TRIVARIATE RESEARCH

**US Equities**
May 3, 2026

# Level Set - Context Around the Rally, Earnings, Margins, and Multiples

For long-only institutional investors benchmarked against the S&P 500, a primary focus is on constructing a portfolio of risk-managed stocks capable of outperforming the benchmark.

Portfolio managers typically spend far less time trying to predict the overall market direction, than identifying individual stocks to own. Yet, over the last 1167 months, April 2026 will go down as the 25th best month ever, making it about a once in every 50 months event. Below are the best monthly returns since 1928.

| Best 25 Monthly Returns Since 1928 | |
|---|---|
| Month | Return |
| 8/31/1932 | 39.14% |
| 7/29/1932 | 36.12% |
| 4/28/1933 | 33.85% |
| 6/30/1938 | 24.70% |
| 5/31/1933 | 23.12% |
| 10/31/1974 | 16.30% |
| 4/29/1938 | 15.06% |
| 9/29/1939 | 14.40% |
| 6/30/1931 | 13.90% |
| 1/30/1987 | 13.18% |
| 6/30/1933 | 13.17% |
| 4/30/2020 | 12.68% |
| 1/31/1975 | 12.28% |
| 1/31/1934 | 12.04% |
| 1/30/1976 | 11.83% |
| 8/31/1982 | 11.60% |
| 8/31/1933 | 11.46% |
| 2/27/1931 | 11.37% |
| 12/31/1991 | 11.16% |
| 10/29/1982 | 11.04% |
| 7/31/1939 | 10.87% |
| 10/31/2011 | 10.77% |
| 11/30/2020 | 10.75% |
| 8/31/1984 | 10.63% |
| **4/30/2026** | **10.42%** |

Source: Trivariate Research, LP

**All of our previous work tells us that trying to make short-term market calls is a Fool's Game.** Yet, after a rally this strong, we, and many institutional investors can't help but acknowledge that a pullback after this huge rally seems more likely-than-not. This double-digit monthly appreciation we saw in April, the best for the S&P500 since November 2020, which was the month the Pfizer COVID vaccine was announced, came during a period when the Iran War did not completely de-escalate and the price of Oil remained elevated.

It is just hard to think that we won't have a bad month in the next couple of months. There is an old mantra, "Sell in May and go away, and come back on St. Leger's Day." St. Leger's Day is a September horse race in the UK, where the saying originated. We

