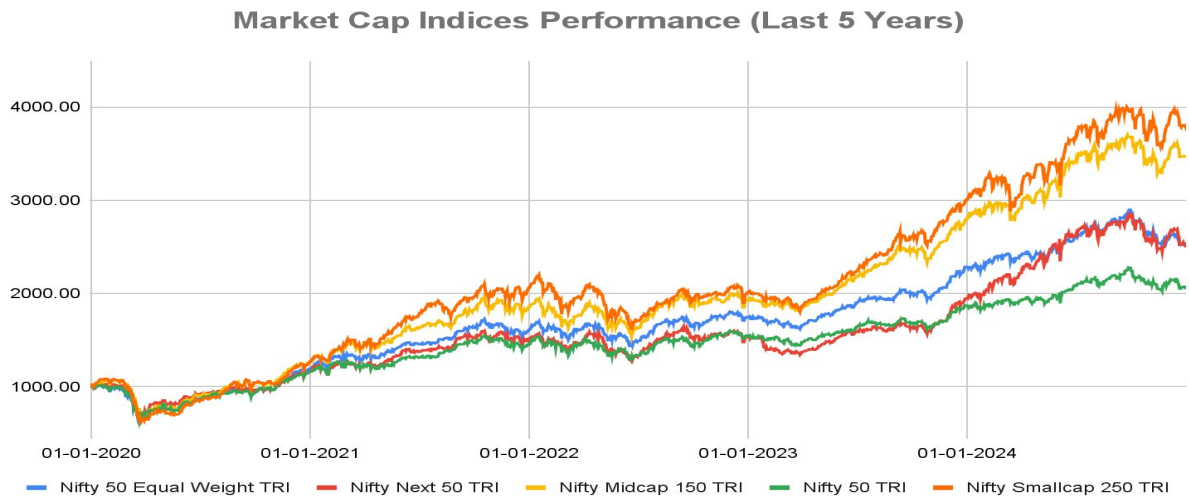
THE FACTOR FRONTIER

YOUR QUARTERLY GUIDE TO FACTOR INVESTING.

EDITION 07 | Dec 2024

Market Outlook

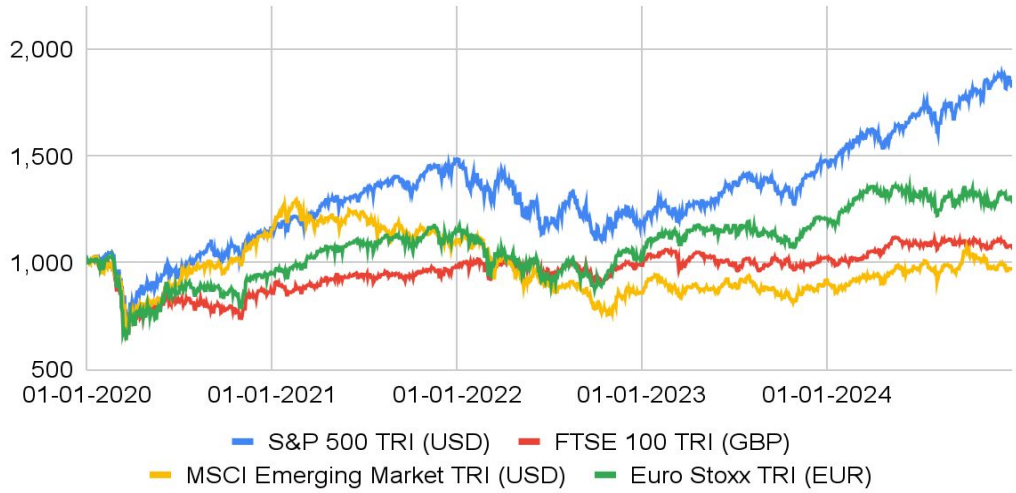


Source: CMIE | Data from 30th Sept, 2019 to 31st Dec, 2024

Over the past year, the Nifty 50 and Nifty Next 50 Indices, which track the top 100 companies, delivered returns of 10.09% and 28.37% respectively. In comparison, the Nifty Midcap 150 Index gained 24.46%, while the Nifty Smallcap 250 Index returned 27.21%. The last quarter saw negative gains, with the Nifty 50 and Nifty Next 50 indices decreased by -8.25% and -11.65% respectively, while the Nifty Midcap 150 and Nifty Smallcap 250 indices posted returns of -5.18% and -3.50% respectively

Market Outlook

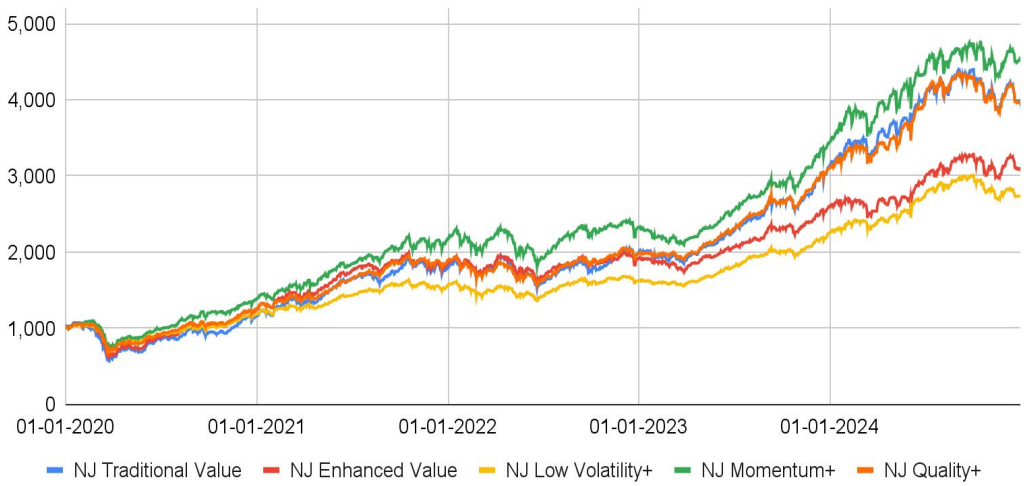
Global Indices Performance (Last 5 Years)



Source: Bloomberg | Data from 30th Sept, 2019 to 31st Dec, 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 25.71%. UK markets have also performed well, gaining 5.69% (in GBP). Emerging markets have broadly recorded a positive return of 5.05% (in USD) over the same period. In the Eurozone, the Euro Stoxx Index, which includes major European firms, has increased by 8.28% (in EUR).

NJ Factor Indices Performance (Last 5 Years)



Source: NJ Smart Beta | Data from 30th Sept, 2019 to 31st Dec, 2024

The markets experienced a downward trend in the last quarter, with all factors demonstrating negative performance during this period. Over the course of one year, the Nifty 50 TRI posted a return of +10.09%. 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 +28.52% over the year, while the NJ Enhanced Value Model yielded +19.91%. The NJ Quality+ Model posted a return of +28.78%, and both the NJ Low Volatility+ Model and NJ Momentum+ Model delivered returns of +21.96% and +32.81% respectively.

