fundstrat

Evidence-based research.
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First to Market

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CORPORATIONS' FAT MARGINS ARE A REASON TO STAY BULLISH



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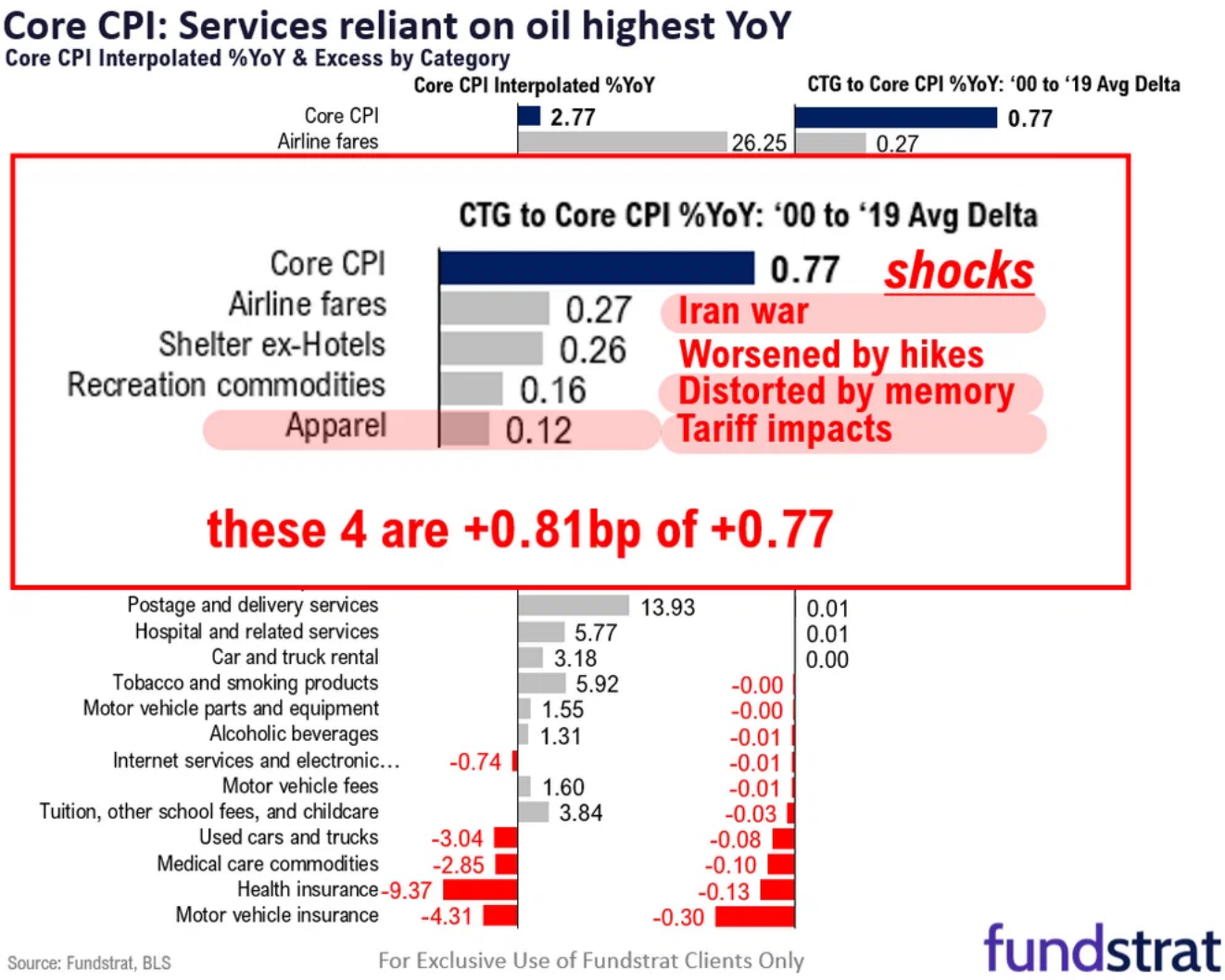
Chart of the Day



Good morning!

There's one key reason that arguably gives investors a reason to stay bullish on U.S. stocks, despite the recent tech rout.

