

Client Commentary | May 9, 2025

# Market Commentary

Investing Insights

## Earnings Estimates are Falling – and That’s Good

The first four months of the year were dominated by trade and economic policy uncertainty. But let’s not forget what ultimately matters most for stocks: corporate earnings.

I’ll dive into some details below, but the high-level takeaway is that U.S. corporations held up relatively well in the first quarter, while also scaling back expectations for the quarters ahead. And I see this latter point as good news for stocks.

As I write, roughly half of S&P 500 companies have reported Q1 2025 earnings, and the results show +14.0% year-over-year earnings-per-share (EPS) growth on +4.0% higher revenues. Approximately 72.3% of companies beat their EPS estimates, which is pretty much in line with historical averages. All of these figures point to a solid state for U.S. corporate profitability. <sup>1</sup>

The real story this earnings season, however, is not what happened in Q1. It’s about what corporations are seeing ahead. In short, they see decelerating earnings growth.

For Q2 2025, total S&P 500 earnings (based on companies that have reported) are expected to be up +7.0% from the same period last year on +3.8% higher revenues (see chart below). Estimates for the period have been coming down in a notable way, and we’ve also seen many companies avoid providing guidance altogether—which is rare but understandable in this moment. As more companies report in the coming weeks, I’d expect this revision trend to continue.

## Evolution of 2025 Q2 Earnings Growth Estimates

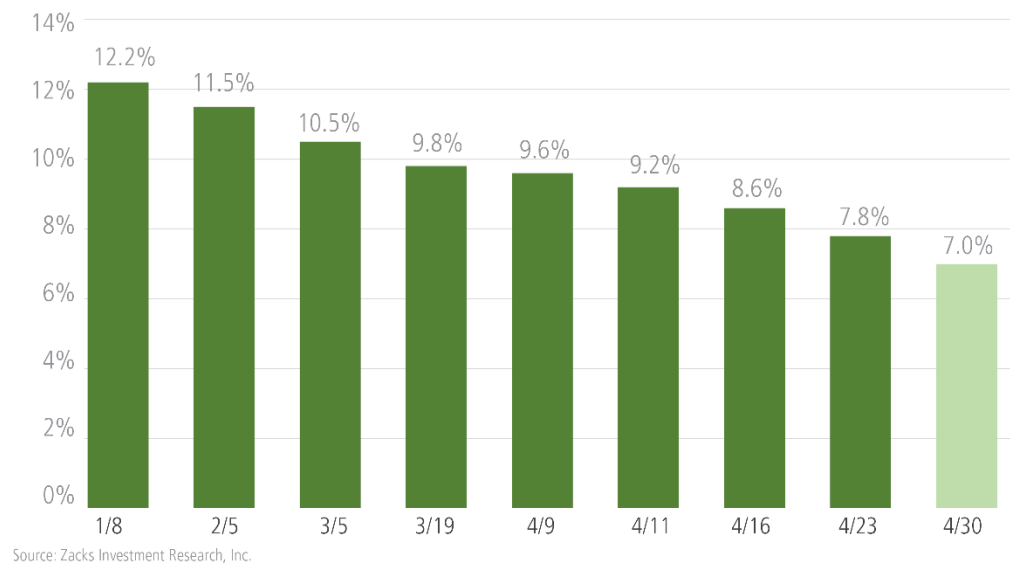


Image Source: Zacks Investment Research

Investors may see this trend and register it as bad news. But it actually may end up being the opposite.

Long-time readers of my columns have seen me make this argument before, whether in the context of earnings expectations or recession fears. As consensus starts to tilt negative and expectations fall, the bar gets lowered for the economy and U.S. corporations to ‘over-deliver.’ And when that happens, stocks tend to rally.

A clear example comes from 2022—Google searches for “recession” spiked as inflation rose and the Federal Reserve shifted into hawkish mode, and a broad majority of economists were calling for economic contraction. But the recession never came, and the stock market delivered exceptional returns in 2023 and 2024 even as the inflation battle was still ongoing. Today, as corporations signal an increasing amount of caution, they are essentially setting the stage for ‘better-than-expected’ outcomes down the road. Investors should see that as a positive.

Remember, even though the outlook for corporate profits is unclear, the underlying fundamentals of the U.S. economy have so far remained stable. Job growth continues at a healthy pace, with the labor market adding an average of 155,000 positions per month over the past quarter—just slightly below last year’s monthly average. Unemployment remains low, and jobless claims have yet to show signs of significant uptick, suggesting employers are cautious about letting workers go.

