The Copeland Review

Third Quarter 2026

"We believe that stocks with sustainable dividend growth consistently outperform the market with less risk."

Moneyball



"Your goal shouldn't be to buy players, your goal should be to buy wins."

- Peter Brand (Jonah Hill), Moneyball, Columbia Pictures (2011)

The 2002 Oakland Athletics entered the season with a payroll of roughly $40 million, about one-third the payroll of the New York Yankees.[1] Rather than strive to outbid wealthier teams for hot players, General Manager Billy Beane focused on something the market overlooked: on-base percentage. The statistic was unglamorous, but it won games and was cheap. That season, the A's won 103 games, including a then-American League record 20 in a row. But then, they lost in the first round of the playoffs.

Their loss brings home a key point from Moneyball: a sound process does not win every series. Rather, a focused approach offers an edge that compounds over many seasons, provided you stay disciplined when the box score doesn't go your way.

In this Review, we highlight the following:

1. The box score: unprofitable stocks have been on a winning streak, though cracks are visible and speculative leadership is finally fading amid tightening credit conditions.

2. The scouting report: cash flow and valuation eventually matter, and investors should pay attention to return on investment, cash generation, and dividend signals, including from companies in the Artificial Intelligence (AI) supply chain.

3. The long season: a roster of quality dividend growth companies keeps investors in the game.

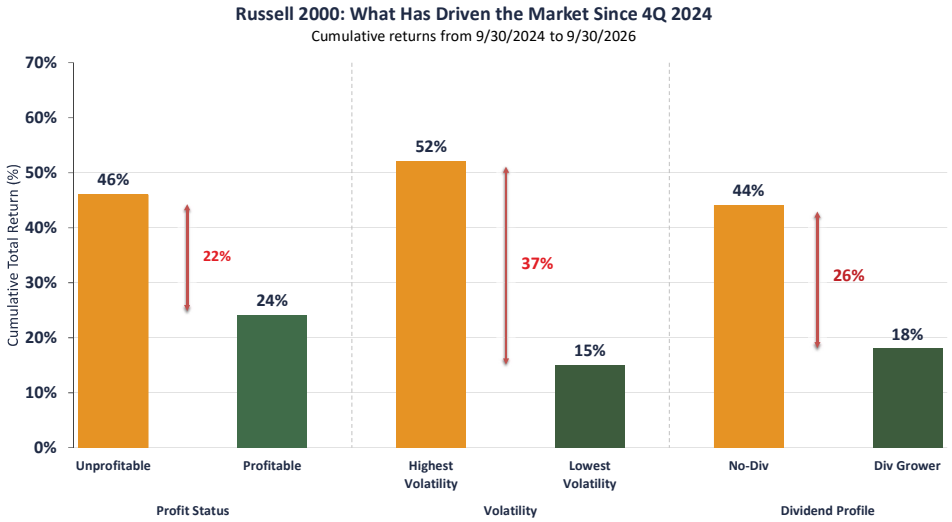
The Box Score Is Changing

In recent years, ever more money piled into a wide range of shiny new ideas, including AI, space, quantum computing, nuclear power, and cryptocurrency.

For many market participants – including passive index investors – investing became "easy" as prices surged. Fear-of-missing-out (FOMO) fueled yet even more money flowing into the hot new areas. Save for some sporadic gyrations, speculative stocks just seemed to go up, frequently without regard to underlying fundamentals and valuation. At the same time, shares of profitable quality companies were largely left behind.

For the trailing two years ending September 2026, the performance gap between speculative and quality-oriented stocks is stark. Shares of unprofitable Russell 2000 companies returned 46%, versus 24% for profitable companies. The most volatile stocks returned 52%, versus 15% for the least volatile. Shares of non-dividend paying companies returned 44%, versus 18% for shares of dividend growth companies (Chart 1). In Moneyball terms, the market has been chasing the hottest swing, not the reliable on-base percentage.

Chart 1. Russell 2000 – Two Years of "Junk" Rally



Source: Factset, CCM, Russell 2000 constituents: cumulative total returns, 9/30/2024 - 9/30/2026; dividends reinvested. This is not the performance of any strategy overseen by Copeland. You cannot invest directly in an index.

The wide performance gap shown in Chart 1 remains even after a momentum retrenchment began this summer. Last quarter, in "The Most Beautiful Game," we highlighted that Russell 2000 momentum technology stocks relative to low volatility stocks reached a five-standard-deviation extreme in June.[2] That marked a historic level reached only once before, in January 2000 just prior to the peak of the dotcom bubble. In July, that level cracked on the back of rising interest rates and momentum evaporated (Chart 2).

