Special Report

# US Capital Markets Newsletter – 4Q25

aranca

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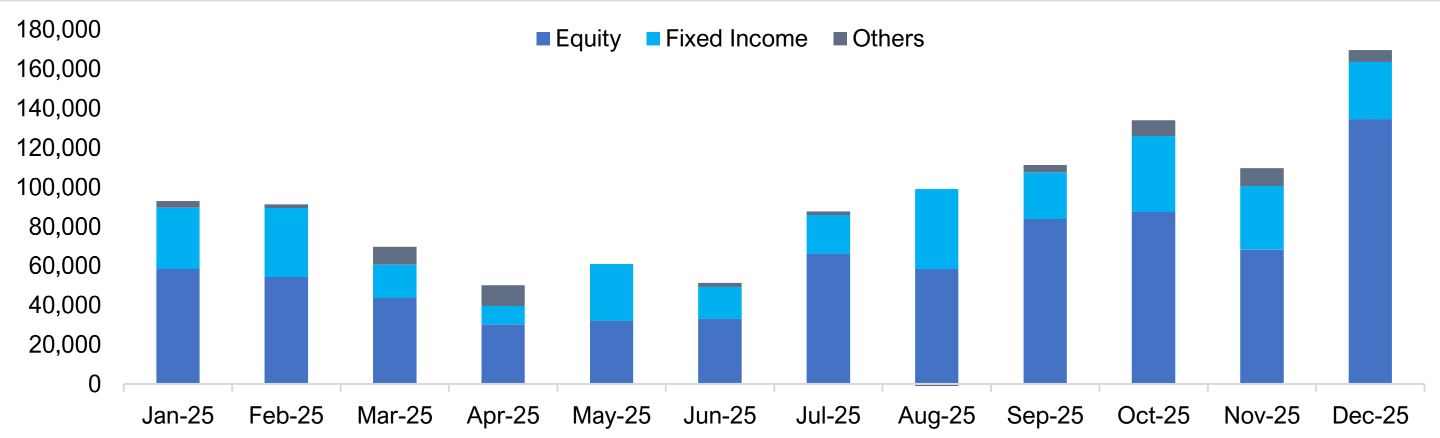
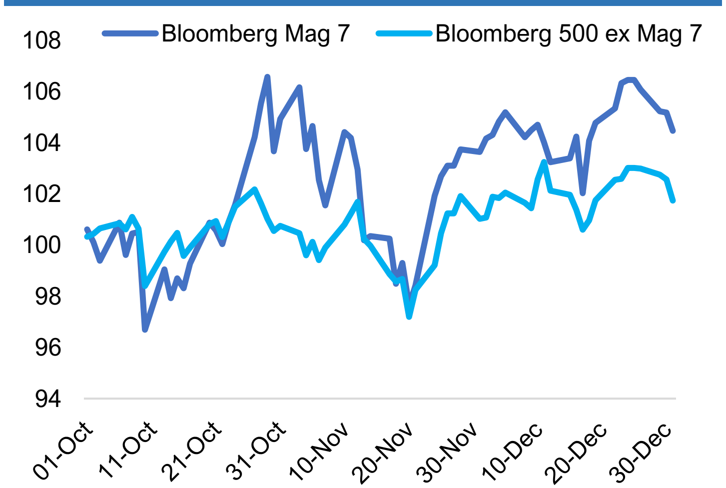
# US Equity Market Analysis

## Acceleration in US fund flow; equities at the forefront

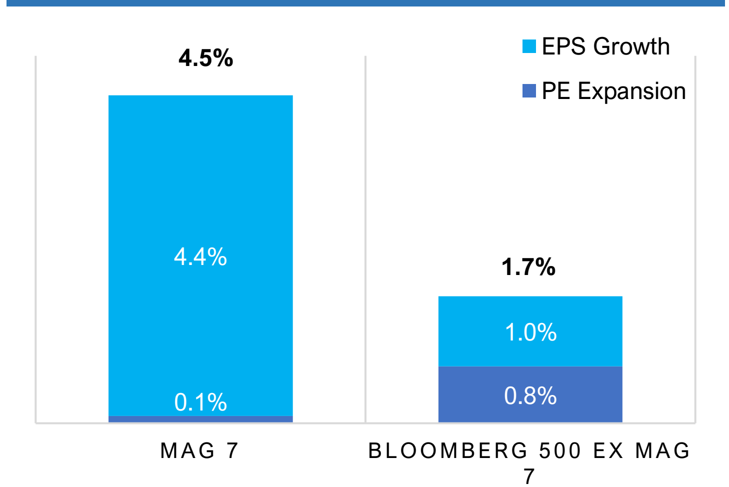
**US Fund Flows (USD mn)**




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




**Total Return Breakup Analysis**



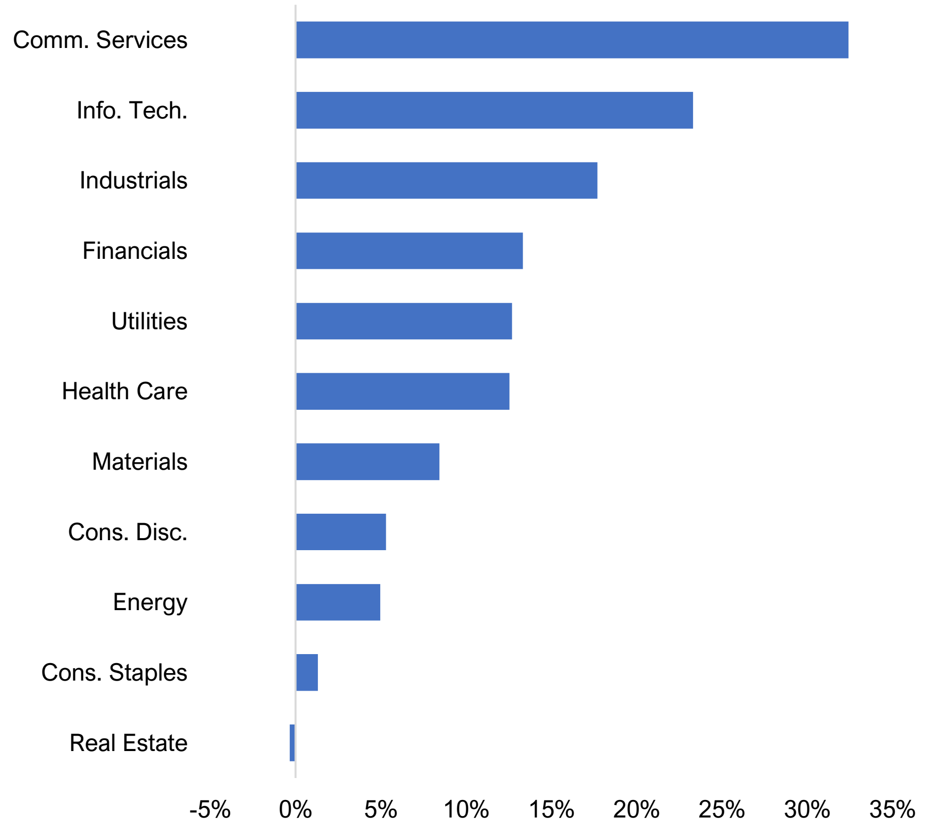

- In Q4 2025, US fund flows rose 41% q/q to USD 413 bn. Equity (+39% q/q) and fixed income (+19% q/q) remained supportive, but the surge was considerable in the others segment, underpinned by strong allocations to money market instruments and short-term liquidity strategies amid conservative positioning.
- The MAG 7's performance is driven by earnings growth, with EPS expansion contributing 4.4%, while PE expansion remains minimal at 0.1%. In contrast, the Bloomberg 500 excluding MAG 7 exhibits a markedly weak return profile, with a modest EPS growth of 1.0% and limited PE expansion of 0.8%, highlighting soft momentum across the broader market.

