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# US Equity Strategy

## The Case for NASDAQ 100

### CITI'S TAKE

We view the NASDAQ 100 as a preferred play on the AI build out relative to more traditional Large Cap Growth indexes. This note looks at the NASDAQ 100 through a more traditional growth and valuation lens. The fundamental setup reflects compelling growth expectations but with ongoing room for positive surprise. Traditional valuations are high vs history, yet not excessively so. PEG ratios are close to 20-year lows. However, implied growth measures do set a high bar.

**NASDAQ 100 Performance and Composition** — The NASDAQ 100 (NDX) has been a leading growth-style performer, outperforming other growth indices year-to-date. Its performance is significantly influenced by its top 10 constituents, which represent approximately 47% of the index. Thus, NDX offers a concentrated exposure to Mega Cap Growth opportunities, which tie to the AI sector.

**Earnings Growth and Profitability Outlook** — Earnings expectations for the NDX have seen consistent upward revisions, with 2026 estimates nearly 20% higher than at the market peak last October. While Q1 2026 earnings showed significant upside, out quarter expectations remain reasonable. We anticipate improving net profit margins through 2027, driven by improving EBIT margins, leading to a healthy absolute Return on Equity (ROE) despite a slight decline in expected ROE for 2027.

**Valuation Metrics and Growth Expectations** — The NDX trades at a forward P/E of approximately 25x, which is not inexpensive but near pre-Covid levels. Price/Book and Price/Sales ratios are at the higher end of recent history, cushioned by profitability. Notably, PEG ratios are near 20-year lows, suggesting market skepticism regarding the persistency of future growth. Our analysis indicates the market is pricing in a mid-to-high teens 5-year earnings growth CAGR.

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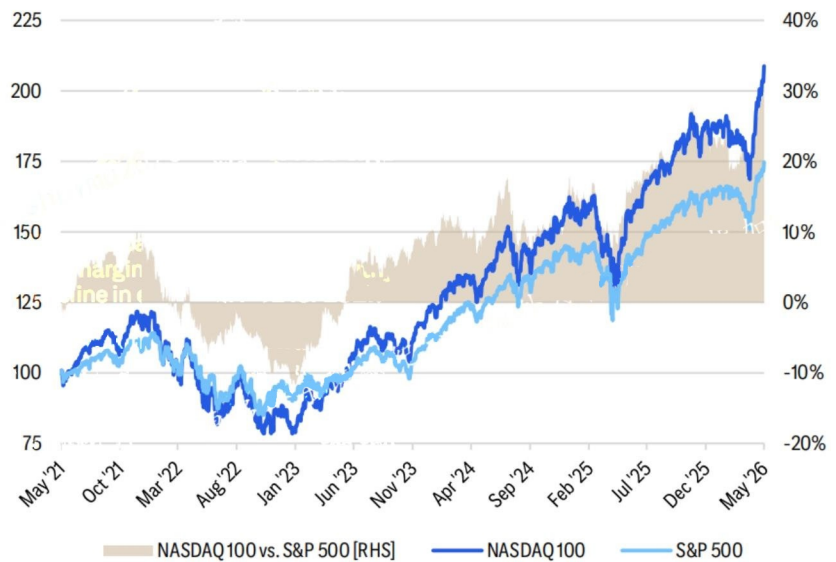
# NASDAQ 100 Decision Point Ahead

The NASDAQ 100 (NDX) has emerged as a top performer for investors seeking growth exposure. In this note we weigh in on the valuation and growth dynamics which will be critical in assessing forward return implications.

As is often the case with indexes, and related ETFs, underlying single stock weightings become a key variable in the absolute and relative performance equation. For NDX, the top 10 weights approximate 47% of the index. Importantly, that top 10 will provide somewhat diversified semi exposure as NVDA, MU, AVGO, and AMD are included. On the software side, only MSFT makes the top 10 weights.

Per Figure 1, NDX is tracking roughly +10% above its 2025 high, while the S&P 500 (SPX) is +6% above its late October 2025 level. Year-to-date, NDX is the best performing growth index at +13.3%, with the S&P 500 Growth (SGX) +9.1%, and Russell 1000 Growth (RLG) +4.0%.