Reading the Field: Avoiding Blow-ups and What atters Most

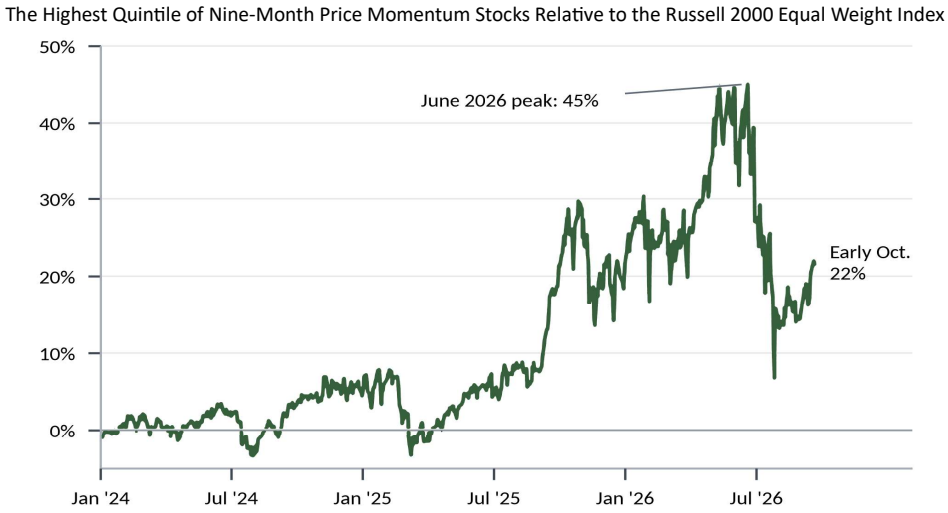
A year ago, in "Pied Piper" we cited money-losing nuclear and quantum stocks as poster children of speculative risk-taking. At the time, the Nuclear stocks in our discussion were NANO Nuclear Energy Inc. (NNE), NuScale Power Corporation (SMR), and Oklo Inc. (OKLO). The quantum stocks were D-Wave Quantum Inc. (QBTS), IonQ, Inc. (IONQ), Quantum Computing Inc. (QUBT), and Rigetti Computing, Inc. (RGTI).

While company specific undertakings might prove monumental and beneficial to society down the road, market valuations appeared entirely disconnected from tangible drivers of value, such as earnings, cash flow, or even revenue. For example, Goldman Sachs projected that Oklo, Inc. would not generate positive free cash flow until 2041,[3] yet its stock rose roughly seventeen-fold in the 12 months through September 2025.

Fast forward to now. Over the last 12 months through September, shares of the three nuclear stocks are each down more than 70% while the average decline for those in the quantum group is more than 60% through September.[4] Across both groups, expected net losses and cash burn remain considerable for at least the next several years.[4] Meanwhile, even after the decline, the quantum bucket trades at a lofty 32 times estimated 2027 sales.[4]

At Copeland, we aim to avoid blow-ups like these by actively following business fundamentals and dividend actions. However, the broader market has no such filter. Everything is rosy when narrative-driven stocks are, in trader-speak, "working." Yet, to paraphrase Warren Buffett, "when the tide goes out, we see who is swimming naked." Forgotten risk factors suddenly surface and wreak havoc on companies without fundamental support. Hence, all-in upside can quickly become all-in downside.

Chart 2. Small Cap Momentum Peaked in June, Then Reversed



Source: Empirical Research Partners Analysis, "Small-Caps: Where we Stand." October 2026, p. 3; re-created by Copeland. Highest quintile of nine-month momentum stocks (capitalization-weighted) relative to the Russell 2000 Equal Weight Index, cumulative relative return, daily date compounded. January 2024-early October 2026.

