

Level Set: The Tech. Sell-off, Lower Oil Price, Giga-Cap Transactions

There were three major investment themes that arose during our various investor conversations last week that aren't usually synchronous.

1. **The Tech Sell-off:** Thoughts about how to get more defensive in an AI-revenue sell-off in the first part of last week.
2. **The Lower Oil Playbook:** Thoughts about how to get more offensive in an Iran-truce / lower Oil environment in the second week of the month.
3. **The Giga-Cap Transactions:** Thoughts about the SpaceX IPO and how we interpret it as a broader signal.

So firstly, this past week started off with concerns about a sharp Technology sell-off, and ended with a rally fueled by the dreams of lower Oil prices. On the Technology side, we thought it would be useful to see what patterns have emerged from the relatively few days this year when the Technology sector sold off. We counted 21 days year-to-date where the NASDAQ declined more than 1%. On those days, the average equally-weighted sector performance shows that Consumer Staples were best, followed by Utilities and Energy, with Technology worst.

Adam Parker

Founder
646-734-7070
adam@trivariateresearch.com

Chang Ge

Analyst
614-397-0038
chang@trivariateresearch.com

Maxwell Arnold

Analyst
347-514-1234
maxwell@trivariateresearch.com

Jesse Goodman

Analyst
917-741-5744
jesse@trivariateresearch.com

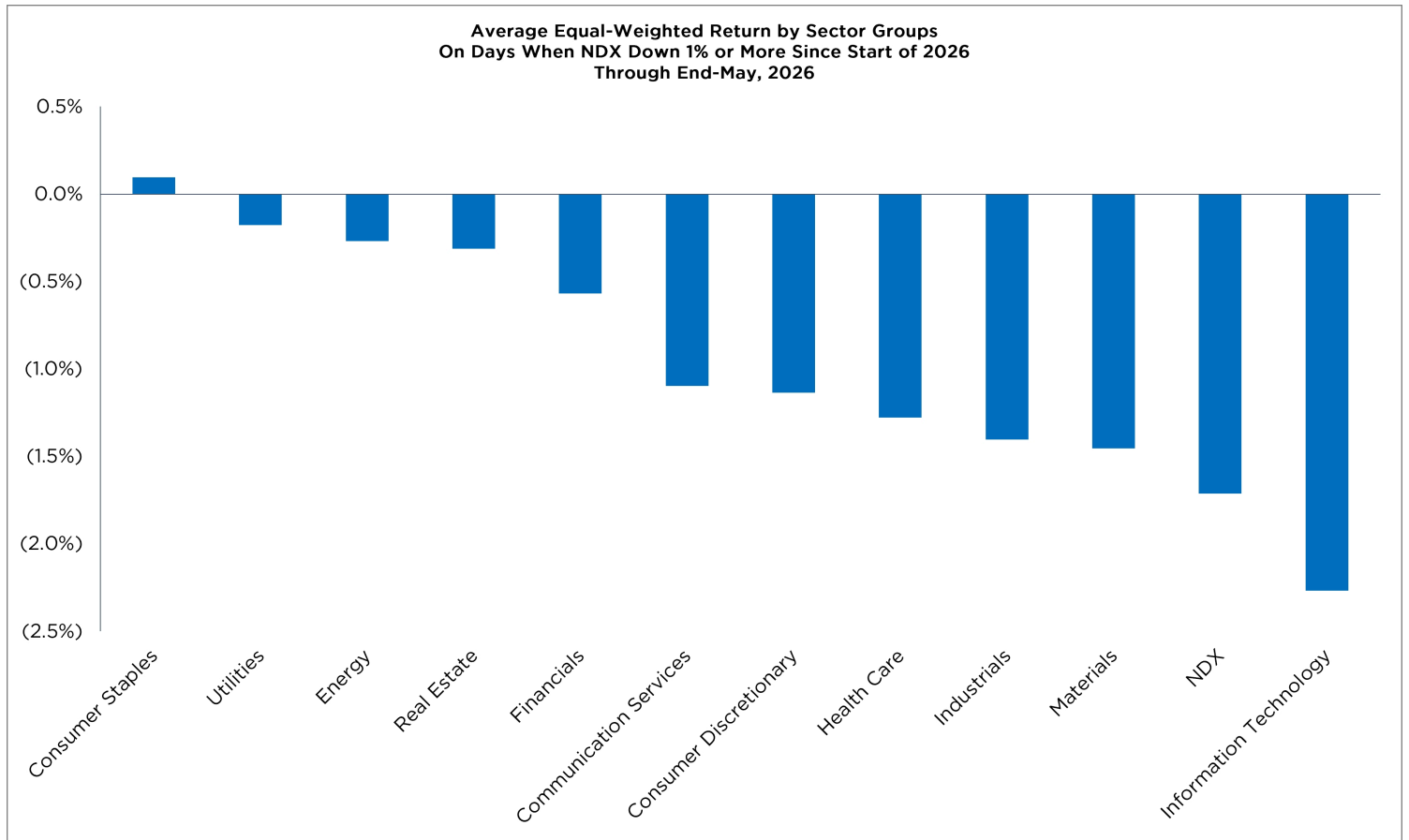
Colin Cooney

Head of Sales
617-910-7934
colin@trivariateresearch.com

Ryan McGovern

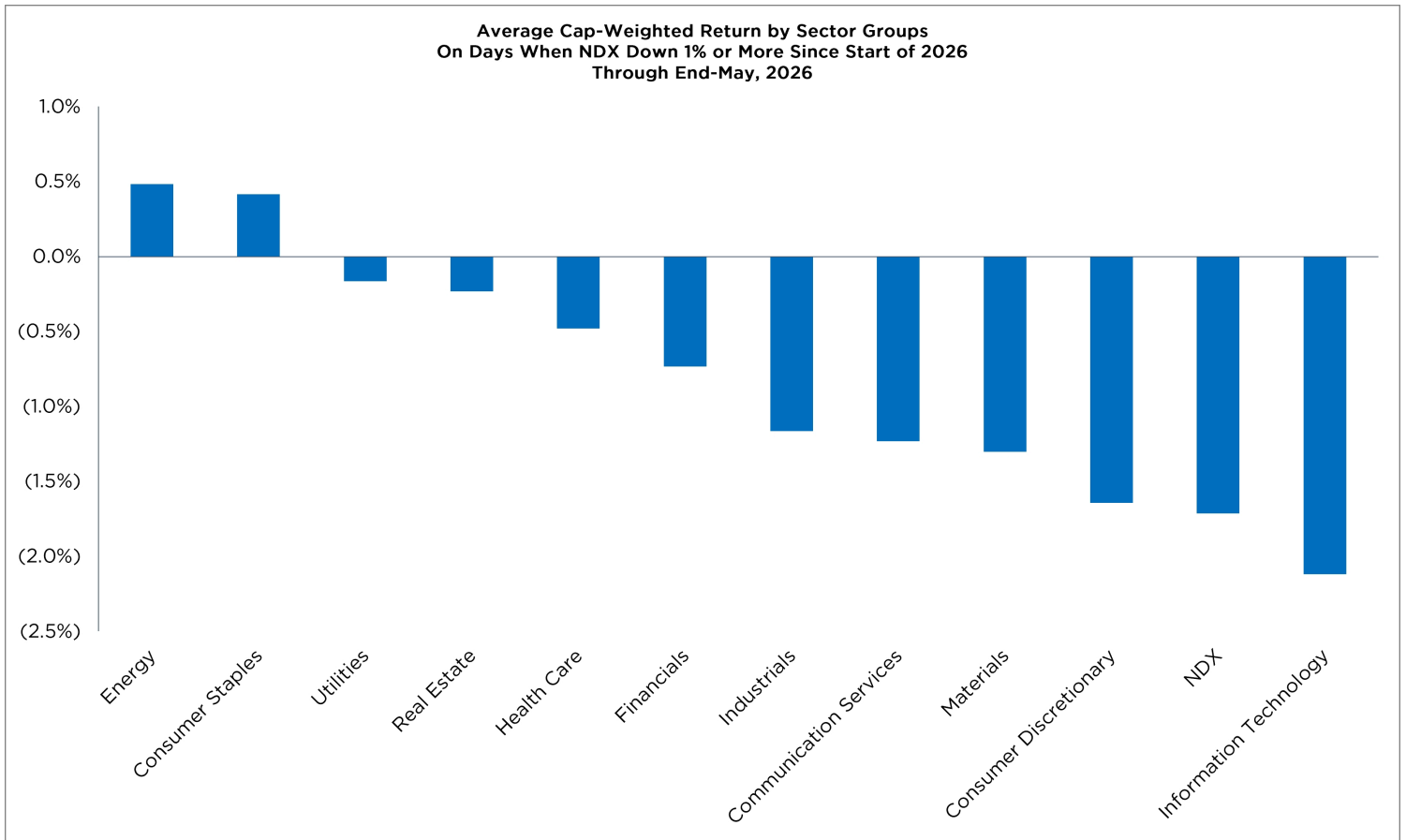
Director of Research Sales
973-271-8017
ryan@trivariateresearch.com

The Technology Sell-Off



Source: Trivariate Research, LP

Because this year also included the Iran War, Energy was best on a cap-weighted basis, fueled by the larger stocks like XOM (up 22.2% year-to-date) and CVX (up 22.8% year-to-date), on the large Technology down days (see below).

