MONTHLY QUANT REPORT

Axis Direct: Monthly Quant Report
August 2026

Market Commentary

The Shift to Expansion (The Setup): While global crosscurrents and volatile commodity prices continue to create headline noise, our quantitative macro dashboard confirms a definitive shift into an 'Expansion' regime. Strengthening domestic economic activity and stabilizing liquidity are providing a solid, measurable foundation for cyclical risk-taking.

Broad Market Exhaustion: Despite the stronger underlying economic backdrop, the headline stock market remains choppy and inefficient. Risk-adjusted returns have compressed across almost every factor over the last month, meaning the easy money from simply riding broad market trends is pausing.

The Cost of "Playing it Safe": In a low-efficiency, choppy market, investors often instinctively hide in 'safe' defensive stocks. However, this old playbook is currently broken. Defensive havens like Low Volatility and Quality are actively destroying capital, yielding deeply negative risk-adjusted returns.

The Value-Momentum Barbell (Cyclical Continuity): With broad trends stalling, the model maintains its overarching pro-cyclical stance, tactically rebalancing internally to hunt for specific, idiosyncratic alpha. We are executing a Value-Momentum barbell: actively mining Value stocks to capture their explosive stock-picking rewards (Dispersion), while buying Momentum strictly as a deep statistical mispricing play (Valuation) to capture the rebound.

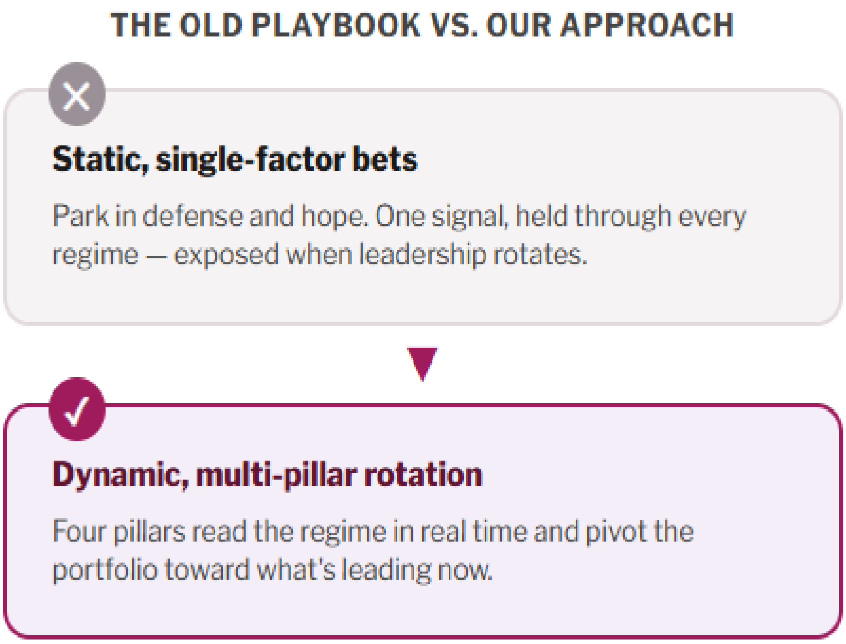
02 Most Investors fight the lost war

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"