Some readers may point out that the “advance” estimate of Q1 GDP showed a -0.3% contraction. But the negative growth was largely the result of an import surge tied to tariff uncertainty, rather than a collapse in domestic demand. Consumer spending still grew (+1.8%), and business investment held firm. What I think we’re seeing overall is a broad shift in sentiment and expectations tilting towards the negative, with actual economic data continuing to outperform. That’s a good thing.

## Bottom Line for Investors

Markets do not rise or fall based solely on current earnings. They move on expectations.

Today, we're seeing a significant downshift in what corporations are expecting from an earnings standpoint. While that may seem like a warning sign, for long-term investors it is actually a setup for opportunity. Because while earnings growth is slowing, it is not collapsing, and the first quarter showed solid profit margins and stable revenue gains.

The state of the U.S. economy is also under-appreciated, in my view. Job creation continues, consumer demand is holding up, and business investment hasn't materially weakened—despite ongoing policy noise and tariff volatility. This combination of solid fundamentals and falling expectations creates room for upside surprises, in my view. Historically, when sentiment gets too bearish but economic reality stays steady, markets have a tendency to rally. Investors would be wise to lean into that dynamic rather than fear it.

<sup>1</sup> Zacks. April 30, 2025. <https://www.zacks.com/commentary/2459572/earnings-expectations-shift-lower-a-closer-look>

## STEADY INVESTOR WEEK

---

- **Job growth remains steady**
- **U.S. trade deficit hits a record**
- **China's services sector weakens**

### What to Make of the Recent U.S. GDP and Jobs Reports

A slew of economic data hit the tape last week, and much of it suggested that the U.S. economy held up just fine in the first quarter. The U.S. labor market posted solid gains in April, with employers adding 177,000 jobs. This marks a continuation of stable hiring momentum, with sectors such as health care, transportation, and financial activities leading the way. The unemployment rate held steady at 4.2%. While the jobs market appeared to be holding firm, the U.S. economy experienced a -0.3% annualized contraction in the first quarter, falling short of expectations for a 0.4% increase. The decline was not attributable to a collapse in consumer demand, however, as it was primarily driven by a significant 41.3% annualized rise in imports, which subtracted 5.0 percentage points from the headline GDP figure. The surge in imports was largely driven by businesses accelerating purchases ahead of anticipated tariffs. Government spending also contributed to the GDP decline, reducing growth by 0.25 percentage points. Importantly, however, key private sector components demonstrated resilience. Consumer spending, business investment, and residential investment collectively grew at a 2.6% annualized rate.

Business investment rebounded with a 9.8% annualized increase, including a 22.5% rise in equipment spending and gains in structures and research & development. Residential investment posted a positive contribution, marking an improvement after previous periods of contraction. Overall, while the headline GDP number indicates a contraction, underlying private sector activity suggests the economy remained on solid fundamental footing in Q1.<sup>1</sup>

### U.S. Trade Deficit Hits a Record in March

With imports surging in anticipation of tariffs, the U.S. trade deficit ballooned by 14% to an all-time high of \$140.5 billion. According to Census Bureau data, imports reached \$346.8 billion, fueled by a \$22.5 billion jump in consumer goods—especially pharmaceutical products, which were being eyed for future tariffs. Imports of electronics, vehicles, and automotive parts also contributed to the increase. We would not view this as a trend but rather as a form of “front running,” where companies accelerated shipments to avoid future costs. Although some firms may have continued stockpiling into April, the intense focus on pharmaceuticals likely crowded out spending on other goods like clothing and toys. While the goods deficit hit a record \$163.5 billion in March alone, it was partially balanced by a \$23 billion services trade surplus, with \$95 billion in U.S. services exports—such as travel and financial services.<sup>2</sup>

### China's Services Sector Shows Signs of Weakening

The world's second largest economy showed signs of weakening as the effects of 145% tariffs took hold. China's services sector lost momentum in April, as measured by the Caixin services

purchasing managers index, which declined to 50.7 from 51.9 in March. This marked the lowest reading since September 2024 and suggested a slowdown in growth across the nonmanufacturing economy. The decline in the Caixin index was consistent with China's official nonmanufacturing PMI, which slipped to 50.4 from 50.8. According to Caixin and S&P Global, the growth in new business in the services sector was the weakest in over two years, with export orders rising only modestly. Some companies cited increased tourism demand, but overall business sentiment continued to deteriorate, reaching its second-lowest level since the survey began in 2005. All told, the trade dispute with the U.S. is having effects beyond manufacturing, dampening domestic and global demand in service-related industries as well.<sup>3</sup>

