S&P 500 Q1 2025 Quarterly Earnings Analysis

Consello

Q1 Earnings Results Underscore Market Concentration and Tariff Risk

Key Q1 Insights

- **Q1 earnings season revealed a sharp divide in operating performance** between the "Magnificent 7" mega-cap companies and the rest of the S&P 500.[1] While headline results point to continued growth, the underlying trends paint a more sobering picture:
    - Headline EPS growth for the S&P 500[2] came in at +7.2% YoY, marking the seventh consecutive quarter of earnings expansion. However, this strength was highly concentrated. Excluding the "Magnificent 7," EPS declined -5.2% and revenues fell -1.8%, highlighting the broader softness across the index. Notably, sector-level weakness in Energy and Real Estate significantly offset gains in high growth segments like Tech and Communication Services, reinforcing the view that headline strength is masking underlying earnings pressure in key parts of the market.
    - Positive EPS surprises remained high (77% of S&P 500 companies beat), but the magnitude of upside surprises was modest by historical standards.[3]
    - Positive revenue surprises (59% of S&P 500 companies beat) fell well below the five-year average of 69%, reinforcing the narrative of slowing top-line momentum, with tariff and macroeconomic uncertainty potentially weighing on broader results.
- **Early Signs That Q1 Was the Bottom**
    - Markets were volatile in Q1, with the S&P 500 falling nearly 15% from January 1st through early April amid tariff uncertainty, Fed policy ambiguity, and renewed concerns over a growth slowdown. The turning point came on April 8th – following "Liberation Day" – when a 90-day tariff pause was announced. Since then, stocks have rebounded ~20%, setting a more optimistic tone heading into Q2. However, this sharp rally raises the bar for companies to deliver on expectations and manage guidance effectively as we enter Q2 earnings season.
    - Forward guidance points to sequential improvement, with the S&P 500 expected to grow Q2 EPS by +1.5% QoQ, led by Industrials and Consumer Staples, each guiding to ~4% QoQ growth in the quarter.
    - Only the Real Estate sector is projecting a QoQ decline, reinforcing the view that Q1 may represent the low point for the broader market.
    - EPS guidance for Q2 remains skewed to the upside: Among companies that issued EPS guidance for the following quarter, 65 provided a forecast that exceeded analyst consensus, while only 17 issued guidance below market expectations. On the revenue side, 58 companies provided a forecast above analyst consensus, while 13 provided guides below consensus.
- **Tariff Volatility Impacted Q1 Guidance Considerations**
    - In Q1, tariff uncertainty influenced how companies approached forward guidance. While ~10% of companies made structural changes to their guidance strategy – such as withdrawing or widening forecasts – the vast majority acknowledged the tariff overhang. Approximately 75% of companies embedded tariff impacts into their outlooks, and a smaller subset went a step further by explicitly quantifying the financial effects (~9% for the quarter, ~17% for the full year). These adjustments were especially prevalent among companies with high consumer end-market exposure.

