

Equities in Focus

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A Round Trip and Then Some

Following President Trump's April 9 announcement of a 90-day pause on most "reciprocal" tariffs, the S&P 500 Index (S&P) has not only returned to where it closed that day but is now 8.7%* above that gap-up close. While rising equity markets are a welcome event, this recent climb has not been accompanied by earnings growth confidence.

Key Takeaways

1. Market uncertainty is weighing on earnings expectations.

Still-high uncertainty is influencing earnings revisions.

2. Lower-quality stocks have gained a tailwind.

The recent risk-on vibe has caused many higher-quality stocks to lag their lower-quality counterparts.

3. Favor companies with positive earnings outlooks.

Multiple expansion has driven the market's recovery, and obstacles remain.

Most investors have enjoyed the market's bounce back from early April's lows, given that several US stocks are "back in black" (a hat tip to AC/DC fans). But while investors have exhaled, earnings outlooks have been weighed down by uncertainties ranging from US fiscal policy to how future trade negotiations will take shape—the status of the "One Big, Beautiful Bill" and tariff talks with the European Union come to mind (*Display 1*).

A Dash to Trash

While it is a relief to see improved market returns, and that past equity advances have successfully climbed these earnings walls of worry, a look below today's surface is warranted. *Display 2* shows two baskets of stocks: The first basket, High-Yield Debt Sensitivity stocks, holds companies that have issued CCC-rated debt, and the second basket, Quality Compounders, is composed of companies that generate consistent and stable cash-flow growth. The left-side graph shows that the first cohort has handily outperformed the second since April 9, but its earnings revision profile (shown in the right-side graph) is miles apart from that of the "smooth sailing" group.

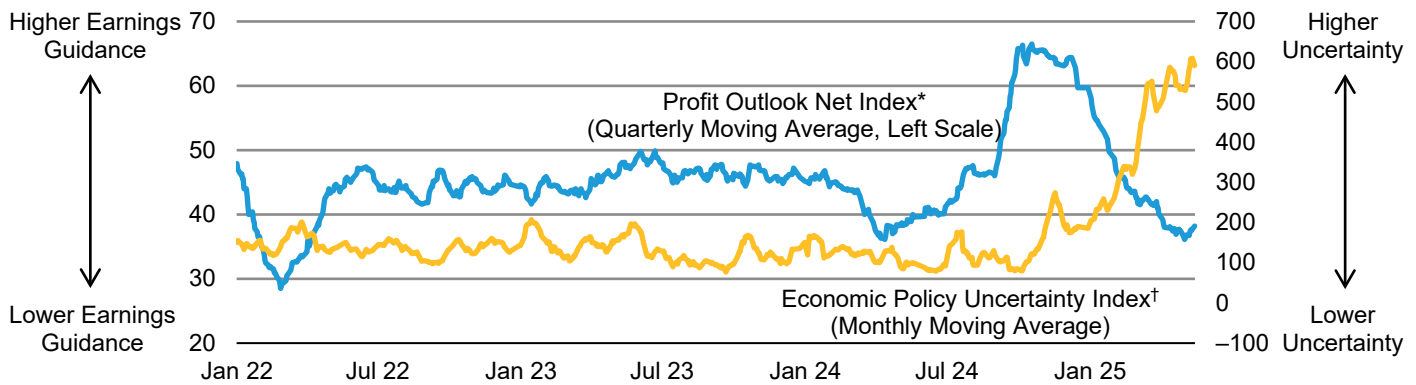
Our View

Uncertainty (be it high or low) has been a barometer for market returns this year. While we are likely past its peak, equity markets are not entirely out of the woods. Consider that S&P P/E multiples have re-rated back above 21x, 10-year Treasury yields have risen to 4.43%* versus trading below 4% in early April, and due to lingering trade and fiscal policy questions, we believe stock selectivity will be paramount. Specifically, seeking stocks with a positive earnings trajectory is advised. In fact, *Display 3* shows that through the 2022–2024 cycle, when both value and growth stocks delivered, those that had a positive earnings-revision path proved to be the most rewarding. Should trade and other policy issues track in a favorable way, equity markets will likely have further upside. But when traversing intricate terrain like this, it's best to step on rocks rather than try to walk on water.

To learn more about AB's equity investment solutions and to access other market insights, visit [Equity Investments | AB](#).

*As of May 27, 2025

Display 1: Broad-Based Uncertainties Have Weighed Down EPS Guidance



Past performance is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.

