

Level Set: Scale Wins, Even in September

Whenever investors or the press broach the topic of S&P500 returns during a certain month, for some reason, it makes us bristle. The subject doesn't appeal to our analytical approach to life, and seems just a shade too 'astrological' for us. So if someone asked about January strength or September weakness, we usually just gaslit them with some hubristic answer about lack of statistical significance and the need for a few hundred more years of data. For those of you who follow our work, you may have noticed that we have changed our mind on several topics over the years and recently, and now you can add this one to the list. We finally put "pen to paper" - so to speak - and used analysis instead of anecdote. Below we show box and whisker plots for the S&P500's returns each month since 1929. The distributions of returns through this lens do show that September has been the worst calendar month, with the 75th percentile of September returns near the median for January, which was the best month historically. September's average return is -1.17%, while the monthly average of other months is 0.81%. This 1.98% average differential **is** statistically significant, whether using a one-side Welch t-test, a one-sided Mann-Whitney U test, an Analysis of Variance (ANOVA), or a Kruskal-Willis p-test, and one would reject a standard hypothesis that September was like all other months. Indeed, September has been the worst month for S&P500 returns historically.

What is a possible fundamental rationale for this underperformance? Perhaps the answer is that many investors come back from vacations in August, sharpen their pencils (that's two pencil references already), and then realize their second half EPS estimates are overly optimistic. There are also several investor conferences in September, and corporate updates about calendar Q3 progress when it is three-quarters complete may also on average drive lower estimates. So, it is possible this is not just something that started with some random events and geopolitical situations that morphed into a self-fulfilling prophecy.

