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Morning Briefing

On Financials, Earnings & Distributed AI

Check out the accompanying [chart collection](#).

Executive Summary: Various Trump administration initiatives have showered love on certain industries in the S&P 500 Financials sector, helping to lift its ytd performance to fourth among the S&P 500's 11 sectors. Jackie counts the ways they've benefited. ... Also: A select few S&P 500 industries appear headed for dramatic earnings turnarounds next year. Read on for a peek at particular industries' earnings growth prospects in 2026 relative to their 2025 forecasts. ... And: "Look, Mom, no data centers!" A new way to train and run AI at much lower cost, but also less speed, is under development. Distributed AI is certainly an area to watch.

Financials: Trump Makes Good on Promises. President Donald Trump's return to the Oval Office has been good for financial services companies. He has fulfilled campaign promises to reduce regulation, freeing up capital for banks to redeploy. Asset managers have benefited from Trump's championing of cryptocurrencies and the creation of Trump Accounts, investment accounts for children.

President Trump also has his fingerprints on the Federal Reserve. He appointed dove Steven Miran to the Board of Governors, and, in the upcoming weeks, is expected to name a new Fed chairman who likewise shares Trump's view that interest rates should be lowered. Banks and brokers with exposure to the stock and bond markets have benefited from investors' excitement over the potential for lower interest rates and ongoing obsession with artificial intelligence.

While the S&P 500 Financials' stock price index has lagged the S&P 500 so far this year, it's still the index's fourth best-performing sector ytd through Tuesday's close: Communication Services (32.7%), Information Technology (26.7), S&P 500 (16.3), Industrials (16.0), Utilities (12.2), Financials (9.9), Health Care (8.6), Energy (5.9), Consumer Discretionary (4.0), Materials (2.9), Consumer Staples (1.3), and Real Estate (-0.3) ([Fig. 1](#)).

Many of the insurance-related industries in the S&P 500 Financials sector have underperformed the sector so far this year. Among the underperforming companies is Berkshire Hathaway, which represents 12.1% of the sector's market capitalization; it has risen only 8.4% ytd, Joe calculates. Reinsurance (-14.3% ytd), Insurance Brokers (-11.6) and Life & Health Insurance (1.0) have fared even worse.

Meanwhile, industries related to banks and brokers have outperformed it, including: Investment Banking & Brokerage (up 40.2% ytd), Consumer Finance (26.1), Diversified Banks (25.2), and Regional Banks (10.9) ([Fig. 2](#) and [Fig. 3](#)).

Let's examine how the political environment has benefited specific industries in the S&P 500 Financials sector:

(1) *Looser regulations*. Banks and brokers long have complained about overlapping regulators and burdensome regulations. Those complaints increased after a wave of regulations were implemented following the 2008 financial crisis, in hopes of preventing a repeat.

President Trump has been slashing lots of that red tape, which could free up capital that banks could use to increase lending. Earlier this month, regulators eliminated the [leveraged lending guidance](#) instituted in 2013 to curtail banks' ability to make risky loans. That regulation opened the door for private lenders to take market share. Its removal will give banks greater discretion to determine safe lending practices for themselves, the *WSJ* has [reported](#), and will increase competition between banks and private lenders.

Earlier this year, the required leverage ratio was reduced for the eight largest—and systemically important—banks, the demise of which would wreak havoc on the economy. The [enhanced supplementary leverage ratio](#) was reduced to a range of 3.5%-4.5% of total assets, down from the prior 5.0%. The change could reduce capital requirements by \$13 billion.

The Trump administration also has taken aim at the Consumer Financial Protection Bureau, which was created after the 2008 financial crisis to protect consumers from abusive financial practices, like unfair or illegal fees. The agency is basically [frozen](#). Its employees' union sued to block the mass layoffs instituted by the agency's new head, installed by the Trump administration.

Still to come: The banking industry's annual stress test is about to become more

transparent and anti-money laundering rules are being reevaluated in an effort to prevent banks from being penalized for technical violations. Under the stress test changes, the Federal Reserve will publish ahead of the test the models and economic scenarios it will use each year. The Fed's board [passed the proposal](#) by a six-to-one vote; it's open for public comment through January then will go into effect. Critics say that knowing the stress test questions ahead of time will allow the industry to game the tests.

