

Level Set - Why Take Huge Active Bets on the Great 8?

We have been writing in our last several Level Sets about the influence AI has on the market, the high correlation of stocks to the AI theme across multiple sectors, and the importance of a “healthy” amount of hyper-scaler capital spending guidance to drive the overall stock market higher. This past week we got a major temperature check on this, as five of the “Great 8” companies, with their enormous AI spending, reported results. There were large moves in the stocks that reported this week, but what struck us as notable is that the current narratives for some of these stocks are in some cases the exact opposite of what the narratives were earlier this year. Below, we show the one-day trading results following the earnings results of these large stocks over the last eight quarters. Note that Nvidia (NVDA) will report November 19th and Broadcom (AVGO) has a November-end quarter. We show in green, stocks that were up more than 5% on the first day of trading after their earnings release, and in red those down more than 5%. This quarter, Amazon (AMZN) performed the best and META the worst. Last quarter, META was the best, and AMZN the second worst. Microsoft (MSFT) was 2nd best in Q1 2025, but the worst in both Q3 and Q4 2024. We highly doubt that fundamental analysts can call the quarters of these companies consistently well and then position capital to generate positive P&L impact with this much quarter-to-quarter performance deviation.

Mag 7 One-Day Earnings Reactions Are Large and Change Regularly

Mag 7 Earnings Results - One Day Post-Results Performance Through End-October, 2025							
Quarter	AMZN	MSFT	AAPL	GOOGL	NVDA	META	TSLA
Q3 2025	9.6%	(3.0%)	(0.4%)	5.2%	19-Nov	(11.3%)	1.4%
Q2 2025	(6.7%)	4.1%	(3.2%)	0.4%	(0.9%)	10.5%	(8.1%)
Q1 2025	3.0%	8.0%	(3.4%)	4.3%	2.7%	3.2%	10.2%
Q4 2024	(3.0%)	(7.2%)	(1.4%)	(4.9%)	(5.1%)	1.9%	0.6%
Q3 2024	2.7%	(5.9%)	(3.1%)	4.6%	(0.2%)	(4.3%)	19.5%
Q2 2024	(10.2%)	(2.0%)	(1.0%)	(5.0%)	(8.3%)	7.5%	(10.6%)
Q1 2024	(1.1%)	(0.7%)	8.3%	8.1%	8.8%	(11.0%)	14.1%
Q4 2023	10.7%	(3.0%)	0.8%	(8.7%)	13.1%	21.7%	(12.7%)

Source: Trivariate Research, LP

Moreover, the correlation of returns of these stocks appears to be cyclical, but hard to time. Take NVDA, for example. In Q2 of this year, the stock was highly correlated (more than 0.7) to all the other Mag 7 names (see below). However, the correlation to Apple (AAPL) went to zero in Q3. AMZN, GOOGL, META, and MSFT have the highest correlations to each other among the Mag 7, but they also oscillate from high, to below S&P500 average more than once per year.

