

Level Set - Blow-Up Avoidance Guide - How Are You Dealing With The S&P500 Being an AI Factor Bet?

The views expressed by investors in our meetings and idea dinners this past week seem increasingly polarized. Some are shorting high beta winners with poor fundamentals, skeptical about the sustainability of the most speculative part of the rally. Others, like us, think a shopping list of future short ideas combined with diversifying long ideas is increasingly prudent. Lastly, there are those who firmly believe “the party” is going to last for several more quarters or years. While we continue to think the bull case pillars of AI productivity and a dovish Fed make for a good outlook, we are now somewhere in the middle of the pack on our bullishness on a three-to-six month outlook. **Our quality-adjusted AI factor now has its highest correlation ever to the S&P500. It isn't hyperbolic to say that the S&P500 is an AI factor bet (see below).**

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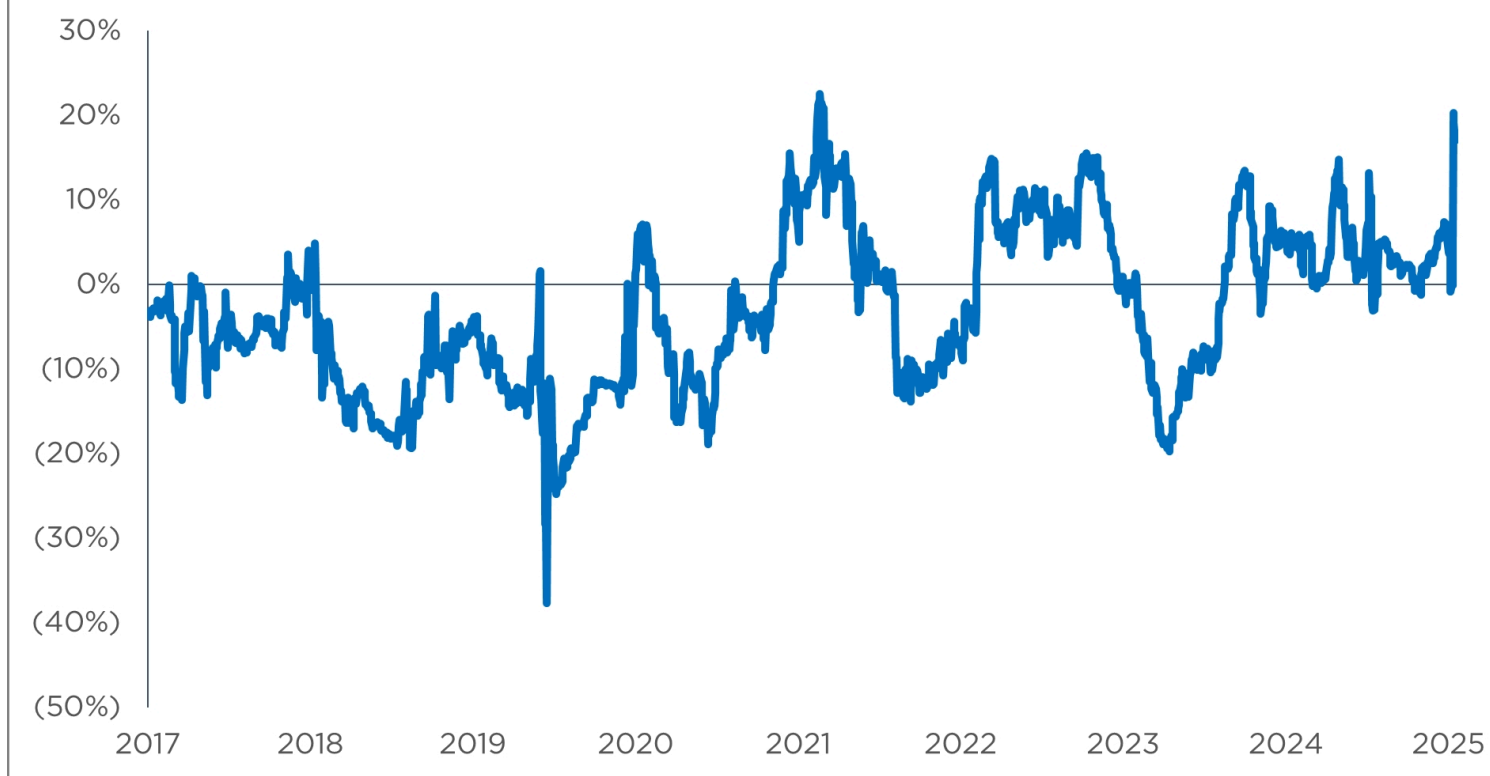
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Rolling 126-Day Correlation AI Factor Spread vs. SPX Through October 14th, 2025



