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TRIVARIATE RESEARCH

IT ISN'T EASY TO FIND DEFENSIVE IDEAS

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RESEARCH SUMMARY

Background: We would love to be able to call the top of the Memory cycle and the Semiconductor rally and provide investors with the precise timing to adopt a more defensive posture in their portfolios. We can try, but we aren't God. But, even if we knew what to look at and made a perfectly timed call, or even if we were lucky, a good question is – what would you even own to get defensive?

There isn't enough market cap to get defensive: Historically, when investors wanted to get defensive within their equity portfolios, they looked for more predictable revenue streams, and often would buy Pharmaceuticals, Telecoms, Staples, or Utilities. Twenty-five years ago, this type of defense represented nearly 30% of the S&P500 market cap. Today it is just over 10%. Another way to get defensive is to buy low beta stocks – but today the low beta percentage of market cap. is also at 25-year lows, accounting for just 24% of the S&P500. **This means there really isn't even enough market cap. to get defensive.**

Buy high-beta stocks for defense? Huh?: We computed the beta of traditional defensive stocks on days the market was down 75bps or more and compared it to the overall beta. The beta on down days is now 0.38 higher, close to the biggest negative skew in 25 years. This means there is MORE downside capture than there has been historically for traditional defensives. This behavior is NOT apparent for the rest of the market. In fact, the low-beta universe has the highest beta on down days it has ever had before - 0.51 higher on average than its overall beta. At the same time, high-beta stocks are lower beta on down days than they are overall. **This perversity is the most extreme it has been in a quarter century!**

Acknowledging the challenges of timing the move to a defensive portfolio posture, the small size of the “defensive” universe on a relative basis, and the difficulty of playing defense and then owning a bad stock, we nonetheless try, **by offering six different approaches.**

INVESTMENT CONCLUSIONS

Idea 1: Traditional defensives with positive EPS revisions of 5% or more over the last six months. Names include EL, HSY, CASY, LLY, and DG, among others.

Idea 2: We analyzed the industries that outperform when the market pulls back in case getting more defensive in the portfolio turns out to be prudent before year end. Within these industries, the stocks that have relatively better momentum, forecasted EPS growth, and do not have outsized negative asymmetric beta include PEP, MNST, and MDLZ, among others.

Idea 3: Low beta stocks that do not have strong negative asymmetric beta are predominantly in Healthcare, and include Managed Care stocks like UNH, ELV, and CI, as well as CVS, among others.

Idea 4: Historically, during market corrections, “certainty” around earnings estimate forecasts has been rewarded. We use “narrow estimate dispersion” as a proxy for this, as these are businesses where an economic slowdown does not typically create significant P&L volatility. These “easy to predict” businesses that are forecasted to grow earnings and are relatively cheap on price-to-forward earnings vs. their own histories (in cheapest half) include VZ, ABT, DHR, SYK, and MDT, among others.

Idea 5: Historically, some income can provide downside protection in a risk-off trade. Companies with consistent dividend growth (at least the last five years) and are indicated to have continued dividend growth, at least 7% forecasted sales growth and 10% forecasted earnings growth, and are less than 0.25 correlated to our AI Semis basket include MSFT, LLY, V, MA, and ABBV, among others.

