

2025 Outlook: Growth in EVA Expected to Continue

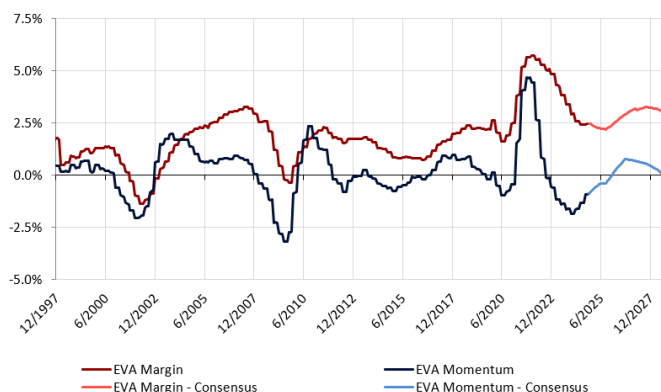
Equity markets have performed surprisingly strongly in 2024, with broader global indices up around 20% YTD. Investors have certainly embraced the mantra of a soft landing for economies in 2024. In our 2024 outlook, we spoke about how the markets continued to price in what can be described as a soft landing (lower inflation without a significant impact on demand and pricing power). **Market expectations for growth going forward in EVA went on to reach a 21-year high at the end of November with global Future Growth Reliance (FGR, % of market value dependent on growth in EVA) at 35.1%, moving beyond the 2009 high (Figure 1).** Investors have not been this bullish on the outlook for value creation for over two decades.

Figure 1: Global Market Expectations - Future Growth Reliance



Consensus called the fundamental outlook good for 2024. This is not something I thought I would be saying. My general view is that the traditional sell side is not a great predictor of the future. To that end, we will be releasing a new tab on EVA Investor Express in 2025, which will show how good a predictor consensus has been for the aggregate and individual company-level EVA measures. **Figure 2** shows EVA Fundamentals, with IBES consensus modelled in for EVA Margin (red line) and Momentum (blue line). EVA Margin continued the correction through 2024, back to the levels consensus had suggested (**Figure 3**) of around 2.5%. Consensus had called for a bottoming out in EVA Momentum (growth), which was realized at the end of the March quarter when EVA Momentum positively inflected. This once again shows the importance of EVA Momentum inflections as a timing indicator (see sidebar). **Consensus calls for EVA Momentum to continue to expand through to September 2026, turning positive at the beginning of 2026.**

Figure 2: Global EVA Fundamentals & Consensus



Key Points

- Investors have not been this bullish on the outlook for value creation for over two decades.
- Consensus called the fundamental outlook good for 2024, with EVA Momentum positively inflecting through the year.
- Consensus expects the EVA Momentum to continue to expand through to September 2026, turning positive at the beginning of 2026.
- EVA Sector Roadmap reports will be released mid-January.

EVA Momentum

EVA Momentum is the growth rate in EVA as measured by the total 1-year change in EVA for the aggregate divided by the prior period sales for the aggregate.

EVA Momentum is an important metric. Bigger is always better. Why? Because the Momentum ratio gets bigger when EVA does, which means that the firm's NPV, MVA, and share value are expanding, and management is doing things that make economic sense. **EVA Momentum can be positive for negative EVA businesses that are on the mend, negative for positive EVA businesses whose business models are fatiguing, and zero for firms whose EVA is moving sideways, all of which makes EVA Momentum the proverbial "canary in the coal mine," signaling changes in the direction of the business model or cycle.** EVA Momentum inflection is the change in direction, either positive or negative.

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Economic Value Added (EVA) framework.

Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +28,000 stock universe.

