

Special Report

US Capital Markets Newsletter – 3Q25

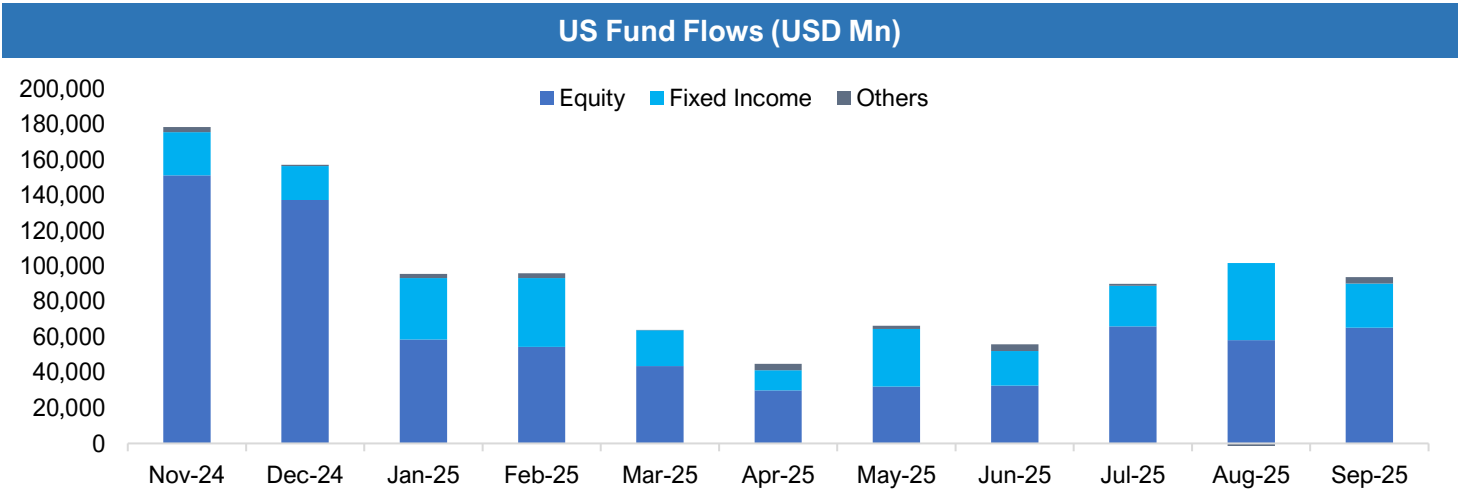


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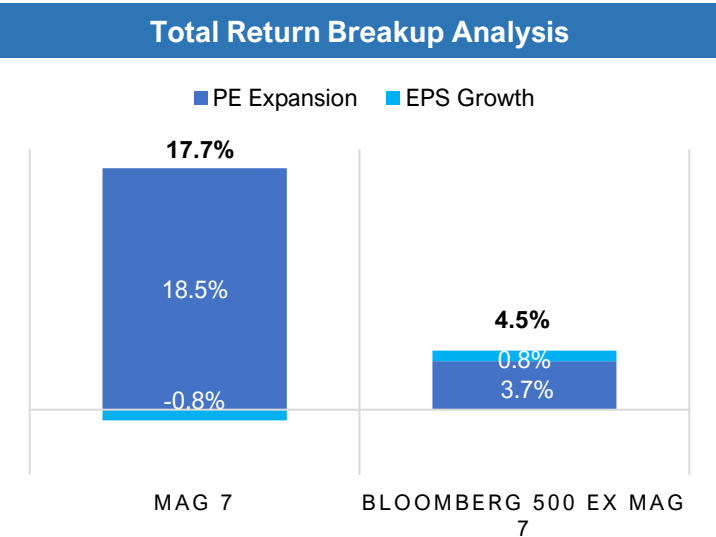
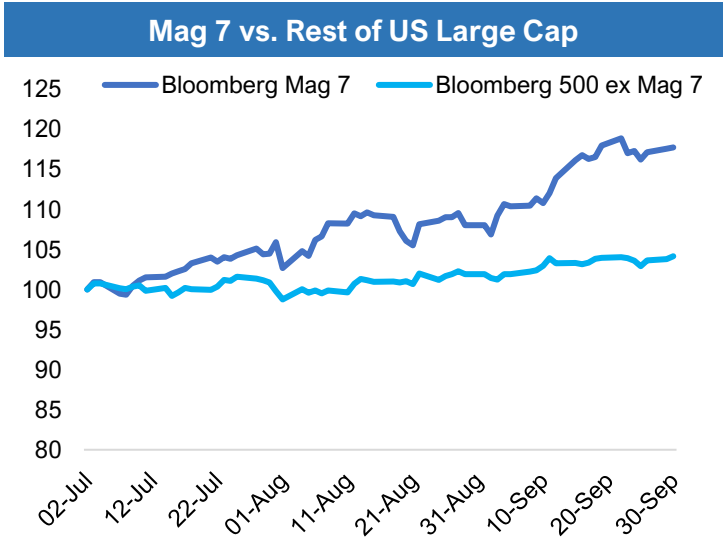
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US Equity Market Analysis

Investor shift toward broader large caps as MAG 7 rose on valuations despite earnings degrowth



- In 3Q25, fund flows into the US capital markets rebounded strongly, rising 69% q/q to \$270 Bn after two quarters of moderation. Equity inflows nearly doubled amid improving sentiments and policy clarity, while fixed-income funds attracted steady demand, contributing 34% of total flows.

