EquityCompass

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Commentary & Outlook

Sprinters And Hikers:
Two Approaches, One Summit



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2026 Third Quarter Commentary and Outlook

"There are many paths up the same mountain."

—Hindu proverb

Commentary

The proverb "many paths up the same mountain" is associated with the pluralist idea that although truth is singular there are separate traditions, rituals, and paths of knowledge to approach scaling an intellectual peak—the point of highest achievement.

Likewise, there are different tracks one might consider when attempting to summit the stock market—short-term and long-term avenues as well as technical and fundamental methods. However, each path is ultimately judged by whether it brought the climber—the investor—to the mountain top, achieving the financial objective.

The seminal work comparing short-term and long-term strategies can be found in a research paper written by Andrei Shleifer and Robert Vishny titled, *"The New Theory of the Firm: Equilibrium Short Horizons of Investors and Firms."*[1] In the study, the authors compared the cost, risk, and return of short-term and long-term investment approaches.

The **cost** of an investment approach is the amount of time that capital is invested, **risk** is the amount of uncertainty over the outcome, and **return** is the amount of money earned on the investment. Accordingly, for short-term strategies the cost can be minimal (capital is invested for a short period) and risk may be limited (uncertainty over the outcome is settled quickly). However, the return is often smaller. To seek substantial returns from a short-term strategy, it must be frequently employed.

For long-term strategies, capital is invested for an extended period, the time frame of the payoff is more uncertain, but the investment returns should be higher.[2] The controlling variable for both short-term traders and long-term investors is time horizon. Traders operate in short-horizon periods and accept potentially smaller returns. Investors work over long horizon periods in anticipation of larger returns.

The research literature on the outperformance of long-term strategies over short-term strategies is both deep and wide. Academicians have long settled the dispute explaining active traders typically underperform the market by a substantial amount.[3]

Classic economic theory assumes individuals—both traders and investors—discount the future (near term or long term) at a constant rate. However, the truth is, individuals demonstrate a present bias—wanting rewards sooner rather than later. In other words, investors tend to discount the near future much more aggressively than the distant future. The emphasis on the "here and now" versus biding one's time for a potentially higher return creates what is called the "patience premium" and it serves to explain why long-term strategies typically outperform shorter-term strategies.[4]

The journey in pursuit of successfully achieving one's financial goals can be akin to a slow, thoughtful hike up the mountain. But if the decision instead is to sprint to the top, reaching the summit to plant a flag of achievement despite years of hard work, could prove wanting.

Outlook

Over the last decade, investors have endured multiple challenges—trade wars, a global pandemic, rising inflation and interest rates, Russia's invasion of Ukraine, and, most recently, the U.S.–Iran War (**Chart 1**). All of these events negatively impacted the stock market in the short run but NOT in the long run. Looking back, we can confidently say it was the growth in company earnings that drove stock prices higher despite

the economic, political, and geopolitical disruptions (**Chart 2**).

Over the last few months, rising oil prices, inflation, and interest rates have surfaced. Despite this, investors have largely dismissed these macroeconomic concerns principally due to the rapidly rising rate of earnings estimates among large-cap stocks.[5] Goldman Sachs reports that, in the second quarter of 2026 (year-over-year), S&P 500 earnings per share (EPS) grew at an astonishing 51% rate and at a 26% average rate over the past four quarters. Compare this to the historical annual EPS growth, which over the last 30 years averaged 7%. To this we can add, the S&P 500 forward price-to-earnings (P/E) ratio has fallen from 23x one year ago to 19x today, matching its 10-year average.

According to Ben Snider, U.S. equity strategist at Goldman Sachs Research, *"because equity prices have failed to keep pace with surging earnings, near-term valuations show no hint of a bubble."* [6]

Still, it would be short-sighted to assume earnings growth rates will continue to push ahead at this blistering pace. Indeed, Goldman Sachs forecasts S&P 500 EPS will grow 11% both in 2027 and 2028—certainly slower than the previous year, but still an above average growth rate, nonetheless.

