

Level Set - Things Are Rarely Exactly the Same

It is well known in baseball that you don't talk to a pitcher after the 7th inning when they have a no-hitter going, or you don't tell a golfer on the 18th tee that they need to birdie the 18th hole to shoot a 59, or that an announcer shouldn't say "Bird has made 79 consecutive free throws" right as he steps to the free throw line at the end of a basketball game. It is in very poor taste, if you are approaching a blackjack table, and you see someone seated doing well, to come to the table, put your hand on their shoulder, and say "wow you are crushing it." Those are just "third rail" behaviors you want to avoid. But weirdly, investors often use that logic and apply it to the Wall Street phrase "it is different this time." They view it as so obvious it isn't different that you need to duck lightening bolts to suggest it isn't different. We think that is absurd.

Of course, it is different - nothing is ever the same. There is no signal that doesn't expire. There is no strategy that is everlasting.

When I was a Semiconductors' analyst twenty years ago, if you had told me that the most important stock in the US equity market was Micron, I would have had you drug tested. But in 2023, the world changed, and here we are, with another blowout quarter this past week, although this time, unlike three months ago, with a strong positive market reaction.

What bothers me about investors that espouse the "it is never different" mantra is that they project an air of intellectual superiority and laugh at those of us who say "it is different this time." We are NOT saying that human cycles of fear and greed don't rhyme. We are not saying that hubris and debt aren't always present at tops. We are not saying that behavioral science in finance isn't critical. **But when it comes to AI Semiconductors, my response is - it is ALREADY factually very different this time.** Sure, when there is eventually a large downturn in profits and the stocks, these people will feel intellectually vindicated, but that doesn't matter. If they think AI is a joke, and the hyper-scaler capital spending is all stupid, and the Memory stocks are "the biggest bubble they have ever seen" they are already BRUTALLY wrong, as it has ALREADY been massively different. **Waiting for the cycle to turn lower to justify that you were right to miss a large portion of the biggest upcycle ever doesn't make sense.** The goal is to have more upside capture of the cycle than downside capture. The goal is not to miss 90% of the upside and make fun of those what captured a lot of it, calling them crypto-bros, or retail idiots, or morons levered to single stock ETFs. This is not just the greatest profit super cycle in DRAM history, but it might be the greatest in the history of **all** cyclicals. Micron went from being perceived as a low-quality commodity producer with a questionable reputation 25 years ago to a company that is guiding that they will do \$50 billion in quarterly revenue at 86% gross margins this next quarter. Is that different?

Early in 2024 there were questions about the sustainability of the NVDA rally, when the companies market cap. was \$1.79 Trillion. We published a research note on **2/18/2024 called** "AI Exposure and the NVDA God Trade" ([LINK HERE](#)) where we wrote:

"We refuse to believe the entire stock-market related trade, on what could be more than a decade-long investment cycle, is over in less than one year. We think there is a large inherent arrogance to making the call that NVDA is now overvalued simply because the stock is up 240% in the last year. With so many analysts covering the stock, it is hard to know something about NVDA that no one else knows that is not yet in the price. All the data points we hear from clients are that the demand is robust, and supply is constrained. Furthermore, Sam Altman, OpenAI's