The stock price indexes of Diversified Banks and Regional Banks both have fared well this year, climbing 25.2% and 10.9% ([Fig. 4](#) and [Fig. 5](#)). The shares of JPMorgan, a member of the former, [sold off](#) by 4.7% on Tuesday after the company told investors that expenses would come in at \$105 billion next year, above the \$101 billion expected by analysts and the \$95.9 billion forecast for this year. The unexpected jump was driven by expenses related to compensation, product marketing, and strategic investing on things like building branches and expanding artificial intelligence. But even after the pullback, the shares remain up 25.4% ytd.

Next year, Regional Banks' constituents collectively are expected to grow earnings slightly faster than those of Diversified Banks, by 14.9% versus 12.7% ([Fig. 6](#) and [Fig. 7](#)). Yet Regional Banks' forward P/E is modestly lower than the forward P/E of Diversified Banks, 10.6 versus 12.8 ([Fig. 8](#) and [Fig. 9](#)).

(2) *Asset managers benefit.* Trump's initiatives have been good for the asset management business. He has proposed creating Trump Accounts, which will give every newborn a \$1,000 savings account that presumably will be invested in stocks of some form. Even if the accounts have lower-than-normal fees, they'd be a way for a financial institution to establish a relationship with new clients literally from birth.

President Trump also has been a crypto booster, changing regulations to make it easier for asset managers to offer investors access to cryptocurrencies. The Department of Labor [rescinded](#) in May its 2022 warnings against 401(k) plans investing in crypto. And in August, President Trump signed an [executive order](#) directing regulators to change rules so that 401(k)s and other retirement plans can invest in alternative assets, including private equity and cryptocurrencies.

Despite these positive developments and the strong stock market, asset management stocks have lagged the S&P 500. The S&P 500 Asset Management & Custody Banks stock price index has climbed only 4.7% ytd through Tuesday's close, while the S&P 500 has gained 16.3% ([Fig. 10](#)). Rising costs and fee pressures have offset the increase in assets

under management. That said, analysts are forecasting respectable revenue growth of 11.0% and earnings growth of 14.7% in 2026 ([Fig. 11](#) and [Fig. 12](#)).

(3) *Brokers bounce*. Financials with exposure to the stock and bond markets are having a great year, particularly those with large M&A and underwriting businesses. The value of M&A deals is up 43% ytd globally and 57% ytd in the US, [according to](#) Dealogic, probably reflecting the Trump administration's lighter touch in terms of antitrust matters. And while not at record levels, equity and debt issuance are up sharply from the depressed levels of early 2024 ([Fig. 13](#) and [Fig. 14](#)).

Given that backdrop, it's not surprising that the S&P 500 Investment Banking & Brokerage stock price index has been making new record highs since late June ([Fig. 15](#)). Analysts' consensus estimates imply modest slowing of the industry's revenues and earnings growth rates next year—the former to 7.3%, down from a 13.9% forecast for 2025, and the latter to 12.2%, less than half of the 26.0% expected in 2025 ([Fig. 16](#) and [Fig. 17](#)). The industry's forward P/E is near record levels of the past two decades, at 18.2 ([Fig. 18](#)).

Strategy: A Peek at 2026 Earnings Prospects. The full-year earnings growth forecasted for companies in the S&P 500 this year is a solid 12.9%, and analysts expect even stronger growth in 2026, rising 14.8%. The strength is broad based. Each of the S&P 500 sectors is forecast to grow earnings y/y in 2026: Information Technology (28.1%), Materials (20.3), Industrials (15.1), S&P 500 (14.8), Consumer Discretionary (11.9), Communication Services (9.9), Health Care (9.4), Utilities (9.3), Financials (9.2), Energy (9.0), Real Estate (8.8), and Consumer Staples (7.0) ([Table 1](#)).

Some industries are expected to continue the astronomically strong earnings growth they'll be posting for this year. The Aerospace & Defense industry is forecast to grow earnings by 59.5% this year and 50.1% in 2026. Likewise, the Semiconductors industry's earnings growth is expected to accelerate from an estimated 48.6% this year to 53.7% in 2026.

The earnings growth in commodity-related areas is on pace to improve next year. The Oil & Gas Refining & Market industry may grow earnings a respectable 10.9% this year if analysts are right, but its earnings growth is expected to more than quadruple to 50.8% in 2026. Other dramatic earnings turnarounds will likely come from the Copper industry, with earnings growth forecast to surge from a negligible 0.1% this year to 40.0% next year, and the Steel industry, with earnings prospects improving from a 9.6% decline in 2025 to 44.2% growth in 2026.

