

Rising Spirits

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With the Q4 earnings season underway, the S&P 500 has jumped back to a new high. Early returns from key financial stocks, and a strong showing from a large company, have renewed optimism. Although only 15% of companies have reported, the season is off to a promising start. It also helps that concerns about tariffs have eased, and there is a visible partnership between President Trump and leading tech companies.

So far, earnings have exceeded expectations by 7.9%, with 78% of companies surpassing the consensus estimate. Financial companies have reported the most results so far and have exceeded expectations by 14.7%, with 98% of them beating the consensus estimate. The economy's underlying strength has been a key factor in these results. The largest banks are seeing strong momentum in their investment banking, trading, wealth management, and commercial banking franchises. This type of strength is often a positive sign for future earnings reports. Netflix delivered a key early result, alleviating concerns about a potential slowdown in large companies. Analysts are not backing off their strong forecasts for 2025.

President Trump has been busy in his first week back in office. Initial commentary on tariffs was less aggressive than expected, and the absence of a universal tariff is a positive development for the markets. Additionally, leaders of some of the country's largest tech companies met at the White House to announce plans for investing over \$500 billion in artificial intelligence (AI) infrastructure projects over the next four years. With government support, the joint venture aims to build data centers that will facilitate AI's rapid development and enhance U.S. entities' competitiveness relative to their global peers. The market is responding positively to these developments.

Still, the rest of the earnings season will be crucial. While we are off to a great start, some heavy hitters will be reporting in the weeks ahead. For the broader market to continue rising, it is imperative that these large companies do not disappoint. Outside this group, we continue to see opportunities in companies with consistent or improving growth trajectories. Companies across various sectors are rewarded for exceeding earnings expectations and providing positive outlooks.

Thanks,
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Research Analyst

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