Market Commentary Blog

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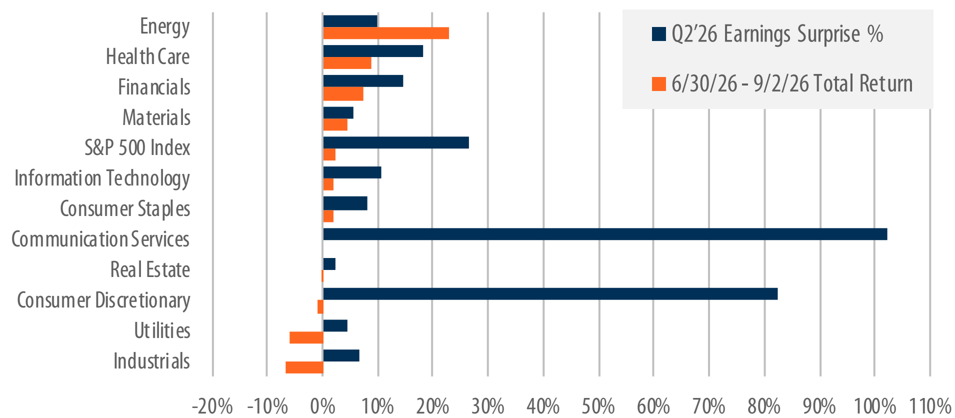
Earnings Surprises and Total Returns

Q2’26 S&P 500 Index & Sector Earnings Surprise and Total Returns (6/30 to 9/2)



Source: Bloomberg and FactSet Earnings Insight. Earnings surprises as of 8/28/26. Total Returns as of 9/2/26.

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 (December 31, 2025) to 6,344 (March 30, 2026). Since then, the Index’s earnings and revenue growth results remained overwhelmingly positive. Investors have taken notice, with the Index’s price increasing by 20.9% between March 30, 2026, and September 2, 2026. The chart above lends context to one area we believe may be driving this performance: earnings surprises.

- In aggregate, the Index’s companies are reporting earnings that are a record 26.5% above expectations in Q2’26, according to FactSet.
  - FactSet notes that two companies, one from the Communication Services sector and the other from the Consumer Discretionary sector, reported unusually large positive EPS surprises from net unrealized gains on equity securities and private company investments.
  - If we remove these two companies’ results entirely, the S&P 500 Index’s earnings surprise rate would decline to 10.8%, which is still above both the 5-year and 10-year averages of 7.0% and 7.4%, respectively.
- Aside from the two outliers noted above, investors generally rewarded sectors with the largest Q2’26 earnings surprises.
  - Companies in the Health Care, Financial, and Energy sectors, which produced EPS surprises of 18.1%, 14.7%, and 9.8%, respectively, surged by 9.0%, 7.5%, and 22.8% (total return) quarter-to-date through September 2, 2026.
  - By contrast, the Communication Services sector’s total return was unchanged (0.0%) over the period, despite having the largest earnings surprise percentage in our table (102.3%). In our view, these results could signal that investors are adjusting their expectations amid the potential for higher discount rates in the coming months.
- The Index’s Q2’26 blended, year-over-year earnings growth rate was a staggering 52.0% as of August 28, 2026 (97% of Index companies reporting). For comparison, analyst estimates for Q2’26 results were 23.1% on June 30, 2026.
- Analysts also boosted revenue growth rate estimates as earnings season progressed. Estimates for the Index’s Q2’26 y-o-y revenue growth rate were 12.0% on June 30, 2026. They currently stand at an impressive 15.5% - their highest level since Q4’21 (16.1%).

Takeaway

This quarter’s earnings results have been stellar, with company performance surprising even the most seasoned analysts. Tellingly, FactSet reported that the Index’s Q2’26 blended y-o-y earnings growth rate increased by 28.9 percentage points from an estimated 23.1% to actual results of 52.0% between June 30, 2026, and August 28, 2026. Revenue growth followed a similar trajectory, with analyst estimates (12.0% on June 30th) below reported quarterly results (15.5% on August 28th). With a few exceptions, investors overwhelmingly favored sectors that saw the largest earnings surprises in Q2’26, with the Energy, Health Care, and Financials sectors registering total returns of 22.8%, 9.0%, and 7.5%, respectively quarter-to-date through September 2nd. 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 361.73 (as of September 4), up from 311.19 on December 31, 2025.