TRIVARIATE RESEARCH

US Equities
November 16, 2025

Level Set: Volatility Used to Be Bad, So Did Hubris and Debt

Historically, rising volatility was either coincident with or predictive of something onerous. Twenty years ago, the current market price action would have implied a 25-30% reset in the AI trade and the S&P500. In previous regimes, when we observed both large up and down moves in the same stocks, and also large dispersion between stocks, that volatility historically meant the risk of a downturn was higher. When we are asked about identifying signs of a market top, we have always said that a **combination of hubris and debt** cause the ends of cycles. If hubris and debt were a stock, it would be up off of lows. Sam Altman's latest interview is on my mind. On the one hand, he wants to squeeze short sellers when he runs a private company. On the other hand, he says his revenue will be $100 billion in 2027, so that's probably a $1.5 Trillion market cap. IPO. My mind is in a pretzel.

Abounding hubris, growing debt, ballooning capital spending and circular lending, are all signals emerging recently that we could previously not ignore. This combined with price volatility would have made us incrementally more negative in previous years. But, this time, we are not so sure, and in fact, remain biased toward the positive. We were asked a few times last week if we thought the market would end the year higher, and it is hard, despite the above concerns, to not feel like the answer is "yes."

Price action certainly shows that optimism is not just in small cap. profitless growth stocks. We analyzed the stock performance of the top 50 companies by market cap over the last quarter-century, and rarely do we see this many stocks go up by 50% or more over 12-month periods (see below).

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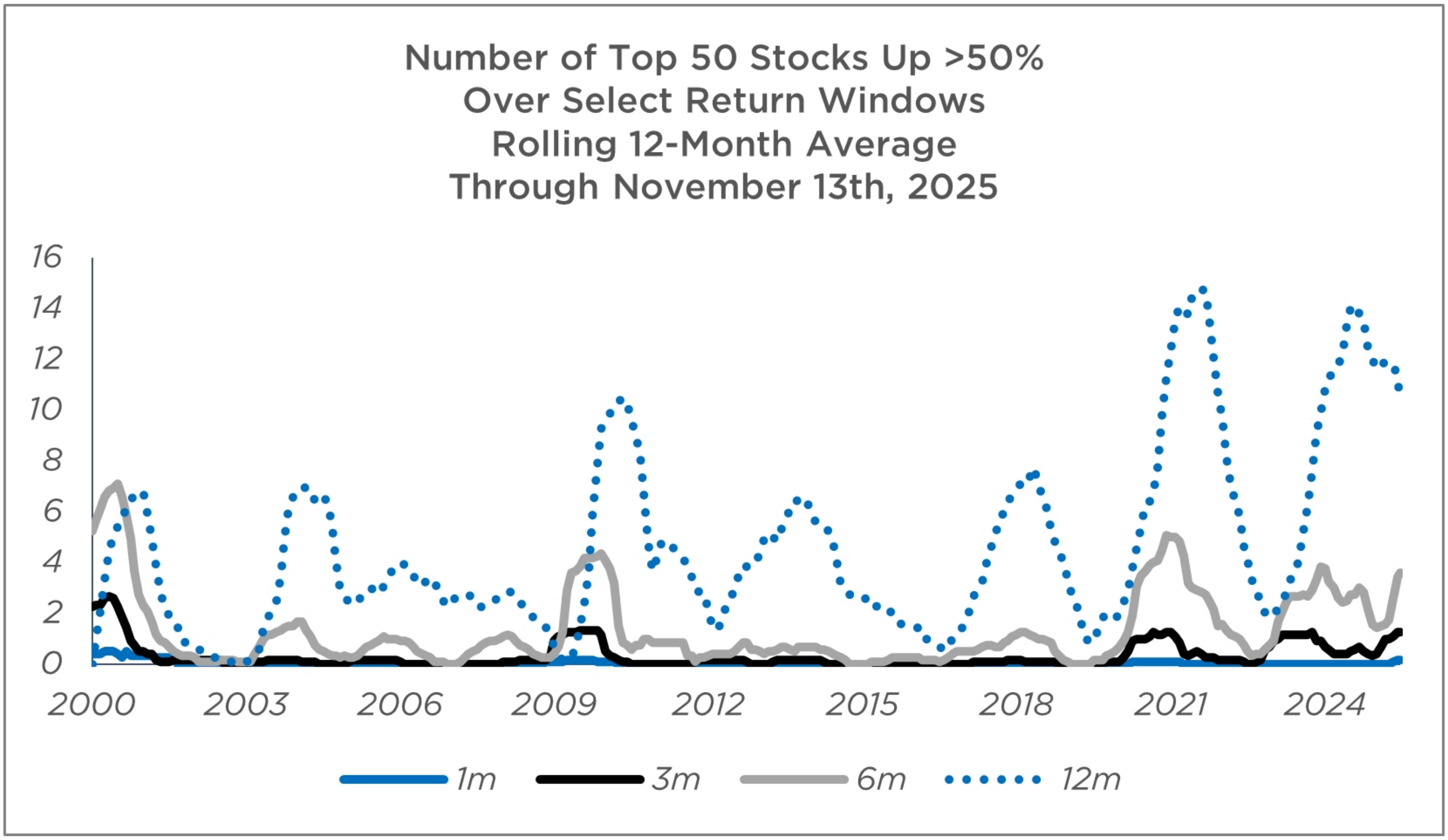


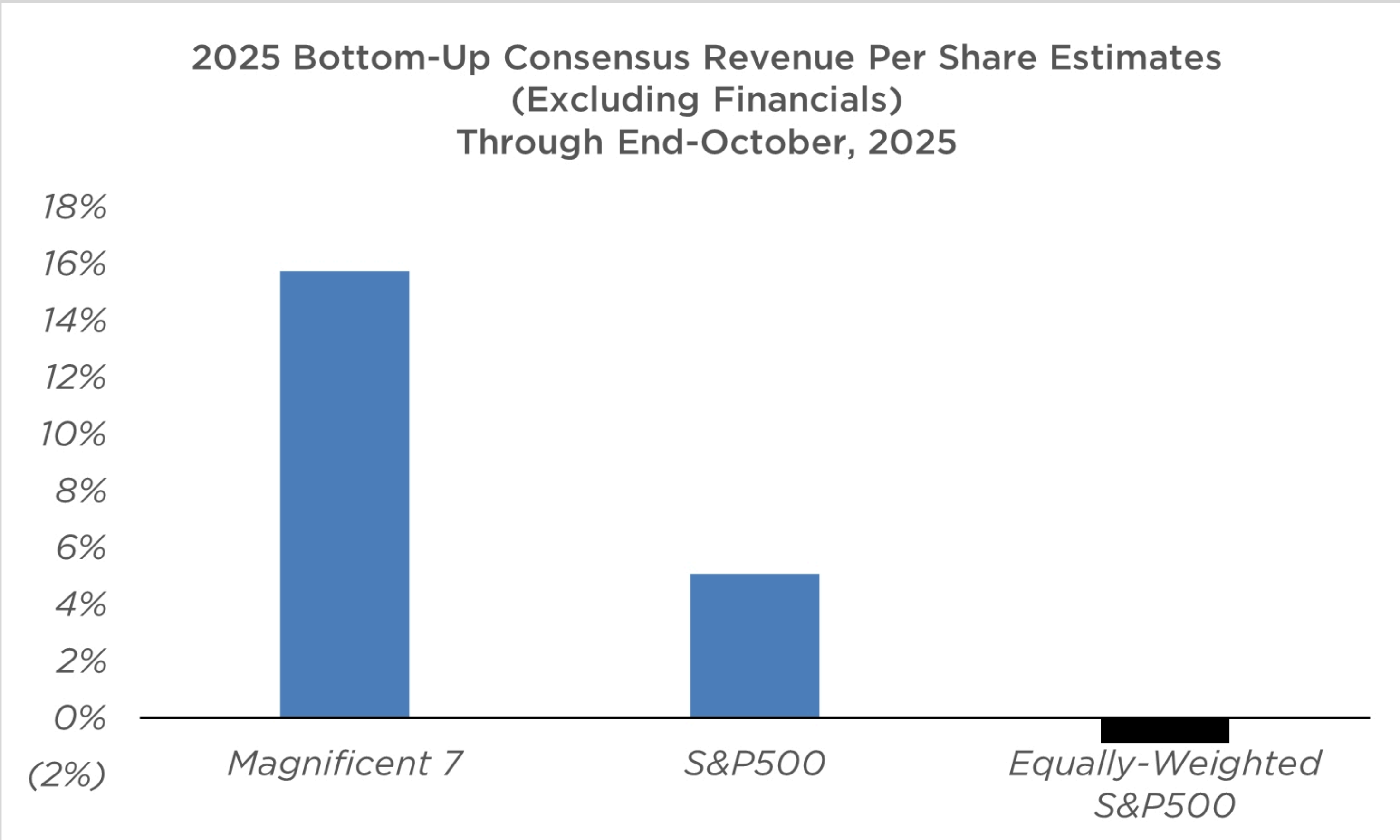
Source: Trivariate Research, LP

Even more recently, there have been large moves in stocks like Micron (Ticker: MU) on firm DRAM pricing and Eli Lilly (Ticker: LLY) on excitement about an oral for GLP-1s. Alphabet (Ticker: GOOGL) has added $422 billion market cap. this quarter and Apple (Ticker: AAPL) has added $254.4 billion (see below).

Quarter-to-Date Moves, Through November 13th, 2025				
Ticker	**Company**	**Sector**	**Market Cap. (US $Bn.)**	**QTD Chg in Mktcap**
GOOGL	Alphabet Inc.	Communication Services	3364.5	422.0
AAPL	Apple Inc.	Information Technology	4033.2	254.4
LLY	Eli Lilly and Company	Health Care	915.9	230.9
AMZN	Amazon.com, Inc.	Consumer Discretionary	2539.8	198.1
AMD	Advanced Micro Devices, Inc.	Information Technology	403.7	141.1
MU	Micron Technology, Inc.	Information Technology	266.0	78.7
AVGO	Broadcom Inc.	Information Technology	1605.5	47.6
ISRG	Intuitive Surgical, Inc.	Health Care	200.5	40.1
CAT	Caterpillar Inc.	Industrials	259.1	35.5
TMO	Thermo Fisher Scientific Inc.	Health Care	218.0	34.8
CSCO	Cisco Systems, Inc.	Information Technology	304.9	34.5
AMGN	Amgen Inc.	Health Care	180.9	29.0
JNJ	Johnson & Johnson	Health Care	470.4	23.9
LRCX	Lam Research Corporation	Information Technology	192.6	23.7
BRK.B	Berkshire Hathaway Inc.	Financials	1107.2	22.6
IBM	International Business Machines Corporation	Information Technology	285.0	22.1
MRK	Merck & Co., Inc.	Health Care	230.7	21.0
KO	The Coca-Cola Company	Consumer Staples	305.7	20.3
XOM	Exxon Mobil Corporation	Energy	501.0	20.3
AXP	American Express Company	Financials	251.2	20.1

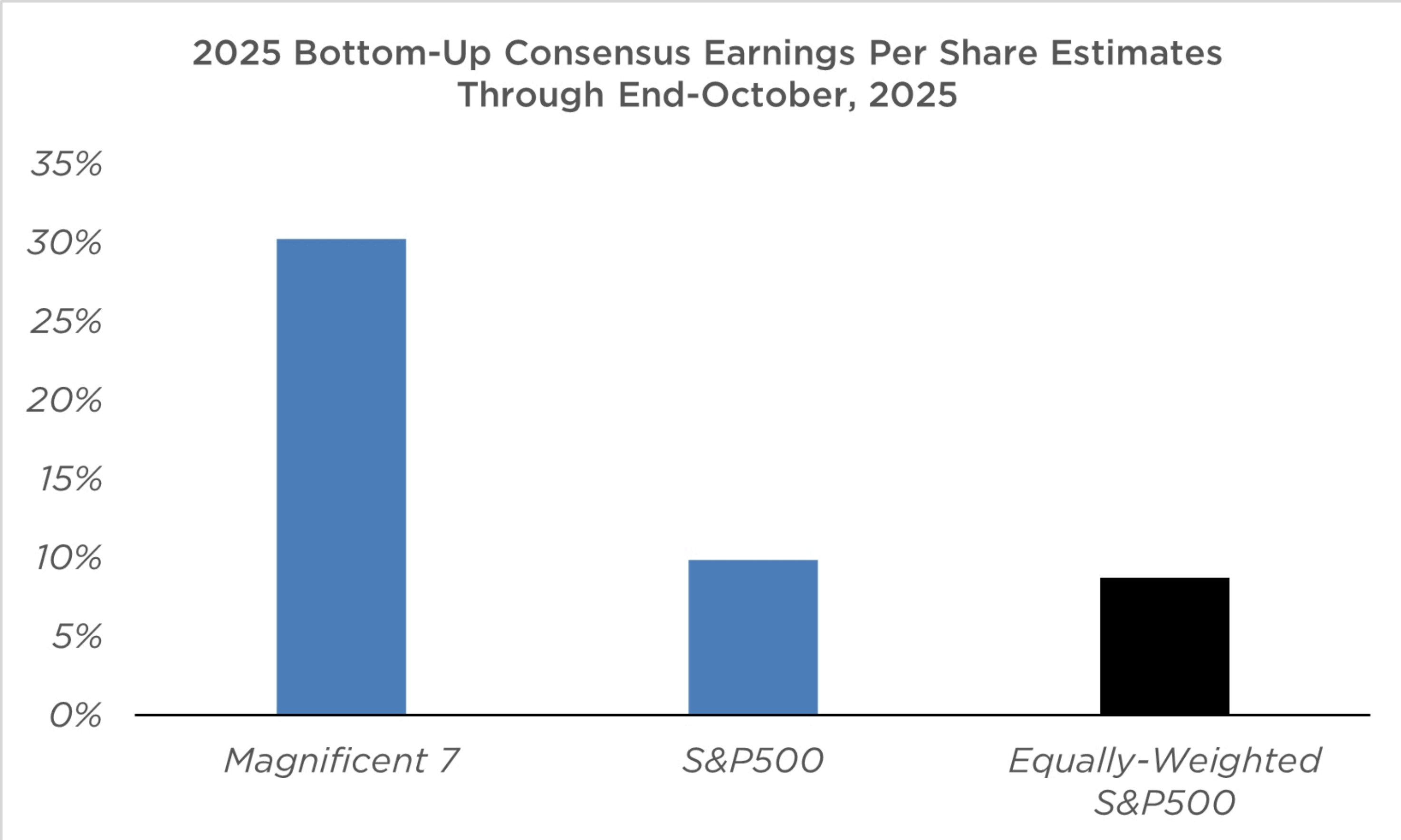
Source: Trivariate Research, LP

But this is not all speculative behavior. Some of these stock moves are due to reported and projected earnings. The Mag 7 and some of the other larger names are just growing faster. In fact, year-to-date, the bottom-up consensus sell-side estimates project equally-weighted revenue per share for the SP500 (excluding Financials) to decline in 2025, but the aggregate will grow over 5% because of the size and strength of the Mag 7 (see below).



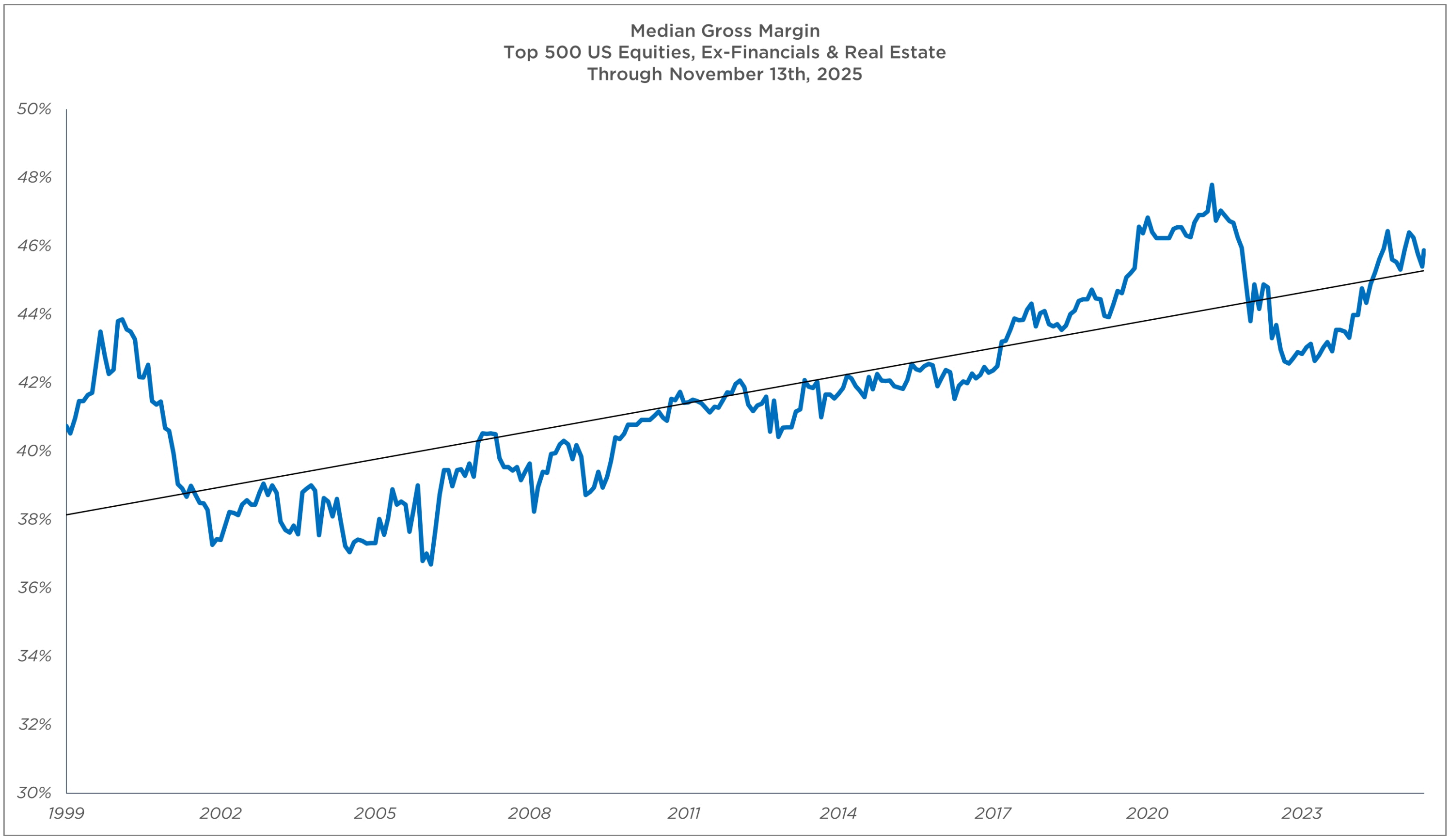
Source: Trivariate Research, LP

Despite this, the consensus bottom-up earnings estimates are for 8.8% growth, owing to margin expansion for many companies, and the strength of earnings in Financials, which are forecasted to grow nearly 12% this year and are excluded from the revenue per share analysis above.



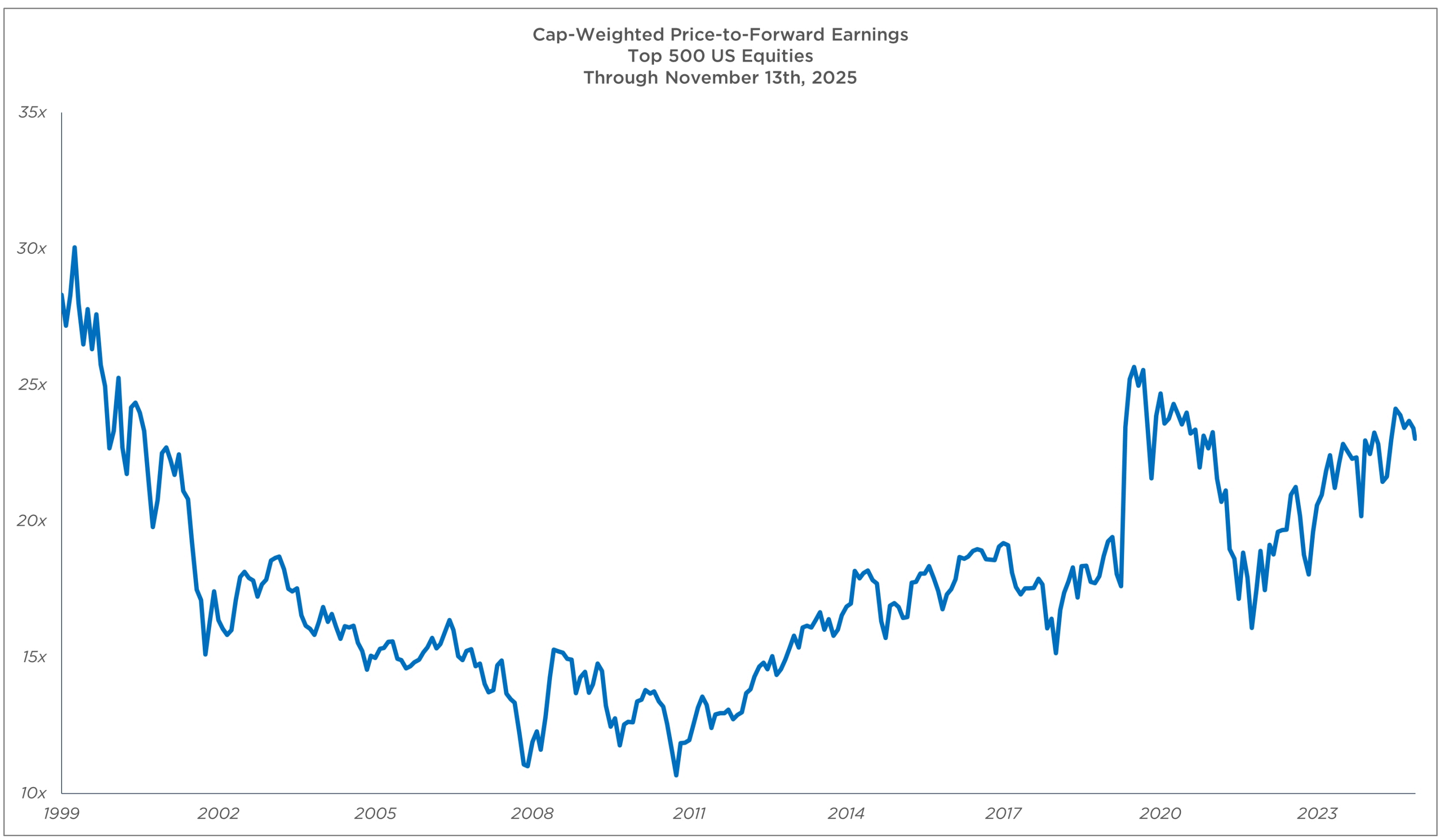
Source: Trivariate Research, LP

We track gross margins carefully, and the long-term trend of high gross margins (see below) is certainly correlated to the higher valuation for the S&P500. Over the last few months however, gross margins have not moved much for the median stock, with negative cross currents of tariffs, and less pricing power in some cases, and positives of lower input costs and waning wage pressures in others. We think fundamental analysts should spend meaningful time on their views of the gross margin trajectory of individual stocks vs. the consensus expectations over the coming quarters.



Source: Trivariate Research, LP

We continue to think that the path of gross margins will be critical for the overall market multiple. The price-to-forward earnings for the cap-weighted market has not risen recently even with some of these large moves (see below).



Source: Trivariate Research, LP

Partly, that is because while there have been many strong moves among mega-cap stocks recently, there also have been some high- profile blow-ups. META, ORCL, TSLA, and MSFT are all down more than $100 billion this quarter. With former darlings APP, FISV, DASH, CRWV, also retreating. Many of the Alternative Asset Managers have had a weak quarter (see below).

Quarter-to-Date Biggest Losers, Through November 13th, 2025

Ticker	Company	Sector	Market Cap. (US $Bn.)	QTD Chg in Mktcap
META	Meta Platforms, Inc.	Communication Services	1537.2	(307.6)
ORCL	Oracle Corporation	Information Technology	620.2	(181.5)
TSLA	Tesla, Inc.	Consumer Discretionary	1336.9	(141.8)
MSFT	Microsoft Corporation	Information Technology	3740.6	(109.4)
APP	AppLovin Corporation	Information Technology	188.0	(55.1)
HD	The Home Depot, Inc.	Consumer Discretionary	366.4	(36.9)
FISV	Fiserv, Inc.	Financials	34.7	(35.4)
MSTR	Strategy Inc	Information Technology	59.9	(32.9)
DASH	DoorDash, Inc.	Consumer Discretionary	84.1	(32.1)
CRWV	CoreWeave, Inc.	Information Technology	40.6	(30.3)
TMUS	T-Mobile US, Inc.	Communication Services	240.0	(29.5)
RBLX	Roblox Corporation	Communication Services	71.1	(24.9)
JPM	JPMorgan Chase & Co.	Financials	842.5	(24.9)
BX	Blackstone Inc.	Financials	109.2	(24.5)
LIN	Linde plc	Materials	200.2	(22.6)
PLTR	Palantir Technologies Inc.	Information Technology	410.3	(22.5)
NFLX	Netflix, Inc.	Communication Services	489.1	(20.4)
TXN	Texas Instruments Incorporated	Information Technology	147.4	(19.6)
T	AT&T Inc.	Communication Services	182.6	(19.4)
ANET	Arista Networks Inc	Information Technology	164.1	(19.1)

Source: Trivariate Research, LP

CONCLUSION

Our view is that while there are always lessons from history, the market doesn't always apply them over the same time frame. **Changes to perceptions about growth and changes to perceptions about rates ultimately matter.** The dovish skew to the Fed likely remains, even if we have a dearth of data. This coming week includes the SEPTEMBER jobs report, and NVDA's earnings. Both are not likely to change the narrative that the Fed remains directionally dovish and the growth potential of the AI trade is strong. We know hubris and debt are growing and this definitely gives us palpitations. But, everyone is tracking the same data points for signs of the top. Oracle's CDS is a problem. A window into Anthropic and Open AI's revenue will be important. Tracking units vs. pricing for AI chips will matter. A Goldilocks path on hyper-scaler capital spending will be crucial - not too much to freak people out - but enough that the dream of AI productivity is still strong. With all of this, the moves this quarter show what we think will remain the case - that alpha can be generated under the surface. We like being market-weight the Great 8 stocks, as we wrote about recently (*Level Set - Why Take Huge Active Bets on the Great 8?*), because the quarter-to-quarter narrative shifts are hard to get right. We would not have guessed in late September that AAPL would add $250b in market cap. and META would shed more than $300b. But, with stocks that are more idiosyncratic, we think taking large positions vs. the index is prudent, as we wrote about last week (*Level Set - How To Beat the S&P500 - The Q&A that Matter*) . Because margins for the median stock show a plausible path for expansion, we think the market likely trends higher for the foreseeable future. Underneath the surface, we feel incrementally emboldened by our overweight in Healthcare (*The Case For Owning Healthcare Right Now*), as we are attracted to stocks with margin expansion potential from AI productivity.

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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