

Sujet traité : Le marché haussier le plus incompris / The Most Misunderstood Bull Market

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# The Most Misunderstood Bull Market

Analysts have underestimated this bull market through every step and we expect equities to continue out-kicking expectations over the intermediate term as investors turn the page towards a broadening out of earnings growth. The path closer to S&P 6,000 is coming into focus. Blended exposure to sources of growth, quality, and yield as found in Communication Services are preferred.

## Thrown For A Loop

At the midpoint of the year, the S&P 500 trades higher than the average (4,833) and top (5,200) price targets set by Wall Street strategists heading into 2024. Similarly, the equity index lapped last years estimates, piling up strong gains albeit concentrated. Strategist targets have been the furthest below actual price levels on record in recent quarters, highlighting the poor accuracy and/or prediction power of their foresight (Chart 1, top panel). Fund flows have corresponded.

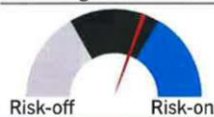
As shown in the bottom panel of Chart 1, investors have been underexposed to equities during this run-up, with equity allocations just now approaching 2021 or pre-COVID levels.

In our view, three conditions have thrown strategists and investors for a loop:

- The most anticipated recession of all-time has yet to come to fruition
- There has been a slowdown, consistent with tightening financial conditions, but it's morphed into a rolling profit recession across some sectors as opposed to a broader decline
- Mega Tech has emerged as an idiosyncratic block less vulnerable to macro influences (IA)

As a result of these developments, the broader large cap U.S. equity index has been able to power well ahead as top-line

## Alpine Macro Risk Regime Indicator



## In This Report

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U.S. Equity Views*	--	-	N	+	++
Large Cap	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Small Cap	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Value	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Communication Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Consumer Discretionary	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Consumer Staples	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financials	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Health Care	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Industrials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Information Technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Materials	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Real Estate	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Utilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

\* Denotes positioning

	12-Month Forward EPS Growth (%yoy)		
	Growth	Core	Value
Large Cap	-0.5%	10.7	21.8
Mid Cap	-1.7	1.8	4.0
Small Cap	5.9	1.2	-3.5
	12-Month Forward P/E Ratio (%yoy)		
	Growth	Core	Value
Large Cap	30.2	14.0	-6.3
Mid Cap	19.1	9.2	1.1
Small Cap	3.7	4.9	3.9

Note: Blue (Red) = Better (Worse); source: Bloomberg Finance L.P.

## THE MOST MISUNDERSTOOD BULL MARKET

Equity Strategy

corporate earnings have accelerated and exceeded expectations, while the secular tailwinds propelling Mega Tech have been a magnet for global capital, boosting aggregate valuations.

### Rolling Earnings Recession in Rear-View

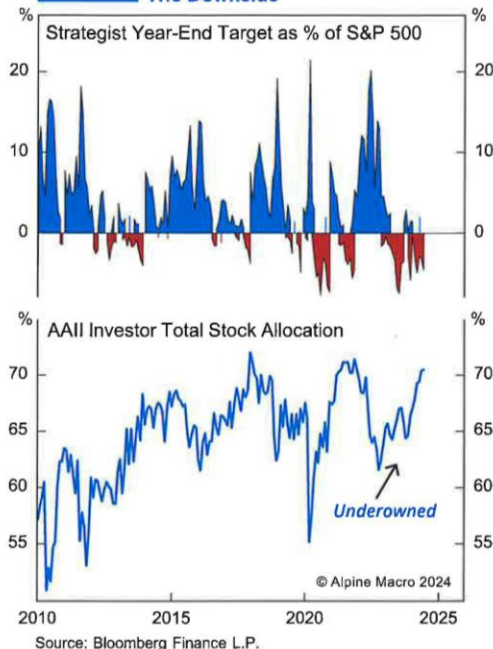
Large Cap U.S. equities emerged from an official earnings recession in 2023, powered mainly by Mega Tech, however no less than three sectors have experienced their own recession at any given quarter during that period or since (Chart 2).

