

Midyear Equity Markets Outlook with Portfolio Managers MJ Matts and Saverio Papagno - Transcript

Philip Callahan

Hello, my name is Phil Callahan and I'm the head of distribution for North Square Investments. North Square is a multi-boutique asset manager based in Chicago, Illinois. And today we are going to have our mid-year equity markets outlook, and we have two of our senior portfolio managers joining us today. If you are unfamiliar with North Square, we're part of Azimut NSI, which is a \$21 billion asset manager based in Chicago. We're wholly-owned by Azimut Investments, a \$175 billion asset management firm based in Milan, Italy. Today we are joined, as I said, with two of our senior portfolio managers. MJ Matts is the lead PM for the North Square Disciplined Value ETF. The ticker symbol on that is NSIV. The V stands for value, and this will be a large cap value ETF. Saverio Papagno is the lead portfolio manager on the North Square Growth Opportunities ETF. The ticker symbol is NSIG, the G equals growth, and this will be a large cap growth ETF. So let's just jump right into it with the markets update. MJ, would you lead us off and tell us what's going on in the market today and at the mid-year point for 2026?

Mary Jane

Yes, so far in the first half of the year, the SP 500's up 10%, and that's powered by a 10% revision in consensus earnings estimates for the SP, now implying a whopping 25% growth in EPS for the year. So far, small caps have outperformed large caps by a pretty wide margin. The Russell 2000 Index's up over 22% versus the Russell 1000 Index, up about 10%.

And in terms of the style differences, we're going to talk a lot about well, value and growth. Value so far this year has outperformed growth. The Russell 1000 Value up 16% versus the Russell 1000 Growth Index up 5.3%. That's a wide differential, and value outperformed growth in the year to date, notably due to the stocks in the investment in information technology sector of the two industries.

And that's really quite rare that the value technology stocks outperform the growth tech stocks in this case by almost 90% is the differential. It's very big names in the growth benchmark have provided lackluster returns. On the value side, we've had some very big runs in some of the previously you know,

very deep value names like Micron which is up three hundred percent, Intel up almost three hundred percent, SanDisk up seven point seven hundred and eighty percent.

Philip Callahan

Yes, thanks, MJ. What so what what can you attribute this to? You know, the long term trends are growth has still outperformed value if you go back, you know, five, ten years, et cetera. But we have had this resurgence in value. What what can it be something that you can point your finger to, Saverio?

Saverio

Yes, would say a couple of things, So firstly, mean, these outperformances might seem counterintuitive because if you see the semiconductor stocks, for example, they had a huge run, an epic run this year. But I think, you know, these two indices are becoming more and more... I don't know what's the right word, you know, but if you see, for example, with the latest Russell (Index) rebalancing, we've seen some large name flipping, from Russell Growth to the Russell Value. And it is something that we have been seeing for a while already with the MSCI indices. But we have seen this big tech name flipping from growth to value and back. So I would say these two tags, growth and value, are becoming a little bit more more difficult, let's say, to define in a very precise way. So I'm not surprised by these stats. I would say from my perspective, from the point of view of the strategy that I ran, was a very strong first half of the year. Again, what we have seen with semiconductor stocks was something that I didn't see, I haven't seen in my entire career. And I've been around for 20 years.

I've never seen this kind of run. As MJ said before, I entirely driven by earnings. So it's not about sentiment or hype, it's really earnings driven. So I think this is very, very significant.

Philip Callahan

Yes, and so a couple of things that have happened this year. Obviously we've got a conflict in Iran, we've got energy prices, you know, fluctuating dramatically, inflate threat of inflation, AI. Can you guys talk a little bit about all that and how it's affecting how you look at the markets and and invest? MJ, do you want to maybe talk about the conflict in Iran as a starting point?

Mary Jane

Right, so it's you know functioning to have one place. Definitely the headline story of global consequence this year. and energy stocks have indeed done very well, up 20%, the sector within the S P 500, right up there with the top two AI (Artificial Intelligence) build-out, AI adoption sectors, industrials and information technology. So energy is right up there. I think the biggest impact though that it's having on the market outlook is that the

Philip Callahan

Okay.

Mary Jane

You know, supply disruptions we know have caused oil prices to spike, we think long enough to have raised inflation expectations and then lower the probability of (Federal Reserve interest) rate cuts, which we think has probably held the market back a little bit in the year to date. So if earnings estimates are today implying 25% growth for the S & P 500, that's a huge number. If investors were accepting the multiple that we had before, you might have seen a bigger gain even in the S& P 500 than you have, were it not ~ to have been held back by higher inflation expectations and therefore lower probability that the Fed can cut rates.

