

Vector-Quantized Discrete Latent Factors Meet Financial Priors: Dynamic Cross-Sectional Stock Ranking Prediction for Portfolio Construction

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Abstract

Predicting cross-sectional stock returns is challenging due to low signal-to-noise ratios and evolving market regimes. Classical factor models offer interpretability but limited flexibility, while deep learning models achieve strong performance yet often underutilize financial priors. We address this gap with **PRISM-VQ** (PRior-Informed Stock Model with Vector Quantization), a dynamic factor framework that integrates expert prior factors, vector-quantized discrete latent factors learned from cross-sectional structure, and a structure-conditioned Mixture-of-Experts to generate time-varying factor loadings. Vector quantization acts as an information bottleneck that suppresses noise while capturing robust market structure, with discrete codes serving both as latent factors and as routing signals for temporal expert specialization. Experiments on CSI 300 and S&P 500 show consistent improvements in cross-sectional return prediction and portfolio performance over strong baselines while preserving interpretability. Our code is available at <https://github.com/finxlab/PRISM-VQ>.

1 Introduction

Predicting cross-sectional stock returns remains a fundamental challenge at the intersection of finance and machine learning due to persistently low signal-to-noise ratios (SNRs), complex cross-asset dependencies, and frequent regime shifts [Israel *et al.*, 2020; Zhang and Hua, 2025]. Classical linear factor models [Sharpe, 1964; Fama and French, 1992; Fama and French, 1993] provide strong interpretability through economically grounded factors and loadings, but their limited expressiveness restricts their ability to capture nonlinear interactions and time-varying dynamics. This limitation has contributed to the proliferation of the so-called “factor zoo” [Cochrane, 2011], highlighting the difficulty of robust factor discovery.

Recent neural approaches to cross-sectional return prediction largely fall into two categories. **Factor-based methods** integrate neural networks within factor model struc-

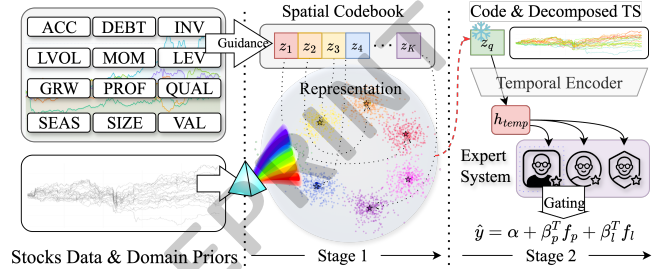


Figure 1: Overview of the PRISM-VQ framework. Like a prism separating light, PRISM-VQ decomposes cross-sectional market structure using discrete vector quantization.

tures. Autoencoder-based approaches [Gu *et al.*, 2021; Duan *et al.*, 2022; Kim *et al.*, 2025] learn latent factors via reconstruction objectives, but their reliance on continuous latent representations often provides insufficient regularization under low-SNR conditions and struggles with temporal non-stationarity. In contrast, **architecture-centric deep learning methods** employ modern sequence models such as Transformers [Yoo *et al.*, 2021; Li *et al.*, 2024; Cao *et al.*, 2024] to model spatio-temporal dependencies directly from data. Despite their expressive power, these models typically lack explicit structural priors, which reduces robustness under distribution shifts and limits interpretability.

Across prior work, three recurring limitations emerge: (1) *insufficient regularization* of continuous latent representations in noisy environments; (2) *structure-agnostic temporal modeling* that fails to condition on evolving cross-sectional structure; and (3) *underutilization of domain priors*, where established financial knowledge is weakly exploited despite its stabilizing potential.

To address these limitations, we propose **PRISM-VQ** (PRior-Informed Stock Model with Vector Quantization), a unified framework for cross-sectional stock return prediction that integrates discrete representation learning, structure-conditioned temporal modeling, and domain-informed priors within a factor-based interpretation (Figure 1).¹ PRISM-

¹An extended version of this paper, including a technical appendix with additional architectural details, implementation details, robustness analyses, and supplementary experiments, is available at <https://arxiv.org/abs/2605.13407>.

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VQ consists of three components. First, it learns **vector-quantized latent factors** through a joint vector quantization and contrastive learning objective [Chen *et al.*, 2020], where the learned codebook [Van Den Oord *et al.*, 2017] acts as an information bottleneck that suppresses noise while preserving cross-sectional structure. Second, it introduces a **structure-conditioned Mixture-of-Experts (MoE)** [Shazeer *et al.*, 2017] built on Transformers, where discrete codes serve as gating signals to generate dynamic factor loadings. Third, it incorporates **domain-specific prior factors** [Jensen *et al.*, 2023] as stabilizing anchors that maintain interpretability and robustness under distribution shifts.

We summarize our contributions as follows:

- We propose PRISM-VQ, a factor-based framework that combines financial prior factors, vector-quantized discrete latent factors, and structure-conditioned temporal modeling for cross-sectional stock rank prediction.
- We demonstrate that vector quantization provides an effective inductive bias for cross-sectional representation learning, consistently outperforming continuous latent alternatives in noisy financial settings.
- We introduce a discrete-code-gated MoE mechanism that enables structure-conditioned dynamic factor loading generation while preserving a clear factor interpretation and supporting scalable conditional computation.
- We conduct experiments on CSI 300 and S&P 500, where PRISM-VQ achieves the state-of-the-art performance, including RankIC of 0.0646 and 0.0141, and Sharpe ratios of 1.57 and 0.67, respectively.

