

Is a higher earnings bar really harder to clear? 📏

Plus a charted review of the macro crosscurrents 📊



SAM RO, CFA

SEP 13, 2026

Ahead of quarterly earnings season, analysts have typically revised their earnings estimates lower.

Why does that happen? The theory goes something like this: Analysts initially publish estimates that are a bit rosy, which is consistent with the fact that most stock ratings are “buy.” As the quarter progresses, reality almost always feels less robust as economic data, industry reports, and management comments trickle in. Perhaps executives are even guiding analysts in a way that lowers the bar.

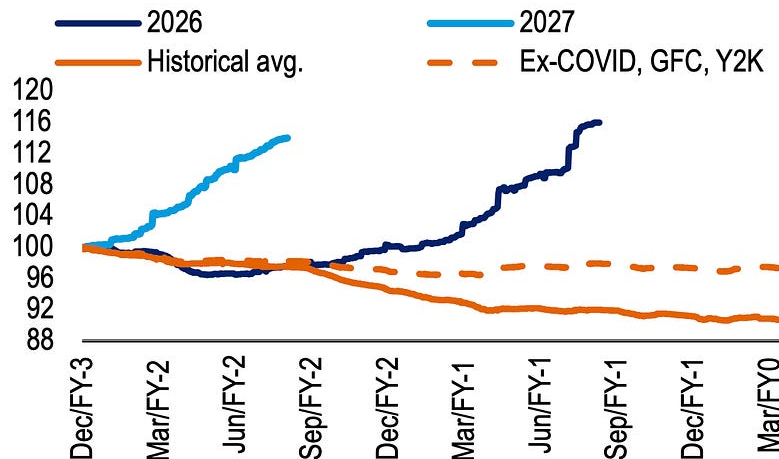
Then, to analysts’ “surprise,” most companies ultimately report quarterly earnings that beat those lowered estimates.

But what if analysts flip the script and *raise* earnings estimates? Should investors be concerned? Are the odds higher that quarterly results fall short of these revised estimates?

I’m hearing these questions more often as analysts raise estimates ahead of Q3 earnings season (which kicks off in mid-October).

Exhibit 2: 2026E and 2027E estimates continue to climb higher

S&P 500 historical FY2 EPS revisions vs. 2026-27 consensus EPS (2026-27 as of 8/27/26)



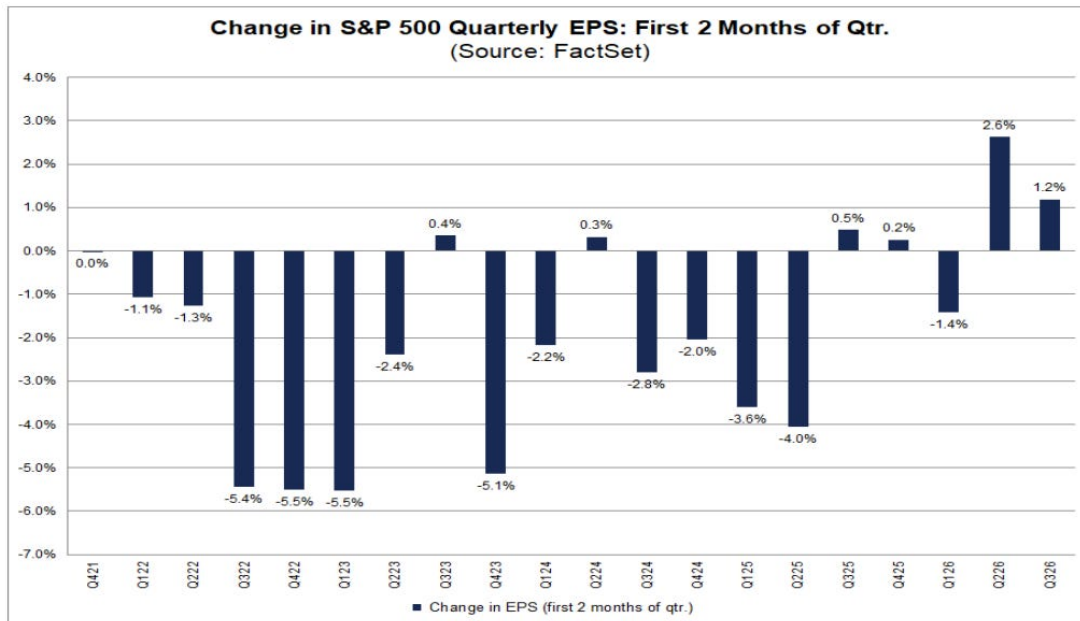
Source: BofA US Equity & Quant Strategy, FactSet; Note: historical average based on 2001-2024

Analysts have been raising earnings estimates, which is historically unusual. (Source: BofA)

My response: I'm not convinced that raised estimates are any harder to beat than lowered estimates.

For starters, companies have a track record of clearing those elevated estimates.

Check out this chart from FactSet's John Butters. It shows the change in analysts' quarterly earnings per share (EPS) estimates during the first two months of each quarter. As you can see, analysts typically reduce estimates during the period. But on the right, you can see analysts have raised estimates for the current quarter, which pundits will remind you is unusual.



Quarterly earnings estimates usually get revised down ahead of earnings season. (Source: [FactSet](#))

However, you'll also notice that analysts raised their estimates for the recently completed Q2 more significantly.

And what did we learn from Q2 earnings season?

"For Q2 2026 (with 99% of S&P 500 companies reporting actual results), 87% of S&P 500 companies have reported a positive EPS surprise," Butters wrote on Friday.

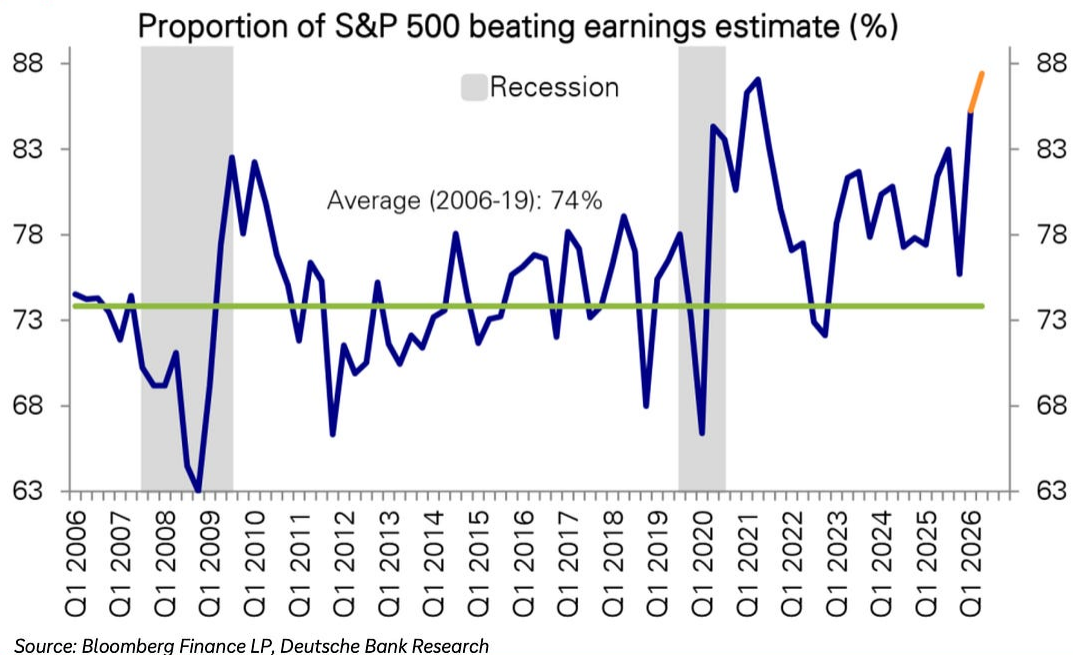
That's right. 87% of companies beat those raised estimates.

"Earnings shattered the high bar, with the breadth of beats at a record high," Deutsche Bank's Binky Chadha observed in a recent note to clients.

And as TKer's long-time subscribers already know, most companies beat estimates all the time.

Take a close look at this chart from Chadha showing the percentage of S&P 500 companies beating analysts' estimates each quarter. Admittedly, it looks volatile. But look at the Y-axis: The beat rate never fell below 63% in any single quarter over the past 20 years!

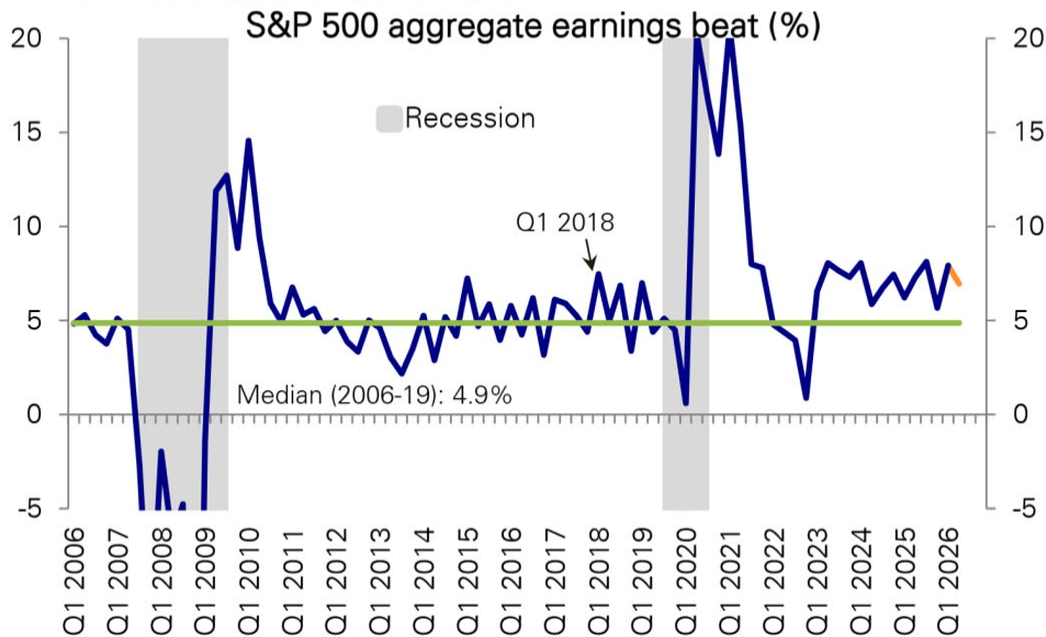
Figure 1: Earnings shattered the high bar, with the breadth of beats at a record high



Most companies usually report better-than-expected earnings. (Source: Deutsche Bank)

Notably, the magnitude of the Q2 surprise was just barely above the long-term average of about 5%.

Figure 2: The size of the aggregate earnings beat remained in the upper half of the elevated range of the past 3½ years



Source: Bloomberg Finance LP, Deutsche Bank Research

Most companies beat estimates by a modest margin.
(Source: Deutsche Bank)

The bottom line: If you're following the trajectory of analysts' quarterly estimates, upward revisions aren't something to worry about. Analysts tend to move estimates so most companies beat them, and by a margin of about 5%.

Why does this happen? You can read more about that [here](#).

Is this really worth talking about?

My friend Morgan Housel often says, "Earnings don't miss estimates; estimates miss earnings."

In other words, whether a company reports better-than-expected earnings says just as much about the analysts covering the company as the company itself. Maybe more so.

So concerns about upward or downward revisions to quarterly estimates and where “the bar” is set may be missing the point for long-term investors. It’s why none of [TKer’s 10 Truths About The Stock Market](#) concerns companies beating analysts’ estimates.

That said, [earnings certainly matter](#). And the fact that [earnings are growing](#) and [expected to keep growing](#) is a good thing.

And if you’re concerned that the pace of earnings growth is unsustainable, this may already be priced into the market. For more on that, read: [***The stock market may already be adjusting to a future with slower earnings growth***](#) 🙄

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Related from TKer:

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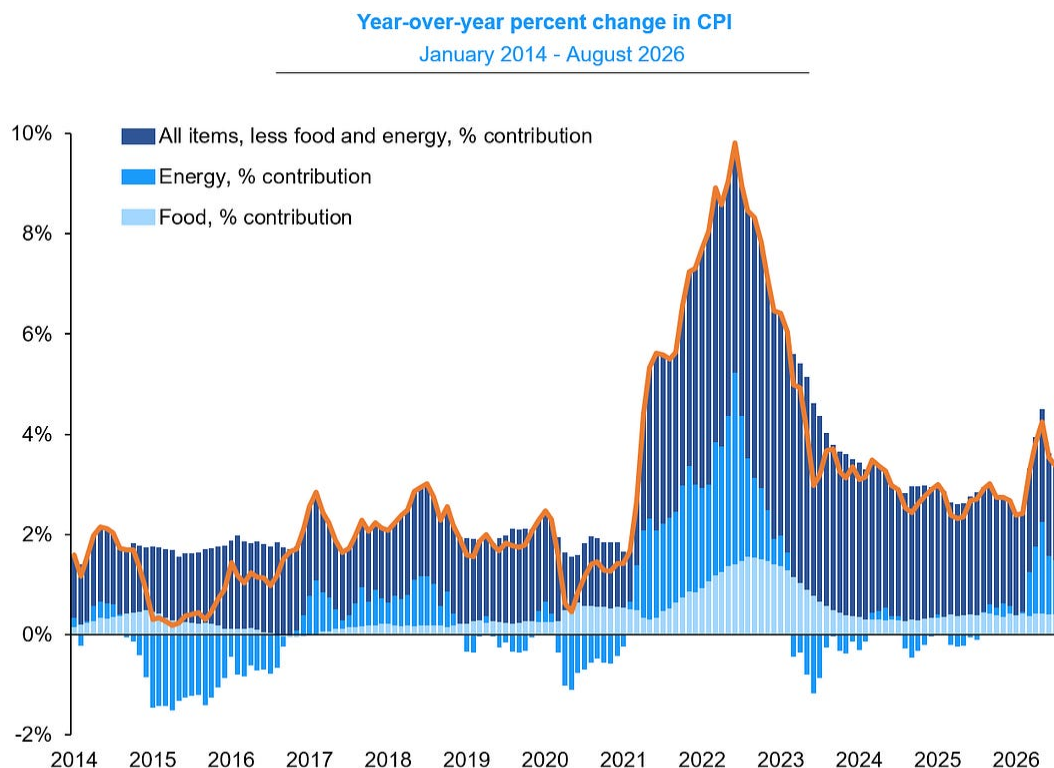
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Review of the macro crosscurrents

 ***The stock market declined last week, with the S&P 500 losing 0.8% to end at 7,656.98. The index is now down 1.8% from its August 13 closing high of 7,798.99 and up 11.9% year-to-date. For market insights, check out the [Stock Market tab at TKer](#). »***

There were several notable data points and macroeconomic developments since our last review:

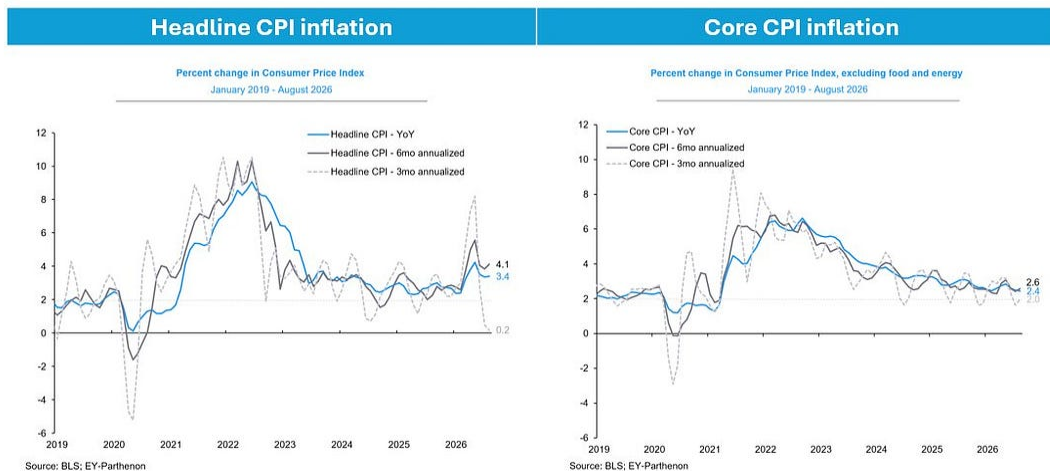
📍 Consumer price inflation heated up. The Consumer Price Index (CPI) increased 3.4% year-over-year in August, unchanged from the prior month. Adjusted for food and energy, core CPI rose 2.4%.



Source: BLS; EY-Parthenon

(Source: [Gregory Daco](#))

On a month-over-month basis, CPI increased 0.4% as energy prices jumped 2.1%. Core CPI was up 0.3%. If you annualize the three-month and six-month figures — a reflection of the short-term trend in prices — core CPI climbed 2.0% and 2.6%, respectively.



