

## Moving to the Beats: Why Corporate Earnings Growth is Anchoring Equity Markets

### Speaker Key:

DP David Pett, Content Editor & Producer, Inside Perspectives: An AGF Podcast Series

MA Mike Archibald, Portfolio Manager, AGF Investments

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00:00:01	DP	Welcome to AGF Inside Perspectives. I'm not exactly sure how to start this podcast. John Christofilos is not able to make this episode. So I think I'm just going to introduce our guest, that being AGF Investments portfolio manager, Mike Archibald. Welcome, Mike.
00:00:21	MA	Thank you for having me, David. And I might say it might be even better being here without John to interrupt me throughout the course of the presentation today. So thanks for having me. It's great to be back.
00:00:31	DP	And there will be, maybe to the chagrin of some listeners, but there'll be no shortage of hockey talk. It's just for a little bit. We won't prolong it too long. But we're obviously in playoffs, Mike. And we're down to the final four as of this recording. Who you got? We got Montreal, we got Carolina in the one semi-final, and then we've got Colorado and Las Vegas in the other.
00:00:56	MA	What an incredible playoff so far. What a great game last night. Obviously the Canadians have pulled it out again. I'm going to go with Carolina, okay. I think I mentioned to you before we started recording here, that I've swapped out the Leafs this year for Carolina. I don't know how you can bet against them. They've swept the first two series. I think that's going to help them. Certainly, we are proud Canadians here. So, I'll hedge both sides.
00:01:19		If Montreal happens to beat them, I'll be okay with that. But I think Carolina's the team, and I'd love to see Colorado on the other side. The pace of the games this year has just been unbelievable.
00:01:28	DP	Yes, I got to think that Colorado's the team to beat. They seem like a juggernaut. But I have to say, I am cheering for the Canadians, even though I'm a proud Torontonion. But I feel like there's some allowance for that after, what is it? 60 years of drought here in Toronto.

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00:01:47	MA	It seems inappropriate to swap teams. But we're waiting since 93 here. So, whatever. Maybe this is the time. Maybe this is the time, right. And our Jays are not doing so well. So, we got to have something good happening here in Canada for us on the sports front.
00:01:59	DP	There you go. Okay, that's enough sports talk. I think what we'll do now is, Mike, we'll get into markets, and that's what we're here to do. So, without further ado, let's get into it.
00:02:18		Okay, Mike. lots to talk about when we get into markets. It's been a couple of months since the podcast last aired. Let's start with earnings season. Q1 in the US is pretty much done. In Canada, we're still going through those results. And so far in the US, it's just been a phenomenal quarter.
00:02:41	MA	Yes. As you know, and you've heard us talk a lot about earnings are the primary driver of stock returns for us in the medium term. And we are just seeing off the charts growth right now. So 26% earnings growth here in the first quarter of 2026. It's double the expectation of what the market had coming into the quarter. We're now 13 straight quarters, David, of significantly better growth rates than consensus had expected. And this is a perfect backdrop for, obviously, growth oriented investing.
00:03:07		So, it isn't just the AI theme. I know we'll talk about that a little bit later today. But you have so many different sectors that are really beating to the upside. We have seven of the 11 industry sectors that are reporting double digit sales growth. This is off the charts, EPS boom type territory that we're in right now. And a lot of that is being driven by fiscal and monetary policies that have been in place now for north of a year.
00:03:32		We talked about the One, Big, Beautiful Bill last year, and we're now really starting to see the CAPEX that is related to the One, Big, Beautiful Bill coming through. And certainly, some of it is data centre build out and AI build out, and there's no question about that. But it is broader than that. And so, from our lens, there's a lot of stocks that are working in this environment. I think there's a narrative out there that there is narrow breadth to the participation in the market. And to some degree, that is accurate.
00:03:59		But we are finding a lot of ideas in industrials. We're finding a lot of stuff in consumers, in financials, obviously in technology as well. But I would just say net-net, it has surprised massively to the upside. Earnings estimates for the market in general have continued to move up and to the right. Growth rates are exploding. And so, had we not had the war, I think the S&P would be even