This observation is consistent and to be expected within the context of tightening financial conditions corresponding with the Fed's monetary tightening cycle. To this point, we'd suggest that those that had expected flat or slightly negative earnings growth given the macro setup weren't completely off-base, rather they may have underestimated the earnings power of Mega Tech and its outsized contributions to broader equities.

### Big Tech Is Big Advantage

The emergence of a massive cohort of companies which demonstrate record levels of quality, profitability and visible growth is a major feature, as opposed to representing a bug, for the U.S. large cap equity market. These companies

**Chart 1 Strategists Have Undershot To The Downside**



**Chart 2 Earnings Recession Has Rolled By**

Sector EPS Growth:	'24 Q4	'24 Q3	'24 Q2	'24 Q1	'23 Q4	'23 Q3	'23 Q2	'23 Q1
S&P 500	Blue	Blue	Blue	Blue	Blue	Blue	Red	Red
Communication Services	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Red
Consumer Discretionary	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Consumer Staples	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Energy	Blue	Blue	Blue	Red	Red	Red	Red	Red
Financials	Blue	Blue	Blue	Blue	Blue	Blue	Red	Red
Real Estate	Blue	Blue	Red	Red	Red	Red	Red	Red
Health Care	Blue	Blue	Blue	Red	Red	Red	Red	Red
Industrials	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Information Technology	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Red
Materials	Blue	Blue	Red	Red	Red	Red	Red	Red
Utilities	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Red

Note: Red cells denote two consecutive quarters of negative YoY EPS growth

## THE MOST MISUNDERSTOOD BULL MARKET

Equity Strategy

are largely insulated from the traditional business cycle, instead they're more closely tethered to the adoption cycle of ubiquitous technologies. Their asset-lite characteristics also make them more immune to interest-rate policy.

In a period of unusually high uncertainty, we find it reasonable for most elements of Mega Tech to achieve large valuation premiums as investors prioritize visible sources of quality growth. Chart 3 illustrates the major premium Mega Tech commands, in addition to the value apparent within the broader market and across sectors when not accounting for these leaders.

### Path for Earnings is Broader, Higher

A slowing but resilient economy will allow for sectors, which have managed through rolling recessions, to enjoy broadening earnings growth. This will be a product of stabilizing revenues given the nominal GDP backdrop and an expansion of profit margins which are just beginning to improve in many sectors, after implementing significant measures to improve productivity.

As shown in **Table 1**, profit margins historically bounce back soon following major cycle troughs, however they've only gained back 10% of what had been lost during the compression from 2022-2023, meaning there's more progress to come.

Some of this progress will be aided by less input price pressures from material costs and employee wages. More actively, companies have accelerated their push to

**Table 1** More Margin Recovery To Come

Timeframe	Margin Decline	% Margin Drawdown	+1Yr Recovery	Months To Recovery
1991-1193	-1.7%	-36.2%	53%	15
2001-2002	-2.3%	-27.6%	46%	20
2007-2009	-3.5%	-34.7%	67%	53
2019-2021	-1.8%	-14.5%	178%	4
2022-2023	-1.4%	-10.4%	10%	-

enhance productivity through technology and a rightsizing of their labor footprint. For example, sales-per-employee for companies within the index have climbed by \$40k, or 7%, since 2023.

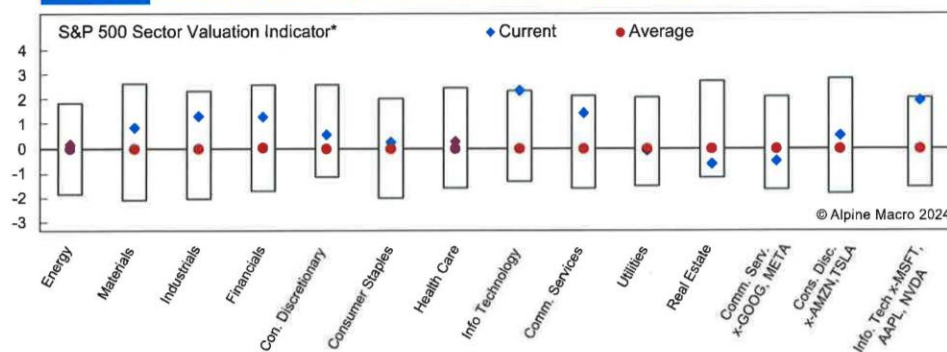
Our corporate earnings model, which incorporates estimates of sales growth and margins, projects earnings of approximately \$59 in Q2, and closer to \$240 on an annualized basis. The bottom-up estimate, which aggregate earnings data for each company, points to an even better outlook closer to \$250 for this year.

