Special Report

US Capital Markets Newsletter – 1Q25

aranca

April 2025

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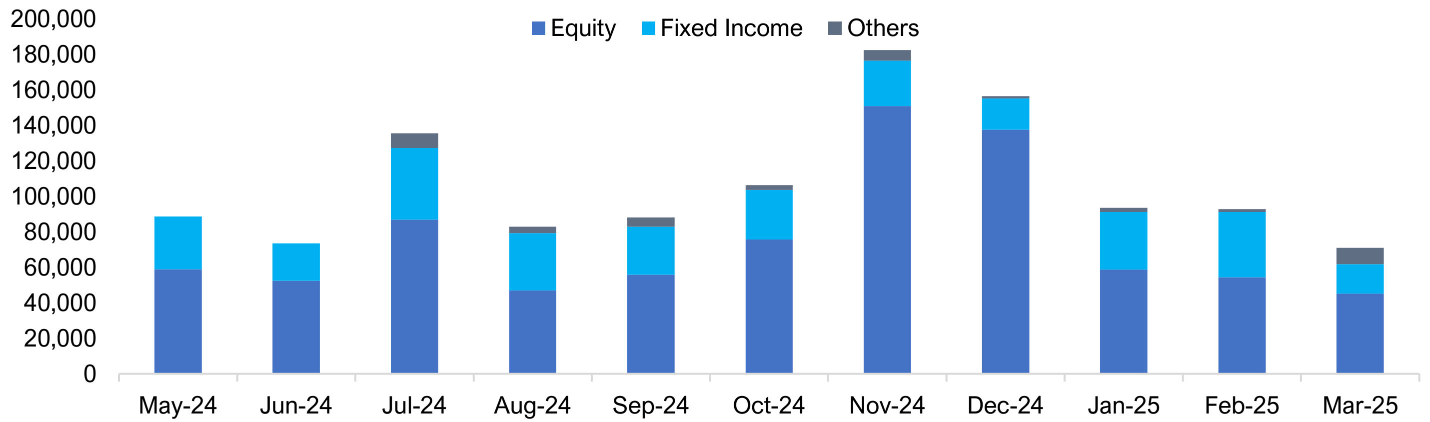
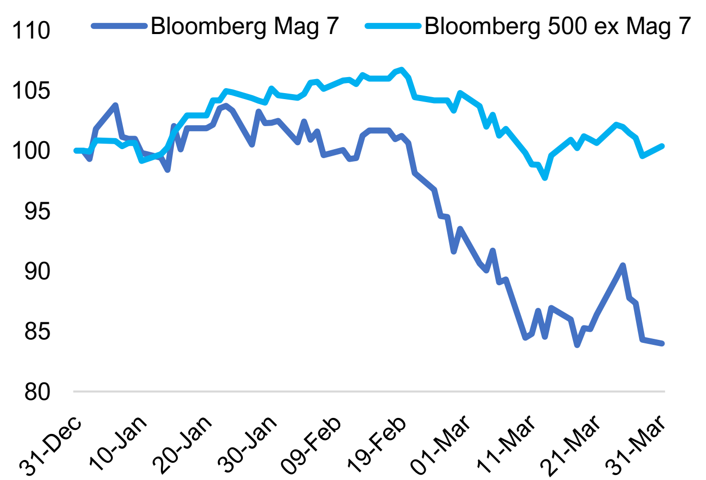
US Equity Market Analysis

Investors' appetite for equities decreased and Mag 7 stocks underperformed the broader market

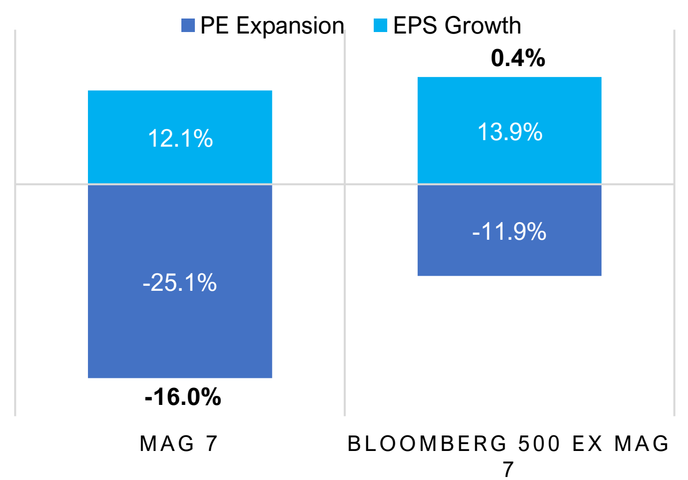
US Fund Flows (USD mn)



Mag 7 vs. Rest of US Large Cap



Total Return Breakup Analysis



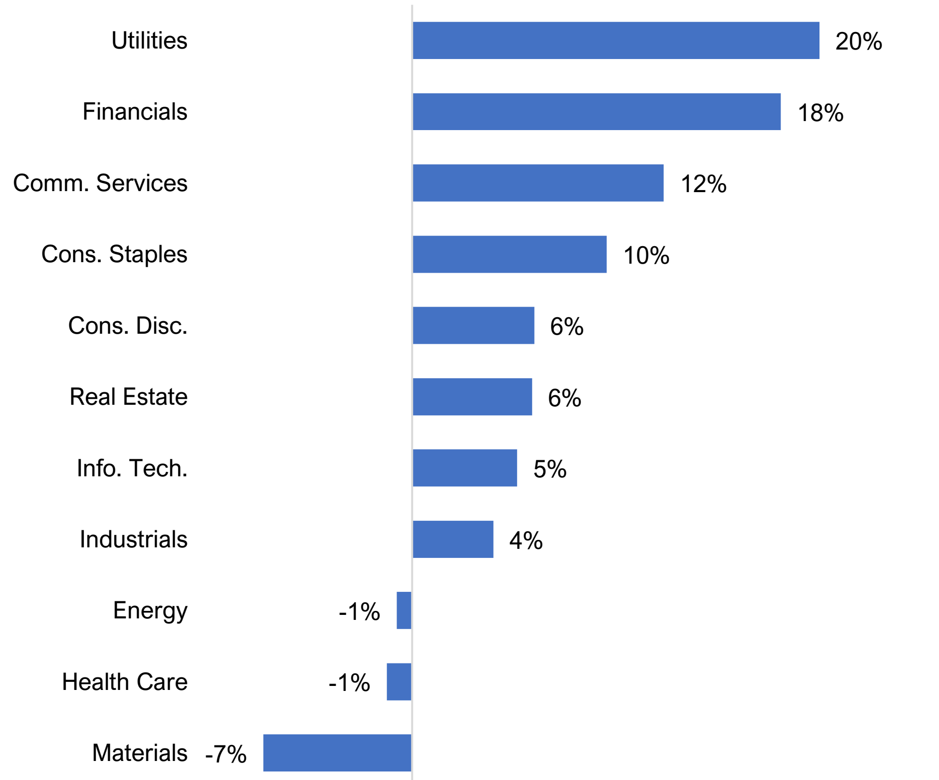
- In 1Q25, fund flows into the US capital markets moderated with a 42% q/q decline. Rising uncertainty around policy and tariffs weighed on equity fund flows (-57% q/q). On the other hand, investors preferred low-risk debt assets and fixed-income funds grew by 20% q/q. Fixed-income net flows rose to 34% of total fund flows in 1Q25, from 16% in 4Q24.
- Mag 7 stocks significantly underperformed the rest of the US Large Cap Equites. The decline can be mainly attributed to the contraction in the PE ratios of Mag 7 stocks, even as EPS growth continued. Mag 7 stocks, being more expensive than the rest of the market, suffered larger declines than other large-cap stocks.

