

Theia Investments

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What to expect from earnings season

In a few days, with the big American banks in mid-month, the third-quarter **reporting season** will enter its live phase.

Yesterday, we talked about two thermometers in the same room, that of earnings, which signals good weather, and that of rates, which signals storm.

Today, we look more closely at the first, because the numbers from the latest **FactSet** update tell an earnings season different from the others, which could be a real **turning point**.

To understand it, we must start from an unwritten rule, which anyone who has frequented the markets for a few years knows well, the **bar-lowering game**.

Every quarter the same script goes on stage. During the three months analysts cut estimates, while companies with their indications (the so-called guidance) help cool expectations and, when the results arrive, almost three companies out of four beat forecasts.

It is the bar game, you lower it before the jump, so the jump always succeeds.

In the last five years the aggregate earnings estimate of the S&P500 index has fallen on average by **2.2%** over the course of the quarter, while over the last twenty years by **4.2%**.

This time, no. From June 30 to September 30, **the third quarter earnings per share estimate rose by 1.4%, from 88.64 to 89.84 dollars** and it is the second quarter in a row that this happens, after the **+3.4%** of the second.

All this with oil up 30% in three months, that is precisely the factor that should have pushed analysts to cut.

But the real news is another.

This time, **it was the companies themselves who raised the bar**.

Of the 116 companies that gave guidance for the quarter, **72** gave a positive indication, that is higher than what the market expected the day before.

It is the highest number since FactSet has kept this statistic, that is since 2006.

The previous record was 65, in the second quarter of 2021.

Negative indications are just **44**, the lowest since



What to expect from earnings season

2021.

In percentage terms, **62%** of companies corrected upward, against a historical average of **40%**.

Usually, a company prefers to promise little and deliver much.

If 72 of them decided to raise the bar on their own, it means they see in their orders something that the market has not yet fully priced in.

This is the first reason why this season is special.

The second reason is the numbers.

For the quarter, **earnings growth** of **29.5%** year-on-year is expected, against the 26.7% estimated at the end of June, it would be the third quarter in a row above 25% and the eighth consecutive one in double digits.

Revenues are expected to grow by **12.3%** and the **net margin** at **15%**, below the 17% record of the previous quarter, but well above the **13%** of a year ago.

All eleven sectors are expected to grow, but it is always worth looking at who is really pulling the cart.

Technology is the real engine with 44 of the 72

positive indications (61%), above all from software and semiconductors, and semiconductors alone are expected to grow by **130%**.

Energy grows by **114%**, thanks to a barrel that in the quarter cost on average a third more than a year ago.

More expensive earnings?

No, cheaper.

From June 30 to September 30 the S&P500 index rose by 2.0%, while the twelve-month forward earnings estimate rose by **9.3%**, with the forward price/earnings ratio falling from 20.4 to **19 times**, below the five-year average (**19.8**) and even below the ten-year one (**19.1**).

The index is near its highs, but it costs less than three months ago, not because prices have fallen, but because earnings have run faster.

On the **positioning** front, **hedge funds** have the lowest net exposure since April 2025.

They are on the sidelines, light.

If earnings confirm what the guidance promises, they will have to buy back, not because they want



What to expect from earnings season

to, but because they must, in order not to lose performance.

It is exactly the fuel that is missing to make the earnings thermometer prevail over the rates one.

Is it all roses and flowers?

No.

First: with a higher bar the jump is harder, and the market could reward positive surprises less and punish negative ones more.

The early signals are nonetheless encouraging.

Of the **16** companies that have already reported, **14 beat earnings estimates**, and **Micron** (33.42 dollars against 31.77 expected) alone pushed the index's expected growth from 29.2% to 29.5% in one week.

Second: outside the main engines estimates have fallen, with materials (**-9.0%**), consumer staples (**-3.3%**) and healthcare (**-3.0%**) leading, and over the full year **37%** of companies that gave guidance gave negative indications.

Third: the 2027 step down.

Expected growth falls to **27.6%** in the fourth quarter, to **19.1%** in the first quarter of 2027 and to just **2.3%**

in the second, when the comparison with this year's exceptional numbers will become unforgiving.

While 2026 estimates rose by 6.2%, expected growth for 2027 fell from 17.5% to **15.8%**, and two sectors (communication services and consumer discretionary), which saw their 2026 estimates raised by 21% and 18%, are now expected to decline next year, **a sign that part of this year's earnings could be non-recurring in nature.**

What to expect?

A reporting season in which the quarter's numbers will in all likelihood be good, but will count for less than what companies will say about 2027.

The real turning point is not the +29.5%, but the fact that, for the first time in years, companies are raising the bar instead of lowering it.

If in the conference calls this confidence extends to next year, those who stayed on the sidelines will have to come back in, and the micro will have a good chance of winning the arm wrestle with the macro.

If instead the 2027 step down becomes steeper, we will discover that the bar was high for only one



What to expect from earnings season

jump.

In the coming weeks the keyword will be just one,

guidance.



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