ALPINEMACRO
A Unique Mind On The Markets

EQUITY STRATEGY MONTHLY

December 2024

Valuation: Naughty Or Nice?

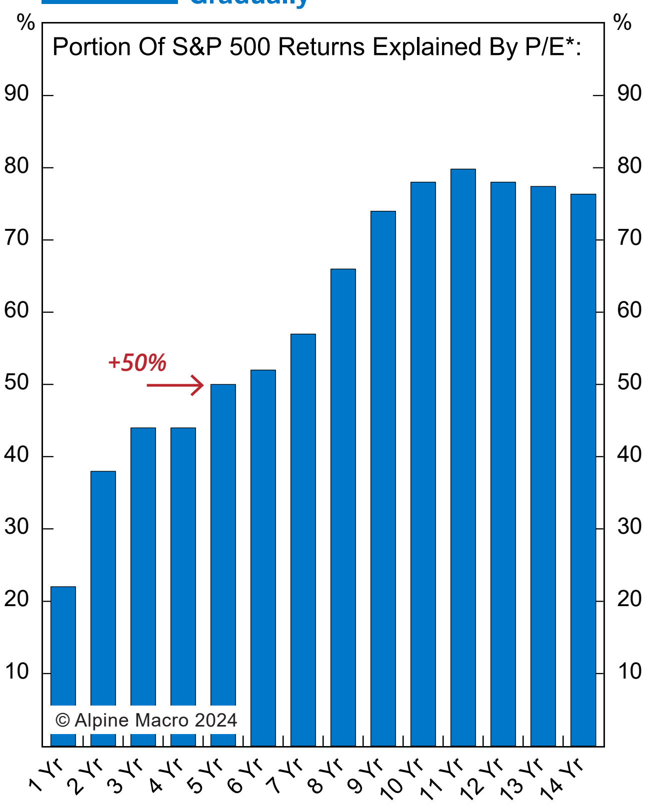
In This Report

Our wish list for 2025 includes that the equity bull keeps on running but a frequent critique to market optimism remains extended valuation.

We concede that broad based valuation is not cheap but in the following passages we detail a few reasons for why we don't think the Grinch is about to spoil this bull market just yet.

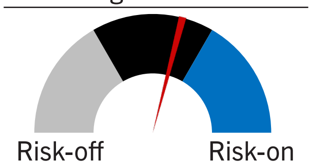
1. Valuation can remain elevated for extended periods of time before “correcting”

Chart 1 Valuation Predictive Power Builds Gradually



*Correlation Between X-year return and NTM P/E

Alpine Macro
Risk Regime Indicator



U.S. Equity Views*	--	-	N	+	++
Large Cap	□	□	■	□	□
Small Cap	□	□	□	■	□
Growth	□	□	□	■	□
Value	□	■	□	□	□
Communication Services	□	□	□	□	■
Consumer Discretionary	□	□	■	□	□
Consumer Staples	■	□	□	□	□
Energy	□	■ ←	□	□	□
Financials	□	□	□ →	■	□
Health Care	□	□	■	□	□
Industrials	□	□	□	■	□
Information Technology	□	□	□	■	□
Materials	□	■	□	□	□
Real Estate	□	□	■	□	□
Utilities	□	□	□	■	□

* ■ Denotes positioning

12-Month Change in Forward EPS Growth (%)

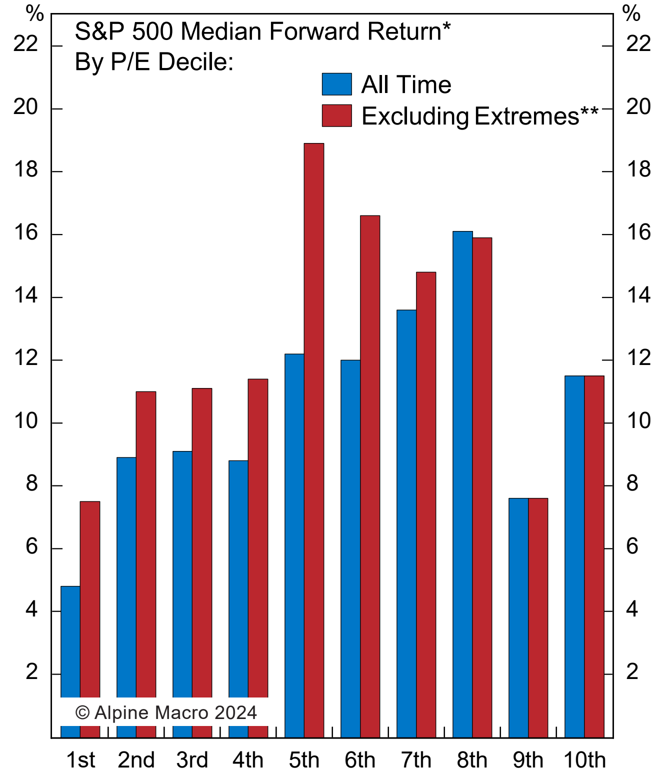
	Growth	Core	Value
Large Cap	23.2	7.2	1.2
Mid Cap	-1.7	0.7	4.0
Small Cap	5.9	-7.0	-3.5

12-Month Change in Forward P/E Ratio (%)

	Growth	Core	Value
Large Cap	35.0	26.9	6.7
Mid Cap	19.1	30.0	1.1
Small Cap	3.7	24.1	3.9

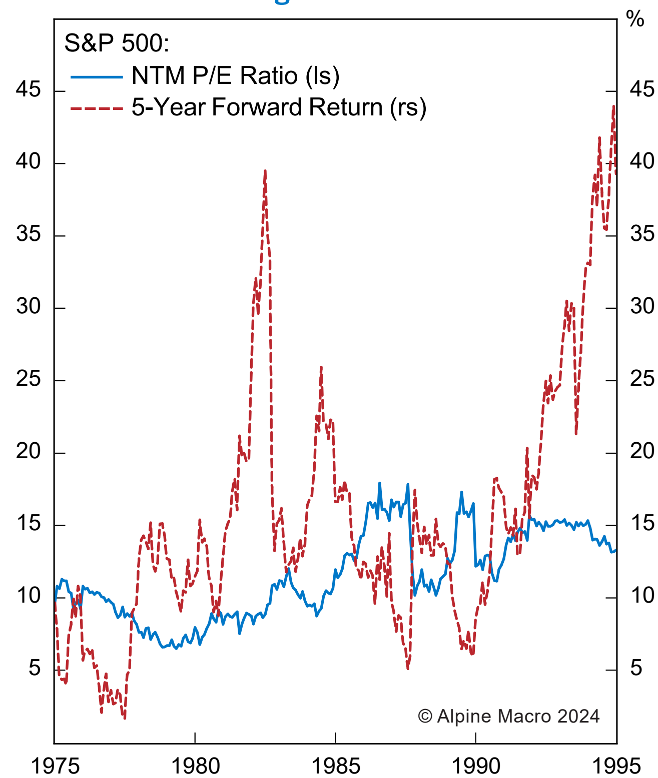
Note: **Blue** = Favorable, **Red** = Unfavorable, White = Neutral

Chart 2 Gains Can Come At Any Valuation



*Forward 5-year annualized return
**Excludes 1964-1971 & 1998-2008

Chart 3 This Chart Shouldn't Scare Investors Off High Valuation



Source: Bloomberg Finance L.P.

2. Improving fundamentals provide a natural release valve for valuation to grow into

3. Cross-sectional measures of valuation offer a slightly less alarming assessment

4. There are cyclical and secular reasons to believe a lasting shift higher in valuation is appropriate

"The market can remain irrational a lot longer than you and I can remain solvent." - John Maynard Keynes (allegedly)

1. Valuation: A Poor Short-Term Indicator

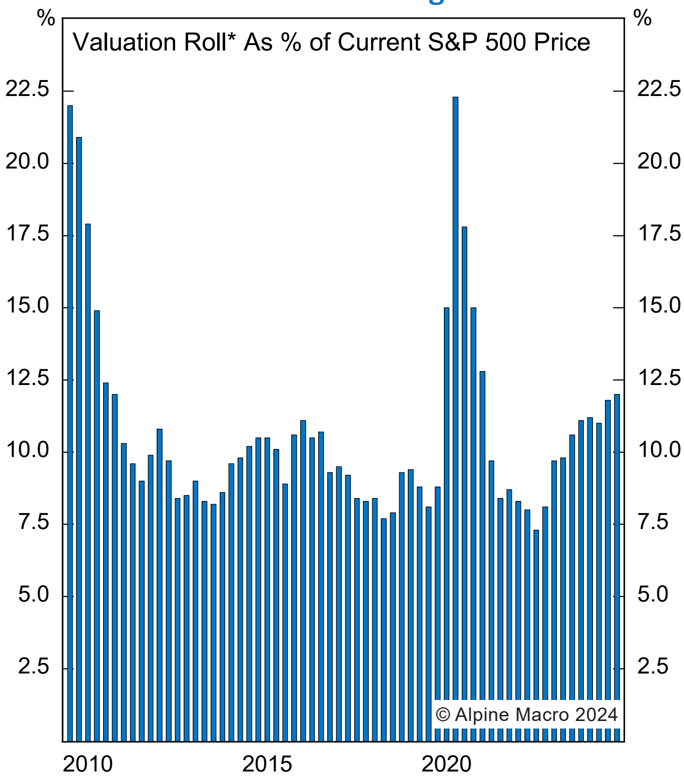
Valuation means almost nothing in the short-term for equity returns but almost everything in the long run. As Chart 1 shows, the historical predictive power of most measures is little more than a random walk until the forward performance timeframe approaches five years and beyond.

Even with this consideration historical data is clustered around a few extreme periods of booms and busts which skews results. When excluding the two most significant periods of irregularity during the late-1960s and the years surrounding the DotCom Bubble, the distribution of future performance across valuation bands begins to resemble a normal distribution and show that solid returns can be had outside of cheap regimes (Chart 2).

The last decade has been a proof point that valuation can be a lousy predictor of returns for long stretches of time as the average price-to-earnings ratio (P/E) for the S&P 500 has sat in the 84th percentile of readings at each point since 1953, while forward returns have been well above historical norms. These strong figures will persist and even intensify as strong COVID-recovery figures roll into forward performance trails.

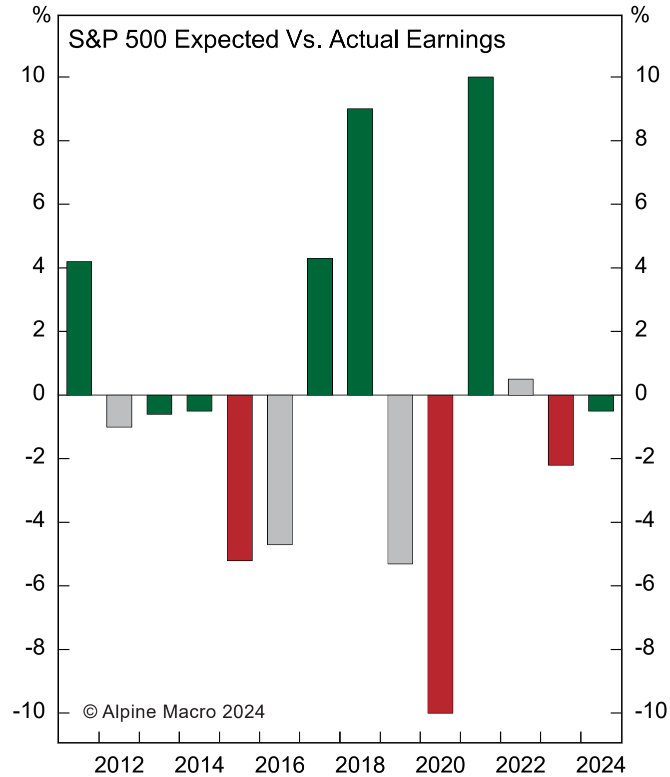
The bottom line is that valuation is better used as a conceptual central tendency with wide guardrails. Focusing on valuation without an appreciation for contextual elements of cyclicality (profits & policy) and secular shifts has proven costly through long stretches of history outside of bubble conditions (e.g., DotCom) meaning that

Chart 4 Valuation Will Compress Or Prices Will Advance If Earnings Meet Estimates



*Roll calculated as change in P/E multiple given same index price and calendar advance from FY1 to FY2 consensus earnings

Chart 5 Earnings Revisions Add A Wrinkle Into Valuaton



Note: Red=earnings recession, Grey=margin contraction, Green=earnings growth; truncated at +/-10%

investors should resist withdrawing from a fundamentally solid market.

