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CIO WEEKLY COMMENTARY

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Earnings season: momentum, breadth and risks

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On behalf of Nuveen's Global Investment Committee

As Nuveen's Chief Investment Officer 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 is a portfolio manager for several key investment strategies.

Bottom line up top

Don't conflate moderating prices with deflation. Consumer and producer inflation data for June came in softer than expected, but don't pop the champagne corks just yet. Headline CPI fell 0.4% for the month and cooled to 3.5% year over year, while the corresponding headline PPI readings declined 0.3% and dipped to 5.5%. The primary driver was energy: The CPI energy index tumbled 5.7% in June (with gasoline alone down 9.7%), while wholesale energy prices measured by the PPI fell 6.4%. Core CPI, which excludes the volatile food and energy components, was flat at 0.0% for the month and edged lower to 2.6% year over year. In contrast, core PPI ticked higher over the 12-month period, to 4.7% in June from 4.6% in May — signaling persistent underlying price pressures in services, shelter and the producer pipeline. The overall softer June print lowers the probability of a rate hike at next week's Federal Reserve meeting, but Fed Chair Kevin Warsh has been clear that one favorable data point driven by volatile energy prices is not a mission accomplished. With headline CPI still well above the Fed's 2.0% annualized target and oil prices rebounding, we are not witnessing the start of a deflationary trend, in our view.

3-2-1: Are energy markets counting down to turmoil? Investors often track the per-barrel crude oil price as their primary gauge of energy markets, but the more revealing metric is the 3-2-1 "crack spread" — the difference between what refiners pay for three barrels of crude and what they earn selling two barrels of gasoline and one barrel of diesel. This measure of refining profitability broke out to an all-time nominal high of close to $70 per barrel last week (Figure 1), more than three times the upper end of historical norms.

Diesel prices also deserve close attention. While gasoline is mainly a household budget concern, diesel fuel is the lifeblood of the physical economy; most trucks, ships, farms, mines and construction sites run on it. When diesel becomes expensive, the cost of virtually every physical good follows, and wide crack spreads amplify that across the entire supply chain.

Current conditions reflect a convergence of supply shocks: Iran's effective closure of the Strait of Hormuz removed a significant amount of global oil supply, Ukraine's drone campaign has degraded Russian refining infrastructure, and Russia's recent diesel export ban has curtailed global refining capacity. Meanwhile, distillate inventories remain well below seasonal averages, leaving the market with little buffer.

Independent refiners and major integrated energy companies with downstream exposure are the clear winners in this environment, with their margins expanding directly as the crack spread widens. Large logistics carriers with dynamic fuel surcharge mechanisms have also benefited. On the other hand, industrials, retailers, agricultural businesses, airlines and construction firms stand to lose. They face margin compression that will not automatically lift when the cost of crude eases, because the product shortage — not the crude price — is driving the pain. The divergence between these winners and losers could be a defining theme of this corporate earnings season.

> "Despite a cool inflation print for June, a renewed jump in energy prices signals potential issues ahead.

Figure 1

Both diesel prices and crack spreads have been surging

Diesel-per-gallon and crack-spread-per-barrel prices ($)

Data source: Bloomberg, L.P., 16 Jul 2026. Diesel prices reflect the average U.S. cost per gallon. Crack spread reflects the 3-2-1 crack spread per barrel of WTI oil, meaning the price difference between purchasing three barrels of crude oil and the costs of selling two barrels of gasoline and one of diesel.

Portfolio considerations

Expectations are high for corporate earnings as the Q2 2026 reporting season gets underway. Analysts project year-over-year earnings per share (EPS) growth of +24.7% for the S&P 500 Index, according to FactSet. That would mark the seventh consecutive quarter of double-digit EPS growth for the index. Ten of 11 sectors are expected to report positive earnings (Figure 2), led by energy (+124.8%), information technology (+63.4%) and materials (+34.6%). Estimated revenue growth of +12.8% would be the highest since Q2 2022, and the estimated net profit margin of 14.3% is well above the five-year average of 12.3%.

Importantly, the earnings story is broadening beyond the largest technology names. The Magnificent 7 are expected to deliver EPS growth of approximately +38%, while the other 493 index companies are projected at +27% — a meaningful convergence after the wide gaps seen in recent earnings cycles. For calendar year 2026, analysts forecast EPS growth of +24.5%, more than three times the long-term average of +7.5%.

Guidance from management has also been constructive so far. Of the 265 companies that have issued EPS guidance for their full current fiscal year, 155 (58%) are offering positive outlooks.

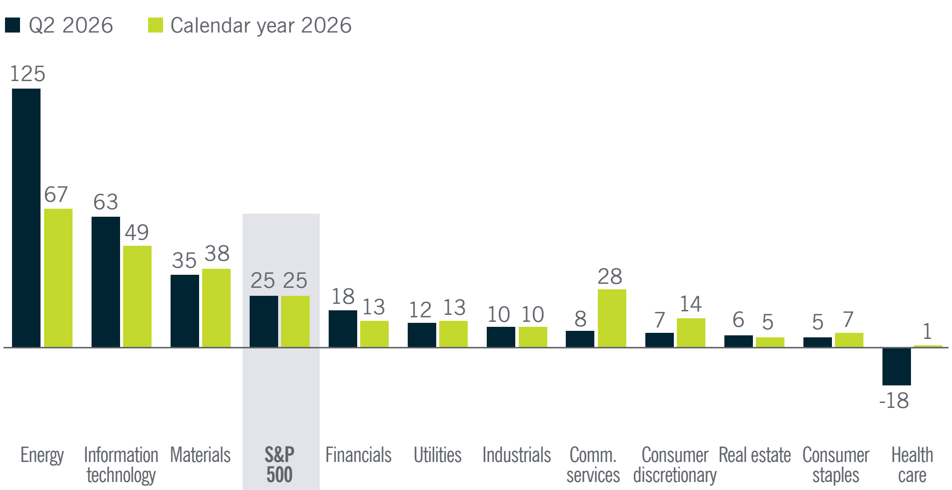
That said, several risks warrant attention. Revenue growth is expected to peak this quarter at +11.7% before decelerating through mid-2027. This raises the question of where the next catalyst of fundamental improvement might come from. Equally weighted operating margins are currently close to record highs at 13.8% (just below the 2022 peak of 14.6%). But these margins have historically stabilized after extended periods of expansion. And the forward 12-month price-to-earnings (P/E) ratio for the S&P 500 stands at 20.4x, higher than the five-year average of 19.9x, leaving less room for valuation-driven upside. Meanwhile, unresolved geopolitical conflicts, notably the ongoing situation in the Strait of Hormuz, continue to weigh on energy supply chains and consumer spending. If tensions persist, they could pose a significant headwind to the otherwise optimistic earnings growth outlook.

> **“ Corporate earnings growth remains a strong tailwind for stocks, but risks could be on the horizon.**

Figure 2

Corporate earnings remain a tailwind for stocks

Estimated earnings per share growth, year over year (%)



Data source: FactSet, 17 Jul 2026. **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

For more information, please visit nuveen.com.

Endnotes

Sources

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

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