



BLUE WATER RISK OUTLOOK

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Nvidia Accounts for 10% of Beta-Weighted Market Cap of S&P 500

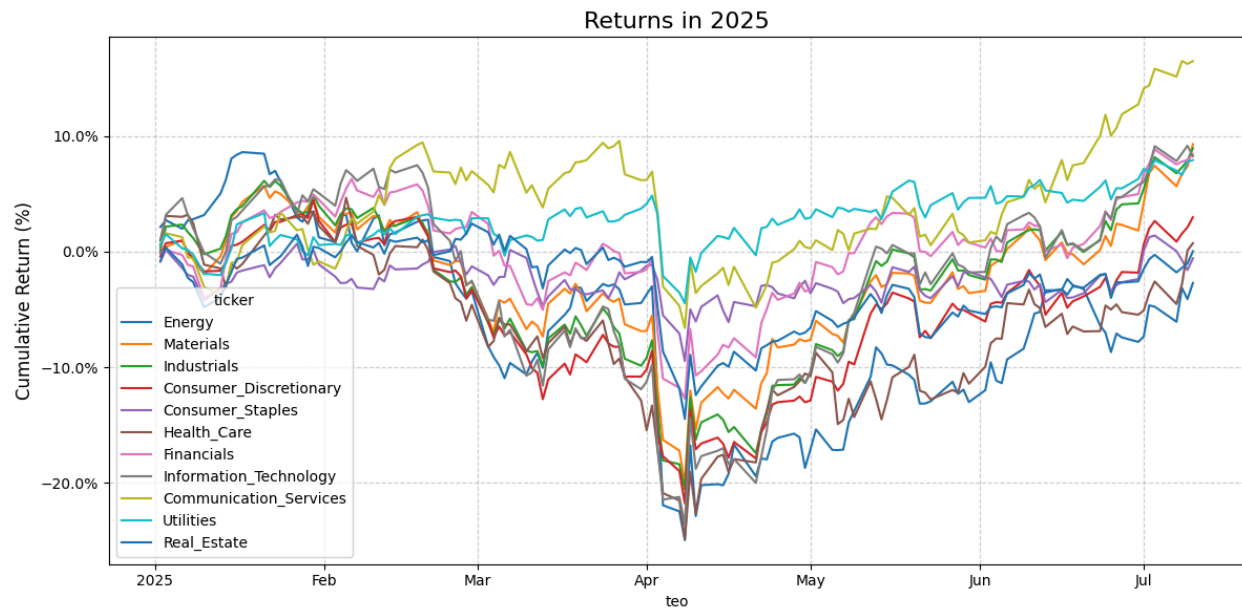
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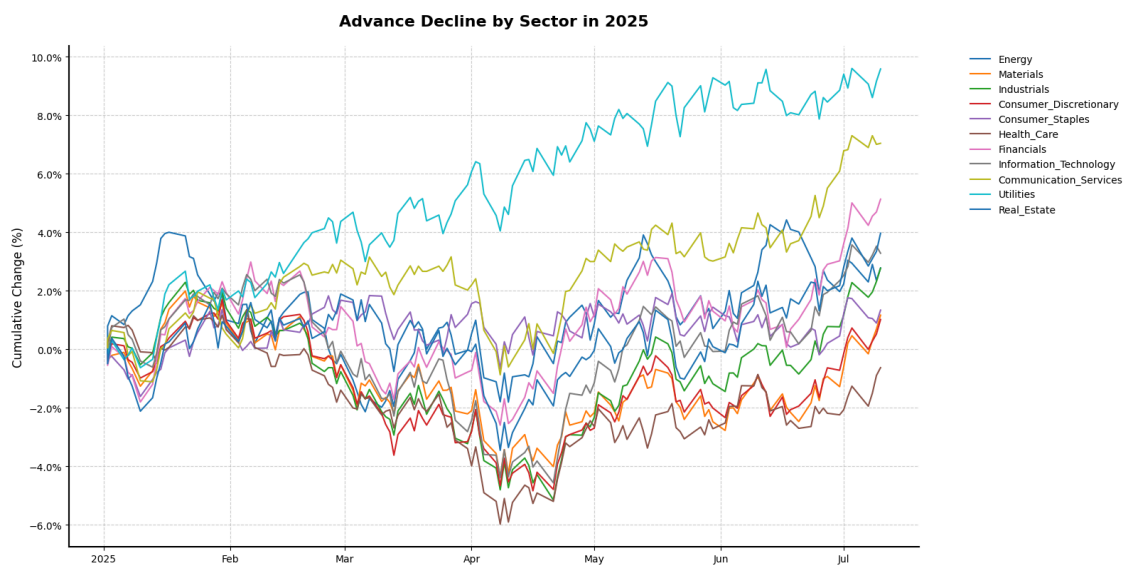
All but Two U.S. Equity GICS Sectors in Positive Territory for This Year as Summer Doldrums Start Early. Advance/Decline Most Favorable in Utilities and Communications.

