



MARKET FUNDAMENTALS

Revised
10/01/2026



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Market fundamentals focus on the underlying drivers of stock prices at the company level.

While macroeconomic policy and financial conditions shape the broader economic backdrop, long-term equity returns are ultimately anchored to **corporate earnings**. Over time, stock prices tend to follow the growth in profits that businesses generate for their shareholders, making earnings a central reference point for evaluating market value and sustainability.

A key mechanism through which earnings information is incorporated into prices is **earnings season**. Each quarter, publicly traded companies report financial results and provide updated guidance, allowing analysts and investors to reassess expectations. These announcements often drive short-term market movements, as prices adjust to new information about revenues, margins, and future growth prospects. The cumulative outcome of earnings season offers important insight into the overall health and momentum of corporate America.

Beyond earnings themselves, **capital allocation decisions** play a meaningful role in market fundamentals. Dividends and share repurchases represent direct ways companies return cash to shareholders and can meaningfully influence long-term returns. In addition, corporate activity such as mergers and acquisitions can act as catalysts by reshaping competitive dynamics, signaling management confidence, or unlocking value.

Together, these elements—earnings performance, shareholder returns, and corporate actions—help ground market prices in business fundamentals and provide a practical lens for assessing the durability of market trends beyond short-term volatility.



Stock Valuations (Price-to-Earnings)

DEFINITIONS

In itself, the current price of a stock tells little about its value. The most common method of valuing stocks is to create a ratio which can be compared between stocks.

The **price-to-earnings ratio** divides the current stock price into the corporation's earnings. This can be used to compare a current stock price to either recent historical earnings or, as is often more relevant, projections for future company earnings.

The values quoted here sum the aggregate stock value, divided into the aggregate earnings, of entire stock indices.

CONTEXT

Despite the persistent narrative of *overvalued* stocks forming a bubble, equities in most major indices are only moderately expensive than they were twelve months ago (a comparison which is fraught because stocks were selling off this time last year). All of the major indices are cheaper on a forward-looking basis.

While the market has continued to climb, stocks have generally been rising in price at the same rate that their profits have increased-- not inflating (as a bubble might).

Data Source:

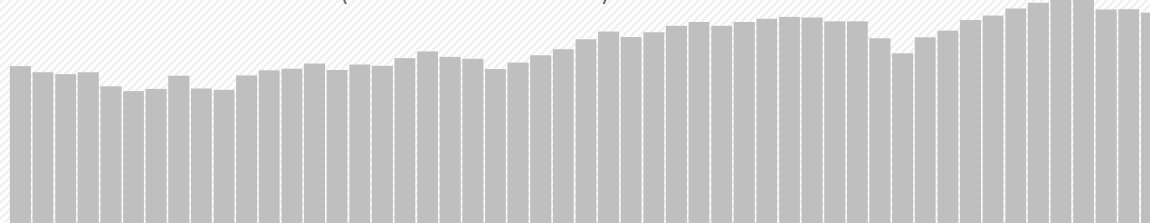
Birinyi Associates (via Wall Street Journal)

Price-to-Earnings Ratios on Major Indexes

	P/E Ratio			Dividend Yield	
	Current	Trailing 12 Mo.	Forward 12 Mo.	Current	Trailing 12 Mo.
Dow Jones Industrial Average	20.72	25.45	19.52	1.56%	1.59%
Russell 2000 Index	36.12	33.9	28.39	1.45%	1.34%
NASDAQ 100 Index	35.22	32.67	24.15	0.54%	0.66%
S&P 500 Index	23.48	25.27	19.94	1.07%	1.19%

Updated: 9/25/2026

S&P 500 Historical P/E Ratio (Month-End Since 2021)



Earnings Season

DEFINITIONS

Most businesses announce current earnings results (and, in some cases, future projections) on a quarterly basis. The period of announcements is known as **earnings season**. Analysts monitor both the growth of top line gross revenue and in earnings per share (essentially net revenue).

In an expanding economy, cautious stock analysts struggle to keep up with corporate growth, and investors reward the companies which overperform expectations. Company profits beginning to catch up with analyst estimates and failing to overperform is a sure sign of a market peak.

CONTEXT

S&P 500 corporate earnings remained strong through the second quarter of 2026, continuing a multi-quarter period of double-digit year-over-year growth. Revenue growth has also remained positive across all eleven sectors, indicating that earnings gains extend beyond cost cutting and margin improvement.

Looking ahead, analysts have continued to raise near-term earnings estimates rather than make the reductions that are typical as a quarter progresses, supporting expectations for continued earnings growth into the remainder of 2026.

