
Reading Between the Numbers: Corporate Earnings and Investor Sentiment

February 11, 2025

Earnings reports for last year's fourth quarter are rolling in, and overall, they're shaping up nicely. If current trends hold, the S&P 500 index will notch its highest year-over-year quarterly earnings growth since late 2021.

With the economy doing well and valuations on the high side relative to historical averages, the ability of individual companies to continue to grow earnings will be important going forward. In this week's Markets in a Minute, we size up preliminary fourth-quarter earnings and touch on how the earnings picture may change in the coming year.

Fourth Quarter Highlights

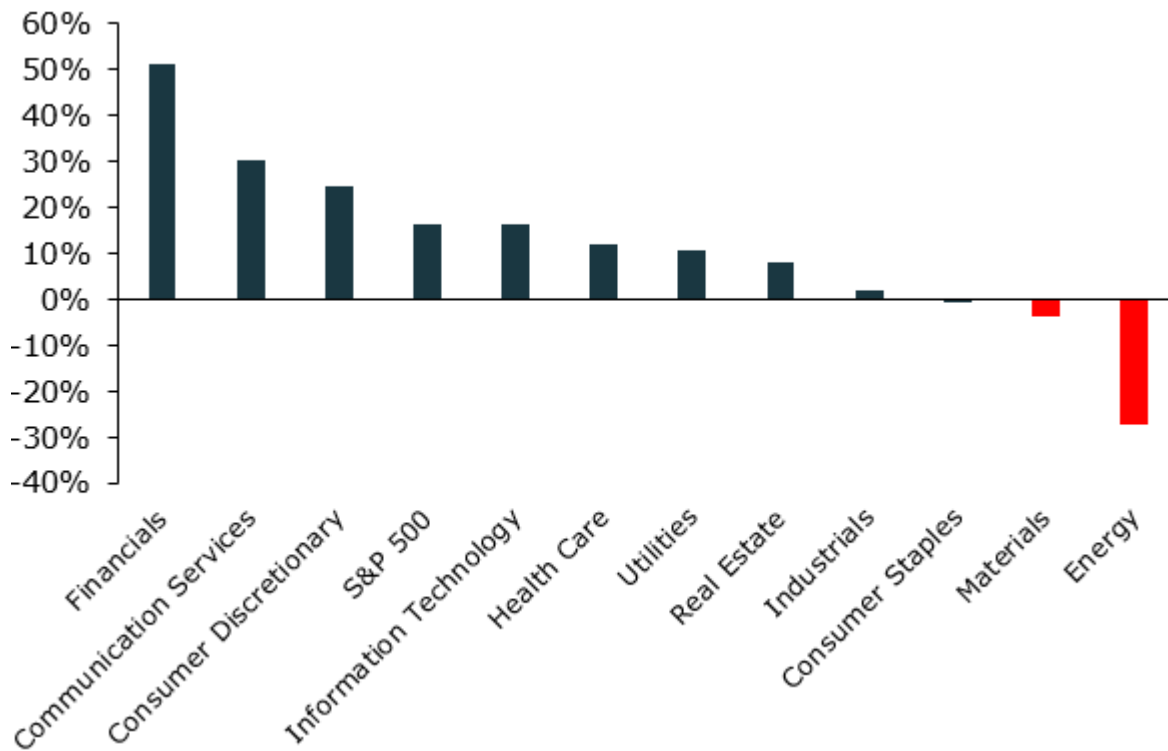
Despite sticky inflation, shifts in [consumer spending habits](#) and other challenges, many of America's largest publicly traded companies saw robust earnings growth in the home stretch of 2024. The S&P 500 index's blended earnings growth rate for the quarter was 16.4% as of Feb 7, with 62% of companies reporting actual results, according to [FactSet](#).

If 16.4% is the actual growth rate for the quarter, it will mark the highest earnings growth rate, on an annualized basis, since the fourth quarter of 2021. It will also mark the sixth consecutive quarter of year-over-year earnings growth, notes FactSet.

Continued economic growth, the [adoption of artificial intelligence](#) (AI) and other productivity-boosting technologies and [corporate cost cutting](#) helped drive earnings higher for many S&P 500 companies.

Among the sectors reporting positive earnings growth, Financials, Communications Services, and Consumer Discretionary are leading the way, posting double-digit gains. The Energy sector has the worst earnings growth for Q4, posting a double-digit decline, although it's expected to rebound in the second half of the year with an [anticipated pickup](#) in global oil demand.

S&P 500 Earnings Growth by Sector, Year over Year, Q4 2024



Forward-looking estimates may not come to pass. Source: Kestra Investment Management with data from FactSet Earnings Insight. Index: S&P 500. Data as of February 7, 2025.

