

# Special Update

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## S&P 500 Q2 Earnings Report

### Summary

The Q2 2025 earnings season for the S&P 500 has begun with a mixed performance, characterized by a modest year-over-year (YoY) earnings growth rate of approximately 4.8% to 5.6%, the lowest since Q4 2023 (FactSet, 2025a; Wall Street Horizon, 2025). Despite this slowdown, early reports indicate that both the percentage of companies reporting positive earnings surprises and the magnitude of these surprises are above their 10-year averages, suggesting a stronger-than-expected start in some areas (FactSet, 2025b). Revenue growth is projected at 4.4% YoY, marking the 19th consecutive quarter of revenue expansion (FactSet, 2025b). Key sectors such as Technology and Communication Services are driving growth, while Energy and Materials face significant declines. Looking ahead, analysts anticipate earnings growth to rebound in Q3 and Q4 2025, with projections of 7.4% and 6.8%, respectively, supported by stabilizing trade policies and continued strength in technology (FactSet, 2025b). However, macroeconomic uncertainties, including tariff concerns and softening economic indicators, pose risks to these forecasts.

### Current Performance of Q2 2025 S&P 500 Earnings

#### Earnings Growth and Surprises

As of July 18, 2025, approximately 12% of S&P 500 companies have reported their Q2 2025 earnings, with a blended earnings growth rate of 5.6% YoY (MacroSpectrum, 2025). This represents a slowdown from the robust 11.9% growth recorded in Q1 2025 (Roan Capital Partners, 2025). However, early reports suggest a strong start relative to expectations, with both the percentage of companies reporting positive earnings surprises and the magnitude of these surprises exceeding their 10-year averages (FactSet, 2025b).

Historically, over the past decade, actual earnings have exceeded estimates by an average of 6.9%, with 75% of companies beating earnings per share (EPS) estimates (FactSet, 2025c). If this trend continues, the actual earnings growth rate for Q2 2025 could reach 9.5% to 10.5%, significantly higher than the initial estimate of 4.9% at the end of June (FactSet, 2025c).

The Financials sector, a focal point in the early weeks of the earnings season, is expected to report a modest YoY earnings growth rate of 2.4%, with four out of five industries (Consumer Finance, Insurance, Capital Markets, and Financial Services) projected to show growth (FactSet, 2025d). Notable performers include major banks like JPMorgan Chase, Citigroup, and Goldman Sachs, which reported on July 15 and 16, 2025 (Wall Street Horizon, 2025). However, the Banking sub-sector is anticipated to experience a 12% YoY EPS decline, reflecting challenges such as plateauing net interest income and a tepid capital markets recovery (Wall Street Horizon, 2025).

### **Revenue Performance**

The blended revenue growth rate for Q2 2025 stands at 4.4%, up slightly from 4.3% the previous week and 4.2% at the end of Q2 (FactSet, 2025b). If sustained, this will mark the 19th consecutive quarter of revenue growth for the S&P 500. Ten of the eleven sectors are reporting or projected to report YoY revenue growth, with the Information Technology sector leading the pack (FactSet, 2025b). The Energy sector, however, is the only sector expected to report a YoY revenue decline, driven by comparisons to a stronger period of energy prices in the prior year (Wall Street Horizon, 2025).

### **Sector Highlights**

- **Technology and Communication Services:** These sectors are the primary drivers of Q2 earnings growth, with expected YoY growth rates of 18% and 32%, respectively (Charles Schwab, 2025). The "Magnificent 7" companies (e.g., Alphabet, Microsoft, Tesla) are anticipated to contribute significantly to overall index performance, buoyed by strong investment in artificial intelligence (AI) and capital expenditures (RIA, 2025). For instance, Micron Technology reported a significant beat on revenue and earnings, driven by surging demand for AI-related memory chips (Wall Street Horizon, 2025).

- **Financials:** As noted, the sector is expected to grow earnings by 2.4% YoY, with Consumer Finance leading at 23% growth, followed by Insurance at 13% (FactSet, 2025d). However, tariff-related pressures and macroeconomic factors like equity market performance and technology costs are expected to impact Property & Casualty Insurance earnings (FactSet, 2025d).
- **Energy and Materials:** These sectors are significant laggards, with projected YoY earnings declines of 25% and 12%, respectively, reflecting economic weakness and challenging comparisons to the prior year (Charles Schwab, 2025; RIA, 2025).
- **Consumer Discretionary:** Companies like Tesla and Ford have faced downward revisions due to weaker forward guidance, with Tesla reporting a 15.4% YoY EPS decline and an 11% revenue drop (Kiplinger, 2025).

