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TRIVARIATE RESEARCH

WHAT REALLY HAPPENED IN Q2 2026

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A MUST READ TO UNDERSTAND TODAY'S US STOCK MARKET

At the start of each quarter, we compile a detailed summary of the recently completed quarter with the goal of helping investors understand what really happened, enabling them to make better investment decisions. In addition, we share insights that will facilitate investor communications, client conversations, and quarterly letters. Furthermore, this report seeks to identify and monitor emerging risk management concerns. We created this methodology to inform the letters we wrote while previously running our hedge fund. We have organized today's work into six distinct areas:

1. **Performance facts:** Indices, cohorts, sectors and industries, specialty baskets, best performers and largest contributors.
2. **Factor efficacy:** Overall, within sector, and any substantial changes or reversals.
3. **Opportunity set:** Which areas of the market were increasingly better for potential alpha generation, insights generated by assessing changes to company-specific risk, valuation dispersion, and pairwise correlations.
4. **Corporate profitability:** Where were the biggest changes to the earnings outlook from the beginning to the end of the quarter by sector, and how do we gauge estimate achievability.
5. **Macro / Economic:** What happened to level and change for US economic activity, consumer activity, financial conditions / interest rates, industrial activity, commodities / oil, the dollar, Chinese and European economies during the previous quarter.
6. **13F filings & insider transactions:** Which managers changed ownership stakes in high conviction stocks, and which stocks saw open market insider buys/sells.

SEMIS WERE UP 52.8% - INVESTORS WERE AI BOTTLENECK HUNTING

A strong quarter: We got bullish in late March, and that was well timed. The S&P500 was up 14.9% (up 15.2% on a total return basis). The Nasdaq was up 21.4%, and the Russell 2000 up 21.2%.

Cap-weighted momentum was king: The 12-month Q1 vs. Q5 momentum factor spread just had the best cap-weighted performance of the last 27 years in Q2 2026, with the spread generating 46.1% total return. The next best quarter was Q4 1999. However, the spread of equally-weighted quintiles only returned 4.6%. We have never seen cap-weighted 12-month momentum outperform equally-weighted momentum anywhere near this amount in the last 27 years.

Substance: Q2 saw strong performance by Junk (up 20.4%), which beat high-quality (up 12.7%). Growth (up a cap-weighted 24.0%) beat value (up 5.3%). Stocks that are cheap for a reason (cheap in absolute terms with weak prior momentum) were up only 0.7%. Long value / short growth lost 16.2%.

AI bottleneck hunting: Among the Top 3000 US equities by market cap., Semiconductors & Semi. Equipment was best (up 52.8%), followed by Electronic Equipment (up 45.1%) and Communications Equipment (up 34.1%) as investors searched for AI bottlenecks. Energy, Distributors, and Independent Power all lagged on an equally-weighted basis. Diversified Telecom., Energy, and Entertainment all lagged on a cap-weighted basis. The equally-weighted Healthcare Technology sub-industry was up 40.9%, but up only 7% on a cap-weighted basis.

USING VALUATION FOR STOCK PICKING WOULD HAVE HURT IN Q2

Ten stocks were up more than 280% this quarter, and unlike in prior quarters these were not all Biotechnology – but rather a mix of businesses. On a market-cap basis, five stocks added a total of $3.5 trillion in market capitalization, which include MU, GOOGL, AMD, NVDA, and AAPL. Everyone talks about NVDA and AAPL being big losers. They "only" tacked on $1.1T during Q2. The biggest five losers (XOM, NFLX, WMT, CVX, HON) collectively shed almost $0.5 trillion in market cap. during Q2.

Factor Efficacy: The most effective metric for picking winners from losers in Q2 was R&D-to-SG&A, with higher R&D companies outperforming companies with low R&D. This is the inverse of Q1, where high R&D-to-sales underperformed low R&D-to-sales. High volatility, strong 12-month momentum, and high forecast growth also outperformed. The worst signals are dominated by valuation metrics, with the worst 7 all being valuation. Buy expensive and short cheap would have been a great way to make money in Q2.

Conviction stocks: Trivariate defines high conviction stocks as stocks in which fund managers own more than 3% of their long assets under management. Among the proprietary universe of managers we follow, investors have increased positions in stocks like HLF, PPLI, SPRY, and KGS, while fewer managers have conviction in ORIC, TNGX, GAP, and SWX today than at the end of Q1.

Insider activity: SPG, VITL, MTDR, PATK, ENR, and NEWT had the most insider buys with no sales during Q2. PRCH, GLBE, AEHR, HSY, CRWV, and FLEX had the most insider sales with no insider buys.

THE ALPHA ENVIRONMENT WAS DECIDEDLY MIXED IN Q2, EPS ROSE

<u>Median pairwise correlations:</u> During Q2, pairwise correlations (PWC) were mixed, rising in 10 of 25 Industry Groups. PWC rose the most in Transportation, Software, and Utilities. PWC fell the most in Real Estate Management, Durables & Apparel, and Semis.

<u>Company-specific risk (CSR):</u> We have our own 7-factor model for company-specific risk (CSR), and it mostly fell in Q2. CSR rose the most in Tech. Hardware, Energy, and Consumer Services, and it fell the most in Insurance, Household & Personal Products, and Software. In absolute terms, CSR is lowest in Banks.

