

Global Sector Charts: Checking the Fundamentals

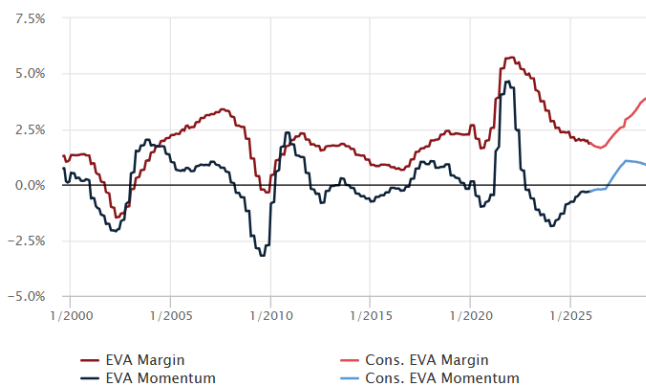
Things can change quickly in markets; March so far can be summed up as marked by extreme volatility. End-of-February global aggregate data showed that, heading into the conflict in the Middle East, EVA Momentum (growth) had been moving sideways in Q1, within touching distance of turning positive. Expanding Sales growth and EBITDAR Margin continue to power the recovery over the last 20 months. Increased new investment has, however, held back further gains in asset efficiency. The pattern for the three EVA Drivers, i.e., top-line growth and P&L Margin expansion somewhat offset by a ratcheting up in new investment is expected to continue through 2026. EVA Momentum (EVA Mo) is not expected to finally turn positive until the beginning of 2027, as the recovery timing suggested by EVA-adjusted consensus has been pushed back a few months. We had already highlighted that the Energy sector was top rated at the beginning of 2026, having seen a continuation of improvement in EVA Momentum. With oil prices remaining above \$80 we see a significant upside for the sector. The Materials and IT sectors have seen continued improvements in growth, while Communication Services has seen a contraction. The market-level expectations for value creation going forward were at 23-year highs at the end of February, which, we had stated, left no room for disappointment in the delivery of economic profitability going forward. The conflict has caused the market to reduce expectations on the outlook for growth, with heightened uncertainty about the knock-on impact on corporate economic profitability.

Global Market Aggregate

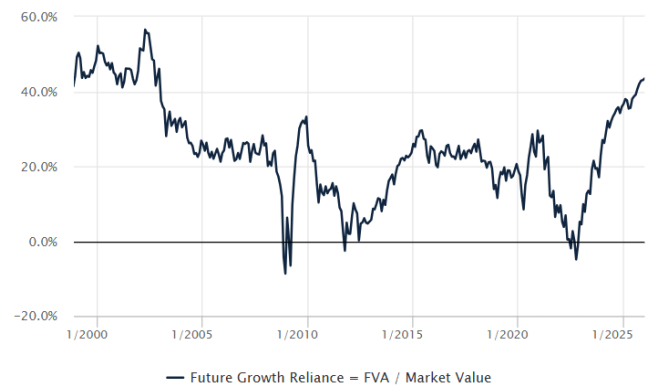
Global EVA Fundamentals: Sales Growth has expanded by another 200bps to 5.2%. EVA-adjusted consensus expects top-line growth to reach 8.9% by the end of the year (a contraction in expectations of 50bps from the beginning of the year). EBITDAR Margin has plateaued around the highs but is expected to expand by 200bps (an increase of 50bps from the start of the year) through 2026. The Productive Capital Charge has plateaued (higher is unfavorable) to a 23-year high, as sales growth offsets new investment. EVA-adjusted consensus suggests a continuation in investment, peaking in 2027. EVA Mo (blue line) has maintained within 20bps of turning positive. EVA Margin (red line) remains under pressure from higher investment, which consensus suggests will somewhat offset increased Sales Growth and a further expansion in EBITDAR Margin during the 1H of 2026.

