Level Set: Maybe Level Will Matter?

There was a lot to digest this past week, but the two areas of focus for investors are the upcoming earnings season and the Oil situation. The consensus bottom-up EPS growth expectations for 2026 are now 17.3%, fueled largely by Technology, which is expected to grow 42.9% on a year-over-year basis. With higher Oil prices, Energy, Materials, and Utilities are also expected to grow double digits this year. Communication Services is also projected to grow 10.3%. Overall, market forecasts embed some breadth, and strong growth, belying what is clearly a growth scare related to the Iran War.

Earnings Expectations Are Higher YTD

Bottom-Up Analyst Earnings Growth Expectations As of End-March, 2026			
Sector	**2025E**	**1Q26E**	**2026E**
S&P 500	12.1%	12.1%	17.3%
S&P ex-Financials	12.1%	11.3%	19.4%
Consumer Discretionary	4.2%	0.5%	8.2%
Consumer Staples	(2.3%)	(2.8%)	4.5%
Energy	(11.3%)	0.4%	11.2%
Financials	12.1%	15.5%	8.4%
Health Care	10.7%	(10.7%)	5.1%
Industrials	11.0%	3.5%	9.4%
Info Tech	26.2%	44.6%	42.9%
Materials	7.2%	9.1%	22.9%
Communication Services	16.8%	(4.0%)	10.3%
Utilities	2.3%	9.4%	11.5%
Real Estate	4.2%	4.2%	5.9%

Source: Trivariate Research, LP

The Bar for Q1 Is Lower, and Recent Economic Data Points Have Been Strong

The current bottom-up EPS estimates are actually 2.9% **higher** today than they were at year-end, fueled primarily by Technology, where big reports from NVDA and MU, among others, have 2026 EPS expectations 12.1% higher now than on January 1st. As we get ready for April earnings season, it is interesting to note that Q1 EPS expectations are lower today than they were at the beginning of the year in every sector except for Technology, including in Materials, Energy, Industrials, among others (see below).

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2026 EPS Revisions March 31st, 2026 vs. January 2nd, 2026 Sector	1Q26E	4Q26E	2026E
S&P 500	(0.9%)	5.4%	2.9%
Info Tech	8.3%	15.0%	12.1%
Materials	(6.9%)	12.9%	8.9%
Energy	(1.2%)	1.8%	2.7%
Communication Services	(0.4%)	0.6%	0.3%
Industrials	(2.8%)	3.6%	0.1%
Utilities	(2.2%)	(2.2%)	(0.4%)
Real Estate	(0.7%)	(1.1%)	(1.0%)
Financials	(0.7%)	(0.9%)	(1.1%)
Consumer Staples	(5.8%)	1.7%	(1.3%)
Consumer Discretionary	(5.8%)	1.8%	(1.6%)
Health Care	(14.5%)	1.2%	(3.9%)

Source: Trivariate Research, LP

Is War News Skewed to the Positive from Here?

While CEOs are in a perpetual state of uncertainty about macro conditions, earnings have continued to grow reasonably well. Recent economic data have been relatively strong. Friday's jobs report was a clear positive, including Healthcare and Construction jobs which are an important sign the economy is not collapsing. Both services and manufacturing data points have been relatively robust. **<u>The bottom line is that we think the April earnings season and guidance of July is going to be reasonably robust.</u> Handicapping the Iran War, and the commentary on the Straight of Hormuz is impossible. But, the VIX has moved sharply lower in the last week (from $31.05 to $23.87), and the market responded with a big move higher off of recent lows. We can't be certain, but it does seem to us** that 'second derivative of war' news is now positive, and on the margin, that makes us more bullish on risk-taking today than we were three months ago.

The Technology Sector Is Crucial

The most important data points during this EPS season will likely come from the Great 8, Semiconductors, Software, and Communication Equipment. After all, the Technology sector is projected to account for 63.4% of the EPS growth in the entire S&P500 this year (see below).

Year over Year Percentage of S&P500 Growth
Major Sectors
As of End-March, 2026

Year	S&P500 EPS	S&P500 YoY $ Growth	S&P500 YoY % Growth	Cons. Disc.	Cons. Staples	Fins.	Health Care	Industrials	Tech.	Comm. Serv.
2025	$274.88	$29.71	12.1%	3.0%	(1.2%)	18.8%	10.8%	7.1%	49.3%	14.4%
2026	$322.52	$47.64	17.3%	3.8%	1.4%	9.1%	3.6%	4.2%	63.4%	6.4%

