

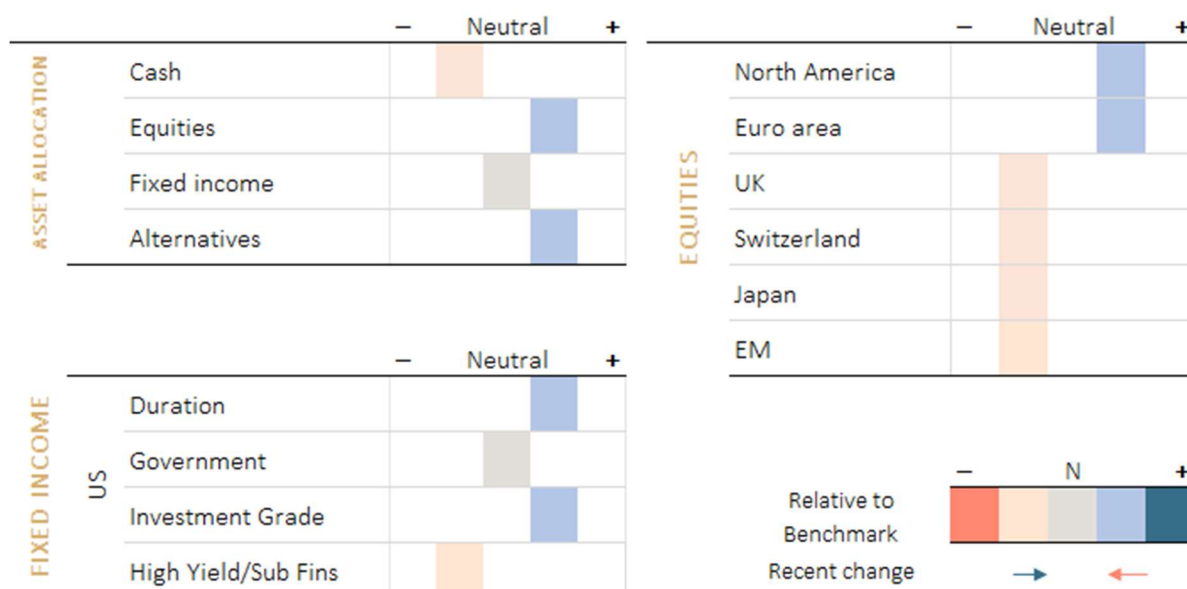
EXECUTIVE SUMMARY



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- The Q3 2025 earnings season for “corporate America” has been characterized by stronger and broader performance across key metrics, leading to upward revisions in full-year EPS estimates, although market reaction at the company level has been mixed and punitive towards misses;
- Stronger Beats: aggregate earnings beats for the S&P 500 were significantly above historical rates in both breadth and size, covering earnings, sales, and margins. The aggregate EPS beat rate rising to 8.4%, substantially above the historical average of 4.9%;
- Sales and Margins: sales beats (2.8% surprise rate) significantly exceeded the historical average of 1.3%. Margin beats also ran well above historical averages, with margins generally projected to rise in Q3, nearing all-time high levels;
- For the whole of 2025, analysts' consensus expects growth of around 10% compared to 2024. The tensions surrounding “liberation day” now seem a distant memory, when the market was brutally cutting forecasts from an expected growth of 14% to 6% YoY.

Novum's "Investment Mosaic"



	YTD % TR USD	YTD % TR Local		YTD % TR USD
MSCI World	19.0%	19.0%	S&P 500 Info Tech	25.1%
S&P 500	15.7%	15.7%	S&P 500 Comm. Serv	23.6%
S&P 500 Equal Weighted	8.5%	8.5%	S&P 500 Health Care	11.9%
Mag 7 Index	20.0%	20.0%	S&P 500 Financials	9.7%
Russell 2000	8.3%	8.3%	S&P 500 Cons Discr.	3.3%
Euro Stoxx 50	34.5%	19.8%	S&P 500 Energy	10.5%
SMI Index	28.1%	12.4%	S&P 500 Real Estate	3.6%
CSI 300 Index	24.1%	20.7%	S&P 500 Materials	5.3%
Hang Seng Index	36.9%	36.9%	S&P 500 Industrials	16.5%
Nikkei 225	30.7%	28.6%	S&P 500 Cons Staples	2.9%
MSCI EM	32.1%	32.1%	S&P 500 Utilities	19.8%

