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ARGUS ECONOMIC COMMENTARY

February 16, 2026

Raising Our S&P 500 Earnings Estimates

The stock market has had a bumpy ride in 2026 to date, to put it mildly. In the employment economy, existing concerns about slowing jobs growth have been exacerbated by signs of increasing layoffs. Mixed signals from the White House -- on Greenland, Iran, and a range of domestic issues -- have kept investors on edge. Mainly, the on-again, off-again fear of an AI bubble is on again, and software stocks in particular are suffering as a result of that fear.

Quietly in the background, consistently strong (and in fact accelerating) corporate earnings have helped ease concerns about the slowing employment economy and other actual and potential negatives. Based on a better-than-expected calendar 4Q25 earnings season to date, we are raising our final estimate of 2025 S&P 500 earnings from continuing operations.

We are also raising our estimate of 2026 S&P 500 earnings and implementing a formal 2027 EPS forecast. Our 2026 and 2027 forecasts now assume corporate earnings can continue to grow at a low-double-digit percentage rate, and perhaps even at a low- to mid-teens percentage rate. There's no guarantee strong earnings can steady a wobbly stock market, but they can help keep valuations reasonable amid the tumult.

Fourth-Quarter 2025 Earnings: Better Than Our Optimistic Expectations

In the absence of government data, calendar 3Q25 earnings season had an outsized and largely positive impact on stocks. The government shutdown was in the rear-view mirror when the 4Q25 earnings season got underway. Fourth-quarter earnings have not dispelled the unease in the stock market, but they may have muted it somewhat.

The cadence of any earnings season begins with Financial sector companies reporting in the first 10 days of the first earnings month (April, July, October, and January, depending on the quarter). In the final two weeks of that first month, the garden hose of earnings data turns into a firehose. Fourth-quarter earnings season tends to be a bit stretched out given that over 65% of component companies are also reporting calendar full-year earnings; and even companies on a June or September fiscal year tend to provide a calendar-year summation. For 4Q25 season, those two "firehose" weeks stretched into the first week of February.

As of 2/6/26, and with just under 60% of component companies having reported results, the blended annual growth rate for calendar 4Q25 earnings was about 13%, based on the earnings data compiled by industry analysis firms Bloomberg, FactSet, and Refinitiv. Given slight differences in baseline and definitions of continuing operations earnings, the range of the three compiling agencies was 12.5% to 13.5%, which is a little tighter than usual. From all three, the message of strong growth was unequivocal.

The blended growth rate includes actual results for companies that have reported as well as estimated earnings for companies yet to report. Given that consensus estimates are often based on company guidance that historically has been conservative, actual results tend to exceed estimated results by a few percentage points. Final growth in calendar 4Q25 S&P 500 earnings from continuing operations could be in the 15% or higher range.

Among the companies that have reported to date, just over three-quarters have reported earnings above the pre-reporting consensus; that is not far from the long-term 75% average. The magnitude of the EPS beat against expectations, in the high-single-digit range, has been above the midpoint of the long-term range of 5%-9%. Other highlights in the quarter

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include revenue growth in high-single-digit percentages as companies successfully navigate around tariffs -- and in many cases shift emphasis to earnings growth in overseas markets.

Companies have also been able to expand their margins as volume leverage supersedes higher costs and tariffs and as managements begin to incorporate AI-based efficiencies into their operating models. Blended operating margin from continuing operations is on track to reach or exceed the 13% level for 4Q25 calendar earnings, which would be at least a point above the long-term average of 12%.

The strongest contributors to S&P 500 earnings growth for 4Q25 have been Information Technology, Communication Services, Financial, and Industrial. The weakest sectors for EPS growth include Energy, Consumer Staples, and Consumer Discretionary.

