# Level Set- Mag 7, Low-Beta Growth Ideas, Tariffs, and Sector Recommendation Tweaks

We advised investors to reduce their exposure to the Mag 7 three weeks ago (*Level Set: Sell Some Mag 7*), worried about their relatively high average beta, high and increasing capital intensity, elevated valuation, and the increased potential for disruption post the DeepSeek Monday over a month ago. The Mag 7 has lagged for two straight months (see below), something we have only seen one other time since the beginning of 2023, (July and August 2024). NVDA's earnings results this past week resulted in upward earnings revisions, but didn't meet the whisper expectations that had started to grow during February. There are no funds raising money to invest in decelerating revenue, margin contraction stocks, and several of the Mag 7 are now in that category.

The Mag 7 Have Lagged for 2 Straight Months
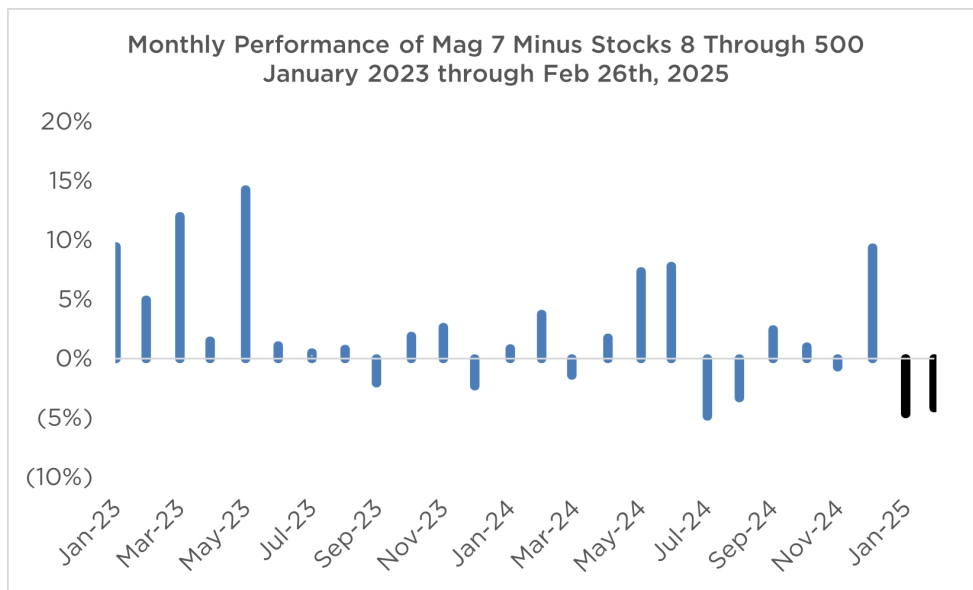
Source: Trivariate Research, LP

Recently, we have written three research notes on beta, showing the alpha destruction that comes from high beta, the optimal portfolio level beta, and the best way to construct a portfolio with a Maximum Sharpe Ratio beta. Because our work convincingly showed that a combination of low- and high-beta growth stocks results in better performance than all average beta growth stocks, investors this week asked us for some specific low beta growth stock ideas. Below we show high-quality, low beta growth stocks that are up in absolute terms year-to-date. These could be good candidates to balance high-beta stocks in a growth portfolio. Stocks include CHKP, BSX, V, MA, and MCK, among others.

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

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

Chang Ge
Analyst
614-397-0038
chang@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

Do You Need Low Beta Growth Ideas?