	YTD % TR USD
US Dollar Index	-8.5%
Bitcoin	0.5%
BBG Precious Metals	52.5%
BBG Energy	-3.0%

	YTD % TR USD
LQD (High Grade)	7.1%
HYG (High Yield)	7.0%
US Treasuries Index	5.8%
TSY 2 year (bps)	-64
TSY 10 year (bps)	-42
Bund 10 year (bps)	35
SOFR March 27 rate (bps)	-85

Table 1: YtD performances as of November 14th

MACRO CONTEXT

The U.S. government shutdown has interrupted the flow of official economic data during the past 7 weeks. Key releases such as employment, retail sales, and inflation reports have been suspended, leaving investors and policymakers alike without visibility into the true state of the economy. **In this vacuum, corporate earnings have taken on an outsized importance. The current reporting season for the S&P 500 has become the market's primary source of insight - a real-time indicator of business sentiment, pricing power, and the overall momentum of the U.S. economy.**

Corporate profits are, in many ways, the ultimate residual of economic activity - the sum of all interactions between policy, costs, leverage, and productivity. They represent the most accurate reflection of monetary stance: if policy is too tight, profits contract; if liquidity conditions are supportive, they expand. Historically, every U.S. recession and major equity bear market since the mid-1980s has been preceded by a meaningful drop in corporate earnings. Yet today, there are no signs of such deterioration, quite the opposite. On the contrary, profits per employee have reached record highs, suggesting that despite labor market weakness and policy uncertainty, the corporate sector remains remarkably resilient.

This makes the current earnings season uniquely revealing. Beyond headline results, investors are watching closely for signs of how companies are navigating an economy shaped by slowing labor data, sticky inflation, and an approaching Fed easing cycle. Importantly, a more tolerant stance toward inflation from the incoming Fed in 2026 could amplify pricing power - a dynamic that historically supports both revenue and earnings growth.

In Novum's scenario, the combination of rate cuts, fiscal stimulus, and renewed productivity gains will continue to boost margins. This earnings season could mark the beginning of a profit-driven economic reacceleration, rather than the prelude to a downturn.

Labor market developments

The main risk to our constructive outlook comes from the labor market, which has shown negative signals in recent weeks. Several major tech companies - including Amazon, Microsoft, and Salesforce - have announced significant layoffs. Even in non-government data, some cracks are emerging: indicators such as Job Openings, Challenger Job Cuts, and ISM employment sub-indices also point to a softening trend, though not yet severe.

Part of this deterioration may reflect structural rather than cyclical factors - including the DOGE public-sector efficiency plan, the impact of AI (with Professional & Business Services down 74k jobs over the past four months), and stricter immigration policies.

We therefore need to monitor the labor market closely. While companies may continue to post higher profits in the short term through cost reductions, there is clearly a breaking point where consumers stop spending due to job losses or the fear of losing their jobs. Unfortunately, if layoffs are driven not by cyclical weakness but by policy (anti-immigration measures) or technology (AI substitution), Fed rate cuts would prove largely ineffective.

In recent weeks, we have also seen some signs of stress in the money market and some write-downs of private credit-related assets, prompting Jamie Dimon to remind us that ‘there is never just one cockroach’. Consequently, this is another area to monitor, as it could fuel further spikes in volatility, as seen in the first week of the month.

