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TRIVARIATE RESEARCH

WHICH NON-AI CYCLICALS SHOULD YOU OWN?

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RESEARCH SUMMARY

Background: In recent weeks we have written about AI revenue exposure, defensives, and the need for diversification. In today's report, we decided to evaluate cyclicals, parsing the cohort into both AI- and non-AI exposures, to evaluate economically-sensitive investment opportunities. We classified cyclical industries as Automobiles & Components, Capital Goods, Consumer Durables and Apparel, Energy, Materials, Transportation, Consumer Discretionary Distribution and Retail, and Semiconductors and Semi. Capital Equipment.

Non-AI Cyclicals are small: Using the eight Industry Groups, cyclicals, driven by Semiconductors and Semiconductor Capital Equipment are now 39% of the S&P500 market cap. Non-AI Cyclicals are 13.2% of the market cap, near a 25-year low, while the stocks that we tag as AI cyclicals are at all-time highs, at 25.6%. NVDA has grown at a rate that accounts for nearly half the non-AI cyclicals demise, but AI-cyclicals excluding NVDA are 18.4% of the Top 500 market cap, larger than all non-AI cyclicals.

Relative revisions and fundamentals support AI over non-AI cyclicals: While the AI complex and Semiconductors have flourished due to the insatiable demand for compute, economically-exposed cyclicals have been consistently weak performers since COVID, **showing poorer relative earnings revisions every month since May of 2023.** The reason for the huge relative move of AI is not irrational, as the median stock's forecasted revenue growth (16.2% vs. 6.8%), gross and net margins, and EPS growth (51% vs. 20%) are higher. However, non-AI cyclicals, despite the relatively more muted backdrop in some areas, are still growing reasonably strong in absolute terms, and are forecasted to have net margins that are in the 96th percentile vs. their own history.

Gross margin variability: Gross margins vary materially among cyclicals, with the median non-AI Semiconductor's gross margins forecasted to be 58.8%, vs. the worst non-AI cyclical, Automobiles & Components, forecasted to be 13.7%. Capital Goods and Consumer Distribution and Retail have low volatility among their forecasted gross margins. On the other hand, Consumer Durables & Apparel, Transportation, and Materials all have far more cyclical and volatile forecasted gross margins.

INVESTMENT CONCLUSIONS

Gross margins are mixed vs. history: Unsurprisingly, forecasted gross margins are weak in Autos and Transportation. Non-AI Semiconductors' forecasted gross margins are 58.8%, but this is only the 38th percentile vs. its own history. The rest of the cyclical areas are forecasted to have gross margins above their long-term averages.

But net margins are generally strong: For net margins, Capital Goods, Materials, Consumer Discretionary Distribution and Retail, Semiconductors, and Energy are all forecasted to have net margins in the top quintile vs. their history. Usually, high margins and high valuation are correlated.

Factor efficacy: Among non-AI cyclicals, momentum, accruals, and revisions have worked best for stock selection since 2020. On a volatility-adjusted basis, quick ratio and short interest have also been effective. Comparing what has worked since 2020 with what worked from 1999-2020 shows that previously valuation had worked, whereas now only FCF yield has some merit.

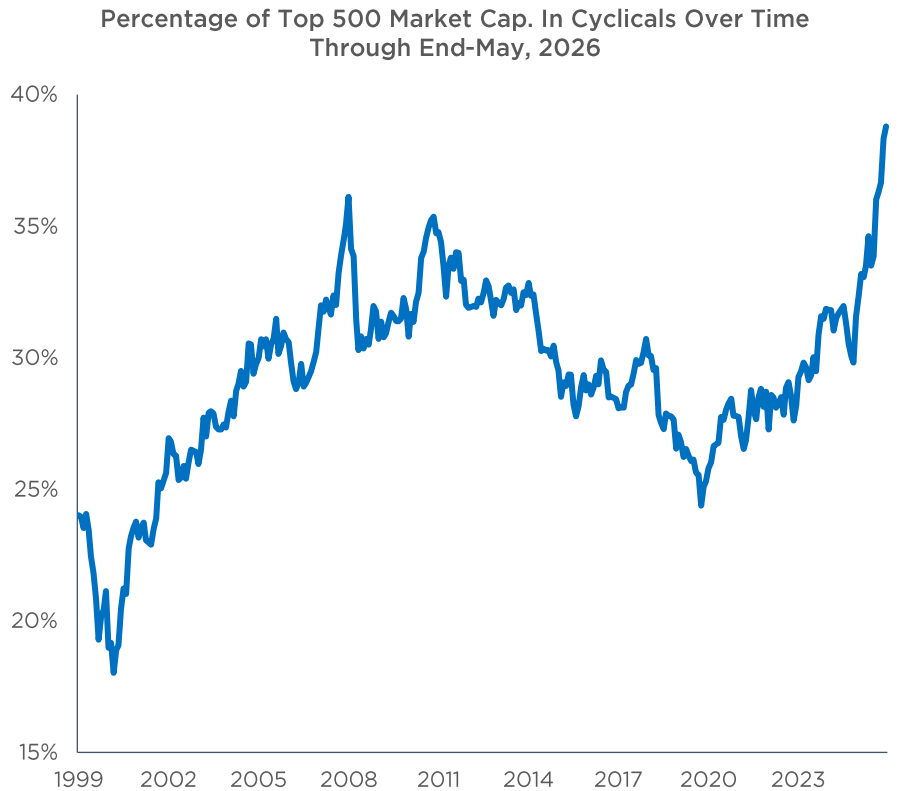
Large-cap stock ideas: Among the top 500 stocks by market cap., we offer quantitatively derived long ideas that are in the top quintile of at least one of five key factors, not in the bottom quintile of any, and are no worse than average on 252-day momentum. GD, WMB, NOC, VLO, MPC, HAL, and DOW, among others screen well. See full list of ideas on Slide 11.

Small-cap stock ideas: For smaller caps., we look for stocks that screen in the top quintile of at least two of five key factors, not in the bottom quintile of any, and are no worse than average on 252-day momentum. Many of the names are in Energy. Stock ideas shown on Slide 12.