Given our expectation for a broadening of growth beyond Mega Tech, there may be upside to these figures.

### Mean-reversion of Laggards to Leaders

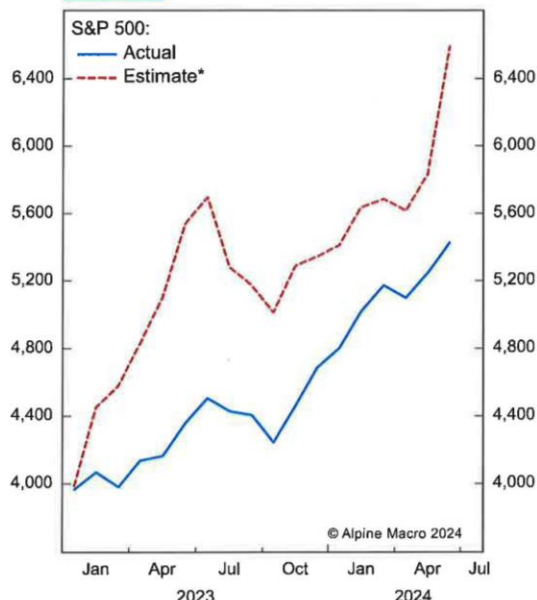
The aggressive bull thesis for equities involves a "catch-up" move higher in valuation for the rest of the market

**Chart 3** Sectors Appear Fairly Valued When Normalizing For Mega Tech



\*Alpine Macro proprietary indicator



**Chart 4 If S&P 493 Followed Mag 7 Premium**


\*Alpine Macro calculation assuming broad market P/E expansion followed Mag-7 trajectory; source: Bloomberg Finance L.P.

towards that enjoyed by the Mega Cap leaders. In **Chart 4**, we illustrate the trajectory of the S&P 500 had the rest of the market enjoyed the same degree of expansion as the Magnificent 7 since 2023.

If the rest of the market “caught up” to Mega Tech the implied value of the S&P 500 would be closer to 6,500 rather than its current level. Of course, this is a stretched assumption.

Our fair-value valuation model, which incorporates a variety of fundamental and cross-asset inputs, suggests a fair-value P/E multiple of 20x. Applying this valuation across the entire index would imply a price level of 5,200 however applying this multiple to the rest of the index while keeping Mega Tech constant would produce a price level of 5,700. Given our expectation for the trajectory of earnings growth, we find this to be a reasonable intermediate target.

**Alpine Macro Sector Framework**

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

Note: Lower (Higher) Rank = Better (Worse)

**Bullish Intermediate-Term**

We remain bullish on U.S. equities over a 6–12-month timeframe although we acknowledge the likelihood of technical bumps and bouts of episodic volatility along the way. We’d use pullbacks as opportunities to deploy fresh capital, or balance back to target levels. We advocate for a risk-neutral barbell strategy pairing elements of opportunistic cyclicity with sources of higher quality secular growth.

**Nick Giorgi**

*Chief Equity Strategist*

**EDITORIAL TEAM**

**Nick Giorgi**

Chief Equity Strategist

**Chen Zhao**

Chief Global Strategist

**David Abramson**

Chief U.S. Strategist &  
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Chief U.S. Bond Strategist

**Tony Boeckh**

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**Jay Sharma**

Senior Research Analyst