Special Report

# US Capital Markets Newsletter – 2Q25

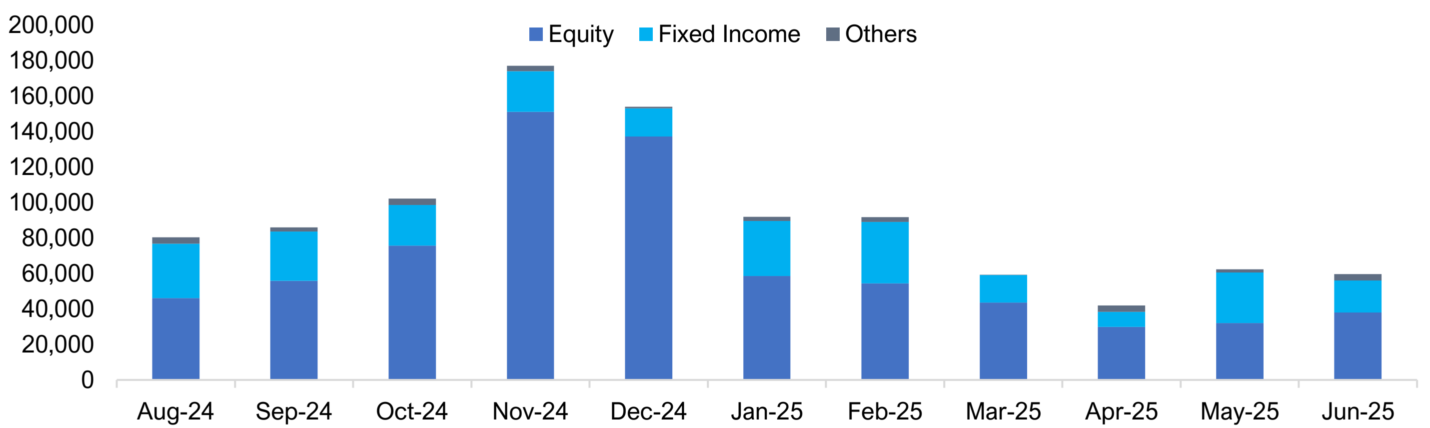
July 2025

# Contents

# US Equity Market Analysis

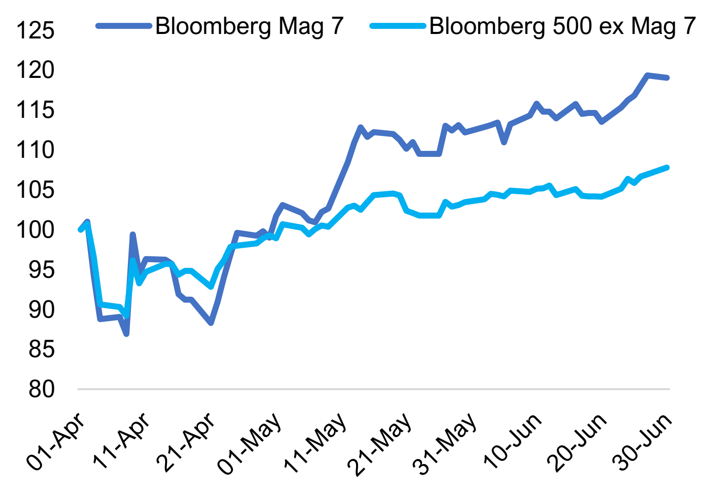
## Investor shift toward broader large Caps as MAG 7 gains driven by PE expansion

### US Fund Flows (USD mn)

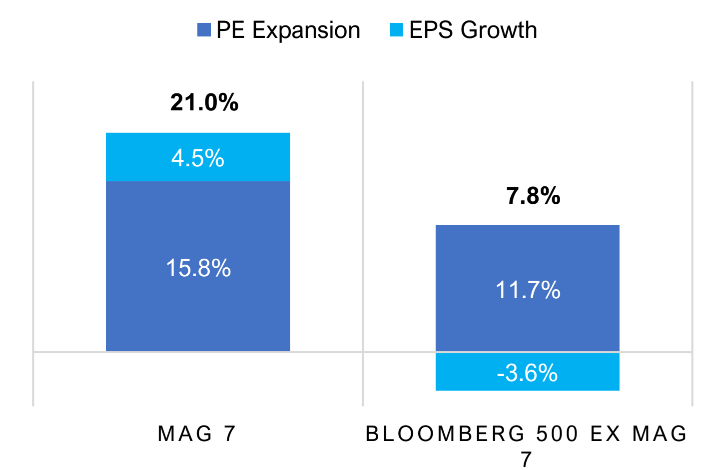



- In 2Q25, fund flows into the US capital markets further moderated with a 33% q/q decline. Uncertainty around policy and tariffs kept the pressure on equity fund flows (-37% q/q). Fixed-income net flows remained consistent at 33% of total fund flows in 2Q25, in line with the previous quarter.

