

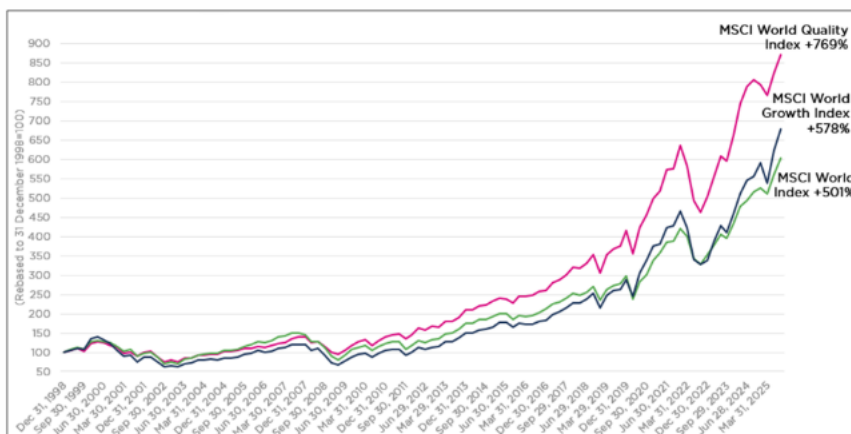
Patience Pays: Why Quality Shares Outperform in the Long Run

By [Charlotte Ryland, CFA](#), [Joseph Hawkes, CFA](#) and [Frank Mampaey](#)

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Time in the market is better than timing the market, the adage says. Likewise, to see “quality” shares outperform over time, investors must be patient. Quality stocks are defined as stocks of companies with high returns on equity, stable earnings, and low debt. They’re known among investors for outperforming broader markets over the long run, as seen in Figure 1.

Figure 1: Stock market performance (31 December 1998-30 September 2025). Over the long term, quality shares have significantly outperformed the broader stock market.



Source: CCLA, Bloomberg, MSCI (returns net of withholding tax, in local currency). The above data is not annualized. Past performance is not a reliable indicator of future returns. The value of investments may fall as well as rise.

Clients often ask us: “How has my portfolio performed this quarter?” or “What do you expect markets to do next quarter?” They’re right to ask that question, but single quarters aren’t always the most helpful way of gauging long-term success.

In 2025, for example, quarterly returns fluctuated, showing how unpredictable short-term outcomes can be. When US President Donald Trump took office in January, he implemented company-friendly tax cuts and deregulated key industries, moves that typically create market tailwinds.

However, during the first quarter, the MSCI World Index fell 3.6%. In April, President Trump announced tariffs that were, by many estimates, negative for the US economy. But the index rose 9.5% in the second quarter. And between 1 July and 1 October this year, the index rose another 7%, despite more tariffs.

Now, some “star” investors claim that they can time the stock market. But most evidence shows that trying to time the market usually ends with poor returns. When we look at the data, systematic stock market patterns have mainly played out over the longer term. And over that longer term, quality shares have historically outperformed other types of shares.

Payoff Takes Time

Adhering to any investment style, including quality, usually means that a manager mixes periods of outperformance with periods of underperformance.

Figure 2 and Table 3 below show the MSCI World Index (currently 1,320 companies from 23 countries) with its smaller sub-indices the MSCI World Quality Index (300 highest-quality companies from those same countries) and the MSCI World Growth Index (603 highest-growth companies) over the time periods stated.

Figure 2: Quarterly, annual, five-year and 10-year returns of the MSCI World Quality Index, relative to the MSCI World Index (31 December 2008-30 September 2025). The longer the timeframe, the more quality has outperformed the MSCI World Index.



Source: MSCI, CCLA. The above data is not annualized. Past performance is not a reliable indicator of future returns. The value of investments may fall as well as rise.

The data for Figure 2 above is represented in Table 3 below.

