

Level Set: Where Should You Aim the Double-Breaking Putt?

Because it's the Ryder Cup in golf this weekend, we thought it was timely to use one of our favorite golf analogies - the double breaking putt, to describe our emerging views on the market through 2026.

The market reached new highs early this past week, and a few investors asked us whether they should lock in the returns for the year (the S&P500 is up 13% and the Nasdaq is up 16.4% year to date) or bet on momentum carrying us through year-end. We analyzed 98 years of S&P500 returns to see if there was any information in predicting the fourth quarter returns based on how well the S&P500 did during the first nine months of the year. The answer is - YES! It might be a modest surprise to some, but 40% of the time, the S&P500 is up 10% or more during the first three quarters of any given calendar year (39 out of 98). **During these years, the Q4 performance on average was higher, and with lower volatility, than the Q4 performance in the 59 out of 98 years that the S&P500 was up less than 10% during the first nine months of the year. This indicates that "locking in performance" was likely a poor choice more often than not in the past.**

So near-term, the risk-on trade will remain in effect for the fourth quarter if history is a guide.

S&P500 Returns Q1 through Q3 vs. Q4 Return 1928-Present								
Q1 - Q3 Return	Q4 Return							
Jan-Sept Return	Number of Years	Mean	Std. Dev	Minimum	25th Percentile	Median	75th Percentile	Maximum
<10%	59	2.2%	9.4%	(23.3%)	(1.3%)	4.3%	7.9%	20.9%
>=10%	39	3.9%	8.4%	(28.9%)	1.6%	5.4%	8.2%	15.9%

Source: Trivariate Research, LP

In fact, if you segment the previous 98 years of returns into quintiles by the first 9 months' performance and then observe returns for the final three months of each year, history shows that the 2nd best performing quintile - where we are now - results in the highest average and median Q4 performance with the lowest Q4 return volatility on average (see below).

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S&P500 Returns Q1 through Q3 vs. Q4 Return 1928-Present								
Jan-Sept Return Quintiles	Number of Years	Mean	Std. Dev	Minimum	25th Percentile	Median	75th Percentile	Maximum
[-36.70%, -9.03%]	20	0.2%	11.4%	(23.3%)	(2.5%)	5.2%	7.9%	12.1%
(-9.03%, 2.47%]	19	1.3%	8.6%	(14.8%)	(2.2%)	1.6%	7.6%	16.8%
(2.47%, 9.60%]	20	5.0%	7.7%	(14.0%)	2.5%	4.5%	7.9%	20.9%
(9.60%, 17.73%]	19	5.1%	4.0%	(1.3%)	2.1%	5.5%	7.7%	11.6%
(17.73%, 40.46%]	20	2.8%	11.1%	(28.9%)	0.9%	4.8%	8.9%	15.9%