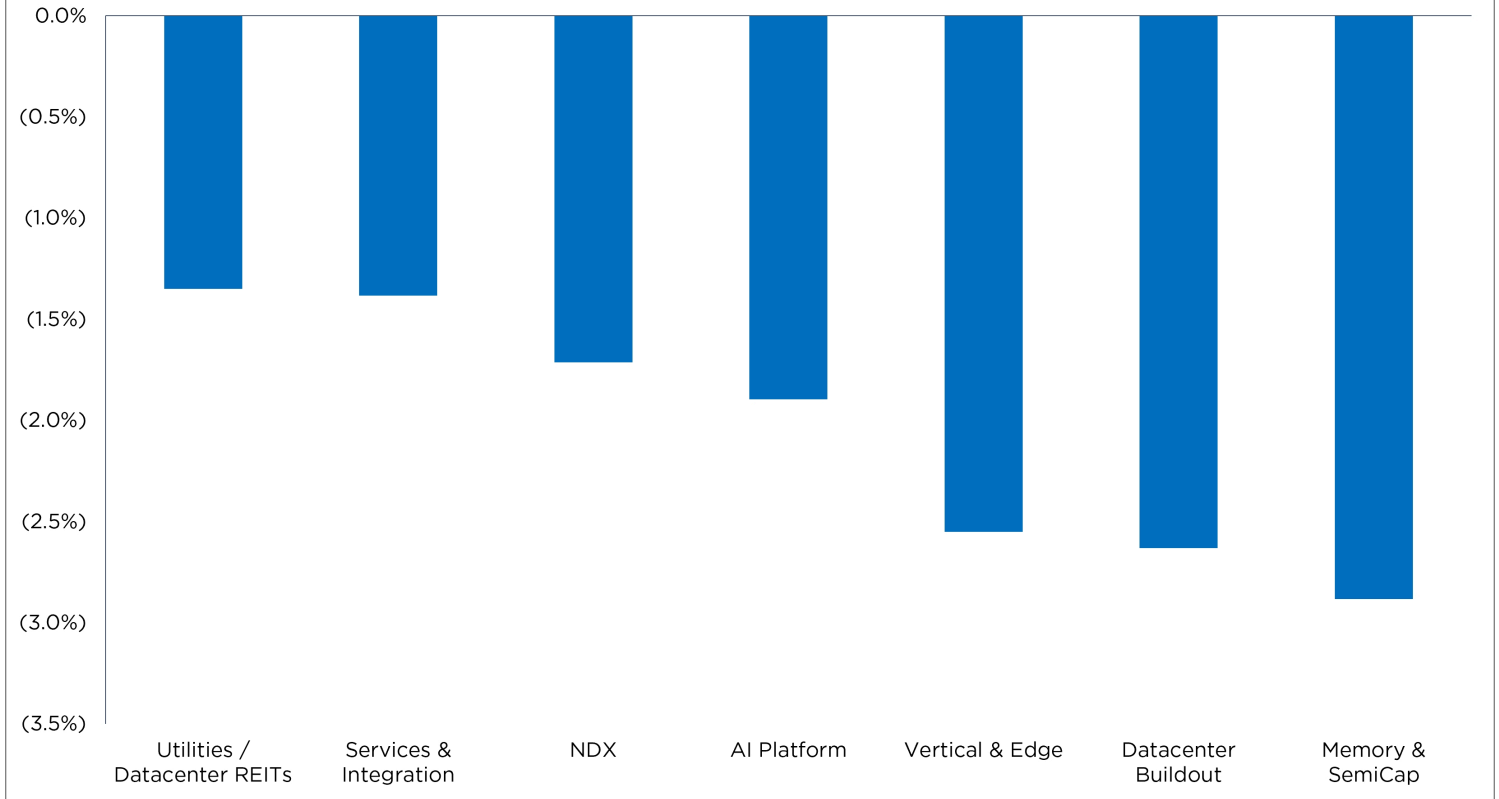


Source: Trivariate Research, LP

More telling than sector performance on the NASDAQ's worst days, however, is which AI-revenue beneficiaries held up best in relative terms. Last month ([How Should You Think About AI Revenue Exposure?](#)) we used an LLM to identify all the stocks in the Top 3000 by market cap. that have meaningful AI revenue exposure. We then used Principal Components Analysis to examine how they trade and grouped the AI Revenue stocks into **six distinct buckets**. What did we observe on large down days?

