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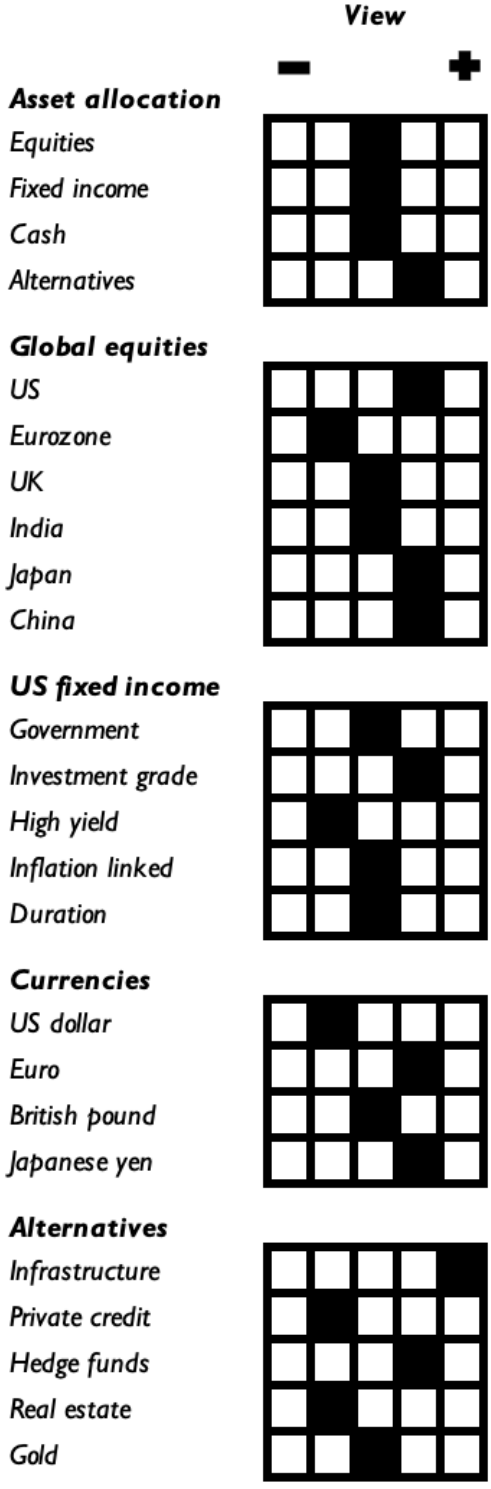
Insights

Investment Outlook: Earnings are holding - but the conditions behind them are uncertain

2 May 2026

Executive summary

- Markets are holding because Q1 **corporate earnings expectations are strong enough** to sustain valuations - led by US large-cap and AI-linked investment.
- The **energy shock has not resolved** - it has shifted from supply disruption to constrained delivery, with slower transit, higher costs, and less reliable flows feeding into corporate expenses. So far, companies have absorbed these costs, but this is uneven and increasingly dependent on a narrow group with pricing power and access to capital.
- **Central banks are less able to offset any slowdown**, as inflation remains elevated, reducing the scope for interest rate policy support if growth weakens.
- **Markets are effectively assuming that earnings can continue to absorb sustained cost pressure** despite these conditions - a plausible outcome, but not one yet confirmed. If that assumption fails, the adjustment will come through earnings rather than inflation.
- For long-term investors, the environment remains investable. **The objective is not to step away from risk, but to ensure it is taken in areas where it is adequately compensated** and structurally supported - remaining invested, maintaining quality, and retaining the flexibility to act as conditions evolve.



The recovery in markets over recent weeks has been driven less by clarity on the macro environment and more by confirmation that earnings have not yet deteriorated.

The first quarter reporting season has been sufficiently strong so far to stabilise valuations. Revenues continue to benefit from nominal growth, and investment - particularly in technology and infrastructure - remains robust. The largest companies, especially in the United States, retain both pricing power and access to capital, allowing them to absorb higher input costs without immediate pressure on reported results.

This has been enough. Equities have retraced losses, credit spreads remain contained, and growth expectations have moved back toward pre-Iran shock levels. The market is behaving as though the economy can sustain higher costs without a material change in corporate profitability or activity. That is a reasonable interpretation of current data, but it is also a conditional one.

Where the pressure sits

The constraint is no longer whether energy is available - it is whether it can be delivered efficiently. Supply has not collapsed, but what has changed is the cost and reliability of moving it. Transit through key routes**,** particularly the Strait of Hormuz, remains slow and conditional. Vessels are delayed or rerouted. Insurance costs are elevated and often contingent on timing and routing. Flows continue, but they are less predictable and more expensive.