Philip Callahan

Yes, Saverio, in terms of your portfolio, have you made adjustments? You know, obviously we didn't know we were walking into this conflict and energy, you know, what what's going on? Clearly you you all you both have seen a lot in your careers and and things happen fast and change fast. But how have you reacted to what's going on?

Saverio

Yes, this is actually a question that I got asked a lot. Traditionally, growth stocks tend to be very sensible to long-term rates. And so when we saw the oil going above \$100 and the 30 years bond was above 5%, that traditionally is something that has had an impact on growth stocks. But this time around it wasn't the case. And once again, because the fundamentals were so strong, they were really cushioning these stocks from any impact. From my point of view, didn't make changes to my portfolio. I mean, my approach is very much bottom-up driven. And so with the fundamentals being so strong and the earnings revision being so strong.

It was a good reason for me to hold on to my position. I didn't make particular adjustments. Of course I was monitoring the long-term rates, but again, the impression was that the strength of the fundamentals was really cushioning the stocks. This was something obviously very different from what we have seen other times.

Philip Callahan

Great. ~ so let me bring up we have a new Fed chair, (Kevin) Warsh. ~ Any thoughts about him coming in to the the seat and how it might affect markets going forward and it and rates and et cetera? MJ?

Mary Jane

The Fed has this this dual mandate and at this point with inflation running above the Fed's targets and the employment conditions fairly stable and hot, the probability that he can follow through on what the administration would like to see here, which is lower rates, I think that has really gone ~ fairly low. You know, the impact of higher oil prices, even when the spot prices come back down, there are very long-tailed impacts from from a supply disruption like we currently have in the Strait of Hormuz, meaning that this may not be as transitory as as we'd like to see. You know, to Saverio's point, the fundamentals are incredibly strong out of elsewhere so that the the market has been able to be cushioned against the impact of higher rates, higher inflation. But in the in the case of energy in particular, we really do agree with Saverio on the on the long-term view in all of our investments, and you know making sure that we're looking at secular trends, which are actually very positive in energy and and elsewhere.

Philip Callahan

Great, thanks. Thanks. Saverio, any thoughts from you on that?

Saverio

Yes, from a point of view, obviously, I am pleased with the person that's been selected (as Fed Chair). Obviously, it's very credible. And to be honest with you, I never thought, you know, in the past, there was a lot of discussion, there were a lot of doubts about the future (Fed) Governor. Some market participants were afraid that someone would be selected who was not so credible regarding inflation. To be honest, I never thought, I mean, not even for a moment, that an institution like the Fed could be run by someone less than, I mean, very credible. So I think I'm obviously I'm very pleased with the Governors' pick. And if you look at the break events, they're behaving very well because inflation expectations actually have been declining lately and so I think this is another sign of the fact that the market gives a lot of credibility to the Fed. So from my point of view I see really no problem whatsoever with monetary policy.

Philip Callahan

Okay, growth versus value. You both manage money and in a you take a different approach to managing money, growth versus value. I think our audience understands ~ you know the basics of that. But ~ can

you talk a little bit about how you approach the marketplace as a value manager, MJ? And then also if you could address artificial intelligence (AI) And I'll ask the same question of you, Saverio, once MJ is finished.

Mary Jane

Right. So value investors, as you're well aware, are contrarians and want to buy stocks that are on sale. It's often not enough just to look for cheap stocks. We have to look for ~ look at the fundamentals and determine which ones deserve to be cheap. And in this AI age, what we're finding is that the returns, the pure returns to just investing in cheap stocks have started to get arbitrated away. And it's really important to do that bottom-up fundamental research. And we're able to identify, have been able to identify a number of names that might not be too conventionally tech related or AI-related that have benefited. Things like Caterpillar and Cummins in our portfolio. Also in the financials, we think that's one of the groups that stands the most to benefit from AI.

But you know, a number of the very high-end, very growth stocks have floated down into our airspace. And we've been able to take some nice nibbles into names like Google, which we've used with some success. Meta back a few years has been part of our portfolio. And today we've got Apple and Microsoft, some pretty growth names that have now floated down into where we're able to make the grade in terms of qualifying for a value portfolio which is which is somewhat unheard of. You know we're also utilizing some AI tools in our stock selection process. So it's all you know we're all part of this ~ AI adoption and we're all benefiting from the speed with which information can be traded around and we're building that into our portfolio structure.

