



RIDING THE WAVE OF SUCCESS

Strategies Momentum has performed outstandingly for years. Yet by the classical understanding of markets, this success factor shouldn't exist at all.

BY JOCHEN HÄGELE

FRONT RUNNERS In the race for the best performance, momentum strategies leave the competition behind.

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That past performance is no reliable indicator of future returns is something anyone who has ever read the small print of an investment document knows. And yet a relatively small group of funds and ETFs bets on precisely that: that yesterday's top performers will also be tomorrow's high-flyers. The approach behind these momentum strategies is even scientifically grounded — it is exactly those stocks that have performed above average in the recent past that often go on to perform most strongly in the near future. In recent years this has worked particularly well, as the almost phenomenal excess return over the broad market shows. MSCI's global momentum index has delivered nearly twice the return of its standard counterpart over ten years, and in the past three years alone has beaten it by around 60 percentage points. Quite a lot for a factor that, according to classical economic theory, shouldn't exist in the first place.

AN ANOMALY OF THE MARKETS

"The starting hypothesis of efficient markets postulates that all known information is priced into today's share price and therefore provides no added value whatsoever for forecasting," says Sandro Merino, Chief Investment Officer of Basler Kantonbank (BKB). In other words: on this view it is theoretically impossible to achieve systematic excess returns in equities. The weak track record of the average active fund manager in the world's major equity markets appears to bear the thesis out. Even so, academics demonstrated decades ago that momentum is a return factor in its own right (see "Success factors" below). Technically, then, this is an anomaly of markets that are simply not efficient at every moment, Merino says. Because stocks tend to overshoot and undershoot their fair value — and that is exactly what momentum strategies exploit.

They therefore belong alongside the familiar factor strategies such as size and value. All of these approaches gained popularity during the 2010s, when numerous so-called smart-beta indices were launched on individual factors. But not all of these risk premia consistently delivered the hoped-for returns: shares of smaller companies (small caps) have in some cases lagged well behind large and mega caps in recent years, and value stocks too have had a hard time in phases, given the euphoria around new technologies and artificial intelligence. Momentum, by contrast, delivered a powerful — if fluctuating — excess return over many years. "Momentum is scientifically proven beyond doubt across the most varied time periods," says Merino. The underlying concept is simple: the winners of the past are also the favourites of the future. Full stop. "With momentum, fundamental aspects such as the balance sheet or the valuation play no role," Merino explains.



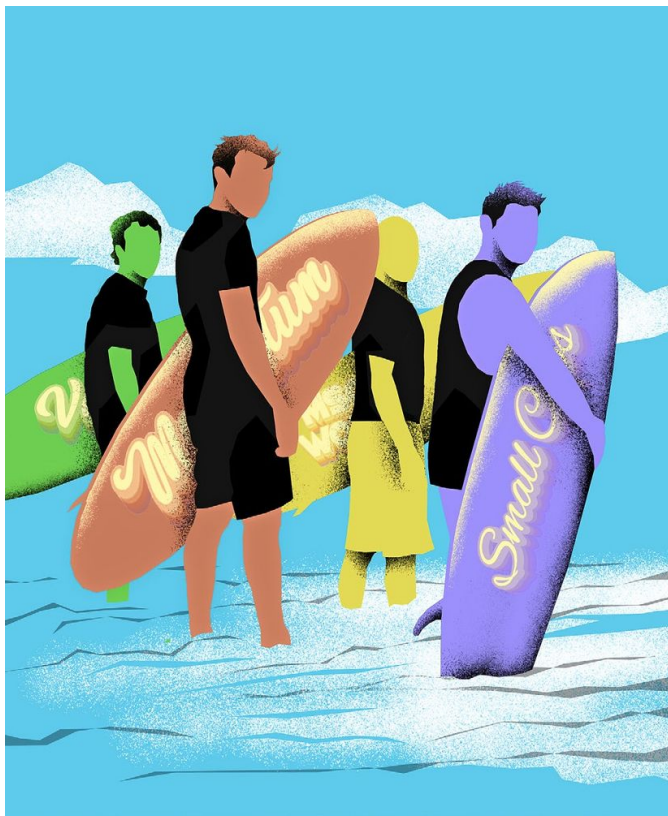
"WITH MOMENTUM, FUNDAMENTAL ASPECTS SUCH AS THE BALANCE SHEET OR THE VALUATION PLAY NO ROLE."

