Level Set - What Are the Best Ways to Get Defensive?

Six Ways to Play Defense

While our recent interactions with institutional investors signal that many think the S&P500 will continue to grind higher, we are also consistently asked which ”defensive” stocks look attractive. It seems clear that the “old school,” traditional defensive playbook of Pharmaceuticals, Consumer Staples, and Telecoms is a “broken play.” Hence, we sought to identify six ways to get defensive with stock ideas in the current environment in today’s Level Set.

DEFENSIVE IDEA #1: What worked last time?

While this could easily have some recency biases, our first approach is to just look at which cohorts and individual stocks performed best during the sharp sell-off earlier this year. To the extent that a tariff-related growth scare re-emerges this summer, it is likely a similar playbook will unfold, particularly when it comes to cohorts (left side below). Our highest-quality universe beat “junk” by 11.3% during the February 18th to April 8th drawdown. Value beat growth by 9.3% (see below). At the stock level, clearly some of the moves were idiosyncratic, but Celsius Holdings (Ticker: CELH), Molina (MOH), Dollar General (DG), US Steel (X), and CACI International (CACI) performed best. Scanning the list, we are not sure United Healthcare (UNH) and Humana (HUM) will perform as defense if the market weakens.

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Idea #1: What Worked Last Correction

Best Performing Cohorts During Recent S&P500 Correction
February 18th, 2025 to April 8th, 2025

Cohort	Total Return
Long High Quality, Short Junk	11.3%
Long Value, Short Growth	9.3%
Long Mid Cap, Short Small / Micro Cap.	6.4%
1-Year Momentum	4.4%
Long Mega / Large Cap, Short Mid Cap.	4.3%
3-Month Momentum	(1.3%)
Multi-Utilities Industry	(1.9%)
Beverages Industry	(2.1%)
6-Month Momentum	(2.7%)
Inflation Basket (Beta-Adjusted)	(3.4%)
Gas Utilities Industry	(4.0%)
Healthcare REITs Industry	(6.4%)
Food, Beverage & Tobacco Industry Group	(6.6%)
Household Products Industry	(7.0%)
Water Utilities Industry	(7.1%)
Electric Utilities Industry	(7.5%)
Utilities Sector	(7.6%)
Food Products Industry	(7.7%)

Best Performing Stocks During Recent S&P500 Correction
February 18th, 2025 to April 8th, 2025

Ticker	Company	Industry	Total Return
CELH	Celsius Holdings, Inc.	Beverages	49.0%
MOH	Molina Healthcare, Inc.	Healthcare Providers & Serv.	23.1%
DG	Dollar General Corp.	Cons. Staples Dist. & Retail	17.7%
X	United States Steel	Metals & Mining	15.1%
CACI	CACI International Inc	Professional Services	14.0%
COR	Cencora, Inc.	Healthcare Providers & Serv.	13.8%
ELV	Elevance Health, Inc.	Healthcare Providers & Serv.	13.1%
NOC	Northrop Grumman	Aerospace & Defense	12.0%
ED	Consolidated Edison	Multi-Utilities	11.7%
CNC	Centene Corporation	Healthcare Providers & Serv.	11.6%
HII	Huntington Ingalls Ind.	Aerospace & Defense	11.4%
UNH	UnitedHealth Group	Healthcare Providers & Serv.	10.9%
AWK	American Water Works	Water Utilities	10.8%
HUM	Humana Inc.	Healthcare Providers & Serv.	10.0%
SJM	J. M. Smucker	Food Products	9.7%
MCK	McKesson Corporation	Healthcare Providers & Serv.	9.0%

Source: Trivariate Research, LP

DEFENSIVE IDEA #2: Consistent Dividend Growth

We think companies with consistent dividend growth are likely to provide strong defense if there's a growth scare. Specifically, our past work shows that companies that have grown their dividend over the last five years and that are indicated to have continued dividend growth, as well as at least 7% forecasted sales growth and 10% forecasted earnings growth outperform. Below we show stocks like Microsoft (MSFT), Broadcom (AVGO), Visa (V), Eli Lilly (LLY) and MasterCard (MA), among others, that meet these criteria. Notably, this screen does not include valuation, as often stocks that experience multiple contraction prior to corrections perform the worst during the corrections.

