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TRIVARIATE RESEARCH

25 SLIDES FOR THE SECOND HALF OF 2025

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OUTLINE: 25 SLIDES FOR THE SECOND HALF OF 2025

Part 1: Earnings and Margins

Part 2: Risk Management

Part 3: Frameworks

Part 4: Sector and Industry Ideas

Part 5: Available Alpha

Part 6: Management Decision-Making

PART 1 OUTLINE: EARNINGS AND MARGINS

- <u>Background:</u> We started 2025 with a view that the US equity market would be down and volatile in the first half of the year, with policies like tariffs not in the price. That was a great call until early April, but we have been caught off guard by the subsequent rally, borne from the best quant signal ever, President Trump saying to buy equities. Our barbell strategy was too conservative in Q2, as a hyper growth junk rally was really the best way to play most of the second quarter.
- <u>Contrarian to be very bullish?:</u> We see both the bull and bear cases as possible, but our sense from our recent meetings is that while many investors have negative rhetoric, they are not positioned particularly defensively, for fear of not participating in the current uptrend. Moreover, from our marquee event in late June and in subsequent investor conversations, we sense it is contrarian to be very bullish. This, combined with our judgment about AI and margins, <u>leads us to be bullish on US equities for the next 12-to-18 months. We see the S&P500 above 7000 before the end of 2026, if not sooner.</u>
- <u>Why are we skewing toward the Bull case?:</u> The top 50 companies are relatively immune from higher inflation, a dynamic that was made crystal clear post-COVID. They account for nearly 50% of the gross profit dollars of the S&P500. Moreover, lower input costs like commodities and oil, tame logistics expenses, and a weakening dollar might all help the earnings outlook for the second half of 2025. AI productivity and revenue synergies likely help 2026 and 2027 earnings. We don't see the market performing poorly with double-digit EPS growth.
- The bear case is a back-up in bond yields or a material slowdown in the US consumer. These are possible, but not likely unless policies materially change.
- <u>Long-term, we think the S&P500 can get to 10000 by 2030, with 10% per year EPS growth and a low 20s price-to-forward earnings ratio justified by higher gross margins.</u>

THE TIME IS NOW TO GET MORE BULLISH ON AI DEPLOYMENT

We see AI helping in both revenue growth and cost reductions in the coming two years.

Revenue growth:

- Personalization: Sales cycles will include custom recommendations and higher conversions, something we all see everyday on our devices but will happen more broadly at the larger-scale corporate level.
- Innovation: Generative AI will create new services, features, maybe even new product lines more rapidly. The companies using AI productively will gain share of spending from the overall spending pie.
- Sales: AI CRM tools optimize and prioritize leads.

Cost efficiencies:

- Automation: We are all deploying AI as much as possible to automate repetitive work: Obviously, this includes data entry and HR onboarding, but also healthcare intake information, legal review, customer service, predicting employee behavior, etc.
- Optimization: Closing the time gap between production and consumption to optimize inventory, factory productivity and down time.
- Software development: Coding assistants will decrease time to market and coding costs.
- Labor support: AI can help researchers, marketers, and designers be more productive without retraining costs by evaluating / observing real-time and creating efficiencies. This increases revenue per employee.

Those who have and are investing will benefit from first-mover success – better products, lower per unit costs, share gain, etc.

WHY NOW?

The initial investments were 2.5 years ago. Nvidia's initial upward sales revision was in May of 2023. By 2026 and 2027 the impact of AI investments are going to widen the performance gaps between those who have been investing and those who haven't, driving higher inter-sector dispersion and probably sparking M&A activity as firms that have lagged seek to gain exposure. The initial euphoria around the Red Sweep in the Fall of 2024 becomes more of a fundamental reality in 2026 and 2027, and our incremental bullishness embeds that broader-based AI implementation is imminent.

Sector examples:

Financials: There are SO many ways efficiencies can be gained by Banks, Insurance, and Investment Management. With millions of customers and employees, the industry will continue to get better at predicting customer and employee behavior and driving out costs while more effectively cross-selling. New products, better trading and portfolio construction, and improved security are happening already.

Healthcare: We are very bullish on task automation (no more clipboards at the Dr's office), AI-assisted diagnostics, and ultimately even drug discovery.

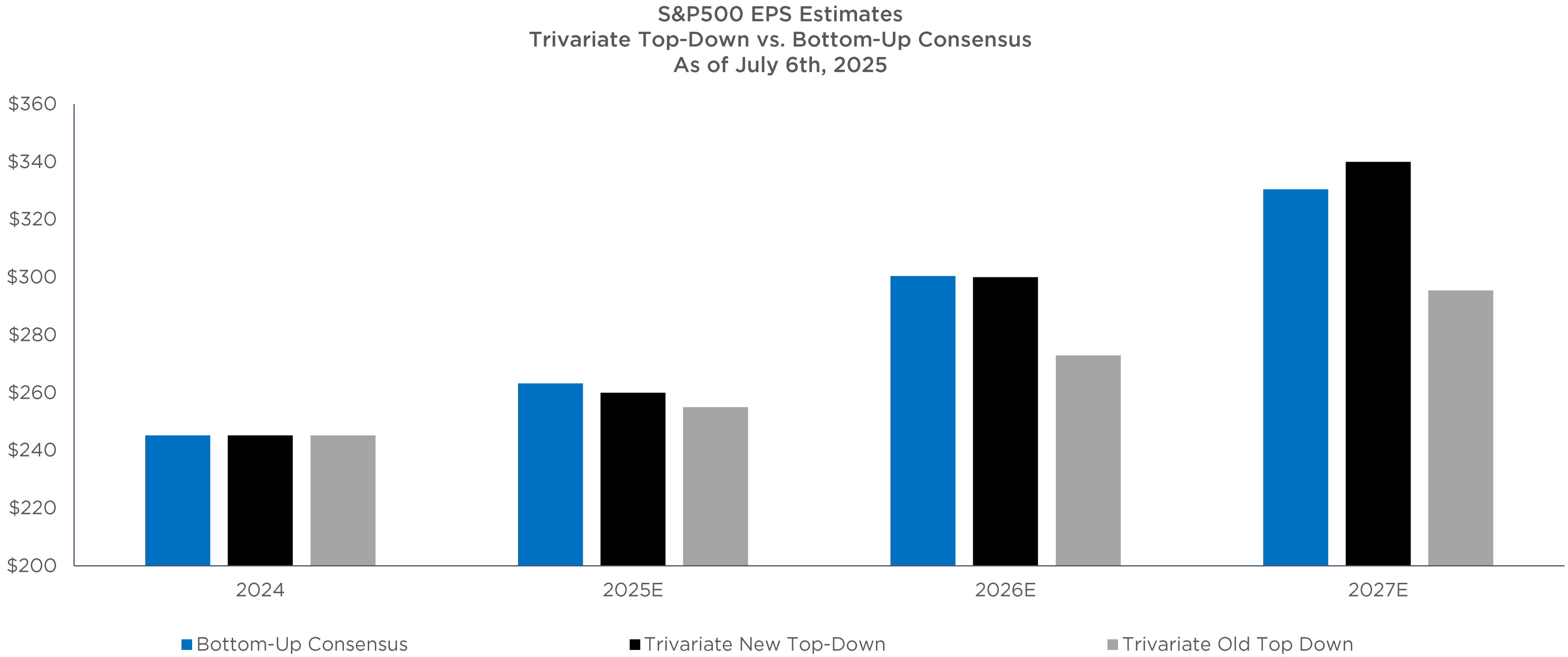
Industrials: AI-led quality control, robotics coordination (Amazon recently said they have more robots than humans in certain facilities), and supply chain automation increase revenue and reduce costs.

The result of all of this is that we are RAISING our 2026 and 2027 EPS estimates. We now – for the first time in a long time – see the bottom-up consensus estimates as possibly achievable for a year forward.

Source: Trivariate Research

SLIDE 1: AI IS FUELING OUR DECISION TO RAISE OUR EPS ESTIMATES

Below we show Trivariate's new top-down EPS estimates vs. the bottom-up sell-side consensus estimates. We have raised our 2026 EPS estimates to $300, in-line with the bottom-up consensus. There is no official bottom-up 2027 forecast as of now, bit we assume 10% growth to $330 as a reasonable consensus forecast. We currently forecast $340 in 2027 S&P500 earnings. We see these next two years as the step change in earnings for the S&P500 that comes from AI investments. We had previously forecasted 7% and 9% growth for the S&P500 EPS in 2026 and 2027. We now see 15% and 13% growth.



Source: Trivariate Research

SLIDE 2: CAN THE S&P500 GET TO 10000 BY 2030?

Below we show a range of price-to-forward earnings multiples (from 15x to 25x) on the y-axis and a range of per year earnings growth assumptions (from 5% to 15%) from now through 2031 on the x-axis. The cells that populate the table are the year-end 2030 S&P500 price, depending on the earnings growth and valuation assumptions. The black cells show assumptions that justify the S&P500 around 10000 by 2030. For instance, paying 23x a market that grows 9% per year, or 20x a market that grows 12% per year would both yield a 10000 S&P500 by the end of the decade. <u>We don't think it is unreasonable that with the benefits of AI productivity in front of us, that paying 22x a market that grows earnings at 10% could happen!</u>

	Current Bottom-Up Estimates Are $263 for 2025, We Assume $260 For This Analysis Annualized EPS Growth Assumptions										
Multiple on 2031EPS	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
15x	5126	5426	5740	6070	6415	6776	7154	7550	7963	8396	8847
16x	5468	5788	6123	6474	6843	7228	7631	8053	8494	8955	9437
17x	5809	6149	6506	6879	7270	7680	8108	8557	9025	9515	10027
18x	6151	6511	6888	7284	7698	8131	8585	9060	9556	10075	10617
19x	6493	6873	7271	7688	8126	8583	9062	9563	10087	10635	11207
20x	6834	7234	7654	8093	8553	9035	9539	10066	10618	11194	11797
21x	7176	7596	8036	8498	8981	9487	10016	10570	11149	11754	12386
22x	7518	7958	8419	8902	9409	9938	10493	11073	11680	12314	12976
23x	7860	8320	8802	9307	9836	10390	10970	11576	12211	12874	13566
24x	8201	8681	9184	9712	10264	10842	11447	12080	12742	13433	14156
25x	8543	9043	9567	10116	10692	11294	11924	12583	13272	13993	14746

Source: Trivariate Research

SLIDE 3: 5 OF THE 11 SECTORS HAVE DECLINING EARNINGS IN Q2

Current bottom-up earnings expectations are for 7.4% growth in 2025, and 14.1% in 2026. Analysts are forecasting Energy, Consumer Staples, and Consumer Discretionary stocks to have declining year-over-year earnings in 2025. The highest 2025 bottom-up earnings expectations are in Technology, Communication Services, and Healthcare. For Q2, 5 of the 11 sectors are forecasted to have a year-over-year earnings decline. Given this, there are clear opportunities for growth in 2026 against easier compares.

Bottom-Up Analyst Earnings Growth Expectations
July 6th, 2025

Sector	2024	1Q25	2Q25E	3Q25E	4Q25E	2025E	2026E
S&P 500	9.5%	12.6%	4.3%	6.9%	6.1%	7.4%	14.1%
S&P ex-Financials	8.3%	14.4%	5.0%	6.8%	6.9%	8.1%	14.3%
Consumer Discretionary	14.9%	7.4%	(6.0%)	(2.4%)	(2.9%)	(1.4%)	13.7%
Consumer Staples	3.0%	(6.3%)	(3.2%)	0.5%	4.5%	(1.1%)	7.9%
Energy	(23.8%)	(18.9%)	(26.8%)	(8.4%)	(1.1%)	(14.7%)	20.6%
Financials	15.0%	5.0%	1.4%	7.6%	2.7%	4.1%	13.5%
Health Care	1.9%	41.8%	2.3%	5.8%	8.1%	12.8%	10.8%
Industrials	(0.5%)	8.9%	(0.5%)	17.8%	0.5%	6.1%	16.6%
Info Tech	23.0%	18.8%	16.8%	16.2%	14.5%	16.4%	19.4%
Materials	(11.8%)	(3.5%)	(3.5%)	14.6%	16.6%	5.3%	14.9%
Communication Services	21.5%	27.6%	29.8%	1.9%	3.5%	14.2%	9.1%
Utilities	20.3%	6.6%	0.8%	(0.6%)	9.0%	3.6%	10.2%
Real Estate	3.1%	5.1%	1.5%	3.9%	3.8%	3.6%	6.9%

