TRIVARIATE RESEARCH

TEXT AS DATA: EXTRACTING SENTIMENT ALPHA FROM TRIVARIATE'S LEVEL SETS VIA CLAUDE

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OVERVIEW AND RESEARCH SUMMARY

Background: Every Sunday for nearly three years we have published a research note we call the "Level Set." The note is called "Level Set" because it has always been purpose-built not as a reiteration of our existing views, but rather as our reaction to new information, questions arising from client meetings and emails, and the fresh thoughts and analyses that stem from those questions, client conversations, and the ideas they inspire.

With that in mind, we processed a total of 153 Trivariate Level Set PDFs spanning from September 2022 through <u>January 2026 using Anthropic's Claude Sonnet 4.5 API</u>. Each PDF was submitted to the model along with a detailed system prompt instructing it to extract our expressed sentiment across 16 categories — the overall Market, 10 GICS sectors excluding Real Estate and two thematic categories (Great 8 and AI). Scores are assigned on an integer scale from -5 (extremely bearish) to +5 (extremely bullish), with 0 indicating a neutral view. Importantly, the model was instructed to return null for any category not explicitly discussed in a given week, ensuring that only weeks with genuine directional commentary contribute to the analysis.

Details: The analysis pairs each sentiment category with its natural return counterpart — sector sentiments are matched to their respective S&P 500 GICS sector index one-week forward returns, AI sentiment to our custom AI basket, and Great 8 to the equally weighted Great 8 basket. We then classified all observations into four sentiment buckets: Bear (score < 0), Strong Bear (score ≤ -3), Bull (score > 0), and Strong Bull (score ≥ 3), with weeks scoring exactly zero excluded as neutral. For each bucket, mean returns, median returns, and hit rates (the percentage of weeks with positive forward returns) are computed, which we used to analyze the relationship between sentiment buckets and returns. We also conducted the same analysis for market relative sentiment vs. market relative returns for each category, where market relative sentiment is simply category sentiment minus market sentiment.

Questions: Detailed Level Sets sentiment score data is available upon request.

INVESTMENT CONCLUSIONS

Overall market: Over the last 3.5 years since we started the Level Set, Claude was able to make 139 observations from our weekly publications about the overall US equity market – 76 were bullish, 23 were strongly bullish, 63 were bearish, and 11 were strongly bearish over that time frame. <u>There appears to be value in predicting one-week forward returns when evaluating the sentiment coming from what we write about each week. For the overall market, when our language is scored as bearish, the market averages down 1.04% the next week, vs. up 27bps when we are bullish.</u> The more bullish our language was deemed to be, the better the one-month forward S&P500 performance, both on hit rate and on volatility-adjusted return. The evidence is compelling <u>that the more bullish the language we are using the better the next week's market performance.</u>

Strong efficacy in Consumer Staples and Healthcare: While we have no prior reason why or language would be better at predicting one sector or cohort well, and others poorly, it does appear that this is the case. In Consumer Staples, we have 31 bullish, and 31 bearish observations. The next week's returns are highest and positive for strong bull, positive for bull, negative for bear, and most negative for strong bear sentiment. For Healthcare, (we have 83 bullish observations, 8 bearish, and 38 strongly bullish weeks) the one-week subsequent return was rank ordered in line with our language.

Negative language on Great 8 and Utilities: When we talk about the Great 8 stocks (AMZN, AAPL, NVDA, AVGO, MSFT, TSLA, GOOGL, and META), a subject we have discussed in 76 Level Sets with enough language to be evaluated, there appears to be some difference when we are strongly bearish (3 times) vs. strongly bullish. For Utilities, where we have 3 strongly bearish and 11 bearish observations, our negative language has had some predictive value, <u>with Utes lagging the market by an average of over 60bps the next week.</u>

AI and Industrials language not predictive: When it comes to AI, our language appears to be a counter indicator for the subsequent week, as the 36 times we were "read" as strongly bullish, AI underperformed the most. We only were deemed to be strongly bearish one time, and AI did well that next week. For Industrials, with 83 observations, 37 bullish and 46 bearish, mentioning it doesn't matter. However, when it is deemed that we have a strong view, either strongly bullish (7x) or strongly bearish (8x), Industrials outperform.

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OUR WEEKLY PUBLICATIONS CREATED 139 "SCOREABLE" DATA POINTS

Over the last 3.5 years since we started the Level Set, Claude was able to make 139 observations from our weekly publications about the overall US equity market – 76 were bullish, 23 were strongly bullish, 63 were bearish, and 11 were strongly bearish over that time frame. We have "scoreable" views on both AI and the Great 8 for 76 weeks over that time frame.

