

US Corporate Profits: The Lifeblood of the Market & Economy

Corporate profits matter because they play two roles at once: they anchor long run equity values and they finance the investment, hiring, and innovation that sustain economic growth. In the current backdrop, that dual role is on full display, as first quarter 2026 expectations point to profit growth for large U.S. companies that is broadening beyond technology and finance, with earnings per share projected to exceed 13 percent year over year for a sixth straight quarter and sales growth running at the strongest pace since late 2022.

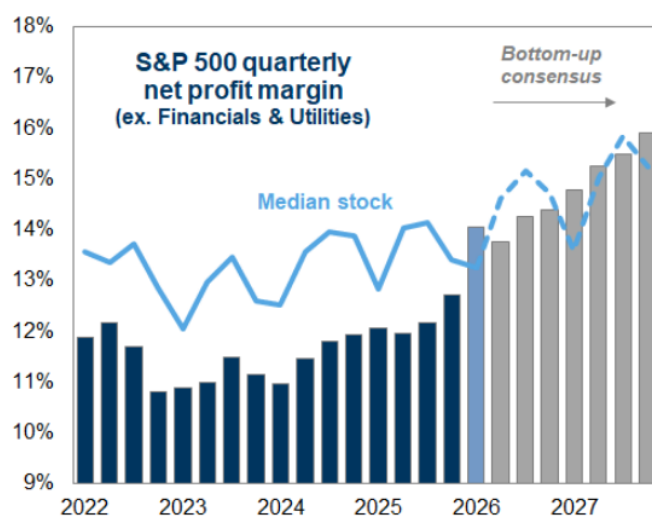
This combination underpins the idea that profits are both the mother’s milk of stocks and the lifeblood of the economy. In capital markets, earnings provide the cash flow foundation for valuation, dividends, buybacks, and reinvestment. In the real economy, profits signal where capital should be deployed and supply the internally generated funding that allows businesses to expand capacity, adopt new technologies, and withstand cyclical stress.

Why Profits Nourish Stocks

At times equity prices can diverge from fundamentals, but over the long run they are sustained by earnings power. When profits rise through genuine revenue growth, productivity gains, and margin improvement, valuations rest on a more solid foundation. Importantly, the current profit cycle is not merely an artifact of buybacks: the boost to EPS from share repurchases is the smallest in more than two years, suggesting that much of the advance reflects real business expansion, cost discipline, and efficiency gains. That distinction is critical, because markets reward profits most durably when they are generated by better businesses, not just fewer shares outstanding. Even the conflict in Iran and the associated rise in oil prices have been largely shrugged off by strong profits and a constructive profit outlook.

Margin expansion is likely to be a key driver of future earnings growth, supported by AI related productivity gains and operating leverage, and there are early signs that these productivity benefits are materializing, including rising S&P 500 real revenue per employee. If companies can translate productivity into durable margins, equity values should benefit, because investors tend to pay more for businesses that can reinvest at high returns or return cash to shareholders without compromising future growth. Recent earnings season data also supports the breadth and resilience of the profit story.

Earnings growth has broadened beyond tech and financial firms, while the earnings beat rate is above the average of the last two decades and that stocks have continued to climb a wall of worry because fundamentals are outweighing geopolitical concerns. Together, those points suggest that profits are not just a backward-looking accounting outcome; they are a forward-looking signal of business quality that markets capitalize into stock prices.



Source: FactSet, Goldman Sachs Global Investment Research



Why Profits Sustain the Economy

Profits are just as important outside the stock market because they represent the economic surplus that finances future activity. A company earning healthy profits can invest in equipment, software, logistics, research, and labor, whereas a chronically unprofitable firm eventually loses the capacity to reinvest, service obligations, and survive external shocks.

Recent evidence highlights strong profitability across industries such as airlines, consumer goods, and energy, even amid war, inflation pressures, and weak consumer sentiment, while current macro commentary emphasizes that capital investment, reshoring, AI adoption, and domestic manufacturing are central themes in this cycle. These developments are tightly linked: profits create both the means and the incentive for firms to commit capital to new projects—whether in data centers, industrial capacity, supply chain resilience, or premium service offerings.

The airline and energy sectors offer particularly vivid examples. United Airlines recently reported an 80 percent rise in first quarter profit, with premium offering sales up 14 percent and business travel up 25 percent in recent weeks, illustrating that profitable firms can continue to invest and adjust pricing even when fuel costs are elevated. Halliburton likewise exceeded expectations as global energy investment accelerated, underscoring how profits help mobilize resources toward areas where demand and returns justify new spending.

