

## Level Set - The Power of Double-Digit EPS Growth and the Allure of Tech.

### The Power of Double-Digit EPS Growth

We analyzed both S&P500 performance and S&P500 earnings since 1928, and found 22 years when the current year and the following year ultimately saw double-digit EPS growth. We then looked back at S&P500 total returns for the first of the two years of double-digit earnings growth, and found that **only five times was the market down in that first year of growth of this magnitude, including 1929, 1940, 1948, 1973, and 1994** (see below). The Great Depression, WW1, and the Oil Shock drove large earnings declines which the market correctly predicted in three of these five events. Looking at history this way makes us more bullish on the S&P500- even if earnings aren't the forecasted 17.9% this year and 16.7% next year, and end up closer to 13% and 10%, the precedent for this year being a bad year for stocks is relatively thin.

**Adam Parker**

Founder  
646-734-7070  
[adam@trivariateresearch.com](mailto:adam@trivariateresearch.com)

**Chang Ge**

Analyst  
614-397-0038  
[chang@trivariateresearch.com](mailto:chang@trivariateresearch.com)

**Maxwell Arnold**

Analyst  
347-514-1234  
[maxwell@trivariateresearch.com](mailto:maxwell@trivariateresearch.com)

**Jesse Goodman**

Analyst  
917-741-5744  
[jesse@trivariateresearch.com](mailto:jesse@trivariateresearch.com)

**Colin Cooney**

Head of Sales  
617-910-7934  
[colin@trivariateresearch.com](mailto:colin@trivariateresearch.com)

**Ryan McGovern**

Director of Research Sales  
973-271-8017  
[ryan@trivariateresearch.com](mailto:ryan@trivariateresearch.com)

S&P500 As of April 17th, 2026				
Periods Where Current Year and Following Year Had Double-Digits EPS Growth AND The Market Was Down the Current Year				
Year	EPS Growth		S&P Return	
	Current Year	Next Year	Current Year	Next Year
1929	23.9%	11.4%	(11.9%)	(28.5%)
1935	29.5%	35.1%	41.4%	27.9%
1936	35.1%	36.4%	27.9%	(38.6%)
1940	40.9%	12.9%	(15.1%)	(17.9%)
1947	20.2%	45.1%	0.0%	(0.7%)
1948	45.1%	41.5%	(0.7%)	10.5%
1955	12.3%	28.6%	26.4%	2.6%
1963	13.2%	10.6%	18.9%	13.0%
1964	10.6%	12.8%	13.0%	9.1%
1965	12.8%	14.2%	9.1%	(13.1%)
1973	14.1%	25.6%	(17.4%)	(29.7%)
1979	16.1%	18.6%	12.3%	25.8%
1984	14.9%	14.7%	1.4%	26.3%
1988	21.6%	35.3%	12.4%	27.3%
1993	11.9%	11.6%	7.1%	(1.5%)
1994	11.6%	15.8%	(1.5%)	34.1%
2004	30.9%	13.4%	9.0%	3.0%
2005	13.4%	16.5%	3.0%	13.6%
2010	35.60%	14.20%	12.78%	0.00%
2017	13.30%	22.70%	19.42%	(6.2%)
2025	12.10%	17.90%	16.39%	2.86%
2026	17.90%	16.70%	2.86%	TBD
Average	20.77%	21.44%	8.48%	2.85%

Note: Highlighted in Blue are Years With Down Markets When that year and next year had double-digit EPS growth  
Black cells are estimates, and / or 2026 year-to-date

Source: Trivariate Research, LP

In our Level Set two weeks ago, we observed that the level of earnings growth was high enough that even earnings misses and multiple contraction might not be enough to offset the absolute strength of the fundamentals. That was well-timed, as the S&P500 is up 12.3% since March 30<sup>th</sup>, fully offsetting, in thirteen trading days, any Iran jitters and the initial stagflationary concerns borne out of that conflict. **We analyzed the precedent of this powerful of a market reversal in a 13-day trading period. Since 1928, there have been 28 non-overlapping 13-day periods when the S&P500 gained more than this recent period** (see below). The biggest 13 trading-day rallies appear to have mostly been after the Great Financial Crisis, COVID, and at various stages of the Great Depression recovery, highlighting how rare the power of the recent rally has been (see below). The average 3-month forward return following these 28 events has been a loss of 1.2%, so history doesn't necessarily imply that there will be a massive rally from here.

