



YOUR QUARTERLY GUIDE TO FACTOR INVESTING.

EDITION 05 | June 2024

Market Outlook



Source: CMIE | Data from 30th June, 2019 to 30th June, 2024

The markets have seen a strong performance over the past year, with small cap companies outpacing their large cap counterparts. The trend of mid and small cap indices outperforming the large cap indices continued into the previous quarter as well. In the past year, the Nifty 50 and Nifty Next 50 Indices, which include the top 100 companies, achieved returns of 26.66% and 64.57% respectively. In comparison, the Nifty Midcap 150 Index gained 56.44%, while the Nifty Smallcap 250 Index returned 63.37%. The Nifty 50 Equal Weight Index also saw a return of 36.33% over this period. During the last quarter, the Nifty 50 and Nifty Next 50 indices rose by 8.13% and 18.13% respectively, while the Nifty 50 Equal Weight, Nifty Midcap 150, and Nifty Smallcap 250 indices recorded returns of 7.86%, 17.39%, and 19.51% respectively.







Global Indices Performance (Last 5 Years)

Source: Bloomberg | Data from 30th June, 2019 to 30th June, 2024

Over the past year, developed markets have shown strong performance, while emerging markets have posted positive returns. The S&P 500 has demonstrated robust growth, surging by 22.70%. UK markets have also performed well, gaining 8.40% (in GBP). Emerging markets have broadly recorded a positive return of 9.78% (in USD) over the same period. In the Eurozone, the Euro Stoxx Index, which includes major European firms, has increased by 11.25% (in EUR). Favorable outcomes have been observed across all these indices in the latest quarter except for Euro Stoxx TRI (in EUR).



Source: Bloomberg | Data from 30th June, 2019 to 30th June, 2024

The markets experienced a strong upward trend in the last quarter, with all factors demonstrating robust positive performance during this period. Over the course of one year, the Nifty 50 TRI posted a return of +26.66%. Throughout this time frame, the Value, Quality, Low Volatility, and Momentum factors all showed significant outperformance compared to the market index. Specifically, the NJ Traditional Value Model achieved a return of +76.25% over the year, while the NJ Enhanced Value Model yielded +41.94%. The NJ Quality+ Model posted a return of +70.68%, and both the NJ Low Volatility+ Model and NJ Momentum+ Model delivered returns of +50.36% and +70.30% respectively.



Recent Point to Point Performance

Point-to-Point returns summary

	NJ Quality+	NJ Enhanced Value	NJ Momentum+	NJ Low Volatility+	NJ Traditional Value	NIFTY 50 TRI
MTD(%)	8.77%	9.78%	4.88%	8.50%	8.39%	6.77%
3M(%)	18.82%	15.45%	14.77%	14.72%	18.87%	8.13%
6M(%)	27.03%	13.17%	26.36%	21.07%	28.73%	11.29%
YTD(%)	26.44%	12.44%	25.75%	20.59%	27.41%	11.24%
1Y(%)	70.68%	41.94%	70.30%	50.36%	76.25%	26.66%
3Y (ann.)(%)	33.84%	18.79%	33.04%	24.02%	34.55%	16.54%
5Y (ann.)(%)	32.26%	24.40%	35.48%	22.48%	30.01%	16.68%
10Y (ann.)(%)	22.76%	17.94%	26.92%	18.82%	18.70%	13.55%
All-time(ann.)(%)	20.74%	16.20%	24.00%	18.55%	17.42%	12.64%

Data from 30th Sep, 2006 to 30th June, 2024

Historical Factor Trends



Source: CMIE, NJ Smart Beta | Data from 15th Dec, 2009 to 15th June, 2024





NJ	Low	Volatility+	and	Nifty	50	TRI	Parameter	Averages
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Parameter	NJ Low Volatility+	Nifty 50 TRI
36M Weekly Annualised Volatility	11.78%	13.10%
36M Weekly Beta	0.75	1.00

As on 15th June, 2024

The Nifty 50 TRI exhibits greater volatility compared to the NJ Low Volatility+ Model. The NJ Low Volatility+ Model maintains a notably lower average weekly annualized volatility of 11.78%, in contrast to the Nifty 50 TRI's higher figure of 13.10%. Furthermore, the NJ Low Volatility+ Model shows a lower 36-month Beta of 0.75 compared to the Nifty 50 TRI.



