# Tech giants’ earnings under microscope amid US-China trade tensions



This week, the technology sector is under intense scrutiny as four major companies—Microsoft Corporation, Apple Incorporated, Meta Platforms Incorporated, and Amazon.com Incorporated—are scheduled to release their quarterly earnings reports. These results arrive amid heightened market anxiety over escalating trade tensions between the United States and China, which have wiped approximately US$5.5 trillion from the S&P 500 Index, shifting investor focus away from prior concerns about artificial intelligence (AI) profit conversion.

The current market atmosphere contrasts sharply with conditions three months ago, when optimism abounded following US President Donald Trump’s inauguration. Then, Wall Street expected robust growth driven by a pro-business government agenda and watched eagerly for returns on AI investments. Now, fears of an impending tariff-induced recession dominate, with traditional safe-haven assets like gold attracting investors wary of stock market volatility.

Despite the backdrop of uncertainty, analysts remain cautiously optimistic about the so-called "Magnificent Seven" tech giants—which include, in addition to the companies reporting this week, Alphabet (Google’s parent company), Tesla Incorporated, and Nvidia Corporation—anticipating an average profit growth of approximately 15 percent for the year. This forecast has remained relatively stable since early March, even as trade tensions have escalated.

Given that the four reporting companies collectively represent nearly 20 percent of the S&P 500, their earnings will carry substantial weight. Market participants are unlikely to overlook any earnings misses, particularly under prevailing anxious conditions. A weak earnings report or a cautious outlook from these firms could reinforce concerns regarding diminished corporate spending, prompting further market declines.

Phil Blancato, chief market strategist at Osaic Wealth Incorporated, commented on the situation, stating: “Any modicum of a weaker than expected number is going to cause a further selloff because of the concern around tariffs,” and expressed the view that the current sector weakness might present a buying opportunity.

Recent indicators have provided mixed signals. Tesla reported one of its weakest quarters in years but reassured investors by signalling a potential management focus shift back to its core electric vehicle business. Alphabet surpassed earnings expectations but refrained from offering notable forward guidance. The Bloomberg Magnificent Seven index experienced a 9.1 percent rise recently amid a broader market rebound, although it remains down 15 percent year-to-date.

Analysts are particularly attentive to the potential financial impact of tariffs. Bloomberg Economics models suggest that a 22 percent tariff rate could contract net income for the S&P 500 by approximately 7 percent this year, compared to consensus profit growth projections of nearly 12 percent, according to Gina Martin Adams, chief equity strategist at Bloomberg Intelligence.

Capital expenditure plans also draw close examination. Microsoft, Alphabet, Amazon, and Meta are projected to invest about US$300 billion in capital spending for their current fiscal years. However, Microsoft’s recent decision to pause certain data centre projects indicates potential reassessments of expenditure within the cloud computing segment.

Apple faces notable exposure to tariffs due to its reliance on supply chains based in China. Some analysts suggest that consumer demand may have temporarily surged in anticipation of tariff-related price increases, though such effects are expected to be short-lived, with ongoing tariffs likely to suppress future demand. Amazon’s e-commerce and advertising units are susceptible to tariff impacts, but the company’s high-margin web services division could mitigate profit losses, according to Jefferies analyst Brent Thill.

On a more optimistic note, the financial robustness and market dominance of these technology leaders may afford them greater resilience during economic downturns compared to other sectors. Valuations have adjusted accordingly; for instance, Alphabet currently trades at approximately 17 times projected earnings over the next twelve months, down from its decade-average of 21 times, potentially presenting purchase opportunities for investors should trade tensions ease.

Signs of possible de-escalation surfaced recently when President Trump indicated that a trade deal with Beijing could substantially reduce tariffs, prompting a surge in stock prices.

However, Keith Lerner, co-chief investment officer and chief market strategist at Truist Advisory Services Incorporated, emphasised cautious deliberation: “The valuations are getting more interesting down here, but we haven’t pulled the trigger yet. There are a lot of questions on the E-side of the equation,” referring to earnings uncertainties.

As the market awaits these pivotal earnings reports, the technology sector remains at the centre of investor focus, with outcomes likely to influence market direction amidst a complex global trade environment.

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