Level Set - The One-in-One-Million Alpha Guy and How to Predict Earnings

Last week, as happens to me lets say fifty times a year for the last 20 years, I was on a plane sitting next to a stranger. Normally I think the correct number of words I should have with a stranger on an airplane during the entire duration of any flight is "4 plus 7 divided by 3, carry the 1 - ZERO." Exactly zero. I RARELY want to talk to strangers on a plane. Maybe one time in the last 1000 flights. I have always been this way, but now, because of, as one of my children calls it, my "D-list celebrity status", fueled by CNBC and other social media, people in public often say nice things about my appearances on CNBC - buttering me up for their inevitable follow-up of "What do I think of PLTR, or Bitcoin, or NVDA, or of course lately, Micron?" Despite my cynicism of a random person's knowledge about equities and deep protective instincts of my plane time, somehow I struck up a fascinating conversation with a wonderful guy, who was traveling with his beautiful family on vacation last weekend. He was clearly smart, and accomplished, was familiar with Trivariate (inclining me to think he is a genius), and referred to himself by saying "I am an alpha guy." Separately, whenever someone has made that self-reference in the past, the chance I like them typically precipitously declines one second after they say that. Usually "I am an alpha guy" comes with false confidence, misremembering of facts about their personal investing track record, or a whole slew of other behavioral biases and neuroses. Based on my life experience, about 1 in 1000 people who refer to themselves as "alpha guys" actually know what that means, and are in fact alpha seekers and generators. But again, despite this (trust me) well-informed pre-existing bias, this guy had me believing at the end of our 20-minute conversation that he probably was an alpha guy. In summary, I actually talked to someone on a plane, ***and*** he had me believing he was an alpha generator. **Based on my life's experiences, this was a one-in-one million conversation.**

He asked me what I thought was the most differentiated investment idea I had right now. I told him that I thought the market was telling me there was a zero percent chance that Healthcare could be the best performing sector in the market over a 5-year horizon, and that I thought the probability was 30%. I mentioned DGX (before the print) and a few other Healthcare Services names I have regularly written about. The past few years have constantly reminded me of three things. Firstly, I can learn from anyone. Secondly, just because someone knows more about a company doesn't mean they will be good at getting the stock right. Thirdly, what used to work to pick stocks might not work in the future. **As I reflect on the conversation, I have one massive regret, a mistake I won't make again. I didn't ask him for his top stock idea. After all, he was one-in-a-million.**

We remember years ago investors in the US wishing that companies would report earnings less frequently. Some suggested to us that instead of quarterly reports, management teams would be better served running their businesses with less distraction, and that annual instead of quarterly reports would be preferable. These same investors often thought that less information to the public would benefit their relative analytical skills, in an era where less information gathering and processing was available to all. **This has turned into the ultimate "watch what you ask for."**

Most quantitative money is now run mid-frequency, meaning with holding periods from a few hours to ten days. Most quantitative portfolios are run factor neutral, meaning neutral to quality and valuation, and many are run where participants PURPOSELY avoid the earnings reports, as that information actually destroys the efficacy of their algorithm. It seems to me

