

## Level Set: This Is Not the End of US Exceptionalism, There's No Weakening Dollar Playbook, and Banks Don't Work in Down Markets

We have heard several times in our recent meetings, read articles, and watched scrolling on the screens of popular financial news media that this recent weak period likely marks the end of American exceptionalism in terms of the relative performance of US equities. There is a large and growing cohort of people that now think the US equity market will be inferior to non-US equity markets for the foreseeable future, and at a recent CIO dinner in New York, our pro-US stance was in the minority.

Lower near-term US population and economic growth, and maybe even a longer-term negative impact on less potential innovation stemming out of US universities, are among the other rationales we have seen for this argument. Moreover, it seems monetary policy accommodation in Europe is more likely in the near-to-medium-term. But the other logic that is consistently used is that the US is more expensive, which we find amusing since the US has been more expensive than most other markets the entire time it massively outperformed. Our judgment is that what is happening is typical, which is that near-term price movement has impacted sentiment. The U.S. markets have been performing worse than every major market so far this year (see below). After the fact, many investors are now saying this is the beginning of a new long-term trend. **We disagree, and our view is that this dynamic of US underperformance likely lasts less than one year.**

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## The US Stock Market Has Been the Worst of Every Major Market Year-to-Date

Year-to-Date Equity Market Performance As of April 19th, 2025			
Market	Region	Local Currency	Returns in US Dollars
S&P500	U.S.	(10.2%)	(10.2%)
Nasdaq	U.S.	(15.7%)	(15.7%)
IBovespa	Brazil	7.8%	14.6%
Euro Stoxx 50	Europe	0.8%	10.9%
FTSE 100	United Kingdom	1.3%	7.6%
CAC 40	France	(1.3%)	8.6%
DAX	Germany	6.5%	17.2%
IBEX 35	Spain	11.4%	22.6%
FTSE MIB	Italy	5.3%	15.8%
OMX STKH30	Sweden	(5.1%)	9.2%
Swiss MKT	Switzerland	0.5%	11.7%
Nikkei	Japan	(12.9%)	(3.8%)
Hang Seng	Hong Kong	6.7%	6.8%
CSI 300	China (Shanghai)	(4.1%)	(4.1%)
S&P/ASX 200	Asia	(4.2%)	(1.2%)
Nifty 50	India	0.9%	0.8%
Kospi	South Korea	3.5%	7.6%
TAIEX	Taiwan	(15.8%)	(15.4%)

Source: Trivariate Research, LP

Although U.S. sentiment and near-term outlook are pessimistic, many investors are optimistic about the strong performance potential of equities in India, Europe, Japan, and Brazil, the four most frequently cited markets in our recent conversations.

We wondered how often in the past the US equity market has performed poorly while the rest of the world's stocks have done well. As such, we evaluated the performance of MSCI US and MSCI World Ex-US from 1969 to present. We identified 21 periods where the US equity market was down more than 10%, and compared the performance of the US market to non-US equity markets during these draw-downs. We have a few observations.

- 1) The US market has outperformed the World Ex-US in 8 out of 21 of its own draw-downs. This implies that nearly half the time, something global in nature was occurring to cause non-US equity markets to sell-off more than the US market during risk-off trades.
- 2) The most recent US draw-down saw the 7<sup>th</sup> most acute retreat in more than 55 years, so this was a pretty sharp pullback with some historical perspective.
- 3) The draw-down was 47 days from beginning to end (assuming April 7<sup>th</sup> was the end of the draw-down based on the recent recovery from lows). This would be the 4<sup>th</sup> most rapid correction of the 21 we analyzed.
- 4) The US underperformance this year was the 4<sup>th</sup> worst vs. non-US equities in the last 56 years, with only the 1976-1978, the 1987 crash, and the 1972-1974 inflation periods worse. No other period saw a double-digit underperformance besides these four regimes (see below).

Our conclusion based on history is that most of the relative damage is likely to be done.

