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TRIVARIATE RESEARCH

LEVEL SET: WHAT REALLY HAPPENED IN Q3 2025

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A MUST READ TO UNDERSTAND TODAY’S US STOCK MARKET

At the start of each quarter, we compile a detailed summary of the recently completed quarter with the goal of helping investors understand what really happened, enabling them to make better investment decisions. In addition, we share insights that will facilitate investor communications, client conversations, and quarterly letters. Furthermore, this report seeks to identify and monitor emerging risk management concerns. We created this methodology to inform the letters we wrote while previously running our hedge fund. We have organized today’s work into six distinct areas:

1. **Performance facts:** Indices, cohorts, sectors and industries, specialty baskets, best performers and largest contributors.
2. **Factor efficacy:** Overall, within sector, and any substantial changes or reversals.
3. **Opportunity set:** Which areas of the market were increasingly better for potential alpha generation, insights generated by assessing changes to company-specific risk, valuation dispersion, and pairwise correlations.
4. **Corporate profitability:** Where were the biggest changes to the earnings outlook from the beginning to the end of the quarter by sector, and how do we gauge estimate achievability.
5. **Macro / Economic:** What happened to level and change for US economic activity, consumer activity, financial conditions / interest rates, industrial activity, commodities / oil, the dollar, Chinese and European economies during the previous quarter.
6. **13F filings & insider transactions:** Which managers changed ownership stakes in high conviction stocks, and which stocks saw open market insider buys/sells.

HUGE QUARTER LED BY TECH AND COMM. SERVICES, STAPLES WORST

A strong quarter: The S&P500 was up 7.8% during Q3 (8.1% on a total return basis). The Nasdaq was up 11.2% in Q3, and the Russell 2000 outperformed the Nasdaq and the S&P500, up 12.02%. Looking forward to Q4, it is not that common that the R2k beats both the Nasdaq and the S&P500 for two consecutive quarters – this last happened in Q4 2020 and Q1 2021.

The risk-on growth trade worked in Q3.

Style: Hyper growth stocks were up 16.1% on a cap-weighted basis, 7.2% equally-weighted. Growth beat value by 3.8% in Q3.

Size: The mega-cap universe was up 10.6% in Q3 vs. the S&P500 up 8.1% on a total return basis.

Substance: Junk beat quality by 1.6%. Stocks that were cheap for a reason, meaning had bad prior momentum and extremely low valuation, were up 9.2% on an equally-weighted basis.

Sectors: Technology (up 13.04%), Communication Services (up 11.82%), and Discretionary (up 9.36%) performed best in Q3. Staples (down 2.90%), Real Estate (up 1.72%), and Materials (up 2.63%) were worst.

Industries: Among the S&P500, Automobiles (up 37.94%), Automobile Components (up 26.39%), and Tech. Hardware, Storage & Peripherals (up 24.41%) were best, Media (down 13.56%), Personal Care Products (down 12.36%), and IT Services (down 11.57%) were worst.

FACTOR INVESTING LARGELY FAILED IN Q3 2025

Inflation: Inflation didn't really impact portfolio positioning during Q3. Some stocks that are highly correlated to our inflation basket, like Deere (DE), Freeport-McMoran (FCX), and Carrier (CARR) were down double-digits in the quarter, offset by strong performers like United Rentals (URI) and Caterpillar (CAT), making the overall spread de minimis.

Momentum modestly worked: Stocks that had good 3- and 6-month price momentum modestly outperformed in Q3. However, 12-month price momentum was a weak indicator for returns in Q3. The tariff scare of April 2025 clearly marked a new regime for winners and losers in the market.

Big Movers: Six stocks were up more than 300% in Q3, including OPEN, BETR, KOD, QURE, TLRY, and ONDS. Ten stocks were down more than 50% in Q3, with the worst performers including MLTX, NAKA, and ALTS. On a market-cap basis, five stocks added more than $2.9 Trillion in market cap. during Q3, led by GOOGL ($797.7 Billion bigger), AAPL, NVDA, TSLA, and AVGO. The biggest five losers (PM, CAN, ISRG, CRM, and NFLX) ended Q3 $193 billion smaller than at the end of Q2.

Factor Efficacy: Factor investing largely failed in Q3 2025. Only 2 factor spreads out of the 240 we tested returned outside of +/- 10%. In Q2 2025, 39 of the 240 factors returned outside of +/- 10%. The most effective metric for picking winners from losers in Q3 was R&D-to-SG&A, followed by high volatility and price-to-tangible book. Low R&D-to-Sales beat high R&D-to-Sales. Companies closer to defaulting beat companies farther from defaulting. Long-horizon quantitative models likely performed poorly in Q3.

THE ALPHA ENVIRONMENT DETERIORATED IN Q3 ON KEY METRICS

The alpha environment was generally worse on three key metrics we monitor:

Valuation dispersion was mixed: We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry. Valuation dispersion was mixed, rising in 12 of the 25 Industry Groups. Real Estate Management & Development and Consumer Durables & Apparel saw the biggest increases in valuation dispersion. Software & Services valuation dispersion is no longer aberrant, as Software multiples have broadly compressed for nearly four years.

Median pairwise correlations were higher: During Q3, pairwise correlations (PWC) rose in all Industries except Telecommunication Services. PWC rose the most in Transportation and Consumer Durables & Apparel.

