Level Set - Volatility, Achievability, and Credibility

Market Volatility Is "Crisis Level"

Sometimes the market seems incredibly anticipatory, and other times it seems surprisingly reactive.

Interestingly, this past week the market has appeared to embody both qualities simultaneously.

The market volatility, AI proliferation, policy commentary, changing perceptions about interest rates, the policy path from the coming mid-term elections and the war with Iran have all resulted in huge moves in stocks, even as the market's overall price level is muted year-to-date (the S&P500 price return is down 3.12% year-to-date). Focusing on mid-cap or larger stocks (top 900 by market cap.), we computed the percentage of stocks that were up or down more than 15% in absolute terms each quarter, and compared that to what has happened quarter to date. The **current volatility is extreme**, with only periods before and after the TMT bubble, the Financial Crisis, and COVID showing as much under the surface movement as we have seen so far in Q1 2026 (see black line below).

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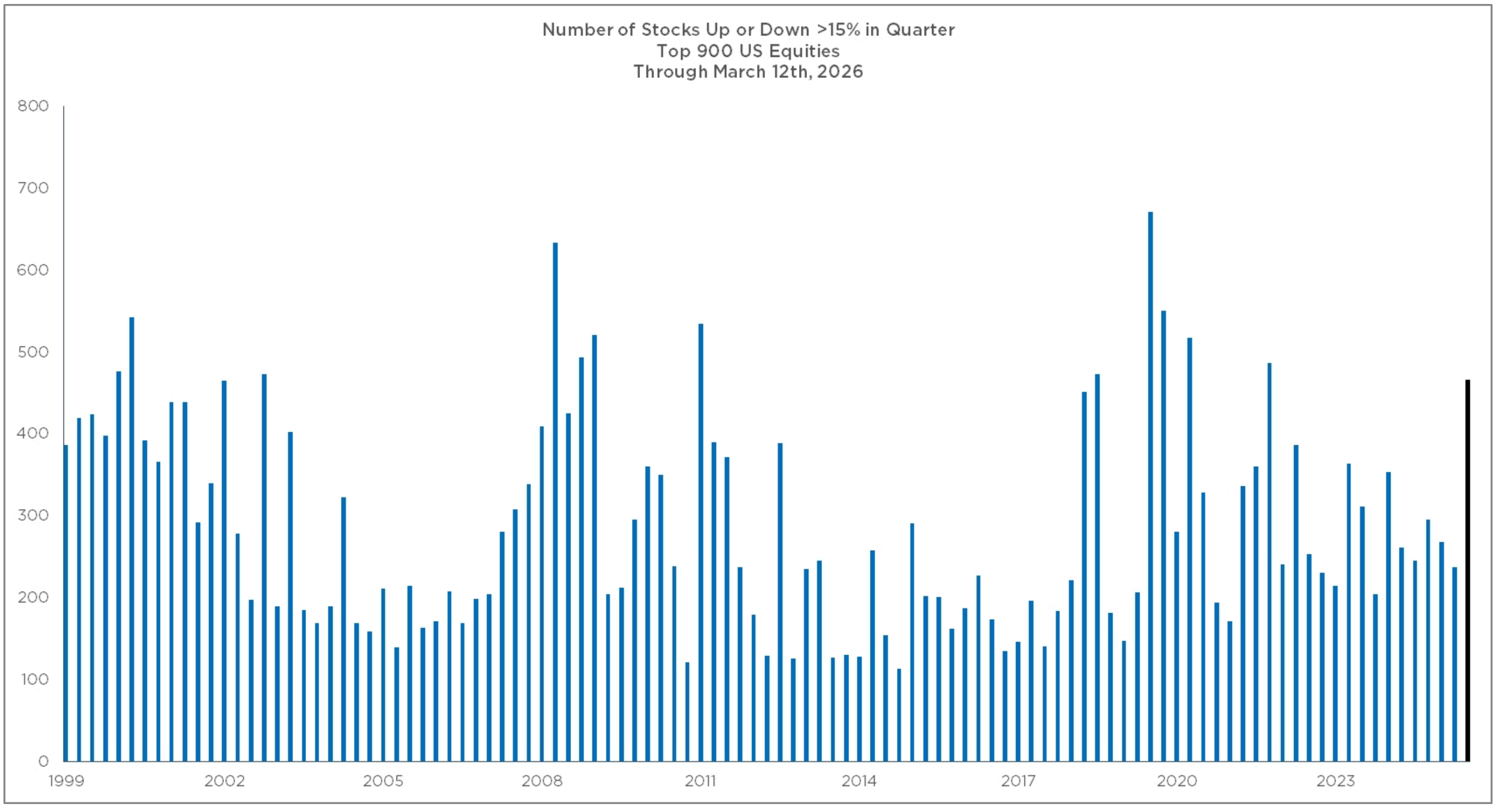
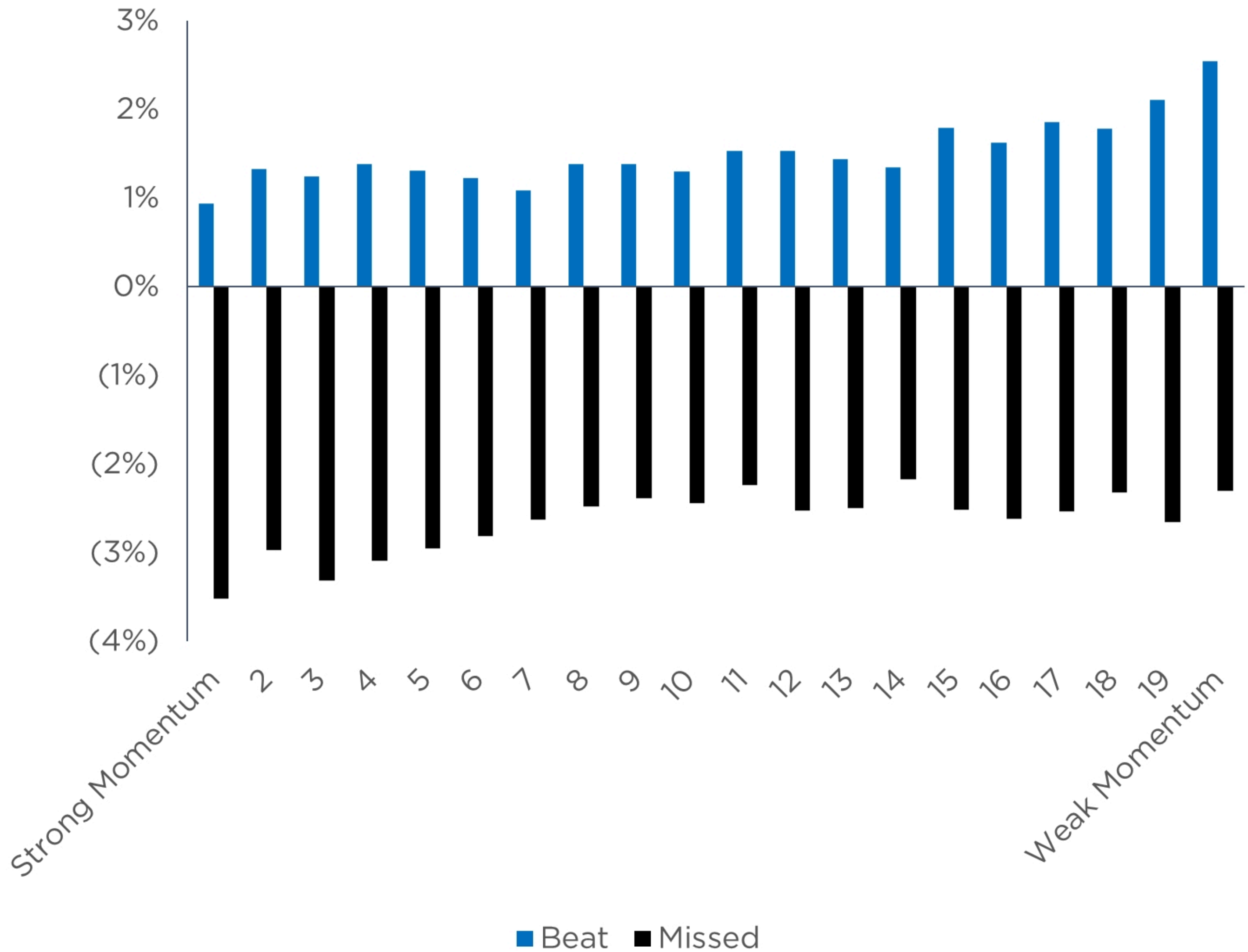


Source: Trivariate Research, LP

We have shown that the penalty for missing estimates has been harsher than the reward for beating estimates in this recent market regime. This has been true for all stocks except the 5% going down the most in the two weeks prior to their earnings reports (see below).