There are no shortage of risks in the world these days—U.S. President Donald Trump's personal attacks on Federal Reserve Chair Jerome Powell and Mr. Trump's threat over the weekend to impose 30% tariffs on the EU and Mexico starting August 1 are only the latest ones—but financial markets have been mostly unperturbed. The VIX ended last week at a solemnant 16.40, and last Thursday's closing level of 15.78 was the lowest since February. All sectors except Health Care and Real Estate are in the green for the year, and stocks have mostly chugged higher since mid-April. Apart from Mr. Trump's climbdown on his "Liberation Day" tariffs, supporting the move into the summer doldrums are exceptionally loose credit conditions, \$150 billion per month in federal deficit spending, and a steep year-to-date drop in the balance of the Treasury General Account, which has fallen below \$300 billion.

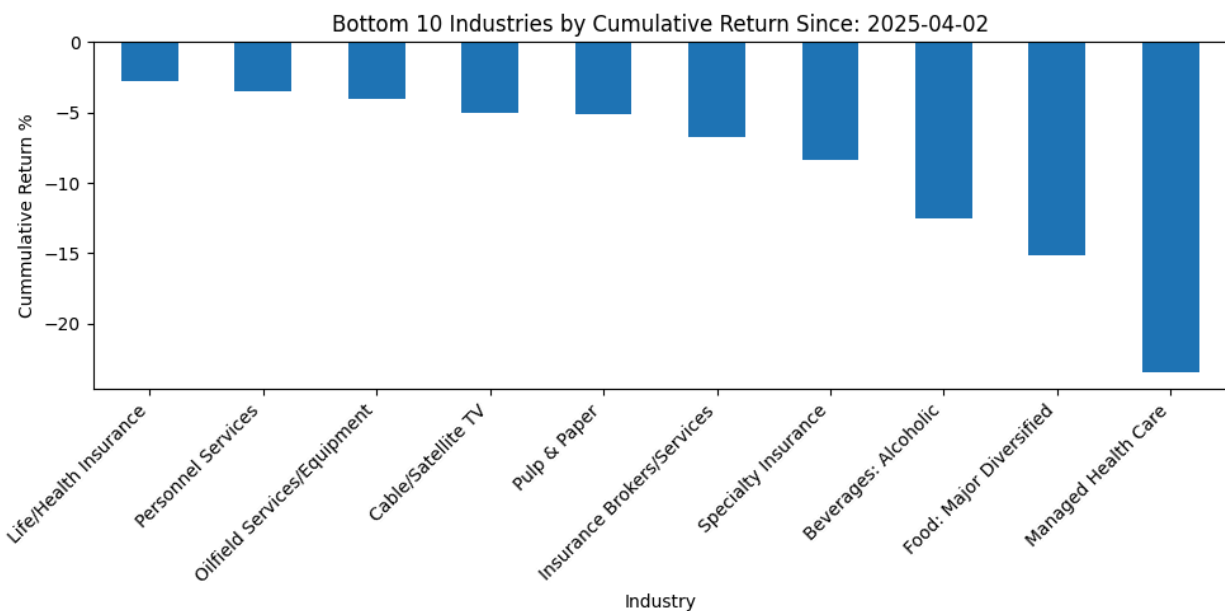
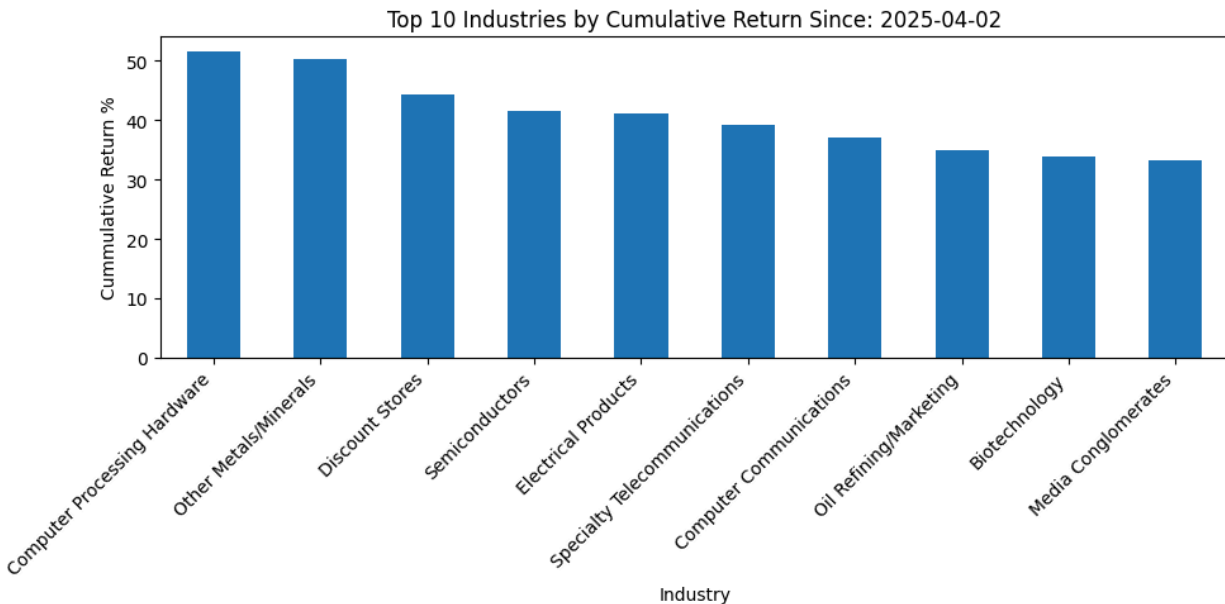
Although the S&P 500 sits just below a record high, action at the sector level has been somewhat defensive. The standout performer, particularly in the past month, has been Communications. By contrast, Real Estate has been a persistent laggard.



