



1Q26 Earnings: Where Street Estimates Are Too Low & Who Should Beat

GAAP earnings, despite popular opinion, don't accurately measure profits. Companies can, and do, [manipulate GAAP earnings](#) through [accounting rule loopholes](#). To find a "better" metric, investors turn to non-GAAP, whisper numbers, or Street Earnings¹ to get additional insight into a company's true fundamentals.

But, those numbers are, [in fact](#), also proven to be misleading.

The Real Solution

Rather than rely on flawed GAAP or Street Earnings, we use [FinSights](#), our AI agent from Google Cloud, to find companies most likely to miss Street earnings. Like all of our research, FinSights is fueled by the proprietary data from our Robo-Analyst AI, which analyzes the footnotes of financial filings to calculate [Core Earnings](#), a [proven superior measure of earnings](#).

In this report, we'll show:

- the frequency and magnitude of understated GAAP Earnings in the S&P 500,
- Street Earnings are flawed and misleading,
- how Core Earnings generate novel alpha, and
- the five S&P 500 companies most likely to beat Street estimates next quarter.

GAAP Earnings Understate Core Earnings for Nearly Two-Thirds of the S&P 500

In the trailing-twelve-months (TTM) as of 3/24/26, 64% of the companies in the S&P 500 reported GAAP Earnings that are lower than Core Earnings. These 322 companies with understated GAAP Earnings make up 47% of the market cap of the S&P 500 as of March 24, 2026.

The median amount that GAAP Earnings understate Core Earnings is 11%, per Figure 1.

Figure 1: Median S&P 500 GAAP Earnings Understated by 11%

Understated GAAP Earnings	Understated by >10%	Median Understatement %
322 companies	168 companies	11%

Sources: New Constructs, LLC and company filings.

Proof of Alpha in Core Earnings

Core Earnings are a proven-superior measure of earnings that generate alpha. Don't believe us? Look no further than the outperformance of the Bloomberg New Constructs [Core Earnings Leaders Index](#) (ticker: [BCORET:IND](#)), which beat the S&P 500 Total Return by 897 basis points in 2025. The index beat the S&P 500 by 28% over the past five years through March 27, 2026.

The index invests in stocks based entirely on Core Earnings power. Its outperformance provides compelling evidence of the value in our proprietary measure of Core Earnings.

¹ Street Earnings refers to S&P Global's normalized EPS, which adjusted to reflect cycles of the economy, as well as removing unusual or one-time expenses that do not reflect the usual operations of the company.



Figure 2: Bloomberg New Constructs Core Earnings Leaders Total Return Index: 2025 Performance



Sources: [Bloomberg](#) as of December 31, 2025
 Note: Past performance is no guarantee of future results.

S&P 500 Companies Most Likely to Beat Calendar 1Q26 Earnings

Figure 3 shows the S&P 500 companies with an Attractive or Very Attractive [Stock Rating](#) and Beat or Strong Beat [Street Earnings Distortion Score](#) that are likely to beat calendar 1Q26 earnings because their Street EPS estimates are too low.

Stocks in Figure 3 are ranked by Street Earnings Distortion Capture, which is the difference between Core EPS estimates and Street EPS estimates divided by Total Assets. This calculation is similar to our [GAAP Earnings Distortion](#) calculation, but uses Street Earnings instead of GAAP Earnings.

Figure 3: S&P 500 Companies Likely to Beat Calendar 1Q26 EPS Estimates

Ticker	Name	Calendar 1Q26 Street EPS Estimate	Calendar 1Q26 Core EPS Estimate	Street Estimate Understated by	Street Earnings Distortion Capture
MRK	Merck & Co.	(\$1.31)	\$1.98	251%	-6.0%
DECK	Deckers Outdoor Corp	\$0.82	\$1.82	122%	-3.5%
WTW	Willis Towers Watson	\$3.72	\$6.65	79%	1.0%
PHM	PulteGroup	\$1.82	\$2.61	43%	-0.9%
CLX	The Clorox Company	\$1.57	\$1.95	24%	-0.8%

Sources: New Constructs, LLC, company filings, and Yahoo Finance

To calculate Core Earnings estimates, we forecast next quarter’s Core Earnings based on historical average Core Earnings margins and consensus revenue estimates.

