



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



From quality to concentration: How indices get polluted

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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.

Heightened geopolitical tensions, policy shifts and economic fragility globally are likely to keep investors cautious, support safe-haven assets, and create selective opportunities in strategic sectors such as manufacturing, raw materials and exports.



US

- » Markets started December on a cautious tone: some analysts flagged the US stock rally as stretched and late-cycle, raising doubts about further upside.
- » The Federal Reserve (Fed) is widely expected to cut interest rates soon, with markets pricing in a ~25-basis-point cut at the upcoming meeting.
- » The US dollar has weakened in response to those rate-cut expectations. That has helped lift other currencies (euro, yen, some commodity-linked currencies), which could affect global capital flows.
- » On the geopolitical/ foreign-policy front, the US took a more inward-looking stance: its new national security posture emphasises Western-hemisphere priorities and urges allies, e.g. Australia, to raise defence spending.



UK

- » The government under Keir Starmer reiterated a tougher but pragmatic China stance - warning of security risks while still encouraging deeper UK-China trade and investment.
- » Ongoing controversy over China's planned London "mega-embassy" highlights security tensions, while Starmer promotes UK opportunities in creative industries, finance, pharma and luxury goods to support export-led growth.
- » The manufacturing sector showed a modest but meaningful rebound: the S&P Global UK Manufacturing PMI rose to 50.2 in November (from 49.7 in October), the first expansion since September 2024, driven by improved domestic demand and an easing slump in orders.
- » The broader UK economic backdrop remains fragile: growth is slow, inflation still elevated (per late 2024 / 2025 data from European sources) - setting a cautious tone for markets and policy.



Europe

- » Macron's fourth China visit highlighted Europe's balancing act: economic ties with Beijing versus trade and supply-chain concerns; he warned the EU may impose tariffs if China doesn't reduce its trade surplus.
- » The EU launched a new strategic push - labelled ReSourceEU - involving roughly €3 billion of investment to diversify supply-chains, especially rare-earths and critical materials, to reduce dependence on China.
- » As part of this push, the EU also unveiled a new "economic security doctrine" providing tools like trade-defence measures, stricter foreign investment screening, and stockpiling to counter external economic threats.
- » EU industrial policy is shifting toward protecting strategic industries via supply-chain de-risking, local-content incentives, and regulatory flexibility, moving away from pure free-trade orthodoxy.



Rest of the World/Asia

- » In China the economy remains under pressure: major Chinese internet platforms reportedly disclosed steep third-quarter losses - a sign that subsidy-heavy business models are suffering.
- » The shift in industrial policy in big blocs (EU, US) and competitive pressure from cheap Chinese goods is increasing global trade tensions - which may spur protectionist or import-substitution efforts in many non-Western economies.
- » Despite the bombardment of Ukraine buy Russia, a peace deal remains potentially close in the US envoy to Ukraine recently said only two major issues remain unresolved (the status of Donbas and the Zaporizhzhia nuclear plant). However, Moscow insists on radical changes to the proposals - making the outcome uncertain.
- » Precious metals (gold, silver) saw renewed interest as safe-haven assets amid risk-off sentiment and dovish rate hopes.

Asset Class / Region	Currency	Cumulative returns			
		Week ending 5 December	Month to date	YTD 2025	12 months
Developed Markets Equities					
United States	USD	0.3%	0.3%	17.8%	14.1%
United Kingdom	GBP	-0.6%	-0.6%	22.4%	19.9%
Continental Europe	EUR	0.6%	0.6%	17.1%	14.2%
Japan	JPY	-0.5%	-0.5%	23.6%	25.7%
Asia Pacific (ex Japan)	USD	1.5%	1.5%	27.9%	24.5%
Australia	AUD	0.2%	0.2%	9.2%	5.2%
Global	USD	0.5%	0.5%	20.7%	16.4%
Emerging Markets Equities					
Emerging Europe	USD	0.1%	0.1%	48.4%	42.3%
Emerging Asia	USD	1.6%	1.6%	30.4%	27.9%
Emerging Latin America	USD	-0.6%	-0.6%	52.2%	40.0%
BRICs	USD	0.3%	0.3%	23.3%	21.0%
China	USD	1.3%	1.3%	34.5%	36.8%
MENA countries	USD	1.0%	1.0%	0.7%	2.3%
South Africa	USD	2.8%	2.8%	67.4%	52.9%
India	USD	-0.8%	-0.8%	6.6%	1.0%
Global emerging markets	USD	1.4%	1.4%	31.5%	28.5%
Bonds					
US Treasuries	USD	-0.6%	-0.6%	6.0%	4.0%
US Treasuries (inflation protected)	USD	-0.4%	-0.4%	6.9%	5.0%
US Corporate (investment grade)	USD	-0.4%	-0.4%	7.6%	5.4%
US High Yield	USD	0.2%	0.2%	8.0%	7.2%
UK Gilts	GBP	0.0%	0.0%	4.8%	2.7%
UK Corporate (investment grade)	GBP	0.1%	0.1%	6.6%	5.9%
Euro Government Bonds	EUR	-0.6%	-0.6%	0.5%	-1.1%
Euro Corporate (investment grade)	EUR	-0.1%	-0.1%	3.1%	2.5%
Euro High Yield	EUR	0.1%	0.1%	4.9%	5.1%
Global Government Bonds	USD	-0.3%	-0.3%	6.5%	3.8%
Global Bonds	USD	-0.3%	-0.3%	8.3%	5.8%
Global Convertible Bonds	USD	0.4%	0.4%	22.7%	19.1%
Emerging Market Bonds	USD	0.0%	0.0%	12.2%	9.9%

Asset Class / Region	Currency	Cumulative returns			
		Week ending 5 December	Month to date	YTD 2025	12 months
Property					
US Property Securities	USD	-1.6%	-1.6%	2.6%	-2.8%
Australian Property Securities	AUD	-1.2%	-1.2%	3.6%	-1.0%
Global Property Securities	USD	-1.3%	-1.3%	10.9%	5.9%
Currencies					
Euro	USD	0.4%	0.4%	12.5%	10.2%
UK Pound Sterling	USD	0.7%	0.7%	6.5%	4.6%
Japanese Yen	USD	0.6%	0.6%	1.3%	-3.3%
Australian Dollar	USD	1.4%	1.4%	7.4%	3.1%
South African Rand	USD	1.0%	1.0%	11.6%	6.6%
Swiss Franc	USD	-0.2%	-0.2%	12.8%	9.3%
Chinese Yuan	USD	0.1%	0.1%	3.2%	2.7%
Commodities & Alternatives					
Commodities	USD	1.4%	1.4%	8.4%	10.8%
Agricultural Commodities	USD	-1.1%	-1.1%	-5.6%	-5.7%
Oil	USD	0.9%	0.9%	-14.6%	-11.6%
Gold	USD	-1.0%	-1.0%	60.0%	59.7%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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