# Novum Partners: Q3 2026 Earnings Season

Strong Earnings, Cheaper Valuations

November 16th, 2026




**Vittorio Treichler**
Partner & Strategist

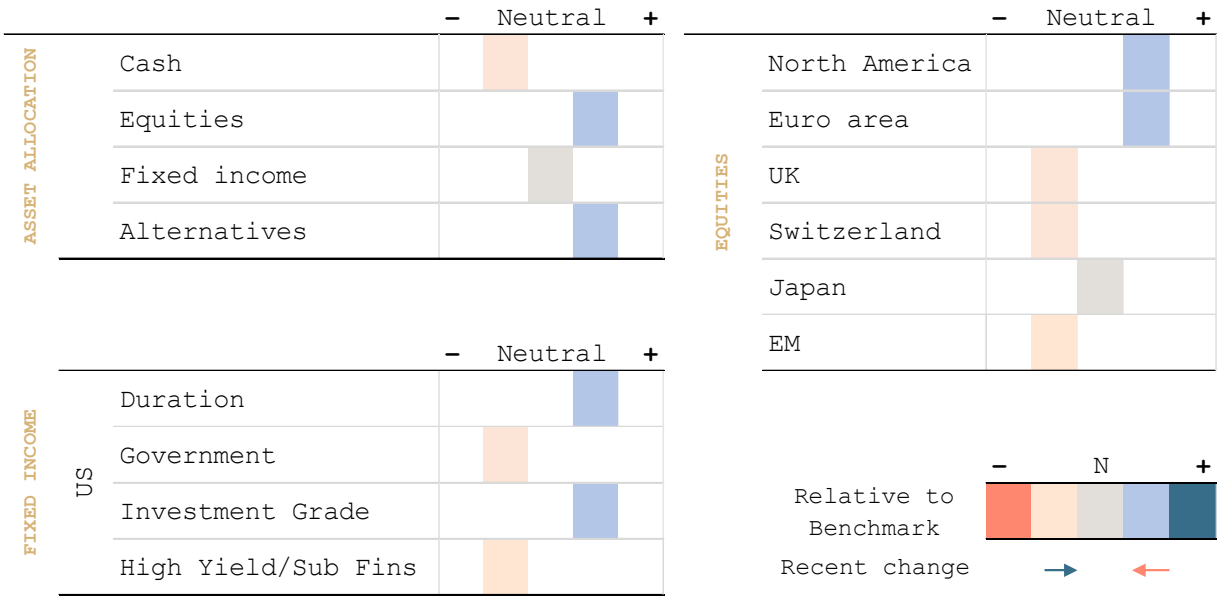


**Valentine Forsans**
Investment Manager
Equity


## Executive summary


- Q3 earnings cleared a record-high bar: S&P 500 EPS grew about 34% year on year, against 27% expected. Full-year 2026 growth is now expected at about 34%, against 16% at the end of 2025.
- Growth is not only about AI. Technology and Energy & Materials lead, but the rest of the index is growing at about 12%, one of the best rates since the financial crisis. Europe is accelerating too.
- The market did not reward the numbers. The S&P 500 fell about 3% during the season and Technology was hit hardest, falling on results despite beating estimates. Positioning is now underweight.
- Since January, S&P 500 forward EPS has risen 39%, while the forward P/E has fallen from 22.8x to 18.1x. Valuations are substantially lower, with Technology leading the de-rating.
- The debate has moved to capex, cash flows and returns on AI investment. After the midterms, corporate taxes, now very low, are also a possible target in the years ahead.
- We remain constructive: valuations already price a good part of these risks. We watch yields, capex and credit spreads closely.


