

May 4, 2026

## Earnings Distract and Reassure

The war in Iran has dominated headlines, politics, and the public discourse since its launch on the final day of February 2026. The attempted attack at the White House Correspondents Dinner, which dominated the weekend news cycle, is being pushed aside as energy prices continue to tick higher.

While the bombing mainly has stopped in the Middle East, the lingering “truce” may be worse for the economy than a fight that leads to a finish. First Iran, then the U.S., then Iran again declared the Strait of Hormuz closed to shipping. Knowing it is our mid-term election year, Iran seemingly wants to put sufficient pressure on the economy to prompt the U.S. to declare an end to all hostilities. The U.S. believes that by blockading Iran’s ports it can eventually get the leadership to acquiesce on nuclear weapons or at least open the waterway.

So the impasse drags on, leaving Asia and Europe starved for oil and prices on an unknown but upward trajectory. When the war in Ukraine bogged down, with the two sides gaining and losing territory marked in yards rather than kilometers, investors greeted that stalemate as largely positive. The stalemate in the Strait, on the other hand, worsens the global economy every day and winds the spring for potential inflation ever tighter.

Calendar first-quarter 2026 earnings season may go unremarked in the world at large, but it is soothing war jitters and improving the mindset of U.S. investors. Along with favorably interpreted negotiation news, positive earnings are lifting stocks in the second quarter after a down first quarter and deeply negative March.

We believe investors were looking for a distraction, but they got more than that: 1Q26 earnings are outstripping aggressive expectations. And as the market bounces back in a V-shaped recovery, the strong pace of EPS growth is keeping valuations reasonable.

### 1Q26 Earnings: Early Indicators

As of the final full trading week of April, about 28% of companies within the S&P 500 had reported results. S&P 500 earnings from continuing operations for 1Q26 are up 15.5% on a blended basis from 1Q25 levels, based on the average of data reported by the major earnings aggregators (Bloomberg, FactSet, and Refinitiv). The blended basis captures both actual numbers for companies that have reported as well as estimates for companies yet to report. Given that consensus estimates reflect conservative guidance from CFOs, actual earnings when fully collected tend to run a few percentage points higher than the blended average at the beginning of EPS season.

Earnings expectations were high heading into the EPS season, but actual results are topping expectations in multiple ways. The blended earnings growth rate is running about two percentage points ahead of expectations in the 13% range at the beginning of April. Of the companies reporting positive earnings growth for the quarter, 83% have reported results above consensus. That is meaningfully higher than the long-term range of 75%-80%.

The biggest outlier in this earnings season may be the magnitude of the beat against expectations. The companies that have beaten EPS expectations are, on average, reporting earnings that are 10%-12% above consensus estimates. The historical beat against expectations is in the 5%-7% range.

At the sector level, the best performance is coming from Information Technology. The blended EPS growth rate for the IT sector depends on the aggregator, but is very strong in a range from 44% (FactSet) to 48% (Refinitiv). The IT sector overall has below-average fixed costs and higher-than-average revenue per employee, leading to higher-than-average

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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gross and operating margins. Below the operating line, IT companies have relatively lower debt burdens and more globally dispersed (lower) tax bases, meaning more operating income drops to the net income line. These are enduring advantages in any quarter.

Other sectors with strong earnings growth in 1Q26 are benefiting from cyclical forces. Materials earnings are benefiting from weak dollar, which is favorable for commodity pricing, along with strong metals and chemicals demand driven by global data center buildout. Financial sector earnings are benefiting from higher capital markets activity and favorable net interest margins.

Several of the industries with negative earnings growth are being impacted by a dominant company. Integrated oil & gas earnings are down double-digits within a single-digit Energy sector EPS decline, and Exxon Mobil is a chief contributor to the negative trend. Pharmaceuticals are the most negative segment within Healthcare, with Merck & Co. a heavy drag on the industry.

According to our model, earnings have grown on a year-over-year basis since mid-2023, typically at a high-single-digit to low-double-digit pace. What has been keeping earnings growing so steadily through geopolitical and macro-economic turbulence? The two-prong answer is revenue growth and margin expansion.

From a mid-single-digit rate in recent years, annual revenue growth has accelerated, and for the 1Q26 EPS season sales growth has been averaging just under 10%. A few points of that may be attributable to companies passing on tariff costs. If companies pile higher fuel costs on already strained customers, that could be a problem down the road. For now, higher revenues are supporting and enabling margin expansion.

On that topic, net profit margin (on a continuing-operations basis) is running at least a point above the long-term average of 12.0%-12.5%. In addition to the higher-volume leverage that comes with above-average revenue growth, margin expansion partly reflects the best earnings growth coming from some of the highest-margined sectors, such as Information Technology.

Still, margins are better across the board. All companies across all sectors have been through a lot in recent years: the COVID-19 pandemic and shift to blended home/company workspaces; the supply-chain crisis; inflation that peaked at 40-year highs; contested elections; tariffs; and war and energy shocks in Europe. Along the way, companies have

learned how to run leaner, source raw materials optimally, and (wherever possible) turn fixed costs into variable costs. The lessons learned have enabled companies to expand margins in difficult times. That is not to say that companies can seamlessly absorb the current oil shock from the Iran war, which threatens to reach record levels. But investors can be confident that managements are planning mitigation strategies even as the situation unfolds.