<u>Valuation dispersion:</u> We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry. <u>Valuation dispersion rose in Q2 for all 25 industry groups.</u> Semiconductors, Telecom. Services, and Tech. Hardware & Equipment saw dispersion widen the most. Software valuation dispersion increased after hitting decade-lows in Q1.

<u>Earnings:</u> Current bottom-up earnings expectations are for 24.3% EPS growth for the S&P500. EPS is expected to grow in all 11 sectors. Energy at 64.7% is the highest among sectors, <u>followed by Technology with 55.7% forecasted EPS growth.</u> 57% of the entire S&P500's earnings growth is forecasted to come from the Technology sector. Energy, Technology, Materials, Communication Services, Utilities, and Consumer Discretionary are all forecasted to have double-digit EPS growth.

OIL AND COMMODITIES LOWER, DOLLAR RELATIVELY STABLE

Oil and Commodities lower: The Iran War in late February caused a spike in Oil that peaked in April and then subsequently fell sharply. Brent Oil finished Q1 at the high of $118.35, and finished Q2 at $72.92, a 38.4% decline. WTI fell 31.5% from $101.38 to $69.50. Gasoline at the pump fell 5.4% from a National Daily average of $4.06 at the end of March to $3.85 mid-year. Natural Gas ended Q2 higher by 13.6% at $3.28. Agricultural commodities were generally lower in Q2, with Wheat down 7.7%, Sugar down 7.6%, and the overall Bloomberg Commodity Index down 8.9%. Cotton up 3.17% was a modest exception. Precious metals strongly retreated after a large move the previous six months, with Gold down 14% and Silver down 22%.

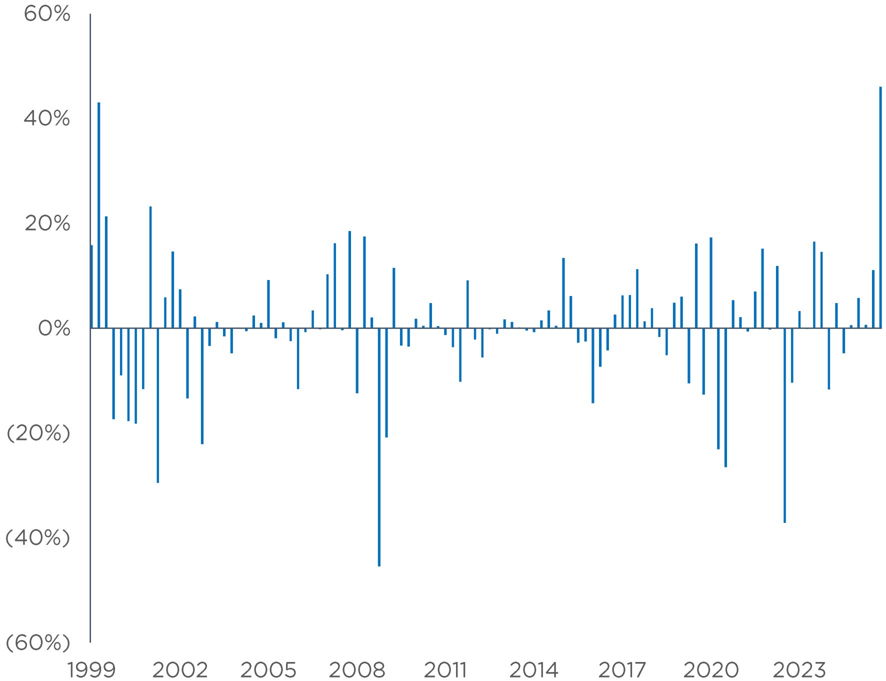
Dollar flattish: Currency movements were modest during Q2, with the dollar slightly strengthening against the DXY (101.19 vs. 99.96) during the quarter. The change against the major currencies (Euro, Pound, Yen, CAD) were all less than 2.5% from end March to end June, and as such, we don't anticipate much incremental commentary on currency during the coming earnings season. This is two straight quarters of massive commodity moves with limited currency movements.

As we start the July earnings season, we are not expecting major negative pre-releases. Overall, for the S&P500, earnings expectations are 6.0% higher for the full year 2026 versus where they were at the beginning of the quarter. Full year 2026 estimates are 48% higher in Energy today vs. the end of Q1. Health Care, Real Estate, Financials, and Industrials are the only sectors with lower 2026 estimates today vs. the end of Q1.

