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Thought Leadership: Closing the Quarter – Q1'26

May 20, 2026





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Earnings and Revenue Meaningfully Accelerate, But Building Headwinds and Concerns Over Demand Durability Dampen Excitement

1

Q1'26 earnings season demonstrated strong execution against the most challenging operating environment since Liberation Day. Revenue and EPS prints for the S&P 500 were meaningfully above their 1- and 5-year averages, as Tech leadership and the AI buildout story propelled U.S. equity markets to all-time highs.

2

Despite this, management commentary was notably more measured. The Iran War quickly shifted from a headline geopolitical risk to an operational risk, ultimately contributing to higher energy, transportation, and input costs.

3

Guidance was constructive but hedged. Better-than-expected Q1 results paired with limited visibility into the second half of the year resulted in a nuanced guide that carried more caveats than not.

4

Consumer health remains intact in the aggregate, but cracks at the foundation emerge. Companies increasingly cited rising fuel, transportation, food, and utility costs as having a disproportionate effect on lower-income consumers, with many seeking to balance price and volume strategies with their impacts on margins and market share.

5

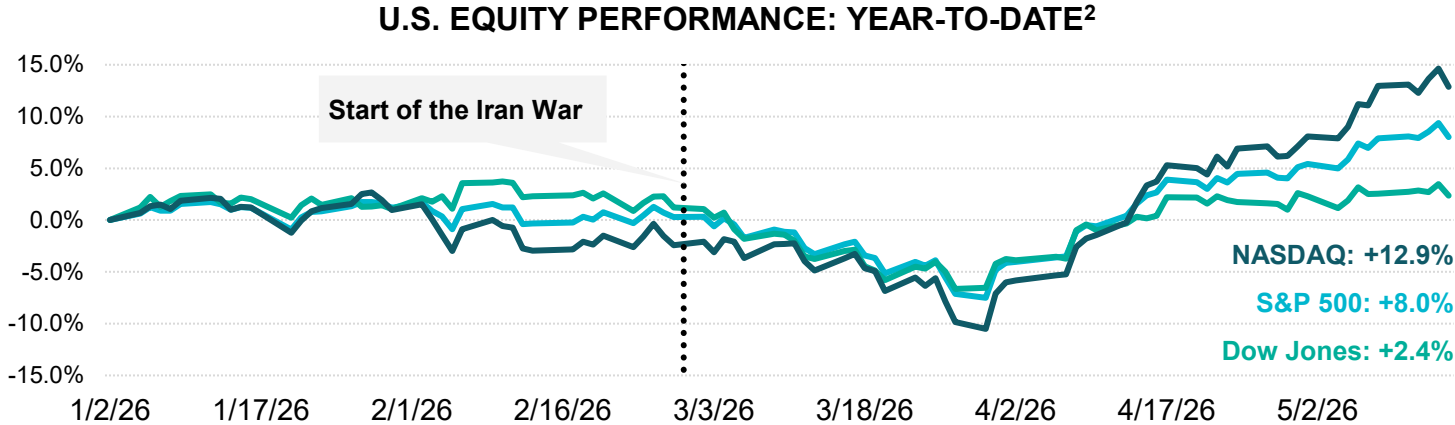
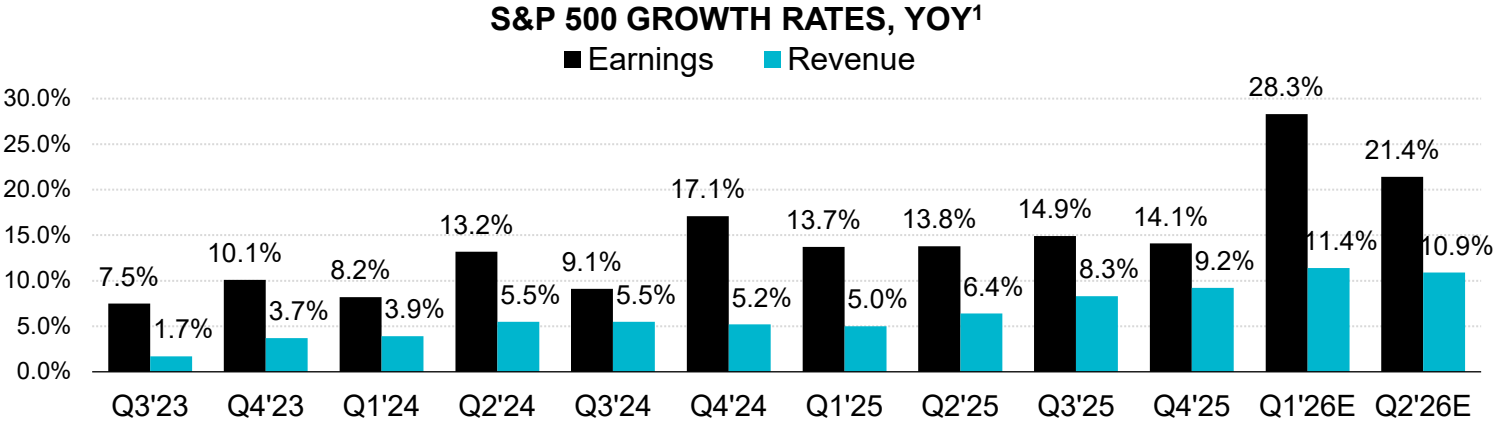
Capital allocation pivoted defensively as heightened uncertainty made alternative uses of cash more attractive but did little to stifle the Capex Supercycle.

First Quarter Performance: Earnings and Revenue Growth Surge as AI-Rush Continues Unabated

Q1 2026 earnings growth the highest since Q4 2021, revenue the highest since Q2 2022

S&P 500 earnings performance exceeded expectations in Q1

- **84%** delivered EPS above consensus
- This is higher than the 5-year average of **78%** and the 10-year average of **76%**
- In aggregate, companies are reporting earnings **17.9%** above estimates, well above the 5-year average of **7.3%** and 10-year average of **7.1%**
- Analysts expect the strength to continue in Q2'26 and are looking for S&P 500 EPS and revenue to grow by **21.4%** and **10.9%**, respectively



¹ Source: LSEG I/B/E/S; ² Source: FactSet, as of 5/15/2026

Earnings Performance: Earnings Growth Surges to 28.3%, the Highest since Q4'21

Companies deliver earnings 17.9% above consensus, the largest surprise since Q1 2021's beat of 22.2%

AI spending continues to power earnings growth

- **Tech (+53%):** NVIDIA (\$1.75 vs \$0.81) and Micron (\$12.20 vs \$1.56) are the largest contributors to earnings growth. Excluding these two, Tech earnings would fall to **30.6%**
- **Communications (+50.8%):** Alphabet (\$5.11 vs \$2.81) and Meta (\$10.44 vs \$6.43) account for all of the earnings growth for the sector. Excluding these two, Communications would have reported a decline in earnings of **4.3%** for the quarter
- **Materials (+40.8%):** Two of the four industries in the sector reported earnings growth – Metals and Mining (**+136%**) and Chemicals (**+19%**). Excluding the Metals & Mining industry, the earnings growth rate for the sector would fall to **14.6%**
- **Consumer Discretionary (+39.3%):** Amazon (\$2.78 vs \$1.59) is the single largest contributor to earnings growth; excluding it, earnings for the sector would fall to **14.9%**

S&P 500 BLENDED EARNINGS GROWTH, YOY ¹	
Sectors (A-Z)	Q1'26
Cons. Disc.	39.3%
Cons. Staples	-7.0%
Energy	-0.8%
Financials	24.6%
Healthcare	-3.4%
Industrials	9.9%
Materials	40.8%
REITs	15.2%
Tech	52.8%
Communications	50.8%
Utilities	15.7%
Average	28.3%

¹ Source: LSEG I/B/E/S

Guidance Moves: More Companies Choose to Maintain Guidance...