Memory and Semiconductor Capital Equipment, Datacenter Buildout, and Vertical & Edge stocks were down the most on average, and Utilities and Datacenter REITS, and Services and Integration protected capital more on average and modestly outperformed the NASDAQ on these down days (see below). We show equally-weighted returns, as MU is just less than ½ the market cap. of our Memory and Semiconductor Capital Equipment bucket, and NVDA is 39% of the market cap. of the 91-stock Datacenter Buildout basket.

**Average Equal-Weighted Return of AI Revenue Baskets
On Days When NDX Down 1% or More Since Start of 2026
Through End-May, 2026**



Source: Trivariate Research, LP

The stocks in the Utilities and Datacenter REITS bucket with the best stock performance over the last month include CORZ, AMT, BIPC, POR, and DTE. Unsurprisingly, the higher-beta, more correlated to AI build out stocks, like CEG and VST, have been relatively weaker.

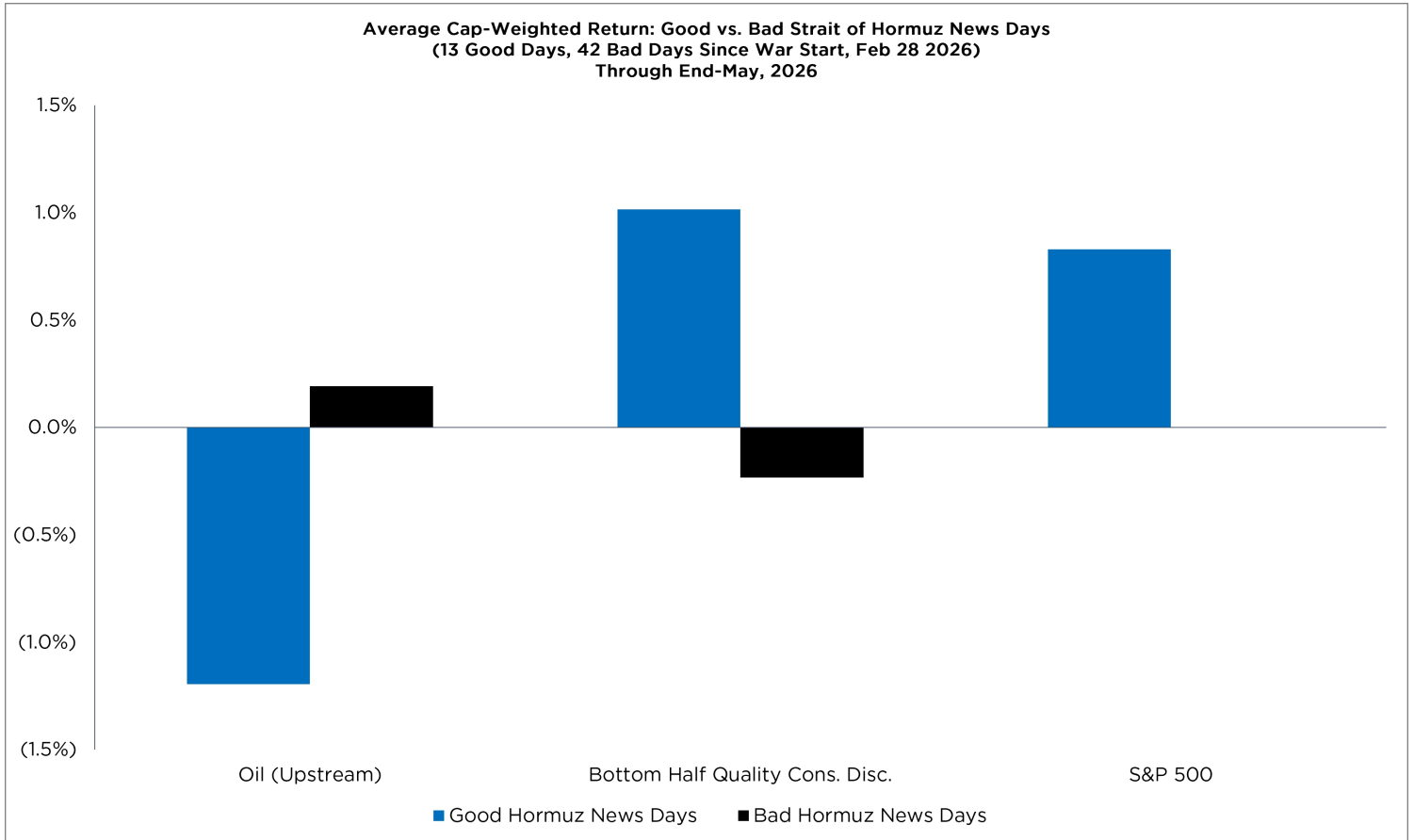
**Stocks in Trivariate's Meaningful AI Revenue "Utilities / Datacenter REITS" Bucket
As of June 12th, 2026**