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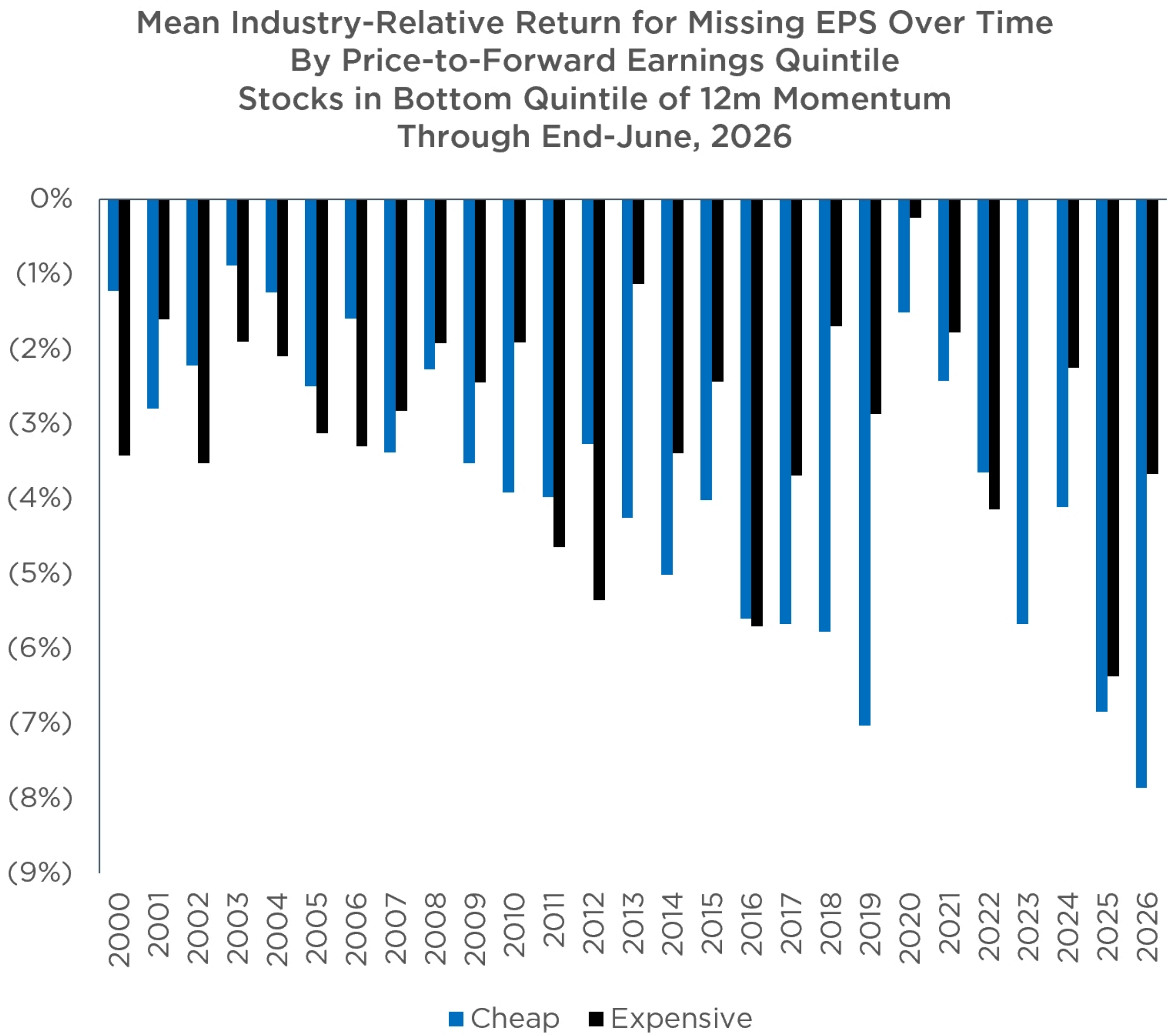
now that fundamental investors should want MORE frequent, not less frequent, reports from companies! Then, quants won't be in their stocks, and they can get more validation of their forecasting skill.

Should fundamental investors want MORE or less frequent earnings reports? We are not sure. **Maybe our engine room is just flooded after processing all the corporate results and market reactions this past week**. Big picture, earnings season and the economy appear relatively strong, and remarkably resilient to macro trends that would have caused more of a growth scare in earlier times. The market finished the week down 60bps. It feels like macro news would have made for a worse market if fundamental news wasn't so strong.

The information that companies present isn't the only story to how the stocks will trade when they report earnings. **In fact, as we have pointed out, the market on average predicts what the companies will report. Below we show a chart we have previously published**. We show the performance of stocks relative to their industry group the day after they report earnings, for those that miss earnings, and the difference between stocks in the cheapest and most expensive quintile on price-to-forward earnings - all of which had bad momentum (bottom quintile) the 12-months prior to the earnings report. What does it show? Cheap stocks with bad momentum are NOT "de-risked" into the print - they are ANTICIPATING the miss correctly - and the miss is a confirmation of the price action. **Stocks with bad momentum that are cheap have NEVER been punished more for missing.**