Adam Parker

Founder
646-734-7070
adam@trivariateresearch.com

Maxwell Arnold

Analyst
347-514-1234
maxwell@trivariateresearch.com

Colin Cooney

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

Chang Ge

Analyst
614-397-0038
chang@trivariateresearch.com

Jesse Goodman

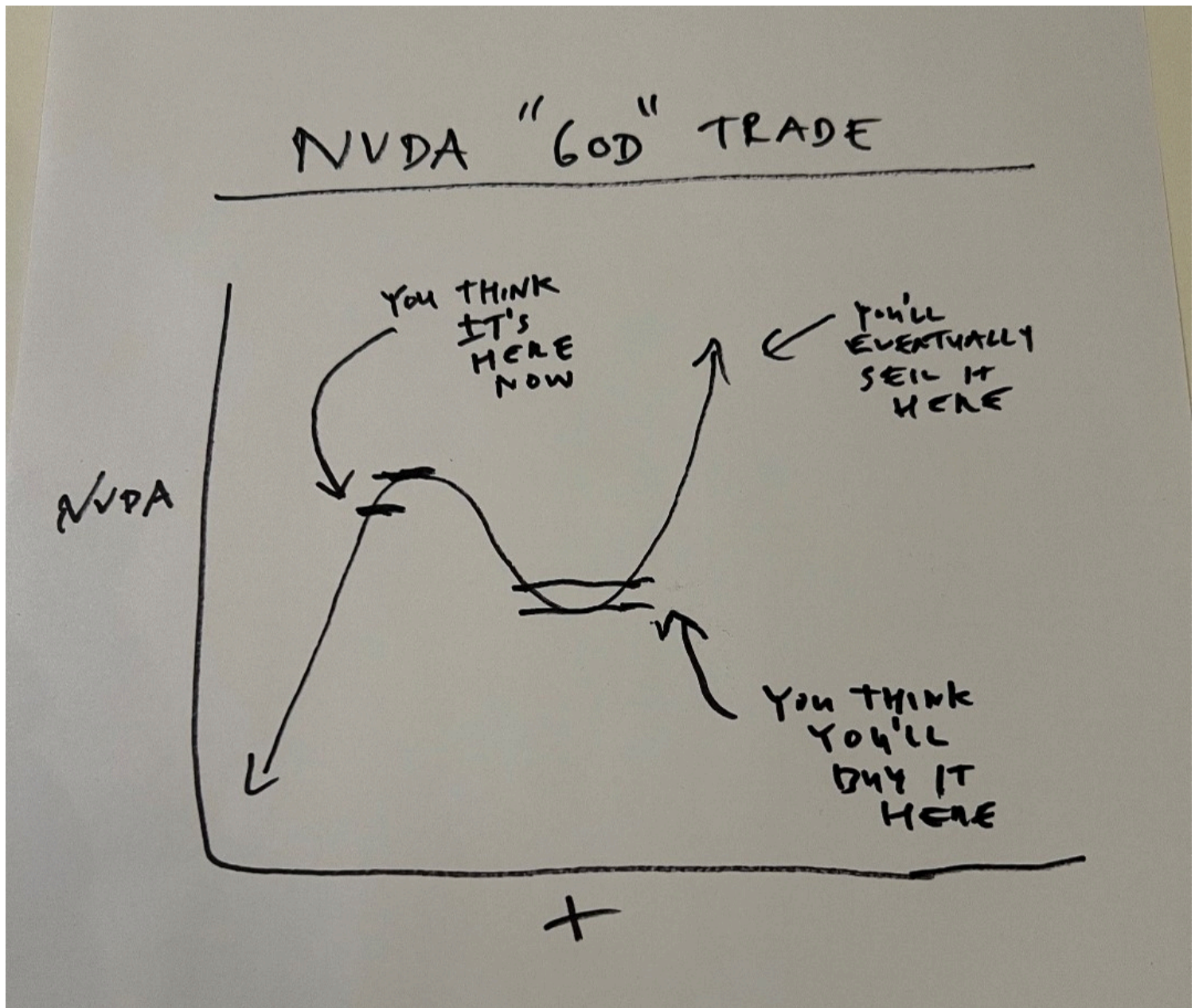
Analyst
917-741-5744
jesse@trivariateresearch.com

Ryan McGovern

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

founder, saying we do not have enough Electricity, forget Semiconductors, to fuel AI demand has certainly fueled further optimism. We know that most companies are at the very early stages of understanding how their companies can benefit from AI-related cost benefits. Here is our best judgment on how to position for AI portfolio exposure today: 1. Own NVDA: We do not think we can call when a sharp correction in the stock is coming. If investors do not own NVDA or are very underweight in their long-only portfolio, they are saying they do not want exposure to the most relevant AI company, with the best product, in the very early stages of the Technology adoption. The implication of an investor not owning it is that they believe it is going to underperform the market and the average stock in their portfolio, meaning it is close to a top. Moreover, this investor inherently implies with today's underweight that they will be good at timing when it has corrected enough that they will then buy it for the second leg of success that invariably happens in most Technology adoption curves. Basically, this is the NVDA "God" Trade (see image below). We are not saying NVDA will not trade down on Wednesday's earnings – frankly, we do not know. We are saying that an investor cannot miss a huge percentage of the first \$1.8 trillion in appreciation, and then think they can tell people they were right if it goes down 5% this Thursday."