Stock market performance at the sector level is largely an inverse mirror of quarterly earnings performance. The best-performing sectors in the 2026 year to date include Energy, which is posting flat to slightly down 4Q25 EPS; Consumer Staples, which has reported 1% earnings growth; and Materials, which has reported "okay" mid-single-digit EPS growth. The worst-performing sectors in the 2026 year to date include Information Technology, down in the stock market year to date despite posting high-20% EPS growth; Consumer Discretionary, which has reported a 1% earnings decline; and Financial, which has reported low-double-digit EPS growth. The divergence between EPS growth and sector performance is a not-uncommon phenomenon in a market characterized by anticipatory trading -- and where good past performance is an invitation to take profits.

We are now estimating that the final tally of 4Q25 S&P 500 earnings could show growth at a mid-teens percentage rate, better than our earlier expectations for high-single-digit to low-double-digit growth. On that basis, we have raised our forecast for S&P 500 earnings from continuing operations for 2025 to $274 from a prior $270. Once all S&P 500 component companies have reported calendar 4Q25 results, our final number for 2025 could go up (or down) by a dollar or so; but $274 is likely very close to the final number. Our 2025 forecast now assumes annual EPS growth of 10.5% from 2024, raised from 9.3%.

2026 and 2027 Earnings Estimates

We have raised our forecast for S&P 500 continuing operations earnings for 2026 to $315 per share from a prior $300. Our 2026 forecast now assumes annual EPS growth of 15.6% from 2025, raised from 11.1%.

The key driver of our higher EPS forecast for 2026 is a stronger EPS growth outlook at the sector level nearly across the board. The strongest increments to growth in our model are for Information Technology, Industrial, Materials, Financial, Communication Services, and Consumer Discretionary; all are expected to grow earnings at low-double-digit rates in 2026. We also raised our sector growth forecasts for defensive sectors including Consumer Staples, Healthcare, Utilities, and Real Estate; all are expected to grow earnings at mid-single-digit rates in 2026. We continue to expect a weak to negative earnings performance for Energy in 2026, even though it has been the best-performing stock sector year to date in 2026. Global prices for most petroleum products (excluding natural gas) remain near multi-year lows, reflecting weak demand amid plentiful production.

Our very preliminary forecast for 2027 earnings from continuing operations had been $325. Based on 2025 performance, revisions to our 2026 model, and forecast inputs for 2027, we are now formally modeling S&P 500 earnings from continuing operations for 2027 of $363 per share. Our formal 2027 forecast now assumes annual EPS growth of 14.9% from 2026, raised from a preliminary 8.7%.

Conclusion

Investors are usually bullish in January, but the market turned volatile late in January of this year. The S&P 500 was up as much as 2% before slipping to a 1.4% gain for January in the final trading week of the month. The final result was not far off the average 0.98% gain on the S&P 500 for all Januarys from 1980 to 2025

February by contrast has tended to be a challenging month. Average S&P 500 performance in February over the 1980-2025 period has been a gain of 0.10%. February's "win rate" (the percentage of times February has been positive on the S&P 500) is also low at 57%, matching the July win rate; September is the worst at 50%. February 2026 was deeply down until a nearly 2% surge on 2/6/26 bought the S&P 500 back to January-ending levels.

Stocks tend to bounce back with a 1.1% gain in March. All first quarters on average since 1980 have generated appreciation of 2.3% on the S&P 500, which is better than the dismal 3Q average and behind 2Q and 4Q performance.

The stock market is now in the second year of the presidential election cycle, which historically has been the weakest of the four years. In 2026, tariffs will have a full-year impact on prices; but they have faded as the leading topic on investors' minds. Geopolitics adds uncertainty to the outlook. Mid-term elections and the Supreme Court decision on tariffs are both looming. Recurring fears of an AI bubble are likely to continue battering growth stocks from time to time.

Investors could point to a strong 4Q25 earnings season as an offset to the market's many challenges. We believe they will be able to point to similarly strong EPS performances as the 2026 trading and earnings year plays out.

