TRIVARIATE RESEARCH

US Equities
March 1, 2026

Level Set - A Good Week for the Bears but A Nugget for the Bulls

As we traversed a half dozen cities in the Mid-Atlantic last week, talking with investors and digesting the week's macro and corporate data points, our overall conclusion is that it was probably a better week for the bears than the bulls. We have been arguing since we published our year-ahead outlook in early January, that the probability the US market multiple declines is greater than the probability it expands in 2026. Our logic for multiple contraction is three-fold:

Firstly: Fed accommodation matters less: The correct call towards the end of 2022 was to cover your massive NVDA, META, and TSLA shorts and go long. Given at that time that the Fed hiking cycle was closer to the end than the beginning, investors could dream of eventual accommodation again, and multiples began to expand. Today, we think the Fed is closer to the end of the accommodation cycle, than the beginning, and so applying the mirror-opposite logic from three years ago, we think the market will stop rewarding incremental dovishness with multiple expansion. As it is, the market is not expecting any Fed rate cuts until June (see below), so more dovishness will likely only occur if the economy markedly deteriorates, which we don't think will be rewarded by the market.

Polymarket Odds of Interest
As of February 28th, 2026

Fed Meeting	Prob. Of Cutting 25bps	No Change	All Other
March 17th	4%	95%	1%
April 28th	14%	85%	1%
June 16th	50%	43%	7%

Source: Trivariate Research, LP

Secondly: Gross margins are coming down for the median company: We know changes in multiples are highly correlated to changes in gross margins, and less pricing power and rising input costs are a huge concern for many businesses. As such, the median company's gross margins remain a huge focus of our work. Importantly, the median stock's gross margin has been under pressure for several months in a row. **In fact, gross margins for the median stock are now at 44.5% as of the end of February, well below the 46% level at the end of November 2025 and at levels not seen since September 2024 (see below).**

