TRIVARIATE RESEARCH

US Equities
April 26, 2026

Level Set: Economics, Strategy, Complacency, and Other Ideas

Economics Shmeconomics

When I arrived at Morgan Stanley in 2010, there were roughly 900 people in the global research department, including 44 economists. We have always thought the "right" number of economists should have been closer to four, than 44. Why? Three primary reasons. **Firstly, economists typically don't even know what has already happened**. The information they analyze is often quite lagged, frequently and materially revised, and gathered and calculated in misleading ways. In the immortal words of Physicist Niels Bohr, "Prediction is very difficult, especially about the future." Look at the history of economists trying to forecast interest rates as Exhibit A. **Secondly, the skills required to be an economist have continued to massively decline**, from this being a challenging and respected "science-like" degree 40 years ago to being essentially replaced by basic AI tools today. For instance, I asked ChatGPT the following: **what are the most likely variables that could introduce volatility into the consensus 2027 US GDP forecast?** I got the following detailed answer with ten bullet points (and tons of details under each that I omitted for brevity) in five seconds:

The consensus 2027 U.S. GDP forecast (roughly ~1–2% real growth in many baselines) looks deceptively stable. In reality, the distribution around that forecast is wide because several ***high-variance inputs sit very close to turning points****. The biggest volatility drivers fall into a few buckets:*

1. *Monetary policy path (rates + Fed reaction function)*
2. *Inflation regime (especially tariffs + supply shocks)*
3. *Fiscal policy + debt dynamics*
4. *Consumer behavior (wealth effect + labor market)*
5. *Business investment cycle (especially AI capex)*
6. *Trade policy + global growth*
7. *Energy prices & geopolitics*
8. *Labor supply (immigration + demographics)*
9. *Financial conditions & asset markets*
10. *Policy uncertainty / political cycle*

Thirdly, and most importantly, we have long thought there was a disconnect between how economists and stock investors interpret data. For example, economists want lots of capital spending and hiring so they can raise their GDP forecasts and tell investors the economy is strong. On the contrary, we are not aware of many buy-side investors who hold a position in a stock and would be pleased if the company surprised them by substantially increasing capital expenditures and hiring beyond expectations.

That news often translates to lower short-term margins, and a lower price-to-forward earnings multiple. If we wanted to miss out on making money in US equities, we would listen to a fixed income economist with a British accent tell us about the US stock market's trajectory. Below is a table of GDP and S&P500 correlations. The correlations are quite low, so it is a reasonable

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statement to say that the US GDP and the S&P500 are uncorrelated. But, the S&P500 predicting the US GDP has modestly positive correlations, and they are negative the other way around. If anything, economists would improve their forecasting if they used stock prices to predict economic outcomes - not the other way around.

Relationship Between US GDP and S&P500

S&P500 Return N Quarters Before or After	Correlation to GDP QoQ % Change
-4	4.8%
-3	12.2%
-2	12.8%
-1	24.2%
0	1.4%
1	(4.9%)
2	(13.0%)
3	(14.7%)
4	(8.4%)