Observations about the US Equity Market, Great 8, AI, and Sectors
From Trivariate's Weekly Level Set Publications
September 2022 Through End-January, 2026

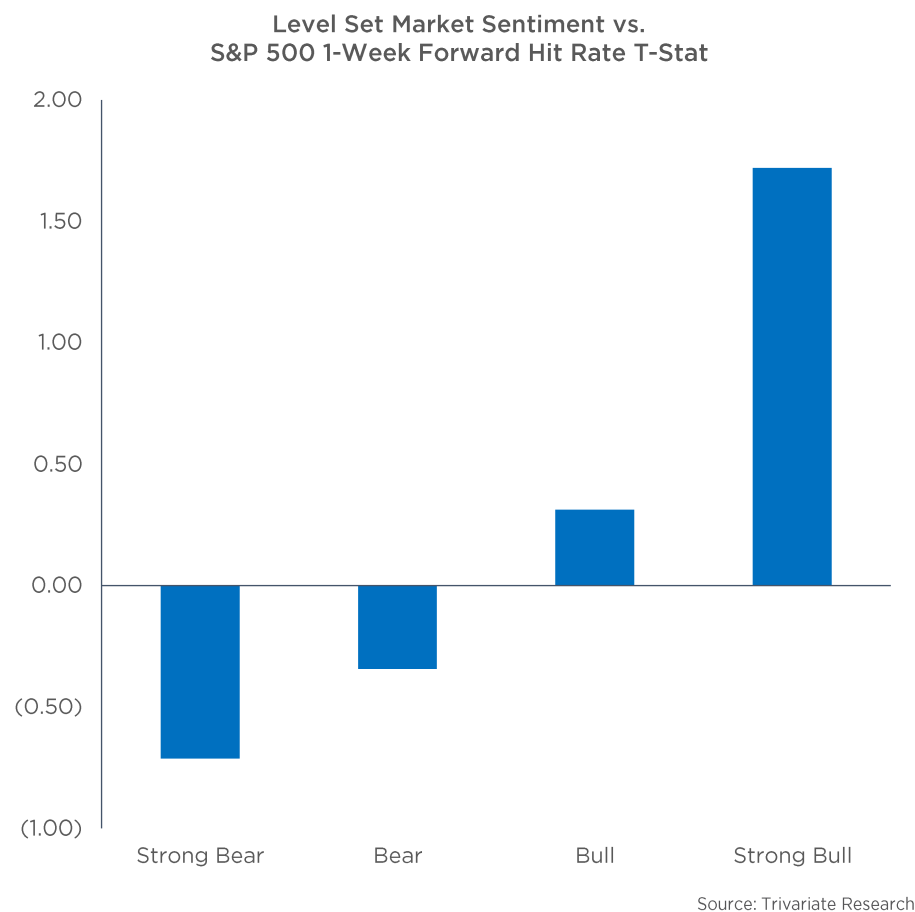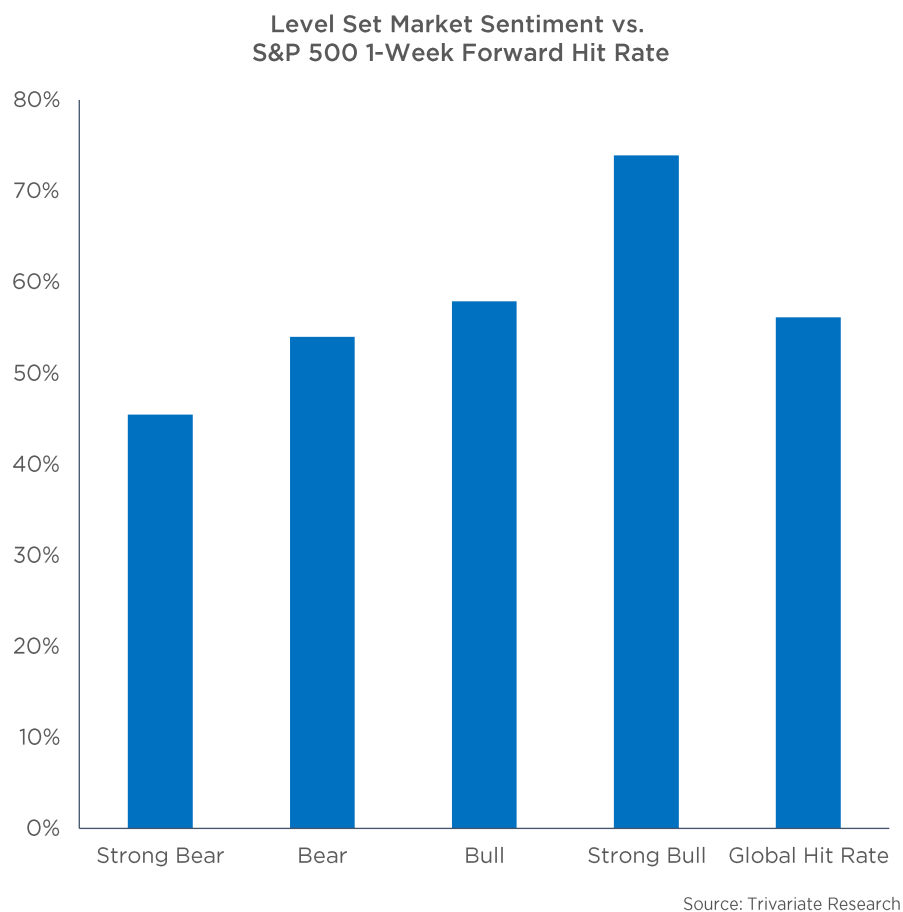| Category	N Observations	N Bull	N Strong Bull	N Bear	N Strong Bear
Market	139	76	23	63	11
Information Technology	101	72	31	29	6
Consumer Discretionary	93	17	4	76	24
Health Care	91	83	38	8	0
Financials	84	47	16	37	9
Industrials	83	37	7	46	8
Great 8	76	53	26	23	3
AI Theme	76	64	36	12	1
Materials	72	52	24	20	1
Energy	63	52	31	11	3
Consumer Staples	62	31	1	31	7
Utilities	54	43	9	11	3