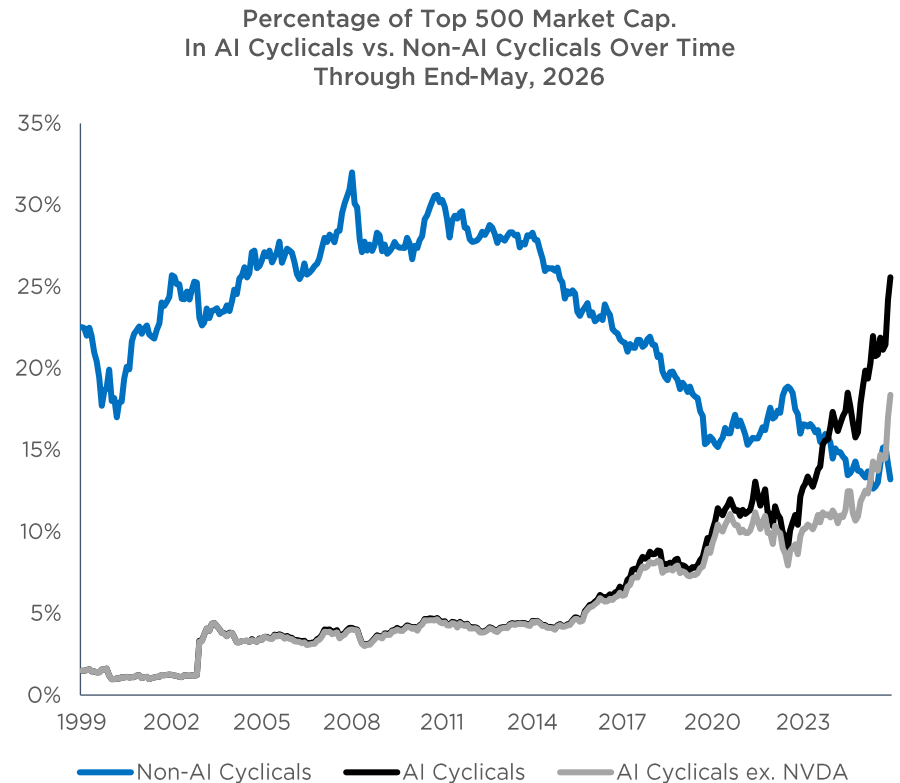
Short ideas: We show large cap. stocks that screen in the bottom quintile of at least two of five key factors, not in the top quintile of any, and are below average on 252-day momentum on slide 13. Smaller cap. stocks that screen in the bottom quintile of at least three of five key factors, not in the top quintile of any, and are below average on 252-day momentum are shown on slide 14.

AI DOMINATES THE CYCLICAL UNIVERSE, EVEN EXCLUDING NVDA

Using the eight Industry Groups, cyclicals, driven by Semiconductors and Semiconductor Capital Equipment are now 39% of the S&P500 market cap. (left). Non-AI Cyclicals are 13.2%, are near a 25-year low, while the stocks that we tag as AI cyclicals are at all-time highs, at 25.6% of market cap. NVDA has grown at a rate that accounts for nearly half the non-AI cyclicals demise (right), but AI-cyclicals excluding NVDA are 18.4% of the Top 500 market cap, larger than all non-AI cyclicals.



