

2025 Earnings preview

Delivery matters



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In brief

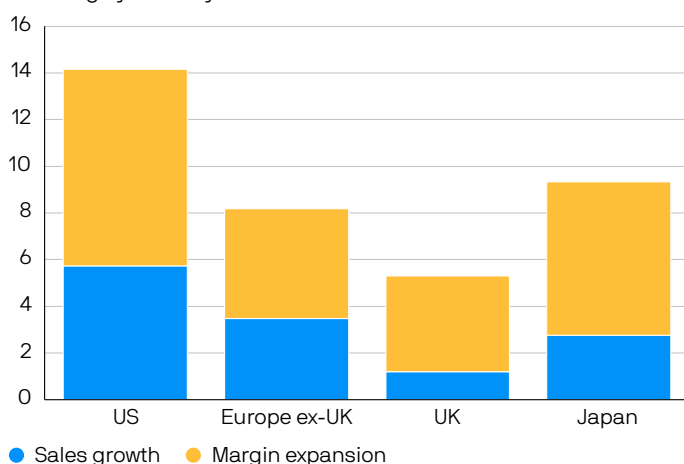
- **US:** Strong margin expansion and broader earnings delivery is expected to drive a pick-up in earnings growth, with tariffs the main risk to consensus forecasts.
- **Europe ex-UK:** Analysts expect rising consumption to drive faster earnings growth, but US tariffs would challenge a number of sectors.
- **UK:** More muted earnings growth forecasts than in other regions reflect the sector composition of the UK benchmark, as well as some domestic headwinds.
- **Japan:** A supportive macro backdrop is expected to drive an acceleration in earnings growth, but trade tensions and the yen remain watch items.

Introduction

Heading into 2025, analysts are anticipating a strong year for earnings. Profit forecasts are typically cheerful at the start of the year, and over time analysts often moderate their expectations. However, after 2024's robust equity returns and with valuations at elevated levels, especially in the US, there is less space for multiple expansion to offset any earnings disappointments this year. This piece digs into some of the themes driving 2025's profit forecasts, analysing what investors will need to see to be assured that earnings growth remains on track.

Exhibit 1: 2025 earnings per share forecasts

% change year-on-year



Source: IBES, LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. MSCI indices are used for Europe ex-UK, UK and Japan. US is S&P 500. Past performance is not a reliable indicator of current and future results. Data as of 13 January 2025.

US: The long awaited broadening

Analysts expect S&P 500 earnings per share (EPS) growth to accelerate to 14% year-on-year in 2025. Revenue growth is forecast to pick up only slightly, likely reflecting a relatively similar US nominal growth picture.

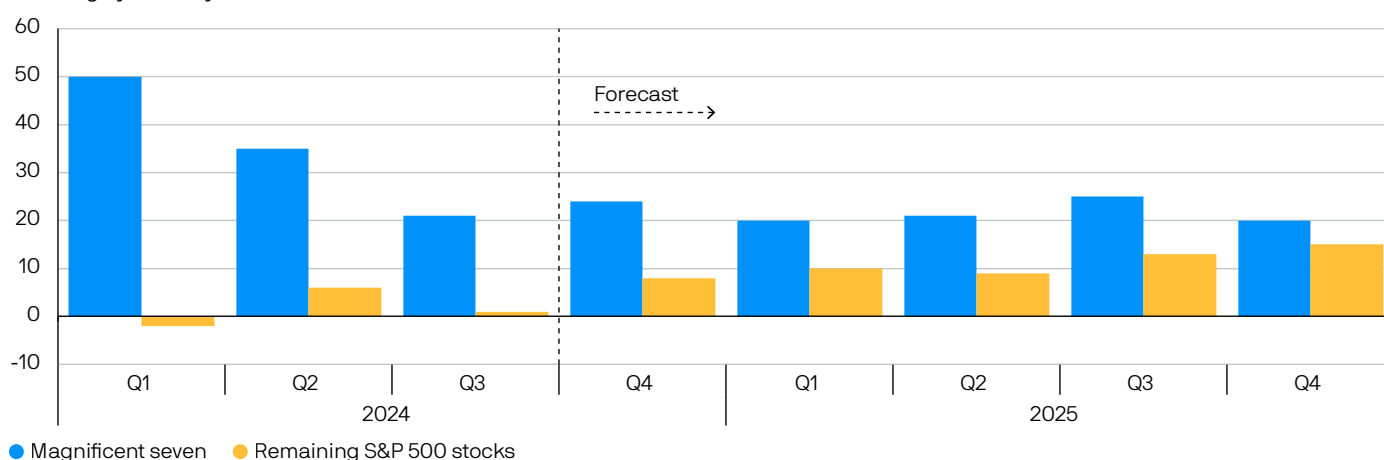
Thus, the rise in EPS growth expected in 2025 is driven by margins. The consensus profit margin forecast for the S&P 500 in 2025 of 13.4% would be the highest annual margin since at least 2004 if achieved. This optimism may reflect anticipated deregulation by the new US administration, as well as the possibility of further US corporate tax cuts on domestic production.