## Novum's "Investment Mosaic"



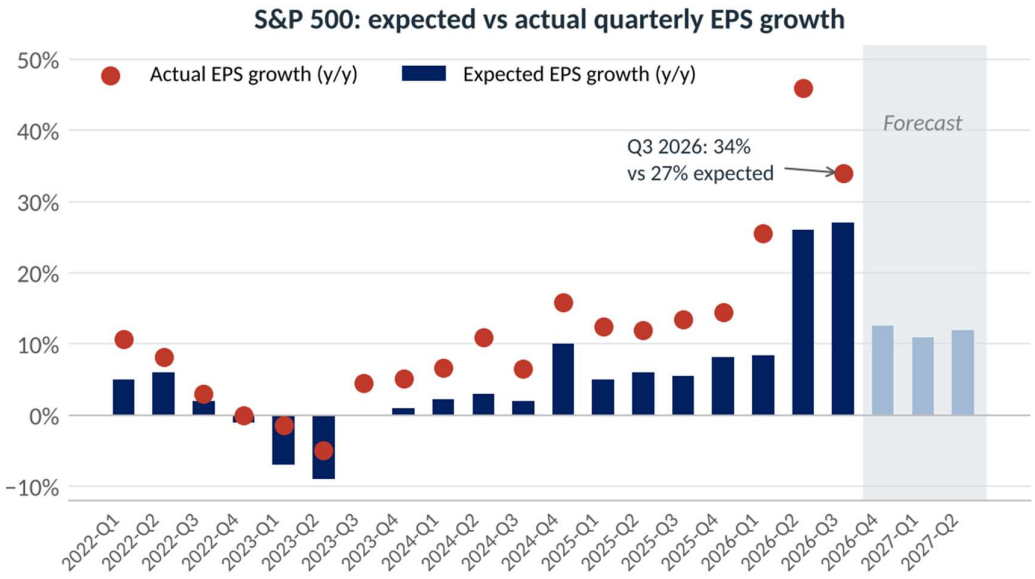


Novum Partners SA
Rue des Alpes 7 ▪ 1201 Geneva - Switzerland
T + 41 (0) 22 715 18 00 ▪ www.novumpartners.com

## Q3 2026 Earnings: Another Very Strong Quarter

### *A record bar, cleared again*

Coming into the Q3 season, the bar was the highest on record outside a post-recession recovery: analysts expected S&P 500 earnings to grow 27% year on year. Companies cleared it. With most of the index reported, Q3 EPS growth is tracking about 34%, the same pace as in Q2. Over the last two years, actual growth has beaten expectations in every single quarter.




*Source: Bloomberg, Novum calculations*

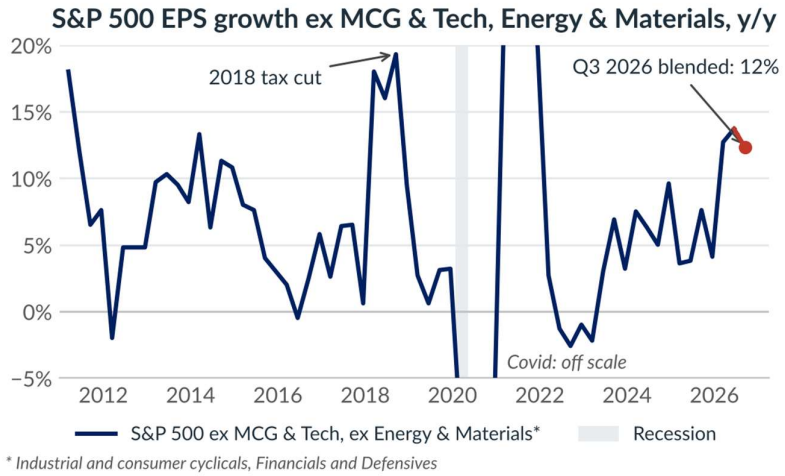
The size of the beats has normalised. According to Bloomberg, 84% of companies beat estimates, down from a record 89% in Q2 but well above the 74% historical average. The aggregate surprise fell to 4.6%, close to its long-term average of 4.9%, held back by a large miss at Alphabet; excluding Alphabet it was 5.7%. Sales grew about 14% and the aggregate profit margin reached a new record of 16.4%.

### *Growth is narrow at the top, but healthy underneath*

Much of the debate this quarter was about how narrow growth is. Technology and Energy & Materials account for about three quarters of S&P 500 earnings growth. Inside Technology, semiconductors (+145%) and hardware (+53%) are still growing very fast, while software slowed from 29% to 11% and the hyperscalers from 17% to 12%. Energy and Materials benefit from high commodity prices.

But looking only at the share of growth is misleading. Excluding these three sectors, S&P 500 earnings are growing at about 12%, one of the best rates since the financial