<sup>1</sup> AP News. May 2, 2025. <https://apnews.com/article/trump-jobs-economy-tariffs-unemployment-inflation-5f06fd466b4e05da30d1d6e5ce222790>

<sup>2</sup> Wall Street Journal. May 6, 2025. [https://www.wsj.com/economy/trade/u-s-trade-deficit-hits-record-as-companies-front-loaded-pharmaceuticals-5d7a1720?mod=economy\\_lead\\_pos1](https://www.wsj.com/economy/trade/u-s-trade-deficit-hits-record-as-companies-front-loaded-pharmaceuticals-5d7a1720?mod=economy_lead_pos1)

<sup>3</sup> Reuters. May 5, 2025. <https://www.reuters.com/world/china/chinas-services-growth-hits-7-month-low-tariffs-bite-caixin-pmi-shows-2025-05-06/>

## **DISCLOSURE**

**Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.**

Zacks Investment Management, Inc. is a wholly-owned subsidiary of Zacks Investment Research. Zacks Investment Management is an independent Registered Investment Advisory firm and acts as an investment manager for individuals and institutions. Zacks Investment Research is a provider of earnings data and other financial data to institutions and to individuals.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Do not act or rely upon the information and advice given in this publication without seeking the services of competent and professional legal, tax, or accounting counsel. Publication and distribution of this article is not intended to create, and the information contained herein does not constitute, an attorney-client relationship. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

Any projections, targets, or estimates in this report are forward looking statements and are based on the firm's research, analysis, and assumptions. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this presentation.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties. Zacks Investment Management does not assume any responsibility for the accuracy or completeness of such information. Further, no third party has assumed responsibility for independently verifying the information contained herein and accordingly no such persons make any representations with respect to the accuracy, completeness or reasonableness of the information provided herein. Unless otherwise indicated, market analysis and conclusions are based upon opinions or assumptions that Zacks Investment Management considers to be reasonable.

Any investment inherently involves a high degree of risk, beyond any specific risks discussed herein.

It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns, which will be reduced by fees and expenses.

The ICE U.S. Dollar Index measures the value of the U.S. Dollar against a basket of currencies of the top six trading partners of the United States, as measured in 1973: the Euro zone, Japan, the United Kingdom, Canada, Sweden, and Switzerland. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

Zacks Investment Management, Inc. is a wholly-owned subsidiary of Zacks Investment Research. Zacks Investment Management is an independent Registered Investment Advisory firm that acts as an investment manager for individuals and institutions. Zacks Investment Research is a provider of earnings data and other financial data to institutions and to individuals.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Do not act or rely upon the information and advice given in this publication without seeking the services of competent and professional legal, tax, or accounting counsel. Publication and distribution of this article is not intended to create, and the information contained herein does not constitute, an attorney-client relationship. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

Any projections, targets, or estimates in this report are forward looking statements and are based on the firm's research, analysis, and assumptions. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this presentation.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties. Zacks Investment Management does not assume any responsibility for the accuracy or completeness of such information. Further, no third party has assumed responsibility for independently verifying the information contained herein and accordingly no such persons make any representations with respect to the accuracy, completeness or reasonableness of the information provided herein. Unless otherwise indicated, market analysis and conclusions are based upon opinions or assumptions that Zacks Investment Management considers to be reasonable. Any investment inherently involves a high degree of risk, beyond any specific risks discussed herein.

The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large-company common stocks, mainly blue-chip stocks, selected by Standard & Poor's. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

The Russell 1000 Growth Index is a well-known, unmanaged index of the prices of 1000 large-company growth common stocks selected by Russell. The Russell 1000 Growth Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depository receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Dow Jones Industrial Average measures the daily stock market movements of 30 U.S. publicly-traded companies listed on the NASDAQ or the New York Stock Exchange (NYSE). The 30 publicly-owned companies are considered leaders in the United States economy. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The ICE Exchange-Listed Fixed & Adjustable Rate Preferred Securities Index is a modified market capitalization weighted index composed of preferred stock and securities that are functionally equivalent to preferred stock including, but not limited to, depository preferred securities, perpetual subordinated debt and certain securities issued by banks and other financial institutions that are eligible for capital treatment with respect to such instruments akin to that received for issuance of straight preferred stock. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The CBOE Volatility Index (VIX) is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500 Index call and put options. On a global basis, it is one of the most recognized measures of volatility -- widely reported by financial media and closely followed by a variety of market participants as a daily market indicator. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index. The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. Index composition is reviewed on an annual basis in December. An investor cannot invest directly in an index.