Column 1 of that Table shows the performance, in absolute terms, of the MSCI World Quality Index, which is made up of companies with high returns on equity, stable year-on-year earnings growth, and low debt levels, for quarters ending on the dates shown. Banking giant JPMorgan, for example, isn't in the MSCI World Quality Index because, like many banks, it has high debt levels.

Column 2 shows the relative performance of the MSCI World Quality Index versus the MSCI World Index. Column 3 shows the relative performance of the MSCI World Quality Index versus the MSCI World Growth Index. The MSCI Growth Index captures shares with high growth rates in revenues, earnings per share and in retained earnings. It includes, for example, Nvidia and Microsoft, but not Facebook parent Meta, because Meta's growth is comparatively low.

Columns 4 through 6 of Table 3 show the same absolute and relative performance, but for the one-year period ending on the date shown. Columns 7 through 12 show the same data for, respectively, five-year timeframes and 10-year timeframes.

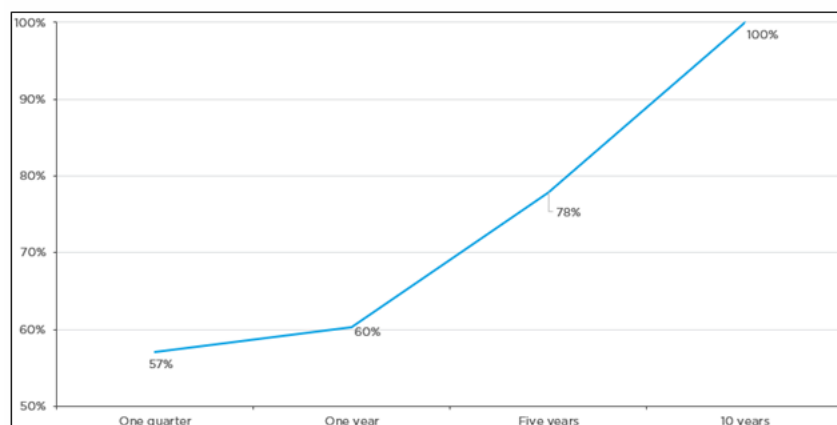
Table 3: Quarterly, annual, five-year and 10-year performance (2008-2025). The longer the timeframe, the more quality shares have outperformed the broader stock market and growth shares.