No one can know in advance what will finally break the speculative camel's back – or when – even if investors long sense that something is amiss. This time, geopolitical unrest, higher oil prices, and mounting inflation coalesced to push the US 10-year Treasury bond yield to 5.29% at quarter-end from 4.44% at the end of June, the highest reading since 2002.[5] The US Federal Reserve also increased the short-term borrowing rate – the federal funds rate – in mid-September for the first time since it began reducing rates exactly two years prior in 2024.[6]

Higher borrowing costs permeate broadly through the economy and present specific challenges to highly levered companies as well as unproven business models that require external financing (Chart 3). For example, emerging cloud platform company CoreWeave (CRWV) is now under intense scrutiny given significant borrowings, cash burn, and incremental growth capital required to fulfill its business obligations.[7] So many upstart "neocloud" companies are under pressure that Tesla/SpaceX CEO Elon Musk commented that "200+ neoclouds are going to see guppy-level death and consolidation."[8]

By contrast, established business models with strong underlying economics are typically better positioned to weather a wide range of operating conditions, while companies that deliver a contemporaneous dividend increase provide an extra signal of safety and confidence. Many investors ignore dividend signals, which we believe are the cherry on top.

Notably, also in "Pied Piper" we highlighted two prior periods of speculative stock fervor and what ensued. In the late 1990s and again in 2020-21, unprofitable stocks outperformed profitable stocks by a wide margin. But, when market preference rapidly shifted from speculation to fundamental quality, shares of profitable companies rebounded markedly for the subsequent two years. From 2000 through 2002, profitable stocks outperformed unprofitable stocks by 100%, and from 2021 through 2023, profitable stocks outperformed by 71%.[9]

Towards the end of the third quarter and now into the fourth quarter, profitable quality companies are garnering renewed focus. Further, history shows that profitable companies tend to outperform when interest rates are high or rising (Chart 4).

What about AI Momentum and Bubble Risk?

AI-related stocks have been a major contributor to strong equity market performance since 2024. Here, we again must differentiate between companies earning real profits today and those with unproven business models. We believe the best approach is to monitor the economics of each business, mind valuation, and follow the dividend signal.

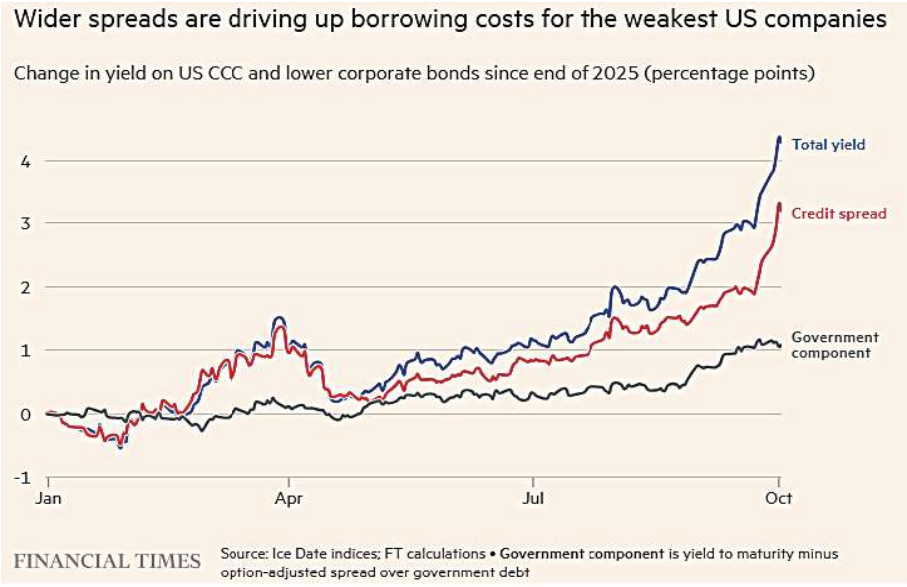
Across the AI supply chain, many well established companies are reporting strong results and providing equally robust forecasts. Substantial revenue growth combined with meaningful operating leverage are leading to record earnings, cash flow generation, and – in many cases – rising dividends. That is to say, the economics of these businesses are improving.

How long will the upward trend last? Of course, this is the billion – or trillion – dollar question. The risks are real. Spending is enormous, borrowing costs are increasing, and the well-documented circular financing deals are opaque. The latter are reminiscent of the late 1990s telecom arrangements that later fell apart. Eventually, the growth in capital spending will slow, either because capacity catches up to demand, supply chains or regulatory hurdles stymie development plans, or returns on investment fail to meet required hurdles. We are watching all closely.

