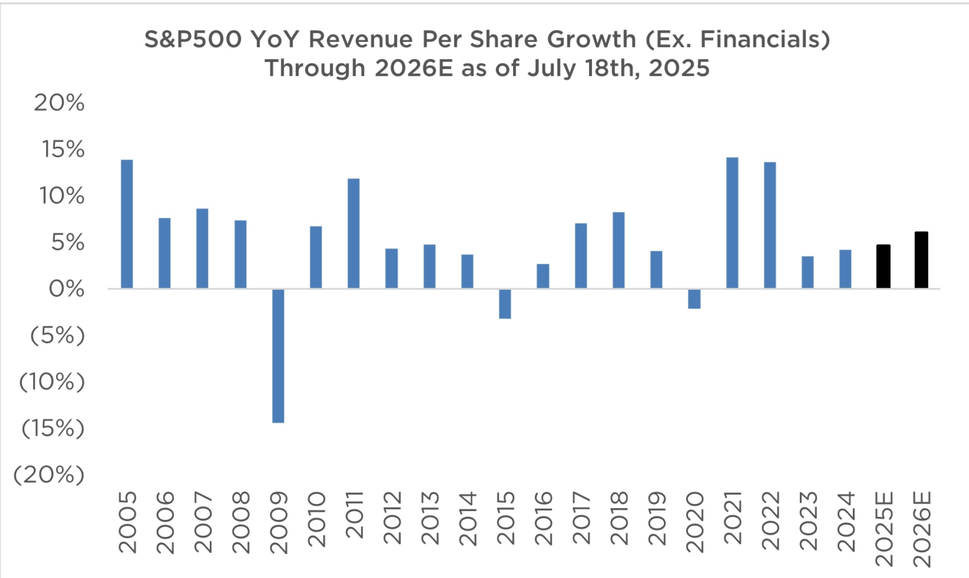
TRIVARIATE RESEARCH

US Equities
July 20, 2025

Level Set: Revenue, Semis, Financials, ROIC - 4 Keys from Last Week

A few months ago, we thought we would see more negative revenue guidance during earnings season from the average US company. But, as we articulated in our second half outlook (*25 Slides For The Second Half Of 2025*), the constitution of the S&P500, which is 58% Technology, Financials, and Communication Services, makes it more immune to tariffs than we originally thought. Excluding Financials (see below), bottom-up consensus revenue per share growth expectations are for 4.6% in 2025 and 6% in 2026.



Source: Trivariate Research, LP

We continue to monitor tariff-related commentary from companies, but in aggregate, we have not seen a meaningful impact from tariffs for the S&P500. Looking at the bottom-up consensus revenue per share estimates by sector, from this reporting season forward, we see limited impact of tariffs in the numbers, with 4.0% year-over-year Q2 growth expected during this earnings season. At the sector level, Technology sector top-line expectations are the highest, staying double digits on a year-over-year quarterly basis until Q4 2026 (see below). Our expectation is that there will be some negative impact from tariffs, but that the S&P500 is more immune than other stock indices.

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S&P500 Bottom-Up Revenue per Share Estimates by Sector, As of July 18th, 2025