### Mag 7 vs. Rest of US Large Cap




### Total Return Breakup Analysis



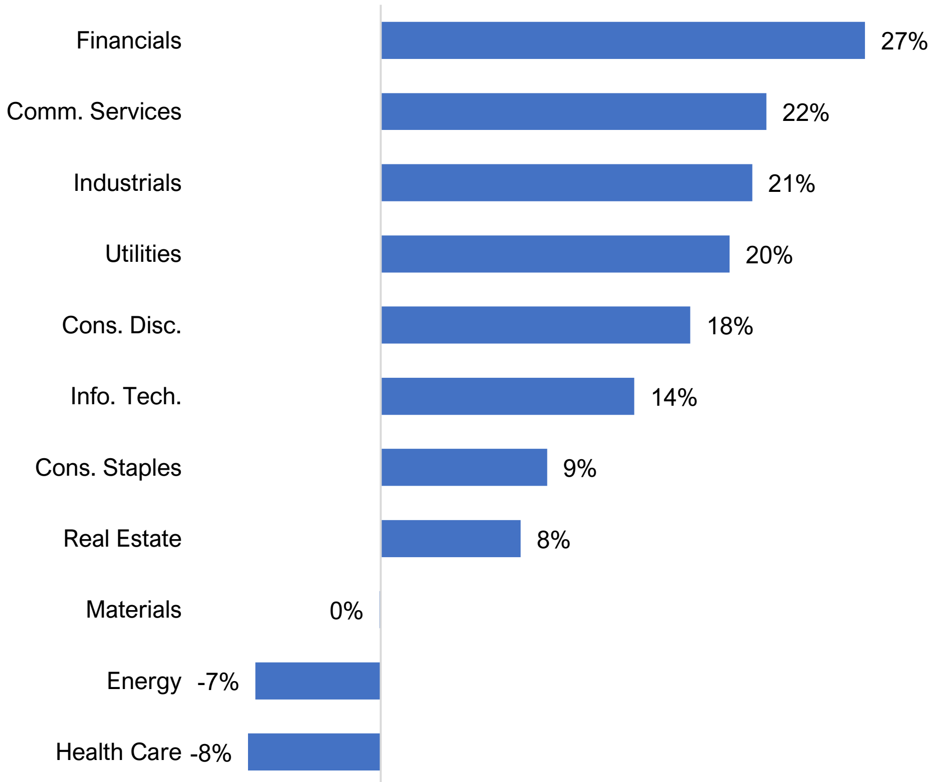

- Mag 7 stocks outperformed remaining US large-cap equities, supported by strong PE expansion and positive EPS growth. In contrast, broader large caps posted muted gains with negative EPS growth. Mag 7 stocks continued to get a premium, reflecting investors regaining confidence in quality large caps.

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

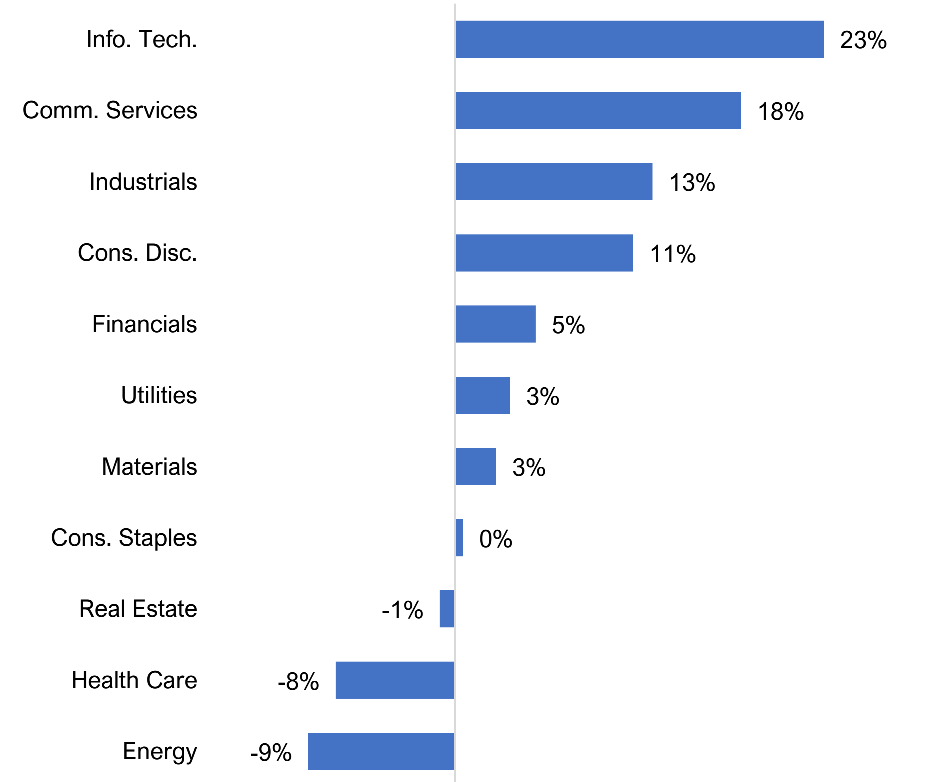
# US Equity Market Analysis

## US stocks extended wide sectoral dispersions. Tech gained, while cyclical sectors lagged.

**US 1-Year (LTM) Sectoral Returns**




**US 2Q25 Sectoral Returns**




The information technology and communications services sectors delivered the highest returns in 2Q25, underpinned by resilient AI spending and earnings momentum. However, the energy sector lagged due to weak oil and natural gas prices.

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

# US Equity Market Analysis

## Dual Momentum Indicator positive on utilities and healthcare

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

**Our 3-Month "Dual Momentum" analysis of S&P 500 companies gave interesting insights:**

- **Earnings vs. Price Divergence:** In 2Q25, median earnings revisions across S&P 500 constituents turned negative, while median price momentum was positive, indicating price performance is primarily driven by liquidity and multiple expansion rather than fundamental earnings growth.

- **Top-Quartile Companies:** Among the top 25% ranked by dual momentum, median price momentum was 18.8%, while median earnings momentum was only 2.2%.

- **Sectors Performance:** Utilities, healthcare, and materials show favorable earnings momentum but lag in price momentum, offering potential catch-up trade opportunities. Consumer discretionary posted the weakest earnings momentum but high price momentum, implying stretched valuations amid deteriorating fundamentals. The sector is trading below its 10Y average P/E.