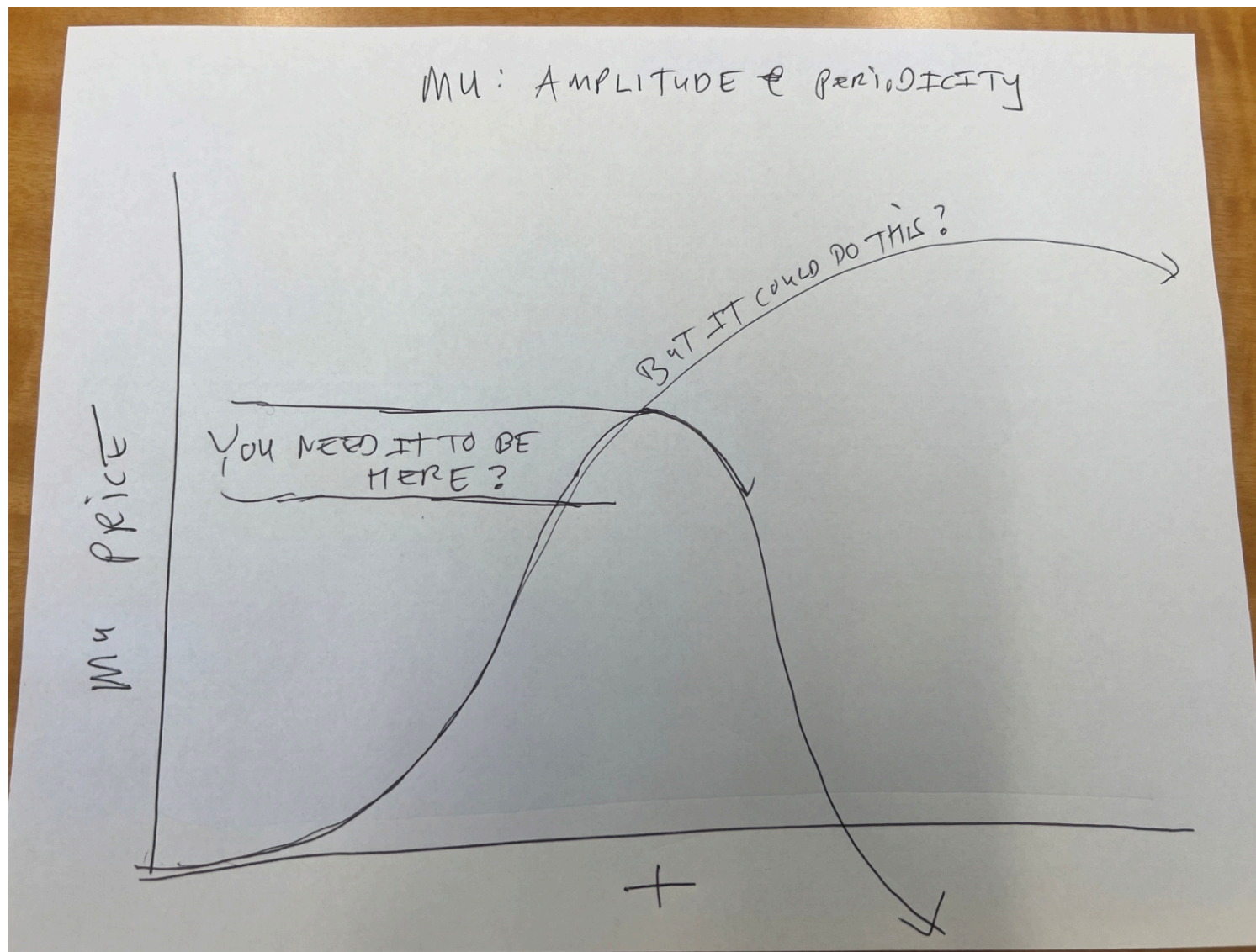
The below exhibit was put on X in February of 2024 got over 200,000 views.



Source: Trivariate Research, Adam Parker with Pen in February 2024

Not owning Micron today has some similarities in our view to how we felt about NVDA 2.5 years ago. If you don't own MU or are very underweight now, you are saying that you think you are GOD, as you are sure this is VERY close to the top of the cycle, and that you have a good grip on the periodicity and amplitude of the Memory cycle. You are saying you have

