Global Matters Weekly

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From quality to concentration: How indices get polluted

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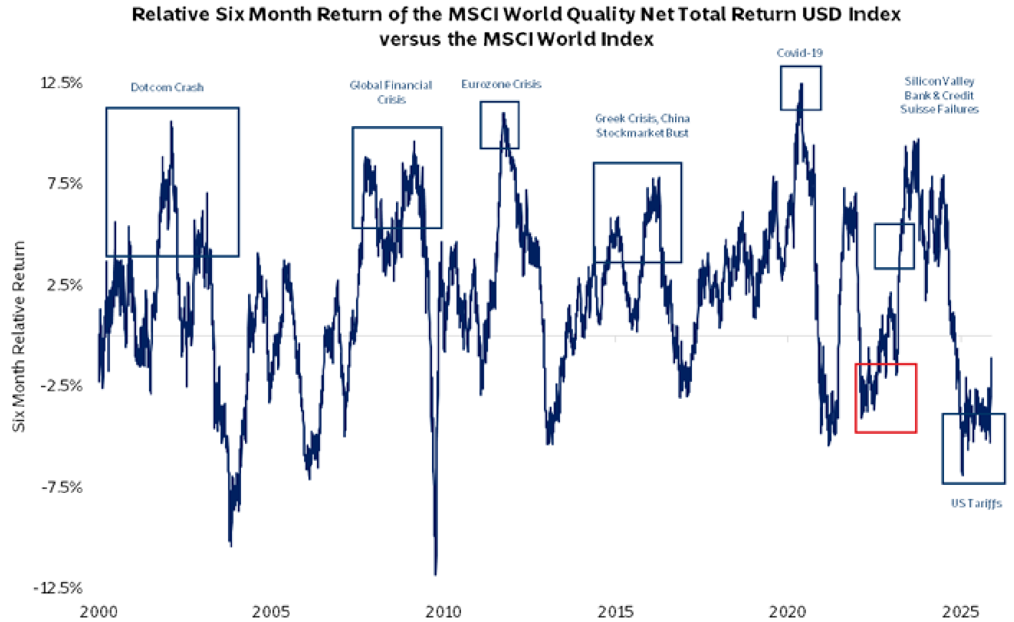

Source: Evenlode Investment Management, Bloomberg Finance L.P., Data to 3 December 2025.

What this chart shows

This chart plots the relative six month return of the MSCI World Quality Net Total Return USD Index versus the MSCI World Index, highlighting key macroeconomic events across the period.

Why this is important

Over the long term, quality stocks have generally outperformed value and growth stocks making them what should be a popular choice amongst portfolio managers and private investors. In particular, the Quality sub-Index tends to outperform the World Index at times of market stress, historically holding companies with robust balance sheets and steadier earnings profiles leading to defensive 'moat' strength. This makes them more resilient when riskier, more leveraged firms sell off.

However, in recent years the Quality Index has not demonstrated its usual defensive behaviour. On the chart, the red square shows the 2022 tech drawdown which was driven by inflation, rising interest rates, and stretched valuations. Despite conditions that would normally favour quality businesses, the index noticeably lagged. We can see this again with the recent US tariff instability in 2025. The Quality Index has now become concentrated with the same 'Magnificent Seven' stocks that dominate the broader market, making it far more susceptible to any associated reversals and sentiment-driven declines. The index's quality screening will naturally favour large highly profitable companies which these tech giants perfectly fit. Combined with market-cap weighting and their huge outperformance, their index weights kept expanding, creating a concentrated portfolio despite the intention of broad quality exposure. This is seen across a number of quality-based passive ETFs.

At Momentum, we've been increasing exposure to Quality within our Momentum GF Global Equity Fund. The quality factor has significantly underperformed in recent years and is now trading at far more appealing valuations. With global equity markets posting exceptionally strong returns, it's important to begin to protect gains and prepare for harder times. Investors should no longer assume that passive exposure to the factor will provide the same level of resilience it once did. Unlike the now more 'polluted' Quality Index, active managers can avoid indices dominated by companies that distort the underlying factor exposure and focus instead on selecting stocks that truly match the profile.

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Important notes

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