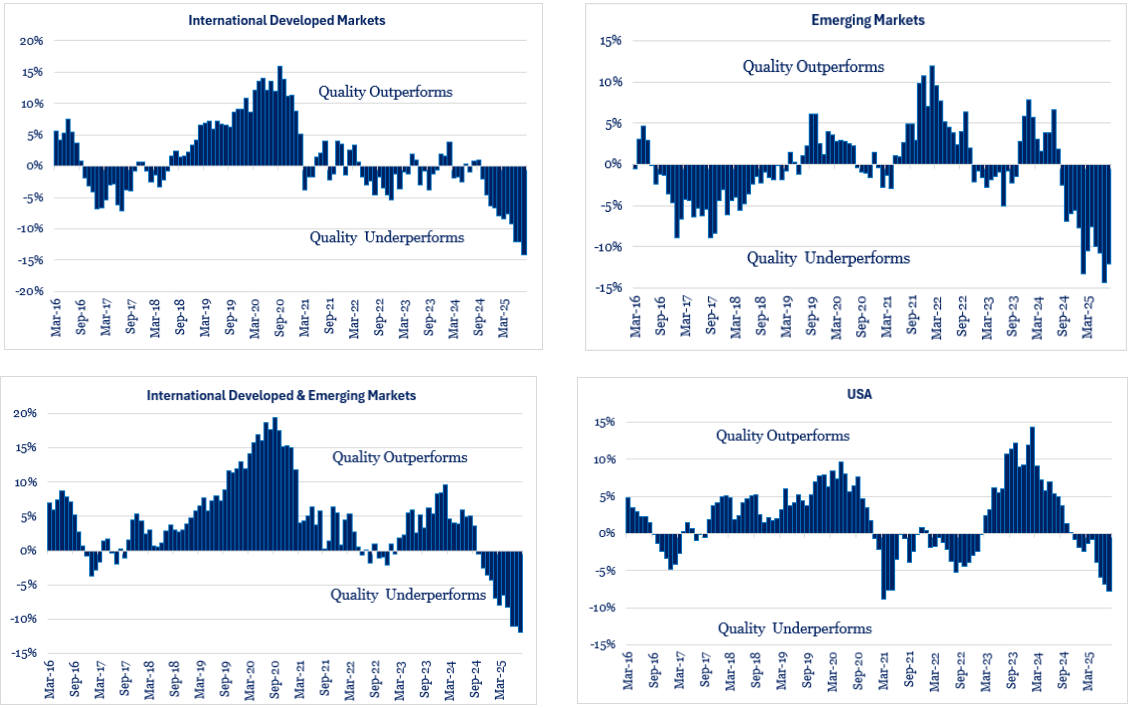
Haven Global Partners, LLC
Investment Insights: September 2025

We see Opportunity in Quality Stocks

After an extended period of stellar performance, quality stocks have been going through a rough patch since the middle of 2024. In Exhibit 1, we present the rolling twelve-month performance of quality indices relative to their respective core indices across various equity markets. We define international developed markets combined with emerging markets as the MSCI All Country World ex US index, while we use MSCI EAFE for stand-alone international developed markets. Similarly, for emerging markets and the US, we use MSCI quality and core indices. MSCI defines quality companies as those with durable business models and sustainable competitive advantages. By this definition, these companies tend to have high ROEs, stable earnings through a business cycle as well as strong balance sheets with low financial leverage.

Exhibit 1. Relative Performance: Quality vs. Core (Rolling 12 months)



Sources: Bloomberg, MSCI

As demonstrated in Exhibit 1, the underperformance of quality stocks has persisted for the first time in almost a decade. And the magnitude of the underperformance has been more pronounced in international developed and emerging markets than in US equities. In Exhibit 2, we present the sector composition of quality indices relative to their core counterparts. By doing so, we find that the difference in sector exposures partly explains the underperformance of the quality indices.