For now, demand remains strong. Businesses are evaluating, implementing, and building AI tools into daily work. At Copeland, we are integrating more AI functionality into our firm's own processes, and we see many portfolio holding companies doing the same. Consumer adoption is just as striking. Anthropic's Claude, Alphabet's Gemini, and OpenAI's ChatGPT continue to see rapid uptake.[10] Meta's (META) Muse app, launched in September, quickly became one of the fastest-growing consumer apps ever.[11]

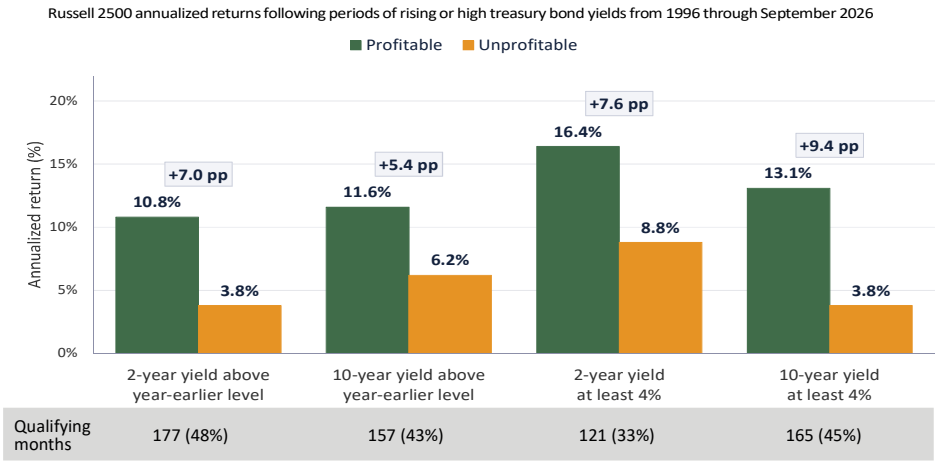
Anthropic's IPO prospectus, filed this month, offers a look at AI economics.[12] The company reported "net revenue retention" of 900% for the September quarter.[13] This means existing

Chart 3. High Leverage Magnifies Risk, Especially if Rates are Rising



Source: FT, "Surge in borrowing costs hits corporate America," October 6, 2026 https://www.ft.com/content/7c7ccb82-2973-47af-ad9b-b469c6ea0048

Chart 4. Profitable Companies Tend to Outperform in Periods of High/Rising Rates



	2-year yield above year-earlier level	10-year yield above year-earlier level	2-year yield at least 4%	10-year yield at least 4%
Qualifying months	177 (48%)	157 (43%)	121 (33%)	165 (45%)

Notes: Chart depicts Russell 2500 total returns from January 1996 to September 2026 during different periods of US treasury bond yields. Analysis shows annualized returns from aggregated monthly data (369 total months). Returns are broken out by profitability buckets, with profitable stocks defined as companies with positive net income in the last twelve months. All stocks are equal weighted. Source: FactSet, CCM

customers are spending roughly nine times what they spent in the year ago quarter. Remarkably, the ramp is happening even as cheaper, widely available opensource models gain ground within businesses.[14]

Let's look at a large hyperscaler. Alphabet (GOOGL) appears to provide an example of disciplined investment. This month, management reaffirmed that it expects "2027 capital expenditures to significantly increase compared to 2026."[15] The spending supports Alphabet's booming cloud business and its Gemini AI initiatives. The heavy investment appears justified: revenue and earnings growth have accelerated year-to-date, margins have improved meaningfully from a year ago, and the company is growing its dividend at the same time. The return on investment is visible.

The debate is healthy, and risks deserve attention. But the signals from quality dividend growth companies, especially their current dividend actions, are telling. By following the dividend action, we aim to own businesses with proven economics and avoid the weaker, riskier players most exposed if the cycle turns.

Building the Roster to Stay in the Game

Like the low payroll Oakland A's in 2002, this year, the Tampa Bay Rays and Milwaukee Brewers found themselves in the 2026 World Series, each vying for their first ever Championship victory.[16] Both teams are in the bottom half of MLB team total payroll spend.[17] The Rays beat bottom-of-the-barrel payroll spend Cleveland Guardians while the Brewers beat the second highest payroll team, the LA Dodgers and their $700 million star, Shohei Ohtani.[18] The difference in starting lineup spend was striking (Chart 5) and reveals that the most expensive payroll can disappoint.