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 by far the most favorable in Utilities and Communications, which are both defensive sectors.



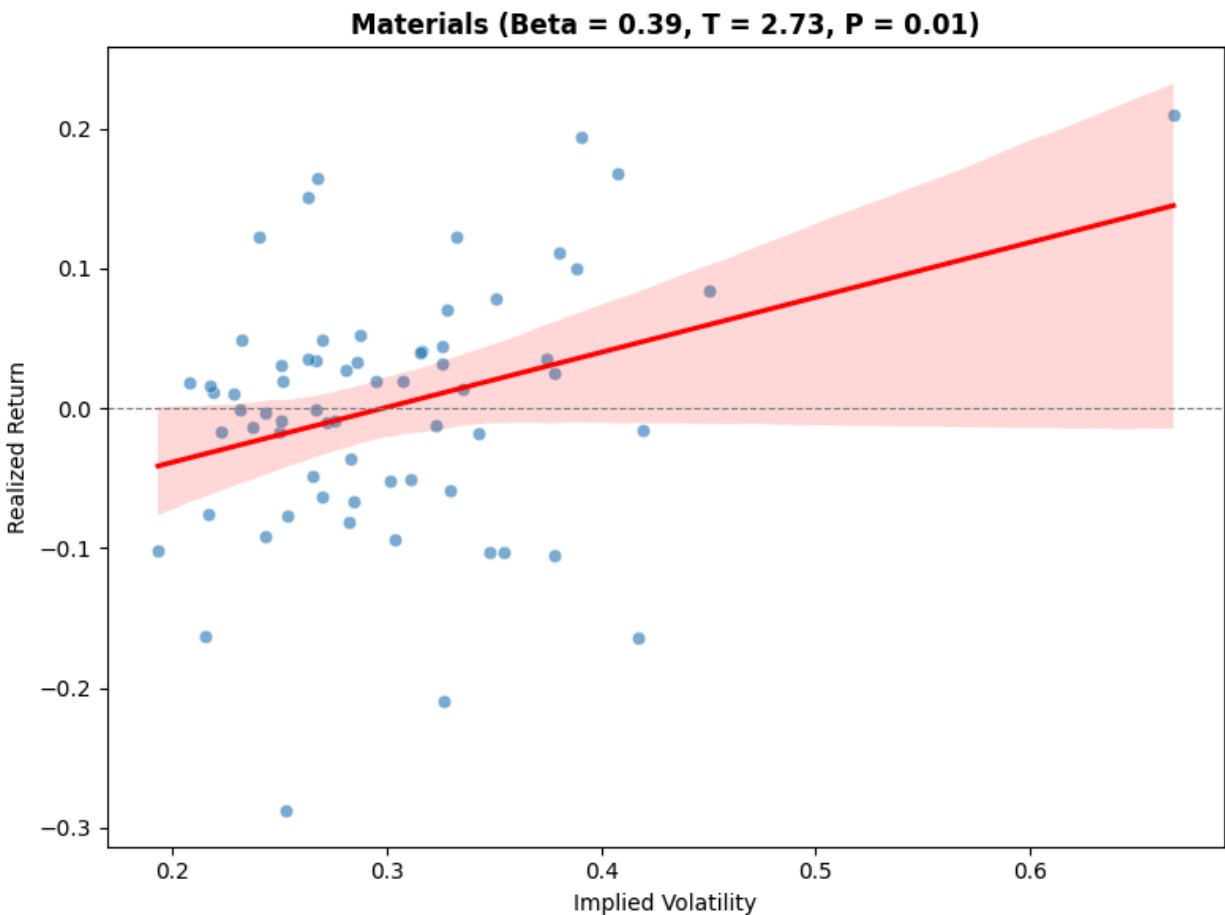
Since “Liberation Day” on April 2, many of the best industry performers have been manufacturing related. The laggards have been insurers and food and alcoholic beverage firms. The poor performance of personnel services firms is consistent with other indicators that suggest the job market has been cooling off.