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

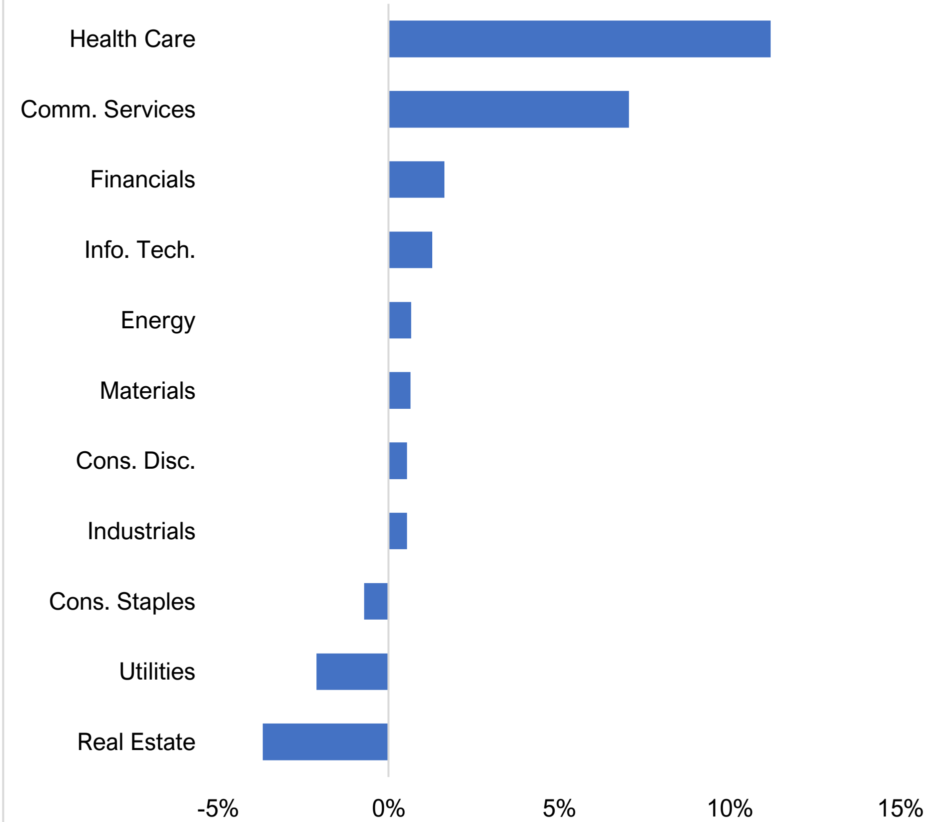
# US Equity Market Analysis

## US equity returns remain uneven, led by selective sector strength

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




### US 4Q25 Sectoral Returns




US equities remained diverse, with one-year returns dominated by communication services and information technology, while consumer staples and real estate remained flat. In 4Q25, gains were led by health care and communication services, while most other sectors delivered muted or negative returns.

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

# US Equity Market Analysis

## Dual momentum indicator register positive signals on utilities and information technology

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

**Our 3-Month “Dual Momentum” analysis of S&P 500 companies had interesting insights:**

- **Earnings vs. Price Divergence:** In 4Q25, median earnings momentum across S&P 500 sectors improved modestly, with select sectors showing meaningful upgrades. However, price momentum remains uneven, indicating that recent market performance continues to be driven by stock-level momentum rather than broad-based earnings acceleration.

- **Top-Quartile Companies:** Among the top 25% of S&P 500 stocks ranked by dual momentum, the median 3-month price momentum was +19.2%, while median earnings momentum was just +4.2%, underscoring a reliance on price re-rating rather than broad-based earnings upgrades.

- **High-Momentum Sectors:** The communication services sector, identified as one of the highest earnings momentum (EM) sectors in our Q1 momentum analysis, was the among the top-performing sector in Q4.

- **Sectors Performance:** IT, Utilities, and communication services show favorable earnings momentum but lag in price momentum, offering potential catch-up trade opportunities. Materials posted the weakest earnings momentum but high price momentum, implying stretched
- valuations amid deteriorating fundamentals.

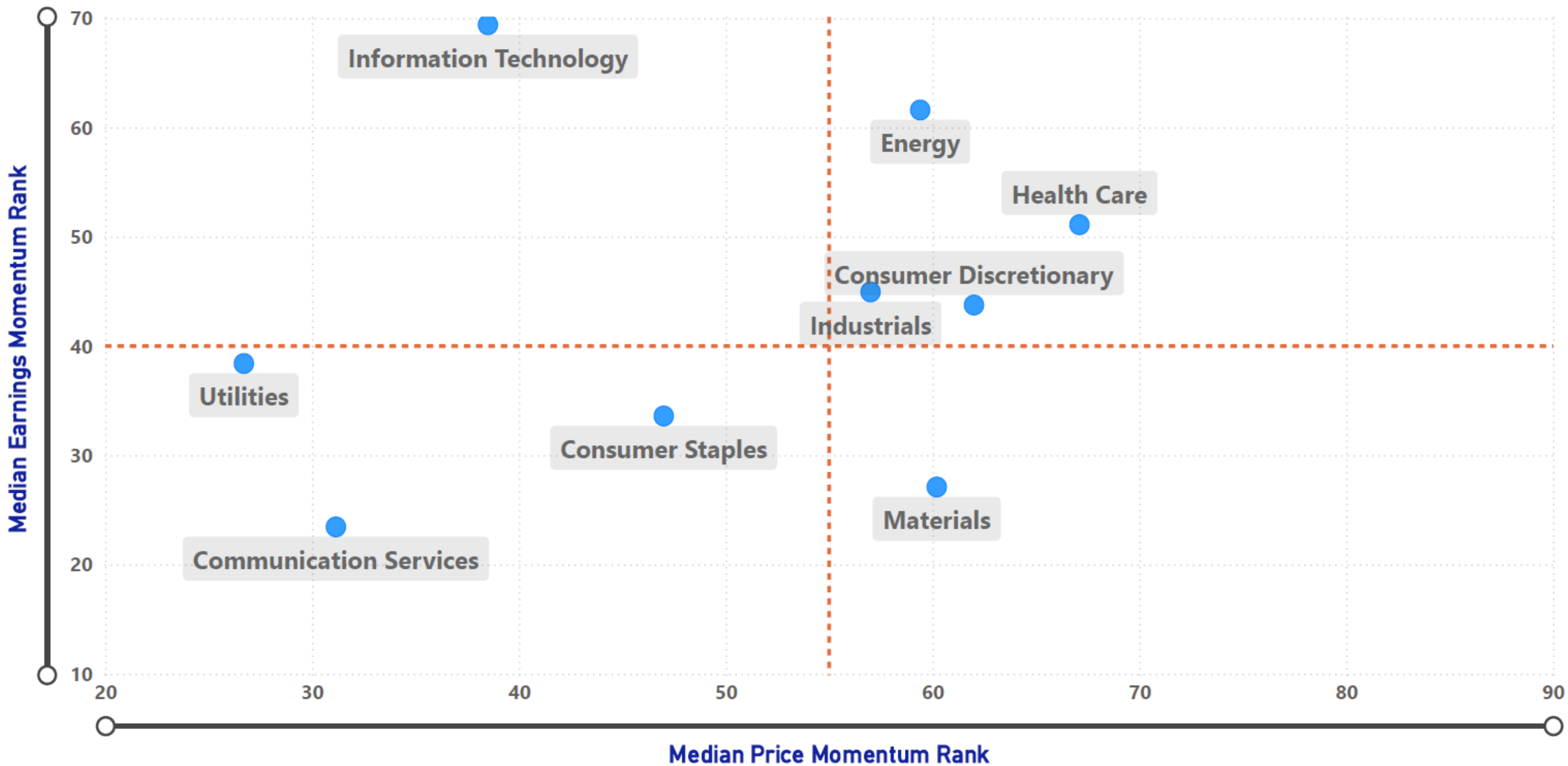
- **Stock-Level Opportunities:** The screening for high earnings momentum and attractive upside highlights News Corp (NWSA), Broadcom (AVGO), and West Pharmaceutical Services (WST) as well positioned for record price momentum going forward.

