# Global Sector Charts: Longest Expansion in Expectations in History

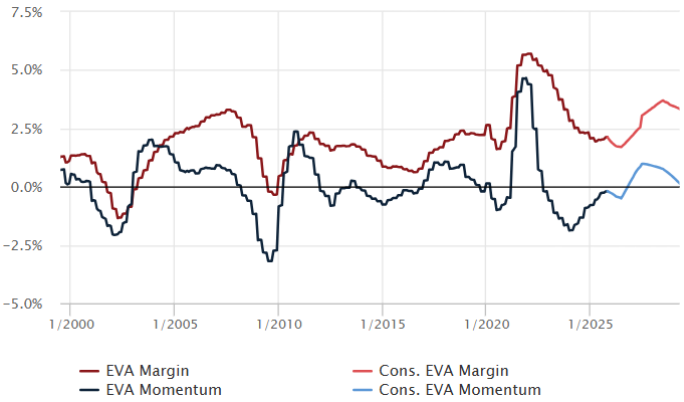
As Q3 numbers start to filter through we have observed a continuation in a trend, with global aggregate EVA Momentum (growth) hovering close to zero, having maintained a strong recovery from the lows in 2023. Consensus has maintained the current outlook after the revision down last month, predicting EVA Momentum (EVA Mo) rolls over in Q4 and contracts until 2H of 2026. So far, the market has looked through the risk of slowing growth, continuing to focus on areas of growth (AI related) in the market and the stimulus of monetary easing by central banks. Industrials, Heath Care, Financials, IT, and Communication Services have driven the improvements in the growth in economic Profitability and are the only four sectors with positive EVA Mo. Most sectors saw investor expectations move higher, supporting the longest expansion to expectations in history. Industrials, Consumer Discretionary, IT, Communications Services, and Utilities expectations currently look stretched in their outlook for value creation. Industrials are noticeable, having seen a further breakout in Valuations.

## Global Market Aggregate

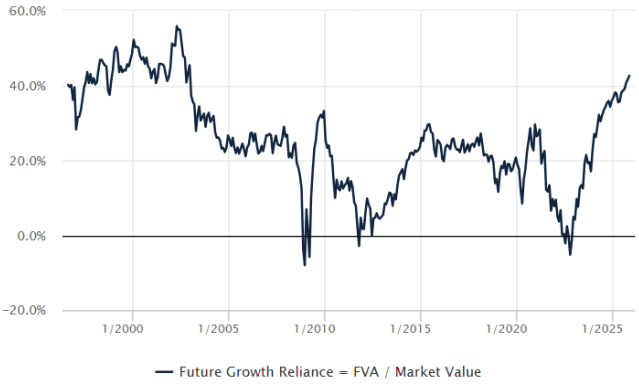
**Global EVA Fundamentals**: Sales Growth has remained pressured after peaking in August but remains positive in October, at 2.6%. EBITDAR Margin has maintained around the highs, with cost pressures currently under control. New investment remains high and has pressured our measure of asset efficiency. EVA Mo (blue line) has maintained within 20bps of turning positive. EVA Margin (red line) is bottoming but remains under pressure from higher investment, which consensus suggests will somewhat offset increased Sales Growth and a further expansion in EBITDAR Margin.

**Global Expectations:** Embedded expectations for growth (FVA) hit a new all-time high for the sixth time at the end of October. Future Growth Reliance (FGR) at the end of last month was around 2002 levels, at 42.6%. The shift into value from the second half of June has continued through to October. 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 October 2025). 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:** No change to Energy, Materials, or Industrials. Consensus expects Energy and Materials to recover but Industrials to peak out after having reached positive EVA Mo. Consumer Discretionary (CD) has seen the first improvement in growth after 21 months of contraction. Last month we saw the consensus outlook for CD move higher. Health Care has maintained positive EVA Mo. IT is continuing its expansion, along with Communication Services. All other sectors have seen no change since last month.

