Equities in Focus

Walt Czaicki, CFA, Senior Investment Strategist—Equities
Contributors: Bryan Chang, Investment Strategist—Equities and Steffi Napoli, Product Analyst

Earnings Season Pivots to a Seasons Change

Beyond the second-quarter earnings season delivering yet another solid showing, select corporations benefiting from the One Big Beautiful Bill Act and expectations on Fed rate cuts are providing fuel for the market's continued strong ascent. But September is around the corner—a month that historically has not been kind to investors. Whether or not next month dishes up a September swoon, history is on the side of patient investors.

Key Takeaways

1. **Earnings and revenue beats drive outperformance.**
   Winners were rewarded, but the price of missing the mark was expensive.
2. **September is historically the weakest month—not October.**
   While October is often remembered for dramatic market events, September has delivered the most headaches.
3. **September's reputation vs. reality**
   Subsequent returns following past Septembers have been positive; perseverance pays, even if next month is bumpy.

The Power of Beating Expectations

Not surprisingly, companies that beat both revenue and earnings-per-share estimates for 2Q 2025 significantly outperformed those that missed on both measures (*Display 1*). But the stock-price bump for "double winners" was more muted versus such occurrences in the past, while those that missed on both counts faced outsize punishment. This bifurcation highlights the market's heightened sensitivity to earnings results in the current environment, where elevated valuations demand strong execution and confident guidance from management.

A September to Remember or to Forget?

While October is often remembered for fearful market events (e.g., the Stock Market Crash of 1929, Black Monday 1987), *Display 2* dispels this myth by showing that September has historically delivered the weakest monthly average returns for the S&P 500. But despite September's historical weakness, *Display 3* reveals that the S&P 500 has delivered positive average returns over the subsequent three-month, six-month and one-year periods.

Our View

A rocky September, should it occur, is not a signal that the market's advance is finished or that one should jettison an appropriate investment strategy. Despite a richly priced S&P 500, we expect positive offsets, including the potential for policy tailwinds and healthy corporate profits, to reassure investors if markets again become turbulent [*Display 2*, June EIF]. And while valuation alone doesn't trigger bear markets, remaining selective now is especially important.

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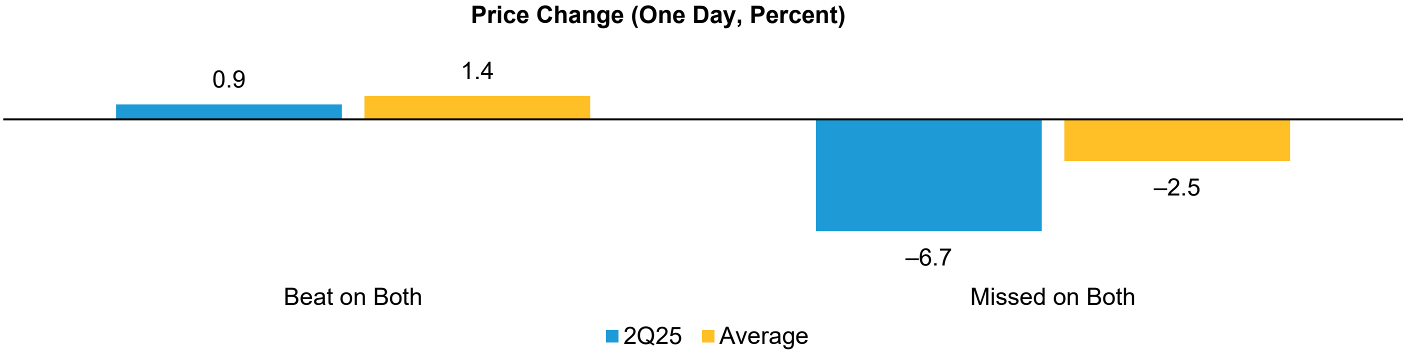
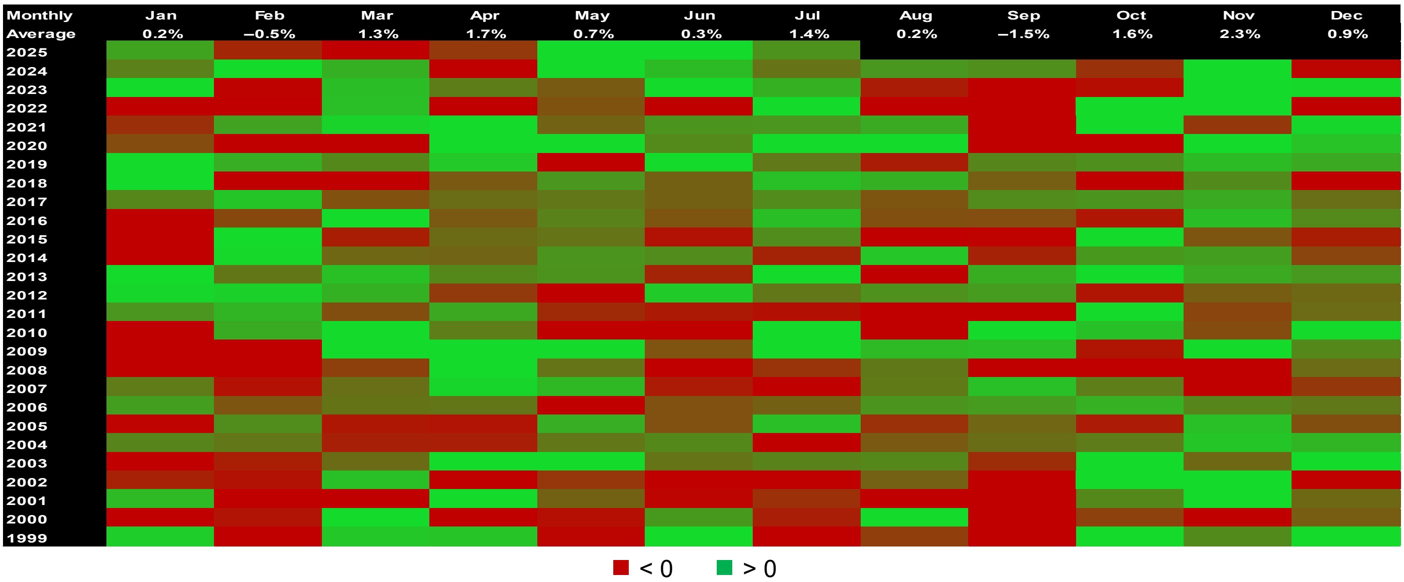
Display 1: S&P 500 Stock-Price Moves—What Have You Done for Me Lately?
Beating on Both Revenue and Earnings Growth This Past Quarter Was Just Okay; Missing Both Was Not