Source: *Bloomberg, Aranca Research. Bloomberg Mag 7 Index NR and Bloomberg Large Cap Ex. Mag 7 Index NR*

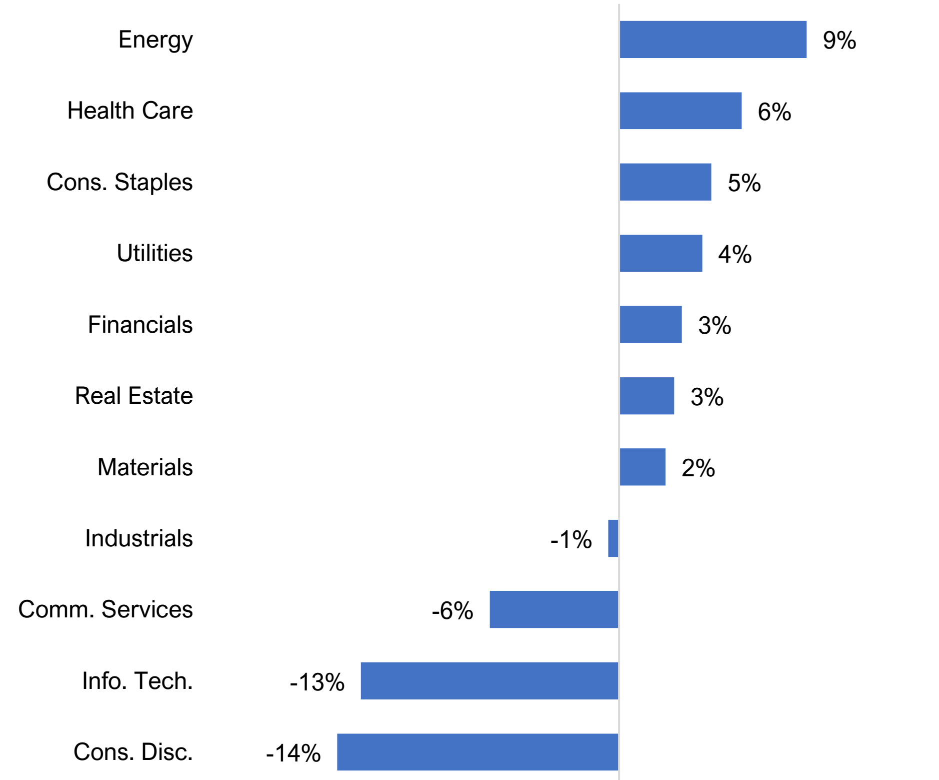
US Equity Market Analysis

US stocks reported wide sectoral dispersions

US 1-Year Sectoral Returns



US 1Q25 Sectoral Returns



The energy sector delivered the highest returns in 1Q25 driven by higher natural gas prices, which rose by 13% during the quarter. Additionally, value sectors such as energy and utilities gained investors' preference owing to their attractive valuations. On the other hand, consumer discretionary and information technology declined the most amid fears of negative impact of US tariffs.

Source: *Bloomberg. S&P 500 Sector indices are used for sectoral returns*

US Equity Market Analysis

Dual Momentum Indicator positive on information technology and consumer discretionary

S&P 500 3-months Dual Momentum Analysis (Earnings and Price Momentum)

Our 3-Months "Dual Momentum" analysis of S&P 500 companies threw some very interesting insights:

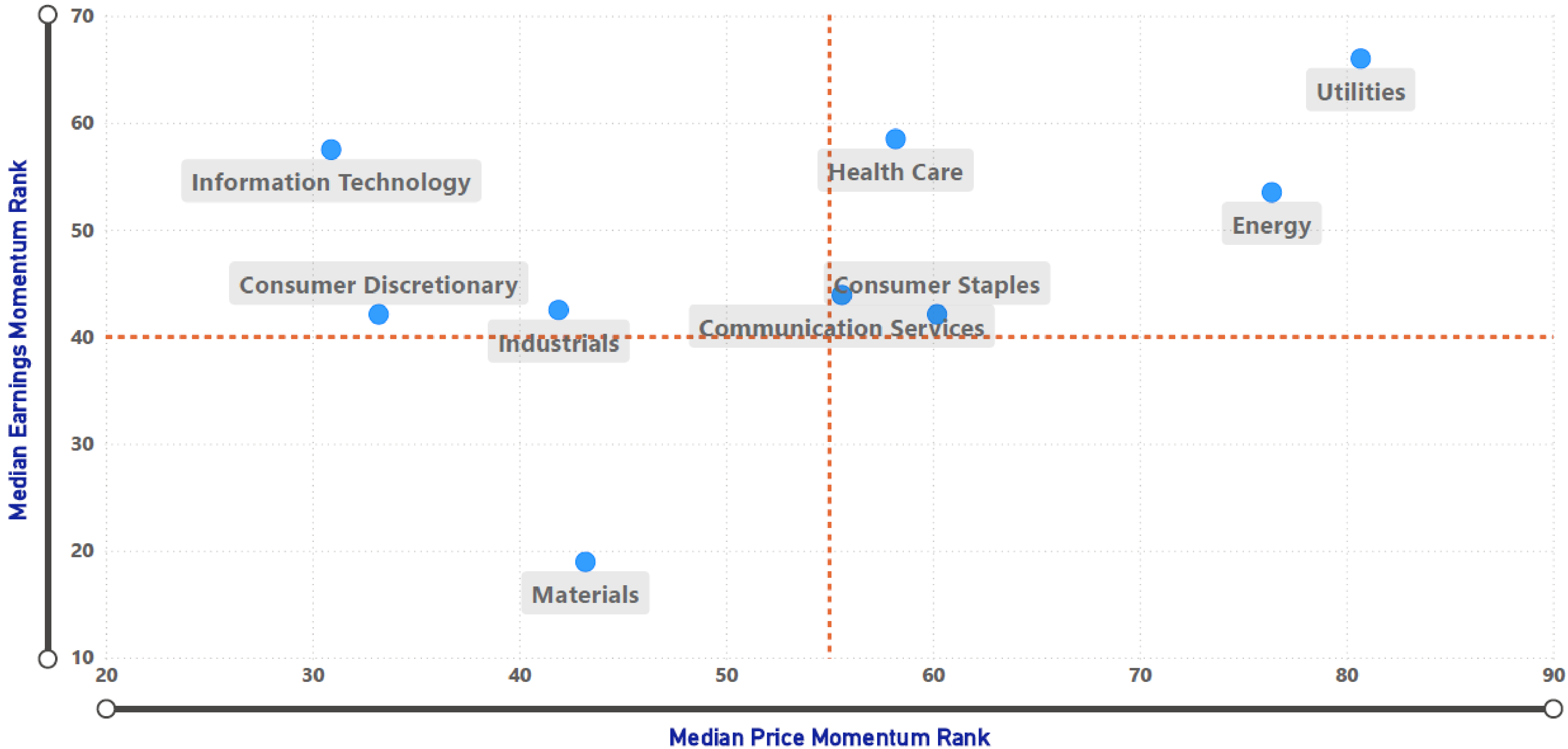
- S&P 500 companies' price and earnings momentum weakened in 1Q25. Median earnings and price momentum were negative during the same period.
- Among the top-quartile S&P 500 companies ranked by Dual Momentum, median price momentum was 12% while median earnings momentum was 1.1%, indicating price performance is primarily driven by liquidity and multiple expansion rather than fundamental earnings growth.
- The information technology and consumer discretionary sectors are well placed, as price momentum needs to catch up with earnings momentum.
- Materials ranked lowest in terms of earnings momentum and has a low price momentum rank as well. The sector is currently trading below its 5-year average Fwd P/E, mainly due to tariff uncertainty and possibility of higher import costs.
- After supplementing our analysis with two key metrics: the upside potential from CMP vs. consensus TP and the current NTM PEx vs. 10-year historical average rank, we found that companies like Monolithic Power Systems (MPWR) and Wynn Resorts (WYNN) are positively positioned to record price momentum going forward.