CAP-WEIGHTED MOMENTUM HAD THE BEST QUARTER IN 27 YEARS

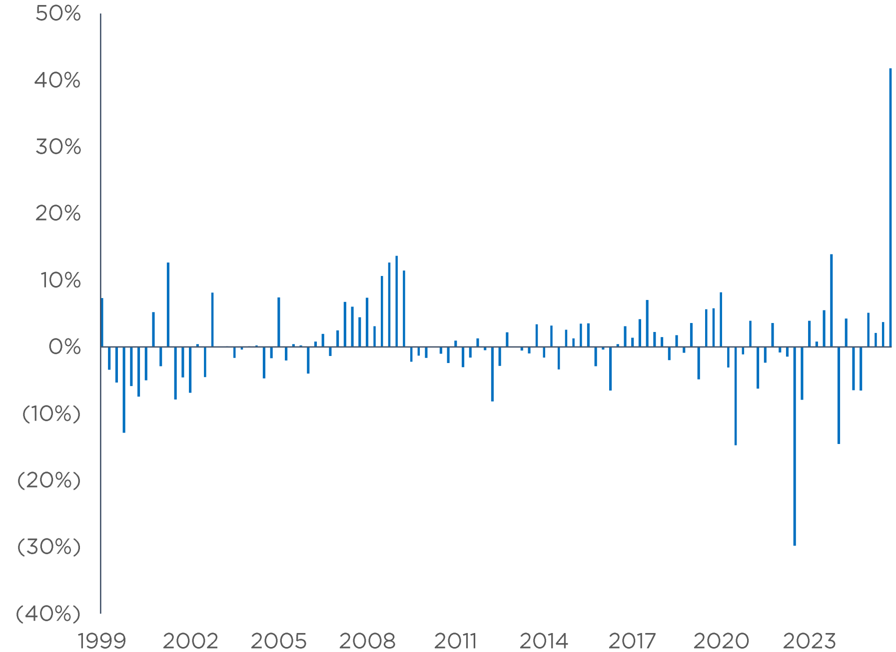
The 12-month Q1 vs. Q5 momentum factor spread just had the best cap-weighted performance of the last 27 years in Q2 2026 (left), with the spread generating 46.1% total return. The next best quarter was Q4 1999, with the spread returning 43.1%. However, the spread of equally-weighted quintiles only returned 4.6%. We have never seen cap-weighted 12-month momentum outperform equally-weighted momentum anywhere near this amount in the last 25 years (right).

Q1 vs. Q5 12-Month Momentum Spread
Cap-Weighted, Top 3k US Equities
Through End-June, 2026



Source: Trivariate Research

Cap-Weighted Minus Equally-Weighted
Q1 vs. Q5 12-Month Momentum Spread
Top 3k US Equities
Through End-June, 2026



Source: Trivariate Research

Q2 2026 WAS THE BEST QUARTER FOR HYPER GROWTH SINCE Q4 1999

Q2 2026 had the second strongest cap-weighted performance for hyper growth of the last 27 years! Returns over the following quarter are mixed, but generally positive. For the top 16 hyper growth quarterly performances, the average return for hyper growth over the next quarter is 3.6%, with a median of 4.9%. The S&P500 is up an average of 4.4% and median of 6.2% for quarters following strong performance of the hyper growth cohort.

Top Performing Quarters for Hyper Growth, Cap-Weighted

Quarter End Date	Hyper Growth Cap-Weighted Return	Hyper Growth Equally-Weighted Return	Next Quarter Cap-Weighted Return	Next Quarter Equally-Weighted Return	Next Quarter S&P500 Return
12/31/1999	49.8%	30.2%	23.6%	24.3%	2.3%
6/30/2026	45.4%	32.8%			
6/30/2020	42.5%	41.1%	15.9%	9.2%	8.9%
12/31/2001	36.5%	43.3%	(3.5%)	(1.5%)	0.3%
3/31/2023	33.2%	13.5%	10.1%	6.7%	8.7%
6/30/2025	28.8%	23.1%	9.2%	9.6%	8.1%
6/30/2003	27.3%	23.0%	4.6%	12.3%	2.6%
3/30/2012	25.4%	17.3%	(7.8%)	(6.2%)	(2.8%)
9/30/2010	23.7%	17.2%	11.8%	16.3%	10.8%
3/31/2000	23.6%	24.3%	(7.8%)	(4.9%)	(2.7%)
6/29/2001	21.3%	26.4%	(38.7%)	(33.5%)	(14.7%)
3/29/2019	19.8%	18.4%	4.3%	5.1%	4.3%
12/31/2020	19.5%	26.4%	(1.2%)	7.5%	6.2%
6/29/2018	17.4%	10.6%	4.9%	5.9%	7.7%
6/30/2009	17.1%	23.8%	14.8%	12.5%	15.6%
9/30/2013	16.7%	13.7%	13.5%	10.7%	10.5%

Source: Trivariate Research

FOR QUALITY-FOCUSED VALUE INVESTORS, Q2 WAS A BAD QUARTER

Besides the impact of momentum and hyper-growth, Q2 saw strong performance for Junk (up 20.4%), which beat high-quality (up 12.7%). Growth (up a cap-weighted 24.0%) beat value (up 5.3%). Stocks that are cheap for a reason (cheap in absolute terms with weak prior momentum) were up only 0.7%. Long value / short growth lost 16.2%.

Q2 2026 Portfolio Returns

Portfolio	Cap-Weighted Average Return	Simple Average Return	Difference
12-Month Momentum	46.1%	4.3%	41.8%
6-Month Momentum	28.6%	(2.7%)	31.3%
3-Month Momentum	26.8%	(0.1%)	26.8%
Hyper Growth	45.4%	32.8%	12.5%
Long Mega / Large Cap, Short Mid Cap.	3.7%	0.1%	3.6%
Growth	24.0%	23.4%	0.5%
Long High Quality, Short Junk	(7.1%)	(7.5%)	0.4%
Long Mid Cap, Short Small / Micro Cap.	(5.5%)	(5.8%)	0.3%
Large Cap.	10.9%	10.7%	0.2%
High Quality	12.7%	13.2%	(0.6%)
Small Cap.	17.6%	18.5%	(0.9%)
Junk Quality	20.4%	21.8%	(1.4%)
Mega Cap.	18.3%	22.1%	(3.9%)
High Yield	5.5%	11.4%	(5.9%)
Long Value, Short Growth	(16.2%)	(9.3%)	(6.9%)
Value	5.3%	13.1%	(7.8%)
Cheap-for-a-Reason	0.7%	11.0%	(10.3%)

