TRIVARIATE RESEARCH

US Equities
June 21, 2026

Level Set: AI Cycle - 3rd Inning to Growth Investors, 12th Inning for Value Investors, Upgrading Energy to Outperform

This past week we held **Trivariate Research's 4th Annual Investment Ideas Conference** where we held a panel followed by +25 different Institutional Investors pitching stock ideas. Post our event, we also had a dozen meetings with institutional investors.

We have three main summary bullets on sentiment and ideas from this past week:

- Firstly, investors are increasingly worried about what is priced into the highest beta part of the AI revenue chain, Memory and Semiconductor Capital Equipment, and hence a growing consensus appears to be that the best opportunities are likely in the infrastructure layer rather than in consumer-facing AI applications. Many of the favored ideas are tied to Cloud Infrastructure, and Power Generation, reflecting a view that compute and electricity will be the key bottlenecks as AI adoption expands. Stock ideas tied to Data Centers, Energy, and AI enablement suggest investors remain focused on the "picks-and-shovels" beneficiaries of the AI boom.
- A second major theme is **Healthcare as an underappreciated AI winner**. We hope so, as we have been recommending Healthcare, and the overall call has been bad. Since the Iran War on February 27th, Healthcare has been the second worst performing sector, lagging the S&P500 by 15.9%. Several investors highlighted opportunities across Pharmaceuticals, Diagnostics, and Managed Care, arguing that AI could improve transparency, reduced administrative costs, accelerate drug development, and enable more personalized medicine.
- Thirdly, beyond AI and Healthcare, there was also meaningful **interest in high-quality compounders** such as Exchanges, Insurance Brokers, and Financial Infrastructure businesses. This indicates that despite the enthusiasm around AI, many professional investors are still seeking durable businesses with strong competitive positions, recurring revenues, and long-term earnings growth that are not necessarily over-earning.

The most polarizing debates centered on potential over-earning, what's priced in, and the likely future winners amongst large-cap Technology companies. Some investors argued that traditional valuation frameworks are becoming less useful because AI could dramatically increase future earnings power, while others cautioned that expectations may already be stretched. There was also disagreement around the Magnificent Seven, with some seeing companies like Google, Meta, and Amazon as attractively positioned, while others worried that parts of the Software ecosystem could be disrupted by AI. Overall, the conference reflected a bullish stance on AI and long-duration growth assets, but with growing recognition that stock selection, rather than broad market exposure, will determine winners and losers in the years ahead. **While this is definitely a generalization, most growth managers seem to think we are still early innings in the AI build out, and most value investors think we are already in extra innings.** More than any time we can remember, long-only investors are discussing their index constituents, upcoming rebalances, and owning stocks for risk management vs. alpha.

Our own views have moved some as a result of our recent meetings and price action. Last week we upgraded Consumer Discretionary from Underweight to Equal-Weight. **Today, we are upgrading Energy from Equal-Weight to Overweight.**

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We are now Overweight Healthcare, Energy, and Technology, Underweight Consumer Staples and Financials (see below).

