

Executive Summary



Vittorio Treichler
Partner & Strategist

- The Q4 2025 earnings season is defined by two seemingly contradictory truths: fundamentals are exceptionally strong, yet equity price action has been underwhelming.
- Global earnings growth accelerated to +10.7% YoY (a 3.5-year high), while U.S. earnings reached +14.5% YoY (a 4-year peak), alongside record-high margins.
- Despite these results, the S&P 500 has been essentially flattish over the reporting window, highlighting a clear disconnect between fundamentals and near-term performance.
- The gap reflects, first, stretched positioning and elevated expectations going into the season-creating a “sell-the-news” setup where even solid beats failed to re-rate stocks.
- Second, investors faced “sticker shock” from sharply higher hyperscaler CapEx plans: the five largest spenders are now expected to invest roughly \$660bn in 2026, following a \$120bn upgrade since the season began.
- CapEx intensity is the key issue: spending is projected to absorb around 92% of operating cash flows, pressuring free cash flow and buybacks while the timing of AI monetisation remains uncertain, driving a meaningful internal rotation beneath the headline index.

YTD performance

World Equity Indices

	YTD % TR USD	YTD % TR Local
MSCI World	3.0%	3.0%
S&P 500	0.7%	0.7%
S&P 500 Equal Weighted	7.0%	7.0%
Mag 7 Index	-6.8%	-6.8%
Russell 2000	6.2%	6.2%
Euro Stoxx 50	7.0%	6.2%
CSI 300 Index	3.8%	1.9%
Hang Seng Index	3.4%	3.9%
Nikkei 225	17.2%	17.0%
MSCI EM	14.9%	14.9%

S&P 500 Sectors

	YTD% TR USD
S&P 500 Info Tech	-5.5%
S&P 500 Comm. Serv	0.4%
S&P 500 Health Care	3.5%
S&P 500 Financials	-6.1%
S&P 500 Cons Discr.	-3.8%
S&P 500 Energy	25.2%
S&P 500 Real Estate	9.4%
S&P 500 Materials	17.8%
S&P 500 Industrials	14.3%
S&P 500 Cons Staples	16.3%
S&P 500 Utilities	11.9%

Key Thematic Indices

	YTD % TR USD	YTD % TR Local
ARK Innovation ETF	-5.2%	-5.2%
Software ETF	-22.8%	-22.8%
GS Uranium	16.6%	16.6%
GS Cyclical	5.2%	5.2%
BBG Defensive Sectors	10.56%	10.56%

Fixed Income

	YTD% TR USD
LQD (High Grade)	1.7%
HYG (High Yield)	0.6%
US Treasuries Index	1.7%
TSY 2 year (bps)	-10
TSY 10 year (bps)	-23
Bund 10 year (bps)	-21
SOFR March 27 rate (bps)	-14

FX & Commodities

	YTD % TR USD
US Dollar Index	-0.7%
Bitcoin	-24.3%
BBG Precious Metals	24.0%
BBG Energy	22.3%

Data as of 27 February

From a purely data-driven perspective, the current earnings season has been a resounding success. Corporate health has proven resilient despite significant macro and geopolitical uncertainty.

The surge in global earnings to 10.7% YoY was finally joined by Emerging Markets (MSCI EM), which saw a 12.8% jump. This EM outperformance was largely fueled by AI-related demand in Asia (specifically Korea and Taiwan) and rebounding commodity prices in Latin America. In the U.S., the S&P 500's 14.5% growth marks the highest level since the 2021 post-pandemic reopening boom (Chart 1).