Ticker	Company Name	Sub-Industry	Market Cap. (\$Bn)	Last One-Month Performance
CORZ	Core Scientific, Inc.	Application Software	8.2	11.9%
AMT	American Tower Corporation	Telecom Tower REITs	89.7	8.5%
BIPC	Brookfield Infrastructure Corporation	Gas Utilities	5.1	5.7%
POR	Portland General Electric Company	Electric Utilities	5.9	4.9%
DTE	DTE Energy Company	Multi-Utilities	30.4	2.6%
UNIT	Uniti Group Inc.	Integrated Telecommunication Services	2.8	2.1%
AES	The AES Corporation	Independent Power Producers & Energy Traders	10.4	2.0%
SO	The Southern Company	Electric Utilities	106.0	1.8%
BEPC	Brookfield Renewable Corporation	Renewable Electricity	12.8	1.4%
OGE	OGE Energy Corp.	Electric Utilities	9.8	0.5%
WULF	TeraWulf Inc.	Application Software	11.5	(0.8%)
AEP	American Electric Power Company, Inc.	Electric Utilities	69.9	(1.7%)
LB	LandBridge Company LLC	Real Estate Operating Companies	1.8	(1.9%)
ETR	Energy Corporation	Electric Utilities	50.6	(2.2%)
OWL	Blue Owl Capital Inc.	Asset Management & Custody Banks	6.4	(3.8%)
EQIX	Equinix, Inc.	Data Center REITs	102.4	(3.9%)
RIOT	Riot Platforms, Inc.	Application Software	9.1	(5.0%)
IRM	Iron Mountain Incorporated	Other Specialized REITs	36.7	(5.1%)
DLR	Digital Realty Trust, Inc.	Data Center REITs	63.5	(7.9%)
SEI	Solaris Energy Infrastructure, Inc.	Oil & Gas Equipment & Services	4.0	(8.4%)
VST	Vistra Corp.	Independent Power Producers & Energy Traders	46.7	(8.9%)
NEE	NextEra Energy, Inc.	Electric Utilities	177.5	(9.6%)
TLN	Talen Energy Corporation	Independent Power Producers & Energy Traders	15.3	(12.2%)
APLD	Applied Digital Corporation	Internet Services & Infrastructure	11.1	(12.7%)
CEG	Constellation Energy Corporation	Electric Utilities	86.5	(19.0%)

