MARKET SIGHT*LINES*

Equities Have a Strong Start in 2024, Warranting a Further Focus on Earnings

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In **Outlook 2024: Embracing Change** (report, video), we included a year-end target on the S&P 500 of 5,000. The stock market has started this year off strong, with the index ending February at 5,096.27 and a year-to-date return of 7.11%. Earnings, and a view of future earnings, are influencing this market behavior, as we discussed a couple of weeks ago. In this week's Sight|Lines, we provide an update on the fourth quarter earnings season.

THE TAKEAWAY: LARGE, TECH-ORIENTED COMPANIES LED THE WAY IN 2023, AND THIS MOMENTUM IS EXPECTED TO CARRY FORWARD IN 2024

95% of the companies in the S&P 500 have reported earnings. In summary:

- Fourth quarter results were positive, but well below consensus forecasts.
- As a result, earnings grew a modest 0.9% over the full year of 2023.
- The technology sector grew at a faster rate than other sectors.
- As shared a couple of weeks ago, the "magnificent seven" (M7) – Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla – experienced strong earnings growth in 2023.
- Company leaders appear to be looking past the worries about inflation, at least somewhat, and are instead looking forward with optimism about generative artificial intelligence (AI).
- Optimism about technology, AI, and the M7 is expected to continue into 2024 and 2025.
- Analysts continue to have a positive view on 2024 earnings, with the bottom-up, consensus growth rate on the S&P 500 at 10.6% for 2024 and 13.5% for 2025.

IN-DEPTH: THE TECH SECTOR AND THE M7 DOMINATED 2023 EARNINGS FOR THE S&P 500, AND THESE AREAS ARE EXPECTED TO GREATLY INFLUENCE RESULTS IN 2024 AS WELL

With 95% of the S&P 500 companies reporting fourth quarter 2023 results, we're now able to better understand the shape of results overall and the related implications looking forward. Going deeper:

- Fourth quarter results were modestly positive:
  - The blended year-over-year growth rate for the fourth quarter of 2023 is estimated to be 3.9%.
  - This result is well below the consensus estimate of 7.8% as of September 30, 2023.

- The full-year results were muted:
    - S&P 500 2023 earnings growth is now estimated at 0.9%.
    - As we started 2023, the consensus estimate growth rate was at 5.3%.
- The information technology sector performed well in 2023:
    - The full-year earnings growth for this sector is estimated to be 6.2%.
    - The remaining ten sectors of the index had an earnings decline of 0.4%.
    - Notably, the M7 had earnings growth of 32.5% last year.
    - When removing the M7, the earnings decline estimate is -4.7%.
    - So, technology, especially the Big Tech-oriented M7, is an important driver of the overall economy and related earnings results.
- Company leaders share insights in their earnings calls, which we can compare to a year ago:
    - There were more than half as many mentions of inflation trouble.
    - Supply chain disruptions were mentioned less than a third of the time.
    - AI, generative AI, and machine learning were mentioned more than twice as often.
- Analysts continue to have positive views on 2024 and 2025 S&P 500 earnings:
    - Earnings are expected to grow 10.6% in 2024, with M7 earnings growing 23.7%.
    - Excluding the M7, the 2024 growth rate declines to 7.9%.
    - Earnings are expected to grow 13.5% in 2025, with M7 earnings growing 16.9%.
    - Excluding the M7, the 2025 growth rate declines to 12.7%.

CONCLUSION

We've had a modestly positive view on stocks for 2024, and the market has started off strong. Stock earnings, and a view of earnings looking forward, continue to influence stock market performance. The technology sector and the tech-oriented magnificent seven have produced strong earnings results overall, and the related innovation, like generative AI, has investors optimistic looking forward.

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