



# BLUE WATER RISK OUTLOOK

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## Returns and Risk of Palantir Dwarf Those of Biggest Defense Contractors

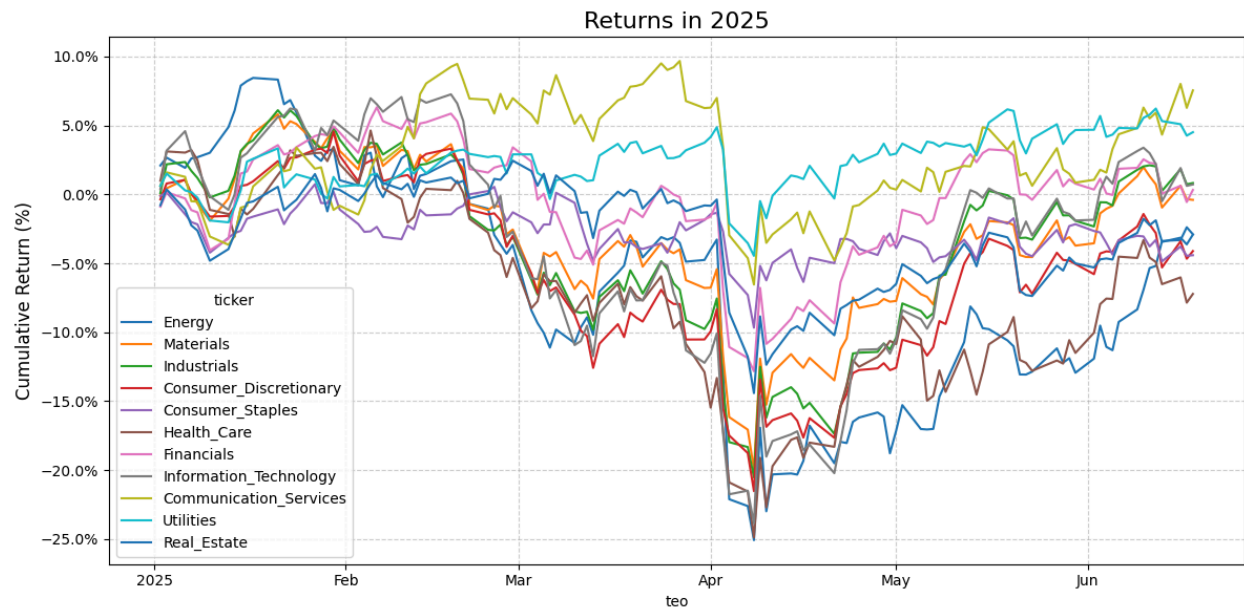
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- Blue Water tracks implied volatility by sector based on data from [SpiderRock Data & Analytics](#). Volatility rankings by sector have remained stable in recent years, with the energy sector being a key exception.
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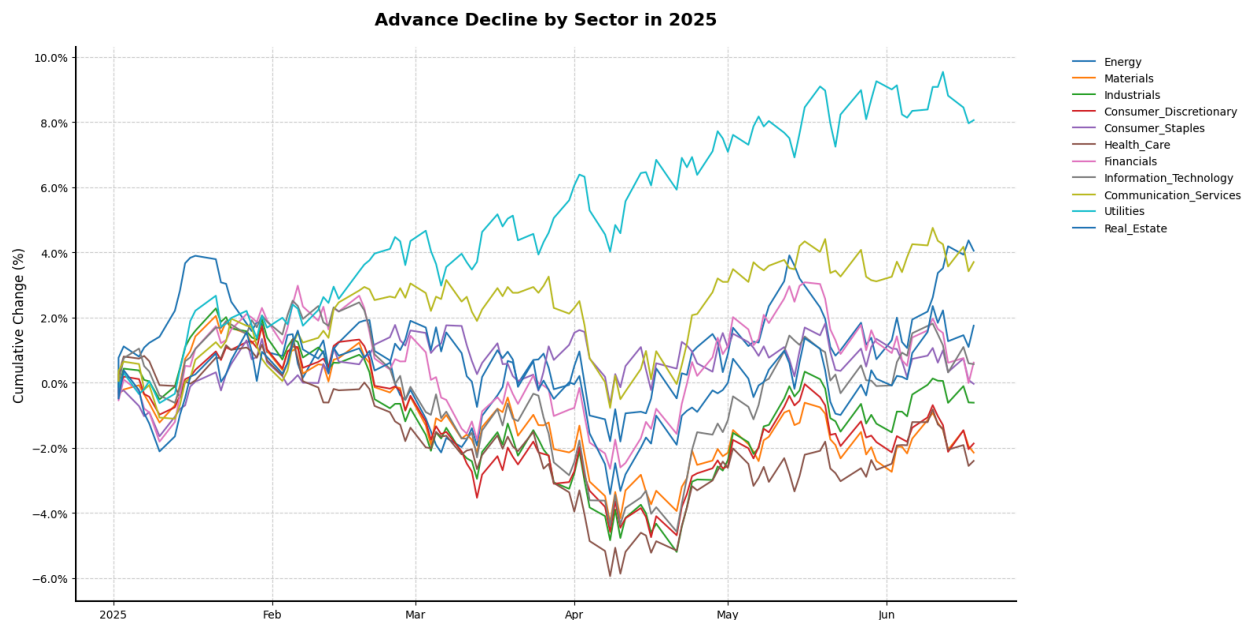
### All but Two U.S. Equity GICS Sectors Regain Post-“Liberation Day” Losses. Returns and Advance/Decline Most Favorable in Defensive Sectors This Year.