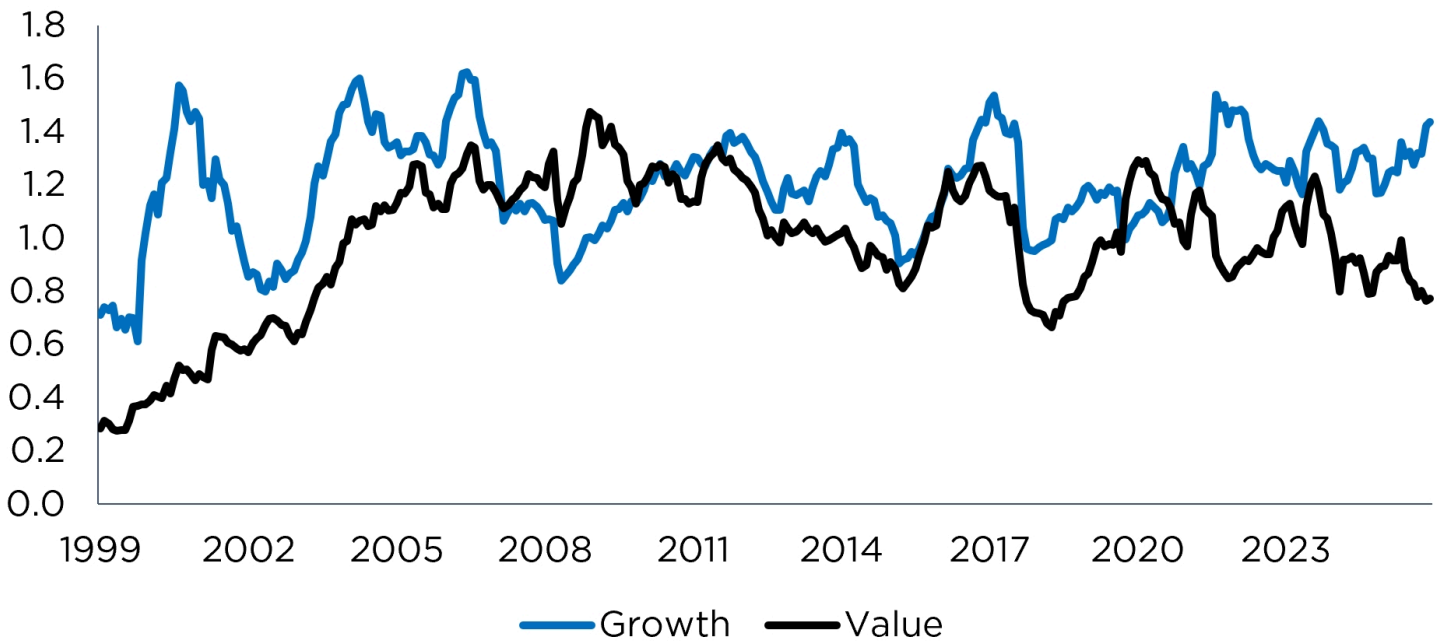
a reasonably accurate forecast for the normalized and peak earnings and what the appropriate multiple is for this business, and you are willing to risk a serious amount of your relative-to-index performance on that certainty. **I am not encumbered with that confidence.** Our judgment is that there is a wide range of outcomes for the future. If you need MU to be near the top of the cycle with how you are positioned, we think you should entertain the notion that the periodicity and amplitude of this cycle could be far different from history (see below). **We recommend a market-weight in the Memory and Semi-Cap names, viewing it as too challenging to call the top, and not wanting to let this group hurt or help are relative-to-S&P500 performance anymore. One day the stocks are up 10%, the next down 10%. It is too hard if you are a long-only, low-turnover investor to time these movements.**



Source: Trivariate Research, LP, Adam Parker with Pen on June 26th, 2026

The Russell 2000 Index has rallied from near \$2400 to \$3000 this past week, and we were asked a few times about the surprising resilience of the small cap. universe and what we think is implied by the relative strength. Normally, small caps. work when Financial Conditions are incrementally loosening, when further fiscal or monetary stimulus is expected, or when the dollar materially strengthens, all of which are interpreted as relatively better for small cap. estimate achievability. In aggregate, that doesn't appear to be the primary driver of the recent strength. We are concerned that adding to small caps. here is just another way of taking increased risk. We computed the relative to S&P500 betas of the average small cap. growth and small cap. value stocks over time (see below) and found that the small cap. growth universe has elevated risk. Based on beta, it would seem that **if** investors want to own small caps. perhaps looking at small cap. value is relatively prudent.