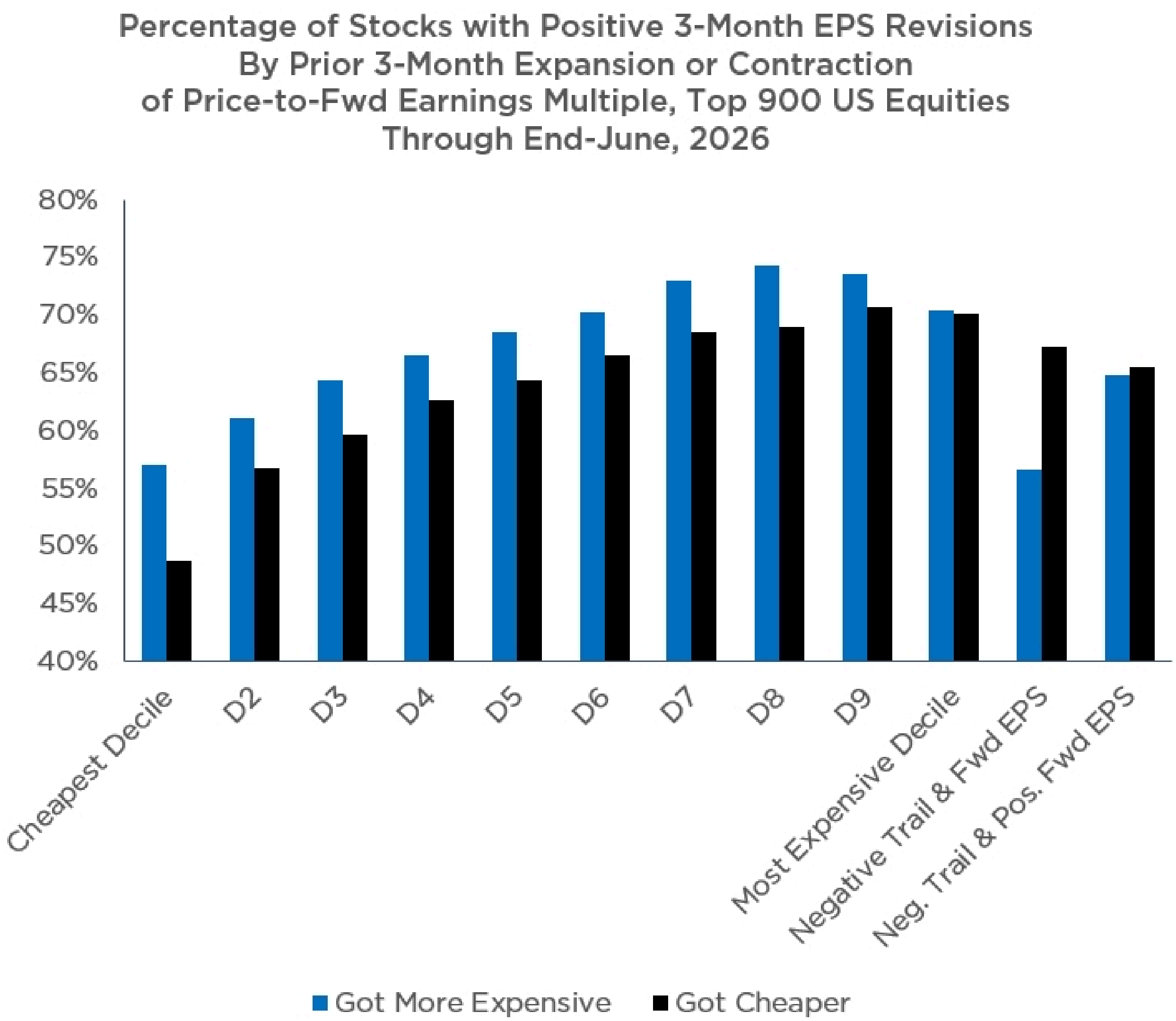
Source: Trivariate Research, LP

The thing is, not that many companies in the S&P500 actually miss earnings. Earnings beats / misses are not really "random." The probability a company beats the consensus bottom-up EPS expectations is over 70% over the last several years. A combination of conservative guidance, analysts' incentives, and levers companies can pull to beat the target means that earnings upside is far more likely than earnings downside. Look at this earnings season so far - 64% of companies that have reported so far have beaten estimates (see below) - and only 10% have missed. Half of all Financials have reported, and ***none*** have missed. ***No Industrial, Communication Services, or Consumer Staples has missed yet either***. So a big deal is not WHAT they report - but what did investors expect that they would report - what was the whisper, and guidance, and commentary on the quarter-to-date tracking. Because, in essence, if you are a company that reports a miss you are in trouble.

