TRIVARIATE RESEARCH

WHICH STOCKS >$100 BIL. CAP. ARE BUYS NOW?

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Background: We track the number of stocks that are greater than $100 billion market cap. over time. There were 102 at the end of February, but 94 as of last night's close given the sell-off this month (the S&P500 is down 5.7% month-to-date). Many investors are looking to find value in this sell-off--likely looking to buy names among the safer, larger cap. universe--and hence, we evaluate those stocks in the "$100 Billion Club" for ideas in today's research.

Methodology: We systematically pick winners from losers among the stocks with greater than $100 billion market cap by assessing the performance of 34 common signals. We found six metrics were effective in this cohort, including: forecasted revenue growth, short interest, distance-to-default (which combines leverage and volatility), downward revisions, revenue acceleration, and gross margins.

Forecasted revenue growth and low short interest are positives: Companies in the top tertile of <u>forecasted revenue growth</u> have strongly outperformed those in the lowest tertile of forecasted revenue growth. Stocks in the <u>lowest third of short interest among the stocks greater than $100 billion in market cap. materially outperformed stocks in the higher two thirds of short interest.</u>

Leverage, volatility, and downward revisions are negatives: Companies with closer "distance to default" materially lagged. This is a signal comprised of enterprise value-to-debt, and stock volatility, <u>with levered balance sheets and volatile stocks inferior performers. Companies in the bottom tertile of downward earnings revisions also subsequently lag.</u>

RESEARCH SUMMARY AND INVESTMENT CONCLUSIONS

Across the six signals: We studied the cumulative returns of each factor over the last ten years, computed just among stocks that are greater than $100 billion market cap. at the beginning of each period. <u>The best performing signal was buying the companies in the top third of forecasted revenue growth. The second best was buying the one-third of companies with the lowest short interest.</u> The worst performing signals were those in the highest third of leverage and stock volatility (distance-to-default), and those with the worst third of downward earnings revisions.

Summary: We took these six signals and created long and short buckets by assessing the total number of screens each stock was on out of the six metrics we assessed. The stocks more skewed toward the "long" screens materially outperformed the $100 billion club stocks more exposed to the "short" screen. This was true both on an equally-weighted and cap-weighted basis. The long ideas and the $100 billion club universe also beat the S&P500.

Efficacy in down markets: We looked at months where the market was down more than 2% and compared the performances of our long portfolio, the $100 billion club itself, and the short portfolio to those months where the market was not down more than 2% in a month. The long ideas performed better in BOTH market environments.

<u>Long ideas > $100 billion market cap:</u> Full screen is shown on Slide 11, and includes all the Mag 7 except TSLA, as well as LLY, V, MA, and UNH, among others. We downgraded the Mag 7 several weeks ago, but the risk-reward for some names is now looking more attractive.

<u>Short ideas > $100 billion market cap:</u> Full screen is shown on Slide 12. The list includes TSLA, GS, PEP, CAT, and SBUX, among others.

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# THERE WERE 102 STOCKS > $100 BIL. CAP AT END OF FEB, 94 NOW

We track the number of stocks that are greater than $100 billion market cap. over time. There were 102 at the end of February (left), but 94 as of last night's close given the sell-off this month (the S&P500 is down 5.7% month-to-date). The total market cap. of the stocks in the $100 billion club are over 60% of the top 500 US Equities (right). We expect investors looking to find value in this sell-off, are looking to buy names among the safer, larger cap. universe.