Source: Trivariate Research, LP

While there are plenty of high-quality AI-exposed stocks to own, the challenge, as we have been pointing out all year and increasingly in recent weeks, is so many non-Technology stocks have also become correlated to the AI trade. We received several requests for our screen of stocks with low correlation to our AI Semiconductors basket (less than 0.2), that are also up at least 10% in the last six months, top-half quality, and beta less than 1. Below we show the 28 stocks meeting these criteria that are greater than \$50 billion market cap. Please don't hesitate to reach out to us for the stocks that are smaller cap. At a stock idea dinner we held this past week, we heard pitches for the HMOs, NEE, and ECL among this screen. We have been advocating for the Drug Distributors all year. **We like adding to stocks on this list today.**

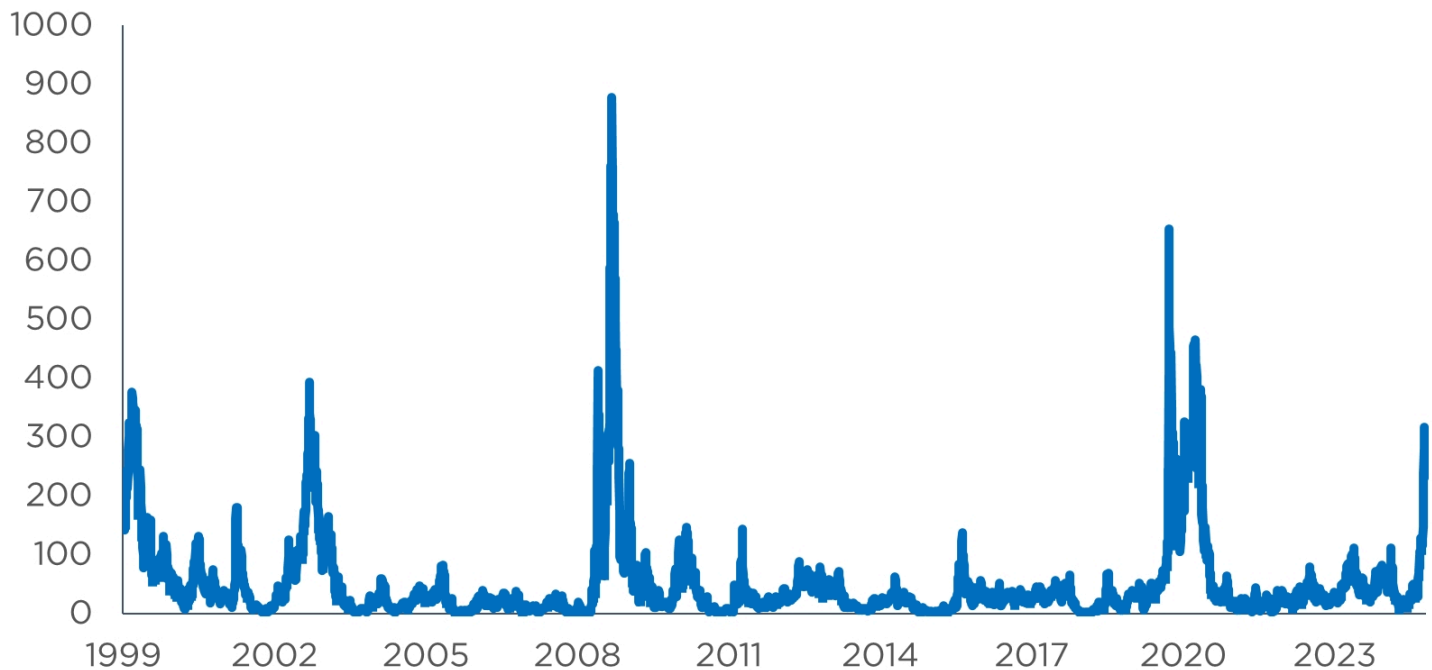
**Stocks that Have 0.2 Or Lower Correlation to Trivariate's AI Semiconductors Basket
Up More than 10% in the Last 6 Months
Top Half-Quality and Beta Less than 0.1
As of October 17th, 2025**

