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The consumer environment is softer, but shoppers are still spending.

Booming Corporate Earnings Fuel Lofty Outlooks

AI investment, tariff refunds drive gains as many shoppers continue to spend

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Profits are booming at America's biggest companies— and their leaders say that likely won't change soon.

From Target and J.M. Smucker to farm-equipment maker Deere, companies spanning the breadth of the U.S. economy are ringing up heftier sales and earnings. In recent days, many have raised financial outlooks for the year, citing robust sales as just one of the reasons.

Chalk the good times up to a confluence of fortunate events: red-hot artificial-intelligence spending, federal spending and the windfall companies are getting in the form of refunds of some of their tariff payments. Plus, a booming stock market and high home values are helping many shoppers keep spending, even as many others struggle to absorb rising prices.

At Abercrombie & Fitch, consumers kept buying even after the fashion retailer pared back discounts in the most recent quarter, executives told investors on a conference call last week. That, plus around $120 million in expected tariff refunds, led the retailer to raise its fullyear financial estimates.

"The underlying business

performed above our expectations," Chief Financial Officer Robert Ball said on the conference call.

Across S&P 500 companies, per-share earnings soared 53% in the second quarter from a year earlier, while sales rose nearly 16%, according to data from LSEG. Investment gains from tech giants Amazon.com and Alphabet added fuel to the big earnings surge.

Even without those gains, S&P 500 earnings rose the most since fall 2021. Quarterly sales also climbed more than they have in years. By a nearly 2-to-1 margin, more companies raised their profit guidance for the current quarter than lowered it—a turnaround from a year ago, when more were lowering their outlooks.

Tariff refunds are providing a big, temporary tailwind. They are likely to account for more than 4% of third-quarter economic growth—or add about 0.2 percentage point to the Atlanta Fed's growth forecast of between 4% and 5%— according to a mid-August estimate from Apollo Global Management.

Improved full-year financial estimates came from a diverse set of companies, including healthcare companies McKesson and Charles River Laboratories International and jelly giant Smucker. At many of them, the refunds flowed primarily to the bottom line, rather than into lower prices for shoppers.

At fitness-watch maker Garmin, $21 million in tariff refunds boosted profit margins in the quarter that ended in late July, executives told investors late last month. Strong demand for its fitness products helped, too, leading the company to raise its fullyear financial guidance.

Even without the refund, "our gross margin performance was impressive by any historical comparison," Chief Executive Clifton Pemble told investors.

Retailers generally reported strong quarterly sales figures in recent weeks, noting that consumers are spending on new appliances, toys and clothing even as they navigate higher fuel prices and longterm inflation.

Dollar General, known for drawing cash-strapped shop-pers to its mostly rural stores, posted a fifth consecutive quarter of higher traffic and a 3.5% increase in comparable sales. Electronics retailer Best Buy said its shoppers were buying up computers, TVs and AI-enabled glasses, lifting its most recent quarterly sales and profit. Target also reported higher sales, profit and a benefit from tariff refunds in the most recent quarter, noting shoppers pushed up sales of toys, food and beauty products.

The reports of robust spending run counter to some recent economic indicators. Government retail-sales data for July showed overall softening, partly driven by Amazon and other retailers moving online summer sales to June this year from July last year. A widely watched measure of consumer confidence slipped in August as consumers fretted about future economic conditions, the Conference Board said this past week. Some retailers did report sluggish sales. Gap said its most recent quarterly sales fell, hampered by performance at its Old Navy and Athleta brands, even as its flagship Gap brand did well. The company still raised its earnings estimates for the full year.

Dollar General and other retailers catering to mainstream America said they used part of their tariff refunds to lower prices, hoping to further juice sales. "Our core customers continue to be financially constrained," said Dollar General's CEO Todd Vasos on a conference call.

Sales at Walmart stores and digital channels operating at least a year rose at their slowest pace in more than six years. Yet it was enough for the retailer to raise full-year estimates earlier this month. It used some of its roughly $2.9 billion in tariff refunds to lower prices, which its executives said should boost sales later this year.

Shoppers are cautious, but still spending, they said. It's "arguably a softer consumer environment than in February," said Walmart Chief Financial Officer John David Rainey on the retailer's earnings call this month.

So far, there are few signs that the factors driving growth will wane in the near future, said Torsten Slok, chief economist of Apollo Global Management.

"As long as the AI boom continues and the stock market continues to be elevated, and we continue to have strong consumer income growth, the consumer will continue to be in good shape," he said. But if the promise of AI fails to justify the massive investment, "we will be having a different conversation."
