Q1 2025 earnings recap

From the Field
May 2025

The Q1 2025 corporate earnings season is now largely over. One is tempted to describe this earnings season as potentially giving the least *directional information* of any earnings season in recent history, due to the macro uncertainty that has been caused by the flips and flops around President Trump's tariffs!

Broadly speaking, at the headline level, this earnings season has been more positive in both the U.S. and Europe than previously expected, albeit some of this is linked to earnings estimates being cut more aggressively going into the earnings season. The market's reaction to beats in the U.S., however, has been largely tepid while misses and guidance disappointments have had a more notable impact. Earnings revisions have been positive for the quarter and approximately neutral on a full year basis, as the cuts into earnings forecasts have been offset by robust Q1 delivery.

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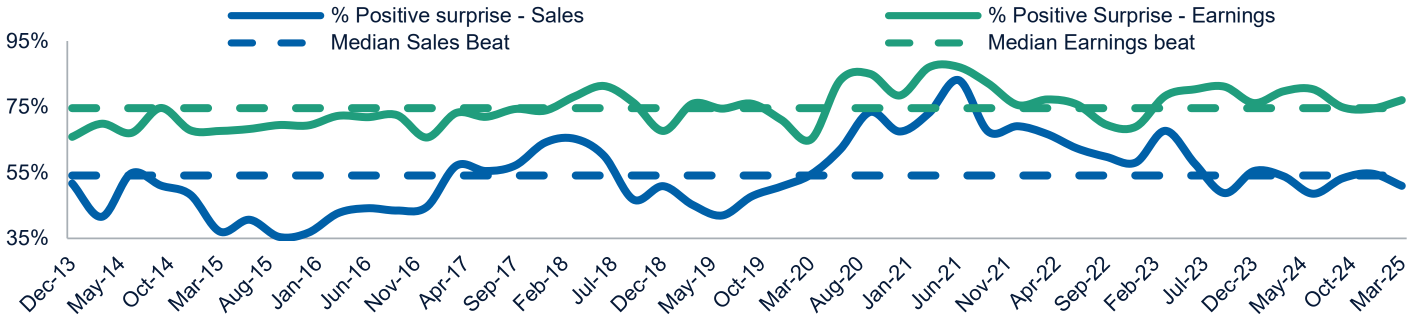
U.S.: S&P500

- As of 16 May, just over 88% of S&P500 market cap had reported (462 companies).
- At the **sales level, 51% of reporting companies beat estimates,** with year-on-year revenue growth coming in around 4.9% (versus 4.3% expected at the start of the earnings season). Still

U.S. proportion of positive sales and earnings surprises

(Fig. 1) Percent of reporting companies in S&P 500



As of 16 May 2025.
Source: Bloomberg Finance L.P.

healthy beats in our view, but lower than in the previous quarter.

- On **earnings, 77% of reporting companies beat estimates,** with earnings per share (EPS) growth coming in at c.13.3% (versus 6.6% expected), so clearly, we saw a better delivery on margins. This also likely reflects the aggressive cutting of estimates into results.

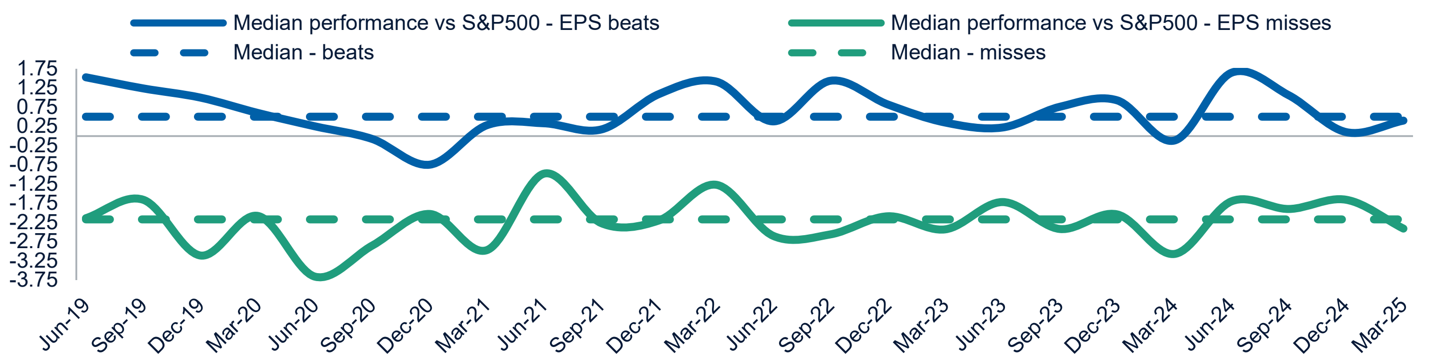
- At the sector level, we've seen healthy growth in Healthcare, Communication Services and Technology, while Energy, Staples and Materials were significantly negative year-on-year.

