

Market Sense – 2Q Season Could Be Mag-7s Last Hurrah Atop the Earnings Pile

July 16, 2026

Abstract:

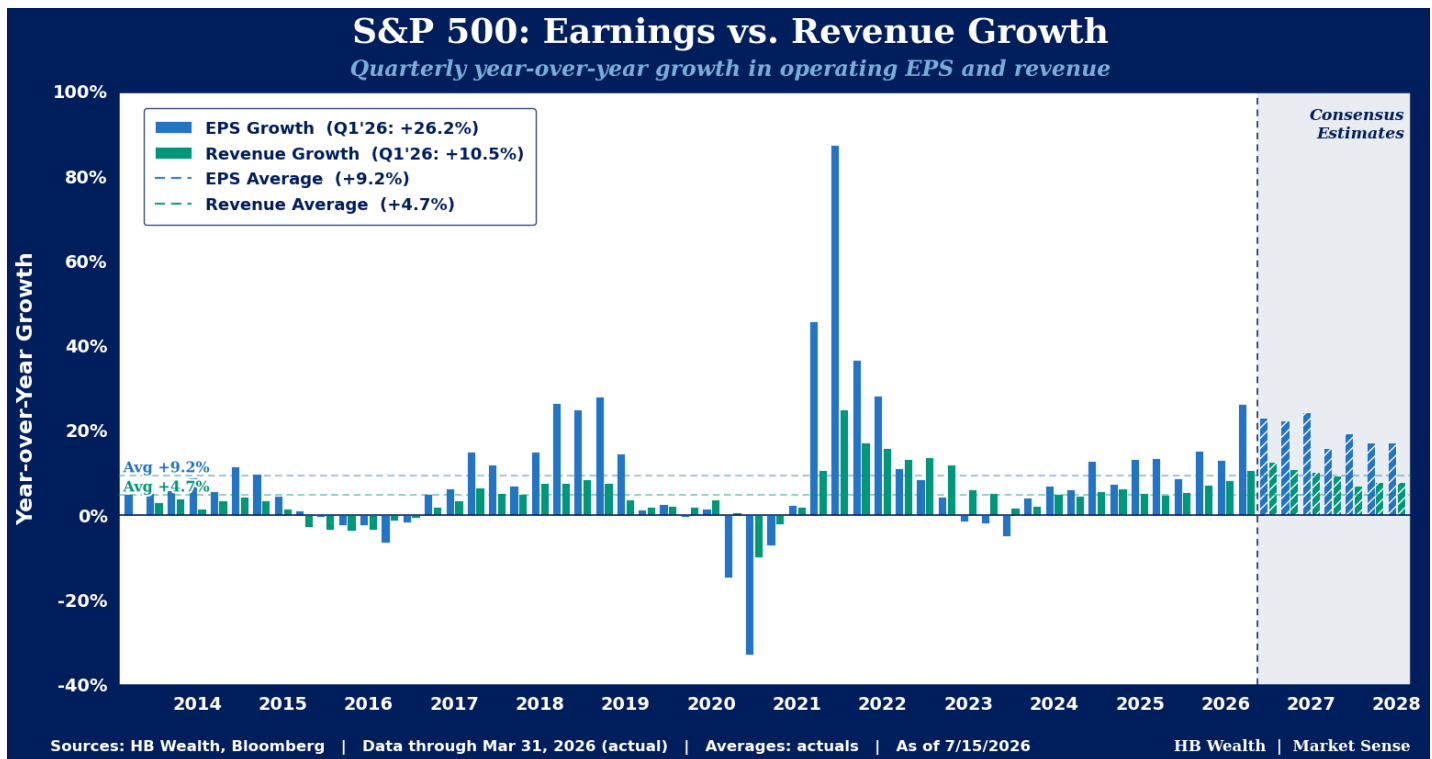
- *Earnings growth for the S&P 500 is expected to eclipse 20% for the second-straight quarter. That is rare strength – the only other times it happened recently were in 2018 (following the Tax Cuts and Jobs Act) and the initial recovery from the covid-19 recession in 2021.*
- *Revenues are leading the charge thanks to improving investment spending and rising commodity prices. Our macro model suggests earnings could rise 16.4% in the year ahead. Sales growth in 2Q is expected to outpace every quarter since 2013 (outside of the pandemic recovery). Margins are contributing to the earnings surge but expansion is concentrated across a few sectors.*
- *Consensus thinks 2Q will be the last quarter where mag-7 earnings growth eclipses the rate for the rest of the S&P 500. Sector breadth is exceptionally strong and expected to widen in 3Q, possibly bolstering the ongoing rotation trade.*
- *Small caps are pegged for their best revenue growth in nearly four years. Russell's reconstitution could challenge strong forecasts for the Russell 2000 as the index lost many of its strongest companies to the Russell 1000.*
- *The nation's largest banks kicked off earnings season with strong results on surging investment banking fees and equity trading volumes. They noted a resilient consumer and net interest income – a measure of lending activity – generally rose.*
- *The market reacted to strong financials results with limited enthusiasm so far. This may hint at what's to come this season given high expectations. The surge in 2Q estimates during the prior earnings season suggests a beat is likely but also raises the stakes. Higher expectations may result in more volatility following misses, as the market faces an uphill climb rather than coasting on an easy beat.*

