



ARGUS ECONOMIC COMMENTARY

July 28, 2025

Earnings in the Shadow of Tariffs

President Trump's reciprocal tariffs for multiple nations and the EU are set to be implemented on August 1. According to Commerce Secretary Howard Lutnick, the tariffs are going to be implemented on time and with no further push-outs, but administration officials indicated that final tariff rates could still be negotiated post-implementation.

August 1 also is right around the time the second-quarter 2025 earnings season should be hitting its stride. We have pointed out that solid earnings growth, a fully employed U.S. workforce with rising wages, and continued economic growth as measured by GDP have been three bulwarks of the bull market that has been in place since fall 2022. These three factors have enabled U.S. stock indices to hit new all-time highs despite the threat of stiff tariffs hanging over the global economy.

Expectations heading into the current earnings season are low. Earnings almost always surprise to the upside, given the conservatism CFOs build into company forecasts. But tariffs that have been put in place to date and geopolitical turmoil in the Middle East have sapped some of the usual optimism from companies. Weak health insurer earnings and guidance and shock preliminary results from Jeep-maker Stellantis, among others, have shaken the certainty that 2Q EPS will exceed low-ball expectations. Stellantis cited corporate reorganization under a new CEO, but also tariffs, in explaining its results, which fell far below the Street consensus.

Second-Quarter Earnings: Early Read

With about 10% of companies having reported calendar 2Q25 results as of mid-July, it is a bit early to draw conclusions. Earnings are running ahead of expectations; and the percentage of companies topping expectations is above the long-term average. But expectations for earnings growth

heading into the EPS season are the lowest in at least a year. As usual, the big banks have dominated the early reporting, and their results have been solid. But market response to good bank earnings has been underwhelming, suggesting that the bar is high for outperformance, and that companies that merely meet expectations risk selling off.

As of 7/20/25, about 12% of S&P 500 component companies had reported results. S&P earnings from continuing operations are forecast to grow between 5% and 7% from 2Q24, according to the blended growth estimates from Bloomberg, FactSet, and Refinitiv. Quarterly S&P 500 earnings have grown at low-double-digit percentages since the beginning of 2024, and EPS growth in mid-single digits would be the lowest rate since 4Q23, when earnings edged up 4%.

On average, earnings exceed expectations by 5%-9% most quarters. Currently, the blended rate of earnings growth (which includes actual earnings combined with analyst consensus estimate for companies yet to report) is exceeding expectations by just a point. That is common early in the earnings season before the big technology, consumer and industrial companies report. Thanks to a good start to the season from big banks and other financial service companies, the percentage of companies topping pre-reporting expectations is in the low 80% range, which is above the 10-year average of 75%.

While it is too soon to draw conclusions on actual EPS growth, the blended estimates from Bloomberg, FactSet, and Refinitiv all signal a clear divide between growth company and value company earnings. All three earnings tracking services reflect expectations for growth-company earnings to advance in mid- to high-teen percentages, while value-company earnings are forecast to decline in mid- to high-single-digit percentages.

(continued on next page)

ECONOMIC & MARKET COMMENTARY (CONT.)

EPS growth is expected to remain resilient for the Information Technology sector. Communication Services EPS is forecast to grow in the high-20% to low-30% range, which is double the mid-teens forecast for Information Technology EPS growth. But Information Technology currently comprises about one-third of S&P 500 sector weight, compared with about 10% for Communication Services. The impact of IT EPS growth is thus magnified.

Earnings from the so-called Magnificent 7, which draw from three sectors (Information Technology, Communication Services, and Consumer Discretionary), are expected to grow at a mid-teens to low-20% rate for 2Q25. Other sectors forecast to post positive EPS growth for 2Q25 include Financial, Industrial, Real Estate, and Utilities.

One thing holding back the overall EPS growth rate for 2Q25 is that up to five sectors are forecast to post negative annual EPS comparisons for the period. Energy company earnings are expected to continue holding back the overall growth rate. The blended forecast for 2Q25 Energy earnings is a decline in the mid- to high-single-digit percentage range. Petroleum prices have bounced around so far in 2025, rising initially on the Iran-Israeli war but currently at the low levels prevailing at the end of 2024. We have pushed back our expectation that Energy could swing to positive EPS growth during 2025.

Along with Energy, sectors forecast to post negative annual EPS comparisons for 2Q25 include Consumer Discretionary, Consumer Staples, and Materials. Consumer Discretionary earnings continue to be impacted by high financing rates, inflation in big-ticket goods prices, and now the looming threat of tariffs pushing prices even higher. Heading into the quarter, Healthcare earnings were forecast to edge higher. But given the worsening pressure facing health insurers, the 2Q earnings forecast for the entire sector has dropped down toward breakeven.