Source: Trivariate Research

SEMIS, ELECTRONIC, AND COMM. EQUIPMENT LED, ENERGY LAGGED

Among the Top 3000 US equities by market cap., Semiconductors & Semi. Equipment was best (up 52.8%), followed by Electronic Equipment (up 45.1%) and Communications Equipment (up 34.1%) as investors searched for AI bottlenecks. Energy, Distributors, and Independent Power all lagged on an equally-weighted basis. Diversified Telecom., Energy, and Entertainment all lagged on a cap-weighted basis. The equally-weighted Healthcare Technology sub-industry was up 40.9%, but up only 7% on a cap-weighted basis.

Q2 2026 Select GICS Industry and Sector Returns for Top 3000 Universe

Sector or Industry	Cap-Weighted Average Return	Simple Average Return	Difference
Automobiles	12.9%	0.3%	12.6%
Distributors	3.5%	(3.0%)	6.5%
Independent Power & Renewable Electricity Producers	4.7%	(1.1%)	5.9%
Communications Equipment	34.1%	28.4%	5.7%
Electronic Equipment, Instruments & Components	45.1%	40.5%	4.6%
Automobile Components	13.4%	9.9%	3.5%
Utilities	(0.5%)	0.8%	(1.3%)
Industrials	15.6%	19.1%	(3.5%)
Consumer Discretionary	9.9%	13.9%	(4.0%)
Materials	0.3%	4.6%	(4.3%)
Information Technology	33.0%	37.4%	(4.4%)
Consumer Staples	(0.6%)	4.0%	(4.5%)
Financials	9.5%	14.1%	(4.6%)
Energy	(12.9%)	(6.6%)	(6.3%)
Real Estate	10.0%	16.3%	(6.3%)
Communication Services	9.2%	16.8%	(7.6%)
Health Care	10.7%	20.5%	(9.9%)
Life Sciences Tools & Services	12.0%	31.1%	(19.1%)
Semiconductors & Semiconductor Equipment	52.8%	76.7%	(23.8%)
Technology Hardware, Storage & Peripherals	28.5%	55.5%	(27.0%)
Diversified Telecommunication Services	(14.7%)	18.5%	(33.1%)
Entertainment	(7.6%)	26.2%	(33.8%)
Health Care Technology	7.0%	40.9%	(33.9%)

Source: Trivariate Research

5 STOCKS ADDED $3.5 TRILLION OF MARKET CAP TOTAL IN Q2

Ten stocks were up more than 280% this quarter, and unlike in prior quarters these were not all Biotechnology – but rather a mix of businesses (left). <u>On a market-cap basis, five stocks added a total of $3.5 trillion in market capitalization (right), which include MU, GOOGL, AMD, NVDA, and AAPL. Everyone talks about NVDA and AAPL being big losers. They "only" tacked on $1.1T during Q2</u>. The biggest five losers (XOM, NFLX, WMT, CVX, HON) collectively shed almost $0.5 trillion in market cap. during Q2.

Q2 2026 Select Stock Total Returns

Ticker	Company	Q2 Total Return	June 30 Market Cap. (US$ Bil.)
MXL	MaxLinear, Inc.	636.2%	11.46
RXT	Rackspace Technology, Inc.	566.5%	1.63
FCEL	FuelCell Energy, Inc.	451.5%	2.43
BLZE	Backblaze, Inc.	359.7%	0.95
APPS	Digital Turbine, Inc.	347.9%	1.56
EVC	Entravision Communications Corp.	341.5%	1.20
ALAB	Astera Labs, Inc.	340.7%	82.79
PENG	Penguin Solutions, Inc.	331.9%	3.86
ABSI	Absci Corporation	286.3%	1.96
AGL	agilon health, inc.	283.5%	1.79
NAUT	Nautilus Biotechnology, Inc.	(51.8%)	0.24
NNNN	Anbio Biotechnology	(51.9%)	0.60
FULC	Fulcrum Therapeutics, Inc.	(52.3%)	0.24
NEGG	Newegg Commerce, Inc.	(53.1%)	0.34
EFOR	Everforth, Inc.	(53.8%)	0.73
CMPX	Compass Therapeutics, Inc.	(58.6%)	0.39
MTC	MMTec, Inc.	(67.4%)	0.25
VRRM	Verra Mobility Corporation	(70.3%)	0.65
RGC	Regencell Bioscience Holdings Limited	(74.5%)	3.02
SOC	Sable Offshore Corp.	(81.4%)	0.48

Source: Trivariate Research

Q2 2026 Select Stock Market Cap. Delta

Ticker	Company	Q2 Market Cap. Added (Lost) (US$ Bil.)	June 30 Market Cap. (US$ Bil.)
MU	Micron Technology, Inc.	922.7	1,303.6
GOOGL	Alphabet Inc.	863.9	4,338.7
AMD	Advanced Micro Devices, Inc.	615.6	947.2
NVDA	NVIDIA Corporation	609.1	4,846.3
AAPL	Apple Inc.	524.0	4,249.9
HON	Honeywell International Inc.	(72.7)	70.9
CVX	Chevron Corporation	(85.1)	327.8
WMT	Walmart Inc.	(89.5)	901.3
NFLX	Netflix, Inc.	(105.3)	300.7
XOM	Exxon Mobil Corporation	(140.3)	566.6

