**The Investment Institute**
by UniCredit

# Coffee Break

*Coffee Break* is our daily publication, offering topical insights as an intellectual ingot to start the day.

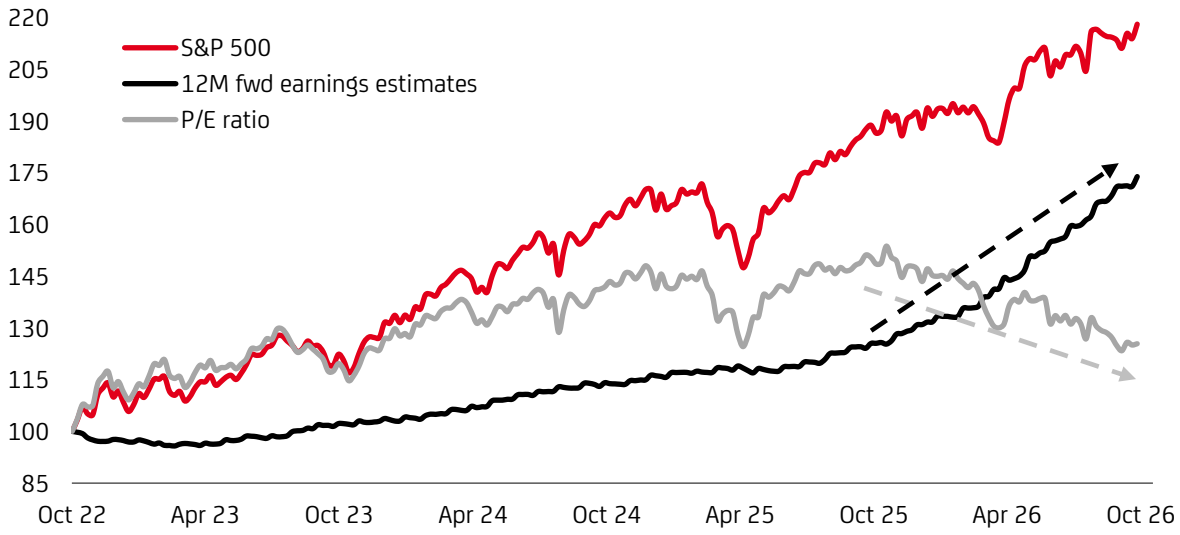
## High expectations, little margin for error

**14 October 2026**

The earnings outlook remains strong, powered by AI and resilient growth. But with higher yields and elevated expectations, companies now need to deliver. If they do, we believe the combination of solid profit growth and more balanced valuations can support further equity market gains into year-end.

**SOLID PROFIT GROWTH AND MORE BALANCED VALUATIONS PROVIDE A TAILWIND FOR EQUITIES**

DATA REBASED TO 100 ON 12 OCTOBER 2022, MARKING THE LATEST CYCLICAL LOW OF THE S&P 500




Source: LSEG Datastream, The Investment Institute by UniCredit

**THE CONTEXT**

The 3Q26 earnings season begins this week, with US banks kicking off the reporting cycle. Expectations are elevated. Consensus forecasts point to S&P 500 earnings growth of around 30% yoy, while European companies are expected to deliver roughly 20% earnings growth in 2H26. In Europe, we focus on the second half rather than 3Q alone, given that only around half of the STOXX Europe 600 report quarterly. Technology remains the dominant earnings driver, fuelled by strong AI investment and accelerating cloud monetisation. Yet the backdrop has become more challenging. Rising UST yields have increased the hurdle for equities and reduced investors' tolerance for disappointment. Put simply, markets are now priced for delivery. The key question this earnings season is not whether profits will grow, but whether they will grow fast enough to meet the market's high expectations.