**Sector Expectations:** Only three sectors—Consumer Staples, Financials, and Real Estate—experienced a pullback in expectations, with the bullish investor view of value creation going forward remaining in focus for the rest of the sectors. After making a new all-time high in May, Industrials have continued to see a further expansion in premium in our economic p/b measure. Cyclical sectors are all seeing a pickup in expectations. IT and Communication Services are at 2004 levels as they continue to move higher. Utilities have also seen a breakout in valuations, with a further multiple expansion.

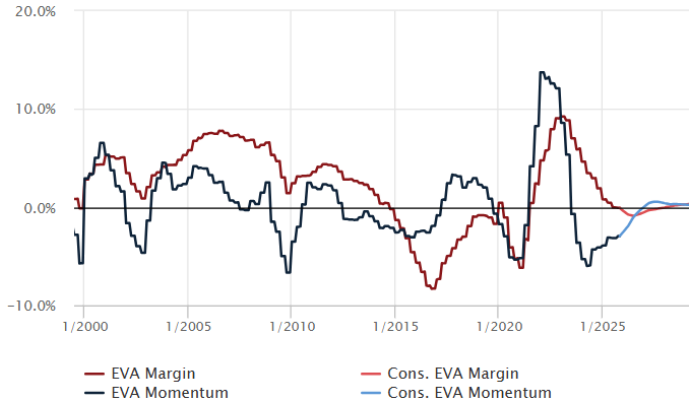
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## Global Sector Aggregates