Source: Trivariate Research, LP

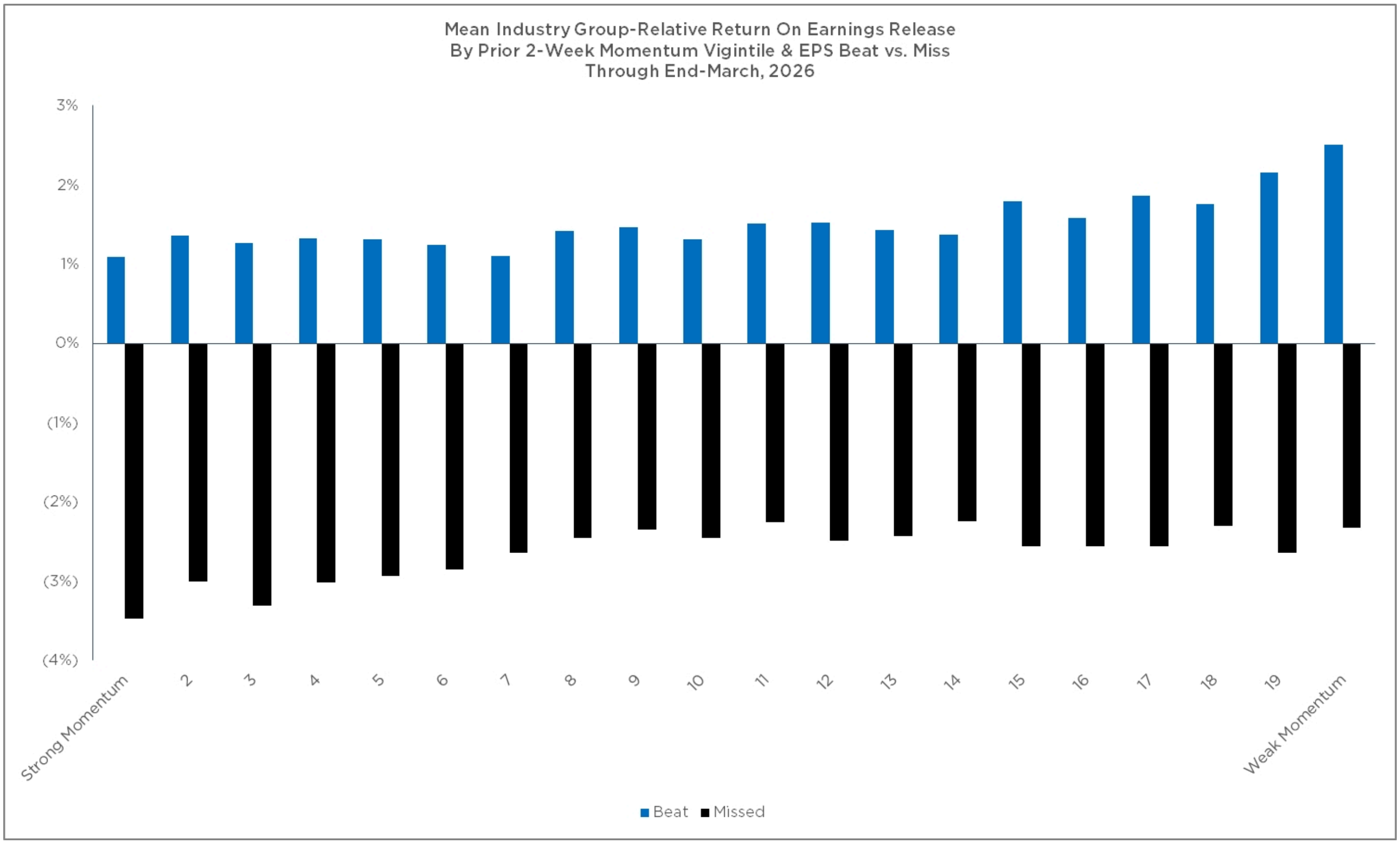
For context, the S&P500 aggregate earnings have grown more than 5% in a year in 14 of the last 20 years, and are projected again, as we mentioned, to grow strongly in 2026. We looked back at the years when earnings have grown more than 5% to see if there have been any years when one sector has mattered to overall market growth as much as the Technology sector does this year. **<u>The answer is - NO.</u>**

In 2023, the S&P500 EPS was $223.83, and the consensus expectations are for $322.52 in EPS in 2026. That represents $98.69 in total EPS growth over three years. The S&P500 Technology sector had $45.31 in 2023 EPS, and is projected to have $100.58 EPS in 2026, representing $55.27 in growth over the same three years. **<u>That means over a three-year period, the Technology sector is projected to account for 56% percent of the total EPS growth for the entire market.</u>** This year's Technology earnings represent the highest growth of earnings in any on sector in a quarter-century (see below). Note, this does not include GOOGL, AMZN, META, or TSLA, which are not in the Technology classification, and are collectively projected to have over $70 billion more net income dollars in 2026 than in 2025.

