



Equity Markets: Current Landscape

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Outline

- **Where are the opportunities**
- **The dominance of the Top 10**
- **Reversals after poor performance**
- **Are money managers adding value?**
- **Persistence in growth**

Current vs. Historical Valuations by Size and Valuation

Largest 2,000 U.S. Companies: Top 500, Mid 500, Small 1000 by Market Value

Top 500, Mid 500, Small 1000 by Market cap

As of March 25, 2025

	Wt Mean			
Size:	Small1000	Mid500	Top500	All Top2K
Number of Firms	1,000	500	500	2,000
Total Market Cap (in millions)	\$1,955,072	\$3,868,855	\$52,854,352	\$58,678,279
Market to book ratio	1.82	2.50	5.15	4.52
P/E IBES Trailing	19.32	19.12	24.43	23.93
P/E FY1				
2025-03-25 Level	17.8	17.4	22.3	21.8
2003-2024 Median	21.8	18.9	17.3	17.8
Premium to Median %	-18.5	-8.0	28.6	22.3
Rank(2003-2024)	0.136	0.314	0.881	0.879

Current vs. Historical Valuations by Size and Valuation

Largest 2,000 U.S. Companies: Top 500, Mid 500, Small 1000 by Market Value

30-40-30 Market cap portfolios sorted by Comprehensive Valuation Measure

As of March 25, 2025

Size:	Wt Mean								
	Small1000			Mid500			Top500		
	Expensive	Middle	Cheap	Expensive	Middle	Cheap	Expensive	Middle	Cheap
30-40-30:	P1	P2	P3	P1	P2	P3	P1	P2	P3
Number of Firms	303	386	311	152	198	150	103	155	242
Rank on Valuation	0.222	0.546	0.864	0.211	0.501	0.827	0.177	0.315	0.627
Market to book ratio	4.19	1.78	1.25	5.86	2.70	1.48	18.82	7.10	2.40
P/E FY1									
2025-03-25 Level	54.8	16.4	9.7	47.1	17.5	9.9	36.3	25.2	14.3
2003-2024 Median	62.3	20.9	11.9	43.8	18.6	11.8	28.3	18.1	11.9
Premium to Median %	-12.0	-21.6	-18.3	7.4	-6.2	-15.5	28.1	39.5	20.5
Rank(2003-2024)	0.347	0.031	0.171	0.679	0.289	0.207	0.806	0.869	0.943

Current vs. Historical Valuations by Size and Valuation

Largest 2,000 Developed EAFE + Canadian Companies: Top 500, Mid 500, Small 1000 by Market Value

Top 500, Mid 500, Small 1000 by Market cap

As of March 25, 2025

Size:	Wt Mean			
	Small1000	Mid500	Top500	All Top2K
Number of Firms	1,000	500	500	2,000
Total Market Cap (in millions)	\$2,309,188	\$3,566,710	\$22,423,587	\$28,299,486
Market to book ratio	1.33	1.59	2.01	1.87
E/P WS Trailing	17.9	19.8	17.5	17.8
P/E FY1				
2025-03-25 Level	13.8	14.5	15.1	14.9
2003-2023 Median	17.8	17.8	15.8	16.2
Premium to Median %	-22.2	-18.4	-4.2	-7.7
Rank(2003-2023)	0.107	0.178	0.403	0.320

Current vs. Historical Valuations by Size and Valuation

Largest 2,000 Developed EAFE + Canadian Companies: Top 500, Mid 500, Small 1000 by Market Value