Chart 3 shows that P/Es trended higher for twenty years while equities continued to chart strong forward returns.

"If I'm Not Back In Five Minutes, Just Wait Longer!"

2. Time Is On Your Side

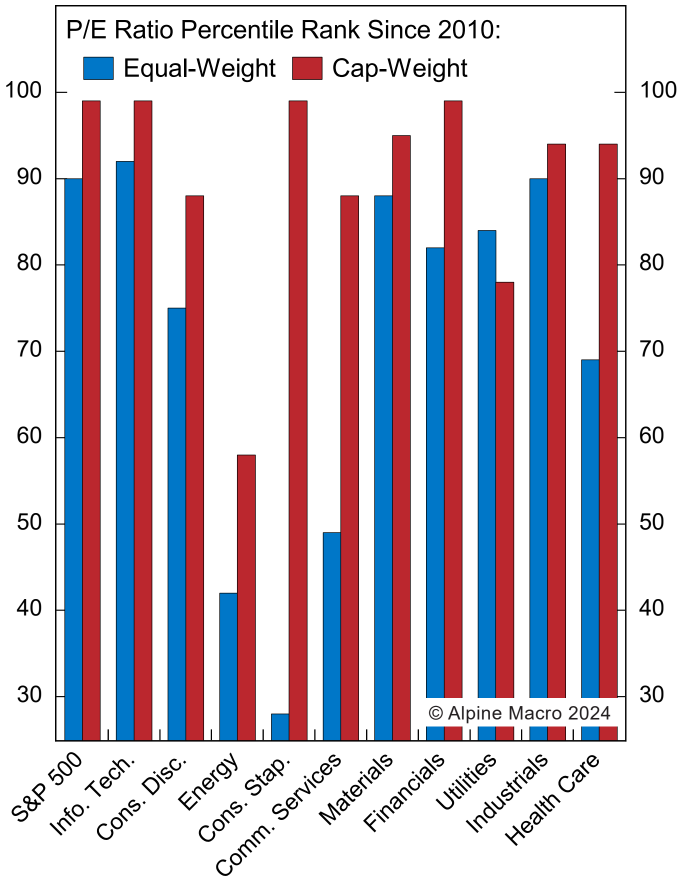
Earnings tend to increase during periods of expansion, which remains our high conviction base case, meaning that valuation metrics conceived from forward estimates today will naturally contract as the calendar advances, or rolls forward, barring a commensurate increase in prices along the way.

The valuation roll currently priced into equities is among the most substantial in recent decades outside of crisis periods meaning that valuation will compress and/or prices must advance if earnings estimates continue on their current trajectory. Given consensus estimates for CY2025 and CY2026 the forward multiple for the S&P 500 would contract by 2.4x at its current price from a calendar year roll, or the equivalent of 12ppts in price as shown in Chart 4.

An additional kicker could come in the form of upward revisions to estimates as analysts often underestimate the pace of fundamentals during periods of growth. The annual upside surprise to corporate profits outside of periods of declining earnings or margins has averaged 3% in recent years, meaning that realized valuations may a bit more manageable today than they outwardly appear (Chart 5).

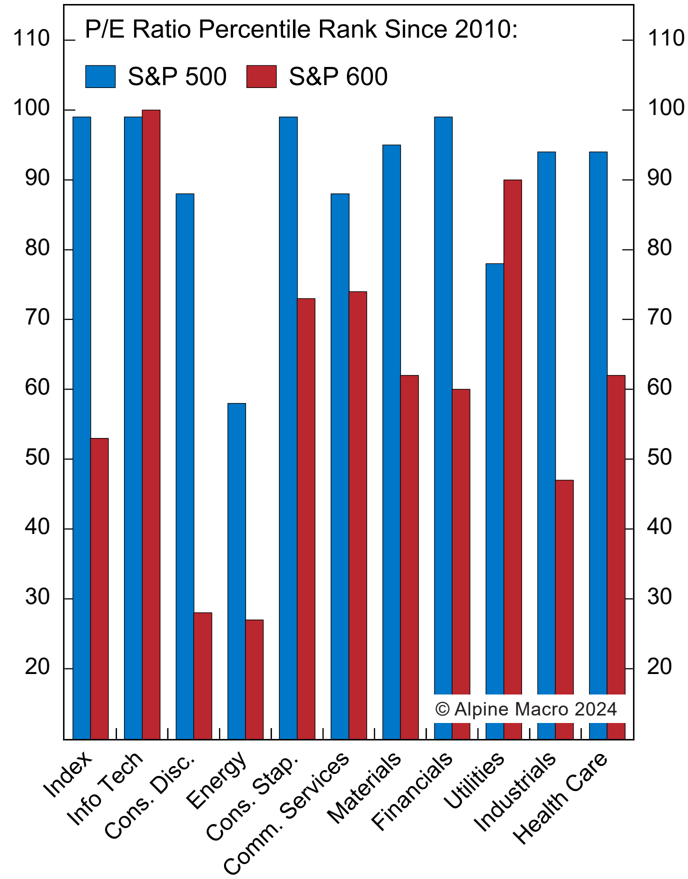
Based upon our forward earnings outlook, which includes a more significant step-up in profit margins to account for a positive mix of resilient pricing power and easing input costs (unit labor/materials/energy), the P/E ratio for the S&P 500 could be closer to 21.5x as opposed to 22.5x.

Chart 6 Adjusting For Cap Effects Dampens Sector Valuation...



Source: Bloomberg Finance L.P.

Chart 7 ...And Even More So For Size



Source: Bloomberg Finance L.P.

3. It's Not All It Appears To Be

It's difficult to argue that U.S. equities are cheap but a deeper examination across sectors, styles, sizes, and factors reveals that certain elements make the broader index appear more expensive than they otherwise may be.

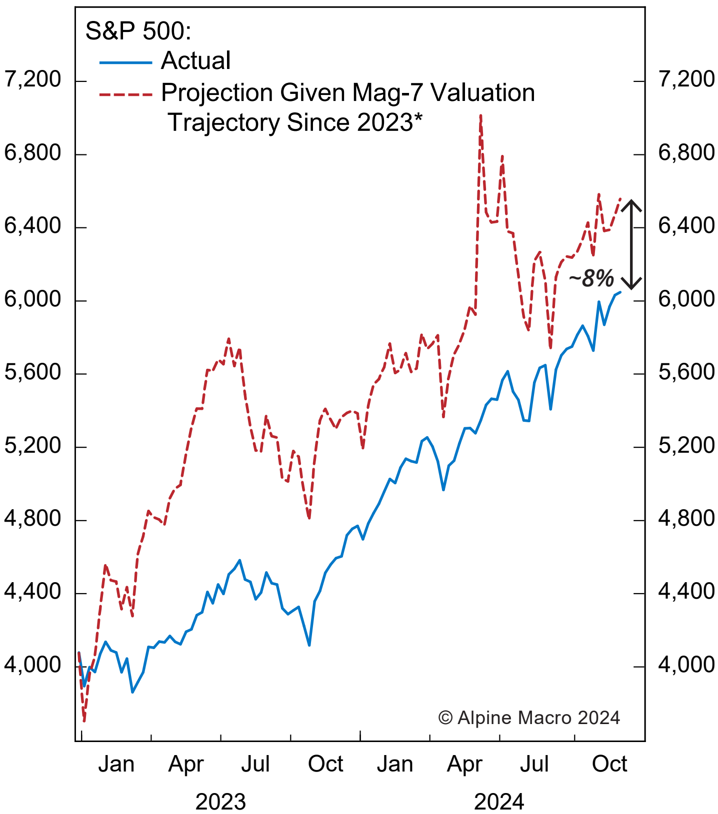
Most obviously, the U.S. Large Cap equities market includes a cadre of Mega Tech mania candidates that meaningfully skew valuations higher for their respective sectors and the market at large.

After normalizing measures for size, valuation levels become less eye watering in the Large Cap segment and especially within Small Cap. **Charts 6 & 7** show how sector valuations are less dramatic on an equal-weighted basis and down cap where plenty of cheaper opportunities remain.

We make the case that Mega Tech is candy rather than coal for the U.S. market and doubt they will experience meaningful valuation compression. More likely is a "melt up" broadening benefiting other segments including domestic cyclicals. If a full "catch-up" were to occur with the remaining S&P 500 enjoying the same premium that accrued to the Magnificent 7 in recent years this would unlock upside of ~9% from current levels as shown in **Chart 8**.

Finally, we note that factor exposure is expensive across the board, but trends are not signalling excessive risk-taking just yet as Quality, Profitability, and Low Volatility hold their own against riskier factors. It's when valuations for Beta and Momentum spike as those for Quality and Profitability decline where trouble typically arises (**Chart 9**).

Chart 8 Catch-Up In Valuation Would Unlock Big Gains



*Alpine Macro calculation, applies the same proportionate increase experienced by Mag 7 since 2023 to remaining index

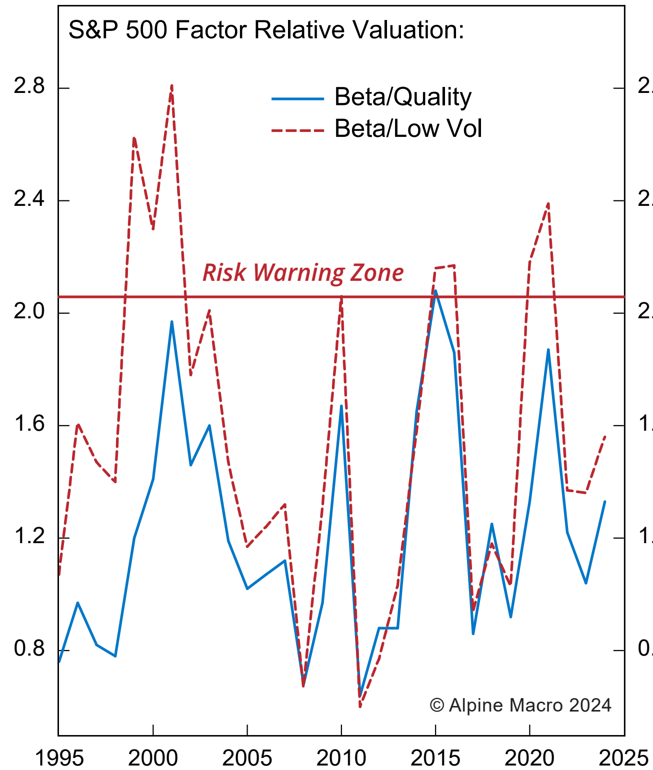
4. Pay Up To Play Up

We emphasize that the growth quotient for equities has skyrocketed across decades which renders comparisons across time periods and asset classes difficult at best and obtuse in certain respects. Assets generating faster growing, more efficient, less variable cash flows naturally command a premium.

The most important contributor to these shifts is enhanced corporate earnings power at the micro and macro levels as companies have become ruthlessly efficient while benefiting from favorable tax law changes, contributing to a secular increase in margins across all sectors. The latter point is particularly salient because of its legislative permanence as opposed to cyclicality which renders mean-reversion estimates less useful.

