US Equities
August 2, 2026

Level Set - The Volatility Playbook

We continue to have conversations with investors whom have expressed frustration about their inability to outperform in an up tape, so their periods of relative strength this year were only during the March and July AI revenue sell-offs. Our view remains that **this is a market that requires fundamental bottom-up stock pickers to think more about portfolio construction than they have at any time in their careers. The topic of portfolio construction surfaced frequently in our meetings in NY and London this past week.**

We think it is pretty clear that this is a market regime **where running more diversified than normal makes sense**. Investors need to think about the set of conditions that would require them to own a more diversified or concentrated portfolio and where the market is on those metrics today. The market this year had been defined by a large percentage of stocks lagging the market, but those that were beating the market were beating it by a lot. That unwound sharply in July, even with a massive one-day reversal on Thursday. In order to capture some of the large winners, running a more diversified portfolio seems prudent. We analyzed the performance of portfolios with 25 stocks, vs. those with 50, 75, and 100 stocks over time, for 75th percentile alpha generators (see below). We found that even if you are a good stock picker, running more concentrated (25 stocks) made sense from 1999-2018, but has been much more volatile and less successful than running 50 or 75 stock portfolio since 2019.

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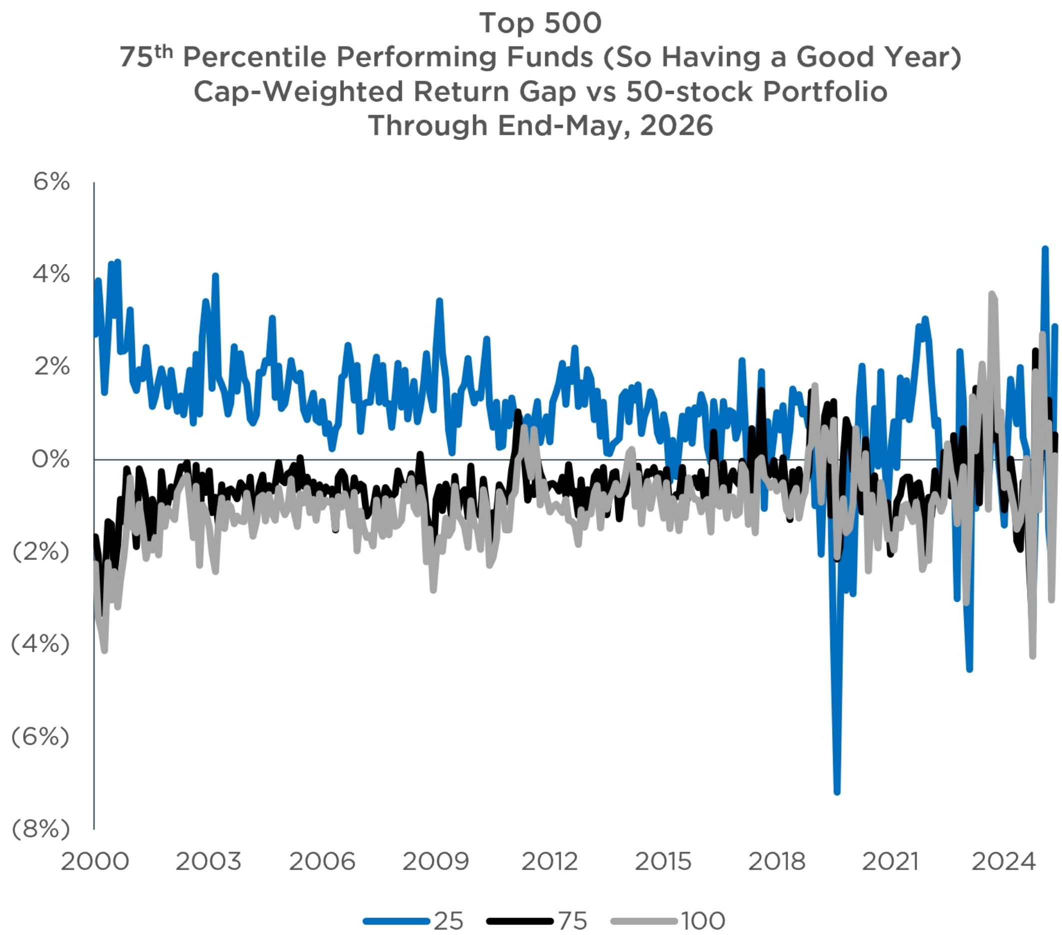


