

This Top Value Investor Likes Software Stocks Despite AI Threat

Causeway’s Sarah Ketterer on how AI will ultimately benefit software stocks. Plus, a positive outlook for international cyclical stocks, and active management vs. activism.

May 5, 2026 | by Leslie P. Norton

Can software stocks survive the threats posed by artificial intelligence? It could be a tough ride, but Sarah Ketterer, winner of Morningstar’s 2026 Investing Excellence award for equity portfolio management, thinks select software stocks will ultimately benefit from the AI revolution.

Ketterer and colleague Harry Hartford have run value strategies for Causeway Capital Management since 2001. Among the funds she manages are the \$18.3 billion Causeway International Value Fund CIVIX and the \$255 million Causeway Global Value CGVIX, both of which carry Gold Morningstar Medalist Ratings.

We caught up with Ketterer, who explained her stance on AI as the firm navigates the ongoing fallout of war. She also reflected on changes in the global markets since she co-founded Causeway. She shared her views on why she’s optimistic about the beaten-down shares of enterprise software giant SAP, along with two other tech stocks that have been struggling. In addition, she explains why

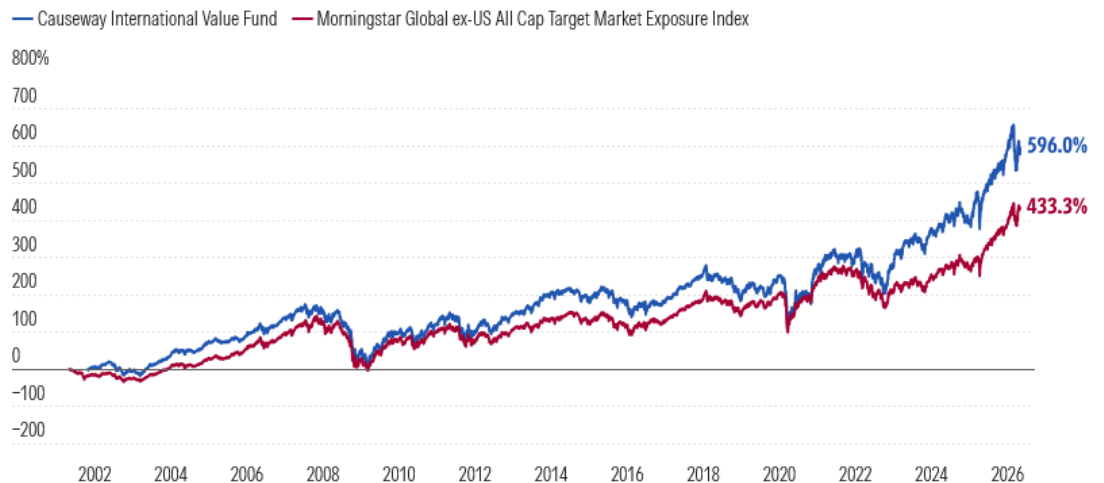
she likes international cyclical stocks, and she offers her view on the political pressures that should end the standoff in the Strait of Hormuz sooner rather than later.

Leslie Norton: What’s investing in the age of Trump like? You’ve said that, unusually, the tariff-related market downturn was ideologically driven.

Sarah Ketterer: This current administration has a goal to achieve. They also need to ensure their party isn’t turfed out of office. How long, for example, can this [Strait of Hormuz] blockade persist? It’s been really damaging since March 1 for our international and global funds. So many companies need to see free-flowing oil, a reasonably sanguine economic environment, [an end to] the freezing-up of orders.

It’s not a happy environment for US voters. They don’t like the higher prices at the pump, the additional transportation and manufacturing costs. The anxiety among our allies is as

Causeway International Value Performance



Source: Morningstar. Data as of April 30, 2026.

high as I can remember. All this pushes up discount rates. Uncertainty adds a little more risk overall to equities.

What’s doing well in markets is almost entirely the same theme [semiconductors]: ASML ASML for non-US developed, TSMC TSM for emerging, or Nvidia NVDA and the whole hyperscaler crowd for the US market. Sure, energy’s had a run, but nobody really believes it’ll last. Most cyclical stocks in international and global markets performed the worst. We used that as an opportunity to add to them, because we don’t think the blockade can last longer than a few weeks. The poll data indicates dissatisfaction. Political parties anxious to ensure their longevity have to respond.

Norton: What’s the biggest change in the world since you started your firm in 2001?

Ketterer: Twenty-five years ago, I wouldn’t have expected the US market to be so much larger and the non-US markets to be an afterthought. Non-US has always been an incredibly fertile area for companies that are more cyclical than those of the United States, and perhaps more primed for operational restructuring. They’ve recognized they can’t be complacent; they have to make their business more efficient. In the US, that mantra has become deafening over the last 20-plus years.

Why Globalization Is Not Fading Away

Norton: When you started your firm, the world economy was globalizing. That’s reversing.

Ketterer: I don’t agree. The pace of globalization has been waylaid by tariffs, but globalization is inevitable. Here’s an example. I take an annual trip to China and see 30 or more companies by the end of the week. Almost all tell me that the domestic market is so hypercompetitive and margins are under so much pressure that they want to go global.

Let’s take autos. Some of the world’s most extraordinary EVs are made by Chinese companies. They sell them in Mexico and Canada; they’re going to end up here. Our auto manufacturers will need to improve drastically. All of China’s best companies want to go global. Sure, companies need to be more careful about their supply chains, but you’d be very hard-pressed to hear that manufacturing is coming here, other than national-security-related or something like PPE.

Norton: What’s the role of company engagement in your process?