- Looking at the ongoing trends of sales and earnings beats one can see that the percentage of S&P500 companies beating sales declined sequentially in Q1, while EPS beats increased. History would suggest that this kind of divergence rarely lasts, so it will be interesting to see whether the sales trend or the earnings trend changes in the next few quarters.

- Stock price reactions to earnings announcements this quarter show a slightly different trend than before. While beats are being slightly rewarded (though still below the historical median), **misses have been significantly punished as can be seen below.**

U.S. share price reaction to EPS beats/misses

(Fig. 2) Median price change for S&P 500 stocks that beat/miss earnings

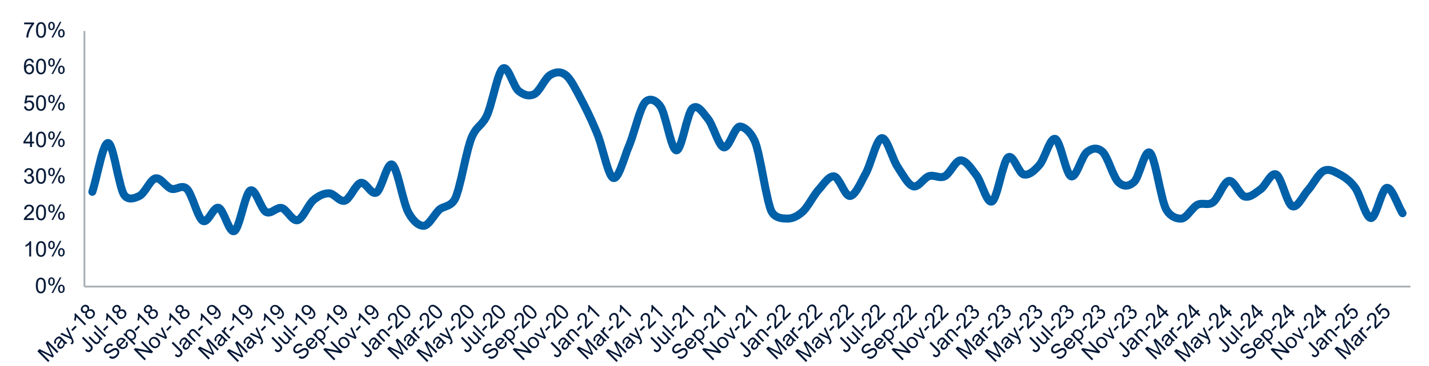


Past performance is not a reliable indicator of future performance.
As of 16 May 2025.
Source: Bloomberg Finance L.P.

- Guidance has also been neutral in general, with the number of companies guiding for positive earnings upgrades trending down.

U.S. companies upgrading annual EPS guidance

(Fig. 3) Percentage of S&P500 companies revising EPS guidance positively



As of 16 May 2025.
Source: Bloomberg Finance L.P.

What about 'market broadening?'

