Why earnings season matters for Global Equity investors.

Earnings season is one of the most useful windows into the real health of listed companies. Markets are often dominated by expectations, sentiment and narratives, but quarterly results force those narratives to be tested against hard evidence: revenue growth, margins, cash generation, capital allocation and management guidance. This is where investors discover whether companies are genuinely creating value or merely benefiting from market enthusiasm.

This is particularly relevant for investors in a global active equity fund. Global equity markets are broad, diverse and, more recently, increasingly concentrated in a small number of very large companies. A passive index will automatically own the winners, but it will also own the most expensive parts of the market where forward-looking expectations may already be stretched. Active investors must look deeper, and an earnings season helps distinguish between companies benefiting from a favourable narrative and those genuinely delivering through superior execution.

So far, the second quarter results season has been particularly encouraging. Across major global markets, a historically high proportion of companies have exceeded analyst expectations, while the magnitude of those earnings surprises has also been stronger than recent averages. Importantly, this strength has not been confined to a handful of mega-cap technology companies. At a time when many investors have worried that equity market gains are being driven by only a small group of AI-related winners, the latest results suggest underlying corporate profitability remains broader and more resilient than many expected.

That matters because one of the key questions facing investors today is whether the profit cycle is broadening or whether markets remain dependent on a handful of dominant technology companies. The evidence from this earnings season points towards broader participation. Financials have benefited from healthier capital-markets activity and improved trading conditions. Industrials exposed to power infrastructure, electrification and data-centre construction continue to report robust demand and record backlogs. Healthcare companies are seeing structural growth in areas such as obesity and diabetes treatments. Payment networks and consumer-facing platforms have also provided encouraging signals about underlying consumer activity.

For advisers, this is where earnings season becomes more than a backward-looking reporting exercise. Company results reveal where demand is strengthening, where pricing power remains intact and where cost pressures are beginning to emerge. They also show which companies are converting growth into cash flow and which still require substantial reinvestment to sustain momentum. In a market where valuations are not obviously cheap, those distinctions are becoming increasingly important.

Strong earnings are an important support for equity markets, but they are not the same thing as an attractive entry price. A high-quality business can still be a disappointing investment if the price already assumes an exceptionally favourable future. That distinction matters today.

Equity indices trade near record levels, while bond yields remain significantly higher than they were for much of the post-financial-crisis era. Investors can therefore earn a more meaningful return from lower-risk assets than was possible for many years, while higher discount rates also reduce the present value of future corporate profits. Even when company fundamentals remain healthy, demanding valuations leave less room for disappointment.

The artificial intelligence investment cycle is a good example. Investors no longer need convincing that demand for AI infrastructure exists. Large technology companies continue to invest heavily in data centres, computing capacity and related infrastructure, creating opportunities throughout the supply chain. The debate has now shifted towards a more sophisticated question: who will ultimately earn attractive returns on the enormous amounts of capital being deployed? Earnings announcements, management commentary and cash-flow statements provide valuable clues. They help investors assess whether AI is creating durable profit pools or simply fuelling an increasingly expensive investment race.

This is one reason why an active approach remains relevant in global equities. The objective is not to predict every quarterly result or trade around short-term earnings surprises. Rather, earnings season provides a disciplined framework for testing investment assumptions. Are companies delivering what investors expected? Are margins improving for structural reasons or merely benefiting from temporary tailwinds? Are earnings upgrades supported by cash generation and sensible capital allocation? These are the questions that ultimately drive long-term investment returns.

For South African advisers building globally diversified portfolios, the message from this earnings season is broadly encouraging. Corporate fundamentals remain resilient and, in many areas, stronger than expected. Importantly, the evidence suggests that strength extends beyond the largest technology companies, which should provide greater confidence in the breadth of the current profit cycle. At the same time, investors should resist the temptation to equate strong earnings with a blanket buying opportunity. Valuations remain demanding, bond yields remain relevant competition for capital and future returns are likely to depend increasingly on selectivity.

Strong earnings seasons can justify confidence in businesses. They do not eliminate the need for valuation discipline. In today's market, successful investing is likely to depend not on owning everything, but on identifying companies capable of converting growth into sustainable cash flows and attractive returns on capital over the many years to come.

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