Adam Parker

Founder
646-734-7070
adam@trivariateresearch.com

Maxwell Arnold

Analyst
347-514-1234
maxwell@trivariateresearch.com

Colin Cooney

Head of Sales
617-910-7934
colin@trivariateresearch.com

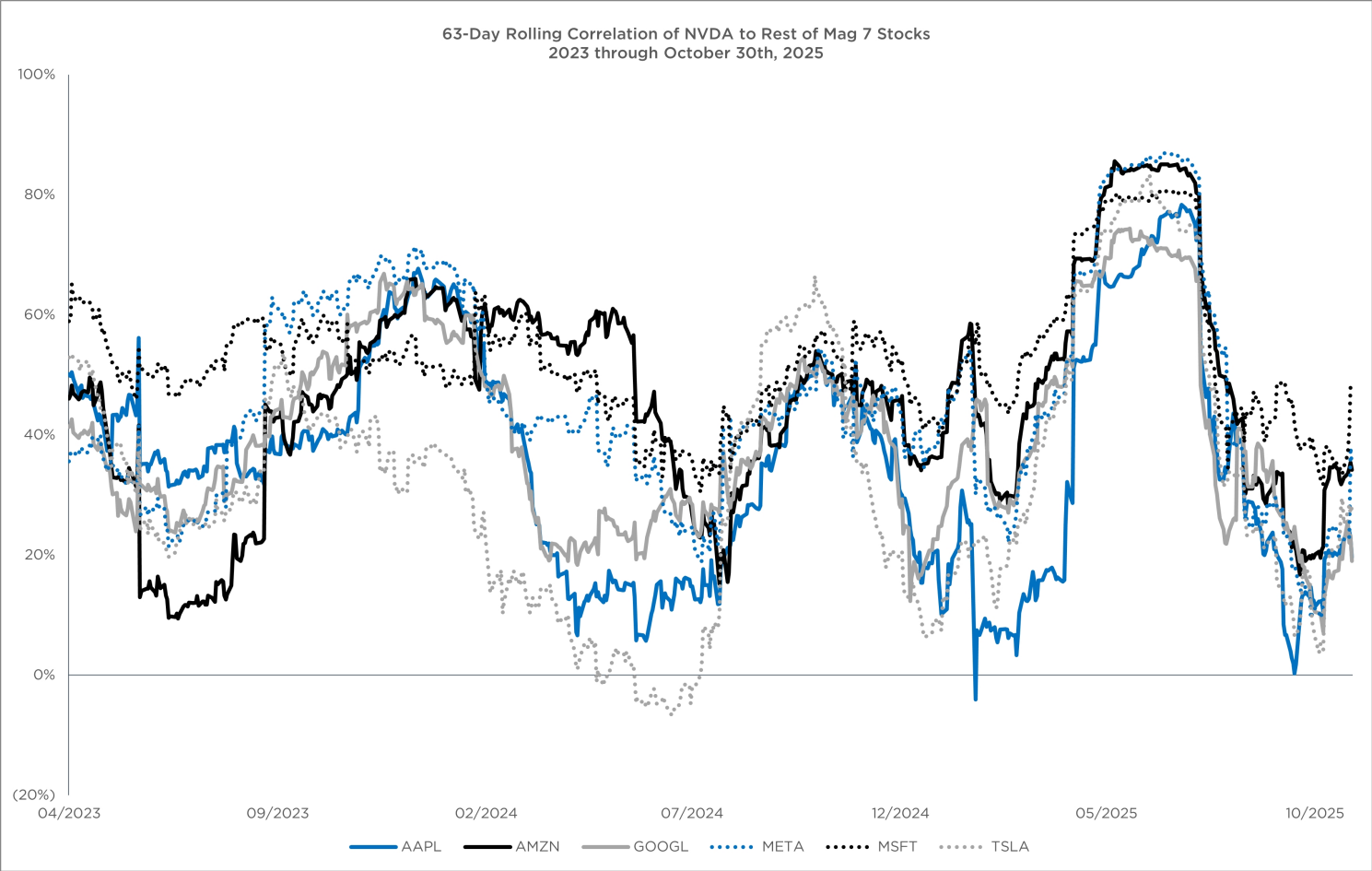
Chang Ge

Analyst
614-397-0038
chang@trivariateresearch.com

Ryan McGovern

Director of Research Sales
973-271-8017
ryan@trivariateresearch.com

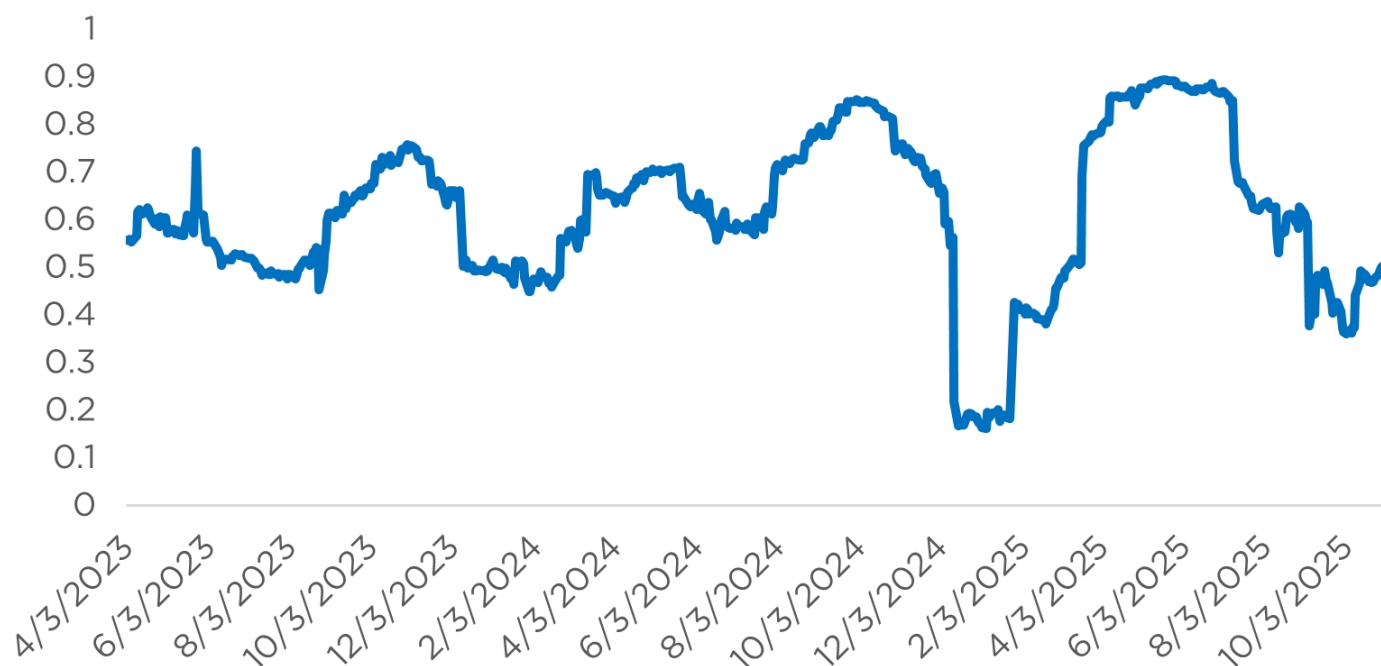
NVDA's Return Correlation to Other Mag 7 Stocks Sharply Oscillates



Source: Trivariate Research, LP

Even the correlation of the two Semiconductor companies, AVGO and NVDA oscillates and isn't particularly high. The stocks were nearly 0.9 correlated during Q2 when the entire market surged, but have a current correlation of 0.49, which isn't that much higher than the average stock to any random stock in the S&P500.

63-Day Rolling Correlation of Returns NVDA vs. AVGO Jan. 1, 2023 Through Oct. 31, 2025



Source: Trivariate Research, LP

For investors trying to beat the S&P500, it is crucial to get these names right. In fact, the Biggest 8 names are now 41.2% of the S&P500 market cap., but 55% on a beta-adjusted basis (see below). We use the median of four horizons to compute the beta, and of course we aren't saying this a perfect metric, but there is no doubt that the "impact" on performance of these stocks is even greater than their raw sizes.