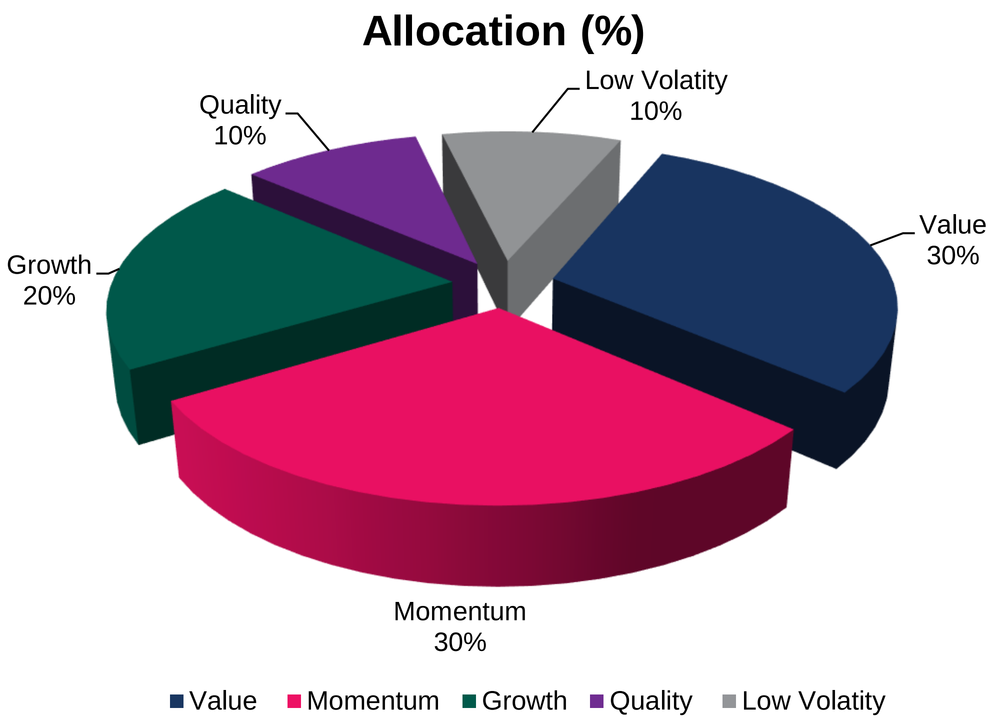
Strategic Stance: Rebalancing the Cyclical Engine

The Pro-Cyclical Continuation: For August 2026, our overarching pro-cyclical market stance remains firmly intact. Rather than a drastic shift, the model has executed a tactical internal rebalancing between our three core cyclical engines to optimize for the current month's data.

Current Positioning: The portfolio maintains its aggressive posture, heavily concentrated in a Value 30% & Momentum 30% barbell, with Growth stepping into a highly resilient 20% supporting anchor role.

Strategic Rationale: Momentum regained its co-leadership position (up to 30%) driven by massive month-over-month upgrades in both its Macro and Valuation pillars, despite its trend remaining neutral. We paired this with Value, where a surge to maximum stock-picking dispersion perfectly offset its cooling macro and valuation scores, keeping it as our primary alpha engine.

The Growth Re-calibration: We scaled back Growth slightly from 30% to 20%. While its valuation profile actually improved this month, a slight moderation in its dispersion spread allowed Momentum to mathematically overtake it. Defensives (Quality and Low Volatility) remain structurally capped at 10% each.



04 Pillar 1: Macro Regime Transitions to Recovery

MACRO HEALTH DASHBOARD

Today's Snapshot — August 2026

Current Regime: **Expansion**

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

- **Macro Regime - Expansion:** The macro framework has progressed from Recovery to Expansion, confirming that economic conditions are no longer merely stabilizing but are now strengthening across most major indicators.

- **Drivers of the Upgrade:** Economic 'Activity' has shifted its trend from Stable to Strengthening, acting as the primary fundamental anchor. Furthermore, 'Recovery Signals' have officially upgraded from Neutral to Constructive, confirming broad-based economic resilience.

- **The Expansion Mandate:** In isolation, an 'Expansion' regime strongly favors aggressive, pro-cyclical positioning. This environment explicitly provides maximum structural support for Momentum and cyclical exposures, as improving liquidity and fundamental growth validate higher risk-taking.

- **Macro-Market Realignment:** The transition from Recovery to Expansion completely validates the market's underlying trajectory. For our model, this macro realignment is crucial: it provides a perfect 10.0 Macro score to Momentum, serving as one of the primary quantitative catalysts for its 30% portfolio allocation.

