TRIVARIATE RESEARCH

LEVEL SET: WHAT REALLY HAPPENED IN Q4 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.

HEALTHCARE, COMM. SERVICES, FINANCIALS LED Q4

A strong quarter: The S&P500 was up 2.3% during Q4 (2.7% on a total return basis). The Nasdaq was up 2.3% in Q4 and 2.6% on a total return basis and the Russell 2000 was up 2.19%.

Style: Hyper growth stocks were down 2.9% on a cap-weighted basis, 2.2% equally-weighted. Value beat growth by 1.4% in Q4.

Size: The mega-cap universe was up 3.4% in Q4 vs. the S&P500 up 2.7% on a total return basis.

Substance: Quality beat junk by 1.2% on an equally-weighted basis. Cap-weighted, the return spread between quality and junk was flat.

Unusual lack of large moves: In Q4 2025, none of 14 common cohorts & factors (combinations of size, style, and substance) in the market had absolute returns above +/- 5%. Since Q3 1999, there have only been four other quarters with this low volatility of returns (Q2 2004, Q4 2005, Q2 2011, Q1 2014, Q2 2015), and the last time it happened was over ten years ago.

Only 2 Sectors Outperformed: Healthcare (up 11.68%), Communication Services (up 7.26%), and Financials (up 2.01%) performed best in Q4. Real Estate (down 2.87%), Utilities (down 1.40%), and Staples (up 0.01%) were worst. Healthcare and Communication Services were the only two sectors to beat the market in Q4. There has only been one other quarter since Q4 1989 where only two sectors beat the market, and that was Q4 1999.

Industries: Among the S&P500, Pharma, Biotech. & Life Sciences (up 18.15%), Media & Entertainment (up 8.89%), and Banks (up 6.63%) were best, Telecomm. Services (down 9.99%), Commercial & Professional Services (down 8.31%), and Real Estate Management (down 7.70%) were worst.

MOMENTUM & INFLATION MODESTLY WORKED

Inflation: Inflation-exposed stocks were up 6.4% in Q4, 27 Financials, six Energy companies, and nine Materials companies in the S&P500 were up more than 5% in Q4, contributing to this basket's strength.

Momentum modestly worked: Stocks that had good 3- and 6-month price momentum outperformed in Q4. However, 12-month price momentum was flat in Q4. The tariff scare of April 2025 clearly marked a new regime for winners and losers in the market.

Big Movers: Four stocks were up more than 300% in Q4, including PRAX, TERN, OMER, and CAPR. Ten stocks were down more than 60% in Q4, with the worst performers including ORBS, RZLT, and BKKT. On a market-cap basis, five stocks added more than $1.6 Trillion in market cap. during Q4, led by GOOGL ($838.8 Billion bigger), LLY, AAPL, MU, and AMZN. The biggest five losers (MSFT, ORCL, META, NFLX, and HD) collectively ended Q4 $820 billion smaller than at the end of Q3.

Factor Efficacy: The most effective metric for picking winners from losers in Q4 was volatility of revenue growth, with higher volatility companies outperforming companies with low volatility in growth. Valuation metrics dominated the top 10 best signals, with forecast dividend coverage ratio, price-to-forward earnings, and EV-to-EBITDA performing best. Companies with the highest growth in total debt and depreciation-to-COGS underperformed low growth in these metrics. Stocks with the most dilution in shares outstanding underperformed those that cut their share counts.

THE ALPHA ENVIRONMENT IMPROVED IN Q4 ON 2 OF 3 KEY METRICS

The alpha environment greatly improved on 2 of the 3 key metrics we monitor:

Median pairwise correlations fell: During Q4, pairwise correlations (PWC) fell in all 25 Industry Groups. PWC fell the most in Semiconductors, Technology Hardware & Equip., and Energy.

Company-specific risk (CSR) increased: Company-specific risk (CSR) rose in all 25 industry groups. CSR rose the most in Utilities, Transportation, REITs, and Energy.

Valuation dispersion fell: We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry. Valuation dispersion fell in 17 of the 25 Industry Groups. REITs and Pharmaceuticals, Biotech., & Life Sciences 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.

Conviction stocks: Trivariate defines high conviction stocks as 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 AVGO, APP, and ILMN, while fewer managers have conviction in VST, BAC, and FLUT today than at the end of Q3.

Insider activity: MTDR, NEGG, SPG, OBK, VAC, and GABC had the most insider buys with no sales during Q4. LLY, AORT, ATEC, GH, PB, and CBRL had the most insider sales with no insider buys.

ESTIMATES HIGHER, MACRO DATA IN Q4 BETTER THAN EXPECTED

Earnings outlook: As we start the January earnings season, we are not expecting major negative pre-releases. Overall, for the S&P500, earnings expectations are 1.5% higher for the full year 2025 versus where they were at the beginning of the quarter. For Q4 2025 earnings expectations, estimates are up 0.8% for the overall market and 6.0% lower for Utilities vs. September 30th. Seven of 11 sectors have lower Q4 estimates today than at the beginning of the quarter, with Technology and Financials seeing the highest positive revisions over the last three months.