Year over Year Percentage of S&P500 Growth As of End-March, 2026 Year	S&P500 YoY % Growth	Cons. Disc.	Cons. Staples	Fins.	Health Care	Industrials	Tech.	Comm. Svcs.
2005	13.4%	6.0%	0.2%	5.6%	12.9%	17.3%	10.4%	2.1%
2006	16.5%	7.9%	2.8%	42.3%	2.9%	5.3%	1.1%	6.7%
2010	35.6%	8.2%	1.8%	36.2%	2.4%	6.8%	23.0%	0.9%
2011	14.2%	3.9%	1.0%	2.1%	4.8%	15.6%	19.0%	7.7%
2012	7.8%	8.3%	6.9%	46.9%	2.3%	5.6%	15.2%	24.7%
2013	7.8%	11.8%	1.4%	51.2%	20.7%	12.3%	(2.1%)	(9.2%)
2014	7.7%	7.7%	1.1%	0.8%	25.8%	13.5%	17.6%	20.9%
2017	13.3%	2.6%	2.3%	17.4%	12.0%	5.7%	24.7%	6.0%
2018	22.7%	5.8%	2.8%	22.6%	10.4%	8.6%	17.7%	11.1%
2021	47.1%	9.3%	1.4%	25.9%	9.5%	8.5%	16.6%	8.0%
2022	5.3%	2.9%	2.2%	(58.6%)	18.6%	34.9%	1.2%	(40.5%)
2024	9.5%	13.1%	2.0%	28.1%	2.7%	(0.5%)	48.8%	21.1%
2025	12.1%	3.0%	(1.2%)	18.8%	10.8%	7.1%	49.3%	14.4%
2026	17.3%	3.8%	1.4%	9.1%	3.6%	4.2%	63.4%	6.4%