Source: Trivariate Research, LP

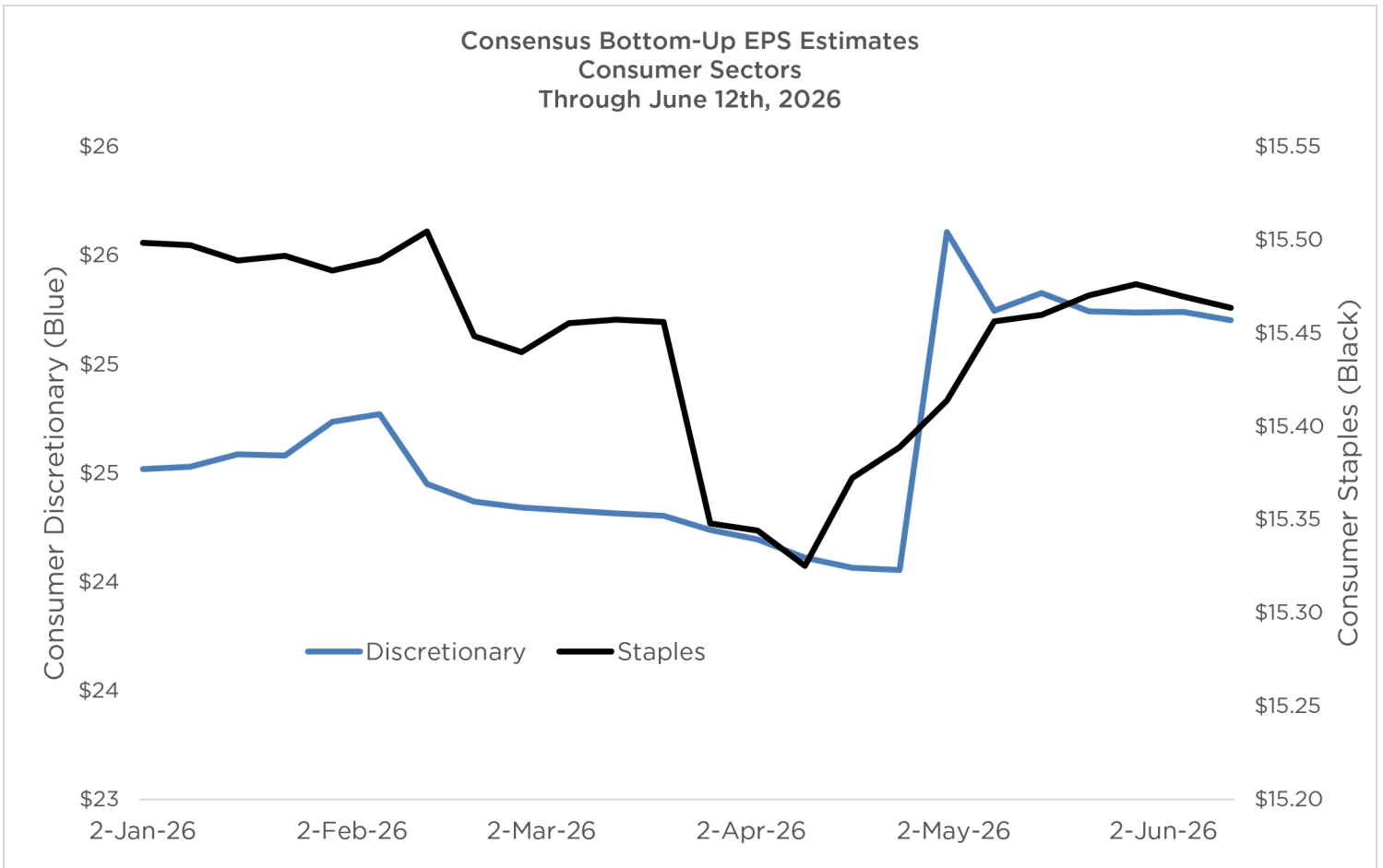
Lower Oil

Front-end Brent oil fell 6% this past week, to lows not seen since March 10th, as speculation about progress in Iran grew. We ran a Claude-based LLM internet search for publicly available Hormuz-related news. We clustered trading days since the Iran war started on February 27th into “**Good Hormuz New Days**” and “**Bad Hormuz Days.**” We found 13 “Good” days and 42 “bad” days of trading, through the end of May, since the war started. We observed an asymmetric skew where on good days, the market and lower quality Consumer Discretionary stocks were up, and Upstream Oil companies were down. On the contrary, on bad days, the market was essentially flat, while Oil stocks were up only modestly, and far less than they were down on Good days, and lower-quality Consumer Discretionary stocks were only modestly down. We downgraded the Energy sector two months ago observing this skew, but now think it is time to get more optimistic about Consumer Discretionary stocks.



Source: Trivariate Research, LP

Our recommendation to Underweight Consumer Discretionary has been one of our better calls this year — the sector has been the second-worst performer year-to-date, trailing the S&P 500 by more than 10%. Higher gasoline prices at the pump masked the benefits of the One, Big, Beautiful Bill, driving higher input costs that hurt the margin profile of many equally-weighted Consumer stocks. Since the Iran conflict began, only eight Consumer Discretionary stocks in the S&P500 are up more than 10%, including MGM, BBY, EBAY, MAR, ROST, AMZN, RL, and HLT. However, 32 stocks in the S&P500 Consumer Discretionary are down in absolute terms, and 19% are down more than 10%. Six are down more than 20%, including TSCO, LULU, ULTA, NKE, NCLH, and LEN - which have all been darling consumer stocks for some period, except maybe NCLH, in the last decade. Pressure on margins for the Consumer stocks are likely to abate, and interestingly, the bottom-up EPS estimates for both the Consumer Discretionary and Consumer Staples are higher now than they were at the beginning of the year (see below).



Source: Trivariate Research, LP

As a result, we are upgrading Consumer Discretionary from Underweight to Market-weight, adding 4% to our position. We are modestly tweaking other bets, such that **we are now Underweight Financials and Consumer Staples. We remain Overweight Healthcare and Technology (see below).**