The 2Q26 earnings season kicked off on July 14th with JPMorgan and the other largest US banks reporting blockbuster profits - investment banking fees and trading stole headlines with most banks noting that the wave of IPOs and M&A activity along with equity trading volumes contributed significantly to the beats. Likewise, many of the banks noted that the consumer appears resilient and net interest income generally surprised to the upside, hinting that lending activity remains solid.

Financials strength appears likely to extend to the rest of the index, according to consensus estimates for another gangbusters quarter. Consensus pegs the S&P 500 for 21.5% EPS growth on a 12.3% revenue rise year-over-year with all but the health care sector posting gains. Margins are supportive but a limited gain may leave the bulk of the earnings expansion to organic revenue growth. Rotation away from the mag-7 -- underway since late 2025 -- looks likely to continue as consensus thinks this is the last quarter where the mega-cap cohort's EPS growth could outpace the rest of the index. As has been the case the last several quarters, hyperscaler earnings will be under significant scrutiny with any signs of margin degradation or slowing capex likely met with investor consternation. Likewise, 2Q will mark the first full quarter where the pressure of higher oil prices will be felt, potentially posing risk to groups like industrials and discretionary (as we laid out in our market sense [here](#)). On the contrary, small cap stocks could be the star of the show - pegged for their strongest revenue growth in nearly 4 years.