Source: *Aranca Research*

US Equity Market Analysis

Information technology best placed considering both earnings and price momentum

S&P 500 - Sector Median Price and Earnings Momentum Rank



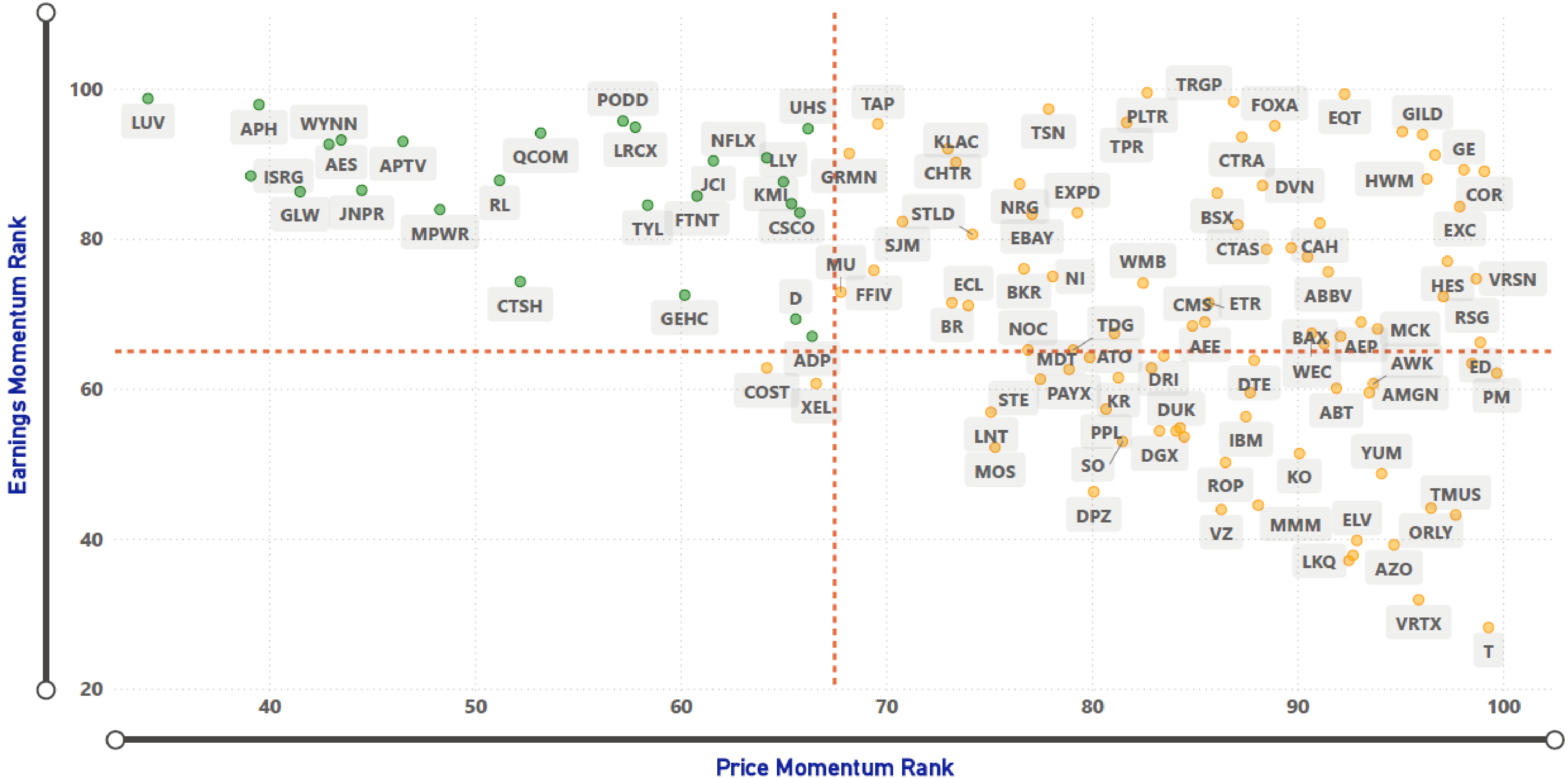
Notes: *Earnings Momentum is median of 3-months change in the consensus EPS estimate of companies in each sector. Price Momentum is median of 3-months change in price return of companies in each sector. ** Excluding Financials and Real Estate*

Source: Aranca Research

US Equity Market Analysis

Companies like Southwest Airlines (LUV) witnessed a considerable change in EPS estimates

