

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# Earnings in the hot seat

## Bottom line up top

### **Equity markets undeterred by mixed macro messaging.**

Contrary to expectations, most U.S. inflation metrics have yet to reveal much negative impact from the tariff hikes enacted by the Trump administration. Markets hope to see more subdued inflation data this week, anticipating only modest increases in the release of the Consumer Price Index and Producer Price Index for June. But while inflation has remained relatively benign, other economic indicators have painted a more concerning, or at least murkier, picture.

Last week the monthly ADP National Employment Report indicated the loss of 33,000 U.S. jobs in June. The next day, the U.S. Bureau of Labor Statistics' monthly nonfarm payrolls report showed the U.S. economy added 147,000 jobs in June — exceeding consensus forecasts by nearly 30,000 (Figure 1). Even accounting for the different methodologies of these two job creation measures, this was one of the more extreme bifurcations of labor market data we've seen in recent memory.

### **How will corporate earnings growth factor into the equation?**

The combination of contradictory macro data, recent series of record-high closes for U.S. equities, new White House tariff pronouncements and an extension of the reciprocal tariff deadline to 1 August could spark increased market volatility later this summer. Ahead of that new August trade deal deadline, however, investors will get a chance to digest the latest quarterly financial results for S&P 500 companies, with second-quarter earnings season unofficially kicking off this week.



**Saira Malik, CFA**

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*On behalf of Nuveen's Global  
Investment Committee*

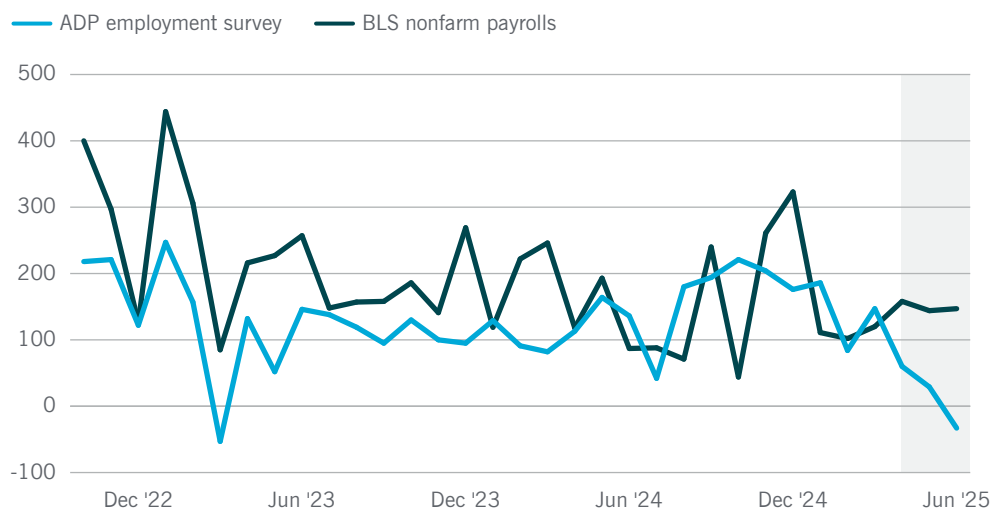
As Head of Equities and Fixed Income, Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

Earnings growth, perhaps as much as — or even more than — other factors in the current environment, may define the direction of U.S. equities for the remainder of the year.

***We think increased equity market volatility is likely over the coming months.***

## FIGURE 1: A TALE OF TWO JOB MARKETS

Monthly U.S. job gains/losses from ADP and the Bureau of Labor Statistics (thousands)



Data source: Bloomberg L.P., as of June 2025, monthly readings.

## Portfolio considerations

First-quarter earnings season for S&P 500 companies was bolstered by the pulling forward of demand as consumers accelerated their purchases ahead of anticipated tariffs. Now markets are eagerly awaiting Q2 results, starting with this week's earnings announcements from large U.S. banks. As higher tariffs and strained global trade relations begin to affect economic activity, we expect earnings growth to slow in the coming quarters — a potentially critical factor in how the U.S. equity market progresses in 2025 after recently hitting a series of new record highs.