Source: Trivariate Research, LP

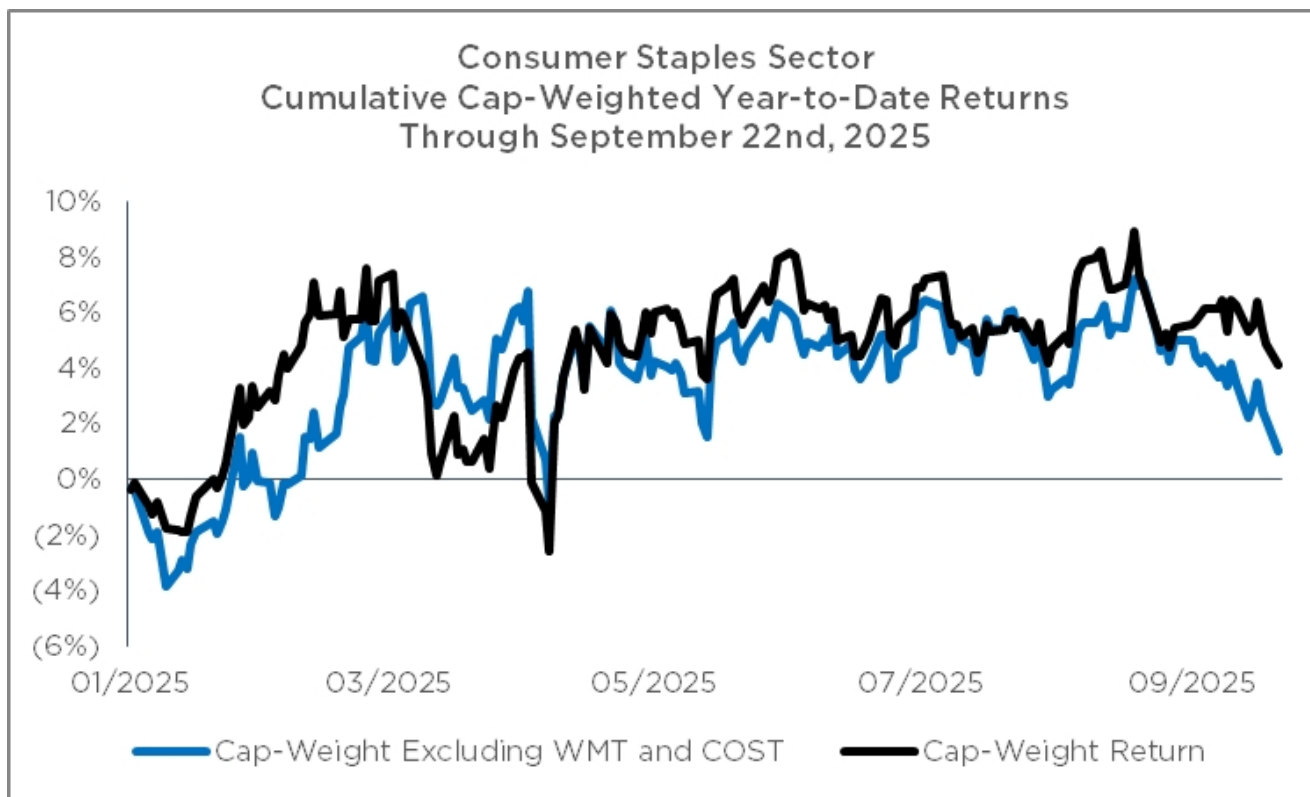
Longer-term however, strong S&P500 returns in 3-, 5-, and 10-year increments often portend lower subsequent annual returns. We looked at 3-, 5-, and 10-year periods of time, by quintile of performance, and then observed the distribution of outcomes over the next 12 months for each quintile of the previous period's returns. The worst performing group - for each longer-term period - was the best performing quintile previously. The best performing was closer to the median performance over the previous period in most cases. Today, the S&P500 is in its top quintile vs. its 98-year history on 3-, 5-, and 10-year returns. **So for 2026, if history is a guide a below average (but perhaps still positive) return year is more probable.** In golf terms, this is a double-breaking putt - up first, and down later.

...But 2026 Could Be Below Average

One-Year Subsequent S&P500 Returns Periods Following 3-, 5-, 10-Year Returns by Performance Quintile 1928 to Present											
Trailing Period	Period Returns by Quintile	Quintile Minimum	Quintile Maximum	# of Days	Mean	Standard Deviation	Minimum	25th Percentile	Median	75th Percentile	Maximum
3 Years	Best	49.0%	169.8%	4691	5.1%	19%	(52.0%)	(7.9%)	4.2%	20.0%	50.4%
	2	31.9%	49.0%	4685	9.9%	15%	(44.7%)	0.1%	11.5%	20.3%	54.9%
	3	19.3%	31.9%	4651	10.8%	15%	(46.9%)	3.0%	12.2%	19.3%	66.4%
	4	(1.5%)	19.3%	4750	7.9%	19%	(55.5%)	(2.4%)	8.3%	19.0%	82.6%
	Worst	(84.3%)	(1.5%)	4758	9.3%	26%	(71.1%)	(5.1%)	10.1%	22.1%	171.1%
5 Years	Best	82.7%	287.1%	4434	4.4%	18%	(52.0%)	(8.0%)	4.9%	17.0%	50.0%
	2	56.8%	82.7%	4628	9.4%	16%	(48.8%)	(0.2%)	9.0%	19.7%	50.4%
	3	31.4%	56.8%	4656	8.0%	17%	(47.7%)	(3.3%)	10.2%	19.8%	54.1%
	4	0.3%	31.4%	4656	8.4%	17%	(43.2%)	(2.2%)	9.7%	19.8%	74.8%
	Worst	(72.8%)	0.3%	4657	13.9%	19%	(33.0%)	3.4%	12.2%	23.8%	98.2%
10 Years	Best	191.0%	387.5%	4279	4.6%	14%	(34.3%)	(7.0%)	6.8%	14.7%	40.3%
	2	139.4%	191.0%	4279	14.5%	15%	(31.5%)	4.5%	15.1%	25.9%	50.4%
	3	71.9%	139.4%	4404	11.1%	15%	(35.8%)	1.6%	10.4%	20.8%	74.8%
	4	22.3%	71.8%	4404	5.7%	18%	(48.8%)	(7.9%)	10.4%	18.8%	50.8%
	Worst	(64.3%)	22.2%	4405	8.0%	16%	(47.7%)	(1.7%)	7.7%	17.3%	68.6%

