GLOBAL EQUITY PERSPECTIVES 9 DECEMBER 2024

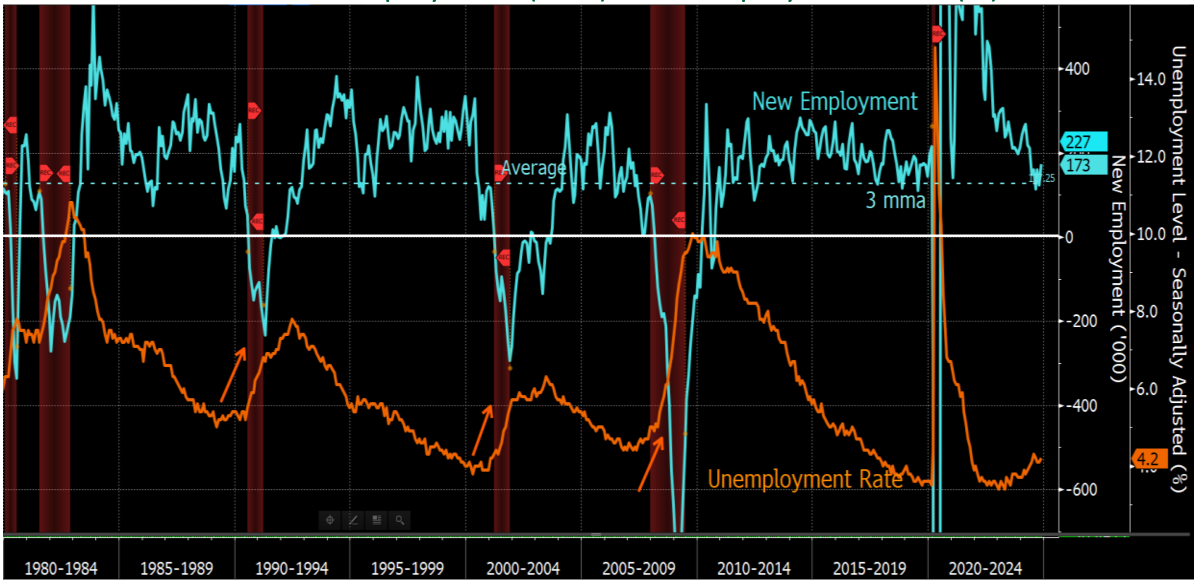
"Common sense is genius dressed in its working clothes."

Ralph Waldo Emerson

1. US EMPLOYMENT

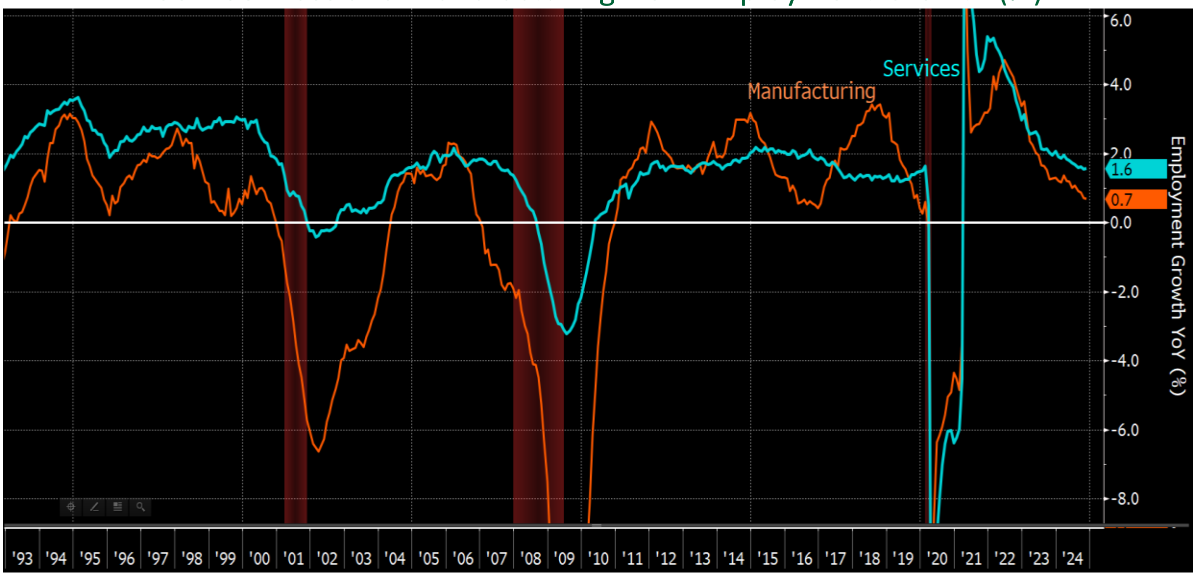
Logically, US employment data presents the most critical information needed to monitor the economy:

US – New Employment ('000) vs Unemployment Rate (%)



Following the weak new employment numbers of October (seemingly from the hurricane interruptions), November delivered a strong result of 227,000 new jobs. This brings the rolling 3-month figure above the long-term average. The unemployment rate marginally resumed its upwards trajectory.