Earnings to Party Like its 2021 While Revenues Confirm Strong Organic Growth

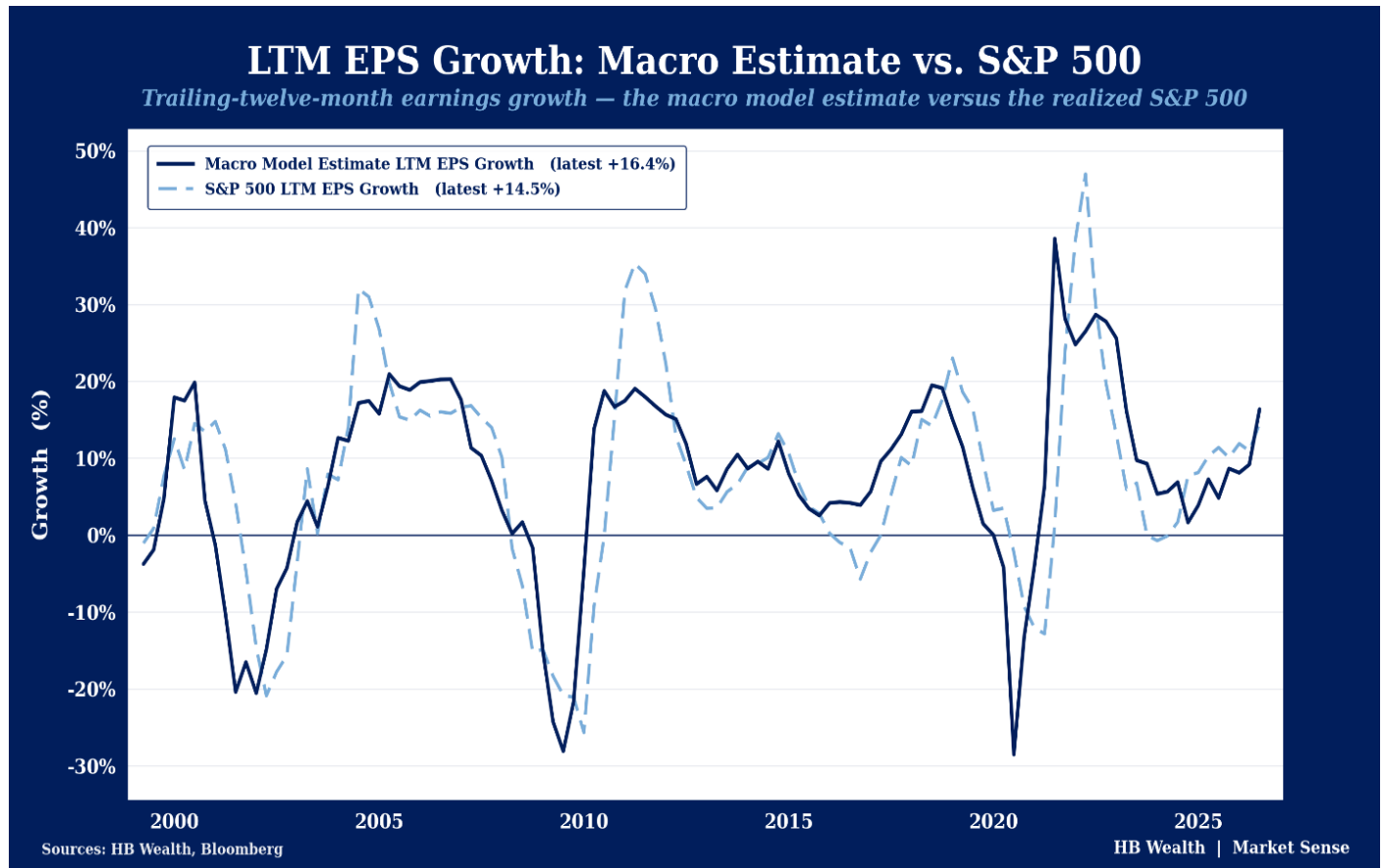
Consensus thinks S&P 500 earnings are set to eclipse 20% for the second consecutive quarter in 2Q – a relatively rare feat for the gauge that's typically been reserved for recoveries off recessionary lows and periods of fiscal stimulus. Since 2013, there have been only two other distinct periods where EPS growth has surged more than 20%, first in 2018 as earnings surged after the Tax Cuts and Jobs Act (TCJA) was passed and second in 2021 during stocks' recovery from pandemic-era shutdowns.



While high expectations may present a challenge, companies are nonetheless likely to post very strong revenue growth to bolster the argument that earnings recovery is largely organic. Topline is expected to grow 12.3% -- the fastest rate on record outside of the immediate covid-19 recovery period. While net income margins are supportive, expected to expand roughly 130 bps year-over-year in 2Q to 14.8%, margin growth is not widespread. Only energy, tech, materials and utilities are pegged for expansion. However, every sector but health care (due to extensive charge-offs) is forecast to post earnings growth this quarter, making topline beats paramount if earnings outside of tech are going to continue to close the EPS growth gap this quarter.