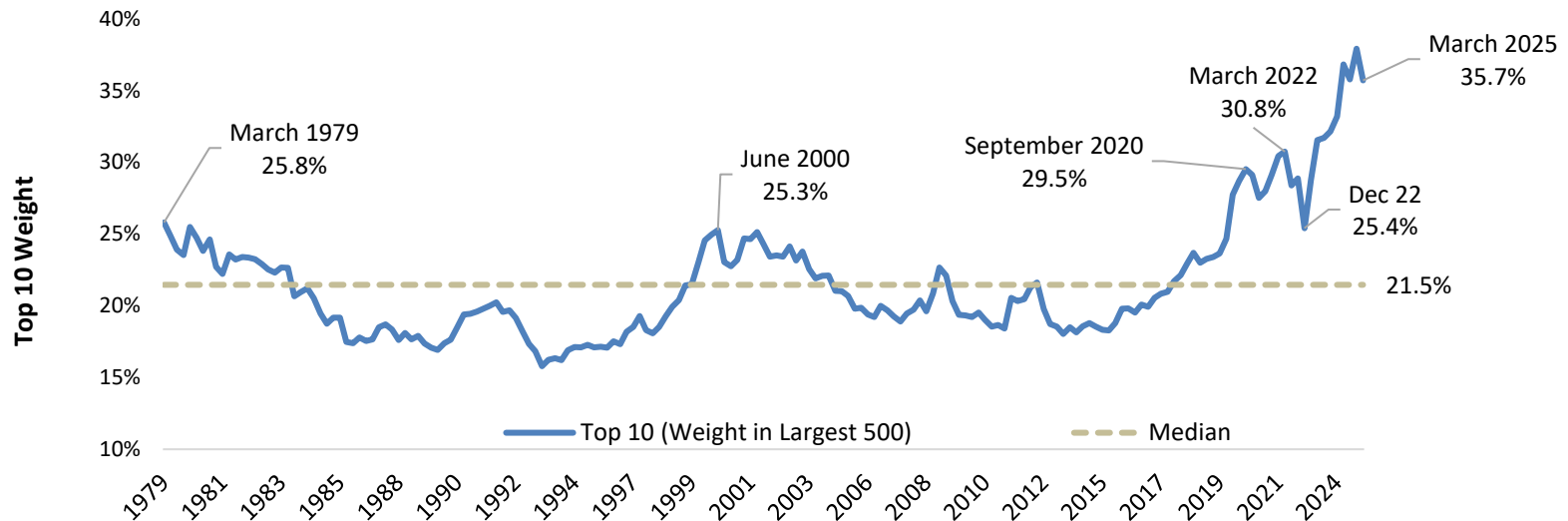
30-40-30 Market cap portfolios sorted by Comprehensive Valuation Measure

As of March 25, 2025

Size:	Wt Mean								
	Small1000			Mid500			Top500		
	Expensive	Middle	Cheap	Expensive	Middle	Cheap	Expensive	Middle	Cheap
30-40-30:	P1	P2	P3	P1	P2	P3	P1	P2	P3
Number of Firms	308	404	288	150	197	153	140	203	157
Rank on Valuation	0.181	0.548	0.867	0.141	0.448	0.817	0.114	0.428	0.840
Market to book ratio	2.30	1.28	0.96	3.25	1.50	1.10	5.24	2.31	1.12
P/E FY1									
2025-03-25 Level	29.2	14.0	9.0	25.5	15.6	9.6	30.4	16.0	9.5
2003-2023 Median	32.7	17.6	12.3	28.3	17.7	12.4	23.3	16.4	11.3
Premium to Median %	-10.5	-20.5	-26.8	-10.0	-12.0	-22.9	30.3	-2.5	-16.2
Rank(2003-2023)	0.190	0.085	0.171	0.129	0.164	0.201	0.791	0.429	0.230

Are There Signs of Irrational Exuberance?

