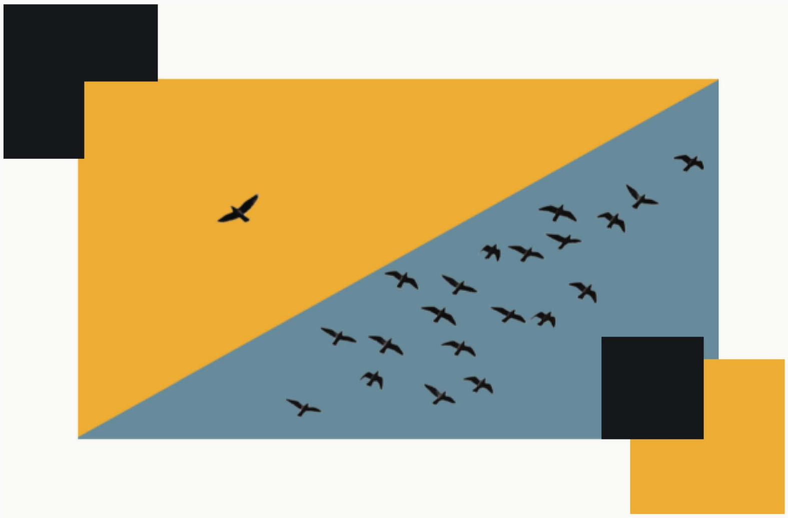
Against the Grain

Staying grounded in fundamentals

21 Jan 2026 CIO Perspectives



Key Takeaways

- By focusing on sound fundamentals we aim to guard against long-term downside risks and avoid speculative bubbles
- In the current environment, we view defensive sectors such as utilities, staples, and insurance as offering attractive total return potential due to their valuations, stable growth, and capital return
- Being early in identifying bubbles reflects our disciplined approach to seeking durable, quality businesses, in our view

As our long-time followers likely know, GQG's best performance historically has generally come in bear markets and our worst performance has come in frothy markets. The good news for long-term investors is that over full market cycles, the math of having downside risk management with less participation on the upside has led to meaningful outperformance on the whole.

For better or for worse, this latest cycle has been no different. Our decision to cut back risk, particularly in the artificial intelligence theme, cost us significant relative performance in 2025. We think these painful periods are much easier to explain and understand after a full cycle. For now, let us reflect on our journey thus far, focusing on the areas that excite us today, and our course forward from here.

As we revisit our decision to stay out of the AI frenzy trade mania in 2025, we think it is helpful to break down our reflection discussion into two parts: direction and timing.

DIRECTION: NO DOUBTS ABOUT THE BUBBLE

On direction, we remain confident that we are on the right track based on the work our team continues to do. We have written extensively about it in the past few months. In fact, we revisited our AI thesis numerous times throughout the year and continue to do so to make sure we are not being dogmatic in our portfolio positioning—including deploying our non-traditional analysts in the field. We believe each of the incremental data points we have found makes it nearly impossible to embark on the hype and underwrite the level of spending and valuations that we think are simply unsustainable.

Although we have been penalized in relative performance for not joining the AI party, we still think this is the most prudent path. We remember high-flying firms that performed well heading into the peak of the dotcom bubble, only to fare extremely poorly once the bubble burst. Many firms that did well during the housing bubble met similar fates due to unbridled enthusiasm.

In our view, this is a narrative-driven market where basic fundamentals are being ignored and replaced with buzz words that are normalizing valuations completely uncorrelated with earnings—take SpaceX's $800 billion valuation against its $15 billion revenue (while also likely being barely profitable).[1] In normal markets, such math does not stand up, particularly for companies that face increasing competition! In bubbles, the narrative can pave the way for others to stretch reality.

And while we are on the topic of space, it has been shocking to hear that some investors are actually buying into the narrative of building data centers in space to handle demand for the AI boom once we run into constraints on earth.

TIMING: THERE IS NO SUCH THING AS TOO EARLY

In terms of the timing, a question we often get is: What if we are early? With the benefit of hindsight, one may claim we were early. But the reality is it is impossible to time when a bubble bursts, so you are either early or you are late and the cost of being late can often be fatal. Anyone who has followed the investment industry for any time will remember many asset managers who disappeared post the dotcom bubble and the GFC era for being late.

Over a full cycle, we still think being early does not mean being wrong—despite the cliché saying—and especially at the kind of extreme valuations we are seeing today. In fact, given the other side of this bubble, we are thrilled to own the unloved at the valuations offered in the market today (more on that below). I have heard more than a few investors cite George Soros's famous quote: "When I see a bubble forming, I rush in to buy." What they may not realize is that even Soros's fund was hit hard for chasing tech stocks in the final innings of the 2000 bubble, causing his legendary protégé Stanley Druckenmiller to resign shortly after.[2] In my experience, market tops are only obvious in hindsight. No one rings a bell telling you precisely when to exit.

