

Satori-kun  
29 April 2026

# Every margin, everywhere, all at once

- **Equity multiples have contracted since the start of 2025; equities are nonetheless sharply higher**
- **The earnings upgrades that did the work are spectacularly concentrated; the margin assumptions priced in are not**
- **Both can't be sustained**

The defining condition of our age, novelists keep noticing, is the gap between marketing and reality. Vincenzo Latronico's quietly devastating *Perfection* — a Berlin couple's Instagrammed life as marketing brochure for a hollow reality — is one example among many.<sup>1</sup> The same gap is now visible in equity earnings forecasts. The brochure of forward consensus shows profit margins expanding broadly across all sectors, all regions, all capitalisations, sustained and rising further from here. The reality on inspection is much narrower.

The current debate around US equity earnings expectations was sharpened last week by Bill Hester at Hussman Strategic Advisors, in a piece arguing that risk has been *relocated* from observable price multiples to opaque forward-margin assumptions.<sup>2</sup> He showed that S&P 500 forward P/E multiples have actually contracted in recent months, even as the index has risen — because earnings expectations have been revised up faster than prices. The implied operating margin path embedded in 2027 consensus is around 21%, against an actual ~16% today and a fifteen-year trend of expansion at about half that pace. John Authers picked up the thread the same week, noting via Andrew Lapthorne at SocGen that “12-month forward profits are now around \$600 billion higher than they were just four months ago — the largest upward revision on record outside of a post-recession recovery”.<sup>3</sup>

We agree, but with a global generalisation that — as far as we can see — has not yet been made elsewhere. The same risk relocation has happened around the world, with very different compositional details that, taken together, make the broader assumption look harder rather than easier to sustain.

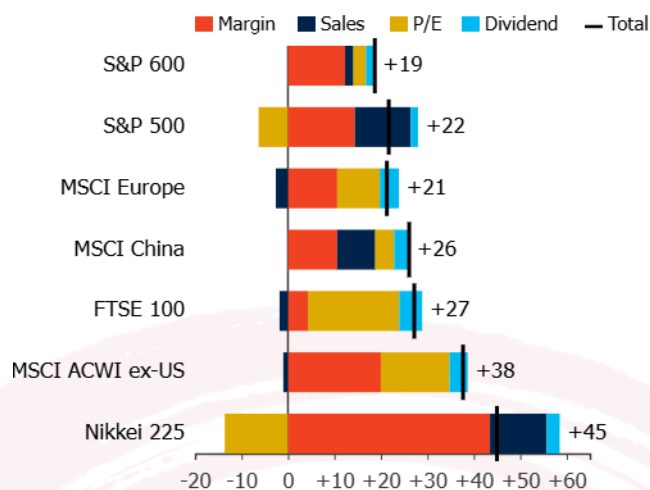
## Where the gains came from

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The simplest way to make the point is to decompose total return since the start of 2025 into four contributions: change in the price-to-forward-earnings multiple, change in the implied forward operating margin (forward EPS divided by forward sales), change in forward sales expectations, and accumulated dividend yield. By construction in log-percent space the four sum exactly to total return.

## Margin upgrades did most of the work

Total return contributions since Jan 2025, %



Source: Bloomberg, Satori Insights. Forward EPS and sales: current+next year blends.

In every major region except the FTSE 100, **margin upgrades are the largest single contributor to the rally**. The S&P 500 looks roughly like Hester's chart: multiples have contracted six percentage points, but margin (+14%) and sales (+12%) revisions did the lifting. ACWI ex-US has had even larger margin contribution (+20%), with multiple expansion (+15%) on top — Europe and Japan did not see the multiple compression that the US did. Nikkei is the most extreme: +44% margin contribution against -14% multiple compression, almost the entire +45% rally an exercise in margin re-rating. Even MSCI China, where the rally has had a more obvious sales component (+8%), has +11% from margin upgrades. FTSE 100 is the only outlier — its +27% rally is overwhelmingly multiple expansion (+20%), with only +4% margin contribution. The UK is rerating, not believing the AI margin story.<sup>4</sup>