Source: Trivariate Research

SLIDE 4: PRICING DOMINATES TRANSCRIPTS, AVOID PASS THROUGH

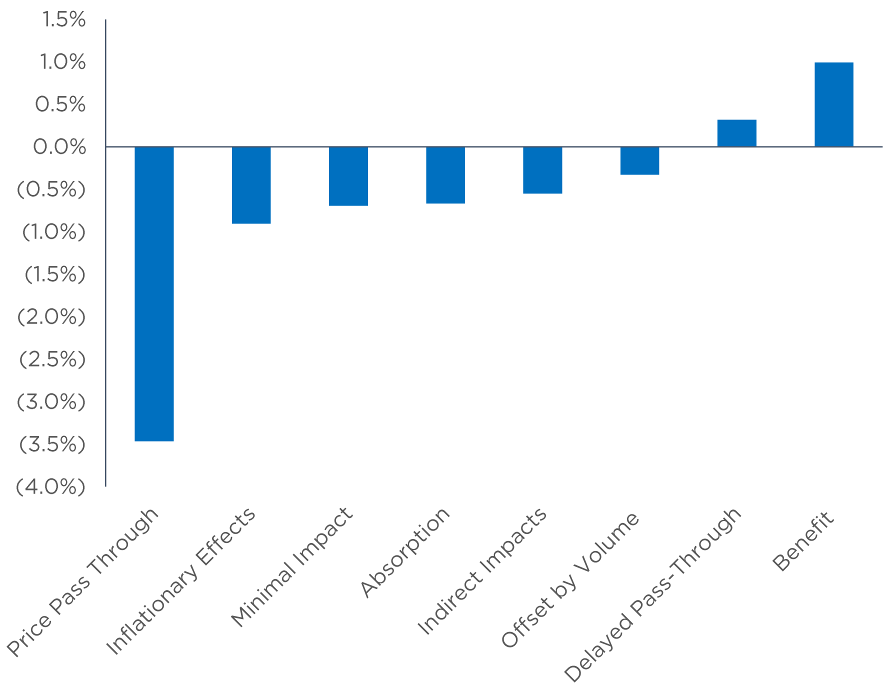
We searched every earnings call transcript, bucketed the key tariff- / pricing-related categories. Pricing, capital spending, labor, inventory, supply chain, and China are all among the key areas that impact margins (left). We also evaluated the stock performance of those mentioning certain issues -those saying tariffs benefitted them, unsurprisingly performed best (right). Those who commented on pricing pass through or inflationary effects have lagged on a relative basis.

Topics Discussed by T500 Stocks When They Mentioned Tariff In 2025
As of End-June, 2025

Topic	Subtopic	Company Count	Top 5 Tickers
Pricing	Pass-on Pricing	140	AMZN, TSLA, WMT, HD, BAC
	Price Increase	19	NVDA, AAPL, WMT, LLY, JNJ
CapEx	CapEx Decision/Delay	83	JPM, BAC, ABT, ISRG, VZ
	U.S. Manufacturing Investment	77	AAPL, LLY, JNJ, ABBV, GE
Labor	Layoffs and Labor Costs	10	CB, GM, VRSK, CAH, HPE
	Hiring/U.S. Workforce	9	LIN, HWM, CHTR, GLW, NI
	Automation	7	TEL, RMD, JBL, PNR
Inventory	Lead Time & Pre-Buying	103	MSFT, NVDA, AAPL, AMZN, WMT
	Distorted Backlog/Order Patterns	53	NVDA, WMT, JPM, ABBV, CSCO
Supply Chain	Disruption & Diversification	219	NVDA, AAPL, TSLA, WMT, JPM
	Shortage	11	JNJ, NEE, BMY, GWW, SRE
Country	China	190	NVDA, AAPL, AMZN, TSLA, WMT

Source: Trivariate Research

Tariff Topics: Impact on Pricing
Average Industry-relative Return Since Latest Earnings
Through End-June, 2025

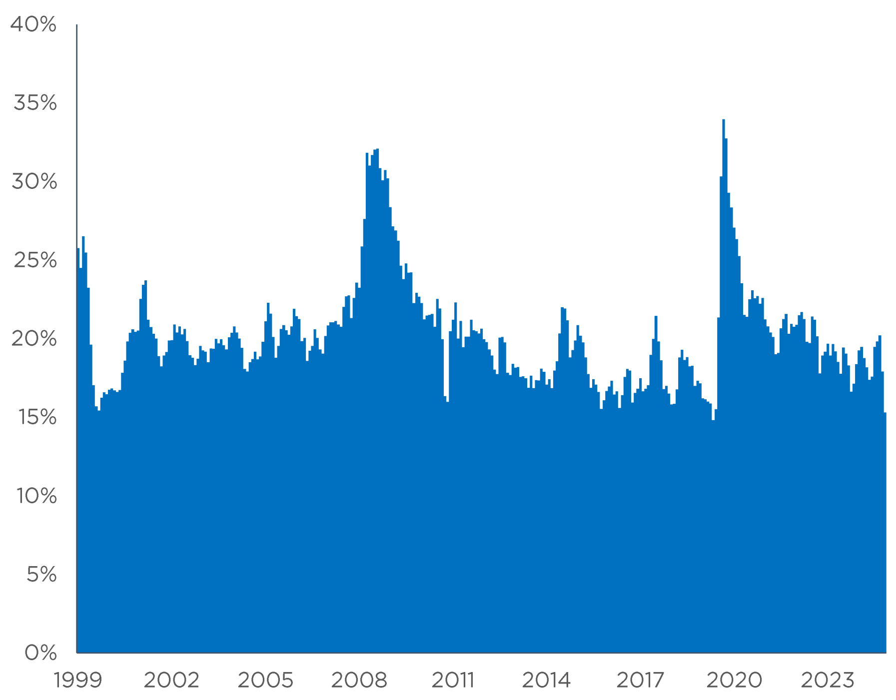


Source: Trivariate Research

SLIDE 5: WE'RE NOT SURE FEWER REVISIONS THAN AVG. MAKES SENSE

It does seem to us somewhat unusual that the sell-side has not proactively cut estimates more than the long-term average heading into Q2 earnings season. Below we show the percentage of analyst earnings revisions to EPS that are more than 2% over rolling 3-month window, and so far, this year, there has a below average trend to meaningful revisions (left). We had previously thought it was obvious there needed to be downward revisions, but there may be enough other cost offsets and price increases that the biggest companies can "power through." A large percentage of companies in Software, Semiconductors, and Capital Goods are forecasted to have gross margin expansion in the next 12 months (right), despite the tariff implementations.

Percent of Revisions to EPS Consensus Mean That Are >2%
3-Month Rolling Average
Through End-June, 2025



Source: Trivariate Research

% of Stocks with Forecasted Gross Margin Expansion
Top 500 US Equities
As of July 3rd, 2025

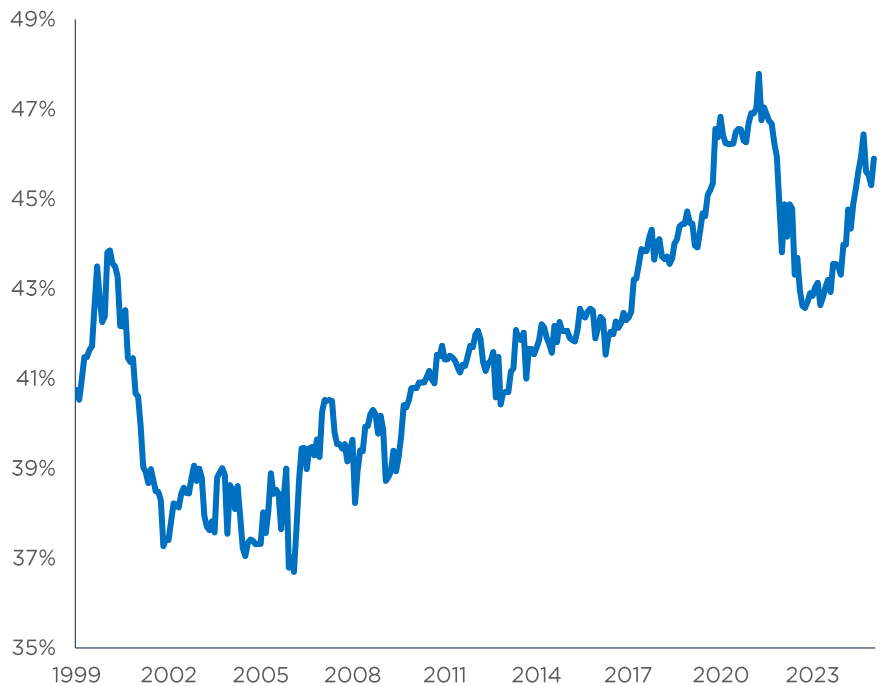
Industry Group	% with Forecast Gross Margin Expansion
Software & Services	83.7%
Semiconductors & Semiconductor Equipment	76.5%
Capital Goods	76.0%
Materials	71.4%
Energy	71.4%
Media & Entertainment	69.2%
Top 500	68.6%
Pharmaceuticals, Biotech. & Life Sciences	68.4%
Technology Hardware & Equipment	68.2%
Consumer Discretionary Distribution & Retail	64.7%
Commercial & Professional Services	64.3%
Health Care Equipment & Services	64.0%
Food, Beverage & Tobacco	62.5%
Consumer Services	46.2%
Consumer Staples Distribution & Retail	37.5%
Transportation	37.5%
Telecommunication Services	33.3%
Automobiles & Components	33.3%
Household & Personal Products	33.3%
Consumer Durables & Apparel	28.6%

Source: Trivariate Research

SLIDE 6: THE MEDIAN STOCK'S GROSS MARGINS INCREASED IN JUNE

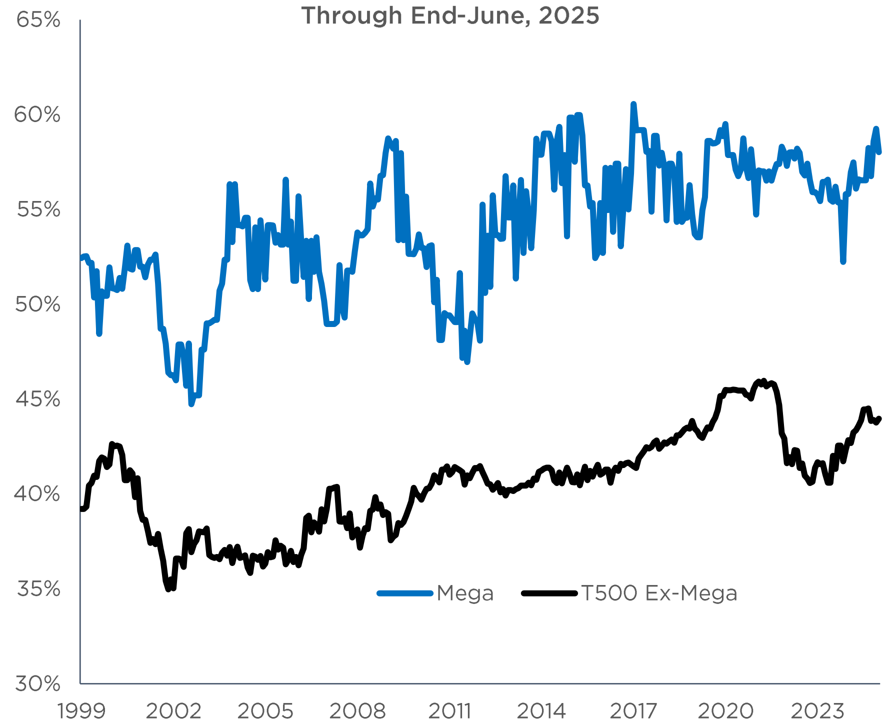
Gross margins for the median stock sharply declined beginning in September of 2021, as inflation grew (left), though the absolute level clearly bottomed in 2023. Margins rose until February of this year for the median stock, declined, over 100bps from March to May, but ticked up again in June. The median mega-cap company's margins (58.0%) are higher than earlier in the year, and much higher than the rest of the market ex-mega cap (44.0%). The rest of the non-mega companies have potentially more margin pressure with tariffs (right) but nonetheless ticked up in June. Lower commodities, less wage pressure, and a weakening dollar may have been helping, but there is concern about immigration fueled labor shortages in select sub-industries and the tariff-impact on certain products hurting margins.

