

2025 US Equity Strategy Outlook

Julian Emanuel

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EVERCORE ISI

Executive Tearsheet

2025 S&P 500 Estimates

- Base Case 2025 PT: 6,800
- Base Case 2025 EPS: \$263, 2026 EPS: \$287

Through the Roaring '20's – Further to Run, But Volatility Like Trump's First Term, Second Year (2018)

- Back to Back 20%+ Years are rare; following year is volatile, skews higher
- Political volatility in 2025 (Second Term, First Year) a lot like 2018, Trump's Tariff/Tax/Immigration First Term, Second Year
- Solid economy, Fed cuts, "AI Revolution" support stocks
- Animal Spirits – Not a Bubble Yet, but talk is bubbling

Alpha Beyond SPX + Thematics

- A Small World – Econ, favorable credit conditions, improving sentiment, supportive policy reinforce Small Caps
- Int'l Equities – LT Japan, reforms; China stimulus momentum building; historic RoW valuation discounts; USD peak catalyst?

Sector Outlook

- Outperform: Communication Services, Consumer Discretionary, Information Technology
- In Line: Consumer Staples, Financials, Health Care, Real Estate, Utilities
- Underperform: Energy, Industrials, Materials

Sector Outlook Drivers

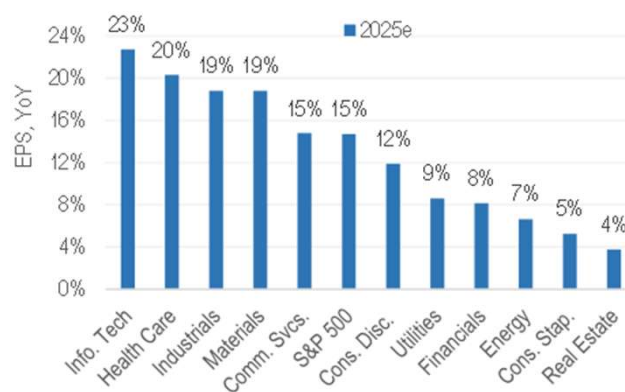
- Strong positive underlying trends – AI Revolution, solid economy, Fed cuts – to continue in 2025.
- At the same time, a fluid Macro situation in Trump Administration 2.0 – an unpredictable mix of pro-growth and inflationary policies – and price pressures proving stubborn in the back half of 2024.
- Elevated valuations further complicate the picture – broad market and most sectors expensive. While multiples can stay elevated and move even higher, current levels do introduce a layer of risk for a market “priced for (near) perfection”.
- Earnings growth, revisions strong enough to clear a “high bar” have greater importance. AI-exposed sectors notably have more constructive earnings profiles.

Fed Rate Cut Playbook

	Returns Around First Rate Cut			
	After			
	+1M	+3M	+6M	+12M
S&P 500	-1.4%	0.9%	4.2%	6.6%
Comm. Svcs.	-0.6%	3.3%	6.4%	4.6%
Cons. Disc.	-1.8%	0.2%	5.4%	13.5%
Cons. Stap.	0.6%	2.4%	6.2%	14.3%
Energy	-2.5%	0.2%	6.4%	3.4%
Financials	-1.4%	1.3%	5.0%	4.0%
Health Care	-0.7%	3.0%	6.5%	11.7%
Industrials	-1.1%	0.5%	3.8%	5.9%
Info. Tech.	-3.9%	-0.5%	0.8%	7.8%
Materials	-1.0%	0.3%	2.1%	5.7%
Real Estate	-2.3%	-3.8%	0.3%	-0.2%
Utilities	0.3%	2.3%	3.5%	0.5%
Russell 2000	-0.2%	3.5%	6.3%	7.4%
Nasdaq Composite	-1.9%	3.3%	7.6%	13.2%

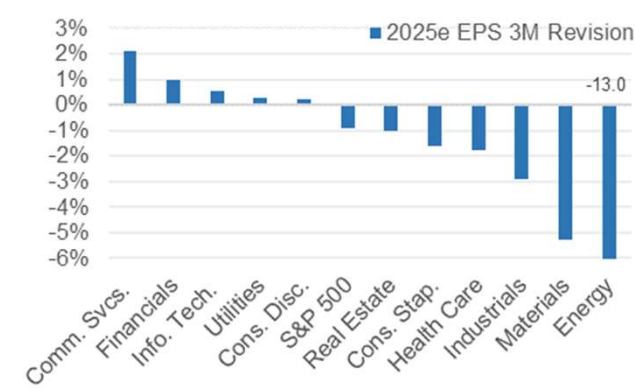
Source: Bloomberg, Evercore ISI Research