NJ Momentum+ vs Nifty 50 TRI : Cumulative Growth Chart

Source: CMIE, NJ Smart Beta | Data from 30th Sep, 2006 to 15th June, 2024

Parameter	YTD Return	1-Year Return	3-Year CAGR	5-Year CAGR	10-Year CAGR	Since Inception CAGR
NJ Momentum+	25.75%	70.30%	33.04%	35.48%	26.92%	24.00%
Nifty 50 TRI	11.24%	26.66%	16.54%	16.68%	13.55%	12.64%

As on 30th June, 2024

The NJ Momentum+ Model has displayed robust performance over extended periods. Over the past year, it delivered a return of 70.30%, surpassing the Nifty 50's 26.66% return. This trend continues in the medium and long term, with the NJ Momentum+ Model showing significantly higher Compound Annual Growth Rates (CAGR) over 3, 5, and 10 years.



Historical Trends in NJ's Quality+ Model



Source: CMIE, NJ Smart Beta | Data from 30th Sep, 2006 to 15th Sep, 2023



NJ Quality+ vs Nifty 50 TRI : Return on Equity

Source: CMIE, NJ Smart Beta | Data from 30th Sep, 2006 to 15th Sep, 2023



NJ Quality+ vs Nifty 50 TRI : Debt-to-Equity

Source: CMIE, NJ Smart Beta | Data from 30th Sep, 2006 to 15th Sep, 2023





Source: CMIE, NJ Smart Beta | Data from 30th Sep, 2006 to 15th Sep, 2023

NJ Quality+ and Nifty 50 TRI Parameter Averages

Parameter	NJ Quality +	Nifty 50 TRI
Dividend Payout	47.14%	34.06%
ROE	21.06%	17.23%
Debt To Equity	18.60%	66.46%
Current Ratio	2.15	1.66

As on 15th June, 2024. Numbers represent simple averages of all constituents.

Debt to Equity ratio is considered for non lending companies only, Only Non-Fin companies have been included in Current Ratio. Chart has been plotted based on quarterly data.

When comparing the quality metrics of NJ Quality+ and Nifty 50 TRI, NJ Quality+ shows notable strengths. It has a higher Dividend Payout of 47.14%, surpassing Nifty 50 TRI's 34.06%. NJ Quality+ also demonstrates a higher Return on Equity (ROE) of 21.06%, which is higher than Nifty 50 TRI's 17.23%. Additionally, NJ Quality+ maintains a significantly lower Debt to Equity Ratio of 18.60%, contrasting with Nifty 50 TRI's higher ratio of 66.46%. Moreover, NJ Quality+ exhibits a stronger Current Ratio of 2.15, whereas Nifty 50 TRI's Current Ratio stands at 1.66.

Historical Trends in NJ Traditional Value and NJ Enhanced Value



NJ Value vs Nifty 50 TRI : Price to Earnings

Source: CMIE, NJ Smart Beta, Nifty Indices | Data from 30th Sep, 2006 to 15th June, 2024





Source: CMIE, NJ Smart Beta, Nifty Indices | Data from 30th Sep, 2006 to 15th June, 2024



Source: CMIE, NJ Smart Beta | Data from 30th Sep, 2006 to 15th June, 2024

NJ Traditional Value, NJ Enhanced Value and Nifty 50 TRI Parameter Averages

Parameter	NJ Traditional Value	NJ Enhanced Value	Nifty 50 TRI
PE to Growth	0.94	1.27	1.72
Dividend Yield	1.99%	1.19%	1.27%
Price to Earnings	15.27	24.17	22.32

As on 15th June, 2024. Numbers for PE to Growth and Dividend Yield represent simple averages of all constituents whereas, numbers for PE represent harmonic mean of all constituents. Loss Making companies and Outliers have not been considered while calculating average. Chart has been plotted based on quarterly data. Dividend Yield and Price to Earnings of Nifty 50 TRI are taken from Nifty Indices.

