14 August 2025

Stock markets: Will the reporting season be a turning point?

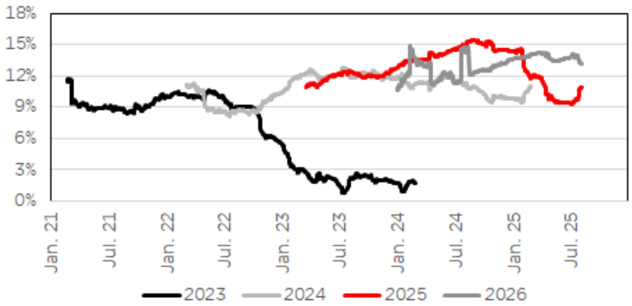
The quarterly figures for the second quarter of 2025 paint an ambivalent picture for the stock markets in Europe and the US. While US companies are surprising with record profits, European corporations are struggling with low growth and the headwinds of a strong euro exchange rate. At the same time, valuations are at a high level and share buybacks are booming. The crucial question is: can the markets maintain their momentum in the second half of the year?

Reporting season Q2 2025: Two worlds

The current reporting season for the second quarter of 2025 reveals a remarkable discrepancy between economic regions. In the US, companies are exceeding expectations by a magnitude that has surprised many. With more than 90 percent of S&P 500 companies having already reported, the proportion of positive earnings surprises is an impressive 82 percent – significantly above the historical average of just under 75 percent. Earnings growth reached 11.5 percent compared to the second quarter of the previous year, far exceeding the original forecasts of just five percent at the beginning of the reporting season. Earnings growth of eleven percent is now expected for the full year, compared to nine percent at the beginning of the reporting season and 14 percent at the beginning of the year. It is also interesting to note that, despite the surprisingly strong second quarter, corporate analysts have left their forecasts for Q3 and Q4 unchanged. This suggests that many positive surprises can be expected in the coming two quarters.

The breadth of the positive development is particularly remarkable: while profit growth in the communications services and technology sectors accelerated again year-on-year to around 50 percent and 20 percent, respectively, sectors such as financial services and healthcare also surprised with solid increases. Revenue underpins this positive development: 81 percent of reporting companies exceeded expectations here as well – the highest figure since the second quarter of 2021 and significantly above the usual figure of just over 60 percent. The net margin of the S&P 500, at 12.8 percent, is higher than the previous quarter and significantly above the five-year average of 11.8 percent. Fears that higher US tariffs would have a negative impact on corporate profit margins have therefore not materialized.

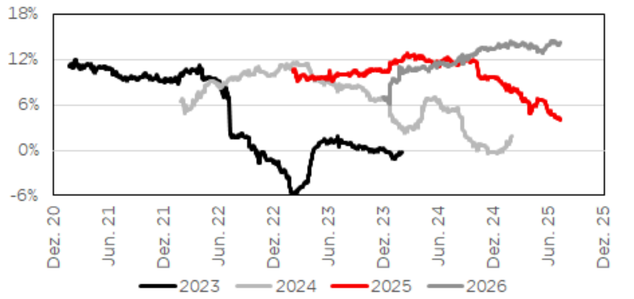
S&P 500: (Expected) earnings growth rate



Source: Factset

In Europe, however, corporate results were significantly more subdued. In the STOXX Europe 600, 57 percent of companies exceeded earnings expectations and 46 percent exceeded revenue expectations – below the historical average. A slight decline in corporate profits of around one percent is now expected for 2025 as a whole, compared to an expectation of plus two percent at the beginning of the reporting season and plus eight percent at the beginning of the year. These figures underscore the continent's structural challenges. Sector performance in Europe presents a mixed picture: while profits at banks, insurance companies, and technology companies developed better than expected, the automotive sector and the chemicals industry in particular saw some significant misses and downward revisions of their original profit targets. In contrast to the US, European corporate profits thus remain at the 2022 level.

DAX: (Expected) earnings growth rate



Source: Factset

Valuations at record levels: Euphoria or justified premium?

At first glance, current stock market valuations have reached a very high level. The S&P 500, with a P/E ratio of 22.5, is significantly above its long-term average of 16.8. The situation is even more pronounced for the Nasdaq 100 technology index, with a P/E ratio of 28.9. The concentration of high valuations among large mega-cap stocks is particularly striking; the "Magnificent 7" recently reached a new record share of the index, accounting for more than 35 percent of the total market capitalization of the S&P 500. The average P/E ratio of the Magnificent 7 is currently 52, ranging from 20.7 for Alphabet to 172.1 for Tesla; the median P/E ratio is 32.0. Accordingly, the high valuation of these seven stocks has a disproportionately strong impact on the valuation of the S&P 500, which is weighted by market capitalization.

Does this mean that US stocks are generally (too) expensive? To answer this question, we believe it is better to look at the equally weighted S&P 500. With a P/E ratio of 16.9, it is barely higher than the long-term average. Therefore, in our view, one cannot speak of a general overvaluation of US stocks.

European markets appear more favorable in terms of P/E: the STOXX 600 trades at a P/E of 14.6, the DAX at 15.5. However, compared to its own history, the DAX is very highly valued; relative to the equally weighted S&P 500, it is even more expensive than ever before.