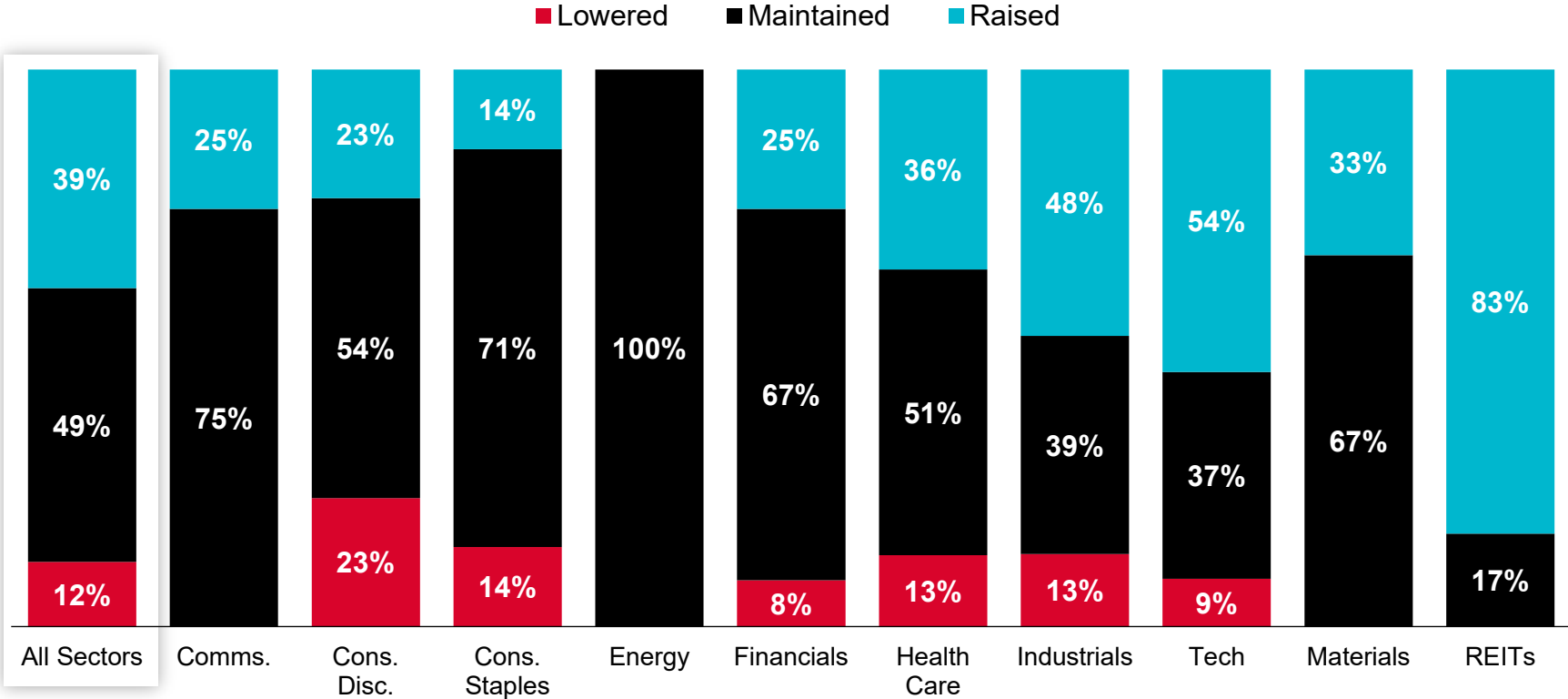
Consumer Discretionary sees the highest level of downward revisions as concerns over consumer health build

Revenue

More companies, **49%**, **Maintained** outlooks relative to last quarter, while **39% Raised**, and **12% Lowered**; average spreads were maintained with a range of **1.8%**

- **89%** of companies expect full-year 2026 results to be above 2025 actuals
- **27%** of companies are forecasting annual Revenue guides above consensus

S&P 500 ANNUAL 2026 REVENUE GUIDANCE^{1,2}
(n=181, Sectors A-Z)



¹ Based on company guidance provided at the time of publication; total number of companies differs across revenue and EPS; ² As of 5/14/2026

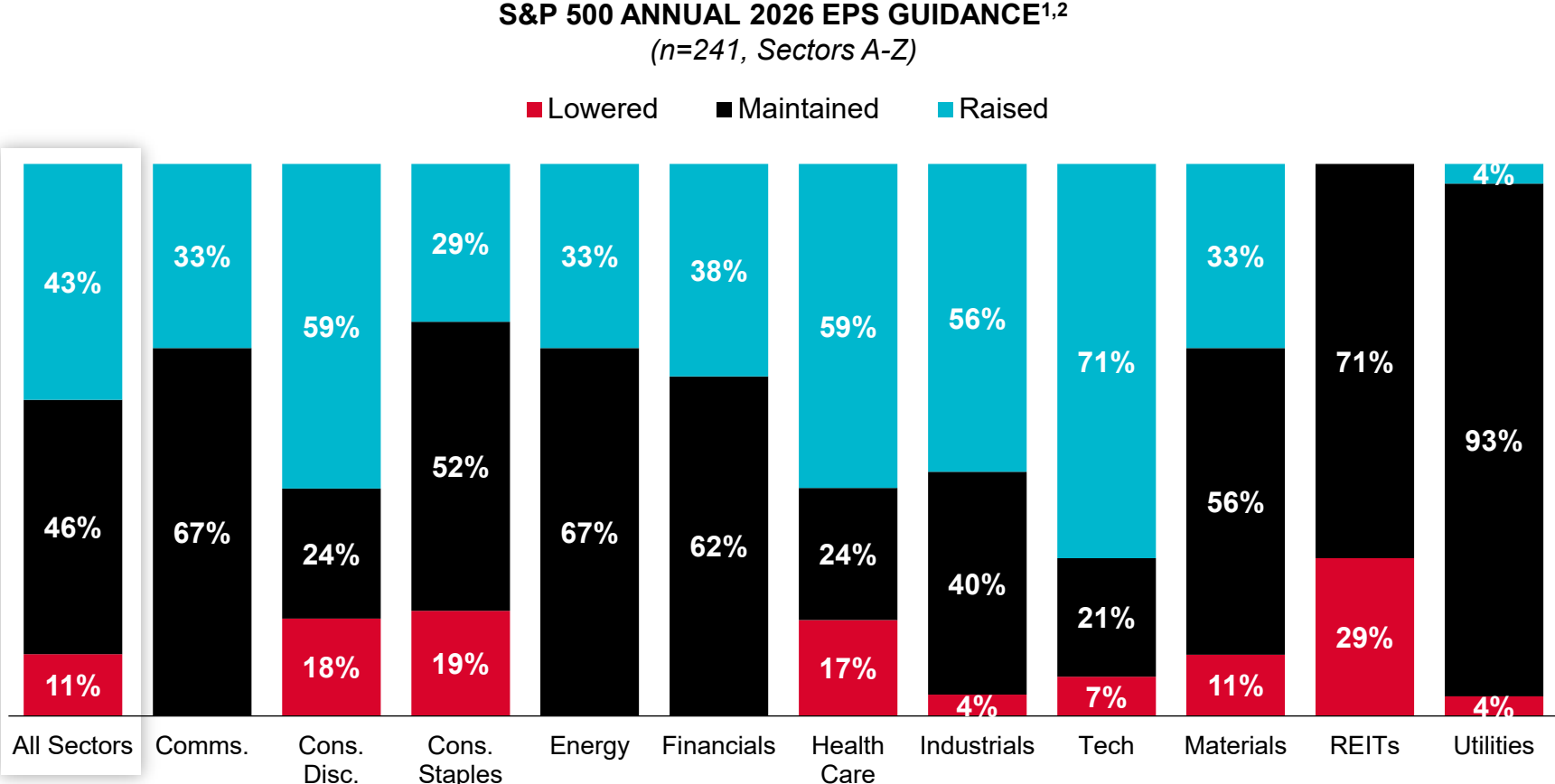
Guidance Moves: ...But a Healthy Amount of Raises Seen to Start the Year

