WEEKLY STRATEGY
Perspectives

BMO Private Wealth

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Q2 in Review – Notable Nuance

"Good judgment comes from experience and a lot of that comes from bad judgment."
- Will Rogers, American actor, humorist, social and political commentator

The Through Line: The Q2 earnings report season is nearly complete and it's been nothing short of a barnburner. Although the bar was set high, aggregate results (even after adjusting for a few notable onetime events) are even stronger than Q1's record-setting numbers. Investors have been nuanced in their reactions: they harshly punished misses, softer forward guidance or unexpected revelations but rewarded companies that paid attention to margins and cash flows. This week, we deconstruct key themes, hunting for clues they could hold for the months ahead.

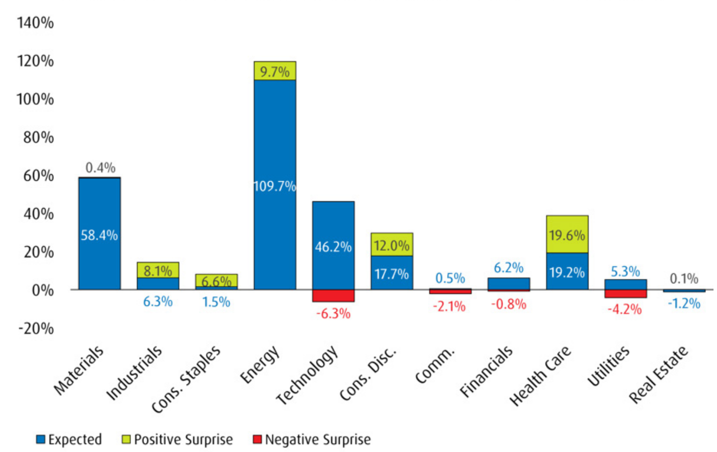
Backdrop: strength spread broadly

After unexpectedly strong first quarter earnings, the bar was raised in anticipation of a repeat performance in the second quarter. Companies in both the U.S. and Canada effortlessly cleared it. Of the 90% of S&P 500 entities that have already reported, almost all (86%) have surprised to the upside. Their aggregate earnings to date are DOUBLE the roughly 25% expected going into the quarter. **You read that right: Q2 EPS so far are tracking to hit a 51% increase.** These numbers do include unusually large gains in the "other income" line of two hyperscalers whose inhouse venture capital investments in such names as Anthropic and SpaceX paid off handsomely in the period. Amazon realized a gain of $53 billion while Alphabet's clocked +$98 billion. According to FactSet, **even adjusting out those windfalls, aggregate earnings growth still registered over 32%.**[i]

Contrary to popular opinion (which assumes vibrancy is primarily coming from tech), the strength was broad based: five sectors sported double-digit earnings growth (bottom line); three posted *triple-digit rises* (energy, consumer discretionary and communications).

Not to be left out of the fun, Canada's S&P/TSX Composite Index has also produced remarkably strong numbers. With 78% of companies reporting, aggregate bottom-line growth is 45%. Six sectors showed double-digit gains; the largest upturns came from energy, materials and healthcare.

S&P/TSX Sector Q2 2026 EPS Growth: Expected & Surprise



Source: Bloomberg L.P. (2026)

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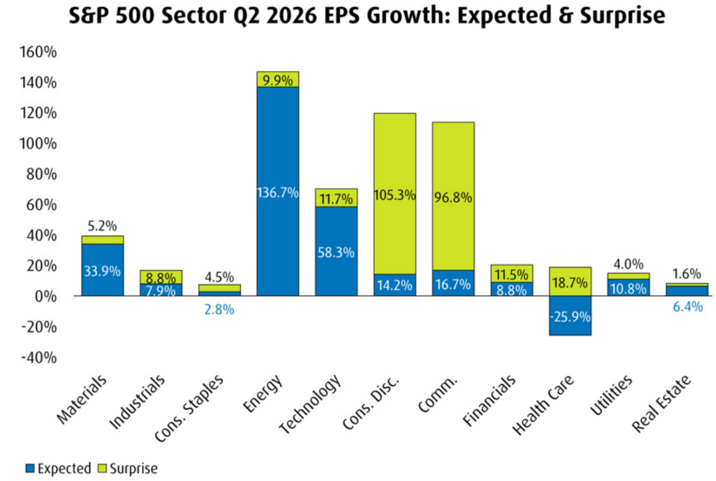
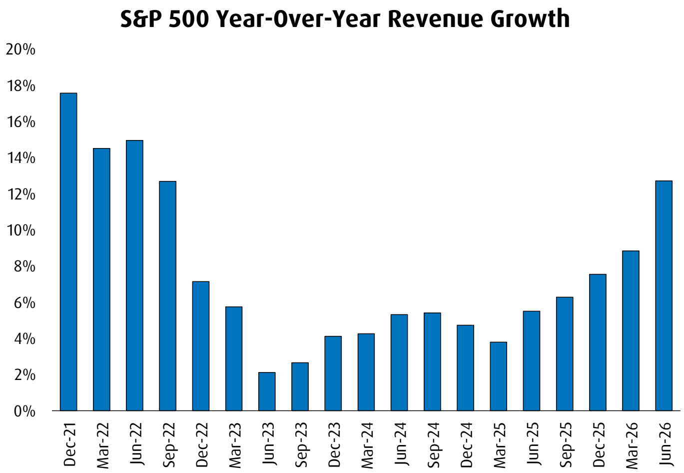