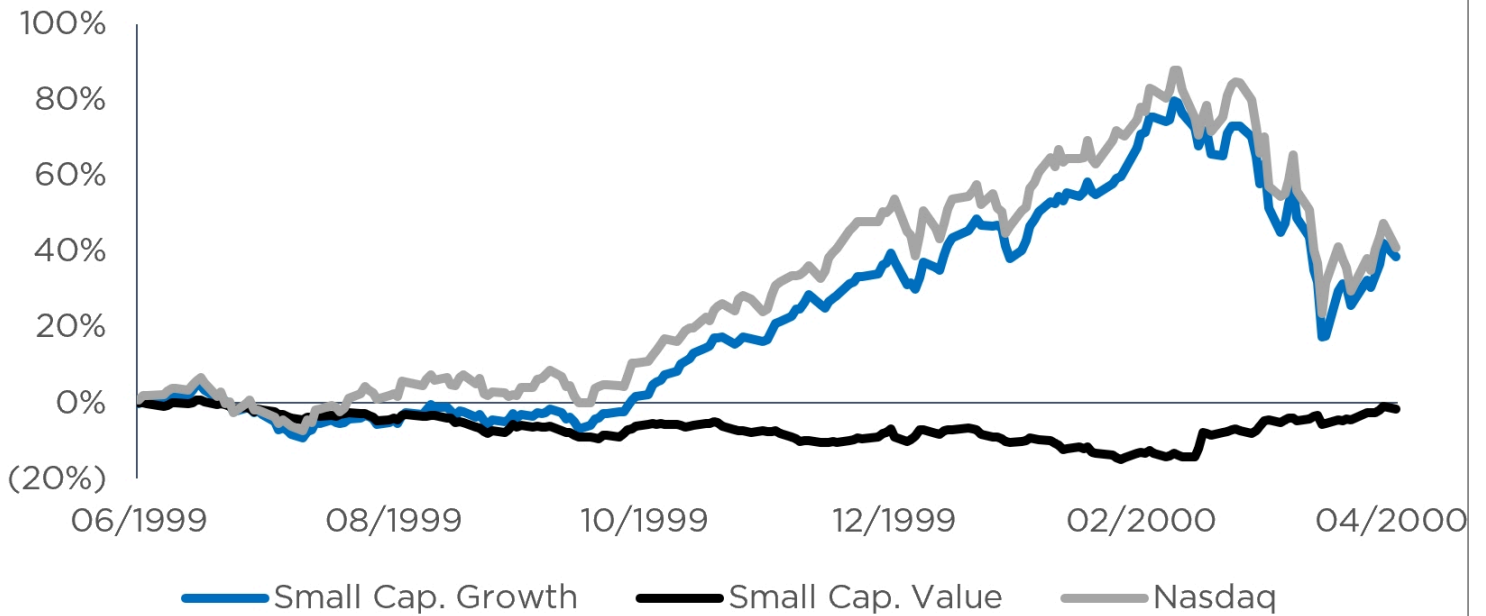
Median Beta Small Cap. Value vs. Small Cap. Growth Through End-May, 2026



Source: Trivariate Research, LP

However, an investor asked us this past week whether the small cap. strength of late rhymes at all with behavior before the TMT bubble burst in March 2000. The answer is - not really. Through 1999 and into the March 2000 peak, small cap. growth stocks traded in lockstep with the NASDAQ, with small cap. value down in absolute terms (see below), and not participating in the “blow off top”.

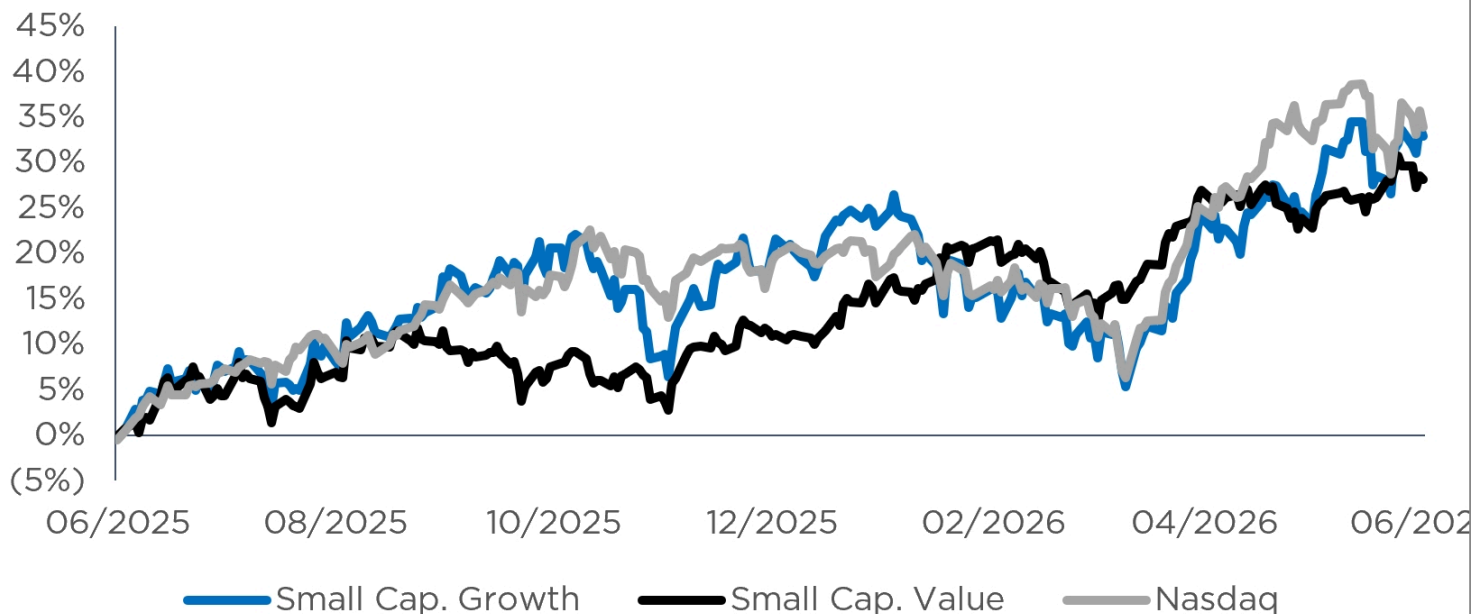
Cumulative Return of Nasdaq, Small Cap. Growth, & Small Cap. Value 2000 Tech Bubble Through May 1st, 2000



