TRIVARIATE RESEARCH

WHAT REALLY HAPPENED IN Q1 2025

ADAM S. PARKER, Ph.D., FOUNDER

adam@trivariateresearch.com
646-734-7070

CHANG GE, ANALYST

chang@trivariateresearch.com
614-397-0038

MAXWELL ARNOLD, ANALYST

maxwell@trivariateresearch.com
347-514-1234

RYAN MCGOVERN, DIR. OF RESEARCH SALES

ryan@trivariateresearch.com
973-271-8017

COLIN COONEY, HEAD OF SALES

colin@trivariateresearch.com
617-910-7934

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, largest performers and 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.

VALUE BEAT GROWTH AND QUALITY BEAT JUNK

A weak quarter: The S&P500 declined 4.6% during Q1 (4.27% on a total return basis). Both the Nasdaq (down 10.4%) and the Russell 2000 (down 9.79%) corrected.

An epic momentum reversal: Cap-weighted 3-month price momentum had its 8th worst quarter in over 25 years– other quarters were directly into or out of the TMT Bubble, the Financial Crisis, or COVID. The "yet unfulfilled initial Red Sweep Optimism" is the culprit.

Value and quality outperformed: Growth and momentum attributes were quite poor during Q1, as cap-weighted 3-month momentum was down 18.5% during the quarter. Growth was down 10.4% cap-weighted, and 13.5% on an equally-weighted basis. On an equally weighted basis, long value and short growth made 9.8% in Q1. Junk stocks were poor, down 8.1% cap-weighted and 12.1% equal-weighted, vs. high-quality which was down 3.5%.

Sectors: Energy (up 10.2%), Healthcare (6.5%), and Consumer Staples (5.2%) were best, Consumer Discretionary (down 13.8%), Technology (down 12.7%), and Communication Services (down 6.2%) were the worst during Q1. <u>Despite the S&P500 total return being down 4.27%, only 4 of the 11 sectors were down in absolute terms, because the two worst performing sectors were the biggest two sectors at the start of the quarter.</u>

Industries: Among the S&P500, Telecomm. Services (up 20.7%), Insurance (up 11.6%) and Food / Beverages / Tobacco (up 11%) were best. Autos and Components (down 32.9%), Semiconductor and Semiconductor Capital Equipment (down 17.5%) and Consumer Durables and Apparel (down 12.9%) were worst.

Inflation-exposed stocks worked in Q1: Inflation-exposed stocks were up 4.4% in Q1. Because the beta-adjusted inflation basket has a lot of Energy stocks, the basket was up in Q1, with Exxon-Mobil (Ticker: XOM) up 12.7% and Devon Energy (Ticker: DVN) up over 20%.

Momentum failed across the board in Q1: We show Q1-Q5 spreads for three different momentum metrics on an equally-weighted basis. Stocks that had good 3-, 6- and 12-month momentum all underperformed stocks with bad 3-, 6- and 12-month momentum in Q1. Generally, if you were good in Q4, you were bad in Q1.

Pause in AI returns: AI stocks failed vs. non-AI growth stocks, as NVDA was down over 19%.

Big Movers: Five stocks were up more than 100% in Q1, but only one (Corcept Therapeutics, Ticker: CORT) is greater than $5 billion in market cap. Ten stocks were down more than 60% in the quarter, most of which were Healthcare. On a market-cap basis, BRK.B added the most ($170.7 billion in Q1), followed by V, PM, ABBV, and JNJ. The biggest five losers (NVDA, TSLA, AAPL, GOOGL, and MSFT) ended Q1 more than $2.3 trillion in market cap. smaller than they started the quarter– a larger market cap. loss during Q1 than the entire current market value of all but TEN countries in the world!

Factor Efficacy: The most effective metric for picking winners from losers in Q1 was 12-month beta, and the 2nd most effective was 3-month beta. Volatility metrics were also great – meaning buying stocks with low beta or low volatility and shorting those with high beta / high volatility worked. Stocks with a high dividend yield and those that are cheap on price-to-EBITDA also strongly beat expensive stocks or those with a low dividend yield that are expensive.

The alpha environment was generally better in Q1 on 3 key metrics we assessed:

Valuation dispersion was mixed: We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry. Valuation dispersion was mixed, rising in 10 of the 25 Industry Groups. Real Estate and Commercial Services saw the biggest increases in valuation dispersion. Tech. Hardware, Energy, and Financial Services saw the biggest compression in multiples. Software & Services valuation dispersion is no longer aberrant, as Software multiples have broadly compressed for nearly four years.

Median pairwise correlations were lower: During Q1, pairwise correlations (PWC) were mostly lower, declining in all but 3 of 25 Industry Groups (Insurance, Banks, and Software & Services). PWC fell the most in Semiconductors and Real Estate Management.