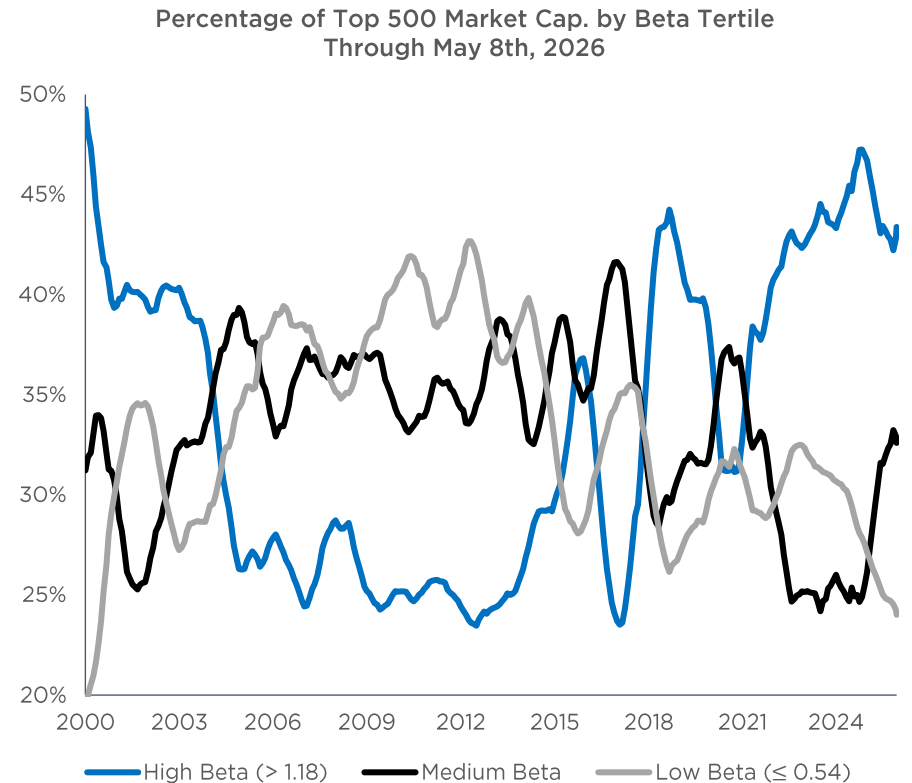
Idea 6: Companies with a beta less than 0.6, strong alpha over the last 12 months, and have low or negative correlation to the AI Semis basket - assuming that basket is associated with a broader market sell-off - include VLO, UTHR, HAL, ADM, and BG.

THE TRADITIONAL DEFENSIVE UNIVERSE IS EXTREMELY SMALL

Historically, when investors wanted to get defensive within their equity portfolios, they looked for more predictable revenue streams, and often would buy Pharmaceuticals, Telecoms, Staples, or Utilities. One major challenge today is that this traditional defensive part of the market has never been smaller (left). Twenty-five years ago, this type of Defense represented nearly 30% of the S&P500 market cap. Today it is just over 10%. This means there really isn't even enough market cap. to get defensive. Another way to get defensive is to buy low beta stocks – but today the low beta percentage of market cap. is also at 25-year lows (right).



