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Beyond the Portfolio – Q2 Earnings: What They Reveal About 2025

Mike Miranda:

Today is Monday, August 25, and I'm excited to be joined by **Sadiq Adatia, Chief Investment Officer at BMO Global Asset Management** for a timely conversation on what's been shaping corporate earnings in 2025. Welcome to Beyond the Portfolio. I'm Mike Miranda, Head of Investments for BMO Private Wealth North America. In each episode, we'll bring you expert analysis from BMO's top strategists and economists to help you navigate market conditions and stay informed. At the start of the year, expectations were for earnings growth to be fairly modest with many wondering whether the slower economic momentum and sticky inflation would weigh heavily on corporate results. But as we've moved through the first half of the year, earnings have proven remarkably resilient, surprising to the upside in several sectors, even as companies grappled with tariffs, input costs, and shifting consumer demand.

That resilience has shifted the narrative. Investors are now recalibrating, not just looking backwards at the second quarter, but also forward to whether companies can sustain performance in the face of macro headwinds. The focus has turned to 2025 guidance, margin strength and how corporate America is positioning itself for what's expected to be a modestly slower growth environment. Sadiq has a unique perspective at the intersection of markets, economics and asset allocation, and I'm looking forward to unpacking with him what these earnings trends mean for the year ahead and for investors trying to navigate the uncertainty. So Sadiq, thanks for joining us. My first question would be how did Q2 2025 earnings shake out across corporate America, and were results overall stronger or weaker than expected?

Sadiq Adatia:

Thanks, Mike, for having me on board. You're right. This is a very interesting quarter given the backdrop of what has happened so far this year. But overall, the earnings for the S&P 500 have been very strong, growing about 11% year over year, which has significantly outperformed the consensus expectations of 4%. But key here really has been that the outperformance is largely a result of a low bar that analysts had set at the beginning of the year once they got into the tariff situation. So it really has been a low bar, which is quite different than other quarters. The other part to that story is that when you think about where that revisions have come, it's been across the board, and double the share of firms this year have increased their guidance upwards compared to the previous quarter. So really a bigger push momentum on the earnings spread than others were expecting. And then it does change quite a bit from sector to sector. And I will highlight that Nvidia still hasn't reported, and that could have an impact on the overall score as well.

Mike Miranda:

Yeah, that's great. I love your perspective there on the low bar for sure and the breadth. You touched a little bit on sectors or at least a starting thought there. So which sectors or companies have notably outperformed or underperformed, and what drove that divergence?

Sadiq Adatia:

Probably not surprising is that you're seeing a much better result coming out of technology versus everywhere else. Financials has also done exceptionally well. So technology earnings per share growth is about 26% and change, and financials about 20%. And if you were to remove tech from the S&P 500, you're only at 4.4% earnings per share growth. If you remove financials, you're about 9.1%. So those two really have a big positive impact when you see the earnings per share growth. On the other side, energy has been the complete laggard, down about 19% earnings per share of growth.

However, I will highlight that despite that 19% energy underperformance there, it is actually better than consensus expectations. So the bar for energy was even lower than what they actually delivered, and therefore they did beat that perspective. Technology and financials, definitely star performance across the board. Consumer staples always low, very low performance there and slightly beating expectations. And then on the discretionary side, if you take Amazon out of that picture, it also was down about 6%. So you are seeing impacts of the consumer changing the way they're spending on the higher end side of things to some of the lower end side of things. But again, margins across the board, whether it's staples or discretionary, haven't been as good as expected.

Mike Miranda:

So maybe the macro is part of that, if I'm listening to your perspective on the consumer, so maybe a follow up there. Sadiq, how has that macro backdrop, which we've talked on prior podcasts about the landscape of slower growth, some inflationary pressures and tariffs, how has that impacted or shaped the earnings outcomes or company's behavior?

Sadiq Adatia:

Yeah. This is a very tricky one because what we are definitely hearing, and I'll go back to Q1 a little bit because in Q1 you did hear more comments about uncertainty. You had people pull out their guidance a little bit because they didn't know what it was going to look like with the tariff situation. We were still in the middle of the negotiations. Fast-forward to the second quarter, you've seen people talk down a little bit of that tariff because we were getting a bit of that uncertainty. We also got a lot of people jumping ahead of demand prior to the tariff situation as well. So that potentially boosted up a little bit of the sales forecast, potential inventories going up as well, so that probably did contribute a little bit on that front. But I do think that generally people are feeling the tariff situation will marginally impact margins going forward versus what maybe at the beginning of the year people were expecting was a bigger decline off margin.

And that is because you will see companies in some cases absorb some of that margin pressure, and in other cases pass it off to the consumer. But where the brand is exceptionally strong, most of that could get passed down to the consumer, so therefore not impacting the actual earnings going forward compared to some of the other sectors as well. So tech will continually have a good outcome because of this situation, less tied into the input costs than some of the consumer staples as an example, where food inflation, all of that gets passed across. And then particular segments of the market like steel and aluminum may have more impacts on the automotive sector than the traditional 10 to 15% tariffs that are pushed on other parts of the segments of the market. It will be case by case. You've seen a little less conversation on tariffs on this quarter compared to the previous quarter.