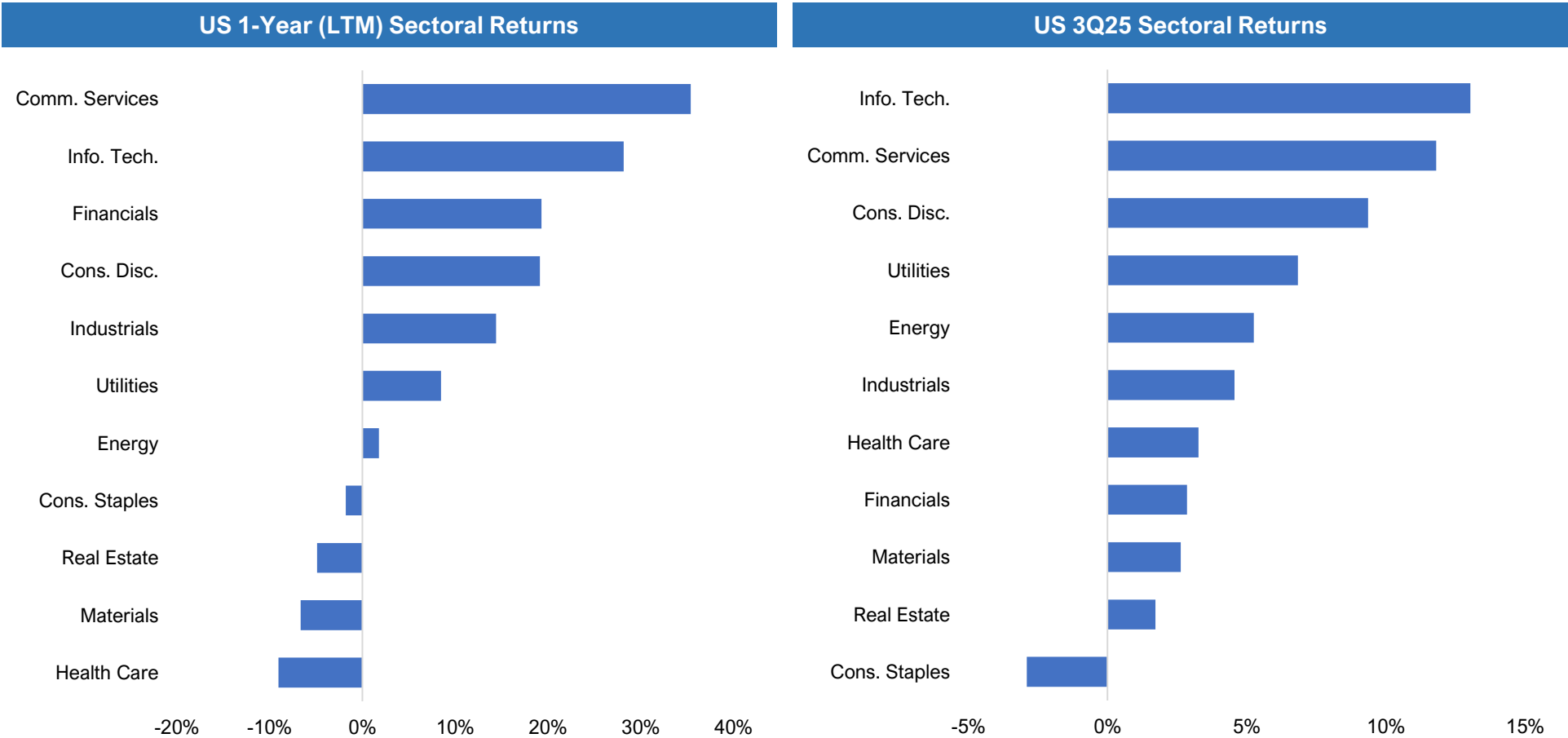


- Mag 7 stocks outperformed remaining US large-cap equities, supported by strong valuation expansion despite a marginal EPS decline of 8 basis points (bps). In contrast, broader large caps recorded moderate gains with a positive EPS growth of 8 bps. Mag 7 stocks continued to get a premium, reflecting investors' continued 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 equities diverged, with tech strength offset by cyclical weakness



Information Technology and Communication Services (Comm. Services) outperformed in 3Q25, supported by sustained artificial intelligence (AI)-related spending and P/E expansion, while Consumer Staples (Cons. Staples) declined as rising costs and softer consumer demand compressed margins.

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:

