CIO Insights

2Q earnings season: Good is not great for equities

20 July 2026

Key Takeaways:

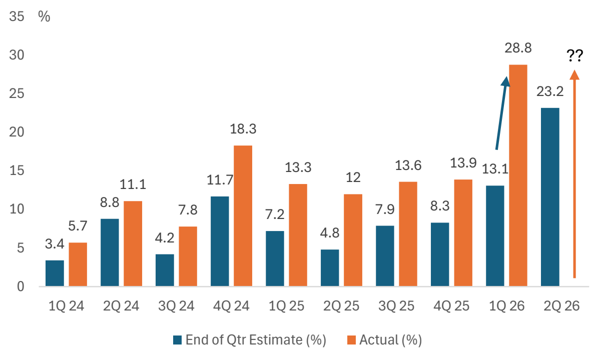
- 2Q earnings face a much higher bar than 1Q. Big beats and raised guidance are already expected, while recent post-results reversals suggest that good news alone may no longer support crowded share prices.
- Hyperscaler earnings will hinge on 2027 capex, while leveraged ETFs could amplify any disappointment. US-Iran tensions remain an inflation wild card, potentially influencing oil prices and the path of interest rates.
- A potentially super El Niño could disrupt soft commodity supplies. We observe institutional investors considering small satellite positions, recognising that weather trades are volatile and unsuitable as core holdings.
- Stay selective: seek better entry points in essential AI infrastructure, balance portfolios with healthcare and low-volatility strategies, or use higher option premiums to sell cash-secured puts at prices where ownership would be welcome.

2Q Earnings: A high hurdle with high positioning

The second-quarter earnings season has arrived with an awkward problem: everybody already expects it to be excellent. The market is not asking whether companies can beat estimates. It is asking whether they can beat estimates, raise guidance and still offer enough upside to satisfy positioning that already borders on enthusiastic.

That is a rather different set-up from 1Q. The earnings bar has moved upstairs.

Figure 1: Earnings expectations for 2026



Source: Bloomberg, UOB Private Bank

First-quarter expectations began at a manageable level and were subsequently trampled by actual results. S&P 500 earnings growth eventually exceeded 27% y/y, after starting the reporting cycle near 13%. That was the pleasant sort of surprise investors enjoy.

This time, analysts have spent the quarter raising forecasts instead of trimming them. FactSet estimates 2Q S&P 500 earnings growth at 23.3% y/y, up from 18.8% on 31 March 2026. Earnings estimates rose 3.4% during the quarter, compared with an average reduction of 2.0% over the previous five years.

In other words, the usual pre-results sandbag has been replaced by a hurdle.

The earlier US-Iran ceasefire also helped remove, temporarily, the market's ugliest tail risk: disrupted energy supplies and oil at truly unpleasant levels. That allowed investors to refocus on earnings rather than sketching USD150 oil scenarios on the back of an envelope. Unfortunately, the ceasefire has since frayed, leaving the Strait of Hormuz and energy markets firmly on the list of things capable of ruining a quiet afternoon.

Good is no longer good enough

The market's reaction function is already telling us something important.

ASML reported €9.3bn of quarterly sales, a 54% gross margin and €2.9bn of net income. It also raised its 2026 sales outlook to €43bn to €45bn. TSMC followed with record quarterly revenue of USD40.2bn, profit growth of 77.4% y/y and stronger full-year guidance. Yet TSMC's US-listed shares fell after the announcement, as investors focused on its higher USD60bn to USD64bn capital-expenditure plan and future margin dilution.

The message is not that these results were weak. They plainly were not.

The message is that a big beat is expected, and a big raise is also expected. When companies deliver both and the shares still struggle, the market is effectively saying: "Thank you. We had that in the price."

The muted post-earnings reaction suggests investor expectations may already reflect a substantial portion of anticipated earnings upside. Investors may still believe the long-term artificial-intelligence story. They are simply less willing to pay again for news they believe they already own.

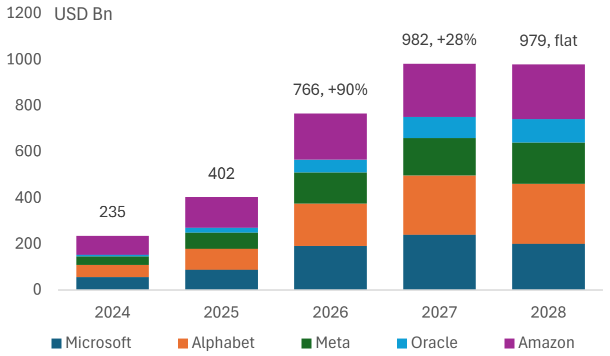
This creates a difficult asymmetry. A modest disappointment can hurt badly, while an excellent quarter may earn little more than a brief opening pop.