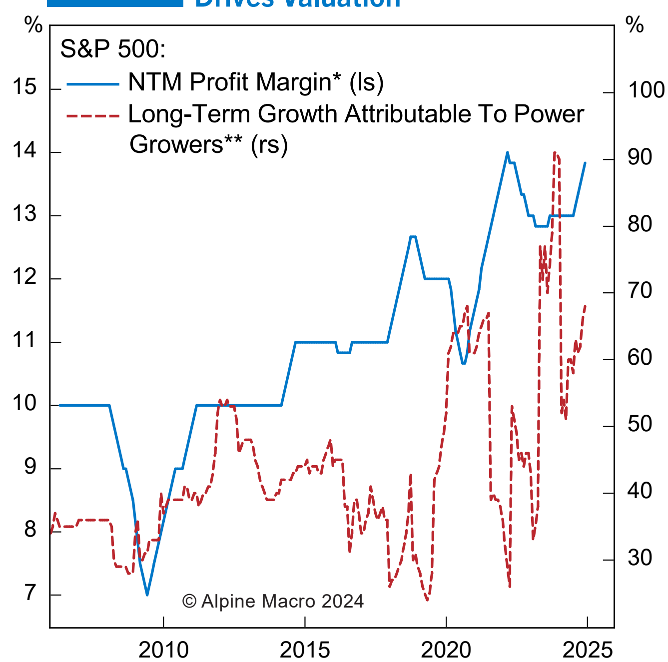
Profit margins across sectors now sit more than 1/3 higher than their 30-year average and show little reason for

Chart 9 Factor Risk Ticking Higher But Contained



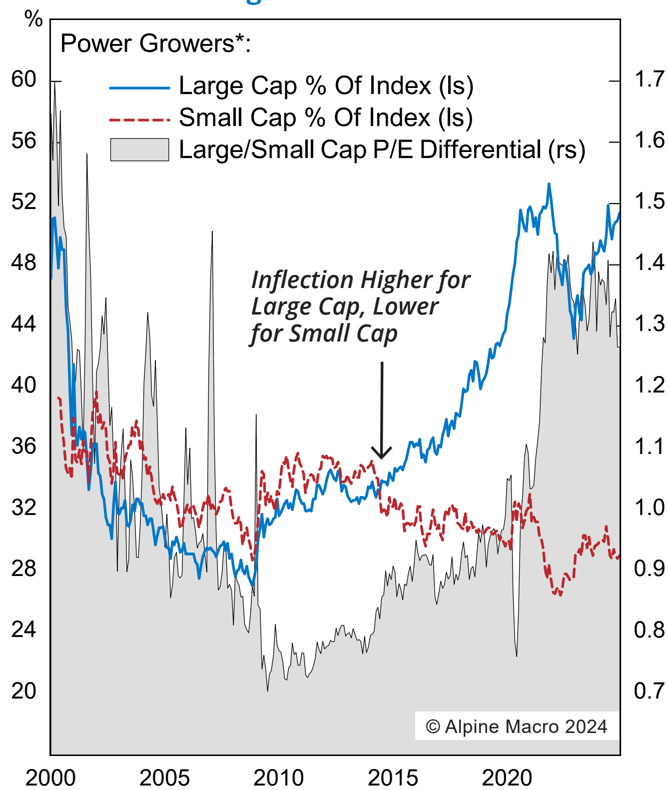
Source: Bloomberg Finance L.P.

Chart 10 Increased Share Of Power Growers Drives Valuation



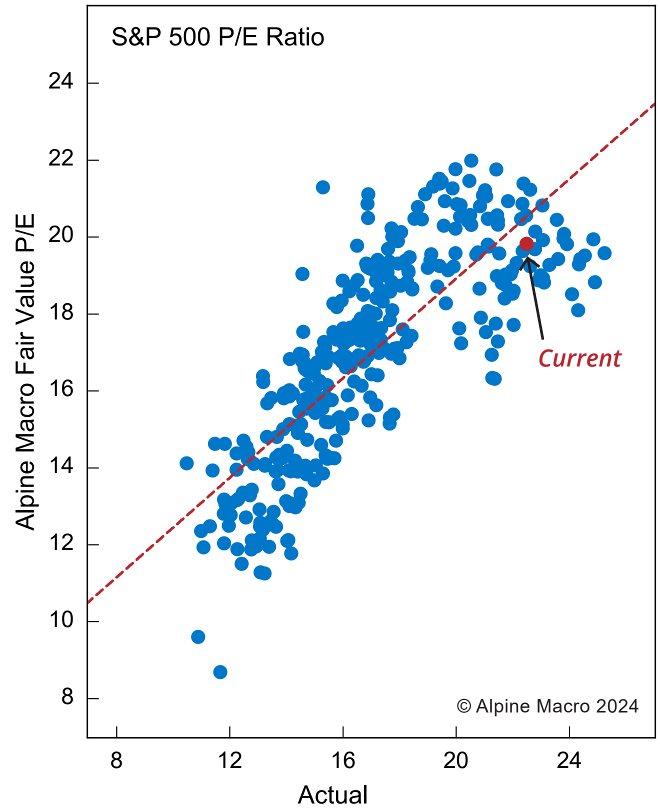
*Shown as 6-month moving average
**Includes Info. Tech., Comm. Services, and Cons. Discretionary

Chart 11 Power Growers Take Share And Boost Margins



*Includes Info. Tech., Comm. Services, and Cons, Discretionary

Chart 12 Fair Value Model



reversal, rather there's upside given a more favorable mix of nominal growth (more real, less inflation) in addition to the potential for added tax sweeteners from Washington.

Of course, the most significant compounding factor to the rise of equity valuations is a massive compositional shift towards faster, leaner, and more profitable companies largely concentrated in tech-adjacent sectors.

The bulk of these companies can be found within what we consider the "Power Grower" sectors which include Information Technology, Communication Services, and Consumer Discretionary. **Chart 10** shows the inextricable link between the rise of market share of this cohort alongside a boos to margins and the growth outlook.

boost*

This is a phenomenon unique to U.S. Large Caps as Power Growers have increasingly taken market share while the same grouping has lost share in the Small Cap space, which is a direct driver of the valuation spread between each (**Chart 11**).

Alpine Macro Sector Framework

Sector	Valuation	Fundamentals	Technicals
Comm. Services	8	6	1
Cons. Discretionary	6	10	9
Cons. Staples	5	11	2
Energy	3	5	5
Financials	10	7	10
Health Care	1	9	3
Industrials	11	3	8
Info. Tech.	9	2	6
Materials	7	6	4
Real Estate	2	8	1
Utilities	4	5	7

Note: **Blue** = Favorable, **Red** = Unfavorable, White = Neutral

but what about the anti-trade implications on the tech sector?

Conclusion: Not Time For Bah Humbug

Our fair-valuation indicator— which incorporates market-based measures of risk, fundamentals, and relative value across asset classes— does signal that the S&P 500 is overvalued but not by a significant degree (**Chart 12**).

As noted, we prefer to view valuation as a central tendency which leans on equities in a gradual manner but is a poor predictor of returns within our strategic timeframe and can evolve along with the fundamentals and composition of equities markets.

Given our base case for a recovery regime, valuation should take a backseat to broadening profit strength and a more accommodative policy impulse. This should power segments of domestically oriented cyclicality while a barbell with select exposure to Mega Tech provides downside protection.

Nick Giorgi
Chief Equity Strategist

STRATEGY SPOTLIGHT

	U.S. Equity Views*	--	-	N	+	++	Rationale Of View
Style & Size	Large Cap						Large Cap is more defensive, offering a greater blend of quality, profitability, and yield plus more globally diversified revenue streams. Valuation is high, reflecting the premium associated with the highly visible faster growth of Mega Tech. The segment likely lags if real yields fall and/or growth re-accelerates.
	Small Cap						The risk/reward skew remains attractive for Small Caps even after a brief bout of mean-reversion. Small Caps stand to benefit from a soft landing as funding costs moderate and margin expansion broadens profit growth. A stronger dollar favors Small Caps relative to Large. We favor Small Value to Growth.
	Growth						We favor Large Growth over Value from a risk-management perspective, preferring exposure to durable sources of revenue and profit growth given the uncertain macro backdrop. Down market cap, we'd prioritize profitable growth as opposed to speculative.
	Value						The path of outperformance for Value is a thread-needling exercise likely involving a broadening of growth to boost cyclicals along with higher-for-longer yields to benefit Financials. We find the risk/reward skew to express our soft-landing view more attractive in Small Cap relative to Value.
S&P 500 Sectors	Communication Services						Comm. Services rebounded after summer, showing broad gains beyond Mega Tech and leading in earnings surprises. The sector offers a balanced mix of tech, entertainment, and telecom, with attractive value and yield. Lower yields and a cyclical recovery may boost it, though regulatory risks remain.
	Consumer Discretionary						Consumer Discretionary is pausing after a strong summer, with Q3 earnings up but flat sales. Travel and Leisure are strong, while Retail, EV-part makers, and Homebuilders face pressure. Remain neutral, expecting further shakeout in goods retail, with mean-reversion in services. Mega Tech exposure is key
	Consumer Staples						Staples face headwinds from high comps, weak pricing power/volume growth. Currency effects add pressure, with demand down from Covid highs. Consumers are trading down, reversing pricing power gains. Remain underweight but note potential for a technical rebound as oversold levels approach.
	Energy		←				Energy equities have outperformed the underlying commodities but that's little respite for equity investors as "drill, baby, drill" may equate to a glut of supply unable to overcome lower taxes and regulation. Weak international demand continues. Downgrading to underweight.
	Financials				→		Upgrading Financials to overweight as previous cyclical tailwinds for Banks are accelerated given U.S. election implications. Additional benefits to accrue to Capital Markets and Payments.
	Health Care						Health Care is nearing a contrarian entry after recent underperformance. Biopharma gains have faded, and insurers face membership declines and cost mismatches. Lower rates may boost M&A, and potential China stimulus could support growth. Favor Equipment & Supplies, with U.S. election risks on watch.
	Industrials						Industrials have rallied, most sectors up since August. We're overweight, anticipating a rebound from a soft landing and rate cuts, driven by infrastructure and housing demand. Technicals suggest consolidation, but outlook remains bullish on Building Products, Construction, and Defense.
	Information Technology						Technology is rising with increasing AI monetization and earnings expectations. Semiconductors, Software, and Hardware show mixed performance, but Q3 will clarify guidance. We expect A.I. "earners" to outperform "spenders." We favor Info. Tech. for its strong growth and profitability, though valuations are extended.
	Materials						Materials have retreated after a strong late summer, hindered by unclear Chinese stimulus and modest global growth. Chemicals and Miners are especially affected. We remain underweight, with regional indicators showing no recovery and flat Q3 results amid stretched valuations.
	Real Estate						Real Estate may benefit from the Recovery phase post-Fed rate cuts, though recent yield increases have impacted performance. Higher-risk segments like Retail and Office have outperformed. We favor Data Centers for their tailwinds and Senior Housing for occupancy trends.
	Utilities						Utes are benefiting from slowing growth and inflation, but rising rates present a challenge. Our bullish thesis is based on high negotiated rates and increased CapEx demand. While Utes aren't a long-term hold, we see short-term outperformance opportunities, especially in the Southeast and Midwest.

*Colored cells denote sector positioning

Communication Services remains well-positioned from a fundamental perspective and technical breadth is strong, although policy-related concerns have weighed on it's Mega Tech constituents since U.S. elections. We continue to favor the sector.

Earnings expectations have risen at a faster pace than the rest of the market since late-spring, while prices have advanced but at a slower pace, allowing for relative valuation to become more attractive over time.

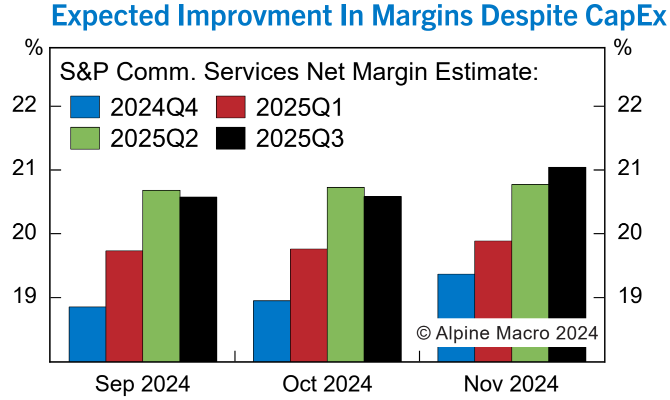
The conditions that have prompted our attraction to the sector largely remain, namely an attractive blend to value, yield, and defensive growth. The diversification within the sector is a benefit— as Mega Tech components fizzle, Media & Entertainment have surged.

