US EQUITY VIEWS

Over-earning, but not an earnings bubble

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The recent strength of S&P 500 earnings growth has raised investor concerns that the market is in an "earnings bubble." S&P 500 EPS grew by 51% in Q2 and by 26% during the past four quarters, lifting earnings well above both the long-term trend and the historical relationship with economic growth. The S&P 500 forward P/E multiple sits at 19x, in line with its 10-year average, but the market multiple on trend earnings has only been exceeded in the past several decades during the peak of the Dot-Com Bubble.

While there are indeed factors contributing to "over-earning" today, our base case is for S&P 500 earnings growth to decelerate, not collapse, in coming years. We forecast EPS growth of 11% in both 2027 (to $415) and 2028 ($460), driven by solid GDP growth and a fading tailwind from AI investment that gradually transitions into a growing boost from AI productivity. Energy prices and interest rates create near-term macro risks around these forecasts, but the impact of AI is the biggest long-term question for corporate earnings.

The AI investment boom has accounted for nearly half of S&P 500 earnings growth this year, and this tailwind should begin to fade next year even as capex spending continues to grow. We estimate AI investment will transition from an S&P 500 earnings tailwind of 11 pp this year to a marginal drag in 2028 as capex growth slows and depreciation expenses mount. AI capex has repeatedly exceeded estimates during the last few years, and we outline upside and downside scenarios and their impact on S&P 500 profits.

The recent surge in semiconductor profit margins also leaves S&P 500 earnings vulnerable to a decline in chip prices. Our industry analysts expect supply to remain tight through 2027 but for the rate of margin expansion to slow next year. An adverse scenario where semiconductor gross margins decline from 70% today to their 15-year average of 55% would cut S&P 500 earnings by roughly 10%.

Appreciating equity stakes are also temporarily inflating S&P 500 earnings. The mega-cap tech companies generated over $150 billion of "other income" related to equity investments in Q2 2026, lifting S&P 500 earnings by 12%. We expect additional "other income" in H2 2026, but these accounting earnings should diminish in 2027. Excluding this income from 2026, our 2027 EPS forecast would reflect growth of 18%.

Market pricing embeds an outlook for continued earnings growth but healthy skepticism regarding the sustainability of current profitability. S&P 500 and

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semiconductor share prices have recently lagged the trajectory of near-term EPS estimates. Similarly, the market trades at a P/E discount relative to what a macro model would imply given the current level of corporate profitability. Our 12-month S&P 500 return forecast of +14% (to 8,700) reflects the view that earnings growth, rather than expanding valuations, will remain the primary driver of the bull market.

The magnitude of S&P 500 "over-earning"

S&P 500 earnings grew by an extraordinary 51% year/year in Q2 2026 and have grown by 26% during the past four quarters. During the last 30 years, the recent pace of earnings growth has been exceeded only during the post-recession rebounds in 2010 and 2021.

Exhibit 1: S&P 500 trailing 4-quarter EPS has grown by 26% during the past year



Source: FactSet, Goldman Sachs Global Investment Research

The recent strength of S&P 500 earnings growth has raised investor concerns that current earnings power is unsustainable and that the market is in an "earnings bubble." S&P 500 earnings have recently outpaced both their historical trend and their historical relationship with US GDP growth. S&P 500 4-quarter EPS growth has averaged 7% during the past 30 years, and the relationship between S&P 500 earnings and US economic growth in recent decades would have pointed to a similar rate of earnings growth during the last few quarters.

Exhibit 2: S&P 500 earnings are running well above the trend of the last few decades
S&P 500 adjusted EPS in 2026 dollars



Source: Compustat, FactSet, Goldman Sachs Global Investment Research

Exhibit 3: Earnings growth has recently outpaced its typical relationship with GDP growth
annual growth since 1995; economic growth reflects GS US Current Activity Indicator

