GLOBAL EQUITY PERSPECTIVES 10 MARCH 2025

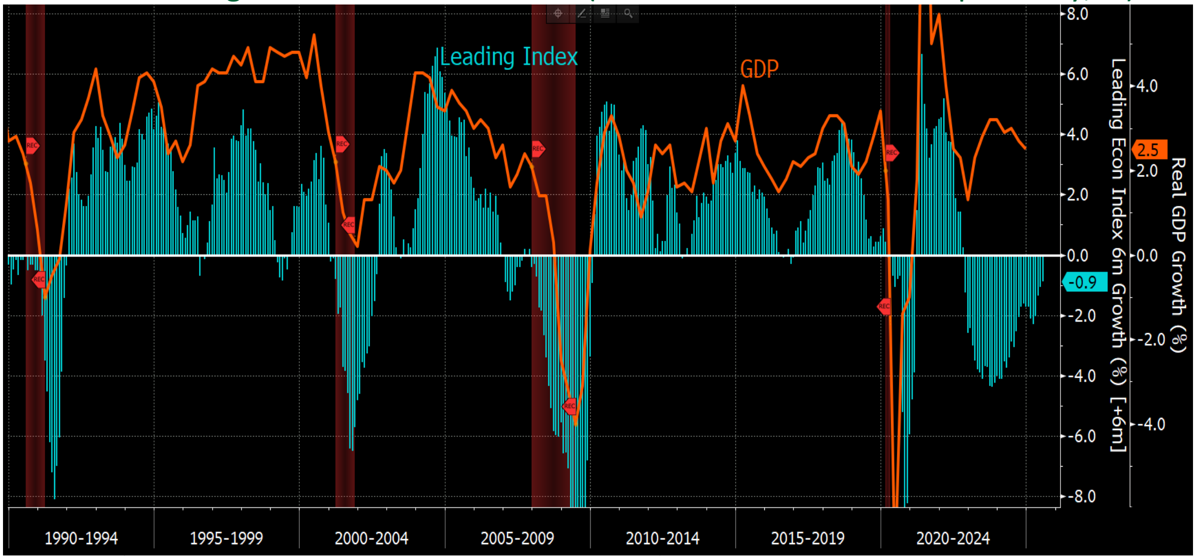
"The aim of the wise is not to secure pleasure, but to avoid pain."

Aristotle

1. US ECONOMY

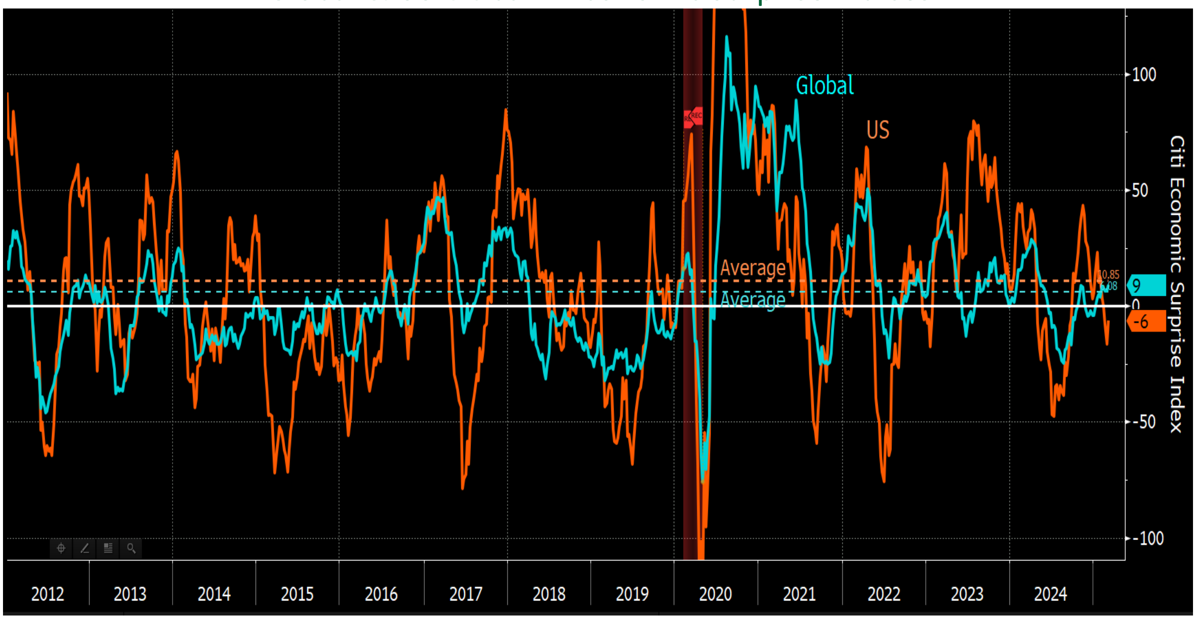
Investors are currently getting mixed signals on the US economy:

US – Leading Economic Index vs GDP (6 & 12 Month Growth respectively, %)



The trusted US Leading Economic Index continues its recovery trajectory (the blue bars). It has historically been closely correlated with GDP growth (the orange line). On this basis, it the US economy remains on track.

Global & US Citibank Economic Surprise Indices

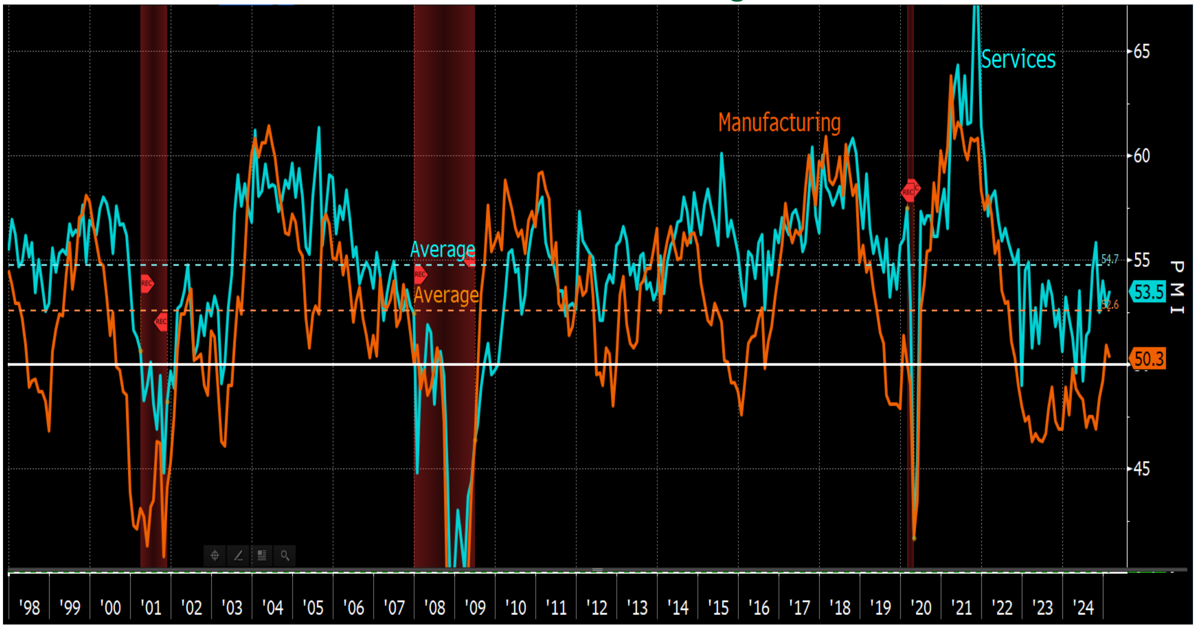


In terms of the public expectations of economic performance, the above Economic Surprise Indices reflect a drop into negative territory for the US economy. There seems to be some reservations building up relative to recent expectations. Against this, the Surprise Index for the global economy has increased to its average level reflecting improving perceptions about the rest of the world's economies.