Number of Companies with Market Cap. >$100 Bn.
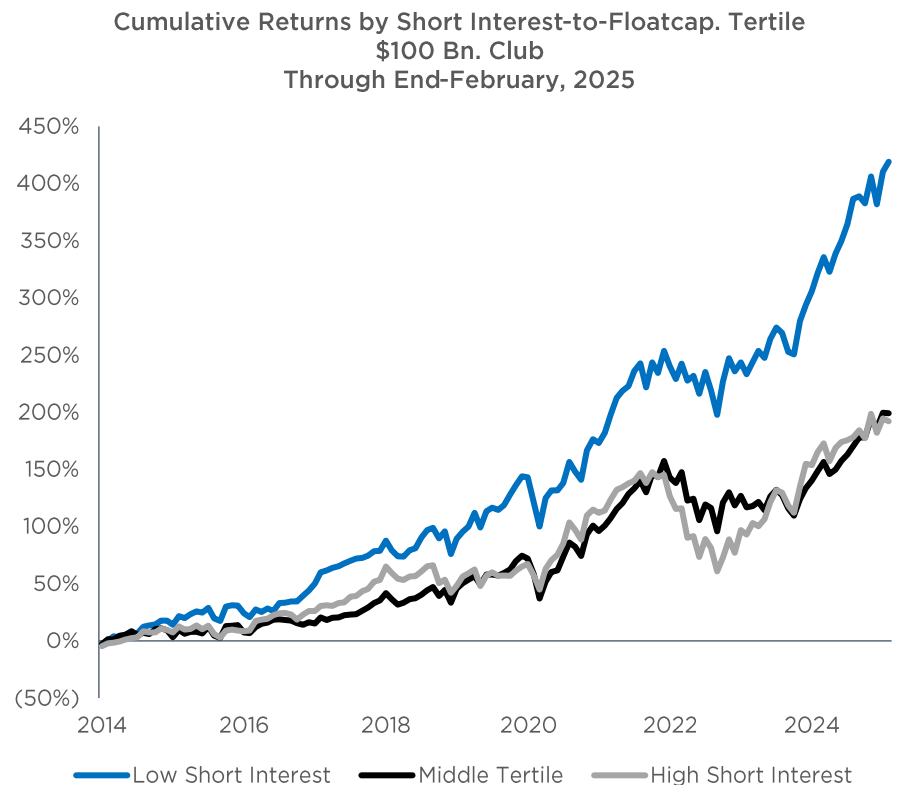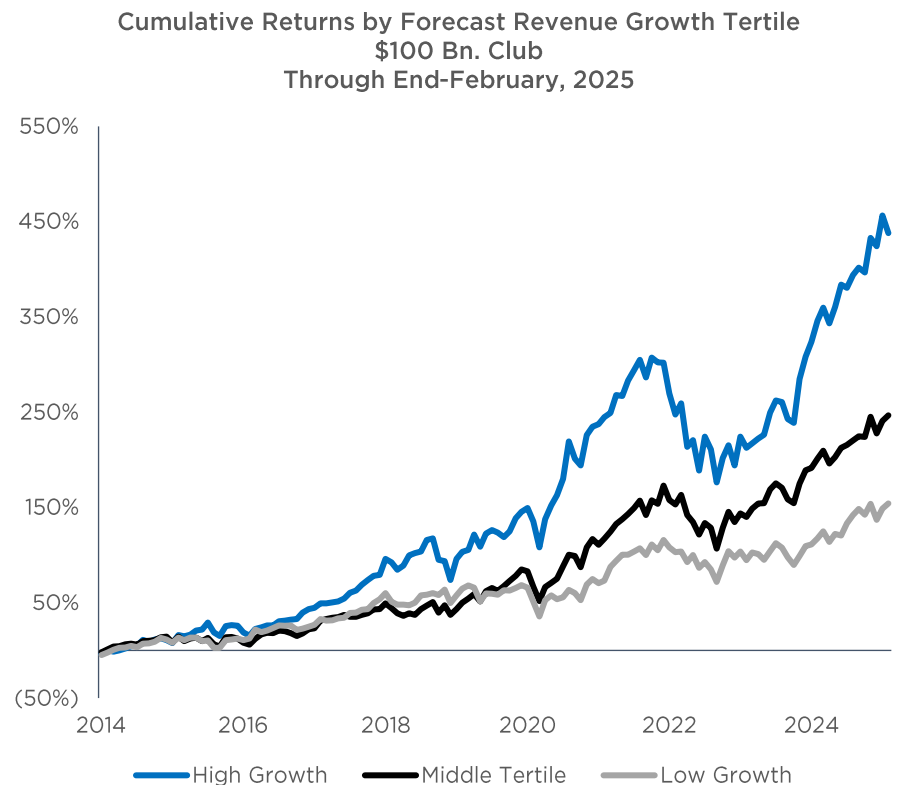**Through End-February, 2025**
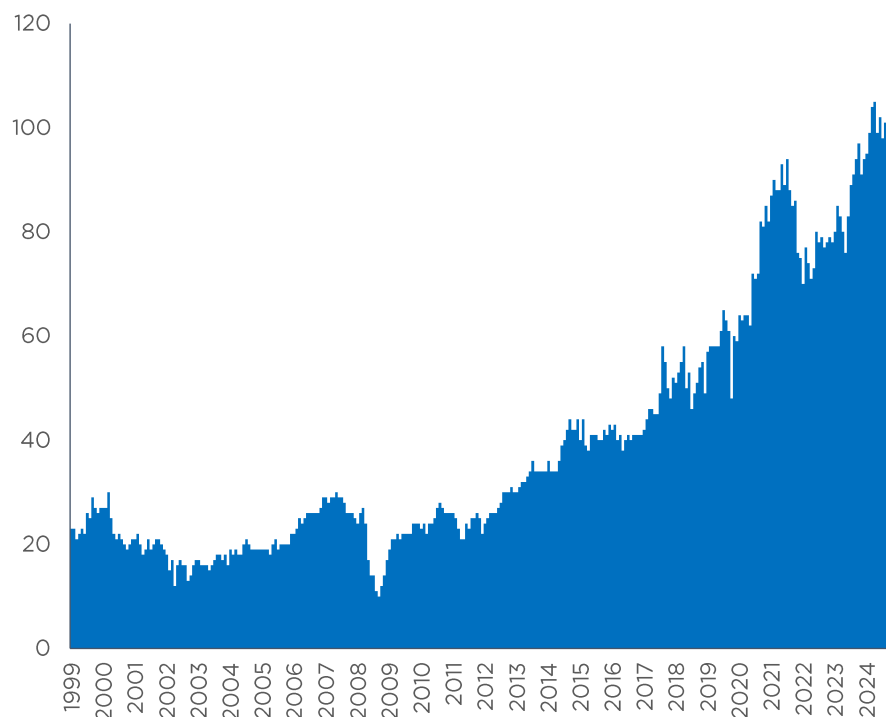
Source: Trivariate Research

