

Level Set: Great 8, Breadth, Short Interest, Software and Semis

The S&P500 price is down 6.96% year-to-date, the worst quarter, if this holds, since Q2 2022. Only about 18% of quarters in the last 98 years of data we analyzed have been worse, though those instances were typically concentrated in deep recessions or crises. This year reflects a combination of near-universal bullishness at the beginning of the year, resulting in high earnings expectations, a belief that AI productivity would create an incremental impact, and an accommodative Fed. Geopolitical unrest has certainly caused a large unwind, but underneath the surface, there have been enormous single-stock moves and a skew that should have led to many long-only managers outperforming the index. While the index is down 6.96%, 57.4% of stocks have beaten the market so far this year, and 42% are up in absolute terms. In fact, 108 stocks are up more than 10% this year.

Plenty of Breadth

S&P500 Year-to-Date Price Performance As of March 27th, 2026

S&P500 Category	Count	Percentage
Up > 20%	57	11.4%
Up > 10%	108	21.6%
Up	210	42.0%
Beaten Market	287	57.4%
Down > 10%	173	34.6%
Down > 20%	70	14.0%

Source: Trivariate Research, LP

We point this out because every time we do TV, someone says that they think breadth is good for equity markets. **We have shown several times over the years in our research that common breadth indicators do not have any predictive value for market-level returns, and while that might sound like a good sound bite to those who don't know better, it is actually sort of particularly silly now given how much the market was up in 2023-2025 with "low breadth" and is down this year with breadth.** So both recent history and long-term data contradict what is said 50 times a day on TV - "breadth is good for markets." This week this false logic took an incremental turn when investors began referring to the former Mag 7 as the Miserable 7 after META performed poorly. Firstly, it bothers us that this cohort isn't referred to as the "Great 8" given AVGO is bigger than both TSLA and META. Secondly, this week we were asked if the market can perform well even if this group is "Miserable." Our answer is - NO, depending on what investors mean by "well" and "miserable." Year-to-date, the S&P500 excluding the Great 8 is down 2% (see below), with all the Great 8 down 10% or more except AAPL. **We don't recall too many people at the beginning of the year telling us AAPL was their favorite of the Great 8.** The market cap. weighted performance of the Great 8 is down 14.3%. That is pretty miserable, but these stocks are just too big for the market to do "well" when they don't. Down 2% isn't that bad, but it certainly isn't great.

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S&P500 and Great 8 Performance Year-to-Date			
As of March 27th, 2026			
Ticker	Name	Market Cap.	YTD Return
S&P500 Ex-Great 8			(2.0%)
S&P500			(7.0%)
AAPL	Apple Inc.	3,653	(8.5%)
NVDA	NVIDIA Corporation	4,071	(10.2%)
GOOGL	Alphabet Inc.	3,325	(12.4%)
AVGO	Broadcom Inc.	1,424	(13.1%)
AMZN	Amazon.com, Inc.	2,140	(13.6%)
Great 8			(14.3%)
TSLA	Tesla, Inc.	1,358	(19.5%)
META	Meta Platforms, Inc.	1,330	(20.4%)
MSFT	Microsoft Corporation	2,649	(24.2%)

Source: Trivariate Research, LP

If you assume the Great 8 are "Miserable" from here, and down another 10% combined, and the market excluding the Great 8 - the so-called Other 492 - do "fine," this would only allow the S&P500 to appreciate 3% over this period (see below). It is pretty clear that for the market to be good, the Great 8 can't be miserable.