Data Source:

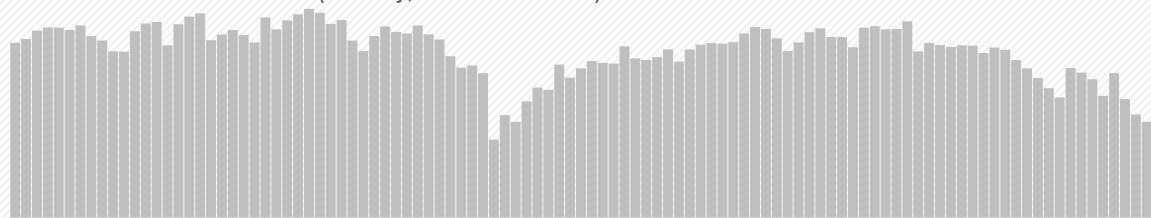
FactSet (insight.factset.com)

Results of Most Recent "Earnings Season"

		Historical Average		Results, Last Four Quarters			
		Last 5 Years	Last 10 Year	2025, Q3	2025, Q4	2026, Q1	2026, Q2
Gross Revenue	Companies that Overperform	70%	67%	77%	73%	80%	77%
	Avg. Size of Overperformance	2.0%	1.5%	2.1%	1.6%	1.8%	3.2%
Earnings Per Share	Companies that Overperform	78%	76%	82%	74%	84%	87%
	Avg. Size of Overperformance	7.3%	7.1%	7.0%	7.1%	18.2%	26.5%*

Average EPS surprise is inflated by unusually large investment gains at Alphabet and Amazon; excluding both companies, the aggregate EPS surprise is 10.8%.

S&P 500 Forward P/E Ratio (Weekly, Since Mid-2024)