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EVA Fundamentals and Consensus

Figure 3 shows the global aggregate EVA Fundamentals and IBES consensus, post EVA adjustments. EVA Margin was expected to continue to contract and bottom around 2.5% in 2024. EVA Momentum was expected to bottom and rebound through 2024. This was achieved, earlier than expected, with Q1 seeing a positive inflection in EVA Momentum. The recovery has built through the year as growth turns less negative. Consensus expects the improvement to continue in 2025 (**Figure 4**), meaning EVA Margin maintains roughly the end-of-November level of 2.5%. EVA Margin is not expected to start expanding again until 2026. From the consensus viewpoint, 2025 will be a year of less incremental value destruction, building upon the positive inflection seen at the beginning of 2024. We have observed before how the absolute [correction in EVA Margin is similar to 2009](#). During the GFC, EVA Momentum bottomed in August 2009, while the market moved ahead and bottomed in February 2009. The first peak in the market was in April 2010 (14 months later), which is when EVA Momentum turned to positive. EVA Momentum later peaked in October 2010.

Looking at the most recent move, the market bottomed in October 2023, roughly 3 months before EVA Momentum bottomed. EVA Momentum is expected to turn positive at the beginning of 2026. If you believe the market will discount the peaking in economic growth the same way as in 2010, the market would be peaking around August 2025. If markets ride out the full recovery in EVA Momentum, and consensus is right again, then markets will see another full year of performance, in line with the move to positive EVA Momentum in 2026.

Figure 3: Global EVA Fundamentals & Consensus 2023

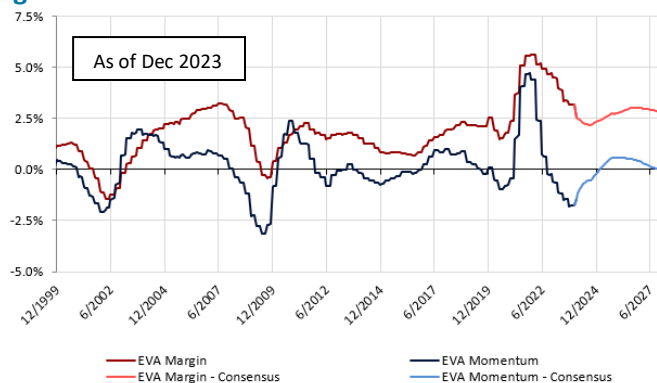
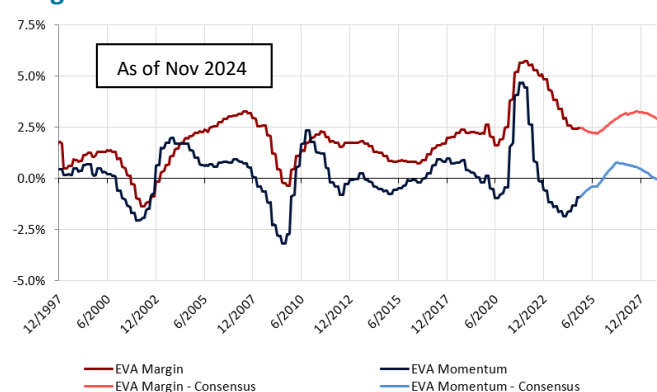


Figure 4: Global EVA Fundamentals & Consensus 2024



The U.S. has seen a similar picture, in that the consensus at the end of 2023 called for a bottoming out in EVA Momentum in Q1 and a recovery through 2024, which was realized. EVA Momentum in the U.S. at the end of November is -0.5%, closer to turning positive than the global aggregate. Consensus expects EVA Momentum to turn positive in Q1 of 2025, a year earlier than for the global aggregate. EVA Margin, bottoming out at around 3.8%, is also 130bps above the global aggregate. For context, the prior peak in EVA Margin before 2022 was in 2007, at 4.4%. Today's level of economic profitability is 310bps lower than the beginning of 2022 but in the historical context remains elevated.