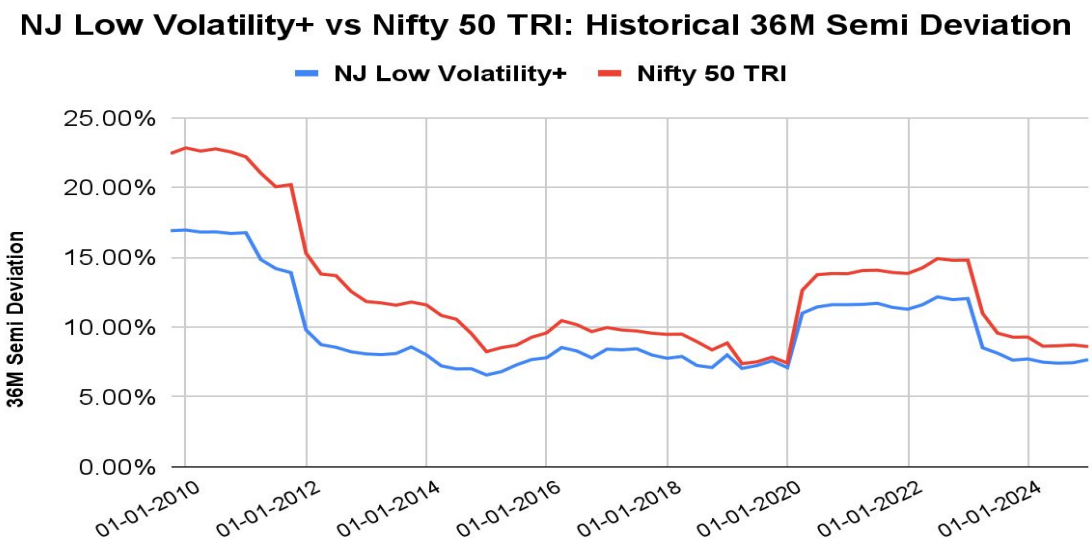
Recent Point to Point Performance

Point-to-Point returns summary

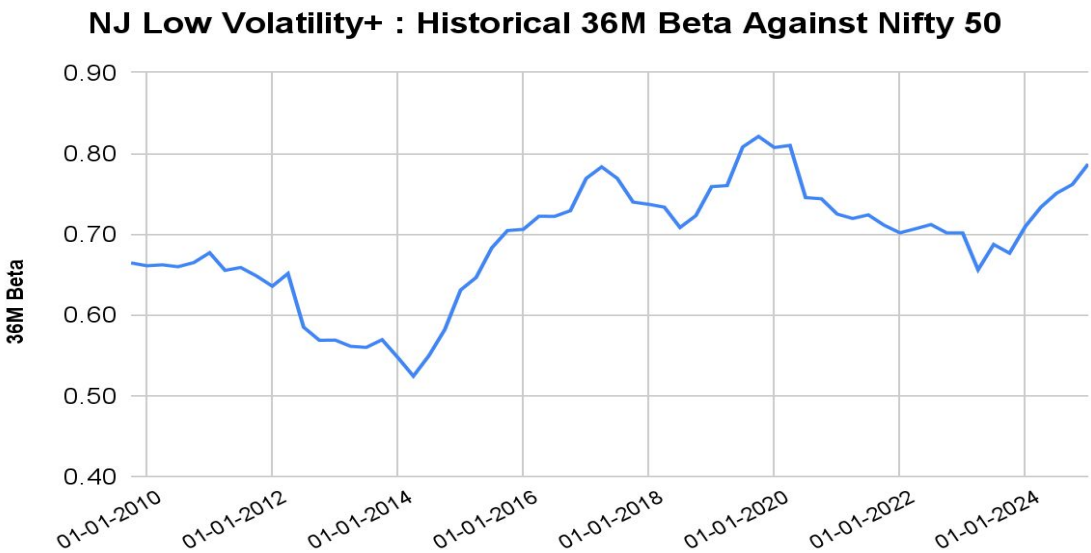
	NJ Quality+	NJ Enhanced Value	NJ Momentum+	NJ Low Volatility+	NJ Traditional Value	NIFTY 50 TRI
MTD(%)	-1.58%	-0.83%	1.31%	-1.54%	-1.70%	-2.02%
3M(%)	-7.05%	-4.87%	-3.18%	-8.63%	-8.80%	-8.25%
6M(%)	1.37%	5.95%	5.10%	0.73%	-0.17%	-1.08%
YTD(%)	28.18%	19.14%	32.17%	21.47%	27.20%	10.04%
1Y(%)	28.78%	19.91%	32.81%	21.96%	28.52%	10.09%
3Y (ann.)(%)	28.23%	18.73%	27.96%	20.53%	30.60%	12.17%
5Y (ann.)(%)	31.80%	25.37%	35.36%	22.29%	31.89%	15.50%
10Y (ann.)(%)	21.21%	16.46%	24.63%	16.74%	17.91%	12.41%
All-time(ann.)(%)	20.20%	16.09%	23.59%	18.04%	16.89%	12.20%

Data from 30th Sep, 2006 to 31st Dec, 2024

Historical Factor Trends



Source: CMIE, NJ Smart Beta | Data from 30th Sept, 2009 to 31st Dec, 2024



Source: CMIE, NJ Smart Beta | Data from 30th Sept, 2009 to 31st Dec, 2024

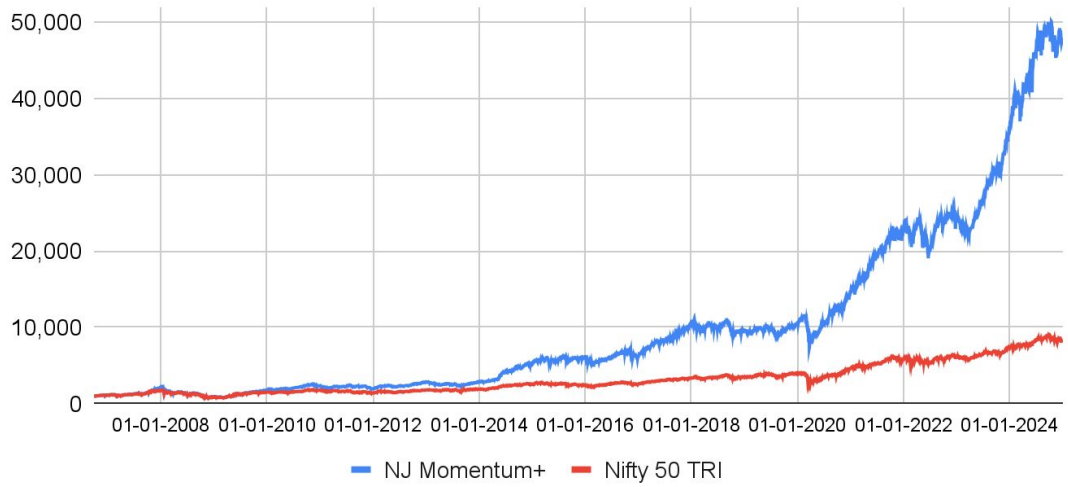
NJ Low Volatility+ and Nifty 50 TRI Parameter Averages

