May 2026

Quality's Cul-de-Sac: When Great Businesses Move Together

Owning a basket of great businesses does not always lead to diversified outcomes. When many of those businesses depend on the same market conditions, portfolios can behave far more similarly than investors expect.

Quality investing is one of the most trusted long-term investment approaches. It focuses on companies with strong balance sheets, dependable profits and leading positions in their industries. These businesses are often well-known, widely used and form part of everyday life.

That familiarity can feel reassuring. However, this is also where risk can quietly build. The issue often lies not in the businesses themselves, but in how similarly they behave under changing market conditions. A portfolio filled with excellent companies can still struggle if many of them depend on the same conditions to perform well, leaving the portfolio vulnerable when those conditions shift. This is not a flaw in quality investing, but a reminder that how businesses behave together matters as much as how good they are individually.

Overlapping return drivers

Many quality portfolios are built around a similar set of characteristics:

- Steady and predictable cash flows
- Strong profit margins
- Investor willingness to pay higher prices for dependable long-term growth

Because these attributes are most commonly found in certain types of companies, quality portfolios often end up invested in a similar group of businesses. This typically results in higher exposure to sectors such as software, healthcare and branded consumer goods, while more cyclical areas like resources or banks play a smaller role. Quality portfolios also tend to have higher exposure to the US, which has a large concentration of companies that display these attributes, particularly in technology and healthcare.

As a result, many quality portfolios respond in similar ways when conditions change. When these shared drivers weaken together, whether due to rising interest rates, slower growth or changing investor preferences, diversification can be less effective than expected.

A decade that rewarded quality

The past decade created a powerful tailwind for quality investing. Following the Global Financial Crisis and again during the Covid-19 pandemic, interest rates remained unusually low for extended periods. In a world where cash and bonds offered little return, dependable businesses felt particularly attractive.

At the same time, global economic growth was uneven and often disappointing. In that environment, companies able to deliver consistent profits stood out. As more capital flowed into the same group of high-quality businesses, prices rose steadily.

The success of this approach, however, also made it increasingly crowded. As interest rates rose and growth became less scarce, investors became more selective about how much they were willing to pay for reliability alone. With prices already elevated, returns became more sensitive to changes in sentiment.

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Crowding within quality investing

Driven by the quality tailwind, quality-biased fund management has become increasingly popular. This has led to a rise in “me-too” share portfolios and funds, with many adopting similar strategies and holding a large number of the same companies.

The challenge emerges when conditions change. As growth slows, competition increases, or long-standing assumptions are questioned, managers must reassess whether these businesses can continue to justify their valuations. Those with a deep fundamental understanding can adapt with confidence. Others may find themselves boxed in, with limited alternatives that still fit their definition of quality - the proverbial cul-de-sac.

A recent example of changing market conditions

A recent example of how quality portfolios can move together emerged during a period of volatility in software stocks, particularly Software-as-a-Service (SaaS) companies such as Salesforce, Adobe, and Intuit. Many quality-oriented funds hold meaningful positions in these businesses due to their strong growth histories, recurring revenue models, and durable competitive advantages, often referred to as “moats”.

Market sentiment shifted as investors grew concerned that advances in artificial intelligence could reduce demand for certain SaaS products. Fears that automation could lower usage and slow growth led to sharp share price declines across many widely held names. Over the last six months, Salesforce and Adobe have declined by more than 20%, while Intuit has fallen by almost 40%.

The sell-off did not remain confined to SaaS. It spread across a broader range of software companies, including businesses not directly exposed to these concerns. As software represents a meaningful portion of many quality portfolios, this pullback contributed to recent underperformance within the style.

This episode shows how changes in expectations, or a reassessment of how strong those competitive advantages really are, can affect multiple holdings at the same time. Software is simply a visible example of a broader dynamic: when assumptions change, portfolios built on similar ideas can move together. Diversification by name does not always lead to diversification by outcome. The risk is not owning good businesses; it is relying too heavily on a single view of how the future will unfold.

The chart below shows the five-year performance of several well-known quality-oriented global equity funds alongside the MSCI All Country World Index, illustrating how portfolios with similar quality characteristics can move closely together over time, regardless of manager or portfolio construction.