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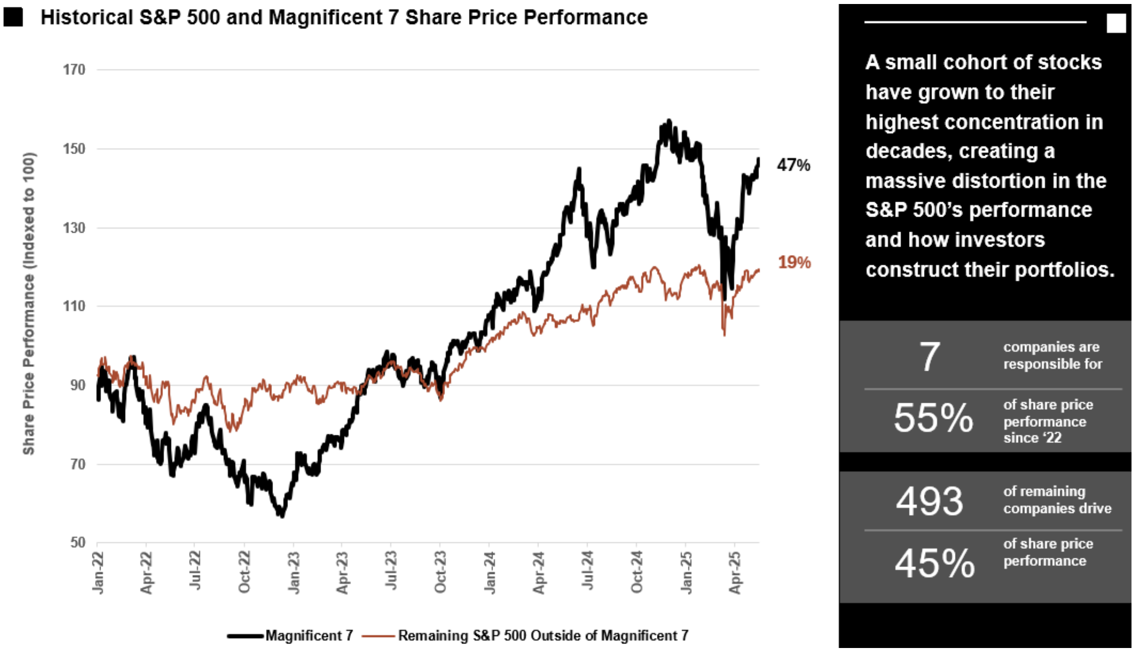
[1] The "Magnificent 7" includes Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

[2] Based on 92% of S&P 500 companies reporting actual results as of May 22.

[3] Q1 EPS surprised an average of +7.7% vs. the five-year average of +8.8%. Revenue surprised an average of +1.2% vs. the five-year average of +2.1%.

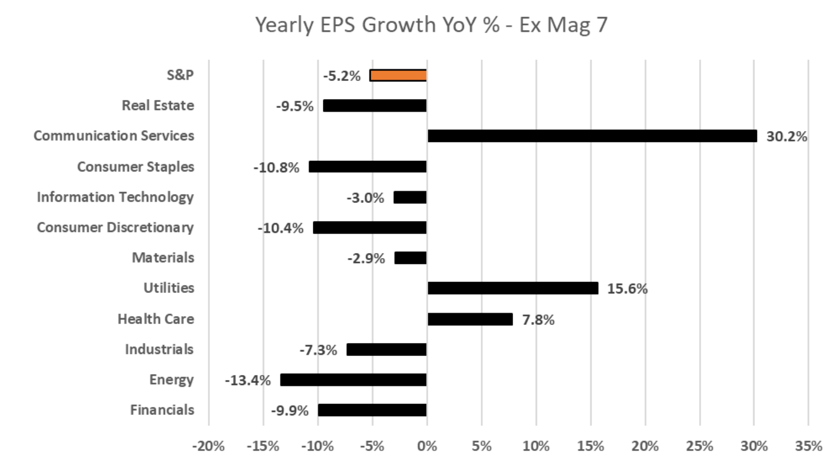
Summary of Q1 2025 Results – "Magnificent 7" Strength Masks Broader Weakness Across S&P 500

Q1 marked the seventh consecutive quarter of EPS expansion for the S&P 500, with headline earnings rising +7.2% and revenues up +1.2% year-over-year. However, these figures mask a more bifurcated picture. Stripping out the "Magnificent 7" megacap names – which now make up 34% of the index by market cap – reveals that the broader S&P 500 experienced a -5.2% drop in earnings and a -4.6% decline in revenue. This stark divergence underscores how much of the market's performance has been driven by just a handful of names.



Source: FactSet

The sector breakdown further highlights this dispersion – only 3 of 11 sectors posted positive EPS growth when the "Magnificent 7" were excluded. Communication Services (+30.2%), Utilities (+15.6%), and Health Care (+7.8%) led EPS growth, while Energy (-13.4%), Consumer Staples (-10.8%), and Consumer Discretionary (-10.4%) were notable laggards. This uneven performance reinforces that while the index showed resilience on the surface, underlying earnings pressure remains widespread.



Source: FactSet[4]

[4] Weighted average EPS and revenue growth excluding the "Magnificent 7." This means we reweighted each name within each sector, taking out the 7 companies (which constitute ~34% of the S&P by market cap weighting).

