



Margin resilience: The strategic architecture of the top 10%



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Margin resilience: The strategic architecture of the top 10%

Executive Summary

Market volatility is reshaping how businesses create and protect value. Inflation shocks, interest rate shifts, geopolitical risks and trade realignments are no longer episodic – they are embedded features of today's market environment. These forces unsettle asset valuations, disrupt capital flows and create strategic ambiguity for business leaders.

For executives navigating this environment, strategic resilience and structural robustness – grounded in a well-designed strategic architecture – are more than risk management; they are differentiators that enhance enterprise value and transaction readiness. By combining empirical analysis with proven strategic levers, we offer a roadmap to manage valuation risk, sharpen competitive positioning and future-proof business models in a world defined by uncertainty.

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SECTION 1

How markets reprice macroeconomic and geopolitical risks

Equity markets price uncertainty in real time

Equity markets price uncertainty in real time – nowhere is that clearer than during macroeconomic and geopolitical inflection points. To assess how US investors systematically reprice risk during these episodes, we analyzed nearly 45 years of daily S&P 500 returns (September 1981 - October 2025), measuring the equity risk premium as the excess return over the three-month Treasury bill.

We categorize events into three key drivers of market repricing:

- **Macroeconomic announcements:** Scheduled data releases – employment, Consumer Price Index (CPI), gross domestic product (GDP), purchasing managers index (PMI) – are pivotal in shaping expectations around growth and inflation.
- **Federal Reserve decisions:** All Federal Open Market Committee (FOMC) announcements, including emergency actions, given their outsized influence on interest rates and liquidity conditions.
- **Goeconomic shocks:** Significant developments with potential systemic spillovers, including military conflicts, trade policy shifts and major political escalations.

Not all events carry the same weight – or elicit the same investor response. Some events provide clarity that stabilizes valuations, while others inject deep uncertainty, driving risk aversion and sharp declines in equity value. Our analysis reveals how different categories of events consistently influence equity risk premia – the additional return investors demand to hold equities over safer assets.

Federal Reserve policy decisions tend to boost equity returns, with markets pricing an average 19-basis points (bps) increase in realized equity returns in excess of the three-month Treasury bill rate. These events bring clarity on monetary conditions, which helps investors reassess financing costs and future growth trajectories. For business leaders, Fed communications influence everything from capital strategy to M&A timing.

Macroeconomic announcements, such as employment, GDP or inflation reports, carry a smaller but still meaningful impact lifting realized equity returns by about 5bps on average. Importantly, the market's reaction often hinges more on how these data points compare to expectations, greatly influencing forward earnings guidance and valuation multiples. Executives should remain attuned not only to the data itself but to the narrative it shapes in the market.

Markets reward transparency and penalize ambiguity

+19bps

Fed decisions

+5bps

Macro reporting

-143bps

Geopolitical shocks

Source: EY-Parthenon analysis

Goeconomic shocks are the most destabilizing, triggering an average 143bps decline in equity market returns in a single day as risk aversion surges. These events prompt immediate risk-off behavior, as investors reassess macroeconomic stability, supply chains, energy costs and regulatory risks. For corporates, this underscores the need for strategic flexibility and scenario-based risk management – valuation can erode quickly in the absence of resilience.

In essence, markets reward transparency and penalize ambiguity. Executives who understand how equity risk premia shift in response to key events are better positioned to manage investor sentiment, protect valuations and make strategic decisions that enhance long-term enterprise value.

