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Beyond the AI boom: A broader earnings story

Technology remains the engine of earnings growth, but wider participation, improving profitability and a supportive macro backdrop are reshaping the profit cycle.

At first glance, Q2 2026 earnings season appears to confirm a familiar narrative: artificial intelligence remains the dominant force behind corporate profit growth. That conclusion is correct, but only partially. The most important development lies beneath the headline numbers. In the United States, second-quarter earnings growth is tracking at approximately 50%, the strongest pace since 2021, while 86% of S&P 500 companies have exceeded earnings expectations. It is worth mentioning that a meaningful portion of headline earnings growth remains linked to the exceptional contribution of Alphabet and Amazon. Excluding these two companies reduces aggregate S&P 500 earnings growth from 50.4% to 32.0%, so profit growth remains exceptionally robust by historical standards.

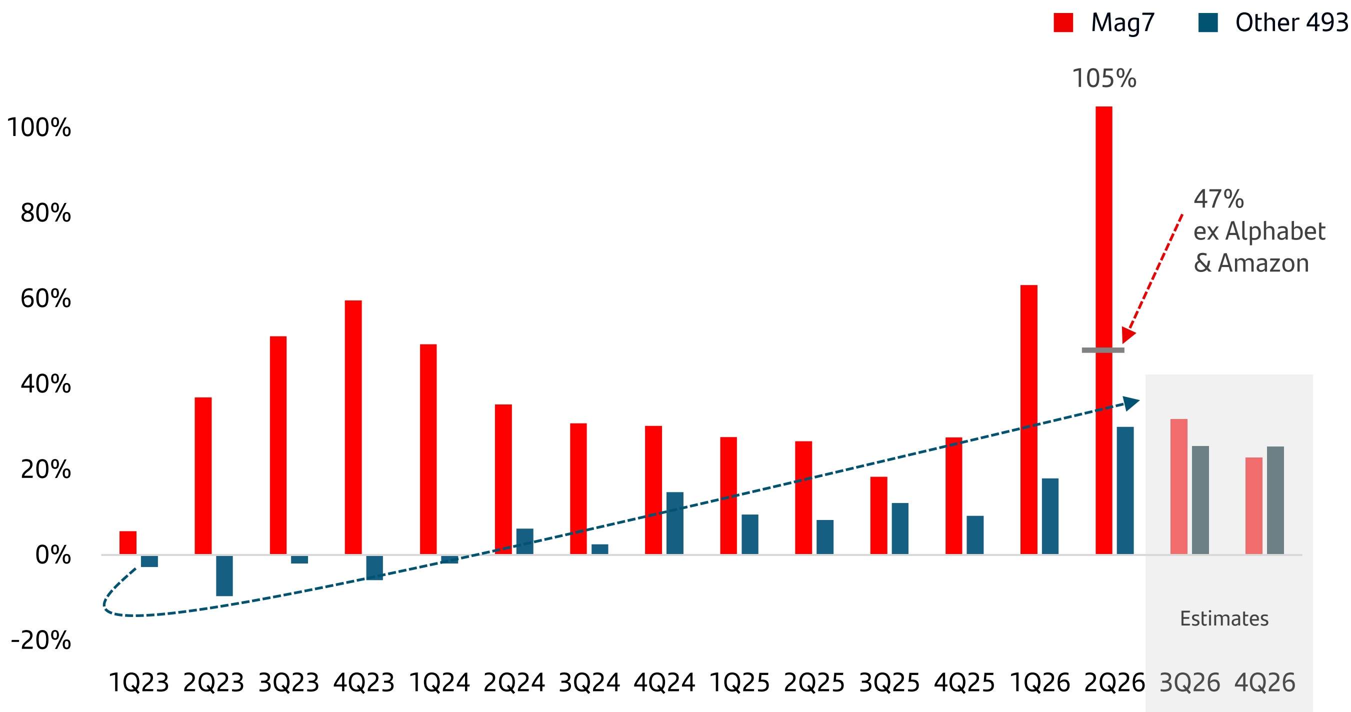
In Europe, STOXX 600 earnings are expanding by more than 20%, marking the strongest reporting season in several years. Yet the significance of these figures goes beyond their magnitude. Participation is widening across sectors and regions, profitability is improving, and corporate guidance remains supportive. Taken together, these developments suggest that the earnings cycle is becoming not only stronger, but structurally healthier.

Technology remains the principal engine of earnings growth. The sector entered the reporting season facing elevated expectations and nevertheless delivered another round of positive surprises. In the United States, Information Technology earnings are growing by roughly 70% year-on-year, while sector revenues are expanding by close to 36%. More importantly, the nature of the AI story is evolving. For much of the last two years, investors have focused on the scale of capital expenditure required to build AI infrastructure. The latest results suggest that this investment phase is increasingly translating into commercial outcomes. Revenue generated by AI-related activities has exceeded depreciation costs associated with data-centre and hardware investment for two consecutive quarters, while demand is becoming increasingly visible across cloud services, software, cybersecurity, digital infrastructure and enterprise applications. What began as an investment cycle is progressively developing into a revenue, margin and earnings cycle.

The most notable feature of the current reporting season may therefore be the increasing breadth of earnings growth. Technology continues to lead, but it is no longer carrying the entire market. In the United States, ten of the eleven sectors are reporting positive earnings growth and eight are delivering double-digit increases. Financials, Industrials and Materials are expected to grow earnings by approximately 24%, 20% and 39%, respectively, while Energy continues to post triple-digit growth rates.

