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The pole vault

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Strong profits are helping markets remain resilient, but the concentration of growth may make share prices more volatile.

“In the short run, the market is a voting machine but, in the long run, it is a weighing machine.”

So runs one of the most famous pieces of investing wisdom coined by the famous Anglo-American investor and Professor Benjamin Graham and popularised by US investor Warren Buffett, one of his students.

In other words, narratives, speculation, investor sentiment, and the flow of money into and out of markets can push prices far from their perceived ‘fair value’, sometimes for extended periods. But, in the end, the key determinant of a market or company’s return to shareholders will be dominated by the profits it generates and how it chooses to use them. They can be reinvested in the business to compound growth or distributed to shareholders as dividends or via share buybacks. There really is no escaping that. The value investors place on those future profits can

Quick take:

- Strong profits are supporting global markets, led by growth in AI and energy.
- Earnings forecasts have improved across the US, Europe, and emerging markets.
- Investors should prepare for greater volatility as companies report their latest results.

also rise and fall with interest rates and bond yields. These determine the ‘discount rate’, the mathematical formula used to estimate what future profits are worth today. Even so, valuations must ultimately have some foundation in reality.

Having spent much of recent weeks writing about interest rates and bond yields, I think it’s time, as promised, to return to equities as the third-quarter reporting season begins.

Raising the bar

Strong earnings growth has helped equity markets remain resilient despite a higher ‘cost of capital’, meaning it has become

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more expensive for companies to borrow or raise money. The onus is therefore once again on management teams to deliver. We've said for several quarters that the bar is high, but companies have continued to clear it like the Swedish-American pole vaulter Armand Duplantis, creating new records in the process.

In the US, analysts' average forecast for year-on-year earnings growth among S&P 500 companies is 27% for the third quarter of 2026, with one strategist forecasting 35%. This follows 33% growth reported in the second quarter, excluding increases in the estimated value of privately owned assets held by some large technology companies. Including these pushed headline growth to 50%.

Companies benefiting from spending on artificial intelligence (AI) infrastructure are expected to make the biggest contribution. Capital expenditure, or 'capex', by hyperscalers – large technology companies operating extensive computing networks – is expected to have more than doubled, year on year.

With earnings growth concentrated among a relatively small group of companies, the outlook is less impressive for the typical S&P 500 company, where year-on-year growth is expected to have slowed from 14% to 9%. Rising operating

costs and a stronger dollar are among the pressures, although analysts have generally raised their earnings forecasts over the summer. Companies should also benefit from \$69bn of tariff refunds in the third quarter, following the Supreme Court's decision to strike them down – they were still paying these charges a year ago.

So how high is the bar relative to the past? That 27% estimate, although below the 33% achieved in the second quarter (when the forecast was +22%), is the highest since 2021. That was a post-Covid recovery year, boosted by government stimulus payments.

The uneven spread of growth also raises concerns about how long the AI investment boom can continue. IT and energy, together, are expected to contribute nearly 80% of this quarter's earnings growth. Energy's contribution reflects continued disruptions to oil and refined product supplies, although the resulting higher prices hit consumers. Analysts' company-level forecasts are much weaker for consumer sectors, with no overall growth in earnings per share (EPS – the profit attributable to each share) expected from consumer discretionary and consumer staples companies.

AI infrastructure stocks alone are expected to drive more than half of third-

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quarter EPS growth. The top ten contributing stocks are expected to account for over two-thirds of growth, with chipmakers Micron and Nvidia, together, accounting for over a third of index growth. Six of the ten are technology or AI-related companies, three are energy stocks and, anomalously, aerospace company Boeing, also appears among the largest contributors because the comparison includes the previous year's \$4.9bn charge relating to delays to its new 777X passenger jet.

Profit margins, the proportion of revenue left after costs, are expected to remain at a record 15%, but rising costs make further improvement unlikely. All sectors (bar technology) have seen recent downgrades to margin estimates.