If anything, management teams are typically extremely bullish at the peak as earnings are booming. For example, some of the leading semiconductor CEOs were wildly bullish in late 2021, just before the semiconductor sector entered its worst bear market in over a decade. I vividly remember attending standing-room-only meetings for steel and coal companies in 2007 and for semiconductors in 1999! Micron Technology crossed the peak of its 2000 share price conclusively only in 2025.[3] That is rather long for even the most long-term shareholder. Recall that 2000 was also the year we were "running out of memory" due to fires in some Japanese foundries. That was followed by a glut of memory in the market that lasted for about a decade.

Given how quickly markets have historically tended to panic, I have learned time and time again that it is far better to be too early than even slightly late. The markets gave a sneak preview of this phenomenon earlier last year when DeepSeek was announced and tech stocks collapsed. This happened during the last tech bubble as well. For example, Microsoft lost over a third of its value in just a week in 2000.[4]

However, we understand the FOMO in the markets. In bubbles, markets seem to find ways to deny reality until the facts become unavoidable. We cannot control that. But we also cannot break our fiduciary duty with our clients and invest in hype when the math does not make sense to us.

WHAT WE LIKE IN 2026: SOLID, DEPENDABLE RETURNS

Instead, we would rather look for companies and areas where we see what we consider to be dependable opportunities, where earnings are coming through consistently and valuations make sense. At GQG, we are truly excited for the portfolio we have been able to build!

Generally speaking, we think we are finding the best risk-reward opportunities in historically defensive sectors such as staples, utilities, healthcare, and insurance, to name a few. Note this is not a macro call at all. This is simply a result of the market's extreme disinterest in more boring, defensive assets. As a result, we believe long-term investors can find great opportunities to own quality, steady-eddy compounders such as defensive stocks which are virtually at all-time lows in relative P/E and benchmark weight. Plus, we think their longer-term outlooks are improving after years of transition.

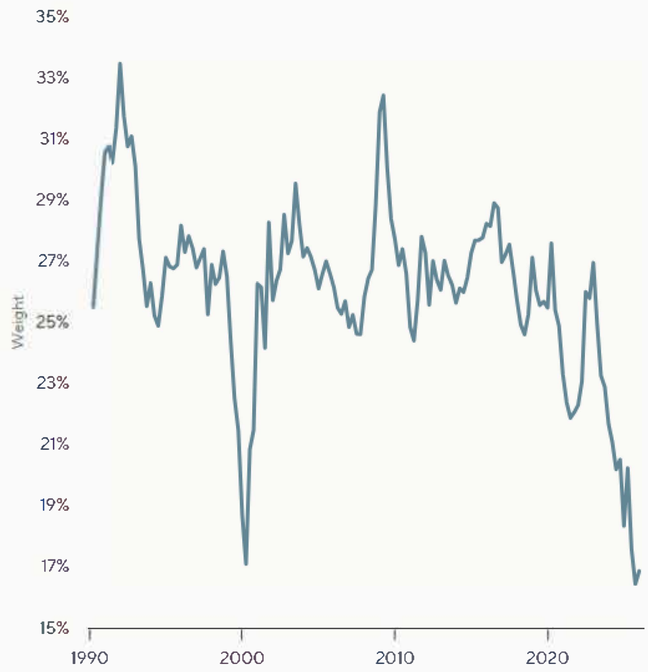
Regardless of the AI bubble, we believe these are high quality, durable businesses with attractive valuations, which can pave the way for potentially very attractive absolute and relative returns going forward, especially if markets sell off.

The weighted average earnings per share (EPS) growth for most of our strategies is almost high-single digits plus a ~3% to 4% dividend yield, which we believe is a very attractive return profile, particularly when multiples are on average around mid-teens or lower.

Defensives Relative Forward P/E Ratio

Source: GQG Partners LLC (chart); Empirical Research Partners (data). Data for the time period from 30 March 1990 through 31 December 2025. Capitalization-weighted data relative to the largest 750 stocks in the US. Defensives defined as businesses in the healthcare, consumer staples and utilities sectors. You cannot invest directly in an index. PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

S&P 500 Defensive Sectors Weight



Source: GQG Partners LLC (chart); Bloomberg (data). Data for the time period from 30 March 1990 through 31 December 2025. Defensives defined as businesses in the healthcare, consumer staples and utilities sectors. You cannot invest directly in an index. PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

UTILITIES

Let us start with utilities. We believe US utilities should grow earnings faster, more predictably, and with more long-term visibility than at any time in the past twenty-plus years, while trading at a material discount to the S&P 500 today.