Source: Trivariate Research

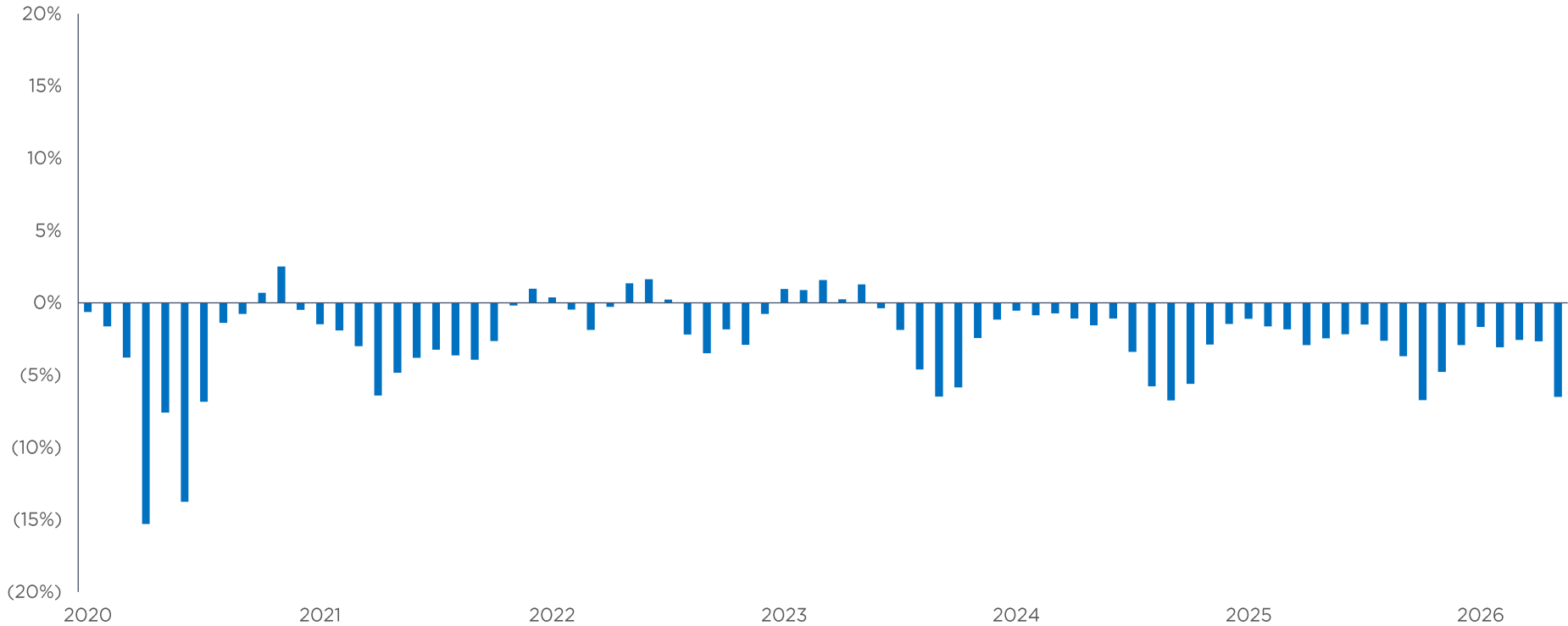


Source: Trivariate Research

NON-AI CYCLICALS HAVE HAD WORSE REVISIONS FOR 3 YEARS

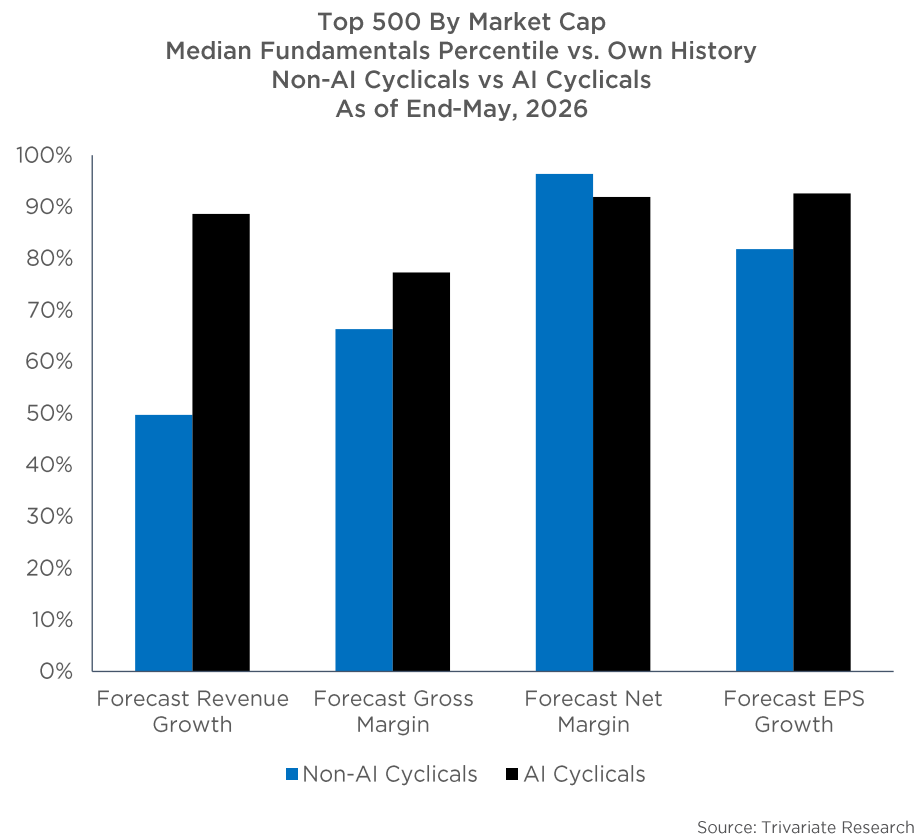
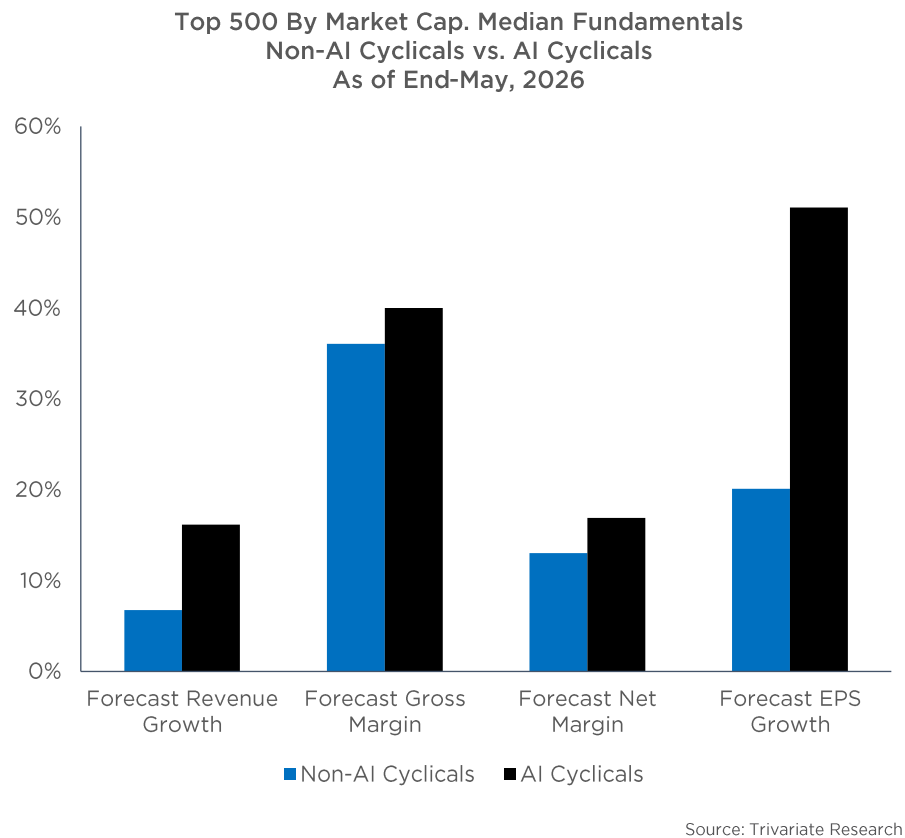
While the AI complex and Semiconductors have flourished due to the insatiable demand for compute, economically exposed cyclicals have been consistently weak since COVID, showing poorer relative earnings revisions every month for three years in a row, since May of 2023.