Blue Water Tracks U.S. Equity Implied Volatility in Partnership with SpiderRock Data & Analytics. Statistically Significant Relationship between IV and Returns in Numerous Sectors.

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

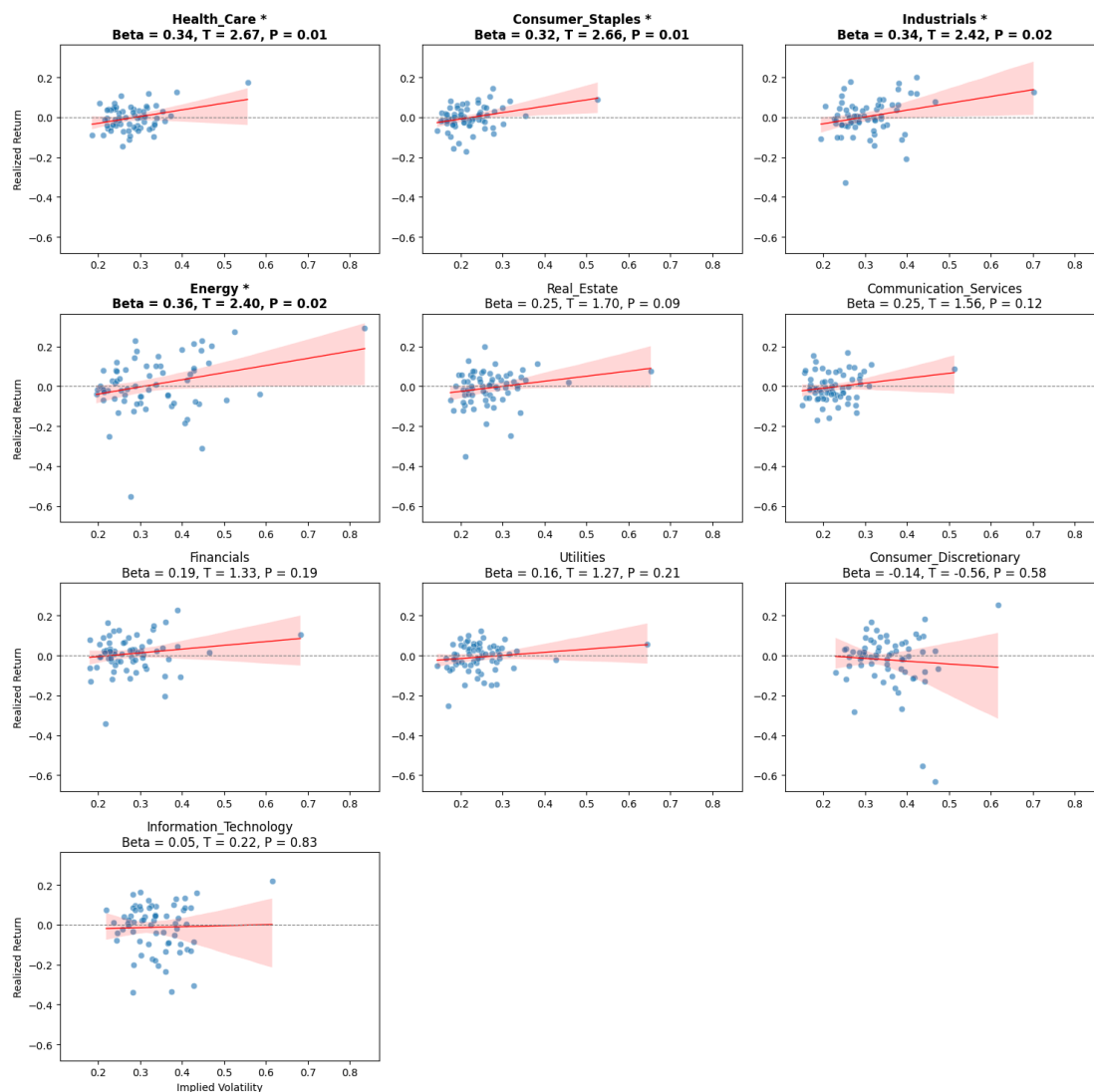
The charts below show the relationship between 30-day implied volatility (IV) and subsequent realized returns at the sector level, using monthly aggregated data. Several sectors—such as Consumer Staples, Energy, Health Care, Industrials, and Materials—have a positive and statistically significant relationship between IV and subsequent returns. This data suggests higher IV may signal wider risk premia or the options markets pricing in forward-looking information ahead of the equity market.