Exhibit 2. Quality vs. Core Indices: Sector Exposure (Aug 30, 2025)

	Quality				Core				Difference			
	DM+EM	DM	EM	USA	DM+EM	DM	EM	USA	DM+EM	DM	EM	USA
Health	18.0%	21.5%	4.3%	15.2%	8.0%	11.1%	3.6%	9.1%	10.0%	10.3%	0.6%	6.1%
Info-Tech	22.7%	12.9%	32.6%	32.8%	13.0%	7.8%	24.6%	33.3%	9.7%	5.2%	8.1%	-0.5%
Staples	11.8%	13.1%	12.9%	8.3%	6.5%	7.9%	4.3%	5.1%	5.3%	5.2%	8.6%	3.2%
Discretionary	12.4%	11.1%	14.7%	3.4%	10.4%	10.2%	12.7%	10.7%	2.1%	0.9%	2.0%	-7.4%
Industrials	14.1%	19.0%	7.6%	11.8%	14.8%	19.1%	6.9%	8.7%	-0.7%	-0.1%	0.8%	3.2%
Materials	5.6%	7.1%	4.8%	1.7%	6.4%	5.6%	6.1%	2.0%	-0.8%	1.5%	-1.3%	-0.3%
Real Estate	0.2%	0.1%	0.6%	0.0%	1.7%	1.9%	1.5%	2.1%	-1.5%	-1.8%	-1.0%	-2.1%
Utilities	0.3%	0.2%	1.2%	0.0%	3.1%	3.4%	2.4%	2.3%	-2.7%	-3.2%	-1.2%	-2.3%
Communications	3.0%	3.6%	7.1%	14.9%	6.3%	5.1%	10.3%	10.0%	-3.3%	-1.5%	-3.2%	4.9%
Energy	1.0%	0.0%	5.6%	0.2%	4.6%	3.3%	4.1%	3.0%	-3.6%	-3.3%	1.5%	-2.8%
Financials	10.7%	11.5%	8.9%	11.7%	25.3%	24.7%	23.4%	13.8%	-14.6%	-13.2%	-14.6%	-2.1%

Sources: MSCI, Bloomberg

There are a few notable differences in sector exposures between quality and core indices. First, Healthcare, Information Technology and Consumer Staples have disproportionately higher representation in quality indices while there are fewer Financial stocks that screen as quality. However, as presented in Exhibit 3, quality indices have higher exposure to the sectors that have underperformed over the last year such as Health Care and Consumer Staples. By contrast, quality indices are underweighted in Financials, which has had a spectacular run.

Exhibit 3: Trailing One Year Performance (August 30, 2025)

	DM+EM	DM	EM	USA
Health	-10.1%	-12.5%	11.6%	-10.6%
Staples	5.0%	6.0%	1.2%	3.0%
Info-Tech	12.8%	4.7%	20.4%	23.3%
Financials	33.1%	39.3%	18.7%	22.1%
Index	**16.2%**	**15.6%**	**16.2%**	**16.5%**