Company-specific risk (CSR) was largely higher: Company-specific risk (CSR) was largely higher in Q1, rising the most in Banks, Semiconductors, and Materials, and falling the most in Utilities. CSR was higher in 18 of the 25 Industry Groups.

Earnings Expectations Appear High: Current bottom-up earnings expectations are for 9.7% growth in 2025, and 14.4% in 2026. Analysts are forecasting all but Energy to have positive earnings growth in 2025, with Technology (17.8%) the highest. For Q1 2025, which kicks off presently, year-over-year quarterly growth expectations are highest in Healthcare (owing to a large charge a year ago), and lowest in Energy and Materials.

EPS ESTIMATES NOT DOWN AS MUCH AS THE ECONOMY

Pre Negs are possible: As we start the April earnings season, we see a reasonable chance of a material negative pre-release announcement this week. Overall, for the S&P500, earnings expectations are 1.6% lower for the full year 2025 versus where they were at the beginning of the year. Given the downward GDP revisions for Q1, we think this is not sufficient. For Q1 2025 earnings expectations, estimates are 4.3% lower for the overall market and 14.9% lower for Materials. Only Utilities have higher Q1 2025 earnings expectations at the end of Q1 than at the beginning.

Macro data was mixed in Q1: Trivariate's Proprietary Economic Activity Gauge is now level after previously increasing in Q4, and we suspect much of the current growth slowdown has not hit the trailing metrics. However, we expect this to slow during Q2. The US Leading Economic Indicators are negative ending February lower after modestly bouncing in January. The NFIB Small Business Optimism peaked at the end of Q4 but has softened some in Q1. The Philly Fed Business Outlook was strong during January, and ended February above year-end levels, but below January's peak. The Citi Economic Surprise Index ended Q1 above the end of February levels. Our Consumer Activity Gauge shows conditions are level, though clearly recent data are slowing, while our Industrial Activity Gauge has been modestly improving.

Financial Conditions Tightened: The 10-year yield fell during Q1, ending the quarter at 4.21%, well below the mid-January peak of 4.79% and the year-end level of 4.57%. The 2-year yield also fell, ending Q1 at 3.89%, vs. the 4.24% at year-end. 12-month forward Fed Funds rate expectations were 3.93% at the end of December and are 3.55% now, indicating a broad belief that the economy has slowed.

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OIL FLAT, DOLLAR WEAKER, GOLD UP, OTHER COMMODITIES MIXED

Oil flat, Gold up: During Q1, both Brent and WTI Oil ended relatively flat vs. year-end levels. The Daily National Average Gasoline Price of $3.20 is 4.5% higher than the $3.06 at the end of 2024. Natural gas was up 13.4% during Q1, after rising 24% in Q4 and 12% in Q3. Demand for natural gas may grow to meet the AI power boom. Agricultural commodities were largely slightly lower during Q1. Wheat was down 4.5%, Cotton down 2.3% and Sugar down 2.2% during Q1. <u>The biggest mover was Gold, which rose 13.4% during Q1</u> to $3123 at quarter's end. The overall Bloomberg Commodity Index was up 7.7% during Q1.

The Dollar modestly weakened: After enormous moves in currency in Q4 of 2024, the moves were more modest in Q1 of 2025. The DXY was 3.9% weaker in Q1. The dollar weakened by 4.6% against the Yen, 4.4% against the Euro, and 3.2% against the Pound, and was unchanged against the Loony.

Conviction stocks: The Trivariate definition of high conviction is fund managers who own more than 3% of their long assets under management in a single stock. Among the proprietary universe of managers we follow, investors have increased positions in stocks like META, FLUT, and VST, while fewer managers have conviction in APO, UNH, and CRM today than at the end of Q4.

Insider activity: MTDR, FLWS, PBF, and NEWT had the most insider buys with no sales during Q1. QSR, SFM, ALHC, and PHR had the most insider sales with no insider buys.

VALUE WORKED, 3-MONTH MOMENTUM, JUNK, AND GROWTH FAILED

Growth and momentum attributes were quite poor during Q1, as cap-weighted 3-month momentum was down 18.5% during Q1. Growth was down 10.4% cap-weighted, and 13.5% on an equally-weighted basis. On an equally weighted basis, long value and short growth made 9.8% in Q1. Junk stocks were poor, down 8.1% cap-weighted and 12.1% equal-weighted, vs. high-quality which was down 3.5%.