Source: Trivariate Research

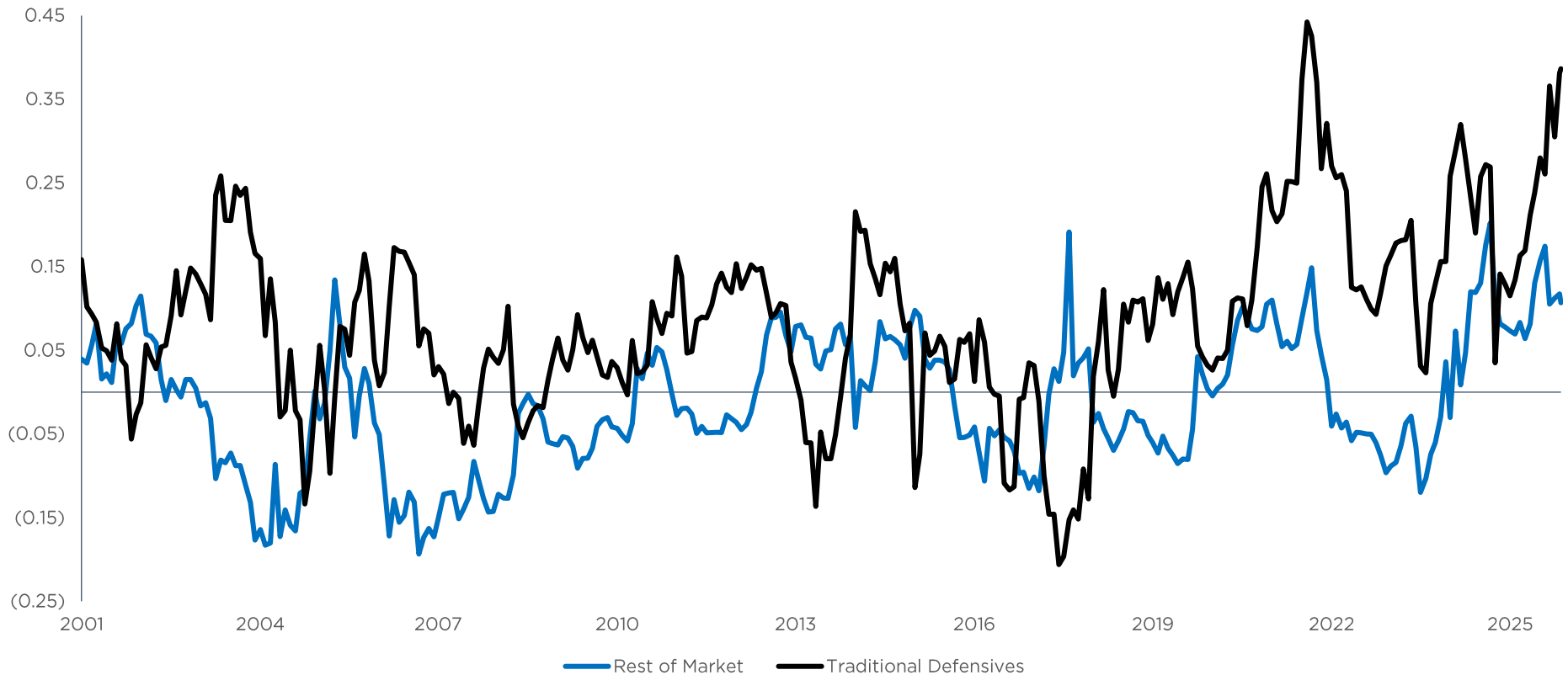


Source: Trivariate Research

DOWNSIDE CAPTURE FOR TRADITIONAL DEFENSIVES IS ELEVATED

Not only is the traditional defensives group smaller, but there is an asymmetric beta that has turned quite problematic. We computed the beta of the traditional defensive stocks on days the market was down 75bps or more and compare it to the overall beta. The beta on down days