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America Delivers: Tech Earnings Surge While Europe Lags

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Executive Summary

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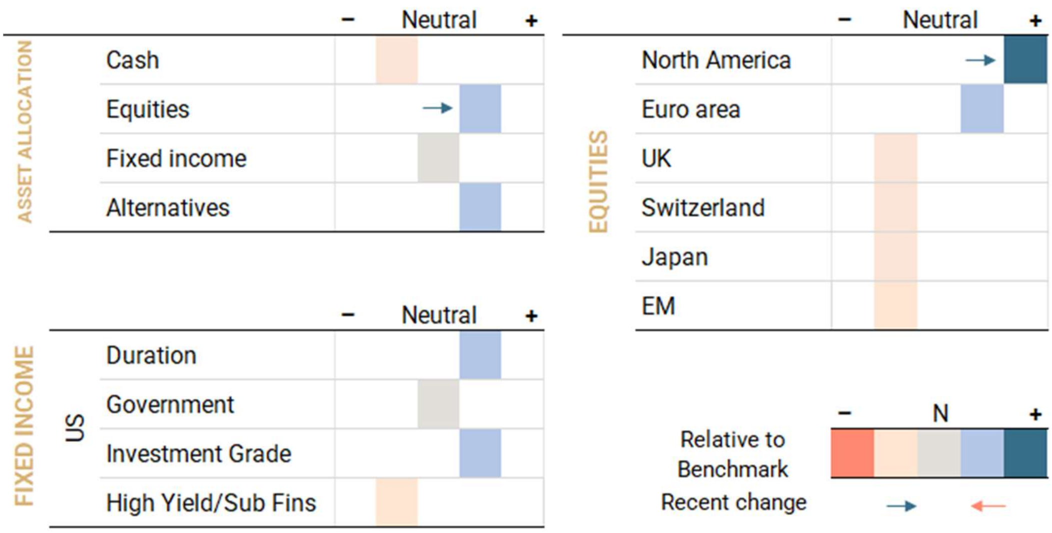
- The U.S. earnings season is proving to be strong, with approximately 10% year-on-year growth reported so far by S&P 500 companies. The performance is being driven by robust results in Technology, Communication Services, and Financials. Notably, the technology sector continues to deliver superior revenue and margin expansion.
- Trade tariffs are unlikely to derail U.S. corporate earnings in the near term. While a 15% tariff regime introduces headwinds for some global exporters, most U.S.-centric companies remain largely insulated. Moreover, recent clarifications on trade policy have helped reduce uncertainty, with markets responding positively.
- We simulated the impact of 10% and 15% tariffs on earnings extracted from GDP, and the strong growth trend of the last 20 years remains firmly intact. Only a recession could reverse this trend, but this seems unlikely given the favourable financial conditions.
- In contrast, European earnings appear much weaker, with Stoxx 600 companies reporting sluggish growth and declining expectations. This earnings softness is primarily due to weak domestic demand and the strengthening Euro.
- The earnings gap between the U.S. and Europe underscores broader macro divergences. U.S. companies continue to justify higher valuations through stronger earnings growth, elevated margins, and global leadership in high-value sectors.
- Looking ahead, we maintain a constructive view on U.S. equities, in sectors with structural growth and pricing power, while remaining cautious on Europe given its earnings headwinds and fragmented policy response to trade and growth challenges. Our small overweight position in Europe is explained by our investments in select individual stocks that are not affected by the structural earnings underperformance discussed above.

Novum's "Investment Mosaic"



	YTD % TR USD	YTD % TR Local
MSCI World	11.1%	11.1%
S&P 500	8.4%	8.4%
S&P 500 Equal Weighted	6.0%	6.0%
Mag 7 Index	6.4%	6.4%
Russell 2000	0.0%	0.0%
Euro Stoxx 50	23.0%	10.0%
SMI Index	17.6%	5.0%
CSI 300 Index	8.1%	6.4%
Hang Seng Index	25.9%	27.3%
Nikkei 225	9.7%	2.7%
MSCI EM	17.3%	17.3%

	YTD % TR USD
S&P 500 Info Tech	13.7%
S&P 500 Comm. Serv	14.9%
S&P 500 Health Care	-2.4%
S&P 500 Financials	8.2%
S&P 500 Cons Discr.	-4.2%
S&P 500 Energy	1.5%
S&P 500 Real Estate	4.0%
S&P 500 Materials	6.3%
S&P 500 Industrials	15.5%
S&P 500 Cons Staples	4.9%
S&P 500 Utilities	17.0%