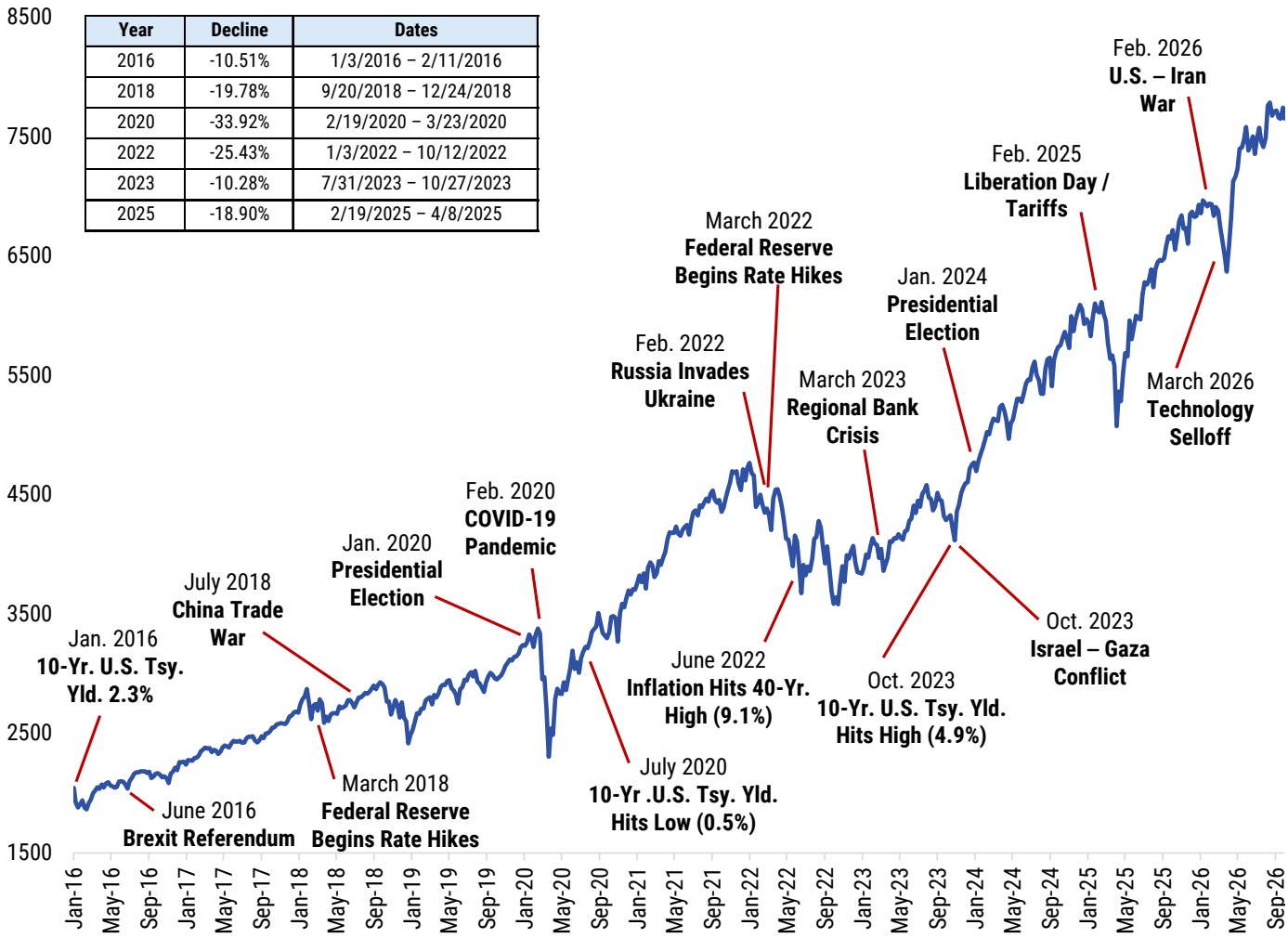
Since the onset of the U.S.–Iran war, there has been a strong correlation between Treasury yields and oil prices, which, in turn, has impacted monetary policy. As oil prices have persistently remained near $100 per barrel, a change in the Federal Reserve (Fed) policy towards interest