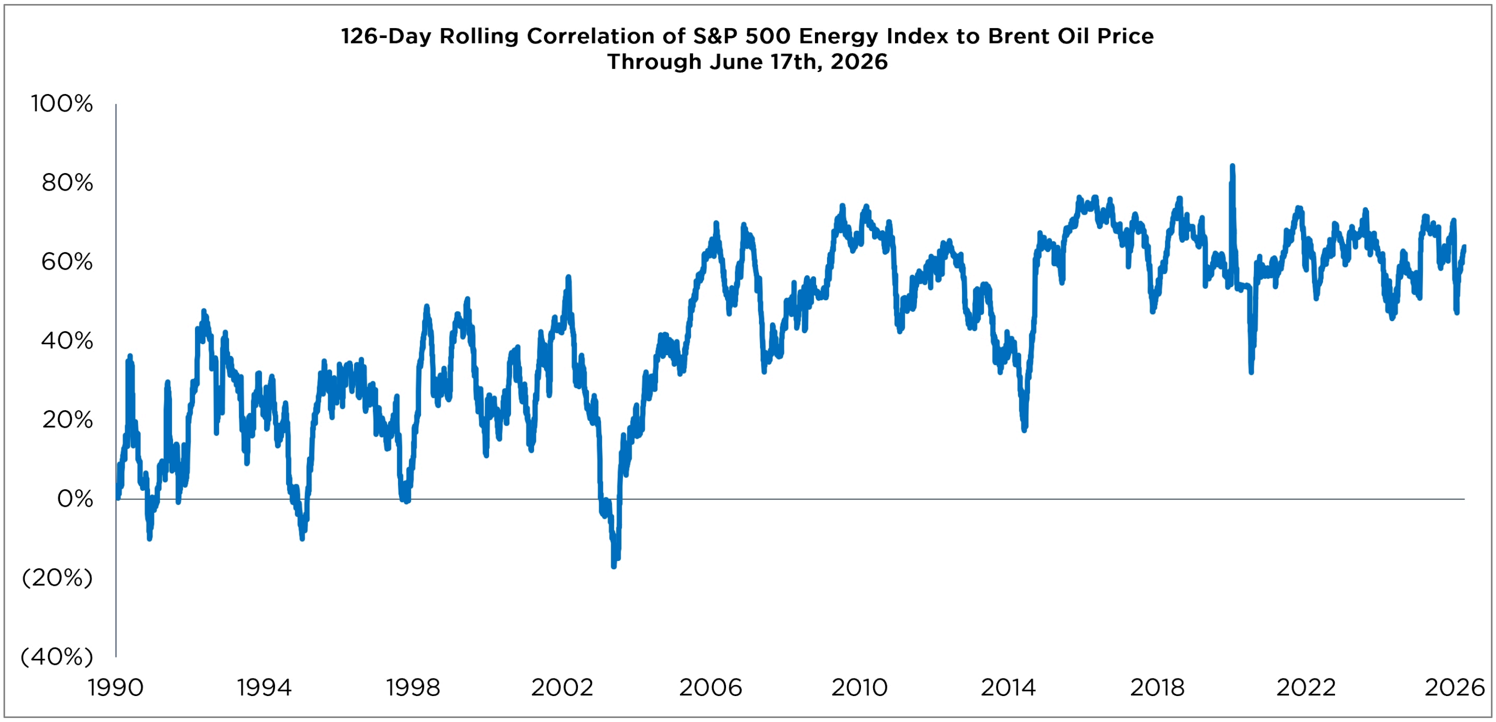
Trivariate Sector Recommendations

Sector	Total S&P500 Market Cap. (US$ Trillion.)	Current S&P500 Weight	Trivariate Recommended Weight	Trivariate Relative Weight	Trivariate Recommendation	Comments
Health Care	5.56	8.0%	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
Energy	2.09	3.1%	6%	2.9%	Overweight	FCF growth will remain elevated, and correlation to Technology is low
Information Technology	25.61	38.1%	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.
Materials	1.20	1.8%	2%	0.2%	Equal-Weight	Materials should have above avg. estimate achievability, we like Gold and Copper
Utilities	1.40	2.0%	2%	0.0%	Equal-Weight	Some idiosyncratic investments are sensible for AI exposure
Real Estate	1.20	1.7%	1%	(0.7%)	Equal-Weight	Metrics for stock selection are becoming more effective, commercial remains challenged.
Industrials	5.51	7.9%	7%	(0.9%)	Equal-Weight	Industrial activity is modestly improving, but input costs may be rising and correlation to AI Semis is high.
Consumer Discretionary	7.10	10.0%	9%	(1.0%)	Equal-Weight	Better Hormuz-related news should help low quality stocks
Communication Services	7.75	11.0%	9%	(2.0%)	Equal-Weight	Generally weak after Oil spikes.
Financials	7.87	11.4%	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%	2%	(3.0%)	Underweight	Staples have outperformed, yet we see signs of deteriorating pricing power, and some major headwinds, we would be cautios

