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Earnings Analysis: Rising Tides

US Earnings Remain Pristine as the Rest of the Field Closes In

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SUMMARY

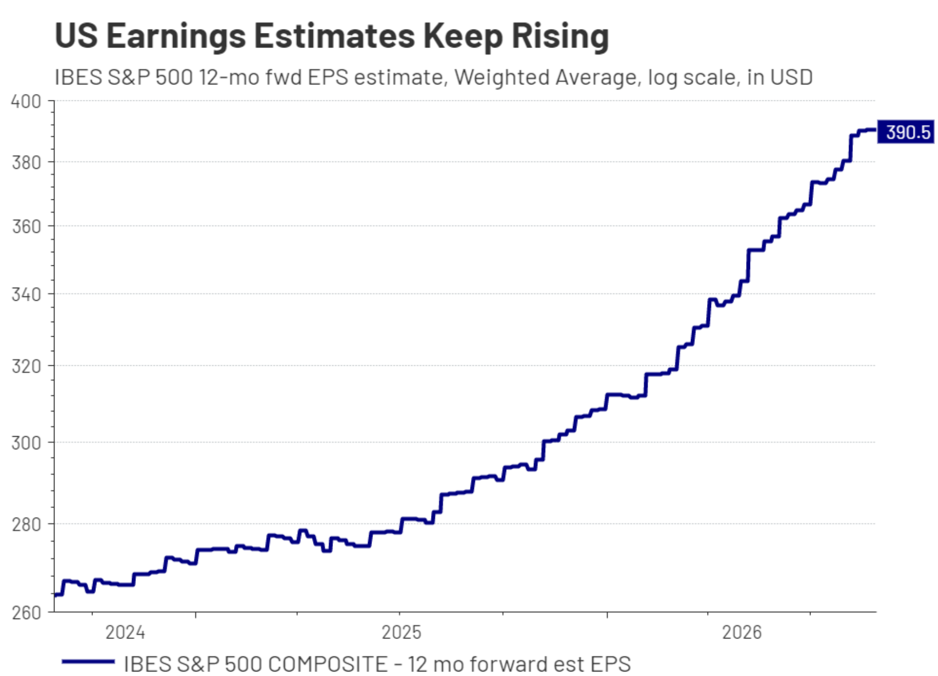
- US Large-Cap earnings are the standard
- Small-Cap, Europe, and Japan are showing signs they can meet that standard
- Earnings analysis will continue to guide any rotation from Large-Cap to more value-oriented assets

In past Earnings Analysis *Weekly Views*, we have discussed how earnings have bridged the gap between negative headlines and strong market returns. The current earnings season is no different. As we write, markets sit near all-time highs, while headlines continue to focus on sticky inflation and prolonged geopolitical conflicts. That is not to say that the red flags underpinning these headlines don't matter. Instead, I would echo last quarter's earnings analysis: **macroeconomic and geopolitical risks matter most when they start to erode earnings — and right now, that simply isn't happening.**

Thus, we must continue to keep our attention split. We will continue to look for concerning developments across our top-down mosaic (consisting of macroeconomic, geopolitical, and market sentiment measures), while being diligent in our bottom-up earnings analysis.

With this context in mind, let's again perform our quarterly earnings analysis, leaning on our three 'earnings principles':

1. **Earnings/Revenue Surprises:** Were corporate results out of alignment with market expectations?
2. **Analyst Adjustments:** What was the direction and magnitude of analysts' estimate revisions after forward guidance was issued?
3. **Earnings/Revenue Trends:** What is the long-term earnings trend?



Source: LSEG Datastream, RiverFront. Data weekly as of August 26, 2026. Chart right shown for illustrative purposes only. Past performance is no indication of future results.

US Large-Cap: The Sterling Standard

Without using hyperbole, US Large-Cap earnings remain exceptional and above their international and Small-Cap peers.

Starting with our **first principle**: S&P 500 aggregate **earnings were 28.3% higher** than analyst expectations, with every sector posting earnings higher than expectation. On the revenue front, aggregate **revenue was 3.3% higher** than expectations, with only the Utilities (the third smallest sector) surprising to the downside.

Moving to our **second principle**, forward earnings expectations for the S&P 500 over the next 12 months have ticked upward, as the chart on page 1 illustrates.

Finally, the S&P 500 continues to demonstrate strong growth when viewed through our **final principle** with **year-over-year earnings growing 49.6% and sales growing 14.1%**. Both of these growth numbers exceeded already impressive growth from last quarter. Additionally, acceleration was well spread between the sectors with all eleven growing revenue and only health care having negative earnings growth.

Beyond Large-Cap: As Good as it Gets; Green All Around

	US large-cap	US small-cap	Europe	Japan
Revenue Surprise	Positive (10/11)	Positive (10/11)	Positive (10/11)	Positive (9/11)
Earnings Surprise	Positive (11/11)	Positive (10/11)	Positive (7/11)	Positive (11/11)
Estimates for Next 12 Months	Positive	Positive	Positive	Positive
Revenue Trend Growth	Positive (11/11)	Positive (9/11)	Positive (10/11)	Positive (11/11)
Earnings Trend Growth	Positive (10/11)	Positive (9/11)	Positive (10/11)	Positive (11/11)
Source : Bloomberg Estimates				

Source: Bloomberg, RiverFront. Data quarterly as of August 26, 2026. Chart shown for illustrative purposes only. Past performance is no indication of future results. You cannot invest directly in an index. Not indicative of RiverFront portfolio performance. In the table above, US Large Cap is represented by the S&P 500, US Small Cap is represented by the S&P 600, Europe is represented by Euro Stoxx 50, and Japan is represented by Tokyo Price Index. See Disclosures section for definitions.