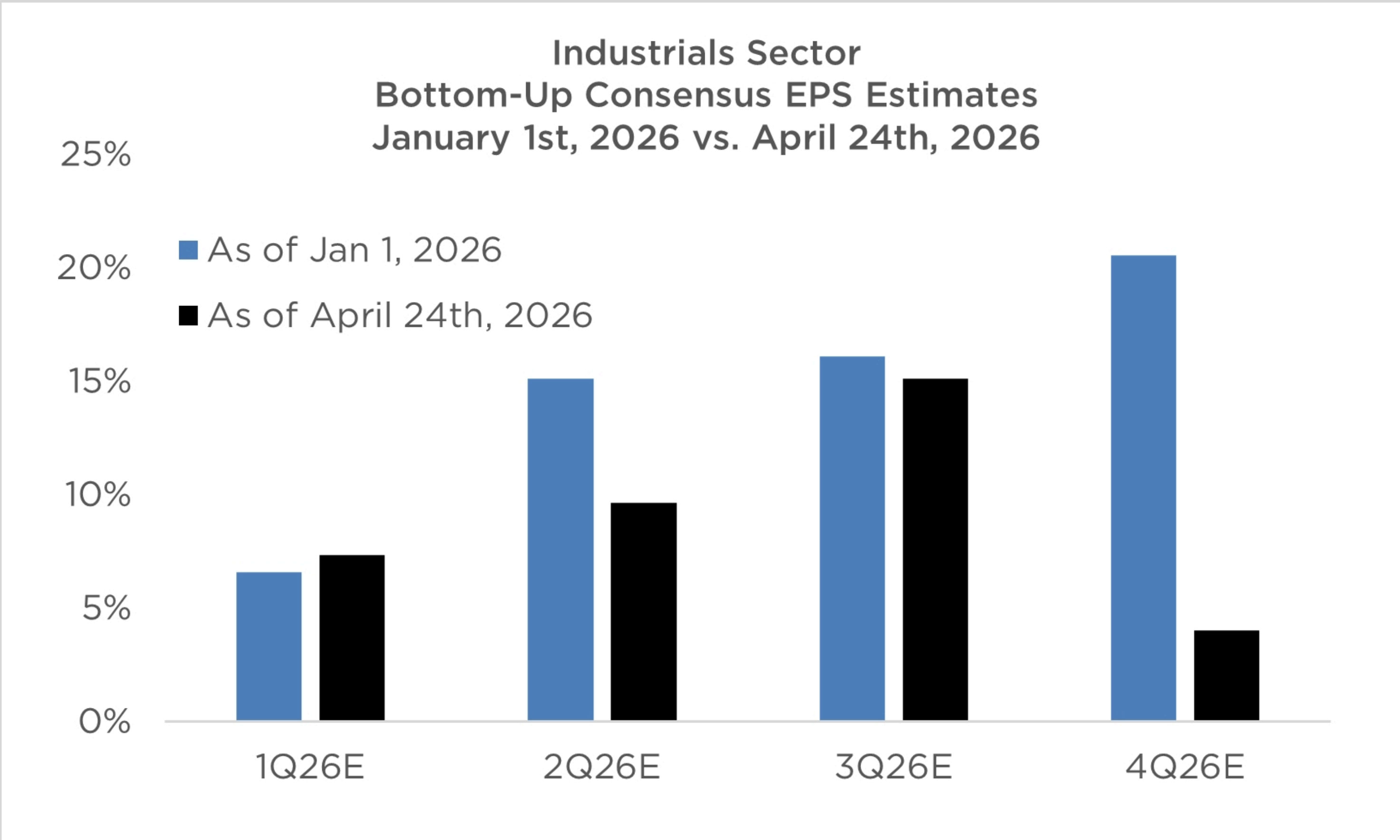
Source: Trivariate Research, LP

The Perils of Aggregation

Enough economist bashing. Let's switch to strategists.