Figure 5: U.S. EVA Fundamentals & Consensus 2023

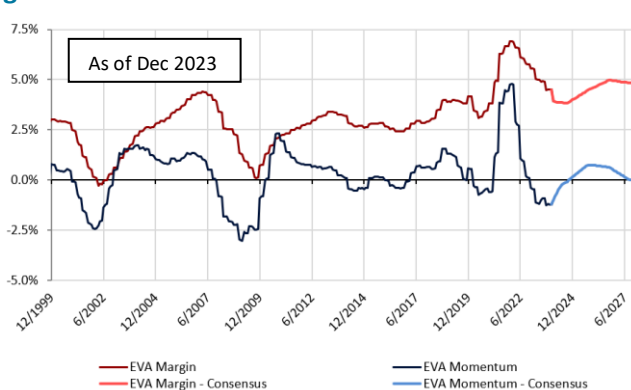
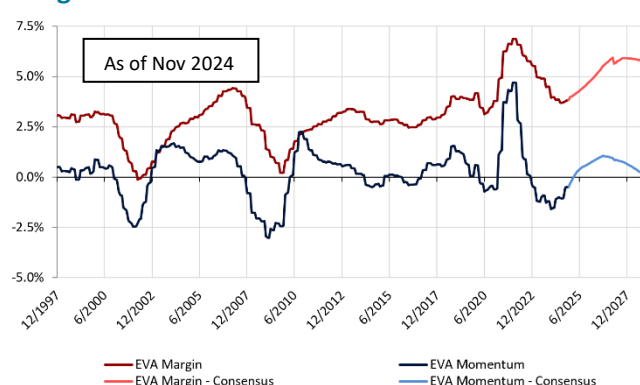


Figure 6: U.S. EVA Fundamentals & Consensus 2024



Elevated Market Expectations

In Figure 1, Future Growth Reliance (FGR) was shown for the global aggregate overall, where we said **investors have not been this bullish on value creation, going forward, for over 20 years**. In Figure 7 we show FGR ex U.S. which at the end of November had pulled back a bit further to 550bps above the 20-year average, at 19.2%. The 2009 high for comparison was 32.8%. Figure 8 illustrates the U.S. FGR, which has continued to move higher, reaching 49.5% at the end of November, 260bps off the all-time high of 2002. The higher premium in the U.S. can be somewhat justified by the high level of EVA Margin and the fact that EVA Momentum is closer to turning positive, but **with just under 50% of market value dependent on growth going forward the expectations are very high and leave little room for disappointment**. What we expect to see is that the recovery continues and that the improvement in economic profitability offsets the decline in embedded investor expectations at the enterprise value level.

Figure 7: Global ex U.S. Future Growth Reliance (FGR)

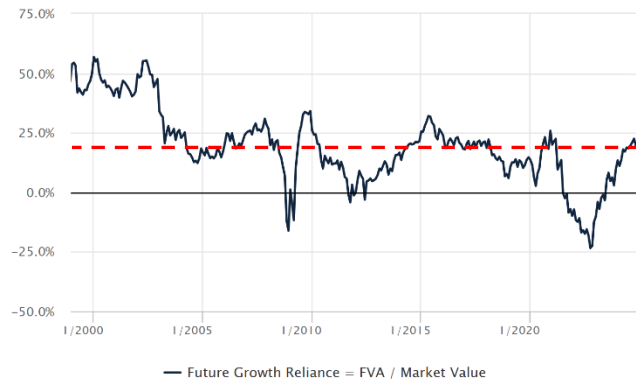
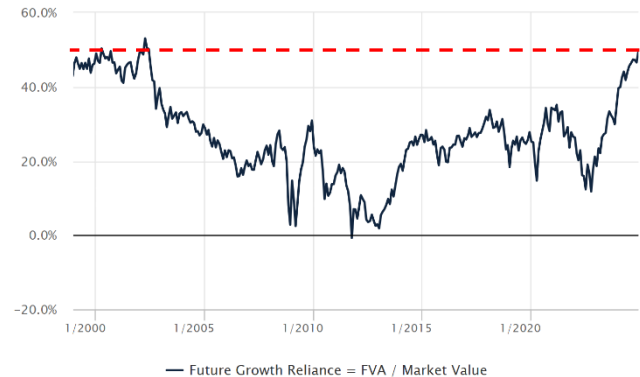


Figure 8: U.S. EVA Future Growth Reliance (FGR)