2. REAL US ECONOMY

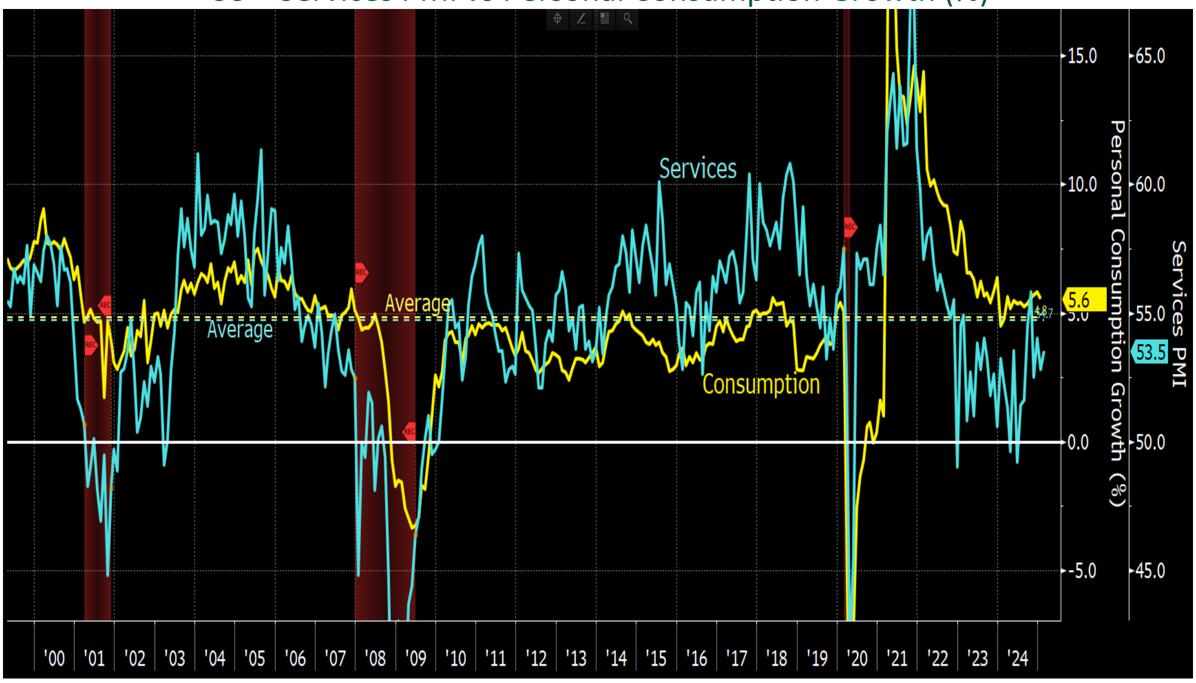
In terms of the physical experiences of the US economy, we consider the following:

US – Services and Manufacturing PMI Indices



Both the Services (the blue line) and Manufacturing (the orange line) PMI Indices are currently in constructive territory. The Services Index has, though, been below average for a while, and Manufacturing has just recently recovered into positive territory – though just marginally so. Some of this may be a result of the new administration's tariff threats.

US – Services PMI vs Personal Consumption Growth (%)



US Personal Consumption continues growing above average, currently at +5.6% (the yellow line). This, logically, closely tracks the changes in the Services PMI Index (the blue line). Seeing the dominance of Consumption in the US economy, the lower Services PMI Index indicates some risk for lower economic growth.