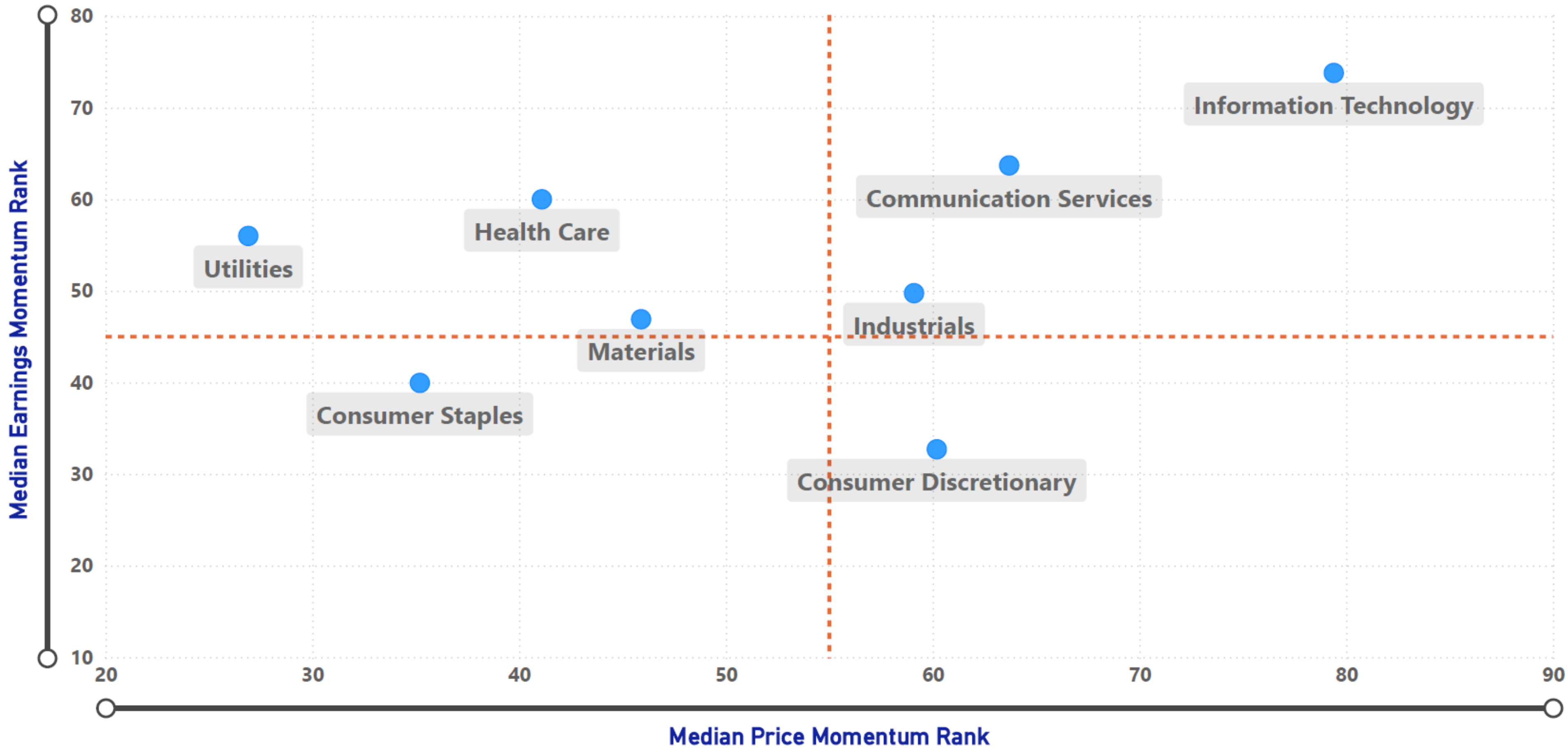
- **Stock-Level Opportunities:** Screening for high earnings momentum, low relative valuation, and high potential upside vs. consensus TP highlights EPAM Systems (EPAM) and CVS Health (CVS) as well-positioned for price re-rating.

***Source:*** *Aranca Research*

# US Equity Market Analysis

## Utilities positioned for potential price catch-up, with supportive earnings momentum

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



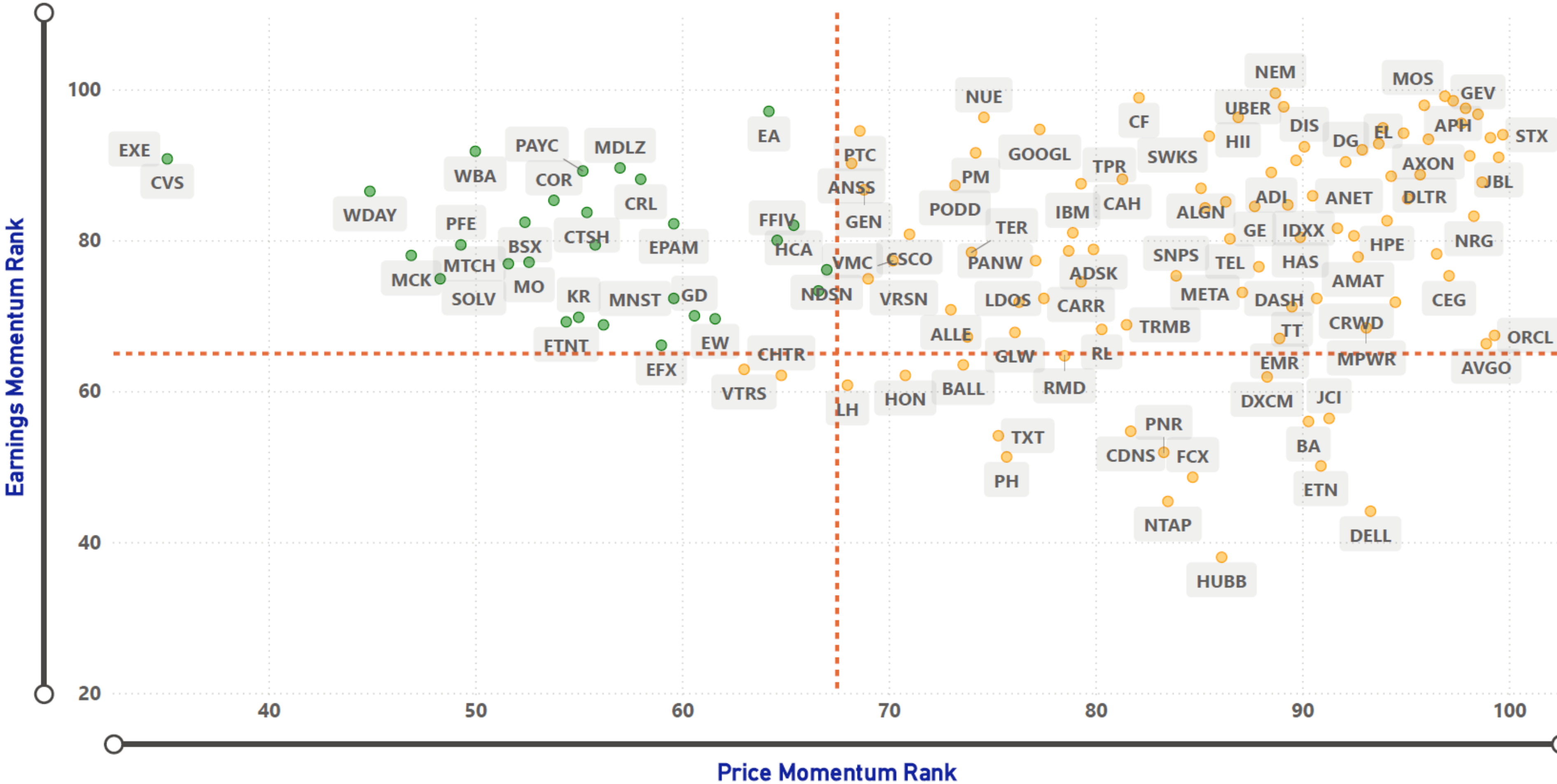

***Notes:*** *Earnings Momentum is median of 3-months change in the consensus EPS estimate of companies in each sector. Price Momentum is median of 3-months change in price return of companies in each sector. ** Excluding Financials and Real Estate*

