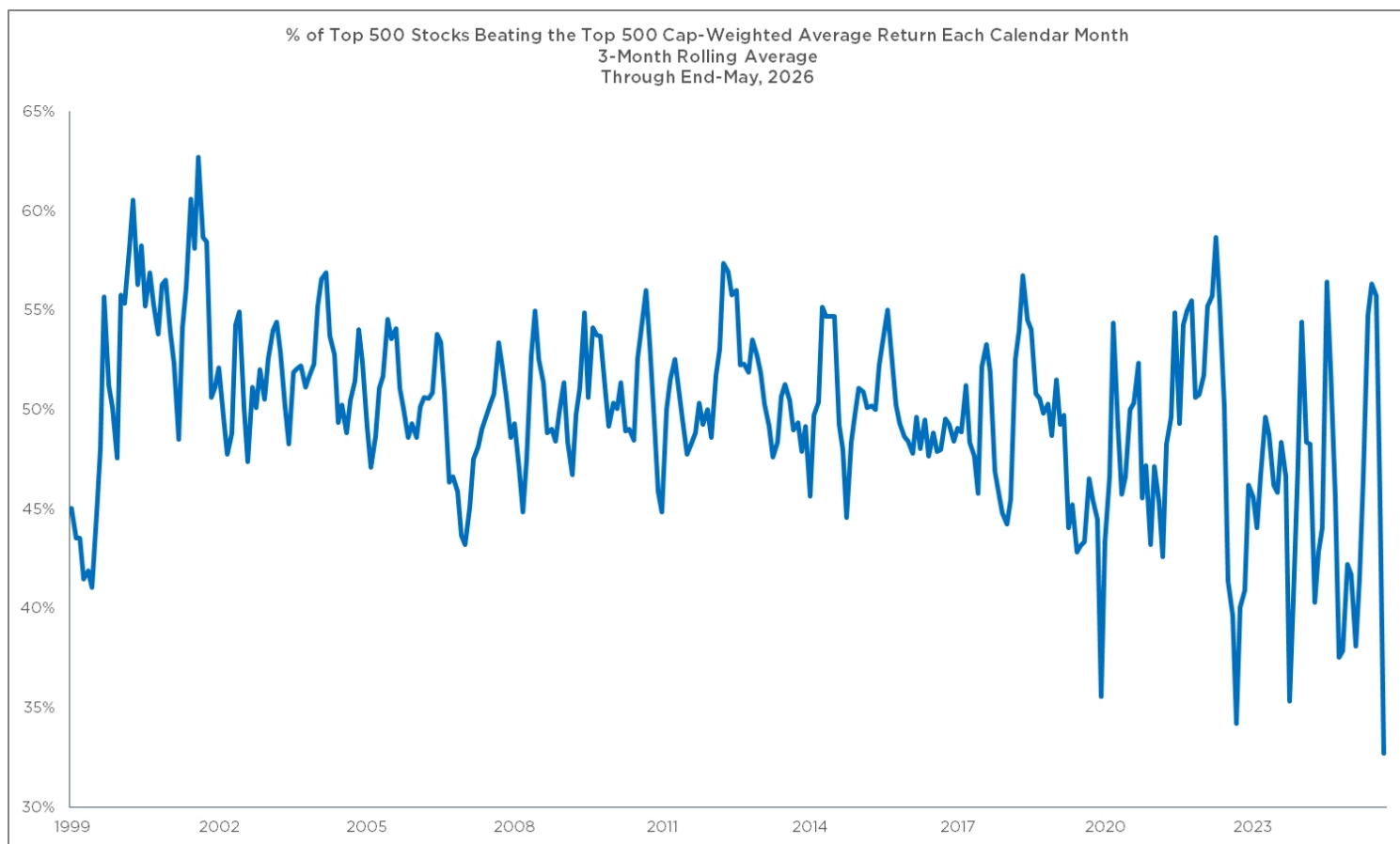


Level Set - The Three Topics That Keep Coming Up

In our May 3rd, 2026 Level Set we wrote that the old phrase “Sell in May and go away, and come back on St. Leger’s Day” is far from statistically significant. We can only hope that the 5.15% move in the S&P500 and the 8.36% move in the NASDAQ in May will prevent such astrological drivel from being suggested on every major financial media outlet in April 2027 - but somehow we doubt it.

