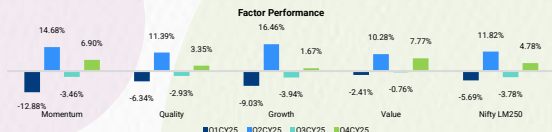


# Factor Investing 2026

## How factors fared in 2025

- Factor performance in 2025 was marked by sharp swings – a weak first quarter, a strong rebound in Q2, and moderation through the second half of the year.
- Weak factor performance was driven by event led news flow during the year, coupled with weakness in earnings.
- Value emerged as the clear leader (+15% CY25), outperforming the index for 5 consecutive years.
- Momentum, after a stellar six-year run since 2019, delivered +3% in 2025, trailing the broader index.



Source: Bloomberg, Internal Research, NSE. Data as of 30<sup>th</sup> December 2025. Price return considered.

## What we think about 2026

- We expect factor performance in 2026 to improve versus 2025, supported by better earnings visibility, easing of foreign outflows and a strong macro backdrop.
- Valuations for broader factors have corrected meaningfully, signaling scope for factor normalization ahead.
- In a risk-off, consolidating market environment, large caps outperformed in 2025; we expect mid- and small-caps to perform reasonably well in 2026, led by improved PEG ratios.
- We are optimistic towards Growth and Momentum for participation in recovery, while anchoring with Value factor for valuation discipline.

## Factor Fundamentals

- Momentum:** Volatility tempered gains in 2025. Strong earnings visibility and a valuation reset should support better performance going forward.
- Quality:** IT and Consumption, which remain core sectors for the Quality factor, continue to lag, driven by weakness in earnings.
- Growth:** The portfolio is led by Capital Goods and Healthcare sector. Earnings continue to remain robust. However, valuations have capped returns.
- Value:** The portfolio tilt is towards Commodity, making it sensitive to the macro environment and price movements.

PE (2Y Fwd)	Dec-24	Dec-25	2Y EPS CAGR	Dec-24	Dec-25	ROE %	Dec-24	Dec-25
Momentum	38.5	19.7	Momentum	23%	20%	Momentum	21%	16%
Quality	39.3	25.6	Quality	15%	14%	Quality	26%	20%
Growth	37.8	31.4	Growth	24%	24%	Growth	21%	19%
Value	11.0	10.5	Value	11%	11%	Value	15%	15%

Source: Bloomberg, Internal Research. Data as of 30<sup>th</sup> December 2025.

## Style Tilts

- Momentum factor portfolios have shifted more toward Value in H2 CY25 resulting in a balanced mix of Growth, Quality and Value.
- Financial sector dominated across factors, leading to higher overlap.

### Overlap of Momentum Portfolio

	H1CY25	H2CY25
Quality	20%	28%
Growth	36%	22%
Value	2%	24%

% of stocks which are common with Momentum portfolio. Source: Bloomberg, Internal. Data as on 30<sup>th</sup> December 2025.

## Sector Tilts

- Weightage to the Financial sector showed an increasing trend across factors during the year.
- Momentum & Quality factors saw sectoral rotation during CY25.
- Momentum favored Healthcare & Consumer sectors in H1CY25 before shifting towards the Auto & Capital Goods later in the year.
- Sector tilts remained unchanged for Growth & Value portfolios during the year.

## Change in sector exposure in factor portfolios

	H1CY25	H2CY25
Momentum	Healthcare, Consumer	Autos, Capital Goods
Quality	Autos & IT	Capital Goods, FMCG
Growth	Healthcare & Capital Goods	
Value	Oil & Gas, Metals	

Source: Bloomberg, Internal. Data as on 30<sup>th</sup> December 2025.

## Key risks to look at

- A firm dollar or a renewed rise in global yields (incl. US/Japan 10Y) could compress EM risk appetite, leading to higher outflows
- Value faces crowding risk; Growth remains vulnerable to rich valuations and recent EPS trims; Momentum may witness amid delayed earnings recovery & adverse news flow.

## Investment opportunities in factors

When markets are volatile, strategies that deploy multi-factors tend to do better than single factor funds. An overlay of momentum with other factors such as Growth or Value could be a good alternative to manage downside protection while maintaining market exposure for potential gains.

## Key factors and their attributes

Factors	Quality	Growth	Value	Momentum
Features	Sound financials	High growth with future potential	Relatively inexpensive stocks	Rising stocks
Metrics	ROE, ROCE, Standard Deviation	EPS, Operating Profit and Sales growth	P/E, P/B and Dividend Yield	Price performance of last 3 and 12 months

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