Chart 5. The Most Expensive Payroll Can Disappoint – Starting Lineup Payroll for 2026 Season

$ in Millions	RAYS	GUARDIANS	BREWERS	DODGERS
Total	$19.4	$31.7	$52.9	$160.6

Source: NYTs, "In MLB's final 4, it's the sport's biggest spender and 3 budget-savvy rivals," October 10, 2026 https://www.nytimes.com/athletic/7673621/2026/10/10/mlb-playoffs-2026-dodgers-brewers-guardiansrays-payroll

As happens in baseball, market participants have recently emphasized the most expensive and most famous, momentum "players," undervaluing the quality "talent" within dividend growers that tend to outperform over time with less risk. Since 1982, dividend growers in the Russell 3000 compounded at 13.9% annualized, versus 12.2% for the index and 8.5% for non-payers, with a higher return per unit of risk (Sharpe ratio) and better protection in declining markets (lower downside capture) (Chart 6).[19] Further, because so many quality companies have been shunned by investors, we believe valuations today are very attractive, which also serves to mitigate risk.

Chart 6. Long-Term Risk and Return by Dividend Policy

Russell 3000, 10/1982–9/2026	Ann. Return	Sharpe	Down. Capture
Dividend Growers	**13.9%**	**0.67**	**0.79**
Dividend Payers	13.0%	0.56	0.89
Non-Dividend Payers	8.5%	0.20	1.56
Dividend Cutters	6.8%	0.13	1.28
Russell 3000 Index	12.2%	0.56	1.00

Source: © 2026 Ned Davis Research, Inc.

Following dividend signals might seem unglamorous, but like on-base percentage, the track record shows that dividend growth allows investors to stay in the game. We believe the approach reduces exposure to blow-ups and rewards patience. The odds should favor companies that fund a growing dividend from rising internal free cash flow rather than depending upon the moody benevolence of strangers (lenders), particularly in a higher rate environment. Historically, a focus on dividend growth has been associated with attractive risk-adjusted returns over full market cycles.

While sports fans worry about a pending baseball lockout that could derail next season, many investors monitor the AI bubble with similar anxiety. At Copeland there will be no work stoppage. We seek to own companies that generate free cash flow and grow their dividends, and we monitor both continuously. A disciplined process is judged over many seasons, not just a single series.

October 2026

1 *Michael Lewis, Moneyball (W. W. Norton, 2003); Baseball-Reference.com, 2002 Oakland Athletics; payroll per UC Berkeley School of Information, ischoolonline.berkeley.edu/?p=1200*
2 *Copeland Review, "The Most Beautiful Game," Second Quarter 2026, Chart 8*
3 *Goldman Sachs, Oklo Inc. (OKLO) A catalyst rich nuclear SMR technology pioneer. 9/24/25*
4 *FactSet*
5 *FRED https://fred.stlouisfed.org/series/DGS10/*
6 *FOMC https://www.federalreserve.gov/monetarypolicy/fomc.htm*
7 *Yahoo Finance https://finance.yahoo.com/technology/ai/articles/crypto-roots-ai-selloff-why043000019.html*
8 *CNBC https://www.cnbc.com/2026/10/26/neocloud-stocks-today-coreweave-nebius-iren-elon- musk.html*
9 *The 100% and 71% outperformance figures for profitable versus unprofitable stocks are reproduced from Copeland Review, 'Pied Piper,' Third Quarter 2025 (Charts 5 and 6). They use the same data source and methodology as that publication and have not been updated.*
10 *FirstPageSage https://firstpagesage.com/reports/ top-generative-ai-chatbots/*
11 *Androguider https://www.androguider.com/2026/ 10/metas-muse-hits-10m-downloads-in-40.html*
12 *SEC.gov https://www.sec.gov/Archives/edgar/data/ 2130357/000162828026067168/anthropicpbcsx1.htm#ica694c859b8e458dbf6a73f56dde9d42_ 2965*
13 *Yahoo Finance https://finance.yahoo.com/video/ what-anthropics-900-retention-rate-actually- means-ahead-of-its-ipo-140400433.html*
14 *California Management Review, UC Berkeley https://cmr.berkeley.edu/2026/01/the-coming- disruption-how-open-source-ai-will-challenge- closed-model-giants/*
15 *Alphabet https://abc.xyz/investor/events/event- details/2026/2026-Q1-Earnings-Call-2026- nW8kCrBAKS/default.aspx*
16 *MLB https://www.mlb.com/news/brewers-seeking- unique-history-across-north-american-sports*
17 *Spotrac https://www.spotrac.com/mlb/payroll/_/ year/2026*
18 *Spotrac https://www.spotrac.com/mlb/player/_/id/ 24661/shohei-ohtani*
19 *Ned Davis Research, CCM. Russell 3000 universe, 10/31/1982–9/30/2026*

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