Q1 2025 Portfolio Returns

Portfolio	Cap-Weighted Average Return	Simple Average Return	Difference
High Yield	7.6%	(2.0%)	9.6%
Value	4.7%	(4.0%)	8.7%
Long Value, Short Growth	15.5%	9.8%	5.7%
Junk Quality	(8.1%)	(12.1%)	4.0%
Growth	(10.4%)	(13.5%)	3.0%
High Quality	(3.5%)	(3.6%)	0.2%
Large Cap	0.5%	0.5%	0.0%
Long Mid Cap, Short Small / Micro Cap.	6.1%	8.0%	(1.9%)
Hyper Growth	(15.5%)	(11.5%)	(4.1%)
Long High Quality, Short Junk	4.5%	9.2%	(4.6%)
Long Mega / Large Cap, Short Mid Cap.	(0.9%)	4.6%	(5.6%)
Mega Cap	(7.5%)	(0.7%)	(6.8%)
6-Month Momentum	(12.2%)	(3.6%)	(8.7%)
12-Month Momentum	(9.3%)	(0.6%)	(8.7%)
3-Month Momentum	(18.5%)	(2.9%)	(15.5%)

Source: Trivariate Research

THE FAILURE OF 3-MONTH MOMENTUM WAS NOTEWORTHY

The performance of the top quintile of 3-month cap-weighted price momentum vs. the bottom-quintile was the 8th worst in the last 23 years – but all the prior had well defined and understood regimes – with "Yet Unfulfilled Initial Red Sweep Optimism" or "Potential Tariff War" the best current explanation for the harsh momentum reversal.

Quarterly Cap-Weighted Performance of 3-Month Momentum
Q1 vs. Q5 Spread, Worst 10 Quarters Since Q1 2002

Quarter	Regime	Cap-Weighted Return
Q2 2009	Financial Crisis	(31.9%)
Q2 2020	COVID-19	(30.3%)
Q4 2002	Technology Bubble	(27.8%)
Q3 2008	Financial Crisis	(23.9%)
Q4 2008	Financial Crisis	(22.5%)
Q3 2022	Interest Rate Hikes	(22.4%)
Q1 2009	Financial Crisis	(19.2%)
Q1 2025	Yet Unfulfilled Initial Red Sweep Optimism	(18.5%)
Q4 2011	Eurozone Crisis	(18.4%)
Q3 2002	Technology Bubble	(13.9%)

Source: Trivariate Research

DEFENSIVES LIKE TOBACCO AND TELCOS WERE BEST, AUTOS WORST

On a cap-weighted basis, Tobacco was the best performing Industry Group during Q1, led by Philip Morris (Ticker: PM) up 31.9%. Diversified Telecommunication Services was 2nd best-cap-weighted, with AT&T (Ticker: T) up 24.2%, and T-Mobile (Ticker: TMUS) up 20.8%. Classic defensive industries prevailed in Q1. Autos were worst, both on a cap. and equally-weighted basis, with Tesla (Ticker: TSLA) down 35.8% but others suffering from potential tariff consequences. Performance among large-cap Healthcare was best, as cap-weighted the sector was up 4.2% in Q1, vs. down 12.4% on an equally-weighted basis.

Q1 2025 Select GICS Industry and Sector Returns for Top 3000 Universe

Sector or Industry	Cap-Weighted Average Return	Simple Average Return	Difference
Tobacco	27.7%	(1.2%)	28.8%
Biotechnology	5.2%	(18.9%)	24.0%
Health Care	4.2%	(12.4%)	16.6%
Distributors	1.7%	(14.2%)	16.0%
Commercial Services & Supplies	7.3%	(8.6%)	15.9%
Diversified Telecommunication Services	17.7%	2.5%	15.2%
Pharmaceuticals	5.1%	(9.8%)	14.9%
Energy	7.6%	(6.4%)	14.0%
Materials	2.5%	(6.0%)	8.5%
Industrials	(2.4%)	(10.8%)	8.5%
Consumer Staples	4.0%	(3.0%)	7.0%
Financials	2.0%	(3.9%)	5.9%
Real Estate	2.4%	(2.7%)	5.1%
Communication Services	(6.3%)	(9.5%)	3.2%
Information Technology	(13.0%)	(15.2%)	2.2%
Utilities	4.5%	3.6%	0.9%
Consumer Discretionary	(13.3%)	(13.1%)	(0.2%)
Electric Utilities	3.7%	6.4%	(2.7%)
Multi-Utilities	6.7%	9.6%	(2.9%)
Transportation Infrastructure	1.2%	5.2%	(4.0%)
Industrial Conglomerates	1.0%	7.4%	(6.4%)
Consumer Staples Distribution & Retail	(0.3%)	6.2%	(6.5%)
Automobiles	(33.3%)	(21.3%)	(12.0%)

Source: Trivariate Research

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ENERGY OUTPERFORMED, MOMENTUM AND AI WERE WEAK IN Q1

Inflation-exposed stocks were up 4.4% in Q1. Momentum failed, and so did AI stocks as NVDA retreated 19.3%.