Philip Callahan

That makes a lot of sense. Saverio from your perspective, I know you've covered tech, you know, you most of your career and you're a growth manager. How do you how would you answer that question?

Saverio

It's a very exciting time to be honest, because first of all, mean, to give a little bit of context, we're talking about the major innovation, right, with AI, which is something that happens normally once or twice in the lifetime of an investor. The last time we've seen something similar was in the '90s with the introduction of the internet. And it was really something transformational for the whole economy and the whole society. And so AI is going to be something very similar in scale, if not even more. So what's important as an investor in this case, when you have this transformative innovation, what happens is that the valuation framework of the market on many stocks, it can become obsolete very quickly. It becomes stale. And this, definition, it's a huge opportunity for an active manager because if you can spot the inflection point, before it has been fully priced by the market, then you can really make a difference. And we have seen it in the last couple of years, really. Memory stock is an example that was mentioned before, right? So it's been considered like commodities basically for most of the last 20 years.

And that's all. And I remember Micro management going in roadshow and saying, hey, this is going to change our business fundamentally. It's going to be a completely different business. There is a lot of differentiation. There is going to be a lot of differentiation in the product, nobody was really listening to that because again, the valuation framework was the old one, but it became obsolete and it became evident all of a sudden in the last few months. So if you were positioned for this inflection ahead of time, then you could really make a difference. I think that's why these type of innovations are very exciting for the team manager. They create a lot of opportunity to generate alpha and create a lot of dispersion inside the sector. So it's really an amazing time, really, that we are living in.

Philip Callahan

Yeah. MJ, any any follow up to that?

Mary Jane

Yes, you know what Saverio says is is right on there. Thinking back to the the 1990s when it was the “dot com” boom, there was very little that in the value in the value space you could you could even take a shot at. It was all out of sight. this time it's very different. And we've had a number of typically out of sight growth these stocks float up into our airspace and we are nibbling on that. I mentioned Google and Meta, we're using Apple, Microsoft, Amazon, and we've even dipped our toe into NVIDIA, which has been a laggard despite the enormous gains in reported earnings, as investors are now starting to, you know, question the the long-term sustainability of the data center build-out boom. So there's some “hair on it.” You know, there's some controversy in the stock now. It really has been quite a laggard and is now in our estimation cheap enough to buy because it is so undervalued and so timely.

Philip Callahan

So that's interesting that you're having the opportunity to buy into some names that you haven't had in a long while. Saverio, how about you? Is there anything on the value side that has come into your view as a gr as a growth manager?

Saverio

Well, certainly, as I mentioned before, the memory stocks that were considered value stocks, were very depressed multiples until very recently. And again, there was really an argument of valuation framework being outdated on these stocks. So this is, I think, an example of former value stock which became attractive even for growth managers.

Mary Jane

Yes.

Philip Callahan

So speaking of names, we're you've thrown a few out there. Why don't this is not a recommendation by any means, but can you each give a provide one or two examples of a name that's in your portfolio and how it got there? And and again, Saverio, why don't we start with you this time?

Saverio

Yeah, so one of our biggest active bets is ARM at the moment. ARM holding, it's incorporated in the UK, but it's listed on the NASDAQ. And this is, once again, another example of a new framework for framework ops with Asterix because this is was known for the IP, which was used basically in every smart phone. And today, it is expanding into the data center space designing CPUs and they're even studying the development of some GPUs with SoftBank. again, it's a company who is massively expanding their temp. They have great IP and I believe it's a company that's gonna be one of the winner of this AI wave.

Philip Callahan

Great. MJ, an example from you?

Mary Jane

So here's an example of a contrarian name that we've used to good success in the portfolio. It's still a significant holding. It's Citigroup. You know, years back, this stock was among the cheapest in the bank group because they had worst in-class operating metrics, which is something that's intriguing to us. I know

it's it's counterintuitive. It's the way contrarians think. We saw the potential for improvement. As a new change agent CEO came in and began a very extensive restructuring. And as those operating metrics improved from worst in class to average, you had a dramatic outperformance in the stock versus the versus the peer group. That's the one of the ways we think about how to find underloved, undervalued, underperforming, out of favor, or not well understood names is to look for companies with excellent assets that have been undermanaged and and the street will take a wait and see attitude while we can get in there and build a position in a name like Citigroup.