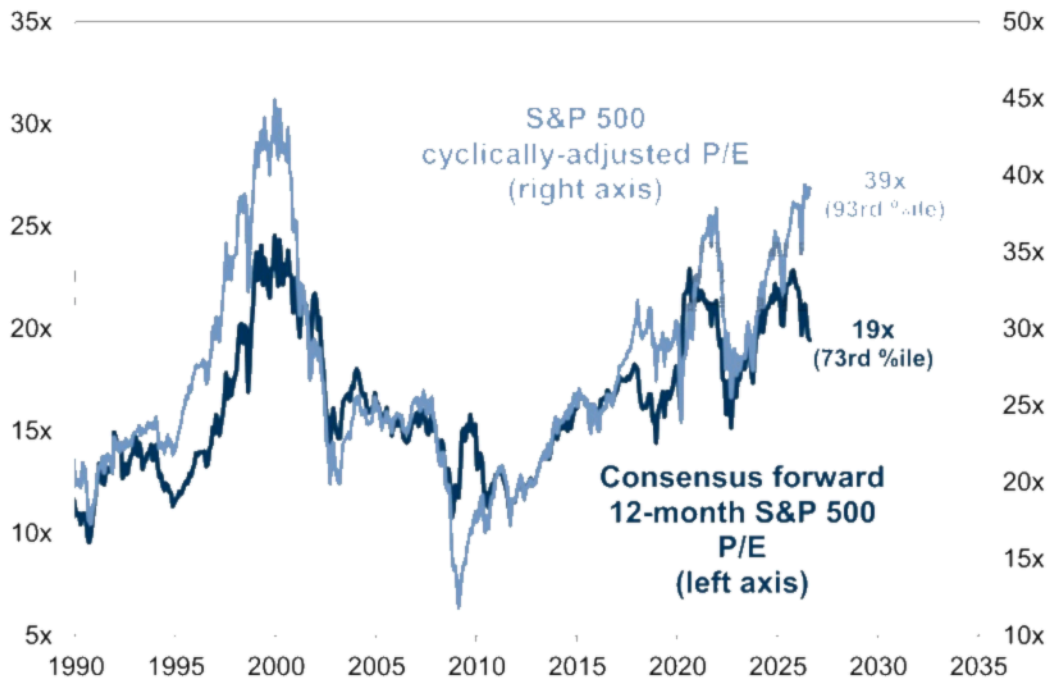


Source: Goldman Sachs Global Investment Research

The degree to which the US equity market is currently "expensive" depends in large part on the sustainability of recent earnings strength. The exceptional recent strength of earnings has driven an unusual wedge between equity valuation multiples based on near-term earnings and valuations on trend earnings. Because equity prices have failed to keep pace with surging earnings, near-term valuations show no hint of a bubble: The S&P 500 12-month P/E ratio has declined from 23x a year ago to 19x today and now matches its 10-year average. However, even an "average" multiple may be expensive if current earnings are unsustainable. The cyclically-adjusted P/E based on trailing 10-year earnings has climbed to one of its highest levels on record, falling shy of the highs of 1999-2000 but surpassing the level reached in 2021. Similarly, our colleagues have argued that the increase in market value of AI companies during the last few years requires an optimistic estimate of the future magnitude of AI-related profits and who will capture them.

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Exhibit 4: Equity valuations on near-term earnings have diverged from multiples on trend earnings



Source: Robert Shiller, FactSet, Goldman Sachs Global Investment Research

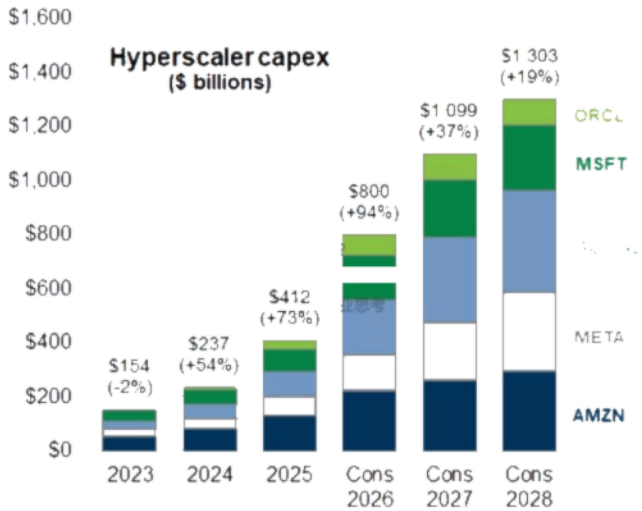
The AI boom and S&P 500 earnings growth

Affirming investor concerns that US companies are "over-earning," there are three factors that are boosting earnings today but will contribute to deceleration going forward: 1) AI capex spending, 2) semiconductor margin expansion, and 3) earnings from private investment gains.

AI capex

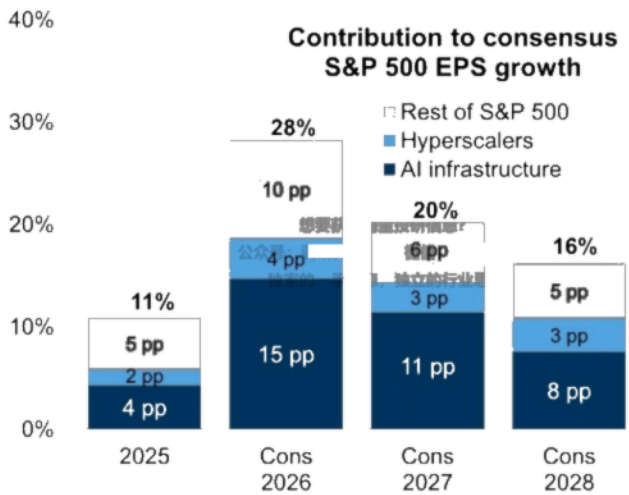
The AI investment boom is driving nearly half of S&P 500 EPS growth this year, but its contribution will fade going forward. The mega-cap US hyperscalers are on track to spend $800 billion on capex this year, an increase of 94% vs. 2025. That spending is flowing through to the earnings of the AI infrastructure complex including semiconductor, tech hardware, industrials, and utilities companies, which are collectively accounting for roughly half of consensus S&P 500 earnings growth this year. The AI boom is also having a secondary impact on earnings outside of the infrastructure complex, for example by boosting capital markets activity and consumer wealth. Both consensus and GS analyst forecasts show hyperscaler capex growing at a slower rate in coming years, which should result in decelerating earnings growth for much of the AI infrastructure complex and a fading tailwind to S&P 500 earnings.