Ticker	Name	Sector	Market Cap. (US \$Bil.)
WMT	Walmart Inc.	Consumer Staples	858.9
NFLX	Netflix, Inc.	Communication Services	509.6
JNJ	Johnson & Johnson	Health Care	465.3
ABBV	AbbVie Inc.	Health Care	405.5
MRK	Merck & Co., Inc.	Health Care	211.8
RTX	RTX Corporation	Industrials	211.4
NEE	NextEra Energy, Inc.	Utilities	174.1
TJX	The TJX Companies, Inc.	Consumer Discretionary	160.1
GILD	Gilead Sciences, Inc.	Health Care	152.4
PFE	Pfizer Inc.	Health Care	139.4
WELL	Welltower Inc.	Real Estate	117.1
MO	Altria Group, Inc.	Consumer Staples	109.3
HCA	HCA Healthcare, Inc.	Health Care	99.7
NEM	Newmont Corporation	Materials	99.4
MCK	McKesson Corporation	Health Care	97.8
GD	General Dynamics Corporation	Industrials	88.9
AEM	Agnico Eagle Mines Limited	Materials	87.7
NOC	Northrop Grumman Corporation	Industrials	85.1
ECL	Ecolab Inc.	Materials	78.5
MNST	Monster Beverage Corporation	Consumer Staples	68.6
AZO	AutoZone, Inc.	Consumer Discretionary	67.2
ALNY	Alnylam Pharmaceuticals, Inc.	Health Care	63.1
COR	Cencora, Inc.	Health Care	63.0
AEP	American Electric Power Company, Inc.	Utilities	62.9
SRE	Sempra	Utilities	59.6
LHX	L3Harris Technologies, Inc.	Industrials	53.1
AXON	Axon Enterprise, Inc.	Industrials	52.7
D	Dominion Energy, Inc.	Utilities	51.7

Source: Trivariate Research, LP

But more than diversifying, part of the reason we are starting to see signs of the top and a more skeptical investor base, is the fact that we are seeing HUGE moves very quickly in some highly speculative stocks. Below we show the number of stocks, over time, that are up 100% or more on a rolling 6-month basis. Only the TMT bubble and recovery, the Global Financial Crisis and the COVID recovery have seen more big movers than we have seen in the last few months. While we can't time when this furious rally will end, it surely seems like a rotation is weeks not months away.

Number of Stocks >100% in 6m Top 3,000 US Equities Through October 16th, 2025



Source: Trivariate Research, LP

Because we can't think of a way to time when this will end, we think it is prudent to create a "sell" or "short" list, and get it ready for the first signs of a market rollover. The list should include the **dreamiest of dreamy stocks**, early-stage Semiconductor and Quantum plays, Alternative Power, Frontier Computing and Quantum, Infrastructure and Analytics tied to AI, and a hodgepodge of other Space, Satellite, Rare Earth metals, Nuclear Fuel, and other names. It is safe to say these all fall in the speculative and potentially over-hyped category. As a proxy for this, we show below stocks that are up 100% or more in the last 6 months, indicating the potential for excessive optimism. These stocks are in the most expensive decile of enterprise value-to-forecasted sales among the top 3000 US equities, a group we have determined underperforms over time. They are also in the bottom half of our quality model (so low quality or junk), which tend to lag in risk-off trades, have high short interest, indicative of hedge funds finding fundamental challenges, and have lower 2026 EPS estimates today than they did at the beginning of this year, meaning the recent big moves in stock prices are despite deteriorating nearer-term fundamental outlook. We found 24 such stocks with greater than \$1 billion market cap. (see below).