Outright war between Israel and Iran, with the U.S. entering the fray in an offensive capacity and Iran’s parliament voting to close the Strait of Hormuz, around which 20% of the world’s crude oil supply flows. Increasingly authoritarian rule at the federal level in the United States. Trade disputes and supply chain disruptions. There is no shortage of risk in the real world these days, but the financial sphere has been taking it all in stride, boosted by dictated interest rates that are still historically low, ongoing massive federal deficit spending, and a sharp year-to-date drop in the balance of the Treasury General Account.

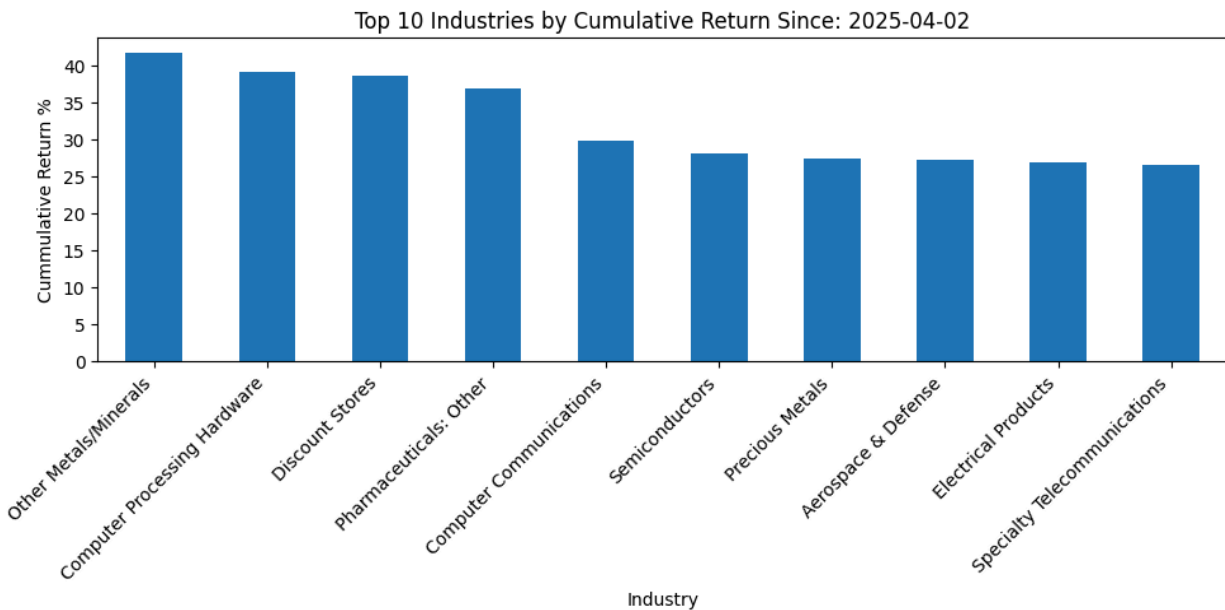
Financial conditions, particularly in higher-risk credit, are exceptionally loose, and all but two Global Industry Classification Standard (GICS) sectors have more than clawed back their post-“Liberation Day” losses. As we approach the half-way mark for the year, two of the most defensive sectors—Communications Services and Utilities—have been the best performers, while Health Care has lagged.