Jim Kelleher, CFA,
Director of Research

KEY ECONOMIC FORECASTS

- The $31 trillion U.S. economy remains on course for growth, powered by corporate investments in AI and outsized spending by the wealthiest households. Nvidia CEO Jensen Huang estimated, in November, that $3 - $4 trillion will be spent on AI infrastructure in the next 5 years.
- We recently raised our 2026 forecast for GDP growth to 2.3% from 2.2%. Unemployment remains low, the Fed has been stimulating growth by reducing the funds rate, and last year's tax legislation could boost tax returns by $600 - $1,000 for many families. We recently raised our 2027 GDP estimate to 1.8% growth from 1.7%. We expect full-year GDP growth for 2025 to come in at 2.6%.
- Consumers have been the engine of economic growth. That should continue with unemployment at 4.3%. Demand for healthcare workers, who are hard to replace with AI, is strong in an aging population.
- Inflation's downward progress has stalled above the Fed's 2% target. Core PCE has exceeded 2.5% since March 2022, rising to 2.9% in 3Q25. The median projection of Federal Reserve officials does not return to 2% until 2028.
- Argus expects S&P 500 EPS to rise almost 16% to $315 in 2026 and increase about 15% to $363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 59% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be flat or slightly stronger in 2026 as foreign demand for shares of innovative U.S. companies and economic resilience offset monetary easing.
- As long as geopolitics are flaring and the global economy is wobbling, gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above $5,000 an ounce. Our average target price in 2026 is $4,500.
- Despite last year's economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is approximately 7.0%, well below the average of 9.2% since 1949.
- What could go right? Monetary easing, big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, and ongoing innovation.
- Risks: Elevated Inflation, housing is stalled, low income consumers are struggling, spending by affluent may be dependent on stock market gains, AI may reduce entry-level hiring.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
6-Feb	U. Michigan Sentiment	February	56.4	55.0	55.0	**57.3**
	Total Vehicle Sales	January	**16.0 Mln.**	15.0 Mln.	NA	**14.9 Mln.**
10-Feb	Retail Sales	December	3.3%	3.1%	NA	**2.4%**
	Retail Sales ex-autos	December	**4.2%**	4.2%	NA	**3.3%**
	Import Price Index	December	**-0.1%**	0.1%	NA	**0.0%**
	Business Inventories	November	**1.3%**	1.5%	NA	**1.2%**
11-Feb	Nonfarm Payrolls	January	**48K**	45K	70K	**130K**
	Unemployment Rate	January	4.4%	4.4%	4.4%	**4.3%**
	Average Weekly Hours	January	34.2	34.2	34.2	**34.3**
	Average Hourly Earnings	January	**3.7%**	3.7%	3.6%	**3.7%**
12-Feb	Existing Home Sales	January	4.35 Mln.	4.20 Mln.	4.15 Mln.	NA
13-Feb	Consumer Price Index	January	2.7%	2.4%	2.5%	NA
	CPI ex-Food & Energy	January	2.6%	2.5%	2.5%	NA
18-Feb	Durable Goods Orders	December	10.5%	2.0%	NA	NA
	Industrial Production	January	2.0%	2.5%	NA	NA
	Capacity Utilization	January	76.3%	76.5%	76.4%	NA
	Housing Starts	December	1,246K	1,300K	1,303K	NA
19-Feb	Trade Balance	December	-$56.8 Bln.	-$55 Bln.	-$55.5 Bln.	NA
20-Feb	GDP Annualized QoQ	4Q "Advance"	4.4%	3.1%	2.9%	NA
	GDP Price Index	4Q "Advance"	3.8%	3.5%	NA	NA
	PCE Deflator	December	2.8%	2.8%	NA	NA
	PCE Core Deflator	December	2.8%	2.8%	3.0%	NA
	Personal Income	December	4.3%	4.4%	NA	NA
	Personal Spending	December	5.4%	4.7%	NA	NA
	New Home Sales	December	737K	725K	738K	NA

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