Source: Trivariate Research

HIGH R&D OUTPERFORMED, VALUATION FAILED MISERABLY

We analyze the efficacy of over 200 signals to predict returns. The most effective metric for picking winners from losers in Q2 was R&D-to-SG&A, with higher R&D companies outperforming companies with low R&D. This is the inverse of Q1, where high R&D-to-sales underperformed low R&D-to-sales. High volatility, strong 12-month momentum, and high forecast growth also outperformed. The worst signals are dominated by valuation metrics, with the worst 7 all being valuation. Buy expensive and short cheap would have been a great way to make money in Q2.

Best and Worst Performing Signals During Q2 2026, Rebalanced Monthly (Top 500)

Signal	April Return	May Return	June Return	Q2 2026 Return
R&D-to-SG&A	22.6%	17.7%	5.7%	52.5%
R&D-to-Sales	10.1%	22.7%	3.5%	39.8%
Volatility	15.7%	17.1%	(3.1%)	31.2%
12-Month Momentum	15.0%	7.8%	4.9%	30.1%
2-Year Forecast Revenue Growth	10.7%	13.8%	2.4%	29.1%
Long-Term Forecast EPS Growth	10.8%	10.8%	2.3%	25.6%
Cash-to-Assets	7.7%	15.5%	0.7%	25.3%
1-Year Forecast Revenue Growth	9.4%	11.4%	1.6%	23.7%
Share Turnover (6-Month Mean)	11.3%	14.4%	(2.9%)	23.6%
2-Year Forecast EPS Growth	8.3%	9.4%	1.8%	20.5%
Net Debt-to-Assets	(6.3%)	(12.7%)	(0.2%)	(18.4%)
Depreciation-to-COGS	(8.2%)	(4.3%)	(7.3%)	(18.5%)
Price-to-Sales	(9.2%)	(10.5%)	(0.5%)	(19.1%)
Price-to-Earnings	(8.6%)	(11.9%)	0.5%	(19.1%)
EV-to-Gross Profit	(12.0%)	(7.1%)	(1.7%)	(19.6%)
Price-to-NOPAT	(10.8%)	(11.4%)	(0.2%)	(21.1%)
Price-to-Forecast EBITDA	(9.1%)	(10.5%)	(7.2%)	(24.5%)
EV-to-EBITDA	(12.0%)	(11.6%)	(3.2%)	(24.7%)
Price-to-Operating Cash Flow	(13.1%)	(10.0%)	(4.4%)	(25.2%)
Price-to-EBITDA	(14.0%)	(12.6%)	(2.6%)	(26.8%)

Source: Trivariate Research

PAIRWISE CORRS. AND COMPANY-SPECIFIC RISK WAS MIXED IN Q2

During Q2, pairwise correlations (PWC) were mixed, rising in 10 of 25 Industry Groups. PWC rose the most in Transportation, Software, and Utilities (left). PWC fell the most in Real Estate Management, Durables & Apparel, and Semis. We have our own 7-factor model for company-specific risk (CSR), and it mostly fell in Q2. CSR rose the most in Tech. Hardware, Energy, and Consumer Services, and it fell the most in Insurance, Household & Personal Products, and Software. In absolute terms, CSR is lowest in Banks (right).

Q2 2026 Change and Level of Median Pairwise Correlation

Industry Group	Change in Median Pairwise Correlation	Level of Median Pairwise Correlation
Transportation	8.1	32.0
Software & Services	7.1	31.7
Utilities	6.9	35.7
Household & Personal Products	5.4	24.2
Pharmaceuticals, Biotechnology & Life Sciences	4.4	20.4
Automobiles & Components	3.8	34.1
Materials	2.5	26.5
Capital Goods	2.3	32.3
Media	1.8	17.6
Telecommunication Services	1.4	13.0
Equity Real Estate Investment Trusts (REITs)	(0.0)	33.0
Commercial & Professional Services	(0.0)	21.5
Banks	(0.5)	66.0
Consumer Services	(0.7)	21.9
Insurance	(0.7)	30.6
Food, Beverage & Tobacco	(0.9)	14.8
Consumer Discretionary Distribution & Retail	(1.0)	24.3
Financial Services	(1.2)	26.1
Health Care Equipment & Services	(2.1)	15.2
Energy	(2.6)	25.8
Consumer Staples Distribution & Retail	(2.7)	22.0
Technology Hardware & Equipment	(3.3)	27.0
Semiconductors & Semiconductor Equipment	(3.4)	36.9
Consumer Durables & Apparel	(4.2)	32.2
Real Estate Management & Development	(5.7)	24.3

Source: Trivariate Research

Q2 2026 Change and Level of Company-Specific Risk (%)