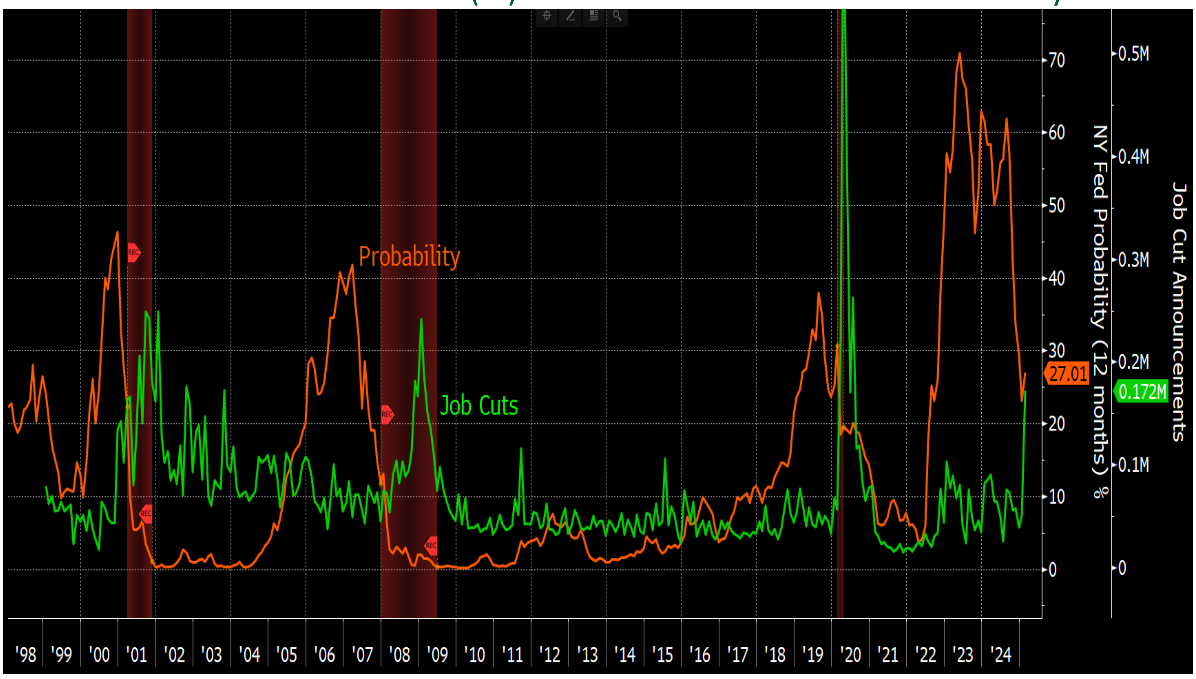
3. US EMPLOYMENT

The February New Employment number of 151,000 was lower than recent levels, but remains close to the long-term average. Along with that, the following charts reflect important information around US Consumption and the overall economy:

US – Unemployment Level (%) and Number of Unemployment Claims ('000)

Whilst the trend is upwards, the Unemployment level of 4.1% remains relatively low (the green line) and of less concern. Along with that, Initial Unemployment Claims also remain low (the orange line). On this fundamental basis, US employment still seems to be in a relatively healthy condition.

US – Job Cut Announcements (m) vs New York Fed Recession Probability Index

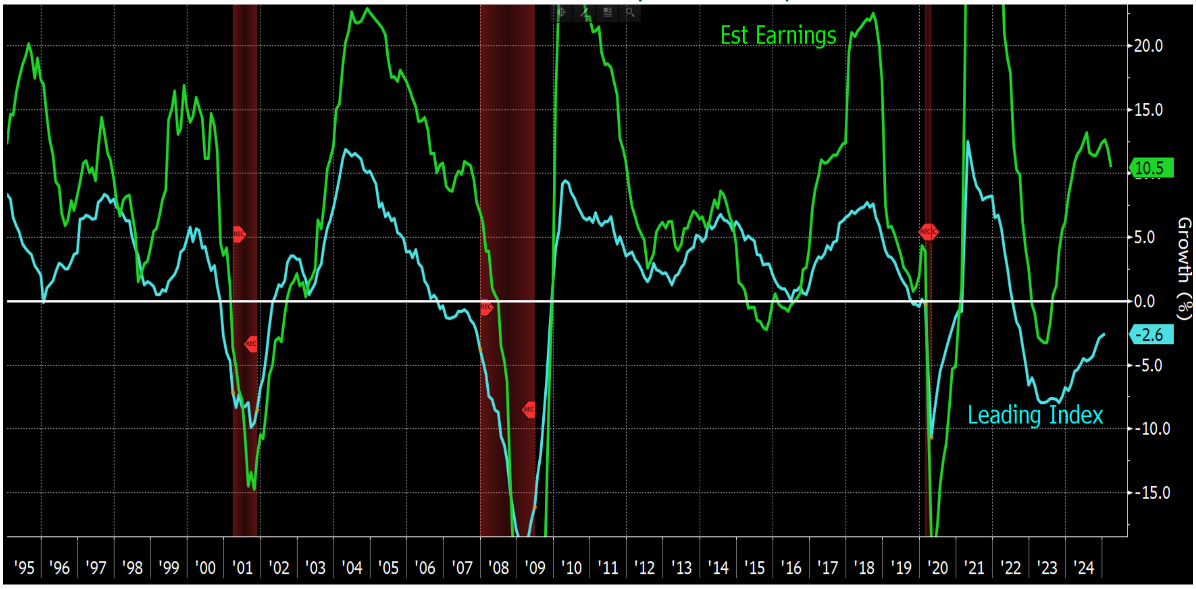


We take cognizance of new developments around involuntary job separation announcements (job cuts) in the US economy. It has been at moderate levels for quite some time (the green line), but increased sharply in February to over 172,000, exceeding new employment numbers. This spike historically happened into a recession. It is unclear whether this may be related to the new administration's cost cutting programmes, but nevertheless raises some new uncertainties around employment.