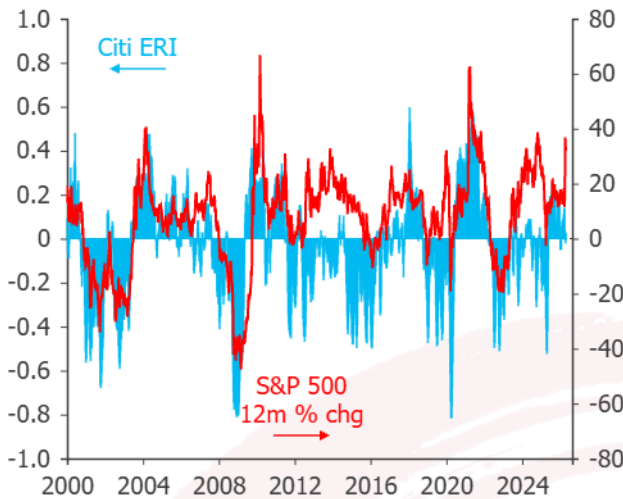
This is what we mean by global generalisation. The Hussman / Hester point isn't a quirk of US analyst optimism. It's a planet-wide pattern in which forward profit margin assumptions have been doing most of the work in price formation — and that pattern is biggest precisely where actual margin trends have been most striking.

### A genuinely global shift in revisions

The cross-regional view also shows up in the Citi Earnings Revision Indices, which we have used in this context for two decades.<sup>5</sup> Going back to 2000, ERIs and 12-month equity returns track tightly through normal cycles, decoupling only in periods of either monetary regime change or genuine exuberance. We are now in the second of those periods, broadly defined.

### US: revisions and returns

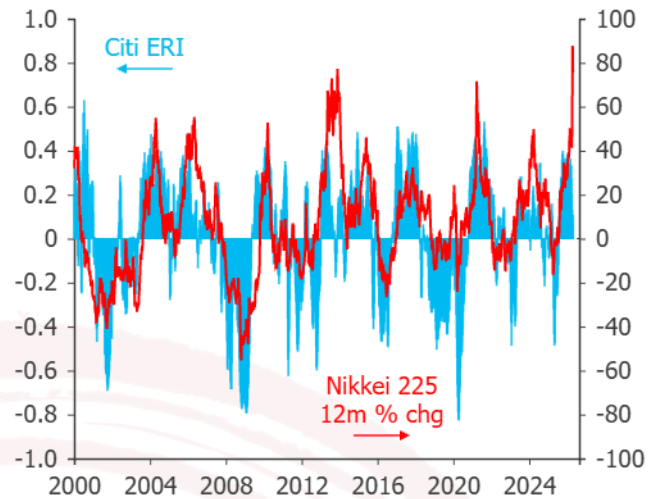
Citi ERI 4-wk MA vs S&P 500 12m % change



Source: Citi, Bloomberg, Satori Insights.

### Japan: revisions and returns

Citi ERI 4-wk MA vs Nikkei 225 12m % change



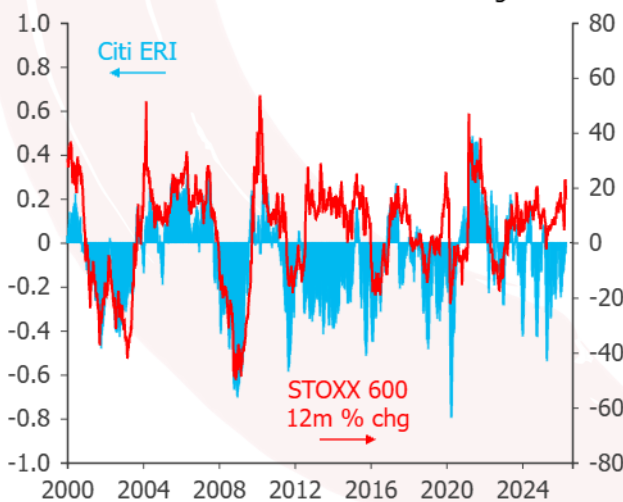
Source: Citi, Bloomberg, Satori Insights.

The US has its own version. ERI is moderately positive at around +0.2; the S&P 500's 12-month return is around +20%. The relationship is closer to historical norm here than for Japan — but the Hester point is that observable price multiples have done none of the work, so the entire return rests on the forward earnings revision delivering on its current trajectory.

