



Rekordmeister

We examine why the quality factor underperformed in 2025 and whether now presents an attractive entry point.

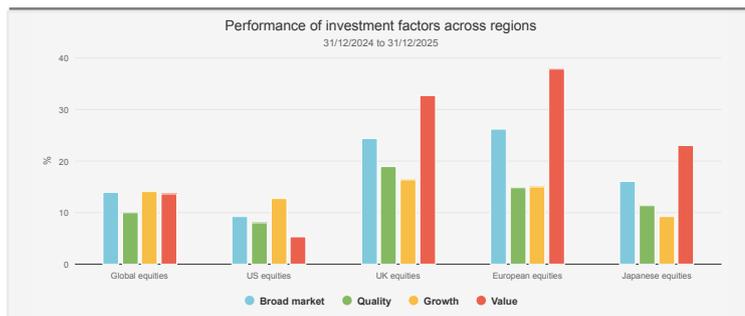
Update
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Every year, when football seasons kick off across Europe, it would not be much of a gamble to bet on Bayern Munich emerging as German champions, given that they have won c. 76% of the past 20 completed seasons. The Bavarian club’s dominance of the Bundesliga has earned it the moniker Rekordmeister (meaning record champion) in reference to the fact that it has won more German championships than any other team since the league’s foundation. Arguably, this dominance is reminiscent of the quality factor’s outperformance of the broader market in global equity markets since the global financial crisis (GFC). Since 15/09/2008 — the day Lehman Brothers filed for bankruptcy — the MSCI All-Country World Index (ACWI) Quality has returned 806.7%, compared with 496.6% for the MSCI ACWI.

One could also argue that Bayern Munich’s ability to consistently hoard trophies is akin to the capacity of quality companies to consistently generate higher ROE and/or ROIC than the broader market. The comparison does not stop there. Like quality stocks, Bayern Munich is arguably protected by a moat: its stronger financial position and prestige enable it to attract global talent, such as England’s Harry Kane, as well as top domestic players, while also nurturing and retaining its most promising youth prospects. This, in turn, helps ensure the club remains well positioned to continue outperforming its domestic rivals.

However, as the 76% figure suggests, there have been seasons when the Rekordmeister has had to cede its crown. The most recent example came in the 2023–24 season, when underdog **Bayer Leverkusen won its first-ever German championship**. Similarly, the quality factor has not outperformed the broader market in every calendar year since the GFC, with 2025 being the most recent example. Interestingly, the underperformance of the quality factor relative to the broader market has been consistent across regions over the last year. That said, there were important nuances in terms of which factors outperformed. In the US, it was

Fig.1: Performance Of Investment Factors



Source: Morningstar

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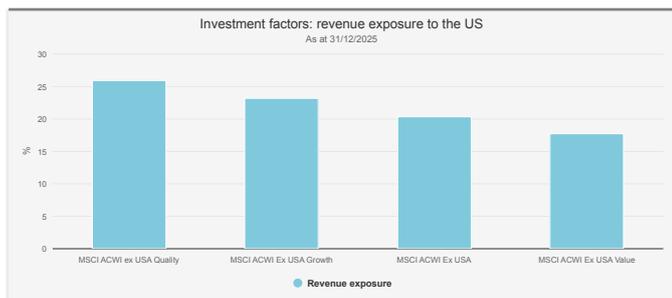
growth which outstripped quality, while it was value that outperformed in other key developed markets. This continues a trend of value outperformance over single calendar years in ex-US markets that has been in place since 2022 (which we discussed in [a recent strategy article](#)). The chart below shows the performance of MSCI indices across different regions, alongside their quality, growth, and value declinations, in 2025. For instance, for global equities, we used the MSCI ACWI, MSCI ACWI Quality, MSCI ACWI Growth, and MSCI ACWI Value indices.

The outperformance of the value factor relative to quality in 2025 was largely concentrated in the first half of the year. Concerns over elevated US equity valuations, the potential impact of tariffs, and a weakening US dollar prompted investors to rotate out of US equities and into international markets. Given that many equity indices outside of the US (e.g. Europe and UK) are tilted toward value-oriented sectors such as financials, industrials, and materials, this rotation proved a headwind for the quality factor.



