Monthly Newsletter

VALTRUST MOMENTUM

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Plot Twists Are for Movies, Not Markets

Every quarter, companies report their earnings. In theory, each quarter should carry equal importance. In reality, however, the March quarter commands far greater attention. It not only concludes the financial year but is also accompanied by audited annual results, giving investors a comprehensive view of business performance.

When investors think of a Momentum strategy, there is often an assumption that fundamentals play little or no role in stock selection. The reality is more nuanced. While our investment process is based purely on price momentum and does not involve fundamental screening, company fundamentals still influence outcomes indirectly. After all, earnings momentum is often what drives price momentum. Strong businesses tend to attract capital, and improving earnings eventually find their way into stock prices.

That said, one of the key strengths of Momentum investing lies in its simplicity. We do not attempt to forecast earnings, estimate intrinsic values, or predict management commentary. We simply follow price trends. This disciplined, rules-based approach has worked across market cycles in the past, continues to work today, and we believe will remain effective in the future.

The recently concluded earnings season provides several examples of this relationship between earnings and price trends. Companies in the Aerospace & Defence sector reported median profit growth of 34.6% during the quarter. Our portfolio participated in this theme through holdings such as MTAR Technologies, which manufactures critical components for the defence, aerospace, nuclear and clean energy sectors.

Similarly, India's structural infrastructure story continues to unfold. On May 21, 2026, the country successfully met a peak power demand of 270.8 GW. To put this in perspective, peak demand during FY14 stood at just 135.9 GW. Supporting such growth requires massive investments in generation, transmission and distribution infrastructure. Unsurprisingly, several electrical equipment, capital goods and energy-related companies have displayed strong momentum, and the portfolio has participated in many of these trends.

India's growth story extends beyond infrastructure. The country has now overtaken Germany to become the world's third-largest passenger vehicle producer. Domestic demand remains healthy, exports continue to grow, and manufacturing capabilities are steadily expanding. These achievements underscore the resilience of the Indian economy and its ability to create new opportunities despite a challenging global backdrop.

The broader economic environment remains challenging. The ongoing conflict in the Middle East, elevated energy prices, and persistent foreign institutional investor (FII) selling have weighed on market sentiment. Yet, beneath these headlines, the Indian economy continues to demonstrate remarkable resilience. Corporate revenues have grown by approximately 15% year-on-year, while profits have expanded by nearly 22%. Management commentary across sectors remains constructive, acknowledging near-term uncertainties while maintaining confidence in the medium-term outlook.

Markets, however, have a habit of changing direction when investors least expect it.

Gold and Silver, which were among the strongest performing asset classes and market favourites earlier this year, have already retreated meaningfully from their highs. Silver, in particular, has corrected sharply from its January peak. Such episodes serve as a reminder that prevailing narratives rarely last forever. The same principle applies to capital flows. FII selling has been a dominant theme over the past several quarters, but trends can reverse quickly. A moderation in outflows—or even a return of foreign capital—could provide a powerful tailwind and potentially trigger a much broader momentum phase across Indian equities.

As always, our focus remains on following the data rather than predicting the future. The portfolio continues to adapt as leadership changes across sectors and companies. While headlines may fluctuate and narratives may evolve, our process remains unchanged: identify strength, manage risk, and participate in enduring trends.