71% of Technology companies in the S&P 500 increase EPS guidance following Q1'26 prints

EPS

More companies, **46%**, **Maintained** EPS guides, while **43% Raised** and **11% Lowered**; average EPS spreads decreased slightly from **5.3%** to **4.1%** on EPS of \$8.93 to \$9.25

- **88%** of companies expect full-year 2026 results to be above 2025 actuals
- **67%** of companies are forecasting annual EPS guides above consensus



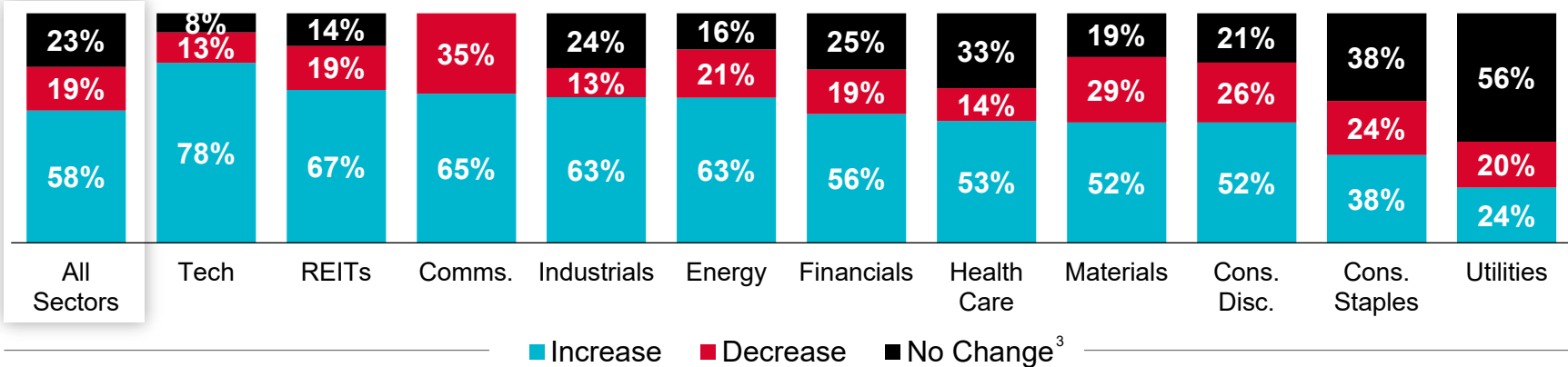
¹ Based on company guidance provided at the time of publication; total number of companies differs across revenue and EPS; ² As of 5/14/2026

Consensus Shifts: Net Positive, But Forward-Looking Commentary Proved to be Measured

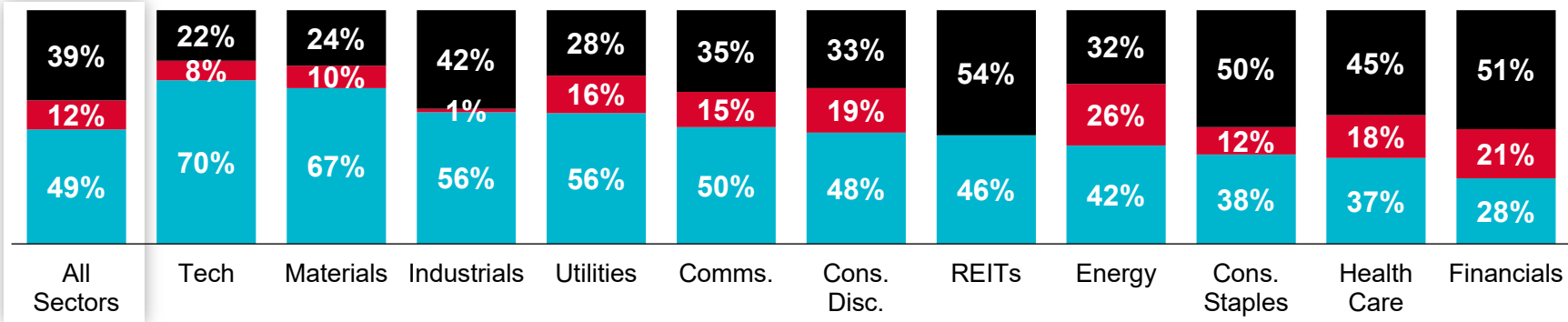
Commentary hedged full-year view despite Q1 performance

- EPS revisions were stronger than revenue revisions, with **58%** of companies seeing analyst increases, versus **19%** seeing decreases and **23%** remaining unchanged
 - Upward revisions were led by Tech, REITs, Communications, Industrials, and Energy
- Revenue estimates increased for **49%** of companies, declined for **12%**, and were unchanged for **39%**
 - Upward revisions were led by Tech, Materials, Industrials, and Utilities

S&P 500 Q1'26 CONSENSUS EPS REVISIONS^{1,2}
(One Week Prior-Post Earnings)



S&P 500 Q1'26 CONSENSUS REVENUE REVISIONS^{1,2}
(One Week Prior-Post Earnings)



¹ Based on company guidance provided at the time of publication; total number of companies differs across revenue and EPS; ² As of 5/14/2026; ³ No Change: Revisions $\leq \pm 0.5\%$

Guidance Assumptions: Companies Begin Incorporating First- and Second-Order Effects of Iran War into Outlook Assumptions

Color on guidance assumptions a focal point as analysts seek visibility into the second half

Companies providing explicit assumptions typically had one or more of the following characteristics:

- Non-contractual revenue mix sensitive to shifting consumer habits
- Specific reference to energy, transportation, tariffs, and / or commodities
- Direct exposure to external variables like interest rates, foreign exchange rates, etc.