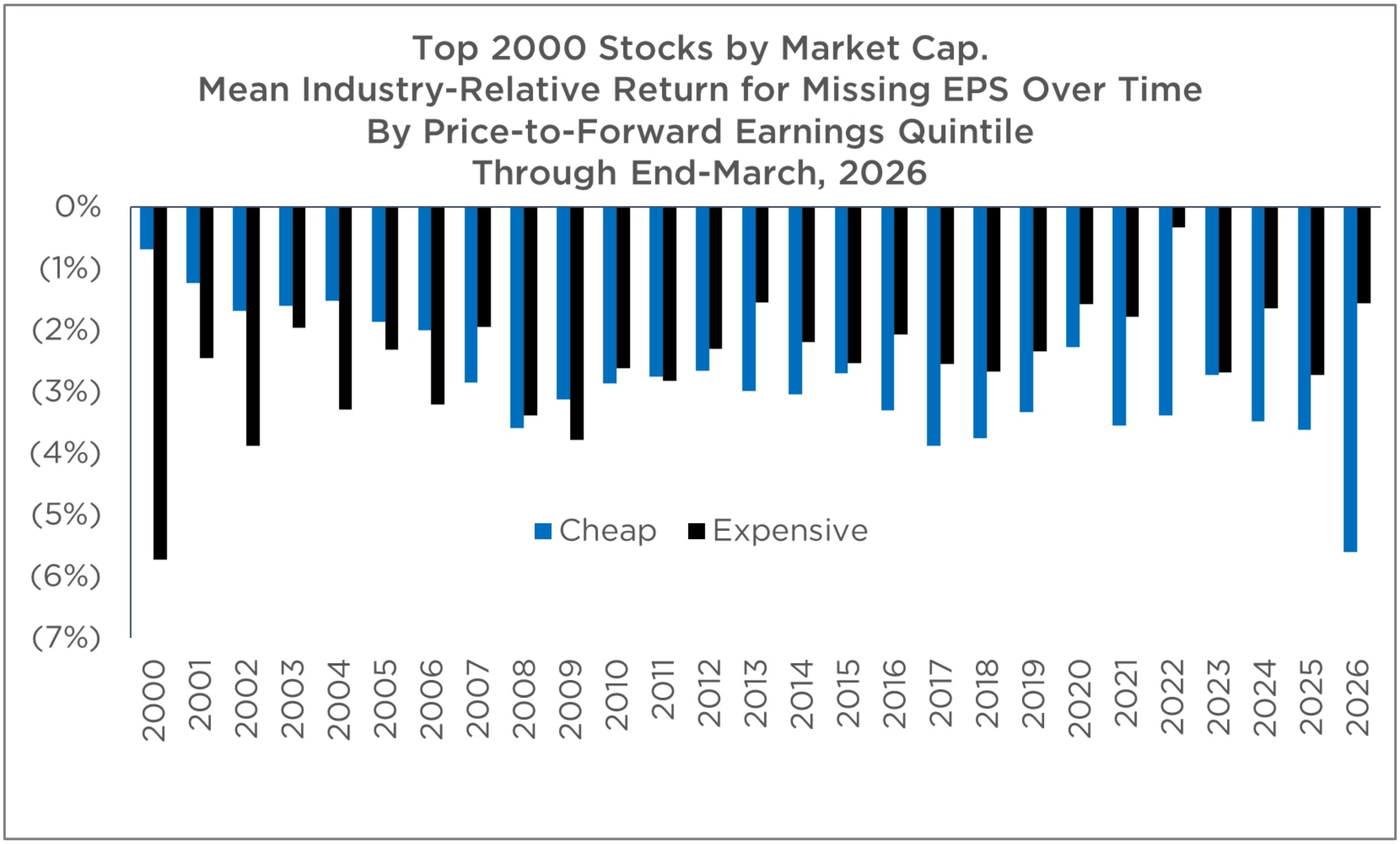
Source: Trivariate Research, LP

Most equity investors understand that rate of change typically matters more than level. The biggest variable that has prevented us from getting more bullish to date, has been that the penalty for missing estimates remains harsh vs. the reward for beating estimates. We would love to see an important stock miss estimates or guidance and not go down as an “all clear” signal, but so far, we have seen the opposite behavior, with no better examples than the blowout quarters from MU and NVDA last month, both resulting in strong upward earnings revisions, and both greeted by the market with sharply lower multiples. Other than stocks that were in the worst 5% of performance into their earnings reports, where evidently a beat is very surprising, the other 95% of stocks have had a harsher penalty for missing estimates than a reward for beating (see below). **Any evidence that this is changing would cause us to get more bullish.**