Q1 2025 Select Portfolio Returns

Sector	Return	Observation
Inflation Basket	4.4%	Because the beta-adjusted inflation basket has a lot of Energy stocks, the basket was up in Q1, with Exxon-Mobil (Ticker: XOM) up 12.7% and Devon Energy (Ticker: DVN) up over 20%.
12-Month Momentum	(0.6%)	
6-Month Momentum	(3.6%)	We show Q1-Q5 spreads for these three different momentum metrics on an equally-weighted basis. Stocks that had good 3-, 6- and 12-month momentum all underperformed stocks with bad 3-, 6- and 12-month momentum during Q1. Generally, if you were good in Q4, you were bad in Q1.
3-Month Momentum	(2.9%)	
AI	(2.8%)	We created an AI basket by using language processing on transcripts to search for terms related to AI. We then created a basket of stocks where AI-related terms were most frequently mentioned. This basket lagged growth stocks that did not mention AI on their transcripts by 2.8% during Q1. This means the AI-focused growth stocks lagged the growth stocks where AI is not being asked about on their earnings call transcripts. NVDA was down 19.3% during Q1.

Source: Trivariate Research

5 COMPANIES LOST MORE THAN $2.3 TRILLION IN Q1

Five stocks were up more than 100% in Q1, but only one (Corcept Therapeutics, Ticker: CORT) is greater than $5 billion in market cap. Ten stocks were down more than 60% in the quarter, most of which were Healthcare. On a market-cap basis, BRK.B added the most ($170.7 billion in Q1), followed by V, PM, ABBV, and JNJ. The biggest five losers (NVDA, TSLA, AAPL, GOOGL, and MSFT) ended Q1 more than $2.3 trillion in market cap. smaller than they started the quarter - a larger market cap. loss during Q1 than the entire current market value of all but TEN countries in the world!

Q1 2025 Select Stock Total Returns

Ticker	Company	Q1 Total Return	March 31 Market Cap. (US$ Bil.)
CMRX	Chimerix, Inc.	144.5%	0.80
FUBO	fuboTV Inc.	131.7%	1.00
AGL	agilon health, inc.	127.9%	1.79
CORT	Corcept Therapeutics Incorporated	126.7%	12.05
ACCD	Accolade, Inc.	104.1%	0.57
HEES	H&E Equipment Services, Inc.	94.1%	3.45
RDUS	Radius Recycling, Inc.	92.7%	0.81
ROOT	Root, Inc.	83.8%	2.03
IHS	IHS Holding Limited	78.8%	1.74
ALHC	Alignment Healthcare, Inc.	65.5%	3.57
HUMA	Humacyte, Inc.	(66.2%)	0.26
BZAI	Blaize Holdings, Inc.	(66.3%)	0.21
THRD	Third Harmonic Bio, Inc.	(66.5%)	0.16
IRWD	Ironwood Pharmaceuticals, Inc.	(66.8%)	0.24
ARQQ	Arqit Quantum Inc.	(67.3%)	0.17
FLNC	Fluence Energy, Inc.	(69.5%)	0.63
CRGX	CARGO Therapeutics, Inc.	(73.0%)	0.19
NPWR	NET Power Inc.	(75.2%)	0.20
SES	SES AI Corporation	(76.2%)	0.19
NMRA	Neumora Therapeutics, Inc.	(90.6%)	0.16

Source: Trivariate Research

Q1 2025 Select Stock Market Cap. Delta

Ticker	Company	Q1 Market Cap. Added (Lost) (US$ Bil.)	March 31 Market Cap. (US$ Bil.)
BRK.B	Berkshire Hathaway Inc.	170.7	1,148.7
V	Visa Inc.	64.9	684.7
PM	Philip Morris International Inc.	59.7	246.8
ABBV	AbbVie Inc.	56.6	370.6
JNJ	Johnson & Johnson	51.5	399.6
MSFT	Microsoft Corporation	(343.2)	2,790.6
GOOGL	Alphabet Inc.	(429.7)	1,893.8
AAPL	Apple Inc.	(448.5)	3,336.9
TSLA	Tesla, Inc.	(462.8)	833.6
NVDA	NVIDIA Corporation	(644.3)	2,644.5

Source: Trivariate Research

DIVIDEND YIELD AND VALUATION WORKED, BETA AND VOL. FAILED

The most effective metric for picking winners from losers in Q1 was 12-month beta, and the 2nd most effective was 3-month beta. Volatility metrics were also great –buying stocks with low beta or low volatility and shorting those with high beta / high volatility worked. Stocks with a high dividend yield that are cheap on price-to-EBITDA also strongly beat expensive stocks or those with a low dividend yield that are expensive.