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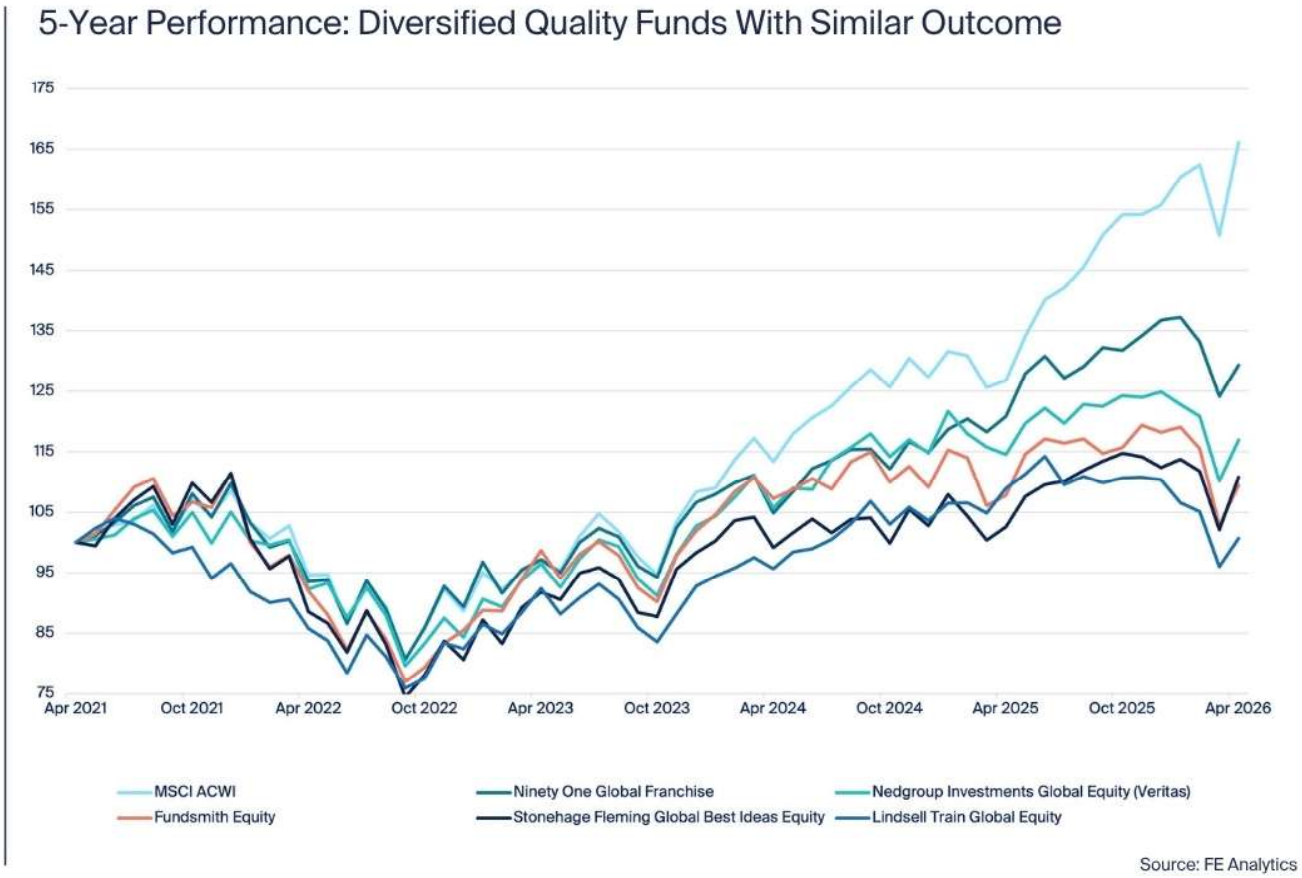

Quality still matters — but so does balance

Quality investing remains an important part of long-term portfolios. However, owning good businesses alone is not always enough if many of those businesses rely on the same conditions to succeed.

A more resilient approach does not require abandoning quality. It requires applying it with discipline. Valuations still matter, and competitive advantages need to be assessed for what they protect today, not simply what they protected in the past.

For investors, safety is not just about owning strong companies. It is about owning a portfolio that can navigate a range of possible outcomes and adapt as conditions change.

Investors who navigate the next decade best are likely to be those who combine quality with valuation discipline, genuine insight and diversification across different sources of return, rather than just holding many different companies.

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Market Report

Thursday, 30 April 2026

Market Performance (as a %)