Exhibit 5: Hyperscaler capex should grow but decelerate in 2027



Source: FactSet, Goldman Sachs Global Investment Research

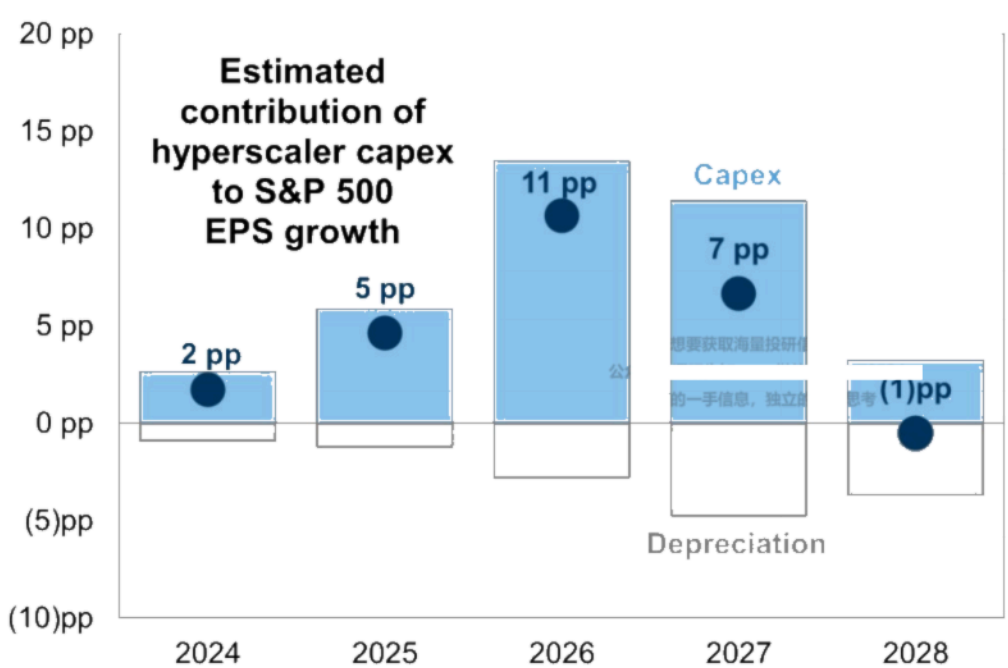
Exhibit 6: AI infrastructure stocks are driving about half of S&P 500 EPS growth
excludes "other income"



Source: FactSet, Goldman Sachs Global Investment Research

Hyperscaler depreciation expenses will continue to increase as capex growth decelerates, further dampening the boost of AI investment spending to S&P 500 earnings growth. We estimate a drag from hyperscaler depreciation expenses on S&P 500 earnings growth of 5pp in 2027, offsetting nearly half of the 11pp boost to earnings from capex spending. By 2028, the drag from depreciation should offset the S&P 500 earnings uplift from continued capex spending.

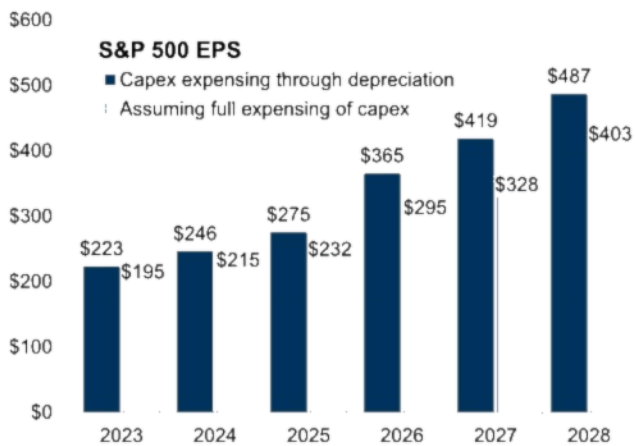
Exhibit 7: Growing hyperscaler depreciation expense should increasingly offset AI capex beneficiary earnings



Source: Goldman Sachs Global Investment Research

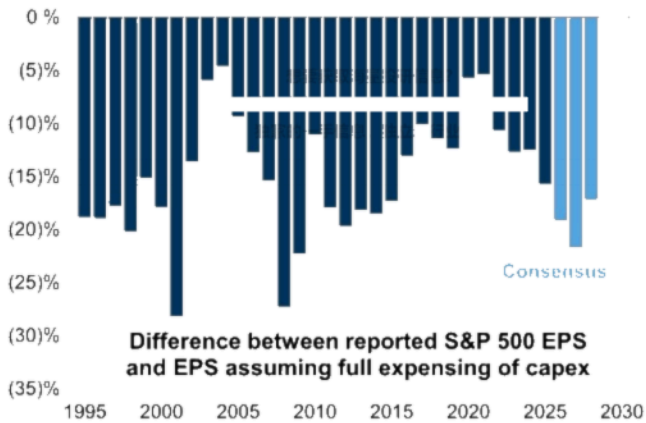
If capex were fully expensed, consensus 2027 S&P 500 EPS would be 22% lower than under current accounting rules. The current gap between actual reported and hypothetical fully-expensed earnings is one of the widest in recent decades, exceeded only as earnings fell more quickly than capex during the recessions of 2001 and 2008.

Exhibit 8: Fully expensing capex would reduce 2027 EPS by 22%
2026-2028 reflects consensus forecasts



Source: Goldman Sachs Global Investment Research

Exhibit 9: The AI capex boom is creating an unusually large gap between actual and hypothetical fully-expensed EPS



Earnings fell more rapidly than capex during the recessions of 2001 and 2008, driving a large gap between actual and fully-expensed hypothetical EPS.

