ARGUS®

ARGUS ECONOMIC COMMENTARY

June 2, 2025

Cutting Forecasts in an Unsettled Environment

We are adjusting our estimates of S&P 500 earnings from continuing operations for calendar 2025 and 2026 to reflect potential negative impacts on earnings from higher costs and reduced commerce. Normally, we would adjust our EPS forecasts once or perhaps twice over the course of a year. We are not sure what will happen with tariffs and White House policy, but we may need to adjust our forecasts a few more times over the remainder of 2025.

For now, our EPS reductions are tweaks rather than big moves. On the upside, the first-quarter earnings season modestly outperformed our expectations, with annual EPS growth of about 14%; we had been modeling high-single-digit to low-double-digit EPS growth. On the downside, where steep tariffs are scheduled and then paused or pushed out, companies are still struggling to finalize 2025 capital budgets.

Major corporations have proposed a range of strategies to deal with tariffs. At either end of the spectrum, Walmart says it will pass along tariffs to its customers; and Home Depot says it will absorb the cost of tariffs. The Walmart strategy, as the company has acknowledged, could result in lost revenue as customers (particularly in the lower tiers of the economy) forego planned purchases and make do with less. The Home Depot strategy, in theory, should do a better job of protecting the revenue stream -- but inevitably will cut into margins and thus earnings.

We believe most companies will strike a balance somewhere in the middle, passing along some portion and absorbing some portion of tariffs. The "mix" of pass along and absorb likely will vary from company to company, based on a range of factors. These could include where a company sources raw materials, which regional markets are served, and which products and components are partially or fully exempt from tariffs.

2025 EPS: After a Strong 1Q, Softer in the Middle

First-quarter 2025 earnings season took place amid a major shift in U.S. trade policy that drove a turbulent response in asset markets. The U.S. ended the Biden presidency era with much of the tariff architecture intact from President Trump's first term. On April 2, days before the large money center banks began the reporting season, the president unleashed his schedule of "Liberation Day" tariffs across dozens of nations. Although the high tariff rates were proposals meant to act as negotiating tools, they sent the stock market crashing. The president's criticism of Fed Chair Jay Powell slammed the bond market and the U.S. dollar, further contributing to unease. Subsequently, certain key tariff shifts (on China, the UK, etc.) and a more conciliatory tone toward the Fed allowed the stock market to surge back to year-opening levels.

Amid this turbulence, the only "normal" thing was 1Q25 earnings season. As is common, earnings exceeded expectations; these expectations were uncommonly gloomy as the trade environment worsened. As the quarter progressed, the blended EPS growth estimates from FactSet, Refinitiv, and Bloomberg all ticked 500 to 600 basis points higher than they were at the beginning of the earnings season, as upside surprises displaced conservative estimates in the blended tally.

The three EPS compiling agencies all calculated final 1Q25 EPS growth in the 13%-14% range. About 75% of companies surpassed Street expectations; early in the reporting season, that percentage was closer to 70%. On a long-term basis (past 10 years), about three-quarters of companies reporting EPS growth have surprised to the upside. Additionally, the magnitude of the EPS beat jumped meaningfully higher as the quarter progressed, to around 9%. That is better than the 7% long-term average and now also in line with the 9% intermediate-term average.

(continued on next page)

First-quarter earnings growth and revenue growth were perceived as having benefited from some "front-loading" by businesses as a way to acquire raw materials and goods inventories ahead of anticipated tariffs. We also think some consumers may have accelerated purchases of goods, particularly those made in China, with an eye to potential price hikes in coming months.

We think this pulling-forward of business and consumer activity into 1Q25, along with foregone sales at companies passing along tariffs and margin hits at companies absorbing tariffs, will be felt in second-quarter earnings and to a lesser extent in third-quarter earnings. We look for a return to stronger EPS growth in 2026, assuming tariff stability, but not as strong as we had earlier modeled.

Revisions to 2025 and 2026 EPS Estimates

Until the final tariff schedule is established -- not just in the U.S. but among our trading partners as well -- there will be a fair amount of speculation in any single EPS estimate, much less all the estimates for the hundreds of companies in the S&P 500. Also worth keeping in mind is that tariffs are far from the only driver of revenue and earnings growth.

For 2025, our forecast for S&P 500 earnings from continuing operations is $270, reduced from $276. For 2026, our new estimate is $300, reduced from $307. Our new 2025 EPS estimate implies full-year EPS growth of 10%, reduced from 12%. And our new 2026 estimate assumes EPS growth of 10%, reduced from 11%.

