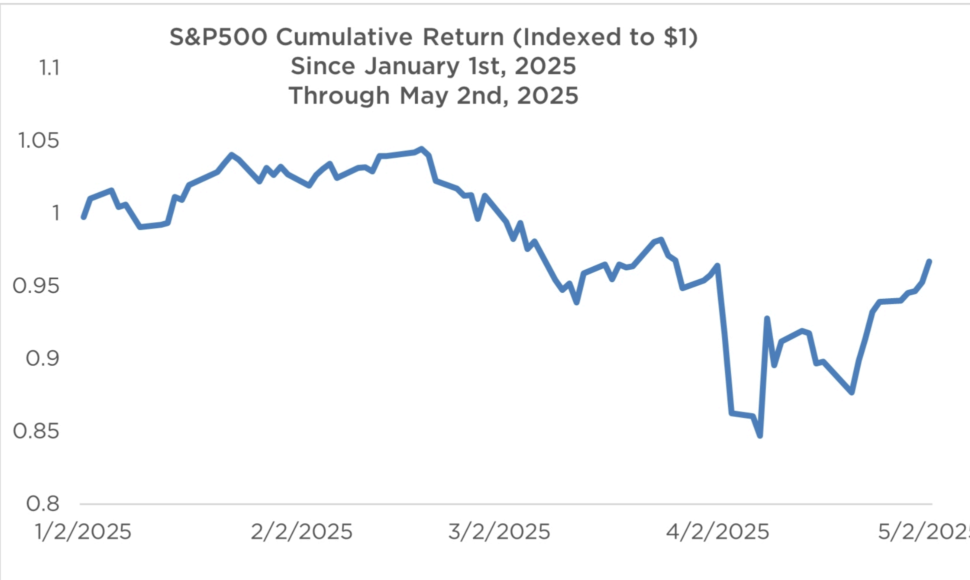
Level Set - Change in Consensus Sentiment, Mag 7, and Barbell

We did several meetings this past week, and as is always the case, sentiment lags price momentum by two weeks. Three weeks ago, when we spent two days doing meetings in Canada, sentiment was decidedly negative. The market had declined well more than 10% year-to-date, and emotions were running high. This past week we spent three days meeting investors in San Francisco and Los Angeles, and there was a notable positive inflection in the US equity-investor's outlook on the stock market. The market is up 14% since the close of April 8th, and commentary from investors has changed.



Source: Trivariate Research, LP

The bullish narratives most often discussed were in a handful of areas:

1. **Technicals:** Several investors mentioned the typical market behavior that follows a period where the VIX reaches 50 and declines. Others discussed moving average thresholds. Most investors who moonlight as technicians mentioned to us with confidence that they thought the short-term market movement would continue.
2. **Market reaction:** The market appears to have a less negative reaction to China-related tariff news than it had previously. The huge market moves higher on days when it is contemplated a Trump-Xi conversation is imminent has scared investors away from being too negative. So, if the market was down 4.8% on April 3rd and 5.97% on April 4th because of tariff implementation, the logic now is that the same commentary would make the market go down way less. Immunity is being built up.
3. **Tariff news less negative:** The consensus view now is that the second derivative of tariff news can only get positive — meaning we are unlikely to see tariff percentages with China grow — and we may even see some more stories about

Adam Parker
Founder
646-734-7070
adam@trivariateresearch.com

Maxwell Arnold
Analyst
347-514-1234
maxwell@trivariateresearch.com

Chang Ge
Analyst
614-397-0038
chang@trivariateresearch.com

Colin Cooney
Head of Sales
617-910-7934
colin@trivariateresearch.com

Ryan McGovern
Director of Research Sales
973-271-8017
ryan@trivariateresearch.com

willingness to talk or discuss compromise.

