

Key Takeaways:

- 1Q25 earnings season is underway.
- Financials results start strong, but company executives undertake cautious tone.
- Technology will be in focus; Nvidia pulling projections lower.
- Health care sector projected to report largest earnings growth rate.
- Earnings calls to be in focus, specifically from tariff and economic landscape.

An Overview of 1Q25 Earnings Season

It has been roughly two weeks since the start of 1Q25 earnings season. This earnings season is one we are watching closely for clues on how companies are preparing for and/or currently dealing with international trade disruptions amid an increasingly contentious geopolitical environment. The S&P 500 is expected to report year-over-year earnings growth of ~7.2% which would mark the seventh-straight quarter of year-over-year earnings growth.¹ On a quarter-over-quarter basis, the Index is expected to report negative earnings growth for the first time since 4Q23. This week, we dive deeper into 1Q25 earnings season.

- **Financials kick off earnings season:** Major financial firms kicked off 1Q25 earnings season posting mostly better than expected results across the board. As a result, the blended earnings growth rate for the sector has increased to 6.1% (from 2.6% on March 31st), and the sector has been the largest positive contributor to the blended earnings growth rate for the S&P 500 since March 31st. CEOs of major financial institutions still sounded somewhat gloomy on the outlook

for the economy. JPMorgan's Jamie Dimon stated, "the economy is facing considerable turbulence," and Wells Fargo's Charlie Scharf said, "[we] expect continued volatility and are prepared for slower economic growth environment in 2025."

- **Technology remains in the spotlight:** The information technology sector is expected to report the second-highest year-over-year earnings growth of all eleven sectors (14.0%). The semiconductor industry is expected to be the largest contributor to earnings growth (32%). If the semiconductor industry was excluded from the technology sector, the projected earnings growth rate would fall to 6.4%. Nvidia confirmed they would be reporting ~\$5.5 billion in write-downs during the quarter, tied to inventory and commitments for their H20 chip after the Trump administration informed them, they would no longer be able to sell the chips in China.² This has already negatively impacted the sector's projected year-over-year earnings growth rate, which is

lower than last week's 14.9% estimate.

- **Health care to lead earnings growth:** The health care sector is expected to report the largest year-over-year earnings growth of all eleven sectors (34.5%). The projected increase is being led by Bristol Myers Squibb and Gilead Sciences as both companies are benefiting from easy comparisons to a year ago due to R&D costs incurred during the period. If these companies were excluded, the earnings growth rate for the sector would fall to 3.6%.

The Bottom Line:

Over the last 10 years, actual earnings reported by companies have exceeded expectations by ~6.9%. According to FactSet, the blended earnings growth rate could climb to as high as 12.8% for 1Q25 if companies beat expectations at this pace. We still expect companies to beat analyst expectations, but expect the size of the beats to be more modest. We are most interested in comments about tariffs and the economy from company executives.

Weekly Economic Recap –

Consumers Spend Ahead of Tariff Impacts

Retail sales increased at the fastest monthly pace since January 2023 (+1.4%) driven by an increase in sales at auto retailers. The report suggested buyers are likely getting ahead of tariffs by increasing purchases of autos, building materials, sporting goods, and electronics, many of which are made in China. The control group, which feeds directly into the calculation for GDP, increased slightly less than expected (+0.4% vs. +0.6% est.).

The European Central Bank (ECB) cut interest rates by 25bps to 2.25% last week. In its policy statement, the ECB said, “the outlook for growth has deteriorated owing to rising trade tensions... increased uncertainty is likely to reduce confidence.”

Homebuilder confidence increased slightly in April but remained constrained near the lowest levels since November 2023. Prospective buyers’ traffic increased slightly, but sales expectations fell to a one-year low and prices of materials are still climbing amid tariffs.

Construction of new homes in the U.S. fell by the most in a year (-11.4%) to an annualized rate of 1.32 million in March. Elevated home prices and mortgage rates led to decreased demand. New single-family home construction fell by the most since the beginning of the Covid pandemic.

Initial claims for unemployment benefits fell to the lowest level in two months (215K), slightly less than expected (225K). Continuing claims, which run a week behind the headline number, increased to 1.89 million.

Key Takeaways:

- Consumer spending increases ahead of tariffs.
- ECB cuts interest rates by 25bps.
- Homebuilder confidence remains historically low.
- U.S. equities lag European counterparts; technology lower.
- Treasury yields lower on hawkish Fed comments.
- Commodities higher for second straight week.

Weekly Market Recap –

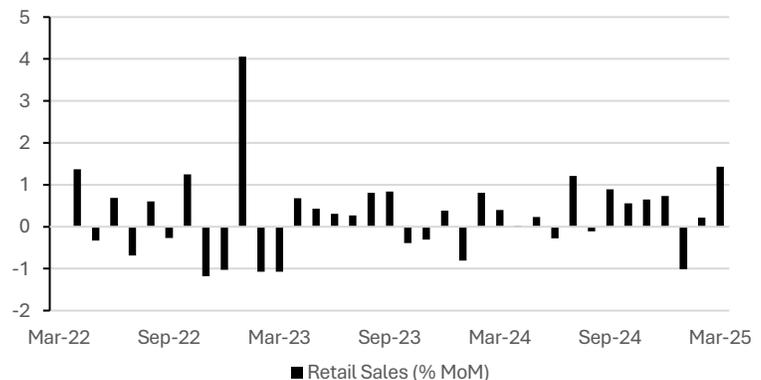
European Equities Rally on Tariff Reprieve Optimism

Equities: The MSCI AC World Index was higher for the second straight week. European equities led global performance as news of trade negotiations increased. In the U.S., small-cap equities as tracked by the Russell 2000 were higher for the second straight week. U.S. large-caps were lower driven by technology underperformance after the U.S. announced more restrictions on the export of chips to China.