Mean Industry-Relative Return On Earnings Release
By Prior 2-Week Momentum Vigintile & EPS Beat vs. Miss
Through End-January, 2026



Source: Trivariate Research, LP

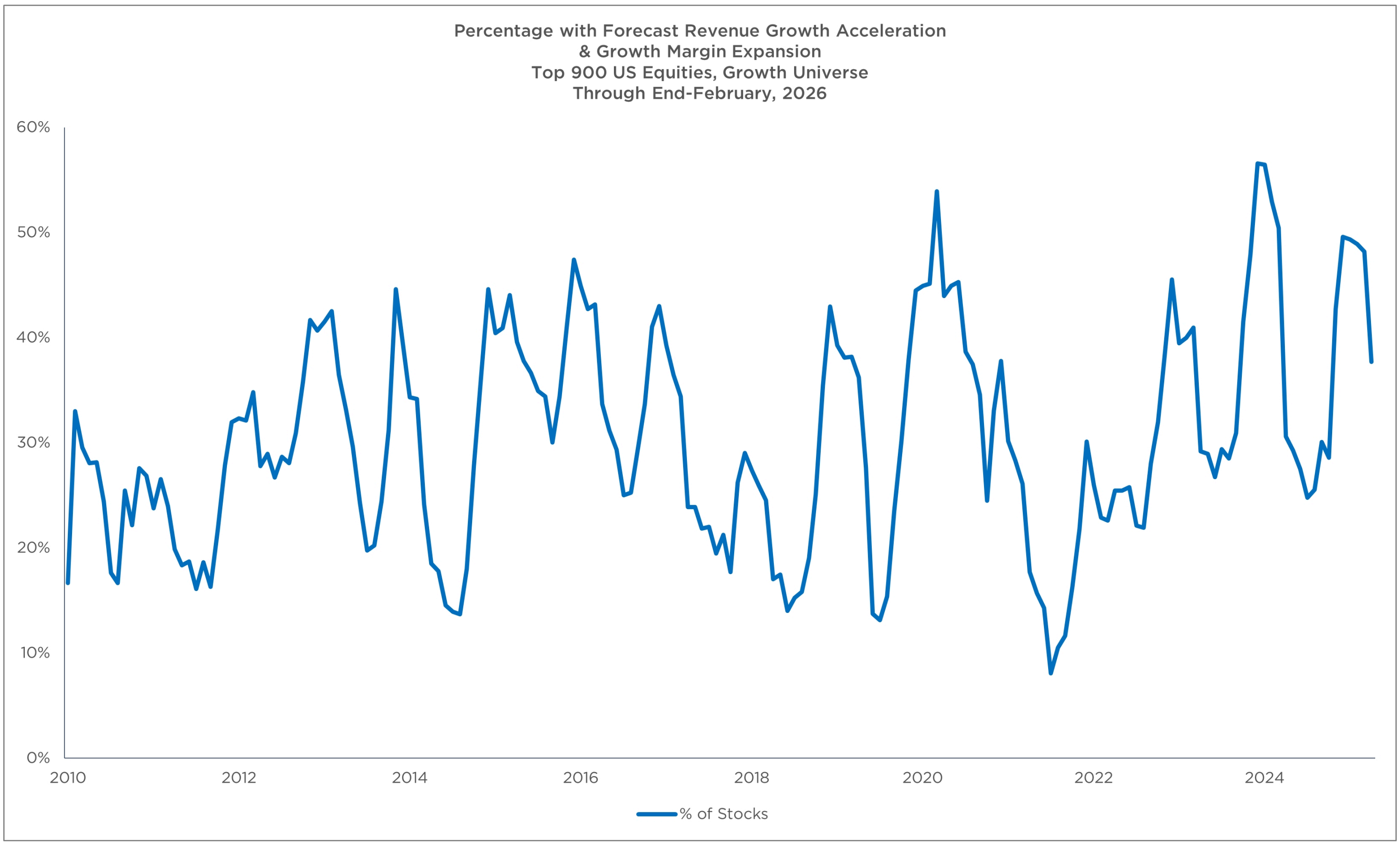
Achievability

Revenue expectations are very high vs. long-term performance, and that has us increasingly worried in a world where stagflationary fears are growing. The bottom-up consensus analyst estimates call for 23.2% revenue growth for the Technology sector in 2026, well above the long-term average of 7.1%. On the contrary, despite the rising Oil price and the steady demand for Healthcare Services, both Energy and Healthcare expectations for revenue are well **below** their 20-year medians (see below).