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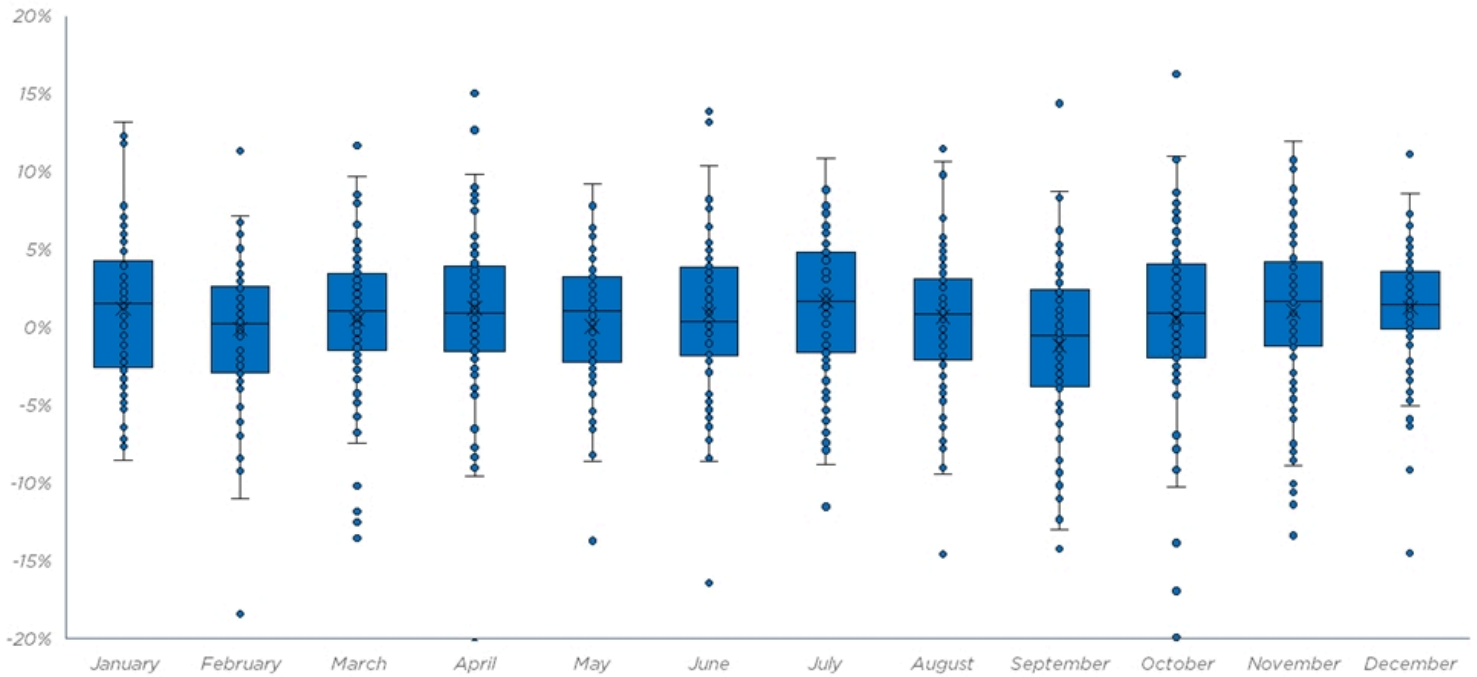
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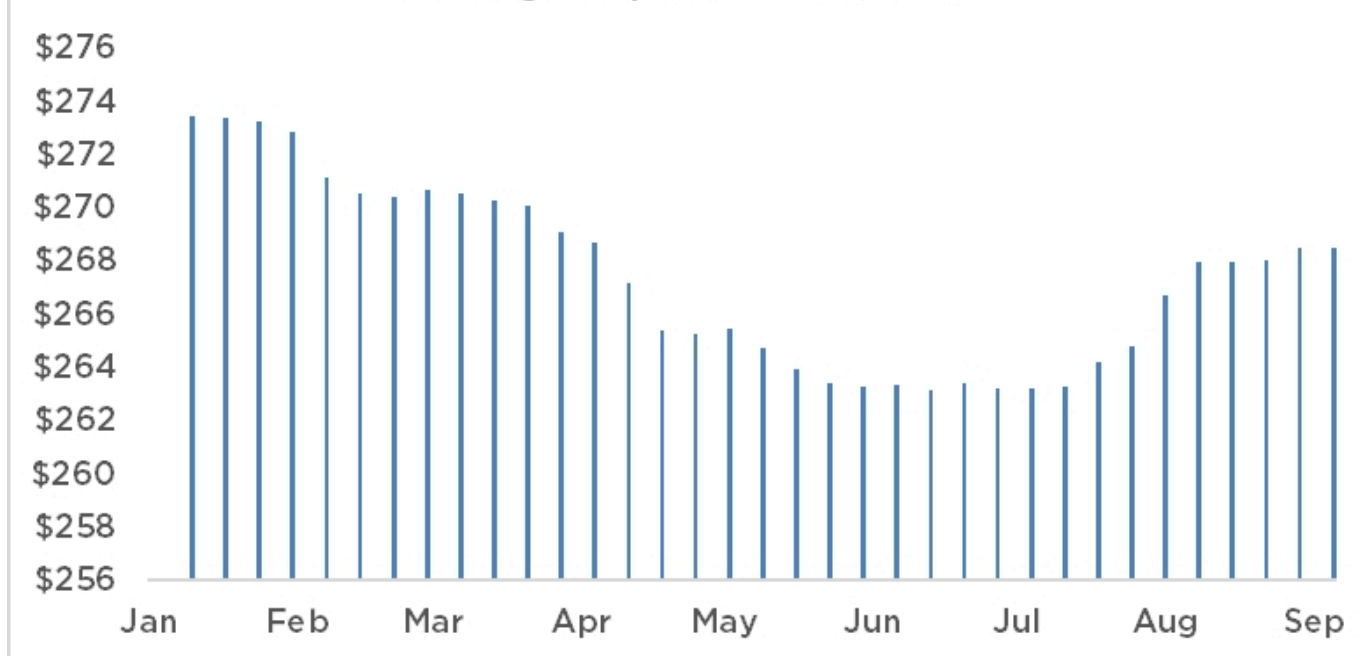
S&P500 Price Returns
January 1928 to August 2025



Source: Trivariate Research, LP

This year so far however, bottom-up consensus EPS estimates are higher now than they were a few months ago, belying the historical trend. Bottom-up estimates for 2025 are for \$269 in earnings today, vs. expectations of \$263 at the end of May (see below). That's pretty impressive, given businesses had to manage around tariffs, and a host of other geopolitical issues.