For the middle quarters of 2025, we are using more-conservative growth assumptions for most sectors. In particular, we have reduced our 2025 growth assumptions for Consumer Discretionary, Healthcare, Industrial, and Information Technology.

Consumer Discretionary faces the triple whammy of already-high goods inflation, the potential for further price hikes due to tariffs, and financing rates for large-ticket items that remain too high. We still look for Healthcare EPS to grow in double-digit percentages, but have cut our growth forecast nearly in half due to the potential for White House-mandated lower drug prices and pressure on insurance company earnings from elevated procedure volumes (hips, knees, etc.). Industrial earnings could be impacted by reduced foreign demand for big-ticket equipment from machine tools to excavators to commercial aircraft. Information Technology, the largest sector, faces an appropriately large basket of risks. These include on-again, off-again tariffs on smartphones, PCs, and semiconductors, and an ever-shifting web of regulation on what technology can and cannot be shipped to China.

Conclusion

Our 2025 EPS growth forecast is bookended by low-double-digit growth in 1Q25 and 4Q25, with mid-single-digit growth in the middle quarters of the year. We then look for more-stable but partly-subdued growth across 2026. Accordingly, our EPS growth estimates are 10% for both 2025 and 2026. Bloomberg, which compiles analyst estimates from hundreds of companies, is now forecasting that 2025 EPS growth will slip to 7.4% in 2025 before bouncing back to 13.1% in 2026. The net effect is that the Argus and Bloomberg 2026 EPS estimates are identical at a rounded $300.

In offering a "smoothed" earnings forecast, Argus is taking into account the fact that corporate America, which may seem like a set of large faceless entities, actually fights for EPS growth at a very granular level. Nearly every major company will feature several major divisions. Each division will have segments that have sub-segments, burrowing down to a final mid-level manager overseeing a dozen or so employees. In each of these tiny pieces of the whole, the manager and team are using everything they have at their disposal to find efficiencies, negotiate hard with vendors and customers, and find new incentives to drive business activity. The unheralded work of these teams, rather than the polish of the C-Suite, is why S&P 500 companies consistently beat EPS expectations by 5%-8%.

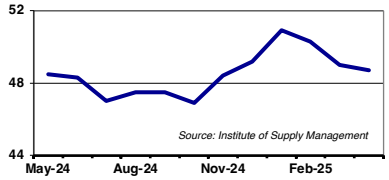
In the tariff wars, new workarounds are emerging, while familiar ones are being exploited. Under the First Sale rule, the tariff is assessed on the first transaction related to finished good. With some creative freight handling, this can reduce a tariff substantially. If the White House decides to play whack-a-mole with the First Sale rule, as it did with the de minimus exemption, other workarounds are likely to pop up.

The stock market is back to approximately year-opening levels, while the earnings outlook is somewhat weaker. The economic outlook remains clouded by tariffs and trade wars. In this uncertain environment, we would continue to focus on companies with strong management, blue chip finances, clear competitive advantage, and the ability to create and monetize a steady stream of new, in-demand products.

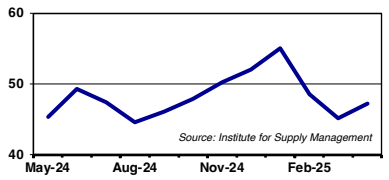
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

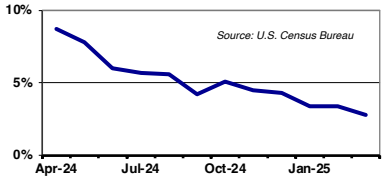
Release:	**ISM Manufacturing**
Date:	6/2/2025
Month:	May
Previous Report:	48.7
Argus Estimate:	49.0
Street Estimate:	48.4



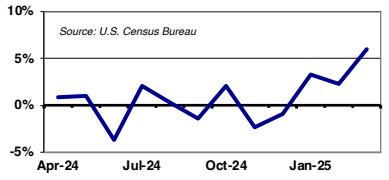
Release:	**ISM New Orders**
Date:	6/2/2025
Month:	May
Previous Report:	47.2
Argus Estimate:	47.4
Street Estimate:	NA