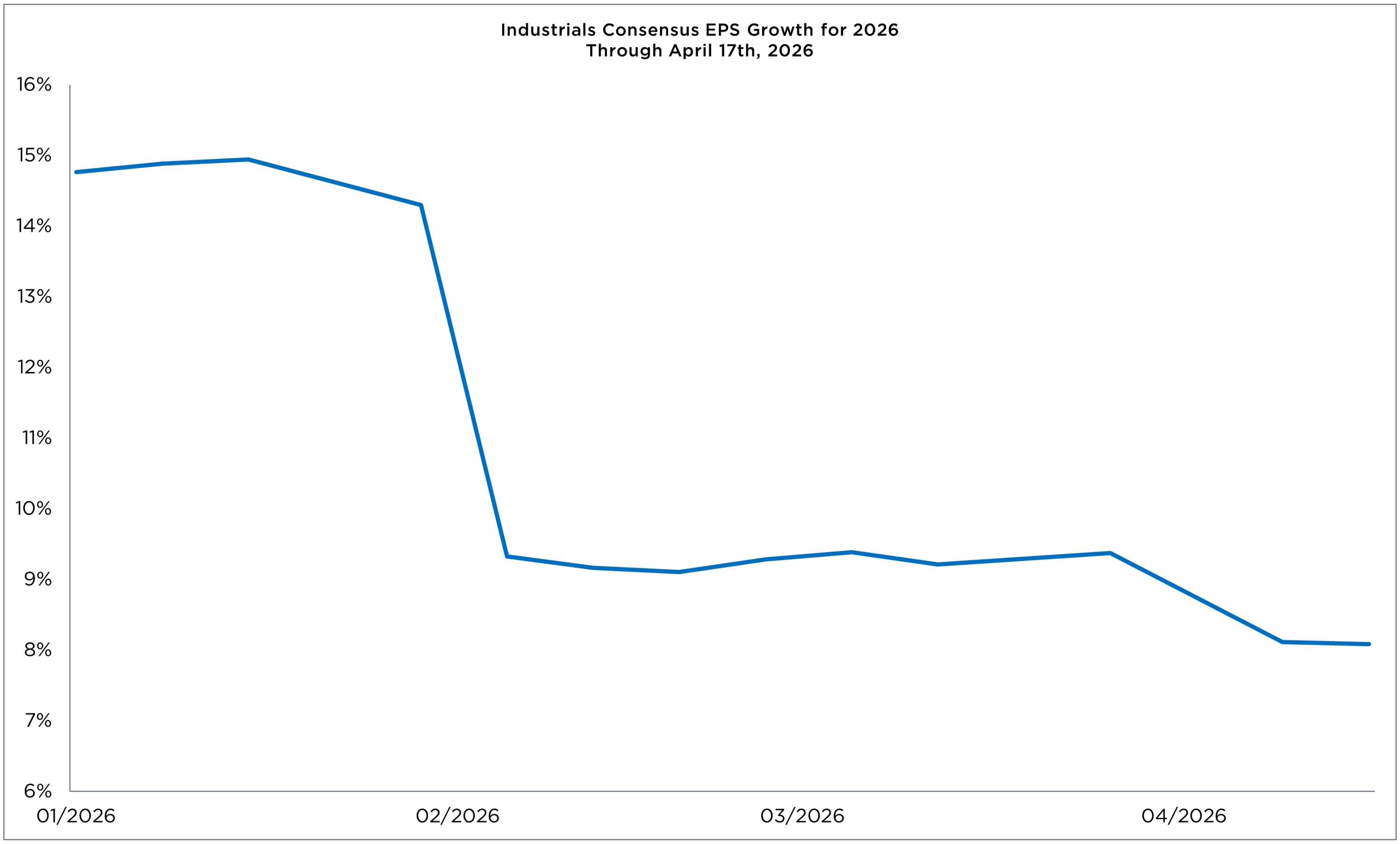
The top-down equity strategists have not all adapted their approaches that much either, so data aggregation from strategists is now also potentially misleading in many scenarios. Many years ago, we recall being worried about the inventory-to-sales levels in the Industrials sector, because we were adding up the inventory dollars of the sector, and dividing by the total sales of the sector. When we dug into the company-specific drivers, it turned out, at that time, that Boeing was 42% of the entire sector's inventory dollars, owing to a build-up in their then-fledgling 787 program. The point is that data aggregation in a concentrated industry or sector can be increasingly unrepresentative of the conditions for the average company. Today, this is also a problem in several areas of the market, and we want to highlight three.

Firstly, is looking at the recent Industrials sector earnings revisions. We started off the year a bit worried about estimate achievabilty in the Industrials sector, as EPS expectations were for acceleration all year (blue bars below), culminating in EPS growth expectations of 20.5% for Q4 2026 at the beginning of this year. Today, estimates have come down materially; expectations are now for a more sober 4% growth rate in Q4 (black bars below).



Source: Trivariate Research, LP

The 2026 full year numbers were for 14.7% earnings growth for the Industrials sector at the beginning of the year, and are now for what seems like a more reasonable 8% growth (see below). Are conditions slowing materially? Are estimates now more achievable? Top-down analysis might result in one of those two conclusions.