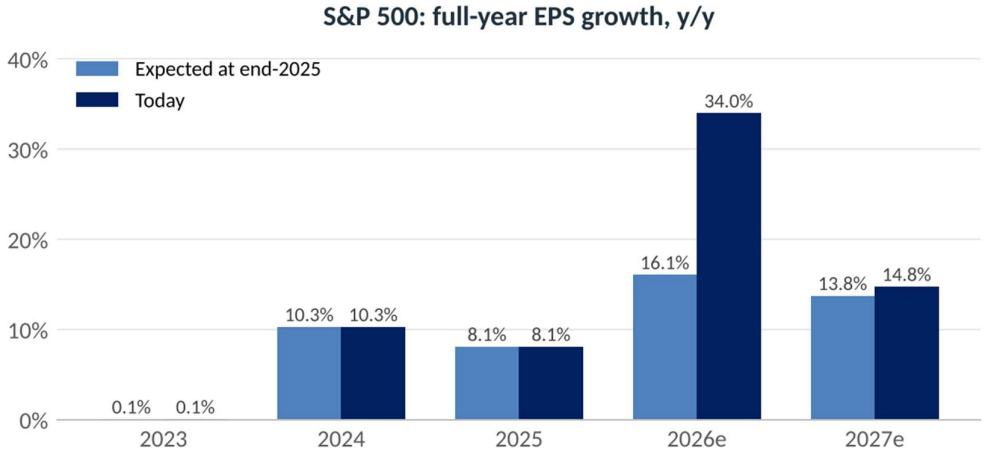
crisis outside the 2018 tax cuts and the post-Covid rebound, and above the long-run average of 11%. The median company is growing in the mid-teens, and seven of the eleven sectors are posting double-digit growth.




*Source: Deutsche Bank Research, Bloomberg Finance LP, Novum calculations*

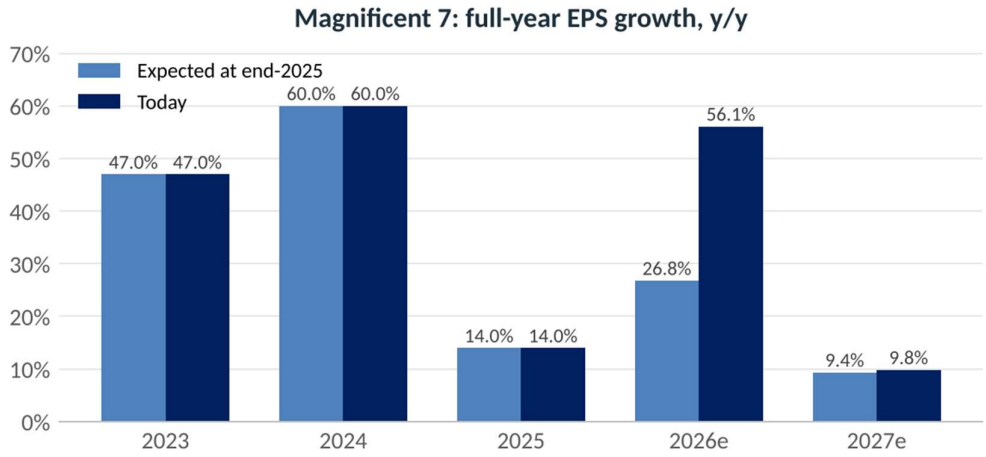
### *Full-year estimates keep moving higher*

The upgrade cycle continues. For the S&P 500, full-year 2026 earnings growth was expected at 16.1% at the end of 2025; it now stands at about 34%. Unusually, Q4 estimates have also risen during the season, by about 0.5%, while they are normally cut by around 1% at this stage. This upgrade comes mostly from Energy, on higher oil prices. For 2027, consensus expects a further 15% growth.




*Source: Bloomberg, Novum calculations*

For the Magnificent 7 the move is even larger: expected 2026 growth has doubled since January, from 26.8% to 56.1%. The picture for 2027 is more modest, with growth expected to slow below 10%, a sign that analysts see the strongest part of the cycle for this group behind us.



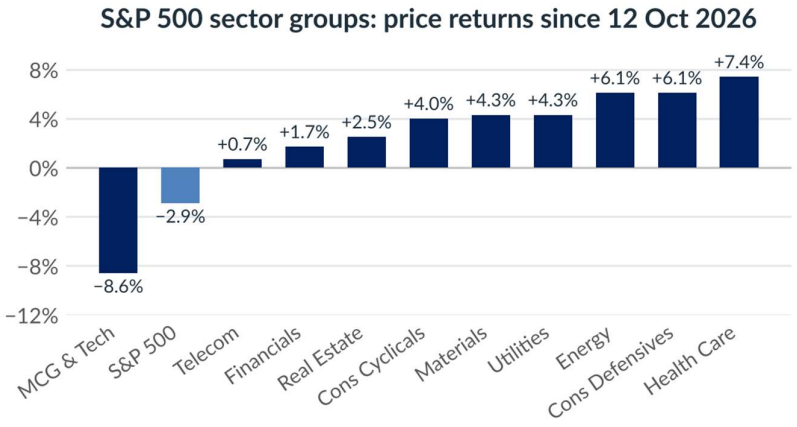

*Source: Bloomberg, Novum calculations*

### *Europe is catching up*

European earnings have surprised even more than US ones. According to Bloomberg, Stoxx 600 earnings growth accelerated from 22% in Q2 to 28% in Q3, a very high level for the region. Energy was the main driver, but growth also picked up in Technology, Industrials, Communication Services, Consumer Staples and Health Care. Autos and Real Estate were the weak spots. About 65% of European companies beat estimates, above the historical median, and the aggregate surprise was the largest among the major regions. Sales and margins are improving too, after several years in which Europe lagged.