The hyperscaler capex question is really about 2027

The next major test comes from Alphabet on 22 July, followed by Meta on 29 July and Amazon on 30 July. The quarterly profit figures will matter, but they are unlikely to be the main event. Investors will be listening for what management teams imply about 2027 capital expenditure.

By mid-July, most 2026 budgets are largely locked in. Data-centre sites, chips, servers, power contracts and construction schedules are not arranged over lunch. A chief financial officer is unlikely to tear up this year's plan unless revenue collapses or a recession suddenly arrives.

Figure 2: Current consensus capex estimates



Source: Bloomberg, UOB Private Bank

The genuine swing factor is the next budget cycle.

Our read of buyside expectations suggests a very high bar. For example, JP Morgan estimates:

- Alphabet: USD325bn to USD350bn for 2027, versus Street expectation of around USD250bn.
- Amazon: about USD300bn, versus approximately USD230bn.
- Meta: USD200bn to USD225bn, versus roughly USD170bn.

These are informal buyside hurdle rates, not company guidance, so they should be treated accordingly. However, they illustrate the problem facing management teams. Saying that spending will rise may not be enough. The increase must exceed consensus without becoming so large that investors start worrying about free cash flow, depreciation and returns on invested capital.

That is a narrow path to walk with deep ditches on either side to fall into.

Alphabet already guides to USD180bn to USD190bn of 2026 spending and has indicated a further significant increase in 2027. Across the largest hyperscalers, current forecasts approach USD785bn for 2026 and nearly USD1tn for 2027. The market understands that the AI build-out is enormous. It now wants to know whether it is enormous in a profitable way.

To put things in perspective, that ~USD770bn spend in 2026 by that handful of companies is ~30% and ~80% larger than the GDP of Singapore and Hong Kong respectively.

Our base case is that guidance which is higher, but not absurdly higher, could restore some mojo to AI-infrastructure shares. Too low would imply weaker demand. Too high could revive fears about debt, depreciation and questionable capital discipline. Goldilocks has apparently moved into a data centre.

UOB PRIVATE BANK

CIO Insights

2Q earnings season: Good is not great for equities

20 July 2026

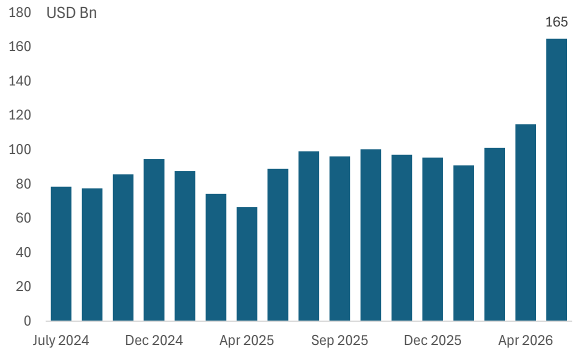
Leverage does not disappear politely

There is another issue beneath the earnings debate that we have highlighted previously: leverage in the system.

Assets in US leveraged exchange-traded funds (ETF) reported by Bloomberg rose from roughly USD120bn in early April to more than USD200bn at their peak. Leveraged and inverse products represented ~31% of US ETF launches during the first half of 2026. TQQQ alone managed ~USD34bn, while SOXL held ~USD19bn.

These products target daily returns, often at two or three times the underlying move. Their rebalancing can amplify momentum in both directions, particularly when volatility rises.

Figure 3: Top 20 leverage ETF (AUM Bn)



Source: Bloomberg, UOB Private Bank

This does not mean a crash is inevitable. It does mean investors should not assume every dip will immediately find a natural floor. Some of the leverage may need to be flushed out first. Markets often become healthier after their most excitable passengers have been asked to leave the vehicle.

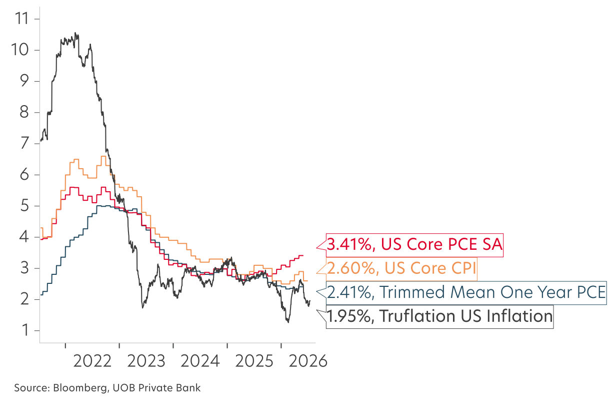
Iran remains the macro wild card

Our armchair geopolitical analysis is that the latest re-escalation ultimately gives way to renewed negotiation. Iran has already secured discussion of sanctions, frozen assets and management of shipping through Hormuz. Pushing too far risks losing gains already obtained.