Global Expectations: Embedded expectations for growth (FVA) hit another new all-time high, for the eleventh consecutive month, at the end of February. Future Growth Reliance (FGR) edged higher to 45.7%, the highest level of investor expectations for growth going forward since 2002. Excluding the short pullback in 2023 (July to October) in FGR, this has been the longest period of expansion in expectations in history (October 2022 to February 2026). The 2012 expansion in expectations, which lasted from June 2012 to May 2015, was the previous longest.

Global: EVA Fundamentals



Global: Future Growth Reliance (FGR)



Global Sector Aggregates

Sector EVA Fundamentals: In February the Materials and IT sectors stood out, with improvements in economic Profitability, while Communication Services was the loser, with growth in Profitability rolling over. Energy before the oil price hike had already been seeing improving EVA Mo (becoming less negative) and we expect, if oil remains above \$80, to see EVA Mo turn positive.

Gavin Thomson
Global Director of Fundamental Research

About ISS EVA

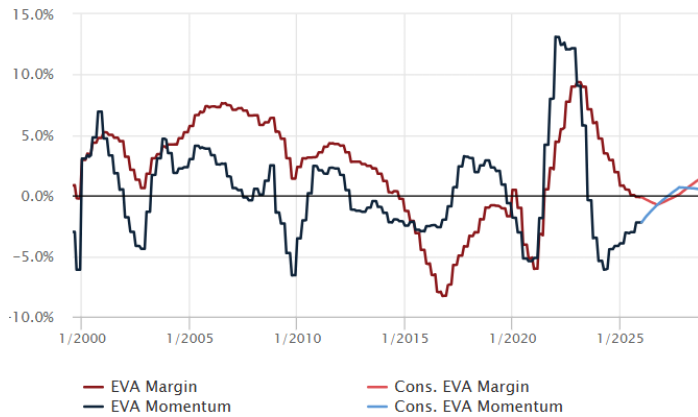
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Sector Expectations: Most sectors saw investor expectations continue to move higher in December, with the exceptions being Consumer Discretionary, IT, and Utilities, which all saw an ongoing pullback in expectations, from very elevated levels. All sectors have investors expecting to see an improvement in economic profitability in 2026.

Global Sector Aggregates

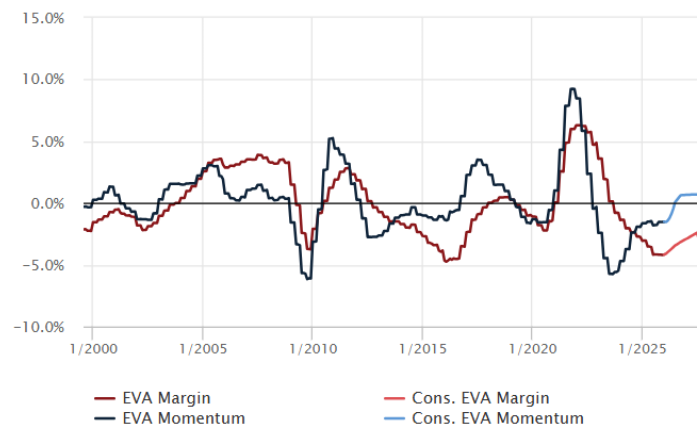
Energy: EVA Fundamentals



Energy: Market Value Added (MVA) Spread



Materials: EVA Fundamentals



Materials: Market Value Added (MVA) Spread



Industrials: EVA Fundamentals



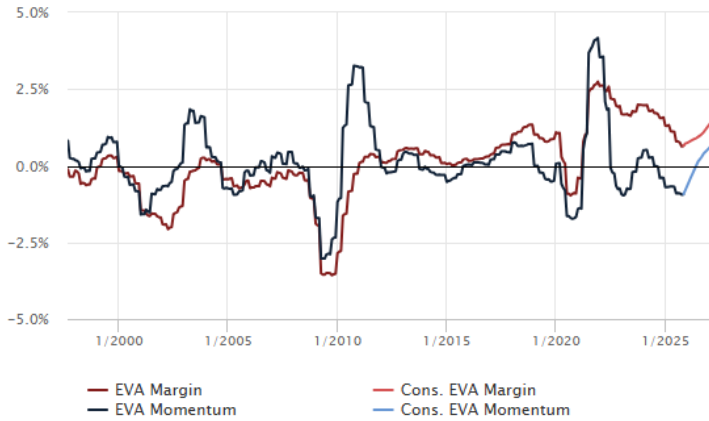
Industrials: Market Value Added (MVA) Spread