	YTD % TR USD
US Dollar Index	-8.9%
Bitcoin	21.9%
BBG Precious Metals	24.1%
BBG Energy	0.4%

	YTD % TR USD
LQD (High Grade)	5.6%
HYG (High Yield)	5.5%
US Treasuries Index	4.4%
TSY 2 year (bps)	-55
TSY 10 year (bps)	-37
Bund 10 year (bps)	24
SOFR March 27 rate (bps)	-94

Table 1: YtD returns

U.S. Earnings Season Highlights Continued Outperformance Over Europe

The U.S. equity market achieved a remarkable recovery in the second quarter of the year. The American administration softened its initial stance on tariffs (primarily due to tensions in the Treasury market, with rising yields during a risk-off phase). On the other hand, macro data did not collapse as economists had expected. Most importantly, the stagflationary scenario that many feared has not materialized, with inflation data continuing to surprise to the downside.

GDP growth in the first quarter was negative (-0.3%) due to pre-tariff distortions, while preliminary data for the second quarter showed a rebound to 3%. Half-year growth of over 1.5% therefore remains below trend, but is still acceptable and well above what Europe could expect.

The first chart shows the relative performance of the Euro Stoxx 50 and the MSCI World ex-US compared to the S&P 500. What we saw between the end of the first quarter and the beginning of the second quarter of this year is a corrective episode (similar to 2022) within a trend of superiority of the American market. Economic growth figures are in fact confirmed by earnings trends in both the short and long term.

Although there is a speculative component in the market (Chart 2), with retail investors playing a dominant role (leverage, options, retail flows, unprofitable IPOs), we remain constructive on the U.S. equity market also in absolute terms.

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Chart 1: Europe and RoW vs the US

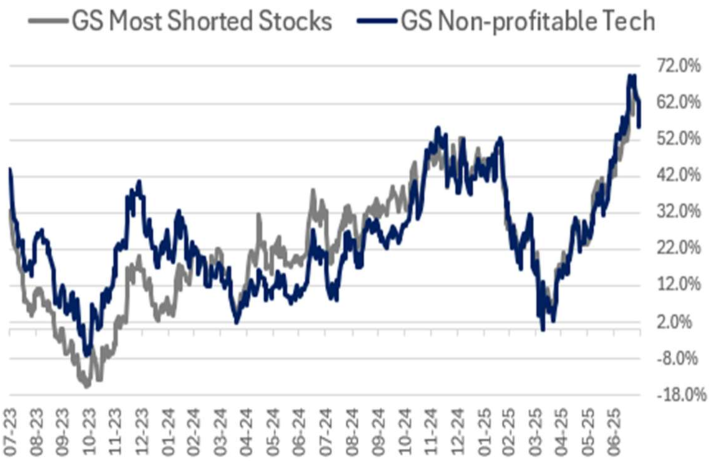


Chart 2: The extreme spec rally after "Liberation Day"

In the U.S., 264 companies of the S&P 500 have reported so far, showing an overall ~10% year-on-year quarterly earnings growth (7% earnings beat), with Financials, Communication Services, and Technology driving this strong growth. Financials surprised positively, although less than Energy, even though the latter is barely growing and only gradually recovering.

