

Level Set: The Biggest Pushback Points to Our 2H Outlook

Last Tuesday we hosted a webcast discussing our second half of 2025 outlook ([REPLAY](#) and password: ilz2&Qkt), and the details of our research note detailing our views ([25 Slides For The Second Half Of 2025](#)). Having discussed the outlook with several institutional investors, we thought it sensible to focus this week's Level Set on the main areas that generated questions and pushback.

Firstly, we received several questions about our view that the S&P500 likely gets to 10000 before the end of the decade. While this is not a new view of ours, as we first published it in 2024 as a reasonable scenario, several investors were skeptical of our view that EPS growth over the next five years could be above long-term average levels. A few others noted that valuation levels rarely, if ever, have remained at these levels for the overall market. Obviously, the argument that the S&P500 can get to 10000 by 2030 has to be based either on earnings, multiples, or both, but our view is that they are all tied. **The long-term EPS growth of the S&P500 has been around 9% per year.** Our main view is that productivity investments made over the previous few years are likely going to drive a stretch of slightly higher-than-long-term-average earnings growth from 2026 to 2030. **We are willing to underwrite 10-11% per year earnings per share growth as an annual average between now and the end of 2031, a mere 1-2% higher than normal.** This is likely conservative given the massive AI investments that are being made, and the already tangible productivity gains select companies are discussing. For example, **Microsoft mentioned this past week it saved over \$500 million in laying off 9000 employees replaced by AI tools.** We think this is just the beginning, and likely benefits many of the companies in S&P500 over the coming few years. Below, we show on the x-axis a range of per year EPS growth assumptions. On the y-axis we show a range of price-to-forward earnings multiples. If EPS growth is 10-11% per annum, 10000 on the S&P500 is achievable at 21-22x forward earnings (see below). Pushback is that margins are currently high, and that tariffs will cause a loss in unit demand unless companies cut pricing, hurting their margins and impacting EPS growth. On multiples, the primary pushback is that a back-up in bond yields will cause multiple contraction. We admit there could be a growth scare in the August to October time frame, and probably a handful more in the next few years - but the path toward 10000 on the S&P500 between now and the end of the decade likely remains intact.

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Current Bottom-Up Estimates Are \$263 for 2025, We Assume \$260 For This Analysis
Annualized EPS Growth Assumptions

Multiple on 2031EPS	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
15x	5126	5426	5740	6070	6415	6776	7154	7550	7963	8396	8847
16x	5468	5788	6123	6474	6843	7228	7631	8053	8494	8955	9437
17x	5809	6149	6506	6879	7270	7680	8108	8557	9025	9515	10027
18x	6151	6511	6888	7284	7698	8131	8585	9060	9556	10075	10617
19x	6493	6873	7271	7688	8126	8583	9062	9563	10087	10635	11207
20x	6834	7234	7654	8093	8553	9035	9539	10066	10618	11194	11797
21x	7176	7596	8036	8498	8981	9487	10016	10570	11149	11754	12386
22x	7518	7958	8419	8902	9409	9938	10493	11073	11680	12314	12976
23x	7860	8320	8802	9307	9836	10390	10970	11576	12211	12874	13566
24x	8201	8681	9184	9712	10264	10842	11447	12080	12742	13433	14156
25x	8543	9043	9567	10116	10692	11294	11924	12583	13272	13993	14746

Source: Trivariate Research, LP

EPS Growth in Several Parts of the Market Has Been Low

Another factor that could support earnings growth despite short-term tariff margin concerns, is that the recent earnings growth in several parts of the market has been suppressed. In other words, not all of the market currently has peak margins and peak earnings. In fact (see below), five of the eleven GICS sectors are forecasted to have year-over-year EPS contraction in the second quarter, including Consumer Discretionary, Consumer Staples, Energy, Industrials, and Materials. Hence, as conditions improve in some of these beaten down areas, earnings can grow against these easier “compares.” Energy appears to be the easiest area to believe in a rebound off of easy compares, as EPS expectations are for 20.6% earnings growth in 2026 following a 14.7% expected decline in 2025.