Source: Trivariate Research, LP

However, since the middle of 2025, the small cap. value, small cap. growth, and NASDAQ returns have all performed similarly, particularly after post Iran-war lows (see below). Seeing this makes us think that the market MIGHT not distinguish between growth and value on the way down. **We don't think chasing small caps. for incremental upward revisions is that sensible.**

Cumulative Return of Nasdaq, Small Cap. Growth, & Small Cap. Value Last 252 Trading Days Through June 18th, 2026



Source: Trivariate Research, LP

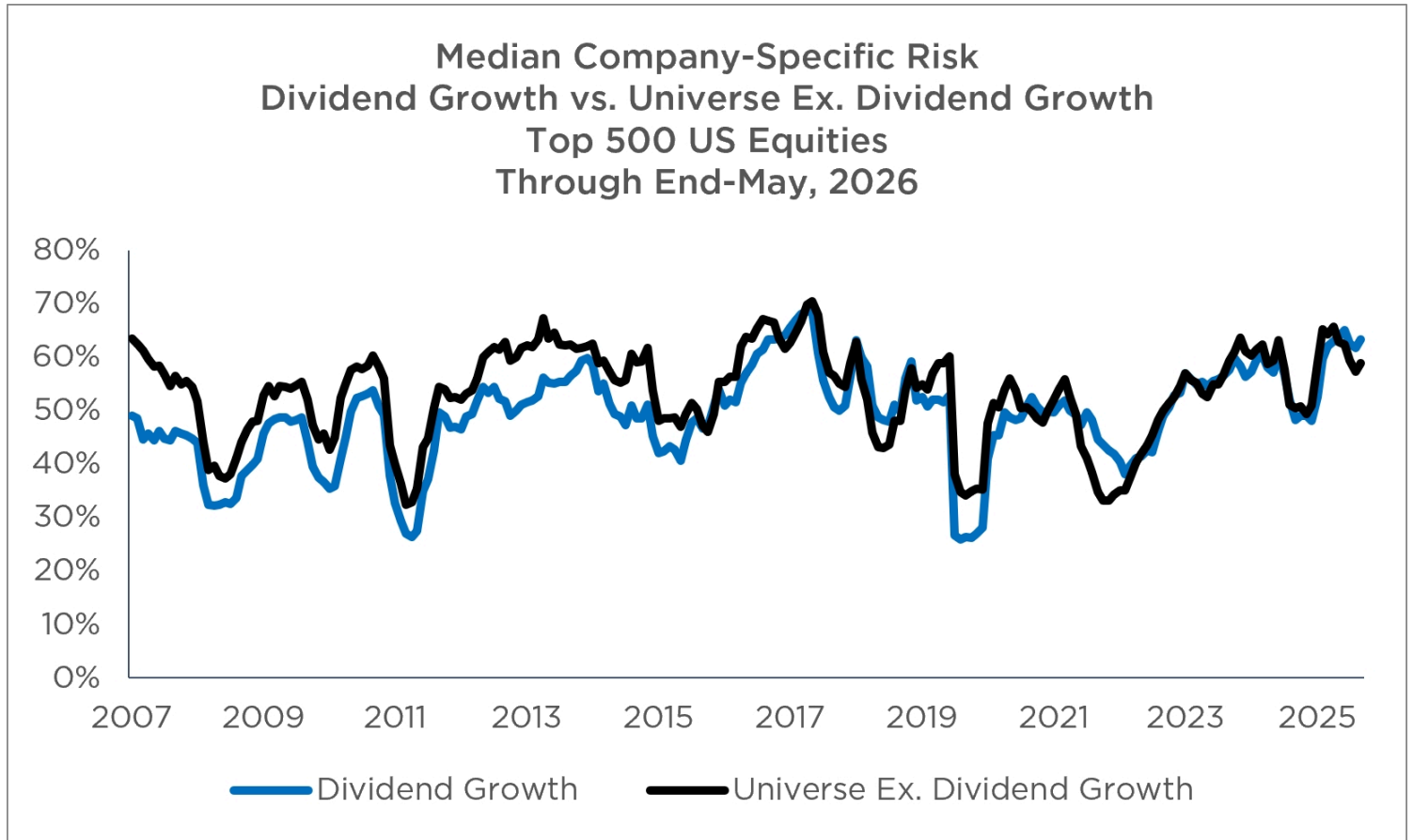
To study behaviors more recently, we looked at major S&P500 corrections over the last 25 years, and compared small cap. to S&P500 performance, and small cap. growth vs. small cap. value performance during those corrections. On average and median, small cap. value went down less than small cap. growth, with the 2000 / Nasdaq period quite interesting, as small cap. value was up in absolute terms during those regimes. The last five corrections (highlighted in blue below) show more mixed results, with small cap. value and growth performing similarly in both 2018 corrections, small cap. value worse during the initial COVID correction, and small cap. value slightly better in the third 2018 downturn, and in 2025. **On the margin, this doesn't make us feel like small cap. value will protect capital during an S&P500 correction.**