2 Related Works

2.1 Machine Learning-Based Factor Models

Factor models have long been central to asset pricing, from the CAPM [Sharpe, 1964] to the Fama–French models [Fama and French, 1992]. Although interpretable, their linear structure limits expressiveness in modern markets. Autoencoder asset pricing [Gu *et al.*, 2021] introduced neural networks to learn nonlinear factor structures, followed by extensions such as FactorVAE [Duan *et al.*, 2022] and FactorVQVAE [Kim *et al.*, 2025], which employs vector quantization [Van Den Oord *et al.*, 2017] for discrete latent factors. Later work incorporated additional structure, including graph-based industry modeling [Duan *et al.*, 2025] and regime-aware dynamics [Xiang *et al.*, 2024]. Despite these advances, most methods remain autoencoder-based, limiting temporal modeling capacity and underutilizing financial priors. PRISM-VQ addresses these limitations by combining discrete factor learning with Transformer-based temporal modeling and explicit domain-informed priors.

2.2 Deep Learning for Stock Prediction

Another line of work adopts end-to-end deep learning without explicit factor structures. Transformer-based models have been particularly influential. DTML [Yoo *et al.*, 2021] modeled inter-stock dependencies with attention, MASTER [Li *et al.*, 2024] alternated intra- and inter-stock attention, and

MATCC [Cao *et al.*, 2024] incorporated trend decomposition. While effective, these models typically lack interpretable factor representations, weakly encode domain knowledge, and show limited robustness under regime shifts. More recently, explicit relational modeling has been explored through temporal-relational graphs and hypergraph structures [Chen *et al.*, 2024; Song *et al.*, 2025; Alaygut and Sefer, 2025]. These methods rely on predefined or extracted relational topologies, whereas PRISM-VQ learns implicit cross-sectional structure through a discrete codebook without requiring relational preprocessing, enabling transferability across markets. PRISM-VQ retains the expressive power of Transformers while preserving factor interpretability by using them to generate dynamic factor loadings conditioned on learned cross-sectional structure.

2.3 Representation Learning for Finance

The low SNRs of financial data place strong demands on representation learning. Contrastive learning has been explored to learn robust stock embeddings [Du *et al.*, 2024; Hwang *et al.*, 2023]. Vector quantization offers a complementary approach by introducing a discrete information bottleneck that suppresses noise and promotes stable pattern reuse. Recent work has applied vector quantization to identify persistent market structure; for example, STORM [Zhao *et al.*, 2024] employs dual VQ-VAEs to capture spatio-temporal patterns, while FactorVQVAE [Kim *et al.*, 2025] introduces discrete latent factors via a single-stage VQ objective. PRISM-VQ differs from both by combining contrastive-regularized VQ with structure-conditioned MoE routing and explicit financial priors within a unified two-stage framework. To our knowledge, PRISM-VQ is the first framework to integrate vector-quantized discrete factors, contrastive representation learning, expert prior factors, and discrete-code-conditioned temporal modeling within a unified factor-based modeling framework.

3 Problem Formulation

We study cross-sectional stock return prediction. At each decision time t , the objective is to predict returns for N_t stocks over the next Δ days for ranking-based portfolio construction. Unless otherwise specified, all quantities are measured at time t , and we omit the explicit time index in symbols such as x_i , X , f_p , y_i , and $\hat{y}_i$.

3.1 Data and Factor Model Framework

Each stock i is associated with temporal features $x_i \in \mathbb{R}^{T \times C}$, where T is the lookback window and C is the feature dimension. Stacking all stocks yields the cross-sectional tensor $X = \{x_i\}_{i=1}^{N_t} \in \mathbb{R}^{N_t \times T \times C}$. We also observe P expert prior factors $f_p \in \mathbb{R}^P$, such as value, size, and momentum. The prediction target y_i corresponds to the return from $t + 1$ to $t + \Delta$.

Returns are modeled using a dynamic factor structure:

$$y_i = \alpha_i + \beta_{p,i}^\top f_p + \beta_{l,i}^\top f_{l,i} + \epsilon_i, \quad (1)$$

where α_i is the intercept, $\beta_{p,i}$ and $\beta_{l,i}$ are loadings on prior and learned factors, $f_{l,i}$ denotes learned latent factors, and

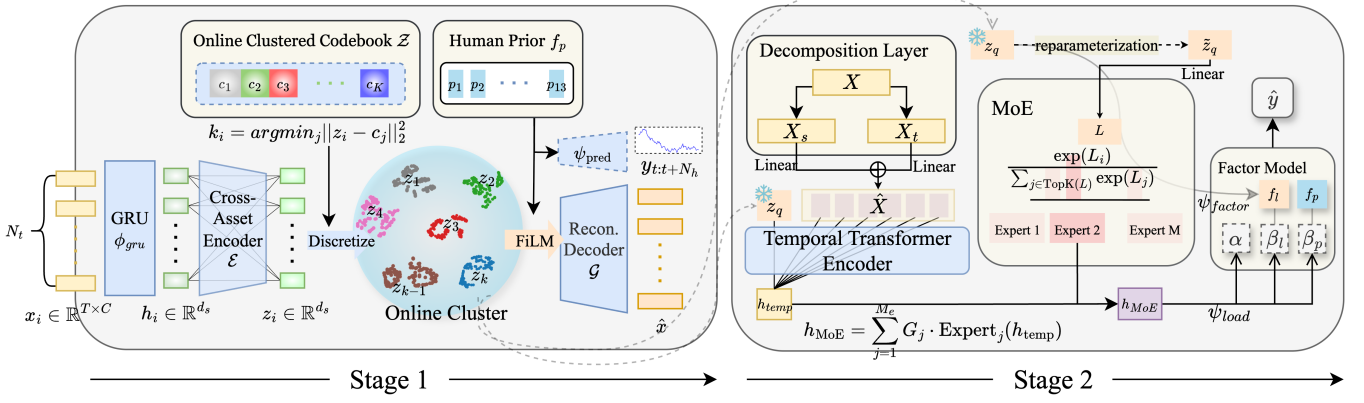


Figure 2: Architecture of PRISM-VQ. The spatial learning stage (left) learns discrete stock representations via vector quantization over cross-sectional features. The temporal learning stage (right) uses the resulting discrete codes to gate expert networks and generate dynamic factor loadings that combine expert prior factors with learned latent factors for return prediction.