In addition, non-US quality stocks may not have been perceived as compelling alternatives, as they arguably only partially addressed valuation concerns. While they are often less expensive than their US counterparts, international quality stocks still generally trade at a premium to their respective broader markets. Moreover, non-US quality stocks tend to have higher exposure to the US economy than other factor cohorts. For example, they typically generate a larger share of their revenues in the US, as the chart below shows. As a result, they may have been viewed as particularly vulnerable to US tariffs. By contrast, value stocks tend to have a more domestic revenue profile than companies in other factor cohorts. In our view, quality stocks’ deeper integration in the global economy could prove to be a headwind, as these companies are likely to be more vulnerable to trade tariffs, supply-chain disruptions, etc. That said, a counterargument would be that quality companies often provide hard-to-replace goods or services, which grant them pricing power and may help mitigate some of these challenges.

Fig.2: Revenue Exposure



Source: Morningstar

The growth factor rebounded in the second half 2025 as investor sentiment improved following tariff reductions and the signing of trade agreements. In addition, leading technology companies exposed to artificial intelligence (AI) reported earnings growth exceeding expectations at the end of the first half of the year, reigniting investor enthusiasm for the AI theme. While global quality indices do have exposure to some established AI leaders – including NVIDIA, ASML, and Taiwan Semiconductor Manufacturing – their emphasis on stable earnings and low financial leverage means that they exclude more speculative, pre-profit companies. However, these higher-risk names drove market gains in the second half of the year, resulting in further headwind for the quality factor. The chart below shows the relative performance of the MSCI ACWI Quality Index versus the MSCI ACWI Growth and MSCI ACWI Value indices in 2025.

Fig.3: Relative Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

Is now an attractive entry point?

After losing its crown to Bayer Leverkusen in the 2023–24 season, Bayern Munich reasserted its dominance in the following season. This raises the question: could the quality factor similarly return to outperforming the broader market?

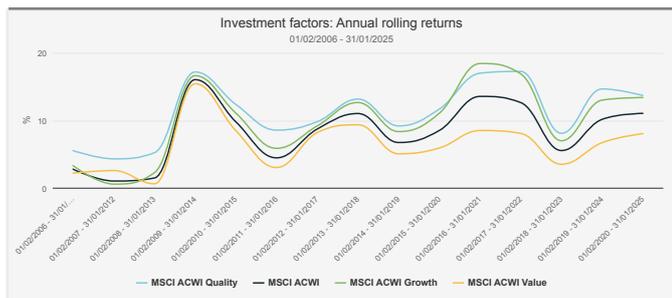
History seems to be on the side of quality. Looking at past patterns, underperformance of the quality factor over a single calendar year has been more the exception than the rule. Since 2006, it has occurred in only six out of 20 calendar years, and these periods have generally been followed by strong outperformance in the subsequent year. Moreover, the quality factor has consistently outperformed the broader market and other investment factors over full market cycles (defined here as five-year periods). For example, the MSCI ACWI Quality has outperformed both the MSCI ACWI and MSCI ACWI Value in every annual five-year rolling period between 01/02/2006 and 31/12/2025, and the MSCI ACWI Growth in c. 93% of these periods. That said, it’s important to note that these five-year periods have occurred either entirely or mostly within the post-GFC era, a period characterised by low interest rates and a relatively stable geopolitical environment. Since 2022, however, this landscape has shifted, marked by higher interest rates and heightened geopolitical tensions. While central banks have been cutting interest rates since 2024, long-term treasury yields remain higher than they were at the end of 2022, which weighs on quality stocks by lowering the present value of their future cash flows.

Meanwhile, rising geopolitical tensions are prompting countries to rely on or develop domestic champions rather than foreign players. A recent example is France’s move to phase out Microsoft Teams - Microsoft being a staple of global equity strategies - from government departments, replacing it with lesser-known domestic alternatives. The deglobalisation trend is also reflected in changing consumer behaviours worldwide, with consumers increasingly favouring local products over global brands.



This shift is impacting some companies classified as consumer staples, many of which frequently feature in the portfolios of global quality strategies. We believe these examples highlight the broader trend of global fragmentation and the potential challenges it may pose for quality names, although many of these companies offer products or services that may be difficult to fully replace or decouple from existing systems.

Fig.4: Rolling Returns



Source: Morningstar

Past performance is not a reliable indicator of future results.