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		significantly higher than where it is. And so these are really good signs for the future.
00:04:26		Obviously, we can talk about growth rates and so on and so forth for the economy as well. But things are looking pretty good in the US market, despite all of the macro uncertainties that we continue to see. So, lots of beat and raises. That's the type of environment that bodes very well for a lot of the investing styles at AGF.
00:04:42	DP	And you mentioned the US in particular. We're almost through earnings season on that front. Do you see a similar thing unfolding in Canada and perhaps other international markets as well?
00:04:54	MA	Yes, we are still seeing the same type of phenomenon in Canada. It's not to the same degree, to the upside that we are seeing in the US. And that's owing to, obviously, a significantly larger technology weight in the US than there is in Canada. And we haven't seen the banks report yet in Canada. That's happening next week, but we're expecting decent things. So, net-net, again, same thing. Canada has performed relatively well this year, not as well as the US, but obviously coming off a really fantastic year last year where we saw pretty significant growth rates.
00:05:19		So, I know the narrative out there is that there's a lot of caution that needs to be had. But we're still finding a lot of great opportunities. We think there's still upside to valuations. Certainly could have drawdowns at any point in time like we've seen here in the last couple of days. But I just don't foresee an environment where growth isn't still relatively solid here for the next six to 12 months.
00:05:38	DP	You raise an interesting point, because when a lot of investors read the headlines, and look at the headlines, it does feel very doomy and gloomy. Given, obviously, the war in Iran and what's going on there. And yet, if you kind of consider what's going on there, and you look at earnings, it's almost like a tale of two markets, if you will. Is there a lesson in here about what's really important, and what does drive markets, ultimately?
00:06:05	MA	Yes. Again, it comes back to, obviously, earnings typically drive the medium term returns of the market. I think there's a couple other things from a macro perspective that have, I think, really informed investors. And so you'll remember back to last year where we had the tariff tantrum and stocks sold off very, very sharply in the end of the first quarter, early second quarter. And a lot of market participants got very, very bearish at that point in time, raised a lot of cash, went very, very defensive.
00:06:31		And we saw the market rip, obviously, out of that into all through Q2 and most of Q3 as well. I think positioning has changed this

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		year. There has been less concern about downside in the very near term, because there's always the Trump pivot that typically tends to happen when the markets are volatile. And certainly, we only saw about a 9% drawdown this year, which was significantly different than what we saw last year. And I think that's owing to a lot of market participants continuing to stay long risk.
00:06:58		And so I think that is a lesson that we continue to learn here. Drawdowns are likely going to be shallower, either because you're going to see a pivot from the Trump administration. Or if there is a broader economic problem, you're likely to see central banks move faster than they would have decades ago. And we've seen both of those types of occurrences over the last five or six years with COVID, obviously, in the central banks. And then, obviously, with the Trump pivots related to tariffs, and, I guess, related to the war, even though we still don't have a resolution there.
00:07:27		So it's a combination of both. As I said, I think the US economy is still in very, very good position, as we currently sit. Obviously, if energy prices remain elevated for a much longer period than our base case, there will certainly be a tax on growth. And you are seeing certain parts of the economy that are suffering a little bit here. Obviously, the low end consumer is quite stressed. They do a lot of driving. The cost of fuel has gone up fairly significantly, as all would know.
00:07:52		But I think net-net, you still want to lean positively into the current macro backdrop.
00:07:59	DP	When you see what has happened over the last quarter in particular, and then you look at what might happen for the rest of the year. Has there been anything in the earnings guidance in particular, that has made you feel like this can continue for a little bit?
00:08:17	MA	I just think, in general, earnings guidance has also surprised to the upside. So we're seeing very, very aggressive numbers put out there. Again, a lot of that is driven by technology and some of the offshoots to the AI theme. But it is other parts of the market. And so, I guess you want to start to think about, are we getting closer to peak earnings? And that's not our view right now. But of course, we're not going to be able to grow in the mid-20s on a sustainable basis. So you want to make sure that you understand that.
00:08:44		But nonetheless, the runway in the near term, and let's call that between now and the end of this year, still looks quite constructive. The earnings estimates for Q2 and Q3 are also continuing to move higher. The balance of earnings for 2026 as a whole are moving up. Earnings estimates for 2027 are moving up. So it is very broad based. Doesn't mean that estimates are going

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		to come true in the future. As you know, there's a lot of uncertainty surrounding that.
00:09:07		But given what we see right now with respect to corporate profiles and corporate outlooks, businesses are still in a very, very good position. They certainly continue to cite high energy prices as the biggest risk to their businesses. And that could potentially impact margins on a go forward basis. But we're seeing near all-time high margins for the S&P 500 as well. And that is continuing to move higher.
00:09:29		So we're in a very, very good position right now. Obviously, the market has reflected that. It's moved up very, very sharply from the bottom of the market that we saw a month and a half ago. Remember, if you take a look at what happened out of tariffs last year, we had a really sharp snapback. And then we did have a little bit of a pullback in May and June of last year. Again not terrible, but a bit of a shallow pullback. And we're certainly likely to see something like that happen as we moved through the next three months or so, but wouldn't suggest that it's going to be a deep pullback in stocks.
00:09:59	DP	And so you mentioned a lot of companies are citing energy prices as a potential risk. Do you see that as a risk. And are there other risks that that you need to be aware of as you navigate over the next few months?
00:10:12	MA	Yes. Great question. I think the two biggest things that we see right now are, number one, energy. And so, obviously, a lot of businesses use energy as an input cost. And so there's a pass through effect that can occur up to a certain point in time. But the longer that this occurs, the more expensive everything gets. So you have to transport things around. And obviously, the cost of oil has moved significantly higher. And so we aren't seeing that yet flow through to margins. But that will end up what inevitably happens. If we have an energy price that stays, let's call it round numbers, around 100 bucks, right?
00:10:42		Our view is that oil prices are going to settle out at a level higher than where we started here. So let's say we were around \$60 on WTI. We're at about 100-ish today somewhere with a higher floor is at around 80, likely somewhere around there. The global economy can still handle \$80 oil. It is a tax on growth. And that will be certainly a concern to GDP growth as we move through the back half of this year. But it is not recessionary in our view.
00:11:09		If we're at 110 for a six or nine month window, that's a different story. So that's not our view. And there's a whole host of reasons why. And obviously, the midterm elections is one of those. That's a primary reason or risk that we're continuing to monitor. The