This sector-level dispersion reflects more than just a "Magnificent 7" skew. It signals that earnings pressure is broad-based, particularly across cyclical and defensively oriented sectors. As a result, while headline numbers may imply earnings resilience, the underlying breadth of growth has materially eroded, reinforcing investor caution heading into Q2.

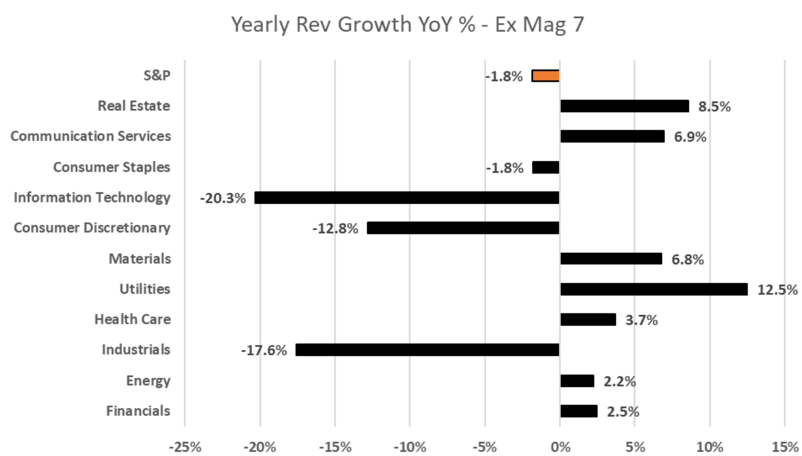
Revenue Growth Skews Negative Without the Megacaps

Only 59% of companies beat revenue expectations, well below the five-year average of 69%, and the average revenue surprise came in at +1.2%, versus a five-year norm of +2.1%. This marks yet another quarter of subdued top-line outperformance, with many sectors struggling to maintain revenue momentum amid tariff-related uncertainty, FX headwinds, and consumer softness.

At the sector level, dispersion was wide. Major sectors reported sharp YoY declines in revenue outside of the "Magnificent 7":

- Information Technology (-20.3%), Industrials (-17.6%), and Consumer Discretionary (-12.8%) were the weakest performers.
- On the other end, Utilities (+12.5%), Real Estate (+8.5%), and Communication Services (+6.9%) led the way, benefiting from more stable demand and favorable pricing dynamics.

Overall, while the S&P 500 technically extended its streak to 18 consecutive quarters of YoY revenue growth, the underlying breadth of that growth continues to narrow. The data reinforce the idea that headline resilience is masking broad-based weakness, especially across cyclical sectors.