2026 Estimates seem high: Current bottom-up earnings expectations are for 10.9% growth in 2025 and 15.3% 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 Financials. For Q4, 5 of the 11 sectors are forecasted to have a year-over-year earnings decline. Industrials expectations seem to embed a recovery not yet in evidence.

Macro data were slightly softer in Q4: Lack of BLS data has been an issue for gauging the economy. The NFIB Small Business Optimism ended November above October, but below August. The Philly Fed Business Outlook has been volatile, but the end-December data point was below zero and below where it was at the end of Q3. The Citi Economic Surprise Index ended 2025 below where it was at the end of Q3, but higher the last two weeks of the month. Our Consumer Activity Gauge is now decreasing from the level previously. For industrial activity, the industrial production was higher at the end of November than the end of August, improving each month. On the contrary, the ISM declined modestly, ending November below September levels and still below the important "50" threshold. For the consumer, the biggest negative we see is that the University of Michigan (the leaders and the best) Consumer Sentiment gauge, which while slightly higher at end-December than November, is not far above 50-year lows.

OIL DOWN, CURRENCY FLAT, GOLD / SILVER UP

Oil down, Gold / Silver up: During Q4, oil was much lower, down 9.2% for Brent (from $67.02 to $60.85) and WTI down 7.94% ($62.37 to $57.42). The Daily National Average Gasoline Price was down 10.4% during Q4, providing some relief to consumers and driving-based businesses. Natural Gas was very volatile during Q4, rising to above $5.20 in early December and collapsing since, finishing at $3.69, 11.6% above end-Q3 levels. Agricultural commodities were flat to slightly lower during Q4. The overall Bloomberg Commodity Index was up 4.84% in Q4. Precious metals were the key driver, as Gold was up another 11.9% in Q4, after rising 17.1% during Q3, and Silver rose 53.62% in Q4 after rising 29.2% in Q3.

Dollar flattish: Early in 2025, a weakening dollar was a consensus trade. But for the second straight quarter, the dollar was relatively stable in Q4, with the DXY finishing at 98.32 vs. 97.78 at the end of Q3. The dollar flat against the Euro at 1.17, strengthened by 5.96% against the Yen to 156.71 from 147.9 and was a touch stronger against the CAD at 1.37. The dollar was flat against the Pound sterling finishing Q4 at 1.3475, vs. 1.3446 at the end of Q3.

China weaker: The Chinese economy now looks like it is slightly deteriorating as several China macro data points modestly declined during Q4. The Citi Surprise Index for China remained negative but has ticked higher in recent days. Commercial Residential Property Prices had been steadily getting less negative until November, when the data slightly reversed. Fixed asset investment consistently declined during Q4. China auto sales declined each month, ending November at the lowest levels since January of 2025. China electricity consumption was lower recently than at the end of October.

SIZE, STYLE, AND SUBSTANCE DIDN'T HAVE LARGE DIFFERENCES IN Q4

The overall volatility of the major market sub-groups was quite low, with cap-weighted returns below plus / minus 10% for the quarter in every major group of style, substance, and size. Cap-weighted growth beat equally-weighted by 4.2%. Mega caps were up 3.9% equally-weighted, beating the market. Hyper growth junk stocks lagged, down 2.9% on a cap-weighted basis. Value lost to growth cap-weighted but beat it on an equally-weighted basis. Overall, size, style, and substance had a far smaller impact this quarter than in the previous several quarters.

