2025 US Equity Strategy Outlook

Julian Emanuel

Winter 2025

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

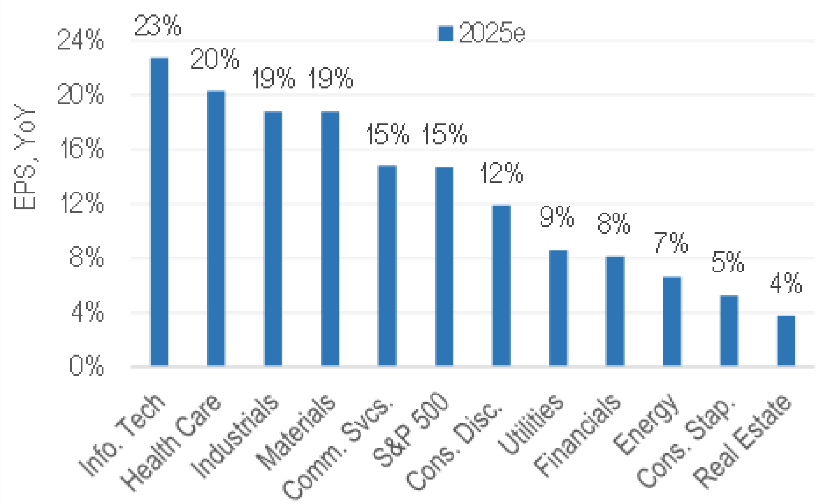
- Strong positive underlying trends – AI Revolution, solid economy, Fed cuts – to continue in 2025.
- At the same time, a fluid Macro situation in Trump Administration 2.0 – an unpredictable mix of pro-growth and inflationary policies – and price pressures proving stubborn in the back half of 2024.
- 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%

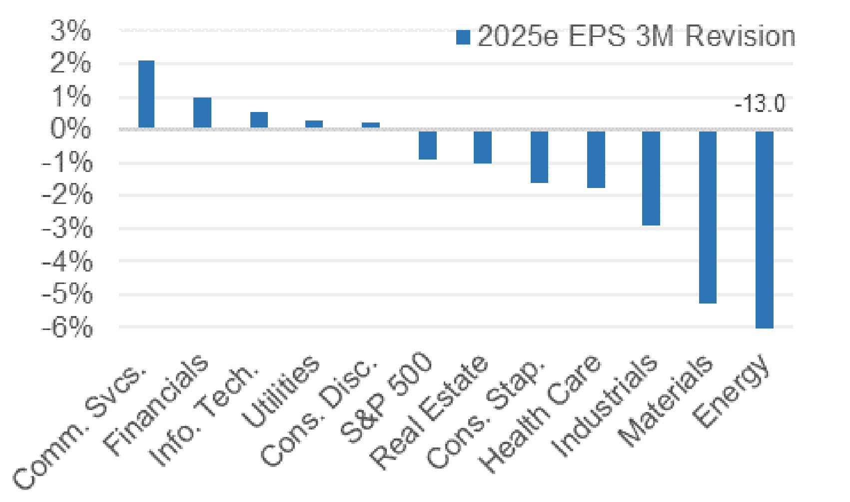
Source: Bloomberg, Evercore ISI Research