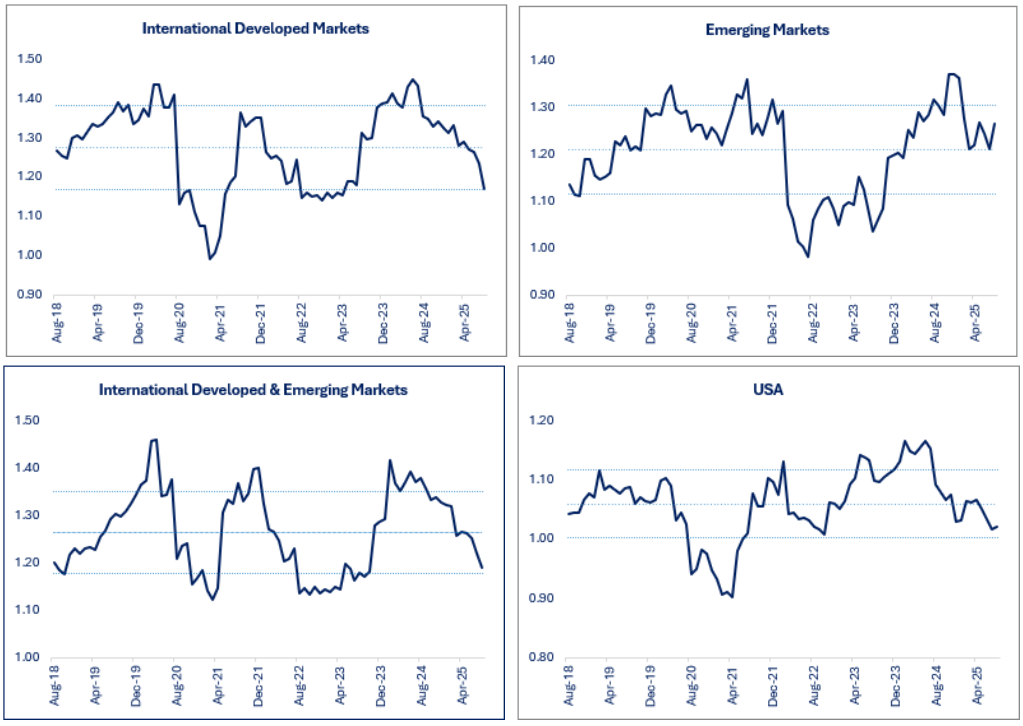
Sources: MSCI, Bloomberg

Apart from the sector's woes, the underperformance of the health care sector has also been driven by operational issues at Novo Nordisk, which is one of the largest stocks in the healthcare sector. The popularity of weight loss drugs such as Ozempic and Wegovy has also meant a shift in consumption patterns, which has negatively impacted Consumer Staples stocks. In addition, demand for consumer goods is still in the process of returning to a normalized environment following a period of rapid growth during the pandemic.

The Information Technology sector has had mixed performance across various regions. US technology stocks have been beneficiaries of AI adoption while those in international developed markets have suffered from reduced Chinese demand as well as subdued discretionary spending on technology services. By contrast, the financial sector has been a stellar outperformer over the past year as interest rates have stayed higher for longer than had been anticipated, which has boosted bank profitability. Additionally, loan growth and bank balance sheets have improved thereby increasing the prospects of higher capital returns.

Following a period of underperformance, we believe that this is a good entry point for quality stocks. Based on price to earnings ratios (Exhibit 4), quality stocks, especially those in developed international markets, are trading close to a standard deviation below their average on a relative basis.

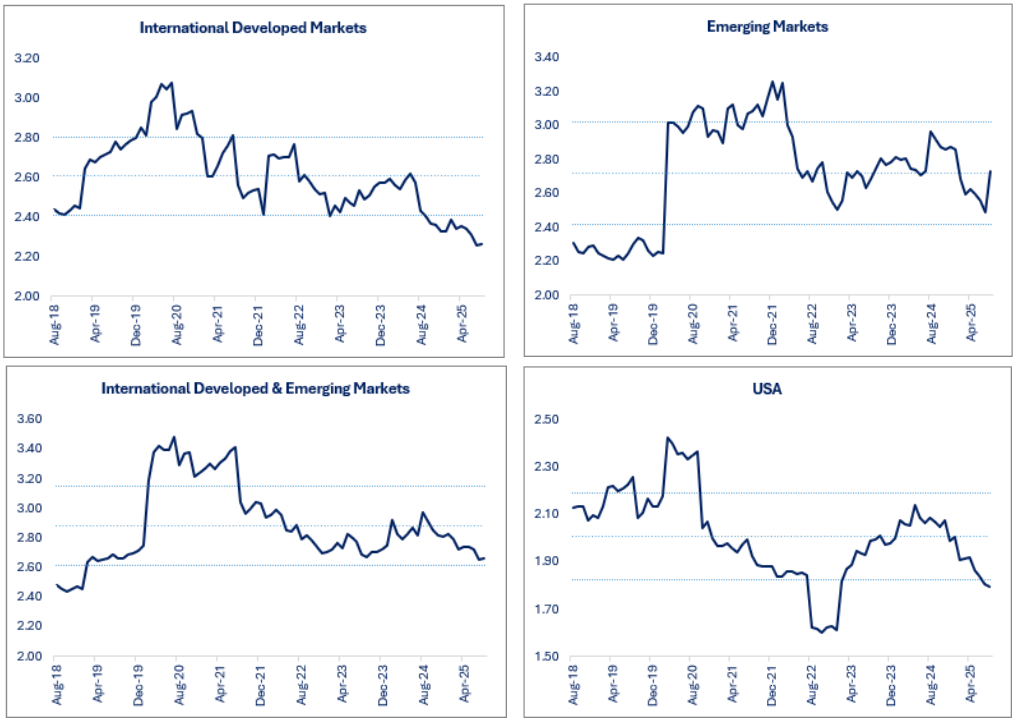
Exhibit 4. Relative Price to Earnings Ratio: Quality vs. Core



