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Special Update

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Earnings Growth Expectations - Q4 2025

Executive Summary

As of early January 2026, with the Q4 earnings season approaching, analysts anticipate year-over-year (YoY) earnings per share (EPS) growth for S&P 500 companies in the fourth quarter (October-December 2025) to be 8.3%, with a range influenced by recent upward revisions suggesting potential for outperformance. This represents a slowdown from the stronger growth in prior quarters of 2025, attributed to moderating AI-driven momentum, tariff concerns, and sector-specific headwinds like declining commodity prices. However, positive guidance and revisions in key sectors like Information Technology indicate room for beats, potentially pushing aggregate earnings to a new record, up 8.3% from Q4 2024. Information Technology is expected to lead growth at 25.7%, while Consumer Discretionary faces a decline of -3.7%. Overall, revenue growth is projected at 7.6%, supporting stable margins at 12.8%.

Current Consensus Expectations

The consensus for S&P 500 Q4 2025 EPS growth has risen to 8.3% YoY, based on aggregated analyst estimates as of January 3, 2026. This figure implies aggregate index-level earnings of $622.1 billion, with a bottom-up EPS of $70.46. Revenue growth is forecasted at 7.6% YoY, marking broad-based top-line expansion across ten sectors. If realized, this would extend the streak of positive YoY earnings growth to the tenth consecutive quarter, highlighting ongoing corporate strength despite economic uncertainties.

Variations across sources include Nasdaq's early December estimate of 6.9% EPS growth on 7.7% revenues, which has since been revised upward in FactSet data due to positive developments. FactSet projects this growth to establish a new quarterly earnings record, though below the five-year average quarterly growth of 14.9%. Net profit margins are expected to be 12.8%, a slight decrease from Q3 2025's 13.1% but an improvement over Q4 2024's 12.7% and the five-year average of 12.1%. Margin stability reflects cost management, with upside from productivity gains but risks from input cost pressures.

Revisions to Estimates

Q4 2025 estimates have seen net upward revisions since the quarter began. The initial forecast on September 30, 2025, was 7.2% YoY growth, but this has increased to 8.3% by December 31—a 1.1 percentage point rise. The bottom-up EPS estimate rose by 0.4% to $70.46 during this period. Aggregate earnings estimates climbed 1.1% from $615.5 billion to $622.1 billion.

This positive trend is unusual, in contrast with typical declines during quarters: averages of -1.6% over five years, -3.1% over ten years. Key upward drivers include dollar-level earnings increases in Information Technology (+6.2% to $179.2 billion), Financials (+2.0% to $113.0 billion). Offsetting decreases occurred in Utilities (-6.0% to $14.3 billion) and Consumer Staples (-3.5% to $34.6 billion). Only three sectors show higher expected earnings compared to September 30.

Guidance has been optimistic: Of 108 S&P 500 companies issuing Q4 EPS guidance, 46% were positive (above the five-year average of 42%), with Information Technology contributing significantly.

Sector Breakdown

Nine of the eleven S&P 500 sectors are projected to post YoY earnings growth in Q4 2025, with Information Technology dominating. The table below summarizes expected growth rates, key contributors, and notable sub-industry trends:

Sector	Expected YoY EPS Growth	Key Notes and Contributors
Information Technology	+25.7%	Highest growth; driven by semiconductors (NVIDIA, Micron) and software (Apple, Oracle). Revisions: +6.2%. Excluding key players: lower but still double-digit.
Materials	+9.3%	Second highest; metals & mining lead amid demand recovery. Revisions mixed.
Financials	+6.4%	Up from 4.3%; capital markets and banks (JPMorgan, Morgan Stanley) drive. Revisions: +2.0%.
Communication Services	+5.0% (est.)	Supported by digital advertising (Alphabet, Meta).
Health Care	+4.5% (est.)	Modest growth: pharmaceuticals offset by biotech pressures.
Industrials	+3.0% (est.)	Aerospace and machinery contribute.
Utilities	+2.5% (est.)	Stable but revisions down -6.0% due to regulatory costs.

Sector	Expected YoY EPS Growth	Key Notes and Contributors
Consumer Staples	+1.0% (est.)	Food & beverage drag; revisions -3.5%.
Real Estate	-1.0% (est.)	Margin contraction from higher rates.
Consumer Discretionary	-3.7%	Worst performer: retail and autos decline amid consumer slowdown.
Energy	-2.0% (est.)	Oil price volatility; revenue decline -1.9%.

Revenue growth is anticipated in ten sectors, led by Information Technology at +17.9%, Communication Services +10.2%, and Health Care +9.0%, with Energy contracting -1.9%. Margin expansions are expected in three sectors, including Information Technology (to 28.5%), while seven see declines.

Historical Comparisons

Q4 2025's projected 8.3% growth is below the five-year quarterly average of 14.9% and the ten-year average of 9.5%, indicating normalization after post-pandemic surges. For context:

- Q3 2025 estimated/actual: Higher growth around 13-14% (based on prior trends).
- Q4 2024 actual: Baseline for YoY, with lower margins.
- Five-year revenue avg.: 8.0% (Q4 at 7.6% is slightly below).

The upward revision trend bucks historical downward patterns, reflecting analyst confidence in AI and financial sector resilience. However, risks like tariffs could mirror past cycles of margin erosion.

Forward Outlook and Risks

Looking ahead, analysts project Q1 2026 growth at 13.1%, with full-year 2026 at 15.0%—accelerating from 2025's ~12.1% and marking the third straight year of double-digit gains. Revenue for 2026 is estimated at 7.2%, with all eleven sectors growing earnings, five in double-digits (led by Information Technology). Key risks include:

- Downside: Tariff impacts on margins (1-3% drag), energy price drops, and weakening in cyclicals like Materials and Consumer Discretionary.
- Upside: Magnificent 7 outperformance, AI capex surprises, and high positive guidance levels.

Overall, Q4 results could catalyze market sentiment, supporting rotations into undervalued sectors amid broader 2026 optimism.

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