Figure 1. NASDAQ 100 vs. S&P 500 Performance, 5 Years



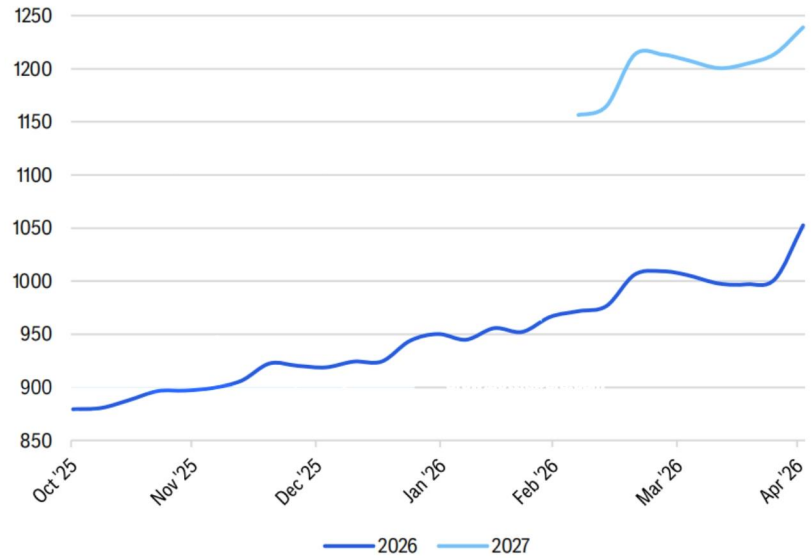
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## Revisions & Growth

Interestingly, for all of the trading focus the NDX gets, most of our growth and valuation work centers on the SPX and size/style/sector breakdowns within. In turn, a focus on NDX-specific fundamental metrics is helpful in supporting its ongoing trading dynamics.

First, earnings growth for NDX is notable. Per Figure 2, 2026 earnings expectations are nearly 20% higher than at the broader market peak last October. Consensus estimates for 2027 have also risen since earlier this year and now anticipate a circa +18% growth rate over 2026.

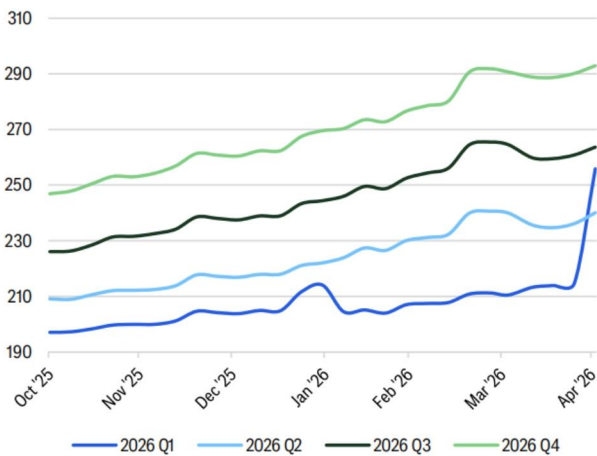
**Figure 2. NASDAQ 100 2026 and 2027 Consensus EPS, 6 Months**



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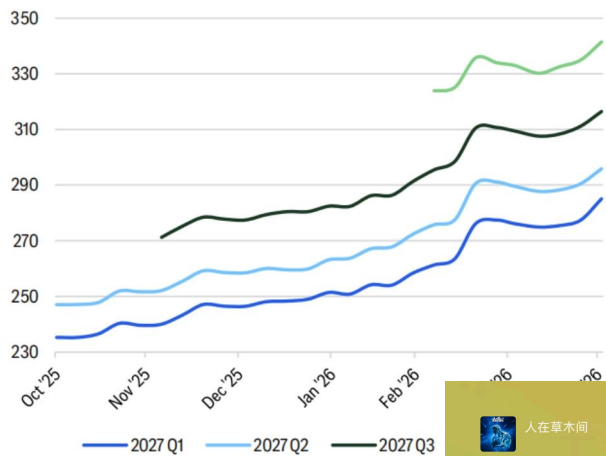
Q1 2026 earnings upside has been significant but has not fully translated into the remaining quarters for this year. Here, we need to acknowledge both underlying fundamental surprise along with the GAAP earnings lift in Q1 from investment holding markups (ex. Anthropic) from a few mega caps (Figure 3). Looking ahead to 2027, the storyline in Figure 4 points to a recent reacceleration in earnings growth post the runup during the Q4 reporting period. No doubt, improving confidence in outyear growth is factoring into the more recent price action for NDX.