S&P500 Bottom-Up Consensus Estimates
Through September 5th, 2025



Source: Trivariate Research, LP

For sure, we have seen some signs of tariffs starting to bite companies over the past few weeks. We searched every earnings call transcript this year and bucketed the key tariff / pricing-related categories. Pricing, capital spending, labor, inventory, supply chain, and China are all among the key areas that impact margins. Disruption and diversification in the supply chain (see below)

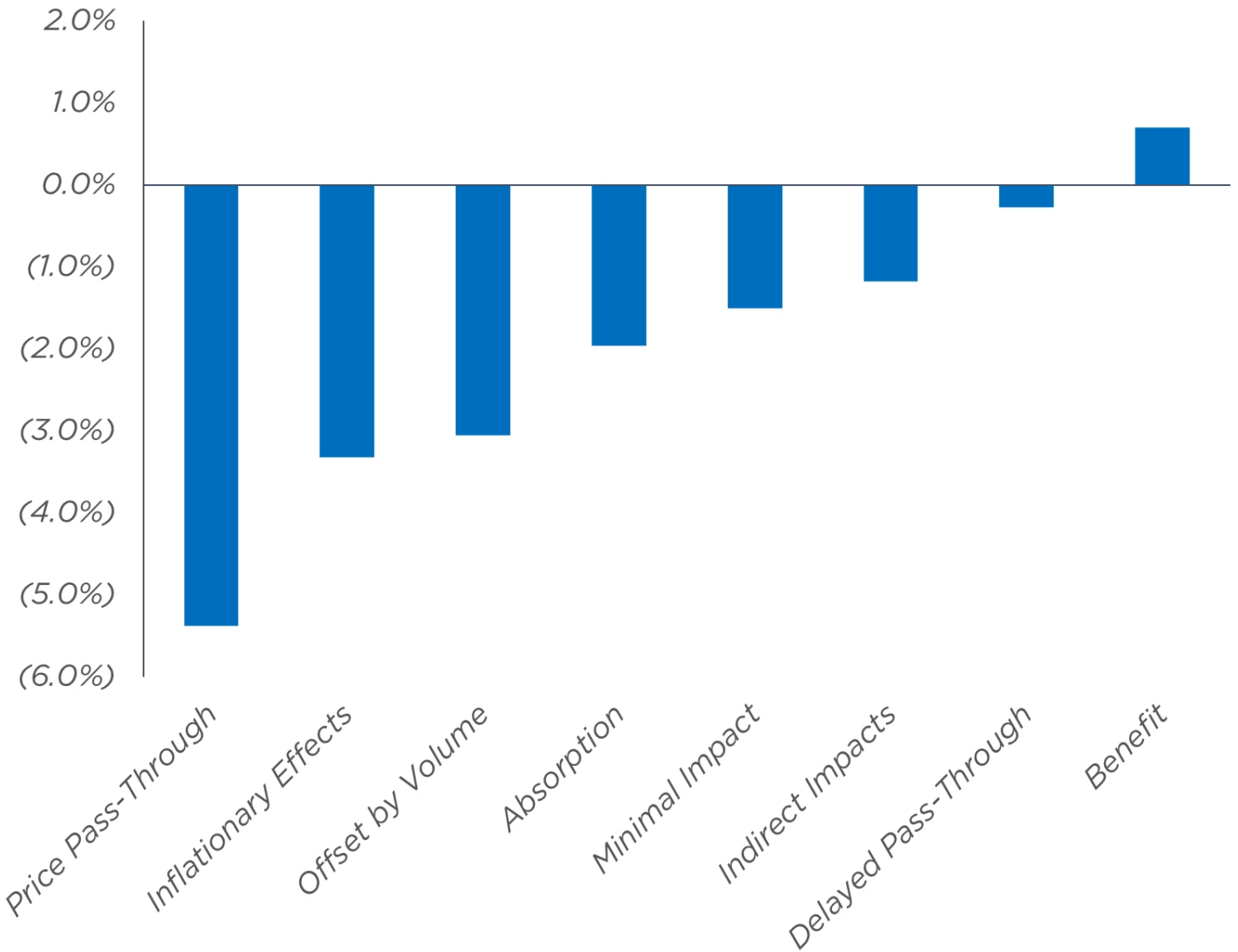
is language that comes up the most among the topics we searched for in the last earnings calls. Pass-on-pricing and lead time and pre-buying are also being mentioned on about 20% of the top 500 company's earnings calls.

