

October 5 - 9, 2026

Earnings and economic growth: Mind the gap

by Avery Shenfeld avery.shenfeld@cibc.com

Equity earnings and the economy aren't identical twins, but they typically have a familial resemblance. But in the US, the two now look so distinctly different that if they were siblings, you might wonder if one was adopted. Neither are unattractive, but earnings are by far the more photogenic these days.

Take the S&P 500 index, where the last quarter showed an EPS gain of over 50% versus the prior year. Part of that came from two tech giants that included large gains on their stakes in other tech companies. But even excluding those two companies, EPS would still have been up over 30%. That compares to nominal GDP growth of only 6.3%, much wider than the average divergence (Chart), and one that we typically see only in the volatile quarters coming out of a recession.

Part of the gap owes to the increasing share of the GDP pie that is accruing to profits, allowing national accounts corporate profits to grow faster than GDP as a whole. From 1970 to 2000, profits typically represented 8-10% of GDP. Since then, other than in recessions, it's been a steady march higher, reaching a record 14.5% share, implying that the level of profits is more than 50% above where it would be at its historical share of GDP. Some of that represents a smaller slice of the economy going to interest payments, but most of it has come from workers, with labour's share dropping from roughly 56% in the 1970-90 period to a record low of 50.2% in Q2 2026.

A 2016 Brookings study identified increased import competition as the leading factor behind that trend, putting downward pressure on worker bargaining power, and lowering costs for business. If so, could protectionism be a threat to the rising profit and weaker labor shares? If it lives up to the hype, AI could represent a new source of cost savings for business and reduced bargaining power for labour. But at some point, constraints on what the average worker earns, and the increased concentration of income among owners of capital, could undermine the broad growth in household demand that the economy depends on.

Big spending by AI hyperscalers is lifting aggregate earnings, because the companies selling components book that as revenue, while the buyers charge only a portion of the cost since they capitalize the expenditures and amortize them over time. At some point, as we get to a more mature phase of the AI build-out, spending on chips, components and power plants will grow more slowly, reducing earnings growth for suppliers. A lot

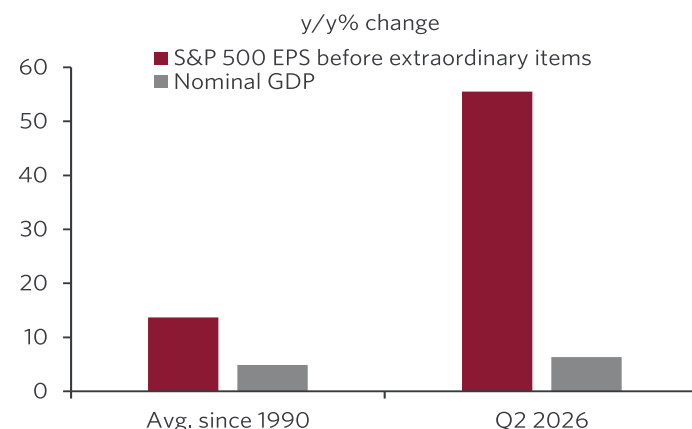
will then rest on whether hyperscalers or businesses putting AI to use see offsetting pickups in their earnings.

That said, it hasn't been just about tech and communications, or higher margins for energy product producers emanating from supply shortages. Q2 also saw double digit profit growth across a broad range of sectors, with FactSet data showing that real estate and health care were the only sectors not invited to that party.

It's that broad, exceptional earnings parade that's behind the market's ability to hang in and retain large year-to-date gains, thereby shrugging off wars, energy costs and rising bond yields of late. But ultimately, if historical trends return, S&P 500 earnings growth will be much more closely aligned with overall profit gains across the economy, which while outpacing nominal GDP, typically run at a 5-7% annual pace.

Sustaining an earnings-driven equities rally will therefore need some resolution of the squeeze from rising interest rates and energy costs that threaten to impede economic growth in the coming year. While long yields look to be sticky, short term rates don't seem likely to climb as much as markets are assuming. A resolution of Persian Gulf tensions could also provide relief from what might otherwise be a lasting hit to consumer spending power. If so, that would leave the results of the AI revolution as the major source of upside or downside volatility ahead.

Chart: S&P earnings now miles above nominal GDP growth



Source: Bloomberg, BEA, CIBC

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, October 5	-	-	-	-	-	-	-
Tuesday, October 6	-	AUCTION: 3-M BILLS \$12.8B, 6-M BILLS \$4.6B, 1-YR - BILLS \$4.6B	-	-	-	-	-
Tuesday, October 6	8:30 AM	MERCHANDISE TRADE BALANCE	(Aug)	(H)	\$1.5B	\$1.3B	\$0.8B
Tuesday, October 6	8:30 AM	IVEY PMI	(Sep)	(L)	-	-	64.3
Wednesday, October 7	-	AUCTION: 2-YR CANADAS \$5.5B	-	-	-	-	-
Thursday, October 8	-	-	-	-	-	-	-
Friday, October 9	8:30 AM	EMPLOYMENT CHANGE	(Sep)	(H)	5.0K	9.2K	-41.7K
Friday, October 9	8:30 AM	UNEMPLOYMENT RATE	(Sep)	(H)	6.5%	6.5%	6.4%