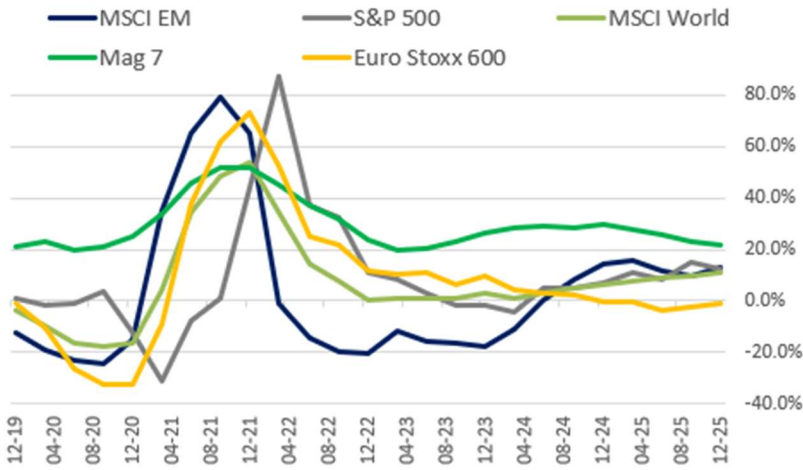


Chart 1 - YoY EPS growth rates for key indices

	Blended aggregate (%)*			
	US	Europe	Japan	EM
Index	14.5	-0.1	-4.3	28.6
Financials	12.2	12.5	8.6	16.4
Real Estate	3.4	2.6	24.2	29.0
Energy	2.1	-12.4	-30.7	31.6
Materials	26.7	31.3	0.3	101.9
Industrials	14.7	-17.4	-6.2	30.5
Tech	34.3	3.5	30.9	72.4
Comm Serv	13.5	9.0	11.3	14.2
Cons Disc	0.2	-13.1	-30.5	-8.5
Cons Staples	3.9	-0.9	168.4	8.9
Health Care	0.7	-5.3	7.3	35.0
Utilities	6.2	25.0	-3.0	54.2

Chart 2 -Sector growth in the US and other countries, from Deutsche Bank

Crucially, growth is no longer confined to a handful of tech giants. For the first time in over two years, the market witnessed a sustained broadening of earnings. In the S&P 500, 8 out of 11 sectors reported material year-over-year growth, a significant improvement from only two sectors earlier in the year. Materials led the cyclical charge with a 26.7% growth rate, followed by strong results in Financials and Industrials (Chart 2).

US corporate margins have remained remarkably stable at record-high levels. Furthermore, the quality of results remains high: 80% of S&P 500 companies beat earnings estimates, with the aggregate size of those beats (6.4%) remaining well above historical averages (Chart 3).

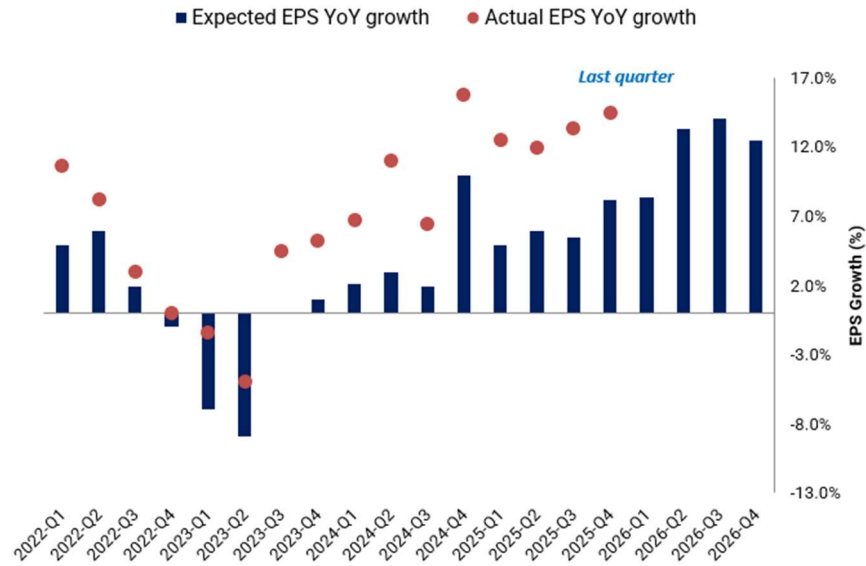


Chart 3 - S&P 500 EPS YoY growth and surprises

Despite the "major magnitude of upside" relative to expectations, the market reaction has been disappointing. Heading into mid-January, investor sentiment and positioning were extremely stretched. The market had already "priced in" much of the fundamental strength, meaning companies had to deliver extraordinary results just to maintain their current valuations. This created a "Little Care" phenomenon where impressive reports were met with a shrug or outright selling. The cynicism has been most visible in the Technology sector. Tech companies declined by an average 2.1% the day after beating on both sales and earnings!