***Source: Aranca Research***

# US Equity Market Analysis

## Expand Energy (EXE) and CVS Health (CVS) witnessed a considerable earnings revision

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



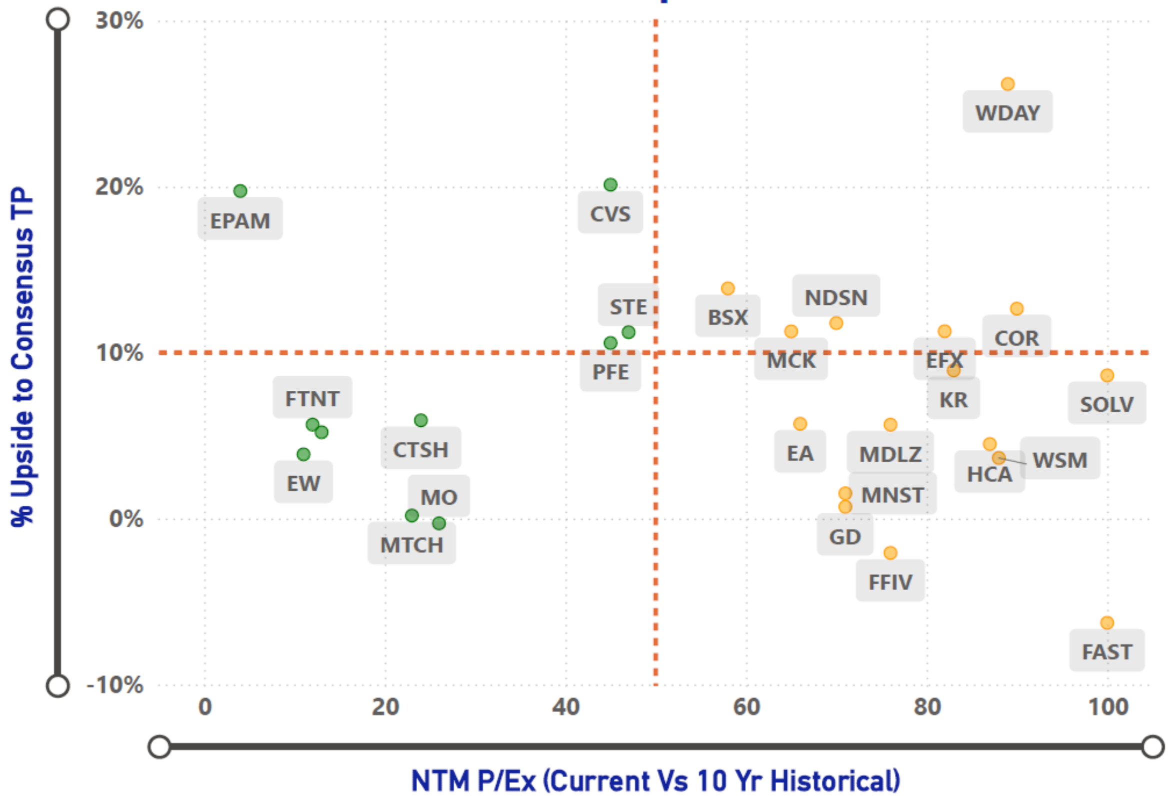

**Notes:** *Earnings Momentum is 3-months change in the consensus EPS estimate. Price Momentum is 3-months change in price returns. ** Excluding Financials and Real Estate*

***Source: Aranca Research***

# US Equity Market Analysis

## EPAM and CVS 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 |
|---|---|---|---|
| WDAY | Workday Inc. | 26% | 26.60 |
| CVS | CVS Health Corporation | 20% | 10.90 |
| EPAM | EPAM Systems Inc. | 20% | 16.00 |
| EXE | Expand Energy Corporation | 17% | 11.30 |
| BSX | Boston Scientific Corporation | 14% | 35.10 |
| COR | Cencora Inc. | 13% | 17.60 |
| NDSN | Nordson Corporation | 12% | 21.10 |
| EFX | Equifax Inc. | 11% | 32.90 |
| MCK | McKesson Corporation | 11% | 18.90 |
| STE | STERIS plc | 11% | 23.70 |
| PFE | Pfizer Inc. | 11% | 9.00 |

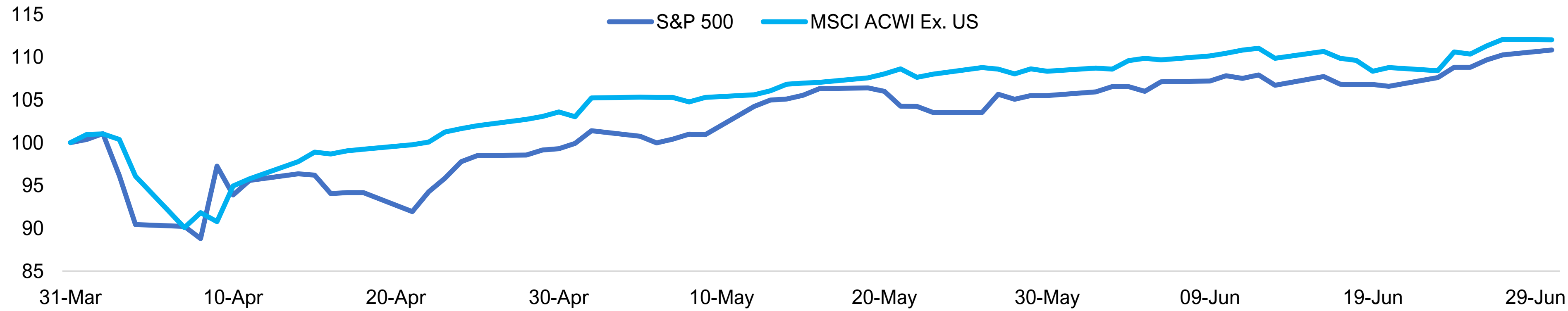
***Notes: X Axis NTM P/Ex Rank (Current Vs 10 Yr Historical)*** *– Ranking of individual Stock NTM P/Ex Vs. its 10 year historical average. For e.g. a rank of 90th percentile Vs 10 year history indicate that in last 10 years only 10% of the times the stock has traded above the current NTM PEx. This also 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