Best and Worst Performing Signals During Q1 2025, Rebalanced Monthly (Top 500)

Signal	January Return	February Return	March Return	Q1 2025 Return
Indicated Annual Dividend Yield	(3.5%)	8.6%	7.5%	12.6%
Price-to-EBITDA	(4.8%)	7.7%	10.0%	12.6%
Trailing Dividend Yield	(3.6%)	7.3%	7.7%	11.3%
Net Debt-to-Assets	(4.4%)	6.7%	8.5%	10.7%
Net Debt-to-Market Cap.	(5.0%)	7.2%	8.6%	10.6%
Net Debt-to-Forecast EBITDA	(5.8%)	8.5%	8.0%	10.5%
Depreciation-to-COGS	(0.7%)	7.0%	3.2%	9.5%
Price-to-Operating Cash Flow	(2.8%)	3.5%	8.7%	9.4%
Distance-to-Default	(2.2%)	4.9%	6.5%	9.3%
Price-to-Forecast EBITDA	(3.7%)	4.2%	8.7%	9.0%
2-Year Momentum	5.8%	(7.0%)	(8.0%)	(9.5%)
Cash Ratio	1.3%	(5.5%)	(7.7%)	(11.6%)
Cash-to-Assets	4.3%	(7.2%)	(9.3%)	(12.3%)
Net Cash Ratio	4.4%	(8.1%)	(8.7%)	(12.4%)
Consensus Long-Term Forecast EPS Growth	3.8%	(7.1%)	(9.3%)	(12.5%)
Share Turnover (3-Month Average)	0.8%	(7.6%)	(7.0%)	(13.3%)
Volatility (3-Month)	6.0%	(11.9%)	(10.3%)	(16.2%)
Volatility (1-Year)	5.4%	(11.5%)	(11.9%)	(17.8%)
Beta (3-Month)	6.1%	(11.8%)	(13.6%)	(19.1%)
Beta (1-Year)	5.8%	(13.5%)	(13.8%)	(21.1%)

Source: Trivariate Research

Q1 GENERALLY HAD LOWER CORRELATIONS AND HIGHER CSR

During Q1, pairwise correlations (PWC) were mostly lower (left), declining in all but 3 of 25 Industry Groups (Insurance, Banks, and Software & Services). PWC fell the most in Semiconductors and Real Estate Management. Company-specific risk (CSR) was largely higher in Q1, rising the most in Banks, Semiconductors, and Materials, and falling the most in Utilities (right). CSR was higher in 18 of the 25 Industry Groups.

Q1 2025 Change and Level of Median Pairwise Correlation

Industry Group	Change in Median Pairwise Correlation	Level of Median Pairwise Correlation
Insurance	4.9	38.7
Banks	3.7	77.3
Software & Services	0.1	25.5
Food, Beverage & Tobacco	(1.0)	16.1
Equity Real Estate Investment Trusts (REITs)	(1.4)	40.7
Health Care Equipment & Services	(2.2)	16.8
Telecommunication Services	(2.3)	15.9
Household & Personal Products	(2.4)	18.9
Commercial & Professional Services	(2.6)	25.4
Pharmaceuticals, Biotechnology & Life Sciences	(2.6)	20.9
Utilities	(3.0)	36.2
Consumer Staples Distribution & Retail	(3.6)	21.0
Financial Services	(4.1)	30.5
Energy	(5.1)	37.5
Consumer Services	(5.5)	21.5
Media	(6.0)	18.1
Consumer Discretionary Distribution & Retail	(7.0)	22.8
Consumer Durables & Apparel	(7.1)	26.6
Technology Hardware & Equipment	(7.8)	28.5
Automobiles & Components	(8.0)	31.9
Transportation	(9.4)	18.7
Capital Goods	(9.8)	31.9
Materials	(9.8)	25.5
Real Estate Management & Development	(12.5)	31.0
Semiconductors & Semiconductor Equipment	(14.3)	42.0

Source: Trivariate Research

Q1 2025 Change and Level of Company-Specific Risk (%)

Industry Group	Change in CSR	Level of CSR
Banks	8.4	41.4
Semiconductors & Semiconductor Equipment	8.2	57.0
Materials	8.2	63.2
Automobiles & Components	8.1	62.1
Consumer Durables & Apparel	6.8	62.9
Capital Goods	6.3	55.6
Real Estate Management & Development	5.1	57.5
Media & Entertainment	4.4	71.8
Consumer Services	4.4	67.0
Technology Hardware & Equipment	3.9	60.6
Commercial & Professional Services	3.7	64.9
Consumer Discretionary Distribution & Retail	3.5	66.6
Transportation	3.4	67.0
Financial Services	2.8	56.2
Health Care Equipment & Services	2.4	72.4
Energy	2.2	59.2
Consumer Staples Distribution & Retail	2.0	69.9
Pharmaceuticals, Biotechnology & Life Sciences	1.5	73.3
Telecommunication Services	(0.1)	76.8
Insurance	(0.7)	63.1
Household & Personal Products	(1.0)	70.7
Equity Real Estate Investment Trusts (REITs)	(1.4)	55.9
Software & Services	(1.9)	60.6
Food, Beverage & Tobacco	(2.2)	71.7
Utilities	(4.4)	58.5