ϵ_i is idiosyncratic noise. Unlike classical factor models with static linear loadings, both loadings and latent factors are generated by nonlinear mappings:

$$(\alpha_i, \beta_{p,i}, \beta_{l,i}) = \Phi_{\text{loading}}(x_i, f_p; \theta), \quad (2)$$

$$f_{l,i} = \Phi_{\text{factor}}(x_i, f_p; \theta), \quad (3)$$

where Φ_{loading} and Φ_{factor} are deep neural networks with parameters θ .

3.2 Modeling Challenges

Cross-sectional stock return prediction faces several challenges: (i) extremely low SNRs, (ii) complex and evolving cross-sectional dependencies, (iii) non-stationary market regimes requiring adaptive factor loadings, and (iv) the need for interpretability consistent with financial theory. PRISM-VQ addresses these challenges through a two-stage learning paradigm, where the spatial learning stage discovers discrete latent factors via vector quantization and the temporal learning stage generates dynamic factor loadings using structure-conditioned expert networks.

4 Proposed Model

4.1 Overview: Two-Stage Learning

PRISM-VQ decouples *cross-sectional structure discovery* from *time-varying factor loading generation* through a two-stage framework. Stage 1 (**Spatial Learning**) learns a discrete codebook and stock-level assignments via vector quantization, mapping codes to latent factor values. Stage 2 (**Temporal Learning**) generates dynamic factor loadings using a Transformer-based MoE, with expert routing conditioned on the discrete codes. After Stage 1, the codebook is fixed, while stock assignments may vary over time (Figure 2).

Stage 1: Code assignment. At time t , Stage 1 models discrete code assignments conditioned on cross-sectional features and prior factors:

$$p(\{z_{q,i}\}_{i=1}^{N_t} \mid \{x_i\}_{i=1}^{N_t}, f_p) = \prod_{i=1}^{N_t} q(z_{q,i} \mid \{x_j\}_{j=1}^{N_t}, f_p). \quad (4)$$

Each discrete code $z_{q,i} \in \mathbb{R}^{d_s}$ is then mapped to a latent factor value

$$f_{l,i} = \psi_{\text{factor}}(z_{q,i}) \in \mathbb{R}^{d_s}. \quad (5)$$

Stage 2: Code-conditioned loading generation. Let $\beta_i = (\alpha_i, \beta_{p,i}, \beta_{l,i})$ denote the full set of factor loadings. Conditioned on the discrete code $z_{q,i}$, Stage 2 generates dynamic loadings via a code-conditioned MoE:

$$p(\beta_i \mid h_{\text{temp},i}, z_{q,i}) = \sum_{j=1}^{M_e} p(e_j \mid z_{q,i}) p_{\theta_j}(\beta_i \mid h_{\text{temp},i}), \quad (6)$$

where e_j denotes the event of routing to expert j . This conditions temporal modeling on learned cross-sectional structure while preserving a factor interpretation.

4.2 Spatial Learning: Discrete Cross-Sectional Factor Discovery

Cross-Sectional Feature Extraction

Each stock i is associated with features $x_i \in \mathbb{R}^{T \times C}$. We first encode temporal dynamics using a GRU encoder ϕ_{gru} :

$$h_i = \phi_{\text{gru}}(x_i) \in \mathbb{R}^{d_s}. \quad (7)$$

To capture cross-sectional interactions at time t , we stack all embeddings into $H = [h_1; \dots; h_{N_t}] \in \mathbb{R}^{N_t \times d_s}$ and apply a cross-asset Transformer encoder $\mathcal{E}$:

$$z = \mathcal{E}(H) \in \mathbb{R}^{N_t \times d_s}, \quad z_i \in \mathbb{R}^{d_s}. \quad (8)$$

Through self-attention, each z_i aggregates information from related stocks, forming a representation suitable for discrete clustering.

Vector Quantization for Discrete Factor Learning

We discretize the continuous embeddings using a learnable codebook $\mathcal{Z} = \{c_k\}_{k=1}^K \subset \mathbb{R}^{d_s}$. Each embedding is assigned to its nearest codeword:

$$k_i = \underset{k \in \{1, \dots, K\}}{\text{argmin}} \|z_i - c_k\|_2, \quad z_{q,i} = c_{k_i}. \quad (9)$$

This discretization introduces a *finite prototype space* that acts as a strong inductive bias under low SNRs. It (i) suppresses idiosyncratic noise by snapping embeddings to recurring cross-sectional prototypes, (ii) limits effective model capacity through a bounded set of codewords, and (iii) encourages sample sharing among stocks assigned to the identical code, yielding stable and interpretable clusters. Since codewords are reused over time, the learned codes naturally separate persistent cross-sectional structures from time-varying factor sensitivities in the two-stage design.

To enable end-to-end training despite the non-differentiable assignment, we adopt the straight-through estimator [Van Den Oord *et al.*, 2017] and optimize

$$\mathcal{L}_{\text{VQ}} = \|\text{sg}(z) - z_q\|_2^2 + \lambda_{\text{commit}} \|z - \text{sg}(z_q)\|_2^2, \quad (10)$$

where $\text{sg}(\cdot)$ denotes the stop-gradient operator.

Contrastive Learning for Semantic Clustering

Nearest-neighbor quantization alone may yield arbitrary partitions. We therefore introduce a codebook contrastive objective [Chen *et al.*, 2020]:

$$\mathcal{L}_{\text{contra}} = -\log \frac{\exp(\text{sim}(z_i, c_{k_i})/\tau)}{\sum_{k=1}^K \exp(\text{sim}(z_i, c_k)/\tau)}, \quad (11)$$

where τ is a temperature parameter and $\text{sim}(u, v) = -\|u - v\|_2$. This objective contrasts each embedding against all codeword prototypes, explicitly enlarging the margin between the assigned codeword and competing codewords. As a result, clustering is guided by cross-sectional semantics rather than purely geometric proximity.