$100 Bn. Club Market Cap. as a % of T500 US Equities
Through End-February, 2025
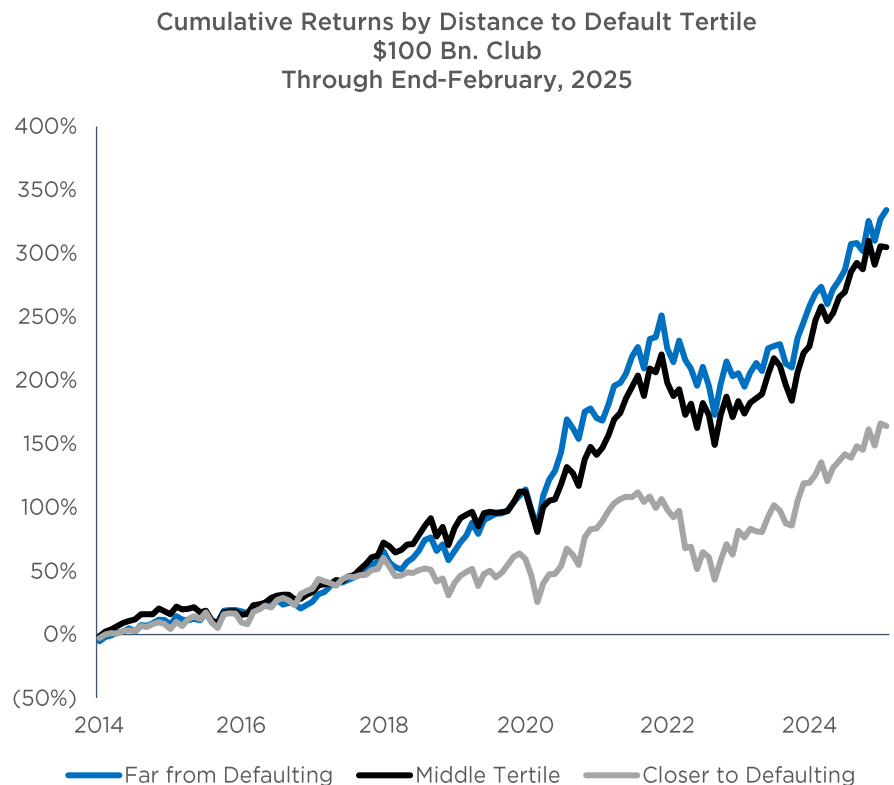
Source: Trivariate Research
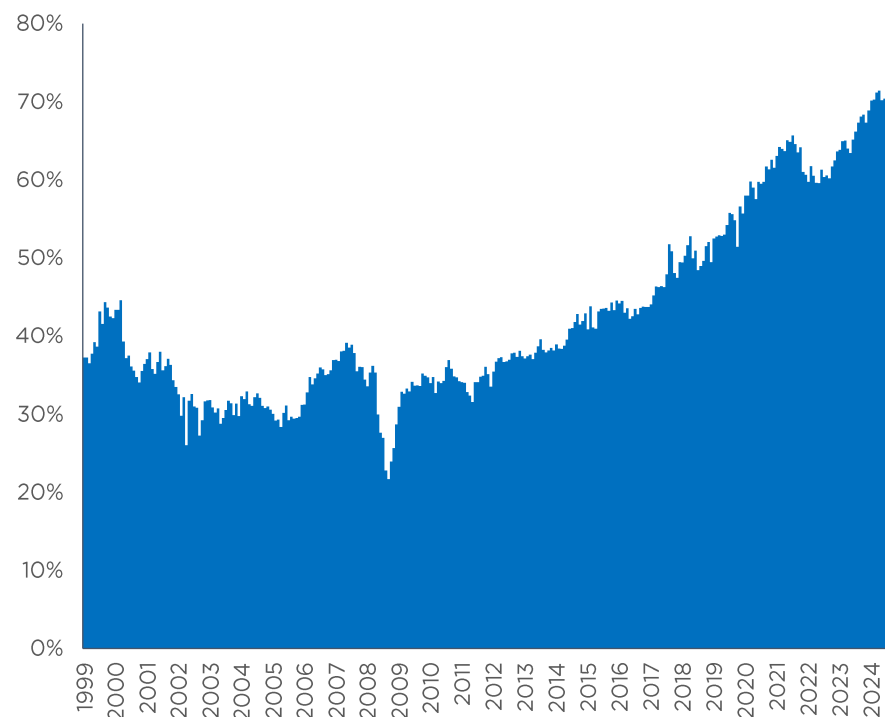
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FASTER GROWING AND LOW SHORT INTEREST STOCKS OUTPERFORM