S&P500 Well vs. Great 8 Miserable Calculation	
As of March 27th, 2026	
Category	Market Cap. (US \$ Tril.)
S&P500	56.82
Great 8	19.95
Other 492	36.87
Other 492 Up 10%	40.56
Great 8 Down 10%	17.95
Total Market in this Combo	2.98%

Source: Trivariate Research, LP

During market retreats, the multiple contracts first, and ultimately it proves to either be a growth scare that was not merited and an opportunity for risk-taking, or a negative harbinger for future earnings. So far, the earnings expectations for the S&P500 are higher today than they were on January 1st, driven by the huge upside in memory prices and NVDA's earnings. In fact, the median bottom-up sell-side analyst now expects 11.3% more earnings from the Technology sector today than at the beginning of the year. The other sectors with higher EPS expectations today than at the end of 2025 are Energy, owing to the high correlation between the change in the Oil price and the change in the net income of the Energy sector, Materials, and Communication Services. Healthcare, Real Estate, and Consumer Discretionary expectations have been reduced the most. Our suspicion is that the market pull back this year isn't just a growth scare, or a "ghost," but rather a fairly rational response to the high expectations that are likely to disappoint later this year.

Given the upside in Technology EPS, bottom-up expectations call for 2026 EPS to be \$322.50, representing 17.3% growth vs. 2025. We think 10-12% growth is a likely better starting point - which is still solid in absolute terms - but - in an environment where the penalty for missing earnings has been so harsh relative to the reward for beating, perhaps not enough. We'd love to see a company miss or guide down and not sell off to feel like there is a more optimistic entry point for risk-taking.

Bottom-Up Consensus 2026 EPS Estimates March 27th, 2026 vs. Year-End 2025	
Sector	Change in EPS
Technology	11.3%
Energy	4.1%
S&P 500	2.9%
Materials	2.3%
Communication Services	0.6%
Industrials	(0.1%)
Financials	(0.1%)
Utilities	(0.5%)
Consumer Staples	(1.0%)
Consumer Discretionary	(1.1%)
Real Estate	(1.3%)
Health Care	(3.6%)

Source: Trivariate Research, LP

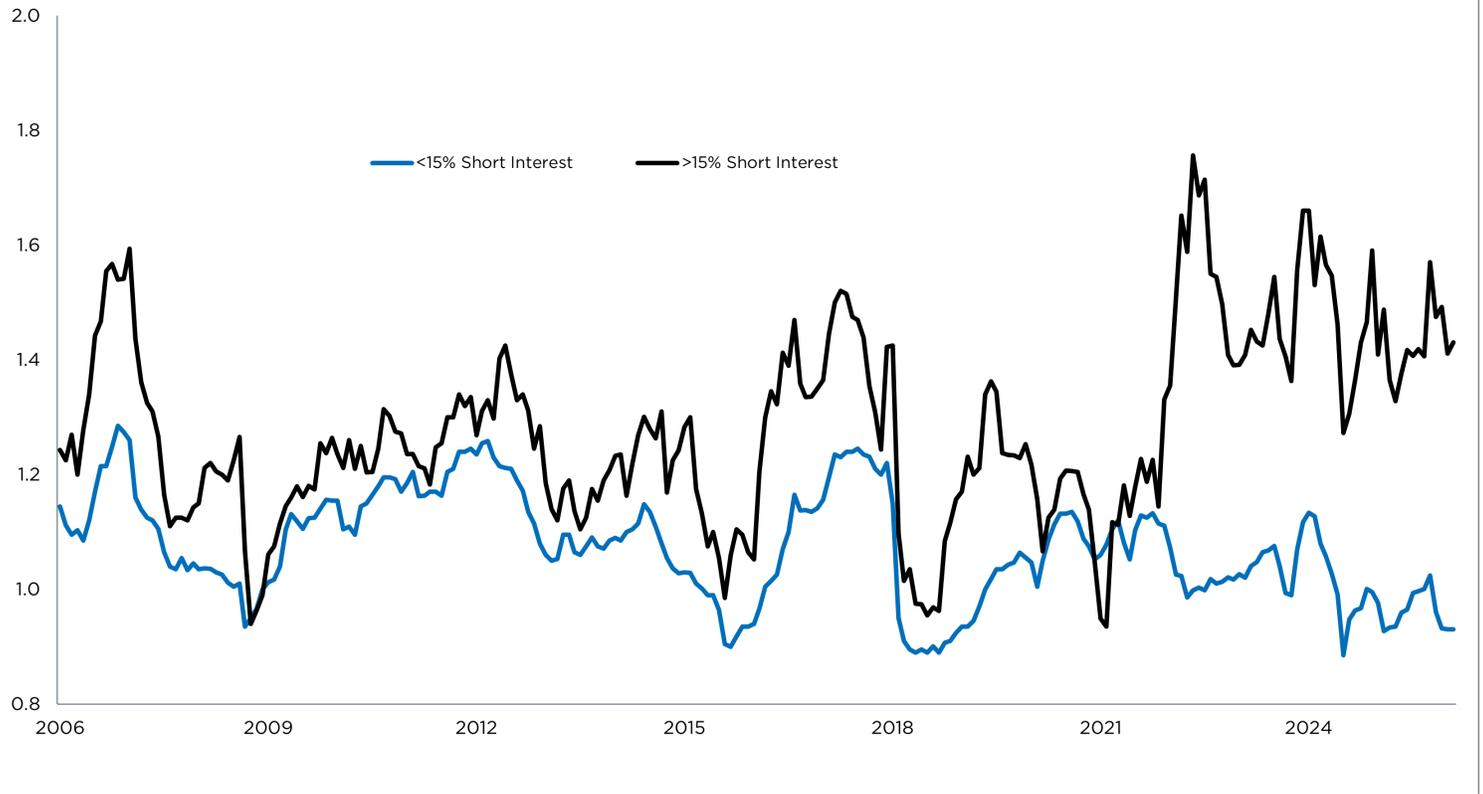
When the market is down this much, often being long-only is about “blow-up” avoidance, and hedge funds finally generate alpha on frustratingly stubborn heavily shorted stocks that finally implode. But, many short-sellers have suggested to us that this isn’t the case for them recently, and we investigated the distribution of outcomes for heavily shorted stocks. Over the last year, stocks with less than 15% short interest **have lagged those with more than 15% short interest by more than 30%**, as the heavily shorted group is up an average of 45%! That has started to moderate recently, but not as much as we would have expected in a risk-off market.