What does continue to be true is the constitution of the winners in the market is skewed. In May, only 216 of the S&P500 stocks were up during the month (43%), and only 127 stocks beat the index (25.4%) despite the huge overall index move. In fact, on a 3-month rolling average basis, the smallest percentage of stocks have beaten the S&P500’s cap-weighted performance in more than 25 years (see below). That’s a concentrated market!



Source: Trivariate Research, LP

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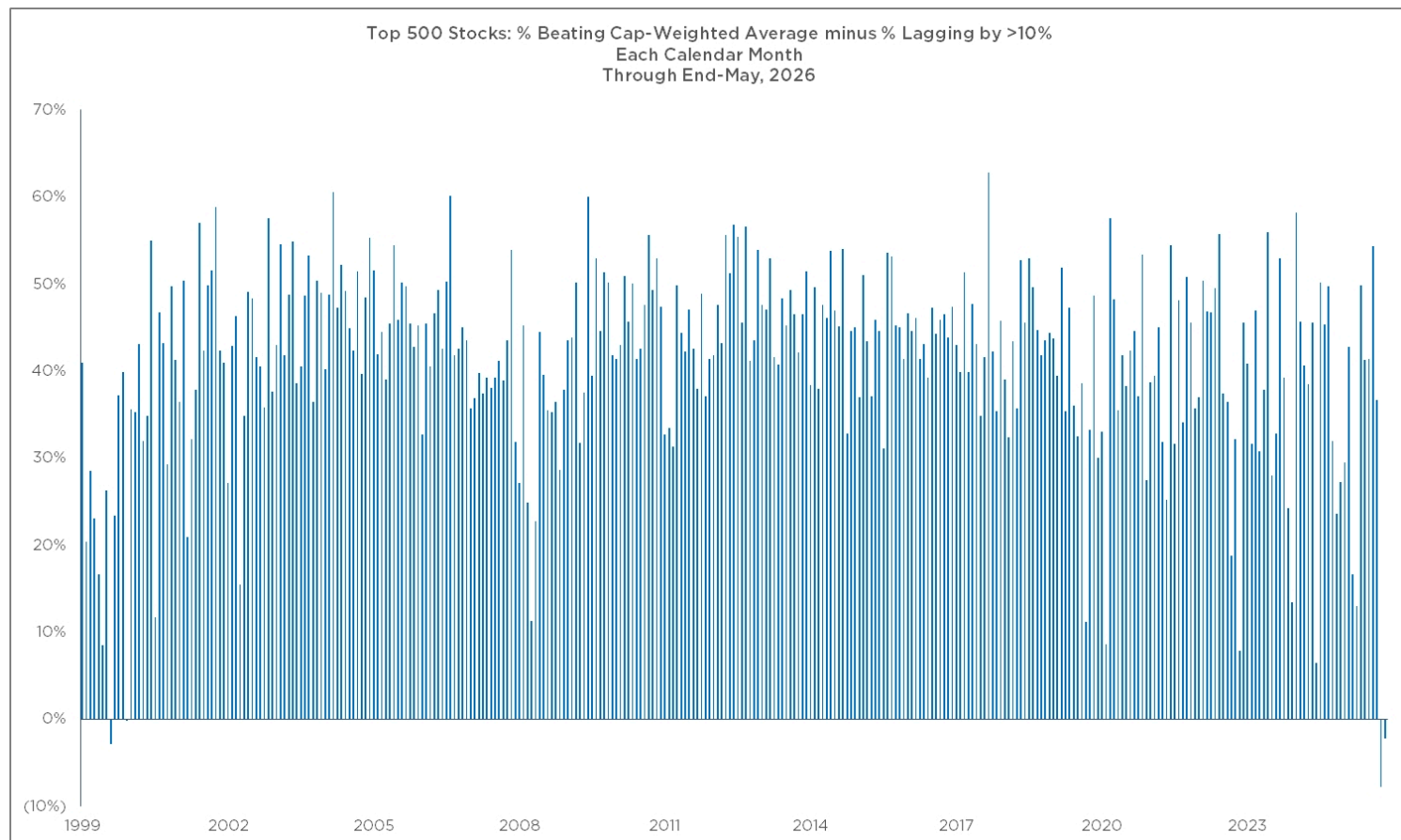
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At the same time that the big winners remain concentrated, there remains a host of meaningful underperformers, including 35 stocks in the S&P500 that were down more than 10% in May, and 145 stocks that were down more than 5%. **The market was up 5.15% in May, so more stocks were down 5% than beat the index in the month.** We looked back to 1999 to compare the percentage of stocks each month that beat the cap-weighted index and subtracted the percentage of stocks lagging the cap-weighted index by 10% or more. The last two months have been the worst two months since 1999 on this metric (see below).

