TRIVARIATE RESEARCH

US Equities
January 25, 2026

Level Set - The Moving Parts

Volatility under the surface has been historic: The S&P500 is up 1% year-to-date, but many of the stock-level moves contradict the apparent market level "calm." We looked back at the last 319 months of returns, and in 55 months, the market was less than plus or minus 1% in a calendar month. We then analyzed those 55 months when the market at the headline level was "relatively stable," and counted the number of stocks that were up or down more than 10% during all those "calm" months. Assuming we stay flat for the next few trading days, and this month qualifies as a "calm" month, this month already has the 8th most overall "underneath the surface" volatility of these 55 months, and the 3rd most number of stocks that are up more than 10% during one of these so called "calm" months. The only two months with more 10% positive moving stocks were October and December 2000 (i.e. the very last gasp of the Technology Bubble). Below we show the top 10 "underneath the surface" volatility months when the overall market was relatively stable in the last 25 years. So far this month, 87 stocks are up more than 10%, and 25 are down more than 10%, for 112 total "big movers" in just the first three weeks of trading. **Investors can't say there aren't opportunities for stock selection.**

Months Where The Market Is Plus or Minus 1% Since 1999
Top 900 Stocks
Top 10 Months With Stocks With Greater than 10% Absolute Return

Month	Market Return	Number of Stocks Up > 10%	Number of Stocks Down > 10%	Total Up + Down
12/29/2000	0.5%	186	63	249
10/31/2000	(0.4%)	106	116	222
7/31/2008	(0.8%)	67	113	180
8/31/1999	(0.5%)	49	95	144
7/31/2001	(1.0%)	42	101	143
5/31/2023	0.4%	50	72	122
5/31/2001	0.7%	64	56	120
January 2026 MTD	1.1%	87	25	112
11/28/2025	0.2%	55	55	110

Source: Trivariate Research, LP

The challenge has been that the types of stocks that are performing strongly are not all following a researchable path.

Do the opposite of consensus: We put the major strategists' year-ahead outlooks into ChatGPT and Gemini at the start of the year, and **the consensus sector overweight recommendations were Technology and Financials.** So far, they are the two worst performing sectors year-to-date. We aren't aware of ANY top-down strategist that was recommending Energy or Materials to be the top performing sector, and they are the top two performing sectors so far this year, both up more than 10% already. We can't recall getting a single investor question about Energy so far this year from a portfolio manager. That definitely makes us more interested.

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Year-to-Date S&P500 Sector Performance Through January 23rd, 2026	
Sector	**Performance**
Energy	10.1%
Materials	10.0%
Consumer Staples	6.7%
Industrials	5.9%
Consumer Discretionary	3.2%
Real Estate	2.0%
Healthcare	1.6%
Communication Services	1.5%
S&P500	1.0%
Utilities	(0.3%)
Technology	(1.3%)
Financials	(3.3%)

Source: Trivariate Research, LP

Our sector recommendations are to be Overweight Financials and Healthcare. Our next two sectors are Materials and Technology (see below).

Trivariate Sector Recommendations as of January 23rd, 2026

Sector	Total S&P 500 Market Cap. (US$ Trillion.)	Current S&P 500 Weight	Trivariate-Relative Weight
Financials	8.39	12.6%	4.4%
Health Care	5.94	8.9%	4.1%
Materials	1.20	1.8%	1.2%
Information Technology	20.23	30.3%	0.7%
Energy	1.87	2.8%	0.2%
Utilities	1.33	2.0%	0.0%
Real Estate	1.11	1.7%	(0.7%)
Consumer Discretionary	6.90	10.3%	(1.3%)
Industrials	5.19	7.8%	(2.8%)
Communication Services	11.22	16.8%	(2.8%)
Consumer Staples	3.48	5.2%	(3.2%)

Source: Trivariate Research, LP

We looked back at how often a sector like Energy has beaten a long-time market darling like Software this much during a month - and it is rare. In fact nearly all the times with a higher return differential were during the Technology bubble unwind (see below). We aren't great at forecasting Oil prices, but we know there is a high correlation between the change in the oil price and the change in the net income of the Energy sector. Outside of the Technology Bubble, when you analyze single months when Energy beats Software by this much, it almost never happens where Energy is up and Software is down.