Source: Trivariate Research, LP

But the truth is that aggregation is misleading. Of the 48 Industrials companies that are $32 billion or larger market cap., 31 have had **upward** earnings revisions since the beginning of the year, and 17 have seen downward earnings revisions. Only six Industrials stocks have seen downward earnings revisions of more than 5% so far this year - GD, NSC, LHX, UBER, DAL, and BA. But the whole sector looks lower because of the SIZE of the negative revision of BA - where estimates have come down from $3.23 to $1.09 for 2026 EPS, a more than $2 billion reset to net profit. So, the details clearly refute a narrative that fundamentals are slowing, and, don't necessarily make the case that estimates are more achievable for the median company.

Secondly, is the impact of Micron, and the DRAM super-cycle, on the Technology sector earnings. Most investors we talk to own a Technology book that appears to be growing more slowly, and is more expensive than the overall Technology sector - unless they are overweight Memory stocks. The Top 1000 Technology stocks by market capitalization currently are forecasted to grow earnings 40.8% in 2026 on a year-over-year basis, and trade at 26.5x price-to-forward earnings. But because of the massive Memory cycle, Micron, as an example, is forecasted to grow its revenue 193% this fiscal year. Currently, the bottom-up EPS expectations for MU for its August 2027 fiscal year are for $99.03 in EPS, meaning at just less than $500 a share, the stock trades at less than 5x price-to-forward earnings. Lumping in this $560 billion market cap. company into the mix, is going to heavily influence the aggregate results. In fact, the Top 1000 Technology stocks excluding MU, SNDK, and WDC are forecasted to grow 27.8%, instead of 40.8%, and the group trades three turns higher on price-to-forward earnings (see below).

Memory-Cycle Impact on Technology Earnings and Valuation
Top 1000 Technology Stocks
As of April 24th, 2026
2026E YoY Quarterly EPS Growth

Cohort	Q1	Q2	Q3	Q4	2026E	Price-to-2026E EPS
Overall	44.2%	47.3%	41.3%	33.6%	40.8%	26.5x
Excluding MU, SNDK, WDC	34.0%	32.3%	26.3%	21.7%	27.8%	29.0x

Source: Trivariate Research, LP

Thirdly, this week, an investor put forth the idea that including MSFT in a Software industry analysis skews the results. At \$3.1 Trillion in market cap. and down 12% year-to-date, there is no doubt its cap-weighted influence is massive, as the total market cap. of the 127 Software companies in the Top 3000 stocks by market cap. is less than \$6 Trillion today. So, more than one-half of the industry is MSFT. But, the valuation and growth rate are not particularly different today (see below). The S&P500 Software Industry trades at 25.4x price-to-forward earnings, and is a touch more expensive at 26.7x removing MSFT. EPS growth of 13.8% vs. 12.5% isn't dramatically different. So, we think for some analyses, including MSFT doesn't appear to be skewing the results, but for others, like capital intensity for instance, being mindful that MSFT is more than one-half of the industry's market cap. is prudent.