US – Services and Manufacturing New Employment Growth (%)

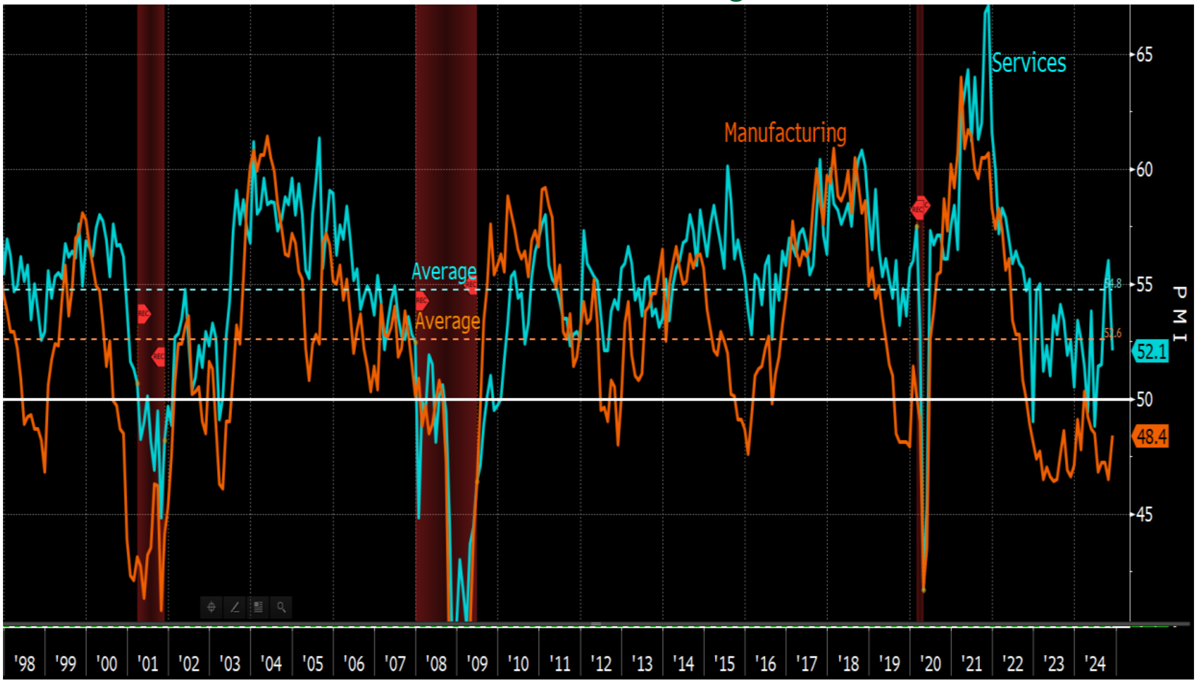


Whilst their trends remain downwards, both the Services and Manufacturing sectors' employment growth numbers remain comfortably in positive territory. Critically, the Services growth compares well with historic levels. Overall, US employment data remains supportive of the economy.