for the period ending	Three-month period			One-year period			Five-year period			10-year period		
	ABSOLUTE performance		RELATIVE outperformance (or underperformance) versus the	ABSOLUTE performance		RELATIVE outperformance (or underperformance) versus the	ABSOLUTE performance		RELATIVE outperformance (or underperformance) versus the	ABSOLUTE performance		RELATIVE outperformance (or underperformance) versus the
	MSCI World Quality Index			MSCI World Quality Index			MSCI World Quality Index			MSCI World Quality Index		
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9	Column 10	Column 11	Column 12
Dec 31, 2008	-13.8%	6.9%	8.1%	-28.8%	9.9%	10.4%	8.1%	12.5%	15.8%	-0.1%	10.4%	26.9%
Mar 31, 2009	-6.0%	4.0%	0.0%	-25.6%	11.8%	9.8%	1.0%	17.2%	16.2%	-10.3%	14.0%	24.8%
Jun 30, 2009	12.1%	-4.3%	-2.2%	-18.2%	8.1%	9.7%	9.8%	14.0%	14.1%	-3.4%	13.7%	25.1%
Sep 30, 2009	11.8%	-3.0%	-0.9%	1.6%	6.1%	7.0%	24.4%	12.7%	12.4%	13.5%	14.2%	30.9%
Dec 31, 2009	8.2%	3.7%	1.8%	27.5%	1.8%	-1.3%	25.4%	17.5%	15.0%	3.7%	15.6%	34.3%
Mar 31, 2010	3.7%	-1.0%	-0.8%	40.7%	-5.6%	-2.5%	27.8%	15.3%	11.7%	4.5%	14.4%	34.9%
Jun 30, 2010	-10.1%	1.1%	0.8%	12.8%	1.3%	1.2%	12.6%	15.5%	12.4%	-5.5%	12.4%	28.5%
Sep 30, 2010	9.7%	0.4%	-0.6%	10.6%	4.5%	1.4%	18.5%	19.6%	15.9%	10.1%	18.0%	30.9%
Dec 31, 2010	7.8%	-0.5%	-1.5%	10.2%	0.2%	-2.1%	26.3%	23.7%	19.0%	25.5%	18.0%	24.3%
Mar 31, 2011	2.9%	-0.7%	0.3%	9.3%	0.4%	-1.0%	24.9%	24.7%	20.6%	49.1%	25.3%	27.5%
Jun 30, 2011	2.4%	3.0%	2.5%	24.4%	2.6%	0.8%	30.9%	28.3%	22.2%	46.3%	27.5%	28.4%
Sep 30, 2011	-9.2%	5.5%	5.2%	3.0%	8.0%	7.1%	14.9%	31.6%	24.8%	50.7%	29.7%	28.8%
Dec 31, 2011	8.8%	1.0%	1.0%	3.9%	9.4%	9.4%	17.8%	33.9%	26.3%	46.7%	28.3%	31.9%
Mar 30, 2012	10.9%	-0.3%	-1.9%	12.0%	10.6%	8.1%	29.4%	38.1%	26.8%	59.1%	28.6%	29.2%
Jun 29, 2012	-2.7%	1.5%	1.9%	6.5%	8.7%	7.3%	16.4%	33.8%	26.2%	78.8%	35.3%	34.8%
Sep 28, 2012	6.0%	0.4%	0.3%	24.4%	3.3%	1.8%	18.6%	31.3%	24.9%	122.6%	36.9%	40.6%
Dec 31, 2012	-1.8%	-4.7%	-3.8%	12.4%	-3.4%	-3.7%	16.8%	24.0%	20.4%	106.4%	25.8%	30.5%
Mar 29, 2013	9.2%	-0.6%	-0.6%	10.6%	-3.6%	-2.4%	41.9%	26.3%	22.0%	136.3%	26.0%	33.9%
