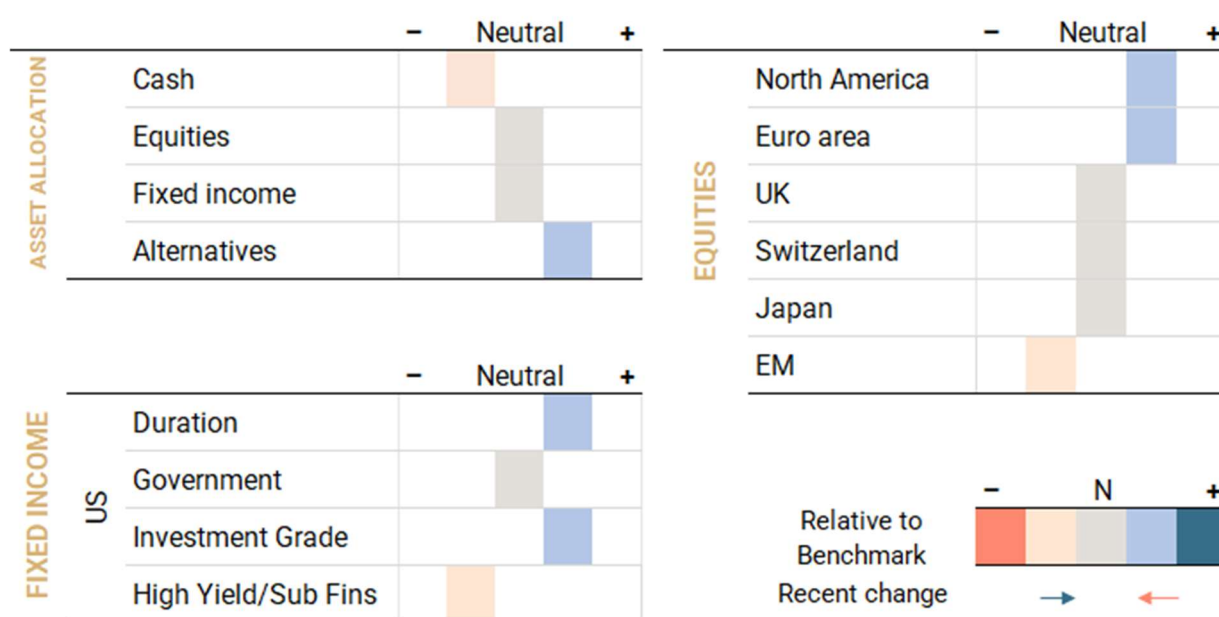


Executive Summary

- After a sharp and rapid 19% correction in the S&P 500, equity markets have started to stabilize. We view this move as consistent with a technical recession in the US, highlighted by a Q1 GDP contraction of 0.3%, and the current quarter likely to be flat to negative;
- Market sentiment and positioning have swung from extreme optimism to extreme pessimism in a matter of a few days. This environment has created attractive entry points, with key indices trading below long-term average multiples;
- The current earnings season is proving strong, with positive surprises above the historical average 5% beat, helped by a wave of downward revisions in the past weeks. Margins are holding up well as tariffs-related cost pressures did not materialize yet. Companies entered this period of heightened uncertainty with strong momentum and the ability to improve earnings through increased operating leverage;
- Technology and financials are delivering solid earnings growth, while energy and materials continue to lag. The dispersion in performance is increasingly being driven by valuation adjustments between countries and indices;
- We maintain a constructive market outlook and have not made major changes to our asset allocation, aside from an increase to equity exposure after the sharp market sell off following “Liberation day”, fully restoring our clients’ equity risk budgets. Our focus remains on monitoring profit expectations and margin dynamics over the next months.

Novum's "Investment Mosaic"



Market dynamics and positioning

Following a very strong 2024, markets have entered 2025 with renewed volatility.

The dramatic correction in the S&P 500—down nearly 19% in a few weeks— shown in Chart 1, seems another pullback within a positive trend. This type of setback is consistent with the onset of a technical recession, which is now confirmed by the first estimate of Q1 GDP at -0.3%. Should the trend continue in Q2, the US would officially enter a recession, but markets now appear priced for that scenario. We are aware that with the Trump presidency, we are bound to see more episodes of uncertainty and volatility.

