



## ARGUS ECONOMIC COMMENTARY

June 1, 2026

### Earnings Push Stocks, Despite Inflation and War

The Northeastern U.S. was blanketed with rain over the Memorial Day weekend, a gloom aligned with consumers' moods as they filled the gas tank for family getaways. April inflation data released in mid-May combined with soaring market interest rates to stall the stock market advance briefly. That added to anxiety for the high-income earners who are reliant on rising asset values and who have been carrying consumer spending. And yet, investors ultimately treated the modest market dip as another buyable opportunity, pushing stocks to fresh all-time highs entering the final trading week of May.

The White House signaled another possible halt to the war with Iran, but the on-again, off-again peace process seems to have little to do with market optimism. The spectacular and AI-infused calendar 1Q26 earnings season appears to be what has driven the stock market to new highs -- and analysts and economists are counting on exceptionally strong earnings ahead. We are raising our 2026 and 2027 forecasts for S&P 500 earnings from continuing operations -- and those higher estimates are helping keep valuations reasonable in a surprisingly upbeat market environment.

#### Off-the-Charts Calendar 1Q26 Earnings Season

Earning season for the calendar first quarter of 2026 is now largely over, and can formally and officially be declared "a doozy." Heading into the (partial) final trading week of May, and with 95% of S&P 500 constituent companies having reported results, first-quarter 2026 earnings are up in the range of 29%-30% from the year-earlier quarter. That range of estimates is based on the average of data reported by the major earnings aggregators (Bloomberg, FactSet, and Refinitiv) and reflects slightly different baselines and recording conventions. Earnings growth is typically calcu-

lated on a blended basis that captures both actual numbers for companies that have reported as well as estimates for companies yet to report. With just a handful of retailers and technology companies yet to report, the current tally is likely be the final tally.

Earnings growth for the 1Q26 was the highest since 4Q21, a period in which economic activity was beginning to accelerate following COVID-19 shutdowns. Earnings expectations were healthy heading into the 1Q26 EPS season, running in the 13% range as of the beginning of April. But actual results have exceeded expectations in multiple ways. Of the companies reporting positive earnings growth for the quarter, about 85% have reported results that were above consensus expectations. That is meaningfully higher than the long-term range of 75%-80%.

The biggest outlier in this earnings season is the magnitude of the beat against expectations. Companies that exceeded calendar 1Q26 EPS expectations did so in mid-teen percentages, compared to an historical beat against expectations is in the 5%-7% range. The earnings beat was influenced by Magnificent 7 earnings. Early in May, we pointed out that three companies -- Amazon, Alphabet, and Meta Platforms -- experienced huge one-time gains totaling \$65 billion. These three companies only offer GAAP results. On May 20, Nvidia posted GAAP results that included a \$15.9 billion one-time unrealized gain from non-marketable equity securities, bringing the Mag 7 contribution from one-time gains to more than \$80 billion.

Including the Mag 7 contribution, S&P 500 earnings topped expectations by a far-above-average 16%-plus. But even backing out that contribution, the EPS beat was well above average. Spending on AI has gone from a curiosity three

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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years ago to an imperative now that inference and agentic AI are available at the enterprise level. Managements believe they risk being left behind by competitors if they do not invest immediately. That is benefiting companies (across a range of sectors and industries) who supply the necessary infrastructure, software, and services for the AI revolution. Like earnings growth, spending on AI is also off the charts. And investors appear willing to grant companies a grace period before those investments are expected to lead to monetization.

At the sector level, the best calendar 1Q26 earnings performance came from Information Technology, which pulled ahead of Communication Services based on Nvidia's record results. First-quarter 2026 earnings for Information Technology increased over 50%. Semiconductors & semiconductor capital equipment reported the strongest growth within IT, but all IT industries -- including the beaten-up software segment -- reported double-digit growth. In addition to exceptional topline momentum, the IT sector overall has below-average fixed costs and higher-than-average revenue per employee, leading to higher-than-average gross and operating margins. Below the operating line, tech 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.