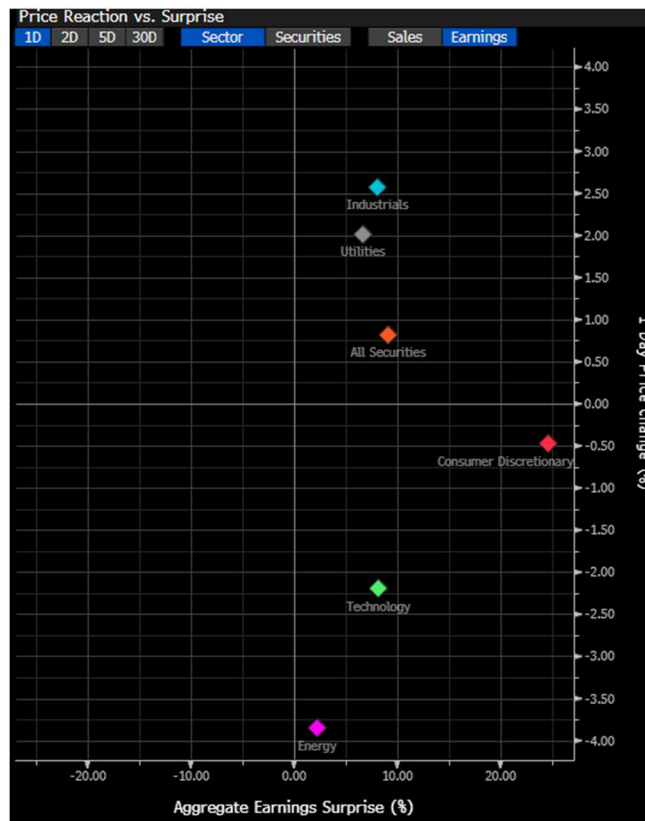


Chart 4 - price reaction after earnings release

While the headline S&P 500 is barely positive YTD, an important internal rotation is occurring. Investors moved away from crowded Mega-Cap Tech positions and into the "average" stock. Consequently, the equal-weighted S&P 500 is outperforming the cap-weighted index by the widest margin in since 2021-2022.

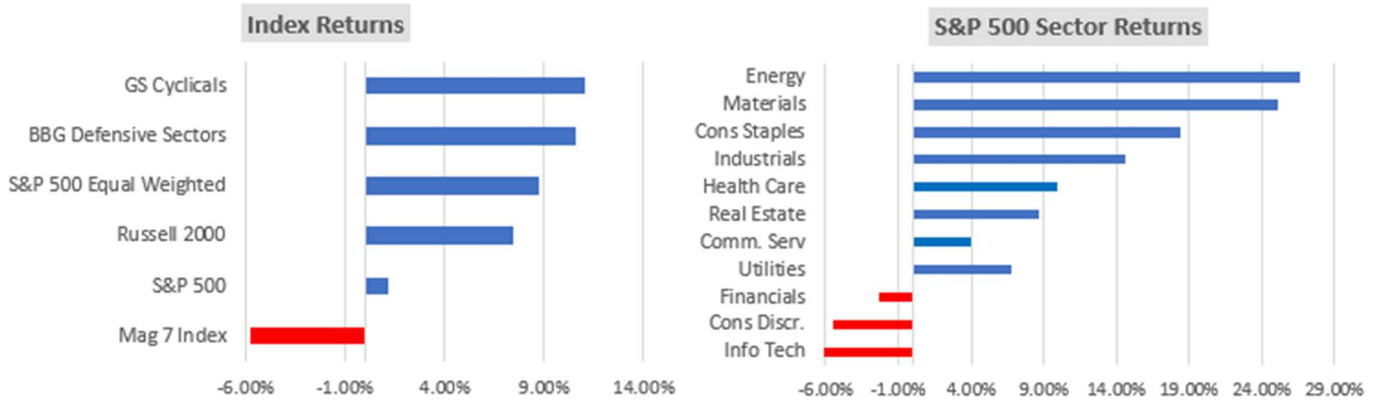


Chart 5: YTD returns for key style and sector indices

Investors increasingly think that identifying the ultimate AI winners and losers is becoming harder, that valuations across the AI/"knowledge economy" complex look stretched, and that too many names are priced for outcomes that are difficult to predict with confidence.

Software is the sector most under pressure. Investors' attitude is to "shoot first, ask questions later" de-rating of business models tied to the organisation, dissemination, and storage of knowledge. This is a sharp reversal from the prior decade when intangible, scalable knowledge assets were treated as uniquely valuable.

The arrival of AI has shifted the market debate toward pricing power, customer switching/build-vs-buy decisions, and long-term defensibility, prompting investors to reassess legacy software paradigms.

In that context, the market's positioning has been described as a move from YOLO (You only live once) exposure (high-expectation growth narratives) toward HALO (a label popularised by Morgan Stanley, standing for "Heavy Assets, Low Obsolescence"). Simpler, more tangible business models where the risk of rapid technological obsolescence is perceived to be lower (energy, materials, staples, industrials). This dynamic is consistent with a broader preference for operational visibility and balance-sheet resilience while uncertainty around AI-driven competitive shifts remains high.