But on the positive side, in the coming months the market should find support in plans for tax cuts and deregulation, and stabilising GDP growth around 2% in real terms. The main risk for the market is that the trade agreements being negotiated do not go smoothly, and that negotiations with China in particular do not lead to a meaningful agreement. As we will see with the help of charts and tables, earnings growth forecasts for the S&P 500 have been downgraded.

According to analysts, earnings are expected to grow 7.5% YoY in 2025. In the exercise (named “S&P 500 inc.”) we did in the run-up to ‘liberation day’, with an assumption of 25% average duties, earnings growth could have been around 3.5%. By our calculations, the 7.5% expected growth corresponds to an average tariff of 10%.

	YTD % TR USD	YTD % TR Local		YTD % TR USD
MSCI World	0.14%	0.14%	S&P 500 Info Tech	-9.56%
S&P 500	-4.27%	-4.27%	S&P 500 Comm. Serv	-2.37%
S&P 500 Equal Weighted	-2.38%	-2.38%	S&P 500 Health Care	-1.98%
Mag 7 Index	-13.61%	-13.61%	S&P 500 Financials	2.14%
Russell 2000	-10.70%	-10.70%	S&P 500 Cons Discr.	-14.08%
Euro Stoxx 50	19.52%	8.86%	S&P 500 Energy	-4.97%
SMI Index	18.16%	7.52%	S&P 500 Real Estate	2.93%
CSI 300 Index	-1.26%	-2.26%	S&P 500 Materials	0.41%
Hang Seng Index	14.45%	14.32%	S&P 500 Industrials	1.64%
Nikkei 225	2.01%	-6.95%	S&P 500 Cons Staples	6.19%
MSCI EM	6.73%	6.73%	S&P 500 Utilities	7.14%

	YTD % TR USD
US Dollar Index	-8.31%
Bitcoin	3.50%
BBG Precious Metals	22.84%
BBG Energy	-11.90%

	YTD % TR USD
LQD (High Grade)	1.66%
HYG (High Yield)	1.68%
US Treasuries Index	2.75%
TSY 2 year (bps)	-43
TSY 10 year (bps)	-25
Bund 10 year (bps)	14
SOFR March 27 rate (bps)	-77