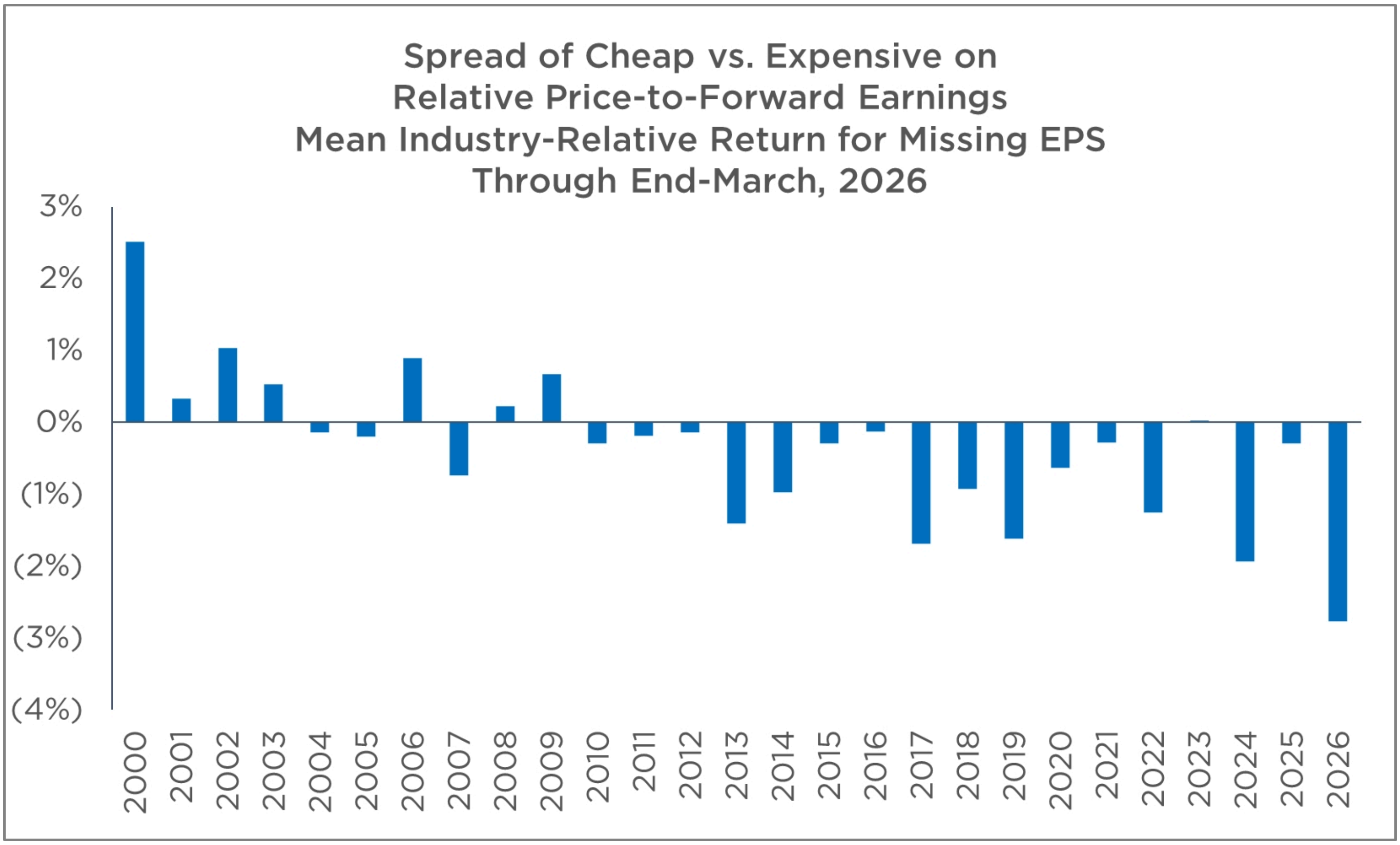
Source: Trivariate Research, LP

Many investors think that cheap valuation will protect them from an earnings miss. **<u>But, so far, valuation hasn't mattered. In fact, the stocks that are the cheapest on price-to-forward earnings that miss estimates are going down more than they ever have in 25 years</u>**. At the same time, stocks that are expensive are also going down, but less than cheap stocks, and less than expensive stocks normally do (see below).



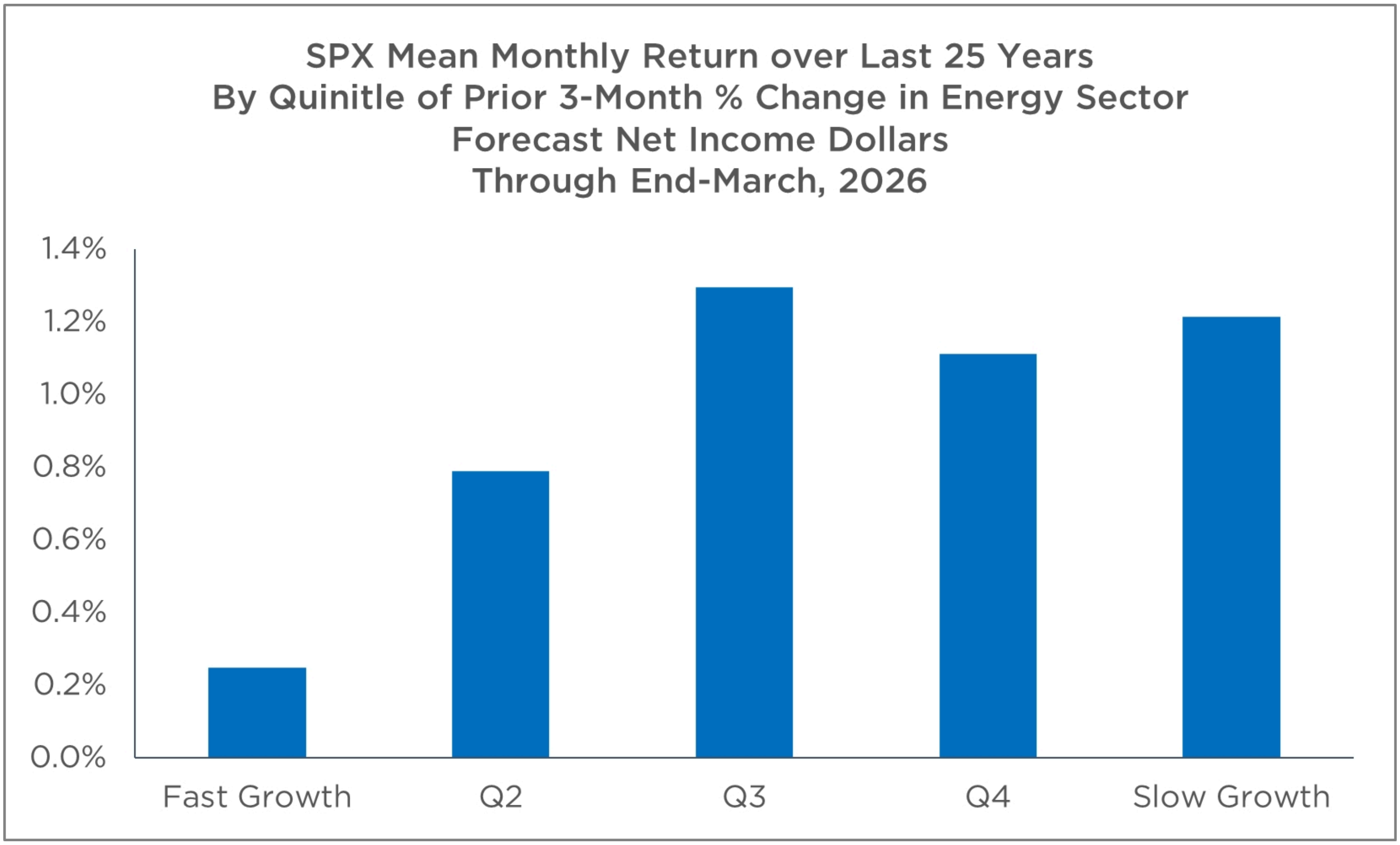
Source: Trivariate Research, LP

The result is that the market is punishing cheap stocks that miss more than expensive stocks that miss the most it ever has so far this year. But perhaps even more interestingly, cheap stocks that miss really have not provided protection vs. expensive stocks for more than fifteen years. **The answer appears to be - don't own something that you think is going to miss, but "everyone knows it."**