Bottom-Up Analyst Earnings Growth Expectations July 6th, 2025

Sector	2024	1Q25	2Q25E	3Q25E	4Q25E	2025E	2026E
S&P 500	9.5%	12.6%	4.3%	6.9%	6.1%	7.4%	14.1%
S&P ex-Financials	8.3%	14.4%	5.0%	6.8%	6.9%	8.1%	14.3%
Consumer Discretionary	14.9%	7.4%	(6.0%)	(2.4%)	(2.9%)	(1.4%)	13.7%
Consumer Staples	3.0%	(6.3%)	(3.2%)	0.5%	4.5%	(1.1%)	7.9%
Energy	(23.8%)	(18.9%)	(26.8%)	(8.4%)	(1.1%)	(14.7%)	20.6%
Financials	15.0%	5.0%	1.4%	7.6%	2.7%	4.1%	13.5%
Health Care	1.9%	41.8%	2.3%	5.8%	8.1%	12.8%	10.8%
Industrials	(0.5%)	8.9%	(0.5%)	17.8%	0.5%	6.1%	16.6%
Info Tech	23.0%	18.8%	16.8%	16.2%	14.5%	16.4%	19.4%
Materials	(11.8%)	(3.5%)	(3.5%)	14.6%	16.6%	5.3%	14.9%
Communication Services	21.5%	27.6%	29.8%	1.9%	3.5%	14.2%	9.1%
Utilities	20.3%	6.6%	0.8%	(0.6%)	9.0%	3.6%	10.2%
Real Estate	3.1%	5.1%	1.5%	3.9%	3.8%	3.6%	6.9%

Source: Trivariate Research, LP

An important part of our argument on the S&P500 long-term performance is that the price-to-forward earnings will remain elevated. Many investors look at the long-term averages, of 17x price-to-forward earnings, and just believe that the market is expensive until multiples move back towards those levels. But our view is that logic is synonymous with saying that the gross margins for the average company will crater. Over 40% of the total market capitalization of the top 3000 US equities has over 60% gross margins (see below). Given how correlated valuation and margins are, we maintain that the market will trade

between 20 and 25x forward earnings, not 15-20x, unless a materially different picture emerges for the margin profile of the US market. If we see sustained higher capital spending-to-sales, a big loss of US companies market share globally, or heightened wage or input cost pressure, we would lower our views of both margins and multiples for the US equity market. But for now, many companies will see some tailwinds on currency, wages, and other input costs in the second half of 2025 vs. a year ago, likely helping the median company maintain its current multiple.

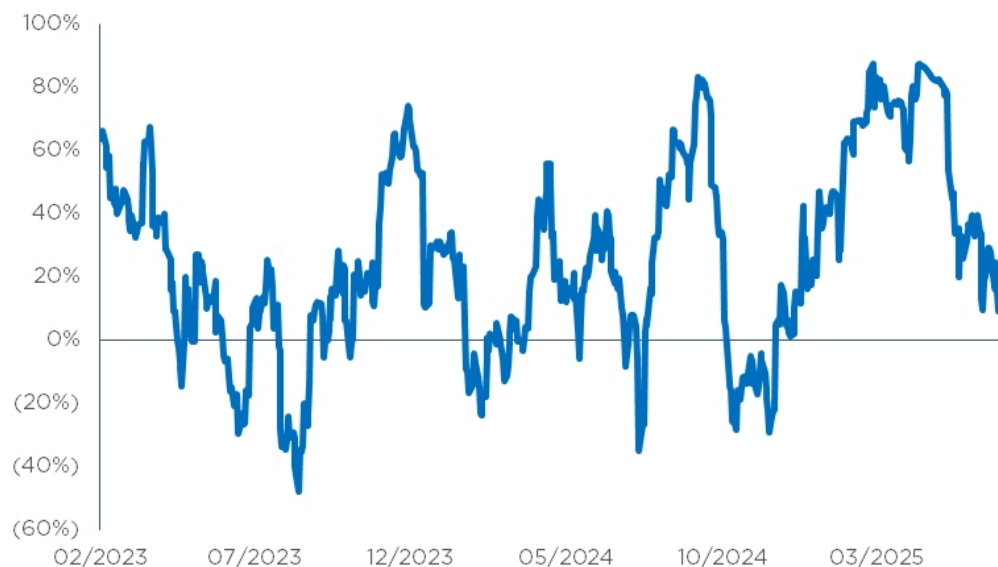
Percent of Market Cap. With >60% Gross Margins
Top 3000 US Equities, Ex-Financials & Real Estate
Through End-June, 2025



Source: Trivariate Research, LP

We have been writing for more than a year about the major growth themes in the market. These are areas we think are likely to grow above GDP for most of the next several years, and include **AI Semiconductors, AI Software, Electrification Industrials, Power and Utilities, Healthcare Services and Life Sciences, and Housing and Building Products**. A major challenge for portfolio managers over recent months is that many of these growth themes are highly correlated to each other. Data centers are consuming enormous amounts of power, and as a result, the exposed companies in the Utilities sector, like GEV, VST, and CEG trade with little diversification from Semiconductor giant NVDA. Below we show a very short-term (21-day) rolling correlation of returns between our custom AI Semiconductor and Power / Utilities baskets. We think investors need to be very careful about sizing their positions in correlated stocks and baskets.