For sectors with more cyclical EVA generation, we use Market Value Added (MVA) Spread, our version of a price-to-book ratio.

Global Sector Aggregates

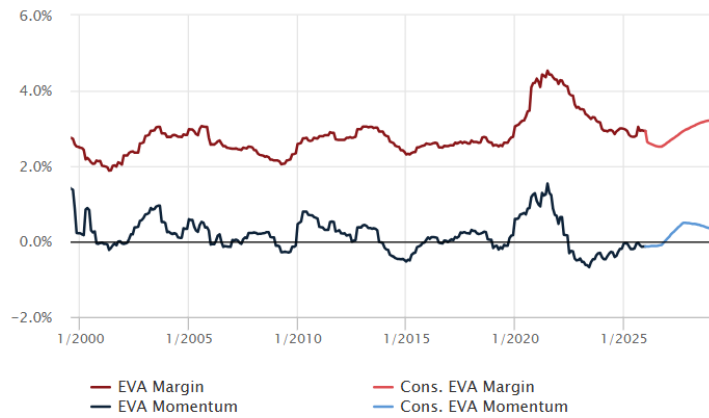
Consumer Discretionary: EVA Fundamentals



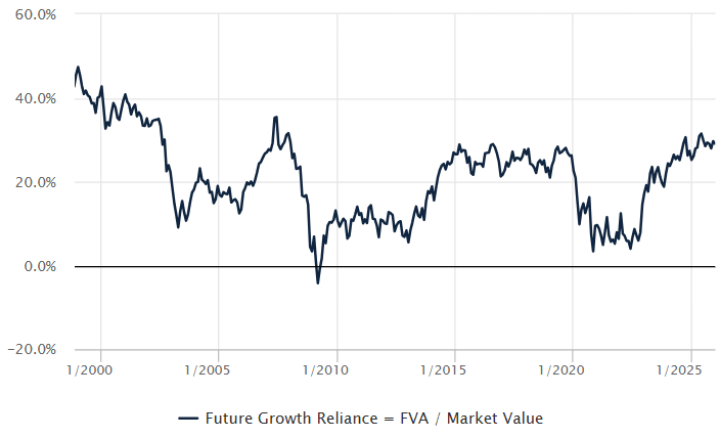
Consumer Discretionary: Future Growth Reliance (FGR)