Company-specific risk (CSR) was mixed: Company-specific risk (CSR) rose in 13 of 25 industry groups. CSR rose the most in Utilities, Semis, and Software, and fell the most in Transportation, Materials, and Consumer Durables & Apparel.

Earnings Expectations Appear High: Current bottom-up earnings expectations are for 9.2% growth in 2025, and 14.0% in 2026. Analysts are forecasting Consumer Staples and Energy to have declining year-over-year earnings in 2025. The highest 2025 bottom-up earnings expectations are in Technology, Communication Services, and Healthcare. For Q3, 5 of the 11 sectors are forecasted to have a year-over-year earnings decline.

ESTIMATES HIGHER, MACRO DATA IN Q3 BETTER THAN EXPECTED

Earnings outlook: As we start the October earnings season, we are not expecting major negative pre-releases. Overall, for the S&P500, earnings expectations are 1.7% higher for the full year 2025 versus where they were at the beginning of the quarter. For Q3 2025 earnings expectations, estimates are flat for the overall market and 7.6% lower for Healthcare. 6 of 11 sectors have lower Q3 estimates today than at the beginning of the quarter, with Energy and Technology seeing the highest positive revisions over the last three months. Financials earnings estimates are 4% higher now for the full year than 3 months ago.

Macro data was generally better than anticipated in Q3: Trivariate's Economic Activity Gauge is ticking higher after two flat quarters, with no real Q3 slowdown. Leading indicators look slightly better than June, though weaker from July to August, while NFIB optimism and the Philly Fed survey are now at their highest levels this year, and the Citi Surprise Index remains positive. Financial conditions stayed broadly stable to slightly looser, with the 10-year yield steady near 4.2%, the 2-year modestly lower, and forward Fed funds expectations easing to about 3.2% after one rate cut. Against this backdrop, the S&P 500 traced a "check-shaped" rebound in 2025, helped by the prospect of further easing even as long rates stayed stable. Industrial activity improved modestly in Q3, with Trivariate's Industrial Activity gauge ticking higher after a flat Q2. Freight volumes and rates showed positive momentum into quarter-end, while Industrial Production and ISM data remained soft but slightly better than mid-summer levels.

OIL FLATTISH, GOLD HIGHER, CHINA IMPROVING, $ NOT AS WEAK

Oil flattish, Gold up: During Q3, oil was a touch lower, down 0.9% for Brent (from $67.61 to $67.02) and WTI down 4.2% ($65.11 to $62.37). Despite these declines, the Daily National Average Gasoline Price was down only 0.6% in Q3. Demand for Natural Gas may grow to meet the AI power boom, but Natural Gas was down 0.6% during Q3 after being down 16.1% in Q2. Agricultural commodities were slightly lower during Q3. Wheat was down 3.9% and Cotton was down 4.5% but Sugar was up 4% in Q3 after falling 17.9% during Q2. Gold was up 17.1% during Q3, and Silver rose 29.2%. The overall Bloomberg Commodity Index was up 2.6% in Q3.

Dollar stronger than consensus expectations: The dollar as measured by the DXY was more stable overall in Q3 (weaker by 0.9%) after being 7% weaker in Q2. We wrote a quarter ago that the most consensus macro trade was that the dollar would continue to weaken, but that has not really materialized at the rate many expected. The dollar strengthened by 0.8% against the Euro, and by 2.2% against both the Pound and the Loony. The dollar finished Q3 2.7% weaker against the Yen.

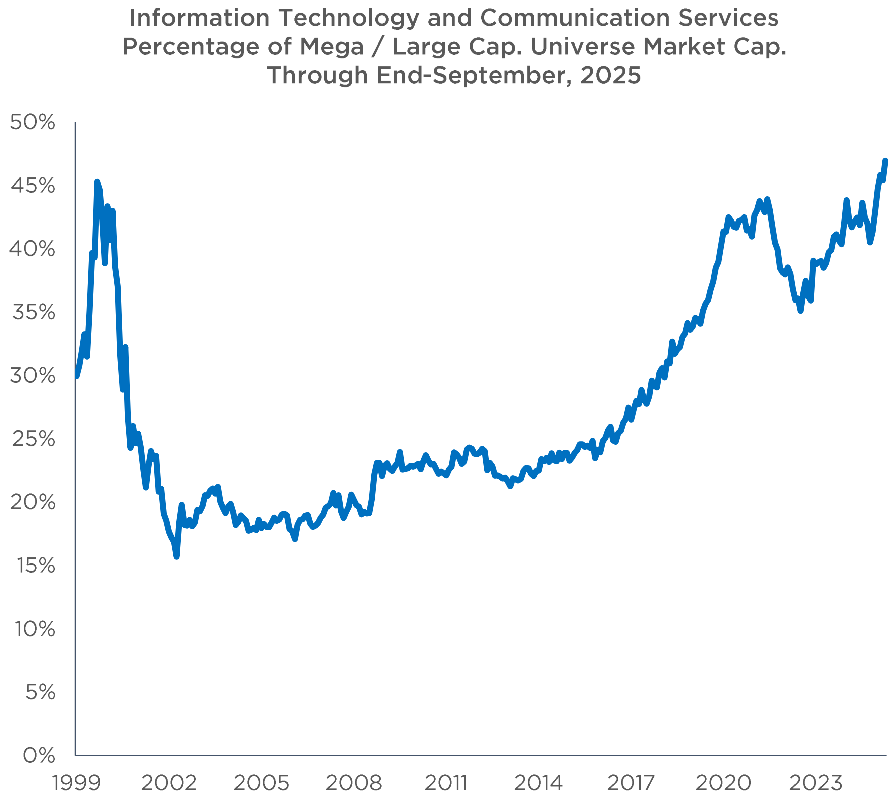
The Chinese economy now looks like it is increasing. The Citi Surprise Index for China was down in Q3 but has ticked higher in recent weeks. Commercial Residential Property Prices have gotten steadily less negative throughout the year. Fixed asset investment steadily rose during Q3. China auto sales also grew each month August vs. July and July vs. June.