THE SENTIMENT IN OUR LEVEL SETS HAS SOME PREDICTIVE POWER

Interestingly, there appears to be value in predicting one-week forward returns when evaluating the sentiment coming from what we write about each week. For the overall market, when our language is scored as bearish, the market averages down 1.04% the next week, vs. up 27bps when we are bullish. The language seems best for Utilities, the Great 8, Healthcare, Industrials, and Consumer Staples, and is not effective so far on Energy, Consumer Discretionary (where we have been too bearish over the past few months), Materials, and Financials.

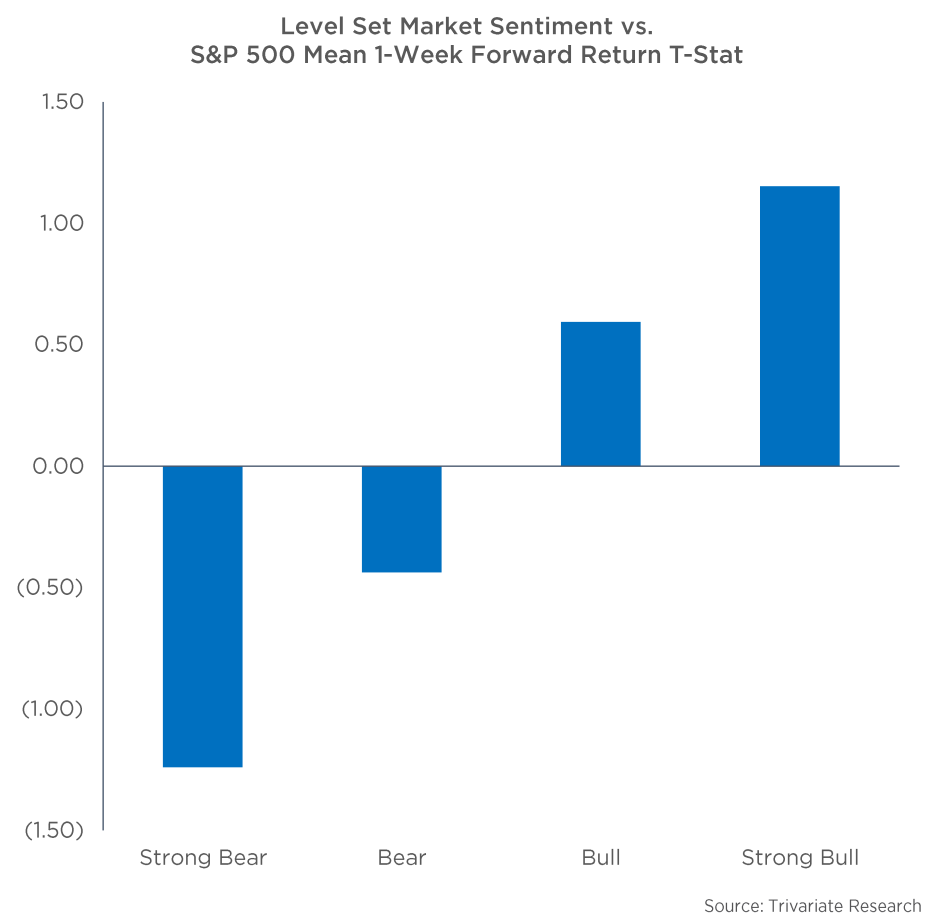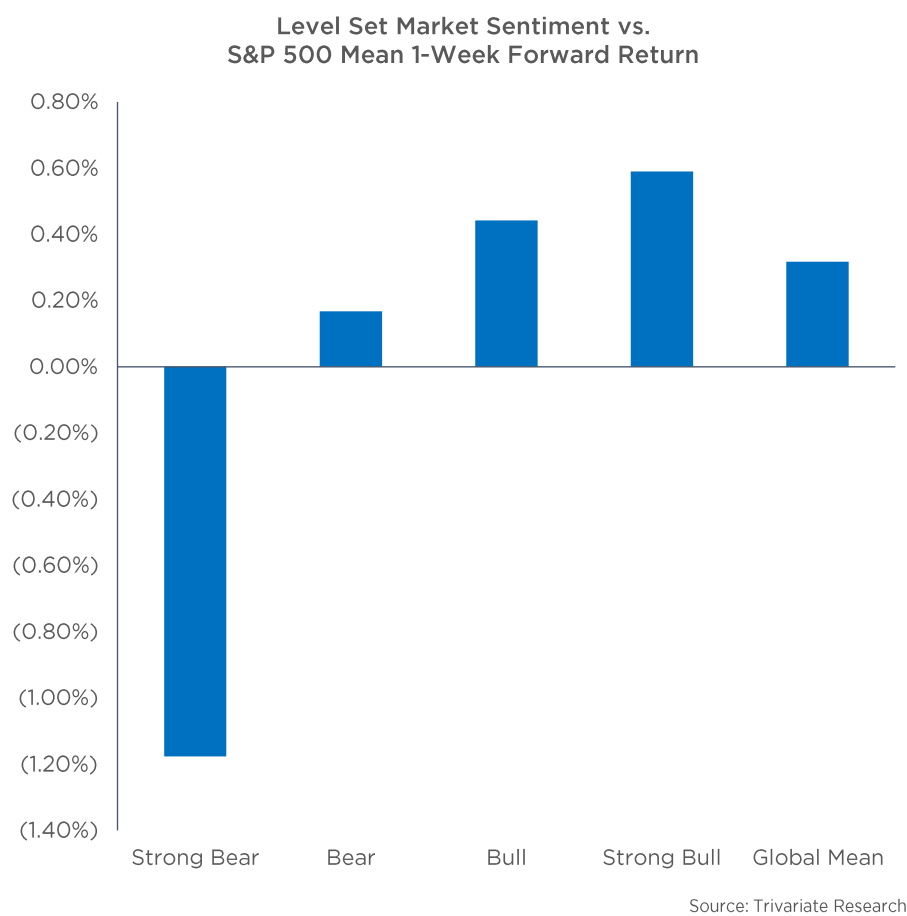| Efficacy of Trivariate's Level Set Sentiment from Claude Scoring September 2022 Through End-January, 2026						
Cohort	Overall	Bull Signal	Bear Signal	Bull-Mean	Bear-Mean	Bull-Bear
Utilities	0.14%	0.57%	(1.53%)	0.43%	(2.10%)	2.53%
Great 8	0.43%	0.81%	(0.43%)	0.38%	(1.24%)	1.62%
Health Care	0.27%	0.37%	(0.70%)	0.10%	(1.07%)	1.17%