S&P 500 Sector 2025e EPS Growth



Source: Factset, Evercore ISI Research

S&P 500 Sector 2025e EPS 3 Month Revisions

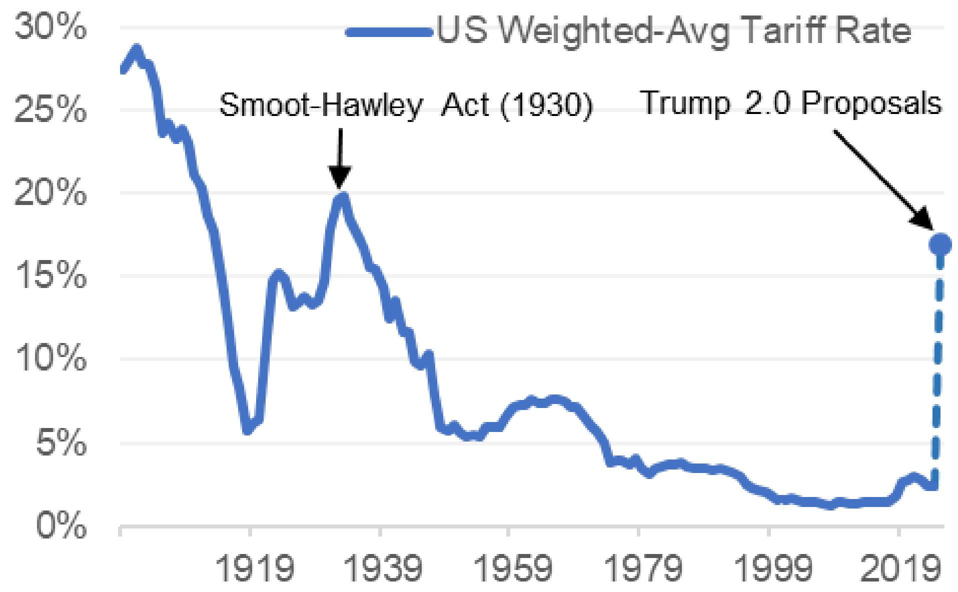


Source: Factset, Evercore ISI Research

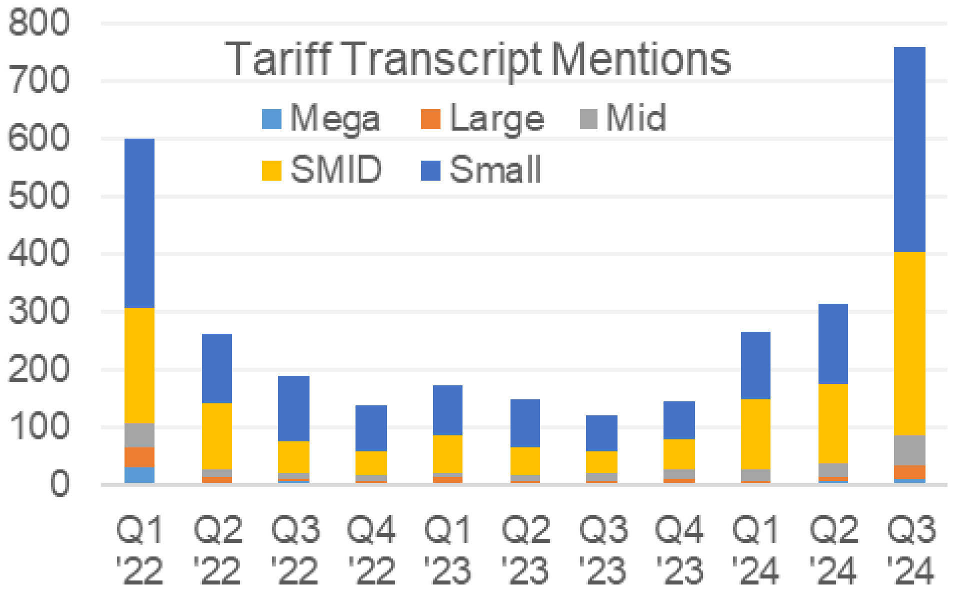
Trump 2.0 Tariff Proposals Go Far Beyond Trump 1.0 Trade War Reality

- 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"