2. US ECONOMIC OUTLOOK

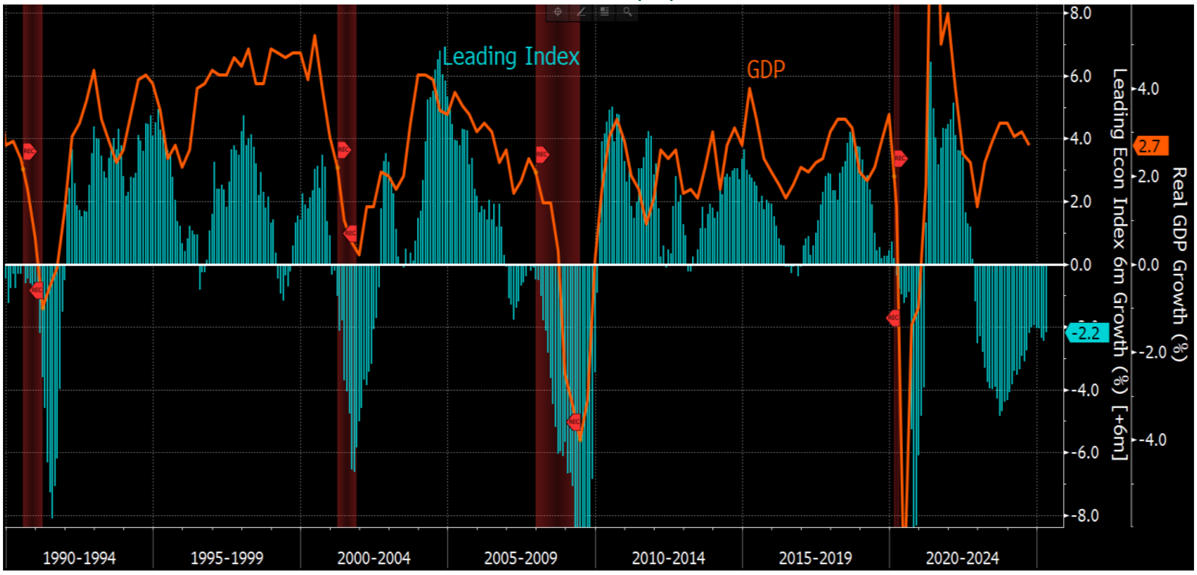
Along with the supporting employment market, we also consider other indicators:

US – Services and Manufacturing PMI Indices



Whilst quite volatile, the Services PMI Index has remained in positive territory for most of last year and this year (but below average). The Manufacturing PMI Index has, for this same period, remained in negative territory. Despite being less than a third of the economy, it can be a swing factor at times.

US – Conference Board Leading Economic Index (6 months advanced) vs GDP Growth (%)



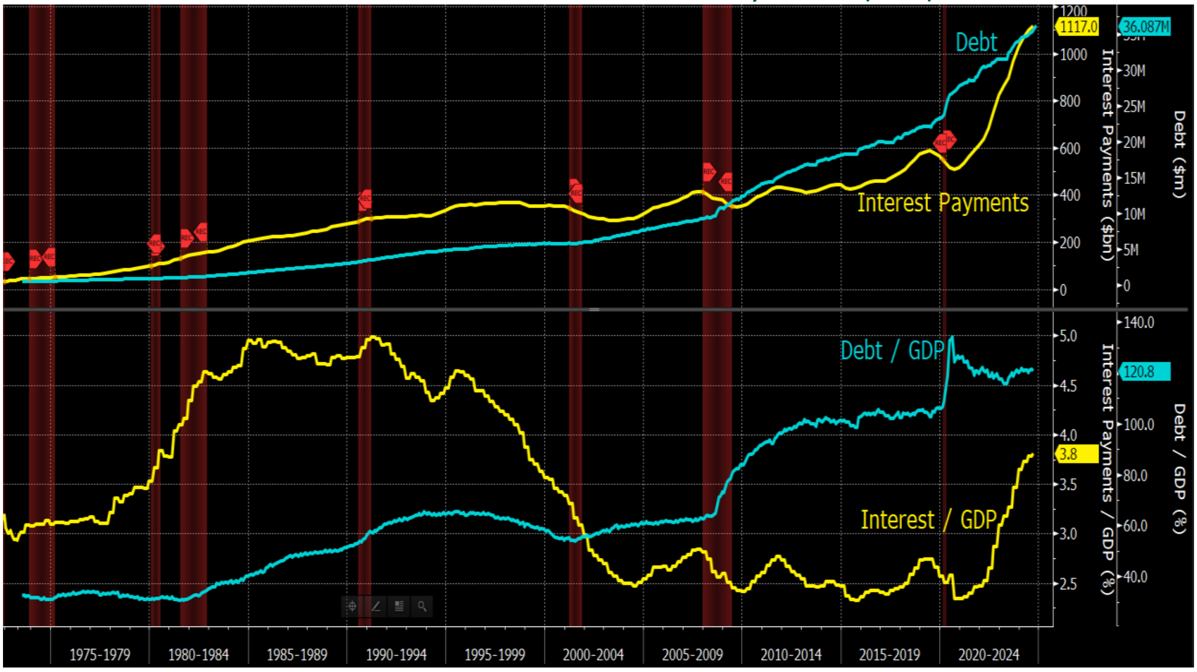
The Leading Economic Index (the blue bars) has historically been a good economic indicator (with six months advanced in the chart). It remains in negative territory and has recently stagnated from its rising trend. With GDP (the orange chart) remaining elevated, chances seem for it to moderate from here.