Topics Discussed by T500 Stocks When They Mentioned Tariff In 2025 As of End-August, 2025			
Topic	Subtopic	Company Count	Top 5 Tickers
Pricing	Pass-on Pricing	142	AMZN, TSLA, WMT, HD, BAC
	Price Increase	19	NVDA, AAPL, WMT, LLY, JNJ
CapEx	CapEx Decision/Delay	83	JPM, BAC, ABT, ISRG, VZ
	U.S. Manufacturing Investment	79	AAPL, LLY, JNJ, ABBV, GE
Labor	Layoffs and Labor Costs	10	CB, GM, VRSK, CAH, HPE
	Hiring/U.S. Workforce	11	LIN, HWM, CHTR, GLW, NI
	Automation	7	TEL, RMD, JBL, PNR
Inventory	Lead Time & Pre-Buying	103	MSFT, NVDA, AAPL, AMZN, WMT
	Distorted Backlog/Order Patterns	53	NVDA, WMT, JPM, ABBV, CSCO
Supply Chain	Disruption & Diversification	220	NVDA, AAPL, TSLA, WMT, JPM
	Shortage	11	JNJ, NEE, BMY, GWW, SRE
Country	China	190	NVDA, AAPL, AMZN, TSLA, WMT

Source: Trivariate Research, LP

We also evaluated the stock performance of those mentioning certain issues — those saying tariffs benefited them, unsurprisingly performed best (see below). Those who commented on pricing pass-through or inflationary effects have lagged on a relative basis.

Tariff Topics: Impact on Pricing Average Industry-relative Return Since Latest Earnings Through End-August, 2025



Source: Trivariate Research, LP

Overall, we have not (yet) seen a dramatic impact from tariffs on US corporate profitability. We assess that by looking at several factors, including gross margins. Gross margins for the median stock sharply declined beginning in September 2021, as inflation grew, though the absolute level clearly bottomed in 2023. Margins rose until February of this year for the median stock, declined over 100bps from March to May, but ticked up again in June and July before roughly leveling in August at 46.3% (see below). The fact that the median stock among the top 500 market cap. has been able to show higher gross margins today than three months ago is strong evidence that tariffs are not massively impacting the S&P500.

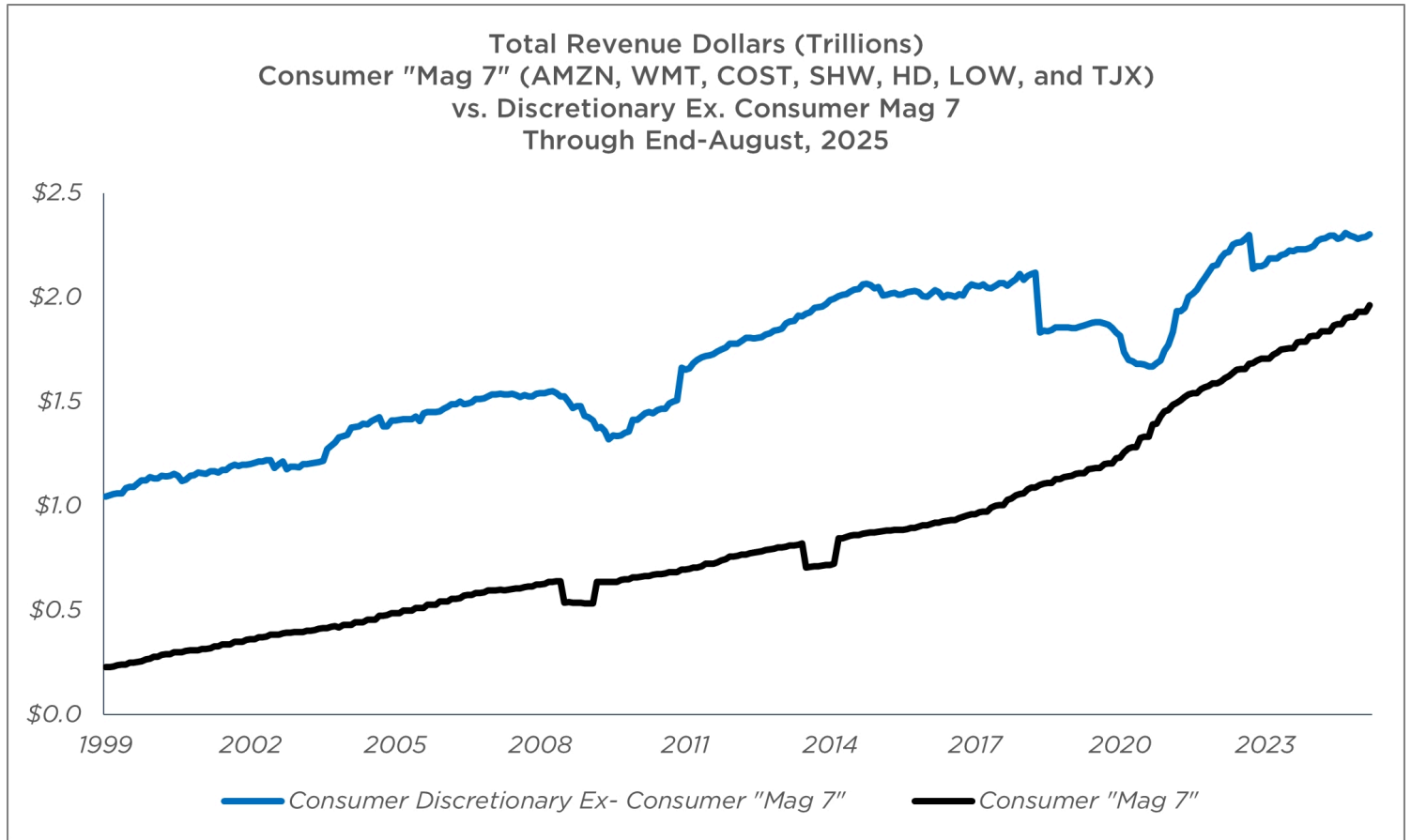
Median Gross Margin Top 500 US Equities, Ex-Financials & Real Estate Through End-August, 2025