In terms of valuations, the MSCI ACWI Quality is commanding a price-to-earnings (P/E) ratio of 26x, which compares to 22.1x for the MSCI ACWI. This premium is to be expected and is reflective of the stronger fundamentals of quality names. However, the quality index's current P/E is above its ten-year average of 22.5x, meaning that quality stocks are expensive relative to their history. In addition, consensus forecasts suggest that the MSCI ACWI Quality will deliver slower earnings growth over the next 12 and 24 months than the broader index, as the bar chart below shows. However, this may reflect expectations that the more speculative AI-related names — which are typically not included in quality indices — will continue to outperform. That said, we believe that if the global economy weakens, investors may pivot toward quality stocks due to their strong balance sheets, which could enable them to weather challenging periods, and the hard-to-replace nature of their goods and services, which may support continued revenue generation.

Fig.5: Earnings Growth Expectation



Source: Bloomberg

Getting exposure to the quality factor through investment trusts

Investors are spoiled for choice when it comes to actively managed strategies focussing on quality names, including within the investment trust space. However, investment trusts offer investors the possibility to access these strategies through vehicles that may trade at a discount - offering potential for rerating alongside the performance of the underlying holdings - and/or that may use gearing, which can amplify returns (as well as losses).

However, it is worth noting that quality can have different interpretations depending on the managers, while others use quality stocks to achieve specific goals. For example, James Harries and Tomasz Boniek, managers of **STS Global Income & Growth (STS)**, approach quality through the lens of dividend growth and capital preservation. This results in a moderate correlation and low R² with the MSCI ACWI Quality Index over five years. Conversely, **Mid Wynd International (MWY)**, managed by Louis Florentin-Lee and Barnaby Wilson, focusses on businesses capable of generating sustainably high returns on capital and reinvesting cash flows to drive future growth. Their preferred measure is cash flow return on investment (CFROI), which gauges how much cash a company generates relative to its invested capital. This approach results in a higher correlation and R² with the MSCI ACWI Quality; however, it is worth noting that the current managers have only been in place since October 2023, meaning the calculations also incorporate periods under the previous management team.

Interestingly, we note that **F&C Investment Trust (FCIT)** has the highest correlation to the MSCI ACWI Quality than any other constituent of the AIC Global and AIC Global Equity Income sectors over five years. However, FCIT is a multi-manager strategy, covering different geographies, as well as investment styles, including quality, but also growth, value, GARP, etc. We think this high correlation is a byproduct of FCIT's investment approach, aiming to be a core holding for investors, resulting in a high correlation to the broader market, which is itself highly correlated to the MSCI ACWI Quality. The table below shows the correlation and R² of each investment trust in the AIC Global and AIC Global Equity Income sectors to the MSCI ACWI Quality in the five years to 31/12/2025.

Differences in approach can also lead to significant divergence in returns among quality-oriented strategies. For instance, while almost all the investment trusts in the AIC Global and AIC Global Equity Income sectors that we view as quality-oriented have underperformed both global and global quality indices over the past five years



Correlation & R²

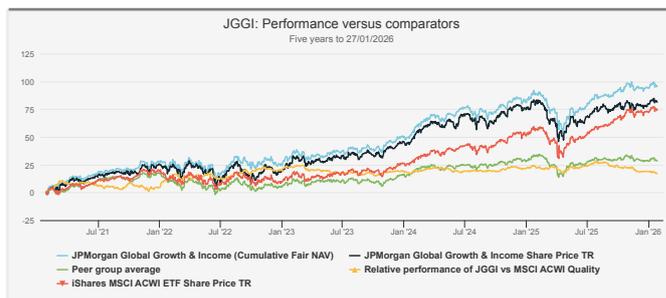
TRUST	SECTOR	CORRELATION	R ²
F&C Investment Trust	AIC Global	0.95	89.5
Franklin Global Trust	AIC Global	0.94	81.9
Mid Wynd International	AIC Global	0.94	81.3
Alliance Witan	AIC Global	0.91	83.6
Bankers	AIC Global	0.91	75.2
Scottish American	AIC Global Equity Income	0.9	60.3
Monks	AIC Global	0.89	81.9
Brunner	AIC Global	0.89	75.1
JPMorgan Global Growth & Income	AIC Global Equity Income	0.88	81.3
Invesco Global Equity Income Trust	AIC Global Equity Income	0.87	28.7
AVI Global Trust	AIC Global	0.8	38.7
STS Global Income & Growth	AIC Global Equity Income	0.72	25.3
Murray International	AIC Global Equity Income	0.71	31.2
Scottish Mortgage	AIC Global	0.7	55.8
Lindsell Train	AIC Global	0.61	66.6

Source: Morningstar

(to 27/01/2026), **JPMorgan Global Growth & Income (JGGI)** has been the exception, outperforming both, as the chart below shows. The peer group in question includes JGGI alongside STS, MWY, **Lindsell Train (LTI)**, and **Franklin Global Trust (FRGT)** (although we note that the board of FRGT has proposed merging with **Invesco Global Equity Income (IGET)**, with a circular published on 21/01/2026, and so it is likely to disappear from the peer group).