Macroeconomic indicators are now confirming the positive tone of consensus. Thanks to recovering investment spending, signaled by the 10.5% growth in nondefense capital goods orders ex-aircraft spending, and 20.7% growth in broad commodity prices, our model suggests 16.4% growth in index earnings may be likely in the year ahead if recent trends continue, nearly on par with the consensus forecast for 14.5%. Prior to this year, the macro model was extremely conservative relative to

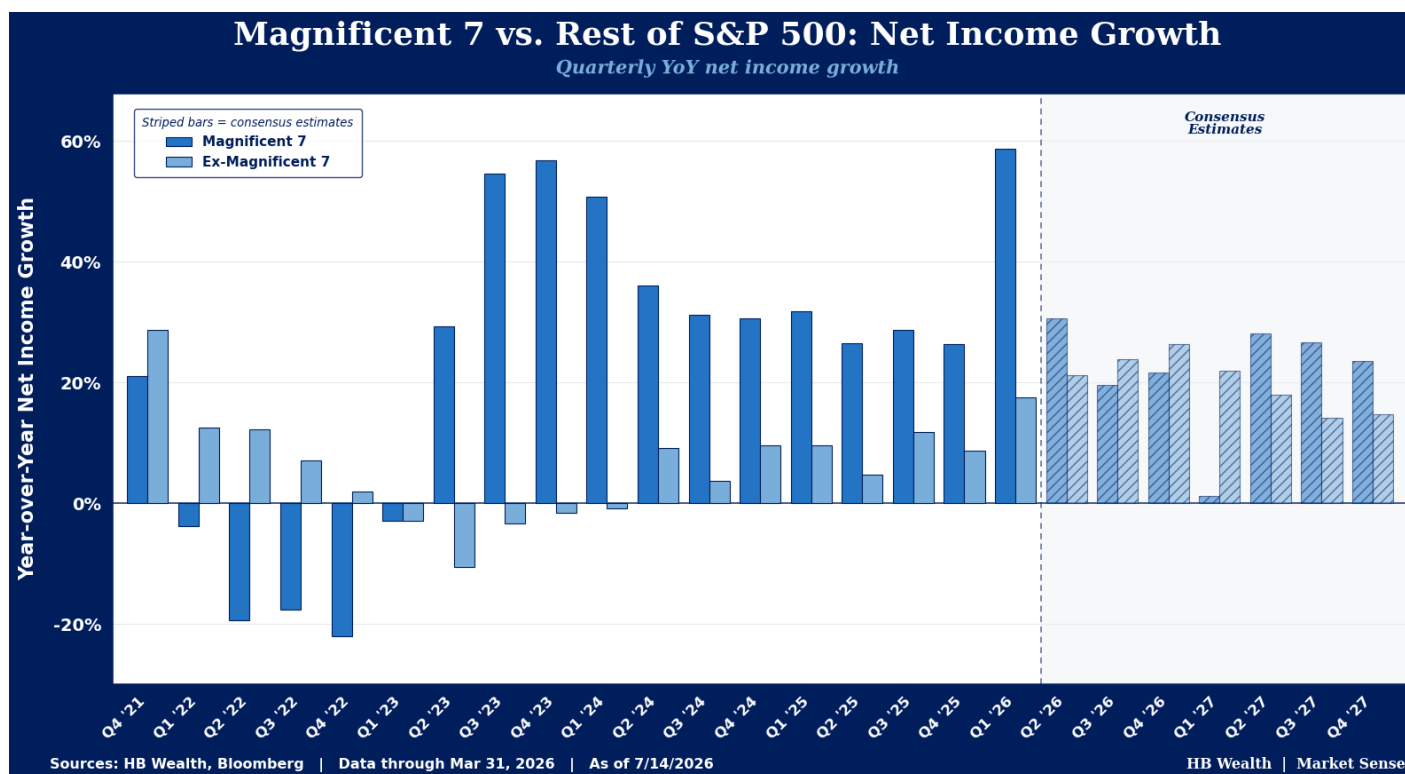
consensus, as earnings growth was heavily concentrated in Mag-7 and high market cap stocks most tied to AI development.