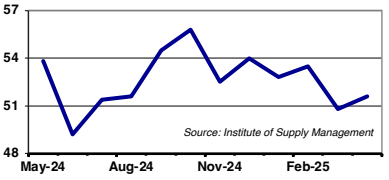
Release:	**Construction Spending**
Date:	6/2/2025
Month:	April
Previous Report:	2.8%
Argus Estimate:	1.6%
Street Estimate:	NA



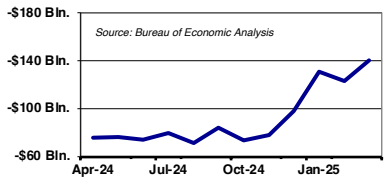
Release:	**Factory Orders**
Date:	6/3/2025
Month:	April
Previous Report:	6.0%
Argus Estimate:	1.5%
Street Estimate:	NA



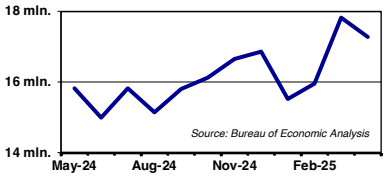
Release:	**ISM Services Index**
Date:	6/4/2025
Month:	May
Previous Report:	51.6
Argus Estimate:	52.0
Street Estimate:	52.0



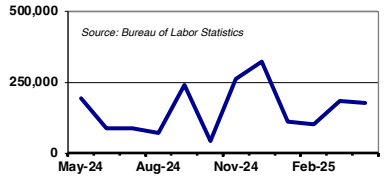
Release:	**Trade Balance**
Date:	6/5/2025
Month:	April
Previous Report:	-$140.5 Bln.
Argus Estimate:	-$110.0 Bln.
Street Estimate:	-$117.3 Bln.



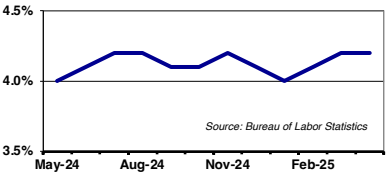
Release:	**Total Vehicle Sales**
Date:	6/5/2025
Month:	May
Previous Report:	17.27 mln.
Argus Estimate:	17.10 mln.
Street Estimate:	NA



Release:	**Nonfarm Payrolls**
Date:	6/6/2025
Month:	May
Previous Report:	177000
Argus Estimate:	140000
Street Estimate:	130000



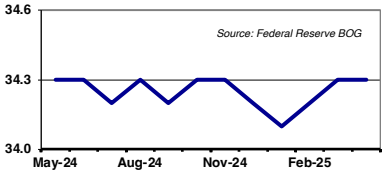
Release:	**Unemployment Rate**
Date:	6/6/2025
Month:	May
Previous Report:	4.2%
Argus Estimate:	4.2%
Street Estimate:	4.2%



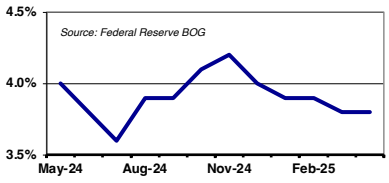
Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)

Release:	**Average Weekly Hours**
Date:	6/6/2025
Month:	May
Previous Report:	34.3
Argus Estimate:	34.3
Street Estimate:	34.3



Release:	**Average Hourly Earnings**
Date:	6/6/2025
Month:	May
Previous Report:	3.8%
Argus Estimate:	3.8%
Street Estimate:	NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
27-May	Durable Goods Orders	April	**9.9%**	-1.9%	NA	**2.7%**
	Consumer Confidence	March	**85.7**	84.0	87.0	**98.0**
29-May	GDP Annualized QoQ	1Q "2nd est."	-0.3%	-0.3%	-0.4%	NA
	GDP Price Index	1Q "2nd est."	3.7%	3.7%	NA	NA
30-May	PCE Deflator	April	2.3%	2.2%	2.2%	NA
	PCE Core Deflator	April	2.6%	2.6%	2.5%	NA
	Personal Income	April	4.3%	4.3%	NA	NA
	Personal Spending	April	5.6%	5.3%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
9-Jun	Wholesale Inventories	April	2.2%	NA	NA	NA
11-Jun	Consumer Price Index	May	2.3%	NA	NA	NA
	CPI ex-Food & Energy	May	2.8%	NA	NA	NA
12-Jun	PPI Final Demand	May	2.4%	NA	NA	NA
	PPI ex-Food & Energy	May	3.1%	NA	NA	NA
13-Jun	U. Michigan Sentiment	June	50.8	NA	NA	NA

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