PROFIT MARGINS

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continue to

DEFY GRAVITY

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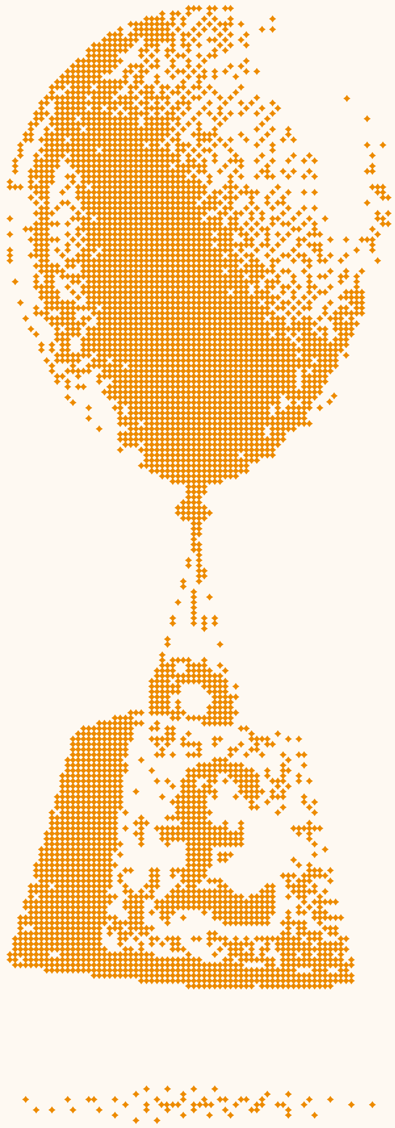
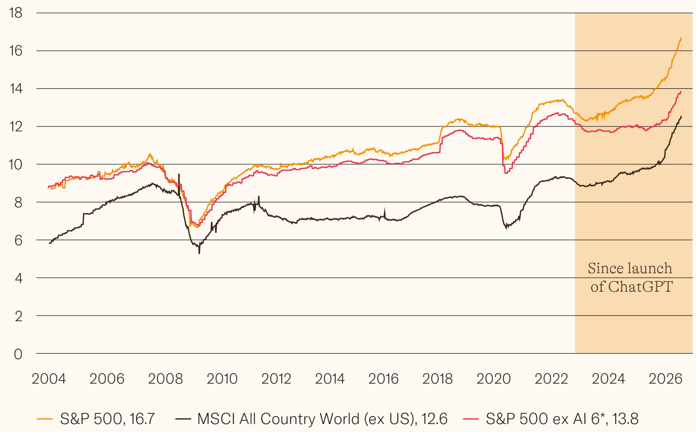
Corporate profit margins continue to reach new highs, supported by data monetisation, weaker labour bargaining power and ample liquidity, although rising bond yields could challenge the trend



Physicist Isaac Newton is said to have been inspired to think about gravity after observing an apple fall from a tree, an insight he later formalised in his theory of universal gravitation in 1687. Today, investors face a different puzzle: corporate profit margins seem to be defying gravity. The conventional economic view is that high profit margins attract competition, while rising labour costs and regulation should eventually pull profitability back to earth. Yet aggregate corporate profit margins around the world continue to rise, reaching record highs.

This is not just a story about America's technology giants. Even outside the US, corporate profit margins are at all-time highs, suggesting that the forces lifting profitability are broad-based, rather than limited to a handful of Silicon Valley winners.

Listed equity profit margin (12m forward earnings as a % of sales)



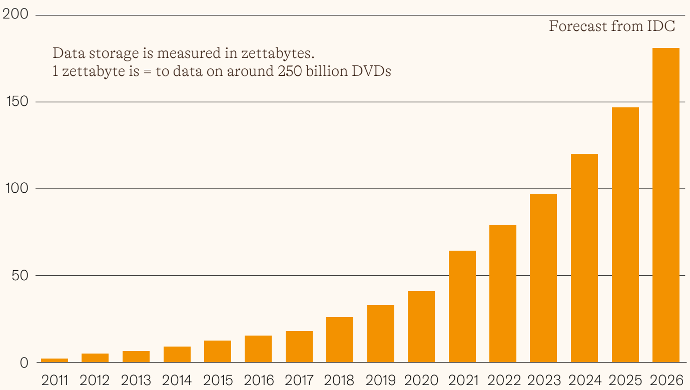
Source: LSEG Datastream / Evelyn Partners. Data as at 9 September 2026. *AI 6 is Microsoft, Oracle, Alphabet, Amazon, Meta Platforms and NVIDIA

Of course, profit margins cannot rise indefinitely. But for now, three powerful forces appear to be pushing company profitability into uncharted territory simultaneously.

