

Sumus' Version

December 2025

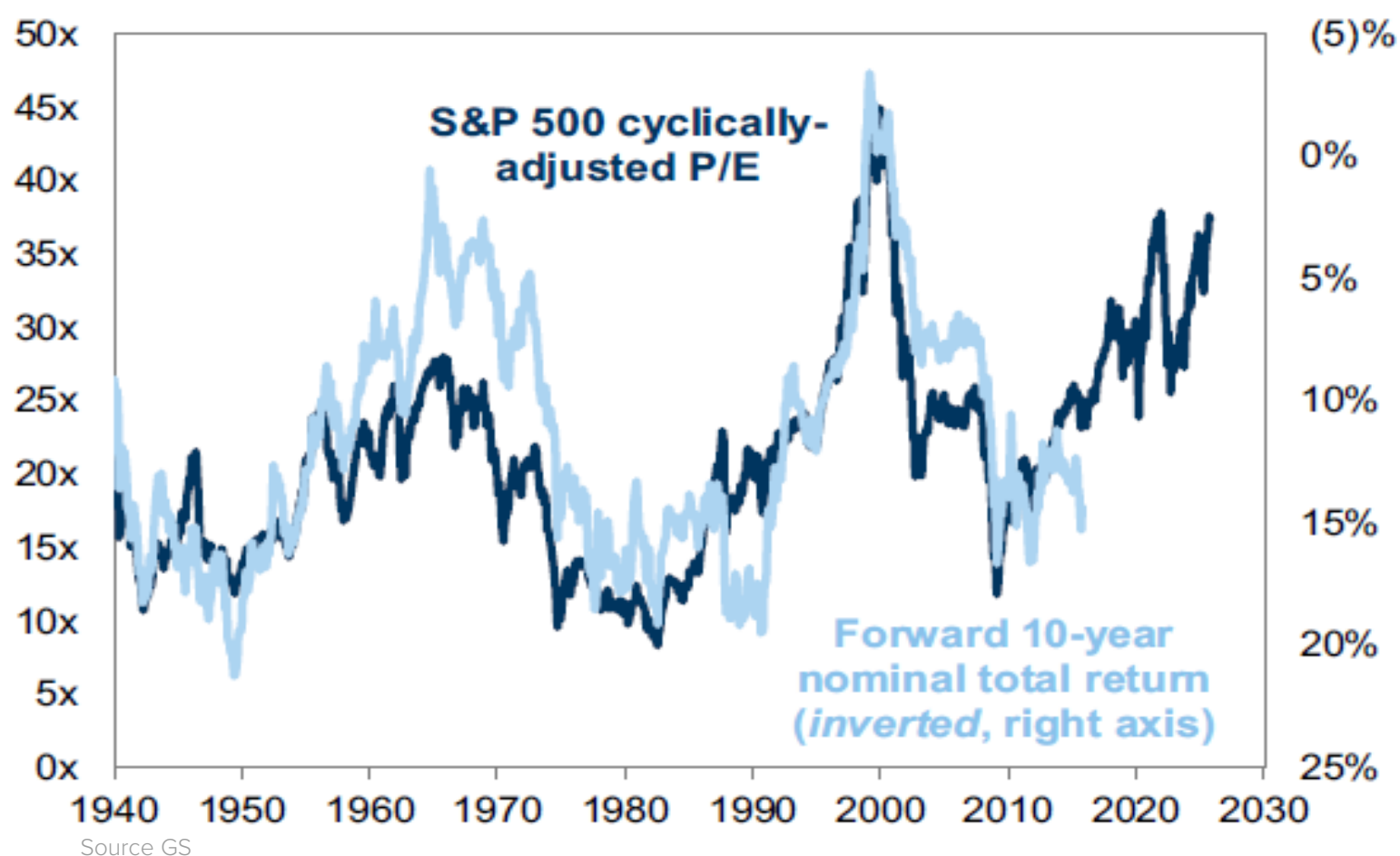


The environment for equity markets is still positive: the Fed is cutting rates and earnings are expected to grow by 13.9% next year for the S&P500. The only issue is that valuations are historically very high, and to reduce the risk it is better to diversify away from the Tech sector.

We continue to see a positive environment for equity markets because:

- The Fed is expected to cut rates to 3.0% by the end 2026 (from 3.65% now).
- Earnings growth is expected to accelerate to +13.9% next year (from 11.9% in 2025) for the companies in the S&P500 index.

The issue for the markets, and especially the US one, is the extremely high level of valuations. The cyclically-adjusted P/E ratio for the S&P500 is the highest since the year 2000, and this is correlated with forward 10 years returns, which now are expected to be below average.