Local Market Indices	CCY	3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
SA Equity	ZAR	-2.7	0.8	29.1	17.1	15.1	11.0	13.9	14.5
SA Listed Property	ZAR	-1.0	-0.1	25.0	22.2	15.9	3.3	16.6	21.7
SA Bonds	ZAR	-2.2	-0.3	21.5	15.4	11.9	9.9	8.0	8.0
SA Cash	ZAR	1.6	2.2	7.2	8.0	6.8	6.8	0.5	0.4
Balanced Benchmark	ZAR	-0.4	1.5	21.6	15.2	13.2	10.3	9.4	9.9
SA Inflation (1 month lag)	ZAR	1.1	1.3	3.2	3.7	4.8	4.6	1.6	1.6
Global Market Indices		**3m**	**YTD**	**1yr**	**Ann. 3yr**	**Ann. 5yr**	**Ann. 10yr**	**5yr Vol**	**10yr Vol**
Global Equity	USD	3.4	5.1	29.3	19.8	11.4	12.8	15.1	14.9
Emerging Markets Equity	USD	4.9	14.5	47.2	20.5	5.8	8.9	18.3	17.4
Global Property	USD	5.7	9.0	17.1	9.0	2.2	3.7	18.0	17.2
Global Bonds	USD	-0.8	0.1	2.5	2.8	-1.5	0.5	7.8	6.5
US Cash	USD	0.9	1.2	4.1	4.9	3.5	2.4	0.6	0.5
Major Indices Based to ZAR		**3m**	**YTD**	**1yr**	**Ann. 3yr**	**Ann. 5yr**	**Ann. 10yr**	**5yr Vol**	**10yr Vol**
SA Equity	ZAR	-2.7	0.8	29.1	17.1	15.1	11.0	13.9	14.5
Global Equity	ZAR	7.7	5.7	16.0	16.2	14.6	14.6	14.4	15.5
Emerging Markets Equity	ZAR	9.2	15.4	32.1	16.9	8.8	10.6	13.9	14.1
Global Property	ZAR	10.1	9.6	5.1	5.7	5.1	5.4	16.3	16.9
SA Bonds	ZAR	-2.2	-0.3	21.5	15.4	11.9	9.9	8.0	8.0
Global Bonds	ZAR	3.3	0.9	-8.0	-0.3	1.3	2.2	10.5	13.4
Commodities		**3m**	**YTD**	**1yr**	**Ann. 3yr**	**Ann. 5yr**	**Ann. 10yr**	**5yr Vol**	**10yr Vol**
Gold (US Dollars)	USD	-7.5	7.0	39.5	32.3	21.0	13.4	16.3	14.9
Gold (Rands)	ZAR	-3.6	7.8	25.2	28.4	24.4	15.3	14.7	16.9
Currencies		**3m**	**YTD**	**1yr**	**Ann. 3yr**	**Ann. 5yr**	**Ann. 10yr**	**5yr Vol**	**10yr Vol**
Rand / Dollar	ZAR	-3.5	-0.8	10.2	3.1	-2.9	-1.6	12.0	14.4
Rand / GBP Pound	ZAR	-2.7	-1.8	8.6	0.6	-2.5	-0.8	9.7	14.0
Rand / Euro	ZAR	-2.4	-0.8	7.3	1.4	-2.4	-1.8	9.3	12.5

Market index performance is based on publicly available returns from ETFs that track the relevant underlying indices.

Disclaimer: Users should be aware that short-term performance can be volatile and that past performance is not necessarily a good guide to future performance. The information in this report is for general guidance and does not constitute an offer or solicitation to purchase, sell or otherwise deal with any particular investment. This report is for the use of Fundhouse and its clients only and may not be published externally without permission first being obtained from Fundhouse. While great care and diligence has been taken in the compilation of the report with data provided by FE Analytics, no representation or warranty, express or implied, is or will be given by Fundhouse or its directors, partners, employees or advisers or any other person to the accuracy or the completeness of the information in the report or relating thereto. Fundhouse will not accept any liability for losses suffered as a result of inaccuracies.
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Spot Rates

		30-Apr-26	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
Currencies							
Rand/US$	ZAR	16.7	17.1	18.6	14.5	14.2	6.1
Rand/GBP	ZAR	22.7	22.6	24.8	19.9	20.8	11.0
Rand/EUR	ZAR	19.6	19.7	21.2	17.5	16.2	7.6
Rates							
6m USD Cash	USD	3.7	3.7	4.5	0.0	0.4	4.7
Repo Rate	ZAR	6.8	6.8	7.5	3.5	7.0	7.0
Prime	ZAR	10.3	10.3	11.0	7.0	10.3	10.5
All Bond Index Yield	ZAR	8.8	9.0	11.6	11.6	9.4	9.7
Commodities							
Gold ($/oz)	USD	4 619.7	4 623.3	3 308.1	1770.5	1 292.3	650.3
Platinum	USD	1 959.0	1 908.0	972.0	1 218.0	1 065.0	1 145.0
Oil (Brent Crude) $	USD	114.2	118.3	64.3	67.4	47.9	71.9
Inflation							
SA Inflation	%	3.1	3.0	2.8	4.4	6.1	9.4

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REDFIN WEALTH

INVESTMENT - RETIREMENT - FINANCIAL PLANNERS

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