Monthly Performance of Software vs. Energy Through January 23, 2026			
Month	Energy	Software	Spread
1/31/2022	18.5%	(13.3%)	31.8%
3/31/2000	21.5%	(7.2%)	28.7%
5/31/2022	16.4%	(7.7%)	24.1%
2/28/2001	1.3%	(22.4%)	23.7%
5/31/2000	11.9%	(10.6%)	22.4%
11/30/2000	(3.3%)	(25.1%)	21.8%
2/28/2002	6.5%	(14.5%)	21.0%
2/26/2021	21.8%	1.4%	20.4%
3/30/2001	(1.6%)	(20.7%)	19.1%
4/30/2002	(0.1%)	(18.5%)	18.4%
4/30/2020	33.3%	15.3%	18.0%
10/31/2022	22.8%	5.4%	17.4%
4/28/2000	1.0%	(16.2%)	17.2%
1/23/2026	**9.9%**	**(6.7%)**	**16.6%**
12/29/2000	19.1%	2.6%	16.5%
2/28/2005	15.2%	(1.2%)	16.4%
6/30/2008	6.9%	(9.4%)	16.3%
7/31/2001	(0.9%)	(16.2%)	15.3%
9/30/2021	10.1%	(5.2%)	15.2%
9/28/2001	(11.4%)	(26.6%)	15.2%
7/30/2004	3.5%	(11.6%)	15.1%

Source: Trivariate Research, LP

Software remains one of the most debated areas of the market. All of our quantitative work and experience tells us not to fight the negative price momentum of the Software industry. All our historical judgment about fundamentals says the sell-off is overblown relative to what some companies are likely to deliver in the coming couple of years. We know and respect buyside Technology experts who both love and hate Software at the moment. We decided after trumpeting the virtues of Semiconductors over Software for the last three years to argue in our year-ahead outlook that there could be a catch-up trade for Software in the first half of this year. Our logic is that very few companies are forecasted to have accelerating revenue, likely making the businesses with stickier revenue have achievable estimates and that the relative valuation of Semiconductors to Software is near highs, meaning the penalty for missing could be harsh for Semiconductors. **So far this year that call has been a disaster.** But let's drill down and focus on the fundamentals of "a poster child" stock, ServiceNow (NOW), which is down 41% over the last 12 months. The bottom-up consensus estimates are for 20.6% growth in 2025 (they report earnings this coming Wednesday, January 28th). This is projected to be followed by top-line growth of 18.7% in 2026, 18.4% in 2027, and 17.2% in 2028 (see P&L exhibit below). The free cash flow estimates grow to over $7.5 billion in 2028, meaning the stock probably will find some valuation support soon if they just report the currently projected estimates. That being said, we are nervous about the recommendation, because if the estimates prove to be too high, and fundamentals decelerate further, EV-to-FCF of 17x 2028 estimates will prove to still be too high. The stock price is telling us that the probability the 2027 and beyond estimates are accurate is low. This means if we get a catch-up relief trade following earnings, we are likely to move on and pick our battles elsewhere.

