



—
Investing for a
world of change



Elias Erickson
Portfolio Manager

Fundamental strength should be rewarded in 2026

How did international markets perform in 2025?

International equity markets posted robust gains in 2025, with performance broadly positive but still heavily conditioned by the macro environment. Strength was concentrated in capital-intensive and cyclical sectors – banks, defence, and other beneficiaries of fiscal stimulus, easier monetary conditions, and historically depressed valuations, particularly in Europe. Emerging markets also outperformed global indices, supported by a weaker US dollar and exceptional contributions from economies such as South Korea, where export momentum, capital-market reform, and AI-related technology leadership were decisive tailwinds.

AI remained a powerful but uneven market driver. Companies tied to the physical build-out of AI infrastructure – foundries, semiconductor manufacturers, and hardware enablers – delivered outsized returns. Software-exposed businesses lagged as investors focused more narrowly on the risk that AI tools could automate or erode elements of their business models.

Against this backdrop, momentum and value factors were strongly favoured, while quality and low-volatility styles underperformed and served as funding sources for the cyclical rotation. For an approach like ours – anchored in a differentiated, fundamentals-driven definition of Quality prioritising profitability, earnings resilience, and return stability – these conditions constituted a material headwind. By design, we avoid the more cyclical, commoditised, or capital-intensive models that led markets in 2025, maintaining a consistent focus on compounding fundamental value across the full investment cycle.

Should this change in 2026?

We view the dynamics of 2025 as cyclical rather than structural, with the balance of risks increasingly poised to shift back in favour of fundamental return drivers. Much of the positive surprise that fuelled the cyclical rally has now been priced in. After a strong run, valuations across cyclical sectors appear full relative to history – even stretched – reflecting a notably more optimistic stance on future outcomes. Multiple expansion is unlikely to be a disproportional driver of higher returns.

Because rating-driven markets are inherently fickle, we see this as an opportune moment to re-anchor portfolios in more durable, through-cycle drivers of return, especially cash-flow growth. In our view, sustainable fundamental strength, rooted in resilient Quality attributes, is what ultimately underpins long-term shareholder value.

While predicting the precise timing of such a reversal is futile, history provides a useful guide: international quality equities have outperformed the broader market over the past 25 years, and in times when they lag the benchmark by 5% or more on a rolling 12 month basis, they have historically outperformed in the subsequent year. Such episodes typically coincide with the valuations of cyclical areas recalibrating after running ahead of fundamentals. Over the long run, earnings growth – not momentum – drives share prices, and we remain confident that the companies we target are positioned to deliver superior earnings growth relative to the market.

How do you see the AI story developing in 2026?

While the AI revolution is unquestionably real – and its technological impact potentially more transformative than the early internet era – the current pace of investment may have pulled forward several years of future earnings and demand for infrastructure suppliers. Businesses dependent on massive, synchronised capex cycles from a small group of global giants are, by definition, cyclical. Moreover, GPUs have finite lifespans measured in years, not decades, unlike fibre-optic networks (the central capex theme of the dot.com bubble); overinvestment in compute is therefore more acute and painful when demand normalises. Expectations are increasingly vulnerable to any attenuation in the progression of large language model capabilities, ecosystem efficiency gains reducing infrastructure requirements, or practical frictions to massive datacenter construction. In 2025, the market rewarded the companies most exposed to the AI capex boom with the strongest near-term momentum. Capex cycles are swiftly discounted – first up and then down – so a greater measure of caution is warranted.

Conversely, AI euphoria translated into doubt across other parts of the market: high quality businesses in software and information services were indiscriminately de-rated as disruption risks and margin pressures were contemplated. We think these risks are exaggerated. Large language models (LLM) accelerate coding, which serves to highlight – rather than displace – other critical aspects of software development, such as domain depth, workflow expertise, and program design. LLMs are increasingly commoditizing, which means their innovation potential is available to both incumbents and disruptors alike. Furthermore, the risk-reward for redeveloping software in-house – especially of mission-critical systems which may cost less than one percent of revenue – can be unfavorably asymmetric: doing so could increase non-core operational risk while potentially reducing competitiveness, dynamic regulatory compliance, and other network benefits. Likewise, many of these de-rated professional and information services firms aggregate and own large, proprietary datasets whose use is often mandated by regulation or contractually protected. For our companies, the majority of their data is inaccessible to AI models. These businesses also exhibit high subscription-retention rates that, in many cases, appear more defensively positioned than the long-dated forecasts underpinning many semiconductor valuations.

While some software assets will inevitably be disrupted by AI, the market's current judgment appears excessively punitive for many others. Over the long run, AI may in fact amplify the value of businesses further down the technology stack – particularly those with irreplaceable datasets, strong distribution networks, and resilient subscription revenue. These companies offer exposure to the AI theme, but with far narrower uncertainty bands than the infrastructure suppliers currently commanding the spotlight.

Is international quality an attractive asset class?

We continue to view international Quality as a compelling opportunity, and especially after a year of underperformance to cyclical themes. Investors often overlook that, in most years, roughly three-quarters of the top 100 performers in the MSCI ACWI are based outside the US. While ex-US returns were exceptional in 2025, the underlying international opportunity set has long been both deep and diverse.

At the same time, the US market remains defined by an extraordinary level of concentration. The top 10 companies in the S&P 500 – eight of them technology-related – now account for over 40% of the index, exceeding even the extremes reached during the dot-com era. Such narrow leadership inevitably elevates risk. Broadening exposure beyond the US can help mitigate these concentration risks while unlocking a wider spectrum of global opportunities.