S&P 500 Sector 2025e EPS Growth



Source: Factset, Evercore ISI Research

S&P 500 Sector 2025e EPS 3 Month Revisions

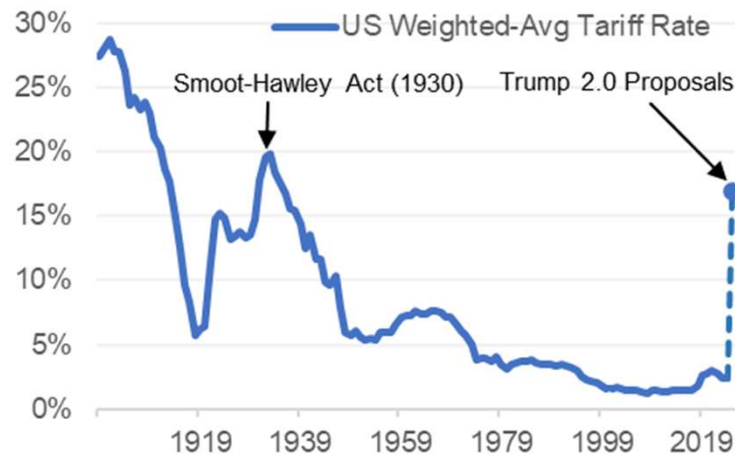


Source: Factset, Evercore ISI Research

Trump 2.0 Tariff Proposals Go Far Beyond Trump 1.0 Trade War Reality

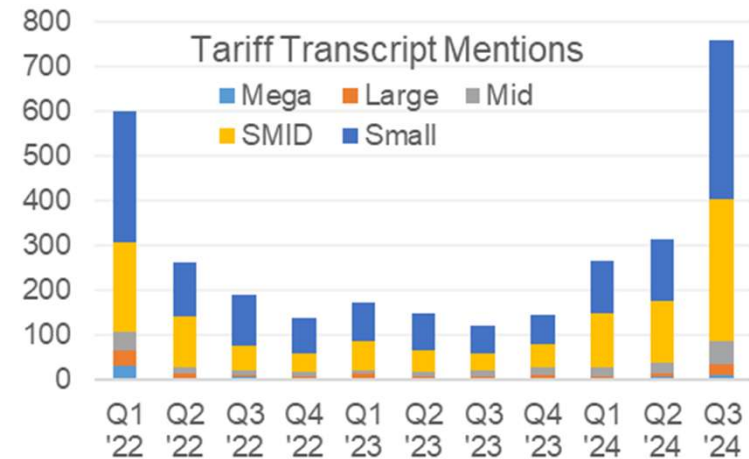
- Tariffs are a cornerstone of Trump's economic agenda. The current 2.3% average tariff rate is set to rise considerably under Trump's trade proposals.
- Smoot-Hawley Tariff Act, similarly designed to shield domestic industries, proved to be a costly miscalculation. It provoked swift retaliation as affected countries imposed their own trade restrictions on US exports. Is the same in store in 2025?
- EVR ISI Central Bank and DC Policy expect Trump 2.0 tariffs to have a stagflationary impact, weighing on Growth and spurring Inflation.
- Recent appointees are China hawks likely to align closely with Trump's agenda on tariffs. 2018 Redux, and then some?

Rates Stress Completely Counterbalanced By Historic Credit (Tights) "Relaxation"



Note: 'Trump 2.0 Proposals' assumes 60% tariff on China and 10% across-the-board tariff on ROW; Source: Census Bureau, U.S. International Trade Commission, Evercore ISI Research

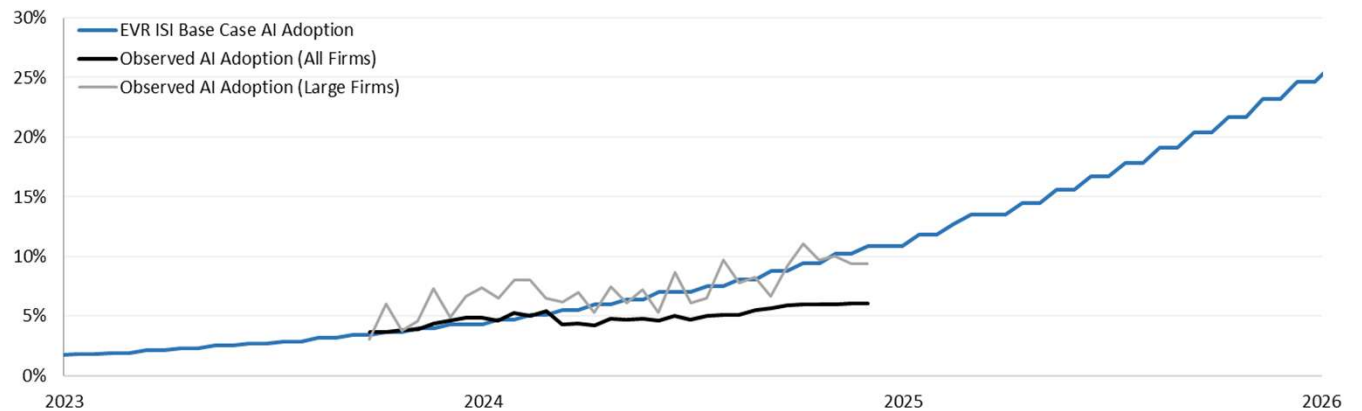
Europe – A Volatile Two Years, Stabilizing Despite the Risks. Trump 2.0, though, was not on People's Agendas



Corporate AI Adoption Sluggish – But it Remains Very Early – 2025 Inflection?