Up to one half of S&P 500 constituent companies, including most of the Magnificent 7 and multiple mega-caps across all sectors, will report calendar 1Q26 results in the two trading weeks beginning April 27 and May 4. We are not looking for a major change in the tendencies recorded so far: mid-teens EPS growth, higher-than-average percentage of companies beating estimates, and a much higher-than-average magnitude of the beat against expectations. In all, we look for a positive earnings season and one that perhaps provides reassurance amid the ongoing war narrative.

### Conclusion

The S&P 500, which declined 4.6% in the first quarter, was up 9.2% for the second quarter to date as of the close of trading on 4/24/26. Balancing the 2Q surge with first-quarter decline, the S&P 500 was up 4.1% for the 2026 year as trading opened on 4/27/26 (and as the busiest two weeks of earnings season were getting underway). Sector performance is not lining up exactly with EPS performance for the year to date, but it rarely does. Still, in the current quarter, Information Technology has the best earnings growth and is indeed one of the best performers; and Energy is the worst performer and the worst sector for earnings.

The U.S. stock market and stocks worldwide are being whipsawed by daily and sometimes hourly news on the willingness or unwillingness of the U.S. and Iran (and Israel) to come to the same table, much less craft a lasting peace. We'll leave that speculation to the politicians and pundits. What we do know and expect is that companies are proactively managing the oil cost crisis, weighing how much or how little of their higher energy costs to pass onto customers, and looking to find offsets to this margin negative. We also know that companies can draw on many positives in the operating environment and in their own operations to keep EPS moving forward briskly amid this newest set of challenges.

Jim Kelleher, CFA,  
Director of Research

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# KEY ECONOMIC FORECASTS

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- The \$31 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in AI and outsized spending by wealthy households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- The war in Iran is affecting millions of lives. Oil supply disruptions are a risk to affordability. We recently raised our 2026 oil price forecast to \$75 per barrel from \$60.
- The U.S. economy has become more resilient, more diversified and less oil dependent, but it is managing additional supply headwinds from tariffs and reduced immigration. This triumvirate could raise inflation, slow growth, and complicate Fed policy. Tax benefits and AI should help the economy.
- A simple rule of thumb: National gasoline prices above \$4.00 begin to hurt consumer spending.
- We are monitoring financial conditions and high-frequency indicators including Nowcasts and weekly jobless claims. We recently reduced our 2026 forecast for GDP growth to 2.1% from 2.3%.
- 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 60% 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 slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies and economic resilience.
- Gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached a record above \$5,000 an ounce. We expect gold to trade in a range of \$4,000 - \$6,000 in 2026.
- Despite economic-and-policy “uncertainty,” the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is well below the average of 9.2% since 1949. Unemployment is low but an energy-driven jump in the March CPI to 3.3% raised the Index to 7.6%.
- What could go right? Big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, inflation expectations remaining anchored, and ongoing innovation.
- Risks: Elevated Inflation, high fuel prices, weak housing market, low income consumers are struggling, spending by affluent may depend 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
28-Apr	Consumer Confidence	April	92.2	91.0	90.0	92.8
29-Apr	Durable Goods Orders	March	7.5%	-9.0%	NA	2.8%
	Housing Starts	March	1,356K	1,400K	1,410K	1,502K
30-Apr	GDP Annualized QoQ	1Q "Advance"	0.5%	2.0%	2.3%	NA
	GDP Price Index	1Q "Advance"	3.7%	3.9%	NA	NA
	PCE Deflator	March	2.8%	3.6%	3.5%	NA
	PCE Core Deflator	March	3.0%	3.1%	3.2%	NA
	Personal Income	March	3.7%	3.4%	NA	NA
	Personal Spending	March	5.3%	5.2%	NA	NA
	Leading Index	February	-0.1%	-0.2%	-0.1%	NA
1-May	ISM Manufacturing	April	52.7	52.5	52.9	NA
	ISM New Orders	April	53.5	53.2	NA	NA
4-May	Factory Orders	March	3.7%	2.2%	NA	NA
5-May	ISM Services Index	April	54.0	53.0	54.0	NA
	Trade Balance	March	-\$57.3 Bln.	-\$60.4 Bln.	NA	NA
	New Home Sales	February	587K	600K	NA	NA
6-May	Total Vehicle Sales	March	16.3 Mln.	16.0 Mln.	NA	NA
7-May	Nonfarm Productivity	1Q	1.8%	2.0%	NA	NA
	Unit Labor Costs	1Q	4.4%	3.5%	NA	NA
	Construction Spending	March	1.0%	0.8%	NA	NA
8-May	Nonfarm Payrolls	April	178K	125K	100K	NA
	Unemployment Rate	April	4.3%	4.3%	4.4%	NA
	Average Weekly Hours	April	34.2	34.2	NA	NA
	Average Hourly Earnings	April	3.5%	3.6%	NA	NA
	Wholesale Inventories	March	1.8%	1.4%	NA	NA
	U. Michigan Sentiment	April	49.8	50.0	NA	NA

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