We assessed the performance of several metrics within the stocks greater than $100 billion market cap. to see if we could systematically pick winners from losers. Companies in the top tertile of forecasted revenue growth (left) have strongly outperformed those in the lowest tertile of forecasted revenue growth. Stocks in the lowest third of short interest among the stocks greater than $100 billion in market cap. materially outperformed stocks in the higher two thirds of short interest among this large cap. cohort (right).

Cumulative Returns by Forecast Revenue Growth Tertile
$100 Bn. Club
Through End-February, 2025

High Growth — Middle Tertile — Low Growth

Source: Trivariate Research

Cumulative Returns by Short Interest-to-Floatcap. Tertile
$100 Bn. Club
Through End-February, 2025

Low Short Interest — Middle Tertile — High Short Interest
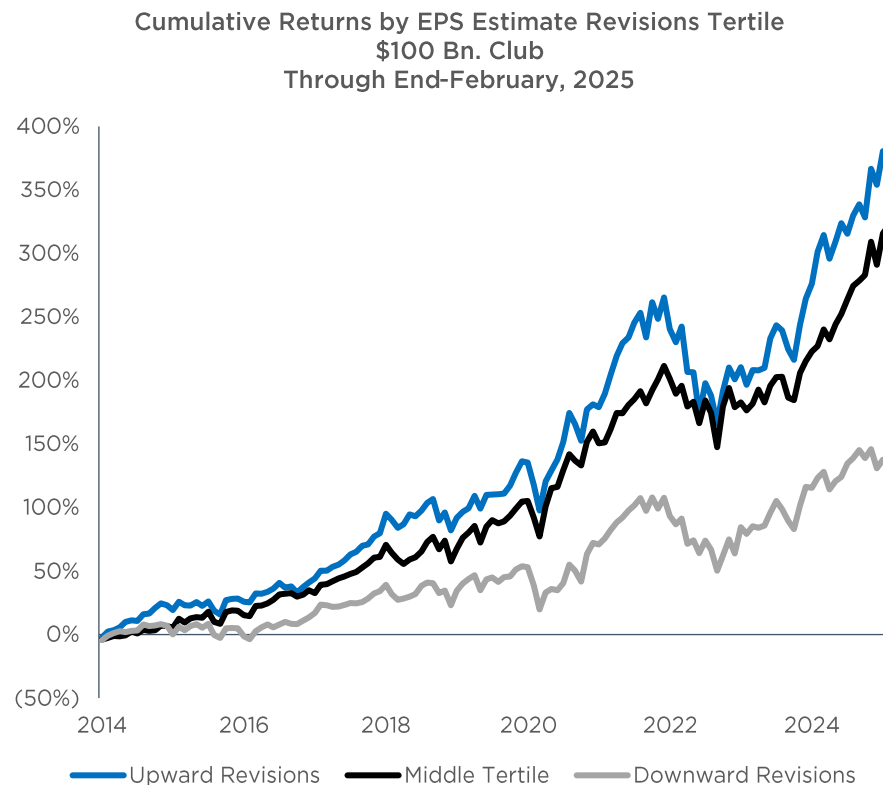
Source: Trivariate Research

LEVERAGE, VOLATILE STOCKS, AND DOWNWARD REVISIONS ARE BAD

There are other signals that helped distinguish winners from losers within the $100 billion club. Companies with closer "distance to default" materially lagged. This is a signal comprised of enterprise value-to-debt, and stock volatility, with levered balance sheets and volatile stocks inferior performers (left). Companies with downward earnings revisions also subsequently lag (right).