The table above summarizes RiverFront's view of the earnings picture for four different market segments: US large-cap, small-cap, Europe and Japan (the numbers in brackets are the 11 sectors). Comparing these segments can help answer our question about value vs growth. US Small-cap, European, and Japanese equities tend to have a greater weighting in more value-oriented sectors; this means they could provide us insight into whether earnings can provide a catalyst to a value rotation. Additionally, we can compare how each of these markets has changed from last quarter, in order to determine if there is a trend forming. We use green, orange and red to indicate how the data has changed. For the first time since we have been doing this, everything is green. Here is a quick 'checkup' for the three non-US large-cap market segments:

- **US small-cap:** Building on last quarter, Small-cap earnings and revenue look strong across all three principles when looking at the aggregate level. Additionally, breadth of the earnings trend has widened across sectors. With signs pointing more positively, comparisons to Large-Cap fall under more scrutiny. While the earnings are no doubt encouraging, they fall short of the exemplary results being put up by Large-Caps. We will look for this gap to narrow and a continuation of this improvement as we consider Small-Cap investment going forward, though the relatively higher risk associated with Small-Cap equities would certainly weigh into this decision as well.

- **Europe:** Europe saw a strong turnaround in our principles, especially for revenue. Both revenue growth and surprise went from negative to positive, with that shift being widespread across sectors. This fact is particularly relevant because our thesis surrounding a potential 'value rotation' starts with moderately elevated inflation driving sales. The next step is for the next quarters to cement this trend, providing confidence that our thesis is playing out at a company level.

- **Japan:** Japan's earnings strength is the closest to challenging Large-Cap. In fact, its year-over-year earnings growth of 61.1% exceeded the 49.6% posted by US Large-Cap, driven significantly by global AI spending, and a weak Yen boosting earnings from those exports, in our view. To back this up, this is the second quarter in a row with positives across all three of our principles. The one flag to be thrown is regarding its future growth expectations. Specifically, over the next 12-months Japan has the lowest expected earnings growth. If this single hang up is resolved, Japan's earnings would be up there with Large-Cap, though certainly not as sustained. One final complicating factor is Japanese Yen. While the strengthening of the Yen in late July added to US investor returns, we believe that continued strength could begin to undermine Japanese earnings, due to the country's export focused economy.

Conclusion: Earnings Score Excellently Across the Globe, on All Three Principles

The second quarter earnings season was impressive across the board. US Large-Cap continues to be the standard - though the remaining asset classes seem poised to meet that high standard. The biggest differentiator from previous quarters is consistency. A single quarter of strong earnings is simply not sufficient to unseat US Large-Cap from its pole position. Instead, we must see Small-Cap, European, and Japanese earnings build on this excellent quarter over the next several quarters.

As we discussed in our *Strategic View* earlier this month, the boom in share prices alone is not a reason to abandon an asset class if justified by earnings. Therefore, we must remain vigilant in our earnings analysis, as any catalyst for a sustained market shift will likely come from earnings weakness. Outside US Large caps, we see pockets of value in Small-Cap and international. They are demonstrating earnings momentum and could be strength and could be potential areas for future equity investments.

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Artificial intelligence, or AI, refers to the simulation of human intelligence by software-coded heuristics. Nowadays this code is prevalent in everything from cloudbased, enterprise applications to consumer apps and even embedded firmware.

Index Definitions:
Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

S&P 600 is a benchmark index for small-cap stocks. To be listed on the S&P 600, stocks must have a market cap of $850 million to $3.6 billion, preventing overlap with S&P's larger cap indices.

EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. The index is composed of 50 stocks from 11 countries in the Eurozone. EURO STOXX 50 represents Eurozone blue-chip companies considered as leaders in their respective sectors.

The Tokyo Price Index, known as TOPIX, is a Japanese stock market index calculated and published by the Tokyo Stock Exchange (TSE). TOPIX tracks domestic companies in the exchange's first section, which represents Japan's largest firms by market capitalization.

Definitions:

Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time.

The energy sector is a category of stocks that relate to producing or supplying energy. The energy sector or industry includes companies involved in the exploration and development of oil or gas reserves, oil and gas drilling, and refining. The energy industry also includes integrated power utility companies such as renewable energy and coal.

US Equities include stocks listed in the United States. Stocks represent partial ownership of a corporation. If the corporation does well, its value can increase, and investors can share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Small/mid-cap equities, MLPs, REITS and alternatives equities are types of US Equities and assume further risks described below.

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US large cap equities include equities of companies with a market capitalization of over $10 billion. Although large cap equities are generally considered to be safer securities, large cap equities are still subject to the risks associated with stocks.

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