Source: Goldman Sachs Global Investment Research

Hyperscaler capex has consistently surprised relative to consensus estimates during the last few years, and the potential for additional surprises going forward creates a wide range of potential S&P 500 earnings outcomes. Our equity analysts expect hyperscaler capex will total $1.2 trillion in 2027 and $1.4 trillion in 2028, in which case the current tailwind from AI capex to S&P 500 EPS will fade by 2028. Exhibit 10 below outlines upside and downside scenarios around that base case. Next year, a $250 billion surprise in hyperscaler capex — in either direction — would shift S&P 500 EPS growth by about 6 pp in the same direction.

We estimate that hyperscaler capex would need to decline by roughly 30%, to $570 billion, to offset earnings growth for the rest of the S&P 500 in 2027. This decline would reduce earnings for the AI infrastructure complex by about 40%, leaving their profits about 25% above 2025 levels.

Exhibit 10: Hyperscaler capex scenarios and contribution to S&P 500 earnings growth

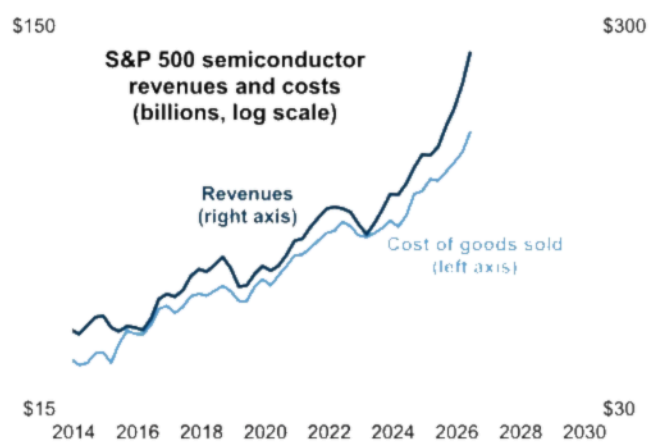
		2026	2027	2028
Upside	Hyperscaler capex (billions)	$800	$1,500	$2,000
	y/y growth	94%	88%	33%
	Contribution to S&P 500 EPS growth	11pp	13pp	6pp
Baseline	**Hyperscaler capex (billions)**	**$800**	**$1,232**	**$1,379**
	y/y growth	**94%**	**54%**	**12%**
	Contribution to S&P 500 EPS growth	**11pp**	**7pp**	**(1)pp**
Downside	Hyperscaler capex (billions)	$800	$1,000	$750
	y/y growth	94%	25%	(25)%
	Contribution to S&P 500 EPS growth	11pp	1pp	(8)pp

Source: Goldman Sachs Global Investment Research

Semiconductor margin expansion

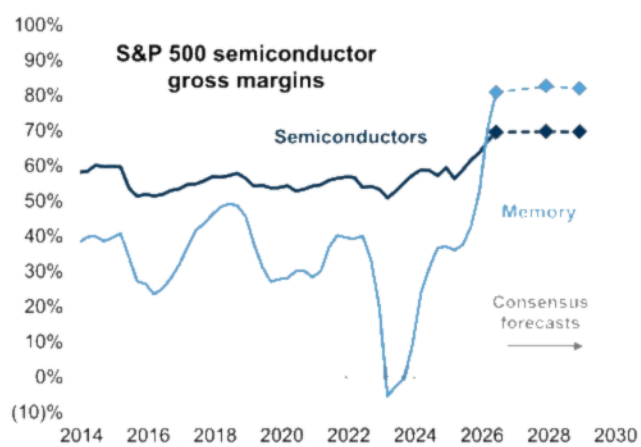
A sharp increase in profit margins for many semiconductor companies has contributed to the above-trend recent pace of S&P 500 earnings growth. The combination of strong demand and limited supply has boosted semiconductor prices and gross margins, with the most pronounced margin expansion among memory stocks. S&P 500 memory firms currently enjoy gross margins of roughly 80%, more than double their historical average. Across the semiconductor industry, gross margins sit at their highest level in decades, and consensus expects margins to remain at similar levels through 2028.

Exhibit 11: Semiconductor revenue growth has outpaced growth in costs
reflects current S&P 500 constituents



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 12: Semiconductor gross margins have expanded dramatically during the last few years
reflects current S&P 500 constituents