Cumulative Returns by Distance to Default Tertile
$100 Bn. Club
Through End-February, 2025

Legend: — Far from Defaulting — Middle Tertile — Closer to Defaulting

Source: Trivariate Research

Cumulative Returns by EPS Estimate Revisions Tertile
$100 Bn. Club
Through End-February, 2025

Legend: — Upward Revisions — Middle Tertile — Downward Revisions
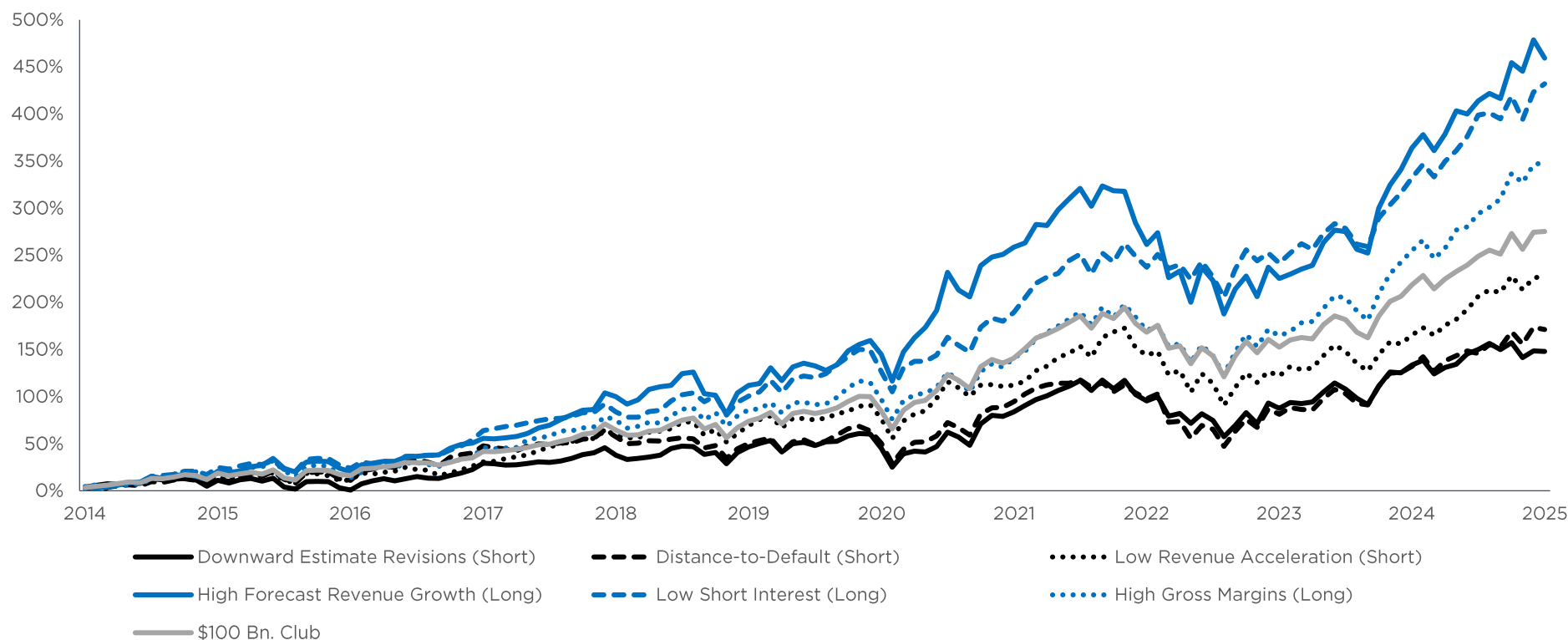
Source: Trivariate Research

OVER TIME THESE SIGNALS ADD MEANINGFUL VALUE

Below we show the cumulative returns of each factor over the last ten years, computed just among stocks that are greater than $100 billion market cap. at the beginning of each period. The best performing signal was buying the companies in the top third of forecasted revenue growth (solid blue line below). The second best was buying the one-third of companies with the lowest short interest. The worst performing signals were those in the highest third of leverage and stock volatility (distance-to-default), and those with the worst third of downward earnings revisions (the dotted and solid black lines).