Parameter	NJ Low Volatility+	Nifty 50 TRI
36M Weekly Annualised Volatility	12.06%	12.79%
36M Weekly Beta	0.79	1.00

As on 31st Dec, 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 12.06%, in contrast to the Nifty 50 TRI's higher figure of 12.79% . Furthermore, the NJ Low Volatility+ Model shows a lower 36-month Beta of 0.79 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 31st Dec, 2024

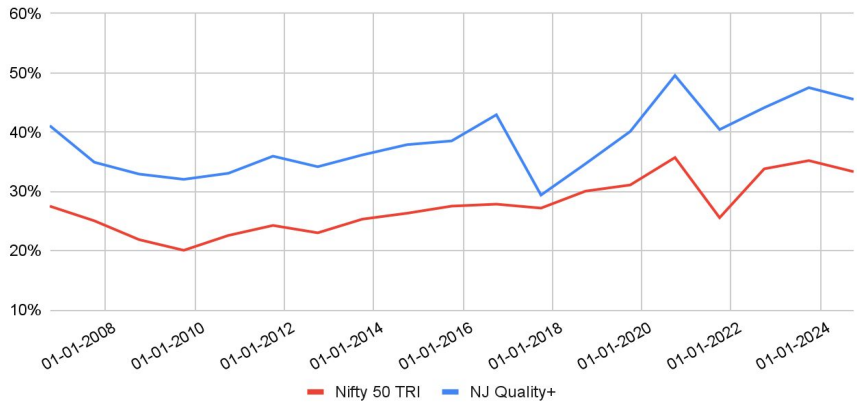
Parameter	YTD Return	1-Year Return	3-Year CAGR	5-Year CAGR	10-Year CAGR	Since Inception CAGR
NJ Momentum+	32.17%	32.81%	27.96%	35.36%	24.63%	23.59%
Nifty 50 TRI	10.04%	10.09%	12.17%	15.50%	12.41%	12.20%

As on 31st Dec, 2024

The NJ Momentum+ Model has displayed robust performance over extended periods. Over the past year, it delivered a return of 32.81%, surpassing the Nifty 50's 10% 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.

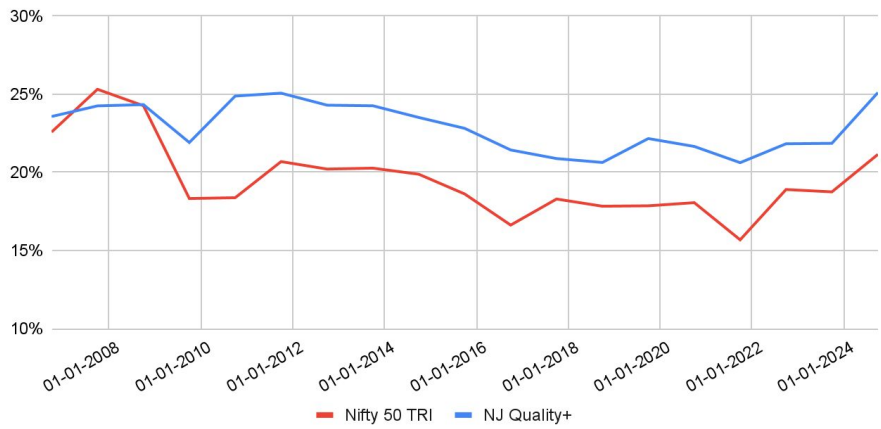
Historical Trends in NJ's Quality+ Model

NJ Quality+ vs Nifty 50 TRI : Dividend Payout



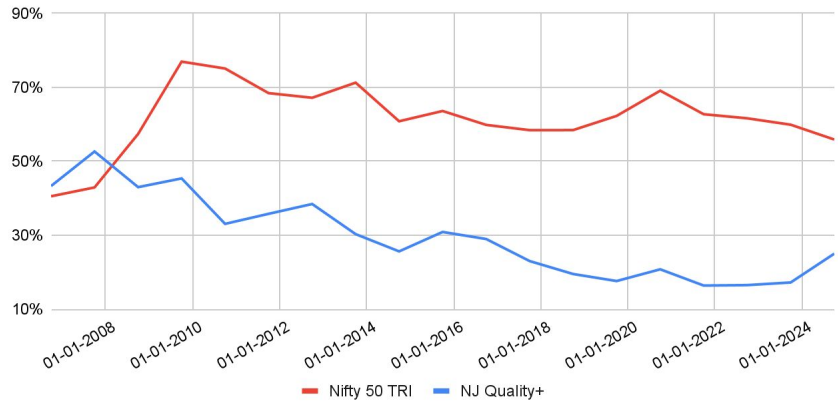
Source: CMIE, NJ Smart Beta | Data from 30th Sep, 2006 to 30th Sep, 2024

NJ Quality+ vs Nifty 50 TRI : Return on Equity

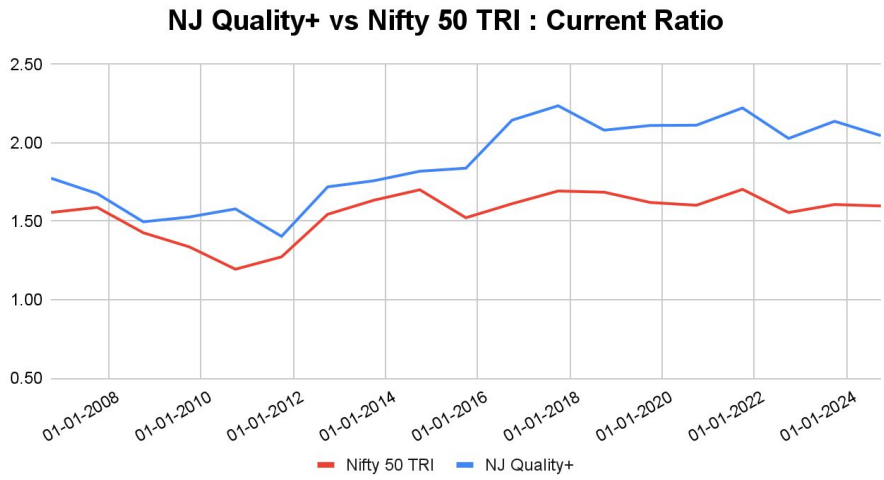


Source: CMIE, NJ Smart Beta | Data from 30th Sep, 2006 to 30th Sep, 2024

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



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



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

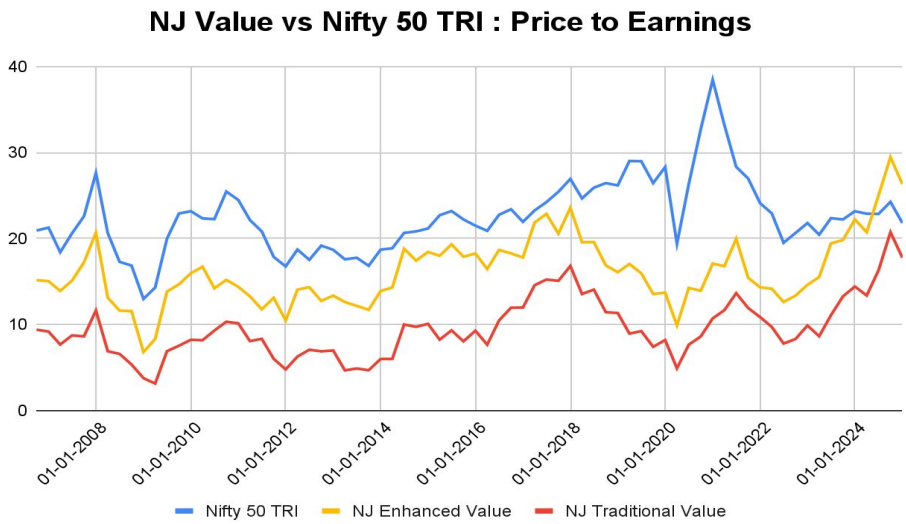
NJ Quality+ and Nifty 50 TRI Parameter Averages