Source: Bloomberg L.P. (2026)

It's all about the leverage – the *margin* leverage

Since early last year, we've suggested that managements' keen attention to profit margins would allow any surprising strength in revenue to drop in magnified fashion to the bottom line. In Q2, this potential played out in spades. According to FactSet[ii], **all 11 S&P 500 sectors participated in revenue growth (top line) that averaged 15%. Eight turned in double-digit advances. Showing similar vitality, all 11 S&P/TSX sectors grew revenues – seven of them at double-digit rates – helping push the blended average of sectors that have reported to a 23% rate.**



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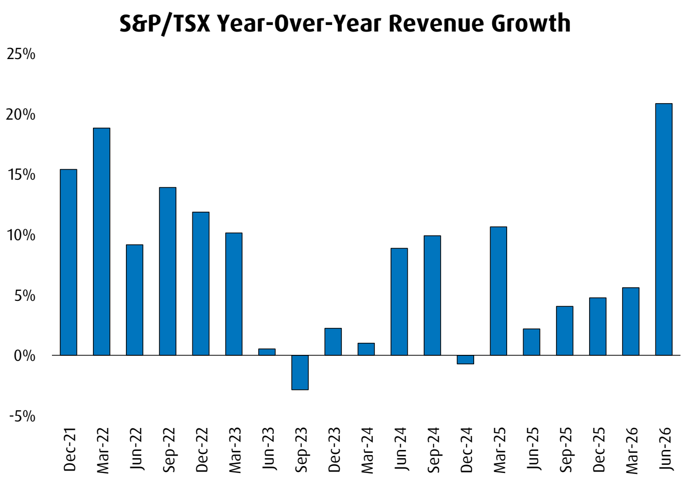

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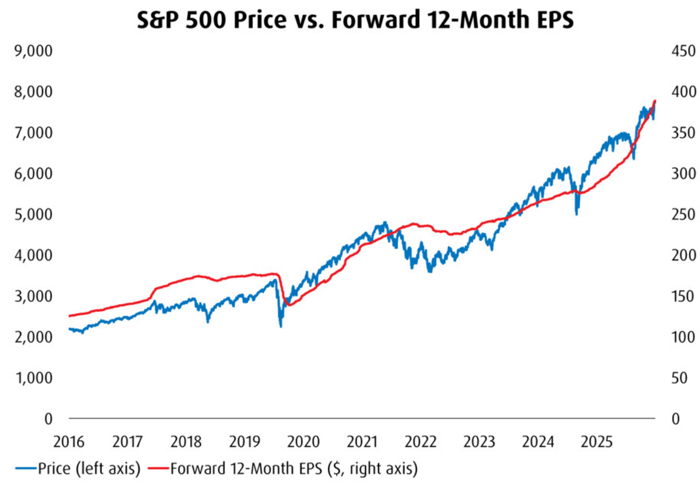
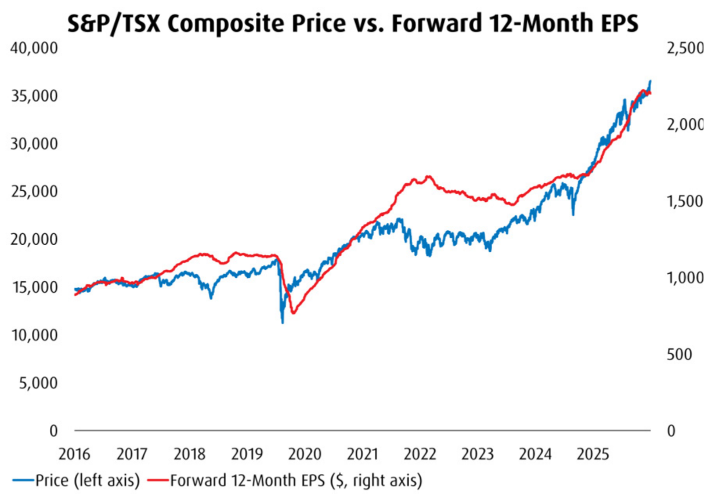
Results of this magnitude are quite unusual other than coming out of recessionary periods. It is truly exceptional that this is happening after multiple years of *growth* – and amidst a whole litany of potential speed bumps (numerous hot conflict zones, disrupted supply chains, higher interest rates, tariff and policy volatility to name just a few). They are Indicative of both corporate resilience/dynamism and the historic nature and accelerated timeline of the ongoing infrastructure rewiring necessary to support AI and other advanced technologies. **Earnings and revenue estimates for the year's remaining two quarters are being adjusted higher, providing sturdy fundamental underpinnings for the up moves that have recently pushed the S&P and TSX to fresh all-time highs.**