- Corporate AI adoption, near/below EVR ISI Strategy expected run rate, also well below household adoption. Investors' "show me AI is working" is running against Corporates' more measured adoption pace.
- OpenAI's journey to "Centi-corn" status: Valued at \$29B in July 2021, \$86B in February 2024, \$100B in August, and now \$150B in September. The AI Revolution Remains in the Early Innings.
- Despite muted Corporate Adoption, Transcripts are filling up with anecdotes of the rollout of AI-Enabled Tools.

AI Adoption Runs Below EVR ISI Base Case Scenario ... But Large Companies Tracking Closely



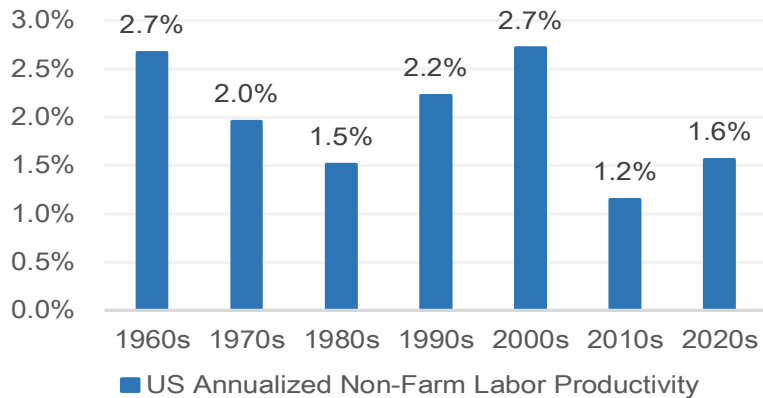
Source: Census Bureau, Evercore ISI Research

- ▶ **WMT:** "We've used multiple LLMs to accurately create or improve over 850 million pieces of data in the catalog. Without the use of generative AI, this work would have required nearly 100 times the current head count to complete in the same amount of time" – CEO, Doug McMillon
- ▶ **CRM:** "In terms of the use cases that we're seeing, the two most popular ones that we're seeing customers deploy are the sales development representative Agentforce and the service Agentforce." –Head of AI, Clara Shih
- ▶ Large Company adoption tracking closely to projection – greater capacity to invest and scale.

AI Productivity Boom in the Making?

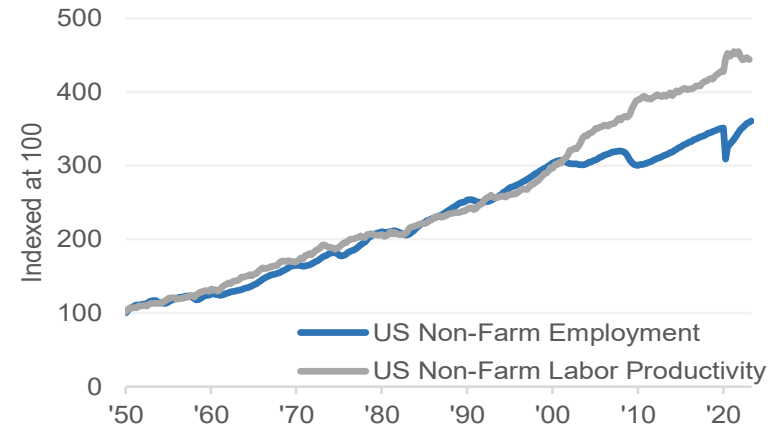
- Can leveraging AI spur productivity gains to Internet's 2%+ boom years in the 1990s-2000s?
- Pertinent as Demographic challenges strain labor forces.
- Post WWII, 70 years of job growth and productivity growth have gone hand-in-hand...
- ...“Roughly 60% of employment is found in job titles that did not exist in 1940” – NBER.
- For aspiring E-Sports coaches and Generative AI output verifiers, that 60/40 career dynamic speaks volumes to the promise of the future, not the fear of it.
- Ed Hyman highlights trends in productivity typically last 10 years, given the current above trend episode in productivity is only 5 years old, it has room to continue. AI argues for faster.

Is 2% Productivity in Sight?



Source: Haver, Evercore ISI Research

Jobs Grow Alongside Productivity



Source: Haver, Evercore ISI Research

AI Enablers, Adapters and Adopters

- Russell 3000 stocks
- Mentioned AI during 3Q Earnings Call
- Positive 1D Post-Earnings Px Reaction
- Above Index 2025e EPS Growth
- 2025e P/E at Discount to 5Yr Range



Source: Factset, Bloomberg, Evercore ISI Research

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