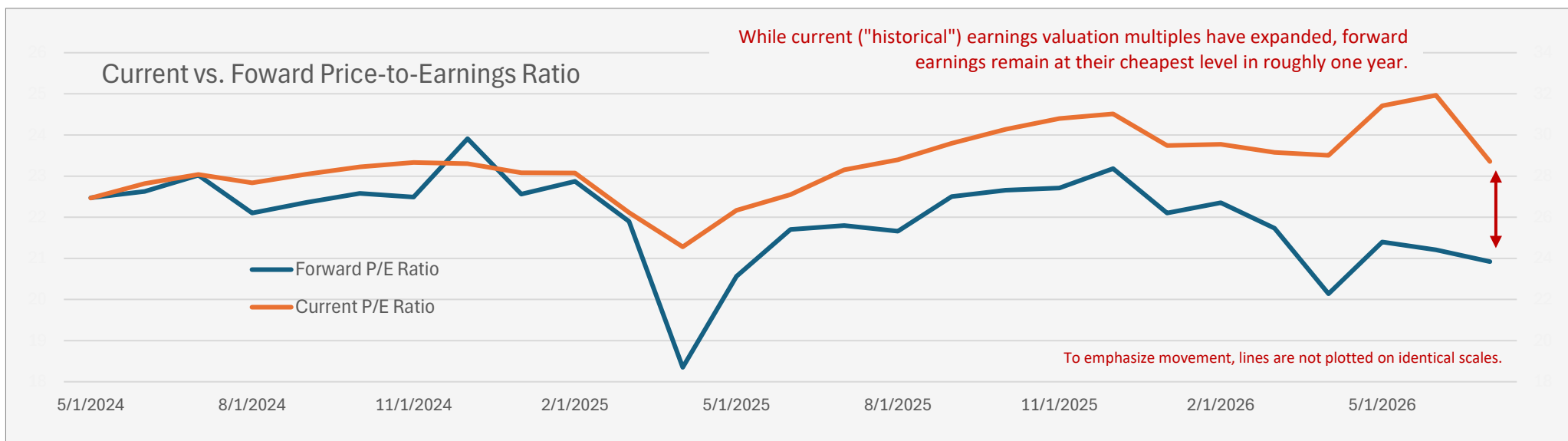
Earnings Season: Other Takeaways

OTHER TAKEAWAYS FROM QUARTERLY CORPORATE EARNINGS & CONFERENCE CALLS

- S&P 500 earnings growth remained exceptionally strong in Q2, extending the index's streak of double-digit year-over-year earnings growth to seven consecutive quarters. Results were unusually boosted by large investment gains at Alphabet and Amazon, but underlying earnings growth remained strong even excluding those effects.
- Revenue growth also accelerated, with all eleven S&P 500 sectors reporting year-over-year revenue growth and aggregate growth reaching its strongest pace in several years. Growth continued to be led by Technology, Energy and Communication Services.
- Earnings expectations have remained unusually resilient. Analysts increased Q3 S&P 500 EPS estimates by 1.2% during July and August, compared with an average decline of 1.7% over the same portion of a typical quarter during the past five years. This marked the second consecutive quarter of upward estimate revisions.
- Artificial intelligence remains the dominant theme on corporate conference calls. AI was mentioned on 67% of S&P 500 Q2 earnings calls, the third consecutive quarter above 65% and far above historical averages.
- Despite renewed concerns about price pressures, corporate discussion of inflation has not accelerated. Inflation was mentioned on 205 Q2 earnings calls, down 6% from Q1 and well below the five-year average of 276, although inflation remained a prominent topic among Materials and Consumer Staples companies.

Data Source:

FactSet (insight.factset.com)



Share Buybacks

DEFINITIONS

Share buybacks occur when a company uses cash to repurchase its own outstanding shares on the open market or through tender offers.

By reducing the number of shares outstanding, buybacks increase each remaining shareholder's ownership stake and can boost earnings per share, all else equal. Buybacks are often used as a method of returning excess capital to shareholders and may signal management's confidence in the company's long-term prospects.

Over time, consistent repurchase activity can support stock prices by reducing share float and improving per-share financial metrics, complementing dividends as a tool for shareholder returns.

CONTEXT

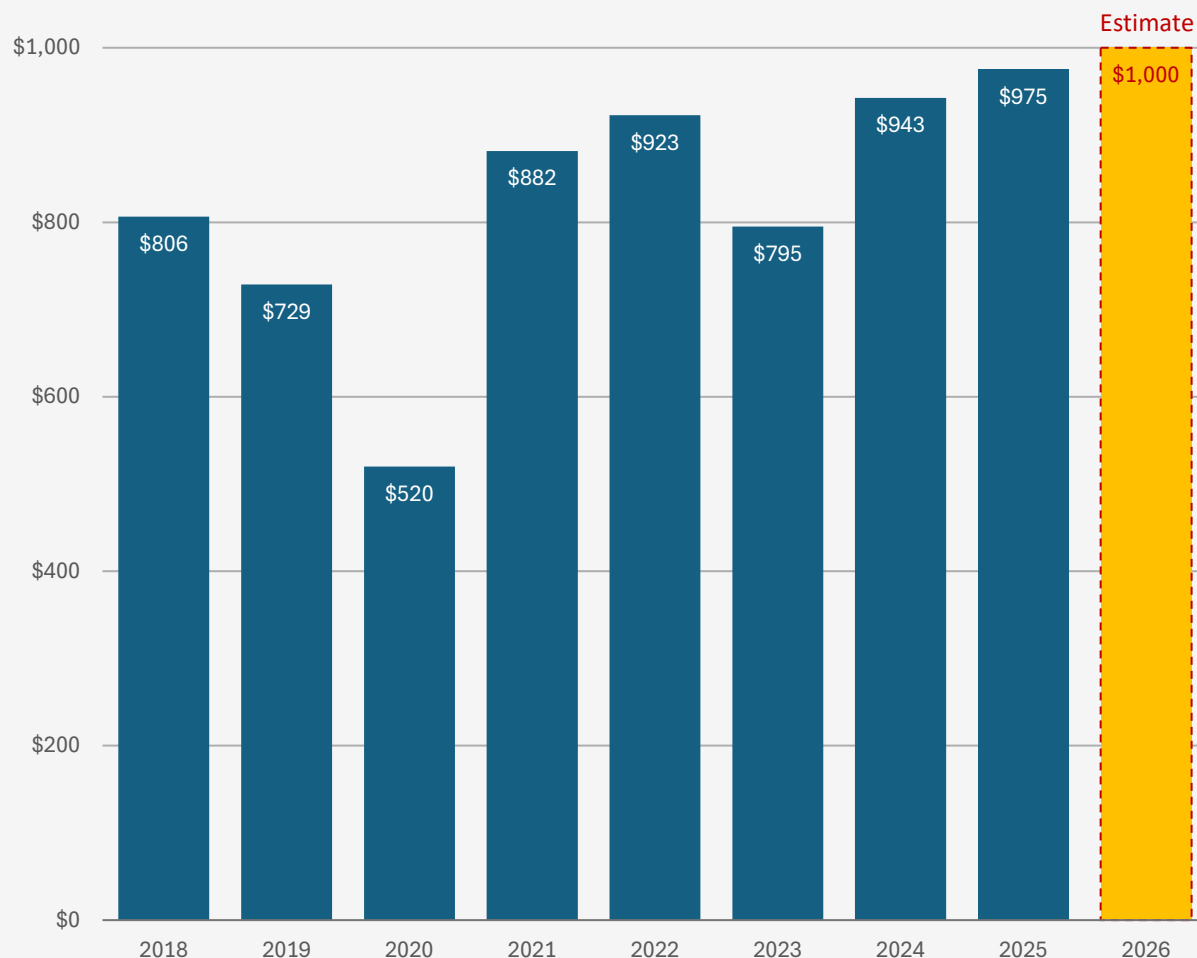
Many share buyback announcements were put on hold during 2020 and the Covid pandemic.

