Capital Markets Strategy

Essential inCights for the C-Suite

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Chart of the Day

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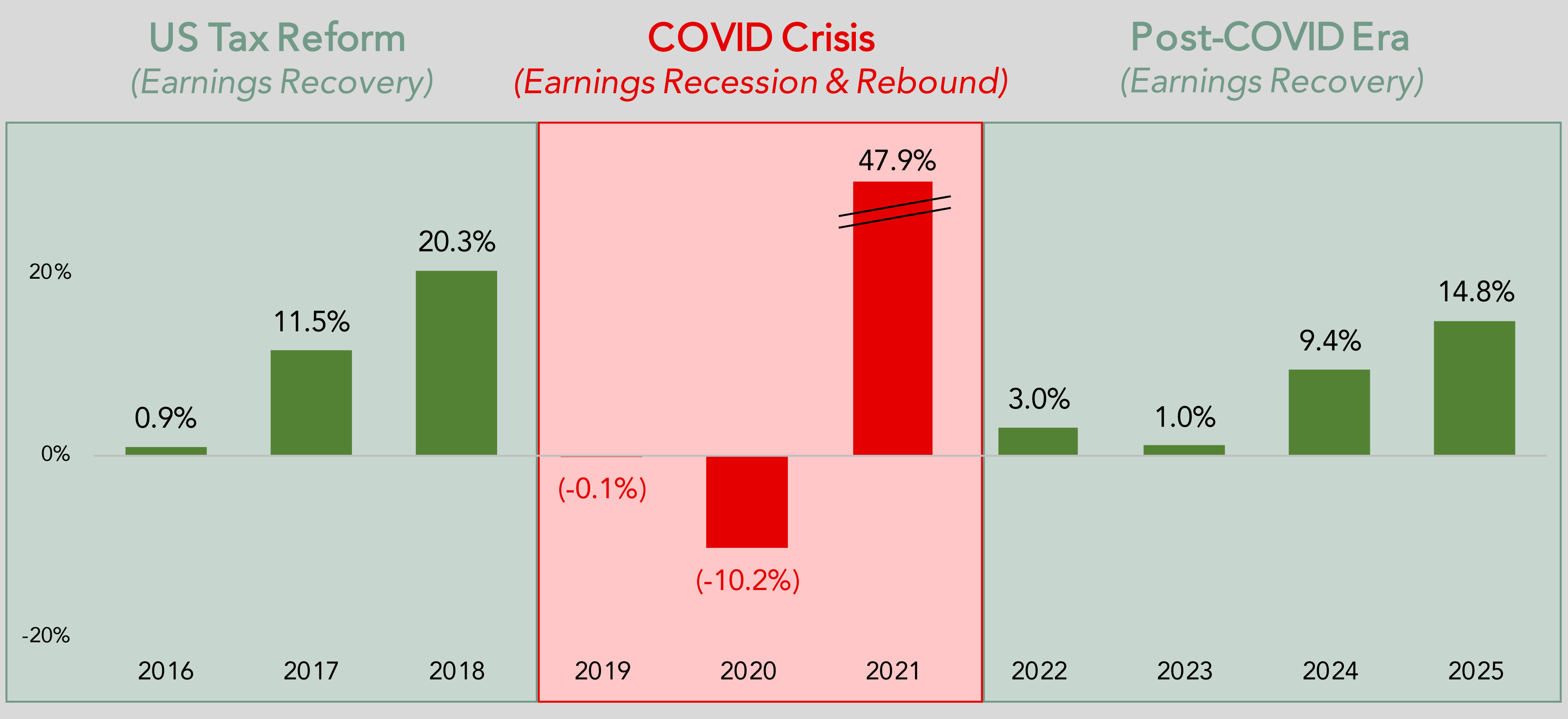
Corporate Earnings Expected to Accelerate in 2025

Generally speaking, the market vastly underestimated the positive boost to corporate earnings that followed the deregulation and fiscal expansion (tax cuts) in 2017-18, and the same may be true again. Looking to 2025, corporate revenue should track nominal GDP growth while range-bound rates may facilitate the P/E multiple expansion that could accompany a reawakening of the "animal spirits" among both corporates and investors. Modest margin expansion is also likely in a pro-growth policy environment. The scale of potential "incremental" tax cuts remains to be seen but would provide additional upward momentum.