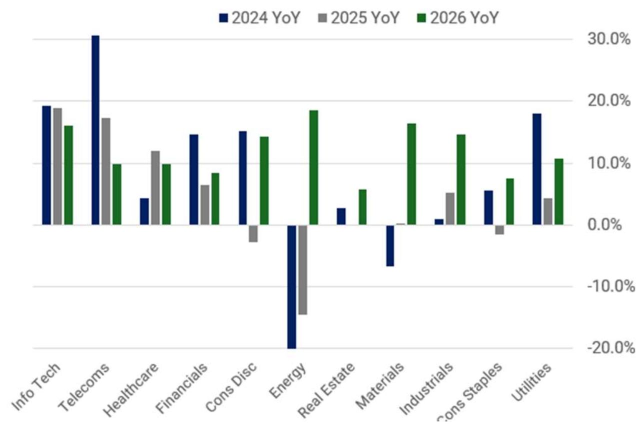
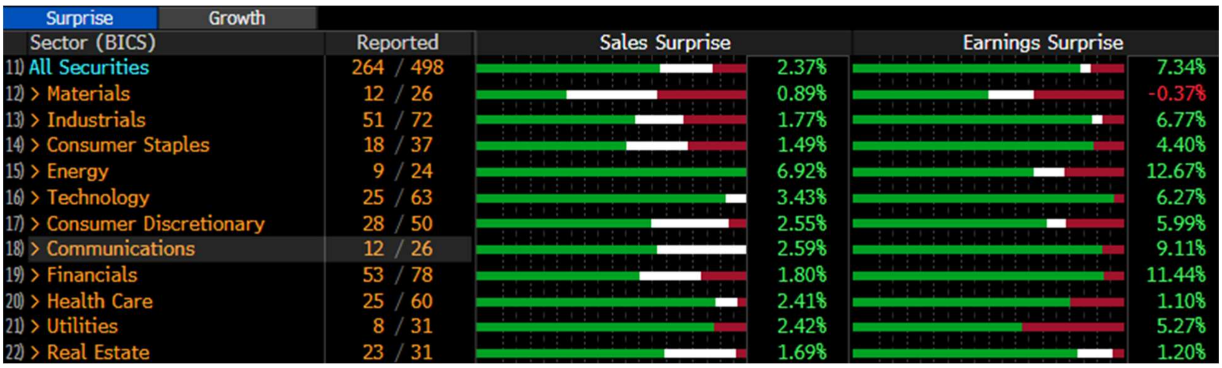


Chart 3: Sector YoY growth



Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	264 / 498	2.37%	7.34%
12) > Materials	12 / 26	0.89%	-0.37%
13) > Industrials	51 / 72	1.77%	6.77%
14) > Consumer Staples	18 / 37	1.49%	4.40%
15) > Energy	9 / 24	6.92%	12.67%
16) > Technology	25 / 63	3.43%	6.27%
17) > Consumer Discretionary	28 / 50	2.55%	5.99%
18) > Communications	12 / 26	2.59%	9.11%
19) > Financials	53 / 78	1.80%	11.44%
20) > Health Care	25 / 60	2.41%	1.10%
21) > Utilities	8 / 31	2.42%	5.27%
22) > Real Estate	23 / 31	1.69%	1.20%

Chart 4: S&P 500 Earnings and sales surprises

In terms of price action (Chart 5), the aggregate impact in the 24 hours following the publication of earnings was moderate. However, at the sector level, there were more significant deviations, indicating that the market was already positioned on certain bets. Energy stocks lost more than 1% on average despite strong positive surprises. The same was true for financials. On the other hand, the market increasingly rewarded technology, consumer discretionary and staples, and finally healthcare.