Performance of Stocks by High vs. Not-High Short Interest As of March 27th, 2026							
Cohort	1 Week	2 Weeks	1 Month	2 Months	3 Months	6 Months	1 Year
<15% Short Interest	(0.3%)	(2.5%)	(5.5%)	(5.4%)	(0.7%)	1.3%	14.7%
>15% Short Interest	(0.9%)	(2.9%)	(3.4%)	(8.4%)	(1.6%)	3.4%	45.0%
S&P500	(1.7%)	(3.1%)	(4.6%)	(4.1%)	(2.5%)	(0.6%)	17.7%
Low - High Spread	0.6%	0.4%	(2.1%)	3.1%	0.9%	(2.0%)	(30.4%)

Source: Trivariate Research, LP

Given over the long-term, the speculators were right, and heavily shorted stocks lagged, we wanted to further investigate what is happening. After all, in our risk work, we often caution portfolio managers to be careful with large long positions in stocks with high short interest. It turns out that since 2022, among the top 2000 US equities, stocks with more than 15% short interest have significantly higher beta relative to stocks that have less than 15% short interest. While the beta was always slightly higher, it has maintained a wide gap derived post-COVID. **As the market performed well, a lot more negative alpha has to be generated now than in the past for these heavily shorted stocks to be down in absolute terms.**

Median Beta by Short Interest Category
Top 2,000 US Equities
Through End-February, 2026



Source: Trivariate Research, LP

We looked at “negative asymmetric beta” for heavily shorted stocks, meaning those that typically have higher beta in down markets than up markets. Stocks that are heavily shorted, up this year, and have this attribute could be good candidates for shorting (see below). **We ultimately think these heavily shorted stocks will lag the market, and our bias is to avoid having too many long positions in stocks with more than 15% short interest.**

