TRIVARIATE RESEARCH

US Equities
May 11, 2025

Level Set: The Sequence of Information

After several investor meetings and a dinner with risk-minded equity investors this past week, it is our sense that there is ample confusion about what news is coming next, both in terms of corporate news and government policy. In the past, when we have felt this much tension from investors, who are either positioned optimistically but using negative rhetoric, or positioned defensively but asking where they should increase risk, we try to remind ourselves what we have researched, learned and often espoused over the last two decades. **It is changes to the perception about growth — and changes to the perception about rates — that matter most for equity investing.**

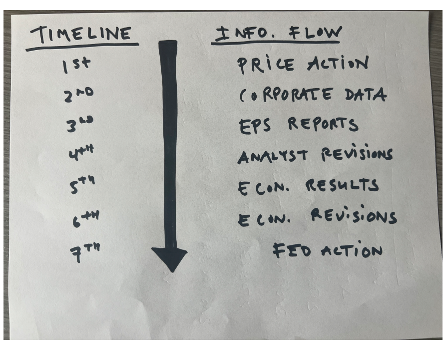
Hence, we need to ask ourselves a few questions.

1. Will the changes to the perception about growth get positive or negative over the next six months?
2. How will the Fed path, and the reaction to the Fed path change in the next six months?
3. What data and information, and in what sequence, will we collect to inform our judgment?

So let's think about the 3rd question above first.

We were reminded of the order in which news flow comes in (see our felt-tip musings below). We have long-thought that price action leads, followed by corporate news and commentary, followed by the actual earnings reports, followed by the sell-and-buyside analyst revisions, which are both officially posted and unofficially whispered, followed by economic results, followed by economic revisions, followed by Fed action. Hence, there is a substantial lag between the "truth" about the price action and what ultimately transpires.

Felt Tip Musings



Source: Trivariate Research, LP, Adam Parker with a Sharpie, Saturday May 10th, 2025

What has the recent price action looked like?

Answer: Amazingly strong. The first part of what we know is prices are higher. The biggest reason to be more bullish, because stocks often lead fundamentals. **A whopping 459 stocks in the S&P500 are up in absolute terms since April 8th, and a sizzling**

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

34 stocks in the S&P500 are up more than 30% over that time frame. The leaders are MCHP, which had been beaten down previously, high-flier PLTR, AI-beneficiary CEG, STX, and MOS (see below). **Only 5 stocks are down 10% over that same time frame,** and all are Healthcare, including UNH, BDX, BMY, HUM, and VRTX. The price action is undoubtedly "risk-on."

Top and Bottom 5 Performers in S&P500 Since April 8th, 2025 Through May 9th, 2025		
Name	Ticker	Performance
Microchip Technology	MCHP	56.6%
Palantir Technology	PLTR	51.7%
Constellation Energy	CEG	46.7%
Seagate Technology	STX	43.8%
Mosaic	MOS	43.5%
United Healthcare	UNH	(31.1%)
Becton Dickinson	BDX	(16.7%)
Bristol-Myers Squibb	BMY	(12.5%)
Humana	HUM	(11.5%)
Vertex Pharmaceuticals	VRTX	(10.0%)

Source: Trivariate Research, LP

Moreover, 24 of the 25 Industry Groups are up in absolute terms over this past month as well, with Healthcare Services the only exception. Risk-on groups like Autos, Semis, Software, Capital Goods, and Banks have performed well, while classic defensive industry groups in Healthcare, Telecomms., and Staples have lagged.

Top and Bottom Industry Performers in S&P500 Since April 8th, 2025 Through May 9th, 2025	
Industry Group	Performance
Autos & Components	32.2%
Semiconductors & Equipment	23.9%
Software & Services	22.4%
Capital Goods	18.7%
Banks	16.9%
Healthcare Equipment & Services	(1.2%)
Pharmaceuticals	0.2%
Household & Personal Products	0.8%
Telecommunications	3.2%
Food, Beverages & Tobacco	3.9%

Source: Trivariate Research, LP

It seems to us from our recent conversations that most investors are focusing on how stocks trade - what is their implied volatility, and what baskets from the big firms are stocks correlated to. **There is little doubt from this stock and industry level price action in the last month that what is being priced in is that the impact from the tariff news will be short and *de minimus*, and what will eventually need to follow is relatively strong earnings and economic growth.**

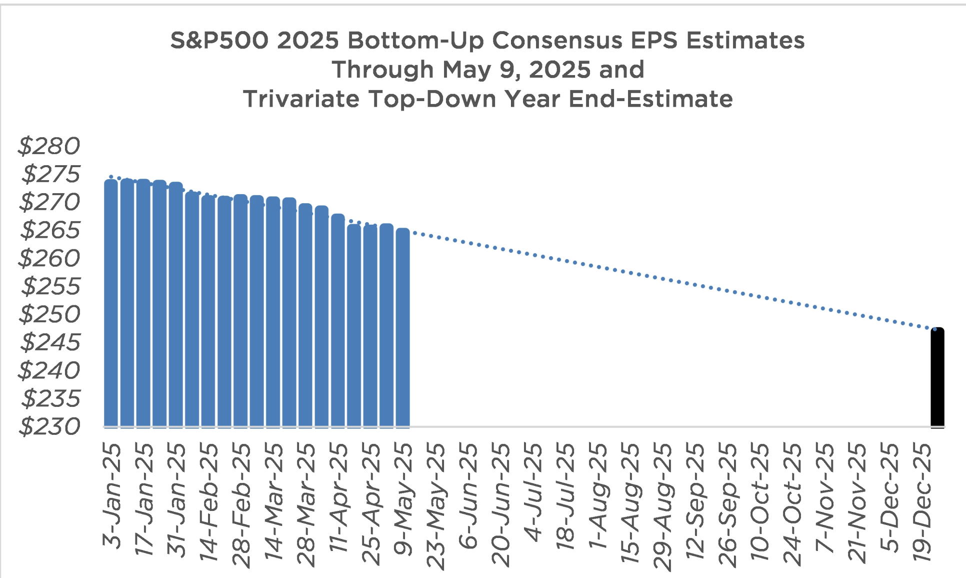
Early in April, we reduced our earnings outlook, which in essence results in moving our initial 2026 earnings estimates to 2027. This made the earnings impact from the tariffs result in the delay of one-year of earnings growth.