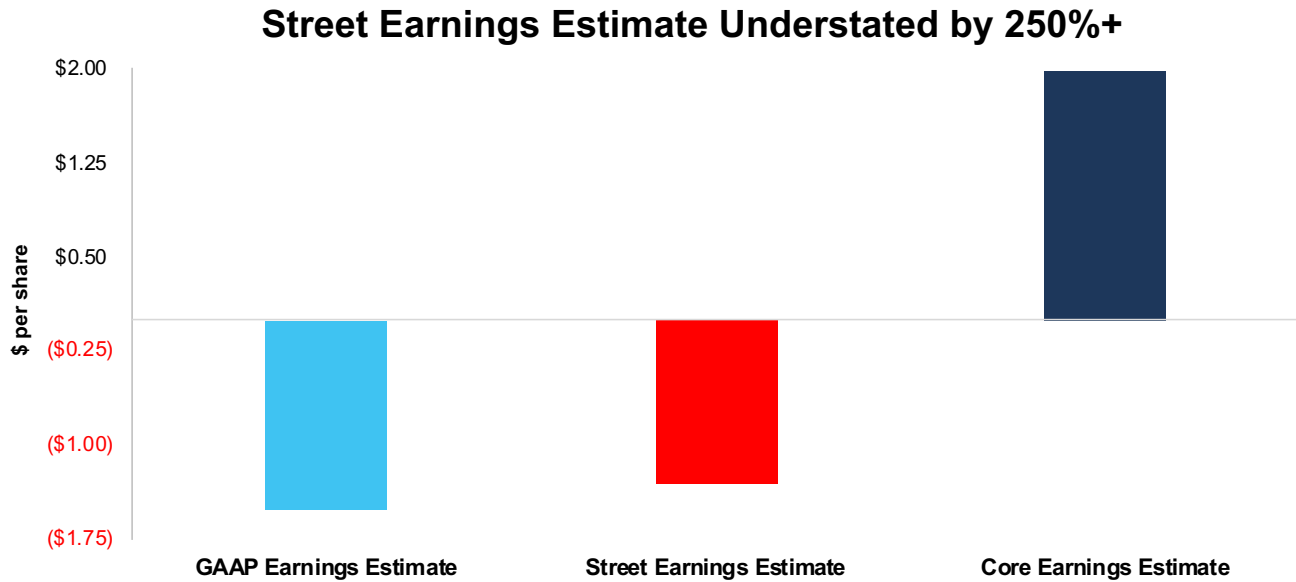
Merck’s 1Q26 Street Earnings Estimate Understated by \$3.29/share

The difference between, or Street Distortion in, Merck’s (MRK: \$120/share) Street EPS Estimate (-\$1.31/share) and Core Earnings estimate (\$1.98/share) is -\$3.29/share, or 251% percent of Street Earnings estimates.



Merck’s GAAP [Earnings Distortion](#) (GAAP earnings estimate minus Core Earnings estimate) is even larger, at -\$3.49/share, which indicates that Street Earnings are, at least partially, adjusting GAAP earnings. However, the amount of Street Distortion, and especially the Street Distortion capture of -6%, indicates that Street Earnings are still missing a material amount of unusual expenses.

Figure 4: Comparing Merck’s GAAP, Street, and Core Earnings Estimates: 1Q26



Sources: New Constructs, LLC, company filings, and Yahoo Finance.

How We Reconcile Merck’s GAAP Earnings to Core Earnings

In the section below, we detail the [hidden and reported](#) unusual items that distort GAAP Earnings for Merck in 2025 as a real-world example of the work we do for all companies we cover. We remove all of these unusual income and charges from Core Earnings.

We provide these details so readers can audit our research. We would be happy to reconcile our Core Earnings with Street Earnings but cannot because we do not have the details on how analysts calculate Street Earnings.

Merck’s [Street Earnings Distortion Score](#) is Strong Beat and it earns a Very Attractive [Stock Rating](#). Merck receives a Very Attractive rating due to its positive [economic earnings](#), return on invested capital ([ROIC](#)) of 20%, and cheap stock price.

At its current price of \$120/share, MRK has a price-to-economic book value ([PEBV](#)) ratio of 0.9 and a market-implied growth appreciation period ([GAP](#)) of less than one year based on our [Robo-Analyst’s](#) default scenario in our reverse discounted cash flow (DCF) model. Merck’s economic book value, or no growth value, is \$137/share.

Figure 5 details the differences, what we call “GAAP Earnings Distortion”, between Merck’s 2025 Core Earnings and GAAP Earnings.

Figure 5: Merck’s GAAP Earnings to Core Earnings Reconciliation: 2025

	2025 (\$ per share)
GAAP Net Income	\$7.28
– Hidden Unusual Expenses Pre-Tax, Net	(\$1.76)
– Reported Unusual Expenses Pre-Tax, Net	(\$0.23)
– Tax Distortion	\$0.79
= Core Earnings	\$8.48

Sources: New Constructs, LLC and company filings.

**Details on Key Data Found in the Footnotes**

Merck's 2025 GAAP EPS are \$7.28, and Core EPS are \$8.48. The difference is GAAP Earnings Distortion of -\$1.20/share, or -\$3.0 billion, and is comprised of the following:

Hidden Unusual Expenses Pre-Tax, Net = -\$1.76/share, which equals -\$4.4 billion and is comprised of:

- -\$3.5 billion in acquisition and divestiture related costs and other exit costs
- -\$965 million in intangible asset impairment charges and accelerated depreciation

Reported Unusual Expenses Pre-Tax, Net = -\$0.23/share, which equals -\$572 million and is comprised of:

- -\$1.2 billion in exchanges losses and restructuring costs
- -\$546 million contra adjustment for [recurring pension costs](#). These recurring expenses are reported in non-recurring line items, so we add them back and exclude them from Earnings Distortion.
- \$571 million in income from investments in equity securities and "other" income
- \$615 million in reported other non-operating income related to defined benefit plan credits

[Tax Distortion](#) = \$0.79/per share, which equals \$2 billion

Hidden unusual expenses make up a majority of total GAAP Earnings Distortion in 2025, which means investors relying on GAAP get a misleading view of the company's profits.

However, with large Street Distortion in Merck's 1Q26 earnings estimate, it would appear that adjusted metrics are missing even the reported expenses detailed above. Our Core Earnings include a more comprehensive set of unusual items to calculate a superior measure of profitability.

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Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, style, or theme.

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It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by S&P Global’s (SPGI) *Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Harvard Business School. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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