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		second one, which is relatively newer, I would say, in the last couple of weeks, is the move that we've seen in bond yields. Bond yields have moved up fairly sharply. And that is important for a couple of reasons.
00:11:33		Obviously, as bond yields are moving up, it's usually in reflection of either one of two things. Growth rates moving higher or inflation moving higher. And in this case, it's levered to a little bit of both. And so growth is pretty strong, as I mentioned earlier, in the US marketplace and globally. But inflation has started to move higher again. And that shouldn't really be a surprise, given what we're seeing with respect to broader energy prices.
00:11:56		So are we going back to a 2022 environment where inflation spikes to 8 or 9% globally? I don't think that's in the cards, because rates are still higher than they were when that inflation incident started. But certainly, we aren't back to that 2% trend that most central banks want. And so higher inflation rates obviously are problematic typically for stocks over time, and so higher bond yields. And we're a little bit north of 4.5% on the US ten year at the moment. That is an environment where typically stocks have struggled a little bit on a go forward basis.
00:12:30		And so we're there now. And so that is not coincident with the bit of the volatility that we've seen in the last couple of days in the S&P. But feels like a bit of a consolidation environment here until we can assess what is the longer term impact of the move up in inflation.
00:12:45	DP	Given the backdrop that you've described, Mike, and you talked a little bit about market breadth. I'm just wondering, as a growth investor, how do you play this going forward? What's important to you in terms of being able to take advantage of opportunities that are out there, but also mitigate some of those risks that we just talked about?
00:13:06	MA	Yes. So I think it comes down to portfolio construction, ultimately, and we're still trying to lean into the themes that we think have duration. And so obviously, AI and AI build out, and supply chain are names that we're very, very involved with and have done very, very well. So you can think things like memory, and obviously, semi cap equipment companies and chip makers. And so those are stocks that have been held in the portfolio for a good chunk of this year.
00:13:28		We continue to evolve the portfolio into other areas like power. You can think about things like heavy equipment manufacturers. Obviously, other areas like investment banking. These are parts of the portfolio that provide good diversification to, obviously, the IT sector. So we're trying to build good, smooth growth portfolios

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		over time. And that requires you to obviously own the things that are working, but also to look for other things in the portfolio that complement those AI oriented ideas. And so we have a lot of those in the portfolio.
00:14:00		Obviously, energy names are some of those. We've got some financials. We have different exposures in the industrial sector. From a factor perspective, we continue to do the same thing, David. We're still looking for those high growth businesses that we can find. We want to trust, obviously, what management has done in the past by looking at those numbers and then looking at the outlook on a go forward basis. So, good sales growth, good earnings growth, looking for those companies that are beating and raising expectations. And as I mentioned at the outset, there are still a lot of those businesses, both in technology, but also outside of technology.
00:14:30	DP	And just curious, when you find growth opportunities across different sectors, the way you evaluate that opportunity, is it different for each sector in terms of what you're actually looking for, in terms of whether it's EPS growth or...? I'm just curious on that front.
00:14:46	MA	We always screen generally with the same set of factors. Like I said, we're looking for sales growth. We're looking for earnings growth. We're looking for estimate revisions. And then we're looking for some kind of pivot or change, whether that be cash flow or EBITDA, some kind of inflection point, we'd like to say. And that's sort of our starting point. Obviously, from there, when you're looking at different industries, you'll be looking at different types of metrics that drive those industries.
00:15:06		So, in consumer, you might be looking at same store sales growth. In obviously, industrials, you might be looking at book to bill or backlog of business that they're expecting in the future. Obviously, in energy, you're looking at production growth and costs. And so each one of those industries would have slightly different metrics that you would pay attention to. So we're obviously always screening for growth on an earnings and cash flow and sales basis.
00:15:30		And then from there, we're doing a deeper dive into those industries to find those particular companies that meet the metrics that we're paying attention to there. And then obviously, you're looking at company management teams and ensuring that success in the past is likely to be replicated in the future.
00:15:44	DP	And being a leader in their industry is obviously a big part of what you do, too, right?

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00:15:48	MA	Yes, for sure. We're obviously always looking for growth. And inevitably, that moves us into some of the momentum areas of the market. And so, we're very cognisant of that. We're looking for market leadership. That's really what the genesis of our portfolios are all about. And trying to find those things that we think have duration in both pricing power, but also in terms of market leadership.
00:16:07	DP	Okay, Mike, this has been really great. Quick and dirty. Have a great day, and we'll talk to you soon.
00:16:13	MA	Thanks, David. Talk again soon.
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