Median Gross Margin
Top 500 US Equities, Ex-Financials & Real Estate
Through End-June, 2025



Source: Trivariate Research

Median Gross Margin by Market Cap. Group
Ex-Financials & Real Estate
Through End-June, 2025

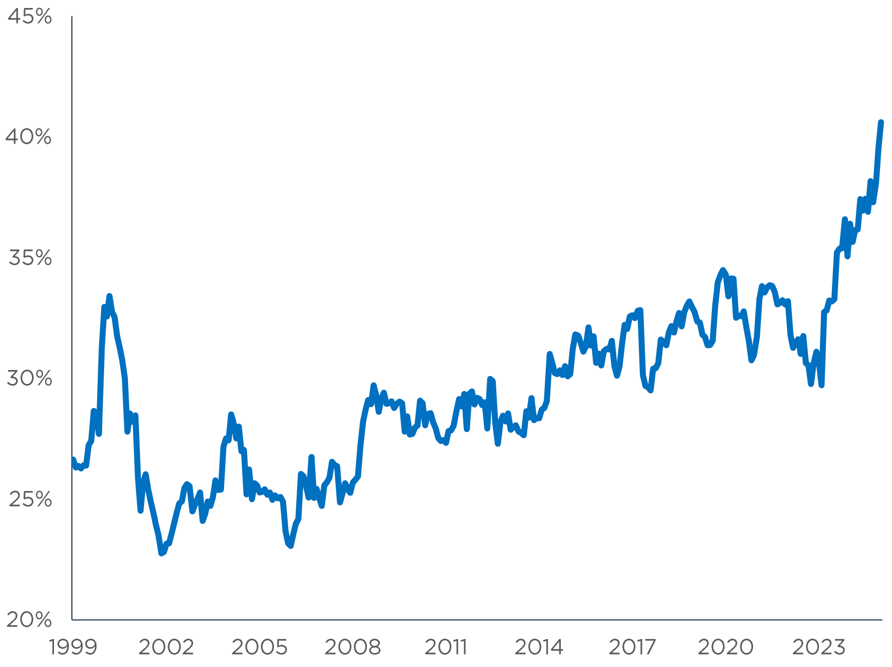


Source: Trivariate Research

SLIDE 7: THE MOST MARKET CAP EVER HAS ABOVE 60% MARGINS

Among the top 3000 US equities, 40.6% of the total market capitalization has above 60% gross margins, the highest ever (left). That is a major reason why the US stock market is more expensive now than it was during much of its history and why multiples are likely to oscillate at higher levels in the future than in the past. <u>If you are referencing Schiller PE, or CAPE to inform your analysis, you are forecasting that gross margins will revert to long-term averages. In fact, the top 50 US equities (excluding financials) are now 50% of the total gross profit dollars of the S&P500 (right). The relative size of the big companies is the same, they are just far more profitable than they were in the past.</u>

Percent of Market Cap. With >60% Gross Margins
Top 3000 US Equities, Ex-Financials & Real Estate
Through End-June, 2025



Source: Trivariate Research

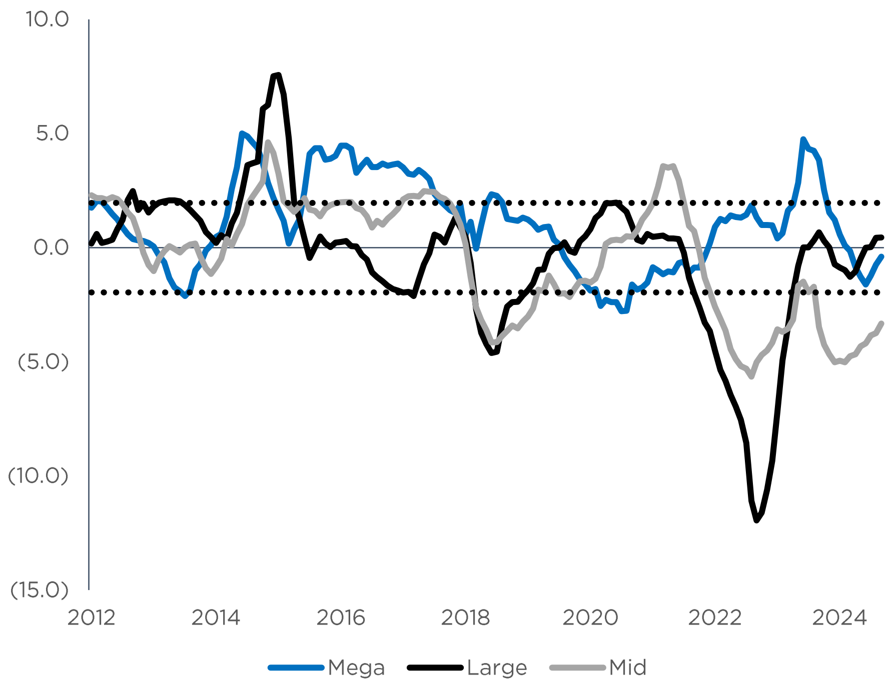
Percent of Gross Profit Dollars
From Top 50 by Market Cap. Out of Top 500
Through End-June, 2025

Source: Trivariate Research

SLIDE 8: VALUATION IS STRONGLY RELATED TO GROSS MARGIN LEVEL

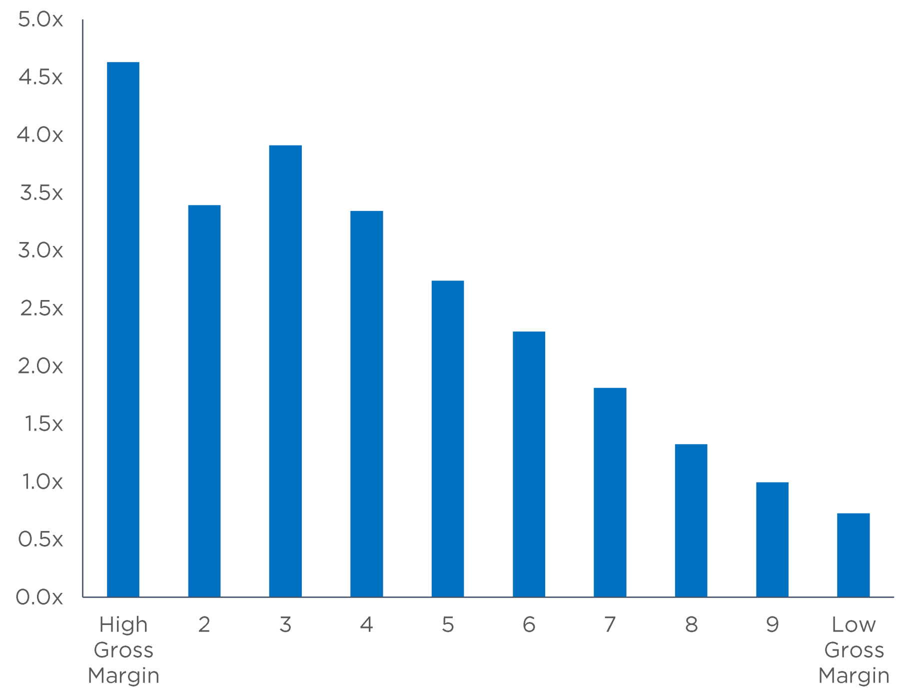
The higher the CPI, the worse it is for margins for most stocks, except mega caps (left) where it appears lower CPI hurt margins. The previous cycle did also have decades-high nominal GDP, so we likely won't see as much demand-fueled impact on pricing as we saw post-COVID. Even if there is a meaningful chance that CPI rises in the second half of 2025 due to tariff implementation, there is some evidence the mega-cap companies can perform well. We found that there is a strong relationship between gross margins and EV-to-forecasted sales (right). Therefore, if investors use valuation in their investment theses or make a value-over-growth macro call, it is important to adjust for the level of gross margins.

T-Statistics of Median 12m Fwd. Gross Margin vs. YoY Change of CPI Through End-June, 2025



Source: Trivariate Research

Median EV-to-Forecast Sales by Gross Margin Decile Top 3000 US Equities with Revenue >$100m Through End-June, 2025



Source: Trivariate Research

PART 2: RISK MANAGEMENT

- We have spent meaningful time in the last six months analyzing portfolio construction and studying the optimal way to build a portfolio.
  - Beta: The beta of the portfolio really matters when the S&P500 is up less than 10% in a year, because the alpha destruction from high-beta stocks is substantial.
  - Less than 1: Over time, the optimal portfolio beta, whether under max-Sharpe ratio or minimum volatility is less than 1.
  - Growth: For growth portfolio managers, owning stocks with extreme betas (top and bottom decile) results in better performance than owning stocks with average beta, even though the overall portfolio beta should be less than 1. This is not the case for value or small cap portfolios.
- We have identified nearly 20 custom baskets for growth areas. AI Semiconductors and Power / Utilities are two such baskets. Importantly though, most of the growth themes today are not particularly diversifying. In fact, there have been times where stocks like Nvidia (in Semiconductors) and GE Vernova (Power) were highly correlated, though very recently they trade differently. Right now, AI Semiconductors and Electrification Industrials have the highest correlation (0.86), and AI Semis and Healthcare Services have the lowest. **We would highly recommend portfolio and risk managers monitor the rolling correlation of returns between these growth-themed baskets.**

SLIDE 9: BETAS MATTER WHEN THE MARKET IS UP LESS THAN 12%

The long-term betas for the mid-point of each decile (meaning the 5th, 15th, 25th percentiles and so on) are shown on the left. Five percent of stocks have a beta less than 0.28, and the median stock in the lowest beta decile has 10.9% of annualized alpha. On the contrary, only 5% of stocks have a beta higher than 1.93 historically, and the highest beta decile realizes an annual NEGATIVE alpha of 630bps (left). Assuming these historical betas by decile hold constant, we simulated the expected return (market assumption*beta + alpha) for various S&P500 return scenarios (right). Once the market's returns are above 12%, the higher beta is enough to offset its alpha destruction.

Performance Statistics of Beta Deciles
1999 Through End-April, 2025

Beta Decile	Annualized Alpha	Hit Rate	Median Beta
1	10.9%	67.4%	0.28
2	6.4%	61.9%	0.56
3	4.6%	59.3%	0.70
4	3.6%	56.0%	0.81
5	3.3%	55.3%	0.91
6	3.4%	53.8%	1.03
7	1.7%	49.8%	1.15
8	(0.6%)	44.7%	1.30
9	(2.5%)	42.9%	1.51
10	(6.3%)	42.5%	1.93

Source: Trivariate Research

Implied Annual Return Under Different Assumptions
As of End-April, 2025

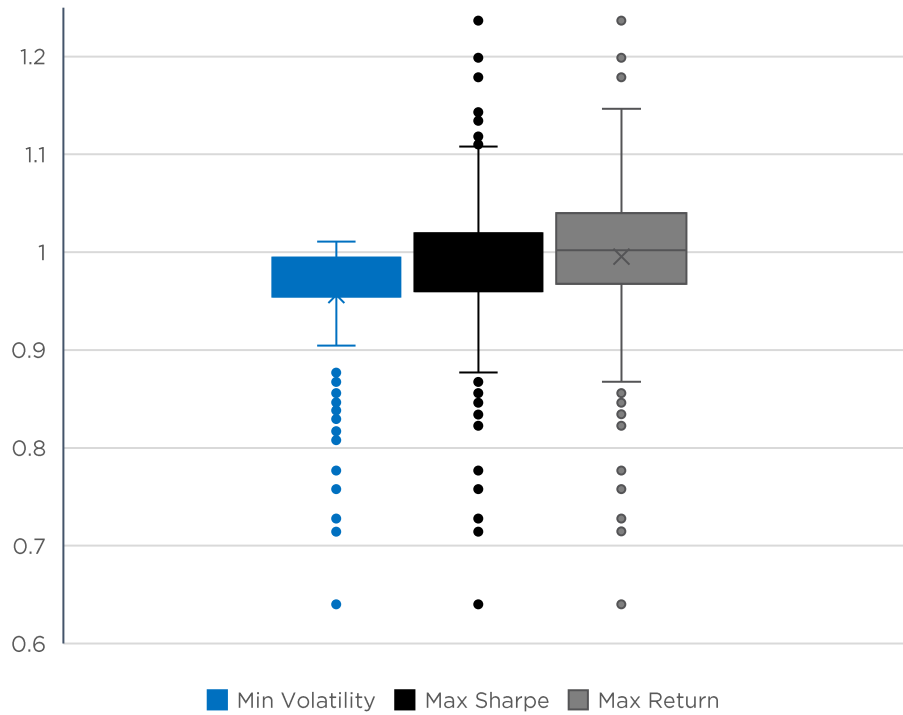
Move	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
(30%)	2.5%	(10.4%)	(16.4%)	(20.6%)	(24.1%)	(27.5%)	(32.8%)	(39.6%)	(47.8%)	(64.2%)
(25%)	3.9%	(7.6%)	(12.9%)	(16.6%)	(19.5%)	(22.4%)	(27.1%)	(33.1%)	(40.2%)	(54.5%)
(20%)	5.3%	(4.8%)	(9.4%)	(12.6%)	(15.0%)	(17.2%)	(21.3%)	(26.6%)	(32.7%)	(44.9%)
(15%)	6.7%	(2.0%)	(5.9%)	(8.5%)	(10.4%)	(12.1%)	(15.6%)	(20.1%)	(25.1%)	(35.3%)
(10%)	8.1%	0.8%	(2.4%)	(4.5%)	(5.8%)	(6.9%)	(9.8%)	(13.6%)	(17.6%)	(25.6%)
(5%)	9.5%	3.6%	1.1%	(0.5%)	(1.3%)	(1.8%)	(4.1%)	(7.1%)	(10.1%)	(16.0%)
0%	10.9%	6.4%	4.6%	3.6%	3.3%	3.4%	1.7%	(0.6%)	(2.5%)	(6.3%)
5%	12.3%	9.2%	8.1%	7.6%	7.8%	8.5%	7.4%	5.9%	5.0%	3.3%
6%	12.6%	9.7%	8.8%	8.4%	8.7%	9.5%	8.6%	7.2%	6.5%	5.3%
8%	13.2%	10.8%	10.2%	10.0%	10.6%	11.6%	10.9%	9.8%	9.5%	9.1%
10%	13.7%	12.0%	11.6%	11.6%	12.4%	13.7%	13.2%	12.4%	12.6%	13.0%
12%	14.3%	13.1%	13.0%	13.3%	14.2%	15.7%	15.5%	15.0%	15.6%	16.9%
14%	14.9%	14.2%	14.4%	14.9%	16.0%	17.8%	17.8%	17.6%	18.6%	20.7%
15%	15.1%	14.7%	15.1%	15.7%	17.0%	18.8%	19.0%	18.9%	20.1%	22.6%
20%	16.6%	17.5%	18.6%	19.7%	21.5%	24.0%	24.7%	25.4%	27.6%	32.3%
25%	18.0%	20.3%	22.1%	23.7%	26.1%	29.1%	30.5%	31.9%	35.2%	41.9%
30%	19.4%	23.1%	25.5%	27.8%	30.6%	34.3%	36.2%	38.4%	42.7%	51.6%