**Historical 3-Month Forward Returns for the S&P500  
Following 13-Day Rallies of this Magnitude  
1928 Through April 17th, 2026**

<b>End of Period</b>	<b>13-Day Return</b>	<b>3-Month Forward S&amp;P500 Return</b>
12/10/2008	19.5%	(15.9%)
4/8/2020	19.3%	14.6%
4/18/1938	19.2%	18.6%
7/5/1933	18.6%	(16.3%)
4/19/1933	18.0%	62.5%
3/2/1932	16.1%	(49.5%)
12/3/1929	15.6%	7.9%
7/22/1932	15.6%	31.2%
3/23/2009	15.4%	8.5%
9/8/1939	15.0%	(3.6%)
1/15/1932	14.9%	(31.4%)
10/18/1974	14.0%	(1.7%)
8/9/2002	13.9%	(0.7%)
6/22/1938	13.9%	11.5%
11/8/1933	13.8%	17.3%
1/14/1938	13.5%	(12.8%)
8/25/1982	13.4%	13.1%
1/24/1934	13.4%	(3.0%)
11/5/1987	13.2%	(1.4%)
12/23/1987	13.1%	4.0%
2/23/1938	13.0%	(16.9%)
10/20/1931	12.9%	(21.7%)
3/24/2000	12.7%	(5.6%)
6/24/1931	12.6%	(28.4%)
10/5/1938	12.5%	(0.4%)
11/11/1932	12.4%	(17.7%)
10/18/1982	12.4%	7.3%
10/24/2002	12.4%	(4.0%)
<b>4/17/2026</b>	<b>12.3%</b>	<b>TBD</b>
Average		(1.2%)

Source: Trivariate Research, LP

Today, EPS expectations are fairly broad-based, with double-digit earnings expectations not only for the overall market for 2026 and 2027, but also for Technology, Materials, and Communication Services, with Financials, and Utilities relatively close (see below). We mentioned a couple of weeks ago in our Level Set that the absolute level of growth was so high, that perhaps even a material multiple contraction and lowered estimates would still not be enough to offset the actual growth, and this market could appreciate. We were right, but didn't expect this much, this fast.

<b>Bottom-Up Consensus Analyst YoY Earnings Growth Expectations As of April 17th, 2026</b>			
<b>Sector</b>	<b>2025</b>	<b>2026E</b>	<b>2027E</b>
S&P 500	12.1%	18.3%	16.7%
S&P ex-Financials	12.1%	20.5%	18.0%
Consumer Discretionary	4.2%	7.4%	18.9%
Consumer Staples	(2.3%)	4.7%	8.0%
Energy	(11.3%)	35.4%	4.5%
Financials	12.1%	8.8%	11.0%
Health Care	10.7%	4.0%	14.1%
Industrials	11.0%	8.1%	18.8%
Info Tech	26.2%	43.1%	25.2%
Materials	7.2%	25.8%	14.2%
Communication Services	16.8%	11.2%	14.7%
Utilities	2.3%	11.9%	9.9%
Real Estate	4.2%	5.8%	7.7%

Source: Trivariate Research, LP

Since 1989, we analyzed how Technology has performed in the three-month periods following 13-day market rallies that were this strong. There were only six such instances in this time frame, and Technology did well in four of the six - certainly not a statistically significant sample size. Nonetheless, Technology's average 3-month forward return after 13-day S&P500 rallies like the one have just seen is 5.4% (see below).

#### **Historical 3-Month Forward Returns the Technology Following 13-Day Rallies of this Magnitude 1989 Through April 17th, 2026**

<b>End of Period</b>	<b>13-Day Return</b>	<b>3-Month Forward Technology Return</b>
4/17/2026	12.3%	TBD
4/8/2020	19.3%	27.3%
3/23/2009	15.4%	14.5%
12/10/2008	19.5%	(4.1%)
10/24/2002	12.4%	4.6%
8/9/2002	13.9%	6.1%
3/24/2000	12.7%	(15.8%)
Average		5.4%