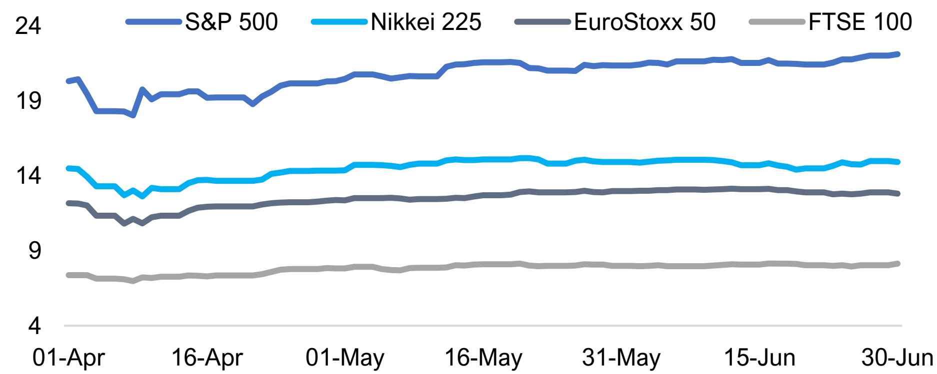
## US equity valuations stayed elevated but returns concentrated to a few big players

### US vs. Non-US Equity Performance



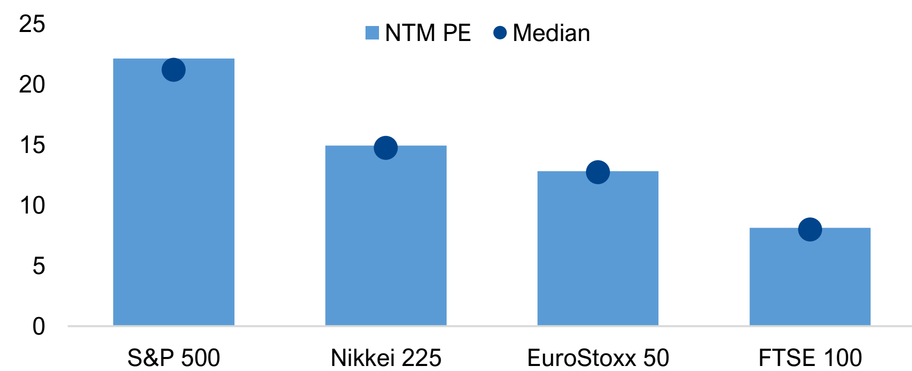

US stocks marginally underperformed the non-US equities in 2Q25 as gains in leading technology and communication firms were offset by sluggishness in cyclical sectors, ongoing trade tension and high valuations.

### NTM PE of Key Geographies




US equity valuations moved higher in 2Q25, staying ahead of other developed markets as big technology gains lifted the overall market.

### NTM PE Comparison with Median



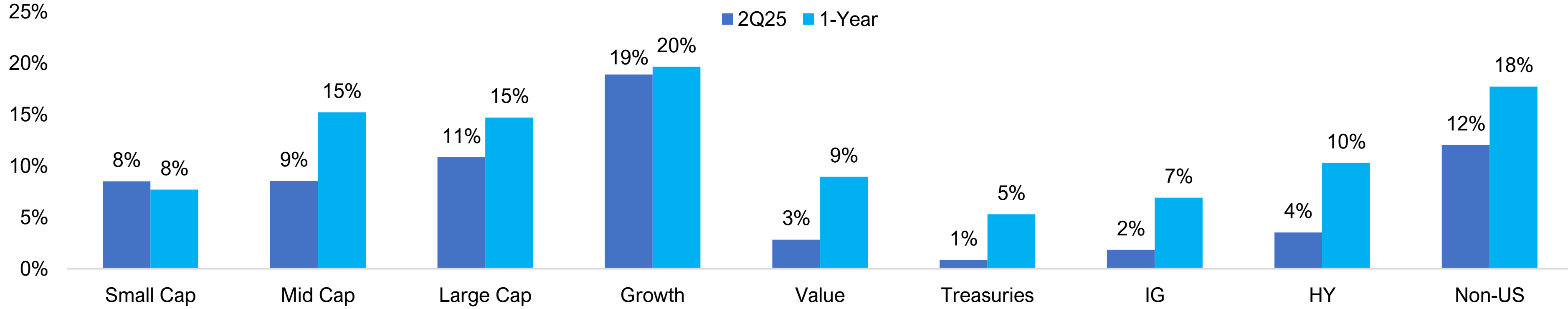

US stock valuations moved up in 2Q25 and stayed the highest among major developed markets, also rising above their quarterly median.

***Source:*** *Bloomberg. Median: 2Q25 Year Median*

# Asset Class Performance

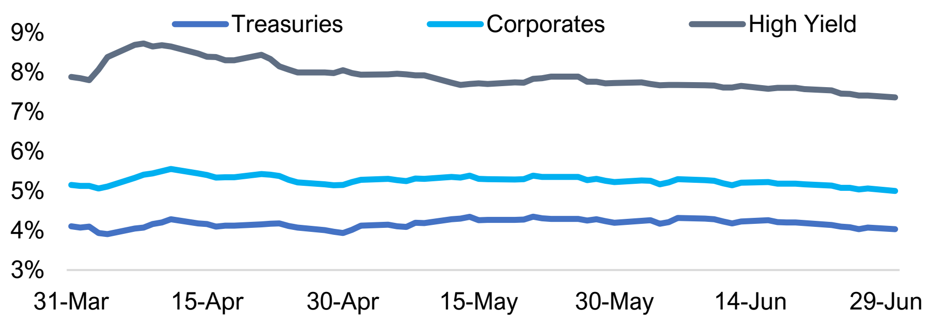
## Growth stocks lead equities; Non-US equities outperform

### Asset Class Performance – 2Q25 and 1-Year (LTM)



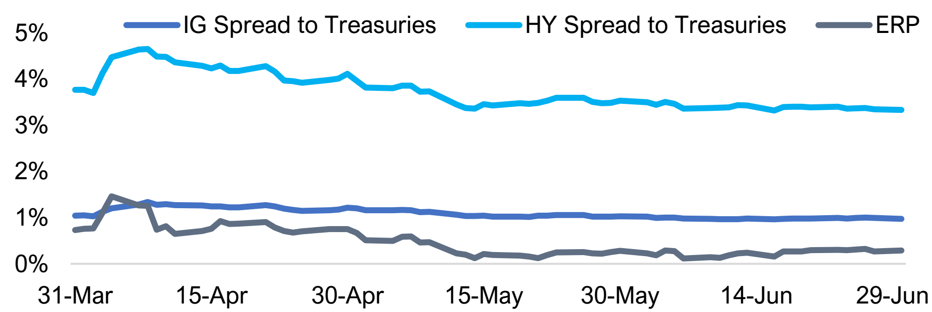

Equities outperformed fixed-income assets in 2Q25, driven by strong returns in growth stocks and large caps. US equities marginally underperformed non-US equities during the quarter, due to reduced investor interest considering US tariff and fiscal-policy uncertainty.

