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Key **Takeaways:**

- S&P 500 earnings season beating even the high bar.
- Best earnings growth since the aftermath of COVID.
- Broad based strength outside of mega cap tech.
- Margin expansion continues.
- Earnings optimism may be stretched; expecting downgrades.

Q2 2026 Earnings Recap – Earnings Crush Expectations. Can it Last?

With ~90% of the S&P 500 companies having reported 2Q26 earnings thus far, earnings season is shaping up to be far superior than expected. In fact, S&P 500 earnings are on pace to grow ~50% (YoY) in 2Q26. This is more than double what the initial estimate was when earnings season started (+24% YoY) and the best earnings growth since 2Q21. According to FactSet, the S&P 500 is reporting earnings ~30% higher than estimates, which if this holds, will be the best earnings surprise since FactSet started tracking that metric in 2008.[1] While this is largely due to massive beats from Alphabet and Google, 86% of the S&P 500 companies beat earnings estimates. In this weekly insights, we offer a review of 2Q26 earnings season.

- **Earnings broad but still a couple leaders:** According to Factset, 10 of the 11 S&P 500 sectors posted an increase in 2Q26 earnings (YoY). The only sector to see earnings decline was healthcare. However, the substantial earnings surprise from Amazon ($5.75 vs. $1.82) and Alphabet ($9.11 vs $2.90) made a tremendous impact on the S&P 500's earnings growth. If Amazon and Alphabet were excluded, S&P 500 earnings would grow 32% (YoY). This would still mark the second consecutive quarter of 20% earnings growth and seventh quarter of double digit gains.

- **Communications, consumer discretionary and info tech are biggest contributors:** Amazon (consumer discretionary), Alphabet (communication services) and Micron (tech) are notable names that boosted these three sectors to be the largest contibutors to S&P 500 earnings growth.

- **Energy earnings get boost from war:** The S&P 500 energy sector posted the best earnings growth of all the 11 sectors (+147% YoY). Higher average oil prices in 2Q26 compared to 2Q25 helped the sector post robust growth. The sub industries that led were oil & gas refining, integrated oil and oil & gas exploration and production.

- **Margins surge:** According to FactSet, the S&P 500 net profit margin is expected to grow to the highest level (16.9%) since FactSet began monitoring margins (2009). The biggest margin expansion came from communication services, discretionary and info tech. Healthcare and real estate fell below their five year average.

The Bottom Line:

Earnings have been the sole driver of the S&P 500 reaching a record high this year. While there have been some stand out results (i.e., Amazon, Alphabet) we are finally seeing broadening of earnings growth. As a result, analysts are upgrading earnings for the future, which is rare (typically earnings are downgraded throughout the year). Currently, S&P 500 earnings are expected to grow 27% and 25% in the 3Q and 4Q26, respectively and ~30% for 2026. We believe investors are growing weary of this pace of growth. This can be seen by performance during this earnings season. Even some of the companies that delivered blockbuster earnings saw their stocks decline as investors question how long this growth rate can continue and if we have reached peak earnings. We do believe earnings optimism is stretched and we should see some downgrading of expectations in the near future.

Weekly Economic Recap –
Manufacturing Strong; Economy Loses Jobs

The ISM Manufacturing Index rose more than expected in July. That marks the seventh consecutive month in expansion territory (a level of 50 or above), the longest stretch since 2022. The strength was led by production, employment and new export orders. The prices paid component declined the most but has been at an elevated level (above 70) for six consecutive months.

Job openings as measured by the JOLTS report fell in June but job postings are outpacing those unemployed for the third consecutive month. Leisure and hospitality and healthcare led the pullback in hiring.

The ISM Services Index rose modestly in July. Strength was seen in business activity, prices paid, new orders and imports. The backlog of orders and employment declined.

The economy surprisingly lost 23K nonfarm payroll jobs in July compared to the estimate for an increase of 80K jobs. In addition, the prior two months were revised lower by 103K jobs. The losses were concentrated in leisure and hospitality (-44K) and Government jobs (-53K). Leisure and hospitality may have been negatively impacted by the conclusion of the world cup rather than a broad change in consumer demand for travel. The unemployment rate dropped to 4.1% in July from the previous 4.2% reading in June as the labor force shrank (264K). The labor force participation rate fell to the lowest level since the 1970s (when excluding COVID).