Share repurchase have since rebounded and, in 2025 nearly passed \$1 trillion in total, aggregate buyback volume for the first time. A similar amount is projected for 2026.

Data Source:

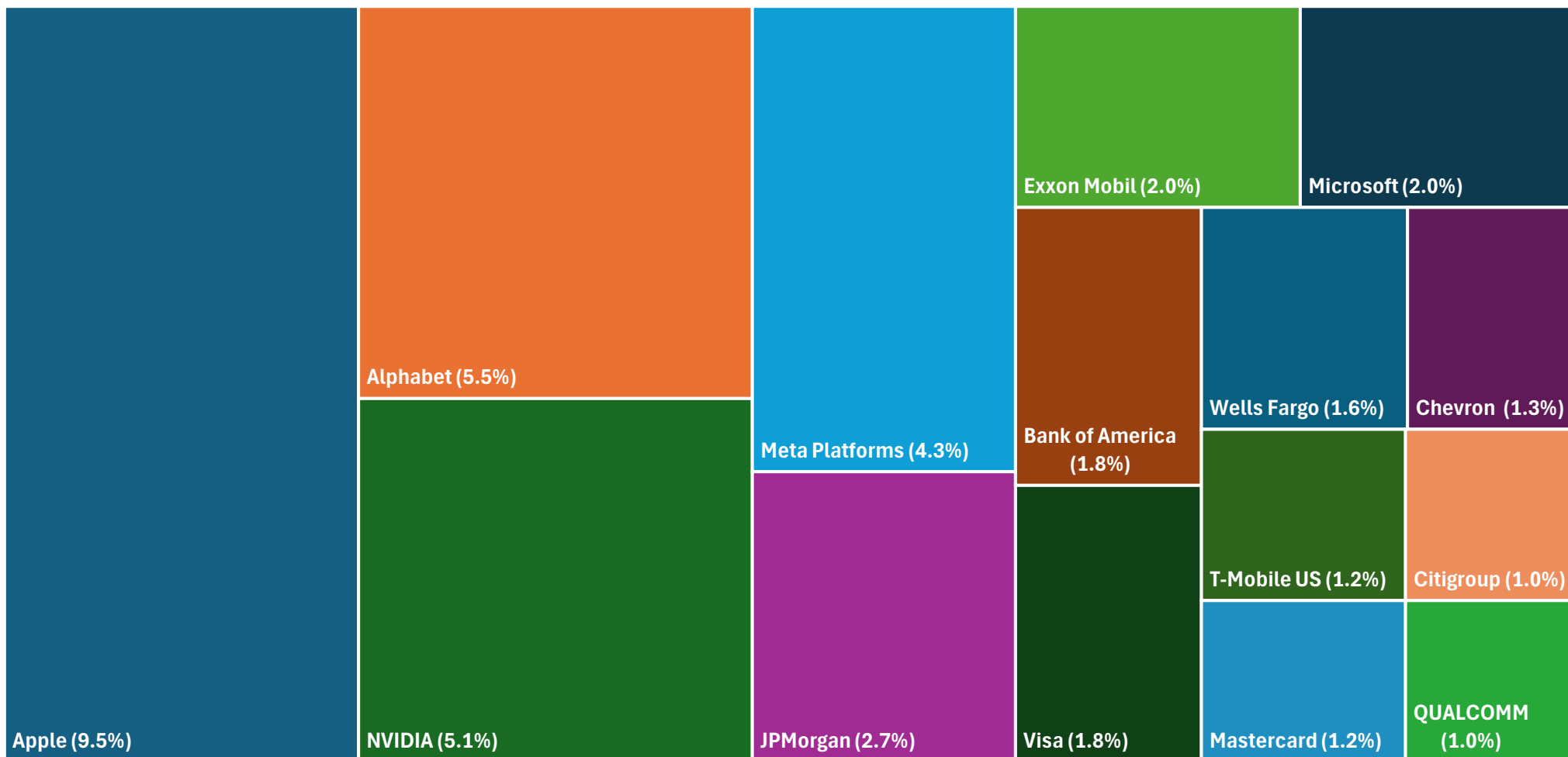
S&P 500 Dow Jones Stock Buyback Dataset
 2026 Projection: Goldman Sachs Research

