



FUND MANAGERS ARE TALKING QUALITY AGAIN-SHOULD YOU BE PAYING ATTENTION?

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Before discussing market trends and investment strategies, let's first understand the fundamental difference between Quality and Value stocks.

Quality stocks belong to companies with strong fundamentals, high return on equity (ROE), low debt, consistent earnings growth, and a sustainable competitive advantage (moat). These companies typically have:

- Strong balance sheets with low leverage
- Stable and predictable cash flows
- Competitive market positioning
- Resilient business models that perform well across market cycles

Quality stocks trade at a premium because of their superior business fundamentals.

Value stocks trade at a discount due to temporary setbacks, market mispricing, or cyclical factors.

Value stocks are companies trading below their intrinsic value based on valuation metrics like Price-to-Earnings (P/E), Price-to-Book (P/B), and Dividend Yield. Despite strong fundamentals, they are often overlooked or underappreciated by the market.

Why Do Value Stocks Trade at a Discount?

- Lower revenue or profit growth reduces valuations.
- Sectors like energy & financials face economic swings.
- Weak ROE or poor capital allocation.
- High Debt & Risk – Leverage concerns impact investor confidence.
- Interest rates, inflation & regulations affect pricing.
- Temporary setbacks or investor pessimism create undervaluation.

PERFORMANCE COMPARISON IN THE LAST QUALITY CYCLE: QUALITY OUTPERFORMED VALUE BY 73 PERCENTAGE POINTS

Quality vs. Value: Shifting Market Trends Over the Years

This chart compares the annual performance of Quality and Value investing strategies.

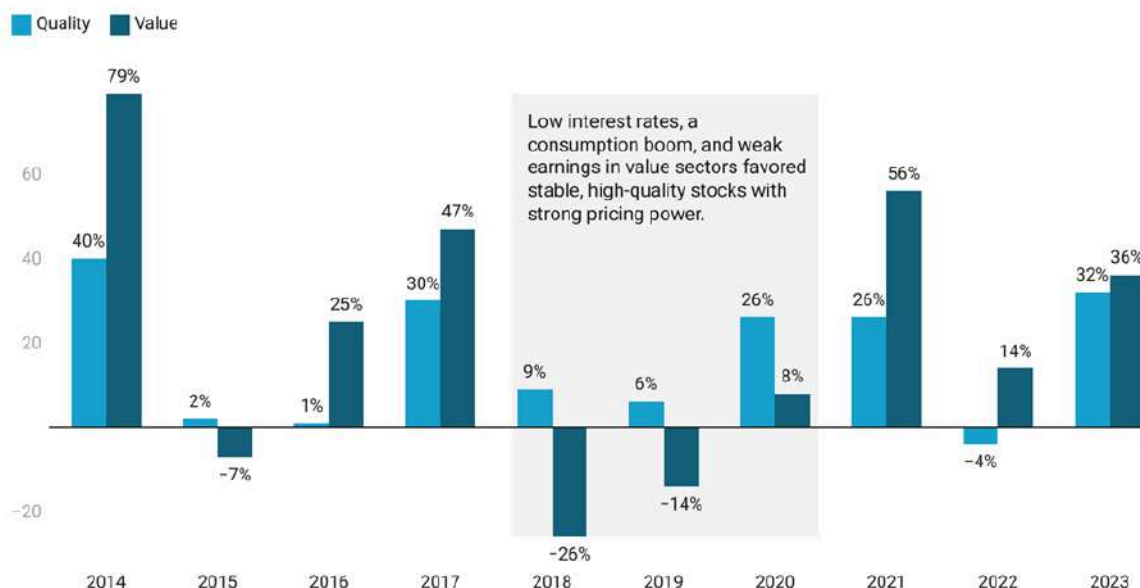


Chart: Armstrong Capital • Source: NSE • Created with Datawrapper

~ 41%

Quality performance
from 2018 to 2020
(Absolute Returns)

~ (-32%)

Value performance
from 2018 to 2020
(Absolute Returns)

CURRENT MARKET SHIFT: EARLY SIGNS OF A QUALITY COMEBACK?

Quality vs. Value Rotation Index & Trend Analysis

This chart represents the Quality-to-Value Ratio, showing how quality stocks perform relative to value stocks over time. A rising ratio indicates Quality stocks outperforming Value stocks, whereas a declining ratio suggests Value stocks are leading the market. A Weighted Moving Average (WMA) line is added to smooth short-term fluctuations and highlight long-term trends. Historical turning points in the ratio often indicate shifts in market preference between Quality and Value investing styles.



