

A Message From Our Chief Investment Officer

It's in the price

Morningstar Wealth

September 2025

Mike Coop

Chief Investment Officer, EMEA

Key points

- Global diversification pays off
- The uncertainty of Information Technology
- US Dollar is neither down nor out

For Financial Professionals and their clients

Global diversification continues to pay off for investors with several of our overweight equity positions – Korea, China, Japan and Brazil – performing well. Gains reflect subdued prior expectations about their outlook and company or broad economic outcomes that surpassed this low bar.

High expectations on the other hand tend to be harder to beat so it's natural for investors to review the stellar run in US IT stocks and ask if that can continue. Most of the rally in US equities has come from a re-rating of US IT focused on AI superscalars, strongly supported by blow away earnings results from select majors including Nvidia and more recently Cisco. While other sectors have also risen, it's US IT that has been the key driver of the overall market because of its scale.

Morningstar's recent review of the US IT sector explored in depth the key drivers of the industry growth, profitability and whether there is still value. Taking the long view, it is clear that the re-rating – investors paying more per unit of sales, cashflows or earnings – has supercharged returns over the past 5-10 years. Looking forward, the big players in software, hardware, semiconductors and IT services still have a great outlook in terms of the strategic advantages (using Morningstar "MOAT" definitions of competitive strengths) that can support faster growth and higher profitability than peers and other industries.

It's just that uncertainty levels are also very high, in many cases, as AI quickens the pace of change and poses direct threats to several business models. Looked at this way, we find the overall reward for risk not attractive for US IT, given full valuations, fast pace of change and high levels of uncertainty. We see better prospects in another fast-growing sector with dominant franchises – healthcare – as well as communication services and smaller companies that can benefit from lower interest rates and corporate tax rates.

We have also just completed a review of the US Dollar, at a time when there are growing question marks over the US Dollar's status as a safe haven currency. Uncertainty about the Fed's capacity to keep inflation low, if it becomes more sensitive to political aims, has added a new risk for investors to weigh up.

Another growing risk is the escalating amount of debt, expansionary fiscal policy and as yet no clear plan to achieve a balanced budget. On the positive side, overall debt levels are not excessive when you consider households and businesses. Thus far no other currency can match the Dollar in terms of scale and ease of use for global trade and finance. It's also true that big pools of capital looking for a low cost, liquid and low risk home have few alternatives to US government bonds. So in our view the US Dollar is not at risk of losing its status as the dominant reserve currency, despite some deterioration in its fundamentals. Of more immediate concern today is the high level of US Dollar which tilts the balance in favour of other currencies. We prefer the Yen as a safe haven and see more upside in emerging market currencies.

So ultimately investors must consider what is priced in, as well as what is most likely to occur. On this basis we see less upside for US IT and the US Dollar and more upside for US Healthcare, US Communication and US smaller companies.

Important Information

©2025 Morningstar. All Rights Reserved. The Morningstar name and logo are registered trademarks of Morningstar, Inc. This presentation includes proprietary materials of Morningstar. Reproduction, transcription, or other use, by any means, in whole or in part, without the prior written consent of Morningstar is prohibited.

This commentary does not constitute investment, legal, tax or other advice and is supplied for information purposes only. Past performance is not a guide to future returns. The value of investments may go down as well as up and an investor may not get back the amount invested. Reference to any specific security is not a recommendation to buy or sell that security. The information, data, analyses, and opinions presented herein are provided as of the date written and are subject to change without notice. Every effort has been made to ensure the accuracy of the information provided, but Morningstar Investment Management Europe Ltd makes no warranty, express or implied regarding such information. The information presented herein will be deemed to be superseded by any subsequent versions of this commentary. Except as otherwise required by law, Morningstar Investment Management Europe Ltd shall not be responsible for any trading decisions, damages or losses resulting from, or related to, the information, data, analyses or opinions or their use.

Morningstar Investment Management Europe Limited Disclosure

The Morningstar Managed Portfolios are offered by Morningstar Investment Management Europe Limited which is the entity providing the discretionary management services. Morningstar Investment Management Europe Limited is authorized and regulated by the UK Financial Conduct Authority to provide services to Professional clients. Morningstar Managed Portfolios are intended for citizens or legal residents of the United Kingdom. These portfolios can only be made available through the use of Financial Advisers and other relevant intermediaries appropriately authorised and regulated by the Financial Conduct Authority or equivalent financial regulatory authorities. Registered Office: 1 Oliver's Yard, 55-71 City Road, London, EC1Y 1HQ.

About Morningstar Wealth

This commentary has been written by Morningstar Investment Management Europe Ltd, authorised and regulated by the UK Financial Conduct Authority to provide services to Professional clients. Registered Office: 1 Oliver's Yard, 55-71 City Road, London, EC1Y 1HQ.

Morningstar Wealth is a global organization dedicated to empowering both advisors and investor success. Our extensive range of offerings includes Morningstar Wealth Platform, Morningstar Managed Portfolios managed by Morningstar Investment Management and Smart Investment Management, Morningstar Wealth Software (licensed software and professional services) and Morningstar.co.uk. Services available through Morningstar Wealth vary region to region. To learn more about Morningstar Wealth regulated entities and products in EMEA, please visit [Morningstar Wealth EMEA Disclaimers](#).