Level Set: Tariffs: Trouble, Tailwinds, or Just Noise?

Right now, it feels like no one has a strong conviction—bullish or bearish—about the stock market. Fundamentals might deteriorate from here. Just look at Ross Stores (Ticker: ROST) missing earnings and pulling guidance on Thursday, Deckers Outdoors (Ticker: DECK) down over 20% on Friday on a reduced outlook, and Walmart's (Ticker: WMT) CFO warning that tariffs will cause them to push up prices 8% on some products in two weeks. But at the same time, there's hesitation to turn too bearish. Why? Retail flows are still strong. Momentum remains positive. There's real optimism around AI—companies proving real productivity gains. Input costs like Energy and Metals are down, and in aggregate, logistics costs should not be an impediment for most companies with prices at these levels in the second half of 2025. The dollar is weaker, which directionally helps US earnings. Moreover, the top 100 U.S. equities showed during the post-COVID era that they were relatively immune to rising prices. At present, investors have generally now been conditioned to ignore President Trump's most potentially damaging statements, focusing now NOT on his words, but on the implementability and reality of the details. So far, every time an executive order gets announced, the ultimate conclusion has been far less impactful than the initial rhetoric. For example, no investor we talked to on Friday thinks the US will have a meaningful and sustained 50% tariff on European Union goods. We tend to think, and many investors agree, that the only tariff-related conversation that really matters is what the US does with China. Taking it all in, even if macro headwinds persist, there's a growing view that S&P500 earnings might end up being less impacted than many, including us, originally feared.

Recent deal announcements with Cox (Ticker: COX) and Foot Locker (Ticker: FL) have caused several people to suggest that we are about to get more corporate activity. But our sense from a capital markets-focused dinner we hosted earlier this week is that these deals were more "one off" and not really a sign that we are about to see a massive M&A cycle. There have been several small IPOs, but it is unlikely, with current private equity marks and valuations, that we will see a big IPO market during 2025. Companies and boards are more focused on strategic plays — like spin-offs — to unlock value, so IPOs will likely not serve as a market catalyst like many thought after the Red Sweep last November.

Several investors asked us last week about what could break the rally and the constant retail flows. Now, some argue that the bond market will eventually "break" — something leading to multiple contraction. We aren't sure, as we think part of the reason the 10-year yield has risen is that the economy has been relatively stronger despite the tariff volatility. A market impediment could be rising prices coupled with an increase in the unemployment rate, fueling a belief that stagflation could grow. That would be a bearish development that is NOT in the price.

With that in mind, we are tracking all the earnings call transcripts for commentary on six broad categories: Pricing, Capital Spending, Labor, Inventory, Supply Chain, and China. We looked at the earnings call transcripts for nearly 2000 US companies since March of this year, and identified companies where executives are discussing these topics. 122 companies including Apple (Ticker: AAPL), Tesla (Ticker: TSLA), and JPMorgan (Ticker: JPM), among others, discussed pricing on their recent calls. 104 companies discussed Supply chain. Only one company, Jabil (Ticker: JBL) discussed Automation as it relates to their workforce mix (see below).

