

# 4Q25

## Earnings Season: What to expect in the coming weeks?



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The fourth quarter 2025 earnings season has just started with US banks. What should we expect? Where are the pockets of strengths and weaknesses and what are earnings expectations for 2026?

## Growth: robust and broadening

The fourth quarter 2025 earnings season has officially commenced with the major US banks, providing a first look at what is expected to be a period of robust and more evenly distributed growth. For the quarter in aggregate, S&P 500 companies are projected to grow earnings by 9% year over year. While this is strong, European equities are finally showing signs of life with 5% growth, and Emerging Markets have emerged as the standout performer with a 21% increase. This surge in Emerging Markets is primarily driven by the Asian AI supply chain, which is seeing immense demand for hardware components.

Investors are keeping a close watch on several key themes, most notably the pace of AI investment and its transition into tangible corporate adoption. There is also significant focus on the US consumer spending trend, particularly the ongoing divide between high-income resilience and low-income struggles. Additionally, the market is evaluating credit risks within the banking sector and checking whether the rotation into Industrials, Materials, and Healthcare seen throughout 2025 still has momentum.

In the United States, the 9% earnings growth estimate for the quarter appears achievable as economic activity remains supportive of both sales volumes and pricing. This projection is actually somewhat conservative when compared to the full-year 2025 growth rate of 12%. Because net income margin assumptions for this quarter are relatively low, there is a distinct possibility for positive surprises. While revisions for the middle of last year were aggressive, the updates for this current quarter have been more gradual but consistently positive.

### Post Liberation Day deeply negative revisions, estimates have moved up again



Source: Bloomberg

The technology sector continues to lead the market, supported by persistent AI demand. Investors are now shifting their attention toward corporate guidance for 2026 capital expenditure and potential delays caused by bottlenecks in data centre construction. Despite earlier concerns regarding an AI bubble, recent management commentary indicates that companies involved in data centre buildouts are seeing even stronger visibility and demand. Current estimates suggest that the main AI companies will grow their capital spending by 35% in the coming year, reaching nearly \$585bn dollars. Nvidia has also signalled that its backlog for 2026 remains exceptionally strong.

The largest technology companies, often called the Magnificent Seven, are expected to outpace the broader market with average growth of 22%. However, there is a wide range of performances within this group, with Nvidia expected to show the most strength in the quarter and Tesla continuing to show weakness. Overall, the technology sector is maintaining a solid earnings trajectory of 29% for this quarter, though this is expected to normalise to a high-teens rate as we move through 2026.

Earnings growth for financials and banks is expected to slow to 12% this quarter, following a very strong third quarter that was boosted by high levels of corporate trading and activity. Similarly, the consumer discretionary and retail sectors are under scrutiny as investors look for signs of a reacceleration. Despite government support programs, consumer cyclical companies are expected to report a slight contraction in earnings for the quarter as the high-low income divide persists.

Industrials are expected to maintain a steady earnings growth rate of 5%, though trade tariffs continue to act as a drag on the sector. Energy and Materials are seeing more favourable conditions, with Energy remaining flat thanks to supportive refining margins and Materials growing by 11%. This is a significant turn for the Materials sector, which is posting its second consecutive quarter of growth after three years of stagnation.

The situation in Europe is notably different as earnings growth is finally resuming. Banks in the region are performing well and are expected to continue returning capital to shareholders. While cyclical sectors like luxury goods and automobiles have struggled, they are expected to hit their lowest point now and begin recovering throughout 2026. This recovery will likely be aided by new stimulus measures in Germany which will start acting as a tailwind for the broader European economy.

Emerging markets remain the earnings growth leaders due to the critical role of Taiwan and Korea in the AI supply chain, specifically regarding GPUs and memory chips. Furthermore, the rise in commodity prices is providing a boost to countries like Brazil.

## 2026 earnings outlook and revisions

Looking toward 2026, the outlook remains positive. US earnings growth is expected to accelerate to over 14% for the year as growth becomes more broad-based across different sectors. Europe is expected to recover as it digests the impact of tariffs and as consumer demand stabilises. Emerging markets should continue to benefit from AI deployment while domestic demand in China reaches a trough.

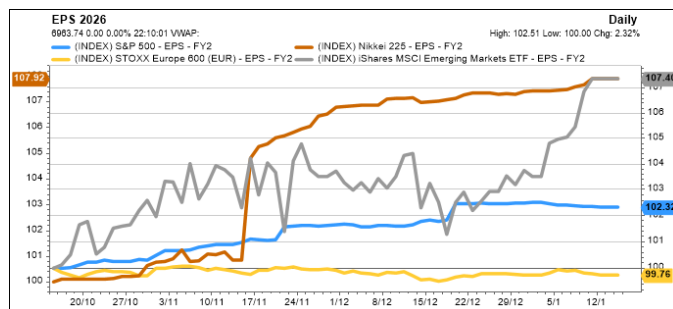
Earnings are prone to revisions, but the current outlook remains positive:

Regions	EPS 2025	Gr yoy	EPS 2026	Gr yoy
S&P 500	268.9	12.4%	308.7	14.8%
STOXX Europe 600	35.1	-0.2%	39.2	11.6%
iShares MSCI China ETF	4.4	0.8%	4.9	11.4%
iShares MSCI Emerging Markets ETF	3.5	15.0%	4.3	21.5%
iShares MSCI Japan ETF	4.7	4.9%	5.2	8.7%

Source: Factset

Source: Factset

Over the past few months, earnings revisions for 2026 earnings have been mostly positive, particularly in Japan and Emerging Markets:



Source: Factset

## To conclude

In conclusion, the current earnings season should confirm the ongoing robust demand for AI and the early signs of a broader economic recovery. As earnings growth remains strong and is expected to accelerate into 2026, it provides necessary support for current market valuations. As governments globally increase fiscal support, we remain in a reflationary environment that is generally positive for corporate earnings, making equities a key asset class for the year ahead.

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