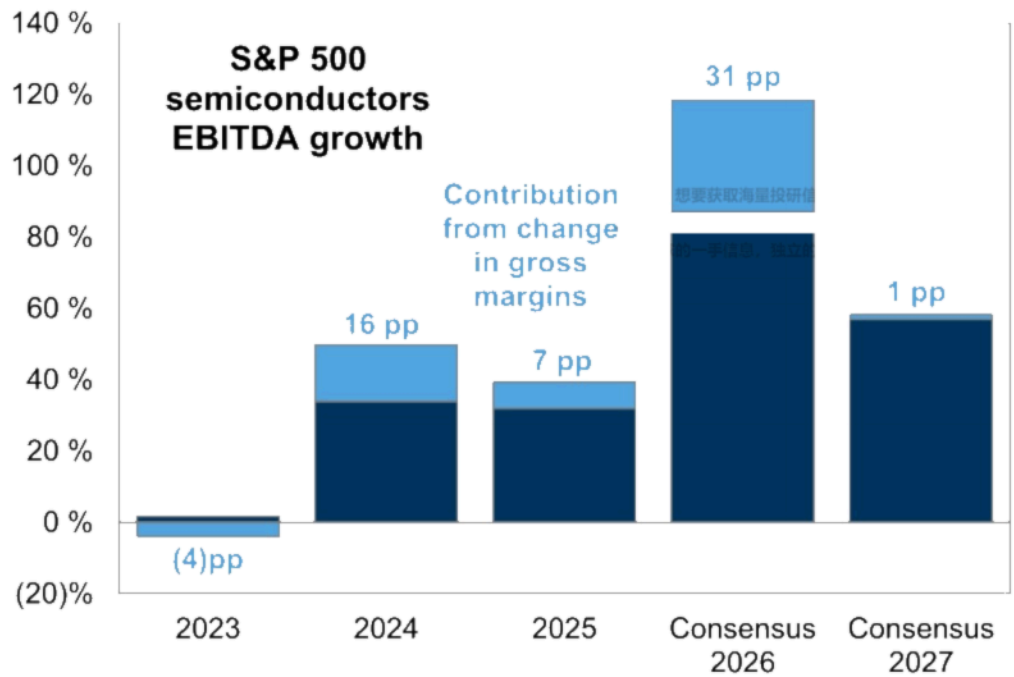


Source: FactSet, Goldman Sachs Global Investment Research

Margin expansion has accounted for a large share of recent semiconductor earnings growth, but that boost should fade going forward. We estimate that about 1/4 of S&P 500 Semiconductor earnings growth in 2026 is being driven by gross margin expansion. Our equity analysts believe the balance of memory supply and demand is likely to remain tight through 2027, with incremental supply additions unlikely to impact industry margins until 2028 at the earliest. However, they expect the rate of incremental margin expansion to slow meaningfully next year, reducing the contribution of semiconductors

to S&P 500 earnings growth.

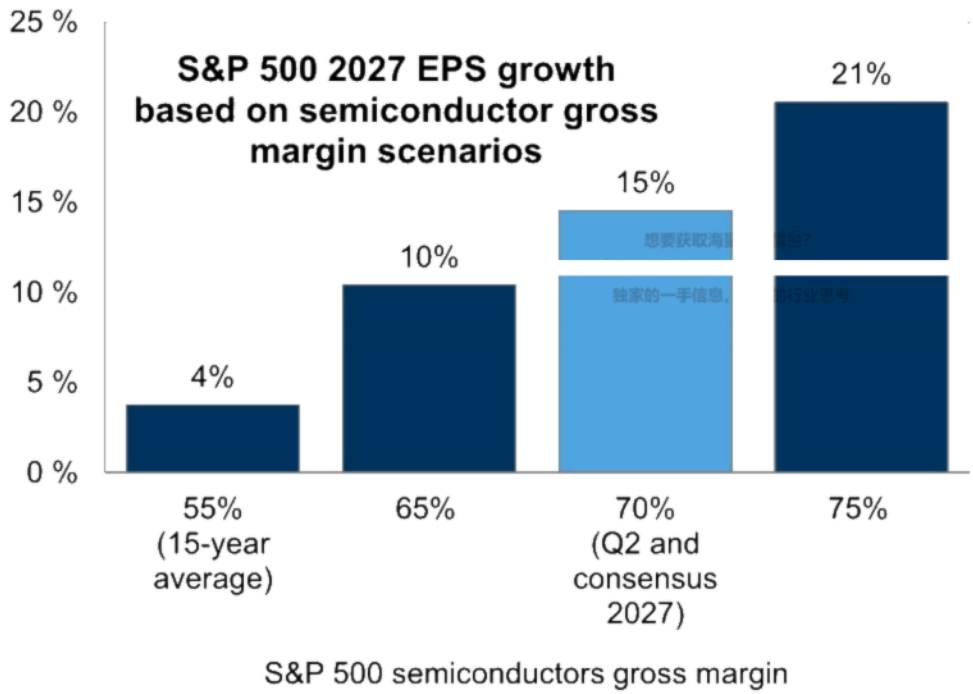
Exhibit 13: Gross margin expansion is driving about 1/4 of semiconductors earnings growth in 2026



Source: FactSet, Goldman Sachs Global Investment Research

S&P 500 earnings growth in the next few years will be highly sensitive to the trajectory of semiconductor margins. In a scenario where slowing AI infrastructure investment, increasing supply, and/or technological shift lowers semiconductor prices and profit margins, S&P 500 EPS growth would also disappoint. We estimate that each percentage point change in S&P 500 semiconductor gross margins next year would shift S&P 500 EPS growth by about 1 pp.