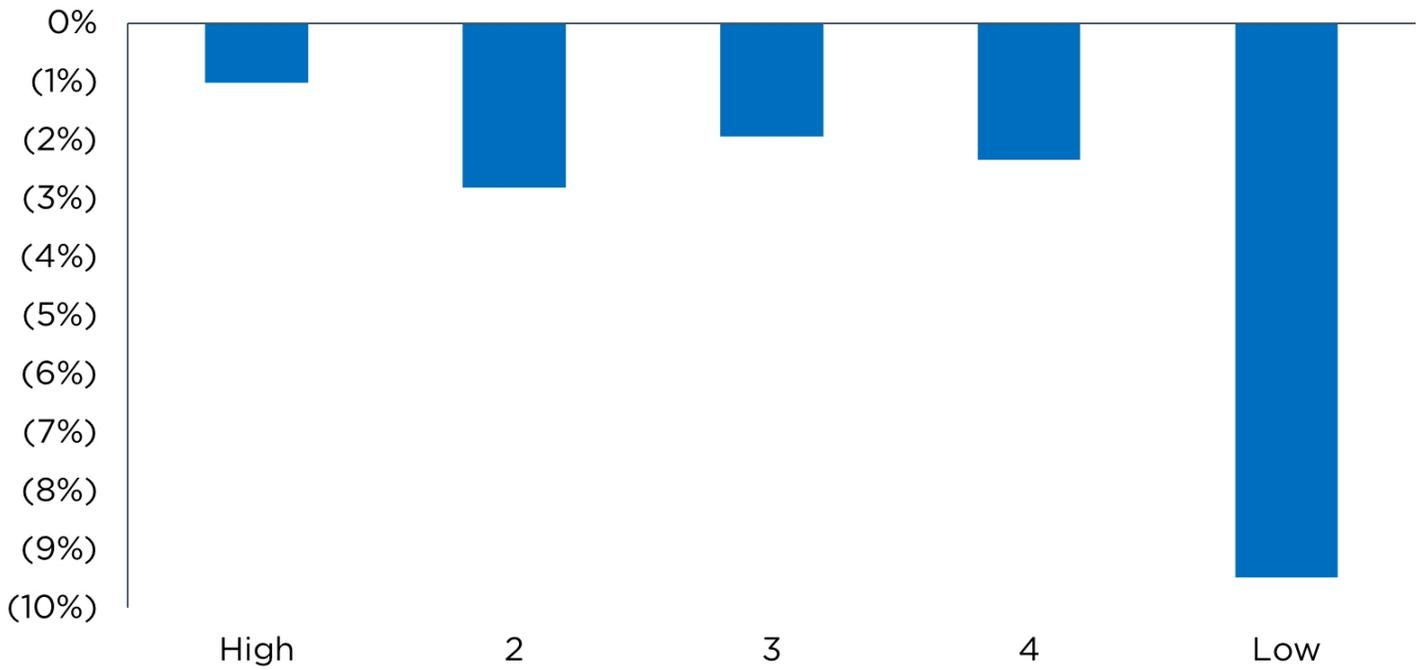
**Stocks With High Short Interest and Negative Asymmetric Beta
That Are up Year-to-Date, As of March 26th, 2026**

Ticker	Name	Sector	Market Cap (US \$Bil.)	Short Interest	YTD Return
RIG	Transocean Ltd.	Energy	7.15	17.9%	56.4%
APLD	Applied Digital Corporation	Information Technology	7.62	35.8%	11.2%
PL	Planet Labs PBC	Industrials	8.23	15.3%	71.5%
WULF	TeraWulf Inc.	Information Technology	6.88	34.7%	40.9%
ASTS	AST SpaceMobile, Inc.	Communication Service	22.74	19.5%	21.7%
RIOT	Riot Platforms, Inc.	Information Technology	6.06	15.5%	13.4%
HUT	Hut 8 Corp.	Information Technology	5.90	18.2%	15.2%
MRNA	Moderna, Inc.	Health Care	21.16	18.7%	73.9%
CAVA	CAVA Group, Inc.	Consumer Discretionary	9.60	17.0%	48.4%

Source: Trivariate Research, LP

We continue to believe the Software sector should be avoided. The group rallied from late February lows, until last week, where it was the second worst performing of the 25 GICS industries. Despite our high conviction view to be Underweight Software, we of course agree with many institutional investors that some individual names will perform well. We prefer fast-growing and expensive Software to slow growing and cheap. That historical behavior we previewed as likely last month has unfolded in March so far. Software companies with the lowest forecasted revenue growth materially lagged (see below).

