The Haves and Have Nots

During a quarter which saw the minting of the world's first trillionaire, it seems fitting to focus attention on the expanding divergence between the Haves and the Have Nots. Whether we want to discuss companies, consumers, countries or industries there will always be Winners and Losers in markets. Sometimes the difference between a winning situation and a losing one can boil down to just a bad break, nothing more than mere chance. At other times, there are powerful forces at work which can serve as a tailwind to one side while representing nothing less than a serious headwind to the other side. For example, there has been much discussion lately about the world devolving into a situation where consumers face a "K" shaped economy in which the prospects of a fortunate few are improving while those of many others are looking downward. While income and wealth are often the fundamental drivers of consumer activity, lately inflation has been a concern as an oil price shock from the Middle East is robbing lower- and middle-class consumers of their purchasing power. So, while the well-off are still busily purchasing, though perhaps occasionally trading down, many others are finding it difficult to make ends meet. It's a similar story with the global stock markets. The tale of global equities today is very much about a small group of winners which are being chased by a long list of laggards struggling in their wake. Investors these days are very keen to buy virtually any stock that is associated with Artificial Intelligence. At times it almost doesn't seem to matter whether they understand the business case that supports the investment or not.

While the global economy as a whole faces a long enough list of worries to elicit caution in the typical investor, there are a select few companies whose business prospects and therefore their earnings expectations are so positive that they compel the attention of market participants. Chief among these are the companies that design and manufacture semiconductor chips. Even within that subset, memory chip makers standout all the more. Memory chip production is (and has been since its beginnings) a wildly cyclical business prone to extraordinary price fluctuations. During the last big bust (2021-2024) memory chip producers found themselves in particularly poor shape financially and geared down on their production capacity. As luck would have it, at just that point the explosive growth of Generative AI caused a surge in demand for High Bandwidth Memory (HBM) chips, leaving little spare capacity for consumer memory chips. This brought about an increase of a factor of 8x in prices for some DRAM products. This situation has resulted in a scenario where HBM and DRAM producers are requiring some of their biggest customers to sign long-term contracts guaranteeing revenue out for as long as three years! That has provided a kind of visibility into future earnings that has eluded this industry since its inception.

Oil stocks slid out of the ranks of the Haves and fell among the Have Nots as the price of a barrel of Brent crude round tripped during the second quarter on the news that the US and Iran were planning a cessation of hostilities. Brent ended the month of February at $72/barrel. The next day the US and Israel bombed Tehran and that price peaked in April at almost $120/barrel. By the end of June, the price was back down around $72/barrel again. Investors in Energy stocks may suffer from vertigo after seeing them go up ~17% in the first three months of this year, only to lose ~12% during the second quarter.

Financial stocks and banks in particular have been counted among the Winners in the last quarter as an unexpected shift in central bank policy spread around the world. The peak in Energy prices was not enough to stave off inflation concerns and the major central banks of the world decided almost all at once that policy rate easing was not the way to go. The European Central Bank (unanimously in June), the US Federal Reserve as well as the Bank of Japan (+0.25% in June) all either raised their policy rates or reversed plans to lower them during the second quarter of 2026.

We mentioned here last quarter that market participants believe the current investment climate is among the most challenging in recent history. Can this Haves and Have Nots situation help investors? Often successful security selection can boil down to identifying the winners and avoiding the losers, but it sometimes (like right now) gets more complicated than that. Lately, the list of the Haves (considered here to be the stocks that are significantly outperforming their benchmark) has grown very short, while the list of Have Nots is long. That long list of Have Nots currently happens to contain a lot of high-quality stocks that we tend to believe are being ignored without good reason. In the stock market, after long periods of one side winning, there comes a point where a reversal can be expected. A reversal, for example, that would bring the 493 stocks in the S&P 500 not associated with Magnificence at this point might just upset a significant percentage of the investing public. But then again, aren't we taught that the stock market does whatever it needs to do in order to confound the largest number of investors at any given point in time?

Today global stock markets sit on a high perch. Many markets are currently at, or have only slightly come down from all-time highs, and yet we are finding very high-quality stocks trading at very attractive valuations. How is this even possible? There is a phenomenon known as breadth which addresses how broad an index' move is. That is how many of the stocks in a particular index are going up as the market moves higher. Lately, many markets around the world are being driven higher by a very small number of stocks. How long will this continue? When will the long overdue reversal occur? Will diversification pay off? Stay tuned, for all will be revealed in time, but at Haven our belief remains that a portfolio containing high-quality stocks trading at a discount to their fundamental value is a recipe for success over the long-term.