Industry Group	Change in CSR	Level of CSR
Technology Hardware & Equipment	3.9	62.0
Energy	3.1	69.0
Consumer Services	2.5	69.5
Financial Services	1.7	61.4
Health Care Equipment & Services	1.3	76.6
Consumer Discretionary Distribution & Retail	0.5	66.3
Telecommunication Services	0.2	75.6
Capital Goods	0.2	53.2
Commercial & Professional Services	(0.2)	64.8
Media & Entertainment	(0.3)	73.0
Consumer Durables & Apparel	(0.4)	58.3
Banks	(0.4)	36.9
Transportation	(0.4)	60.9
Real Estate Management & Development	(0.7)	63.9
Pharmaceuticals, Biotechnology & Life Sciences	(0.9)	75.2
Consumer Staples Distribution & Retail	(1.4)	77.9
Automobiles & Components	(1.7)	56.3
Utilities	(1.7)	69.6
Materials	(2.1)	58.4
Semiconductors & Semiconductor Equipment	(2.3)	53.4
Food, Beverage & Tobacco	(2.7)	74.6
Equity Real Estate Investment Trusts (REITs)	(2.8)	63.3
Software & Services	(4.5)	51.6
Household & Personal Products	(4.9)	68.8
Insurance	(6.8)	67.5

Source: Trivariate Research

VALUATION DISPERSION ROSE IN ALL 25 INDUSTRY GROUPS IN Q2

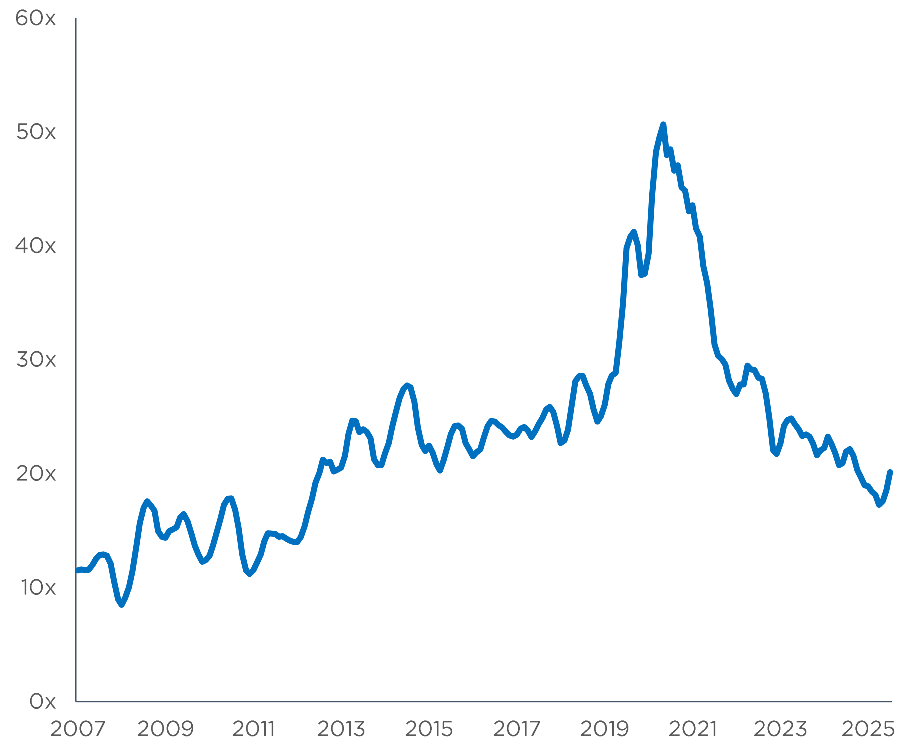
We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry (left table). Valuation dispersion rose in Q2 for all 25 industry groups. Semiconductors, Telecom. Services, and Tech. Hardware & Equipment saw dispersion widen the most. Software valuation dispersion increased after hitting decade-lows in Q1 (right).

Q2 2026 Level and 3m Change in 3-Month Average of Cross-Sectional Dispersion in Price-to-Forward Earnings

Industry Group	Change of PEF Dispersion	Level of PEF Dispersion
Semiconductors & Semiconductor Equipment	5.3x	26.6x
Telecommunication Services	4.7x	17.2x
Technology Hardware & Equipment	3.4x	19.3x
Utilities	3.4x	11.8x
Software & Services	2.8x	20.1x
Automobiles & Components	2.8x	15.2x
Consumer Services	2.7x	17.4x
Transportation	2.6x	18.8x
Capital Goods	2.3x	18.2x
Household & Personal Products	2.1x	11.1x
Financial Services	2.0x	10.2x
Insurance	1.8x	7.6x
Pharmaceuticals, Biotechnology & Life Sciences	1.6x	19.4x
Energy	1.4x	17.1x
Consumer Durables & Apparel	1.4x	10.2x
Equity Real Estate Investment Trusts (REITs)	1.4x	20.7x
Real Estate Management & Development	1.2x	13.9x
Health Care Equipment & Services	0.9x	19.4x
Food, Beverage & Tobacco	0.9x	11.1x
Commercial & Professional Services	0.8x	12.3x
Materials	0.7x	15.5x
Consumer Discretionary Distribution & Retail	0.7x	13.4x
Media & Entertainment	0.7x	17.4x
Banks	0.2x	3.3x
Consumer Staples Distribution & Retail	0.1x	11.4x

Source: Trivariate Research

Software & Services Price-to-Forward Earnings Dispersion Through End-June, 2026



Source: Trivariate Research

EPS FORECASTS ARE FOR 24% GROWTH IN 2026, LED BY 56% IN TECH.