Overall, the NJ Traditional Value Model and the NJ Enhanced Value Model exhibit stronger value indicators compared to the Nifty 50 Index. The NJ Traditional Value Model posted a 0.78 lower Price-to-Earnings to Growth (PEG) ratio, while the NJ Enhanced Value Model is lower by 0.45 in this metric. Additionally, NJ Traditional Value features lower Price-to-Earnings (PE) ratios than the Nifty 50 Index. Moreover, the NJ Traditional Value Model offers a higher dividend yield compared to the Nifty 50 Index.



NJ Traditional Value







5Yr Return Distribution Summary

NJ Traditional Value		
Mean Return	13.92%	
Median Return	12.45%	
Std Dev Of Returns	7.50%	
Max Return	31.75%	
Min Return	-5.07%	
Negative Observation (%)	1.78%	
% Of Observations Between 0% & 10%	34.89%	
% Of Observations Between 10% & 15%	25.91%	
% Of Observations Between 15% & 20%	11.10%	
% Of Observations Between 20% & 30%	25.44%	
% Of Observations >= 30% Return	0.88%	
Total Observations	4,658	



NJ Enhanced Value



NJ Enhanced Value: Normal Distribution vs Actual Returns Distribution of Rolling Return





5Yr Return Distribution Summary

NJ Enhanced Value		
Mean Return	15.09%	
Median Return	15.54%	
Std Dev Of Returns	6.44%	
Max Return	29.55%	
Min Return	-2.99%	
Negative Observation (%)	0.75%	
% Of Observations Between 0% & 10%	24.84%	
% Of Observations Between 10% & 15%	20.80%	
% Of Observations Between 15% & 20%	28.88%	
% Of Observations Between 20% & 30%	24.73%	
% Of Observations >= 30% Return	0.00%	
Total Observations	4,658	
Source: CMIE NJ Smart Beta Data from 30th Sep. 2006 to 30th June 2024		



NJ Momentum+



NJ Momentum+: Normal Distribution vs Actual Returns Distribution of Rolling Returns





5Yr Return Distribution Summary

NJ Momentum Value		
Mean Return	22.22%	
Median Return	23.39%	
Std Dev Of Returns	6.74%	
Max Return	37.05%	
Min Return	4.82%	
Negative Observation (%)	0.00%	
% Of Observations Between 0% & 10%	3.41%	
% Of Observations Between 10% & 15%	15.74%	
% Of Observations Between 15% & 20%	15.37%	
% Of Observations Between 20% & 30%	53.86%	
% Of Observations >= 30% Return	11.61%	
Total Observations	4,658	



NJ Low Volatility+



NJ Low Volatility+: Normal Distribution vs Actual Returns Distribution of Rolling Returns





5Yr Return Distribution Summary

NJ Low Volatility+			
Mean Return	17.76%		
Median Return	16.91%		
Std Dev Of Returns	5.23%		
Max Return	31.40%		
Min Return	3.02%		
Negative Observation (%)	0.00%		
% Of Observations Between 0% & 10%	4.25%		
% Of Observations Between 10% & 15%	28.49%		
% Of Observations Between 15% & 20%	31.30%		
% Of Observations Between 20% & 30%	35.44%		
% Of Observations >= 30% Return	0.52%		
Total Observations	4,658		





NJ Quality+: Normal Distribution vs Actual Returns Distribution of Rolling Returns

NJ Quality+: Rolling Returns Over Time



5Yr Return Distribution Summary

NJ Quality+		
Mean Return	18.93%	
Median Return	18.58%	
Std Dev Of Returns	5.51%	
Max Return	33.00%	
Min Return	1.98%	
Negative Observation (%)	0.00%	
% Of Observations Between 0% & 10%	3.86%	
% Of Observations Between 10% & 15%	21.12%	
% Of Observations Between 15% & 20%	32.98%	
% Of Observations Between 20% & 30%	40.17%	
% Of Observations >= 30% Return	1.87%	
Total Observations	4,658	
Source: CMIE, NJ Smart Beta. Data from 30th Sep, 2006 to 30th June, 2024		





Nifty 50 TRI : Normal Distribution vs Actual Returns Distribution of Rolling Return