Stocks Up More than 100% in the Last 6 Months
Most Expensive Decile of EV-to-Forecasted Sales Among Top 3000 US Equities
High Short Interest, Bottom-Half of Trivariate's Quality Model
2026 EPS Estimates Lower Now than January 1, 2025
As of October 17, 2025

Ticker	Company Name	Market Cap.	Industry	6 Month Stock Performance	Short Interest	EV-to-Forecast Sales
RKLB	Rocket Lab Corporation	32.07	Aerospace & Defense	235.7%	13.5%	36.4x
NBIS	Nebius Group N.V.	28.49	Software	399.9%	12.4%	18.9x
BE	Bloom Energy Corporation	26.09	Electrical Equipment	399.9%	19.8%	12.5x
ASTS	AST SpaceMobile, Inc.	22.70	Diversified Telecommunication Services	256.9%	20.3%	93.1x
IONQ	IonQ, Inc.	19.77	Technology Hardware, Storage & Peripherals	144.5%	20.9%	118.8x
IREN	IREN Limited	16.64	Software	399.9%	14.8%	14.9x
RGTI	Rigetti Computing, Inc.	15.03	Semiconductors & Semiconductor Equipment	399.9%	15.3%	701.9x
MP	MP Materials Corp.	14.31	Metals & Mining	206.6%	19.4%	22.1x
QBTS	D-Wave Quantum Inc.	13.11	Software	399.9%	17.7%	338.4x
APLD	Applied Digital Corporation	9.58	IT Services	399.9%	27.7%	33.3x
QS	QuantumScape Corporation	8.69	Automobile Components	305.3%	11.6%	1616.2x
SOUN	SoundHound AI, Inc.	7.75	Software	143.2%	27.7%	36.5x
CIFR	Cipher Mining Inc.	7.38	Software	399.9%	20.4%	17.6x
UEC	Uranium Energy Corp.	7.18	Oil, Gas & Consumable Fuels	194.5%	11.6%	118.3x
SMR	NuScale Power Corporation	5.92	Electrical Equipment	202.9%	26.8%	44.3x
PI	Impinj, Inc.	5.86	Semiconductors & Semiconductor Equipment	193.3%	11.9%	13.9x
WULF	TeraWulf Inc.	5.68	Software	399.9%	27.7%	15.9x
HUT	Hut 8 Corp.	5.11	Software	333.1%	17.0%	15.7x
EOSE	Eos Energy Enterprises, Inc.	4.20	Electrical Equipment	217.3%	27.7%	12.0x
QUBT	Quantum Computing Inc.	4.11	Technology Hardware, Storage & Peripherals	186.0%	19.7%	1891.7x
BBAI	BigBear.ai Holdings, Inc.	3.23	IT Services	193.3%	19.1%	20.3x
NVTS	Navitas Semiconductor Corporat	3.12	Semiconductors & Semiconductor Equipment	399.9%	27.7%	57.1x
PCT	PureCycle Technologies, Inc.	2.37	Chemicals	119.7%	27.7%	25.3x
ABCL	AbCellera Biologics Inc.	1.67	Life Sciences Tools & Services	131.0%	23.8%	23.8x

Source: Trivariate Research, LP

There is also a large group of mid-cap or larger stocks that have been down this past year, where fundamentals appear to be relatively poor. They have lower 2026 estimates today than at the beginning of the year, are down this year despite the huge market rally, indicating material underperformance, and are in the bottom-half of our quality model (junk or low), a cohort that has performed well the last six months on a relative basis, leaving this group behind. Yet, these stocks don't have a particularly low correlation to the AI Semiconductor theme, meaning their weakness is not necessarily related to potential share loss from AI, rather just poor trends. We think this list of stocks are good candidates for short idea / underweight unless a material fundamental change occurs. Most have far lower 2026 outlooks today than nine months ago. This list includes some stocks we have been advocating to short for years, like TGT, but also select Transports, Airlines, Chemicals, and Hotels.

