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TRIVARIATE RESEARCH

ARE ALL YOUR TECHNOLOGY HOLDINGS CROWDED?

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RESEARCH SUMMARY AND INVESTMENT CONCLUSIONS

Background: One of the major challenges for Technology investors has been that many of the stocks in the sector with revenue exposure to the higher growth themes are very correlated to each other. We have identified in our Technology Research ([see last week's note](#)) nine Technology baskets. For instance, our AI Governance basket is 0.96 correlated with our Agentic AI basket. Post-quantum cryptography and Ambient Invisible Intelligence have the lowest average correlations to the other Technology baskets. Recently, there are some Technology baskets where the rolling correlation of returns is starting to decline, indicating that there is not just one Technology trade. For instance, the Agentic AI and Post-Quantum Cryptography baskets have return correlations near 3-year lows. The return correlation of the Disinformation Security basket was become far less correlated to the Ambient Invisible Intelligence basket even before this week's announcement that Palo Alto Networks (PANW) will buy CyberArk (CYBR). Nonetheless, **Technology investors need diversifying stock ideas, and we offer five approaches in today's work.**

Idea #1: Technology Stocks that Worked Last Time: We evaluated Technology stock returns during the February 18th to April 8th market sell-off. While this approach could obviously have a recency bias or encompass some spurious results, often the historical playbooks re-emerge if we get a pullback. Only three technology stocks realized positive returns during the drawdown with Clear Secure (YOU), Marqeta (MQ), and Verisign (VRSN) performing best.

Idea #2: Positive Alpha YTD, Low Correlation to Semiconductors and Positive Fundamentals: Two of the big challenges for investors over the past 18 months has 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 alpha year-to-date, low correlation to Semiconductors, positive forecasted revenue growth, and forecasted gross margin expansion. These stocks include International Business Machines (IBM), Roper Technologies (ROP), Paychex (PAYX), Check Point Software Technologies (CHKP), and Guidewire Software (GWRE), among others.

RESEARCH SUMMARY AND INVESTMENT CONCLUSIONS

Idea #3: Consistent Dividend Growth and Strong Fundamentals: We think companies with consistent dividend growth are likely to provide strong defense if there's a growth scare. But more than that, we wanted some fundamental strength. So, Technology companies with indicated dividend growth AND at least 7% forecasted sales growth and 10% forecasted earnings growth should outperform. Microsoft (MSFT), Visa (V) – which just reported as we are typing this, MasterCard (MA), and Intuit (INTU), among others, meet these criteria. Notably, this screen does not include valuation.

Idea #4: Predictable Earnings, Relatively Cheap, Positive Growth: It is often challenging to have visibility beyond two quarters into the future. Hence, owning Technology stocks that have more predictable earnings estimates often can offer some attractive properties. 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. We then take these relatively “easy to predict” businesses, and subset for those that are forecasted to grow earnings and are in the cheapest half on price-to-forward earnings vs. their own histories. This enables us to avoid companies that are cheap but are in obvious decline. These stocks include Salesforce.com (CRM), Adobe (ADBE), Fortinet (FTNT), and Zoom Communications (ZM), among others.

Idea #5: Low Beta: An obvious way to protect a portfolio in a market correction is to buy low-beta stocks. We identified low-beta (bottom tertile) Technology stocks that the consensus forecasts to grow earnings and are cheap on price-to-forward earnings vs. their histories (bottom half). These are defensive, low-beta companies, with some earnings growth at a reasonable price. Names include GoDaddy (GDDY), Zoom Communications (ZM), Bentley Systems (BSY), Amdocs (DOX), and Genpact (G), among others.

MANY OF TECH. STOCKS IN GROWTH AREAS ARE HIGHLY CORRELATED

One of the major challenges for Technology investors has been that many of the stocks with revenue exposure to the higher growth themes are very correlated to each other. Below we show the trailing 126-day (six months) correlation of returns of each of the nine baskets of stocks we have identified in our Technology Research ([see last week's note](#)). For instance, our AI Governance basket is 0.96 correlated with our Agentic AI basket. Post-quantum cryptography and Ambient Invisible Intelligence have the lowest average correlation to the other Technology baskets.

