Pressure, pricing and the price of power

Equity Monthly Review

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The future is already here — it's just not evenly distributed.

— William Gibson, in the San Francisco Examiner on 19 April, 1992.

Q1 reporting closed on one of the strongest seasons in recent memory and the manner of its strength is more instructive than the headline. Blended earnings growth of 28.6%, against the 13.1% pencilled in at quarter-end, and an aggregate surprise factor of 16.7%, the widest since Q1 2021, did not arrive evenly. The march higher in the index's growth rate was concentrated in Communication Services, Consumer Discretionary and Energy, and the breadth told its own story: the equal-weighted S&P 500 trailed the cap-weighted benchmark by 2.64 percentage points in May and only three of eleven sectors finished the month higher.

This was a season that rewarded structural alignment and treated the merely cyclical with suspicion.

The single most asymmetric revision story belongs to Energy. The sector experienced upward EPS NTM revisions through the season as Iran-conflict oil pricing lifted upstream economics. However, Energy was the weakest-performing S&P 500 sector in May, declining 6.08%. The divergence between forward earnings momentum and price action is a reminder that EPS revision and price performance are not the same variable, and that timing the monetisation of an upward revision cycle requires a view on both the catalyst's durability and whether the revision has already cleared the consensus bar.

This report will analyse:

- S&P 500 earnings growth and estimates for Q1
- Sectoral revisions for Q1 and net profit margins
- Sector-specific monthly performance for US and European equities

For investors’ consideration: which emerging themes are worth considering after earnings season?

Most of the season’s load-bearing themes were reinforced rather than displaced. The AI infrastructure super-cycle, underwritten by collective 2026 hyperscaler capital plans now exceeding $700 billion, was validated at successive points along the value chain. Defence rearmament, evidenced by RTX’s record $109 billion defence backlog, the aftermarket aerospace cycle at GE Aerospace and the copper super-cycle, with Freeport-McMoRan beating despite constrained Grasberg output, all delivered. Nvidia’s clean beat-and-raise, with Q2 revenue guided to roughly $91 billion against an $87 billion consensus, a $95 billion supply backlog and Vera Rubin samples already shipping, supplied confirmation rather than surprise. The modest after-hours retreat underscored how fully the print had been anticipated. The more revealing detail was that hyperscalers now account for only half of Nvidia’s Data Centre revenue, with the balance drawn from sovereign, AI-native cloud and enterprise demand — a broadening of the base rather than a narrowing of it.

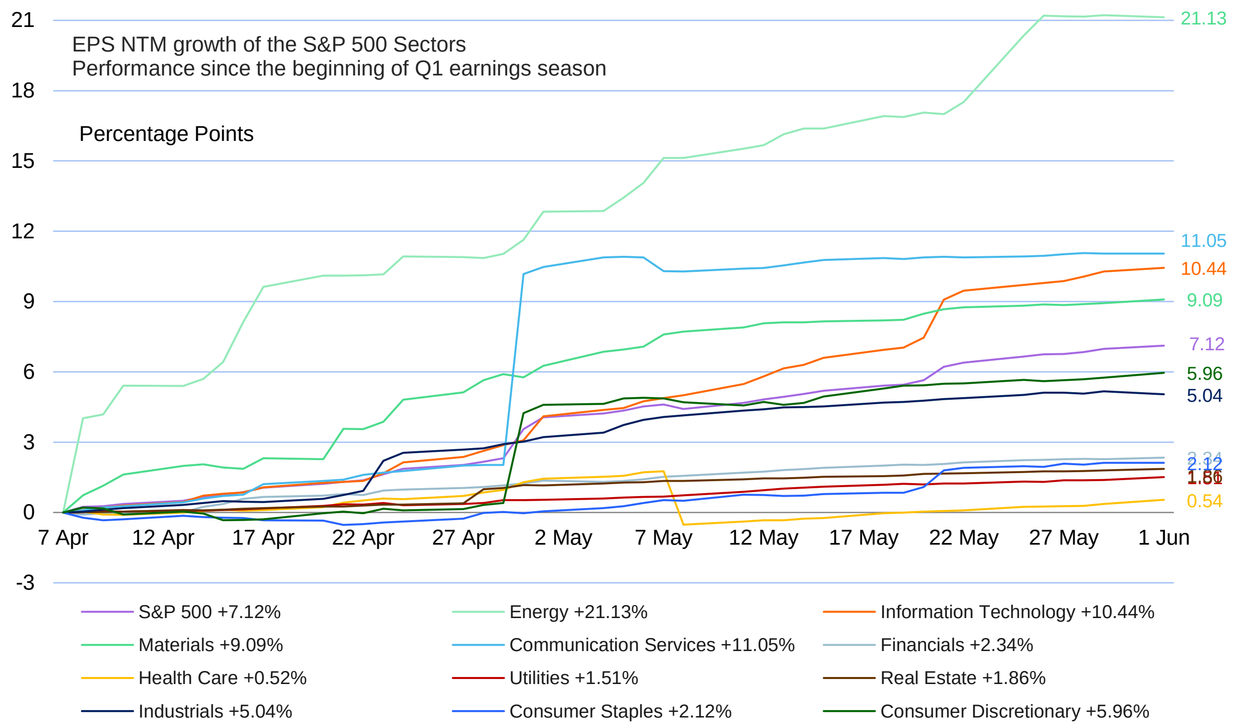
What emerged this season was a more textured map of the build-out’s layers, and a migration of the conversation from top-down CapEx commitments to bottom-up evidence of conversion. The fabrication layer, Applied Materials’ record front-end print and guidance for systems growth above 30%, alongside Qnity Electronics’ validation of the consumables thesis, confirmed that hyperscaler intent is reaching actual wafer starts. The networking layer, where Cisco raised its AI order target from $5 billion to $9 billion in arguably its most consequential quarter in a decade, demonstrated that interconnect economics scale with compute. And the power layer hardened from theory into backlog. GE Vernova’s book-to-bill near 2.0x and Constellation Energy’s repositioning as a structured counterparty to the CapEx cycle establish clean baseload as the binding input. These layers connect mechanically: silicon needs materials, racks need networking, and all of it needs power and site-readiness, the very constraint Super Micro Computer flagged as an industry-wide bottleneck likely to govern revenue recognition over the next two to four quarters.