### Yield Analysis




Yield on HY bonds declined on improving sentiment and renewed confidence in lower-rated issuers. Treasury and IG yields also fell marginally. Investors appeared more willing to add risk due to the improved overall sentiment in the capital market.

### Spread Analysis



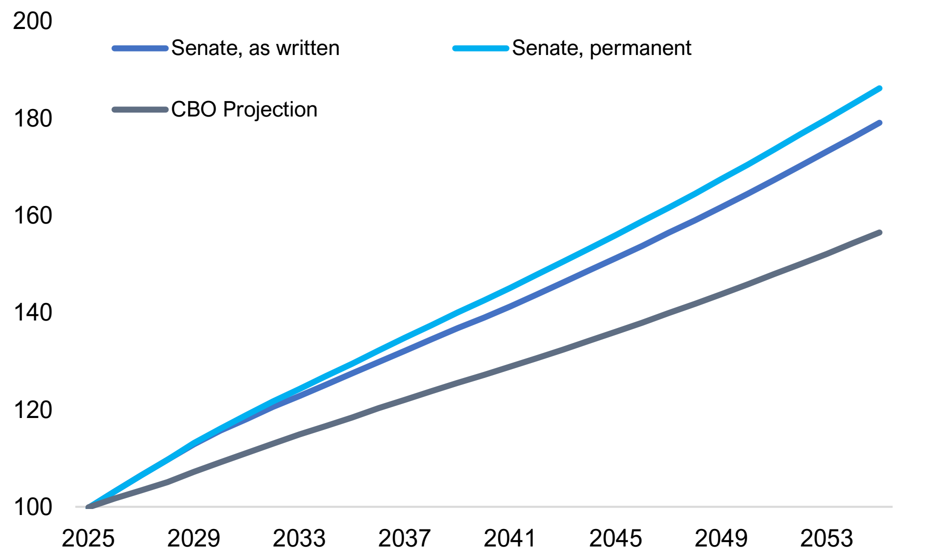

IG spreads narrowed by 7 bps and HY spreads tightened by 43 bps, signaling improved sentiment and stable macro factors. ERP remained broadly flat despite some initial volatility, indicating investors' steady appetite for risk and confidence in the stable fundamentals.

***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.*

# The OBBBA effect

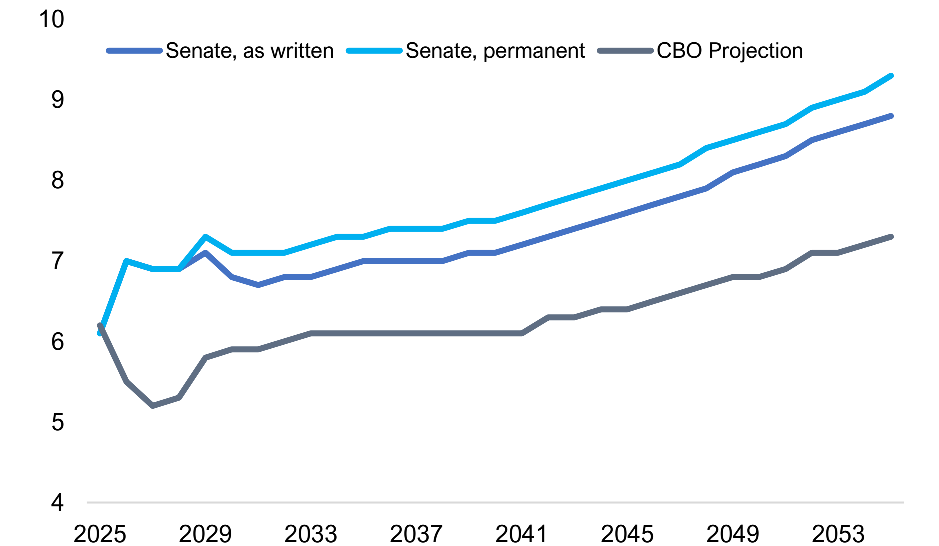
## The One Big Beautiful Bill Act could reduce growth and significantly increase debt

**Debt to GDP (%) Across Fiscal Scenarios**




Macroeconomic impacts of the OBBBA are substantial and expected to increase over time, according to the Congressional Budget Office (CBO). As per the Budget Lab at Yale, debt-to-GDP ratio could hit c.186% by 2055. The only countries with high debt-to-GDP ratio are Japan and Sudan.

**Total Deficit to GDP (%) Across Fiscal Scenarios**




The total deficit could remain persistently over 5% of the GDP in all scenarios, staying above the historical range and will widen over time. Without any major fiscal adjustments, borrowing is expected to remain elevated.

**Impact of OBBBA on US Economy in long run**

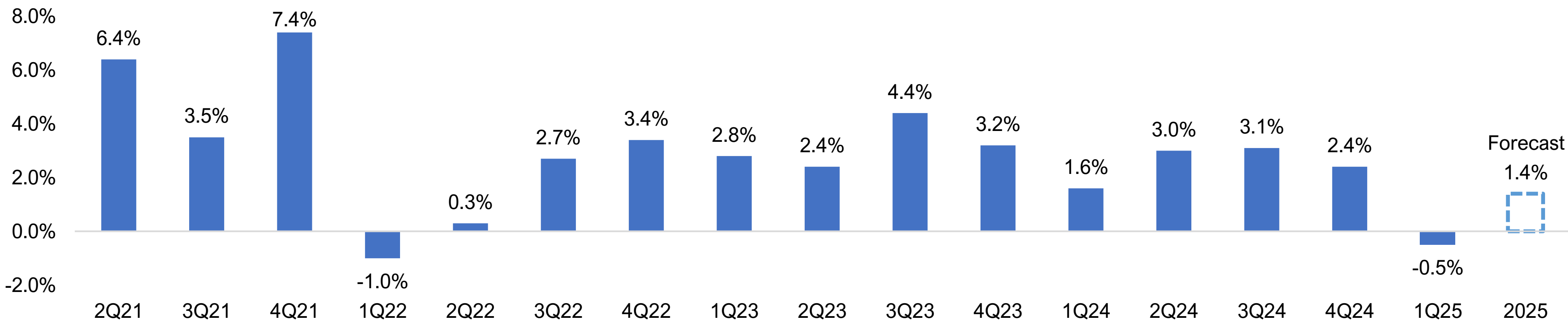
- Overall, the OBBBA would boost the economy modestly in the short run as tax cuts stimulate the economy, partially offsetting the revenue cost. However, the bill would worsen the nation's already daunting long-term budgetary imbalance and eventually reduce output and incomes.
- Higher debt and higher interest rates could increase debt service costs and more than offset the gains from economic growth.
- Considering all the criticism and concerns regarding the mounting debt, the long-term effects of the OBBBA are uncertain with potential benefits and drawbacks over the course of the coming year.

