



CIO expects earnings to remain driven by competitive advantages and structural drivers, and recommend tilting toward quality growth—in the tech sector and beyond. (UBS)

Focusing on quality stocks can help investors navigate the current environment

23 September 2024, 2:49 pm CEST, written by UBS Editorial Team

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, and military conflicts in the Middle East and Ukraine continue.
- Markets have been volatile in recent weeks.

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

- We believe 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 insulate portfolio returns against the prospect of a weaker economy than we expect.

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

- Within the tech sector, we like quality AI beneficiaries.
- We also see opportunities in companies exposed to the energy transition, where we see potential for sustained earnings growth in the coming years.
- We also favor select quality stocks in Japan and Europe.

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 versus 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 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. We expect earnings to remain driven by competitive advantages and structural drivers, and recommend tilting toward quality growth—in the tech sector and beyond.

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Original report: [Can quality stocks help navigate uncertain times?, 23 September 2024.](#)

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