**Figure 3. NASDAQ 100 2026 Consensus EPS by Quarter, 6 Months**



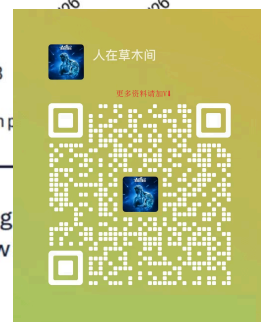
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**Figure 4. NASDAQ 100 2027 Consensus EPS by Quarter, 6 Months**



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To be fair, the progression shown in Figure 5 shows decelerating sales and earnings buffered by improving net margins. Our view



deceleration needs to be navigated in intermediate-term price action, but most investors will appreciate a higher base for measuring future growth and will keep an eye on earnings growth persistency as much as rate of growth.

**Figure 5. NASDAQ 100 Earnings and Sales Growth Progression**

|            | Quarterly |       |       |       |       |       |       |       | Annual        |       |
|------------|-----------|-------|-------|-------|-------|-------|-------|-------|---------------|-------|
|            | 2026      |       |       |       | 2027  |       |       |       | 2026E         | 2027E |
|            | Q1E       | Q2E   | Q3E   | Q4E   | Q1E   | Q2E   | Q3E   | Q4E   | Quarterly Sum |       |
| EPS Growth | 47.1%     | 27.8% | 36.9% | 36.8% | 11.4% | 23.2% | 20.0% | 16.6% | 37.0%         | 17.7% |
| SPS Growth | 13.2%     | 15.9% | 16.7% | 15.2% | 15.1% | 13.0% | 12.1% | 7.3%  | 15.3%         | 11.7% |
| Net Margin | 24.4%     | 21.7% | 22.3% | 22.8% | 23.6% | 23.6% | 23.9% | 24.8% | 22.8%         | 24.0% |

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In Figure 6, we break the index down into the four components that we utilize in our thematic work supporting our ROE baskets. The story line here is that net profit margins are set to improve through 2027, led by steadily improving EBIT margin performance. Interest/tax burden and asset turnover appear stable while financial leverage declines. The result is a bit lower ROE expectation for 2027 while maintaining a healthy absolute level.

**Figure 6. NASDAQ 100 Four Factor ROE Decomposition, 2025-2027**

|       | Net Profit Margin | EBIT Margin | Interest & Tax Burden | Total Asset Turnover | Financial Leverage Ratio | Return on Equity |
|-------|-------------------|-------------|-----------------------|----------------------|--------------------------|------------------|
| 2025  | 19.4%             | 23.3%       | 0.83                  | 0.70                 | 2.17                     | 29.5%            |
| 2026E | 22.6%             | 27.3%       | 0.83                  | 0.70                 | 1.96                     | 31.0%            |
| 2027E | 23.4%             | 28.7%       | 0.81                  | 0.69                 | 1.78                     | 28.6%            |

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All told, consensus growth expectations have been persistently revised higher in recent months, albeit with some deceleration to be expected for 2027. Underlying profitability continues to stand out even though the rate of improvement moderates into 2027.

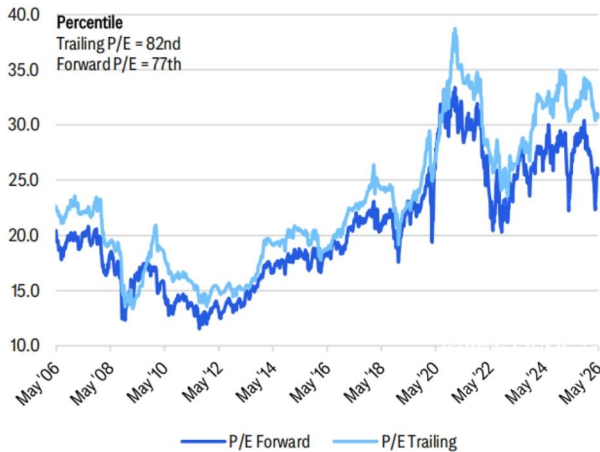
## Valuation

To this point, the NDX fundamental setup is one of improving growth expectations and associated profitability. Quite clearly, this has been the basis for the index performance thus far this year.