While headline anti-trust risk weighs on Interactive Media & Services, we remain supportive.

Net income margins for Communication Services companies are expected to increase over the next year, even as revenue estimates remain steady. This anticipated boost to margins is largely driven by strength in Media & Entertainment, while Telecom Services remains a detractor.

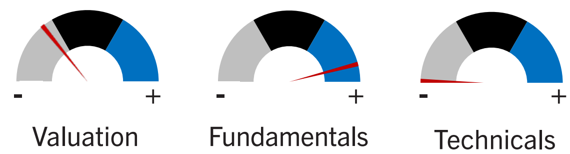
Despite heavy CapEx tied to AI investments, companies are improving bottom-line efficiency, showcasing strong operational leverage. As Media & Entertainment drives margin gains, addressing challenges in Telecom could unlock further upside, especially as broader tailwinds like AI and digital content consumption continue to reshape the landscape. These trends point to potential long-term resilience in the sector.

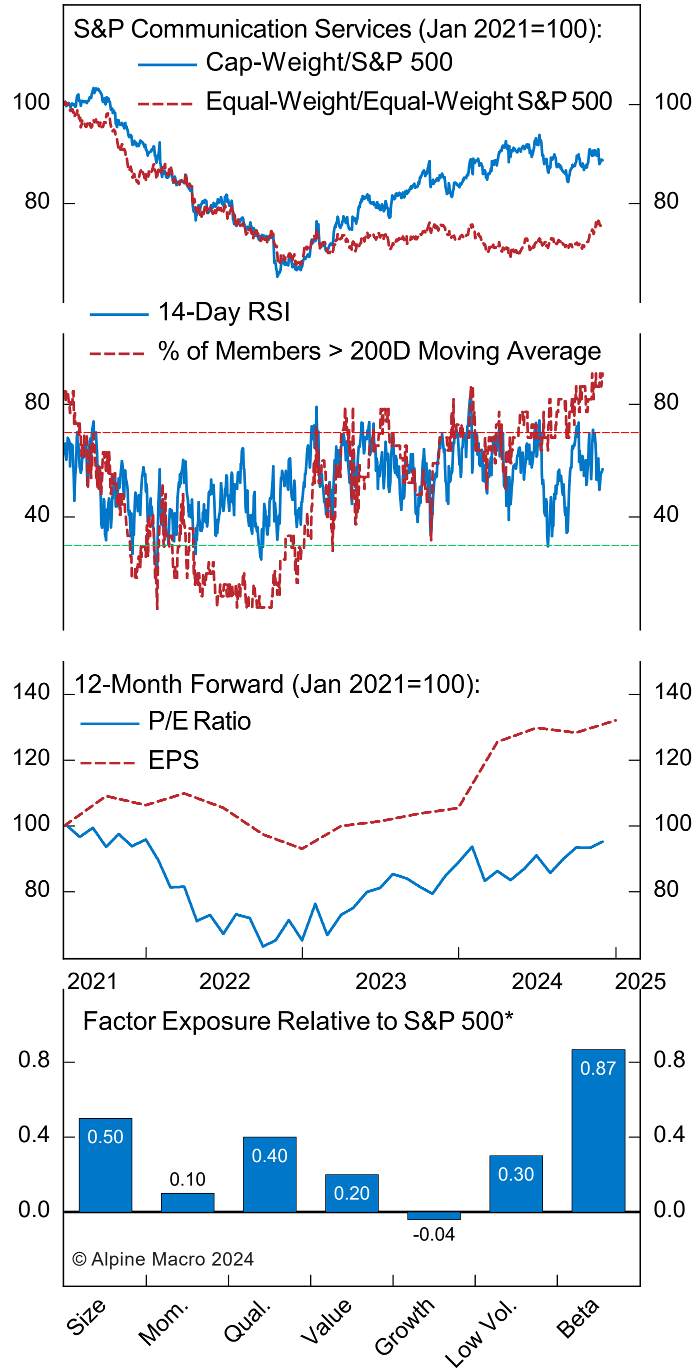
Expected Improvment In Margins Despite CapEx



Source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard





*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Consumer Discretionary has surged as investors have bid up Autos and Broadline Retail in the post-Election period, with nearly all gains accruing from multiple expansion as opposed to earnings. In particular, the biggest pop has occurred within the largest companies by market cap.

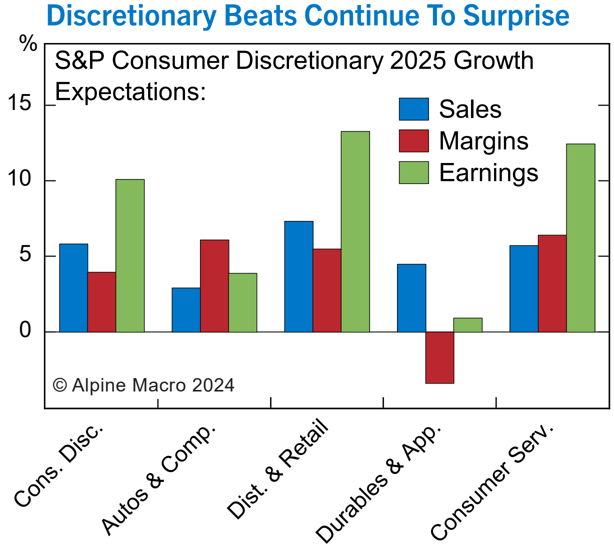
A push higher for consumer confidence heading into the holiday shopping season could produce upside to Q4 expectations for retail while Travel & Leisure remain a strong spot that we favor. Housing stocks are seesawing on the prospects of a manufacturing revival balanced with higher rates.

We're neutral on the sector and U.S. elections have introduced additional cross-currents. A boost in the consumer outlook and nominal growth should benefit the sector but higher rates, and a pull-back in sentiment pertaining to large EV manufacturers would be a headwind. Finally, we're mindful of potential tariff and immigration risks offsetting regulatory and tax tailwinds.

Consumer Discretionary showed strong Q3 2024 earnings, with most industry groups beating pre-season estimates for EPS, revenue, and margins.

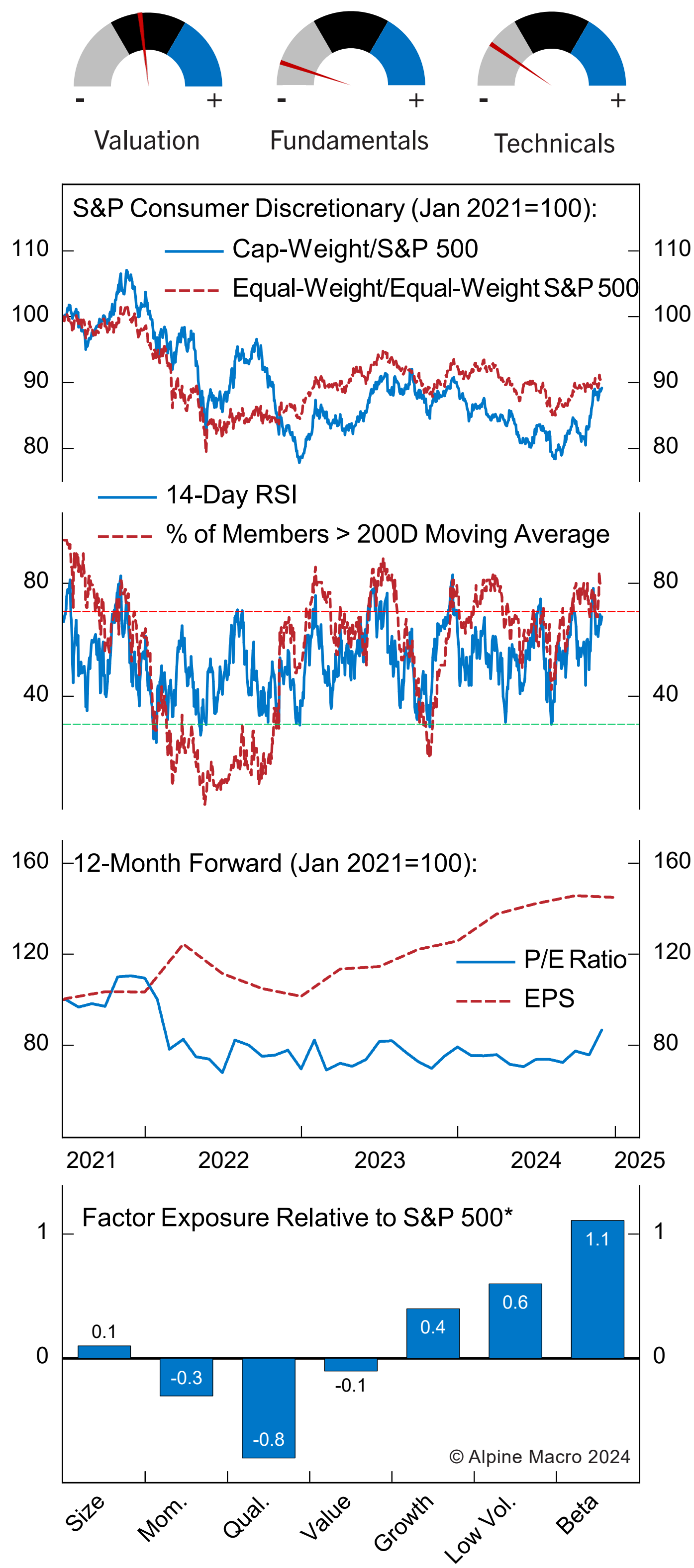
Without the influence of Tesla & Amazon, the picture would be far less rosy. Many smaller players are grappling with margin pressures and uneven demand recovery. Tesla and Amazon's outsized contributions underscore the sector's top-heavy nature to maintain momentum. As a positive, 2025 consensus expectations look reasonable.

Discretionary Beats Continue To Surprise



Source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard



*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

We continue to underweight Staples as they suffer under uninspiring cyclical fundamentals including deteriorating pricing power and stalled volume growth, alongside fair valuation that doesn't offer much mean-reverting upside. Currency translation and risks from higher tariffs and immigration controls are additional headwinds.

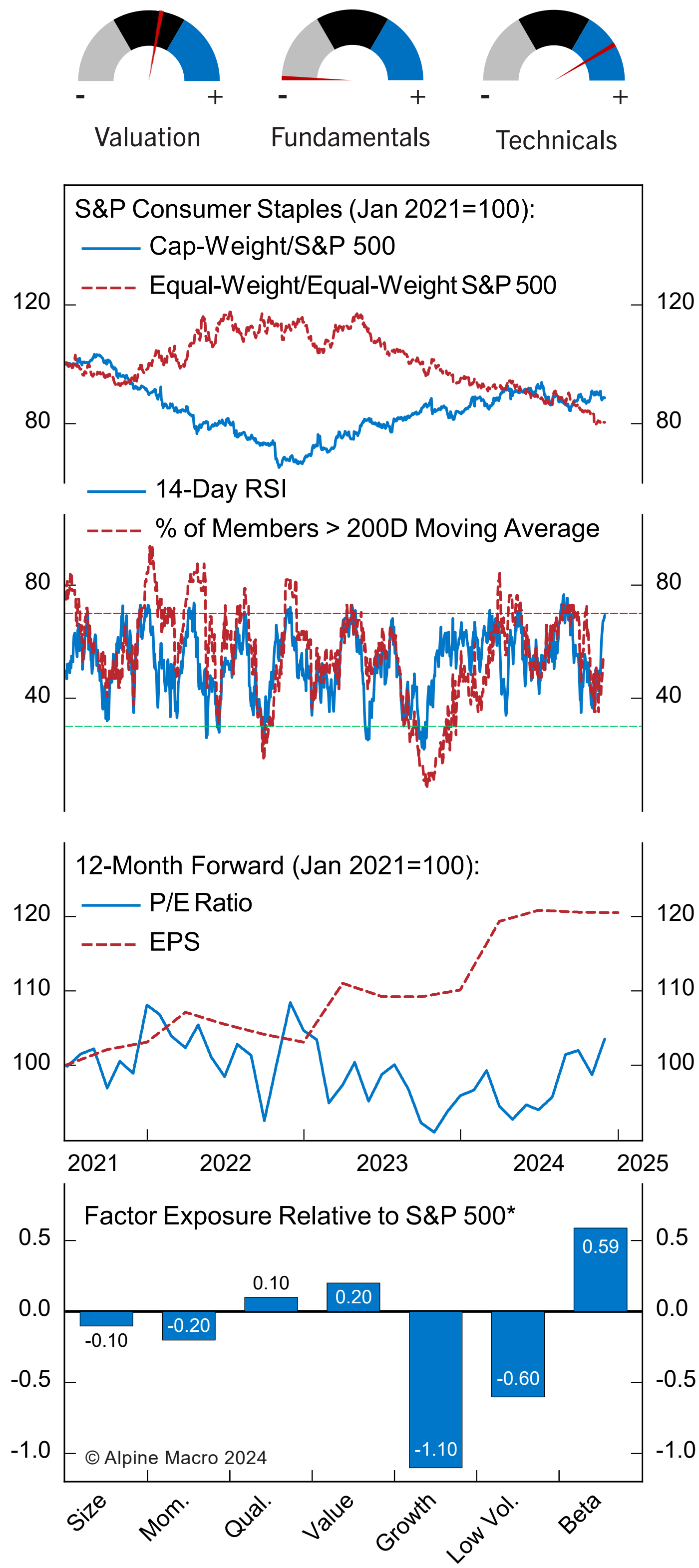
As written in our October report, the countercyclical conditions that propelled Staples during COVID are turning from friend to foe as consumers have largely stocked up on goods while trading down in value in a pricing power reversal.