Parameter	NJ Quality +	Nifty 50 TRI
Dividend Payout	45.54%	33.33%
ROE	25.11%	21.15%
Debt To Equity	25.02%	55.90%
Current Ratio	2.05	1.60

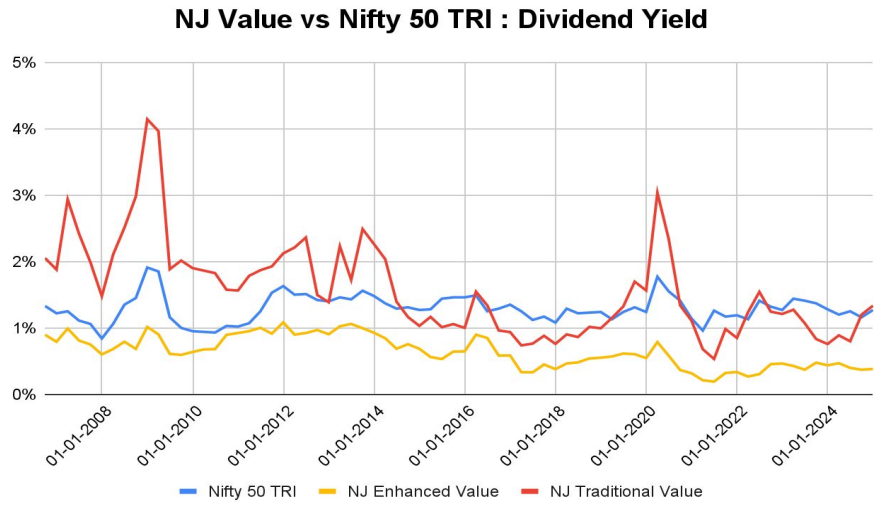
As on 30th Sep, 2024. Numbers represent simple averages of all constituents.
Debt to Equity ratio is considered for non lending companies only, Only Non-Fin companies have been included in Current Ratio.
Chart has been plotted based on annual data.

When comparing the quality metrics of NJ Quality+ and Nifty 50 TRI, NJ Quality+ shows notable strengths. It has a higher Dividend Payout of 45.54%, surpassing Nifty 50 TRI's 33.33%. NJ Quality+ also demonstrates a higher Return on Equity (ROE) of 25.11%, which is higher than Nifty 50 TRI's 21.15%. Additionally, NJ Quality+ maintains a significantly lower Debt to Equity Ratio of 25.02%, contrasting with Nifty 50 TRI's higher ratio of 55.9%. Moreover, NJ Quality+ exhibits a stronger Current Ratio of 2.05, whereas Nifty 50 TRI's Current Ratio stands at 1.6.

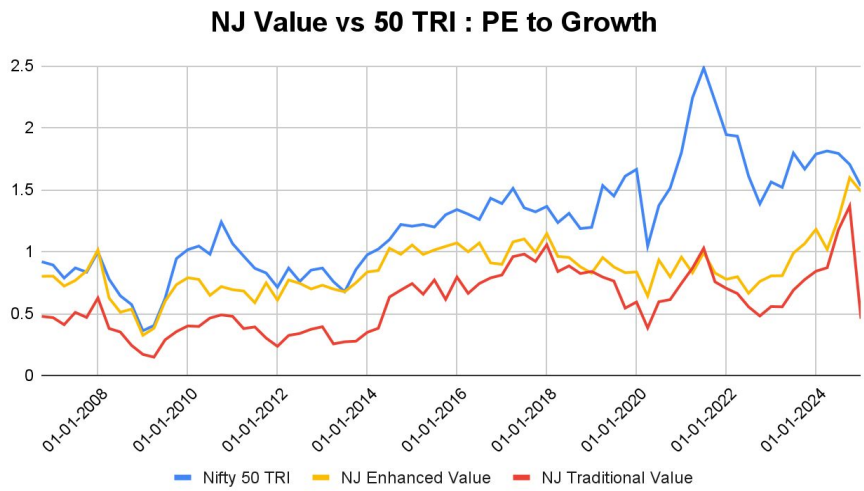
Historical Trends in NJ Traditional Value and NJ Enhanced Value



Source: CMIE, NJ Smart Beta, Nifty Indices | Data from 30th Sep, 2006 to 31st Dec, 2024



Source: CMIE, NJ Smart Beta, Nifty Indices | Data from 30th Sep, 2006 to 31st Dec, 2024



Source: CMIE, NJ Smart Beta | Data from 30th Sep, 2006 to 31st Dec, 2024

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

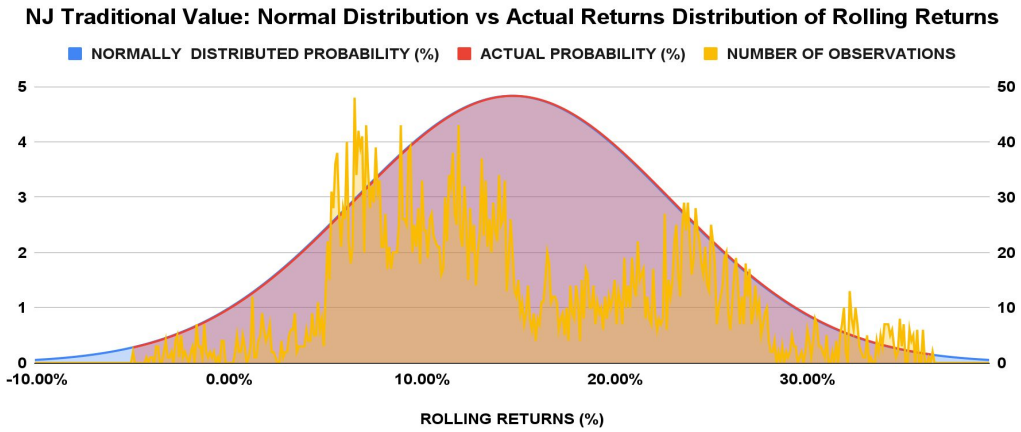
Parameter	NJ Traditional Value	NJ Enhanced Value	Nifty 50 TRI
PE to Growth	0.46	1.49	1.53
Dividend Yield	1.33%	0.38%	1.27%
Price to Earnings	17.76	26.32	21.79