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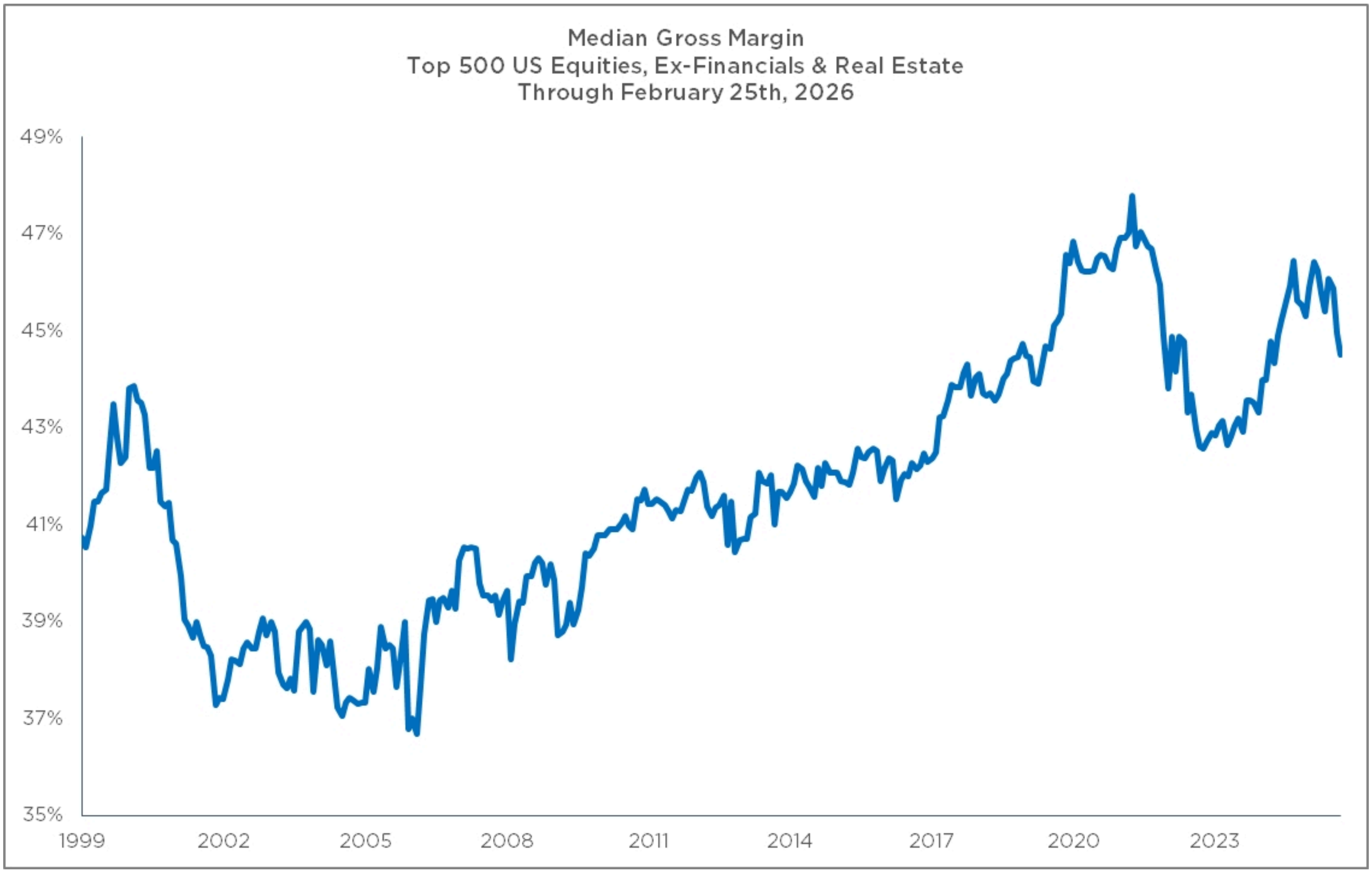
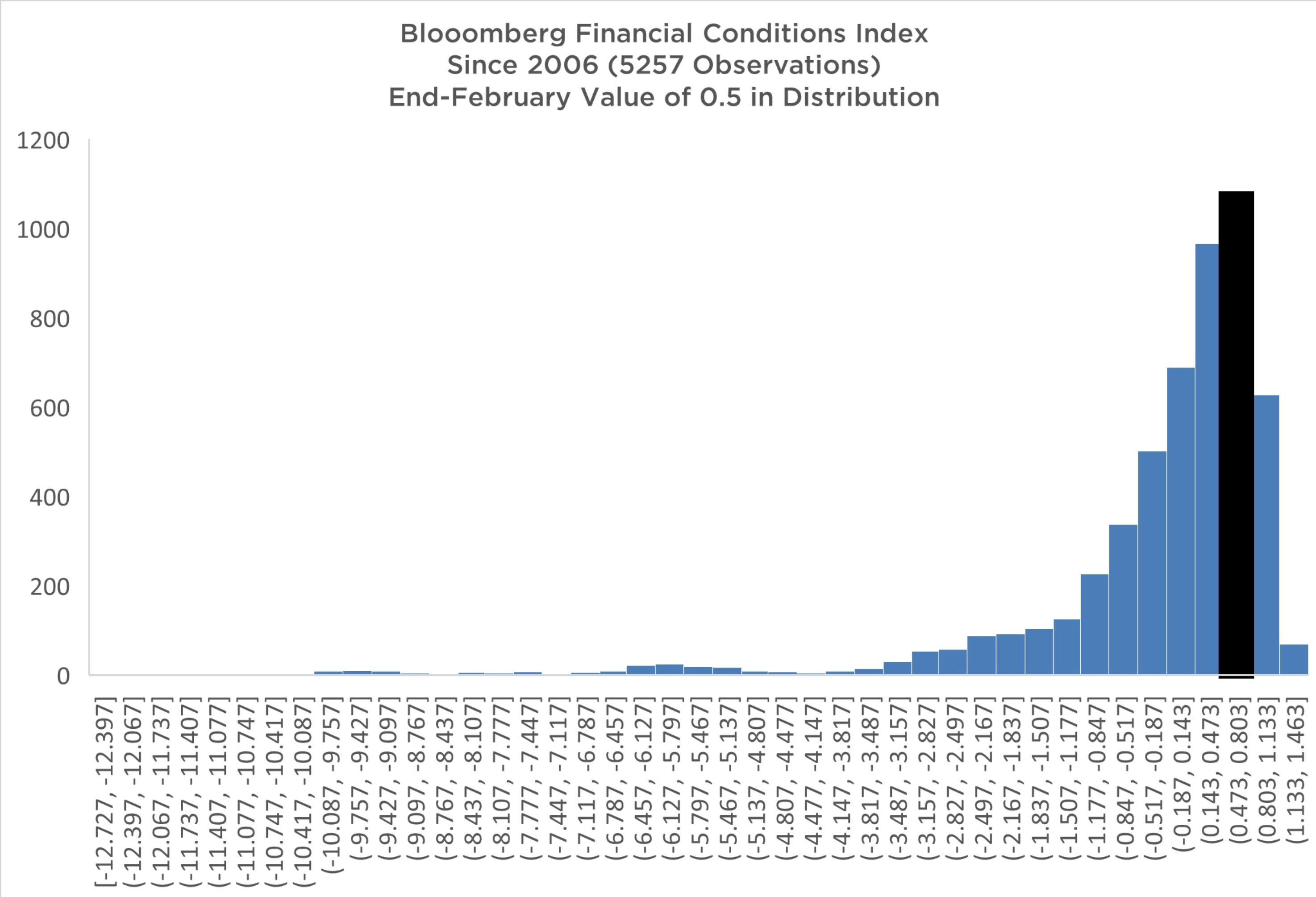
Gross Margins Are at an 18 Month Low



Source: Trivariate Research, LP

Thirdly: Uncertainty should be bad for multiples: When times are uncertain, investors should pay a lower multiple than when times are more certain. Classic metrics like the VIX or Financial Conditions are only showing modest signs of stress. The VIX remains below 20, a classic "low volatility" level, and while the Bloomberg Financial Conditions Index has recently tightened modestly, it remains quite loose vs. a 20-year history (see below).

