



While CIO emphasizes the importance of portfolio diversification and hedging approaches to navigate policy uncertainty, they think there is more to go in equities. (UBS)

The current US earnings season should offer some comfort to investors

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The additional 10% duties on Chinese imports entering the US have gone into effect. But the 30-day pause on the 25% tariffs against Canada and Mexico has given some support to investor sentiment temporarily. In addition, China's response appeared designed to avoid escalation. It remains to be seen whether a potential discussion between US President Donald Trump and Chinese leader Xi Jinping later this week could yield any agreement like those with Canada and Mexico.

Uncertainty remains elevated, and volatility is likely to persist, given President Trump's inclination to use tariffs to address both trade and non-trade issues, and the risks of a tit-for-tat ratcheting-up of tariffs.

But the solid earnings results coming out of the current US reporting season should offer some comfort to investors.

Earnings growth remains healthy. Companies that represent over half of the S&P 500 market capitalization have reported fourth quarter results and more than 60% of them have beaten sales estimates, with roughly 75% beating earnings forecasts. Corporate profits remain on track to grow 7-9% year over year for the three-month period, and overall guidance for the first quarter of this year has been in line with normal seasonality.

The US economy is in a good place. While pockets of weakness remain, with homebuilders having to contend with affordability issues and a tepid recovery in industrials, the macroeconomic picture remains solid. US consumers are in

good shape, with both Visa and Mastercard characterizing household spending as healthy, and airlines highlighting solid demand for premium seats. US gross domestic product expanded 2.3% in the December quarter, bringing full-year growth to a solid 2.8%, compared with 2.9% in 2023. While GDP growth is likely to moderate this year, we expect the pace of expansion to stay stable at around 2%.

AI investment spending remains robust. We have highlighted that the combined capital spending by the Big 4 tech companies is expected to increase by 25% to USD 280 billion this year, and both Microsoft and Meta reaffirmed their capex growth outlooks. Overnight, Alphabet said it expects to invest about USD 75bn in capex this year, with CEO Sundar Pichai saying he's "confident about the opportunities ahead." We believe big tech firms are likely to continue to spend on higher-cost, cutting-edge frontier models, while the broadening spending from businesses further down the supply chain should help keep overall AI capex solid. With AI adoption trends continuing to improve, we believe the gap between AI capex and revenues for big tech companies should narrow further. The risk-reward for the secular AI growth story remains favorable, in our view.

So while we emphasize the importance of portfolio diversification and hedging approaches to navigate policy uncertainty, we think there is more to go in equities. Our base case remains for the S&P 500 to rise to 6,600 by year-end, and we favor technology, financials, and utilities. Equity investors looking for international exposure can consider the Asia ex-Japan region, favored for firm local growth, youthful demographics, and solid expected earnings growth of 13% in 2025.

Original report: [Earnings should offer some respite from tariff volatility, 5 February 2025.](#)

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