The out-of-consensus calls that were validated cluster around precisely this re-mapping. Intel’s turnaround, led by Data Centre and Foundry, moved from hope to income statement. The materials-intensity thesis, that AI chips multiply consumables demand rather than scaling it linearly, was borne out by Qnity. Salesforce’s Agentforce, with annual recurring revenue reaching $800 million, offered the first credible evidence that the application layer can monetise, the question analysts flagged as the swing factor for enterprise-software multiples. Perhaps most overlooked, Mosaic’s miss confirmed an out-of-consensus warning that the Iran-driven energy shock is transmitting beyond jet fuel and freight into fertiliser and the wider commodity complex with multi-quarter lags — a channel that is not yet fully reflected in sector estimates.

This is where the sector NTM-EPS revisions and May price action diverge instructively. Forward earnings estimates were marked higher across most sectors as reporting progressed, and the chart below of next-twelve-month EPS growth since the season began shows Energy as the single largest gainer, its forward estimates revised up by more than 21 percentage points on oil’s reset. Yet Energy was May’s weakest sector, down 6.08%, with European Oil & Gas off 6.99% and Utilities close behind at -5.51%. The market had already discounted the energy earnings uplift: the upstream windfall from the Iran-driven spike was anticipated, and equities are forward-looking instruments that fade a known catalyst rather than re-rate on it. The same logic explains why Constellation slipped on a beat, as investors questioned whether near-term power-price assumptions fully embed the Iran premium. Energy nonetheless carries one of the highest twelve-month implied appreciation targets, near 17.7%, a tension worth holding: earnings strength is genuine, but much of it may already be reflected in share prices.

For the next quarter or two, several structural trends warrant attention. First, power and site-readiness, not silicon, are the marginal constraints on the pace at which the data centre build-out converts from CapEx commitment to revenue recognition. These constraints are creating structural demand for clean baseload generation that will persist into the next years. The relationship between AI infrastructure demand and power availability is no longer speculative. It is the binding constraint. Second, the depreciation wave. FCF at Alphabet and Meta compressed as assets came online ahead of the revenue they are built to support; looking forward, this will test the patience that investors have extended toward the financing of the build-out. Third, the enterprise-monetisation question remains the cycle's pivotal unknown; the read-through from Cisco and Salesforce is encouraging, but unproven at scale. Fourth, the K-shaped consumer is entrenching, with McDonald's noting that the lower-income cohort may be deteriorating modestly even as premium and experience-led demand held firm. Fifth, tariff pass-through is still settling across the value chain, and where it lands, be that in margins or in prices, will shape the Q2 and Q3 inflation expectations and, by extension, the Fed's policy path.

The interplay across asset classes ties these threads together. Equities reward the AI and real-asset winners while index concentration masks a narrower advance. Commodities cut both ways. Oil's higher-for-longer reset and the copper super-cycle lift Energy and Metals & Mining earnings even as they feed input-cost pressure into fertilisers and industrials. Rates sit downstream of both the tariff and oil-premium transmission, keeping the inflation outlook less predictable than the equity rally alone would imply. And within the AI complex itself, the rotation in market attention from compute toward power and materials reflects a search for the parts of the chain where value has not yet been fully capitalised. The season's lesson for a forward-looking investor is less whether the build-out is real than which layer to own, and at what price.