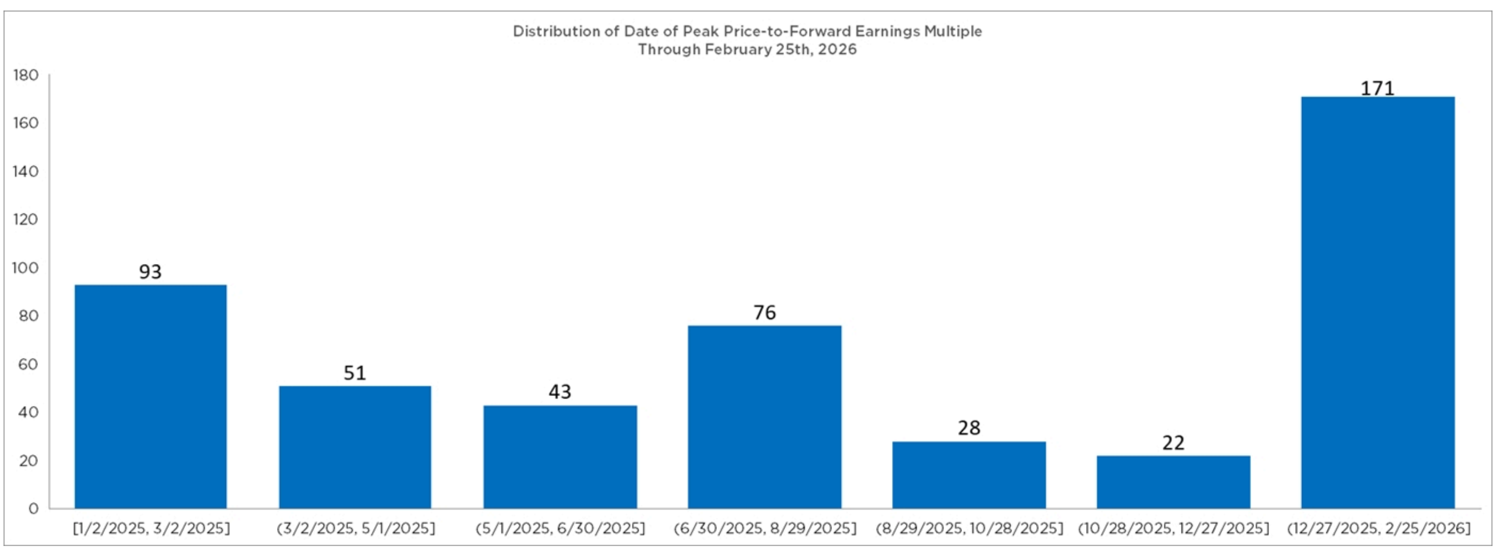


Source: Trivariate Research, LP

But the volatility***within*** the US stock market shows that uncertainty is high. AI is proving to be a disruptive force, making it hard to want to pay a high multiple for stocks where a significant portion of their value in the terminal value. At the same time, the Trump administration is trying its best to win over US voters by introducing and positing new regulations, whether in credit cards, housing, or other industries, which also creates volatility. This has resulted in the number of stocks outperforming or underperforming by more than 30% to be quite extreme as of late, lower than only the TMT crisis, the Global Financial Crisis, and COVID in the last 25 years (see below).

Source: Trivariate Research, LP

Hence, only 171 of the top 500 stocks are trading at peak price-to-forward earnings multiples today, with more than ½ the S&P500's price-to-forward earnings higher at the end of August than now (see below).

