

Equity Market Commentary

SLIMMON'S TAKE | APPLIED EQUITY TEAM | September 2025

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

AUTHOR



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- 1 At Applied Equity we try to marry a focus on corporate fundamentals with an understanding and overlay of behavioral finance.

In my experience, macro-economic forecasts are not accurate consistently enough to incorporate into our investment strategy.

- 2 Currently there appears to be quite a dichotomy between corporate fundamentals and investor sentiment.

While unusual, the outcome of this current divergence is consistent with history.

Let's first discuss fundamentals.

- 3 As I articulated in the most recent August 2025 Slimmon's TAKE, stock prices are the present value of future expectations.

Simply put, if companies produce better than expected results, stock prices tend to rise, and if they disappoint, prices likely decline.

Studies have proven that analysts and strategists are slow to adjust to surprises, implying better than expected results lead to further positive revisions, and likewise, negative results have trending characteristics.¹

- 4 As we have noted, corporate earnings are currently exceeding Wall Street's estimates.

Cumulatively, the results for the first quarter and second quarter of 2025

¹ Factset and Golden Capital Study. 2018.

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.**

beat Wall Street's estimates by nearly 10%.²

An unusually wide margin.

The year over year change in revenues continues to outpace the year over year change in costs by nearly two percentage points, even after tariffs have been implemented.

The operating margin for the S&P 500 overall has climbed back to 17.9%. This is approaching an all-time high.³

5 Yet again, Wall Street has been slow to respond to their overly pessimistic projections as their future quarterly projections and full year estimates have barely improved.⁴

Based on historical studies, this implies continued positive outcomes in future quarters.

That's good news, in my opinion.

Now, let's discuss behavioral finance.

6 Sadly, we all know the reality of cumulative investor behavior:

*Investor sentiment tends to react to price change rather than anticipate -- optimism builds **after** rallies, and pessimism deepens **after** declines.⁵*

7 Here is the current dichotomy:

Despite better-than-expected corporate fundamentals and the S&P 500 having returned over 10% YTD⁶, sentiment has NOT followed price change.

Yet...

8 Consider:

At the beginning of the year, Wall Street strategists' average 2025 year-end S&P 500 price target was 6,650.

Today it is 6,300.⁷

In essence, Wall Street is more pessimistic on the S&P 500 now than it was at the beginning of the year even though the present value of future expectations is higher. (e.g. earnings beats)

9 It's not just the professionals.

² Strategas. August 2025.

³ Fundstrat. August 2025.

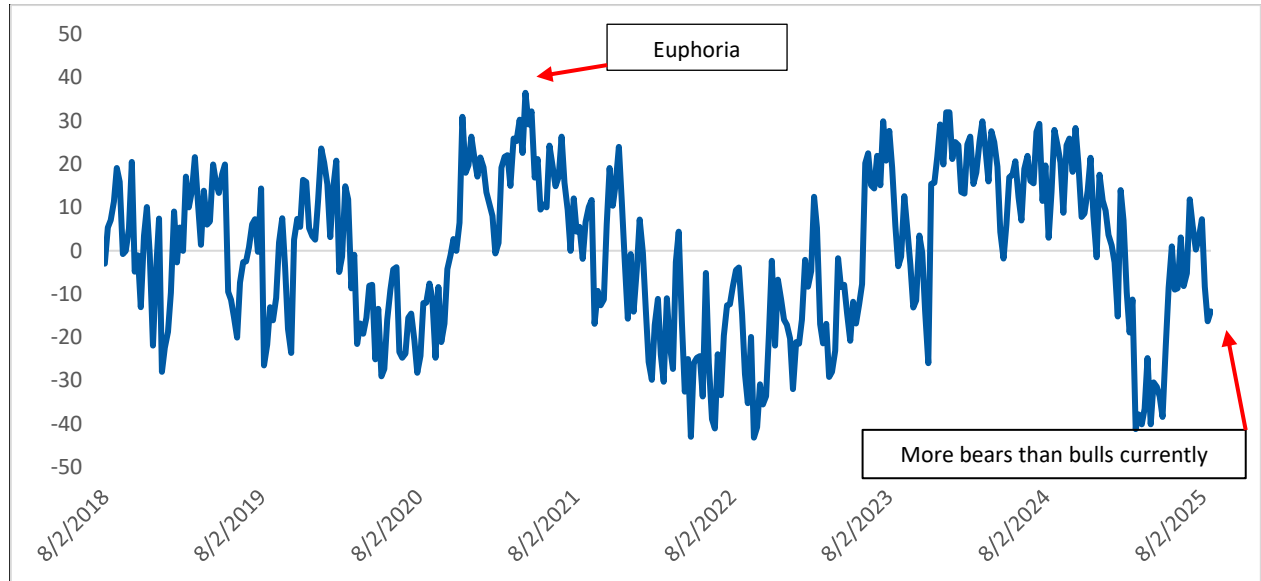
⁴ Factset.

⁵ Topdown Charts.

⁶ As of August 29th, S&P 500 total return.

⁷ Strategas.

Here is the AAll Bull-Bear Sentiment Chart:



Source: Bloomberg, AAll.

At the beginning of the year the AAll Bull-Bear sentiment ratio was net **0**.

What this means is that of the thousands of investors polled, there were an equal number that were bullish as there were bearish.

Today, that ratio has swung far more bearish to a **-15%** reading.

That's a notable tilt toward pessimism.

Bearish sentiment is well above its historical average of 31% while bullish sentiment is significantly below its norm of 38%.

This kind of imbalance is often viewed as a contrarian signal--when investors are overwhelmingly bearish, it can sometimes precede a market rebound.⁸

10

According to Google Trends, searches of the term "Bubble" as it pertains to finance are **up 56%** since the beginning of the year.⁹

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Yet historically, sentiment follows price momentum which follows corporate fundamentals. So, why isn't sentiment higher?

My hunch:

This past Thursday I was on one of the morning business channels.

I had planned to address this dichotomy, but my time was shortened.

The anchors wanted to get right back to the discussion of Fed independence, Trump versus Powell/Cook etc., etc.

I can't blame them, as they emphasize what captures eyeballs.

My guess is that there is even more focus on Washington, D.C. than normal, which means that **there is less focus** on the present value of future expectations.

Therefore, I'll repeat what I wrote in May:

⁸ AAll.com.

⁹ Market Watch. August 2025.

To which, I am reminded of a great Warren Buffett quote:

If you mix your politics with your investment decisions, you are making a big mistake.¹⁰

12 Clearly, many experts and investors think this time is different and their macro predictions will accurately lead the market in a different, more negative trajectory.

I would not assume I'm smart enough for that. (Or they are, either.)

Mr. Market will likely humble them.... yet again.

Therefore, my conclusion is that nothing has really changed.

As I said at the outset, the outcome of this divergence is consistent with history.

Sentiment will ultimately chase higher.

Greed will trump everything else.

This will ultimately force a higher level of optimism, which will push stock prices higher by year-end.

13 Of course, investors could get sidetracked even further.

"The noise from DC" could grow louder in September.

Yet it likely does limit the downside when so many are bracing for bad news.

As I said, I am confident that sentiment will march higher to more closely align with corporate fundamentals into year-end.

Andrew

¹⁰ Berkshire Hathaway Annual Shareholders meeting on May 3rd, 2025.

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