is now 0.38 higher, close to the biggest negative skew in 25 years. This means there is MORE downside capture than historically for the traditional defensives. This behavior is NOT apparent for the rest of the market.

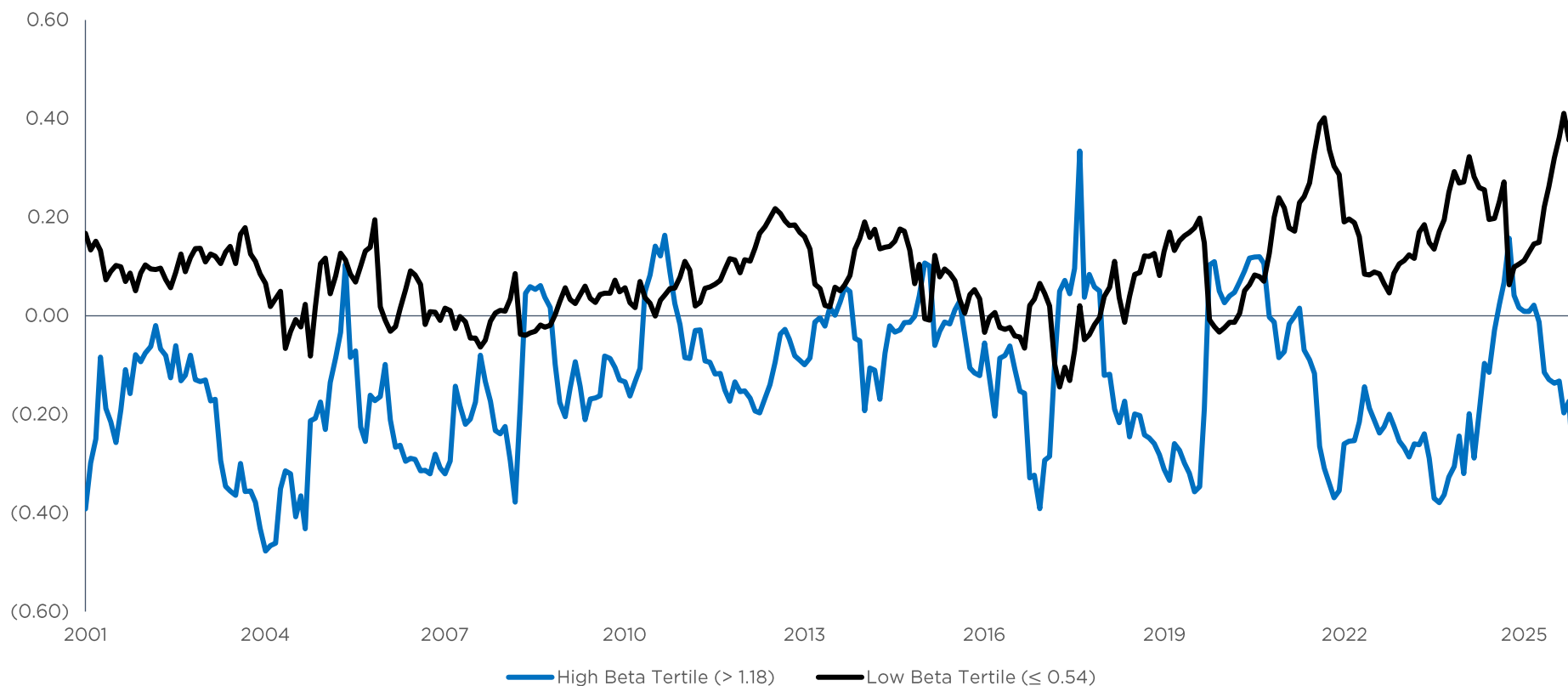
Median Downside Beta
(Beta on Days Market Is Down 75bps or More Minus Overall Beta)
Traditional Defensives vs. Rest of Market Excluding Defensives
Through May 8th, 2026



