HSBC Asset Management

"Why Quant, Why Now? The Demand for Quantitative Equity Strategies in Today's Market"

May 2026

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The overwhelmed allocator

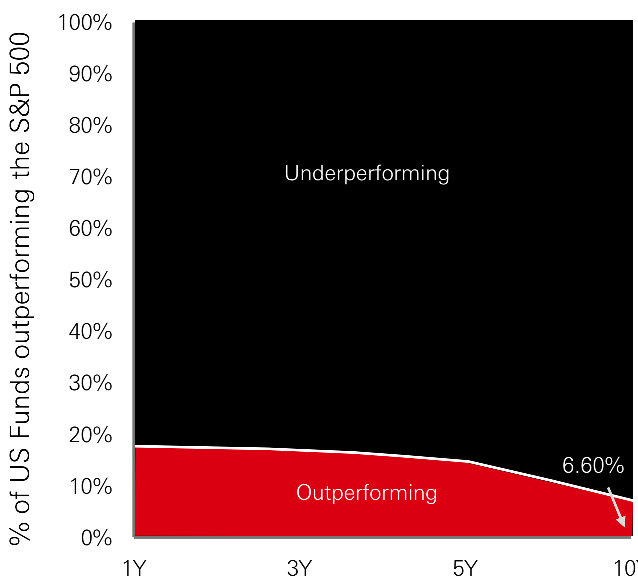
> "Should I buy the 'Magnificent 7'?" "What about AI?" "Are active managers still worth it when so many lag the index?" "Should I go fully passive?"

Investors are asking more questions than ever...

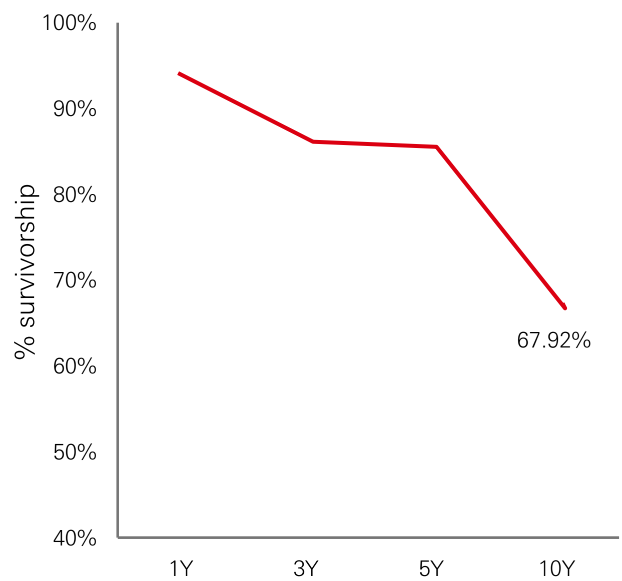
In an environment where a handful of mega-caps have driven a large share of index returns, a pure market-cap-weighted allocation can look like the simplest answer – as long as that concentration persists. But history suggests leadership does change, and recent months have shown early signs of de-concentration and a broadening of performance beyond the big tech names, creating both room and appetite for more active approaches to investing. At the same time, the data shows that most traditional stock-picking managers struggle to keep up: only 6.6% of US large-cap core funds outperformed the S&P 500 over the last 10 years, and only 68% of those funds even survived the period. This is the "investor's dilemma": clients want upside and resilience, but the narrative is noisy and most active funds under-deliver. Quant, done properly, is increasingly the way many allocators are resolving that dilemma.

Outperformance is rare and persistence is rarer

% of US Funds outperforming the S&P 500 Index



% of US Funds that have survived over the years



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Why quant, why now? Structural drivers of renewed demand

Clear, measurable appetite for quant

Across the industry, demand for quantitative equity strategies is now clearly visible in both investor surveys and capital flows. Large asset owners are explicitly signalling a shift toward rules-based, data-driven equity allocations, with recent global allocation surveys showing a meaningful share of institutions planning to increase their use of systematic strategies over the coming years. Hedge fund and alternatives outlooks tell a similar story: allocators report that quant equity is one of the areas where they are most likely to add exposure, reflecting both recent performance and a desire to diversify away from concentrated, discretionary stock-picking risk1. This is reinforced by the rapid growth of the dedicated quant segment itself, with global quant funds already managing hundreds of billions of dollars and independent research firms projecting that this will expand to well over USD 2.5 trillion by the early 2030s[2].

Quant Takes the Wheel: Active Fund Flows Shift to Systematic Strategies

	TNA 2025 ($B)	ENS 2024 ($B)	ENS 2025 ($B)
Total	9,650.90	78.3	174.1
Active	**5,568.90**	**-129.2**	**-74.2**
Non-Quant	5,242.10	-155.7	-121.2
Quant (systematic)	326.8	26.5	46.9
Passive	**4,082.00**	**207.5**	**248.4**
Non-Quant	3,850.20	205.4	223.2
Quant (systematic)	231.8	2.1	25.1

i. Extreme market concentration and the search for meaningful diversification

Traditional cap-weighted indices have become heavily concentrated in a small group of mega-cap names, especially in the US. Allocators are increasingly worried about 1) Too much risk coming from too few stocks and 2) Portfolios that look diversified on paper but are effectively large macro and style bets. This is one reason quant is becoming a “preferred anchor” for institutional portfolios, helping to “diversify the diversifiers and minimise macro biases. Recently, markets have broadened beyond mega-cap tech—cheaper valuation stocks, smaller caps and lower-volatility stocks have led more of the gains—and quant managers have been standout beneficiaries, materially outperforming as dispersion rose and the opportunity set widened beyond the mega cap tech names.