## Key Influences and Challenges

Several factors have influenced the Q2 2025 earnings performance:

- **Tariff Uncertainties:** The expiration of tariff pauses on July 7, 2025, has introduced uncertainty, with analysts estimating that a 5% increase in effective duty rates could reduce EPS growth by 1-2% (RIA, 2025). While pauses are expected to extend into Q3, the lack of finalized trade deals continues to weigh on corporate outlooks (RIA, 2025).
- **Economic Indicators:** The Economic Composite Index, comprising roughly 100 data points, has declined sharply over the past two months, signaling potential earnings risks due to weakening economic activity (RIA, 2025). Personal consumption expenditures (PCE), which account for nearly 70% of economic activity, have also softened, correlating with downward revisions in earnings estimates (RIA, 2025).
- **AI and Technology Investment:** Continued investment in AI and capital expenditures, particularly by the "Magnificent 7," has offset weaknesses in other sectors, supporting overall earnings growth (RIA, 2025).





## Expectations for the Next Few Weeks

### Earnings Calendar and Key Dates

The peak of the Q2 2025 earnings season is expected to occur between July 28 and August 15, 2025, with over 2,000 companies reporting each week (Wall Street Horizon, 2025). August 7 is projected to be the most active day, with 1,269 companies anticipated to release results, though only 49% of earnings dates are confirmed as of July 14, 2025 (Wall Street Horizon, 2025). Key companies to watch include:

- **Technology Giants:** Alphabet, Microsoft, and other "Magnificent 7" companies are expected to report in late July, with strong advertising and AI-driven results potentially acting as catalysts for their shares (Kiplinger, 2025).
- **Consumer Goods and Retail:** Companies like FedEx and Nike, reporting in late July, will provide insights into consumer spending and economic activity (Roan Capital Partners, 2025).
- **Financials:** Additional banks and financial institutions will report throughout late July, offering further clarity on credit quality and capital markets recovery (Wall Street Horizon, 2025).

### Analyst Projections

Analysts project a rebound in earnings growth for Q3 and Q4 2025, with expected YoY growth rates of 7.4% and 6.8%, respectively (FactSet, 2025b). For the full year 2025, analysts predict a robust 9.3% YoY earnings growth (FactSet, 2025b). Key factors influencing these projections include:

- **Resolution of Tariff Concerns:** An expected extension of tariff pauses into Q3 and potential trade deal resolutions could stabilize corporate outlooks (RIA, 2025).
- **Technology Sector Strength:** Continued AI-driven growth and capital expenditures are expected to sustain Technology and Communication Services performance (Charles Schwab, 2025).
- **Economic Recovery:** Analysts anticipate that improving economic conditions, including potential Federal Reserve rate cuts, could support earnings growth in sectors like Financials and Consumer Discretionary (Goldman Sachs, 2025).

## Potential Risks

Despite optimistic projections, several risks could impact earnings over the next few weeks:

- **Earnings Disappointments:** Weaker-than-expected economic data and softening PCE could lead to earnings disappointments, particularly in consumer-driven sectors (RIA, 2025).
- **Market Breadth Concerns:** The S&P 500's forward 12-month P/E ratio of 22.2, above the 5-year average of 19.9, indicates elevated valuations, leaving little room for error (FactSet, 2025b). Narrow market breadth, with the median stock 10% below its 52-week high, suggests potential volatility if earnings underperform (Goldman Sachs, 2025).
- **Policy Uncertainty:** Ongoing trade policy uncertainty and potential tariff impacts could continue to pressure earnings, particularly for goods-related industries (Goldman Sachs, 2025).

## Strategic Implications for Investors

Investors should focus on companies with strong fundamentals and positive guidance, particularly in Technology and Communication Services, which are expected to outperform. Goldman Sachs recommends a balanced sector allocation with an overweight in software, services, materials, utilities, media, entertainment, and real estate (Goldman Sachs, 2025). Companies with high floating-rate debt may also benefit from anticipated Federal Reserve rate cuts (Goldman Sachs, 2025). Monitoring tariff developments and economic indicators like PCE will be critical for navigating potential volatility.

## Conclusion

The Q2 2025 S&P 500 earnings season has started with a modest growth rate but shows signs of resilience, driven by strong performances in Technology and Communication Services. While macroeconomic uncertainties and sector-specific challenges pose risks, the outlook for Q3 and Q4 2025 remains optimistic, with analysts forecasting a rebound in earnings growth. Investors should remain vigilant, focusing on companies with robust earnings beats and positive guidance while staying attuned to evolving trade policies and economic conditions.

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