Source: Trivariate Research, LP

There's no doubt though, that under the surface there are some businesses being impacted by tariffs. Select Semiconductor Capital Equipment companies mentioned it during the July reporting season, as we discussed multiple times during our Level Sets. But recently it has been more on the Consumer side. **35 Consumer Discretionary stocks were down more than 5% last week alone**, in an up tape, with Lululemon (Ticker: LULU) the highest profile "blow-up." For those who follow our work, we highlighted both LULU and Chipotle Mexican Grill (CMG) among our top Consumer short ideas at the beginning of 2024 in our year-ahead outlook. More and more, it appears like a dominant position and scale will matter to keep revenue growth and margins intact. We took a look at the Consumer Mag 7 — if you will — Amazon (AMZN), Walmart (WMT), Costco (COST), Home Depot (HD), Lowe's (LOW), TJX Companies (TJX), and Sherwin-Williams (SHW), a group of stocks that over time dominated the Retail space. It seems likely that in 2-3 years, these Consumer Mag 7 stocks, will have more revenue than all the rest of the Consumer Discretionary sector combined. Businesses that are sub-scale, like say Target (TGT), or that are brands not platforms (i.e., Nike (NKE), LULU), continue to suffer pressure on either margins, or growth, or both. We were early and correct about advising investors to avoid TGT and LULU, and frankly, more vocal about what we didn't like in Consumer, than what we did. We maintain an underweight view on the Consumer Discretionary sector, and prefer to own WMT, COST, and other

