TRIVARIATE RESEARCH

US Equities
June 22, 2025

Level Set: A Change Of Our View on S&P500 Earnings

In our year-ahead outlook, we predicted that tariffs and other policies were not in the price. When the early April tariffs were initially implemented, we lowered our earnings estimates, taking the view that a year of growth was removed, and at that time, we pushed our estimates out a year, turning our initial 2026 earnings estimates into our new 2027 view. **With retrospect, we now think our initial reaction was too punitive, not only because some of the most potentially damaging comments from President Trump were not implemented, but also because of our updated view on some important profit-related dynamics.** On January 1st of this year, we forecasted $261 in 2025 and $271 in 2026 S&P500 earnings based on our top-down assessment. In early April 2025, we changed our estimates to $247 in 2025, $257 in 2026, and $271 in 2027 earnings, representing 1% growth this year, 4% in 2026, and 5.3% in 2027. **Today, we are raising our earnings estimates, though we remain below the bottom-up consensus.** We now forecast $255 in 2025 earnings, $273 in 2026 earnings, and $295 in 2027 earnings (see below). This represents a 3% increase for 2025 vs. our earlier view, but is 3.2% below consensus. Our 2026 and 2027 estimates are 9.2%, and 10.6% below the consensus forecasts, respectively.

Trivariate Top-Down Earnings Estimates
vs. Bottom-Up Consensus
June 22nd, 2025

	Consensus	Trivariate Old	Trivariate New	Change	Vs. Consensus
2025E	263.40	247	255.0	3.2%	(3.2%)
2026E	300.46	257	272.9	6.2%	(9.2%)
2027E	330.51	271	295.4	9.0%	(10.6%)

Source: Trivariate Research, LP

Why did we change our view of S&P500 earnings growth? Firstly, we have shown in our recent work that the biggest 50 companies are relatively immune to higher prices. If the problem with tariff implementation is in part it slows demand, and in part it raises prices, the biggest US equities showed in the inflation spike after COVID that their margins were relatively immune from higher CPI. Now that environment was NOT one of stagflationary fear, as we had both high nominal GDP and high prices, so it is likely the second half of this year is slightly different, as any price increases will probably be more localized, and demand and GDP will undoubtedly be weaker than it was when prices spiked three years ago. However, the relationship between the consensus forecasted gross margins and the year-over-year change in CPI was extremely strong and negative for large-and-mid-cap stocks when the CPI rose sharply three years ago (see below), but the relationship was near zero, and not statistically significant for mega-cap stocks (which are the top 50 by market capitalization).

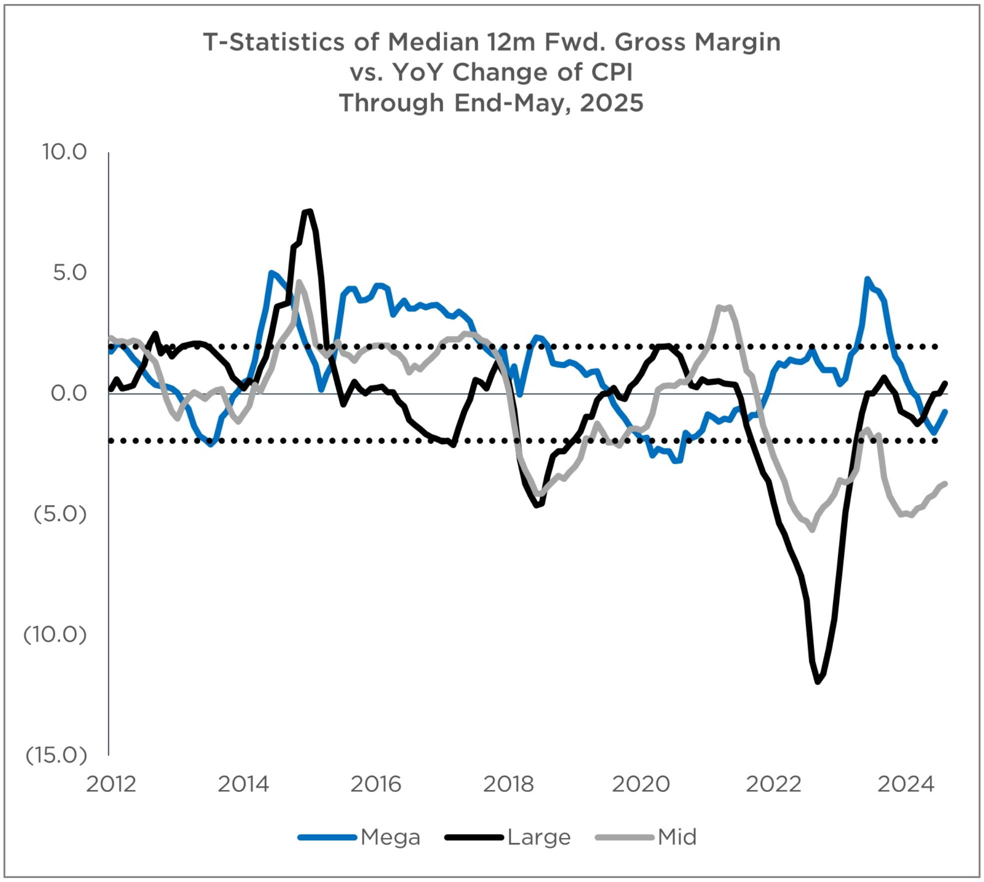
Adam Parker
Founder
646-734-7070
adam@trivariateresearch.com