SECTION 2

The top 10%: What margin leaders do differently

Consistency is the ultimate mark of strategic excellence

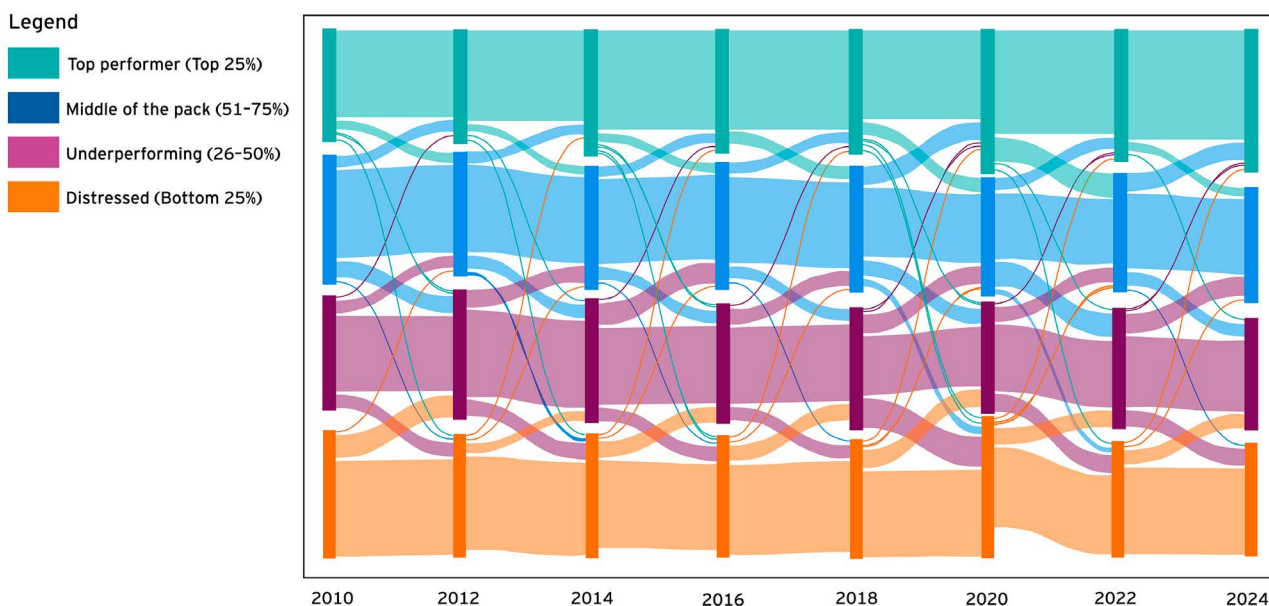
In today's volatile environment, consistency is the ultimate mark of strategic excellence. While most companies swing with the cycle - expanding margins in good years and retrenching in bad - a small group stands apart.

Among US companies with revenues of at least \$500m in 2010, nearly 1,000, a subset of nearly 100, or roughly the top 10%, have consistently delivered EBITDA margins that outperform their industry peers over the observation horizon.

These companies are the corporate equivalent of elite athletes. Their sustained performance isn't driven by a lucky product or a one-time market advantage. It's the result of discipline - strategic, operational and financial. They are built to outperform in all seasons.

To understand what underpins this resilience, we leveraged EY insights and Microsoft Copilot to analyze 10-K filings from these top 10% companies going back to 2010. The goal is to "decode" the architecture of long-term margin leadership across industries. We found that these top performers share a common strategic DNA: their success is engineered, not incidental.

EBITDA margin evolution for assessed cohort of US public companies



Source: EY-Parthenon analysis

The chart illustrates how margins have evolved over time for nearly 1,000 publicly traded US companies with revenues of at least \$500m in 2010. Companies were grouped into four categories by comparing their individual EBITDA margins to the annual EBITDA quantiles within their respective industries. These categories represent Top performers (top 25%), Middle of the pack (51%-75%), Underperforming (26%-50%), and Distressed (bottom 25%) companies based on their EBITDA margins relative to industry values.

Despite operating in different sectors with distinct market dynamics, the top 10% we analyzed rely on a shared set of structural levers. These are not isolated tactics but interconnected choices that reinforce one another over time. Together, they form a blueprint for [earning “the right to grow”](#) through disciplined growth and sustained profitability:

■ **Low capital intensity and high asset productivity**

Top margin performers are not asset-light in absolute terms across sectors; rather, they exhibit structurally lower capital intensity and superior asset productivity relative to their industry peers. These firms reduce the marginal capital required for growth by selectively shifting away from asset ownership toward fee-based, franchised or platform-enabled structures where appropriate.

Whether through franchising in hospitality, outsourcing non-core manufacturing or scaling digital platforms in technology, they prioritize flexibility and scalability over physical footprint. The result is a cost structure that limits fixed-cost drag, preserves balance-sheet optionality and allows incremental growth to translate more efficiently into margins and returns. (Learn more about [Capital Allocation Services](#).)

■ **Recurring revenue and customer lock-in**

Predictable, high-margin revenue streams are a hallmark of the top performers. [Subscription models](#), long-term leases and recurring post-sale services create stable cash flows and reduce earnings volatility. These revenue streams are often paired with high switching costs or embedded services that enhance customer retention and pricing leverage. (Learn more about [As-a-Service Business Operations and Transformation](#).)

■ **Pricing power through differentiation**

These firms are not in a race to the bottom. Instead, they create and defend margins by building defensible competitive advantages – proprietary technology, trusted brands, exclusive partnerships or regulatory barriers. This enables them to maintain premium [pricing](#) even in crowded or cost-sensitive markets. (Learn more about [Commercial Strategy Consulting](#).)