Source: Trivariate Research

SLIDE 10: BETA <1 AND EXTREME BETAS ARE BEST FOR GROWTH

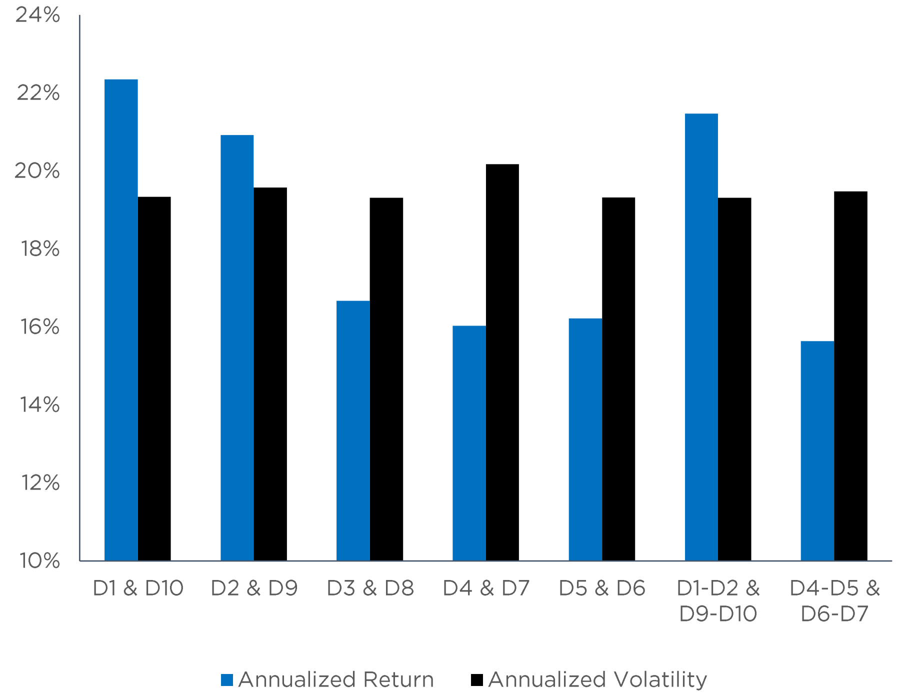
We chose to focus on three different portfolios to show a range of outcomes for portfolio performance based on beta at the portfolio level. Firstly, the lowest volatility portfolio (or Min Volatility) in blue on the left, secondly the maximum Sharpe ratio portfolio in black, and lastly the maximum return portfolio in gray. The optimal portfolio betas over the last 20 years have oscillated between 0.65 and 1.25, with lower volatility for the Min Vol. and Max Sharpe portfolios than the Max Return approach, where the current optimal beta is high vs. history. In most cases, a portfolio beta less than 1 is optimal. **On the right, we show the distribution of the betas for a growth portfolio, randomly sampling from each beta decile. Performance where stocks are only selected from the top and bottom decile of beta is superior to sampling from the middle, even when forcing the overall portfolio beta to be slightly less than 1.**

Optimal Portfolio Beta
2005 Through End-December, 2024



Source: Trivariate Research

Top 500 Growth Stocks
Portfolio Performance Since 2019
Through End-February, 2025

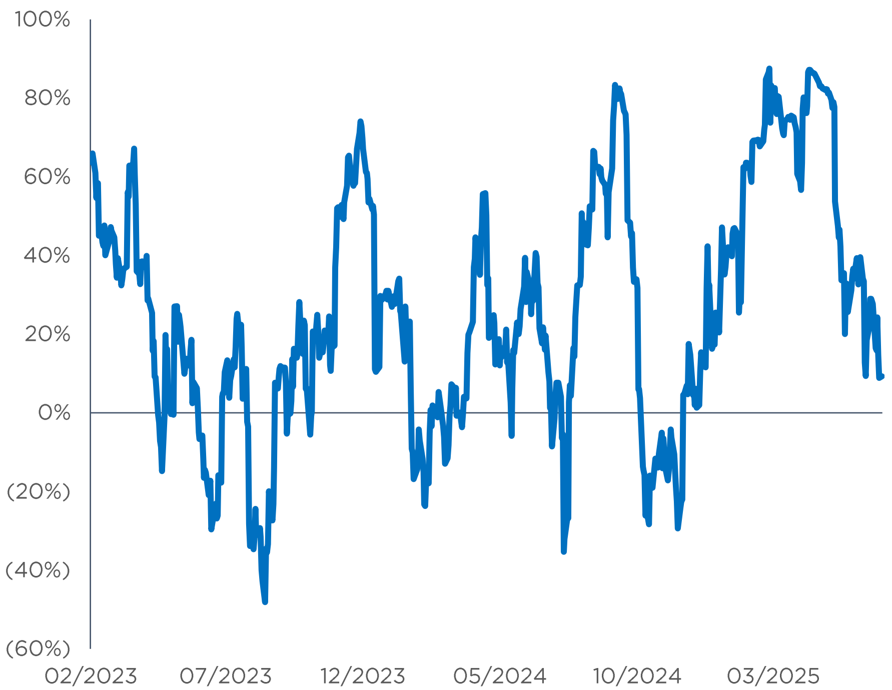


Source: Trivariate Research

SLIDE 11: SEVERAL MAJOR GROWTH THEMES ARE VERY CORRELATED

We have identified nearly 20 custom baskets for growth areas. AI Semiconductors and Power / Utilities are two such baskets. Importantly though, most of the growth themes today are not particularly diversifying. In fact, there have been times where stocks like Nvidia (in Semiconductors) and GE Vernova (Power) were highly correlated, though very recently they trade differently (left). The 126-day correlation of returns between each of six major growth baskets is shown on the right. Right now, AI Semiconductors and Electrification Industrials have the highest correlation (0.86), and AI Semis and Healthcare Services have the lowest. <u>We would highly recommend portfolio and risk managers monitor the rolling correlation of returns between these growth-themed baskets.</u>

AI Semi vs. Utilities / Power
21-Day Rolling Correlation of Returns
Through End-June, 2025



Source: Trivariate Research

Six Growth Theme Baskets: 126-Day Correlation of Returns
As of End-June, 2025

	AI Semi	AI Software	Utilities / Power	Healthcare Services	Housing	Electrification Industrials
AI Semi	100.0%	84.6%	68.1%	55.3%	78.0%	85.6%
AI Software	84.6%	100.0%	65.8%	64.5%	78.5%	83.6%
Utilities / Power	68.1%	65.8%	100.0%	60.1%	68.2%	74.3%
Healthcare Services	55.3%	64.5%	60.1%	100.0%	61.8%	59.8%
Housing	78.0%	78.5%	68.2%	61.8%	100.0%	80.3%
Electrification Industrials	85.6%	83.6%	74.3%	59.8%	80.3%	100.0%

Source: Trivariate Research

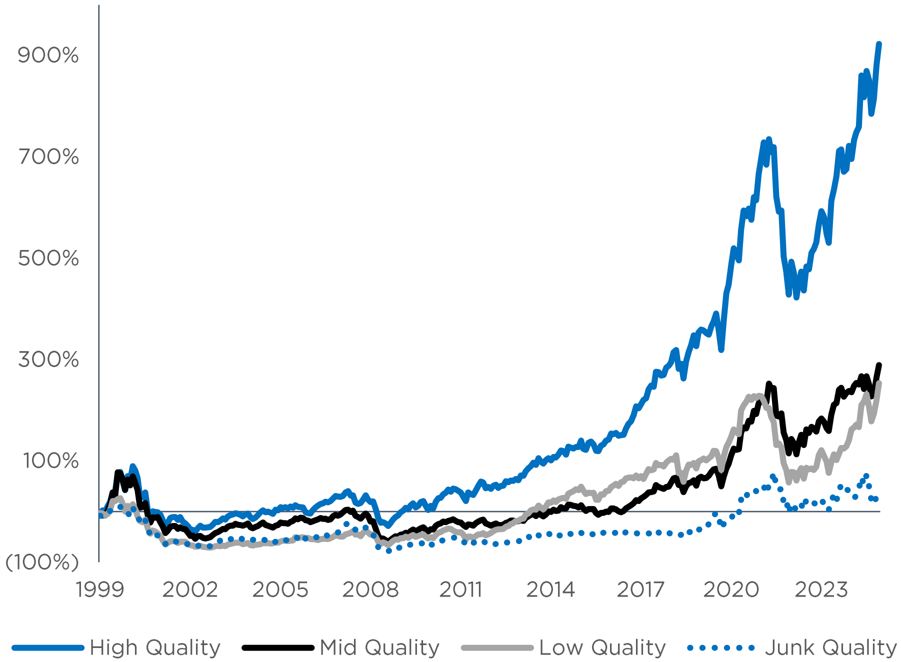
PART 3: FRAMEWORKS

- Among growth stocks, high-quality is best.
- Mega- / large-cap high quality growth is at all-time highs, but SMID cap high-quality growth is not yet back at highs.
- High-quality growth stocks in the bottom-half of beta (lower beta) strongly outperform high-quality growth stocks in the top-half of beta (high beta).
- Valuation metrics have worked slightly better for stock selection in the last two years than in the previous 15 years. Free cash flow yield-based metrics are far less volatile and in aggregate better for stock selection than EV-to-sales or price-to-forward earnings-based metrics.
- Using valuation to pick growth stocks makes more sense than using valuation to pick value stocks.
- Free cash flow yield and momentum are highly correlated, though traditionally they were diversifying.
- Technology: Change in free cash flow yield is the best valuation metric.
- Industrials: The sector where valuation metrics are the most effective for stock selection. In Communication Services, valuation is perverse, meaning on average expensive beats cheap.

SLIDE 12: AMONG GROWTH STOCKS, HIGH-QUALITY IS BEST

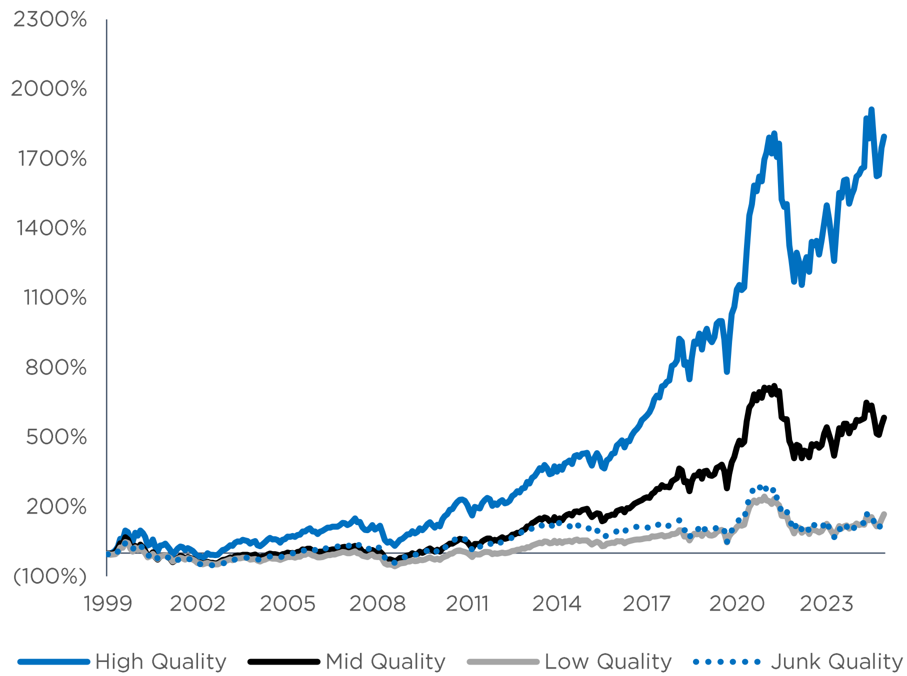
While there was a significant drawdown in mega-/ large-cap quality Growth stocks from 2021 through 2022, the highest quality quartile has performed the best over the long-term. Clearly, avoiding the lowest quality quartile has been prudent among mega-/ large-cap quality stocks (left). The same is true for SMID-cap quality Growth (right). Interestingly though, high-quality mega-/ large cap. stocks are at all-time highs, but that is not yet true for SMID caps.