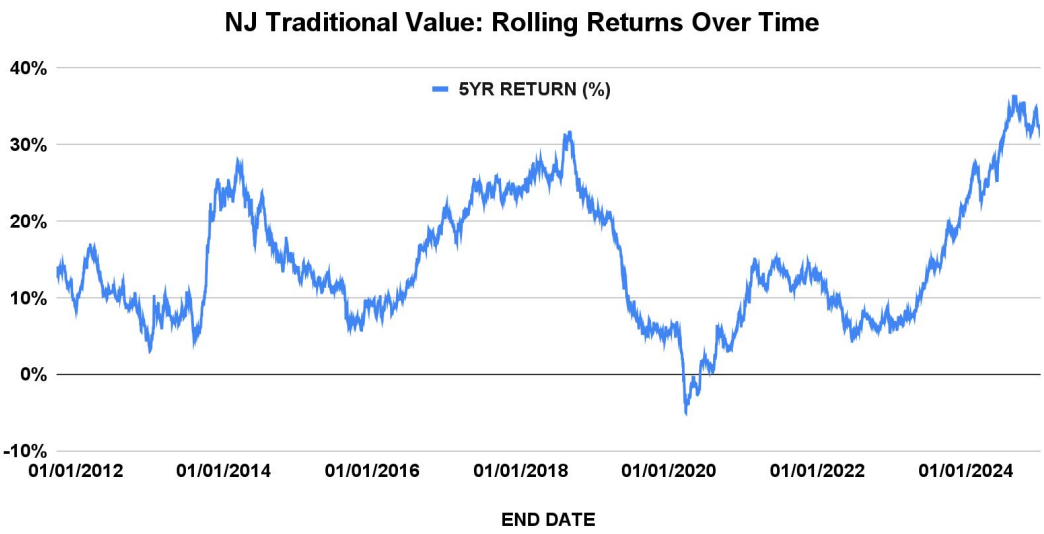
As on 31st Dec, 2024. Numbers for PE to Growth, Dividend Yield and PE represent harmonic mean of all constituents. Loss Making companies have not been considered while calculating average. Chart has been plotted based on quarterly data. Dividend Yield and Price to Earnings of Nifty 50 TRI are taken from the official website of 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 1.07 lower Price-to-Earnings to Growth (PEG) ratio, while the NJ Enhanced Value Model is lower by 0.04 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.

Risk and Return Statistical Analysis of Factors

NJ Traditional Value



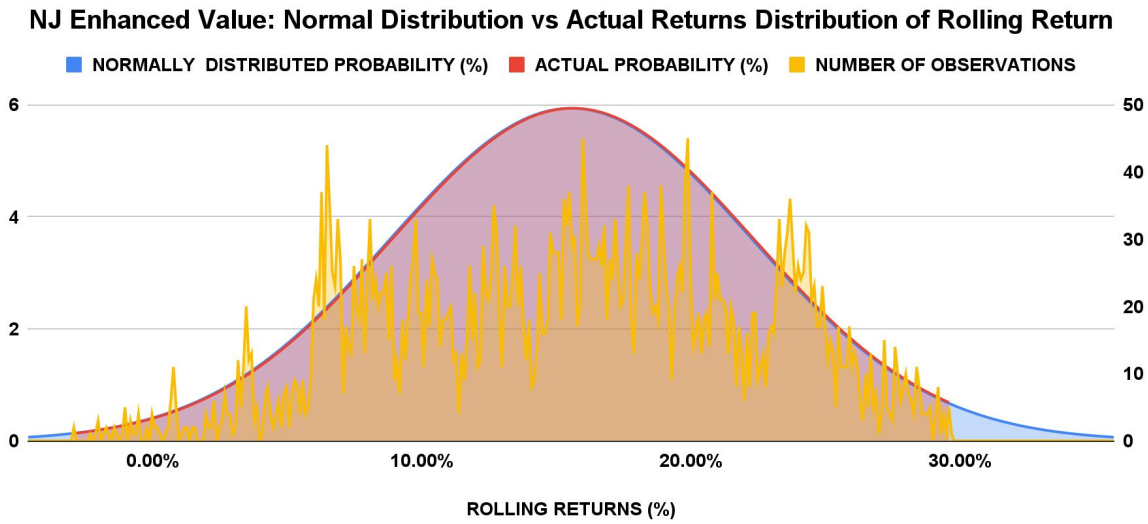


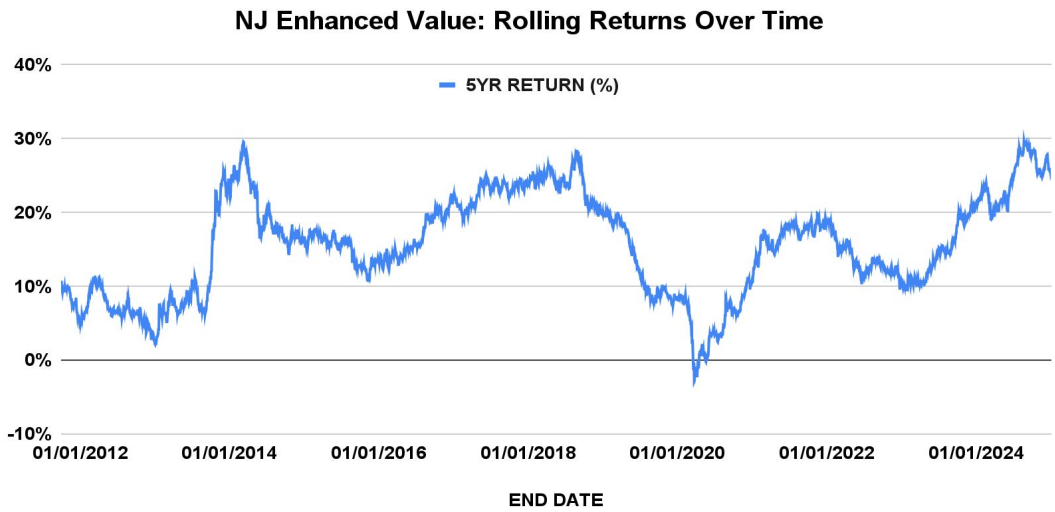
5Yr Return Distribution Summary

NJ Traditional Value	
Mean Return	14.66%
Median Return	12.90%
Std Dev Of Returns	8.26%
Max Return	36.47%
Min Return	-5.07%
Negative Observation (%)	1.71%
% Of Observations Between 0% & 10%	33.56%
% Of Observations Between 10% & 15%	24.93%
% Of Observations Between 15% & 20%	10.68%
% Of Observations Between 20% & 30%	24.47%
% Of Observations >= 30% Return	4.65%
Total Observations	4,842

