

MARKET MINUTE

With McGAREL



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Past performance is no guarantee of future results.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Index data is for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.

Technology Plus (Tech+) is a combination of the technology sector; the interactive home entertainment and interactive media & services industries; Amazon.com Inc., Tesla Inc., and Netflix Inc.

Cyclicals are defined as the financials (excluding transaction & payment processing services), energy, materials, industrials and consumer discretionary sectors ex internet & direct marketing.

Defensives are defined as the consumer staples, health care, utilities, real estate, and communication services sectors excluding interactive media & services.

Forward P/E is the price of a stock divided by estimated forward earnings.

There is no assurance any forecasts will be achieved.

The charts are for illustrative purposes and do not represent any actual investment.

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It has long been said that valuation alone is not a catalyst for a stock or group of stocks to move higher. We agree. One of the more difficult tasks for investors is recognizing the catalyst for an undervalued area before it starts to go higher. And if prices are low enough or attractive enough relative to other highly valued assets, a slight whisper may be all that is required. That whisper may well be the Federal Reserve (the "Fed") cutting interest rates in September and perhaps forecasting a few more cuts into next year. A two-year Treasury Yield at 3.62% at the end of August suggests this is a distinct possibility. In that environment, we believe cyclical companies more tied to the economy, companies with higher costs of capital, and those that carry more debt on their balance sheets would respond positively.

We say this today because, in a market where the best stocks in the world are priced for perfection and are making investors nervous that valuations may be "hitting their heads on the ceiling" (our terminology), there exist areas of the equity market that are good or great but still priced attractively. Within the S&P 500 Index, cyclical sectors such as financials, energy and industrials trade at 19.2x forward earnings, well below the market multiple, and are expected to grow earnings at 13.3% in 2026 (Chart 1). In contrast, the Tech+ cohort trades at 29.3x forward earnings and earnings growth is forecast at 16.2% for 2026.

Put more simply, investors are valuing the 50 largest companies in the S&P 500 Index (dominated by Tech+) at much higher multiples than their 10-year historical averages, while the rest of the companies are at or below their 10-year averages (Chart 2). There is little disagreement that many of the top 50 are best-in-class companies in their respective sectors; however, these companies sit close to all-time highs at multiples that now require very high future growth to justify.

The most favorable opportunities going forward lie in identifying those areas of the market that have good return potential while balancing risk. The "best" companies today, at least in the sense of the most profitable and best returning stocks of the recent past, may not necessarily offer the best returns going forward. With the Fed on the verge of lowering rates and an economy that remains resilient, we believe the best opportunities are among the companies with attractive valuations, low expectations and solid growth prospects.

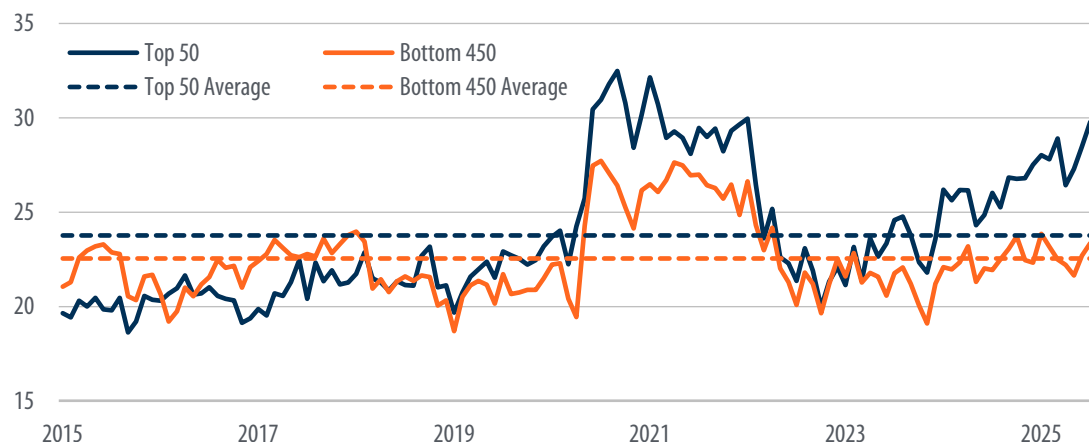
Chart 1: S&P 500 Index Super Sectors – Earnings [YoY Growth %]

	2024	2025*	2026*	2027*	Forward P/E
Tech+	\$78.10	\$95.44 [22.2%]	\$110.87 [16.2%]	\$131.11 [18.3%]	29.3x
Defensives	\$63.33	\$68.30 [7.8%]	\$73.70 [7.9%]	\$81.85 [11.1%]	18.9x
Cyclicals	\$91.76	\$ 94.44 [2.9%]	\$107.03 [13.3%]	\$120.06 [12.2%]	19.2x

Source: CapitalIQ. Data from 29/12/23 – 29/8/25.

*Estimated. Estimates are based on fiscal year 2025, 2026 and 2027 aggregate consensus.

Chart 2: S&P 500 Index Forward P/E



Source: CapitalIQ. Data from 1/1/15 – 1/8/25.