By contrast, sectors such as Consumer Discretionary, Financials, and Information Technology show no significant relationship. Some of these sectors are heavily traded by hedge funds and appear more influenced by sentiment or macro shocks, which may limit the predictive value of IV. Moreover, high IV in higher growth sectors may sometimes signal downside risk rather than compensatory expected return, especially in down markets.

To test these datasets reach out to support@riskmodels.net for a free trial.

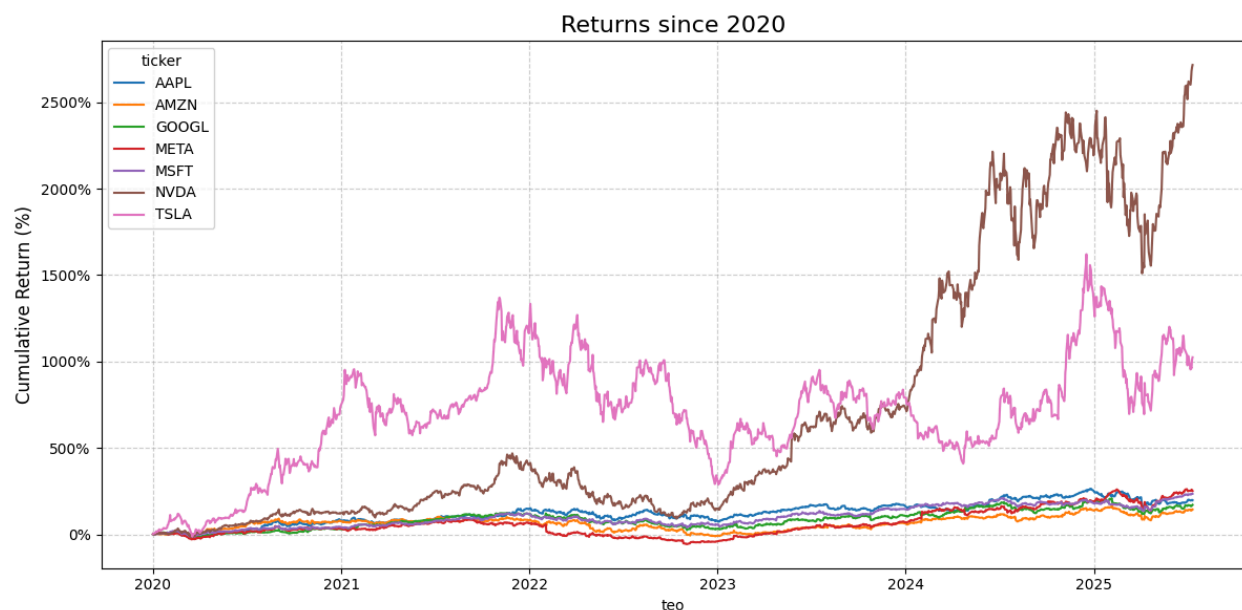
Monthly Implied Volatility vs Realized Return by Sector



Risk Spotlight: Nvidia Accounts for 10% of Beta-Weighted Market Cap of Entire S&P 500, and Magnificent 7 Combined Account for 37%. Nvidia CEO's Net Worth Exceeds Market Caps of All but 74 S&P 500 Companies.

Most investors in U.S. large-cap equity index funds probably have no idea how much the returns and risks of these funds are being driven by just a handful of companies.

The “Magnificent Seven”—Apple, Amazon, Google, Meta, Microsoft, Nvidia, and Tesla—have been driving the S&P 500 to an unprecedented degree in recent years. As the graph below shows, Nvidia and Tesla have been swinging wildly, while the other five stocks have clustered tightly together.