Industrials	0.21%	0.44%	0.03%	0.23%	(0.41%)	0.64%
Consumer Staples	0.32%	0.51%	0.13%	0.19%	(0.38%)	0.57%
Average				**0.27%**	**(1.04%)**	**1.31%**
AI Theme	0.60%	0.67%	0.27%	0.07%	(0.40%)	0.47%
Market	0.32%	0.44%	0.17%	0.12%	(0.27%)	0.39%
Information Technology	0.84%	0.92%	0.63%	0.08%	(0.29%)	0.37%
Energy	0.23%	0.20%	0.35%	(0.03%)	0.15%	(0.18%)
Consumer Discretionary	0.27%	0.18%	0.29%	(0.09%)	0.11%	(0.20%)
Materials	0.04%	(0.06%)	0.31%	(0.10%)	0.37%	(0.47%)
Financials	0.17%	(0.02%)	0.42%	(0.19%)	0.44%	(0.63%)

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THE LEVEL SET LANGUAGE HAS PREDICTIVE POWER FOR THE MARKET

Of the 153 Level Sets since September 2022, 139 of them had a non-neutral sentiment score. 76 were bullish, of which 23 were strongly bullish, and 63 were bearish, of which 11 were strongly bearish. Generally, the more bullish our language we deemed to be, the better the one-week forward S&P500 performance. Hit rates for each group are shown on the left, along with their respective T-statistics on the right.