Digging into the earnings numbers, analysts expect profit growth to broaden out somewhat from the 'Magnificent Seven'. EPS growth forecasts for these megacap stocks remain strong, but are slower than for 2024 at 21% y/y. Outside of the Magnificent Seven, in contrast, EPS growth is expected to climb to 13% y/y in 2025.

Pulling out some key sectors, energy and materials companies struggled in 2024 against a backdrop of weaker Chinese growth and declining oil prices. In 2025, these headwinds are expected to at least partially abate, returning both sectors to positive profit growth. In contrast, US financials' EPS growth is forecast to slow to around 8% y/y, as a likely lower average policy rate feeds through into lower net interest margins.

Exhibit 2: S&P 500 earnings growth

% change year-on-year



Source: FactSet, S&P Global, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 13 January 2025.

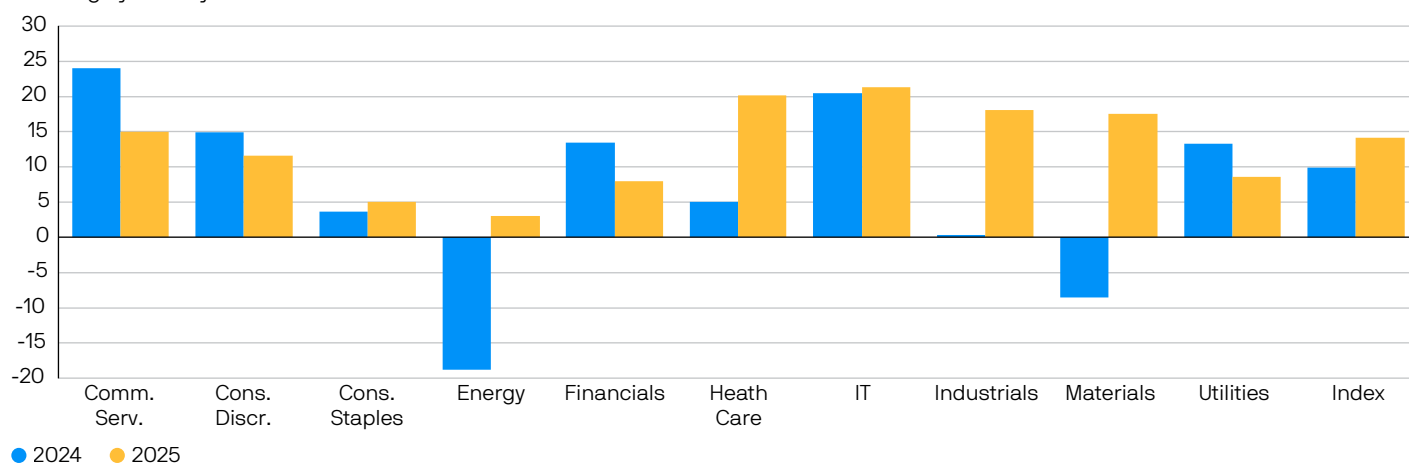
Elsewhere, healthcare margins actually contracted in 2024, due to factors including pent-up user demand post-Covid, pricing legislation, and still-elevated wage growth. Analysts expect these pressures to recede somewhat in 2025, which – alongside stronger demand for weight loss drugs – drives forecasts for stronger profit growth.