One key measure of the stock market's internal health is the advance/decline ratio, a breadth indicator that compares the number of advancing stocks to the number of declining stocks (it rises when advances exceed declines and falls when declines exceed advances). We calculate it at the sector level based on data from FactSet. So far this year, the advance/decline has been far more favorable in Utilities, a highly defensive sector, than in any other GICS sector.



Since “Liberation Day” on April 2, the best performers have been largely in metals and manufacturing related sectors, including Aerospace & Defense, which we examine in more detail in the next section.

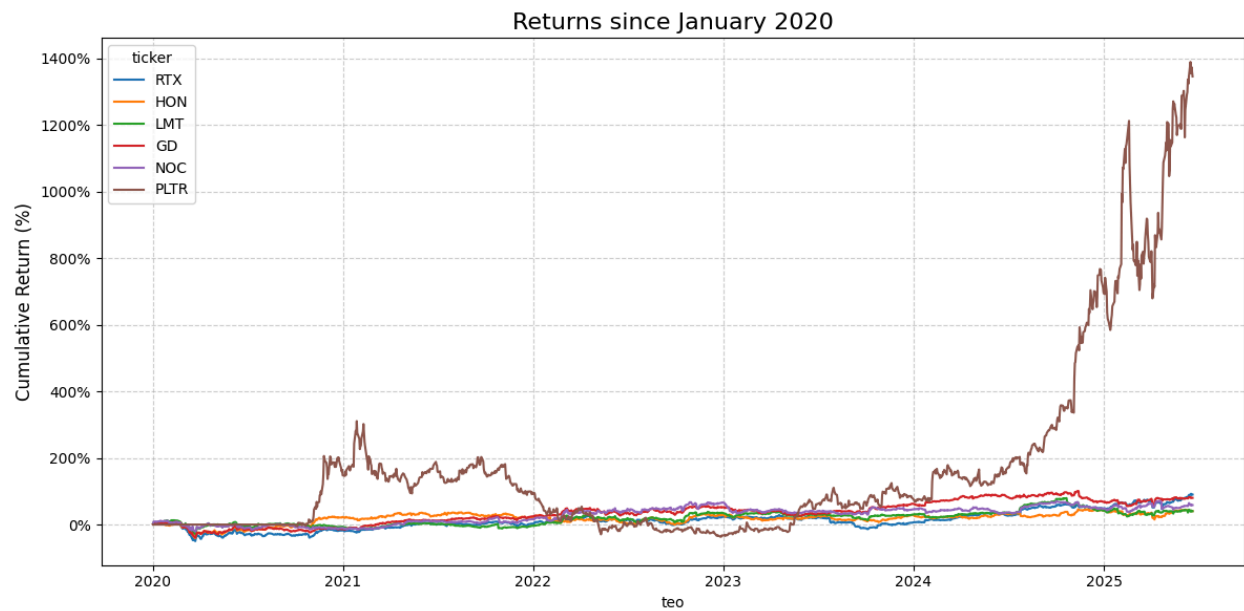
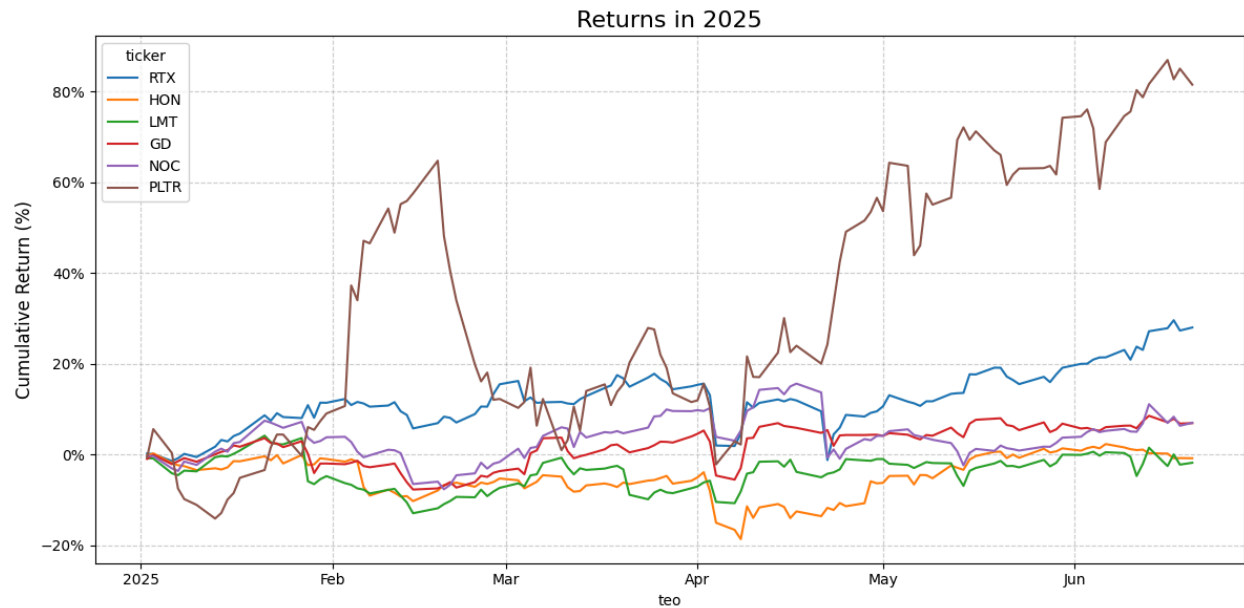