4. COMPANY EARNINGS

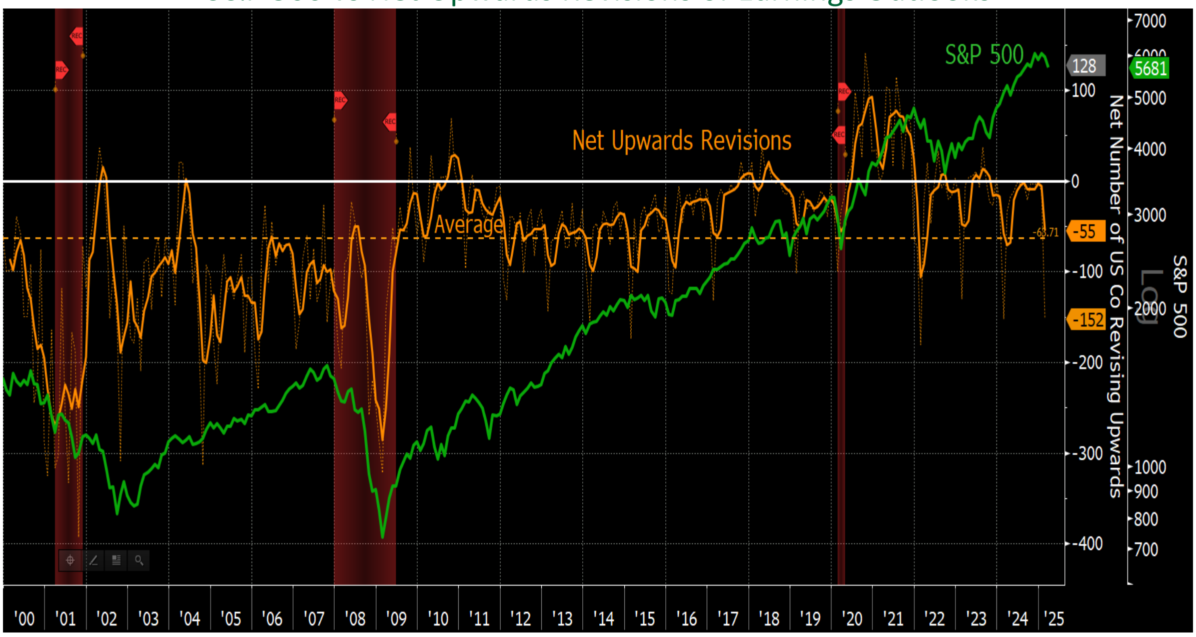
The 4Q2024 S&P 500 earnings season delivered a strong result. Consolidated Sales grew by +5% and Earnings by +13%. These were respectively +1% and +7% better than consensus expectations.

S&P 500 – 12-Month Forward Earnings Expectations vs Conference Board Leading Economic Index (Growth %)



Earnings expectations (the green line) correlate closely with the Leading Economic Index (the blue line). Along with the positive trend in the latter, earnings expectations remain firm. It is, though, striking that the absolute level of growth expectations is starting to drop.