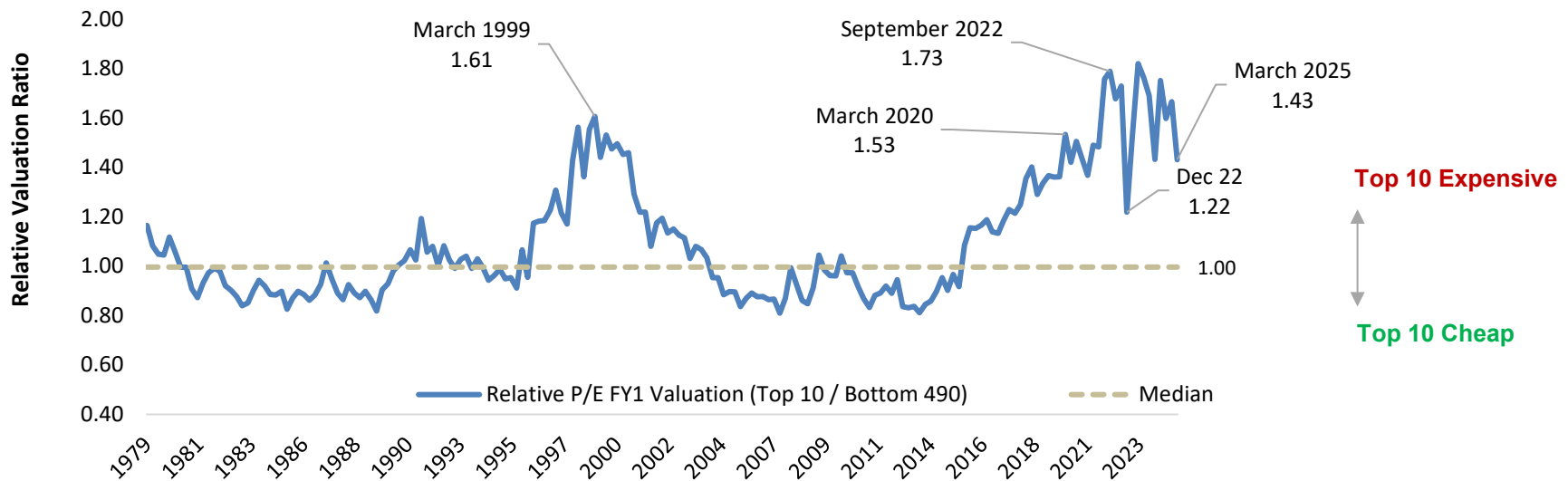
Weight of Top 10 Stocks in the U.S. Over Time



- **As of March 2025, the Top 10 stocks in the U.S. represent 35.7% of the market cap of the largest 500 companies, one of the highest on record dating back to the 1970's**
 - The historical median weight of the top 10 names is 21.5%

Are There Signs of Irrational Exuberance?

Relative Valuation of Top 10 Stocks vs. Bottom 490 in the U.S. Over Time



- **The Top 10 stocks in the U.S. are also incredibly expensive today relative to the Bottom 490 companies**
 - Historically, the Top 10 stocks and Bottom 490 trade on par with one another
 - As of March 2025, the relative valuation ratio stands at 1.43

Value vs. Growth – U.S. Large Cap

5-Year Annualized Returns: Russell 1000 Value – Russell 1000 Growth
January 1979 – February 2025



Value Reversals in the U.S. (1927-2024)

Value Reversals After 3 Years Of Underperformance

Year	Trailing 3 year moving average (High B/M -Low B/M)	Next year's return	Next 3 years average return
2020	-22.27	25.39	12.55
1939	-11.78	-0.85	10.03
2019	-11.23	-46.67	1.56
1940	-10.70	11.13	23.22
2021	-10.58	25.97	1.06
1991	-9.59	24.49	13.52
1980	-8.76	25.04	19.62
2009	-8.59	-5.17	-1.20
2011	-7.74	9.99	3.71
1999	-7.70	44.98	23.87
1932	-4.79	32.39	4.98
1931	-4.61	11.11	5.28
2010	-4.59	-8.41	1.39
1953	-3.37	26.05	9.63
1941	-2.98	19.82	24.82
2015	-2.83	22.71	-0.18
1930	-2.01	-13.95	9.85
2008	-1.40	-9.65	-7.74
2012	-1.20	2.60	-2.83
1957	-1.09	13.48	3.52
1981	-0.63	13.29	17.65
1967	-0.63	18.56	10.01
2018	-0.18	-10.46	-10.58
2017	-0.17	-9.67	-22.27
1992	-0.09	16.96	7.35
Average	-5.58	9.57	6.35
Number of events	25	25	25
Number > 0	0	17	19
% > 0		68.0%	76.0%