...AND AT A 25-YEAR HIGH FOR LOW BETA STOCKS GENERALLY

We also compared the beta on down-market days of the lowest beta tertile of stocks to the highest beta tertile and have found low-beta stocks to be asymmetrically skewed to the downside, and high-beta stocks to have less downside capture. In fact, the low-beta universe has the highest beta on down days it has ever had before — .51 higher on average than its overall beta. At the same time, high-beta stocks are lower beta on down days than they are overall. This perversity is the most extreme it has been in a quarter century.

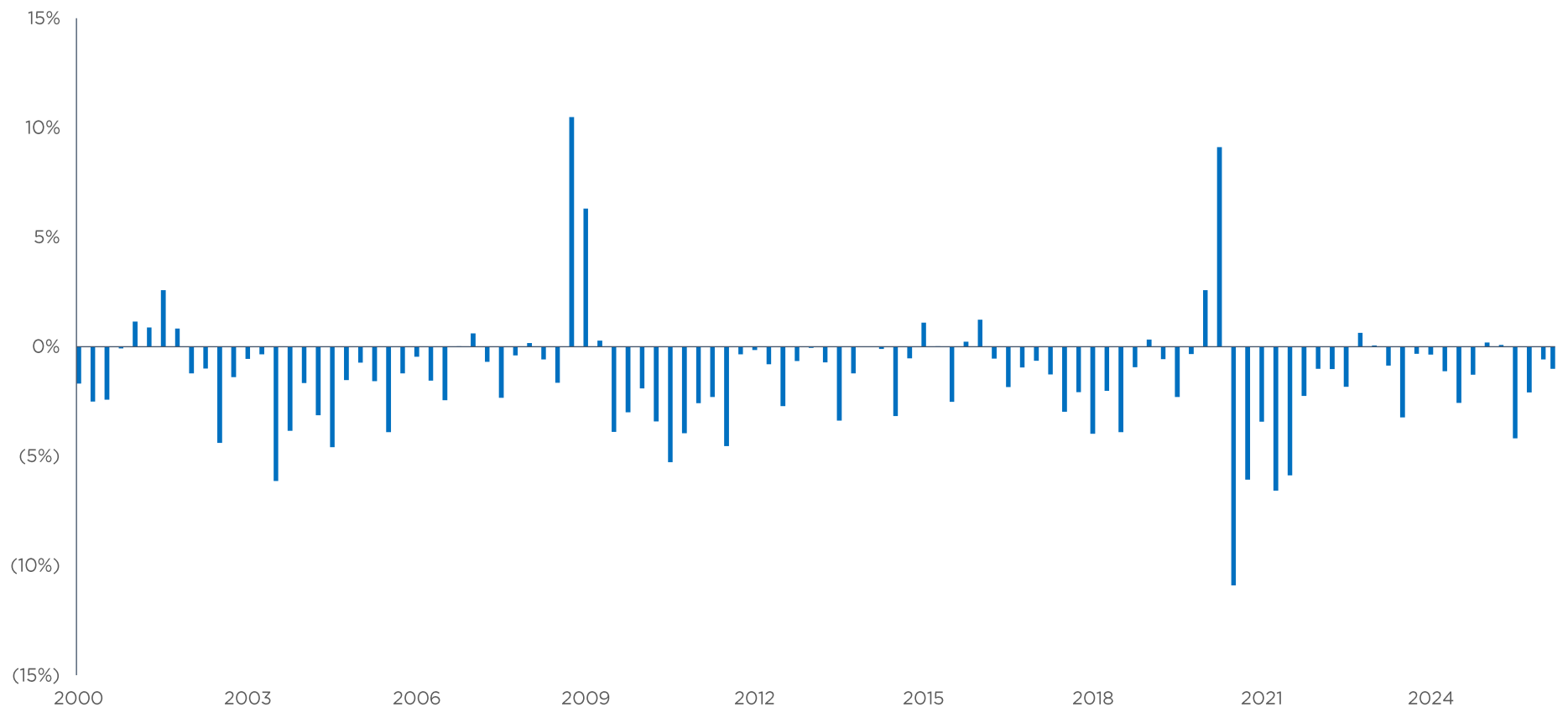
Median Downside Beta
(Beta on Days Market Is Down 75bps or More Minus Overall Beta)
By High and Low Beta-Tertile
Through May 8th, 2026



TRADITIONAL DEFENSIVES HAVE POOR RELATIVE REVISIONS

Investors do not and should not want to get defensive and then buy a stock that misses, particularly given our work that shows the penalty for missing estimates has been historically harsh. The only times relative revisions have been stronger for defensives were right after the TMT bubble, the Financial Crisis, and COVID. It is hard to see why relative revisions would be stronger right now.

Median Quarter-over-Quarter EPS % Revision Spread
Traditional Defensives Minus Rest of Market Excluding Defensives
Through May 8th, 2026



IDEA 1: TRADITIONAL DEFENSIVES WITH POSITIVE EPS TRENDS

Acknowledging that finding defensive names is challenging, we offer a few approaches. Below we show Traditional Defensive stocks with positive EPS revisions of 5% or more over the last six months. Names include EL, HSY, CASY, LLY, and DG, among others.

**Traditional Defensive Stocks
With 6-Month EPS Revisions of 5% or Better
As of May 8th, 2026**

Ticker	Company	Industry	Market Cap. (\$Bn.)	6-Month EPS Revision
EL	The Estée Lauder Companies Inc.	Personal Care Products	31.2	47.4%
HSY	The Hershey Company	Food Products	37.7	26.3%
CASY	Casey's General Stores, Inc.	Consumer Staples Distribution & Retail	31.8	20.0%
LLY	Eli Lilly and Company	Pharmaceuticals	845.8	18.2%
DG	Dollar General Corporation	Consumer Staples Distribution & Retail	24.9	11.0%
TSN	Tyson Foods, Inc.	Food Products	24.1	9.1%
DLTR	Dollar Tree, Inc.	Consumer Staples Distribution & Retail	18.4	8.1%
SYU	Sysco Corporation	Consumer Staples Distribution & Retail	34.6	8.0%
COST	Costco Wholesale Corporation	Consumer Staples Distribution & Retail	447.6	7.9%
BG	Bunge Global SA	Food Products	24.2	7.6%
ATO	Atmos Energy Corporation	Gas Utilities	30.2	6.8%
KVUE	Kenvue Inc.	Personal Care Products	33.8	6.7%
MNST	Monster Beverage Corporation	Beverages	84.4	6.6%
KDP	Keurig Dr Pepper Inc.	Beverages	39.2	5.5%

Source: Trivariate Research

IDEA 2: INDUSTRIES THAT WORK BEST IN DOWNTURNS...