Reconstruction and Auxiliary Prediction

Pure clustering can produce stable but weakly predictive representations, while pure prediction may fail to extract reusable structure. We therefore introduce two auxiliary tasks to regularize the discrete codes, $z_{q,i}$.

Reconstruction. A decoder $\mathcal{G}$ reconstructs input features from the quantized code, conditioned on prior factors via FiLM (Feature-wise Linear Modulation) [Perez *et al.*, 2018]:

$$\hat{x}_i = \mathcal{G}(z_{q,i}, f_p),$$

$$\mathcal{L}_{\text{recon}} = \frac{1}{N_t} \sum_{i=1}^{N_t} \|x_i - \hat{x}_i\|_2^2. \quad (12)$$

This conditioning encourages the learned codes to remain consistent with the expert prior information.

Multi-horizon prediction. To retain forward-looking signals, we further regularize the codes through multi-horizon return prediction:

$$\begin{aligned} [\hat{y}_{i,1}, \dots, \hat{y}_{i,N_h}] &= \psi_{\text{pred}}(z_{q,i}, f_p), \\ \mathcal{L}_{\text{pred}} &= \frac{1}{N_t N_h} \sum_{i=1}^{N_t} \sum_{h=1}^{N_h} (y_{i,h} - \hat{y}_{i,h})^2. \end{aligned} \quad (13)$$

Spatial Learning Objective

Then, the following multi-task objective is optimized:

$$\mathcal{L}_{\text{spatial}} = \mathcal{L}_{\text{recon}} + \mathcal{L}_{\text{VQ}} + \lambda_{\text{contra}} \mathcal{L}_{\text{contra}} + \lambda_{\text{pred}} \mathcal{L}_{\text{pred}}. \quad (14)$$

Stage 1 outputs the discrete codes $z_{q,i}$ and the corresponding latent factor values $f_{l,i}$ via Eq.(5), which are subsequently used in Stage 2.

4.3 Temporal Learning: Structure-Conditioned Dynamic Factor Loadings

Temporal Context Encoding with a Structure Token

Given $z_{q,i}$ from Stage 1, we encode temporal context to generate dynamic factor loadings. Let $z_{q,i} \in \mathbb{R}^{d_s}$ and let the temporal encoder operate in $\mathbb{R}^{d_t}$. We optionally decompose each input sequence into trend and residual components and project them to dimension d_t :

$$\begin{aligned} x_{i,\text{trend}} &= \text{AvgPool}_w(\text{Pad}(x_i)), \\ x_{i,\text{seasonal}} &= x_i - x_{i,\text{trend}}, \\ \tilde{x}_i &= \phi_{\text{seasonal}}(x_{i,\text{seasonal}}) + \phi_{\text{trend}}(x_{i,\text{trend}}). \end{aligned} \quad (15)$$

To inject cross-sectional structure, we prepend $z_{q,i}$ as a structure token (projected to d_t if $d_s \neq d_t$) and apply a temporal Transformer encoder $\mathcal{T}$ with RoPE (Rotary Position Embedding) [Su *et al.*, 2024]:

$$h_{\text{temp},i} = \mathcal{T}([z_{q,i}; \tilde{x}_i]) \in \mathbb{R}^{d_t}. \quad (16)$$

Structure-Conditioned MoE for Dynamic Loadings and Return Prediction

Dynamic factor loadings are generated via a structure-conditioned MoE, where $z_{q,i}$ determines expert routing.

Stochastic gating mechanism. We compute the expert-wise mean and scale parameters from the discrete code:

$$\begin{aligned} \mu_i &= \phi_{\mu}(z_{q,i}) \in \mathbb{R}^{M_e}, \\ \sigma_i &= \text{Softplus}(\phi_{\sigma}(z_{q,i})) \in \mathbb{R}^{M_e}, \end{aligned} \quad (17)$$

and sample pre-activations via reparameterization:

$$\tilde{g}_i = \mu_i + \eta_i \odot \sigma_i, \quad \eta_i \sim \mathcal{N}(0, I_{M_e}). \quad (18)$$

We obtain logits $L_i = \psi_g(\tilde{g}_i) \in \mathbb{R}^{M_e}$, select the top- k experts $\mathcal{K}_i = \text{Top}_k(L_i)$, and apply a local softmax to define the gating weights:

$$G_{i,j} = \begin{cases} \frac{\exp(L_{i,j})}{\sum_{\ell \in \mathcal{K}_i} \exp(L_{i,\ell})} & \text{if } j \in \mathcal{K}_i, \\ 0 & \text{otherwise.} \end{cases} \quad (19)$$

By construction, $\sum_j G_{i,j} = 1$ and $\|G_i\|_0 = k$.

Expert aggregation and loading projection. Each expert $\xi_j : \mathbb{R}^{d_t} \rightarrow \mathbb{R}^{d_t}$ is implemented as a lightweight MLP:

$$\xi_j(h) = W_j^{(2)} \text{GELU}(W_j^{(1)} h + b_j^{(1)}) + b_j^{(2)}. \quad (20)$$

Expert outputs are aggregated and projected to dynamic factor loadings:

$$\begin{aligned} h_{\text{MoE},i} &= \sum_{j=1}^{M_e} G_{i,j} \xi_j(h_{\text{temp},i}), \\ (\alpha_i, \beta_{p,i}, \beta_{l,i}) &= \psi_{\text{load}}(h_{\text{MoE},i}). \end{aligned} \quad (21)$$

Return prediction. We compute the learned factor values from the discrete codes and predict returns:

$$\begin{aligned} f_{l,i} &= \psi_{\text{factor}}(z_{q,i}), \\ \hat{y}_i &= \alpha_i + \beta_{p,i}^\top f_p + \beta_{l,i}^\top f_{l,i}, \end{aligned} \quad (22)$$

where $\alpha_i \in \mathbb{R}$, $\beta_{p,i} \in \mathbb{R}^P$, $\beta_{l,i} \in \mathbb{R}^{d_s}$, and $f_p \in \mathbb{R}^P$.