The blended tariff rate throughout 2Q25 was in mid-teen percentages. Based on the administration's hard August

1 deadline, the blended tariff rate could surpass 20% for 3Q25. Based on expected post-deadline negotiations with the EU, Mexico, Canada and other nations, the blended tariff rate could ease back to the high- to mid-teens percentage rate for 4Q25 and beyond.

Based on these and other assumptions around economic growth and the labor economy, Argus continues to model high-single-digit EPS growth for 2Q25, with the potential for low-double-digit growth. We look for a similar EPS growth rate in 3Q25, and then a recovery to low- to mid-teens percentage EPS growth for 4Q25.

Our forecast for 2025 S&P 500 earnings from continuing operations is \$270, implying full-year EPS growth of 10% from 2024. Key growth drivers are likely to include improved performance from sectors (most notably Materials and Industrials) that dragged on 2024 earnings. For 2026, our S&P 500 earnings estimate is \$300, which assumes EPS growth of 11%. Both our estimates could be subject to revision based on impacts from tariffs, macroeconomic growth, and other factors.

Conclusion

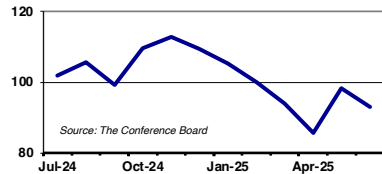
The major stock indices are up about 2%-3% for July to date, with growth sectors sustaining the leadership they reclaimed in the calendar second quarter. Leading sectors for calendar 3Q25 to date include Information Technology, Consumer Discretionary, Materials, and Industrials. Stock market laggards in the calendar third quarter-to date include Healthcare, Consumer Staples, and Communication Services.

The U.S. stock market reversed early-year weakness into second-quarter strength. That recovery has continued into calendar 3Q25, with the S&P 500 and the Nasdaq Composite hitting new all-time highs despite the looming hard deadline for tariffs. We continue to expect the S&P 500 to advance 10%-15% from year-opening levels in 2025, or by an additional 4%-9% in the second half of the year.

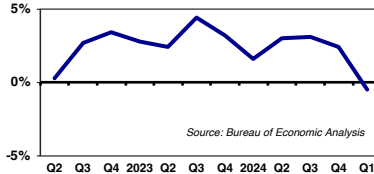
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

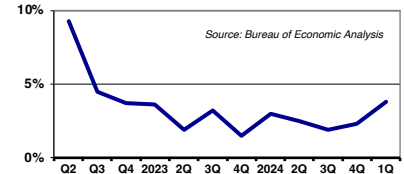
Release: **Consumer Confidence**
 Date: 7/29/2025
 Month: July
 Previous Report: 93.0
 Argus Estimate: 95.0
 Street Estimate: 96.1



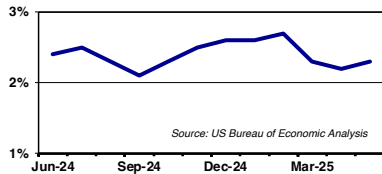
Release: **GDP Annualized QoQ**
 Date: 7/30/2025
 Month: 2Q
 Previous Report: -0.5%
 Argus Estimate: 1.8%
 Street Estimate: 2.5%



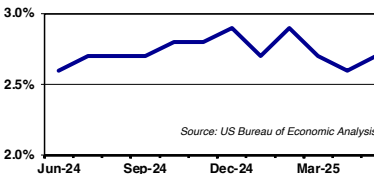
Release: **GDP Price Index**
 Date: 7/30/2025
 Month: 2Q
 Previous Report: 3.8%
 Argus Estimate: 2.5%
 Street Estimate: NA



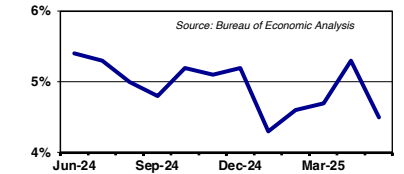
Release: **PCE Deflator**
 Date: 7/31/2025
 Month: June
 Previous Report: 2.3%
 Argus Estimate: 2.5%
 Street Estimate: 2.6%