4. **<u>Earnings season so far has been good:</u>** We admit we thought this earnings season would be worse than it has been so far. The consumer, from a high level, started to erode before earnings season and most of the corporate conference presentations were negative in March. But, starting early in the earnings season with Banks, continuing with many Technology companies last week, and perhaps punctuated by Visa (Ticker: V) in the middle of the week, we have seen very few notable disappointments. Airlines and Autos removing guidance is far from surprising and is having limited broader impact on the market.

<u>But, we are MORE NEGATIVE now than we were two weeks ago. After all, the S&P500 is down only 3.3% year-to-date after this huge rally, and there is no doubt in our minds that conditions are meaningfully worse and more uncertain now than they were at the beginning of the year.</u>

The consensus bottom-up analyst estimates for the S&P500 earnings per share in 2025 are only 2.9% lower today than they were on January 1st (see below). The sector with the most negative revisions is Energy, down 14.4% this year, which makes logical sense to us since Brent oil prices closed Friday 17.9% below where they started the year, and the correlation between the change in the Energy sector earnings and the change in the oil prices is very high. Materials have seen the second most downward revisions since the beginning of the year.

Change in Bottom-Up Consensus EPS Estimates From Jan 1, 2025 to May 2nd, 2025	
Sector	EPS Change
Energy	(14.4%)
Materials	(9.2%)
Industrials	(7.6%)
Consumer Discretionary	(6.3%)
Consumer Staples	(4.2%)
Health Care	(2.9%)
S&P 500	**(2.9%)**
Real Estate	(2.8%)
Info Tech	(1.9%)
Financials	0.4%
Utilities	0.4%
Communication Services	2.1%

Source: Trivariate Research, LP

One challenge we see is the Technology sector, which not only has seen less negative revisions than the broader market, but also has extremely high second half earnings expectations. In fact (see below), Q3 and Q4 EPS expectations are currently HIGHER than the typical seasonality Technology enjoys. We see estimate achievability as well below average.

Quarterly Bottom-Up Consensus YoY EPS Expectations for 2025 and 2004 to 2024 Median
As of April 25th, 2025

Sector	1Q25E	2Q25E	3Q25E	4Q25E	Q1 Median	Q2 Median	Q3 Median	Q4 Median	Q1E vs. Long-Term Median	Q2E vs. Long-Term Median	Q3E vs. Long-Term Median	Q4E vs. Long-Term Median
Communication Services	22.3%	28.7%	2.1%	4.5%	13.7%	13.4%	14.2%	13.1%	8.5%	15.2%	(12.1%)	(8.6%)
Info Tech	17.3%	17.5%	16.4%	15.0%	13.9%	11.7%	7.3%	12.6%	3.4%	5.8%	9.1%	2.3%
S&P 500	9.5%	6.4%	8.7%	8.1%	9.5%	10.3%	7.1%	8.8%	0.0%	(3.8%)	1.6%	(0.7%)
Healthcare	*8.7%	6.4%	10.6%	14.7%	8.7%	10.3%	9.7%	9.1%	0.0%	(3.9%)	0.9%	5.6%
Utilities	7.3%	3.0%	(2.1%)	10.2%	7.5%	7.7%	7.0%	5.4%	(0.2%)	(4.6%)	(9.1%)	4.8%
Financials	4.7%	2.1%	8.0%	3.4%	7.8%	6.8%	7.1%	10.3%	(3.1%)	(4.7%)	0.8%	(7.0%)
Industrials	4.8%	2.5%	20.7%	2.6%	8.4%	8.7%	11.1%	10.7%	(3.6%)	(6.2%)	9.6%	(8.2%)
Consumer Discretionary	(0.7%)	(2.8%)	2.1%	1.1%	9.5%	10.9%	9.0%	11.5%	(10.2%)	(13.8%)	(6.9%)	(10.4%)
Consumer Staples	(7.9%)	0.4%	2.7%	5.8%	3.6%	3.3%	3.7%	5.2%	(11.5%)	(2.9%)	(1.1%)	0.6%
Real Estate	0.7%	1.7%	4.0%	4.0%	14.3%	12.7%	14.8%	13.8%	(13.7%)	(10.9%)	(10.8%)	(9.8%)
Materials	(8.6%)	1.0%	18.0%	18.5%	12.3%	5.0%	7.1%	13.1%	(20.9%)	(4.0%)	10.8%	5.3%
Energy	(18.8%)	(19.5%)	(2.7%)	5.1%	11.6%	15.0%	4.1%	1.7%	(30.5%)	(34.4%)	(6.7%)	3.4%