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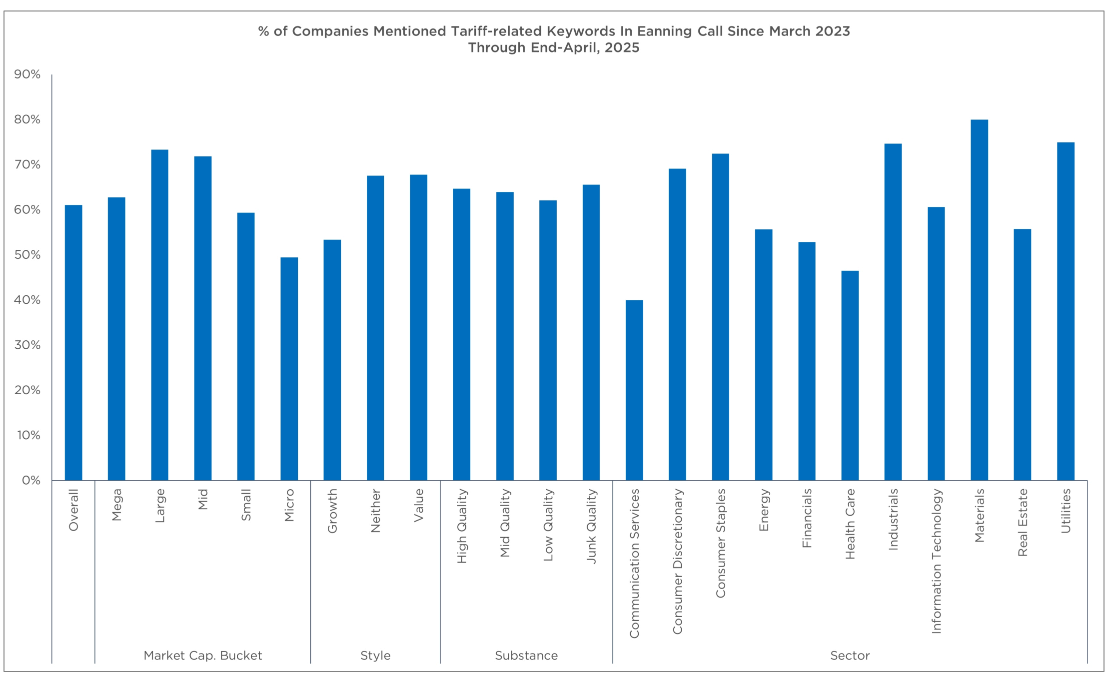
Number of Companies Where Each Keyword Was Mentioned on Earnings Calls Sicne March 2023			
Topic	**Subtopic**	**Company Count**	**Top 5 Tickers**
Pricing	All-Pricing	122	AAPL, TSLA, LLY, JPM, COST
	Passing-on Pricing	12	TSLA, GE, MU, TT, MSI
	Pricing Increase	14	GE, CAT, BA, TT, KDP
	Pricing Guidance and Transparency	5	AAPL, IBM, EBAY, VLTO, WAT
	Strategic Pricing/Competitive Dynamics	9	TT, PCAR, FAST, GM, F
Capital Spending	All-Capital Spending	38	PG, ABT, GE, RTX, CAT
	Capital Spending Decision/Delay	9	CAT, DHR, APD, KMI, DTE
	U.S. Manufacturing Investment	7	GE, RTX, CAT, DHR, KKR
	Capital Spending Mitigation/Preordering	7	WM, KMI, PCAR, D, DTE
Labor	All-Labor	22	JPM, MA, GE, RTX, CAT
	Layoffs and Labor Costs	2	DOW, LII
	Hiring/U.S. Workforce	2	GE, MMC
	Automation/Workforce Mix	1	JBL
Inventory	All-Inventory	62	AAPL, AMZN, TSLA, JPM, TMUS
	Lead Time & Pre-Buying	10	UPS, APD, FAST, D, KHC
	Backlog, Order Patterns	10	AMZN, CAT, PCAR, AME, FERG
Supply Chain	All-Supply Chain	104	AAPL, AMZN, LLY, JPM, PG
	Supply Chain Disruption & Diversification	37	AAPL, AMZN, ABT, LIN, CAT
	Shortage & Lead Time	10	TSLA, ABBV, VZ, CAT, BA
Country	China	28	AAPL, PG, ABBV, GE, CAT

Source: Trivariate Research, LP

<u>Overall, 61% of companies mentioned tariff-related keywords on their earnings calls since March of 2023</u>. Growth companies are less likely to mention tariff than non-growth companies, but quality doesn't seem to matter, as a nearly identical percentage of high-quality companies are being asked about tariffs as junk companies. Materials, Industrials, and Utilities have the highest percentage of companies being asked about tariffs, Communication Services, Healthcare, and Financials the lowest percentages. **<u>We are recommending Overweight positions in Healthcare and Financials, and while we did not have tariff contagion in mind when formulating our views, perhaps the lack of questioning on these topics is a proxy for better second half of 2025 earnings estimate achievability.</u>**

Materials, Industrials, and Utilities Have Discussed Tariffs the Most



Source: Trivariate Research, LP

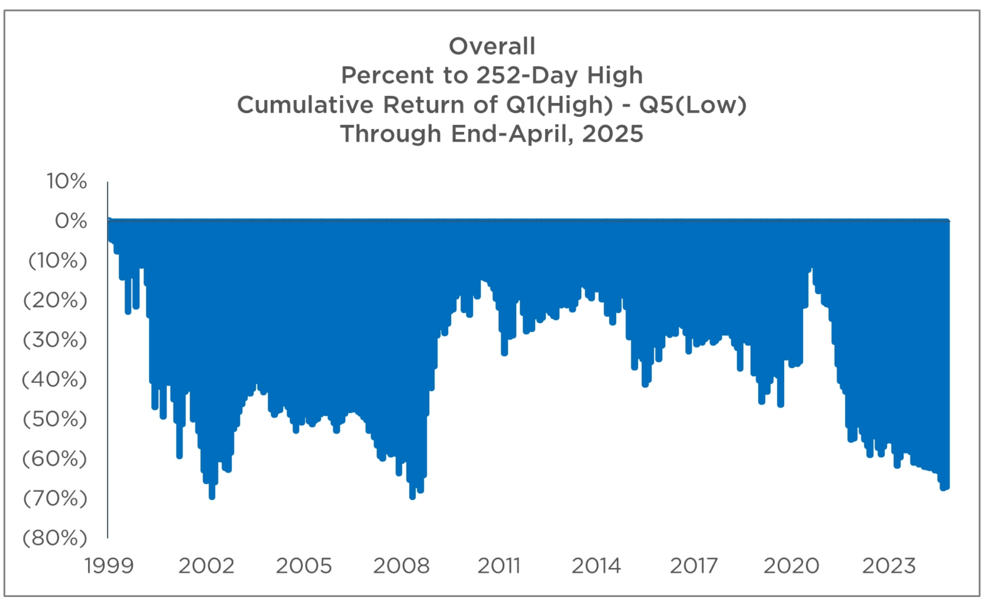
There Is Information In What Tariff-Related Questions and Words Are Surfacing on Calls