Since 1999, there have been only three calendar months in which more stocks lagged the market by 10% than outperformed it, and two of those periods were April and May!



Source: Trivariate Research, LP

Given this market backdrop, we continued to focus on three issues in each of our 15 in-person institutional investors meetings, 2 podcasts, and CNBC appearance this past week.

1) Investors need to measure and allocate to AI revenue-exposed companies.

2) Investors need to run more diversified portfolios than normal.

3) Investors need to own stocks that are defensive or not correlated to AI Semiconductors, but with a non-traditional defensive playbook.

Point 1: AI Revenue Exposure

Investors need to measure and allocate to AI revenue-exposed companies. The biggest winners in May continued to be AI revenue-exposed businesses, up and down the bottlenecks of AI. DELL up 101% and MU up 87.8% standout, but there were several other AI winners in the month. We wanted to better identify AI revenue opportunities. We built the AI-revenue universe in three steps. First, we screened the top 3,000 U.S. equities and used an LLM with web search to summarize each company's current AI-linked revenue. A company qualified only if AI-linked revenue appeared to be "meaningful" — defined as more than roughly 5% of revenue, or an explicitly named and ramping growth driver — rather than just a general AI strategy statement, internal productivity initiative, or vague exposure claim. Second, we pooled positive company summaries and asked the model

to derive a mutually exclusive and collectively exhaustive taxonomy of AI-revenue categories, then locked those definitions for consistency. Third, each qualifying company was mapped into the taxonomy based on its primary AI monetization channel, recognizing that some companies may have secondary exposures across other parts of the AI stack. The final category set focused on 262 companies across 13 investable groups after excluding very small categories (see below). The 262 companies with AI-revenue are broad, but the largest categories are still concentrated in the physical build out layer, including Power & Thermal, Networking & Optical, Semi-Cap Equipment, Accelerators & Systems, and Datacenter Construction.

Number of Stocks with Meaningful AI Revenue
As of End-April, 2026

Category	Company Count	Top 5 Tickers
Power & Thermal	39	CAT, GEV, ETN, HON, VRT
Vertical & Edge	32	TSLA, QCOM, APP, MSI, LSCC
Enterprise GenAI	31	META, PLTR, CRM, INTU, ADBE
Networking & Optical	27	CSCO, ANET, APH, MRVL, GLW
Semi Cap Equipment	23	LRCX, AMAT, KLAC, CDNS, TER
Services & Integration	21	ACN, CTSH, BAH, DOX, EPAM
Accelerators & Systems	15	NVDA, AVGO, AMD, INTC, DELL
Cloud & Inference	15	GOOGL, MSFT, AMZN, ORCL, NET
Datacenter Construction	15	PWR, FIX, CBRE, EME, MTZ
Utilities	13	NEE, CEG, SO, AEP, ETR
Security & Observability	11	IBM, PANW, CRWD, FTNT, DDOG
Memory & Storage	10	MU, SNDK, STX, WDC, P
Datacenter REITs	10	EQIX, AMT, DLR, IRM, WULF

Source: Trivariate Research, LP

The diverse sector mix shows why “AI revenue” is not just a Semiconductor / Software screen. Technology is obviously the dominant AI revenue sector with 165 names (63% of the stocks), but Industrials constitutes 50 names, largely through Power & Thermal and Datacenter Construction, while Utilities and Real Estate are on the list due to exposure to power supply and Datacenter capacity. This shows how the AI trade has permeated the broader market into Infrastructure and Power-related exposures rather than remaining confined to mega-cap Technology (see below).