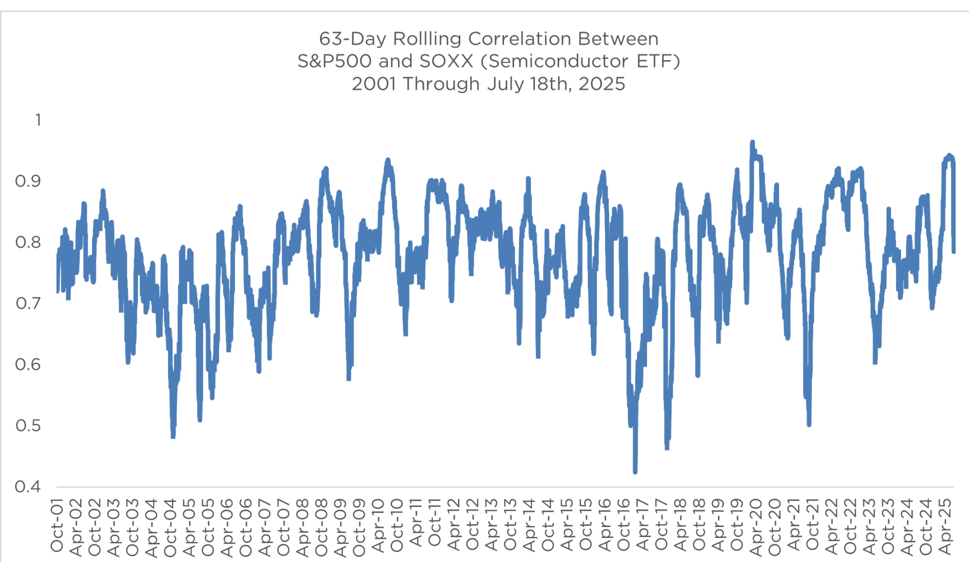
Date	S&P 500	S&P ex-Financials	Consumer Discretionary	Consumer Staples	Energy	Health Care	Industrials	Technology	Materials	Communication Services	Utilities	Real Estate
1Q25	4.2%	4.5%	1.8%	(0.5%)	(0.3%)	7.7%	(2.3%)	18.0%	(3.0%)	5.8%	10.6%	4.4%
2Q25E	3.7%	4.0%	2.4%	1.8%	(11.1%)	7.5%	2.4%	12.4%	4.7%	6.6%	4.4%	4.6%
3Q25E	4.4%	4.7%	2.9%	2.7%	(6.0%)	6.8%	4.3%	10.7%	8.4%	5.9%	6.8%	5.8%
4Q25E	5.0%	5.3%	2.8%	3.1%	(4.3%)	7.5%	5.6%	10.7%	6.9%	6.3%	7.3%	5.8%
1Q26E	5.5%	5.6%	5.7%	4.7%	(2.2%)	5.4%	5.3%	11.9%	7.5%	7.1%	1.1%	6.2%
2Q26E	6.1%	6.0%	4.4%	4.1%	4.2%	5.6%	5.7%	11.5%	4.7%	7.2%	5.0%	6.8%
3Q26E	6.3%	6.3%	5.3%	4.4%	5.7%	5.5%	6.7%	11.4%	4.6%	7.1%	4.0%	6.7%
4Q26E	6.2%	6.2%	5.1%	4.3%	6.7%	5.5%	6.7%	9.8%	5.7%	6.0%	5.6%	6.5%

Source: Trivariate Research, LP

The Market Goes Where Semis Go?

The key for revenue growth expectations for Technology, and perhaps a key to the success of the entire stock market, is the Semiconductor industry. **This week, toolmaker ASML made this comment on growth uncertainty for 2026 -** CEO Christophe Fouquet emphasized that while AI-driven demand remains strong, ASML is hesitant to project continued growth next year due to "increasing uncertainty driven by macroeconomic and geopolitical developments, especially U.S. tariff risks." CFO Roger Dassen noted that U.S. chipmakers are **postponing investment decisions** amid unresolved tariff talks adding, "Clarity is what customers are looking for before they can really finalize their views." While ASML was down double-digits on the week, some investors believe this is stock-specific, as Samsung is approximately a 14% customer and the company does have some China exposure. Taiwan Semiconductor reported this week as well, and the stock largely held in after its enormous run since the April lows (the stock has moved from $141 to $240 in 3.5 months) and is now $1.3 Trillion market cap. TSM did mention some tariff threats and currency issues, but nonetheless reported strong enough results that analyst estimates have risen more than 10% for 2025. Hence, a debate is now growing given the huge rally in many Semiconductor companies about whether fundamentals can support the big move. The correlation between the S&P500 and the Semiconductor stocks (see SOXX ETF below as a proxy) is always pretty high, but has been particularly high of late, peaking at 0.94 in late June. Several key semiconductor companies report in the next two weeks, and we think there is no doubt that it will be hard for the S&P500 to rally strongly if the Semiconductor sector acts poorly. **Mark-to-market for the commentary we heard last week, we feel slightly worse about the earnings and guidance we expect from Semiconductors, believing that at least some of ASML's commentary is not company-specific. NVDA's is the obvious exception, with its move to new highs fueled by large "guaranteed" revenue growth in 2026 from China.**