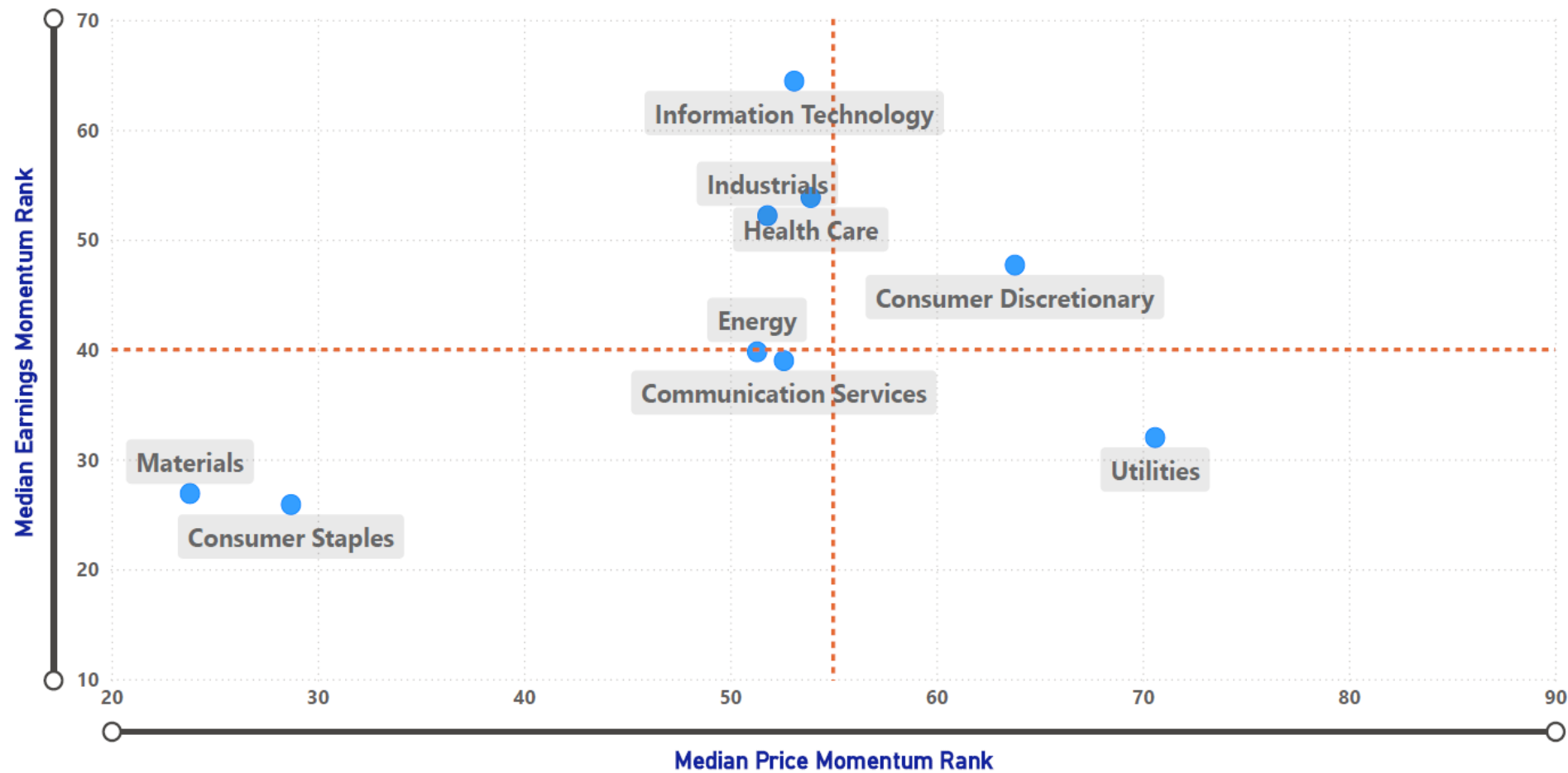
- **Earnings vs. Price Divergence:** In 3Q25, median earnings revisions across S&P 500 constituents turned marginally positive, while price momentum (PM) remained robust, consistent with trends in previous quarters. This divergence indicates that the price performance is primarily driven by liquidity and multiple expansion rather than by broad-based fundamental earnings upgrades.
- **Top-Quartile Companies:** Among the top 25% ranked by dual momentum, median PM was 14.0%, while median earnings momentum (EM) was only 4.6%.
- **High-Momentum Sectors:** The Comm. Services sector, identified as one of the highest EM sectors in our Q1 momentum analysis, was among the top-performing sectors in Q3.
- **Sectors Performance:** Among the top quartile S&P 500 companies ranked by Dual Momentum, median PM is 14.0% vs 4.6% median EM. Although this difference has narrowed compared to the previous quarter (PM 18.8% vs. 2.2% EM), PM remains the dominant factor for S&P 500 performance.
- **Stock-Level Opportunities:** Screening for high EM, low relative valuation, and high potential upside vs. consensus TP highlights Monolithic Power Systems (MPWR) and Wynn Resorts (WYNN) are positively positioned to record PM going forward.

Source: Aranca Research

US Equity Market Analysis

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

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



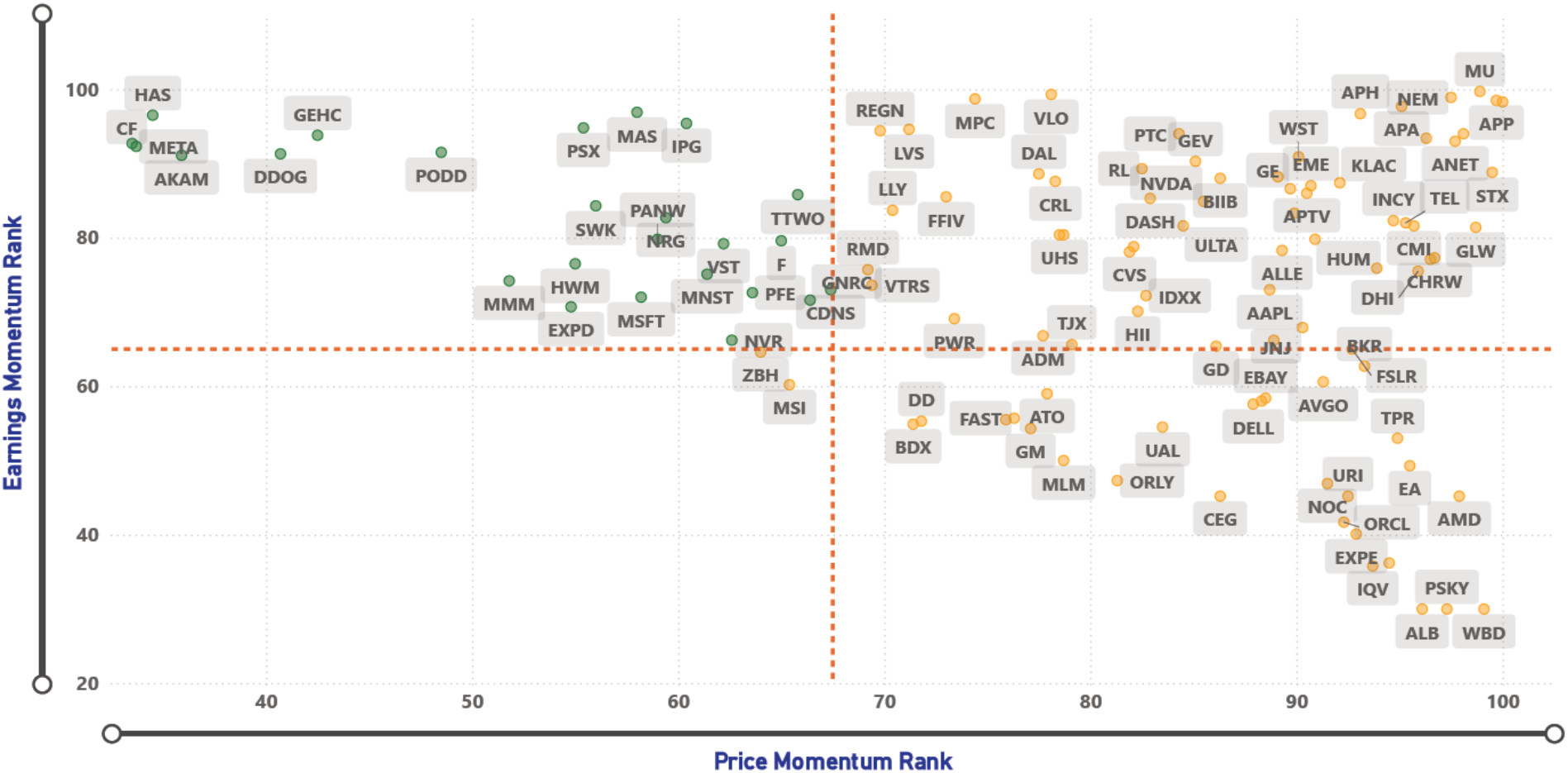
Notes: Earnings Momentum is median of 3-months change in the consensus EPS estimate of companies in each sector. Price Momentum is median of 3-months change in price return of companies in each sector. ** Excluding Financials and Real Estate