Top Quartile S&P 500 Companies Ranked by Dual Score Momentum



Notes: *Earnings Momentum is 3-months change in the consensus EPS estimate. Price Momentum is 3-months change in price returns. ** Excluding Financials and Real Estate*

Source: Aranca Research

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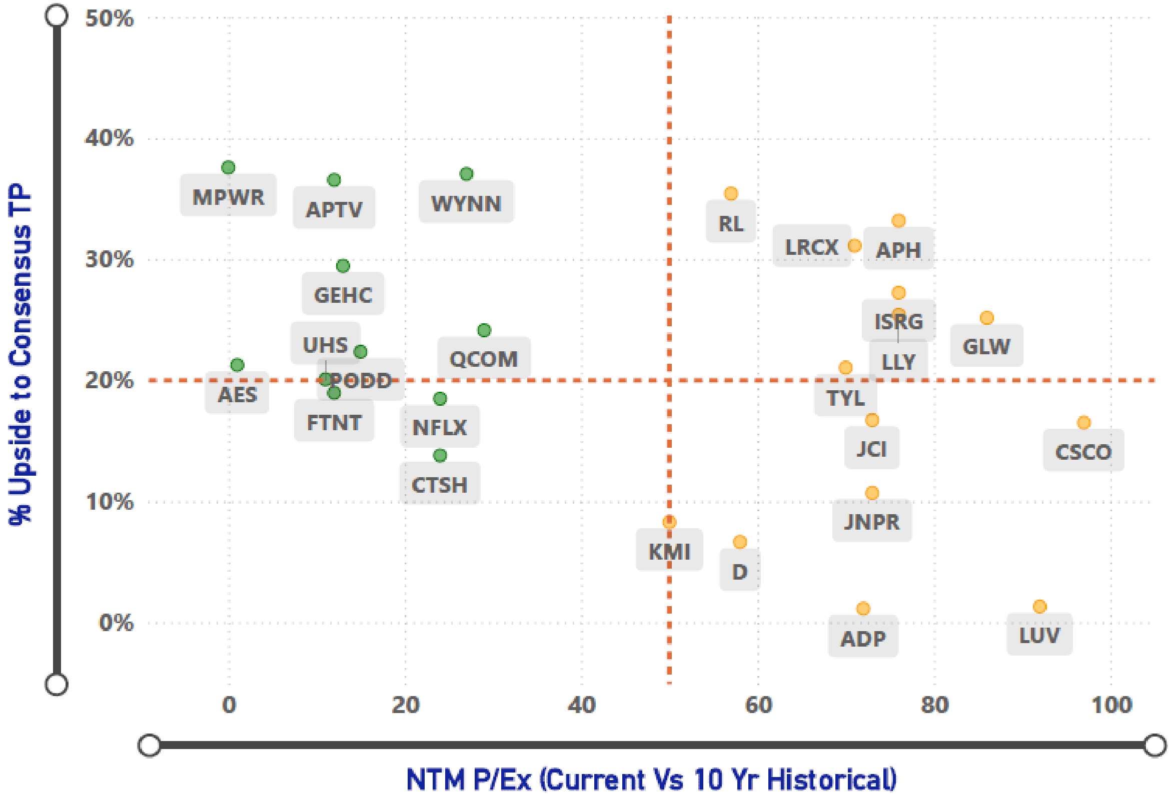
US Equity Market Analysis

MPWR and Wynn are attractive from consensus upside and forward multiples perspectives

Top Quartile S&P 500 Companies by Low Price Momentum and High Earnings Momentum Rank - Valuation Vs Consensus Potential Upside



Top Companies by % upside to Cons. TP and relatively low valuation

Ticker	Company Name	% Ups. to Cons. TP	1Yr Fwd PEx
MPWR	Monolithic Power Systems Inc.	38%	34.50
WYNN	Wynn Resorts Limited	37%	16.10
APTV	Aptiv PLC	37%	8.10
RL	Ralph Lauren Corporation	35%	17.00
APH	Amphenol Corporation	33%	28.60
LRCX	Lam Research Corporation	31%	19.00
GEHC	GE HealthCare Technologies Inc.	29%	17.00
ISRG	Intuitive Surgical Inc.	27%	61.60
LLY	Eli Lilly and Company	25%	34.70
GLW	Corning Incorporated	25%	19.30
QCOM	QUALCOMM Incorporated	24%	13.10
PODD	Insulet Corporation	22%	62.80
AES	The AES Corporation	21%	5.80
TYL	Tyler Technologies Inc.	21%	53.10
UHS	Universal Health Services Inc.	20%	9.80
FTNT	Fortinet Inc.	19%	39.10
NFLX	Netflix Inc.	18%	37.30
JCI	Johnson Controls International plc	17%	21.80
CSCO	Cisco Systems Inc.	17%	16.20
CTSH	Cognizant Technology Solutions Corporation	14%	15.30
JNPR	Juniper Networks Inc.	11%	17.50

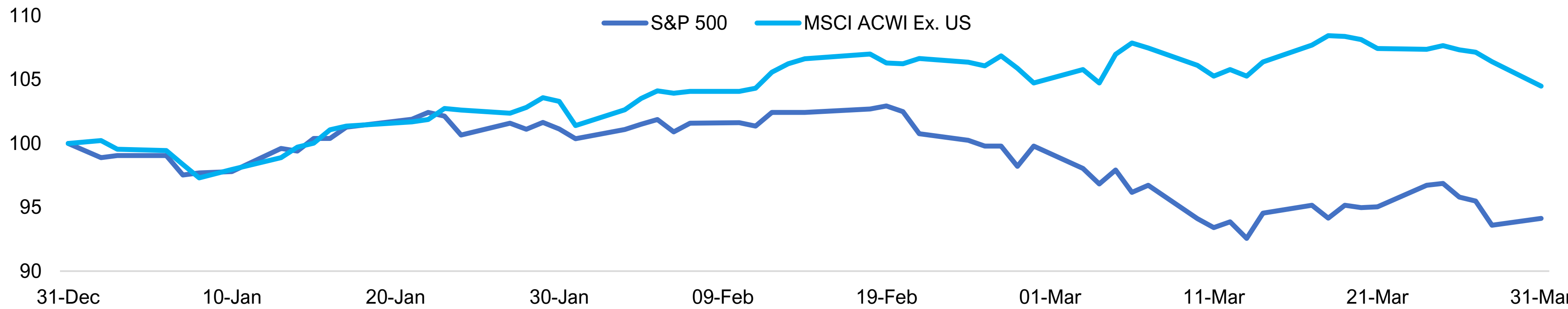
***Notes: X Axis NTM P/Ex Rank (Current Vs 10 Yr Historical)** – Ranking of individual Stock NTM P/Ex Vs. its 10 year historical average. For e.g. a rank of 90th percentile Vs 10 year history indicate that in last 10 years only 10% of the times the stock has traded above the current NTM PEx. This also means the valuation is elevated vs historical average*
***Y Axis % upside to Consensus TP** – (CMP/Consensus TP -1) ** Excluding Financials and Real Estate*