Jun 28, 2013	1.0%	-0.8%	0.2%	14.8%	-6.6%	-4.7%	40.4%	21.6%	22.6%	115.1%	29.3%	31.7%
Sep 30, 2013	5.2%	-1.2%	-2.2%	14.0%	-8.4%	-7.4%	64.1%	21.4%	16.6%	123.9%	33.3%	33.5%
Dec 31, 2013	9.9%	1.5%	1.5%	27.6%	-1.3%	-1.4%	109.3%	14.3%	4.5%	126.2%	39.9%	37.3%
Mar 31, 2014	0.6%	-0.5%	0.3%	17.5%	-1.1%	-0.3%	124.0%	5.1%	5.5%	126.2%	42.7%	40.9%
Jun 30, 2014	4.3%	-0.1%	-0.1%	21.4%	-0.3%	-0.6%	108.4%	12.1%	8.9%	128.8%	40.7%	37.8%
Sep 30, 2014	1.9%	1.0%	0.3%	17.5%	2.2%	2.2%	89.8%	17.5%	10.1%	136.1%	43.6%	34.8%
Dec 31, 2014	3.9%	0.7%	-0.6%	11.0%	1.2%	-0.1%	82.3%	12.0%	5.7%	128.6%	44.9%	33.5%
Mar 31, 2015	3.3%	-1.6%	-3.6%	14.0%	0.0%	-4.4%	81.5%	11.0%	0.9%	131.9%	40.1%	22.2%
Jun 30, 2015	-1.1%	-0.4%	-0.6%	8.2%	-0.3%	-4.7%	99.7%	9.0%	-2.0%	124.8%	39.7%	22.7%
Sep 30, 2015	-4.3%	3.5%	2.6%	1.7%	2.4%	-1.9%	74.4%	13.3%	4.1%	106.7%	47.4%	32.0%
Dec 31, 2015	7.7%	1.5%	0.6%	5.3%	3.3%	-0.7%	74.2%	16.3%	7.4%	120.1%	58.0%	41.2%
Mar 31, 2016	0.7%	2.7%	3.1%	2.7%	7.3%	5.9%	70.6%	21.0%	12.0%	113.0%	63.2%	47.7%
Jun 30, 2016	0.2%	-1.1%	-0.6%	4.0%	6.7%	5.9%	67.0%	14.6%	6.9%	118.6%	62.2%	44.5%
Sep 30, 2016	4.9%	0.1%	0.3%	13.9%	3.4%	3.8%	92.9%	5.5%	-2.7%	121.7%	65.6%	45.3%
Dec 31, 2016	0.5%	-4.3%	-0.6%	6.3%	-2.7%	2.3%	78.2%	-4.0%	-5.2%	110.0%	57.1%	42.2%
Mar 31, 2017	7.4%	2.0%	-0.3%	13.4%	-3.9%	-1.4%	72.6%	-0.2%	-2.6%	123.3%	65.4%	47.0%
Jun 30, 2017	3.0%	0.4%	-0.9%	16.6%	-2.3%	-1.7%	82.8%	-2.5%	-8.1%	112.7%	59.8%	40.5%
Sep 29, 2017	4.0%	0.0%	-0.4%	15.6%	-2.3%	-2.4%	79.2%	-3.2%	-9.1%	112.6%	53.3%	36.0%
Dec 29, 2017	6.9%	1.6%	0.7%	23.0%	4.5%	-1.0%	95.1%	8.5%	-1.0%	127.8%	54.8%	38.8%
Mar 30, 2018	-0.6%	1.6%	-0.3%	13.9%	4.0%	-1.0%	77.6%	11.4%	-0.4%	182.0%	60.0%	38.6%
Jun 29, 2018	3.7%	0.2%	-1.6%	14.6%	3.8%	-1.8%	82.5%	13.3%	-3.5%	156.2%	55.2%	37.0%
Sep 28, 2018	7.2%	1.9%	1.0%	18.2%	5.9%	-0.3%	85.8%	18.4%	2.1%	204.9%	66.1%	33.9%
Dec 31, 2018	-13.4%	-0.3%	1.8%	-4.3%	3.0%	1.1%	46.3%	12.2%	2.6%	206.1%	44.8%	11.9%
Mar 29, 2019	15.7%	3.1%	0.7%	11.4%	4.7%	2.3%	66.4%	18.9%	3.5%	277.1%	49.9%	16.9%
Jun 28, 2019	3.9%	0.2%	-1.1%	11.5%	4.8%	2.8%	67.6%	19.3%	1.8%	249.3%	58.2%	18.5%
Sep 30, 2019	2.5%	0.8%	0.8%	6.5%	3.6%	2.4%	68.4%	19.0%	2.5%	219.6%	62.2%	21.5%