Conviction stocks: Trivariate defines high conviction stocks as single stocks in which fund managers own more than 3% of their long assets under management. Among the proprietary universe of managers we follow, investors have increased positions in stocks like UNH, COF, and U, while fewer managers have conviction in LPLA, CRH, and CVNA today than at the end of Q2.

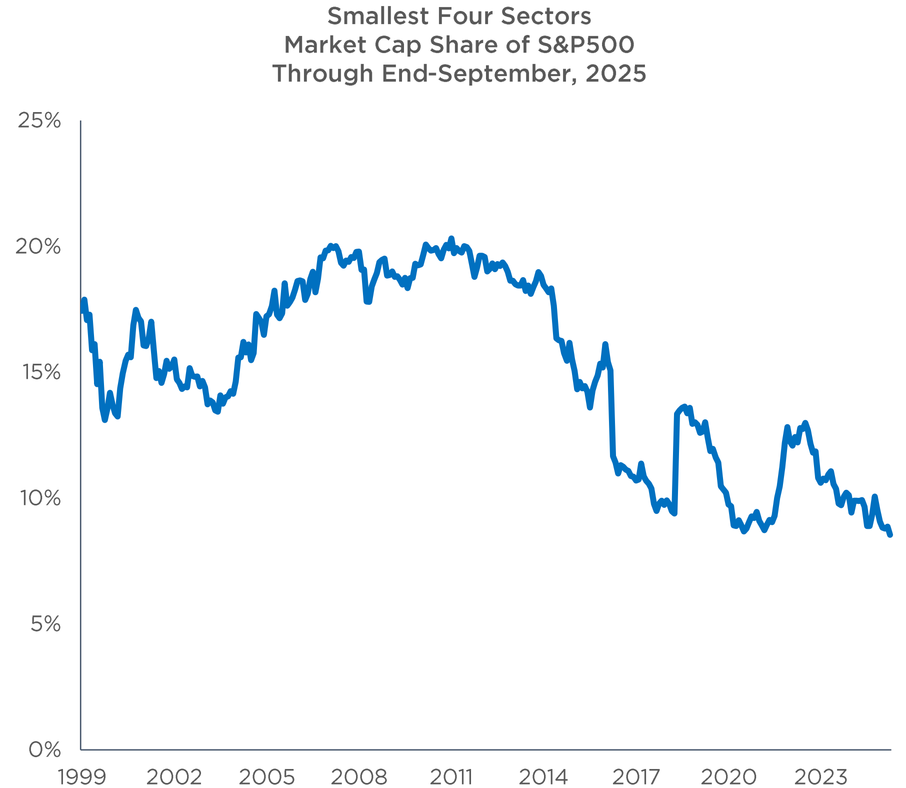
Insider activity: GABC, SPG, EMN, MTDR, SHEN, and GRNT had the most insider buys with no sales during Q3. TWST, SERV, CIFR, PHR, SITM, and TTAN had the most insider sales with no insider buys.

SECTOR CONCENTRATION CONTINUED IN Q3 AND IS NOW HISTORIC

Technology and Communication Services combined are now a higher percentage of mega-/large-cap. market capitalization, at 46.9% of the total (left), than they were during the peak of the TMT bubble in 2000. All the while, four sectors total, Real Estate, Energy, Materials, and Utilities, are 8.5% of the mega-/large-cap universe (right), the lowest ever.



Source: Trivariate Research



Source: Trivariate Research

GROWTH WORKED, BUT SO DID JUNK. MEGA CAPS OUTPERFORMED

The risk-on growth trade worked in Q3. Hyper growth stocks were up 16.1% on a cap-weighted basis, 7.2% equally-weighted. The mega-cap universe was up 10.6% in Q3 vs. the S&P500 up 8.1% on a total return basis. Growth beat value by 3.8% in Q3. Junk beat quality by 1.6%. Stocks that were cheap-for-a-reason, meaning had bad prior momentum and extremely low valuation, were up 9.2% on an equally-weighted basis.