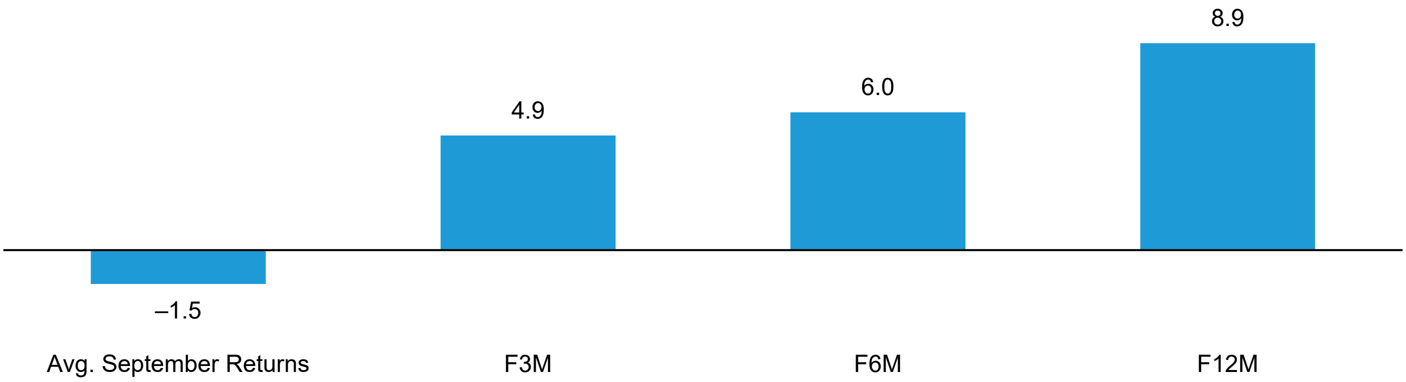
As of August 12, 2025
Source: Bank of America and AB

Display 2: Dispelling the October Myth—the Blame Lies with September



Display squares are monthly returns in each year shown, where negative returns worse than –2.59% are highlighted in brighter red, and months having a 4.56% or higher return are brighter green.
As of July 31, 2025. Source: AB

Display 3: Subsequent September Returns—A Rise After the Fall
Percent



As of July 31, 2025
Source: AB