High-Quality Growth Stocks Beta in Lowest Quintile As of February 26th, 2025					
Ticker	Company Name	Sub-Industry	Market Cap.	Beta	Year-to-Date
CHKP	Check Point Software Technologies Ltd.	Systems Software	23.8	0.60	16.1%
BSX	Boston Scientific Corporation	Health Care Equipment	148.8	0.58	12.9%
V	Visa Inc.	Transaction & Payment Processing Services	695.0	0.50	12.8%
COKE	Coca-Cola Consolidated, Inc.	Soft Drinks & Non-alcoholic Beverages	12.2	0.57	11.4%
ROL	Rollins, Inc.	Environmental & Facilities Services	24.9	0.33	11.3%
CHE	Chemed Corporation	Health Care Services	8.7	0.29	10.7%
MCK	McKesson Corporation	Health Care Distributors	77.8	0.06	8.9%
MA	Mastercard Incorporated	Transaction & Payment Processing Services	516.1	0.55	7.4%
VRSK	Verisk Analytics, Inc.	Research & Consulting Services	40.7	0.24	5.3%

Source: Trivariate Research, LP

Despite Friday's rally, the S&P500 was down this past week, and concerns about tariffs and their impact on earnings for select companies appear reasonable. The Polymarket site has a probability associated with the question, "Will Trump impose large tariffs in his first 6 months?" This market will resolve to "Yes" if the U.S. weighted average tariff, as defined and reported by the Federal Reserve Bank of St. Louis, reaches 5% or greater for either Q1 or Q2 of 2025. Otherwise, this market will resolve to "No." This probability on Polymarket peaked at 66.5% on February 3rd, meaningfully fell after, and is currently at 46.5% as of Friday evening (see below). The ultimate accuracy of the Polymarket probabilities during November's US Elections was incredible, far better than any traditional poll. Hence, we like to investigate probabilities on this site regularly. However, the recent volatility and current probability near 50% on this tariff question is sufficiently uncertain to depress certain stocks in the market in our view.

Tarriff Probabilities Have Fluctuated
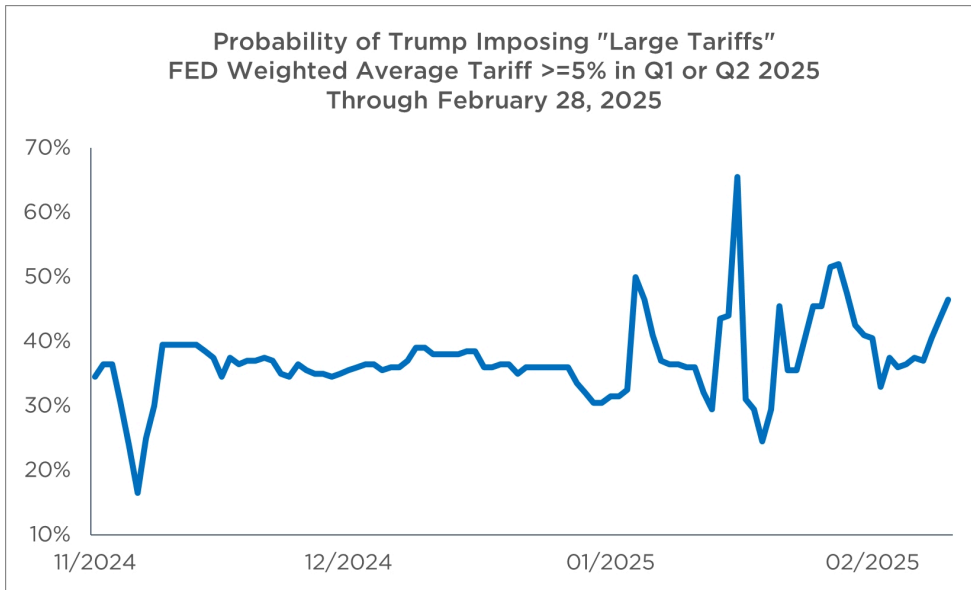
Source: Polymarket, Trivariate Research, LP

We analyzed the change in the probabilities on the Polymarket site of Trump imposing large tariffs vs. the daily change in stock prices. Below we show the results of the analysis, which includes stocks most likely to sell-off hard if the probability of large tariffs grow. The list includes XYL, AMCR, BERY, ATI, and AXTA, among others.