Source: Aranca Research

US vs. Non-US Equities

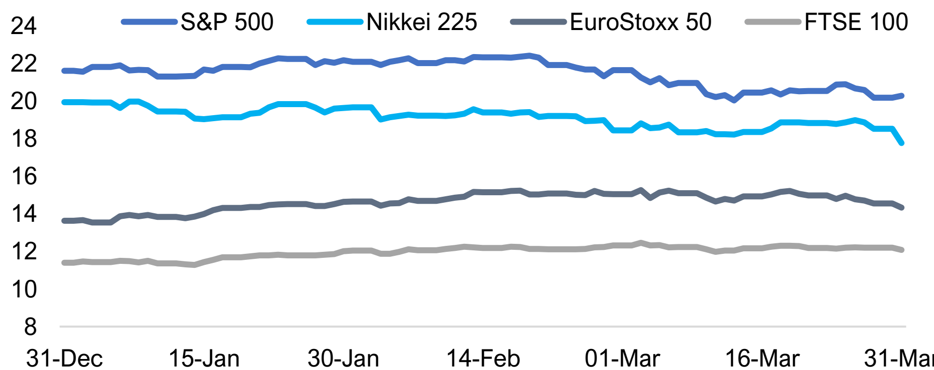
US equity valuations remain elevated, but returns declining

US vs. Non-US Equity Performance



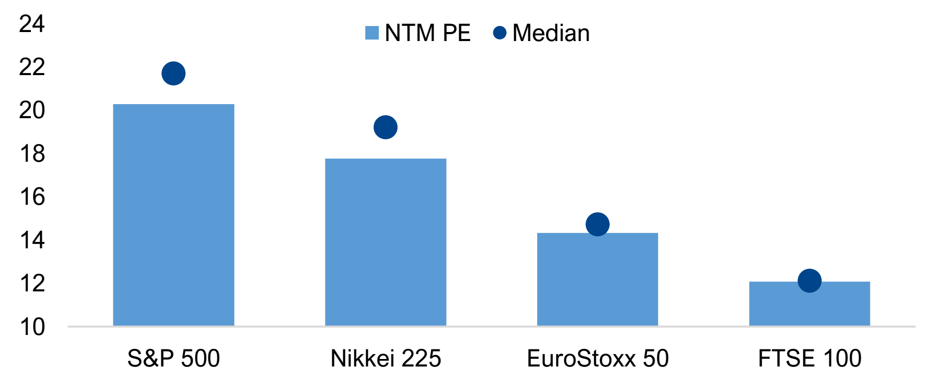
US stocks underperformed the rest of the world in 1Q25 due to uncertainty around tariffs, with expectations of weak growth or even a recession as tariffs disrupt global supply chains, weaken profitability, and increase consumer prices.

NTM PE of Key Geographies



US equity valuations declined in 1Q25 but remained above other developed markets. The decline was mainly driven by growth concerns.

NTM PE Comparison with Median



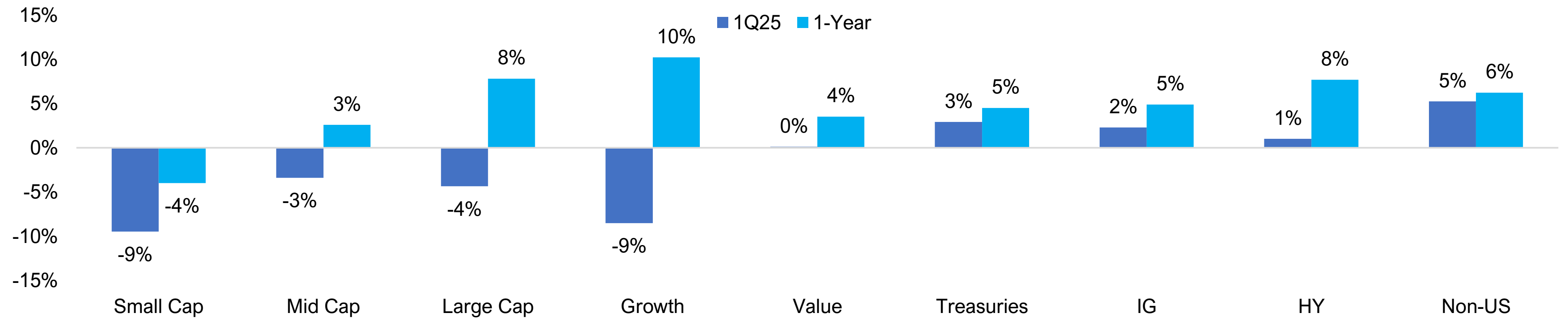
US equity valuations are still the highest among major developed markets but were below their quarterly median in 1Q25.

Source: *Bloomberg. Median: 1Q25 Year Median*

Asset Class Performance

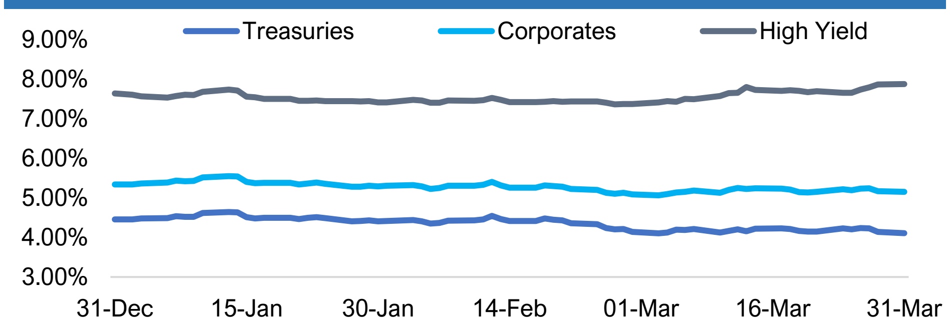
Growth underperformed among equities; fixed income outperformed equities

Asset Class Performance – 1Q25 and 1-Year



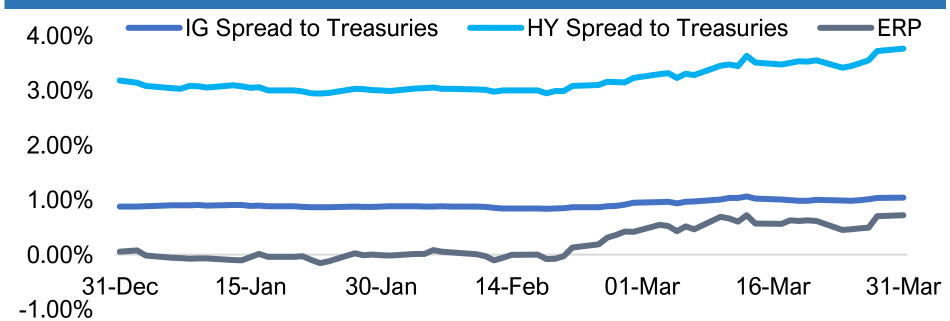
Equities underperformed fixed-income instruments in 1Q25 amidst an uncertain economic environment. Within equities, all classes, except value, yielded negative returns as investors preferred to hold value stocks owing to concerns around a worsening economic outlook.