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

# US Equity Market Analysis

IT positioned for a potential price catch-up; utilities could follow with supportive earnings momentum

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



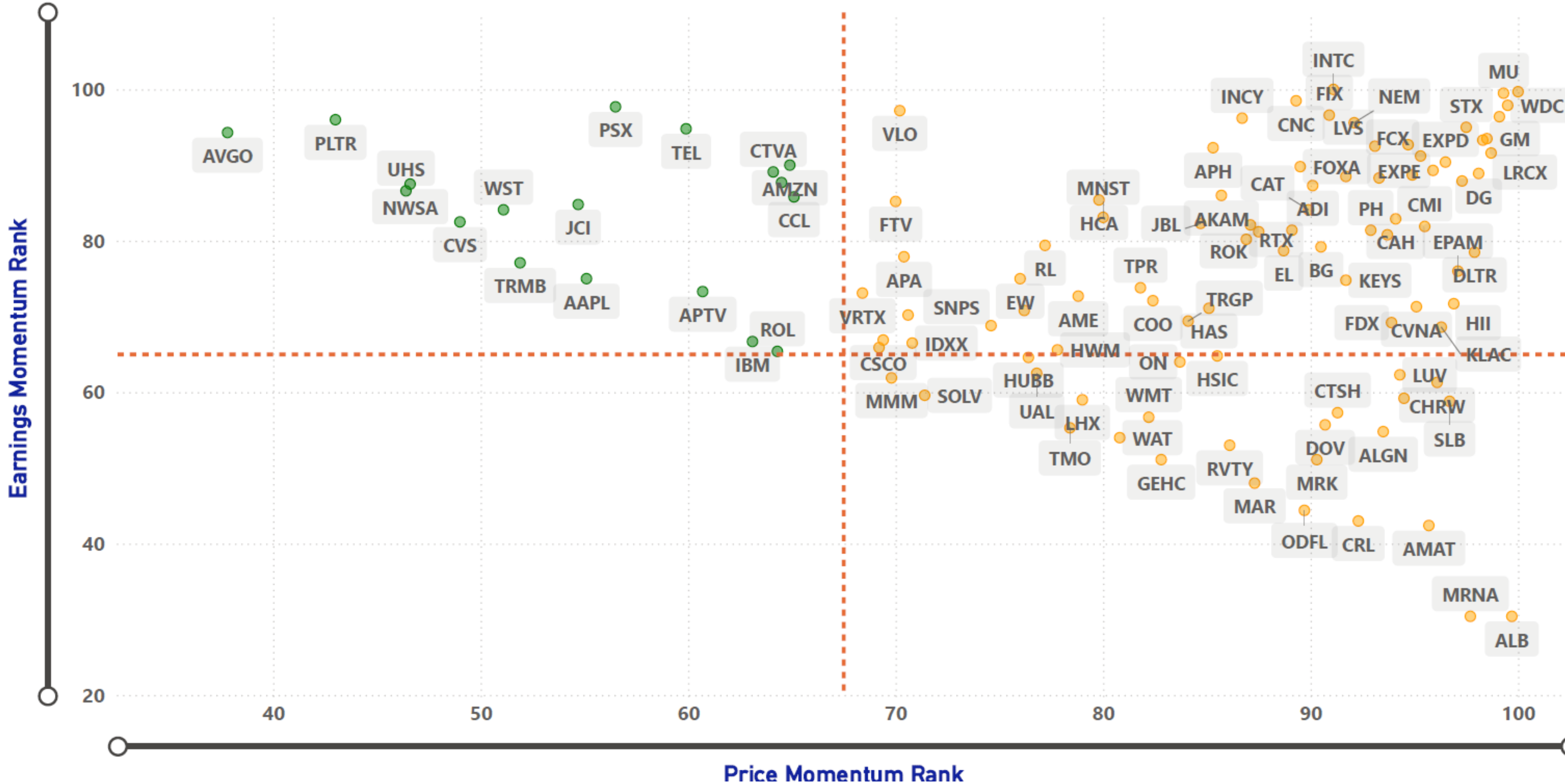

***Notes:*** *Earnings Momentum is median of 3-months change in the consensus EPS estimate of companies in each sector. Price Momentum is median of 3-months change in price return of companies in each sector. ** Excluding Financials and Real Estate*

***Source: Aranca Research***

# US Equity Market Analysis

Broadcom Inc. (AVG) & Palantir Technologies Inc. (PLTR) witnessed significant earnings revision

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



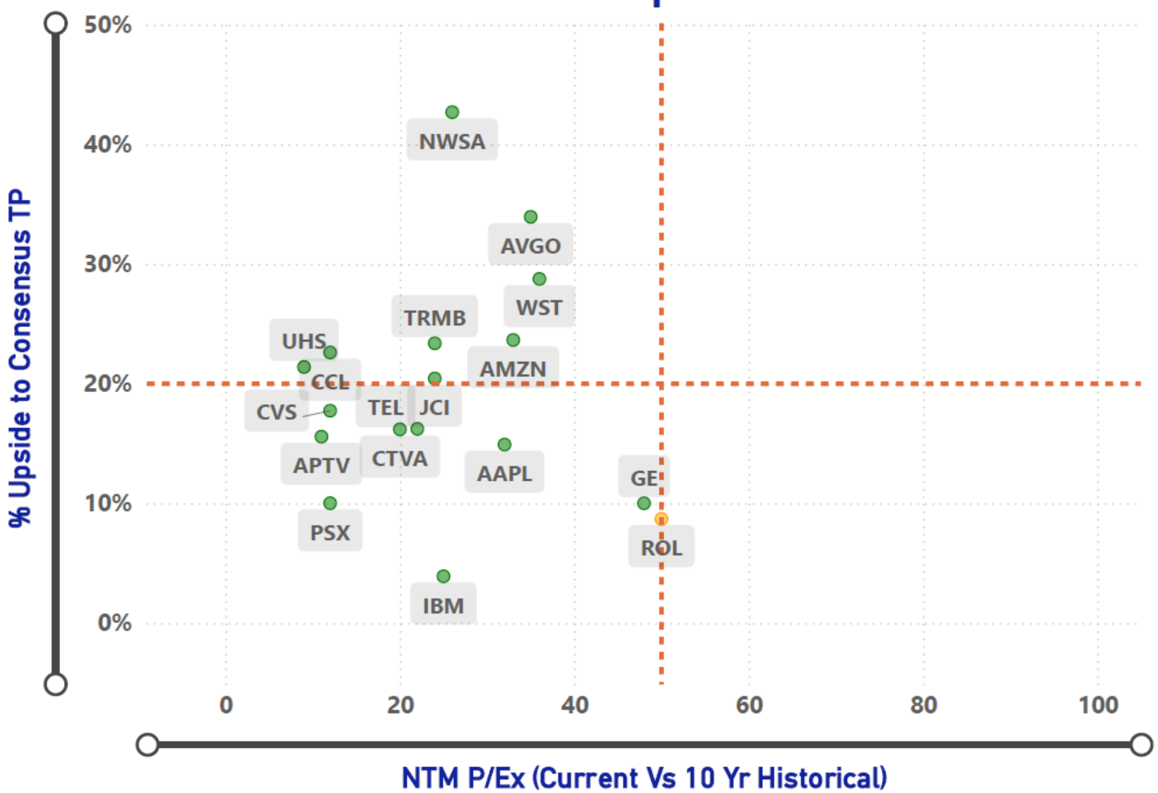

***Notes:*** *Earnings Momentum is 3-months change in the consensus EPS estimate. Price Momentum is 3-months change in price returns. ** Excluding Financials and Real Estate*

***Source: Aranca Research***

# US Equity Market Analysis

NWSA and AVGO appear attractive from the perspective of consensus upside and forward multiples