Small Cap Behaviors During S&P500 Drawdowns							
Drawdown Rank	Small Cap. Growth	Small Cap. Value	Value Minus Growth	S&P500 Drawdown	Length (Trading Days)	Start	End
1	(55.4%)	(59.6%)	(4.2%)	(55.3%)	355	10/10/2007	3/10/2009
2	(57.1%)	26.7%	83.8%	(47.4%)	525	9/5/2000	10/10/2002
3	(32.5%)	(43.2%)	(10.7%)	(33.8%)	23	2/20/2020	3/24/2020
4	(33.6%)	(17.8%)	15.8%	(24.5%)	195	1/4/2022	10/13/2022
5	(22.9%)	(19.9%)	3.1%	(19.4%)	65	9/21/2018	12/26/2018
6	(16.3%)	(13.2%)	3.0%	(18.7%)	34	2/20/2025	4/9/2025
7	(25.2%)	(21.1%)	4.1%	(18.6%)	108	5/2/2011	10/4/2011
8	(16.4%)	(19.8%)	(3.4%)	(15.6%)	49	4/26/2010	7/6/2010
9	(17.1%)	(10.5%)	6.6%	(14.2%)	69	11/29/2002	3/12/2003
10	(22.7%)	(20.1%)	2.6%	(13.0%)	143	7/21/2015	2/12/2016
11	(10.0%)	(9.3%)	0.8%	(11.8%)	64	7/19/1999	10/18/1999
12	(32.0%)	2.3%	34.3%	(11.1%)	15	3/27/2000	4/17/2000
13	(7.7%)	(7.5%)	0.2%	(10.1%)	9	1/29/2018	2/9/2018