Quality - Nifty 200 Quality 30 Index, Value - Nifty 200 Quality 30 Index
 Chart: Armstrong Capital • Created with Datawrapper

The market appears to be at an inflection point, with early indicators suggesting a potential shift from Value-dominated investing back toward Quality stocks. Over the past four years, Value stocks—dominated by PSUs, infrastructure, industrials, and cyclical commodities—have been the clear winners, benefiting from macroeconomic tailwinds like high inflation, rising interest rates, and strong domestic liquidity flows.

However, fund managers are now taking note of shifting momentum. Data suggests that this cycle may be maturing, with investors gradually rotating back into Quality and Growth-oriented stocks. As inflation cools and rate hikes slow, the preference for companies with strong fundamentals, high return on equity (ROE), and consistent earnings growth is resurfacing.

Understanding the Quality vs. Value Cycle: To better appreciate this shift, it's crucial to understand the rotational cycles between Value and Quality investing.

What Drives Value Outperformance?

- Interest rates are increasing (hurts high-valuation Quality stocks more)
- Inflation is rising (favoring commodities, industrials)
- The economic cycle is in an expansion phase (infra & manufacturing thrive)
- Market liquidity is abundant and Favors large-scale capex and industrial plays.

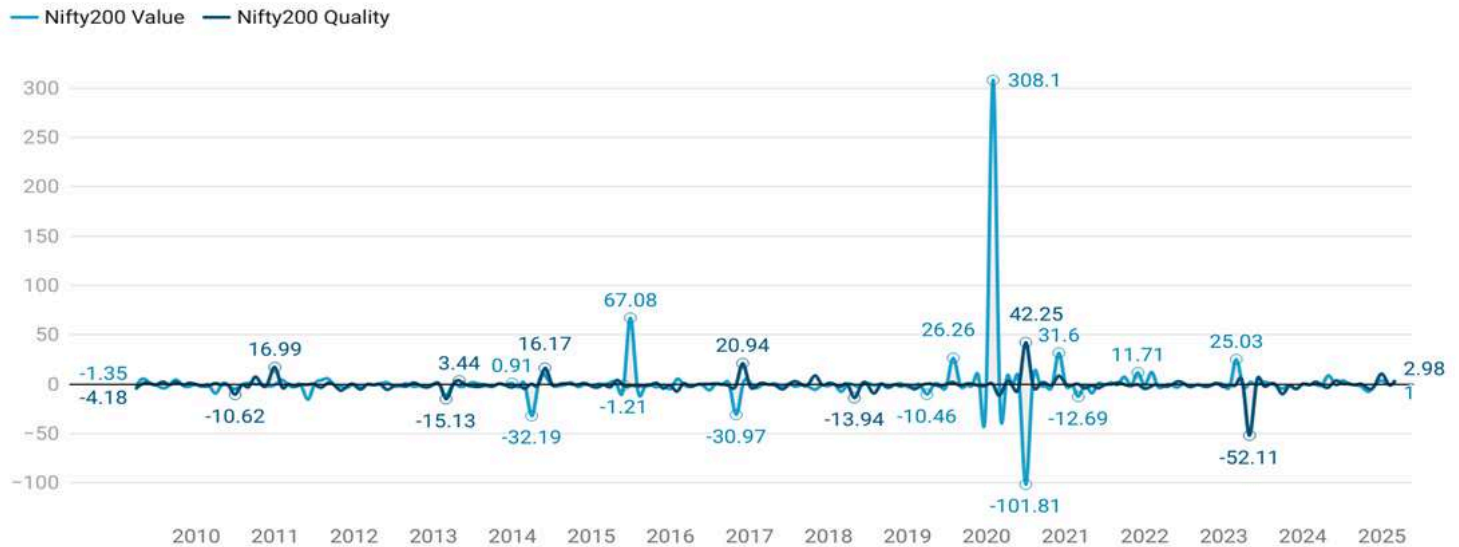
What Drives Quality Outperformance?

