

Global operating margins at all-time highs — and accelerating

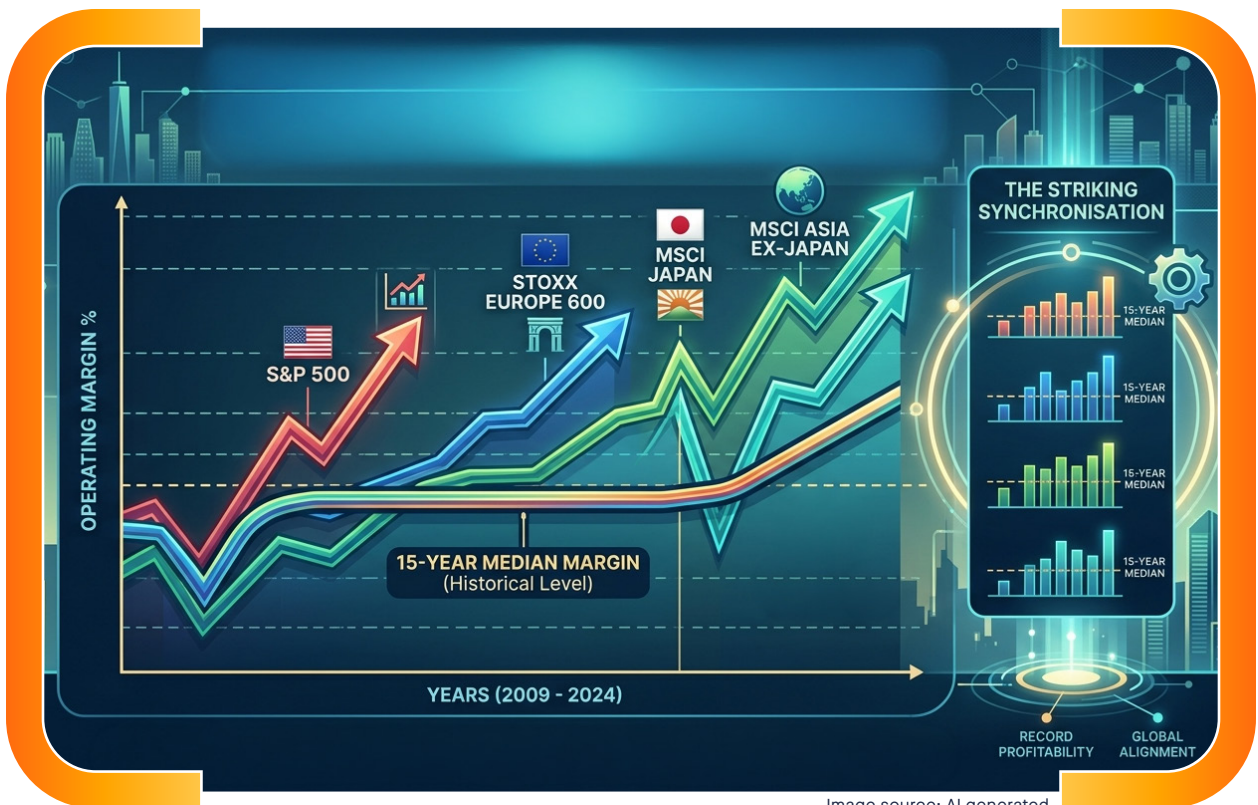
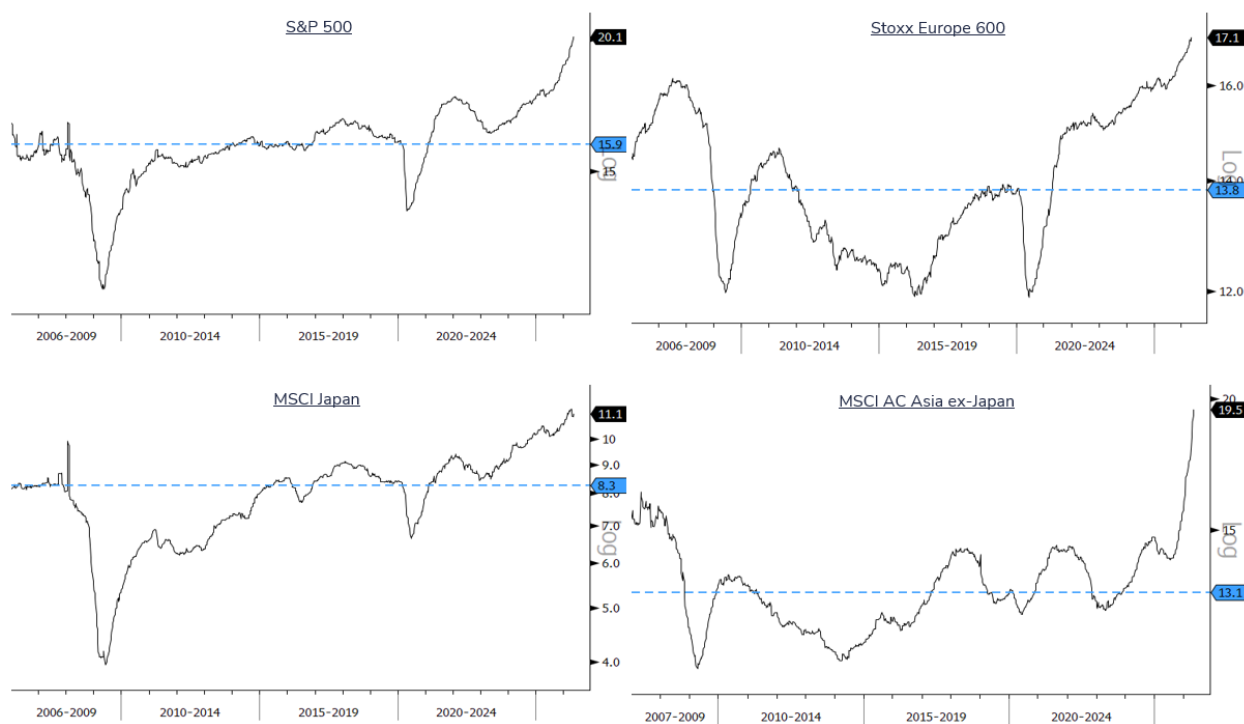