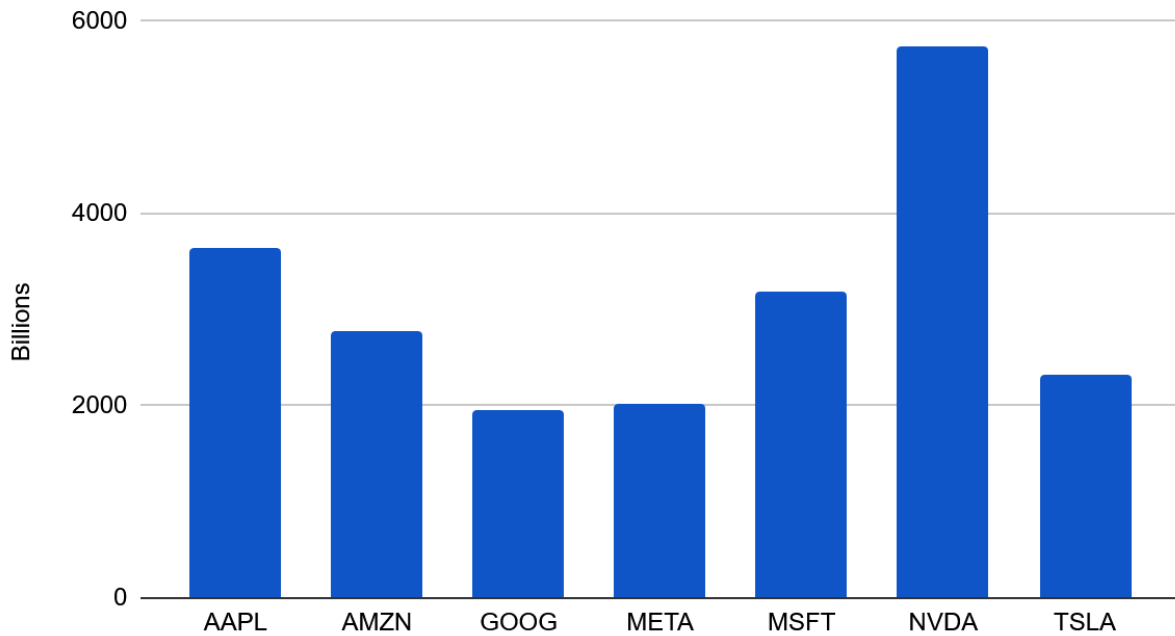


The beta-weighted market cap of the Mag 7 stands at \$21.6 trillion, which is equal to a staggering 37% of the beta-weighted market cap of the S&P 500. Nvidia, the most freakishly large of the bunch, has a beta-weighted market cap of nearly \$6 trillion, which is equal to 10% of the S&P 500's beta-weighted market cap. Moreover, the company's CEO, Jensen Huang, has a net worth of \$145 billion, which exceeds Warren Buffett's and the market caps of all but 74 S&P 500 companies.

We calculate the beta-weighted market cap by multiplying each stock's market cap by its beta relative to SPY:

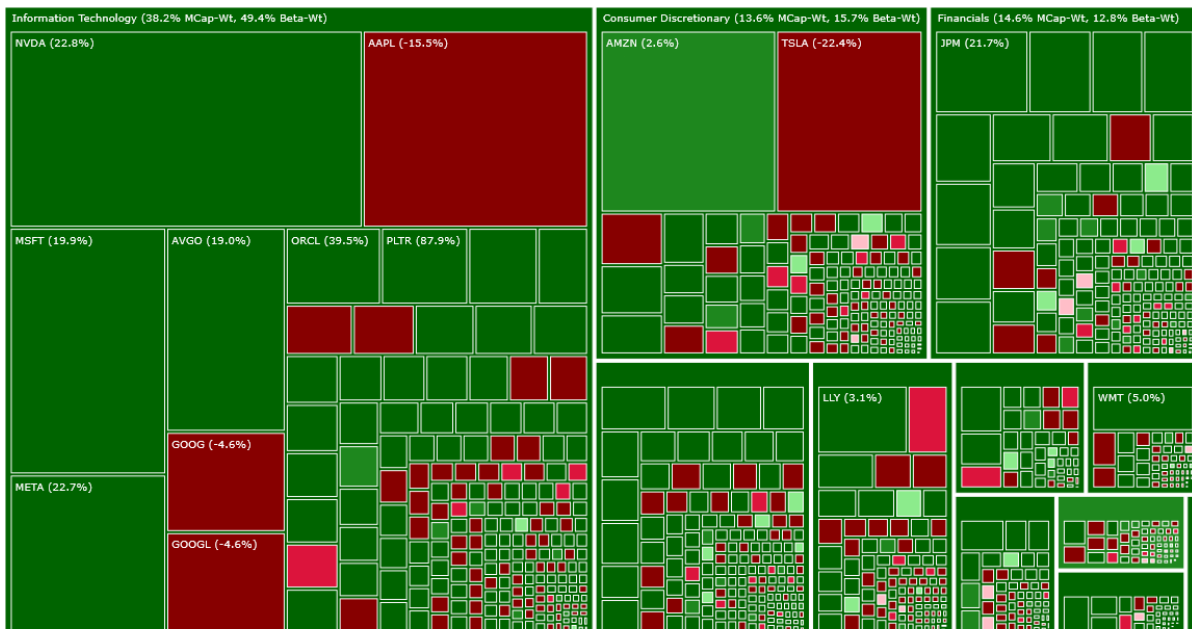
$$\text{Beta-Weighted Market Cap} = \text{Market Cap} * \text{Beta}$$