1. Turning data into dollars

Every day, vast amounts of digital information are generated worldwide and used to power artificial intelligence (AI). All videos watched, online purchases made, GPS locations recorded and social media interactions add to this vast digital footprint. This "Big Data" has grown by over 30% per annum since 2010.[1]

Global "Big Data" created (Zettabytes)



Source: LSEG Datastream / Evelyn Partners. Data as at 9 September 2026.

Companies are increasingly converting this data into profits. Through cloud computing, machine learning and AI, firms can analyse consumer behaviour more precisely. Airlines adjust ticket prices in real time, hotels modify room rates continuously, retailers tailor promotions to individual shoppers, and streaming services personalise content to maximise engagement.

Data is the raw material that allows AI models to identify patterns, predict purchasing decisions and optimise pricing. These tools may increase revenue without a proportionate rise in costs, potentially supporting profitability.

The impact is already visible. One of the clearest examples is Meta Platforms. Its Average Revenue Per User (ARPU) has increased from roughly $9.87 in mid-2022 to $16.86 by June 2026, a rise of more than 70%.[2] Put simply, firms are becoming better at extracting more revenue from each customer without necessarily adding more customers.

2. Diminishing worker pricing power

The second force supporting margins has been the long-term decline in labour's bargaining power. Over several decades, globalisation, technology and automation have shifted the balance between workers and employers. China's entry into the World Trade Organization in 2001 significantly expanded the global labour pool. Offshoring allowed production to move to lower-cost regions, while the internet enabled firms to source services globally.

Today, AI may be accelerating these forces. Tasks once performed by analysts, customer service staff, programmers and administrators can increasingly be assisted, or in some cases completed, by software.

The result has been persistent pressure on labour's share of economic output. In the US, labour compensation as a share of GDP has fallen to a record low. While wages have risen over time, they have generally increased more slowly than productivity and corporate profits.

This does not mean workers become obsolete. Rather, technology continues to shift the balance in favour of capital over labour, helping companies contain costs while maintaining profitability.

3. Easy money still matters

The third pillar supporting profits is ample liquidity, underpinned by large government deficits and a willingness by central banks to support financial markets during periods of stress.

Despite frequent concerns about fiscal sustainability, the US continues to run a budget deficit of roughly 6% of GDP.[3] Government spending therefore remains substantially above tax revenues, bringing future demand into the present and supporting economic activity.

Headline interest rates tell only part of the story. From the Global Financial Crisis and the Covid pandemic to the liquidity measures introduced following Silicon Valley Bank's collapse in 2023, the Federal Reserve has repeatedly demonstrated its willingness to inject liquidity when financial stability is threatened.

Together, large fiscal deficits and a central bank prepared to stabilise markets help sustain abundant dollar liquidity, supporting credit growth, asset prices and economic activity around the world. This provides a conducive environment for companies to raise profit margins.

Market risks

Arguably, the key threat to this profit-margin story may be the easy money pillar itself.

Government bond yields have been rising as investors grapple with growing public debt burdens, concerns surrounding the unwinding of yen-funded carry trades and potentially higher energy prices, where the price of Brent crude oil now tops $100/barrel at the time of writing.

If bond investors continue to demand significantly higher yields to finance expanding deficits, financial conditions could tighten. A sustained rise in yields would place pressure on equity valuations, corporate financing and economic growth.

For now, however, the forces of data monetisation, weakened labour bargaining power and easy money continue to overpower gravity. Newton's apple may still fall to Earth. However, corporate profit margins remain remarkably resistant to gravity.

Sources:

1 Demandsage.com, Big Data Statistics 2026 (Volume, Growth & Market Size), June 2026.

2 Meta Platforms/LSEG/Evelyn Partners

3 LSEG/Evelyn Partners.

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