It's Time for the 493 to Put Up

Underlying improvement in the macro factors that matter most to index earnings growth likely reflects strengthening fundamentals for a broader set of large-cap stocks, confirming consensus' bullish view on the S&P 500 ex-mag-7's earnings. The rotation trade that began late last year has gained steam as earnings for the 493 have surged and continued rotation will likely hinge on their ability to hit consensus forecasts and finally pull ahead of the mag-7's pace. 2Q will mark the 4th consecutive quarter with 10 of 11 GICS sectors showing growth – a period that roughly coincides with the start of the rotation trade as prior to that 3-to-4 groups were posting earnings contractions. Like the headline EPS growth forecast, the

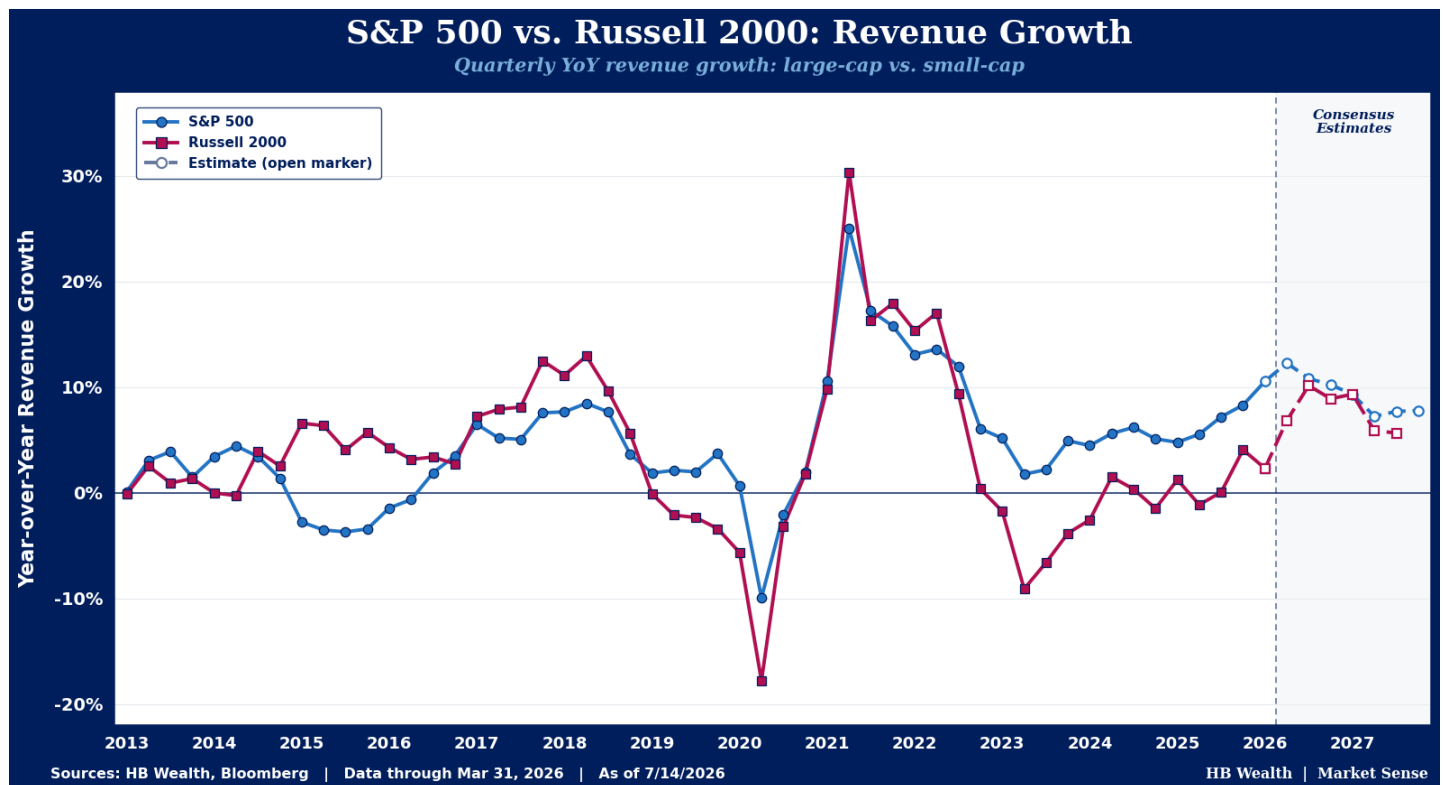
only other times sector breadth was this strong were in 2Q and 4Q21 and 4Q17-4Q18 (when all 11 sectors grew for the first four quarters of that stretch). Consensus thinks that every sector will start contributing in 3Q, resulting in a 22.2% growth forecast for the quarter.