Source: Aranca Research

US Equity Market Analysis

Hasbro Inc. (HAS) and GE HealthCare (GEHC) witnessed a significant earnings revision

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



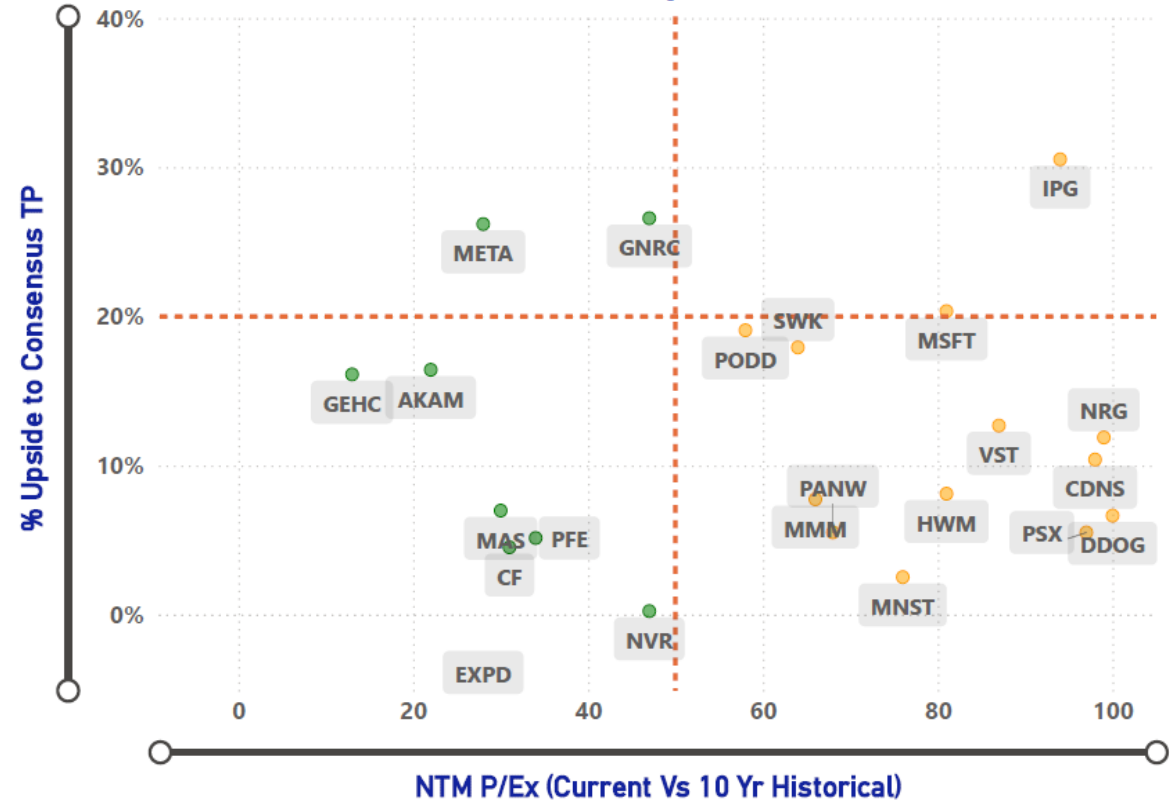
Notes: Earnings Momentum is 3-months change in the consensus EPS estimate. Price Momentum is 3-months change in price returns. ** Excluding Financials and Real Estate

Source: Aranca Research

US Equity Market Analysis

META and GNRG 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

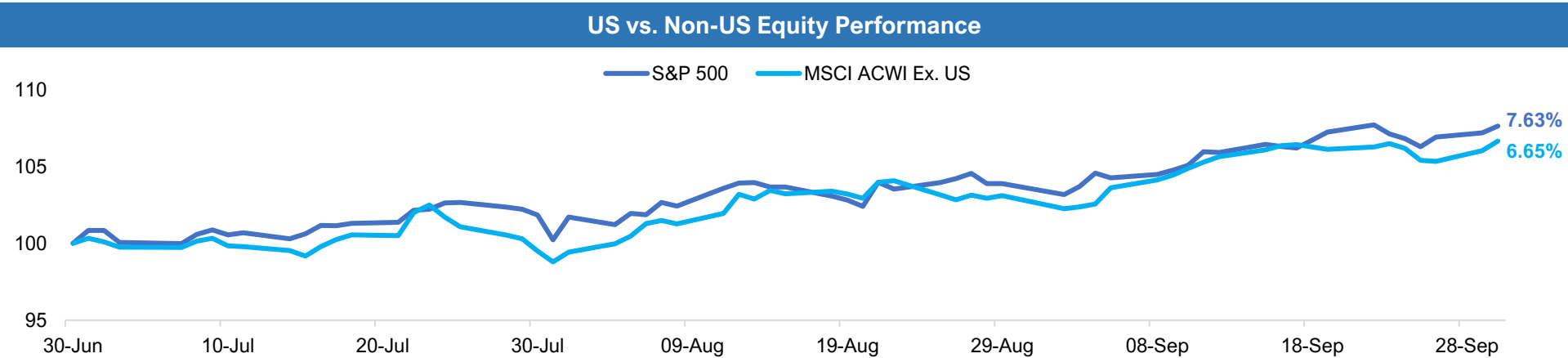
Ticker	First Sector	% Ups. to Cons. TP	1Yr Fwd PEx
IPG	Communication Services	31%	9.10
GNRG	Industrials	27%	19.90
META	Communication Services	26%	24.40
MSFT	Information Technology	20%	33.70
PODD	Health Care	19%	61.50
HAS	Consumer Discretionary	19%	15.40
SWK	Industrials	18%	14.80
AKAM	Information Technology	16%	11.60
GEHC	Health Care	16%	16.50
VST	Utilities	13%	25.00
NRG	Utilities	12%	21.30
CDNS	Information Technology	10%	47.80

