



Within equities, CIO recommends investors seize the opportunity offered by AI—in the US and beyond—while also looking for quality growth in Europe and Asia. (UBS)

# Earnings growth should broaden out beyond the top tech companies

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**Investor attention in recent weeks was dominated by the twists and turns of the US election campaign along with recurring discussion around the potential timing of the Federal Reserve's rate cuts. But the focus could shift back toward corporate fundamentals this week, with more than 20% of S&P 500 companies by market capitalization set to report second quarter earnings, including Alphabet, Tesla, IBM, and Visa.**

The US equity rally stalled last week with a 2.0% fall, the largest decline since April. However, the S&P 500 is still up 16.7% year to date. Whether the market can hold onto recent gains and move even higher will partly hinge on the strength of the earnings season. We see several reasons for confidence.

**Early indications are in line with our expectation for the fastest profit growth in more than two years.** While only around 14% of companies by value have currently reported, earnings per share for the S&P 500 seem on track to grow 10–12%—in line with our expectations. Roughly 60% of companies are beating sales estimates and nearly 75% are beating earnings per share estimates. The median company is beating EPS by 2.5%, slightly lower than recent quarters and suggesting some softening in earnings momentum at the margin.

As usual, the banks and financial services firms have been among the first to announce results, and the outcome has been consistent with healthy consumer spending along with strength in capital markets.

**Spending on AI should remain a source of strength, based on recent signals from global chipmakers.** The world's largest contract chip manufacturer expects AI chip demand to exceed supply until 2026 (from 2025 previously), while one of the world's largest semi-cap equipment companies indicated strong demand into 2025. And Blackstone CEO Stephen Schwarzman recently said he expects AI demand will lead to data-center-related investment of USD 1 trillion in the US and another USD 1 trillion outside the US over the next five years.

**Earnings growth should also broaden out beyond the top tech companies.** Recently, the momentum on earnings has come from the Magnificent 7, the top tech and growth stocks, with profits stagnant or declining overall for the remaining 493 companies in the S&P 500. The second quarter is likely to be a turning point, in our view, with positive earnings-per-share growth from the S&P 493 for the first time since 2022. In our view, a broader revival would build a stronger foundation for the equity rally—though earnings growth for the Magnificent 7 is likely to continue to outpace the rest of the market this year.

So without taking any single-name views, we expect the earnings season to bolster confidence in the equity market. While markets could be choppy near term, after a period in which investor positioning had become overextended, we believe fundamentals remain strong. We expect earnings growth of 11% overall this year and 8% for 2025. This supports our base case that the S&P will end the year around 5,900, higher than the current 5,564, as of the close on 22 June. Within equities, we recommend investors seize the opportunity offered by AI—in the US and beyond—while also looking for quality growth in Europe and Asia.

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Original report - [Focus shifts back to US earnings, 23 July 2024.](#)

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