Industrials EPS growth is also expected to expand, partly reflecting expectations for further manufacturing onshoring and rising demand from ‘megaprojects’. Alongside this, subsectors such as data centres and energy infrastructure should see earnings benefit from AI-related spending. However, EPS forecasts could fall back if broad import tariffs are imposed, given some industrials’ reliance on imported intermediate goods.

Overall, analysts are anticipating still-strong, albeit slowing, earnings growth across megacap tech, which will have a large bearing on index profits given technology’s one-third weight in the S&P 500. But it is a better outlook for the ‘older world’ sectors – such as industrials, commodities and healthcare – that drives stronger 2025 EPS expectations.

Exhibit 3: S&P 500 consensus earnings growth forecasts by sector

% change year on year



Source: IBES, LSEG Datastream, S&P Global, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 13 January 2025.

Europe ex-UK: Consumption is key

After a challenging 2024 in which the weak economic picture weighed on earnings growth, both margins and revenues are expected to expand in 2025, contributing to EPS growth of 8% y/y for the MSCI Europe ex-UK index.

One driver of this recovery is the consumer discretionary sector, where profits contracted in 2024 but are forecast to expand 12% y/y in 2025. These forecasts rely on stronger domestic consumption, driven by positive real wage growth, lower interest rates, and rising consumer confidence. However, broad-based US tariffs or renewed weakness in China could threaten analysts' expectations, given 19% of the sector's revenue is derived in the US and 12% in China.

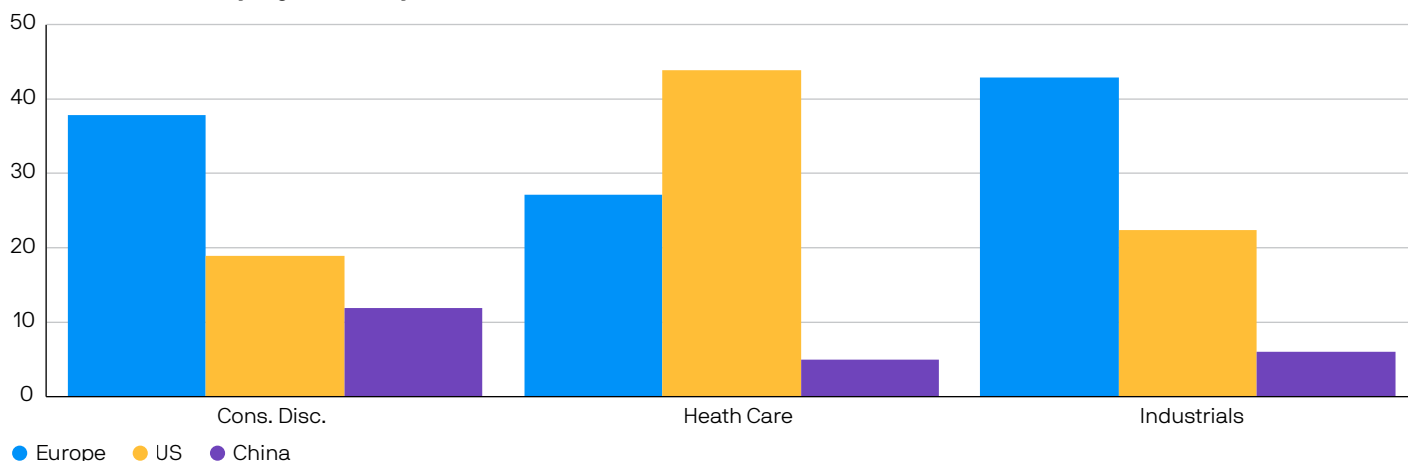
Analysts also anticipate stronger EPS growth for industrial firms, which represent almost a fifth of the index by market cap. As in the US, European industrials' earnings should be boosted by state-related 'megaprojects'. Lower interest rates should also be supportive, although once again, any imposition of tariffs by the US would threaten consensus forecasts given nearly a quarter of industrials' sales originate in America.