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 P/Ex. 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

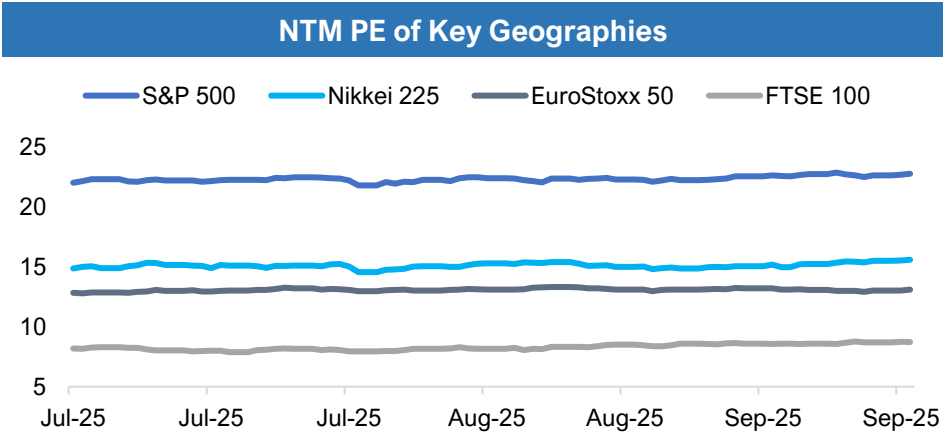
Source: Aranca Research

US vs. Non-US Equities

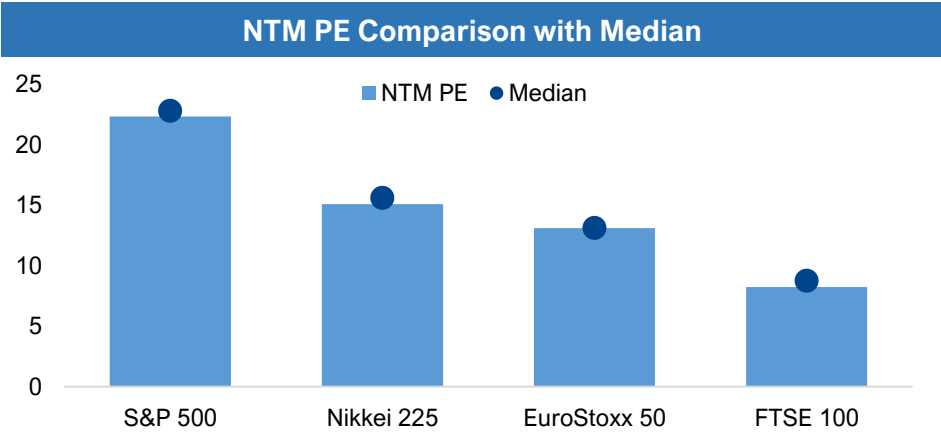
US equities sustain incremental lead against global counterparts



US equities outperformed non-US markets in 3Q25, driven by strength in technology and communication services, while cyclical sectors and energy lagged amid weaker commodity prices and elevated valuations. Non-US equities outperformed in Q1 and Q2, but the trend reversed in Q3.



US equity valuations moved higher in 3Q25, staying ahead of other developed markets as big tech and comm gains lifted the overall market.

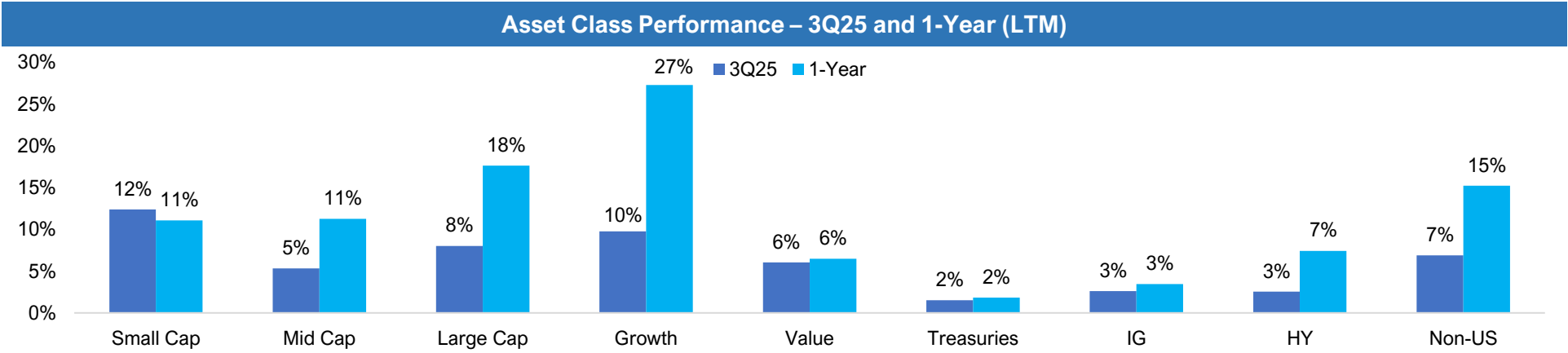


US stock valuations moved up in 3Q25 and stayed the highest among major developed markets, with S&P 500 slightly below its quarterly median. A similar trend was observed across other developed markets

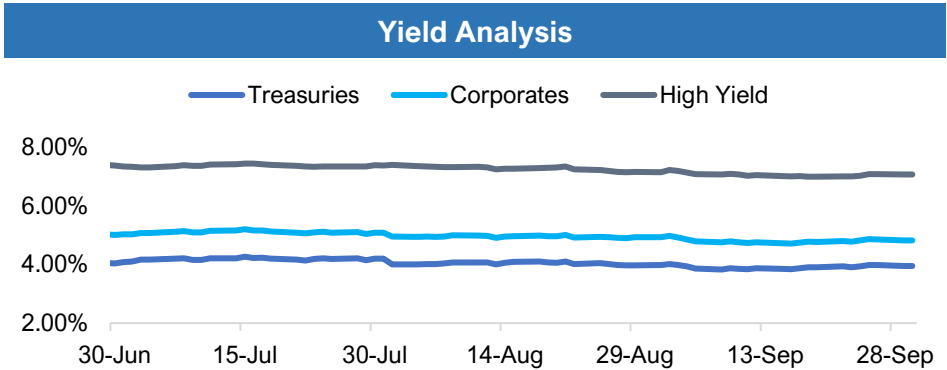
Source: Bloomberg. Median: 3Q25 Year Median

