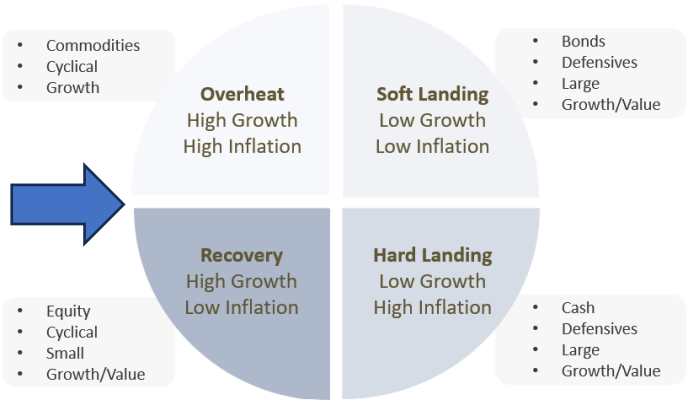
Economic Cycle: What is the U.S. Market Telling Us?

U.S. Economy and the Market

We utilize the Economic Cycle chart in **Figure 1** to help establish what the U.S. economy and markets are currently positioned for. On the left side of the circle, we have the 'Overheat' and 'Recovery' phases. Both phases can typically see high growth stocks outperforming. They can be differentiated by inflation – high inflation indicates Overheating while low inflation indicates Recovery. On the right we see the two low-growth scenarios, 'Soft Landing' and 'Hard Landing', which are differentiated again by inflation.

Figure 1: Phases of the Economic Cycle



In **Figure 2** we show the core metrics of economic growth, corporate growth, and inflation. The core stats show U.S. GDP growth decelerating in 2025 and stagnating in 2026 at 1.8%. EVA Momentum (growth in value creation) for the aggregate U.S. equity market meanwhile is forecast to expand this year and EVA consensus forecasts a further expansion in 2026, to 0.82%. Inflation is forecast to be below the 10-year average (3.15%), although 2025 is expected to come in higher than 2024 but estimates for 2026 are lower than 2024. Improving but low growth and low inflation change but sticky elevated prices leave us to move to the secondary metrics for a better picture of where the economy is positioned.

Figure 2: Core Metrics: Growth & Inflation

Metrics	2004	2025	2026	10Y Low	10Y High
GDP Growth	2.80%	1.80%	1.80%	-2.10%	6.20%
EVA Momentum (US)	-0.13%	0.54%	0.82%	-3.04%	4.73%
Inflation (PCE)	2.93%	2.90%	2.75%	1.38%	5.35%

Secondary Metrics to Determine

The secondary metrics outlined in **Figure 3** are presented with 1-quarter trailing (3M) and year-to-date (YTD) results. Cash (using Crane Data Money Fund stats) continues to be a drag although the dry powder has increased substantially in the last quarter – of the $420B of incremental money set aside, $350B of that happened in the last quarter. Cash holdings may be just as much about profit taking as a desire to accumulate dry powder. Defensives are lagging Cyclicals YTD although they have closed the gap over the last quarter. The underperformance of Bonds, along with the aforementioned Cash and Defensive moves lead us to believe that we are not in Soft or Hard Landing territory.

Figure 3: Extended Metrics

Overheat	3M	YTD
Commodities	2.07	7.59
Cyclical	5.72	19.00
Growth	7.70	19.90

Soft Landing	3M	YTD
Bonds	1.78	7.11
Defensives	2.09	6.74
Large	4.56	15.81
Growth	7.70	19.90
Value	1.10	11.22

Recovery	3M	YTD
Equity	4.48	15.54
Cyclical	5.72	19.00
Small	2.78	10.03
Growth	7.70	19.90
Value	1.10	11.22

*TSR Data from Factset

Hard Landing	3M	YTD
Cash *	+350.3B	+420.0B
Defensives	2.09	6.74
Large	4.56	15.81
Growth	7.70	19.90
Value	1.10	11.22

* Crane Data; Increases to Cash

Phases of the Economic Cycle

The **Overheat** phase of the economy sees high growth, high inflation, strong performance from commodities, strong performance from cyclicals, and strong performance from growth stocks.