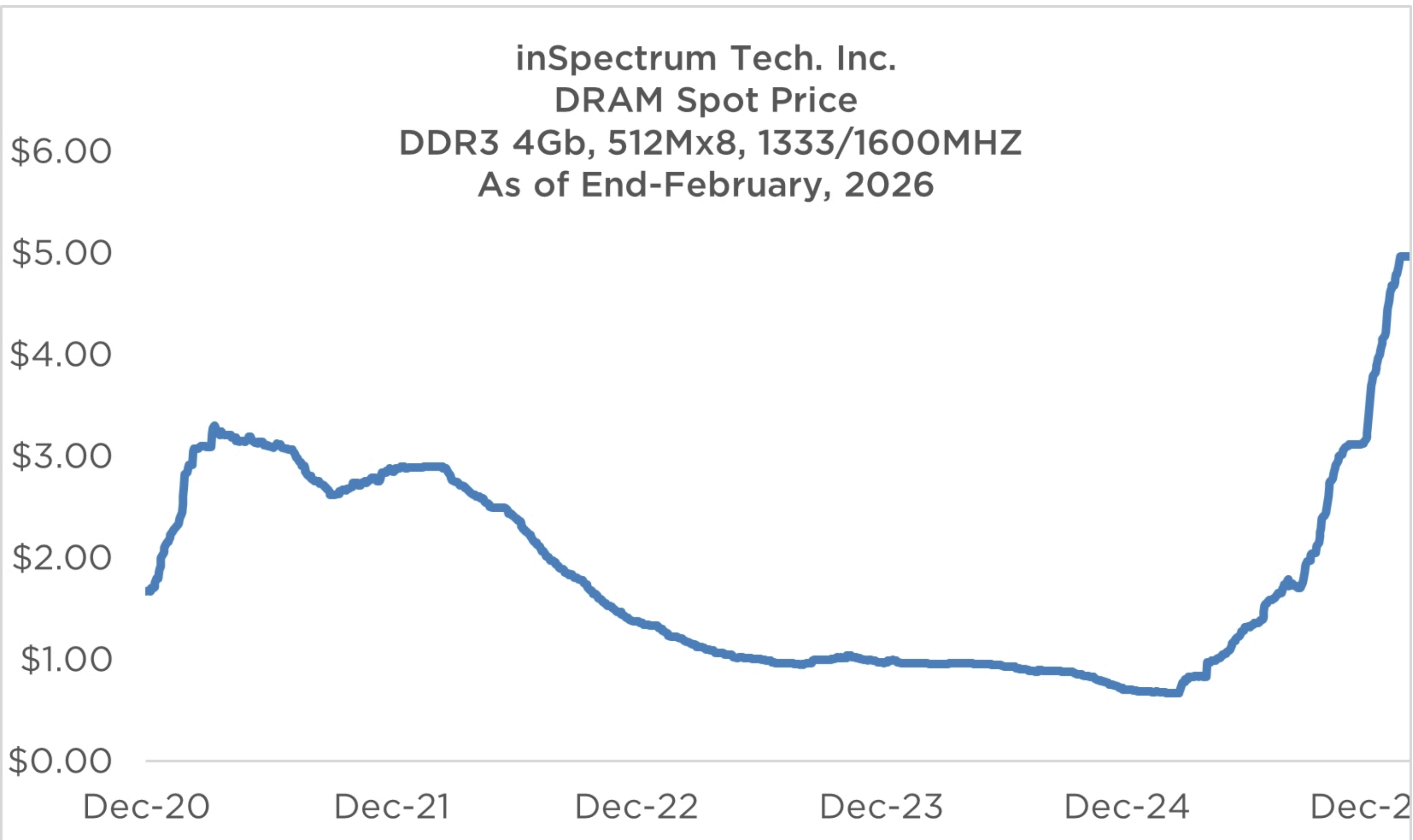


Source: Trivariate Research, LP

In terms of the AI trade, we do see some negative signs emerging.

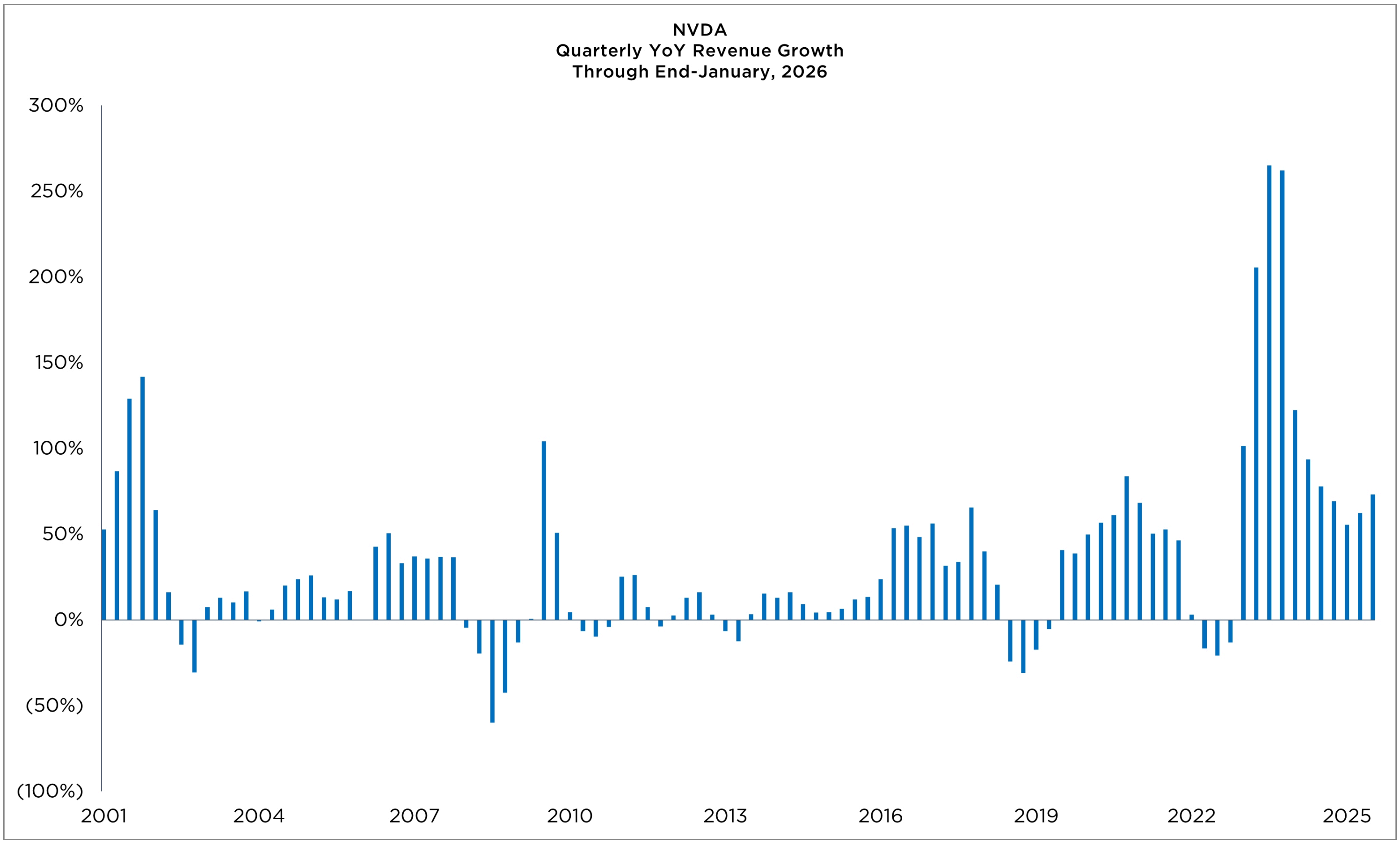
Firstly, DRAM prices have skyrocketed, making MU, SNDK, WDC, STX, and the Korean stock market fly higher for more than 18 months. It seems apparent from experts that the shortage will last for at least 18 to 24 months, and that even if the market is 9 months anticipatory of the fundamentals, there is more room to run for the stocks, with upward revisions a near certainty, cheap valuation on 2026 earnings, and strong price momentum an attractive set-up. So what's our problem? We know this is a cyclical business, and HP and DELL's comments last week on demand destruction are worrisome. **We think investors should sell Memory stocks on strength.**