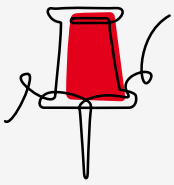
## THE DATA

By the end of October, firms representing roughly 70% of S&P 500 market capitalisation will have reported results, with most hyperscale technology companies scheduled to report in the final week of the month. Consensus expects S&P 500 EPS growth of approximately 27% in 3Q, compared with around 33% in 2Q. While this implies a moderation in growth, earnings momentum remains exceptionally strong by historical standards. AI beneficiaries are expected to account for more than half of total index earnings growth, while hyperscaler capital expenditure is projected to roughly double yoy. The earnings picture remains highly concentrated. Information technology and energy are expected to contribute almost 80% of aggregate earnings growth, while the top ten contributors alone are forecast to generate more than two-thirds of total S&P 500 profit growth. Nvidia and Micron remain among the most significant drivers. At the company level, underlying fundamentals continue to appear constructive. Although consensus expects earnings growth for the median S&P 500 company to slow from 14% in 2Q to 9% in 3Q, economic activity has remained resilient and upward earnings revisions have continued to outnumber downward revisions. Margin expansion may become more difficult as input costs remain elevated and the USD provided less of a tailwind for large parts of 3Q than in previous quarters. Even so, analysts expect most companies to once again exceed consensus forecasts. AI monetisation will remain a key theme. Cloud revenue growth among hyperscalers is expected to accelerate further, from 48% in 2Q to approximately 55% in 3Q, providing additional evidence that the enormous wave of AI-related investment is translating into tangible revenue growth and productivity gains.



## OUR VIEW

We remain constructive on equities heading into the final quarter of 2026. The key issue is not whether earnings will grow, but whether companies can clear a bar that has been set increasingly high by investors. On balance, we believe they can. Economic momentum remains supportive, earnings revisions have held up well and the AI investment cycle continues to generate powerful profit growth, particularly among technology companies and beneficiaries of AI infrastructure investment. Recent evidence of accelerating cloud monetisation also suggests that the return on AI investments is becoming increasingly visible. Importantly, the valuation backdrop has improved. The S&P 500's 12M forward P/E ratio has declined from around 23 at the start of the year to roughly 19 today, bringing valuations back in line with long-term averages. This leaves equities in a healthier position to absorb higher bond yields than they were earlier this year. The main risk is not weak earnings, but earnings that fail to live up to elevated expectations. This risk is amplified by the narrow group of companies currently driving both profit growth and market performance. As a result, investors are likely to remain highly selective. Nevertheless, if earnings broadly meet expectations and management teams continue to demonstrate progress on AI monetisation, productivity gains and underlying demand trends, we believe the combination of solid profit growth and more balanced valuations can support further equity market gains into year-end.



## OTHER THINGS TO NOTE

### Focus on US CPI

We expect energy to have fuelled a 0.6% mom increase in headline CPI, half of which was probably driven by the price of petrol at the pump, which rose by a further 7% mom. The core CPI gauge that excludes food and energy is likely to have been relatively well-behaved, rising by 0.2% mom. The yearly rate for headline inflation likely rose to 3.7% from 3.4%, while that for core inflation remained at 2.4%.

## TODAY'S DATA RELEASES

| Time (CET) | Country | Data | Period | UniCredit | Consensus | Previous |
|---|---|---|---|---|---|---|
| 14:30 | US | Consumer price index, CPI (% yoy) | Sep | 3.7 | 3.6 | 3.4 |
| 14:30 | US | Core CPI (% yoy) | Sep | 2.4 | 2.5 | 2.4 |
| 14:30 | US | Consumer price index, CPI (% mom) | Sep | 0.6 | 0.6 | 0.4 |
| 14:30 | US | Core CPI (% mom) | Sep | 0.2 | 0.2 | 0.3 |
| 20:00 | US | Fed releases Beige Book | - | - | - | - |

Source: Bloomberg, The Investment Institute by UniCredit

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**Author**
Christian Stocker, Lead Equity Strategist (UniCredit, Munich), christian.stocker@unicredit.de

**Editors**
Edoardo Campanella, Director and Editor-in-Chief of The Investment Institute (UniCredit, Milan)
edoardo.campanella@unicredit.eu
Francesco Maria Di Bella, FI Strategist (UniCredit, Milan), francescomaria.dibella@unicredit.eu

**UniCredit S.p.A**
The Investment Institute by UniCredit, Piazza Gae Aulenti, 4, I-20154 Milan
www.the-investment-institute.unicredit.eu

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