The Supreme Court and U.S. Trade Policy

Another major development last week was the Supreme Court hearing on the legality of several Trump-era tariffs. The Court appears inclined to limit the scope of presidential authority to unilaterally “regulate” trade, raising the likelihood that parts of these tariffs could be struck down.

Novum believes, however, that even if the Court rules against the current framework, it is unlikely to mandate refunds of the estimated \$100 billion in tariffs already collected - both for logistical and economic reasons, given the difficulty of identifying who ultimately bore the cost. The idea of a \$2,000-per-household “tariff rebate” proposed by the Trump administration is viewed as politically symbolic rather than economically realistic, and is unlikely to advance through Congress.

Inflation risk

Finally, with Washington reportedly close to a deal to reopen government operations, economic data releases should soon resume - providing fresh insight into underlying inflation dynamics. Based on Novum’s analysis, there remains a modest risk of inflation pass-through and a potential rebound in the coming months, partially offset by a slowing economy. As the chart (1) below illustrates, while the latest YoY CPI print appeared benign, the 3- and 6-month annualized measures have started to re-accelerate, suggesting another reason for consolidation in equities ahead.

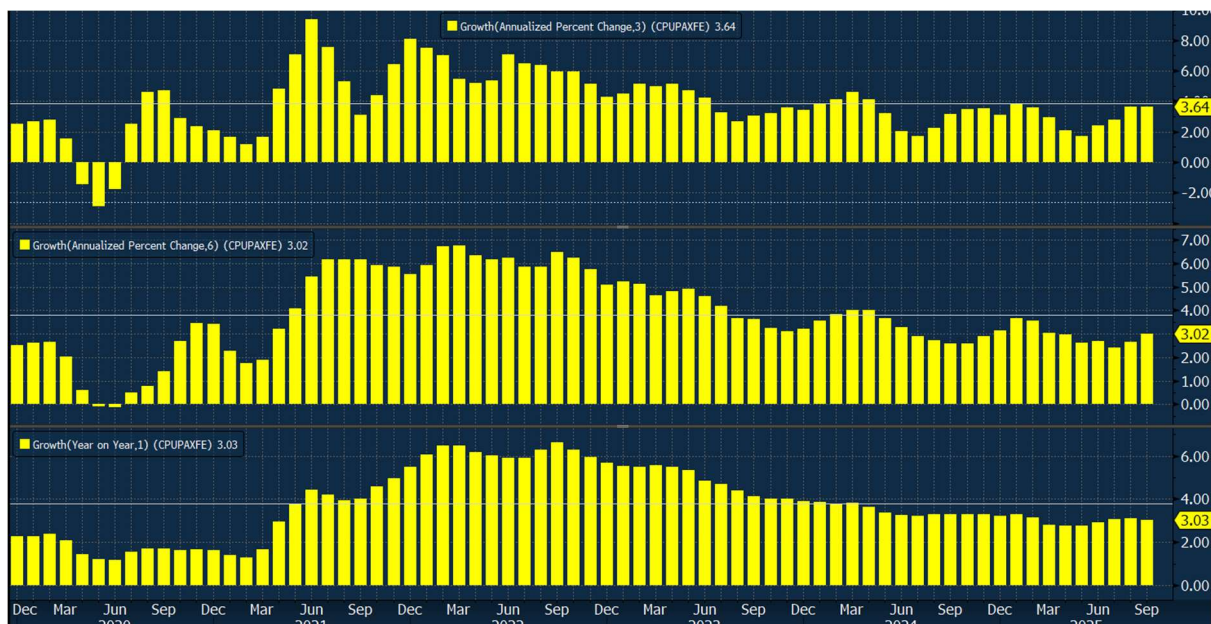


Chart 1: US CPI core, 3 and 6 months annualised, and YoY

Q3 EARNINGS SEASON

Consensus expectations overall see 2025 EPS growth at 10% and 2026 EPS growth at 12%. Furthermore, company guidance has been constructive, resulting in a median increase of +30bps for 2026 EPS and Capex consensus expectations following Q3 reports.