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

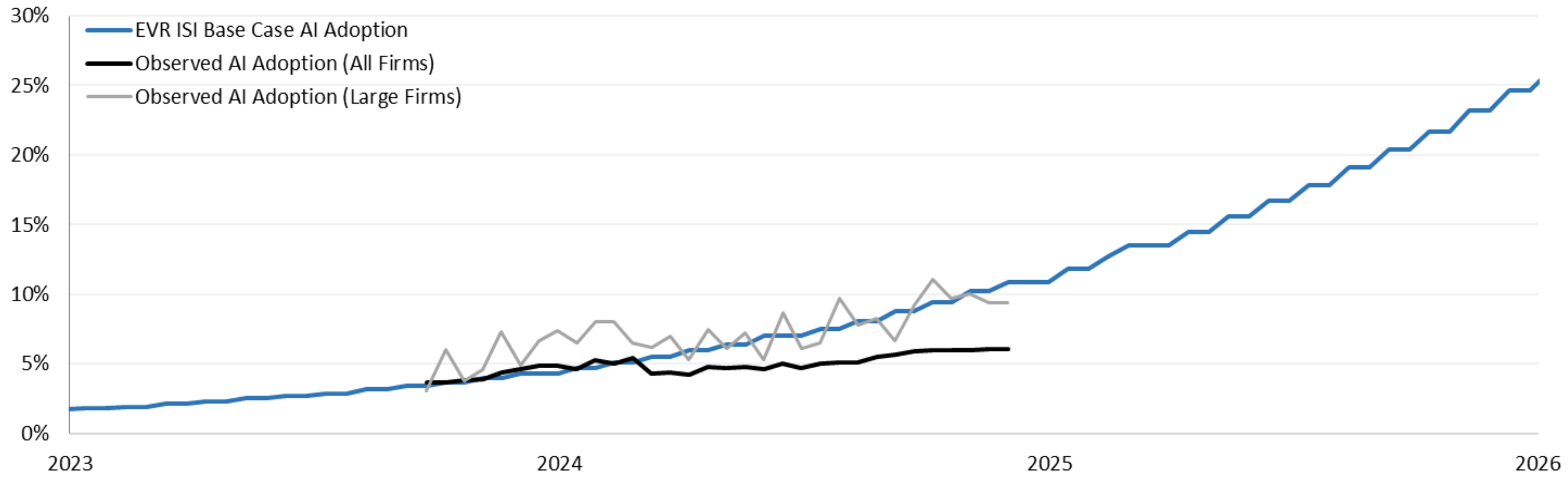


Note: 'Trump 2.0 Proposals' assumes 60% tariff on China and 10% across-the-board tariff on ROW; Source: Census Bureau, U.S. International Trade Commission, Evercore ISI Research

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



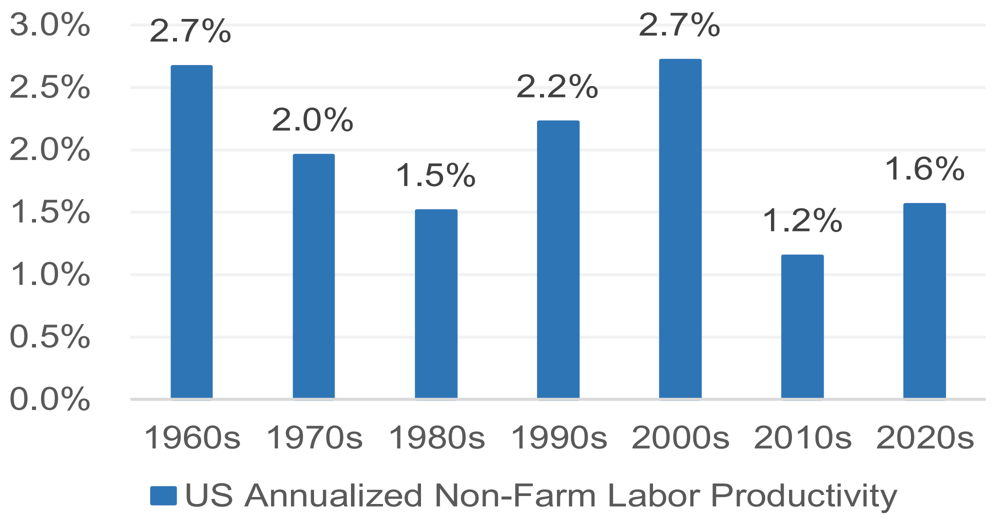
Source: Census Bureau, Evercore ISI Research

- **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?

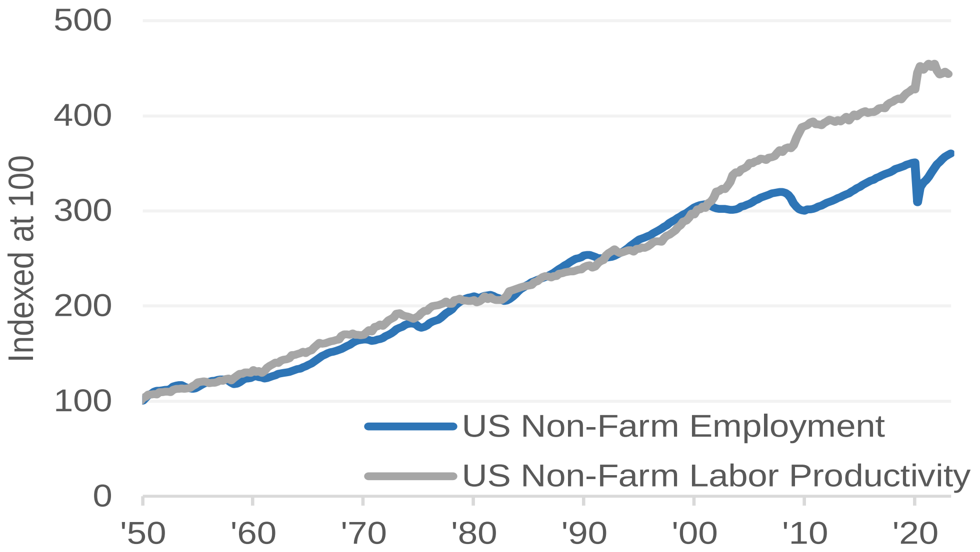
- Can leveraging AI spur productivity gains to Internet's 2%+ boom years in the 1990s-2000s?
- Pertinent as Demographic challenges strain labor forces.
- Post WWII, 70 years of job growth and productivity growth have gone hand-in-hand…
- …"Roughly 60% of employment is found in job titles that did not 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