S&P 500 vs Net Upwards Revisions of Earnings Outlooks



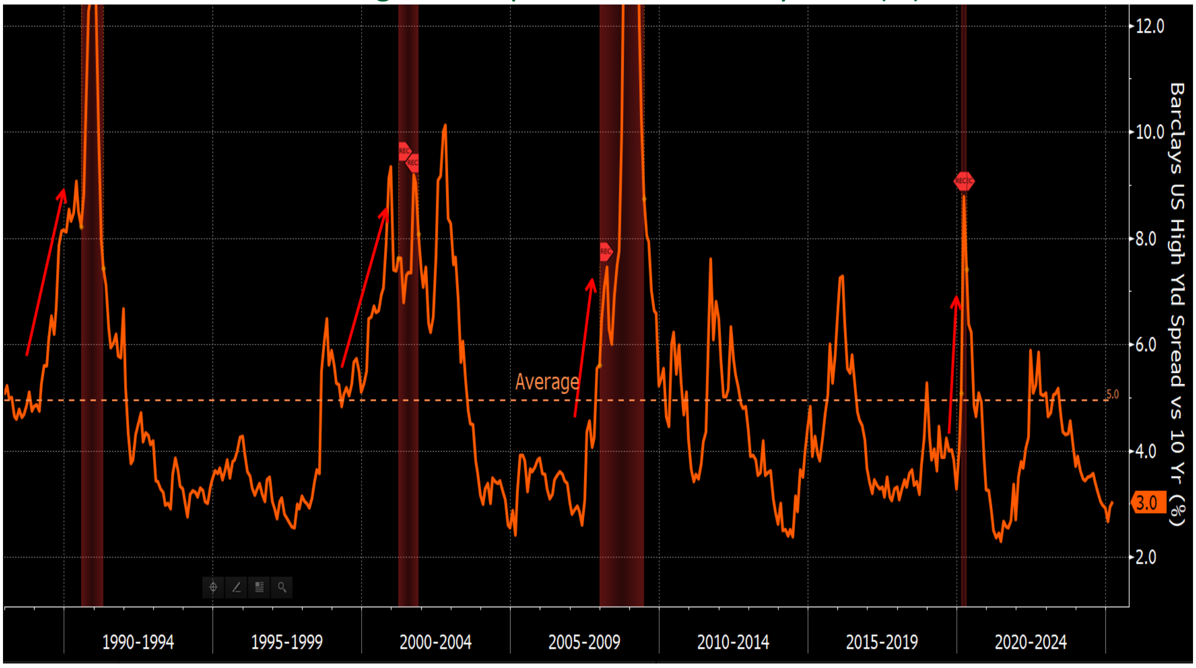
The above chart reflects the net number of upwards revisions of companies changing their outlook during earnings announcements (the orange line). Whilst this number has been relatively neutral for a while, it has recently dropped sharply, reflecting more companies cutting their outlooks.

Whilst we see this negative change in the context of the strong recent results season (and the high earnings bases), it is also true that companies have dampened expectations quite meaningfully. This is of less comfort for short term investing, and may also offers opportunities to the astute investor understanding the fundamental changes in the economy, including the utilisation of AI and how it may support profitability.

5. HIGH YIELD MARKET

We value the developments in the High Yield market as it is another indication of overall investor sentiment.

US – High Yield Spread with Treasury Yield (%)



The High Yield Spread is in a downwards trend and currently is at a low level. Historically, this spread picked up strongly prior to a recession. Whilst it is not an overly liquid market and may at times respond relatively slowly (and then sharply when it does), it does not yet raise any particular alarm.

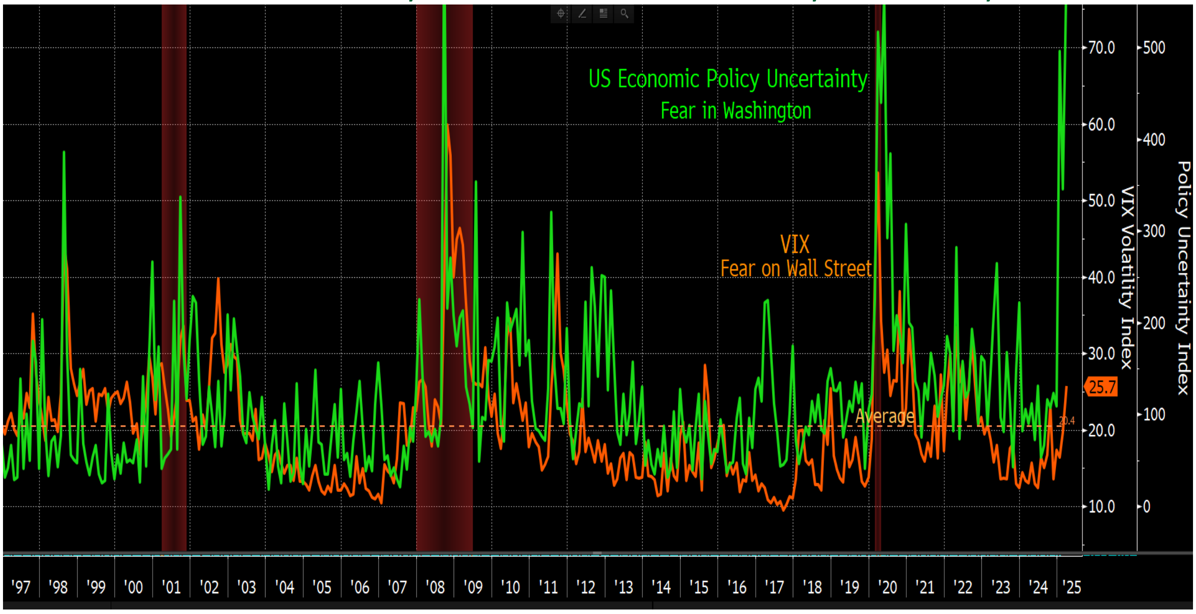
US High Yield, US Junk Bond and Emerging Market Bond Price Indices vs S&P 500