Median 3-Month EPS Revision Spread
Non-AI Cyclicals Minus AI Cyclicals
Top 500 By Market Cap.
Through End-May, 2026



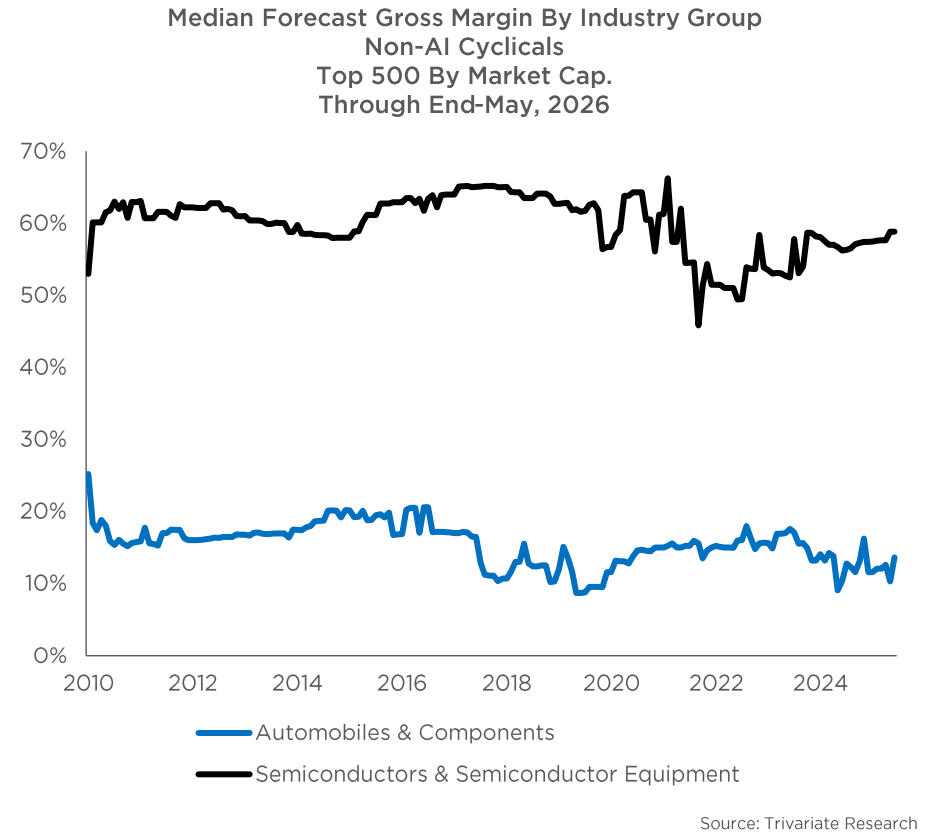
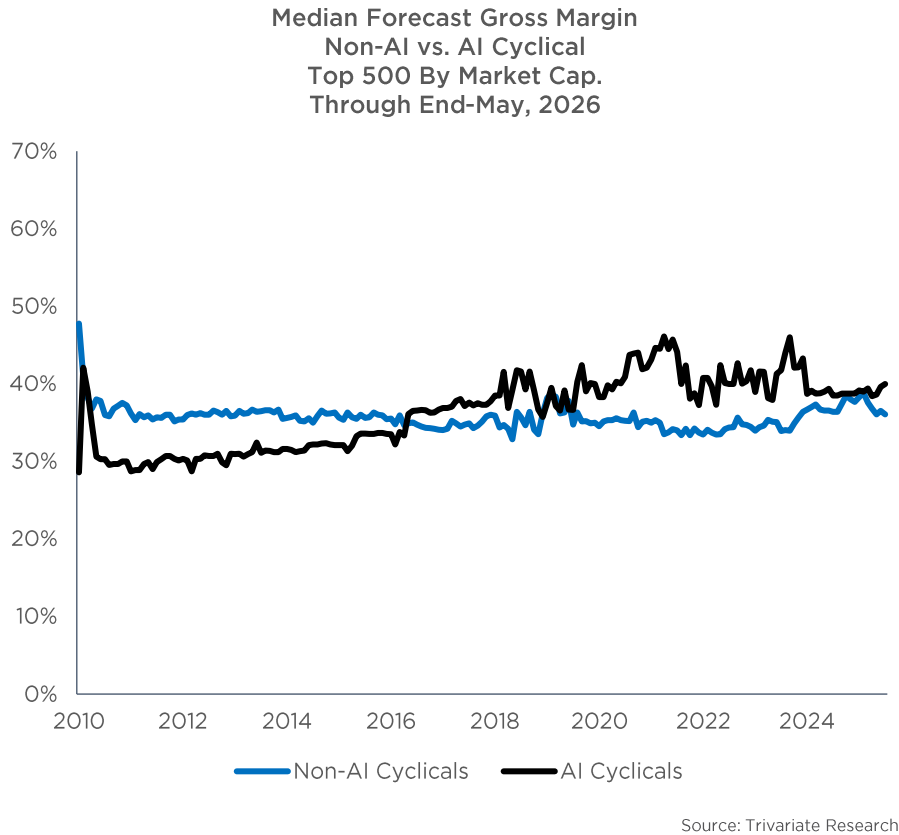
AI CYCLICALS ARE BETTER THAN NON-AI, BUT NON-AI AREN'T BAD

The reason for the huge relative move of AI is not irrational, as the median stock's forecasted revenue growth (16.2% vs. 6.8%), gross and net margins, and EPS growth (51% vs. 20%) are higher (left). However, non-AI cyclicals, despite the relatively more muted backdrop in some areas, are still growing reasonably strong in absolute terms, and are forecasted to have net margins that are in the 96th percentile vs. their own history (right).