S&P500 Forecasted vs. Long-Term Median Revenue per Share As of March 13th, 2026	2026E	2004-2024 Median	Difference
Technology	23.2%	7.1%	16.0%
Utilities	7.9%	3.7%	4.2%
Communication Services	10.5%	7.6%	2.9%
S&P ex-Financials	7.5%	5.7%	1.8%
Consumer Discretionary	5.9%	4.3%	1.5%
Industrials	6.4%	4.9%	1.4%
S&P 500	7.1%	5.7%	1.4%
Consumer Staples	3.3%	3.9%	(0.6%)
Materials	3.5%	4.3%	(0.8%)
Health Care	4.2%	8.5%	(4.3%)
Energy	(0.8%)	4.3%	(5.1%)

Source: Trivariate Research, LP

With that in mind, we think it is particularly prudent to own stocks where the consensus forecasts both accelerating revenue growth and gross margin expansion. Interestingly, however, the percentage of Top 900 stocks (mid-cap and larger) that have both revenue forecasted to accelerate and gross margins forecasted to expand was at a twenty-year-high late in 2024, and is now rolling over (see below). **The opportunity set is shrinking.**



Source: Trivariate Research, LP

At the same time, there are plenty of stocks that are forecasted to have both decelerating revenue and gross margin contraction, and history dictates that multiple expansion for this group is unlikely. Below are stocks that are up more than 10% in the last six months, are forecasted by consensus to have decelerating revenue growth and gross margin contraction, have below 70% gross margins, and have a correlation of 0.2 or higher to our AI Semis basket. **We think these are candidates to reduce exposure to, given their risk profile.**

Stocks Forecasted by Consensus to Have Decelerating Revenue and Contracting Gross Margins Less than 70% Gross Margins, and Are Up in the Last 6 Months As of End-February, 2026				
Ticker	Company	Sector	Market Cap. ($US Bil.)	6-Month Momentum
LRCX	Lam Research Corporation	Information Technology	261.61	96.1%
EME	EMCOR Group, Inc.	Industrials	31.64	12.1%
SMTC	Semtech Corporation	Information Technology	7.72	35.1%
NXT	Nextpower Inc.	Industrials	17.21	71.5%
NTRA	Natera, Inc.	Health Care	26.97	12.1%
TWLO	Twilio Inc.	Information Technology	19.02	20.4%
CRUS	Cirrus Logic, Inc.	Information Technology	6.76	17.7%
ROST	Ross Stores, Inc.	Consumer Discretionary	67.87	40.9%
SNA	Snap-on Incorporated	Industrials	18.91	13.9%

Source: Trivariate Research, LP

Credibility

Given the significant underlying stock level volatility YTD, we are re-evaluating several of our Sector recommendations. We have had a good market call year-to-date, but some of our sector recommendations have been poor, and we are attempting to increase our credibility with some changes in today's work.

Firstly, we are Downgrading Financials: We have been writing for weeks now that we are teetering on our overweight Financials recommendation, and we are now moving to make a downgrade. We no longer see estimate achievability as above average. Financials typically don't perform well after Oil spikes, and we are sufficiently worried about credit issues spreading that the risk-reward on multiple expansion appears increasingly poor. Reading that OWL or ZION, or Deutsche Bank has issues is one thing, but the private credit parts of Blackstone and Morgan Stanley are gating their investors according to reports this past week, and that is enough to make us throw in the towel on our overweight recommendation. Moreover, as we wrote several weeks ago, we are no longer as optimistic that many of the larger financial institutions are AI beneficiaries as we were previously. Large institutions invariably compete on pricing and pay their employees more when times are good, making it less likely that any AI benefits accrue to the shareholders. Typically, financial institutions will spend money and run "AI systems" in parallel to legacy systems for some trial periods, potentially making Bank efficiency ratios more stagnant than many investors are currently discounting. **We should have known when top-down strategists were universally bullish at the year-ahead outlooks that we should run for the hills.**

Secondly, we are increasing our weights for Energy and Materials: Our recommended weights starting the year were slightly above the market weights for both Energy and Materials. We have further increased those today, preferring these sectors to Financials based on estimate achievability and a guess there will be some sustainably higher prices to Oil and LNG following the Iran war. The correlation between changes in the Oil price and changes in the net income of the Energy sector are high, fueling our view. We published recently that Energy stocks with low short interest typically perform well following Oil spikes, including CVX, WMB, XOM, COP, LNG, PSX, and KMI.