Table 1: TR of key indices, YTD

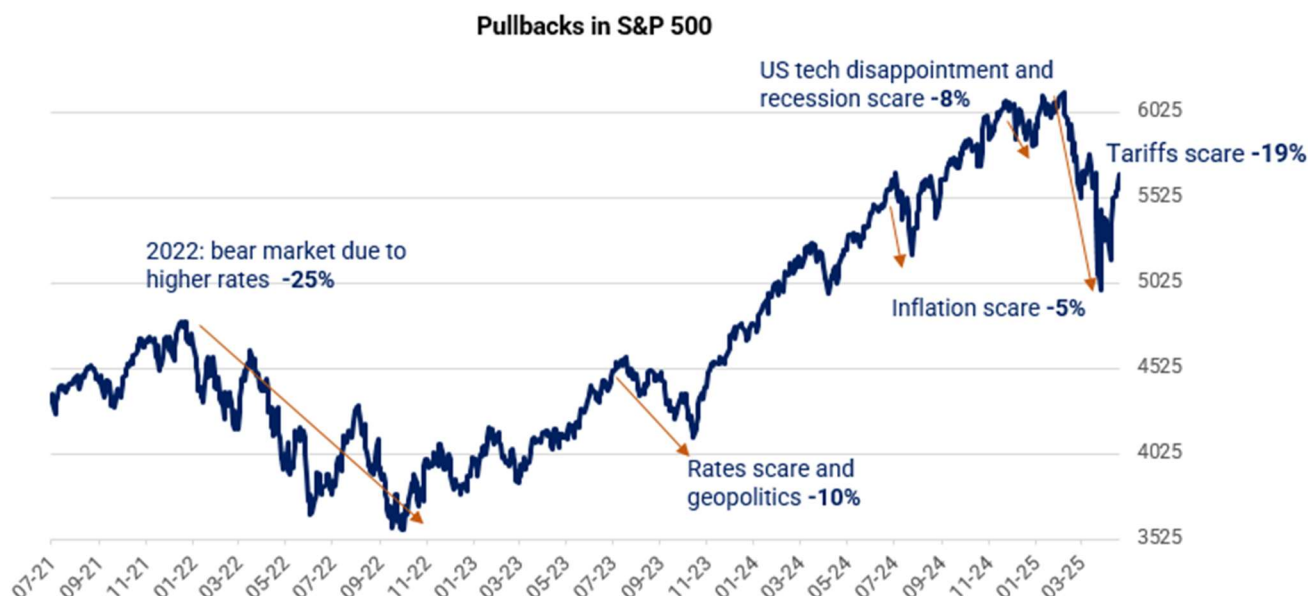


Chart 1: pullbacks in the S&P 500

The recent pullback has pushed positioning and sentiment to extreme levels from very bullish in two weeks (Chart 2, from Deutsche Bank). Speculative activity remains subdued, and while caution still dominates, this reset has allowed for a healthier positioning across the board.

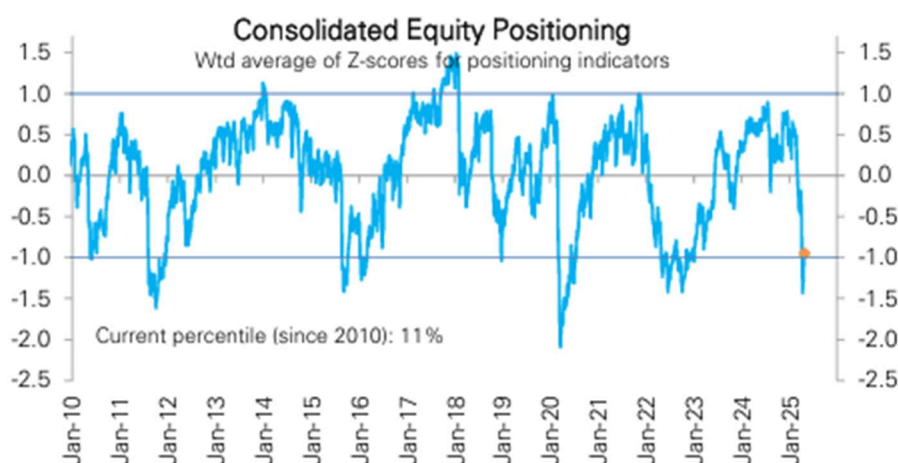


Chart 2: DB Equity positioning indicator

Earnings growth for S&P 500 companies and key sectors

Looking at the main data, namely the expected EPS YoY growth, with surprise we notice the difference between the S&P 500 index and the Mag 7. Although the correction started from Big Tech, before the tariffs, with the Deep Seek news, the reality is that current earnings season is going very well for the giants, and analysts are raising expectations for the full 2025 (Chart 3). The downgrades of the past months are being partially reversed. As we will see, market repricing is taking place on multiples. For the S&P, on the other hand (Chart 4), growth expectations have almost halved in recent months, from 14% to 7.5%, a level that is attainable

(and surmountable) if the economy gets through the current phase without further damage and the trade war calms down.



Chart 3: YoY expected growth in EPS for the Mag 7



Chart 4: YoY expected growth in EPS for the S&P 500

The current season is going very well, both in terms of year-on-year growth (11.5%) and in terms of surprising expectations. It has to be said that beating expectations became much easier as the announcement of tariffs triggered a series of downgrades. On average, quarterly estimates fall by 5% before the season starts, but this time they fell by 7.5%. However, it is too early to see the impact of tariffs on sales, prices and profits.

S&P 500 INDEX		Surprise	Growth		
Sector (BICS)	Reported	Sales Surprise		Earnings Surprise	
11) All Securities	419 / 500		0.83%		8.45%
12) > Materials	24 / 26		0.71%		5.82%
13) > Industrials	68 / 72		0.75%		6.06%
14) > Consumer Staples	26 / 38		-1.09%		3.45%
15) > Energy	21 / 25		2.23%		1.03%
16) > Technology	42 / 64		1.43%		5.15%
17) > Consumer Discretionary	37 / 51		-0.11%		11.33%
18) > Communications	18 / 25		1.25%		24.63%
19) > Financials	77 / 77		-0.51%		5.23%
20) > Health Care	51 / 60		1.56%		9.34%
21) > Utilities	26 / 31		5.06%		4.28%
22) > Real Estate	29 / 31		0.96%		-1.43%