Training Objective with Load-Balancing Regularization

The temporal learning stage minimizes the mean squared error with a standard load-balancing regularizer [Shazeer *et al.*, 2017] to prevent expert collapse:

$$\begin{aligned} f_j &= \frac{1}{N_t} \sum_{i=1}^{N_t} \mathbb{I}[j \in \mathcal{K}_i], & P_j &= \frac{1}{N_t} \sum_{i=1}^{N_t} G_{i,j}, \\ \mathcal{L}_{\text{temporal}} &= \frac{1}{N_t} \sum_{i=1}^{N_t} (\hat{y}_i - y_i)^2 + \lambda_{\text{balance}} M_e \sum_{j=1}^{M_e} f_j P_j. \end{aligned} \quad (23)$$

4.4 Two-Stage Training Procedure

Stage 1: Spatial learning. We optimize $\mathcal{L}_{\text{spatial}}$ in Eq.(14) to learn the temporal encoder ϕ_{gru} , cross-asset encoder $\mathcal{E}$, codebook $\mathcal{Z}$, and auxiliary modules $\mathcal{G}$ and ψ_{pred} . This stage produces discrete codes $z_{q,i}$ and latent factor values $f_{l,i}$.

Stage 2: Temporal learning. We fix $\mathcal{Z}$ and optimize $\mathcal{L}_{\text{temporal}}$ in Eq.(23) to train the temporal Transformer $\mathcal{T}$, MoE gating and experts, and loading projection ψ_{load} , with Stage 1 discrete codes acting as structural conditioning signals for expert routing and factor construction.

Design rationale. The two stages are decoupled to avoid codebook collapse [Van Den Oord *et al.*, 2017] and to enforce an information bottleneck. Stage 1 compresses cross-sectional variation into a stable discrete structure, while Stage 2 conditions temporal modeling on this representation without co-adapting the codebook.²

5 Experiments and Results

We evaluate PRISM-VQ on two major stock markets and conduct a comprehensive empirical study to assess its effectiveness, robustness, and interpretability. All reported results are computed on a strictly out-of-sample test period spanning 2022 to 2024, using identical data preprocessing pipelines and train-validation-test splits across all methods.

Research Questions. Our experiments are designed to address the following questions:

- **RQ1 (Overall effectiveness).** Does PRISM-VQ improve cross-sectional rank prediction and portfolio performances compared to strong baseline methods?
- **RQ2 (Component validity).** How do the three core components, namely expert prior factors, the discrete codebook, and the structure-conditioned MoE, individually contribute to overall performance?
- **RQ3 (Robustness).** How sensitive is PRISM-VQ to key hyperparameters, including codebook size, number of experts, and portfolio top- K selection?
- **RQ4 (Interpretability).** Do the learned discrete codes capture economically meaningful structure beyond standard factor taxonomies?
- **RQ5 (Expert specialization).** Do different experts specialize in distinct market conditions while maintaining stable behavior over time?

²Additional architectural and implementation details can be found in Technical Appendix A of the extended version.

5.1 Experimental Setting

Datasets and Protocol

We evaluate PRISM-VQ on two major stock markets, CSI 300 (China) and S&P 500 (U.S.), using data from Qlib [Yang *et al.*, 2020]. At each trading date t , we use contemporaneous index constituents to avoid survivorship bias. Input features are Alpha158 factors with a lookback window of $T = 20$ days. The prediction target is the 5-day forward return, $y_{i,t} = (\text{price}_{i,t+5}^{\text{close}} - \text{price}_{i,t+1}^{\text{close}}) / \text{price}_{i,t+1}^{\text{close}}$, where $\text{price}_{i,t+k}^{\text{close}}$ denotes the close price of stock i k trading days after decision time t . We additionally include 1- to 9-day forward returns as auxiliary targets for $\mathcal{L}_{\text{pred}}$. Expert prior factors consist of $P=13$ factor returns from the JKP Global Factor Library [Jensen *et al.*, 2023], computed using information up to $t-1$ and aggregated as 20-day cumulative values.³

We adopt chronological splits with training from 2009 to 2019, validation from 2020 to 2021, and testing from 2022 to 2024. Features are normalized using RobustZScoreNorm, missing values are forward-filled with Fillna, and training targets are cross-sectionally rank-normalized per date using CSRankNorm.

Baselines

We compare PRISM-VQ against representative baselines from three categories. **General machine learning methods** include XGBoost [Chen and Guestrin, 2016], GRU [Chung *et al.*, 2014], TCN [Lea *et al.*, 2017], and Transformer [Vaswani *et al.*, 2017]. **Factor-based methods** include CAE [Gu *et al.*, 2021], VAE [Duan *et al.*, 2022], and VQVAE [Kim *et al.*, 2025]. **Architecture-centric deep learning methods** include DTML [Yoo *et al.*, 2021], MASTER [Li *et al.*, 2024], and MATCC [Cao *et al.*, 2024]. All baselines use identical data splits and preprocessing pipelines, with hyperparameters tuned on the validation set.