This is why profits are often described as the economy's lifeblood. Like blood in a body, they circulate through firms, lenders, and capital markets, carrying information and financing to the places where resources can be used most productively.

When profits are broad based and durable, they support employment, business formation, capital expenditure, and credit quality; when profits erode persistently, the negative effects quickly ripple through investment, wages, and output.

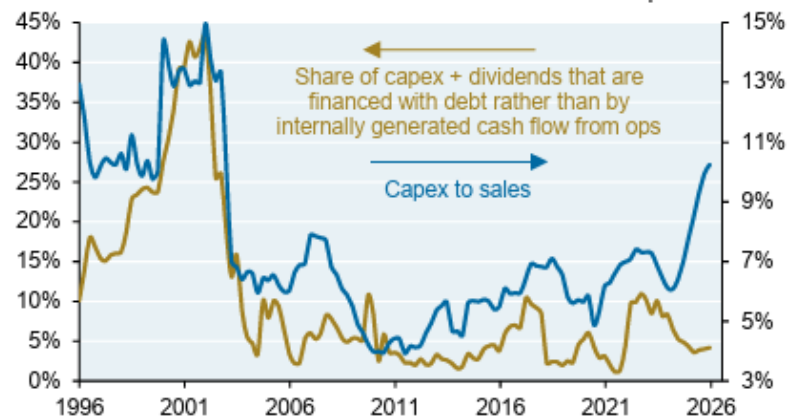
Profits As Signal and Fuel

Profits do two jobs simultaneously: they are a signal of where value is being created and the fuel that allows that value to expand. As a signal, profits tell investors and managers which sectors, business models, and strategies are earning attractive returns. As fuel, profits provide internal cash flow that reduces reliance on costly external financing and allows firms to scale successful ideas.

That interaction is especially relevant today. Recent market work emphasizes AI driven productivity, rising capital intensity in business models that were once capital light, and continued U.S. leadership in capital expenditure spending. Those trends demand substantial investment, and the firms best positioned to meet that demand are those already generating robust margins and cash flow. In other words, profits are not only the proof that a business model works; they are also the mechanism through which that business model compounds.

Capex financing vs capex cycle

Russell 3000 universe: US tech and communications companies



Source: Bloomberg, JPMAM, December 2025



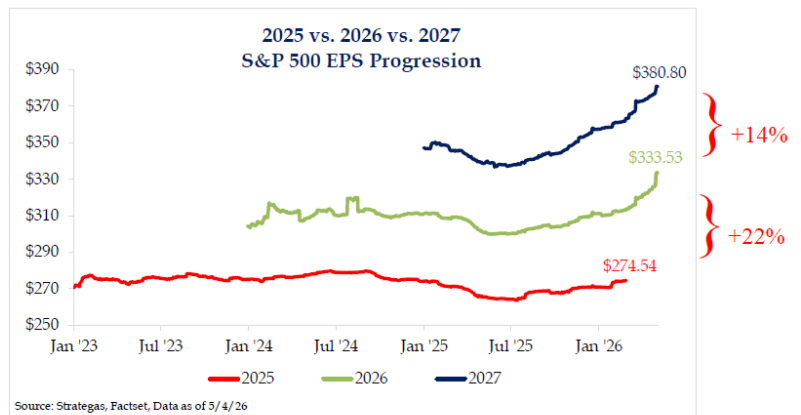
The concentration of AI related earnings growth in a relatively small group of companies does not undercut the broader argument; it sharpens it. Seven AI exposed stocks accounted for roughly half of S&P 500 EPS growth in 2025 and are expected to contribute a similarly large share in 2026. Even so, evidence that earnings growth is broadening beyond those leaders suggests the economy wide profit engine is healthier than a narrow mega cap narrative alone would imply.

Investment Implications

For investors, the practical takeaway is that profits should remain central to both macro and equity analysis. Revenue growth and narrative matter, but long term stock returns ultimately depend on the durability, quality, and breadth of earnings generation. Companies with resilient margins, genuine pricing power, productivity upside, and reinvestment opportunities are better positioned to compound value than businesses whose earnings rest mainly on temporary cost cuts or financial engineering.

For the broader economy, the implication is just as important. Healthy profit formation is not merely a political talking point or a narrow shareholder concern; it is one of the clearest indicators that capital is being allocated to productive uses and that firms retain the capacity to invest, hire, and innovate. In that sense, profits are both the market's nourishment and the economy's circulatory system.

NOTABLE LEG-UP IN S&P EARNINGS EXPECTATIONS FOR 2026 & 2027



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