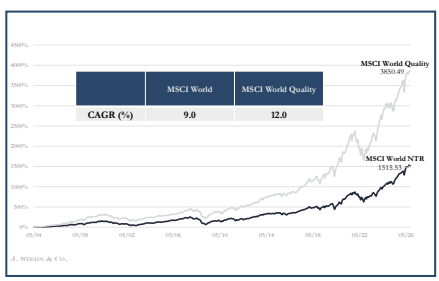
High-quality global equities

Chris Rossbach makes the case for investing in quality after recent underperformance

Investing is rarely smooth or linear. Market cycles come and go, tempting investors to chase themes or abandon long-held convictions. With all eyes having been on the AI trade, and with significant dislocations occurring as first or second order effects of the Middle East crisis, many fundamentally strong quality businesses have been overlooked and left undervalued. It is easy to forget that quality investing has outperformed global markets for decades, delivering more than 2.5 times the broad market return over the past thirty years. That is why, for quality-focused long-term fund managers like us, patience and conviction are key. Discipline and sticking to time-tested fundamentals deliver long-term results, no matter how tempting it may be to change tack.

MSCI World Quality & MSCI World NTR Index (1994–2026)



Source: FactSet, MSCI. Time period – 31st May 1994 to 30th September 2026. Index returns in USD.

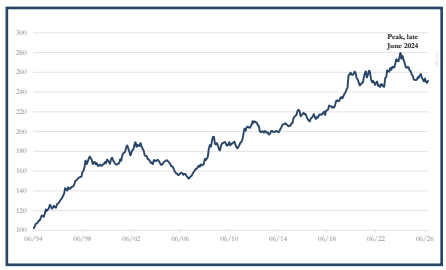
Investing in quality means selecting companies with enduring competitive advantages. They generate high, stable returns on capital and compound them over time. These businesses have well-known brands, genuine competitive moats, strong balance sheets and experienced management teams that allocate capital effectively, prioritising long-term returns for shareholders rather than scale or short-term imperatives.

Quality companies typically have lower debt levels, strong cash flows and resilient business models that help protect them during adverse market conditions. Many have a global footprint that enables them to shift supply chains and adapt sourcing in ways that smaller, less diversified competitors cannot. Quality companies not only survive geopolitical and economic disruption – they often exploit it, seeking accelerated organic growth or value-creating M&A when weaker competitors are forced to retrench.

At J Stern & Co., quality is not a marketing label. It is a non-negotiable filter at the heart of our investment process. Every company must satisfy our quality criteria before we invest a single pound or dollar. As the saying goes, it is about time in the market, not market timing. Companies with structural advantages and financial resilience are better positioned to avoid permanent capital loss through adversity – and protect the compounding engine over the longer term. We find and invest in 25–30 of these businesses across digital transformation, industrials, healthcare & life sciences and consumer.

History is instructive. After the most severe comparable dislocations, in 1999, 2003, 2009, 2020 and 2022, quality delivered strong outperformance over the following 12 to 24 months as fundamentals reasserted themselves. The periods in which quality has underperformed have consistently been the greatest moments in which to invest for subsequent outperformance.

MSCI World Quality vs MSCI World NTR Index, rebased (1994–2026)



Source: FactSet, MSCI. Performance period 31st May 1994 to 30th September 2026. Index returns in USD.

Our portfolio today has EBIT margins of over 30%, high returns on capital, strong balance sheets and forecast earnings growth of 16% a year in 2027 and 2028, all well ahead of the broader market. Yet the valuation premium we pay for these characteristics is at a ten-year low.

We recognise there remains much uncertainty around global conflicts, the pace of the AI build-out and the trajectory of inflation and interest rates.

If conditions deteriorate, we believe our companies will prove resilient because of their quality and valuations. However, when some or all of these issues resolve, investors will look for growth, recovery and valuation upside, and we are confident they will find them in our companies rather than in the cyclical semiconductors, banks and energy stocks that have led markets over the past two years.



Written by J. Stern & Co CIO, Chris Rossbach

In association with J. Stern & Co. Investing in Quality for the Long Term