on raw & probability basis.

Model action: We are actively rejecting the cheapest factor (Low Vol) to avoid a trap, while systematically upgrading Momentum based on its forward-looking statistical probability.

Probability-Adjusted Valuation Scores (1-10 Scale)



VALUATION

Source: Bloomberg, Refinitiv and Axis Direct

Synthesizing the Pillars for Alpha

- The Valuation Override (Why we still hold Value):** If Value is so expensive (Valuation Score: 3.2), why is it 30% of the portfolio? Because its Absolute Trend (10.0) and Dispersion (10.0) are so overwhelmingly dominant that they mathematically override the valuation drag. We are riding an ongoing price trend.
- The Momentum Anticipation:** While Momentum’s pure trend remains weak (3.2), its Macro and Dispersion environments are no longer acting as drags (Neutral 5.5). With downside risks neutralized, our probability engine’s perfect 10.0 score confidently drives the 30% rotation.
- The Perfect Barbell:** This creates a perfectly balanced cyclical portfolio. **Value** is the engine working *right now* (driven by pure price action). **Momentum** is the engine statistically primed to work *next* (driven by probability upgrades).
- Model action:** By demanding multi-pillar confirmation, the algorithm builds an uncorrelated cyclical barbell, while successfully avoiding the massive Low Volatility value trap.

Factor	Macro	Trend	Dispersion	Valuation	Final Allocation
Value	Weak	Very Strong	Very Strong	Weak	30% (Overweight)
Momentum	Neutral	Weak	Neutral	Very Strong	30% (Overweight)
Quality	Very Strong	Neutral	Very Weak	Strong	20% (Neutral Anchor)
Growth	Very Weak	Strong	Strong	Neutral	10% (Underweight)
Low Vol	Strong	Very Weak	Weak	Very Weak	10% (Underweight)

Source: Axis Direct

Strategic Synthesis

Top 10 High-Conviction Stock Picks

- **Translating Strategy to Execution:** We translate our top-down 60% Value/Momentum barbell allocation into actionable, stock-level positions.
- **The Fundamental Catalyst Check:** Before inclusion, stocks must pass a final bottom-up fundamental filter. We screen for positive earnings momentum and positive earnings surprises, ensuring we only buy stocks with an identifiable fundamental catalyst.
- **Risk control:** Sector exposure is capped at 3 stocks per sector. This prevents the portfolio from becoming overly concentrated.

Stock Name	Sector
Samvardhana Motherson International Ltd	Auto & Anc
Jammu and Kashmir Bank Ltd	Banks
Bandhan Bank Ltd	Banks
Aurobindo Pharma Ltd	Healthcare
Tata Steel Ltd	Metals & min
Muthoot Finance Ltd	NBFC
Oil and Natural Gas Corporation Ltd	Oil & gas
Oil India Ltd	Oil & gas
Great Eastern Shipping Company Ltd	Transport
NLC India Ltd	Utilities

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