We analyzed the industries that outperform when the market pulls back in case getting more defensive in the portfolio turns out to be prudent before year end. Below are the industries that did best relative to the S&P 500 during S&P500 downturns of 10% or more since 1999. We obviously worry that this will not work as well this time, because of betas, earnings revisions, etc., but there may be a knee-jerk reaction to buy stocks in these industries, nonetheless.

**Best Performing Industries (Top 3000 Equal Weight)
During S&P500 Downturns of 10% or More Since 1999
As of May 8th, 2026**

Industry	Median Performance During Downturns	Median Market-Relative Return	Median Price-to-Forward Earnings	Market-Relative Price-to-Forward Earnings	Percentile vs. Own History	Largest 3 Companies
Gas Utilities	(5.5%)	12.7%	17.0x	0.9x	47.3%	ATO, NFG, UGI
Water Utilities	(5.7%)	13.0%	21.0x	1.1x	29.7%	AWK, WTRG, AWR
Multi-Utilities	(6.5%)	14.7%	18.2x	1.0x	69.1%	SRE, D, ED
Electric Utilities	(7.1%)	14.0%	19.3x	1.0x	89.3%	NEE, CEG, SO
Household Products	(8.3%)	9.5%	15.0x	0.8x	2.2%	PG, CL, KMB
Tobacco	(9.0%)	9.4%	15.1x	0.8x	59.6%	PM, MO, TPB
Residential REITs	(9.9%)	8.8%	45.9x	2.5x	55.3%	AVB, EQR, INVH
Beverages	(10.2%)	11.4%	18.2x	1.0x	28.1%	KO, PEP, MNST
Food Products	(10.9%)	7.3%	12.9x	0.7x	0.9%	MDLZ, HSY, ADM
Specialized REITs	(11.8%)	7.0%	31.0x	1.7x	47.4%	EQIX, AMT, DLR
Consumer Staples Distribution & Retail	(12.8%)	8.2%	15.7x	0.8x	15.5%	WMT, COST, TGT

Source: Trivariate Research

IDEA 2 CONTINUED:...THEN FIND STOCKS IN THOSE INDUSTRIES

Within these industries, the stocks that have relatively better momentum, forecasted EPS growth, and do not have outsized negative asymmetric beta include PEP, MNST, and MDLZ, among others.

**Stocks in Industries that Work in Downturns With Good Price Momentum, Strong Forecast EPS Growth,
And Have Better Than Average Downside Beta
As of May 8th, 2026**

Ticker	Company	Industry	Market Cap. (\$Bn.)	6-Month Momentum	Forward EPS Growth
PEP	PepsiCo, Inc.	Beverages	211.3	10.3%	34.9%
MNST	Monster Beverage Corporation	Beverages	84.4	27.1%	9.4%
MDLZ	Mondelez International, Inc.	Food Products	79.0	11.9%	51.3%
CL	Colgate-Palmolive Company	Household Products	70.1	15.3%	46.9%
STZ	Constellation Brands, Inc.	Beverages	25.5	15.0%	22.9%
DG	Dollar General Corporation	Consumer Staples Distribution & Retail	24.9	13.6%	6.2%
TSN	Tyson Foods, Inc.	Food Products	24.1	32.6%	233.1%
CHD	Church & Dwight Co., Inc.	Household Products	22.1	8.5%	22.9%

Source: Trivariate Research

IDEA 3: MORE LOW BETA STOCKS WITHOUT EXTRA DOWNSIDE BETA

Low beta stocks that do not have strong negative asymmetric beta are predominantly in Healthcare, and include Managed Care stocks like UNH, ELV, and CI, as well as CVS, among others.