Mid-Cap Or Larger Stocks That Are Down Year-to-Date
Bottom-Half of Trivariate's Quality Model
2026 Earnings Estimates Down from Jan 1, 2025
Not Particularly Low Correlation to AI Semiconductor Basket
As of October 17, 2025

Ticker	Company Name	Market Cap.	Industry	YTD Return	% Downward Revision to 2026 Estimates
NKE	NIKE, Inc.	99.59	Textiles, Apparel & Luxury Goods	(9.4%)	(23.1%)
UPS	United Parcel Service, Inc.	73.24	Air Freight & Logistics	(28.0%)	(20.6%)
FDX	FedEx Corporation	56.11	Air Freight & Logistics	(13.9%)	(11.0%)
TGT	Target Corporation	41.28	Consumer Staples Distribution & Retail	(30.7%)	(16.8%)
DAL	Delta Air Lines, Inc.	38.68	Passenger Airlines	(0.2%)	(3.3%)
HPQ	HP Inc.	25.58	Technology Hardware, Storage & Peripher	(13.4%)	(5.4%)
IP	International Paper Company	24.59	Containers & Packaging	(11.0%)	(7.6%)
BBY	Best Buy Co., Inc.	16.75	Specialty Retail	(3.4%)	(1.9%)
DOW	Dow Inc.	15.52	Chemicals	(42.2%)	N/A
XPO	XPO, Inc.	15.30	Ground Transportation	(0.9%)	(0.5%)
MAS	Masco Corporation	14.21	Building Products	(5.2%)	(1.6%)
H	Hyatt Hotels Corporation	13.88	Hotels, Restaurants & Leisure	(7.1%)	(1.4%)
ENTG	Entegris, Inc.	13.79	Semiconductors & Semiconductor Equipr	(7.9%)	(7.0%)
HST	Host Hotels & Resorts, Inc.	11.19	Hotel & Resort REITs	(3.4%)	(10.2%)
SWKS	Skyworks Solutions, Inc.	11.18	Semiconductors & Semiconductor Equipr	(12.5%)	(20.5%)
OC	Owens Corning	10.62	Building Products	(24.4%)	(14.8%)
AUR	Aurora Innovation, Inc.	9.45	Software	(18.7%)	9.1%
AA	Alcoa Corporation	9.31	Metals & Mining	(3.8%)	(20.1%)
PR	Permian Resources Corporati	9.09	Oil, Gas & Consumable Fuels	(11.7%)	(22.4%)
GAP	The Gap, Inc.	8.01	Specialty Retail	(5.8%)	(0.3%)
AAON	AAON, Inc.	7.93	Building Products	(17.1%)	(37.4%)
EXP	Eagle Materials Inc.	7.70	Construction Materials	(3.5%)	(14.1%)
SIRI	Sirius XM Holdings Inc.	7.20	Media	(2.8%)	(5.1%)
EMN	Eastman Chemical Company	7.03	Chemicals	(30.7%)	(22.1%)
MIDD	The Middleby Corporation	6.76	Machinery	(1.5%)	(4.4%)

Source: Trivariate Research, LP

This past week was marred by some further signs of poor decision-making by some of the smaller Banks. We are recommending Financials, though we are somewhat concerned about how crowded this trade has become following recent conversations with investors and the high correlation of many of the large-cap Financials to the AI Semiconductors basket. We were asked several times this past week about emerging credit issues and whether they are isolated or the first signs of larger problems. These questions came on the heels of JPMorgan (JPM) CEO Jamie Dimon's "cockroaches" reference earlier in the week which implied that private credit issues are likely not anomalous. It may be true that there will be further, relatively small issues that surface, but our best guess is that the big picture economic conditions are strong enough to offset these credit concerns at this point. However, we are very cognizant of the fact that this paragraph may not age well.