Exhibit 14: S&P 500 earnings growth is sensitive to the path of semis margins
excludes "other income"

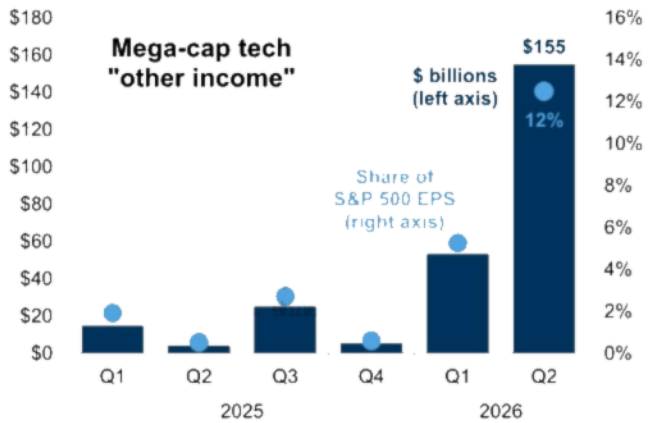


Source: FactSet, Goldman Sachs Global Investment Research

"Other income" from private investment gains

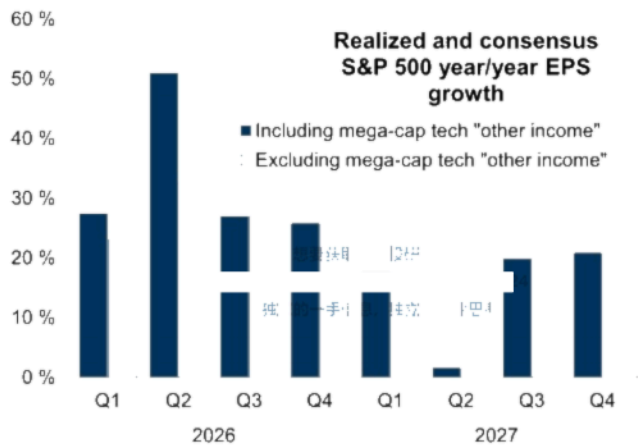
Appreciating equity investment stakes are also temporarily inflating S&P 500 earnings. Mega-cap tech earnings have recently been boosted by large GAAP "other income" related to their equity investments. In Q2 2026, the mega-cap tech companies enjoyed unrealized investment gains in private companies that totaled roughly $150 billion, translating into 12% of S&P 500 EPS. We expect H2 2026 reports will include additional "other income" that should be larger than the gains in Q1 but smaller than Q2 totals. We expect a much smaller contribution in 2027. The complete removal of this "other income" next year would create a drag of 8 pp on S&P 500 earnings growth in 2027 relative to 2026, all else equal.

Exhibit 15: "Other income" has risen as a share of S&P 500 earnings



Source: Goldman Sachs Global Investment Research

Exhibit 16: S&P 500 EPS growth will appear to decelerate sharply in Q2 2027 due to "other income" this year



Source: FactSet, Goldman Sachs Global Investment Research

S&P 500 earnings outlook

Our baseline forecast is for S&P 500 EPS to rise to $415 in 2027 (+11% year/year) and to $460 in 2028 (+11%). We expect an above-consensus base of earnings in 2026 due to further "other income" gains from private equity stakes in H2 of this year. Excluding the "other income" inflating earnings in 2026, S&P 500 earnings growth next year would register 18%. Our 2027 EPS forecast is similar to the bottom-up consensus estimate of $419 but above the median top-down strategist estimate of $403.

Exhibit 17: Our S&P 500 earnings forecasts relative to consensus

		GS top-down			Consensus bottom-up		
	2025	2026	2027	2028	2026	2027	2028
S&P 500 ex. Financials & Utilities							
Sales Per Share	$1706	$1912	$2081	$2243	$1902	$2080	$2273
Sales growth	*6 %*	*12 %*	*9 %*	*8 %*	*11 %*	*9 %*	*9 %*
Profit margin	12.3%	15.7%	16.1%	16.7%	15.3%	16.3%	17.5%
S&P 500 adjusted EPS	**$275**	**$375**	**$415**	**$460**	**$365**	**$419**	**$487**
Year/year growth	***12%***	***36%***	***11%***	***11%***	***33%***	***15%***	***16%***
S&P 500 EPS ex. "other income"	$271	$350	$415	$460	$348	$419	$487
Year/year growth	*10%*	*29%*	*18%*	*11%*	*28%*	*20%*	*16%*

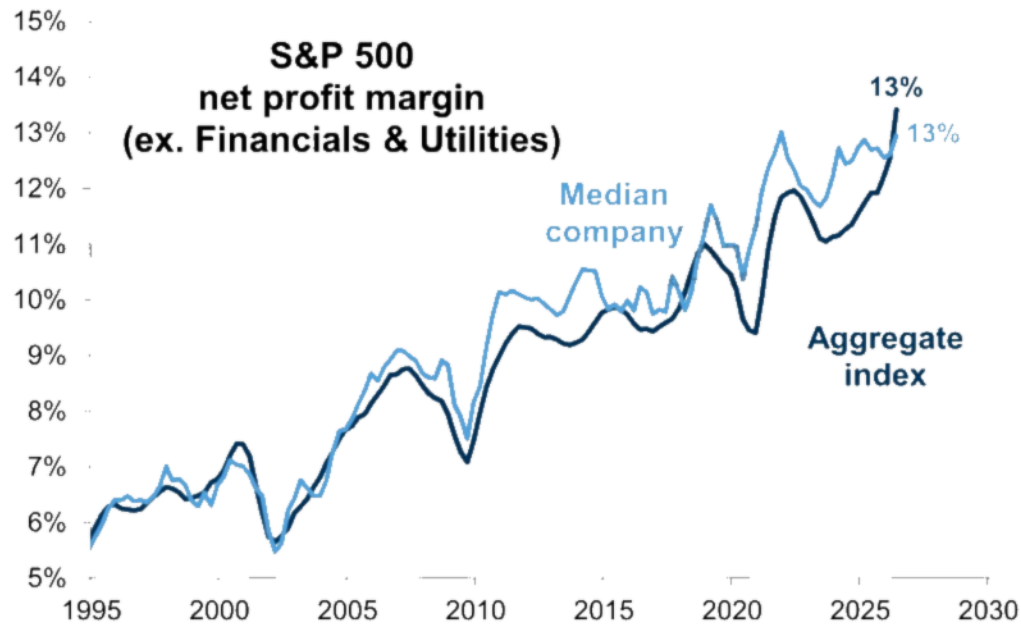
Consensus top-down		
2026	2027	2028
$355	**$403**	NA
29%	***14%***	*NA*

