



Market Commentary
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English Version

Insigneo Weekly Dispatch

Earnings Season: Half Time Report

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Earnings Season: Half Time Report

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The Financials sector kicked off earnings season with a bang.

Outlooks in the Consumer Discretionary sector underwhelmed expectations.

The Communications Sector appears strong across the board.

The leadership change from hardware to software continues in the Technology Sector.

It happens four times a year. That time when Wall Street is on pins and needles, waiting to hear the latest updates from companies: earnings season. Each one seems to highlight different trends, and this season is no exception. **With 60% of the companies in**

the S&P 500 having already reported earnings, several trends are beginning to emerge, many of which we will explore in more detail below.

The Financials Sector Kicks Off Earnings Season with a Bang: The behemoths of the sector blew the doors off their hinges to mark the beginning of earnings season. Companies like **JP Morgan, Citigroup,** and **Goldman Sachs** posted some of the best quarters on record, as strong Net Interest Incomes in banking and strong fee generation in capital markets and trading business lines saw better than expected results. At the same time, management teams gave robust outlooks for the year ahead, characterized by lower costs and strong income generation, but most importantly, by the prospect of lower regulation. The giants of the group were not the only ones to report positive earnings; smaller regional banks also joined the party. Companies like **KeyCorp, PNC,** and **Huntington Bancshares** reported stronger than expected sales growth, net income margins, and the effective repricing of fixed income assets. Much like their larger brethren, the management teams of many regional banks expect further sales and earnings growth in

2025, emboldened by a friendlier regulatory environment.

Underwhelming Outlooks in Consumer Discretionary: As of the time of this writing approximately half of the companies in the Consumer Discretionary sector reported earnings. On the surface, the sector appears to have seen strong earnings growth in the fourth quarter, close to 35% more than the previous year. However, if we exclude Amazon from the mix, earnings may not be as strong as they might seem. Automobile companies **GM** and **Ford** reported numbers that beat Wall Street's expectations but were not as strong as initially expected. Additionally, Ford's outlook for 2025 underwhelmed expectations, citing that increased competition could affect margin growth. Citing reductions in vehicle prices, fellow automobile company **Tesla** missed earnings expectations outright, reporting earnings per share and operating margins that came below Wall Street's expectations. Management did not provide guidance for the year ahead; however, discussion over the prospects of the Robotaxi provided only temporary relief for the stock. Even **Amazon**, which reported very strong earnings for the quarter, disappointed with its guidance for the start of 2025. Although sales for the last quarter rose to \$188 billion, the outlook for the current quarter of \$150-\$155 billion underwhelmed the Street's expectations of close to \$160 billion in sales. Additionally, growth in its AWS cloud unit, traditionally an engine of growth for the company, slowed. CEO Andy Jassy warned that growth in the unit could remain "lumpy", as capacity constraints to meet AI demand limit growth over the short term. It will be interesting to see what retail companies that have yet to report indicate in terms of consumer demand and inflation. So far, the outlooks for the year ahead in this sector have underwhelmed Wall Street's expectations.

The Communications Sector Appears Strong Across the Board: So far over 70% of companies in the Com-

munication sector have reported earnings, with earnings beats and growth posted across the board. **Disney** provided strong visibility for earnings growth, as its streaming business continues to show profit growth while its parks continue to generate cash flow. It appears that CEO Bob Iger's plan to turn the company around is coming to fruition. **Netflix** reported record subscriber growth numbers for the quarter, reporting that its strong content pipeline led to close to 20 million people across the globe joining its network. This dynamic enabled the company to raise its operating margin guidance to 29% for the year, compared with 23% only two years ago. **Meta** saw strong revenue growth, fueled by increased use of AI to better target ads distribution and increased pricing gains to the tune of 14% for the quarter. Its 700 million monthly active users, bolstered by its WhatsApp application, help support growth. However, capital expenditures for the company could increase to \$60-\$65 billion in the year, fueled by a need to drive data-center expansion to meet increased AI needs. **Alphabet** also reported a relatively strong quarter, with its search engine usage growing by 12%, with both YouTube and cloud services growing over 20%. Despite showing that the company is still seeing growth across many of its segments, it did see a relative decrease in cloud services growth, albeit from high levels, a dynamic that was echoed by Amazon.

The Leadership Change from Hardware to Software Continues in the Technology Sector: Since the Fall of last year, we have been seeing the rotation from the companies involved in making the hardware for AI, to the software companies involved in the creation and ultimate use of the technology. We continue to see this rotation this earnings season, at an accelerated rate. Chipmaker **AMD** beat earnings for the quarter and surpassed guidance for the year ahead; however, it failed to meet some of Wall Street's loftiest expectations. A similar trend was seen at fellow chip maker **Micron Technology**, which met expecta-

tions, but saw sales guidance drop on weaker personal computer demand. Lofty expectations played a hand in Micron's guidance miss as well. **Apple** bucked the trend, by allaying fears that it was falling behind the competition in the AI race, as well as fears revolving around its Chinese end markets. The company met expectations and positive comments from management surrounding AI and China appeased the Street, which had relatively low expectations going into the quarter. On the other hand, software companies such as **Palantir** reported revenue growth guidance for the year to the tune of 30%, driven by increased demand for its services from both its commercial and government business lines. These results sent the stock 25% higher on the day of its report. A similar dynamic was seen by **IBM**, which saw sales increase by \$20 billion for the quarter and gave upbeat guidance on increasingly better prospects from its software business line. The stock closed almost 15% higher on the day of its report. Other companies in the software industry are seeing similarly strong growth prospects, a trend that we expect to continue, especially with the advent of lower cost AI models. **Microsoft** also saw strong sales this last quarter of close to \$70 billion, with operating margins surpassing 45%. However, growth in its Azure cloud business underwhelmed expectations, something that the company said was due to capacity constraints in its servers to meet increasing demand from AI.

Interestingly, hyperscalers Microsoft, Amazon, and

Alphabet all saw slower growth in their cloud businesses, and all three stated that they were having trouble keeping up with increased demand from AI due to limited data server capacity. This leads us to continue to believe that, despite the possibility of lower costs brought about by cheaper AI models such as DeepSeek, there will continue to be a need for increased spending in the infrastructure needed to support this new technology. JP Morgan estimates that the hyperscalers are seeing approximately \$250 billion in annual data center spending, a number that Bloomberg expects to reach \$275 billion this year alone. **This earnings season is reinforcing the fact that AI is here to stay. As a result, more spending will be needed to support the infrastructure needed to house and deliver this technology, while software companies are going to be the next major beneficiaries of its application. ■**

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