Table 2: S&P 500 sales and earnings surprises for Q1

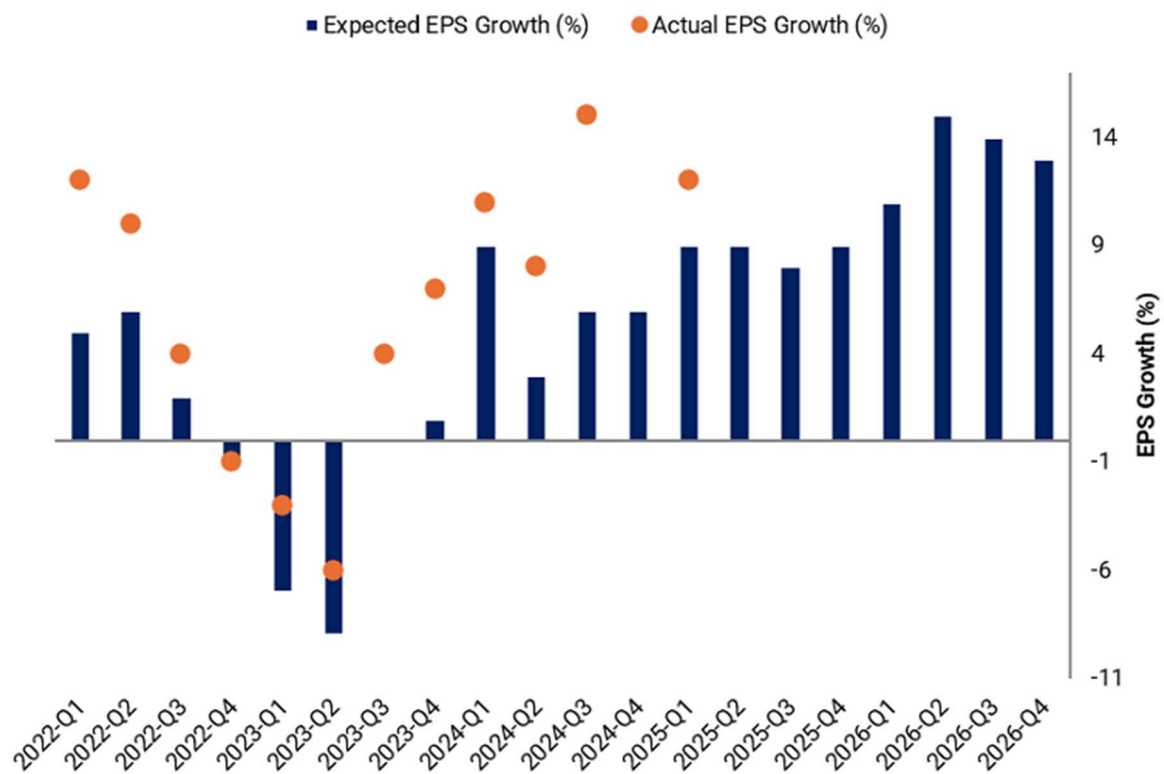


Chart 5: YoY EPS growth and surprises relative to estimates

The price reaction to the earnings release was moderate and positive for the aggregate index, but the dispersion between sectors was high, as shown in Chart 6. But the market's focus in recent weeks has been on easing on the tariff issue, so the earnings season has served to keep the favourable trend going