Source: FactSet, Goldman Sachs Global Investment Research

Our 2028 EPS forecast is about 5% below the bottom-up consensus, signaling a return to the typical historical pattern of downward revisions to consensus earnings estimates after the last two years of rising estimates. Outside of the complex of AI capex beneficiaries, we expect sales growth will register close to nominal GDP, margins will expand modestly, and a growing boost from AI productivity will result in earnings growth of 9% in both 2027 and 2028. Our forecasts for EPS growth among this group of companies are roughly 4-5% below consensus estimates in both 2027 and 2028, similar to the historical average magnitude of downward revision to consensus estimates. While AI investment spending has had a direct impact on the earnings of semiconductor and other AI infrastructure stocks, it has also lifted earnings for companies outside of the "AI complex," including by boosting capital markets activity as well as supporting consumer spending via the wealth effect.

Solid GDP growth and easing pressure from energy prices will be the main macro tailwinds for earnings growth in 2027. Economic growth is the primary variable in our top-down earnings model and explains more than half of the historical variation in S&P 500 EPS growth. Our economists expect US real GDP growth will average 2.1% in 2027 and 2.3% in 2028. Our commodity strategists expect Brent crude oil will decline to $80/bbl by the end of 2027, which would weigh modestly on Energy sector profits but boost earnings for most other sectors. Outside of the AI-related risks outlined above, persistent input cost pressures and risks to the consumer from equity market volatility are two of the key macro downside risks to our earnings forecast.

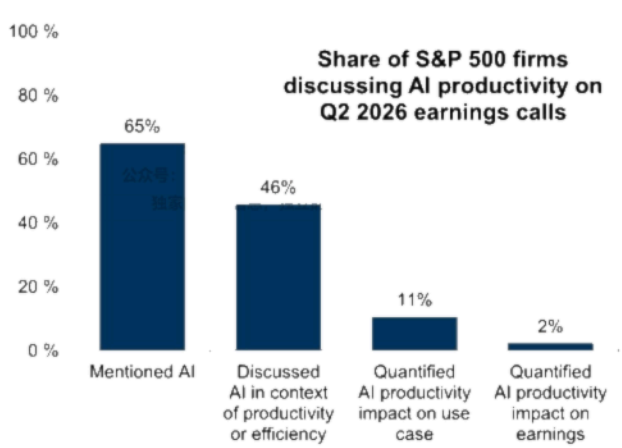
Exhibit 18: Profit margins for the median S&P 500 stock sit near record highs but have recently moved sideways
excludes "other income"



Source: Compustat, Goldman Sachs Global Investment Research

As the earnings tailwind from AI investment spending fades, the trajectory of S&P 500 profitability in coming years will depend increasingly on the realization of AI productivity gains. Our forecasts embed a 1 pp boost to S&P 500 EPS growth from AI productivity in 2027 and a 2 pp boost in 2028. Economy-wide surveys and corporate commentary signal enterprise adoption that is increasing but remains in early stages, and the impact of AI adoption on corporate earnings still appears narrow. However, the recent acceleration in enterprise AI spending suggests that the earnings impact of AI adoption should become clearer in coming quarters.

Exhibit 19: Corporate discussion of AI productivity on Q2 earnings calls



Source: Goldman Sachs Global Investment Research

Exhibit 20: Sensitivity of S&P 500 EPS growth to AI adoption

S&P 500 earnings boost from AI adoption (%)