The second table shows the year-on-year growth of the main international indices. It is clear that America, driven by technology, is showing much higher earnings growth rates than other countries. This explains the higher valuations. The good performance of non-US markets in 2025 is in fact entirely dictated by the expansion of multiples.

	2020 YoY	2021 YoY	2022 YoY	2023 YoY	2024 YoY	2025 YoY	2026 YoY	2027 YoY
S&P 500	-11.9%	47.3%	4.6%	0.9%	10.4%	10.3%	11.9%	11.9%
Russell 2000	-53.4%	201.0%	-17.3%	8.8%	-10.9%	18.8%	35.9%	27.8%
Mag 7	73.6%	82.9%	-12.9%	53.2%	52.5%	24.7%	15.6%	14.4%

	2020 YoY	2021 YoY	2022 YoY	2023 YoY	2024 YoY	2025 YoY	2026 YoY	2027 YoY
Eurostoxx 50	-26.0%	50.5%	20.1%	9.5%	-3.0%	-1.9%	7.5%	10.6%
CSI 300	-6.4%	2.3%	-5.0%	-5.6%	-2.4%	5.5%	11.7%	15.6%
Topix	-36.0%	108.2%	-3.8%	23.3%	12.5%	-1.6%	11.7%	10.0%

Table 2: expected YoY EPS growth for major indices

Looking more specifically at growth in 2025 and 2026 (Chart 1 – S&P 500), we see how expectations for 2025 first plummeted around Liberation Day, only to recover in recent months. The message is that the impact of tariffs appears to be less than feared in April. Once the shock has been absorbed, corporations appear well positioned to increase profits in 2025 and 2026.

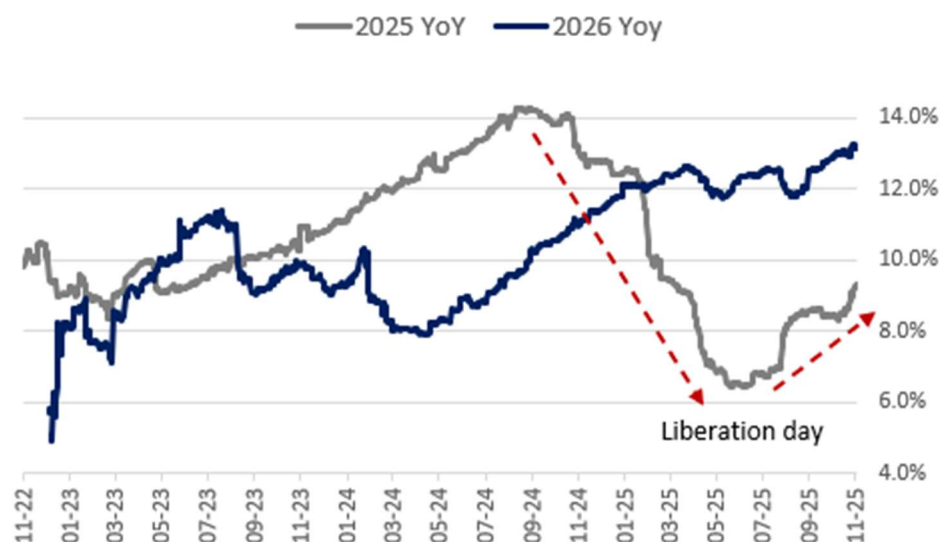


Chart 2: S&P 500 2025 and 2026 YoY expected EPS growth

Chart number 2 shows how this recovery in year-on-year earnings growth was made possible by continuous and solid surprises during the current season. In the last three quarters, positive surprises were in the order of 7%–8% compared to the traditional 4%–5%, which corresponds to the margin of caution that CEOs maintain so as not to disappoint analysts during the reporting phase.