Growth Universe
Mega / Large Cap. Performance by Quality Quartile
Through End-June, 2025



Source: Trivariate Research

Growth Universe
SMID Cap. Performance by Quality Quartile
Through End-June, 2025

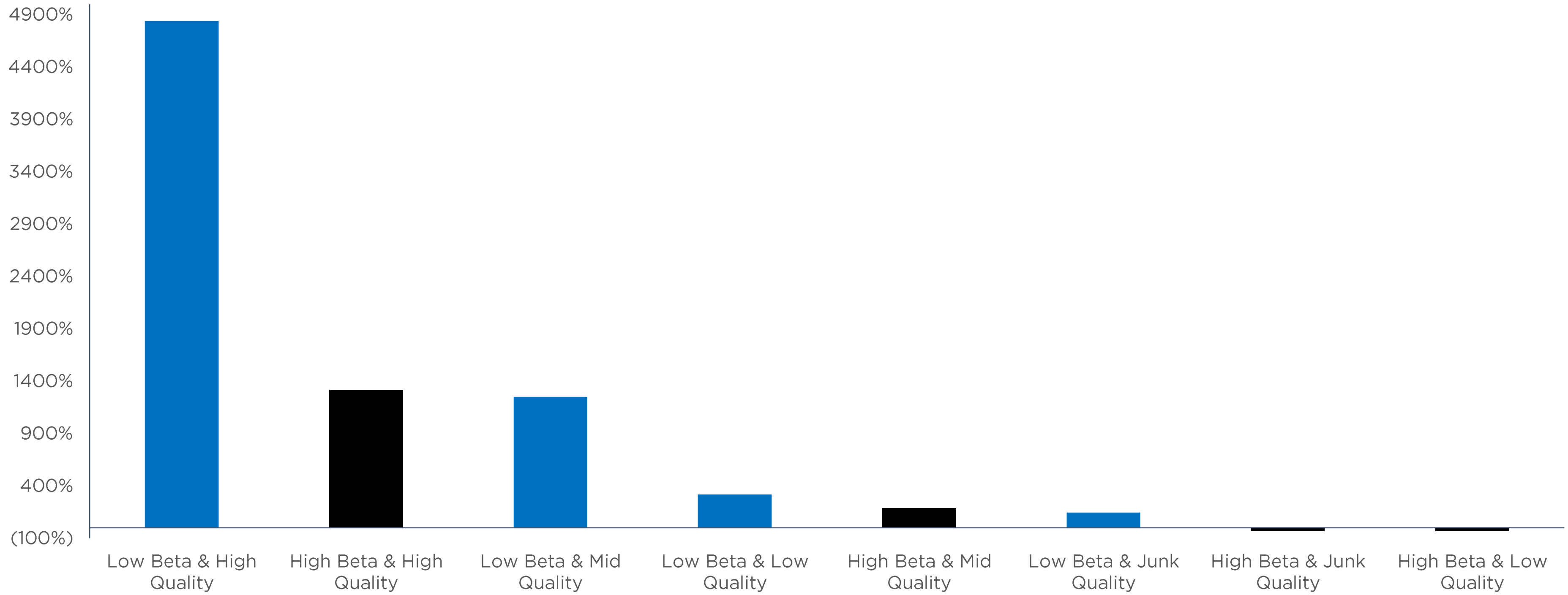


Source: Trivariate Research

SLIDE 13: AVOIDING HIGH BETA GROWTH STOCKS IS KEY

We defined "growth beta" as beta vs. the Nasdaq – NOT the S&P500 to make it more relevant for Growth investors. High growth-beta Growth stocks in the bottom half of quality are down in absolute terms over the last 24 years! By far the best performing bucket are low growth-beta Growth stocks that are high quality – up over 4500% during that timeframe. If Growth managers are going to own high growth-beta Growth stocks, skewing to the highest quality quartile is crucial (black bar 2nd from left below).

Performance of Growth Stocks by Growth Beta and Substance
1999 to End-June, 2025

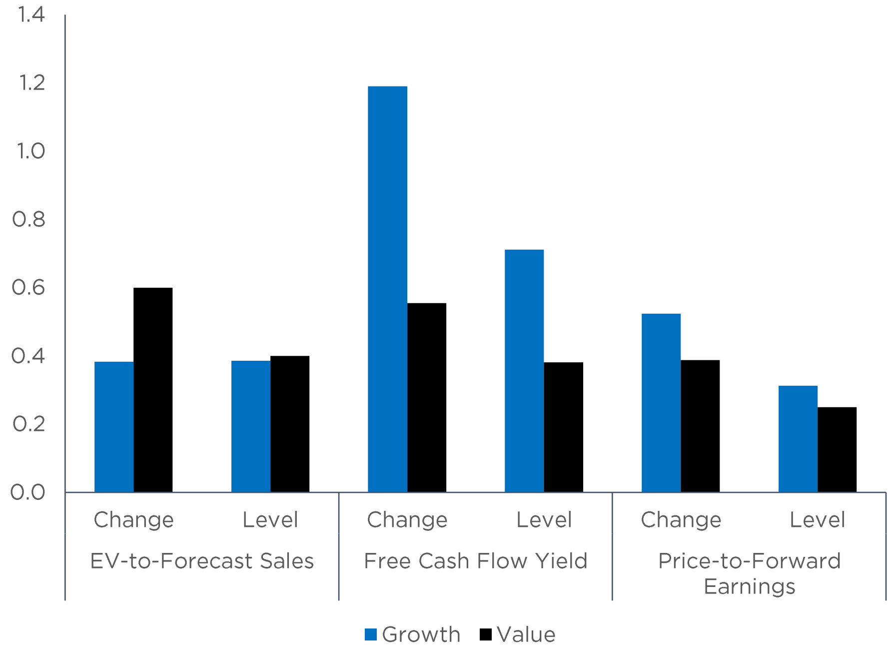


Source: Trivariate Research

SLIDE 14: VALUATION SIGNALS ARE BETTER IN GROWTH THAN VALUE

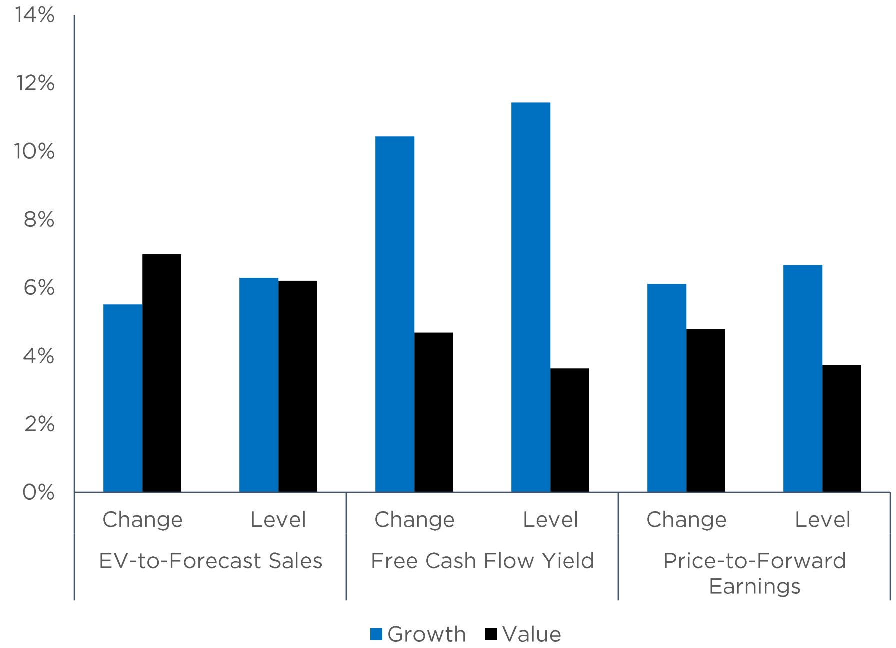
We analyzed factor efficacy, both level and change, for growth and value stocks separately, with the Sharpe Ratios (left) and annualized return spreads (right) shown below. Among growth stocks, change in Free Cash Flow Yield is the most effective metric, volatility-adjusted, but level of Free Cash Flow Yield generates the highest long-short spread. The classic Price-to-Forward Earnings multiple has the lowest Sharpe Ratio for growth stocks. <u>In general, valuation is less effective for stock selection among value stocks than growth stocks as evidenced by the blue bars generally being above the black bars across most level and change metrics</u>. For value stocks, change in EV-to-Forecasted Sales and change in Free Cash Flow Yield work best.

Sharpe Ratio of Level & Change by Valuation Metric
Top 2000 US Equities, Growth and Value Universe
Q1 vs. Q5 Spread Portfolio, Rebalanced Monthly
Through End-June, 2025



Source: Trivariate Research

Mean Annual Return of Level & Change by Valuation Metric
Top 2000 US Equities, Growth and Value Universe
Q1 vs. Q5 Spread Portfolio, Rebalanced Monthly
Through End-June, 2025

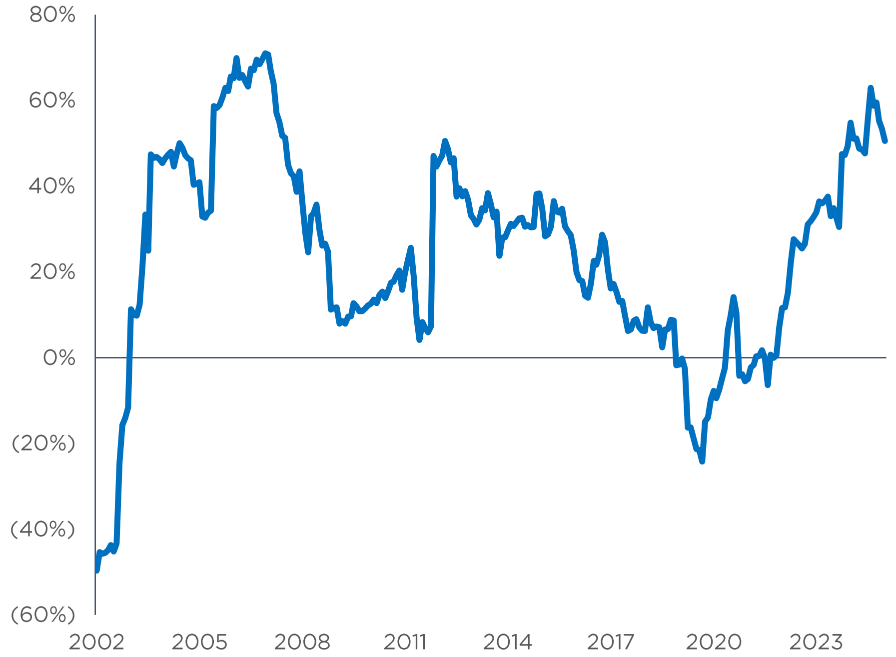


Source: Trivariate Research

SLIDE 15: FCF YIELD AND MOMENTUM ARE HIGHLY CORRELATED

Traditional quantitative models have both valuation and momentum factors. The correlation between the two is near a 20-year high. The 36-month rolling correlation between the top quintile on Free Cash Flow Yield and the top quintile in 12-month price momentum (left) is at its highest level since before the Financial Crisis. The correlation is even stronger among bottom quintile stocks (right). <u>Valuation and momentum have been strongly correlated for the last year. Expensive growth stocks keep working.</u>

Rolling 36-Month Correlation: Factor Top Quintile
Free Cash Flow Yield vs. 1-Year Momentum
Beta-Adjusted Returns
Through End-June, 2025