We repeat that this is only a judgement, not an intelligence assessment. The thesis changes if attacks on commercial shipping intensify, Hormuz traffic deteriorates further, or diplomatic channels close.

The outcome matters far beyond oil. A durable de-escalation would take pressure off inflation expectations and give central banks more flexibility. Renewed disruption would do the opposite.

Figure 4: Inflation readings



Source: Bloomberg, UOB Private Bank

For a faster-moving signal, we track Truflation to complement the slower Consumer Price Index and Personal Consumption Expenditures measures. Truflation's US index was running at 1.90% y/y on 15 July, compared with the official June CPI rate of 3.5%. The Cleveland Federal Reserve's 16 July nowcast also suggested softer July headline inflation, although core PCE remained more stubborn. The signal is comforting, but not conclusive.

The trade nobody is discussing over coffee

Finally, something away from earnings screens: El Niño (super hot weather anyone?)

National Oceanic and Atmospheric Administration's (NOAA) experimental July model projects a historically strong event intensifying into late 2026. That raises supply risks for tropical crops, including coffee, cocoa, sugar and palm oil. The economic effects may arrive with a lag, but commodity markets rarely wait for damaged harvests before becoming interested.

We observe risk-tolerant institutional investors considering very small satellite positions, with strict sizing and predetermined loss limits. Weather trades are volatile, timing is treacherous and forecasts change. This is not a core portfolio thesis.

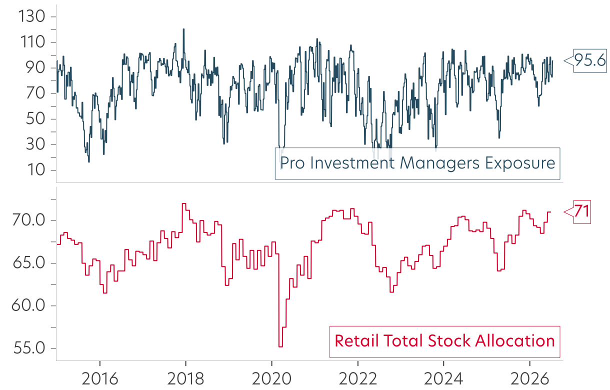
Investment conclusion

The broader message for 2Q is simpler. Earnings can remain very strong while share prices struggle. When expectations, positioning and leverage are elevated, being right about the fundamentals is only half the job.

The next few weeks may reward patience more than bravery. We would keep dry powder, reduce crowded leverage and use sharper falls to build positions in AI infrastructure where spending remains essential, particularly compute, memory, photonics, power and cooling. Elsewhere, healthcare and low-volatility strategies offer useful ballast while positioning resets. For sophisticated investors who fully understand option risks, elevated implied volatility may create opportunities to generate income through carefully structured option strategies. Such approaches should be implemented only with strict risk controls and a willingness to take ownership of the underlying securities.

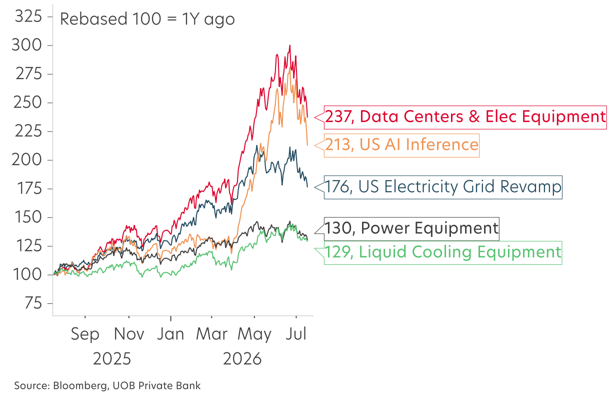
This is unlikely to mark the end of the AI cycle, but it may force the market to distinguish durable demand from fashionable exposure. Buy selectively, not reflexively.

Figure 5: Investor indicative positioning



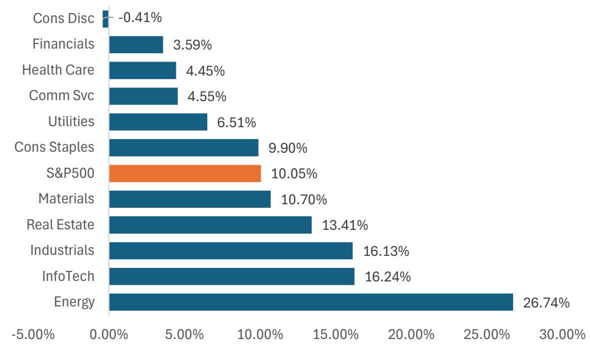
Source: Bloomberg, UOB Private Bank

Figure 6: AI infrastructure stack performance



Source: Bloomberg, UOB Private Bank

Figure 7: Overall sector performance (YTD %)



Source: Bloomberg, UOB Private Bank

Disclaimer:

General
This document contains material based on publicly available information. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this document, United Overseas Bank Limited ("**UOB**") makes no representation or warranty as to, neither has it independently verified, the accuracy or completeness of such information (including any valuations mentioned). UOB neither represents nor warrants that this document is sufficient, complete or appropriate for any particular purpose. Any opinions or predictions reflect the writer's views as at the date of this document and may be subject to change without notice.