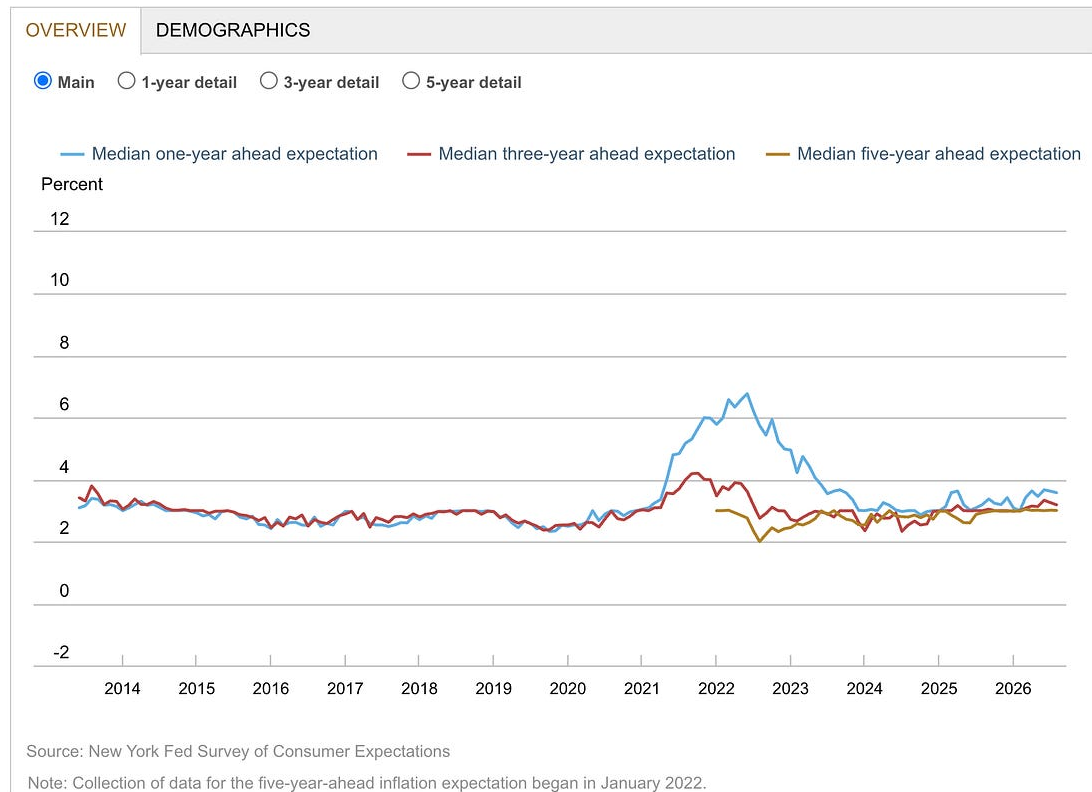
(Source: [Gregory Daco](#))

For more discussion on inflation and monetary policy, read: **The other side of the Fed's inflation 'mistake'** 🤔 and **'When will the Fed cut rates?' is not the right question for investors right now** ✂️

📌 **Inflation expectations remain a bit elevated.** From the New York Fed's August Survey of Consumer Expectations: "Median inflation expectations at the one-year and five-year-ahead horizons were unchanged at 3.6% and 3.0%, while they decreased at the three-year-ahead horizon by 0.1 percentage point to 3.2%."

Inflation expectations

Median one-, three-, and five-year ahead expected inflation rate

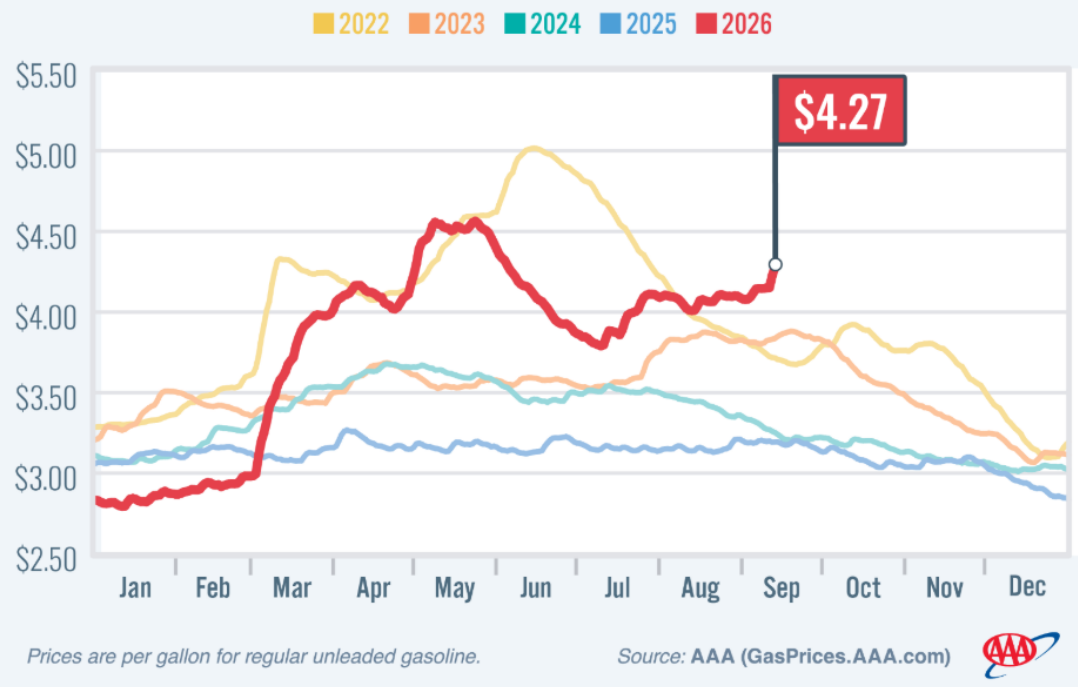


(Source: [NY Fed](#))

 **Gas prices rise.** From [AAA](#): “The national average for a gallon of regular gasoline went up 13 cents since last week to \$4.27 as crude oil prices continue climbing. Volatility in the Strait of Hormuz has pushed crude oil back in the \$100 per barrel range for the first time since July. Pump prices are currently comparable to early June. As the graph below shows, the national average is increasing during a season when gas prices typically go down due to lower gasoline demand.”

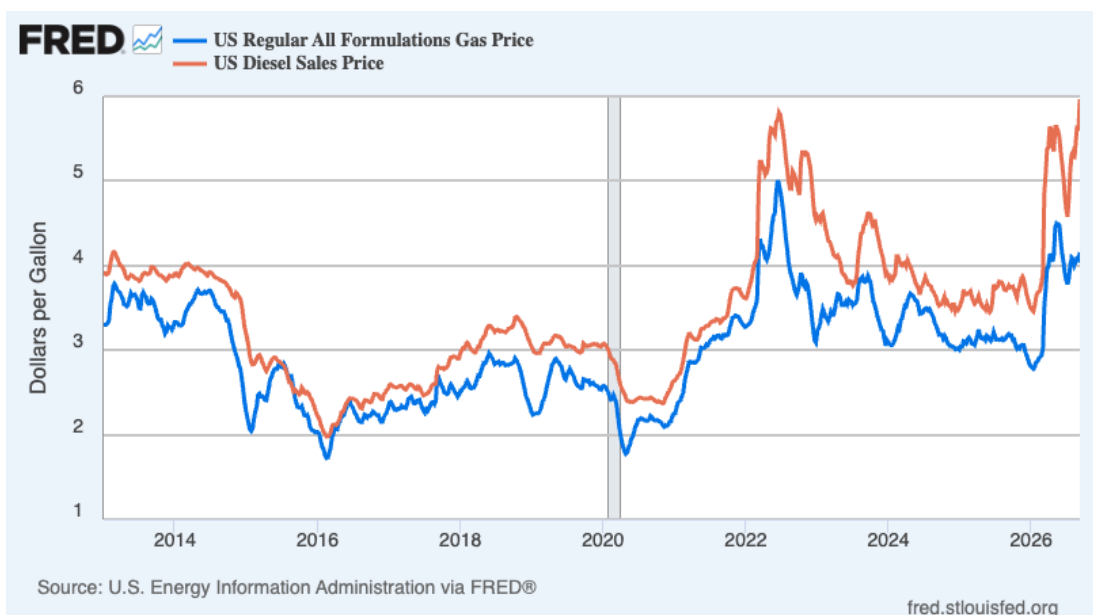
NATIONAL GAS PRICE COMPARISON | 2022-2026

09/10/26



(Source: [AAA](#))

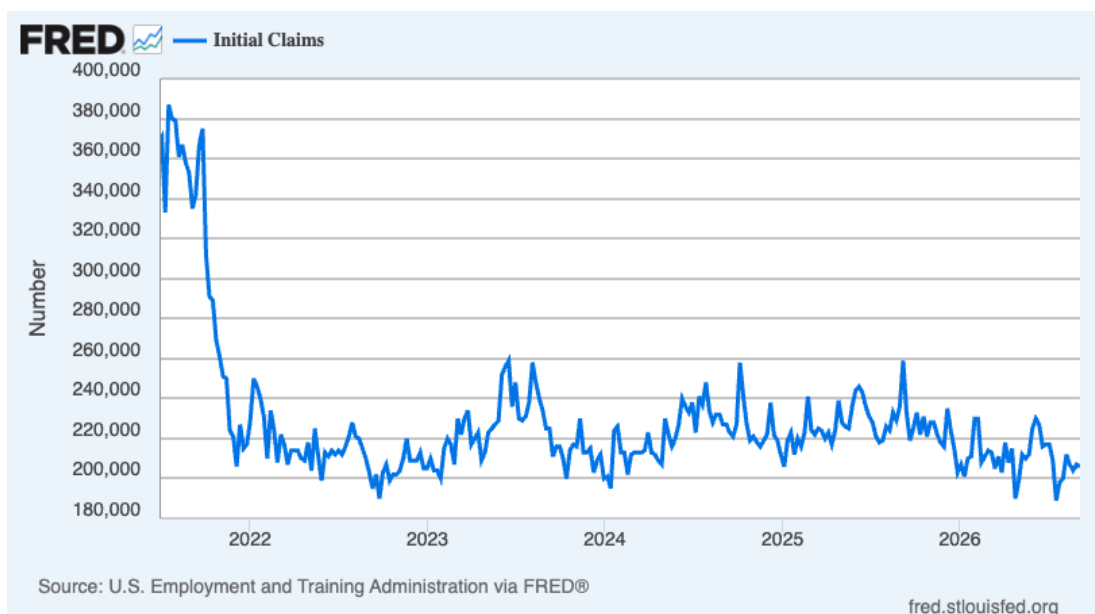
Here's a longer-term look at the trajectory of gas and diesel prices, as tracked by the [EIA](#).



(Source: EIA via [FRED](#))

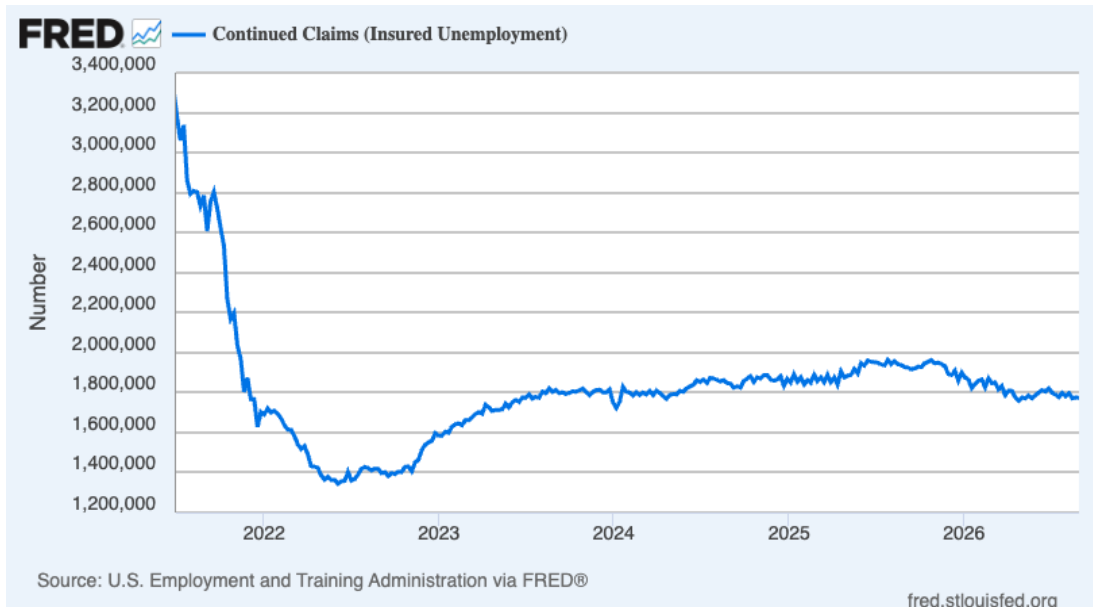
For more on energy prices, read: ***Our love-hate relationship with rising oil prices in charts*** 💔 📊

👛 New unemployment insurance claims, total ongoing claims remain low. Initial claims for unemployment benefits ticked down to 206,000 during the week ending Sept. 9, down from 207,000 the week prior. This metric remains at levels historically associated with economic growth.



(Source: DOL via [FRED](#))

Insured unemployment, which captures those who continue to claim unemployment benefits, ticked down to 1.774 million during the week ending Aug. 29.



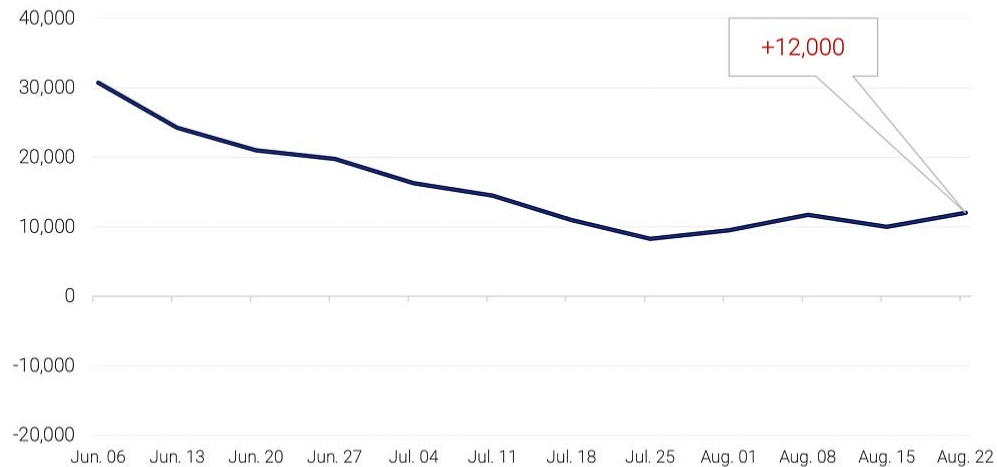
(Source: DOL via [FRED](#))

For more on the labor market, read: **[Why mass tech layoffs have little effect on total employment](#)** 📄

🤔 **Recent private job growth is picking up.** According to payroll processor [ADP](#), private U.S. employers added 15,000 jobs in the four weeks ending Aug. 22.

THE NER Pulse

For the four weeks ending August 22, 2026, U.S. private employers added an average of 12,000 jobs a week. Hiring accelerated week over week. These numbers are preliminary and could change as new data is added.



Source: ADP payroll data

ADP Research

Three times a month, Main Street Macro releases the NER Pulse, an estimate of the week-over-week change in employment based on a four-week moving average. These releases are seasonally adjusted and have a two-week lag to allow for more complete and accurate estimates of real-time employment trends. At the beginning of each month, we publish the National Employment Report, which is built on a reference week that includes the 12th day of the month. We do not publish the NER Pulse during NER release weeks.

(Source: [ADP](#))

For more on the labor market, read: **Things are looking up in the labor market** 👍

 **Card spending data is holding up.** From BofA: "Total card spending per HH was up 7.8% y/y in the week ending Sep 5, according to BAC aggregated credit & debit card data. The surge in spending growth was likely due to base effects from the shift in Labor Day timing and the rebound in gas prices. However, ex-gas spending growth was also strong at 6.9% y/y in the week ending Sep 5."