In contrast, companies that were less explicit fell into two groups:

- Companies with diversified portfolios
- Companies with recurring, contracted, or subscription-based revenue models

S&P 500 COMPANIES THAT INCLUDE ASSUMPTIONS IN GUIDANCE n=422



CHARACTERISTICS OF COMPANIES THAT INCLUDED ASSUMPTIONS IN GUIDANCE¹ n=203

51	Non-contractual revenue mix sensitive to shifting consumer habits
60	Specific mention of energy, transportation, tariffs, and / or commodities
172	Direct exposure to external variables that investors can independently track

CHARACTERISTICS OF COMPANIES THAT DID NOT INCLUDE ASSUMPTIONS IN GUIDANCE¹ n=219

121	Diversified portfolios where management could point to aggregate resilience
154	Recurring, contracted, or subscription-based revenue models with greater relative short-term visibility

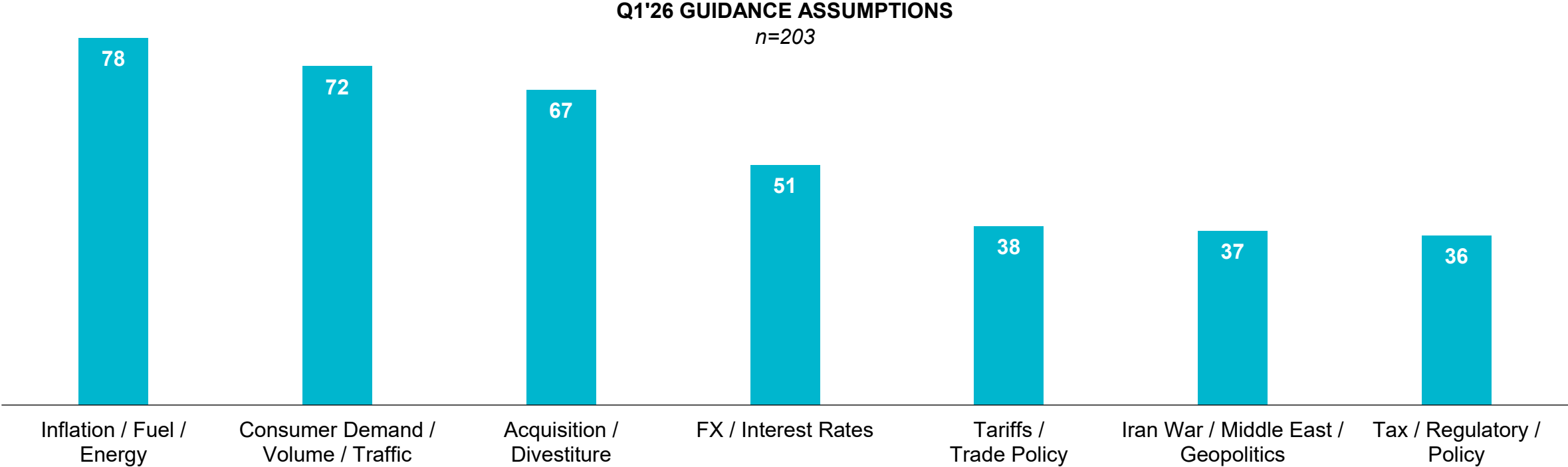
¹ Categories are not mutually exclusive, and sum will not equal total population

Guidance Assumptions: Investors Expect Management to Provide Assumptions when Business Performance is Sensitive to Commodity Prices, Interest Rates, and Tariffs

Management assumptions on inflation and energy costs lead number of unique mentions

Of the companies providing explicit assumptions, the vast majority were based on external variables that investors can independently track, such as oil prices, commodity prices, interest rates, and foreign exchange rates.

The lone exception, unsurprisingly, was mentions of the Iran War or geopolitical tensions, which companies tended to refer to in the context of their impact on input costs and demand.



Iran War and Accelerating Inflationary Pressures: Disruption Translating Unevenly across Sectors and Income Cohorts

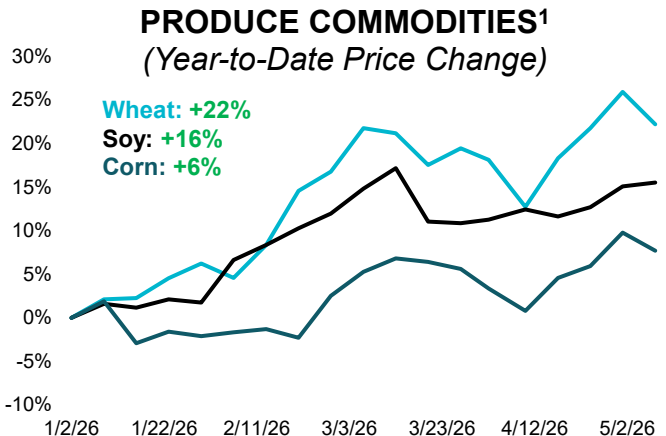
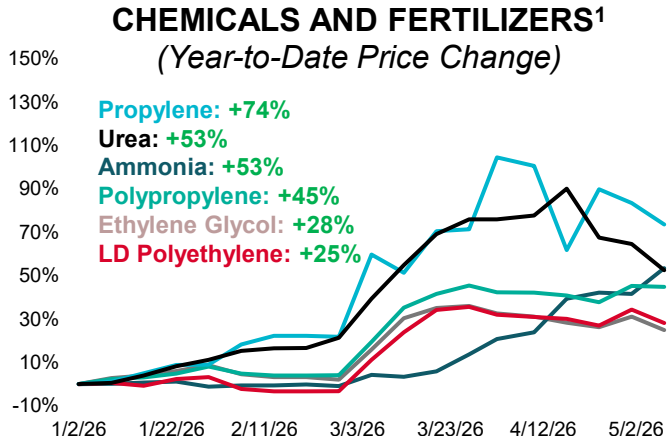
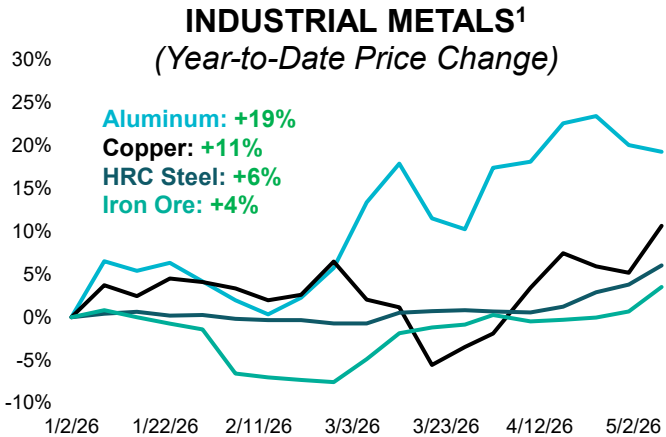
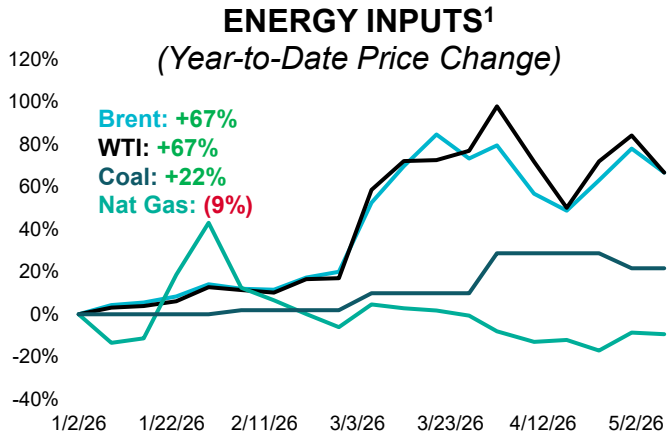
Companies frame exposure through costs, supply chains, and consumer strain