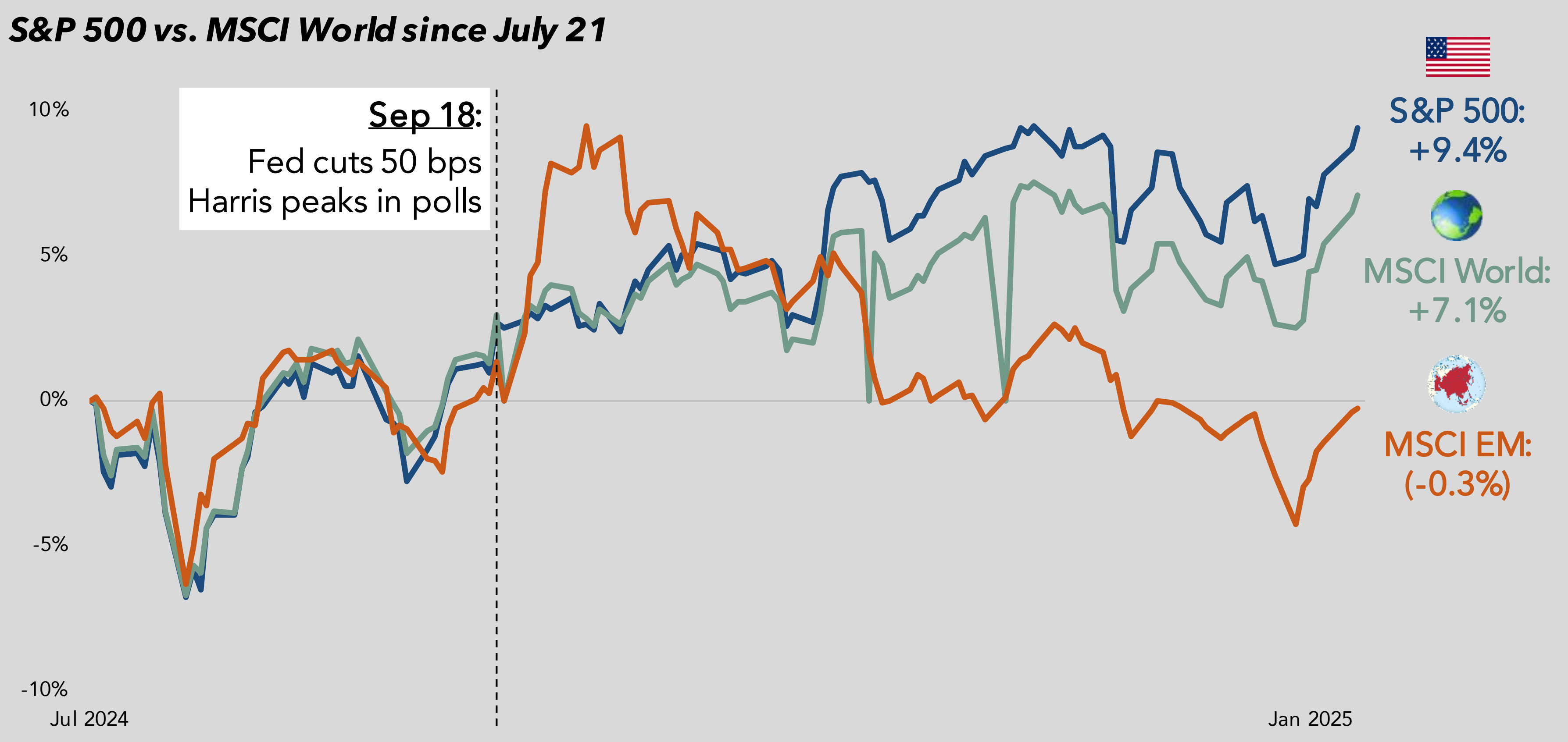
S&P 500 annual earnings growth, y/y



US Stocks Outperforming Global Stocks

Following the US election, the S&P 500 crossed the 6,000 threshold for the first time and has set more than 50 new records in 2024. One of the primary tenets of the so called "Trump trade" is that US stocks outperform global stocks as a result of: (1) the short term positive impact for equities of larger tax cuts passing through to earnings; and (2) the greater relative resilience of the US economy to "trade wars".