Cumulative Returns of Selected Signals
$100 Bn. Club
2014 to End-February, 2025

Legend:
- Downward Estimate Revisions (Short)
- Distance-to-Default (Short)
- Low Revenue Acceleration (Short)
- High Forecast Revenue Growth (Long)
- Low Short Interest (Long)
- High Gross Margins (Long)
- $100 Bn. Club

THE LONG IDEAS AND THE $100 BILLION CLUB BEAT THE S&P500…

We took these six signals and created long and short buckets within the $100 billion club by assessing the total number of screens each stock was on. The stocks more skewed toward the "long" screens (blue line on left below) materially outperformed the $100 billion club stocks more exposed to the "short" screens. On an equally weighted basis, the long ideas beat the overall $100 billion club universe and the short ideas among the group. The long ideas and the $100 billion club universe also beat the S&P500 (right).

Cumulative Returns of $100 Bn. Club Model
Equally-Weighted, Rebalanced Monthly
Through End-February, 2025
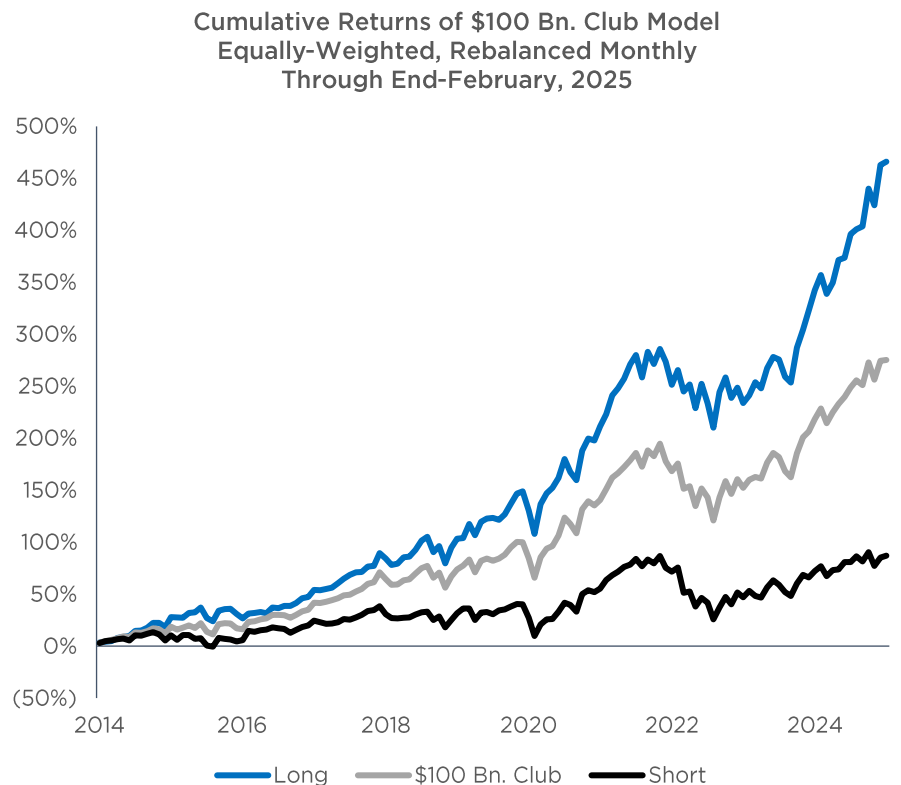
Source: Trivariate Research

Performance Statistics of $100 Bn. Club, Long & Short Baskets
Equally-Weighted, Rebalanced Monthly
2014 to End-February, 2025

Statistic	Long	$100 Bn. Club	Short	S&P500 (Equal Weight)
Annualized Mean Return	16.8%	13.0%	6.9%	10.0%
Annualized Standard Deviation	15%	14%	15%	16%
Sharpe Ratio	1.15	0.91	0.44	0.61
Hit Rate (Months)	71%	67%	62%	62%

Source: Trivariate Research

MORE IN ABSOLUTE TERMS, LESS ON RELATIVE TERMS CAP-WEIGHTED

The same was true on a cap-weighted basis, where the stocks that screened better on the six metrics outperformed those that screened poorest (left). In fact, the total performance of the long screen was better on a cap- than equally-weighted basis, though it outperformed the S&P500 by slightly less (an average of 4.2% per year) on a cap-weighted basis (right).