## 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 |
|---|---|---|---|
| NWSA | Communication Services | 43% | 33.00 |
| AVGO | Information Technology | 34% | 81.00 |
| WST | Health Care | 29% | 24.00 |
| AMZN | Consumer Discretionary | 24% | 6.00 |
| TRMB | Information Technology | 23% | 69.00 |
| CCL | Consumer Discretionary | 23% | 51.00 |
| UHS | Health Care | 21% | 5.00 |
| JCI | Industrials | 20% | 81.00 |
| CVS | Health Care | 18% | 100.00 |
| TEL | Information Technology | 16% | 89.00 |
| CTVA | Materials | 16% | 25.00 |
| APTV | Consumer Discretionary | 16% | 89.00 |
| AAPL | Information Technology | 15% | 86.00 |
| PLTR | Information Technology | 12% | 85.00 |
| PSX | Energy | 10% | 96.00 |
| GE | Industrials | 10% | 79.00 |

***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*

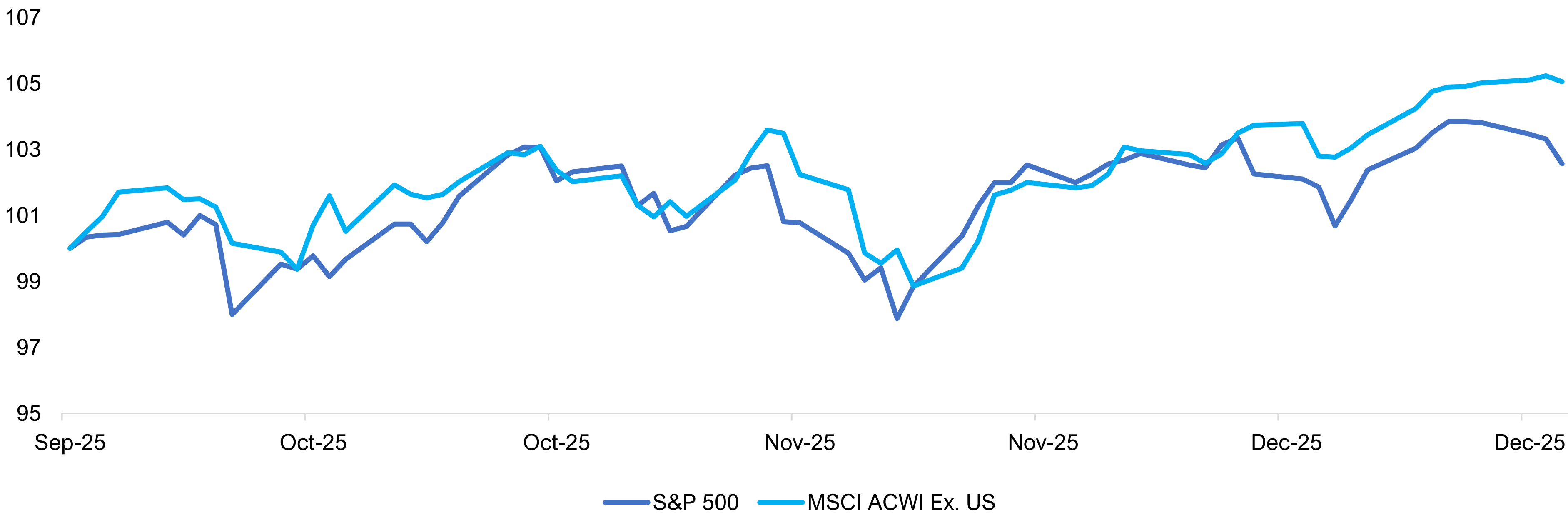
***Y Axis % upside to Consensus TP*** *– (CMP/Consensus TP -1) ** Excluding Financials and Real Estate*

***Source: Aranca Research***

# US vs. Non-US Equities

## Non-US Equities Outperform US Equities in Q4 2025

**US vs. Non-US Equity Performance**



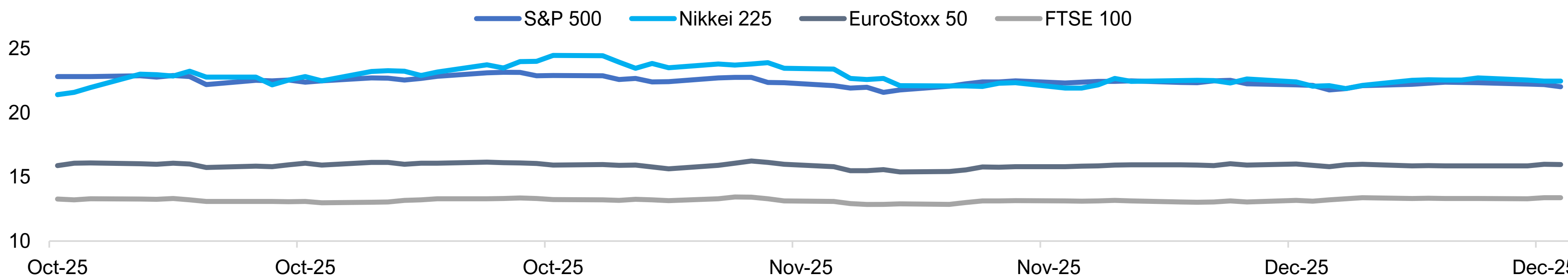

- Non-US equities outperformed in Q4 2025 as investor preferences shifted toward cyclicals and resource-oriented sectors.
- Year-end profit-taking and valuation concerns reversed the outperformance of US equities of Q3.
- Currency translation effects supported Non-US equity performance

***Source:*** *Bloomberg. Median: 4Q25 Year Median*

# US vs. Non-US Equities

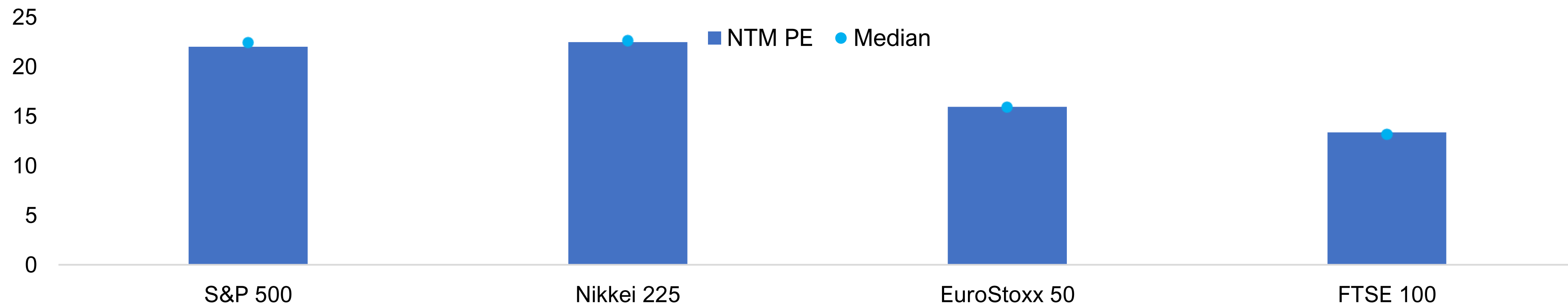
## US equities remain elevated with Nikkei trading marginally higher

### NTM PE of Key Geographies




- Equity valuations remained broadly stable across key markets in 4Q25, with both the S&P 500 and Nikkei 225 trading in the low-20s NTM PE range, while European markets continued to remain at a discount.