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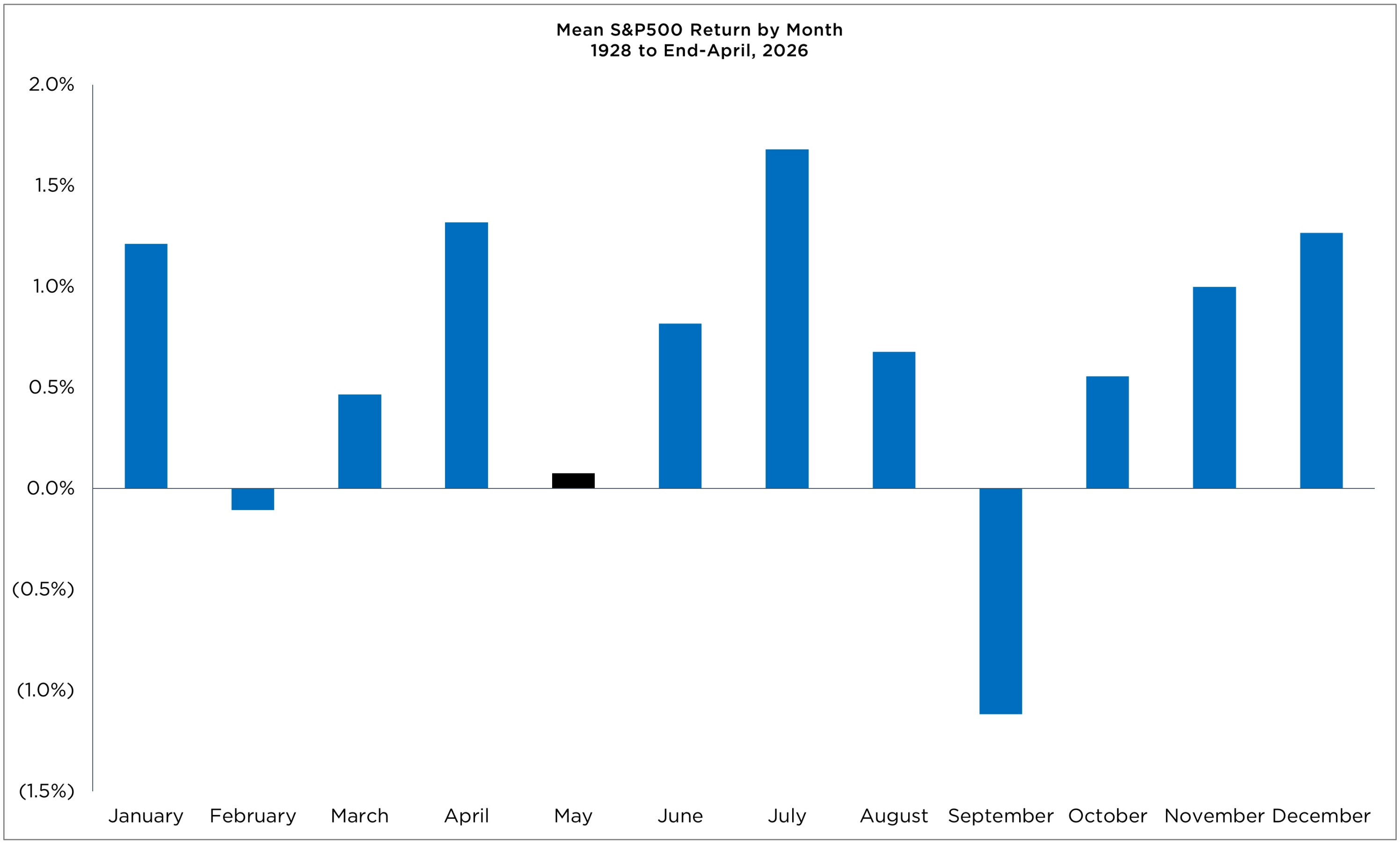
evaluated whether there is any statistical merit to that saying, **and the answer is no**. May is the third-worst month on average since 1928, up 0.08% on average. Only September and February have averaged lower returns over the last century.




Source: Trivariate Research, LP

However, this result is NOT statistically significant. If we chose a monthly return at random, we would expect to get a month with performance this low about 14.9% of the time (see below) - hardly enough of a reason to sell equities.

| Monthly Returns Since 1928<br>Statistical Significance Test<br>Statistic | Value |
|---|---|
| May Mean | 0.08% |
| Non-May Mean | 0.71% |
| Difference | (0.63%) |
| T-Statistic | -1.05 |
| P-Value | 0.149 |