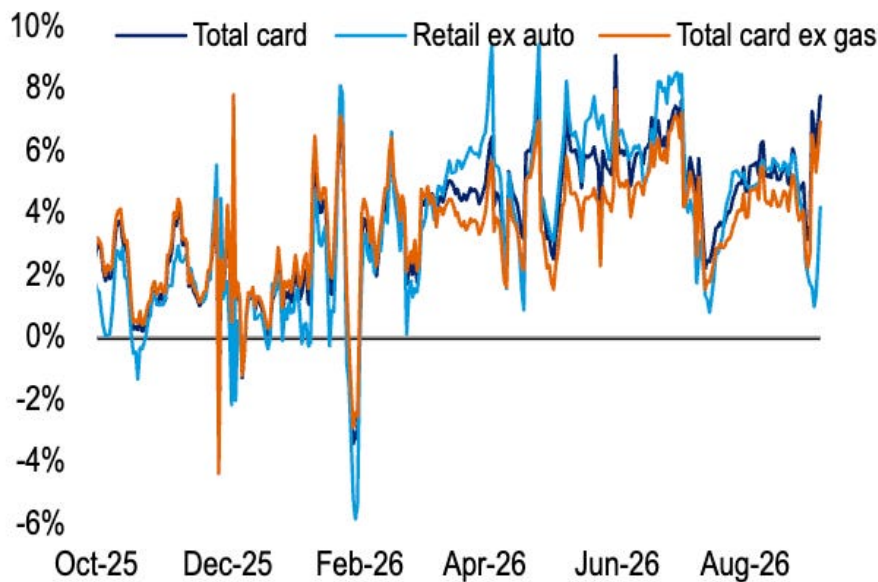
Exhibit 1: Total card spending per HH rose to 7.8% y/y in the week ending Sep 5, likely due to base effects from the shift in Labor Day timing (9/7/26 vs 9/1/25) and rebound in gas prices
 Aggregated daily credit and debit card spending growth per HH by major category, Aug 29 - Sep 05 (y/y % change of the 7-day MA of spending levels)

	9/5	9/4	9/3	9/2	9/1	8/31	8/30	8/29
Total card spending	7.8%	6.8%	6.1%	6.8%	7.3%	3.6%	3.2%	3.7%
Total card ex gas	6.9%	6.0%	5.3%	6.1%	6.5%	2.7%	2.2%	2.8%
Retail ex-autos	4.2%	2.6%	1.4%	1.0%	1.6%	1.7%	2.0%	2.4%
Airlines	12.9%	14.2%	14.8%	16.8%	17.0%	15.8%	13.5%	12.1%
Lodging	1.9%	-0.6%	-1.9%	-2.5%	-1.4%	3.4%	2.5%	2.9%
Entertainment	-1.4%	-2.3%	-5.1%	-4.7%	-6.4%	-4.4%	-1.4%	0.9%
Restaurants & bars	1.2%	-0.1%	-1.3%	-2.1%	-1.4%	1.1%	2.8%	2.8%
Transit	11.0%	9.6%	9.0%	12.0%	8.6%	4.2%	3.8%	6.7%
Gas	22.8%	21.6%	19.9%	19.4%	20.0%	18.7%	18.1%	18.1%
Clothing	0.7%	-2.0%	-3.1%	-3.0%	-3.6%	-2.1%	-0.8%	0.4%
Furniture	-12.8%	-18.4%	-20.7%	-21.1%	-20.4%	-14.8%	-10.9%	-7.4%
Department store	-5.1%	-8.0%	-9.8%	-10.5%	-10.1%	-8.1%	-8.3%	-7.7%
Home improvement	8.5%	7.3%	6.9%	8.0%	8.6%	-0.3%	0.0%	0.3%
Grocery	-1.0%	-2.7%	-4.2%	-4.5%	-3.8%	-1.7%	-2.9%	-2.7%
General Merchandise	9.3%	8.0%	6.6%	6.2%	8.3%	4.0%	3.3%	3.2%
Total B&M retail	3.2%	1.2%	-0.4%	-1.1%	-0.9%	0.2%	0.4%	0.7%
Total online retail	8.5%	7.8%	7.7%	8.1%	9.7%	5.5%	5.6%	6.5%

(Source: BofA)

Exhibit 2: Ex-gas spending growth was also strong at 6.9% y/y in the week ending Sep 5

Total card, retail ex auto and total card ex gas spending, per HH, based on BAC aggregated card data (y/y % change of the 7-day MA of spending levels)



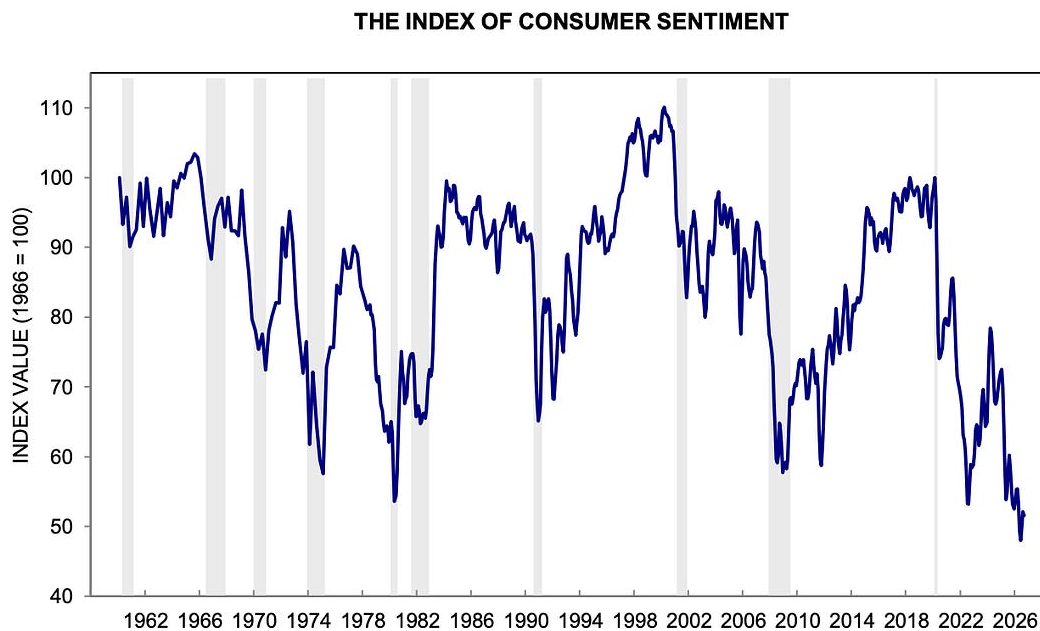
Source: BAC internal data

(Source: BofA)

Consumer spending data has looked a lot better than consumer sentiment readings. *For more on this contradiction, read: **We're taking that vacation whether we like it or not** 🐦 and **Household finances are both 'worse' and 'good'** ☀️*

🗣️ **Consumer vibes are in the dumps.** From the University of Michigan's September Surveys of Consumers: "Consumer sentiment receded less than 4 index points for the second consecutive month of decreases. Democrats and Republicans alike posted sizable declines, while independents were little changed from August. Year-ahead expectations for both personal finances and business conditions

plunged. With a resurgence in fuel prices and trade tensions, consumers anticipate greater pressures on their pocketbooks to come. Five-year expected business conditions remained stable at readings well below their historical average, suggesting that consumers believe that emerging risks this month may not have further worsened the long-run outlook. Overall, sentiment is now 16% below February, prior to the start of the Iran conflict, and 13% lower than a year ago.”



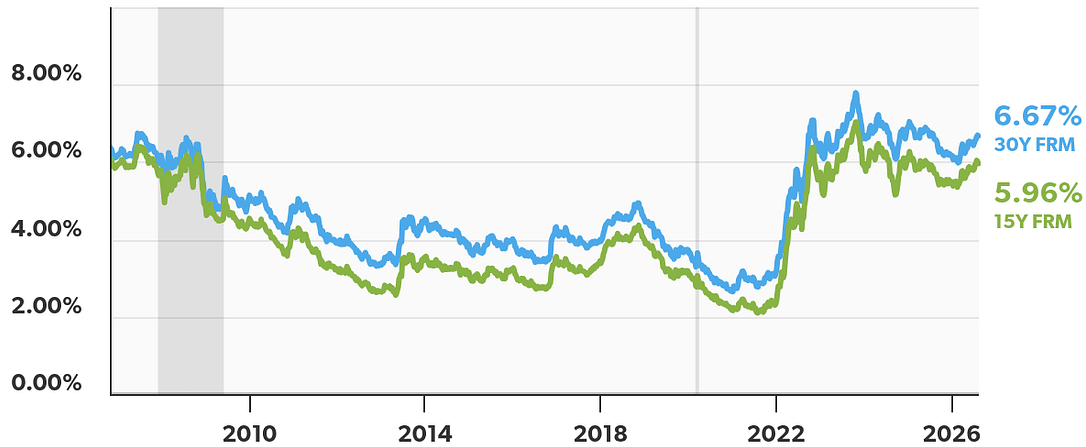
For more on consumer sentiment, read: **What consumers do > what consumers say** 🐒

🏠 **Mortgage rates rise.** According to [Freddie Mac](#), the average 30-year fixed-rate mortgage rose to 6.76%, down from 6.71% last week.



Primary Mortgage Market Survey®

U.S. weekly average mortgage rates as of 08/13/2026



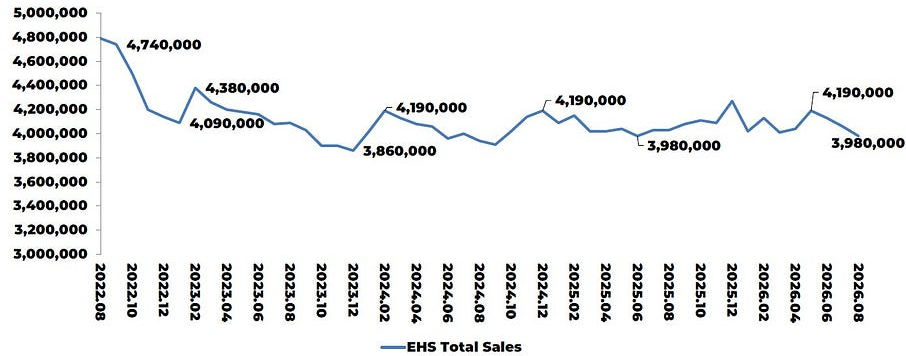
(Source: [Freddie Mac](#))

As of Q2, there were 149.5 million housing units in the U.S., of which 87.0 million were owner-occupied and about 40% were mortgage-free. Of those carrying mortgage debt, almost all have fixed-rate mortgages, and most of those mortgages have rates that were locked in before rates surged from 2021 lows. All of this is to say: Most homeowners are not particularly sensitive to the weekly movements in home prices or mortgage rates.

For more on mortgages and home prices, read: **Why home prices and rents are creating all sorts of confusion about inflation** 🤔

🏠 **Home sales fell.** Sales of previously owned homes declined 2.0% in August to an annualized rate of 3.98 million units. From NAR chief economist Lawrence Yun: “Mortgage rates and home sales move in opposite directions, so it’s not surprising to see a mild dip in home buying activity due to high mortgage rates... The number of months it would take to exhaust the total inventory at the current sales pace has grown to 4.9 months’ supply—its highest level in over ten years. The ample supply of homes for sale on the market is giving homebuyers better opportunities to negotiate.”

Total Existing-Home Sales (SA Annual Rate)



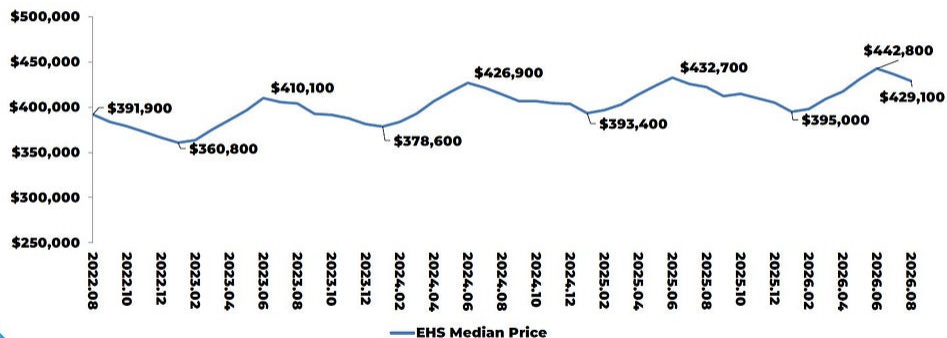
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(Source: [NAR](#))

Prices for previously owned homes declined from last month but rose from year-ago levels. From the [NAR](#): “The median existing-home sales price for all housing types in August was \$429,100, up 1.6% from one year ago (\$422,400) – the 38th consecutive month of year-over-year price increases.”

Median Price of Existing-Home Sales

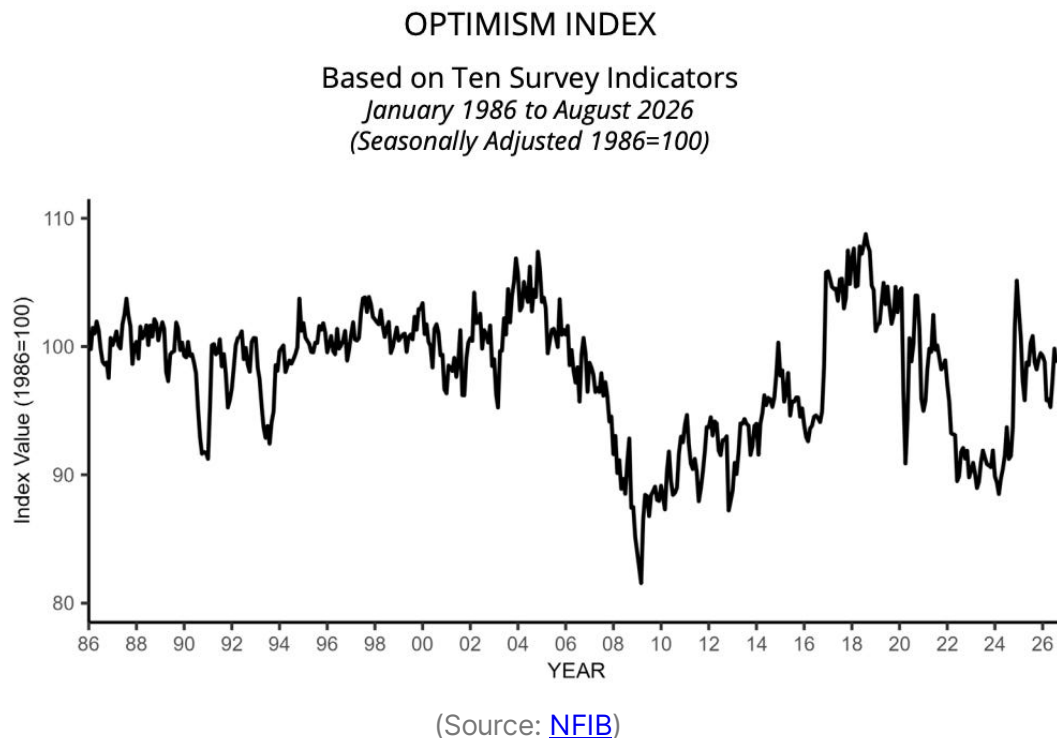


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(Source: [NAR](#))

👍 **Small business optimism deteriorated.** The NFIB's Small Business Optimism Index declined to 98.7 in August, down from 99.8 in July. From the NFIB: "Uncertainty remains elevated among small business owners as they face a mixed set of challenges with weakened sales, supply chain disruptions, and inflation pressures. While expectations for the overall economy dimmed, Main Street owners remain largely positive in the health of their own businesses."

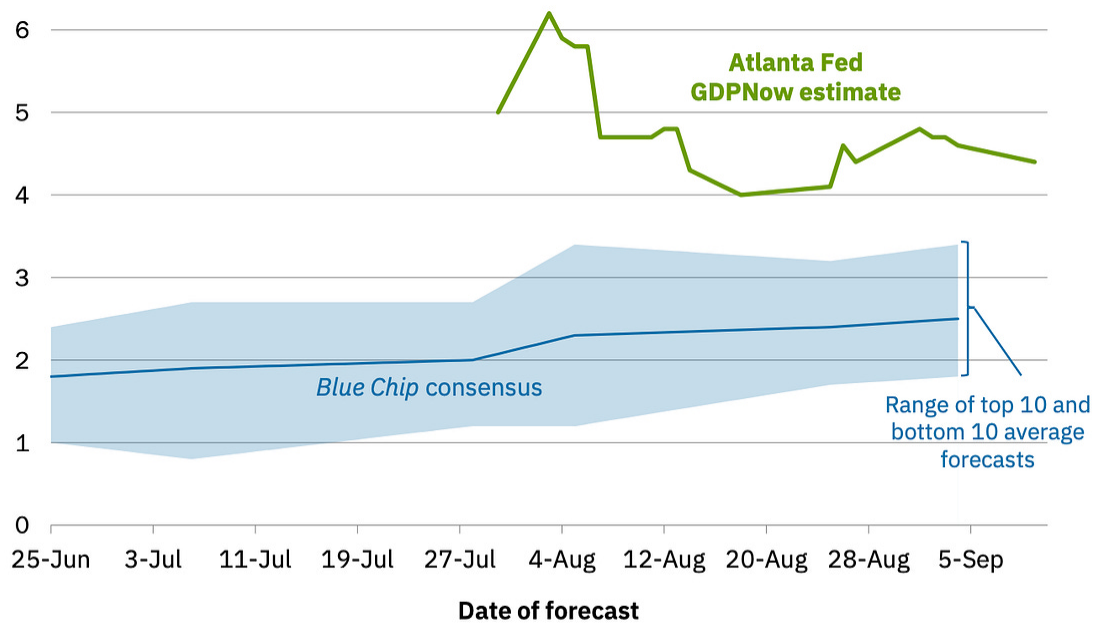


Keep in mind that during times of perceived stress, soft survey data tends to be more exaggerated than actual hard data.

For more on this, read: **What businesses do > what businesses say** 🧐
and **4 sometimes-conflicting ways I'm thinking about the economy** 😬😞
😎🙄

📈 **Near-term GDP growth estimates are tracking positively.** The Atlanta Fed's GDPNow model sees real GDP growth rising at a 4.4% rate

in Q3.