That said, simply rotating into international equities because they appear cheaper risks diluting portfolio fundamentals – particularly at a time when many cyclicals look increasingly extended. In our view, this environment calls for an active and disciplined approach: one that captures the diversification advantages of international markets while remaining firmly anchored to durable drivers of long-term equity value, especially earnings resilience and the steady compounding of free cash flow.

General risks. All investments carry the risk of capital loss. The value of investments, and any income generated from them, can fall as well as rise and will be affected by changes in interest rates, currency fluctuations, general market conditions and other political, social and economic developments, as well as by specific matters relating to the assets in which the investment strategy invests. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Past performance is not a reliable indicator of future results. Environmental, social or governance-related risk events or factors, if they occur, could cause a negative impact on the value of investments. No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided. Individual companies or securities named in this material are included for illustrative purposes only. The views expressed are those of the contributor and do not necessarily represent Ninety One's house view. The information should not be seen as a forecast of how such securities will perform and should not be construed as investment advice or a recommendation.

Specific risks. Equity investment: The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. **Concentrated portfolio:** The portfolio invests in a relatively small number of individual holdings. This may mean wider fluctuations in value than more broadly invested portfolios. **Style bias:** The use of a specific investment style or philosophy can result in particular portfolio characteristics that are different to more broadly invested portfolios. These differences may mean that, in certain market conditions, the value of the portfolio may decrease while more broadly-invested portfolios might grow.

Important information

The content of this communication is intended for readers with existing knowledge of financial markets.

This communication is provided for general information only. Nothing herein should be construed as an offer to enter into any contract, investment advice, a recommendation of any kind, a solicitation of clients, or an offer to invest in any particular strategy, security, derivative or investment product. The information may discuss general market activity or industry trends and is not intended to be relied upon as a forecast, research, or investment advice. The economic and market views presented herein reflect Ninety One's judgment as at the date shown and are subject to change without notice. Views and opinions presented herein will be affected by changes in interest rates, general market conditions and other political, social and economic developments. There is no guarantee that views and opinions expressed will be correct and may not reflect those of Ninety One as a whole, different views may be expressed based on different investment objectives. Although we believe any information obtained from external sources to be reliable, we have not independently verified it, and we cannot guarantee its accuracy or completeness. Ninety One's internal data may not be audited. Ninety One does not provide legal or tax advice. Reliance upon information in this material is at the sole discretion of the reader. Investors should consult their own legal, tax and financial advisor prior to any investments. Past performance should not be taken as a guide to the future. Investment involves risks; losses may be made.

Except as otherwise authorised, this information may not be shown, copied, transmitted, or otherwise given to any third party without Ninety One's prior written consent. © 2026 Ninety One. All rights reserved. Issued by Ninety One, January 2026. In South Africa, Ninety One SA Proprietary is an authorised financial services provider.

Australia

Level 28 Suite 3, Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Telephone: +61 2 9160 8400
australia@ninetyone.com

Botswana

Plot 64289, First floor
Tlokweng Road, Fairgrounds
Gaborone
PO Box 49
Botswana
Telephone: +267 318 0112
botswanaclientservice@ninetyone.com

Channel Islands

PO Box 250, St Peter Port
Guernsey, GY1 3QH
Telephone: +44 (0)1481 710 404
enquiries@ninetyone.com

Germany

Bockenheimer Landstraße 23
60325 Frankfurt am Main
Telephone: +49 (0)69 7158 5900
deutschland@ninetyone.com

Hong Kong

Suites 1201-1206, 12/F
One Pacific Place
88 Queensway, Admiralty
Telephone: +852 2861 6888
hongkong@ninetyone.com

Luxembourg

2-4, Avenue Marie-Thérèse
L-2132 Luxembourg
Telephone: +352 28 12 77 20
enquiries@ninetyone.com

Namibia

Am Weinberg Estate
Winterhoek Building
1st Floor, West Office
13 Jan Jonker Avenue
Windhoek
Telephone: +264 (61) 389 500
namibia@ninetyone.com

Netherlands

Johan de Wittlaan 7
2517 JR Den Haag
Netherlands
Telephone: +31 70 701 3652
enquiries@ninetyone.com

Singapore

138 Market Street
CapitaGreen #27-02
Singapore 048946
Telephone: +65 6653 5550
singapore@ninetyone.com

— www.ninetyone.com

Telephone calls may be recorded for training, monitoring and regulatory purposes and to confirm investors' instructions.

For more details please visit www.ninetyone.com/contactus

South Africa

36 Hans Strijdom Avenue
Foreshore, Cape Town 8001
Telephone: +27 (0)21 901 1000
enquiries@ninetyone.com

Sweden

Västra Trädgårdsgatan 15,
111 53 Stockholm
Telephone: +46 8 502 438 20
enquiries@ninetyone.com

Switzerland

Dufourstrasse 49
8008 Zurich
Telephone: +41 44 262 00 44
enquiries@ninetyone.com

United Kingdom

55 Gresham Street
London, EC2V 7EL
Telephone: +44 (0)20 3938 1900
enquiries@ninetyone.com

United States

Park Avenue Tower, 65 East 55th Street
New York, 10022
US Toll Free: +1 800 434 5623
usa@ninetyone.com