It's net profit margin, which measures how much of every dollar earned in revenue actually makes it to your profit. The net profit margin for companies in the S&P 500 is on pace to hit 14.9% in the third quarter, which would mark the second highest net profit margin recorded by the index since FactSet began tracking it in 2009. The record was set in the second quarter when margins grew to 17%.

The robust margins aren't being driven by just tech either. Six out of the S&P 500's 11 sectors are on course to grow their net profit margins from a year ago, led by the

energy and information technology sectors. The long-term margin growth trend looks strong, as well. Eight sectors are reporting net profit margins above their five-year averages, led by the information technology, energy, and utilities (yes, utilities) sectors.

For investors, this means that despite the Iran war dragging out far longer than most had expected, U.S. companies remained resilient in maintaining fat margins. That's a bullish sign for the overall stock market. It means that the shocks of the past few years have done a good job of training corporations to become dynamic in adjusting to geopolitical events or monetary policy surprises.

Fundstrat Head of Research Tom Lee has spoken about this many times, too. Since 2020, every time there's been a shock, stocks have fallen initially, fearing that companies wouldn't be able to grow profits and consumer spending would crater. But those fears have always proved to be short-lived. There was the Covid-19 shock in 2020, bullwhip supply chain in 2021, multidecade highs in inflation in 2022 followed by some of the fastest interest-rate hikes that same year, and tariffs tantrum in 2025 — all of which make the Iran war look less like a shock but more like part of a changing global world and economic order that corporations have learned to navigate.

Through it all, margins have grown alongside earnings, giving investors confidence that the continued gains seen in the stock market are backed by fundamentals, rather than just euphoria. (As we all know, earnings are the true driver of stock returns, but margins are the true signal for a business' pricing power.)

Companies in the S&P 500 are on course to post an earnings growth of 31.4% in the third quarter, marking the third straight quarter of earnings growth above 25%. More importantly, all 11 sectors are so far reporting earnings growth from a year ago.

So while the recent bloodbath in tech stocks may have scared off nervous investors, American corporations are a machine that aren't showing any major signs of slowing down.

Take CoreWeave $CRWV, for example. Yesterday after the close, the neocloud operator released third-quarter results, and while it wasn't all great news (operating

margin fell from 16% to 10%), the company nevertheless reported beats on both revenue and earnings expectations. Third-quarter revenue was 168% higher than the same period last year, and perhaps more importantly, the company raised its forecast for full-year revenues. Shares rose as much as 16% in extended-hours trading, signaling that the worst may be over for neocloud stocks. This after CoreWeave shares last week hit their lowest level on record.

As for equities in general, valuations have come down, as well, increasing the attractiveness of stocks. The S&P 500 is trading at about 17.94 times its projected earnings over the next 12 months, higher than the 10-year average of 19.56. Last week, it was trading at the lowest level since November 2023.

Share your thoughts

What do you think of neocloud and AI stocks after CoreWeave earnings? Click here to send us your response.

✍Here's what a reader commented ✍

Q: What impact do you think Democratic wins in Texas will have on its business and finance efforts?

A: Texas is, and has always been, eager to attract capital to our state, but not if those businesses are abusive or unfair to their neighbors. Remember, it was Republican governor Abbott who put a moratorium on any additional data centers because of backlash from deep red rural Republicans. I am native to Texas and have lived all but 2 of my 78 years here. It is my opinion the election was mostly a profound rejection of Trump and all Trumpian politicians, immorality and excesses.

Catch up with Fundstrat

We discuss how Fed hikes are probably contributing to inflation via higher interest income and by making the housing market tighter. And of the 4 largest contributors to excess CPI inflation, 3 of 4 are due to supply shocks as we analyze in this video.

Technical

A hotter-than-expected CPI report caused U.S. equities to gap lower on Tuesday, and the entire rebound attempt since last Thursday still remains a likely “dead-cat bounce” and appears quite unfulfilling toward thinking a low is at hand.

Crypto

Yesterday’s inflation data was clearly hawkish, but markets now price ~3 hikes through next September and may be approaching the point where further hawkish repricing becomes more difficult.