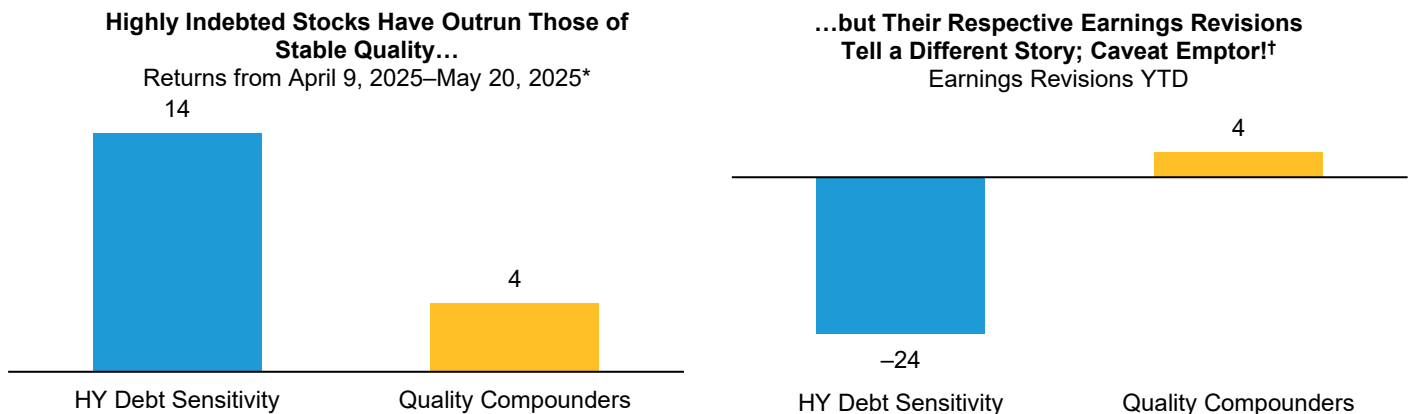
*The Profit Outlook Net Index is calculated as the percentage of companies reporting higher profit outlooks and adding one-half of the percentage of companies reporting unchanged profit outlooks, relative to consensus analyst estimates. A reading above 50 is positive, below 50 is negative, while 50 indicates no change. †The Baker, Bloom and Davis daily news-based Economic Policy Uncertainty Index is based on newspaper archives sourced from Access World News' NewsBank service.

Through May 19, 2025

Source: Bloomberg, Economic Policy Uncertainty and AllianceBernstein (AB)

Display 2: Three-Month Pause on Reciprocal Tariffs Boosts Lower-Quality Stocks

Percent



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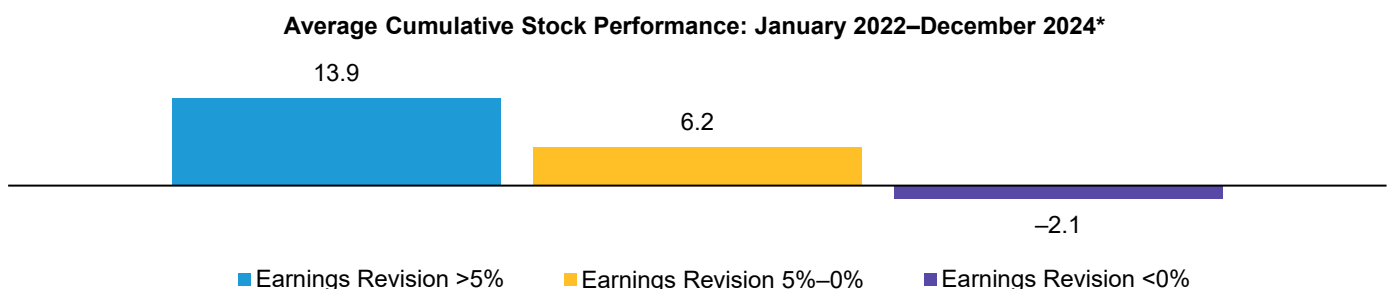
*The HY debt sensitivity stocks basket consists of companies that are low rated (rated below B by S&P) or nonrated but have issued CCC debt. The quality compounds stocks basket includes high-quality defensive stocks with the potential to generate consistent and stable growth and cash-flow conversion regardless of the underlying status of the economy. †Earnings revisions are calculated based on the percentage change of the Bloomberg blended 12-month forward earnings estimate for each basket.

As of May 20, 2025

Source: Bloomberg, Goldman Sachs, S&P and AB

Display 3: We Expect Stock Prices to Ultimately Follow Those with Earnings Strength

In a Cycle When Value and Growth Stocks Both Shined, Earnings Mattered Most (Percent)



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*Data are calculated based on the S&P 500 Index. The earnings revisions reflect changes in Bloomberg forward earnings estimates for 2024 during the period from January 2022 through December 2024. The calculation of average cumulative performance includes stocks that have available earnings revision data.

As of December 31, 2024. Source: Bloomberg and AB

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

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