Communication Services earnings growth, including one-time gains from Alphabet and Meta Platforms, nearly reached 50% in 1Q26. The interactive media & services giants benefit from many of the factors aiding IT EPS growth: volume leverage on rapid revenue growth, a high percentage of variable costs, high revenue per employee, and relatively lower debt balances.

Materials reported surprisingly strong 40%-plus earnings growth, as miners race to extract gold and high-value metals as a hedge against global economic uncertainty. Materials earnings were also aided by weak U.S. dollar, which inversely benefits the value of commodities priced in dollars.

Aided by one-time gains from Amazon and Ford, Consumer Discretionary had the fourth-best EPS growth for the first quarter. Other sectors with strong earnings growth in 1Q26 are benefiting from cyclical forces. Financial sector earnings are benefiting from higher capital markets activity and favorable net interest margins. Industrial earnings are benefiting as constituent companies support AI data center build-outs with solutions for power, HVAC, electrical infrastructure, and more. Utilities, the eighth and final sector to grow 1Q26 EPS in double-digit percentages, is similarly supporting AI build-outs while winning regulatory rate support.

According to our model, earnings have grown on a year-over-year basis since mid-2023, typically at a high-sin-

gle-digit to low-double-digit pace. What has been keeping earnings growing so steadily in the face of inflation, macro-economic pressures, and geopolitical 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 was about 11%.

Net profit margin is running at least a point above the long-term average of 12.0%-12.5%. Margin expansion partly reflects the best earnings growth coming from high-margined sectors such as Information Technology. All companies across all sectors have been through a lot in recent years: the COVID-19 pandemic, the supply-chain crisis, inflation at 40-year highs, tariffs, and war and energy shocks. Along the way, companies have learned how to run leaner, source raw materials optimally, and (wherever possible) turn fixed costs into variable costs. We believe the strong margin performance will carry beyond the first quarter of 2026.

### Increased Earnings Estimates for 2026 and 2027

Heading into 1Q26 earnings season, our estimates for S&P 500 continuing-operations earnings were \$315 per share for 2026 and \$363 per share for 2027. We have now adjusted those EPS forecasts to account for the overall level of earnings acceleration across much of the broad economy related to AI investments. We are factoring in the extraordinary 1Q26 non-recurring gains from the Mag 7 giants, which raise the baseline for future growth. Companies increasingly are suing for refunds on tariffs levied under the International Emergency Economic Powers Act (IEEPA), and those refunds could favorably impact 2H26 earnings. We also are keeping an eye on potential impacts from the war with Iran, although it is difficult to factor in a fluid situation in which risks of escalation are balanced by reports of close-to-the-finish-line negotiations.

For 2026, we have raised quarterly EPS growth expectations for most sectors. We now expect earnings for Information Technology, the "picks & shovels" sector for the AI gold rush, to grow at a high-30% to low-40% pace in 2026. We are modeling annual EPS growth exceeding 20% for Communication Services, Energy, Materials, and Industrial. We are also now modeling double-digit growth for the Consumer Discretionary (Amazon and Tesla), Financial, and Utilities sectors. In total, we have raised our forecast for S&P 500 earnings from continuing-operations to \$340 per share for 2026 from a prior \$315. Our new estimate assumes 24.8% growth in continuing operations earnings from 2025.

We have modestly increased our 2027 growth expectations for several of the fastest-growing sectors, including Information Technology, Communication Services, Ma-

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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terials, and Industrial. We are assuming some carryover momentum in sectors sensitive to AI investment, including Consumer Discretionary and Utilities. Energy earnings are likely to remain elevated in 2027, given the extended period required to recover from the shutdown in Gulf oil shipments and barring a total collapse in oil prices. We are also modeling that the long-struggling Healthcare sector will return to something like normal earnings growth next year.

Mainly, our 2027 estimate is going up due to the much higher baseline for 2026 EPS. Altogether, we have raised our 2027 forecast for S&P 500 earnings from continuing-operations to \$390 per share from a prior \$363. Our new estimate assumes 14.5% growth in continuing operations earnings from 2026.

### Conclusion

In our base case 2026 economic and market outlook issued in December 2025, we forecast monthly non-farm payrolls growth in the 50,000 range, S&P 500 continuing operations earnings growth in low-double-digit percentages, and headline inflation moderating to the 2.5% range by year-end. Based on those forecasts, we set a base case for GDP growth in the mid-2% range and stock market appreciation of 5%-10%.