S&P500 Earnings Results Through July 23rd, 2026					
Sector	% of Cos Rptd	% Mktcap Rptd	Beats	Beats /Misses Beat / In-Line	Miss
Financials	50%	58%	40%	100%	0%
Consumer Discretionary	33%	30%	47%	87%	13%
Industrials	32%	38%	67%	100%	0%
Communication Services	25%	60%	100%	100%	0%
Materials	21%	23%	68%	89%	11%
Consumer Staples	18%	27%	90%	100%	0%
Information Technology	18%	14%	72%	96%	4%
Health Care	17%	30%	62%	92%	8%
Real Estate	16%	23%	40%	80%	20%
Energy	14%	7%	40%	60%	40%
Utilities	3%	3%	0%	0%	100%
S&P 500	**25%**	**28%**	**64%**	**90%**	**10%**

Source: Trivariate Research, LP

We find it interesting that the market leads earnings results to this extent. Stocks that just got more expensive have a higher probability of beating estimates than stocks that just got cheaper on price-to-forward earnings, virtually independent of the starting valuation level. For instance, stocks in the cheapest decile on price-to-forward earnings have a 48% chance of beating estimates if they just got cheaper on price-to-forward earnings in the last quarter, but a 58% chance of beating if they got more expensive. That is not a trivial difference. Stocks that are pretty expensive, such as in the 8th decile of price-to-forward earnings in the overall market, and got more expensive over the last quarter, have a 74.3% chance of beating estimates!



Source: Trivariate Research, LP

We focus below on the recent revision trends, and over the last month, the Technology and Communication Services sectors have the highest upward revisions (see below). Only Materials have seen downward revisions over the last month.

S&P 500 Earnings Revision by Sector Through July 23rd, 2026 Sector	6-month	3-month	1-month	1Week
Information Technology	44%	21%	6%	0.2%
Communication Services	24%	17%	6%	5.2%
S&P 500	23%	11%	4%	0.9%
Financials	12%	6%	4%	0.9%
Industrials	11%	6%	1%	0.3%
Health Care	7%	2%	1%	0.4%
Consumer Discretionary	11%	7%	1%	(0.1%)
Utilities	6%	3%	1%	0.0%
Real Estate	4%	2%	1%	0.1%
Consumer Staples	4%	2%	0%	0.0%
Energy	59%	9%	(0%)	1.2%
Materials	17%	5%	(1%)	(0.0%)

Source: Trivariate Research, LP

Given the information we have received so far this earnings season, the serial correlation of reports, and the information in the multiple expansion prior to earnings, we think good long ideas include those that have not yet reported in the last two months, beat EPS by at least 10% last quarter, and have had at least one turn of price-to-forward earnings multiple expansion over the last three months. We eliminated stocks trading above 50x earnings. Stocks include LLY, STX, CVS, GD, RCL, GWW, CTVA, CAH and CNC among others.

Long Ideas: Have Not Yet Reported, Beat EPS by >10% and Got More Expensive on PEF in Last Quarter
Through July 24th, 2026

Ticker	Company	Sector	Market Cap. (US $Bil.)	Price-to-Forward Earnings	Quarterly Change in Price-to-Forward Earnings
LLY	Eli Lilly and Company	Health Care	1,066.55	33.1x	6.5x
STX	Seagate Technology Holdings plc	Information Technology	192.70	30.0x	3.7x
CVS	CVS Health Corporation	Health Care	137.47	14.2x	2.5x
GD	General Dynamics Corporation	Industrials	104.43	22.8x	2.0x
RCL	Royal Caribbean Cruises Ltd.	Consumer Discretionary	78.73	16.5x	1.3x
GWW	W.W. Grainger, Inc.	Industrials	65.28	29.8x	3.2x
CTVA	Corteva, Inc.	Materials	59.69	23.4x	1.0x
CAH	Cardinal Health, Inc.	Health Care	53.41	18.9x	2.6x
TTWO	Take-Two Interactive Software, Inc.	Communication Services	43.01	35.5x	8.5x
PRU	Prudential Financial, Inc.	Financials	41.67	8.6x	1.3x
WAT	Waters Corporation	Health Care	36.79	25.2x	3.7x
CNC	Centene Corporation	Health Care	31.31	17.4x	1.9x
KHC	The Kraft Heinz Company	Consumer Staples	30.44	12.4x	1.3x
BIIB	Biogen Inc.	Health Care	29.85	15.5x	2.5x
TWLO	Twilio Inc.	Information Technology	29.06	32.7x	5.7x
DXCM	DexCom, Inc.	Health Care	27.61	26.6x	3.3x
ATI	ATI Inc.	Industrials	26.99	43.0x	7.3x
FFIV	F5, Inc.	Information Technology	22.13	22.3x	2.9x
ESS	Essex Property Trust, Inc.	Real Estate	18.86	49.4x	3.6x
NBIX	Neurocrine Biosciences, Inc.	Health Care	17.67	17.6x	1.7x

Source: Trivariate Research, LP

Similarly, short ideas are those that have not yet reported, missed EPS last quarter, and had multiple contraction on price-to-forward earnings over the last quarter. Stocks include EQIX, ABNB, VST, and SOFI, among others.