SANDRO MERINO, CHIEF INVESTMENT OFFICER, BASLER KANTONBANK

CLINICALLY PROVEN

He compares financial market research to pharmaceutical development: in modern medicine, clinical studies are needed to prove that a drug works. The same principle ought to apply to investment strategies. And there, the effect of momentum is unambiguously documented across different time horizons. The reasons for that effectiveness are harder to pin down. Market psychology certainly plays a central role: investors tend to buy winners and avoid losers. This behaviour reinforces existing trends. Rising stocks attract more attention and therefore more capital. That often sets a veritable upward spiral in motion.

Increasingly popular passive approaches may work in a similar way, automatically channelling more money into rising and hence more highly capitalised stocks. The rise of the "Magnificent Seven" (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) is a prime example. There is a certain overlap between momentum and trend-following strategies. While trend following is broadly about the direction of prices, momentum goes a step further and filters out those stocks with particularly strong positive dynamics — those with the highest acceleration.

**FOCUSED**

Momentum strategies filter out the stocks with particularly strong positive dynamics.

ILLUSTRATION: MARIO WAGNER / 2 AGENTEN FOR BILANZ

Given that success, it is surprising how few fund houses actually offer such approaches. That holds internationally as well as in Switzerland. Swiss private investors can gain exposure to momentum strategies through a handful of passive exchange-traded funds (ETFs) and a few active funds. The ETFs mostly track the MSCI World Momentum Index.

For this momentum variant of the well-known MSCI World global equity index, index provider MSCI calculates a momentum score for each of the roughly 1,400 MSCI World constituents. The score incorporates price performance over the past six and twelve months. Classic index heavyweights with a high market capitalisation also tend to be weighted more heavily, while the weight of particularly volatile stocks is reduced. In total, the MSCI World Momentum Index condenses the universe down to around 200 to 300 particularly dynamic stocks. Every six months, in May and November, new stocks are added and those whose dynamism has faded are removed. The index's top holdings differ from those of the MSCI World, but because market capitalisation is taken into account, the top ten are usually familiar names: recently Micron Technology, AMD and Alphabet were among the leaders. That picture can change completely at the next rebalancing, however.

BKB takes an active approach in its two momentum strategies, covering the global and the Swiss equity market. The underlying quantitative model was developed by BKB together with Dufour Capital, a specialist in systematic investments. In the global strategy the portfolio is highly concentrated, holding just 35 equally weighted stocks from the MSCI World universe. The portfolio's tracking error — its deviation from the MSCI World benchmark — plays an important role here. "By choosing the tracking error I can determine very precisely how much active risk I want to take," Merino explains. The lower the tracking error, the more closely the portfolio hugs the standard index. For BKB's global fund this deviation averages around 12 per cent, and the global strategy delivered roughly 42 per cent of excess return over the past twelve months.

Momentum funds at a glance

FUND / ISIN	FOCUS	LAUNCH	ASSETS CHF M	COSTS % P.A.	1-YEAR PERFORMANCE ¹
BKB Sustainable – Global Equities Momentum Select A CHF CH1192427750	GLOBAL	10.8.2022	226.8	0.72	 79.7
Xtrackers MSCI World Momentum ESG UCITS ETF 1C IE000TL3PL69	GLOBAL	5.7.2023	253.9	0.25	 42.5
iShares Edge MSCI World Momentum Factor UCITS ETF (Acc) IE00BP3QZ825	GLOBAL	3.10.2014	4457.0	0.25	 36.4
Amundi MSCI Europe Momentum Factor UCITS ETF-C LU1681041460	EUROPE	22.3.2018	129.3	0.23	 22.4
BKB Sustainable – Swiss Equities Momentum Select CH1192427727	SWITZERLAND	10.8.2022	161.6	0.67	 13.3

¹ Sorted by performance, as at 24.6.2026. Sources: SIX, Morningstar

NOT FAIR-WEATHER STRATEGIES

In "normal" market conditions the BKB portfolio is based on an observation period of 90 to 150 days, with stocks being swapped out on an ongoing basis. After about eight months the entire portfolio has typically been turned over once. "In principle you naturally want to avoid making adjustments too often," Merino says of the relatively long observation window. That said, the BKB model is built so that it can also react faster precisely in phases when market leadership changes at short notice. The algorithm then automatically shortens the measurement periods, in some cases to just a few days. In an extreme case the portfolio can be replaced entirely within a short space of time. The Swiss approach is designed along the same lines as the global strategy and likewise invests in 35 stocks – in this case Swiss ones.