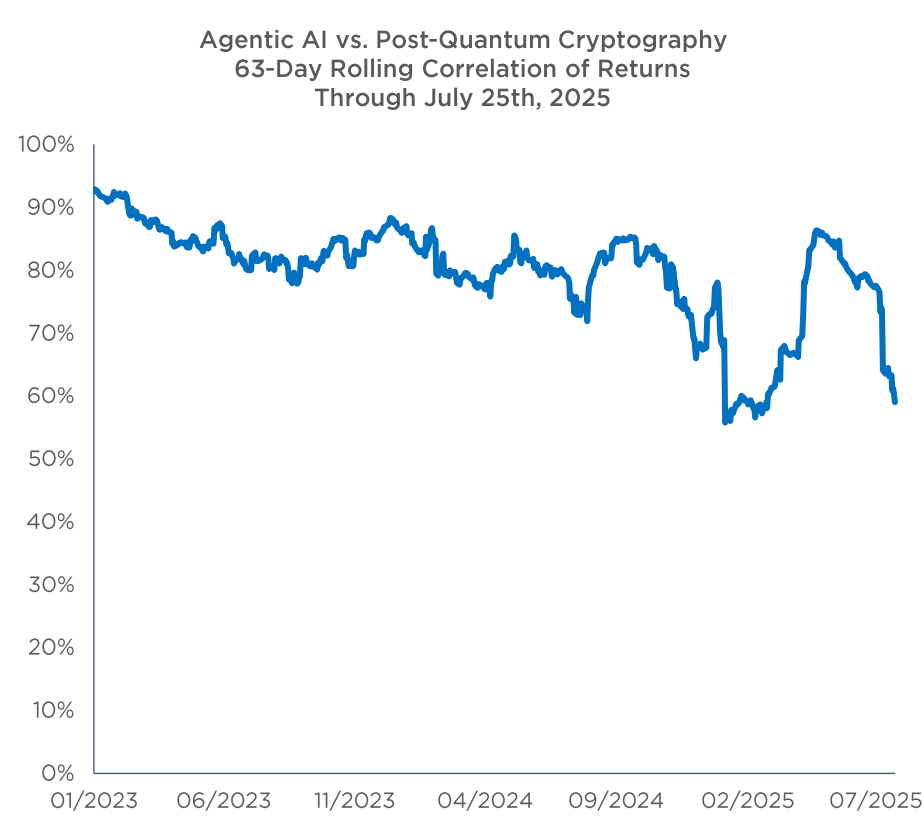
126-Day Correlation of Returns
As of July 25th, 2025

| | Agentic AI | AI Governance | Disinformation Security | Post-quantum Cryptography | Ambient Invisible Intelligence | Energy-efficient Computing | Hybrid Computing | Spatial Computing |
|--------------------------------|------------|---------------|-------------------------|---------------------------|--------------------------------|----------------------------|------------------|-------------------|
| Agentic AI | 100.0% | 96.4% | 94.2% | 78.2% | 79.4% | 89.7% | 93.2% | 91.3% |
| AI Governance | 96.4% | 100.0% | 95.2% | 75.5% | 75.3% | 83.9% | 89.1% | 86.4% |
| Disinformation Security | 94.2% | 95.2% | 100.0% | 74.1% | 71.5% | 80.8% | 87.3% | 83.5% |
| Post-quantum Cryptography | 78.2% | 75.5% | 74.1% | 100.0% | 59.6% | 72.1% | 78.8% | 71.0% |
| Ambient Invisible Intelligence | 79.4% | 75.3% | 71.5% | 59.6% | 100.0% | 88.5% | 85.7% | 90.0% |
| Energy-efficient Computing | 89.7% | 83.9% | 80.8% | 72.1% | 88.5% | 100.0% | 95.2% | 95.0% |
| Hybrid Computing | 93.2% | 89.1% | 87.3% | 78.8% | 85.7% | 95.2% | 100.0% | 95.8% |
| Spatial Computing | 91.3% | 86.4% | 83.5% | 71.0% | 90.0% | 95.0% | 95.8% | 100.0% |

