CORNERSTONE
INVESTMENT PARTNERS, LLC

# Large Care Market Review

*Q2 2025*

*"In the short run, the market is a voting machine, but in the long run, it is a weighing machine."*
Benjamin Graham

This quarter, the Russell 1000 Value's relative performance versus the Russell 1000 Growth was its worst in at least 20 years, so it may be ironic that we choose to start our quarterly letter with a quote by the seminal value investor Benjamin Graham. It's perhaps less so when you consider that just one quarter before, the Russell 1000 Value had its best relative performance compared to the Russell 1000 Growth over the same 20-year period. And the three quarters before that? Much of the same, with a rollercoaster of style volatility quarter after quarter.

**After all the back and forth, both indices ended up with nearly the same return, and in total, over the last six months, the returns of the S&P 500 and Russell 1000 Value were within twenty basis points, at 6.2% and 6.0%, respectively.**

During the second quarter, the S&P 500 surged 10.9%, and the Russell 1000 Value rose a more modest 3.8%, although it was by no means a straightforward path. Less than one week after the quarter opened, the market fell by over 12% in three days, triggered by the long-awaited announcement of President Trump's "Liberation Day" tariffs, which furthered the market weakness seen in February and March. Trade tensions eased remarkably quickly versus initial fears, with the S&P 500 and Russell 1000 Value up 7% and 10%, respectively, in a single day, and as tariffs were temporarily lifted shortly thereafter, investors fully turned risk-on, fueling a strong rally backed by resilient corporate earnings, robust consumer spending, and optimism around potential Federal Reserve rate cuts. Conversely, the Russell 1000 Value Index's defensive, value-oriented holdings lagged behind the broader surge led by mega-cap Growth and AI-driven tech stocks. **In short, while the market snapped back dramatically from tariff-induced fears, the rally remained concentrated in Growth and Momentum names, leaving Value comparatively underwhelmed.**

**In an environment like this quarter, the Russell 1000 Value faces quite an uphill battle.** The index's combined exposure to technology and communications is only 1/3 that of the S&P 500 exposure, and its names in those sectors delivered half the return. If the Russell 1000 Value had the sector exposure of the S&P 500, it would still have returned approximately 7%. The exact opposite could have been said in the risk-off environment of the first quarter, when trade talk started in earnest in February and the delay from idea to execution added uncertainty to the market, the bane of its existence.

We may have seen a shift in a broader global economic and geopolitical dynamic over the last few months, whether related to American tariffs or Israel's bombing of Iran. However, in both situations, the market's ex ante perspective differed materially from the ex post outcome. In the case of tariffs, the assumption that rising inflation and lower demand would lead to a near-term sustained correction was disproven within a week. Similarly, the risk of an extended new war in the Middle East could have led to oil prices spiking to historical levels. Instead, it took two weeks for WTI to fall back to pre-war levels. **Based on the market's volatility, each of those situations led many investors to rapidly reshape their portfolios, and each of those situations would have left them quickly on the back foot. That doesn't mean it will always, or even often, happen that way; therefore, we must be prepared for any outcome. As we have written, we exist in a world of what could happen rather than what should happen.**

**This reminds us of the importance of discipline and prudence.** It's easy to become overwhelmed by the volume of noise from the media, particularly that of financial media, which often calls for a crisis every week. In contrast, we aim to stay steady while the noise sweeps others into a frenzy. We achieve this by relying on three key elements, all of which start with "P": People, Philosophy, and Process.

First is **People**. We have a team-based approach, balancing the unique skills and perspectives of each investor. But that's not enough. We have trust among that team, built up over a minimum of a decade working together, and for our two Senior Portfolio Managers, over twice that. That trust allows for free debate driven by evidence and a keen awareness of our own behavioral biases.

Second is **Philosophy**. We are guided by our firm's core investment philosophy—that "stock prices are more volatile than the fundamentals which determine value". This insight leads us to searching for those companies whose fundamentals indicate they are creating significant incremental value the market is mispricing, rather than just low-multiple, low-growth stocks. As the last few quarters have shown, balance is necessary, and too much of a good thing is ultimately as much a problem as a bad thing. Growth for the sake of Growth and Value for the sake of Value are risky and ultimately unsustainable solutions.

Third is **Process**. Last quarter, we discussed our daily investment meetings and at least weekly portfolio meetings. We want to reiterate the value of constant engagement among our team on both the forest and the trees. Our process has been implemented consistently for almost 25 years. Using very round numbers, each team member votes on a stock in the portfolio or a new idea over 200 times a year. That suggests our CIO, Rick van Nostrand, has made over 4,000 votes during his 20+ year tenure at the firm. The consistency of our approach drives the discipline to respond when we need to and actively choose when not to when we don't need to.

We also hope you take the opportunity to read the recent interview we published on our website with Senior Portfolio Manager and Director of Research Dean Morris. It tells the story of who Cornerstone is through the eyes of one of our longest-serving investors, someone who has experienced the best and worst of the market throughout his 40+ year career.

We believe that periods of elevated volatility expand the opportunity set for active, disciplined, bottom-up investors like us. Our performance over the past few years, when core and value benchmarks have been highly volatile relative to each other and diverged widely during shorter-term periods, reflects the benefits of this philosophy. In the short term, the market reacts, driving volatile stock prices. In the long term, it responds and drives value based on fundamentals. We continue to manage our portfolio with consistency and diligence. As we emphasized last quarter and wish to reiterate, we continually re-examine our portfolio to ensure we hold high-conviction positions trading at discounts to our conservative estimates of intrinsic value. We remain excited about our holdings and confident in their prospects over a multi-year horizon.

Sincerely,

The Cornerstone Investment Team

*The opinions expressed represent the views of Cornerstone Investment Partners investment team. Past performance does not indicate future results. As with all investments, the possibility for profit is accompanied by the risk of loss.*