Current bottom-up earnings expectations are for 24.3% EPS growth for the S&P500. EPS is expected to grow in all 11 sectors. Energy at 64.7% is the highest among sectors, followed by Technology with 55.7% forecasted EPS growth. 57% of the entire S&P500's earnings growth is forecasted to come from the Technology sector. Energy, Technology, Materials, Communication Services, Utilities, and Consumer Discretionary are all forecasted to have double-digit EPS growth.

Bottom-Up Analyst Earnings Growth Expectations
June 26th, 2026

Sector	1Q26E	2Q26E	3Q26E	4Q26E	2026E	2027E
S&P 500	26.0%	22.3%	24.6%	24.5%	24.3%	17.4%
S&P ex-Financials	27.3%	26.5%	30.3%	28.2%	28.1%	18.7%
Consumer Discretionary	37.5%	1.5%	(1.5%)	14.9%	11.5%	14.6%
Consumer Staples	2.4%	2.8%	5.7%	7.0%	4.5%	7.6%
Energy	(3.1%)	112.5%	79.2%	71.1%	64.7%	(7.2%)
Financials	20.2%	4.6%	1.0%	7.8%	8.0%	10.8%
Health Care	(6.1%)	(11.0%)	7.8%	14.7%	1.0%	18.6%
Industrials	8.4%	9.5%	15.2%	3.8%	9.1%	18.8%
Info Tech	54.5%	64.4%	57.5%	48.9%	55.7%	31.9%
Materials	28.5%	38.3%	39.5%	49.2%	39.1%	11.3%
Communication Services	47.7%	6.3%	33.1%	10.2%	23.8%	6.3%
Utilities	19.7%	12.8%	8.1%	16.2%	13.8%	7.8%
Real Estate	3.0%	5.0%	4.9%	7.2%	5.0%	7.7%

Source: Trivariate Research

Q2 2026 ESTIMATES ARE UP 3.7%, FULL YEAR ESTIMATES ARE UP 6.0%

As we start the July earnings season, we are not expecting major negative pre-releases. Overall, for the S&P500, earnings expectations are 6.0% higher for the full year 2026 versus where they were at the beginning of the quarter. Full year 2026 estimates are 48% higher in Energy today vs. the end of Q1. Health Care, Real Estate, Financials, and Industrials are the only sectors with lower 2026 estimates today vs. the end of Q1.

2026 EPS Revisions: June 26th, 2026 vs. March 31st, 2026

Sector	1Q26E	2Q26E	3Q26E	4Q26E	2026E
S&P 500	12.5%	3.7%	4.5%	4.3%	6.0%
Energy	(3.4%)	75.1%	63.3%	50.1%	48.0%
Materials	17.8%	8.0%	14.2%	14.4%	13.2%
Communication Services	53.9%	(0.3%)	0.5%	0.2%	12.3%
Info Tech	6.9%	9.8%	9.5%	9.3%	8.9%
Consumer Discretionary	36.8%	(4.0%)	(7.6%)	(3.5%)	3.1%
Utilities	9.4%	0.2%	0.5%	(2.4%)	2.1%
Consumer Staples	5.3%	(1.8%)	(1.2%)	(1.4%)	0.0%
Industrials	4.7%	(3.1%)	(1.1%)	(0.7%)	(0.3%)
Financials	4.1%	(1.7%)	(1.9%)	(1.8%)	(0.4%)
Real Estate	(1.1%)	0.1%	(0.8%)	(1.4%)	(0.8%)
Health Care	5.1%	(15.3%)	(2.0%)	(2.5%)	(3.9%)

Source: Trivariate Research

Q2: FINANCIAL CONDITIONS EASED, ECONOMY MODESTLY BETTER

Q2 2026 Changes in Macro Regime

Macro Signal	Q1 2026 Regime	Q2 2026 Regime	Comments
Economic Activity	Level	Level	Trivariate's Proprietary Economic Activity Gauge was mixed in Q2 2026, remaining level. The US Leading Economic Indicator improved and got less negative throughout Q2. However, the NFIB Small Business Optimism was slightly weaker, and the Philly Fed Business Outlook weakened throughout Q2. The Citi Economic Surprise Index moved significantly positive from March lows through early June but has ticked lower recently.
Consumer Activity	Decreasing	Level	Trivariate's Proprietary Consumer Activity gauge was level in Q2, improving from softening trend that started in Q4 of 2025. Unemployment stayed flat during Q2. 90-day credit card delinquencies actually slightly improved during Q2, despite higher Oil prices, coming to the lowest level since August of 2023. The biggest negative we see is that The University of Michigan Consumer Sentiment gauge went to all-time lows in May but has bounced higher in June.
Financial Conditions	Level	Loosening	Overall, Financial conditions loosened in Q2, consistent with a risk-on equity market. The Bloomberg Financial Conditions index is now at a high not seen since late February. The 10-year yield backed up from 4.32% to 4.67% during the quarter but ended the quarter at 4.46%. The 2-year yield backed up more, from 3.80% to 4.18%, likely because of the higher inflation expectations and the perception about the Fed's relatively less dovish outlook. The 12-month forward Fed Funds rate expectations was 3.565% at the end of Q1, but is over 4% now, a large shift from the beginning of the year.
Yield Curve 63d	Level	Bear Flattening	
Yield Curve 126d	Bear Steepening	Bear Flattening	
Yield Curve 252d	Bull Steepening	Bear Flattening	
Industrial Activity	Level	Increasing	Trivariate's Proprietary Industrial Activity gauge improved in Q2. Investors started the quarter more optimistic about a rebound. On the positive side, more product is being moved around, as North American Car-Loads are much higher than at the end of Q1 and Dry Van Rate Per Mile finished Q2 higher than the end of Q1. Industrial production was also steadily higher during Q2, reaching a five-year high. US manufacturing utilization also modestly improved. The ISM ended June higher than March, though a touch lower than the end of May. The Baker Hughes Rig Count sky-rocketed higher since early May lows, back to the highs since June 2025. The US Auto SAAR is slightly lower today than at the end of Q1 though sales bounced in May from the April report. In total, the Industrial economy appears to be improving, despite big picture concerns.