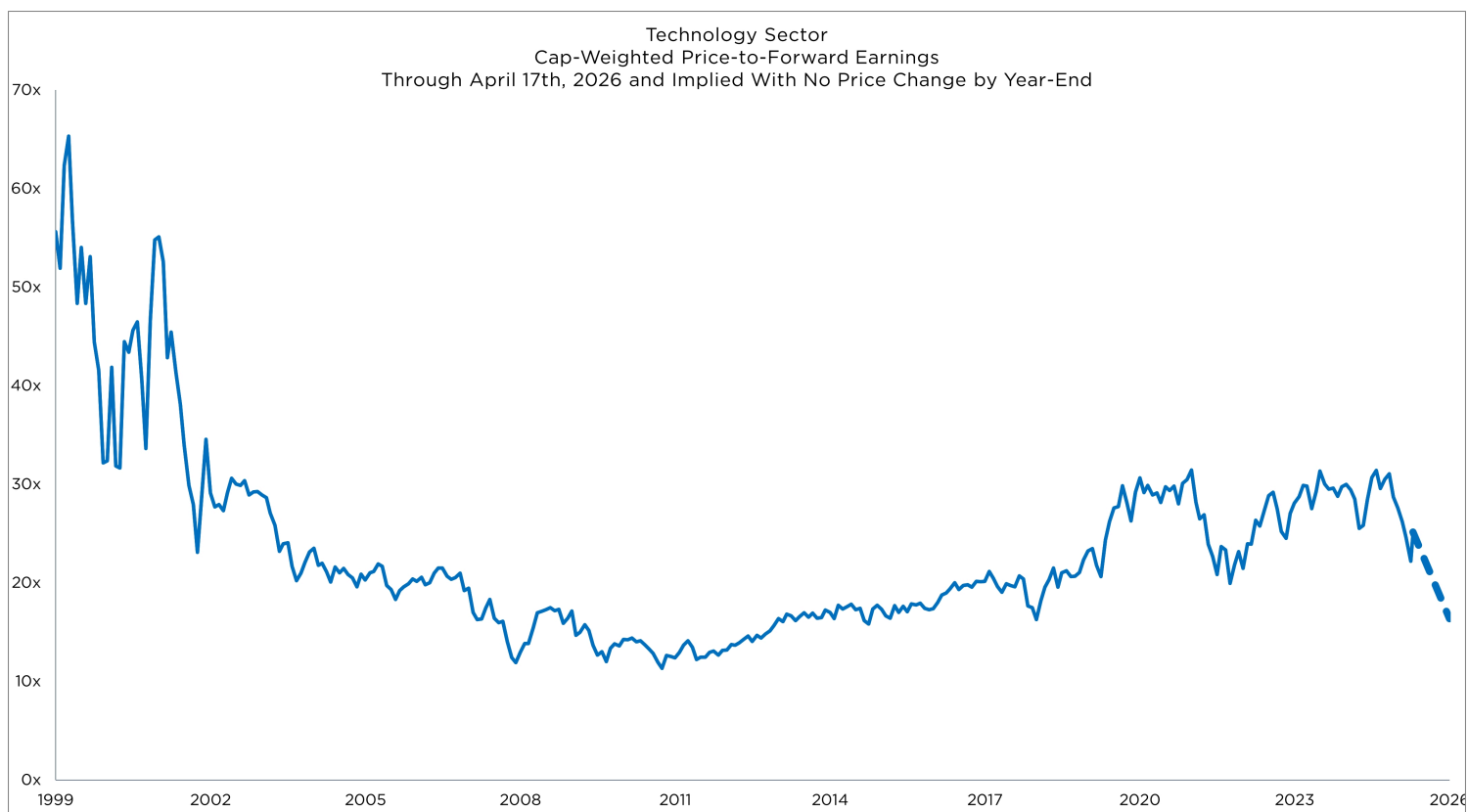
Source: Trivariate Research, LP

Our view looking at this is that we should be more bullish on the Technology sector, evaluating the history of the strong earnings growth forecasts and the sharp market trading reversal. We have been recommending a Market-weight on Technology so far this year, preferring Semiconductors to Software. Overall, this call has been reasonable, as the S&P500 is up 4.1%, and Technology has been the 8<sup>th</sup> best performing out of 11 sectors, up 4.73%. But, the forecasted earnings growth of the Technology sector within the S&P500 is extremely strong. Fueling this strength, **is MU and NVDA, which are driving 44.9% of the year-over-year growth Q1 of 2026 of the entire S&P500 (see below).**

