CIMB *preferred*

18 April 2025 **Equities**

US Equities: Nudging down to NEUTRAL

We are **downgrading US Equities to NEUTRAL** from our earlier OVERWEIGHT. We are adopting a more cautious stance, driven by mounting macroeconomic headwinds, deteriorating earnings visibility, and early signs of stress in credit markets.

What has changed?

Technically, the S&P500 bounced +11.7% from a oversold position of 4,835 to close at 5,405 levels on 15/03/24. Like previous cycles, this resembles a "dead cat bounce" or technical bounce which may not be sustainable. We believe **the risk to reward is not attractive at current levels** based on our year-end target level stands at 5500 (pegged to 21x, 6% earnings growth).

Figure 1: S&P500 Target Sensitivity table

	Long-term mean	10-year mean PER	7-year mean PER	5-year mean PER
PER / EPS Growth	**18**	**20**	**21**	**22**
6%	4,709	5,232	5,494	5,755
3%	4,576	5,084	5,338	5,592
0%	4,442	4,936	5,183	5,430
-3%	4,309	4,788	5,027	5,267
-6%	4,176	4,640	4,872	5,104

Source: Bloomberg, CIMB CIO Office

What are potential concerns?

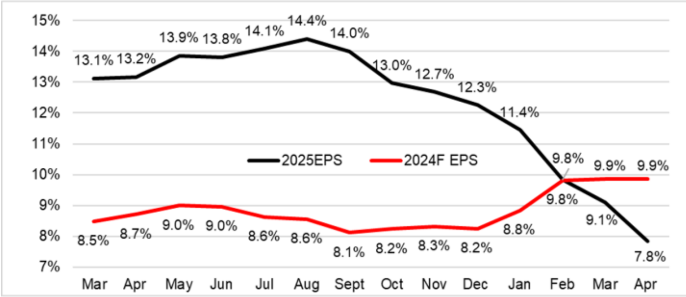
1. Economy: The **escalation of trade tensions, particularly with China, is clouding the US' and global economic outlook**. Despite a temporary 90-day pause in reciprocal tariffs, a blanket 10% tariff remains in place, adding pressure to global trade and investment decisions. Both US and China's current **reluctance to engage in constructive dialogue further amplifies the uncertainty**.

The **downstream effects are already visible** i.e. leading indicators such as the University of Michigan sentiment indices are weakening whilst business and consumer confidence continue to erode. Risks to employment and inflation are rising. All these factors suggest that US' growth is set to slow further, and recession risks—while not our base case—are increasing.

2. Earnings: Bloomberg's S&P 500 earnings growth expectations have been revised down to 7.8%. This downward revision reflects a broader pattern of uncertainty.

To give some sense, as of 11th April, 6 companies have reported its 1Q25 earnings whilst providing mixed 2Q25 guidance - 4 issued negative guidance whilst 2 maintained previous guidance citing uncertainties ahead. Meanwhile, technology bell weathers Nvidia and ASML issued negative forward-looking statements, signaling potential downgrades in the tech sector. **Further earnings pressure, particularly from the tech sector, could act as a catalyst for broader market repricing**.

Figure 2: Earnings growth expectations are lower



Source: Bloomberg, CIMB CIO Office

3. Credit Markets: Whilst we are not seeing crisis-level stress in the credit markets, recent sharp spike in bond yields and wider credit spreads warrant careful monitoring as these are early signals of tighter market conditions ahead. **Historically, equity market downturns are often preceded by dislocations in credit markets**.

What should investors do?

Given the current environment, we **recommend a more cautious and selective approach to US equities**:

- **Take profits:** Should an investor sit on gains, consider locking in profits on a technical bounce.
- **Wait for Better Entry Points**: For those looking to build exposure, **consider staggered buying in the 4,800–5,000 range, with 4,400–4,600 as potential lower entry levels** in a downside scenario.
- **Focus on Quality**: **Stick with high-quality names** from our recommended list (or refer to our report *"US Equities: A Pause in Reciprocal Tariffs"* dated 14 April 2025)—companies with strong balance sheets, resilient cash flows, and defensible market positions.

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