### NTM PE Comparison with Median



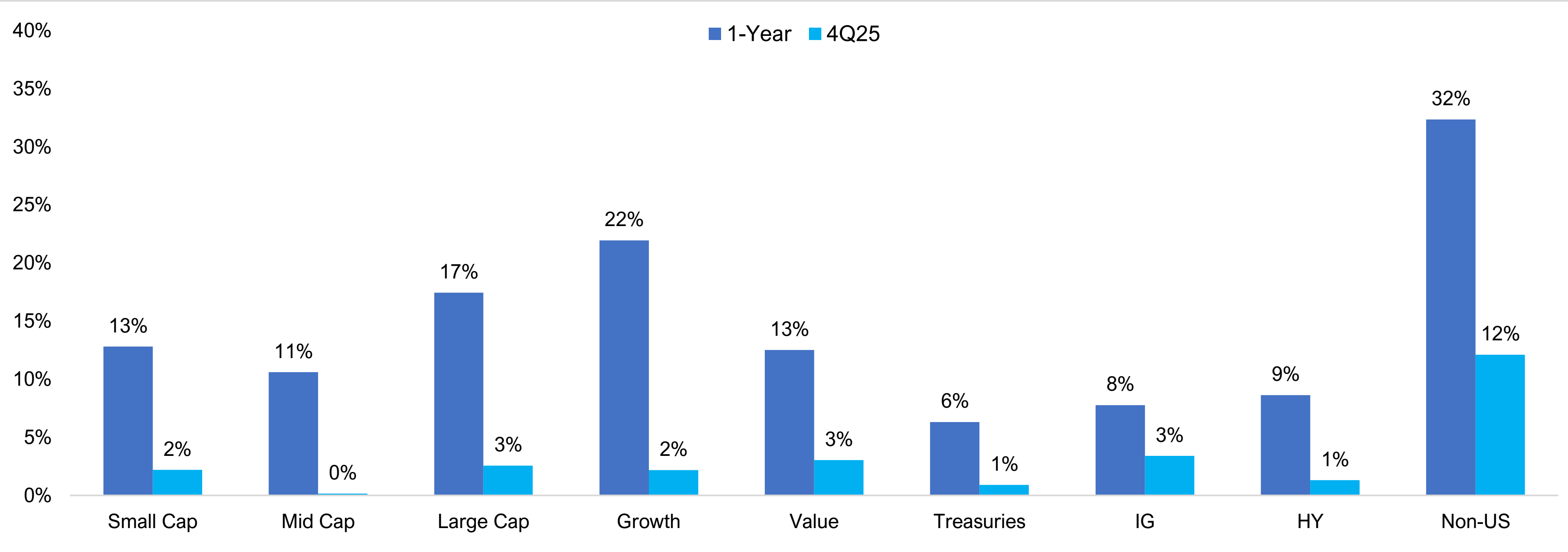

- In 4Q25, stock valuations remain elevated in developed markets, with the US trading marginally below Nikkei and both indices positioned below their respective medians, while other major markets sat slightly above their medians.

***Source:*** *Bloomberg. Median: 4Q25 Year Median*

# Asset Class Performance

## Large cap stocks lead equities; Non-US equities outperform

**Asset Class Performance – 4Q25 and 1-Year (LTM)**



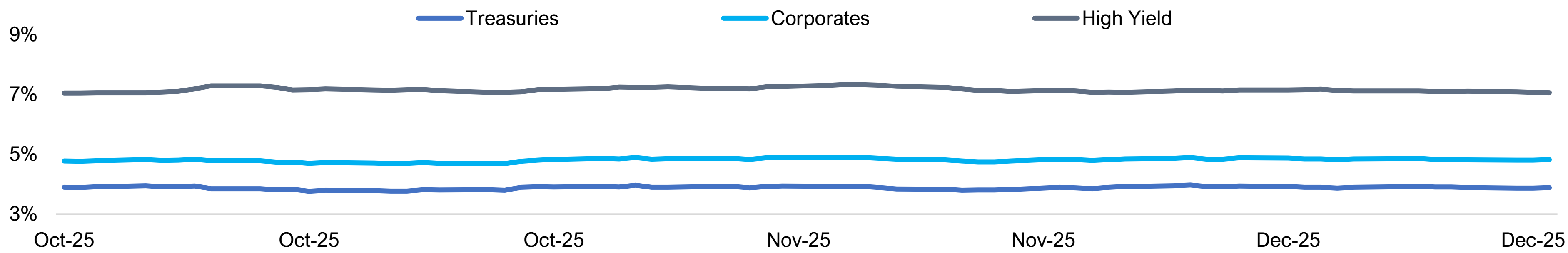

- Equities outperformed fixed income in 4Q25, led by growth and large-cap stocks, while small and mid-cap gains remained modest.
- Non-US equities delivered significantly higher returns than US, dominating in both quarterly and yearly performance.
- Non-US equities outperformance was supported by broader sector exposure and currency translation effects.

***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.*

# Asset Class Performance

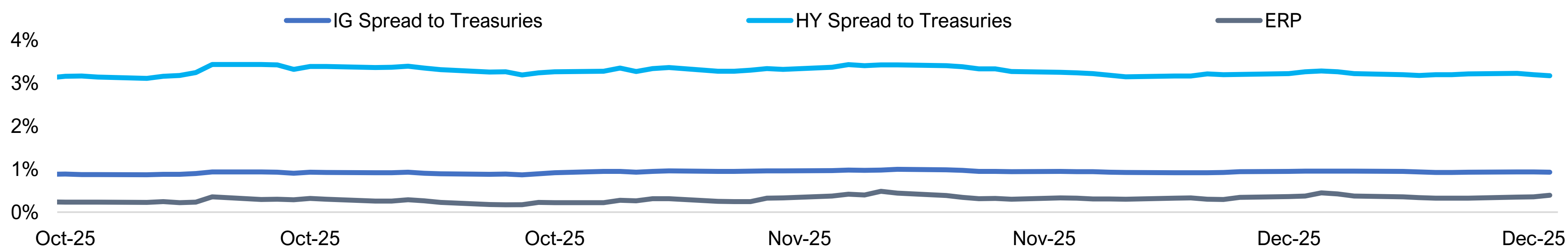
## Range-Bound Yields and Contained Credit Risk in 4Q25

### Yield Analysis




- Yields were largely range-bound in 4Q25 as Federal Reserve policy expectations remained well priced.
- Treasuries remained at the low end of yields, with investment grade corporates in the middle and high-yield bonds maintaining a clear credit premium.

### Spread Analysis



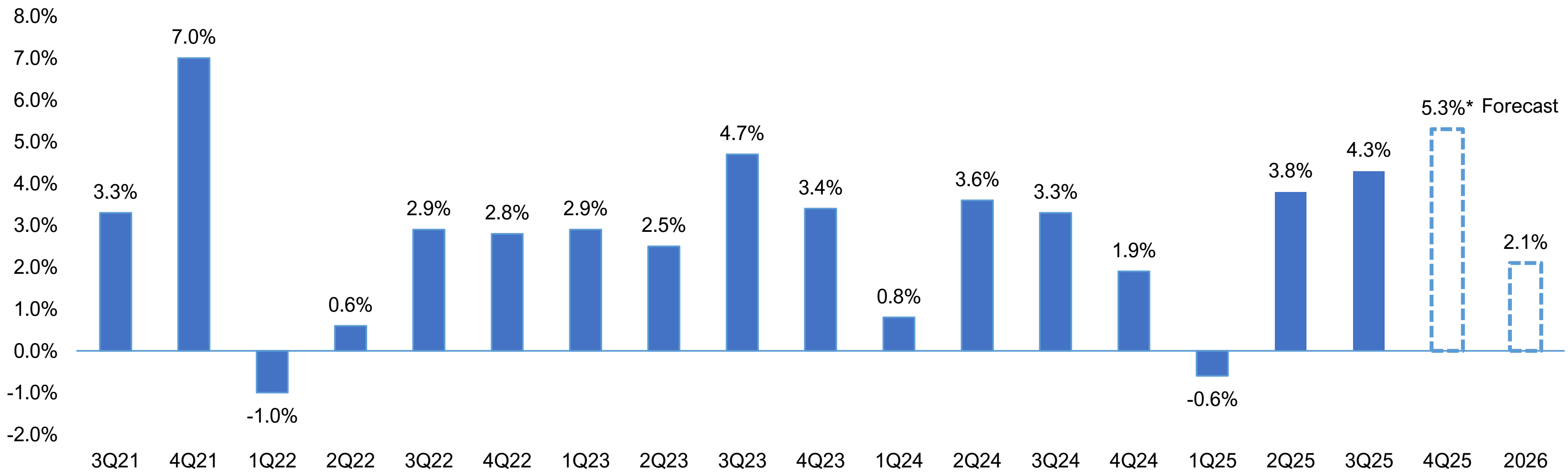

- In 4Q25, IG spreads widened modestly by 5 bps and HY spreads by 2 bps, reflecting a mild increase in risk premium following prior tightening.
- Macro conditions remained broadly supportive and volatility contained, indicating consolidation rather than a deterioration in US credit market fundamentals.