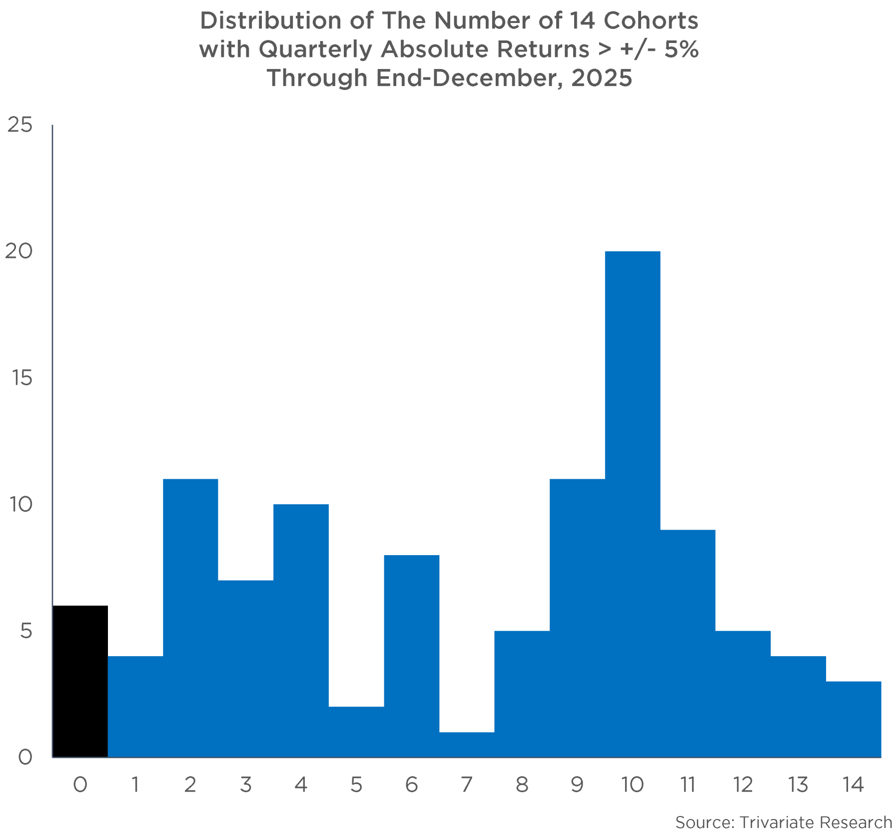
Q4 2025 Portfolio Returns

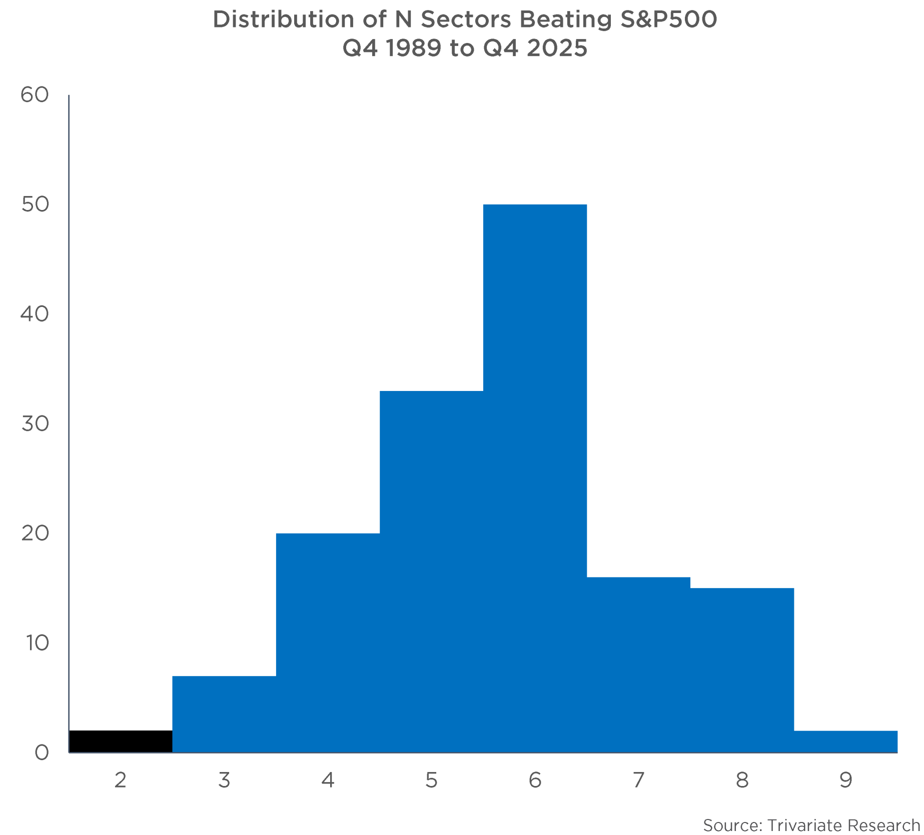
Portfolio	Cap-Weighted Average Return	Simple Average Return	Difference
Growth	2.3%	(1.9%)	4.2%
Junk Quality	2.4%	(1.5%)	3.8%
Cheap-for-a-Reason	(0.7%)	(4.2%)	3.5%
High Quality	3.1%	0.4%	2.6%
Long Mega / Large Cap, Short Mid Cap.	0.9%	(1.0%)	1.9%
High Yield	2.5%	1.4%	1.1%
Large Cap.	0.3%	(0.3%)	0.6%
Value	0.4%	0.3%	0.1%
Small Cap.	1.3%	1.6%	(0.2%)
Long Mid Cap, Short Small / Micro Cap.	(0.2%)	0.1%	(0.2%)
Mega Cap.	3.4%	3.9%	(0.4%)
Hyper Growth	(2.9%)	(2.2%)	(0.7%)
Long High Quality, Short Junk	(0.0%)	1.2%	(1.3%)
12-Month Momentum	(2.5%)	(0.6%)	(1.8%)
6-Month Momentum	3.1%	6.4%	(3.3%)
3-Month Momentum	6.3%	10.1%	(3.9%)
Long Value, Short Growth	(2.6%)	1.4%	(4.0%)

Source: Trivariate Research

THIS QUARTER WAS DEFINED BY LOW COHORT DISPERSION

In Q4 2025, none of 14 common cohorts & factors (factors from previous slide excluding momentum) in the market had absolute returns above +/- 5%. Since Q3 1999, there have only been 4 other quarters with zero cohorts > +/- 5% returns (Q2 2004, Q4 2005, Q2 2011, Q1 2014, Q2 2015), and the last time it happened was over 10 years ago (left). Healthcare and Communication Services were the only two sectors to beat the market in Q4. There has only been one other quarter since Q4 1989 where only two sectors beat the market, in Q4 1999.