Generally, momentum strategies do best in rising markets: they then act almost as additional leverage on equity market beta. "The rule with momentum strategies is that they promise the best results in stable upward phases," explains Nima Pouyan, Head of Sales at

Amundi Switzerland. They are therefore often used as a tactical allocation. In fact, though, momentum is not a pure fair-weather strategy. Otherwise it could hardly have produced such good returns over such long periods. The funds themselves are also anything but a best-seller: despite good returns, no wave of new funds has sprung up here. Compared with factors such as small caps or value, which depend heavily on the interest rate and economic environment, momentum strategies are also considerably more flexible. The qualifying stocks can come from a wide range of regions, sectors and categories such as value and growth. That makes these strategies well suited to navigating a potential rotation of market favourites from growth to value, or from large to small caps.

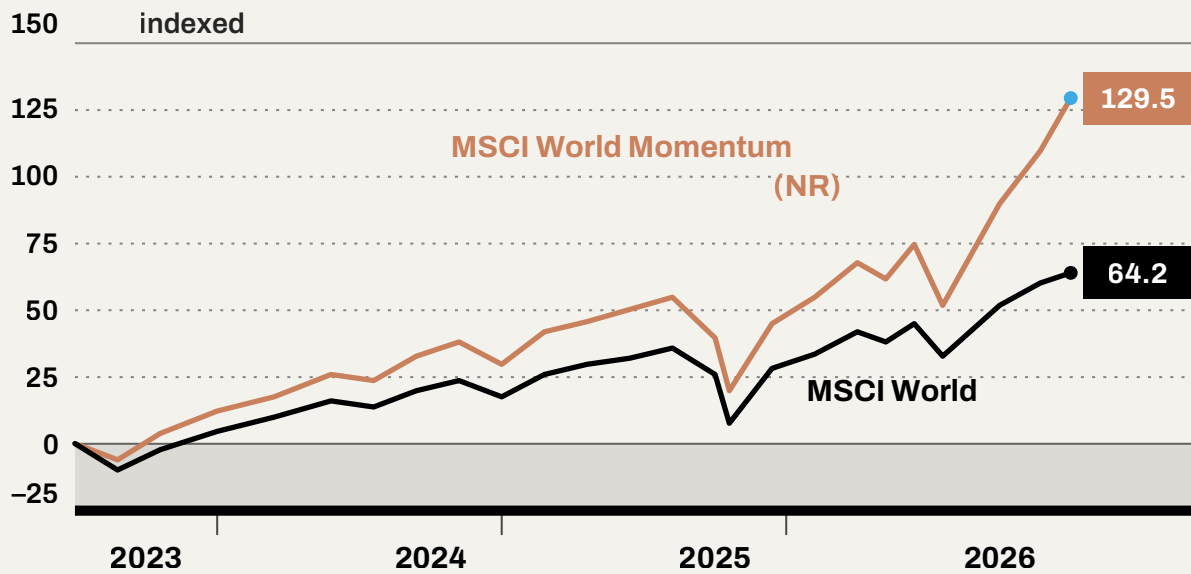


**"MOMENTUM STRATEGIES
PROMISE THE BEST RESULTS
IN STABLE UPWARD
PHASES."**

NIMA POUYAN, HEAD OF SALES, AMUNDI SWITZERLAND

Outperformer

The momentum version leaves the MSCI World Index far behind.



As at 24 June 2026. Source: Onvista

FEAR OF OVERHEATING

In recent months momentum returns have picked up further still. The excess return achieved since the start of the year has been far above the annual average of the past ten years. What pleases investors is seen by some as a possible signal of overheating. Chloe Duban, investment strategist at BNP Paribas, warns: "When positioning is correspondingly crowded, even a moderate shift in market sentiment can trigger a disorderly unwinding of these positions." In her view the strategies are structurally prone to overshooting: because their signal is ultimately based on price movements, they tend to be self-reinforcing. The result, according to Duban, is "negative skewness". Meaning: the gains accumulate steadily and in small steps, but when setbacks come they are all the more severe. "The more crowded a trade becomes, the more violent the correction." One thing is clear: not every correction is a break in trend — but every break in trend begins with a change in market structure.