Idea #2: Consistent Dividend Growth

Stocks with Consistent Dividend Growth & High Forecasted Sales & Earnings Growth

Ticker	Company	Industry	Market Cap. ($Bn.)
MSFT	Microsoft Corporation	Software	3,421.65
AVGO	Broadcom Inc.	Semiconductors & Semiconductor Equipment	1,138.20
V	Visa Inc.	Financial Services	683.69
LLY	Eli Lilly and Company	Pharmaceuticals	662.23
MA	Mastercard Incorporated	Financial Services	531.75
PM	Philip Morris International Inc.	Tobacco	281.09
INTU	Intuit Inc.	Software	210.18
NEE	NextEra Energy, Inc.	Electric Utilities	145.42
ADP	Automatic Data Processing, Inc.	Professional Services	132.14
ETN	Eaton Corporation plc	Electrical Equipment	125.29
APH	Amphenol Corporation	Electronic Equipment, Instruments & Components	108.78
ADI	Analog Devices, Inc.	Semiconductors & Semiconductor Equipment	106.19
LRCX	Lam Research Corporation	Semiconductors & Semiconductor Equipment	103.34
KLAC	KLA Corporation	Semiconductors & Semiconductor Equipment	100.09
WM	Waste Management, Inc.	Commercial Services & Supplies	96.95

Source: Trivariate Research, LP

DEFENSIVE IDEA #3: Predictable earnings

When the market pulls back, stocks that have more predictable earnings estimates often relatively outperform. We use "narrow estimate dispersion" as a proxy for this, as these are businesses where an economic slowdown does not typically create significant P&L volatility. These "easy to predict" businesses that are forecasted to grow earnings and are relatively cheap on price-to-forward earnings vs. their own histories (in the cheapest half) also have low standard deviations of analyst earnings estimates. Stocks include Salesforce.com (CRM), Eaton (ETN), Southern Company (SO), Duke Energy (DUK), and Motorola Solutions (MSI) among others (see below).

Idea #3: Predictable Earnings

Stocks with Narrow Estimate Dispersion, Forecasted EPS Growth, and Cheap on Price-to-Forward Earnings

Ticker	Company	Industry	Market Cap. ($Bn.)
CRM	Salesforce, Inc.	Software	253.69
ETN	Eaton Corporation plc	Electrical Equipment	125.29
SO	The Southern Company	Electric Utilities	98.91
DUK	Duke Energy Corporation	Electric Utilities	91.5
MSI	Motorola Solutions, Inc.	Communications Equipment	69.33
XEL	Xcel Energy Inc.	Electric Utilities	40.43
WEC	WEC Energy Group, Inc.	Multi-Utilities	34.29
CNP	CenterPoint Energy, Inc.	Multi-Utilities	24.43
CPAY	Corpay, Inc.	Financial Services	22.92
CMS	CMS Energy Corporation	Multi-Utilities	21.01
DGX	Quest Diagnostics Incorporated	Health Care Providers & Services	19.35
NI	NiSource Inc.	Multi-Utilities	18.61
LNT	Alliant Energy Corporation	Electric Utilities	15.99
MMSI	Merit Medical Systems, Inc.	Health Care Equipment & Supplies	5.62
POR	Portland General Electric Company	Electric Utilities	4.64

Source: Trivariate Research, LP

DEFENSIVE IDEA #4: Stocks With Good Momentum in Industries that Work in Downturns

Stocks in industries that work in downturns: We also analyzed the industries that typically outperform when the market pulls back in case getting more defensive in the portfolio turns out to be prudent before year-end. The industries that on average performed the best during the last ten S&P500 downturns of 10% or more include Utilities, Household Products, Tobacco, and Beverages. Obviously, Procter & Gamble (PG) has been hurt by recent earnings misses and the GLP-1 drugs have harmed select stocks like Pepsi (PEP) by impacting snacking, but we wouldn't be surprised to see Utilities, Tobacco, and Distribution continue to perform well in a market sell-off.

Idea #4: Industries that Work in Downturns

Idea #4 Identify Industries That Work Best In Downturns...

