Capital Markets Strategy

Essential inCights for the C-Suite

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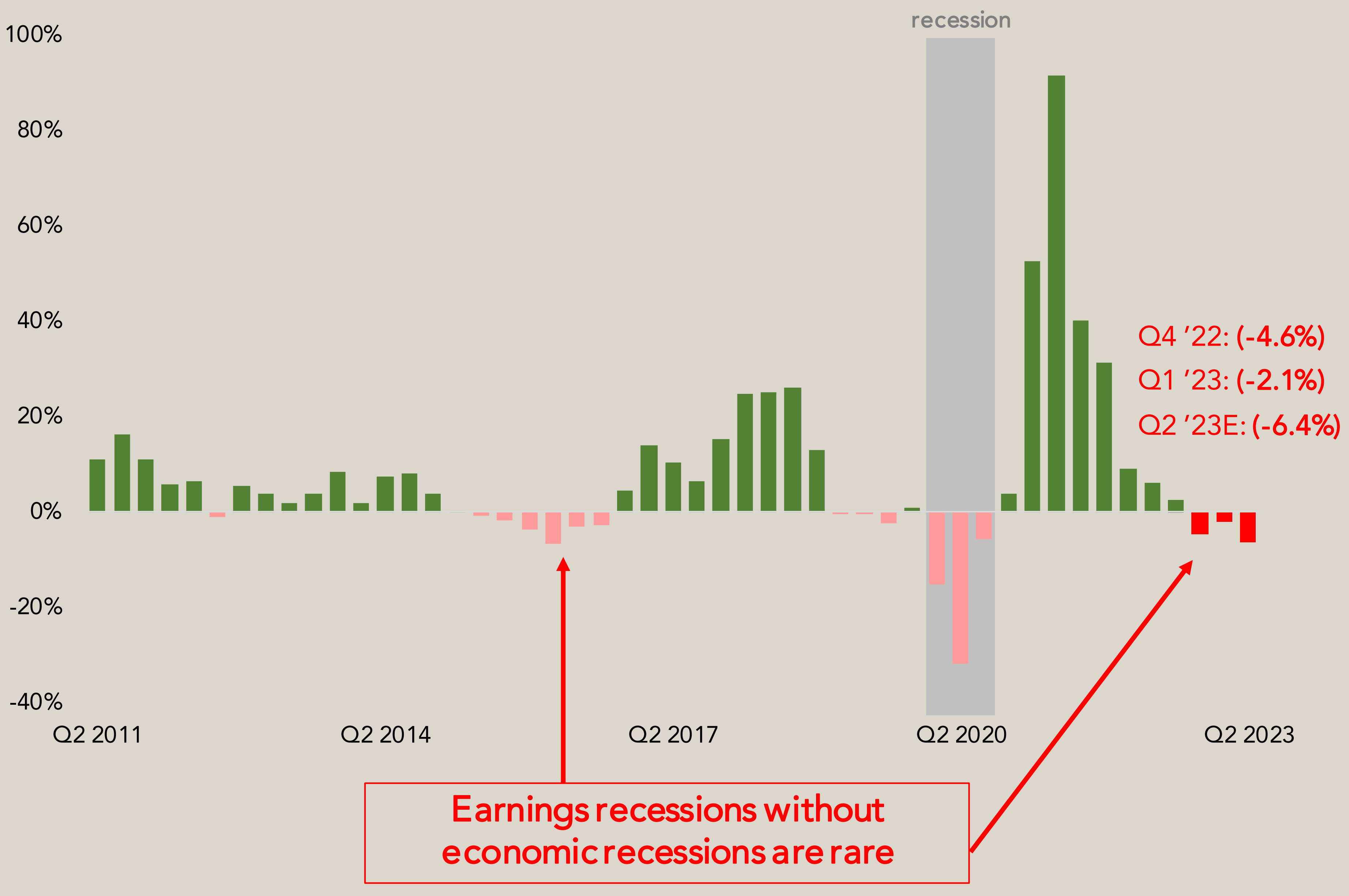
Chart of the Day