1. HP said that **memory costs have surged sharply**, with **DRAM alone now accounting for ~35 % of the cost of building a PC**, up from **about 15-18% last quarter**. This was attributed to a dramatic run-up in DRAM (and NAND) prices (see DRAM prices below).
2. HP forecasted a **double-digit decline in PC shipments** for the calendar year — largely because of higher prices due to the memory cost surge which can diminish end-user demand. These two points are important - as you get demand destruction when Memory pricing goes up this much.
3. DELL seems to have managed this environment well so far, per their commentary on last week's earnings call, but they did indicate they were raising pricing again - they last did so in December - which is likely going to fuel demand destruction for PCs and servers as well.
4. MU is now saying that they are smarter than they used to be, and that they will "force" their customers to pay for new capacity. In our view this only means - (like it has always been the case in previous cycles in commodity Semiconductors) - that customers will spend more now to pull in / guarantee excess capacity and lower prices in the future. **Telling your customers that they have to pay for capacity doesn't guarantee price stabilization, it guarantees the cycle ends earlier.**



Source: Trivariate Research, LP

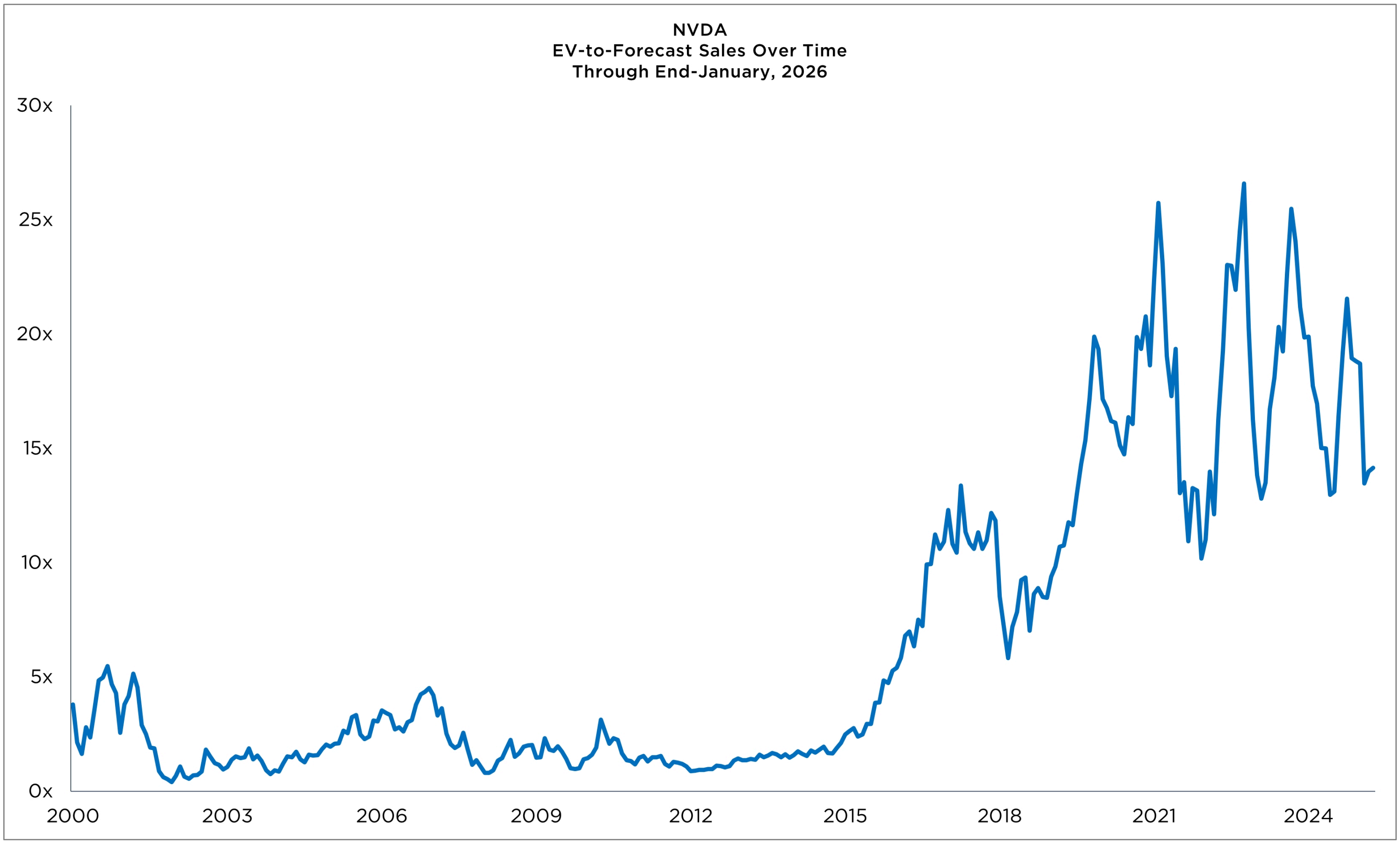
Secondly, NVDA's multiple is contracting on strong results. Another data point of interest continues to be NVDA's valuation. After a blow-out quarter this past week, the stock sold off nearly 10% the last two days of the week, shedding nearly half of a TRILLION dollars of market cap. This despite an acceleration in revenue from 55% two quarters ago to 73.2% now, on a year-over-year quarterly basis (see below). Why? **Because gross margins can't go higher, and multiple expansion comes from gross margin expansion in Semiconductors.**