Q1 earnings in focus

As the Q1 earnings season reaches its final phase, 482 of the 503 components of the S&P 500 index have reported earnings as of 29 May. The S&P 500's positive performance in May was supported by a strong earnings season, despite increasing concerns amid the war with Iran and its unravelling consequences across the commodity complex and the energy impulse it has caused in short and mid-term inflation expectations. The percentage of companies exceeding earnings expectations is above the 5-year average. In aggregate, companies are reporting earnings that are 16.7% above estimates, which is also above the average surprise factor of the prior four quarters, and both the 5- and 10-year average.

Data compiled by LSEG I/B/E/S indicates that, as of 29 May, 95.8% of S&P 500 constituents have reported Q1 results. Of those reporting, 84.0% exceeded EPS estimates, surpassing the prior four quarter average of 78.1%, the 5-year average of 78.0%, and the 10-year average of 76.0%.

The increase in the index's overall projected Q1 earnings growth rate since 31 March can be primarily attributed to positive EPS surprises reported by companies in the Communication Services, Consumer Discretionary and Energy sectors.

According to Factset, the blended earnings growth rate for Q1 is 28.6%, higher than the 13.1% forecast at quarter-end. Should this figure stand, it will mark the 11th consecutive quarter of y/o/y earnings growth for the index and its 6th consecutive quarter of double-digit earnings growth. This is the index's strongest earnings growth rate since Q4 2021, when it reached 32.0%.

Ten of the eleven sectors within the S&P 500 are reporting y/o/y earnings growth, led by Information Technology, Communication Services, Materials and Consumer Discretionary. Seven of these ten sectors are reporting double-digit growth. Conversely, Health Care is the only sector experiencing a y/o/y decline in earnings of 3.2% for the quarter.

Since 31 March, S&P 500 companies have exceeded earnings expectations by an aggregate of 16.7%. This is more than 2x the 5- and the 10-year averages of 7.3% and 7.1%, respectively, and below the average surprise factor observed in the preceding four quarters of 7.2%. It is the S&P 500's highest surprise percentage since Q1 2021, when it reached 22.2%.

The Communication Services sector demonstrates the most significant positive difference between actual and estimated earnings, reflecting an earnings surprise factor of 53.0%. This is followed by Consumer Discretionary at 39.1% and Energy at 19.9%.

With respect to revenue, 79.7% of S&P 500 constituents exceeded projections. This is above the 5-year average of 70.0% and the 10-year average of 67.0%. In aggregate, revenues surpassed estimates by 1.9%, lower than the 5-year average of 2.0%, but higher than the prior four quarters average surprise factor of 1.6%, and the 10-year average of 1.5%.

The blended revenue growth rate for Q1 is currently 11.8%, surpassing the 9.9% forecast at quarter-end. Since 31 March, positive revenue surprises in Utilities, Materials and Communication Services have been the largest contributors in the overall revenue growth rate. Should the index achieve 11.8% revenue growth for the quarter, it will signify the 22nd consecutive quarter of revenue growth, and the highest revenue growth rate recorded by the index since Q2 2022's 13.9%.

All eleven sectors are reporting y/o/y revenue growth, led by Information Technology, Communication Services and Utilities.

The forward 12-month P/E ratio of the S&P 500 stands at 21.4x, which surpasses both the 5-year average of 19.9x and the 10-year average of 18.9x. The P/E ratio is also higher than the 19.7x recorded at the end of the Q1.

S&P 500 earnings growth in Q1: 28.6%

Ten of the eleven sectors have reported or are projected to report y/o/y earnings growth for Q1 2026. An actual growth rate of 28.6% for the quarter would represent the index's 6th consecutive quarter of double-digit y/o/y earnings growth rate, and the 11th consecutive quarter of y/o/y earnings growth.

At 54.3%, Information Technology stands out with the highest y/o/y earnings growth rate. At the sector level, all six constituent industries exhibited double-digit y/o/y earnings growth. Semiconductors & Semiconductor Equipment leads these six industries with Q3 earnings growth of 107%, followed by Electronic Equipment, Instruments, & Components with 41% y/o/y earnings growth, and Technology Hardware, Storage, & Peripherals with y/o/y earnings growth of 39%.