What We Said at the Beginning of 2024

We said in the 2024 outlook report that market commentators were increasingly describing a 'Goldilocks' environment for global economies. We viewed both this and a 'Soft Landing' as optimistic outcomes, not factoring in the growth risks. The view was that growth concerns would increase through the year as EVA Margin continued to correct. EVA Margin did correct, but the market was more focused on the soft-landing narrative, with the positive inflection in EVA Momentum showing that growth would already be starting to improve (become less negative) through the year. We expected this would have taken longer to see a bottoming out. The team expected interest rates to remain relatively high and that high real rates would impact real activity, negatively impacting the strength of the consumer, who up until then had proven very resilient. Overall, we believed the switch to disinflation with slower growth would impact both top-line and margins, leading to an ongoing correction in EVA profitability for 2024 and a bottom at a lower level than consensus suggests. This proved to be overly bearish.

EVA Factor Performance

Over the past year, **Quality has added alpha driven by high Profitability**, with both level and trend outperforming. Low Vulnerability (R2) has been more in focus over the last quarter, which has led to a small gain on the year. Low Valuation has also gained over the year. Over the past quarter, EVA factor performance has been pressured with a reversal in terms of low Profitability and high Valuation outperforming as investors look for turn-around stories. We continue to focus on high Quality and cheap companies with solid fundamentals for 2025.

Figure 9: Global All Cap Factor Performance

Global All	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	-1.9%	-1.06%	-7.2%	-3.75%	3.9%	0.41%	2.6%	0.51%	2.7%	0.38%	3.0%	0.47%	3.3%	0.58%
Profitability Level (High P1)	-1.4%	-0.88%	-5.6%	-3.12%	3.6%	0.45%	2.7%	0.55%	2.8%	0.37%	2.9%	0.42%	3.2%	0.52%
Profitability Trend (High P2)	-1.2%	-0.35%	-7.0%	-3.21%	3.2%	0.62%	1.8%	0.42%	1.7%	0.36%	2.1%	0.44%	2.6%	0.61%
Risk (Low R)	-0.7%	-1.94%	-3.3%	-2.74%	3.0%	-0.03%	4.1%	0.55%	2.6%	-0.03%	3.6%	0.35%	3.3%	0.45%
Volatility (Low R1)	0.5%	-1.54%	-6.4%	-4.10%	3.8%	-0.13%	4.6%	0.40%	2.7%	-0.28%	3.8%	0.19%	3.2%	0.12%
Vulnerability (Low R2)	-1.9%	-1.06%	1.5%	0.78%	0.8%	0.12%	1.9%	0.47%	1.4%	0.25%	1.5%	0.33%	1.7%	0.48%
Quality (High P - R)	-1.8%	-1.72%	-7.1%	-3.75%	4.5%	0.47%	3.7%	0.69%	3.2%	0.35%	3.9%	0.56%	4.0%	0.67%
Valuation (Low V)	-2.6%	-1.16%	-1.1%	-0.39%	1.6%	0.45%	3.6%	0.96%	1.8%	0.48%	1.3%	0.36%	1.6%	0.55%
Valuation Ratios (Low V1)	-1.8%	-0.63%	0.4%	0.64%	1.0%	0.45%	3.0%	0.88%	1.4%	0.47%	0.8%	0.31%	1.0%	0.46%
Valuation Multiples (Low V2)	-4.0%	-1.86%	-4.7%	-1.91%	3.2%	0.62%	4.9%	1.15%	2.8%	0.52%	2.5%	0.46%	3.0%	0.69%
PRVit	-3.8%	-2.19%	-7.6%	-3.67%	5.0%	0.77%	5.6%	1.25%	3.9%	0.66%	4.2%	0.74%	4.6%	0.98%
PRVit Prime	0.0%	-0.91%	-1.5%	-1.36%	3.9%	0.62%	4.6%	1.08%	3.4%	0.58%	3.5%	0.61%	4.3%	0.95%

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Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering 28,000+ companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + Present Value of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line-item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com (): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

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