Q3 2025 Portfolio Returns

Portfolio	Cap-Weighted Average Return	Simple Average Return	Difference
Hyper Growth	16.1%	7.2%	8.9%
Long High Quality, Short Junk	(1.6%)	(7.9%)	6.3%
Mega Cap	10.6%	6.2%	4.4%
Long Mega / Large Cap, Short Mid Cap.	1.9%	(1.7%)	3.6%
High Quality	6.9%	3.6%	3.3%
Long Mid Cap, Short Small / Micro Cap.	(2.8%)	(4.7%)	1.9%
Growth	10.6%	9.3%	1.3%
Large Cap	5.0%	4.9%	0.1%
3-Month Momentum	3.9%	3.8%	0.0%
High Yield	6.8%	6.8%	(0.0%)
Value	6.8%	7.2%	(0.5%)
12-Month Momentum	(0.2%)	0.5%	(0.7%)
6-Month Momentum	3.2%	4.0%	(0.8%)
Small Cap	8.7%	9.6%	(0.9%)
Long Value, Short Growth	(3.8%)	(2.1%)	(1.7%)
Junk Quality	8.1%	11.9%	(3.8%)
Cheap-for-a-Reason	5.3%	9.2%	(4.0%)

Source: Trivariate Research

PHARMA, BIOTECH, AND ELECTRICAL EQUIPMENT HAD A STRONG Q3

The best performing Industry in Q3 was Automobiles, up 37.3% on a cap-weighted basis, driven by Tesla, which was up 40% during the quarter. Construction Materials (up 22.2%) and Interactive Media & Services (up 19.8%) were next best. On an equally-weighted basis, Electrical Equipment (up 32.6%), Biotechnology (up 29.9%), and Pharmaceuticals (up 29.8%) were best. Only Marine Transportation (down 3.7%), Paper & Forest Products (down 1.5%) and the Consumer Staples sector (down 1.5%) declined on a cap-weighted basis in Q3.

Q3 2025 Select GICS Industry and Sector Returns for Top 3000 Universe

Sector or Industry	Cap-Weighted Average Return	Simple Average Return	Difference
Automobiles	37.3%	5.6%	31.8%
Interactive Media & Services	19.8%	3.7%	16.2%
Communication Services	12.6%	4.9%	7.7%
Ground Transportation	5.1%	(1.4%)	6.6%
Paper & Forest Products	(1.5%)	(7.6%)	6.1%
Electronic Equipment, Instruments & Components	18.2%	12.3%	5.9%
Construction Materials	22.2%	16.8%	5.4%
Information Technology	13.0%	11.1%	1.9%
Utilities	7.9%	7.2%	0.8%
Consumer Discretionary	8.8%	9.5%	(0.7%)
Financials	3.7%	4.7%	(1.0%)
Consumer Staples	(1.5%)	0.1%	(1.6%)
Real Estate	3.6%	7.2%	(3.7%)
Industrials	5.9%	10.0%	(4.1%)
Energy	6.1%	11.2%	(5.2%)
Materials	9.0%	14.6%	(5.6%)
Distributors	6.0%	17.8%	(11.8%)
Health Care	5.6%	18.0%	(12.4%)
Marine Transportation	(3.7%)	9.8%	(13.5%)
Broadline Retail	0.2%	15.5%	(15.3%)
Biotechnology	14.6%	29.9%	(15.4%)
Electrical Equipment	12.5%	32.6%	(20.2%)
Pharmaceuticals	6.2%	29.8%	(23.6%)

Source: Trivariate Research

OUR AI BASKET PERFORMED IN-LINE IN Q3, INFLATION DIDN'T MATTER

Inflation-exposed stocks were down 2.0% in Q3. Stocks with good 3- and 6-month momentum outperformed those with poor momentum by 3.8% and 4.0% respectively. Our AI basket was flat in Q3.

Q3 2025 Select Portfolio Returns

Sector	Return	Observation
Inflation Basket	(2.0%)	Inflation didn't really impact portfolio positioning during Q3. Some stocks that are highly correlated to our inflation basket, like Deere (DE), Freeport-McMoran (FCX), and Carrier (CARR) were down double-digits in the quarter, offset by strong performers like United Rentals (URI) and Caterpillar (CAT), making the overall spread de minimis.
12-Month Momentum	0.5%	We show Q1-Q5 spreads for these three different momentum metrics on an equally-weighted basis. Stocks that had good 3- and 6-month price momentum modestly outperformed in Q3. However, 12-month price momentum was a weak indicator for returns in Q3. The tariff scare of April 2025 clearly marked a new regime for winners and losers in the market.
6-Month Momentum	4.0%	
3-Month Momentum	3.8%	
AI	(0.0%)	We created an AI basket by using language processing on transcripts to search for terms related to AI. We then created a basket of stocks where AI-related terms were most frequently mentioned. This basket performed in-line with growth stocks that did not mention AI on their transcripts during Q3, despite what everyone thinks.

Source: Trivariate Research

5 COMPANIES ADDED NEARLY $3 TRILLION IN MARKET CAP IN Q3

Six stocks were up more than 300% in Q3, including OPEN, BETR, KOD, QURE, TLRY, and ONDS. OPEN's short-squeeze resulted in the best performing stock in Q3 in our Top 3000 Universe. Ten stocks were down more than 50% in Q3, with the worst performers including MLTX, NAKA, and ALTS. On a market-cap basis, five stocks added more than $2.9 Trillion in market cap. during Q3, led by GOOGL ($797.7 Billion bigger), AAPL, NVDA, TSLA, and AVGO. The biggest five losers (PM, CAN, ISRG, CRM, and NFLX) ended Q3 $193 billion smaller than at the end of Q2.

