

# MARKET SIGHT LINES



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

By Michael O'Keeffe, *Chief Investment Officer*



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.

**Michael P. O'Keeffe, CFA** 

*Chief Investment Officer*

[michael.okeeffe@stifel.com](mailto:michael.okeeffe@stifel.com)

[www.stifelinsights.com](http://www.stifelinsights.com)

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. There is no guarantee that the figures or opinions forecasted in this report will be realized or achieved. Employees of Stifel, Nicolaus & Company, Incorporated or its affiliates may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Past performance is no guarantee of future results. Indices are unmanaged, do not reflect fees or expenses, and you cannot invest directly in an index.

Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.