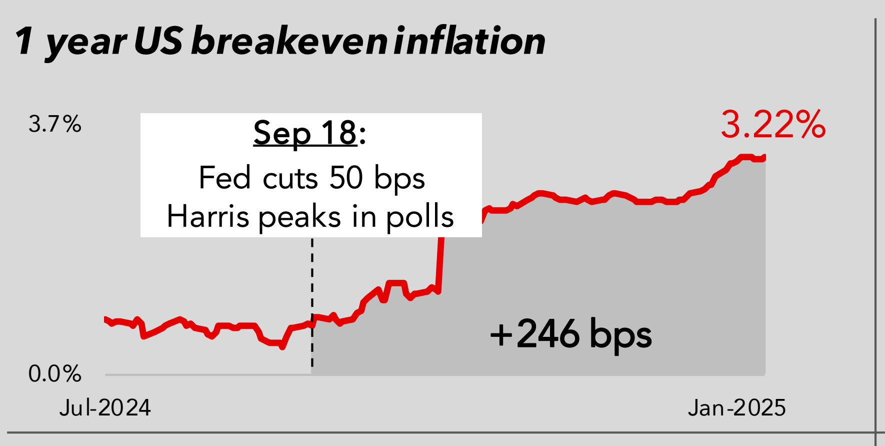
S&P 500 vs. MSCI World since July 21



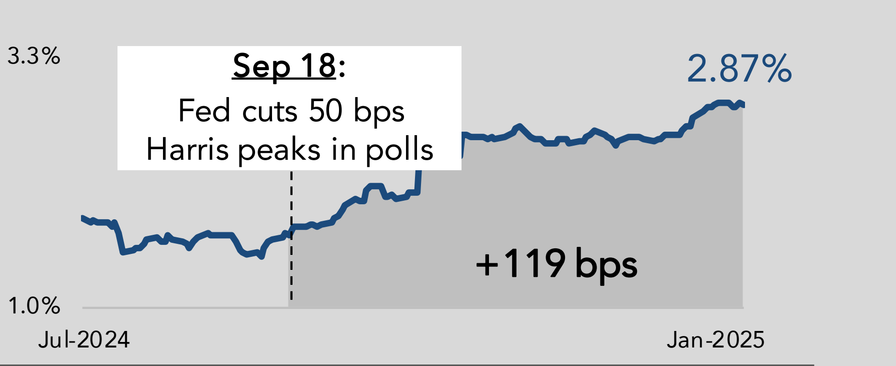
Higher Inflation Breakevens

Even as inflation has fallen precipitously over the last two years, rising inflation breakevens suggest investors are on edge about "expected" US inflation. Numerous factors contributing to this uncertainty include: (1) stickiness in core and services inflation; (2) President Trump's policy positions (fiscal, trade, immigration); (3) the Fed's pivot to easing; and (4) potential challenges to Fed policy independence. In response to sticky inflation, the Fed has neither tightened rates in recent meetings nor raised its 2% inflation target, but rather, has extended the time period for reaching target inflation to late 2027.