JGGI's relative success is likely due to the importance of valuation in its investment process. The managers look for quality companies with the potential to deliver faster earnings growth while trading on attractive valuations. They employ JPMorgan's Strategic Classification framework, which categorises stocks as 'premium', 'quality', 'standard', or 'challenged', with a preference for the first two categories. However, given their sensitivity to valuations, the managers are also willing to invest in 'standard' or 'challenged' companies where valuations underestimate growth potential and when 'premium' and 'quality' names appear too expensive.

Fig.6: Five-Year Performance



Source: Morningstar

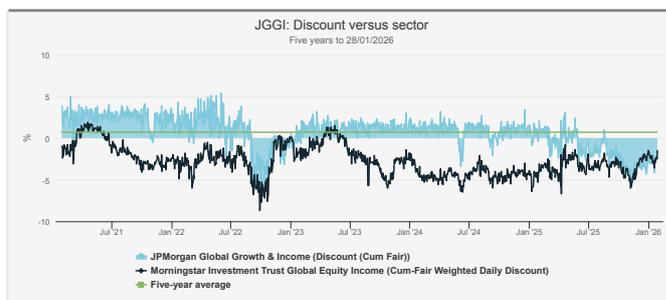
Past performance is not a reliable indicator of future results.

Conclusion

In our view, the quality factor is likely to face more headwinds in the years ahead than it did in the post-GFC era, as the global nature of its constituent companies leaves them more exposed to deglobalisation trends, supply-chain disruptions, and other geopolitical risks. We think the rotation towards European and UK banks, as well as defence-related companies (areas not typically associated with the quality factor) seen in 2025, likely reflects an increased preference for exposure to domestic rather than global economies. Moreover, the trend towards de-dollarisation could also weigh on quality companies, as many are listed in the US, while many non-US firms still generate a significant portion of their revenues there. In addition, quality names are trading on elevated multiples relative to history, while earnings growth forecasts lag those of the broader market.

In that light, a trust such as JGGI could be an appealing way to get exposure to quality but without such a pronounced style tilt. JGGI's approach has consistently delivered strong results, with JGGI outperforming its benchmark, the MSCI ACWI, in every calendar year from 2019 to 2024, although the trust was negatively impacted by the momentum-driven market in 2025. In addition, JGGI has generally traded close to par or at small premiums over the past five years. The board aims to maintain an average discount of around

Fig.7: Discount



Source: Morningstar



5% or less and actively buys back shares to achieve this. As such, we believe the risk of a wide discount to develop is low, making JGGI potentially suitable for investors who are uncomfortable with discount volatility.

However, we think there is also a case to be made for allocating to a full-throttle quality strategy at this juncture. We think earnings growth forecasts for the broader market may embed expectations that speculative, non-profitable AI-related names will continue to outperform. In addition, investors may also come to find the strong balance sheets, pricing power, and relative predictability of quality companies attractive again if economic conditions weaken. Moreover, as discussed, managers can have different interpretations of quality, potentially resulting in portfolios that diverge meaningfully from the MSCI ACWI Quality and may adapt better to changes in paradigms.

We see MWY as the purest play on the quality factor within the AIC Global and AIC Global Equity Income sectors. The trust offers access to the Lazard Global Quality Growth strategy, which was historically reserved for institutional investors, and focusses on investing in high-quality companies capable of sustaining high levels of financial productivity. The theory behind this approach is that the market persistently underestimates such companies due to the economic law of competition, which states that high returns on capital attract competitors, causing those returns to eventually converge toward the cost of capital. However, the managers believe this theory does not always hold in practice, resulting in mispricing where companies that defy this trend often go on to outperform the market over time. While MWY's NAV performance has been challenging since the team's appointment in October 2023, the managers believe now could be an attractive entry point for quality-oriented strategies, given the quality factor is out of favour. They believe this could prove rewarding if the market refocusses on fundamentals and warn that it won't be obvious when sentiment turns.



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