***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.*

# US Macroeconomic Performance

## The US economy showed resilience in Q4 2025 despite early-year headwinds

### US Real GDP Growth



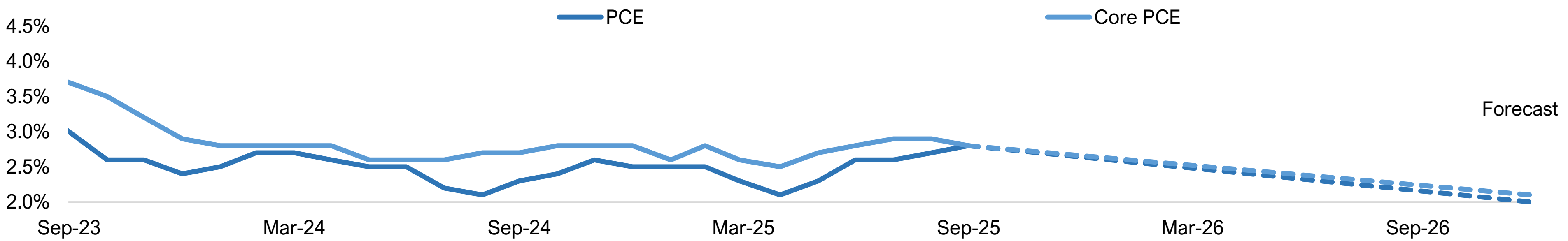

- US GDP remained strong in Q4 2025, extending the rebound seen earlier in the year.
- Growth continued to be driven by resilient consumer spending and a reduced drag from net trade, while business investment stayed cautious amid ongoing policy and trade uncertainty.
- Fiscal spending continued to provide a modest tailwind, offsetting softer housing activity amid restrictive financial conditions.

***Source:*** *Bloomberg, FOMC December 2025 Projections, LSEG Workspace, *4Q25 data as per Atlanta Fed latest release*

# US Macroeconomic Performance

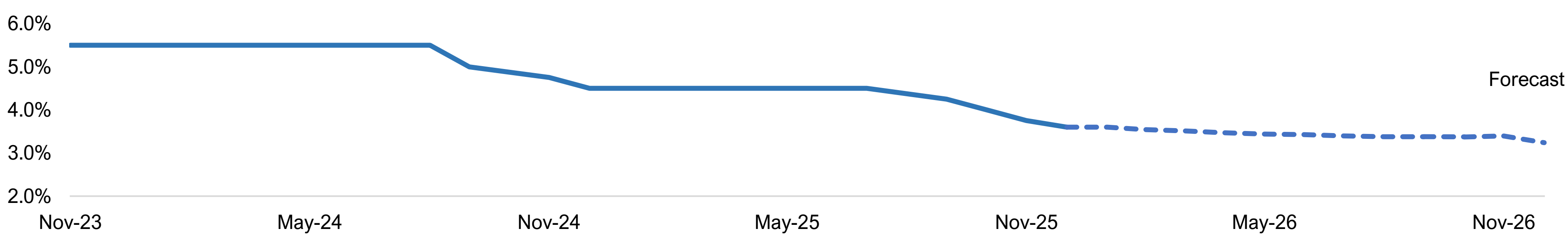
## Sticky Inflation Keeps Fed Policy Restrictive Despite Disinflation Progress

### US Inflation




- Inflation remained range bound in 4Q25 but hovered above the Fed's 2% target.
- Largely normalised supply conditions contrasted with persistent shelter and services inflation, slowing the pace of disinflation.

### Fed Policy Rate (Upper Bound)



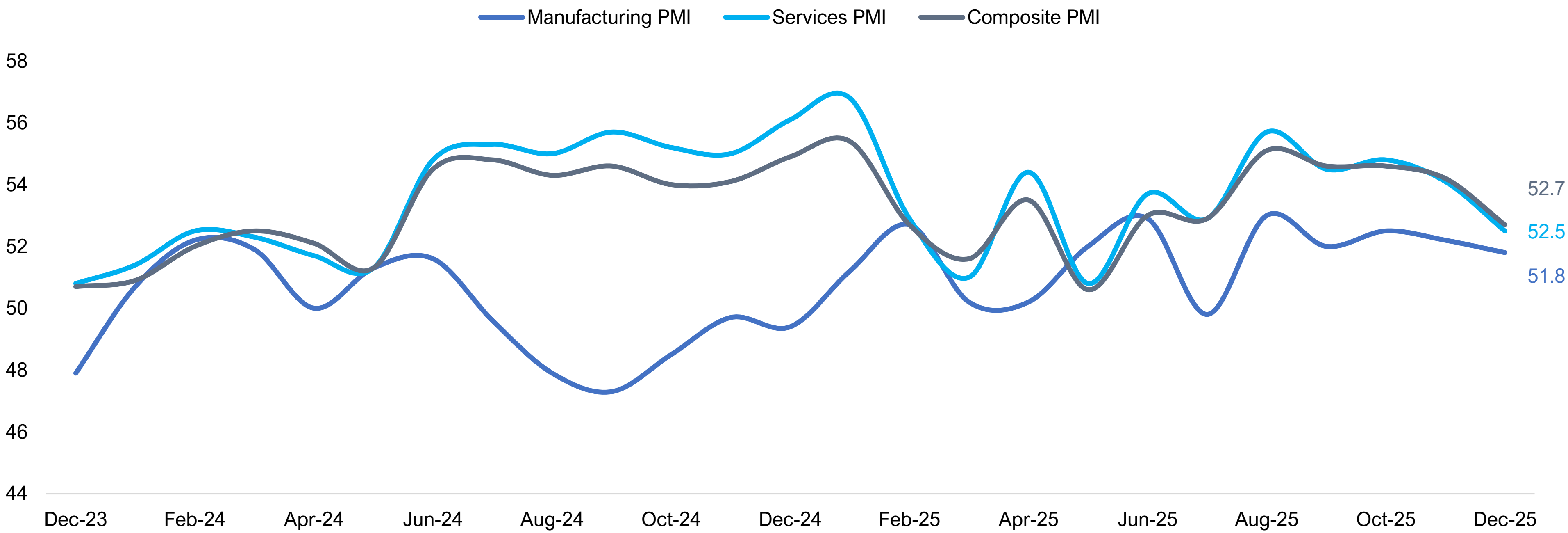

- As of 4Q25, markets view the December 2025 rate cuts as the conclusion of the 2025 easing cycle, with no further near-term cuts priced in and the Fed expected to pause at 3.50%–3.75%.
- Further rate cuts are priced only toward end-2026 and remain conditional on a material softening in inflation or labour market conditions.