Within Information Technology, Intel has reported the most substantial positive EPS surprises achieving an EPS of $0.29 relative to $0.02 estimates. It is followed by Sandisk, with EPS of $23.41 compared to an anticipated $14.62, and Super Micro Computer's EPS of $0.84, exceeding the anticipated $0.62.

Communication Services exhibit the second highest earnings growth rate of any sector at 48.9%. At the industry level, two of five industries within the sector reported y/o/y earnings growth. The Interactive Media & Services and Media industries are the principal contributors to this expansion, exhibiting earnings growth rates of 76% and 14%, respectively. Conversely, Wireless Telecommunication Services, Entertainment, and Diversified Telecommunication Services are exhibiting y/o/y declines of 17%, 7% and 3%, respectively.

The most significant positive EPS surprises contributing to Communication Services' earnings growth came from Alphabet, Netflix, and Meta Platforms. Alphabet's EPS of $5.11, exceeded the anticipated $2.68, Netflix's EPS of $1.23 was above the expected $0.76, and Meta Platforms EPS of $10.44 surpassed the $6.70 estimate. Communication Services has experienced the most significant improvement in its earnings growth rate since 31 March, rising from an anticipated y/o/y decline of 3.7% to the current 48.9% growth rate. However, excluding Alphabet and Meta Platforms, the Communication Services sector would have posted a 4.1% y/o/y earnings decline.

Materials reports the third-highest y/o/y earnings growth rate among the eleven sectors, with a 42.5% increase. At the industry level within the sector, two of four industries are demonstrating y/o/y earnings growth. Metals & Mining at 136% and Chemicals at 19% contributed to the sector's y/o/y growth rate in Q1, whereas Construction Materials and Containers & Packaging reported y/o/y declines of 24% and 1%, respectively.

Within Materials, the most significant positive EPS surprises were reported by Albemarle, which reported EPS of $2.95 compared to EPS estimates of $1.19. This was followed by LyondellBasell Industries, which announced an EPS of $0.49 compared to the anticipated $0.28. The EPS of CF Industries, at $4.10, surpassed estimates of $2.70. Consequently, the sector's blended earnings growth rate has risen from 23.6% to 42.5% since the end of Q1. Excluding Materials & Mining, earnings growth for the Materials sector would fall from 42.5% to 14.6%.

In contrast, the Health Care sector is projected to experience a y/o/y decline of 3.2% in earnings. At the industry level, two out of five industries are forecast to deliver negative earnings growth. At the company level, Stryker delivered the sector's most pronounced negative earnings surprise, delivering EPS of $2.60 compared to $2.98 estimates. It is followed by GE Healthcare Technologies, reporting an EPS of $0.99, falling short of the $1.04 estimate, and Zoetis' EPS of $1.53 compared to an anticipated $1.60.

S&P 500 Net Profit margin in Q1: 14.8%

The projected net profit margin for the S&P 500 in Q1 stands at 14.8%. This figure is above the net profit margin recorded in the previous quarter of 13.2% and surpasses both the margin from the same quarter last year, which was 12.8%, and the five-year average of 12.3%. Should the net profit margin for the quarter reach 14.8%, it would represent the highest figure recorded by the index since FactSet commenced tracking this metric in 2009. The current record, dating back to 2009, stands at 13.2%, which was achieved in the preceding quarter.

At the sector level, seven sectors are forecast to achieve a y/o/y increase in net profit margins in Q1 2026 compared to the same period in 2025. Leading this growth is Communication Services, with a 4.7 percentage point increase, from 16.0% to 20.7%, followed by Information Technology, with a 4.4 percentage point increase to 29.8% from 25.4%, and Materials with a 2.5 percentage point increase, from 8.2% to 10.7%.

There are four sectors that are reporting (or have reported) y/o/y declines in their net profit margins: Real Estate, with a decrease of 1.6 percentage points, from 35.1% to 33.5%, followed by Health Care with a 1.4 percentage points decline from 8.7% to 7.9%, Energy from with a 0.3 percentage point decrease to 7.8% from 8.1%, and Consumer Staples' projected marginal decrease of 0.1 percentage points from 6.2% to 6.1%.

Seven sectors are forecast to report net profit margins in Q1 that exceed their respective five-year averages, with Communication Services demonstrating the most significant improvement, attaining 20.7% compared to a five-year average of 16.0%. In contrast, four sectors are predicted to report net profit margins below their five-year averages, led by Real Estate and Energy expected to post margins 2.2 and 2.1 percentage points lower than their five-year averages of 35.7% and 9.6%, respectively.

Looking forward to the rest of 2026

Looking ahead, analysts forecast y/o/y earnings growth rates of 12.0%, 10.6%, and 10.1% for Q2, Q3 and Q4, respectively. For the entirety of calendar year 2026, analysts are anticipating a y/o/y earnings growth of 10.7%.

