



ARGUS ECONOMIC COMMENTARY

April 28, 2025

An Unusual Earnings Season

The market in April has struggled to respond to the Trump administration's unfolding trade war. Although the "Liberation Day" tariffs shocked the market, many of those tariff announcements on April 2, 2025, have since been paused, softened, or partly rescinded. Businesses and investors have no more clarity on the final tariff landscape than they did on inauguration day in January.

First-quarter 2025 earnings are getting caught in the backwash of tariff uncertainty. Based on the limited number of companies that have reported to date, actual 1Q25 revenue and earnings numbers are pretty consistent with guidance issued three months ago. The big money-center banks had unusually robust trading results, which drove better-than-expected 1Q25 profits.

Earnings are on track for a seventh consecutive quarter of annual growth, but expectations are moderating. For many companies, the current level of uncertainty harkens back to the earnings season in the first quarter of 2020, when the worsening COVID-19 pandemic was causing shutdowns across schools, stores, offices, and factories.

In the 1Q25 EPS season to date, companies are issuing uncommonly cautious guidance and, in some cases, laying out multiple scenarios for a range of economic outcomes. While the earnings season is young, we expect many companies to repeat this pattern of providing multiple scenarios as they plan for an uncertain near-term environment.

First-Quarter Earnings: Early Read

As of the third (partial) week of April, about 12% of S&P 500 component companies had reported calendar first-quarter 2025 earnings. As is always the case early in the season, the mix is skewed to Financial sector companies. While the money-center banks excelled due to their trading volumes, smaller banks also performed at least in line with expectations.

For the season to date, S&P 500 earnings from continuing operations are up in high-single-digits on a year-over-year basis, or below our expectations for low-double-digit EPS growth. Growth to date in the 7%-8% range is in line with Street expectations, which have been coming down in anticipation of a worsening trade war, particularly with China. Reflecting the skew from Financial companies, the number of companies reporting EPS upside surprises and the magnitude of those surprises is below average. That could change as the flow of reporting companies goes from a trickle, to a garden hose, to a fire hose.

About 70% of companies to date have surpassed Street expectations. Ordinarily, about three-quarters of companies surprise to the upside. In aggregate, the magnitude of the EPS beat is 6%. That is close to the long-term average, but below the intermediate-term average, which is in high-single-digit percentages.

According to data from Bloomberg, the blended S&P 500 earnings growth rate for 1Q25 is 7.3%. The blended rate combines actual results with consensus expectations for companies yet to report. Given the normal 5%-8% upside surprise, the blended rate tends to rise as earnings season winds down and actual company reports displace consensus estimates.

Excluding Information Technology, blended EPS growth for 1Q25 is forecast in the 5% range. And excluding Energy, which likely will report another down quarter, S&P 500 continuing operations earnings are forecast to rise 9%. To date, the sectors with the best growth rates have been Healthcare, Information Technology, and Utilities. According to Bloomberg's blended estimates, those are also expected to be the fastest-growing sectors once all companies have reported.

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ECONOMIC & MARKET COMMENTARY (CONT.)

ed. Other sectors expected to post positive annual growth include Communication Services, Financial, Industrial, Consumer Discretionary, and Consumer Staples.

Energy is forecast to post negative annual comparisons, although the forecast mid-teens-percentage decline would be the most moderate in four quarters. Materials is also on track to decline in mid-teen percentages. Given China's vital role in global manufacturing and its huge appetite for commodities, the earnings outlook for Materials is particularly opaque.

A third sector with uncertain earnings prospects is Real Estate. This sector serves largely domestic markets, which provide some insulation from tariffs and the trade war. At the same time, prospects for tariff-related inflation and foreign disengagement from the U.S. Treasury market have caused interest rates to move higher even amid the stock selloff. REITs are already navigating high financing costs, and those costs could rise further under bearish scenarios.