Asset Class Performance

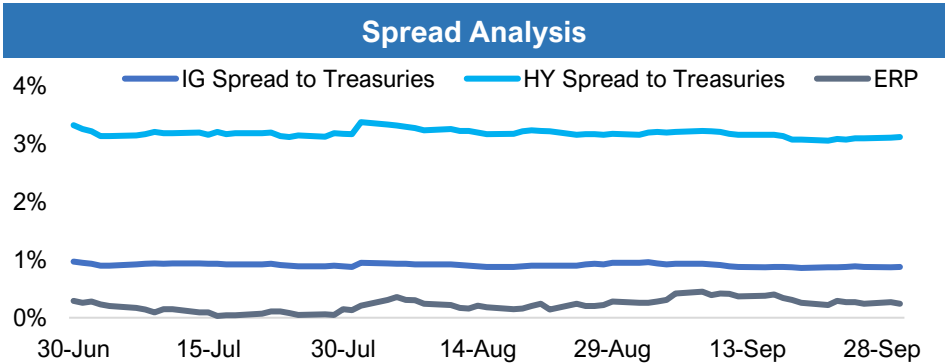
Growth stocks lead equities; Non-US equities outperform



Equities outperformed fixed-income assets in 3Q25, driven by strong returns in growth stocks and small caps. US equities marginally outperformed non-US equities, specially driven by AI-related tech stocks and resilient economic data despite global uncertainties.



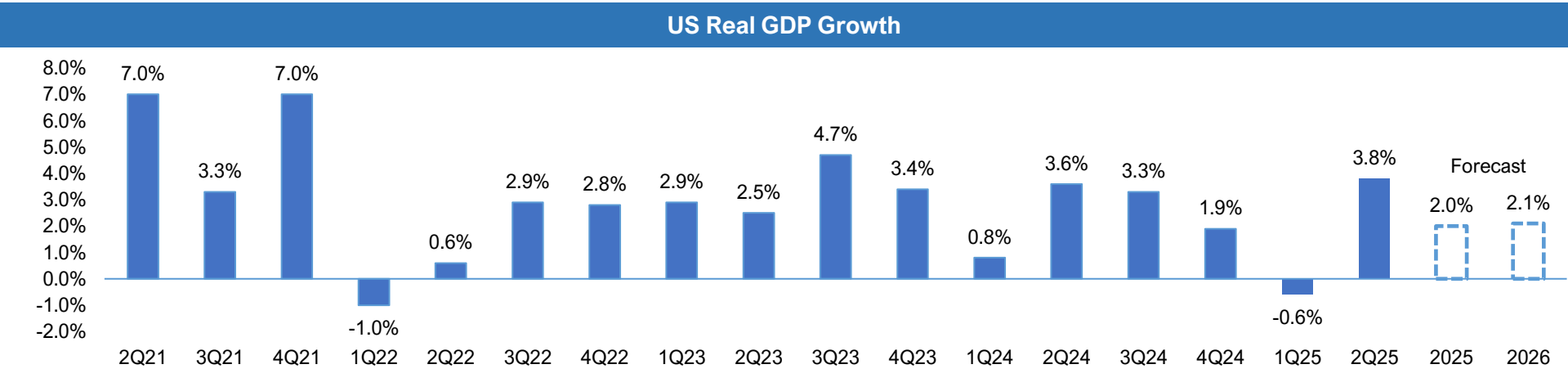
Yields across Treasuries and corporate bonds remained broadly stable, with a slight easing in short-term rates. While high-yield (HY) spreads narrowed modestly as investors selectively added risk, reflecting cautious optimism toward lower-rated issuer.



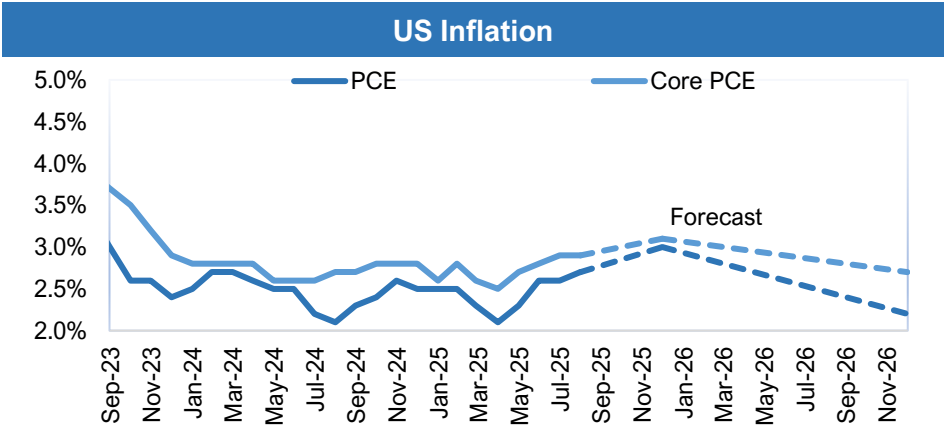
In Q3 2025, IG spreads narrowed by 9 bps and HY spreads tightened by 22 bps, indicating sustained credit market strength and improving risk sentiment. Supportive macro conditions and contained volatility reinforced investor confidence across corporate segments.