Q3 2025 Select Stock Total Returns

Ticker	Company	Q3 Total Return	Sept. 30 Market Cap. (US$ Bil.)
OPEN	Opendoor Technologies Inc.	1395.3%	5.87
BETR	Better Home & Finance	353.1%	0.86
KOD	Kodiak Sciences Inc.	338.9%	0.86
QURE	uniQure N.V.	318.7%	4.31
TLRY	Tilray Brands, Inc.	317.5%	1.93
ONDS	Ondas Holdings Inc.	302.1%	2.52
NEGG	Newegg Commerce, Inc.	293.0%	0.86
CELC	Celcuity Inc.	270.0%	2.10
BE	Bloom Energy Corporation	253.6%	19.79
IREN	IREN Limited	222.1%	12.76
LFMD	LifeMD, Inc.	(50.1%)	0.32
TONX	TON Strategy Company	(51.4%)	0.43
ACDC	ProFrac Holding Corp.	(52.3%)	0.67
REPL	Replimune Group, Inc.	(54.9%)	0.33
AGL	agilon health, inc.	(55.2%)	0.43
SEZL	Sezzle Inc.	(55.6%)	2.71
AEVA	Aeva Technologies, Inc.	(61.6%)	0.82
ALTS	ALT5 Sigma Corporation	(65.9%)	0.34
NAKA	Kindly MD, Inc.	(80.3%)	0.40
MLTX	MoonLake Immunotherapeutics	(84.8%)	0.46

Source: Trivariate Research

Q3 2025 Select Stock Market Cap. Delta

Ticker	Company	Q3 Market Cap. Added (Lost) (US$ Bil.)	Sept. 30 Market Cap. (US$ Bil.)
GOOGL	Alphabet Inc.	797.7	2,942.5
AAPL	Apple Inc.	714.4	3,778.8
NVDA	NVIDIA Corporation	678.9	4,533.9
TSLA	Tesla, Inc.	455.6	1,478.8
AVGO	Broadcom Inc.	261.4	1,558.0
PM	Philip Morris International Inc.	(31.0)	252.5
ACN	Accenture plc	(32.6)	153.6
ISRG	Intuitive Surgical, Inc.	(34.4)	160.3
CRM	Salesforce, Inc.	(35.1)	225.6
NFLX	Netflix, Inc.	(60.4)	509.5

Source: Trivariate Research

FACTOR INVESTING LARGELY FAILED TO EXPLAIN RETURNS IN Q3

Factor investing largely failed in Q3 2025. Only 2 factor spreads out of the 240 we tested returned outside of +/- 10%. In Q2 2025, 39 of the 240 factors returned outside of +/- 10%. The most effective metric for picking winners from losers in Q3 was R&D-to-SG&A, followed by high volatility and price-to-tangible book. Low R&D-to-Sales beats high R&D-to-Sales. Companies closer to defaulting beat companies farther from defaulting, a proxy for "junk" performing well. Overall, we suspect most long-dated quantitative models performed poorly in Q3.

Best and Worst Performing Signals During Q3 2025, Rebalanced Monthly (Top 500)

Signal	July Return	August Return	September Return	Q3 2025 Return
R&D-to-SG&A (Long High, Short Low)	4.4%	4.3%	9.0%	18.7%
Volatility (Long High, Short Low)	5.4%	2.0%	1.7%	9.3%
Price-to-Tangible Book	2.6%	3.2%	2.4%	8.5%
Price-to-EBITDA	2.9%	7.2%	(1.7%)	8.4%
SG&A-to-Sales Growth (Long Low, Short High)	3.4%	(0.1%)	4.3%	7.7%
Price-to-Earnings	1.5%	6.3%	(0.3%)	7.6%
EV-to-EBITDA	1.3%	7.5%	(1.2%)	7.5%
Price-to-Forecast Sales	1.2%	6.1%	(0.0%)	7.4%
SG&A-to-Sales (Long Low, Short High)	0.9%	1.6%	4.7%	7.2%
Price-to-Book	1.8%	5.8%	(0.7%)	6.9%
Forecast Net Margin	(0.6%)	(1.9%)	(1.8%)	(4.2%)
Gross Margin	(1.3%)	(1.7%)	(1.6%)	(4.4%)
Dividend Yield vs. History	(0.9%)	2.8%	(6.3%)	(4.6%)
Total Yield (Buyback + Dividend) vs. History	(1.5%)	0.9%	(4.1%)	(4.6%)
Forecast EPS Growth	(2.7%)	(1.5%)	(1.8%)	(5.8%)
Capex-to-Depreciation	(2.9%)	(1.7%)	(2.5%)	(6.9%)
Inventory-to-Sales (Long Low, Short High)	(0.9%)	(0.8%)	(5.3%)	(6.9%)
Distance-to-Default	(3.2%)	(4.8%)	0.4%	(7.5%)
R&D-to-Sales Acceleration (Long High, Short Low)	(2.0%)	(3.9%)	(3.4%)	(9.1%)
R&D-to-Sales (Long High, Short Low)	(6.0%)	(4.1%)	(6.3%)	(15.5%)

Source: Trivariate Research

Q3 HAD HIGHER CORRELATIONS FOR 24 OF 25 INDUSTRY GROUPS

During Q3, pairwise correlations (PWC) rose in all Industry Groups except Telecom. Services (left). PWC rose the most in Transportation and Consumer Durables & Apparel. Company-specific risk (CSR) rose in 13 of 25 industry groups. CSR rose the most in Utilities, Semis, and Software, and fell the most in Transportation, Materials, and Consumer Durables & Apparel.