Source: Trivariate Research, LP

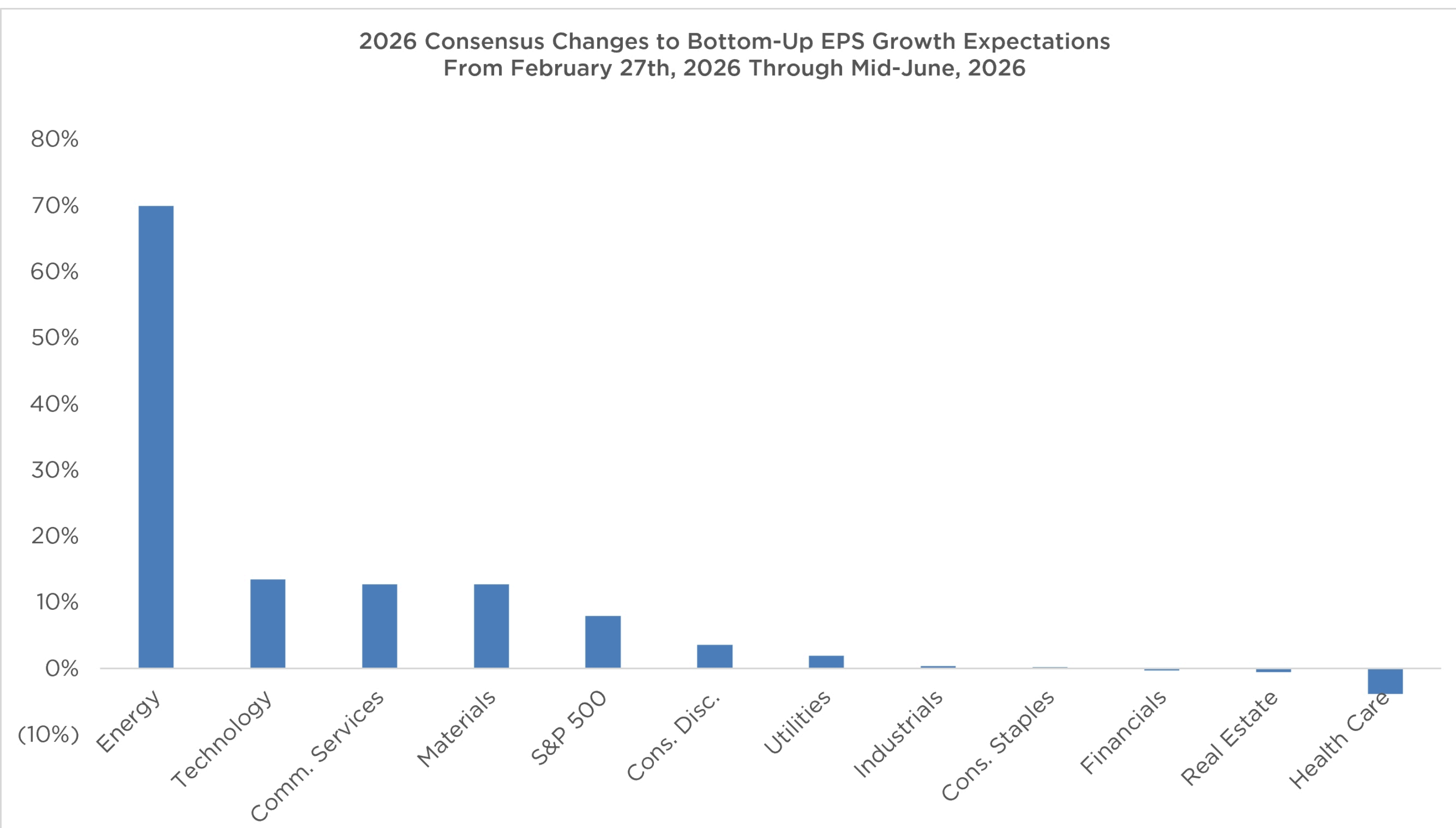
10 of the 11 GICS sectors have lagged the S&P500 by at least 5% since the Iran War started in late February. The Technology Sector is up 28.2% since then, beating the market by 19.2%.

The S&P500 Energy sector is down 4.7% since the Iran War started. The persistent action where positive Hormuz-related news made the Energy sector go down more than bad Hormuz news made Energy go up caused us to make a good downgrade in March. But now, we see the risk-reward as positive. One-month forward Brent Oil has fallen from a March 31st high of $118 per barrel to $80.57 today, an amount way too low in our view based on anything you can read about how quickly the Straight of Hormuz can be brought back to pre-War traffic levels. This matters because of the correlation between the change in Oil prices and the change in S&P500 Energy sector earnings remains relatively high (see below).



