MARKET
SIGHT*LINES*

Second-Quarter Earnings: Lofty Expectations

By **Michael O'Keeffe, CFA**
Stifel's Chief Investment Officer

July 9, 2026

The second quarter earnings season is about to begin, arriving at an important time for markets. In our recent **Second Half Outlook**, we noted that, with the S&P 500 already near our year-end target and market valuations above average, further gains would be driven more by growing earnings than expanding valuations. The encouraging news is that earnings expectations are strong and, in an unusual development, analysts raised them through the second quarter. But lofty expectations leave little room for error, and we're in an environment where geopolitical risks – especially Middle East tensions – still linger. In this Sight|Lines, we set the stage for the second quarter earnings season – how much growth is priced in, which reports across the calendar will set the tone, and why we lean positive but are holding our forecasts steady.

THE TAKEAWAY: A STRONG SETUP MAY BE STRETCHING VALUATIONS

Expectations for the quarter are high and reflect optimism, but the bar is elevated, and the results we learn throughout the reporting calendar will set the tone as we go. In summary:

- Second quarter earnings are expected to grow about 24% year over year, and analysts raised their estimates through the second quarter – a relatively uncommon occurrence.
- Company guidance also skewed positive, with more companies raising outlooks than lowering them.
- Revenue growth forecasts are strong and broad – near 12% with all 11 sectors growing, while the drivers of margins and earnings growth are still more concentrated.
- The banks open the season in mid-July and will set the macro tone – offering insights about consumer health, credit, and capital markets activity.
- Artificial intelligence hardware bellwethers follow, offering the first hard read on the capital spending cycle before the largest technology names report.
- The AI hyperscalers are reporting in late July, with cloud growth and capital spending plans in focus.
- Late August will bring Nvidia's release along with healthcare, the sector with more negative forecasts.
- While we lean modestly positive on stocks, these lofty expectations appear to be priced in, setting up for a two-sided market in the near term, one of the reasons we've **maintained our S&P 500 target.**

IN-DEPTH: STRONG EARNINGS EXPECTATIONS SET A HIGH BAR FOR EARNINGS RESULTS

Strong earnings growth is expected in the second quarter, increasing the chances for disappointment. Going deeper:

- Expectations are strong, and the revision trend is a positive surprise:
  - The S&P 500 is expected to grow earnings by 23.5% – a second straight quarter above 20% and the seventh straight of double-digit growth, with 10 of the 11 sectors growing.
  - Analysts raised the quarter's earnings estimate 3.9% from March 31 to June 30 – when a decline of 2% is more typical.
- Company guidance has been more constructive, with more cautionary pre-announcements not as common:
  - Sixty-three companies issued positive guidance versus 48 negative – around 57% positive, above the approximate 41% historical average.
  - The 44 tech sector companies issuing positive guidance is the most across the 11 sectors.
- Top-line revenue growth is expected to be broad, but the main drivers of earnings growth are still narrow:
  - Revenue is expected to grow about 12% – the fastest since 2022 – across all 11 sectors.
  - Energy and technology drove most upward revisions, with healthcare as the sector with an expected earnings decline.
- In terms of the calendar, financials will be released early, setting the tone for the earnings season:
  - Wells Fargo is expected to report in mid-July, with JPMorgan and Citigroup typically alongside, followed by Goldman Sachs, Morgan Stanley, and Bank of America.
  - These results often give insights about broader topics like the credit environment and consumer health, as will Netflix, also reporting about that time.
- Given that AI remains a driver of market optimism, chip supply chain results, also reporting early, will be important:
  - Taiwan Semiconductor's mid-July report will provide insight on AI chip demand, and ASML's results may be a forward indicator of future fabrication plant investment.
- The busiest week of the earnings season will center on the largest technology platforms:
  - Microsoft, Alphabet, Meta, Amazon, and Apple are expected to report in late July/early August, along with Tesla.
  - Learnings around cloud growth and capital spending will provide insight around the **investment versus return on investment** question.
- Companies reporting later have the potential to reshape the tone set by this earnings season:
  - Nvidia reports on August 26, the company perhaps most followed when it comes to AI and related optimism.
  - Energy company results will provide insights on the impact of changes in the Middle East, and final health care reports will confirm – or deny – if negative forecasts in that sector play out.
- While we lean modestly positive on stocks, we see a potentially two-sided market near term:
  - The market has been trading around our 7,450 year-end target at about 20 times forward earnings, above its five- and 10-year averages, leaving less room for meaningful multiple expansion from here.
  - Earnings disappointments or a reheating of the Middle East conflict are some downside risks.

WHAT WE THINK

Second quarter earnings season is starting, and analysts raised estimates through the quarter, with guidance skewing positive. But lofty expectations leave little room for error, and two risks temper our enthusiasm: possible earnings disappointments and the potential for a reheating of the Middle East conflict. With the market already trading around our year-end target and valuations elevated, we lean positive but see the potential for a two-sided market in the near term.

Michael P. O'Keeffe, CFA
Chief Investment Officer
michael.okeeffe@stifel.com
StifelInsights.com

Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | Stifel.com

0726.9012483.1