**Stocks With Beta < 0.6, With Good Price Momentum, Strong Forecast EPS Growth,
And Have Better Than Average Downside Beta
As of May 8th, 2026**

Ticker	Company	Industry	Market Cap. (\$Bn.)	6-Month Momentum	Forward EPS Growth
UNH	UnitedHealth Group Incorporated	Health Care Providers & Services	345.1	17.6%	37.9%
CVS	CVS Health Corporation	Health Care Providers & Services	115.5	17.2%	221.3%
BMJ	Bristol-Myers Squibb Company	Pharmaceuticals	114.7	23.6%	76.6%
ELV	Elevance Health, Inc.	Health Care Providers & Services	82.1	20.2%	13.8%
CI	The Cigna Group	Health Care Providers & Services	76.2	12.2%	27.9%
BIIB	Biogen Inc.	Biotechnology	28.6	26.1%	55.3%
RPRX	Royalty Pharma plc	Pharmaceuticals	22.6	27.0%	213.6%

IDEA 4: EASY TO PREDICT EARNINGS, GROWING, AND CHEAP

Historically, during market corrections, “certainty” around earnings estimate forecasts was rewarded. We use “narrow estimate dispersion” as a proxy for this, as these are businesses where an economic slowdown does not typically create significant P&L volatility. These “easy to predict” businesses that are forecasted to grow earnings and are relatively cheap on price-to-forward earnings vs. their own histories (in cheapest half) are shown below. VZ, ABT, DHR, SYK, and MDT, among others, are included.

**Stocks with Narrow Estimate Dispersion, Forecasted EPS Growth, and Cheap on Price-to-Forward Earnings
As of May 8th, 2026**

Ticker	Company	Industry	Market Cap. (\$Bn.)	Price-to-Forward Earnings %tile vs. History	Forward EPS Growth
VZ	Verizon Communications Inc.	Diversified Telecommunication Services	197.17	15.2%	20.7%
ABT	Abbott Laboratories	Health Care Equipment & Supplies	146.87	16.8%	52.9%
DHR	Danaher Corporation	Life Sciences Tools & Services	121.14	43.2%	62.5%
SYK	Stryker Corporation	Health Care Equipment & Supplies	109.33	30.3%	71.7%
MDT	Medtronic plc	Health Care Equipment & Supplies	97.77	0.0%	68.4%
KR	The Kroger Co.	Consumer Staples Distribution & Retail	40.21	43.2%	233.4%
KDP	Keurig Dr Pepper Inc.	Beverages	39.22	2.9%	69.8%
WCN	Waste Connections, Inc.	Commercial Services & Supplies	38.57	39.1%	33.8%
PCG	PG&E Corporation	Electric Utilities	35.39	16.3%	27.5%
ZTS	Zoetis Inc.	Pharmaceuticals	34.72	0.0%	13.9%
HBAN	Huntington Bancshares	Banks	32.68	17.4%	21.5%
IQV	IQVIA Holdings Inc.	Life Sciences Tools & Services	29.83	3.9%	57.4%
OTIS	Otis Worldwide Corporation	Machinery	28.71	1.5%	10.3%
ROL	Rollins, Inc.	Commercial Services & Supplies	25.92	8.4%	13.3%
CMS	CMS Energy Corporation	Multi-Utilities	22.43	39.9%	7.2%
VLTO	Veralto Corporation	Commercial Services & Supplies	21.33	0.0%	8.9%
USFD	US Foods Holding Corp.	Consumer Staples Distribution & Retail	18.59	35.7%	57.7%
FTV	Fortive Corporation	Machinery	18.42	43.5%	150.7%

Source: Trivariate Research

IDEA 5: CONSISTENT DIVIDEND GROWTH

Historically, income can provide downside protection in a risk-off trade. The companies listed below have consistent dividend growth (at least the last five years) and are indicated to have continued dividend growth, at least 7% forecasted sales growth and 10% forecasted earnings growth, and are less than 0.25 correlated to our AI Semis basket. Stocks include MSFT, LLY, V, MA, and ABBV.