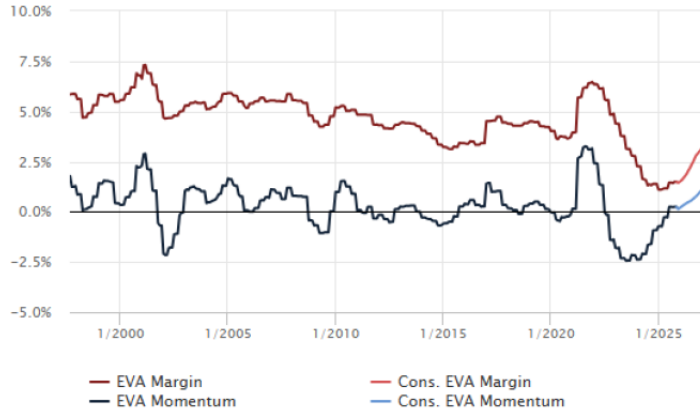
Consumer Staples: EVA Fundamentals



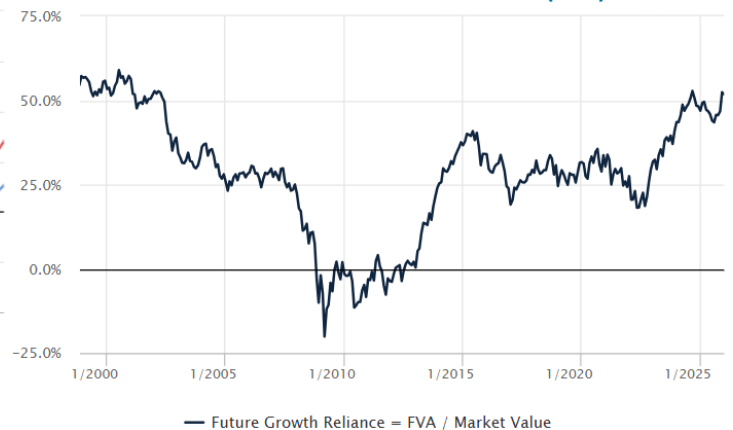
Consumer Staples: Future Growth Reliance (FGR)



Health Care: EVA Fundamentals

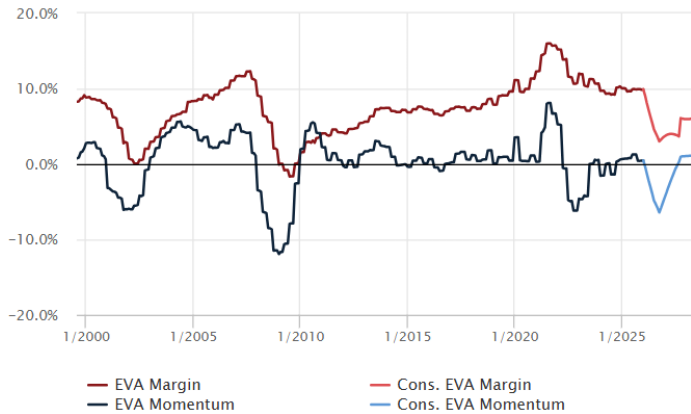


Health Care: Future Growth Reliance (FGR)