Source: Trivariate Research

# VALUATION DISPERSION WAS MIXED, RISING IN 10 OF 25 INDUSTRIES

We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry (left table). Valuation dispersion was mixed, rising in 10 of the 25 Industry Groups. Real Estate and Commercial Services saw the biggest increases in valuation dispersion. Tech. Hardware, Energy, and Financial Services saw the biggest compression in multiples. Software & Services valuation dispersion is no longer aberrant (right), as Software multiples have broadly compressed for nearly four years.

**Q1 2025 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
Real Estate Management & Development	3.9x	24.5x
Commercial & Professional Services	2.4x	19.8x
Media & Entertainment	2.2x	35.0x
Automobiles & Components	2.1x	21.6x
Transportation	1.6x	27.4x
Materials	0.8x	24.7x
Consumer Staples Distribution & Retail	0.5x	12.3x
Telecommunication Services	0.3x	21.3x
Insurance	0.1x	9.8x
Software & Services	0.0x	45.7x
Consumer Durables & Apparel	(0.4x)	15.0x
Household & Personal Products	(0.7x)	8.6x
Pharmaceuticals, Biotechnology & Life Sciences	(0.7x)	30.9x
Banks	(1.5x)	6.5x
Food, Beverage & Tobacco	(1.7x)	12.2x
Utilities	(1.8x)	16.6x
Capital Goods	(1.8x)	22.5x
Semiconductors & Semiconductor Equipment	(2.3x)	35.0x
Equity Real Estate Investment Trusts (REITs)	(2.8x)	28.3x
Consumer Discretionary Distribution & Retail	(3.8x)	21.1x
Health Care Equipment & Services	(3.8x)	38.1x
Consumer Services	(3.8x)	29.0x
Financial Services	(4.1x)	11.6x
Energy	(6.1x)	20.0x
Technology Hardware & Equipment	(7.9x)	16.8x

Source: Trivariate Research

**Software & Services
Price-to-Forward Earnings Dispersion
Through End-March, 2025**
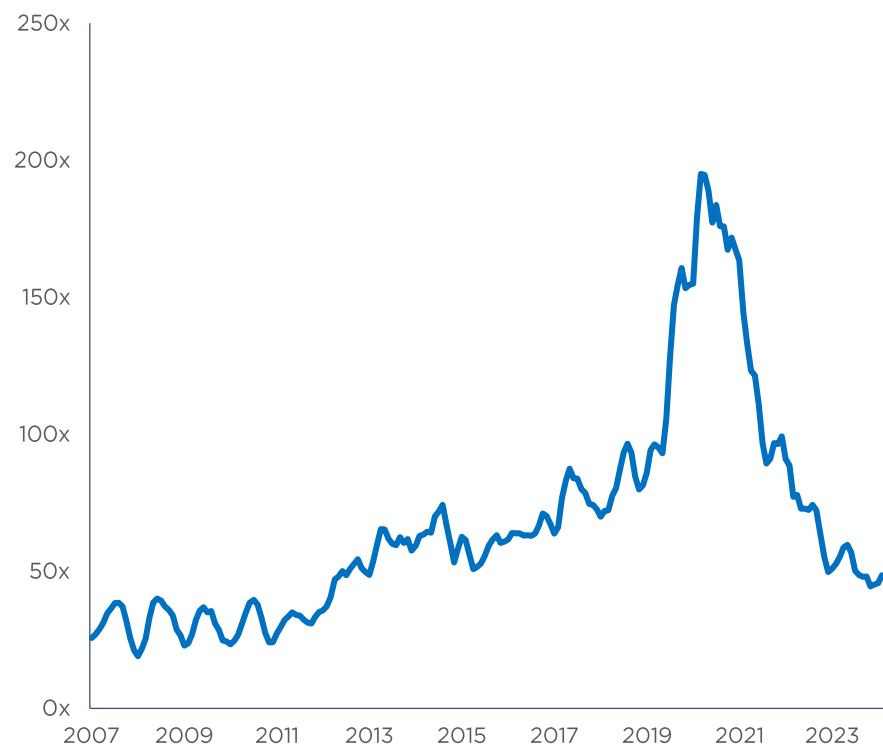
Source: Trivariate Research

EPS FORECASTS ARE FOR 9.7% GROWTH IN 2025, 14.4% IN 2026

Current bottom-up earnings expectations are for 9.7% growth in 2025, and 14.4% in 2026. Analysts are forecasting all but Energy to have positive earnings growth in 2025, with Technology (17.8%) the highest. For Q1 2025, year-over-year quarterly growth expectations are highest in Healthcare (owing to a large charge a year ago), and lowest in Energy and Materials.