Number of Stocks with Meaningful AI Revenue
As of End-April, 2026

Category	Comm. Services	Consumer Disc.	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities	Total
Power & Thermal	0	0	2	1	0	27	8	1	0	0	39
Vertical & Edge	1	3	0	0	7	4	17	0	0	0	32
Enterprise GenAI	2	0	0	1	0	1	27	0	0	0	31
Networking & Optical	2	0	0	0	0	0	25	0	0	0	27
Semi Cap Equipment	0	0	0	0	0	1	20	2	0	0	23
Services & Integration	2	0	0	0	0	5	14	0	0	0	21
Accelerators & Systems	0	0	0	0	0	0	15	0	0	0	15
Cloud & Inference	1	1	0	0	0	0	13	0	0	0	15
Datacenter Construction	0	0	0	0	0	12	2	0	1	0	15
Utilities	0	0	1	0	0	0	0	0	0	12	13
Security & Observability	0	0	0	0	0	0	11	0	0	0	11
Memory & Storage	0	0	0	0	0	0	10	0	0	0	10
Datacenter REITs	0	0	0	1	0	0	3	0	5	1	10
Total	8	4	3	3	7	50	165	3	6	13	262

Source: Trivariate Research, LP

We clustered the 13 AI-revenue categories using daily return similarity, so the grouping reflects how the baskets have actually traded rather than only on our original business definitions. The resulting six clusters are intuitive: Utilities and Datacenter REITs group together as Power / Capacity beneficiaries; Accelerators, Networking, Power & Thermal, and Construction form a Datacenter Buildout group; and Cloud, Enterprise GenAI, and Security form an AI Platform group. We kept Memory & Storage and Semi-Cap as a separate bucket because their economics and recent return behavior are distinct enough to evaluate as a standalone exposure.

Category Buckets From Clustering
As of End-April, 2026

Category Cluster	Category
Utilities / Datacenter REITs	Datacenter REITs
Utilities / Datacenter REITs	Utilities
Datacenter Buildout	Accelerators & Systems
Datacenter Buildout	Datacenter Construction
Datacenter Buildout	Networking & Optical
Datacenter Buildout	Power & Thermal
AI Platform	Cloud & Inference
AI Platform	Enterprise GenAI
AI Platform	Security & Observability
Vertical & Edge	Vertical & Edge
Services & Integration	Services & Integration
Memory & Semi Cap	Memory & Storage
Memory & Semi Cap	Semi Cap Equipment

Source: Trivariate Research, LP

What is clear is that compute will grow well above GDP for some time. What is also clear is that US equity portfolio managers need exposure to stocks that benefit from AI revenue, and will ultimately benefit from AI productivity. Today, the focus has to be in multiple AI revenue categories. Because Memory and Semi-Cap equipment are highly correlated, gauging aggregate exposure to these groups is important. **The 262 companies we have labeled as having some meaningful AI revenue currently account for \$34.7 Trillion in market capitalization, which is about 44% of the total market cap. of the top 3000 US equities.**