Source: Trivariate Research, LP

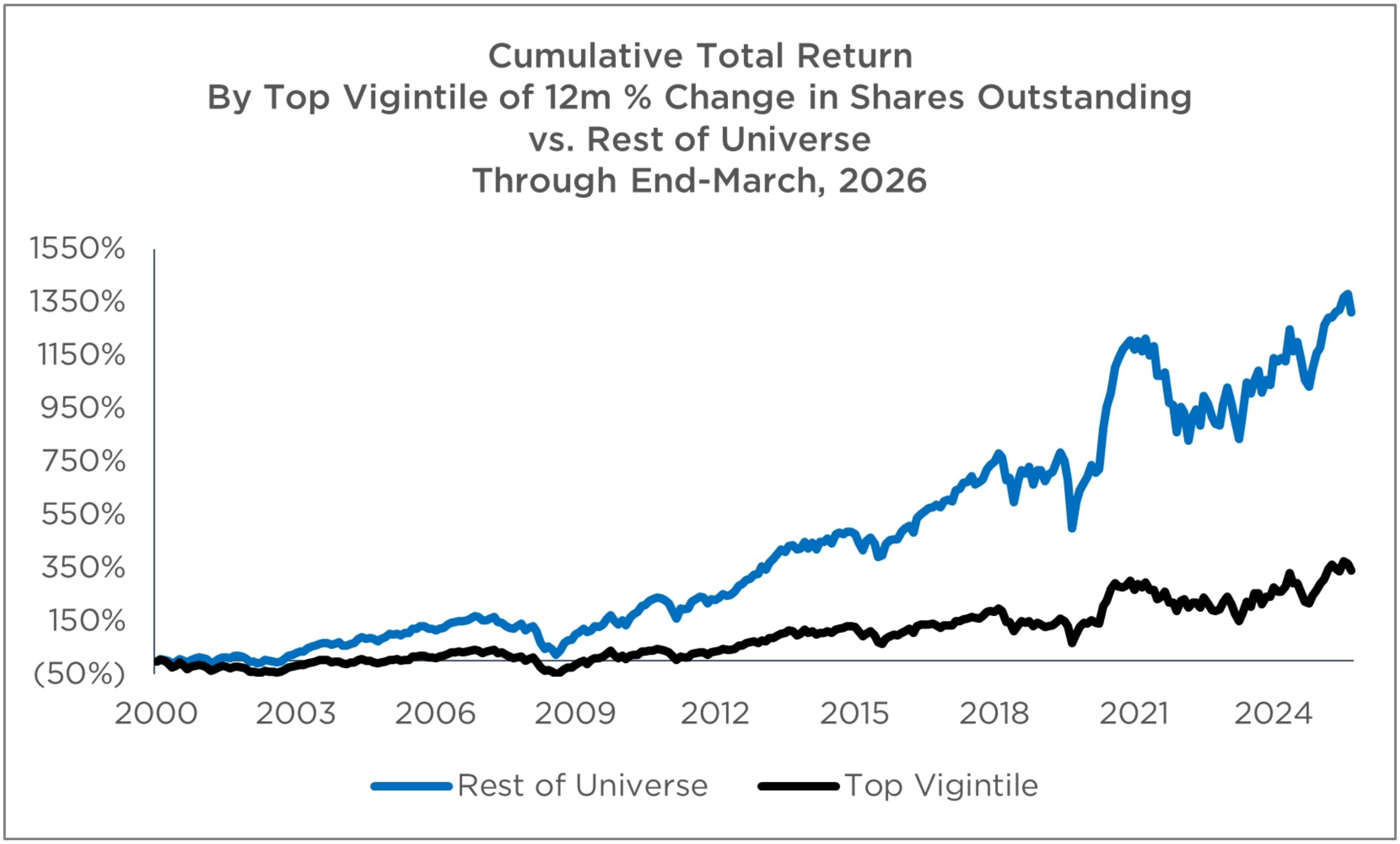
Some investors asked us this week about whether we had a view on whether Oil prices are too high for the equity market to do well. We think we have learned through the years that the periodicity and amplitude matter in both directions to make this call. How fast oil rises and how long it stays at this level, and how fast it falls, are all part of what matters. Moreover, when you analyze history, sometimes Oil goes up because DEMAND is good, and sometimes because of supply shocks like the current situation, and the implications are somewhat different for subsequent risk taking. Taking this into account, and being wary of saying things we know are not provable with data like "The market can't work when Oil gets to $100" which we have read a lot in the last couple of weeks, we decided to analyze the quintiles of changes in net income growth forecasts for the Energy sector and see if this had any S&P500 market level predictive value. Our logic is that the change in the Oil price is highly correlated to the change in the net income of the Energy sector, so big changes should have some impact. Over the last quarter-century, there is only modest evidence that big upward revisions to Energy sector net income impact the stock market (see below). We aren't that surprised, because Energy over time has become such a small piece of the S&P500. At one point in the 1980s, eight of the ten biggest stocks in the S&P500 were in the Energy sector. Today, the whole sector is less than 5% of the S&P500 market capitalization, so the overall impact is assuredly lower.