■ **Operational discipline and scale efficiency**

Operational discipline increasingly takes the form of industrialized operating models, including Global Business Services (GBS) and Global Capability Centers (GCCs). These models centralize process ownership, data

and governance while leveraging global talent hubs to deliver scale, automation and cost efficiency.

Top margin performers are ruthlessly efficient. They continuously optimize end-to-end processes, deploy automation, standardize workflows and apply lean management principles. As they scale, these efficiencies compound – transforming growth into operating leverage. Incremental revenues flow disproportionately to the bottom line because the cost base is already optimized and structurally scalable. (Learn about [Enterprise Reimagined™: build a clear path to value creation](#).)

■ **Active portfolio management and strategic adaptation**

Discipline also extends to the shape of the business. These companies are deliberate in where they compete – and where they don't. They regularly prune underperforming units, reinvest in high-margin segments and reposition in anticipation of regulatory, technological or consumer shifts. Digital innovation is no longer optional – it is a central lever in protecting and expanding margins. (Learn about [Divestment Strategy Consulting](#).)

What sets this top 10% group apart is not just the playbook – it's the consistent application of it. They execute with a long-term view, resist the temptation to chase short-term wins and adapt with agility as conditions evolve. For business leaders, the implication is clear: margin leadership isn't a function of luck or market timing. It is the outcome of repeatable choices, embedded discipline and a structural commitment to performance.

Looking ahead, artificial intelligence (AI) is becoming an increasingly important enabler of margin resilience – but not a standalone lever. Its impact on margins depends less on the technology itself than on where and how it is deployed. Firms distinguished by their margin performance within their industry are incorporating AI selectively into portfolio decisions, scaling it in businesses with repeatable processes, rich data and operating leverage, while exiting or deprioritizing areas where returns to automation are structurally limited.

In this way, AI is less about lifting margins across the enterprise and more about reinforcing strategic focus – widening the gap between high-return and low-return activities and accelerating margin expansion where structural advantages already exist.

SECTION 3

Outlook: Margin leadership in a polarized macroeconomic environment

Supportive of margin leaders but increasingly unforgiving for the rest

Looking ahead, the macroeconomic environment is likely to remain supportive of margin leaders – but increasingly unforgiving for the rest. We expect global GDP growth to slow modestly in 2026 as structural headwinds – shifting trade alignments, demographic pressures and policy fragmentation – intersect with persistent market volatility. Inflation should continue declining overall, but disinflation will be patchy and subject to episodic repricing around shocks and policy shifts.

Tailwinds for structurally resilient firms include moderating goods inflation and supply chain frictions, and the prospect of productivity gains as firms scale digital and AI-enabled capabilities. Where operating models and governance are disciplined, these forces can reinforce margins and competitive positioning.

Headwinds remain meaningful. Geopolitical fragmentation and trade realignments will continue to inject uncertainty and episodic cost pressures, while labor constraints and regulatory dynamics may cap demand and pricing power in several sectors. Policy divergence across major economies – from cautious central banks to constrained fiscal space – will add complexity to investment and cost forecasts.

In this environment, margin dispersion is likely to widen. Firms with structural cost discipline, pricing power, recurring revenue and portfolio agility are best positioned to convert modest growth into durable profitability. Margin leadership will be defined less by broad macroeconomic outcomes and more by how effectively companies are positioned to navigate these crosscurrents.





SECTION 4

Sector deep dive: Translating strategy into sustained margin performance

Top-performing firms apply strategic discipline

Top-performing firms don't just operate efficiently – they apply strategic discipline tailored to the realities of their sector. While the structural levers are consistent across industries, their expression is sector-specific, with margin leaders outperforming peers by optimizing capital intensity, pricing power and cost structure within the constraints of their business model. Across industries, margin leaders demonstrate how consistent application of high-impact levers – low capital intensity and high asset productivity, pricing power, cost efficiency and portfolio agility – translates into outperformance. Here's how that plays out across key sectors:

■ Consumer

Margin leaders in this space scale through franchising and management contracts – enabling asset-light growth while generating predictable, high-margin revenue. Refranchising strategies reduce capital intensity, while strong brand equity supports premium pricing and customer loyalty. These advantages are reinforced by digital tools – mobile ordering, AI-driven pricing and operational automation – that enhance efficiency. Geographic diversification and scale-based procurement further protect margins from regional and inflationary shocks.