PHARMA & HEALTHCARE HAD A STRONG Q4

The best performing industry in Q4 was Pharmaceuticals, up 23.6% on a cap-weighted basis, driven by LLY, which was up 40% during the quarter. Interactive Media & Services (up 13.4%) and Energy Equipment & Services (up 8.4%) were next best. On an equally-weighted basis, Energy Equipment & Services (up 15.1%), Pharmaceuticals (up 14.0%), and Diversified Telecomm. Services (up 7.6%) were best. <u>The Healthcare sector was up 11.5% on a cap-weighted basis and 10.2% on an equally-weighted basis, with 26 S&P500 Healthcare stocks up more than 10% in Q4.</u> Only two sectors, Healthcare and Communication Services beat the S&P500 on a cap-weighted basis in Q4.

Q4 2025 Select GICS Industry and Sector Returns for Top 3000 Universe

Sector or Industry	Cap-Weighted Average Return	Simple Average Return	Difference
Automobiles	2.4%	(18.6%)	21.0%
Interactive Media & Services	13.4%	(6.2%)	19.5%
Personal Care Products	1.3%	(14.7%)	16.0%
Communication Services	6.2%	(5.4%)	11.7%
Leisure Products	6.1%	(3.9%)	9.9%
Pharmaceuticals	23.6%	14.0%	9.6%
Consumer Staples	0.6%	(4.3%)	4.9%
Consumer Discretionary	0.1%	(3.5%)	3.6%
Information Technology	0.4%	(2.7%)	3.0%
Materials	3.0%	1.7%	1.4%
Health Care	11.5%	10.2%	1.3%
Industrials	0.6%	(0.7%)	1.3%
Financials	2.1%	1.8%	0.3%
Real Estate	(2.4%)	(2.0%)	(0.4%)
Energy	0.2%	1.1%	(0.9%)
Utilities	(1.5%)	0.0%	(1.5%)
Ground Transportation	(5.1%)	0.8%	(6.0%)
Automobile Components	(4.8%)	1.8%	(6.6%)
Energy Equipment & Services	8.4%	15.1%	(6.7%)
Independent Power & Renewable Electricity Producers	(8.9%)	0.6%	(9.5%)
Diversified Telecommunication Services	(5.2%)	7.6%	(12.8%)
Distributors	(10.8%)	7.2%	(18.0%)

Source: Trivariate Research

3-MONTH MOMENTUM WORKED IN Q4, AI WAS LESS OF A FACTOR

Inflation-exposed stocks were up 6.4% in Q4, 27 Financials, 6 Energy companies, and 9 Materials companies in the S&P500 were up more than 5% in Q4, contributing to this basket's strength. Stocks with good 3- and 6-month momentum outperformed those with poor momentum by 10.1% and 6.4%, respectively, whereas 12-month momentum failed.. Our AI basket was down 2.8% in Q4, with 19 Technology stocks in the S&P500 down more than 10%.

Q4 2025 Select Portfolio Returns

<table>
<tr><th>Sector</th><th>Return</th><th>Observation</th></tr>
<tr><td>Inflation Basket</td><td>6.4%</td><td>Inflation-exposed stocks were up 6.4% in Q4, 27 Financials, 6 Energy companies, and 9 Materials companies in the S&P500 were up more than 5% in Q4, contributing to this basket's strength.</td></tr>
<tr><td>12-Month Momentum</td><td>(0.6%)</td><td rowspan="3">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 outperformed in Q4. However, 12-month price momentum was flat in Q4. The tariff scare of April 2025 clearly marked a new regime for winners and losers in the market.</td></tr>
<tr><td>6-Month Momentum</td><td>6.4%</td></tr>
<tr><td>3-Month Momentum</td><td>10.1%</td></tr>
<tr><td>AI</td><td>(2.8%)</td><td>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 underperformed growth stocks that did not mention AI on their transcripts during Q4.</td></tr>
</table>

Source: Trivariate Research

Q4 WAS ABOUT A BIFURCATION AMONG THE GREAT 8

Four stocks (all Biotechnology) were up more than 300% in Q4, including PRAX, TERN, OMER, and CAPR. Ten stocks were down more than 60% in Q4, with the worst performers including ORBS, RZLT, and BKKT. On a market-cap basis, five stocks added more than $1.6 Trillion in market cap. during Q4, led by GOOGL ($838.8 Billion bigger), LLY, AAPL, MU, and AMZN. The biggest five losers (MSFT, ORCL, META, NFLX, and HD) collectively ended Q4 $820 billion smaller than at the end of Q3. This bifurcation between the Great 8 was substantial.

Q4 2025 Select Stock Total Returns

Ticker	Company	Q4 Total Return	Dec. 31 Market Cap. (US$ Bil.)
PRAX	Praxis Precision Medicines, Inc.	456.1%	7.37
TERN	Terns Pharmaceuticals, Inc.	437.9%	4.39
OMER	Omeros Corporation	318.9%	1.22
CAPR	Capricor Therapeutics, Inc.	300.3%	1.49
HYMC	Hycroft Mining Holding Corporation	283.4%	1.92
AXTI	AXT, Inc.	264.1%	0.73
TE	T1 Energy Inc.	206.4%	1.76
VTYX	Ventyx Biosciences, Inc.	190.4%	0.64
RHLD	Resolute Holdings Management, Inc.	186.1%	1.76
FRGE	Forge Global Holdings, Inc.	163.7%	0.61
AVXL	Anavex Life Sciences Corp.	(60.0%)	0.32
SMR	NuScale Power Corporation	(60.6%)	4.01
TSSI	TSS, Inc.	(61.0%)	0.20
INV	Innventure, Inc.	(63.6%)	0.26
UP	Wheels Up Experience Inc.	(64.3%)	0.47
LENZ	LENZ Therapeutics, Inc.	(65.7%)	0.50
BKKT	Bakkt Holdings, Inc.	(70.2%)	0.24
FWDI	Forward Industries, Inc.	(74.1%)	0.57
RZLT	Rezolute, Inc.	(74.9%)	0.22
ORBS	Eightco Holdings Inc.	(81.1%)	0.34