We will continue to monitor this earnings season as it plays out across late April and most of May. We expect the EPS growth rate to rise as actual earnings displace estimated earnings. EPS growth for 1Q25 may top out in high-single-digits, which would contribute to upcoming revisions to our earnings forecasts.

Economic Data is Inconclusive

The economic picture is mixed but showing signs of deterioration. Sentiment indicators across consumers and small businesses have lost any optimism related to pending de-regulation and are now weakening on concerns that tariffs will reignite inflation and stunt growth. Sentiment among large company purchasing managers is a bit more positive, but appears to be wavering.

The NFIB's Small Business Optimism Index reached a six-year high of 105.1 in December 2024 in anticipation of a change to a more business-friendly administration. That optimism is deflating. The index fell to 102.8 in January 2025, to 100.7 in February, and to 97.4 in March. According to NFIB economist Bill Dunkelberg, "small business owners have scaled back expectations on sales growth" as they try to interpret how policy changes will impact them.

Industrial production decreased 0.3% in March after rising 0.7% in February. Between March 2024 and March 2025, however, overall industrial production increased at a healthy 5.5% annual rate. Utilities have been driving industrial production, but production from utilities declined 5.8% in March due to unseasonably warm weather. Manufacturing activity was up 0.3%, while mining was up 0.6% month over month. Capacity utilization of 77.8% for March declined from 78.2 for February and was 1.8 percentage points below the long-run average.

The University of Michigan's Consumer Sentiment Index for March 2025 fell to 57.9, well below the 63.2

consensus estimate and down from 64.7 in February. The survey was down 22 percentage points from December 2024. The Conference Board's Consumer Confidence Index for March 2025 declined by 7.2 points to 92.9, its lowest level since January 2021.

For several years, investors have been laser-focused on the key inflation reports: the Consumer Price Index (CPI), Producer Price Index (PPI), and the Personal Consumption Expenditures Price Index (PCE). While those reports still matter, a highly positive CPI report was largely overlooked in the tariff turmoil. In fact, the trade-related stock selloff continued following the CPI release, as news of triple-digit-tariffs imposed on China subsumed the positive inflation news. That shows that the attention of investors is elsewhere, although it would likely pivot back to consumer prices were inflation to rise again.

For March 2025, according to the U.S. Bureau of Labor Statistics, the CPI for all urban consumers declined 0.1% from February levels; the consensus expected no change to a 0.1% rise. On an annual basis, the CPI rose 2.4% from a year earlier, also a few ticks below consensus and favorably compared with the 2.8% annual rate in February 2025. Core inflation, which excludes energy and food, rose 0.1% month over month and 2.8% year over year -- the lowest annual growth in core inflation since March 2021. Expectations were for core CPI to rise 3.0% year over year.

The PPI report for March 2025 was also surprising, with all-items PPI falling 0.4% month over month and rising 2.7% year over year. The consensus expected a 0.1% monthly uptick and 3.4% annual growth. Core PPI rose 3.3% annually versus a 3.6% consensus call. As noted, the market did not take time to celebrate these positive numbers, but they do deserve analysis. Some of the positive price trends, particularly in PPI, could have come from businesses front-running tariffs. If so, bulk buying may have triggered volume discounts. With more tariffs now in place, trends in producer prices will again command the attention of investors.

Conclusion

While investors mainly focus on EPS growth rates during earnings season, sales growth trends may be equally (if not more) important in this environment. Blended revenue-growth estimates for calendar 1Q25 tend to be in the low-single-digit to mid-single-digit range. First-quarter 2025 revenue growth in the 4% range, if sustained, would send a positive signal given that growth is running ahead of current inflation levels.

Were inflation to spike in coming quarters, the trend in revenue growth would become an important indicator of overall economic growth. If revenue growth were to stay ahead of inflation, it would mean companies are at least maintaining business activity levels while passing

ECONOMIC & MARKET COMMENTARY (CONT.)