## Evaluating 21 US Drawdowns

US Equity Market Drawdown of 10% or More Since 1969						
Performance of US vs. Non-US Equities						
Drawdown Start	Drawdown End	# of Days of Drawdown	Rank of 21 Drawdowns	Performance During Drawdown	World Ex-US Performance	US Minus Non-US Performance During US Drawdowns
12/31/1969	05/29/1970	149	9	(18.8%)	(19.2%)	0.4%
12/29/1972	08/30/1974	609	2	(46.1%)	(30.0%)	(16.1%)
06/30/1975	08/29/1975	60	17	(12.1%)	(9.2%)	(2.9%)
12/31/1976	01/31/1978	396	11	(16.6%)	18.0%	(34.6%)
01/31/1980	02/29/1980	29	20	(10.0%)	(11.5%)	1.4%
11/28/1980	06/30/1982	579	10	(17.9%)	(21.0%)	3.1%
08/31/1987	10/30/1987	60	4	(29.6%)	(15.2%)	(14.4%)
05/31/1990	09/28/1990	120	14	(14.4%)	(9.8%)	(4.7%)
06/30/1998	07/31/1998	31	13	(14.8%)	(12.2%)	(2.6%)
03/31/2000	10/08/2002	921	1	(49.2%)	(48.9%)	(0.3%)
11/28/2002	03/10/2003	102	15	(14.3%)	(13.5%)	(0.8%)
10/09/2007	03/06/2009	514	0	(55.4%)	(59.3%)	4.0%
04/23/2010	07/01/2010	69	12	(15.9%)	(14.0%)	(1.9%)
04/29/2011	09/30/2011	154	8	(19.1%)	(24.4%)	5.3%
07/20/2015	02/10/2016	205	16	(14.2%)	(20.4%)	6.2%
01/26/2018	02/07/2018	12	19	(10.0%)	(7.5%)	(2.5%)
09/20/2018	12/21/2018	92	6	(19.6%)	(14.1%)	(5.5%)
02/19/2020	03/20/2020	30	3	(34.2%)	(33.6%)	(0.5%)
12/27/2021	10/11/2022	288	5	(25.7%)	(26.3%)	0.6%
07/31/2023	10/26/2023	87	18	(10.2%)	(11.2%)	1.0%
02/19/2025	04/07/2025	47	7	(19.2%)	(9.0%)	(10.2%)

Source: Trivariate Research, LP

Now we can hear loud feedback that tariff policies change the game, and of course that could be the case. In the end though, this all comes down to an assessment of the profit margins of US companies. It is clearly true that gross margins and valuation are very closely tied. Hence, if tariffs and other US policies crush the gross margins of the average US company, that will most likely continue to cause multiple contraction. The median company has close to all-time high gross margins in the US market (see below). If we see tariffs cause margins to contract back to 2018 levels, that could cause enough relative multiple contraction for the US market to continue to under-perform. We can't promise this is not going to be the case, but we don't think it is that likely. The duration and magnitude of the tariffs matter, as does the potential for other more business-friendly policies, currency, commodities, depreciation, pricing power, consumer behavior and health, and many other factors.