Japan offers the most dramatic single picture. The Nikkei's 12-month return has reached almost +90% — a level only previously seen at recovery troughs (2010, 2013 Abenomics, 2021 post-COVID) and then with much higher ERIs. Today's ERI of +0.3 is solidly positive but not extraordinary; in past cycles a reading of this strength came with equity returns of 25–50%. The +90% magnitude is a multiple of what revisions alone would justify.<sup>6</sup>

### Europe: revisions and returns

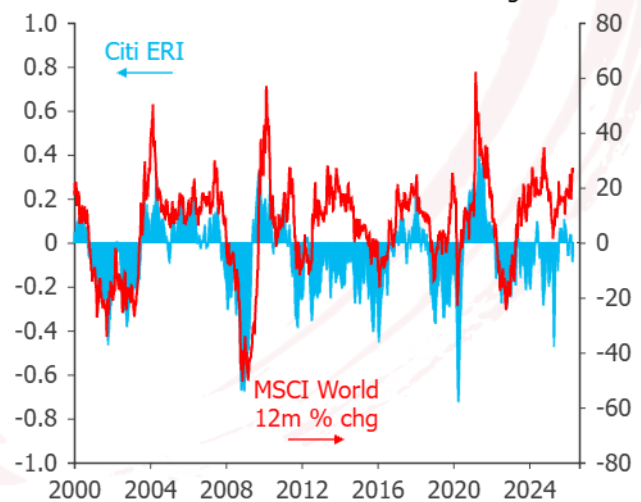
Citi ERI 4-wk MA vs STOXX 600 12m % change



Source: Citi, Bloomberg, Satori Insights.

### Global: revisions and returns

Citi ERI 4-wk MA vs MSCI World 12m % change



Source: Citi, Bloomberg, Satori Insights.

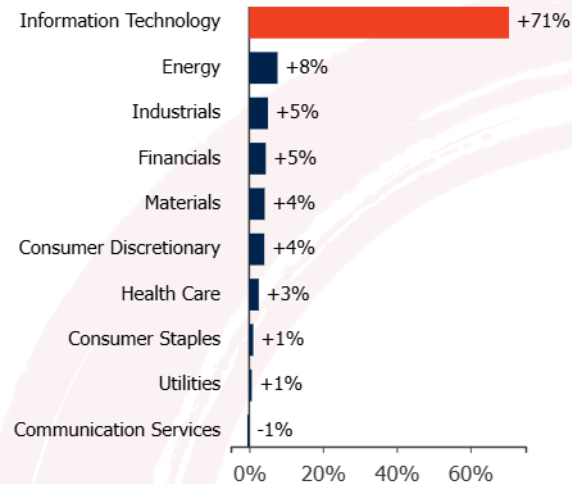
Europe and global show breaks that are smaller in magnitude than Japan's but qualitatively the same: 12-month equity returns running ahead of where revisions alone would put them, despite ERIs that are positive but not extreme. Across the four regions, the message is consistent. Revisions cannot fully explain the price action. Something else has been priced in — and that something is the forward margin assumption itself.

## The narrow upgrade behind the broad assumption

Here is the part that matters for whether the assumption is reasonable. The aggregate “broad-based margin lift” narrative is true at the index level, where we see it. But the actual recent earnings *revisions* — the upgrades that have happened in real consensus numbers — are spectacularly concentrated in a handful of sectors.

### IT did most of the work

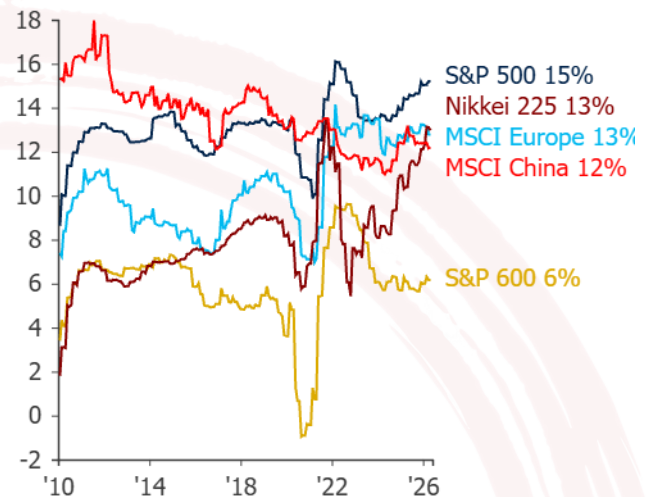
Sector contribution to MSCI World 4m EPS upgrade, %



Source: Bloomberg, Satori Insights. Sector weights approximate.

### Trailing operating margins by region

Trailing 12m operating margin, %



Source: Bloomberg, Satori Insights.

