VERDENCE CAPITAL ADVISORS

Key **Takeaways:**

- Gearing up for 4Q24 earnings season.
- Financials taking center stage, expected to be largest contributor to earnings growth.
- Semiconductors to be key contributor to information technology growth.
- Energy sector expected to underperform given lower crude oil prices.
- 2025 earnings expectations too optimistic.

4Q24 Earnings Preview and 2025 Outlook

This week, S&P 500 companies are expected to begin reporting 4Q24 earnings. Major financial firms, are set to kick off earnings season beginning Wednesday, January 15th (e.g., JPMorgan Chase, Wells Fargo). The S&P 500 index is expected to report year-over-year earnings growth of 11.7% for 4Q24. This would be the highest growth rate reported by the index since 4Q21 (+31.4%). This would also mark the sixth consecutive quarter of year-over-year earnings growth. This week we wanted to provide an overview of what investors can expect this earnings season, as well as provide a brief outlook on what could be coming for earnings in 2025.

- **Financials taking center stage:** Major financial firms kick off 4Q24 earnings on Wednesday, January 15th. The sector is expected to report the highest year-over-year earnings growth rate of all eleven sectors (+39.5%), with the banking sub-industry expected to be the largest contributor to the sector's performance. The industry is benefitting from easy comparisons to weaker GAAP earnings reported a year ago, in which many firms had significant charges related to FDIC special assessments. If the banking sub-industry were excluded, the year-over-year growth rate would fall to 11%.

- **Communication services sector to be a top contributor:** The communication services sector is expected to report the second highest year-over-year earnings growth for the quarter (+20.8%). Four of the five sub-industries in this sector are expected to report earnings growth, with the Diversified Telecommunication Services industry expected to post a slight decline (-3%).

- **Semiconductors to lead information technology sector:** The information technology sector is expected to report year-over-year earnings growth of 13.5% with the semiconductor sub-industry expected to report 34.3% growth. The sector is expected to report the largest year-over-year revenue growth rate (+11.1%).

- **Lower oil prices expected to hurt energy sector:** The energy sector is expected to report the largest year-over-year earnings decline of all eleven sectors (-26.4%). Crude oil prices during 4Q24 were ~10% lower vs. 4Q23.

- **Preparing for 2025 earnings:** The S&P 500 index is expected to report ~14.6% earnings growth for the 2025 full year, which is above the trailing 10-year average annual earnings growth rate of 8%. Analysts expect earnings growth outside the "Magnificent 7" components to improve broadly, currently expecting a ~13% growth rate for these 493 companies, much higher than the ~4% rate for these companies in 2024.

The Bottom Line:

While economic growth has remained resilient in the face of ongoing inflation pressures, we expect growth to slow in 2025. As a result, the current earnings estimate for 2025 may be too optimistic. We will monitor closely the comments from company leaders regarding inflation, their view on the labor market, what they are seeing regarding consumer spending and what a new administration may mean for their bottom line. Specifically, are they prepared for tariffs?

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Key Takeaways:

- Job openings increase to highest level in six months.
- Fed meeting minutes indicate upside risks to inflation.
- U.S. economy adds most jobs since March.
- U.S. equities tumble as Fed outlook remains cloudy.
- Treasury yields surge as investors reprice rate cuts.
- Commodities rally on geopolitical tensions.

Weekly Economic Recap –

Careful Approach to Monetary Policy Needed as Inflation Risks Remain Strong

The ISM Services Index increased in December, supported by the business activity gauge increasing to a three-month high. Prices paid for services jumped to the highest level since February 2023.

Job openings, as tracked by the JOLTS report, increased to the highest level in six months in November (8.1 million). The increase was led almost entirely by professional and business services. The quits rate (i.e., those leaving their jobs voluntarily) fell to 1.9%.

The minutes from the Federal Reserve's December meeting indicated officials' willingness to move slowly cutting rates in the months ahead. "Many participants suggested a variety of factors underlined the need for a careful approach to monetary policy decisions over the coming quarters." The minutes also showed a number of policymakers indicated that they included "placeholder assumptions" about potential policy changes, and participants agreed "upside risks to the inflation outlook [have] increased."

The U.S. economy added more jobs than expected in December (256K vs. 153K est.) and the most since March. The unemployment rate unexpectedly fell to 4.1%, from 4.2%. The labor force participation rate was unchanged at 62.5% in December.

Consumer sentiment, as tracked by the University of Michigan Consumer Sentiment Index, decreased in the preliminary January reading. Long-term inflation expectations increased to the highest level since 2008, increasing from 3.0% to 3.3%, on concerns about potential tariffs.

