

Equity Market Commentary

SLIMMON'S TAKE | APPLIED EQUITY TEAM | September 2026

AUTHOR



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- 1 The Federal Reserve raised the federal funds target rate by 0.25% on September 16th....and the stock market rallied.

So much for that old saying, "Don't fight the Fed!"

(When the Fed is raising rates, that's bearish, and when they are lowering, that's bullish.)

- 2 What's more, I have regularly used a chart showing that historically, in months when the Fed is lowering rates, the S&P has averaged a return of +1.7% but when they are *raising* rates, the return averages -0.5%.¹

- 3 Yet the market is up 2.08% since that Wednesday.²

So, what gives?

And what's next?

- 4 To me there are a few reasons for this relief rally:

- A. The S&P 500 had been trading sideways since late May.

Made no headway despite excellent fundamentals.

That suggests the market was already bracing for a less dovish Fed.

- B. Sentiment (an excellent contrarian indicator) was thoroughly washed out.

The AAI bull/bear indicator was in bearish territory.

The CNN Fear/Greed indicator was solidly in fear mode.

- C. During his press conference, Fed Chair Warsh highlighted his belief economic growth was *accelerating*.

¹ Since 1950. Bloomberg.

² S&P 500 as of September 25, 2026. Bloomberg.

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The US Financial Conditions Index, the Leading Economic Conditions and the Citi Economic Surprise Index seemed to validate this.

That means earnings estimates, which have been rising all year, could still be too low for 2026 and 2027.

D. By raising rates, the Trump-appointed Warsh sent a signal of Fed independence.

The higher priority was fighting inflation versus appeasing the White House. (i.e. so much for being a “sock puppet.”³)

5 Having said this, I think we need to recognize the environment for equities has changed.

The Fed has decidedly moved from the accommodative policy of 2025 to a more restrictive one.

If in fact the Fed only raises rates modestly, as in late 2015 through 2017, stocks can perform quite well.⁴

However, if the environment requires a far more restrictive Fed, as in 2022, that will have a far more deleterious impact on stocks.⁵

6 Which will it be?

Right now, who knows?

No one, in my opinion.

(Predictions by the “Fed experts” make my weekly college football pool record look good...which it isn't.)

Seems to me watching future monthly CPI inflation readings will be pretty darn important.

7 We really won't know the answer to the question of the path of the Fed until 2027.

That cloud of uncertainty will continue to weigh on stocks.

At least for now, macro unease seems to be very much on the minds of investors.

8 The good news, however, is Q4 might be a pivot by investors back to focusing on “the micro.”

That would be entirely consistent with the story so far this year:

Q1: *Macro* focus S&P 500 down -4.35%

Q2: **Micro** focus S&P 500 up +15.20%

Q3: *Macro* focus S&P 500 up +3.25%⁶

Q4 **Micro** focus ????

³ At Warsh's April 21st 2026 confirmation, a prominent senator suggested Warsh would simply follow the wishes of President Trump.

⁴ The Fed began hiking rates in December 2015 and then continued once in 2016 and three times in 2017. Despite the tightening, the S&P 500 returned 12.0% in 2016 and 21.8% in 2017.

⁵ In 2022, the Fed raised rates 7 times by over 400 basis points total, and the S&P 500 dropped -19.4% in 2022.

⁶ As of September 25, 2026. Bloomberg.

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Therefore, I would not get too bearish as the calendar moves closer to year-end.

In my view, the macro headwinds should not derail the micro story that led the market higher in Q2:

Q4 is historically the best quarter of the year as Wall Street and investors begin to focus on the next year's projections.

Since my late-August Slimmon's TAKE, 2027 earnings estimates have risen *even further*.

That's really the story of the year:

Plenty of macro issues to worry about, but when the market refocuses on earnings...it tends to head higher.

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Historically the market expresses a deep sigh of relief after the mid-term elections.

There seem to be two consistencies surrounding mid-terms:

- A. The party not in power almost always picks up seats in Congress.
- B. The stock market likes it.⁷

In my opinion, the market likes gridlock in DC.

And right now, we do not have it.

A single party with too much power makes the market nervous.

Anecdotally, from speaking with many US investors, that is causing plenty of anxiety.

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As part of the Applied Equity team's management of its long-only equity strategies, we keep a close eye on our risk budget.

While we have been optimistic on the stock market overall, we do own lower beta names as well.

These tend to help a portfolio in declines, relative to the benchmark.

Those lower beta positions can weigh on relative performance in an environment when the Fed is clearly ultra-accommodative.

As in the second half of 2025.

It was August 2025 when Fed Chair Powell announced a policy adjustment moving to a rate cutting regime.

High beta stocks took off and low beta stocks woefully lagged.⁸

Not the best environment to be conscious of the amount of risk in a portfolio.