Information Technology alone contributed around 71% of the MSCI World forward EPS upgrade over the past four months, despite being only around a quarter of index weight. Energy adds another 8%, helped by the Iran-spike in oil prices.<sup>7</sup> Communication Services has actually seen its forward EPS estimates fall. Lapthorne’s more granular GICS sub-industry version of the same exercise puts ~98% of MSCI ACWI’s 2026 profit upgrade in semiconductors, IT hardware, and oil & gas combined.

This is the bridge to the credit market puzzle we have been turning over for some weeks. CCC spreads have widened even as low-quality equity baskets have rallied. If the genuine earnings upgrades are concentrated in mega-cap tech and oil & gas, then the credit-vulnerable, the indebted small-caps, the low-quality names — the entire universe that worries CCC traders — are *not* getting the actual AI uplift. They are getting the speculative bid: the embedded assumption that the broad margin lift will eventually find its way to them too. CCCs widening while equity rallies low-quality names is the right read of the asymmetric payoff. It is also why the trade we discussed in *Investing amid lawlessness* — equities over credit on a call-option basis — still holds in structure, but with a smaller margin of safety than when we set it out.<sup>8</sup>

The S&P 600 is the cleanest illustration of the gap between the broad assumption and the narrow data. Trailing operating margins of small-caps are around 6%, well below other regions and roughly half the S&P 500. Hester’s most striking chart shows analysts pencilling in this number to nearly double by 2027. There is no equivalent recent revision flow to support it.

## The structural margin story is partly real

We are not arguing that nothing real is happening. Some of what is being extrapolated forward has genuine substance. This is most obviously the case in Japan, where corporate operating margins have actually doubled since 2010, from around 6% to around 13%. The drivers — the TSE corporate-governance reforms (the unwinding of cross-shareholdings, the focus on cost of equity), the lagged earnings boost from earlier yen weakening, returning pricing power after a generation of deflation — are well-documented and microeconomically grounded.<sup>9</sup> Yen weakening is *not* the proximate cause of the most recent surge: JPY/USD has been essentially flat since the start of 2025, ruling out FX translation as the explanation for what we see in 2025-26 specifically.

The S&P 500's own ascent to 15% trailing operating margins is partly real, partly the AI mega-cap effect, and partly cyclical. None of this is in question. The question is whether the *forward* projection should be a continuation of these particular drivers, in these particular companies — which would be defensible — or whether it should be a generalisation across all sectors, all cap-sizes, and all geographies, including those with no equivalent structural driver. The published consensus is the latter, and that is the assumption that looks fragile.

## What Kalecki implies

There is also a constraint that nobody at the firm level needs to think about, but that we cannot escape at the global level. Per the Kalecki profit identity — globally, where net exports cancel — corporate profits equal investment plus the government deficit minus household saving, plus dividends (which are a transfer, net zero in aggregate). For aggregate margins to keep expanding everywhere, one of those levers has to keep stretching.<sup>10</sup>



The chart above shows where some of the corporate margin gain over the past two decades has come from. The US labour share has fallen by around 15 index points since 2000 while the corporate profit share of GDP has roughly doubled. The mirror image is mechanical, not coincidental: aggregate corporate margins rise when the labour share of national income falls. AI-driven productivity gains accruing to

capital rather than labour — the working assumption embedded in the broad forward margin uplift — would extend that pattern, and would do so globally. But each marginal step has the same constraint: aggregate wages fall, household consumption falls, and corporate revenues fall, unless one of the four Kalecki levers (corporate investment, fiscal deficit, dis-saving, dividend transfer) keeps extending to fund the gap.

The investment line is currently doing most of the supporting work, almost entirely from a single source: the AI data-centre capex cycle. Microsoft buying \$200 billion of Nvidia chips is Nvidia revenue, but at the aggregate corporate level it is a transfer between firms — what helps the profit identity is the *flow* of investment expenditure, which has to keep growing to keep contributing. Government deficits are also supportive, but already stretched in the US, France, UK and Japan, with limited political room to extend further outside of recession.<sup>11</sup> Household saving has fallen to generational lows in the US, but only because asset-price wealth effects have been doing the work — which is reflexive: if equities fall, saving rises, profits compress.

The composition fallacy has a long pedigree in macro and is precisely what Kalecki captures. Each individual firm can plausibly cut headcount and lift margins. They cannot all do it together without somebody, somewhere, providing the offsetting demand — and the candidates are limited.