**Level Set Market Sentiment vs.
S&P 500 1-Week Forward Hit Rate**

Source: Trivariate Research

**Level Set Market Sentiment vs.
S&P 500 1-Week Forward Hit Rate T-Stat**
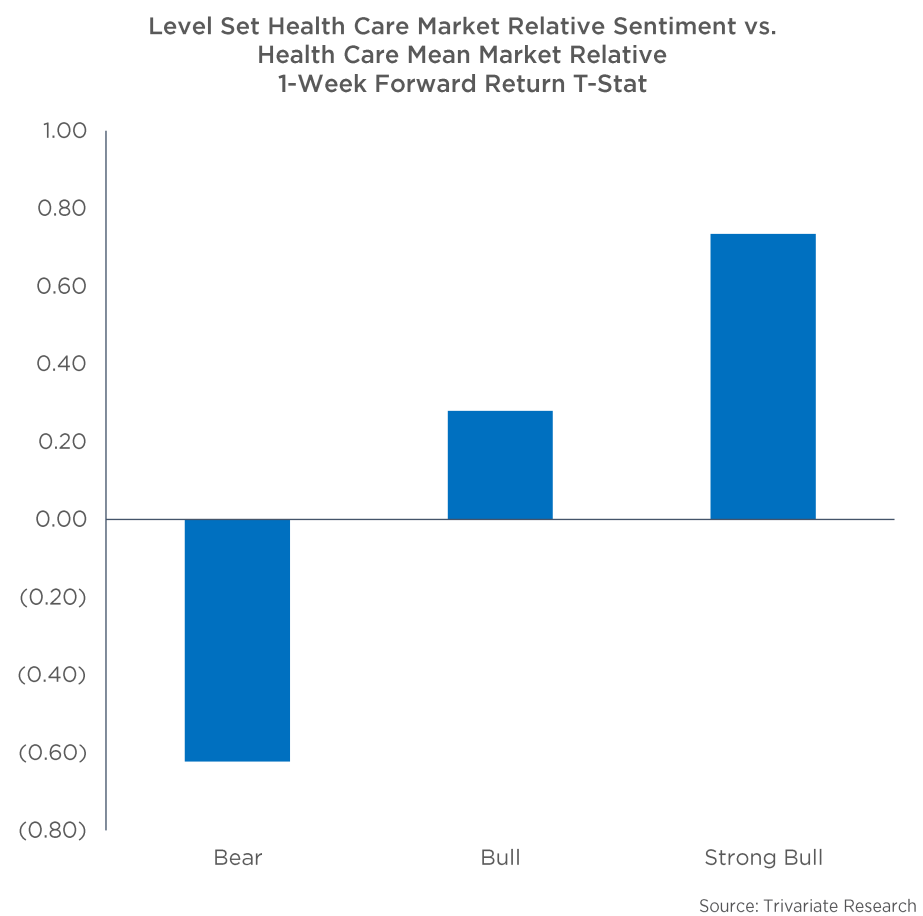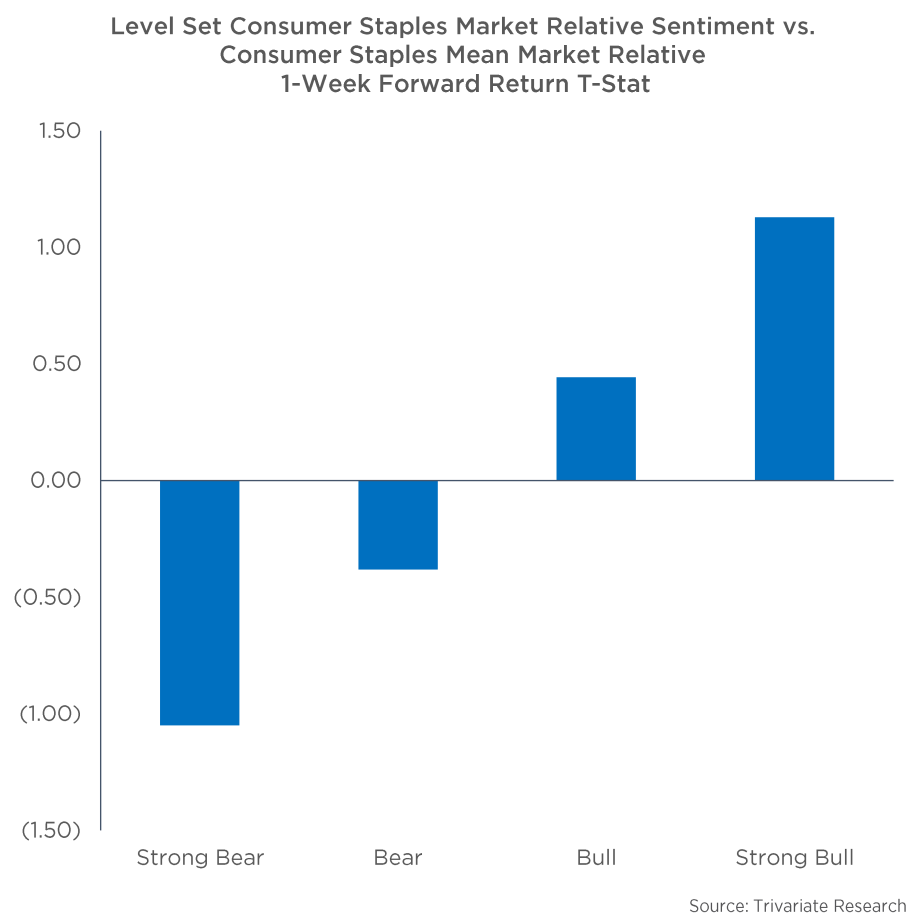

Source: Trivariate Research

OVERALL MARKET SENTIMENT AND WEEK AHEAD MEAN RETURNS

When our Level Sets have language deemed as strongly bearish, which admittedly only has 11 observations since September of 2022, subsequent 1-week performance is by far the weakest (left). The evidence is compelling that the more bullish the language we are using the better the next week's market performance (right).