Source: Trivariate Research, LP

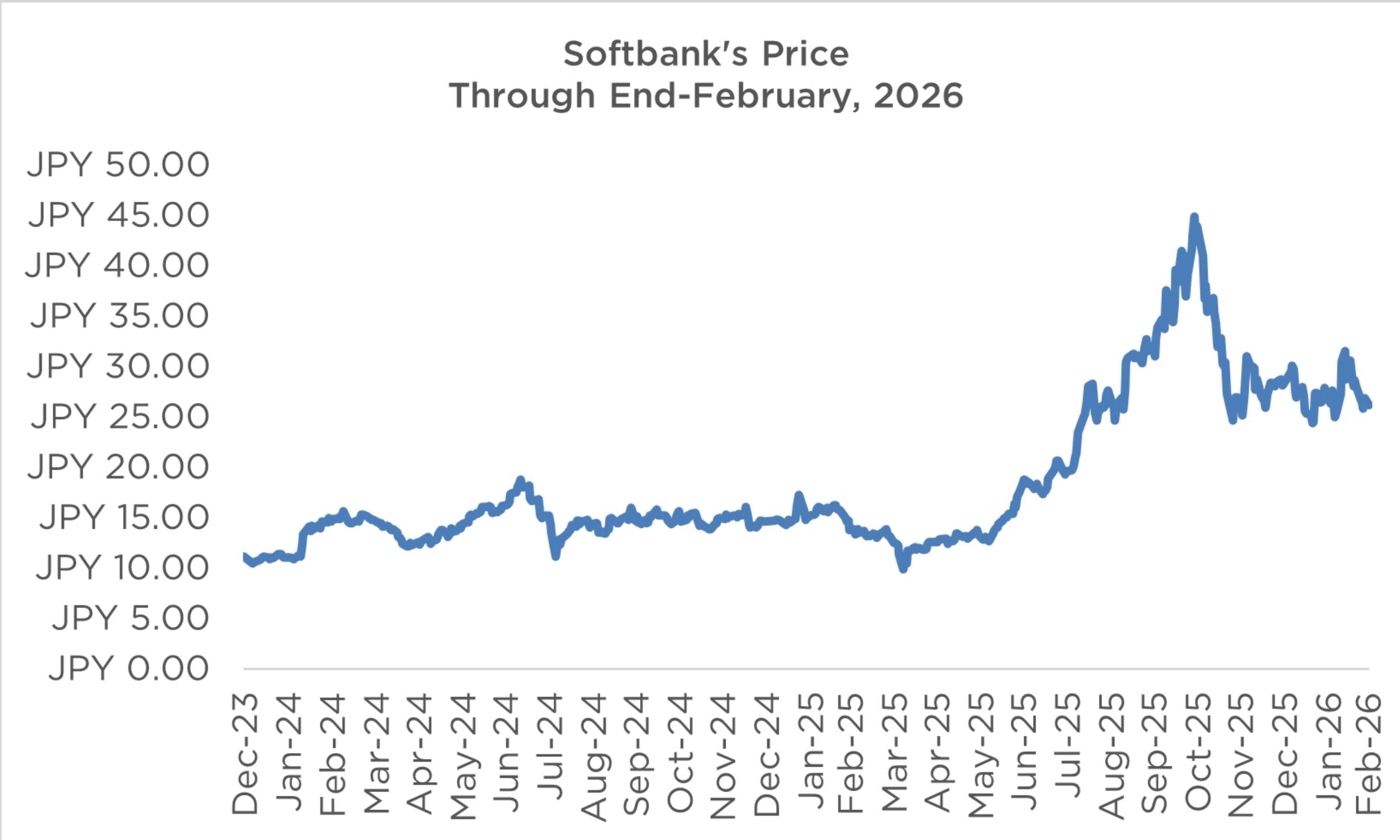
The market digested the upside to sales estimates and punished the valuation, which is now back at levels on enterprise value-to-forecasted sales first seen just following COVID and WELL before AI was in its revenue numbers (see below). NVDA's 2021 fiscal year revenue was $16.675 billion when the stock last traded at 13x EV-to-forecasted sales. This fiscal year's revenue is projected to be $354.2 billion, and the multiple is the same.

It's evident that holding NVDA isn't about betting on multiple expansion, but rather on solid performance where any valuation compression is offset by robust growth. We view NVDA as a true "market perform," meaning, if the market ends up at 8% per year over the next five years, we wouldn't be surprised to see NVDA up plus or minus the same amount, with continued strong growth in the near-term offset by further multiple contraction.



Source: Trivariate Research, LP

Thirdly, is Softbank's stock price as a proxy for OpenAI's value. Softbank's shares are down nearly 40% from the end of Q3 2025, likely a statement about the market's perception of OpenAI's value (see below). Additionally, and we don't think coincidentally, this is the day Sam Altman, Open AI's CEO, appeared on Brad Gerstner's from Altimeter's Podcast, causing many, including us, to comment on how hubris and debt define the top of markets.