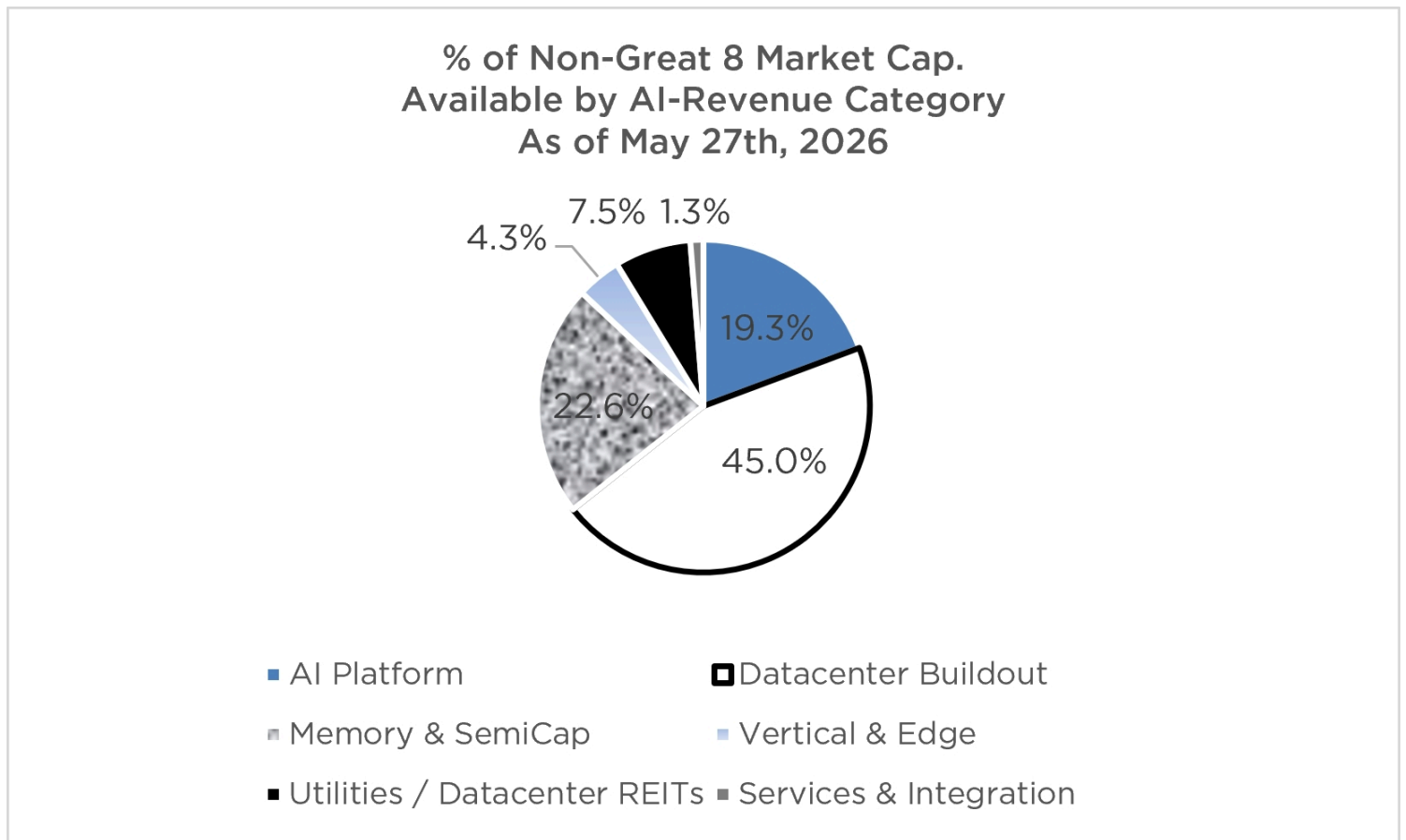
81.2% of all the AI market cap. today is in two of our AI revenue categories, AI Platform, and Datacenter Buildout (see below).

We tagged AMZN, GOOGL, META, and MSFT as AI Platform companies, AVGO and NVDA as Datacenter Buildout, TSLA as Vertical & Edge, and we did NOT tag AAPL as a meaningful AI revenue company today. The result is that about 60.4% of all the AI Revenue stocks are Great 8 market cap. 82.1% of the AI Platform revenue is from AMZN, GOOGL, META, and MSFT. To the extent investors are close to market-weight the Great 8 for risk management reasons, then 60.4% of their AI Revenue exposure will come from the Great 8 (see below).