Philip Callahan

Okay, great. Thank you. so let's take a look at the the rest of the year. We're right at the midpoint of 2026. Maybe, you know, what what are you guys looking at? What are you watching closely? ~ and then you know what could what could go wrong? Like what how are you viewing the the second half of 2026. MJ we'll start with you.

Mary Jane

Yes, I think we're all fixated at the moment on kind of the loss of momentum in that AI infrastructure trade. You know, with the concern that excess capacity at some point is going to drive down pricing. We think so far the evidence on AI, paid AI adoption and the free cash flow generation continues to kind of support the bull case fundamentally there.

What that leaves as a watch point is the valuation, I think, on the overall market. It is high by historical standards at twenty-two times SP earnings estimates for 2026. if interest rates were much lower, the concerns that that we'd have about that would be lessened. And right now, as we were saying earlier, there isn't a tremendous case to be made for Fed easing with inflation running a bit above the target.

And unemployment lows. So we're not optimistic that the market's going to get bailed out by that. You know, to to lessen that concern, if inflation cools and the labor market softens, you know, prospects for a rate cut would definitely go up. but most likely in that environment, earnings estimates would be falling. So careful what you wish for. this this may be kind of a “nirvana” position and if earnings estimates continue to hold, the market still has room to to expand.

Philip Callahan

Thank you. Saverio?

Saverio

Yes, so from my point of view, we might be entering a moment where maybe fundamentals and technicals maybe are clashing a little bit in the short term. I mean, I'm a fundamental investor, but let's say 20 years of experience have taught me to respect the technicals as well. And so there is maybe a little bit of an excess which should be absorbed. I mean, having said that, my last round of corporate contact was about really how much visibility there is. And companies are telling me that they have basically eight quarters of visibility in tech space, which is something exceptional, to be honest. So the impression is that these companies are really executing on the roadmap. And so the visibility is exceptionally good. The fundamentals are exceptionally strong.

Mary Jane

Right.

Saverio

Having said that, the technicals might require a little bit of confirmation in the short term. But if I look at the next year, because as we enter the second half of 2026, obviously, the analysts and the market are going to be looking at 2027 numbers. And the estimates for 2027 is for \$400 almost of EPS for the S &P. So as you start looking to that, so the more the year goes on, the more the market valuation is going to look interesting. So we have to be mindful of that.

Philip Callahan

Well, that concludes our mid-year market update for today. I want to thank MJ and Saverio for joining us and spending time. I also want to thank the audience for spending your time listening in. And as a reminder, MJ Matts is the lead portfolio manager on the

North Square Disciplined Value ETF, the ticker symbol is NSIV. And Severo is the lead portfolio manager on our North Square Growth Opportunities ETF. The ticker symbol is NSIG. So thank you for your time and we look forward to talking with you again soon.

Saverio

Thank you so much.

Mary Jane

Thank you.

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The securities mentioned in this discussion represented the following percentage of each ETF's net assets as of July 14, 2026:

North Square Disciplined Value ETF (NSIV)

Intel	0.0%
Micron Tech	0.60%
SanDisk	0.0%
Caterpillar	1.84%
Cummins	2.77%
Alphabet (Google)	2.37%
Apple	4.20%

Microsoft	2.35%
Meta	0.0%
NVIDIA	1.28%
Citigroup	2.68%

North Square Growth Opportunities ETF (NSIG)

ARM Holdings PLC ADR 0.56%

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Arbitrage is the strategy of buying an asset in one market and simultaneously selling it in another to profit from a temporary price discrepancy.

Alpha is the measure of an investment's performance that indicates its ability to generate returns in excess of its benchmark.

Dispersion in investing measures the spread of individual asset returns around a group average, which indicates how widely individual stock or portfolio returns differ from a benchmark.

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Consensus earnings estimates represent the average or median financial forecasts made by a group of analysts regarding a company's future financial performance. Consensus earnings estimates are primarily used as a benchmark to gauge the market's expectations for key metrics like earnings per share (EPS) and total revenue.

The **price-to-earnings (P/E) ratio** is the proportion of a company's share price to its earnings per share (EPS).

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The **S&P 500 (Standard & Poor's 500)** is a stock market index weighted by market capitalization that is made up of 500 of the largest public companies in the United States. Covering approximately 80% of the total U.S. equity market value, it is widely considered the premier benchmark for the broader American economy.

The **Russell 2000® Index** is a stock market index that measures the performance of approximately 2,000 small-cap U.S. companies. The Russell 2000 represents the smallest two-thirds of the broader Russell 3000 Index and serves as a primary benchmark for tracking the health of smaller, domestically-focused American businesses.

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