- **Companies with more direct commodity and feedstock exposure tended to be more explicit when describing mitigation strategies**

- Described selective or broad-based price increases tied to higher energy, raw materials, and/or transportation costs
- Pass-through mechanisms were common; companies with shorter pricing cycles, contractual recovery, and/or stronger market positions struck a more confident tone

- **Cost mitigation was generally framed as a preventative measure**

- Productivity programs, fixed-cost reduction, working-capital discipline, and capex prioritization to offset higher input costs were common
- Energy-intensive companies opted to highlight operational responses to increased fuel costs, specifically calling out altered transportation routes



¹ Source: FactSet, as of 5/8/2026

Price vs. Volume: Companies Going on the Pricing Offensive

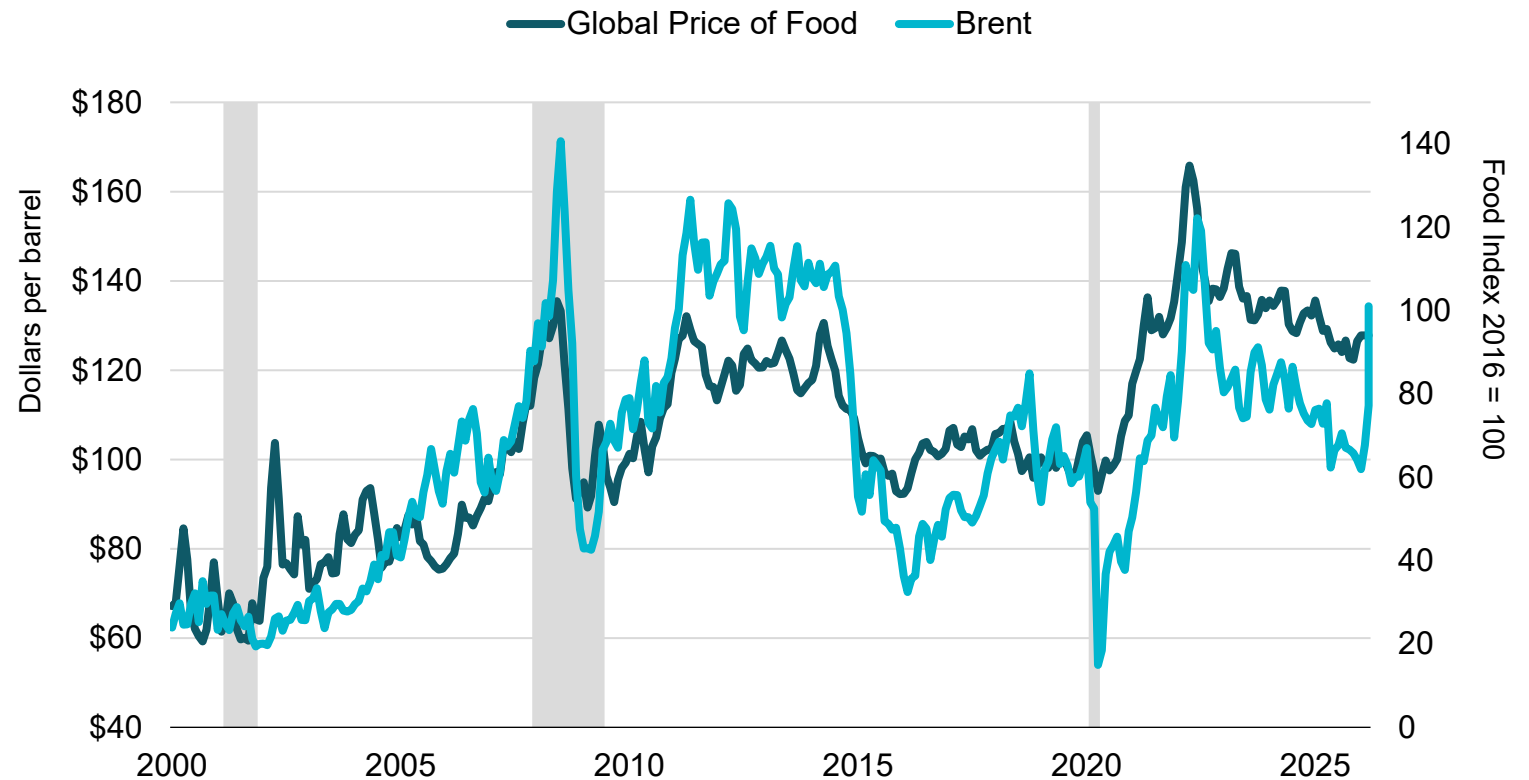
Commentary over-indexes around price, leaving opportunity for companies to pair commentary with the impact on consumer and volume

Our analysis of S&P 500 company reports¹ finds that:

- 73% addressed pricing actions, including pass-throughs, surcharges, or cost recovery
- 30% that discussed volume, specifically traffic, demand elasticity, or trade-down trends
- 23% covered both pricing and volume dynamics

Notably, most executive teams that expressed unwillingness to sacrifice volume in exchange for price were from **consumer-facing retail and restaurant companies**.

RELATIONSHIP BETWEEN FOOD AND OIL²



¹ Source: FactSet; ² Shaded areas indicate recession

Tariffs and Tariff Refunds: Tariffs Shift from Leading Cause of Corporate Headaches to Normal Course of Business

Conversations around IEPPA refunds are gaining prominence, but messaging emphasizes the process and not the assumed outcome or timing

Companies no longer discuss tariffs as simply a cost item, but are increasingly discussing the impact on margins, cash flow, and what assumptions are embedded in guidance

The strongest tariff disclosures:

- Distinguished between tariff costs (IEPPA vs Section 232)
- Outlined mitigation actions
- Detailed whether tariff refunds were included in the guidance

A meaningful subset of companies discussed pursuing tariff refunds, but highlighted the uncertainty around timing and amount

Refund communication strategies focused on:

- Evaluating eligibility
- Claim status
- Size estimate of refund

Sector	Total	Discussed Tariffs	% of Sector Discussing Tariffs	Discussed Tariff Refunds	% of Sector Discussing Tariff Refunds
Industrials	72	44	61%	13	18%
Cons. Staples	23	12	52%	2	9%
Cons. Disc.	31	14	45%	8	26%
Health Care	54	20	37%	7	13%
Materials	26	9	35%	1	4%
Tech	48	12	25%	3	6%
Energy	21	4	19%	0	0%
Financials	72	11	15%	3	4%
Real Estate	30	3	10%	0	0%
Comms.	16	1	6%	0	0%
Utilities	29	1	3%	0	0%
Total	422	131	31%	37	9%

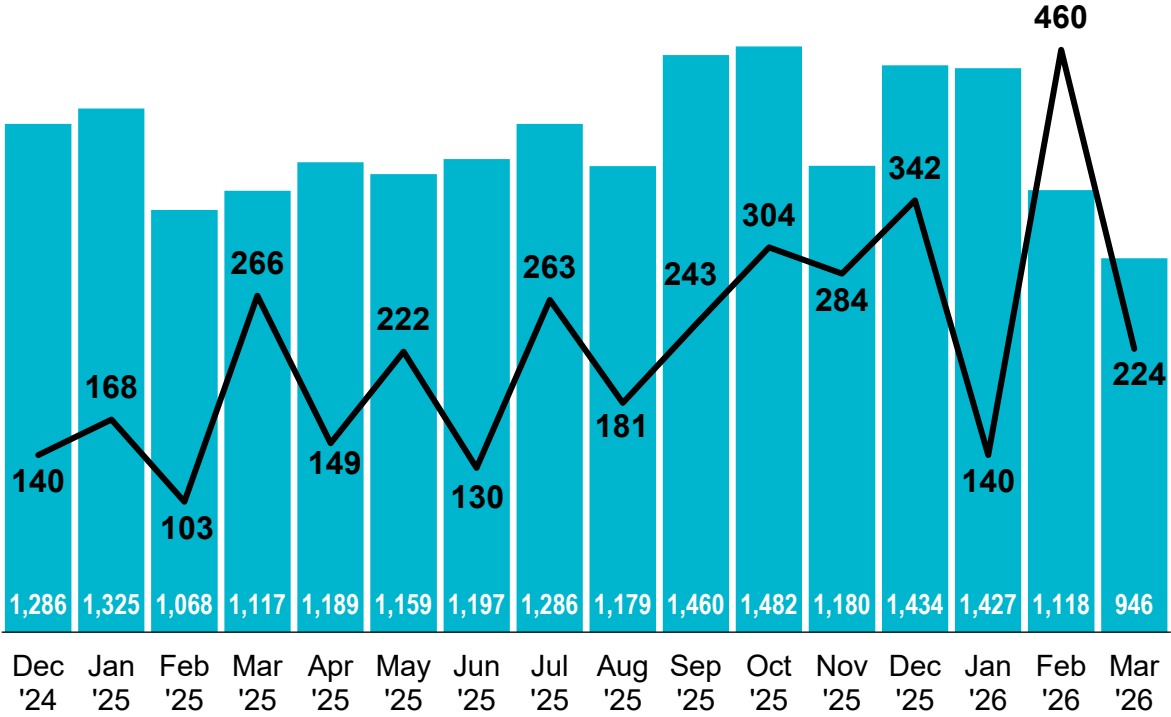
Capital Allocation Tradeoffs: Global Tensions Result in Companies Pausing Spending Plans, but Secular Capex Story Still Intact

Growing tensions put many long-term plans on hold

M&A activity in March was notably lower QoQ, as both deal volumes and aggregate deal value both fell due to ongoing volatility.

U.S. MERGERS & ACQUISITIONS¹

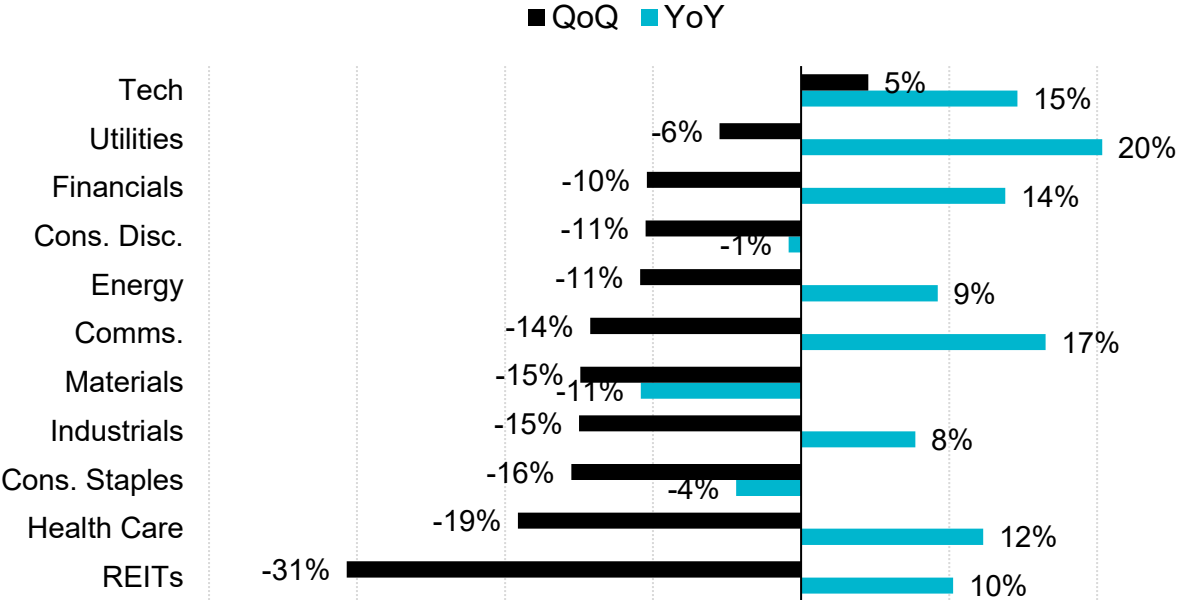
Deal Volume — Aggregate Deal Value (\$B)



¹ Source: FactSet; ² Source: AlphaSense

Capex also saw large relative pullbacks in the first quarter, as growing geopolitical tensions put many long-term plans on hold. The notable exception was in Tech companies, which, on an absolute level, contribute the highest dollar amount towards Capex. Year-over-year comparisons remain robust, however.

