



CIO believes quality stocks can help investors navigate the current, uncertain environment. (UBS)

Can quality stocks help navigate uncertain times?

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Investors face a range of uncertainties. Economic growth is moderating, political uncertainty is high, and markets have been volatile.

CIO believes quality stocks—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.
- Markets have been volatile in recent weeks.

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

- We think quality stocks' 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 have tended 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 health care to industrials.
- In addition, we favor select quality stocks that are benchmark leaders in Asia.

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%).
- Since 1992, quality stocks have delivered 9% annualized outperformance over global indexes during recessions (MSCI ACWI Quality vs. MSCI ACWI).
- 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

We believe quality stocks 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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Original report - [Can quality stocks help navigate uncertain times?, 19 August 2024.](#)

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