## Implications

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Four positioning observations follow, in declining order of conviction:

- **US small-caps and low-quality baskets are where the broad-margin assumption is most aggressive.** The S&P 600's projected operating margin doubling is the boldest single piece of forward consensus in the global picture, and the small-cap universe has the least direct AI-supply-chain exposure. The recent rally in low-quality names looks positioning-driven rather than fundamentals-led; Goldman's high-beta and weak-balance-sheet baskets carry the kind of historical asymmetry that does not reward extending exposure here.
- **In credit, the relative trade is more compelling than the outright.** CCC spreads widening alongside low-quality equity baskets rallying is the right read of asymmetric payoff. Long quality / short low-quality (or long IG vs short HY-CCC, depending on flow) captures the dispersion without taking outright risk-on or risk-off positioning. The "equities over credit" call-option thesis from *Investing amid lawlessness* still holds in structure, but the entry has been compressed by the kind of broad rally that prompted this note.
- **Japan large-cap is at the limit of what extrapolation can defend.** The structural margin doubling is real, and unique among the regions we examine. But Nikkei's +44% margin contribution to total return over 16 months is a multiple of what comparable ERIs have delivered historically, and is approaching the point where any further upside would need to come from fresh genuine improvements rather than continued projection of the existing trend. For investors who set up positions on the structural thesis when we wrote about it last year, taking some money off the table into the current strength is the disciplined response.

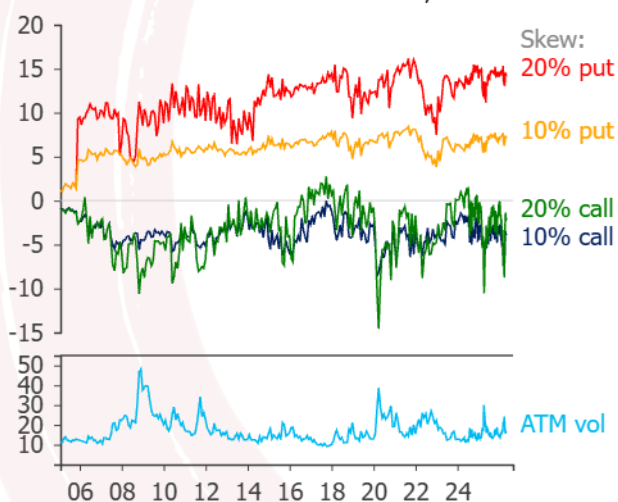
- **The UK is the least exposed to a global margin disappointment, but has its own problems.** Only +4% margin contribution in our decomposition; FTSE has rerated through multiples after years of trading at a chronic discount. If the global margin story disappoints, the UK is least at risk on the earnings line. But UK equity has meaningful Iran-conflict exposure (oil & gas, defence — both significant index weights) and the UK's own fiscal/political backdrop adds risk we have written about elsewhere. A relative call rather than an outright one.

For the broader risk-on/risk-off question, the right framework remains nuance rather than caution outright — consistent with the position we set out in *From exuberance to unwind*. This is a market in which cheap call options and increasingly stretched cash equities can coexist sensibly. It is also one in which the trade we identified in *Investing amid lawlessness* — equity over credit, on a call-option payoff structure — has been increasingly rewarded but with progressively less room to extend.

The literal version of that trade had its moment in late March, when the equity correction sent OTM call skew to multi-decade-cheap levels on both SPX and SX5E. The subsequent rally has seen calls snap back, and at current prints (early May) 20%-OTM call skew on both indices sits within roughly half a percentile point of the 20-year median. The acute opportunity is gone for now; the structural pattern remains.