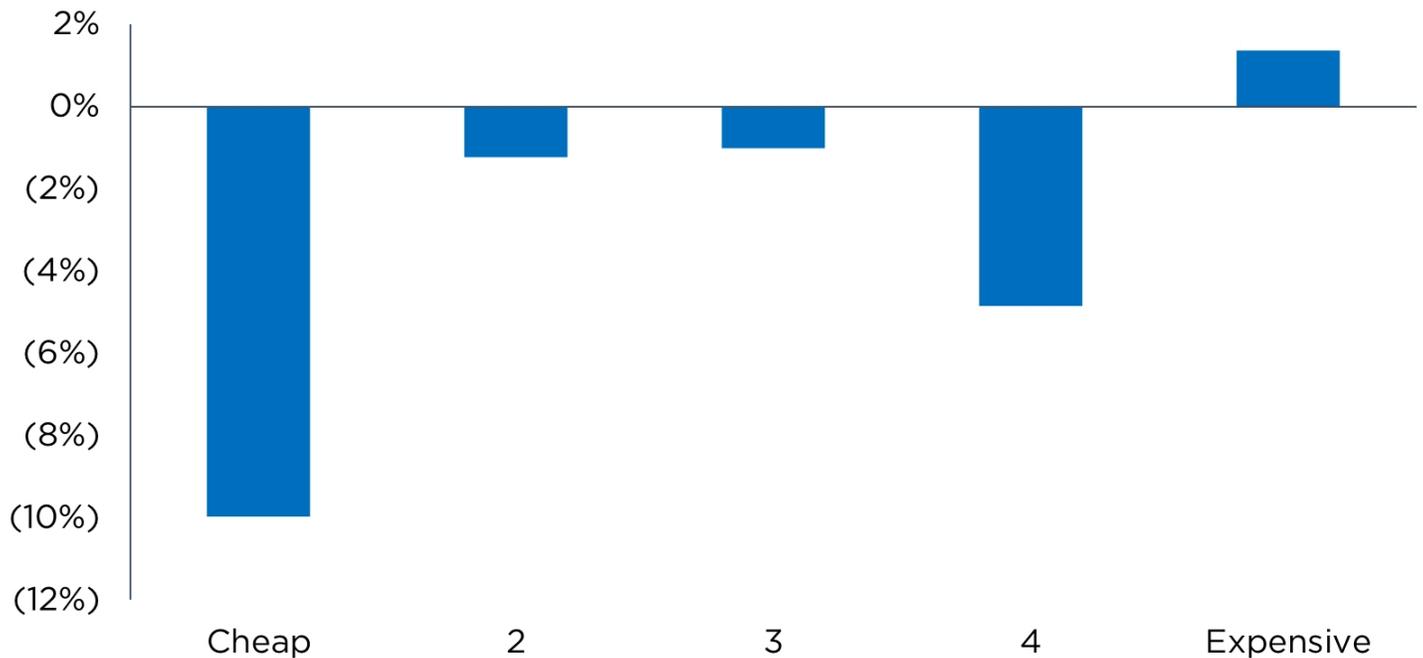
Top 3000 Software Companies Performance by Quintiles of Forecasted Revenue Growth MTD As of March 25th, 2026



Source: Trivariate Research, LP

Moreover, the cheapest Software stocks on price-to-forward earnings massively lagged, while the most expensive ones were up in absolute terms (see below). **Our view is to be underweight Software, and avoid cheap and slow growing stocks within the industry - they are likely a value trap.**

Top 3000 Software Companies Performance by Quintiles of Forward Earnings Yield MTD As of March 25th, 2026



Source: Trivariate Research, LP

For those looking for Software ideas. Below we show those with high forecasted revenue growth, strong 252-day momentum, and are expensive on price-to-forward earnings as long ideas. The market on average is going to be right that these companies are more likely to do well.