- Value strategies mean revert strongly after a period of underperformance
- After 3 years of underperformance, value strategies outperform 68% of the times over the next calendar year and 76% of the times over the next 3 calendar years

Value Strategies Mean Revert Strongly After Valuation Spreads Are Wide

Performance of Cheap and Expensive Stocks by Valuation in the U.S. (1967 – 2025)

Value/Growth Spread	Median Trailing P/E				Forward 1 Year Returns (Equal Weighted)					Forward 1 Year Returns (Value Weighted)				
	Expens. 30%	Middle 40%	Cheap 30%	Ratio: Expens. / Cheap	Expens. 30%	Middle 40%	Cheap 30%	Cheap - Expens.	Hit Rate: Cheap Wins	Expens. 30%	Middle 40%	Cheap 30%	Cheap - Expens.	Hit Rate: Cheap Wins
Value Expensive	20.3	13.0	9.7	2.08	19.9%	19.7%	22.9%	3.0%	60%	17.5%	16.2%	18.3%	0.8%	47%
Quintile 2	24.9	16.6	10.8	2.36	15.4%	15.5%	18.1%	2.6%	59%	14.9%	14.9%	16.0%	1.1%	59%
Quintile 3	31.6	18.7	12.3	2.59	7.8%	8.4%	10.8%	3.0%	59%	9.9%	8.7%	10.9%	1.1%	52%
Quintile 4	37.2	19.8	12.3	3.00	9.8%	11.5%	15.8%	6.0%	68%	11.2%	11.1%	13.9%	2.7%	64%
Value Cheap	46.1	23.1	12.2	3.93	0.2%	4.1%	11.0%	10.8%	73%	1.8%	5.4%	9.1%	7.2%	69%
Current (Feb 2025)	56.6	29.3	15.5	3.66										

After periods in which the spread in relative valuations of Cheap versus Expensive stocks are wide, Value strategies outperformed significantly and approximately ~73% of the times over the next 1-year

Is Active Management Dead?

Percent of Large eVestment Strategies Outperforming the Index

Calendar Year Returns: 2004 – 2024

Universe	Index	Average (2004 - 2024)	Average (2004 - 2016)	Average (2017 - 2024)
US Large Cap	S&P 500	48%	51%	42%
US Mid Cap	Russell MidCap	50%	49%	52%
US SMID	Russell 2500	56%	56%	57%
US Small Cap	Russell 2000	58%	59%	57%
EAFE Equity	MSCI EAFE	59%	63%	52%
ACWI ex-US Equity	MSCI ACWI ex-US	60%	61%	58%
EM Equity	MSCI EM	60%	62%	57%

Past and Future Growth Rates: Largest 100 Firms

Sort on past 5-year growth for largest 100 U.S. firms (P/S < 10), 1970-2023

History (1970 - 2023)					
Averages Over time	Lowest				Highest
	P1	P2	P3	P4	P5
Number of Firms	20	20	20	20	20
Sales per Share					
Past 5-year growth	-3.19	1.53	4.31	7.77	15.71
Future 5-year growth	1.49	2.31	3.04	4.06	7.59
EBITDA per Share					
Past 5-year growth	-4.93	1.39	5.17	9.43	18.91
Future 5-year growth	2.55	2.01	2.95	3.87	5.58
EBIT per Share					
Past 5-year growth	-6.69	0.97	5.30	10.18	21.21
Future 5-year growth	3.55	2.32	2.61	3.87	4.96