### Returns and Beta of Palantir Tower over Those of Biggest U.S. Defense Contractors. Blue Water Can Help Hedge Risk of Volatile Stocks Like Palantir.

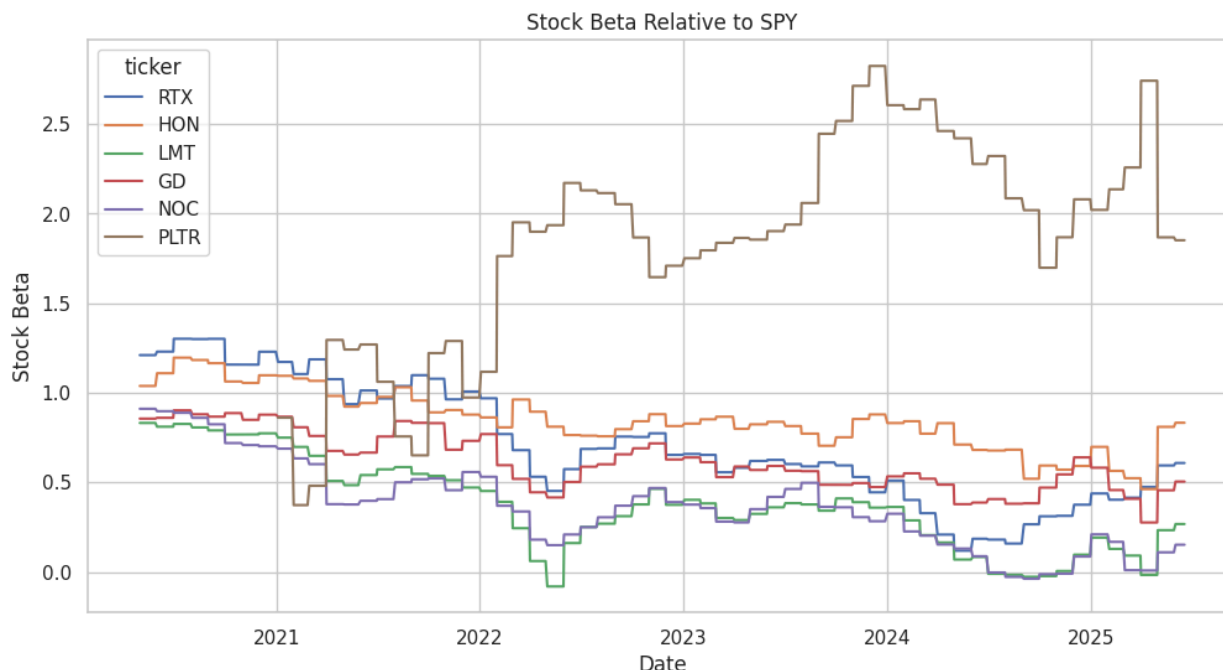
As war intensifies in the Middle East, we turn our attention to defense related stocks. The graphs below show the performance of the largest U.S.-listed defense contractors—RTX (RTX), Honeywell (HON), Lockheed Martin (LMT), General Dynamics (GD), and Northrop Grumman (NOC)—as well as data analytics provider Palantir (PLTR), which has a large national security and defense business and was co-founded by early Trump booster Peter Thiel.