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This is not a short-lived disruption, and its effects are cumulative. Higher transport costs, longer delivery times, and greater uncertainty feed gradually into corporate operating expenses. Companies can absorb that pressure for a period - they can pass through some of it, adjust product mix, or rely on balance sheet flexibility. But none of those responses is unlimited. The longer these conditions persist, the more the pressure shifts from pricing to profitability.

Why earnings expectations have not yet adjusted

The absence of deterioration in corporate earnings so far reflects timing, not complete insulation. There are three reasons earnings have held.

- First, **the strength is concentrated in areas where demand remains strong, and pricing power is high**. Capital expenditure linked to AI and infrastructure continues to expand, supporting revenues and margins for a relatively narrow group of high profile companies.

- Second, **cost pass-through has not yet been fully tested**. In many sectors, higher input costs have been absorbed or delayed rather than fully reflected in pricing decisions.

- Third, **financing conditions, while tighter than a year ago**, have not yet constrained access to capital for the largest issuers. That has allowed companies to smooth the impact of higher costs.

These conditions can persist, but they do not remove the underlying pressure. The table summarises the positive S&P 500 earnings picture:

Sector	Reported	Earnings versus expectations		
		Positive	Inline	Negative
All Securities	286 / 499	229	23	34
Materials	16 / 27	11	2	3
Industrials	58 / 75	47	5	6
Consumer Staples	16 / 35	13	1	2
Energy	10 / 23	8	1	1
Technology	24 / 65	23	1	0
Consumer Discretionary	27 / 48	18	2	7
Communications	11 / 26	10	0	1
Financials	60 / 80	49	2	9
Health Care	29 / 58	27	1	1
Utilities	11 / 31	6	3	2
Real Estate	24 / 31	17	5	2

Figure 1: S&P 500 Q1 2026 earnings versus consensus expectations
Source: Bloomberg

The shift from prices to margins

Initially, the risks arising from the energy shock expressed itself primarily through perceived inflation risk.

That adjustment has largely taken place. In response, yields have moved higher, and expectations of interest rate easing have been pushed out. Markets have repriced the inflation component of the shock.

What has not yet been fully reflected is the second phase. At current levels, energy is less an inflation signal and more a cost input. It reduces real incomes and raises operating costs at the same time. That creates a narrowing gap between revenue growth and profitability.

The transmission from costs to margins is gradual. Companies absorb pressure until they cannot. When that threshold is reached, the adjustment appears in earnings. That threshold has not yet been crossed at the aggregate level, but the conditions that determine it have not improved.

Interest rate policy is no longer a reliable offset

The ability of policy to absorb this pressure is limited. Inflation was already elevated before the recent energy move. The additional pressure from constrained supply leaves central banks with less flexibility than in previous cycles. The scope to ease policy in response to weaker growth is narrower.

This does not mean central banks will not respond. It means the response may come later and with less force. For markets, that matters. In earlier cycles, cost shocks were mitigated by lower interest rates. **In this cycle, the adjustment is more likely to be borne by margins and earnings before central bank policy can provide meaningful support.**

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What is being assumed and where this breaks down

Current market pricing rests on two implicit assumptions: (1) that delivery conditions in energy markets will improve sufficiently to stabilise costs, and (2) that earnings can remain resilient even if they do not. Both outcomes are plausible, but neither is confirmed. Yet asset prices suggest that the balance of probability is being placed on them - growth expectations have largely normalised, credit markets show little sign of stress, and equity valuations continue to rely on stable earnings. In effect, the system is being priced as though current conditions will persist without materially deteriorating.

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The risk is not that this view is immediately wrong, but that it is incomplete. Markets tend to absorb cost pressure without repricing until earnings expectations begin to change. When that shift occurs, the adjustment is rarely gradual. Valuations reset, credit spreads widen, and financial conditions tighten in relatively short order. The trigger is not inflation itself, but the point at which sustained cost pressure feeds through into margins and forces revisions to earnings. The critical variable is therefore persistence. The longer current conditions endure, the more the existing buffers - pricing power, cost absorption, and access to capital - are eroded.

And this process does not stop at earnings. It feeds directly into capital allocation. Investment decisions depend on both expected returns and the availability of funding. Sustained margin pressure reduces internal cash generation, while higher uncertainty and tighter financial conditions make external financing more selective. The adjustment is cumulative rather than immediate. Projects are delayed, investment slows, and growth becomes increasingly reliant on existing capacity rather than expansion. This is the mechanism through which a cost shock becomes a growth constraint. What appears manageable in the short term can, over time, become structurally more significant as it reshapes behaviour across the system.