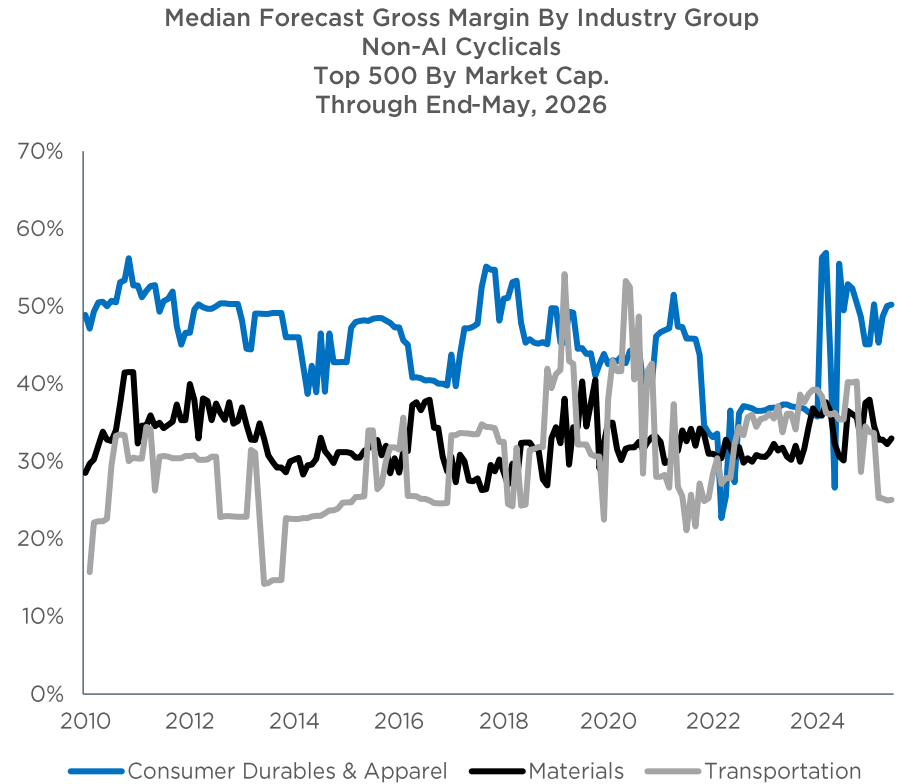
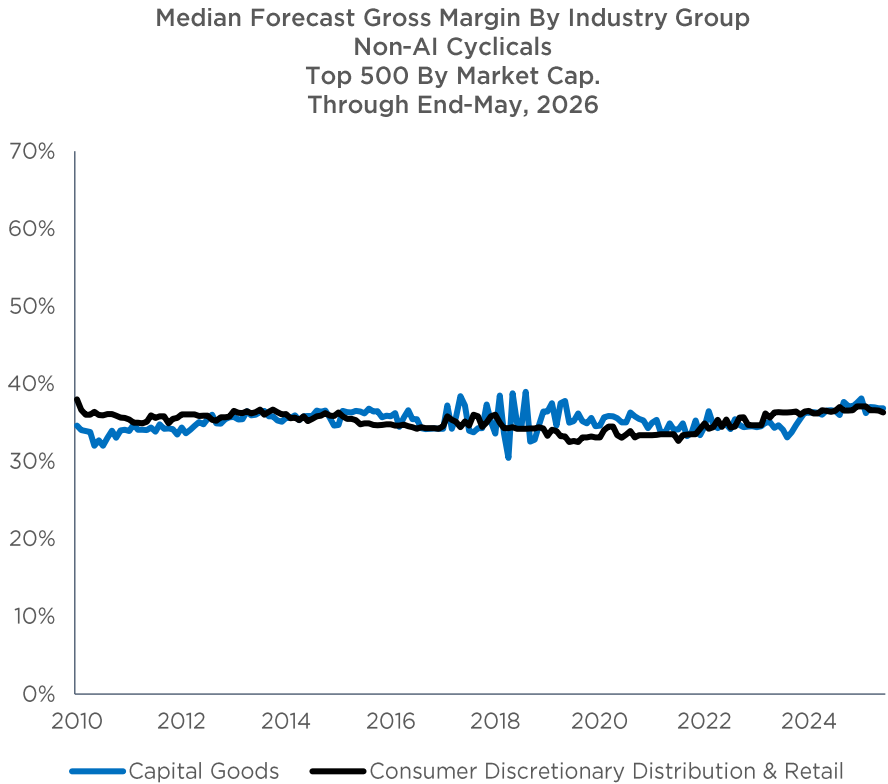
THE LEVEL OF GROSS MARGINS VARIES AMONG NON-AI CYCLICALS

Forecasted gross margins are not really that different, though we are struck by the lack of volatility in the non-AI cyclicals' gross margins over the last 15 years (left). But gross margins do vary materially among cyclicals, with the median non-AI Semiconductors' gross margins forecasted to be 58.8%, vs. the worst cyclical, Automobiles & Components, forecasted to be 13.7% (right).



