
Beneath the Headlines: What Earnings Season is Telling Us

April 29, 2025

Key Takeaways:

- **Four of the seven members** of the Magnificent Seven report earnings this week
- **Earnings season is off to a decent start**, but future risks from tariffs and policy changes are looming.
- **Consumer spending remains resilient**, though signs suggest some activity may have been pulled forward ahead of price increases.
- **Tariffs will impact companies unevenly**, highlighting the importance of diversification and understanding sector-specific risks.

The first quarter was peppered with headlines around policy changes, tariffs, and market swings. Now, as earnings season kicks off, we're starting to hear early reports from companies about how these headlines have impacted businesses and what might lie ahead.

So far, over a third of S&P 500 companies have reported earnings. And this week, it's about to get busy: 180 companies are scheduled to report earnings, representing a combined market cap of over \$17 trillion. Included in the barrage of earnings calls this week are four members of the Magnificent Seven: Apple, Microsoft, Amazon, and Meta. Investors will be listening closely for any signs of clarity after a quarter defined by uncertainty.

What's Happened so Far?

With 36% of S&P 500 companies having reported actual results, here's the early read:

- 73% of companies have reported positive EPS surprises
- Year-over-year earnings growth is trending towards 10%. This is compared to the estimated growth rate of 7.2%.
- Health care, technology, and communication services have seen the most companies reporting earnings above expectations.

While it's encouraging this earnings season is off to a healthy start, this may not be reflective of the future prospects of companies as new policy and tariff impacts haven't fully shown up yet. However, some

companies have offered early clues on what's to come, especially around consumer trends, which has been a key driver of economic growth for the past 24 months.

So far, over 90% of U.S. companies reporting first-quarter earnings have mentioned tariffs during their earnings calls. Notable examples include:

- **Consumer Staples:** Some companies lowered sales growth forecasts, attributing the change to challenges in adjusting Chinese sourcing and the impact of a 145% tariff on Chinese imports.
- **Homebuilders:** Certain homebuilders reported that tariffs are likely to add approximately \$5,000 to the average selling price of a new home, affecting affordability.
- **Consumer Durables:** With 80% of its production based in the U.S., one company has positioned itself as a beneficiary of the new tariffs, stating that the trade policies level the playing field for domestic manufacturing.

Key Words from Q1 2025 Earnings Calls



Source: Based on a synthesized analysis of terminology frequently mentioned in Q1 2025 earnings call transcripts.

Overall sentiment is still murky. For example, some companies have cited consumer efforts to purchase ahead of anticipated tariffs may have inflated Q1 performance, implying potential challenges in subsequent quarters. Others have gone ahead and adjusted their 2025 outlook, suggesting effects could start to be felt before year-end.

Interestingly, when examining the [high frequency credit card data](#) around consumer spending, data through April 19th suggests that consumer spending remains resilient, particularly among [higher-income consumers](#). As of April 19th, total card spending was up over 3% year-over-year. Spending on durables – like furniture, electronics, auto parts, and building materials - rose significantly in March. These trends align with what we're seeing in sectors like materials and technology, which have posted some of the largest positive revenue surprises so far.

What's Coming Up?

This week, four of the seven companies within the Magnificent Seven will report earnings. These bellwether names will be closely monitored and heavily scrutinized by investors, as they remain expensive relative to history. These names are also viewed as more exposed to tariffs given how closely their supply chains are tied with China. Despite these headwinds, analysts expect collective year-over-year earnings to increase by 9% for the group. While a strong showing for these names **could provide tailwinds** in the short term, investors would be prudent to remain cautious about the intermediate to longer term performance due to the potential drag from tariffs and policy shifts.

Also on deck: a batch of important economic data, including:

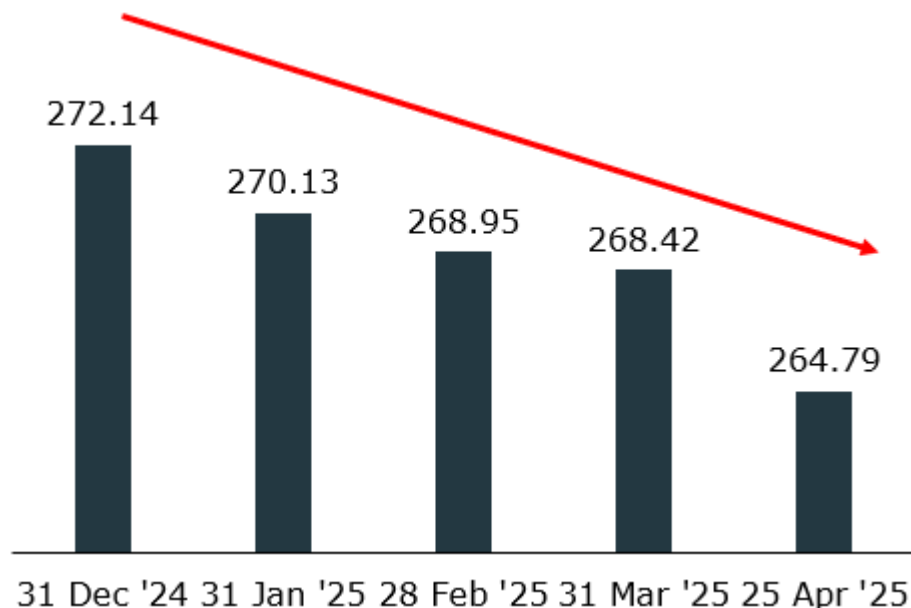
- First quarter GDP
- Personal Consumption Expenditures (“PCE” – the Fed’s preferred inflation gauge)
- ISM manufacturing survey
- The employment report

While most of the hard data will reflect conditions before recent tariff announcements, they will still be important indicators to measure the overall health of the US economy for policymakers and companies heading into a more uncertain environment.

What We’re Watching

- **Earnings Revisions:** While full-year earnings estimate revisions are normal, investors will be watching the magnitude of earnings revisions relative to history. At the beginning of the year, the full-year 2025 earnings per share estimate for the S&P 500 was \$272, but has since fallen to \$265, representing just a 3% downward revision, but revisions have been revised downward at a quicker pace since March. Historically, it’s not the absolute level of earnings that matters most—it’s how quickly estimates are changing that can signal shifts in the economy.

Full-Year 2025 S&P 500 Earnings Per Share Estimates Over Time



- **Consumer Behavior:** Consumers have been an important part of overall GDP growth over the past 24 months. As expected price increases potentially unfold, the behavior of consumers will be an important measure of both economic growth and company level performance. If consumers front-loaded spending in the first quarter, this suggests that revenue growth for certain industries could moderate in the next few quarters. Investors will be tasked with determining how much of the change is a return to normal versus a sign of a weaker consumer.
- **Tariff Impacts:** Tariffs will likely have an uneven impact on companies. For example, US companies that are reliant on global chains, particularly in China, are likely to see cost pressures and a potential softening in demand from consumers if they are forced to raise prices. Conversely, companies that have less exposure to global supply chains with U.S.-based manufacturing could see a positive impact from tariffs if consumers change their buying patterns. Uncertainty associated with the impact of tariffs may cause companies to reduce or limit planned spending on capital expenditures.

Summary

Earnings season so far has played out “OK”, which is a decent place for the market to be in today’s climate of heightened uncertainty. It will be important for investors to distill the drivers of outperformance, particularly within sectors that are thought to have benefitted from pull-forward spending by consumers. Diversification and not being levered to specific companies, sectors, or outcomes has proven over time to provide a smoother ride for investors, especially in uncertain times.

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