The S&P500 and Semiconductor Stocks Have Been Highly Correlated

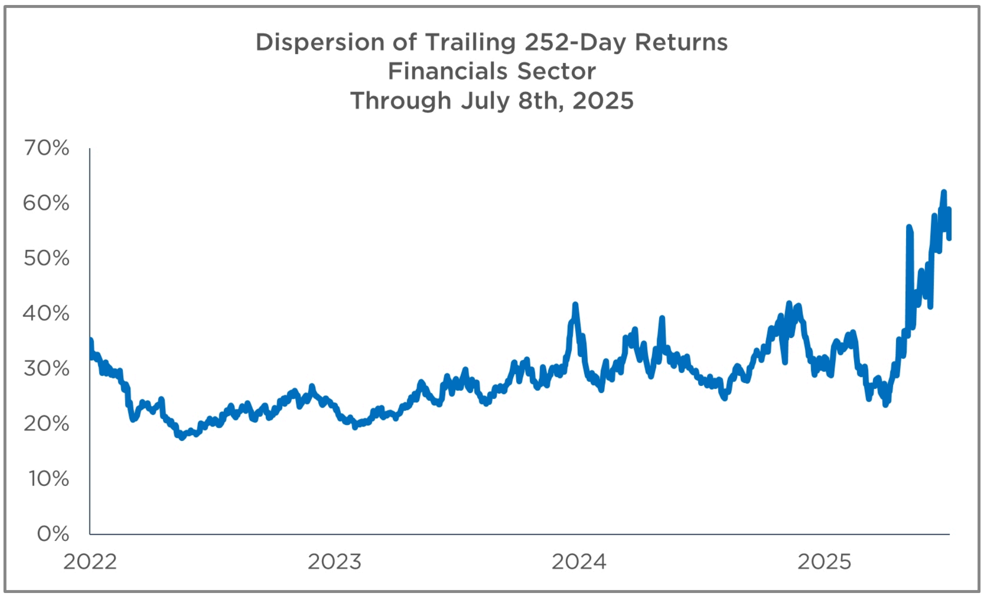


Source: Trivariate Research, LP

Strong Bank Earnings

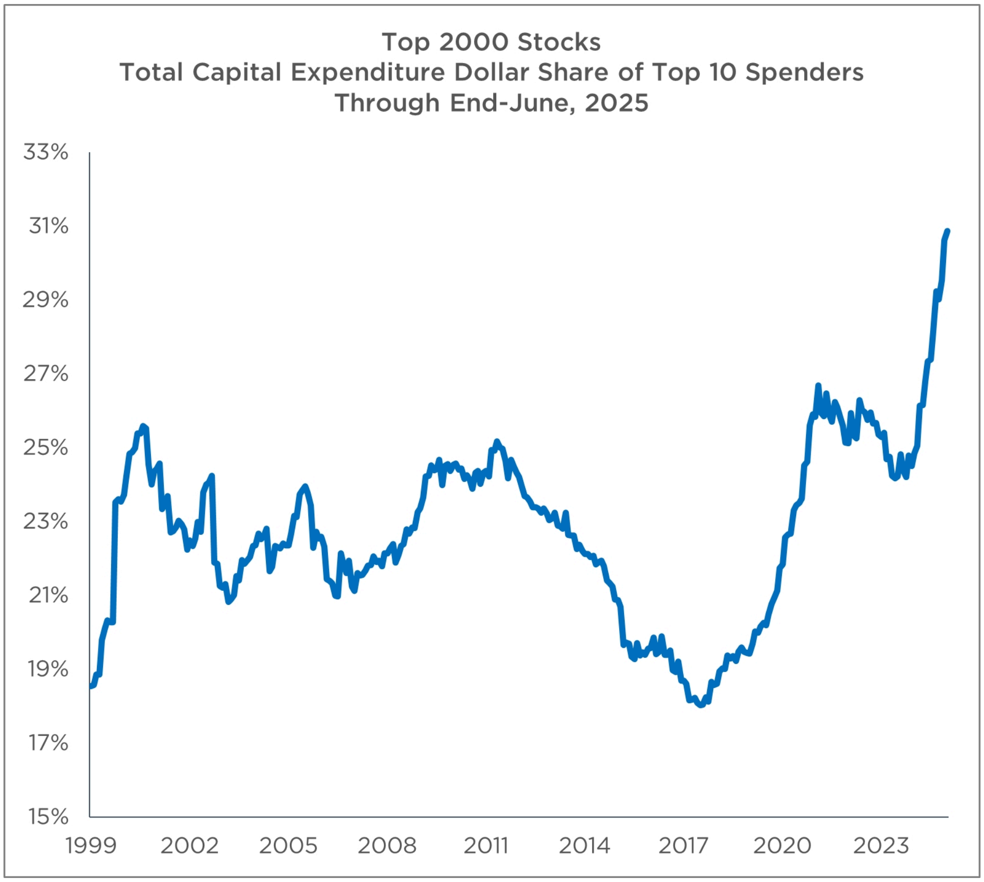
We are recommending investors overweight the Financials sector. We were on the road meeting investors in London this past week and also did several meetings in New York in the second half of the week. We thought our Overweight Financials call was consensus *before* earnings, and the results were strong from the Financials this week such that we don't see why bullish investors would sell. **In fact, we worry a little bit week-over-week that the market reaction was somewhat muted relative to the strength of the earnings results.** Goldman Sachs saw record equity-trading revenue rise 36% YoY (~$4.3 B), with fixed-income gains too, while Morgan Stanley and Citigroup also reported double-digit trading revenue increases. JPMorgan, Citigroup, and Wells Fargo posted profit growth of ~8%, ~25%, and ~12% YoY respectively, driven by loan growth, deal recovery, and reduced credit provisions. Banks like Huntington and U.S. Bancorp posted solid loan/deposit growth and margin expansion (e.g., Huntington's net interest income +11.9%, U.S. Bancorp EPS +13.2%). Bank of America's net income rose ~3% YoY to $7.1 B, EPS of $0.89 beat expectations, NII +7%, and digital/AI investments continued. **Contrary to a view that the US consumer is slowing, most U.S. banks are reducing, not increasing provisions, suggesting no broad deterioration in loan quality yet.** So far, **Q2 credit trends are holding in as we have not seen a wave of losses, other than some modest softening** among lower-income borrowers. **We remain excited about the ability for investors to identify winners in the Financials sector. Return dispersion (see below) is at a post-COVID high, and we think stocks like JPM, GS, MS, the alternative asset managers, COF, and select insurers can outperform in today's environment. However, mark-to-market from the earnings results this past week, we feel slightly worse because the strength in earnings results reported this week was not rewarded, making us worried we have limited near-term upside, even if we think medium-to-long-term strength is likely.**

There Is Opportunity in Financials



Source: Trivariate Research, LP

