

Level Set: Were There Clues from Monday's Blues?

Last Monday was a wake-up call for some portfolio managers. Whether explicitly through top-down work or ex-post through bottom-up security identification, many investors are overweight growth investment themes they believe can work for many years. Last year ([see here](#)) we identified six key long-term growth themes; AI Semiconductors, AI Software, Power / Utilities, Housing / Building Products, Life Sciences / Health Services and Electrification industrials. In January, we identified nine Technology baskets investors should be aware of to track emerging and important Technology themes ([see here](#)). We recommended investors have exposure to these key themes, but also track the correlation of the baskets to each other to manage position sizes and risk.

What we have seen over the long-term, and strongly during the sharp Monday sell-off last week, is that many of these stocks can episodically, or systematically, be correlated. As an example, below we show the rolling 21-day correlation between the AI Semiconductors and Electrification Industrials Baskets. Just for edification, the stocks in the AI Semiconductors basket include tickers NVDA, AVGO, AMD, QCOM, AMAT, and MU, among others. In our Electrification Industrials basket, the largest company is ETN, followed by ROK, FIX, NVT, and GNRC and several others. Thematically these two categories are not necessarily the same long-term theme, and it is sensible equity managers would want stocks with exposure in both areas. Semiconductors are about the increased demand for computational power in an AI world. Electrification encompasses demand and infrastructure and is facilitating energy transition.

However, what is tricky is that these two baskets have correlations that move dramatically in short time frames. For example, the 21-day rolling correlation was near zero in February, July, and October 2024 but above 0.8 in August and September, and **recently at a several-month high**. Investors who own stocks in both of these baskets need to be careful of their beta-adjusted exposure and aggregate exposure to these growth themes.

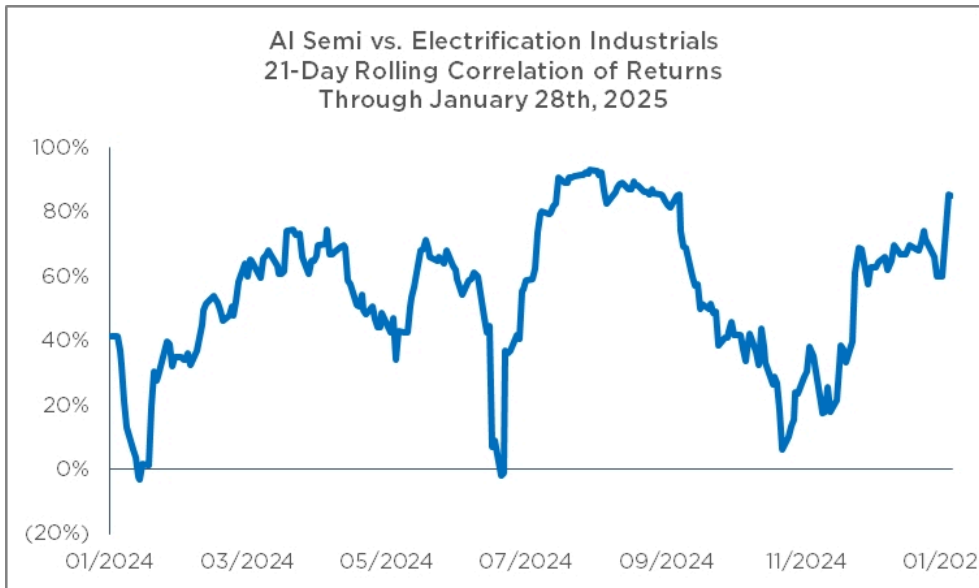
Adam Parker
Founder
646-734-7070
adam@trivariateresearch.com

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

Maxwell Arnold
Analyst
347-514-1234
maxwell@trivariateresearch.com

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

Chang Ge
Analyst
614-397-0038
chang@trivariateresearch.com



Source: Trivariate Research, LP

We analyzed the pairwise correlations of all 15 of our growth baskets (see below). We found that Utilities / Power, Polyfunctional Robots, Post-Quantum Cryptography, Healthcare Services, and Housing had the lowest median correlations to the other baskets. On the contrary, Hybrid Computing, Agentic AI, Spatial Computing, Energy-efficient Computing and AI Software were the least diversifying.