**Median Gross Margin**  
**Top 500 US Equities, Ex-Financials & Real Estate**  
**Through End-March, 2025**



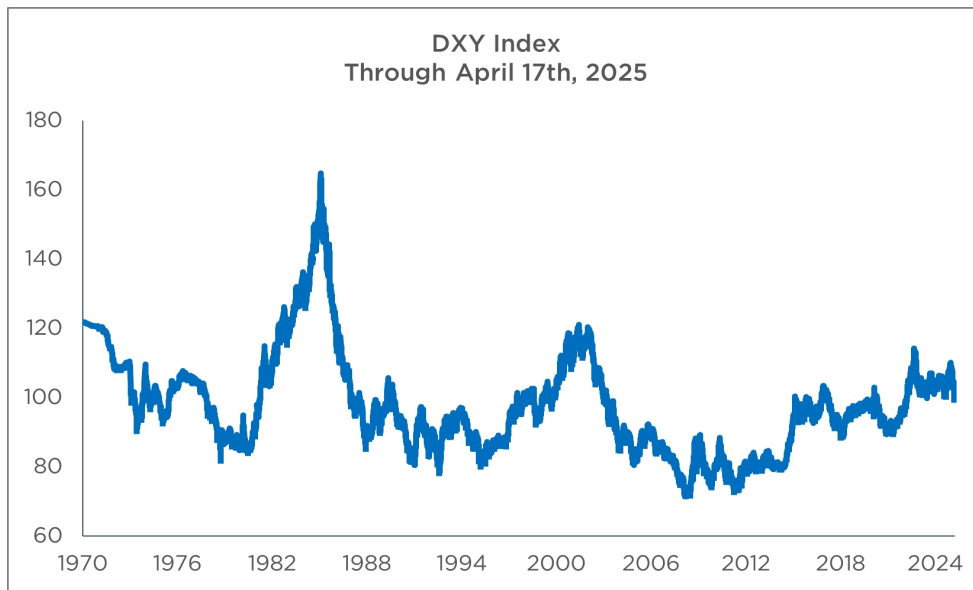
Source: Trivariate Research, LP

A major reason we don't think the US market will lag for several years, besides the fact that the recent relative underperformance has already been substantial by more than a half of a century's standards, is because the US public companies have outsized exposure to the major growth themes we see as likely for the next decade. Take the following six overall growth themes:

1. AI Semiconductors
2. AI Software
3. Electrification Industrials
4. Power / Utilities
5. Life Sciences and Healthcare Services
6. Housing Structures

We think the US companies will likely grow faster than companies in many other global markets because they are exposed on average more to the themes that grow above global GDP than these foreign companies. Once the focus shifts from only tariffs to other initiatives, the resumption of the relatively faster US revenue and earnings growth rate resumes. Moreover, more Technology and Healthcare companies likely mean that gross margins remain higher than most other regions on average, justifying a substantial price-to-forward earnings premium.

Many investors also think the US dollar will continue to weaken, a major theme that impacts corporate earnings. For broader context, the move has not been that dramatic, and the current level of the dollar: DXY (see below) is less than 2% away from the 2021-present average. To us this means businesses operating in the current environment should not be experiencing a big currency impact — yet.



Source: Trivariate Research, LP

We identified 16 periods since 2001 when the dollar weakened at least 5%, and evaluated market and sector level performance during these currency regimes. We looked at the performance of 55 regions or countries during these periods of dollar weakness.

1. The median performance of the US equity market during a regime of dollar weakness is up 7.5%, which is the 6<sup>th</sup> worst of the 55 regions we evaluated.
2. Malaysia, South Africa, and Portugal are markets that have been up in absolute terms in all 16 prior periods the dollar weakened, meaning the worst performance of the 16 dollar-weakening regimes still results in positive absolute performance for these markets.
3. Only Mexico, Israel, Sri Lanka, and Pakistan average worse stock market performance than the US when the dollar is materially weakening against the DXY.

We then compared the performance of each country's equity market so far during this regime of dollar weakness to the median of the 16 prior regimes of dollar weakness. So far this time, Colombia, Chile, Mexico, and many major European equity markets have performed best vs. the period of prior regimes (see below). The US has performed poorly, along with Indonesia, Denmark, Taiwan, Thailand, and New Zealand. **The recent price action has been far different from history for many equity markets during the dollar weakening.**

**Performance of Major Equity Markets  
During Periods of Dollar Weakening Against DXY  
Recent Weakness vs. Median of 16 Period Periods  
Best and Worst Ten Markets vs. Historical Performance**

Country	Median Performance	Recent Performance	Recent vs. Avg
Colombia	15.6%	32.9%	32.9%
Poland	15.7%	30.7%	30.7%
Spain	14.2%	27.3%	27.3%
Ireland	9.1%	22.0%	22.0%
Greece	17.6%	26.9%	26.9%
Germany	12.6%	18.5%	18.5%
Chile	11.6%	17.2%	17.2%
Mexico (Free)	8.6%	12.0%	12.0%
Finland	12.3%	15.2%	15.2%
Egypt	5.4%	7.6%	7.6%
Asia Emerging Markets	13.3%	1.0%	(12.3%)
Malaysia Free	9.6%	(4.1%)	(13.6%)
Australia	13.1%	(0.9%)	(14.1%)
Peru	16.4%	0.8%	(15.6%)
New Zealand	15.9%	(1.3%)	(17.1%)
US	7.5%	(9.7%)	(17.1%)
Thailand	13.3%	(7.8%)	(21.1%)
Taiwan	9.6%	(13.4%)	(23.0%)
Denmark	11.9%	(12.1%)	(24.0%)
Indonesia	17.5%	(11.0%)	(28.5%)