Source: Trivariate Research, LP

Amidst all the macro noise, there has still been a solid amount of deal activity. **Of course the big news last week was the SpaceX IPO appears to be coming in Q2. The impact this could have on portfolios could be massive.** While current rules don't allow for a new issue to be in the index, there were some stories last week that its size - likely a Top 10 US equity by market cap. - will make it fast-tracked to index inclusion . If it is $1.5 Trillion in market cap., this would be a 2.5% position in the S&P500 today - and if it hits $2 Trillion soon after - as many expect - that would be a 3.4% weight, too much of an underweight to own none for many tracking-error focused long-only investors. Given the IPO is likely in the $50 to $75 billion range in terms of initial float, there will be a massive amount of clamoring for shares, and some investors have suggested to us this could be a $3 Trillion market cap. stock within a year. We have no view on this - but if the whispers of $35 billion in 2027 revenue are directionally accurate, there is ample evidence that stocks can trade at 50x sales at this point in their life cycle.

Another deal last week that struck us as worth pointing out was the Unilver - McCormick Reverse Morris Trust. The market negatively reacted to both stocks , and what stood out to us was the massive dilution to the McCormick shareholders. We decided to study what happens when share counts go up significantly , to see what the distribution of outcomes are for this type of event. When stocks are in the top vigintile of increases in shares outstanding, as was the case with McCormick, they tend to be an inferior asset class over time (see below). We are surprised this deal went through the way it did, with both sets of shareholders seeming pretty unhappy.



Source: Trivariate Research, LP

CONCLUSION

Mark-to-market, we are more bullish today than we were at the beginning of the year, when we were concerned that the probability of multiple contraction was far greater than the probability of multiple expansion. The absolute level of growth seems high enough, that if it is even remotely true, stocks will likely appreciate before year-end. Eventually this level will matter more than change for investing. For instance, the Technology sector is down 7.55% year-to-date, and earnings are forecasted to grow 42.9%. Let's say earnings grow 35%. If the stocks don't meaningfully appreciate by year-end, this would represent a TMT-like bubble implosion for this year, which is not our base case. The challenge is always that the devil is in the details. Year-to-date performance within the Technology sector has been very diverse, with some winners like SNDK up 195% and CIEN up 91%, while APP is down 43% and WDAY is down 38%. We continue to think Software is going to lag, though likely not at the rate it has. Bigger picture, the market is down 3.5% with EPS growth forecasted to be 17%. If earnings grow 12-13%, and not 17%, and look like they will grow closer to the long-term average of 8-9% in 2027, it is hard to think the market won't rally 10% from here before year-end. Any evidence Hormuz is opening, or stocks aren't going down on misses would be big positives. The negatives we outlined at the beginning of the year remain, which are that median stock's gross margins are going down, hyper-scaler capital spending needs to come up at a Goldilocks rate, and if the Fed is accommodative it likely is not going to be as good for multiples as it was earlier in the cycle.