US Macroeconomic Performance

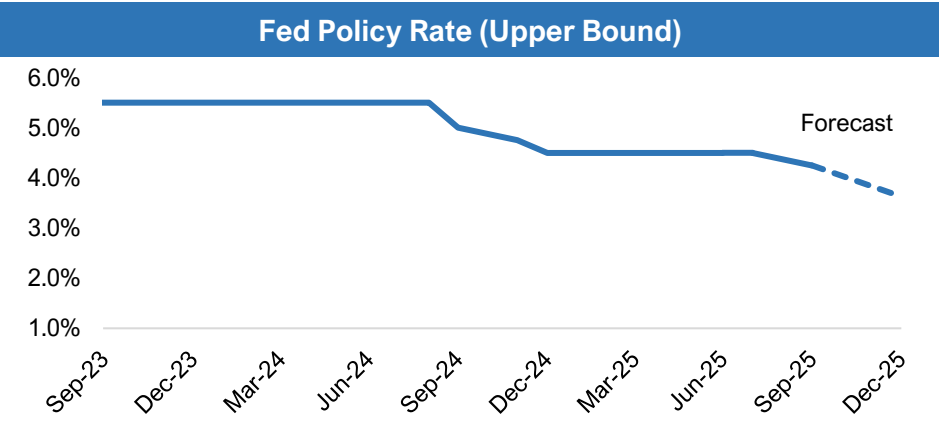
US economy outlook stays firm for 2025 despite initial headwinds



US GDP grew by 3.8% in the 2Q25, marking a steady rebound after the contraction earlier in the year. Growth was supported by resilient consumer spending and easing import drags, though business investment remained cautious amid persistent policy and trade uncertainties.”



Inflation remained range bound in 3Q25 but hovered above the Fed’s 2% target. Easing supply-chain and softer demand helped, but persistent shelter and service-price pressures kept inflation from falling to target.

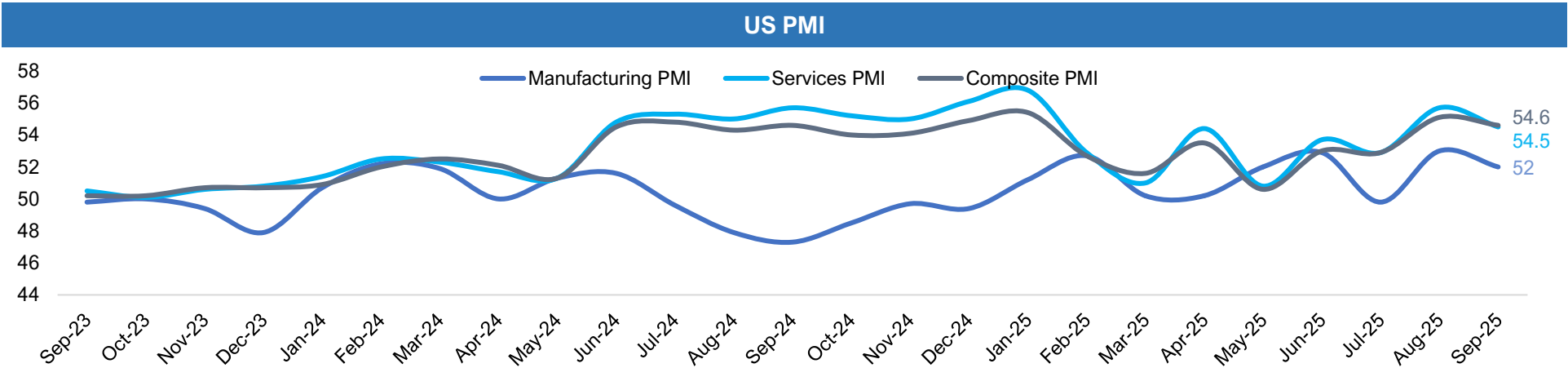


US Fed in its September meeting lowered its target range by 25 bps from 4.25 %–4.50 % to 4.00 %–4.25 % and signaled two further cuts of about 50 bps by year-end.

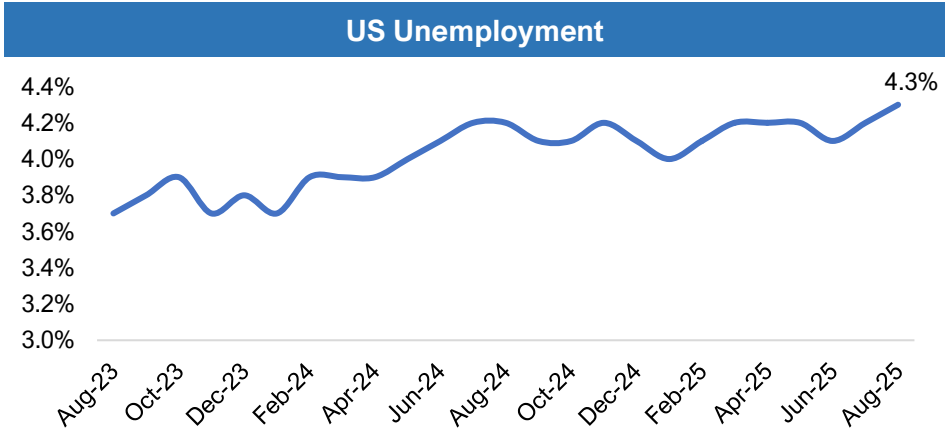
Source: Bloomberg, FOMC September 2025 Projections, LSEG Workspace

US Macroeconomic Performance

US PMI mildly improved; jobs market stayed resilient amid signs of gradual cooling

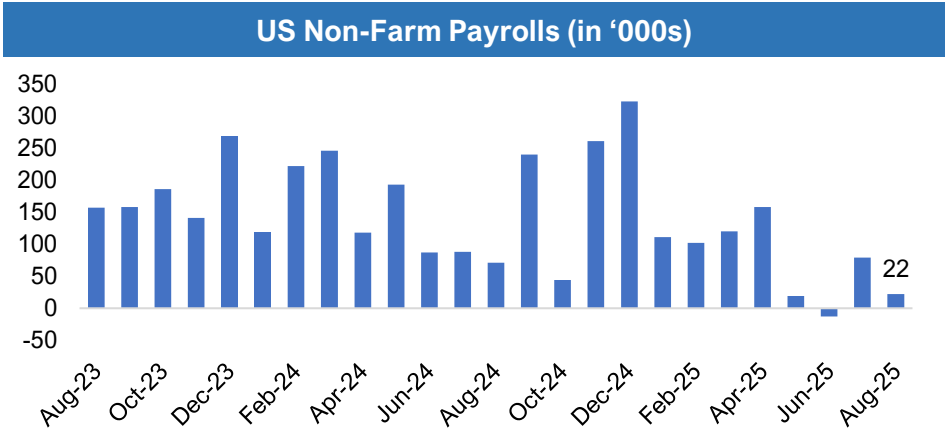


In 3Q25, PMI stayed in expansionary territory, with services being steady and manufacturing showing mild improvement. New orders picked up slightly, though sentiment remained cautious amid cost pressures.