Source: Trivariate Research, LP

Many institutional investors either had a relatively strong January through June and a weak July, until Thursday this past week, or a weak first half and gained back some relative performance in July until Thursday this past week. We only know a handful of investors that have managed to consistently do well. Having a strategy and sticking with it has made for extreme portfolio volatility and large reversals. Look below at the factor efficacy for June vs. July. In June, buying stocks with low short interest, good dividend coverage, and stable momentum worked. But all those signals failed miserably in July. Valuation worked for stock selection in July, such that buying stocks that are cheap on price-to-forward earnings beat those that are expensive by 18.9%. Buying cheap lost money vs. expensive in June. **Diversification is a way to handle and absorb factor volatility.**

Best Performing Factors in June and July of 2026 Top 2,000 US Equities							
Best Signals in June 2026				Best Signals in July 2026			
Signal	June	July	Difference	Signal	June	July	Difference
Short Interest-to-Value Traded	6.7%	2.5%	(4.2%)	Price-to-Forward Earnings	(2.2%)	18.9%	21.1%
Dividend Coverage Ratio	5.9%	(0.7%)	(6.7%)	Price-to-Forecast EBITDA	(2.4%)	17.8%	20.2%
252d Momentum Stability	5.1%	(11.1%)	(16.2%)	EV-to-Gross Profit	2.8%	17.1%	14.3%
2-Year Momentum	4.3%	(16.7%)	(21.0%)	Price-to-Operating Cash Flow	(0.9%)	16.9%	17.8%
126d Momentum Stability	3.9%	(12.5%)	(16.4%)	EV-to-EBITDA	(0.6%)	14.7%	15.3%
Sell-Side Buy Percentage	3.8%	(5.5%)	(9.2%)	Total Yield (Dividend + Buyback)	(0.1%)	13.5%	13.6%
NOPAT Growth (Trailing 8Q)	3.6%	(1.8%)	(5.4%)	Free Cash Flow Yield	1.3%	12.9%	11.6%
Sales Estimate Revisions	3.6%	0.1%	(3.5%)	Price-to-EBIT	2.0%	12.8%	10.8%
1-Year Momentum	3.5%	(17.5%)	(21.0%)	Price-to-NOPAT	2.5%	12.7%	10.2%
R&D-to-SG&A	3.5%	(9.0%)	(12.4%)	Buyback Yield	1.1%	12.2%	11.1%