S&P 500 Q1'26 MEDIAN CAPEX BY SECTOR, QoQ AND YoY²

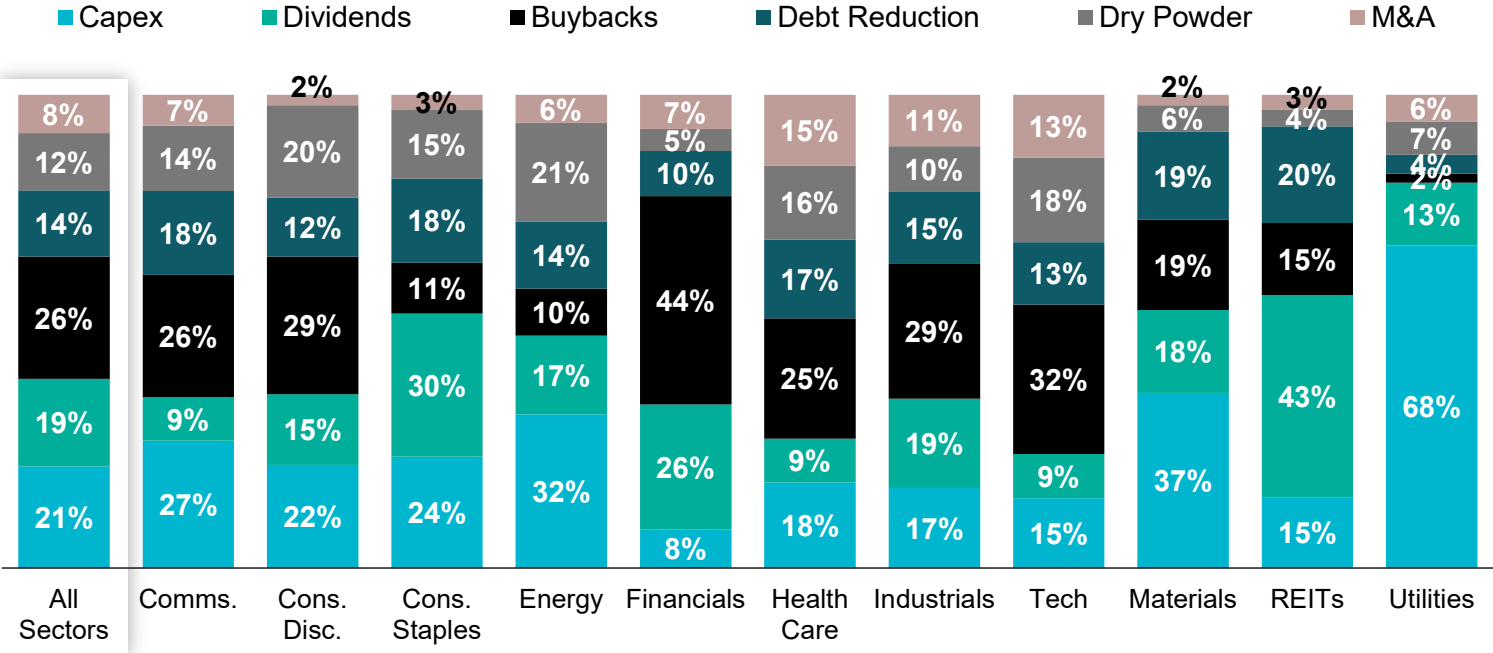


Capital Allocation: S&P 500 Shows Balanced Uses of Cash

Companies balanced their cash use in the first quarter, despite a few notable exceptions. Utility companies continue to support the infrastructure buildout and deployed 68% of their cash towards Capex, while 44% of cash for Financials was committed toward buybacks.

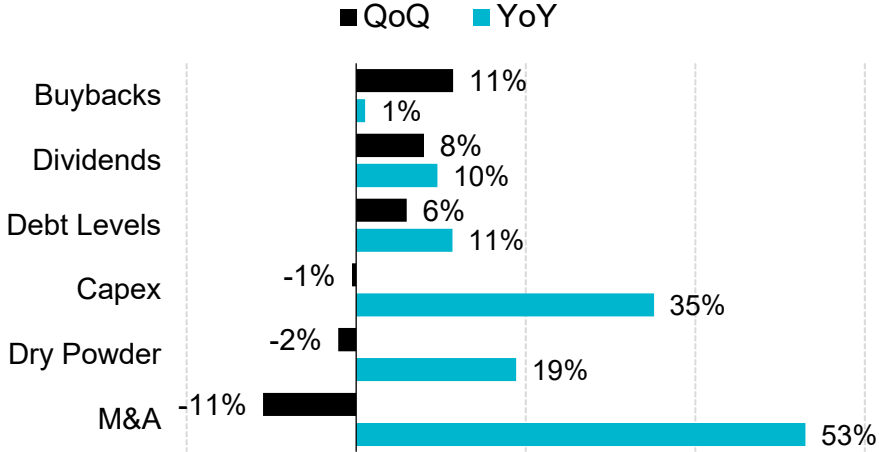
Buybacks, dividends, and debt payoffs saw notable sequential upticks as companies sought to shore up balance sheets and reward shareholders amid a highly volatile backdrop. This shift came at the expense of Capex and M&A, which largely mirrors findings from our [Q1'26 Inside The Buy-Side® Earnings Primer®](#), which found investor preference shifted toward more conservative uses of cash in the immediate aftermath of the Iran War.

S&P 500 Q1'26 USES OF CASH BY SECTOR¹
(Sectors A-Z)



¹ Source: AlphaSense

S&P 500 Q1'26 CAPITAL ALLOCATION, AGGREGATE



AI Demand and Monetization: AI Remains a Top Cross-Sector Theme as Companies Increasingly Make the Link to Quantified Financial Outcomes

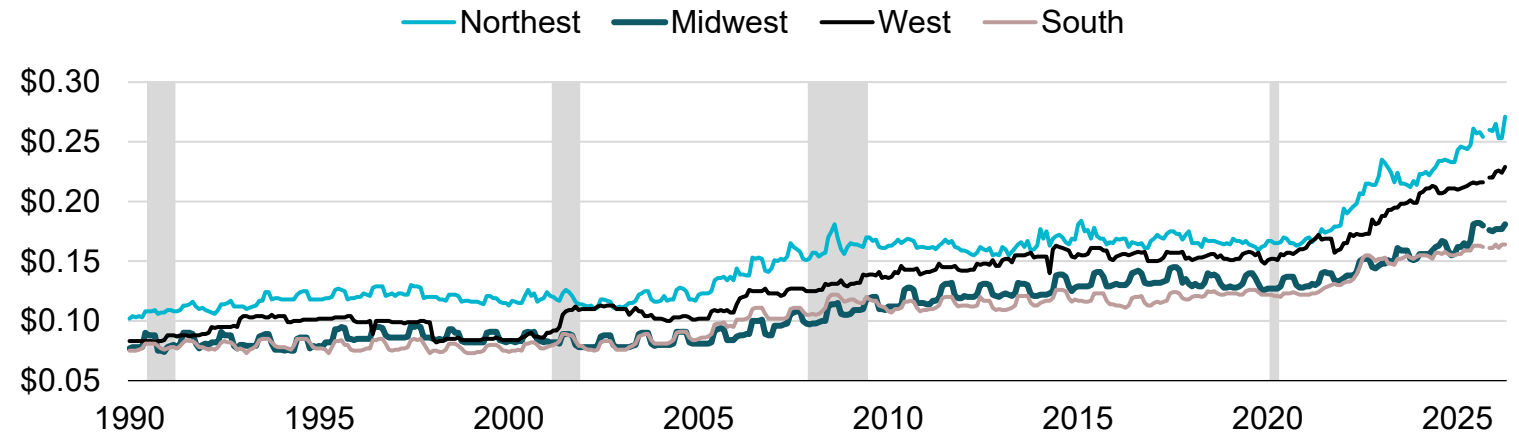
Rising costs of electricity from data center demand also weighing on lower-income consumers