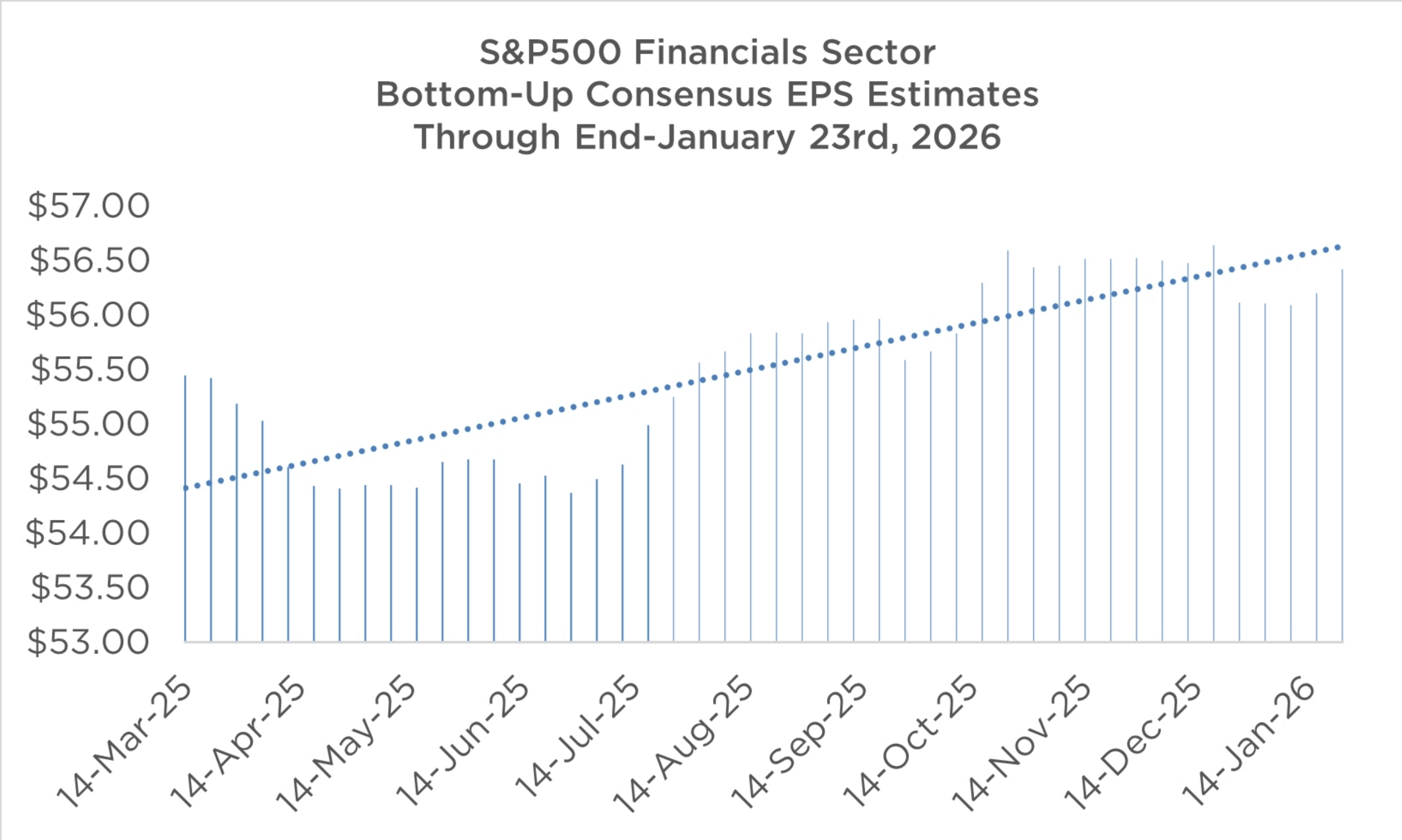
ServiceNow Inc (NOW US) - Consensus Analyst Estimates As of January 23rd, 2026					
In Millions of USD	Current/LTM	FY 2025 Est	FY 2026 Est	FY 2027 Est	FY 2028 Est
12 Months Ending	09/30/2025	12/31/2025	12/31/2026	12/31/2027	12/31/2028
Market Capitalization	138,089.3				
- Cash & Equivalents	5,411.0				
+ Preferred & Other	0.0				
+ Total Debt	2,402.0				
Enterprise Value	135,080.3				
Revenue, Adj	12,667.0	13,242.2	15,714.2	18,606.7	21,811.5
Growth %, YoY	*21.1*	*20.6*	*18.7*	*18.4*	*17.2*
Gross Profit, Adj	9,892.0	10,756.6	12,745.2	15,086.7	17,689.8
Margin %	*78.1*	*81.2*	*81.1*	*81.1*	*81.1*
EBITDA, Adj	2,724.0	4,787.0	5,565.3	6,818.5	7,582.0
Margin %	*21.5*	*36.1*	*35.4*	*36.6*	*34.8*
Net Income, Adj	1,851.5	3,641.9	4,325.3	5,213.1	6,312.7
Margin %	*14.6*	*27.5*	*27.5*	*28.0*	*28.9*
EPS, Adj	1.77	3.48	4.09	4.88	5.79
Growth %, YoY	*32.71*	*147.67*	*17.55*	*19.18*	*18.74*
Cash from Operations	4,841.0				
Capital Expenditures	-883.0	-871.7	-1,026.9	-1,151.9	-1,359.2
Free Cash Flow	3,958.0	4,500.2	5,379.3	6,476.6	7,551.0

Source: Trivariate Research, LP, Blomberg LP

Overall, our conclusion has been and remains that doing the opposite of the Major Firms' strategists - when there is a consensus view - is generally prudent. We are more cautious on the overall equity market than consensus. We are not recommending Technology as an overweight - but a market-weight - assuredly an out of consensus view. We are bullish on Healthcare - which was wildly out of consensus - but now has more of a mixed outlook among both buy- and sell-siders.

