On the Minds of Investors

What's behind the surge in global earnings growth?

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Despite two ongoing military conflicts and moderate global economic growth, global equities are having another stellar year. Year-to-date, international equities are up 13.1%, outperforming by 220bps the already strong U.S. equity returns. Emerging markets (EM) and Japan have been leading the charge, with the U.S. and Eurozone not far behind. Drilling down into its drivers, this year's returns have been led almost entirely by earnings. For international equities, earnings expectations have been revised up by 22%pts since the start of the year and dividends have increased 2%, while multiples have contracted by 9% and currencies have weakened by 2% versus the U.S. dollar. While the magnitude differs, this dynamic holds true across the major regions. What's behind this surge in earnings and earnings expectations? The AI-related capex boom and higher energy prices are having an outsized contribution, but other sectors are also contributing nicely given secular tailwinds.

For 2026, analysts are now expecting earnings growth of 54% in EM, 24% in the U.S., 13% in the Eurozone and 12% in Japan (in U.S. dollars). Five main themes are behind this strong corporate showing:

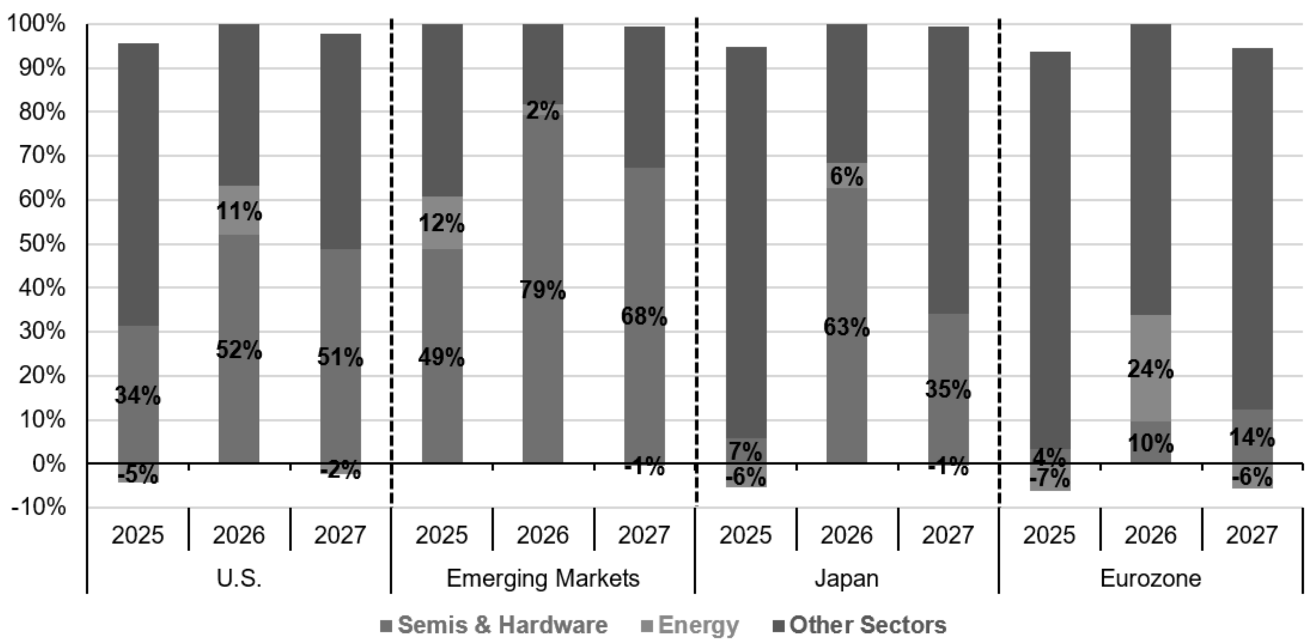
1. **AI-related capex boom:** Hyperscalers' expected $758bn of capex spend this year is showing up across the AI supply chain. Combined with capacity constraints, semiconductors and hardware earnings growth has surged. This has been a powerful tailwind, representing about 80% of emerging market earnings growth, 60% of Japan earnings growth, and 50% of U.S. earnings growth this year. Given ongoing capacity constraints, this large tailwind is expected to continue into next year.

2. **Higher energy prices**: Global oil prices increased on average 10% in 1Q and 44% in 2Q because of the Iran War-related supply disruptions. Energy sector earnings growth has gone from a drag to a boost to overall earnings, representing 25% of Eurozone earnings growth and 10% of U.S. earnings growth this year. Unlike the AI theme, this boost is unlikely to hold for long.
3. **Weaker currencies:** Currencies in developed markets weakened nearly 3% versus the U.S. dollar in the first half of the year, a tailwind for large cap exporters' earnings growth, especially in Europe and Japan. This boost is also likely to fade as the year goes on.
4. **Domestic economic resilience:** Not to be overlooked is the strength in earnings growth outside of the AI capex enablers and the energy sector. Other sectors are representing about a third of earnings growth in the U.S. and Japan and two thirds in the Eurozone. Despite the many headwinds, global economic growth continues to be resilient and structural tailwinds remain. The environment remains favorable for these regions' banks (positive and upward sloping curves and growing private loans) and industrials (stimulus towards defense, infrastructure and power grid upgrades).
5. **Corporate governance changes**: Ongoing corporate governance efforts focused on improving company return-on-equity continue to bear fruit, especially in Japan.

Persistently elevated geopolitical tensions and modest economic growth are set to persist. That does not mean that global earnings growth cannot continue to deliver outsized growth this year and next. This is true not only in the U.S., but also broadly across international markets which are now being supported by large secular rather than cyclical themes.

For some regions, AI capex and higher energy prices are behind exceptional earnings growth

As a % of total earnings growth by region, USD terms



Source: Standard & Poor's, MSCI, FactSet, J.P. Morgan Asset Management.

Data are as of July 15, 2026.

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