Source: Trivariate Research, LP

Sure, there is ample evidence to suggest that the stock market can rally even as bottom-up earnings estimates are downwardly revised. But, estimates that are for higher-than-normal seasonal growth, six months lagged from tariffs? That seems unlikely to us. We think it is more logical that there was some pull-forward in demand, and that there is a 3-9 month lagged impact between the tariff announcements and the "maximum impact" on the P&Ls of many S&P500 companies. Two conversations that consistently came up in our meetings this week were around the Mag 7, and the barbell strategy. Let's take them in order.

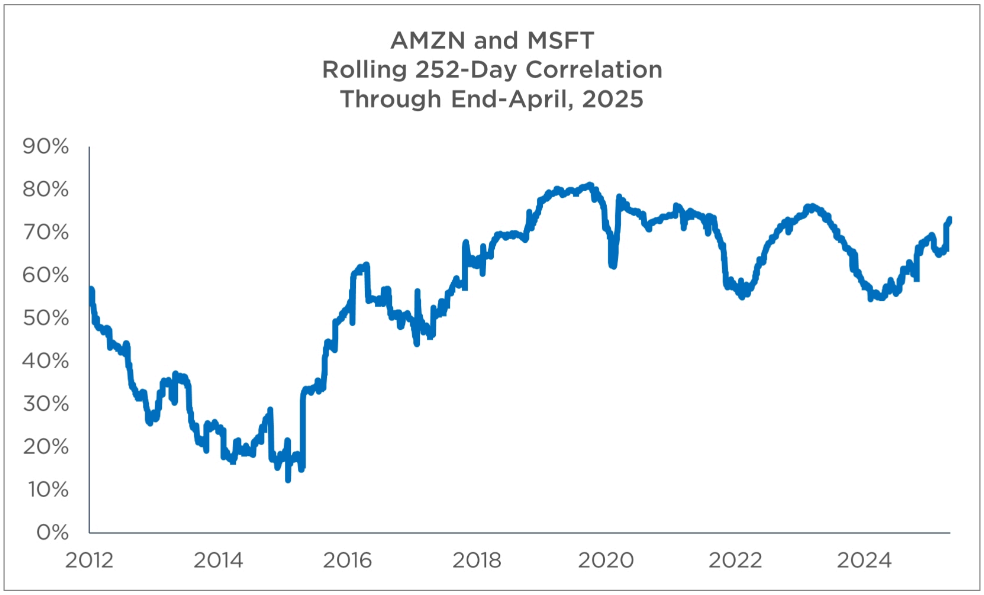
For the Mag 7, we think we are in the last year of using that phrase. It already should be called the Mag 6 plus AVGO and BRK/B. Broadcom and Berkshire Hathaway are currently larger than TSLA by market cap. So we need a new phrase already. The fundamentals, risks, and valuations of these are likely to deviate in the coming years, and big moves in the performance are likely. TSLA is evidently a humanoid company now. It is forecasted to have declining net income in 2025, followed by the fastest net income growth of the group in 2026 (see below). AAPL is forecasted to have low single-digit revenue growth in 2026, while all the other companies are forecasted to have double-digit top line growth. We are already seeing enough fundamental deviations to make this less of a group call.