Although companies in the financials sector are among the first to report and could set the tone for other sectors, the latest projections from FactSet indicate that communication services and information technology should deliver the strongest earnings per share (EPS) growth for Q2, while energy is poised for the weakest showing.

EPS for the S&P 500 Index as a whole is expected to grow +4.9% year over year (Figure 2). That's a sharp deceleration from the prior quarter's +13.3% and an obstacle to more reasonable equity valuations. Higher EPS growth is needed if the S&P 500's elevated P/E ratio is to come down.

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***Despite a mixed corporate earnings picture, we remain cautiously optimistic toward equity markets.***

Currently, the index's forward P/E ratio is 22.1x, above its 5-year average of 19.9x and 10-year average of 18.4x.

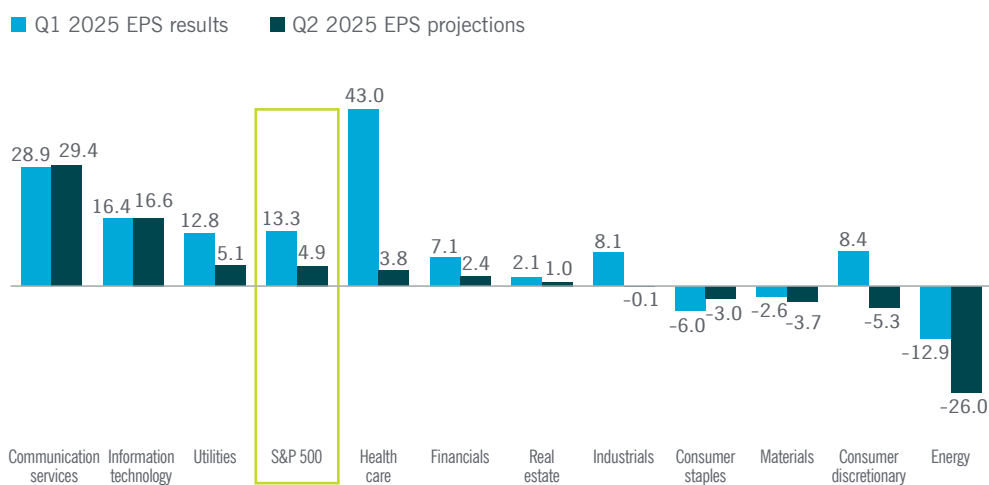
But earnings outlooks have become cautious, with 59 companies issuing negative EPS guidance to date, slightly higher than the five-year average of 57 companies at this point in the earnings season. Meanwhile, 51 companies have provided positive guidance, more than the five-year average of 42. Among sectors, information technology has the most companies (29) issuing positive EPS guidance.

These results and forecasts underscore a complex economic and market environment in which investors are weighing earnings growth against the prospect of delayed Fed rate cuts this year and the potentially inflationary fiscal policies of the Trump administration. Additionally, while the “One, Big, Beautiful Bill” may create earnings tailwinds in the form of lower corporate taxes and looser regulations, companies must also grapple with anticipated headwinds from other policy decisions, such as a higher effective tariff rate and restrictions on immigration.

How these factors play out remains to be seen, but investors will have an opportunity to assess whether Q2 earnings season can offer any catalysts for the market to move higher. On balance, we believe fundamentals still point to an earnings growth recovery for the second half of 2025. FactSet currently foresees overall EPS growth of +9.1% for the year as a whole. We think that estimate could hold, but it will require companies to continue to exhibit resilience in the face of uncertainty. Our view on equities as an asset class remains cautiously optimistic.

**FIGURE 2: EARNINGS GROWTH MAY SLOW, BUT SHOULD REMAIN A CRITICAL FACTOR DRIVING EQUITY MARKET PERFORMANCE**

*Q1 2025 earnings results vs. Q2 2025 earnings growth projections (%)*



Data source: FactSet, 3 Jul 2025. Performance data shown represents past performance and does not predict or guarantee future results.

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*Regular meetings of the GIC lead to published outlooks that offer:*

- macro and asset class views that gain consensus among our investors
- insights from thematic “deep dive” discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

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**For more information, please visit [nuveen.com](https://nuveen.com).**

### Endnotes

#### Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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