Graph 1. S&P500: Earnings growth broadens beyond the Magnificent 7

Source: Bloomberg, FactSet and SAM calculations 27/08/2026



Europe is exhibiting a similar, albeit less dramatic, pattern. STOXX 600 earnings are expected to grow by 22.4%, or 11.5% excluding Energy, with eight of ten sectors contributing positively to the expansion. This broadening matters because earnings cycles tend to be more durable when growth is supported by multiple sources rather than a narrow group of companies or sectors. The current environment increasingly resembles a widening profit expansion rather than a concentrated technology trade.

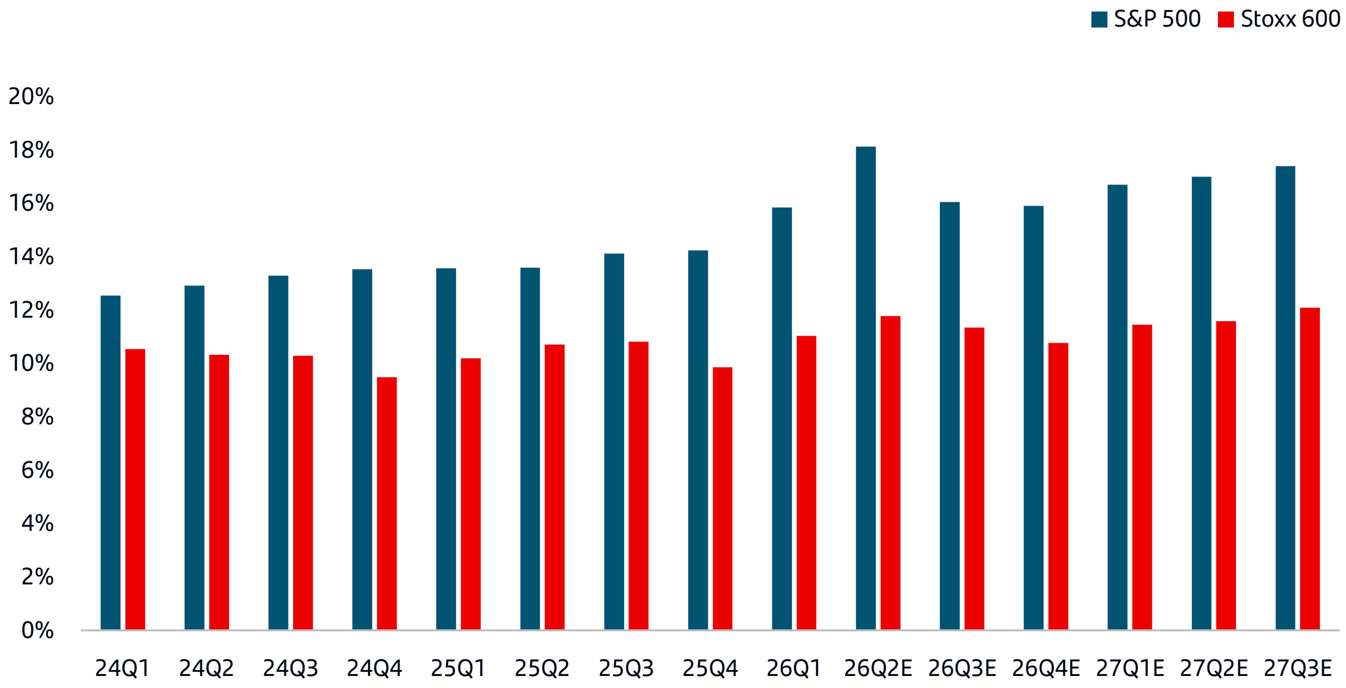
Profitability trends reinforce this interpretation. Strong earnings growth has not been driven solely by revenue expansion, but also by companies' ability to convert sales growth into profits. S&P 500 net margins are currently tracking at 16.9%, above last quarter's 14.8%, well above the 12.9% recorded a year ago and substantially higher than the five-year average of 12.4%. If sustained, this would represent the highest margin recorded by FactSet. Importantly, the improvement is not confined to a small group of mega-cap companies. Even excluding Alphabet and Amazon, aggregate margins remain close to 15.0%, which would also represent a record high. Margin expansion is becoming increasingly widespread: eight sectors are reporting year-on-year improvement and nine are operating above their respective five-year averages. This suggests that the current earnings recovery reflects a broader strengthening in corporate fundamentals rather than a purely cyclical rebound in revenues.

Corporate commentary offers little evidence that these trends are losing momentum. Guidance has generally remained constructive, while earnings revisions continue to move higher on both sides of the Atlantic. This is consistent with our broader macroeconomic assessment. Our framework continues to point to a mid-cycle expansion environment, supported by healthy household and corporate balance sheets, resilient consumption and ongoing investment activity. Developed economies are operating close to potential growth, allowing expansion to continue without the demand imbalances typically associated with overheating. At the same time, continued spending on AI infrastructure, automation and digitalisation is providing an additional source of support for capital expenditure and future productivity growth. The combination of supportive microeconomic and macroeconomic dynamics suggests that the current earnings cycle retains meaningful scope for continuation.

For investors, the key lesson from this reporting season extends beyond the headline growth rates. The investment case is no longer solely about a handful of technology companies generating extraordinary profits. It is increasingly about the interaction between technology leadership, broader earnings participation, improving profitability and a macroeconomic backdrop that remains supportive of expansion. None of these ingredients, in isolation, would be sufficient to underpin a durable earnings cycle. Together, however, they point to a more balanced and resilient foundation for corporate profits than markets have enjoyed for several years. Ultimately, the defining characteristic of the current earnings boom may prove to be not its magnitude, but its breadth, quality and durability.

Graph 2. S&P500 and StoxxEurope 600 margins evolution

Source: Bloomberg, FactSet and SAM calculations 27/08/2026



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