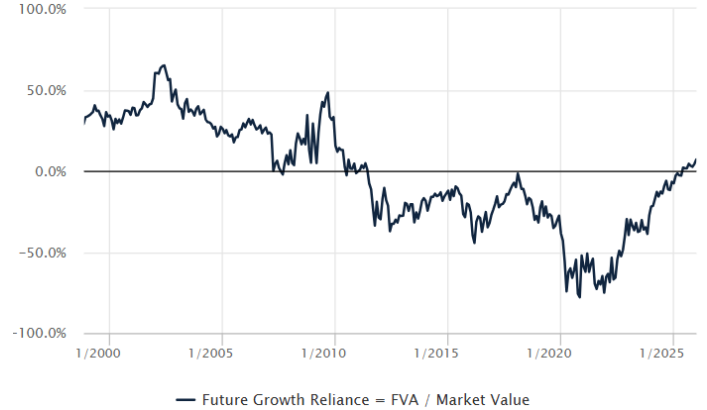


Global Sector Aggregates

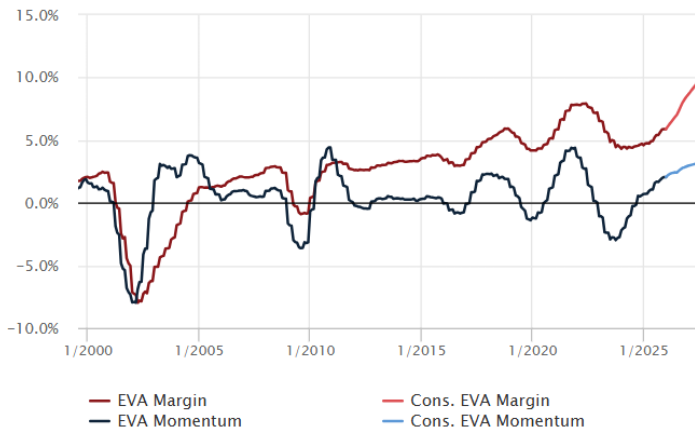
Financials: EVA Fundamentals



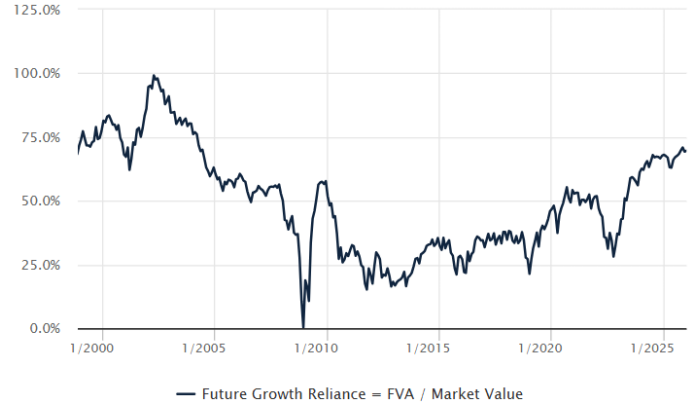
Financials: Future Growth Reliance (FGR)



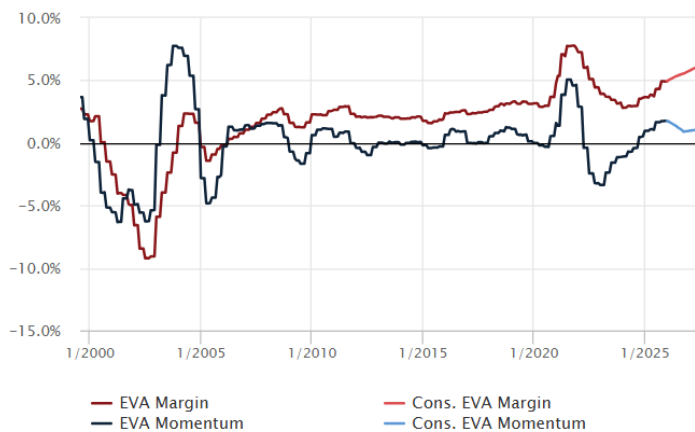
Information Technology: EVA Fundamentals



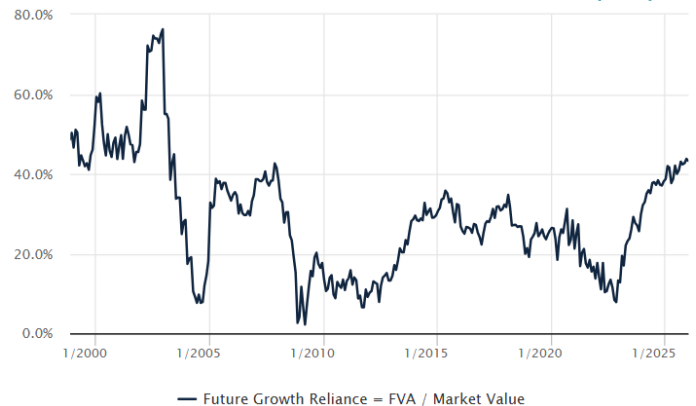
Information Technology: Future Growth Reliance (FGR)



Communication Services: EVA Fundamentals

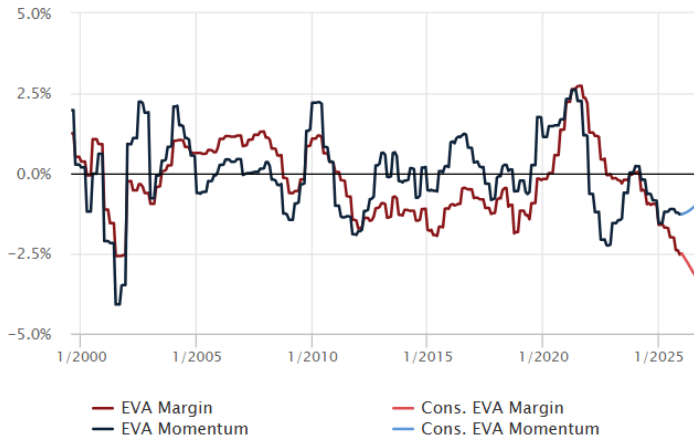


Communication Services: Future Growth Reliance (FGR)