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

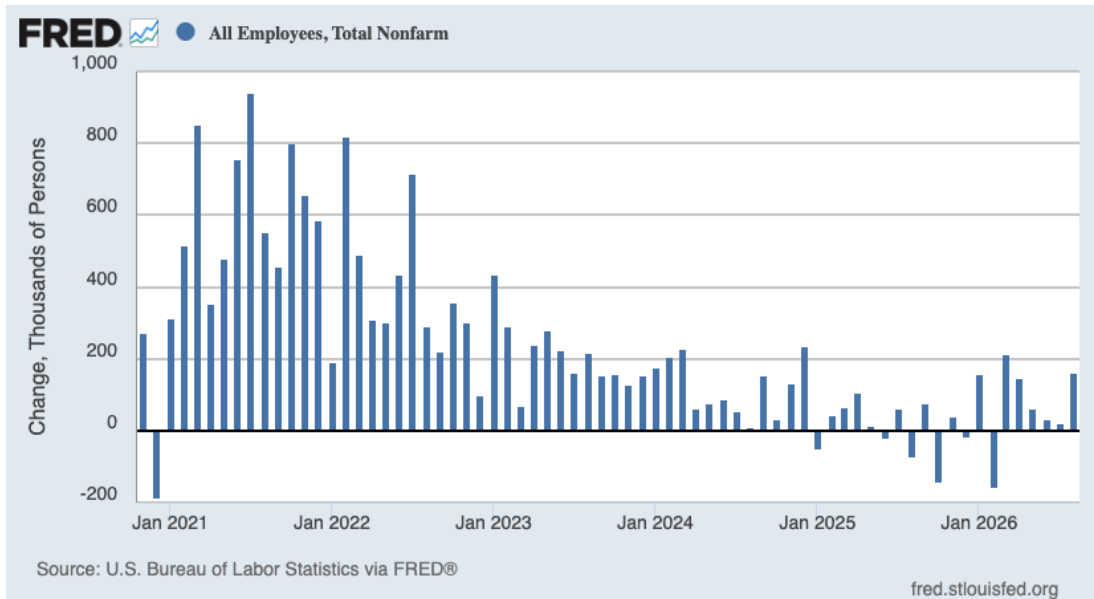
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

For more on GDP and the economy, read: **It's too ambiguous to just say 'the economy'** 🧑 and **Economic data can often be both 'worse' and 'good'** 🌤️

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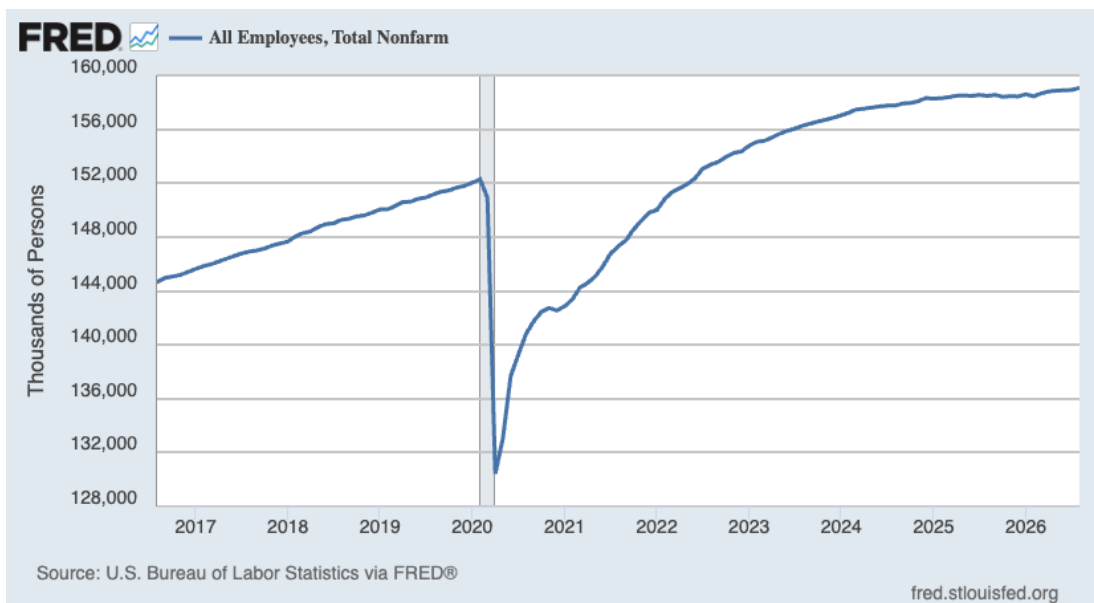
📅 **The reports below were released after the last review of macro crosscurrents but are more than a week old.**

👛 **Jobs were created.** According to the BLS's Employment Situation report, U.S. employers added 21,000 jobs in August.



(Source: BLS via [FRED](#))

Total payroll employment declined to 159.08 million jobs in August.



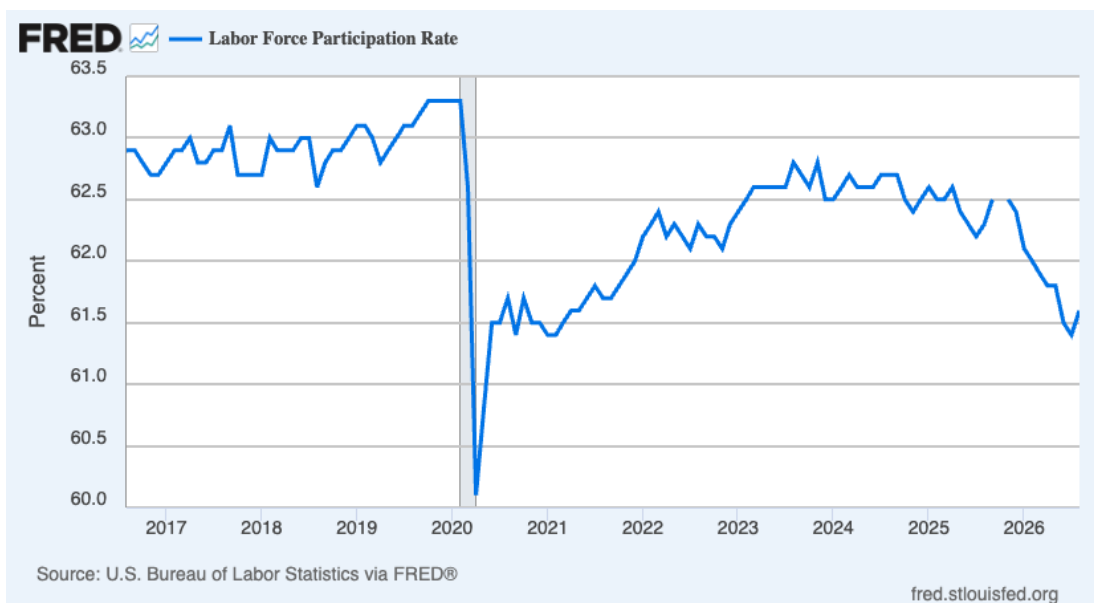
(Source: BLS via [FRED](#))

The unemployment rate — that is, the number of workers who identify as unemployed as a percentage of the civilian labor force — stood at 4.1% during the month.



(Source: BLS via [FRED](#))

The labor force participation rate — that is, the number of employed and unemployed job seekers as a percentage of the civilian population — ticked up to 61.6% as 683,000 people entered the labor force.



(Source: BLS via [FRED](#))

The labor market is in decent shape, but clearly isn't as hot as it was just a few years ago.

For more on the labor market, read: **Things are looking up in the labor market** 👍

💰 **Wage growth is cooling.** Average hourly earnings rose by 0.3% month-over-month in August. On a year-over-year basis, August's wages were up 3.1%.



(Source: BLS via [FRED](#))

💰 **Job switchers still get better pay.** According to ADP, annual pay in August for people who changed jobs was up 7.3% from a year ago. That better-pay gap has been widening a bit in recent months. For those who stayed at their job, pay was up 4.4%, about what it's been for the past year.

Pay change

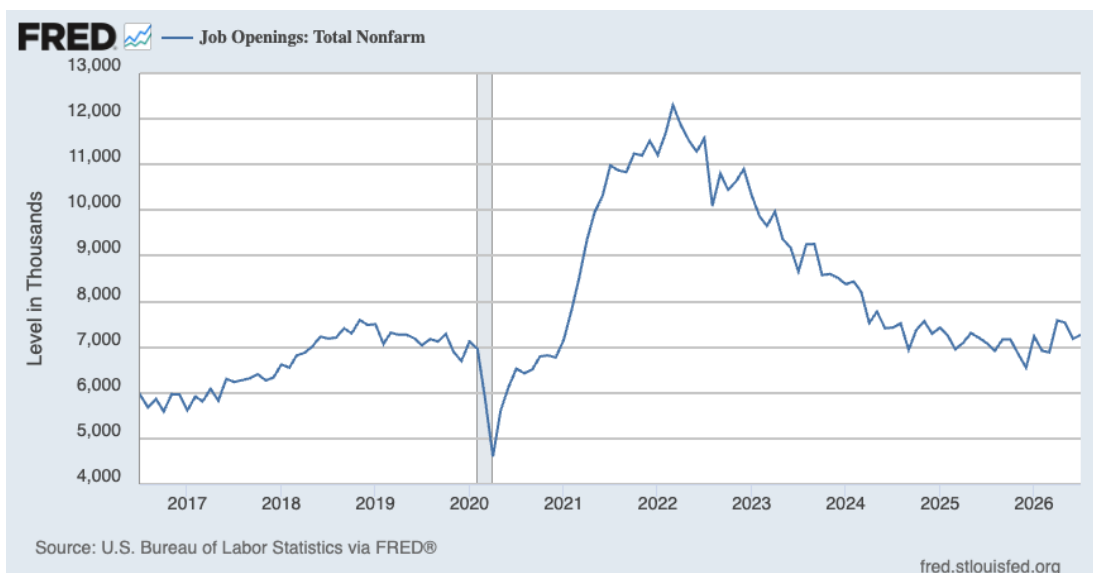
Median year-over-year change in gross pay, by category



(Source: [ADP](#))

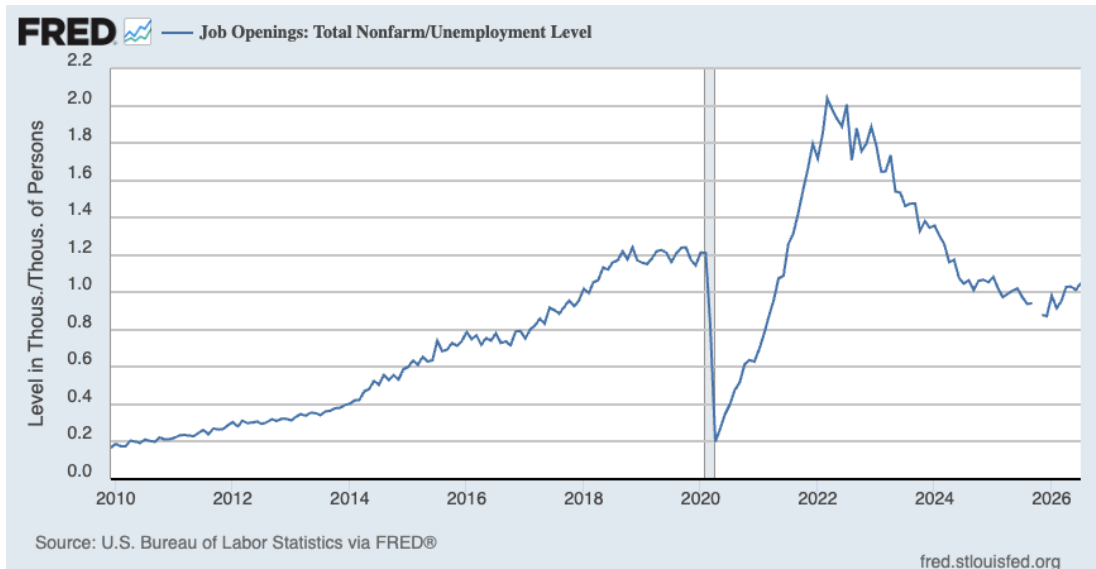
For more on why policymakers are watching wage growth, read: **[Revisiting the key chart to watch amid the Fed's war on inflation](#)** 📈

 **Job openings rose.** According to the BLS's Job Openings and Labor Turnover Survey, employers had 7.27 million job openings in July, up from 7.18 million in June.



(Source: BLS via [FRED](#))

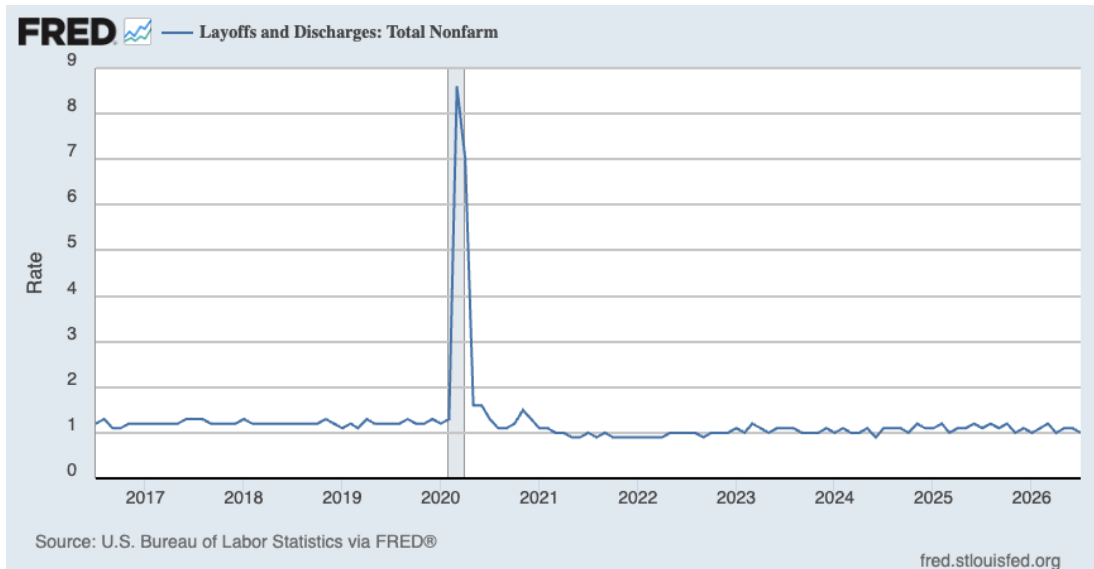
During the month, there were 6.92 million unemployed people — meaning there were 1.05 job openings per unemployed person. This remains one of the most straightforward indicators of labor demand. However, this metric has returned to prepandemic levels.



(Source: BLS via [FRED](#))

For more on job openings, read: **Were there really twice as many job openings as unemployed people?** 🤔

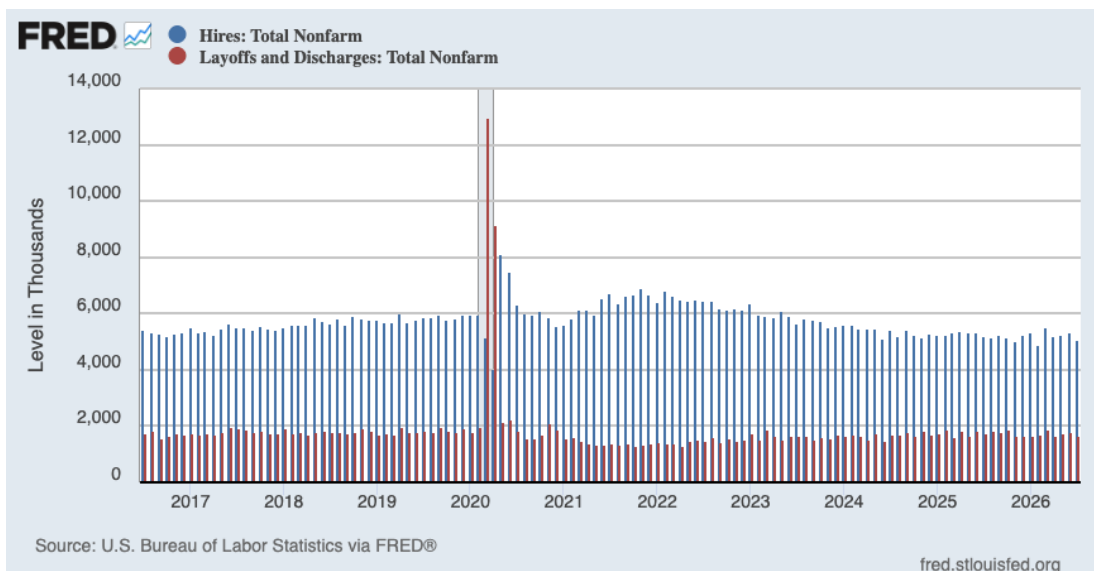
👍 **Layoffs remain depressed, hiring remains firm.** Employers laid off 1.77 million people in July. While challenging for the people affected, this figure represents just 1.0% of total employment. This metric remains slightly below prepandemic levels.