Some of the industries suffering probable earnings declines this year can look forward to a much better 2026. Here are analysts' consensus earnings growth estimates for some of the bigger earnings turnarounds: Agricultural Products & Services (-24.6% earnings growth in 2025, 21.5% in 2026), Construction Materials (-24.0, 16.7), Automobile Manufacturers (-23.6, 22.1), Personal Care Products (-16.8, 12.7), Footwear (-16.3, 36.7), Construction & Transportation Equipment (-13.9, 17.4). Independent Power Producers & Energy (-12.1, 35.4), Home Furnishings (-7.9, 12.5), Paper & Plastic Packaging Products (-7.4, 38.9), and Passenger Airlines (-1.4, 30.4).

Remarkably few industries are forecast to post a drop in earnings next year. Agricultural & Farm Machinery, however, remains mired in a tough environment, with earnings forecast to plummet 27.8% this year, followed by another 10.9% drop in 2026. Remaining down on the farm, the Fertilizers & Agricultural Chemicals estimate for this year is earnings growth of 33.9%, but that turns to a decline of 1.2% next year. While Homebuilders' earnings are forecast to improve from a 26.0% decline this year, the lack of any earnings growth next year is little solace.

Disruptive Technologies: Distributing AI. The artificial intelligence (AI) industry is dominated by big companies with big money to build big data centers filled with thousands of GPUs. But there's a cadre of folks who are thinking small.

They're developing what's known as "distributed AI." It taps into unused GPUs sitting in homes, offices, universities, and data centers around the world to build virtual networks on which AI can be trained and run at much lower cost. These GPUs otherwise would sit dormant while a gaming system isn't being used or a crypto mining computer isn't mining. Owners of these computers could ask for compensation or offer free access.

One downside to the distributed AI system is speed. "A distributed network is only as fast as its slowest internet connection, whereas chips in the same data center experience virtually no latency," an excellent [WSJ article](#) reported.

After a network is cobbled together, distributed AI uses blockchain technology, peer-to-peer networks, or edge computing to distribute data and enable decision-making across devices, while keeping track of changes. Data can remain on [local devices](#), enhancing privacy and reducing the risk of data breaches. If one computer or a group of them fails, the rest of the network can continue to operate, making the system more resilient.

Several startups are focused on this space. [Berkeley Compute](#), [Exo Labs](#), [Gensyn](#), and

[Prime Intellect](#) are among the companies cobbling together these dispersed GPUs to form distributed AI networks. [OG Labs](#) is developing a decentralized AI operating system and applications. [Kava](#) has built an AI model that uses DeepSeek R1, blockchain technology, and runs on decentralized servers in the US. [Artificial Super Intelligence Alliance](#) unites three companies, SingularityNET, Fetch.ai, and CUDOS and offers decentralized AI services, data exchange, and agent-based coordination.

Though we are unable to ascertain how many GPUs were being linked in this manner, Distributed AI is certainly an interesting area worth watching, particularly given that billions are being spent to build new, large data centers.

Calendars

US: Thurs: Initial Claims 221k; Trade Balance -\$64.7b; 30-Year Bond Auction; OPEC Monthly Report. **Fri:** Wholesale Inventories 0.1%; Goolsbee; Paulson; Hammack. (Source: FX Street)

Global: Thurs: Italy Quarterly Unemployment Rate 6.3%; Japan Industrial Production 1.4%; Eurogroup Meetings; Bailey. **Fri:** Germany CPI -0.2%/m/m, 2.3%/y/y; France CPI -0.2%/m/m, 0.8%/y/y; Spain 0.2%/m/m, 3.0%/y/y; UK GDP 0.1%/m/m; UK Industrial Production 0.7%/m/m, -1.2%/y/y. (Source: FX Street)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): During the December 4 week, the S&P 500's forward revenues jumped 0.5% w/w and forward earnings soared 1.1% higher, to new record highs, as the forward profit margin remained steady at a record high of 14.3%. The forward profit margin is now 4.0ppts above its seven-year low of 10.3% during April 2020. The consensus expectation for forward revenues growth was steady w/w at a 40-month high of 6.8%. From a longer-term perspective, that's well above its 20-year average of 5.2%. It has risen 450ppts from its 33-month low of 2.3% during the February 23, 2023 week. That compares to a pandemic-recovery boosted record-high 9.6% forward revenues growth at the end of May 2021 and 0.2% during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast rose 0.1ppt w/w to a 50-month high of 14.4%, up 3.5ppts from its 15-month low of 10.9% during the May 29 week.