Ketterer: During the value winter of 2017-21, we had zero-to-negative interest rates globally. If there’s no discount

Semiconductor Stock Performance



Source: Morningstar. Data as of May 1, 2026.

rate, how do we value a stream of cash flows? We chose to spend much more time with companies accountable to shareholders, where we had some influence over the board, the C-suite, and insisted on improvements. Again, the paradigm came from the US. We saw how US management's wealth and reputation were tied to their share prices.

We pushed [non-US companies] across the main beacons: better revenue growth, margins, earnings, cash flow, and returns on capital. Getting the comp structure is just one piece of the puzzle. Our biggest stock in the last six years has been the UK aerospace company Rolls-Royce RYCEY, known for its wide-body aircraft engines. My colleague Jonathan Eng worked with the board chair, pushed for a new CEO, and then worked closely with that CEO, understanding his criteria and what he wanted to accomplish, and sharing what we thought he should accomplish.

Norton: Isn't this activism?

Ketterer: No. It's just active management. In an AI world, what AI can't do is sit down with a board chair and explain what it is that we expect the company to achieve. That's a very human-to-human interaction that remains at the heart of value investing. We can own the stock because something went wrong, and we can talk about how to turn it around.

Bullish on (Some) Software Stocks

Norton: Did you anticipate the AI disruption in the markets?

Ketterer: We expected there would be competition. We took a bit of a misstep in IT services, expecting that companies would need a lot of support. We still think they will. Enterprises will need a lot of systems integration support and other types of IT services, but it might be two years from now. Between now and then, they'll experiment, build some of their own agents, take a few missteps, and realize they need help. During that time, these could be really difficult stocks. So, we got excited about several, then realizing the likely tough times ahead, we decided to sell all but one, Booz Allen BAH.

Norton: Let's talk about your stock picks.

Ketterer: SAP is probably the business most threatened by AI. The market has thrown the stock out. It's still a more than \$200 billion market cap company. To see it contract this way has been a bit of a shock. Brian Cho and the Causeway technology team have spent quite a bit of time talking to experts, customers, and competitors. They're convinced that because the system of record that SAP provides in ERP software is so strong, deeply embedded, and necessary, the moat is strong.

You can think of a moat in two ways: It keeps out competitors, or it just keeps customers stuck there. SAP is converting more customers to cloud from on-premises and getting them engaged with their own agents. And they're well-managed by a great CEO and CFO. SAP will probably do quite a bit of operational cost-cutting as well. We like the valuation and everything about it. It's a nice, large cap that anybody could own.

Norton: What else do you like?

Ketterer: Swedish test and measurement company Hexagon HXGBY has almost a \$30 billion market cap. The new CEO has been around for a couple of quarters. They're spinning off an SaaS business that's more susceptible to AI competition, and focusing on what they do well, which is all the equipment and software associated with manufacturing intelligence, such as hardware for coordinate measurement, software for so-called digital twins on manufacturing lines, geosystems that create 3D maps for infrastructure products, and autonomous solutions consisting of mining and agricultural automation.

We don't see how anybody can disrupt them. Nobody's software works with their hardware but theirs. They're trading at very low double-digit multiples in a business that should be able to grow 5%-6% top line, and it's a global company.

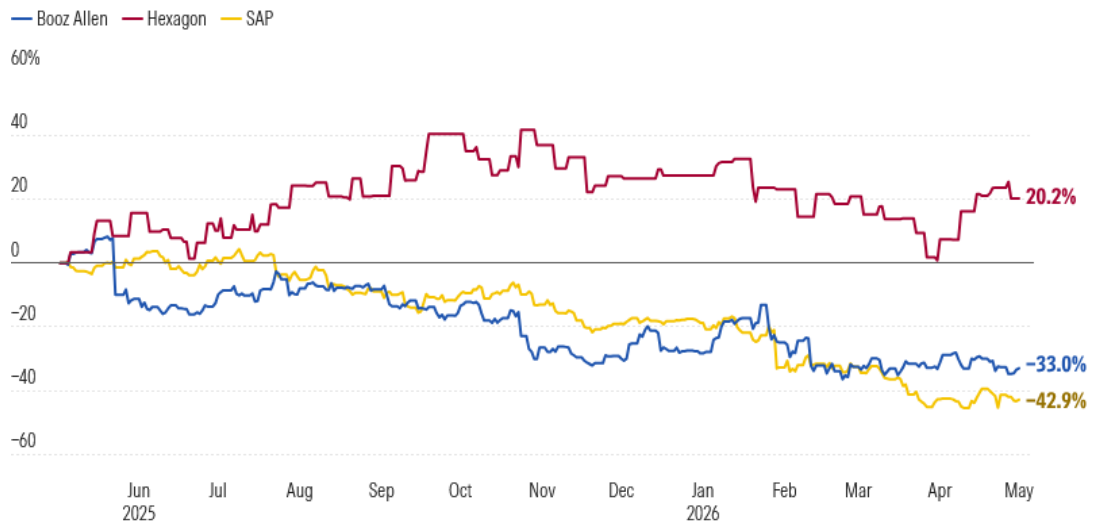
Norton: What's the thesis for Booz Allen?

Ketterer: A rogue employee apparently leaked some confidential tax returns. The Treasury Department canceled contracts. We think that's just noise. This company is very strong in cybersecurity and systems modernization, and it has expertise in intelligence. They have some civilian and a lot of government business, and every piece of information

we have about US government IT systems indicates the need for upgrades. It's such a deep value right now. It has a great balance sheet and excellent management.

We target a forecast P/E multiple of 18 versus 12 times currently. The EV/EBITDA multiple is 13. OK, maybe contracts won't pick up as fast. But how much downside do you really have in such a cash-generative business? We believe the national budget will increase for cybersecurity and systems modernization. For national security purposes, very few can do what they do for the US government.

Software Stocks Performance



Source: Morningstar. Data as of May 1, 2026.

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