Corporate profit margins fell to 11.3% in Q4 2022, the 6th consecutive quarterly decline and just below the 5-year average of 11.4%. Historically, sequential periods of margin compression have been a leading indicator of US recession risk.

Peaking well above historic norms at 13% in 2021, profit margins have been under pressure as nominal growth rates decline (highly correlated with revenue) and as the cost of materials, labor and energy remain high.

Consensus earnings expectations, in turn, have been lowered to 1.2% for the full year 2023, with Q1 2023 expected to report the 2nd consecutive S&P 500 quarterly earnings contraction. Downside risk for the remainder of the year remains large.

The outlook for earnings and margins from here will be highly impacted by: (1) the lagged impact of Fed monetary tightening; (2) the performance of the economy; (3) strength of the US Dollar; and (4) energy prices.