Zions Bancorp (ZION) mentioned they are unlikely to get paid back \$60 million of bank loans this past week, adding fuel to the fire following First Brands bankruptcy and several Banks' exposure to this default that surfaced two weeks ago. Price action of a large sell-off and then some solid recovery Friday exposes, in our judgment, the names the market considers most associated with risk at this point. To the extent investors worry there are a few more cockroaches in the area, below is list of stocks with a high correlation to ZION, relative low return on tangible equity (below 10%) but relatively high price-to-tangible equity (above 1.1x), with beta above 1.1. **These stocks will likely sell-off sharply if more credit issues in the Regional Banks surface.**

Banks With 0.7 or Higher Correlation to ZION
Return on Tangible Equity Below 10% and Price-to-Tangible Book Above 1.1x
Beta Greater than 1.1
As of October 17th, 2025

Ticker	Company Name	Market Cap.	Corr. To Zion Last 6 Months	Beta	ROTE	Price-to-Tangible Book
KEY	Key Corp	18.9	0.87	1.4	7.4%	1.3x
GBCI	Glacier Bancorp, Inc.	5.7	0.74	1.3	9.9%	2.4x
AUB	Atlantic Union Bankshares Corporation	4.8	0.82	1.5	8.7%	1.7x
ASB	Associated Banc-Corp	4.0	0.83	1.4	4.1%	1.2x
TCBI	Texas Capital Bancshares, Inc.	3.6	0.87	1.3	4.2%	1.1x
EBC	Eastern Bankshares, Inc.	3.6	0.82	1.3	(2.4%)	1.4x
INDB	Independent Bank Corp.	3.3	0.79	1.4	8.2%	1.4x
RNST	Renasant Corporation	3.2	0.81	1.4	8.1%	1.5x
WSBC	WesBanco, Inc.	2.9	0.82	1.2	7.1%	1.5x
FBK	FB Financial Corporation	2.8	0.80	1.2	7.0%	1.7x
SBCF	Seacoast Banking Corporation of Florida	2.5	0.80	1.2	9.5%	1.7x
CUBI	Customers Bancorp, Inc.	2.1	0.77	1.4	8.4%	1.2x
FBNC	First Bancorp	2.0	0.72	1.1	9.4%	1.9x
VBTX	Veritex Holdings, Inc.	1.7	0.60	1.2	9.6%	1.4x
LOB	Live Oak Bancshares, Inc.	1.5	0.72	1.5	5.4%	1.4x
TFIN	Triumph Financial, Inc.	1.3	0.36	1.4	2.4%	3.0x
HBNC	Horizon Bancorp, Inc.	0.8	0.70	1.2	8.4%	1.2x
HIFS	Hingham Institution for Savings	0.6	0.56	1.3	10.0%	1.2x
BWB	Bridgewater Bancshares, Inc.	0.5	0.64	1.2	9.8%	1.2x
PFIS	Peoples Financial Services Corp.	0.5	0.67	1.2	8.9%	1.2x

Source: Trivariate Research, LP

CONCLUSION

Everyone remembers that the craziest part of the 1999-2000 bubble was the last 6 months, when valuations went bananas from October 1999 through the ultimate peak in March 2000. Valuations for the mega-/large-cap. names are nowhere near as extreme today as they were then, and much of the capital spending is funded by strong cash flows rather than debt. This means there are some relevant and some irrelevant comparisons between October 1999 and October 2025. But, the market is always increasingly anticipatory of pattern recognition, and we doubt we can see six more months of speculation like we have seen recently. Portfolio hedges, like uncorrelated or diversified longs, and avoiding the most speculative securities seem increasingly prudent.

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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