What's Next

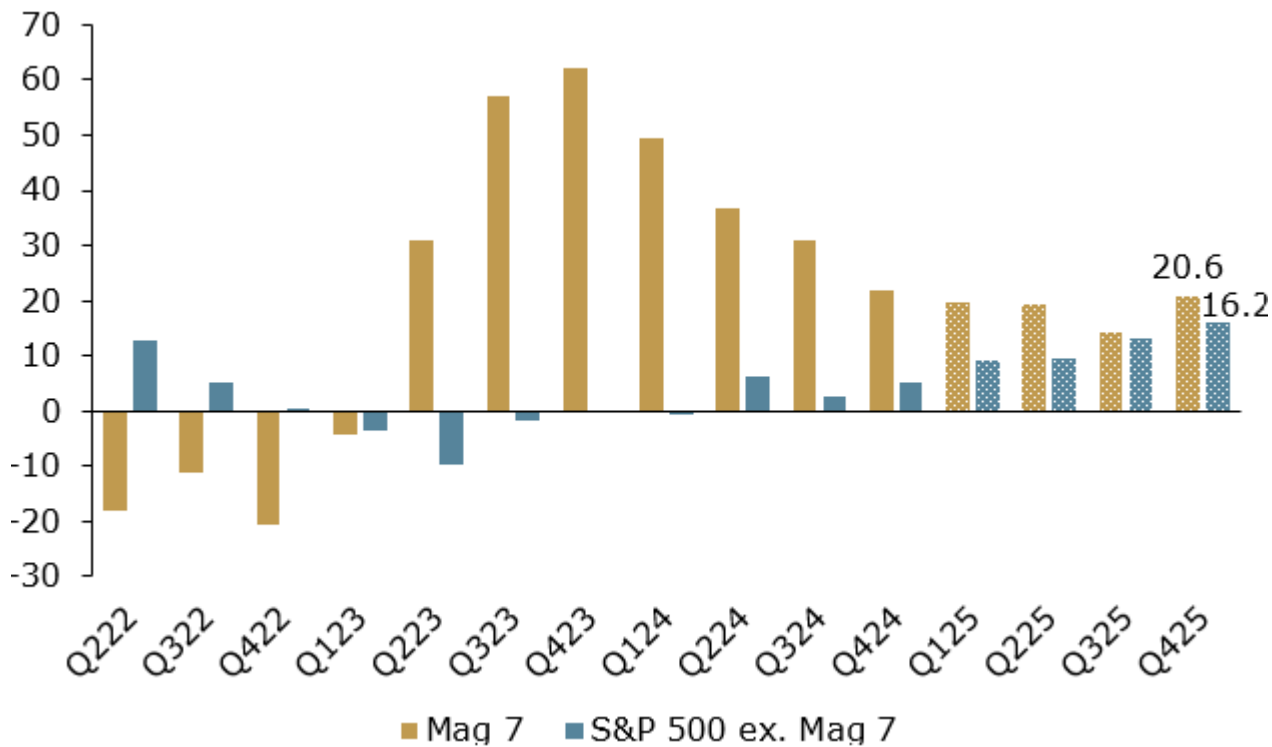
Corporate earnings (or net income) tend to follow the path of the economy, and the U.S. economy is showing decent momentum in early 2025. Meanwhile, inflation has been cooling, although it remains elevated and [policy uncertainty](#) has stoked renewed concerns. And while consumer sentiment has [weakened](#) a bit lately, [household balance sheets](#) are still fairly healthy, among other economic bright spots.

Analysts expect S&P 500 earnings to climb by 14.3% on a year-over-year basis in 2025 as of January 31, 2024. Even if analysts dial back their expectations (which they often do) we have wiggle room to remain within historical norms. The index's 10-year average annual earnings growth rate is about 9% historically.

Passing the Torch

Technology and communications services companies, particularly the [Magnificent 7](#), have posted some of the market's strongest year-over-year earnings growth over the last year and a half. However, their earnings growth rate has slowed over time and is expected to continue to decelerate this year, even as earnings for companies in other S&P 500 sectors pick up.

Magnificent 7 vs. S&P 500 ex. Magnificent 7, Earnings Per Share Growth (%)



Q125 – Q126 represent estimates. Forward-looking estimates may not come to pass. Source: Ned Davis Research and Kestra Investment Management. Index: S&P 500. Data as of January 22, 2025. The magnificent 7 includes Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla.

As noted in our [market outlook](#), we believe companies outside the Mag 7 club offer investors plenty of opportunities, with earnings accelerating and lower valuations. The 10-largest stocks in the S&P 500 now represent a whopping 35% of the index's market capitalization.

In fact, when the market is highly concentrated in a handful of names, the equal-weighted S&P 500 has tended to outperform the market-capitalization weighted index over the next five years. In other words, when big stocks are really big, smaller stocks have tended to do better going forward.

Policy Questions Loom Large

In the new political landscape, policy uncertainty is top of mind for investors and corporate management teams alike. Tariffs, in particular, have been a [major talking point](#) on earnings calls, and it's not hard to see why. Mentions of tariffs on corporate earnings calls have reached their [highest point](#) since 2019, when Trump was last in office, according to FactSet, with industrials companies making the most mentions. Depending on their scope, tariffs can have profound impacts on global trade, corporate profitability and market stability.

That said, where the Trump administration and our trading partners in the eye of the storm ultimately land on tariffs remains to be seen. We can expect a lot more political maneuvering before the dust settles. And, even if more-aggressive tariffs stick, not all companies and sectors will be [affected equally](#). (For a deeper dive into all things tariffs, check out this [recent edition](#) of Money with Murphy.)

The Bottom Line

As always, we're keeping a close eye on current geopolitical and macroeconomic risks. As these issues unfold, we can expect the kind of increased market volatility we saw over the past month. It's worth remembering, however, that the U.S. economy is showing strong momentum heading into the new year, driven by growth in key sectors, resilience in the labor market and other factors. In the near term, the strength of the economy generally bodes well for corporate earnings,

historically a key contributor to long-term market performance.

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