Yardeni Research

February 27, 2025

Morning Briefing

Homes, Earnings & Clunkers

Check out the accompanying chart collection.

Executive Summary: Are homes looking sweet again? Home Depot and Lowe's Q4 results beat analysts' expectations and could continue to improve if consumers tap their home equity, Jackie reports. While that bodes well for the S&P 500 Home Improvement Retail industry's earnings, prospects for the S&P 500 Homebuilding industry look more dubious. … Also: A look at which sectors and industries offer investors attractive earnings growth prospects at far lower valuations than tech stocks. … And not all startups we've spotlighted in past Disruptive Technologies segments have gone on to glory. A look at some of the flashes in the pan.

Consumer Discretionary: Gimme Shelter. After a couple of tough months, the housing industry enjoyed positive news this week. The interest rate on home mortgages fell to the lowest level this year, 6.85%. While that's still more than twice the interest rate that lucky homebuyers enjoyed in 2021, it's an improvement from 2024's peak of 7.22% (*Fig. 1*).

Positive news also came from Home Depot and Lowe's, members of the S&P 500 Home Improvement Retail industry. Both reported Q4 earnings that beat expectations and said their slow but steady improvement should continue this year. Indeed, the industry's stock price index looks like it's about to break out from a multi-year consolidation.

Members of the S&P 500 Homebuilding industry, on the other hand, may need more time before their correction since October concludes. Home prices remain high, and housing inventory is building, no pun intended.

Here's a look at these giant home-related industries:

(1) *To-do lists grow.* Both Home Depot and Lowe's reported positive same-store sales for the first quarter in two years during Q4, and both managements are optimistic that the improvement will continue in 2025.

Both Home Depot and Lowe's have been working to increase revenue ever since it peaked on an annual basis in 2023. Over the past year, that's become more difficult due to rising interest rates, which make funding large home remodeling projects more expensive.

Home Depot executives aren't counting on a large drop in interest rates this year to hit their targets. Instead, they believe consumers are slowly acclimating to higher interest rates and have the flexibility to tap home equity—which has surged in recent years—to fund projects. The pandemic was five years ago, and even the new things purchased back then are starting to wear.

The S&P 500 Home Improvement Retail stock price index peaked during the pandemic buying surge in 2021 and subsequently fell sharply. In the ensuing years, it has gradually risen and appears close to setting a new high (*Fig. 2*). The industry's forward operating earnings per share remains 10.2% below its October 2022 peak, but operating earnings is expected to grow 4.8% this year (*Fig. 3* and *Fig. 4*). The Home Improvement Retailers' forward P/E at 23.2 is extended for the industry but should improve as earnings growth resumes (*Fig. 5*).

(2) *Homebuilders face a changing market*. S&P 500 Homebuilders have defied pessimists' expectations for the longest time. Their profitability improved for much of past five years, notwithstanding doomsayers' predictions of slowdowns during the pandemic or the Fed's rate-hiking cycle, which began in 2022 (*Fig. 6*). Analysts expect y/y earnings comparisons to bungee from an 11.4% drop this year to 13.7% growth in 2026 (*Fig. 7*).

Such a quick rebound seems optimistic. If interest rates and inventories remain elevated, homebuilders might be forced to cut selling prices or offer higher financing incentives to move inventory. If interest rates fall, the new home market could face increasing competition from existing homeowners, who have been stuck in their homes and need to sell.

Nationally, home prices have been rising and inventories climbing. Home prices in the Case-Shiller 20-city index rose in December by 0.5% m/m and 4.5% y/y. January saw new home sales (counted at contract signings) tumble (10.5% m/m and 1.1% y/y), dragged down by cold weather in the Northeast (*Fig. 8*). Inventory levels remain unusually high, with the ratio of new homes for sale to new homes sold at 9.0 months (*Fig. 9* and *Fig. 10*).

