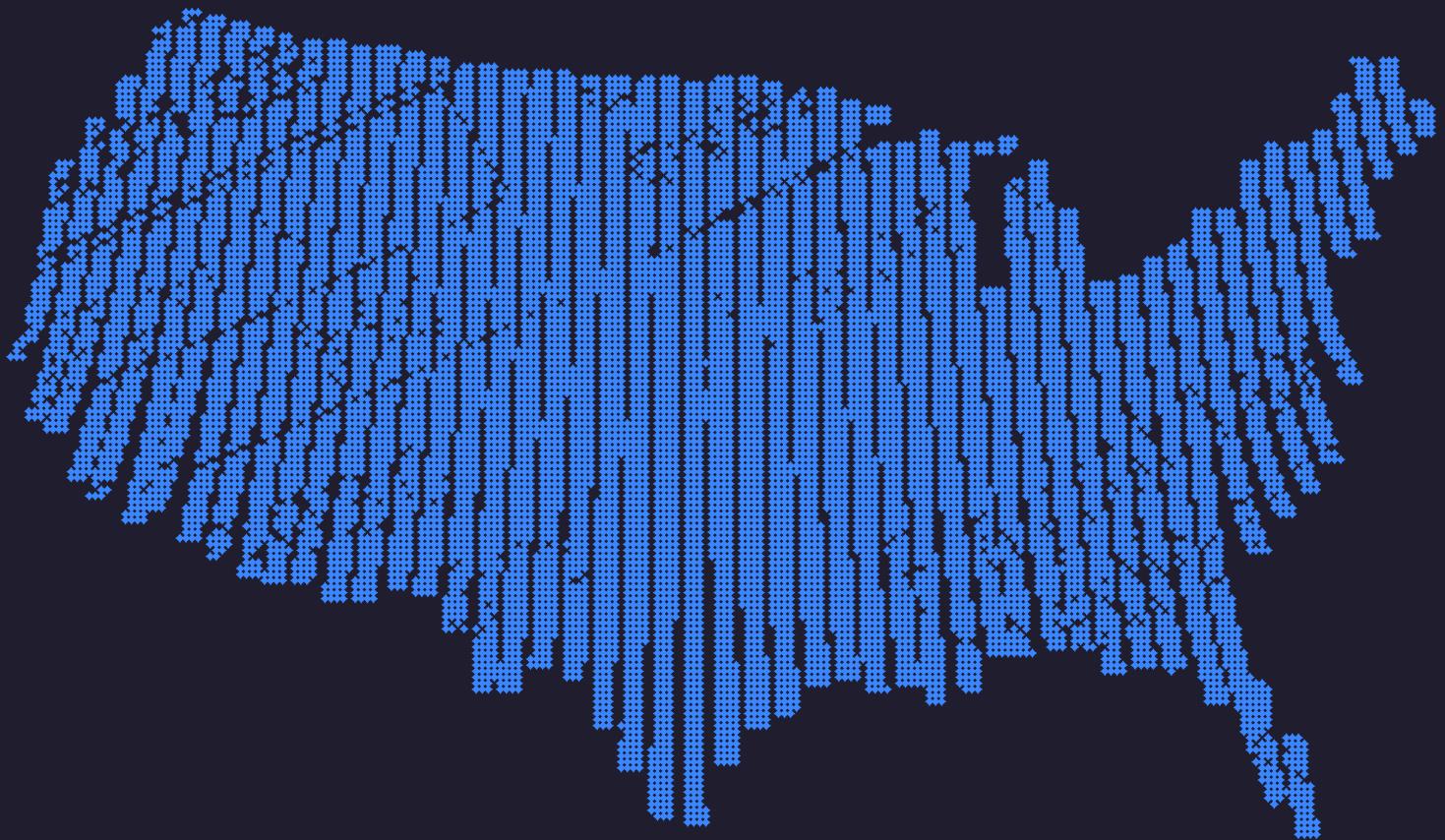


EARN, *baby* EARN!

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EARN, *babY*, EARN!

US companies are deep into the reporting season for the final quarter of 2025 and to paraphrase the 1970s disco classic Disco Inferno, it's "earn, baby earn." With more than half of the S&P 500 companies now reported, Earnings Per Share (EPS) growth is tracking 14% year-on-year, marking a strong finish to the year. It is around twice the estimate at the start of the earnings season.¹

Looking forward, the consensus of analyst expectations is for S&P 500 EPS to grow by 15% and 16% for 2026 and 2027, respectively.²

S&P 500 earnings per share growth



Source: LSEG Datastream / Evelyn Partners. As at 9th Feb 2026

What is driving company earnings?