The consensus recommendation we most agree with is to be overweight Financials. Banks results were mixed relative to expectations, though solid in absolute terms. Insurance companies have lagged. We are recommending Financials, though as we wrote in our outlook: "Estimate achievability is likely also above average, though we are worried about this being a consensus long." **F**or those who want to take risk, perhaps it is timely to add some Alternative Asset Managers. BX, KKR, OWL, and ARES are all down in absolute terms in the last six months while GS, MS, WFC, and C are all up nicely over the same time frame. If overall activity continues to be strong, we would expect the "Alts" to participate.

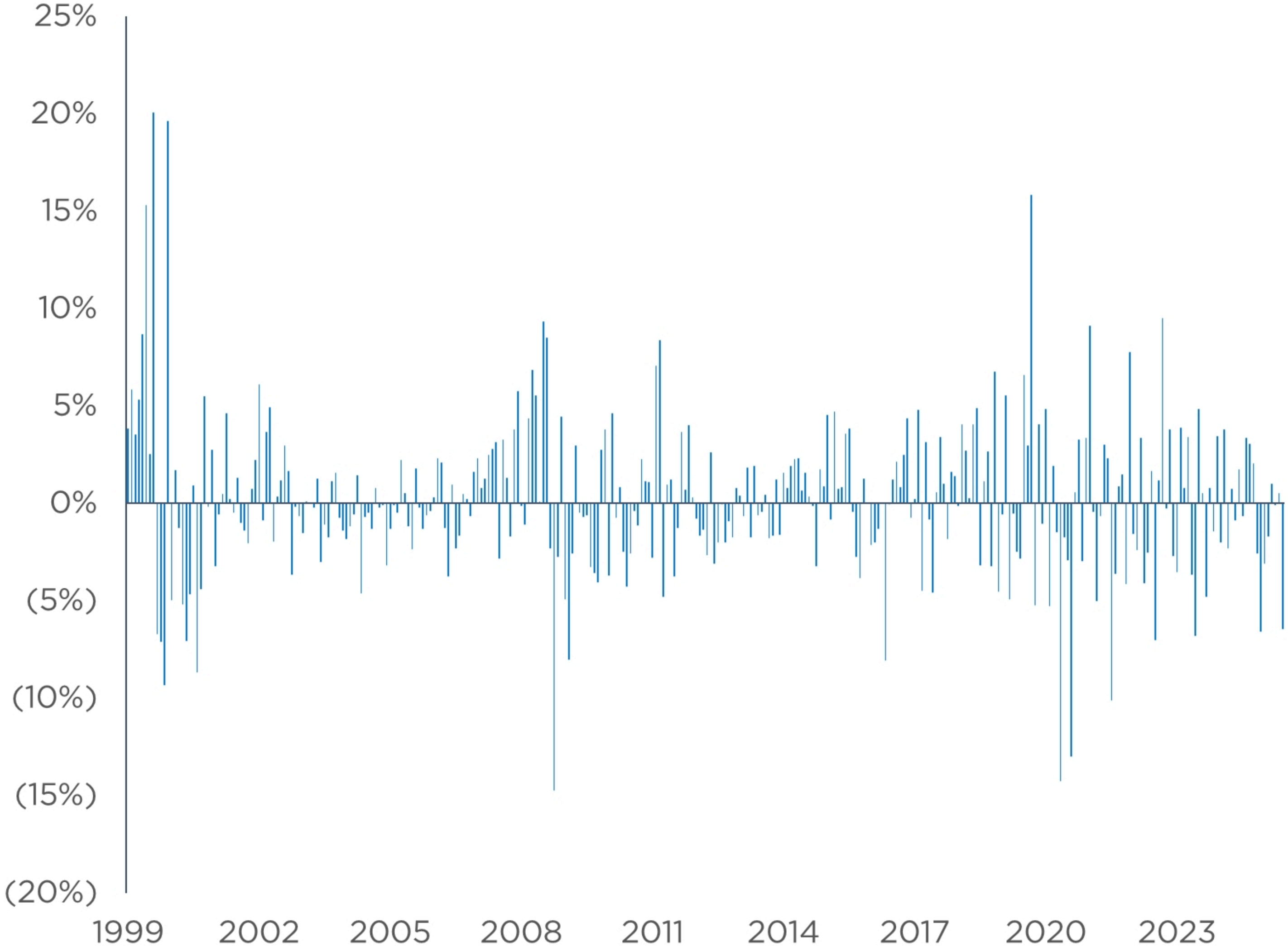
The bottom-line anchoring our optimistic recommendation is that Financial sector's earnings estimates have consistently risen. The 2026 bottom-up consensus EPS estimates for 2026 are steadily projected to be higher, and we think estimate achievability is BELOW average for many other sectors in the market, fueling our relative preference for Financials. Estimates are for $56.42 in 2026 S&P earnings for Financials, up 4% in absolute terms from the Spring of 2025. That is unusual, as typically estimates are overly optimistic for 12-18 months in the future.