Lastly, the rest of our changes were minor, but overall we are recommending Healthcare, Materials and Energy, over the Consumer - including both Staples and Discretionary (see recommendations below), as estimate achievability likely remains at a premium during these uncertain times.

Trivariate Sector Recommendations as of March 11th, 2026								
Sector	Total S&P 500 Market Cap. (US$ Trillion.)	Current S&P 500 Weight	Trivariate Old Recommended Weight	Trivariate Changes for March 2026	Trivariate New Recommended Weight	Trivariate-Relative Weight	Trivariate Recommendation	Comments
Health Care	5.69	9.3%	14%	0.0%	14%	4.7%	Overweight	This could be a primary AI beneficiary, low correlation to AI Semis
Materials	1.18	2.0%	3%	2.0%	5%	3.0%	Overweight	Materials should have above avg. estimate achievability, we like Gold
Energy	2.13	3.5%	4%	2.0%	6%	2.5%	Overweight	Historically when Oil spiked, Energy outperformed 6 months later
Utilities	1.45	2.4%	2%	1.0%	3%	0.6%	Equal-Weight	Some idiosyncratic investments are sensible
Real Estate	1.15	1.9%	1%	1.0%	2%	0.1%	Equal-Weight	Metrics for stock selection are becoming more effective, commercial remains challenged.
Financials	7.60	12.4%	17%	(5.0%)	12%	(0.4%)	Equal-Weight	Crowded, not as much of an AI beneficiary as people think, and private credit issues are accelerating
Information Technology	19.74	32.0%	31%	0.0%	31%	(1.0%)	Equal-Weight	A balance of AI and Great 8, our North Star remains Semis over Software
Communication Services	7.05	11.5%	11%	(1.0%)	10%	(1.5%)	Equal-Weight	Generally weak after Oil spikes
Industrials	5.32	8.6%	6%	1.0%	7%	(1.6%)	Equal-Weight	Industrial activity is modestly improving, but estimates embed a hockey-stick recovery and certain businesses are very AI correlated
Consumer Staples	3.57	5.8%	2%	1.0%	3%	(2.8%)	Underweight	Staples have outperformed strongly, yet we see signs of deteriorating pricing power, and some major headwinds, we'd be selective here
Consumer Discretionary	6.47	10.5%	9%	(2.0%)	7%	(3.5%)	Underweight	Despite benign rates and OBBA, the consumer is slowing and many discretionary companies do not have pricing power