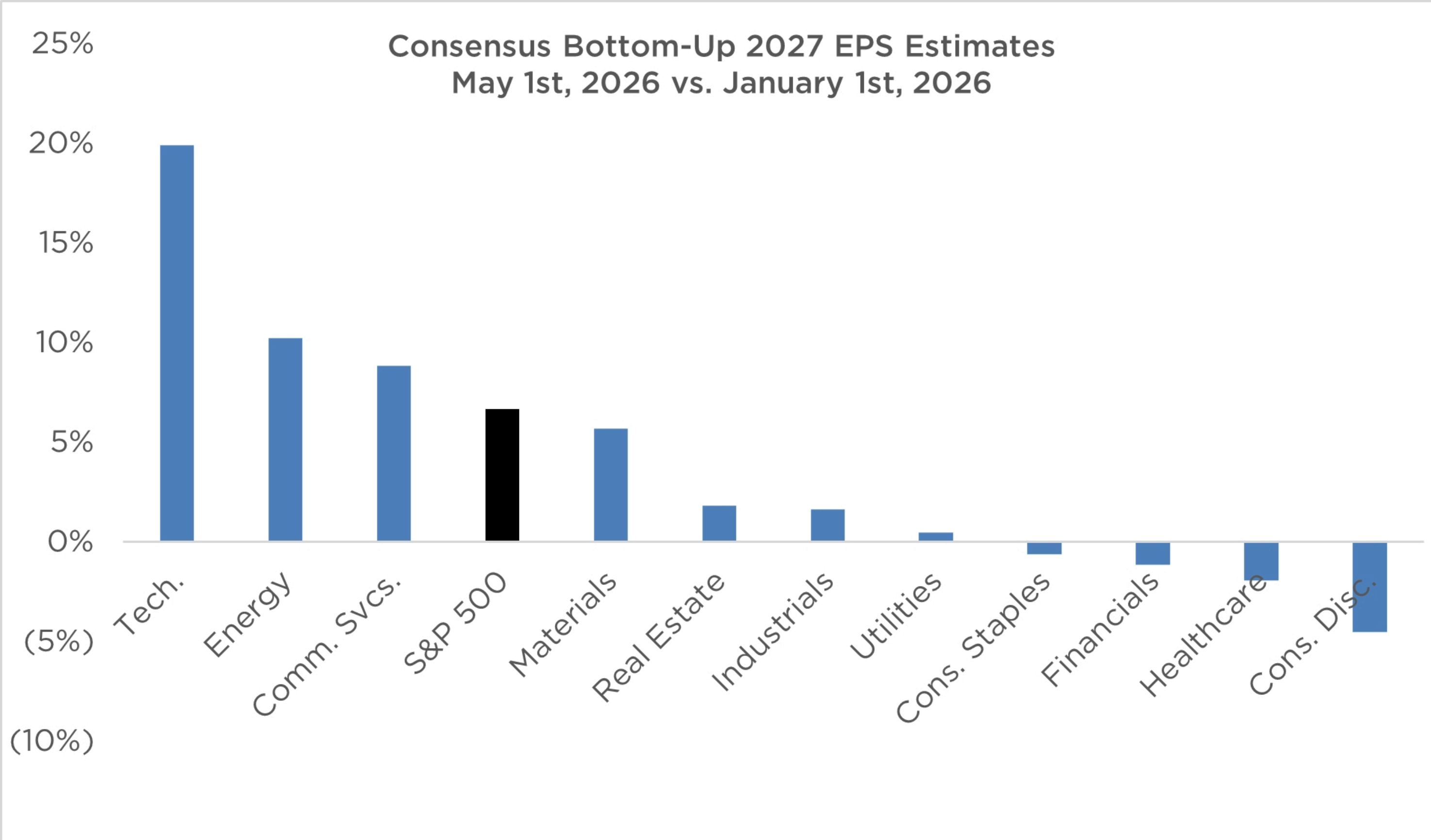
Source: Trivariate Research, LP

**What happened in the past the month after double-digit returns in the last 100 years?** The range of outcomes on the 24 better-performing months than April 2026 was down 12.35% in September 1933, to up 39.13% in August 1932. Only three times was the next month up double-digit returns also, and all three were in the 1930s. The average return in the following month was 1.36%, with a median return of negative 82bps. Only seven of the 24 times the market was up more than it was in April 2026 was the next month down more than 5%; all but November 1974 were in the 1930s. Again, history isn't strongly supportive that there is a big sell-off coming.