Cumulative Returns of $100 Bn. Club Model Cap-Weighted, Rebalanced Monthly Through End-February, 2025

Source: Trivariate Research
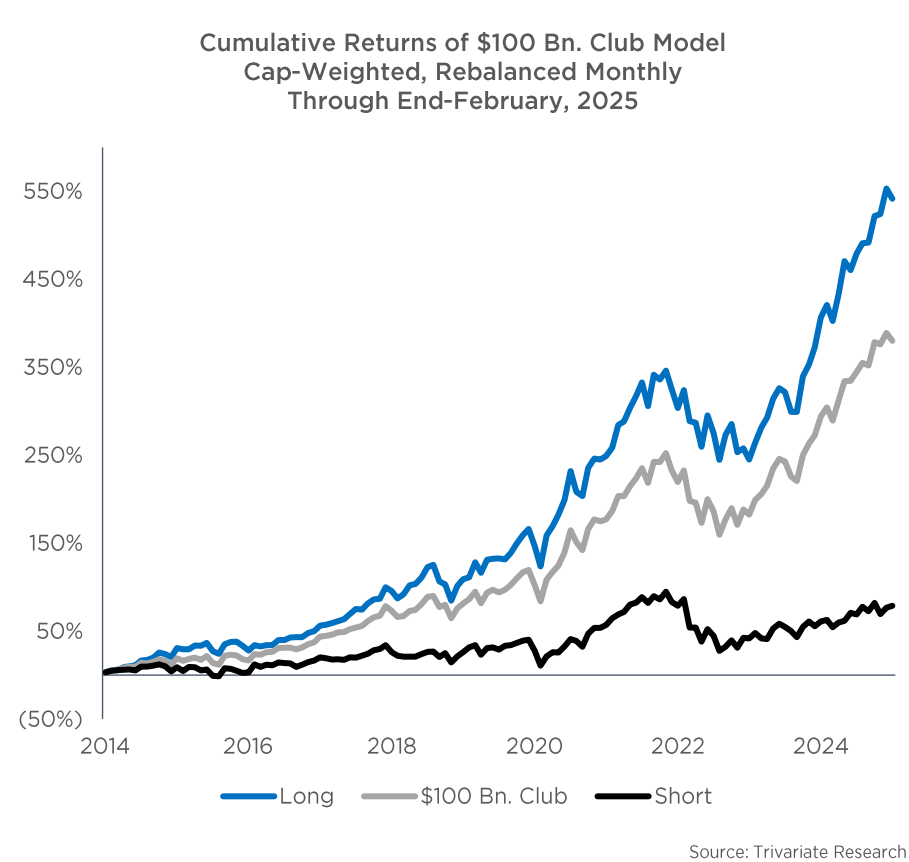
Performance Statistics of $100 Bn. Club, Long & Short Baskets Cap-Weighted, Rebalanced Monthly 2014 to End-February, 2025

Statistic	Long	$100 Bn. Club	Short	S&P500
Annualized Mean Return	18.1%	15.3%	6.6%	13.9%
Annualized Standard Deviation	16%	15%	16%	15%
Sharpe Ratio	1.14	1.02	0.41	0.94
Hit Rate (Months)	71%	68%	60%	69%

Source: Trivariate Research

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THIS FRAMEWORK WORKED IN BIG DOWN MARKETS

How do the stocks that are greater than $100 billion in market cap. do in down months? We looked at months where the market was down more than 2% and compared the performance of our long portfolio, the $100 billion club itself, and the short portfolio to those months where the market was not down more than 2% in a month. The long ideas did better in BOTH market environments, likely meaning investors should look for buy ideas in our long list.

Performance Statistics of $100 Bn. Club, Long & Short Baskets
Months Where Market is Down >2% vs. Months Where It Is Not
Equally-Weighted, Rebalanced Monthly
2014 to End-February, 2025

Statistic	Market Not Down >2% in Month				Market Down >2% in Month			
	Long	$100 Bn. Club	Short	S&P500 (Equal Weight)	Long	$100 Bn. Club	Short	S&P500 (Equal Weight)
Annualized Mean Return	36.4%	33.2%	27.9%	33.2%	(45.1%)	(50.6%)	(59.4%)	(63.4%)
Annualized Standard Deviation	11%	10%	11%	11%	10%	10%	13%	11%
Sharpe Ratio	3.40	3.34	2.63	3.02	(4.52)	(5.17)	(4.65)	(5.61)
Hit Rate (Months)	88%	88%	82%	82%	19%	0%	0%	0%
Number of Months	101	101	101	101	32	32	32	32

Source: Trivariate Research

LONG IDEAS

The stocks that screen best today are shown below. All of the Mag 7 but TSLA are on the long-list (and remember, this did not include March performance). While we downgraded the Mag 7 several weeks ago, the risk-reward is starting to look more attractive in our judgment. Looking for lower beta names on this list is likely prudent.