Yield Analysis



Yields on Treasuries and IG fell and HY yields rose in 1Q25 from a low base on uncertainty posed by US tariffs. Investors feared the disruptions caused by these tariffs may lead to a recession in the US and preferred low-risk treasuries instead of high-risk corporate bonds.

Spread Analysis



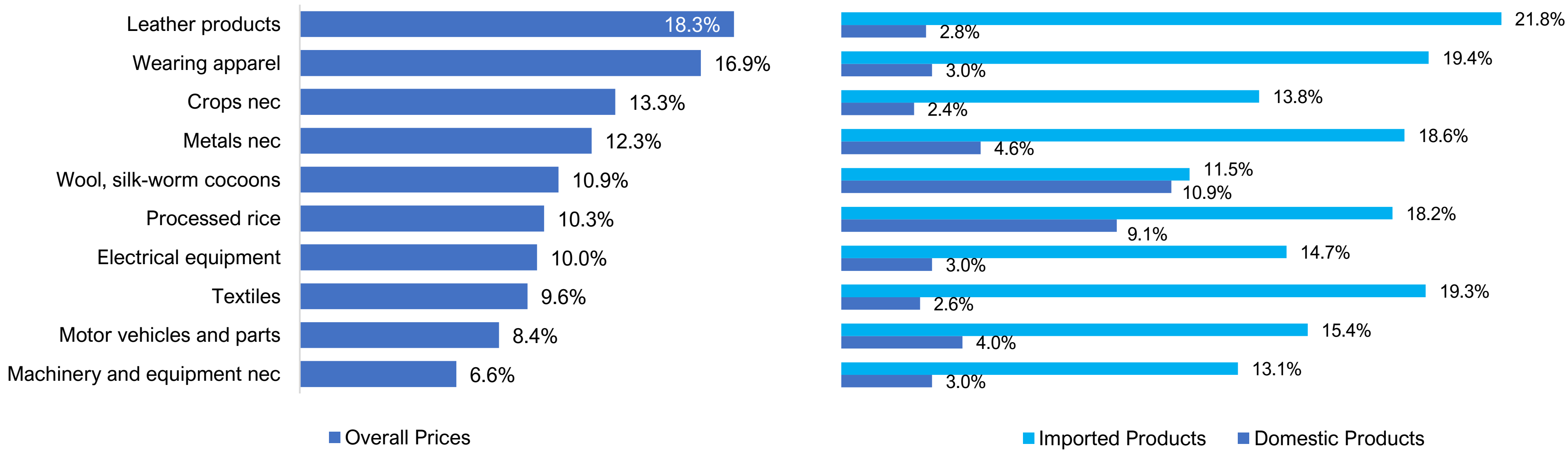
Spreads rose with IG spreads rising 16bps and HY spreads rising 58bps in 1Q25 on growth concerns and recession fears. ERP also increased, indicating the higher expected returns from equities in a challenging macro environment.

Source: *Bloomberg, Aranca Research. Small Cap: Russell 2000 NR; Mid Cap: Russell Mid Cap NR; Large Cap: S&P 500 NR; Growth: S&P 500 Growth NR; Value: S&P 500 Value NR; Treasuries, IG and HY: Bloomberg US Aggregate Indices for Treasuries, Corporate and High Yield, TR Value Unhedged USD.*

US Tariff Impact

High tariffs will likely lead to stagflation and even cause a recession

Commodity Price Effects from All 2025 Tariffs Until April 2 (Top 10 by Overall Prices)



Tariff Impact

- **Stagflation**

US tariffs may result in stagflation as prices rise and growth stagnates. Goldman Sachs has raised its recession probability to 45%, while JP Morgan has raised the probability of a US and Global recession to 60%. Tariffs implemented in 2025 until April 2 could raise the PCE Price Level above 4.5% and the US effective tariff rate to 22.5%, the highest since 1909. US real GDP growth could decline to 0.5% in 2025 Q4-to-Q4 from 1% estimated earlier.

- **Why Tariffs Won't Rescue US Debt Woes: The Refinance Theory Falls Short**

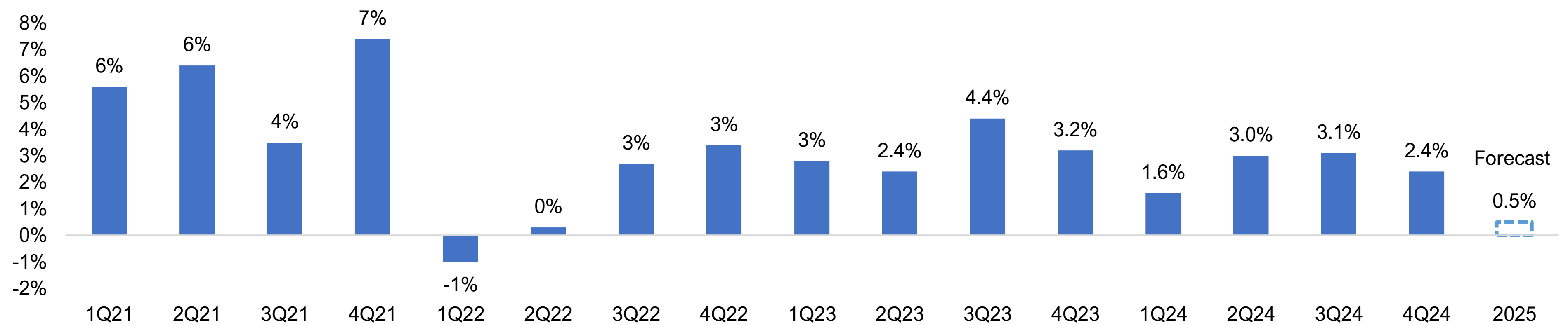
Some speculate that the US is using tariffs to deliberately slow the economy, prompting the Fed to cut interest rates and reducing yields—making it cheaper to refinance the rising government debt. However, tariffs could fuel inflation, which can lead the Fed to reverse course. Moreover, triggering a recession to lower borrowing costs is an economically risky strategy as it could lead to a rise in unemployment and hurt consumption.