Consensus likewise believes that 2Q26 could be the last quarter where the magnificent-7 outpaces the rest of the index with the mega cap cohort facing pressure as capex continues to surge and depreciation costs for the hyperscalers begin to mount. The group has posted faster earnings than the 493 since 1Q23, resulting in dramatic outperformance for their shares until recently. While the mag-7 is expected to show 30.6% EPS growth this quarter, the 493 are pegged for 21.2% -- their best mark since 2021 and the narrowest gap between the two groups in two and a half years. Next quarter, the 493 are expected to finally eclipse mag-7 EPS growth and maintain a lead through 1Q27, peaking at a nearly 21 percentage point spread due to extremely difficult comparisons for the mega-cap cohort following their nearly 59% EPS surge last quarter.

Small Caps Have Joined The Fray. Can They Now Beat Higher Hurdles?

The Russell 2000 is likewise expected to continue digging out of its nearly three-year long revenue recession in 2Q, though the gauge will likely have to keep beating strong topline hurdles to continue to outperform. Currently, consensus pegs the index for 6.8% sales growth in 2Q (7.5% on a current constituent basis). That would be the best clip since 3Q22 and much stronger than the 3.6% average back to 2013. Every sector but utilities, staples and communications are expected to post revenue gains this quarter, led by energy, materials and health care. From 3Q on, the bar is expected to be much higher – consensus sees all sectors returning to growth then, leading to a 10.1% revenue climb while only communications is pegged for a drop in 4Q (with index topline rising 8.9%).



Small caps' reporting season will be complicated by Russell's June reconstitution. As we noted in our Market Sense [here](#), the event saw many outperformers jump from the Russell 2000 to 1000, especially within tech and industrials (the two best performing groups year-to-date). Estimates have sunk following the reconstitution, even on a current constituent basis (the same 2000 constituents both today and the

year-ago lookback) as investors had generally been chasing stronger fundamentals. Over the past three months, index revenue estimates have slipped 52 bps, led lower by tech (down 587 bps) and communications (down 269 bps). Conversely, forecasts for real estate (up 262 bps) and energy (up 137 bps) have risen the most. While many of those changes aren't a result of organic challenges, it will be interesting to see if the new constituency of the Russell 2000 is able to keep pace with estimates given that many of the strongest stocks have graduated to the Russell 1000.

Estimates Surge During 1Q Season Presents Stocks With a Double-Edged Sword

The sellside rapidly hiked 2Q earnings forecasts for the S&P 500 during the 1Q earnings season, raising the risk of significant volatility around misses and stronger headwinds for the market at large to clear the higher expectations bar. The initial reaction to the bevy of financials reports has been relatively muted so far, as expectations for the group were quite elevated leading into the season. The market's lack of reaction to strong gains may be a tell of what's to come this season. Unlike last season, expectations embedded in stock prices are very high.