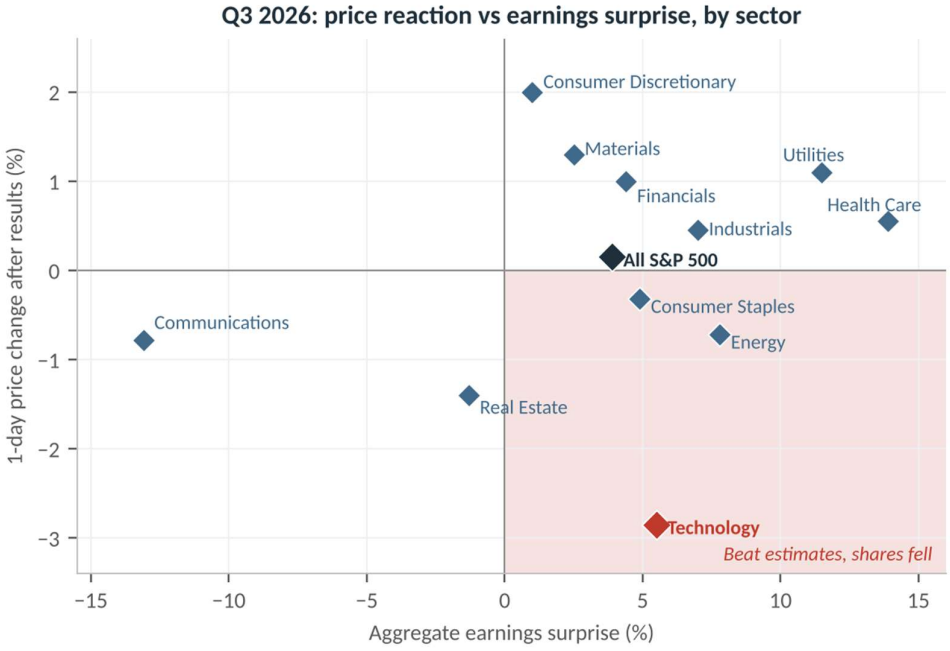
## The Market Reaction: Good Numbers, Bad Price Action

This season the market did not reward the results. The S&P 500 fell about 3% during the reporting period, while it normally gains around 2% in the first weeks of a season. Underneath, the divergence was extreme: Mega-cap Growth & Tech lost 8.6%, while the other ten sectors gained between 0.7% and 7.4%.



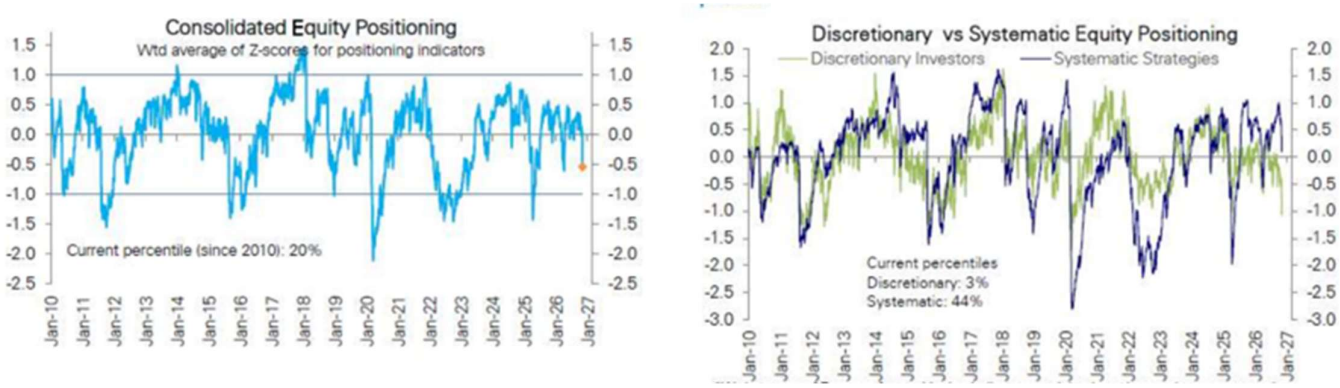

*Source: Deutsche Bank Research, Bloomberg, Novum calculations*

The one-day price reaction to results confirms the pattern. Technology beat estimates by about 5.5% on aggregate, yet its shares fell almost 3% on the day of results, the worst reaction of any sector. Communications fell less than 1% despite a large negative surprise, driven by Alphabet. At the other end, Consumer Discretionary, Materials, Utilities and Health Care were rewarded. For the index as a whole, a 4% surprise produced an almost flat reaction.