Long Ideas from the $100 Bn. Club Framework
As of End-February, 2025

Ticker	Company	Sector	Quality Quartile	Beta	Market Cap ($Bn.)
AAPL	Apple Inc.	Information Technology	High	0.84	3,632.9
NVDA	NVIDIA Corporation	Information Technology	High	2.78	3,048.0
MSFT	Microsoft Corporation	Information Technology	High	1.14	2,951.2
AMZN	Amazon.com, Inc.	Consumer Discretionary	Mid	1.49	2,249.7
GOOGL	Alphabet Inc.	Communication Services	High	1.28	2,086.4
META	Meta Platforms, Inc.	Communication Services	High	1.18	1,693.0
LLY	Eli Lilly and Company	Health Care	High	0.61	826.9
V	Visa Inc.	Financials	High	0.52	708.6
MA	Mastercard Incorporated	Financials	High	0.57	526.6
ORCL	Oracle Corporation	Information Technology	Low	1.72	464.5
UNH	UnitedHealth Group Incorporated	Health Care	Mid	0.25	434.5
NFLX	Netflix, Inc.	Communication Services	Mid	1.24	419.4
PG	The Procter & Gamble Company	Consumer Staples	High	(0.02)	407.6
JNJ	Johnson & Johnson	Health Care	High	(0.12)	397.3
HD	The Home Depot, Inc.	Consumer Discretionary	Mid	0.74	394.0
ABBV	AbbVie Inc.	Health Care	High	0.06	369.0
BAC	Bank of America Corporation	Financials	Mid	0.86	350.6
CRM	Salesforce, Inc.	Information Technology	High	1.25	285.0
WFC	Wells Fargo & Company	Financials	Low	0.97	257.5
ACN	Accenture plc	Information Technology	High	0.59	218.0
AXP	American Express Company	Financials	Mid	1.16	211.4
ISRG	Intuitive Surgical, Inc.	Health Care	High	1.23	204.4

Source: Trivariate Research

SHORT IDEAS

Short ideas include TSLA, GS, and some other notable names. Selling these names, particularly those with beta above 1, are probably good risk-reward.

Short Ideas from the $100 Bn. Club Framework
As of End-February, 2025

Ticker	Company	Sector	Quality Quartile	Beta	Market Cap ($Bn.)
TSLA	Tesla, Inc.	Consumer Discretionary	Low	2.69	942.4
JPM	JPMorgan Chase & Co.	Financials	High	0.83	740.0
TMUS	T-Mobile US, Inc.	Communication Services	High	0.34	307.9
CVX	Chevron Corporation	Energy	High	0.34	279.3
PM	Philip Morris International Inc.	Consumer Staples	High	0.16	241.4
IBM	International Business Machines	Information Technology	Low	0.72	234.1
MRK	Merck & Co., Inc.	Health Care	High	(0.06)	233.0
MCD	McDonald's Corporation	Consumer Discretionary	High	0.26	220.3
PEP	PepsiCo, Inc.	Consumer Staples	High	(0.07)	210.5
GS	The Goldman Sachs Group, Inc.	Financials	Low	1.35	202.8
T	AT&T Inc.	Communication Services	Mid	(0.06)	196.8
VZ	Verizon Communications Inc.	Communication Services	High	(0.04)	181.4
TXN	Texas Instruments Incorporated	Information Technology	Mid	1.26	178.4
QCOM	QUALCOMM Incorporated	Information Technology	Mid	1.72	173.7
AMGN	Amgen Inc.	Health Care	Mid	0.47	165.5
CAT	Caterpillar Inc.	Industrials	Low	1.17	164.4
UBER	Uber Technologies, Inc.	Industrials	Mid	0.91	158.8
PFE	Pfizer Inc.	Health Care	Mid	0.21	149.8
HON	Honeywell International Inc.	Industrials	Mid	0.57	138.4
CMCSA	Comcast Corporation	Communication Services	High	0.52	135.7
FI	Fiserv, Inc.	Financials	Low	0.63	132.3
SBUX	Starbucks Corporation	Consumer Discretionary	Mid	0.48	131.6

Source: Trivariate Research

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DISCLOSURES