Mean	(26.8%)	(16.4%)	10.5%	(22.6%)	127
Median	(22.9%)	(17.8%)	3.0%	(18.6%)	65

Source: Trivariate Research, LP

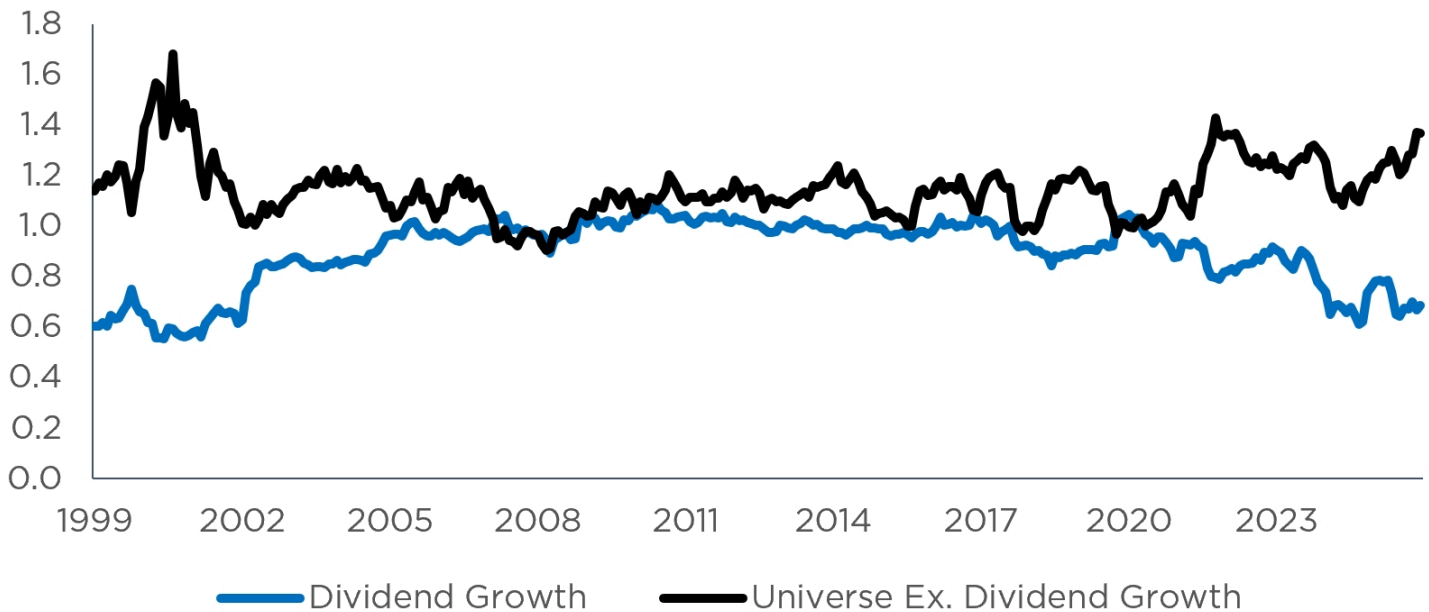
We have written about dividend paying and dividend growing stocks over the last couple of months, and an investor asked us this past week whether there was more alpha or beta in the dividend growth universe. Our prior was that the dividend growing space was probably a shade more macro, owing to our perception of interest rate sensitivity. But, we were wrong. The median company-specific risk, using our proprietary seven-factor model, used to be lower for the dividend growing universe than the market excluding dividend-growers from 2007 through 2015, and during the COVID downturn, but is slightly HIGHER today.



Source: Trivariate Research, LP

Moreover, the beta of the dividend growing universe has trended lower, while the beta of the rest of the market has trended higher, creating the widest relative beta gap in more than 20 years (see below).

Median Beta Dividend Growth vs. Universe Ex. Dividend Growth Top 500 US Equities Through End-May, 2026



Source: Trivariate Research, LP

Last week we upgraded Energy, noting we didn't think the Iran War was over, and that some of the stocks likely will generate strong returns at current Oil price levels. We wanted to look for stocks that have gotten more expensive in the last quarter, meaning they have a higher probability of beating the next earnings report than those that just got cheaper, are cheap vs. their own history and below 17x, and are forecasted to have expanding gross margins, but have lagged the market over the last six months. Our thesis is that if gross margins do expand, these stocks, which have relatively low correlation to our AI Semiconductors basket, could continue to have multiple expansion (see below).

**Upward Earnings Revisions, Underperformed S&P500 Last 6 Months
Forecasted Gross Margin Expansion > 100bps, Cheapest Quintile vs. Own History on Price-to-Forward Earnings
Price-to-Forward Earnings < 17x, Excluding Biotech. And Software
Through June, 18th, 2026**

Ticker	Company	Industry	Market Cap. (US \$Bn.)
ABT	Abbott Laboratories	Health Care Equipment & Supplies	153.99
AEM	Agnico Eagle Mines Limited	Metals & Mining	83.34
BDX	Becton, Dickinson and Company	Health Care Equipment & Supplies	39.67
PYPL	PayPal Holdings, Inc.	Financial Services	37.50
KVUE	Kenvue Inc.	Personal Care Products	34.79
FISV	Fiserv, Inc.	Financial Services	25.52
VEEV	Veeva Systems Inc.	Health Care Technology	24.90
FIS	Fidelity National Information Services,	Financial Services	19.75
GPN	Global Payments Inc.	Financial Services	18.29
SSNC	SS&C Technologies Holdings, Inc.	Professional Services	15.76
APTV	Aptiv PLC	Automobile Components	13.48
ALGN	Align Technology, Inc.	Health Care Equipment & Supplies	13.04
COO	The Cooper Companies, Inc.	Health Care Equipment & Supplies	12.85
BAX	Baxter International Inc.	Health Care Equipment & Supplies	10.27

Source: Trivariate Research, LP

CONCLUSION

Index rebalancing, AI exhaustion, the Iran War, and the imminent earnings season are all causing sharp shifts in the market narrative. We want to keep market weight the AI revenue exposure, and look for uncorrelated additional alpha opportunities. We recommend Overweights in Technology, Healthcare, and Energy.

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.

Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, "**Trivariate**").

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "would," "predicts," "potential," "forecasted," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are "forward-looking statements" and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words "include," "includes," "including" and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak ("**COVID**" or "**COVID-19**"). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.