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

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

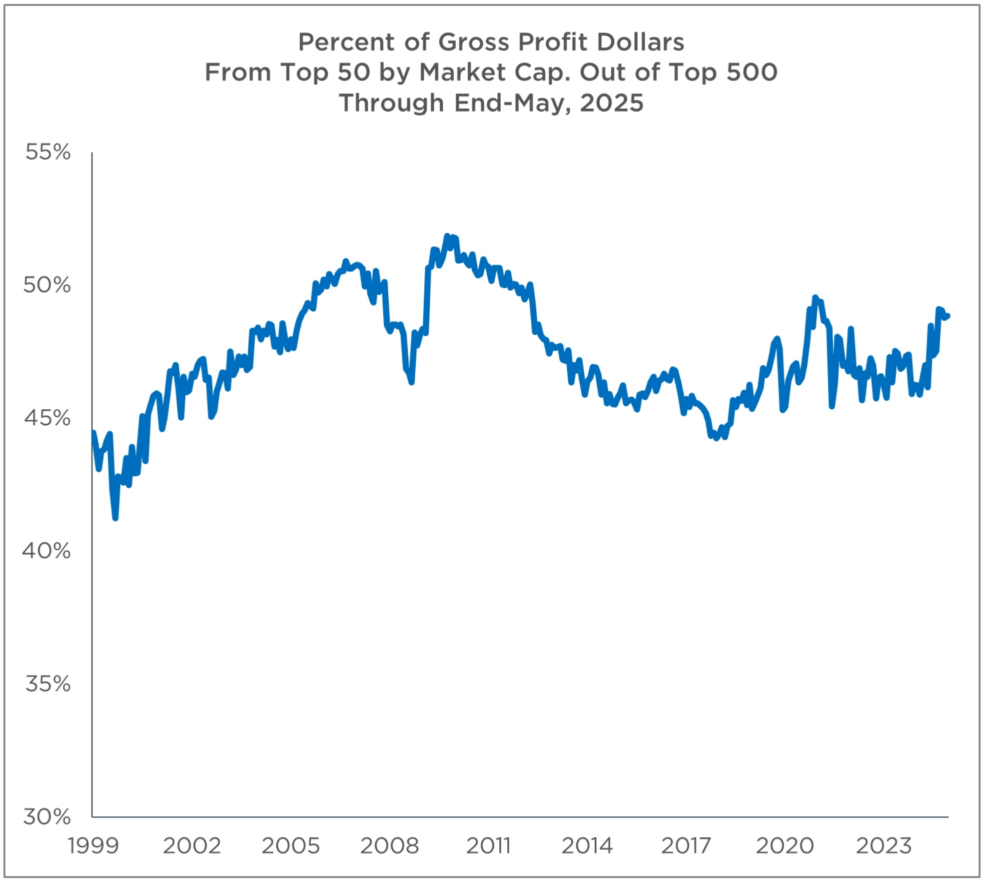
Colin Cooney
Head of Sales
617-910-7934
colin@trivariateresearch.com