The sector's earnings momentum trails the market on a cap-and-equal weighted basis. Within the sector, Distribution & Retail are a safer play while Tobacco could benefit from a lighter regulatory touch.

Staples dividend yields remain far below the 10-year Treasury yield, hindering the sector's reputation as a yield proxy. With interest rates expected to stay higher for longer, this yield gap signals ongoing future weakness for the Staples, particularly for income-focused investors seeking alternatives in safer, higher-yielding assets.

The sector also faces problems on the earnings front as GLP-1s eat into demand for high-calorie staples, while consumers continue trading down the value chain amid cost pressures. These headwinds, combined with an unfavorable yield environment, create a tough backdrop for the sector. Until rates moderate or earnings fundamentals improve, Consumer Staples may struggle to deliver compelling returns.

Alpine Macro Sector Dashboard



*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Dividend Yields Have Lost Their Aristocrat Status

Energy equities have been a post-election beneficiary of the headline benefits that a troika of lower taxes, deregulation, and a much more encouraging drilling backdrop would provide. This comes as the global supply/demand imbalance already puts downward pressure on spot energy prices as international economic activity is depressed.

We take a contrarian approach and expect deregulatory and drilling stimulative initiatives, such as permitting reform, to further boost supply and put further pressure on energy commodities.

While we recognize the unusual spread benefiting energy equities relative to the commodity, and potentially offering a positive L/S opportunity, within our equity framework energy equities are still vulnerable and we'd use recent price bumps as an opportunity to move Underweight.

Finally, there could be a benefit to Equipment & Services on a relative basis given potential favorable tax incentives for capital expenditures in addition to greater servicing needs for increased drilling and exploration.

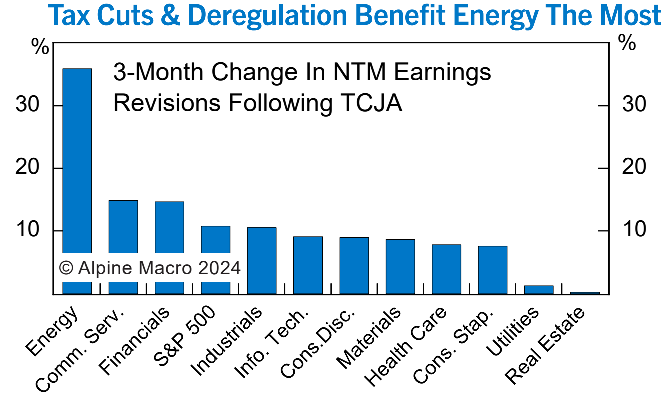
Election Giveth But Taketh

In the immediate aftermath of Trump's first victory Energy performed valiantly and the equities outperformed the underlying commodities but that proved fleeting.

Provisions within the TCJA including expensing of CapEx and lower rates helped much of the sector, although the tax benefit to pass-through MLPs was reduced.

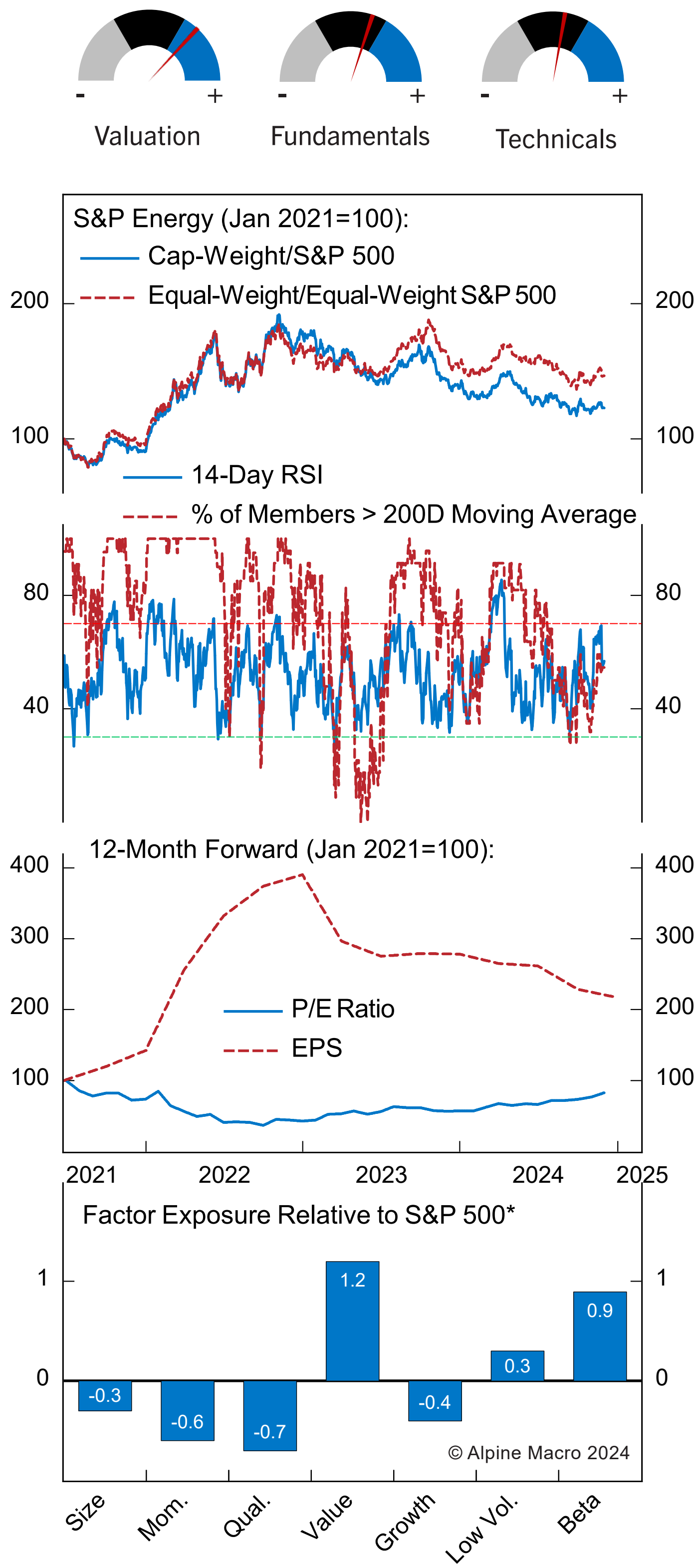
Going forward the biggest effect is likely to be an increase in supply- from first inauguration to COVID, U.S. crude output surged 50% and Energy equities underperformed the S&P 500 by +70%.

Tax Cuts & Deregulation Benefit Energy The Most



Note: Data from Nov. 2017 to Feb. 2018; source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard



*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Financials have been a major victor early through the Trump 2.0 Trade regime and we'd expect the good times to continue rolling even as the sector exhibits tactically overbought characteristics. On a strategic basis, we'd advise an upgrade to Overweight.

Banks have been a lucrative favorite of ours since the Summer given under-appreciated tailwinds from a bottoming of net interest margins (NIM), a building loan pipeline, and a benign credit environment. Favorable tax, trading, regulatory (M&A, compliance), and a steeper yield curve are added benefits. In addition, the industry is relatively immune to downside risks from tariffs and immigration.

Consumer Finance companies also stand to benefit from deregulatory initiatives along with an improving growth and consumer confidence backdrop. Alternatively, we continue to note that the boom days for the more defensive insurance industry are in the past as the post-inflationary impulse for rates faces push back.

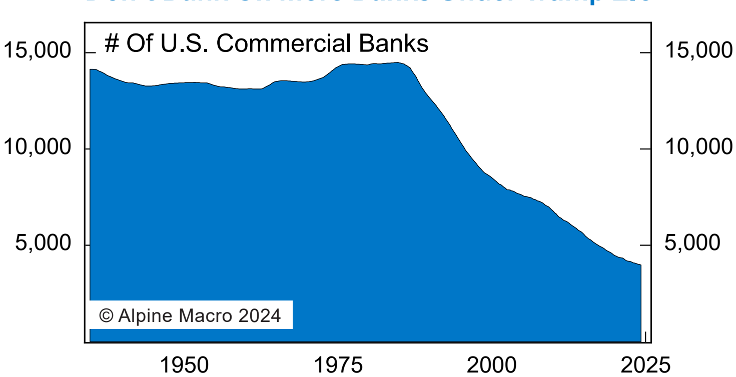
Bank Consolidation

The U.S. banking system is known, perhaps notoriously, for a sprawling assortment of banking institutions that canvass the country.

Economies of scale- increasingly valuable in a more regulated and digital age of banking- are more valuable than ever.

Deregulation, and M&A, could be the answer. Through Biden's term the number of banks has decreased by 11% whereas the number was cut by 18% during Trump's first term.

Don't Bank On More Banks Under Trump 2.0



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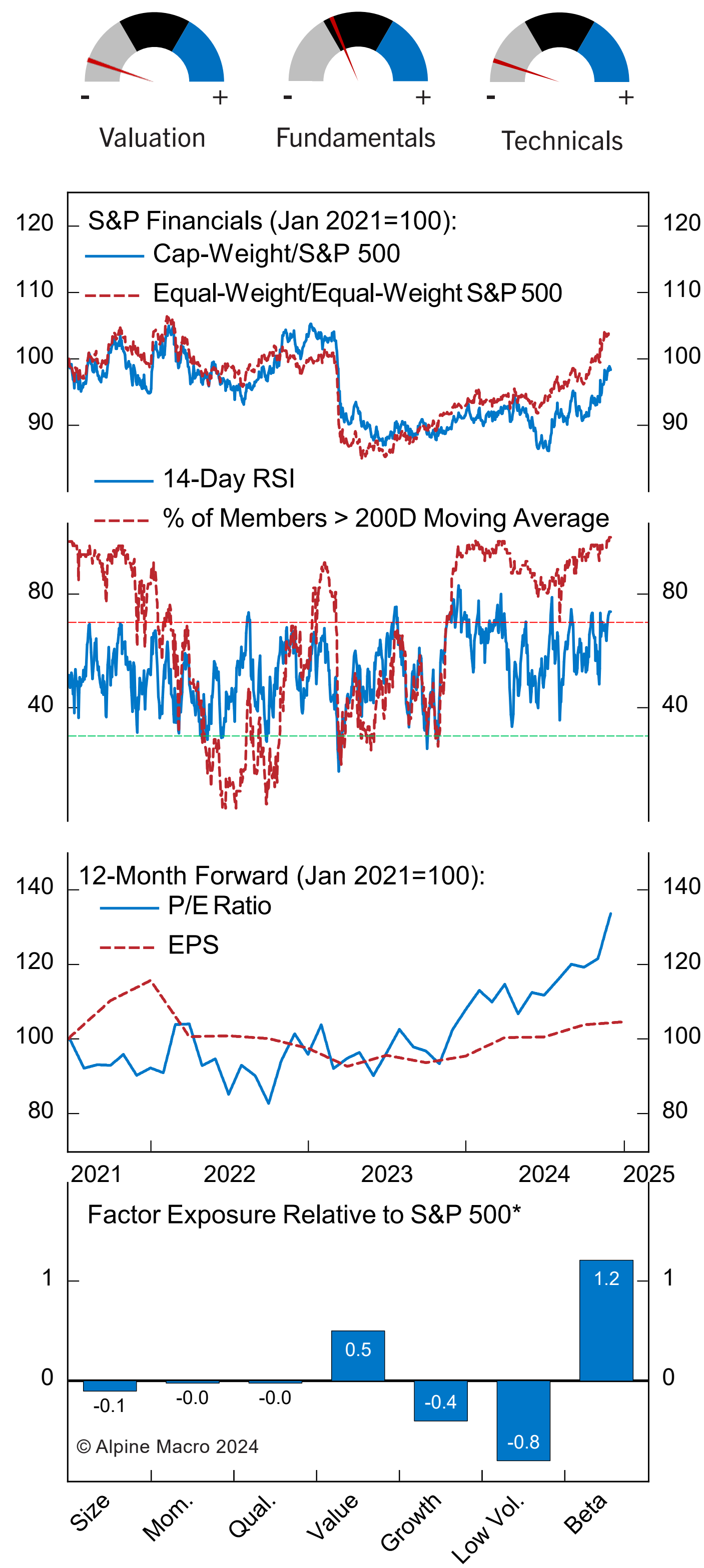