Evaluation Metrics

We evaluate performance using two complementary criteria. First, cross-sectional ranking accuracy is measured by daily RankIC and RankICIR. Second, portfolio performance is evaluated using a Top K -Drop N strategy with $K=30$ and $N=5$, reporting annualized return (AR), maximum drawdown (MDD), and Sharpe ratio.⁴ All portfolio results incorporate transaction costs of 5 basis points at open and 15 basis points at close.

Implementation Details

PRISM-VQ is implemented in PyTorch [Paszke *et al.*, 2019] and trained on a single NVIDIA RTX 3090 GPU. All experiments are repeated with five random seeds. In Stage 1, we use a representation dimension $d_s=128$ with a GRU encoder, a VQ codebook of size $K=512$, and a cross-asset Transformer with one layer and two attention heads. This stage is trained for up to 50 epochs. In Stage 2, we use a temporal dimension $d_t=64$ and a temporal Transformer with RoPE, using

³Additional details on factor construction and preprocessing are available in Technical Appendix B of the extended version.

⁴Formal definitions of the evaluation metrics and additional details of the portfolio construction protocol are available in Technical Appendix C and D of the extended version.

Market	Model	RankIC $\uparrow$	RankICIR $\uparrow$	AR $\uparrow$	MDD $\downarrow$	SR $\uparrow$
CSI 300	XGB***	0.0496	0.3363	0.2430	0.2353	1.1549
	TCN**	0.0518	0.3160	0.2281	0.2118	1.1879
	GRU	0.0590	0.3756	0.2347	0.2288	<u>1.2221</u>
	Trans***	0.0495	0.3100	0.2384	0.2478	1.1339
	CAE***	0.0444	0.2843	0.2194	0.2322	1.0393
	VAE**	0.0502	0.3360	0.1811	0.1906	1.0265
	VQVAE*	0.0552	0.3641	0.2129	0.2074	1.0645
	DTML	<u>0.0625</u>	<u>0.4076</u>	0.2589	0.2069	1.1228
	MASTER***	0.0401	0.2453	0.2193	0.2481	0.9101
	MATCC***	0.0493	0.3295	0.2316	0.2299	1.0656
	PRISM-VQ	0.0646	0.4224	0.3077	<u>0.1924</u>	1.5694
S&P 500	XGB***	0.0077	0.0713	0.1088	0.2079	0.4323
	TCN***	0.0084	<u>0.0722</u>	0.0880	0.2528	0.3841
	GRU***	0.0057	0.0445	0.0867	0.3123	0.3425
	Trans***	0.0054	0.0436	0.1004	0.2634	0.4025
	CAE***	0.0063	0.0527	0.0825	0.2104	0.3952
	VAE***	0.0043	0.0402	0.0734	0.2571	0.3702
	VQVAE***	0.0046	0.0346	0.1109	0.1868	<u>0.5370</u>
	DTML	<u>0.0089</u>	0.0570	0.0667	0.3145	0.2726
	MASTER***	0.0051	0.0321	0.1084	<u>0.1861</u>	0.4662
	MATCC***	0.0061	0.0478	<u>0.1147</u>	0.2283	0.5164
	PRISM-VQ	0.0141	0.1208	0.1442	0.1616	0.6701

Table 1: Overall performance on CSI 300 and S&P 500. RankIC and RankICIR are averaged over 5 random seeds; AR, MDD, and SR are computed from portfolios constructed using ensemble predictions. Stars indicate whether PRISM-VQ significantly outperforms each baseline on daily RankIC (block bootstrap, 10K resamples): *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$.

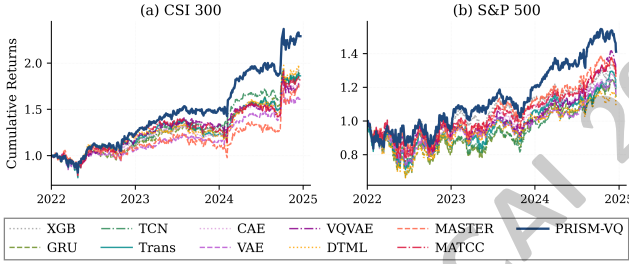


Figure 3: Cumulative returns (2022–2024). PRISM-VQ consistently outperforms baselines.

two heads for CSI 300 and four heads for S&P 500, with dropout set to 0.1. The Transformer is followed by an MoE of lightweight MLP experts, with $M_e=2$ (top-1) for CSI 300 and $M_e=8$ (top-4) for S&P 500. Stage 2 is trained for up to 50 epochs with the codebook fixed. Optimization is performed using AdamW [Loshchilov and Hutter, 2017] with a learning rate 10^{-4} , LambdaLR scheduling, gradient clipping at 1.0, and early stopping with patience 15. We set $\lambda_{\text{commit}}=0.25$, $\lambda_{\text{contra}}=1$, $\lambda_{\text{pred}}=10^{-4}$, and $\lambda_{\text{balance}}=10^{-2}$ for CSI 300 and 10^{-3} for S&P 500.

5.2 Main Results (RQ1)

Table 1 summarizes performance on CSI 300 and S&P 500 over the 2022–2024 test period. On CSI 300, PRISM-VQ achieves a RankIC of 0.0646 and an SR of 1.57, outperforming all baselines, including DTML and GRU. It also attains the highest annualized return with a low MDD. On S&P 500,

	CSI 300		S&P 500	
Configuration	RankIC	RankICIR	RankIC	RankICIR
Full Model	0.0646	0.4224	0.0141	0.1208
w/o Prior	0.0548	0.3756	0.0031	0.0314
w/o MoE	0.0586	0.3958	0.0081	0.0736
w/o Codebook	0.0472	0.2938	−0.0024	−0.0179

Table 2: Ablation study on key model components.