News We're Following

Breaking News

- Tech stocks poised to rise after CoreWeave earnings WSJ

Markets and economy

- Trump's plan to import Russian diesel stalls on the high seas WSJ
- Mortgage rates jump sharply higher, after easing for four straight weeks CNBC

Business

- OpenAI continues to suffer heavy losses as revenue rises to $10 billion WSJ
- CoreWeave beats on revenue and lifts guidance, easing AI slowdown concerns CNBC
- Alibaba files to spin off chip unit in Hong Kong CX
- IBM to end immigration sponsorship for roles in biggest unit BBG

Politics/U.S.

- GOP taps combative Jordan as next House minority leader BBG
- US Treasury chief Bessent moved to military base after Iranian threats, sources say REU
- Jensen Huang affair revives push for chip restrictions on Capitol Hill WSJ
- House Republicans thwart Massie's effort to impeach Hegseth BBG

Overseas

- Senior U.S. soldier is arrested in U.K. over allegations of spying for Russia WSJ
- Hundreds of schools across Italy, Scotland and Ireland receive bomb threats FT
- Workers across Spain stage first general strike in 14 years as anger rages over housing REU
- The lights go out at Novaya Gazeta, Russia's bravest newspaper NYT

Of Interest

- Toyota brings Japan’s tiny trucks that Trump loves to America FT

Overnight	
S&P Futures	+58 ▲ point(s) (+0.77% ▲)
overnight range:	+3 ▲ to +61 ▲ point(s)

APAC	
Nikkei	+1.31% ▲
Topix	+0.92% ▲
China SHCOMP	+0.46% ▲
Hang Seng	-0.98% ▼
Korea	+2.60% ▲
Singapore	+0.59% ▲
Australia	+0.27% ▲
India	+0.84% ▲
Taiwan	+3.62% ▲

Europe	
Stoxx	50 +0.68% ▲
Stoxx	600 +0.32% ▲
FTSE	100 +0.34% ▲
DAX	+0.73% ▲
CAC	40 +0.36% ▲
Italy	-0.02% ▼
IBEX	-0.02% ▼
Canada	-0.76% ▼
Mexico	+0.05% ▲
Brazil	-0.52% ▼

FX	
Dollar Index (DXY)	+0.23% ▲ to 102.47
EUR/USD	-0.21% ▼ to 1.1140
GBP/USD	-0.19% ▼ to 1.3319
USD/JPY	-0.14% ▼ to 158.98
USD/CNY	+0.15% ▲ to 6.6694
USD/CNH	+0.12% ▲ to 6.6684
USD/CHF	-0.46% ▼ to 0.8291
USD/CAD	-0.23% ▼ to 1.4222
AUD/USD	+0.04% ▲ to 0.6869

UST Term Structure	
2Y-3M Spread narrowed	0.0bps to 51.3bps

10Y-2Y Spread widened	0.2bps to 25.0bps
30Y-10Y Spread narrowed	-0.6bps ▼ to 35.2bps

USD HY OaS

All Sectors	-17.5bps ▼ to 368bps
All Sectors ex-Energy	-3.6bps ▼ 325bps
Cons Disc	+3.3bps ▲ to 553bps
Indu	-6.6bps ▼ to 250bps
Tech	-4.2bps ▼ to 212bps
Comm Srvcs	-1.5bps ▼ to 349bps
Materials	-7.5bps ▼ to 277bps
Energy	-4.3bps ▼ to 276bps
Fin Snr	-6.7bps ▼ to 208bps
Fin Sub	-7.7bps ▼ to 295bps
Cons Staples	+22.3bps ▲ to 493bps
Healthcare	-4.8bps ▼ to 350bps
Utes	-8.8bps ▼ to 219bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
11/12	10:00 AM	Oct Existing Home Sales	3.85	3.99
11/12	10:00 AM	Oct Existing Home Sales m/m	-3.5	1.53
11/13	8:30 AM	Oct PPI m/m	0.4	1.3
11/13	8:30 AM	Oct Core PPI m/m	0.3	0.7
11/17	8:30 AM	Oct Import Price m/m	n/a	1.1
11/17	10:00 AM	Nov Homebuilder Sentiment	29	29

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