Mike Miranda:

Yeah, that's helpful. So obviously a lot of those comments certainly are backwards looking, thinking about how Q2 shaped up. How are you seeing it impacting, perhaps, guidance on a go forward basis? Are we seeing any meaningful changes in corporate guidance? Are companies becoming more cautious or are they leaning into optimism a bit with some of that uncertainty on the tariff front getting removed as you alluded to?

Sadiq Adatia:

Yeah, companies have been a lot more resilient for sure, and I think that's tied into their outlook. You've seen a lot more increase in guidances, so increasing their forecast for the remainder of the year. 58% have increased it up compared to previous years where you would see it at maybe closer to 28% in Q1 and 46% historically. So definitely higher upside for the second half of the year compared to what you've seen previously. And also in terms of downside revisions, only 14% compared to history, which is about 20%. So you're seeing better ups and less downs across the board. I think when you look through, companies are actually being a little bit more optimistic, which you can see in what's going on in markets as well; the optimism is continuing to play out in markets going higher across the board. But it is the same sectors that have the higher optimism that are also the same sectors that are driving the markets higher, and when you think about technology and financials, those continue to be the areas that are dominated across the board.

So to me, generally the tariff impact that we've been talking about throughout the year has diminished its value on the earnings front as the year has progressed along the way. And I don't know if that's because the uncertainty is coming off or just the fact that as we're seeing it, the early scare of maybe 50, 60% tariffs have now diminished down to 10 to 15%, and that's provided a bit more of a bright spot on the forward guidance.

Mike Miranda:

Yeah, great points. I mean, I think you're spot on there. Obviously the removal of some of the potential tail risk from those significantly higher initial proposed tariff rates probably is helping the backdrop, and undeniably corporate America has seemingly been able to navigate the backdrop pretty well. You mentioned it before the resiliency. So maybe just one last question. As you think forward through the rest of 25 or maybe even beyond, what does that mean from top line growth and margin perspective? You alluded to the fact that corporate America is certainly navigating this uncertainty very, very well. How does that play out for both revenue and earnings through the balance of the year?

Sadiq Adatia:

Well, I think this goes back to the consumer and how the consumer is feeling. And so yes, we saw a backdrop of the employment numbers maybe not looking as great a couple of weeks ago, but generally you're still seeing employment levels to be relatively good. I mean, employment levels are still quite low. Yes, job hiring is not as high, but the consumer is still resilient and still relatively spending. They may be adjusting their spending patterns a little bit, but that means that corporations should continue to see strength in growth of their revenues, should still see that momentum across the board. Yes, you'll see expenses probably come down a little bit, but I think top-line growth should continue to move forward as long as the consumer remains resilient, and there's no reason why we don't see the U.S. consumer in particular stay resilient like they've always been along the way. We've been talking about the demise of the consumer for the last three years, and they haven't given into that, so I think you're seeing optimism on top-line growth across the board.

In terms of margins, it really will come down to a sector and a company-specific story. Will they be able to pass on the potential tariffs going forward down to the consumer or not? And I think given that we're in the early stages of the tariff situation, I think you're still going to see good amount of revenue growth, still a bit of the margins, and then it won't be probably until 2026 that we start to see a bit of margin impact from the full freight of the tariff situation. Whether that's, again, inputs coming in from across the board or if it’s more sectoral ones on different segments of the market. But the key also is that people have, again, bought up the inventory in advance of that, and consumers have bought purchases in advance of that as well. So the early impact is probably minimal for now, but we'll get more pressure down the road. But overall, I think earnings still should look relatively good for the remainder of the year.

Mike Miranda:

All right. Thanks, Sadiq. I love the optimism there, certainly on the earnings story, not just where we've come from, but the outlook going forward. As I heard you dovetail into your comments a few times, that comment of resiliency, that's certainly what we're seeing, right? One thing is clear that 2025 has been a story of resiliency and earnings, and the economic backdrop. We've talked about that in some of the earlier podcasts as well. I think this discussion today highlights the fact that corporate America has shown it can adapt. Obviously, we are in a backdrop of slightly slower growth and slightly elevated inflation, and we've certainly talked many times about the tariff impact, but corporate America is effectively navigating that reasonably well. That strength has forced investors, I think, to raise their expectations and sharpen their focus on how companies will sustain profitability and margins in the months ahead.

For us, the takeaway is that the uncertainty isn't going away. I don't think any of us think that the tariff landscape is going to evaporate anytime soon, but it's part of the environment that we operate in. And it's that resiliency, that adaptability, and the discipline that we're exactly looking at both in companies as to how we invest and the way we manage well for our clients. As we look to the rest of 2025, the question isn't simply whether companies can keep growing, but how they grow profitability in a more challenging environment. And that's the same lens we'll continue to apply: staying disciplined, forward-looking, and focused on the delivering for the families and clients we serve. Thank you for listening to Beyond the Portfolio. You can follow us on Apple Podcasts, Spotify, or your favorite podcast app. Until next time, I'm Mike Miranda.

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