Best Performing Industries During Last 10 S&P500 Downturns of 10% or More

Industry	Median Performance During Downturns	Price-to-Forward Earnings	Market-Relative Price-to-Forward Earnings	Percentile vs. Own History	Largest 3 Companies
Gas Utilities	(3.5%)	16.6x	0.8x	20%	ATO, UGI, NFG
Water Utilities	(5.0%)	21.6x	1.0x	11%	AWK, WTRG, AWR
Multi-Utilities	(5.6%)	19.0x	0.9x	47%	SRE, D, PEG
Electric Utilities	(6.1%)	19.1x	0.9x	50%	NEE, SO, CEG
Household Products	(7.3%)	19.4x	0.9x	14%	PG, CL, KMB
Tobacco	(8.6%)	15.3x	0.7x	49%	PM, MO, UVV
Beverages	(9.8%)	21.8x	1.0x	37%	KO, PEP, MNST
Food Products	(10.2%)	15.5x	0.7x	4%	MDLZ, HSY, KHC
Distributors	(12.1%)	16.3x	0.8x	20%	GPC, POOL, LKQ

Source: Trivariate Research, LP

Instead of searching for cheap stocks in these industries, where often valuation indicates a problem, we identified those that had positive momentum but were not in the most expensive quintile vs. their own histories. Altria (MO), Xcel (XEL), NRG Energy (NRG), Ameren (AEE), and Primo Water (PRMB) are among those that screen well.

Idea #4: ...Then Find Stocks in those Industries

Stocks in Industries that Work in Downturns With Good Price Momentum And Not Expensive on Price-to-Forward Earnings vs. History

Ticker	Company	Industry	Market Cap. ($Bn.)
MO	Altria Group, Inc.	Tobacco	102.09
XEL	Xcel Energy Inc.	Electric Utilities	40.43
NRG	NRG Energy, Inc.	Electric Utilities	30.48
AEE	Ameren Corporation	Multi-Utilities	26.18
PRMB	Primo Brands Corporation	Beverages	12.34
PPC	Pilgrim's Pride Corporation	Food Products	11.66
UGI	UGI Corporation	Gas Utilities	7.73
NFG	National Fuel Gas Company	Gas Utilities	7.46
OKLO	Oklo Inc.	Electric Utilities	7.33

Source: Trivariate Research, LP

DEFENSIVE IDEA #5: Low Beta Defensives

An obvious way to protect a portfolio in a market correction is to buy low-beta stocks. Below are stocks that are low-beta (less than 0.6), are forecasted to grow earnings, and are cheap on price-to-forward earnings vs. their histories (bottom quintile). These are defensive, low-beta companies, with some earnings growth at a reasonable price. Names include Merck (MRK), Verizon (VZ), Pepsi (PEP), Medtronic (MDT), and CVS Health (CVS), among others.

Idea #5: Defensives with Low Beta and Reasonable Valuation

Stocks with Low Beta, Forecasted EPS Growth, Cheap on Price-to-Forward Earnings vs. History

Ticker	Company	Industry	Market Cap. ($Bn.)	Beta
MRK	Merck & Co., Inc.	Pharmaceuticals	192.95	0.32
VZ	Verizon Communications Inc.	Diversified Telecommunication Services	185.35	0.10
PEP	PepsiCo, Inc.	Beverages	180.23	0.16
MDT	Medtronic plc	Health Care Equipment & Supplies	106.37	0.44
CVS	CVS Health Corporation	Health Care Providers & Services	81.01	0.37
AEM	Agnico Eagle Mines Limited	Metals & Mining	59.30	0.30
BDX	Becton, Dickinson and Company	Health Care Equipment & Supplies	49.47	0.47
EA	Electronic Arts Inc.	Entertainment	36.06	0.36
SYY	Sysco Corporation	Consumer Staples Distribution & Retail	35.39	0.33
KHC	The Kraft Heinz Company	Food Products	31.64	0.27
CNC	Centene Corporation	Health Care Providers & Services	28.08	0.15
QSR	Restaurant Brands International Inc.	Hotels, Restaurants & Leisure	23.40	0.44
AMCR	Amcor plc	Containers & Packaging	20.87	0.54
ZBH	Zimmer Biomet Holdings, Inc.	Health Care Equipment & Supplies	18.24	0.31
MOH	Molina Healthcare, Inc.	Health Care Providers & Services	16.53	0.15

Source: Trivariate Research, LP

DEFENSIVE IDEA #6: Positive Alpha and Uncorrelated to Semiconductors

Two of the big challenges for investing in the past 18 months have been how correlated the returns of the growth themes are and how much the Semiconductor industry seems to be influencing total returns. Most portfolio managers are attracted to the high and increasing growth potential of "compute" and therefore own various parts of the "AI chain." Hence, we thought attractive defense could include stocks with positive trailing alpha over the last 12 months, low correlation to Semiconductors, positive forecasted revenue growth, and forecasted gross margin expansion. Below we show two sets of ideas, one in ex-Financials and one only Financials. The top exhibit includes Duke (DUK), Exelon (EXC), Southern Company (SO), American Tower (AMT), and AT&T (T), among others.