Source: Trivariate Research, LP

Fourthly, we are always wary when growth investors start talking about buying stocks because of their free cash flow yield. Valuation has not been an effective metric for picking quality growth stocks for several years, so using it now as a reason to buy a stock like CRM, as an example, doesn't make sense to us. We have shown and proven that consistently expanding free cash flow margin is a good way to get paid in equities, but focusing on it for a growth stock after massive multiple contraction isn't prudent.

Lastly, the price action in Financials is concerning. This is a crowded sector overwhelmingly recommended by the buy- and sell-side in the 2026 year-ahead outlooks. The sector is the worst performing year-to-date, down 6.35% in a market that is up 0.49%, with 17 stocks in the S&P500 Financials sector down more than 10% year-to-date. More concerns about the private markets emerged this week, with "the jockey weighing more than the horse" for OWL, weakness at FKS, and growing concerns about marks for private investments across the spectrum.

Our view is that being underweight Software, and selling some Memory to fund Industrial Semiconductors is prudent. We are worried - as we have said for three weeks now-about being overweight Financials, and continue to prefer Healthcare as our top sector pick

Random Other Thoughts from the Week

Block Firing: A positive sign for the AI bulls this week was the firing announcement at Block (XYZ). While there is a long-term bear case from AI that large white-collar unemployment will ultimately impact the consumer economy, tangible AI-productivity proof cases are big for market sentiment today. Block's CEO Jack Dorsey is well respected, and said the company will **cut more than 4,000 jobs**, which is roughly 40% of its headcount. That reduces the workforce from over 10,000 employees to just under 6,000. Framing the cuts as part of a shift toward a smaller, flatter, AI-first operating model, and saying that "intelligence tools" now allow smaller teams to do more work has many buysiders asking which other companies might make similar structural changes as AI efficiency gains increase across industries. **The market rewarded this move, and we think this is an important data point as we constantly scour earnings call transcripts for cost-related AI proof cases.**

<u>Energy:</u> If we are right that uncertainty means you should pay a lower multiple for equities, it might also CONTINUE to mean that paying for companies where more earnings are in the near-term than long-term is sensible. The best two performing sectors, year-to-date, are Energy and Materials. We are warming to the idea that we could see a huge move higher in Energy over the coming years, fueled by supply constraints and coupled with modestly weaker EV adoption. Oil prices are up nearly 20% year-to-date, making estimate achievability above average for the sector. **<u>We would add exposure to Oil-related stocks today.</u>**

<u>Mid-term elections:</u> Some investors at a dinner we held this past week discussed the impact to the investment landscape if there is huge move toward the Democratic Party in the mid-term election. The Polymarket odds sit at 84% that there will be Democratic House (see below) and a 41% chance the Senate turns Blue. Some investors are wondering if the recent sell-off in Bitcoin is a prediction that there will be a Blue Regime with more power, and that perhaps the money that follows Trump will change paths if he becomes more of a "lame duck" later this year.

Polymarket Mid-term 2026 Election Odds As of February 28th, 2026		
Senate	**House**	**Odds**
Republican	Democrat	43%
Democrat	Democrat	41%
Republican	Republican	15%
Democrat	Republican	1.4%

Source: Trivariate Research, LP

<u>Gold:</u> When Russia invaded Ukraine in 2022 the whole world changed when it comes to Gold. The US Froze Russia's foreign exchange reserves on February 28th, 2022. On that Saturday, the U.S., along with the European Union, the United Kingdom, and Canada, issued a joint statement saying they would **immobilize the Russian Central Bank's assets held in their jurisdictions**, effectively cutting off a large portion of Russia's roughly $630 billion in foreign reserves at the time. The measures were implemented in the days immediately following the announcement, marking one of the most significant financial sanctions ever imposed on a G20 economy.

Every other central bank basically woke up and realized that if they have an issue with the US, their foreign reserves could also get frozen, and hence, they collectively feel structurally compelled to increase Gold exposure. Because every central banker around the world wants to avoid this as a potential threat / problem for them, including allies like Switzerland and others, it seems like Gold is biased to trade higher. **<u>We like Gold, and think that while it temporarily trades like it is AI-related, it probably is diversifying in the longer-term.</u>**

CONCLUSION

This was a dizzying week from a news perspective. Mark-to-market, we are more bearish on Memory Semiconductors, and remain bearish on Software. We like Energy more, and Financials less than we did a week ago. We continue to recommend Healthcare as our top sector choice. But overall, our conviction that the market multiple is more likely to contract than expand has grown, making us more cautious on the overall market than the consensus.