**Level Set Market Sentiment vs.
S&P 500 Mean 1-Week Forward Return**

Source: Trivariate Research

**Level Set Market Sentiment vs.
S&P 500 Mean 1-Week Forward Return T-Stat**

Source: Trivariate Research

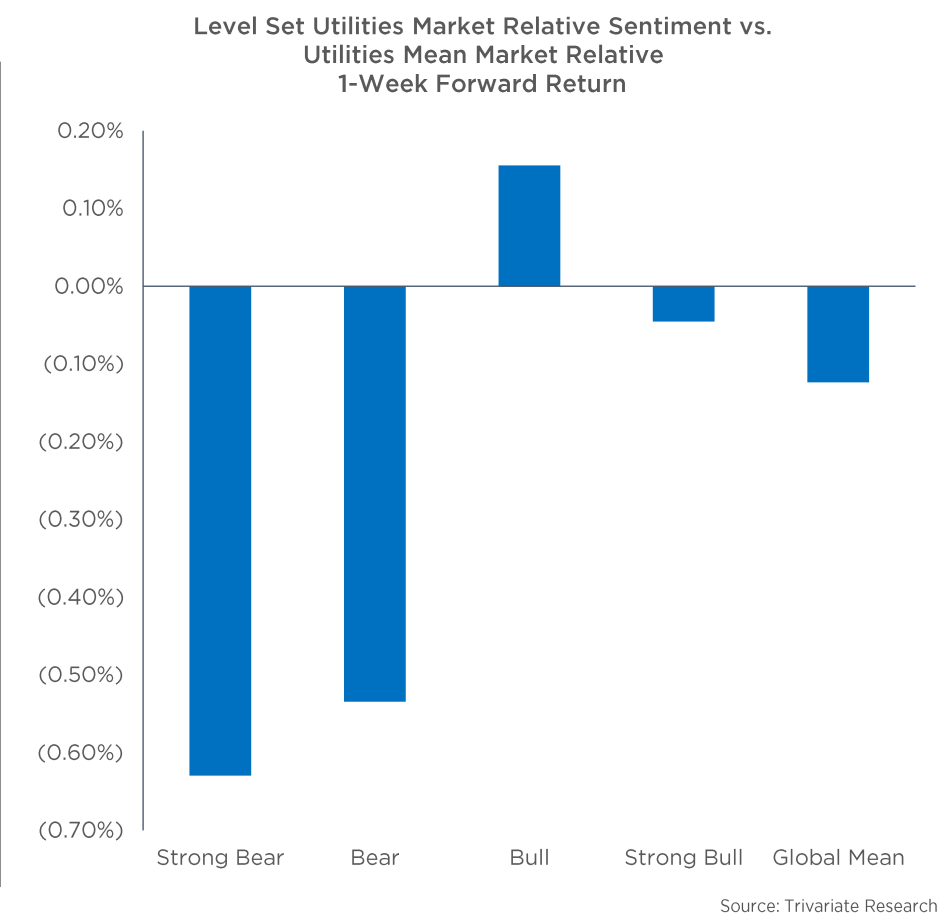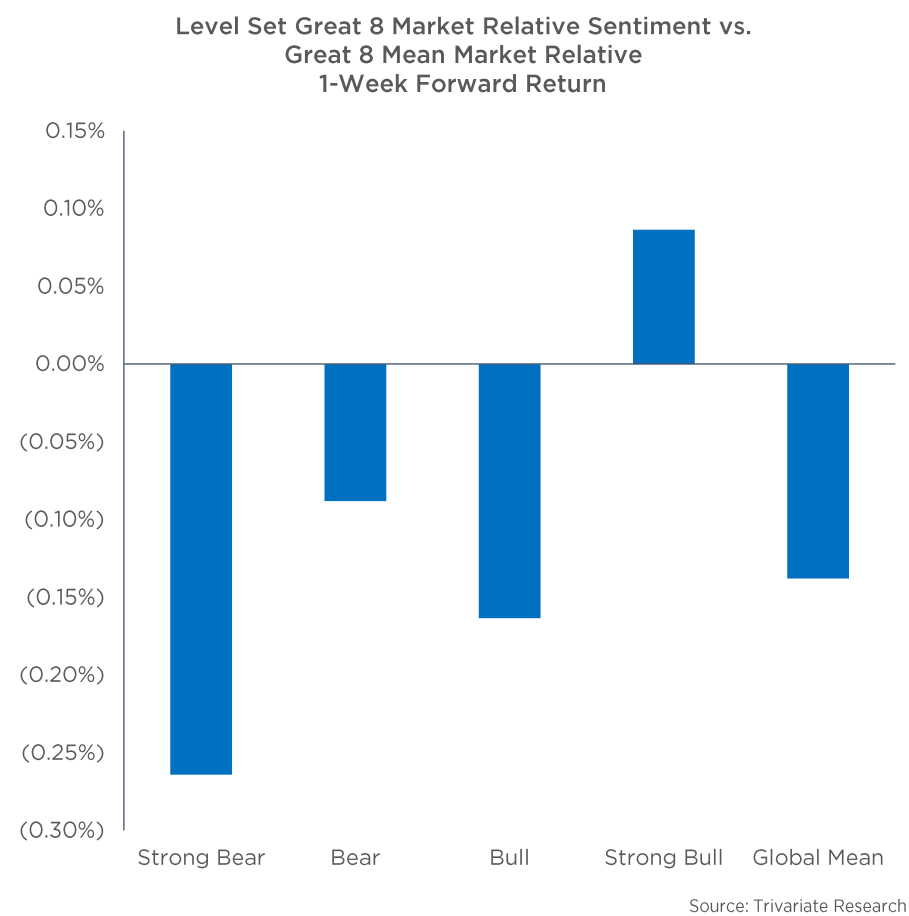# OUR SENTIMENT IS A SOLID INDICATOR IN STAPLES AND HEALTHCARE