As of 29 May, the bottom-up target price over the next 12 months for the S&P 500 is set at 8,698.39, representing a 14.5% increase over the closing price of 7,599.96 of 1 June.

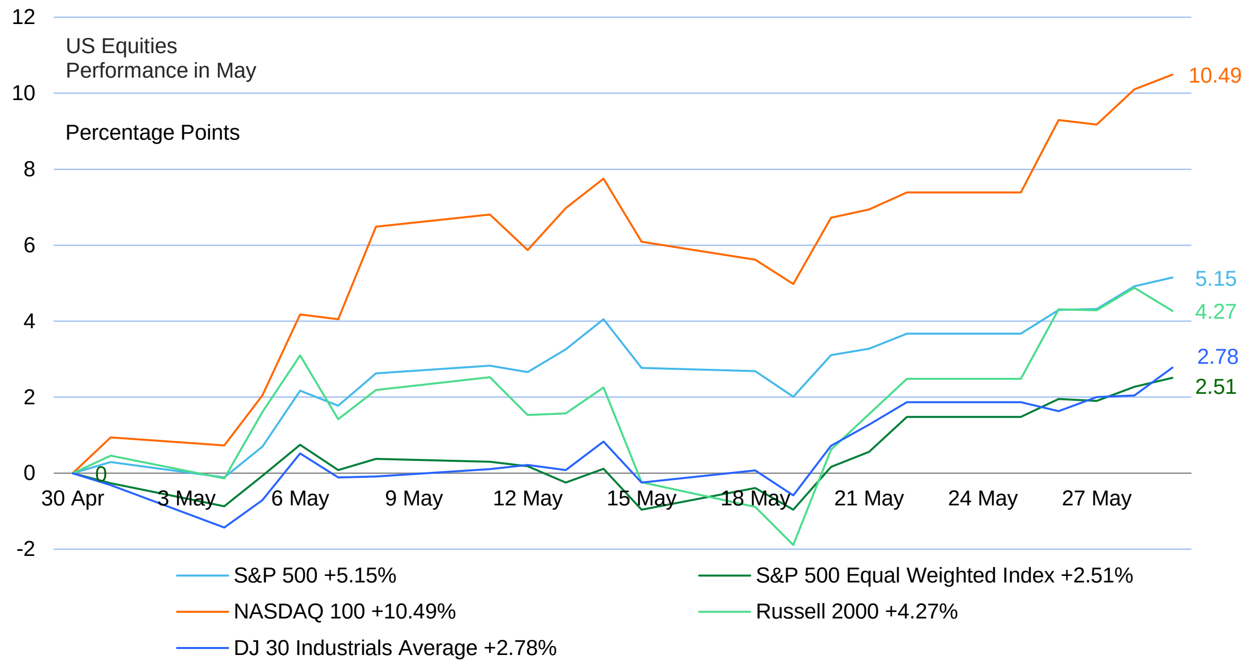
Based on the difference between bottom-up target prices and closing prices, the sectors with the most significant anticipated price appreciation are Health Care, at 18.4%, Materials at 17.9%, and Energy at 17.7%. In comparison, the smallest expected price increases are forecast for Real Estate, expected to increase 10.6%, Consumer Staples, with an anticipated rise of 11.6%, and Information Technology, expected to have a 13.2% rise.

Regional breakdown

US Equities

US Equity Indices	May	YTD
S&P 500	+5.15%	+11.02%
Nasdaq 100	+10.49%	+20.85%
Dow Jones Industrial Average	+2.78%	+6.27%
Russell 2000	+4.27%	+17.08%