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But with Fed Chair Warsh's recent and more restrictive policy adjustment, less certainty weighs on the high beta names.

That means keeping an eye on risk matters more.

⁷ Since the inception of the S&P 500, the other party has gained seats in the mid-terms 17 out of 19 elections and the market has rallied over the next 12 months 19 out of 19 times. Wikipedia.

⁸ From the August 22, 2025 speech by Powell until December 31st 2025, the S&P 500 rallied 6% but the Invesco High Beta ETF was up 12% while the Low Volatility ETF was down -3%. This is for informational purposes only and does not constitute a recommendation to buy or sell any particular security.

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In each of our strategies we own the stock of United Rentals (URI).⁹

URI is an equipment rental company serving the construction industry, industrial and commercial concerns, homeowners and others.

I like to call URI “the best economist.”

Their touch is so broad that they have a pretty good pulse on the US economy.

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Frequently, I hear from skeptics that economic and earnings strength is “all about Ai and the Ai buildout,” implying nothing good is happening elsewhere.

Not true, according to URI.

While housing remains weak, URI continues to highlight power and infrastructure projects, in addition to data centers, as a source of strong growth in 2026.

It's my belief that the corporate tax benefits of the One Big Beautiful Bill are a big reason for this strength.

Tax benefits encourage corporate capex.

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Finally, how many years in a row did we hear strategists tell us that we should increase our allocation outside the US to Europe or Japan because those markets were “cheaper”?

From the end of 2009 over the next 15 years, Europe and Japan equity markets each compounded at 5%-6% per year while the S&P 500 compounded at 14% annually.¹⁰

In essence you could have made three times the return sticking to the US and ignoring those calls to “diversify”.

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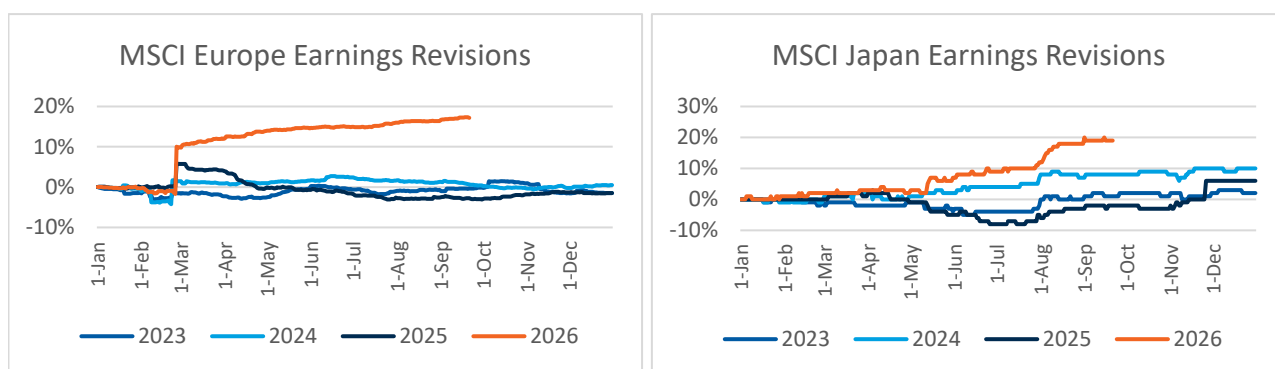
Yet starting in 2025, those non-U.S. markets have not only kept up with the S&P 500, but they have marginally outperformed.

So, what is the difference?

What has changed?

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We think it's because earnings revisions in non-U.S. markets are inflecting upward:



Source: Bloomberg.

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⁹ As of 8/31/26, 1.49% in Applied Global Concentrated, 1.84% in Applied Global Core, and 1.89% in Applied US Core. This is for informational purposes only and does not constitute a recommendation to buy or sell any particular security.

¹⁰ Returns in US dollars. Bloomberg.

While these charts only go back to 2023, I think the improvement in performance is due to this:

Stocks respond to the direction of change.

As I wrote in the August Slimmon's TAKE:

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.

I believe that is true for markets overall.

Positive earnings revisions for Europe and Japan are the key difference between 2026 and many previous years.

And that gives us a lot more confidence in the non-US stocks in our global strategies.

Andrew

Risk Considerations

Diversification does not eliminate the risk of loss. There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. In general, equities securities' values also fluctuate in response to activities specific to a company. Stocks of **small- and medium-capitalization** companies entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risks). Non-diversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **AI**: Investing in companies in anticipation of a catalyst event, such as AI adoption, carries the risk that such catalysts may not occur, may be delayed, or that the market may react differently than expected. Companies focused on AI may have limited product lines, markets or financial resources, and their management and performance may be particularly impacted by events that adversely affect AI adoption, such as rapid changes in product technology cycles, product obsolescence, government regulation, cybersecurity concerns and competition.

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