262 US Companies with Meaningful AI Revenue As of May 27th, 2026						
AI Revenue Category	Count	Market Cap. (\$Tn)	Category Weight	Great 8 Percentage of Category	Great 8 Category Weight	Great 8 Names
AI Platform	59	14.85	42.7%	82.1%	35.0%	AMZN, GOOGL, META, MSFT
Datacenter Buildout	92	13.40	38.5%	53.7%	20.7%	AVGO, NVDA
Memory & SemiCap	33	3.11	9.0%	0.0%	0.0%	
Vertical & Edge	33	2.23	6.4%	73.2%	4.7%	TSLA
Utilities / Datacenter REITs	25	1.03	3.0%	0.0%	0.0%	
Services & Integration	20	0.17	0.5%	0.0%	0.0%	
TOTAL	262	34.79	100.0%		60.4%	AAPL not meaningful AI revenue

Source: Trivariate Research, LP

Assuming investors are Market-Weight the Great 8 stocks, the rest of the AI's market cap is 45% in Datacenter Buildout, 19% in AI Platform, and 22.6% in Memory and Semi-Caps. The Utilities / Datacenter REITS, Vertical & Edge, and Services & Integration categories are all a smaller piece of the AI revenue pie.



Source: Trivariate Research, LP

We strongly recommend diversifying as widely as possible across the various AI revenue buckets.

AI revenue stocks with strong revisions, and increasing multiples, include INTC, EQIX, and DOCN, among others (see below).

**Long Ideas: AI Revenue Stocks With Highest Multiple Expansion in EV-to-Forecast Sales and Earnings Revision
As of May 19th, 2026**

Ticker	Company	AI Bucket	Market Cap. (\$Bn.)
INTC	Intel Corporation	Datacenter Buildout	556.88
EQIX	Equinix, Inc.	Utilities / Datacenter REITs	103.40
DOCN	DigitalOcean Holdings	AI Platform	15.66
VIAV	Viavi Solutions Inc.	Datacenter Buildout	11.53
FORM	FormFactor, Inc.	Memory & Semi Cap	9.14
MXL	MaxLinear, Inc.	Memory & Semi Cap	8.49
DOX	Amdocs Limited	Services & Integration	6.68
EXLS	ExlService Holdings, Inc.	Services & Integration	4.43
LB	LandBridge Company	Utilities / Datacenter REITs	2.11
ATEN	A10 Networks, Inc.	AI Platform	2.04
OUST	Ouster, Inc.	Vertical & Edge	1.89
MITK	Mitek Systems, Inc.	Vertical & Edge	0.64

