Market Commentary Blog

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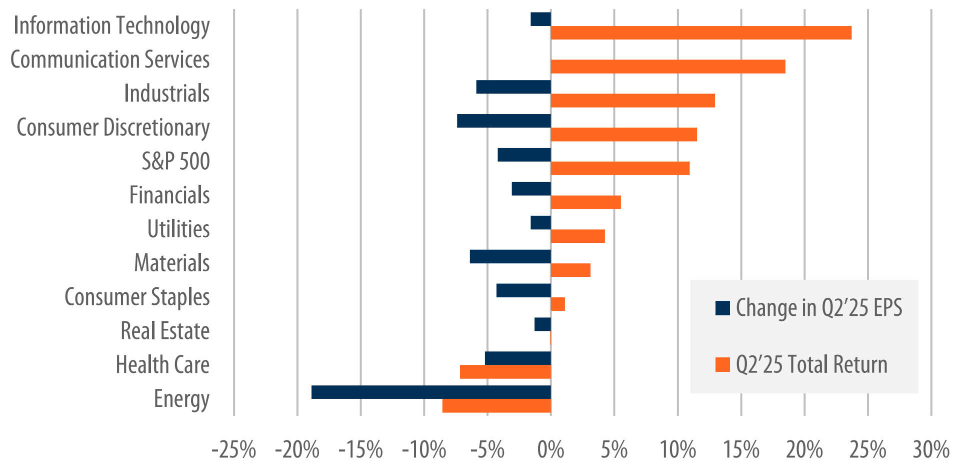
Earnings and Total Returns

Q2'25 S&P 500 Index & Sector Total Returns and Change in Quarterly EPS



Source: Bloomberg and FactSet Earnings Insight.

View from the Observation Deck

Elevated volatility, brought on by bitter tariff negotiations, wars, and the increasing likelihood of a U.S. economic recession were just a few of the topics we discussed in our last post (click here). As we observed, the top-performing sectors in Q2'25 were among the worst performers in Q1'25 while the worst performer in Q2'25 (Energy) was king of the hill just three months prior. Notably, the S&P 500 Index ("Index") surged to a record high at the close of Q2'25, catapulted forward by staggering total returns from the Information Technology and Communication Services sectors, which surged by 23.71% and 18.49%, respectively, over the period. While there are a myriad of factors to account for when evaluating an investment, we believe that earnings growth remains paramount to price appreciation. Today's bar chart highlights the total returns of the Index and its 11 subsectors as well as the percentage change in their quarterly estimated earnings per share (EPS) during the second quarter of 2025.

- In general, investors rewarded sectors whose quarterly estimated EPS declined the least in Q2'25.
  - Communication Services and Information Technology, which saw their estimated quarterly EPS remain unchanged and decline by 1.6% in Q2'25, surged by 18.49% and 23.71% (total return), respectively, over the period.
  - For comparison, the Energy sector's Q2'25 estimated EPS plummeted by 18.9% and the sector suffered a total return of -8.56% during the quarter.
- Analysts lowered their estimates for the Index's 2025 EPS from 274.12 on 12/31/24 to 264.16 on 6/30/25, representing a decline of 3.6% in 1H'25. For comparison, over the past 20 years, analysts reduced their annual bottom-up EPS estimates for the Index by an average of 2.8% in the first half of the year, according to FactSet.
- The Index's price was volatile in 1H'25, declining from a record 6,144.15 on 2/19 to 4,982.77 on 4/8 before subsequently surging to a record high of 6,204.95 on 6/30/25.
- While not in today's chart, the three sectors with the largest declines in 2025 estimated EPS (and the % change) in 1H'25 were as follows: Energy (-17.8%); Materials (-12.0%); and Consumer Discretionary (-9.2%). The three sectors with the largest increase/smallest declines over the same period were: Communication Services (+2.6%); Financials (-0.6%); and Utilities (-0.7%).

Takeaway

With a few exceptions, investors overwhelmingly favored sectors that saw modest declines in their quarterly EPS estimates in Q2'25, while those that saw significantly larger reductions experienced increased selling pressure. As the year progresses, it is common for analysts to reduce their calendar-year EPS estimates. That said, FactSet reported that this year's reduction of 3.6% is larger than the 20-year average of 2.8%. We do not see this as cause for alarm, however. As observed in today's chart, Energy accounts for the lion's share of this decline, with quarterly EPS estimates falling by 18.9% in Q2'25 alone (-17.8% in 1H'25). One thing we want to make clear: the data in today's chart covers just one quarter – Q2'25 – and does not indicate that earnings are expected to decline year-over-year in 2025. Notably, data from FactSet reveals that 2025 calendar-year EPS are estimated to increase to a record 264.16 (as of 6/30/25), up from 243.02 in 2024, lending support to higher prices, in our opinion. We intend to closely monitor earnings data for changes and will report back as warranted.