War historically can be highly profitable, and defense-related stocks have performed well this year. Palantir has been the star, rising more than 80% year-to-date, but all of the other five stocks have managed at least flat performance this year.

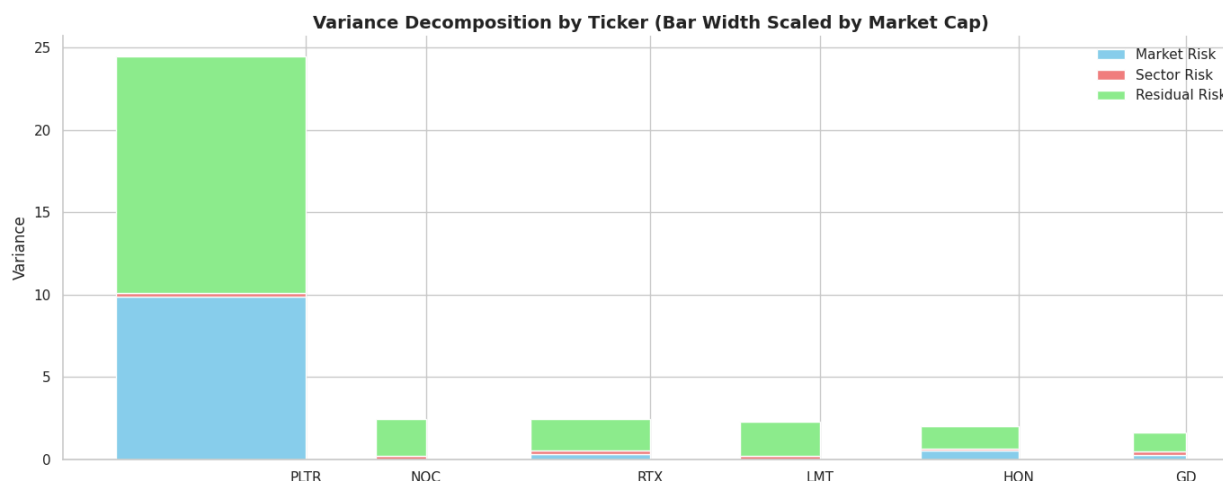
Taking a longer-term view, Palantir has far outpaced the other stocks in the 2020s, although almost all of its spectacular gains have come since the start of 2024. The Trump Administration has dramatically expanded Palantir’s work with the U.S. government, awarding it nearly \$1 billion in federal contracts since taking office.



The graph below shows the betas of these six stocks in the past year. They were fairly similar in 2021 and 2022, but Palantir's beta has since surged and has exceeded 1.5 for the past three years, far outpacing the generally declining betas of the other five stocks.



At \$324 billion, Palantir's market cap far eclipses the market caps of the other five firms. The graph below decomposes the variance of each of them, and the width of the bars is scaled based on market capitalization. Not only is Palantir's total variance many times those of the leading defense contractors, but more than half of its variance is residual. Blue Water can provide daily data on exactly what to hold each trading day to hedge the risk of highly volatile stocks such as Palantir.