The next question is as to how this translates into the valuation circumstance.

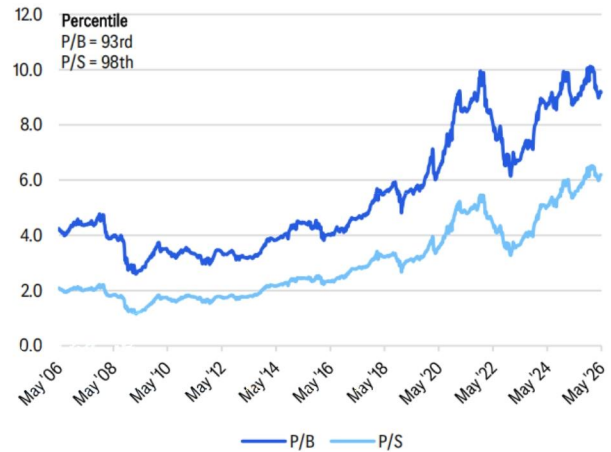
First, the trailing and forward P/E charts per Figure 7 tell us that earnings have run ahead of the price action as both have been falling thus far this year. Specifically, the forward P/E at circa 25x is at its 77<sup>th</sup> percentile on a 20-year lookback. Although certainly not inexpensive, it is not far from pre-Covid levels. Interestingly, P/B and P/S are closer to the high end of recent history. Our spin here is that we're seeing a profitability offset which cushions extended P/S.

Figure 7. NASDAQ 100 Trailing and Forward P/E, 20 Years



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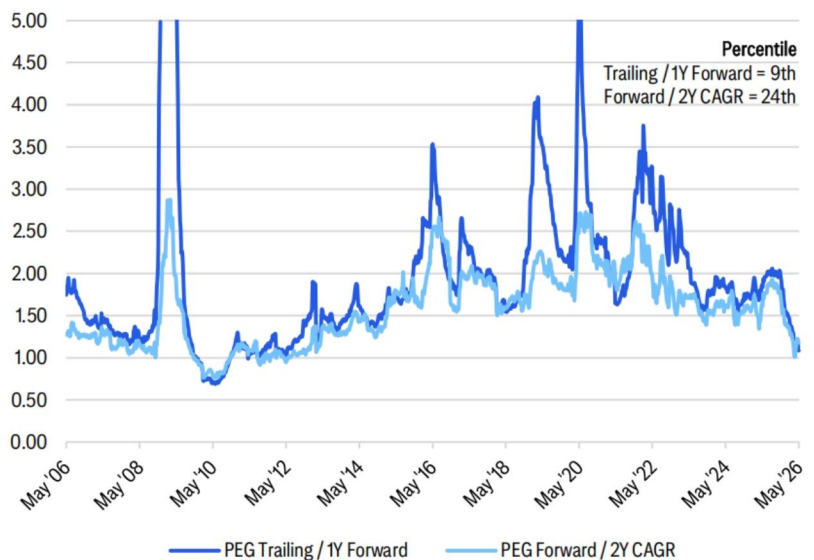
Figure 8. NASDAQ 100 P/B and P/S, 20 Years



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Here's where it gets interesting. Readers of our work will know that we like PEG ratio analysis to help in framing P/E ratios as related to growth rates. We find this approach explanatory but don't count on it to be predictive. In any event, that current PEG ratios on both trailing and forward earnings are near 20-year lows is indicative of a sentiment circumstance where the market is not comfortable with the persistency of future growth expectations. In our view, this is quite rational given the trailing fundamental backdrop of the past 2-3 years. That said, it also tells us that investor behavior is not nearly as euphoric as we experienced back in the Tech bubble era when PEG ratios were actually expanding into the market peak.