Naturally, you would expect investors to be openly ebullient about results like these. No. In fact, quite the opposite. Most earnings beats got a gentle golf clap while hiccups (lowered future guidance, earnings/revenue misses, strained operating cash flow) were punished with 50 lashes. We suspect the reserved reception may stem in part from a fear that this is "as good as it gets" and trepidation about "what could possibly come next?" True, market averages are in record territory, but they've mostly arrived there grudgingly – not on a wave of exuberance. Such a measured response is actually healthy, illustrating investors' careful assessment of evolving dynamics.



Source: Bloomberg L.P. (2026), as of 8/11/2026



Source: Bloomberg L.P. (2026), as of 8/11/2026

AI: under the microscope

No surprise to us that AI was viewed through a different lens this quarter (WSP - Great Expectations: What to Watch for This Earnings Season). Investors carefully weighed data center plans (progress to date plus future intentions), backlogs, bottlenecks, memory chip pricing and emerging competition from cheaper and/or open source models. Analysts spent extra time digging into sources of financing – justifiably since companies are being nuanced in how they are paying for things. In addition to diverting substantial cash from balance sheets and operating cash flow, they are tapping the public equity markets. Intel executed its first secondary share offering just this week (the first time it's pulled that lever in more than 50 years), selling $20 billion against demand many times that.

Tech titans have also accessed public and private debt markets. Reuters estimates nearly $200 billion in fresh hyperscaler debt had been floated year to date through the beginning of July.[iii] Just this week, Nvidia announced that a lending consortium comprising six of Wall Street's biggest firms (Apollo, Blackrock, Blackstone, Brookfield, Goldman Sachs and KKR) would provide the company up to $500 billion in funds for continued development. Investors monitored each announcement carefully, evaluating spending plans against backlogs and growth in related earnings streams. Several of the largest tech companies have begun providing additional data breakouts to help investors assess both the growth and profitability of AI, cloud and security-related businesses. **Reminder: we're still quite early in laying the rails for the 4th Industrial Revolution. It will be muddy while developments are sorted – yet some clarity and direction are starting to emerge.**

The sheer scale of dollars seems mind bending until it's contrasted to decades of underinvestment in roads, bridges and highways, coupled with the hollowing out and offshoring of manufacturing infrastructure that followed the passage of key trade agreements. It takes a lot of planning, development – and funding – to re-establish a manufacturing base, particularly one equipped for advanced technologies.

Traders' attempts to handicap specific sector winners produced much Sturm und Drang during the period, which saw large rallies and resets in response to opinions rotating through chips, software and hyperscalers. Case in point: the Philadelphia Semiconductor Index (SOX)[iv] is up 58% for the quarter – but also experienced a nearly 50% drawdown at one point during the period. The software sector is up 30% on the quarter although it's flat year to date.

Consumers: still crabby – and consistent

The narrative emanating from financial services and consumer goods companies continues to outline a sturdy, if "choiceful," customer. Balance sheets in aggregate are healthy and total household net worth remains at all-time high levels. A low 4%ish unemployment rate means most of the populace is in the labor force – and employed individuals spend. A record percentage of citizens own stocks. At record highs, stocks produce additional psychological comfort around spending (the "wealth effect"). Aggregate spending further underpins a constructively growing economy.

Even though the economic profile of consumers is solid overall, their mood remains dour. This general dissatisfaction has been constant and worsening since the pandemic. While policymakers and strategists obsess about inflation (a.k.a. the rate of change in prices), consumers care about absolute price levels. The simple fact is that average prices (proxied in the U.S. as the Consumer Price Index) are up 29% since the start of the pandemic.[v] Still, **even crabby consumers consume. We've seen that trend over and over in household expenditure numbers and this quarter's reports from banks and credit card companies.** Sometimes they spend precisely *because* they're crabby. Investors care that wallets remain open – especially those belonging to consumers in the highest income tier.