(Source: BLS via [FRED](#))

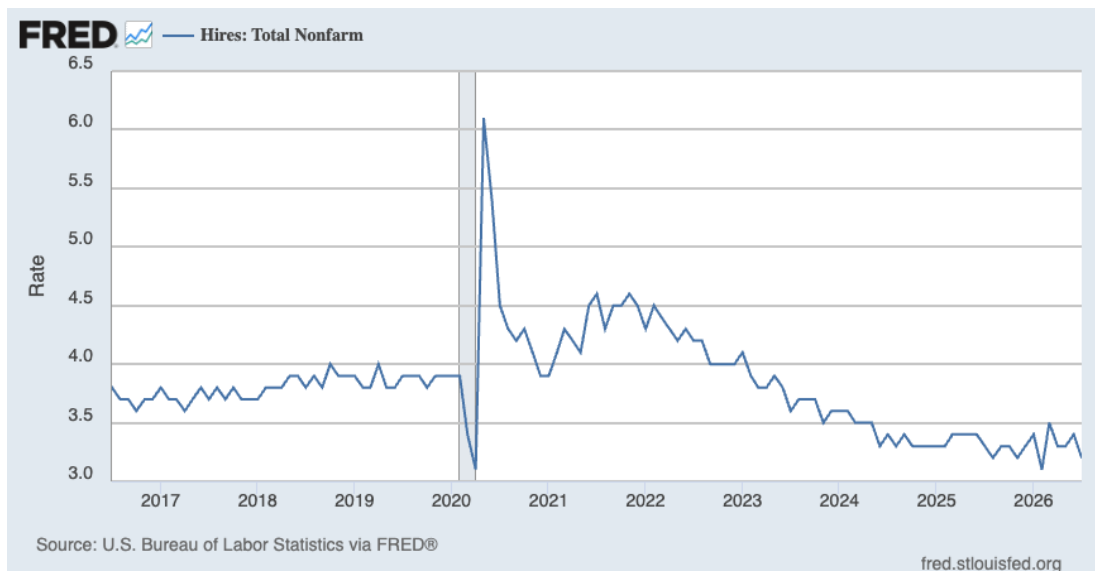
For more on layoffs, read: **Mathematical context can totally change the story**

Hiring activity remains well above layoff activity. During the month, employers hired 5.05 million people.



(Source: BLS via [FRED](#))

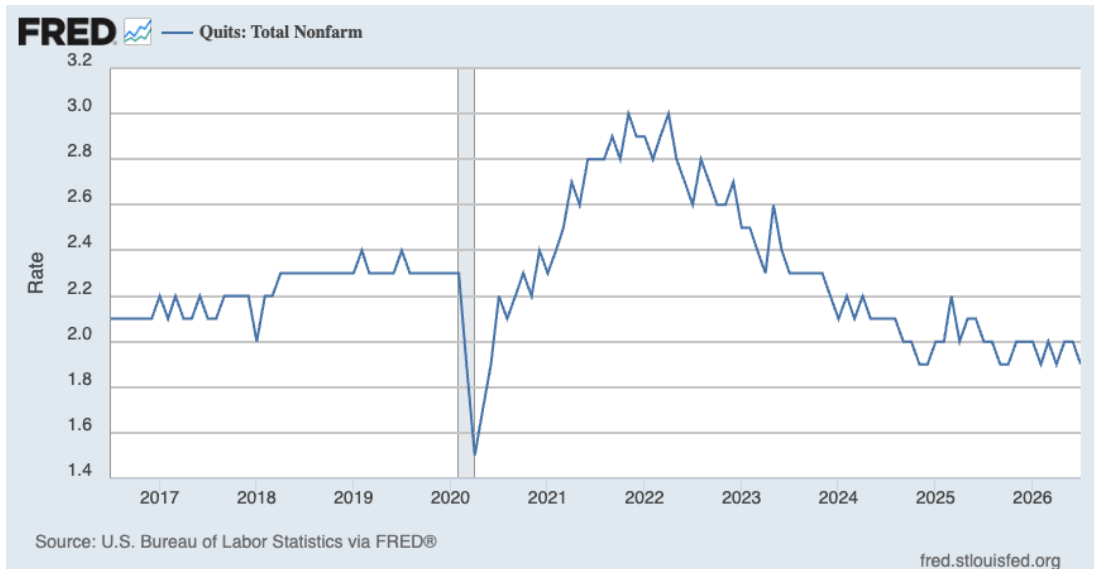
That said, the hiring rate — the number of hires as a percentage of the employed workforce — is relatively low, which could be a sign of trouble to come in the labor market.



(Source: BLS via [FRED](#))

For more on why this metric matters, read: ***The hiring situation*** 🌱

🤔 **People are quitting less.** In July, 3.06 million workers quit their jobs. This represents 1.9% of the workforce. The rate continues to trend below prepandemic levels.



(Source: BLS via [FRED](#))

A low quits rate could mean a number of things: more people are satisfied with their job, workers have fewer outside job opportunities, wage growth is cooling, or productivity will improve as fewer people are entering new, unfamiliar roles.

For more on this dynamic, read: **The crummy labor market is yielding a 'tenure dividend' for corporations** 💰

👉 **Labor productivity increases.** From the BLS: "Nonfarm business sector labor productivity increased 1.4% in the second quarter of 2026 ... as output increased 1.7% and hours worked increased 0.3%. (All quarterly percent changes in this release are seasonally adjusted annualized rates.) From the same quarter a year ago, nonfarm business sector labor productivity increased 2.2% in the second quarter of 2026."

Chart 1. Labor productivity, nonfarm business, 2022Q1 – 2026Q2

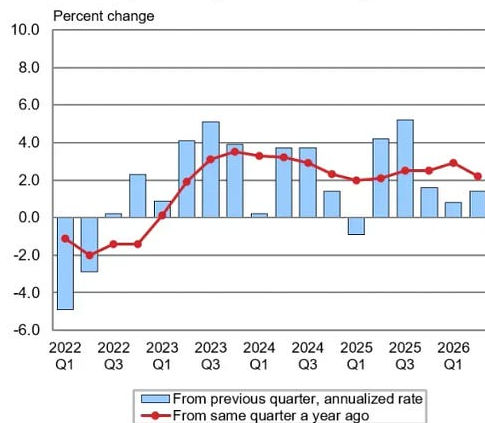
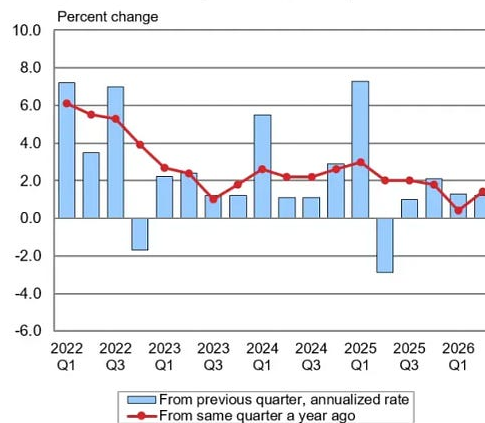


Chart 2. Unit labor costs, nonfarm business, 2022Q1 – 2026Q2



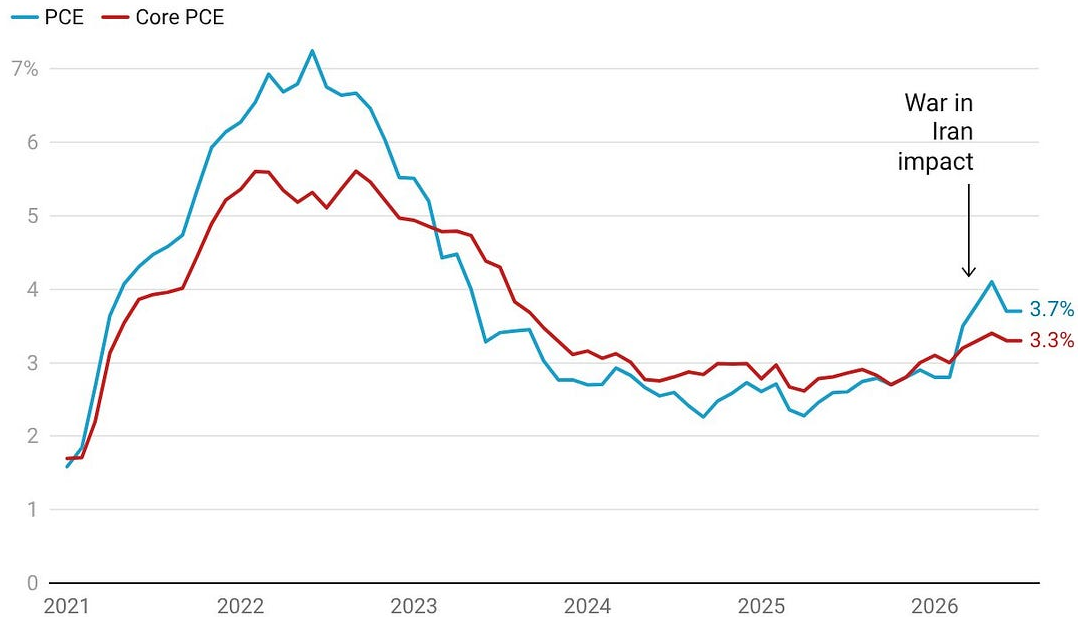
(Source: [BLS](#))

For more, read: [**Promising signs for productivity**](#) ⚙️

📍 **Fed's preferred inflation measure remains elevated.** The personal consumption expenditures (PCE) price index in July was up 3.7% from a year ago. The core PCE price index — the Federal Reserve's preferred measure of inflation — was up 3.3% during the month, unchanged from June's rate.

PCE Inflation was to 3.7% in July. That's still near a 3-year high due to the war in Iran impact.

Core inflation (excluding food and energy) was 3.3% in July.

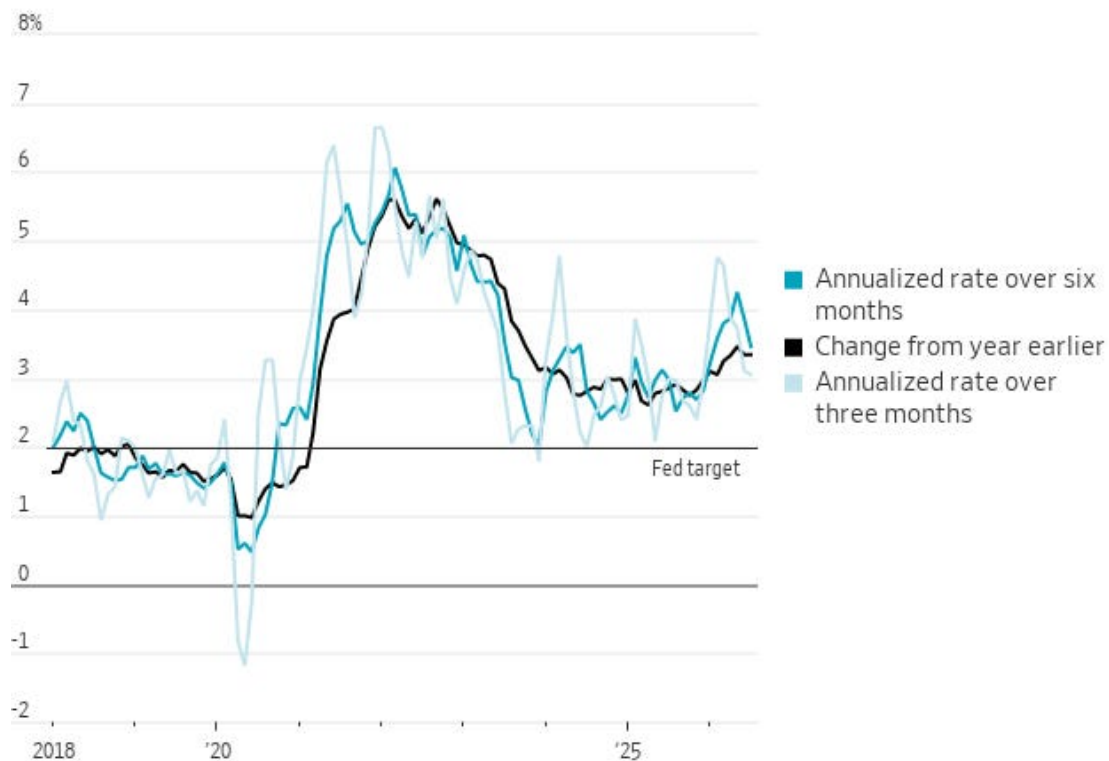


Source: Bureau of Labor Statistics • Created with Datawrapper

(Source: [Heather Long](#))

On a month-over-month basis, the core PCE price index was up 0.2%. If you annualize the three-month trend in the monthly figures — a reflection of the short-term trend in prices — core PCE climbed 3.0%.

Core personal-consumption-expenditures price index



Note: Core excludes food and energy items

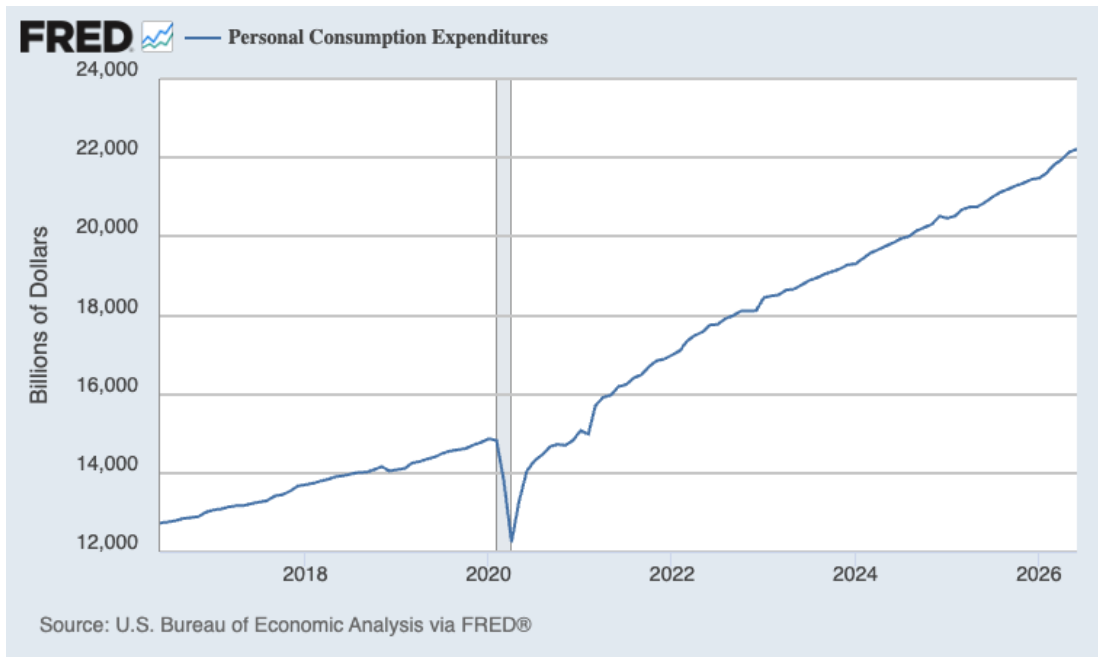
Source: Commerce Department

(Source: [Nick Timiraos](#))

While inflation rates remain above the Federal Reserve's 2% target, they are down considerably from peak levels just a few years ago. Nevertheless, how price trends evolve in the near term bears watching.

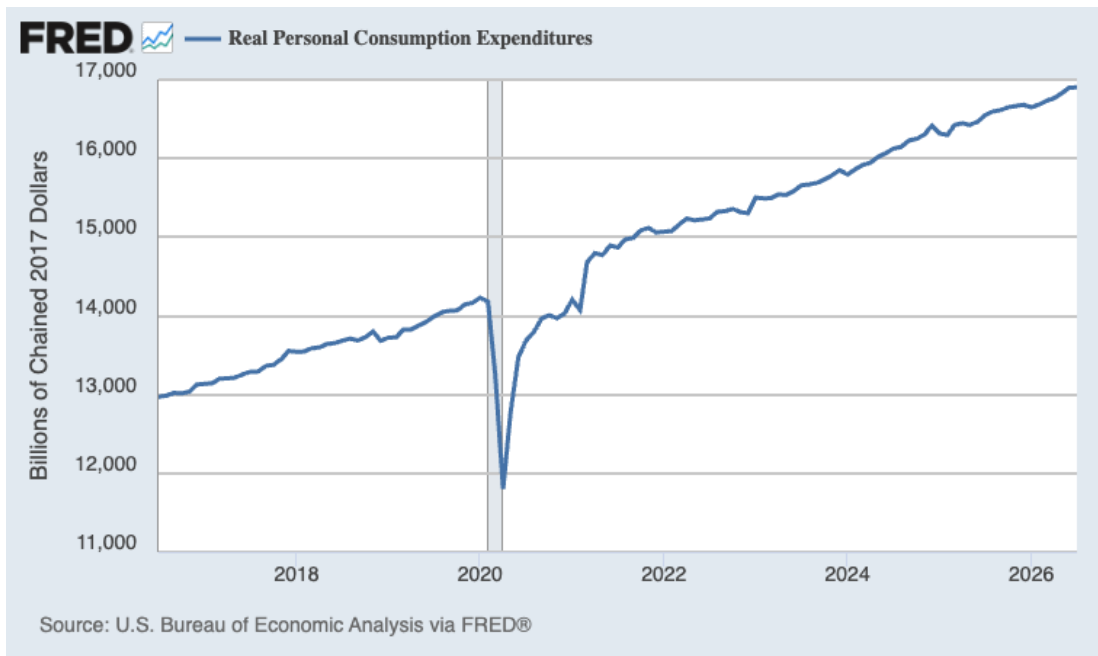
For more on the Fed's impact on markets, read: **'When will the Fed cut rates?' is not the right question for investors right now** ✂️

 **Consumer spending ticks higher.** According to BEA data, personal consumption expenditures increased 0.2% month-over-month in July to an annual rate of \$22.2 trillion, an all-time high.