Momentum crashes have certainly happened before: in the "quant crisis" of August 2007, but also in the financial crisis in early 2009 and most recently around the Covid pandemic, which combined a market shock with

a subsequent sector rotation — a particularly challenging combination. Yet despite these interim setbacks, momentum strategies have delivered a clear long-term excess return over the years.

"Factor premia are cyclical, and that is precisely why they exist at all," says David Striegl, fund manager at Kepler Fonds. "If momentum or value delivered excess returns reliably and smoothly, the premium would long since have been arbitrated away."

MORE THAN A HUNDRED YEARS OF DATA

In his view the pattern will not fundamentally change: "There will always be corrections," says the fund manager. He regards momentum approaches as a sensible long-term building block for a portfolio: "With momentum, the data is robust over more than a hundred years and across all asset classes," says Striegl.

BKB expert Merino sees it similarly: "Of course momentum will not deliver excess returns like those of recent years for all time." At the moment, though, the momentum signal is very strong — so the swing could well continue. The legal disclaimers in fund documentation are unlikely to be rewritten any time soon, but for momentum strategies past performance may after all be quite a good indicator of the future.

Success factors

Research into factors has broadened our understanding of equity returns.

Momentum approaches belong to a group of strategies that go under the umbrella term "factor investing" or "style investing". Behind them lies the academic finding that certain characteristics influence the performance of shares. On the basis of these risk premia, or "factors", different equities can be sorted into particular groups.



CLEAR WIN

Over ten years the global momentum index delivered twice the return of the MSCI World.

ILLUSTRATION: MARIO WAGNER / 2 AGENTEN FOR BILANZ

Research into these factors has substantially broadened the traditional understanding of equity returns over recent decades. Originally, a stock's expected return was regarded as a func-

tion of the risk-free interest rate, equity market risk and the specific risk of the individual share. That was the view postulated by the traditional Capital Asset Pricing Model (CAPM). A considerably wider perspective came from the financial economists Eugene Fama and Kenneth French with their three-factor model (often called the Fama-French model), which they developed in 1992/93.

With it they extended the CAPM by two factors: company size and valuation (value). Fama and French were able to show, across various time periods, that the shares of smaller companies (small caps) tend to generate higher returns over the long term than large caps. The rationale is that these stocks have to compensate for their higher risk with a higher expected return. The value factor, meanwhile, shows that value stocks on average do better over the long run than growth stocks. The two researchers later developed the model further into a five-factor model. Fama and French are thus regarded as the founders of factor investing.

The momentum factor, however, was discovered by a different pair of researchers: Narasimhan Jegadeesh and Sheridan Titman. In their study "Returns to Buying Winners and Selling Losers" they showed as early as 1993 that shares which had performed strongly over the preceding three to

twelve months (the "winners") tend to continue that outperformance in the following months. Incidentally, the same holds in reverse for loser stocks — hence the well-known stock market adage "never catch a falling knife".

Among investors, factor investing came into fashion above all during the 2010s with the emergence of smart-beta benchmarks on individual factors. The fact that things have gone quieter around these strategies in recent years surely has something to do with the at times disappointing performance of value and small-cap stocks.

Eugene Fama was honoured for his research in 2023, together with two other academics, with the Nobel Prize in Economics. Just how much it gnawed at him that others had discovered the momentum factor is shown by a 2008 paper by Fama and French, in which they wrote: "Momentum is the biggest embarrassment for the Fama-French three-factor model."



"MOMENTUM IS THE BIGGEST EMBARRASSMENT FOR THE FAMA-FRENCH THREE-FACTOR MODEL."

EUGENE FAMA, NOBEL LAUREATE IN ECONOMICS

English translation of «Auf der Erfolgswelle» by Jochen Hägele, BILANZ 08/2026, pp. 82–87. Illustrations: Mario Wagner / 2 Agenten for BILANZ; portrait photos: PR — taken from the original PDF and reproduced here for internal reading only; all rights remain with the respective holders. Translator's note: the original states that Fama received the Nobel Prize in Economics in 2023; he was in fact awarded it in 2013, jointly with Robert Shiller and Lars Peter Hansen.