Bottom-Up Analyst Earnings Growth Expectations
March 28th, 2025

Sector	2024E	1Q25E	2Q25E	3Q25E	4Q25E	2025E	2026E
S&P 500	9.5%	6.7%	9.2%	11.6%	11.1%	9.7%	14.4%
S&P ex-Financials	8.3%	8.2%	10.3%	11.7%	12.3%	10.7%	14.6%
Consumer Discretionary	14.9%	0.4%	1.6%	6.1%	6.0%	3.7%	15.8%
Consumer Staples	3.0%	(8.1%)	1.3%	3.2%	5.9%	0.6%	8.3%
Energy	(23.8%)	(17.1%)	(8.9%)	10.0%	19.7%	(0.4%)	21.3%
Financials	15.0%	0.6%	4.9%	10.8%	5.7%	5.5%	13.5%
Health Care	1.9%	34.6%	9.2%	12.3%	16.5%	17.1%	10.2%
Industrials	(0.5%)	2.4%	6.5%	26.3%	7.0%	10.3%	17.0%
Info Tech	23.0%	17.2%	18.7%	18.3%	17.2%	17.8%	17.6%
Materials	(11.8%)	(11.9%)	1.3%	17.2%	17.4%	5.6%	17.2%
Communication Services	21.5%	3.6%	30.7%	4.5%	7.4%	10.5%	14.3%
Utilities	20.3%	7.4%	3.3%	(1.9%)	9.6%	4.0%	7.6%
Real Estate	3.1%	2.1%	2.2%	4.3%	4.3%	3.3%	6.7%

Source: Trivariate Research

ARE 1.6% FULL YEAR 2025 EPS REDUCTIONS SUFFICIENT?

<u>As we start the April earnings season, we see a reasonable chance of a material negative pre-release announcement this week.</u> Overall, for the S&P500, earnings expectations are 1.6% lower for the full year 2025 versus where they were at the beginning of the year. Given the downward GDP revisions for Q1, we think this is not sufficient. For Q1 2025 earnings expectations, estimates are 4.3% lower for the overall market and 14.9% lower for Materials. Only Utilities have higher Q1 2025 earnings expectations at the end of Q1 than at the beginning.

2025 EPS Revisions: March 28th, 2025 vs. December 27th, 2024

Sector	1Q25E	2Q25E	3Q25E	4Q25E	2025E
S&P 500	(4.3%)	(2.0%)	(1.2%)	0.6%	(1.6%)
Financials	(4.0%)	1.6%	2.2%	5.1%	1.3%
Utilities	1.1%	0.9%	0.3%	(2.7%)	(0.1%)
Info Tech	(1.6%)	(1.6%)	(1.5%)	0.2%	(1.0%)
Communication Services	(3.8%)	(1.3%)	(1.0%)	1.2%	(1.1%)
Health Care	(3.6%)	(2.8%)	(0.8%)	(0.6%)	(1.9%)
Consumer Discretionary	(8.7%)	(4.5%)	(2.3%)	2.5%	(3.0%)
Real Estate	(4.0%)	(3.3%)	(2.9%)	(2.0%)	(3.0%)
Energy	(4.1%)	(3.4%)	(2.9%)	(3.5%)	(3.4%)
Consumer Staples	(7.8%)	(3.6%)	(2.7%)	(0.6%)	(3.6%)
Industrials	(7.8%)	(5.0%)	(3.4%)	(1.8%)	(4.3%)
Materials	(14.9%)	(6.3%)	(5.6%)	(7.1%)	(8.2%)

Source: Trivariate Research

CONSUMER GETTING WORSE BUT INDUSTRIAL ACTIVITY BOTTOMING?