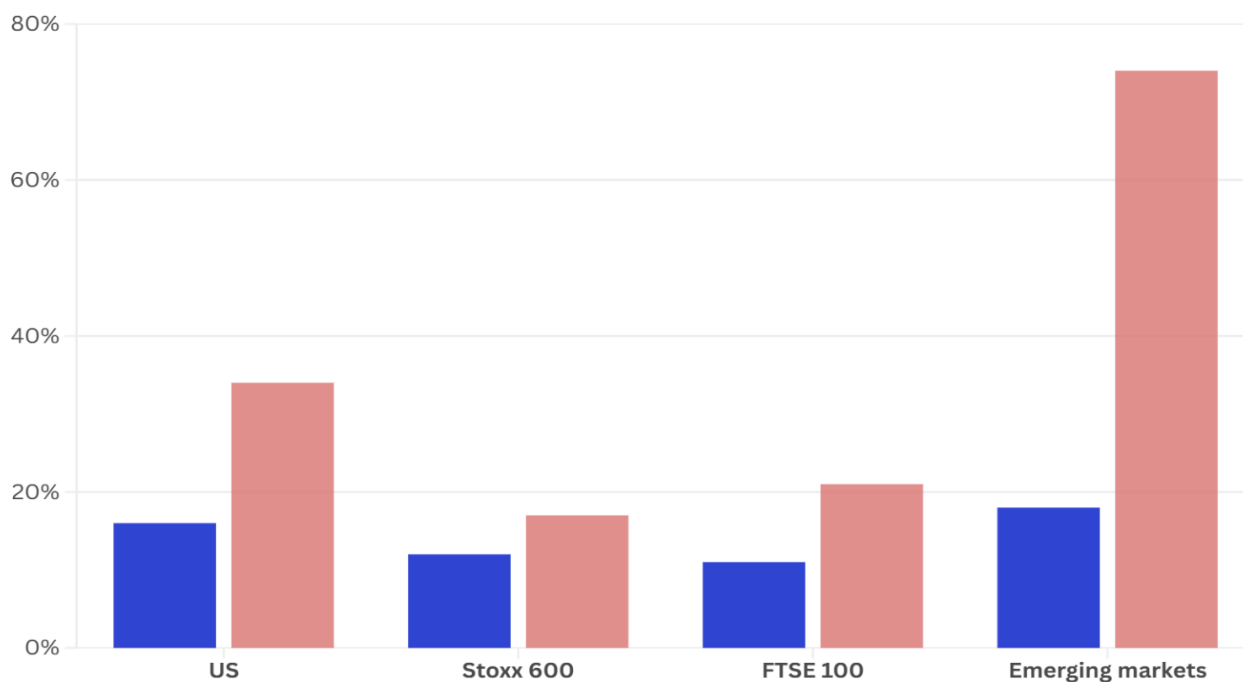
European renaissance

In Europe, as measured by the Stoxx 600 Index – which includes many large UK companies – overall earnings growth estimates are also strong. However, this is more down to energy than technology.

Emerging markets take the gold

Changes in forecast 2026 earnings growth across four major global markets.

■ Start of 2026 ■ Current forecast



Source: Rathbones, IBES, JP Morgan. Numbers as at 12 October 2026.

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Third-quarter earnings are expected to grow 25% year on year. Median growth is forecast to come in at 10%, a little higher than in the US (9%).

Apart from energy – where EPS is forecast to rise 116% – support is coming from AI and other business investments. In Europe, the main beneficiaries of AI-related spending are materials and industrials, where earnings are forecast to grow 36% and 23%, respectively, far outpacing technology's 6%.

Excluding energy and commodity-related companies, growth is forecast at 15%. The primary weakness is in consumer discretionary – companies selling non-essential goods and services – notably airlines, which face higher energy prices and continued disruption to schedules.

Global acceleration

One feature of 2026 is the incredibly positive EPS momentum. In the US, forecast earnings growth for 2026 has risen from 16% at the start of the year to 34%. The Stoxx 600 forecast increased from 12% to 17%, while the FTSE 100 forecast rose from 11% to 21%, largely thanks to higher oil prices, courtesy of Shell and BP. The gold medal goes to emerging markets (EM), up from 18% to 74% – seventy-four, not a typo! – thanks to booming demand for semiconductor memory chips and companies' greater ability to raise prices.

Things look tougher next year, but still respectable. The key strength is expected in the US at +17%, and EM at +24%. Both 2027 forecasts are higher than in January, despite the higher starting point at the end of 2026. AI capex remains a key driver, highlighting the importance of maintaining those capex estimates.

Hang on to your (Santa) hat!

If share prices become more volatile, you might be shocked, but should not be surprised. Prices in the options market – where contracts derive their value from future share-price movements – imply that the average S&P 500 stock will move by 5.4% on the day after reporting results. That compares with an average actual move of 5.1% over the past four quarters. Still, it will make a change from recent weeks, dominated by geopolitics, bond yields, and central bankers' pronouncements.

Even so, with the US Congressional mid-term elections on 3 November, we may also have developments there to contend with. And don't forget the UK Budget on 28 October. The Christmas holidays (a distant ten weeks away) can't come soon enough! For long-term investors, investing well means looking beyond short-term market swings and focusing on companies that can grow over time – helping them build the financial resilience to live well.

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Regional highlights

UK. A very quiet week for data, with no meaningful comments from the Bank of England to enlighten us on interest rates. There were a couple of [disappointing housing data points](#), suggesting that higher mortgage rates and less disposable income are providing a strong headwind. The Royal Institution of Chartered Surveyors (Rics) house price balance index fell from -28% to -32%, so many more respondents saw prices falling rather than rising, although there is no data on actual prices. Rightmove, the property website, tells us what is happening to asking prices. We have to wait for the Land Registry data to be released for the actual values. Lloyds Bank does produce price estimates, with the UK average currently £298,441. That's pretty much exactly what it was a year ago. Northern Ireland (+7.4% year-on-year) is the place to be to benefit from rising prices. Greater London (-2.2%) brings up the rear. One glimmer of hope: new buyer enquiries in September were the highest since February.

US. The Atlanta Fed's US [GDPNow](#) forecast for Q3 is 3.58%. Goldman Sachs lowered its equivalent from 3.4% to 3.1% following the release of August data, which showed a widening trade deficit. The main reason was higher imports of industrial machinery. Evidence of the capex boom, perhaps, but a boom reliant on overseas suppliers for the kit. The trade

data is messier than usual at the moment, thanks to items such as releases from the Strategic Petroleum Reserve and gold shipments, as well as shifts in oil import patterns owing to refining capacity. So it could yet provide a surprise headline GDP number, although that's not due until 29 October. The University of Michigan's sentiment survey reading fell again from 48.1 to 46.3. US households are increasingly miserable. If that's reflected in weaker consumption (which it hasn't really been yet), then interest increases could be fewer than the minimum of three currently priced into rates markets.

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