***Source:*** *The Budget Lab at Yale*

# US Macroeconomic Performance

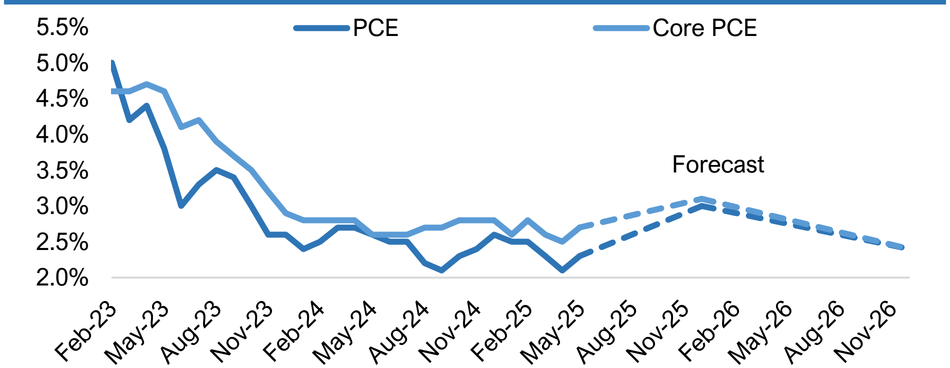
## US economy outlook stays firm for 2025 despite initial headwinds

**US Real GDP Growth**



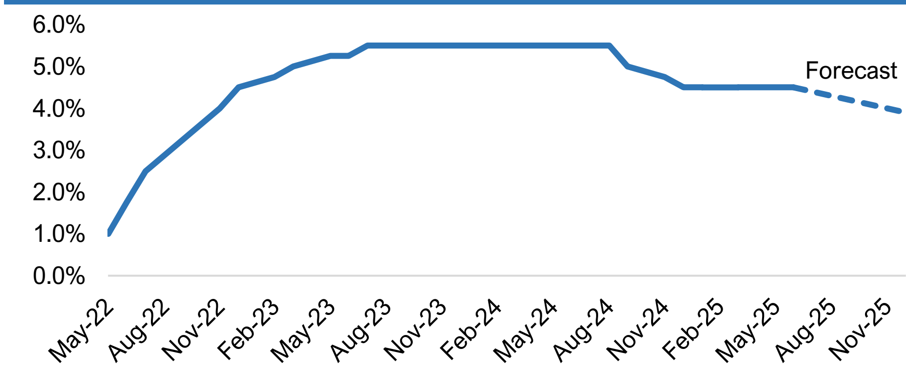

US GDP contracted by 0.5% in the first quarter of 2025, driven by a significant increase in imports as businesses and consumers accelerated purchase of imported goods by stockpiling ahead of prospective tariff hikes. However, growth may be higher in Q2 as imports normalize.

**US Inflation**




Inflation in the US remained range bound in 2Q25 but hovered above the Fed's 2% target. Easing supply chain constraints, stable monetary policy, and cooling domestic demand kept inflation in check.

**Fed Policy Rate (Upper Bound)**



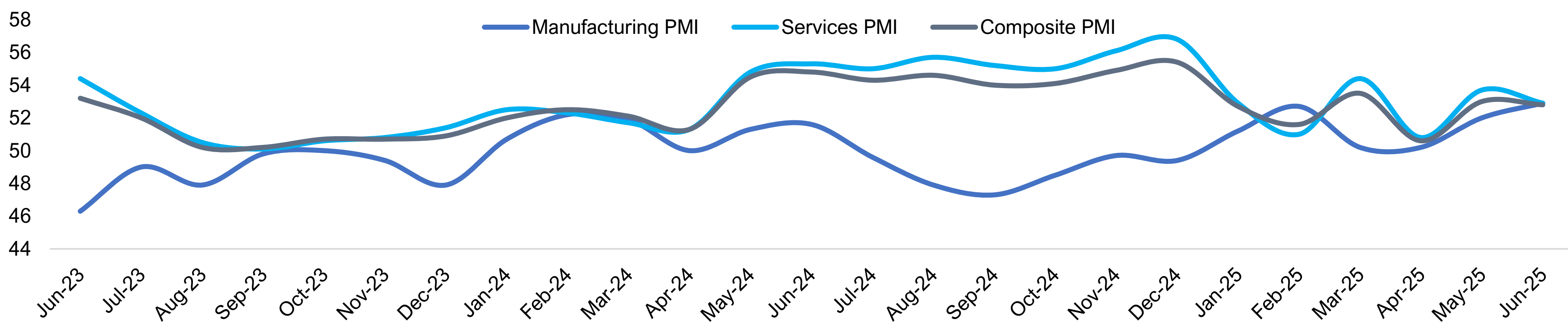

US Fed kept policy rate unchanged in 2Q25 like the previous quarter. However, FOMC estimate suggests two rate cuts totaling about 50 bps in 2025, bringing the federal funds rate to 3.75–4.00% by December.

***Source:*** *Bloomberg, FOMC June 2025 Projections, LSEG Workspace*

# US Macroeconomic Performance

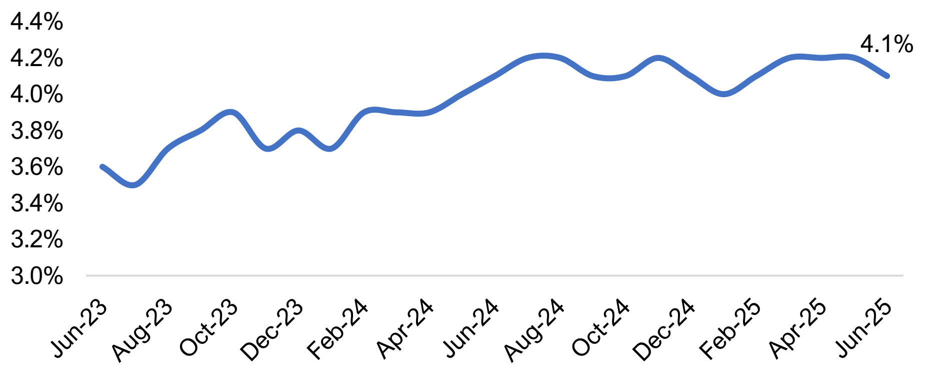
## US PMI improved led by manufacturing; jobs market remains strong

### US PMI




PMI trend in 2Q shows services are resilient, keeping overall activity in mild expansion. Manufacturing PMI rose on improvement in new orders and growth in exports. Input costs and output charges also increased.