Q3 2025 Change and Level of Median Pairwise Correlation

Industry Group	Change in Median Pairwise Correlation	Level of Median Pairwise Correlation
Transportation	12.5	45.8
Consumer Durables & Apparel	12.2	51.9
Household & Personal Products	8.3	32.2
Semiconductors & Semiconductor Equipment	7.3	59.7
Automobiles & Components	6.0	43.5
Technology Hardware & Equipment	5.9	49.4
Media	5.5	31.5
Consumer Services	5.1	36.7
Real Estate Management & Development	4.9	39.2
Consumer Discretionary Distribution & Retail	4.6	39.3
Pharmaceuticals, Biotechnology & Life Sciences	4.4	30.6
Software & Services	4.3	41.3
Capital Goods	4.1	43.1
Commercial & Professional Services	3.9	32.6
Food, Beverage & Tobacco	3.8	27.6
Financial Services	3.7	44.4
Health Care Equipment & Services	3.4	24.4
Insurance	3.1	44.7
Materials	3.0	37.1
Banks	2.8	73.7
Equity Real Estate Investment Trusts (REITs)	2.3	54.1
Consumer Staples Distribution & Retail	2.1	24.1
Energy	1.9	48.0
Utilities	1.7	42.6
Telecommunication Services	(0.1)	21.8

Source: Trivariate Research

Q3 2025 Change and Level of Company-Specific Risk (%)

Industry Group	Change in CSR	Level of CSR
Utilities	5.1	56.6
Semiconductors & Semiconductor Equipment	4.5	50.5
Software & Services	4.4	57.6
Energy	3.4	53.4
Financial Services	2.9	50.4
Insurance	2.8	59.4
Consumer Services	2.7	62.6
Technology Hardware & Equipment	2.6	52.7
Pharmaceuticals, Biotechnology & Life Sciences	2.6	69.8
Automobiles & Components	2.4	53.9
Capital Goods	2.2	50.7
Consumer Staples Distribution & Retail	1.4	71.6
Consumer Discretionary Distribution & Retail	1.3	59.9
Real Estate Management & Development	(0.3)	56.6
Health Care Equipment & Services	(0.4)	66.4
Food, Beverage & Tobacco	(0.6)	69.2
Media & Entertainment	(0.6)	63.6
Equity Real Estate Investment Trusts (REITs)	(0.9)	47.7
Telecommunication Services	(1.0)	70.3
Commercial & Professional Services	(1.2)	60.2
Household & Personal Products	(2.3)	62.0
Banks	(2.3)	31.3
Transportation	(2.3)	51.7
Materials	(3.4)	53.3
Consumer Durables & Apparel	(5.1)	47.9

Source: Trivariate Research

VALUATION DISPERSION WAS MIXED, RISING IN 12 OF 25 INDUSTRIES

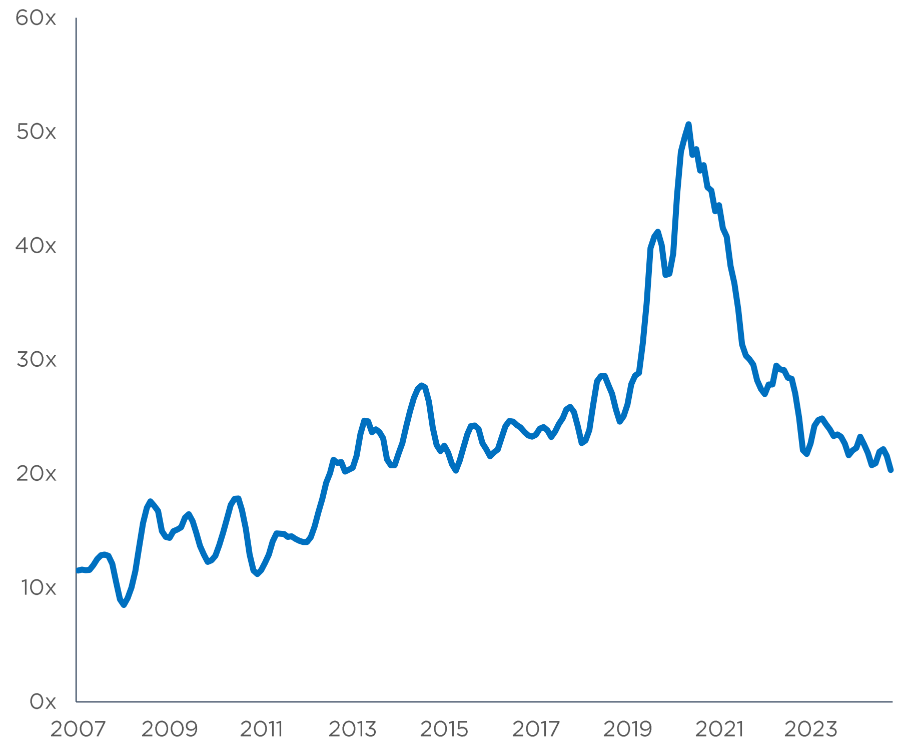
We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry (left table). Valuation dispersion was mixed, rising in 12 of the 25 Industry Groups. Real Estate Management & Development and Consumer Durables & Apparel saw the biggest increases in valuation dispersion. Software & Services valuation dispersion is no longer aberrant (right), as Software multiples have broadly compressed for nearly four years.