The S&P 500 Homebuilding stock price index has rallied almost nonstop since 2020. From its four-year low on March 23, 2020, the index has gained 347%, and that includes its recent 29% correction from its October peak (*Fig. 11*). The spring selling season has never been so important.

Strategy: Searching for Earnings Growth. With market volatility on the rise and stock indexes under pressure recently, investors may be looking beyond the richly valued S&P 500 Information Technology sector for earnings growth opportunities. The S&P 500 Health Care sector stands out as a strong earnings grower this year based on analysts' 2025 consensus estimates; so do certain insurance industries in the Financials sector. And several industries with expected earnings declines this year look bound for double-digit earnings growth in 2026. Bargain hunters, take note.

Here are the 2025 earnings growth estimates for the S&P 500 and its 11 sectors: Information Technology (20.0%), Health Care (18.6), Industrials (16.7), Communication Services (12.2), S&P 500 (12.0), Consumer Discretionary (7.5), Utilities (6.7), Financials (6.4), Materials (5.2), Real Estate (3.4), Consumer Staples (2.7), and Energy (1.5) (*Table 1*).

Let's dive deeper into some of the details:

(1) *Health Care: Strong earnings, bad politics.* As investors have turned away from high-valuation areas of the stock market, they've embraced the S&P 500 Health Care sector. Its stock price index has risen 7.9% ytd through Tuesday's close, and it sports a below-market forward P/E of 17.8 (*Fig. 12* and *Fig. 13*).

Investors may have decided that the uncertain politics sounding the Health Care sector are outweighed by the strong 2025 earnings growth forecast for most industries in the sector including: Biotechnology (34.0%), Pharmaceuticals (29.3), Health Care Facilities (13.3), Health Care Distributors (10.5), Health Care Equipment (10.1), Health Care Services (9.1), Managed Health Care (5.8), and Health Care Supplies (-1.9).

Here's how the stock price indexes of the Health Care industries have performed ytd through Tuesday's close: Health Care Services (21.9%), Biotechnology (14.8), Health Care Equipment (10.8), Pharmaceuticals (8.9), Health Care sector (7.9), and Managed Health Care (-3.7) (*Fig. 14*).

CVS Health has been the standout stock in the Health Care Services industry, having risen 41.8% ytd after a dismal 2024. CVS replaced its CEO last fall and recently reported Q4 earnings that soundly beat analysts' consensus estimate. For now, worries about the Trump administration potentially changing reimbursement policies for pharmacy benefit management companies, like CVS's CVS Caremark, appear to be on the back burner.

Within the Biotechnology industry, Gilead Sciences is the standout recent performer, with its share price up 20.7% ytd and 51.6% y/y. Gilead shares started 2024 depressed after the company's cancer drug proved ineffective against lung cancer. But the disappointment was quickly swept away by accelerating sales of its HIV drugs. The company recently projected earnings per share of $7.70 to $8.10 for 2025, above the $7.61 analysts had been expecting.

Other Biotechnology outperformers include Amgen (up 21.1% ytd), Vertex Pharmaceuticals (19.3), and AbbVie (14.9).

The Health Care sector's ytd stock returns would be an even more impressive 9.5% excluding the dismal performance of one of its largest members, United Healthcare. UNH stock has dropped 7.0% ytd, pulling down the ytd gain of the Managed Health Care industry index to -3.7% (*Fig. 15*). The stock's weakness reflects federal investigations into United Healthcare's billing practices as well as earnings hits from higher medical costs.

The Managed Health Care industry has the weakest 2025 earnings growth forecast in its sector, at 5.8%, though its outlook improves in 2026, when analysts are forecasting 11.5% earnings growth.

(2) *Insurance is steady eddy.* Analysts anticipate strong earnings growth this year for several insurance industries. In most cases, rate increases and investment portfolio gains should more than offset insurance claims.