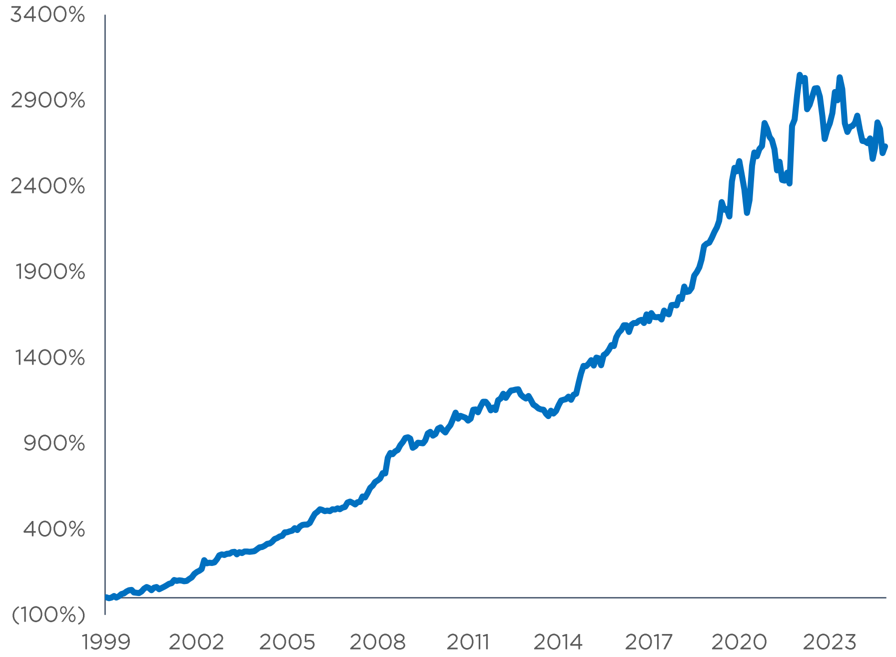
Source: Trivariate Research

Rolling 36-Month Correlation: Factor Bottom Quintile
Free Cash Flow Yield vs. 1-Year Momentum
Beta-Adjusted Returns
Through End-June, 2025

Source: Trivariate Research

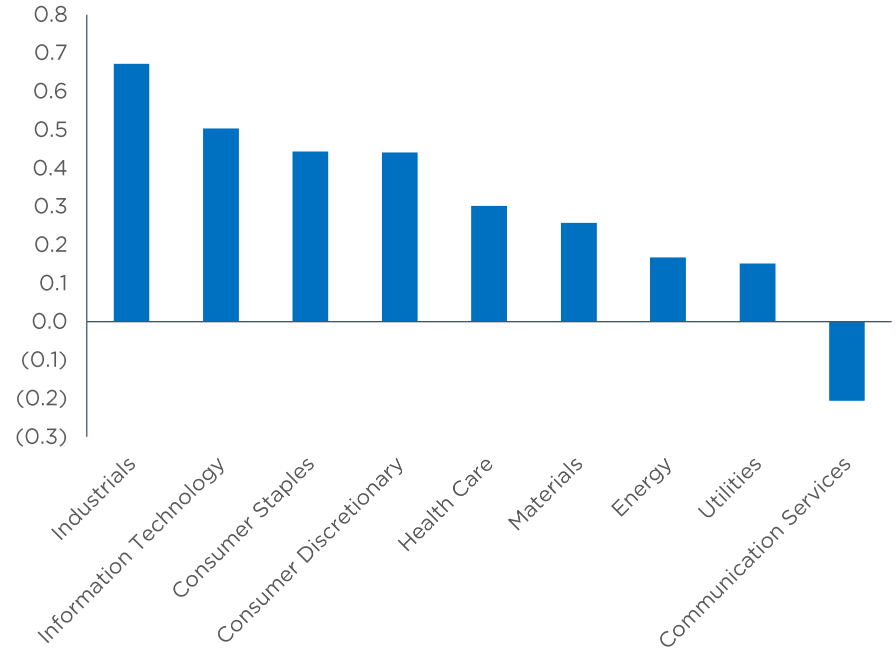
We looked at nine sectors, and six valuation signals for each, for a total of 54 sector level signal assessments. The highest Sharpe Ratio signal of those 54 metrics was change in Free Cash Flow Yield among Technology stocks (left), though that signal has not worked particularly well in the last year. We took the median Sharpe Ratio of the six different valuation metrics over the last 25 years, by sector, and found that valuation works best among Industrials stocks, and is perverse on average in Communication Services (right).

Technology Sector, Change in FCF Yield Factor Efficacy
Cumulative Return, Rebalanced Monthly
Top 2000 US Equities, Ex-Financials & Real Estate
Through End-June, 2025



Source: Trivariate Research

Median Sharpe Ratio by Sector
Q1 vs. Q5 Spread of Level and Change for Valuation Metrics
Top 2000 US Equities, Ex-Financials & Real Estate
Through End-June, 2025



Source: Trivariate Research

PART 4: SECTOR AND INDUSTRY IDEAS

- We are making several tweaks to our sector recommendations for the second half of 2025. Today, the top three sectors account for 57.8% of the market cap., the highest levels since 2001. These are Technology, Financials, and Communication Services. At the same time, the smallest four sectors – REITs, Utilities, Materials, and Energy – are at just 8.8% of the S&P 500, the lowest level in 25 years.
- **Increased exposure:** Technology (adding 3%) and Communication Services (adding 3%). We are adding 1% to Financials.
- **Decreased exposure:** Consumer Staples (subtracting 2%), Healthcare (subtracting 1%), Materials (Subtracting 1%), Industrials (Subtracting 1%), Energy (subtracting 1%), and Real Estate (subtracting 1%).
- Biggest Overweight recommendations: Healthcare and Financials, followed by Technology and Materials. Half of our recommended portfolio is in Technology (32%) and Financials (18%).
- Biggest Underweight recommendations: Consumer Discretionary and Real Estate, followed by Communication Services, and Consumer Staples.
- **We are recommending near a market-weight in Industrials, Energy, and Utilities.**

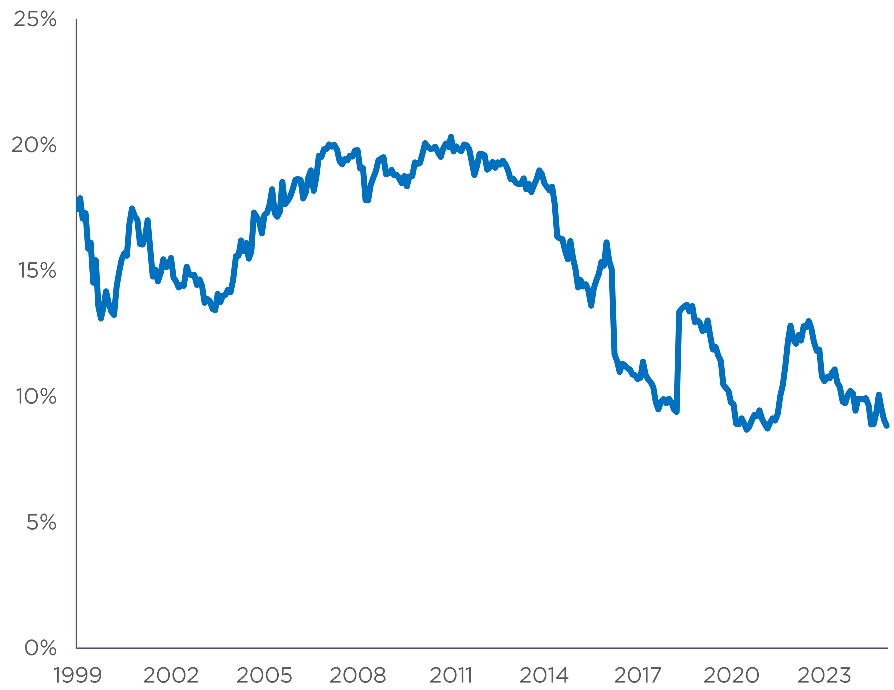
SLIDE 17: THE CONCENTRATION OF SECTOR RETURNS IS VERY HIGH

We looked at the percentage of S&P500 returns that comes from the largest three sectors over time. Today, the top <u>three account for 57.8% of the market cap., the highest levels since 2001</u>. These are Technology, Financials, and Communication Services (left). At the same time, the smallest four sectors – REITs, Utilities, Materials, and Energy – are at just 8.8% of the S&P 500, the lowest level in 25 years (right). What does that mean? **The performance of the market is more about Technology and Financials and Comm. Services than other sectors. The headline level of the market might not move as much as some of the moves in the underlying sectors.**

Largest Three Sectors
Market Cap Share of S&P500
Through End-June, 2025

Source: Trivariate Research

Smallest Four Sectors
Market Cap Share of S&P500
Through End-June, 2025



Source: Trivariate Research

SLIDE 18: NEW TRIVARIATE SECTOR RECOMMENDATIONS FOR 2H 2025!

We are recommending 50% of an S&P500 benchmarked portfolio is in Financials and Technology. Our biggest overweight recommendations are Healthcare and Financials.

Trivariate Sector Recommendations as of July 7th, 2025

Sector	Total S&P 500 Market Cap. (US$ Trillion.)	Current S&P 500 Weight	Trivariate Old Recommended Weight	Trivariate Changes for July 2025	Trivariate New Recommended Weight	Trivariate-Relative Weight	Trivariate Recommendation	Comments
Healthcare	5.12	8.7%	14%	(1%)	13%	4.3%	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
Financials	8.21	14.0%	17%	1%	18%	4.0%	Overweight	Think the alternative asset managers can be good offense, the Large Banks a combination of offense and defense, and the Insurers good defense
Information Technology	18.05	30.7%	29%	3%	32%	1.3%	Equal-Weight	AI beneficiaries come from AI investors
Materials	1.04	1.8%	4%	(1%)	3%	1.2%	Equal-Weight	If the economy improves, some Metals & Mining have material upside
Utilities	1.26	2.1%	3%	0%	3%	0.9%	Equal-Weight	Some idiosyncratic investments are sensible, but we prefer to own Semis / Software than Power for AI exposure at these prices
Industrials	4.71	8.0%	9%	(1%)	8%	(0.0%)	Equal-Weight	We like Aerospace and Defense and businesses with pricing power, but tariffs, China, and the recent run make them less compelling. We don't like that ETN trades more like AI Semi than NVDA
Energy	1.67	2.8%	3%	(1%)	2%	(0.8%)	Equal-Weight	Oil is tough to forecast, and it's hard to see a sustained period of multiple expansion
Consumer Staples	3.40	5.8%	6%	(2%)	4%	(1.8%)	Equal-Weight	There is substantial bifurcation of fortunes here, and pricing power is starting to be a challenge
Communication Services	8.12	13.8%	9%	3%	12%	(1.8%)	Equal-Weight	Cautious on businesses that are heavily indebted and need ARPU growth
Real Estate	1.11	1.9%	1%	(1%)	0%	(1.9%)	Underweight	Pockets of success, but likely a very low recovery to CRE
Consumer Discretionary	6.08	10.3%	5%	0%	5%	(5.3%)	Underweight	The consumer appears to be slowing, and many face structural challenges

Source: Trivariate Research

PART 5: AVAILABLE ALPHA

Where should a CIO allocate resources for alpha opportunity?

The alpha environment was generally worse in Q2 vs. Q1 on most of the key metrics we assessed:

Valuation dispersion was mixed-to-higher: We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry. All but five industry groups saw higher valuation dispersion, indicating some increasing opportunity. Energy, Materials, and Insurance saw the most widening dispersion over a quarter ago.

Median pairwise correlations were higher: During Q2, pairwise correlations (PWC) rose in all Industries except Banks. PWC rose the most in Technology Hardware & Equipment and Transportation.

Company-specific risk (CSR) was largely lower: Company-specific risk (CSR) was largely lower in Q2, rising only in Consumer Staples Distribution & Retail. Transportation, Semiconductors, and Autos got more macro.

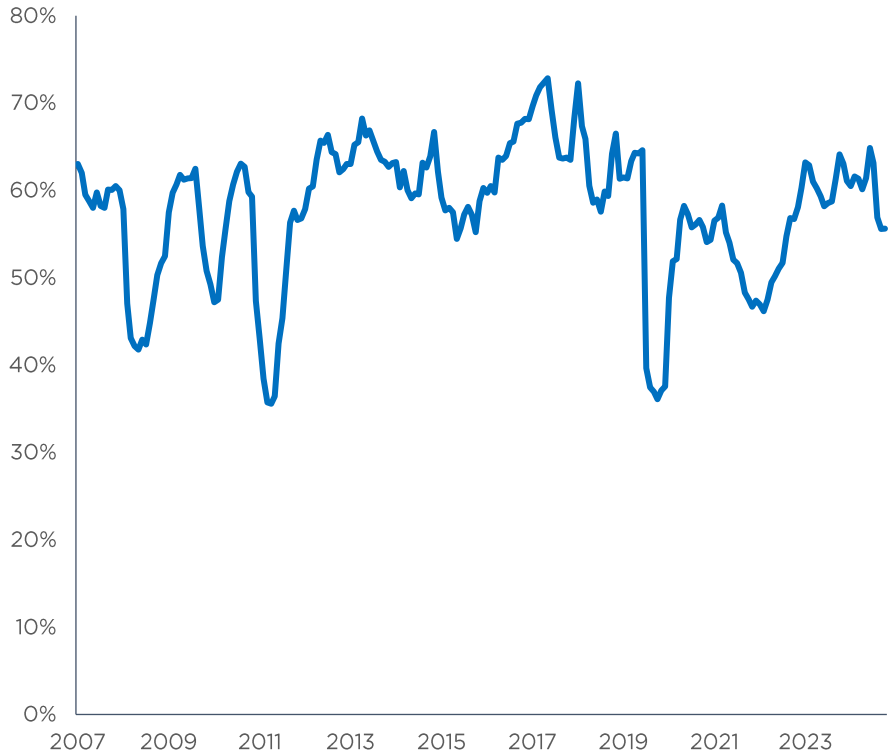
The areas of focus have moved around meaningfully this year. <u>Pharma / Biotech, Healthcare Equipment & Services, and Real Estate Management</u> are worth incremental analyst focus. Chief Risk Officers and Portfolio Managers should spend time on <u>REITs, Financial Services, and Banks</u>, as they are more "macro."