Source: Trivariate Research, LP

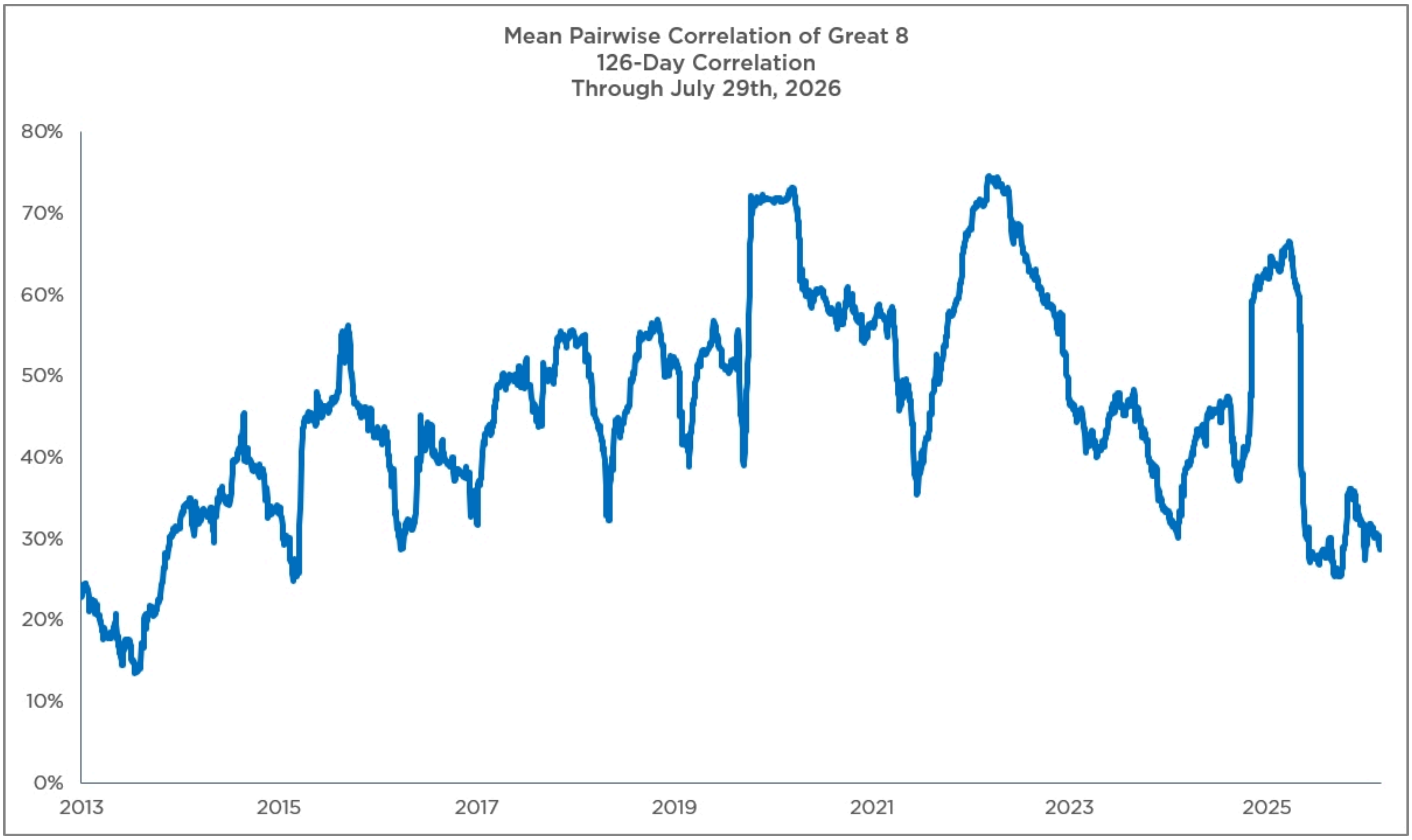
Another reason we recommend that portfolio managers run with a more diversified portfolio is because of the size and impact of the "Great 8" on the market. We think there are some reasons for this, and the biggest is the emergence and volatility of the Great 8 stocks - AAPL, AMZN, GOOGL, NVDA, AVGO, META, MSFT, and TSLA. Below we show the performance of these stocks the first day after their last eight earnings reports. The expectations, narratives, and interpretations seems to oscillate on a quarterly basis. For example, the narrative around AVGO has seemingly gone bad, good, bad, good, bad, its last five prints. The narrative on META has massively shifted in the last few months, such that we actually had a conversation last week about whether META will exist as a company in fifteen years. A few quarters ago their capital spending was seen as genius. GOOGL sold off on its print and then rallied last week virtually enough to offset the decline. This is a lot to constantly process when analyzing and positioning relative to the index weight in the Great 8.

Great 8 Earnings Results, One Day Post-Results Performance
As of End-July, 2026

Quarter	AMZN	MSFT	AAPL	GOOGL	NVDA	META	TSLA	AVGO
Q2 2026	15.4%	14.7%	(7.1%)	(8.5%)	N/A	(9.2%)	(15.6%)	N/A
Q1 2026	2.1%	(5.0%)	3.7%	10.0%	(0.5%)	(8.9%)	(3.3%)	(13.0%)
Q4 2025	(9.7%)	(9.8%)	1.2%	(2.5%)	(4.1%)	9.7%	(3.3%)	6.0%
Q3 2025	6.0%	(3.0%)	0.2%	5.2%	(0.4%)	(11.3%)	1.4%	(12.8%)
Q2 2025	(6.7%)	4.1%	(3.2%)	0.4%	(0.9%)	10.5%	(8.1%)	10.7%
Q1 2025	3.0%	8.0%	(3.4%)	4.3%	2.7%	3.2%	10.2%	(5.4%)
Q4 2024	(3.0%)	(7.2%)	(1.4%)	(4.9%)	(5.1%)	1.9%	0.6%	1.8%
Q3 2024	2.7%	(5.9%)	(3.1%)	4.6%	(0.2%)	(4.3%)	19.5%	22.7%