Source: Trivariate Research

OIL AND COMMODITIES WAY LOWER, CURRENCY RELATIVELY STABLE

Q2 2026 Changes in Macro Regime

Macro Signal	Q1 2026 Regime	Q2 2026 Regime	Comments
China	Level	Level	The Chinese economy has been mixed and level. The Citi Surprise Index for China rocketed higher during Q1, but steadily declined to lows in mid-June, and finished Q2 well below and negative from Q1. Newly built Commercial Residential Property Prices stayed flat during Q2. China auto sales fell modestly slow far this quarter.
Commodities	Increasing	Decreasing	The Iran War in late February caused a spike in Oil that peaked in April and then subsequently fell sharply. Brent Oil finished Q1 at the high of $118.35, and finished Q2 at $72.92, a 38.4% decline. WTI fell 31.5% from $101.38 to $69.50. Gasoline at the pump fell 5.4% from a National Daily average of $4.06 at the end of March to $3.85 mid-year. Natural Gas ended Q2 higher by 13.6% at $3.28. Agricultural commodities were generally lower in Q2, with Wheat down 7.7%, Sugar down 7.6%, and the overall Bloomberg Commodity Index down 8.9%. Cotton up 3.17% was a modest exception. Precious metals strongly retreated after a monster move the previous six months, with Gold down 14% and Silver down 22% during Q2.
Oil	Increasing	Decreasing	
Currency	Level	Level	Currency movements were modest during Q2, with the dollar slightly strengthening against the DXY (101.19 vs. 99.96) during the quarter. The movements against the major currencies (Euro, Pound, Yen, CAD) were all less than 2.5% from end March to end June, and as such, we don't anticipate much incremental commentary on currency during the coming earnings season. This is two straight quarters of massive commodity moves with limited currency movements.
Europe	Level	Level	Signals in Europe are mixed. The Eurozone Citi Surprise ended Q2 below where it ended Q1, falling sharply through mid-May and recovering some since. Both UK and Eurozone Consumer Confidence also fell sharply in March and April but recovered some since. European equities had outperformed the US in Q1 but was no longer the case in Q2.

Source: Trivariate Research

TRIVARIATE SECTOR RECOMMENDATIONS

We are recommending Technology, Healthcare, and Energy. We are underweight Financials and Consumer Staples.

Trivariate Sector Recommendations as of End-June, 2026

Sector	Total S&P500 Market Cap. (US$ Trillion.)	Current S&P500 Weight	Trivariate Recommended Weight	Trivariate Relative Weight	Trivariate Recommendation	Comments
Information Technology	**25.03**	**36.6%**	41%	4.4%	Overweight	Strong absolute earnings growth that can absorb multiple compression. A balance of AI and Great 8, our North Star remains Semis over Software.
Health Care	**5.92**	**8.7%**	12%	3.3%	Overweight	We have had a bad call, but think the probability of material government cuts is lower than what's in the price
Energy	**1.98**	**2.9%**	6%	3.1%	Overweight	FCF growth will remain elevated, and correlation to Technology is low
Materials	**1.20**	**1.8%**	2%	0.2%	Equal-Weight	Materials should have above avg. estimate achievability, we like Gold and Copper
Utilities	**1.43**	**2.1%**	2%	(0.1%)	Equal-Weight	Some idiosyncratic investments are sensible for AI exposure
Real Estate	**1.20**	**1.8%**	1%	(0.8%)	Equal-Weight	Metrics for stock selection are becoming more effective, commercial remains challenged.
Consumer Discretionary	**6.75**	**9.8%**	9%	(0.8%)	Equal-Weight	Better Hormuz-related news should help low quality stocks
Communication Services	**7.17**	**10.5%**	9%	(1.5%)	Equal-Weight	Generally weak after Oil spikes.
Industrials	**5.81**	**8.6%**	7%	(1.6%)	Equal-Weight	Industrial activity is modestly improving, but input costs may be rising and correlation to AI Semis is high.
Financials	**8.19**	**12.1%**	9%	(3.1%)	Underweight	Crowded, not as much of an AI beneficiary as people think, and private credit issues are accelerating
Consumer Staples	**3.48**	**5.1%**	2%	(3.1%)	Underweight	Staples have outperformed, yet we see signs of deteriorating pricing power, and some major headwinds, we would be cautious

Source: Trivariate Research

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