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Strong Crop of Earnings Eases Investors' Economic Concerns

BY SAM GOLDFARB

The job market is cooling. Tariff rates are rising. But American companies still seem to be doing just fine.

With the latest earnings season nearly done, top- and bottom-line results from companies in the S&P 500 are handily beating expectations that had been lowered after President Trump announced sweeping duties on imports in April.

Profits are expected to have risen around 12% in the second quarter from a year earlier, according to FactSet, far ahead of the 5% growth analysts predicted in early July.

While much of that earnings growth has been driven by tech companies, corporate chiefs also have sounded more optimistic about the economy than they did in the spring. Earnings calls including the word "recession" have plummeted 84%, according to AlphaSense.

Those signals have helped major stock indexes power to records in recent weeks. The S&P 500 has climbed 29% off its lows in April and now stands 9.7% higher on the year.

Recent economic data have been mixed, with disappointing jobs numbers balanced in part by subdued unemployment claims and a decent retail- sales report. Two inflation reports last week also sent conflicting messages, with encouraging consumerprice index data followed by a more concerning report on wholesale inflation.

Some investors, though, said they are likely to continue buying as long as corporate earnings are good.

This week, they will seek further insight into the health of the consumer as the reporting season effectively wraps up with results from big box

retailers, including Home Depot, Target and Walmart.

Surprisingly, businesses "have come out of this whole thing looking better in some ways than they did in February or March," said Sonu Varghese, global macro strategist at Carson Group.

Not all parts of corporate American are doing as well as others. Just two out of the S&P 500's 11 sectors—communications services and information technology—are expected to be responsible for more than two-thirds of the index's earnings growth, thanks to impressive quarters from the likes of Meta Platforms and Microsoft.

Both of those companies are at the forefront of a surge in artificial-intelligence investment. That has led to windfalls for a range of businesses involved in the buildout needed to support technology that many hope will ultimately spur economywide productivity gains.

Nvidia, the chipmaking giant that has become the poster child for the AI boom, will report earnings this month.

Meanwhile, companies such as GE Vernova, which makes gas turbines for data centers, Comfort Systems, which provides cooling systems for data centers, and Owens Corning, which makes insulation for data centers, all reported robust earnings in recent weeks, leading to big gains for their shares.

It has been tougher sledding for other businesses, such as packaging companies, oiland- gas drillers and real-estate investment trusts.

Essex Property Trust, which leases apartments on the West Coast, blamed soft demand in the Los Angeles area on a generally lackluster economic environment in a July 30 earnings call. Its shares are down 11% since reporting its results, mirroring a broad decline in its sector.

“We have a really bifurcated economy right now,” said Tim Murray, capital markets strategist at T. Rowe Price, with companies not boosted by AI spending stuck in a “muddle-through type of scenario.”

Some management teams have expressed hope that the recent slowdown in U. S. growth will prove short-lived now that the Trump administration has struck several trade deals and Congress has passed tax cuts, creating a more settled policy environment.

Corporate executives have long argued that uncertainty about government policies makes it difficult for them to plan or invest and can weigh on consumer spending.

“Demand was weak for the last five months due to high levels of uncertainty for both businesses and consumers,” said Scott Kirby, CEO of United Airlines, on a July 17 earnings call. “But in the past few weeks, the level of uncertainty has declined.... And encouragingly, that higher level of certainty has translated into a meaningful inflection point in demand.”

Down for most of the year, the shares of United and other airlines rallied last week after CPI data showed a jump in airfares in July and Spirit Airlines warned that it might discontinue operations, potentially helping its competitors. United stock is now up 4% for the year.

Some investors are now reasonably hopeful about the economy but worry that stocks have become too expensive, providing little room for error. Companies in the S&P 500 recently traded at 22.5 times their expected earnings over the next 12 months, above their 10-year average of 18.8 times.

“We’re in a high-risk bull market,” said Bob Doll, chief executive officer at Crossmark Global Investments. Stocks, he added, are “discounting a near-perfect world—and it’s not perfect.”

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