AI remained one of the broadest strategic themes of Q1'26

Our analysis finds that of the 422 companies that held earnings calls between April 1 and May 11:

- **79%** referenced AI or AI-adjacent demand and implementation
- **68%** discussed internal AI implementation, framed as productivity and workflow enhancements
- **67%** connected AI to capex plans, investments, and infrastructure
- **66%** discussed monetization, revenue opportunity, and backlog
- **64%** provided some form of return language, though the selected metrics varied meaningfully

AVERAGE PRICE OF ELECTRICITY PER KILOWATT-HOUR^{1,2}



This AI-specific demand has led to a step change in energy costs

- Consumers at the bottom of the K, who are now beginning to feel the inflationary effects of the Iran War, were already experiencing much higher energy costs

The average cost of energy per kilowatt-hour in the U.S. has increased 44% between 2020 and 2025

- Increases have been concentrated in densely populated regions with heavy baseline demand and long lead times for onboarding new energy supply

¹ Source: U.S. Bureau of Labor Statistics; gap in August 2025 data a result of BLS commissioner's firing;

² Shaded areas indicate recession

Layoffs and Employment: Reports of Layoffs Concentrated Behind Companies and Roles Easily Disrupted by AI

Headline job growth figure hides employment weakness in critical sectors

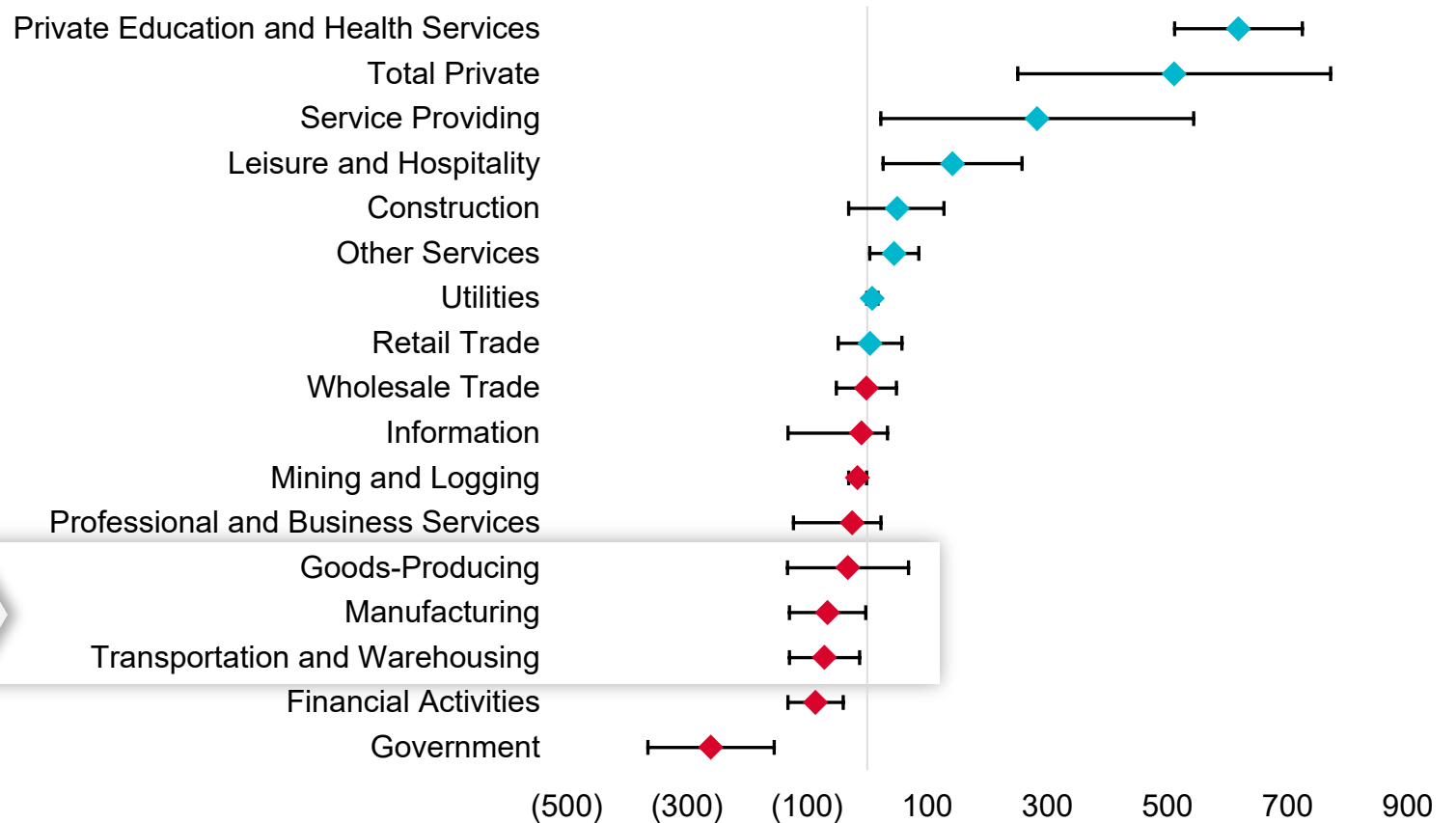
Gains in Private Education and Health Services account for all private-sector job growth

- Job creation and demand in healthcare are functions of demographics, rather than indicative of underlying economic growth and productivity
- Excluding these gains, job growth for the “productive economy” turns negative, **reflecting a loss of 107K versus the headline figure of 511 jobs added**



Industries most directly exposed to tariffs and energy shocks, such as Goods-Producers, Manufacturing, and Transportation and Warehousing, reported net job losses since April 2025

U.S. EMPLOYMENT BY INDUSTRY, IN THOUSANDS¹
(As of April 2026, 90-percent Confidence Intervals)



¹ Source: Bureau of Labor Statistics

The Big So What®

The corporate and investor landscape reflects a complex balance of resilience and caution

1

Earnings commentary broadly pointed to disciplined execution, but not without caveats. Companies are navigating geopolitical risk, renewed inflationary pressures, ongoing tariff uncertainty, and continued scrutiny of AI spend.

2

Consumer health and demand durability remain in focus. Spending and aggregate demand are not broken, but pressure is building at the bottom of the K. Rising fuel, food, and utility costs are working their way through the system, disproportionately affecting low-income consumers.

3

All eyes will remain on AI-related capex. Quarter saw a step-up in shareholder returns and debt paydown at the expense of M&A and capex, as uncertainty surrounding the Iran War led to a pause in long-term allocations.

4

AI continues to be a defining strategic priority for executive teams. Success has shifted from pure ambition to quantifiable evidence. Companies have increasingly positioned AI as both a monetization opportunity and a productivity enhancer.



What the Street is Still Asking

1. How will the consumer, particularly at the Bottom of the K, respond to rising prices?
2. Are changes to supply chains in response to the closure of Hormuz structural or temporary?
3. What is the size and impact of tariffs and tariff refunds?
4. Will defensive capital allocation strategies emerge as a counter to increasing costs?
5. Will AI returns ultimately justify the spend?

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Onward!

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