We analyzed the performance of the average stock where each one of these terms gets mentioned vs. its industry-average performance since the last time the keyword was mentioned on their earnings call. Companies where "Shortages & Lead Times" were being discussed have beaten their industry-average by 4% since their last earnings call on average, vs. those being asked about "Pricing Guidance and Transparency" which have lagged their industry peers by 6% (see below).

Average Equally-Weighted Industry-Relative Performance Since Last Earnings Call By Tariff-Related Category Through May 21st, 2025	
Category	Industry-Relative Return Since Earnings
Shortage & Lead Time	4%
Backlog, Order Patterns	2%
Pricing Increase	1%
U.S. Manufacturing Investment	1%
Passing-on Pricing	1%
All-Labor	1%
Capex Mitigation/Preordering	(0%)
China	(0%)
Supply Chain Disruption & Diversification	(1%)
Lead Time & Pre-Buying	(2%)
Strategic Pricing/Competitive Dynamics	(2%)
CapEx Decision/Delay	(3%)
Pricing Guidance and Transparency	(6%)

Source: Trivariate Research, LP

In terms of stock ideas and where to find "offense," many fundamental investors we met with have been using a quantitative factor, even if they don't call it that. They have been looking for stocks that rallied after the election, corrected sharply since their peak, and hence still have upside to their highs from earlier this year. There is quantitative factor we study called "distance to 252-day high," where we long stocks that are way below highs, and short those that are at or above highs. As you can imagine, this is an anti-momentum signal that typically materially fails (see below). However, following the Technology Bubble, the Financial Crisis, and during COVID, there were periods where stocks with upside to highs did materially outperform.



Source: Trivariate Research, LP

The stocks that have upside to where they were earlier this year, but are still also up year-to-date include Corcept, Summit Therapeutics, Celsius Holdings, Dollar General, Western Digital, and Micron, among others.

Stocks Up Year-to-Date But Down the Most from Highs As of May 21st, 2025					
Ticker	Company Name	Sector	Market Cap. (US $ Bil.)	Percent to 252-Day High	Year-to-Date Return
CORT	Corcept Therapeutics Incorporated	Health Care	8.1	50.1%	51.0%
SMMT	Summit Therapeutics Inc.	Health Care	19.1	42.4%	44.4%
CELH	Celsius Holdings, Inc.	Consumer Staples	9.2	169.2%	35.3%
DG	Dollar General Corporation	Consumer Staples	22.1	44.3%	34.7%
WDC	Western Digital Corporation	Information Technology	17.4	61.0%	13.1%
MU	Micron Technology, Inc.	Information Technology	106.0	61.8%	12.8%
PINS	Pinterest, Inc.	Communication Services	21.5	41.7%	9.5%
DXCM	DexCom, Inc.	Health Care	33.3	54.2%	9.1%
QRVO	Qorvo, Inc.	Information Technology	7.1	69.8%	8.8%
APP	AppLovin Corporation	Information Technology	118.9	45.1%	8.5%
ELV	Elevance Health, Inc.	Health Care	86.9	46.2%	4.7%
MCHP	Microchip Technology Incorporated	Information Technology	31.3	71.4%	2.8%
INTC	Intel Corporation	Information Technology	89.6	69.7%	2.5%
BG	Bunge Global SA	Consumer Staples	10.5	47.2%	1.9%
BAH	Booz Allen Hamilton Holding Corporation	Industrials	16.4	44.0%	0.8%

Source: Trivariate Reserach, LP

CONCLUSION

While investors are still focused on tariffs and macro risks, strong retail flows, easing input costs, and optimism in AI are supporting markets. We expect headline noise to persist, but think there is an argument to be made that tariffs—especially beyond China— may be more symbolic than impactful. Select sectors like Financials and Healthcare may offer stability, with opportunity in undervalued stocks still below their recent highs.

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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