NVIDIA
salesforce
snowflake
DATADOG
CARVANA
ATLASSIAN

Source: Factset, Bloomberg, Evercore ISI Research

EQUITY AND DERIVATIVES STRATEGY DISCLOSURE

This analysis is a product of the Evercore ISI's Equity and Derivatives Strategy team. Views expressed herein may differ from the views of the Evercore ISI research analysts covering the stocks and/or sectors mentioned in this analysis. This analysis is distinct from and does not affect the Evercore ISI analyst's fundamental equity rating for such companies and/or sectors. This analysis may discuss companies not currently covered by Evercore ISI's Equity Research Department. Structured securities, options and other complex instruments discussed in this analysis may involve a high degree of risk and thus may be appropriate investments only for sophisticated investors who are capable of understanding and assuming the risks involved. Clients should consider whether any advice or recommendation in this analysis is suitable for their particular circumstances and, if appropriate, seek professional advice. Because of the high degree of emphasis on tax considerations to many option transactions, the investor considering options should also consult with his/her tax advisor as to how taxes affect the outcome of contemplated option transactions. Please refer to the additional information in the "Options Statement and Risk Disclosure" section.

OPTIONS STATEMENT AND RISK DISCLOSURE

Options involve risk and are not suitable for all investors. There is no guarantee that the strategies promoted will accomplish the stated objectives. Options trading is considered speculative and it is possible to lose a portion of, all of your initial investment, or funds in excess of the principal invested. Prior to buying or selling an option, clients must read a copy of Characteristics and Risks of Standardized Options (ODD) available on http://www.theocc.com/about/publications/character-risks.jsp. Because of the importance of tax considerations to many option transactions, investors considering options should consult with a tax advisor as to how taxes affect the outcome of contemplated options transactions. Transaction costs may be significant in option strategies that call for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request; please contact your Evercore ISI Salesperson for further information.

GENERAL DISCLOSURES

This report is approved and/or distributed by Evercore Group L.L.C. ("Evercore Group"), a U.S. licensed broker-dealer regulated by the Financial Industry Regulatory Authority ("FINRA") and by International Strategy & Investment Group (UK) Limited ("ISI UK"), which is authorized and regulated in the United Kingdom by the Financial Conduct Authority. The institutional sales, trading and research businesses of Evercore Group and ISI UK collectively operate under the global marketing brand name Evercore ISI ("Evercore ISI"). Both Evercore Group and ISI UK are subsidiaries of Evercore Inc. ("Evercore"). The trademarks, logos and service marks shown on this report are registered trademarks of Evercore Inc.

This report is provided for informational purposes only and subject to additional restrictions contained in this disclosure. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The information and opinions in this report were prepared by employees of affiliates of Evercore. The information herein is believed by Evercore ISI to be reliable and has been obtained from public sources believed to be reliable, but Evercore ISI makes no representation as to the accuracy or completeness of such information.

Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Evercore or its affiliates and are subject to change without notice. In addition, opinions, estimates and projections in this report may differ from or be contrary to those expressed by other business areas or groups of Evercore and its affiliates.

Evercore ISI has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Facts and views in Evercore ISI research reports and notes have not been reviewed by, and may not reflect information known to, professionals in other Evercore affiliates or business areas, including investment banking personnel. Evercore ISI salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed in this research.

Our asset management affiliates and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

Evercore ISI does not provide individually tailored investment advice in research reports. The financial instruments discussed in this report are not suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. This report has been prepared without regard to the particular investment strategies or financial, tax or other personal circumstances of the recipient. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to the recipient's individual circumstances, or otherwise constitutes a personal recommendation to the recipient. None of Evercore Group or its affiliates will treat any recipient of this report as its customer by virtue of the recipient having received this report.