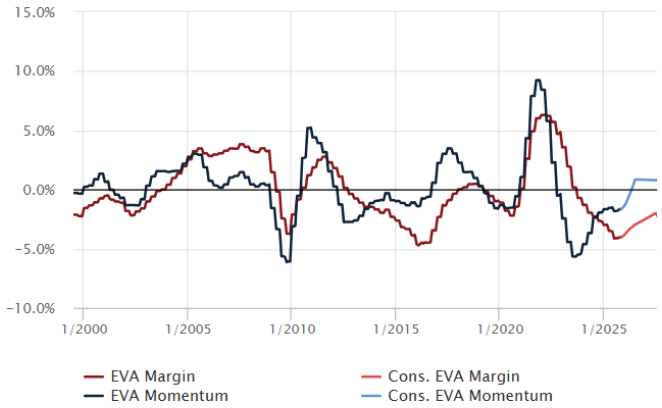
### Energy: EVA Fundamentals




### Energy: Market Value Added (MVA) Spread



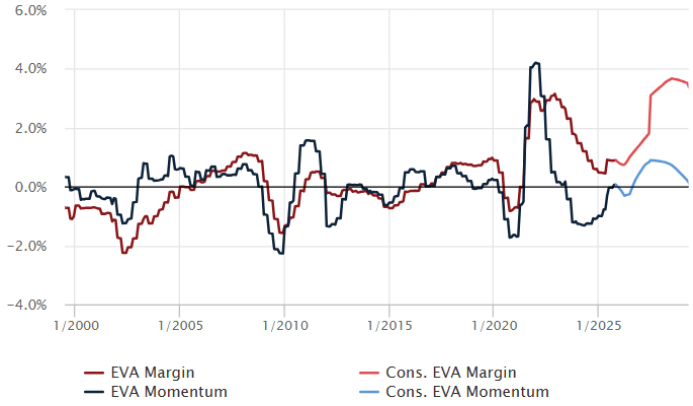

### Materials: EVA Fundamentals




### Materials: Market Value Added (MVA) Spread




### Industrials: EVA Fundamentals



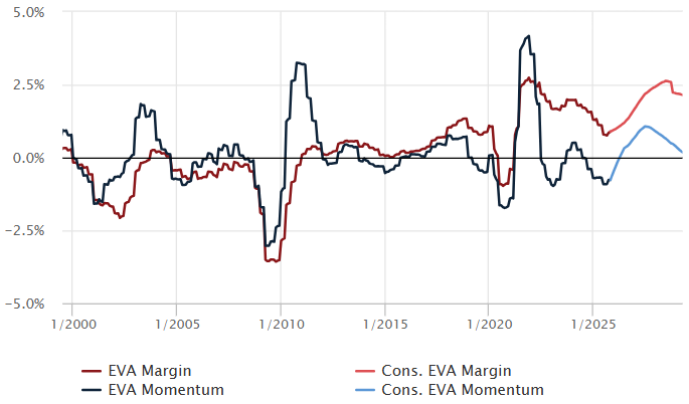

### Industrials: Market Value Added (MVA) Spread



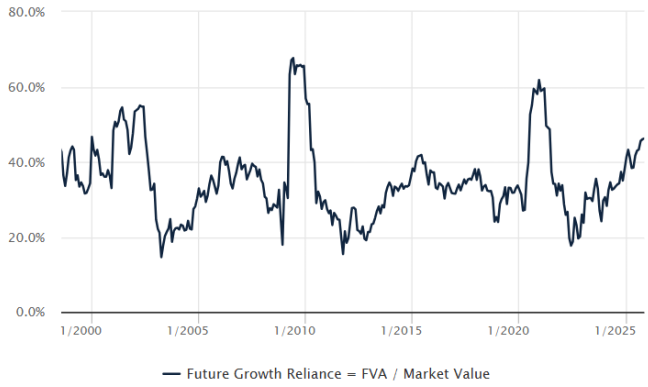

For sectors with more cyclical EVA generation, we use Market Value Added (MVA) Spread, our version of a price-to-book ratio.

## Global Sector Aggregates

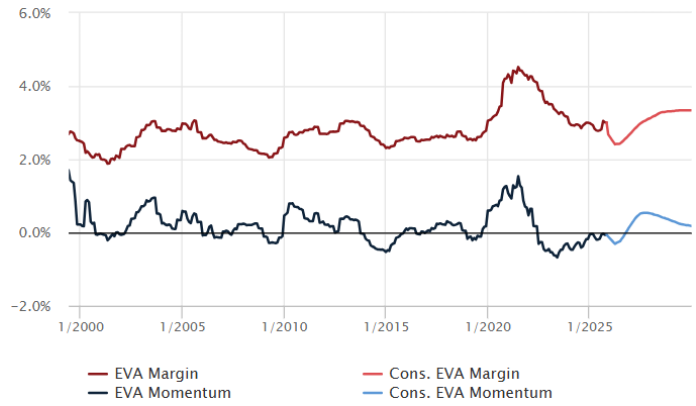
### Consumer Discretionary: EVA Fundamentals