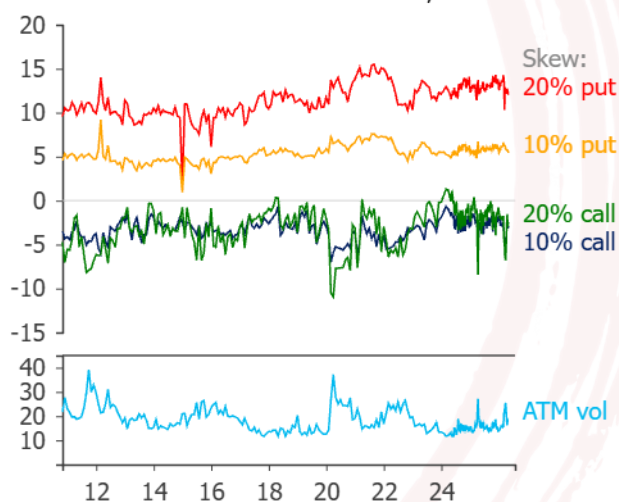
### S&P 500 3-month vol skew

Put and call skew at 10% and 20% OTM, % of ATM



### EURO STOXX 50 3-month vol skew

Put and call skew at 10% and 20% OTM, % of ATM



The historical pattern across two decades is consistent on both sides of the Atlantic: put skew elevated and stable (steady demand for downside protection); call skew episodically cheapening during corrections — and never more than during the late-March 2026 sell-off. Markets continue to price volatility asymmetrically. When the next correction comes, the asymmetric pricing should reappear and the call-option payoff structure becomes available again, on better entry terms than today's mid-range levels.<sup>12</sup> Authers' parallel to the late 1999 melt-up is apt; value managers who sat out the dot-com final phase regretted it before they were vindicated.<sup>3</sup>

The analytical core to keep returning to is the simple observation that an above-average margin assumption applied to all the regions, all the sectors, and all the capitalisations at once is not, on

inspection, what the actual revision flow shows. It is the brochure version. The reality on inspection is narrower, and Kalecki tells us it has to be funded somewhere.

1. V. Latronico, *Perfection* (Fitzcarraldo Editions, 2024), trans. S. Whiteside. ↩
2. [“Extreme Earnings Forecasts Mask Stock Market Risk”](#), W. Hester, *Hussman Strategic Advisors*, Apr 26. ↩
3. [“Hate to Suggest Partying Like It’s 1999, But...”](#), J. Authers, *Bloomberg Opinion*, 28 Apr 26. Citing A. Laphorne, Société Générale Cross Asset Research/Equity Quant; D. Peta of BCA Research on cycle duration; and P. Berezin (also BCA) on margins at all-time highs. ↩↩
4. For more on the FTSE 100 derating story see *From exuberance to unwind*, where we set out the broader exuberance/unwind framing within which this note sits. ↩
5. We have used the Citi ERI structure in cross-regional context since the early 2000s, originally as a leading indicator for sector and country positioning. The 4-week moving average shown in the charts smooths the weekly noise without lagging the turning points materially. ↩
6. Some of the Japan magnitude is FX-translation through index level, since the Nikkei is yen-denominated and the chart shows yen returns. The yen being broadly flat since Jan 2025 means this does not affect the comparison with ERI within the chart, but it does mean the relevant *international* return for a USD-based investor has been rather smaller than +90%. ↩
7. We have written separately on the oil-price impact of the Iran conflict; see *Hormuz blocked* and the corresponding chart commentary. The Iran-driven energy contribution to forward earnings is a genuine boost, but is by definition transient. ↩
8. *Investing amid lawlessness*, Mar 26. The original argument was that in a regime of fiscal dominance, monetary unreliability, and asset-price levitation, an unhedged equity long versus credit captures asymmetric payoff. The call-option framing remains correct; the entry has been compressed by exactly the kind of exuberance we discuss here. ↩
9. For the structural Japan argument see also *Outlook 2026* (the Japan section) and *The radicalism of a Warshian Fed* (where the BoJ comparator features in the discussion of central-bank-balance-sheet regime change). ↩
10. Kalecki’s profit equation in its modern aggregate form:  $\pi = I + (G - T) - S_h + D - NX$ , where  $NX$  = net imports of goods and services, signed so that an inflow lifts domestic profits. Globally,  $NX$  cancels across countries, leaving the four-lever identity used in the text. See M. Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy* (CUP, 1971); for a contemporary application, A. Smithers, *The Road to Recovery* (Wiley, 2013), chapter 5. ↩
11. We have written extensively about the US fiscal trajectory in *When fiscal becomes physical* and the broader implications for asset markets. ↩
12. Three-month implied volatility at 110%/120% moneyness for SPX and SX5E, computed as a percentage of ATM (3MTH\_IMPVOL\_X%MNY\_DF Bloomberg fields). 20%-OTM call skew on SPX bottomed at -8.75 in late March and has rebounded to -1.94 (early May) — close to the post-2005 median; SX5E followed the same arc. We maintain the underlying chart structure in *Volatility — SPX call skew* and *Volatility — Stoxx call skew*. ↩



## Financial market enlightenment

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