Magnificent Seven - Beta-Weighted Market Cap

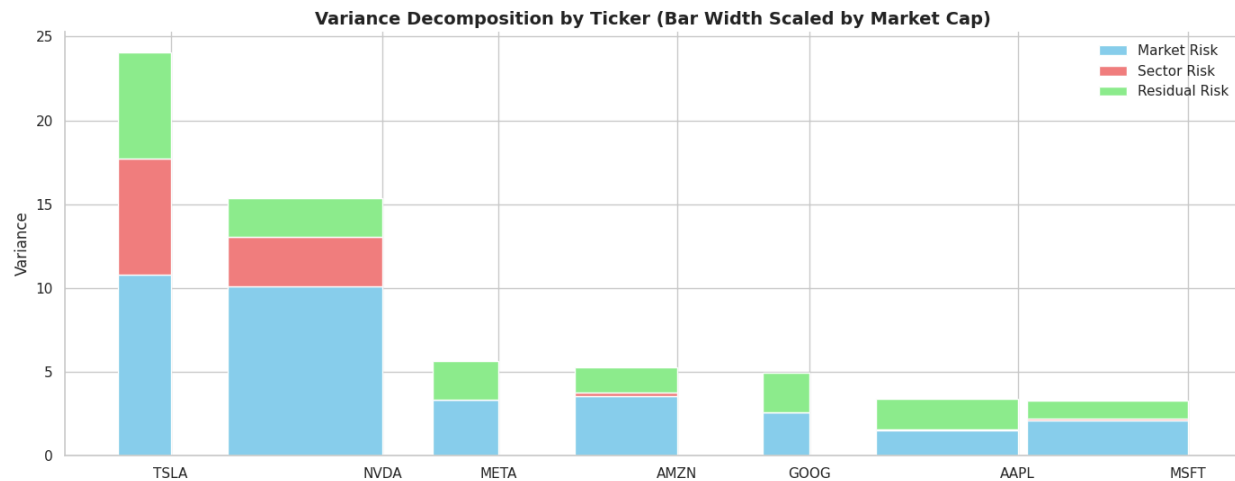
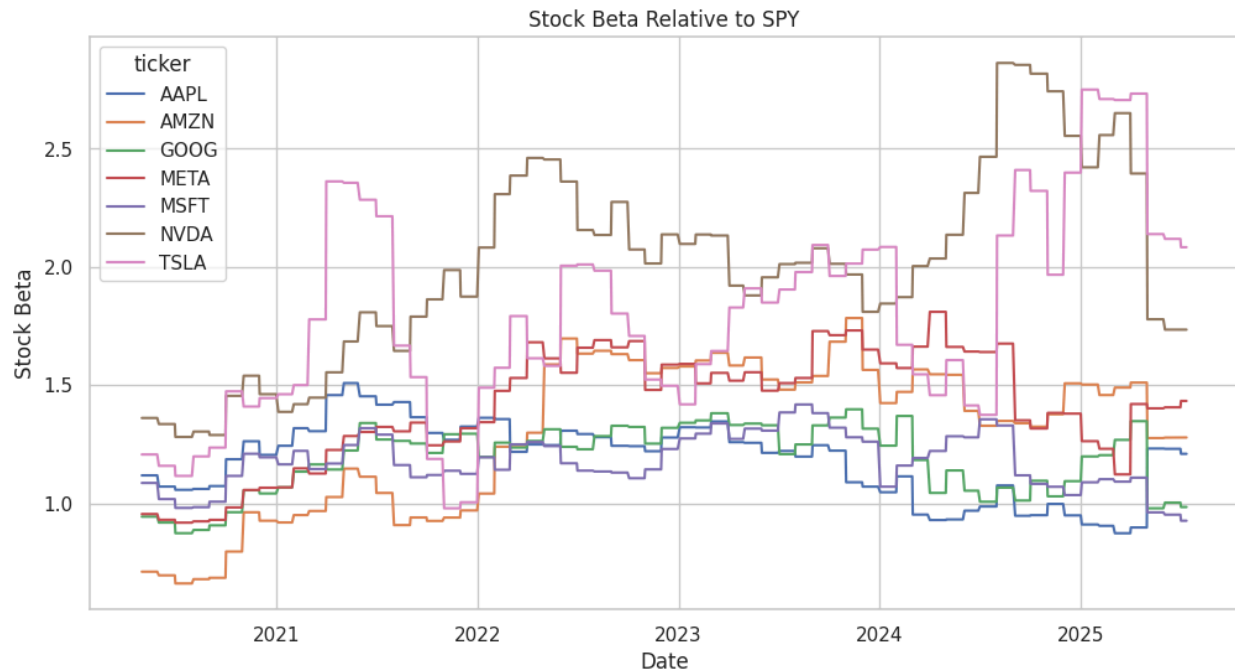


Market Sector Performance

Sized by Beta x Market Cap
2025-01-01 to 2025-07-11



While the betas of Tesla and Nvidia relative to SPY are the highest of the Mag 7, they have dropped recently. The betas of the other five stocks generally drifted lower in the past five years, perhaps because some investors now view the technology giants as safer long-term bets than free-spending governments.