That's well above its 20-year average of 11.4%. That compares to its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 6.3% in 2025 (unchanged w/w at a new high) and 7.0% in 2026 (up 0.1ppt w/w to a new high), compared to a 5.0% rise in 2024. They expect an earnings gain of 12.9% in 2025 (unchanged w/w at a nine-month high) and a 14.8% rise in 2026 (up 0.1ppt w/w to a new high) compared to 2024's earnings gain of 11.7%. Analysts expect the profit margin to rise 0.7ppt y/y to 13.3% in 2025 (unchanged w/w at an eight-month high) and 1.0ppt y/y in 2026 to 14.3% (unchanged w/w at an eight-month high), compared to 2024's 12.6%. Looking at valuation data as of December 4, the S&P 500's weekly forward P/E dropped 0.1pt w/w to 22.4. That's just 0.4pt above the 21-week low of 22.0 during the November 20 week and 0.9pt below the 25-year high of 23.3 during the October 30 week. That's now up 3.2pts from its 16-month low of 19.2 during the April 17 week. It also compares to 23.1 in early September 2020, which was then its highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio was steady w/w at 3.21. That's up 0.08pt from a 10-week low of 3.13 during the November 20 week, and is just 0.07pt from its record high of 3.28 during the October 30 week. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins ([link](#)): During the December 4 week, 10 of the 11 S&P 500 sectors posted gains in their forward revenues; all 11 posted gains in their forward earnings; and the forward profit margin rose for six sectors. These eight sectors had post-pandemic- or record-high forward revenues this week: Communication Services, Consumer Discretionary, Financials, Health Care, Industrials, Information Technology, Real Estate, and Utilities. Consumer Staples' would be at a record high too, but is instead 4.6% below due to Drug Retail's exit in September. Energy's is stalled now, and remains depressed at 28.8% below its September 2008 record and 16.0% below its cyclical high in October 2022. Materials' is also stalling, but around a two-year high at 3.8% below its June 2022 record high. These nine sectors had record-high forward earnings this week: Communication Services, Consumer Discretionary, Consumer Staples, Financials, Health Care, Industrials, Information Technology, Real Estate, and Utilities. Forward earnings remains depressed for the last two sectors, Energy and Materials, which have stalled in recent weeks at 38.6% and 20.0% below their respective highs during 2022. Looking at the forward profit margin, six sectors rose w/w and five were steady. These four were at record highs: Consumer Discretionary, Financials, Industrials, and Information Technology. These two sectors remain close: Communication Services and Utilities. Consumer Staples, Energy, Materials, and Real Estate are improving somewhat from their

recent multi-year lows, but Health Care's is still at a record low. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (29.2%, up 0.1ppt w/w to a record high, its first since September 2024 when low-margin Dell's addition to the index lowered the margin 1.3ppts from a record high 27.6% then to 26.3%), Financials (21.2, steady w/w at a record high), Communication Services (19.7, up 0.1ppt w/w and down from its 19.8 record high during the August 7 week), Real Estate (16.6, down 0.2ppt from its 16.8 eight-month high in early October and down from its 19.2 record high in 2016), Utilities (14.9, up 0.1ppt w/w to a 58-month high and 0.2ppt below its 15.1 record high in April 2021), S&P 500 (14.3, up 0.1ppt w/w to a new record high), Materials (11.2, up 0.1ppt w/w to a 12-month high and up 0.7ppt from 51-month low 10.5 in late February and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Consumer Discretionary (9.6, up 0.1ppt w/w to a 9.6 record high), Energy (8.8, up from a 55-month low of 8.5 during the during the May 15 week and down from its 12.8 record high in November 2022), Industrials (11.3, up 0.1ppt w/w to a record high for the first time since the January 2 week), Health Care (8.1, steady at a record low and down from its 11.5 record high in February 2022), and Consumer Staples (7.1, steady w/w and up 0.4ppt from a 21-month low of 6.7 during the 9/4 week just before Drug Retail's exit from the sector, and down from its 7.7 record high in June 2020).

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