Corporate restructuring: M&A, CapEx and IPOs

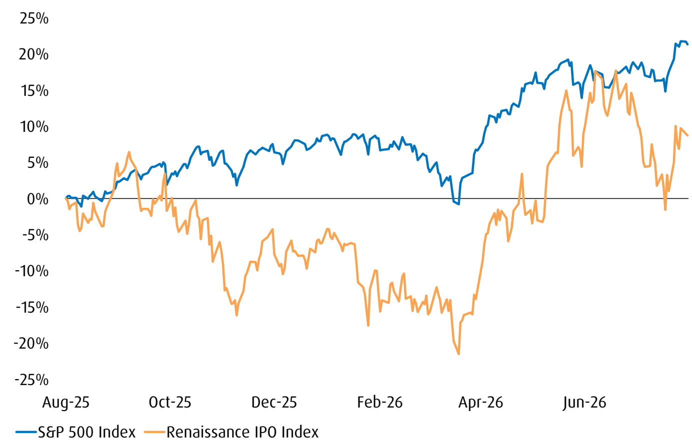
A range of corporate transactions kept things spicy in the quarter – and boosted the income statements of Wall Street's biggest financial services firms. Just like strategic pruning keeps plants vibrant, the variety of corporate activities illustrates healthy movement and functioning of capital markets.

Mergers and acquisitions, measured in dollar value, are running at record levels this year although the absolute number of transactions fell slightly. A consistent theme is emerging: companies are streamlining by selling non-core units or making bolt-on acquisitions to quickly scale operations.

Aggregate capital expenditures have also been running at/near record levels[vi] – and not just thanks to data centers. Roads, bridges, shipyards, grid infrastructure and plans for plant expansion are all in flight. An assortment of policy actions and new laws passed under the last two administrations helped accelerate this activity, bolstered by policy changes that continue to encourage reshoring.

Underwriters of **initial and secondary public equity offerings** have been crossing their fingers (and toes and eyes) for years in hopes of seeing a resurgence of IPO activity. However, activity remains largely subdued despite several high-profile IPOs in the quarter – including, of course, the record-setting launch of SpaceX. Recent IPOs have been reasonably well received in early days of trading but more often than not struggle in the aftermarket.

U.S. IPO 1-Year Performance



Source: Bloomberg L.P. (2026), as of 8/11/2026

Implications for investors

At the start of the season, we said that *"trading may well be volatile against a backdrop of double-digit market performance to date and buoyant expectations for outsized earnings progress."* That definitely came to pass. A range of factors could well keep day-to-day action choppy, given price levels that are even loftier than they were at the start of the year. **Remember that those prices are supported by widespread earnings and economic progress.** The infrastructure build – while receiving a more nuanced review by investors – is nonetheless still in early innings. We also said at the start of this season: *"...any pullbacks represent repositioning opportunities. We would not view them as an indication of a bubble bursting or a disruption of the solid long-term trends currently in motion."*

Next week in North America

A meaty week for eco-numbers nerds to sink their teeth into. Canada's CPI will report Monday while key reads on manufacturing and business activity for both countries are sprinkled through the remainder of the week.

Monday 8/17:	**U.S.** Empire State manufacturing index | **Canada** CPI
Tuesday 8/18:	**U.S.** Import/Export prices, Housing starts, Pending home sales, Capacity utilization, Industrial production | **Canada** Existing home sales, housing starts
Wednesday 8/19:	**U.S.** the 30-day delay in imposition of 50% tariffs on a select list of Canadian goods expires, FOMC minutes | **Canada** none scheduled
Thursday 8/20:	**U.S.** Initial jobless claims, PPI | **Canada** Building permits
Friday 8/21:	**U.S.** Initial jobless claims, Philly Fed business outlook | **Canada** CFIB business monitor, Industrial production prices, raw materials price index

[i] S&P 500 Earnings Season Update: August 7, 2026
[ii] ibid
[iii] Hyperscaler debt binge pushes yields up as investor demand cools | Reuters
[iv] PHLX Semiconductor Sector Index™ (SOX™) Index is a modified market capitalization-weighted index composed of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors
[v] Inflation Calculator | Federal Reserve Bank of Minneapolis
[vi] All Sectors; Total Capital Expenditures, Transactions (BOGZ1FA895050005Q) | FRED | St. Louis Fed