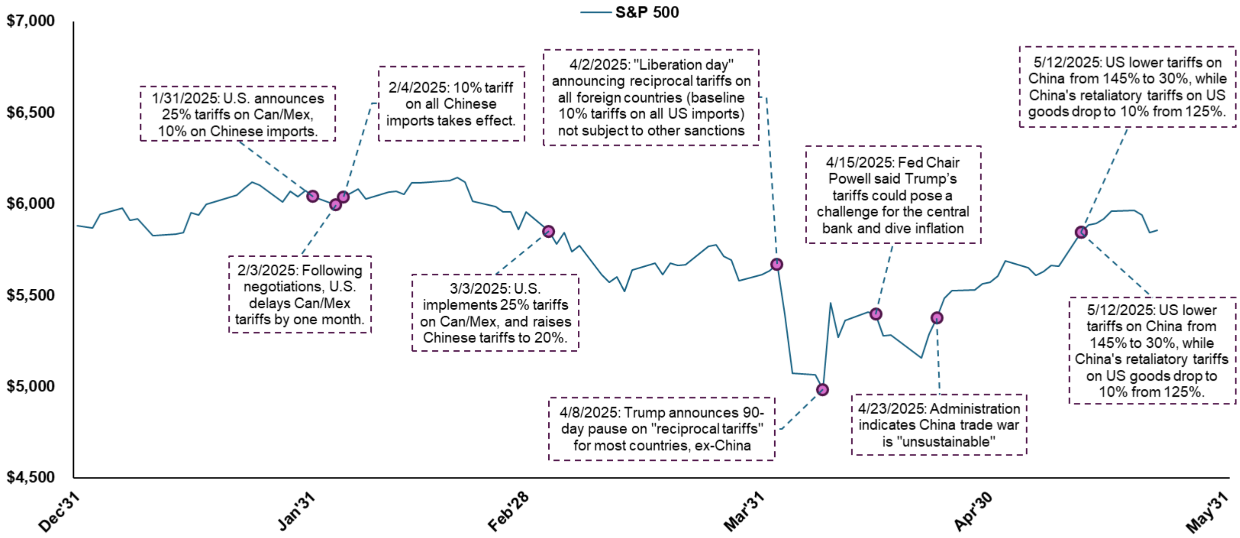


Source: FactSet[5]

Tariffs & Corporate Guidance Deep Dive – Strategic Adjustments in a Fluid Policy Environment

Tariff volatility defined the Q1 macro backdrop, driving a nearly 15% drawdown in the S&P 500 through early April. As shown in the accompanying chart, sentiment only began to stabilize after the April 8th "Liberation Day" pause. Since then, equities have rebounded nearly 20%, but the policy whiplash left a clear mark on how companies communicated forward-looking guidance.

[5] Some companies have outsized impacts on these weighted growth metrics. For example, Nvidia makes up ~6.1% of the S&P by market cap and saw EPS growth of 72%. As a result, the company contributed ~27% of the S&P's 18.7% YoY EPS growth.



Source: FactSet.

In response to this uncertainty, Consello reviewed 161 companies – predominantly within the S&P 500 – to assess how corporate guidance practices evolved in Q1. The analysis focused on three primary trends: the extent to which companies modified their typical guidance conventions (e.g., withdrawing or widening forecasts), whether and how tariff impacts were embedded into outlooks, and how sector exposure – especially to consumer-facing markets – shaped these decisions.

This volatility prompted a noticeable shift in how management teams approached guidance. Many reassessed their frameworks, whether by adjusting guidance conventions (e.g., withdrawing, widening, or offering downside scenarios), embedding tariff assumptions, or quantifying impacts where possible. The inconsistent pace and direction of tariff announcements made visibility difficult, resulting in divergent strategies across sectors and increased scrutiny from investors.

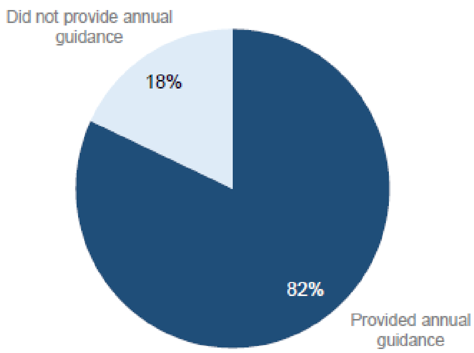
Quarterly Guidance: Due to heightened levels of macroeconomic uncertainty, ~9% of companies (that guide) have modified their quarterly guidance convention, of which there's been greater focus on widening financial forecast range versus withdrawing guidance. Additionally, ~83% of companies (that guide) have elected to embed the impact of tariffs in quarterly guidance; however, only ~9% of that sample have expressly quantified the tariff impact in guidance.

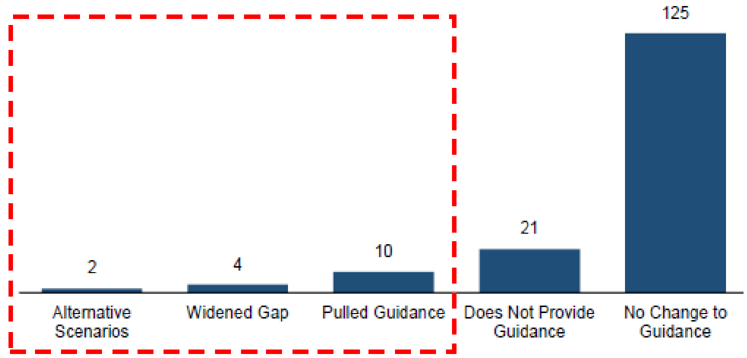
Source: Bloomberg/ Company Documents.[6]

Annual Guidance Overview: A similar story was observed with annual guidance as ~11% of companies (that guide) have modified their guidance convention, of which there's been greater focus to withdraw guidance versus providing an alternative recessionary scenario and widening their forecast range. Additionally, ~70% of companies (that guide)

[6] ~45% of the corporate sample didn't historically provide quarterly guidance. Charts are representative of all 161 companies analyzed.

have elected to embed the impact of tariffs in annual guidance; however, ~17% of that sample have expressly quantified the tariff impact in guidance.