Source: CMIE, NJ Smart Beta. Data from 30th Sep, 2006 to 31st Dec, 2024

NJ Enhanced Value



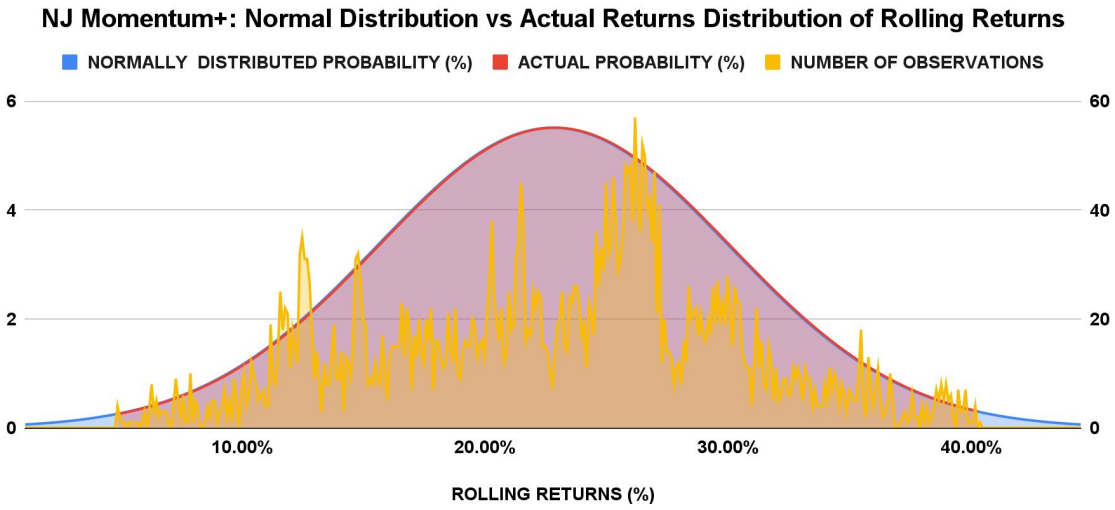


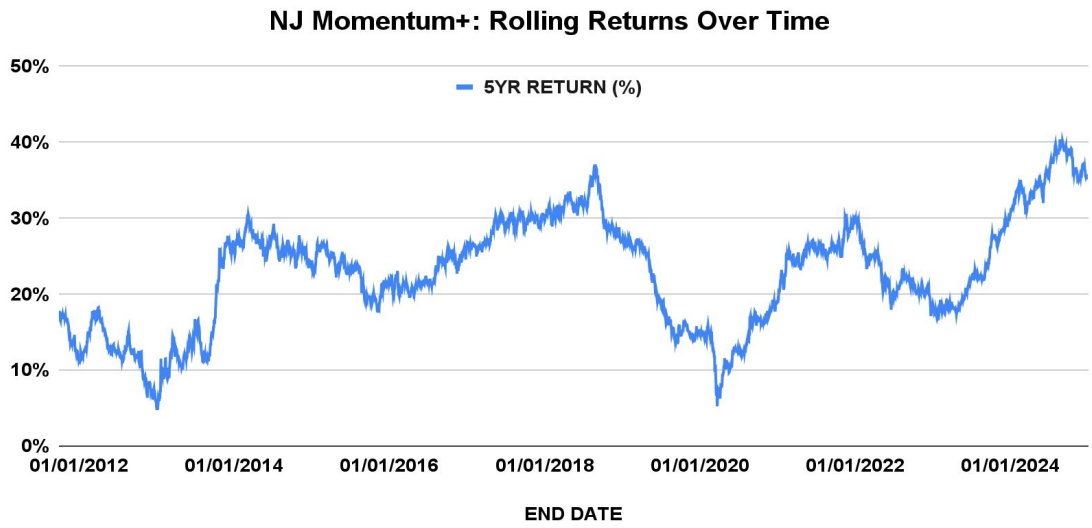
5Yr Return Distribution Summary

NJ Enhanced Value	
Mean Return	15.54%
Median Return	15.92%
Std Dev Of Returns	6.72%
Max Return	29.67%
Min Return	-2.99%
Negative Observation (%)	0.72%
% Of Observations Between 0% & 10%	23.90%
% Of Observations Between 10% & 15%	20.01%
% Of Observations Between 15% & 20%	27.78%
% Of Observations Between 20% & 30%	27.59%
% Of Observations >= 30% Return	0.00%
Total Observations	4,842