(Source: BEA via [FRED](#))

Adjusted for inflation, real personal consumption expenditures was unchanged from the prior month's all-time high.

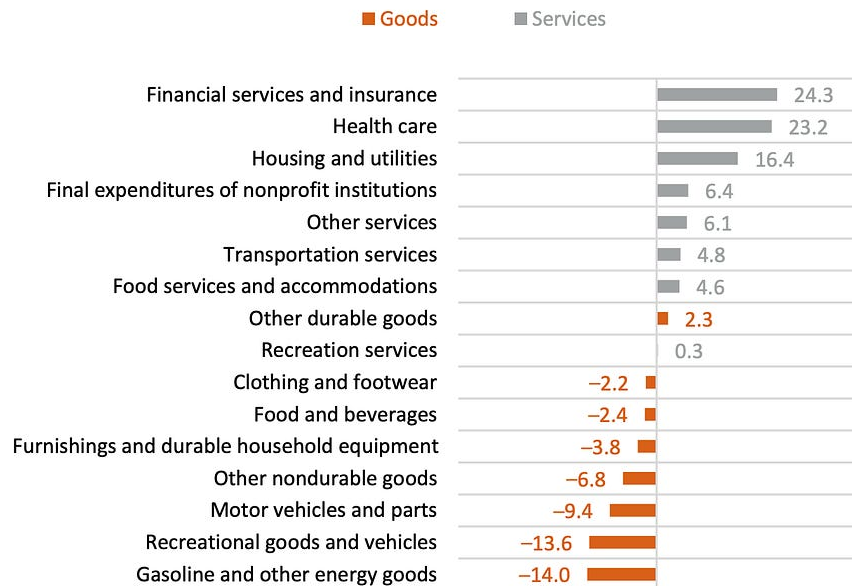


(Source: BEA via [FRED](#))

Here's a breakdown of spending growth by category.

Changes in Monthly Consumer Spending July 2026

Consumer spending increased \$36.3 billion



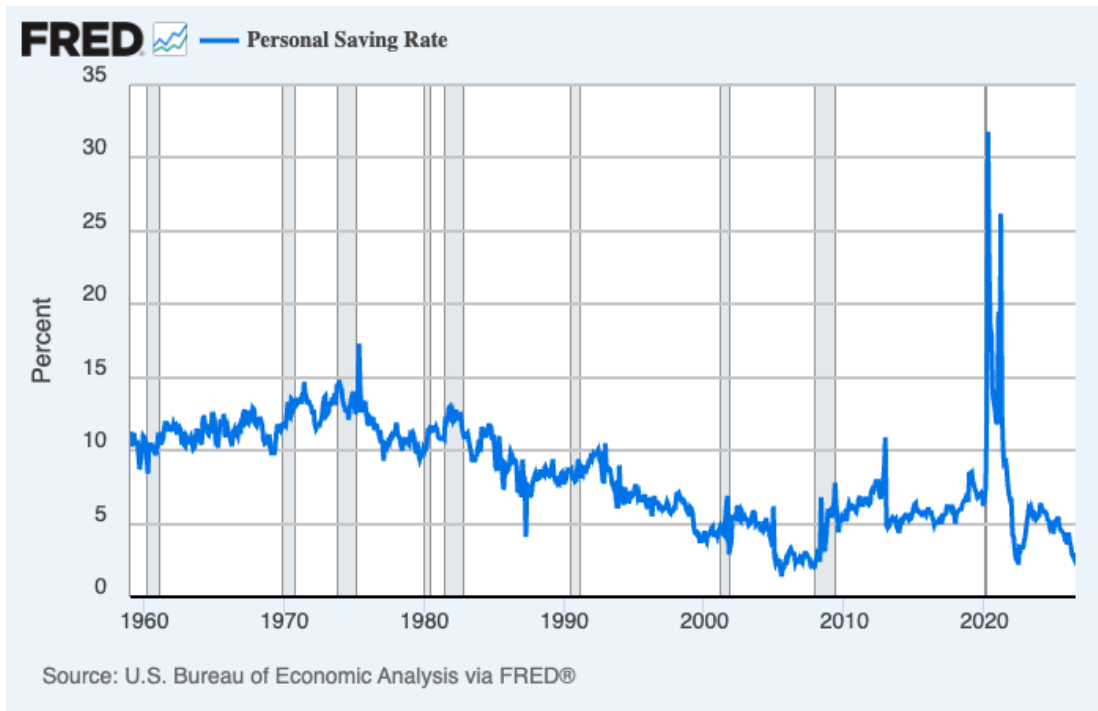
Billions of dollars, seasonally adjusted annual rates

U.S. Bureau of Economic Analysis

(Source: [BEA](#))

💰 **The personal saving rate is low, but that's not obviously a bad sign.**

Personal saving — disposable personal income less personal consumption — has been shrinking over the past two years, causing the personal saving rate — personal saving as a percentage of disposable personal income — to trend lower. In July, the saving rate was 3.0%, near its lowest level in four years.

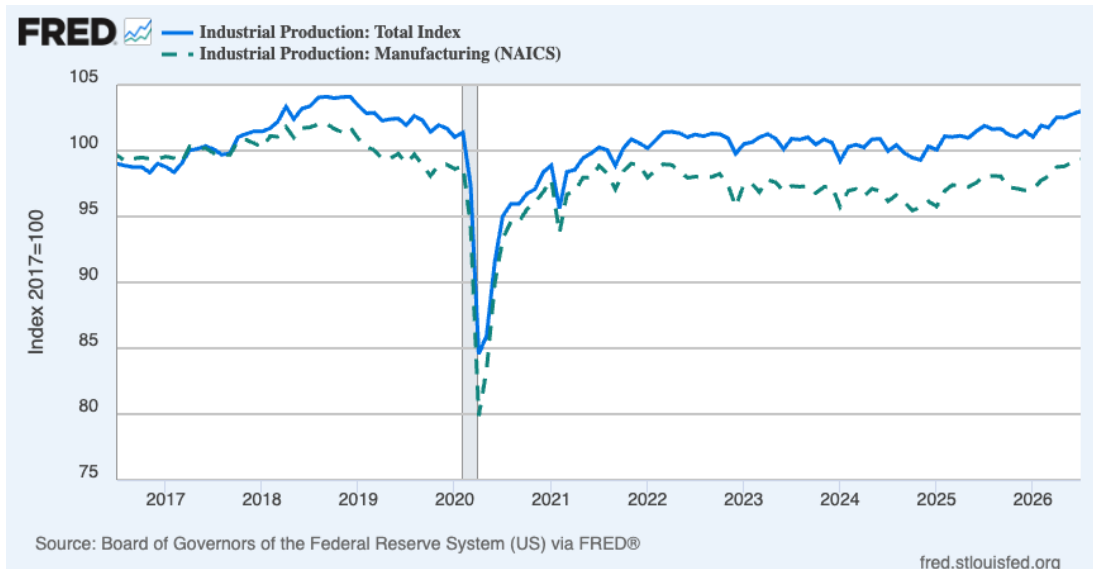


(Source: BEA via [FRED](#))

All else equal, this is not great. The implication is that more people are drawing from their savings to support their spending amid inflationary pressures. However, the saving rate tends to decline when net worths are rising. And net worths have been rising, driven by record-high home prices and elevated stock prices.

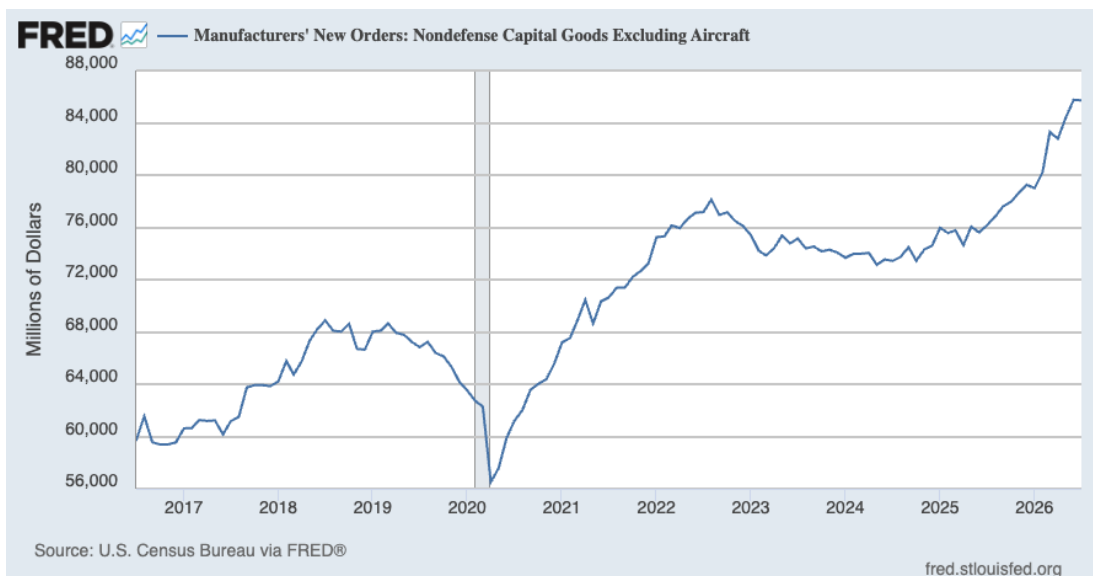
For more on this dynamic, read: **[A contrarian note about the falling personal saving rate](#)** 📄

🔧 **Industrial activity increased.** Industrial production activity in July rose 0.2% from prior month levels. Manufacturing output rose 0.4% compared to the prior month.



(Source: [FRED](#))

 **Business investment activity ticked lower.** Orders for nondefense capital goods excluding aircraft — a.k.a. core capex or business investment — declined 0.05% in July to \$85.7 billion, just below the record level.

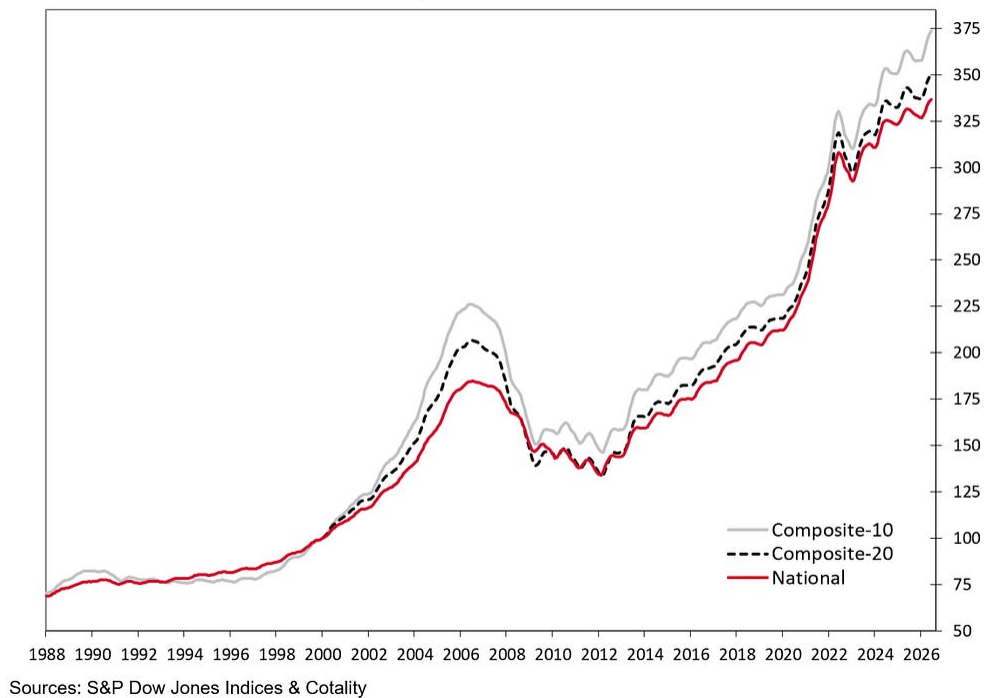


(Source: Census via [FRED](#))

Core capex orders are a leading indicator, meaning they foretell economic activity down the road.

 **Home prices rose.** According to the S&P CoreLogic Case-Shiller index, home prices were up 1.5% year-over-year in June and 0.1% month-over-month. From S&P Dow Jones Indices' Rebecca Kaufman: "While home prices continue to decline in real terms, lower inflation and firmer nominal home price growth in June helped slow that pace of erosion... The housing market remains under pressure, with 30-year mortgage rates holding near 6.5% in June. As financing costs are kept high for prospective buyers, current homeowners remain reluctant to give up the low mortgage rates secured in prior years."

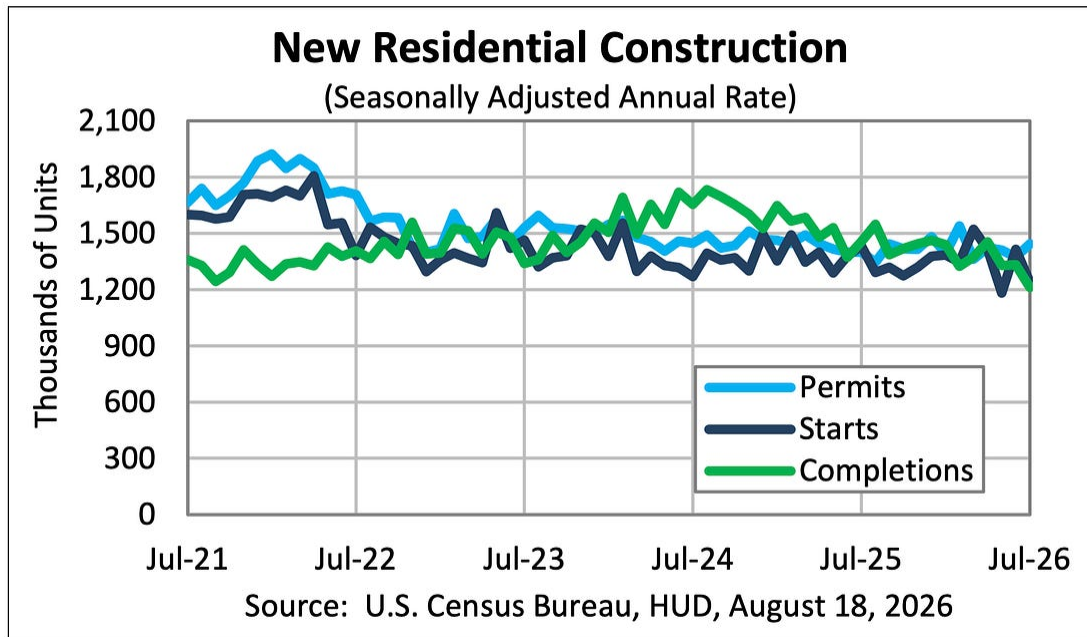
S&P Cotality Case-Shiller Indices



(Source: [S&P Dow Jones](#))

*For more on how home prices and how they may be affecting saving, read: **A contrarian note about the falling personal saving rate...*** 

🔨 **New home construction starts fell.** Housing starts declined 12.4% in July to an annualized rate of 1.24 million units, according to [the Census Bureau](#). Building permits rose 5.0% to an annualized rate of 1.44 million units.

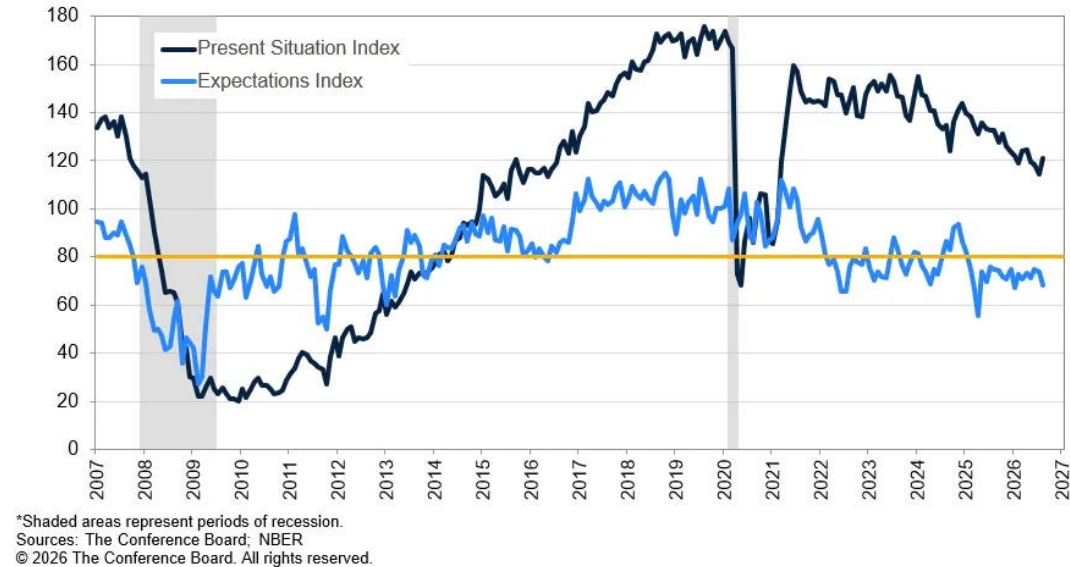


(Source: [Census](#))

👉 **Consumer vibes deteriorate.** The Conference Board's [Consumer Confidence Index](#) declined by 0.8 points in August. From the report: "The Expectations Index slipped further into negative territory, which was offset by a moderate rise in the Present Situation Index after declining in the past three months. Consumer appraisals of current business conditions were mildly positive. Perceptions of the current labor market improved, reversing three months of moderate decline. Looking ahead, consumers were more pessimistic about business conditions and the labor market over the next six months. Expectations for household incomes moderated but remained optimistic overall."