Q3 2025 Level and 3m Change in 3-Month Average of Cross-Sectional Dispersion in Price-to-Forward Earnings

Industry Group	Change of PEF Dispersion	Level of PEF Dispersion
Real Estate Management & Development	1.6x	20.8x
Consumer Durables & Apparel	1.4x	13.1x
Energy	1.1x	14.2x
Media & Entertainment	0.9x	18.7x
Household & Personal Products	0.7x	9.7x
Capital Goods	0.7x	15.2x
Semiconductors & Semiconductor Equipment	0.4x	19.1x
Utilities	0.4x	8.1x
Technology Hardware & Equipment	0.3x	14.7x
Materials	0.1x	13.6x
Telecommunication Services	0.1x	13.8x
Consumer Services	0.0x	15.6x
Financial Services	(0.0x)	11.3x
Transportation	(0.4x)	15.0x
Pharmaceuticals, Biotechnology & Life Sciences	(0.9x)	16.0x
Health Care Equipment & Services	(0.9x)	18.8x
Banks	(1.0x)	4.9x
Food, Beverage & Tobacco	(1.2x)	10.3x
Consumer Discretionary Distribution & Retail	(1.2x)	14.6x
Commercial & Professional Services	(1.3x)	11.9x
Equity Real Estate Investment Trusts (REITs)	(1.4x)	14.9x
Consumer Staples Distribution & Retail	(1.4x)	9.8x
Automobiles & Components	(1.5x)	12.7x
Software & Services	(1.6x)	20.3x
Insurance	(2.5x)	8.6x

Source: Trivariate Research

Software & Services Price-to-Forward Earnings Dispersion Through End-September, 2025



Source: Trivariate Research

EPS FORECASTS ARE FOR 9.2% GROWTH IN 2025, 14.0% IN 2026

Current bottom-up earnings expectations are for 9.2% growth in 2025 and 14.0% in 2026. Only Consumer Staples and Energy are forecasted to have declining year-over-year earnings in 2025. The highest 2025 bottom-up earnings expectations are in Technology, Communication Services, and Healthcare. For Q3, 5 of the 11 sectors are forecasted to have a year-over-year earnings decline.

Bottom-Up Analyst Earnings Growth Expectations
September 26th, 2025

Sector	2024	1Q25	2Q25E	3Q25E	4Q25E	2025E	2026E
S&P 500	9.5%	12.6%	11.1%	6.9%	6.8%	9.2%	14.0%
S&P ex-Financials	8.3%	14.4%	10.8%	5.9%	7.2%	9.4%	14.6%
Consumer Discretionary	14.9%	7.4%	4.4%	(2.2%)	(2.0%)	1.5%	13.1%
Consumer Staples	3.0%	(6.3%)	(1.5%)	(4.5%)	2.7%	(2.4%)	7.5%
Energy	(23.8%)	(18.9%)	(20.9%)	(5.5%)	(0.5%)	(12.2%)	18.0%
Financials	15.0%	5.0%	12.2%	11.2%	4.8%	8.2%	11.4%
Healthcare	1.9%	41.8%	6.0%	(1.9%)	3.1%	10.4%	9.2%
Industrials	(0.5%)	8.9%	1.0%	12.6%	(0.6%)	5.0%	17.4%
Info Tech	23.0%	18.8%	22.9%	20.2%	17.4%	19.7%	22.1%
Materials	(11.8%)	(3.5%)	(2.6%)	8.8%	10.7%	2.9%	16.8%
Communication Services	21.5%	27.6%	45.2%	3.6%	6.1%	18.6%	7.7%
Utilities	20.3%	6.6%	(1.3%)	(3.7%)	10.4%	2.4%	10.4%
Real Estate	3.1%	5.1%	3.6%	3.0%	3.8%	3.9%	7.6%

Source: Trivariate Research

FULL YEAR 2025 EPS INCREASED BY 1.7% IN Q3 2025

As we start the October earnings season, we are not expecting major negative pre-releases. Overall, for the S&P500, earnings expectations are 1.7% higher for the full year 2025 versus where they were at the beginning of the quarter. For Q3 2025 earnings expectations, estimates are flat for the overall market and 7.6% lower for Healthcare. 6 of 11 sectors have lower Q3 estimates today than at the beginning of the quarter, with Energy and Technology seeing the highest positive revisions over the last three months. Financials earnings estimates are 4% higher now for the full year than 3 months ago.

2025 EPS Revisions: June 27th, 2025 vs. September 26th, 2025

Sector	2Q25	3Q25E	4Q25E	2025E
S&P 500	6.4%	(0.0%)	0.7%	1.7%
Communication Services	12.1%	2.0%	2.6%	4.0%
Financials	10.5%	3.3%	2.2%	4.0%
Consumer Discretionary	11.1%	0.3%	1.2%	3.1%
Energy	8.4%	3.6%	0.7%	3.1%
Info Tech	5.3%	3.6%	2.6%	2.9%
Real Estate	1.6%	(1.2%)	(0.3%)	0.0%
Utilities	(2.2%)	(3.0%)	1.3%	(1.1%)
Industrials	1.2%	(4.9%)	(1.4%)	(1.3%)
Consumer Staples	1.6%	(5.1%)	(1.7%)	(1.4%)
Materials	1.9%	(4.3%)	(4.0%)	(1.6%)
Healthcare	3.1%	(7.6%)	(4.9%)	(2.4%)