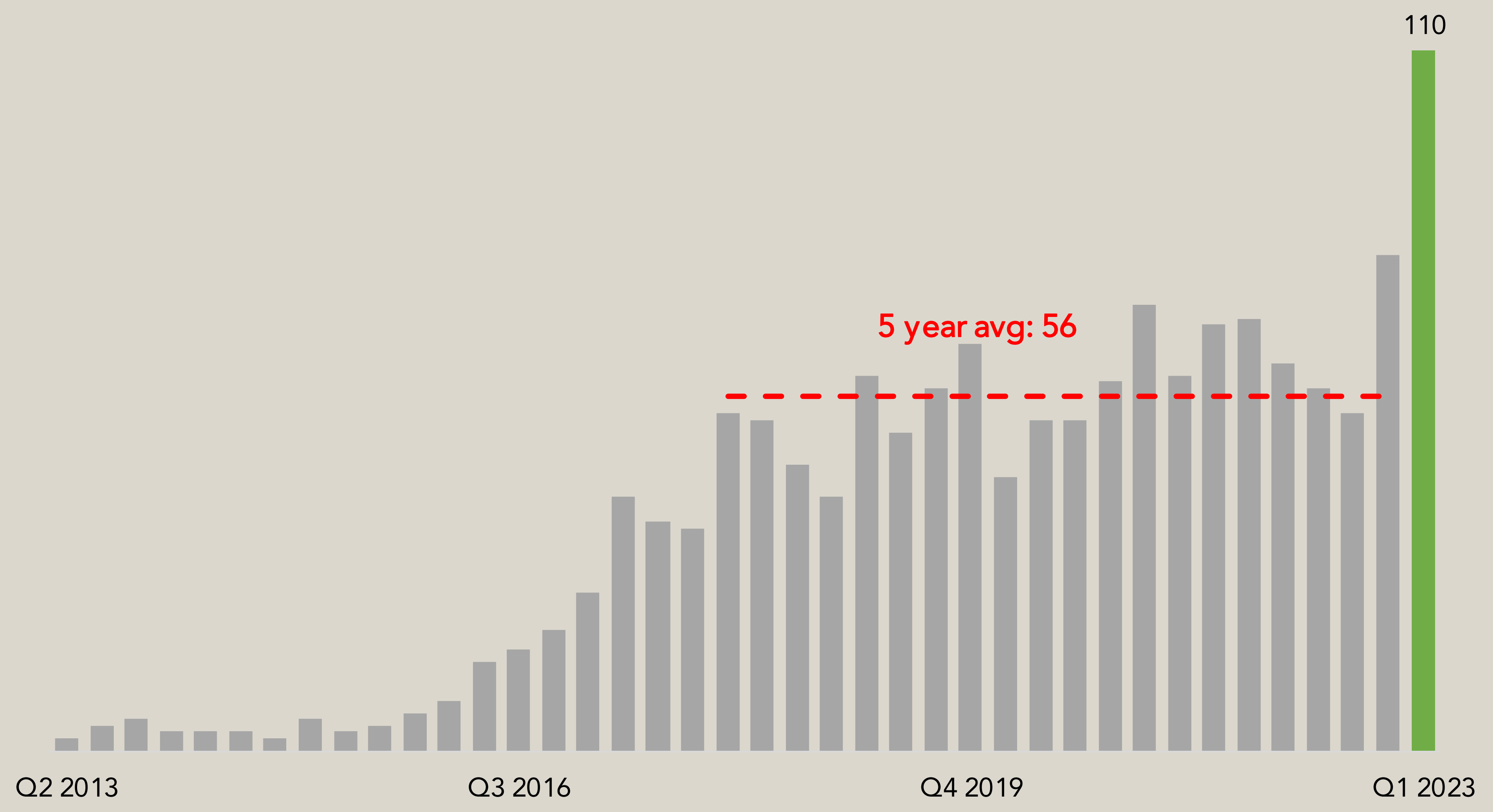
S&P 500 corporate earnings recessions in the absence of economic recessions are reasonably rare events, with a strong US dollar and/or low oil prices the culprit on each such occasion. The two quarter contraction in corporate earnings from Q4 ‘22 to Q1 ‘23, in the absence of a US economic recession, was only the 5th such occasion over the last 50 years, going back to 1974. Looking ahead to Q2 2023, higher funding costs, slowing consumer demand and margin pressure are expected to drive a third sequential quarterly contraction in US corporate earnings, itself a likely signal of looming US recession risk.