| Performance the Month After Double-Digit Returns | | |
|---|---|---|
| Date | Returns | Next Month |
| 8/31/1933 | 11.46% | (12.35%) |
| 6/30/1933 | 13.17% | (8.80%) |
| 2/27/1931 | 11.37% | (7.43%) |
| 6/30/1931 | 13.90% | (7.42%) |
| 7/31/1939 | 10.87% | (7.14%) |
| 10/31/1974 | 16.30% | (5.32%) |
| 4/29/1938 | 15.06% | (5.21%) |
| 8/31/1932 | 39.14% | (3.69%) |
| 1/31/1934 | 12.04% | (3.67%) |
| 12/31/1991 | 11.16% | (1.99%) |
| 1/31/1975 | 12.28% | (1.14%) |
| 1/30/1976 | 11.83% | (1.14%) |
| 10/31/2011 | 10.77% | (0.51%) |
| 8/31/1984 | 10.63% | (0.35%) |
| 9/29/1939 | 14.40% | 0.31% |
| 8/31/1982 | 11.60% | 0.76% |
| 10/29/1982 | 11.04% | 3.61% |
| 1/30/1987 | 13.18% | 3.69% |
| 11/30/2020 | 10.75% | 3.71% |
| 4/30/2020 | 12.68% | 4.53% |
| 6/30/1938 | 24.70% | 6.66% |
| 5/31/1933 | 23.12% | 13.17% |
| 4/28/1933 | 33.85% | 23.12% |
| 7/29/1932 | 36.12% | 39.14% |
| Average | | 1.36% |
| Median | | (0.82%) |

Source: Trivariate Research, LP

Taking in history, we aren't in a panic that the market has appreciated this quickly. There are some investors who have been arguing that the strong rally is justified by the fundamentals. It seems to us that is partially true. We compared the current bottom-up consensus 2027 EPS estimates to what they were at the beginning of the calendar year. While typically out-year estimates are too high and decline, the S&P500 estimates are 6.6% higher today than on January 1st. Fueled by MU, NVDA, and other AI beneficiaries, the 2027 Technology estimates are 19.9% higher today than at the beginning of the year. The big increase in Google's outlook also has the entire Communication Services estimates 8.8% higher. Higher Oil prices unsurprisingly have created larger increases in the Energy sector's expectations.




Source: Trivariate Research, LP

But the market is up more than just the increased outlook to consensus earnings. The multiple has also expanded. We came into this year believing that the multiple had a higher probability of contracting than expanding. However, if multiple expansion proves to continue, it is likely because a larger percentage of the US stock market will have higher gross margins in the future than in the past. **With Google's print causing its gross margins to go from 59% to just over 60%, we now have 42.8% of the market cap. of the Top 3000 US equities above 60% gross margins - the highest ever.** For those investors who think the S&P500 is overvalued at the market level, all they are really saying is that a huge percentage of the US equity market will have a material gross margin contraction - since valuation and gross margins are so highly correlated.


Source: Trivariate Research, LP

We think it is likely that the median stock's gross margins will have some challenges, particularly related to impact that higher Oil prices have on input costs for many businesses. At the end of April, the median stock's gross margins were 44.5%, hovering near the end-March level of 44.7%, but below the recent highs of 46.2% from August 2025 (see below). **Our conclusion is that the median stock might see multiple contraction, but the market valuation level may stay elevated.**

## Median Gross Margin
## Top 500 US Equities, Ex-Financials & Real Estate
## Through End-April, 2026


Source: Trivariate Research, LP

So we have this challenge where the average stock might struggle to have margin expansion, expectations could be too high, complacency about the eventual impact of higher Oil prices and other input costs is high, and yet, there's some justification for high multiples and the absolute earnings outlook is strong. We continue to point to the Great 8 quarterly earnings results as crucial. The market reaction to Great 8 Performance has been extremely volatile around earnings reports, with the narratives quickly changing. For instance, Google's results, reported in January 2025, created a narrative that their share loss in search was a *fait accompli.* Five quarters later they are barking on the door of the largest market cap. company in the world, having reported a monster quarter in April. Meta has oscillated between long-term winner and loser it seems like every print. See below for the earnings day reactions for the Great 8 over the last two years.