Source: *The Budget Lab at Yale. nec: Not elsewhere classified*

US Macroeconomic Performance

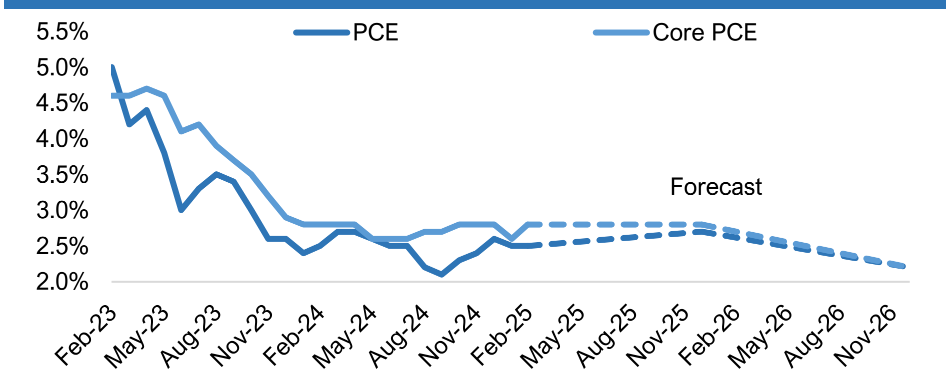
US economy on shaky terrain amid sustained growth concerns

US Real GDP Growth



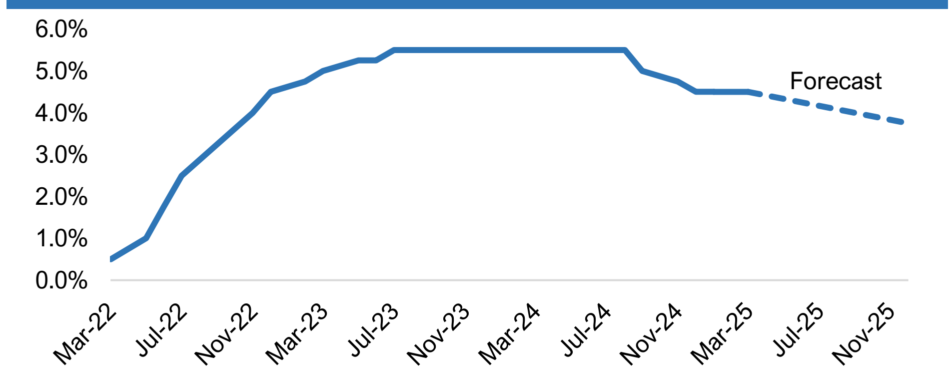
The US economic growth remained resilient in 4Q24 with a 2.4% rise, supported by strong consumer spending, resilient labor markets, government stimulus, and business investment. Growth may, however, slow to 0.5% or lower in 2025 due to tariffs.

US Inflation



Inflation in the US ticked up in 1Q25 and remained above the Fed's 2% target. High shelter inflation is the primary reason behind the persistence in inflation.

Fed Policy Rate (Upper Bound)



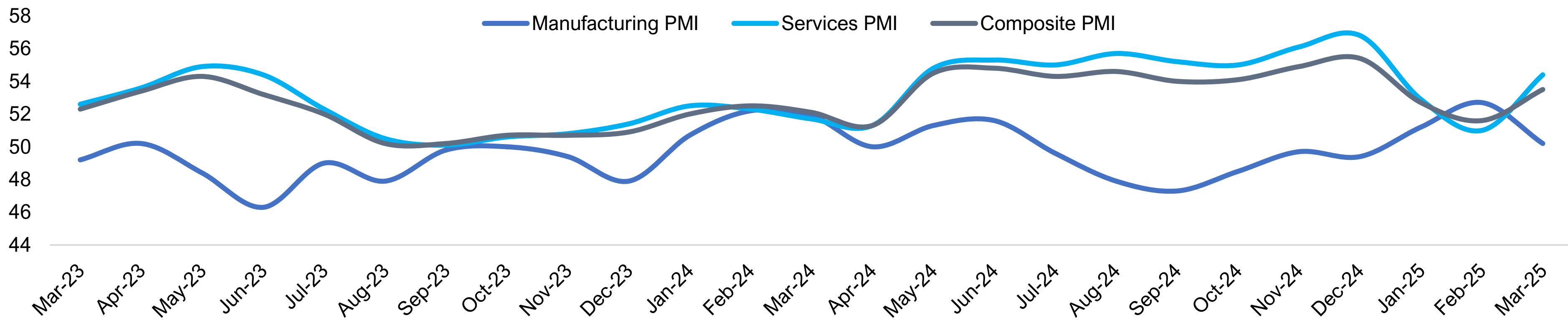
The US Fed kept policy rate constant in 1Q25, but FOMC estimates suggest cuts of 50bps in 2025. The policy rate is currently at 4.25%–4.50%. However, markets expect it to decline by 75bps during the year.

***Source:** Bloomberg, Goldman Sachs 2025 Q4-Q4 Projection, FOMC March 2025 Projections*

US Macroeconomic Performance

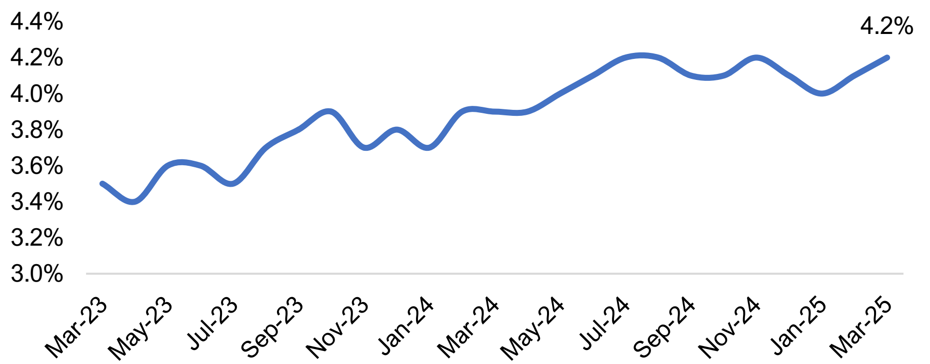
US PMI remained resilient, but the jobs market continued to slow gradually

US PMI



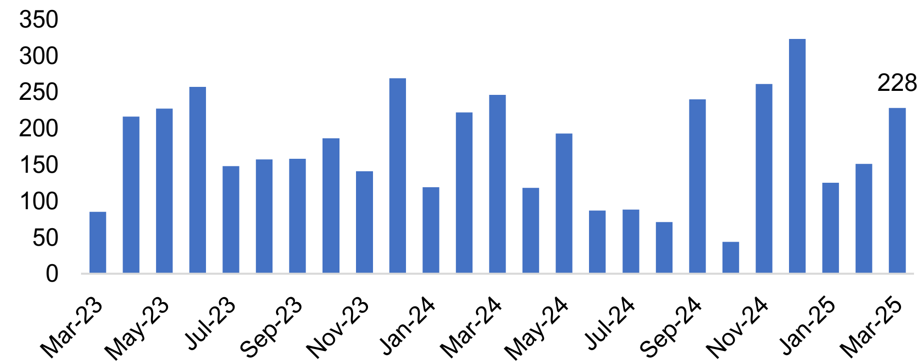
PMI trend indicated an optimistic business outlook and strengthening customer demand. However, manufacturing PMI already started declining in March 2025 from tariff concerns and may decline further due to tariff announcements.