Source: Trivariate Research, LP

We had an interesting week with some in-person meetings in South Florida and zooms and meetings with several investors as well as executives at public companies. One value PM told me it was obvious math there is poor return on the current hyper scaler investment. Another growth PM told me it was obvious math there was very positive return on this investment, to the point that current free cash flow could go closer to zero for many of the mega-cap companies as they chase these returns with more investment. Some investors sent me the Nvidia's CEO interview with Brad Gerstner saying this is all you need to watch to get way more bullish. Another investor sent me an article making the case that one of the main areas in Healthcare won't be improved as much as people think by AI. Given all these conflicting narratives, it is clear that timing the top of the current AI cycle will be challenging. Our current base is that it is too early to get negative, so up now and down later is our "read of the green." But, for those getting concerned, we think we have a few views worth sharing. Firstly, we don't think Consumer Staples, a classic way of playing defense, will work this cycle. Excluding Walmart (WMT) and Costco (COST), Staples have materially lagged this year, up only 1% so far. Many don't have the pricing power or underlying stability of previous cycles, and we would remain cautious.



Source: Trivariate Research, LP

Secondly, even if the AI trade continues to rage, it is likely prudent to understand which stocks are correlated to the trade but are not in the Technology sector. While it is certainly plausible that some of the correlations are spurious, we found of the 900 mega-, large-, or mid-cap stocks currently in our universe, 83 of them have a daily return correlation over the last 6-months of 0.8 or higher to our proprietary AI Semiconductors basket.

Of these 83 stocks, 46 of them are NOT in the Technology sector, representing \$3.7 Trillion of market capitalization today.

The largest of these stocks include many Financials, including the Alternative Asset Managers like Blackstone (BX), KKR (KKR), and Ares Management (ARES), the “Big 3” Financials of JPMorgan (JPM), Goldman Sachs (GS), and Morgan Stanley (MS), as well as several Industrials like Eaton (ETN), Caterpillar (CAT) and Parker-Hannifan (PH). While 0.8 is an arbitrary cut-off, we take some small comfort that none of the Utilities stocks are as correlated to this basket as we thought. For the full list, please don’t hesitate to reach out.

Non-Technology Sector

Stocks With a 0.8 or Higher 6-Month Daily Trading Correlation to
Trivariate's AI Semiconductors Basket
As of September 25th, 2025

Ticker	Company	Industry Group	Market Cap (US \$ Bil.)
JPM	JPMorgan Chase & Co.	Banks	861.9
MS	Morgan Stanley	Capital Markets	253.7
GS	The Goldman Sachs Group, Inc.	Capital Markets	251.6
AXP	American Express Company	Consumer Finance	236.7
CAT	Caterpillar Inc.	Machinery	217.2
C	Citigroup Inc.	Banks	188.0
COF	Capital One Financial Corporation	Consumer Finance	142.3
ETN	Eaton Corporation plc	Electrical Equipment	142.0
BX	Blackstone Inc.	Capital Markets	137.4
KKR	KKR & Co. Inc.	Capital Markets	120.9
PH	Parker-Hannifin Corporation	Machinery	94.3
PNC	The PNC Financial Services Group, Inc.	Banks	79.8
APO	Apollo Global Management, Inc.	Financial Services	77.9
EMR	Emerson Electric Co.	Electrical Equipment	73.2
MAR	Marriott International, Inc.	Hotels, Restaurants & Leisure	70.8
JCI	Johnson Controls International plc	Building Products	69.2
QMI	Cummins Inc.	Machinery	57.0
AMP	Ameriprise Financial, Inc.	Capital Markets	46.4
CCL	Carnival Corporation & plc	Hotels, Restaurants & Leisure	39.6
ARES	Ares Management Corporation	Capital Markets	35.8
RJF	Raymond James Financial, Inc.	Capital Markets	34.3
WAB	Westinghouse Air Brake Technologies Corporation	Machinery	33.3
DD	DuPont de Nemours, Inc.	Chemicals	31.2
VIK	Viking Holdings Ltd	Hotels, Restaurants & Leisure	26.6