Securities and other financial instruments discussed in this report, or recommended or offered by Evercore ISI, are not insured by the Federal Deposit Insurance Corporation and are not deposits of or other obligations of any insured depository institution. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and such investor effectively assumes such currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Estimates of future performance are based on assumptions that may not be realized. Furthermore, past performance is not necessarily indicative of future performance.

Please note that this report was prepared for and distributed by Evercore ISI to its institutional investor and market professional customers.

Recipients who are not institutional investor or market professional customers of Evercore ISI should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.

Electronic research is simultaneously distributed to all clients. This report is provided to Evercore ISI clients only and may not be, in whole or in part, or in any form or manner (i) copied, forwarded, distributed, shared, or made available to third parties, including as input to, or in connection with, any artificial intelligence or machine learning model; (ii) modified or otherwise used to create derivative works; or (iv) used to train or otherwise develop a generative artificial intelligence or machine learning model, without the express written consent of Evercore ISI. Receipt and review of this research report constitutes your agreement with the aforementioned limitations in use.

This report is not intended for distribution to or use by any person or entity in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Evercore Group or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is being distributed by a financial institution other than Evercore ISI or its affiliates, that financial institution is solely responsible for such distribution and for compliance with the laws, rules and regulations of any jurisdiction where this report is distributed. Clients of that financial institution should contact that institution to effect any transaction in the securities mentioned in this report or if such clients require further information. This report does not constitute investment advice by Evercore ISI to the clients of the distributing financial institution, and neither Evercore ISI nor its affiliates, nor their respective officers, directors or employees, accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Evercore is not authorized to act as a financial entity, securities intermediary, investment advisor or as any other regulated entity under Mexican law, and no actions, applications or filings have been undertaken in Mexico, whether before the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores “CNBV”) or any other authority, in order for Evercore to carry out activities or render services that would otherwise require a license, registration or any other authorization for such purposes; neither is it regulated by the CNBV or any other Mexican authority. This document, nor its content, constitutes an offer, invitation or request to purchase or subscribe for securities or other instruments or to make or cancel investments, nor may it serve as the basis for any contract, commitment or decision of any kind.

For persons in the UK: In making this report available, Evercore makes no recommendation to buy, sell or otherwise deal in any securities or investments whatsoever and you should neither rely or act upon, directly or indirectly, any of the information contained in this report in respect of any such investment activity. This report is being directed at or distributed to, (a) persons who fall within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”)); (b) persons falling within the definition of high net worth companies, unincorporated associations, etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This report must not be acted on or relied on by persons who are not relevant persons.

For persons in Switzerland: The distribution of these materials to persons or entities in Switzerland is not intended to, and does not, constitute a financial service under the Swiss Financial Services Act (FinSA). In particular, the distribution of these materials does not constitute the provision of personal recommendations on transactions with financial instruments (investment advice) within the meaning of Article 3(c)(4) of FinSA.

For persons in Australia: Evercore does not have an Australian Financial Services License ("AFSL"). This report is only to be distributed to persons who fall within the definition of "wholesale" investors under section 761G of the Corporations Act 2001 (Cth). This report must not be acted on or relied on by persons who are not wholesale investors. Evercore relies on the relief provided under ASIC Corporations (Foreign Financial Services Providers—Limited Connection) Instrument 2017/182 to provide this report to wholesale investors in Australia without an AFSL.

For persons in New Zealand: This material has been prepared by Evercore Group L.L.C. for distribution in New Zealand to financial advisors and wholesale clients only and has not been prepared for use by retail clients (as those terms are defined in the Financial Markets Conduct Act 2013 (‘FMCA’)). Evercore Group L.L.C. is not, and is not required to be, registered or licensed under the FMCA, and unless otherwise stated any financial products referred to in this material are generally only available in New Zealand for issue to those satisfying the wholesale investor criteria in the FMCA.

Applicable current disclosures regarding the subject companies covered in this report are available at the offices of Evercore ISI: 55 East 52nd Street, New York, NY 10055, and at the following site: https://evercoreisi.mediasterling.com/disclosure.

In compliance with the European Securities and Markets Authority's Market Abuse Regulation, a list of all Evercore ISI recommendations disseminated in the preceding 12 months for the subject companies herein, may be found at the following site: https://evercoreisi.mediasterling.com/disclosure.