Source: Trivariate Research, LP

We also compared the performance within the US equity market of the major cohorts this time vs. the 16 prior regimes of dollar weakening. On average during the 16 prior periods of material dollar weakening, stocks that were cheap for a reason, high quality, mid-caps, high dividend yield, and value performed best. Momentum generally was poor, and owning big vs. large caps and value vs. growth didn't really make much money (see below).

**Performance of Major Cohorts Within US Equity Market  
During Periods of Dollar Weakening Against DXY  
Median Performance of 16 Period Periods  
Best and Worst Five Cohorts**

Cohort	Median Performance
Cheap for a Reason (Value with Poor Momentum)	11.2%
High Quality	10.6%
Mid Caps.	9.5%
High Dividend Yield	9.2%
Value	8.8%
Mid Caps. Minus Small / Micro. Cap.	(0.6%)
Mega Caps. Minus Mid caps.	(1.3%)
Value Minus Growth	(1.5%)
6 Month Momentum	(1.7%)
3 Month Momentum	(4.9%)

Source: Trivariate Research, LP

So far during this period of dollar weakness, returns vs. the median of the 16 prior regimes have varied meaningfully from history at the cohort level. Owning high-quality vs. junk has fared much better this cycle, as has owning those with strong 12 minus 1-month price momentum. **Stocks that are cheap for a reason, which typically perform the best, have done extremely**

**poorly so far this regime, indicating that far more than the dollar weakening is impacting cohort performance during the recent regime of dollar weakness.**

**Performance of Major Cohorts Within US Equity Market  
During Periods of Dollar Weakening Against DXY  
Recent Weakness vs. Median of 16 Period Periods  
Best and Worst Five Cohorts vs. Historical Performance**

Cohort	Median Performance	Recent Performance	Recent vs. Avg
High Quality Minus Junk	0.7%	12.6%	11.9%
12 Minus 1 Month Price Momentum	2.8%	10.4%	7.7%
Mid Caps. Minus Small / Micro. Cap.	(0.6%)	6.8%	7.4%
Mega Caps. Minus Mid caps.	(1.3%)	5.8%	7.1%
Price Momentum	0.6%	6.9%	6.3%
Growth	7.1%	(17.0%)	(24.0%)
Micro Caps.	8.1%	(17.9%)	(26.1%)
Non Dividend Paying Stocks	8.0%	(18.9%)	(26.9%)
Junk Stocks	8.7%	(19.5%)	(28.3%)
Cheap for a Reason (Value with Poor Momentum)	11.2%	(20.3%)	(31.5%)

Source: Trivariate Research, LP

We also looked within the US equity market for which industries typically perform best when the dollar weakens this much. On average, Metals & Mining, Consumer Finance, and Transportation Infrastructure are best, Biotechnology, Banks, and Healthcare Technology are the worst.

**Performance of Industries Within US Equity Market  
During Periods of Dollar Weakening Against DXY  
Median Performance of 16 Period Periods  
Best and Worst Five Industries**

Cohort	Median Performance
Metals & Mining	20.7%
Consumer Finance	13.1%
Transportation Infrastructure	12.5%
Wireless Telecommunication Services	12.1%
Energy Equipment & Services	12.1%
Passenger Airlines	4.7%
Media	4.4%
Health Care Technology	4.4%
Banks	4.2%
Biotechnology	2.9%

Source: Trivariate Research, LP

Clearly this recent regime of dollar weakening has been far different from the median of the prior 16 dollar-weakening regimes. Utilities have performed far better than they usually do, whereas Energy Equipment, Textiles & Apparel, and Airlines have been far worse this regime.