Source: Trivariate Research

Q4 2025 Select Stock Market Cap. Delta

Ticker	Company	Q4 Market Cap. Added (Lost) (US$ Bil.)	Dec. 31 Market Cap. (US$ Bil.)
GOOGL	Alphabet Inc.	838.8	3,781.3
LLY	Eli Lilly and Company	277.3	962.2
AAPL	Apple Inc.	238.3	4,017.1
MU	Micron Technology, Inc.	134.0	321.2
AMZN	Amazon.com, Inc.	125.8	2,467.5
HD	The Home Depot, Inc.	(60.8)	342.6
NFLX	Netflix, Inc.	(81.0)	428.4
META	Meta Platforms, Inc.	(181.1)	1,663.8
ORCL	Oracle Corporation	(241.8)	560.0
MSFT	Microsoft Corporation	(255.6)	3,594.4

Source: Trivariate Research

VOLATILE REV GROWTH AND AVOIDING DEBT GROWTH WERE KEYS

We analyze the efficacy of over 200 signals to predict returns. The most effective metric for picking winners from losers in Q4 was volatility of revenue growth, with higher volatility companies outperforming companies with low volatility in growth. Valuation metrics dominated the top 10 best signals, with forecast dividend coverage ratio, price-to-forward earnings, and EV-to-EBITDA performing best. These metrics universally failed in October but worked well in November and December. Companies with the highest growth in total debt and growth in depreciation-to-COGS underperformed low growth in these metrics. Stocks with the most dilution in shares outstanding underperformed those that reduced their share count.

Best and Worst Performing Signals During Q4 2025, Rebalanced Monthly (Top 500)

Signal	October Return	November Return	December Return	Q4 2025 Return
Volatility of YoY Revenue Growth (Last 12Q)	5.0%	1.3%	3.0%	9.5%
Forecast Dividend Coverage Ratio	5.3%	1.4%	1.8%	8.7%
Price-to-Forward Earnings	(5.2%)	10.5%	3.5%	8.5%
EV-to-EBITDA	(5.3%)	12.6%	1.6%	8.3%
EV-to-Gross Profit	(4.2%)	8.8%	3.7%	8.1%
EV-to-Operating Cash Flow	(4.2%)	8.8%	3.5%	7.8%
Growth of ROIC	3.7%	1.9%	1.6%	7.3%
ROE Growth	0.0%	5.4%	1.6%	7.1%
Price-to-NOPAT	(5.7%)	11.0%	1.8%	6.6%
Price-to-EBIT	(6.9%)	11.2%	2.7%	6.2%
Depreciation-to-COGS	(2.6%)	0.1%	(2.1%)	(4.7%)
SG&A Growth	3.1%	(4.7%)	(3.1%)	(4.8%)
EPS Growth (Offset 4Q)	1.4%	(4.1%)	(2.1%)	(4.8%)
R&D-to-Sales	9.4%	(11.1%)	(2.3%)	(5.0%)
Capex Growth (Offset 4Q)	(0.7%)	(1.9%)	(2.6%)	(5.1%)
Receivables Growth	2.8%	(5.9%)	(2.1%)	(5.3%)
Distance-to-Default	(2.8%)	1.1%	(4.3%)	(5.9%)
% Change in Shares Outstanding	1.1%	(5.4%)	(2.8%)	(7.0%)
Growth of Depreciation-to-COGS	(4.2%)	(1.7%)	(1.8%)	(7.5%)
Total Debt Growth	(1.8%)	(4.9%)	(2.5%)	(9.0%)

Source: Trivariate Research

ALL 25 INDUSTRY GROUPS HAD LOWER CORRELATIONS IN Q4

During Q4, pairwise correlations (PWC) fell in all 25 Industry Groups (left). PWC fell the most in Semiconductors, Technology Hardware & Equip., and Energy. We have our own 7-factor model for company-specific risk (CSR), and it rose in all 25 industry groups. CSR rose the most in Utilities, Transportation, REITs, and Energy. Lower correlations and higher CSR indicate Q4 should have been a far better environment for stock selection than Q3.