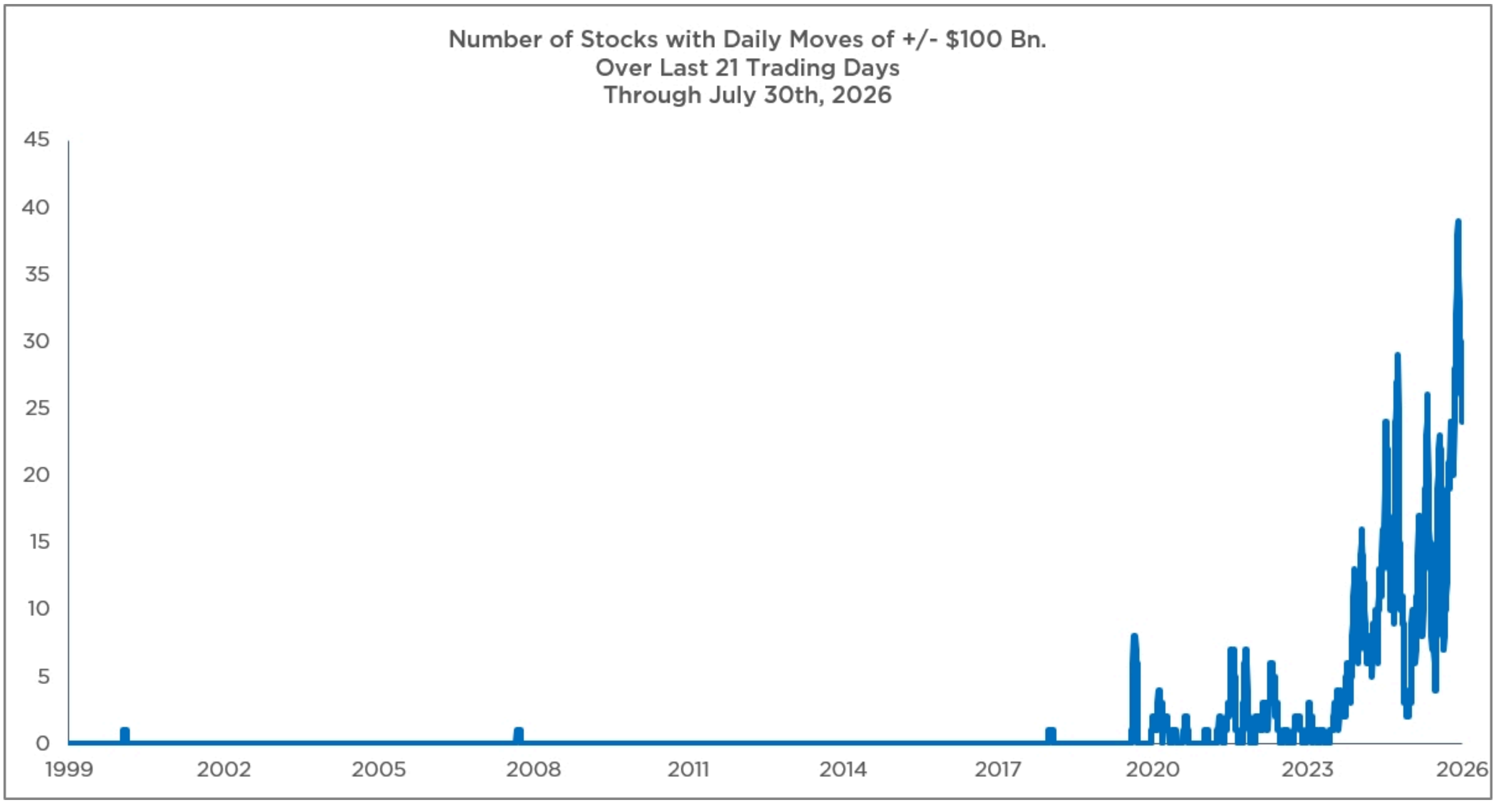
Source: Trivariate Research, LP

While there has been a serial correlation to the beating and missing for the broader market, there has been much more quarter-to-quarter volatility in the performance vs. expectations and printed results of the Great 8. As such, the average pairwise correlation of the Great 8 stocks is hovering at all-time lows (see below). **With these 8 stocks now accounting for 36% of the S&P500 market cap. we continue to think it is prudent to own market-weight the group.** We analyze the portfolios of many institutional investors on a frequent basis, and find many are underweight the group, and / or have their largest active positions vs. the index in these names. We don't have the confidence or skill to pick winners vs. losers among these on a quarterly basis, which increasingly seems required. If you came into this earnings season overweight META and underweight MSFT, you lost most of the annual benefit of this call this past week. Our conclusion is that owning some positions in all eight names makes sense, even if owning them is as much or more a risk management than alpha decision. **That being said, we wouldn't be surprised if these stocks collectively outperformed the market, as often what materializes is what is the worst outcome for a large group of active managers.**