The prices of US High Yield (the orange line), the Junk Bond (the blue line) and the Emerging Market (the purple line) Indices all made strong recoveries last year, continuing their correlations with the S&P 500. Over recent months they have, though, become somewhat stagnant. We take cognisance of this pause in optimism in the high yield market.

6. TECHNICAL PICTURE

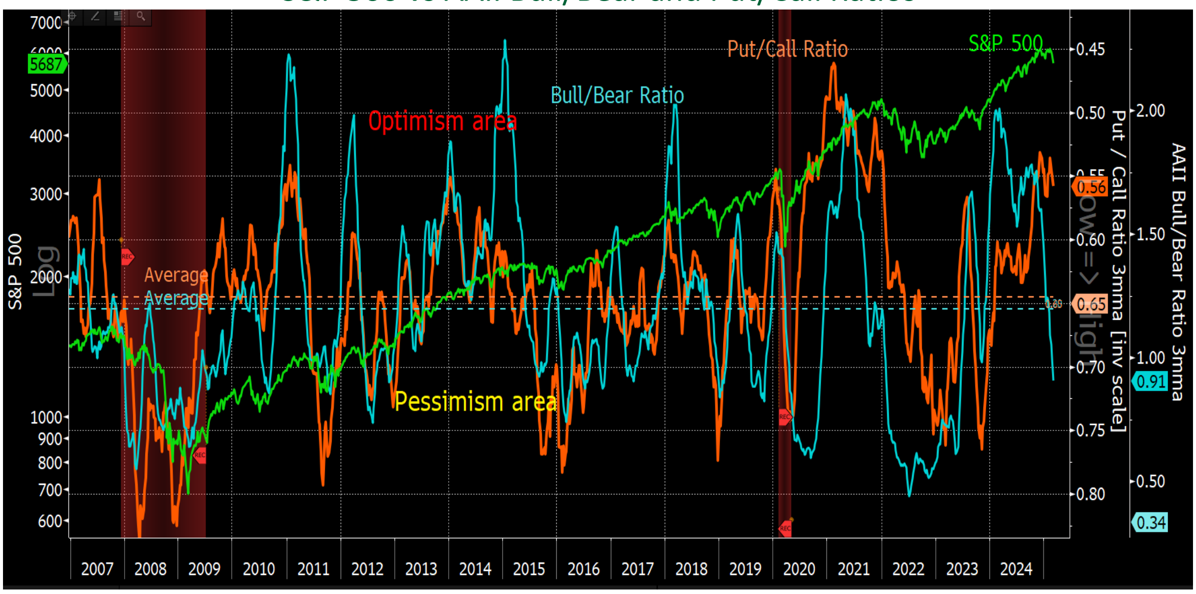
With the S&P Staples Index outperforming the S&P Discretionary Index this year, the market has technically become more defensive. This caution also reflects in the following fear indices:

S&P 500 VIX Volatility Index vs US Economic Policy Uncertainty Index



The current Economic Policy Uncertainty Index is at levels last seen with the Financial Crisis and the Pandemic (the green line). The VIX volatility Index has increased to above average levels (the orange line).

S&P 500 vs AAII Bull/Bear and Put/Call Ratios



The Retail market sentiment has been dropping sharply (the blue line). The Institutional market sentiment is more elevated, but also in process of turning downwards (the orange line). Considering historic correlations with the S&P 500, it is still too early to indicate buying opportunities on this basis.

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