The Great 8 are 55% of the S&P500 on a Beta-Adjusted Basis

Attributes of Largest 8 Stocks

Market Cap. and Beta

As of End-October, 2025

Ticker	Market Cap. (\$US Bil.)	Percent of S&P500 Market	Beta	Beta- Adjusted Size
NVDA	4,921	8.6%	1.59	13.6%
AAPL	3,995	7.0%	1.22	8.5%
MSFT	3,849	6.7%	0.95	6.4%
GOOGL	3,397	5.9%	1.05	6.2%
AMZN	2,611	4.5%	1.37	6.2%
AVGO	1,746	3.0%	1.64	5.0%
META	1,635	2.8%	1.34	3.8%
TSLA	1,518	2.6%	2.00	5.3%
Great 8 Total	23,672	41.2%	1.33	55.0%
S&P500	57,430	100%	1.00	100%

Source: Trivariate Research, LP

Despite their enormous sizes, most of the Great 8 stocks at any given moment, nearly by definition given their scale, are less idiosyncratic than the average stock in the market. We have a proprietary seven-factor company-specific risk (CSR) model (beta, two size factors - mega-/large- vs. mid. cap., and mid-cap vs. small-/micro-cap., growth vs. value, liquidity, momentum, and quality vs. junk) and we calculate the amount of the variability of each stock's returns explained from these seven factors

each day. Today, NVDA, MSFT, AMZN, AVGO, and META are all more macro than the median stock in the S&P500. GOOGL currently has the highest CSR, though it has frequently been below average over the last few years. TSLA's CSR is typically higher, given much of the perceived value is not about current fundamentals. AAPL's CSR is in-line with the median stock in the market (see below).

Attributes of Great 8 Stocks Company-Specific Risk As of End-October, 2025		
Ticker	Market Cap. (\$US Bil.)	Company-Specific Risk
NVDA	4,921	43.0%
AAPL	3,995	59.7%
MSFT	3,849	47.6%
GOOGL	3,397	69.6%
AMZN	2,611	55.4%
AVGO	1,746	54.1%
META	1,635	56.3%
TSLA	1,518	63.4%
Great 8 Total	23,672	54.8%
S&P500	57,430	59.9%

Source: Trivariate Research, LP

Usually, fundamental stock pickers are rewarded for relative-to-index performance by taking out-sized positions where they have conviction in names with high CSR. Yet in the portfolios we analyze, we often see firms with large relative positions in these stocks, which doesn't really make sense from the risk perspective. Moreover, it is very hard to know something that is not already in the price, as these stocks are well covered, and well-loved. Below we show the current sell-side analyst recommendations on the Great 8. There are 478 analyst buy ratings, and 23 such sells. 82.8% of all ratings are Buy, and 4% are sells. There are hundreds of buy-side analysts who cover these stocks as well. We just don't see how someone can think they know something that no one else knows that isn't largely in the price.

Attributes of Largest 8 Stocks Sell-Side Analyst Ratings As of End-October, 2025						
Ticker	Market Cap. (\$US Bil.)	Buy	Hold	Sell	Buy / Total	Sell / Total
NVDA	4,921	73	6	1	91.3%	1.3%
AAPL	3,995	36	21	4	59.0%	6.6%
MSFT	3,849	72	1	0	98.6%	0.0%
GOOGL	3,397	65	12	0	84.4%	0.0%
AMZN	2,611	80	4	0	95.2%	0.0%
AVGO	1,746	53	4	0	93.0%	0.0%
META	1,635	70	10	2	85.4%	2.4%
TSLA	1,518	29	18	16	46.0%	25.4%
Great 8	23,672	478	76	23	82.8%	4.0%

Source: Trivariate Research, LP

CONCLUSION

What we observed in the last week, both through discussing in meetings and analyzing our clients' portfolios with our risk management tools, is that many long-only, S&P500-benchmarked investors have their biggest active over-and-underweight positions in these Big 8 names. But our view is that a 1.5% position in a 50bps of the benchmark name is JUST as much of an active weight as a 9.6% position in an 8.6% active weight name. It is the 1% active that matters. If your goal is to beat the S&P500, our sense is that keeping close to market-weight on this 55% of the market on a beta-adjusted basis is prudent. Giant active weights, where CSR is high on other names is likely the best risk-adjusted way to separate from the index.

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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