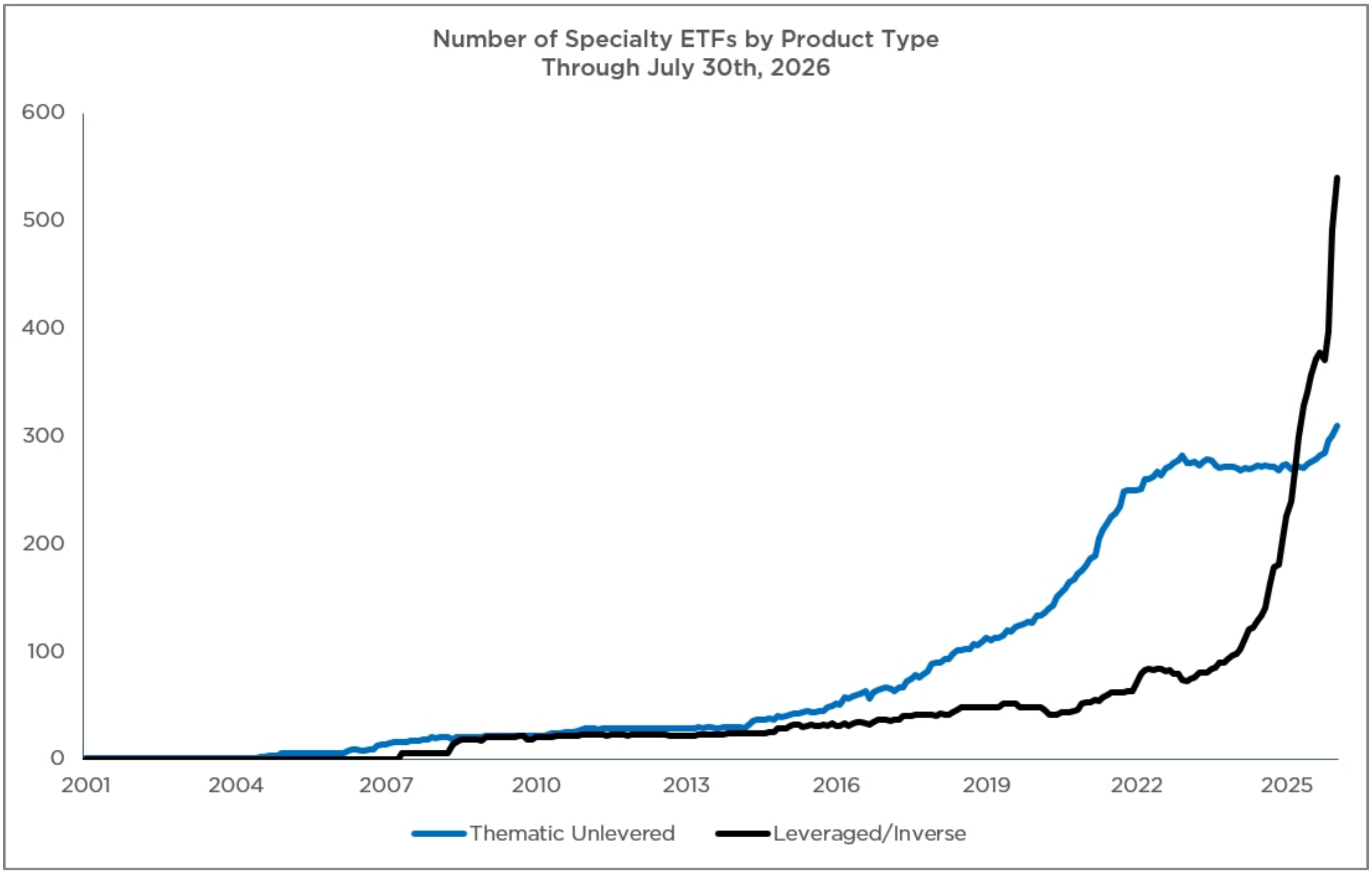
Source: Trivariate Research, LP

Reversals in factor efficacy and volatile results from the Great 8 have caused huge amounts of capital to be earned or lost in single trading sessions. It used to be that 10% moves were annualized rates of returns, and now, frequently, stocks move more than that in one day. Below we show the number of times on a rolling 21-day basis (one-month) a stock has gained or lost more than $100 billion in market cap. in one day. This happened 4x this past Friday, and 39x in June 2026!