## Great 8 Earnings Results, One Day Post-Results Performance
## As of End-April, 2026

| Quarter | AMZN | MSFT | AAPL | GOOGL | NVDA | META | TSLA | AVGO |
|---|---|---|---|---|---|---|---|---|
| Q1 2026 | 2.1% | (5.0%) | 3.2% | 10.0% | N/A | (8.9%) | (3.3%) | N/A |
| Q4 2025 | (9.7%) | (9.8%) | 1.2% | (2.5%) | (4.1%) | 9.7% | (3.3%) | 6.0% |
| Q3 2025 | 6.0% | (3.0%) | 0.2% | 5.2% | (0.4%) | (11.3%) | 1.4% | (12.8%) |
| Q2 2025 | (6.7%) | 4.1% | (3.2%) | 0.4% | (0.9%) | 10.5% | (8.1%) | 10.7% |
| Q1 2025 | 3.0% | 8.0% | (3.4%) | 4.3% | 2.7% | 3.2% | 10.2% | (5.4%) |
| Q4 2024 | (3.0%) | (7.2%) | (1.4%) | (4.9%) | (5.1%) | 1.9% | 0.6% | 1.8% |
| Q3 2024 | 2.7% | (5.9%) | (3.1%) | 4.6% | (0.2%) | (4.3%) | 19.5% | 22.7% |
| Q2 2024 | (10.2%) | (2.0%) | (1.0%) | (5.0%) | (8.3%) | 7.5% | (10.6%) | (11.1%) |