A few times this past week, investors articulated the bear case rooted largely in concerns about the return on the massive hyper-scaler investment that has occurred over the last few years. The scariest chart in our 2H outlook is the capital spending dollars coming from the top 10 companies as a percentage of all the capital spending dollars (see below), as 10 companies account for nearly 1/3rd of the spending of the top 2000 companies! Eventually, either the margins and multiples of those spending the money (META, AMZN, GOOGL, MSFT, etc.) will have to come lower as their capital intensity is structurally higher, or they will reduce spending and then NVDA will grow less rapidly as this spending is cut. Investors were concerned about this in January, and we saw the market and Mag 7 stocks materially lag in February and March, though the recent pickup in questions indicates increasing investor skepticism about the timing and implementation of AI-related productivity. We think this ultimately will cause a market sell-off, **and may even do so in August through October of this year,** if the market temporarily switches back into a "guilty until proven innocent" view of hyper-scaler spending. Eventually though, our judgment is this will not end in the next two years, unless we see increased evidence that the companies are competing on pricing resulting in simultaneous revenue deceleration and margin contraction.



Source: Trivariate Research, LP

CONCLUSION

There are a number of companies slated to report earnings in the next couple of weeks. Based on what we saw this past week, including Financials trading heavy based on strong results, initial commentary about tariffs impacting Semiconductors, and potentially high revenue expectations for the overall market, we are a shade more negative on a three-month basis today than a week ago. Nonetheless, we think it is likely we see reasonable earnings growth in 2026 and 2027 as major US companies benefit on productivity from AI investments. This "dream" likely remains alive for some time, fueling our view that investors want high-quality names to trade down, so they can buy them, and are unlikely to "panic sell" in a growth scare later this summer, short of far different macro news.

Important Disclosures

Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Colin Cooney, Chang Ge 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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