Stocks with Consistent Dividend Growth & High Forecasted Sales & Earnings Growth As of May 8th, 2026

Ticker	Company	Industry	Market Cap. (\$Bn.)	Correlation to AI Semis
MSFT	Microsoft Corporation	Software	3083.7	16.3%
LLY	Eli Lilly and Company	Pharmaceuticals	845.8	4.9%
V	Visa Inc.	Financial Services	600.6	4.8%
MA	Mastercard Incorporated	Financial Services	437.8	(3.0%)
ABBV	AbbVie Inc.	Biotechnology	356.5	1.4%
ABT	Abbott Laboratories	Health Care Equipment & Supplies	146.9	(0.4%)
INTU	Intuit Inc.	Software	109.6	(14.3%)
SYK	Stryker Corporation	Health Care Equipment & Supplies	109.3	6.5%
MCK	McKesson Corporation	Health Care Providers & Services	88.3	(2.5%)
ADP	Automatic Data Processing, Inc.	Professional Services	85.1	(17.0%)
MSI	Motorola Solutions, Inc.	Communications Equipment	63.8	(2.3%)
LNG	Cheniere Energy, Inc.	Oil, Gas & Consumable Fuels	50.5	(19.6%)
MSCI	MSCI Inc.	Capital Markets	42.6	4.3%
RMD	ResMed Inc.	Health Care Equipment & Supplies	30.0	17.3%
ROL	Rollins, Inc.	Commercial Services & Supplies	25.9	6.5%
STE	STERIS plc	Health Care Equipment & Supplies	20.3	16.1%

Source: Trivariate Research

IDEA 6: UNCORRELATED TO SEMIS THAT HAVE GENERATED ALPHA

The companies listed below have beta less than 0.6, strong alpha over the last 12 months, and have low or negative correlation to the AI Semis basket, assuming that basket is associated with a broader market sell-off. Stocks include VLO, UTHR, HAL, ADM, and BG.

Stocks with Beta < 0.6, Strong Alpha Over Last 12 Months, and Low Correlation to Our AI Semiconductors Basket
As of May 8th, 2026

Ticker	Company	Industry	Market Cap. (\$Bn.)	252-Day Alpha	Correlation to AI Semis
VLO	Valero Energy Corporation	Oil, Gas & Consumable Fuels	71.58	74.1%	(12.3%)
UTHR	United Therapeutics Corporation	Biotechnology	23.98	61.2%	13.4%
HAL	Halliburton Company	Energy Equipment & Services	33.27	57.8%	10.2%
CASY	Casey's General Stores, Inc.	Consumer Staples Distribution & Retail	31.77	56.6%	17.7%
ADM	Archer-Daniels-Midland Company	Food Products	37.43	53.5%	(5.8%)
BG	Bunge Global SA	Food Products	24.24	52.4%	4.1%
RPRX	Royalty Pharma plc	Pharmaceuticals	22.57	43.8%	22.9%
JNJ	Johnson & Johnson	Pharmaceuticals	532.77	42.3%	(2.9%)
MPC	Marathon Petroleum Corporation	Oil, Gas & Consumable Fuels	71.49	39.6%	(10.0%)
BIIB	Biogen Inc.	Biotechnology	28.56	39.6%	8.2%
PSX	Phillips 66	Oil, Gas & Consumable Fuels	68.78	33.2%	(9.4%)
MRK	Merck & Co., Inc.	Pharmaceuticals	275.09	32.0%	2.0%
XOM	Exxon Mobil Corporation	Oil, Gas & Consumable Fuels	599.24	31.7%	(25.7%)
WELL	Welltower Inc.	Health Care REITs	151.51	29.7%	13.5%
NEE	NextEra Energy, Inc.	Electric Utilities	194.15	29.3%	10.2%
CVS	CVS Health Corporation	Health Care Providers & Services	115.54	28.1%	7.3%
TRGP	Targa Resources Corp.	Oil, Gas & Consumable Fuels	53.30	25.3%	(15.3%)
VTR	Ventas, Inc.	Health Care REITs	42.42	24.5%	3.5%
AEP	American Electric Power Company, Inc.	Electric Utilities	70.82	23.9%	2.7%
CVX	Chevron Corporation	Oil, Gas & Consumable Fuels	359.14	23.8%	(27.2%)

Source: Trivariate Research

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