Note: Bar width represents relative market capitalization. Co-movement of sector and market risks is attributed to market risk. Variance is used instead of standard deviation for accurate stacked representation.

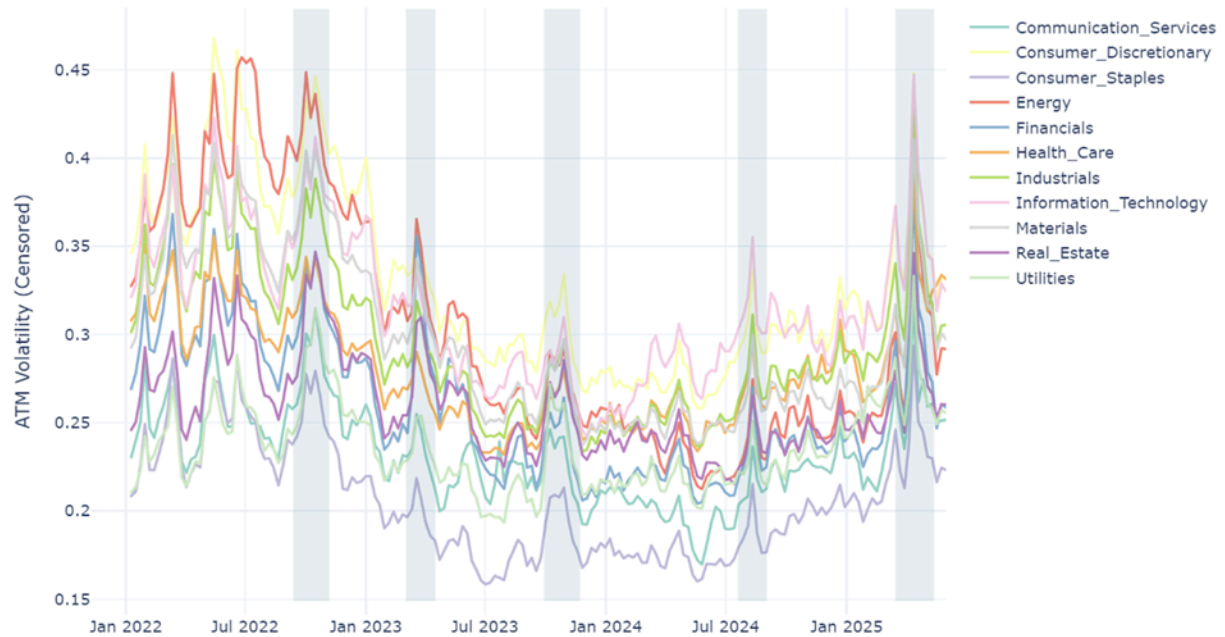
## **Blue Water Tracks Implied Volatility by Sector Based on Data from SpiderRock. Volatility Rankings by Sector Stable in Recent Years with Key Exception of Energy.**

*Special thanks [Giga Nozadze](#), a summer intern from the NYU Tandon School of Engineering, who did a terrific job loading up the Spiderrock datasets and featurizing them with our Factset datasets. He took the lead in laying groundwork for our future research on the utilization of stock level implied volatilities for macro level insights.*

Through a new partnership with SpiderRock Data & Analytics, Blue Water tracks U.S. equity implied volatility (IV) by sector. SpiderRock provides detailed surface and curve-level IV measures derived from individual equity options. The IV data we present here accounts for structural volatility patterns over time, smoothing out short-term distortions driven by earnings releases.

Looking back on the past few years, we find that macro shocks—including large Fed rate hikes in 2022, the March 2023 banking crisis, the Bank of Japan’s liftoff from zero percent interest rates in July 2024, and the “Liberation Day” tariff circus in April 2025—drove episodic volatility spikes.