In Consumer Staples, we have 62 total observations in our Level Sets over the 3.5 years – 31 bullish, and 31 bearish. There does appear to be some consistent value in analyzing our language on this sector (left), as the next week's returns are highest and positive for strong bull, positive for bull, negative for bear, and most negative for strong bear sentiment. For Healthcare (right) we have 83 bullish observations, 8 bearish, and 38 strongly bullish weeks and subsequent return was rank ordered in line with our language over the next week.

Level Set Consumer Staples Market Relative Sentiment vs. Consumer Staples Mean Market Relative 1-Week Forward Return T-Stat

Source: Trivariate Research

Level Set Health Care Market Relative Sentiment vs. Health Care Mean Market Relative 1-Week Forward Return T-Stat
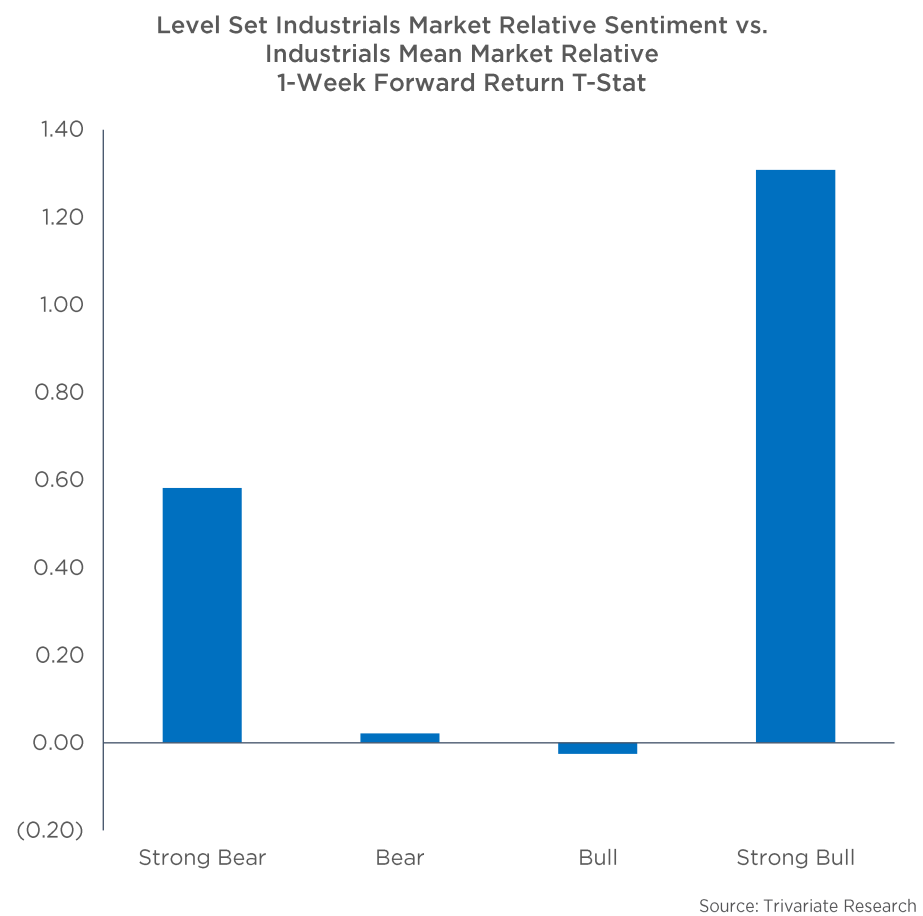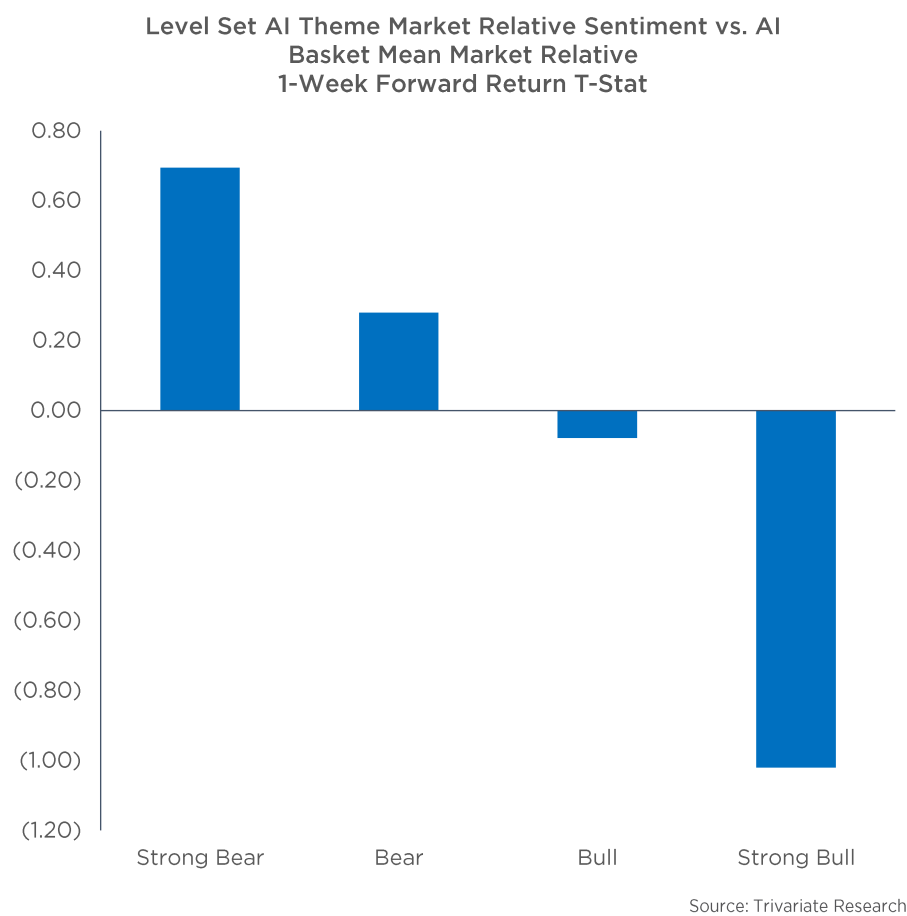

Source: Trivariate Research

NEGATIVE LANGUAGE ON THE GREAT 8 AND UTILITIES IS VALUABLE

When we talk about the Great 8 stocks (AMZN, AAPL, NVDA, AVGO, MSFT, TSLA, GOOGL, and META), a subject we have discussed in 76 Level Sets with enough language to be evaluated, there appears to be some difference when we are strongly bearish (3 times) vs. strongly bullish (left), though that is all isolated to our downgrade of the Great 8 in February of 2025, which was well timed. For Utilities (right), where we have 3 strongly bearish and 11 bearish observations, our negative language has had some predictive value, with Utes lagging the market by an average of over 60bps the next week.

**Level Set Great 8 Market Relative Sentiment vs.
Great 8 Mean Market Relative
1-Week Forward Return**

**Level Set Utilities Market Relative Sentiment vs.
Utilities Mean Market Relative
1-Week Forward Return**

Source: Trivariate Research

Source: Trivariate Research

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BAD FOR AI AND ANY MENTION OF INDUSTRIALS HAS BEEN BULLISH

When it comes to AI, our language appears to be a counter indicator for the subsequent week, as the 36 times we were "read" as strongly bullish, AI underperformed the most. We were only deemed to be strongly bearish one time, and AI did well that next week (left). For Industrials, where we have 83 observations, 37 bullish and 46 bearish, mentioning it doesn't matter. However, when it is deemed that we have strong view, either strongly bullish (7x) or strongly bearish (8x) Industrials outperform (right).

Level Set AI Theme Market Relative Sentiment vs. AI
Basket Mean Market Relative
1-Week Forward Return T-Stat

Source: Trivariate Research

Level Set Industrials Market Relative Sentiment vs.
Industrials Mean Market Relative
1-Week Forward Return T-Stat

Source: Trivariate Research

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