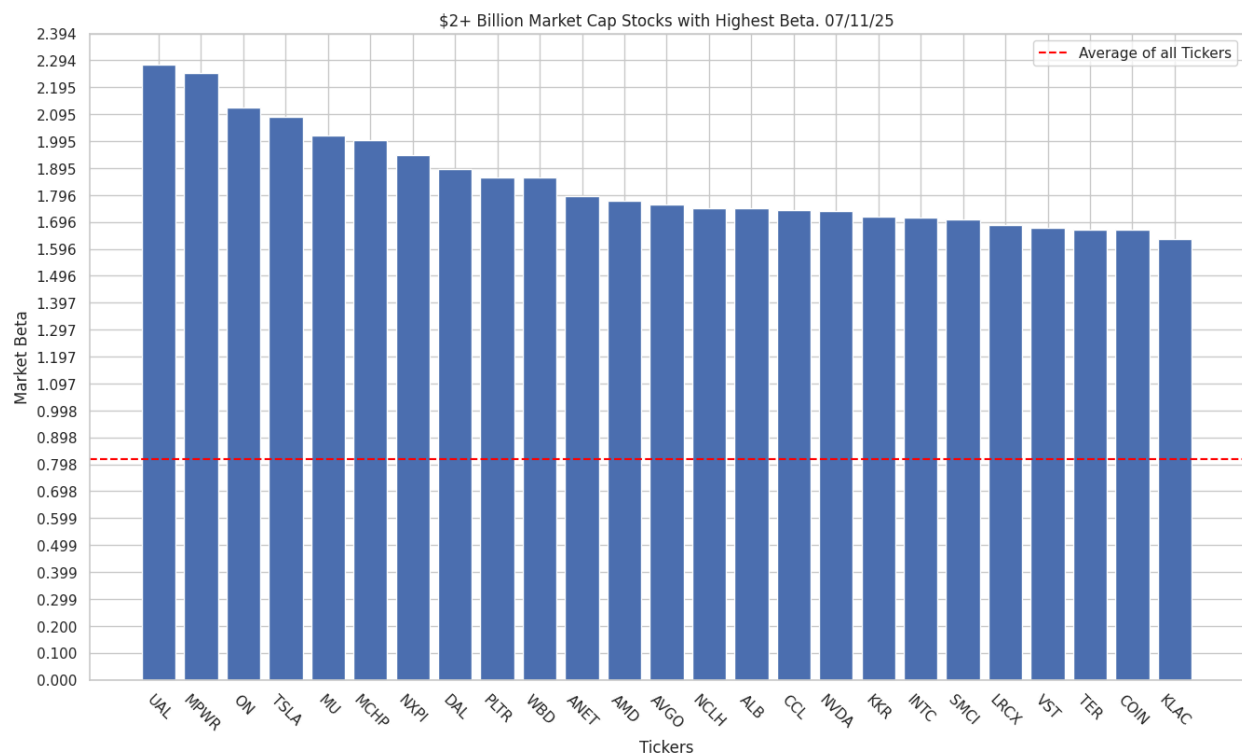
Note: Bar width represents relative market capitalization. Co-movement of sector and market risks is attributed to market risk. Variance is used instead of standard deviation for accurate stacked representation.

The graph above decomposes the variance of each of the Mag 7, with the width of the bars scaled based on market cap. Tesla's total variance is the highest of all, and roughly a quarter of it is residual. Blue Water can provide daily data on exactly what to hold each trading day to hedge the risk of these highly volatile stocks.

BetaWatch: Airline UAL Has Highest Beta of \$2+ Billion Market Cap U.S. Stocks. Nvidia Drops to Seventeenth.

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 stock with the highest beta may come as a surprise—it is the airline UAL. The betas of day trading favorites Nvidia, Palantir, and Tesla have drifted lower in the rankings in recent months, and Nvidia's beta is now only the seventeenth highest.



Finally - this summer at Blue Water, our talented cohort of [NYU Tandon School of Engineering](#) interns is deeply immersed in projects critical to enhancing our analytical and outreach capabilities. **Giga Nozadze** ([LinkedIn Profile](#)) led product development for the BW_SpiderRock Sector Implied Volatility product..

- **Manush Shah** ([LinkedIn Profile](#)) focusing on beta enhancement by adding a third factor to our risk models.
- **Rashil Shah** ([LinkedIn Profile](#)) is developing momentum, reversion, risk-on, and risk-off factors.
- **Sally Xintong Zhao** ([LinkedIn Profile](#)) specifically focusing on mutual fund rankings
- **Ziyi Li** ([LinkedIn Profile](#)) working on Capstone Simulator evaluation of OLS, Random Forest, and XGB learners for SPY timing using sector returns as features..

From Washington University we also have **Sydney Tao** ([LinkedIn Profile](#)) is spearheading a social media campaign for the BW Risk Outlook.

Feel free to reach out to them if you are looking to hire up and coming financial engineers.!

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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