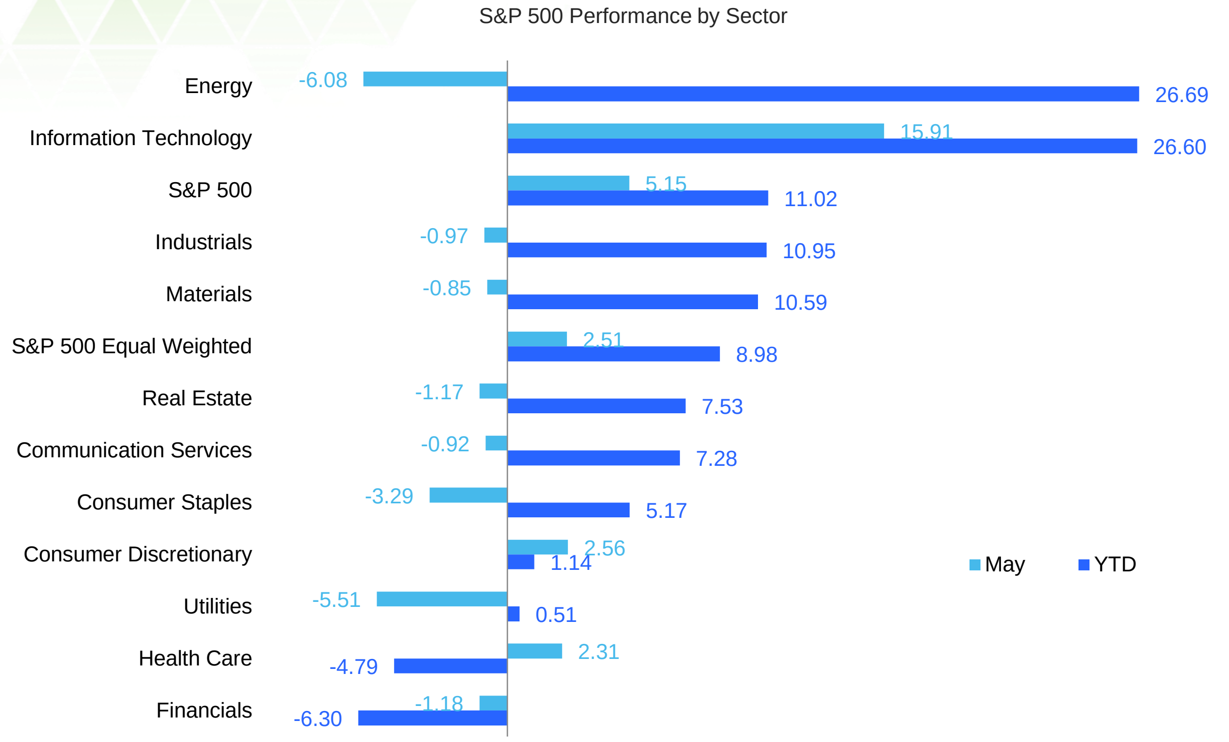
Note: FactSet. As of 5 pm EDT 1 June 2026



Source: FactSet

May's advance in the S&P 500 was notably concentrated, with gains recorded in only three of the index's eleven sectors. Information Technology led performance with a rise of 15.91%, followed by Consumer Discretionary at 2.56% and Health Care at 2.31%. By contrast, Energy was the weakest-performing sector, declining 6.08%, followed by Utilities at 5.51% and Consumer Staples at 3.29%.

In May, the equal-weighted version of the S&P 500 underperformed the benchmark by 2.64 percentage points, rising 2.51% compared with the S&P 500's 5.15% gain. This came after a 4.55 percentage point shortfall versus the benchmark in April.



Source: Factset

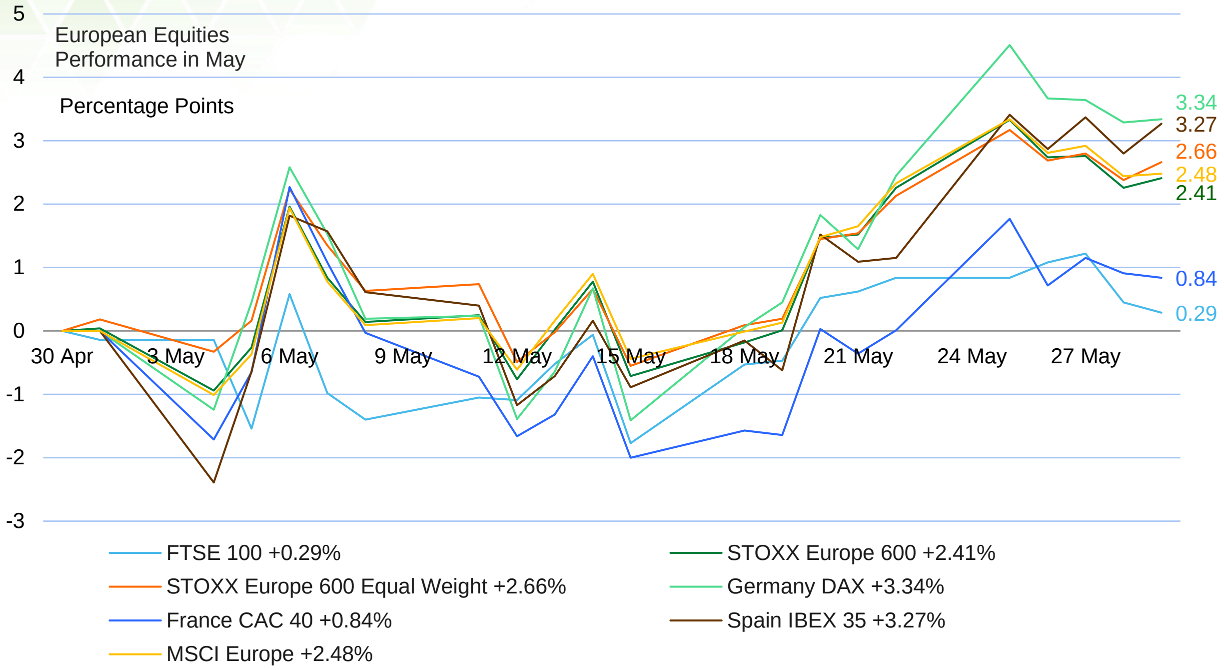
A review of the past five years (60 months) reveals that the May performance across all four major US stock indices was robust, building on April's exceptionally strong performance where three of the four major indices recorded their best monthly performance in the last five years. In May, two out of the four indices delivered results above their respective 80th percentile. Nasdaq 100, with a performance of 10.49%, was the strongest showing among the major US equity benchmarks, positioning it at its 93.2nd percentile of the past 60-month performance distribution.