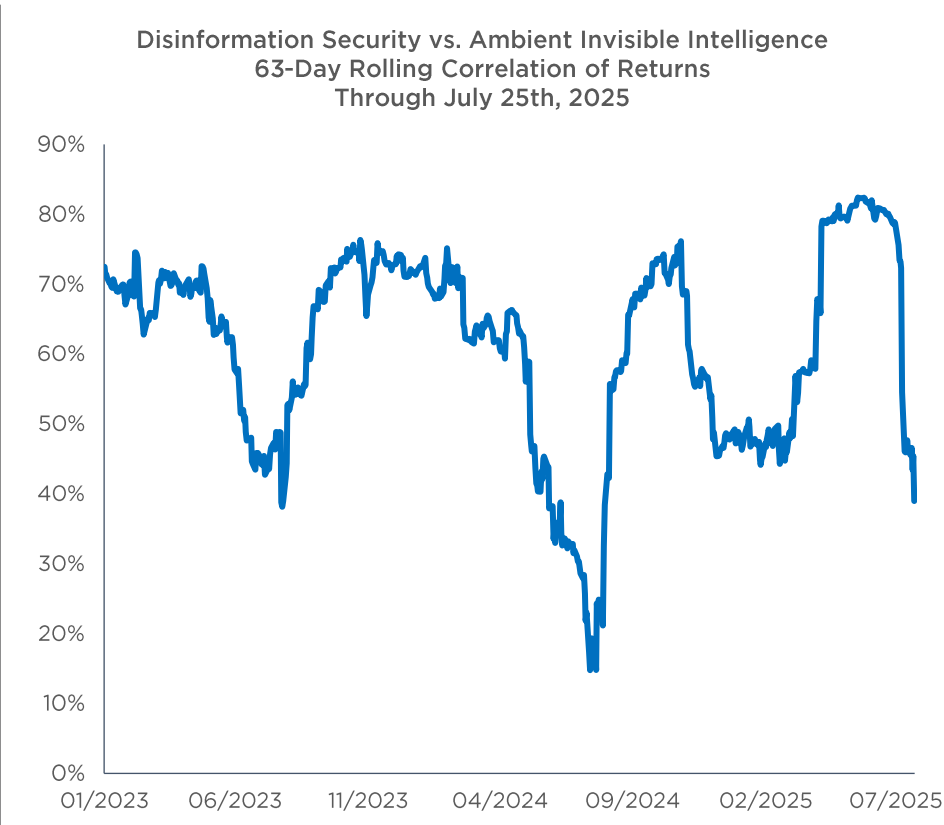
Source: Trivariate Research

ROLLING BASKET CORRELATIONS

Recently, there are some Technology baskets where the rolling correlation of returns is starting to decline, indicating that there is not just one Technology trade. For instance, the Agentic AI and Post-Quantum Cryptography baskets have return correlations near lows since inception (left). The return correlation of the Disinformation Security basket was become far less correlated to the Ambient Invisible Intelligence basket even before this week’s announcement that Palo Alto Networks (PANW) will buy CyberArk (CYBR) (right). Nonetheless, Technology investors needs diversifying, not highly correlated stock ideas, and we offer 5 approaches in today’s work.



Source: Trivariate Research



Source: Trivariate Research

IDEA #1: WHAT WORKED LAST TIME?

While this could easily have some recency biases, our first approach is to just look at stocks performed best during the sharp sell-off earlier this year. To the extent that a tariff-related growth scare re-emerges later this summer, it is likely a similar playbook will unfold. Only three technology stocks realized positive returns during the drawdown (see below), but Clear Secure (YOU), Marqeta (MQ), and Verisign (VRSN) performing best.

Best Performing Tech Stock During S&P500 Correction
February 18th, 2025 to April 8th, 2025

| Ticker | Company | Sub-Industry | Market Cap. (US \$Bil.) | Returns During Correction | Next Report Date |
|--------|--|---|-------------------------|---------------------------|------------------|
| YOU | Clear Secure, Inc. | Application Software | 2.58 | 8.0% | 08/05/2025 |
| MQ | Marqeta, Inc. | Transaction & Payment Processing Services | 2.73 | 4.6% | 08/06/2025 |
| VRSN | VeriSign, Inc. | Internet Services & Infrastructure | 27.12 | 2.7% | 10/24/2025 |
| JKHY | Jack Henry & Associates, Inc. | Transaction & Payment Processing Services | 13.12 | (1.5%) | 08/20/2025 |
| QBTS | D-Wave Quantum Inc. | Application Software | 4.63 | (2.4%) | 08/07/2025 |
| MMS | Maximus, Inc. | Data Processing & Outsourced Services | 3.96 | (3.4%) | 08/07/2025 |
| APPF | AppFolio, Inc. | Application Software | 8.30 | (4.2%) | 07/31/2025 |
| CNXC | Concentrix Corporation | Data Processing & Outsourced Services | 3.33 | (5.0%) | 09/25/2025 |
| OKTA | Okta, Inc. | Internet Services & Infrastructure | 17.50 | (5.1%) | 08/28/2025 |
| ITRI | Itron, Inc. | Electronic Equipment & Instruments | 6.00 | (5.1%) | 07/31/2025 |
| EVTC | EVERTEC, Inc. | Transaction & Payment Processing Services | 2.29 | (5.8%) | 07/30/2025 |
| CHKP | Check Point Software Technologies Ltd. | Systems Software | 23.98 | (6.3%) | 07/30/2025 |
| FICO | Fair Isaac Corporation | Application Software | 44.50 | (6.8%) | 07/30/2025 |
| SPNS | Sapiens International Corporation N.V. | Application Software | 1.63 | (6.9%) | 08/13/2025 |
| PAYX | Paychex, Inc. | Human Resource & Employment Services | 52.44 | (7.0%) | 10/01/2025 |