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Forward operating margins have reached new all-time highs across all major regions and continue to accelerate, pointing to the emergence of a structurally higher profitability regime rather than a temporary late-cycle rebound. What is particularly striking is the synchronisation of the move: the S&P 500, STOXX Europe 600, MSCI Japan, and MSCI Asia ex-Japan are all trading materially above their 15-year median margin levels despite very different macroeconomic, sector, and policy environments. This suggests that the current margin expansion is being driven by broad structural forces rather than by a purely cyclical recovery.

Chart : Forward 12-Month Operating Margins - All regions are at new all-time highs, with margins continuing to accelerate



Source: Bloomberg

AI matters — but it is not the only reason margins are rising

The acceleration in global operating margins reflects several structural drivers reinforcing each other across regions and sectors.

- ▶ **Pricing power:** Companies aggressively raised prices during the 2021–2023 inflation shock and absorbed volume weakness rather than reversing them, creating a structurally wider price/cost spread. While renewed Middle East tensions and Red Sea disruptions are again pushing energy and freight costs higher, margins have continued to reach new highs globally, confirming that the pressure remains concentrated in physical-supply-chain sectors rather than systemic across the broader market.
- ▶ **Technology & AI monetisation:** Software and fabless semiconductors (those that outsourced manufacturing) benefit from near-zero marginal costs, high switching costs, and powerful operating leverage. This is driving structurally higher profitability across US hyperscalers, European technology leaders, and Asia’s semiconductor supply chain.
- ▶ **AI-driven productivity & restructuring:** After the 2022–2023 labour cost shock, companies cut headcount and stepped up automation investment. Early signals

point to AI supporting revenue per employee and margins in selected pockets of Technology, Media, Financials, and Professional Services, but aggregate evidence remains limited and hard to disentangle from broader cost discipline. A credible emerging trend to monitor, not yet an established driver embedded in fundamentals.