Long Ideas: Software That Has High Forecasted Revenue Growth, High 252d Momentum and Expensive on Price-to-Forward Earnings

Ticker	Company Name	Market Cap. (\$Bn)
PLTR	Palantir Technologies Inc.	370.61
APP	AppLovin Corporation	147.29
CRWD	CrowdStrike Holdings, Inc.	97.86
SNPS	Synopsys, Inc.	78.57
CDNS	Cadence Design Systems, Inc.	77.69
DDOG	Datadog, Inc.	43.63
CWAN	Clearwater Analytics Holdings, Inc	6.89
AGYS	Agilysys, Inc.	2.01
AIP	Arteris, Inc.	0.82
TLS	Telos Corporation	0.33

Source: Trivariate Research, LP

As we highlighted a few weeks ago in our Level Set ([A Good Week for the Bears but A Nugget for the Bulls](#)) the news on Memory stocks has become worrisome. Yes, MU's earnings were an absolute blow-out, resulting in much higher 2027 EPS expectations - nearly double - what the analysts thought previously. However, the stock has rolled over, as well as some of the Semiconductor Capital Equipment stocks with Memory-market exposure in the last week, with growing concerns about eventual excess capacity. Eleven of the largest 20 Semiconductor companies are in the 90th percentile or higher vs. their own histories on EV-to-forecasted sales, with five, TER, AMAT, ADI, KLAC, and LRCX at all-time highs (see below). **To the extent investors begin worrying about cyclical excess, we could see a 20-30% reset for several of these names. We continue to prefer Semiconductors to Software, primarily due to less technological obsolescence risk, but in our current framework that is Market-weight Semiconductors and Underweight Software.** For our recent comprehensive review of the Semiconductor industry please see our recent note ([Are There 9 Kinds of Semis?](#)).

**Mega-/Large-Cap. Semiconductors
Enterprise-Value-To-Forecasted Sales
Percentile vs. Own History
Since 1999 as of End-February, 2026**

Ticker	Name	Percentile
TER	Teradyne, Inc.	100%
AMAT	Applied Materials, Inc.	100%
ADI	Analog Devices, Inc.	100%
KLAC	KLA Corporation	100%
LRCX	Lam Research Corporation	100%
MU	Micron Technology, Inc.	99%
TXN	Texas Instruments Incorporated	95%
ON	ON Semiconductor Corporation	95%
MPWR	Monolithic Power Systems, Inc.	94%
MCHP	Microchip Technology Incorporated	90%
INTC	Intel Corporation	90%
AMD	Advanced Micro Devices, Inc.	86%
NXPI	NXP Semiconductors N.V.	83%
AVGO	Broadcom Inc.	80%
MRVL	Marvell Technology, Inc.	77%
NVDA	NVIDIA Corporation	77%
FSLR	First Solar, Inc.	74%
ENPH	Enphase Energy, Inc.	52%
GFS	GlobalFoundries Inc.	47%
SWKS	Skyworks Solutions, Inc.	35%
QCOM	QUALCOMM Incorporated	13%

Source: Trivariate Research, LP

CONCLUSION: We came into the year with a non-consensus view that the probability the multiple contracted for US equities was higher than the probability the multiple expanded. So far, we have had the “right answer” but partially for the wrong reason. In the investing world, that is called “correct.” We think the key big picture element from here will be gross margin expansion. Will higher input costs make gross margin expansion for the median stock incrementally challenging, or can this be more than offset by labor productivity? Gross margin trends have disappointed year-to-date, and the April earnings and July guidance will be key to restore confidence in the underlying fundamentals with so much macro noise. We like Healthcare, Energy, Materials, on a relative basis.