Share buybacks: reason for optimism in the second half of the year

Share buyback programs were once again a key driver of US performance this year. US companies have already completed share buybacks valued at nearly $1 trillion, so a new record is expected by year-end. Among the largest buybackers are technology giants such as Apple, with around $100 billion, and Google parent company Alphabet (more than $70 billion). Major banks such as JPMorgan, Bank of America, Wells Fargo, and Morgan Stanley are following suit. Strong profit growth and tax cuts have filled corporate coffers. At the same time, share buybacks have helped to get the stock markets back on track after the tariff-related slump in April, pushing the S&P 500 and the Nasdaq to new record highs. Uncertainty surrounding international trade has also prompted many companies to postpone investments, making share buybacks an attractive alternative for excess liquidity. These programs serve a dual function: they support stock prices by artificially restricting supply while simultaneously signalling management's confidence in their own business prospects. For this reason, the outlook for the US stock markets for the second half of 2025 remains positive, especially since the US economy remains robust despite trade policy uncertainties. In Europe, the outlook for economic growth and thus also for the future development of corporate profits remains subdued. The strong euro has already proven to be a hindrance, and this negative impact could even intensify in the second half of the year.

Carsten Klude

Market data

Stock marktes	As of 15.08.2025 09:26	Change versus 08.08.2025 -1 week	14.07.2025 -1 month	14.05.2025 -3 months	14.08.2024 -1 year	31.12.2024 YTD
Dow Jones	44911	1,7%	1,0%	6,8%	12,3%	5,6%
S&P 500	6505	1,8%	3,8%	10,4%	19,2%	10,6%
Nasdaq	21711	1,2%	5,2%	13,4%	26,3%	12,4%
DAX	24472	1,3%	1,3%	4,0%	36,8%	22,9%
MDAX	31156	-1,1%	-0,2%	5,6%	27,0%	21,8%
TecDAX	3786	0,3%	-2,9%	0,1%	15,0%	10,8%
EuroStoxx 50	5455	2,0%	1,6%	0,9%	15,4%	11,4%
Stoxx 50	4567	2,0%	1,0%	1,6%	4,1%	6,0%
SMI (Swiss Market Index)	12059	1,6%	1,0%	-0,6%	-0,1%	4,0%
Nikkei 225	43378	3,7%	9,9%	13,8%	19,0%	8,7%
Brasilien BOVESPA	136356	0,3%	0,8%	-1,5%	2,3%	13,4%
Indien BSE 30	80598	0,9%	-2,0%	-0,9%	1,9%	3,1%
China CSI 300	4202	2,4%	4,6%	6,6%	27,0%	6,8%
MSCI Welt	4174	1,2%	3,0%	9,0%	18,5%	12,6%
MSCI Emerging Markets	1272	1,4%	3,5%	8,4%	18,2%	18,3%
Bond markets						
Bund-Future	129,51	-22	33	12	-558	-393
Bobl-Future	117,28	-3	-5	-91	-98	-58
Schatz-Future	107,06	1	-13	-6	68	8
3 Monats Euribor	2,04	2	0	-11	-151	-68
3M Euribor Future, Dec 2025	1,92	0	9	9	-22	3
3 Monats $ Libor	4,30	-2	-12	-11	-102	-7
10 year US Treasuries	4,28	2	-14	-24	45	-29
10 year Bunds	2,72	7	3	3	60	36
10 year JGB	1,57	8	3	12	75	49
10 year Swiss Government	0,30	6	-17	-11	-10	3
US Treas 10Y Performance	622,56	0,0%	1,6%	3,1%	0,8%	5,2%
Bund 10Y Performance	559,51	-0,1%	0,5%	0,9%	-1,6%	-0,9%
REX Performance Index	459,15	0,1%	0,4%	0,9%	1,7%	1,4%
IBOXX AA, €	3,10	0	-3	-5	-4	6
IBOXX BBB, €	3,38	-2	-6	-22	-29	-8
Commodities						
MG Base Metal Index	429,02	0,2%	1,3%	1,4%	6,7%	5,8%
Crude oil Brent	66,48	-0,2%	-4,0%	0,6%	-17,2%	-11,1%
Gold	3344,49	-1,4%	-0,1%	5,2%	36,5%	27,4%
Silver	32,54	0,0%	0,0%	0,7%	18,4%	9,6%
Aluminium	2615,49	0,3%	1,0%	3,4%	14,4%	3,5%
Copper	9677,25	-0,2%	1,3%	0,6%	9,2%	11,8%
Iron ore	101,83	0,6%	5,2%	1,1%	2,7%	-1,7%
Freight rates Baltic Dry Index	2039	-0,6%	14,4%	60,9%	18,0%	104,5%
Currencies						
EUR/ USD	1,1676	0,2%	-0,1%	4,1%	6,0%	12,4%
EUR/ GBP	0,8614	-0,7%	-0,9%	2,2%	0,3%	4,2%
EUR/ JPY	171,78	-0,2%	-0,3%	4,7%	6,1%	5,3%
EUR/ CHF	0,9411	0,0%	1,1%	0,2%	-1,1%	0,0%
USD/ CNY	7,1825	-0,1%	0,1%	-0,4%	0,6%	-1,7%
USD/ JPY	147,77	0,0%	0,0%	0,7%	0,3%	-6,0%
USD/ GBP	0,74	-0,8%	-0,8%	-1,8%	-5,1%	-7,6%

Source: LSEG Datastream

Carsten Klude
+49 40 3282-2572
cklude@mmwarburg.com

Dr. Rebekka Haller
+49 40 3282-2452
rhaller@mmwarburg.com

Martin Hasse
+49 40 3282-2411
mhasse@mmwarburg.com

Dr. Christian Jasperneite
+49 40 3282-2439
cjasperneite@mmwarburg.com

Simon Landt
+49 40 3282-2401
mlandt@mmwarburg.com

Jan Mooren
+49 40 3282-2132
jmooren@mmwarburg.com