CORNERSTONE
INVESTMENT PARTNERS, LLC

Large Cap Market Review

Q3 2026

"Price is what you pay. Value is what you get."
Warren Buffett

The third quarter offered investors no shortage of worries: an AI bubble supposedly on the verge of bursting, the sharpest jump in long-term interest rates in three decades, a looming midterm election, oil prices above $100 a barrel, and persistent warnings that U.S. stocks had become too expensive. Against that backdrop, few might have expected the S&P 500 Index to finish higher. Yet it gained just over 2%, while the Russell 1000 Value Index was up nearly 3%. **Beneath those headline gains, many stocks experienced substantial volatility even as the underlying businesses continued to grow their earnings. Warren Buffett's distinction between price and value provides a useful lens for understanding that divergence. For a manager whose investment process is built on distinguishing between the two, such periods are familiar and create opportunity.**

The quarter marked a reversal of the first half's broader participation. A relatively small group of large companies supported the major indexes, while the equal-weighted S&P 500 declined and the Russell 2000 Index fell more than 7%. **The shift underscored how quickly market leadership can change and why we build the portfolio around individual businesses rather than expectations about which market segment will lead next.**

Rising interest rates were one reason smaller companies fell behind. The 10-year Treasury yield climbed from roughly 4.4% at the end of June to 5.3% at quarter-end. Higher rates increase borrowing costs and reduce the present value of future cash flows. Those pressures can be particularly acute for smaller companies that depend on bank financing or floating-rate debt, as well as for businesses whose valuations rely heavily on profits expected far into the future.

The AI trade illustrated the distinction between shifting sentiment and business fundamentals. Although some of the largest AI-related companies helped support the indexes, other participants in the buildout experienced substantial volatility. Investors questioned the returns on enormous capital commitments, the financing needed to sustain them, and the availability of power and infrastructure. These are legitimate questions, and strong demand alone does not ensure that every investment will earn an attractive return.

Nevertheless, the demand indicators we follow remain strong. Major cloud providers maintained or increased their investment plans, and companies across the supply chain continued to report capacity constraints and strong order visibility. For the businesses we follow, the evidence points more toward a reassessment of valuations than a broad deterioration in end demand. Our task is to determine which companies can translate that demand into durable earnings and cash flow, and what those earnings are worth.

Earnings growth also provides important context for the broader valuation debate. S&P 500 earnings growth has outpaced the index's price appreciation year to date, reducing its earnings multiple even as prices have risen. The Russell 1000 Value's earnings multiple has remained broadly unchanged despite its stronger year-to-date return. **That does not make every stock inexpensive, but it does challenge the idea that the market's advance rests entirely on increasingly optimistic valuations.**

The more relevant question for us is what we are paying for the businesses we own. A meaningful number of stocks in the portfolio trade below the market's earnings multiple, even though we believe they have better-than-average earnings

growth and durability. In those cases, we see opportunities to pay less for more. That is the foundation of our cautious optimism: higher rates and narrow leadership warrant caution, while improving earnings and more reasonable valuations create opportunities.

The portfolio's exposure to information technology is subject to the same discipline. The growing economic importance of technology expands the opportunity set, but it does not determine our allocations. Each holding must justify its place through the relationship between its price and our assessment of its future earnings power. We seek businesses whose valuations can be supported by reasonable assumptions, and we are willing to pass when the investment case requires too much to go right. Sector labels are also blunt instruments, and each company has its own history, market, and competitive environment.

The U.S. midterm elections add further uncertainty. The historical record offers some reassurance: equity markets have, on average, performed well in periods following midterm elections, largely regardless of the outcome. Policy changes can affect individual companies, and we assess those risks and opportunities at the holding level, but we do not position the portfolio around predictions about election outcomes. Our focus remains on business fundamentals, financial strength, and valuation.

Periods of market volatility also prompt us to test our assumptions. A falling share price can create an attractive entry point, but only if the underlying investment case remains intact. We continue to emphasize balance-sheet strength, durable earnings power, and valuation discipline. Recent volatility has created opportunities where, in our judgment, the price decline exceeds any change in underlying value. From our proprietary universe of approximately 800 companies, we hold only 30, reflecting our willingness to say no to many good ideas so we can focus on our strongest convictions.

We are pleased to announce the launch of a European UCITS fund for the Concentrated 30. We have partnered with Heptagon Capital, a U.K.-based firm with over 20 years of experience working with distinctive U.S. managers. The fund attracted more than $65 million in its first week, and we believe it will provide non-U.S. investors greater access to our flagship strategy.

Lastly, this quarter marks 25 years since Cornerstone Investment Partners opened its doors and launched our flagship Concentrated 30 strategy. Over that time, we have invested through the aftermath of the dot-com bust, the financial crisis, a global pandemic, and many other periods of uncertainty, and we reach this milestone with our culture, philosophy, and client focus intact. We owe that continuity to you, our clients, whose trust has made it possible, and to our team, whose ownership of the firm creates a personal commitment to our work and the relationships we build. While we are proud of our 25-year record, we know your trust must be earned every day, and we remain committed to the approach that has guided us from the start. Our mission is unchanged: to be an independent group of experienced investors committed to investment excellence and exceptional client service.

Thank you for being part of our first 25 years. We look forward to the next 25.

Sincerely,

The Cornerstone Investment Team

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