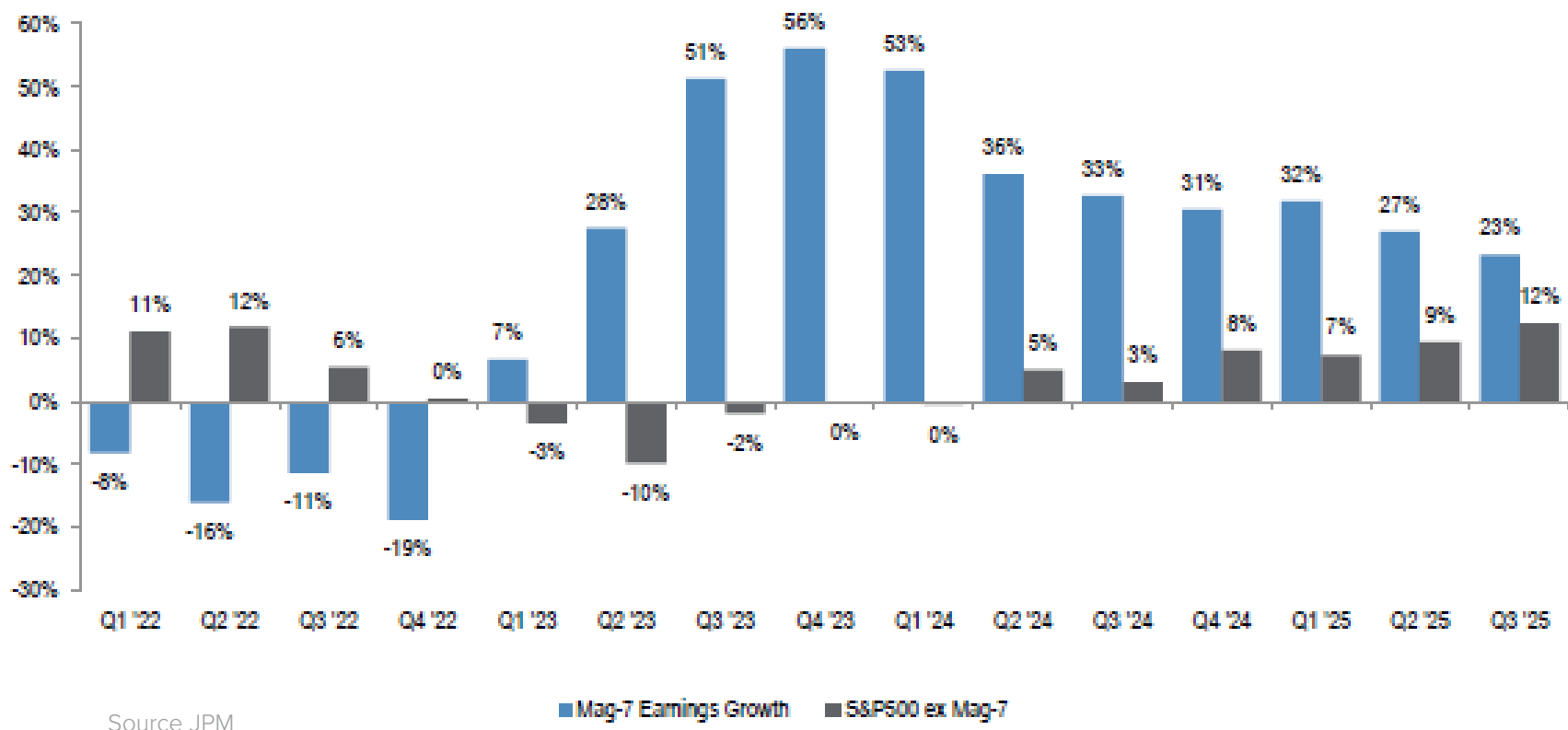


The Mag-7 stocks are the main issue from a valuation point of view. Their focus to building data center and developing the AI, which are currently activities with uncertain returns, should push investors to increase the diversification of their portfolios.

The case for diversifying away from the Mag-7 is also a consequence of the reducing earnings growth gap between them and the rest of the market. In Q3 2024, earnings growth was 33% for the Mag-7 and only 3% for the rest of the rest of the market.

In Q3 2025, it is 23% against 12%.

But valuations are less a concern when looking at the S&P500 equally weighted, with a forward 12 months P/E ratio of 17.7 against 22.8 for the market cap index.



Another way to reduce the risk of high valuations and concentration is to diversify more outside the US. Compared with the historical average, world equities have slightly high valuations but less than in the US. Since 2010 the US market outperformed the rest of the world, with the weight in the MSCI ACWI increasing from 35% to 55%. The 55% weight was also the top reached in 2001.

Weight of US market in the MSCI ACWI



from the Mag-7 and the US tech sector into the broad US market and in Europe and Asia.

Sumus Investment Committee