

Cash Flow and Carey



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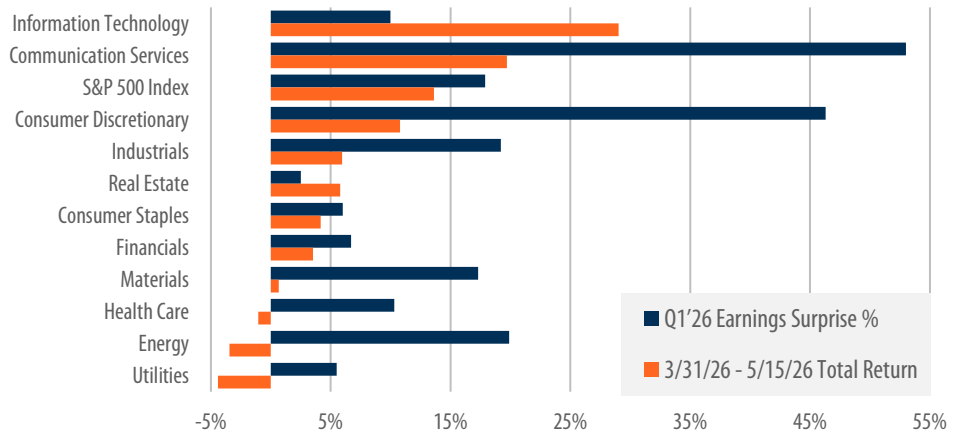
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This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The respective S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector.

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Earnings Surprises and Total Returns

Q1'26 S&P 500 Index & Sector Earnings Surprise and Total Returns (3/31 to 5/15)



Source: Bloomberg and FactSet Earnings Insight. Earnings surprises and total returns as of 5/15/26.

View from the Observation Deck

The Iranian war's impact has been widespread, with surging energy prices leading to deteriorating expectations of near-term U.S. interest rate cuts. Rising prices and the threat of sticky interest rates sent the S&P 500 Index ("Index") spiraling from 6,846 (12/31/25) to 6,344 (3/30/26). Since then, the Index's earnings and revenue growth results remained overwhelmingly positive. Investors have taken notice, with the Index's price increasing by 18.3% to a record 7,501 between 3/30/26 to 5/14/26. The chart above lends context to one area we believe may be driving this performance: earnings surprises.

- In general, investors rewarded sectors with the largest Q1'26 earnings surprises.
 - Companies in the Communication Services and Consumer Discretionary sectors, which produced the largest Q1'26 EPS surprises (53.0% and 46.3%, respectively), surged by 19.7% and 10.8% (total return) quarter-to-date through 5/15/26.
 - By contrast, the Energy sector declined by 3.4% over the period, despite having the third-largest earnings surprise percentage in our table (19.9%). As we see it, Energy's negative total return likely reflects declining earnings growth rate estimates. FactSet reported that the sector's estimated y-o-y earnings growth rate declined from 8.2% on 3/31/26 to 0.6% on 5/15/26.
- On average, the Index's companies are reporting earnings that are 17.9% above estimates, significantly higher than the metric's 5-year and 10-year averages of 7.3% and 7.1%, respectively.
- Analysts increased their estimates for the Index's Q1'26 earnings growth rate from 13.0% on 3/31/26 to 27.7% as of 5/15/26.
- Analysts also boosted revenue growth rate estimates as earnings season progressed. Estimates for the Index's Q1'26 y-o-y revenue growth rate were 8.2% on 12/31/25. They currently stand at an impressive 11.4% - their highest level since Q2'22 (13.9%).

Takeaway

This quarter's earnings results have been stellar, with company performance taking even the most seasoned analysts by surprise. Tellingly, FactSet reported that the Index's Q1'26 blended y-o-y earnings growth rate increased by 14.7 percentage points from an estimated 13.0% to actual results of 27.7% between 3/31 and 5/15. Revenue growth followed a similar trajectory, with analyst estimates (8.2% on 12/31/25) staggeringly behind reported quarterly results (11.4% on 5/15). With a few exceptions, investors overwhelmingly favored sectors that saw the largest earnings surprises in Q1'26, with the Information Technology, Communication Services, and Consumer Discretionary sectors registering total returns of 29.0%, 19.7%, and 10.8%, respectively quarter-to-date through 5/15. Annual earnings growth estimates have increased substantially this year as well, driven in part by the results reviewed above. Data from FactSet reveals that the Index's 2026 calendar-year EPS are estimated to increase to a record 334.70 (as of 5/19/26), up from 311.25 on 12/31/25. We intend to closely monitor earnings data for changes and will report back as warranted.