Sources: MSCI, Bloomberg

Quality stocks also look attractive when measured using the price to book value metric (Exhibit 5). Quality stocks in developed international markets are trading a standard deviation below their mean, while those in emerging markets are close to the average. We believe that as Healthcare and Consumer Staples have derated, the Financial sector has rerated thus creating this valuation gap.

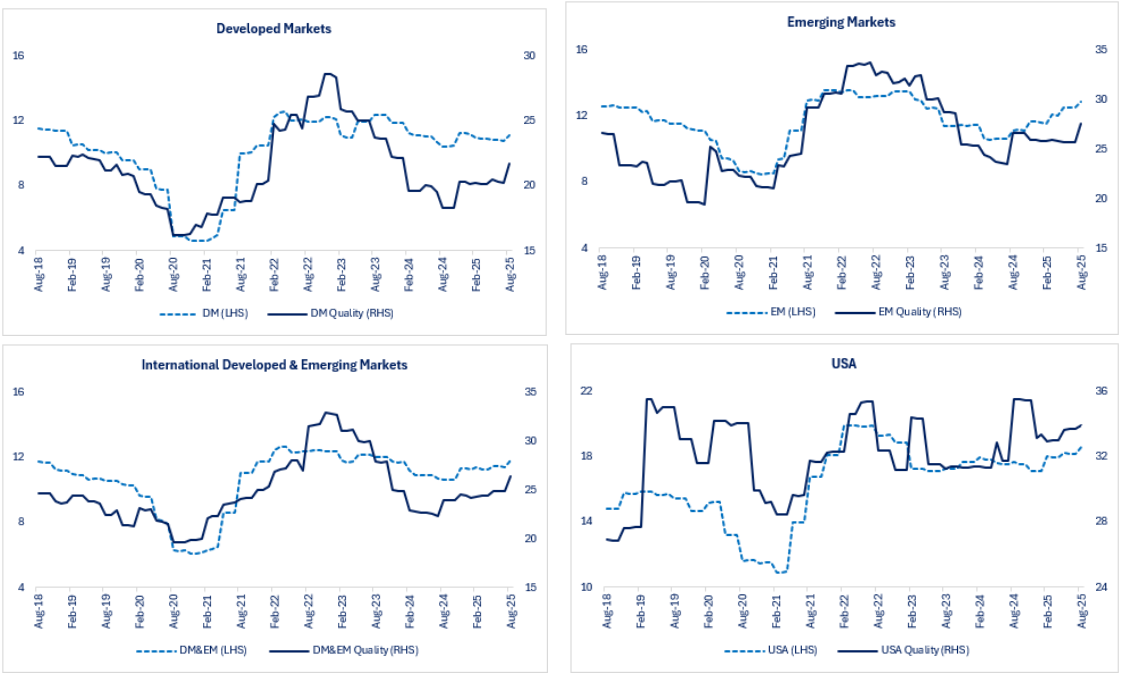
Exhibit 5. Relative Price to Book Value



Sources: MSCI, Bloomberg

We find that not only do quality stocks look attractive on valuation but expectations are also fairly low, based on fundamental metrics such as return on equity (ROE) and operating margin (OPM).