- ▶ **The physical infrastructure multiplier:** The AI build-out is generating a second-order margin expansion wave well beyond the technology sector. Power generation, electrical equipment, cooling systems, fibre, and construction companies are reporting multi-year backlogs, locked-in pricing, and strong revenue visibility, creating unusually durable demand-driven margin expansion across parts of the industrial economy.
- ▶ **Rate normalisation:** Higher interest rates restored profitability in the Financial sector after a decade of zero-rate compression, particularly in European banks where net interest margins normalised significantly.
- ▶ **Japan governance reform:** In Japan, margin expansion is being driven by corporate governance reforms, shareholder pressure, and a structural shift toward profitability and return-on-equity discipline — one of the clearest and longest-duration structural drivers in the global margin landscape.

Most importantly, margins are not only high, they are still accelerating. Leaner cost bases, resilient pricing, AI-related productivity gains, and infrastructure demand linked to the AI cycle continue to support further operating

leverage globally, although the durability of the expansion is becoming increasingly uneven across sectors and regions.

Operating Margin by Index

	S&P 500	STOXX 600	Swiss SPI	MSCI JAPAN	MSCI AC ASIA Ex-JP
Forward Operating Margin	20.1%	17.1%	18.7%	11.1%	19.5%
Margin at	New 15-Year Highs	New 15-Year Highs	New 15-Year Highs	New 15-Year Highs	New 15-Year Highs
Above 15-Year Median Margin	22.2%	33.3%	15.5%	34.9%	52.7%
Momentum	Accelerating	Accelerating	Accelerating	Accelerating	Accelerating

Source: Bloomberg, Syz calculations

Regional breakdown

► **S&P 500 — 20.1% | +22.5% above 15-year median:**

The index is printing its highest forward operating margin in the 20-year series. Information Technology at 39.7% remains the main driver, nearly 50% above its 15-year median, while Communication Services (28%) and Industrials (15%) also outperform history. Health Care and Consumer Staples remain the main laggards. Importantly, the improvement is broad-based, with 9 sectors out of 11 showing accelerating margins.

► **STOXX Europe 600 — 17.1% | +26.3% above 15-year median:** Europe is arguably the bigger surprise. Banks (+49%), Utilities (+16.3%), and Technology (+22.5%) are all at or near record profitability levels, benefiting from rate normalisation, energy transition capex, and structural technology re-rating. Autos & Parts and Chemicals remain below historical norms. Despite only 4 sectors at new all-time highs, 13 industries out of 20 show accelerating margins.

► **Swiss SPI — 18.7% | +15.4% above long-term median:** Swiss operating margins are at new all-time highs and continue to improve despite the significant appreciation of the Swiss franc. Switzerland's structurally lower

inflation environment has partially offset currency headwinds relative to European and US competitors, helping preserve pricing competitiveness and support resilient corporate profitability.

► **MSCI Japan — 11.1% | +25.6% above 15-year median:** Japan's governance reform cycle is increasingly visible in corporate profitability. Information Technology margins are +138% above their 15-year median, while Utilities and Industrials also remain strong. Overall, 7 sectors out of 11 continue to show accelerating margins.

► **MSCI Asia ex-Japan — 19.5% | +48.5% above 15-year median:** Asia ex-Japan shows the largest premium to history among all regions. Information Technology at 28.5% is +197% above its 15-year median, largely driven by Taiwan Semiconductor Manufacturing Company, roughly 16% of the index, and the broader semiconductor supply chain benefiting from the AI infrastructure build-out. Consumer Discretionary remains weak due to soft Chinese domestic demand. Despite only 2 sectors at new all-time highs, 6 sectors out of 11 continue to show accelerating margins.