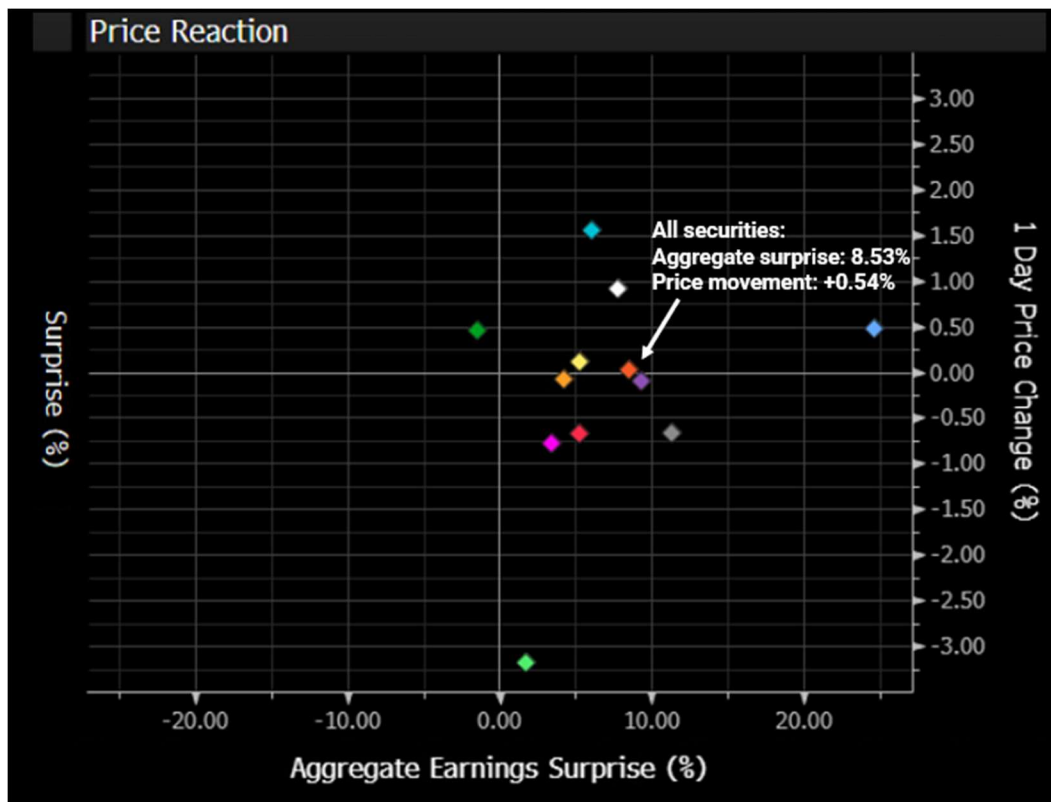


Chart 6: price reaction after EPS release

At a sector level, financials and technology are outperforming expectations in terms of earnings delivery. In contrast, energy and materials remain under pressure, both fundamentally and in terms of sentiment.

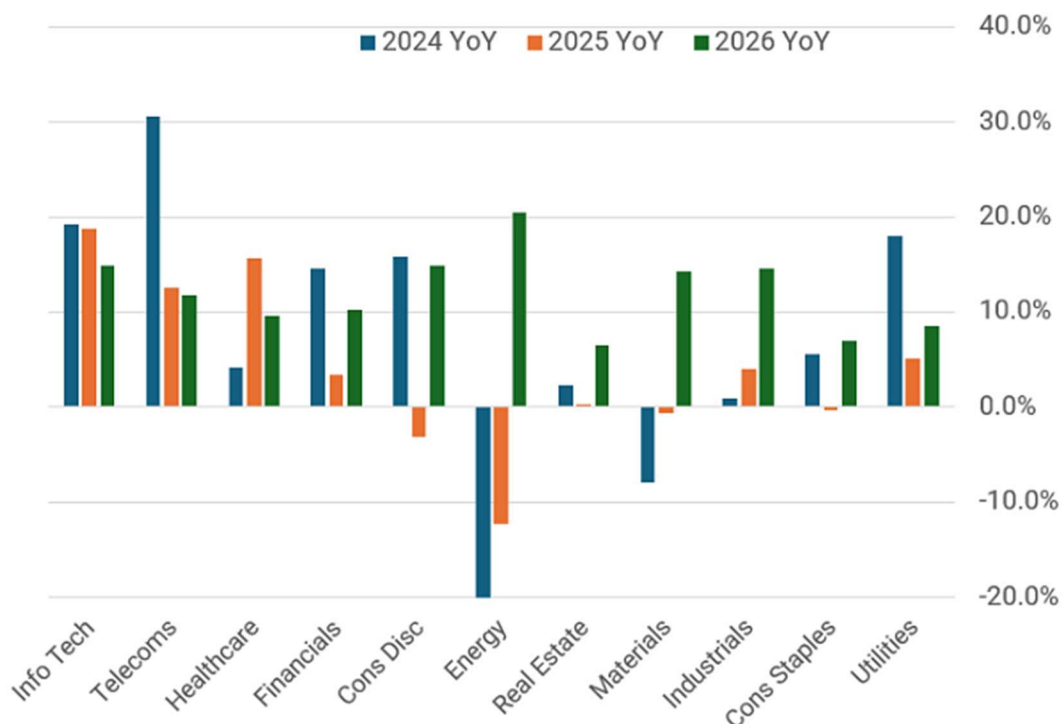


Chart 7: YoY EPS growth, sector level, last 3 years

Tech will remain a key area to watch. Despite sharp multiple contractions in the Mag 7 group, earnings expectations have not been revised downward. Should earnings hold up or improve, we believe the sector could resume its leadership.