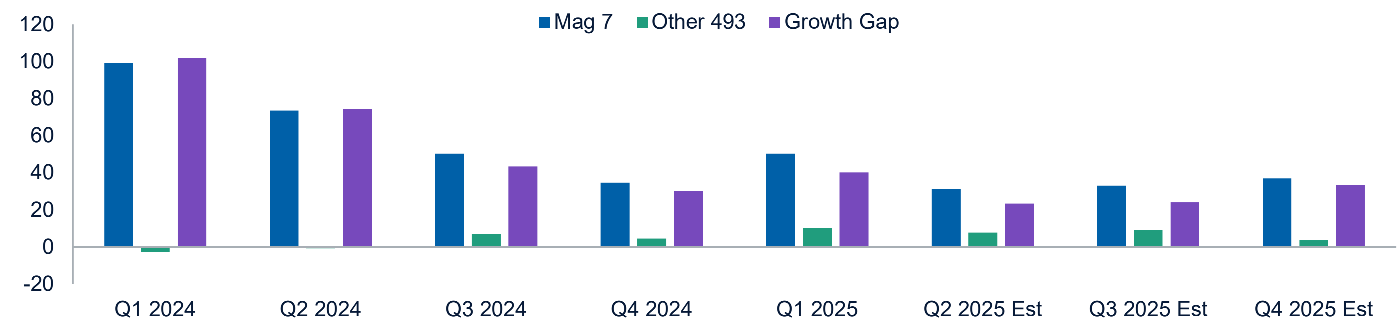
- Large cap tech continued to perform and lead in earnings, if not in performance.

- While at a price level, the Bloomberg Magnificent 7 Index (Mag-7) is currently -4.3% year-to-date (YTD) versus the S&P500 at +1.3%. The Mag-7 (ex-Tesla and Nvidia who had yet to report at the time of writing) have grown their earnings by over 20% year-on-year (YoY) in Q1 2025.

- While the growth of the rest of the market is certainly picking up, the "growth gap" between the Mag-7 and the rest of the market actually **increased** in Q1. The market still expects the difference in earnings growth to narrow over the coming quarters.

Magnificent 7 dominance of EPS growth is waning

(Fig. 4) Annual EPS growth: Magnificent 7 versus other S&P 500 companies



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The specific securities identified and described are for informational purposes only and do not represent recommendations.
As of 16 May 2025.
Source: Bloomberg Finance L.P.

Europe: Still showing strength

- Most of the MSCI Europe Index's market cap has reported. Sales beats are down on a sequential basis. Approximately **43% of companies have beaten on sales** (versus c.56% the previous quarter). Sales growth is coming in at around +3.3% YoY versus +1.1% initially expected, **so there has been a clear positive surprise**. Healthcare, Technology, Utilities and Financials have all been strong, with the largest drags being Energy and Discretionary.

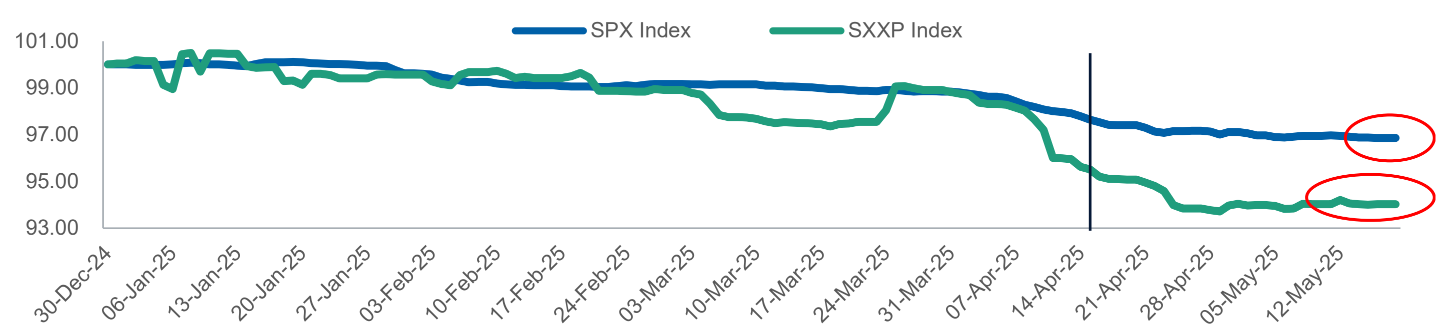
- At an earnings level, **around 53% of reporting European companies are beating with 29% missing their estimates. Earnings are surprising positively**, with **+5.3%** growth reported versus **-1.5% expected at the start of the results season**. As with sales, the Energy and Discretionary sectors have been negative on a year-on-year basis, while Technology, Industrials, Communication Services and Financials have all reported double digit growth.