Fundamental analysts should spend time in areas they can add value. <u>This means that if you are a good stock picker, have done fundamental work, and have a differentiated view on one of these stocks, and you are ultimately right, you will separate your performance from the index MORE if you have large over / underweight positions on these names relative to their index weights. WMT, TMUS, IBM, DIS, and RTZ are the five largest cap. examples.</u>

SLIDE 19: INVESTING HAS GOTTEN MORE MACRO OF LATE

Where should a CIO allocate resources for alpha opportunity? The median stock's company-specific risk (CSR) is above long-term averages (left), though we can still explain about 44% of the average stock's returns from our simple seven-factor model. In the last three months, Company-specific risk (CSR) declined in all but one of the 25 Industry Groups (right).

Top 3000 US Equities
Median Company-Specific Risk
Through End-June, 2025



Source: Trivariate Research

Company-Specific Risk
3-Month Change and Level by Industry Group
As of End-June, 2025

Industry Group	Change in CSR	Level of CSR	CSR % Rank vs. History
Consumer Staples Distribution & Retail	0.3	70.2	60.1
Real Estate Management & Development	(0.6)	56.9	77.8
Food, Beverage & Tobacco	(1.9)	69.8	61.5
Commercial & Professional Services	(3.5)	61.4	68.5
Telecommunication Services	(5.5)	71.3	61.0
Health Care Equipment & Services	(5.7)	66.8	44.1
Pharmaceuticals, Biotechnology & Life Sciences	(6.1)	67.3	29.6
Insurance	(6.4)	56.6	63.8
Household & Personal Products	(6.5)	64.3	31.0
Materials	(6.5)	56.7	72.8
Utilities	(7.0)	51.5	30.5
Consumer Services	(7.0)	60.0	36.6
Capital Goods	(7.0)	48.5	34.3
Equity Real Estate Investment Trusts (REITs)	(7.4)	48.5	35.2
Software & Services	(7.4)	53.2	23.9
Media & Entertainment	(7.6)	64.2	57.5
Banks	(7.8)	33.6	13.6
Consumer Discretionary Distribution & Retail	(8.1)	58.6	31.5
Financial Services	(8.7)	47.5	22.5
Energy	(9.1)	50.1	30.5
Consumer Durables & Apparel	(10.0)	52.9	27.2
Technology Hardware & Equipment	(10.5)	50.1	19.2
Automobiles & Components	(10.6)	51.5	32.4
Semiconductors & Semiconductor Equipment	(11.0)	46.0	20.7
Transportation	(13.0)	54.1	24.4

Source: Trivariate Research

SLIDE 20: CORRELATIONS HIGHER, VALUATION DISPERSION MIXED

During Q2, pairwise correlations (PWC) rose in all Industries except Banks (left). PWC rose the most in Technology Hardware & Equipment and Transportation. We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry (right). All but five industry groups saw higher valuation dispersion, indicating some increasing opportunity. Energy, Materials, and Insurance saw the most widening dispersion over a quarter ago.

Pairwise Correlation
3-Month Change and Level by Industry Group
As of End-June, 2025

Industry Group	Change in Median Pairwise Correlation	Level of Median Pairwise Correlation	PWC % Rank vs. History
Technology Hardware & Equipment	14.4	43.0	89.4
Transportation	13.9	32.7	55.4
Consumer Durables & Apparel	12.5	39.3	83.5
Consumer Discretionary Dist. & Retail	11.5	34.5	81.2
Software & Services	11.3	36.9	86.0
Equity Real Estate Investment Trusts	11.0	51.6	70.6
Financial Services	10.1	40.6	79.2
Semis & Semi. Equipment	9.6	52.0	82.9
Consumer Services	9.6	31.2	77.2
Energy	8.2	46.0	68.9
Materials	8.1	33.8	54.5
Food, Beverage & Tobacco	7.6	23.7	62.6
Media & Entertainment	7.4	25.6	65.0
Capital Goods	6.8	39.0	68.4
Telecommunication Services	5.9	21.7	58.6
Automobiles & Components	5.3	37.4	68.9
Household & Personal Products	5.3	24.2	70.2
Pharma, Biotech & Life Sciences	5.1	26.1	74.7
Utilities	4.6	40.8	30.4
Health Care Equipment & Services	4.1	20.9	55.0
Real Estate Management & Dev.	3.5	34.2	36.2
Insurance	3.0	41.8	82.5
Commercial & Professional Services	2.9	28.5	56.1
Consumer Staples Distribution & Retail	0.8	21.9	40.2
Banks	(6.6)	71.1	95.8

Source: Trivariate Research

Cross-Sectional Dispersion in Price-to-Forward Earnings
Level and 3m Change in 3-Month Average
As of End-June, 2025

Industry Group	Change of PEF Dispersion	Level of PEF Dispersion
Energy	1.8x	13.1x
Materials	1.7x	13.4x
Insurance	1.6x	11.0x
Technology Hardware & Equipment	1.4x	14.4x
Food, Beverage & Tobacco	1.2x	11.5x
Financial Services	1.1x	11.3x
Capital Goods	0.9x	14.5x
Banks	0.9x	5.9x
Transportation	0.8x	15.4x
Automobiles & Components	0.7x	14.2x
Consumer Services	0.7x	15.6x
Media & Entertainment	0.6x	17.9x
Semiconductors & Semiconductor Equipment	0.6x	18.7x
Consumer Discretionary Distribution & Retail	0.6x	15.9x
Utilities	0.5x	7.7x
Household & Personal Products	0.4x	9.0x
Real Estate Management & Development	0.1x	19.2x
Commercial & Professional Services	0.1x	13.3x
Software & Services	0.1x	21.9x
Pharmaceuticals, Biotechnology & Life Sciences	0.1x	16.9x
Telecommunication Services	(0.3x)	13.8x
Consumer Durables & Apparel	(0.4x)	11.6x
Health Care Equipment & Services	(0.4x)	19.7x
Equity Real Estate Investment Trusts (REITs)	(0.4x)	16.3x
Consumer Staples Distribution & Retail	(1.0x)	11.2x

Source: Trivariate Research

SLIDE 21: IN WHICH INDUSTRIES SHOULD CIOS DEPLOY RESOURCES?

The areas of focus have moved around meaningfully this year. Pharma / Biotech, Healthcare Equipment & Services, and Real Estate Management are worth incremental analyst focus. Chief Risk Officers and Portfolio Managers should spend time on REITs, Financial Services, and Banks, as they are more "macro."

Industry Group Ranking of Available Alpha Metrics as of End-June, 2025

Industry Group	CSR Level	CSR 3m Change	PWC Level	PWC 3m Change	Valuation Dispersion Level	Valuation Dispersion 3m Change	% Beating or Lagging >=20%	Mean Rank	Largest 3 Companies
Pharmaceuticals, Biotech & Life Sciences	4	7	7	8	6	20	2	7.7	LLY, JNJ, ABBV
Health Care Equipment & Services	5	6	1	6	2	23	12	7.9	UNH, ABT, ISRG
Real Estate Management & Development	11	2	12	5	3	17	11	8.7	CBRE, CSGP, Z
Telecommunication Services	1	5	2	11	14	21	10	9.1	TMUS, T, VZ
Media & Entertainment	7	16	6	13	5	12	7	9.4	GOOGL, META, NFLX
Food, Beverage & Tobacco	3	3	4	14	19	5	19	9.6	KO, PM, PEP
Consumer Staples Distribution & Retail	2	1	3	2	21	25	15	9.9	WMT, COST, KR
Materials	12	10	11	15	15	2	6	10.1	LIN, SHW, SCCO
Commercial & Professional Services	8	4	8	3	16	18	17	10.6	ADP, WM, CTAS
Consumer Services	9	12	9	17	9	11	9	10.9	MCD, BKNG, DASH
Household & Personal Products	6	9	5	9	23	16	18	12.3	PG, CL, KMB
Consumer Discretionary Distribution & Retail	10	18	13	22	8	14	3	12.6	AMZN, HD, TJX
Insurance	13	8	20	4	22	3	21	13.0	PGR, CB, MMC
Automobiles & Components	17	23	15	10	13	10	5	13.3	TSLA, GM, F
Software & Services	15	15	14	21	1	19	14	14.1	MSFT, ORCL, PLTR
Energy	20	20	22	16	17	1	4	14.3	XOM, CVX, COP
Capital Goods	21	13	16	12	11	7	20	14.3	GE, RTX, CAT
Semiconductors & Semiconductor Equipment	24	24	24	18	4	13	1	15.4	NVDA, AVGO, AMD
Transportation	14	25	10	24	10	9	16	15.4	UBER, UNP, UPS
Technology Hardware & Equipment	19	22	21	25	12	4	13	16.6	AAPL, CSCO, ANET
Utilities	18	11	19	7	24	15	23	16.7	NEE, CEG, SO
Consumer Durables & Apparel	16	21	17	23	18	22	8	17.9	NKE, GRMN, DHI
Banks	25	17	25	1	25	8	25	18.0	JPM, BAC, WFC
Financial Services	23	19	18	19	20	6	22	18.1	BRK.B, V, MA
Equity Real Estate Investment Trusts (REITs)	22	14	23	20	7	24	24	19.1	AMT, WELL, PLD

Source: Trivariate Research

SLIDE 22: WHERE FUNDAMENTAL ANALYSTS SHOULD SPEND TIME

1. **People**: When There Is a New CEO Or CFO It Is Challenging To Link Prior Experience At Public Companies Of the New C-suite Executives To a Stock.
2. **M&A:** Deals That Are More Than 20% Of Market Cap.
3. **Litigation:** Where Legal Outcomes Have a Big Impact On Valuation
4. **High Idiosyncratic Risk:** Small Cap. Biotech, Or Other Hard-to-predict Outcomes
5. **Unique Businesses:** In Multiple Industries, Require Sum-of-the-parts Valuation
6. **Complex Capital Structure:** Tracking Stocks, Imminent Secondaries, Complicated Ownership
7. **New Entities:** IPOs, Spin-offs, Remain-cos

SLIDE 22: STOCKS WHERE FUNDAMENTAL EXPERTS SHOULD FOCUS

Below we show mega / large cap. (left) and small / mid cap. (right) stocks outside of Healthcare that are hard to replicate with a 30-stock basket. <u>This means that if you are a good stock picker, have done fundamental work, and have a differentiated view on one of these stocks, and you are ultimately right, you will separate your performance from the index MORE if you have large over / underweight positions on these names relative to their index weights. WMT, TMUS, IBM, DIS, and RTZ are the five largest cap. examples.</u>

Least Replicable Mega / Large Cap. Stocks, Ex-Healthcare
End-June, 2025

Ticker	Company	Market Cap. (US$ Bil.)
WMT	Walmart Inc.	780.33
TMUS	T-Mobile US, Inc.	270.53
IBM	International Business Machines Corp.	268.07
DIS	The Walt Disney Company	222.94
RTX	RTX Corporation	195.08
VZ	Verizon Communications Inc.	182.44
MELI	MercadoLibre, Inc.	132.50
APP	AppLovin Corporation	118.46
SBUX	Starbucks Corporation	104.13
CME	CME Group Inc.	99.32
CMG	Chipotle Mexican Grill, Inc.	75.65
RBLX	Roblox Corporation	71.36
NU	Nu Holdings Ltd.	66.19
AXON	Axon Enterprise, Inc.	64.46
CPNG	Coupang, Inc.	54.40
KR	The Kroger Co.	47.42
TTWO	Take-Two Interactive Software, Inc.	44.41
GRMN	Garmin Ltd.	40.19
EA	Electronic Arts Inc.	40.13
EBAY	eBay Inc.	34.31

Source: Trivariate Research

Least Replicable Mid / Small Cap. Stocks, Ex-Healthcare
End-June, 2025

Ticker	Company	Market Cap. (US$ Bil.)
TW	Tradeweb Markets Inc.	31.24
GRAB	Grab Holdings Limited	20.74
WMG	Warner Music Group Corp.	14.20
ACI	Albertsons Companies, Inc.	12.13
GME	GameStop Corp.	10.91
PPC	Pilgrim's Pride Corporation	10.67
FYBR	Frontier Communications Parent, Inc.	9.11
PARA	Paramount Global	9.11
MKTX	MarketAxess Holdings Inc.	8.38
LW	Lamb Weston Holdings, Inc.	7.32
LRN	Stride, Inc.	6.23
OSCR	Oscar Health, Inc.	5.45
CALM	Cal-Maine Foods, Inc.	4.89
ESGR	Enstar Group Limited	4.82
IRDM	Iridium Communications Inc.	3.26
GSHD	Goosehead Insurance, Inc	2.64
CPRI	Capri Holdings Limited	2.09
AMC	AMC Entertainment Holdings, Inc.	1.34
GO	Grocery Outlet Holding Corp.	1.22
HLIT	Harmonic Inc.	1.07

