

Key takeaways from equity earnings calls: Q2 2025

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Policy uncertainty is here to stay ... for now.



In the second quarter, several overarching themes emerged from earnings calls, painting a picture of a business landscape in flux. Tariffs and policy uncertainty, which were dominant themes in Q1, continue to weigh on corporate strategy. While there's some clarity compared with earlier in the year, many questions remain. These forces are reshaping supply chains, pressuring margins and redefining competitive advantages. Despite this, consumers remain relatively resilient, and company fundamentals are robust. This combination explains the tone of cautious optimism across earnings calls, with leaders focused on recalibrating strategies rather than retreating, and doubling down on fundamentals like cost control, localization and digital transformation.

Sector views

- **Health care:** Managed care companies face pressure from unexpectedly high utilization rates, particularly in Medicaid and Affordable Care Act exchange populations, potentially squeezing profit margins. The pharma industry has demonstrated consistent growth, though results are overshadowed by potential tariffs and President Trump's Most Favored Nations proposal. President Trump has issued letters to 17 pharma companies requesting lower drug prices for Americans to narrow the gap with EU countries. Despite these political headwinds, innovation remains a bright spot as the industry works toward solutions.
- **Technology:** The technology sector's performance is largely driven by AI momentum, with AI becoming a top C-suite priority. Software companies report productivity gains and improved margins from AI integration, particularly in R&D.

AI-related stocks like hard disk drives, processors and electronic design automation companies have outperformed, though signs of semiconductor fatigue are emerging. Some tech companies report deals being delayed due to macroeconomic uncertainty, with customers hesitating to commit to new projects despite strong interest in AI implementation.

- **Industrials:** Industrial companies show renewed optimism after years of sideways demand, benefiting from tariff clarification, tax breaks and accelerated depreciation. Longer cycle industrial markets with exposure to secular growth drivers like AI data centers, electrification, reshoring, aerospace, defense and HVAC are investor favorites, showing high-single-digit to double-digit growth. Consumer-facing industrial segments remain weak but appear to be approaching bottom, while companies have largely offset tariff headwinds through pricing adjustments.
- **Retail and consumer:** Consumer sector companies face challenging conditions as developed market demand has eased, with alcohol showing the most deterioration followed by food and personal care products. Lower income consumers are driving weakness, benefiting private labels particularly in food categories. The most beaten-down names saw positive stock reactions when meeting tempered expectations, while crowded positions faced greater scrutiny. Companies are increasingly turning to M&A, activist responses and cost-cutting to navigate the difficult environment.
- **Financials:** The financial sector is benefiting from Federal Reserve changes reducing capital requirements, allowing banks to return more capital to shareholders through increased dividends and buybacks. Credit quality remains strong with declining delinquencies, while net interest income guidance was generally maintained. Capital markets performance exceeded expectations, with equity trading up 11% overall. Investment banking showed mixed results though pipelines remain robust, and wealth management platforms are seeing strong inflows. Bank stocks have generally risen during earnings season, reflecting positive investor sentiment.

The bottom line

For investors, the key takeaway is clear: Companies that focus on vigilance and adaptability will prevail in the months ahead. With earnings growth expected to decelerate and tariff-related pressures gradually filtering into balance sheets, forward guidance will be a critical signal. Companies that navigate uncertainty with agility – especially in technology, financials and utilities – may continue to outperform. However, elevated valuations and muted guidance could amplify downside risks for firms that miss expectations. Investors should watch for signs of slowing consumer demand, margin compression and how companies are positioning themselves for a potentially softer economic environment. In this environment, it's important for investors to stay invested while actively and selectively rebalancing toward resilient sectors.

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