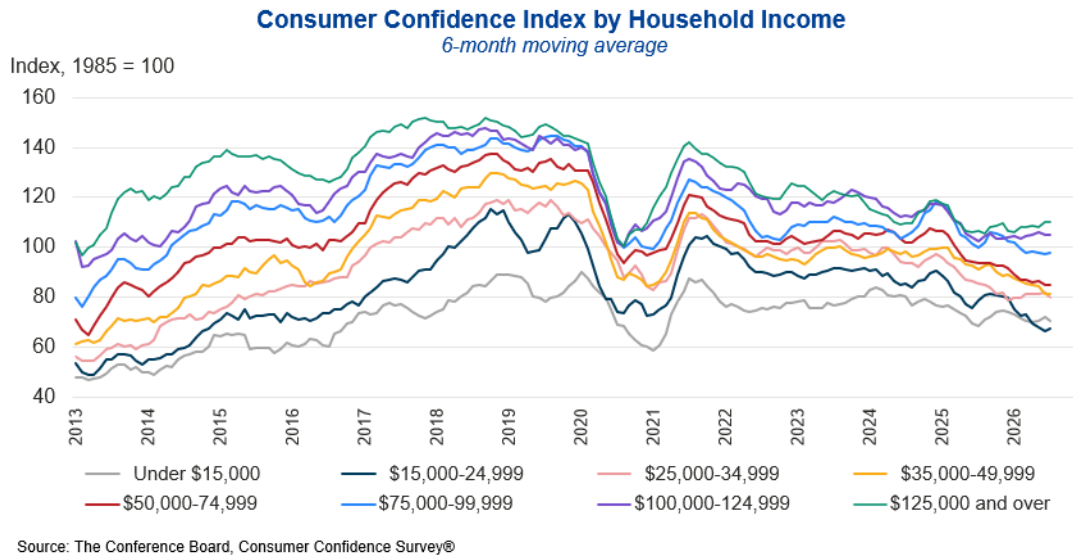
Present Situation and Expectations Index

Index, 1985 = 100



(Source: [The Conference Board](#))

More from the report: “On a six-month moving average basis, confidence across all age groups trended down slightly, remaining highest among consumers under 35. By income, confidence was mixed, but generally higher-income groups were more optimistic. By generation, confidence for Gen Z remained the highest, followed closely by Millennials on a six-month moving average basis. The three oldest generations—Generation X, Baby Boomer, and Silent Generation—trailed in confidence by a wider margin. By political affiliation, confidence among Independents and Republicans softened while Democrats were somewhat more positive in August.”



(Source: [The Conference Board](#))

For more on consumer sentiment, read: **What consumers do > what consumers say** 🐼 and **The economy may not be working for everyone right now, but it's at least working for stock market investors** 🧐

🗨️ **Consumers feel slightly less bad about the labor market.** From [The Conference Board](#): “Consumers’ views of the labor market improved in August, recovering to April levels: 27.0% of consumers said jobs were ‘plentiful,’ up from 24.4% in July. Conversely, 19.5% of consumers said jobs were ‘hard to get,’ down from 21.7%.”

Many economists monitor the spread between these two percentages (a.k.a., the labor market differential). The direction of the spread reflects a cooling sentiment toward the labor market.



(Source: [Kevin Gordon](#))

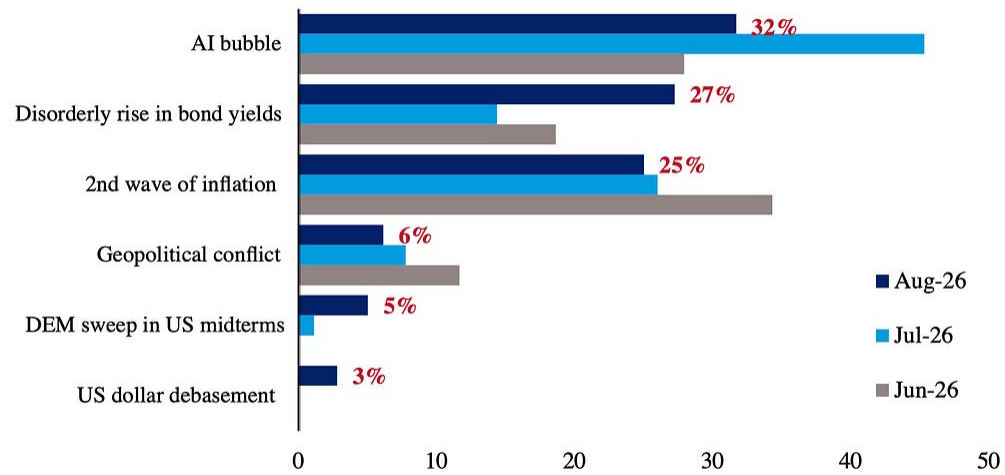
More from The Conference Board: “Consumers were more negative about the labor market outlook in August: 14.6% of consumers expected more jobs to be available, down from 16.4% in July. Additionally, 26.1% anticipated fewer jobs, up slightly from 25.3%.”

For more on the labor market, read: **Things are looking up in the labor market** 👍

🤖 **This is the stuff pros are worried about.** From BofA's August Global Fund Manager Survey: “On the biggest tail risk... ‘AI bubble’ took the top spot for the 2nd straight month, per 32% of investors (down from 45%). ‘Disorderly rise in bond yields’ rose to #2 at 27% (was #3 behind ‘2 wave of inflation’ in July).”

Chart 12: Biggest tail risk = "AI bubble"

What do you consider the biggest tail risk?



Source: BofA Global Fund Manager Survey

(Source: BofA)

Here's how the biggest "tail risk" has evolved over the years.

Chart 23: Evolution of Global FMS "biggest tail risk"

History of Global FMS "biggest tail risk" answers

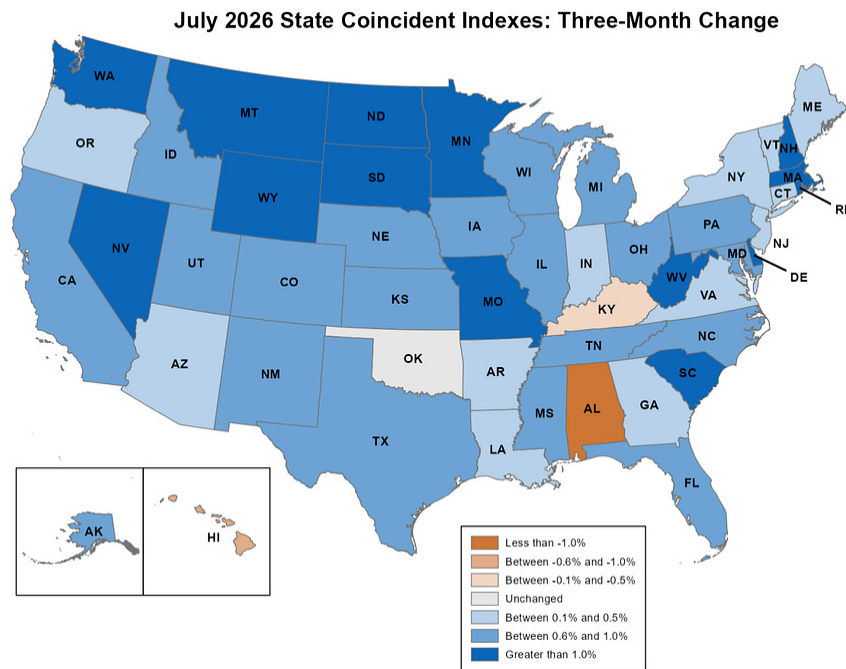


Source: BofA Global Fund Manager Survey

(Source: BofA)

For more on risks, read: **Known worries and unknown unknowns** 🤖 and **Two times when uncertainty seemed low and confidence was high** 🌈

Most U.S. states are still growing. From the Philly Fed's July State Coincident Indexes report: "Over the past three months, the indexes increased in 46 states, decreased in three states, and remained stable in one, for a threemonth diffusion index of 86. Additionally, in the past month, the indexes increased in 46 states, decreased in two states, and remained stable in two, for a one-month diffusion index of 88."



(Source: [Philly Fed](#))

For more on GDP and the economy, read: ***It's too ambiguous to just say 'the economy'*** 🧑 and ***Economic data can often be both 'worse' and 'good'*** 🌤️

✓ Subscribed

Putting it all together 📋

Earnings look bullish: The long-term outlook for the stock market remains favorable, bolstered by expectations for years of earnings growth. And earnings are the most important driver of stock prices.

Demand is positive: Demand for goods and services remains positive, supported by healthy consumer and business balance sheets. Personal

spending activity remains at record levels. Core capex orders, which are a leading indicator of business spending, have been trending higher.

Growth rates have cooled: While the economy remains healthy, growth has normalized from much hotter levels earlier in the cycle. The economy is less “coiled” these days as major tailwinds like job openings and excess savings have faded. Job creation, while positive, is not as hot as it used to be. It has become harder to argue that growth is destiny.

Actions speak louder than words: We are in an odd period, given that the hard economic data decoupled from the soft sentiment-oriented data. Consumer and business sentiment has been relatively poor, even as tangible consumer and business activity continues to grow and trend at record levels. From an investor’s perspective, what matters is that the hard economic data continues to hold up.

Stocks are not the economy: There’s a case to be made that the U.S. stock market could outperform the U.S. economy in the near term, thanks largely to positive operating leverage. Since the pandemic, companies have aggressively adjusted their cost structures. This came with strategic layoffs and investment in new equipment, including hardware powered by AI. These moves are resulting in positive operating leverage, which means a modest amount of sales growth — in the cooling economy — is translating to robust earnings growth.

Mind the ever-present risks: Of course, we should not get complacent. There will always be risks to worry about, such as U.S. political uncertainty, geopolitical turmoil, energy price volatility, and cyber attacks. There are also the dreaded unknowns. Any of these risks can flare up and spark short-term volatility in the markets.

Investing is never a smooth ride: There’s also the harsh reality that economic recessions and bear markets are developments that all long-

term investors should expect as they build wealth in the markets.
Always keep your stock market seat belts fastened.

Think long-term: For now, there's no reason to believe there'll be a challenge that the economy and the markets won't overcome. The long game remains undefeated, and it's a streak that long-term investors can expect to continue.

For more on how the macro story is evolving, check out the [previous review of the macro crosscurrents.](#) »

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Key insights about the stock market

Here's a roundup of some of TKer's most talked-about paid and free newsletters about the stock market. All of the headlines are hyperlinked to the archived pieces.

10 truths about the stock market

The stock market can be an intimidating place: It's real money on the line, there's an overwhelming amount of information, and people have lost fortunes in it very quickly. But it's also a place where thoughtful investors have long accumulated a lot of wealth. The primary difference between those two outlooks is related to misconceptions about the stock market that can lead people to make poor investment decisions.

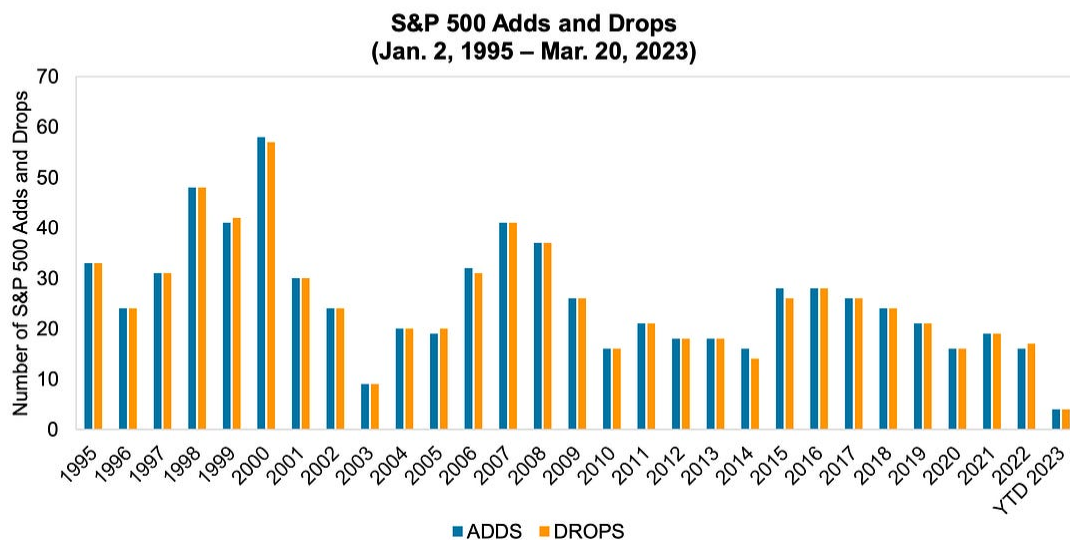
The makeup of the S&P 500 is constantly changing

Passive investing is a concept usually associated with buying and holding a fund that tracks an index. And no passive investment strategy has attracted as much attention as buying an S&P 500 index fund.

However, the S&P 500 — an index of 500 of the largest U.S. companies — is anything but a *static* set of 500 stocks.

S&P 500's Company Composition Is Not Static

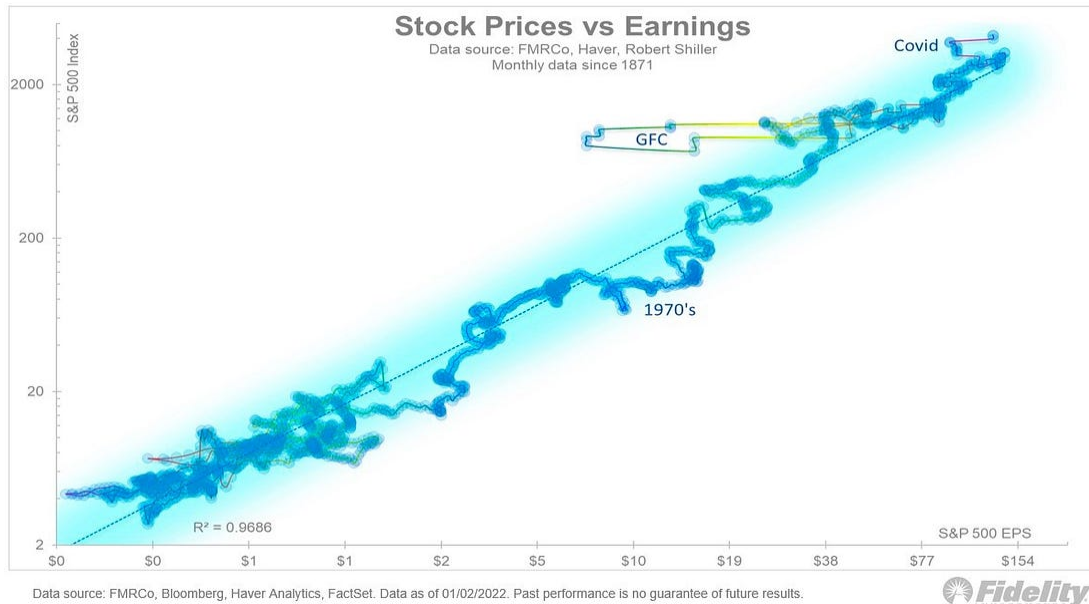
~26 constituent changes per year, on average, between 1995 and 2022



(Source: S&P Dow Jones indices via [TKer](#))

The key driver of stock prices: Earnings 💰

For investors, anything you can ever learn about a company matters only if it also tells you something about earnings. That's because long-term moves in a stock can ultimately be explained by the underlying company's earnings, expectations for earnings, and uncertainty about those expectations for earnings. Over time, the relationship between stock prices and earnings has a very tight statistical relationship.



