

Equity Market Commentary

SLIMMON'S TAKE | APPLIED EQUITY TEAM | August 2025

The following views and perspectives are formed by the work of the Applied Equity Team in managing assets for investors.

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1 Let me begin with two comments:

1. Valuation analysis is only as good as the accuracy of Wall Street's predictions. *Currently, in my opinion, these predictions are more inaccurate than normal.*
2. For that reason, *I do not think the S&P 500 (cap-weighted) is nearly as "expensive" as many of the experts would suggest.*

2 Stock prices only care about what will happen in the future, not the past.

They represent the present value of future expectations.

I think that was part of my day-one orientation at the University of Chicago.

For that reason, when evaluating the attractiveness of a stock or the market overall, there is an assessment made of future revenues, cash flows and/or earnings.

That generally falls into the denominator of valuation analysis.

For instance, to look at a "P/E" (price/earnings ratio) multiple, we take the actual price in the numerator and divide by some estimate of future earnings in the *denominator*.

3 One of the biggest errors I see investors make is applying valuation analysis with the blanket assumption that Wall Street's denominators are correct.

"The S&P 500 is expensive because it is trading at a current P/E of 22" screams of errors based upon blanket assumptions.

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.**

When you hear someone say that to you, please ask them or yourself, “whose prediction is in that denominator?”

And what is their track record of accurately predicting earnings?

You might be surprised with the answer (assuming you could get one).

4 I think Wall Street’s denominator is particularly wrong currently, and it’s sending an inaccurate message that the equity market is overvalued.

At least for the S&P 500 cap-weighted.

5 The Applied Equity Team follows “bottom-up consensus estimates”.

We use a service called FactSet that aggregates the Wall Street research analysts’ estimates for all the companies the analysts follow to arrive at a consensus estimate for each company and, therefore, for the index.

Companies often “guide” the analysts to their projections.

They like to keep analysts in a range to manage their quarterly results.

Yet, sometimes, when companies are less certain, they are more hesitant with their guidance.

This year has been one of those years when companies have been less forthcoming. “Tariff uncertainty” has been the cause of less earnings guidance.

6 First quarter 2025 earnings results were stellar.

In fact, analyzing the *final results* versus the pre-Q1 *consensus estimate* suggests that for the S&P 500 overall, earnings came in +**\$3.61** above what consensus estimated. (\$63.55 of actual earnings versus \$59.94 estimated earnings)¹

7 If all else were equal, then you would have expected analysts to raise their full-year 2025 numbers by that same amount (and quite likely 2026 as well).

But they did not.

Why?

Because that was when President Trump unleashed his global tariff initiative.

With so much uncertainty around tariff impacts, many companies simply halted guidance.

The Wall Street analysts, projecting a bad outcome for companies, cut their full-year estimates for 2025 and 2026.

8 Now companies have reported their Q2 2025 earnings.

And they were stellar, beating Q2 estimates *yet again*.

Earnings came in +**\$3.94** above what consensus estimated. (\$66.43 of actual earnings versus \$62.49 estimated)²

¹ Fundstrat May 2025.

² Fundstrat as of August 14th, 2025.

9 Now adding two quarters together, Wall Street has been too **low by \$7.55** of earnings for the S&P 500.

But here is the catch:

The consensus estimates for 2025 and 2026 (the denominator of the P/E) is *lower* today than prior to Q1 earnings reports.

The S&P 500 2025 estimate was \$271.20 prior to Q1 earnings, yet it's \$267.48 today. Wall Street has cut their outlook for the year by **-\$3.72**.

Likewise, the 2026 estimate was \$309.00 as of mid-March, and it's now \$302.53 following a large **-\$6.47** cut.³

10 Unless you believe the economy is about to collapse, analysts (and therefore strategists) are going to be raising their numbers for this year and next.

Bottom line, increasing the denominator by a potential \$10-\$15 of earnings for this year and next means that, suddenly, the S&P 500 does not look as expensive.

This year is a great lesson, in my opinion, about the pitfalls of valuation analysis.

11 As you might have noticed, I keep mentioning the S&P 500 *cap-weighted*.

That's because when we review the earnings results for companies, broadly speaking, the best results came from the largest of the large companies. The mega-caps.

Of the 7 largest companies, all have reported except Nvidia.⁴

*Every one of them beat Q2 estimates.*⁵

12 I do not see this level of estimate revision for the remaining 493 stocks in the S&P 500, or *in any other region of the world, for that matter*.

13 So, the next time a pundit tells you that "breadth is narrow and that is a dangerous sign," think, "no...investors are acting entirely rationally and are buying the best fundamentally-driven stocks."

14 It's for this reason we approach pure valuation analysis guardedly:

Analysts and companies are often **WRONG** about their guidance.

Stocks can appear mispriced—expensive or cheap—based on inaccurate estimates.

15 Let me provide two actual stock stories that are, or were, in Applied Equity strategies:

A. LVMH Moët Hennessy

This had been a great stock for our global strategies in the early 2020s.

Yet, in 2023 they started facing headwinds, particularly out of China.

The stock price was pressured in late-2023, but the company assured Wall Street that 2024 was looking brighter.

By the beginning of 2024 the stock looked "cheap versus its history" based on the company's earnings outlook for the year.

³Factset.

⁴ Nvidia reports August 27, 2025.

⁵ Microsoft, Apple, Amazon, Meta. Broadcom. Alphabet.

20x forward P/E versus 26x six months earlier.⁶

This led many to recommend the stock, calling it “A great stock at a discount” is what I remember hearing.

Except the earnings estimate for 2024 was woefully too high.

During the year, the estimate was reduced by -22%.⁷

And the stock fell -14% for the year, underperforming MSCI World by 30%.⁸

In hindsight, for our strategies, we should have sold the minute the company admitted to China weakness in 2023.

What we did NOT do is buy more because it “looked cheap.”

With the denominator dropping, it was time for us to reduce exposure NOT step up and try to call the bottom.

B. Nvidia

In July 2023, Applied Equity began buying this stock for our strategies.

I remember the pushback: It looked like an expensive stock trading at a P/E of 48x forward earnings.⁹

Except the company was handily outperforming analysts’ earnings estimates, and every quarter, estimates were raised.

In reality, the company was trading at just over 30x earnings, as estimates were raised by nearly 60%.¹⁰

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One final point about the market overall:

The stock market is an emotional beast that vacillates between focusing on the micro fundamentals of the underlying companies and the macro data that feeds Wall Street’s prediction machine.

While this note has focused on the fundamentals, it does not mean we can’t get some emotional reaction to upcoming economic data, which could create unease.

As I wrote in the late-July Slimmon’s TAKE, I think that is a distinct possibility over the next month.

But to be clear, I am heartened by the underlying fundamentals.

Higher future earnings expectations are bullish for the S&P 500.

Andrew

⁶ Bloomberg.

⁷ Bloomberg.

⁸ Bloomberg.

⁹ Factset. August 2023.

¹⁰ Bloomberg.

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