Non-Technology Compounders

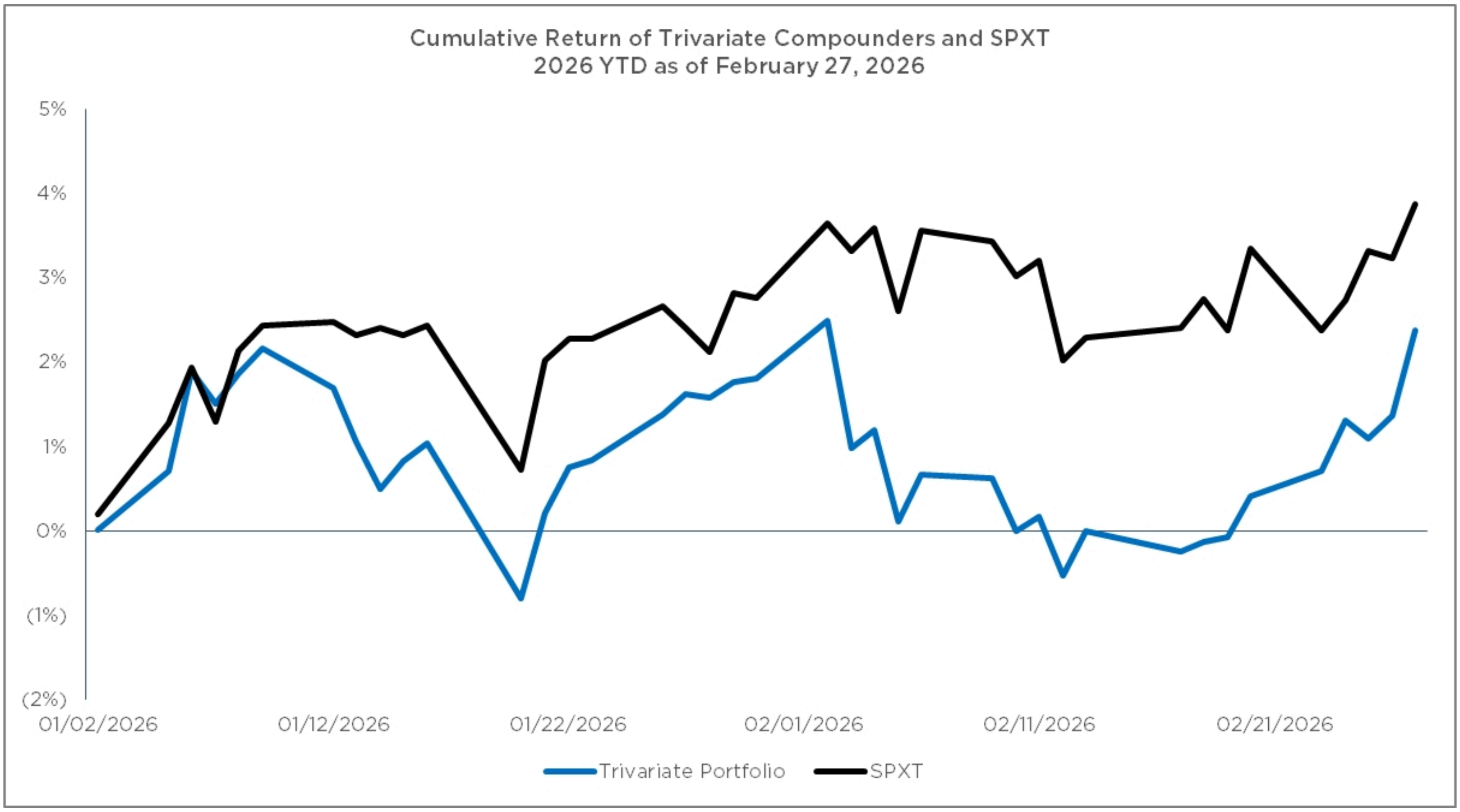
We launched a new ideas basket this year, which is 20 Non-Technology Compounders. Ideas below.

Trivariate Compounders Portfolio
As of February 20th, 2026

Ticker	Company Name	Industry	Market Cap.	Beta	CSR
AMZN	Amazon.com, Inc.	Broadline Retail	2,255.51	1.40	49%
BRK.B	Berkshire Hathaway	Financial Services	1,074.37	0.29	68%
PM	Philip Morris	Tobacco	285.50	0.07	81%
TMUS	T-Mobile US, Inc.	Wireless Telecom. Serv.	237.41	(0.10)	84%
LIN	Linde plc	Chemicals	231.84	0.39	67%
NEE	NextEra Energy, Inc.	Electric Utilities	192.06	0.33	89%
TMO	Thermo Fisher Sci.	Life Sciences Tools & Services	191.96	0.91	58%
GILD	Gilead Sciences, Inc.	Biotechnology	187.84	0.38	89%
UBER	Uber Technologies, Inc.	Ground Transportation	152.01	1.12	78%
SYK	Stryker Corporation	Health Care Equip. & Supp.	145.51	0.52	63%
WELL	Welltower Inc.	Health Care REITs	145.27	0.18	79%
MCK	McKesson Corporation	Health Care Providers & Serv.	116.05	0.07	86%
WM	Waste Management	Commercial Services & Supp.	92.89	0.15	79%
WMB	Williams Companies	Oil, Gas & Consumable Fuels	89.12	0.35	86%
CTVA	Corteva, Inc.	Chemicals	51.32	0.61	73%
VMC	Vulcan Materials	Construction Materials	39.86	0.79	59%
KMB	Kimberly-Clark	Household Products	36.19	(0.11)	65%
CPNG	Coupang, Inc.	Broadline Retail	34.25	1.34	79%
XYL	Xylem Inc.	Machinery	31.36	0.94	52%
DGX	Quest Diagnostics	Health Care Providers & Serv.	22.27	0.04	77%

Source: Trivariate Research, LP

The portfolio is up 2.38% YTD, vs. its comparable index of 3.89%.



Source: Trivariate Research, LP

Important Disclosures

Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Colin Cooney, Chang Ge, Jesse Goodman 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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