Dec 31, 2019	10.4%	2.5%	1.7%	35.8%	8.5%	2.4%	78.9%	23.4%	6.4%	226.1%	61.4%	21.4%
Mar 31, 2020	-14.5%	5.6%	-0.3%	0.3%	9.9%	0.8%	48.1%	29.6%	9.6%	168.8%	66.7%	18.6%
Jun 30, 2020	18.9%	0.5%	-5.6%	14.8%	11.5%	-3.2%	78.0%	36.7%	4.7%	255.5%	85.9%	5.9%
Sep 30, 2020	8.1%	1.4%	-2.4%	21.4%	12.8%	-7.0%	101.0%	37.6%	-4.6%	250.6%	87.4%	0.4%
Dec 31, 2020	9.1%	-3.2%	-1.9%	19.9%	6.5%	-11.2%	103.7%	30.9%	-9.6%	254.9%	81.8%	-0.8%
Mar 31, 2021	3.8%	-2.3%	2.3%	45.7%	-5.0%	-9.5%	110.0%	22.9%	-11.9%	258.3%	78.5%	6.3%
Jun 30, 2021	10.6%	3.0%	-0.1%	35.5%	-1.4%	-2.4%	131.8%	33.1%	-11.8%	287.1%	84.2%	-2.8%
Sep 30, 2021	0.5%	0.0%	-0.9%	26.0%	-3.1%	-0.5%	122.3%	31.4%	-13.9%	328.8%	71.2%	-33.1%
Dec 31, 2021	10.4%	2.3%	1.9%	27.5%	3.3%	3.8%	144.3%	47.4%	-9.3%	335.2%	76.5%	-29.9%
Mar 31, 2022	-8.1%	-3.6%	0.9%	12.8%	1.1%	2.1%	108.9%	30.7%	-5.1%	260.6%	52.7%	-14.5%
Jun 30, 2022	-15.5%	-1.1%	4.0%	-13.8%	-2.7%	5.0%	71.4%	22.7%	5.6%	213.3%	37.8%	-3.3%
Sep 30, 2022	-5.9%	-1.5%	-2.6%	-19.3%	-3.8%	3.9%	55.2%	18.5%	1.5%	178.1%	28.8%	-11.3%
Dec 31, 2022	8.3%	0.8%	5.8%	-20.8%	-4.8%	6.6%	57.2%	17.7%	8.9%	206.6%	46.3%	16.0%
Mar 31, 2023	10.3%	2.8%	-4.5%	-5.0%	0.5%	3.5%	74.4%	21.1%	3.7%	209.7%	55.0%	5.9%
Jun 30, 2023	9.7%	2.6%	-1.0%	23.4%	5.2%	-2.5%	84.5%	25.9%	5.1%	236.6%	68.4%	3.0%
Sep 29, 2023	-2.3%	0.4%	1.9%	28.1%	7.7%	3.3%	68.3%	21.6%	6.2%	212.6%	67.1%	14.9%
Dec 29, 2023	11.1%	1.2%	-0.7%	31.4%	8.2%	-4.8%	115.9%	30.4%	2.3%	215.8%	67.1%	8.9%
Mar 29, 2024	12.6%	2.6%	1.2%	34.2%	8.0%	1.9%	110.1%	28.8%	3.2%	253.8%	82.8%	12.5%
Jun 28, 2024	5.9%	2.8%	-0.9%	29.5%	8.1%	1.9%	114.2%	33.9%	3.8%	259.1%	91.6%	10.2%
Sep 30, 2024	2.4%	-2.3%	0.5%	35.7%	5.2%	0.1%	114.4%	28.5%	3.3%	261.0%	83.3%	10.9%
Dec 31, 2024	-1.5%	-3.5%	-7.4%	20.3%	-0.8%	-8.1%	91.2%	14.9%	-14.4%	242.1%	68.0%	-12.6%
Mar 31, 2025	-3.6%	-0.9%	5.0%	3.0%	-4.0%	-2.4%	115.8%	1.0%	-3.4%	219.9%	65.1%	15.9%
Jun 30, 2025	7.5%	-2.0%	-8.2%	4.5%	-9.2%	-9.6%	95.0%	-3.5%	-8.6%	247.1%	66.5%	-5.7%
Sep 30, 2025	5.6%	-1.8%	-3.1%	7.8%	-8.9%	-14.1%	90.5%	-9.5%	-9.9%	283.0%	56.2%	-29.2%
Quality Outperformance	57% 49%			60% 56%			78% 69%			100% 85%		