Trivariate's New Sector Recommendations

Trivariate Sector Recommendations as of End-May, 2026

Sector	Total S&P 500 Market Cap. (US\$ Trillion.)	Current S&P 500 Weight	Trivariate Old Recommended Weight	Trivariate Changes for June 2026	Trivariate New Recommended Weight	Trivariate-Relative Weight	Trivariate Recommendation	Comments
Health Care	5.56	8.0%	12%	0%	12%	4.0%	Overweight	We have had a bad call, but think the probability of material government cuts is lower than what's in the price
Information Technology	25.61	38.1%	41%	0%	41%	2.9%	Overweight	Strong absolute earnings growth that can absorb multiple compression. A balance of AI and Great 8, our North Star remains Semis over Software.
Utilities	1.40	2.0%	3%	0%	3%	1.0%	Equal-Weight	Some idiosyncratic investments are sensible for AI exposure
Real Estate	1.20	1.7%	2%	0%	2%	0.3%	Equal-Weight	Metrics for stock selection are becoming more effective, commercial remains challenged.
Materials	1.20	1.8%	3%	(1%)	2%	0.2%	Equal-Weight	Materials should have above avg. estimate achievability, we like Gold and Copper
Consumer Discretionary	7.10	10.0%	6%	4%	10%	0.0%	Equal-Weight	Better Hormuz-related news should help low quality stocks
Industrials	5.51	7.9%	7%	0%	7%	(0.9%)	Equal-Weight	Industrial activity is modestly improving, but input costs may be rising and correlation to AI Semis is high.
Communication Services	7.75	11.0%	10%	0%	10%	(1.0%)	Equal-Weight	Generally weak after Oil spikes.
Energy	2.09	3.1%	3%	(1%)	2%	(1.1%)	Equal-Weight	There's an asymmetric skew to performance based on Hormuz-related outcomes
Financials	7.87	11.4%	10%	(1%)	9%	(2.4%)	Underweight	Crowded, not as much of an AI beneficiary as people think, and private credit issues are accelerating
Consumer Staples	3.49	5.0%	3%	(1%)	2%	(3.0%)	Underweight	Staples have outperformed, yet we see signs of deteriorating pricing power, and some major headwinds, we would be cautious

Source: Trivariate Research, LP

The Transactions

By the normal standards used to judge IPOs, the SpaceX IPO was a clear success.

- It raised a record **\$75 billion**, the largest IPO ever.
- The stock priced at **\$135**, opened at **\$150** (+11%), traded as high as roughly **\$176**, and closed around **\$161**, up about **19%** on day one.
- The company finished its first trading day with a market capitalization above **\$2 trillion**.
- Demand reportedly exceeded supply by a wide margin, with strong institutional and retail participation.

There are always going to be criticisms, including concerns about the stock rising too much, the valuation, and the governance, but the day-one action actually looks remarkably well-managed.

If SpaceX had closed up single digits, investors would have questioned demand. On the contrary, if the stock rose more than 50%, many would say the deal was massively underpriced. A first-day gain of roughly 20% on the largest IPO in history is usually what investment bankers hope for: enough upside to create positive headlines, but not so much that the issuer appears to have sold stock far below market value. Seems like a win to us so far. The strongest bear argument is not the first-day trading itself. It's that a company losing billions annually was worth over \$2 trillion after one day of public trading. The strongest bull argument is that investors view SpaceX less as an Aerospace company and more as a unique combination of Starlink, Defense Technology, Launch infrastructure, and AI infrastructure with no close public comparable. Showing charts about how previous IPOs have acted seems nonsensical to us. We think this IPO is a bullish signal - with one day of trading.

A few investors also asked us about the GOOGL convert last week.

The market's focus has been on Alphabet's enormous financing package, which included **mandatory convertible preferred stock**, not a conventional convertible bond. The mandatory converts carry a 6.25% dividend and will convert into common

stock in about three years. The overall financing package ultimately grew to roughly **\$85–90 billion**, making it one of the largest equity-linked financings ever. On one hand, demand was strong, and the underwritten offering was reportedly oversubscribed. This appears quite good for GOOGL, done before the imminent Giga-cap IPOs, getting them cheaper money. The 6.25% yield attracted income-oriented investors who normally wouldn't buy Google stock. For now, we think this is bullish. However, this is definitely delayed equity issuance, and there is some belief that Google is issuing equity-linked capital at a time when its stock is expensive rather than funding AI solely through internally generated cash flow.

In the end, there will be a group of investors who view these transactions as late cycle, bull-market indicators that will ultimately end badly. But it is hard to time.

The stock market gets increasingly anticipatory each cycle, such that eventually after many years, we are “back to the future.” In this context we were thinking about the capital spending of Intel during the TMT crisis of 2000-2002.

In Intel's 2000 Annual Report, they suggested "Revenues and gross margin may also be affected if we do not add capacity fast enough to meet market demand."