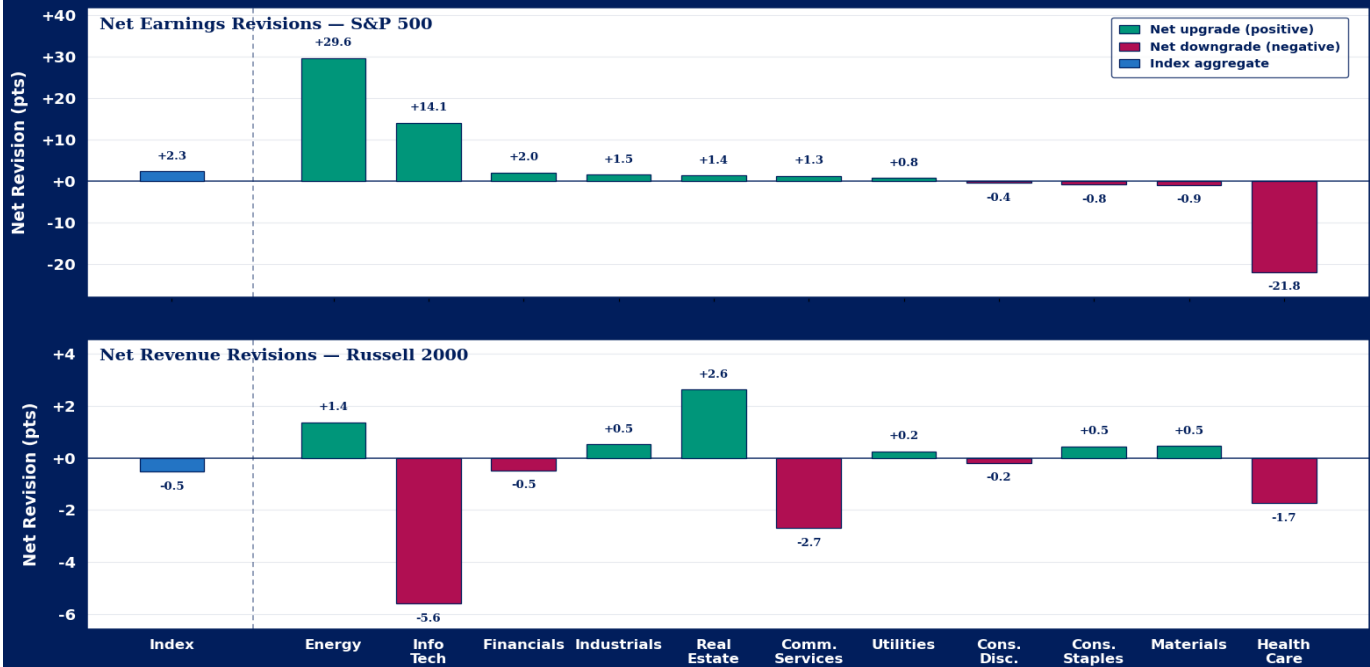


Recall, at the start of 1Q season, consensus forecasts were for just 12% growth, and the market had just corrected 10% with the Middle East conflict, suggesting embedded expectations then were much lower. An expectation for more than 20% growth sets the bar much higher this earnings season. Recall the only other years in which stocks rose more than 20% recently were 2018, and those years offered up very different return experiences in the equity market. Strong earnings in 2021 enabled stocks' rise that year, but stocks struggled in 2018, despite the surge. The difference may be because of the high expectations bar in 2018. Analysts were expecting average growth of 17.4%, and the actual average growth merely topped that by 485 basis points that year. This is a far cry from the set up in 2021, when analysts expected 34.5% but companies posted 55% growth. Likewise, policy dynamics were challenging in 2018, with the onset of quantitative tightening and Trump's first trade war offsetting any positive sentiment from the TCJA. In contrast, 2021 -- the 13th best year for stocks' returns on record going back to 1929 -- rode on a wave of extraordinary fiscal and monetary stimulus.

Over the past three months, analysts have raised current quarter index EPS growth forecasts by 234 bps with energy leading the sector pack, followed by tech and financials. Only health care, materials and discretionary have had their forecasts cut. Likewise, earnings revision momentum -- the number of companies facing hikes to next 12-month EPS growth minus the number facing cuts over the total -- is neutral following a stretch where 10 of 11 weeks back to mid-April with more hikes than cuts.

Q2 2026 Estimate Revisions by Sector

Trailing 12-week net analyst revisions ahead of Q2 2026 reporting



Sources: HB Wealth, Bloomberg | Trailing 12-week revision changes | As of 7/15/2026

HB Wealth | Market Sense

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