Earnings trends versus multiples: U.S. versus Europe

What is clear is that when looking at earnings expectations for 2025 for both Europe and the U.S. in Figure 5 below, they had **slowly but steadily declined from** year end into quarter end by about 1-2%, and then post 2 April took a step down in both the U.S. and Europe. Clearly European earnings were impacted much more by the threat of U.S. import tariffs. **During the earnings season however, estimates have mostly flatlined as negotiations to ease U.S. tariffs had begun.**

U.S. (S&P 500) and Europe (STOXX Europe 600) EPS through the quarter

(Fig. 5) 2025 consensus EPS indexed to 30 December 2024 = 100

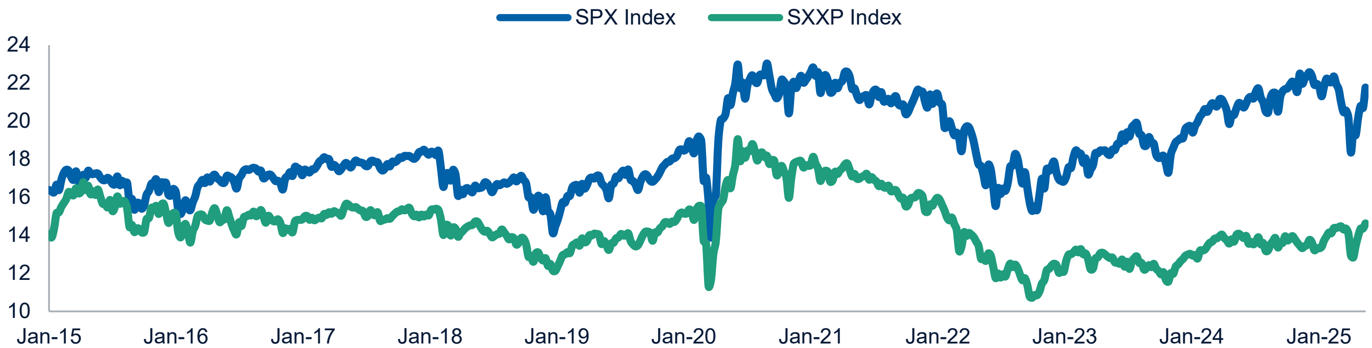


As of 16 May 2025.
Source: Bloomberg Finance L.P.

The European equity market has outperformed YTD (S&P500 +1.3% and the SXXP Europe +8.2% in local currency terms). The continued outperformance of European stocks is likely a combination of the prospects of increased fiscal stimulus, and a reduction of global overweights to U.S. markets, as well as a recovery of the record multiple discount of Europe relative to the U.S. as shown in Figure 6 below.

U.S. (S&P 500) and Europe (STOXX Europe 600) forward multiples

(Fig. 6) 12-month forward PE ratio



As of 16 May 2025.
Source: Bloomberg Finance L.P.

What are companies saying?

Company commentaries including earnings guidance have been mixed, though on balance more recent commentary has become cautious, especially with regard to the consumer.

In Tech-land

- The AI trade/theme seems very much alive - with Google and Microsoft reiterating spending plans, Meta raising capex guidance, and Amazon highlighting continued capacity constraints. TSMC said they're "doubling AI revenues." Despite a US$1.5bn China headwind, AMD posted a beat/raise on AI demand (Source: AMD, 6 May 2025).

- In aggregate, capex for the Mag-7 group grew 62% YoY in 1Q (versus 68% in 4Q 2024). Although capex growth is set to decelerate throughout the year, the *hyperscalers* are still expected to grow their capex by 35% YoY in 2025, outpacing forecasts for the rest of the index (+6% YoY) (Source: BofA Global Research, as of 5 May 2025).

- Consumer internet results continue to suggest that the consumer is quite healthy. Results from the likes of Netflix, Amazon, Spotify, and Disney etc. suggest consumer appetite to spend is still strong.

The industrial world

- While the ISM Manufacturing index has fallen below 50, there are no signs of a clear slowdown in U.S. Industrials.

- Parker Hannifin, Emerson and Rockwell all had good order momentum, as did 3M. Companies linked to the AI investment cycle such as GE Vernova, Vertiv, Siemens Energy, grew orders by strong double digits respectively.

- Aerospace was also strong with GE's commercial engine business growing orders by 15% (Source: GE Aerospace, 22 April 2025).