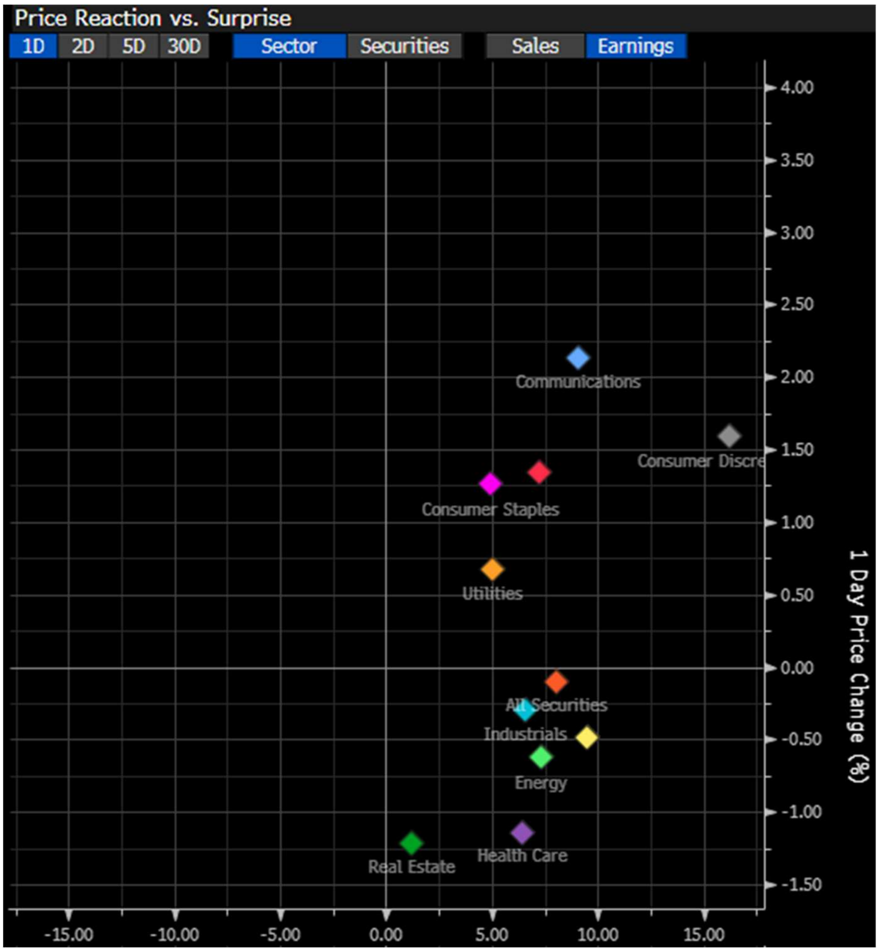


Chart 5: price reaction to earnings announcements

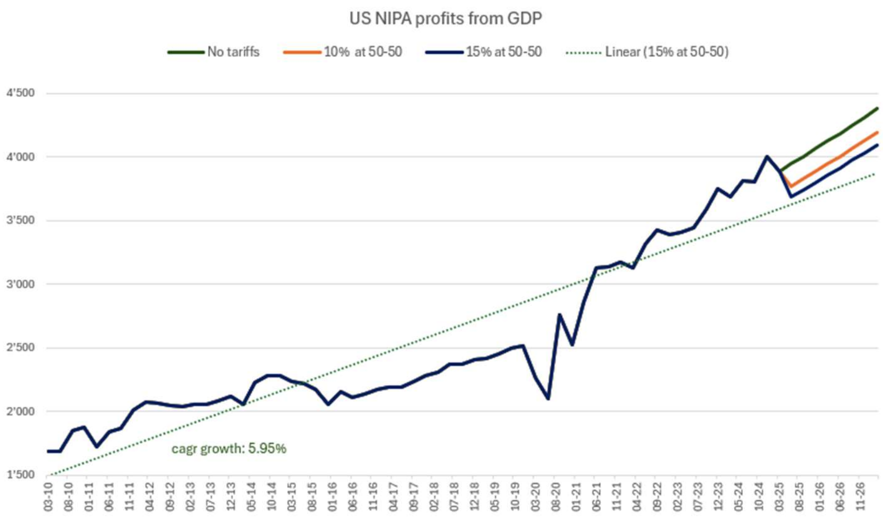
Playing in favor of U.S. companies and against European ones, the USD was on average ~5% lower year-on-year against the EUR in Q2, which was an additional tailwind for American corporates.

Beyond the lackluster earnings season, Europe's forward outlook is also deteriorating. We are indeed seeing that full-year earnings growth expectations continue to decline and could mark a contraction for the entire 2025, compared with 7% growth expectations in the United States.

Chart 6: S&P 500 earnings growth expectations

Chart 7: Euro Stoxx 600 earnings growth expectations

In Chart 6, on the left, we can see how EPS growth expectations for the S&P 500 took a hit between the end of 2024 and the beginning of 2025, falling from 14% to 6%. Thanks to the recovery of MAG 7, expectations are rising again. These figures refer to the bottom-up consensus extracted from Bloomberg. To confirm the validity of these figures, we carried out an exercise extracting the "top-down" figures, i.e. profits derived from the calculation of annual GDP for the whole of America (not just for companies listed on the S&P 500). For a total GDP of 30 trillion, total profits exceed 4 trillion. Tariffs between 10% and 15% represent a range between 300 and 450 billion dollars. Consequently, as can be seen from the Chart 8, the impact on the trend is almost negligible and is now incorporated into the market.



In our simulation, we projected profits assuming annual growth of 5.95%, in line with the past 15 years. Two average tariff scenarios: 10% and 15%

All under the assumption: 50% of tariff cost absorbed by consumers, 50% by corporations.

Chart 8: NIPA profits from US GDP

As usual in this publication, we like to break down the returns (without dividends in this case) of the main indices between changes in multiples and changes in expected earnings. Table 2 shows a clear picture: Europe's entire performance this year is due to a repricing of multiples, probably linked to the German fiscal plan and the rate cuts initiated last year by the ECB, which anticipated the Fed.