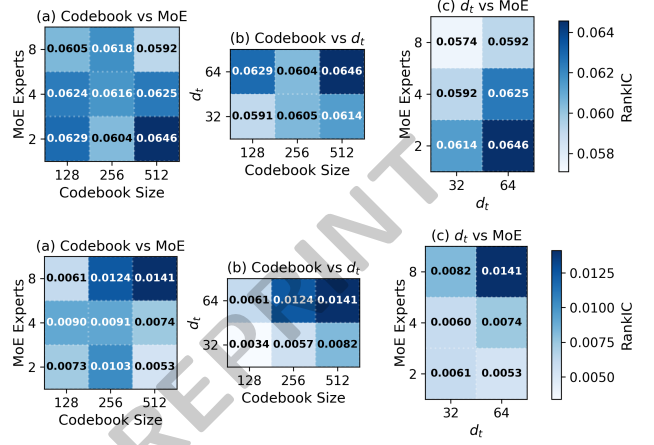


Figure 4: Hyperparameter sensitivity analysis. RankIC surfaces on CSI 300 (top) and S&P 500 (bottom) as functions of codebook size K , temporal dimension d_t , and number of experts M_e .

PRISM-VQ reaches a RankIC of 0.0141 and an SR of 0.67, with the lowest MDD of 0.1616, representing a 58.4% RankIC improvement over DTML. Statistical significance is evaluated on daily RankIC using a block bootstrap test with 10K resamples. PRISM-VQ significantly outperforms competing methods in 17 of 20 baseline comparisons across both markets at the $p < 0.05$ level. These results demonstrate consistent improvements in ranking accuracy and portfolio performance across market regimes, as further illustrated by cumulative returns in Figure 3.

5.3 Ablation Study (RQ2)

Table 2 evaluates the contribution of three core components of PRISM-VQ: expert prior factors (f_p), structure-conditioned MoE routing, and the discrete codebook. Removing the codebook causes the largest degradation, with RankIC dropping by 26.9% on CSI 300 and becoming negative on S&P 500, highlighting the importance of discrete latent structure. Excluding prior factors reduces RankIC by 15.2% and 78.0% on CSI 300 and S&P 500, confirming the regularizing role of expert knowledge. Replacing MoE with a single network lowers RankIC by 9.3% and 42.6%, confirming the necessity of structure-conditioned temporal modeling. The consistently larger degradation on S&P 500 suggests all three components act synergistically to extract weak signals in efficient markets, whereas CSI 300’s stronger signal environment allows partial compensation.

Model	CSI 300						S&P 500					
	K=40			K=50			K=40			K=50		
	AR	MDD	SR	AR	MDD	SR	AR	MDD	SR	AR	MDD	SR
XGB	0.22	0.22	1.11	0.19	0.22	0.97	0.11	0.20	0.45	0.10	0.20	0.42
GRU	0.20	0.23	1.09	0.19	0.23	1.05	0.08	0.30	0.35	0.07	0.28	0.30
TCN	0.22	0.21	1.19	0.21	0.21	1.15	0.10	0.24	0.43	0.10	0.25	0.46
Trans	0.24	0.23	1.19	0.20	0.23	1.03	0.08	0.28	0.35	0.08	0.27	0.35
CAE	0.03	0.21	0.17	0.04	0.22	0.19	0.08	0.21	0.42	0.08	0.20	0.44
VAE	0.19	0.19	1.08	0.17	0.20	0.97	0.09	0.24	0.47	0.11	0.22	0.54
VQVAE	0.20	0.19	1.02	0.17	0.19	0.91	0.09	0.20	0.45	0.09	0.21	0.47
DTML	0.02	0.22	0.12	0.03	0.22	0.15	0.07	0.19	0.39	0.06	0.19	0.36
MASTER	0.19	0.26	0.81	0.18	0.25	0.77	0.10	0.21	0.44	0.10	0.22	0.43
MATCC	0.19	0.24	0.92	0.18	0.24	0.86	0.11	0.21	0.51	0.10	0.22	0.47
PRISM-VQ	0.28	0.18	1.48	0.25	0.20	1.37	0.14	0.16	0.67	0.12	0.16	0.61

Table 3: Portfolio performance across Top- K sizes.

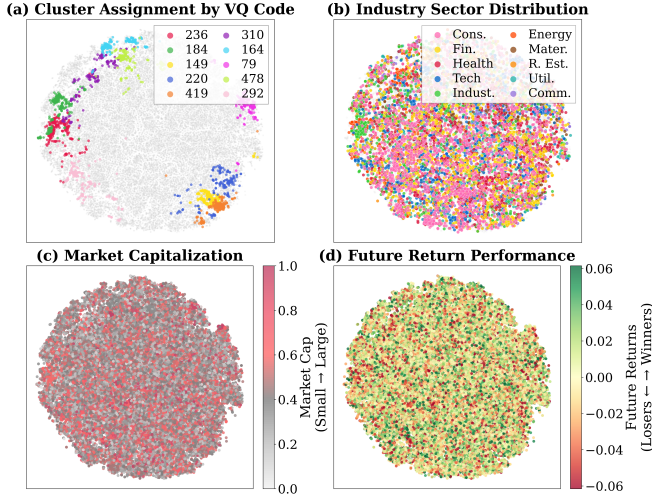


Figure 5: t-SNE visualization of learned representations (S&P 500, 2024). (a) Top 10 most frequent codes. (b) 41 representative stocks colored by sector. (c) Color gradient by market capitalization. (d) Color gradient by forward returns.

5.4 Robustness Analysis (RQ3)

Model hyperparameters. Figure 4 shows sensitivity to the codebook size K , temporal dimension d_t , and number of experts M_e . Across both markets, performance peaks at $d_t = 64$ and $K = 512$, indicating that moderate temporal capacity with fine-grained quantization is optimal. The optimal number of experts differs by market: CSI 300 peaks at $M_e = 2$, while S&P 500 improves up to $M_e = 8$, suggesting that more efficient markets benefit from greater expert specialization. The shared optimum at $K = 512$ indicates that fine-grained discrete quantization is broadly beneficial.