S&P500 Year-over-Year Earnings Growth With and Without Micron (MU) and Nvidia (NVDA) As of April 17th, 2026				
Cohort	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E
S&P500 YoY EPS Growth	13.5%	19.1%	17.9%	17.6%
S&P500 (Ex. NVDA & MU) YoY EPS Growth	7.4%	12.6%	11.9%	12.1%
Percentage of S&P500 Growth from MU / NVDA	44.9%	33.8%	33.8%	30.9%

Source: Trivariate Research, LP

Increasingly however, we are warming to the idea that the power of this 24-month forward earnings growth is going to be too high for Technology to underperform. While we continue to think that this year is one where the market is not likely to appreciate more than 10%, owing to concerns about the median company’s ability to have expanding gross margins, we are of the mindset that the absolute growth of the Technology sector earnings will likely remain robust enough to fuel outperformance from here, even if cyclical concerns about overbuilding exist. While the bottom-up consensus EPS expectations for the Technology sector are for 43.1% growth in 2026, if we assume the Technology sector performance overall is flat this year, but earnings growth is less than that at “only” 35%, the price-to-forward earnings would end the year at 16.35x (see below), a level not seen since December 2018 at the end of a large growth scare. This seems unlikely to us, given EPS expectations today are for an additional 25% EPS growth in 2027. While we know there is serious over-earning in Memory from a long-term perspective, it does appear material shortages still remain. We also believe NVDA will continue to grow well above the overall market rate for the foreseeable future. Hence, even with multiple contraction, and assuming a 35+% growth rate this year and another 15%+ growth next year makes Technology sector outperformance increasingly likely.



Source: Trivariate Research, LP

## Conclusion

**As a result of this, we are upgrading the Technology sector to Outperform from Market-perform, downgrading Energy and Materials from Outperform to Market-perform.** We are now recommending Healthcare and Technology, and believe investors should be wary of Consumer Staples and Consumer Discretionary, which we recommend as Underweights. Details of weights and commentary are below. While Energy and Materials both have above-average near-term estimate achievability,

the asymmetric price action around recent Hormuz-related news concerns us about the potential for multiple contraction and eventual downward revisions by 2027.

### Trivariate Sector Recommendations as of April 16<sup>th</sup>, 2026

Sector	Total S&P 500 Market Cap. (US\$ Trillion.)	Current S&P 500 Weight	Trivariate Old Recommended Weight	Trivariate Changes for March 2026	Trivariate New Recommended Weight	Trivariate-Relative Weight	Trivariate Recommendation	Comments
Health Care	5.44	8.5%	14%	(1%)	13%	4.5%	Overweight	This could be a primary AI beneficiary, low correlation to AI Semis
Information Technology	21.29	33.3%	31%	5%	36%	2.7%	Overweight	Strong absolute earnings growth that can absorb multiple compression. A balance of AI and Great 8, our North Star remains Semis over Software.
Materials	1.23	2.0%	5%	(2%)	3%	1.0%	Equal-Weight	Materials should have above avg. estimate achievability, we like Gold
Utilities	1.47	2.3%	3%	0%	3%	0.7%	Equal-Weight	Some idiosyncratic investments are sensible
Energy	2.13	3.3%	6%	(2%)	4%	0.7%	Equal-Weight	There's an asymmetric skew to performance based on Hormuz-related outcomes
Real Estate	1.19	1.8%	2%	0%	2%	0.2%	Equal-Weight	Metrics for stock selection are becoming more effective, commercial remains challenged.
Financials	7.96	12.5%	12%	0%	12%	(0.5%)	Equal-Weight	Crowded, not as much of an AI beneficiary as people think, and private credit issues are accelerating
Industrials	5.45	8.5%	7%	0%	7%	(1.5%)	Equal-Weight	Industrial activity is modestly improving, but input costs may be rising and correlation to AI Semis is high.
Communication Services	7.47	11.6%	10%	0%	10%	(1.6%)	Equal-Weight	Generally weak after Oil spikes.
Consumer Staples	3.51	5.5%	3%	0%	3%	(2.5%)	Underweight	Staples have outperformed, yet we see signs of deteriorating pricing power, and some major headwinds, we would be selective here
Consumer Discretionary	6.80	10.6%	7%	0%	7%	(3.6%)	Underweight	Despite benign rates and OBBA, the consumer is slowing and many discretionary companies do not have pricing power

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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