Source: Trivariate Research, LP

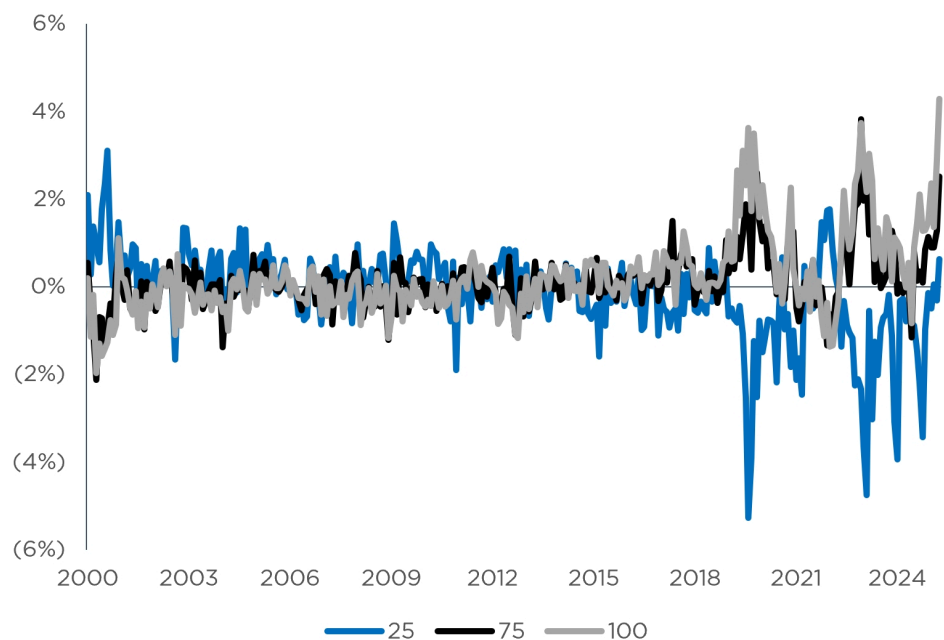
Point 2: Diversification

We have been writing for over a year now that a combination of risk-management junk stocks, risk-managed Great 8, and a basket of large and concentrated positions where company-specific risk is high is a good strategy for portfolio construction. This means that bottom-up stock pickers should own several names for risk, not alpha, and run more diversified than normal.

To more empirically show this, every month since 1999, we simulated portfolios drawn from the Top 500 U.S. equities to study how diversification changes return and risk outcomes over a 12-month holding period. For each start month, we form random portfolios of 25, 50, 75, and 100 names within the investable universe, evaluate both equal-weight and cap-weight constructions, and then hold those portfolios constant without rebalancing for the next year, so the results reflect the effect of diversification rather than ongoing trading rules. This process was repeated 500 times for each start month, portfolio size, universe, and weighting scheme to estimate the distribution of outcomes across simulations. We then compared each portfolio size with the corresponding 50-stock benchmark formed under the same conditions and summarized the impact on 1-year returns, the dispersion of those returns across simulations, annualized volatility, and annualized Sharpe, while also examining how these relationships vary across different market and financial-condition environments. No transaction costs or taxes are assumed. What did our results show?

The benefits of diversification for the median-performing portfolio manager weren't meaningful from 2000 to 2019. Generally, concentrated portfolios performed as well as or better than more diversified portfolios from 2000 to 2012. However, since 2019, diversification has been a much better idea. The benefits of a 100-stock portfolio vs. a 75-stock portfolio since 2019 are relatively small. However, owning 75 stocks vs. 50 or 25 has generally been much better since 2019 (see below).

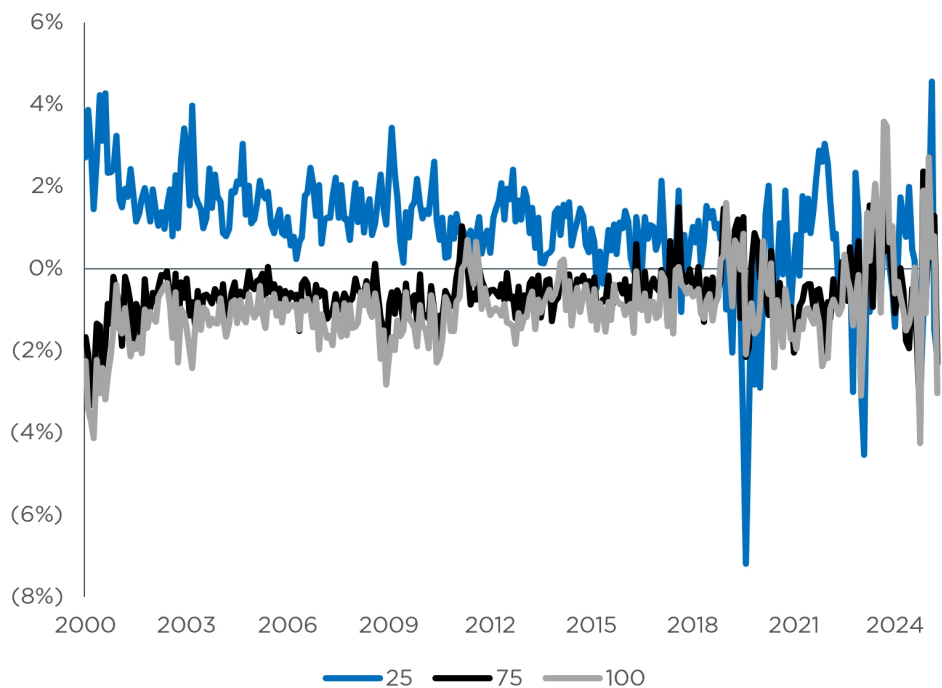
Top 500, Cap-Weighted Portfolios
Return Differential vs. 50-Stock Portfolio
Median of 500 Simulated Portfolios Per Size Bucket Per
Month
Through End-April, 2026