The information contained in this document, including any data, projections and underlying assumptions, are based on certain assumptions, management forecasts and analysis of known information and reflects prevailing conditions as of the date of publication, all of which are subject to change at any time without notice. Past performance figures are not indicative of future results.

Not an offer or solicitation to any particular person
This document should not be regarded as an offer or solicitation to any particular person to transact in any product mentioned. Before deciding to invest in any product mentioned, please seek advice from your financial, legal, tax or other appropriate advisers on the suitability of the product for you, taking into account your specific investment objectives, financial situation or particular needs (to which this document has no regard). If you do not wish to seek such advice, please consider carefully whether any product mentioned is suitable for you.

Risks
An investment in any product mentioned in this document may carry different risks of varying degrees, including credit, market, liquidity, legal, cross-jurisdictional, foreign exchange and other risks (including the risks of electronic trading and trading in leveraged products). Nothing in this publication constitutes personalized accounting, legal, regulatory, tax, financial or other advice that regards the personal circumstances of a particular recipient. Please speak to your financial, legal or other appropriate adviser to understand the risks involved and whether it is appropriate for you to assume such risks before investing in any product.

Any description of investment products is qualified in its entirety by the terms and conditions of the investment product and if applicable, the prospectus or constituting document of the investment product.

Valuation
Product valuations in this document are only indicative and do not represent the terms on which new products may be entered into, or existing products may be liquidated or unwound, which could be less favourable than the valuations indicated herein. These valuations may vary significantly from those available from other sources as different parties may use different assumptions, risks and methods.

No liability
To the fullest extent permitted under applicable laws and regulations, UOB and its affiliates shall not be liable for any loss or damage howsoever arising as a result of any person acting or refraining from acting in reliance on any information, opinion, prediction or valuation contained herein.

UOB and its affiliates involved in the issuance of this document may have an interest in the products mentioned in this document including but not limited to, marketing, dealing, holding, acting as market-makers, performing financial or advisory services, acting as a manager or co-manager of a public offering, of persons mentioned in this document. UOB and its affiliates may also have alliances, contractual agreements, or broking, investment banking or any other relationships for the provision of financial services, with any product provider mentioned in this document. UOB and its affiliates may have issued other reports, publications or documents expressing views which are different from those stated in this document and all views expressed in all reports, publications and documents are subject to change without notice.

Others
Unless you are notified otherwise by UOB, UOB deals as a principal in any transaction which UOB has been instructed to effect, other than transactions relating to securities traded on an exchange, unit trusts and funds on your behalf where UOB acts as your agent.

Singapore. This document and its contents are intended for Accredited Investors (as defined in Section 4A of the Singapore Securities and Futures Act (Chapter 289)).

Hong Kong. This document and its contents are intended for "professional investors" (as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") and its subsidiarity legislation) ("**Professional Investors**"). Shares or debentures in a company may not be offered or sold in Hong Kong, by means of any document, other than (i) to Professional Investors; or (ii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)(the "**CWUMPO**") or which do not constitute an offer to the public within the meaning of the CWUMPO. Unless permitted to do so under the laws of Hong Kong, no person may issue or have in his/her possession for the purpose of issue, or will issue, or have in his/her possession for the purposes of issue, any advertisement, invitation or document relating to the securities, structured products or interests in collective investment schemes whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong, other than with respect to the securities, structured products or interests in collective investment schemes that are or are intended to be disposed of only to persons outside Hong Kong, or only to Professional Investors.

WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document may only be distributed in countries where its distribution is legally permitted. This document is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited This document may contain proprietary information of UOB (or its product providers) and may not be reproduced or disseminated in whole or in part without UOB's prior consent.

If there is any inconsistency, or any difference in meaning between the English version and any translation of this document, the English version shall apply and prevail.

United Overseas Bank Limited. Co. Reg. No. 193500026Z
United Overseas Bank Limited is a licensed bank in Hong Kong and is a registered institution in respect of Types 1 (Dealing in Securities) and 4 (Advising on Securities) regulated activities under the SFO.