

Weekly Market Update

June 24, 2024

Earnings Preview

Companies in the S&P 500® are projected to deliver second quarter earnings per share (EPS) growth of 8.8% year-over-year (YOY) according to data from FactSet.

Annual sales growth is estimated to climb by 4.6% for the period ending June 30th, with net profit margins continuing to hover in the 12.0% range for the Index.

Executive Summary

- S&P 500® profit growth appears solid, with eight of the 11 sectors expected to grow EPS YOY. A deeper look into profitability reveals the rather weighty impact that the Magnificent Seven is having on profitability, too.
- The leading sectors contributing to 2Q24 Index profitability include Communications Services, Health Care and Technology. Removing 1-2 leading companies in EPS calculations results in a significant decline in each sector's YOY profit growth.
- We continue to look for companies in the S&P 500® Index to deliver profit growth in the 8.0% range this year, despite the consensus projection for 11.3%.

We remain concerned that the fourth quarter projection of ~+17.0% EPS YOY remains too lofty, though we're hopeful to hear strong guidance during second quarter earnings calls next month. If that's the case, we'll review our call for the S&P 500® to generate \$237.50 in Index EPS for 2024.

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Earnings Preview

Companies in the S&P 500® are projected to deliver second quarter earnings per share (EPS) growth of 8.8% year-over-year (YOY) according to data from FactSet.

This compares favorably to the +5.9% YOY pace achieved during the first quarter, which came in above consensus expectations of 3.4% at the end of March. In addition, profit momentum continues to gain traction after the ~1.0% YOY gain for all of 2023.

Annual sales growth is estimated to climb by 4.6% for the period ending June 30th, with net profit margins continuing to hover in the 12.0% range for the Index. To be sure, companies continue to manage costs efficiently, despite the increase in interest rates.

Sectors

S&P 500® profit growth appears solid, with eight of the 11 sectors expected to grow EPS YOY. A deeper look into profitability reveals the rather weighty impact that the Magnificent Seven is having on profitability, too.

| Sector | 2Q24 | 2024 |
|------------------------|-------------|--------------|
| Communication Services | 18.5% | 21.0% |
| Consumer Discretionary | 5.8% | 12.7% |
| Consumer Staples | -0.2% | 4.1% |
| Energy | 14.7% | -1.8% |
| Financial Services | 4.2% | 12.8% |
| Health Care | 16.9% | 8.2% |
| Industrials | -3.3% | 6.7% |
| Information Technology | 16.1% | 18.8% |
| Materials | -9.3% | -1.8% |
| Real Estate | 2.2% | 4.0% |
| Utilities | 8.3% | 9.9% |
| S&P 500® | 8.8% | 11.3% |

Source: FactSet

Sectors

Consistent with its sector-leading year-to-date (YTD) market performance, the Communications Services sector is positioned for the highest profit gain of 18.5% YOY for the second quarter, driven higher by industries including Entertainment, Interactive Media and Wireless Telecom.

Similar to the outsized effect that “Big Tech” has had on market returns, specific large cap companies are impacting profit growth as well. Indeed, FactSet reports that if the EPS growth from Meta Platforms and Alphabet were excluded from the calculation, the Communication Services sector’s YOY profit growth would decline from +18.5% to just 3.3% YOY.

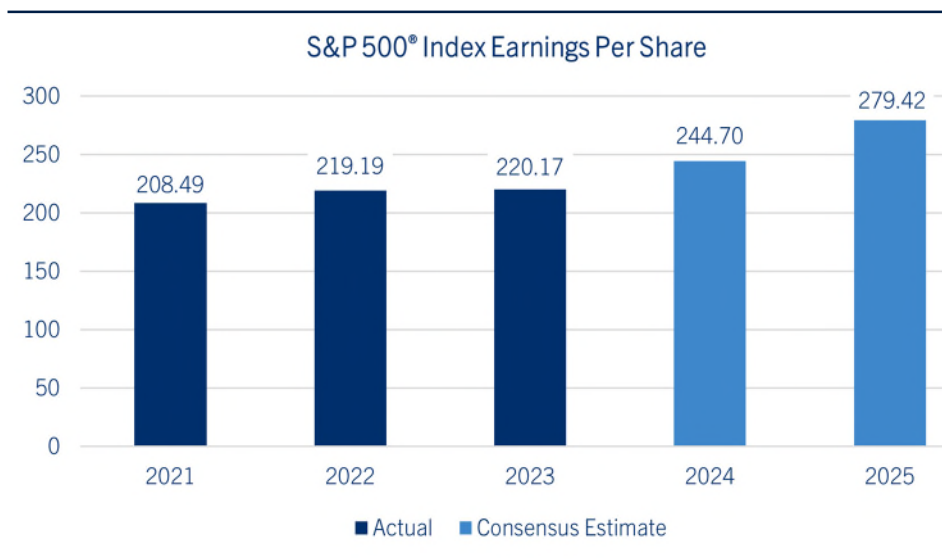
Health Care is projected to deliver the second highest EPS growth of 16.9% YOY, driven higher by the pharmaceuticals industry (+70.0%). In this instance, if Merck’s profit recovery from last year’s loss were excluded, the sector would post a YOY EPS decline of -1.3% in the second quarter.

The Technology sector also shows an imbalance in profitability. While the sector is estimated to grow EPS by 16.1%, excluding Nvidia’s contribution, the tech sector profit growth would drop to +6.6% YOY.

On the other side of the ledger, the three sectors poised for quarterly YOY EPS declines are Materials, Industrials and Consumer Staples.

Looking Ahead

We continue to look for companies in the S&P 500® Index to deliver profit growth in the 8.0% range this year, despite the consensus projection for 11.3%. We remain concerned that the fourth quarter projection of ~+17.0% EPS YOY remains too lofty, though we're hopeful to hear strong guidance during second quarter earnings calls next month. If that's the case, we'll review our call for the S&P 500® to generate \$237.50 in Index EPS for 2024. **See chart: S&P 500® Index EPS.**



Source: FactSet

Looking ahead to next year, the consensus projects more than \$275.00 in S&P 500® profits. Our projection remains in the \$260.00 range until we get clarity on corporate guidance and a better feel for the direction of market interest rates. In the meanwhile, despite our shorter-term technical target of 5,550 for the S&P 500®, we believe the Index will be fairly valued on a fundamental basis in the 5,200 – 5,250 range by yearend. We arrive at this conclusion based on a trailing 12-month price-to-earnings ratio (P/E) of 22.0 times our 2024 forecast (\$237.50) and 20.0 times our projection of \$260.00 for 2025.

Remember, the “E” must substantiate the “P” when considering valuation.

Be well and stay safe!



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