Source: Trivariate Research

IDEA #2: POSITIVE α YTD, LOW CORR. TO SEMIS, GOOD FUNDAMENTALS

Two of the big challenges for investors over the past 18 months has 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 alpha year-to-date, low correlation to Semiconductors, positive forecasted revenue growth, and forecasted gross margin expansion. These stocks include International Business Machines (IBM), Roper Technologies (ROP), Paychex (PAYX), Check Point Software Technologies (CHKP), and Guidewire Software (GWRE), among others.

Stocks with Positive Alpha YTD, Low Correlation to Semis, and Forecasted Revenue Growth & Margin Expansion
As of July 25th, 2025

| Ticker | Company | Sub-Industry | Market Cap. (US \$Bil.) | Correlation to Semis | YTD Alpha | Next Report Date |
|--------|---|---|-------------------------|----------------------|-----------|------------------|
| IBM | International Business Machines Corporation | IT Consulting & Other Services | 241.93 | 45.0% | 11.3% | 10/22/2025 |
| ROP | Roper Technologies, Inc. | Application Software | 60.53 | 48.9% | 0.6% | 10/23/2025 |
| PAYX | Paychex, Inc. | Human Resource & Employment Services | 53.31 | 35.3% | 0.2% | 10/01/2025 |
| CHKP | Check Point Software Technologies Ltd. | Systems Software | 23.85 | 36.5% | 11.3% | 07/30/2025 |
| GWRE | Guidewire Software, Inc. | Application Software | 18.81 | 44.2% | 21.9% | 09/05/2025 |
| OKTA | Okta, Inc. | Internet Services & Infrastructure | 17.70 | 44.9% | 16.0% | 08/28/2025 |
| PEGA | Pegasystems Inc. | Application Software | 10.06 | 46.8% | 10.2% | 10/23/2025 |
| CNXC | Concentrix Corporation | Data Processing & Outsourced Services | 3.82 | 25.8% | 30.9% | 09/25/2025 |
| YOU | Clear Secure, Inc. | Application Software | 2.76 | 32.6% | 3.6% | 08/05/2025 |
| MQ | Marqeta, Inc. | Transaction & Payment Processing Services | 2.71 | 25.2% | 37.2% | 08/06/2025 |
| APLD | Applied Digital Corporation | Internet Services & Infrastructure | 2.61 | 43.1% | 33.3% | 07/30/2025 |
| VSAT | Viasat, Inc. | Communications Equipment | 1.91 | 41.8% | 57.1% | 08/07/2025 |

Source: Trivariate Research

IDEA #3: 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), Visa (V) which reported last night, MasterCard (MA), and Intuit (INTU), 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.

Stocks with Consistent Dividend Growth and High Forecasted Sales & Earnings Growth
As of July 25th, 2025

| Ticker | Company | Sub-Industry | Market Cap. (US \$Bil.) | Next Report Date |
|--------|---------------------------------|---|-------------------------|------------------|
| MSFT | Microsoft Corporation | Systems Software | 3,818.17 | 07/30/2025 |
| V | Visa Inc. | Transaction & Payment Processing Services | 668.44 | 07/29/2025 |
| MA | Mastercard Incorporated | Transaction & Payment Processing Services | 515.97 | 07/31/2025 |
| INTU | Intuit Inc. | Application Software | 219.24 | 08/22/2025 |
| ADP | Automatic Data Processing, Inc. | Human Resource & Employment Services | 125.28 | 07/30/2025 |
| LRCX | Lam Research Corporation | Semiconductor Materials & Equipment | 124.02 | 07/30/2025 |
| KLAC | KLA Corporation | Semiconductor Materials & Equipment | 119.29 | 07/31/2025 |
| ADI | Analog Devices, Inc. | Semiconductors | 113.06 | 08/20/2025 |
| TEL | TE Connectivity plc | Electronic Manufacturing Services | 61.55 | 10/30/2025 |
| ROP | Roper Technologies, Inc. | Application Software | 60.53 | 10/23/2025 |
| PAYX | Paychex, Inc. | Human Resource & Employment Services | 53.31 | 10/01/2025 |
| BSY | Bentley Systems, Incorporated | Application Software | 18.48 | 08/06/2025 |
| POWI | Power Integrations, Inc. | Semiconductors | 2.93 | 08/06/2025 |