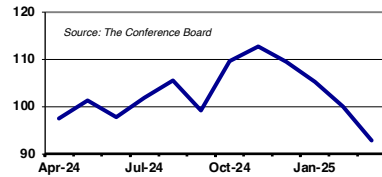
on some amount of higher costs to customers. If inflation rises and revenue growth begins lagging the inflation rate, that would be a warning sign that business and consumer purchases were slowing.

Higher inflation and weak economic growth would herald dreaded stagflation. The economy is not there now. But with uncertainty the only certainty right now, the risks of economic dislocation are rising.

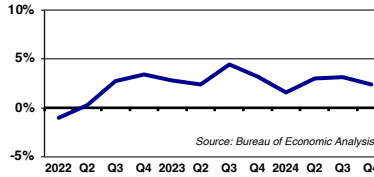
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

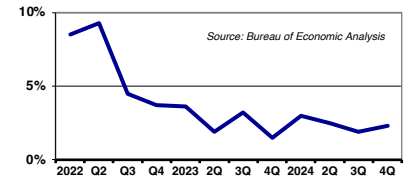
Release: **Consumer Confidence**
 Date: 4/29/2025
 Month: April
 Previous Report: 92.9
 Argus Estimate: 86.0
 Street Estimate: 87.0



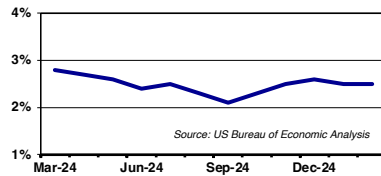
Release: **GDP Annualized QoQ**
 Date: 4/30/2025
 Month: 1Q
 Previous Report: 2.4%
 Argus Estimate: 1.4%
 Street Estimate: 0.4%



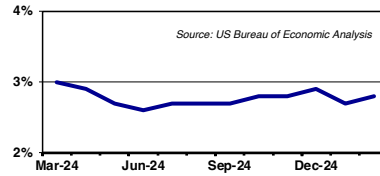
Release: **GDP Price Index**
 Date: 4/30/2025
 Month: 1Q
 Previous Report: 2.3%
 Argus Estimate: 2.4%
 Street Estimate: NA



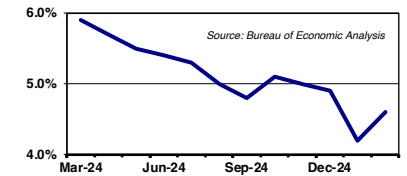
Release: **PCE Deflator**
 Date: 4/30/2025
 Month: March
 Previous Report: 2.5%
 Argus Estimate: 2.2%
 Street Estimate: 2.2%



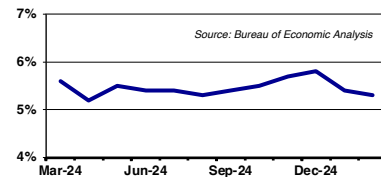
Release: **PCE Core Deflator**
 Date: 4/30/2025
 Month: March
 Previous Report: 2.8%
 Argus Estimate: 2.5%
 Street Estimate: 2.6%



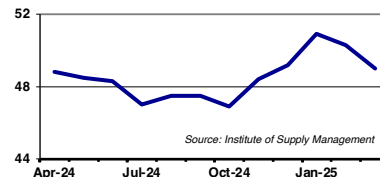
Release: **Personal Income**
 Date: 4/30/2025
 Month: March
 Previous Report: 4.6%
 Argus Estimate: 4.4%
 Street Estimate: NA



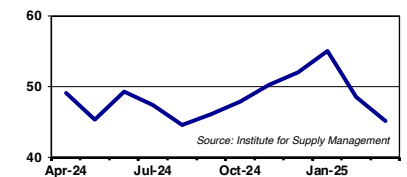
Release: **Personal Spending**
 Date: 4/30/2025
 Month: March
 Previous Report: 5.3%
 Argus Estimate: 5.4%
 Street Estimate: NA