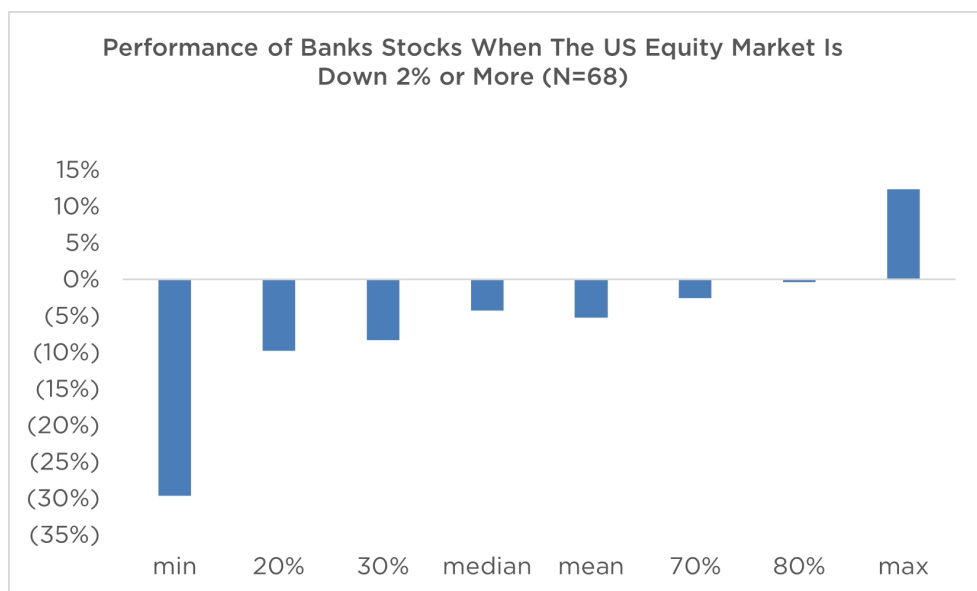
**Performance of Major Industries Within US Equity Market  
During Periods of Dollar Weakening Against DXY  
Recent Weakness vs. Median of 16 Period Periods  
Best and Worst Five Industries vs. Historical Performance**

Cohort	Median Performance	Recent Performance	Recent vs. Avg
Multi-Utilities	7.9%	10.9%	3.0%
Gas Utilities	7.0%	10.0%	3.0%
Electric Utilities	7.0%	8.2%	1.2%
Wireless Telecommunication Services	12.1%	12.0%	(0.1%)
Water Utilities	7.2%	4.0%	(3.2%)
Life Sciences Tools & Services	6.9%	(29.7%)	(36.6%)
Electrical Equipment	5.5%	(31.2%)	(36.7%)
Passenger Airlines	4.7%	(35.3%)	(40.0%)
Textiles, Apparel & Luxury Goods	9.2%	(32.5%)	(41.6%)
Energy Equipment & Services	12.1%	(30.6%)	(42.7%)

Source: Trivariate Research, LP

## Can Banks Work in a Market Sell-off?

There is no question in our minds that the performance within the US equity market during the recent period of dollar weakening is far different for very understandable reasons than the previous regimes where the dollar weakened by at least 5% against the DXY. Hence, we can't say with confidence that just because something has not happened in the past it can't happen this year. Many investors who are relatively cautious on US equities, both in absolute terms and relative to other equity regions have been suggesting that within the US equity market they prefer Banks. The logic includes points like a steepening curve, solid shareholder returns, and a recent set of pretty strong recent earnings results, with valuation that is still reasonably relatively attractive that should provide some support. We analyzed 68 previous regimes where the S&P500 was down 2% or more. Below is the return distribution of the Bank stocks during these pullbacks. Over 80% of the time they were down in absolute terms, and on average are down more than the market, despite being lower than 1.0 beta.



Source: Trivariate Research, LP

## CONCLUSION

1. This isn't the end of US exceptionalism.
2. The dollar weakening this time is far different from historical regimes, so we don't see a dollar weakening playbook as important today.
3. Owning Bank stocks in a down market historically was not a good idea.



## Important Disclosures

### Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Chang Ge, Colin Cooney 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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