Profits in the European health care sector – of which Novo Nordisk represents approximately a quarter – are expected to benefit from rising demand for weight loss drugs, as well as other innovative pharmaceuticals. Finally, analysts see financials' EPS growth slowing in 2025, as forecasts for lower policy rates feed through to lower anticipated net interest margins. Given financial firms represent 20% of the MSCI Europe ex-UK index, decelerating EPS growth in this sector is more significant in Europe than it is in the US.

Overall, earnings forecasts for continental Europe anticipate a broad rebound in profits, driven by a domestic consumer recovery and resilient US demand. The primary threat to 2025 expectations is therefore the risk of broad US-imposed tariffs, which would weigh on a number of sectors.

Exhibit 4: MSCI Europe ex-UK sector revenues by geographic source

% share of revenues by region/country



Source: FactSet, MSCI, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 13 January 2025.

UK: Global forces to overwhelm domestic factors

Expectations for UK-listed companies are more muted, with consensus estimates seeing EPS growth reaching 5% y/y in 2025. This acceleration is driven by forecasts for margin normalisation after a weak 2024, given revenue growth is expected to slow.

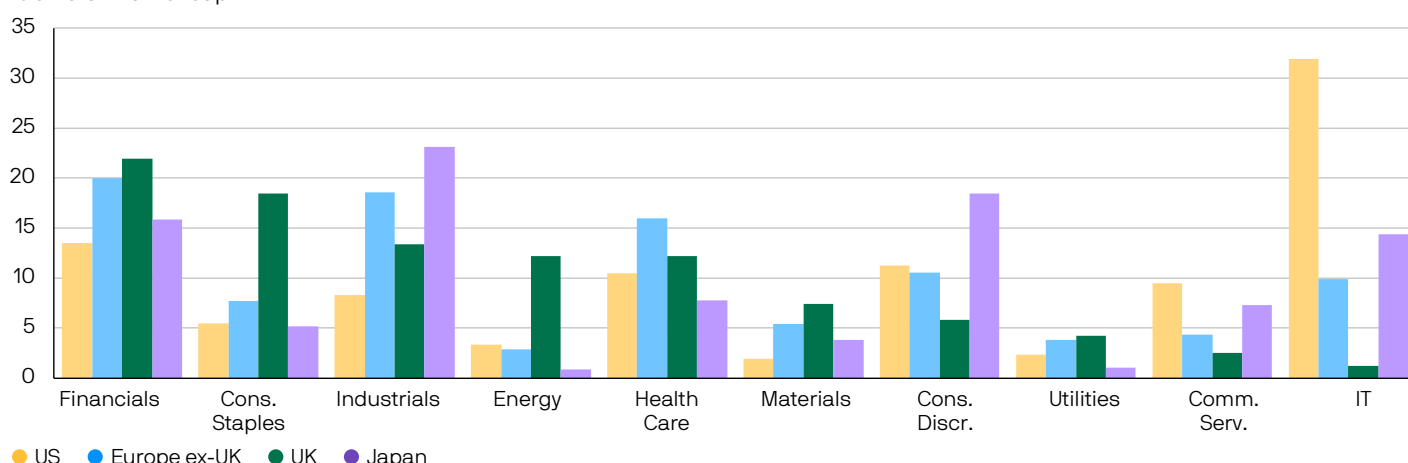
UK corporates' revenues are particularly international in nature, with 78% of MSCI UK sales originating internationally, including 22% from the US and 7% from China. Given this, elevated tensions between the US and China in 2025 – alongside broader geopolitical uncertainty – could be a factor in analysts' relatively muted revenue growth expectations, as could recently weaker UK activity data.

In contrast to peers elsewhere, EPS growth for UK financials (the largest sector in the MSCI UK index) is expected to accelerate, albeit modestly to just over 5% y/y. This partly reflects expectations for limited Bank of England rate cuts owing to stickier inflation, which in turn would support net interest margins. And with 88% of UK industrials' revenues generated abroad (49% in the US), stronger EPS growth forecasts here also reflect demand from international 'megaprojects'.

Overall, consensus expectations for UK earnings in 2025 are relatively muted and upside surprises are more likely to be driven by international than domestic factors. With the energy sector a large share of the UK benchmark, global demand for oil is also a key watch item.

Exhibit 5: Global equity sector weights

% of total market cap



Source: LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. MSCI indices are used for Europe ex-UK, UK and Japan. US is S&P 500. Real estate is not included due to its small weight in each index. Past performance is not a reliable indicator of current and future results. Data as of 13 January 2025.