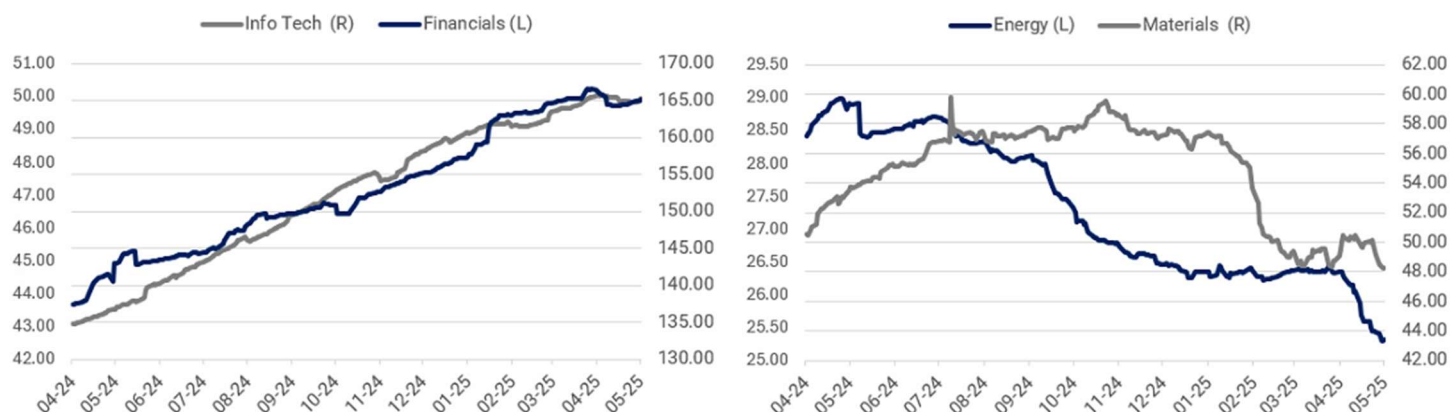


Chart 8: next 4 quarters EPS for key sectors of the S&P 500

In terms of guidance, Chart 9 from Goldman Sachs shows the limited effect from tariffs, so far. The number of companies that are not daring to improve guidance has definitely increased, shifting to a neutral stance, but it is not true (against common thinking) that companies are completely removing guidance or making it worse.

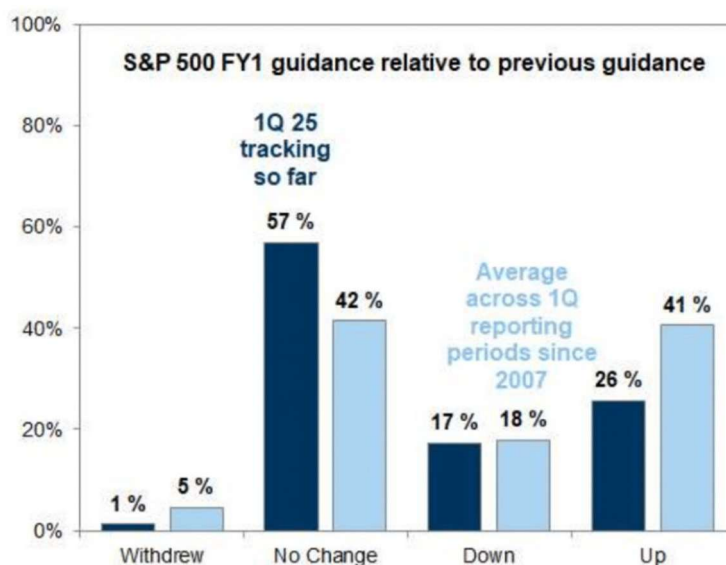


Chart 9: corporate guidance after earnings release in Q1 relative to history

Multiples and margins

Moving to P/E multiples, during the sell-off two key indices—the equal-weighted S&P 500 and the Mag 7—briefly traded below their long-term average valuations. As noted in the valuation Table (2), this likely marked an attractive re-entry point for long-term investors.