Headline News Over the Last Decade

Chart 1

S&P 500 Index January 1, 2016 – September 30, 2026 | Source: Bloomberg Finance, LP, EquityCompass

Year	Decline	Dates
2016	-10.51%	1/3/2016 – 2/11/2016
2018	-19.78%	9/20/2018 – 12/24/2018
2020	-33.92%	2/19/2020 – 3/23/2020
2022	-25.43%	1/3/2022 – 10/12/2022
2023	-10.28%	7/31/2023 – 10/27/2023
2025	-18.90%	2/19/2025 – 4/8/2025



rates has surfaced. Jim DeMasi, EquityCompass Senior Portfolio Manager and head of fixed income strategy, notes core inflation has been running persistently above the Fed's 2.0% target rate for more than five years. Alongside a strong economy, operating near full employment, the Fed had little choice but to raise its short-term policy rate by 25 basis points at its September 16 meeting. This action marked the first Fed rate increase since July 2023 and it signaled a noticeable pivot in monetary policy by the central bank.

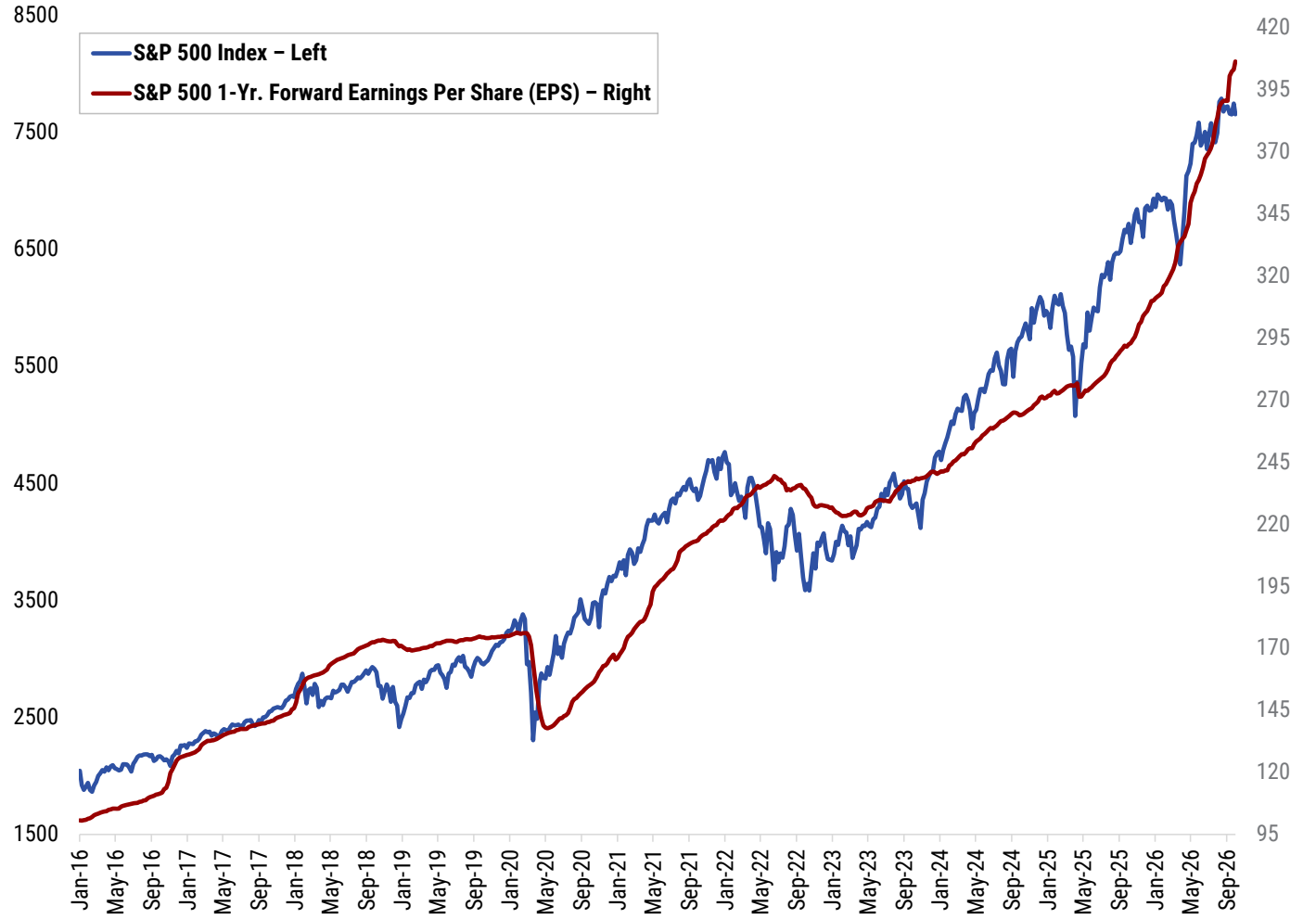
The Fed's inflation-fighting credibility has recently been called into question by the bond market vigilantes and, in doing so, they have pushed long-term Treasury yields to their highest levels in nearly two decades. To maintain its price stability credentials and to potentially cap the upside in rates at the long end of the Treasury curve, the Fed's rate hike was accompanied by hawkish rhetoric signaling more policy tightening may be likely over the next few months.

