

Mid-Year Equity Outlook

SLIMMON'S TAKE | APPLIED EQUITY TEAM | July 2026

1 There is one consistency to being an equity portfolio manager:
I am always nervous about the future.

If our strategies are performing well, then I worry the stocks in them are getting too overbought and due for a breather.

If our strategies are performing poorly, then I worry for the obvious reason: that our strategies are not delivering what our investors expect.

Likewise, in terms of the equity market, when the market is acting “irrational” (in my opinion), then I worry I am missing something.

And if the equity market feels as if it’s acting entirely “logical,” then I worry it’s too obvious.

Right now, in 2026, it appears to me that the equity market is acting rationally and largely as it should be.

Which suggests *we could experience continued strong returns in the second half of 2026.*

Until it becomes obvious.

2 Here is why:

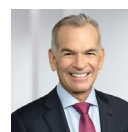
When I consider where the equity market could *end* 2026, I believe investors will be focused on 2027.

Remember, stocks are discounting mechanisms for what’s to come.

Not what has already happened.

So on December 31st, 2026, when we close the books on the year, what’s to come is 2027.

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And that is a bright earnings picture.

3 To put it in context, the consensus 2027 earnings for the S&P 500 have risen from \$357 at the start of this year to right around \$400 today. ¹

Clearly, Wall Street has not been optimistic enough about 2027 earnings.

And it's only July 2026.

4 What if the trend continues?

Since the beginning of 2025, Wall Street has been forced to increase its overall estimates for S&P 500 earnings every quarter.

Which means they also have increased their annual numbers for 2026 and 2027.

When Wall Street's estimates for earnings finally catch up to reality is anyone's guess, but it seems to me it's foolish (or arrogant) to assume that they are there yet.

The trend will continue until proven otherwise, in my opinion.

5 Let's assume that \$400 number for 2027 earnings could be even HIGHER by year-end.

And if I apply a reasonable 20x P/E to it, that suggests to me the S&P 500 has quite a bit of upside in the second half of 2026.

Hence why the YTD rally in the stock market makes sense as well.

It's logical.

6 So, what could go wrong?

I think the biggest risk is the Fed.

The historical data is rather obvious.

If the Fed raises rates, stocks struggle.

That is not my base case but that would throw a wrench in my "logical" scenario.

¹ Factset as of June 30th, 2026

The returns referred to in the commentary are those of the representative indices, unless otherwise noted and are not meant to depict the performance of a specific investment. **Past performance is not guarantee of future results.**

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While the market has become narrowly focused on the AI beneficiaries— the chips, memory, and tech equipment stocks—from a performance standpoint, that has not been the case for fundamentals.

There are plenty of sectors where stocks have simply not kept up with earnings and earnings revisions.

Big banks and the hyperscalers would be two groups I would highlight.

Great earnings growth and yet not much return for the stocks YTD.

In my experience, stock prices eventually do catch up to the fundamentals.

My view is that investors who have turned less optimistic on these large tech companies are making a premature mistake.

8

In 2025, a developed global market's equity allocation outperformed a US-centric one.

Since the Great Financial Crisis of 2008, that has occurred only three other times (2012, 2017 and 2022).²

We think it just might happen again in 2026.

For the 15 years leading up 2025, we have heard the argument that equity markets outside the US were “cheaper” and therefore had more upside.

That argument largely failed as the US market massively outperformed the rest of the world.

While markets were cheaper, the rate of change was never as positive as the US.

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As an equity manager, we struggled to find companies where that rate of change (earnings revisions) was as powerful a story as those in the US.

That began to change in early 2025.

And has continued this year.

10

To be clear, we would not advocate moving equity exposure completely out of the US, but a smattering of US, European and Asian stocks just might outperform a US-only approach.

For the second year in a row.

Andrew

² Bloomberg as of December 31, 2025

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