What is the corporate data telling us?

Both fundamental and quantitative analysts are rigorously analyzing corporate data points, from earnings call transcripts, web scraping, and many other sources. On the margin, the data points have held up better than we expected in late March heading into earnings season, but overwhelmingly there does appear to have been a pull forward in demand. We searched the last two months earnings call transcripts using our natural language processing capabilities **for issues related to pricing, capital**

spending labor, inventory, capital spending, supply chain issues, and China, among other topics. We are happy to share the long details of the many companies where these issues surfaced, but in aggregate**we see no doubt that conditions have been altered, and ultimately slowed by the tariff implementation. We do not see a reason to raise our estimates, and are viewing the recent price action as unlikely to be supported by fundamental data points, despite the fact price action has often been a positive harbinger in the past.**

However, we will hear from the companies that report end-April earnings results next, and they may offer a window into what happened in April, which is more "official" than the "month-to-date" commentary we heard from most of the March-quarter-end companies in the last few weeks. We suspect there will be a slow correction to the earnings outlook throughout the second quarter, and would be shocked if the second half of 2025 estimates didn't suffer material downward revisions. While the bottom-up estimates have trickled lower throughout the year (see below), starting at $273 and trending to $264 most recently, we forecast $247 by year-end, believing the impact of 10% tariffs on many countries and higher amounts on China, combined with a modestly slowing US consumer will cause material downward revisions. We expect this month's earnings reports, and in particular July earnings and October guidance, to catalyze the reduced outlook. **So our answer to the first question above is: we expect the perception about growth to get worse.**



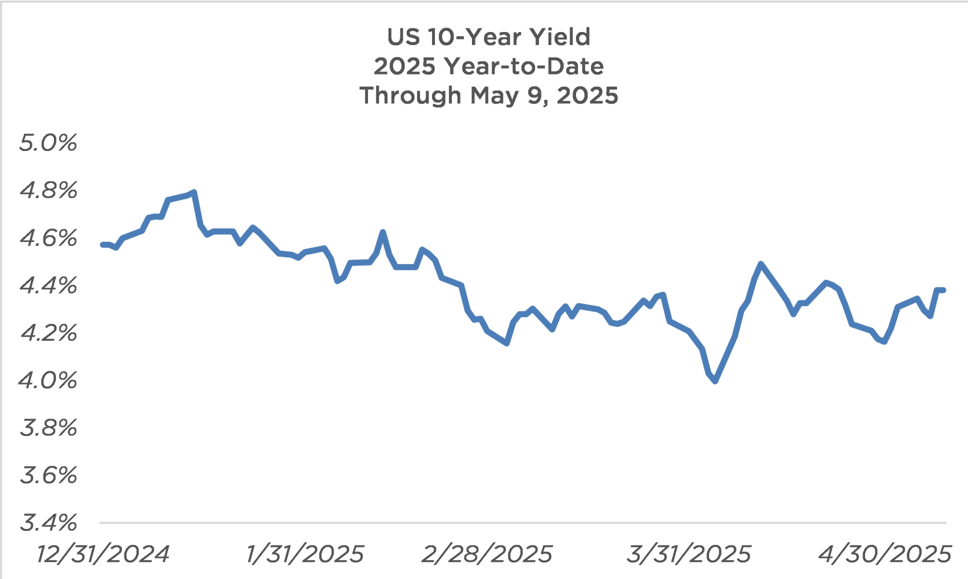
Source: Trivariate Research,LP

Is Fed Goldilocks Best?

What typically lags the most is economic data. We contend that the jobs' data in early June will be the next important "macro" data point, and while we never forecast Fed action, we have consistently noticed that the consensus, as defined at least by the WIRP function on Bloomberg, is constantly over-estimating the Fed path. At present, the probability of cutting remains higher than hiking all the way through October 2026. Would that really be the case if the economy was explosively recovering the way the recent US stock market price action indicates?

We are convinced the most bullish catalyst for US equities would be the Fed pausing and doing nothing this year. This would mean we did not see much of a degradation in the jobs market, and we didn't see a massive distortion in pricing, or at least, the Fed's judgment is that any counter-trends (worse jobs and hire pricing) were benign enough to net offset each other. The problem is, we don't think this is that likely. Despite the huge volatility in the S&P500 over the last three months, the 10-year yield has been remarkably stable. The long-dated bond market doesn't see a huge pick up in growth coming, as implied by the recent equity market price action (see below).

Remarkable 10-Year Stability



Source: Trivariate Research, LP

We suspect the US economic data will cause economists to reduce their outlook, and the perception about the path in interest rates will get more dovish. That's our answer to question number 2 above. This will be mean in the end the Fed will likely cut rates after data clearly indicate the economy is slowing. Our guess is the stock market goes down before that, and that incremental dovishness by the Fed is not rewarded by the equity market, because it will be accompanied by strong downward earnings revisions.

CONCLUSION: We think the recent rally will not be supported by corporate data, earnings reports, and economic revisions. We continue with our call we made in early January - the market will be down and volatile in the first half of the year, with policies like tariffs not in the price.

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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