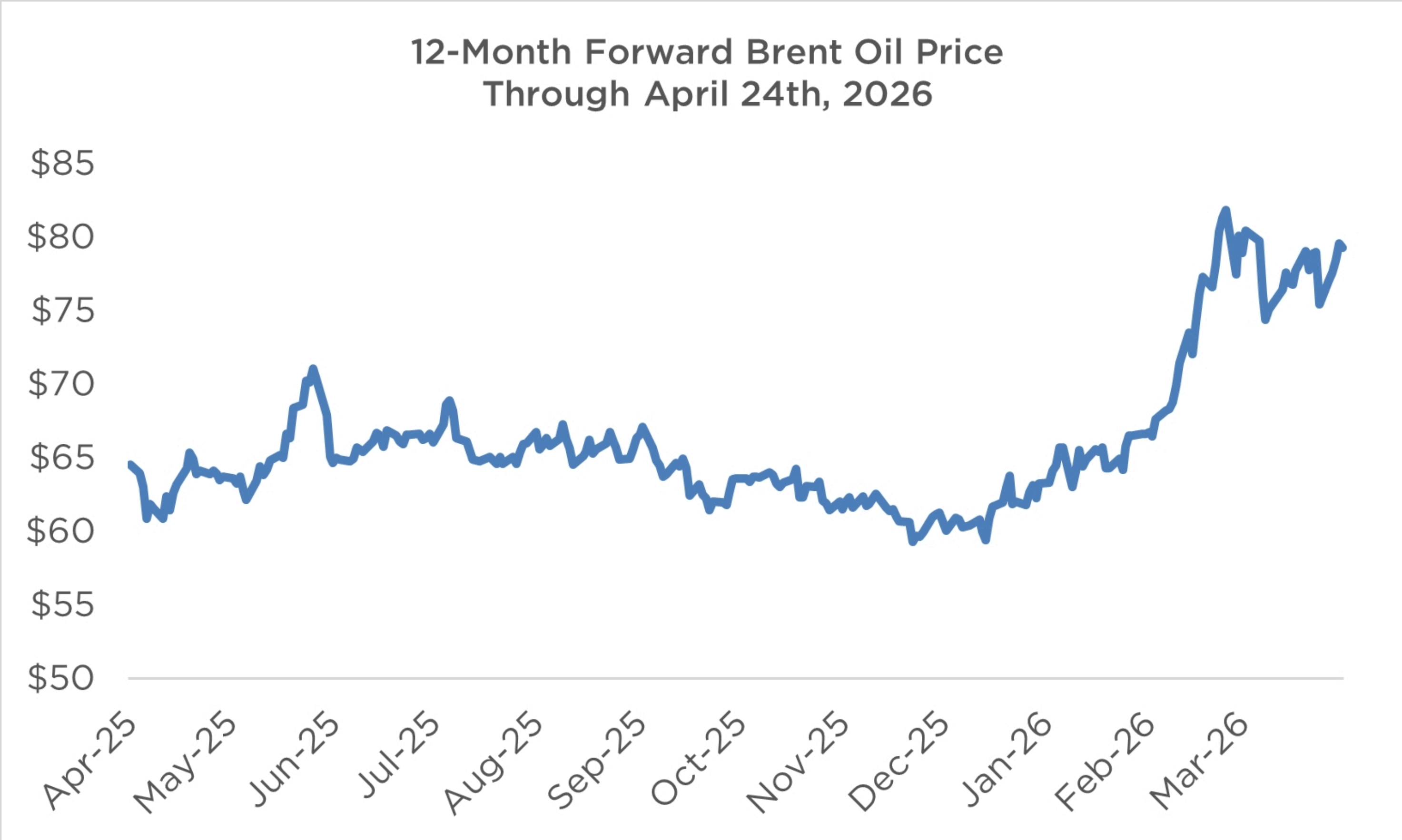
Microsoft's Impact on Technology Earnings and Valuation
S&P500 Software Industry
As of April 24th, 2026
2026E YoY Quarterly EPS Growth and Price-to-Forward Earnings

Cohort	Q1	Q2	Q3	Q4	2026E	Price-to-2026E EPS
S&P500 Software	17.8%	17.2%	12.0%	9.3%	13.8%	25.4x
S&P500 Software Ex-MSFT	18.4%	17.4%	13.3%	2.8%	12.5%	26.7x

Source: Trivariate Research, LP

Complacency

We hosted a dinner with risk-focused equity investors last week and reached two sentiment-related conclusions at the end of the evening. One, is that investors DO NOT believe that Oil will stay at a particularly elevated level for a sustained period. The 12-month forward Brent Oil price (below) has not really moved up since the initial burst after the Iran War started, and at \$79.26, it remains well below the current Brent Oil price of \$105.33. This means that investors are not embedding rising input costs for many Industrial and Logistics companies, or potential pressure on many Consumer Discretionary company's earnings. The truth is that most investors feel they have left money on the table over-reacting to macro issues recently, calling for 27 of the last zero tariff-related recessions, as an example (lol). Hence, this time, the consensus appears to prefer to wait for companies to tell them earnings are impaired by higher Oil, than proactively over-react. The bottom-up consensus EPS estimates for the S&P500 excluding Technology and Energy are 1% lower now than they were on January 1st. The Consumer Discretionary sector bottom-up consensus EPS estimates are 2% lower than they were on January 1st. There is probably more relative downside for the Consumer Discretionary sector should Oil prices remain elevated. **Estimate achievability is a primary reason we recommend an underweight in Consumer Discretionary stocks today.**