*Source: Bloomberg, Novum calculations*

We read this as a positioning and sentiment story more than a verdict on the numbers. Investors came into the season heavily overweight Technology, and a series of negative catalysts (higher yields, the French crisis, uncertainty ahead of the midterms and doubts about AI returns) triggered a sharp rotation. Deutsche Bank's measure of equity positioning fell to underweight, at the 20th percentile, with the worst weekly drop since Liberation Day and the third worst since Covid. Discretionary investors are now at the 3rd percentile of their range, and positioning in large-cap tech is at the 7th percentile, a level consistent with falling earnings, while these earnings are growing at more than 50%.

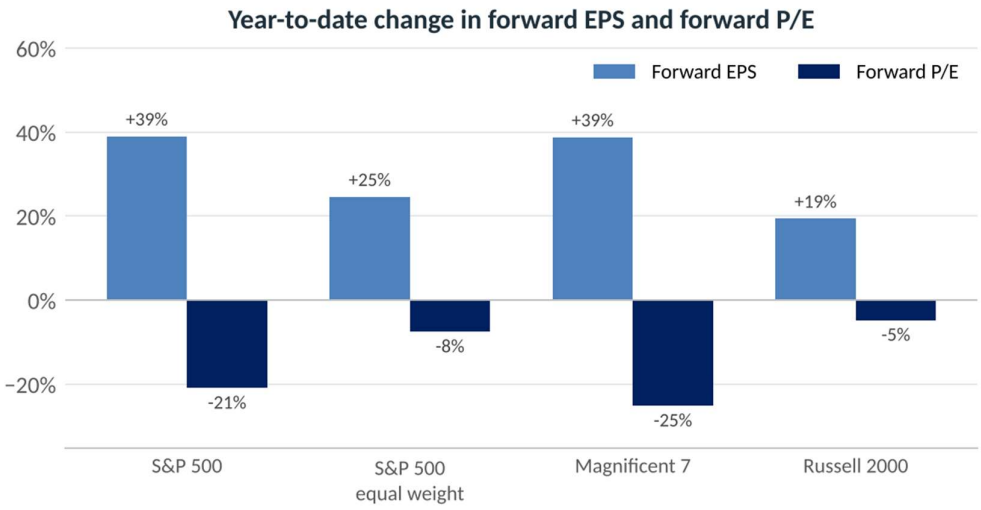



*Source: Deutsche Bank*

## Valuations: The Market Is Getting Much Cheaper

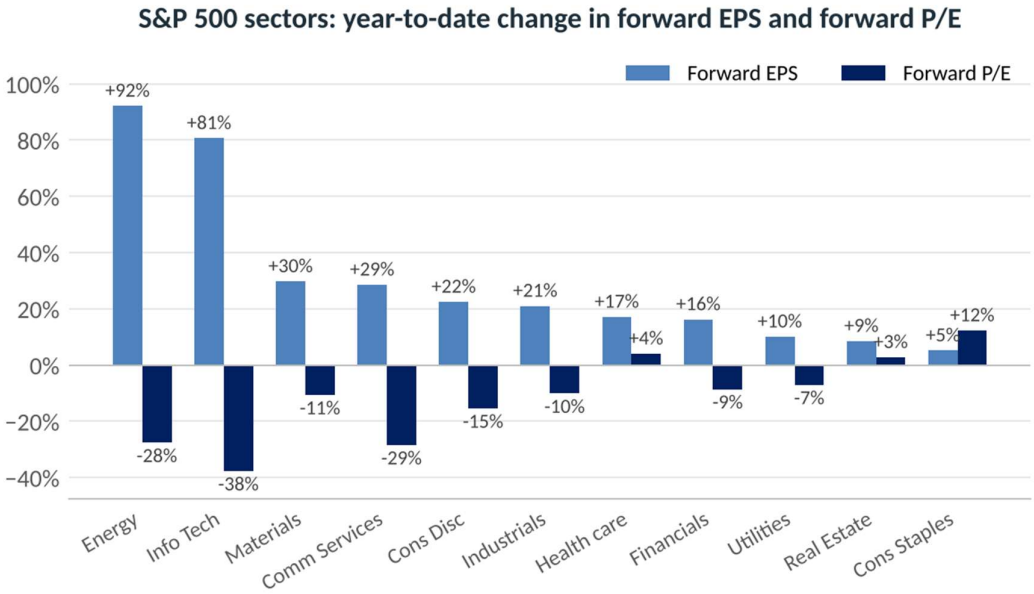
### *Earnings up, multiples down*

The most important message of this season, in our view, is what happened to valuations. Since the start of the year, forward earnings for the S&P 500 have risen 39%, while the forward P/E has fallen 21%, from 22.8x to 18.1x. The index has gone higher, but it is now far cheaper than in January. The Magnificent 7 show the same pattern: forward EPS up 39%, forward P/E down 25%, from 32x to 24x. The equal-weight index and small caps de-rated much less, as they started from lower multiples.