Idea #6: Positive Alpha and Uncorrelated to Semiconductors, Non-Financials

Stocks with Positive Alpha Over Last 12 Months and Low Correlation to Semiconductors, Ex-Financials				
Ticker	Company	Industry	Market Cap. ($Bn.)	Correlation to Semiconductor Basket
DUK	Duke Energy Corporation	Electric Utilities	91.12	(26%)
EXC	Exelon Corporation	Electric Utilities	44.21	(25%)
SO	The Southern Company	Electric Utilities	98.85	(21%)
AMT	American Tower Corporation	Specialized REITs	100.23	(21%)
T	AT&T Inc.	Diversified Telecom. Services	200.97	(17%)
COR	Cencora, Inc.	Health Care Providers & Services	56.61	(16%)
JNJ	Johnson & Johnson	Pharmaceuticals	373.90	(16%)
KO	The Coca-Cola Company	Beverages	309.91	(16%)
WEC	WEC Energy Group, Inc.	Multi-Utilities	34.22	(15%)
CMS	CMS Energy Corporation	Multi-Utilities	21.00	(15%)
SBAC	SBA Communications Corporation	Specialized REITs	24.83	(12%)
XEL	Xcel Energy Inc.	Electric Utilities	40.22	(9%)
NOC	Northrop Grumman Corporation	Aerospace & Defense	69.57	(8%)
PM	Philip Morris International Inc.	Tobacco	284.45	(8%)
MCK	McKesson Corporation	Health Care Providers & Services	90.30	(7%)
AEE	Ameren Corporation	Multi-Utilities	26.26	(6%)

Source: Trivariate Research, LP

The ideas uncorrelated to Semiconductors with alpha in Financials, sorted by correlation, include CBOE, CME, Progressive (PGR), Chubb (CB), and Arthur Gallagher (AJG), among others.

Idea #6: Uncorrelated to Semis that Have Generated Alpha, Financials

Stocks with Positive Alpha Over Last 12 Months and Low Correlation to Semiconductors, Financials				
Ticker	Company	Industry	Market Cap. ($Bn.)	Correlation to Semiconductor Basket
CBOE	Cboe Global Markets, Inc.	Capital Markets	24.20	(34%)
CME	CME Group Inc.	Capital Markets	104.76	(26%)
PGR	The Progressive Corporation	Insurance	169.27	1%
CB	Chubb Limited	Insurance	120.04	6%
AJG	Arthur J. Gallagher & Co.	Insurance	89.32	8%
WTW	Willis Towers Watson	Insurance	31.46	8%
ALL	The Allstate Corporation	Insurance	56.31	9%
THG	The Hanover Insurance Group, Inc.	Insurance	6.39	11%
RYAN	Ryan Specialty Holdings, Inc.	Insurance	9.11	12%
BRO	Brown & Brown, Inc.	Insurance	32.50	14%
AON	Aon plc	Insurance	81.23	14%
MMC	Marsh & McLennan Companies, Inc.	Insurance	115.67	15%
TRV	The Travelers Companies, Inc.	Insurance	62.61	15%
GSHD	Goosehead Insurance, Inc	Insurance	2.80	16%
SKWD	Skyward Specialty Insurance Group	Insurance	2.63	20%
AFL	Aflac Incorporated	Insurance	56.12	21%
KNSL	Kinsale Capital Group, Inc.	Insurance	11.03	21%
TW	Tradeweb Markets Inc.	Capital Markets	30.84	24%
HIG	The Hartford Insurance Group, Inc.	Insurance	36.90	24%

Source: Trivariate Research, LP

Conclusion

We think the risk-reward for the S&P500 is at best mixed, given the risk to lower margins from tariffs and the elevated valuations. Hence, identifying attractive defensive strategies seems prudent. Sifting through our work, stocks like CBOE / CME, AMT, SO, PRMB (which just raised prices on Trivariate), and DGX are among those that caught our attention. Please don't hesitate to reach out with any follow-ups or questions.

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.

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