Source: Trivariate Research

THE ECONOMY WAS GENERALLY BETTER IN Q3 THAN ANTICIPATED

Q3 2025 Changes in Macro Regime

Macro Signal	Q2 2025 Regime	Q3 2025 Regime	Comments
Economic Activity	Level	Increasing	Trivariate's Proprietary Economic Activity Gauge is now modestly increasing after being level for the two previous quarters. We had thought the economy would slow in Q3. The US Leading Economic Indicators are slightly less bad today than at the end of June but got a touch worse at the end of August vs. the end of July. The NFIB Small Business Optimism bottomed at the end of April and has steadily risen since, now at the highest levels since the inauguration. The Philly Fed Business Outlook has been volatile, but the end September data point was also at its highest level since January. The Citi Economic Surprise Index ended Q2 near lows, and rose sharply and turned positive in Q3, though it is slightly off of highs today.
Consumer Activity	Level	Level	Trivariate's Proprietary Consumer Activity gauge is level in Q3 the same as it was in both Q2 and Q1, though there is some evidence that the US consumer is slowing from a relatively healthy position previously. The September jobs report has been postponed at the time of this writing, but recent ADP data indicated some slowdown is likely. 90-day credit card delinquencies were a touch lower at the end of Q3 vs. Q2, despite upticks in delinquencies at Carmax (KMX) and Upstart (UPST) and the Tricolor (unrelated to Trivariate) and First Brands bankruptcies. The University of Michigan Consumer Sentiment gauge fell from 60.7 at the end of June to 55.1 at the end of September.
Financial Conditions	Tightening	Level	Overall Financial Conditions remained stable during the quarter, though slightly looser in mid-September than the end of the quarter. The 10-year yield stayed relatively flat during Q3, ending at 4.15% vs. starting the quarter at 4.23%. The 10-year yield was 4.21% on March 31st. It is notable that the S&P500 has had a check-shaped move this year, while the 10-year yield has been relatively stable. The 2-year yield was modestly lower during Q3 at 3.61% vs. 3.72% at the end of Q2. 12-month forward Fed Funds rate expectations were 3.325% at the end of Q2 but are 3.185% now, following the one cut the Fed made during the quarter and little else in the way of anticipation. For now, it appears the equity market has liked the specter of more interest rate cuts.
Yield Curve 63d	Bear Steepening	Bull Steepening	
Yield Curve 126d	Bull Steepening	Bull Steepening	
Yield Curve 252d	Bear Steepening	Level	
Industrial Activity	Level	Increasing	Trivariate's Proprietary Industrial Activity gauge is also slightly increasing now after being level in Q2. On the margin conditions in the Industrials economy improved in Q3. North American Car-Loads are higher now than at the end of Q2. Dry Van Rate Per Mile finished Q3 where it started, but was sharply lower until August, and has steadily recovered since, finishing the quarter with positive momentum. Industrial production was lower at the end of August than the end of June, but up from July lows. US manufacturing utilization held steady at 77% through the quarter. The ISM remains just below the 50 threshold at the end of September but has moved a touch higher through Q3. The Baker Hughes Rig Count was meaningfully lower in Q2 and through July but picked up over the last few weeks of Q3. The US Auto SAAR is slightly higher at the end of Q3 than end of Q2, though there is clearly some month-to-month volatility due to tariffs and consumer financing.

Source: Trivariate Research

CHINA BETTER, COMMODITIES MIXED, METALS UP, $ NOT WEAKER

Q3 2025 Changes in Macro Regime

Macro Signal	Q2 2025 Regime	Q3 2025 Regime	Comments
China	Increasing	Increasing	The Chinese economy now looks like it is increasing as several China macro data points modestly improved during Q3 after some improvement in Q2 as well. The Citi Surprise Index for China was down in Q3 but has ticked higher in recent weeks. Commercial Residential Property Prices have gotten steadily less negative through the year. Fixed asset investment steadily rose during Q3. China auto sales also grew each month August vs. July and July vs. June. China electricity consumption data was volatile, with the most recent data point the same as the end of Q2.
Commodities	Level	Increasing	During Q3, oil was a touch lower, down 0.9% for Brent (from $67.61 to $67.02) and WTI down 4.2% ($65.11 to $62.37). Despite these declines, the Daily National Average Gasoline Price was down only 0.6% in Q3. Demand for Natural Gas may grow to meet the AI power boom, but Natural Gas was down a tough 0.6% during Q3 after being down 16.1% in Q2. Agricultural commodities were largely slightly lower during Q3. Wheat was down 3.9% and Cotton was down 4.5%, but Sugar was up 4% in Q3 after falling 17.9% during Q2. Gold was up 17.1% during Q3, and Silver rose 29.2%. The overall Bloomberg Commodity Index was up 2.6% in Q3.
Oil	Decreasing	Increasing	
Currency	Decreasing	Level	The dollar as measured by the DXY was more stable overall in Q3 (weaker by 0.9%) after being 7% weaker in Q2. We wrote a quarter ago that the most consensus macro trade was that the dollar would continue to weaken, but that has not really materialized at the rate many expected. The dollar strengthened by 0.8% against the Euro, and by 2.2% against both the Pound and the Loony. The dollar finished Q3 2.7% weaker against the Yen.
Europe	Decreasing	Decreasing	Signals in Europe are modestly deteriorating. The Eurozone Citi Surprise is still positive, but has slowly declined through Q3 and is now at lows since May. Eurozone consumer confidence remained level and tepid. UK consumer confidence ticked lower during Q3. Eurozone unemployment is 6.3% last, up slightly from 6.2% at the end of July.

Source: Trivariate Research

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