Japan: Trade relations and the yen are critical

The MSCI Japan index is forecast to see EPS growth of 9% y/y in 2025, driven by an expansion in both sales and margins. Higher revenue growth expectations likely reflect stronger wage growth leading to more robust domestic consumption. Ongoing corporate governance reforms, paired with increasing pass-through from wages to prices, should also support margins.

Japan's equity market is heavily export-orientated, with only 45% of revenue generated domestically. As a result, the strength of the yen is critical for Japanese earnings. Thus, a key risk to analysts' 2025 estimates is a more hawkish Bank of Japan.

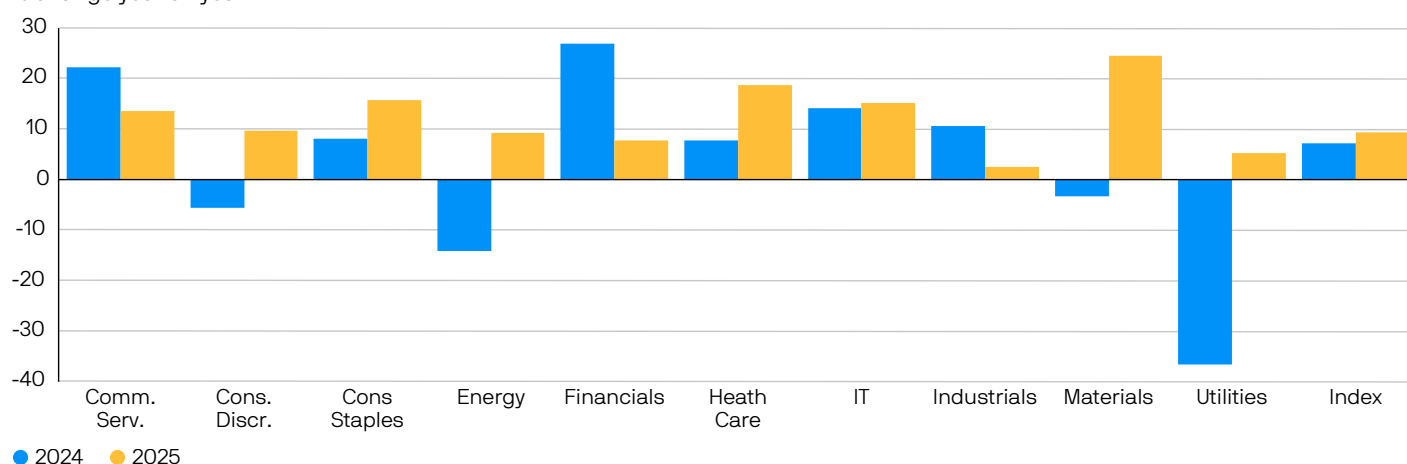
One particularly export-orientated sector is IT, where almost a quarter of revenues are derived in China and 12% from Korea and Taiwan. Here, analysts expect EPS growth to accelerate, likely owing to ongoing AI demand and domestic semiconductor policies. Broad-based US tariffs or renewed weakness in China do pose a risk to consensus forecasts, however.

The consumer discretionary sector – which accounts for around one fifth of the wider index – is expected to deliver strong earnings growth of almost 10% y/y this year, after contracting in 2024. With a third of revenues generated domestically and 25% in the US, a rebound in domestic consumption alongside a resilient US consumer appear baked into analysts' estimates.

Overall, consensus earnings estimates paint a positive picture for Japan in 2025, underpinned by a supportive macro backdrop. But given the international exposure of Japanese corporates, yen strength or escalating trade tensions could result in earnings headwinds.

Exhibit 6: MSCI Japan consensus earnings forecasts by sector

% change year on year



Source: IBES, LSEG Datastream, MSCI, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 13 January 2025.

Summary

Following a year where expanding multiples were a key driver of returns, earnings delivery is critical for further gains in 2025. This is particularly relevant in the US where valuations are stretched and earnings expectations are optimistic. Elsewhere, the earnings growth gap between the US and other regions is forecast to close, with global trade relations key to watch.

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