Q4 2025 Change and Level of Median Pairwise Correlation

Industry Group	Change in Median Pairwise Correlation	Level of Median Pairwise Correlation
Consumer Staples Distribution & Retail	(2.4)	21.6
Banks	(4.5)	69.1
Health Care Equipment & Services	(5.7)	18.5
Food, Beverage & Tobacco	(6.1)	21.5
Real Estate Management & Development	(7.0)	32.1
Utilities	(9.3)	33.2
Telecommunication Services	(9.6)	12.1
Household & Personal Products	(9.8)	22.4
Commercial & Professional Services	(10.4)	22.0
Insurance	(11.8)	32.7
Consumer Durables & Apparel	(12.0)	39.7
Materials	(12.1)	24.8
Equity Real Estate Investment Trusts (REITs)	(12.1)	41.8
Consumer Discretionary Distribution & Retail	(12.4)	26.6
Media	(12.5)	18.7
Pharmaceuticals, Biotechnology & Life Sciences	(12.6)	17.8
Automobiles & Components	(13.5)	29.8
Consumer Services	(15.4)	21.0
Capital Goods	(16.0)	26.7
Software & Services	(16.3)	24.6
Financial Services	(17.4)	26.7
Transportation	(18.4)	27.1
Energy	(18.9)	28.7
Technology Hardware & Equipment	(20.7)	28.2
Semiconductors & Semiconductor Equipment	(24.5)	34.7

Source: Trivariate Research

Q4 2025 Change and Level of Company-Specific Risk (%)

Industry Group	Change in CSR	Level of CSR
Utilities	13.5	70.1
Transportation	11.5	63.2
Equity Real Estate Investment Trusts (REITs)	11.1	58.7
Energy	10.8	64.2
Financial Services	9.1	59.4
Consumer Discretionary Distribution & Retail	8.8	68.7
Media & Entertainment	8.6	72.2
Telecommunication Services	8.5	78.8
Consumer Services	8.1	70.7
Pharmaceuticals, Biotechnology & Life Sciences	8.1	77.9
Insurance	7.8	67.2
Household & Personal Products	7.6	69.6
Materials	7.6	60.9
Food, Beverage & Tobacco	7.2	76.4
Semiconductors & Semiconductor Equipment	7.1	57.6
Consumer Staples Distribution & Retail	6.9	78.5
Automobiles & Components	6.6	60.6
Technology Hardware & Equipment	6.6	59.3
Consumer Durables & Apparel	6.5	54.4
Capital Goods	5.9	56.6
Software & Services	5.9	63.4
Health Care Equipment & Services	5.8	72.1
Commercial & Professional Services	5.8	66.0
Banks	5.5	36.8
Real Estate Management & Development	2.6	59.2

Source: Trivariate Research

VALUATION DISPERSION FELL IN 17 OF 25 INDUSTRIES

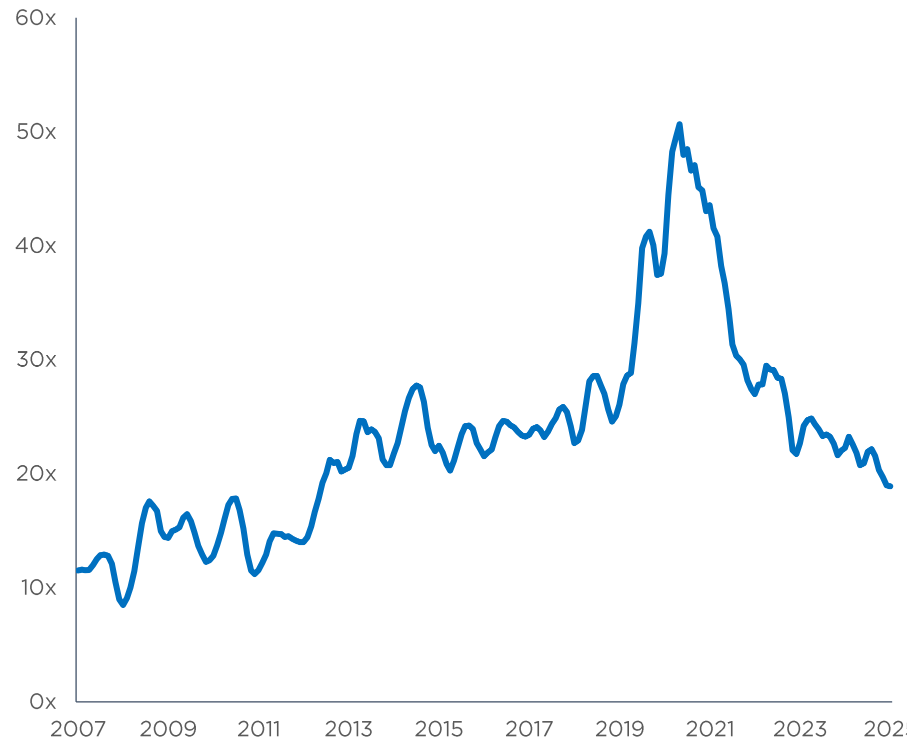
We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry (left table). Valuation dispersion fell in 17 of the 25 Industry Groups. REITs and Pharmaceuticals, Biotech., & Life Sciences saw modest increases in valuation dispersion. Software & Services valuation dispersion is no longer aberrant (right), as Software multiples have broadly compressed for nearly four years.