Chart 3: quarterly EPS growth and positive surprises – S&P 500

However, the market response in terms of price action has not been so favourable, a sign that, at current valuation levels, much of the positive news was probably already priced in. In the week of writing, we are also seeing a slight correction in share prices, without any specific negative news. This is nothing to worry about for the moment; on the contrary, in our opinion, it is a healthy consolidation, necessary to improve investor positioning.

Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	430 / 498	2.12%	6.68%
12) > Materials	25 / 25	0.81%	5.81%
13) > Industrials	68 / 73	0.81%	1.71%
14) > Consumer Staples	26 / 37	0.14%	4.25%
15) > Energy	21 / 23	5.24%	5.14%
16) > Technology	44 / 63	1.49%	8.13%
17) > Consumer Discretionary	39 / 49	2.91%	13.85%
18) > Communications	19 / 27	1.38%	-2.85%
19) > Financials	76 / 79	2.83%	8.73%
20) > Health Care	55 / 60	2.23%	12.35%
21) > Utilities	27 / 31	1.32%	6.98%
22) > Real Estate	30 / 31	2.03%	4.16%

Table 3: sector surprises for S&P 500

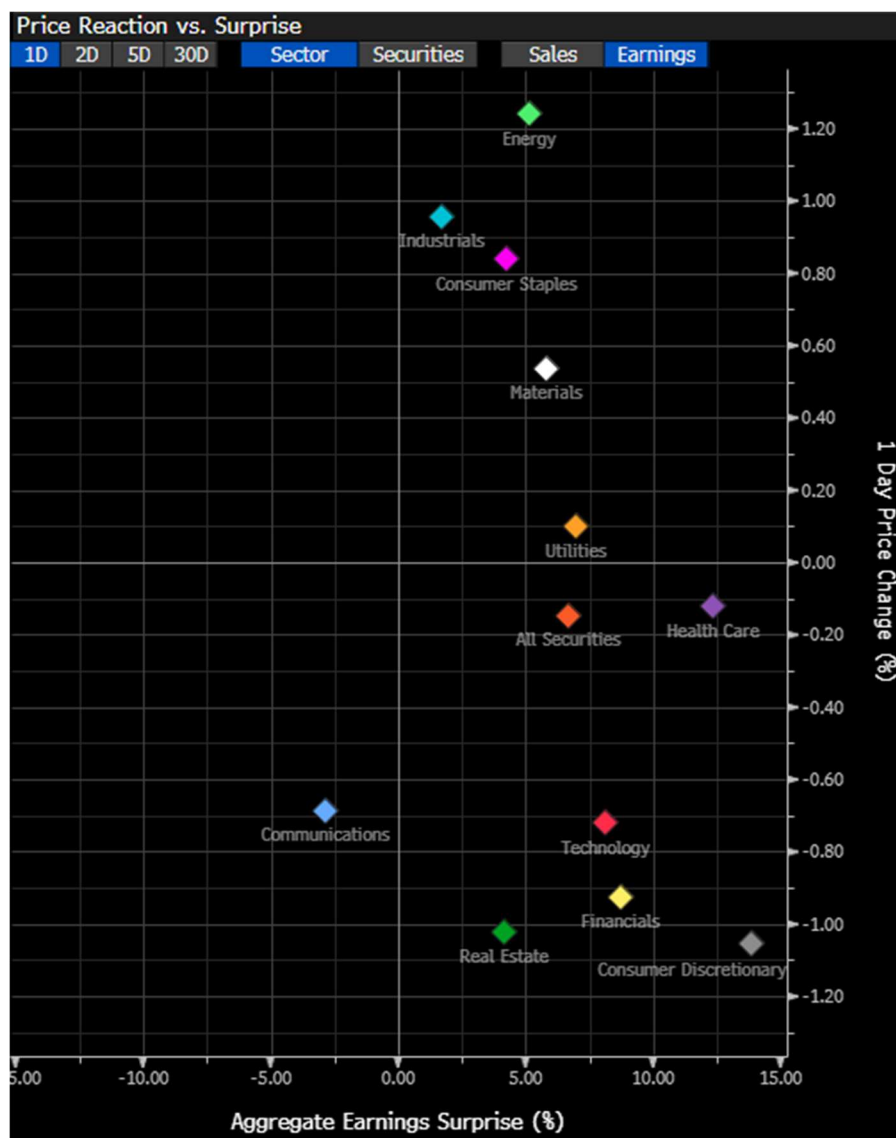


Table 4: sectors' reaction after earnings publication

Growth dispersion significantly improved, illustrated by the rise in the number of sectors reporting positive earnings growth, increasing from just 2 in Q2 to 6 in Q3. While MCG & Tech (Mega-Cap Growth & Tech) continued to lead, with growth accelerating further from 27% in Q2 to 29% in Q3, growth outside of this powerful group also picked up notably. Growth excluding MCG & Tech increased from 1.4% in Q2 to almost 6% in Q3

Sectors that saw positive growth acceleration in Q3 include:

- Financials: Growth picked up sharply from 14% to 24%
- REITs: Turned positive from 0% to 11%.
- Materials: turned positive from -6% to 6%.
- Utilities: Increased from 1% to 8%.
- Industrial Cyclical: Rose from 2.5% to 4.8%.

Conversely, weakness remained focused on consumer-facing goods companies, both cyclical and defensive. Sectors still reporting negative growth in Q3 included Consumer Cyclical, Energy, and Consumer Staples. Table 5 shows the YoY growth rates for each sector, as well as the performance of the indices since the start of the earnings season. The market appears to have some concerns about the strength of low-to-medium spending consumers.

	Earnings growth			Performance
	2024 YoY	2025 YoY	2026 YoY	Current EA season
Info Tech	19.3%	24.4%	22.3%	2.4%
Comm. Services	30.7%	22.3%	5.1%	0.9%
Healthcare	4.2%	13.0%	7.4%	2.0%
Financials	14.6%	8.1%	7.7%	-1.9%
Cons Disc	15.1%	-1.4%	14.2%	2.6%
Energy	-21.4%	-14.4%	8.1%	2.2%
Real Estate	2.6%	2.3%	3.1%	-2.2%
Materials	-6.7%	-1.3%	21.3%	-4.4%
Industrials	0.9%	5.0%	13.3%	0.0%
Cons Staples	5.6%	-2.4%	6.7%	-4.2%
Utilities	18.1%	6.1%	8.9%	-4.3%

Table 5: YoY sectors EPS growth and performance since the start of the current earnings season

Finally, a positive note on margins: in addition to earnings and sales, margins also demonstrated positive performance. Margin beats were running well above average, both in breadth and size. The overall S&P 500 margins are on track to rise in Q3, nearing their all-time high levels. Consensus forecasts anticipate net margins for the S&P 500 to be around 13.5% in Q3 2025

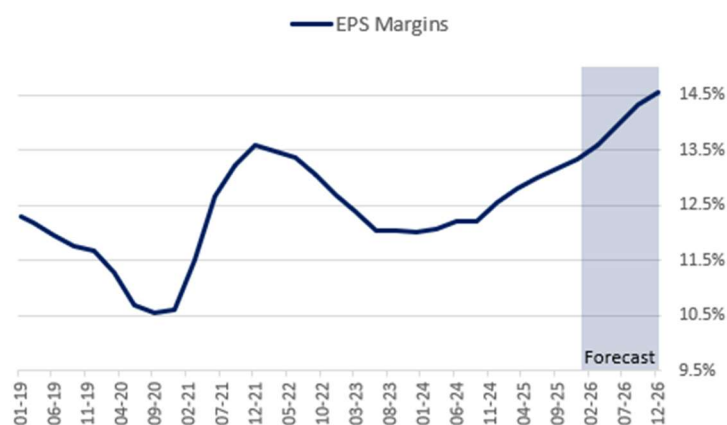


Chart 4: S&P 500 margins

Novum's Trades History

