SCHAFER | CULLEN
CAPITAL MANAGEMENT

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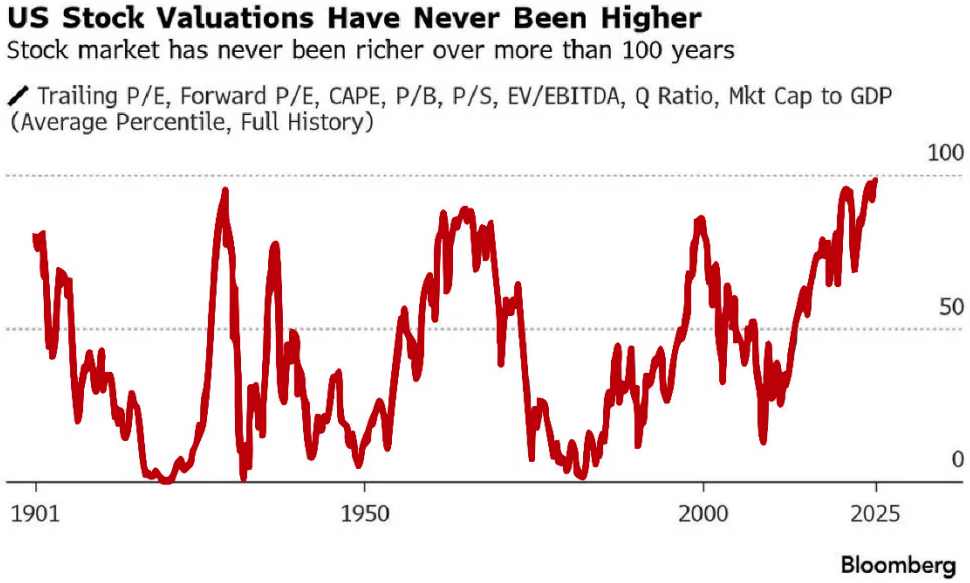
Market Outlook 2026

Up, Up and Away

As we enter 2026, most Wall Street strategists are optimistic about a fourth consecutive up year for the market. A big reason is the continued excitement over the future of AI. Also, analysts feel the economy is in good shape and they expect earnings to be positive. In addition, not a small factor, we have a president who is extremely focused on the stock market.

On the other hand, some investors are concerned the market is now selling at the most expensive valuation levels in its 100-year history. To show this, below we present a composite valuation chart, including the indicator Warren Buffet has used to evaluate the market.



Source: Bloomberg, 1900-2026*

Stock market momentum has been powerful for the last few years, making new highs 66 times last year, 75 times the year before, and already reaching a new high on the second day of this year. Also, much has been written about how the present market is made up of traders and younger investors who seem to have less fear than usual of market risk. **How is the long-term investor best able to deal with this challenging environment? We believe it is most important for investors not to try to time the market. History has provided many examples of how market timing tends to be the ruination of long-term performance.** We will give you one of our experiences.

The Experience of Two Investors

Two knowledgeable high-profile clients started investing with us on the same day in 1985. **One of them, Client A, came to New York once a year and hardly ever discussed the market, leaving their account untouched. Meanwhile, Client B, equally knowledgeable but more risk averse, went partially into cash a few times during the course of 20 years.** At the time it would have been hard to argue with their actions. For instance, in 1987 the market dropped 25% in one day, which is the largest single drop in market history. In 1990, there was a serious real estate collapse with more real estate bankruptcies during that year than in the Great Depression in the 1930s. Then there was the Tech Bubble in 2000, which led to the worst recession since the market crash in 1929. And that was quickly followed by the 9/11 World Trade Center attacks, the most catastrophic event in stock market history.

Twenty years after these clients started investing, and because of the extreme market swings over that twenty-year period, I was curious about the relative performance of the two accounts**. It was shocking to learn how just a few strategic moves out of the market could make such a dramatic difference in performance. Client A's performance was 1000% better than Client B's.**

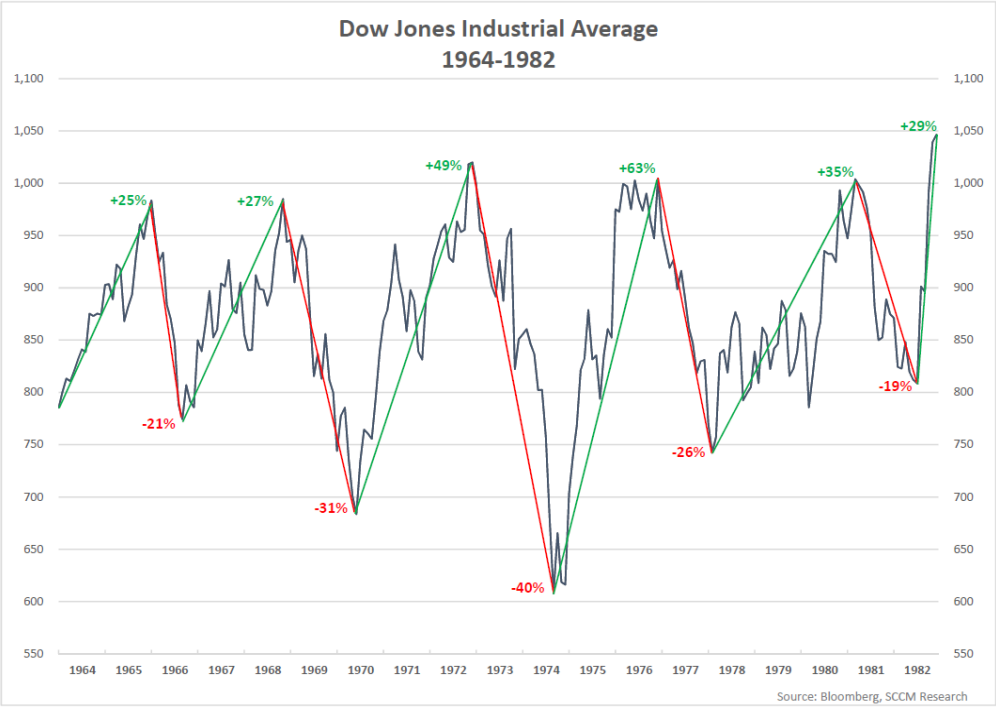
Their 20-year (1985-2005) returns were as follows*

Account A: +1,501%

Account B: +519%

Long-term Value Investing in a Horrible Market

I started on Wall Street in 1964, and in 1968 the market was trying to make a new high of 1000 for the first time. **In light of how many new highs we've had over the past few years, it is hard to believe that we would go another 15 years back then without ever sustaining a new high.** The below chart shows the volatility of those next 15 years.



What we didn't realize at the time was that the Value stocks (i.e. bottom 20% of stocks on a P/E basis) over the same 15-year period were not flat, but up approximately 1000%. It shows the advantage of investing with a price discipline (P/E, P/Book, and dividend yield).

Conclusion

The message is to be invested. Invest with a discipline and invest for the long term. Also, ignore the market noise because the companies themselves tend to adjust to new technology and changing environments whether it be going from candlelight to electricity, newspapers to radio, or adding machines to computers.

Jim Cullen

*For illustrative purposes only.

**For illustrative purposes only. Go to https://www.cullenfunds.com/US/P/Managed-Accounts-High-Dividend/ for the complete performance track record of the Schafer High Dividend Value strategy and important disclosures.

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