■ Industrials

The most profitable industrials concentrate on specialized, high-barrier niches – not commoditized markets. Regulatory certifications and proprietary components allow for value-based pricing, while aftermarket services provide steady, high-margin revenue. These firms combine lean operations with continuous improvement and actively manage their portfolios – acquiring niche leaders and shedding underperformers. Their ability to flex operating models through cycles – passing on cost increases or dialing down variable costs – is a key source of margin stability

■ Technology

Tech leaders are built for scale. SaaS, cloud platforms and data services deliver high-margin growth with

negligible incremental cost. These firms benefit from strong recurring revenues and high customer lock-in, often underpinned by proprietary intellectual property or network effects. Margin performance is amplified by strategic portfolio management – divesting legacy hardware, doubling down on high-value services – and operational efficiency driven by automation and cloud infrastructure.

■ Life sciences

In the life sciences sector, margin strength is rooted in innovation and intellectual property. Pharma and biotech firms capitalize on patent-protected products, while device makers drive differentiation through advanced engineering. Strategic focus is shifting toward specialty therapies and consumables, which generate recurring high-margin sales. Operational discipline, targeted go-to-market strategies and strong regulatory relationships help protect returns – even amid pricing pressures and policy scrutiny.

■ Energy

Standout energy companies maintain margin leadership through capital discipline and cost-focused operations. They concentrate investment in high-return assets and deploy advanced technologies to lower breakeven production costs. Some shift to fee-based models – like midstream infrastructure or liquefied natural gas (LNG) tolling – to lock in revenue and hedge commodity volatility. Disciplined capital allocation and strong risk management buffer earnings through price cycles.

■ Communication services

Margin winners either control physical infrastructure or operate digital platforms at scale. Tower operators generate high-margin recurring revenue from leased assets, while digital platforms monetize vast user bases at near-zero marginal cost. The transition from legacy to digital models – especially in media and content – has improved cost structures. Regulatory navigation and selective consolidation reinforce their competitive edge and protect profitability.

■ Chemicals and materials

Top performers focus on differentiated, high-value materials rather than volume commodities. Products like specialty chemicals, aerospace alloys and engineered polymers command pricing power due to their critical end-use applications. Efficiency comes from advanced processing, vertical integration and hedging strategies that stabilize input costs. Geographic and product diversification reduce cyclicalities, supporting consistent margin performance.

■ Financial services

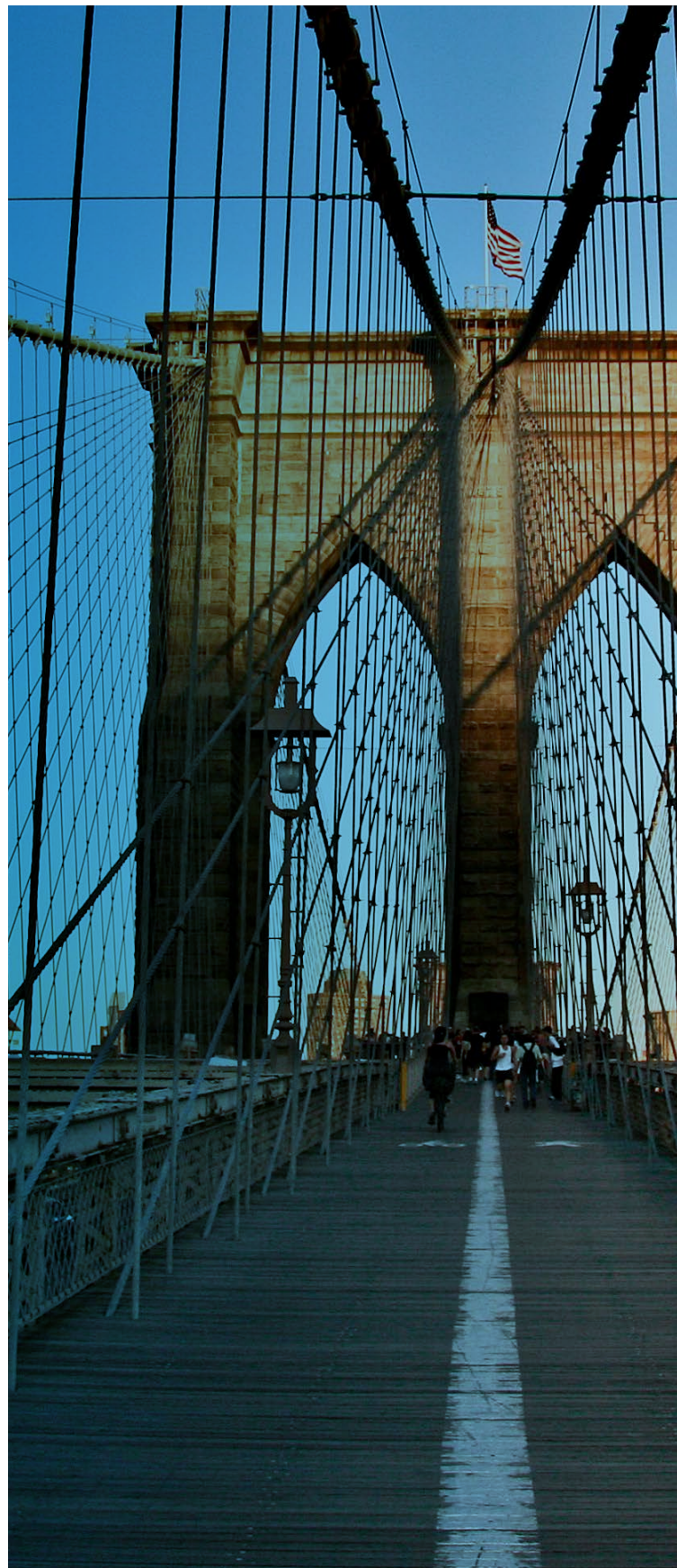
Firms that lead on margin in this sector prioritize scalable, fee-based services – such as payments, exchanges and analytics – over balance sheet-heavy activities. They operate with lean infrastructure, high client retention and strong pricing power in niche markets. Automation and digitalization reduce costs, while capital-light models and regulatory moats help preserve high returns. Global and product diversification dampen macro shocks.