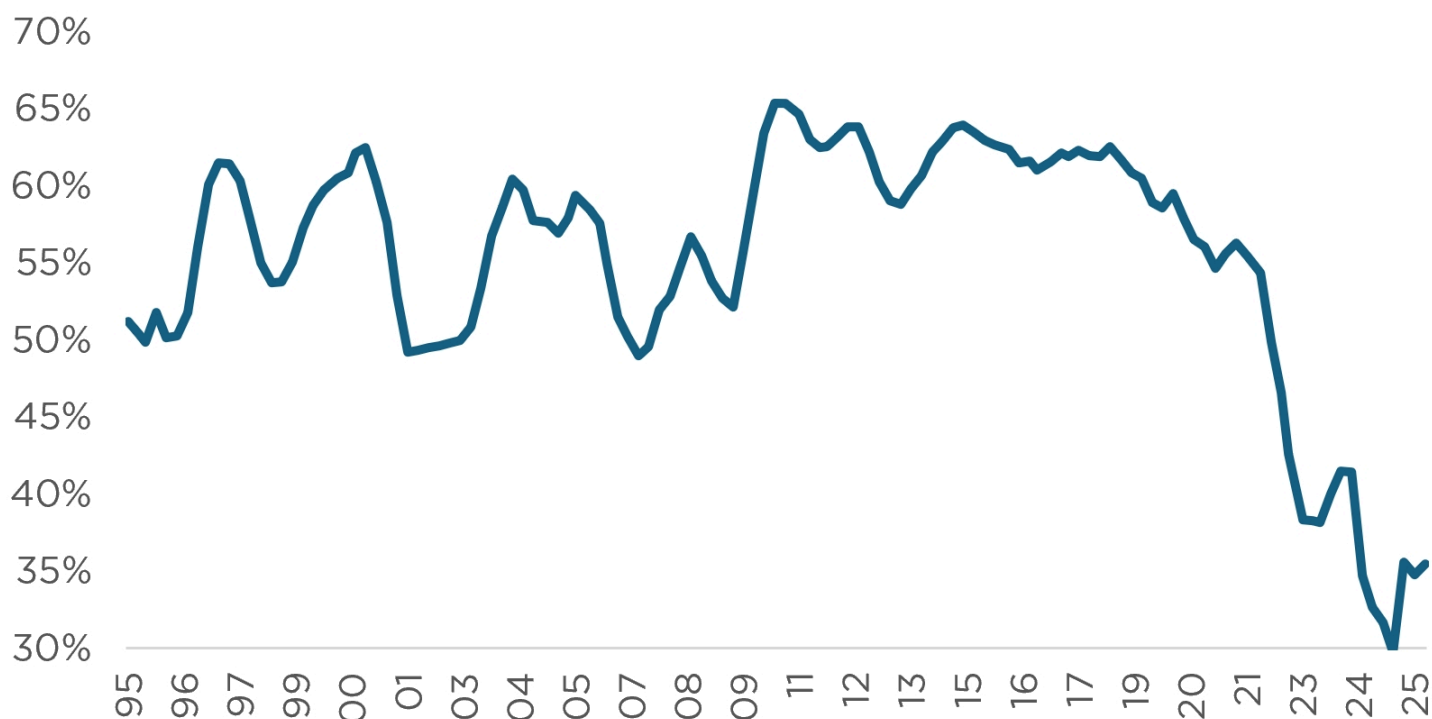
Intel's gross margins had previously oscillated between 50% and 60% (see below), but in the third quarter of 2000 Intel massively expanded their capital spending, growing it from a four-quarter total of \$2.79 Billion in the middle of 1999 to \$9.16 Billion in the middle of 2001. The market initially rewarded that spending, viewing it as optimistic that demand would be strong. By the next cycle, when capital spending increased from a rolling annualized amount of \$3.3 billion in Q1 2004 to \$9.4 billion in Q2 of 2006, the market had seen that movie before, and the associated depreciation burden on cost of goods sold, and reacted negatively. For instance, Intel's stock sold off 27% in Q3 of 2004 when the plans were announced.

What's fascinating is that the market's interpretation today is almost the mirror image of Intel's spending before the TMT bubble.

When Google, Meta, Microsoft, Amazon, or OpenAI-related infrastructure spending rises, many investors ask:

“Why do they need to spend so much?” In 1999-2000 the dominant reaction was often: “They wouldn't spend this much unless demand was phenomenal.” Management teams of the hyper-scalers are effectively saying the same thing Intel said in 2000. They are all saying that the return on investment from the spending is great, and that if they don't build enough capacity, they will cede market share. That is the part that reminds us the most of 2000.

Intel's Gross Margins 1995-Q1 2026



Source: Trivariate Research, LP

CONCLUSION

More than one investor told us that they think the June 3rd close of \$1079 will end up being Micron's high for this cycle. We don't possess that confidence. We think long only portfolio managers benchmarked to the S&P500 are best served by being market-weight the highest octane part of the AI-revenue stocks - Memory and Semi-Caps. If they are fortunate enough to have large overweight positions that are up swimmingly, we prefer trimming to market-weight by adding either:

1. Other AI revenue exposure that protects capital more in down tapes
2. Non-AI cyclicals
3. Defensives

Given that relatively few stocks are outperforming but those that are outperforming, are outperforming by a lot, we prefer to run a more diversified portfolio than normal.

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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