05 Pillar 2: Absolute Trend (Market-Wide Exhaustion)

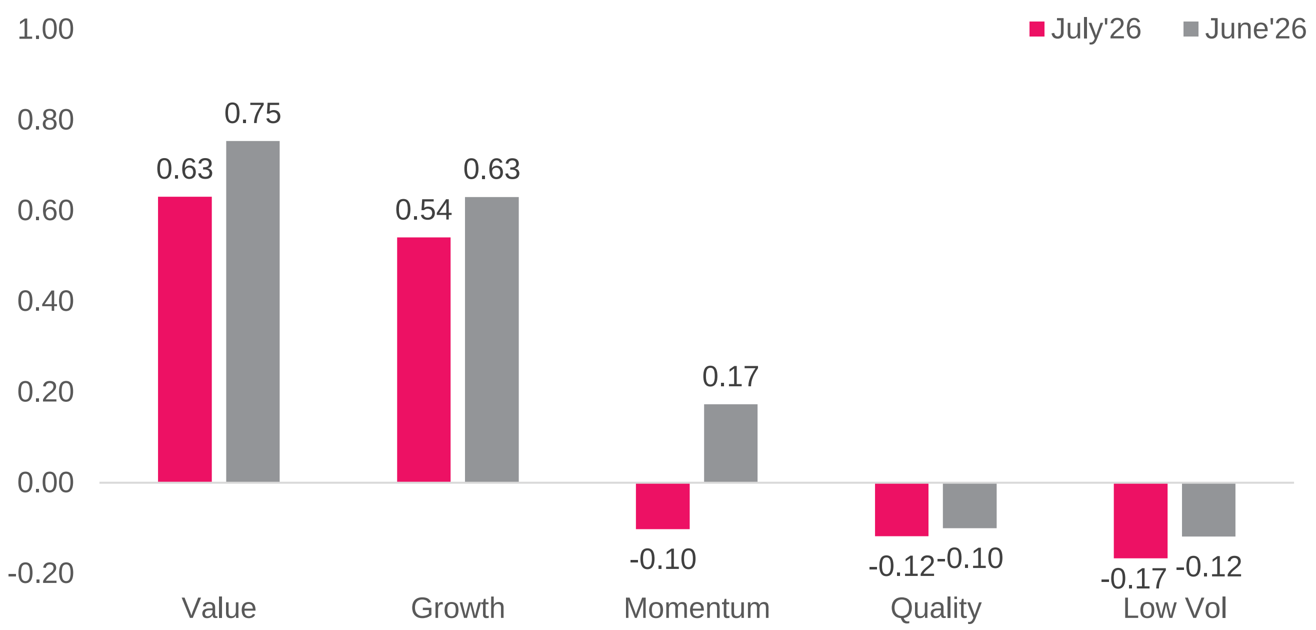
Broad Market Exhaustion (The Signal): For the second consecutive month, risk-adjusted returns (Sharpe ratios) have compressed across every single factor. A continuous, market-wide Sharpe reduction signals a choppy, low-efficiency environment where established trends are stalling and volatility is actively eroding returns.

The Relative Hierarchy Holds: Despite the absolute deterioration in scores, the rank order remains completely unchanged (Value > Growth > Momentum > Quality > Low Vol). Value (0.63) and Growth (0.54) are the only factors still generating positive risk-adjusted returns.

Momentum Breaks Support: We must objectively note that pure Momentum (-0.10) has now broken into negative risk-adjusted territory, joining the defensive factors. From a pure price-action standpoint, holding Momentum is currently failing to compensate investors for the risks taken.