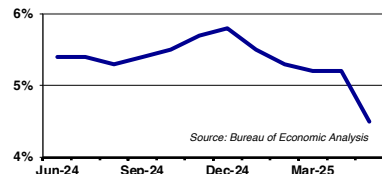
Release: **PCE Core Deflator**
 Date: 7/31/2025
 Month: June
 Previous Report: 2.7%
 Argus Estimate: 2.7%
 Street Estimate: 2.8%



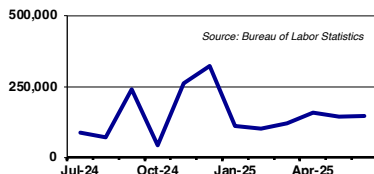
Release: **Personal Income**
 Date: 7/31/2025
 Month: June
 Previous Report: 4.5%
 Argus Estimate: 4.6%
 Street Estimate: NA



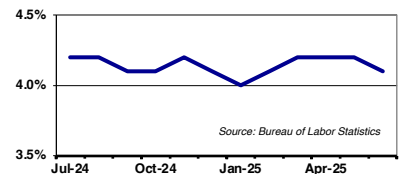
Release: **Personal Spending**
 Date: 7/31/2025
 Month: June
 Previous Report: 4.5%
 Argus Estimate: 4.6%
 Street Estimate: NA



Release: **Nonfarm Payrolls**
 Date: 8/1/2025
 Month: July
 Previous Report: 147000
 Argus Estimate: 112000
 Street Estimate: 105000



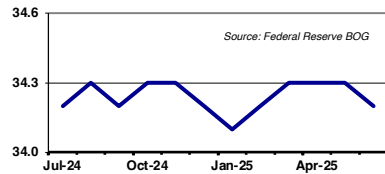
Release: **Unemployment Rate**
 Date: 8/1/2025
 Month: July
 Previous Report: 4.1%
 Argus Estimate: 4.1%
 Street Estimate: 4.2%



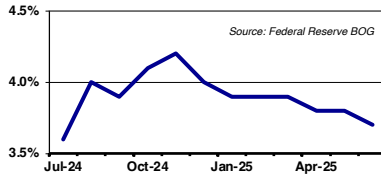
Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)

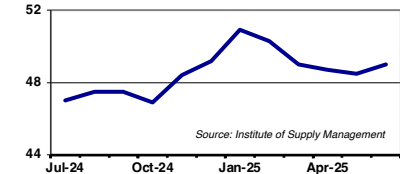
Release: **Average Weekly Hours**
 Date: 8/1/2025
 Month: July
 Previous Report: 34.2
 Argus Estimate: 34.3
 Street Estimate: NA



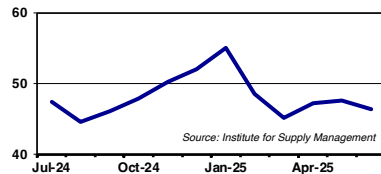
Release: **Average Hourly Earnings**
 Date: 8/1/2025
 Month: July
 Previous Report: 3.7%
 Argus Estimate: 3.8%
 Street Estimate: NA



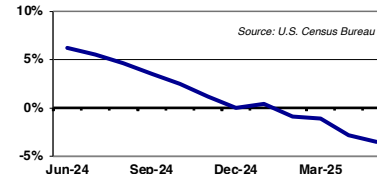
Release: **ISM Manufacturing**
 Date: 8/1/2025
 Month: July
 Previous Report: 49.0
 Argus Estimate: 50.0
 Street Estimate: 49.5



Release: **ISM New Orders**
 Date: 8/1/2025
 Month: July
 Previous Report: 46.4
 Argus Estimate: 48.0
 Street Estimate: NA



Release: **Construction Spending**
 Date: 8/1/2025
 Month: June
 Previous Report: -3.5%
 Argus Estimate: -3.6%
 Street Estimate: NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Jul	Leading Index	June	0.0%	-0.3%	-0.2%	-0.3%
23-Jul	Existing Home Sales	June	4.03 Mln.	4.10 Mln.	3.99 Mln.	NA
24-Jul	New Home Sales	June	623K	660K	650K	NA
25-Jul	Durable Goods Orders	June	17.4%	2.0%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
4-Aug	Factory Orders	June	9.6%	NA	NA	NA
5-Aug	ISM Services Index	July	50.8	NA	NA	NA
	Trade Balance	June	-\$71.5 Bln.	NA	NA	NA
7-Aug	Nonfarm Productivity	2Q	-1.5%	NA	NA	NA
	Unit Labor Costs	2Q	6.6%	NA	NA	NA
	Total Vehicle Sales	July	15.34 Mln.	NA	NA	NA
	Wholesale Inventories	June	1.4%	NA	NA	NA

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