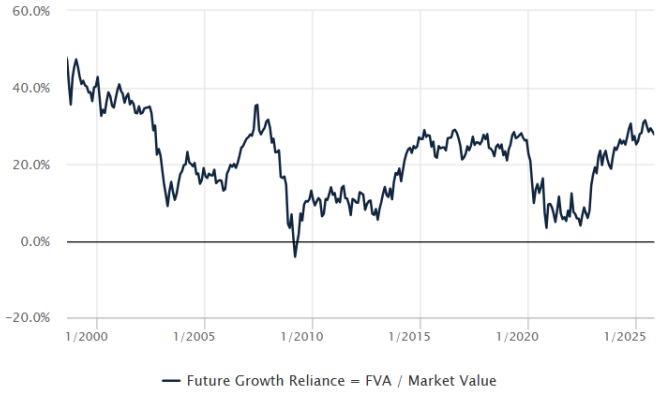

### Consumer Discretionary: Future Growth Reliance (FGR)



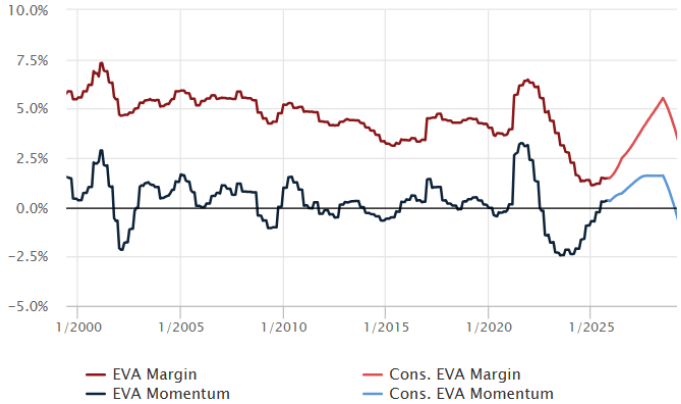

### Consumer Staples: EVA Fundamentals



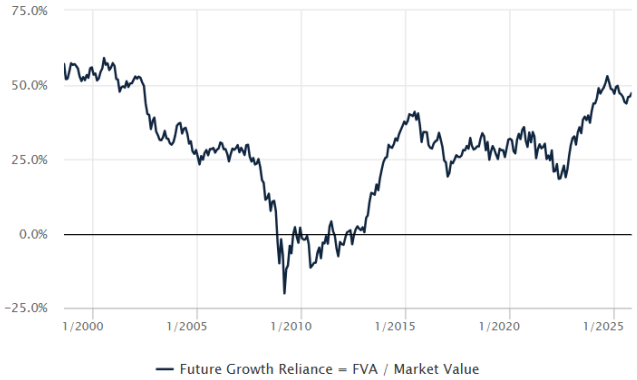

### Consumer Staples: Future Growth Reliance (FGR)




### Health Care: EVA Fundamentals

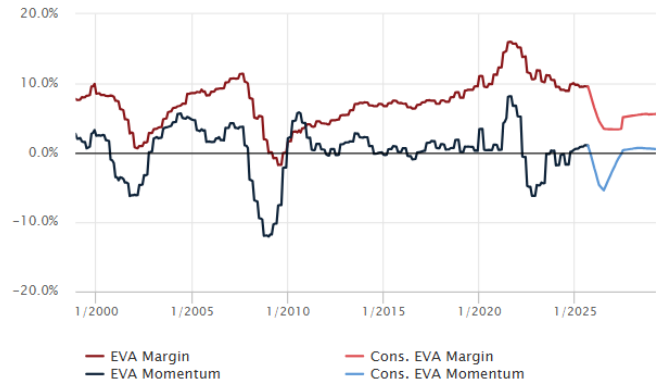



### Health Care: Future Growth Reliance (FGR)



## Global Sector Aggregates

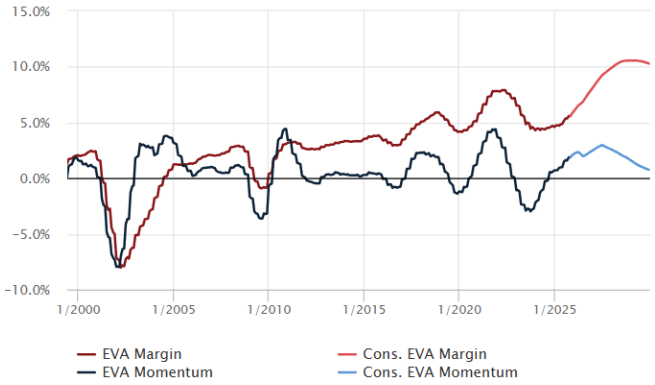
### Financials: EVA Fundamentals



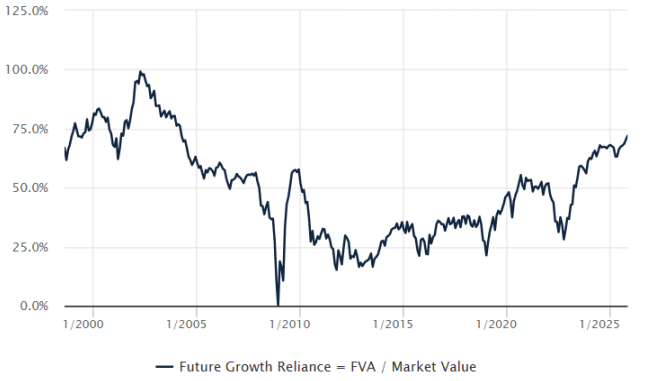