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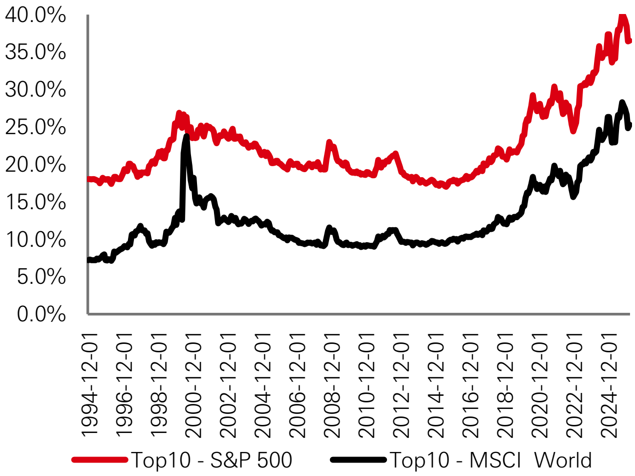
Source 1) 2026 Hedge Fund outlook survey
Source 2) Verified Market Research 2026

Market concentration US and World

Top 10 weights



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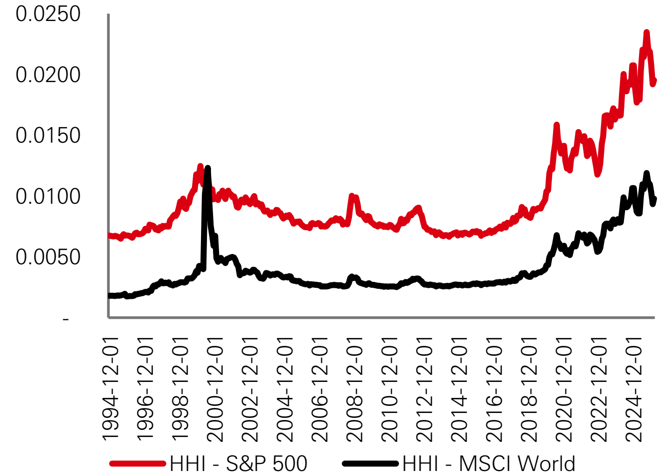

ii. Supporting actors – the rise of Active ETFs

Europe's active ETF market is moving from niche to momentum: assets have doubled in two years to €62.4bn (Aug 2025), and while that's still only 2.6% of regional ETF assets (leaving plenty of runway versus the US), growth is being fuelled by strong inflows and an accelerating pipeline of launches with very few closures. Crucially for quant equity, Morningstar's newer classifications show systematic "enhanced" strategies—typically rules-based, quantitatively screened and cost-competitive—gaining share as investors look for a better trade-off than pure passive: more potential alpha, daily liquidity and transparent, repeatable portfolio construction. The numbers underline the shift: in 2025, systematic (quant) active ETFs in Europe attracted €9.1bn of inflows versus €4.8bn for discretionary active ETFs, signalling that quant is becoming the commercial engine of active ETF adoption.

European active ETF launches and closes[3]

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Source 3) Morningstar: https://global.morningstar.com/en-gb/etfs/europes-active-etfs-more-choice-more-complexity#:~:text=Download%20CSV-,Systematic%20Strategies%20Are%20Gaining%20Ground,%E2%80%9Cquant%E2%80%9D-focused%20products.. https://am.gs.com/en-au/advisors/insights/article/2025/investors-guide-europe-fast-growing-active-etf-market#:~:text=Europe%27s%20exchange-traded%20fund%20(ETF,4.

iii. The golden age of data and technology

We are living through what is often described as a "golden age of data and technology", and this has profound implications for how equities are researched, and portfolios are built. **IBM has estimated that around 90% of the world's data was created in just the past two years,** and that this pattern keeps repeating as new sources of information come online at an accelerating pace. Every trading day, markets generate billions of data points: prices and volumes across exchanges, corporate actions, earnings announcements and revisions, macroeconomic releases, news headlines, social and traditional media sentiment, and an expanding universe of alternative and sustainability data. For a traditional fundamental manager, this deluge is simply too much to process in real time without falling back on intuition, heuristics and a limited coverage list; for a modern quantitative platform, it is the raw material from which signals, risk assessments and ultimately portfolios are systematically constructed.

Closing:

Today's equity market is asking investors to make big calls—on concentration, AI narratives, and whether "active" still earns its fee. systematic quantitative equity is increasingly the most practical way to seek consistent, repeatable outcomes. Quant strategies are benefiting from three powerful tailwinds—extreme index concentration that heightens the need for true diversification, a measurable shift in allocator demand (including via active ETFs), and a golden age of data and technology that rewards disciplined signal-driven investing over intuition. In short, quant helps investors diversify more intelligently, reduce unintended macro/style bets, and stay invested with a transparent, rules-based process. For allocators looking to move beyond the passive-versus-discretionary debate, now is the time to consider a dedicated allocation to a robust, risk-aware quantitative equity approach—one designed to deliver scalable, repeatable performance in a market where leadership can change fast.

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