*Source: Bloomberg, Novum calculations*

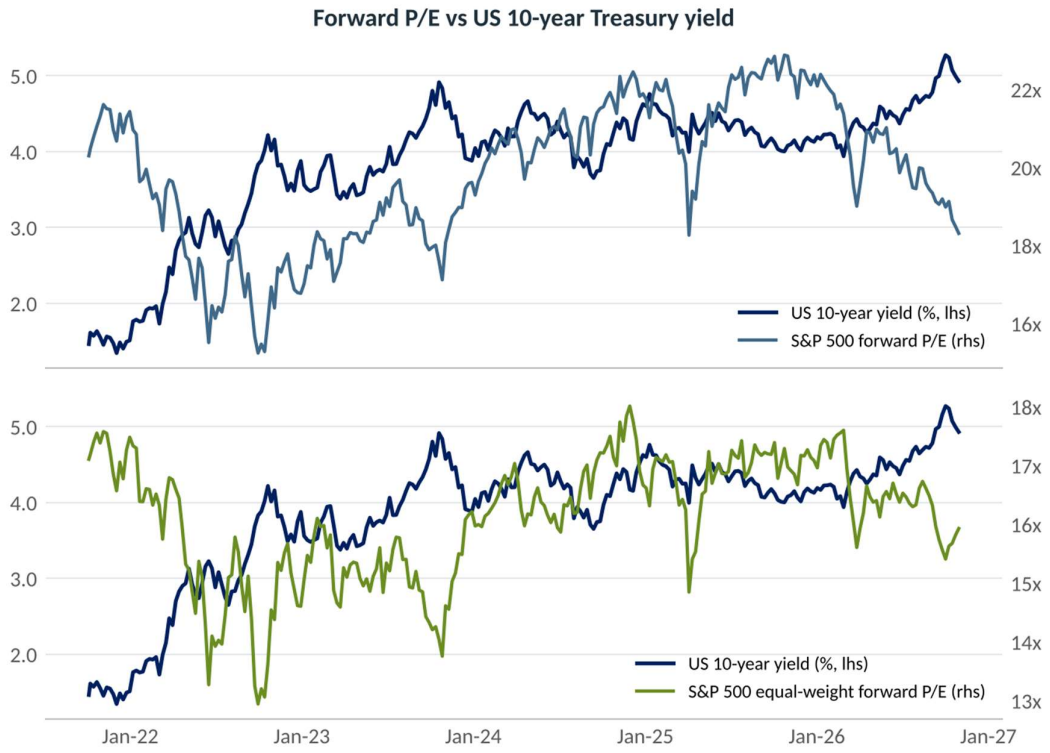
The sector view is even more striking. Technology forward earnings are up 81% this year, but its multiple has fallen 38%. Energy (+92% EPS, -28% P/E) and Communication Services (+29%, -29%) tell a similar story. Only Consumer Staples, Health Care and Real Estate trade on higher multiples than in January, and they are also the sectors with the slowest earnings growth.




*Source: Bloomberg, Novum calculations*

### *Higher yields did much of the work*

A large part of this de-rating comes from the bond market. The US 10-year yield rose to about 5.3% at its peak, up around 100bp in a few months, and equity multiples moved the other way. As we wrote in our mid-year outlook, we are back in a regime where equity earnings yields compete with bond yields: when yields rise, multiples fall. The good news is that yields now seem to have peaked and started to come down, to about 4.9% at the end of October. If this continues, multiples have room to recover, especially for the equal-weight index, which sits at the low end of its range.