Source: Trivariate Research, LP

Non-Technology Compounders

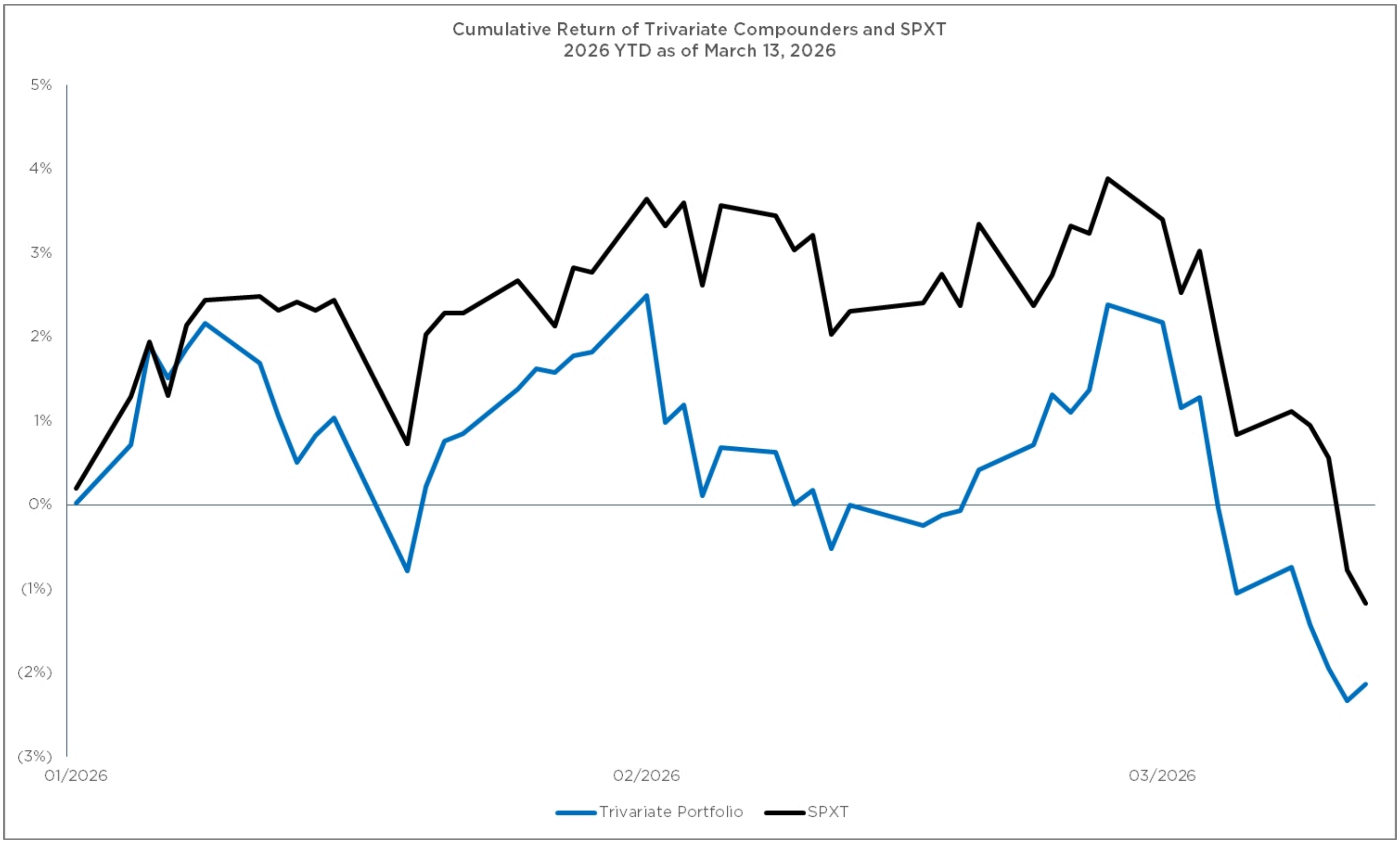
We launched a new ideas basket this year, which is 20 Non-Technology Compounders. Ideas below.

Trivariate Compounders Portfolio
As of February 20th, 2026

Ticker	Company Name	Industry	Market Cap.	Beta	CSR
AMZN	Amazon.com, Inc.	Broadline Retail	2,255.51	1.40	49%
BRK.B	Berkshire Hathaway	Financial Services	1,074.37	0.29	68%
PM	Philip Morris	Tobacco	285.50	0.07	81%
TMUS	T-Mobile US, Inc.	Wireless Telecom. Serv.	237.41	(0.10)	84%
LIN	Linde plc	Chemicals	231.84	0.39	67%
NEE	NextEra Energy, Inc.	Electric Utilities	192.06	0.33	89%
TMO	Thermo Fisher Sci.	Life Sciences Tools & Services	191.96	0.91	58%
GILD	Gilead Sciences, Inc.	Biotechnology	187.84	0.38	89%
UBER	Uber Technologies, Inc.	Ground Transportation	152.01	1.12	78%
SYK	Stryker Corporation	Health Care Equip. & Supp.	145.51	0.52	63%
WELL	Welltower Inc.	Health Care REITs	145.27	0.18	79%
MCK	McKesson Corporation	Health Care Providers & Serv.	116.05	0.07	86%
WM	Waste Management	Commercial Services & Supp.	92.89	0.15	79%
WMB	Williams Companies	Oil, Gas & Consumable Fuels	89.12	0.35	86%
CTVA	Corteva, Inc.	Chemicals	51.32	0.61	73%
VMC	Vulcan Materials	Construction Materials	39.86	0.79	59%
KMB	Kimberly-Clark	Household Products	36.19	(0.11)	65%
CPNG	Coupang, Inc.	Broadline Retail	34.25	1.34	79%
XYL	Xylem Inc.	Machinery	31.36	0.94	52%
DGX	Quest Diagnostics	Health Care Providers & Serv.	22.27	0.04	77%

Source: Trivariate Research, LP

The portfolio is down -2.13% YTD, vs. its comparable index of -1.18%.



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.

Disclaimer

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.