With mid-year 2026 not far off, our base-case forecast is mostly intact. But the underpinnings of our forecast have changed meaningfully. Inflation, as expressed in April CPI and PPI, is heading higher due to the energy shocks from the war with Iran. The jobs economy is proving not just resilient but appears to be gaining momentum as the AI revolution broadens from hyperscalers to enterprise, sovereign, neoclouds, and other customers. The biggest support for our base case, as discussed above, is the strong earnings outlook for the largest U.S. corporations.

We continue to model mid-2% GDP growth for 2026. Our conservative GDP forecast takes into account a number of variables ahead. These include the outcome of the war with Iran and the related Israeli-Lebanese conflict, the impact of tariffs under section 122 of the Trade Act of 1974 (set to expire in July), and other factors.

We continue to model a 5%-10% advance for the S&P 500 in 2026. While the S&P 500 has nearly reached that target for the year, uncertainties abound, including the U.S. mid-term elections in November 2026.

The biggest positive from surging earnings growth is that earnings have held valuations in check in a soaring stock market. In our view, this gives stocks room to run, perhaps beyond our conservative 5%-10% target for 2026.

Jim Kelleher, CFA,  
Director of Research

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# KEY ECONOMIC FORECASTS

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- The \$32 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in Artificial Intelligence. Nvidia CFO Colette Kress estimated, on May 20, that AI infrastructure spending is on track to reach \$3 - \$4 trillion annually by the end of this decade.
- 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 \$83 per barrel from \$75.
- 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 have helped the economy.
- A simple rule of thumb: National gasoline prices above \$4.00 begin to hurt consumer spending. The current price of \$4.50 would be a concern if it persists into the back-to-school shopping season.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate is below the average of 9.2% since 1949 but it has risen to 8.1% from 6.9% in January. Unemployment is low at 4.3% but the CPI rose to 3.8% in April from 2.4% in January.
- We are monitoring financial conditions and high-frequency indicators such as weekly jobless claims. We recently affirmed our 2026 forecast for GDP growth of 2.1% and our 2027 estimate for 2.0%.
- Argus expects S&P 500 EPS to rise almost 25% to \$340 in 2026 and increase about 15% to \$390 in 2027. EPS is helped by an increase in operating margins to about 18.8% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 64% 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.
- What could go right? Low unemployment, 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, a rising 10-year Treasury yield, a weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains.

# CURRENT ECONOMIC RELEASES

## Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual	
21-May	Housing Starts	April	1,507K	1,350K	1,409K	1,465K	
22-May	Leading Index	April	-0.6	-0.4	-0.30	0.1	
26-May	Consumer Confidence	May	93.8	92.0	92.5	93.1	
28-May	GDP Annualized QoQ	1Q "Second"	2.0%	2.0%	2.0%	NA	
	GDP Price Index	1Q "Second"	3.6%	3.6%	3.6%	NA	
	PCE Deflator	April	3.5%	3.8%	3.9%	NA	
	PCE Core Deflator	April	3.2%	3.3%	3.3%	NA	
	Personal Income	April	3.7%	3.5%	NA	NA	
	Personal Spending	April	5.7%	5.8%	NA	NA	
	Durable Goods Orders	April	2.8%	10.0%	NA	NA	
	New Home Sales	April	682K	665K	655K	NA	
	1-Jun	ISM Manufacturing	May	52.7	53.0	NA	NA
		ISM New Orders	May	54.1	54.4	NA	NA
Construction Spending		April	1.6%	1.9%	NA	NA	
3-Jun	ISM Services Index	May	53.6	54.0	NA	NA	
	Factory Orders	April	2.1%	8.0%	NA	NA	
5-Jun	Nonfarm Payrolls	May	115K	125K	NA	NA	
	Unemployment Rate	May	4.3%	4.3%	NA	NA	
	Average Weekly Hours	May	34.3	34.3	NA	NA	
	Average Hourly Earnings	May	3.6%	3.5%	NA	NA	

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