Table 1: Forward Operating Margins by S&P 500 Sector

Information Technology shows the strongest acceleration, but the improvement is broad-based across sectors. Nine out of eleven sectors are experiencing accelerating margins, while six are at new 15-year highs

NAME	Last	Over the Last 3 Years	New Highs	% Above the 15-Year Median
S&P 500 INDEX	20.1%	Accelerating	New 15-Year Highs	25.3%
S&P 500 INFO TECH INDEX	39.8%	Accelerating	New 15-Year Highs	49.5%
S&P 500 FINANCIALS INDEX	27.7%	Accelerating	New 15-Year Highs	20.4%
S&P 500 COMM SVC	27.9%	Accelerating	New 15-Year Highs	34.9%
S&P 500 CONS DISCRET IDX	12.5%	Accelerating	New 15-Year Highs	10.5%
S&P 500 INDUSTRIALS IDX	15.0%	Accelerating	New 15-Year Highs	5.3%
S&P 500 HEALTH CARE IDX	10.7%			-20.7%
S&P 500 CONS STAPLES IDX	9.7%	Accelerating		-3.5%
S&P 500 ENERGY INDEX	16.3%	Accelerating		27.5%
S&P 500 UTILITIES INDEX	24.4%	Accelerating	New 15-Year Highs	12.7%
S&P 500 MATERIALS INDEX	18.7%	Accelerating		20.9%
S&P 500 REAL ESTATE IDX	26.0%			0.6%

Source: Bloomberg, Syz calculations

Risks to the margin outlook

The durability of the current margin expansion is real, broad-based, and increasingly confirmed by Q1 2026 earnings data rather than purely forward-looking expectations. That said, several risks still deserve close monitoring.

- ▶ **Prolonged Middle East conflict:** Rising oil prices and Red Sea shipping disruptions are rebuilding input cost pressure, particularly for Consumer Staples, Chemicals, Industrials, and businesses with complex physical supply chains. A prolonged Middle East conflict could keep energy and freight costs elevated for longer than currently expected by consensus. Importantly, however, margins have continued to reach new highs despite these pressures, suggesting the shock remains sector-specific rather than systemic.
- ▶ **Consumer Weakness:** Consumer Staples and Consumer Discretionary remain the weakest sectors across all major regions, reflecting growing pressure on lower-income consumers after two years of cumulative price increases. However, this weakness is already well identified by markets and largely concentrated in specific segments of the consumer economy rather than across the broader macro backdrop.
- ▶ **AI Overcapacity Risk:** The AI infrastructure cycle remains strongly demand-constrained, with hyperscaler spending, semiconductor demand, and infrastructure backlogs still extending several years forward. The main longer-term risk would be AI-related overcapacity if supply ultimately expands faster than end-demand, particularly across semiconductors and physical AI infrastructure. For now, however, this remains more a medium-term monitoring risk than an immediate cyclical concern.

Conclusion

Global operating margins are at all-time highs, still accelerating, and increasingly confirmed by hard earnings data rather than forward expectations alone. The convergence of pricing power, AI monetisation, productivity gains, Japan governance reform, and the AI-driven infrastructure cycle has created a profitability backdrop with few historical precedents — synchronised across all four major equity regions simultaneously.

While risks remain, particularly around Middle East-related input costs, softer consumer demand, and eventual AI overcapacity, these pressures currently appear contained rather than systemic.

The investment implication therefore remains constructive, but with rising dispersion. The strongest and most durable margin expansion continues to be concentrated in asset-light, AI-exposed, infrastructure-linked, and governance-reformed businesses, where structural drivers remain firmly intact and, in several cases, are still accelerating.

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