Source: Trivariate Research, LP

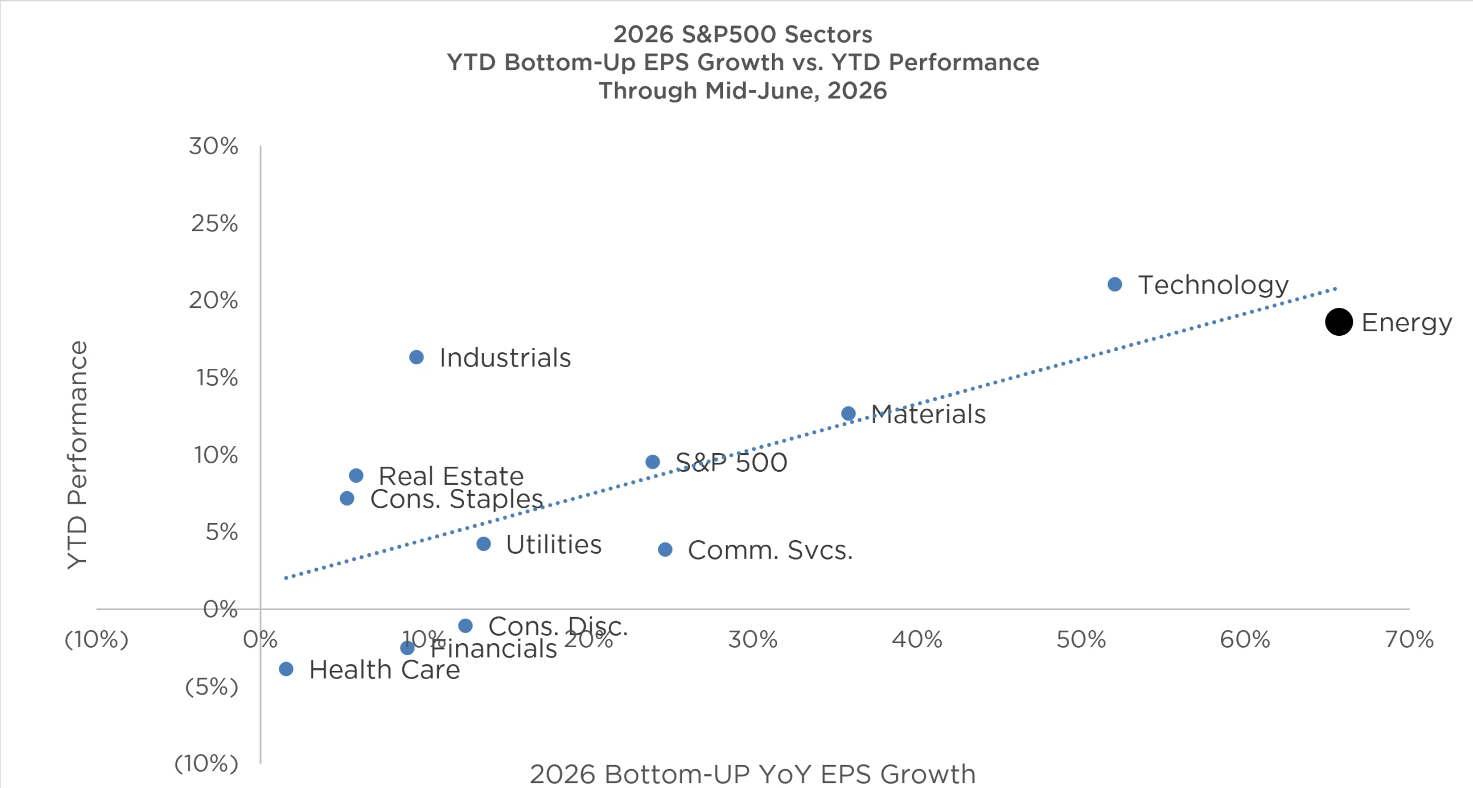
Since the Iran War started in late February, Energy sector estimates are 69.9% higher. Technology estimate have risen 13.5% as well, and these have been big contributors to the S&P500 EPS seeing 8% upward revisions since the War started (see below).