Source: Trivariate Research, LP

There have been some Consumer Discretionary stocks that have lowered EPS estimates this year. MELI, NKE, CPNG, and TSCO are among those where the last three months have resulted in more than a 5% downward revision (see below). Our sense is that there will be many more over the next two quarters if Oil remains elevated. The National Daily Average Gasoline Price for regular unleaded fuel is now at $4.09, up from $2.79 on January 10th. This increase is far more impactful to most people than the Fed cutting interest rates another 25bps, so that is why we think investors might be a shade complacent about the duration of elevated Oil.

Broadlines, Speciality, Leisure Products and Apparel More than 5% Downward EPS Revisions Last 3 Months As of April 24th, 2026		
Ticker	Company	Market Cap. (US $ Bil.)
MELI	MercadoLibre, Inc.	94.3
NKE	NIKE, Inc.	67.6
CPNG	Coupang, Inc.	37.7
TSCO	Tractor Supply Company	20.5
LAD	Lithia Motors, Inc.	6.4
KMX	CarMax, Inc.	5.6
M	Macy's, Inc.	5.3
MAT	Mattel, Inc.	4.4
GPI	Group 1 Automotive, Inc.	4.0
ABG	Asbury Automotive Group, Inc.	3.9
SHOO	Steven Madden, Ltd.	2.9
RH	RH	2.6
KSS	Kohl's Corporation	1.7
CWH	Camping World Holdings, Inc.	0.4