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Paradoxically, the MAG 7 have become cheaper, while earnings expectations have started to soar again.

S&P 500	Last	End 2024	(% change)
Index Level	6'370.9	5'881.6	8.3%
EA 1 yr forward	284.5	272.4	4.5%
Forward PE	22.4	21.6	3.7%

Mag 7 Index	Last	End 2024	(% change)
Index Level	28'837.5	27'211.2	6.0%
EA 1 yr forwar	976.7	857.8	13.9%
Forward PE	28.2	30.4	-7.0%

US Large Cap ex Mag 7	Last	End 2024	(% change)
Index Level	2'825.7	2'565.2	10.2%
EA 1 yr forward	110.0	107.9	1.9%
Forward PE	20.9	19.5	7.1%

Russell 2000	Last	End 2024	(% change)
Index Level	2'243.0	2'230.2	0.6%
EA 1 yr forwar	85.1	84.4	0.9%
Forward PE	26.4	26.4	-0.3%

Euro Stoxx 600	Last	End 2024	(% change)
Index Level	550.2	507.6	8.4%
EA 1 yr forward	37.6	38.1	-1.3%
Forward PE	14.6	13.3	9.8%

Japan TOPIX	Last	End 2024	(% change)
Index Level	2'920.2	2'784.9	4.9%
EA 1 yr forwar	190.2	185.1	2.8%
Forward PE	15.3	15.0	1.6%

MSCI EM	Last	End 2024	(% change)
Index Level	1'252.3	1'075.5	16.4%
EA 1 yr forward	96.2	91.0	5.7%
Forward PE	13.0	11.8	10.4%

MSCI China	Last	End 2024	(% change)
Index Level	81.1	64.7	25.4%
EA 1 yr forwar	6.7	6.5	3.8%
Forward PE	12.0	10.0	20.8%

Table 2: PE and EPS change for equity indices

Revenue Growth: The Silent Gap Between U.S. and European Equities

Table 3 below, which we have compiled, says a lot about the reasons behind the U.S. outperformance over the last 15 years. Combining these figures with the macro scenario, we believe there are good fundamental reasons why this trend will continue.

We have used the longest series available for all indices: 23 years for the S&P 500 and Euro Stoxx 600; 9 years for MAG 7 and 'US big caps ex-MAG 7'.

What strikes us most, beyond the now well-known higher growth and margins in the tech sector, is the very low revenue growth of European companies. Since sales closely correspond to nominal GDP growth, we should see a continuation of this divergence in the coming years. In fact, having abandoned its ambition to reduce public spending with the DOGE programme, the Trump administration is pursuing a 'high octane economy' in order to normalise debt and interest rates in relative terms. Real growth of 2% with inflation above the Fed's target (2%) should ensure this outcome. In Europe, on the other hand, nominal growth is unlikely to exceed 3%, with GDP below 1% and inflation now at the ECB target.

	S&P 500	MAG 7	EX MAG	Euro Stoxx 600
EPS cagr	7.6%	35.7%	6.4%	5.0%
Revenues cagr	5.3%	28.3%	4.9%	1.6%
EPS Margins	13.4%	26.6%	11.5%	10.1%
Margins avg	10.7%	21.6%	11.0%	8.0%

Table 3: key metrics for US and European markets

Finally, unfortunately, we believe that the announcement of the tariff deal announced this week is confirmation of Europe's weaker position. The first reports following the meeting between President Trump and President von der Leyen suggest that the EU has agreed to an asymmetrical deal similar to Japan's, according to press articles last week. This raises the question of whether Europe is once again missing its moment. The trade negotiations leave a bitter aftertaste, as key EU nations have shown a clearly divided position. This was always the main risk, given the varying trade exposures across EU countries, but it could have been an opportunity to demonstrate collective interest.

Conclusion

The April correction in the U.S. market appears to have been only a temporary pause and not the start of a reversal in the trend of U.S. outperformance relative to the rest of the world. The performance of European markets this year has been entirely driven by a re-rating of valuations, not by earnings growth (which, in fact, is poised to decline). In the long term, earnings and sales growth for U.S. companies – driven by technology – remain far superior. Higher valuations for American companies are therefore justified by higher margins and greater growth.

Novum Trades History