Exhibit 6. Return on Equity: Quality vs. Core

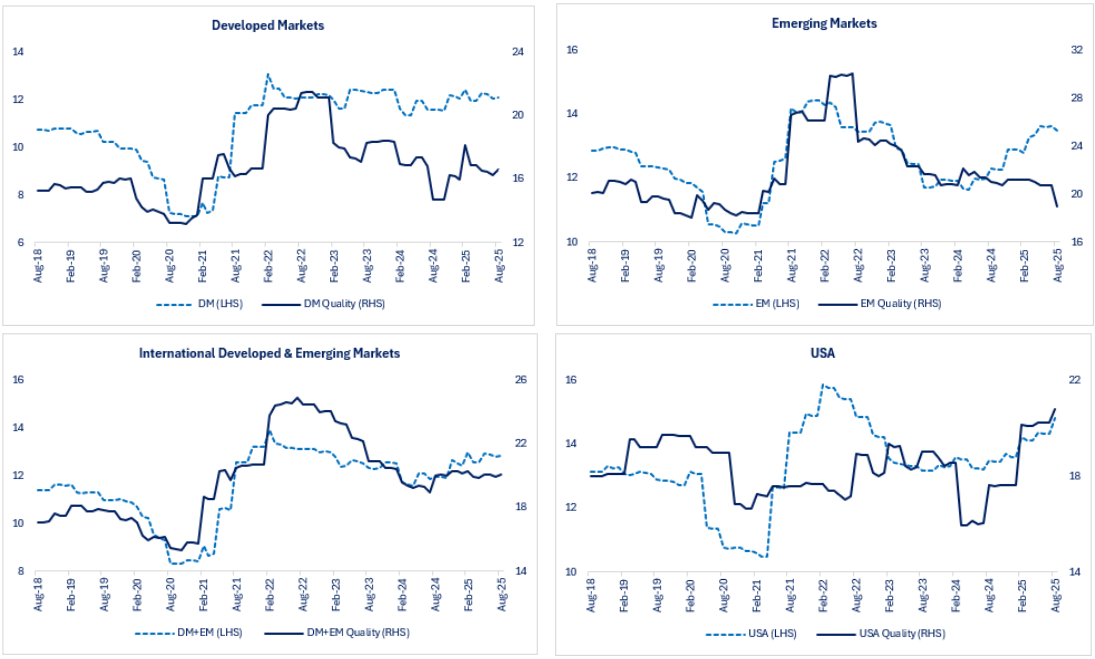


Sources: MSCI, Bloomberg

As presented in Exhibit 6, the return on equity for quality stocks in developed markets is below the peak of the last seven years. By contrast, the return on equity for the core index is quite close to the peak. As an example, the current ROE for the MSCI EAFE index is 11.1% relative to its peak of 12.6%. Meanwhile, the current ROE for the MSCI EAFE Quality index is 21.7% while its peak was 28.7%.

The same holds true for operating margins. In emerging markets, the OPM for the quality index is 19% relative to a peak of 30% reached in 2022 (Exhibit 7). Similarly, the peak margin for international developed markets quality index was 21.5% while currently, it stands at 16.5%. The only exception is the United States where the ROE and the OPM for the quality and the broader core index are both close to their highs.

Exhibit 7. Operating Margin: Quality vs. Core



Sources: MSCI, Bloomberg

In summary, we believe that the current underperformance of quality stocks presents an attractive entry point in international developed markets and in emerging markets as well. Not only are these stocks trading at attractive valuations, but their ROE and OPM assumptions are also low, thus creating a rerating opportunity.