The **Recovery** phase also sees high growth but that growth is accompanied by low inflation. Equities, cyclicals, small cap, and growth and value names all have good performance.

The **Soft Landing** phase has low growth and low inflation and sees bonds, defensives, large cap, growth, and value outperform.

The **Hard Landing** phase has low growth and high inflation. Cash, defensives, large, growth, and value will be the safer havens here.

Casey Lea
Global Director of Quantitative Research

ISS EVA Equity Research Team
evaanalytics@iss-stoxx.com

About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

Visit our website www.EVAexpress.com

About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.
EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + Present Value 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
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
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 is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)
The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

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

Analyst Certification - The Research Analyst(s) who prepared this report hereby certify that the views expressed herein accurately reflect the analyst(s) personal view(s) about the subject company and their securities and that they have not been and will not be directly or indirectly compensated for expressing specific recommendation(s) or view(s) in the report.

Disclaimer - This report and all of the information contained in it, including without limitation all text, data, graphs and charts, is the property of ISS STOXX and/or its licensors and is provided for informational purposes only. The information may not be modified, reverse-engineered, reproduced or disseminated, in whole or in part, without prior written permission from ISS STOXX.

This report and the recommendations, ratings and/or other analytical content in the report has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

The user of this report assumes all risks of any use that it may make or permit to be made of the information. While ISS STOXX exercised due care in compiling this report, ISS STOXX makes no express or implied warranties or representations with respect to the information in, or any results to be obtained by the use of, the report. In particular, the recommendations, ratings and/or other analytical content in the report are not intended to constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies. ISS STOXX shall not be liable for any losses or damages arising from or in connection with the information contained herein or the use of, reliance on, or inability to use any such information.

Please note the issuer(s) mentioned within this report and/or material may have a commercial relationship with ISS Corporate Solutions, Inc. ("ISS-Corporate"), a wholly owned subsidiary of Institutional Shareholder Services Inc., or ISS-Corporate may have provided advisory or analytical services to the issuer(s) in connection with the information described in this report. No employee of ISS-Corporate played a role in the preparation of this report. If you are an institutional client of ISS STOXX, you may inquire about any issuer's use of products and services from ISS-Corporate via ProxyExchange or by emailing disclosure@issgovernance.com.

Additionally, the issuer(s) mentioned within this report and/or material may be a client of ISS STOXX, or the parent of, or affiliated with, a client of ISS STOXX. One or more of the proponents of a shareholder proposal at an upcoming meeting may be a client of ISS STOXX, or the parent of, or affiliated with, a client of ISS STOXX. None of the sponsors of any shareholder proposal(s) played a role in preparing this report.

ISS STOXX is majority owned by Deutsche Börse AG ("DB"), an international exchange organization. Both ISS STOXX and DB have established standards and procedures to protect the integrity and independence of the research, recommendations, ratings and other analytical offerings ("Research Offerings") produced by ISS STOXX.

Further information about conflict mitigation can be found here.

Registered Trademarks - EVA®, EVA Momentum® and PRVit® are registered trademarks, and VARP™ and Value-At-A-Reasonable-Price™ are trademarks of Institutional Shareholder Services Inc. and EVA Dimensions, LLC. Russell 3000 is a registered trademark of The Frank Russell Company. S&P is a registered trademark of The McGraw-Hill Companies.

EVA is a registered services mark of Institutional Shareholder Services Inc. (in the field of financial data, valuation analytics and investment management) and of Stern Stewart & Co. (in the field of financial and incentive consulting).

© 2025 Copyright Institutional Shareholder Services Inc. All rights reserved.

Research Division

Senior Management Team

Casey Lea
Executive Director
Global Director of Quantitative Research

Gavin Thomson
Executive Director
Global Director of Fundamental Research