Source: Trivariate Research, LP

Several investors told us that if you are a skilled portfolio manager, concentration should work better. Hence, we then assumed an investor was a 75th percentile stock picker every year, so quite skilled (see below). For “skilled” managers performing in the 75th percentile, diversification hurt performance from 2000 through 2018 but has been much more volatile and in aggregate lagged since. **Hence, even skilled PMs should run with more diversification than normal today.**

Top 500
75th Percentile Performing Funds (So Having a Good Year)
Cap-Weighted Return Gap vs 50-stock Portfolio
Through End-April, 2026



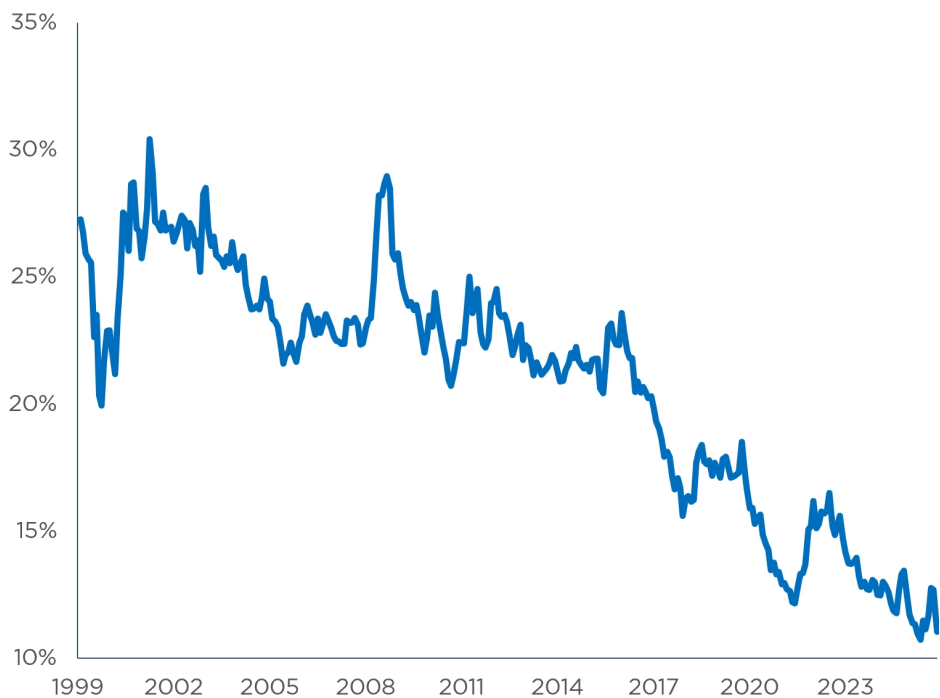
Source: Trivariate Research, LP

Point 3 : Defense

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? Historically, when investors wanted to get defensive within their equity portfolios, they looked for more predictable revenue streams, and would often 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% (see below). 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.

Pharmaceuticals, Telecommunication Services,
Consumer Staples, and Utilities
Percentage of Top 500 Market Cap.
Through May 8th, 2026



Source: Trivariate Research, LP

CONCLUSION

Many of these traditional defensive names also have poor relative earnings revisions, something we are desperate to avoid in this market given the penalty for missing estimates has been so harsh, and far worse than the reward for beating has been positive.

For investors looking to adopt a more defensive posture, we would focus on the companies listed below. Each has 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. Stocks include VLO, UTHR, CASY, HAL, ADM, and BG, among others.

**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, 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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