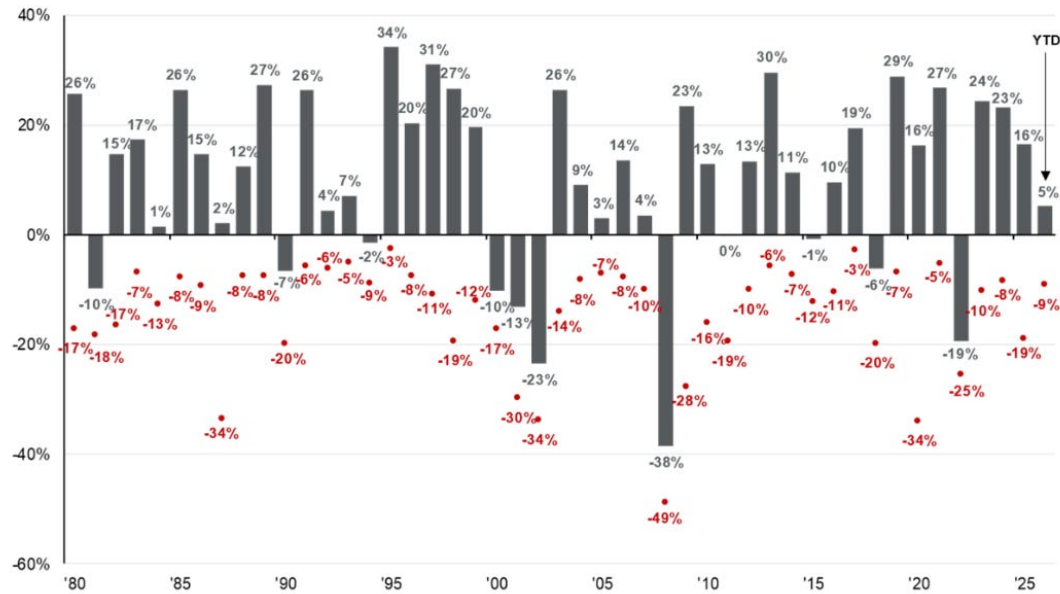
(Source: Fidelity via [TKer](#))

Stomach-churning stock market sell-offs are normal

Investors should always be mentally prepared for some big sell-offs in the stock market. It's part of the deal when you invest in an asset class that is sensitive to the constant flow of good and bad news. Since 1950, the S&P 500 has seen an average annual max drawdown (i.e., the biggest intra-year sell-off) of 14%.

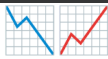
S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 35 of 46 years



(Source: JPMorgan)

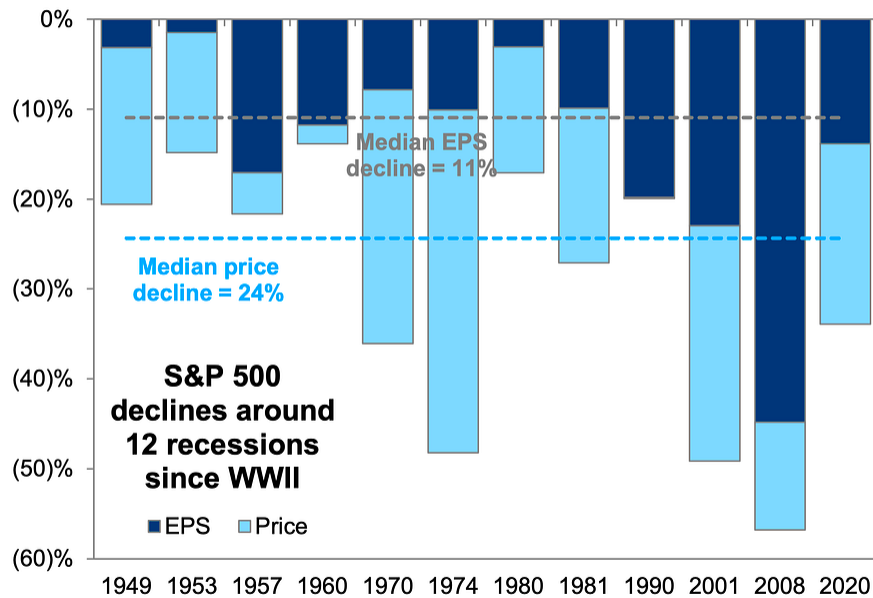
How the stock market performed around recessions



Every recession in history was different. And the range of stock performance around them varied greatly. There are two things worth noting. First, recessions have always been accompanied by a significant drawdown in stock prices. Second, the stock market bottomed and inflected upward long before recessions ended.

S&P 500 price and EPS declines in recessions

EPS typically declines by 11% while the price level declines by 24%



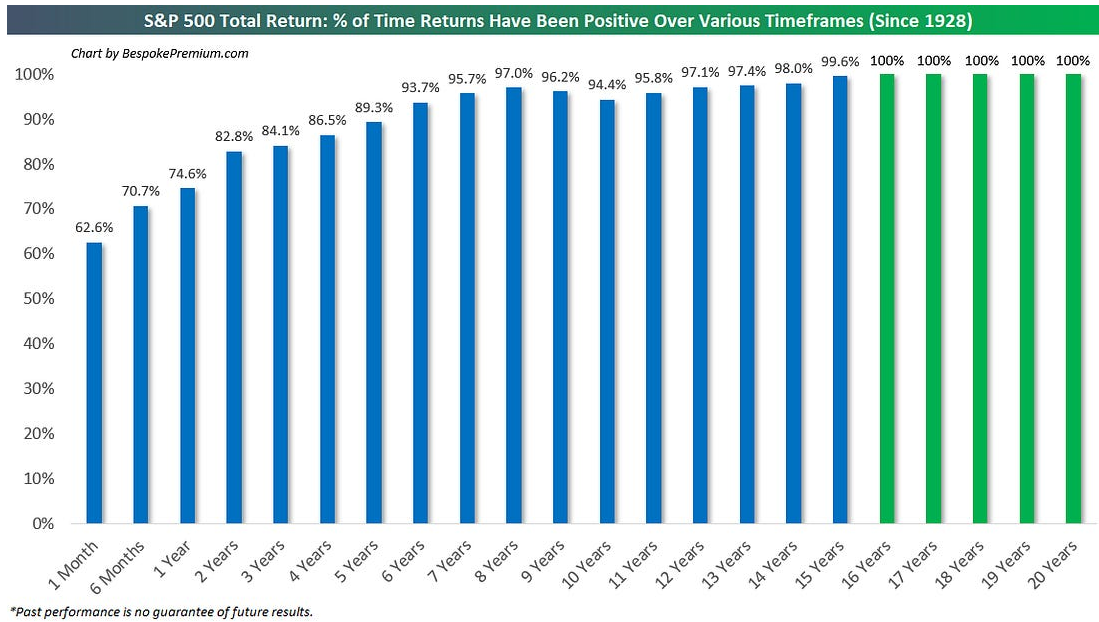
Source: Goldman Sachs Global Investment Research.

Global Investment Research 8

(Source: Goldman Sachs via [TKer](#))

In the stock market, time pays 🕒

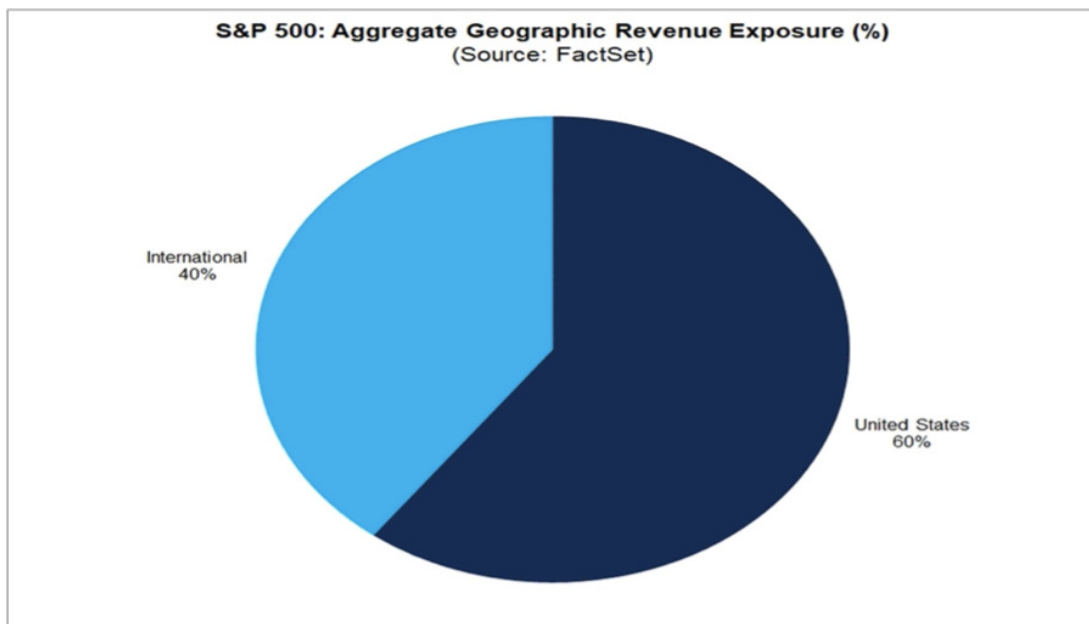
Since 1928, the S&P 500 has generated a positive total return more than 89% of the time over all five-year periods. Those are pretty good odds. When you extend the timeframe to 20 years, you'll see that there's never been a period where the S&P 500 didn't generate a positive return.



(Source: [@BespokeInvest](#))

What a strong dollar means for stocks 🏰

While a strong dollar may be great news for Americans vacationing abroad and U.S. businesses importing goods from overseas, it's a headwind for multinational U.S.-based corporations doing business in non-U.S. markets.



(Source: FactSet via [TKer](#))

Stanley Druckenmiller's No. 1 piece of advice for novice investors 🧐

...you don't want to buy them when earnings are great, because what are they doing when their earnings are great? They go out and expand capacity. Three or four years later, there's overcapacity and they're losing money. What about when they're losing money? Well, then they've stopped building capacity. So three or four years later, capacity will have shrunk and their profit margins will be way up. So, you always have to sort of imagine the world the way it's going to be in 18 to 24 months as opposed to now. If you buy it now, you're buying into every single fad every single moment. Whereas if you envision the future, you're trying to imagine how that might be reflected differently in security prices.

Peter Lynch made a remarkably prescient market observation in 1994 🎯

Some event will come out of left field, and the market will go down, or the market will go up. Volatility will occur. Markets will continue to have these ups and downs. ... Basic corporate profits have grown about 8% a year historically. So, corporate profits double about every nine years. The stock market ought to double about every nine years... The next 500 points, the next 600 points — I don't know which way they'll go... They'll double again in eight or nine years after that. Because profits go up 8% a year, and stocks will follow. That's all there is to it.

Warren Buffett's 'fourth law of motion' 📈

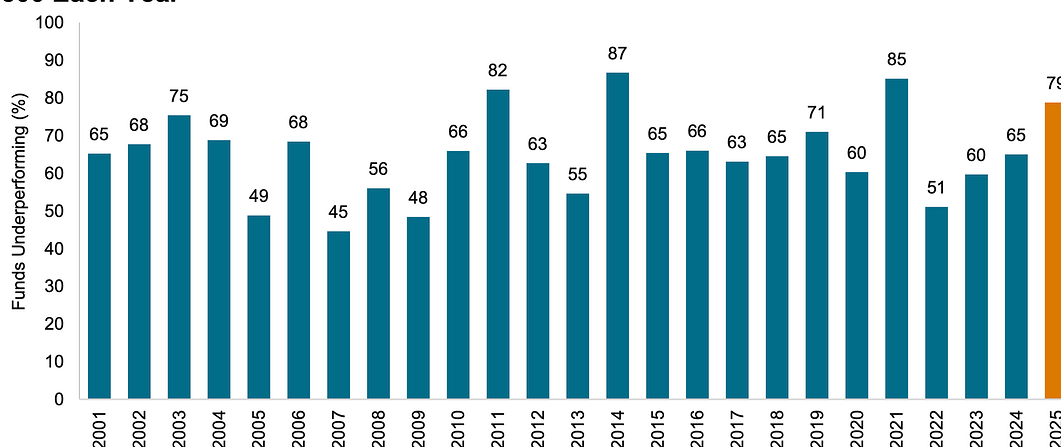
Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: He lost a bundle in the South Sea Bubble, explaining later,

“I can calculate the movement of the stars, but not the madness of men.” If he had not been traumatized by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: *For investors as a whole, returns decrease as motion increases.*

Most pros can't beat the market 📢

According to S&P Dow Jones Indices (SPDJI), 79% of U.S. large-cap equity fund managers underperformed the S&P 500 in 2025. As you stretch the time horizon, the numbers get even more dismal. Over three years, 67% underperformed. Over 5 years, 89% underperformed. And over 20 years, 93% underperformed. This 2025 performance was the 16th consecutive year in which the majority of fund managers in this category have lagged the index.

Exhibit 1: Percentage of Large-Cap Domestic Equity Funds Underperforming the S&P 500 Each Year



Source: S&P Dow Jones Indices LLC, CRSP. Data as of Dec. 31, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

(Source: SPDJI via [TKer](#))

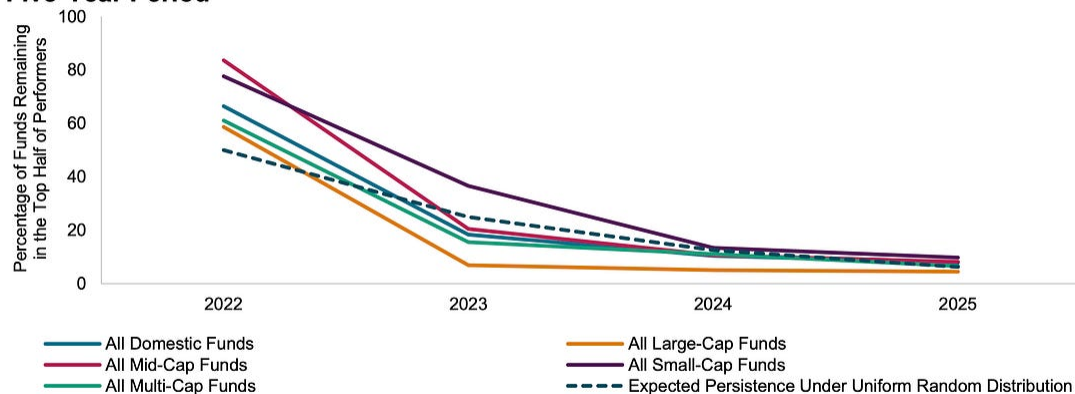
Proof that 'past performance is no guarantee of future results' 📊

Even if you are a fund manager who generated industry-leading returns in one year, history says it's an almost insurmountable task to stay on top consistently in subsequent years. According to S&P Dow Jones

Indices, of the 334 large-cap equity funds in the top half of performance in 2021, 58.7% remained at the top half in 2022. However, just 6.9% remained on top through 2023. Only 4.5% stayed on top in the five consecutive years through 2025.

It's much more dismal when you raise the bar. Of the 164 large-cap equity funds in the top quartile in 2021, just 20.1% remained in that category in 2022. That percentage fell to literally 0.0% in 2023.

Exhibit 1: Only 4.5% of All Large-Cap Equity Funds Remained in the Top Half over a Five-Year Period



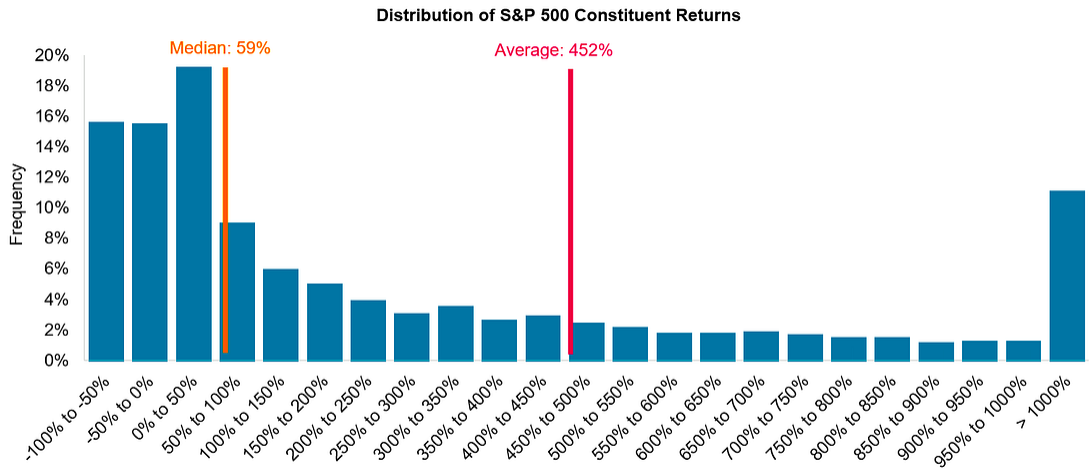
Source: S&P Dow Jones Indices LLC, CRSP. Data as of Dec. 31, 2025. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

(Source: SPDJI via [TKer](#))

The odds are stacked against stock pickers 🎲

Picking stocks in an attempt to beat market averages is an incredibly challenging and sometimes money-losing effort. Most professional stock pickers aren't able to do this consistently. One of the reasons for this is that most stocks don't deliver above-average returns. According to S&P Dow Jones Indices, only 19% of the stocks in the S&P 500 outperformed the average stock's return from 2001 to 2025. Over this period, the average return on an S&P 500 stock was 452%, while the median stock rose by just 59%.

Exhibit 2: S&P 500 Stock Returns Are Positively Skewed



Source: S&P Dow Jones Indices LLC, FactSet. Data as of June 30, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

(Source: SPDJI via [TKer](#))