*Source: Bloomberg, Novum calculations*

### *The real question: capex, cash flows and returns*

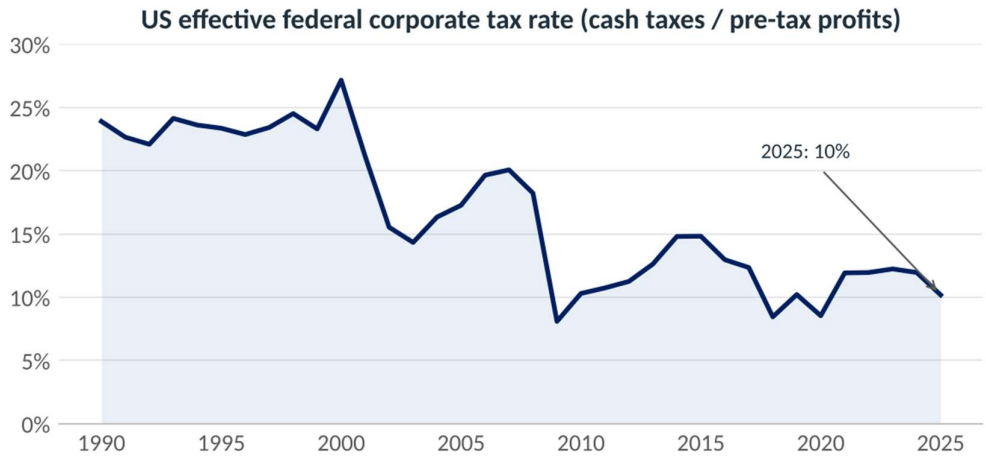
The other driver of lower multiples is the debate on AI investment. As we noted in our mid-year review, the largest spenders are guiding to more than $700bn of capex over the next 12 months, about double the level of early 2025, and free cash flow is under pressure, with Amazon and Meta expected to turn cash-flow negative. This quarter showed the first signs that investors want proof of returns: hyperscaler earnings growth slowed to 12%, software slowed sharply, and Alphabet's miss was

punished. Funding is also moving from cash to debt, and credit markets are paying attention, with spreads on some data-centre bonds widening.

We think this concern is legitimate, but it is now largely in the price. Investors are paying 24x forward earnings for the Magnificent 7, against more than 40x at the peaks of 2024-25. The market is no longer paying for growth at any price; it is asking for cash-flow discipline. In our view this is a healthy development, not the start of a bubble bursting.

### *Politics and public finances*

A risk we consider more serious than others is the fiscal one. The US runs a deficit of about 6% of GDP without a recession, while companies pay the lowest effective tax rate in decades, about 10% of pre-tax profits against more than 20% in the 1990s. After the midterms, Democrats control Congress from January. Little can change before 2029 without the President's signature, but corporate tax breaks could be scaled back. For margins this is a medium-term headwind, not an immediate shock, but the bond market may start to price it earlier.




*Source: U.S. Treasury, CBO, BEA via FRED, Novum calculations*

Politics also matters for AI more directly. Local opposition to new data centres is growing, and the controversy involving former Nvidia CEO Jensen Huang is likely to strengthen the case for tighter US export controls on chips to China, with the risk of Chinese retaliation on rare earths. These issues will not change earnings next quarter, but they add uncertainty to the very long-term growth assumptions built into parts of the AI supply chain.

## Constructive, Not Complacent

We remain constructive on equities. Earnings growth is very strong and broader than the headlines suggest, Europe is catching up, and estimates are still moving higher. At the same time, the market has become much cheaper: multiples have fallen sharply this year, positioning is light, and bond yields may have peaked.

Constructive does not mean unconditional. We will keep monitoring:

- bond yields, which remain the main driver of equity multiples;
- hyperscaler capex guidance, cash flows and credit spreads, for signs that the funding of the AI build-out is becoming a problem;
- US fiscal policy after the midterms, and in particular the outlook for corporate taxation.

None of these changes our view today. But after a season in which good numbers met weak price action, selectivity and risk discipline matter more than ever.

## Big Tech Results: Strong Demand, Open Questions on Spending

*Company focus – extracts from our analyst's notes on the main technology results*

Technology results drove the market during the season. The message was consistent: demand for AI and cloud is very strong, and often still exceeds capacity. But capex keeps rising, higher memory and compute costs weigh on margins, and most companies deferred their 2027 spending plans. The market rewarded visibility on returns (Microsoft, AMD, ASML) and punished uncertainty on spending, margins and cash flow (Alphabet, Amazon, Apple).