**Source:** *Bloomberg, FOMC December 2025 Projections, LSEG Workspace, *4Q25 data as per Atlanta Fed latest release*

# US Macroeconomic Performance

## PMIs Indicate Mild Expansion with Uneven Momentum

**US PMI**



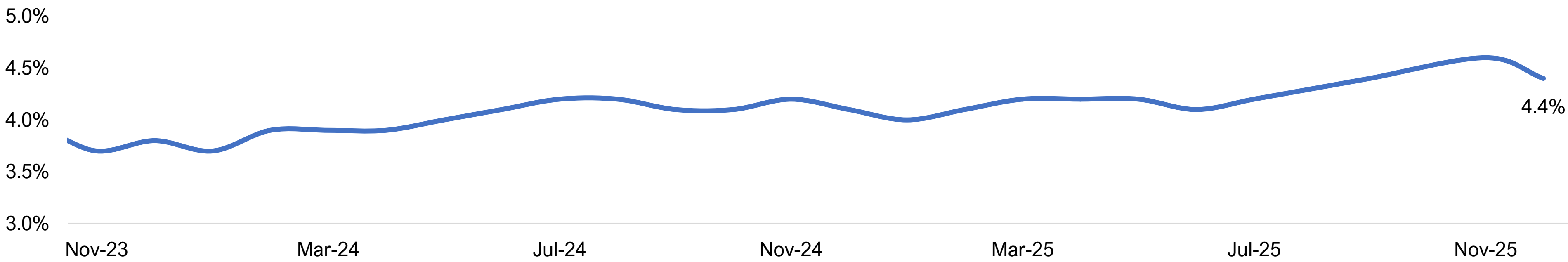

- Services PMI remained in expansion throughout 4Q25, though momentum eased toward year-end.
- Manufacturing PMI stayed above the expansion threshold but remained volatile, indicating uneven activity rather than a clear trend.
- New orders rose modestly, while sentiment remained cautious amid ongoing cost and pricing pressures.

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

# US Macroeconomic Performance

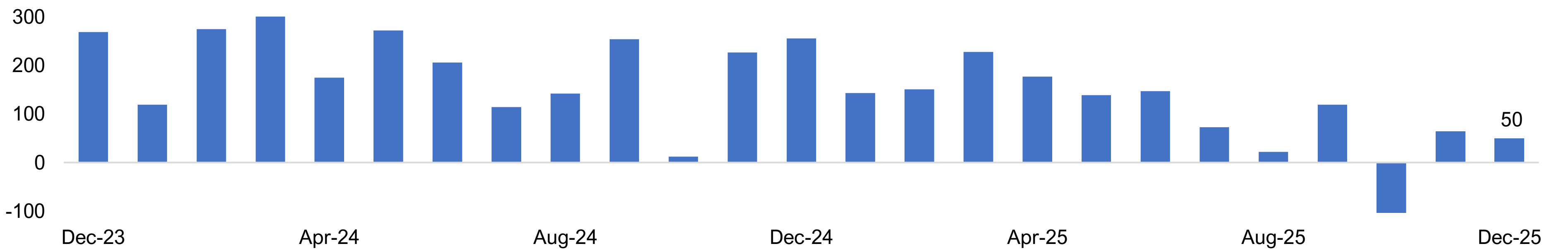
## US growth momentum moderates; labor market conditions soften

### US Unemployment




- The US unemployment rate eased to 4.4% in November from 4.6% in October, reflecting some stabilization in headline labour conditions.
- Broader labour conditions remained soft, with slowing job growth, easing job openings, and continued employer caution on hiring.

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



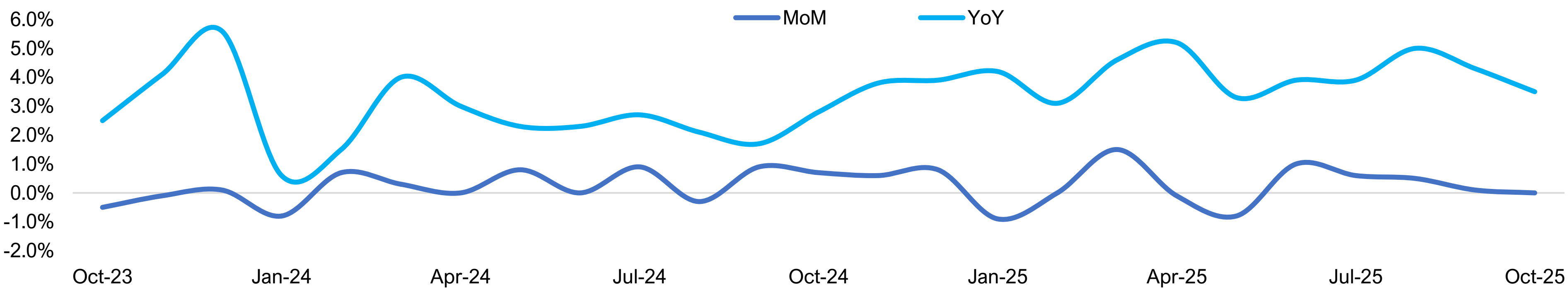

- Non-farm payrolls rose by approximately 50,000 in December, marking a sharp moderation in job growth and capping a weak hiring trend through 2025.
- This muted payroll gain, below prior months and expectations, underscored slower hiring momentum and softer labour market conditions despite a slight dip in the unemployment rate.

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

# US Macroeconomic Performance

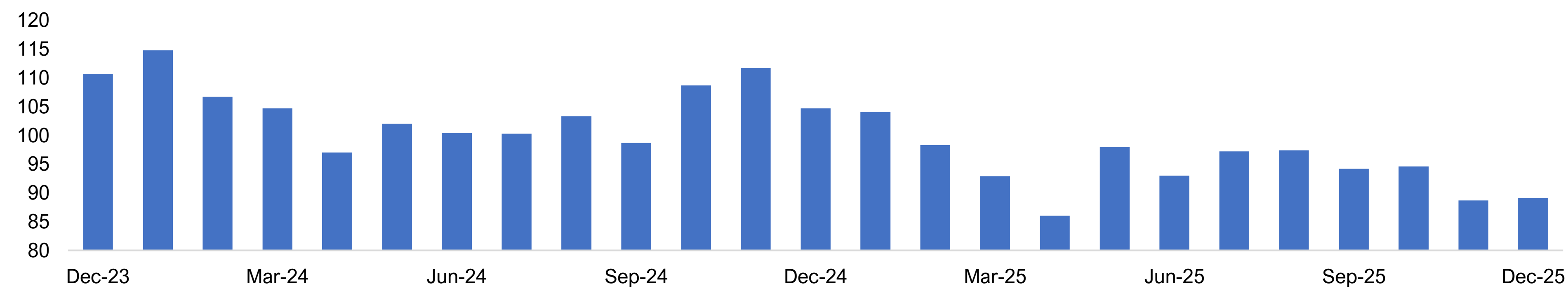
## Modest retail growth; weakening consumer confidence and softening housing price momentum

### US Retail Sales Growth




- US retail sales remained resilient in 4Q25 with positive year-on-year growth despite a quarterly slowdown.
- Headline retail sales strength was driven largely by price effects and essential spending categories, rather than broad-based volume growth.

### US Conference Board Consumer Confidence



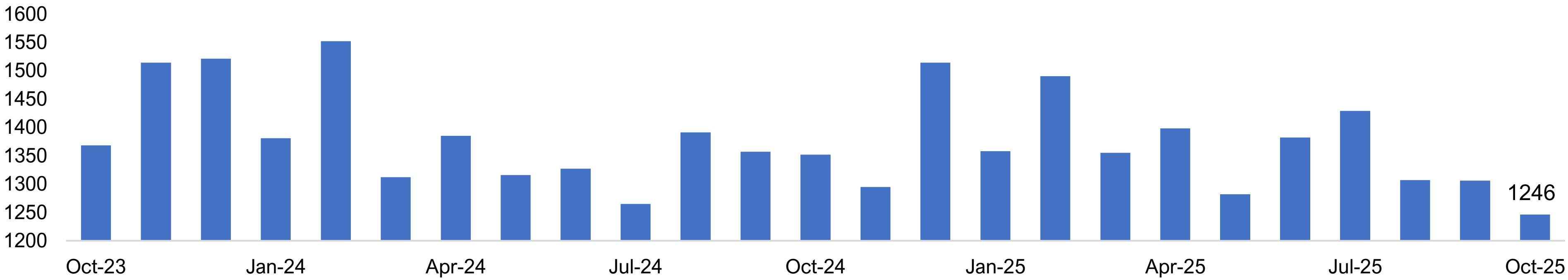

- The decline in consumer confidence was driven primarily by a deterioration in expectations rather than current conditions.
- Weaker consumer confidence pointed to necessity-driven spending amid inflation and tariff uncertainty.