*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

HEALTH CARE (NEUTRAL)

Health Care continues to suffer through a downtrend that began in September and has largely been the result of a valuation re-rating lower even as earnings have slightly improved.

As a traditional defensive sector, we don't expect Health Care to benefit much from resilient U.S. growth although any improvement overseas could lift cyclical segments in Tools and Supplies.

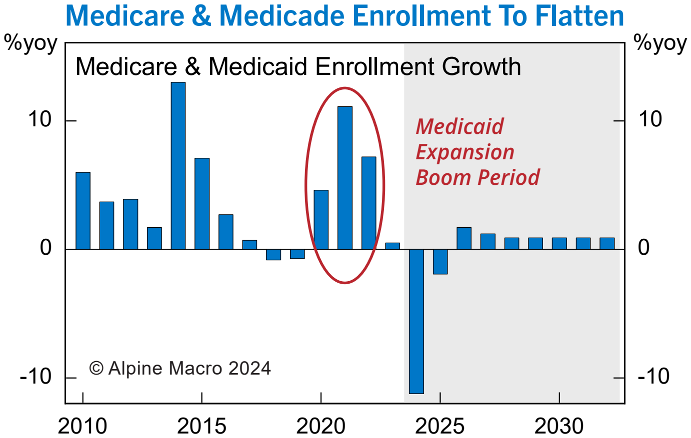
The outcome of U.S. election season appears a mixed, in not confusing, bag for Health Care. Biopharma has largely underperformed even as regulatory risks, M&A, and the potential for R&D tax breaks should be tailwinds. The impact of the government on GLP-1's remains fluid. Some Providers have enjoyed a boost to expectations for Medicare Advantage support even as Medicaid and ACA funding may be at risk. Finally, the RFK Jr. appointment is a wildcard.

We remain neutral overall as fundamental crosswinds meet the expectation that a short tactical revival could come as the sector inches towards oversold territory.

Forecasts show a sharp decline in Medicare and Medicaid enrollment in the coming years, with significant implications as Trump has been re-elected. Under a Trump presidency and Republican-controlled Congress, we expect resistance to any expansion of government-backed healthcare programs, including Medicare and Medicaid.

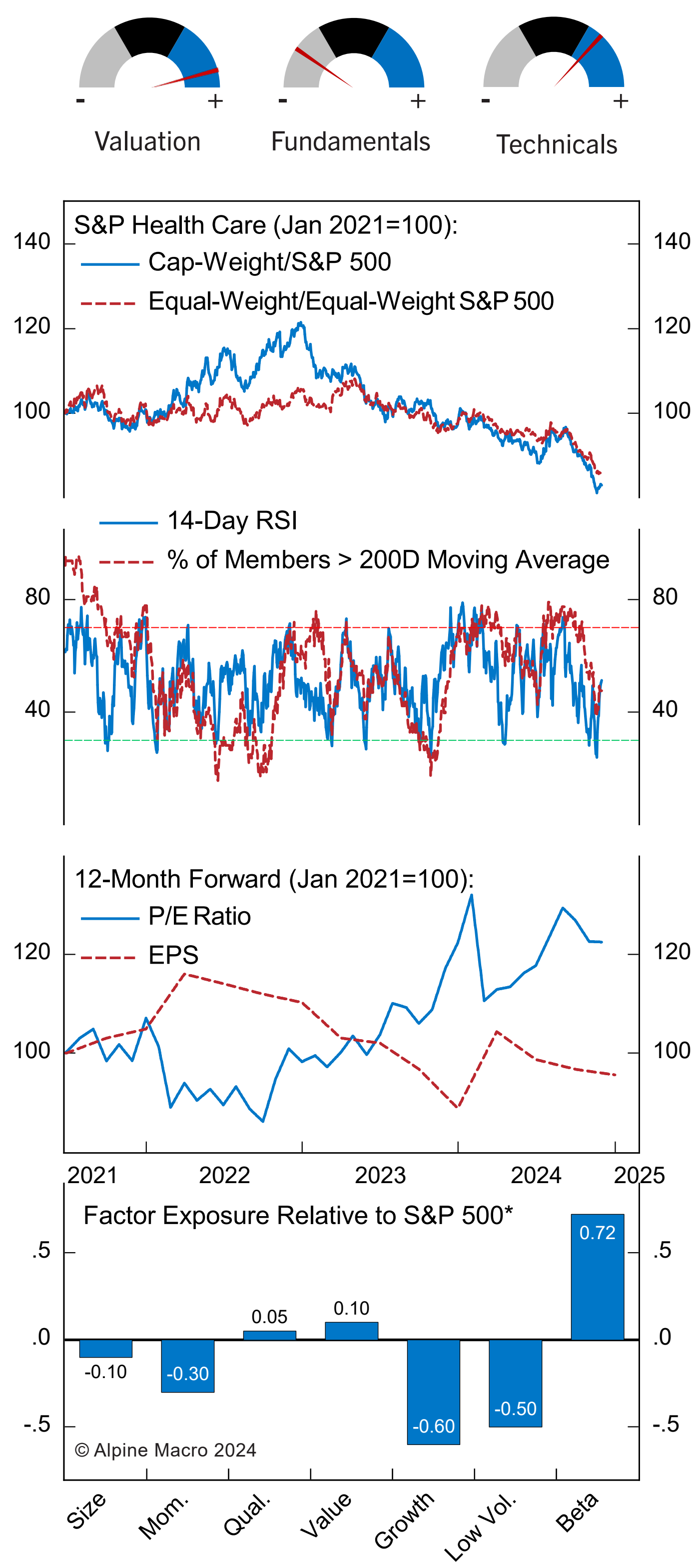
While Republicans are unlikely to dismantle key provisions of the ACA, they are expected to focus on resisting price controls and prioritizing domestic R&D and manufacturing, benefiting sectors like Equipment & Supplies. Lack of support for ACA expansion will create headwinds for Providers & Services, as fewer individuals are insured through government programs.

Medicare & Medicade Enrollment To Flatten



Note: Shaded area denotes estimate period; source: Bloomberg Finance L.P.

Alpine Macro Sector Dashboard



*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

INDUSTRIALS (OVERWEIGHT)

We're tempted to take profits on our overweight Industrials position as valuation continues to expand on both a market cap and equal-weighted basis, while earnings momentum slows relative to the S&P 500. However, we anticipate a longer time frame for Trump Trade tailwinds from lower taxes, deregulation, and a renewed commitment to security.

A cyclical rebound in the U.S. predicated upon resilient nominal growth and lower rates remains largely intact, even as intermediate yields have jumped. This backdrop should continue to support Industrials with some struggling end markets, including agriculture, flagging a potential trough.

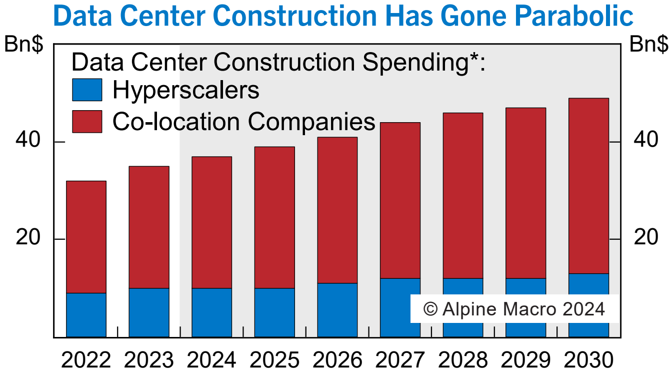
Any improvement overseas would be a boon, although potential tariffs could quickly offset benefits. Leadership of transports and machinery over the broader index is a positive indicator of anticipated strength. Finally, Aerospace & Defense appear washed out and a potential contrarian point of entry.

Industry Spotlight: Construction

Data center construction spending is forecasted to grow significantly in the coming years, driven by record demand for high-density facilities. In North America, supply under construction has surged to 3.9 gigawatts—a 70% increase from last year. Just in the first half of 2024, over 500 MW of new data centers, equivalent to Silicon Valley's total capacity, came online.

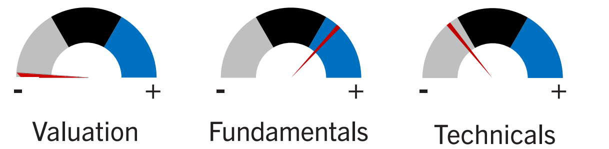
As investment in data centers accelerates, construction and infrastructure companies focused on advanced cooling solutions stand to benefit, positioning themselves as critical players in the digital economy's ongoing expansion.

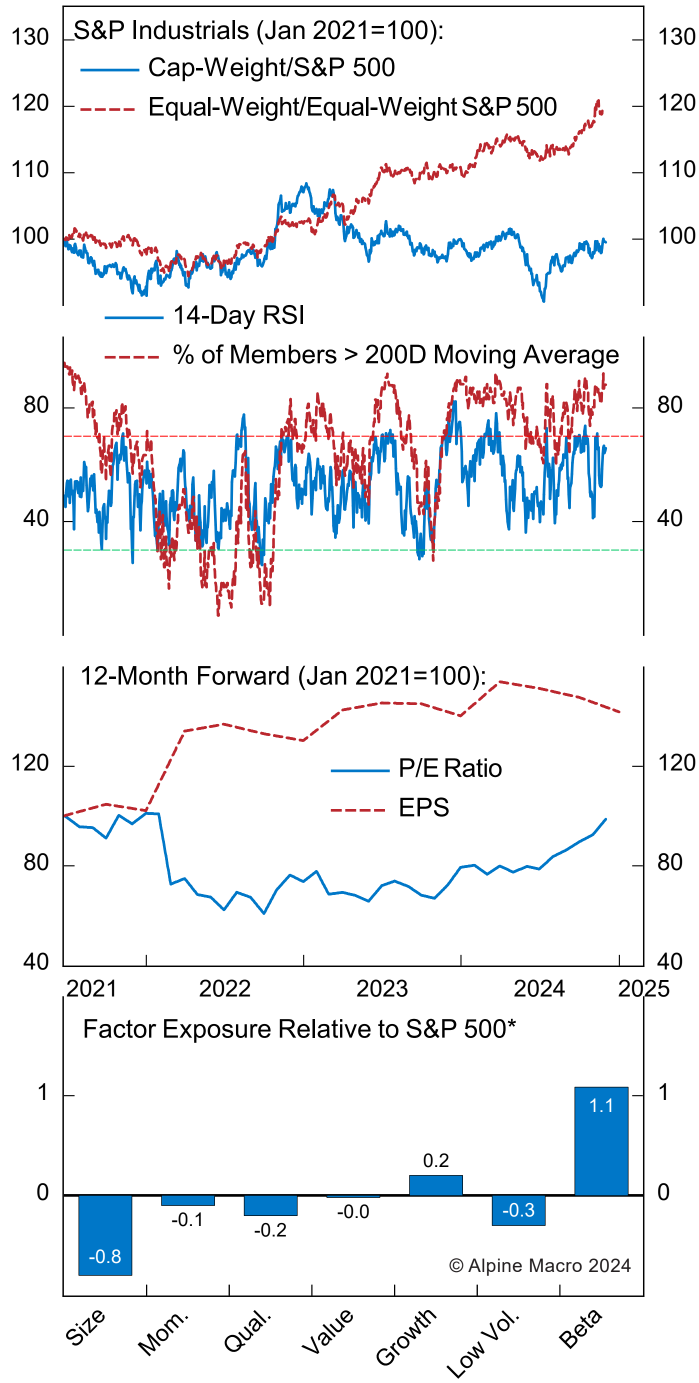
Data Center Construction Has Gone Parabolic



*Includes construction spending by providers. Excludes enterprise spending and any other capital expenditure outside of construction; Note: Shaded area denotes forecast period; source: Synergy Research Group

Alpine Macro Sector Dashboard





*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Technology has trended higher in a sawtooth manner as investors continue to digest the potential monetization opportunities of artificial intelligence and the spend cycle associated with its build-out. Earnings expectations continue to climb.