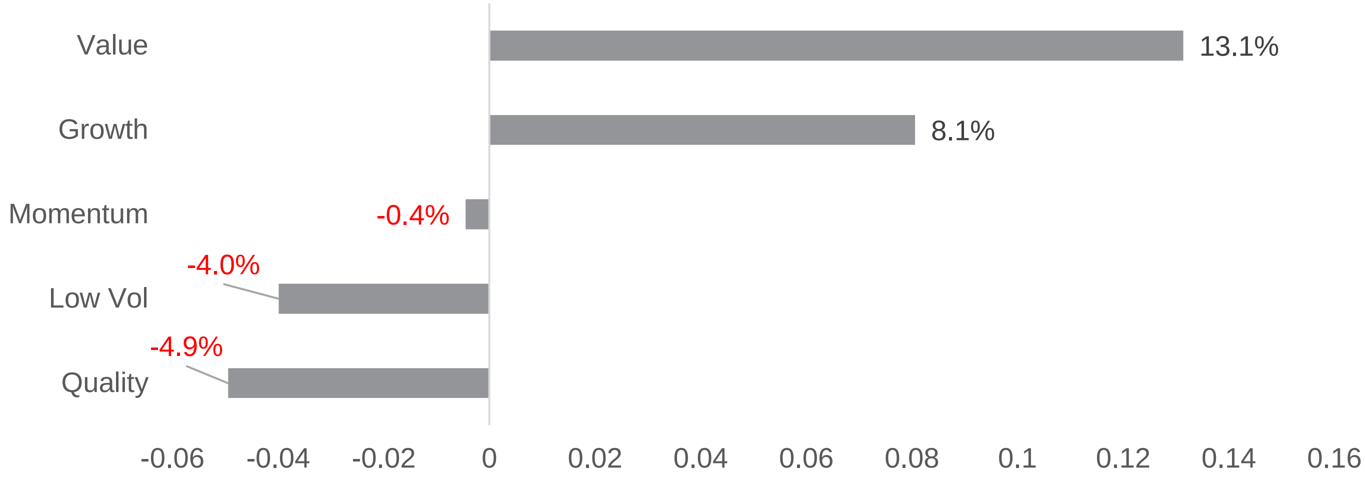
Model action: The algorithm takes an unbiased read of this breakdown. It penalizes Momentum's fading price action by capping its Trend score at a Neutral (5.5). The model's decision to allocate 30% to Momentum in the final portfolio is not supported by this pillar; it relies entirely on our Macro and Valuation engines anticipating a forward-looking turnaround.

1-Year Sharpe Ratios: ***Broad Market Cooling Across All Factors***



Pillar 3: Factor Dispersion

Cyclical Leadership vs. Defensive Breakdown:



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

The Value Explosion: Value experienced a massive structural surge this month, with its long/short spread expanding dramatically to +13.14%. The market is aggressively rewarding factor purity in Value stocks, earning it a perfect 10.0 dispersion score.

Growth Stays Lucrative: Growth also maintains highly positive dispersion (+8.06%), confirming that active stock picking is working robustly across the cyclical spectrum.

The Momentum Breakdown: We must objectively highlight a major internal shift: Momentum's dispersion has collapsed from +5.3% last month into negative territory (-0.4%). Just like its Sharpe ratio, pure Momentum has lost its stock-picking edge and is currently punishing active selection.

Defensives Plunge Deeper: Quality (-4.9%) and Low Volatility (-4.0%) remain firmly in negative territory, continuing to act as structural drags on portfolio performance.

Model action: The data is clear—active stock picking is only generating alpha in Value and Growth. The model explicitly acknowledges that Momentum's internal price mechanics are currently broken. Therefore, our 30% allocation to Momentum is entirely a forward-looking allocation, driven exclusively by its dominant Macro & Valuation pillars rather than its current trailing price action.

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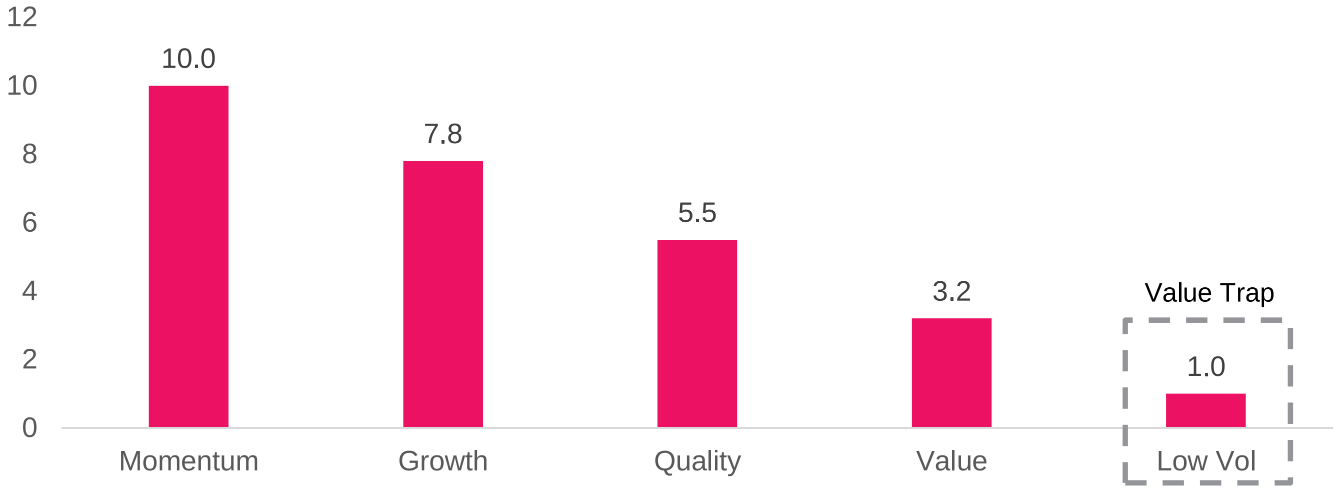
Pillar 4: Valuation (The Momentum Catalyst)