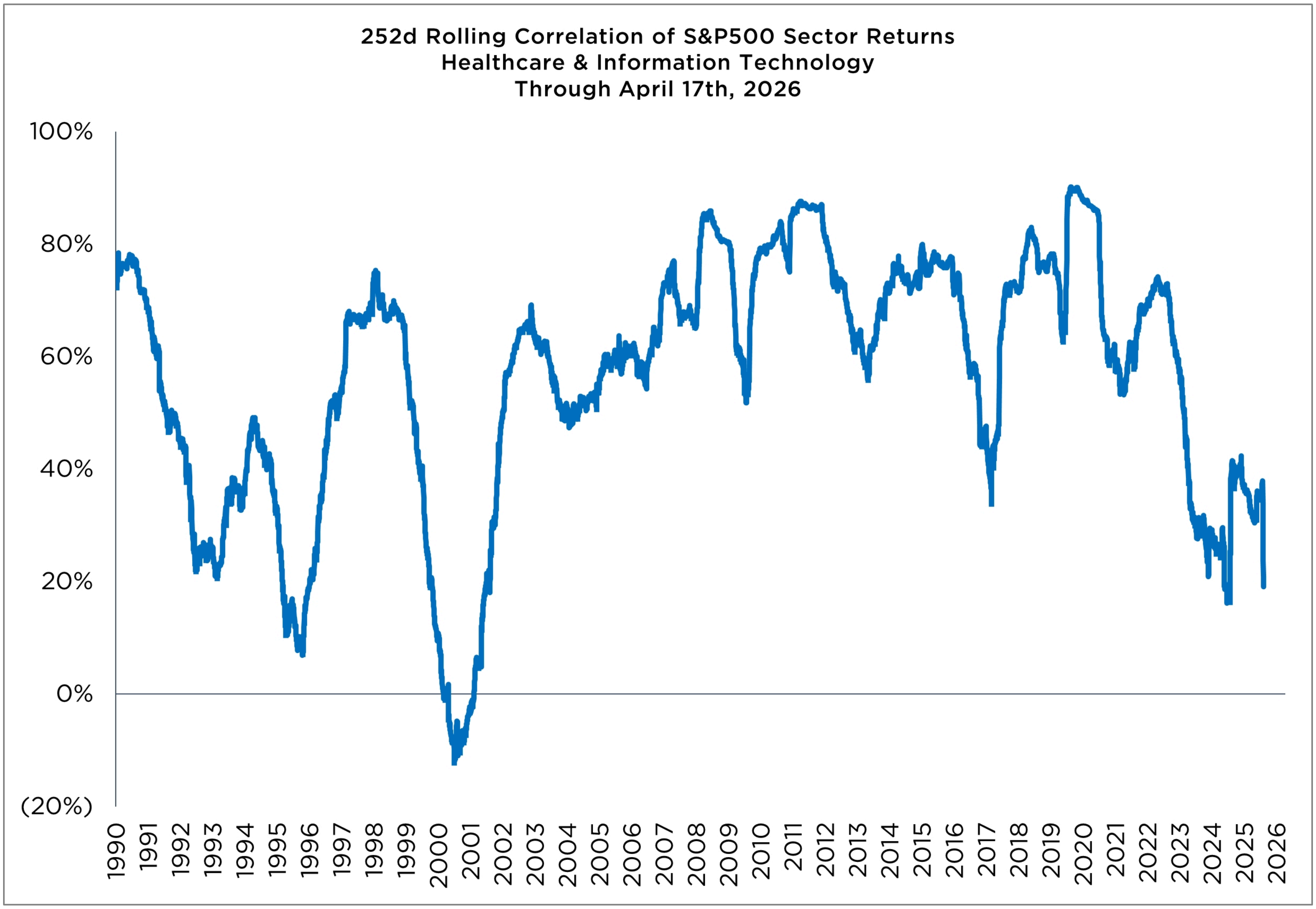
Source: Trivariate Research, LP

Another area of consistent complacency among institutional investors is the exposure many have to the Great 8 stocks. Many institutional investors - either because of internal risk management rules or 5/25 mutual fund rules - are underweight this group, and hence, when this cohort outperforms in an up tape, it fuels underperformance. We continue to advocate that investors market-weight the group. All but AAPL and TSLA have outperformed the S&P500 as it has appreciated 12.9% since the close on March 30th (see below). **We continue to think that when investors say "Breadth is a positive indicator" that this statement is somewhere between false and meaningless. Fund managers who have the S&P500 as a benchmark and were underweight the Great 8 this month would have had a very hard time keeping up with their benchmark.**

S&P500 and Great 8 Stocks March 30th through April 24th, 2026			
Ticker	March 30th	April 24th	Performance
AVGO	293.41	422.76	44.1%
AMZN	200.95	263.99	31.4%
NVDA	165.17	208.27	26.1%
GOOGL	273.50	344.40	25.9%
META	536.38	675.03	25.8%
MSFT	359.96	424.62	18.0%
SP500	6343.72	7165.08	12.9%
AAPL	246.63	271.06	9.9%
TSLA	355.28	376.30	5.9%

Source: Trivariate Research, LP

We are currently recommending Overweights in both Healthcare and Technology. We view owning both sectors as diversifying, but a couple of investors asked us this week if we were fooling ourselves about how diversified they were. Below we show the rolling correlation of the Healthcare and Technology sectors over the last 35 years. Current correlations are near 35-year lows, indicating this is not a "Texas Hedge" to own both.



Source: Trivariate Research, LP

The huge moves in some of the Semiconductors stocks have renewed chatter about bubbles this past week, and several investors asked us about our "North Star" to prefer Semiconductors to Software. If investors feel compelled to take profits, we think it makes sense to buy NVDA. We looked at the performance of all the Semiconductor and Semiconductor Capital Equipment stocks, and guess which stock is the 49th best performer over the last 3 months - even if it has done great off the bottom this month - NVDA! Our belief is that this will likely be a $10 Trillion market cap. company by the end of the decade, owing to the fact that it is a SECTOR not a stock. We think the growth rate will probably double in five years on revenue, and the company will continue to invest in both up-and-down stream entities. Investors seem to want to own non-AI Semiconductors, and cheered Texas Instrument's report this week, rallying the stock over 20% on its Thursday print. The thing is, some of the upside is coming from the silicon they are selling into the data centers, so it is definitely misleading to say they aren't at all an AI Semiconductor. We like Technology and Healthcare, and we like Semiconductors over Software. This past week seemed good for our thesis, with the NOW quarterly results highlighting exactly what we have been saying -margins are going to be under pressure. We don't think today is the day to change our mind.

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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