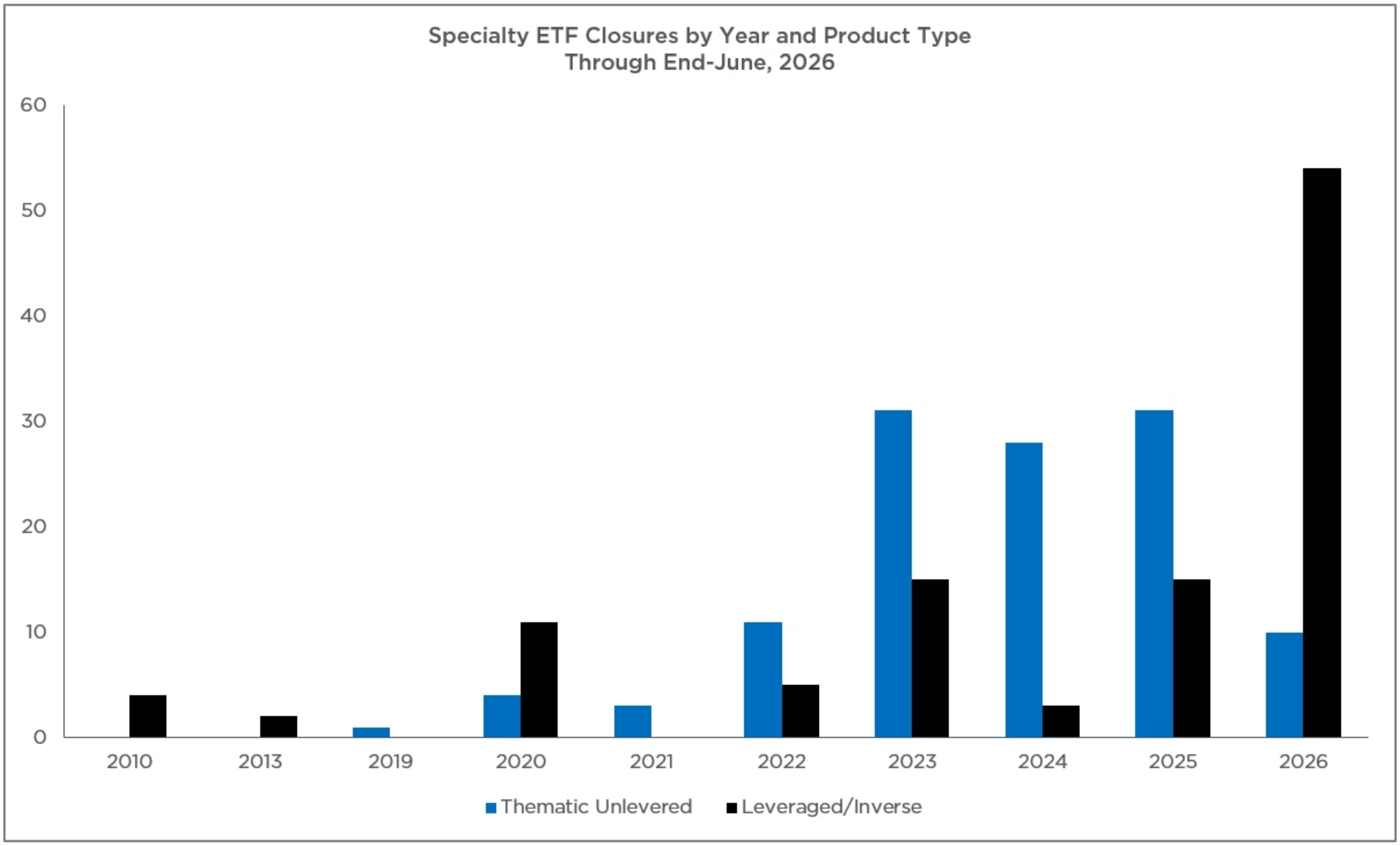
Source: Trivariate Research, LP

The Great 8 stocks' dramatic moves are partly driven by their growing presence in specialty and leveraged ETFs. Three years ago there were 75 levered or inverse ETFs. Today there are 540 (see below)! These double- and triple-levered single-stock ETF exacerbate market moves even for the biggest market cap. names.