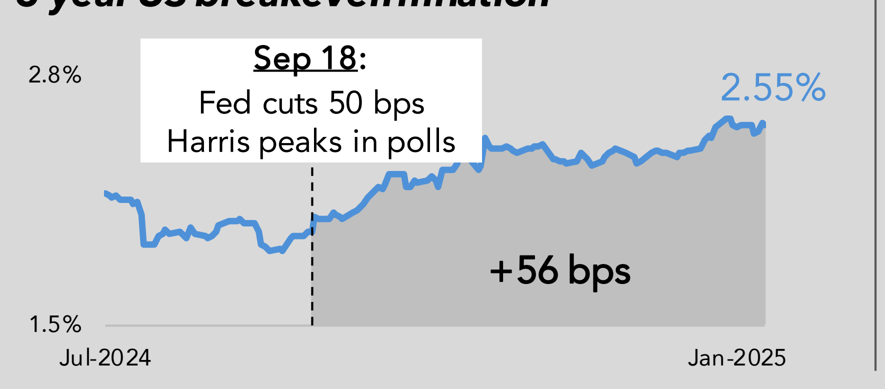
1 year US breakeven inflation



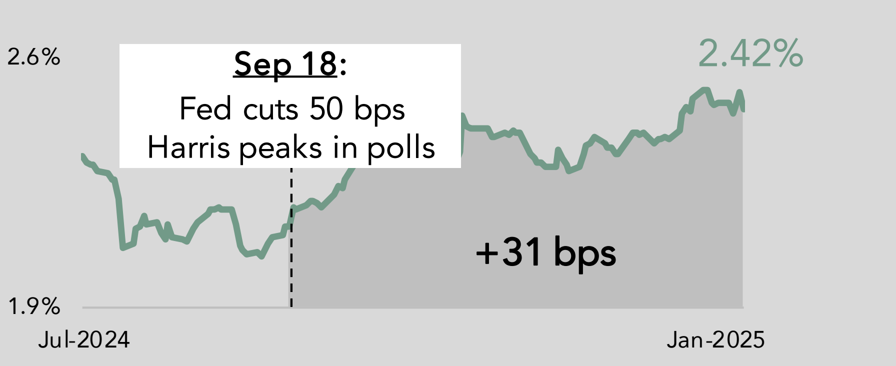
2 year US breakeven inflation



5 year US breakeven inflation



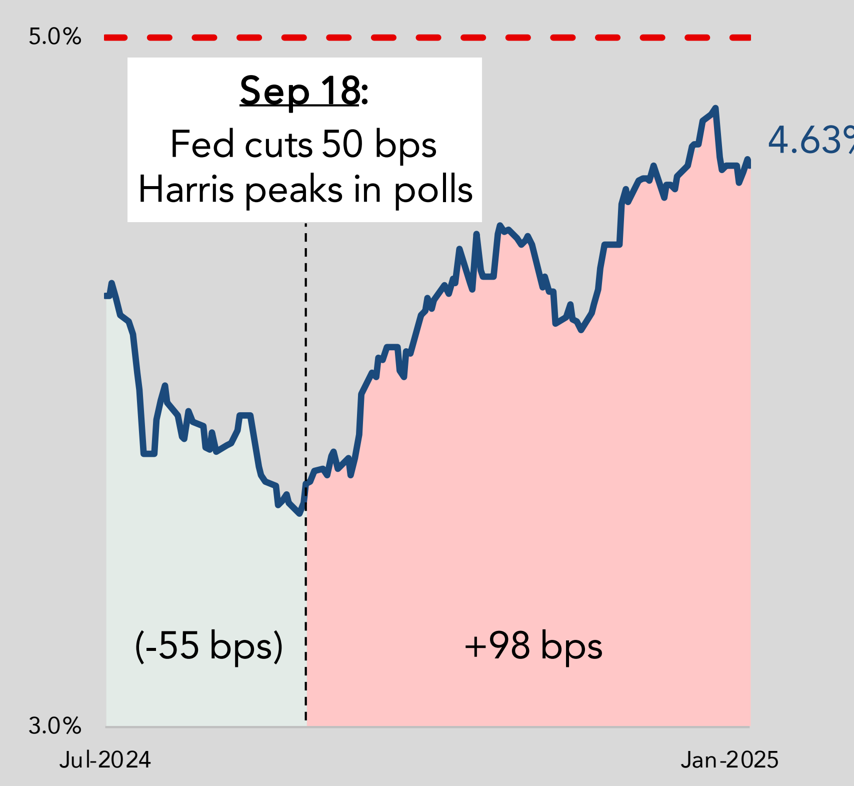
10 year US breakeven inflation



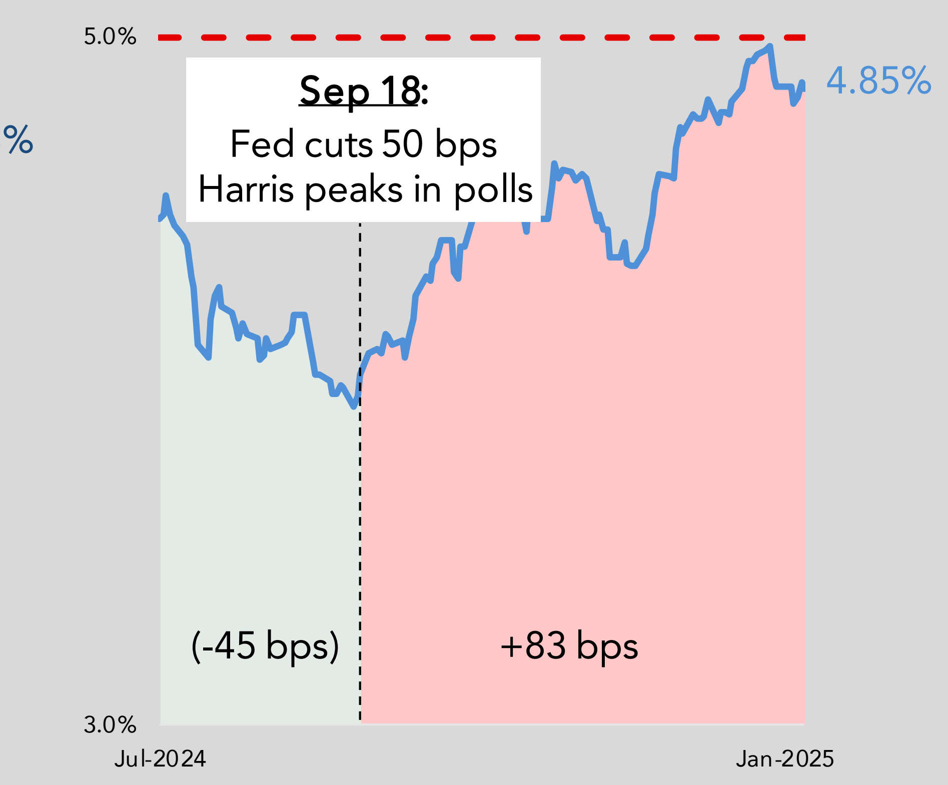
Bearish Yield Curve Steepening

Since former President Trump began to tighten the gap in polls in late September, the UST yield curve has steepened in anticipation of more expansionary fiscal policy led by tax cuts and increased spending. Specifically, it is very unusual for 10 year rates to rise 80+ bps in the first months of a Fed easing cycle.