Q4 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
Equity Real Estate Investment Trusts (REITs)	3.5x	18.4x
Pharmaceuticals, Biotechnology & Life Sciences	2.1x	18.1x
Materials	1.1x	14.7x
Telecommunication Services	1.0x	14.9x
Technology Hardware & Equipment	0.7x	15.4x
Health Care Equipment & Services	0.5x	19.3x
Consumer Staples Distribution & Retail	0.1x	9.9x
Energy	0.1x	14.2x
Real Estate Management & Development	(0.1x)	20.7x
Semiconductors & Semiconductor Equipment	(0.2x)	18.9x
Commercial & Professional Services	(0.3x)	11.7x
Capital Goods	(0.3x)	14.9x
Household & Personal Products	(0.4x)	9.3x
Media & Entertainment	(0.6x)	18.2x
Utilities	(0.6x)	7.5x
Automobiles & Components	(0.7x)	12.0x
Transportation	(0.8x)	14.2x
Insurance	(0.9x)	7.7x
Software & Services	(1.4x)	18.9x
Food, Beverage & Tobacco	(1.5x)	8.8x
Consumer Services	(1.5x)	14.1x
Consumer Durables & Apparel	(1.8x)	11.3x
Consumer Discretionary Distribution & Retail	(1.8x)	12.9x
Financial Services	(1.9x)	9.4x
Banks	(2.0x)	2.9x

Source: Trivariate Research

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



Source: Trivariate Research

EPS FORECASTS ARE FOR 10.9% GROWTH IN 2025, 15.3% IN 2026

Current bottom-up earnings expectations are for 10.9% growth in 2025 and 15.3% 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 Financials. For Q4, 5 of the 11 sectors are forecasted to have a year-over-year earnings decline. Industrials expectations seem to embed a recovery not yet in evidence.

Bottom-Up Analyst Earnings Growth Expectations
January 2nd, 2026

Sector	2024	1Q25	2Q25	3Q25E	4Q25E	2025E	2026E
S&P 500	9.5%	12.6%	11.1%	12.5%	7.6%	10.9%	15.3%
S&P ex-Financials	8.3%	14.4%	10.8%	10.3%	7.9%	10.7%	16.8%
Consumer Discretionary	14.9%	7.4%	4.4%	7.3%	(4.4%)	3.5%	10.1%
Consumer Staples	3.0%	(6.3%)	(1.5%)	(1.4%)	(2.1%)	(2.8%)	6.1%
Energy	(23.8%)	(18.9%)	(20.9%)	(2.9%)	(0.2%)	(11.6%)	7.4%
Financials	15.0%	5.0%	12.2%	22.9%	6.3%	11.5%	9.1%
Health Care	1.9%	41.8%	6.0%	2.7%	(0.9%)	10.6%	9.1%
Industrials	(0.5%)	8.9%	1.0%	20.2%	(3.4%)	6.0%	14.8%
Info Tech	23.0%	18.8%	22.9%	28.7%	24.9%	24.0%	30.7%
Materials	(11.8%)	(3.5%)	(2.6%)	25.2%	12.0%	7.1%	20.2%
Communication Services	21.5%	27.6%	45.2%	(8.5%)	5.7%	15.2%	11.2%
Utilities	20.3%	6.6%	(1.3%)	3.3%	3.8%	3.2%	11.0%
Real Estate	3.1%	5.1%	3.6%	5.7%	3.7%	4.5%	6.8%

Source: Trivariate Research

FULL YEAR 2025 EPS INCREASED BY 1.5% IN Q4 2025

As we start the January earnings season, we are not expecting major negative pre-releases. Overall, for the S&P500, earnings expectations are 1.5% higher for the full year 2025 versus where they were at the beginning of the quarter. For Q4 2025 earnings expectations, estimates are up 0.8% for the overall market and 6.0% lower for Utilities vs. September 30th. Seven of 11 sectors have lower Q4 estimates today than at the beginning of the quarter, with Technology and Financials seeing the highest positive revisions over the last three months.

2025 EPS Revisions: September 26th, 2025 vs. January 2nd, 2026

Sector	3Q25E	4Q25E	2025E
S&P 500	5.3%	0.8%	1.5%
Materials	15.1%	1.2%	4.1%
Info Tech	7.0%	6.3%	3.6%
Financials	10.6%	1.5%	3.0%
Consumer Discretionary	9.7%	(2.4%)	2.0%
Industrials	6.8%	(2.8%)	0.9%
Utilities	7.3%	(6.0%)	0.8%
Energy	2.8%	0.3%	0.8%
Real Estate	2.6%	(0.1%)	0.6%
Health Care	4.7%	(3.8%)	0.2%
Consumer Staples	3.2%	(4.7%)	(0.4%)
Communication Services	(11.7%)	(0.4%)	(2.9%)