Fixed Income: The Bloomberg Aggregate Index was higher for the second time in the last three weeks. Hawkish comments from Fed Chairman Powell sparked some risk-off sentiment that helped bond prices move higher, and yields tick lower. All sectors of fixed income posted gains. Municipal bonds were higher for the second time in three weeks.

Commodities/FX: The Bloomberg Commodity Index was higher for the second straight week. Crude oil prices gained the most since the start of the year as the U.S. announced new sanctions on Iranian oil, raising supply concerns. Copper prices were higher by the most since February as buyers look to get ahead of U.S. tariffs.

Consumers Spend at Fastest Pace Since Jan. '23



Footnotes: Data is as of March 2025.
Data Source: FactSet Research Svstems. Verdencc Capital Advisors.

Equities Mixed; Rates Fall

U.S. Equities								International Equities							
	Current	1WK	1MO	3MO	1YR	YTD		Current	1WK	1MO	3MO	1YR	YTD		
Dow Jones Industrial Average	39,142	-1.1%	-6.4%	-9.6%	5.5%	-7.6%	MSCI AC World (USD)	793	0.4%	-5.3%	-6.8%	7.5%	-5.3%		
S&P 500	5,283	0.3%	-6.8%	-11.6%	6.6%	-9.8%	MSCI EAFE (USD)	2,396	4.3%	-4.1%	5.6%	9.5%	6.8%		
Russell 1000 Growth	3,441	-0.5%	-7.6%	-15.9%	6.1%	-14.7%	MSCI Europe ex UK (USD)	2,709	3.8%	-5.3%	7.3%	9.2%	10.7%		
Russell 1000 Value	1,736	1.6%	-6.0%	-7.4%	6.3%	-4.2%	MSCI Japan (USD)	3,939	4.8%	-3.2%	4.5%	4.6%	1.1%		
Russell 2500	#N/A N/A	2.4%	-8.0%	-16.0%	-1.6%	-13.3%	MSCI UK (USD)	1,304	5.4%	-2.8%	7.1%	15.8%	8.6%		
Russell 2000	1,881	2.7%	-9.0%	-17.1%	-2.1%	-15.4%	MSCI EM (USD)	1,069	2.3%	-6.4%	0.4%	7.5%	0.0%		
Nasdaq	16,286	-0.6%	-8.5%	-16.9%	4.6%	-15.5%	MSCI Asia ex Japan (USD)	689	2.4%	-7.3%	-0.6%	9.9%	-1.7%		

Fixed Income								Commodities							
	Current Yield	1WK	1MO	3MO	1YR	YTD		Current	1WK	1MO	3MO	1YR	YTD		
U.S. Aggregate	4.7%	0.9%	-0.3%	2.0%	6.7%	2.0%	Bloomberg Commodity Index	252	3.2%	-2.0%	0.3%	5.6%	5.5%		
U.S. Govt/Credit	4.6%	0.7%	-0.2%	2.0%	6.4%	1.9%	Crude Oil (USD/bbl)	\$63.1	2.7%	-5.2%	-12.8%	-20.0%	-8.6%		
U.S. 10 Year Treasury	4.3%	1.2%	0.0%	3.3%	6.7%	3.3%	Gold (\$/oz)	\$3,326.9	6.0%	12.7%	24.0%	42.3%	29.7%		
U.S. TIPS (1-10YR)	4.1%	0.7%	0.9%	2.8%	7.4%	3.4%	Copper	\$473.9	5.9%	-5.9%	10.3%	6.5%	18.9%		
U.S. High Yield	8.2%	1.4%	-1.4%	-1.0%	8.3%	-0.2%	Wheat	\$562.3	-0.9%	-1.6%	-2.8%	-12.1%	-0.7%		
EM Bonds (USD)	6.8%	1.6%	-1.3%	0.8%	8.0%	1.0%	U.S. Dollar	99	-2.0%	-5.7%	-9.2%	-7.6%	-9.5%		
Municipal Bonds	4.1%	-0.5%	-1.9%	-1.4%	0.8%	-1.7%	VIX Index	29.7	-27.2%	44.6%	85.7%	62.8%	70.9%		

Footnotes: Data is as of April 18, 2025.

Source: Bloomberg Finance LP, Verdenance Capital Advisors.

1: https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_041725.pdf2: <https://www.bloomberg.com/news/articles/2025-04-15/nvidia-says-us-has-imposed-new-china-restrictions-on-h20-chips?Fds-Load-Behavior=force-external>

Disclaimer:

© 2025 Authored by Megan Horneman, Chief Investment Officer, Verdenca Capital Advisors, LLC. Reproduction without permission is not permitted. The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

This material was prepared by Verdenca Capital Advisors, LLC ("VCA" or "we", "our", "us"). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses. Sector Watch Use of this website is intended for U.S. residents only. Any recommendation, opinion or advice regarding securities or markets contained in such material does not reflect the views of Verdenca Capital, and Verdenca Capital does not verify any information included in such material. Verdenca Capital assumes no responsibility for any fact, recommendation, opinion, or advice contained in any such research material and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions you may make to buy, sell, or hold a security based on this research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to Verdenca Capital. It is understood that, without exception, any order based on such research that is placed for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, Verdenca Capital assumes no responsibility for the accuracy, completeness, or timeliness of any such research or for updating such research, which is subject to change without notice at any time. Verdenca Capital does not provide tax, or legal advice. Under no circumstance is the information contained within this research to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower rated securities are subject to greater credit risk, default risk, and liquidity risk. Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Data is provided for information purposes only and is not intended for trading purposes. Verdenca Capital shall not be liable for any errors or delay in the content, or for any action taken in reliance on any content.