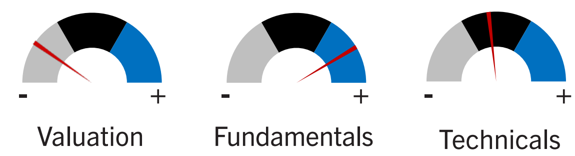
The performance of Semiconductors, Software, and Hardware has been mixed but Q3 reporting season represents an opportunity for companies to guide expectations pertaining to a variety of end-market segments. We continue to expect A.I. "earners" to be better positioned relative to A.I. "spenders," and expect related technologies to eat up an increasing share of CapEx and/or tech budgets as opposed to increasing the pie.

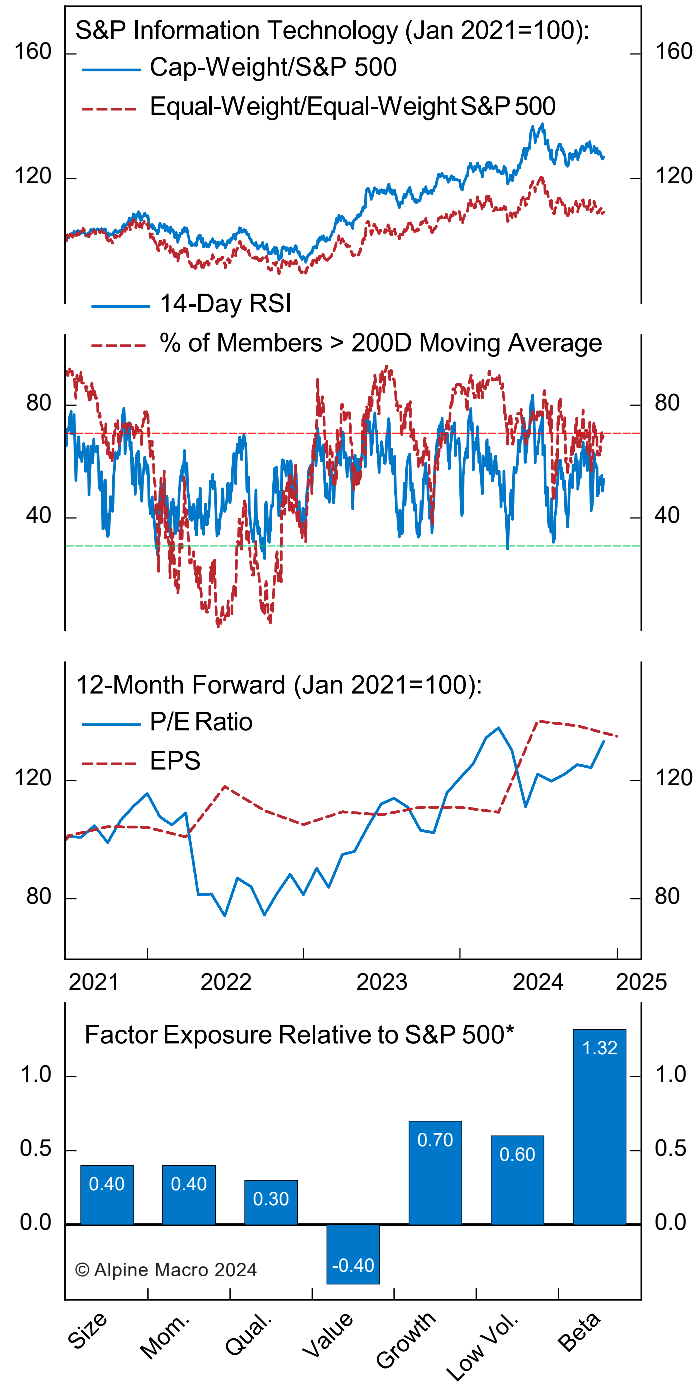
We continue to favor the Information Technology sector as it exhibits the fastest long-term growth, highest quality, and profitability across sectors. Technicals have shifted down but could approach oversold levels.

One key development that warrants monitoring in coming is the shaping up of forward guidance. So far, company guidance is significantly weaker for Q4 than it was in Q3 even as the absolute guidance ratio is better than that for the overall S&P 500.

However, historically Q4 guidance for the sector trends weaker as companies look to set low expectations for the coming year and quarters, hence the reputation for "sandbagging." With conference season hitting a fever pitch in coming days/weeks this will be worth monitoring.

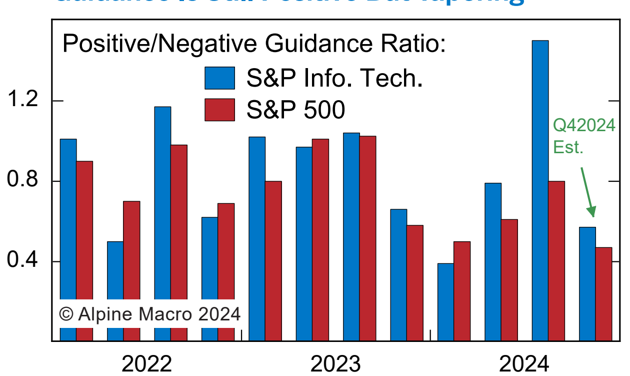
Alpine Macro Sector Dashboard





*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

Guidance Is Still Positive But Tapering



Source: Bloomberg Finance L.P.

International end markets- including China, Industrial, and Auto- continue to be a drag on the majority of industries within Materials with a number of companies missing Q3 earnings expectations and guiding lower for outer periods. The upside for the sector is that reporting season may have represented a pain reset after which companies are in better position to outperform. We're staying underweight for now.

In the chemical space, weak end market demand meets additional overcapacity out of China. Lower feedstock prices could help margins although improving supply is an offset.

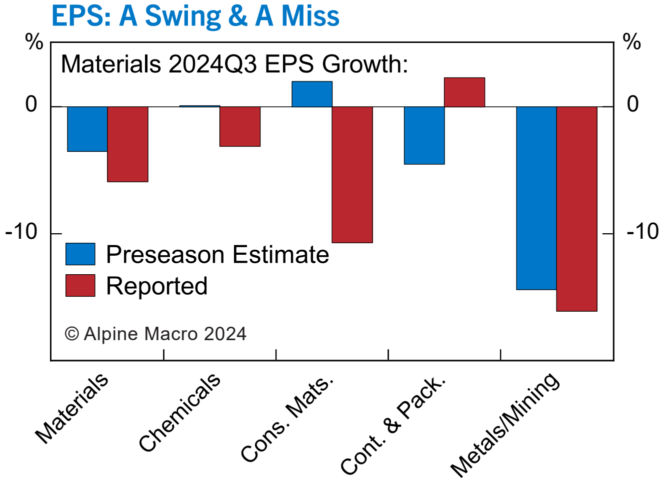
Construction is guiding for low single-digit volume growth on flat non-resi demand but an inflection higher for public and residential in 2H of 2025. Managing cost inputs of labor, parts, and electricity will dictate margins.

Overall, we still consider risks to the sector to be biased towards the downside even as domestic policy would appear to favor industrialization and construction. With international activity weak and the sector heavily exposed to trade and immigration risk, upside appears limited for now.

Materials companies in 2024Q3 missed preseason EPS growth estimates by a wide margin, failing to meet a relatively low bar which marks the ninth consecutive month of an earnings recession for the sector. While the container and packaging industry showed some resilience, it was far outweighed by widespread weakness across other segments.

We're still searching for green shots of a growth recovery.

EPS: A Swing & A Miss



Source: Bloomberg Finance L.P.

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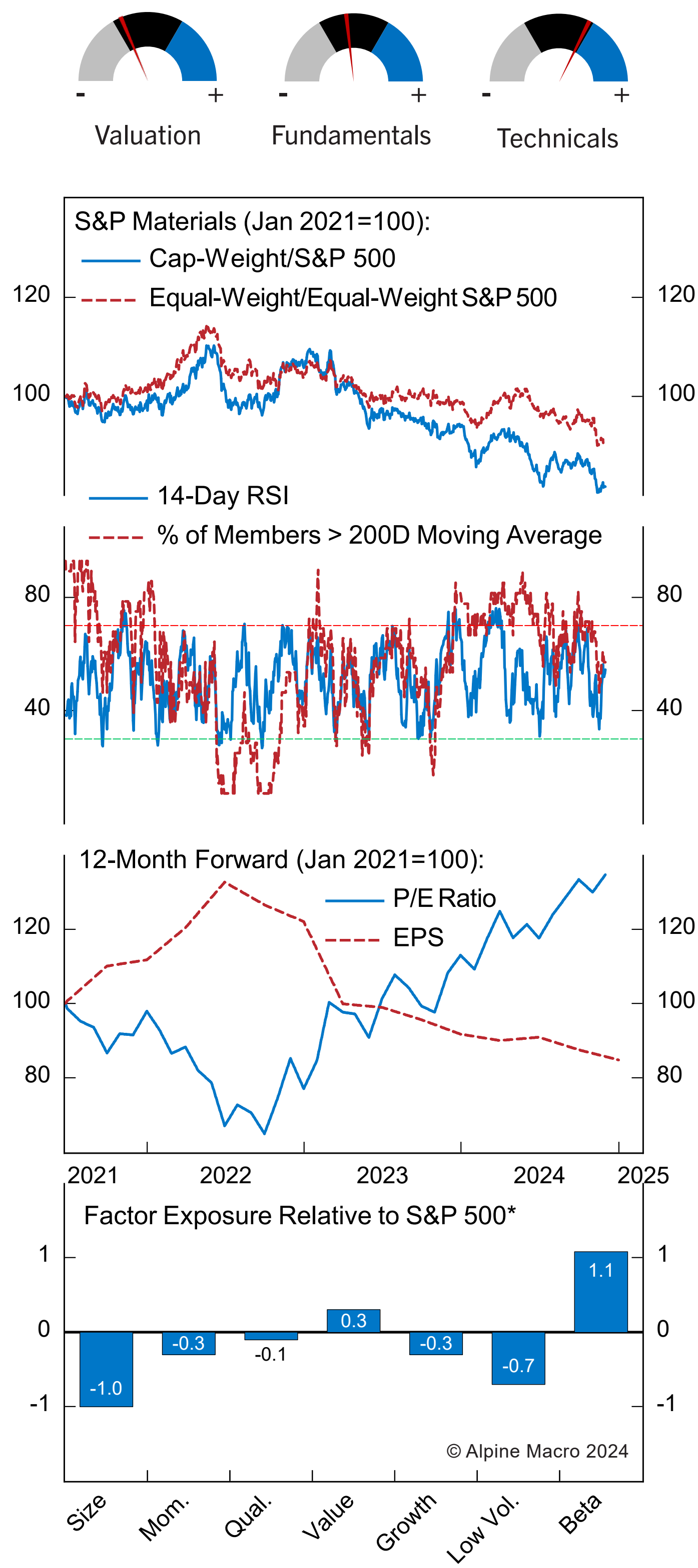


*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

There's more to like than love within Real Estate even as the Recovery stage of our equity framework suggests it should be a prime beneficiary of rate cuts and broadening profit growth. A stubborn backup in intermediate yields is weighing on the sector.

