



Monthly Newsletter

VALTRUST MOMENTUM



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Understanding Market Underperformance Despite Quality Picks

One of the misconceptions that come with quantitative strategies such as Momentum is that since the focus is on the price, quality of stock doesn't matter. While we have filters to remove stocks that don't meet certain qualities, how does one gauge whether we are buying good stocks or not?

One way is to look at the growth of the portfolio stocks and compare with the growth of the universe we track. A selection of good stocks would inadvertently show a growth higher than that of the combined universe.

September quarter results are out for almost all major companies. For Nifty 500, the Year-on-Year Quarterly Profit growth clocked at 15%. The average Year on Year Quarterly Profit growth of our Portfolio stocks showcased a growth of 110%.

While our strategy is principally modelled around price, we see a lot of stocks that get the wind on its back thanks to the Post-Earnings Announcement Drift. Yet, not all earnings surprises end up with a positive move. Many a time, we see a sharp drift lower when expectations are much higher and don't match the reality.

Over the last one year, 874 companies have seen their earnings grow while their stock price has gone down. On the inverse, just 23 companies have seen earnings decline while stock price has seen a growth. Data limited to companies which have a market cap greater than 1000 Crores & where September 2025 results are out. In many ways, this shows how in the short term, results.

But if stock selection is good, how come we are unable to beat the market?

The Answer is seen not in the index values which seem to suggest all is well but when one looks underneath at the breadth.

At the end of September 2024, markets were looking really good with strong earnings and a rising Index. Markets broadly saw a correction from that point. While the Index itself has recovered, stocks are hard pressed.

At the end of September 2024, just around 40% of stocks had a drawdown from their all time high that exceeded 30%. Today that number stands close at 75%, 77% of all stocks were trading above their 200 day EMA then vs just around 25% today.

The number of stocks that pass our filters have continued to fall over the same period. Our one year returns were heavily impacted by the fall we saw in January and February of this year when small cap stocks which form a majority of our portfolio saw a deep sell off.

2024 has turned out to be a tougher year than one anticipated at the beginning. But historically, Indian markets have seen 2 good years for every bad year on an average and with valuations now softened, the weakness should not persist for long.