Consensus Estimates for Mag 7
As of End-April, 2025

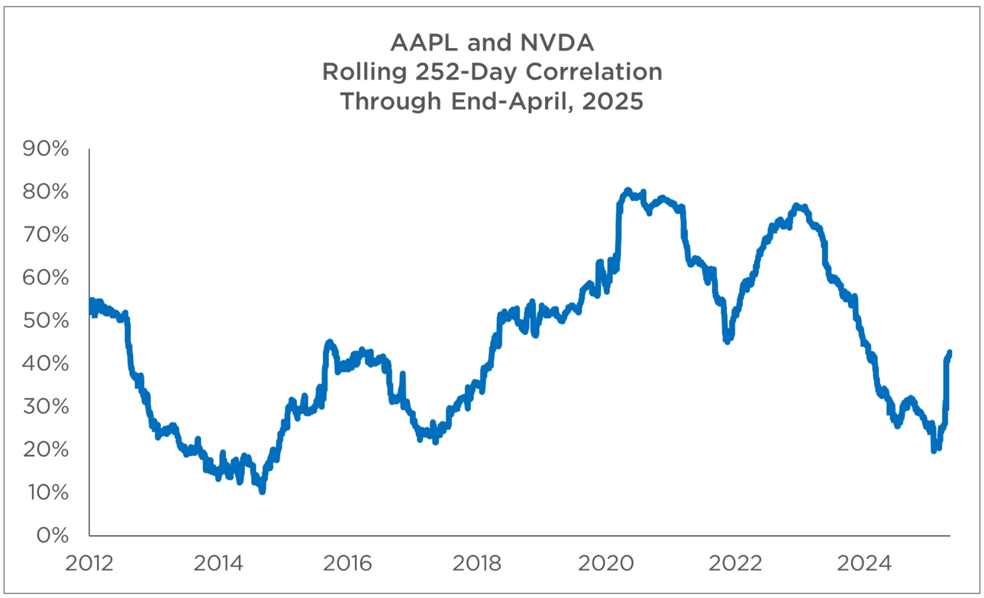
	2025				2026			
Company	Net Income	Revenue	Net Income Growth	Revenue Growth	Net Income	Revenue	Net Income Growth	Revenue Growth
Amazon.com, Inc.	67.5	696.5	14.0%	9.2%	82.7	766.0	22.4%	10.0%
Microsoft Corporation	102.7	294.3	10.7%	13.9%	118.8	333.7	15.6%	13.4%
Apple Inc.	109.2	415.1	2.6%	4.9%	114.7	425.2	5.0%	2.4%
Alphabet Inc.	116.1	387.7	16.0%	10.8%	122.2	428.7	5.3%	10.6%
NVIDIA Corporation	109.6	200.0	47.5%	53.3%	136.8	245.0	24.9%	22.5%
Meta Platforms, Inc.	64.9	187.0	4.1%	14.6%	73.1	210.4	12.7%	12.5%
Tesla, Inc.	6.7	97.7	(22.7%)	0.0%	10.4	118.4	55.0%	21.2%

Source: Trivariate Research, LP

China competition, China demand, Automobile, Industrial, anti-trust, capital intensity, US consumer, and other exposures vary widely among the Mag 7. In the end, we see the stocks trading less alike in the future than they did in the past. AMZN and MSFT currently have the highest correlation of returns to each other in the last year of any other pair in the Mag 7 (see below).