Source: Trivariate Research, LP

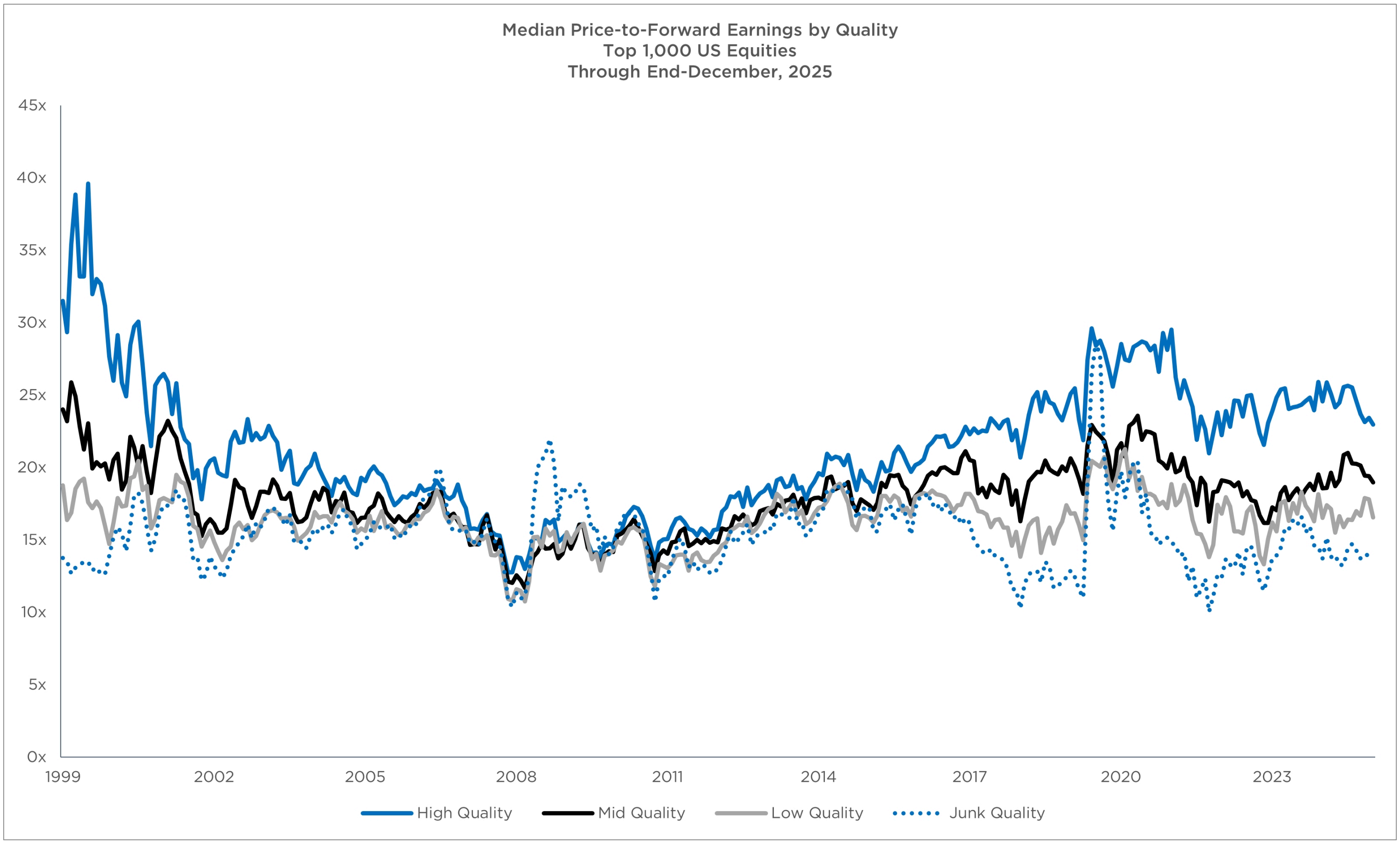
Part of the reason performance has been challenging for many portfolio managers despite the large number of stocks with dramatic moves is that high-quality stocks have lagged, and junk stocks have ripped higher. We highlighted this in last week's *Level Set (Level Set - Crazy Tape, Great 8, Bullish Sentiment)*, particularly around high short-interest Consumer Discretionary stocks. We have also shown that the relative weakness of high-quality stocks vs. junk stocks (shown below) has persisted for nearly five years.

