

A Different Setup for Earnings Season

Q1 earnings begin next week with valuations less extended, breadth improving, and inflation back in the frame.

A Better Starting Point

For the last several quarters, earnings season has often felt like a referendum on a narrow group of AI-driven mega-cap leaders. This time, the starting point is more balanced. The first-quarter pullback has taken the S&P 500 forward 12-month P/E ratio down to 19.8 from 22.0 at year-end, back near its five-year average of 19.9, even as Q1 earnings are still expected to grow 13.2% year over year. That does not make the market inexpensive, but it does suggest less perfection is priced in.

Broader, But Not Uniform

AI is still central to the story, but the setup beneath the surface looks broader. Nine of the eleven S&P 500 sectors are projected to post year-over-year earnings growth and all eleven are expected to show revenue growth, with index revenue expected to rise 9.7%, the strongest pace since Q3 2022. Still, the broadening is not uniform. Most of the increase in earnings expectations since year-end has come from Information Technology and Energy, with Financials the only other sector to post a positive dollar-level revision.

Inflation Re-Enters the Picture

If the valuation reset and improving breadth are the constructive side of the story, inflation is the complication. The March CPI report arrives on April 10, just ahead of the major bank kickoff, so guidance will hit a market already repricing oil, rates, and margins. U.S. crude topped \$110 last week, and the New York Fed's Global Supply Chain Pressure Index rose to 0.68 in March from 0.54 in February, its highest reading since early 2023. That raises the odds that investors focus shifts away from simple earning beats and more on whether management teams can hold pricing power and protect margins.

S&P 500 Forward 12-Month P/E

Visualizing the Q1 2026 Valuation Compression



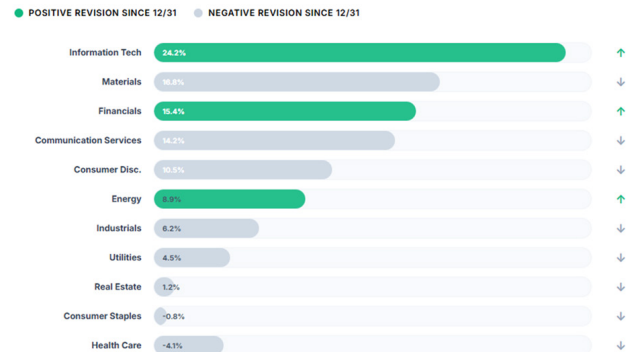
The forward P/E ratio has compressed by 10% since year-end. While not "cheap," the market has shed the "priced-for-perfection" label, landing almost exactly on its 5-year trendline.

Source: FactSet Earnings Insight, April 2, 2026. Forward 12-Month P/E based on index price / consensus earnings estimates.

Q1 2026: Expected Earnings Growth by Sector

Estimates as of April 2, 2026. Revisions highly concentrated in three sectors.

S&P 500 TOTAL
+13.2%



ENERGY PIVOT
+8.6% Revision
Growth estimate rose from 0.3% to 8.9% on higher oil prices.

REVENUE BREADTH
All sectors projected to see YoY revenue gains (Index: +9.7%).

EARNINGS LAG
2 of 11 Sectors
Health Care and Consumer Staples are currently the outliers.

Source: FactSet Earnings Insight, April 2, 2026. "Revision" reflects change in dollar-level earnings estimates since Dec 31, 2025.

The Inflation Complication

Sourced Daily: WTI Crude Oil vs. 10-Year Treasury Yield (YTD 2026)



GSCP (NY FED)
0.68 +26% MoM
Supply pressures hit 3-year high in March.

MARKET CONTEXT
Crude Peak: \$111.54
10Y Yield compressed to 4.31% by April 2.

Actual Daily Date: Dec 31, 2025 - April 2, 2026.

WTI Crude (\$) — 10Y Yield (%)

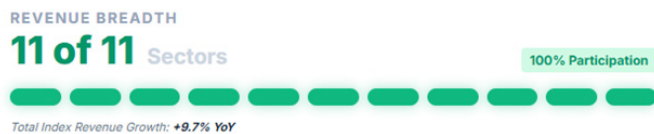
SOURCE: WTI Crude Oil price and 10-Year Treasury Constant Maturity Rate sourced via Federal Reserve Bank of St. Louis (FRED); Global Supply Chain Pressure Index (GSCP) sourced via Federal Reserve Bank of New York.

Three Tests for This Earnings Season

This quarter likely needs to answer three questions. First, is earnings growth still intact? With Q1 earnings expected to rise 13.2% and revenue expected to grow 9.7%, current expectations suggest it is. Second, can participation broaden beyond mega-cap AI related names? Third, can companies maintain margins and a constructive outlook if inflation pressures remain elevated? Breadth is an important marker: earnings growth is expected in 9 of 11 sectors and revenue growth in all 11. If that breadth is reflected in reported results, the earnings season may help stabilize broader market sentiment.

The Breadth Test

S&P 500 Sector Participation Estimates (Q1 2026)



While earnings revisions have been concentrated, **revenue growth is universal** across all 11 S&P 500 sectors, suggesting that top-line demand remains resilient despite inflationary pressures.

SOURCE: FACTSET EARNINGS INSIGHT, PUBLISHED APRIL 2, 2026. REPRESENTS YEAR-OVER-YEAR GROWTH PROJECTIONS FOR THE 11 GICS SECTORS.

Strategist's Perspective: The Quality Pivot

As we transition from a “priced-for-perfection” environment to a more grounded reality, the narrative for this earnings season is shifting from pure momentum to operational execution. While the last several quarters felt like a narrow referendum on AI-driven mega-cap leaders, the current setup looks more evenly distributed across sectors.

The primary takeaway for portfolios centers on three key observations:

- **Valuation Sanity:** The roughly 10% compression in the forward P/E ratio, moving from 22.0x down to 19.8x, has successfully shifted the market from a “stretched” position back closer to its five-year average. This reset provides a healthier starting point for investors, as it suggests the market has already digested a significant portion of the recent macro volatility.
- **Fundamental Resiliency:** The support for the current bull case is the broad nature of top-line demand. With 11 of 11 sectors expected to show revenue growth, representing the strongest pace since Q3 2022, the underlying economic backdrop appears more resilient despite higher rates.
- **The Margin Battle:** While growth is intact, the inflation is a meaningful complication. With US crude topping \$110 and supply chain pressures reaching a three-year high, the market is pivotally focused on pricing power. Companies that can sustain margins against these rising input costs may stand out this cycle.

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