Source: Trivariate Research, LP

Lastly, understanding which stocks are up but are not correlated to the AI Semiconductors can potentially be helpful. We all worried before - and maybe more now after seeing the above exhibit, that some of our Financials and Industrials positions are correlated to the AI trade. Of the 900 mega-, large-, and mid-cap stocks, 125 of them have a daily return correlation of less than 0.2 to our AI Semiconductors basket over the last six months. Of those 125, 43 of them are up more than 10% in the last 6 months, 55 of them are up more than 5%. Below we show the largest stocks, including several Healthcare names we have been recommending in our research over the last year, like McKesson (MCK), Cencora (COR), Quest (DGX), and United Therapeutics (UTHR), as well as select Aerospace & Defense, Materials, Auto Supply Retail, and select rate-sensitive securities in Homebuilding (see below).

Non-Technology Sector
Stocks With a 0.2 or Lower 6-Month Daily Trading Correlation to
Trivariate's AI Semiconductors Basket
And Up At Least 10% in the Last Six Months
As of September 25th, 2025

Ticker	Company	Sector	Industry Group	Market Cap.(U S \$ Bil)	Quality Quartile
JNJ	Johnson & Johnson	Health Care	Pharmaceuticals	428.0	High
WELL	Welltower Inc.	Real Estate	Health Care REITs	114.8	High
LMT	Lockheed Martin Corporation	Industrials	Aerospace & Defense	113.1	Low
MO	Altria Group, Inc.	Consumer Staples	Tobacco	109.5	High
CVS	CVS Health Corporation	Health Care	Health Care Providers & Services	94.6	Low
MCK	McKesson Corporation	Health Care	Health Care Providers & Services	91.6	High
NEM	Newmont Corporation	Materials	Metals & Mining	91.6	High
ORLY	O'Reilly Automotive, Inc.	Consumer Discretionary	Specialty Retail	88.7	High
NOC	Northrop Grumman Corporation	Industrials	Aerospace & Defense	83.9	High
AEM	Agnico Eagle Mines Limited	Materials	Metals & Mining	80.3	High
AZD	AutoZone, Inc.	Consumer Discretionary	Specialty Retail	68.9	High
COR	Cencora, Inc.	Health Care	Health Care Providers & Services	57.9	Mid
DHI	D.R. Horton, Inc.	Consumer Discretionary	Household Durables	49.2	Mid
XEL	Xcel Energy Inc.	Utilities	Electric Utilities	45.7	High
EBAY	eBay Inc.	Consumer Discretionary	Broadline Retail	42.6	Mid
RKT	Rocket Companies, Inc.	Financials	Financial Services	40.1	Junk
HSY	The Hershey Company	Consumer Staples	Food Products	37.6	Low
AU	AngloGold Ashanti plc	Materials	Metals & Mining	33.2	Mid
WRB	W. R. Berkley Corporation	Financials	Insurance	28.3	High
ATO	Atmos Energy Corporation	Utilities	Gas Utilities	26.7	High
FE	FirstEnergy Corp.	Utilities	Electric Utilities	25.5	High
CBOE	Cboe Global Markets, Inc.	Financials	Capital Markets	25.5	High
DG	Dollar General Corporation	Consumer Staples	Consumer Staples Distribution & Retail	22.6	Low
PSKY	Paramount Skydance Corporation	Communication Services	Media	20.8	Low
DGX	Quest Diagnostics Incorporated	Health Care	Health Care Providers & Services	20.7	Mid

Source: Trivariate Research, LP

CONCLUSION

The tension about timing the correction in AI-related securities is growing among institutional investors. History says Q4 will be strong, but a sell-off in 2026 is increasingly likely. Avoiding companies correlated to AI that don't have as much fundamental exposure, and adding to those that have performed well but aren't correlated to AI is increasingly prudent.

Important Disclosures

Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Colin Cooney, Chang Ge 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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