Release: **ISM Manufacturing**
 Date: 5/1/2025
 Month: April
 Previous Report: 49.0
 Argus Estimate: 48.6
 Street Estimate: NA



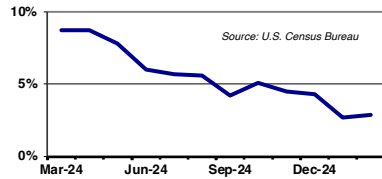
Release: **ISM New Orders**
 Date: 5/1/2025
 Month: April
 Previous Report: 45.2
 Argus Estimate: 44.0
 Street Estimate: NA



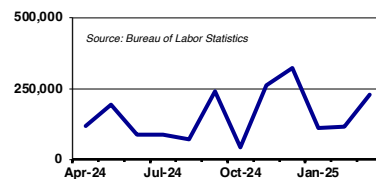
Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)

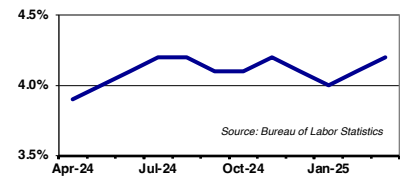
Release: **Construction Spending**
 Date: 5/1/2025
 Month: March
 Previous Report: 2.9%
 Argus Estimate: 3.2%
 Street Estimate: NA



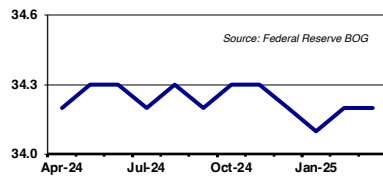
Release: **Nonfarm Payrolls**
 Date: 5/2/2025
 Month: April
 Previous Report: 228000
 Argus Estimate: 130000
 Street Estimate: 128000



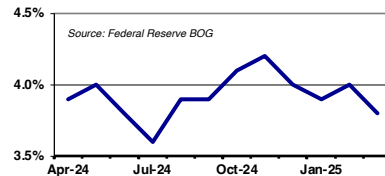
Release: **Unemployment Rate**
 Date: 5/2/2025
 Month: April
 Previous Report: 4.2%
 Argus Estimate: 4.3%
 Street Estimate: 4.2%



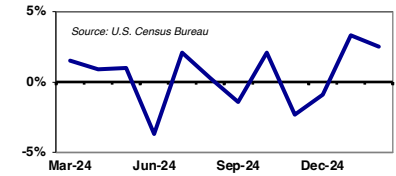
Release: **Average Weekly Hours**
 Date: 5/2/2025
 Month: April
 Previous Report: 34.2
 Argus Estimate: 34.2
 Street Estimate: 34.2



Release: **Average Hourly Earnings**
 Date: 5/2/2025
 Month: April
 Previous Report: 3.8%
 Argus Estimate: 3.8%
 Street Estimate: NA



Release: **Factory Orders**
 Date: 5/2/2025
 Month: March
 Previous Report: 2.5%
 Argus Estimate: 2.2%
 Street Estimate: NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Apr	Leading Index	March	-0.2%	-0.3%	-0.4%	-0.7%
23-Apr	New Home Sales	March	676K	680K	683K	NA
24-Apr	Durable Goods Orders	March	0.5%	-5.0%	NA	NA
	Existing Home Sales	March	4.26 Mln.	4.10 Mln.	4.12 Mln.	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
5-May	ISM Services Index	April	50.8	NA	NA	NA
6-May	Trade Balance	March	-\$122.7 Bln.	NA	NA	NA
7-May	Total Vehicle Sales	April	17.8 mln.	NA	NA	NA
8-May	Nonfarm Productivity	1Q	1.5%	NA	NA	NA
	Unit Labor Costs	1Q	2.2%	NA	NA	NA
	Wholesale Inventories	March	1.1%	NA	NA	NA

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