The Reinsurance industry is expected to be the third fastest earnings grower in the S&P 500 this year as it recovers from a drop in earnings last year. Here are the consensus expectations for the insurance-related industries' earnings growth (and in one case contraction) this year: Reinsurance (63.6%), Multi-line Insurance (25.2), Insurance Brokers (9.7), Life & Health Insurance (9.1), and Property & Casualty Insurance (-4.7).

While the Reinsurance industry's stock price index has fallen 5.3% ytd, the rest of the industries' stocks have had positive ytd performances: Insurance Brokers (11.7%), Multi-line Insurance (8.5), S&P 500 Insurance Industry (6.6), Property & Casualty Insurance (5.4), and Life & Health Insurance (1.1) (*Fig. 16*).

(3) *A peek into 2026.* Among the industries with declines in earnings growth forecast for 2025, a handful looks poised for earnings rebounds in 2026, with double-digit growth forecast. For example, the S&P 500 Agricultural & Farm Machinery industry is expected to see earnings fall 25.3% this year, only to enjoy a 14.1% increase in earnings in 2026.

Other industries that fall under this umbrella are: Construction Materials (-23.2% in 2025, 16.2% in 2026), Steel (-16.2, 44.9), Agricultural Products & Services (-12.2, 10.9), Homebuilding (-11.5, 13.7), Personal Care Products (-9.5, 16.3), Property & Casualty Insurance (-4.7, 17.9), Construction & Transportation Equipment (-3.6, 15.4), Oil & Gas Refining & Marketing (-3.1, 54.4), Integrated Oil & Gas (-2.7, 20.2), Commodity Chemicals (-0.9, 38.8), Home Furnishings (-0.9, 20.9), Cable & Satellite (-0.2, 11.4), and Automobile Manufacturers (-0.1, 17.0).

Disruptive Technologies: Startups Pay the Piper. Several startups we've discussed here in recent years have announced bankruptcy filings.

Some of their problems arose from technology that didn't quite make the grade despite compelling concepts (what's not to like about beating traffic in a flying taxi or generating electricity from solar panels on your home?). Other problems derived from the changing capital markets and political environment. Low interest rates and the roaring IPO market of 2021 has been replaced by high interest rates and a picky IPO market. And while the Biden administration threw money at anything green, the Trump administration is *yanking it back*.

Here's a look at some of the ashes:

(1) *Electric trucker crashes.* Nikola, an electric truck maker that once had a market value north of Ford Motor's, filed for bankruptcy protection earlier this month. The company will forever be remembered for its video of a prototype truck apparently operating but actually gliding downhill. The company, whose founder was convicted of securities fraud, went public via a special purpose acquisition company in 2020 and made 235 hydrogen electric trucks before closing shop.

The use case for electric semis hasn't exactly played out. Using electric trucks to drive between ports and nearby warehouses seems smart, but building an electric charger system cross country has been tough. Electric trucks can cost two to three times what diesel trucks cost, and the added weight from the batteries means drivers can't transport as much cargo, according to an August 28, 2023 *article* in Marketplace.

Now the political environment is growing tougher as well. Regulations to incent/force manufacturers to produce more electric vehicles may be eliminated by the Trump administration. These include 11 states' rules requiring the manufacturers of trucks, including large semis, to sell an increasing portion of emission-free models as part of their total sales; a California state law requiring fleet owners to buy more zero-emission trucks; and tightened federal tailpipe emissions requirements. Moreover, a group of 19 states is challenging the legality of California's requirements for truck manufacturers, a February 25 Bloomberg *article* reported.

That said, there are electric trucks in operation. Schneider National's 92 Freightliner eCascadia all-electric semi trucks have racked up more than 6 million miles around the ports of Southern California. The company's 92 trucks were purchased using funds from environmental or governmental groups.

Amazon recently ordered more than 200 Mercedes-Benz eActros 600 electric semi trucks to add to its UK and German fleets this year, a January 14 Electrek *article* reported. The company already has 30 electric semis in Europe and 50 in California, in addition to thousands of electric delivery vans.