Short Ideas: Have Not Yet Reported, Missed EPS and Got Cheaper on PEF in Last Quarter Through July 24th, 2026

Ticker	Company	Sector	Market Cap. (US $Bil.)	Price-to-Forward Earnings	Quarterly Change in Price-to-Forward Earnings
EQIX	Equinix, Inc.	Real Estate	106.93	59.8x	(1.4x)
ABNB	Airbnb, Inc.	Consumer Discretionary	83.74	27.0x	(1.2x)
VST	Vistra Corp.	Utilities	55.09	18.0x	(0.0x)
ETR	Entergy Corporation	Utilities	53.09	25.6x	(1.2x)
ZTS	Zoetis Inc.	Health Care	31.59	10.8x	(5.6x)
DTE	DTE Energy Company	Utilities	31.09	19.1x	(0.5x)
NRG	NRG Energy, Inc.	Utilities	29.76	14.4x	(2.1x)
GEHC	GE HealthCare Technologies Inc.	Health Care	27.56	12.1x	(0.3x)
SOFI	SoFi Technologies, Inc.	Financials	21.11	26.0x	(1.3x)
STE	STERIS plc	Health Care	20.86	19.2x	(0.2x)
SBAC	SBA Communications Corporation	Real Estate	18.41	23.0x	(6.7x)

Source: Trivariate Research, LP

While we are recommending Technology, we also constantly write about portfolio diversification. As such, we are also recommending Healthcare and Energy - which have been the two best performing sectors over the last month. While our judgment is that there will be at least one more major leg up for many of the AI-exposed stocks, investors are quite interested in our idea list of stocks that have a low correlation to AI Semiconductors. Below we show stocks that are low beta (0.6 or lower), have less than a 0.3 correlation to our AI Semiconductors basket, have had positive alpha over the last 6 and 12 months, and are forecasted to have positive revenue growth. Stocks include LLY, MRK, CVS, CSX, MNST, HUM, and UTHR - among others (see below).

Top 1000 Market Cap
Beta Less than 0.6, Correlation to AI Semis Less than 0.3, Postive Alpha Last 6-and 12-months, and Forecasted Revenue Growth
As of July 24th, 2026

Ticker	Company Name	Sector	Industry	Market Cap. ($Bn)
LLY	Eli Lilly and Company	Health Care	Pharmaceuticals	1066.55
MRK	Merck & Co., Inc.	Health Care	Pharmaceuticals	323.72
CVS	CVS Health Corporation	Health Care	Health Care Providers & Services	137.47
CSX	CSX Corporation	Industrials	Ground Transportation	98.60
MNST	Monster Beverage Corporation	Consumer Staples	Beverages	91.43
HUM	Humana Inc.	Health Care	Health Care Providers & Services	46.74
CNC	Centene Corporation	Health Care	Health Care Providers & Services	31.31
FTI	TechnipFMC plc	Energy	Energy Equipment & Services	30.60
RPRX	Royalty Pharma plc	Health Care	Pharmaceuticals	26.08
INCY	Incyte Corporation	Health Care	Biotechnology	23.51
EXPD	Expeditors International of Washington, Inc.	Industrials	Air Freight & Logistics	22.93
UTHR	United Therapeutics Corporation	Health Care	Biotechnology	22.43
THC	Tenet Healthcare Corporation	Health Care	Health Care Providers & Services	20.09
TIGO	Millicom International Cellular S.A.	Communication Services	Wireless Telecommunication Services	15.80
MDGL	Madrigal Pharmaceuticals, Inc.	Health Care	Biotechnology	12.55
DAR	Darling Ingredients Inc.	Consumer Staples	Food Products	9.93
PTGX	Protagonist Therapeutics, Inc.	Health Care	Biotechnology	8.75
FRO	Frontline plc	Energy	Oil, Gas & Consumable Fuels	8.75
TGTX	TG Therapeutics, Inc.	Health Care	Biotechnology	7.94
NE	Noble Corporation plc	Energy	Energy Equipment & Services	6.90

Source: Trivariate Research, LP

Important Disclosures

Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Chang Ge, Colin Cooney, Ryan McGovern and Jesse Goodman, 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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