Past and Future Growth Rates: Top 10 vs Bottom 490

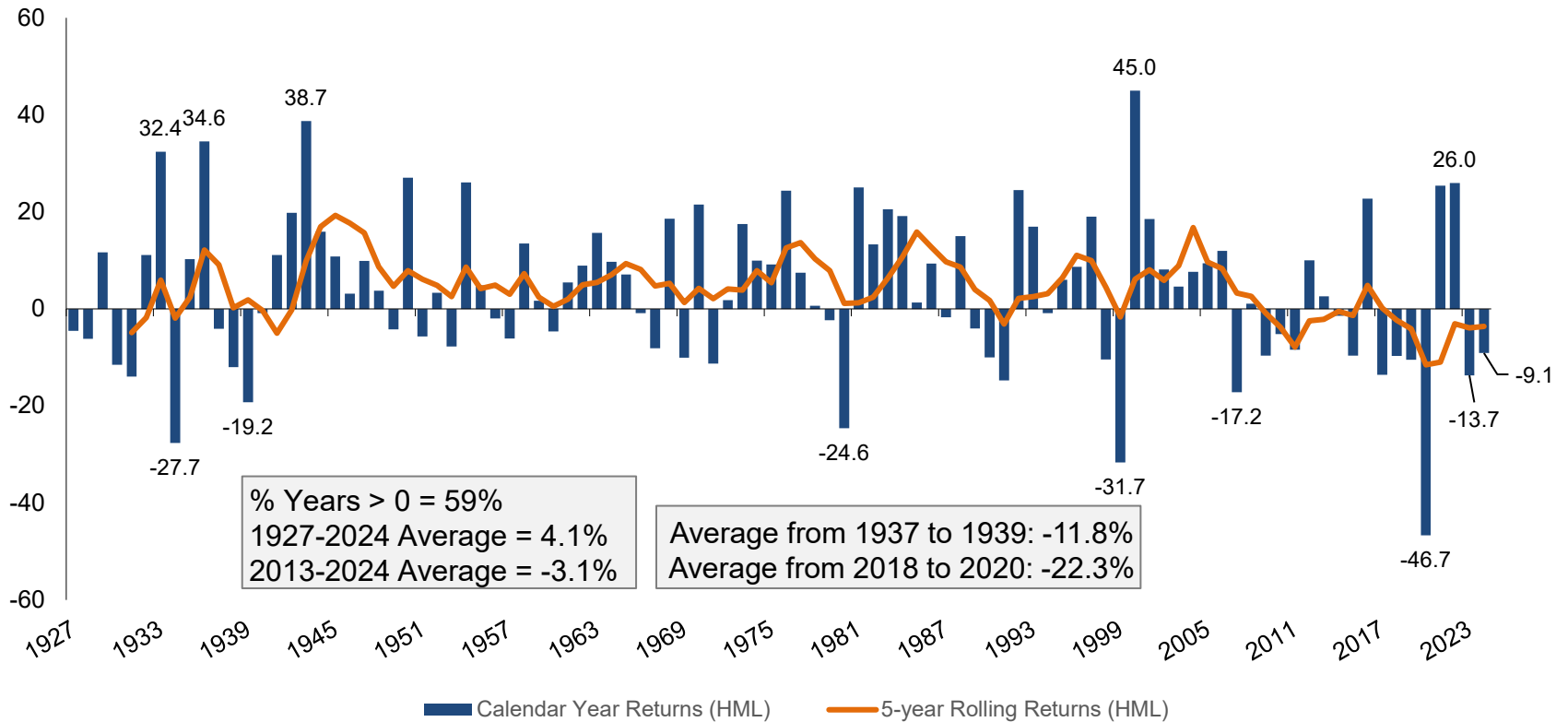
History (1973 - 2023)				
Averages Over time	Bottom 490	Top 10	Spread (Top10-Bot490)	Hit Rate (Top10>Bot490)
Multiple EPS FY1	15.88	15.06	0.99	0.49
Growth EPS FY1 Past 5Y	9.28	12.72	3.44	0.80
Growth EPS FY1 Future 5Y	9.15	7.70	-1.45	0.38
Growth EPS FY1 Future 5to10Y	9.69	8.29	-1.40	0.45
VW Total Return Past 5Y	10.91	13.96	3.05	0.72
VW Total Return Future 5Y	11.58	9.72	-1.87	0.25
Growth EPS FY1 Future 10Y	9.24	7.60	-1.64	0.33
Current (February 2025)				
Multiple EPS FY1	20.28	29.56	1.46	
Growth EPS FY1 Past 5Y	10.19	26.31	16.12	
Geo VW Total Return Past 5Y	11.87	27.57	15.69	
A Look at Periods when Past 5 Year Growth were High*				
Multiple EPS FY1	16.72	15.97	0.99	0.48
Growth EPS FY1 Past 5Y	7.38	14.21	6.83	1.00
Growth EPS FY1 Future 5Y	10.65	7.92	-2.73	0.24
Growth EPS FY1 Future 5to10Y	9.93	9.07	-0.85	0.39
Geo VW Total Return Past 5Y	7.49	12.93	5.43	0.93
Geo VW Total Return Future 5Y	10.71	6.57	-4.15	0.07
Growth EPS FY1 Future 10Y	10.24	8.38	-1.86	0.17