Source: CMIE, NJ Smart Beta. Data from 30th Sep, 2006 to 31st Dec, 2024

NJ Momentum+



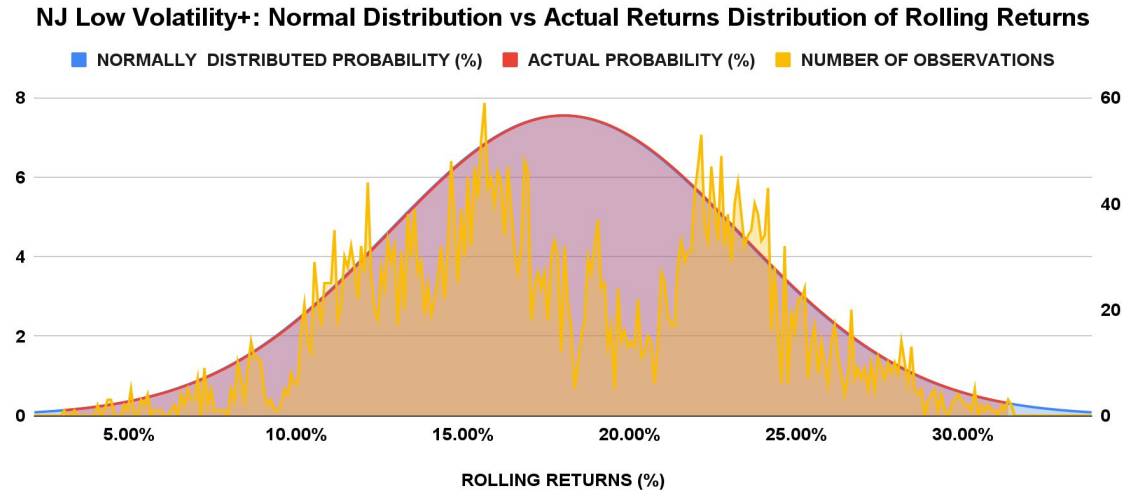


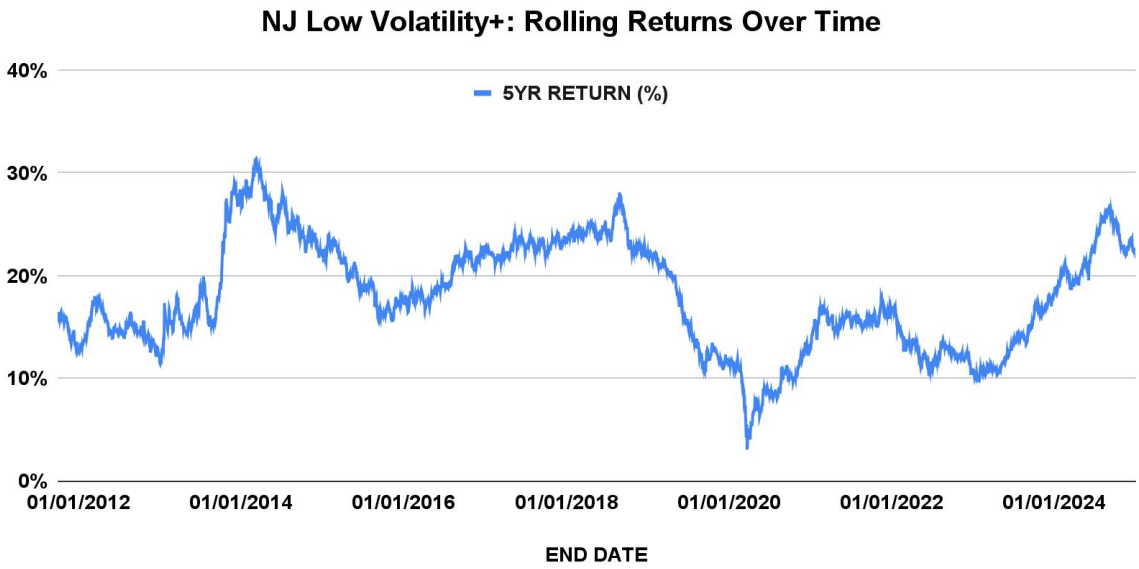
5Yr Return Distribution Summary

NJ Momentum+	
Mean Return	22.80%
Median Return	23.76%
Std Dev Of Returns	7.24%
Max Return	40.34%
Min Return	4.82%
Negative Observation (%)	0.00%
% Of Observations Between 0% & 10%	3.28%
% Of Observations Between 10% & 15%	15.14%
% Of Observations Between 15% & 20%	14.79%
% Of Observations Between 20% & 30%	51.82%
% Of Observations >= 30% Return	14.97%
Total Observations	4,842

Source: CMIE, NJ Smart Beta. Data from 30th Sep, 2006 to 31st Dec, 2024

NJ Low Volatility+

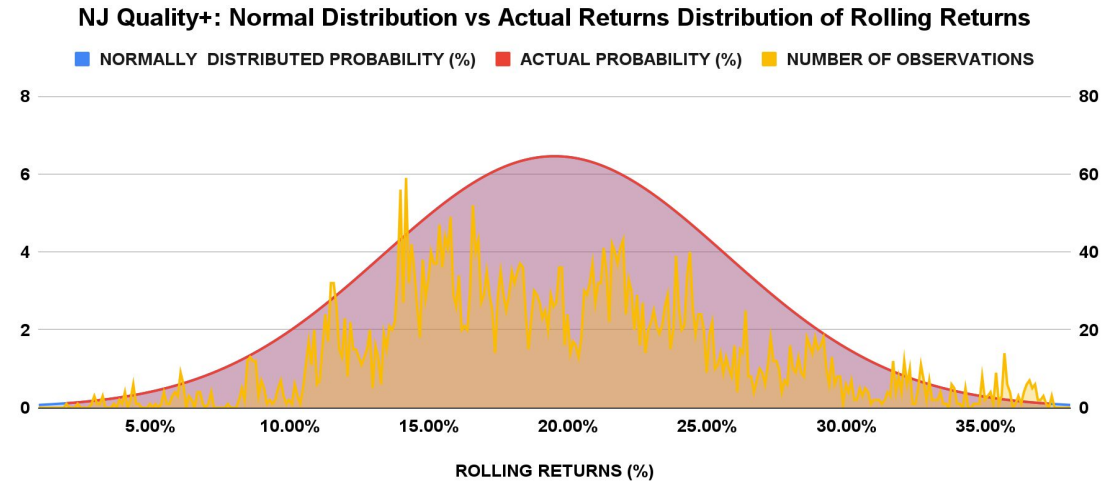


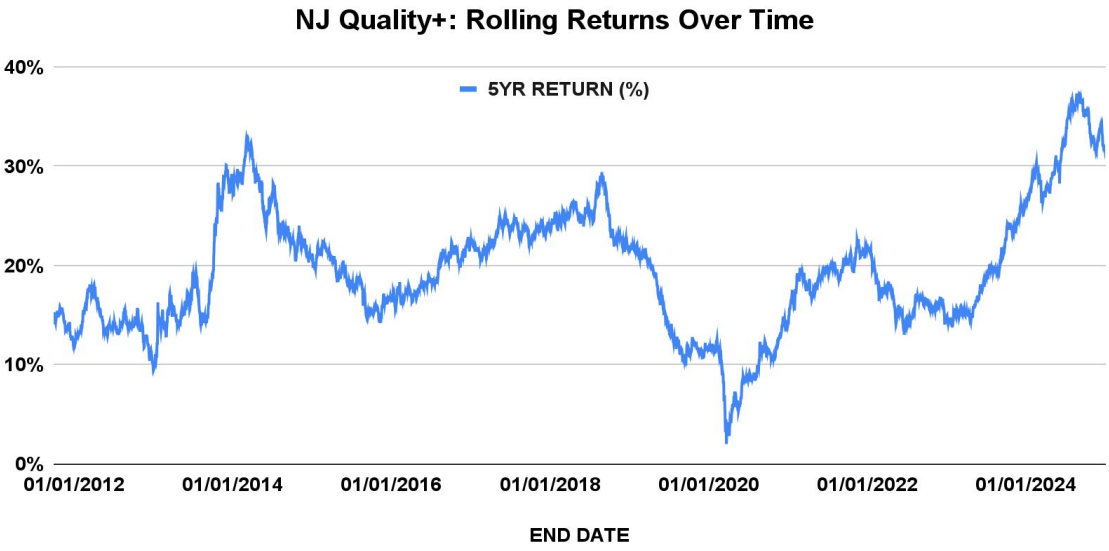


5Yr Return Distribution Summary

NJ Low Volatility+	
Mean Return	18.01%
Median Return	17.31%
Std Dev Of Returns	5.28%
Max Return	31.40%
Min Return	3.02%
Negative Observation (%)	0.00%
% Of Observations Between 0% & 10%	4.09%
% Of Observations Between 10% & 15%	27.41%
% Of Observations Between 15% & 20%	30.11%
% Of Observations Between 20% & 30%	37.90%
% Of Observations >= 30% Return	0.50%
Total Observations	4,842