- Economic growth slows, and earnings visibility becomes crucial
- Market breadth contracts, leading investors to rotate into large, stable names
- Inflation moderates, and interest rate hikes slow down, improving valuation multiples.
- Liquidity becomes selective, favoring consistent earnings compounders

Our proprietary model signals a critical turning point—Quality is showing early signs of a trend reversal. Historically, every time one factor surged ahead, a sharp reversal followed, leading the underperformer to take the lead. The attached graph reveals a repeating pattern: when divergence peaks, momentum shifts, setting the stage for a potential outperformance in the next cycle.

Quality & Value Factor

This chart shows the historical monthly returns of Quality and Value factors. Since Quality and Value are inversely correlated, every time a divergence occurs, the factor in an uptrend is expected to outperform in the next cycle.



Value - Nifty 200 Value 30 Index Quality - Nifty 200 Quality 30 Index
Source: Armstrong Capital • Created with Datawrapper

The first half of 2024 saw Value outperforming, but as global liquidity conditions tightened and cyclical stocks faced headwinds, Quality began to take the lead in mid-2024.

The outperformance of Quality in late 2024 and early 2025 suggests a broader shift in market sentiment, potentially driven by defensive positioning, earnings stability, and sector rotation towards high-quality stocks.

Quality Resurgence in Mid-2024: Trend Reversal in Market Dynamics

This chart presents the monthly returns of Nifty200 Value and Nifty200 Quality indices from January 2024 to February 2025, capturing a critical shift in market dynamics.

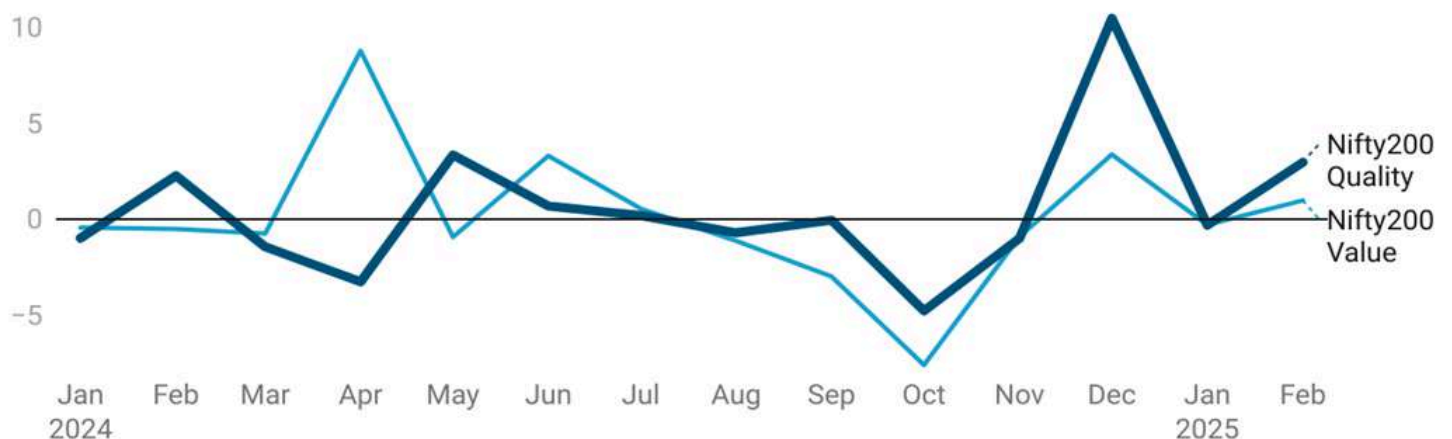


Chart: Armstrong Capital • Source: NSE • Created with Datawrapper

We have also analyzed sector rotation by distinguishing sectors traditionally associated with Quality and Value.

2014-2015: Quality Dominance (Slow Growth & Deflationary Trends)

- Weak industrial cycle and sluggish capex recovery.
- High-PE quality stocks thrived as they offered earnings stability.
- Value stocks lagged due to global commodity downturn.

Quality Outperforms for next 2 years

Quality	H2 CY 2014	CY 2015
NIFTY PHARMA	28.87	9.52
NIFTY HEALTHCARE	27.62	12.56
NIFTY IT	14.42	-0.03
NIFTY CONSUMER DURABLES	9.34	17.95
Value	H2 CY 2014	CY 2015
NIFTY AUTO	18.49	-0.77
NIFTY PSU	-4.66	-17.58
NIFTY CAPITAL GOODS	-5.88	-8.86
NIFTY METALS	-21.23	-32.17

2016-2017: Value surged in 2016-17 due to global recovery, rising yields, policy reforms, and earnings rebound in cyclical.

