Market Commentary Blog

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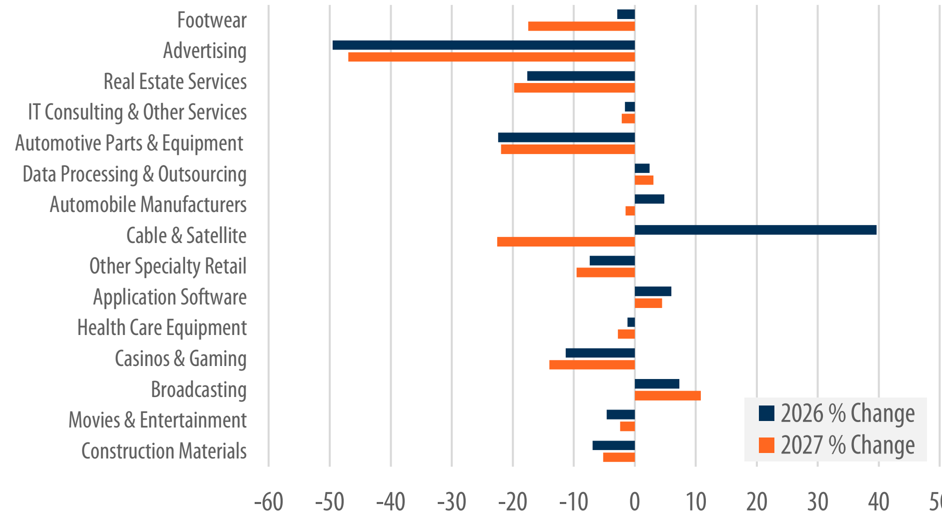
This Year's Lagging Subsectors…Are Earnings Expectations to Blame?

Subsector % Change in Analysts' EPS Estimates (12/31/25 – 8/7/26)



Source: FactSet and Bloomberg.

View from the Observation Deck

Our last two posts highlighted the year-to-date (YTD) total returns of the best- and worst-performing S&P 500 Index ("Index") subsectors. While investment return data can be incredibly useful, we suspect most of our readers are keenly aware that "past performance is no guarantee of future results." With that in mind, we thought a discussion focused on what we believe is one fundamental driver of market performance (over time) was warranted. Today's chart highlights the YTD change in analysts' calendar year 2026 and 2027 estimated earnings per share ("EPS") for the fifteen subsectors that we highlighted in Tuesday's post: "Worst-Performing S&P 500 Index Subsectors".

- As indicated above, calendar year 2026 and 2027 EPS estimates for the Advertising subsector declined by 49.5% and 47.0%, respectively, between December 31, 2025 and August 7, 2026. Advertising was the second-worst-performing subsector YTD in 2026 as of our post on August 11, 2026.
- Construction Materials, which was the fifteenth-worst-performing subsector as of our last post, saw calendar year 2026 and 2027 EPS estimates decline by 6.9% and 5.2%, respectively, over the same period.
- At -29.0%, the Footwear subsector saw the worst total return YTD through August 7, 2026, while calendar year 2026 and 2027 EPS estimates declined by 2.9% and 17.5%, respectively.
- Broadcasting, Application Software, and Data Processing & Outsourcing are the only subsectors where both 2026 and 2027 EPS estimates increased YTD.

Takeaway

Oil prices remain elevated as the war with Iran grinds through its sixth month, sustaining inflationary pressure and increasing the likelihood of higher interest rates by year-end. The potential for rate hikes has weighed notably on Consumer Discretionary stocks, with the Consumer Discretionary sector accounting for five of the fifteen worst-performing subsectors YTD through August 7, 2026. Capital expenditure (capex) on AI infrastructure is booming, with FactSet estimating that aggregate capex of the top five U.S. hyperscalers will total $691 billion in their respective 2026 fiscal years alone. Disruption from the advancements these investments are funding could pose a threat to many existing industries. Application Software and Data Processing & Outsourcing are two examples of this tension, declining by 18.0% and 24.5%, respectively, YTD through August 7, 2026, despite 2026 calendar year EPS estimates increasing by 6.0% and 2.4% over the same period. As always, these are estimates and are subject to change. We will continue to provide updates as developments warrant.