Source: Trivariate Research, LP

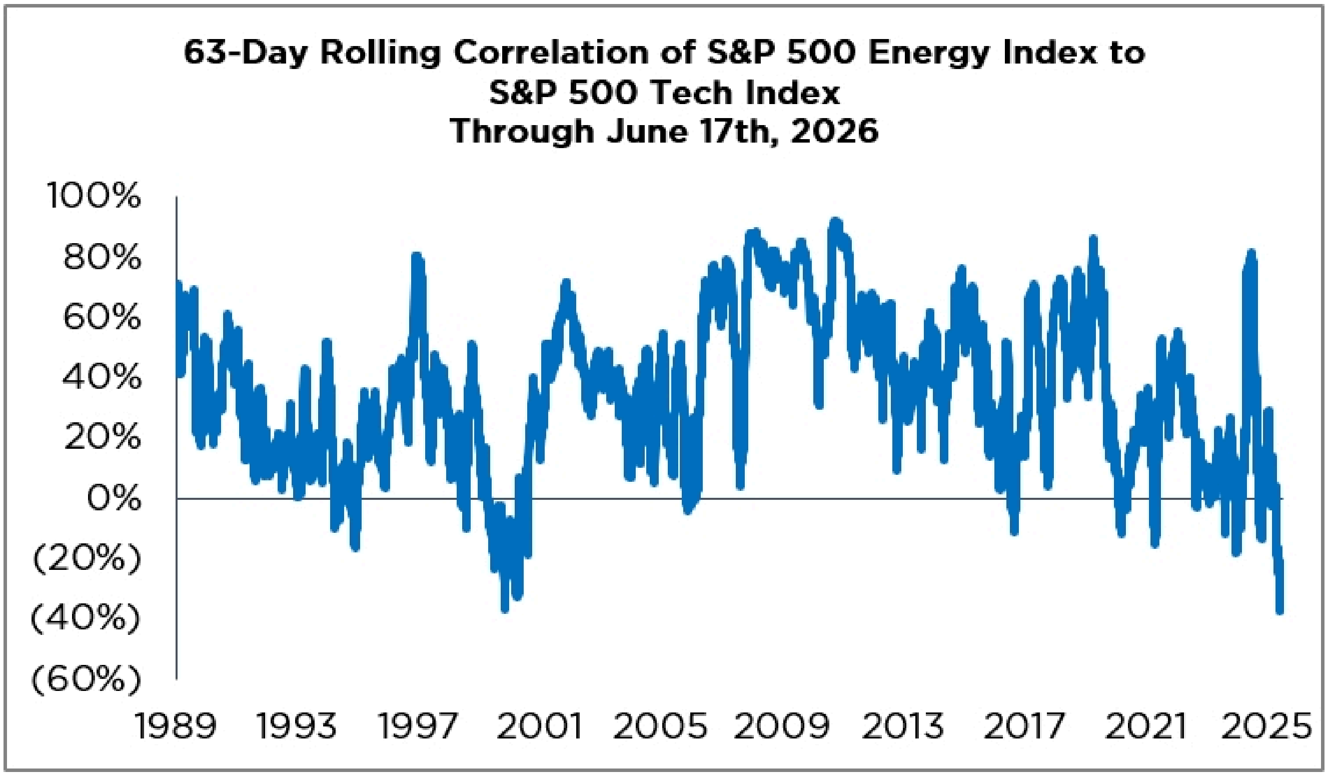
But we don't think it is all "correctly" reflected in the price. This year, the bottom-up consensus EPS expectations call for 24% growth for the S&P500, fueled by 66% growth for Energy, and 52% growth for Technology. But, the Energy sector is up 18%

year-to-date, embedding an expected collapse in both Oil and earnings from here. To us, the absolute level of earnings and FCF from the Energy sector is going to be too high from here to ignore.



Source: Trivariate Research, LP

Given we think the AI revenue growth trend is still strong, we continue to recommend Technology, with our NorthStar remaining to own Semiconductors over Software. However, we think it will be challenging to call the top of the Memory trade, and we therefore have been writing about risk-adjusted ways to perform well - AI revenue, non-AI cyclicals, defensives, diversification, and other topics have dominated our recent work. An incremental attribute we like about Energy today is that it has low correlation to Technology. In fact, the rolling 63-day (3-month) correlation between Energy and Technology sector returns is negative, and the lowest in 25 years (see below).