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, October 5	9:45 AM	S&P GLOBAL US SERVICES PMI	(Sep)	(L)	58.7	-	58.7
Monday, October 5	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Sep)	(L)	-	-	58.4
Monday, October 5	10:00 AM	ISM - SERVICES	(Sep)	(M)	55.0	55.2	55.4
Tuesday, October 6	-	AUCTION: 3-YR TREASURIES \$58B	-	-	-	-	-
Tuesday, October 6	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Aug)	(H)	-\$90.0B	-\$89.8B	-\$88.6B
Tuesday, October 6	9:05 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, October 6	7:00 PM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Wednesday, October 7	-	AUCTION: 10-YR TREASURIES \$39B	-	-	-	-	-
Wednesday, October 7	7:00 AM	MBA-APPLICATIONS	(Oct 2)	(L)	-	-	-6.0%
Wednesday, October 7	2:00 PM	FOMC Meeting Minutes	(Sep 16)	-	-	-	-
Wednesday, October 7	3:00 PM	CONSUMER CREDIT	(Aug)	(L)	-	\$15.0B	\$18.1B
Thursday, October 8	-	AUCTION: 30-YR TREASURIES \$22B	-	-	-	-	-
Thursday, October 8	8:30 AM	INITIAL CLAIMS	(Oct 3)	(M)	-	-	197K
Thursday, October 8	8:30 AM	CONTINUING CLAIMS	(Sep 26)	(L)	-	-	1701K
Thursday, October 8	10:00 AM	WHOLESALE INVENTORIES M/M	(Aug)	(L)	-	-	0.7%
Thursday, October 8	1:40 PM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Friday, October 9	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Oct P)	(H)	-	48.0	48.1

Week Ahead's market call

by Avery Shenfeld

In the **US**, with no major data releases on tap, attention will fall on three Fed speakers and the minutes from the prior meeting. We've seen some FOMC members hint at a pause in October, but also at the likelihood of at least one more rate hike ahead. We doubt the minutes will provide any real clues, as they will mostly be about why the Fed was unanimous in hiking in September. The jobs data added weight to the case for a pause, but were not soft enough to be decisive, leaving the mid-month CPI data as likely to be key to the timing of the next Fed move.

In **Canada**, the trade surplus likely improved in August, but September's jobs data will carry a bit more weight in the next Bank of Canada decision. We're expecting to see a small uptick in the jobless rate ahead, although the imprecision of these household survey numbers means we don't put a lot of confidence around any one monthly report. While September might be too soon to see the impact of recent additions to tariffs, recent news from the steel industry suggests that we're not done with the drag from tariffs imposed in 2025 that August negotiations failed to resolve. As in the US, core inflation data will be important in the next round of central bank deliberations, but unlike the US, there are more reasons for the Bank of Canada to look to economic slack to curtail the passthrough of energy prices into a broader inflation uptrend.

Week Ahead’s key Canadian number:
Labour force survey—September

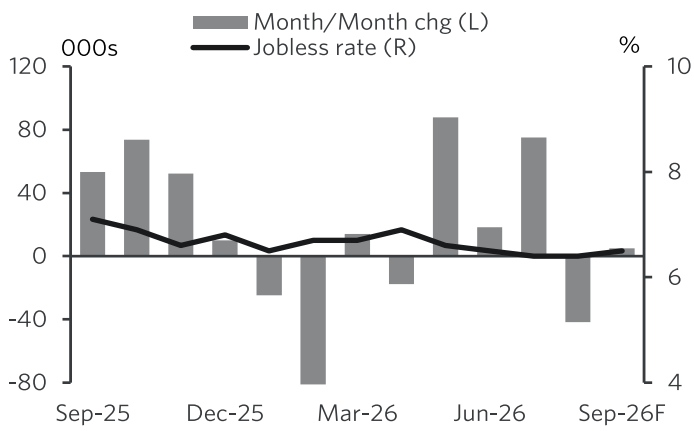
(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment change	5.0K	9.2K	-41.7K
Unemployment rate	6.5%	6.5%	6.4%

Following wild swings in the past couple of months, we expect that employment rebounded only marginally in September. New US tariffs may have negatively impacted hiring in the manufacturing sector, although it is possible that firms decided to hold onto staff and reduce hours instead, in the expectation that a trade deal with the US would be reached. While population growth is expected to remain only modest, it would still be enough to see the unemployment rate tick up slightly to 6.5%.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — We forecast a slight tick higher in the unemployment rate before year-end, largely due to the impact of new US tariffs on staffing levels in impacted sectors. However, should a trade deal be achieved as we expect, the jobless rate will return to a downward trend in 2027.

Other Canadian releases:
Merchandise trade balance—August

(Tuesday, 8:30 am)

After taking a step back in July, exports likely rebounded in August to drive a widening of the Canadian trade surplus. That will partly reflect higher energy exports, but US advance trade data (pointing to a fairly widespread rise in imports) suggests that Canada could have seen higher exports in other sectors too. We forecast a \$1.5bn surplus, up from \$0.8bn in the prior month.

There are no major US data releases next week.

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