5Yr Return Distribution Summary

NIFTY 50 TRI		
Mean Return	11.45%	
Median Return	12.57%	
Std Dev Of Returns	4.20%	
Max Return	21.85%	
Min Return	-1.03%	
Negative Observation (%)	0.15%	
% Of Observations Between 0% & 10%	32.78%	
% Of Observations Between 10% & 15%	47.68%	
% Of Observations Between 15% & 20%	18.94%	
% Of Observations Between 20% & 30%	0.45%	
% Of Observations >= 30% Return	0.00%	
Total Observations	4,658	

Factor Correlations

	NJ Low Volatility+	NJ Momentum+	NJ Quality+	NJ Enhanced Value	NJ Traditional Value
NJ Low Volatility+	1	0.62	0.85	0.66	0.5
NJ Momentum+	0.62	1	0.73	0.68	0.65
NJ Quality+	0.85	0.73	1	0.8	0.69
NJ Enhanced Value	0.66	0.68	0.8	1	0.78
NJ Traditional Value	0.5	0.65	0.69	0.78	1

Correlation Matrix based on excess return of each factor over Nifty 500 TRI

Source: CMIE, NJ Smart Beta. Data from 31st Dec, 2013 to 30th June, 2024

Exploring the correlations and interconnections between factors is of extreme importance as it helps to design an optimally diversified factor model. The factor correlation has been calculated by using excess return over Nifty 500 TRI.

NJ Low Volatility+ is very strongly correlated with NJ Quality+ (0.85). While the degree of correlation between the NJ Low Volatility+ is moderately strong with the NJ Momentum+ (0.62), it is fairly weak with the NJ Traditional Value (0.50) and moderate with NJ Enhanced Value (0.66) model.

The degree of correlation between NJ Momentum+ is moderately strong with all the other indexes i.e. NJ Quality+ (0.73), NJ Traditional Value (0.65) and NJ Enhanced Value (0.68).

NJ Quality+ has moderately strong correlation with NJ Traditional Value (0.69) and strong correlation with NJ Enhanced Value (0.80).

NJ Enhanced Value has strong correlation with NJ Traditional Value (0.78).



Research Spotlight



1. Discover NJ's Factor Book - (https://www.njfactorbook.com)

Uncover valuable insights and knowledge that will elevate your understanding. For quick access, scan the QR code provided and embark on a journey of discovery.



3. A Guide to Factor Investing -

https://www.nepc.com/wp-content/uploads/2024/05/A-Guide-to-Factor-Investing.pdf?weekendreading-link_img-240524/

A Guide to Factor Investing by Alex Goroshko and the NEPC Portfolio Construction Team explains how factor investing, which leverages specific risk premiums like value, size, and momentum, can help achieve long-term investment goals. The paper highlights the benefits of diversified multi-factor portfolios in enhancing returns, improving diversification, and reducing risk. It also underscores the importance of understanding and customizing factor exposures to meet individual investment objectives.





Disclaimer: NJ Quality+, NJ Traditional Value, NJ Momentum+, NJ Enhanced Value and NJ Low Volatility+ is an in-house proprietary module developed by NJ Asset Management Private Limited and is not an indication of model / return of any Investment Approach / Scheme Offered by NJ Asset Management Private Limited (NJAMPL). Past Performance may or may not sustain in future. All data/information used in the preparation of this material is dated and may or may not be relevant any time after the issuance of this material. NJAMPL takes no responsibility for updating any data/information in this material from time to time. In the preparation of this material NJAMPL has used information that is publicly available, including information developed in-house. Some of the material used herein may have been obtained from members/persons other than the NJAMPL and/or its affiliates and which may have been made available to the NJAMPL and/or to its affiliates. Information gathered and material used herein is believed to be from reliable sources. NJAMPL however does not warrant the accuracy, reasonableness and/or completeness of any information. For data reference to any third party in this material no such party will assume any liability for the same. We have included statements /opinions/ recommendations in this material, which contain words, or phrases such as "will", "expect", "should", "believe" and similar expressions or variations of such expressions that are "forward looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, the monitory and interest policies of India, inflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes.