Level Set: Saying Yes, But Shaking Our Head Side to Side

Even with the nearly 1% rally on Friday, the S&P500 is down 4.1% since October 28th highs. While some investors get lost in the semantics of a "correction" being 5% or 10% in total, underneath the surface there have been some material pullbacks in the formerly strong stocks and some fantastic alpha generating opportunities. Within the S&P500, 37 stocks are UP more than 10% since the market highs on October 28th, and 203 stocks are up in absolute terms. Only 176 stocks in the S&P500 are down more than the market percentage, so throwing a dart at the top 500 stocks would have helped most people sampling randomly pick a stock that has outperformed since the market highs. However, 79 stocks are down more than 10% since highs, and 20 stocks are down more than 20%. Below we highlight the stocks down more than 20% since market highs in October. Nearly all of them are in or highly correlated to Trivariate's AI Semiconductors basket or had an earnings or guidance miss over last three weeks, including SMCI, COIN, AXON, DASH, and ANET, among others. **The key investment advice we have been giving for the last six weeks seems to be holding - avoid high beta companies that are correlated to the AI Semiconductors basket and don't own companies that miss earnings / guidance. The list of the worst performing stocks since the market peak is littered with these names (see below).**

S&P500 Stocks Down More than 20% From October 28th, 2025 Market High Through November 21st, 2025

Ticker	Name	Industry Group	Correlation to Trivariate's AI Semiconductors Basket	Return Since Oct. 28th	Comments
SMCI	Super Micro Computer, Inc.	Technology Hardware, Storage & Peripherals	0.50	(38.5%)	Earnings results weak on 11/4
COIN	Coinbase Global, Inc.	Capital Markets	0.51	(32.3%)	Bitccoin down
AXON	Axon Enterprise, Inc.	Aerospace & Defense	0.11	(30.9%)	Earnings miss on 11/4
ORCL	Oracle Corporation	Software	0.31	(29.2%)	Debt / Open AI investment
DASH	DoorDash, Inc.	Hotels, Restaurants & Leisure	0.35	(27.5%)	Spending guidance high on 11/6 report
HOOD	Robinhood Markets, Inc.	Capital Markets	0.50	(26.6%)	
DELL	Dell Technologies Inc.	Technology Hardware, Storage & Peripherals	0.50	(25.7%)	
ANET	Arista Networks Inc	Communications Equipment	0.35	(25.1%)	
TTD	The Trade Desk, Inc.	Media	0.10	(23.3%)	Results on 11/6 Perceived as Not Enough
GNRC	Generac Holdings Inc.	Electrical Equipment	0.38	(23.2%)	Lowered Guidance on 10/29
HUM	Humana Inc.	Health Care Providers & Services	0.10	(23.0%)	Lowered Guidance 11/5
XYZ	Block, Inc.	Financial Services	0.41	(22.7%)	Net Revenue, adjusted EPS miss 11/6
EME	EMCOR Group, Inc.	Construction & Engineering	0.45	(22.6%)	Disappointing revenue guidance10/30
GRMN	Garmin Ltd.	Household Durables	0.27	(22.5%)	Disappointing guidance on 10/29
CMG	Chipotle Mexican Grill, Inc.	Hotels, Restaurants & Leisure	0.21	(21.4%)	Lowered Guidance on 10/29
SWKS	Skyworks Solutions, Inc.	Semiconductors & Semiconductor Equipment	0.61	(21.1%)	
AMD	Advanced Micro Devices, Inc.	Semiconductors & Semiconductor Equipment	0.64	(21.0%)	
META	Meta Platforms, Inc.	Interactive Media & Services	0.25	(20.9%)	
SW	Smurfit Westrock Plc	Containers & Packaging	0.24	(20.6%)	Lowered Guidance on 11/3
MCHP	Microchip Technology Incorporated	Semiconductors & Semiconductor Equipment	0.57	(20.0%)	

Source: Trivariate Research, LP

At the industry level, Autos (because of Tesla), Software, and Semiconductors have been the worst. Pharma, fueled by the huge move in LLY, but also solid performance of REGN, BIIB, and AMGN, has been the best. **We continue to recommend Healthcare as our biggest overweight recommendation relative to its index weight.** More typical defensive industries like Insurance, Telecom. Services, and Food, Beverages & Tobacco have also done well. Energy has held in despite not typically being a risk-off outperforming industry (see below).

Adam Parker
Founder
646-734-7070
adam@trivariateresearch.com

Maxwell Arnold
Analyst
347-514-1234
maxwell@trivariateresearch.com

Chang Ge
Analyst
614-397-0038
chang@trivariateresearch.com

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

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

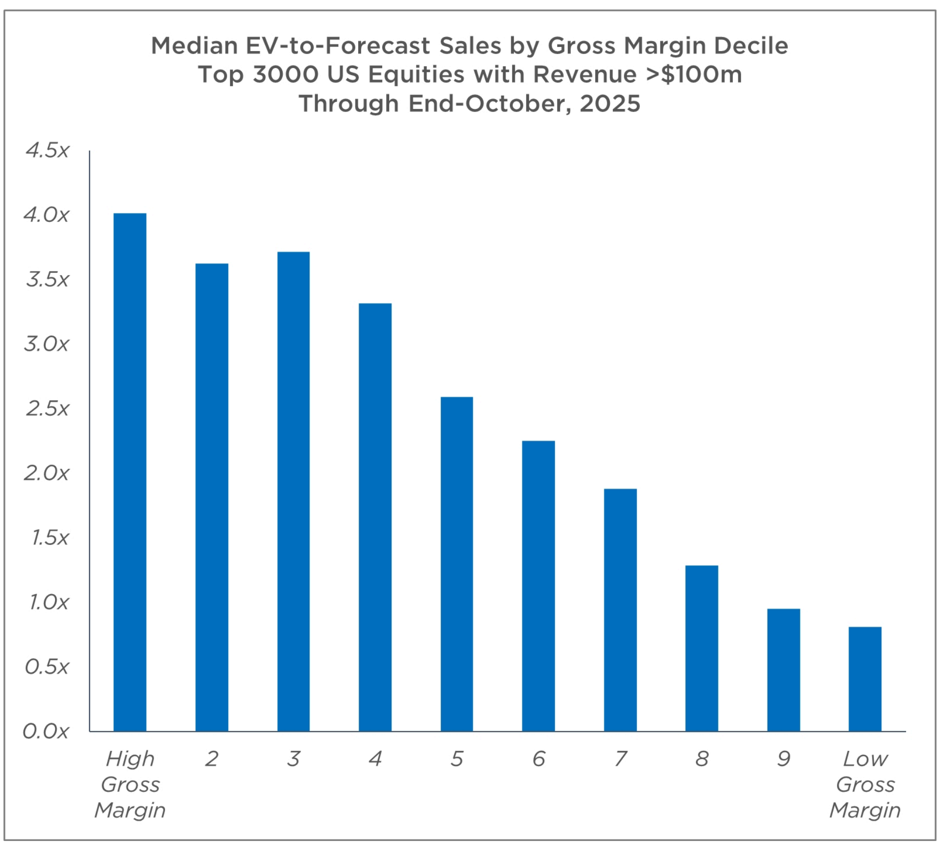
Best and Worst Industry Groups: 10/28/25 through 11/21/25		
Industry Group	**Cap-Weighted Returns**	**Comments**
Pharma, Biotech & Life Sciences	11.30%	LLY up 29.2%, REGN, AMGN, BIIB all up > 15%
Insurance	3.98%	ALL and HIG up more than 10%
Energy	1.53%	4 stocks up more than 10%
Telecomm. Services	1.01%	VZN up 4.9%
Food, Beverages & Tobacco	0.07%	KO up 3.98%
Consumer Durables & Apparel	(6.58%)	GRMN down 22.5%
Real Estate	(6.79%)	CSGP down 14%
Semiconductors and Semiconductor Capital Equipment	(10.52%)	SKY, AMD, MCHP all down more than 20%
Software & Services	(12.69%)	ORCL down 29%, PLTR down 18.3%
Autos and Components	(13.88%)	TSLA down 15.1%

Source: Trivariate Research, LP

We are always impressed with people who are sometimes wrong but never uncertain. But particularly so, in an environment like this where we see so much conflicting information and price action, polarized views, and fear and greed. Positives include Nvidia's (NVDA) quarterly results, Walmart's (WMT) growth, and a general sense that larger Financials are in good shape. Price action, circular lending, private credit issues, hubris and debt are among the negative issues. But, nonetheless, very little of what we heard about the sharp sell-off in AI-exposed stocks during the middle of last week was fundamental, but rather, it was largely all technical / flow of funds related. Short gamma, unwinding of levered ETFs, hedge fund deleveraging, and profit taking were the four most common responses for the rationale for the sell-off when we queried investors during the week.

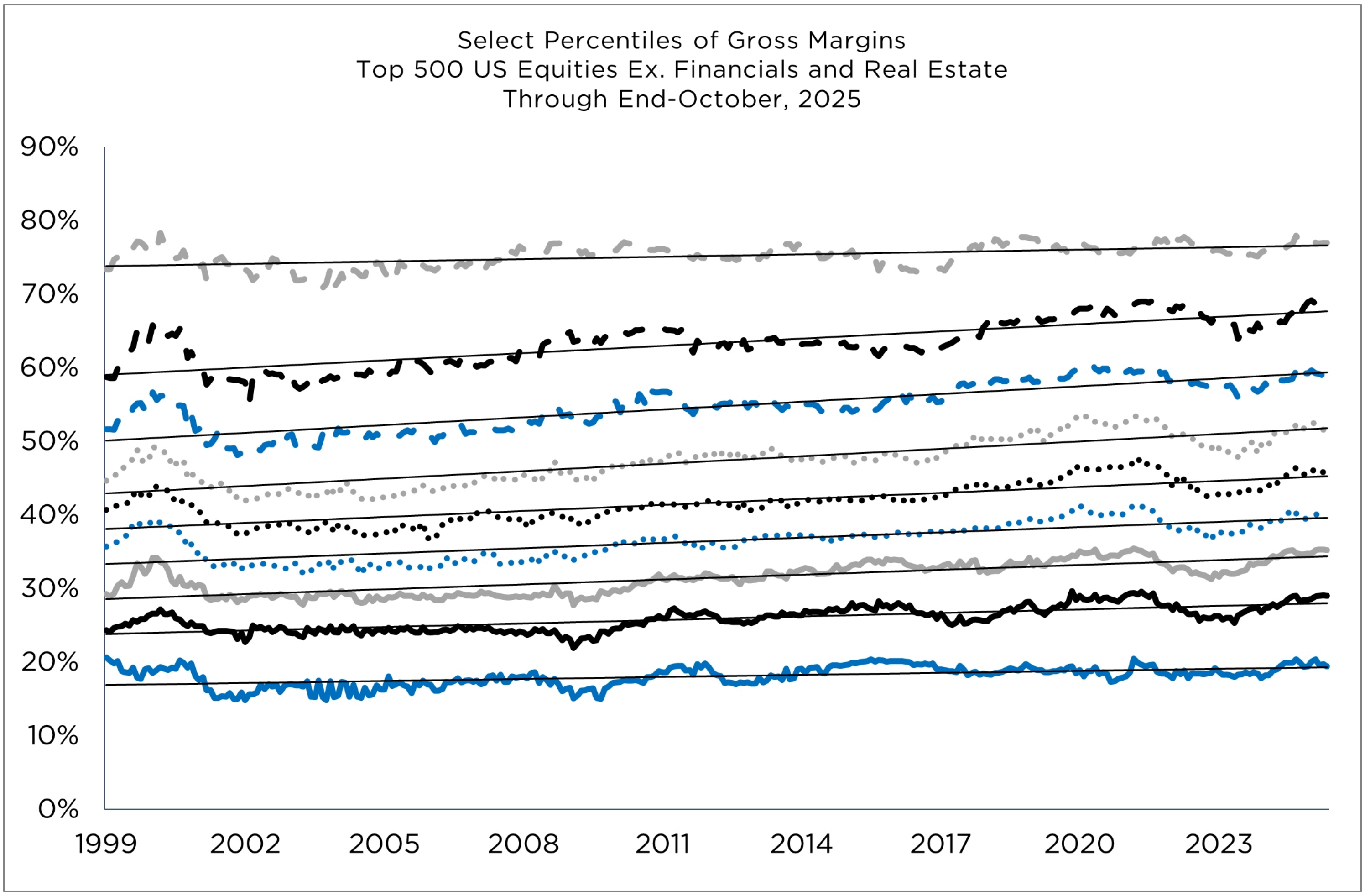
Here are some of our observations from this week:

- **We have not found it helpful to listen to fixed income experts discuss equity valuations.** Sure we are worried about Jeffrey Gundlach's (Doubleline CIO) comments this past week when he warned that the U.S. equity market is **"among the least healthy"** he's seen in his entire career, citing extreme valuations and speculative excess—particularly around the AI theme. The thing is, gross margins and valuation are strongly related. Below we show the nearly monotonic relationship between gross margin decile and enterprise value-to-forecasted sales. Investors know that high margins are a proxy for something that's repeatable, or has less potential downside to the forward estimates, and they pay a premium.



Source: Trivariate Research, LP

- **Gross margins matter.** Because of this, we regularly focus our research, and recommend fundamental analysts do as well, on dynamics that can impact gross margins. Our view is that concerns about valuation are really just concerns that gross margins for a large group of companies will be meaningfully impaired. But, so far, that doesn't seem to be the case, and hence, we think the recent sell-off is not due to signs of gross margin impairment. Below, we show the gross margins over time for each decile of the S&P500, excluding Financials, with long-term trend lines. We see some recent margin expansion for the 20th and 30th percentiles as signs that broad-based margin pressure is not forming - yet.



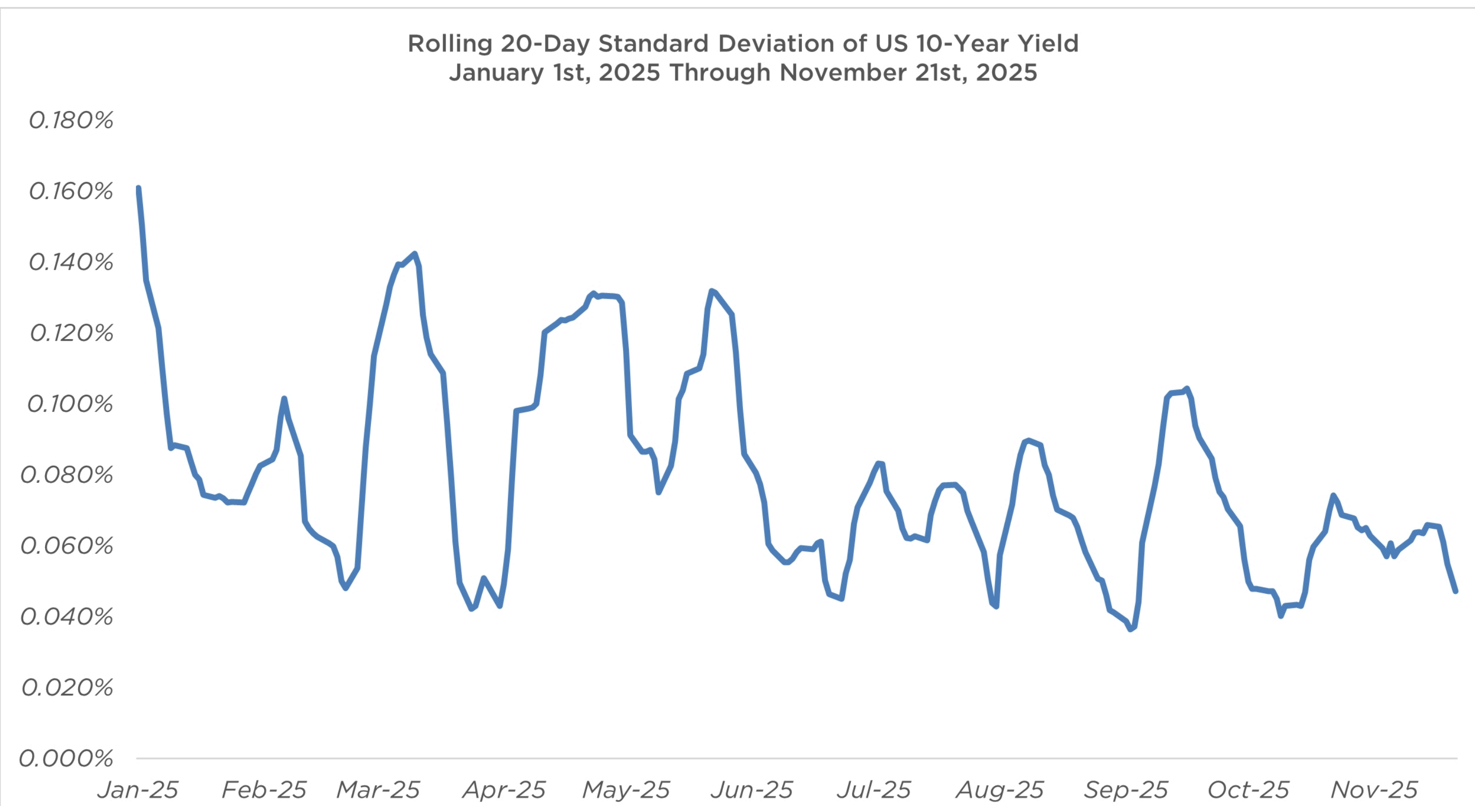
Source: Trivariate Research, LP

- **<u>How did the Great 8 fare during the market sell-off?</u>** We looked at each stock's beta at the top of the market on 10/28/2025, which we compute as the median over four horizons (3-,6-,12-, and 18-months). We then observed the performance of each of the Great 8 stocks since the market peak (see below). GOOGL, AAPL, and AMZN had positive alpha, META, MSFT, and TSLA had highly negative alpha. NVDA and AVGO were slightly negative, despite strong fundamentals. We have been strongly advocating to keep close to market-weight this group, owing to the challenge of security selection for these hard-to-predict stocks.

Great 8 Performance 10/28/2025 - 11/21/2025			
Ticker	Performance	Beta on 10/28	Alpha Since 10/28
GOOGL	12.0%	1.05	16.4%
AAPL	1.0%	1.2	6.0%
AMZN	(3.7%)	1.34	1.9%
AVGO	(8.8%)	1.63	(2.0%)
NVDA	(11.0%)	1.58	(4.4%)
MSFT	(12.7%)	0.93	(8.9%)
TSLA	(15.1%)	1.98	(6.8%)
META	(20.9%)	1.29	(15.5%)

Source: Trivariate Research, LP

- **Was it the Fed?** A few investors suggested to us that the reason the market sold off was that the distribution of outcomes for the Fed is now less dovish, owing to specific commentary and lack of relevant government-reported jobs data. While those who follow our work know we don't spend a tremendous amount of time watching the Fed, having observed the lack of productivity from that endeavor for getting individual equities correct for much of the last twenty years, we do believe that one of the key pillars to the bull thesis for equities includes a dovish Fed. We are surprised to read formerly bearish equity strategists at large firms suddenly get bullish on equities, because what we learned late in 2022 was that when the Fed was close to the end of their hiking cycle, the equity market anticipated eventual dovishness. Using that same logic, as we get closer to the end of the cutting cycle, the market likely will anticipate eventual hiking. The one main caveat here is what the Fed does to its balance sheet. It is likely extremely bullish if they embark on more balance sheet expansion. That is why we have remained - for now - in the camp that the distribution of outcomes for the Fed is skewed to the bullish for US equites and still a reasonably strong pillar. Moreover, we don’t see any behavior from the bond market that this pillar is wobbling. The volatility in the 10-year yield has been lower than long-term averages and remained low recently during the equity market sell-off (see below). **Our conclusion is that the equity sell-off was more technical than related to a change in the perception about the path of interest rates - at least for now.**



Source: Trivariate Research, LP

- **Private credit:** Many investors, including Gundlach flagged the private credit market as a major watch-point, saying “garbage lending" and illiquidity in that space could trigger the next big financial stress event—he sees this as an important drag on risk assets, including equities. We are worried about the private credit market, and like many other areas of the market, we are of two opposing minds. On the one hand, we would never invest our own personal money in a private credit product. On the other hand, we could see the asset class growing from $1.7 Trillion to double that size as many large retail-focused platforms provide their clients access to alternatives. So, we might be right to be bearish, but it could take FIVE years to play out - not a few months. Everyone has been using the word "cockroaches" since JPMorgan's (JPM) CEO Jamie Dimon used this term regarding private credit a few weeks back. Our answer has been to avoid US equities with poor return on tangible equity, relatively high price-to-tangible equity, and a high correlation of returns to Zion Bank, given that was the last public company to comment on poor exposures. We would avoid the stocks in the screen below.

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.
KEY	KeyCorp	18.88
GBCI	Glacier Bancorp, Inc.	5.71
AUB	Atlantic Union Bankshares Corporation	4.83
ASB	Associated Banc-Corp	3.98
TCBI	Texas Capital Bancshares, Inc.	3.61
EBC	Eastern Bankshares, Inc.	3.61
INDB	Independent Bank Corp.	3.30
RNST	Renasant Corporation	3.24
WSBC	WesBanco, Inc.	2.95
FBK	FB Financial Corporation	2.79
SBCF	Seacoast Banking Corporation of Florida	2.54
CUBI	Customers Bancorp, Inc.	2.11
FBNC	First Bancorp	1.98
VBTX	Veritex Holdings, Inc.	1.66
LOB	Live Oak Bancshares, Inc.	1.53
TFIN	Triumph Financial, Inc.	1.25
HBNC	Horizon Bancorp, Inc.	0.77
HIFS	Hingham Institution for Savings	0.57
BWB	Bridgewater Bancshares, Inc.	0.47
PFIS	Peoples Financial Services Corp.	0.46

Source: Trivariate Research, LP

Circular lending/ data center capital spending: Michael Burry, famous for calling the Housing crisis in 2008, was out this week with deep concerns about depreciation practices and circular relationships in the AI ecosystem. We share some of those concerns. We are confident there will be a massive overbuild in the data center. We don't know if it will be 2028, 2029, or 2030. We do know that we want to be negative on US equities six-to-nine months before that overbuild becomes obvious. This is why when we are asked about whether we think the US equity market will go higher, we say "Yes" but also slightly shake our head in the "No" motion, i.e., from side to side. We think hubris, debt, and these sorts of issues will ultimately lead to the demise of this cycle. However, we think it is too early to position for this inevitability. How will we know? Sadly, probably when prices are down 20% - i.e., negative price momentum will be the best predictor of subsequent performance.

What are our concluding thoughts for this week?

1. The US equity market will probably rally before year-end, led by the Great 8, which most investors are underweight.
2. We like Semis over Software for taking risk. We think the fundamentals remain stronger for the AI Semis, and there are true concerns about business-model viability for some large-cap. Software companies.
3. We recommend an Overweight in Healthcare.
4. We would recommend an underweight in Consumer Discretionary and are cautious on most Consumer Staples. They just

don’t have pricing power and are less likely to see gross margin expansion than non-Consumer US equities.

What else is worth knowing?

1. **There will be a data-center overbuild.** We want to be cautious US equities 6-to-9-month before this becomes obvious.
2. Gross margin expansion is correlated to multiple expansion.
3. Valuation is not helpful for stock selection.
4. The stock picking environment is one where avoiding companies that miss is crucial.

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.

Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, "**Trivariate**").

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "would," "predicts," "potential," "forecasted," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are "forward-looking statements" and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words "include," "includes," "including" and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak ("**COVID**" or "**COVID-19**"). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.