Portfolio Growth by Valuation 1970-2023, Value Weighted

	Expensive						Cheap		P1a	P1b	P1-P10	Tstat
	Portfolio	P1	P2	P5	P6	P9	P10					
E/P FY1	3.3	4.8	6.5	7.1	9.6	11.3	2.7	3.8	na	na		
B/M	15.7	22.5	43.7	50.0	66.1	79.2	13.4	18.1	na	na		
Return -4 to 0	256.4	164.1	85.3	76.0	58.2	56.1	297.4	223.1	na	na		
Sales Growth (annualized) -5 to 0	17.1	12.3	7.8	7.3	6.8	7.2	19.8	15.6	na	na		
EW Return T+1	8.3	9.7	11.4	11.5	14.6	16.1	7.5	8.8	na	na		
CW Return T+1	8.3	9.4	10.9	11.2	13.8	15.4	7.6	8.7	na	na		
VW Return T+1	9.0	9.1	10.3	10.8	13.7	15.0	8.0	9.0	na	na		
	Value Weighted	P1	P2	P5	P6	P9	P10	P1a	P1b	P1-P10	Tstat	
Sales in base year	30.5	47.9	94.4	111.5	172.7	225.4	25.6	34.8	na	na		
Sales after 5 years	65.5	83.2	149.0	171.7	257.3	323.0	64.6	66.9	na	na		
Sales growth in first year	19.6	12.3	9.0	7.9	8.0	7.2	25.9	15.9	12.5	10.2		
Sales growth in third year	14.6	10.4	8.9	8.6	7.2	6.8	17.2	12.5	7.8	7.0		
Sales growth in fifth year	13.3	9.5	7.8	6.8	7.6	6.4	15.2	11.9	6.9	6.6		
EBITDA in base year	5.7	8.8	15.9	18.1	25.8	29.9	4.6	6.8	na	na		
EBITDA after 5 years	11.9	15.3	25.2	27.9	37.0	41.5	10.9	13.0	na	na		
EBITDA growth in first year	22.1	13.8	9.8	7.7	6.5	4.5	31.0	17.2	17.6	12.5		
EBITDA growth in third year	13.1	10.4	8.9	9.2	6.9	6.5	15.0	11.9	6.6	3.7		
EBITDA growth in fifth year	13.6	9.5	8.6	7.7	8.7	8.3	15.6	12.7	5.3	3.1		
EPS FY1 in base year	3.3	4.8	6.5	7.1	9.6	11.4	2.7	3.8	na	na		
EPS FY1 after 5 years	7.0	8.0	10.3	10.9	13.2	13.9	6.2	7.6	na	na		
EPS FY1 growth in first year	22.5	14.3	9.9	8.3	2.2	-1.4	27.6	19.4	24.0	14.6		
EPS FY1 growth in third year	14.2	9.4	11.1	9.6	8.8	7.1	16.3	12.6	7.2	3.2		
EPS FY1 growth in fifth year	15.4	10.5	9.8	9.9	11.8	12.4	18.2	13.2	3.1	1.0		

Historical Value Premium in the U.S.

Value (High B/M, Top 30%) – Growth (Low B/M, Bottom 30%): 1927-2024



Summary

- Don't run away from value
- Indexing may backfire
- A lot of opportunities in smaller names

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