This earnings season, the most potent headwind for U.S. equities has been the sharp upward revision of Big Tech "hyperscalers" capital expenditure plans (Amazon, Microsoft, Alphabet, Meta and Oracle). Analysts now expect these five companies to spend roughly \$660bn of CapEx in 2026, a \$120bn upgrade since the start of the season. The concern is not only the absolute size, but the intensity: hyperscaler CapEx is now projected to absorb around 92% of cash flow from operations, a level that would surpass the investment burden seen during the late-1990s tech bubble.

This “CapEx creep” is reshaping how investors frame the group, from asset-light, high-margin cash generators into businesses with materially higher capital intensity and larger, front-loaded cash commitments.

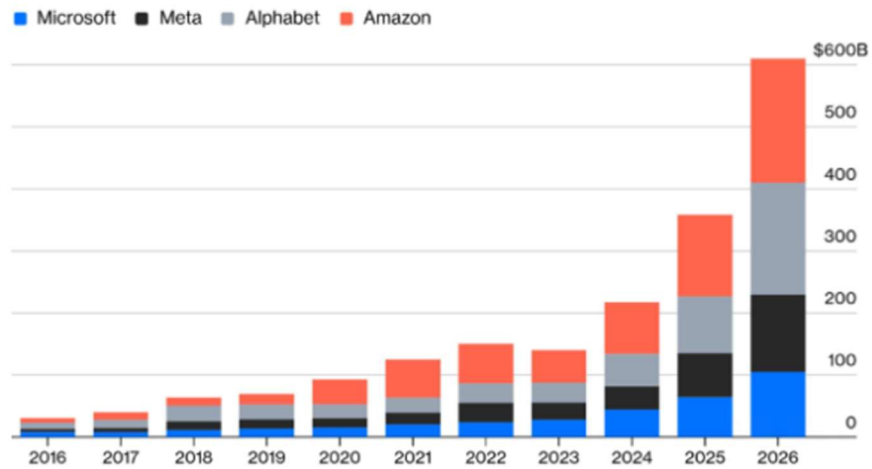


Chart 6: Capex evolution, Source FT

Against that backdrop, the next two charts (forward 12-month P/E multiples by S&P 500 sector, and expected free cash flow trends) help explain the market’s recent rotation. At the index level, the aggregate multiple is modestly lower year-to-date (about -3.9%), largely because forward earnings expectations have improved while price performance has been broadly flat.

Beneath the surface, however, the dispersion is striking: sectors tied to the “real economy” and defensives, like consumer staples, have re-rated meaningfully without a commensurate uplift in earnings expectations. At the same time, Tech leadership has de-rated, with the “Mag 7” seeing a pronounced compression in valuations. The net result is a clear convergence in sector multiples, with many areas converging in the 20-24x range. Regardless of whether parts of Tech now look inexpensive, the more important observation is that several “traditional” sectors no longer screen as cheap.