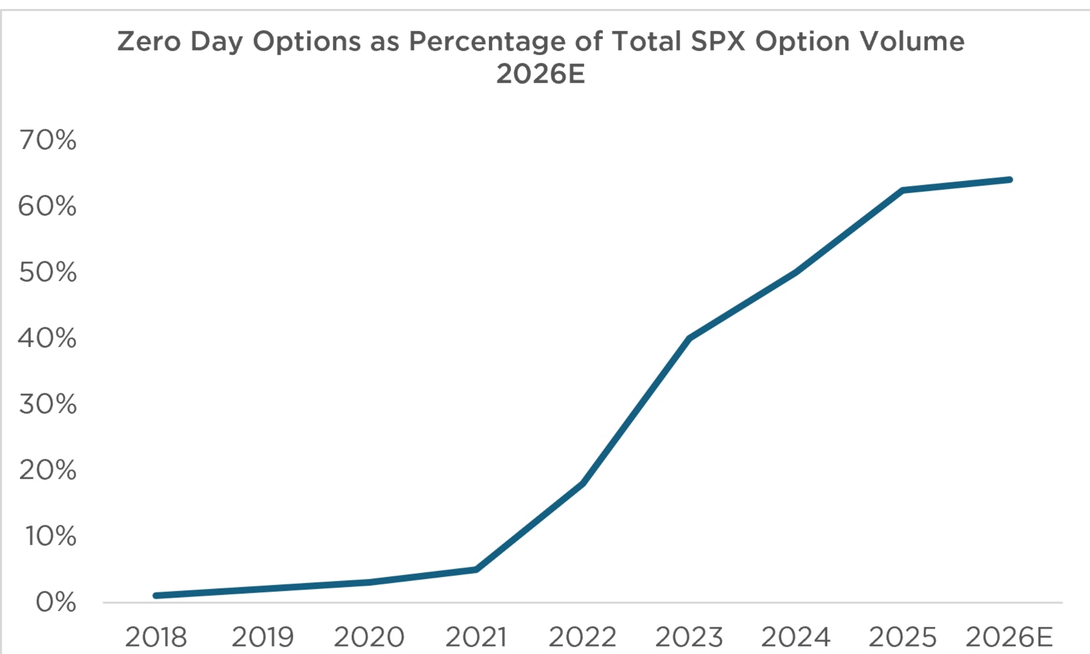
Source: Trivariate Research, LP

In fact, it seems many ETFs are being created to capture short-term movements, independent of whether there is a lasting underlying theme or idea. How else can we explain nearly the same number of levered / inverse ETFs CLOSING this year than in the previous fifteen years combined (see below)?