Ticker	Name	Industry	Market Cap. (US $ Bil.)
XYL	Xylem Inc.	Machinery	31.3
AMCR	Amcor plc	Containers & Packaging	14.5
BERY	Berry Global Group, Inc.	Containers & Packaging	8.3
ATI	ATI Inc.	Metals & Mining	8.1
AXTA	Axalta Coating Systems Ltd.	Chemicals	7.8
GPI	Group 1 Automotive, Inc.	Specialty Retail	5.9
LANC	Lancaster Colony Corporation	Food Products	5.2
ASH	Ashland Inc.	Chemicals	2.9
SAH	Sonic Automotive, Inc.	Specialty Retail	2.3
SCL	Stepan Company	Chemicals	1.4

Stocks That Decline When The Probability of Large Tarriffs Increases
Daily Correlation Between Polymarket Probability and Stock Returns
November 19th, 2024 Through End-February, 2025

Source: Trivariate Research, LP

CONCLUSIONS

We are making several minor tweaks to our recommended sector exposures.

1. **We are lowering our exposure to Technology:** We have been recommending a Market-Weight in Technology, but didn't lower our recommended weight enough following our downgrade of the Mag 7 in early February. We are reducing exposure to the Technology Sector by 5%, from 33% to 28%, vs the S&P benchmark weight of 28.3%.
2. **We are adding to our Financials exposure**, believing that even if the M&A cycle doesn't turn out be a strong as some Alternative Asset Managers are suggesting, earnings growth will improve through the year. We are taking our exposure from 14% to 16%, vs. the benchmark weight of 14.3%.
3. We are underweight Communication Services, but are **adding 2% to our Communication Services exposure**, bring us to a 9% recommended weight vs. 13.7% for the benchmark.
4. **We are adding 1% to our Utilities exposure,** bringing our recommended weight to 3%, vs. the benchmark at 2.2%

Overall, we are overweight Healthcare and Industrials and Underweight Consumer Discretionary and Communication Services. See our recommendations below.

Trivariate Sector Recommendations

Trivariate Sector Recommendations as of End-February, 2025

Sector	Total S&P 500 Market Cap. (US$ Trillion.)	Current S&P 500 Weight	Trivariate Old Recommended Weight	Trivariate Changes for March 2025	Trivariate New Recommended Weight	Trivariate-Relative Weight	Trivariate Recommendation	Comments
Health Care	5.57	10.2%	15%	0%	15%	4.8%	Overweight	We think Healthcare has above average estimate achievability, many companies that could benefit from AI-fueled productivity, and likely participates if M&A picks up
Industrials	4.27	7.8%	12%	0%	12%	4.2%	Overweight	Industrial activity is bottoming and earnings will accelerate vs. easy comps in the 2H of 2025
Financials	7.84	14.3%	14%	2%	16%	1.7%	Equal-Weight	Earnings growth should be above average, and shareholder return is strong. Activity is picking up
Materials	1.01	1.8%	2%	0%	2%	0.2%	Equal-Weight	Tariffs could hurt
Energy	1.69	3.1%	3%	0%	3%	(0.1%)	Equal-Weight	Hard to understand how multiples materially expand
Utilities	1.20	2.2%	2%	1%	3%	0.8%	Equal-Weight	Some idiosyncratic investments are sensible, and the power euphoria has been reset by huge sell-offs in certain stocks, risk-reward now seems better
Consumer Staples	3.40	6.2%	6%	0%	6%	(0.2%)	Equal-Weight	Low correlation to other offensive areas but at less aggressive valuations than the past.
Information Technology	15.51	28.3%	33%	(5%)	28%	(0.3%)	Equal-Weight	Reducing exposure to the Mag 7 seems prudent
Real Estate	1.14	2.1%	1%	0%	1%	(1.1%)	Equal-Weight	Pockets of success, but likely a very low recovery to CRE
Communication Services	7.53	13.7%	7%	2%	9%	(4.7%)	Underweight	Cautious on businesses that are heavily indebted and need ARPU growth
Consumer Discretionary	5.69	10.4%	5%	0%	5%	(5.4%)	Underweight	The consumer appears to be slowing

Source: Trivariate Research, LP

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.