Key Takeaways:

- Manufacturing expanding as AI spending continues.
- Services solid; prices paid concerning.
- Employment surprisingly declines in July.
- Global equities surge on several good pieces of news.
- Bond yields fall as chances for a rate hike decline.
- Geopolitical tensions ease and send commodities lower.

Weekly Market Recap –
Global Equities Higher Led by U.S. Equities

Equities: The MSCI AC World Index posted its best rally in the past 16 weeks as earnings continue to defy expectations, geopolitical tensions started to de-escalate and a weak U.S. jobs number made a September rate hike less likely. The U.S. led the global rally due to technology and large cap growth. European equities rallied on better economic data and Japan benefitted from a coordinated effort to support the yen.

Fixed Income: The Bloomberg Aggregate Index posted its best one week rally in 10 weeks as odds for a Fed rate hike declined. High yield, emerging market and municipal bonds led the rally.

Commodities/FX: The Bloomberg Commodity Index fell for the second consecutive week as geopolitical tensions subsided. Crude oil led the weakness in the index. Gold prices rallied as the dollar weakened and bond yields declined.

Labor Force Participation Rate Sinks Lower

Footnotes: Data is as of July 2026.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

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Global Equities Jump as Odd for Imminent Rate Hike Fall

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	54,037	3.0%	2.1%	9.4%	24.9%	13.4%
S&P 500	7,758	3.6%	3.4%	6.0%	23.8%	14.1%
Russell 1000 Growth	5,019	5.3%	2.7%	1.7%	13.4%	5.7%
Russell 1000 Value	2,531	2.3%	4.0%	11.4%	34.7%	23.4%
Russell 2500	5,332	3.7%	2.7%	8.1%	35.9%	24.0%
Russell 2000	3,034	3.5%	1.8%	7.2%	38.9%	23.2%
Nasdaq	26,691	5.2%	3.4%	3.6%	26.4%	15.2%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	1,152	2.9%	2.9%	4.8%	24.8%	14.5%
MSCI EAFE (USD)	3,246	2.3%	3.4%	5.3%	24.7%	14.1%
MSCI Europe ex UK (USD)	3,578	2.6%	3.1%	6.2%	23.0%	11.7%
MSCI Japan (USD)	5,705	2.6%	2.2%	4.6%	31.5%	20.0%
MSCI UK (USD)	1,748	0.7%	3.5%	5.8%	25.0%	12.6%
MSCI EM (USD)	1,658	-0.4%	-1.6%	-3.2%	33.9%	19.5%
MSCI Asia ex Japan (USD)	1,093	-0.9%	-2.0%	-3.0%	34.7%	21.0%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.9%	0.6%	-0.3%	-0.3%	2.5%	-0.1%
U.S. Govt/Credit	4.8%	0.5%	-0.3%	-0.3%	2.0%	-0.3%
U.S. 10 Year Treasury	4.6%	0.6%	-0.4%	-0.8%	1.3%	-1.2%
U.S. TIPS (1-10YR)	4.5%	0.1%	0.0%	-0.4%	2.6%	1.3%
U.S. High Yield	7.2%	0.7%	0.3%	1.1%	5.6%	2.4%
EM Bonds (USD)	6.2%	0.8%	-0.3%	0.2%	5.8%	1.5%
Municipal Bonds	3.8%	0.7%	-1.1%	0.0%	5.3%	1.1%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	339	-0.2%	4.7%	-3.2%	35.8%	22.8%
Crude Oil (USD/bbl)	$83.6	-5.2%	10.6%	-14.7%	20.1%	25.8%
Gold ($/oz)	$4,341.6	6.5%	4.9%	-8.8%	29.2%	0.0%
Copper	$14,076.0	2.1%	5.3%	5.1%	45.3%	13.3%
Wheat	$658.3	-0.1%	2.1%	2.1%	10.0%	18.4%
U.S. Dollar	100	-0.1%	-1.2%	1.9%	1.6%	1.5%
VIX Index	14.9	-6.8%	-7.6%	-12.8%	-10.1%	-0.3%

Footnotes: Data is as of August 7, 2026.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

[1]: https://insight.factset.com/sp-500-earnings-season-update-july-31-2026

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