High Quality Minus Junk
Monthly Equal-Weight Returns
Top 500 US Equities
Through End-December, 2025



Source: Trivariate Research, LP

But the reason high-quality stocks often don't work is that they are far less likely to get multiple expansion than Junk stocks. Below we show the price-to-forward earnings of the high-, mid-, low-, and junk-quality cohorts over time. Multiples bifurcated from 2011 through 2019, but have consolidated since (see below).



Source: Trivariate Research, LP

We took all the stocks by market capitalization that were around in 2019 and are still around today, clustered by the quality bucket we assigned them to in 2019. The analysis includes ONLY the top 3000 stocks by market cap. that have positive earnings to increase our sample size. Below we show that high-quality stocks tended, across their distribution, to have the MOST multiple contraction of any quality quantile since 2019. Only the median junk stock was able to maintain its multiple, and 25% of junk stocks saw at least four turns of price-to-forward earnings multiple expansion (see below). On the contrary, less than 25% of the high quality stocks saw one turn of multiple expansion.

Change in Price-to-Forward Earnings Multiple By Quality Cohort Over Six Year Period				
Quality Tag from End-2019				
Substance	N	25th Percentile	Median	75th Percentile
High	331	(10.2x)	(4.0x)	0.4x
Mid	334	(6.4x)	(2.5x)	2.1x
Low	341	(4.8x)	(1.3x)	2.4x
Junk	319	(3.9x)	0.0x	4.0x

Source: Trivariate Research, LP

CONCLUSION

We believe increasing volatility ultimately means the probability of a market-wide sell-off grows. We think this year will be choppy and is not likely to end with double-digit returns. We would avoid small caps after the huge rally. We recommend Healthcare and Financials. We think Software "calms down" through earnings season. We would avoid low quality Consumer Discretionary stocks that have rallied, where fundamental support and earnings upside is UNLIKELY in the coming months.

