

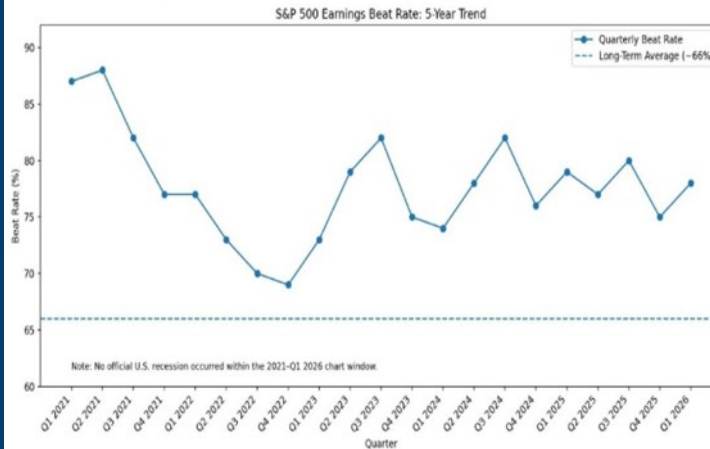


Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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Earnings season is not simply about whether companies grow profits. It is about how those results compare to expectations. Historically, most companies have exceeded estimates, as reflected in the chart, but markets respond to the gap between expectations and reality. In today's environment, where expectations are elevated, that gap has become increasingly important.



“Everybody in the world is a long-term investor until the market goes down.”

- Peter Lynch

Market Commentary

There was a dramatic turnaround in equity markets in April after a weak and volatile first quarter. The DJIA, S&P 500, and NASDAQ finished in the green, and the latter two posted gains of 10% and 15%, respectively – the best since 2020! The rebound was broad-based, with small caps gaining 10% and mid-caps not far behind, rising 8%. Asian equities surged 13%, mostly on the back of South Korea’s gain of 31%. European equities lagged, with the STOXX Europe 600 index rising almost 5% -- marking its strongest monthly gain since January 2025. Bonds fell, and the 10-year Treasury yield finished up at 4.4%. Currency markets experienced notable volatility, with the dollar declining 1.8% as tensions in the Middle East remained elevated and oil prices rose to levels not seen since 2022.

Earnings Matter!

Over the past month, there has been a shift from volatility to visibility in financial markets; interest rate expectations have stabilized, resilience to negative news has increased, and the number of companies outperforming in the stock market has broadened. So, while markets did not become risk-free, they became more encouraging, which is valuable for disciplined investors, even though the geopolitical environment became more uncertain

Many prognosticators had anticipated a market pullback if not a serious correction, yet we had no April “showers” to cool valuations or reset expectations. Markets held firm, even as forecasts called for turbulence, leaving some investors uneasy in the absence of a cleansing dip.

Markets, like seasons, do not always follow a script. The lack of an April correction does not preclude opportunity ahead, as we can see that capital continues to reposition and earnings strength continues to surprise: roughly 80%+ of S&P 500 companies have beaten estimates so far this earnings season, with corporate commentary generally constructive on demand helping offset weaker survey data and weak consumer confidence.

Historically, a majority of companies in the S&P 500 report earnings above analyst estimates in any given quarter. Over time, the average “beat rate” has been roughly two-thirds of companies, and in many recent periods it has been even higher. This dynamic is important for several reasons. First, it reinforces that expectations—not just results—drive market behavior. Second, consistent earnings outperformance provides evidence of underlying corporate resilience, suggesting that businesses are managing costs, improving margins, and adapting to changing economic conditions more effectively than anticipated. Finally, the pattern of earnings beats underscores the importance of selective, active decision-making. While the overall market may show a high percentage of companies exceeding estimates, the magnitude and sustainability of those beats vary widely. Identifying companies with durable earnings power and realistic expectations becomes critical in translating this trend into portfolio returns. The surprising strength in technology companies in April is a testament to the value of rapidly rising earnings.

The bottom line is that earnings growth matters and supports the broader case for investing in equities over the long term!

According to the LA Times, domestic box office revenue has risen 23% from 2025, the strongest first quarter since the pandemic, driven by a roughly 16% increase in ticket sales to 154 million in the U.S. and Canada, not just higher prices.

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