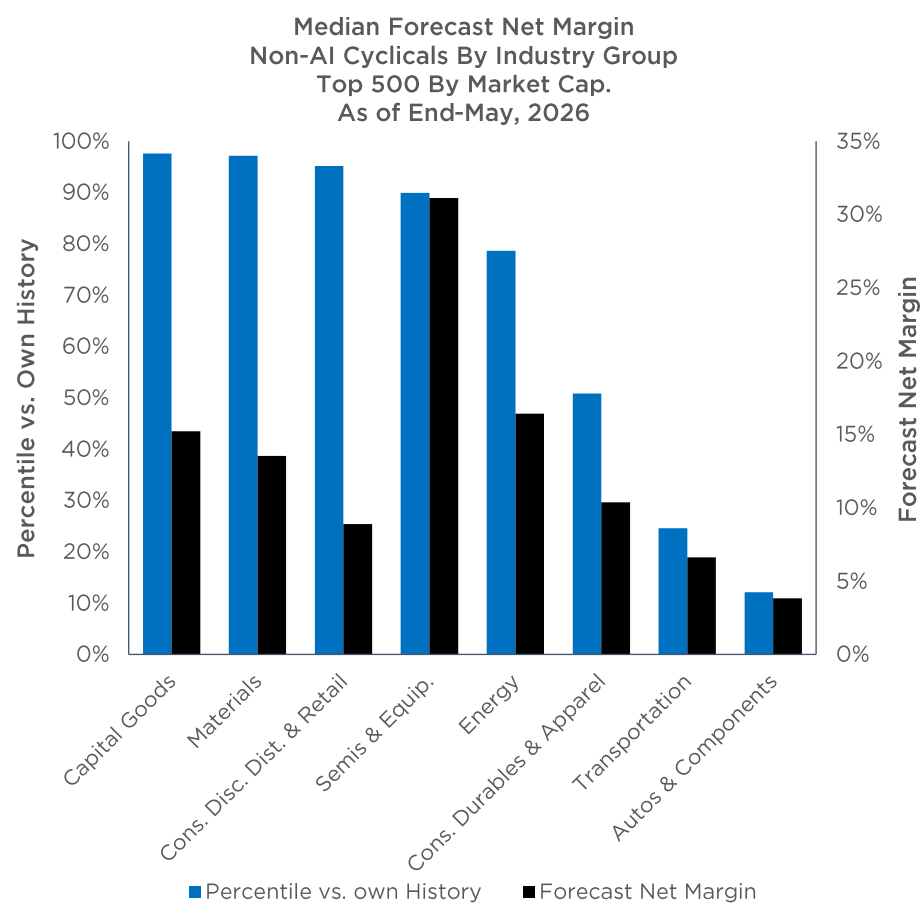
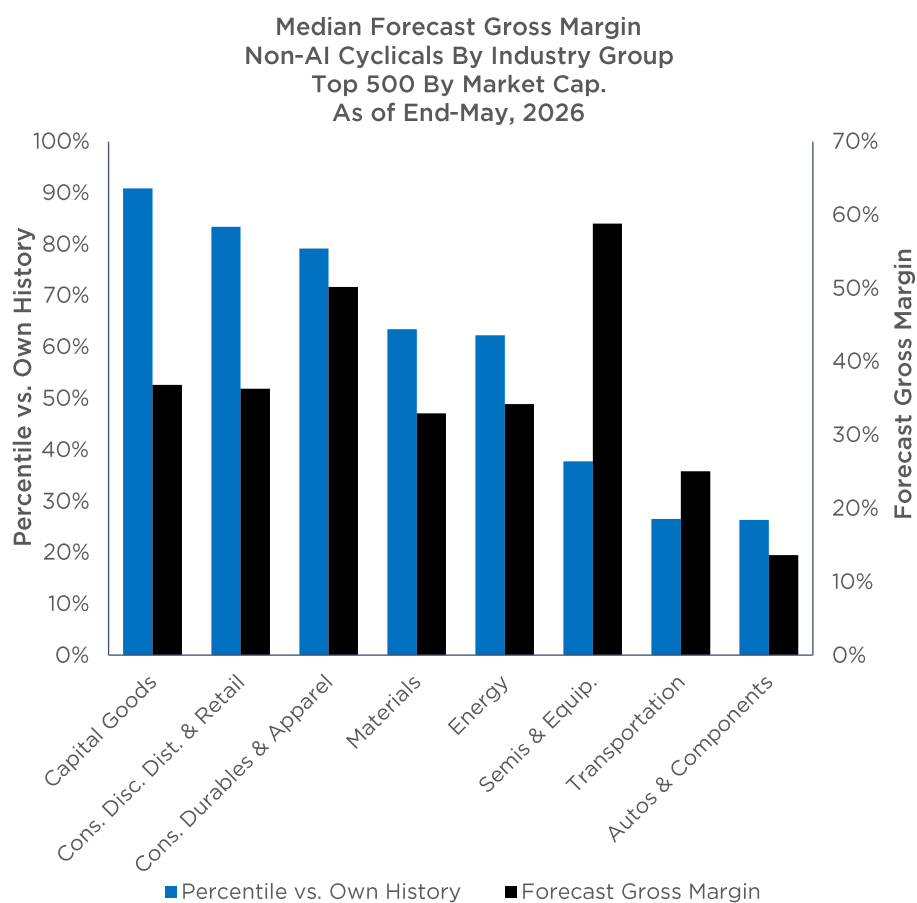
THE VOLATILITY OF GROSS MARGINS ALSO WIDELY VARIES

Capital Goods and Consumer Discretionary Distribution and Retail have extremely low volatility among their forecasted gross margins (left). On the other hand, Homebuilding-centric Consumer Durables & Apparel, Transportation, and Materials all have far more cyclical and volatile forecasted gross margins (right).



5 OF THE 8 NON-AI CYCLICALS WILL HAVE Q1 NET MARGINS

Unsurprisingly, forecasted gross margins are weak in Autos and Transportation. Non-AI Semiconductors' forecasted gross margins are 58.8%, but this is only the 38th percentile vs. its own history. The rest of the cyclical areas are forecasted to have gross margins above their long-term averages (left). For net margins, Capital Goods, Materials, Consumer Discretionary Distribution and Retail, Semiconductors, and Energy are all forecasted to have net margins in the top quintile vs. their history (right).



Source: Trivariate Research

Source: Trivariate Research

SINCE 2020, MOMENTUM, REVISIONS, AND ACCRUALS WORK

Among non-AI cyclicals, momentum, accruals, and revisions have worked best for stock selection since 2020. On a volatility-adjusted basis, quick ratio and short interest have also been effective. Comparing what has worked since 2020 with what worked from 1999-2020 shows that previously valuation had worked, whereas now only FCF yield has some merit.