Tesla appears to be moving ahead with its development of electric semis. Two were spotted in January pulling two tandem trailers, according to a *post* on X, and more should hit the road later this year. Tesla is actually late to the party and faces competition from EV truck manufacturers like Peterbilt and Volvo.

(2) *Solar company goes dark.* Last summer, one of the largest solar panel companies, SunPower, filed for bankruptcy protection. It was just one of the many solar companies to fall on hard times as Chinese solar panels, with better technology and lower costs, hit the US market. Higher interest rates and funding costs made solar projects too pricey for some homeowners. And in 2022, the California Public Utilities Commission slashed by 80% the rate that utilities are required to pay solar customers for electricity exported to the grid.

(3) *Air taxis crash.* German air taxi manufacturer Volocopter filed for bankruptcy but continues to look for a new investor to keep the company afloat, a December 30 *article* in Deutsche Welle reported. Another German air taxi, Lilium, declared bankruptcy and shut operations on Tuesday.

US air taxi companies are encountering turbulence as well. Shares of Joby Aviation and Archer Aviation both are trading in the single digits. Both companies' shares are down roughly 20% ytd.

Calendars

US: Thurs: Real GDP & Price Index 2.3%/2.2; Durable Goods Orders 2.5%; Initial Claims 220k; Kansas City Manufacturing Index; Pending Home Sales -0.6%; Fed Balance Sheet; Golsbee; Barr; Harker. **Fri:** Personal Income & Spending 0.3%/0.1%; Headline & Core CPI 0.3%m/m/2.5%y/y & 0.3%m/m/2.6%y/y; Goods Trade Balance -$114.7b; Wholesale Inventories 0.1%. (FXStreet estimates)

Global: Thurs: Eurozone Economic Sentiment 96; Spain CPI 3.1%y/y; ECB Monetary Meeting Accounts. **Fri:** Germany Retail Sales 0.0%; Germany Unemployment Change & Unemployment Rate -15k/6.2%; Germany CPI 0.4%m/m/2.3%y/y; Germany Import Price 0.7%m/m/2.7%y/y; France GDP & Consumer Spending -0.1%/-0.7%; France Nonfarm Payrolls -0.2%q/q; France CPI 0.3%m/m/1.2%y/y; Italy CPI 0.2%m/m/1.7%y/y; Canada GDP 0.3%m/m/1.9% (saar) q/q; Ramsden. (FXStreet estimates)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward revenues ticked down a hair again w/w during the February 20 week to less than 0.1% below its record high during the February 6 week. Forward earnings dropped less than 0.1% w/w, to 0.3% below its February 6 record high. The forward profit margin was unchanged w/w at 13.5%, down 0.1ppt from a record high of 13.6%. It is now 3.2ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth was steady w/w at 5.5%, and is now 0.3ppt below its 23-month high of 5.8% during the August 1 week. It has gained 3.2ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast fell 0.2ppt w/w to 39-week low of 12.4%, and is now 1.9ppts below its 38-month high of 14.3% during the December 12 week and 9.1ppts above its 31-month low of 3.3% during the February 16, 2023 week. That's down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 5.2% in 2025 (unchanged w/w) and 6.3% in 2026 (unchanged w/w), an acceleration from 2024's forecasted 4.9% (unchanged w/w). They expect an earnings gain of 12.0% in 2025 (down 0.2ppt w/w) and a 14.2% rise in 2025 (up 0.1ppt w/w) compared to 2024's forecasted earnings gain of 10.9% (up 0.1ppt w/w). Analysts expect the profit margin to rise 0.8ppt y/y to 13.3% in 2025 (unchanged w/w) and 1.0ppt y/y in 2026 to 14.3% (unchanged w/w), compared to 2024's forecasted 12.5% (unchanged w/w). Ahead of Walmart's warning, the S&P 500's weekly reading of its forward P/E rose 0.2pt w/w to a four-year high of 22.4. It's up 2.7pts from a 14-week low of 19.7 during the August 8 week and 7.1pts from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.01pt w/w to a record high 3.03. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): During the February 20 week, forward revenues rose for four of the 11 S&P 500 sectors and forward earnings rose for four. This led to rising forward profit margins for three of the 11 sectors. Health Care was the only sector to post record-high forward revenues this week, as these two sectors edged down from their week-earlier record highs: Financials and Utilities. These five sectors are less than 0.4% from their recent record highs: Communication Services, Consumer Discretionary, Consumer Staples, Information Technology, and Real Estate. Industrials' forward revenues has weakened to 3.4% below its early September record. Materials and Energy are struggling to improve, and remain the biggest laggards at 6.3% and 15.1% below, respectively. Utilities was the only sector with record-high forward earnings this week. However, these four sectors are less than 0.4% from their recent record highs: Communication Services, Consumer Discretionary, Financials, and Information Technology. Industrials and Consumer Staples are 1.6% and 1.4% below their respective record highs in early January. Improving now is Real Estate at 1.9% below its record high in August 2022 and Health Care at just 0.7% below its February 2022 record. Among the remaining two sectors, forward earnings remains depressed for Energy and Materials, which are 34.5% and 27.0% below their respective highs during 2022. Looking at the record-high forward profit margin club, Financials' was steady w/w after entering the club during the January 16 week for the first time since August 2021. Also at a record high this week is Communication Services and Consumer Discretionary. In recent weeks, the Industrials and Information Technology sectors were in that club. Among the laggards, Energy's forward margin is at a three-year low of 9.3%; Consumer Staples' 6.8% is just 0.1ppt above its seven-year low in March 2023; Health Care's 8.6% is only 0.1ppt above its record low in April; and Real Estate's 16.9% is up from a low of 12.4% in December 2020.

Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.0%, down from its 27.6% record high in September prior to low-margin Dell's index addition, which lowered the margin 1.3ppts then to 26.3%), Financials (20.0, a record high for a sixth week, the first since August 2021), Communication Services (18.6, a record high this week), Real Estate (16.9, down from its 19.2 record high in 2016), Utilities (14.5, down from its 14.8 record high in April 2021), S&P 500 (13.5, down 0.1ppt from its 13.6 record high in January), Materials (10.5, down 0.1ppt to a four-year low and from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Energy (9.3, down to a 36-month low and from its 12.8 record high in November 2022), Industrials (11.1, down from its 11.3 record high in early January), Consumer Discretionary (9.4, a record high this week), Health Care (8.6, only 0.1ppt above its 8.5 record low at the end of April and down from its 11.5 record high in February 2022), and Consumer Staples (6.8, down from its 7.7 record high in June 2020).

US Economic Indicators

New Home Sales (*link*): New home sales (counted at the signing of a contract) dropped sharply in January, depressed by high mortgage rates (7.0%) and unseasonably cold weather. *New home sales* plunged a larger-than-expected 10.5% to 657,000 units (saar), below consensus expectations of 671,000 units. Meanwhile, December sales were revised higher, to 734,000 units—previously reported at 698,000 units. Compared to a year ago, sales were down 1.1%. The estimate for new homes for sale was 495,000 units in January, representing a 9.0 months' supply at the current sales pace, down from 8.0 months in December. Regionally, unseasonably cold weather during January depressed sales in the Northeast (-20.0% to 28,000 units, saar), Midwest (-16.7 to 70,000), and the South (-14.8 to 392,000), while sales out West (7.7 to 167,000) rose. Of the 657,000 *homes sold* during January, 308,000 were completed, 273,000 were under construction, while 76,000 weren't started. Of the 495,000 *homes for sale* during January, 115,000 had been completed, 274,000 were under construction, and 106,000 hadn't yet broken ground.

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