The US economic outlook currently has the benefit of the incumbent president's economic and business orientation and, along with that, the important Federal Reserve's easing cycle that has just started, with its huge reserves. With consumption currently growing in excess of 5%, putting all these together, we believe the 'soft landing' scenario still seems the most likely.

3. US DEBT ISSUES

National debt issues remain a topic of debate:

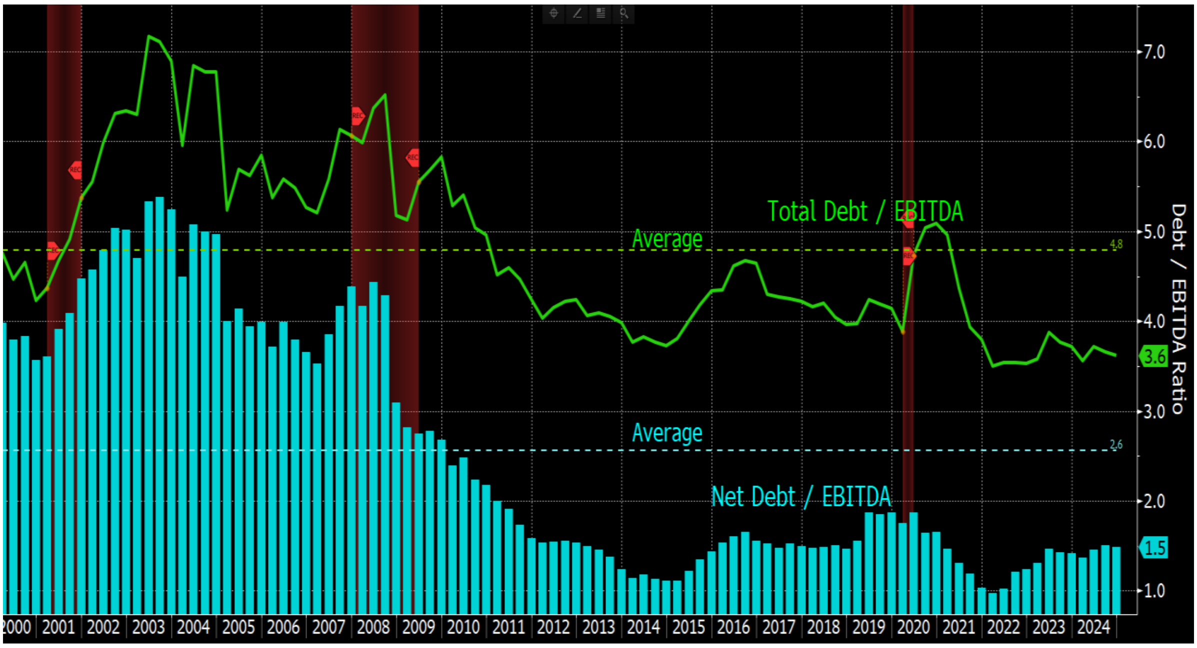
US – National Debt and Interest Payments ($bn)



Debt and Interest payments are at record levels and continue rising (the top chart above). Expressed as a ratio of GDP, Debt is now at 121% (the blue line) and Interest at 4% (the yellow line) currently. Whilst not at comfortable levels, Debt as a ratio has stagnated with Interest as a ratio lower than the eighties and nineties. We believe US National Debt is of some concern. It needs Inflation and Interest rates to remain under control.