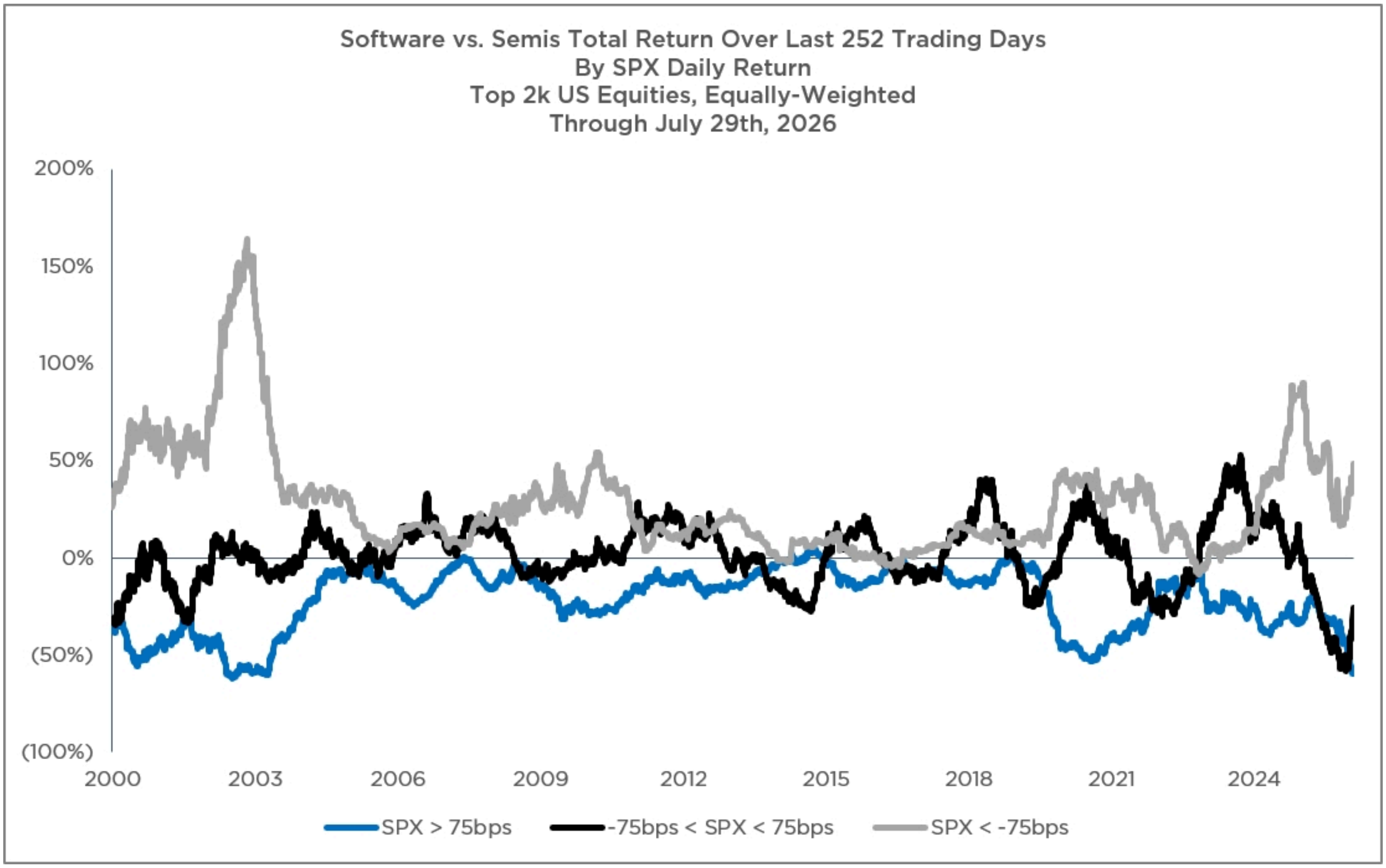
Source: Trivariate Research, LP

Further exacerbating the problem - and related to the proliferation of ETFs - is the massive increase in zero day options as a percentage of all options. By CBOE estimates (see below), nearly two-thirds of all options are ZERO DAY!



Source: CBOE, Trivariate Research, LP

While we continue to recommend Technology, and our long-standing view of owning Semis over Software, we have been writing for a month now that Software is acting more like Tobacco did 15 years ago, and has become anti-correlated to Semis. Below we show the performance of Semiconductors and Software on days the market is down 75bps or more, between plus / minus 75bps, and greater than 75bps. When the market is up, Semis massively outperform. When the market is plus or minus 75bps, Semis also have performed well. Only on down days is Software working. This analysis is equal-weighted, as MSFT is more than half the market cap. of the Software universe, but highlights how dramatically the relationship between Semiconductors and Software has changed. **If you have been lagging on up days, don't own Software for offense seems like a clear conclusion.**



Source: Trivariate Research, LP

CONCLUSION: Navigating today's market means managing risk amid ever-shifting contradictions. We remain Overweight Technology, Energy, and Healthcare, **but have long thought sector-based risk management is at best misleading, and at worst, baseless**. We think compute grows way above GDP, and Semiconductors will outperform strongly from here over a 12-month horizon. We like MU and NVDA in particular on a one-year view. We like many Healthcare Services stocks like DGX, MCK, and UNH, among others. We like Oil-stocks. All are based on estimate achievability, and benefit a diversified portfolio manager because their fundamentals and stock prices are not highly correlated. Market dynamics, from factor volatility, ETF formation, zero day options and market concentration in the Great 8 meaning running more diversified is key. But above all, avoid owning companies that miss. That's the regime we are in, for now.

Important Disclosures

Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Chang Ge, Colin Cooney, Ryan McGovern and Jesse Goodman, 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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