Typically, a rise in interest rates is viewed as negative by the stock market. Thus far, the new Fed posture has not caused a significant correction in stock prices, likely because strong earnings growth rates have largely overridden the angst that often accompanies higher interest rates.

Although rising interest rates can cause the bond market to struggle from a price perspective, most investors may be overlooking the significant income opportunities available in a higher

S&P 500 Index Versus Forward EPS **Chart 2**

January 1, 2016 – September 30, 2026 | Source: Bloomberg Finance, LP, EquityCompass



interest rate environment. As Jim highlights in his recent article, *"A Rare Opportunity in Bonds,"* over the past 25 years, the 10-year U.S. Treasury yield has traded above 5.0% in only four relatively brief periods.

Importantly, he notes, *"for investors that have positioned their portfolios to overweight cash and underweight fixed income relative to their long-term asset allocation targets in recent years, the compelling opportunities currently within the bond market may warrant a compositional reassessment. More than 25 years have passed since there was a similar chance to lock-in 5%+ yields for several years, enhance income over cash equivalents, and maintain risk exposures at reasonable levels."*

Turning to the stock market, over the past ten years, investors have endured two major bear markets (2020, 2022), two near bear markets (2018, 2025) and two common variety market corrections (2016, 2023). What can we discern about the stock market over the last decade? After each troubling issue was dispelled, another challenge rose soon after.

It is often said the stock market climbs a wall of worry—as soon as one problem is resolved, another tends to arise. On Wall Street, the path higher is not always a straight line. This wall of worry has continued into 2026. As noted, interest rates are on the rise. The Federal budget deficit and total debt outstanding is widening at an alarming rate. The war with Iran, despite hopes for an expeditious settlement, has turned into a military and financial quagmire. To boot, the U.S. midterm elections are upon us with a possible change in congressional leadership. Suffice to say, the stock market has plenty to worry about the remainder of the year.

At EquityCompass, it is important to understand that while we are macro-aware of these issues, we are macroeconomically agnostic. We do NOT senselessly trade stocks attempting to forecast unforecastable macro events. Nor do we second guess how these exogenous events might impact stock prices in the short run. So, how do we navigate a market fraught with worry? Our decision to buy or sell stocks is solely driven by the underlying economic returns of our businesses—not the headline du jour.

Our dividend portfolio managers focus their attention on a company's ability to pay and grow their dividends, knowing the success of both often leads to capital appreciation. Likewise, our growth portfolio managers concentrate their attention on a company's financial returns—specifically the ability to reinvest their earnings back into the company to compound the growth of intrinsic value.