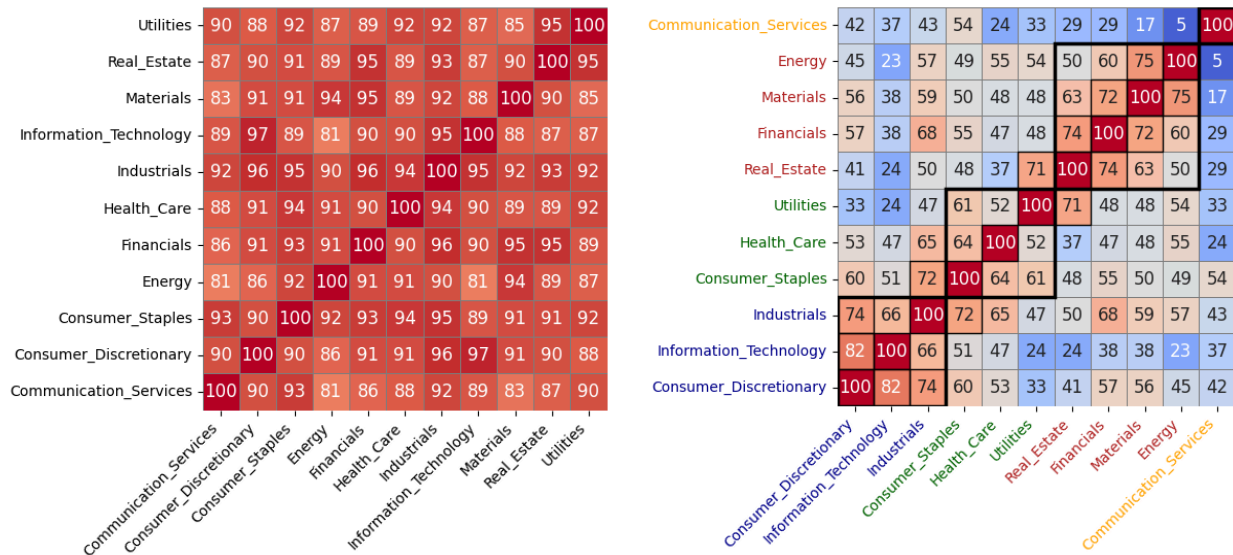
Sector volatility rankings have been mostly stable, with the key exception of Energy. In 2022, Energy was the most volatile sector, but its volatility subsequently declined to the mid-tier range starting in 2023. This shift likely reflects the normalization of energy markets, reduced commodity price uncertainty, and the fading of pandemic-era dislocations and supply shocks.



The correlation structure reveals three primary groups of sector IVs, each shaped by distinct macro and market dynamics: Growth (Consumer Discretionary, Information Technology, and Industrials), Defensive (Consumer Staples, Health Care, Utilities), and Commodity (Energy, Materials). The internal correlations in the Growth group are by far the tightest. Financials act as a connector across groups, while Communication Services is an outlier with minimal alignment with the rest of the market.