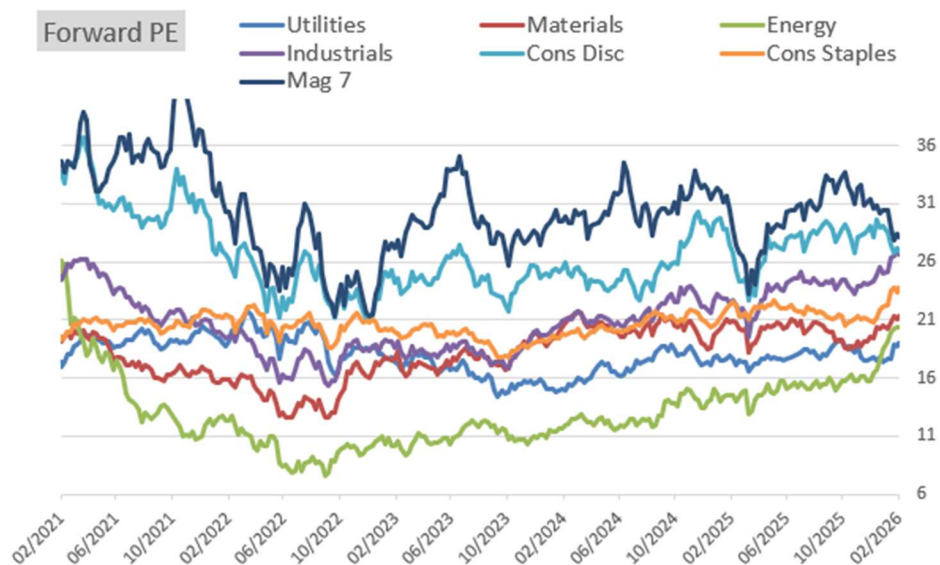


Chart 7: evolution of Forward PE across sectors

The free cash flow chart reinforces the same message. The Mag 7 show a visible deterioration in expected FCF generation, consistent with the surge in CapEx plans. By contrast, materials stand out as one of the few sectors with a notable improvement in cash flow expectations, supported by the cumulative impact of higher commodity prices over the last two years. Utilities continue to see weaker cash flow dynamics, yet recent market attention has largely shifted elsewhere as investors prioritize perceived earnings resilience and balance-sheet visibility.

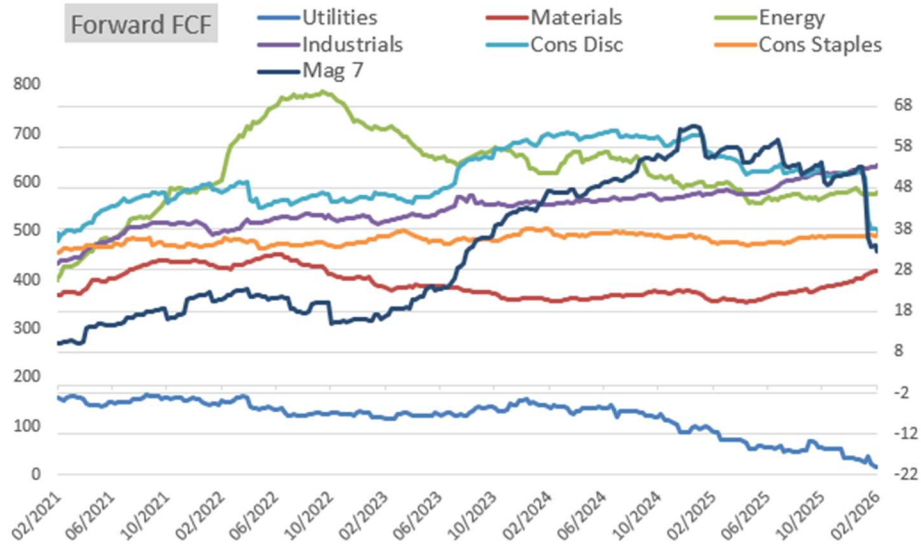


Chart 8: evolution of Forward FCF across sectors

Finally, the summary table ties performance back to fundamentals: the two weakest areas year-to-date, the Mag 7 and consumer discretionary, are also the sectors where free cash flow expectations have deteriorated the most. Together, these cross-currents capture the market’s current debate: a repricing of capital intensity in large-cap Tech, and a rotation toward “safer” sectors that have re-rated materially even without a parallel step-up in earnings.

	YTD Change			
	Price	Forward PE	Forward EPS	Forward FCF
S&P 500	0.6%	-3.9%	3.4%	-2.4%
Utilities	9.9%	7.6%	2.1%	-11.3%
Materials	15.2%	8.7%	6.0%	9.8%
Energy	24.0%	29.6%	-4.3%	-1.1%
Industrials	12.4%	10.2%	2.0%	2.6%
Cons Discr.	-5.9%	-7.5%	1.8%	-26.1%
Cons Staples	14.6%	13.7%	0.8%	0.2%
Mag 7	-6.9%	-10.6%	4.1%	-26.0%

Chart 9: YTD change in key variables across sectors

In conclusion, the recent price action looks less like a warning on fundamentals and more like a healthy rebalancing after a period of stretched positioning: earnings momentum remains strong and broadening, while macro conditions still resemble a “solid expansion” backdrop with supportive growth and disinflation trends.

In that environment, it is difficult to argue for a deep and persistent correction as long as the earnings trajectory stays constructive and financial conditions do not tighten abruptly. The main catalyst that would warrant a material change in stance would be a worsening growth/inflation mix that forces the Fed into a regime shift (less accommodative policy expectations compared to the 2-3 rates cuts expected in 2026). **Until then, the rotation away from crowded leadership into a wider set of sectors should be seen as constructive for market positioning and expectations, lowering the risk of a one-way, over-owned trade dominating returns.**