Basket Correlations: Median Correlation to 14 Other Growth Baskets Daily Correlations over the Last 6 Months As of End January, 2025			
Lowest Correlation		Highest Correlation	
Basket	Median Correlation	Basket	Median Correlation
Polyfunctional Robots	41.1%	AI Software	66.5%
Post-quantum Cryptography	50.2%	Energy-efficient Computing	71.1%
Healthcare Services	51.1%	Spatial Computing	77.2%
Housing	54.6%	Agentic AI	77.5%
Ambient Invisible Intelligence	55.2%	Hybrid Computing	77.7%

Last Monday's trading action was telling, and likely a harbinger for other down days we might see in 2025.

The increased attention to DeepSeek's application (over 10 million downloads in 2025 and counting) caused a strong stock market reaction and sell-off last Monday, which according to several investors we met with last week resulted in much of their month-to-date gains being damaged. We analyzed the performance of our various thematic baskets the day before (1/24), the day of (1/27), and the day after (1/28) to compute the cumulative three-day return of each. The best performing baskets were AI Governance, Healthcare Services (which was up all three days), Disinformation Security, and AI Software — all of which were cumulatively up over the three days.

The worst baskets were Energy-efficient computing (down 9.2% over the 3 days), AI Semiconductors (down 9.1%), and Electrification Industrials (down 8.8%). See below for the top 3 tickers in each basket.

Daily Performance Friday 1/24, Monday 1/27, and Tuesday 1/28					Biggest 3 Tickers in Each Basket
Trivariate Custom Baskets	01/24/2025	01/27/2025	01/28/2025	3-Day Return Around Pull back	
Energy-efficient Computing	(1.2%)	(8.5%)	0.5%	(9.2%)	AAPL, NVDA, MSFT
AI Semiconductors	(0.8%)	(9.2%)	0.9%	(9.1%)	NVDA, AVGO, AMD
Electrification Industrials	(0.2%)	(8.7%)	0.1%	(8.8%)	ETN, ROK, FIX
Spatial Computing	(1.1%)	(4.9%)	(0.0%)	(5.9%)	AAPL, AMD, QCOM
Polyfunctional Robots	(1.2%)	(4.9%)	0.9%	(5.1%)	ANSS (SNPS), AUR, XRX
Ambient Invisible Intelligence	(1.0%)	(4.2%)	0.5%	(4.6%)	ON, QRVO, LFUS
Hybrid Computing	(0.5%)	(4.6%)	0.9%	(4.2%)	MSFT, ORCL, CSCO
Power / Utilities	0.5%	(4.6%)	0.0%	(4.1%)	CEG, SRE, VST
Post-quantum Cryptography	(0.1%)	(4.5%)	1.6%	(3.1%)	MSFT, SNPS, KEYS
Housing	(1.0%)	(0.6%)	(1.1%)	(2.6%)	TT, LI, CSL
Agentic AI	(0.2%)	(3.0%)	2.6%	(0.7%)	NVDA, MSFT, ORCL
AI Software	(0.8%)	(1.7%)	4.1%	1.5%	MSFT, ORCL, NOW
Disinformation Security	0.1%	(0.9%)	3.0%	2.2%	PANW, CRWD, FTNT
Healthcare Services	0.4%	0.8%	1.4%	2.6%	CI, MCK, MOH
AI Governance	0.3%	(0.3%)	3.7%	3.7%	MSFT, NOW, QCOM

Source: Trivariate Research, LP

Higher volatility seems like a certainty in 2025, and trading around these big moves is not always value creating. Our view is that investors should focus on taking bigger positions in the stocks that have higher company-specific risk and can't be replicated by other securities. Below are the stocks in the 15 baskets we outlined above that have high company-specific risk and have zero stocks with higher than a 0.7 average daily trading correlation over the last year. This includes CI, MCK, and FSLR. If you own one of these stocks, we would be less likely to sell it due to fears about diversification from other growth themes.