Portfolio size. Table 3 reports performance for larger Top- K portfolios ($K \in \{40, 50\}$). PRISM-VQ consistently outperforms all baselines, achieving an AR of 27.85% and 25.35% on CSI 300 and 13.96% and 12.42% on S&P 500 for $K=40$ and $K=50$, respectively, representing improvements of 17–27% over the strongest baselines. PRISM-VQ also attains the lowest MDD on S&P 500 across all settings (15.82–16.07%), while gradual performance degradation with larger K indicates robust signals beyond top-ranked stocks.⁵

⁵Additional robustness results under varying transaction costs are available in Technical Appendix E of the extended version.

Market	Code	Top 3 Factors			ρ		
		F1	F2	F3	ρ_1	ρ_2	ρ_3
S&P	72	Prof.	LowRisk	Mom.	+118	+109	+096
	34	Qual.	Size	Prof.	−113	+097	−077
	224	Prof.	LowLev.	LowRisk	−113	+112	−110
CSI	482	Qual.	Accr.	Invest.	−118	+115	+113
	247	LowLev.	Value	Invest.	−117	+117	+103
	179	Size	Prof.	Qual.	+117	−081	−077

Table 4: Factor exposures of selected VQ codes.

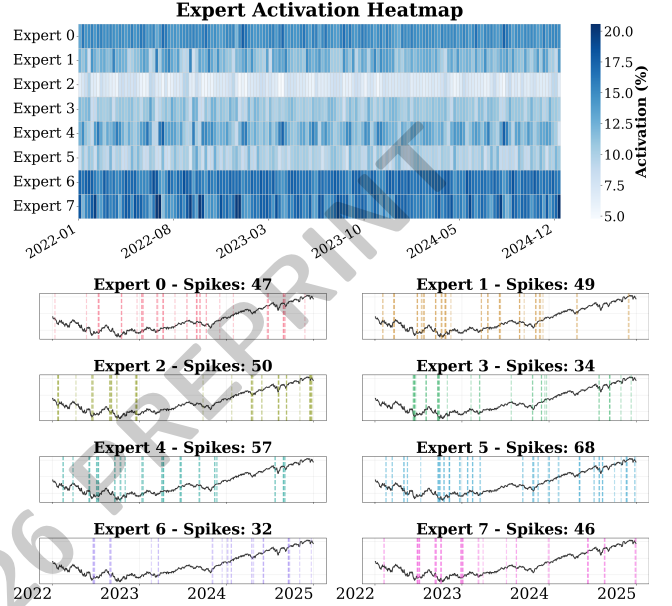


Figure 6: MoE activation patterns (S&P 500). Upper: weekly mean activation, Lower: activation spikes overlaid on market trajectory.

5.5 Interpretation of Representations (RQ4)

Visualization of learned representations. Figure 5 presents a t-SNE visualization of learned discrete representations on the S&P 500 in 2024.⁶ The ten most frequent codes form well-separated clusters (panel (a)), yet stocks from different sectors are substantially mixed across clusters (panel (b)), indicating that vector quantization captures structure beyond sector taxonomies encoded by prior factors. While larger-cap and positive-return stocks tend to concentrate in certain regions (panels (c)–(d)), the lack of clear separation suggests the codes capture a richer cross-sectional structure not driven solely by market capitalization or future returns.

Factor exposure analysis. Economic interpretability is evaluated via Spearman correlations between code-specific returns and 13 JKP factor returns (Table 4). The codes exhibit systematic but moderate factor associations (e.g., S&P 500 Code 72 loads on profitability, low-risk, and momentum, consistent with a quality-growth profile) with maximum correlations of approximately 0.12, indicating multi-dimensional factor combinations rather than the replication of individual

⁶The list of representative stocks is available in Technical Appendix G of the extended version.

factors. The codes also show temporal stability, with monthly persistence rates of 4.9% on CSI 300 and 7.4% on S&P 500, substantially exceeding the 1% uniform baseline.⁷

5.6 Expert Specialization (RQ5)

Figure 6 shows the MoE routing on the S&P 500. The top heatmap reveals heterogeneous expert utilization: Experts 6 and 7 dominate with approximately 16–20% average activation, while Expert 2 remains sparse at around 5–7%.

Regime-dependent timing is examined in the bottom panel, which visualizes daily activation spikes computed from the mean gating weight $P_{e,t} = \frac{1}{N_t} \sum_{i=1}^{N_t} G_{i,e,t}$, consistent with Eq.(23). Spikes are identified when $P_{e,t}$ exceeds $\mu_e + 1.5\sigma_e$. Pairwise Wilcoxon signed-rank tests across all 28 expert pairs indicate statistically distinct activation distributions, with all p -values below 0.001. The strongest separation occurs between Expert 2 (mean activation 7.09%) and Expert 6 (mean activation 16.46%). Expert 2 functions as a rare specialist that activates in specific market regimes, whereas Expert 6 remains consistently engaged.

Low overlap in spike dates further supports temporal specialization. The Jaccard overlap is 6.8%, compared to an 8.11% baseline, indicating that experts respond to distinct market conditions rather than activating synchronously.

6 Conclusion

We proposed PRISM-VQ, a two-stage framework for cross-sectional stock rank prediction that learns reusable discrete cross-sectional structure via vector quantization with contrastive regularization and generates time-varying factor loadings through structure-conditioned MoE routing guided by financial priors. Across CSI 300 and S&P 500, PRISM-VQ consistently improves prediction and portfolio performance over strong baselines while producing interpretable discrete codes and specialized expert behaviors. These results indicate that combining a discrete information bottleneck with prior-informed conditional computation is an effective design principle for low-SNR, non-stationary financial return prediction problems.

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