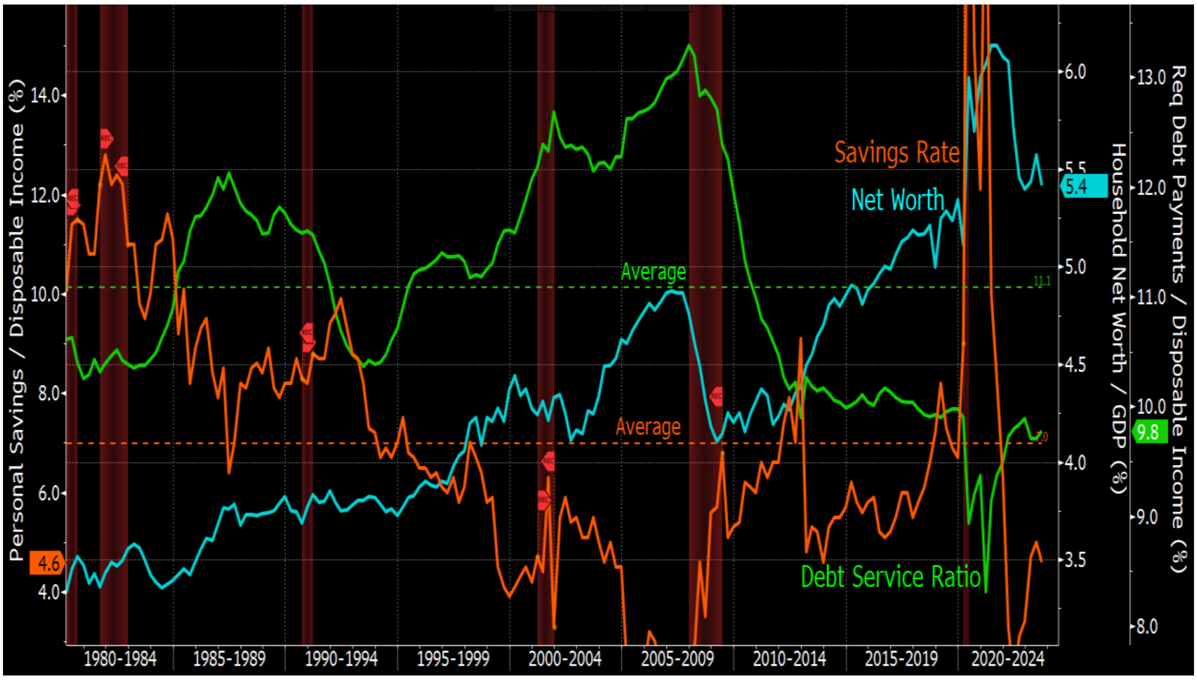
We have the reverse situation at the corporate level:

S&P 500 – Total and Net Debt as a Ratio of EBITDA



S&P 500 Total Debt as a ratio of EBITDA is currently at a record low level (the green bars). Whilst not similarly at a record low level currently, Net Debt is only at a 1.5 times ratio (the blue bars). This is at relatively low-interest rate levels, and is about a third of the level during the early 2000s. US corporate debt levels generally reflect strong balance sheets.

US Household Balance Sheet Ratios



US Household Net Worth as a ratio of GDP is close to a record level (ex the Pandemic era, the blue line). Their Dollar Debt as a ratio of their Gross Asset value is at a record low level (not reflected in the chart). Similarly, their Debt Service Ratio is at a record low level (the green line). Against these, their savings seem to have been depleted with the Savings ratio at a relatively low level (the orange line). All of this implies US Households also have strong balance sheets.

All in, investors can continue to rely on US corporates to generate profits and households to support the economy but less so on the government for strong fiscal support.

4. S&P 500 CONSENSUS OUTLOOK

We consider the sell-side view of the 2025 bottom-up S&P 500 earnings and valuations:

S&P 500 Consensus 12-month Forward Earnings

The twelve-month forward earnings revisions keep rising (the green line). The growth of those earnings has remained at +11% for a while (the yellow line).

S&P 500 vs 12-month Forward Consensus Valuation

Historically, the S&P 500 Index has closely followed the target valuation. It currently seems to be somewhat ahead of the corresponding valuation, but still, the 12-month forward valuation is +8% higher. This compares to an average discrepancy over time of +11%.

5. VOLATILITY

Capital market volatility is currently relatively muted. All the popular US Equity, Bond and Currency volatility indices are close to or below their respective averages. This is also true for the more volatile Nasdaq Index, with the spread of its Volatility Index with the S&P 500's also well below average. The US election outcome may well be supportive of this overall enthusiasm.