Non-Technology Compounders

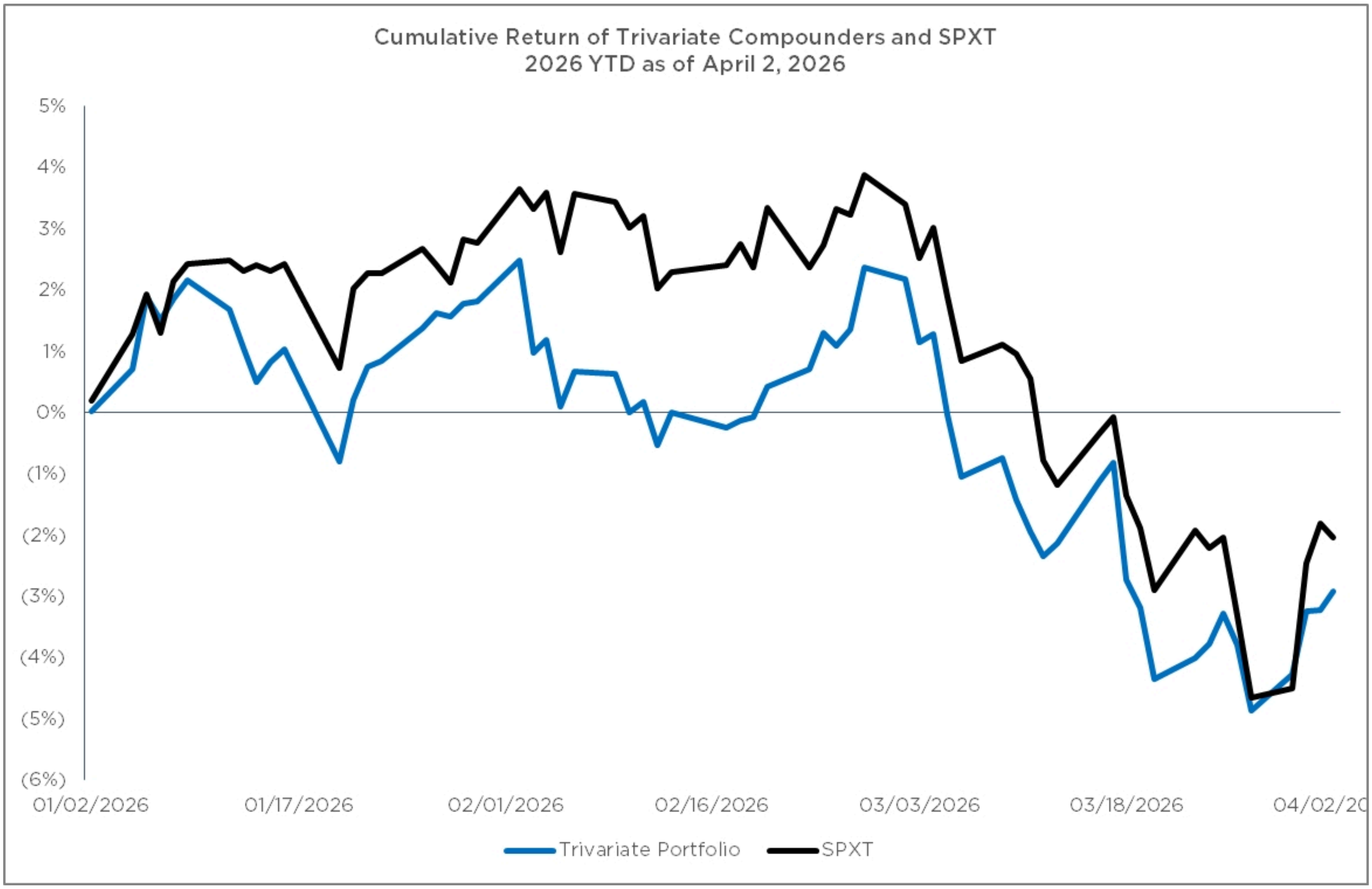
We launched a new ideas basket this year, which is 20 Non-Technology Compounders. Ideas below.

Trivariate Compounders Portfolio
As of February 20th, 2026

Ticker	Company Name	Industry	Market Cap.	Beta	CSR
AMZN	Amazon.com, Inc.	Broadline Retail	2,255.51	1.40	49%
BRK.B	Berkshire Hathaway	Financial Services	1,074.37	0.29	68%
PM	Philip Morris	Tobacco	285.50	0.07	81%
TMUS	T-Mobile US, Inc.	Wireless Telecom. Serv.	237.41	(0.10)	84%
LIN	Linde plc	Chemicals	231.84	0.39	67%
NEE	NextEra Energy, Inc.	Electric Utilities	192.06	0.33	89%
TMO	Thermo Fisher Sci.	Life Sciences Tools & Services	191.96	0.91	58%
GILD	Gilead Sciences, Inc.	Biotechnology	187.84	0.38	89%
UBER	Uber Technologies, Inc.	Ground Transportation	152.01	1.12	78%
SYK	Stryker Corporation	Health Care Equip. & Supp.	145.51	0.52	63%
WELL	Welltower Inc.	Health Care REITs	145.27	0.18	79%
MCK	McKesson Corporation	Health Care Providers & Serv.	116.05	0.07	86%
WM	Waste Management	Commercial Services & Supp.	92.89	0.15	79%
WMB	Williams Companies	Oil, Gas & Consumable Fuels	89.12	0.35	86%
CTVA	Corteva, Inc.	Chemicals	51.32	0.61	73%
VMC	Vulcan Materials	Construction Materials	39.86	0.79	59%
KMB	Kimberly-Clark	Household Products	36.19	(0.11)	65%
CPNG	Coupang, Inc.	Broadline Retail	34.25	1.34	79%
XYL	Xylem Inc.	Machinery	31.36	0.94	52%
DGX	Quest Diagnostics	Health Care Providers & Serv.	22.27	0.04	77%

Source: Trivariate Research, LP

The portfolio is down -2.92% YTD, vs. its comparable index of -2.04%.



Source: Trivariate Research, LP

Important Disclosures

Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Colin Cooney, Chang Ge, Jesse Goodman and Ryan McGovern, responsible for the preparation of this research report certifies that: all the views expressed in this research report accurately reflect the research analyst's personal views.

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