Forward P/E	S&P 500	S&P 500 Eq. We.	Mag 7 Index
LT average	17.0	16.3	28.1
Market bottom	18.3	15.3	22.4
Last	21.1	17.3	26.4

Table 3: forward P/E multiples during April's market selloff

If we break down the performance since the beginning of the year into the two price components of an index, i.e. multiple and EPS, we get an interesting result. Earnings do not seem to be under much pressure at the moment. Maybe it is just a matter of time, and analysts will have to keep lowering their estimates if a relaxation does not arrive. But for the time being the entire burden of the correction is on the shoulders of multiples, which in the US technology sector have fallen sharply. Similarly, the strong performance of markets in Europe and Asia is largely due to the expansion of multiples, with moderate improvements in earnings.

S&P 500	Last	End 2024	(% change)
Index Level	5'606.9	5'881.6	-4.7%
EA 1 yr forward	273.5	272.4	0.4%
Forward PE	20.5	21.6	-5.0%

Mag 7 Index	Last	End 2024	(% change)
Index Level	23'507.3	27'211.2	-13.6%
EA 1 yr forward	872.1	859.5	1.5%
Forward PE	25.8	30.3	-14.9%

Euro Stoxx 50	Last	End 2024	(% change)
Index Level	5'249.2	4'896.0	7.2%
EA 1 yr forward	359.4	359.7	-0.1%
Forward PE	14.6	13.6	7.6%

Japan TOPIX	Last	End 2024	(% change)
Index Level	2'696.2	2'784.9	-3.2%
EA 1 yr forward	188.6	186.0	1.4%
Forward PE	14.3	15.0	-4.5%

MSCI EM	Last	End 2024	(% change)
Index Level	1'137.4	1'075.5	5.8%
EA 1 yr forward	93.9	91.1	3.1%
Forward PE	12.1	11.8	2.6%

MSCI China	Last	End 2024	(% change)
Index Level	72.6	64.7	12.2%
EA 1 yr forward	6.6	6.5	2.1%
Forward PE	11.0	10.0	9.9%

Table 4: YTD change in prices, multiples and EPS estimates for key indices

Margins are also holding up well, which is crucial given the potential cost impact of tariff policies. This variable will be one of the most important to monitor going forward, especially as global trade policies remain in flux.



Chart 10: EPS margin over the Long Term for S&P 500 companies

We reproduce below our 'S&P 500 inc.' model, which we find particularly useful to guide our profits and market reasoning in the context of a new variable relevant to costs such as tariffs. In our model we have assumed a tariff average of 25% (very conservative therefore, as the market assumes an average around 10%, corresponding to an EPS growth of 7.5% in 2025). With an economic growth (GDP YoY) of 1% and inflation at 3.5%, (nominal growth = revenues = 4.5%), earnings perform well and multiples can, in our opinion, remain in the area of 22.5 (trailing EPS, not forward P/E). In this context, margins of 13% can be maintained. It is clear that if tariffs were to start hurting real growth instead (negative GDP for the whole year, not just a couple of quarters), revenues would be damaged and consequently EPS could even contract for the year.

2025 WITH Tariffs			
	2024	2025	2026
SALES	1'882	1'967	2'065
(yoy change)		4.5%	5.0%
COGS	1'244	1'309	1'362
(yoy change)		5.3%	4.0%
GROSS MARGIN % *	33.9%	33.4%	34.1%
OPERATING COSTS	238	245	252
(yoy change)		3.0%	3.0%
EBITDA*	400	412	451
INTERESTS COSTS	27	28	29
TAXES	80	82	90
DEPRECIATION	47	49	51
EPS*	245	253	281
(yoy change)	9.9%	3.3%	11.1%
EPS MARGINS	13.0%	12.9%	13.6%
S&P 500 level*	5'880	5'695	6'327
(yoy change)		-3.1%	11.1%

* Assuming 22.5 PE

Table 5: our "S&P 500 inc." model

Key Risks

The key risk to our view is illustrated in the final chart. If forward earnings for 2025 begin to disappoint meaningfully, we could see forward multiples fall below 18x on the S&P 500 (their low in mid-April)—potentially pushing the index toward the 4,500 area. This would represent a more structural derating rather than a cyclical correction.

In summary, we believe the recent market moves offer opportunity rather than signal sustained weakness. However, close monitoring of earnings trends and policy developments—particularly around trade and tariffs—will be critical to maintaining this constructive stance.



Chart 11: S&P 500 and key forward P/E levels

Novum Trades History