The left-hand side of Table 3 is a patchwork of reds and greens, as quality shares underperform and outperform in a pattern that is hard to predict from quarter-to-quarter. By contrast, the right-hand side is mostly green, demonstrating that over the longer time horizon, quality shares have outperformed the broader market.

The bottom row of Column 11 in Table 3 above shows that the MSCI World Quality Index has outperformed the broader MSCI World Index over all 10-year timeframes since 1998. That's a remarkably consistent performance. Figure 4 shows this performance in a line chart.

Figure 4: Historical outperformance of the MSCI World Quality Index over the MSCI World Index (31 December 1998-30 September 2025). Over longer periods, quality shares have increasingly outperformed the broader stock market.



Source: CCLA, MSCI. Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise.

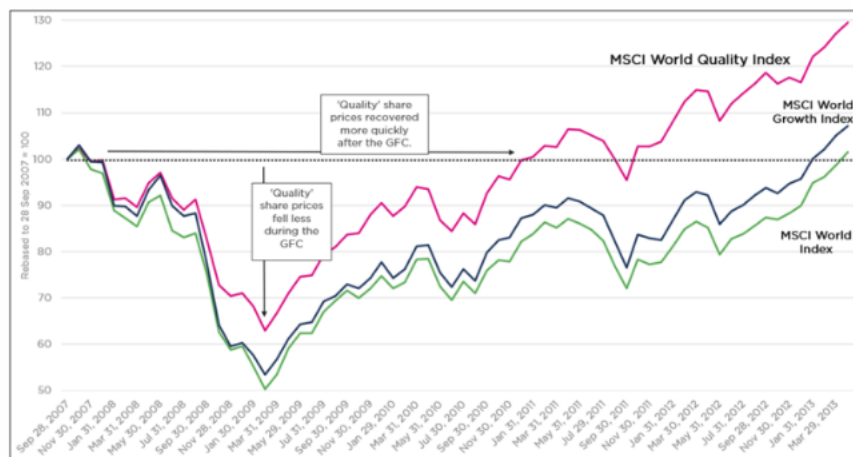


In the Long Run

Why this paradox between marginal underperformance in the short run and substantial outperformance in the long run?

Principally, during market crises in the last 25 years, prices for quality shares fell less than the broader market or prices for growth shares. During the global financial crisis, for instance, prices for the quality index fell by a third, peak to trough, and recovered in just over three years. By contrast, prices for growth shares fell more than 40% and took more than five years to recover, as shown in Figure 5 below.

Figure 5: MSCI indices during and after the Global Financial Crisis (2007-2009). Quality shares' prices fell less and recovered more quickly than other categories of shares.



Source: CCLA, MSCI. The above data is not annualized. Past performance is not a reliable indicator of future returns. The value of investments may fall as well as rise.

In addition, quality shares have had what some academics call “persistent returns.” When they outperformed, they did so for longer periods at a time, which compounded their positive returns.

Finally, quality shares and growth shares have different income characteristics. As of 30 September 2025, for example, the 1.25% dividend yield of the MSCI World Quality Index was nearly double that of the MSCI World Growth Index (0.69%). This difference in dividend yield means that, for growth shares, share price growth is the dominant source of investment returns. The performance of quality shares, by contrast, relies on both share price growth and dividends. In other words: investing in quality shares offers a more diversified return than investing in growth shares.

The Investment Manager's Perspective

As active portfolio managers with a quality bias, we don't just follow a quality benchmark. Instead, we focus on why those quality businesses have their distinct characteristics. That includes gauging their competitive advantage and how their growth prospects are evolving. At the same time, we aim to avoid quality businesses that are so highly priced that they risk damaging investor returns in the long run if that valuation were to deflate.

It is rarely straightforward for an investment manager to stick to a long-term strategy at a time when short-term results favor other approaches. We never stop fine-tuning our approach, but we remain true to the core principles that have proven to work.

In that respect, our client relationship managers play an important role. They are key to laying out to clients what the difference is between the stock market's short-term and long-term dynamics. Fortunately, many of our clients have the long-term outlook that has been well served by investing in quality shares.

A Decade in the Making

Different investors have different investment horizons, which may require different strategies. If history is a guide, the price to pay for quality to outperform in the long run is patience. It is critical that investors have a realistic view of their time horizon when deciding to invest in quality shares.

*With thanks to Michael Ekaette, CFA, and Max Burl.

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