Source: Trivariate Research

IDEA #4: 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. These stocks include Salesforce.com (CRM), Adobe (ADBE), Fortinet (FTNT), and Zoom Communications (ZM), among others (see below).

Stocks with Narrow Estimate Dispersion, Forecasted EPS Growth, and Cheap on Price-to-Forward Earnings vs. History
As of July 25th, 2025

| Ticker | Company | Sub-Industry | Market Cap. (US \$Bil.) | Next Report Date |
|--------|----------------------------------|--|-------------------------|------------------|
| CRM | Salesforce, Inc. | Application Software | 257.27 | 08/28/2025 |
| ADBE | Adobe Inc. | Application Software | 157.27 | 09/12/2025 |
| FTNT | Fortinet, Inc. | Systems Software | 80.23 | 08/06/2025 |
| ZM | Zoom Communications Inc. | Application Software | 22.64 | 08/21/2025 |
| SSNC | SS&C Technologies Holdings, Inc. | Data Processing & Outsourced Services | 21.01 | 10/24/2025 |
| PSTG | Pure Storage, Inc. | Technology Hardware, Storage & Peripherals | 18.82 | 08/28/2025 |
| FFIV | F5, Inc. | Communications Equipment | 17.19 | 07/30/2025 |
| PCTY | Paylocity Holding Corporation | Human Resource & Employment Services | 10.38 | 08/05/2025 |
| OLED | Universal Display Corporation | Semiconductors | 7.09 | 07/31/2025 |
| WEX | WEX Inc. | Transaction & Payment Processing Services | 6.02 | 10/24/2025 |
| SPSC | SPS Commerce, Inc. | Application Software | 5.18 | 07/30/2025 |
| QLYS | Qualys, Inc. | Systems Software | 4.97 | 08/05/2025 |

Source: Trivariate Research

IDEA #5: LOW BETA

An obvious way to protect a portfolio in a market correction is to buy low-beta stocks. Below are stocks that are low-beta (bottom tertile), are forecasted to grow earnings, and are cheap on price-to-forward earnings vs. their histories (bottom half). These are defensive, low-beta companies, with some earnings growth at a reasonable price. Names include GoDaddy (GDDY), Zoom Communications (ZM), Bentley Systems (BSY), Amdocs (DOX), and Genpact (G), among others.

Stocks with Low Beta, Forecasted EPS Growth, and Cheap on Price-to-Forward Earnings vs. History
As of July 25th, 2025

| Ticker | Company | Sub-Industry | Market Cap. (US \$Bil.) | Beta | Next Report Date |
|--------|---|---|-------------------------|------|------------------|
| GDDY | GoDaddy Inc. | Internet Services & Infrastructure | 23.65 | 0.81 | 08/07/2025 |
| ZM | Zoom Communications Inc. | Application Software | 22.64 | 0.82 | 08/21/2025 |
| BSY | Bentley Systems, Incorporated | Application Software | 18.48 | 0.82 | 08/06/2025 |
| DOX | Amdocs Limited | IT Consulting & Other Services | 9.77 | 0.61 | 08/06/2025 |
| G | Genpact Limited | Data Processing & Outsourced Services | 7.96 | 0.66 | 08/07/2025 |
| DLB | Dolby Laboratories, Inc. | Systems Software | 7.34 | 0.78 | 07/31/2025 |
| CCCS | CCC Intelligent Solutions Holdings Inc. | Application Software | 6.60 | 0.76 | 07/31/2025 |
| PRGS | Progress Software Corporation | Systems Software | 2.19 | 0.67 | 09/24/2025 |
| EVTC | EVERTEC, Inc. | Transaction & Payment Processing Services | 2.12 | 0.75 | 07/30/2025 |
| CSGS | CSG Systems International, Inc. | Data Processing & Outsourced Services | 1.72 | 0.73 | 08/06/2025 |

Source: Trivariate Research

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