US Unemployment



US jobs market is cooling gradually but remained largely resilient in 1Q25, with the unemployment rate rising marginally to 4.2%.

US Non-Farm Payrolls (in '000s)



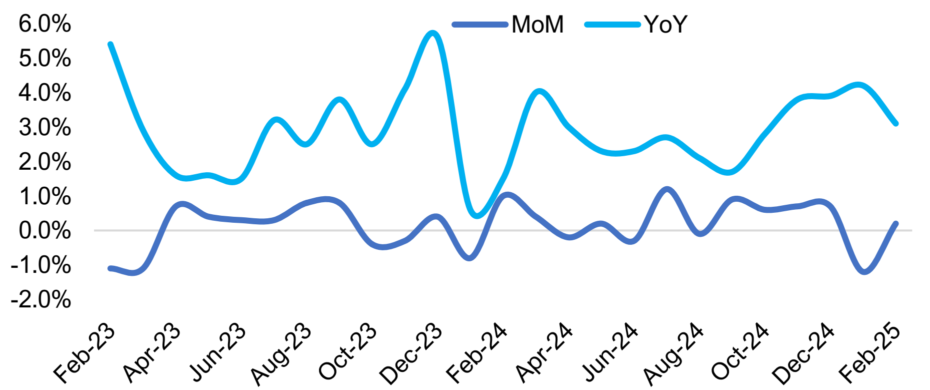
Hiring slowed in 1Q25 compared to the November and December levels but was higher than the 12-month average of 158,000.

Source: *Bloomberg*

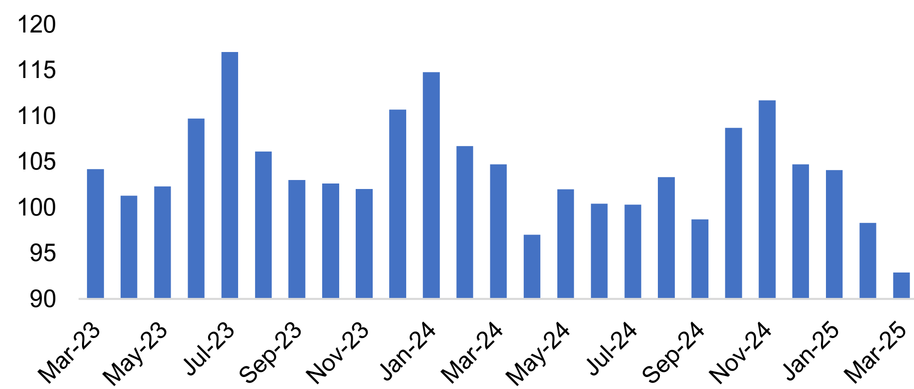
US Macroeconomic Performance

US consumption slowed on tariff concerns; housing market faces low inventories as prices rise

US Retail Sales Growth

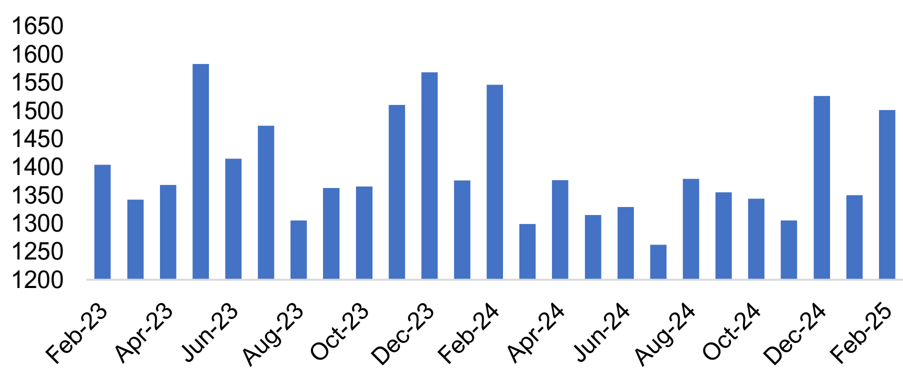


US Conference Board Consumer Confidence



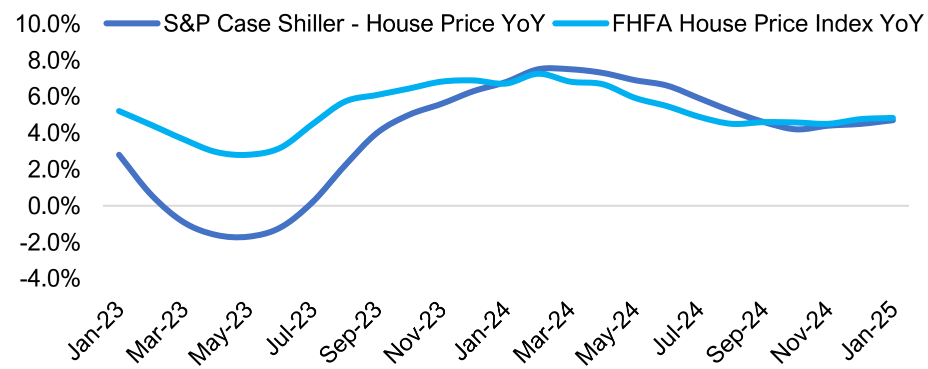
Retail sales and consumer confidence weakened in 1Q25, reflecting consumer caution and tariff concerns. Retail sales were supported by necessities but faced headwinds on inflationary pressures and higher interest rates.

US Housing Starts (in '000s)



US housing market has been affected by high interest rates. Housing starts declined on a year-on-year basis in January and February, mainly due to high construction costs and tight credit conditions.

US House Prices YoY Change



House prices continued to rise in 1Q25, driven by strong demand, low housing inventory, and continued mortgage rate stabilization.

Source: *Bloomberg*

2500+
Global clients

500+
Strong, professional team across multi-disciplinary domains

120+
Sectors and sub-sectors researched by our analysis

80+
Countries where we have delivered projects

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