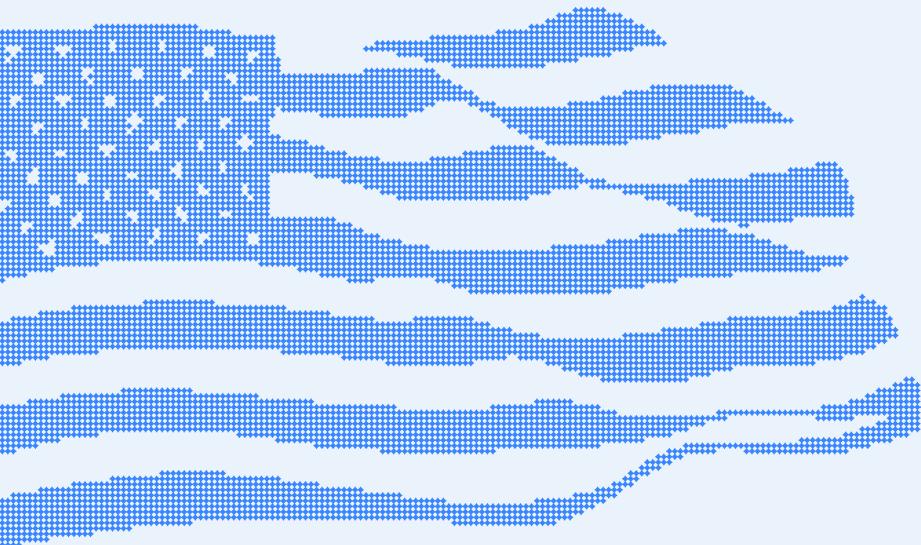
Company earnings are being powered by two interconnected forces: robust economic growth supported by policy tailwinds and expanding profit margins

Economic growth: Expanding output is critical for earnings growth, which is what we are seeing today. The Federal Reserve expects US real GDP growth of 2.3% in 2026, driven by data-centre investment and resilient household spending. This mix of long-term investment in artificial intelligence (AI) and steady consumer activity provides a solid foundation for revenue and earnings growth. Companies such as Microsoft and Amazon Web Services (a subsidiary of Amazon) are clear beneficiaries, with rising cloud demand and accelerating data-centre build-outs supporting stronger top-line performance.

Policy support is reinforcing this momentum. Easing financial conditions and the prospect of further *US interest rate cuts* are lowering borrowing costs for households and corporates there, helping to sustain spending and investment. Meanwhile, President Trump's flagship fiscal policy, the One Big Beautiful Bill Act, is set to stimulate economic activity this year. Recent equity market performance and improving household wealth add another layer of support through stronger spending power and confidence effects to lift the growth backdrop.

Expanding profit margins: This is being driven by two reinforcing forces.

First, companies are boosting revenue through stronger pricing power. This has been made possible by rapid AI adoption and the explosion of digital data generated by smart devices, e-commerce and smartphones - see our article, "*Turning data into dollars*." AI models use this data to fine-tune prices, personalise products and enhance customer engagement, encouraging greater spending.



Second, firms are managing costs more effectively by deploying AI and automation across labour and production processes. These tools help ease wage pressures, lift productivity and optimise staffing, logistics and procurement. This discipline is evident in official data: the labour-compensation share of US GDP fell to 53.8% in the third quarter of 2025, the lowest on record, underscoring how effectively firms are managing labour costs.² The integration of China into the global economy, after joining the World Trade Organisation in 2001, has also reduced workers' bargaining power, allowing companies to convert productivity gains more directly into profits.

Real-world beneficiaries include Meta Platforms, which has expanded operating margins through aggressive cost control and AI-driven efficiency gains. Meanwhile, Procter & Gamble has leaned on algorithmic pricing and supply-chain automation to lift margins.

Looking out

Bringing these macro forces together gives some idea on how S&P 500 company earnings might evolve in 2026. There are two macro indicators that together explain nearly two thirds of the historical variation in EPS growth:

1) The personal consumption expenditure (PCE) deflator - a measure of consumer inflation. Higher inflation is not inherently negative for earnings, as firms may raise prices faster than costs, lifting nominal revenue and supporting margins.

2) Industrial production - a proxy for overall economic growth. This indicator captures business trends and demand conditions that directly influence corporate revenues.

Using the statistical relationship between these series and S&P 500 EPS, as well as incorporating Bloomberg's consensus forecasts for 2026 (i.e. 2.6% for the PCE deflator and 1.4% for industrial production), an estimate of future earnings can be derived. These inputs imply a macroeconomic environment that backs at least 7% EPS growth for S&P 500 companies in 2026, roughly equal to the long term average.

Several forces influencing earnings are not fully captured in macro data. Highly productive technology firms continue to monetise data driven business models at a pace that exceeds what broad indicators suggest. Corporate finance also matters. Share buybacks remain a powerful lever for boosting EPS by reducing share count, even if net profits rise more modestly.

Concluding thoughts

On balance, there is room for EPS growth to match analyst expectations for the full year, though risks remain. If firms are to meet analysts' expectations for 2026, then the US economy must continue to grow (our base case). Additionally, companies will need to deliver further pricing power improvements relative to labour costs for margins to keep expanding.

Investors may feel uneasy about adding to equities when valuations are elevated. Much of the good news already seems priced into markets: the S&P 500 is trading at 22 times earnings, higher than its long-term average of 16 times.² And yet, with earnings momentum still building, companies look set to keep doing what they've done so far in this cycle: earn, baby earn.

Speak to us

Source

¹ Don't blame earnings, Barclays, 5 February 2026

² LSEG Datastream / Evelyn Partners. As at 9 February 2026

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