- Where weakness was apparent was in domestic transports, with trucking companies talking about an uncertain demand outlook, and UPS pulling guidance.

Banks/ financials

- Bank results and commentary generally sounded upbeat. For Banks, net interest margins seem to be trending in the right direction, and credit quality appears fine. American Express identified steady spending trends for the U.S. consumer. Where some weakness appeared, it seemed to be in areas more exposed to lower income consumers.

The consumer (discretionary, staples and everything in between)

- Staples companies don't appear to be as defensive as expected. Results from Pepsi disappointed, while Clorox commented on consumers looking for smaller size packages. Volumes in general do not seem to be picking up.

- There's some argument to be made that the consumer is switching spend to the likes of Amazon, Netflix, etc., so perhaps we need to start thinking in terms of a Consumer Services sector.

Guidance continues to be cautious

Despite headline beats and confidence in the U.S. economy, the guidance ratio tracked by Bank of America (#companies guiding above versus those guiding below consensus) was tracking at 0.6x, below the three-month average of 0.8x (Source: BofA Global Research 5 May 2025).

Capex guidance has also taken a hit. Especially outside of the Mag-7, as you can see in Figure 7 from Bank of America Global Research. The table highlights that outside the Mag-7/Tech space, capex for the rest of the S&P500 has been flat (versus index headline of 19% growth).

S&P 500 1Q25 YoY capex growth by sector

(Fig. 7)

Sector	1Q25 Capex	1Q24 Capex	Aggregate YoY	Contribution to Growth
Cons. Disc.	38,767	30,153	29%	26%
Staples	5,778	6,421	(10%)	(2%)
Energy	17,374	16,751	4%	2%
Financials	2,709	2,492	9%	1%
Health Care	9,346	8,897	5%	1%
Industrials	15,550	17,556	(11%)	(6%)
Tech	38,860	26,029	49%	38%
Materials	10,216	9,827	4%	1%
Real Estate	2,351	2,467	(5%)	(0%)
Comm. Svcs.	46,034	34,969	32%	33%
Utilities	27,916	25,587	9%	7%
S&P 500	**214,899**	**181,149**	**19%**	
ex. Tech + Mag. 7	**119,391**	**119,007**	**0%**	

Source: BofA Global Research, 5 May 2025.

How have T. Rowe Price's Global Equity Strategies navigated the Q1 earnings season?

It is informative to see how our Global Equity Strategies navigated the challenging Q1 2025 results season, a reminder of how important analyst stock selection is as well as the manager's portfolio construction skills. As shown in Figure 8 below, our global equity strategies have generally displayed good stock picking, with a majority of names beating on sales and earnings. The Global Focused Growth Equity and Global Select Equity Strategies both had good hit rates above 70%, while Global Growth Equity and Global Technology Equity Strategies had good hit rates on earnings, though less so on sales. This is likely due to the impact of tariff uncertainty for the global spread of businesses owned by Global Growth Equity and by Global Technology Equity's tech names.

T. Rowe Price Global Equity Strategies in Q1 2025

(Fig. 8) % of portfolio holdings beating sales and EPS estimates

Q1 2025	GFG		GGE		GTF		Global Select	
	Sales	Earnings	Sales	Earnings	Sales	Earnings	Sales	Earnings
Total holdings	85.00	85.00	185.00	185.00	54.00	54.00	38.00	38.00
Total reported	69.00	64.00	153.00	135.00	41.00	40.00	33.00	33.00
%	*81%*	*75%*	*83%*	*73%*	*76%*	*74%*	*87%*	*87%*
# beats	51.00	58.00	83.00	98.00	24.00	27.00	27.00	23.00
%	*74%*	*91%*	*54%*	*73%*	*59%*	*68%*	*82%*	*70%*

* Holdings as of 11 April 2025.
The representative portfolio is an account we believe most closely reflects current portfolio management style for the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio shown may differ from those of other accounts in the strategy. Information regarding the representative portfolio and the other accounts in the strategy is available upon request.
Source: T. Rowe Price. GFG = Global Focused Growth Equity Strategy, GGE = Global Growth Equity Strategy, GTF = Global Technology Equity Strategy, Global Select = Global Select Equity Strategy.

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