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

# US Macroeconomic Performance

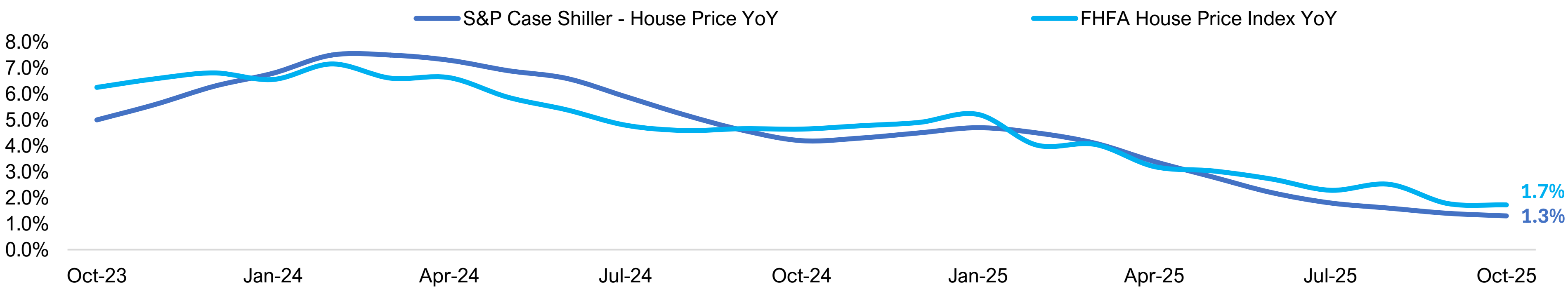
Modest retail growth; weakening consumer confidence and softening housing price momentum

## US Housing Starts (in '000s)




- US housing momentum softened in 4Q25 as affordability constraints kept builder sentiment cautious and demand recovery limited.

## US House Prices YoY Change



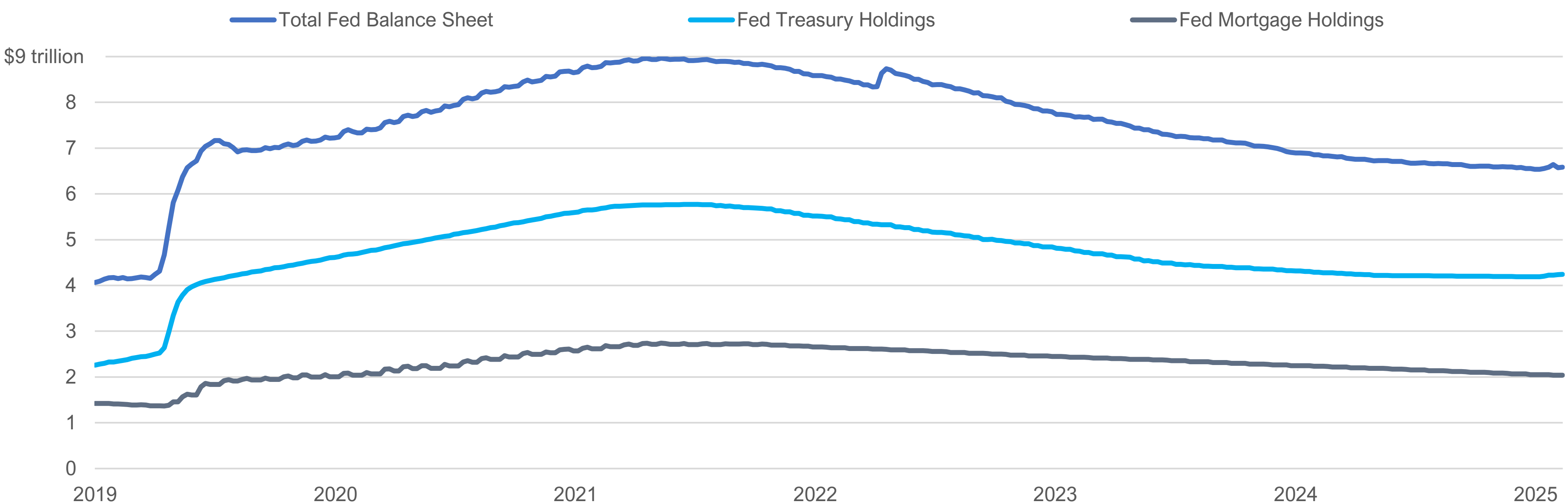

- US house price growth continued to decelerate in 4Q25, as affordability pressures reduced buyer demand.
- Recent rate cuts provided limited support, with borrowing costs remaining relatively high.

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

# The US Federal Reserve Dynamic Shift

## From balance sheet contraction to liquidity management

**Fed Balance Sheet Contracts**



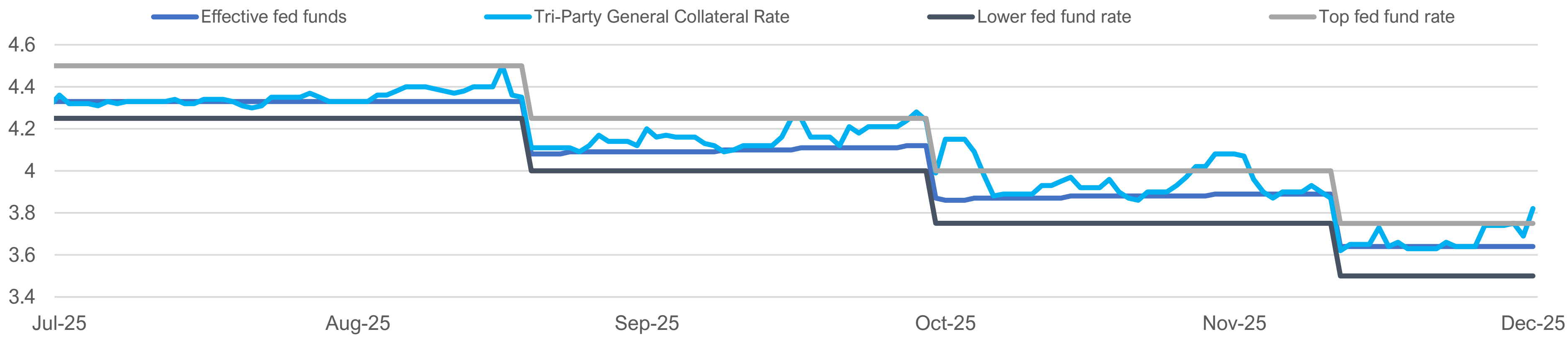

- The Federal Reserve has formally ended quantitative tightening (QT) after shrinking its balance sheet by **~$2.4 trillion** from its peak of **~$9 trillion** in 2022.
- As inflation moderates and growth momentum cools, policy may shift from balance-sheet contraction toward targeted Treasury purchases via Reserve Management Purchases **(RMS)** to preserve system liquidity.
- Such measures would likely lower long-term yields, support market liquidity and risk assets, and exert modest depreciation pressure on the US dollar.

***Source:*** *Bloomberg, FRED*

# The US Federal Reserve Dynamic Shift

## From balance sheet contraction to liquidity management

**Money market Pressure amid Fed Balance Sheet drawdown**




- Persistent volatility in the US repo market and emerging signs of liquidity tightness have driven this reassessment. Short-term funding rates, particularly the Tri-Party General Collateral rate, frequently traded at or above the upper bound of the Fed’s target range, indicating episodic liquidity tightness.
- These dynamics strengthen the case for Reserve Management Purchases as a targeted liquidity tool to stabilise funding markets and maintain ample reserves.
- Unlike Quantitative Easing, such purchases would aim to support market functioning rather than ease broader financial conditions

> ➢ *The Fed’s balance sheet contraction has coincided with rising money market frictions, pointing to diminishing reserve abundance. While rate cuts have transmitted effectively, recurring repo pressures point to the need for balance-sheet tools.*
>
> ➢ *Looking into 2026, Reserve Management Purchases offer a targeted means to anchor funding markets and preserve ample liquidity without signaling a return to quantitative easing.*

***Source:*** *Bloomberg, FRED*

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