AI Semi vs. Utilities / Power
21-Day Rolling Correlation of Returns
Through End-June, 2025



Source: Trivariate Research, LP

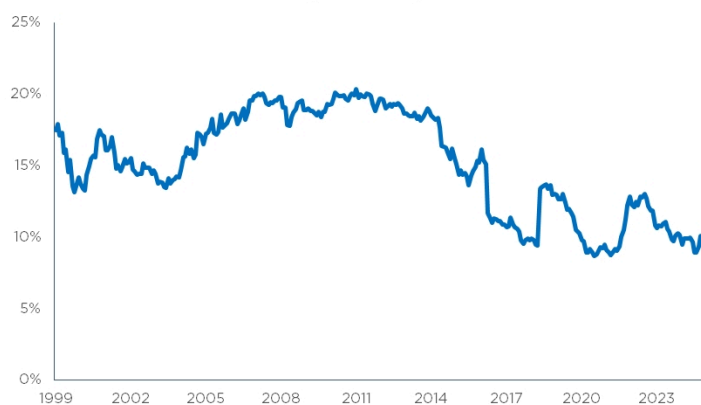
We also received some pushback on our sector bets, and in particular, **our Overweight rating on Financials** - which people view as consensus. We don't disagree. The challenge, as we pointed out in our outlook, is that there are limited sector options for long only portfolio managers tasked with beating the S&P500. The biggest three sectors - Technology, Financials, and Communication Services are the biggest percentage the top 3 sectors have been in 25 years. If you are bullish on US equities - like we are - you have to be overweight some of these big groups. We are recommending that HALF of a US equity portfolio is in Technology (32%) and Financials (18%). Moreover, "big bets" in sectors like Materials, Energy, Utilities, and Real Estate just don't add up to that much. On the right below, we show that the four smallest sectors combined are less than 9% of the S&P500 today - the smallest four sectors have been in more than a quarter-century. Overweights in these sectors just don't matter as much. **We also are recommending investors overweight Healthcare.** Here we get the opposite pushback as we do for Financials because for some stocks performance has been awful. Yes we are contrarian - but that just means wrong recently. Our belief is this will be the number 1 sector to benefit from AI productivity, and we want exposure to that heading into 2026 and 2027.

Largest Three Sectors
Market Cap Share of S&P500
Through End-June, 2025



Source: Trivariate Research, LP

Smallest Four Sectors
Market Cap Share of S&P500
Through End-June, 2025



Source: Trivariate Research, LP

Our current sector preferences and summary bullets are shown below.

Trivariate Sector Recommendations as of July 7th, 2025

Sector	Total S&P 500 Market Cap. (US\$ Trillion.)	Current S&P 500 Weight	Trivariate Recommended Weight	Trivariate- Relative Weight	Trivariate Recommendation	Comments
Healthcare	5.12	8.7%	13%	4.3%	Overweight	We think Healthcare has above average estimate achievability, many companies that could benefit from AI-fueled productivity, and likely participates if M&A picks up
Financials	8.21	14.0%	18%	4.0%	Overweight	Think the alternative asset managers can be good offense, the Large Banks a combination of offense and defense, and the Insurers good defense
Information Technology	18.05	30.7%	32%	1.3%	Equal-Weight	AI beneficiaries come from AI investors
Materials	1.04	1.8%	3%	1.2%	Equal-Weight	If the economy improves, some Metals & Mining have material upside
Utilities	1.26	2.1%	3%	0.9%	Equal-Weight	Some idiosyncratic investments are sensible, but we prefer to own Semis / Software than Power for AI exposure at these prices
Industrials	4.71	8.0%	8%	(0.0%)	Equal-Weight	We like Aerospace and Defense and businesses with pricing power, but tariffs, China, and the recent run make them less compelling. We don't like that ETN trades more like AI Semi than NVDA
Energy	1.67	2.8%	2%	(0.8%)	Equal-Weight	Oil is tough to forecast, and it's hard to see a sustained period of multiple expansion
Consumer Staples	3.40	5.8%	4%	(1.8%)	Equal-Weight	There is substantial bifurcation of fortunes here, and pricing power is starting to be a challenge
Communication Services	8.12	13.8%	12%	(1.8%)	Equal-Weight	Cautious on businesses that are heavily indebted and need ARPU growth
Real Estate	1.11	1.9%	0%	(1.9%)	Underweight	Pockets of success, but likely a very low recovery to CRE
Consumer Discretionary	6.08	10.3%	5%	(5.3%)	Underweight	The consumer appears to be slowing, and many face structural challenges

Source: Trivariate Research, LP

CONCLUSION:

We are bullish on equities. We received some pushback on our 2030 S&P500 10000 view. We don't think it is that big of a stretch.

We are recommending Overweights in Financials (which appears to be the consensus view) and Healthcare (which is contrarian but challenged by near-term uncertainty).

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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