Non-Technology Compounders

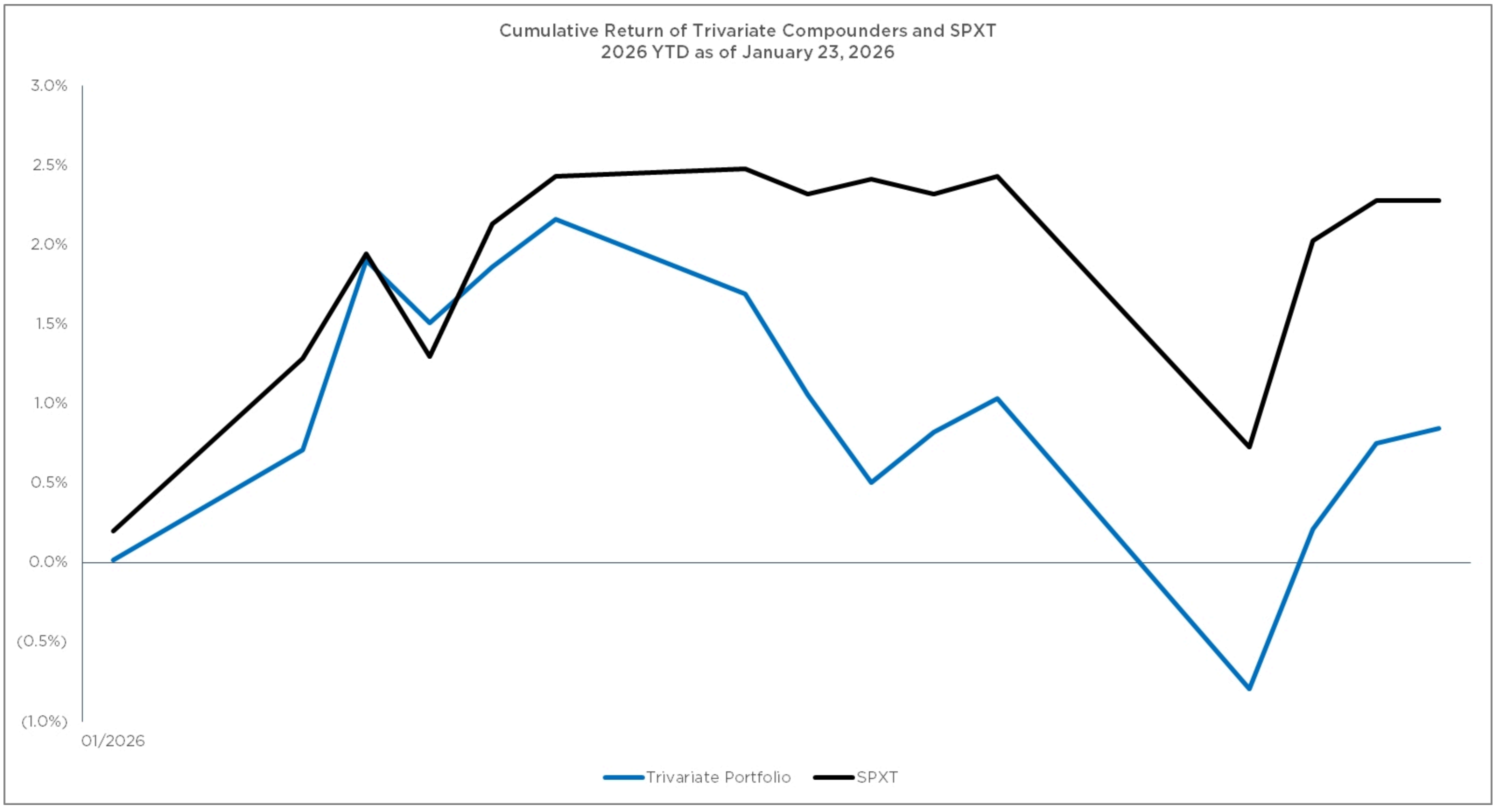
We launched a new ideas basket this year, which is 20 Non-Technology Compounders. Ideas below.

Trivector Compounders Portfolio
As of End-December, 2025

Ticker	Company Name	Industry	Market Cap.	Beta	CSR
AMZN	Amazon.com, Inc.	Broadline Retail	2,467.52	1.53	53%
BRK.B	Berkshire Hathaway	Financial Services	1,084.82	0.28	65%
V	Visa Inc.	Financial Services	670.64	0.68	66%
PM	Philip Morris	Tobacco	249.68	(0.17)	73%
TMUS	T-Mobile US, Inc.	Wireless Telecom. Serv.	227.10	0.02	84%
TMO	Thermo Fisher Sci.	Life Sciences Tools & Serv.	217.70	0.79	54%
LIN	Linde plc	Chemicals	199.10	0.42	63%
SCHW	Charles Schwab	Capital Markets	177.53	0.77	65%
BKNG	Booking Holdings	Hotels, Rest. & Leisure	172.62	0.92	74%
UBER	Uber Technologies	Ground Transportation	169.78	1.15	75%
NEE	NextEra Energy	Electric Utilities	167.19	0.34	90%
GILD	Gilead Sciences	Biotechnology	152.28	0.33	82%
SYK	Stryker Corporation	Health Care Equip. & Supp.	134.41	0.57	61%
WELL	Welltower Inc.	Health Care REITs	127.39	0.25	75%
WMB	The Williams Comp.	Oil, Gas & Consumable Fuels	73.41	0.50	81%
CTVA	Corteva, Inc.	Chemicals	45.29	0.52	76%
CPNG	Coupang, Inc.	Broadline Retail	43.09	1.03	78%
VMC	Vulcan Materials	Construction Materials	37.69	0.70	59%
XYL	Xylem Inc.	Machinery	33.16	0.80	55%
LZ	LegalZoom.com, Inc.	Professional Services	1.76	1.09	77%

Source: Trivariate Research, LP

The portfolio is up 0.85% YTD, vs. its comparable index of 2.28%.



Source: Trivariate Research, LP

Important Disclosures

Analyst Certification

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