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



Source: Trivariate Research, LP

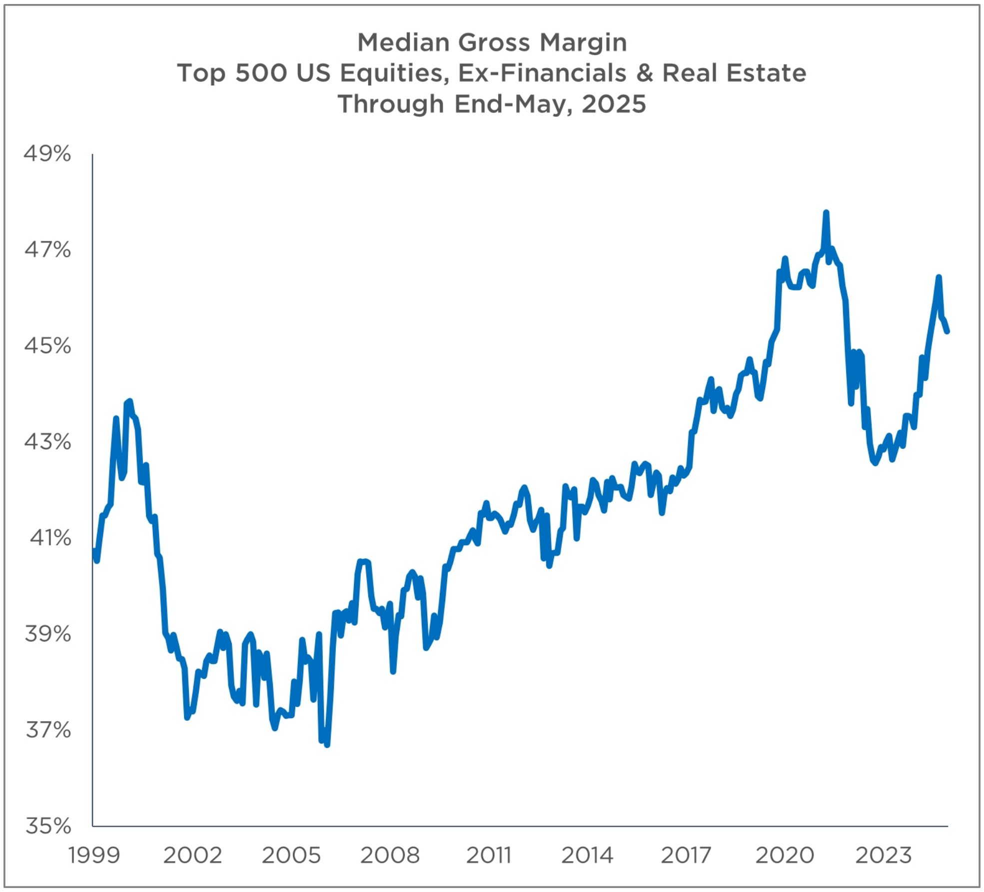
Importantly, the top 50 stocks by market capitalization represent nearly 50% of all the gross profit dollars of the S&P500. Hence, inflationary concerns impacting the gross margins of the S&P500 are probably not a problem for HALF the market dollars, even if that is concentrated in the top 50 names.