Non-AI Cyclicals Factor Efficacy Through End-May, 2026

| Factor | Sharpe 2020-Present | Ann. Mean 2020-Present | Sharpe 1999-2020 | Ann. Mean 1999-2020 | Sharpe Difference | Ann. Mean Difference |
|---|------------------------|---------------------------|---------------------|------------------------|----------------------|-------------------------|
| 1M EPS Revision (High minus Low) | 1.07 | 12.7% | 0.05 | 0.5% | 1.02 | 12.2% |
| Accruals (Low minus High) | 1.05 | 15.1% | 0.42 | 4.6% | 0.63 | 10.5% |
| Quick Ratio Growth (High minus Low) | 0.75 | 8.1% | (0.18) | (1.0%) | 0.93 | 9.1% |
| Short Interest to Value Traded (Low minus High) | 0.73 | 6.3% | 0.54 | 5.3% | 0.18 | 1.1% |
| 252-Day Momentum (High minus Low) | 0.67 | 18.6% | 0.04 | 0.9% | 0.63 | 17.7% |
| Free Cash Flow Yield (High minus Low) | 0.54 | 9.4% | 0.72 | 7.8% | (0.18) | 1.6% |
| EV-to-Forecast Sales (Low minus High) | 0.51 | 8.4% | 0.51 | 9.4% | (0.00) | (1.0%) |
| Inventory-to-Sales (Low minus High) | 0.33 | 5.2% | 0.06 | 0.6% | 0.26 | 4.6% |
| Price-to-Forward Earnings (Low minus High) | 0.28 | 6.5% | 0.57 | 8.4% | (0.29) | (1.9%) |
| Total Yield (High minus Low) | 0.27 | 5.6% | 0.35 | 4.0% | (0.08) | 1.6% |
| Buyback Yield (High minus Low) | 0.26 | 4.5% | 0.31 | 3.4% | (0.06) | 1.2% |
| Total Yield Indicated (High minus Low) | 0.23 | 4.8% | 0.27 | 3.1% | (0.04) | 1.6% |
| Beta (High minus Low) | 0.22 | 7.0% | 0.03 | 0.6% | 0.19 | 6.4% |
| 63-Day Momentum (High minus Low) | 0.08 | 1.9% | 0.04 | 0.7% | 0.04 | 1.2% |
| Forecast Net Margin Expansion (High minus Low) | 0.07 | 0.8% | 0.37 | 3.6% | (0.30) | (2.8%) |
| Dividend Growth (High minus Low) | 0.07 | 0.9% | (0.30) | (2.6%) | 0.36 | 3.4% |
| Avg Incremental Gross Margin 12Q (High minus Low) | 0.07 | 0.7% | (0.13) | (1.3%) | 0.20 | 2.0% |
| Gross Margin (High minus Low) | 0.05 | 0.7% | (0.26) | (3.0%) | 0.31 | 3.7% |

Source: Trivariate Research

QUANTITATIVELY-DERIVED NON-AI CYCLICAL LARGE-CAP. LONG IDEAS

Among the top 500 stocks by market cap., we offer below quantitatively derived long ideas that are in the top quintile of at least one key factor, not in the bottom quintile of any, and are no worse than average on 252-day momentum. GD, WMB, NOC, VLO, MPC, HAL, and DOW, among others screen well.

**Non-AI Cyclicals that Screen Well on Best 5 Factors
With Good Momentum, Low Correlation to AI Semis, and High Company-Specific Risk
Top 500 By Market Cap.
As of End-May, 2026**

| Ticker | Company Name | Industry Group | Market Cap. (\$Bn.) | 252-Day Momentum | Correlation to AI Semis | Company-Specific Risk |
|--------|--|----------------|---------------------|------------------|-------------------------|-----------------------|
| GD | General Dynamics Corporation | Capital Goods | 93.6 | 29.1% | 8.0% | 69.7% |
| WMB | The Williams Companies, Inc. | Energy | 87.3 | 21.6% | 1.1% | 84.4% |
| NOC | Northrop Grumman Corporation | Capital Goods | 80.1 | 20.5% | 4.8% | 86.0% |
| VLO | Valero Energy Corporation | Energy | 72.7 | 97.9% | (19.0%) | 64.6% |
| MPC | Marathon Petroleum Corporation | Energy | 72.6 | 59.9% | (14.8%) | 66.4% |
| HAL | Halliburton Company | Energy | 32.5 | 101.1% | 3.6% | 69.7% |
| FTI | TechnipFMC plc | Energy | 27.3 | 123.6% | 25.4% | 73.7% |
| DOW | Dow Inc. | Materials | 24.3 | 28.4% | (8.3%) | 64.5% |
| EXPD | Expeditors International of Washington | Transportation | 20.7 | 42.6% | 18.5% | 73.6% |

QUANTITATIVELY-DERIVED NON-AI CYCLICAL SMALL-CAP. LONG IDEAS

For smaller caps., we look for stocks that screen top in the quintile of at least two of five key factors, not in the bottom quintile of any, and are no worse than average on 252-day momentum. Many of the names are in Energy.

**Non-AI Cyclical that Screen Well on Best 5 Factors
With Good Momentum, Low Correlation to AI Semis, and High Company-Specific Risk
Market Cap. Rank 501-2000
As of End-May, 2026**

| Ticker | Company Name | Industry Group | Market Cap. (\$Bn.) | 252-Day Momentum | Correlation to AI Semis | Company-Specific Risk |
|--------|------------------------------------|---------------------------------------|---------------------|------------------|-------------------------|-----------------------|
| DINO | HF Sinclair Corporation | Energy | 12.6 | 100.7% | (13.0%) | 70.1% |
| FRO | Frontline plc | Energy | 7.7 | 111.1% | 15.2% | 80.9% |
| PLUG | Plug Power Inc. | Capital Goods | 5.5 | 326.3% | 25.7% | 63.6% |
| GLNG | Golar LNG Limited | Energy | 5.1 | 22.7% | 0.9% | 83.5% |
| PBF | PBF Energy Inc. | Energy | 4.8 | 120.8% | (21.4%) | 62.2% |
| LBRT | Liberty Energy Inc. | Energy | 4.8 | 154.1% | 23.2% | 69.1% |
| VSXY | Victoria's Secret & Co. | Consumer Discretionary Dist. & Retail | 4.4 | 162.0% | 28.7% | 69.7% |
| INSW | International Seaways, Inc. | Energy | 3.8 | 130.5% | 13.1% | 77.0% |
| STNG | Scorpio Tankers Inc. | Energy | 3.4 | 95.9% | 10.5% | 87.2% |
| HYMC | Hycroft Mining Holding Corporation | Materials | 3.0 | 659.3% | 27.6% | 63.3% |
| PARR | Par Pacific Holdings, Inc. | Energy | 2.8 | 158.8% | (15.3%) | 68.3% |
| DHT | DHT Holdings, Inc. | Energy | 2.6 | 58.4% | 12.6% | 79.2% |
| TNK | Teekay Tankers Ltd. | Energy | 2.4 | 66.9% | 12.9% | 79.4% |
| PCT | PureCycle Technologies, Inc. | Materials | 2.2 | 20.9% | 23.2% | 66.3% |
| FIGS | FIGS, Inc. | Consumer Durables & Apparel | 2.0 | 172.2% | 3.3% | 86.1% |
| PUMP | ProPetro Holding Corp. | Energy | 1.9 | 180.0% | 1.3% | 73.9% |
| BORR | Borr Drilling Limited | Energy | 1.5 | 181.5% | 12.8% | 79.8% |
| ECVT | Ecovyst Inc. | Materials | 1.4 | 72.9% | 28.2% | 68.6% |
| SATL | Satellogic Inc. | Capital Goods | 1.4 | 142.6% | 23.2% | 67.7% |
| HLX | Helix Energy Solutions Group, Inc. | Energy | 1.4 | 49.1% | 12.5% | 70.3% |
| GCT | GigaCloud Technology Inc. | Consumer Discretionary Dist. & Retail | 1.3 | 99.6% | 18.5% | 68.1% |
| PBT | Permian Basin Royalty Trust | Energy | 1.3 | 153.6% | (7.1%) | 68.1% |

