



# THROUGH THE LENS OF DE LISLE PARTNERS: THE RETURN OF REAL ASSETS

Dan Scott Lintott  
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In the stock market, 'quality' has become a by-word for predictability. Businesses with high returns on invested capital and low debt, growing slowly but steadily, reliably produce secure earnings. But the premium multiples paid for these earnings have risen too high and are now under threat in a less predictable macroeconomic landscape dominated by higher inflation, higher interest rates and depreciating currencies.

Don't get me wrong, the strategy of buying quality companies and holding them for the long-term is not broken. The problem is that the current cohort of quality darlings no longer fits the definition. Instead, real assets - such as sought after commodities and the companies that process them - that benefit from government fiscal spending and better hold their value are the new quality stocks.

Charlie Munger's quote that over the long term it's hard for a stock to earn a much better return than that of the underlying business is the cornerstone of the quality philosophy. Over decades, a business earning a 10% annual return on its capital base will struggle to produce a stock price return much higher (or lower) than this, barring a significant change in investor sentiment.

Munger's point is intuitive and correct: buy good businesses and they will reward you without sleepless nights. But extended periods of changing multiples can distort how the logic plays out. In 2016 the iShares USA Quality ETF (QUAL) traded at a reasonable 16x its next 12-month earnings. Today it trades at 24x, providing a 4% annual tailwind to investment returns. Coincidentally, QUAL's 10-year annualised return is 14.4%, roughly 4% above the S&P 500's long-term expected return of about 10.5%. Over a decade, quality's outperformance of expected long-term returns came from increased investor enthusiasm for these stocks more than anything else.

Munger understood this too and it is why the only thing Warren Buffett was buying prior to his retirement was an oil company, Occidental Petroleum.

The tailwind for quality stocks goes back to 1980. Interest rates were at a long-term peak and spent the next 40 years declining alongside steady inflation. Staples with good brand names like Coca-Cola, McDonald's and Diageo spent this period slowly growing their revenues (helped by globalisation) and optimising their margin efficiency through financial tricks (becoming asset light and buying back shares) to deliver remarkable shareholder returns.

But in 2021 these long-term drivers went into reverse. The post-Covid inflation spike saw rates rise, sending the world into new inflationary and interest rate regimes. Inflation doesn't need to run up again (AI productivity benefits and an ageing population can keep a lid on it), but for a government with a large debt load, lower real interest rates and higher nominal GDP growth become policy objectives.

This new macroeconomic order disrupts the conditions quality brands need to optimise their margins while their valuations have become too stretched, like a rubber band ready to snap back. With uncertain inflation and consumer confidence, they struggle to push up prices in saturated markets which hampers growth (globalisation appears to have peaked in 2022 with the Ukraine war). Add to these factors higher nominal interest rates and the result is a gradual compression of their multiples.

## Company Spotlight: IES Holdings (IESC)

Market Cap*	\$9.8bn
Sector	Construction & Engineering
Date Purchased	June 2025
Portfolio Weighting	0.37
P/E (NTM)	28x

IES Holdings (IESC) is a group of electrical engineering companies with a dull name and only one analyst, fitting Peter Lynch's criteria for finding growth stocks in disguise. IES installs wiring and power systems for data centres and grid infrastructure. We started buying shares at \$286 in June 2025, as the dust was still settling from Trump's tariffs and disbelief about AI capex spending was still acute.

Today, market disbelief is focused on the return the hyperscalers will generate from their capex splurge but the fact they will spend it is becoming more accepted. IES may not be absolutely cheap on a P/E basis but it is relatively cheap with 31% trailing growth in operating income and 9% backlog growth in one quarter, which should continue as it directly receives AI capex spend.

\*Source: Morningstar as at 18/02/2026



The wildcard here is how disruptive AI will turn out to be, particularly for other known quality areas such as software and data analytics companies which have recently been weak. The quality all-stars are the hyperscalers\*\*, but now they are having to build out AI. As they spend on physical assets, the promises of profits tomorrow are being all but eliminated today, their distributable free cash flow consumed by capex. Unsurprisingly, after recent earnings reports, investors are starting to question big tech's quality star status.

It appears we are emerging from an era where investors would pay almost any price for leading brands or digital services. Since the turn in 2021, physical assets in industrials, energy and materials, long suppressed by low interest rates and below target inflation, have reawakened. They have also responded well to Trump's various diktats in January. Fiscal spending in the physical economy, a steepening yield curve from low short end rates/inflation fears at the long end and moves to weaken the currency, all favour real assets.

Construction and engineering companies, of which we have several in the Fund, now have guaranteed growth both from a large backlog and from the ability to price contracts above inflation for essential work. This results in better returns on capital generating more cash flow to pay down debt – all quality attributes that become comparatively attractive in a world of higher nominal rates. With over 70% of the Fund in these various real assets, we are well positioned to benefit from a recognition of their improving fundamentals.

Quality is alive and well but the names they are a-changing; the 4% annual sentiment tailwind should instead be coming our way over the next decade.

## Watch on Demand



### Webinar Recording: 'Introduction to the VT De Lisle America Fund'

February 2026

[Click here to watch \(35 minutes\)](#)



### Webinar Recording: 'Our Favourite Themes for 2026'

January 2026

[Click here to watch \(50 minutes\)](#)



### Webinar Recording: "Where the hell is the market risk?"

- **Scott Bessent. Is he right?**

December 2025

[Click here to watch \(45 minutes\)](#)



### Webinar Recording: '15 years at 15% annualised. What's next?'

October 2025

[Click here to watch \(45 minutes\)](#)

## Upcoming Events

### VT De Lisle America Fund CPD Webinar:

"In an uncertain world, Real Assets are back"

Date: 10 March 2026

Time: 2:00pm - 2:30pm

[Register here](#)

## Contact Us

If you would like to arrange a meeting with the manager, or for further information on the Fund, please email [investor-relations@delislepartners.uk](mailto:investor-relations@delislepartners.uk) or call 020 7074 3572.

## Important Information

All data, unless otherwise stated: De Lisle Partners, January 2026.

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