### *Hyperscalers and platforms*

| | |
|---|---|
| **Alphabet**<br>**–10.0%**<br>*share reaction* | ***Cloud strong; Search and cash flow disappoint***<br>Cloud grew 103%, against 92% consensus, with a 36.2% margin and backlog up to $561bn from $514bn. Search missed: the number of searches grew at the fastest pace in five years, but AI Mode searches currently generate less ad revenue, and FX was the largest drag. Q3 free cash flow was –$9.1bn, including a $5.2bn fine and cash spent on TPU inventory. FY26 capex stays at $195–205bn; the significant 2027 increase will only be quantified on the Q4 call. The quarter crystallises the AI monetisation debate: usage and demand grow strongly, profits and cash flow still have to follow. |
| **Amazon**<br>**–7.6%**<br>*share reaction* | ***Strong AWS outlook, but no clarity on spending and margins***<br>Management expects AWS growth above 40% in both 2027 and 2028, backed by a $578bn backlog. But Q3 AWS growth of 39% (cc) missed the 42% buy-side bar, with no Q4 guide. Q3 cash capex reached $75.9bn; FY26 stays at $220bn and 2027 will rise meaningfully, with no number given. AWS margin was strong at 38.7%, but management would not commit to it. The Q4 operating income midpoint of $31bn is 6% below consensus, partly because Leo satellite costs will be expensed for longer. |
| **Meta**<br>**+0.6%**<br>*share reaction* | ***Ads are strong; 2027 spending is the open question***<br>Q3 revenue of $64.6bn cleared the buy-side bar and Q4 guidance is 1.3% above consensus. Excluding a $9.9bn legal charge, operating profit beat by 9.8%, with a 35.4% margin; ad pricing rose 14%. Muse has more than 10m sign-ups, to be monetised through fees and subscriptions. But there are no 2027 capex or expense figures, and a new non-voting share class brings possible equity funding and dilution into focus: the shares gave back most of a 6% gain during the call. |

| | |
|---|---|
| **Microsoft**<br>**+3.6%**<br>*share reaction* | ***Azure accelerates; capex timing shifts***<br>December Azure growth is guided at 49–50% (cc), above the 46–47% buy-side bar. Demand still exceeds capacity, but better use of existing GPUs and CPUs allows Microsoft to serve more customers without waiting for new data centres. Lower capex is partly timing, with spending pushed into the second half of FY27. Free cash flow should stay positive, although management also mentioned leases and debt markets to fund investment. Copilot usage is growing, but no new paid-seat figure was given. |
| **Apple**<br>**–5.0%**<br>*share reaction* | ***Better holiday sales, weaker margins and Services***<br>December-quarter revenue growth is guided at 7–10%, against 6% expected, but Services at 8–9% against 12.3% and gross margin at 45–46% against 46.7%. Rising memory costs will keep weighing on margins, price increases only partly offset them, and September's 47.9% margin included a 100bp benefit from tariff refunds. Memory will constrain Mac and iPad supply. Apple plans to charge for cloud-based AI Siri features, a possible new Services stream, but with no timing or revenue target yet. |

## *Semiconductors*

| | |
|---|---|
| **AMD**<br>**+5.0%**<br>*share reaction* | ***A stronger 2027 outlook***<br>Management expects 2027 revenue growth above 80%, with server CPU revenue doubling and Data Center AI revenue growing "significantly more than double". Q4 revenue guidance of $17bn is 4.4% above consensus, with Data Center up about 50% sequentially as MI450/Helios shipments ramp. The Q4 gross margin of 55% is 50bp below consensus on a heavier AI mix, and inventory rose about $3bn to $11.5bn, weighing on cash flow. Supply remains the main constraint. |
| **TSMC**<br>**–2.2%**<br>*share reaction* | ***Revenue upside without margin upside***<br>Q4 revenue guidance is 6.4% above consensus at the midpoint and full-year growth is now expected at about 44%; 2026 capex is confirmed at $60–64bn. Q3 gross margin of 66.4% was in line and EPS beat by about 4%. But Q4 gross margin guidance of 66% is only in line and operating margin is 50bp below expectations. The key question is how pricing and mix will offset N2 ramp-up costs and overseas-fab dilution from 2027. |
| **ASML**<br>**+1.8%**<br>*share reaction* | ***Margins beat; demand exceeds supply through 2028***<br>Q3 gross margin reached 57.5% against 55.7% expected (EPS of €12.95 includes a non-recurring Mistral AI revaluation gain). Q4 revenue guidance is 5.5% above consensus at the midpoint, with a gross margin of about 57%. Planned supply will not fully meet customer demand in 2027 or 2028, and ASML is studying capacity expansion beyond the 30% previously communicated, with some customers interested in 2029–30 orders. The release supports our earnings-upgrade thesis. |

*Share reactions on the day of results (pre- or post-market where indicated in our notes). Consensus and buy-side expectations as reported in our notes. Source: company reports, Bloomberg, Novum Partners.*