Portfolio positioning for this environment

There is no evidence yet that justifies a broad reduction in risk - corporate earnings have not deteriorated, attractive structural drivers remain in place and markets are functioning. But there is also little to justify adding risk at current levels - valuations reflect resilience that has not yet been tested against sustained cost pressure and the margin for error is therefore narrower. The appropriate stance is therefore to remain invested while maintaining discipline around where risk is taken.

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Within **equities**, the emphasis shifts toward businesses that can sustain margins under persistent cost pressure. Pricing power remains central, but it is no longer sufficient on its own. The ability to pass through costs without eroding demand is not uniform, and increasingly tied to market structure, customer concentration, and product criticality. Balance sheet strength matters more where internal funding is required to absorb cost volatility, while continued access to capital remains a differentiator for companies still investing through the cycle. This is particularly evident in areas linked to **infrastructure**, **energy**, and **technology**, where investment is being sustained despite rising costs. By contrast, companies operating in more competitive or demand-sensitive segments are beginning to face a clearer trade-off between volume and margin.

In **fixed income**, the repricing of yields has restored income as a meaningful component of return but has not restored the traditional role of bonds as a consistent hedge. When inflation and growth pressures coexist, duration becomes conditional rather than structural. **Government bonds** retain value in a weaker growth scenario, but their effectiveness is reduced while inflation remains elevated. **Investment grade** credit offers improved income but requires discipline given still-compressed spreads, while **high yield** remains exposed to refinancing risk as earnings uncertainty rises.

Assets that benefit directly from constrained supply and sustained investment remain better aligned with the current environment. Energy and power **infrastructure** are supported not only by higher prices but by the need for ongoing investment in capacity, security, and transition. These areas are less dependent on cyclical demand and more exposed to structural supply dynamics. By contrast, more leveraged areas - particularly where returns are dependent on stable financing conditions or continued growth - are increasingly sensitive to both cost pressure and the availability of capital. Outcomes in these segments are likely to become more dispersed - discipline and care are required.

How this is expressed across regions and currencies

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The **United States** remains relatively insulated. Lower dependence on imported energy reduces the direct transmission of higher costs into margins and consumption, while continued strength in investment - particularly in technology and infrastructure - supports corporate profitability. **Europe** is more exposed. Higher energy costs feed more directly into the real economy, compressing margins and weighing on consumption, while policy is more constrained by persistent inflation.

This divergence shapes **currencies**, but not in a simple way. Exchange rates are not reflecting current economic strength alone - rather they are reflecting how central banks are expected to respond to it. The **US dollar** benefited earlier from its role as a safe haven and from the relative strength of the US economy. That support is now less clear. As inflation remains elevated across regions, central banks face similar constraints, reducing the gap in how policy is expected to evolve and weakening one of the key supports for the dollar.



Figure 2: EUR/USD exchange rate since 2 February 2026
Source: Bloomberg

This shift is supporting the **euro**. While Europe remains more exposed to higher energy costs, the expectation that policy will stay tighter for longer than previously assumed improves the euro's relative position. The Japanese **yen** is also becoming more relevant. In periods where growth concerns increase and financial conditions tighten, it has tended to strengthen. As the balance between inflation pressure and growth risk becomes less stable, that characteristic becomes more valuable. Taken together, this supports a more positive stance on both the euro and the yen as the current environment evolves.

Conclusion: From shock to test

Markets are being supported by earnings that have not yet adjusted, but the conditions underpinning those earnings are not certain.

Energy continues to flow, but less efficiently and at higher cost - whilst central bank policy remains constrained in its ability to offset that pressure. The system is functioning, but under some strain.

As long as earnings absorb that strain, markets can hold current levels. If they do not, the adjustment will not be driven by a further move in inflation - instead, it will be driven by a change in earnings expectations. That is the point at which the current balance no longer holds.

That does not imply an immediate deterioration. Earnings remain supported by ongoing investment, particularly in technology, infrastructure, and energy systems, and the underlying capacity of leading companies to adapt should not be underestimated.

For long-term investors, the environment remains investable. The objective is not to step away from risk, but to ensure it is being taken in areas where it is adequately compensated and structurally supported. The discipline, therefore, is unchanged: remain invested, maintain quality, and retain the flexibility to act as conditions evolve.

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About the author

Nick Perryman is Vice Chairman at InCred Global Wealth Limited and Chairman of its Investment Committee. He has over 25 years of investment and wealth management experience, holds advanced qualifications in investment management, financial planning and psychology, and was previously a managing director at UBS where he was head of its international business in London and before that head of investment products and services. He is a doctoral researcher at Durham University and an honorary fellow of Royal Holloway, University of London. He is co-author of the book, "Leadership in Wealth: Mastering the opportunities of wealth in your family, firm and society"

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