### US Unemployment




US jobs market stood resilient in Q2 2025 with unemployment rate dropping to 4.1%, although factory jobs softened and services hiring remained steady.

### US Non-Farm Payrolls (in '000s)

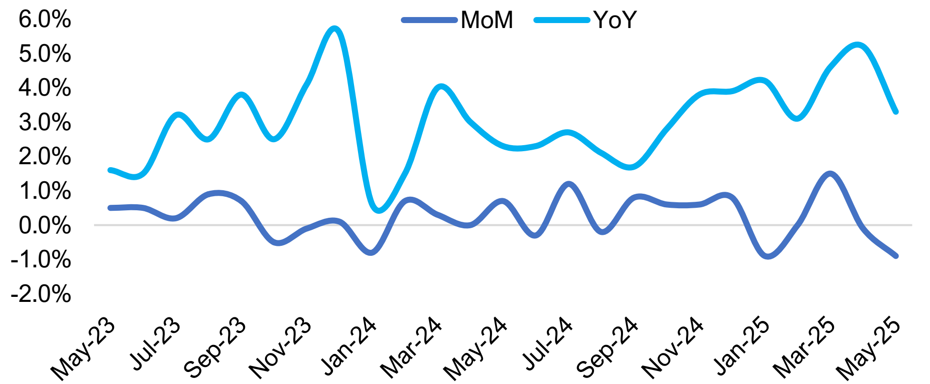

In 2Q25, hiring improved relative to 1Q25 levels but stood close to the 12-month trend of 146,000. The continued pace of hiring indicates a resilient jobs market, despite tariff threats and policy uncertainty.

***Source:*** *Bloomberg, LSEG Workspace*

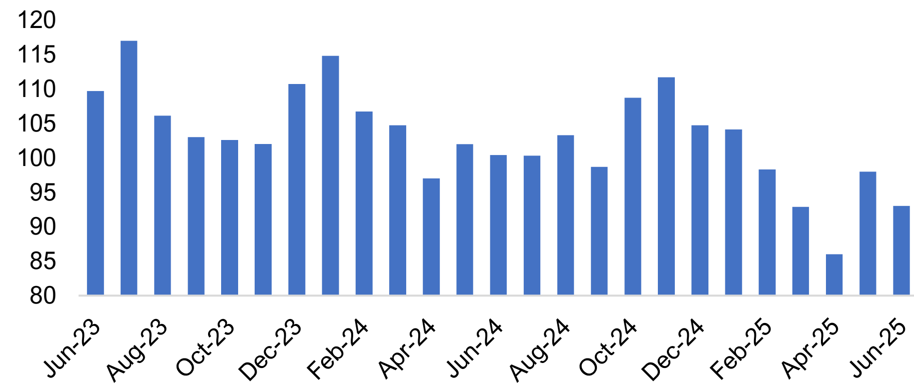
# US Macroeconomic Performance

## US consumer confidence weakened; housing market witnessed price gains and cooled down

### US Retail Sales Growth

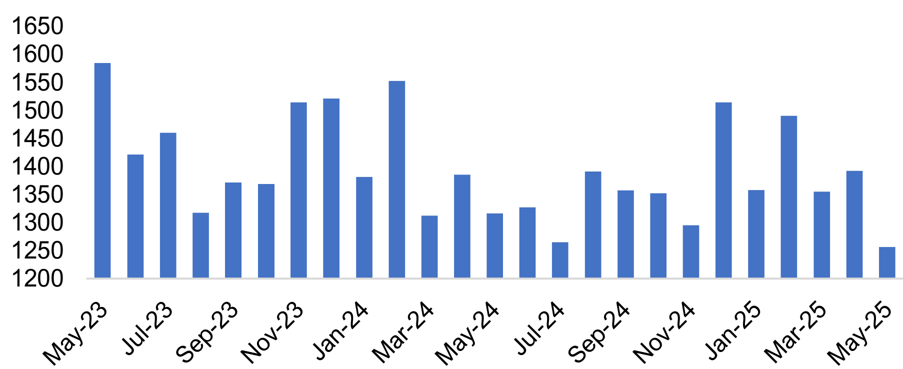



### US Conference Board Consumer Confidence



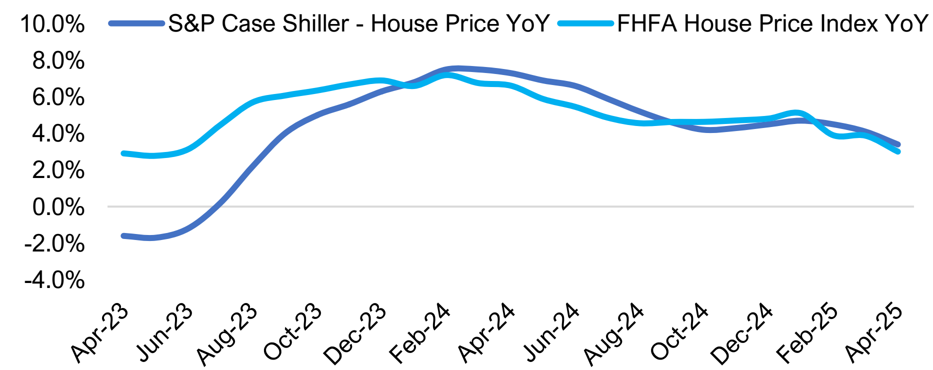

Retail sales and consumer confidence weakened in 2Q25, reflecting consumer caution and extended tariff concerns. Retail sales were supported by necessary items but point to a cautious spending trend.

### US Housing Starts (in '000s)




US housing market has been fluctuating throughout, with no big surge. This indicates new residential construction activity has held up but remains sensitive to rates and costs.

### US House Prices YoY Change




House prices remained stable in 2Q25, driven by moderated demand, land continued stable mortgage rate .

***Source:** Bloomberg, LSEG Workspace*

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**80+**
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