Non-Technology Compounders

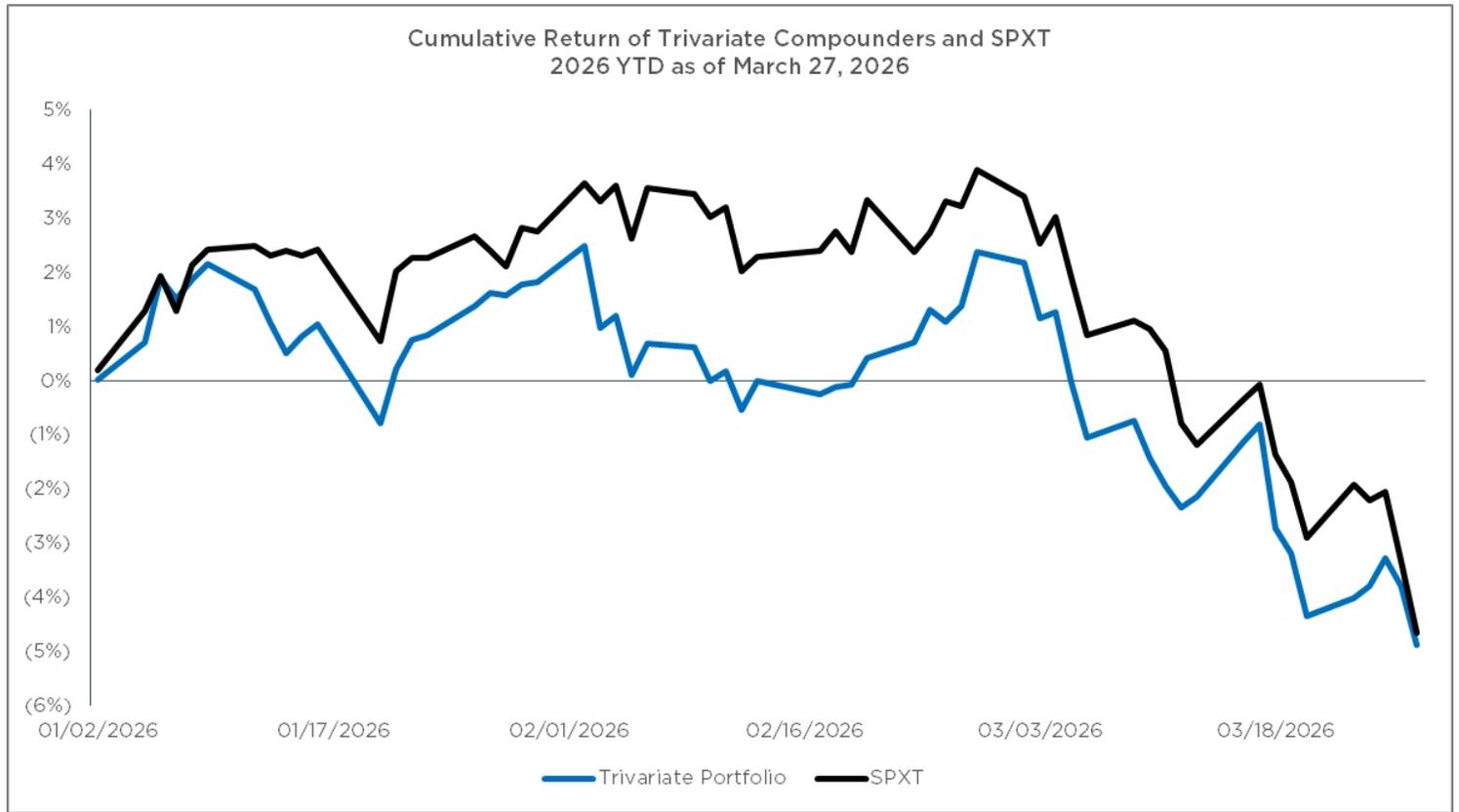
We launched a new ideas basket this year, which is 20 Non-Technology Compounders. Ideas below.

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 down -4.88% YTD, vs. its comparable index of -4.66%.



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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