Figure 9. NASDAQ 100 PEG Ratios, 20 Years



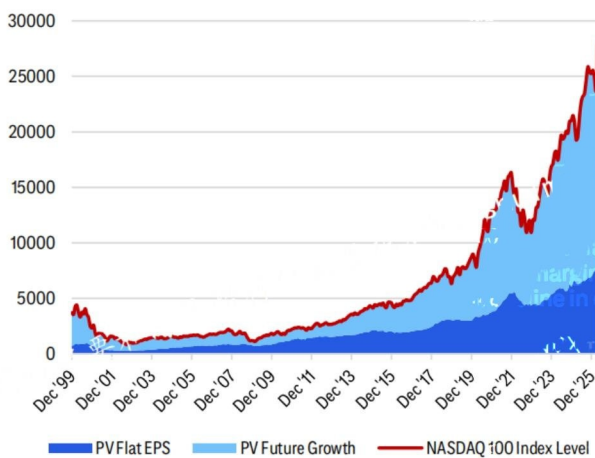
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To be clear, PEG ratios are one part of our evaluation process. With Figure 10, we incorporate our present value approach whereby we break the NDX into two components: The present value of flat earnings along with the remaining value associated with future growth. Figure 10 tells us that the market is pricing in a heavy component of future growth.

Figure 11 puts some further perspective on this and considers the trend in percentage attributable to future growth relative to trailing P/E. The relationship is clear, if not intuitive. Namely, off of the 2008 Financial Crisis lows, investors have consistently placed a higher P/E on the NDX, implying confidence in future growth drivers and persistency.

Note, present value of future growth is near post-pandemic highs, while P/E is visibly lower. This implies more EPS pressure than P/E suggests.

Figure 10. NASDAQ 100 Value Breakdown, Since 1999



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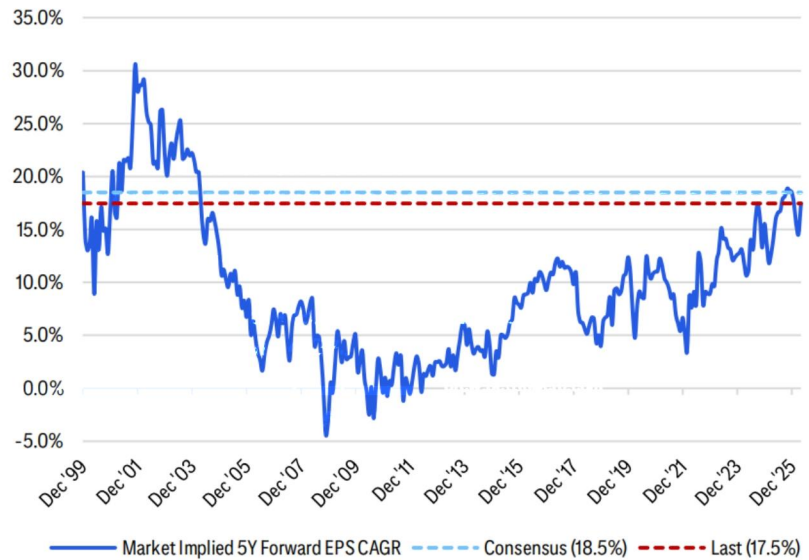
Figure 11. NASDAQ 100 PVFG% and Trailing P/E, Since 1999



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Next, we turn to our implied growth work to help solve for what the market is pricing in relative to consensus growth expectations. Figure 12 shows that a +17.5% 5-year earnings growth CAGR is priced in. This is relative to analyst consensus expectations of +18.5%. No doubt, it is hard to place much conviction in forward 5-year earnings projections, but it helps us provide framing. Nevertheless, the combination of implied growth and PVFG analysis make a very clear point that the growth bar is quite high for the NDX even as traditional P/E work tells us that the NDX is at a manageable valuation.

**Figure 12. NASDAQ 100 Implied Growth vs. Consensus, Since 1999**



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Source: Citi Research, Bloomberg, FactSet, Haver Analytics

In summary, there is a lot of index construction noise that goes into traditional growth benchmarks, such as the S&P 500 Growth and Russell 1000 Growth indexes. The NASDAQ 100 provides a purer exposure to the Mega Cap Growth/AI opportunity. Fundamental expectations have demonstrated consistent improvement in recent months and point to a Q1 earnings blowout. Interestingly, traditional P/E work does not look excessive while PEG ratios look quite low versus history. Still, our implied growth and PVFG analysis says that the fundamental bar is not an easy hurdle as a mid/high-teens 5-year growth CAGR is currently discounted in the price, suggesting continued upward revisions are a very necessary condition.

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