High Company-Specific Risk Basket Stocks No Stocks Highly Correlated over Last Year As of End-January, 2025					Market Cap. (US \$ Bil.)
Ticker	Name	Industry Group	Trivariate Basket		
CI	The Cigna Group	Health Care Providers & Services	Healthcare Services		81.84
MCK	McKesson Corporation	Health Care Providers & Services	Healthcare Services		75.50
FSLR	First Solar, Inc.	Semiconductors & Semiconductor Equipment	Energy-Efficient Computing		17.93
MOH	Molina Healthcare, Inc.	Health Care Providers & Services	Healthcare Services		17.76
AZPN	Aspen Technology (Note: Target of EMR)	Software	Agentic AI		17.27
JNPR	Juniper Networks (Note: Target of HPE)	Communications Equipment	3 Baskets		11.54
ZETA	Zeta Global Holdings Corp.	Software	AI Software		4.36
ACHC	Acadia Healthcare Company, Inc.	Health Care Providers & Services	Healthcare Services		4.19
LFST	LifeStance Health Group, Inc.	Health Care Providers & Services	Healthcare Services		3.05
ALHC	Alignment Healthcare, Inc.	Health Care Providers & Services	Healthcare Services		2.95
ADUS	Addus HomeCare Corporation	Health Care Providers & Services	Healthcare Services		2.24
ICFI	ICF International, Inc.	Professional Services	Electrification Industrials		2.19
WGS	GeneDx Holdings Corp.	Health Care Providers & Services	Healthcare Services		2.06
AGL	agilon health, inc.	Health Care Providers & Services	Healthcare Services		1.38
BLBD	Blue Bird Corporation	Machinery	Electrification Industrials		1.14

Source: Trivariate Research, LP

On the contrary, we would be cautious about having large positions in stocks that have low company-specific risk AND have other stocks that trade highly correlated to them - you might as well hedge or diversify. Hence, stocks in this basket below are ones we would trim or sell if you are worried about being overexposed to correlated growth themes.

Low Company-Specific Risk Basket Stocks
Several Stocks Highly Correlated over Last Year
As of End-January, 2025

Ticker	Name	Industry Group	Trivariate Basket	Market Cap. (US \$ Bil.)
AMAT	Applied Materials, Inc.	AI Semiconductor	2- Baskets	146.57
ANET	Arista Networks Inc	Energy-Efficient Computing	2- Baskets	145.16
ETN	Eaton Corporation plc	Electrification Industrials	Electrical Equipment	129.01
KLAC	KLA Corporation	AI Semiconductor	Semiconductors & Semiconductor Equipment	98.75
SNPS	Synopsys, Inc.	AI Software	2 Baskets	81.23
PWR	Quanta Services, Inc.	Power and Utilities	Construction & Engineering	45.41
FIX	Comfort Systems USA, Inc.	Electrification Industrials	Construction & Engineering	15.50
ENTG	Entegris, Inc.	Spatial Computing	Semiconductors & Semiconductor Equipment	15.33
NVT	nVent Electric plc	Electrification Industrials	Electrical Equipment	10.73
MKSI	MKS Instruments, Inc.	Spatial Computing	Semiconductors & Semiconductor Equipment	7.62
TMHC	Taylor Morrison Home Corporation	Housing / Building Products	Household Durables	6.67
IBP	Installed Building Products, Inc.	Housing / Building Products	Household Durables	5.56
KBH	KB Home	Housing / Building Products	Household Durables	4.84
MHO	M/I Homes, Inc.	Housing / Building Products	Household Durables	3.42
GRBK	Green Brick Partners, Inc.	Housing / Building Products	Household Durables	2.69
LGIH	LGI Homes, Inc.	Housing / Building Products	Household Durables	2.10

Source: Trivariate Research, LP

CONCLUSION: Monday's sharp-sell of certain parts of the market might be a harbinger for other risk-off days in the near future. Being aware of company-specific risk and replicability of the stocks in the major growth baskets will be useful for better risk management. Let us know if you want the company-specific risk or replicability of any stock in the US stock market, or the full basket constituents for any of our 15 growth baskets.

Important Disclosures

Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Chang Ge, Colin Cooney 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.