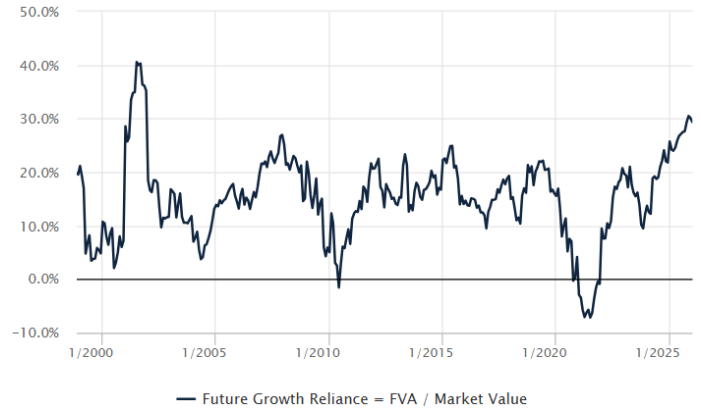


Global Sector Aggregates

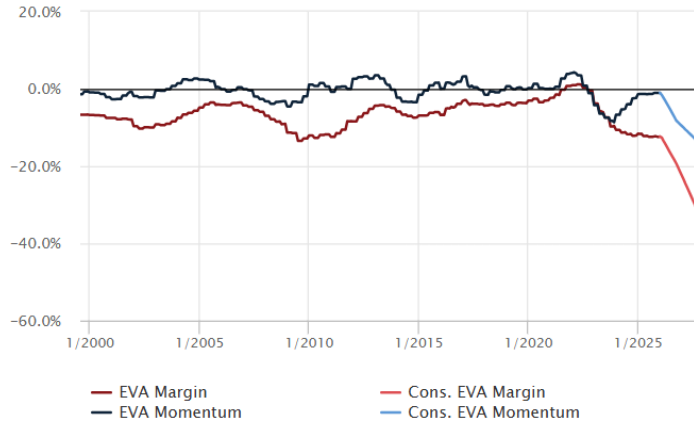
Utilities: EVA Fundamentals



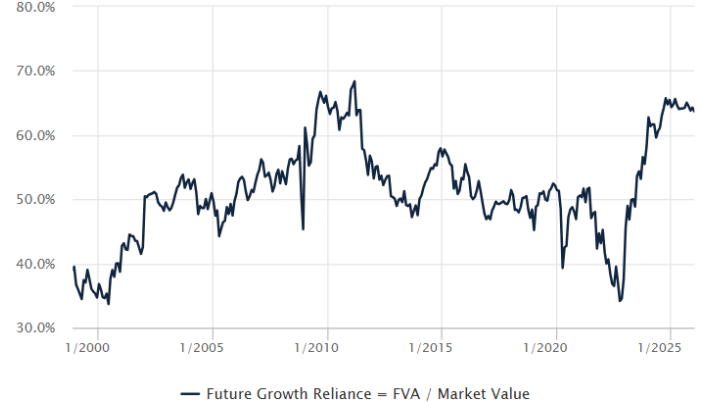
Utilities: Market Value Added (MVA) Spread



Real Estate: EVA Fundamentals



Real Estate: Market Value Added (MVA) Spread



Key EVA Concepts

The value of a firm = Capital + PV 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

EVA Margin is 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

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

Market Implied Momentum (MIM)

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

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

FGR 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 ([link](#)): 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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