Source: Trivariate Research

NON-AI CYCLICAL LARGE-CAP. SHORT IDEAS

Among the top 500 stocks by market cap., we offer below quantitatively derived short ideas that are in the bottom quintile of at least two of five key factors, not in the top quintile of any, and are worse than average on 252-day momentum. ITW, NKE, GWW, OKE, and MLM, among others screen poorly.

**Non-AI Cyclical that Screen Poorly on Best 5 Factors
Top 500 By Market Cap.
As of End-May, 2026**

| Ticker | Company Name | Industry Group | Market Cap. (\$Bn.) | 252-Day Momentum | Correlation to AI Semis | Company-Specific Risk |
|--------|---------------------------------|-----------------------------|---------------------|------------------|-------------------------|-----------------------|
| ITW | Illinois Tool Works Inc. | Capital Goods | 71.1 | 4.0% | 27.0% | 29.2% |
| NKE | NIKE, Inc. | Consumer Durables & Apparel | 68.5 | (23.3%) | 5.2% | 62.0% |
| GWW | W.W. Grainger, Inc. | Capital Goods | 58.3 | 15.2% | 19.6% | 55.0% |
| OKE | ONEOK, Inc. | Energy | 52.9 | 10.0% | (31.1%) | 68.9% |
| MLM | Martin Marietta Materials, Inc. | Materials | 34.9 | 6.2% | 39.8% | 48.9% |
| EQT | EQT Corporation | Energy | 34.4 | 0.1% | (1.3%) | 91.1% |
| OTIS | Otis Worldwide Corporation | Capital Goods | 27.2 | (24.0%) | 1.4% | 64.2% |
| TPL | Texas Pacific Land Corporation | Energy | 27.1 | (2.7%) | 11.7% | 67.7% |
| XYL | Xylem Inc. | Capital Goods | 26.0 | (11.4%) | 43.3% | 60.4% |
| AMCR | Amcor plc | Materials | 17.9 | (8.7%) | 30.0% | 50.1% |

NON-AI CYCLICAL SMALL-CAP. SHORT IDEAS

For smaller caps., we look for stocks that screen in the bottom quintile of at least three of five key factors, not in top quintile of any, and are worse than average on 252-day momentum.

Non-AI Cyclical Stocks that Screen Poorly on Best 5 Factors Market Cap. Rank 501-2000 As of End-May, 2026

| Ticker | Company Name | Industry Group | Market Cap. (\$Bn.) | 252-Day Momentum | Correlation to AI Semis | Company- Specific Risk |
|--------|---------------------------------------|--|------------------------|---------------------|----------------------------|---------------------------|
| IP | International Paper Company | Materials | 17.7 | (26.5%) | 18.2% | 58.0% |
| LII | Lennox International Inc. | Capital Goods | 17.5 | (10.7%) | 42.1% | 47.4% |
| QXO | QXO, Inc. | Capital Goods | 12.5 | 1.6% | 45.4% | 62.8% |
| UHAL.B | U-Haul Holding Company | Transportation | 10.3 | (5.4%) | 19.5% | 46.9% |
| RRC | Range Resources Corporation | Energy | 9.2 | (0.0%) | (15.7%) | 79.0% |
| LAD | Lithia Motors, Inc. | Consumer Discretionary Distribution & Retail | 6.6 | (6.6%) | 34.8% | 56.8% |
| KMX | CarMax, Inc. | Consumer Discretionary Distribution & Retail | 6.3 | (29.1%) | 19.9% | 60.0% |
| LPX | Louisiana-Pacific Corporation | Materials | 5.3 | (13.6%) | 30.8% | 57.7% |
| OLLI | Ollie's Bargain Outlet Holdings, Inc. | Consumer Discretionary Distribution & Retail | 5.0 | (27.8%) | 13.9% | 83.2% |
| CSW | CSW Industrials, Inc. | Capital Goods | 4.5 | (9.2%) | 32.7% | 55.0% |
| TREX | Trex Company, Inc. | Capital Goods | 4.3 | (26.2%) | 46.9% | 39.7% |
| KTB | Kontoor Brands, Inc. | Consumer Durables & Apparel | 4.0 | 6.3% | 4.3% | 55.7% |
| GPI | Group 1 Automotive, Inc. | Consumer Discretionary Distribution & Retail | 3.7 | (25.6%) | 28.8% | 66.3% |
| ANF | Abercrombie & Fitch Co. | Consumer Discretionary Distribution & Retail | 3.5 | (12.7%) | 5.6% | 77.9% |
| RH | RH | Consumer Discretionary Distribution & Retail | 2.8 | (19.2%) | 27.8% | 48.4% |
| DNOW | DNOW Inc. | Capital Goods | 2.3 | (12.4%) | 17.0% | 68.4% |
| TGLS | Tecnoglass Inc. | Capital Goods | 1.9 | (49.6%) | 31.3% | 63.3% |
| SLVM | Sylvamo Corporation | Materials | 1.6 | (25.0%) | 9.9% | 65.4% |
| CDRE | Cadre Holdings, Inc. | Capital Goods | 1.3 | (3.5%) | 43.6% | 64.8% |

Source: Trivariate Research

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