Source: CMIE, NJ Smart Beta. Data from 30th Sep, 2006 to 31st Dec, 2024



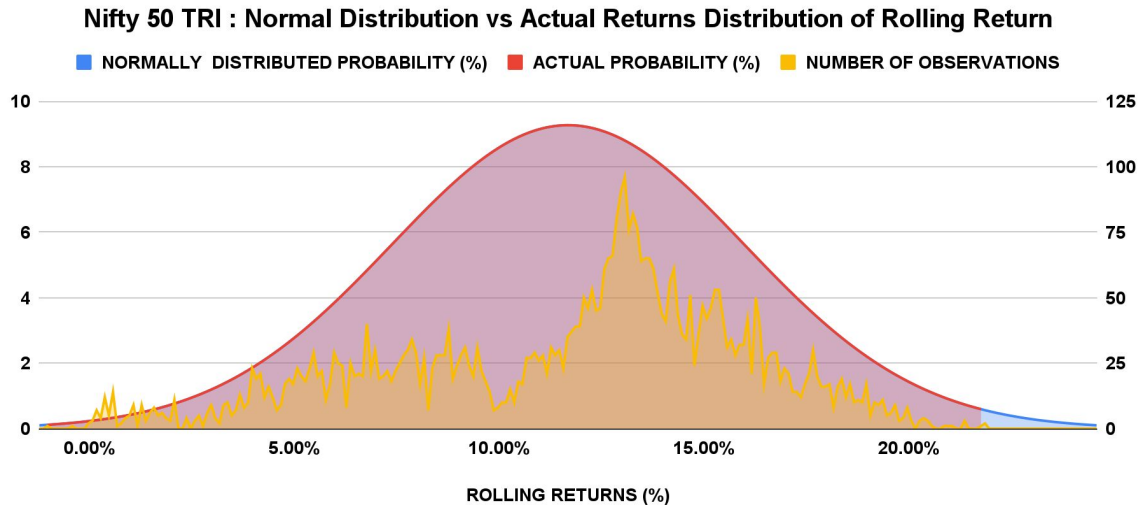


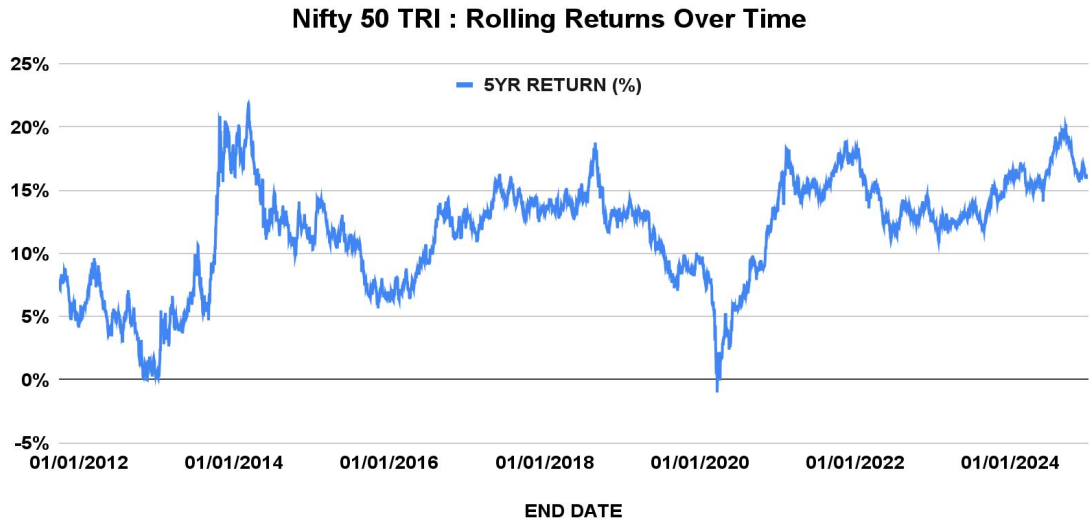
5Yr Return Distribution Summary

NJ Quality+	
Mean Return	19.52%
Median Return	18.91%
Std Dev Of Returns	6.18%
Max Return	37.35%
Min Return	1.98%
Negative Observation (%)	0.00%
% Of Observations Between 0% & 10%	3.72%
% Of Observations Between 10% & 15%	20.32%
% Of Observations Between 15% & 20%	31.72%
% Of Observations Between 20% & 30%	38.64%
% Of Observations >= 30% Return	5.60%
Total Observations	4,842

Source: CMIE, NJ Smart Beta. Data from 30th Sep, 2006 to 31st Dec, 2024

Nifty 50 TRI





5Yr Return Distribution Summary

NIFTY 50 TRI	
Mean Return	11.69%
Median Return	12.72%
Std Dev Of Returns	4.30%
Max Return	21.85%
Min Return	-1.03%
Negative Observation (%)	0.14%
% Of Observations Between 0% & 10%	31.54%
% Of Observations Between 10% & 15%	45.87%
% Of Observations Between 15% & 20%	22.00%
% Of Observations Between 20% & 30%	0.45%
% Of Observations >= 30% Return	0.00%
Total Observations	4,842

Source: CMIE, NJ Smart Beta. Data from 30th Sep, 2006 to 31st Dec, 2024

Factor Correlations

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

	NJ Enhanced Value	NJ Traditional Value	NJ Low Volatility+	NJ Momentum+	NJ Quality+
NJ Enhanced Value	1	0.78	0.66	0.68	0.80
NJ Traditional Value	0.78	1	0.50	0.64	0.69
NJ Low Volatility+	0.66	0.5	1	0.61	0.84
NJ Momentum+	0.68	0.64	0.61	1	0.73
NJ Quality+	0.80	0.69	0.84	0.73	1

Source: CMIE, NJ Smart Beta. Data from 30th Sept, 2006 to 31st Dec, 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.

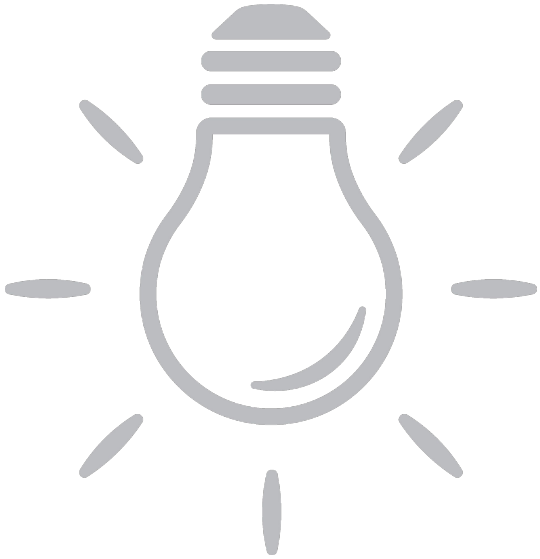
NJ Low Volatility+ is very strongly correlated with NJ Quality+ (0.84). While the degree of correlation between the NJ Low Volatility+ is moderately strong with the NJ Momentum+ (0.61), it is fairly weak with the NJ Traditional Value (0.50) and moderate with NJ Enhanced Value (0.66) model.

The degree of correlation between NJ Momentum+ is moderately strong with all the other indexes i.e. NJ Quality+ (0.73), NJ Traditional Value (0.64) 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. **Value Factor: Unlocking the Potential of Undervalued Stocks**

Discover the fundamentals of Value Factor Investing in this comprehensive guide. Learn how identifying undervalued stocks can potentially enhance your portfolio's performance. This blog explores the key metrics used to measure value, the benefits of this investment approach, and how it compares with other factors.

2. **Low Volatility Factor: The Key to Navigating Market Uncertainty**

Explore the Low Volatility Factor, a strategy designed to help investors navigate market uncertainties. This blog delves into the core principles of low volatility investing, its benefits, and how it can reduce portfolio risk while delivering stable returns.

3. **Momentum Factor Investing: Key to Stay Ahead in the Market**

Uncover the power of the Momentum Factor, a strategy that capitalizes on the persistence of market trends. This blog explains how momentum investing works, its historical performance, and the key metrics used to identify high-momentum stocks. Learn why momentum is considered a premier market anomaly and how it can enhance portfolio returns.

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.