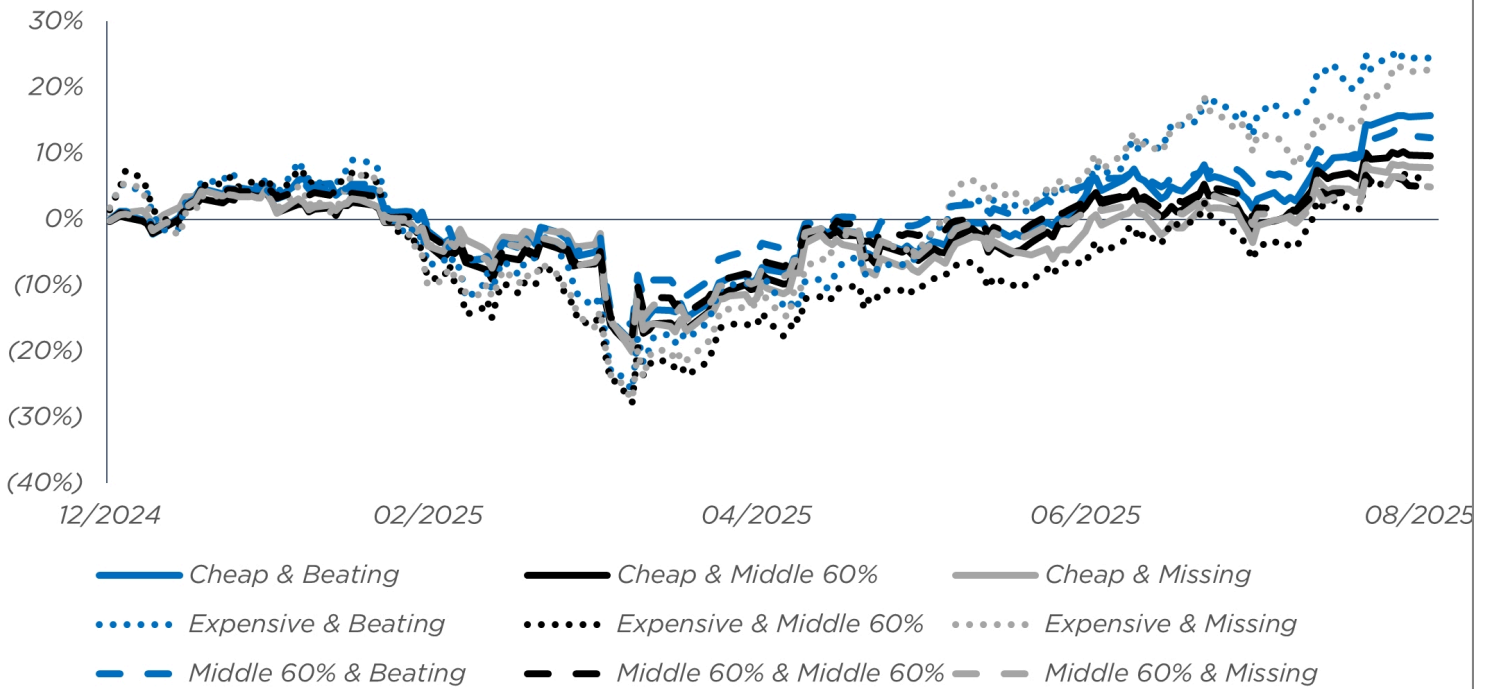
dominant brands where scale and margin expansion are most possible. This might be the consensus view, but the revenue growth trajectory (below) is hard to ignore.



Source: Trivariate Research, LP

In many of our recent meetings we have been talking about our work on valuation, and how we don't think valuation is particularly useful for stock selection. That being said, when we hear stock pitches (including at a great investor dinner we hosted in New York City last week), what resonates the most with us as a long idea is a stock that is cheap and can sustain upward revisions. On the other hand, we love short ideas that are expensive and are going to miss estimates. We all want that "double whammy" of a higher multiple on higher-than-expected estimates for a long idea, and a lower multiple on lower-than-expected estimates for a short idea. Below we show the year-to-date performance of nine buckets. These are: cheapest quintile on price-to-forward earnings, middle 60%, and most expensive decile on price-to-forward earnings (money losers) combined with beating estimates, missing estimates, or having relatively unchanged estimates. The best performing cohort year-to-date, given the huge move off of April lows, has been expensive stocks that beat estimates (dotted blue line below). They have performed far better than companies that were cheap and beat estimates! The second-best performing bucket has been expensive stocks that MISS estimates. Cheap companies that miss estimates have underperformed, indicating their low valuation was not fully "in-the-price." Overall, though, valuation combined with revisions has been mixed in its efficacy year-to-date.

YTD Cumulative Return by Price-to-Forward Earnings & Revenue Beating vs. Missing Cohort, Top 3k US Equities Through September 3rd, 2025



Source: Trivariate Research, LP

CONCLUSION: While history shows September has consistently been the weakest month for S&P500 returns, with a statistically significant underperformance relative to other months, today's earnings environment looks more resilient, with consensus estimates for 2025 earnings rising despite tariff and geopolitical headwinds. Tariffs have pressured some companies — particularly in Consumer Discretionary and select Semiconductors — but median gross margins have remained stable, suggesting limited systemic impact. Scale and dominant positioning appear increasingly critical for sustaining growth and profitability, reinforcing the long-term advantage of “Consumer Mag 7” leaders like Walmart and Costco over sub-scale peers such as Target and Lululemon. On valuation, traditional metrics alone remain unreliable as predictors, with performance instead hinging on the interplay between revisions and multiples, where expensive stocks that beat estimates have outpaced all other groups this year. Overall, investors should remain selective, focusing on scale-driven winners and revision dynamics rather than relying solely on seasonal patterns or static valuation signals.

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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