Despite our apprehension to forecasting macro events, based on the inability of anyone to accurately and consistently anticipate macro events, there is an effective long-term strategy that can reward investors—called "stay the course." Recall the last six major market correcting events from **Chart 1**. Individuals who stayed the course were eventually rewarded with outstanding investment returns.

No matter the macro headlines, no matter the uncertainty surrounding macro events, we believe an effective portfolio strategy begins by designing a sturdy and long-term investment approach.

As always, our mantra remains the same. We believe if you can answer these two questions—***what do I own?*** and ***why do I own it?***—smartly and rationally, the hike up the mountain may be made easier.

About the Author



Robert G. Hagstrom, CFA, is Chief Investment Officer of EquityCompass Investment Management, LLC and Senior Portfolio Manager of the Global Leaders Portfolio. He joined EquityCompass in April 2014 and launched the Global Leaders Portfolio in July 2014. Robert was appointed Chief Investment Officer in March 2019.

Robert has more than 40 years of investment experience. Prior to joining EquityCompass, for 14 years he was the Senior Portfolio Manager of the Growth Equity Strategy at Legg Mason Capital Management led by Bill Miller who was the portfolio manager of the Legg Mason Value Trust. Robert received "Honorable Mention" recognition in Morningstar's Domestic-Stock Fund Manager of the Year in 2007 while with Legg Mason.*

Robert is the author of seven investment books including The New York Times Best Seller, *The Warren Buffett Way*, widely considered the definitive book on investment approach and strategies of Warren Buffett. The book, now a *Wiley Investment Classics*, has sold over one million copies worldwide and is translated into 18 foreign languages.§ In addition, Robert wrote *The Warren Buffett Portfolio: Mastering the Power of the Focus Investment Strategy*, the first book to examine concentrated, low-turnover portfolio management. Robert also wrote *Investing: The Last Liberal Art*, a multi-discipline examination of investing and decision making.

Robert earned his Bachelor's and Master's of Arts degrees from Villanova University. He is a Chartered Financial Analyst, a member of the CFA Institute, and the CFA Society of Philadelphia.

* Established in 1988, the Morningstar Fund Manager of the Year award recognizes portfolio managers who demonstrate excellent investment skill and the courage to differ from the consensus to benefit investors. To qualify for the award, managers' funds must have not only posted impressive returns for the year, but the managers also must have a record of delivering outstanding long-term performance and of aligning their interests with shareholders'. The Fund Manager of the Year award winners are chosen based on Morningstar's proprietary research and in-depth evaluation by its fund analysts. For more information about Morningstar Awards, visit https://go.morningstar.com/Morningstar-Awards.

§ Source: www.wiley.com

(1) Shleifer, Andrei and Robert Vishny, "The New Theory of the Firm: Equilibrium Short Horizons of Investors and Firms," *American Economic Review*, Paper and Proceedings 80, no. 2 (1990), 148–153.

(2) Ibid.

(3) Barber, Brad M. and Terence Odean, "Trading is Hazardous to your Wealth," *Journal of Finance*, 55 (2000), 773-806; S. Bernatzi and Richard Thaler, "Myopic Loss Aversion and the Equity Premium Puzzle," *Quarterly Journal of Economics*, 110 (1995), 73-92; I. Zaznov, J. Kunkel, A. Dufour, A. Badii, "Predicting Stock Price Changes Based on the Limit Order Book: A Survey," *Mathematics*, 10 (2022), 1234.

(4) Hagstrom, Robert G., *The Warren Buffett Way,* Third Edition, (Hoboken, NJ: Wiley & Sons Publishing), 2014, p. 203;

(5) Portfolio Strategy September 2026, "What We're Watching and Why," Empirical Research Partners, September 18, 2026, p. 10.

(6) Briefings from Goldman Sachs, "How AI Capex Impacts Stock Earnings," September 25, 2026.

About EquityCompass

EquityCompass Investment Management, LLC ("EquityCompass") is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets of approximately $6.6 billion as of September 30, 2026.* EquityCompass is a wholly owned subsidiary of Stifel Financial Corp.

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*Total assets combines both Assets Under Management and Assets Under Advisement as of September 30, 2026. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

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