Source: Trivariate Research

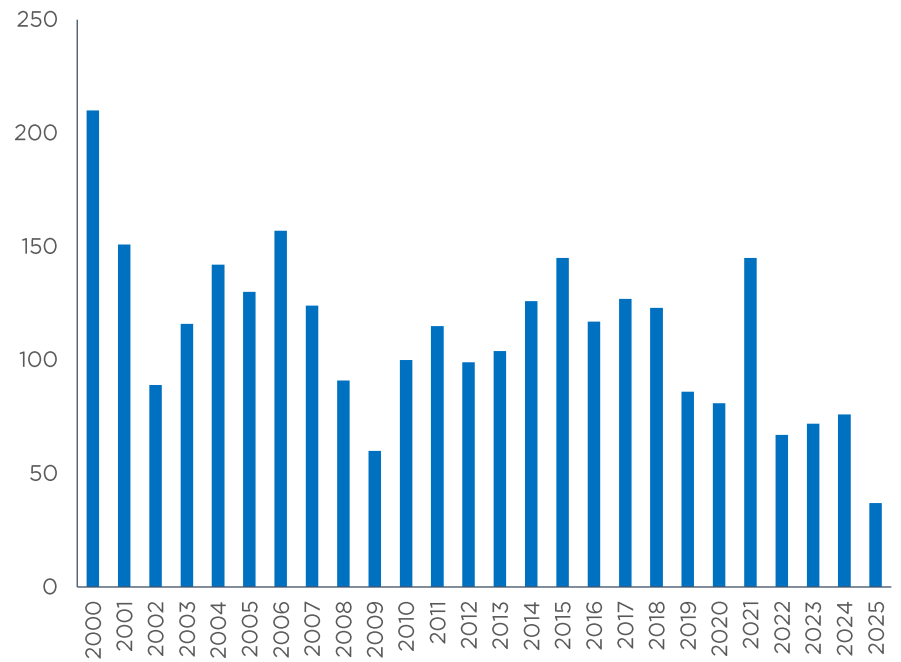
PART 6: MANAGEMENT DECISION-MAKING

- On average, M&A fails for the acquirer, particularly for growth stocks.
- Accelerated share repurchases (ASRs) generally work well, and the average company doing an ASR since COVID has beaten the S&P500 by 1100bps over the subsequent three years. We think more companies should do ASRs immediately.
- There's a concentration of capital spending we have not seen in at least 25 years, with the biggest ten spenders now at 30.9% of the total capital spending dollars of the top 2000 public US companies. The top ten biggest spenders over the last year in dollars include AMZN, MSFT, GOOGL, and META. These capital intensity figures are for the last four quarters and are poised to go materially higher for several of the biggest companies, a couple of which guided to 11-figure annual capital spending budgets for 2025. A key debate is whether there is a return on this investment – we think the answer is yes, and soon, but that these levels of capital intensity are not sustainable.

SLIDE 23: M&A MIGHT PICK UP, BUT ACQUIRERS GENERALLY LAG

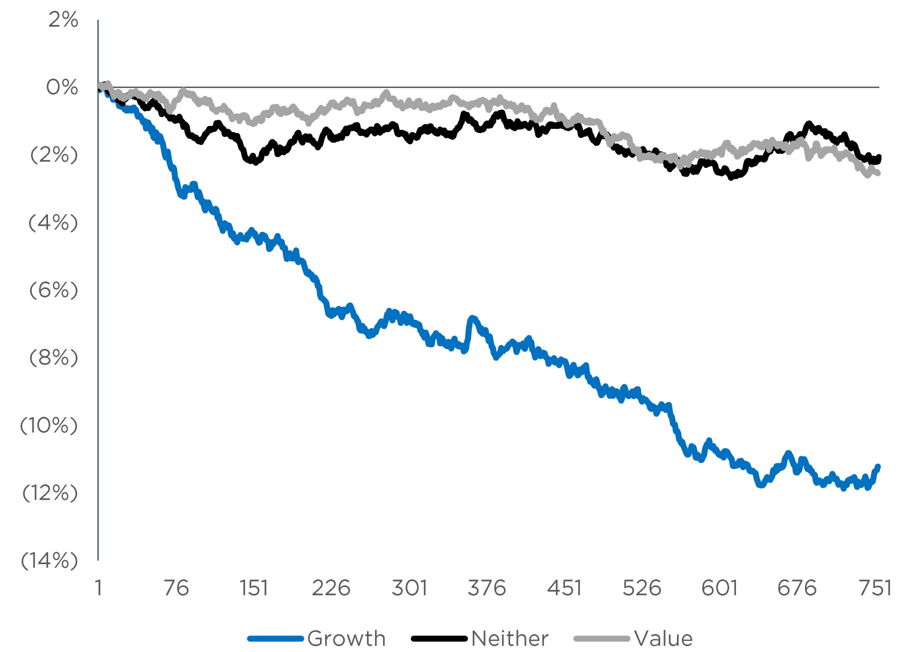
So far, despite excitement around the "Red Sweep," M&A has not picked up meaningfully (left). We suspect companies lagging in their AI investment will be forced to do deals, resulting in a more robust M&A environment in the coming years. In aggregate, doing a deal isn't a good idea. The average acquirer lags its industry group by almost 6% over the subsequent three years following a deal. In fact, the average growth company that does an acquisition lags its industry-group's performance by over 11% over the next three years (right).

Number of Acquisition Offers by Year
Offers from Public US Equities, Top 2000
Transaction Size >10% of Acquirer Market Capitalization
2000 to 2025 YTD



Source: Trivariate Research

Acquirer Returns by Trading Days After Announcement
Compounded Mean Industry Group Relative-Returns
By Style of Acquirer
End-June, 1999 to End-June, 2025

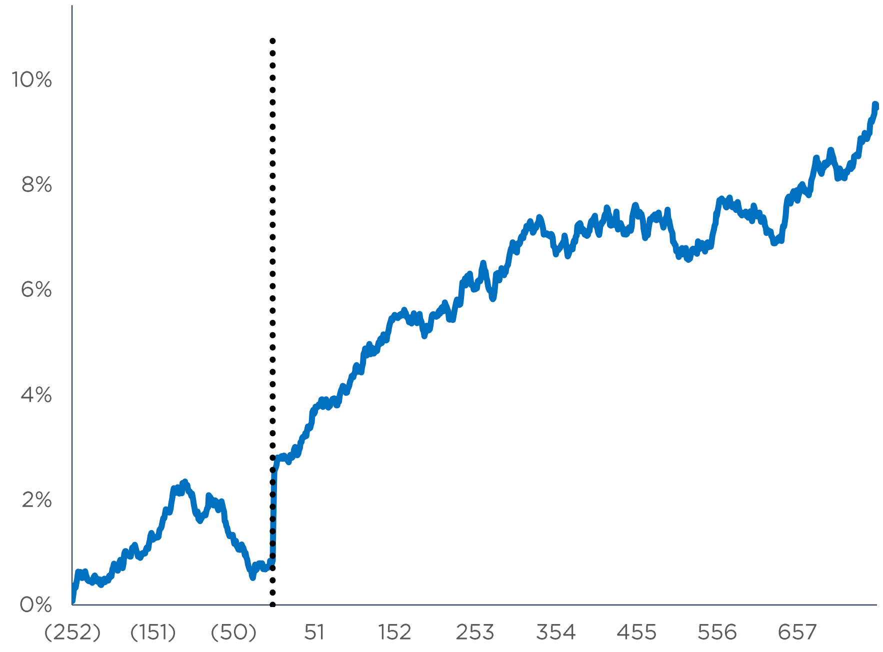


Source: Trivariate Research

SLIDE 24: ASRS HAVE STRONGLY WORKED SINCE COVID

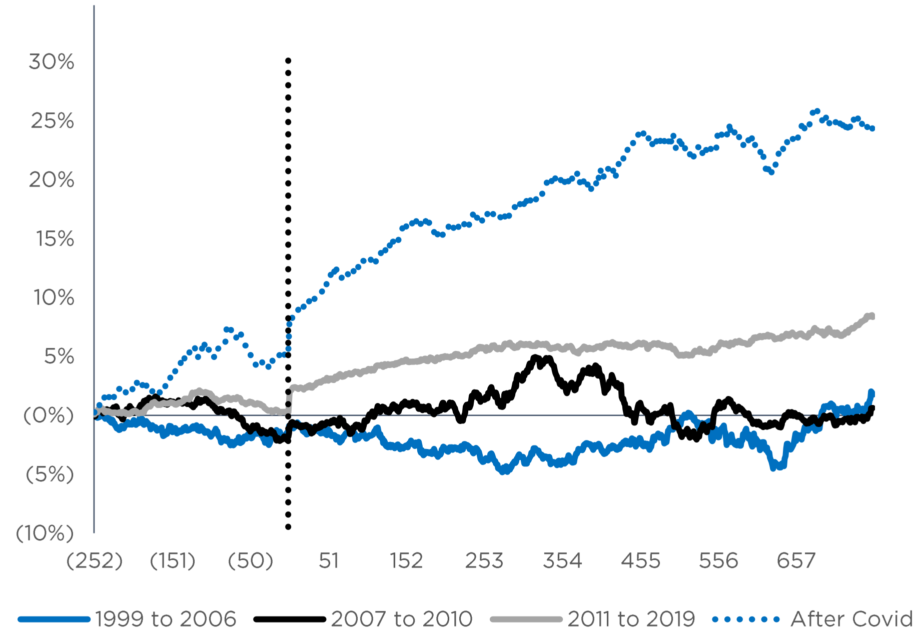
Companies engaging in ASRs often act poorly (about 2% on average) vs. their industry average prior to the ASR announcement then fully catch up on the announcement. Over the subsequent two years, the average company performing an ASR has beaten its industry group returns by 10% (left). Performance was not strong from 1999-2010 (right), as there was more of a perception that ASRs were tied to the variable compensation of the C-suite. **Since COVID however, companies performing ASRs have strongly outperformed their industry groups, by 15% on average after the first year.**

Accelerated Share Repurchase Program
Cumulative of Average Industry Group Relative Returns
Market Days 1yr Before and 3yrs After Announcement
1999 to End-June, 2025



Source: Trivariate Research

Accelerated Share Repurchase Program
Cumulative of Average Industry Group Relative Returns
Market Days 1yr Before and 3yrs After Announcement
1999 to End-June, 2025



Source: Trivariate Research

SLIDE 25: THE BIGGEST TEN CO'S ARE ALMOST 31% OF ALL CAPX!

There's a concentration of capital spending we have only seen once in at least 25 years, <u>with the biggest ten spenders now at 30.9% of the total capital spending dollars of the top 2000 public US companies</u> (left). The top ten biggest spenders over the last year in dollars (right) include AMZN, MSFT, GOOGL, and META. These capital intensity figures are for the last four quarters and are poised to go materially higher for several of the biggest companies, a couple of which guided to 11-figure annual capital spending budgets for 2025. <u>A key debate is whether there is a return on this investment –we think the answer is yes, and soon, but that these levels of capital intensity are not sustainable.</u>

Top 2000 Stocks
Total Capital Expenditure Dollar Share of Top 10 Spender
Through End-June, 2025

Source: Trivariate Research

Top 10 Stocks By Annual Capital Expenditure Dollars
As of End-June, 2025

Ticker	Industry Group	Market Cap. ($Bn)	Trailing CapEx ($Bn)	CapEx-to-Sales	% vs. History	2025 CapEx-to-Sales	2025 % vs. History
AMZN	Consumer Disc. Distr. & Retail	2,329.12	93.09	14.3%	97.4%	14.9%	97.6%
MSFT	Software & Services	3,697.02	61.35	22.7%	100.0%	23.7%	100.0%
GOOGL	Media & Entertainment	2,144.84	57.72	16.0%	88.0%	19.3%	100.0%
META	Media & Entertainment	1,855.80	43.80	25.7%	92.9%	36.1%	100.0%
XOM	Energy	464.51	25.13	7.4%	62.9%	8.5%	80.4%
WMT	Con. Staples Dist. & Retail	780.33	24.09	3.5%	70.5%	3.3%	64.3%
INTC	Semis & Semi. Equipment	97.71	23.16	43.7%	92.3%	35.8%	89.7%
NEE	Utilities	142.91	22.96	90.9%	85.5%	82.9%	80.1%
ORCL	Software & Services	614.10	21.22	37.0%	100.0%	31.0%	99.7%
T	Telecom. Services	208.24	20.78	16.9%	80.6%	16.7%	80.1%

Source: Trivariate Research

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