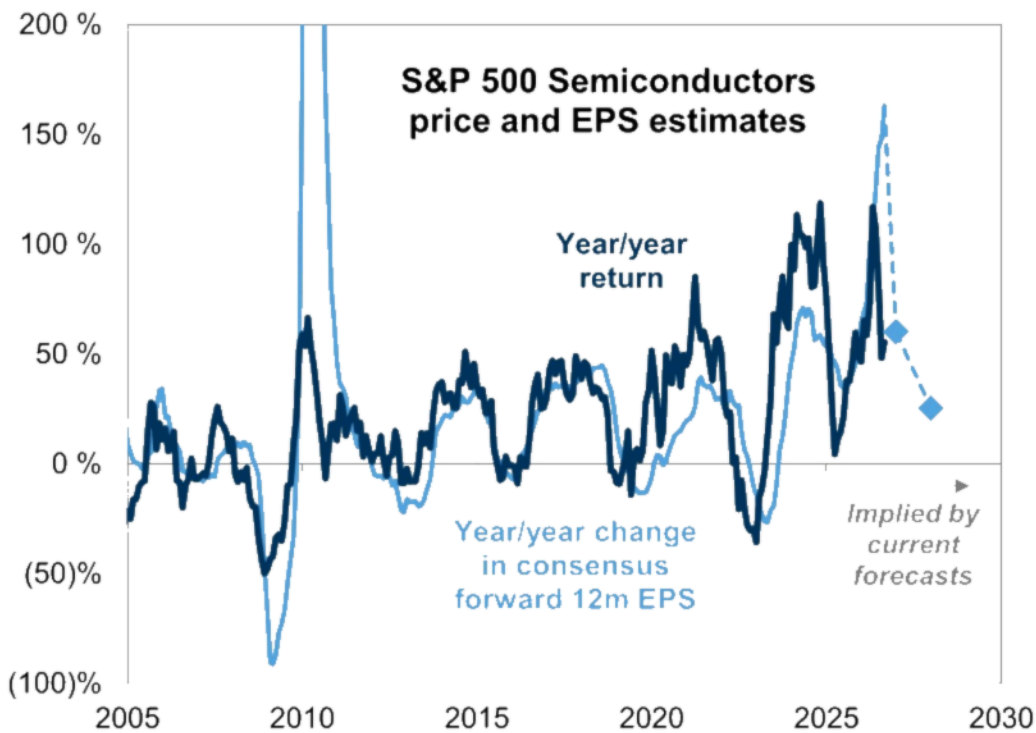
Realized share of total potential productivity boost	S&P 500 adoption rate: 50%	60%	70%	80%
5%	0.4 (2026E)	0.5	0.6	0.6
10%	0.8	1.0 (2027E)	1.1	1.3
15%	1.2	1.4	1.7	1.9
20%	1.6	1.9	2.2 (2028E)	2.6
25%	2.0	2.4	2.8	3.2

Source: Goldman Sachs Global Investment Research

Valuing S&P 500 earnings

Like our forecasts and consensus estimates, market pricing suggests investors anticipate a deceleration in earnings growth going forward. This is true both for the broad market and for AI infrastructure stocks. For example, the share prices of semiconductor stocks have historically mirrored the path of consensus EPS estimates, and the recent moderation of semiconductor returns has aligned with consensus estimates for decelerating growth in 2027 and 2028.

Exhibit 21: Semiconductor returns reflect market expectations for decelerating earnings growth



Source: FactSet, Goldman Sachs Global Investment Research

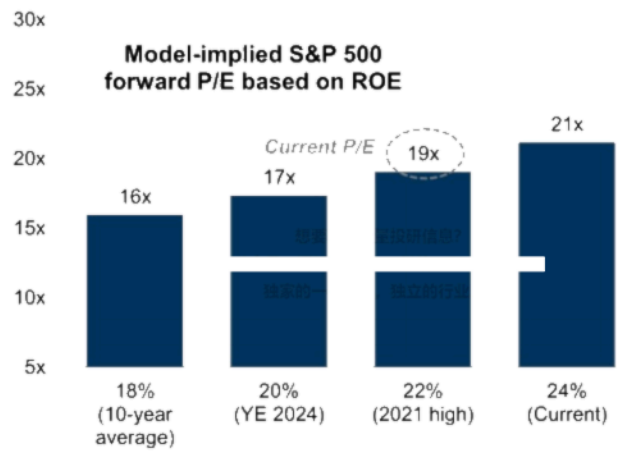
The current S&P 500 P/E multiple signals an optimistic outlook but market skepticism regarding the sustainability of current profits. In addition to rising interest rates, an anticipated deceleration in earnings helps explain the recent decline in the S&P 500 forward P/E multiple. Along with macro factors like interest rates, the level of corporate profitability has helped explain the variation in S&P 500 valuation over time. Based on the historical relationship between S&P 500 ROE and P/E, the current S&P 500 ROE of 24% — a record high — would point to a forward 12-month P/E of over 21x against today's macro backdrop. Given current inflation and interest rates, today's S&P 500 multiple of 19x would be consistent with an ROE of roughly 22%, more than 200 bp below the current level but otherwise matching 2021 as the highest on record.

Exhibit 22: S&P 500 ROE has surged to a new record high during the past year



Source: Compustat, Robert Shiller, Goldman Sachs Global Investment Research

Exhibit 23: S&P 500 forward 12-month P/E valuation implied by corporate profitability
assumes constant interest rates and inflation at current levels



Source: Goldman Sachs Global Investment Research

Earnings, rather than valuations, should continue to drive equity market upside from here. Our 3-, 6-, and 12-month S&P 500 return targets are +5 (8000), +9% (8300), and +14% (8700). These imply a P/E multiple on consensus forward EPS that remains close to the current level of 19x. Our economists and interest rate strategists expect interest rates to decline modestly in coming quarters, creating some macro upside risk to equity valuations. However, we expect investor uncertainty regarding the impact of AI on the outlook for long-term profits to persist in coming quarters, making a dramatic increase in valuations unlikely.

Exhibit 24: Continued earnings growth should drive continued equity market upside



Source: Compustat, Goldman Sachs Global Investment Research