### Financials: Future Growth Reliance (FGR)



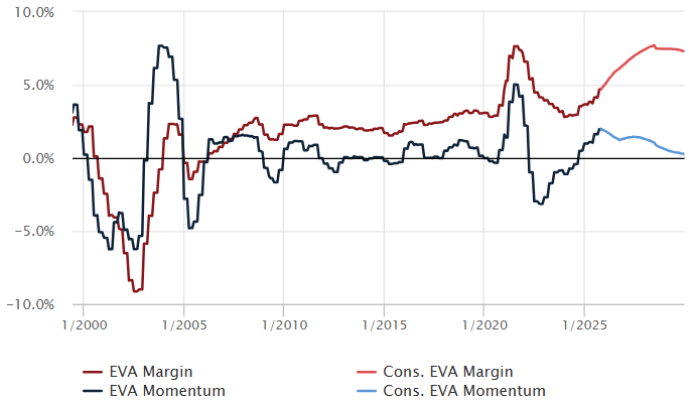

### Information Technology: EVA Fundamentals



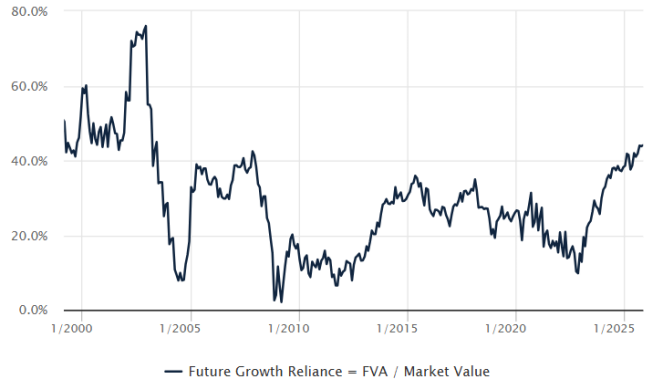

### Information Technology: Future Growth Reliance (FGR)




### Communication Services: EVA Fundamentals

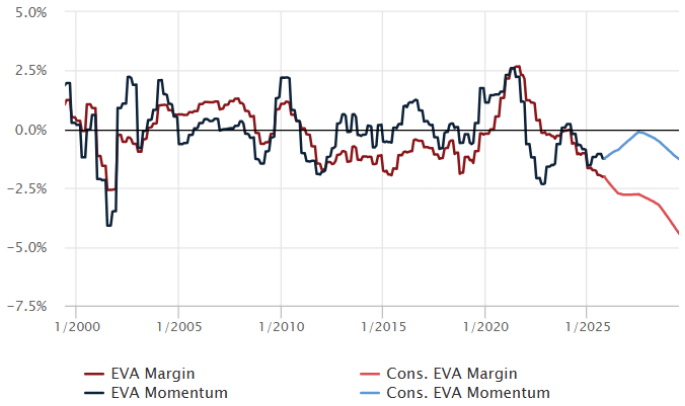



### Communication Services: Future Growth Reliance (FGR)



## Global Sector Aggregates

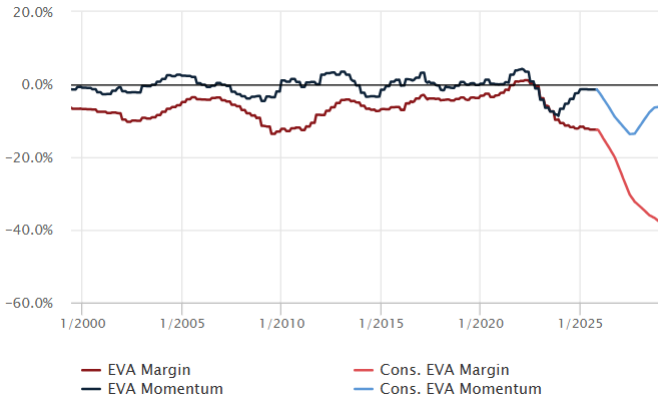
### Utilities: EVA Fundamentals




### 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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