■ Real estate

High-margin real estate operators concentrate on property types with strong pricing power – such as towers, self-storage or premium commercial assets. Technology and scale deliver operating efficiencies, while long-term, inflation-linked leases support income stability. Dynamic capital recycling ensures funds are deployed to the highest-yielding assets, keeping margins above sector norms even in shifting market conditions.

■ Utilities

Margin leaders in utilities align closely with regulators on incentive-based frameworks. Grid modernization, renewables and smart infrastructure expand the rate base and drive margin-accretive investment. Operational efficiencies – from predictive maintenance to digital monitoring – cut costs, while diversified revenue sources (e.g., renewable energy credits) bolster overall profitability.





SECTION 5

Margin resilience: From defensive posture to strategic edge

Margin resilience as a defining trait of corporate outperformance

In today's environment shaped by macroeconomic uncertainty, policy pivots and geopolitical disruption, margin resilience has emerged as a defining trait of corporate outperformance. While monetary policy and macro releases influence investor sentiment, our analysis shows that geopolitical shocks deliver the most immediate and severe hits to equity risk premia. Companies that consistently outperform don't just react – they are structurally prepared.

The top-performing 10% of US public companies demonstrate that sustained margin leadership is not the result of short-term gains, but of embedded strategic choices. Their success is anchored in a coherent and disciplined approach that integrates five core levers:

1. Low capital intensity and high asset productivity models that rationalize fixed costs and enable scalable growth.
2. Recurring revenue and customer lock-in that create predictability and pricing leverage.
3. Pricing power through market differentiation, brand equity or control of scarce assets.
4. Operational discipline and scale efficiency that translate growth into margin.
5. Active portfolio management and strategic agility, including environmental, social and governance (ESG) and digital acceleration.

These levers don't operate in isolation – they form a mutually reinforcing system that helps businesses navigate complexity, absorb shocks and compound returns over time.

For executives, the message is clear: stress-test your operating model, benchmark against top margin performers and double down on strategic transformation. Embedding structural resilience isn't just about protecting margins in downturns – it's about positioning for long-term value creation.

In a world where volatility is the norm, margin resilience is no longer a defensive metric. It is a durable source of competitive advantage – and a cornerstone of sustainable growth.



Executive takeaways

Among nearly 1,000 publicly listed US companies with revenues of at least \$500m in 2010, only 10% consistently deliver top-quartile EBITDA margins. These leaders engineer resilience through five strategic levers: low capital intensity and high asset productivity models, recurring revenue, pricing power, operational efficiency and portfolio management, all underpinned by a robust strategic architecture. Our analysis reveals how markets reprice risk during macro events and provides a sector-by-sector blueprint for building margin resilience as a durable competitive advantage.

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