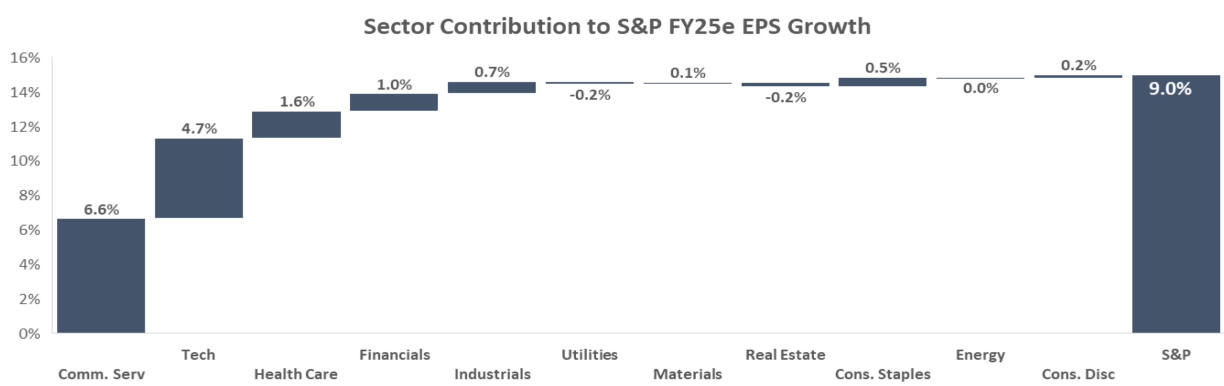
Source: Bloomberg/ Company Documents.[7]

The Role of End-Market Exposure: Among the companies that have engaged in a guidance convention change, a large driver of this decision has been the company's end-market exposure. Specifically, airlines, autos, and consumer staples were more likely to modify their guidance convention, citing uncertainty around demand, consumer spending, and a volatile pricing environment. As observed, throughout Q1 ~94% of our sample that modified their guidance convention had high consumer exposure, with a greater preference to withdraw guidance (~63%) rather than widen their financial forecast range or provide and alternative recessionary guidance scenario (~38%).

Additionally, sell-side analysts increasingly used earnings Q&A sessions to probe mitigation strategies, the potential for demand pull-forward, shifts in consumer behavior, and supply chain adjustments tied to USMCA compliance. These discussions reflect the broader reality that tariff-driven uncertainty is not just affecting operations, it's actively reshaping how companies communicate with investors.

Full-year Growth Revised Lower

Overall, consensus FY 2025 S&P 500 EPS growth is now projected at 9.0%, down from 11.6% at the end of Q4. The downward revision reflects Q1's softer performance outside the "Magnificent 7," where broad-based earnings and revenue declines weighed on full-year expectations.



Source: FactSet.[8]

That said, there are encouraging signs that Q1 may represent the low point. Management teams have issued more constructive Q2 guidance, with 65 companies guiding EPS above consensus (vs. 17 below) and 58 raising revenue outlooks (vs. 13 lowering). The S&P 500 is also expected to post +1.5% EPS growth quarter-over-quarter, led by

[7] ~11% of the corporate sample didn't historically provide annual guidance. Charts are representative of all 161 companies analyzed.

[8] Numbers on the chart reference the expected Street (using Factset Consensus) growth rates for each subsector ETF (using SPDR ETFs) multiplied by the sector weight within the S&P 500. For example, the Communication Services sector is 13.0% of the S&P 500 by market weight, and Street estimates for 2025 Earnings Growth are 57.0%, meaning the sector's contribution to the S&P as a whole is 6.6%.

Industrials and Consumer Staples (each forecasting ~4% growth), while Real Estate remains the only sector anticipating a sequential decline.

Taken together, while full-year estimates have been reset lower, Q2 setup suggests growing confidence that the bottom may already be behind us.

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