Source: Trivariate Research, LP

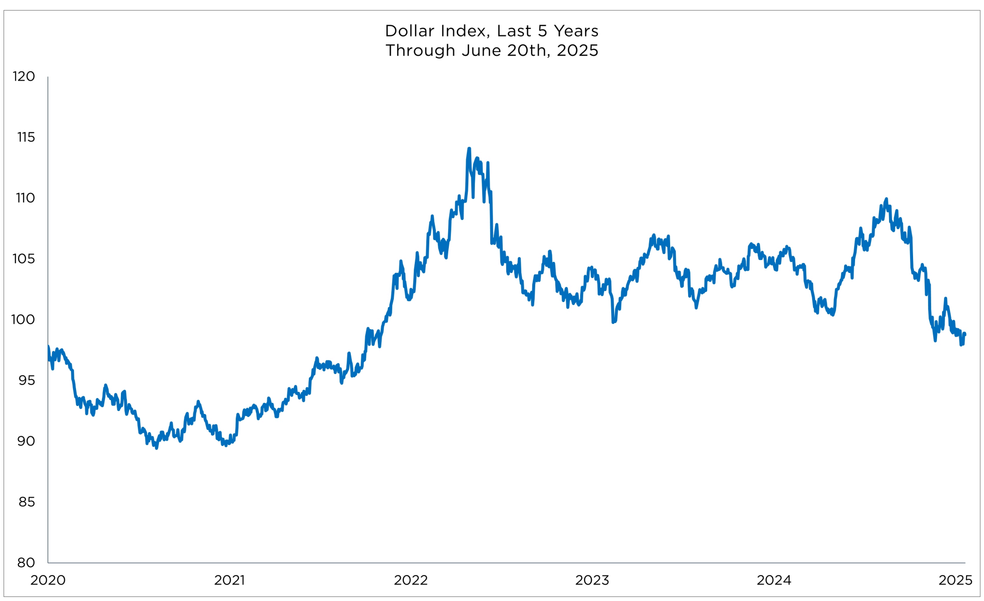
Moreover, the Financials, which are excluded from the above chart, are positioned well, with balance sheets and Tier 1 Capital Ratios in much better positions than previous downturns. Many of the companies can make more money if the interest rate curve steepens, and while they would be impacted by a slowing economy, they will likely not suffer widespread credit losses. **We recommend an Overweight in the Financials.**

So, if the top 50 names are in decent shape, and the Financials are in decent shape, what about the rest of the market? It is true that the median stock has seen 110bps of gross margin erosion over the last three months (see below).

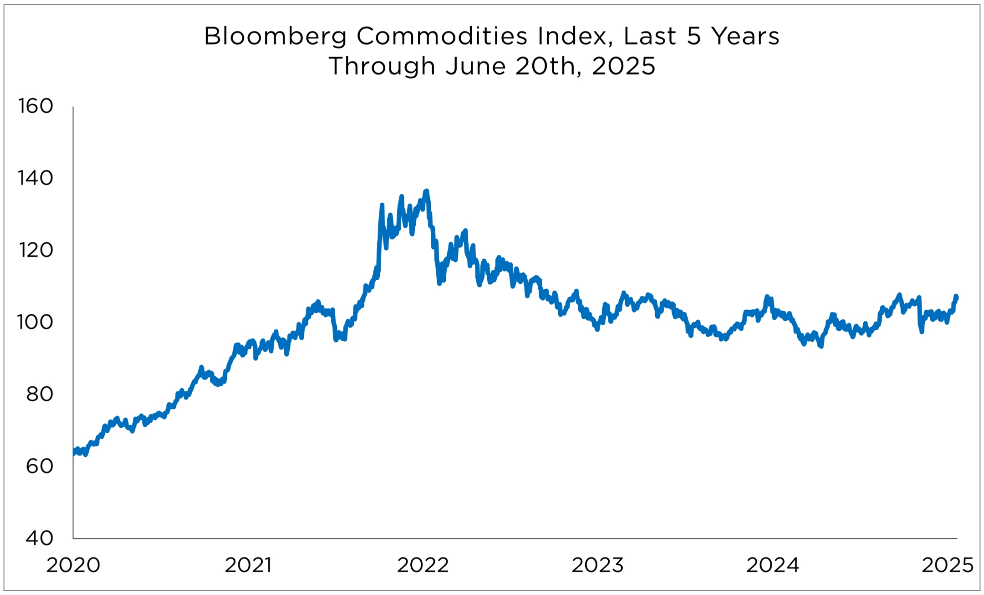


Source: Trivariate Research, LP

However, some of the items that impact the gross margins, will likely turn into tailwinds later this year. The dollar, for instance (see below), is now the weakest it has been in three years against a broad basket of other currencies. This should, all else equal, create an earnings tailwind for multinational Technology, Consumer Staples, Pharmaceutical, and Industrial companies, among others, in the second half of 2025.