10 year UST



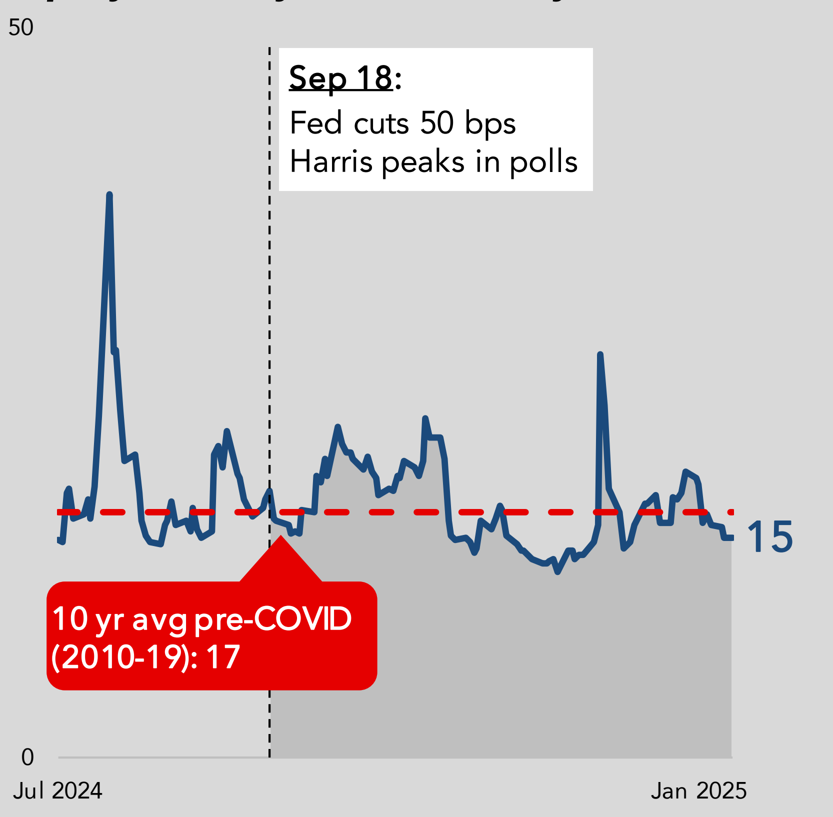
30 year UST



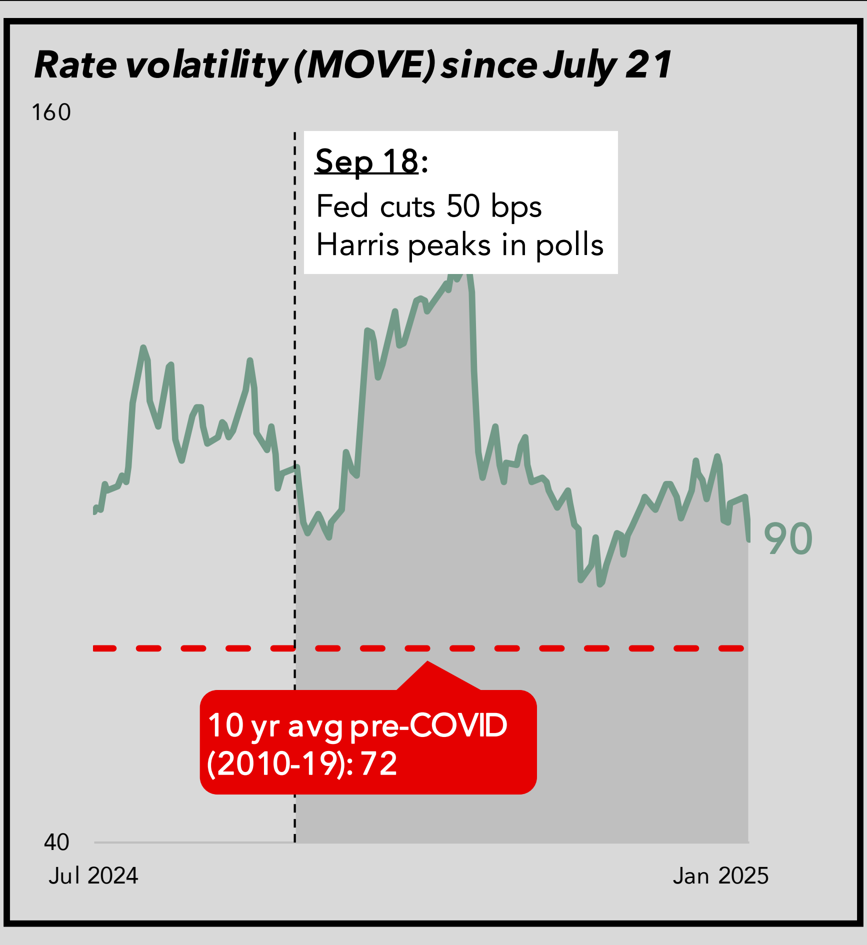
Divergent Equity & Rate Volatility

Add volatility divergence to the growing list of "Trump trades" which include a stronger Dollar, higher rates, bank stocks, US equities and crypto-currencies. With the 2017-18 playbook in mind (tax cuts, higher S&P 500 earnings and stock buybacks), rising US stocks have kept equity volatility (VIX) low. At the same time, rate volatility has remained elevated as a "Republican sweep" increases the scale of multi-trillion US fiscal expansion, and related inflation / rate-path uncertainty.

Equity volatility (VIX) since July 21



Rate volatility (MOVE) since July 21



Source: (1-10) Bloomberg. Data as of January 24, 2025. FactSet, Earnings Insight Report (January 17, 2025).

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"Macro stability isn't everything, but without it, you have nothing."