The S&P 500 recorded an increase of 5.15%, placing it in the 81.3rd percentile, indicating that eleven of the previous sixty months outperformed May's result. The Russell 2000 posted an increase of 4.27%, positioning it at the 72.8th percentile. The Dow Jones Industrial Average experienced an increase of 2.78%, underperforming the remaining major American indices, which situates it within the 71.1st percentile, meaning seventeen months in the last five years have registered a stronger performance.

European Equities

European Equity Indices	March	YTD
Stoxx Europe 600	+2.41%	+5.60%
Germany DAX	+3.34%	+2.59%
FTSE 100	+0.29%	+4.10%
France CAC 40	+0.84%	+0.73%
Spain IBEX 35	+3.27%	+5.57%
MSCI Europe	+2.48%	+5.01%

Note: FactSet. As of 5 pm EDT 1 June 2026

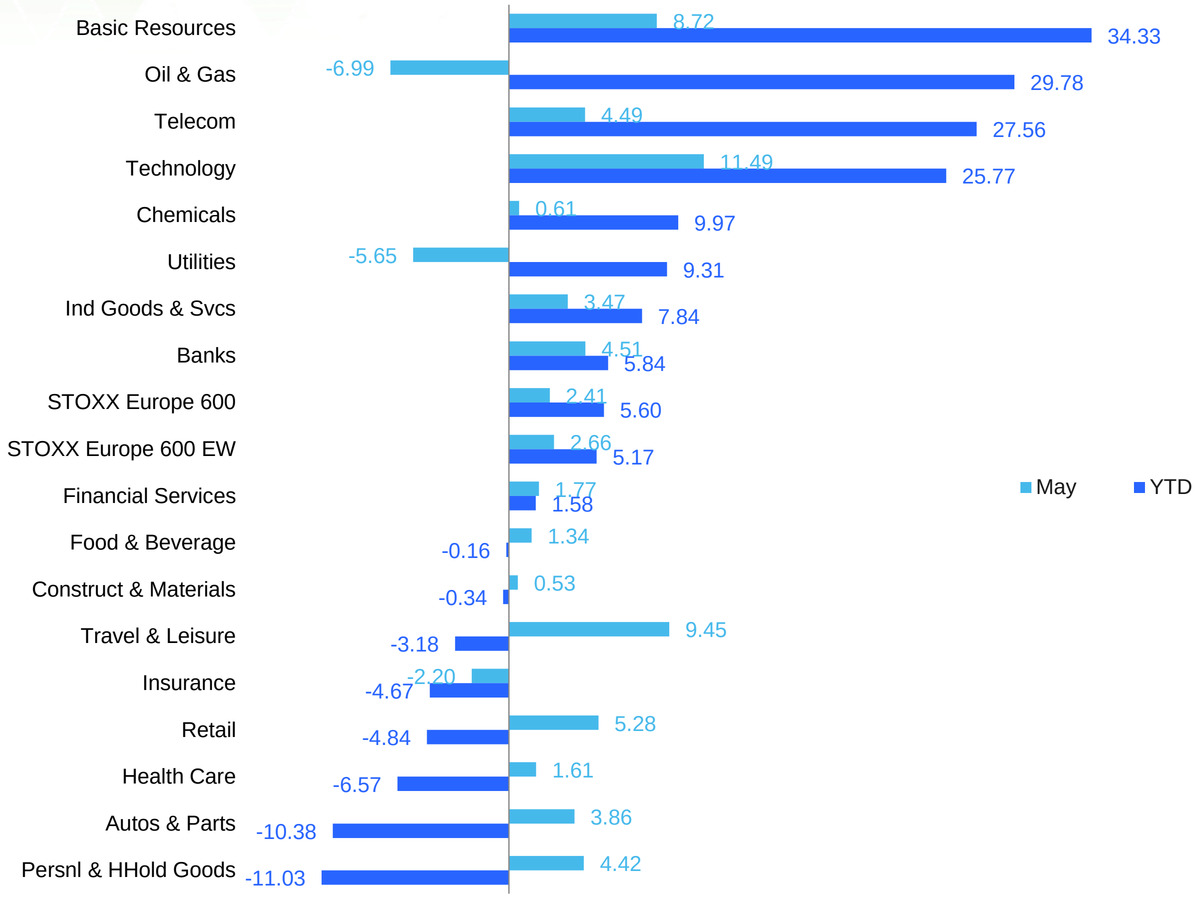


Source: Factset

During the month of May, the Stoxx Europe 600 witnessed positive performance in fourteen out of its seventeen sectors. Technology outperformed within the index, advancing 11.49%, followed by Travel & Leisure and Basic Resources at 9.45% and 8.72%, respectively. In contrast, Oil & Gas recorded a decline of 6.99%, followed by Utilities and Insurance, down 5.65% and 2.20%, respectively.

The performance of the Stoxx Europe 600 Equal Weight (EW) index offers additional insight into the breadth of the market recovery. Unlike the standard index, which is weighted by market capitalisation, the EW index assigns equal weight to each constituent. In May, it rose 2.66%, outperforming the standard Stoxx Europe 600 by 0.15 percentage points, following a 0.17 percentage point outperformance in April. This relative strength points to a broad-based recovery across European sectors after the pronounced risk-off sentiment seen in March, which was largely driven by concerns over energy-related inflationary impulse.

Stoxx Europe 600 Performance by Sector



Source: FactSet

An examination of equity index performance over the past five years (60 months) indicates that the results for May rank among higher than the median monthly outcomes observed in this period for European markets. Performance across individual countries showed divergence, with only two of the six major indices recording monthly returns higher than their 70th percentile of their respective distributions.

Specifically, Germany's DAX advanced 3.34%, placing it at the 79.6th percentile of its five-year performance distribution. MSCI Europe each posted an increase of 2.48% in May that positioned it at the 72.8th percentile, indicating that sixteen months out of the past sixty produced stronger results.