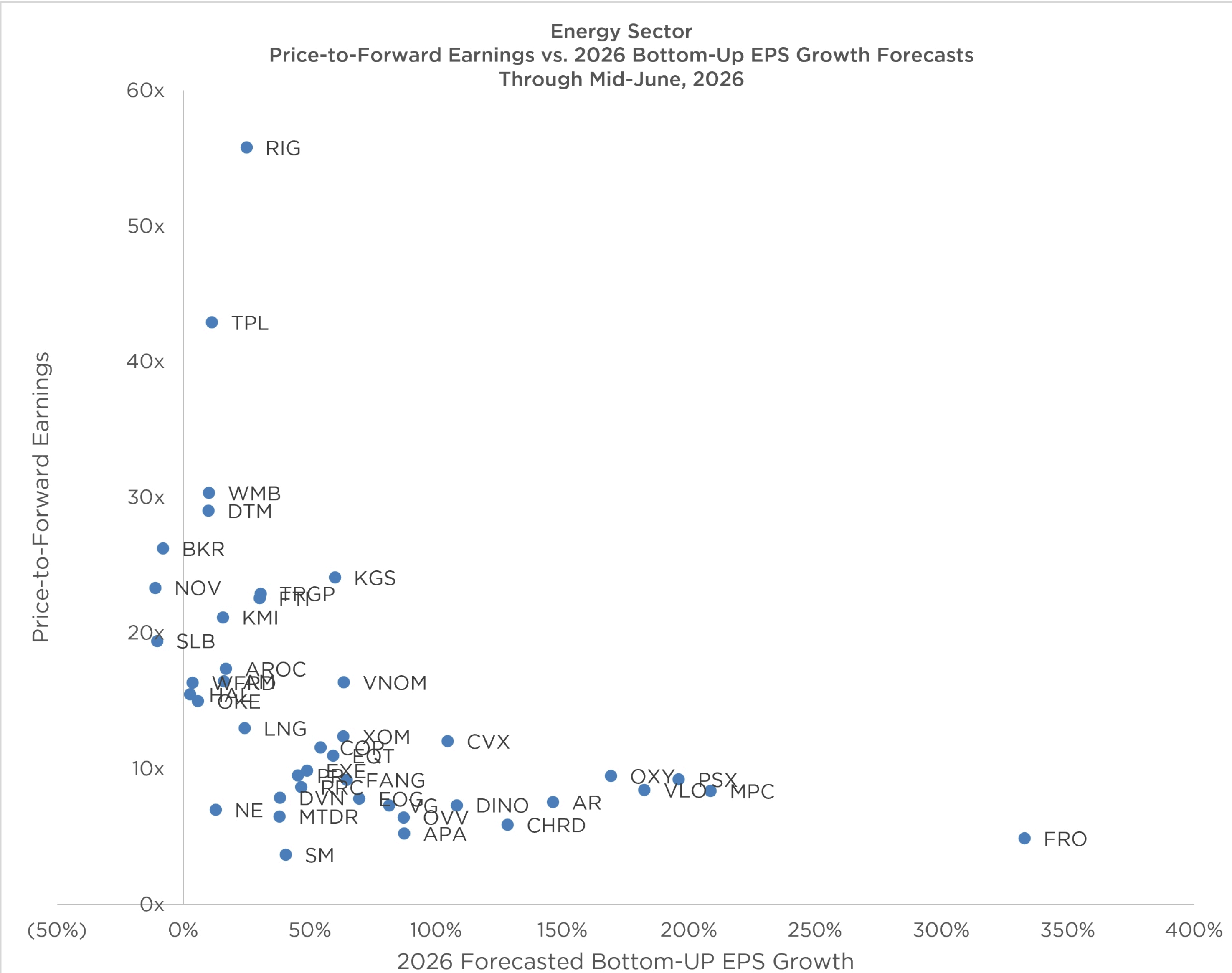


Source: Trivariate Research, LP

We have been concerned since 2023 that Energy stocks would generally battle multiple contraction as investors look toward the peak in Oil. But that has been massively pushed out until 2040 or later due to a number of factors including:

1. **Electric vehicle (EV) adoption has been slower than forecast:** Five years ago, many forecasts assumed that EVs would rapidly reach 50%+ of new vehicle sales globally, driven in part because of expectations that battery costs would continue falling rapidly, charging infrastructure would expand quickly and Consumers would be attracted to the switch. However, US EV adoption has massively slowed, Europe has reduced subsidies, hybrid vehicles have ramped faster than expected, and gas-powered pick-up truck sales have been robust. The result is that Oil demand from transportation has therefore proven much more durable.
2. **Emerging markets keep getting richer:** Many forecasts underestimated the growth of India, Middle East, Africa, and South East Asia where people have been getting wealthier, driving transitions from buses to personal vehicles, bicycles to motorcycles, motorcycles to cars, causing incremental and under-forecasted Oil demand from areas where EV penetration is low.
3. **Petrochemicals have mattered:** Many people think Oil is primarily gasoline. But as we wrote a few weeks ago when were discussing input costs for businesses, Oil becomes Plastics, Chemicals, Fertilizers, Industrial products, and Packaging, so Petrochemical consumption likely grows FAR longer than Oil. Several recent forecasts have increased their estimates for petrochemical oil consumption.
4. **Flying is growing rapidly:** Jet fuel is among the most difficult oil end uses to replace with electrification.. Unlike passenger vehicles, batteries are too heavy for long-haul aircraft and sustainable aviation fuels remain expensive, causing many forecasters to increase their outlook for aviation-fuel demand for decades as air travel keeps growing globally.
5. **The energy transition has been more expensive than previously forecasted:** Because Solar costs have not collapsed as rapidly as some forecasted, battery costs have not gotten as cheap as fast as many projected, and green hydrogen has not scaled quickly. While some of the technologies improved, the transition path away from Oil has been slower than many projected.

The biggest change is that analysts in 2020 thought there would be a relatively sharp decline after the peak. Today, many expect something like demand of ~105–115 million barrels/day, but that growth stays near peak levels for many years and the decline is gradual rather than dramatic. **Hence, expert forecasts have shifted from a peak in Oil demand of 2030–2032 toward late 2030s or 2040s**. The world is decarbonizing, but Transportation, Aviation, Petrochemicals, and Emerging Market growth are proving harder to replace than many experts expected five years ago. Our take is that it is premature to factor in multiple contraction forever when a peak is that far in the future. Yet, there are so many stocks in the Energy sector where EPS growth is projected to be above 50% this year and the price-to-forward earnings is way below 15x. We think ultimately the growth is high enough that these stocks will appreciate.



Source: Trivariate Research, LP

Stock ideas with above 30% EPS growth this year that trade below 15x 2026 EPS include MPc, OXY, COP, XOM, and PSX, among other large caps. (see below).

Energy Stocks With More than 30% 2026 EPS Growth and Less than 15x Price-to-Forward Earnings As of Mid-June, 2026				
Ticker	Company Name	Market Cap. ($US Bil.)	2026E EPS Growth	Price-to-2026 EPS
FRO	Frontline PLC	8.6	333.0%	4.9x
MPC	Marathon Petroleum Co.	71.4	208.7%	8.4x
PSX	Phillips 66	67.0	196.1%	9.2x
VLO	Valero Energy Corp.	71.2	182.5%	8.4x
OXY	Occidental Petroleum	52.8	169.2%	9.5x
AR	Antero Resources	10.5	146.3%	7.5x
CHRD	Chord Energy Corp.	7.1	128.3%	5.9x
DINO	HF Sinclair Corp.	11.9	108.2%	7.3x
CVX	Chevron Corp.	351.2	104.6%	12.0x
APA	APA Corp.	12.0	87.3%	5.2x
OVV	Ovintiv Inc.	15.1	87.2%	6.4x
EOG	EOG Resources Inc.	71.0	69.7%	7.8x
FANG	Diamondback Energy Inc.	52.2	64.7%	9.2x
XOM	Exxon Mobil Corp.	583.3	63.3%	12.4x
EQT	EQT Corp.	32.0	59.2%	11.0x
COP	ConocoPhillips	135.5	54.3%	11.6x
EXE	Expand Energy Corp.	20.9	48.9%	9.8x
RRC	Range Resources Corp.	8.6	46.7%	8.6x
PR	Permian Resources Corp.	15.5	45.3%	9.5x
SM	SM Energy Co.	6.7	40.6%	3.7x
DVN	Devon Energy Corp.	49.1	38.2%	7.9x
MTDR	Matador Resources Co.	6.3	38.1%	6.5x

Source: Trivariate Research, LP

Our judgment is that the remainder of this year will be volatile, but end higher, with EPS growth offset by multiple expansion. We think we are still early days on the AI rally, with an EPS super-cycle likely due to AI productivity. However, we also think stocks are ahead of fundamentals. We think market-weight AI revenue exposure, and running a diversified book is prudent. That leads us to both Energy and Healthcare as overweight recommendations to compliment our Technology recommendation.

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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