Total Annual Share Buybacks (Millions of USD)



Share Buybacks

15 LARGEST BUYBACKS. LAST 12 MONTHS (THROUGH SEPT. 2025)



Data Source:

S&P 500 Dow Jones Stock Buyback Dataset

Indicated percent in graph represents company's total value of **all** stock repurchases over the last twelve months. The top fifteen buybacks equal 42% of all buybacks. Large cap companies dominate stock buybacks, and the magnitude has increased over time.



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M2 Money Supply

DEFINITIONS

M2 (Money Supply), is a measure of the outstanding money supply that includes cash, checking deposits, and easily accessible near-money assets such as savings deposits, retail money market funds, and small time deposits.

The Federal Reserve influences the amount of money in circulation through adjustments to interest rates and, bank reserve policy, and its own lending (or tightening) programs.

For fiscal equilibrium, economists generally expect the supply of money in circulation to increase slowly along with GDP growth. While a contracting money supply is often associated with economic contraction, an exploding money supply is expected to be inflationary.

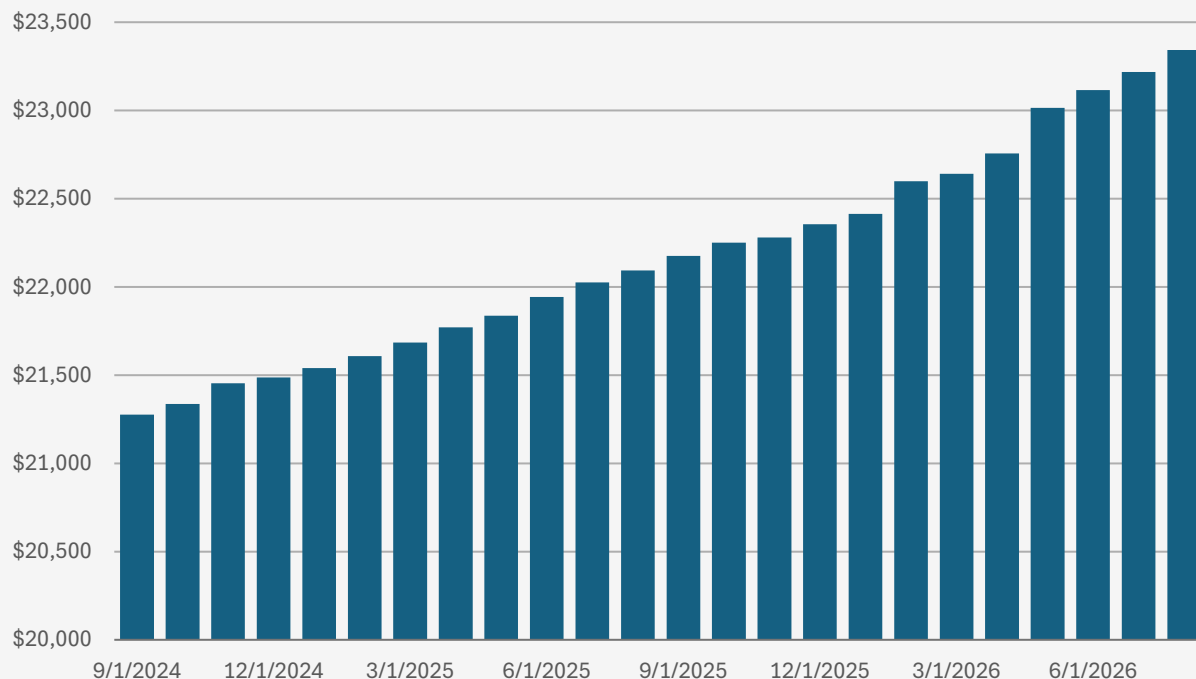
CONTEXT

M2 surged at an unprecedented level following the Covid pandemic, contributing to an explosion in inflation (more dollars were chasing the same quantity of goods). The Fed then embarked on a campaign to tighten the money supply. Since 2024, supply has resumed expanding. The money supply is currently increasing at a rate of 5.1%. This is a recent, but modest, reacceleration.

Historical Data Source:

Board of Gov. of the Federal Reserve (FRED Database)
 SERIES: M2

M2 Money Supply, Trillions (Monthly, Last Two Years)



M2 Balance Since 01/01/2019 (Monthly Balance, Trillions)