Q1 2025 Changes in Macro Regime

Macro Signal	Q4 2024 Regime	Q1 2025 Regime	Comments
Economic Activity	Increasing	Level	Trivariate's Proprietary Economic Activity Gauge is now level after previously increasing in Q4, and we suspect much of the current growth slowdown has not hit the trailing metrics. However, we expect this to slow during Q2. The US Leading Economic Indicators are negative ending February lower after modestly bouncing in January. The NFIB Small Business Optimism peaked at the end of Q4 but has softened some in Q1. The Philly Fed Business Outlook was strong during January, and ended February above year-end levels, but below January's peak. The Citi Economic Surprise Index ended Q1 above the end of February levels, but negative and meaningfully below end-December levels.
Consumer Activity	Level	Level	Trivariate's Proprietary Consumer Activity gauge is level in Q1, though there is no question the US consumer is slowing from a relatively healthy position previously. The March jobs report showed the headline unemployment rate was steady at 4.1% vs. year-end, with this Friday's report a key focal point this week. Wages declined, ending February at 4.6% vs. a high of 6.4% two years ago. This is the lowest wage growth since the initial COVID recovery in 2021. 90-day credit card delinquencies were modestly higher during Q1, ending February at 0.74% vs. 0.70% a year end and 0.67% at the end of September. The University of Michigan Consumer Sentiment gauge ended March 25 at 57.0. the lowest level since June of 2022.
Financial Conditions	Level	Tightening	Overall financial conditions tightened during the quarter, coincident with stock market weakness, but still well above levels of the yen-carry trade sell-off of the summer of 2024. The 10-year yield fell during Q1, ending the quarter at 4.21%, well below the mid-January peak of 4.79% and the year-end level of 4.57%. The 2-year yield also fell, ending Q1 at 3.89%, vs. the 4.24% at year-end. The 2-year yield was below the 10-year yield consistently through the 4th quarter. 12-month forward Fed Funds rate expectations were 3.93% at the end of December and are 3.55% now, indicating a broad belief that the economy has slowed, and the Fed is less likely to increase rates before year-end today than some thought earlier in the quarter.
Yield Curve 63d	Level	Level	
Yield Curve 126d	Bear Steepening	Bear Steepening	
Yield Curve 252d	Bull Steepening	Bear Steepening	
Industrial Activity	Level	Increasing	Trivariate's Proprietary Industrial Activity gauge was level in Q4 and is now increasing. There are signs the Industrial Economy has bottomed. North American Car-Loads are slightly higher now that at year end, improving from mid-February lows. Dry Van Rate Per Mile moved steadily higher during Q4 and peaked in mid-January before steadily declining. Rates are flattish during March but well below January highs. Industrials production moved higher during the quarter, and above expectations at end-February. In addition, US manufacturing utilization is most recently 78.2%, above the end Q4 levels. However, the ISM dipped in March near end Q4 levels, after modestly beating 50 at the end of January. The Baker Hughes Rig Count was steady during Q1. The US Auto SAAR fell sharply in January, and ended February below year-end levels, with tariff-uncertainty a key issue.

Source: Trivariate Research

Trivariate RESEARCH

OIL FLAT, NAT. GAS UP, DOLLAR MODESTLY WEAKER, CHINA BETTER

Q1 2025 Changes in Macro Regime

Macro Signal	Q4 2024 Regime	Q1 2025 Regime	Comments
China	Decreasing	Level	The Chinese economy now looks like it is leveling off after previously declining, as most China macro data points modestly improved during Q1. The Citi Surprise Index for China ended Q1 2025 below year-end 2024 levels but has picked up recently and is above zero. However, while newly built commercial residential building is low vs. the long-term history it has slowly and steadily increased through Q1 from October 2024 lows. FAI Real Estate also got better over the last two months. China auto sales were strong vs a year ago when they were quite depressed. China electricity consumption data declined in February, after a modest increase in January. There appears to be some consensus among US-based investors that China data points are bottoming.
Commodities	Increasing	Increasing	During Q1, both Brent and WTI Oil ended relatively flat vs. year-end levels. The Daily National Average Gasoline Price of $3.20 is 4.5% higher than the $3.06 at the end of 2024. Natural gas was up 13.4% during Q1, after rising 24% in Q4 and 12% in Q3. Demand for natural gas may grow to meet the AI power boom. Agricultural commodities were largely slightly lower during Q1. Wheat was down 4.5%, Cotton down 2.3% and Sugar down 2.2% during Q1. The biggest mover was Gold, which rose 13.4% during Q1 to $3123 at quarter's end. The overall Bloomberg Commodity Index was up 7.7% during Q1.
Oil	Level	Level	
Currency	Increasing	Level	After enormous moves in currency in Q4 of 2024, the moves were more modest in Q1 of 2025. The DXY was 3.9% weaker in Q1. The dollar weakened by 4.6% against the Yen, 4.4% against the Euro, and 3.2% against the Pound, and was unchanged against the Loony, our biggest trading partner in Dollars.
Europe	Level	Level	Signals in Europe are mixed. The Eurozone Citi Surprise is positive and higher than at the end of December, albeit lower than the mid-March peak. Eurozone consumer confidence modestly deteriorated in March and ended Q1 below Q4 levels. Eurozone unemployment ticked lower during Q1. UK Consumer Confidence is also modestly lower today than at the end of Q1.

Source: Trivariate Research

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