In May, the Stoxx Europe 600 and Spain's IBEX 35 also delivered positive performances, ranking at the 69.4th and 67.7th percentiles, respectively, within their individual 60-month performance distributions. The France CAC 40 recorded a gain of 0.84%, placing it at 52.5th percentile. UK's FTSE 100 performance of 0.29% ranked at its 42.3rd percentile, underperforming its European peers.

As of 28 May, according to LSEG I/B/E/S data for the Stoxx 600, Q1 2026 earnings are expected to increase 11.7% from Q1 2025. Excluding the Energy sector, earnings are projected to increase 7.0%. Q1 2026 revenue is expected to increase 0.4% from Q1 2025. Excluding the Energy sector, revenues are anticipated to decrease 0.7%. Of the 287 companies in the Stoxx 600 that reported earnings for Q1 2026 by 27 May, 58.2% reported results exceeding analyst estimates. In a typical quarter 54% beat analyst EPS estimates. Of the 343 companies in the Stoxx 600 that have reported revenue for Q1, 52.8% reported revenue exceeding analyst estimates. In a typical quarter 58% beat analyst revenue estimates.

The Stoxx 600 expects to see share-weighted earnings of €139.2 billion in Q1 compared to share-weighted earnings of €124.6 billion (based on the year-ago earnings of the current constituents) in Q1 2025. Companies are collectively reporting earnings that are 0.9% below estimates. This figure is lower than the long-term average surprise factor of 1.3% observed since 2012.

Five of the ten sectors in the index expect improved earnings compared to Q1 2025. At 52.1%, the Energy sector has the highest earnings growth rate for the quarter, while Real Estate has the highest anticipated contraction of 23.9% compared to Q1 2025.

The forward four-quarter price-to-earnings ratio (P/E) for the Stoxx 600 sits at 14.7x. This is above the 10-year average of 14.2x.

The Stoxx 600 is up 6.00% since this earnings season began on 8th April.

Analysts anticipate positive Q1 earnings growth in fourteen of the sixteen countries comprising the Stoxx 600 index. Norway, with an estimated growth rate of 57.0%, and Poland, at 43.8%, are projected to have the highest earnings growth, whereas Portugal and Denmark are expected to experience declines, estimated at 34.3% and 10.0%, respectively.

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