Probability-Adjusted Valuation Scores (1-10 Scale):



Historical Context: We evaluate how cheap or expensive a factor is relative to its own history based on underlying fundamental yields.

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 Momentum Catalyst: While Momentum's trailing price trend and dispersion have turned negative, its forward-looking win-probability surged. This earns it a perfect 10.0 Valuation score. This deep statistical mispricing provides the sole quantitative justification for rotating capital back into the factor.

The Value & Growth Reversal: We see a clear internal rotation. Value has become statistically expensive, with its probability score dropping sharply from a strong 7.8 last month down to a weak 3.2. Conversely, Growth improved significantly (moving from 3.2 to 7.8), making it a much more attractively priced cyclical alternative.

The Defensive Fade: Quality lost its primary support. Last month's perfect 10.0 Valuation score evaporated to a neutral 5.5. Meanwhile, Low Volatility continues to screen as a bottom-tier 1.0 probability trap.

Model action: The model objectively weighs these conflicting signals. It buys Momentum purely as a contrarian mean-reversion trade based on this statistical mispricing. It accepts Value's newly expensive valuation only because of its massive dispersion (Pillar 3), while avoiding defensives entirely.

Synthesizing the Pillars for Alpha

Value (Riding the Strongest Trend): On paper, Value stocks are starting to look a bit expensive. However, they are currently the market's most undeniable winners. The price trend is so strong—and the rewards for picking the right Value stocks are so high right now—that we are confidently holding it as our primary 30% engine.

Momentum (The High-Probability Rebound): Why buy Momentum if its recent price action has cooled off? Because it is our ultimate turnaround play. Momentum currently has the absolute best economic backing (Macro) and the highest statistical probability for a breakout (Valuation). We are allocating 30% here to catch this rebound before the crowd returns.

Growth (The Steady Anchor): Growth is our perfectly balanced middle ground. With solid scores across its price trend, stock-picking potential, and valuation, it acts as a highly resilient 20% anchor to smooth out the broader portfolio.

Model action: The strategy is clear and data-driven. The model builds a balanced cyclical portfolio by riding the established winners (Value), buying the highest-probability rebound (Momentum), maintaining a steady anchor (Growth), and completely avoiding the falling defensive sectors.

Synthesizing Pillars (Signal Matrix)

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

Top 10 High-Conviction Stock Picks

Translating Strategy to Execution: We translate our top-down 60% Value & Momentum barbell allocation into actionable, highly concentrated 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 strictly capped at 3 stocks per sector. This prevents the portfolio from becoming overly concentrated.

Stock Name	Sector
Great Eastern Shipping Company Ltd	Transport
Union Bank of India Ltd	Banks
Jammu and Kashmir Bank Ltd	Banks
National Aluminium Co Ltd	Metals & min
Steel Authority of India Ltd	Metals & min
Hindalco Industries Ltd	Metals & min
NLC India Ltd	Utilities
CreditAccess Grameen Ltd	NBFC
Vardhman Textiles Ltd	Discretionary
Aurobindo Pharma Ltd	Healthcare

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