While quality stocks are not cheap, CIO believes they can help investors navigate the current, uncertain environment. (UBS)

Focusing on quality stocks can help investors navigate the current environment

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Investors face a range of uncertainties. Economic growth is moderating, political uncertainty is high, and markets may be more volatile in the coming months.

CIO believe quality stocks—those of companies with strong competitive positions, exposure to structural trends, healthy balance sheets, and resilient earnings streams—are well placed to deliver performance. We recommend focusing on quality growth stocks in the tech sector and beyond.

Investors face a range of uncertainties.

- Global economic momentum is moderating.
- Political uncertainty is elevated ahead of the US election.
- Market volatility may rise in the months ahead.

But we believe focusing on quality stocks can help investors navigate the current environment.

- While quality stocks are not cheap, we believe their exposure to resilient earnings streams, high profitability, and healthy balance sheets mean they are well positioned to deliver performance in an uncertain economic environment.
- We expect quality companies to benefit from their exposure to structural drivers and strong competitive positions within their industries.

- Historically, quality growth stocks tend to perform well during the later stages of the business cycle as economic growth slows. They have also outperformed in periods of contraction, which may offer portfolio insulation if the economy weakens more than we expect.

We see quality growth opportunities in the tech sector and beyond.

- The quality tilt aligns with our preference for US technology companies, which are at the forefront of the AI revolution.
- We also like "Europe's Magnificent 7"—a group of high-quality firms spanning industries from healthcare to industrials—and select benchmark leaders in Asia.
- Investors seeking to manage both market-wide and idiosyncratic risks can consider structured investments with capital preservation or yield generation features.

Did you know?

- The largest sector weightings in the MSCI ACWI Quality index are information technology (36%), health care (15%), communication services (12%), and industrials (11%).
- Historically, quality stocks have been relatively resilient in periods of weaker economic momentum. Based on data since 1992, quality (MSCI ACWI Quality) has outperformed its benchmark (MSCI ACWI) by 7 percentage points (on a six-month annualized basis) when the US ISM Manufacturing purchasing managers' index was below 50 and declining, and by 5ppts when the index was below 50 and rising.
- A focus on quality companies could be important in a world where the dispersion in stock returns continues or increases—like in the run-up to the US presidential election, where contrasting Democrat and Republican economic policies may affect different stocks and sectors in contrasting ways.

Investment view

While quality stocks are not cheap, we believe they can help investors navigate the current, uncertain environment. Recent earnings growth has been largely driven by firms with competitive advantages and exposure to structural drivers that have enabled them to grow and reinvest earnings consistently. We expect this to continue, and recommend tilting toward quality growth—in the tech sector and beyond—to benefit.

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Important information