S&P 500 quarterly earnings growth, y/y



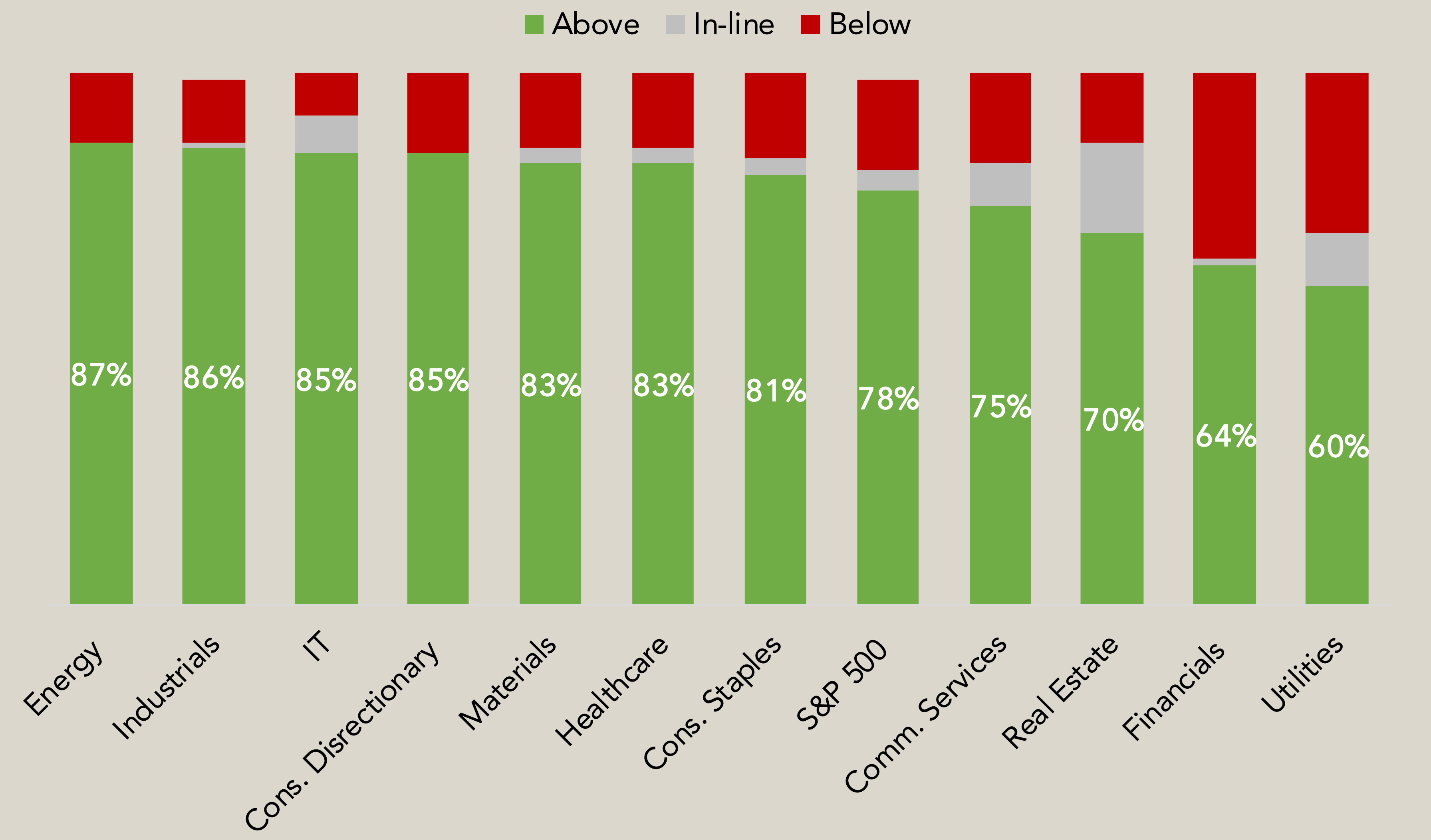
As artificial intelligence (AI) has dominated recent fervor in equity markets, a record 110 S&P 500 companies cited the term “AI” during their Q1 2023 earnings calls from March 15 to May 25th, nearly double the prior 5 year average.

# of S&P 500 companies citing “AI” on earnings calls



While the pace of Q1 2023 earnings surprises has been impressive, downward revisions to consensus expectations during the first quarter had already set a low bar. With 97% of S&P 500 companies reporting, 78% of companies reported a positive EPS surprise in Q1 2023, while 76% reported a revenue surprise. Both metrics are outperforming their 10 year averages of 73% and 63%, respectively. More domestically focused US companies have delivered fewer EPS beats on the quarter than their global MNC peer group.

Q1 2023 S&P 500 earnings above, in-line and below estimates



Source: (1-3) FactSet, Earnings Insight Report (May 26, 2023).

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“Macro stability isn’t everything, but without it, you have nothing.”