Real Estate experienced a slight stall after surging to overbought levels, contributing in a rise of the sector's Momentum exposure. We've made the case that the sector is no longer catching generalists off-guard as segments which were depressed in office and retail are no longer attractive mean-reversion candidates while the well-positioned pockets are rightfully expensive.

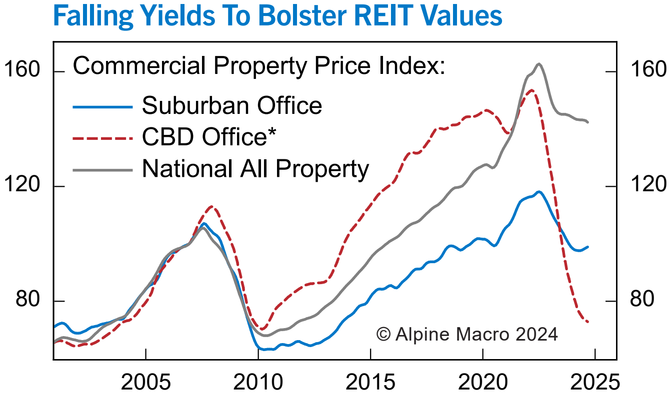
We continue to favor Data Centers and Senior Housing exposure given the thirst for power and occupancy. U.S. election implications could prove multi-faceted.

Industry Spotlight: Office REITs

Commercial property prices are showing a bifurcated recovery. Suburban office prices have bottomed and are beginning to recover, while central business district (CBD) office prices remain in decline, down over 50% from their peaks—a drop worse than during the Global Financial Crisis.

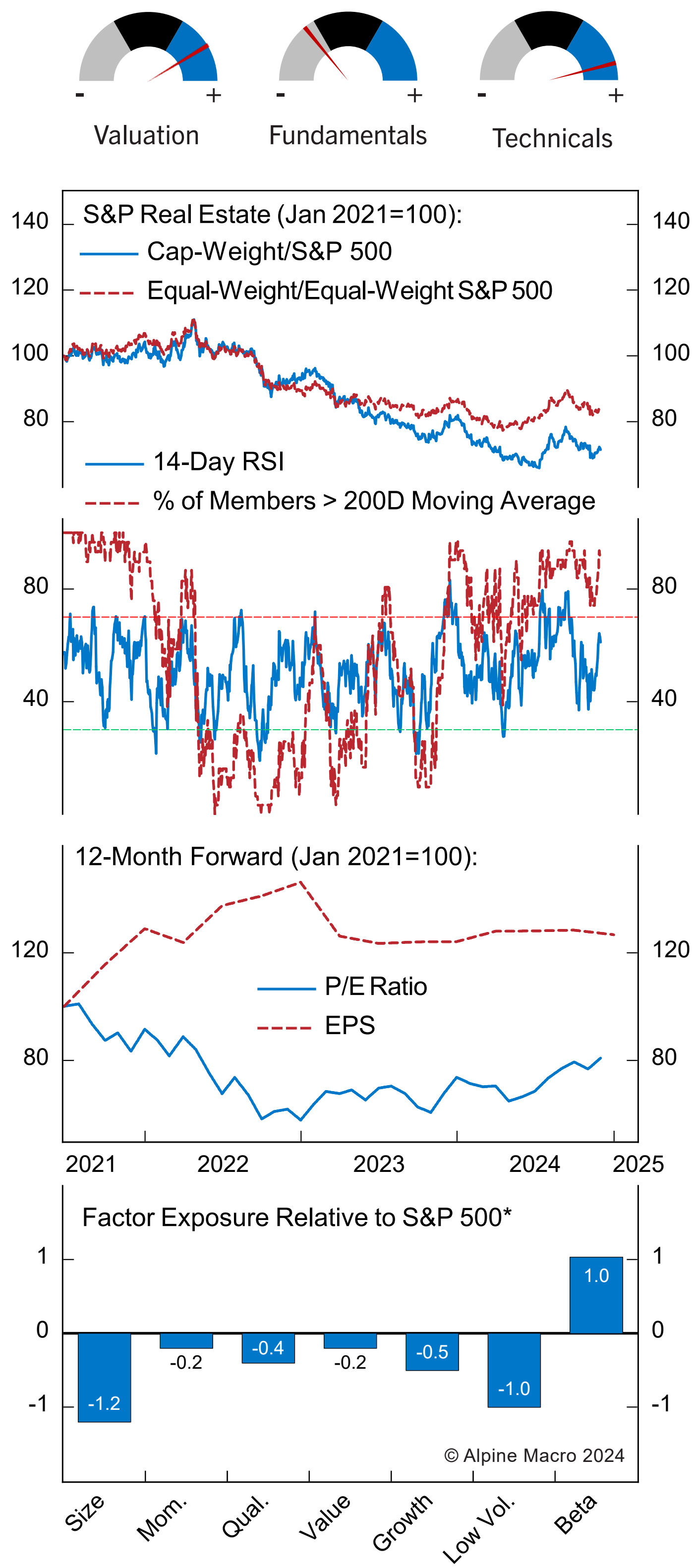
This divergence reflects changing dynamics in office demand. Remote work has "rightsized" providing companies with more clarity on their long-term spacing needs. providing clarity on long-term space needs. Suburban offices, often lower-cost and closer to where workers live, are benefitting from these shifts, while CBD properties- especially those outside of Class A- face challenges from oversupply and shifting tenant preferences.

Falling Yields To Bolster REIT Values



*Central Business District
Source: MSCI RCA CPPI

Alpine Macro Sector Dashboard



*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

The current backdrop, characterized by slowing, disinflationary growth has proven supportive for Utilities which were enjoying their most sustained bout of outperformance in years although a back up in rates is a near-term challenge. Headline risk related to the U.S. election weighs on clean energy related Utilities while a recent regulatory ruling pressures nuclear stocks.

Our bull thesis for Utilities remains and has been twofold: 1) negotiated rates are likely to be highest as the spike in inflation abates, and 2) the secular thirst for power will demand increased levels of negotiated CapEx. These elements boost rates and the rate base, enhancing earnings. Falling bond yields and associated costs of capital are an added bonus.

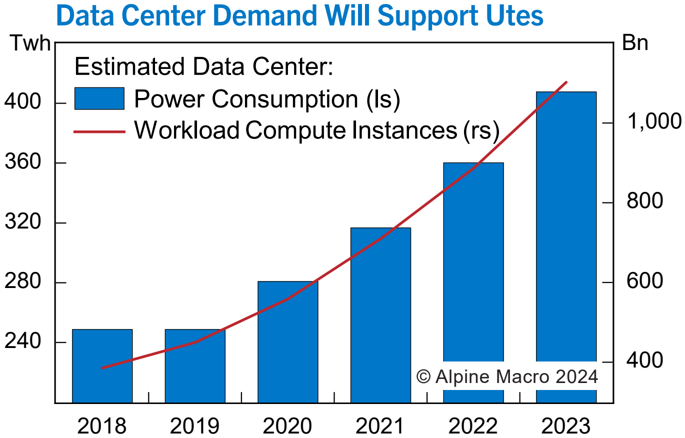
Utilities are generally not a sector to own over the long-run however we feel that a unique opportunity presents a window of outperformance based on cyclical and secular tailwinds.

We favor Utilities that offer gas or electricity product in regions with favorable regulatory regimes and/or attractive locations for data centers. This tends to include the Southeast, Mid-Atlantic, and Mid-West. Valuation is tame.

Data center power consumption is growing rapidly alongside the increase in workload compute instances, driven largely by the surge in AI applications. By 2030, U.S. data center electricity consumption could more than double, reaching 9% of total electricity demand.

Both Electric & Water Utilities will play a key role in meeting this increased demand, especially as data centers push for more energy-intensive operations tied to AI which require power and water for operations & cooling.

Data Center Demand Will Support Utes



Source: Goldman Sachs, IEA, Cisco

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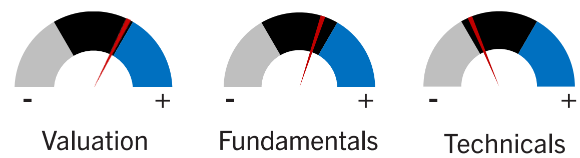

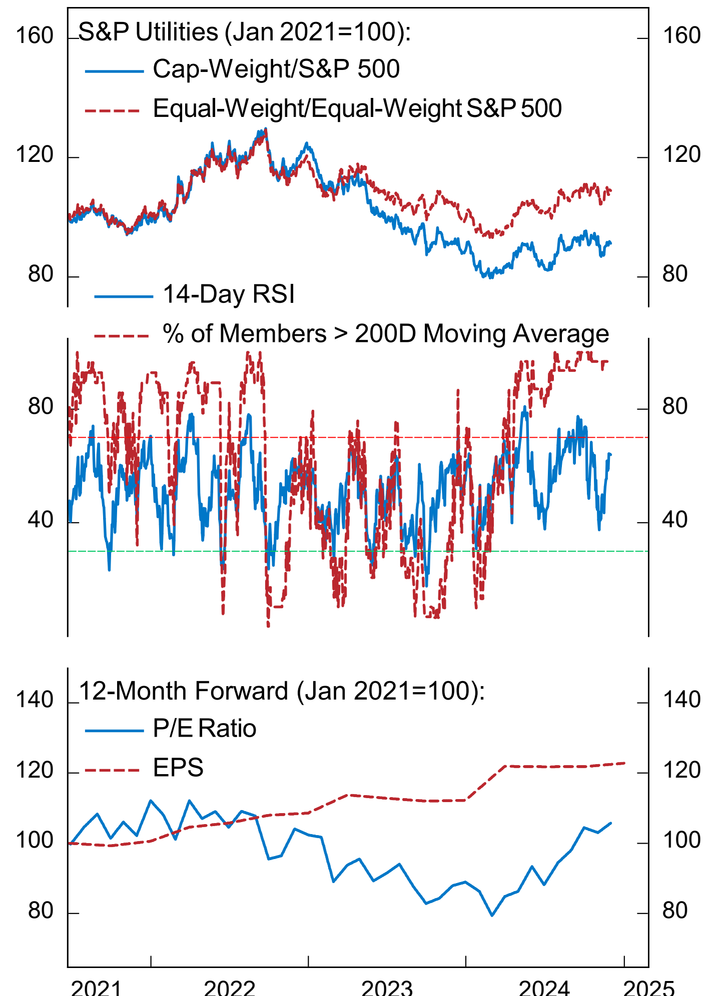

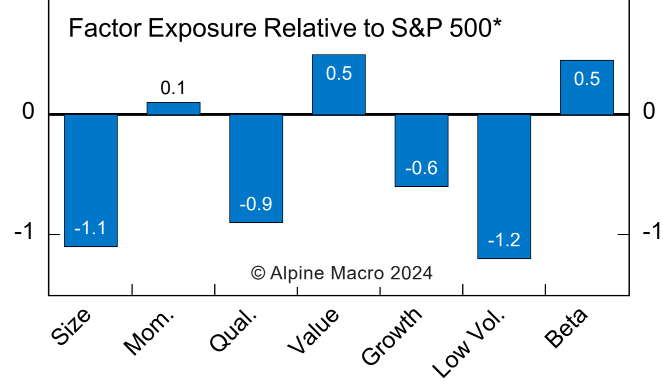

*Shown as standard deviations from mean
Source: Bloomberg Finance L.P.

A Unique Mind On The Markets