A broad basket of commodities, such as those embodied by the Bloomberg Commodity Index, have been relatively stable for the last three years (see below), and are unlikely to create a headwind for most US companies later this year, despite the recent move in Oil from $60 in early May to $77 today.



Source: Trivariate Research, LP

In our judgment, the biggest risk to margins is likely inventory levels, which remain high across many sub-industries. Below we show the 20th, 50th, and 80th percentile days of inventory and that percentile vs. the 25-year history. Many economically-sensitive parts of the market, including Semiconductors, Electrical Components, and Construction and Machinery have high inventory levels vs. history.

	Current Value			%ile Rank vs. History			
Sub-Industry	20%	50%	80%	20%	50%	80%	Largest 3 Companies
Semiconductors	107	152	213	98%	99%	97%	NVDA, AVGO, AMD
Soft Drinks & Non-alcoholic Beverages	39	78	89	83%	96%	82%	KO, PEP, MNST
Semiconductor Materials & Equipment	92	177	224	86%	96%	91%	AMAT, LRCX, KLAC
Personal Care Products	128	171	185	98%	95%	51%	KVUE, EL, BRBR
Electrical Components & Equipment	83	97	156	100%	94%	96%	ETN, EMR, VRT
Household Products	62	85	108	92%	93%	86%	PG, CL, KMB
Aerospace & Defense	54	116	181	89%	91%	93%	GE, RTX, BA
Apparel, Accessories & Luxury Goods	116	156	195	81%	90%	91%	LULU, AS, TPR
Construction Machinery & Heavy Transportation E	63	94	147	96%	90%	95%	CAT, PCAR, CMI
Automotive Parts & Equipment	35	65	155	87%	89%	98%	APTV, MBLY, ALV
Technology Hardware, Storage & Peripherals	49	82	114	93%	89%	78%	AAPL, DELL, STX
Industrial Machinery & Supplies & Components	75	99	148	86%	88%	95%	PH, ITW, OTIS
Communications Equipment	58	100	148	82%	85%	89%	CSCO, ANET, MSI
Electronic Manufacturing Services	67	79	91	94%	84%	26%	TEL, JBL, FLEX
Apparel Retail	70	96	139	49%	71%	73%	TJX, ROST, BURL
Construction & Engineering	3	10	19	21%	59%	40%	PWR, EME, FIX
Packaged Foods & Meats	42	63	88	61%	55%	27%	MDLZ, HSY, KHC
Leisure Products	63	90	150	34%	55%	67%	HAS, MAT, GOLF
Electronic Equipment & Instruments	67	105	153	62%	42%	39%	KEYS, TDY, TRMB
Trading Companies & Distributors	33	76	125	2%	31%	61%	GWW, FAST, URI
Technology Distributors	14	35	68	15%	31%	75%	CDW, SNX, ARW
Automotive Retail	43	59	173	23%	23%	54%	ORLY, AZO, CVNA
Other Specialty Retail	50	113	177	2%	20%	46%	TSCO, ULTA, CHWY

Source: Trivariate Research, LP

CONCLUSION: We think the earnings path is less difficult than we previously forecasted, due to currency, commodities, and the relative immunity of the largest companies. Inventory levels are a big counterargument. **We see the risk-reward as balanced, and we don't want to get more negative given we think 2026 is the year when many companies are likely to see margin benefits from their 2023 and 2024 AI investments.** That is the primary reason we increased our outlook for earnings. We recommend a barbell approach, with defensive stocks like Drug Distributors, Waste Disposal, and Aggregates. For offense, we like Financials, including Alternative Asset Managers and large Banks, as well as select Healthcare stocks where productivity benefits likely accrue earlier in the AI-deployment than other industries.

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.