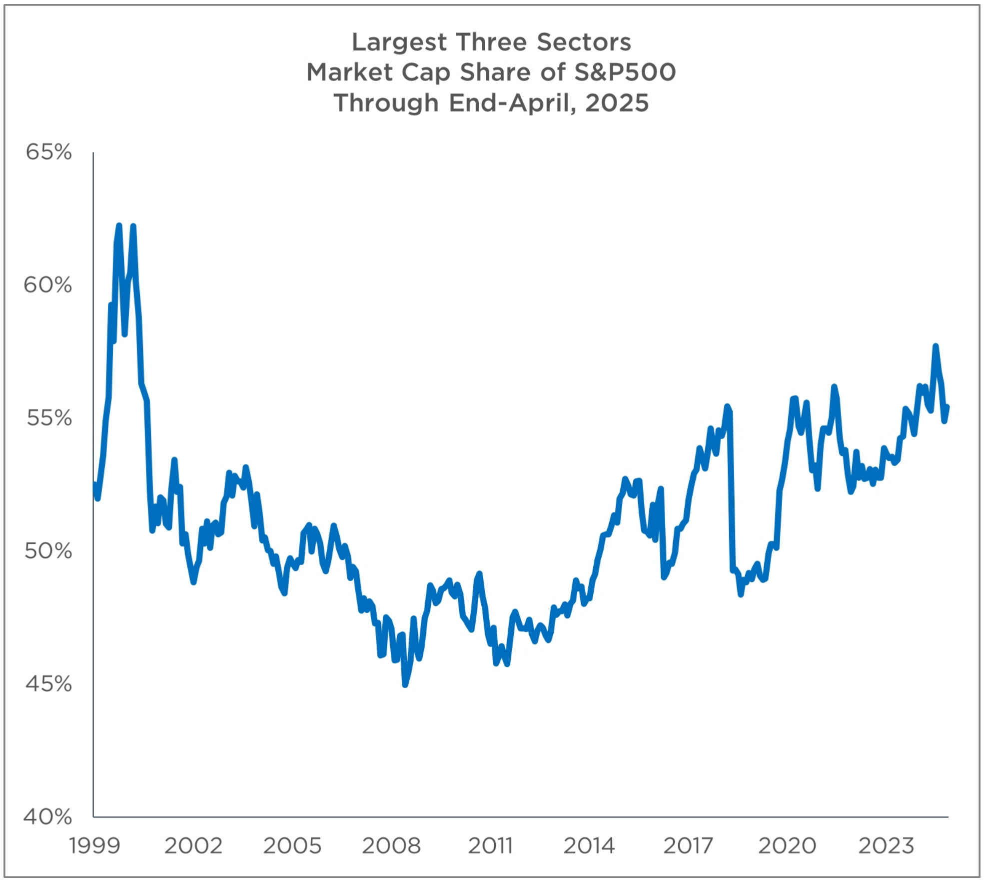
AAPL and NVDA have the lowest correlation of returns of any Mag 7 pair, though it has been rising of late.



Source: Trivariate Research, LP

Our judgment is that investors should own less than the bench weight of the Mag 7, as increased competition and capital intensity, relatively weak free cash flow yield, and the recent snapback in performance after some relative weakness in February through April, make an overweight stance less compelling.

As for the investment barbell, many investors last week asked us about the offensive side of the barbell we most liked. We had hoped the answer to that question was "Semiconductors," but we did a deep dive 10 days ago (*Is Now The Time To Buy Semiconductors?*), and concluded it was too anticipatory of the trough to make a big overweight recommendation. One new area of interest for us is the Alternative Asset Managers and the M&A-sensitive Banks. We had liked this group post the election, but volatile markets destroyed the near-term outlook. Some stocks, like KKR, Blackstone (Ticker: BX), and Apollo (Ticker: APO) are still well down from 2024 highs, and likely rally more if sentiment improves. When we ultimately get bullish on equities, we have to recommend more Technology and Financials, given they are two of the three biggest sectors in the market and the concentration of market cap. in the biggest three sectors is quite high vs. history (see below).



Source: Trivariate Research, LP

CONCLUSION: We would be cautious about thinking that all the negative tariff news is in the price. If you want to be contrarian, be more cautious, as the consensus has decidedly shifted to the positive given the huge rally in the market. The Mag 7 will have differing fortunes going forward. Accelerating revenue growth and margin expansion will matter the most. On the offensive side of the barbell, Alternative Asset Managers look interesting.

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.

Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, "**Trivariate**").

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "would," "predicts," "potential," "forecasted," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are "forward-looking statements" and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words "include," "includes," "including" and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak ("**COVID**" or "**COVID-19**"). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.