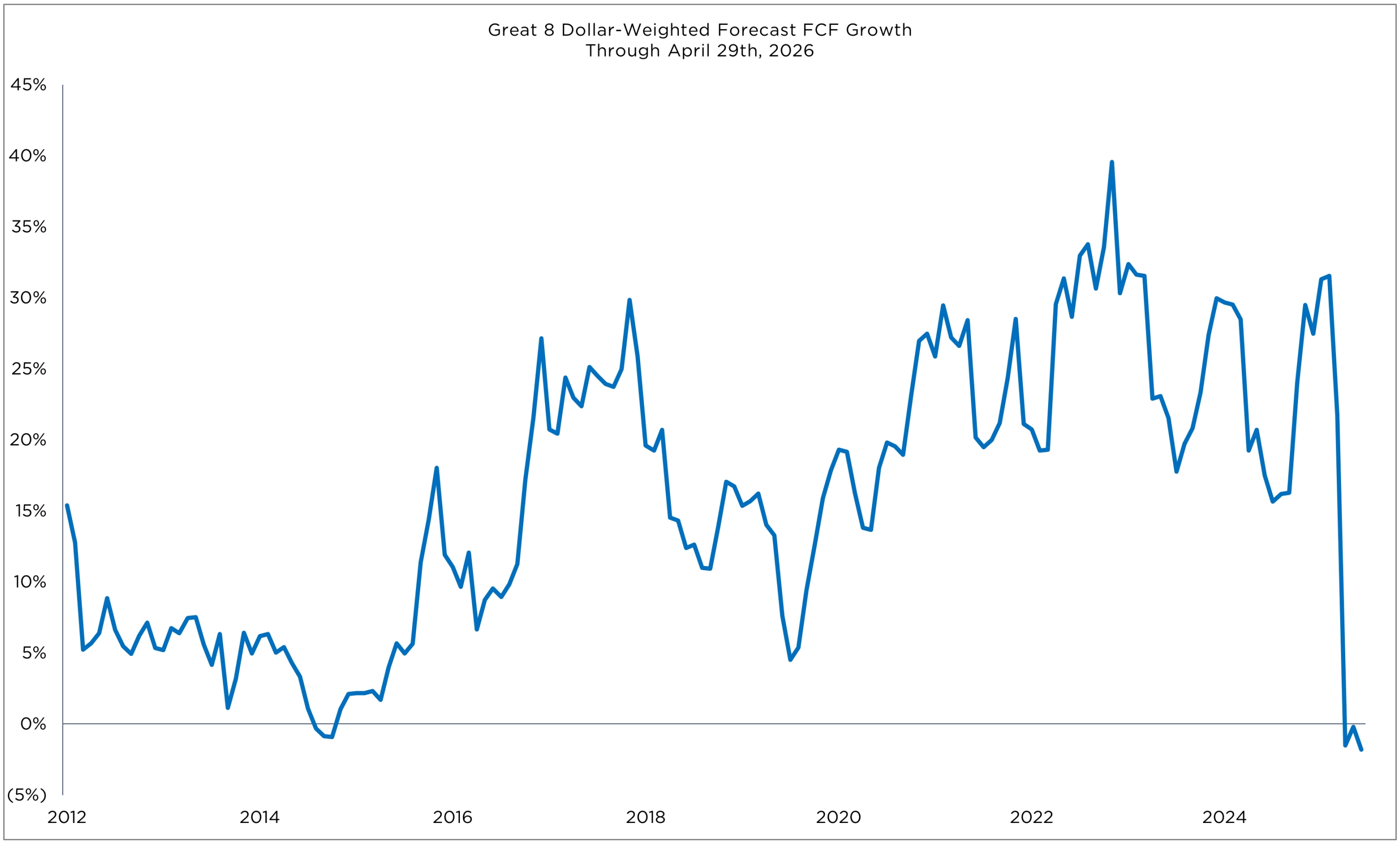
Source: Trivariate Research, LP

Our view has been and remains that this whole conversation about breadth is stupid. The Great 8 are nearly 40% of the market cap. of the S&P500 - and when the market has done well, the bulk of these stocks have done well. MSFT was essentially in-line with the S&P500 in April, and Meta and Apple modestly lagged. Only Tesla was a large laggard. But, AVGO, GOOGL, AMZN, and NVDA all outperformed. We think investors should be at least market-weight these names on a beta-adjusted basis.

| Great 8 Performance in April | |
|---|---|
| **Ticker** | **April Performance** |
| Broadcom | 34.87% |
| Google | 33.82% |
| Amazon | 27.27% |
| Nvidia | 14.43% |
| SP500 | 10.42% |
| Microsoft | 10.16% |
| Meta | 6.95% |
| Apple | 6.92% |
| Tesla | 2.66% |