Source: Trivariate Research

THE ECONOMY WAS GENERALLY BETTER IN Q4 THAN ANTICIPATED

Q4 2025 Changes in Macro Regime

Macro Signal	Q3 2025 Regime	Q4 2025 Regime	Comments
Economic Activity	Increasing	Level	Trivariate's Proprietary Economic Activity Gauge is now level after increasing in Q3. It is challenging for us to use our metrics to gauge Economic Activity, given common metrics like the US Leading Economic Indicator was last reported at the end of September (the next data is coming January 21st, 2026). The NFIB Small Business Optimism ended November above October, but below August. The Philly Fed Business Outlook has been volatile, but the end-December data point was below zero and below where it was at the end of Q3. The Citi Economic Surprise Index ended 2025 below where it was at the end of Q3, but higher the last two weeks of the month.
Consumer Activity	Level	Decreasing	Trivariate's Proprietary Consumer Activity gauge is now decreasing in Q4 after being level in Q3. The November jobs report showed rising unemployment to 4.6%, and wage inflation has been gradually moderating, to 4.1% annualized at the end of November the lowest level since early in 2023. 90-day credit card delinquencies have remained flattish during the quarter, a key indicator that there is not broad-based consumer stress. The biggest negative we see is that The University of Michigan Consumer Sentiment gauge, which while slightly higher at the end of December 2025 than November, is not far above 50-year lows.
Financial Conditions	Level	Level	Overall Financial Conditions remained stable though slightly looser at the end of December than the beginning of the quarter. The 10-year yield stayed flat during Q4, ending at 4.17% vs. starting the quarter at 4.15%. In fact, the 10-year yield has been in a very tight band for the last four months, mostly between 4% and 4.2% during that whole period, except a brief period where it slightly dipped below 4% in last October. It is notable that the S&P500 has had a check-shaped move this year, while the 10-year yield has been relatively stable. Similarly, the 2-year yield was extremely stable, finishing 2025 at 3.48%, vs. 3.61% at the end of September. 12-month forward Fed Funds rate expectations were 3.185% at the end of Q3 and 3.09% now, following the two cuts the Fed made during the quarter and expectation of 1-2 more in 2026.
Yield Curve 63d	Bull Steepening	Bear Steepening	
Yield Curve 126d	Bull Steepening	Bull Steepening	
Yield Curve 252d	Level	Bull Steepening	
Industrial Activity	Increasing	Level	Trivariate's Proprietary Industrial Activity gauge leveled off in Q4 after slightly increasing in Q3. North American Car-Loads are lower now than at the end of Q3, though they made a v-shaped recovery in the second half of December. Dry Van Rate Per Mile finished Q4 at highs for the year, with a big move in the second half of the quarter. Industrial production was higher at the end of November than the end of August, improving each month. On the contrary, US manufacturing utilization modestly weakened. The ISM declined modestly, ending November below September levels and still below the important "50" threshold. The Baker Hughes Rig Count remained relatively stable during Q4, though well below levels in the first half of the year. The US Auto SAAR is slightly lower at the end of Q4 than end of Q3, though the end November data of 15.6 million was a touch above the 15.32 from the end of October.

Source: Trivariate Research

METALS UP, OIL DOWN, DOLLAR STABLE IN Q4

Q4 2025 Changes in Macro Regime

Macro Signal	Q3 2025 Regime	Q4 2025 Regime	Comments
China	Increasing	Level	The Chinese economy now looks like it is slightly deteriorating as several China macro data points modestly declined during Q4 after some improvement in Q2 and Q3. The Citi Surprise Index for China didn't have a smooth path during Q4, and remained negative, but has ticked higher in recent days. Commercial Residential Property Prices had been steadily getting less negative until November, when the data slightly reversed. Fixed asset investment modestly but consistently declined during Q4. China auto sales declined each month, ending November at the lowest levels since January of 2025. China electricity consumption data was volatile, with the most recent data point higher than the end of Q3, but lower than end of October.
Commodities	Increasing	Increasing	During Q4, oil was much lower, down 9.2% for Brent (from $67.02 to $60.85) and WTI down 7.94% ($62.37 to $57.42). The Daily National Average Gasoline Price was down 10.4% during Q4, providing some relief to consumers and driving-based businesses. Demand for Natural Gas may grow to meet the AI power boom, but it was very volatile during Q4, rising to above $5.20 in early December and collapsing since, finishing at $3.69, 11.6% above end-Q3 levels. Agricultural commodities were flat to slightly lower during Q4. Wheat was up early in Q4 but finished flat at $507. Cotton was up 1.5% at end Q4 vs. end Q3, and Sugar was down 6.7%. The overall Bloomberg Commodity Index was up 4.84% in Q4. Precious metals were the key driver, as Gold was up another 11.9% in Q4, after rising 17.1% during Q3, and Silver rose 53.62% in Q4 after rising 29.2% in Q3.
Oil	Increasing	Decreasing	
Currency	Level	Decreasing	Early in 2025, a weakening dollar was a consensus trade. But for the second straight quarter, the dollar was relatively stable in Q4, with the DXY finishing at 98.32 vs. 97.78 at the end of Q3. The dollar was flat against the Euro at 1.17, strengthened by 5.96% against the Yen to 156.71 from 147.9 and was a touch stronger against the CAD at 1.37. The dollar was flat against the Pound sterling finishing Q4 a 1.3475, vs. 1.3446 at the end of Q3.
Europe	Decreasing	Decreasing	Signals in Europe are mixed. The Eurozone Citi Surprise is still positive and much higher today than at the beginning of Q4, having sharply risen in October. Eurozone consumer confidence remained level and tepid during Q4 but is no where near as negative as confidence in the US. UK consumer confidence higher at the end of December vs. November. Eurozone unemployment is 6.4% last, flat for the last six months in a row.

Source: Trivariate Research

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