We are conscious of relatively high equity valuation levels, and the equity risk premium is currently, for the first time since 2001, in negative territory. Combining the valuation level with the Volatility Index we derive the following chart:

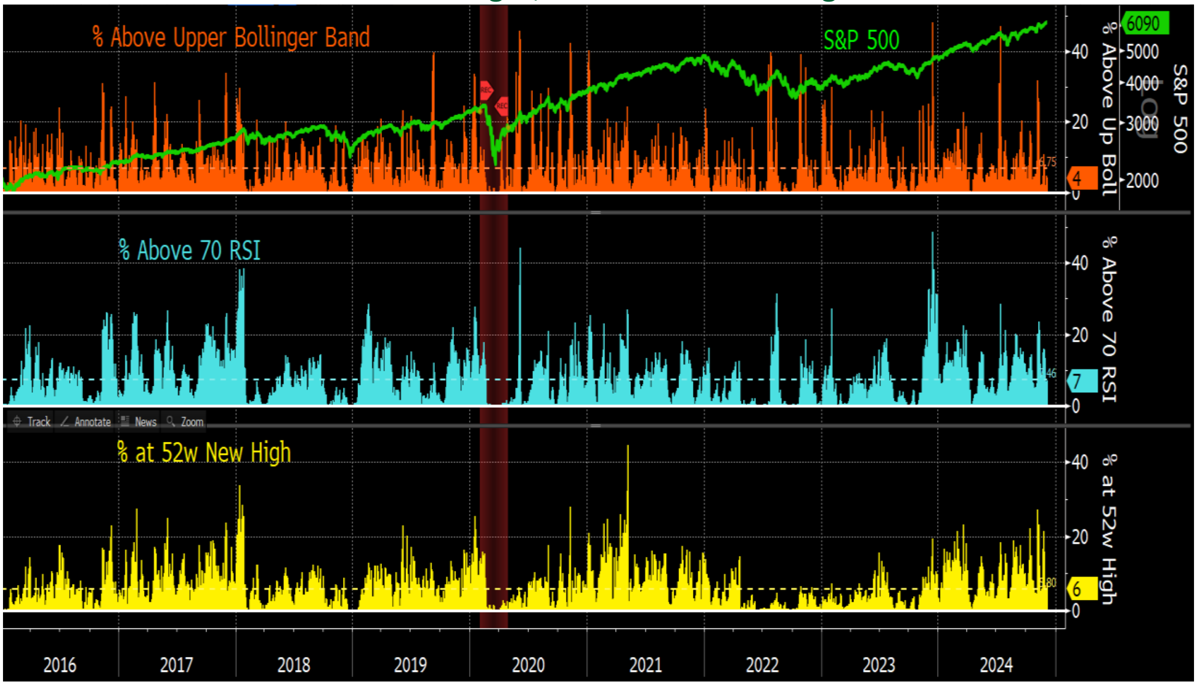
S&P 500 vs Euphoria Index

Whilst the Euphoria Index is not intended as a tactical or a structural stock market tool, it provides some indication of investor sentiment. It is currently quite elevated in the Complacent category of sentiment indicators. These indicate a good level of stock market optimism for 2025.

6. TECHNICAL PICTURE

To wrap up the year, we consider the S&P 500 technical picture:

S&P 500 vs Bollinger, RSI and 52-week High Ratios



All of the above indicators (% of stocks above their upper Bollinger band, those above their 70 RSI level, and those above their 52-week highs) are either at or below their respective averages. This reflects a healthy technical picture rather than an overheated market.

S&P 500 vs 50- and 200-day Moving Averages

Technically the Index stayed well above its 50- and 200-day averages following the Golden Cross early last year. This is a healthy picture. It is currently at a ratio of 1.11 times the latter (the purple bars). We indicate with the horizontal orange arrows those occasions where the ratio has been higher. Those were all followed by tactical (and the structural Pandemic) corrections. On this basis, the current ratio does not seem to indicate material risk.

7. 2025 WISH LIST

We have good reason to be thankful – seven of the nine items on our 2024 Wish List came to fruition. We are keeping the remaining two on our new list.

Investors again face a new year with the risk of cooling US economy but, as mentioned earlier, a new more business orientated administration and the Fed support. Here follows our 2025 Wish List.

- The Fed does not 'fall behind the curve' in cutting rates in good time.
- The US experiences a 'soft economic landing' instead of a normal recession.
- The new US administration's tariffs do not materially affect US inflation and interest rates.
- The new US administration's tariffs do not materially disrupt global trade.
- The Fourth Industrial Revolution continues its high growth track with the Magificent Seven continuing their material capex investments along with growing profitably and not causing a semiconductor / technology stock collapse.
- China can find a way to stimulate their economy more effectively (a repeat from this year's list).
- Ukraine/Russia and Israel/Hamas find a way to address their tensions (a repeat from this year's list).
- China does not invade Taiwan.

Our sincere gratitude to our clients for your continuing support and friendship through another investment year. It is hugely appreciated. We wish you and yours all the very best for the Festive Season and the New Year.

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RISK DISCLOSURE

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