In 3Q25, the US unemployment rate rose to 4.3%, signaling a gradual softening in labor market conditions, although factory jobs softened and services hiring remained steady.

Source: Bloomberg, LSEG Workspace

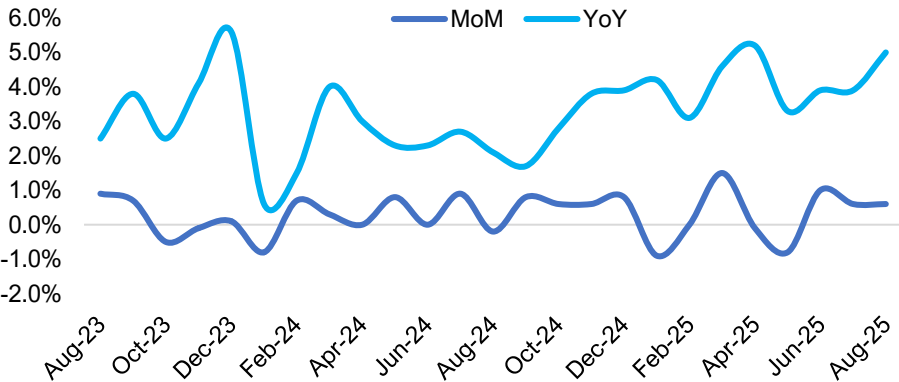


In 3Q25, hiring momentum slowed sharply, with job gains easing to just 22,000 in August after steady growth earlier in the year.

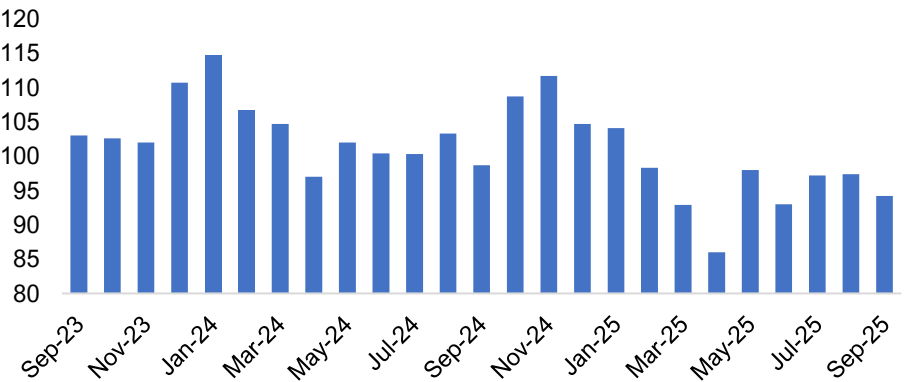
US Macroeconomic Performance

Modest retail growth; consumer confidence and housing prices ease

US Retail Sales Growth

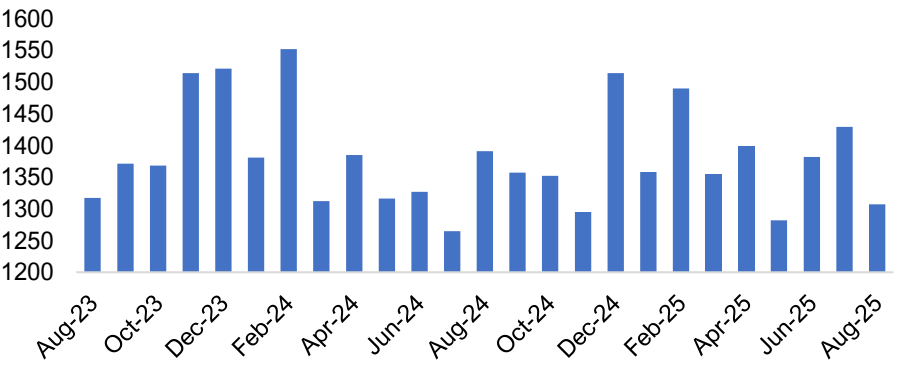


US Conference Board Consumer Confidence

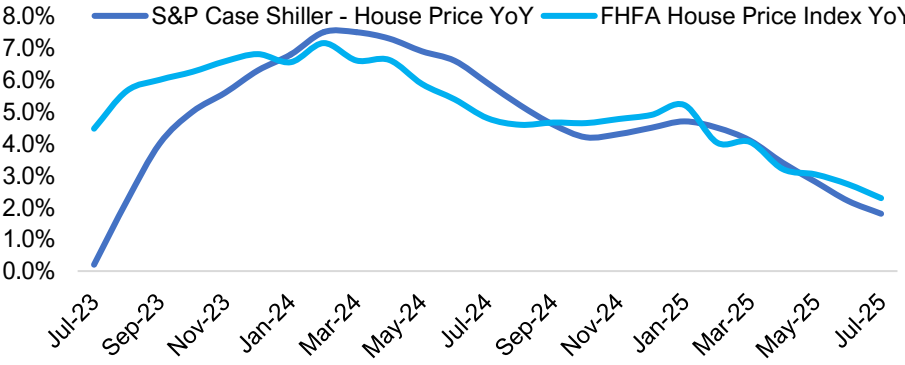


In 3Q25, retail sales showed modest improvement, supported by resilient demand for essential goods. However, consumer confidence weakened, reflecting caution amid inflationary pressures and tariff-related uncertainty, indicating the spending was driven more by necessity than optimism.

US Housing Starts (in '000s)



US House Prices YoY Change



In 3Q25, the US housing market lost some momentum after mid-year gain. This indicates builder sentiment remained cautious, reflecting affordability constraints and limited demand recovery.

House price growth slowed further as elevated long-term yields kept mortgage rates high despite Fed rate cuts, weighing on affordability and buyer sentiment.

Source: Bloomberg, LSEG Workspace



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