- Global Reflation & Commodity Boom
 - Rising commodity prices boosted cyclical sectors like metals, oil & gas, and industrials.
- Liquidity shock led to a shift towards PSUs, industrials, and banks over consumption-heavy Quality stocks.

Value outperforms Quality from CY 2016 to CY 2017

Quality oriented sectors starts recovering in H1 2018

Value	CY 2016	CY 2017	H1 2018
NIFTY PSU	11.96	19	-20.4
NIFTY AUTO	9.77	28.76	-9.94
NIFTY METAL	44.92	45.65	-12.22
NIFTY CAPITAL GOODS	-4.25	38.91	-8.96
Quality	CY 2016	CY 2017	H1 2018
NIFTY IT	-6.94	12.53	20.96
NIFTY FMCG	2.82	29.65	8.54
NIFTY HEALTHCARE	2.82	29.65	8.54
NIFTY CONSUMER DURABLES	-4.94	88.8	-11.62

2018-2020: The Quality Euphoria (Global Yield Collapse & Consumption Boom)

- Structural trends favoured quality consumption stocks (FMCG, discretionary, IT).
- Low interest rates led to PE expansion for Growth stocks.
- Value sectors (PSU, Infra, Metals) struggled due to poor capital allocation and weak earnings.

Quality Outperforms for next 3 Years

Quality	CY18	CY19	CY20
NIFTY IT	24.85	8.31	54.25
NIFTY CONSUMER DURABLES	-7.17	17.9	25.78
NIFTY HEALTHCARE	-5.82	-6.83	56.14
NIFTY PHARMA	-7.79	-9.48	60.5
Value	CY18	CY19	CY20
NIFTY PSU	-21	-4.4	-17.29
NIFTY AUTO	-22.33	-10.17	11.98
NIFTY METALS	-19.51	-10.65	16.4
NIFTY CAPITAL GOODS	-2.03	-10.15	10.06

2021-2024: Value's Comeback (Rising Inflation & Policy Shift)

Post-COVID recovery saw a strong Value resurgence, supported by:

High inflation (favouring commodities, infra, PSU).

Rising rates (PE contraction for growth stocks).

Government-led infra push (Value cycle extended).

Quality stocks massively underperformed as liquidity tightened.

Value Outperforms from CY 2021 till H1 2024

Value	CY 2021	CY 2022	CY 23	H1 2024
NIFTY PSU	39.33	21.1	53.77	35.15
NIFTY AUTO	17.95	13.47	46.97	35.53
NIFTY METAL	69.44	19.46	15.85	22.68
NIFTY CAPITAL GOODS	51.75	14.49	66.37	29.83
Quality	CY 2021	CY 2022	CY 23	H1 2024
NIFTY IT	58.25	-26.84	23.59	1.29
NIFTY FMCG	9.27	17.46	28.95	-0.93
NIFTY HEALTHCARE	17.53	-10.39	33.51	17.96
NIFTY CONSUMER DURABLES	46.28	-14.07	23.42	23.27

Where Are We Now?

Our data suggests we are at the cusp of a transition, where Value's outperformance may be losing steam, and investors are gradually shifting back into Quality. While this shift may not be as aggressive as 2017-2020, the trend is beginning to favour stable earnings, growth, and consumer-driven sectors.

What This Means:

- The first half of 2024 saw Value outperforming, but as global liquidity conditions tightened and cyclical stocks faced headwinds, Quality began to take the lead in mid-2024.
- The outperformance of Quality in late 2024 and early 2025 suggests a broader shift in market sentiment, potentially driven by defensive positioning, earnings stability, and sector rotation towards high-quality stocks.
- Historically, such reversals occur when Value becomes overcrowded, liquidity tightens, or economic uncertainty Favors stable, high-growth companies.

What to Do Next?

- Shift Towards Quality & Low Beta Funds: As market leadership shifts, consider investing in low-beta funds and funds following a Quality investment style to benefit from stable, high-performing companies.
- Reallocate Sectoral Funds: If you're heavily allocated to Value-driven sectoral/thematic funds, it may be time to rebalance your portfolio and reduce exposure to overbought sectors.
- Stay Ahead of Market Trends: The current shift suggests a rotation into defensives and high-quality stocks. Position yourself accordingly to navigate this transition smoothly.

Need Help?

If you'd like a deeper analysis or a tailored investment strategy, reach out to us today!

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THANK YOU!

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