Weekly Market Recap –

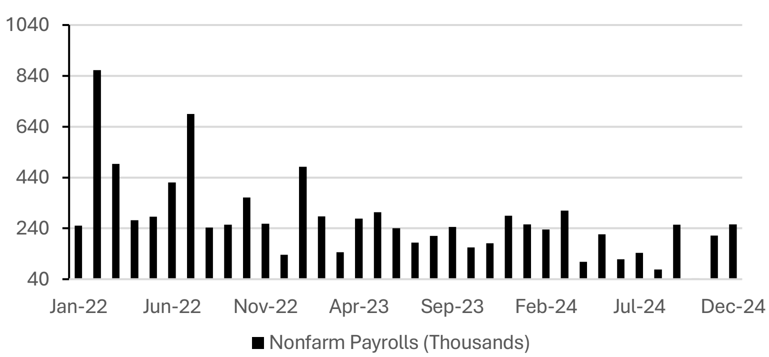
Yields Surge Pushing Rate-Sensitive Equities Lower

Equities: The MSCI AC World Index was lower for the second straight week led by weakness in the U.S. Investors digested Federal Reserve commentary that suggests inflationary risks remain problematic, casting doubt on the number of potential rate cuts this year. The most rate-sensitive areas of U.S. markets, including small-caps and technology, fell the most.

Fixed Income: The Bloomberg Aggregate Index was lower for the fourth time in the past five weeks. Treasuries, specifically the 10 and 30 year Treasury, led the weakness. The 30YR Treasury yield rose above 5% (intraday) for the first time since December 2023. Investment grade debt also declined as did municipal bonds. Floating rate instruments and leverage loans were the only two sectors of fixed income that moved higher.

Commodities/FX: The Bloomberg Commodity Index posted its best one week gain since June 2023. Crude oil prices jumped after the U.S. annouced more sanctions on Russia's oil industry. Safe-haven assets, specifically gold, were higher as uncertainty around inflation and Trump policies grows.

Economy Adds Most Jobs Since March



Footnotes: Data is as of December 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors

Higher Rates Hamper Global Equities

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	41,938	-1.8%	-5.2%	-0.8%	13.3%	-1.4%
S&P 500	5,827	-1.9%	-3.3%	1.1%	23.5%	-0.9%
Russell 1000 Growth	4,010	-2.2%	-2.5%	5.2%	31.6%	-0.8%
Russell 1000 Value	1,809	-1.5%	-4.7%	-2.4%	13.7%	-0.8%
Russell Midcap	3,503	-2.0%	-5.5%	0.2%	15.6%	-0.8%
Russell 2000	2,189	-3.5%	-8.0%	0.4%	12.6%	-1.8%
Nasdaq	19,162	-2.3%	-2.6%	5.0%	29.0%	-0.8%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	834	-1.6%	-3.7%	-1.4%	17.1%	-0.9%
MSCI EAFE (USD)	2,245	-0.4%	-3.8%	-6.6%	4.3%	-0.7%
MSCI Europe ex UK (USD)	2,469	0.9%	-3.4%	-7.7%	1.7%	0.3%
MSCI Japan (USD)	3,822	-2.6%	-4.3%	-5.3%	5.2%	-2.8%
MSCI UK (USD)	1,200	-1.1%	-4.1%	-5.7%	7.0%	-1.4%
MSCI EM (USD)	1,057	-1.5%	-4.7%	-8.4%	9.4%	-1.6%
MSCI Asia ex Japan (USD)	688	-1.8%	-4.9%	-8.7%	14.1%	-2.2%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	5.1%	-0.9%	-2.7%	-2.6%	1.2%	-1.0%
U.S. Govt/Credit	4.9%	-0.8%	-2.6%	-2.6%	1.2%	-0.9%
U.S. 10 Year Treasury	4.8%	-1.2%	-3.8%	-4.4%	-1.8%	-1.4%
U.S. TIPS (1-10YR)	4.7%	-0.1%	-1.1%	-1.4%	3.4%	-0.2%
U.S. High Yield	7.5%	-0.3%	-0.8%	0.7%	8.7%	0.0%
EM Bonds (USD)	6.8%	-0.6%	-2.1%	-1.1%	7.5%	-0.5%
Municipal Bonds	3.8%	-0.9%	-2.3%	-1.4%	0.6%	-0.7%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	248	4.1%	4.1%	3.1%	10.6%	3.9%
Crude Oil (USD/bbl)	$77.9	5.8%	6.6%	2.3%	5.2%	6.1%
Gold ($/oz)	$2,689.8	1.1%	0.6%	0.3%	30.1%	1.5%
Copper	$430.4	3.2%	3.5%	-4.4%	14.8%	6.7%
Wheat	$530.8	-0.6%	-2.7%	-13.6%	-18.2%	-2.5%
U.S. Dollar	110	1.5%	2.6%	6.7%	7.3%	1.2%
VIX Index	19.5	21.1%	37.8%	-6.6%	54.0%	12.6%

Footnotes: Data is as of January 10, 20254.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

Footnotes: Earnings data and estimates are per Factset and can be found in the link below
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_011025A.pdf

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Past performance is not indicative of future returns.

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