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Equity Market Commentary

SLIMMON'S TAKE | APPLIED EQUITY TEAM | August 2026

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An August full of distractions

1 The White House has certainly done its job to fill an otherwise quiet period for financial markets with plenty of content for the business media to cover:

1. The US conflict with Iran wages on.
2. The White House/Treasury has picked a new fight with the "bond vigilantes" by intervening in the bond market.
3. The US has a new trade tussle with Canada.

Ripe material to create anxiety and sow uncertainty.

2 Or at least attempt to.

Meanwhile the **VIX**, which measures the expected volatility in the S&P 500, remains in **snooze mode** at 15. This suggests, despite scary talk, the equity market is not buying it.[1]

In effect, the discussions are filling time but have not been market moving events.

Chicago Cubs baseball is more exciting right now, in my opinion.

3 During this period of attempted distractions, we can sharpen our focus on what will matter as we exit the triviality of August, some of which I have discussed in the past.

4 While the powerful earnings story is getting more consideration than it did earlier in the year, I still don't think earnings revisions are fully priced in.

As I've said before, by December 31, 2026, investors will no longer be focused on 2026 earnings; their attention will be squarely on 2027 earnings and beyond.

[1] Bloomberg as of August 27th, 2026.

The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.**

I think there is much more upside to the S&P 500 based on the continued upward reevaluation of 2027 earnings.

Current projections for 2027 S&P 500[2] earnings of nearly $415 support the index ending 2026 well north of 8,000.

Keep in mind, company guidance remains extremely robust with seemingly no let-up, pointing to another quarter of strong earnings growth and potentially further positive earnings revisions.

This means $415 might be too low to start next year.

5 We can debate whether those 2027 earnings will materialize.

However, realistically we won't know for certain until well into 2027, not on December 31st, 2026.

Anyone who has suggested that earnings revisions are peaking or rolling over has been trampled by the earnings bulls.

6 Second quarter earnings reports for the hyperscalers with cloud infrastructure businesses suggest to me that their big capital investments are paying off.

Their growth rates for the infrastructure portion of their businesses accelerated.

"The spend comes first. The pricing, utilization and cash flow follow. The market may be recognizing the cost immediately while underestimating the operating leverage still to come."[3]

I agree.

Yet Wall Street remains dubious, questioning the long-term payoff.

My conclusion is that it's the classic mismatch between Wall Street's desire for quarterly results and corporations' willingness to invest for the future.

7 To be clear, our endorsement of and positioning in these large hyperscalers has *negatively* impacted Applied Equity's US equity performance year-to-date.

Mega-cap technology returns cumulatively have been disappointing.

We recognize these are large positions in the portfolios.

Particularly Nvidia and Google.[4]

In the past, we have trimmed these stocks on the heels of good stock performance, when the position sizes have gotten very large.

But given their lackluster performance for much of the summer, we have chosen largely to stick with them for now.

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[2] Factset as of August 27th, 2026.

[3] Citadel Securities August 24th, 2026.

[4] As of 7/31/2026: NVIDIA and Google are: 11.57% and 11.65% of Applied US Core Equity total assets, 10.98% and 9.91% of Applied Global Concentrated Equity total assets, and 7.11% and 8.93% of Applied Global Core Equity total assets.

8 While there are many ways we analyze stocks, my core belief is that a stock price regresses to the present value of all future expectations.

It's not about the growth rate of a company.

It's about what the company is *expected* to grow versus what it *actually delivers*.

If a company delivers better-than-expected fundamentals, the present value eventually goes up.

Likewise, if fundamentals are worse than expected, the stock price goes down.

For Nvidia and Google,[4] fundamentals have significantly exceeded expectations year-to-date, resulting in double-digit upward revisions for both.[5]

Yet both stock prices have exhibited underwhelming responses.

As I often say, we are not married to any style, sector or stock.

However, we will be patient as long as companies keep exceeding what is expected fundamentally.

That is where we are today.

9 As it pertains to Ai, we remain committed to the concept of *"investing in scarcity."*

Cycles end when capacity (supply) catches up to demand.

Or at least when Wall Street sniffs out a looming equilibrium.

We see plenty of continued mismatches between supply and demand.

Whether it be:

- Semiconductor production
- Advanced Ai chips
- Memory
- Compute power

10 Yet we learned with the meltdown of some well-known (and heralded) hedge funds in July that these concepts and their associated stocks are highly correlated.

Shorting software stocks against a long basket of Ai beneficiaries is NOT a hedge.

It's just more of the same theme.

Add a little leverage and voila, a reversal causes big losses and liquidations.

The glamour of potential big returns overrides risk controls until something like that happens.

As Warren Buffett liked to say, "only when the tide goes out do you discover who's been swimming naked."[6]

11 All three AEA active strategies outperformed and produced positive returns in July despite some pain in our Ai/tech positions.

That's because our non-correlated stocks kicked in, offsetting the pain.

[5] Bloomberg.

[6] ChatGPT.

Financials, a big overweight for us, captured much of the rotation.

As did energy.

12 I can't see "NIMBY" (**n**ot **i**n **m**y **b**ackyard) as it pertains to the data center buildout dying until after the mid-term elections.

Last time I checked, a data center does not vote.

What if politicians slow the Ai infrastructure buildout?

Is "NIMBY" good or bad for the big hyperscalers?

While on the surface, slowing the data center buildout might be perceived as bad, I actually think it's good for the hyperscalers.

The big boys can compensate local communities, and they have the resources to comply with local regulations to get their data centers built.

Less so for the smaller spec builders.

If compute supply will not ramp up as quickly as we thought, then those who have it will have more pricing power.

13 Boy did I whiff this one.......

I took new Federal Reserve Chairman Warsh's desire to reduce the Fed's balance sheet as likely bullish for the dollar and negative for gold.

That is, until the Treasury Secretary announced his bond buying program.

Which massively reversed the strong dollar trade.

……Pardon me, while I climb back into my equity box after being whipsawed and smacked down.

14 This leads me to try to answer the inevitable question of what could derail my overall bullish equity thesis?

My biggest worry remains the Fed and whether they will raise rates.

Easy to dismiss, simply because Warsh is a "Trump guy".

However, I think that is too trite.

Remember, there are voting members on the Fed who were in the "transitory inflation" camp in 2021.

They were wrong then, and avoiding another miss will most likely lead them to pressure Warsh if inflation numbers prove more persistent than expected.

15 In the meantime, the "threat" of a Fed rate hike will likely keep interest rates at elevated levels.

There are implications for equities:

1. While I think the S&P 500 can continue to move higher, it will have to come on earnings strength. I doubt we see any P/E expansion.

2. Speculative stocks will suffer as investors remember just how they did in 2022 when the Fed hiked.

   Growth investors are likely to favor the cash-rich, but slower growing mega-cap tech.

3. Higher rates will benefit banks and financials in the value area.

4. And perhaps most importantly, controlling risk becomes more important than in a clear rate cutting environment.

16 I remain convicted that big bull market cycles end in euphoria.

That's the bubble.

And that is just not happening yet.

Today the S&P 500 trades at a *lower* forward P/E valuation than it did at the beginning of the year.[7]

Tough to argue we are in a bubble when multiples are compressing!!

Andrew

[7] Bloomberg.

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