

MARKET SIGHT LINES



The Shift in Government May Impact Earnings in 2025

By Michael O'Keeffe, *Chief Investment Officer*



My team and I keep a close eye on company earnings as we try to assess where the market is headed and manage equity portfolios. The quarterly earnings season provides important insights for the stock market as a whole, and the third quarter reports are just about complete. In the wake of the U.S. elections last month, it is also important to begin to assess how policy changes in Washington, D.C. next year may affect earnings going forward. In this Sight|Lines, we review the third quarter earnings season, unpacking the quarter's results so far, and then look forward to the policy implications of the incoming administration.

THE TAKEAWAY: EARNINGS GROWTH WAS POSITIVE AND MAY GET BETTER

A majority of S&P 500 companies beat expectations, and the forecasts for future earnings growth remain positive. Investors will begin focusing on the policy implications of the Trump administration. In summary:

- 98% of the companies in the S&P 500 have reported third quarter results.
- Many companies posted positive earnings surprises, but by smaller-than-average amounts.
- Combined earnings fell short of expectations, and expectations for the fourth quarter have declined some, but remain quite positive.
- Full-year 2024 and 2025 earnings growth expectations also remain positive.
- Most sectors reported earnings growth in the third quarter, with communication services posting the highest growth and energy posting the lowest.
- The incoming administration is focused on deregulation, which for many companies may mean reduced costs, increased profits, and better earnings.
- Consensus estimates for indexes like the S&P 500 are an aggregation of individual analysts' work on individual companies, begging the question: To what degree have analysts already incorporated deregulation effects into their future earnings estimates?

IN-DEPTH: EARNINGS GROWTH WAS POSITIVE IN THE THIRD QUARTER, AND DEREGULATION MAY IMPROVE ALREADY POSITIVE 2025 EARNINGS GROWTH

Earnings results have been positive in 2024 and are expected to remain positive into next year. The policy implications of the next administration are expected to be positive for earnings. Going deeper:

- 98% of the companies in the S&P 500 have reported third quarter results:
 - Third quarter earnings growth is now estimated at 5.9%, down from an expectation of 7.5% at the end of June.
 - Fourth quarter earnings growth is now estimated at 11.6%, down from an expectation of 14.3% at the end of September.
 - These are still very positive growth rates.
- 75% of S&P 500 companies reported a positive EPS surprise:
 - In aggregate, companies are reporting earnings that are 4.5% above expectations.
 - This surprise percentage is below the one-year average of 5.5%, the five-year average of 8.5%, and the 10-year average of 6.8%.
- Full-year 2024 and 2025 earnings growth expectations also remain positive:
 - 2024 earnings growth is now estimated at 9.7%, compared to the estimate of 11.8% as we started the year.
 - 2025 earnings growth is now estimated at 14.8%, compared to the estimate of 12.8% as we started the year.
- Most sectors reported earnings growth in the third quarter:
 - Communication services posted the highest growth rate of 23.2%.
 - Energy posted the lowest growth rate of -24.7%.
- The incoming administration is focused on deregulation, which for many companies may mean reduced costs, increased profits, and stronger earnings. Here are some possible examples:
 - *Energy*: Fewer regulations may drive consolidation in oilfield services, reducing redundancies and improving profit margins.
 - *Manufacturing*: Eased compliance requirements, perhaps related to the environment, may lower operational costs, allowing manufacturers to reallocate resources or improve profits.
 - *Financials*: Fewer restrictions could facilitate mergers and acquisitions, enhancing profitability for financial institutions.
 - *Pharmaceuticals*: More streamlined drug approval processes may lower development costs and/or accelerate time to market, increasing revenue potential.

CONCLUSION

Third quarter 2024 earnings were positive for the S&P 500 and are expected to remain so in 2025. Importantly, the incoming Trump administration is expected to focus on deregulation, which should be a positive for many companies, allowing them to potentially reduce costs and improve earnings further.

Michael P. O’Keeffe, CFA 

Chief Investment Officer

michael.okeeffe@stifel.com

www.stifelinsights.com

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. There is no guarantee that the figures or opinions forecasted in this report will be realized or achieved. Employees of Stifel, Nicolaus & Company, Incorporated or its affiliates may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Past performance is no guarantee of future results. Indices are unmanaged, do not reflect fees or expenses, and you cannot invest directly in an index.

Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com

1224.7414512.1