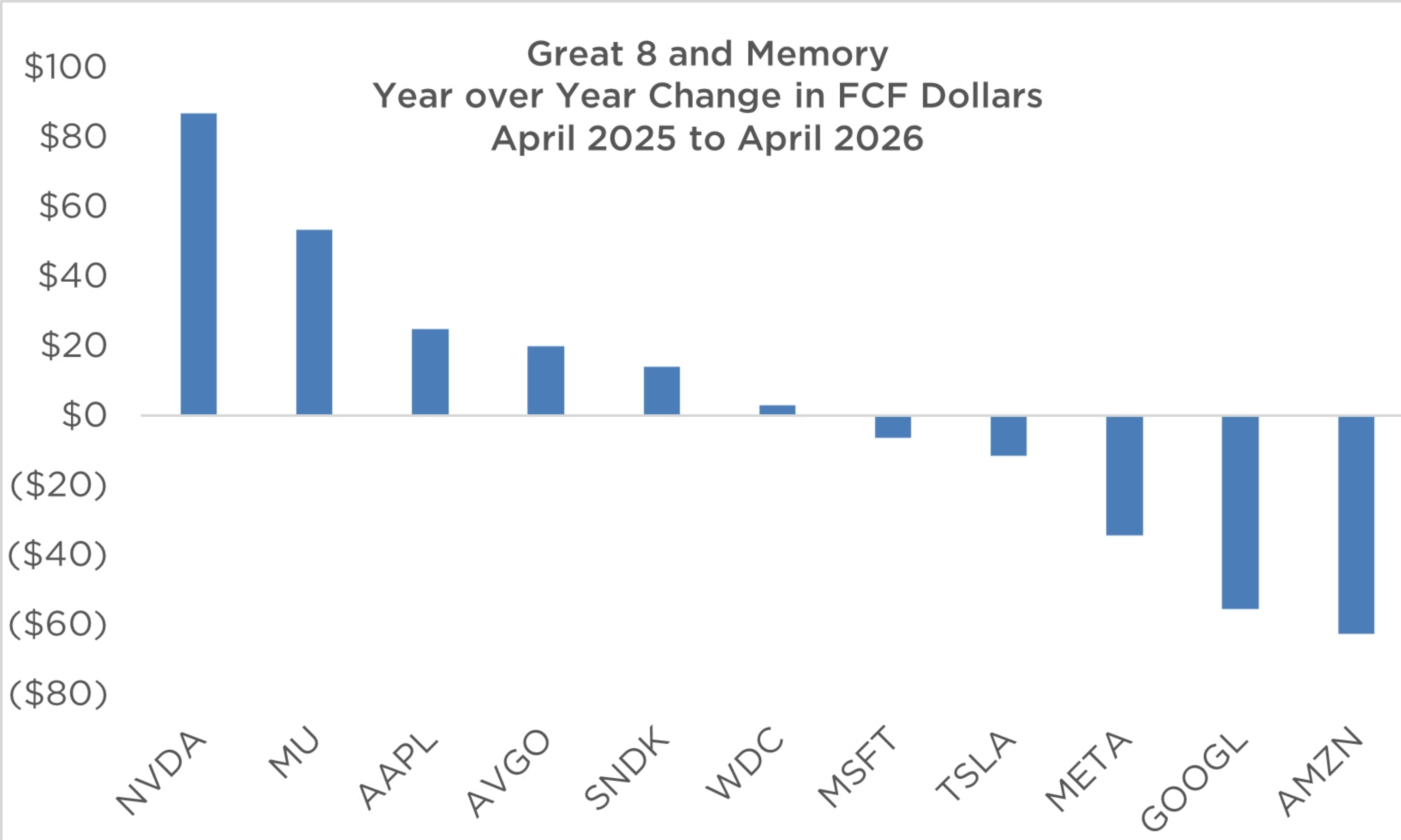
Source: Trivariate Research, LP

Most investors focus on the hyper-scaler capital spending, and try to make a judgment call about whether the reported numbers and guidance comport with reason. We are not sure. A couple of investors mentioned to us an emerging view that the Great 8 will have negative FCF in 2027. We don't think that is true, but we do think the FCF dollars will decline - in fact that is the consensus bottom-up analysts forecast today (see below).




Source: Trivariate Research, LP

The truth is that for now, it just looks like most of the incremental capital spending dollars from the hyper-scalers are working their way on to the cash flow statements of the memory complex. The year-over-year change in free cash flow dollars essentially shows AMZN, GOOGL, and META moving money to NVDA, MU, and the other memory names (see below).




Source: Trivariate Research, LP

We still recommend a market-weight for the Great 8, and we still think Semiconductors will work. But, because the S&P500 is so exposed to the AI theme, and the moves in April were so strong in Semiconductors and select Hardware associated with the AI build out, it is crucial investors look for exposure that has a low correlation to this theme. Stocks up 10% or more in the last six months that have a low correlation to our AI Semiconductors basket are ideas for managing risk and searching for uncorrelated alpha
(see below).

## Stocks With a 0.2 or Lower 6-Month Daily Trading Correlation to Trivariate's AI Semiconductors Basket & Up >10% In Last 6m As of End-April, 2026

| Ticker | Company | Market Cap. (US$ Bil.) |
|---|---|---|
| WMT | Walmart Inc. | 1,051.6 |
| LLY | Eli Lilly and Company | 836.3 |
| XOM | Exxon Mobil Corporation | 641.5 |
| JNJ | Johnson & Johnson | 553.3 |
| COST | Costco Wholesale Corporation | 450.1 |
| CVX | Chevron Corporation | 385.1 |
| KO | The Coca-Cola Company | 338.9 |
| MRK | Merck & Co., Inc. | 269.7 |
| PM | Philip Morris International Inc. | 257.3 |
| LIN | Linde plc | 231.7 |
| NEE | NextEra Energy, Inc. | 204.1 |
| VZ | Verizon Communications Inc. | 200.6 |
| AMGN | Amgen Inc. | 186.9 |
| GILD | Gilead Sciences, Inc. | 162.4 |
| UNP | Union Pacific Corporation | 160.0 |
| DE | Deere & Company | 159.3 |
| WELL | Welltower Inc. | 153.4 |
| COP | ConocoPhillips | 153.3 |
| PFE | Pfizer Inc. | 151.9 |
| PLD | Prologis, Inc. | 132.4 |

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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