**Raw sector IVs show uniform high correlations...**

**but stripping out the VIX reveals true sector volatility clusters**



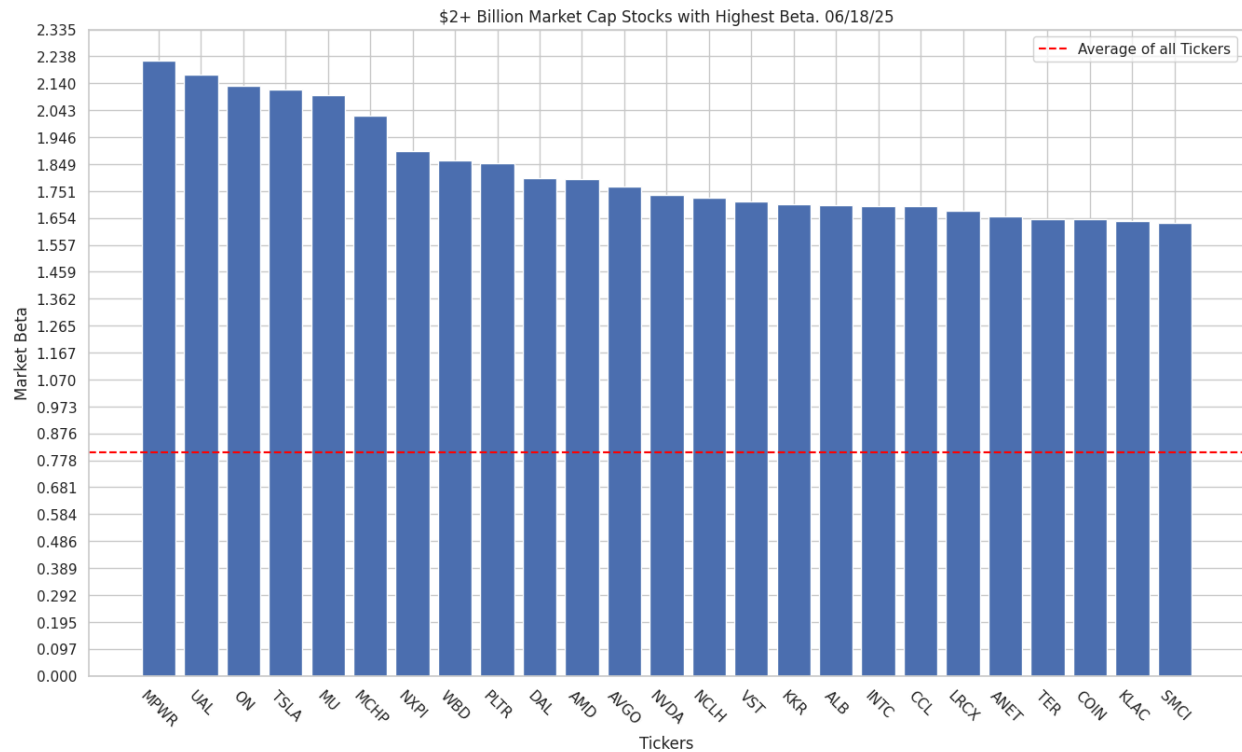
Source: SpiderRock and Blue Water Macro. The bootstrapping method here is based on the 500 iterations (samples) of 750-trading-day windows.

## BetaWatch: Palantir Has Ninth-Highest Beta of \$2+ Billion Market Cap U.S. Stocks, while Nvidia Drops to Thirteenth Place.

Our BetaWatch feature highlights the 25 U.S. stocks with a market capitalization of at least \$2 billion with the highest betas relative to SPY.

The beta of Palantir (PLTR) has climbed to the ninth-highest level of U.S. companies with a market cap of \$2+ billion. Perennial day trading favorites Tesla (TSLA) and Nvidia (NVDA) have slipped to fourth place and thirteenth place, respectively.





Regards,

David Santschi  
Blue Water Macro

### Blue Water Risk Outlook Summary

**Purpose:** Provide concise, insightful analysis of macro equity risks, specifically macro risks to the U.S. stock market.

**Team:** The team—Conrad Gann, Farid Babayev, Richard Ling, David Santschi, and Drew Tilley—is a blend of experience and new talent. Conrad and David worked together at TrimTabs Investment Research, where David was the managing editor and lead content architect. Farid is the latest addition to the management team and focuses on the mutual fund

ranking product. Richard has been with Blue Water Macro for three years and leads the ETFBeta.com product, while Drew is rolling out the portfolio optimizer for RiskModels.net.

**Data Sources:** FactSet, ETFBeta.com, RiskModels.net, and SpiderRock Data & Analytics.

**Key Topics:**

- **Beta Weighted Heatmap:** Visually represents risk levels across stocks and sectors, showing market capitalization weighted by beta.
- **Impact of Tariff Volatility on Equities:** Examines how policy changes, including tariffs, and their associated volatility affect specific sectors and industries.
- **Sector and Industry Beta and Implied Volatility:** Analyzes of how risk levels, past and expected, are changing within specific sectors and industries.
- **MAG-7 Risk:** Focuses on the outsized market risk of the "Magnificent Seven" stocks and their impact on mutual fund performance.

**Initial Distribution:** We are launching the report as a PDF file attached to an email message. We plan to transition to an email message containing highlights and links to our Blue Water Macro blog.

**Pricing:** Complimentary for launch and by subscription in the future.

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