The sector has gone through a transformation toward a more regulated environment. With or without the AI boom, we think the utilities we are excited about should benefit from a structural increase in power demand. Note that we were careful in our due diligence, as not all utilities are created equal. We stayed away from utility investments that were predicated on the AI boom for base load growth. We also engaged with our utility holdings to urge them not to embark on the hype.

In fact, one of the utilities we quite like is actually not even in the power space. Take American Water Works, as an example. We view this as an extremely stable water utility that has consistently delivered ~8% earnings growth, regardless of the economic environment. Until recently, the stock generally traded at a premium to the S&P 500 index given faster growth (S&P 500's long-term EPS growth of ~7%) and significantly less volatility (0.2x beta). However, it now trades at a discount (21x vs. S&P 500's 22x) yet we think it can deliver low double-digit total return (high single-digit EPS growth plus a 3% dividend yield) with lower risk versus the S&P 500. It represents a great risk-reward relative to most other options in the market, in our opinion.

Compare the attractive and stable returns we think we can find in various utilities with JP Morgan, for example. We believe it is one of the best banks in the US with a fantastic CEO. However, loan growth has been mediocre, as highlighted in the bank's latest results. Their return on equity was lower in 2025 versus 2024 and so was their net income, with reported low single-digit revenue growth—the stock's valuation is at its highest if you look back over a 25-year period. When JP Morgan is selling at 15x with mid single-digit growth and a cloudy outlook given economic uncertainties, we grow wary. And with talk of the administration potentially putting a cap on credit card interest rates, we do not think this and other US banks are the best investment opportunity at this time. We would rather buy companies that we believe offer far more certainty for similar valuations.

STAPLES

Another area where we currently see great potential is in the consumer staples sector. We are finding names trading at significant discounts to the S&P 500, which we think was previously *unimaginable*. Keep in mind, these are much better than average businesses with similar ~7% long-term earnings growth and higher stability!

In our view, many of the companies in the sector went through a lost decade but are poised to enter a new capital and product cycle. Some have already shown impressive turnarounds.

An example is Heineken, which is selling at 13x times earnings, and in our view, has the potential to grow earnings at mid- to high-single digits over the long run. Heineken has an expansive emerging markets footprint as beer consumption continues to grow globally-with or without GLP-1s.[5] The company has gone through a significant derating after taking prices up aggressively during COVID. That digestion period is coming to an end, in our view, and does not represent any structural issues with the business. It is also a family-owned business, of great operators and stewards of capital in our opinion.

INSURANCE

We are finding similar opportunities in the insurance space. The insurance companies we own in certain strategies have been high-quality compounders, in our view, among them Chubb, Progressive, and Allstate. They all have demonstrated strong underwriting and consequently, all three companies have outperformed the S&P 500 over the last five years. Chubb, for example, has had a combined ratio over the last 20 years that is 700 basis points better than the industry average.

CONCLUSION

To summarize, we believe that for the first time in years, we are finding plenty of opportunities to own companies with the potential to achieve double-digit compounding in fairly mundane sectors now that this excessive optimism for AI stocks has shifted the market's perspective so much. We believe that when this trend reverses to what others view as boring, our early calls will likely be viewed as well-timed.

As always, thank you for your support.

Rajiv Jain
Chairman & Chief Investment Officer
GQG Partners LLC

END NOTES

[1]Jin, Berber, et al. "SpaceX in Talks for $800 Billion Valuation Ahead of Potential 2026 IPO". The Wall Street Journal. 5 December 2025.

[2]Norris, Floyd. "Another Technology Victim; Top Soros Fund Manager Says He 'Overplayed' Hand". The New York Times. 29 April 2000.

[3]GQG Research.

[4]GQG Research.

[5]Heineken Investor Presentation. May 2025.

DEFINITIONS

Earnings Per Share (EPS) is a measure of a company's profitability, calculated by dividing quarterly or annual income (minus dividends) by the number of outstanding stock shares.

GFC: Global Financial Crisis of 2008.

P/E (Price-to-Earnings) ratio is a stock valuation metric that shows how much investors are willing to pay for $1 of a company's earnings, calculated by dividing the stock's current price by its earnings per share (EPS). A high P/E can signal high growth expectations or an overvalued stock, while a low P/E might suggest undervaluation or low future growth prospects.

Beta: Relative volatility measured as systematic risk relative to a benchmark.

Combined ratio: An insurance metric measuring profitability by comparing total costs (incurred losses+ expenses) to total earned premiums.

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